
SECTION TWO (CONTINUED)

BASIC FINANCIAL STATEMENTS

Statement of Net Position

August 31, 2023 (Amounts in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 77,311,672	\$ 12,158,588	\$ 89,470,260	\$ 1,759,878
Short-Term Investments	2,676,989	1,272,381	3,949,370	104,729
Receivables:				
Accounts	1,119,762	3,112,257	4,232,019	138,058
Taxes (Note 23)	6,180,031		6,180,031	
Federal	6,102,558	1,227,614	7,330,172	4,249
Leases (Note 5,8)	478	27,020	27,498	151
Public/Private Partnership Installment (Note 26)		10,188	10,188	
Other Intergovernmental	2,227,698	308,764	2,536,462	3,204
Gifts and Pledges		375,637	375,637	15
Investment Trades	5,560	707,906	713,466	75,926
Interest and Dividends	91,934	261,533	353,467	129,743
From Component Units (Note 12)	1,016		1,016	
From Fiduciary Funds	7,669		7,669	
Other Receivables	184,120	971,338	1,155,458	6,342
Securities Lending Collateral	41,784	704,551	746,335	3,893,671
Loans and Contracts	65,216	560,519	625,735	170
Inventories	415,581	358,176	773,757	8,522
Prepaid Items	8,058	366,773	374,831	14,159
Other Current Assets	171,349	822,883	994,232	36,258
Restricted:				
Cash and Cash Equivalents	449,274	6,491,388	6,940,662	32,464
Short-Term Investments	8,600	363,638	372,238	
Loans and Contracts	133,364	171,141	304,505	101,413
Total Current Assets	97,202,713	30,272,295	127,475,008	6,308,952
Noncurrent Assets:				
Receivables:				
Taxes (Note 23)	111,277		111,277	
Leases	1,148	467,897	469,045	116
Public/Private Partnership Asset (Note 26)	1,960,767	93,689	2,054,456	
Public/Private Partnership Installment (Note 26)		76,908	76,908	
Gifts and Pledges		780,968	780,968	8,680
Other Receivables	471,025	105,812	576,837	
Internal Balances (Note 12)	3,746	(3,746)		
Investments	24,149,280	26,803,716	50,952,996	51,895,324
Derivative Instruments: (Note 3, 7, 15)				
Investment	2		2	
Hedging		291,429	291,429	
Assets Held in Trust		4,643	4,643	
Loans and Contracts	752,449	14,191,800	14,944,249	822
Prepaid Items		1,706	1,706	498
Restricted:				
Cash and Cash Equivalents		432,330	432,330	6
Short-Term Investments		301	301	
Receivables		57,855	57,855	
Investments		68,078,871	68,078,871	651,860
Loans and Contracts	1,618,569	3,001,271	4,619,840	177,126
Other Restricted Assets	109,658		109,658	
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	44,989,448	7,492,553	52,482,001	6,879
Depreciable or Amortizable, Net	102,160,311	32,054,540	134,214,851	73,998
Other Noncurrent Assets	37,951	681,921	719,872	117
Total Noncurrent Assets	176,365,631	154,614,464	330,980,095	52,815,426
Total Assets	273,568,344	184,886,759	458,455,103	59,124,378
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources (Note 27)	22,870,946	8,573,847	31,444,793	
Total Deferred Outflows of Resources	22,870,946	8,573,847	31,444,793	0

The accompanying notes to the financial statements are an integral part of this statement.

Continued on the following page

Statement of Net Position (continued)

August 31, 2023 (Amounts in Thousands)

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	\$ 9,543,936	\$ 2,739,023	\$ 12,282,959	\$ 379,608
Payroll	973,801	1,469,108	2,442,909	4,988
Tax Refunds (Note 23)	1,159,189		1,159,189	
Federal	23,846	132,508	156,354	
Other Intergovernmental	722,573	3,776	726,349	
Investment Trades	770	1,656,988	1,657,758	98,809
Interest	274,743	257,947	532,690	1,751
Annuities		4,053	4,053	
Notes and Loans (Note 5)	111,616	10,906	122,522	751
To Primary Government (Note 12)				1,016
To Fiduciary Funds	53,334	91	53,425	
From Restricted Assets (Note 5)		451,193	451,193	30
Bonds:				
General Obligation (Note 5, 6)	745,547	295,558	1,041,105	
Revenue (Note 5, 6)	358,645	2,698,885	3,057,530	375
Internal Balances (Note 12)	1,905,638	(1,905,638)		
Short-Term Debt (Note 4)		2,731,695	2,731,695	
Obligations:				
Securities Lending	41,690	704,551	746,241	3,891,795
Reverse Repurchase Agreements	3,137		3,137	
Pollution Remediation (Note 5)	40,889		40,889	
Right to Use Leases (Note 5, 8)	173,016	358,839	531,855	1,585
Right to Use Subscriptions (Note 5, 8)	85,076	137,734	222,810	2,633
Funds Held for Others	195	71,669	71,864	187,047
Claims and Judgments (Note 5)	286,482	204,725	491,207	
Employees' Compensable Leave (Note 5)	792,282	597,954	1,390,236	4,401
OPEB (Note 11)	979,746	375,306	1,355,052	
Other Current Liabilities	440,451	346,751	787,202	194,031
Unearned Revenue	8,285,361	5,485,639	13,771,000	320,667
Total Current Liabilities	<u>27,001,963</u>	<u>18,829,261</u>	<u>45,831,224</u>	<u>5,089,487</u>
Noncurrent Liabilities:				
Payables:				
Notes and Loans (Note 5)	854,998	875,689	1,730,687	1,319
From Restricted Assets (Note 5)		1,176,869	1,176,869	254
Bonds:				
General Obligation (Note 5, 6)	13,318,777	3,845,724	17,164,501	
Revenue (Note 5, 6)	3,590,483	37,126,358	40,716,841	79,151
Obligations:				
Pollution Remediation (Note 5)	200,886	1,530	202,416	
Asset Retirement (Note 5)	2,278	35,626	37,904	
Right to Use Leases (Note 5, 8)	573,089	926,314	1,499,403	12,970
Right to Use Subscriptions (Note 5, 8)	138,860	207,467	346,327	2,415
Derivative Instruments: (Note 3, 7, 15)				
Investment		144,154	144,154	
Hedging		59,760	59,760	
Assets Held for Others		150,222	150,222	
Claims and Judgments (Note 5)	182,750	55,772	238,522	
Employees' Compensable Leave (Note 5)	360,546	643,569	1,004,115	1,363
Pension (Note 9)	45,960,233	8,540,759	54,500,992	
OPEB (Note 11)	38,831,622	12,755,787	51,587,409	
Other Noncurrent Liabilities	104,947	431,116	536,065	850
Total Noncurrent Liabilities	<u>104,119,469</u>	<u>66,976,716</u>	<u>171,096,185</u>	<u>98,322</u>
Total Liabilities	<u>131,121,432</u>	<u>85,796,977</u>	<u>216,927,409</u>	<u>5,187,809</u>

The accompanying notes to the financial statements are an integral part of this statement.

Concluded on the following page

Statement of Net Position (concluded)

August 31, 2023 (Amounts in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources (Note 27)	\$ 59,292,222	\$ 12,239,407	\$ 71,531,629	\$
Total Deferred Inflows of Resources	<u>59,292,222</u>	<u>12,239,407</u>	<u>71,531,629</u>	<u>0</u>
NET POSITION				
Net Investment in Capital Assets	120,940,547	14,025,399	134,965,946	53,521
Restricted for:				
Education	2,231,092	4,486,798	6,717,890	88
Transportation	11,270,155		11,270,155	
Debt Service	251,873	765,375	1,017,248	
Capital Projects	1,010,836	1,122,518	2,133,354	
Veterans Land Board Housing Programs		766,410	766,410	
Unemployment Trust Fund		2,103,011	2,103,011	
Funds Held as Permanent Investments:				
Nonexpendable	7,421,625	39,776,353	47,197,978	50,067,622
Expendable	858,567	18,816,034	19,674,601	2,903,513
Other Restricted Net Position	9,307,829	6,031,737	15,339,566	30,635
Unrestricted	(47,266,888)	7,521,587	(39,745,301)	881,190
Total Net Position	<u>\$ 106,025,636</u>	<u>\$ 95,415,222</u>	<u>\$ 201,440,858</u>	<u>\$ 53,936,569</u>

The accompanying notes to the financial statements are an integral part of this statement.

Statement of Activities

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ (3,499,619) ¹	\$ 1,915,381	\$ 2,339,730	\$
Education	39,299,707	1,672,890	11,749,355	
Teacher Retirement State Contributions	3,047,455			
Health and Human Services	83,779,885	6,299,207	60,859,769	
Public Safety and Corrections	8,609,501	224,935	211,257	
Transportation	8,843,755	3,222,638	4,443,915	113,664
Natural Resources and Recreation	3,967,367	843,738	2,467,334	12,706
Regulatory Services	557,714	689,101	3,137	
Interest on General Long-Term Debt	186,242			
Total Governmental Activities	<u>144,792,007</u>	<u>14,867,890</u>	<u>82,074,497</u>	<u>126,370</u>
Business-Type Activities:				
General Government	284,849	46,375	155,332	
Education	43,635,059	22,421,332	17,375,729	263,497
Health and Human Services	2,383,827	1,999,512	120,138	
Public Safety and Corrections	117,332	129,341		
Transportation	678,327	699,357	66,399	
Natural Resources and Recreation	651,703	38,679	829,937	
Lottery	6,435,017	8,725,994		
Total Business-Type Activities	<u>54,186,114</u>	<u>34,060,590</u>	<u>18,547,535</u>	<u>263,497</u>
Total Primary Government	<u>\$ 198,978,121</u>	<u>\$ 48,928,480</u>	<u>\$ 100,622,032</u>	<u>\$ 389,867</u>
COMPONENT UNITS				
Component Units	\$ 5,161,181	\$ 2,349,918	\$ 3,274,371	\$
Total Component Units	<u>\$ 5,161,181</u>	<u>\$ 2,349,918</u>	<u>\$ 3,274,371</u>	<u>\$ 0</u>

¹Negative expense is due to the state's retirement plans expense caused by changes in assumptions, for more details see Note 9 and Note 11.

The accompanying notes to the financial statements are an integral part of this statement.

Concluded on the following page

Statement of Activities (concluded)

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

Functions/Programs	Net (Expense) Revenue and Changes in Net Position			Component Units
	Primary Government			
	Governmental Activities	Business-Type Activities	Total	
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ 7,754,730	\$	\$ 7,754,730	\$
Education	(25,877,462)		(25,877,462)	
Teacher Retirement State Contributions	(3,047,455)		(3,047,455)	
Health and Human Services	(16,620,909)		(16,620,909)	
Public Safety and Corrections	(8,173,309)		(8,173,309)	
Transportation	(1,063,538)		(1,063,538)	
Natural Resources and Recreation	(643,589)		(643,589)	
Regulatory Services	134,524		134,524	
Interest on General Long-Term Debt	(186,242)		(186,242)	
Total Governmental Activities	<u>(47,723,250)</u>	<u>0</u>	<u>(47,723,250)</u>	<u>0</u>
Business-Type Activities:				
General Government		(83,142)	(83,142)	
Education		(3,574,501)	(3,574,501)	
Health and Human Services		(264,177)	(264,177)	
Public Safety and Corrections		12,009	12,009	
Transportation		87,429	87,429	
Natural Resources and Recreation		216,913	216,913	
Lottery		2,290,977	2,290,977	
Total Business-Type Activities	<u>0</u>	<u>(1,314,492)</u>	<u>(1,314,492)</u>	<u>0</u>
Total Primary Government	<u>(47,723,250)</u>	<u>(1,314,492)</u>	<u>(49,037,742)</u>	<u>0</u>
COMPONENT UNITS				
Component Units				463,108
Total Component Units	<u>0</u>	<u>0</u>	<u>0</u>	<u>463,108</u>
GENERAL REVENUES				
Taxes:				
Sales and Use	46,931,926		46,931,926	
Oil and Natural Gas Production	8,993,122		8,993,122	
Motor Vehicle and Manufactured Housing	6,863,270		6,863,270	
Franchise	6,768,758		6,768,758	
Motor Fuels	3,861,939		3,861,939	
Insurance Occupation	4,144,429		4,144,429	
Cigarette and Tobacco	1,211,005		1,211,005	
Other Taxes	3,704,995		3,704,995	
Unrestricted Investment Earnings	2,769,371	223,262	2,992,633	29,465
Settlement of Claims	632,711	2,218	634,929	252
Gain on Sale of Capital Assets	5,565	6,680	12,245	1,143
Gain (Loss) on Other Financial Activity	908	(162)	746	
Other General Revenues	9,666,211	512,958	10,179,169	932,703
Capital Contributions	508		508	
Contributions to Permanent and Term Endowments	(8,553,136)	326,116	(8,227,020)	8,555,755
Distributions from Permanent Fund Principal	(23,197)		(23,197)	
Transfers - Internal Activities (Note 12)	(6,891,397)	6,891,397		
Total General Revenues, Contributions, Extraordinary Items and Transfers	<u>80,086,988</u>	<u>7,962,469</u>	<u>88,049,457</u>	<u>9,519,318</u>
Change in Net Position	<u>32,363,738</u>	<u>6,647,977</u>	<u>39,011,715</u>	<u>9,982,426</u>
Net Position, September 1, 2022	113,388,645	91,996,247	205,384,892	1,685,651
Restatements (Note 14)	<u>(39,726,747)</u>	<u>(3,229,002)</u>	<u>(42,955,749)</u>	<u>42,268,492</u>
Net Position, September 1, 2022, as Restated	<u>73,661,898</u>	<u>88,767,245</u>	<u>162,429,143</u>	<u>43,954,143</u>
Net Position, August 31, 2023	<u>\$ 106,025,636</u>	<u>\$ 95,415,222</u>	<u>\$ 201,440,858</u>	<u>\$ 53,936,569</u>

The accompanying notes to the financial statements are an integral part of this statement.

Statement of Net Position: Governmental Funds

August 31, 2023 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	\$ 61,893,734	\$ 10,824,149	\$ 497,484	\$ 3,919,184	\$ 77,134,551
Short-Term Investments	662,665	20,115		445,898	1,128,678
Receivables:					
Accounts	447,441	216,268	59,819	39,396	762,924
Taxes (Note 23)	5,959,061	249,022		83,225	6,291,308
Federal	5,510,574	589,517		2,466	6,102,557
Leases (Note 5,8)		1,627			1,627
Other Intergovernmental	1,783,023	218,889		225,786	2,227,698
Investment Trades	19			2,936	2,955
Interest and Dividends	44,277	3,008	2,102	20,707	70,094
Interfund (Note 12)	5,237				5,237
From Component Units (Note 12)			1,016		1,016
From Other Funds (Note 12)	1,207,610	3,348,672	53	1,047,484	5,603,819
Other Receivables	655,147				655,147
Investments	12,081,752	41,969	6,144,059	3,890,014	22,157,794
Loans and Contracts	180,705	236,428	19	400,514	817,666
Inventories	260,801	151,099		3,680	415,580
Prepaid Items	8,023		1	34	8,058
Other Assets	140,537			68,763	209,300
Restricted:					
Cash and Cash Equivalents	433,833	14,709		731	449,273
Short-Term Investments		8,600			8,600
Loans and Contracts	523,415			1,228,519	1,751,934
Other Restricted Assets				109,658	109,658
Total Assets	\$ 91,797,854	\$ 15,924,072	\$ 6,704,553	\$ 11,488,995	\$ 125,915,474
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 6,966,454	\$ 1,842,364	\$ 26,883	\$ 61,373	\$ 8,897,074
Payroll	862,508	102,226	2,172	6,895	973,801
Tax Refunds (Note 23)	1,159,189				1,159,189
Federal	23,846				23,846
Other Intergovernmental	722,573				722,573
Investment Trades	8			761	769
Interfund (Note 12)	189				189
To Other Funds (Note 12)	7,268,529	36,666	24	231,534	7,536,753
Obligations:					
Reverse Repurchase Agreements	3,137				3,137
Other Liabilities	501,681	58,070		6,158	565,909
Unearned Revenue	7,810,414	3,171	182,041	685,065	8,680,691
Total Liabilities	25,318,528	2,042,497	211,120	991,786	28,563,931
Deferred Inflows of Resources					
Deferred Inflows of Resources (Note 27)	1,500,367	2,680,212		757,588	4,938,167
Total Deferred Inflows of Resources	1,500,367	2,680,212	0	757,588	4,938,167
Fund Balances: (Note 13)					
Nonspendable	918,199	151,099	6,435,060	970,279	8,474,637
Restricted	3,700,259	11,050,264	58,373	8,557,233	23,366,129
Committed	10,565,520			223,531	10,789,051
Assigned	5,747				5,747
Unassigned	49,789,234			(11,422)	49,777,812
Total Fund Balances	64,978,959	11,201,363	6,493,433	9,739,621	92,413,376
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 91,797,854	\$ 15,924,072	\$ 6,704,553	\$ 11,488,995	\$ 125,915,474

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

August 31, 2023 (Amounts in Thousands)

Total Fund Balance – Governmental Funds \$ 92,413,376

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets less accumulated depreciation and amortization are included in the Statement of Net Position. (Note 2).

Capital Assets – Non-Depreciable or Non-Amortizable	\$ 44,989,446	
Capital Assets – Depreciable or Amortizable, Net	<u>102,160,313</u>	147,149,759

Reversal of prior year unearned tax revenues recorded in governmental funds but not in the Statement of Net Position. 395,330

PPP Asset Receivable 1,960,767

Investment derivative instrument asset was reported in the Statement of Net Position to reflect the fair value of derivative instruments. 2

Deferred inflows of resources represent revenues the state earned after fiscal year-end but not available to pay current year's expenditures, therefore, the revenues are deferred in the funds, but not reported in the Statement of Net Position. (Note 27). 4,938,167

Deferred outflows of resources were reported in the Statement of Net Position to reflect the loss on bond/debt refunding and the impact of pension, OPEB, and asset retirement obligation transactions that are not reported in the funds. (Note 27) 22,870,946

Deferred inflows of resources were reported in the Statement of Net Position to reflect the unamortized upfront payments received and capital assets acquired in connection with Public-Private and Public-Public Partnerships and the impact of pension and OPEB transactions that are not reported in the funds. (Note 26, 27) (59,292,222)

Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the Statement of Net Position. (Note 5, 9, 11 and RSI)

Claims and Judgments	(469,232)	
Right to Use Lease Obligations	(746,105)	
Right to Use Subscription Obligations	(223,936)	
Employees' Compensable Leave	(1,152,828)	
Notes and Loans Payable	(966,614)	
General Obligation Bonds Payable	(14,064,324)	
Revenue Bonds Payable	(3,949,128)	
Pollution Remediation Obligation	(241,775)	
Net Pension Liability	(45,785,105)	
Total Pension Liability	(175,128)	
Net OPEB Liability	(36,537,479)	
Total OPEB Liability	(3,273,888)	
Asset Retirement Obligation	<u>(2,278)</u>	

(107,587,820) ¹

¹current portion = \$3,573,299 and noncurrent portion = \$104,014,521

Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the Statement of Net Position. (254,234)

The internal service fund is used by management to charge the costs of employees life, accident and health insurance benefits fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. 3,431,565

Net Position of Governmental Activities \$ 106,025,636

Statement of Revenues, Expenditures and Changes in Fund Balances: Governmental Funds

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	\$ 70,657,557	\$ 6,007,787	\$	\$ 5,335,302	\$ 82,000,646
Federal	74,715,674	4,159,945		60,288	78,935,907
Licenses, Fees and Permits	3,509,673	1,971,463	1,748	842,243	6,325,127
Sales of Goods and Services	6,041,260	45,964	28,810	523,142	6,639,176
Interest and Other Investment Income	2,015,604	390,696	50,230	283,488	2,740,018
Land Income	14,718	29,616	1,590,356	5,944	1,640,634
Settlement of Claims	602,484	49,020		286	651,790
Other Revenues	10,514,513	10,987	979	2,167,131	12,693,610
Total Revenues	<u>168,071,483</u>	<u>12,665,478</u>	<u>1,672,123</u>	<u>9,217,824</u>	<u>191,626,908</u>
EXPENDITURES					
Current:					
General Government	5,627,875	17,551		480,396	6,125,822
Education	34,937,518		1,047,121	3,197,690	39,182,329
Employee Benefits	19,249			35,144	54,393
Teacher Retirement State Contributions	3,047,455				3,047,455
Health and Human Services	83,619,460			4,999	83,624,459
Public Safety and Corrections	8,394,776			68,747	8,463,523
Transportation	50,491	4,980,499		303,921	5,334,911
Natural Resources and Recreation	3,952,135			69,366	4,021,501
Regulatory Services	525,348			26,840	552,188
Capital Outlay	1,287,993	9,168,786	169	316,093	10,773,041
Debt Service:					
Principal	240,158	112,736	242	1,027,770	1,380,906
Interest	20	715		722,246	722,981
Other Financing Fees	1,847	929		2,805	5,581
Total Expenditures	<u>141,704,325</u>	<u>14,281,216</u>	<u>1,047,532</u>	<u>6,256,017</u>	<u>163,289,090</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>26,367,158</u>	<u>(1,615,738)</u>	<u>624,591</u>	<u>2,961,807</u>	<u>28,337,818</u>
OTHER FINANCING SOURCES (USES)					
Bonds and Notes Issued	298,300			323,848	622,148
Bonds Issued for Refunding				350,000	350,000
Premiums on Bonds Issued				7,962	7,962
Payment to Escrow for Refunding				(350,000)	(350,000)
Increase in Obligation for RTU Leases/SBITAs	349,758	49,379	46	19,798	418,981
Sale of Capital Assets	12,664	15,463		3	28,130
Insurance Recoveries	6,598			7	6,605
Distributions from Permanent Fund Principal				(23,196)	(23,196)
Contributions to Permanent and Term Endowments			(8,553,136)		(8,553,136)
Transfer In (Note 12)	8,643,198	3,436,540		2,621,770	14,701,508
Transfer Out (Note 12)	<u>(15,727,874)</u>	<u>(681,386)</u>	<u>(123,644)</u>	<u>(5,059,293)</u>	<u>(21,592,197)</u>
Total Other Financing Sources (Uses)	<u>(6,417,356)</u>	<u>2,819,996</u>	<u>(8,676,734)</u>	<u>(2,109,101)</u>	<u>(14,383,195)</u>
Net Change in Fund Balances	<u>19,949,802</u>	<u>1,204,258</u>	<u>(8,052,143)</u>	<u>852,706</u>	<u>13,954,623</u>
Fund Balances, September 1, 2022	45,131,534	12,552,386	56,810,663	8,875,786	123,370,369
Restatements (Note 14)	<u>(102,377)</u>	<u>(2,555,281)</u>	<u>(42,265,087)</u>	<u>11,129</u>	<u>(44,911,616)</u>
Fund Balances, September 1, 2022, as Restated	<u>45,029,157</u>	<u>9,997,105</u>	<u>14,545,576</u>	<u>8,886,915</u>	<u>78,458,753</u>
Fund Balances, August 31, 2023	<u>\$ 64,978,959</u>	<u>\$ 11,201,363</u>	<u>\$ 6,493,433</u>	<u>\$ 9,739,621</u>	<u>\$ 92,413,376</u>

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

Net Change in Fund Balances		\$ 13,954,623
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:		
Capital Outlay	10,773,042	
Depreciation Expense (Note 2)	(2,949,184)	
Amortization Expense (Note 2)	<u>(322,899)</u>	
		7,500,959
The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position.		(22,568)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(1,824,721)
The internal service fund is used by management to charge the costs of the employees life, accident and health insurance benefits fund to individual funds. The adjustments for the internal service fund "close" the fund by allocating these amounts to participating governmental activities.		302,022
Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the Statement of Net Position. Repayment of long-term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position.		
Bonds and Notes Issued	(972,148)	
Premiums on Bond Proceeds	(7,962)	
Increase in Obligations Under Right to Use Leases	(418,982)	
Repayment of Bond and RTU Lease/SBITA Principal	<u>1,730,907</u>	
		331,815
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		12,123,946
Transfers of capital assets are not reported in the governmental funds. In addition, resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the Statement of Activities.		
Capital Asset Transfers (Note 2)	(817)	
Increase in Revenues	—	
Decrease in Expenses	(1,635)	
Net Change in Transfers	<u>112</u>	
		(2,340)
Change in Net Position of Governmental Activities		<u><u>\$ 32,363,736</u></u>

Statement of Net Position: Proprietary Funds

August 31, 2023 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Totals	Governmental Activities – Internal Service Fund ¹
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Water Development Board Funds	Nonmajor Enterprise Funds		
ASSETS							
Current Assets:							
Cash and Cash Equivalents	\$ 10,033,848	\$ 636	\$ 168,249	\$ 873,968	\$ 1,081,887	\$ 12,158,588	\$ 177,121
Short-Term Investments	408,083			864,298		1,272,381	1,548,312
Receivables:							
Accounts	2,694,127	304,331	37,542		76,249	3,112,249	356,837
Federal	1,187,714	19,773		3,903	16,224	1,227,614	
Leases (Note 5,8)	27,021					27,021	
Public/Private Partnership Installment (Note 26)	10,188					10,188	
Other Intergovernmental	308,764					308,764	
Gifts and Pledges	375,636					375,636	
Investment Trades	707,907					707,907	2,605
Interest and Dividends	132,201	21,159		91,581	16,591	261,532	21,839
Interfund (Note 12)	65,118				219	65,337	
From Other Funds (Note 12)	2,452,218	7,485			123,141	2,582,844	6,150
Other Receivables	965,266				6,072	971,338	
Securities Lending Collateral	704,551					704,551	41,784
Loans and Contracts	123,906			427,916	8,699	560,521	
Inventories	283,562		52,012		22,602	358,176	
Prepaid Items	334,070		31,363		1,340	366,773	
Other Current Assets	812,987				9,896	822,883	
Restricted:							
Cash and Cash Equivalents	1,296,527	2,437,709			2,757,151	6,491,387	
Short-Term Investments	312,103		50,902		632	363,637	
Loans and Contracts					171,142	171,142	
Total Current Assets	<u>23,235,797</u>	<u>2,791,093</u>	<u>340,068</u>	<u>2,261,666</u>	<u>4,291,845</u>	<u>32,920,469</u>	<u>2,154,648</u>
Noncurrent Assets:							
Receivables:							
Leases	467,897					467,897	
Public/Private Partnership Asset (Note 26)	93,689					93,689	
Public/Private Partnership Installment (Note 26)	76,908					76,908	
Interfund (Note 12)	1,502,418					1,502,418	
Gifts and Pledges	780,969					780,969	
Other Receivables		105,812				105,812	
Investments	26,365,701			213,432	224,583	26,803,716	1,991,486
Derivative Instruments: (Note 3, 7, 15)							
Hedging	130,780				160,649	291,429	
Assets Held in Trust	362				4,281	4,643	
Loans and Contracts	13,260			14,140,689	37,851	14,191,800	
Prepaid Items	1,706					1,706	
Restricted:							
Cash and Cash Equivalents	432,330					432,330	
Short-Term Investments	301					301	
Receivables	34,669				23,187	57,856	
Investments	64,977,115		197,435		2,904,321	68,078,871	
Loans and Contracts	37,759				2,963,512	3,001,271	
Capital Assets: (Note 2)							
Non-Depreciable or Non-Amortizable	6,614,058				878,495	7,492,553	
Depreciable or Amortizable, Net	29,758,672		3,462		2,292,408	32,054,542	
Other Noncurrent Assets	681,899				21	681,920	
Total Noncurrent Assets	<u>131,970,493</u>	<u>105,812</u>	<u>200,897</u>	<u>14,354,121</u>	<u>9,489,308</u>	<u>156,120,631</u>	<u>1,991,486</u>
Total Assets	<u>155,206,290</u>	<u>2,896,905</u>	<u>540,965</u>	<u>16,615,787</u>	<u>13,781,153</u>	<u>189,041,100</u>	<u>4,146,134</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred Outflows of Resources (Note 27)	8,366,495				207,352	8,573,847	
Total Deferred Outflows of Resources	<u>8,366,495</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>207,352</u>	<u>8,573,847</u>	<u>0</u>
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	2,528,485	45,259	52,477	351	112,451	2,739,023	646,864
Payroll	1,459,482		2,511		7,115	1,469,108	
Federal	53,519	78,989				132,508	
Other Intergovernmental	3,776					3,776	
Investment Trades	1,656,988					1,656,988	

¹ Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.
The accompanying notes to the financial statements are an integral part of this statement.

Concluded on the following page

Statement of Net Position: Proprietary Funds (concluded)

August 31, 2023 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Fund ¹
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Water Development Board Funds	Nonmajor Enterprise Funds	Totals	
LIABILITIES (concluded)							
Interest	\$ 38,135	\$	\$ 2	\$ 132,549	\$ 87,262	\$ 257,948	\$
Annuities			4,053			4,053	
Notes and Loans (Note 5)	10,906					10,906	
Interfund (Note 12)	66,639					66,639	
To Other Funds (Note 12)	551,978		86,378	3,903	33,736	675,995	25,820
From Restricted Assets (Note 5)	24,442		181,427		245,324	451,193	
Bonds:							
General Obligation (Note 5, 6)	3,057			42,036	250,465	295,558	
Revenue (Note 5, 6)	2,309,120			253,812	135,953	2,698,885	
Short-Term Debt (Note 4)	2,644,185				87,510	2,731,695	
Obligations:							
Securities Lending	704,551					704,551	41,690
Right to Use Leases	358,039		452		348	358,839	
Right to Use Subscriptions	92,298				45,435	137,733	
Funds Held for Others	71,669					71,669	195
Claims and Judgments (Note 5)	204,725					204,725	
Employees' Compensable Leave (Note 5)	591,667		1,905		4,382	597,954	
OPEB (Note 11)	375,307					375,307	
Other Current Liabilities	343,329		2,180		1,239	346,748	
Unearned Revenue	4,778,571	669,646			37,422	5,485,639	
Total Current Liabilities	18,870,868	793,894	331,385	432,651	1,048,642	21,477,440	714,569
Noncurrent Liabilities:							
Payables:							
Notes and Loans (Note 5)	251,299				624,390	875,689	
Interfund (Note 12)	1,506,164					1,506,164	
From Restricted Assets (Note 5)	9,166		207,857		959,846	1,176,869	
Bonds:							
General Obligation (Note 5, 6)	6,102			862,737	2,976,885	3,845,724	
Revenue (Note 5, 6)	18,116,664			9,548,407	9,461,287	37,126,358	
Obligations:							
Pollution Remediation (Note 5)	1,530					1,530	
Asset Retirement (Note 5)	35,626					35,626	
Right to Use Leases (Note 5, 8)	923,743		1,162		1,406	926,311	
Right to Use Subscriptions (Note 5, 8)	135,857				71,610	207,467	
Derivative Instruments: (Note 3, 7, 15)							
Investment	144,154					144,154	
Hedging	39,389				20,371	59,760	
Assets Held for Others	145,940				4,281	150,221	
Claims and Judgments (Note 5)	55,772					55,772	
Employees' Compensable Leave (Note 5)	639,986		1,809		1,774	643,569	
Pension (Note 9)	8,540,759					8,540,759	
OPEB (Note 11)	12,755,786					12,755,786	
Other Noncurrent Liabilities	431,118					431,118	
Total Noncurrent Liabilities	43,739,055	0	210,828	10,411,144	14,121,850	68,482,877	0
Total Liabilities	62,609,923	793,894	542,213	10,843,795	15,170,492	89,960,317	714,569
DEFERRED INFLOWS OF RESOURCES							
Deferred Inflows of Resources (Note 27)	12,038,837				200,571	12,239,408	
Total Deferred Inflows of Resources	12,038,837	0	0	0	200,571	12,239,408	0
NET POSITION							
Net Investment in Capital Assets	13,237,184		1,848		786,368	14,025,400	
Restricted for:							
Education	4,486,798					4,486,798	
Debt Service	140,906				624,469	765,375	
Capital Projects	1,119,366				3,153	1,122,519	
Veterans Land Board Housing Programs					766,410	766,410	
Unemployment Trust Fund		2,103,011				2,103,011	
Funds Held as Permanent Investments:							
Nonexpendable	39,776,128				227	39,776,355	
Expendable	18,816,034					18,816,034	
Other Restricted Net Position			5,000	5,773,710	253,024	6,031,734	3,431,565
Unrestricted	11,347,609		(8,096)	(1,718)	(3,816,209)	7,521,586	
Total Net Position	\$ 88,924,025	\$ 2,103,011	\$ (1,248)	\$ 5,771,992	\$ (1,382,558)	\$ 95,415,222	\$ 3,431,565

¹ Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented. The accompanying notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Position: Proprietary Funds

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Totals	Governmental Activities – Internal Service Fund ¹
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Water Development Board Funds	Nonmajor Enterprise Funds		
OPERATING REVENUES							
Lottery Collections	\$	\$	\$ 8,725,994	\$	\$	\$ 8,725,994	\$
Unemployment Taxes		1,999,289				1,999,289	
Hospital Revenue – Pledged	24,251,240					24,251,240	
Discounts and Allowances	(14,613,105)					(14,613,105)	
Tuition Revenue	118,682					118,682	
Tuition Revenue – Pledged	8,281,307					8,281,307	
Discounts and Allowances	(2,371,075)					(2,371,075)	
Professional Fees	10,324,151					10,324,151	
Professional Fees – Pledged	31,838					31,838	
Discounts and Allowances	(7,445,087)					(7,445,087)	
Auxiliary Enterprises	3,930					3,930	
Auxiliary Enterprises – Pledged	1,898,255				128,052	2,026,307	
Discounts and Allowances	(139,150)					(139,150)	
Other Sales of Goods and Services	19,414				38,615	58,029	
Other Sales of Goods and Services – Pledged	1,205,330				751,621	1,956,951	
Discounts and Allowances	(9,293)				(66,010)	(75,303)	
Interest and Investment Income	681			363,504	110,463	474,648	
Interest and Investment Income – Pledged	1,883			12,276		14,159	
Federal Revenue	3,351,368	120,138			103,360	3,574,866	
State Grant Revenue	29,602					29,602	
Premium Revenue							2,715,882
Other Operating Grant Revenue	1,253,509					1,253,509	
Other Operating Grant Revenue – Pledged	1,755,679					1,755,679	
Other Revenues	310,028	116,762	1,011	9,932	138,626	576,359	1,086
Other Revenues – Pledged	727,626					727,626	
Total Operating Revenues	28,986,813	2,236,189	8,727,005	385,712	1,204,727	41,540,446	2,716,968
OPERATING EXPENSES							
Cost of Goods Sold	175,447				95,387	270,834	
Salaries and Wages	18,236,038		21,528	6,428	52,455	18,316,449	6,150
Payroll Related Costs	5,718,942		7,369	1,144	15,263	5,742,718	1,868
Professional Fees and Services	2,006,173		5,199	7,954	155,777	2,175,103	2,389
Materials and Supplies	4,574,139		1,138	38	8,796	4,584,111	459
Travel	389,540		365	58	665	390,628	48
Communication and Utilities	769,571		582	205	2,316	772,674	849
Repairs and Maintenance	956,338		455		44,977	1,001,770	405
Rentals and Leases	389,218		4,780	55	2,494	396,547	150
Printing and Reproduction	69,004		43,667	2	255	112,928	25
Scholarships	1,535,151					1,535,151	
Lottery Fees and Other Costs			616,945			616,945	
Lottery Prize Payments			5,818,072			5,818,072	
Claims and Judgments	447,559					447,559	
Employee/Participant Benefit Payments					(2,065)	(2,065)	2,491,378
Unemployment Benefit Payments		2,383,822				2,383,822	
Net Change in Asset Retirement Obligation	452					452	
Depreciation and Amortization	3,066,982		658		118,842	3,186,482	
Bad Debt	3,971		1,047		2,609	7,627	
Interest	526		1	351,292	167,269	519,088	
Other Operating Expenses	4,007,433	6	15,165	544	238,025	4,261,173	3,677
Total Operating Expenses	42,346,484	2,383,828	6,536,971	367,720	903,065	52,538,068	2,507,398
Operating Income (Loss)	(13,359,671)	(147,639)	2,190,034	17,992	301,662	(10,997,622)	209,570

¹ Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.
The accompanying notes to the financial statements are an integral part of this statement.

Concluded on the following page

Statement of Revenues, Expenses and Changes in Net Position: Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Totals	Governmental Activities – Internal Service Fund ¹
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Water Development Board Funds	Nonmajor Enterprise Funds		
NONOPERATING REVENUES (EXPENSES)							
Federal	\$ 2,758,568	\$	\$	\$ 244,997	\$ 13,022	\$ 3,016,587	\$
Gifts	1,067,074				134,953	1,202,027	
Gifts – Pledged	162,169					162,169	
Land Income					8,451	8,451	
Interest and Investment Income	5,102,445	41,479	(8,909)		242,378	5,377,393	92,089
Interest and Investment Income – Pledged	1,450,915					1,450,915	
Loan Premium and Fees on Securities Lending							541
Settlement of Claims	2,216				2	2,218	52
Depreciation and Amortization					25,588	25,588	
Other Nonoperating Revenues	228,540			125,051	13	353,604	
Other Nonoperating Revenues – Pledged	232,751					232,751	
Investing Activities	(282,994)				(625)	(283,619)	
Borrower Rebates and Agent Fees	(4,306)				40	(4,266)	(222)
Gain (Loss) on Sale of Capital Assets	6,397				1	6,398	
Claims and Judgments	(905)		(8)		(35,876)	(36,789)	
Interest	(771,350)		(19)		(334,599)	(1,105,968)	
Other Nonoperating Expenses	(193,394)			(46,529)	(1,674)	(241,597)	(8)
Total Nonoperating Revenues (Expenses)	<u>9,758,126</u>	<u>41,479</u>	<u>(8,936)</u>	<u>323,519</u>	<u>51,674</u>	<u>10,165,862</u>	<u>92,452</u>
Income (Loss) Before Capital Contributions,							
Endowments and Transfers	<u>(3,601,545)</u>	<u>(106,160)</u>	<u>2,181,098</u>	<u>341,511</u>	<u>353,336</u>	<u>(831,760)</u>	<u>302,022</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS							
Capital Contributions – Federal	4,440					4,440	
Capital Contributions – Other	259,089				784	259,873	
Contributions to Permanent and Term Endowments	326,116					326,116	
Transfer In (Note 12)	10,200,906	758,691		99,816	272,244	11,331,657	
Transfer Out (Note 12)	(1,417,409)	(758,691)	(2,161,541)	(13,461)	(91,246)	(4,442,348)	
Total Capital Contributions,							
Endowments and Transfers	<u>9,373,142</u>	<u>0</u>	<u>(2,161,541)</u>	<u>86,355</u>	<u>181,782</u>	<u>7,479,738</u>	<u>0</u>
Change in Net Position	<u>5,771,597</u>	<u>(106,160)</u>	<u>19,557</u>	<u>427,866</u>	<u>535,118</u>	<u>6,647,978</u>	<u>302,022</u>
Net Position, September 1, 2022	83,163,835	2,209,171	(20,805)	5,344,126	1,299,919	91,996,246	3,129,542
Restatements (Note 14)	(11,407)				(3,217,595)	(3,229,002)	1
Net Position, September 1, 2022, as Restated	<u>83,152,428</u>	<u>2,209,171</u>	<u>(20,805)</u>	<u>5,344,126</u>	<u>(1,917,676)</u>	<u>88,767,244</u>	<u>3,129,543</u>
Net Position, August 31, 2023	<u>\$ 88,924,025</u>	<u>\$ 2,103,011</u>	<u>\$ (1,248)</u>	<u>\$ 5,771,992</u>	<u>\$ (1,382,558)</u>	<u>\$ 95,415,222</u>	<u>\$ 3,431,565</u>

¹ Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.
The accompanying notes to the financial statements are an integral part of this statement.

Statement of Cash Flows: Proprietary Funds

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

	Business-Type Activities-Enterprise Funds					Totals	Governmental Activities- Internal Service Fund ¹
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Water Development Board Funds	Nonmajor Enterprise Funds		
CASH FLOWS FROM OPERATING ACTIVITIES							
Proceeds from Customers	\$ 13,190,287	\$ 2,265,257	\$ 8,720,200	\$	\$ 893,926	\$ 25,069,670	\$ 587,274
Proceeds from Tuition and Fees	6,051,275					6,051,275	
Proceeds from Research Grants and Contracts	6,324,533	776,702			981	7,102,216	
Proceeds from Gifts					27	27	
Proceeds from Loan Programs	1,111,555				1,638,851	2,750,406	
Proceeds from Auxiliaries	2,133,113					2,133,113	
Proceeds from Other Operating Revenues	1,635,653	120,624			228,953	1,985,230	2,415,287
Payments to Suppliers for Goods and Services	(13,340,296)		(716,005)	(1,297)	(531,207)	(14,588,805)	(5,983)
Payments to Employees	(22,467,576)		(28,338)	(7,630)	(59,752)	(22,563,296)	
Payments for Loans Provided	(1,108,808)				(2,225,794)	(3,334,602)	
Payments for Lottery Prizes			(5,840,039)			(5,840,039)	
Payments for Unemployment Benefits		(2,244,906)				(2,244,906)	
Payments for Other Operating Expenses	(2,079,167)	(765,283)			(199,444)	(3,043,894)	(2,884,568)
Net Cash Provided (Used) by Operating Activities	(8,549,431)	152,394	2,135,818	(8,927)	(253,459)	(6,523,605)	112,010
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Proceeds from Debt Issuance				1,234,783	5,668,149	6,902,932	
Proceeds from Gifts	1,369,591					1,369,591	
Proceeds from Endowments	277,181					277,181	
Proceeds from Transfers from Other Funds	8,867,762			2,531,125	274,203	11,673,090	
Proceeds from Interfund Payables				952		952	
Proceeds from Loan Programs	54,251					54,251	
Proceeds from Grant Receipts	3,837,089	758,691		244,671		4,840,451	
Proceeds from Other Noncapital Financing Activities	542,811		7,250		67,028	617,089	
Payments of Principal on Debt Issuance				(240,945)	(4,667,192)	(4,908,137)	
Payments of Interest		(19,762)		(413,276)	(328,185)	(761,223)	
Payments of Other Costs on Debt Issuance				(6,012)	(27,343)	(33,355)	
Payments for Transfers to Other Funds	(1,993,850)	(758,209)	(2,197,763)	(2,122,503)	(126,633)	(7,198,958)	
Payments for Grant Disbursements	(23,797)			(59,583)		(83,380)	
Payments for Interfund Receivables				(19,863)		(19,863)	
Payments for Other Noncapital Financing Uses	(653,043)		(50,588)		(114)	(703,745)	
Net Cash Provided (Used) by Noncapital Financing Activities	12,277,995	(19,280)	(2,241,101)	1,149,349	859,913	12,026,876	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from Sale of Capital Assets	60,506				236	60,742	
Proceeds from Debt Issuance	4,702,854					4,702,854	
Proceeds from State Grants and Contracts	1,155					1,155	
Proceeds from Federal Grants and Contracts					147,396	147,396	
Proceeds from Gifts	64,336					64,336	
Proceeds from Other Capital and Related Financing Activities	104,228				8,220	112,448	
Proceeds from Capital Contributions	65,580					65,580	
Payments for Additions to Capital Assets	(3,252,812)		(69)		(32,486)	(3,285,367)	
Payments of Principal on Debt Issuance	(3,752,438)				(64,069)	(3,816,507)	
Payments for Right to Use Leases	(146,343)		(462)		(4,358)	(151,163)	
Payments of Interest on Debt Issuance	(865,976)				(106,854)	(972,830)	
Payments of Other Costs on Debt Issuance	(31,952)					(31,952)	
Payments for Interfund Receivables	(11,612)				(76)	(11,688)	
Net Cash Used by Capital and Related Financing Activities	(3,062,474)	0	(531)	0	(51,991)	(3,114,996)	0

¹ Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.
The accompanying notes to the financial statements are an integral part of this statement.

Concluded on the following page

Statement of Cash Flows: Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

	Business-Type Activities-Enterprise Funds					Totals	Governmental Activities- Internal Service Fund ¹
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Water Development Board Funds	Nonmajor Enterprise Funds		
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from Sale of Investments	\$ 55,991,204	\$	\$ 51,865	\$	\$ 484,937	\$ 56,528,006	\$
Proceeds from Interest and Investment Income	3,348,876	20,440		376,996	213,352	3,959,664	6,450
Proceeds from Principal Payments on Loans				511,974	104	512,078	
Payments to Acquire Investments	(58,255,882)		(7,250)	(261,520)	(970,814)	(59,495,466)	(24,695)
Payments for Nonprogram Loans Provided				(1,552,748)		(1,552,748)	
Net Cash Provided (Used) by Investing Activities	1,084,198	20,440	44,615	(925,298)	(272,421)	(48,466)	(18,245)
Net Increase (Decrease) in Cash and Cash Equivalents	1,750,288	153,554	(61,199)	215,124	282,042	2,339,809	93,765
Cash and Cash Equivalents, September 1, 2022	10,012,015	2,284,791	229,448	658,844	3,742,462	16,927,560	83,355
Restatements	402				(185,466)	(185,064)	1
Cash and Cash Equivalents, September 1, 2022, as Restated	10,012,417	2,284,791	229,448	658,844	3,556,996	16,742,496	83,356
Cash and Cash Equivalents, August 31, 2023	\$ 11,762,705	\$ 2,438,345	\$ 168,249	\$ 873,968	\$ 3,839,038	\$ 19,082,305	\$ 177,121
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES							
Operating Income (Loss)	\$ (13,359,671)	\$ (147,639)	\$ 2,190,034	\$ 17,992	\$ 301,662	\$ (10,997,622)	\$ 209,570
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation and Amortization	3,066,982		658		118,842	3,186,482	
Bad Debt Expense	528,968		1,047		2,609	532,624	
Pension Expense	1,016,414					1,016,414	
OPEB Expense	1,051,254					1,051,254	
Operating Income (Loss) and Cash Flow Categories Classification Differences	30,805				148,239	179,044	
Changes in Assets and Liabilities:							
(Increase) Decrease in Receivables	(1,123,065)	217,390	(6,805)	81,418	89,851	(741,211)	(96,983)
(Increase) Decrease in Due From Other Funds	(32,493)			98,388	1,917	67,812	(2,604)
(Increase) in Inventories	(4,922)		(4,257)		(13,711)	(22,890)	
(Increase) in Notes Receivables	(1,758)					(1,758)	
(Increase) Decrease in Loans and Contracts	6,664			(1,152,996)	(676,243)	(1,822,575)	
(Increase) in Other Assets	(18,276)				(10,557)	(28,833)	
(Increase) in Deferred Outflows of Resources - Pensions	(1,216,456)					(1,216,456)	
Decrease in Deferred Outflows of Resources - OPEB	1,067,172					1,067,172	
(Increase) in Prepaid Expenses	(50,691)		(31,363)		(51)	(82,105)	
Increase (Decrease) in Payables	468,166	(117,428)	(13,496)	782,857	(228,125)	891,974	(8,176)
Increase in Deposits	131			175,813		175,944	
Increase (Decrease) in Due To Other Funds	168,796			(12,399)	8,933	165,330	10,206
Increase in Unearned Revenue	315,674	200,071			284	516,029	
Increase in Employees' Compensable Leave	74,722				146	74,868	
Increase (Decrease) in Benefits Payable	14,044				(125)	13,919	
Increase in Liabilities to Employees for Defined Benefit Pensions	3,258,353					3,258,353	
(Decrease) in Liabilities to Employees for Defined Benefit OPEB	(8,730,743)					(8,730,743)	
Increase (Decrease) in Other Liabilities	(188,072)				2,870	(185,202)	(3)
(Decrease) in Deferred Inflows of Resources - Pensions	(2,787,885)					(2,787,885)	
Increase in Deferred Inflows of Resources - OPEB	7,391,895					7,391,895	
Increase in Asset Retirement Obligations	341					341	
Increase in Deferred Inflows Leases	94,707					94,707	
Increase in Deferred Inflows - Public-Private/Public- Public Partnerships	409,513					409,513	
Total Adjustments	4,810,240	300,033	(54,216)	(26,919)	(555,121)	4,474,017	(97,560)
Net Cash Provided (Used) by Operating Activities	\$ (8,549,431)	\$ 152,394	\$ 2,135,818	\$ (8,927)	\$ (253,459)	\$ (6,523,605)	\$ 112,010
NONCASH TRANSACTIONS							
Donation of Capital Assets	\$ 68,527	\$	\$	\$	\$	\$ 68,527	\$
Net Change in Fair Value of Investments	\$ 1,076,895	\$	\$ (8,909)	\$ (4,126)	\$ (19,407)	\$ 1,044,453	\$ (35,578)
Other	\$ 417,091	\$	\$ (19)	\$	\$ (80,390)	\$ 336,682	\$
Borrowing Under Lease Purchase	\$ 425,419	\$	\$	\$	\$ 348	\$ 425,767	\$

¹ Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.
The accompanying notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Position

August 31, 2023 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund ²	Private- Purpose Trust Funds	Nontrusted External Investment Pool Custodial Funds	Other Custodial Funds
ASSETS					
Cash and Cash Equivalents	\$ 4,290,262	\$ 5,229	\$ 574,901	\$ 8	\$ 2,483,153
Receivables:					
Accounts	1,121,853				5,066
Taxes	3,200				
Federal	203,897		2,909		
Investment Trades	2,907,058		4,943		46,596
Interest and Dividends	529,473	165,968	2,751	2,964	92
Interfund				1,327	381
From Other Funds (Note 12)	138,117				
Other Receivables			738	529	7,299
Investments:					
U.S. Government	31,421,921	13,614,366		224,200	44,045
Corporate Equity	24,059,732		44,605		
Corporate Obligations	1,826,026	10,026,266	5,584		
Repurchase Agreements		13,770,034			
Foreign Securities	33,624,866		3,210		
Externally Managed	119,791,539			5,775	
Other Investments	27,968,398	2,715,539	4,137,194	301,317	2,614
Securities Lending Collateral	6,080,853			3,235	
Loans and Contracts			1,046		
Prepaid Items	434				
Other Assets	89			1,277	1,058,634
Restricted:					
Cash and Cash Equivalents			14		31,885
Investments					153,117
Properties, at Cost, Net of Accumulated Depreciation or Amortization	282,365		418		
Total Assets	<u>254,250,083</u>	<u>40,297,402</u>	<u>4,778,313</u>	<u>540,632</u>	<u>3,832,882</u>
LIABILITIES					
Payables:					
Accounts	431,797	186,023	8,312	295	8,066
Payroll	25,292				
Investment Trades	3,441,454			6,860	229
Interest	226		3,355		53
Annuities	317,818				
To Other Funds (Note 12)	92,362				
From Restricted Assets			1,265		
Obligations:					
Securities Lending	6,191,116			3,235	
Reverse Repurchase Agreements	16,475,946				
Right to Use Leases (Note 5, 8)	3,321				
Right to Use Subscriptions (Note 5, 8)	21,850				
Derivative Instruments:					
Investment				576	
Funds Held for Others	(46)				
Employees' Compensable Leave	24,415		9		
Other Liabilities	200	125,240	1,510	130	146,359
Unearned Revenue	423		1,800		(31,880)
Total Liabilities	<u>27,026,174</u>	<u>311,263</u>	<u>16,251</u>	<u>11,096</u>	<u>122,827</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows of Resources (Note 27)	55,030				
Total Deferred Inflows of Resources	<u>55,030</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET POSITION					
Restricted for:					
Pensions	223,067,685				
OPEB ¹	4,059,745				
Held in Trust for Individuals, Organizations and Other Governments	41,449		4,762,062		
Pool Participants		39,986,139		529,536	
Other Purposes					3,710,055
Total Net Position	<u>\$ 227,168,879</u>	<u>\$ 39,986,139</u>	<u>\$ 4,762,062</u>	<u>\$ 529,536</u>	<u>\$ 3,710,055</u>

¹ Other Post Employment Benefits (OPEB)² The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Combining statements are not presented.

The accompanying notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund ²	Private- Purpose Trust Funds	Nontrusted External Investment Pool Custodial Funds	Other Custodial Funds
ADDITIONS					
Contributions:					
Member State	\$ 5,636,649	\$	\$	\$ 5,480	\$ 984
Federal	6,092,993				
Other Contributions	311,701		11,284		462
Total Contributions	<u>3,601,174</u>	<u>0</u>	<u>377,357</u>	<u>5,480</u>	<u>60,508</u>
Total Contributions	<u>15,642,517</u>	<u>0</u>	<u>377,357</u>	<u>5,480</u>	<u>61,954</u>
Investment Income:					
From Investing Activities:					
Net Increase in Fair Value of Investments	2,572,668		95,968	1,391	7,713
Interest, Dividend and Other Investment Income	7,477,771	1,813,675	70,153	8,083	28,683
Total Investing Income	<u>10,050,439</u>	<u>1,813,675</u>	<u>166,121</u>	<u>9,474</u>	<u>36,396</u>
Less Investing Activities Expense	876,641	16,186	3,472	87	(10,623)
Net Income from Investing Activities	<u>9,173,798</u>	<u>1,797,489</u>	<u>162,649</u>	<u>9,387</u>	<u>47,019</u>
From Securities Lending Activities:					
Securities Lending Income	329,838				
Less Securities Lending Expense:					
Borrower Rebates ¹	303,481				
Management Fees	272				
Net Income from Securities Lending	<u>26,085</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Net Investment Income	<u>9,199,883</u>	<u>1,797,489</u>	<u>162,649</u>	<u>9,387</u>	<u>47,019</u>
Capital Share and Individual Account Transactions:					
Net Increase in Participant Investments	<u>0</u>	<u>5,835,370</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other Additions:					
Settlement of Claims	459		235,871		3,598
Transfer In (Note 12)	155,544				100
Other Revenue	42,737		80,893	(9,222)	13,975,259
Total Other Additions	<u>198,740</u>	<u>0</u>	<u>316,764</u>	<u>(9,222)</u>	<u>13,978,957</u>
Total Additions	<u>25,041,140</u>	<u>7,632,859</u>	<u>856,770</u>	<u>5,645</u>	<u>14,087,930</u>
DEDUCTIONS					
Benefits	18,041,282		356,891		404
Refunds of Contributions	850,982			5,426	315
Intergovernmental Payments			98,591		
Settlement of Claims			52,088		82,470
Gain (Loss) on Sale of Capital Assets	(46,569)				
Administrative Expenses	144,068		6,827		10,069
Depreciation and Amortization	22,635		39		
Interest Expense	488				4,420
Transfer Out (Note 12)	154,264				
Other Deductions	23,177		379	559	13,690,725
Total Deductions	<u>19,190,327</u>	<u>0</u>	<u>514,815</u>	<u>5,985</u>	<u>13,788,403</u>
INCREASE (DECREASE) IN NET POSITION	<u>5,850,813</u>	<u>7,632,859</u>	<u>341,955</u>	<u>(340)</u>	<u>299,527</u>
Net Position, September 1, 2022	221,307,819	32,353,280	4,420,107	529,876	3,910,465
Restatements (Note 14)	10,247				(499,938)
Net Position, September 1, 2022, as Restated	<u>221,318,066</u>	<u>32,353,280</u>	<u>4,420,107</u>	<u>529,876</u>	<u>3,410,528</u>
Net Position, August 31, 2023	<u>\$ 227,168,879</u>	<u>\$ 39,986,139</u>	<u>\$ 4,762,062</u>	<u>\$ 529,536</u>	<u>\$ 3,710,055</u>

¹ The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Combining statements are not presented.

² The pension funds of the Employees Retirement System of Texas received rebates from borrowers in excess of payments made to borrowers due to increased demand in the securities lending market.

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF TEXAS

Statement of Net Position: Component Units

August 31, 2023 (Amounts in Thousands)¹

	Texas Permanent School Fund Corporation	Teacher Retirement System of Texas	Nonmajor Funds	Totals
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 554,040	\$ 474,317	\$ 731,521	\$ 1,759,878
Short-Term Investments	30,230		74,499	104,729
Receivables:				
Accounts		123,489	14,569	138,058
Federal			4,249	4,249
Leases (Note 5,8)			151	151
Other Intergovernmental			3,204	3,204
Gifts and Pledges			15	15
Investment Trades	75,926			75,926
Interest and Dividends	127,128	2,225	390	129,743
Other Receivables			6,342	6,342
Securities Lending Collateral	3,893,671			3,893,671
Loans and Contracts			170	170
Inventories			8,522	8,522
Prepaid Items			14,159	14,159
Other Current Assets			36,258	36,258
Restricted:				
Cash and Cash Equivalents			32,464	32,464
Loans and Contracts			101,413	101,413
Total Current Assets	<u>4,680,995</u>	<u>600,031</u>	<u>1,027,926</u>	<u>6,308,952</u>
Noncurrent Assets:				
Receivables:				
Leases			116	116
Gifts and Pledges			8,680	8,680
Investments	51,684,299		211,025	51,895,324
Loans and Contracts			822	822
Prepaid Items			498	498
Restricted:				
Cash and Cash Equivalents			6	6
Investments			651,860	651,860
Loans and Contracts			177,126	177,126
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable			6,879	6,879
Depreciable or Amortizable, Net	4,855		69,143	73,998
Other Noncurrent Assets			117	117
Total Noncurrent Assets	<u>51,689,154</u>	<u>0</u>	<u>1,126,272</u>	<u>52,815,426</u>
Total Assets	<u>56,370,149</u>	<u>600,031</u>	<u>2,154,198</u>	<u>59,124,378</u>

Concluded on the following page

STATE OF TEXAS

Statement of Net Position: Component Units (concluded)

August 31, 2023 (Amounts in Thousands)¹

	Texas Permanent School Fund Corporation	Teacher Retirement System of Texas	Nonmajor Funds	Totals
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	\$ 1,514	\$ 315,217	\$ 62,877	\$ 379,608
Payroll	3,826	432	730	4,988
Investment Trades	98,809			98,809
Interest	2		1,749	1,751
Notes and Loans (Note 5)			751	751
To Primary Government (Note 12)	1,016			1,016
From Restricted Assets (Note 5)			30	30
Bonds:				
Revenue (Note 5, 6)			375	375
Obligations:				
Securities Lending	3,891,795			3,891,795
Right to Use Leases (Note 5, 8)	153		1,432	1,585
Right to Use Subscriptions (Note 5, 8)	2,633			2,633
Funds Held for Others			187,047	187,047
Employees' Compensable Leave (Note 5)	1,992	160	2,249	4,401
Other Current Liabilities		281	193,750	194,031
Unearned Revenue			320,667	320,667
Total Current Liabilities	<u>4,001,740</u>	<u>316,090</u>	<u>771,657</u>	<u>5,089,487</u>
Noncurrent Liabilities:				
Payables:				
Notes and Loans (Note 5)			1,319	1,319
From Restricted Assets (Note 5)			254	254
Bonds:				
Revenue (Note 5, 6)			79,151	79,151
Obligations:				
Right to Use Leases (Note 5, 8)			12,970	12,970
Right to Use Subscriptions (Note 5, 8)	2,415			2,415
Employees' Compensable Leave (Note 5)		104	1,259	1,363
Other Noncurrent Liabilities			850	850
Total Noncurrent Liabilities	<u>2,415</u>	<u>104</u>	<u>95,803</u>	<u>98,322</u>
Total Liabilities	<u>4,004,155</u>	<u>316,194</u>	<u>867,460</u>	<u>5,187,809</u>
NET POSITION				
Net Investment in Capital Assets	4,855		48,666	53,521
Restricted for:				
Education			88	88
Funds Held as Permanent Investments:				
Nonexpendable	49,511,167		556,455	50,067,622
Expendable	2,849,972		53,541	2,903,513
Other Restricted Net Position			30,635	30,635
Unrestricted		283,837	597,353	881,190
Total Net Position	<u>\$ 52,365,994</u>	<u>\$ 283,837</u>	<u>\$ 1,286,738</u>	<u>\$ 53,936,569</u>

STATE OF TEXAS

Statement of Activities: Component Units

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)¹

	Texas Permanent School Fund Corporation	Teacher Retirement System of Texas	Nonmajor Funds	Totals
EXPENSES				
Cost of Goods Sold	\$	\$	\$ 563	\$ 563
Salaries and Wages	14,085	2,288	76,350	92,723
Payroll Related Costs	5,363	244	17,687	23,294
Professional Fees and Services	12,775	2,184	26,639	41,598
Materials and Supplies	61	33	5,820	5,914
Travel	127	39	8,815	8,981
Communication and Utilities	1,409	33	1,209	2,651
Repairs and Maintenance	14	132	1,686	1,832
Rentals and Leases	44	1	3,781	3,826
Printing and Reproduction	2		1,412	1,414
Public Assistance Payments			36,667	36,667
Claims and Judgments			890	890
Employee/Participant Benefit Payments		2,260,177		2,260,177
Depreciation and Amortization	3,426		31,957	35,383
Bad Debt			41	41
Direct Interest			18,325	18,325
Interest	174		2,143	2,317
Other Financing Fees			88,820	88,820
Other Expenses	2,265,273	85,119	185,373	2,535,765
Total Expenses	<u>2,302,753</u>	<u>2,350,250</u>	<u>508,178</u>	<u>5,161,181</u>
PROGRAM REVENUES				
Charges for Services		1,838,037	518,998	2,357,035
Operating Grants and Contributions	2,926,758	220,765	119,731	3,267,254
Total Program Revenues	<u>2,926,758</u>	<u>2,058,802</u>	<u>638,729</u>	<u>5,624,289</u>
Net Program Revenues (Expenses)	<u>624,005</u>	<u>(291,448)</u>	<u>130,551</u>	<u>463,108</u>
GENERAL REVENUES				
Unrestricted Investment Earnings		27,739	1,726	29,465
Settlement of Claims	252			252
Gain (Loss) on Sale of Capital Assets			1,143	1,143
Other General Revenues	9,476,661		9,178	9,485,839
Contributions to Permanent and Term Endowments			2,619	2,619
Total General Revenues	<u>9,476,913</u>	<u>27,739</u>	<u>14,666</u>	<u>9,519,318</u>
Change in Net Position	<u>10,100,918</u>	<u>(263,709)</u>	<u>145,217</u>	<u>9,982,426</u>
Net Position, September 1, 2022		547,546	1,138,105	1,685,651
Restatements (Note 14)	42,265,076		3,416	42,268,492
Net Position, September 1, 2022, as Restated	<u>42,265,076</u>	<u>547,546</u>	<u>1,141,521</u>	<u>43,954,143</u>
Net Position, August 31, 2023	<u>\$ 52,365,994</u>	<u>\$ 283,837</u>	<u>\$ 1,286,738</u>	<u>\$ 53,936,569</u>

¹ The accompanying notes to the financial statements are an integral part of this statement.

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Note 1

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of the state of Texas were prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The state of Texas implemented the following GASB statements in fiscal 2023.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations and clarity associated with commitments extended by issuers, arrangements associated with conduit debt obligations and related note disclosures. The effective date of financial reporting for conduit debt obligations under GASB Statement No. 91 was the fiscal years beginning after Dec. 15, 2020. However, it was superseded by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, until the fiscal years beginning after Dec. 15, 2021. To be classified as conduit debt, the debt instrument must meet all of the following characteristics:

- There are at least three parties involved; an issuer, a third-party obligor and a debt holder or debt trustee
- The issuer and the third-party obligor are not within the same financial reporting entity
- The debt obligation is not a parity bond of the issuer nor is it cross-collateralized with other debt of the issuer
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation, such as debt service payments.

A government can issue conduit debt obligations bearing the government's own name to provide financing for governmental or nongovernmental third-party obligors. Debt service payments are made by the third-party obligor directly to the debt trustee or, in a private placement, directly to the debt holders. The issuer assumes no responsibility for debt service payments beyond the resources provided by the third-party obligor. For more information on conduit debt accounting see Note 6, *Bonded Indebtedness*.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, supersedes GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, thus expanding the reporting requirements for all types of government contracts with operators to provide public services. GASB Statement No. 94 provides definitions of Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs), provides uniform guidance for state agencies to report assets and liabilities related to PPPs on a consistent basis and provides disclosure requirements.

A PPP is an arrangement in which the government (the transferor) contracts with a governmental or nongovernmental operator to provide a public service by conveying control of the right to operate or use a non-financial asset of the government, such as infrastructure or other capital assets (the underlying PPP asset) for a period of time in an exchange or exchange-like transaction. There are three scenarios under which a contract is recognized as a PPP:

1. An underlying PPP asset is an existing asset of the transferor at the commencement of the PPP term.
2. An underlying PPP asset is a new asset purchased or constructed by the operator and the PPP meets the definition of a Service Concession Arrangement (SCA)

-
3. An underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does not meet the definition of an SCA.

If the underlying PPP asset is an existing asset, the transferor will continue to recognize the asset. The transferor will also recognize a receivable for installment payments, if any, and a deferred inflow of resources. If the underlying asset is a new asset purchased or constructed by the operator and the PPP meets the definition of a service concession arrangement, the transferor will recognize an asset when it is placed into service, a receivable for any installment payments and a deferred inflow of resources. If the underlying asset is a new asset purchased or constructed by the operator and the PPP does not meet the definition of an SCA, the transferor will recognize a receivable for the underlying PPP asset when it is placed in service, a receivable for any installment payments and a deferred inflow of resources.

An APA is an arrangement in which a state agency compensates an operator for activities that may include designing, constructing, financing, maintaining or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The payments by the state agency are based entirely on the asset's availability for use rather than on tolls, fees, or similar revenues or other measures of demand. Availability for use may be based on specified criteria, such as the physical condition of the asset, construction milestones or the achievement of certain availability measures. APA contracts that relate to designing, constructing or financing a nonfinancial asset in which ownership of the asset transfers by the end of the contract should be accounted for by the state agency as a financed purchase of the asset. An APA related to operating or maintaining a nonfinancial asset should be reported by the state agency as an outflow of resources (expensed) in the reporting period to which the payments relate. The state of Texas has not recognized any

APAs in fiscal 2023. For more information on PPPs see Note 26, *Public-Private and Public- Public Partnerships*.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting of subscription-based information technology arrangements (SBITAs). GASB Statement No. 96, based closely on GASB Statement No. 87, *Leases*, defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset, provides capitalization criteria for outlays other than subscription payments and requires appropriate note disclosures. A SBITA includes a subscription term during which a government has a noncancellable right to use the underlying IT asset. The subscriber will recognize an intangible right-to-use subscription asset and a corresponding subscription liability. During the initial implementation stage, outlays are capitalized as an addition to the subscription asset. For more information on SBITAs see Note 8, *Leases and SBITAs*.

GASB Statement No. 99, *Omnibus 2022*, has different implementation dates for each requirement or amendment. The full implementation will not be completed until fiscal 2024. The issues addressed or amended for fiscal 2023 are as follows:

- Clarification of provisions in GASB Statement No. 87, as amended, related to the determination of the lease term, clarification of a short-term lease, recognition and measurement of a lease liability and lease asset and identification of lease incentives.
- Clarification of provisions in GASB Statement No. 94, related to the determination of the PPP term, the recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in GASB Statement No. 96, related to the SBITA term, clarification of a short-term SBITA and recognition and measurement of a subscription liability.

The state also put into effect GASB Implementation Guide No. 2023-1, *Implementation Guidance Update-2023*.

The state of Texas implemented in the previous year:

- GASB Statement No. 87, *Leases*
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, paragraphs 11b, 13 and 14
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*
- GASB Statement No. 99, *Omnibus 2022*, with the exception of the requirements effective for fiscal 2023 listed above, and the requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which are not yet effective for fiscal 2023.

Financial Reporting Entity

For financial reporting purposes, the state of Texas includes all agencies, boards, commissions, authorities, institutions of higher education and other organizations that compose its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of:

- General government
- Education
- Employee benefits
- Teacher retirement state contributions

- Health and human services
- Public safety and corrections
- Transportation
- Natural resources and recreation
- Regulatory services.

As the reporting entity for the state is in accordance with the criteria established by GASB, Note 19, *Component Units and Related Organizations*, provides a listing and brief summary of the component units and their relationship to the state of Texas. The government-wide financial statements present the balances and activities of the state of Texas (the primary government) and its component units.

The state's public school districts, junior colleges and community colleges are excluded from the state's financial reporting entity. These entities are legally separate and fiscally independent from the state. The state is not financially accountable for these entities and it does not make the state's financial statements misleading to exclude them.

Financial Reporting Structure

The basic financial statements include government-wide financial statements, fund financial statements and notes to the financial statements. The reporting model based on GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, focuses on the state as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (statement of net position and statement of activities) display information about the state as a whole - its financial position at the end of the fiscal year and the change in financial position resulting from the activities of the fiscal year, except for its fiduciary activities. These statements include separate columns for the governmental

and business-type activities of the state (including its blended component units) and its discretely presented component units. These statements also report all current and noncurrent assets and liabilities, revenues, expenses and gains and losses of the state using an economic resources measurement focus and an accrual basis of accounting.

The statement of net position is presented in a net position format. The net position is displayed in three components:

- net investment in capital assets
- restricted (presented with major categories of restrictions)
- unrestricted.

This statement reports deferred outflows of resources and deferred inflows of resources in separate categories from assets and liabilities and distinguishes between restricted and unrestricted current and noncurrent assets.

The statement of activities reflects both the gross expense and net expense/revenue by function (public safety and corrections, transportation, etc.) The net expense/revenue is calculated by netting program expenses, including depreciation and amortization, against program revenues for each program. The net expense/revenue format identifies the extent to which each function draws from the general revenues of the state or is self-financing through fees and intergovernmental aid.

Program revenues are directly associated with a function of governmental or business-type activities. Internally-dedicated resources are reported as general revenues rather than program revenues.

Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Charges for services arise from charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided. Charges for services include special assessments and

payments made by parties outside of the state's citizenry if that money is restricted to a particular program.

Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants reflect capital-specific grants from other governments, organizations or individuals. Multipurpose grants that provide financing for more than one program are reported as program revenue if the amounts restricted to each program are specifically identifiable. Multipurpose grants that do not provide for specific identification of the programs and amounts are reported as general revenues.

Certain general government administrative overhead expenses are charged to the various functions of the state. These charges are paid from applicable funding sources and are reflected as direct expenses. Other expenses reported for each function are clearly identifiable to that particular function and are direct expenses. The amount of direct interest expense included in direct expenses in the statement of activities is \$515.4 million.

Fiduciary funds are presented in the fund financial statements by type (pension and other employee benefit trust, external investment trust, private-purpose trust and custodial funds). The assets of fiduciary funds are held for the benefit of others and cannot be used to finance activities or obligations of the government. Therefore, they are not incorporated into the government-wide financial statements.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary nonmajor funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current assets in

the classified format are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables and short-term investments not restricted for specific purposes. All other assets are considered noncurrent. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources and how the state's actual results of activities conform to the budget. A reconciliation between the governmental fund financial statements and the governmental activities column of the government-wide financial statements is presented since a different measurement focus and basis of accounting is used. The reconciliation explains the adjustments required to convert the fund-based financial statements to the reporting entity-based financial statements.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, capital projects and permanent funds. The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all

financial resources except those accounted for in other funds. Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Debt service funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest payments. Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. Permanent funds are used to report resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** is the primary operating fund for the state and includes transactions for 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.

The **State Highway Fund**, a special revenue fund, receives funds allocated by law for public road construction, maintenance, monitoring and law enforcement of the state's highway system.

The **Permanent School Fund** is a permanent investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. The General Land Office transfers the land endowment income to the Texas Permanent School Fund Corporation (Texas PSF), a discretely presented component unit of the state of Texas, as a contribution to endowments. On Sept. 1, 2022, Texas

PSF started business operations as a separate, special purpose governmental corporation; thereby transferring the investment activities from the governmental permanent fund to a discretely presented component unit. The remaining balances and activities reported in the Permanent School Fund opinion unit in the governmental funds statements represents activities and operations for land, mineral and royalty interests and real property holdings managed by the Texas General Land Office in support of the Permanent School Fund.

Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in financial position and cash flows. Proprietary funds are reported using economic resources measurement focus and full accrual basis of accounting. GAAP similar to those used by private-sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

- The activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity.
- Laws or regulations require the activity's costs of providing services, including capital costs (such as depreciation, amortization or debt service), to be recovered with fees and charges.
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal service funds are used to report any activity that provides goods or services, on a cost reimbursement basis, to other funds, departments or agencies of the reporting entity or other governments. The Employees Life, Accident and Health Insurance Benefits Fund

accounts for the services provided to state of Texas agencies and institutions of higher education that participate in the Texas Employees Group Benefits Program.

The major enterprise funds for the state are listed below.

The **Colleges and Universities** include:

- University of Texas System
- Texas A&M University System
- Texas Tech University System
- University of Houston System
- Texas State University System
- University of North Texas System
- Texas Woman's University System
- Texas Southern University
- Texas State Technical College
- Stephen F. Austin State University
 - SFA will become an institution within the University of Texas System on Sept. 1, 2023, and the SFA Board of Regents will be dissolved.

These institutions of higher education are represented as a single column in the proprietary fund financial statements and individually in the schedules of colleges and universities in the other supplementary information section of this report.

The **Unemployment Trust Fund** contains the activity of the state related to the administration of state and federally financed unemployment benefits.

The **Lottery Fund** receives fees from external users and uses the fees to operate the state lottery, finance debt and make investments to meet future installment obligations to prize winners.

The **Texas Water Development Board Funds** are the total of the eight funds listed below:

- Rural Water Assistance Fund - provides financial assistance to rural political subdivisions for water projects.

- Agricultural Water Conservation Fund - holds bond proceeds and activity of loans for agricultural water conservation projects.
- Texas Water Development Fund II - holds proceeds from the sale of bonds for the self-supporting general obligation bonds. Reports loans, grants and costs to administer the Development Fund and State Participation programs.
- Texas Water Development Fund II Clearance Fund - holds balances during the year that are to be transferred to the interest and sinking fund to pay debt service.
- Texas Water Development Fund II Interest and Sinking Fund - receives transfers from the program fund and clearance fund for payment of debt service on outstanding bonds.
- Local Funds - local funds held outside the treasury for purposes of the following programs:
 - State Water Implementation Revenue Fund
 - Clean Water State Revolving Fund
 - Drinking Water State Revolving Fund

Fiduciary Fund Types

Fiduciary funds account for assets held in either a trustee capacity or in a custodial capacity for individuals, private organizations, other governmental units or other funds meeting the criteria established by GASB Statement No. 84, *Fiduciary Activities*. When assets are held under the terms of a formal trust agreement, either a pension and other employee benefit trust fund, external investment trust fund or a private-purpose trust fund is used.

Pension and other employee benefit trust funds report resources held in trust for the members and beneficiaries of defined benefit pension or other employee benefit plans.

External investment trust funds report the external portions of investment pools held in trust reported by the sponsoring government.

Private-purpose trust funds report all other trust arrangements whose principal and interest benefit individuals, private organizations or other governments.

These trusts include:

- Opioid settlement money
- Tobacco settlement money
- Catastrophic insurance loss relief
- Educational savings plan
- Other private-purpose trust funds.

Custodial funds report all other assets, not held in trust, the state holds on behalf of others in a purely custodial capacity. These funds include:

- Educational Custodial Fund
- Economic Development Custodial Fund
- Nontrusted External Investment Pool Custodial Fund
- Other custodial funds.

Component Units

All component units of the state of Texas are reported as nonmajor component units, except for Texas Permanent School Fund Corporation and Teacher Retirement System of Texas. The combining statement of net position - component units and the combining statement of activities - component units are discretely presented.

Texas Permanent School Fund Corporation (Texas PSF) is a discretely presented component unit of the state of Texas. On Sept. 1, 2022, Texas PSF started business operations as a separate, special purpose governmental corporation. Texas PSF obtains its operating income from net increase/(decrease) in fair value, dividend and interest income related to investments. Land endowment income transferred to Texas PSF from the General Land Office is considered contributions to endowments. The Permanent School Fund uses a total return-based formula to distribute funds to the Available School Fund on a monthly basis.

Teacher Retirement System of Texas (TRS) is a separate legal entity and considered a discrete compo-

ment unit of the state of Texas. TRS-ActiveCare is a self-funded health benefits program that covers active employees currently employed by public education employers that participate in the program, along with the employees' eligible dependents. TRS-ActiveCare is funded by state, employer and active employee contributions and receives no appropriations from the state for administrative expenses. TRS-ActiveCare is reported as a discrete component unit fund type, whereas TRS pension trust fund and employee benefit trust fund are reported as fiduciary fund types.

Additional information about blended and discretely presented component units can be found in Note 19, *Component Units and Related Organizations*. More detailed information of the individual component units is available from the component units' separately issued financial statements.

Basis of Accounting, Measurement Focus and Financial Statement Presentation

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting entity, both current and noncurrent, are reported. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which partially amended GASB Statement No. 33.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally only current assets and current liabilities are included on the statement of net position. Operating statements of these funds present increases (such as revenues and other financing sources) and decreases (such as expenditures and other financing uses) in current financial resources.

Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The state of Texas considers all major revenues (such as operating grants and contributions and taxes) reported in the governmental funds to be available if the revenues are due at fiscal year-end and collected within 60 days thereafter.

In the governmental fund financial statements, revenues that are earned but not expected to be collected within 60 days are not available to liquidate the liabilities of the current period and are reported as deferred inflows of resources. Unearned revenue is recorded when cash or other assets are received prior to being earned.

Under the accrual basis of accounting, as used in the government-wide financial statements, proprietary fund financial statements and fiduciary fund financial statements, unearned revenue is recorded when cash or other assets are collected in advance before the revenue recognition criteria are met. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Amounts paid to acquire capital assets are capitalized as assets rather than reported as expenditures as they would be under the modified accrual basis of accounting used in the governmental fund financial statements. Proceeds of long-term debt are recorded as liabilities rather than other financing sources under the modified accrual basis. Amounts paid to reduce long-term

indebtedness of the state are reported as reductions of the related liabilities rather than expenditures.

Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and capital asset depreciation and amortization. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgetary Information

The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than management's discussion and analysis (MD&A) section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations for the general fund and the state highway fund budgetary basis to the GAAP basis are presented as required supplementary information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as other supplementary information. The governmental funds with legally adopted annual budgets are the general fund, the state highway fund and the other nonmajor special revenue funds listed in other supplementary information.

Cash and Cash Equivalents

For reporting purposes, cash and cash equivalents includes cash on hand, cash in transit, cash in local banks, cash in the federal and state treasuries and cash equivalents. Cash in local banks is primarily held by enterprise funds, discrete component units and employee benefit trust funds. Cash balances of most state funds are pooled and invested by the Treasury Operations

Division of the Comptroller's office. Interest earned is deposited in the general revenue fund and specified funds designated by law.

The statement of cash flows for proprietary funds presents the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly-liquid investments that are both readily convertible to known amounts of cash and so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for securities lending are not included as cash equivalents on the statement of cash flows.

Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments are reported at fair value in the statement of net position or other statements of net financial position with exceptions. Texas local government investment pool (TexPool) and Texas local government investment pool prime (TexPool Prime) meet the criteria for a qualifying external investment pool under GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at date of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities.

Receivables and Payables

The major receivables for governmental activities are federal revenue, other intergovernmental and taxes receivable. The major receivables for business-type activities are federal receivables, patient receivables and

tuition receivables. Receivables represent amounts due to the state as of Aug. 31, 2023, from private persons or organizations. Amounts expected to be collected within the next fiscal year are classified as current and amounts expected to be collected beyond the next fiscal year are classified as noncurrent. All receivables are recorded net of allowances for uncollectible accounts.

Taxes receivable represent amounts earned in fiscal 2023 that will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered available is recorded as revenue; the remainder is recorded as unearned revenue. Taxes receivable are estimated based on collection experience. Tax refunds payable represent amounts owed to taxpayers for overpayments or amended tax returns. See Note 23, *Taxes Receivable and Tax Refunds Payable*, for more details.

Other receivables in the general fund consist primarily of program receivables for health care, supplemental nutrition assistance program and temporary assistance for needy families. Also included are Medicare receivables for programs like Uncompensated Care (UC), Disproportionate Share Hospital (DSH) and Delivery System Reform Incentive Payment (DSRIP). Other receivables in the colleges and universities fund consist primarily of receivables from investments, external parties and other companies. Other receivables in proprietary funds other than the colleges and universities fund consist of receivables related to unemployment benefits. Activities between funds that represent lending/borrowing arrangements outstanding at fiscal year-end are interfund loans. All other outstanding balances between funds are reported as due from/due to other funds. Any residual balances between governmental and business-type activities are reported in the government-wide financial statements as internal balances.

Noncurrent interfund receivables in the general fund, as shown in Note 12, *Interfund Activity and Trans-*

actions, are reported as nonspendable fund balance.

Noncurrent interfund receivables in other governmental funds are reported as committed, restricted or assigned fund balance.

Investment trade receivables are reported for sales of investments pending settlement. Investment trade payables are purchases of investments pending settlement.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories and prepaid items that appear in both governmental and proprietary fund types. The costs of inventories are expensed when they are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide financial statements and fund financial statements.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements.

Capital Assets

Capital assets are reported in proprietary funds, fiduciary funds and on the government-wide financial statements. The capitalization threshold and the estimated useful life of the assets vary depending upon the asset type. Note 2, *Capital Assets*, includes a table identifying the capitalization threshold and the estimated useful life by asset type. It also provides information on the state's depreciation/amortization policy and other detailed information.

At the commencement of the lease term, a lessee will recognize a lease liability and an intangible right-to-use lease asset, which is a capital asset. At the commencement of the subscription term, a SBITA subscriber will recognize a subscription liability and an intangible right-to-use subscription asset, which is also a capital asset. GASB Statement No. 87, *Leases*, and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provide for the reporting of “Intangible Right to Use (IRTU) Assets”. IRTU assets are reported in Note 2, *Capital Assets*, and additional details in Note 8, *Leases and SBITAs*.

The state has adopted the depreciation method for reporting its highway system. The Texas Department of Transportation, the state agency responsible for construction and maintenance of the state’s road and highway systems, adopted the composite approach for reporting infrastructure and bridges. The composite approach is a method for calculating depreciation of a group of similar and dissimilar assets of the same class (all the roads and bridges of the state) using the same depreciation rate. The composite depreciation rate for fiscal 2023 is 2.5 percent based on a 40-year weighted average life expectancy of the assets in service.

Long-Term Liabilities

Reporting long-term liabilities in the statement of net position requires two components - the amount due within one year (current) and the amount due in more than one year (noncurrent).

General long-term liabilities consist of claims and judgments, lease obligations, SBITA obligations, employees’ compensable leave, availability payment arrangements and other noncurrent liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net position. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising

from debt issuances, but may also include noncurrent liabilities on lease-purchase agreements and other commitments that are not current liabilities.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts are currently amortized over the life of the bonds using the straight-line method. State agencies also have the option of using bonds outstanding or the effective interest method. Bonds payable are reported net of the applicable bond accretion, premium or discount. Gain or loss on refunding is reported as deferred inflows of resources or deferred outflows of resources, respectively, and amortized over a shorter final maturity of the refunded or the refunding bonds. Issuance costs are expensed in the fiscal year in which they were incurred.

In the governmental fund financial statements, bond premiums, discounts and bond issuance costs are recognized during the current fiscal year. The face amount of the debt issued and the related premiums are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees’ Compensable Leave Balances

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employee. Benefits are earned when the employee’s right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

Under the federal Fair Labor Standards Act and state laws for nonexempt and nonemergency employees, overtime can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours.

Unused overtime is included in the calculation of current and noncurrent liabilities because each employee may be paid for the overtime or use it as compensatory time.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from the date earned or it lapses. There is no death or termination benefit for compensatory leave and it is nontransferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of eight hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. In 2009, the 81st Texas Legislature session passed House Bill 2559, which does not allow employees hired on or after Sept. 1, 2009, to apply unused sick or annual leave as service credit to meet retirement eligibility. State employees hired before Sept. 1, 2009, are entitled to service credit in the retirement system for unused sick or annual leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave was not determined. The probability of a material impact on state operations in any given fiscal year is considered remote.

Lease Obligations

A lease liability is measured at the present value of payments, based on a contract, to be made during the lease term. The state, as a lessee, will reduce the lease liability as payments are made and recognize an outflow of resources for interest on the liability. The lease liability is split into current and noncurrent portions. Note 8, *Leases and SBITAs*, provides details for lease obligations.

SBITA Obligations

A subscription liability is measured at the present value of payments, based on a contract, to be made during the subscription term. The state, as a subscriber, will reduce the subscription liability as payments are made and recognize an outflow of resources for interest on the liability. The subscription liability is split into current and noncurrent portions. Note 8, *Leases and SBITAs*, provides details for subscription obligations.

Conduit Debt Obligations

Conduit debt issued by the state in the form of bonds is for the express purpose of providing capital financing for a specific third party that is not part of the state's financial reporting entity. The bonds are secured by the property financed and are payable solely from payments received from the third party on the underlying loans. GASB Statement No. 91, *Conduit Debt Obligations*, superseded GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. An issuer will not recognize a conduit debt obligation as a liability. Disclosures for conduit bonds will include a general description of the issuer's conduit debt obligations, types of commitments and the aggregate outstanding principal amount of all conduit obligations that share the same type of commitments at the end of the reporting period. Note 6, *Bonded Indebtedness*, provides details on conduit debt obligations.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined in GASB Concepts Statement No. 4, *Elements of Financial Statements*, as the consumption and acquisition of net assets by the government that are applicable to future periods.

Note 27, *Deferred Outflows of Resources and Deferred Inflows of Resources*, provides more details.

Net Position and Fund Balances

The state reports restricted net position when constraints placed on resources are either:

- externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments; or
- imposed by law through constitutional provisions or enabling legislation.

Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources can only be used for the specific purposes stipulated in the legislation. The *Texas Constitution* mandates that if oil and natural gas production tax revenues exceed the net amount received in fiscal 1987, an amount of at least one-half of 75 percent of the excess must be transferred to the state's Economic Stabilization Fund (rainy day fund) from the general revenue fund. In addition to the oil and gas transfers, one half of any unencumbered balance in the general fund at the close of each biennium must be transferred to the Economic Stabilization Fund. The *Texas Constitution, Article 7*, describing the Permanent School Fund (PSF), details how it may be spent and also explicitly restricts the legislature from appropriating any part of it for any other purpose. Investment in capital assets, net of related debt, is reported as a component of net position. Due to the PSF being constitutionally described as permanent, the remainder of the net posi-

tion is classified as restricted, which is further classified as expendable and nonexpendable. The expendable portion is permitted to be spent by constitutional parameters. The nonexpendable portion is comprised of the remainder of net position, which is to be maintained in perpetuity.

Restricted net position is designated as either expendable or nonexpendable. Expendable restricted resources are those that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations, such as the state's expendable endowment funds. Nonexpendable restricted resources are those required to be retained in perpetuity. Restricted resources include the state's permanent endowment funds subject to externally imposed restrictions governing their use. For more information on restricted net position, see the MD&A section and the statement of net position.

Net investment in capital assets consists of capital assets - including restricted capital assets - net of accumulated depreciation/amortization and reduced by the outstanding balances of bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of net investment in capital assets. The unspent portion of the debt is included in the restricted for capital projects category of net position.

Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances include amounts that cannot be spent because they are either not in a spendable form or they are legally or contractually required to be maintained intact. Fund balances are reported as restricted when constraints placed upon the use of resources are either:

- externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments; or
- imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed through legislation passed into law by formal action of the Texas Legislature, the state's highest level of decision-making authority. These committed amounts cannot be used for any other purpose unless the Texas Legislature removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Fund balances are reported as assigned when the state intends for resources to be used for specific purposes, yet the constraints do not meet the requirements to be reported as restricted or committed. Intent is expressed by either the Texas Legislature, agency governing board or the agency head/official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balances represent amounts that have not been restricted, committed or assigned to specific purposes. The Texas Legislature, agency governing board or the agency head/official to which the governing body has delegated the authority to assign amounts shall determine the procedures and policies for determining assigned fund balances.

The general fund is the only fund that can report a deficit unassigned fund balance. Note 13, *Classification of Fund Balances/Net Position*, presents disaggregated fund balances.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first and then unrestricted resources as they are needed. When only unrestricted resources are available for use, it is the state's policy to use committed resources first, then assigned resources, and lastly, unassigned resources.

Interfund Activity and Transactions - Government-wide Financial Statements

Interfund activities are presented on the fund financial statements but are not carried forward to the

government-wide financial statements. The interfund activities on the government-wide financial statements are consolidated to present only the activities between governmental activities and business-type activities. Interfund services provided and used are allocated to various functions within the primary government. Interfund activity with fiduciary funds is reclassified and reported as external activity.

Interfund payables and receivables are also presented on the fund financial statements but are not carried forward to the statement of net position except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net position. Interfund activities between the primary government and component units with a different fiscal year-end are limited and immaterial.

Interfund transactions with discretely presented component units are reclassified and reported as external activity. Note 12, *Interfund Activity and Transactions*, provides details.

Risk Financing

The state maintains a combination of commercial insurance and self-insurance programs. The state is self-insured for workers' compensation and unemployment compensation claims. The liabilities are funded on a pay-as-you-go basis. The group insurance programs are provided through a combination of insurance contracts, self-funded health plans and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims incurred but not reported. See Note 17, *Risk Management*, for additional information.

Note 2

Capital Assets

Capital assets of governmental funds, which include land, infrastructure, buildings, equipment and intangible assets, are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the government-wide statement of net position. Capital assets such as library books, leasehold improvements and livestock are included in the Other Capital Assets type. Capital assets of other funds and component units are capitalized in the fund in which they are utilized. Capital assets are assets with a cost above a set minimum capitalization threshold that when acquired have an estimated useful life of more than one year. The state of Texas implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)* for fiscal year 2023. Generally, a SBITA is a contract that conveys control of the right to use another party's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. At the commencement of the subscription term, a subscription liability is recognized and an intangible right-to-use asset (subscription asset) is placed into service. Subscription assets are initially measured as the sum of the initial subscription liability amount, payments made to the SBITA vendor before commencement of the subscription term, and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. Other intangible right-to-use (RTU) assets have a value of the initial measurement of the lease liability plus lease payments made at or before the commencement of the lease term, less any incentives received from the lessor at or before the commencement of the lease term plus initial indirect costs that are ancillary charges to place the lease asset in service. More information can be found in Note 8 - *Leases and*

Subscription-Based Information Technology Arrangements.

The capitalization thresholds and estimated useful lives of the state's various categories of capital assets as of Aug. 31, 2023, are presented in table 2A.

Capitalization of Assets

Table 2A

August 31, 2023

Capital Asset Type	Capitalization Threshold	Estimated Useful Life
Non-Depreciable and Non-Amortizable Assets		
Land and Land Improvements	\$ 0	Not applicable
Infrastructure	0	Not applicable
Construction in Progress	0	Not applicable
Land Use Rights – Permanent	0	Not applicable
Other Capital Assets	0	Not applicable
Depreciable Assets		
Buildings and Building Improvements	100,000	5-30 years
Infrastructure	500,000	10-50 years
Facilities and Other Improvements	100,000	10-60 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Other Capital Assets	Various	3-22 years
Intangible Capital Assets - Amortizable		
Internally Generated		
Computer Software	1,000,000	3-10 years
Other Computer Software	100,000	3-10 years
Land Use Rights – Term	100,000	10-60 years
Other Intangible Capital Assets	100,000	3-15 years

Table 2B presents the composition of the state's capital and intangible RTU assets, adjustments, reclassifications, additions and deletions during fiscal 2023. The adjustments column includes assets not previously reported, accounting errors, the transition balances of intangible RTU subscription assets as a result of GASB Statement No. 96 implementation and other changes. The reclassifications column includes amounts for transfers of capital assets between agencies and reclassifies amounts for completed construction projects previously reported as construction in progress. The additions column includes current year purchases, new intangible RTU leases and subscription assets, depreciation and amortization. The deletions column includes assets removed and

intangible RTU leases and subscription assets removed due to early termination during the current fiscal year.

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available.

Donated assets are reported at the acquisition value. Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems, are capitalized.

Capital Asset Activity

Table 2B: Primary Government - Governmental Activities

August 31, 2023 (Amounts in Thousands)

Capital Asset Type	Balance 9/1/22	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/23
Non-Depreciable and Non-Amortizable Assets						
Land and Land Improvements	\$ 18,522,819	\$ (228,304)	\$ (20)	\$ 1,127,914	\$ (6,759)	\$ 19,415,650
Infrastructure	283					283
Construction in Progress	25,190,689	(682,493)	(8,091,268)	8,986,280		25,403,208
Land Use Rights – Permanent	90,870	125		6,286	(250)	97,031
Other Capital Assets	73,186		20	70		73,276
Total Non-Depreciable and Non-Amortizable Assets	<u>43,877,847</u>	<u>(910,672)</u>	<u>(8,091,268)</u>	<u>10,120,550</u>	<u>(7,009)</u>	<u>44,989,448</u>
Depreciable Assets						
Buildings and Building Improvements	7,179,583	584,766	385,590	8,538	(8,066)	8,150,411
Infrastructure	121,743,877	(1,358,039)	7,659,626	724,998	(9,227)	128,761,235
Facilities and Other Improvements	287,537	1,859	8,457	754		298,607
Furniture and Equipment	1,374,765	16,988	7,652	99,734	(123,851)	1,375,288
Vehicles, Boats and Aircraft	1,636,932	4,948		169,815	(51,577)	1,760,118
Other Capital Assets	160,856	(21)		3,166	(9,390)	154,611
Total Depreciable Assets at Historical Cost	<u>132,383,550</u>	<u>(749,499)</u>	<u>8,061,325</u>	<u>1,007,005</u>	<u>(202,111)</u>	<u>140,500,270</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(5,176,603)	(32,719)		(218,361)	7,470	(5,420,213)
Infrastructure	(29,064,411)	50,000		(2,526,147)	1,228	(31,539,330)
Facilities and Other Improvements	(209,104)	(326)		(6,561)		(215,991)
Furniture and Equipment	(1,095,906)	(2,392)	(57)	(78,395)	110,346	(1,066,404)
Vehicles, Boats and Aircraft	(1,066,421)	(2,509)	(33)	(113,132)	45,666	(1,136,429)
Other Capital Assets	(113,645)	(483)		(6,588)	8,891	(111,825)
Total Accumulated Depreciation	<u>(36,726,090)</u>	<u>11,571</u>	<u>(90)</u>	<u>(2,949,184)</u>	<u>173,601</u>	<u>(39,490,192)</u>
Depreciable Assets, Net	<u>95,657,460</u>	<u>(737,928)</u>	<u>8,061,235</u>	<u>(1,942,179)</u>	<u>(28,510)</u>	<u>101,010,078</u>
Intangible Capital Assets – Amortizable						
Computer Software	765,679	3,005	29,216	5,456	(67,573)	735,783
Land Use Rights – Term	348					348
Intangible Capital Assets – Term	79,673					79,673
Total Intangible Assets at Historical Cost	<u>845,700</u>	<u>3,005</u>	<u>29,216</u>	<u>5,456</u>	<u>(67,573)</u>	<u>815,804</u>
Less Accumulated Amortization for:						
Computer Software	(562,867)	(365)		(56,608)	64,931	(554,909)
Land Use Rights – Term	(126)			(116)		(242)
Intangible Capital Assets – Term	(75,335)			(2,942)		(78,277)
Total Accumulated Amortization	<u>(638,328)</u>	<u>(365)</u>	<u>0</u>	<u>(59,666)</u>	<u>64,931</u>	<u>(633,428)</u>
Amortizable Assets, Net	<u>207,372</u>	<u>2,640</u>	<u>29,216</u>	<u>(54,210)</u>	<u>(2,642)</u>	<u>182,376</u>
Intangible Right-to-Use (RTU) Assets - Amortizable						
Land and Land Improvements	3,579			2,209	(1,125)	4,663
Buildings and Building Improvements	966,925	(2,768)		124,273	(5,550)	1,082,880
Furniture and Equipment	16,763	172		6,474	(796)	22,613
Subscription-Based Information Technology Arrangements (Subscription Assets)		19,296		286,531	(977)	304,850
Total Amortizable Intangible RTU Assets	<u>987,267</u>	<u>16,700</u>	<u>0</u>	<u>419,487</u>	<u>(8,448)</u>	<u>1,415,006</u>
Less Accumulated Amortization for:						
Land and Land Improvements	(1,259)			(1,183)	1,125	(1,317)
Buildings and Building Improvements	(187,415)	952		(180,905)	5,059	(362,309)
Furniture and Equipment	(3,968)	(13)		(5,577)	729	(8,829)
Subscription Assets		(102)		(75,569)	977	(74,694)
Total Accumulated Amortization Intangible RTU Assets	<u>(192,642)</u>	<u>837</u>	<u>0</u>	<u>(263,234)</u>	<u>7,890</u>	<u>(447,149)</u>
Amortizable Intangible RTU Assets, Net	<u>794,625</u>	<u>17,537</u>	<u>0</u>	<u>156,253</u>	<u>(558)</u>	<u>967,857</u>
Governmental Activities Capital Assets, Net	<u>\$ 140,537,304</u>	<u>\$ (1,628,423)</u>	<u>\$ (817)</u>	<u>\$ 8,280,414</u>	<u>\$ (38,719)</u>	<u>\$ 147,149,759</u>

Continued on the following page

Capital Asset Activity (continued)

Table 2B: Primary Government - Business Type Activities

August 31, 2023 (Amounts in Thousands)

Capital Asset Type	Balance 9/1/22	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/23
Non-Depreciable and Non-Amortizable Assets						
Land and Land Improvements	\$ 2,586,241	\$ 51	\$ 10,211	\$ 64,186	\$ (9,732)	\$ 2,650,957
Infrastructure						
Construction in Progress	3,283,297	(4,228)	(1,748,085)	2,173,088	(2,962)	3,701,110
Land Use Rights – Permanent	22,918					22,918
Other Capital Assets	1,044,518		96	52,443	(754)	1,096,303
Other Intangible Capital Assets - Permanent	21,265					21,265
Total Non-Depreciable and Non-Amortizable Assets	6,958,239	(4,177)	(1,737,778)	2,289,717	(13,448)	7,492,553
Depreciable Assets						
Buildings and Building Improvements	45,506,181	(3,123)	1,268,751	514,196	(211,884)	47,074,121
Infrastructure	4,890,464		236,267	1,144	(2,630)	5,125,245
Facilities and Other Improvements	3,592,956		62,514	15,987	(2,790)	3,668,667
Furniture and Equipment	7,969,230	76	49,153	651,795	(287,842)	8,382,412
Vehicles, Boats and Aircraft	368,127	487	468	34,429	(11,730)	391,781
Other Capital Assets	2,061,146		102,417	67,033	(41,263)	2,189,333
Total Depreciable Assets at Historical Cost	64,388,104	(2,560)	1,719,570	1,284,584	(558,139)	66,831,559
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(23,356,500)	(5)	(647)	(1,735,706)	189,268	(24,903,590)
Infrastructure	(1,746,487)			(149,276)	2,609	(1,893,154)
Facilities and Other Improvements	(1,675,063)			(142,087)	2,448	(1,814,702)
Furniture and Equipment	(5,841,524)	350	36	(605,280)	246,802	(6,199,616)
Vehicles, Boats and Aircraft	(278,477)	(380)		(25,139)	10,972	(293,024)
Other Capital Assets	(1,400,926)			(98,133)	34,842	(1,464,217)
Total Accumulated Depreciation	(34,298,977)	(35)	(611)	(2,755,621)	486,941	(36,568,303)
Depreciable Assets, Net	30,089,127	(2,595)	1,718,959	(1,471,037)	(71,198)	30,263,256
Intangible Capital Assets – Amortizable						
Computer Software	1,727,722	(216)	19,604	19,656	(47,028)	1,719,738
Land Use Rights – Term	255					255
Intangible Capital Assets – Term	700					700
Total Intangible Assets at Historical Cost	1,728,677	(216)	19,604	19,656	(47,028)	1,720,693
Less Accumulated Amortization for:						
Computer Software	(1,483,679)	216		(113,183)	38,176	(1,558,470)
Land Use Rights – Term	(255)					(255)
Intangible Capital Assets – Term	(420)			(140)		(560)
Total Accumulated Amortization	(1,484,354)	216	0	(113,323)	38,176	(1,559,285)
Amortizable Assets, Net	244,323	0	19,604	(93,667)	(8,852)	161,408
Intangible Right-to-Use (RTU) Assets - Amortizable						
Land and Land Improvements	89,901	742		1,495	(158)	91,980
Buildings and Building Improvements	1,242,039	435		196,800	(31,252)	1,408,022
Infrastructure	1,715			409		2,124
Furniture and Equipment	84,406	8		50,233	(23,095)	111,552
Vehicles				265		265
Subscription Assets		187,987		394,000	(17,073)	564,914
Total Amortizable Intangible RTU Assets	1,418,061	189,172	0	643,202	(71,578)	2,178,857
Less Accumulated Amortization for:						
Land and Land Improvements	(3,251,000)	(284)		(1,820)	140,000	(5,215)
Buildings and Building Improvements	(204,263,000)	56		(130,486)	25,081	(309,612)
Infrastructure	(394,000)			(258)		(652)
Furniture and Equipment	(39,179,000)	15		(33,913)	22,751	(50,326)
Vehicles				(26)		(26)
Subscription Assets		(47,548)		(150,667)	15,065	(183,150)
Total Accumulated Amortization Intangible RTU Assets	(247,087)	(47,761)	0	(317,170)	63,037	(548,981)
Amortizable Intangible RTU Assets, Net	1,170,974	141,411	0	326,032	(8,541)	1,629,876
Business Activities Capital Assets, Net	\$ 38,462,663	\$ 134,639	\$ 785	\$ 1,051,045	\$ (102,039)	\$ 39,547,093

Concluded on the following page

Capital Asset Activity (concluded)

Table 2B: Component Units

August 31, 2023 (Amounts in Thousands)

Capital Asset Type	Balance 9/1/22	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/23
Non-Depreciable and Non-Amortizable Assets						
Land and Land Improvements	\$ 4,564	\$	\$	\$ 2,013	\$ (1,709)	\$ 4,868
Construction in Progress	830			3,232	(2,051)	2,011
Total Non-Depreciable and Non-Amortizable Assets	<u>5,394</u>	<u>0</u>	<u>0</u>	<u>5,245</u>	<u>(3,760)</u>	<u>6,879</u>
Depreciable Assets						
Buildings and Building Improvements	26,124			6,532		32,656
Facilities and Other Improvements	414			14		428
Furniture and Equipment	44,872			2,029	(1,168)	45,733
Vehicles, Boats and Aircraft	9,434			2,852	(2,207)	10,079
Other Capital Assets	2,123			1,994	(1,858)	2,259
Total Depreciable Assets at Historical Cost	<u>82,967</u>	<u>0</u>	<u>0</u>	<u>13,421</u>	<u>(5,233)</u>	<u>91,155</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(7,887)			(616)		(8,503)
Facilities and Other Improvements	(413)			(1)		(414)
Furniture and Equipment	(25,938)			(3,422)	922	(28,438)
Vehicles, Boats and Aircraft	(4,988)			(1,658)	1,513	(5,133)
Other Capital Assets	(1,876)			(233)	1,858	(251)
Total Accumulated Depreciation	<u>(41,102)</u>	<u>0</u>	<u>0</u>	<u>(5,930)</u>	<u>4,293</u>	<u>(42,739)</u>
Depreciable Assets, Net	<u>41,865</u>	<u>0</u>	<u>0</u>	<u>7,491</u>	<u>(940)</u>	<u>48,416</u>
Intangible Capital Assets – Amortizable						
Computer Software	13,777			2,051	(13)	15,815
Total Intangible Assets at Historical Cost	<u>13,777</u>	<u>0</u>	<u>0</u>	<u>2,051</u>	<u>(13)</u>	<u>15,815</u>
Less Accumulated Amortization for:						
Computer Software	(7,612)			(1,814)	12	(9,414)
Total Accumulated Amortization	<u>(7,612)</u>	<u>0</u>	<u>0</u>	<u>(1,814)</u>	<u>12</u>	<u>(9,414)</u>
Amortizable Assets, Net	<u>6,165</u>	<u>0</u>	<u>0</u>	<u>237</u>	<u>(1)</u>	<u>6,401</u>
Intangible Right-to-Use (RTU) Assets - Amortizable						
Buildings and Building Improvements	1,802	1,958		14,861		18,621
Furniture and Equipment				6		6
Subscription Assets				7,226		7,226
Total Amortizable Intangible RTU Assets	<u>1,802</u>	<u>1,958</u>	<u>0</u>	<u>22,093</u>	<u>0</u>	<u>25,853</u>
Less Accumulated Amortization for:						
Buildings and Building Improvements	(1,309)	(904)		(1,937)		(4,150)
Furniture and Equipment				(1)		(26)
Subscription Assets				(2,521)		(183,150)
Total Accumulated Amortization Intangible RTU Assets	<u>(1,309)</u>	<u>(904)</u>	<u>0</u>	<u>(4,459)</u>	<u>0</u>	<u>(6,672)</u>
Amortizable Intangible RTU Assets, Net	<u>493</u>	<u>1,054</u>	<u>0</u>	<u>17,634</u>	<u>0</u>	<u>19,181</u>
Component Units Capital Assets, Net	<u>\$ 53,917</u>	<u>\$ 1,054</u>	<u>\$ 0</u>	<u>\$ 30,607</u>	<u>\$ (4,701)</u>	<u>\$ 80,877</u>

Table 2C discloses depreciation and amortization by governmental and business-type activities during fiscal 2023. Depreciation or amortization is reported on all exhaustible assets. Inexhaustible assets, such as works of art and historical treasures are not depreciated. Professional, academic and research library books and materials are considered exhaustible assets and are depreciated. Intangible assets with determinable useful

lives and intangible RTU assets are amortized. Assets are depreciated or amortized over their estimated useful life using the straight-line method. Intangible RTU assets are amortized over the shorter of the lease or subscription term or the useful life of the underlying asset. The state's highway infrastructure is reported using the depreciation approach.

Capital Asset Depreciation and Amortization Expense

Table 2C: Primary Government
For the Fiscal Year Ended August 31, 2023
(Amounts in Thousands)

Services	Governmental Activities	Business-Type Activities
General Government	\$ 128,090	\$ 4,076
Education	11,843	3,066,615
Employee Benefits	1	
Health and Human Services	187,472	
Public Safety and Corrections	194,189	559
Transportation	2,680,186	107,877
Natural Resources and Recreation	60,821	6,329
Regulatory Services	9,482	
Lottery		658
Total Depreciation and Amortization Expense	<u>\$3,272,084</u>	<u>\$3,186,114</u>

The state's capitalization policy regarding works of art and historical treasures states that capitalization is encouraged, but not required for works of art and historical treasures that meet certain conditions. Works of art and historical treasures not required to be capitalized are those that are:

- Held for public exhibition, education or research in furtherance of public service rather than for financial gain,
- Protected, kept unencumbered, cared for and preserved; and/or
- Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

Assets of this nature include the historical archives of the Texas General Land Office. This vast collection includes more than 36.8 million documents and approximately 43 thousand maps dating back to 1561.

Following the guidelines set in GASB Statement No. 42, *Accounting and Financial Reporting for the Impairment of Capital Assets and for Insurance Recoveries*, a capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The state reports no impairments for the fiscal year.

Note 3

Deposits, Investments and Repurchase Agreements

Authority for Investments

All monies in funds established in the Texas Comptroller of Public Accounts (Comptroller) Treasury Operations Division (Treasury) by the *Texas Constitution* or by an act of the Texas Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits, direct security repurchase agreements, reverse repurchase agreements, obligations of the United States and its agencies and instrumentalities, bankers' acceptances, commercial paper, contracts written by the Comptroller's office, which are commonly known as covered call options, and other investments specified in statute.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2023. The Trust Company safe-keeps U.S. Government securities in book-entry form for the major investment funds, safe-keeps collateral pledged to secure deposits of the Treasury in financial institutions, and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, component units, public employee retirement systems and institutions of higher education are authorized to invest funds not deposited with the Treasury. As of Aug. 31, 2023, the Teacher Retirement System of Texas (TRS), the permanent school fund (PSF), the Employees Retirement System of Texas (ERS) and the University of Texas System (UT System) reported more than 88.1 percent of the total investment fair value; this does not include the invest-

ments held by the Comptroller's office Treasury Pool, TexPool and TexPool Prime. TRS, PSF, ERS, the UT System and the Texas Prepaid Higher Education Tuition Board (TPHETB) make investments following the prudent investor rule. Authorized investments include equities, fixed income obligations, cash equivalents and other investments.

Collateralization

State law requires all treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all U.S. Treasury obligations, most federal agency obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held either by the Comptroller, a Federal Reserve Bank, a Federal Home Loan Bank, the Texas Treasury Safekeeping Trust Company, a state depository bank that has been designated as a custodian by the Comptroller, or by a financial institution authorized to exercise fiduciary powers that has been designated as a custodian by the Comptroller. During fiscal 2023, no depository holding state funds failed.

State agencies and institutions of higher education with deposits of public funds not managed by the Treasury are required to secure deposits through collateral pledged by depository banks and savings and loan institutions. Eligible collateral securities are prescribed by state law; however, retirement systems and PSF are exempt by statute from this requirement.

External Investment Pool

The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported

as an external investment trust fund. Separate audited financial statements may be obtained by contacting:

Texas Treasury Safekeeping Trust Company
208 E. 10th St., 4th floor
Austin, Texas 78701

Deposits

As of Aug. 31, 2023, the carrying amounts of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units were \$1.1 billion, \$190.7 million and \$427.4 million, respectively. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included in the combined statement of net position as part of the cash and cash equivalents and investment related line items. As of Aug. 31, 2023, the total bank balances for governmental and business-type activities, fiduciary funds and discretely presented component units were \$1.2 billion, \$164.1 million and \$310.7 million, respectively.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities in the possession of an outside party will not be recovered. There is no formal deposit policy for managing custodial credit risk. The state's securities lending programs are subject to custodial credit risk. This type of risk is inherent to the securities lending programs. The bank balances exposed to custodial credit risk as of Aug. 31, 2023, is presented in table 3A.

Bank Balances Exposed to Custodial Credit Risk

Table 3A

August 31, 2023 (Amounts in Thousands)

Fund Type	Uninsured and Uncollateralized	Uninsured and Collateralized ¹
GOVERNMENTAL ACTIVITIES		
Other Nonmajor Funds	\$ 579	\$
Total Custodial Credit Risk - Governmental Activities	<u>579</u>	<u>0</u>
BUSINESS-TYPE ACTIVITIES		
College and Universities	6,086	59,898
Total Custodial Credit Risk - Business-Type Activities	<u>6,086</u>	<u>59,898</u>
Total Custodial Credit Risk - Government and Business-Type Activities	<u>\$ 6,665</u>	<u>\$ 59,898</u>
FIDUCIARY FUNDS	<u>\$ 92,517</u>	<u>\$ 0</u>
COMPONENT UNITS	<u>\$ 562,386</u>	<u>\$ 0</u>

¹ Securities held by the pledging financial institution

Foreign Currency Risk: Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. There is no formal deposit policy for managing foreign currency risk. Foreign currency deposits are intended for settlement of pending international investment trades. The bank balances exposed to foreign currency risk as of Aug. 31, 2023, is presented in table 3B.

Bank Balances Exposed to Foreign Currency Risk

Table 3B

August 31, 2023 (Amounts in Thousands)

Foreign Currency	Governmental and Business-Type Activities	Fiduciary Funds	Discrete Component Units
Australian Dollar	\$	\$ 21,398	\$ 214
Brazilian Real		7,780	128
British Pound	61	4,426	1,431
Canadian Dollar	3,413	(8,072)	4,498
Chilean Peso		11	
Chinese Yuan (Offshore)		11,452	
Chinese Yuan Renminbi		(4,479)	729
Czech Koruna		3,844	
Danish Krone		1,533	
Egyptian Pound		1,464	
Euro		74,467	652
Hong Kong Dollar		6	11,257
Hungarian Forint		4	
Indian Rupee		1,930	
Indonesian Rupiah	83	25	
Israeli New Shekel		1,030	
Japanese Yen		10,588	2
Kuwaiti Dinar		40	
Malaysian Ringgit		33	4
Mexican Peso	771	(35,293)	2
New Zealand Dollar		9	
Nigerian Naira		2	
Norwegian Krone		842	9
Philippine Peso		7	315
Polish Zloty		331	164
Qatari Rial	805	11	372
Russian Ruble		9,627	
Saudi Riyal		19,214	
Singapore Dollar		1,081	74
South African Rand		1,941	
South Korean Won	563	36,300	231
Swedish Krona		2,292	152
Swiss Franc	51	1,312	147
Taiwan Dollar		5,541	1,291
Thai Baht		1,014	
Turkish Lira		7	
United Arab Emirates Dirham		10	
Total Foreign Currency Risk	<u>\$ 5,747</u>	<u>\$ 171,728</u>	<u>\$ 21,672</u>

Investments

The state's investments are recorded at fair value and have been categorized based upon a fair value hierarchy in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*.

In accordance with GASB Statement No. 72, valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

- a. Market approach valuation techniques use prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach include comparables and matrix pricing. Comparables use market multiples, which may be in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment to consider both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used to value certain securities without relying exclusively on quoted prices for those securities by comparing them to benchmark or comparable securities.
- b. Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single present amount. These techniques rely on current market expectations of future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models, binomial or lattice models that incorporate present value techniques and the multi-period excess earnings method.
- c. Cost approach valuation techniques are based upon the amount that, at present, would be required to replace the service capacity of an asset or its current replacement cost. From the perspective of a market participant (seller), the

price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including the type of security, whether the security is new and not yet established in the marketplace and other characteristics particular to the transaction.

GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below.

Level 1 Inputs - Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs - Inputs, other than quoted prices in active markets that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 Inputs - Inputs are unobservable inputs and should be used only if relevant Level 1 and Level 2 inputs are not available. The state may use their own data or assumptions to develop unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the investment.

The state has some investments that are not subject to GASB Statement No. 72. Investments not measured at fair value include money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less. These investments are reported at amortized cost.

U.S. treasury securities, equity securities, fixed income money market and bond mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt and debt derivative instrument securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Index linked debt securities are valued by multiplying the external market price feed by the applicable day's index ratio. Level 2 debt securities also have non-proprietary information from multiple independent sources that were readily available to market participants who are known to be actively involved in the market. Equity and equity derivative instrument securities classified in Level 2 are securities whose values are derived daily from associated traded securities.

Level 3 debt securities use proprietary information or single source pricing. Value of equity securities classified in Level 3 is based on last trade data that is 30 days or more before the fiscal year-end or not qualified

to be reported in Level 1, Level 2 or at net asset value (NAV). Real assets classified in Level 3 are real estate investments generally valued using the income approach by internal manager reviews or independent external appraisers, except for the lands with interest in oil and gas described below.

The fair value of the state PSF and permanent university fund (PUF) lands' interest in oil and gas is based on a third party reserve study of proved reserves. The present value of the royalty cash flows is calculated by applying a 10 percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on Aug. 31, 2023. A percentage of probable and possible reserves of oil and gas are included in the fair value estimate. The PSF and PUF lands' surface interests are reported at the price per acre from the American Society of Farm Managers and Rural Appraisers. The PSF and PUF lands are categorized as Level 3 in the fair value hierarchy. The remaining minerals, the trust minerals, because of size, distribution, and limited production histories are valued at three times the previous 12 months revenue. This measure has been used historically to determine the selling price of these types of properties by willing parties. Other types of real estate holdings are reported by one of the following methods of valuation: the latest available appraised amount as determined by an independent state certified or other licensed appraiser or tax assessments used for real estate investments with values that are not significant or by any other generally accepted industry standard. The fair values of investments as of Aug. 31, 2023 are presented in tables 3C, 3D and 3E.

Investments Fair Values

Table 3C: Governmental and Business-Type Activities

August 31, 2023 (Amounts in Thousands)

Investment Type	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	\$ 4,743,873	\$ 43,127,805	\$	\$ 47,871,678
U.S. Treasury Strips	147,929			147,929
U.S. Treasury TIPS	1,502,070			1,502,070
U.S. Government Agency Obligations	1,476,268	10,268,011		11,744,279
Corporate Obligations	288,799	3,099,443	24,809	3,413,051
Corporate Asset and Mortgage Backed Securities	1,346	5,420,969		5,422,315
Equity	5,924,002	10,699	510	5,935,211
International Obligations (Govt and Corp)	1,121	3,980,824	17,922	3,999,867
International Equity	4,535,549	12,275		4,547,824
International Other Commingled Funds	753,866	3,553	243,723	1,001,142
Repurchase Agreement	43,617	708,395		752,012
Mutual Funds - Domestic/International	6,749,329	6,299		6,755,628
Fixed Income Money Market and Bond Mutual Fund	12,878,094	472,283		13,350,377
Other Commingled Funds	10,975,291	216,670	19,843	11,211,804
Commercial Paper	347,343	10,021,343		10,368,686
Invested Collateral		704,551		704,551
Real Estate	11,441	1,014	18,051,073	18,063,528
Derivatives - Domestic/International	6,359	189,929		196,288
Alternative Investments - Domestic/International	74,325	422,679	749,515	1,246,519
Miscellaneous	344,777	58,611	83,162	486,550
Total Investments at Fair Value	<u>50,805,399</u>	<u>78,725,353</u>	<u>19,190,557</u>	<u>148,721,309</u>
INVESTMENTS AT NAV				
Equity				1,121,763
International Equity				184,539
International Other Commingled Funds				10,442,501
Mutual Funds - Domestic/International				222,118
Fixed Income Money Market and Bond Mutual Fund				284,146
Other Commingled Funds				510,016
Real Estate				278,572
Invested Collateral				41,784
Alternative Investments - Domestic/International				43,399,065
Miscellaneous				1,168,328
Total Investments at NAV				<u>57,652,832</u>
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Government Agency Obligations				49,025
Repurchase Agreement				8,897,007
Fixed Income Money Market and Bond Mutual Fund				1,810,632
Other Commingled Funds				374,757
Miscellaneous				31,375
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				<u>11,162,796</u>
Total of Investments - Governmental and Business-Type Activities				<u>\$ 217,536,937</u>

Investments Fair Values

Table 3D: Fiduciary Funds

August 31, 2023 (Amounts in Thousands)

Investment Type	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	\$ 28,483,878	\$ 6,690,297	\$	\$ 35,174,175
U.S. Treasury Strips		9,467		9,467
U.S. Treasury Tips	6,047	2,128,160		2,134,207
U.S. Government Agency Obligations		11,862,316		11,862,316
Corporate Obligations		1,985,510	497	1,986,007
Corporate Asset and Mortgage Backed Securities	3,841	426,665		430,506
Equity	24,096,628	10,768	78	24,107,474
International Obligations (Govt and Corp)		1,959,698	384	1,960,082
International Equity	31,901,708	329	2,013	31,904,050
International Other Commingled Funds	10,417		5,616	16,033
Repurchase Agreement	7,114	13,770,034		13,777,148
Mutual Funds - Domestic/International	3,336,407			3,336,407
Fixed Income Money Market and Bond Mutual Fund	874,761	3,310		878,071
Other Commingled Funds	528,417	351	482	529,250
Commercial Paper		10,768,854		10,768,854
Invested Collateral		5,507,610	170,724	5,678,334
Real Estate	802,171	5,735	40	807,946
Derivatives - Domestic/International	161,168	89,018		250,186
Alternative Investments - Domestic/International	61	3,195	1,247,328	1,250,584
Miscellaneous	654,710	412	64	655,186
Total Investments at Fair Value	<u>90,867,328</u>	<u>55,221,729</u>	<u>1,427,226</u>	<u>147,516,283</u>
INVESTMENTS AT NAV				
Equity				2,552
International Other Commingled Funds				10,498,473
Mutual Funds - Domestic/International				294,473
Other Commingled Funds				14,214,359
Invested Collateral				405,753
Real Estate				29,325,085
Alternative Investments - Domestic/International				89,479,825
Miscellaneous				2,745,820
Total Investments at NAV				<u>146,966,340</u>
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Treasury Securities				31,954
Repurchase Agreement				1,477,106
Fixed Income Money Market and Bond Mutual Fund				998,899
Other Commingled Funds				220,859
Miscellaneous				14,534
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				<u>2,743,352</u>
Total of Investments - Fiduciary Funds				<u>\$ 297,225,975</u>

Investments Fair Values

Table 3E: Discrete Component Units

August 31, 2023 (Amounts in Thousands)

Investment Type	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	\$ 4,100,695	\$ 292,981	\$	\$ 4,393,676
U.S. Treasury TIPS	745,209			745,209
U.S. Government Agency Obligations	132,431	1,445,891		1,578,322
Corporate Obligations		2,458,942		2,458,942
Corporate Asset and Mortgage Backed Securities	74,162	378,427		452,589
Equity	10,878,810	665		10,879,475
International Obligations (Govt and Corp)	12,076	94,838		106,914
International Equity	6,970,476			6,970,476
Mutual Funds - Domestic/International	302,386			302,386
Fixed Income Money Market and Bond Mutual Fund	203,733	36,325		240,058
Other Commingled Funds	472,838	4,226	61	477,125
Commercial Paper		64,823		64,823
Invested Collatera		3,893,671		3,893,671
Real Estate			18,768	18,768
Derivatives - Domestic/International		2,907		2,907
Alternative Investments - Domestic/International	12,829	38,495	5,460	56,784
Miscellaneous		65,254	6	65,260
Total Investments at Fair Value	<u>23,905,645</u>	<u>8,777,445</u>	<u>24,295</u>	<u>32,707,385</u>
INVESTMENTS AT NAV				
Equity				30,757
International Other Commingled Funds				18,380
Fixed Income Money Market and Bond Mutual Fund				284,919
Real Estate				6,565,968
Alternative Investments - Domestic/International				18,206,874
Miscellaneous				57,800
Total Investments at NAV				<u>25,164,698</u>
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Government Agency Obligations				2,743
Repurchase Agreement				50,520
Miscellaneous				3,721
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				<u>56,984</u>
Total of Investments - Discrete Components				<u>\$ 57,929,067</u>

The state utilizes the NAV per share as a method for determining fair value for certain investments in equity, repurchase agreements, commingled funds, mutual funds, real estate, fixed income money market and externally managed investment. These investments calculate the NAV consistent with the Financial Accounting Standards Board's (FASB) measurement principles for investment companies and the state does not intend to sell all or portion of the investment for an amount that is different from the NAV. These invest-

ments are exempt from classification within the fair value hierarchy.

TRS, PSF, ERS and the UT System account for 95.0 percent of the value reported at NAV. For more detailed information about the redemption frequency, redemption notice period, related unfunded commitments, redemption restrictions and the significant investment strategies of these agencies pertaining to their investments reported at NAV, please refer to the individual financial statements of the agency by contacting:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711

Teacher Retirement System of Texas
1000 Red River St.
Austin, Texas 78701

Texas Permanent School Fund
400 W. 15th St.
Austin, Texas 78701

The University of Texas System
210 W. 7th St.
Austin, Texas 78701

The investments reported at NAV per share as of Aug. 31, 2023, including unfunded commitments, is presented in table 3F.

Securities are owned by the overall fund and each investor owns a pro rata share of the fund. The U.S. Securities and Exchange Commission (SEC) does not regulate commingled funds.

Energy, Natural Resources and Infrastructure:

Energy, natural resources and infrastructure funds are also referred to as real assets. Real assets are physical assets that have value due to their substance and properties. Real assets include precious metals, commodities, agricultural land, machinery and oil.

Fixed Income: Fixed income investments generally pay a return on a fixed schedule, though the amount of the payments can vary. These investments include private fixed income funds and bonds issues by countries in emerging markets.

Hedge Funds: Hedge funds may be broadly defined as pooled funds that are not registered with the SEC, are typically available only to institutional investors or individuals with a high net worth and use advanced

trading strategies such as leverage, derivative instruments, short selling and arbitrage.

Mutual Funds:

Similar to commingled funds, the funds of multiple investors are pooled by the external manager. The investors own shares of the fund but do not own the individual securities. The public, as well

as institutional investors can invest in mutual funds. In contrast with commingled funds, mutual funds are regulated by the SEC.

Private Equity: Private equity funds are privately managed investment pools, typically organized as limited partnerships. They are managed by the fund's

Investments Reported at Net Asset Value (NAV)				
Table 3F				
August 31, 2023 (Amounts in Thousands)				
Investment Type	Fair Value	Redemption Frequency	Redemption Notice Period	Unfunded Commitment
Alternative	\$ 10,120,343	Daily - Annually	1 day - 180 days	\$ 4,745,689
Commingled Funds	36,975,840	Daily - 3yr	1 day - 120 days	52,866
Energy, Natural Resources, Infrastructure	19,718,966	Daily	3 days	10,075,630
Fixed Income	2,186,705	Daily	1 day - 90 days	599,455
Hedge Funds	42,769,441	Daily - 3yr	1 day - 1.75yrs	1,983,011
Mutual Funds	884,944	Daily - Monthly	1 day - 60 days	
Private Equity	72,732,446	Monthly - 5yr	45 days - 1yr	32,119,876
Real Estate	40,084,161	Daily - 5yr	2 days - 1yr	19,126,625
Risk Parity	4,309,751	N/A	N/A	
U.S. Government Obligations	1,273	Monthly	3 days	
Total Investments at Net Asset Value	\$229,783,870			\$68,703,152

Alternative: These investments are externally managed and invested in multiple types of assets and securities, which may include hedge funds, private equity and the other types described in the following paragraphs.

Commingled Funds: An external manager pools and invests the funds of several institutional investors.

general partners who typically make long-term investments in private companies and who may take a controlling interest with the aim of increasing the value of these companies, often by helping to manage the companies. Private equity fund strategies include venture capital investments and leveraged buyouts among others.

Real Estate: Includes real estate held for investment directly or through investment vehicles such as private investment funds, which are limited partnerships that invest in real estate. Such investments are designed to produce high current income and/or capital gains through appreciation in the underlying real estate.

Risk Parity: Risk parity is a portfolio allocation strategy based on targeting risk levels across the various components of an investment portfolio. The risk parity approach to asset allocation allows investors to target specific levels of risk and to divide that risk equally across the entire investment portfolio in order to achieve optimal portfolio diversification for each individual investor. Risk parity strategies are in contrast to traditional allocation methods that are based on holding a certain percentage of investment classes, such as 60 percent stocks and 40 percent bonds, within one's investment portfolio.

U.S. Government Obligations: U.S. Government obligations are made in an index fund which invests in securities issued by the U.S. Treasury and U.S. Government agencies.

TRS, PSF, ERS, the UT System and VLB participate in individual securities lending programs. Cash collateral received by the lending agent on behalf of each entity is invested in a non-commingled pool exclusively for the benefit of the individual entity. Additional information about securities lending activity is disclosed in the Securities Lending section of this note. The investment type balances for the invested securities lending collateral as of Aug. 31, 2023, is presented in table 3G.

Invested Securities Lending Collateral Fair Value				
Table 3G: Governmental and Business-Type Activities				
August 31, 2023 (Amounts in Thousands)				
Investments at Fair Value	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Corporate Obligations	\$	\$ 11,099	\$	\$ 11,099
Repurchase Agreement		437,159		437,159
Commercial Paper		145,864		145,864
Miscellaneous		110,429		110,429
Total Investments at Fair Value	\$ 0	\$ 704,551	\$ 0	\$ 704,551
Investments At NAV				
Repurchase Agreement				\$ 41,784
Total Invested Securities Lending Collateral - Governmental and Business-Type Activities				\$ 746,335
Corporate Obligations	\$	\$ 47,039	\$	\$ 47,039
Corporate Asset and Mortgage Backed Securities		316,019		316,019
Repurchase Agreement		2,199,745		2,199,745
Commercial Paper		2,944,807	25,000	2,969,807
Miscellaneous			145,724	145,724
Total Investments at Fair Value	\$ 0	\$ 5,507,610	\$ 170,724	\$ 5,678,334
Investments At NAV				
Repurchase Agreement				\$ 405,753
Total Invested Securities Lending Collateral - Fiduciary Funds				\$ 6,084,087
Corporate Obligations	\$	\$ 163,244	\$	\$ 163,244
Corporate Asset and Mortgage Backed Securities		361,391		361,391
Repurchase Agreement		935		935
Commercial Paper		884,513		884,513
Miscellaneous		2,483,588		2,483,588
Total Investments at Fair Value	\$ 0	\$ 3,893,671	\$ 0	\$ 3,893,671

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the value of its investments or collateral securities in the possession of an outside party will not be recovered. There is no formal investment policy for managing custodial credit risk. Consistent with the securities lending program, underlying securities on loans are subject to custodial credit risk.

The investments exposed to custodial credit risk as of Aug. 31, 2023, is presented in table 3H.

Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, PSF, ERS and the UT System are exposed to investment foreign currency risk. TRS, PSF and ERS do not have an investment policy for managing foreign currency risk. The UT System's investment policy has no limitation on investments in non-U.S. denominated bonds or common stocks.

The investments exposed to foreign currency risk as of Aug. 31, 2023, is presented in table 3I.

	Fair Value that is Uninsured and Unregistered:	
	Securities Held by Counterparty	Securities Held by Counterparty's Trust Department or Agent ¹
INVESTMENTS EXPOSED TO CUSTODIAL CREDIT RISK		
Table 3H		
August 31, 2023 (Amounts in Thousands)		
BUSINESS-TYPE ACTIVITIES		
Texas Tech System		
Equity	\$ 11,446	\$
Subtotal Custodial Credit Risk - Business-Type Activities	<u>11,446</u>	<u>0</u>
FIDUCIARY		
Teacher Retirement System		
Equity		390,041
International Equity		475,034
Subtotal Custodial Credit Risk - Fiduciary	<u>0</u>	<u>865,075</u>
DISCRETE COMPONENT UNITS		
Permanent School Fund		
Corporate Obligations		163,244
Corporate Asset and Mortgage Backed Securities		361,391
Repurchase Agreement		935
Commercial Paper		884,512
Miscellaneous		2,483,588
Subtotal Custodial Credit Risk - Discrete Component Units	<u>0</u>	<u>3,893,670</u>
Total Custodial Credit Risk	<u>\$ 11,446</u>	<u>\$ 4,758,745</u>
¹ Securities not held in the state's name.		

Investments Exposed to Foreign Currency Risk

Table 31

August 31, 2023 (Amounts in Thousands)

Foreign Currency	Governmental and Business-Type Activities				Fiduciary Funds				Discrete Component Units	
	International Obligations	International Equity	International Other		International Obligations	International Equity	International Other		International Equity	Other Investments
			Commingled Funds	Other Investments			Commingled Funds	Other Investments		
Australian Dollar	\$ 12,508	\$ 22,399	\$ 1,013	\$ 51,277	\$ 211,669	\$ 957,346	\$ 322	\$ 110,503	\$ 311,339	\$ 82,740
Brazilian Real	56,741	224,403	15,625			585,596			104,714	
British Pound	64,691	298,092	(11,738)	252,814	662,705	2,770,922	2,379	796,086	669,724	444,857
Canadian Dollar	13,438	28,830	(4,214)	171,723	4,507	1,752,248	415		530,094	67,533
Chilean Peso		204				32,216			8,595	
Chinese Yuan (Offshore)						191				
Chinese Yuan Renminbi	956	165,100	2,978			296,894			92,195	
Colombian Peso	66,460					4,187			1,850	
Czech Koruna		556	(15)			11,687			3,745	
Danish Krone	15,563	57,083	81			560,001	415		140,303	
Egyptian Pound		1,325	226			6,075				
Euro	62,713	565,561	22,932	1,091,787	457,878	5,933,576	903,447	5,802,727	1,524,332	1,131,944
Hong Kong Dollar		191,131	(527)			1,284,091	29		545,125	
Hungarian Forint		1,036				17,162			4,995	
Indian Rupee		97,974	132			1,994,327	414			
Indonesian Rupiah	8,822	36,021	78		65	383,647			42,488	
Israeli New Shekel	2,041	2,000	3			85,557			18,464	
Japanese Yen	257,954	509,250	(4,246)	41,780		4,155,945	662		1,022,466	
Kuwaiti Dinar						49,226				
Malaysian Ringgit	32,830	12,736	173			70,149			28,311	
Mexican Peso	158,044	13,265	(115)		176	619,879			53,739	
New Zealand Dollar	18,133	2,064	(868)			21,231			10,659	
Norwegian Krone	8,015	24,686	1			116,530			28,792	
Peruvian Nuevo Sol						5				
Philippine Peso		2,027				35,508			12,325	
Polish Zloty	1,903	6,581	4			103,707			20,107	
Qatari Rial		1,972				78,078			18,455	
Russian Ruble	4,397								2	
Saudi Riyal		776				523,492			78,930	
Singapore Dollar	10,377	15,437	175			232,356			55,092	
South African Rand	47,624	17,360	2,626			349,356			63,523	
South Korean Won	25,399	274,189	4,236			1,586,941		28	239,259	
Swedish Krona		29,328	12	56,803		333,995	421		131,407	
Swiss Franc		143,192	(269)			1,213,312	311		443,608	
Taiwan Dollar		375,905	1,381			1,757,513	91		283,832	
Thai Baht		17,443	(6)			255,554			41,099	
Turkish Lira		7,356	31			61,803			10,259	
United Arab Emirates Dirham		6,887				154,069			27,293	
Total Foreign Currency Risk	\$ 868,609	\$ 3,152,169	\$ 29,709	\$ 1,666,184	\$ 1,337,000	\$ 28,394,372	\$ 908,906	\$ 6,709,344	\$ 6,567,121	\$ 1,727,074

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk ratings are assigned by a nationally recognized statistical rating organization (NRSRO).

TRS' investment policy states that for over-the-counter derivative instruments, the minimum credit rating, based on a NRSRO, must be at least A- or better at the inception of the contract. The net fair value of all over-the-counter derivative instruments positions, less collateral posted, may not exceed \$500 million and all over-the-counter derivative instruments positions without collateral may not exceed 5 percent of the total fair value of the fund. Repurchase agreements may not exceed 5 percent of the fair value of the total investment portfolio. A securities lending agent must be an organization rated A or better by a NRSRO.

PSF's investment policy requires investments to adhere to specific Standard & Poor's rating guidelines. Fixed income securities must be rated at least BBB and short-term money market instruments must be rated at least A-1.

ERS' general investment policy requires that non-cash interest paying securities in the high yield bond portfolios not exceed 15 percent of the fair value of the portfolio.

The UT System's investment policy has no requirements or limitations for investment ratings.

The credit quality distribution for securities with credit risk exposure as of Aug. 31, 2023, is presented in table 3J.

Investments Exposed to Credit Risk¹

Table 3J: Governmental and Business-Type Activities

August 31, 2023 (Amounts in Thousands)

Credit Rating	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	\$ 745,840	\$ 68,279	\$ 4,006,631	\$ 2,057,334	\$ 239,852	\$	\$	\$ 1,057,189	\$ 8,175,125
AA	9,082,029	2,041,073	36,648	83,502	7,418,782			7,902	18,669,936
A	7,469	399,746	16,152	93,960				3,570	520,897
BBB	3,509	397,447	11,578	397,094					809,628
BB	503	239,045	3,858	142,334				1,019	386,759
B	419	146,546	3,524	51,696					202,185
CCC		21,989	3,701	6,404					32,094
CC			2,092						2,092
C		1,426							1,426
D				1,222					1,222
AAAf						14,478,242			14,478,242
AAA Am						2,791,165			2,791,165
Aaf						218,313			218,313
Af						41,579			41,579
BBBf						68,028			68,028
BBf						44,415			44,415
Bf						60,929			60,929
CCCf						12,501			12,501
A-1							10,932,165		10,932,165
A-2							71,643		71,643
A-3							2,608		2,608
Not Rated	252,088	96,437	1,338,135	525,575	492,480	10,996,344	1,442	683,741	14,386,242
Total Credit Risk	\$ 10,091,857	\$ 3,411,988	\$ 5,422,319	\$ 3,359,121	\$ 8,151,114	\$ 28,711,516	\$ 11,007,858	\$ 1,753,421	\$ 71,909,194

¹ Credit risk exposure for investments may be less than their fair values due to classification differences. The total fair value of investments is appropriately greater than the credit risk exposure. Invested collateral reported in fair value is reported by investment type for credit risk.

Concluded on the following page

Investments Exposed to Credit Risk¹ (concluded)

Table 3J: Fiduciary Funds and Discrete Component Units

August 31, 2023 (Amounts in Thousands)

Credit Rating	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
FIDUCIARY FUNDS									
AAA	\$ 3,931,676	\$ 3,237	\$ 306,586	\$ 388,568	\$ 908,264	\$	\$	\$ 425,589	\$ 5,963,920
AA	742,710	155,219	748	777,946	568,842			63	2,245,528
A	10,391,553	21,509	4,963	755	13,770,034			1,926,035	26,114,849
BBB	46	48,419	7,302	177,328					233,095
BB	13	908,598	39	218,214				5,734	1,132,598
B	2	633,922	3,751	198,544					836,219
CCC		124,402	15	30,588					155,005
CC			9						9
C		8,068							8,068
D				6,911					6,911
AAAf						619,117			619,117
AAA m						43,968			43,968
Af						26,842			26,842
BBBf						31,990			31,990
BBf						9,953			9,953
Bf						13,914			13,914
CCCf						5,526			5,526
AAf						146,083			146,083
A-1							10,837,794		10,837,794
A-2							5,597		5,597
Not Rated	4,579	82,636	107,093	111,017		35,692		800,342	1,141,359
Total Credit Risk	\$ 15,070,579	\$ 1,986,010	\$ 430,506	\$ 1,909,871	\$ 15,247,140	\$ 933,085	\$ 10,843,391	\$ 3,157,763	\$ 49,578,345
DISCRETE COMPONENT UNITS									
AAA	\$ 34,432	\$ 5,362	\$ 546,289	\$ 13,412	\$	\$	\$	\$ 12,322	\$ 611,817
AA	6,383,667	147,975	89,904	17,137	49,658			253,322	6,941,663
A	3,276	572,203	94,995	7,297				2,707,750	3,385,521
BBB		782,057	74,896	33,213					890,166
BB		417,813		17,097					434,910
B		567,302		2,299					569,601
CCC		129,251							129,251
CC		895							895
D		2,443							2,443
AAAf						448,469			448,469
Af						26,329			26,329
A-1							523,634		523,634
A-2							489		489
Not Rated	14,953	8,961	7,897		943	36,061	33	23,329	92,177
Total Credit Risk	\$ 6,436,328	\$ 2,634,262	\$ 813,981	\$ 90,455	\$ 50,601	\$ 510,859	\$ 524,156	\$ 2,996,723	\$ 14,057,365

¹ Credit risk exposure for investments may be less than their fair values due to classification differences.

The total fair value of investments is appropriately greater than the credit risk exposure. Invested collateral reported in fair value is reported by investment type for credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. The UT System's investment policy states that no more than 5 percent of its cumulative fair value of fixed income securities may be invested in a single issuer. PSF's policy precludes exceeding 2.5 percent, ERS employs a limit of 3 percent, TRS sets the limit at 5 percent. The Comptroller's office limits the amount the Treasury Pool may invest in a single issuer in certain asset classes, tailored to the asset class and issuer's rating. As of Aug. 31, 2023, governmental and business-type activities did not hold more than 5 percent of investments in any one issuer.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TRS and PSF use the effective weighted duration method to identify and manage interest rate risk. ERS and the UT System use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option-adjusted measure of an instrument's sensitivity to changes in interest rates. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of PSF mandates the average duration of the fixed income portfolio to be consistent with the Bloomberg's Aggregate Bond Index's dura-

tion and the duration of the real return portfolio to be consistent with the Bloomberg's Capital U.S. Treasury Inflation Protected Securities (TIPS) Index. As of Aug. 31, 2023, the Bloomberg's Aggregate Bond Index duration was 6.2 years, the Bloomberg's TIPS Index was 5.2 years, the Bloomberg's Capital U.S. Long Treasury Total Return Index was 15.6 years, the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index was 3.4 years and the JPM GBI-EM Global Diversified Index was 5 years. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits, which is 60 days; bankers' acceptances, which is 45 days, reverse repurchase agreements, which is 180 days and floating rate securities, which is three years. The maximum weighted average maturity of the entire collateral portfolio must be 180 days or less. The maximum weighted average interest rate exposure of the entire collateral portfolio must be 60 days or less. TRS, ERS and the UT System do not have a formal investment policy for managing interest rate risk.

PSF's investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2023, is presented in table 3K.

Investments Exposed to Interest Rate Risk

Table 3K: Permanent School Fund

August 31, 2023 (Amounts in Thousands)

Investment Type	Market Value	Effective Weighted Duration Rate
Fixed Income Portfolio		
Asset Backed Securities	\$ 52,620	1.22
Collateralized Loan Obligations	109,258	0.09
Commercial Mortgage Backed Securities	55,080	8.76
Corporate Obligations	1,260,227	6.55
Non Agency Mortgage Backed Securities	127,023	8.38
Non U.S. Government Agency Obligations	16,568	2.37
Non-U.S. Sovereign Government Debt	60,003	6.94
U.S. Government Agency Commercial Mortgage Backed Securities	3,276	1.25
U.S. Government Agency Mortgage Backed Securities	1,343,039	6.87
U.S. Government Agency Obligations	137,890	5.70
U.S. Taxable Municipal Bonds	58,167	6.60
U.S. Treasury Securities	<u>2,328,643</u>	6.59
Total Fixed Income Portfolio	<u>\$ 5,551,794</u>	6.50
Real Return - U.S. Treasury TIPS Portfolio		
U.S. Treasury Securities	\$ 162,786	7.45
U.S. Treasury TIPS	<u>745,209</u>	5.65
Total Real Return - U.S. Treasury TIPS Portfolio	<u>\$ 907,995</u>	5.97
Real Return - Commodities Collateral Portfolio		
U.S. Treasury Securities	<u>\$ 654,818</u>	0.06
U.S. Treasuries		
U.S. Treasury Securities	<u>\$ 927,517</u>	15.69
High Yield Bonds Portfolio		
Chisos 1	\$ 583,621	3.63
Chisos 2	<u>607,645</u>	3.48
	<u>\$ 1,191,266</u>	3.56
Emerging Market Debt Portfolio	<u>\$ 872,954</u>	5.73

Information about PSF's interest rate risks and maturities associated with its invested securities lending collateral by investment type as of Aug. 31, 2023, is presented in table 3L.

Invested Securities Lending Collateral Exposed to Interest Rate Risk

Table 3L: Permanent School Fund

August 31, 2023 (Amounts in Thousands)

Investment Type	Fair Value	Investment Maturities	
		Less Than One Year	Greater Than One Year
Asset Backed Floating Rate Notes	\$ 361,391	\$ 66,211	\$ 295,180
Certificates of Deposit	2,483,588	2,444,533	39,055
Repurchase Agreements	935	935	
Corporate Obligations	163,244	122,548	40,696
Commercial Paper	<u>884,512</u>	<u>884,512</u>	
Total Interest Rate Risk	<u>\$ 3,893,670</u>	<u>\$ 3,518,739</u>	<u>\$ 374,931</u>

TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2023, is presented in table 3M.

Investments Exposed to Interest Rate Risk

Table 3M: Teacher Retirement System of Texas

August 31, 2023 (Amounts in Thousands)

TRS Investment Type	Fair Value	Effective Weighted Duration Rate
U.S. Government Obligations	\$ 23,965,097	16.10
U.S. Government STRIPS and TIPS	2,136,802	6.84
Corporate Obligations	9,929	3.30
International Government Obligations	<u>1,332,243</u>	9.90
Total Interest Rate Risk	<u>\$ 27,444,071</u>	15.07

ERS' investments by investment type, fair value and the modified duration rate as of Aug. 31, 2023, is presented in table 3N.

Investments Exposed to Interest Rate Risk		
Table 3N: Employees Retirement System of Texas		
August 31, 2023 (Amounts in Thousands)		
Investment Type	Fair Value	Modified Duration Rate
FIDUCIARY FUNDS		
U.S. Treasury Securities	\$ 3,108,771	3.33
U.S. Government Agency Obligations	813,335	5.68
Corporate Obligations	1,788,167	4.21
Corporate Asset and Mortgage Backed Securities	18,590	2.52
International Obligations	411,180	3.52
Real Estate Investment Trust (REITs)	5,735	1.42
Total Interest Rate Risk - Fiduciary Funds	\$ 6,145,778	3.91
PROPRIETARY FUNDS		
U.S. Treasury Securities	\$ 1,262,131	3.33
U.S. Government Agency Obligations	330,206	5.68
Corporate Obligations	316,071	4.21
Corporate Asset and Mortgage Backed Securities	3,864	2.41
International Obligations	72,679	3.52
Real Estate Investment Trust (REITs)	1,014	1.42
Total Interest Rate Risk - Proprietary Funds	\$ 1,985,965	3.87

The UT System's investments by investment type, fair value and the modified duration rate as of Aug. 31, 2023, is presented in table 3O.

Investments Exposed to Interest Rate Risk		
Table 3O: University of Texas System		
August 31, 2023 (Amounts in Thousands)		
Investment Type - Investments in Securities	Fair Value	Modified Duration Rate
U.S. Government Guaranteed:		
U.S. Treasury Bills	\$ 23,567	0.10
U.S. Treasury Bonds and Notes	2,413,384	13.57
U.S. Treasury Inflation Protected	1,504,143	6.62
U.S. Agency Asset Backed	9,249	5.54
Total U.S. Government Guaranteed	3,950,343	10.82
U.S. Government Non-Guaranteed:		
U.S. Agency	5,697	10.27
U.S. Agency Asset Backed	345,501	6.36
Total U.S. Government Non-Guaranteed	351,198	6.42
Total U.S. Government	4,301,541	10.47
Corporate Obligations:		
Domestic	264,036	3.17
Foreign	188,058	2.85
Total Corporate Obligations	452,094	3.04
Debt Securities:		
Foreign Government and Provincial Obligations	806,355	13.14
Other Debt Securities	1,109	1.52
Total Debt Securities	5,561,099	9.15
Other Investments:		
Other Investment Funds – Debt	144,858	1.52
Fixed Income Money Market Funds	3,482,583	0.43
Investment Funds - Other	39,536	0.00
Total Interest Rate Risk	\$ 9,228,076	5.69

Investments with Fair Values Highly Sensitive to Interest Rate Changes

In accordance with the applicable investment policies, TRS, PSF, ERS and the UT System may invest in asset backed and mortgage backed obligations. Mortgage backed obligations are subject to early principal payment in a period of declining interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Asset backed obligations are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligee of the underlying assets in periods of declining interest rates could reduce or eliminate the stream of income that would have been received. As of Aug. 31, 2023, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and the UT System was \$2.2 billion.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position, there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying the reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying

securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

As of Aug. 31, 2023, the Treasury's aggregate amount of reverse repurchase agreement obligations was \$3.1 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$3.1 million. There was no credit exposure during fiscal 2023.

Securities Lending

TRS, PSF, ERS, UT System and the Veterans Land Board (VLB) participate in securities lending programs as authorized by state statute. TRS, PSF, ERS and the UT System established their own separately managed securities lending programs. VLB participates in collateral investment pools that commingle the cash collateral of several entities. Under these programs, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities or bank letters of credit. In addition, PSF may receive collateral in the form of other assets that it specifically agrees to with its lending agent. TRS, ERS, the UT System and VLB receive collateral equal to 102 percent of the value of domestic securities lent and 105 percent for international securities. PSF receives collateral in an amount of 102 percent of the fair value plus accrued income for domestic corporate securities and 105 percent of the fair value plus accrued income for foreign securities. However, the required percentage is 102 percent for foreign securities denominated and payable in U.S. dollars. There is a simultaneous agreement to return the collateral for the same securities in the future.

The custodians of the securities are the security lending agents. The securities lending contracts do not allow the governmental entities to pledge or sell collateral securities unless the borrower defaults. The lending

agents are required to indemnify TRS, PSF, ERS, UT System and VLB if the borrowers fail to return the securities.

TRS, PSF, ERS, UT System and VLB loans are terminable at will. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the year.

Differences between the fair value of the invested cash collateral and the cash collateral liability are recorded as part of the net increase/(decrease) in fair value of investments. There is no credit risk exposure to the lender when the fair value of the security on loan is less than the cash collateral liability. The overall securities lending activity as of Aug. 31, 2023, is presented in table 3P.

Those investment strategies are utilized to manage and reduce the risk of the overall investment portfolio. Investment derivative instrument levels and types are monitored to ensure that portfolio derivative instruments are consistent with the intended purpose and at the appropriate level.

All investment derivative instruments are reported at fair value on the statement of net position and the statement of fiduciary net position. The changes in the fair value of investment derivative instruments are reported as investment revenue in the operating statements. As of Aug. 31, 2023, TRS, PSF, the UT System, Texas A&M University System (A&M System), Texas Tech University System (TTU System) and VLB held investment derivative instruments (swaps, options, futures and forwards). See Note 7 for other agencies that held derivatives instrument in Table 7A.

Forward foreign currency exchange contracts are used for the purchase or sale of a specific foreign currency at a fixed quantity and price on a future date as a hedge against either specific transactions or portfolio positions. The contracts are in the currency native to the security transactions for settlement date and are marked-to-market daily with the

Securities Lending Activity Summary					
Table 3P					
August 31, 2023 (Amounts in Thousands)					
Entity	Fair Value of Securities on Loan	Non-Cash Collateral¹	Cash Collateral Liability (Obligation/ Securities Lending)	Fair Value of Invested Cash Collateral (Securities Lending Collateral)	Net Increase/ (Decrease) In Fair Value
TRS	\$ 8,276,718	\$ 880,057	\$ 5,688,479	\$ 5,675,099	\$ (13,380)
ERS	436,450		446,396	447,537	1,141
PSF	3,927,087	70,425	3,891,795	3,893,671	1,876
UT System ^{1,2}	1,046,774	390,680	707,786	707,786	
Total Securities Lending	\$ 13,687,029	\$ 1,341,162	\$ 10,734,456	\$ 10,724,093	\$ (10,363)

¹ Non-cash collateral received for securities lending activities is not recorded as assets because the underlying investments remain under the control of the borrower, except in the event of default.

² UT did not experience any net change in fair value because the cash collateral pools they participated in were maintained at amortized cost as of Aug. 31, 2023.

Investment Derivative Instruments

Derivative instruments are financial instruments (securities or contracts) whose value is linked to or derived from changes in interest rates, currency rates and stock and commodity prices. These securities or contracts serve as components of the investment strategies of certain state agencies, public employee retirement systems and institutions of higher education.

change in fair value recorded as an unrealized gain or loss. Realized gain or loss is recorded at the closing of the contract. Risks associated with such contracts include the potential inability of the counterparties to meet the terms of their contracts and unanticipated movements in currency exchange rates.

Futures contracts are standardized exchange-traded contracts to purchase or sell a specific financial

instrument at a predetermined price and date. Futures contracts are used to facilitate various trading strategies, primarily as a tool to hedge against the increase or decrease of market exposure to various asset classes. Upon entering into a futures contract, an initial margin deposit is pledged to the broker equal to a percentage of the contract amount. Contracts are marked-to-market, settled in cash with the broker and recorded as an unrealized gain or loss daily. The daily gain or loss difference is referred to as the daily variation margin. Realized gain or loss is recorded at the closing of the contract. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures. Accordingly, the amount of risk posed by the nonperformance of counterparties to futures contracts is minimal. Risks due to movements in the value of the futures contracts and the inability to close out futures contracts due to a non-liquid secondary market remain.

Options are used to alter market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so the actual risk/return profile is more closely aligned with the target risk/return profile. Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. With written options, market risk arises from an unfavorable change in the price of the derivative instrument, security or currency underlying the written option.

Swaps represent contracts that obligate two counterparties to exchange a series of cash flows at specified intervals. The ultimate gain or loss depends upon the price or rate at which the underlying financial instrument of the swap is valued at the settlement date. Swaps are used to manage risk and enhance returns. As of Aug. 31, 2023, swap investments were interest rate, credit

default, commodity, equity and total return swaps. See Note 7 for other swap investments in Table 7B.

VLB invested in a pay-variable, receive-variable interest rate swap agreement that is reported as investment derivative instruments because they are ineffective hedges.

UT System invested in pay-variable, receive-fixed rate agreements that are reported as investment derivative instrument because they are ineffective hedges.

Foreign Currency Risk: TRS, the UT System and the A&M System have exposure to investment foreign currency risk in swaps, options, futures and forwards investment derivative instruments. Investment derivative instruments exposed to foreign currency risk as of Aug. 31, 2023, is presented in table 3Q.

Investment Derivative Instruments Exposed to Foreign Currency Risk

Table 3Q

August 31, 2023 (Amounts in Thousands)

Foreign Currency	Governmental and Business-Type Activities				Fiduciary Funds			
	Swaps	Options	Futures	Forwards	Swaps	Options	Futures	Forwards
Argentine Peso								
Australian Dollar	\$ 63	\$	\$ (165)	\$ (324)	\$ (193)	\$	\$ (2,612)	\$ 4,991
Brazilian Real		(332)	197	314	3,997	10	(434)	74
British Pound	(6,662)	(3)	533	678	784		10,093	13,258
Canadian Dollar	(4,144)		(40)	111		14	4,603	(488)
Chilean Peso				246				33
Chinese Yuan (Offshore)								(164)
Chinese Yuan Renminbi	(1,555)			601	2,118			(38)
Colombian Peso				407				1
Czech Koruna	(35)			(98)				(68)
Danish Krone				257				
Euro	(1,702)	(413)	(4,877)	2,488	9,652		(9,543)	32,587
Hong Kong Dollar				2	(3,139)		4,466	1
Hungarian Forint				17				(3)
Indian Rupee	22			(82)				124
Indonesian Rupiah				16				42
Israeli New Shekel				476				(1)
Japanese Yen	110		88	(17,213)			7,201	548
Malaysian Ringgit	67			19				
Mexican Peso	(124)			(302)	(3,465)			1,433
New Zealand Dollar	(1,005)			411				1,771
Norwegian Krone				(682)				(1,130)
Philippine Peso				(25)				(67)
Polish Zloty				(22)				86
Romanian Leu				(6)				(14)
Singapore Dollar	(6)			252			1,144	(69)
South African Rand				(116)			(1,492)	(28)
South Korean Won	(484)			(340)			(9,900)	193
Swedish Krona	(103)			(170)		56	49	(1,502)
Swiss Franc	(341)			90				1,084
Taiwan Dollar				481				20
Thai Baht	(6)			281				184
Turkish Lira								1
Total Foreign Currency Risk	<u>\$ (15,905)</u>	<u>\$ (748)</u>	<u>\$ (4,264)</u>	<u>\$ (12,233)</u>	<u>\$ 9,754</u>	<u>\$ 80</u>	<u>\$ 3,575</u>	<u>\$ 52,859</u>

Credit Risk: TRS and the UT System instituted policies to mitigate counterparty credit risk for investment derivative instruments by having master netting agreements and collateral posting arrangements. TRS and the UT System negotiated thresholds or limits for each counterparty above which collateral must be posted.

TRS' investment policy limits the net market value of all over-the-counter derivative instrument positions,

less collateral posted, to an amount not exceeding \$500 million for any individual counterparty.

UT requires collateral to be posted on a daily basis by the counterparty to cover exposure to a counterparty above the limits set in place by the master netting agreement. Collateral posted by counterparties is held by the UT System in one of its accounts at their custodian bank.

The aggregate fair value of investment derivative instruments in asset positions as of Aug. 31, 2023, was \$305 million. The investment derivative instruments were executed with counterparties that had a credit rating of no less than A using the Standard & Poor's rating scale. This represents the maximum amount of loss that would have been recognized as of Aug. 31, 2023, if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$394.6 million of collateral held and by \$194.6 million in liabilities included in netting arrangements with those counterparties, resulting in a negative \$284.2 million net exposure of investment derivative instruments to credit risk.

Interest Rate Risk: TRS, the UT System and VLB are exposed to interest rate risk on swap transactions. Investments in pay-variable, receive-variable interest rate swaps ranged from payment of 100 to 131.3 percent of the Securities Industry and Financial Markets Association (SIFMA) index. Investments in pay-variable, receive-fixed interest rate swaps ranged from payment of various foreign currency rates (Euro Interbank Offered Rate (EURIBOR), Stockholm Interbank Offered Rate, Bank Bill Swap Rate or Canadian Dollar Offered Rate) and receipt of 0 to 7 percent. Investments in pay-fixed, receive-variable interest rate swaps ranged from receipt of various foreign currency rates (EURIBOR, Mexican Interbank Rate, Johannesburg Interbank Agreed Rate or Canadian Dollar Offered Rate) and payment of 0 to 12 percent. The investment maturities for the state's swap contracts exposed to interest rate risk as of Aug. 31, 2023, is presented in table 3R.

Investment Funds

Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. Risks associated with these investments include investment manager risk, liquidity risk, market risk and leverage risk. Investment manager risk is substantially dependent upon key investment managers; therefore, the loss of those individuals may adversely impact the return on investment. Also, some investment funds are not subject to regulatory controls. Liquidity may be limited due to imposed lock-up periods, with penalties to redeem units or restricting redemption of shares until a certain period of time has elapsed. Investment funds may employ sophisticated investment strategies using leverage, which could result in the loss of invested capital. As of Aug. 31, 2023, the fair value of various investment funds was \$153.6 billion.

Note 4

Short-Term Debt

The Texas Workforce Commission (TWC) received temporary transfers (loans) for \$317.2 million from the Texas Comptroller of Public Accounts to avoid interest liabilities related to the Cash Management Improvement Act. The loans were repaid in full during fiscal 2023.

The Texas Department of Housing and Community Affairs (TDHCA) executed an Advances and Security Agreement with the Federal Home Loan Bank of Dallas (FHLB). The maximum aggregate principal

amount available for advances under the agreement was \$250 million. As of Aug. 31, 2023, \$162.5 million was available for use in the line of credit and the balance outstanding was \$87.5 million. The TDHCA pledges mortgage loans, plus

Investment Derivative Instruments Exposed to Interest Rate Risk

Table 3R

August 31, 2023 (Amounts in Thousands)

Investment Type	Fair Value	Investment Maturities (in years)				
		Less Than 1	1-5	6-10	11-15	More than 15
Interest Rate Swaps	\$9,977	\$5,647,690	\$5,293,541	\$(4,993,915)	\$(6,948,828)	\$1,011,489

additional amounts deposited in an escrow account, as collateral for the advances. Terms specified in the debt agreements related to default events include:

- Default in the payment of principal or interest of the advances when such payments become due and payable,
- Failure of the TDHCA to perform any promise or obligation or satisfy any condition or liability,
- Evidence coming to the attention of the FHLB that any representation, statement or warranty made or furnished by the FHLB in connection with any advance, any specification of qualifying collateral or any certification of fair value that was false in any material respect,
- Issuance of any tax, levy, seizure, attachment, garnishment, levy of execution or other legal process with respect to the collateral,
- Suspension of payment made by the TDHCA to any creditor or any event that results in the acceleration of any of its indebtedness,
- The appointment of a conservator or receiver for the TDHCA under federal bankruptcy laws,
- The sale by the TDHCA of all or material part of its assets,
- The cessation of the TDHCA to be a type of institution that is eligible to become a borrower of FHLB,
- The merger or consolidation or other combination by the TDHCA with any other non-eligible entity and
- FHLB reasonably and in good faith determines that a material adverse change has occurred in the financial condition of the TDHCA and FHLB

deems itself insecure even though the TDHCA is not otherwise in default.

The Texas Tech University System issued commercial paper notes for \$53.4 million to serve as an interim financing source for long-term construction projects in advance of issuing authorized bonds. As of Aug. 31, 2023, \$55.4 million remained outstanding.

The University of North Texas System issued commercial paper notes for \$66.8 million to finance costs of eligible projects and to refinance, renew or refund commercial paper notes, prior encumbered obligations and parity debt including interest. As of Aug. 31, 2023, \$27.3 million matured and \$60 million remained outstanding.

The Texas State University System issued commercial paper notes for \$736.3 million to finance various construction projects. As of Aug. 31, 2023, \$667.2 million matured and \$159.4 million remained outstanding.

The University of Houston System issued no additional commercial paper notes in fiscal 2023 to finance various capital projects. As of Aug. 31, 2023, \$6.3 million matured and \$28.4 million remained outstanding.

The University of Texas System issued commercial paper notes for \$1.3 billion to provide interim financing for capital improvements and to finance capital equipment purchases. As of Aug. 31, 2023, \$710.8 million matured and \$2.3 billion remained outstanding.

Short-term debt activity as of Aug. 31, 2023, is presented in table 4A.

Short-Term Debt

Table 4A

August 31, 2023 (Amounts in Thousands)

Short-Term Debt Type	Beginning Balance 9/1/2022	Issued	Redeemed	Ending Balance 8/31/2023
Commercial Paper	\$ 2,010,235	\$ 2,119,620	\$ 1,485,670	\$ 2,644,185
Other Advances (Loans) - Direct Borrowings	60,181	4,304,568	4,277,239	87,510
General Revenue Advances		317,197	317,197	
Total Short-Term Debt	\$ 2,070,416	\$ 6,741,385	\$ 6,080,106	\$ 2,731,695

Note 5

Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended Aug. 31, 2023, is presented in table 5A.

Long-Term Liabilities Activity

Table 5A

August 31, 2023 (Amounts in Thousands)

Fund Type	Balance 9/1/22	Restatements /Adjustments ¹	Additions ²	Reductions	Balance 8/31/23	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES							
Claims and Judgments	\$ 82,616	\$ 1	\$ 437,646	\$ 51,031	\$ 469,232	\$ 286,482	\$ 182,750
RTU Lease Obligations	799,003	(2,152)	133,705	184,451	746,105	173,016	573,089
RTU Subscription Obligations ³		15,764	285,622	77,450	223,936	85,076	138,860
Employees' Compensable Leave	1,002,294	(1,264)	1,765,222	1,613,424	1,152,828	792,282	360,546
Notes and Loans Payable	765,988	(23,452)	373,700	472,918	643,318	111,616	531,702
Notes and Loans –							
Direct Borrowings/Placements	323,296				323,296		323,296
General Obligation Bonds Payable	13,955,727	(82,958)	591,810	679,225	13,785,354	743,561	13,041,793
General Obligation Bonds Payable –							
Direct Placements	280,956	(1,986)			278,970	1,986	276,984
Revenue Bonds Payable	4,300,470	(32,052)		319,290	3,949,128	358,645	3,590,483
Asset Retirement Obligation	2,198	(1)	81		2,278		2,278
Pollution Remediation Obligation	240,691	(1)	97,493	96,408	241,775	40,889	200,886
Total Governmental Activities	<u>\$ 21,753,239</u>	<u>\$ (128,101)</u>	<u>\$ 3,685,279</u>	<u>\$ 3,494,197</u>	<u>\$ 21,816,220</u>	<u>\$ 2,593,553</u>	<u>\$ 19,222,667</u>
BUSINESS-TYPE ACTIVITIES							
Claims and Judgments	\$ 245,185	\$	\$ 1,859,297	\$ 1,843,985	\$ 260,497	\$ 204,725	\$ 55,772
RTU Lease Obligations	1,207,402	(622)	261,221	182,848	1,285,153	358,839	926,314
RTU Subscription Obligations ³		245,903	235,981	136,683	345,201	137,734	207,467
Employees' Compensable Leave	1,166,200	(751)	604,814	528,740	1,241,523	597,954	643,569
Notes and Loans Payable	1,474,340	(10,530)	117,000	1,457,795	123,015	4,158	118,857
Notes and Loans Payable –							
Direct Borrowings/Placements	526,403	(393,144)	639,448	9,127	763,580	6,748	756,832
General Obligation Bonds Payable	3,884,198	(4,161)	556,510	337,855	4,098,692	280,458	3,818,234
General Obligation Bonds Payable –							
Direct Placements	58,050			15,460	42,590	15,100	27,490
Revenue Bonds Payable	37,388,646	(586,188)	4,564,806	1,838,585	39,531,679	2,684,815	36,846,864
Revenue Bonds Payable –							
Direct Borrowings/Placements	691,150	(300,036)		97,550	293,564	14,070	279,494
Asset Retirement Obligation	35,202		853	429	35,626		35,626
Pollution Remediation Obligation	1,530				1,530		1,530
Liabilities Payable From							
Restricted Assets	1,914,067	(1)	134,810	420,814	1,628,062	451,193	1,176,869
Total Business-Type Activities	<u>\$ 48,592,373</u>	<u>\$ (1,046,530)</u>	<u>\$ 8,974,740</u>	<u>\$ 6,869,871</u>	<u>\$ 49,650,712</u>	<u>\$ 4,755,794</u>	<u>\$ 44,894,918</u>
COMPONENT UNITS							
RTU Lease Obligations	\$ 503	\$ 10	\$ 15,475	\$ 1,433	\$ 14,555	\$ 1,585	\$ 12,970
RTU Subscription Obligations ³			7,225	2,177	5,048	2,633	2,415
Employees' Compensable Leave	3,557	(1)	4,885	2,677	5,764	4,401	1,363
Notes and Loans Payable	2,337			267	2,070	751	1,319
Notes and Loans Payable –							
Direct Borrowings/Placements	177,000			177,000			
Revenue Bonds Payable	18,785	2,801	60,000	2,060	79,526	375	79,151
Liabilities Payable From Restricted Assets	204		80		284	30	254
Total Component Units	<u>\$ 202,386</u>	<u>\$ 2,810</u>	<u>\$ 87,665</u>	<u>\$ 185,614</u>	<u>\$ 107,247</u>	<u>\$ 9,775</u>	<u>\$ 97,472</u>

¹ Includes current year amortization for premiums and discounts.

² Includes current year amortization of accretion of \$64.5 million for business-type activities.

³ RTU Subscription Obligations have no beginning balances because of the implementation of GASB Statement No. 96, Subscription-Based Information Technology Arrangements.

Notes and Loans Payable and Notes and Loans Payable - Direct Borrowings/Placements

Notes and loans payable consist of amounts used to purchase capital equipment. Other uses include the acquisition, construction and renovation of other capital assets, including the interim financing of higher education projects; software/database acquisition and development; refinancing of existing debt; and the funding of agency specific missions such as economic development projects and pest eradication programs.

The Texas Department of Transportation (TxDOT) as part of its governmental activities entered into pass-through toll agreements with local entities as a means of financing state highway capital improvements and maintenance. As of Aug. 31, 2023, there were 24 active pass-through financing agreements. In fiscal 2023, TxDOT did not recognize any additions in long-term liability for pass-through tolls payable related to highway projects constructed under pass-through financing agreements. The obligation to make future reimbursement payments is recognized as pass-through tolls payable as the underlying highway project is constructed. The outstanding balance as of Aug. 31, 2023 was \$415.1 million. See Note 15, *Commitments and Contingencies*, for additional information.

TxDOT is party to a financial assistance arrangement with Fort Bend County (County) related to the expansion of Farm to Market Road 1093. The terms of this agreement are such that in return for County funding the costs of the project up-front, TxDOT will reimburse County \$4 million per year for 10 years following substantial completion of Westpark Tollway Phase I and opening of the roadway to traffic. Construction on Westpark Tollway Phase I was completed in November 2018. The obligation to make future reimbursements is recognized as contracts payable. The outstanding balance as of Aug. 31, 2023 was \$20 million.

In the event that development of the project is terminated by the County prior to opening of the project for revenue operations, TxDOT shall disburse to the County any undistributed amounts of the financial assistance needed to pay or reimburse costs incurred by the County prior to such termination; provided that such disbursement shall not exceed the aggregate amount of project construction costs incurred prior to such termination.

As of Aug. 31, 2023, two notes and loans payable - direct borrowings agreements are outstanding for TxDOT. The outstanding balance related to governmental activities is \$621.9 million. US Department of Transportation (USDOT) agreed to lend TxDOT up to \$285 million to pay a portion of the eligible project costs related to the initial phase of the IH-35E project. The outstanding direct loan of \$323.3 million contains various provisions resulting from certain events of default. In the case of a payment default, interest is charged on the overdue balance at the default rate (an additional 2 percent) until the payment default is cured (overdue balance repaid). In the case of project abandonment, the default rate is charged until the debt is paid in full. In the case of certain bankruptcy related event defaults, the balance becomes secured by a first priority security interest in the trust estate.

In fiscal 2021 Texas Public Finance Authority (TPFA) issued revenue bonds for the benefit of TxDOT - Austin Campus Consolidation Project with principal amount of \$325.7 million. The direct borrowings loan agreement obligates TxDOT to make rent payments to TPFA in amounts sufficient to pay, among other things, the debt service for the TPFA Series 2021 bonds. The Texas Legislature has appropriated funds from the State Highway Fund for TxDOT to make payments during fiscal 2023.

The outstanding direct loan of \$298.6 million contains the following acceleration clause: upon the occurrence of and during the continuation of any event of

default arising from the failure to make a required payment, TPFA may take any one or more of the following remedial actions:

- Declare all of the remaining unpaid principal portions of the payments due and payable to the extent the Texas Legislature has appropriated such funds
- Enter and take possession of all or any portion of the project without terminating the agreement and sublease all or part of the project for the account of TxDOT
- Terminate the agreement, enter and take possession of all or any portion of the project and, at TPFA's discretion, sell equipment acquired as part of the project or lease all or any portion of the project.

The notes and loans payable - direct borrowings agreement for business-type activity represents a secured loan made to the Grand Parkway Transportation Corporation (GPTC) by the USDOT, which agreed to lend GPTC up to \$605.3 million to pay a portion of the eligible project costs. As of Aug. 31, 2023, GPTC has drawn down \$605.3 million under the secured loan agreement for the purpose of providing funds to refund the GPTC 2018 bond anticipation notes. The outstanding balance of the loan is \$614.4 million. In accordance with the loan agreement, the payments of principal and interest can be postponed under certain circumstances and such postponed payments increase the principal amount of the loan.

Other agencies with notes and loans payable are Department of Information resources (DIR) and Department of Public Safety (DPS). DIR has a balance of \$2.8 million in notes payable from agreements for Voice Over Internet Protocol (VoIP) phones used in DIR's Capitol Complex Telephone System. As of Aug. 31, 2023, DPS has notes and loans payable of \$3.5 million.

Several state universities have entered into long-term financing contracts for the purchase of certain capital assets. Such contracts are classified as notes and loans payable - direct borrowings for accounting purposes and are recorded at the present value of the future minimum payments. These financing contracts are secured by the underlying assets. These universities include Stephen F. Austin State University (SFA), the University of Texas System (UT System), the Texas A&M University System (A&M System), Texas State Technical College (TSTC), the Texas Tech University System (TTU System) and University of Houston System (UH System).

Stephen F. Austin State University's (SFA) notes and loans payable - direct borrowings/direct placements related to business-type activities as of Aug. 31, 2023 totaled \$6.4 million. The notes payable consists of amounts used to finance energy conservation projects and modernization of SFA's sports-related scoreboards and video displays. In the event of default, the following remedies are available:

- By written notice to SFA, all payments, including future payments, become due.
- The equipment may be repossessed, with SFA remaining liable for any difference between those payments required and any proceeds from the sale or leasing/subleasing of the equipment.
- Lessor may terminate the escrow agreement relating to such lease and apply any proceeds in the escrow fund thereunder to the rental payments due.
- Lessor may take whatever action at law or in equity may appear necessary or desirable to enforce its rights under such lease or the escrow agreement relating thereto or as a secured party in any or all of the equipment subject to such lease or with respect to the related escrow fund.
- The lessor may take one or any combination of the remedies listed above.

The UT System uses direct borrowings to finance the purchase of buildings, furniture and equipment, collectable assets. Direct borrowing obligations are due in annual installments through 2046, with an outstanding balance of \$16.4 million as of Aug. 31, 2023.

The Texas A&M University System (A&M System) notes and loans payable consists of amounts used to make permanent improvements at various institutions within the system, to refund and retire the board's Permanent University Fund commercial paper notes, to provide interim financing for capital improvements and acquisition of equipment and land, to pay interest on the notes, to refund outstanding notes as they mature and to pay the costs of issuing the notes. The outstanding balance as of Aug. 31, 2023 was \$123 million.

In the event of default or failure to make required note payments, the A&M System will be required to perform all conditions or obligations described in the note agreement. The A&M System is responsible for all reasonable expenses related to the enforcement.

The A&M System has various leases for the purchase of capital assets where the A&M System takes ownership at the end of the lease. These capital leases were converted to direct financing agreements with the implementation of GASB statement No. 87, *Leases*, and reported as notes and loans - direct borrowings. The outstanding balance as of Aug. 31, 2023 was \$54.8 million.

The outstanding notes from direct borrowings for equipment and facilities contain provisions where, in the event of default, all remaining payments may be declared immediately due or the lessor may repossess the assets or, in the case of software, render the asset unusable or the lessor may proceed with court action to enforce performance. The financing arrangements for capital improvements contain provisions that, in the event of default, the lessor has the right to take one or any combination of several options. These options include demand immediate payment for all remaining payments, retake possession of the leased asset, or

require the A&M System to return the leased asset at the system's expense.

Texas State Technical College has various leases for the purchase of capital assets where TSTC takes ownership at the end of the lease. These capital leases were converted to direct financing agreements with the implementation of GASB statement No. 87, *Leases*, and reported as notes and loans - direct borrowings. The outstanding balance as of Aug. 31, 2023 was \$21.3 million.

As of Aug. 31, 2023, Red Raider Facilities Foundation (RRFF), a blended component unit of the Texas Tech University System (TTU System), entered into long-term financing contracts for the purchase of capital assets. These contracts are classified as note and loans payable - direct borrowings. Included in these direct borrowings loans are a tax-exempt construction loan with \$159 million and a taxable construction loan with \$28.9 million undrawn balance remaining. The outstanding balance of the two loans is \$36.9 million. RRFF has pledged all rights, title and interest in its project gift and money market bank accounts as collateral for the taxable loan. These financing arrangements for capital improvements contain provision that in the event of default the lender has the right to take one or any of the following actions:

- Shall not be required to make advances,
- May declare loans immediately due and payable and
- Shall be entitled to recover reasonable expenses incurred to enforce any of its rights or remedies.

With the implementation of GASB Statement No. 87, *Leases*, in fiscal 2022 the University of Houston System (UH System) recorded the balance of capital leases as notes and loans payable-direct placements with a balance of \$3.4 million as of Aug. 31, 2023. This direct placement financing agreement with the City of Pearland, Texas is for the use and benefit U of H-Clear Lake. The contract contains provisions in case of default, UH System will be liable for:

- Damages equal to the total of the cost of recovering the contracted premises
- Cost of removing and storing personal property
- Unpaid amount earned at the time of contract termination plus interest
- Present value (discounted at 8 percent per annum) of the balance due for the remainder of the contract term less the present value of the fair market rental value plus the cost to prepare the premises for occupancy and
- Any other sum owed under the contract.

The Texas Department of Housing and Community Affairs (TDHCA) has one notes and loans payable - direct borrowings in the amount of \$10 million as of Aug. 31, 2023 related to business-type activities. TDHCA's notes and loans payable - direct borrowings is a subordinate lien obligation to provide funding for down payment assistance in connection with Texas Homeownership Programs. The TDHCA Series 2016 Issuer Note has a loan agreement with Woodforest National Bank secured by the RMRB Indenture. It contains the following events of default:

- A default in payment of any interest upon the loan when such interest becomes due and payable.
- A default in payment of principal of the loan when such principal becomes due and payable.
- A default in the asset test if the amount calculated pursuant to such test equals an amount less than 102 percent, plus the current outstanding amount of the loan.

The occurrence of any event of default would trigger remedies ranging from demand of immediate payment to the acceleration of the loan causing it to be immediately due and payable.

During fiscal 2023, TDHCA implemented GASB Statement No. 91, *Conduit Debt Obligations* by eliminating debt related to the Multifamily Bond Program where TDHCA is only a conduit issuer. The notes and

loans payable balance at Sept.1, 2022, was reduced by \$392.9 million to \$10 million with the elimination of Multifamily Notes outstanding.

Texas Public Finance Authority (TPFA) revenue commercial paper notes, Series 2019A&B were issued to finance the Master Lease Purchase Program (MLPP), as well as other revenue construction projects as authorized by the Legislature. \$78.8 million of Series 2019A&B was outstanding as of Aug. 31, 2023.

TPFA's Cancer Prevention and Research Institute of Texas (CPRIT) Series A and Series B General Obligation (GO) commercial paper notes were issued to fund the \$3 billion in GO debt authorized by the 80th Legislature to finance cancer research grants (*Texas Constitution*, Article III, Sec. 67). The constitutional amendment was approved by voters on November 6, 2007. As of Aug. 31, 2023 no CPRIT Series A Commercial Paper Notes were outstanding.

TPFA's Revenue Commercial Paper Notes, Series 2016 A (Taxable) and Series 2016B (Tax-Exempt) were issued to finance a \$767.7 million capital construction appropriation made to the Texas Facilities Commission (TFC) by the 84th Texas Legislature. As of Aug. 31, 2023, \$93 million of Series 2016A and \$30 million of Series 2016B Commercial Paper Notes were outstanding.

Events of default are defined in each TPFA's liquidity agreements with the Texas Comptroller of Public Accounts. Pursuant to contracts, the Comptroller's office is entitled to issue a notice of No Issuance in the event of a default. The liquidity agreements along with applicable amendments are publicly available on TPFA's website: https://www.tpfa.texas.gov/variable_rate.aspx.

Texas State Affordable Housing Corporation (TSAHC) is a special purpose government entity and a discreetly presented component unit of the state of Texas. TSAHC notes and loans payable consist of 3 unsecured notes and 3 notes secured by mortgage backed securities and notes receivable. The outstanding balance as of Aug. 31, 2023 was \$2.1 million.

The events of default for these notes consist of failure of borrower to pay interest or principal when dues and failure to use proceeds as stated. Termination events and subjective acceleration clauses include insolvency and material adverse change in borrower's financial condition, respectively.

Debt service requirements for notes and loans payable and notes and loans payable from direct borrowings and direct placements in long-term liabilities as of Aug. 31, 2023, are presented in tables 5B, 5C and 5D.

Notes and Loans Payable - Debt Service Requirements

Table 5B: Governmental Activities

August 31, 2023 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings		
				Principal	Interest	Total
2024	\$ 111,616	\$ 10,890	\$ 122,506	\$	\$ 8,353	\$ 8,353
2025	88,016	10,792	98,808		8,330	8,330
2026	82,408	10,412	92,820		8,341	8,341
2027	65,564	10,015	75,579	823	8,341	9,164
2028	57,104	9,616	66,720	2,705	8,331	11,036
2029-2033	115,054	41,436	156,490	35,693	39,769	75,462
2034-2038	55,576	28,076	83,652	69,865	33,467	103,332
2039-2043	67,980	10,968	78,948	100,309	22,151	122,460
2044-2048				60,044	11,674	71,718
2049-2053				53,857	3,518	57,375
Subtotal	<u>643,318</u>	<u>132,205</u>	<u>775,523</u>	<u>323,296</u>	<u>152,275</u>	<u>475,571</u>
Unamortized Accretion						
Total Debt Service Requirements	<u>\$ 643,318</u>	<u>\$ 132,205</u>	<u>\$ 775,523</u>	<u>\$ 323,296</u>	<u>\$ 152,275</u>	<u>\$ 475,571</u>

Notes and Loans Payable - Debt Service Requirements

Table 5C: Business-Type Activities

August 31, 2023 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings/Direct Placements		
				Principal	Interest	Total
2024	\$ 4,158	\$ 4,847	\$ 9,005	\$ 6,748	\$ 5,731	\$ 12,479
2025	4,320	4,683	9,003	44,711	5,096	49,807
2026	4,490	4,513	9,003	6,416	3,433	9,849
2027	4,667	4,336	9,003	16,905	16,132	33,037
2028	4,852	4,152	9,004	6,986	15,068	22,054
2029-2033	27,282	17,737	45,019	46,852	71,011	117,863
2034-2038	33,096	11,922	45,018	82,259	61,946	144,205
2039-2043	40,150	4,868	45,018	113,173	51,657	164,830
2044-2048				206,737	36,283	243,020
2049-2053				263,204	12,922	276,126
Subtotal	<u>123,015</u>	<u>57,058</u>	<u>180,073</u>	<u>793,991</u>	<u>279,279</u>	<u>1,073,270</u>
Unamortized Accretion				(30,411)		(30,411)
Total Debt Service Requirements	<u>\$ 123,015</u>	<u>\$ 57,058</u>	<u>\$ 180,073</u>	<u>\$ 763,580</u>	<u>\$ 279,279</u>	<u>\$ 1,042,859</u>

Notes and Loans Payable - Debt Service Requirements

Table 5D: Discrete Component Units
August 31, 2023 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings/Direct Placements		
				Principal	Interest	Total
2024	\$ 751	\$ 40	\$ 791	\$	\$	\$
2025	526	26	552			
2026	276	17	293			
2027	517	3	520			
Total Debt Service Requirements	<u>\$ 2,070</u>	<u>\$ 86</u>	<u>\$ 2,156</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Liabilities Payable from Restricted Assets

Long-term liabilities associated with the acquisition of restricted assets or long-term liabilities that will be liquidated with restricted assets are classified as liabilities payable from restricted assets.

Texas Prepaid Higher Education Tuition Board recognized a liability for future benefits payable to the participants in the state's two prepaid tuition plans, the *Texas Guaranteed Tuition Plan*, established in 1995, and the *Texas Tuition Promise Fund*, established in 2007. These funds have a liability balance of \$331.6 million and \$873.6 million respectively.

Texas Lottery Commission sponsors certain lottery games which provide prize winners the ability to receive winnings over time. Maturity of these prizes range from 1 to 29 years. The Long-Term Prizes Payable fund balance represents future installments due to winners. These prizes are paid weekly, monthly, quarterly and annually. An expense and liability for business-type activities are recorded as the tickets are sold. The outstanding balance as of Aug. 31, 2023 was \$389.3 million.

The Texas A&M University System has liabilities payable from restricted assets in the amount of \$33.6 million, as of Aug. 31, 2023. The balance represents payables from bond proceeds.

General Obligation and Revenue Bonds

General obligation bonds and revenue bonds are described in detail in Note 6, *Bonded Indebtedness*.

Lease Obligations

The state of Texas implemented GASB Statement No. 87, *Leases*, in fiscal 2022 which established a single model for lease accounting based on the principal that leases are financings of the right to use an underlying asset. These underlying assets are presented in Note 2, *Capital Assets*. Under GASB Statement No. 87, a lessee is required to recognize a right-to-use (RTU) lease obligation and an intangible RTU lease asset. The RTU lease obligations are presented in Table 5A. For more information on leases, see Note 8, *Leases and Subscription-Based Information Technology Arrangements*.

Subscription Obligations

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, implemented in fiscal 2023, established IT subscription accounting based on the principal that subscriptions are financings of the right to use an underlying IT asset. These underlying assets are presented in Note 2, *Capital Assets*. Under GASB Statement No. 96, a subscriber is required to recognize a right-to-use (RTU) subscription obligation and an intangible RTU subscription asset. The RTU subscription obligations are presented in Table 5A. For more information on leases, see Note 8, *Leases and Subscription-Based Information Technology Arrangements*.

Claims and Judgements

Claims and judgments are payments on behalf of the state, its agencies and employees for various legal

proceedings, self-insurance and workers' compensation claims. Tort claims are covered under the *Texas Tort Claims Act*. Numerous miscellaneous claims are covered under the *Miscellaneous Claims Act* for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above \$50 thousand or numerous separate claims from the same individual or entity that in total exceed \$50 thousand must be approved by the Texas Legislature before being paid. Claims are paid from governmental funds. Workers' compensation claims are usually paid from the same funding source(s) from which the employees' salary or wage compensation was paid. For more information, see Note 17, *Risk Management*.

Texas Department of Transportation (TxDOT) records liabilities for material claims and judgments when the claims are considered probable and estimable. During fiscal 2023, TxDOT experienced contractor claims for reimbursement of additional expenses incurred for the performance of construction contract requirements. TxDOT

recorded a liability of \$400 million which is related to the US 181 Harbor Bridge Replacement Project.

Employees' Compensable Leave

Employees' compensable leave is the state's liability for all unused vacation and unpaid overtime accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from the same funding source(s) from which the employees' salary or wage compensation was paid.

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure revenue bonds payable, revenue bonds payable - direct placements, general obligation bonds payable, general obligation bonds payable - direct placements, notes and loans payable, and notes and loans payable - direct borrowings/direct placements. Pledge future revenues for the fiscal year ended Aug. 31, 2023, is presented in Table 5E.

Pledged Future Revenue					
Table 5E					
August 31, 2023 (Amounts in Thousands)					
Description of Debt Issue	Future Pledged Revenue*	Current Year Pledged Revenue	Current Year Principal and Interest Paid	Term of Commitment Fiscal Year Ended	Percentage of Revenue Pledged
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds Payable and					
General Obligation Bonds Payable - Direct Placement	\$ 11,739,450	\$ 862,607	\$ 709,422	2044	100%
Revenue Bonds Payable and					
Revenue Bonds Payable – Direct Placements	3,865,200	9,118,735	488,963	2052	100%
Notes and Loans Payable and					
Notes and Loans Payable – Direct Borrowings/Placements	1,176,435	41,479	38,077	2052	100%
Total Governmental Activities	<u>\$ 16,781,085</u>	<u>\$ 10,022,821</u>	<u>\$ 1,236,462</u>		
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds Payable and					
Revenue Bonds Payable – Direct Placements	<u>\$ 60,178,938</u>	<u>\$ 27,065,852</u>	<u>\$ 2,676,110</u>	2058	99.7%
Total Business-Type Activities	<u>\$ 60,178,938</u>	<u>\$ 27,065,852</u>	<u>\$ 2,676,110</u>		
COMPONENT UNITS					
Revenue Bonds Payable and					
Revenue Bonds Payable – Direct Placements	<u>\$ 142,596</u>	<u>\$ 7,950</u>	<u>\$ 2,791</u>	2058	100%
Total Component Units	<u>\$ 142,596</u>	<u>\$ 7,950</u>	<u>\$ 2,791</u>		

* Required for future principal and interest on existing debt.

Pollution Remediation Obligations

Pollution remediation obligations are recognized in the financial statements for existing pollution sites after the occurrence of one or more of the following events:

- The pollution creates an imminent endangerment to public health or the environment.
- The state is in violation of a pollution prevention-related permit or license.
- The state is named as a potentially responsible party by a regulator.
- The state is named in a lawsuit that compels it to participate in remediation.
- The state has commenced or legally obligated itself to begin cleanup activities.

Under current applicable GAAP standards, estimated expected recoveries from insurance policies and other responsible parties that are not yet realizable in the financial statements reduce the measurement of the pollution remediation obligation liability. A realized or realizable recovery involves the acknowledgment or recognition by the third party of its responsibility. Realized or realizable recoveries are recognized as assets.

Federal Regulatory Cleanup Requirements: Pollution remediation obligations are associated with projects initiated under federal regulatory requirements. Applicable federal laws and regulations include the *Comprehensive Environmental Response, Compensation and Liability Act* (also known as Superfund), the National Emissions Standards for Hazardous Air Pollutants and United States Environmental Protection Agency (EPA) Class V Wells regulations.

The Superfund obligation estimates are based on budgeted projections to cover necessary activities for the upcoming fiscal year, along with estimated costs for future years and phases, plus direct salaries and benefits. For sites without available budget projections, estimated costs were provided for the Superfund phases of investigation and cleanup, based on staff experience with similar sites.

Federal reimbursements are expected to offset a portion of these expected costs. The potential for changes due to price increases or reductions, technology or applicable laws or regulations was incorporated into these estimates.

State Regulatory Cleanup Requirements: Other pollution remediation obligations are associated with cleanups required under state of Texas law. The Texas Commission on Environmental Quality (TCEQ) operates as a regulatory agency to ensure cleanups are conducted within applicable state laws and regulations contained in the *Texas Administrative Code*, Title 30; *Texas Water Code*; *Texas Health and Safety Code*; *Texas Occupations Code*; and *Texas Natural Resources Code*.

Major Remediation Activity: TCEQ oversees the cleanup of leaking petroleum storage tanks (LPST). Cleanup costs are paid by the owners' environmental liability insurance or other financial assurance mechanisms or from their own funds. If the responsible party is unknown, unwilling or financially unable to do the work, state and federal funds are used to pay for the corrective actions. Revenue is generated from a fee on the delivery of petroleum products removed from bulk storage facilities. State statutes allow cost recovery from the current owner or any previous responsible owner, however, to date this has not been necessary.

TCEQ calculates expected outlays related to this pollution remediation by establishing the average cost of cleanup and multiplying that cost by the number of active sites, plus direct salaries and benefits for the duration of the cleanup. This methodology is based upon historical experience in estimating these cleanups. At Aug. 31, 2023, there were 246 active state lead sites, with a total estimated pollution remediation obligation of \$60 million.

The TCEQ Superfund Section (Section) includes the State Superfund, Federal Superfund, Superfund Site Discovery and Assessment (SSDAP) and the Preliminary Assessment/Site Inspection (PA/SI) Programs.

On behalf of TCEQ, the Section identifies, ranks and addresses sites contaminated with hazardous substances, which no parties are willing to address through a permit, corrective action, voluntary cleanup or enforcement program. These sites are identified through referral from internal and external groups such as TCEQ Enforcement, TCEQ Regional Offices, TCEQ Water Supply Division, public complaints and the EPA.

Site estimates may change drastically from one year to another as the investigations progress and a better understanding of site conditions is obtained. The estimate of liabilities is limited to sites that have been, or are, being assessed and ranked for the Superfund program. Cost recovery activities during fiscal 2023 resulted in collections of \$542.6 thousand.

At the end of fiscal 2023, Texas had 72 sites with pollution remediation obligations and federal Superfund programs had zero sites that required an immediate response or removal action. The current total Superfund liability, as of Aug. 31, 2023, is \$117 million.

TCEQ is responsible for collecting fees for a remediation fund designed to help pay for the cleanup of contaminated dry cleaner sites. The fees are generated from the annual registration of facilities and drop stations, as well as from the sale of perchloroethylene and other dry cleaning solvents. TCEQ receives applications for remediation, and then ranks and prioritizes them for corrective action. Legislation in 2007 established requirements for property owners and preceding property owners who wish to claim benefits from the remediation fund, and authorized a lien against property owners and preceding property owners who fail to pay registration fees due during corrective action. No additional cost recovery is allowed by statute.

The pollution remediation obligation is measured by the national average cleanup cost, as calculated by the State Coalition for Remediation of Drycleaners. Direct salary and benefit costs are added to the national average and the total cost is multiplied by the number

of active sites. At Aug. 31, 2023, there were 238 active sites, with a total estimated pollution remediation obligation of \$54 million.

The Railroad Commission of Texas (RRC) currently has three areas of remediation: abandoned oil and gas wells, oil and gas sites and mines. Under *Texas Natural Resource Code*, Section 89.043, the RRC may plug abandoned wells if the wells have not been properly plugged or need replugging and the responsible party cannot be found or is not financially able to plug the well, or if the wells will cause or are likely to cause a serious threat of pollution or injury to the public health. The RRC has 1 active well plugging project as of Aug. 31, 2023, with an estimated cost of \$159 thousand.

Under *Texas Natural Resource Code*, Section 91.113, the RRC may clean up abandoned oil and gas sites that are causing or are likely to cause the pollution of surface or subsurface water. The RRC has 13 active site remediation projects as of Aug. 31, 2023, with an estimated cost of \$884.8 thousand. Funding for these programs comes from regulatory and permit fees paid by the oil and gas industry.

Under *Texas Surface Coal Mining and Reclamation Act*, the RRC administers funds from the US Department of the Interior for the Abandoned Mine Land Reclamation Program. The RRC currently has three projects as of Aug. 31, 2023, with an estimated cost of \$445.6 thousand.

The RRC enters into contracts with third parties for abandoned site remediation and abandoned well plugging. These contracts are used to estimate the amount of the plugging and pollution remediation obligation.

TxDOT is responsible for the cleanup and remediation of several polluted sites. Regulatory requirements established by federal and state law obligate TxDOT to perform these pollution remediation activities. Historical cost averages were used to calculate the estimated pollution remediation obligation liabilities. The areas of remediation include compliance with asbestos regula-

tions, lead based paint regulations, *Federal Safe Drinking Water Act*, state LPST cleanup requirements, Occupational Safety and Health Administration Health and Safety Plan requirements and waste disposal regulations at an estimated cost of \$8.2 million for fiscal 2023.

The Texas Tech University System (TTU System) owns a 5,855-acre parcel of land in Carson County, Texas. The land was purchased from the United States federal government, acting by and through the General Services Administrator, in 1949 to operate an experimental research farm on a portion of the land. TTU System is a responsible party for pollution remediation activities on this land. The estimated liability is based on an analysis from ARS Aleut Remediation, LLC and factored down by 50 percent for cost reduction measures that would result in cost savings. This amount is subject to cost volatility until such time remediation activities are complete. The land will be considered for remediation if the land is sold, transferred or otherwise utilized in a manner necessitating pollution remediation. The current liability, as of Aug. 31, 2023, is \$1.5 million.

Texas Department of Public Safety (DPS) is responsible for the maintenance of DPS state owned underground storage tanks and is currently managing eight sites. DPS has conducted mold and lead remediation at the North Lamar and Florence shooting ranges. Other responsibilities include the cleanup and preventative measures for the protection of Waller Creek, asbestos abatement in state owned offices and managing chemical spill sites. As of Aug. 31, 2023, the current liability is \$269.5 thousand.

Other agencies have pollution remediation obligations. Health and Human Services Commission (HHSC) has estimated remediation activities for Denton State Supported Living Center and Terrell State Hospital to be \$597.1 million. The Texas Department of Criminal Justice (TDCJ) is responsible for removal of asbestos when TDCJ buildings require renovation

or repairs. There is \$178.6 thousand in liability as of Aug. 31, 2023. Texas Parks and Wildlife Department (TPWD) is responsible for the cleanup and remediation of multiple polluted site, including twenty active sites. TPWD has recognized \$160.4 thousand in pollution remediation obligations related to asbestos pollution.

Asset Retirement Obligations

GASB Statement No. 83, *Certain Asset Retirement Obligations*, defines an asset retirement obligation (ARO) as a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets recognize a liability based on the GASB guidance.

As of Aug. 31, 2023, the University of North Texas System (UNT System) held two radioactive material licenses. The estimated remaining useful life of the associated tangible capital assets is 214 and 130 months, respectively. Licensing of radioactive materials is regulated by the state of Texas (*Texas Administrative Code* Title 25 Health Services, Part 289 Radiation Control, Subpart 252 Licensing of Radioactive Materials). The UNT System estimated the obligation amount using best-estimate current value based on settlement amount and recorded the initial measurement as deferred outflows of resources and a noncurrent liability. The UNT System will assess the ARO account balances annually for any significant changes in current value and make all necessary adjustments. ARO balances are reduced annually by the amount of actual expenditures to retire the asset. In accordance with the *Texas Administrative Code* Title 25, Part 1, Chapter 289, Subchapter D, Rule 289.201(c), the UNT System is exempted from posting the financial instruments specifically based upon being a state funded academic facility actively working to reduce the amount of radioactive material authorized on its licenses. The ARO balance as of Aug. 31, 2023 was \$2.9 million.

The A&M System has two nuclear reactors which were placed in service in 1957 and 1965. The U.S. Nuclear Regulatory Commission (NRC) requires a decommissioning plan for the retirement of these assets. The estimated liability for the decommissioning plan is \$9.7 million. The estimate was calculated using NRC publications NUREG/CR-1756 and NUREG-1307 Rev. 15, adjusted using the consumer price index inflation calculator. A 25 percent contingency is also included in the estimate. The A&M System also has four radioactive material licenses authorizing the possession and use of radioactive materials. The A&M System is financially accountable for any decommissioning or decontamination costs as required by the Texas Department of State Health Services (*Texas Administrative Code*, Title 25, Part 1, Chapter 289, Subchapter F, Rule 289.252), and the U.S. Nuclear Regulatory Commission (10 CFR 30.35). The estimated liability related to these licenses is \$2.7 million. The total ARO as of Aug. 31, 2023 was \$12.4 million.

The UT System liability related to clean-up and decommissioning of items using radiation such as

broadscope licenses, cyclotrons and nuclear reactors is reported as an ARO. The liability is measured using best estimates of expected outlays for clean-up and decommissioning costs. The *Texas Administrative Code*, Title 25, Part 1, Chapter 289, Subchapter F, Rule 289.252(gg)(6)(D) allows state licensees to provide financial assurances as necessary and no assets have been restricted for payment of the liability. The estimated remaining useful life of the associated tangible capital assets ranges from 0 to 41 months. The total ARO as of Aug. 31, 2023 was \$20.3 million.

Texas Health and Human Services Commission's (HHSC) ARO is related to a sewage treatment plant in Mexia, Texas. The ARO was calculated using a weighted average methodology and is adjusted for inflation based on the US Bureau of Labor Statistics. Based on an initial regional assessment, HHSC did not receive enough information to reasonably estimate a weighted average for lab equipment, such as x-ray equipment. The ARO balance as of Aug. 31, 2023 was \$2.3 million.

Note 6

Bonded Indebtedness

Description of Bond Issues

The state of Texas had 348 bond issues outstanding as of Aug. 31, 2023. Scheduled debt service payments from the general revenue fund for fiscal 2023 totaled \$699.7 million.

Information on bond issuances by type of activity as of Aug. 31, 2023, is presented in table 6A.

Information on Bond Issuances

Table 6A

August 31, 2023

Description of Issue	Bond Issues Outstanding		Range of Interest Rates		Maturities		First Call Date
	Number	Amount Issued (in Thousands)	Lowest	Highest	First Year	Last Year	
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	60	\$ 17,849,130	0.21	6.00	2014	2046	08/01/2022
General Obligation Bonds – Direct Placements	1	254,105	5.00	5.00	2031	2036	10/01/2025
Revenue Bonds	13	5,921,435	0.22	5.25	2010	2041	04/01/2018
Total Governmental Activities	<u>74</u>	<u>24,024,670</u>					
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	58	5,862,420	0.60	5.00	2003	2054	03/22/2001
General Obligation Bonds – Direct Placements	3	253,710	var	var	2014	2027	04/01/2014
Revenue Bonds	203	46,506,450	0.12	6.10	1999	2057	03/01/2006
Revenue Bonds – Direct Borrowings/Placements	6	358,880	2.01	2.53	2015	2042	10/15/2030
Total Business-Type Activities	<u>270</u>	<u>52,981,460</u>					
COMPONENT UNITS							
Revenue Bonds	4	259,340	1.65	5.50	2011	2053	12/01/2011
Total Component Units	<u>4</u>	<u>259,340</u>					
Total Bond Issues Outstanding	<u>348</u>	<u>\$ 77,265,470</u>					

Changes in Bonds Payable

Table 6B

August 31, 2023 (Amounts in Thousands)

Description of Issue	Balance 9/1/22	Adjustments ¹	Bonds Issued ²	Bonds Matured or Retired	Bonds Refunded	Balance 8/31/23	Due Within One Year
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	\$ 13,955,727	\$ (82,958)	\$ 591,810	\$ 679,225	\$	\$ 13,785,354	\$ 743,561
General Obligation Bonds – Direct Placements	280,956	(1,986)				278,970	1,986
Revenue Bonds	4,300,470	(32,052)		319,290		3,949,128	358,645
Total Governmental Activities	<u>18,537,153</u>	<u>(116,996)</u>	<u>591,810</u>	<u>998,515</u>	<u>0</u>	<u>18,013,452</u>	<u>1,104,192</u>
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	3,884,198	(4,161)	556,510	261,435	76,420	4,098,692	280,458
General Obligation Bonds – Direct Placements	58,050			15,460		42,590	15,100
Revenue Bonds	37,388,647	(583,189)	4,564,806	1,203,848	634,737	39,531,679	2,684,815
Revenue Bonds – Direct Borrowings/Placements	691,149	(300,035)		13,775	83,775	293,564	14,070
Total Business-Type Activities	<u>42,022,044</u>	<u>(887,385)</u>	<u>5,121,316</u>	<u>1,494,518</u>	<u>794,932</u>	<u>43,966,525</u>	<u>2,994,443</u>
COMPONENT UNITS							
Revenue Bonds	18,785	2,801	60,000	2,060		79,526	375
Total Component Units	<u>18,785</u>	<u>2,801</u>	<u>60,000</u>	<u>2,060</u>	<u>0</u>	<u>79,526</u>	<u>375</u>
Total Changes in Bonds Payable	<u>\$ 60,577,982</u>	<u>\$ (1,001,580)</u>	<u>\$ 5,773,126</u>	<u>\$ 2,495,093</u>	<u>\$ 794,932</u>	<u>\$ 62,059,503</u>	<u>\$ 4,099,010</u>

¹ Includes current year amortization of premiums and discounts.

² Includes current year amortization of accretion.

Debt Service Requirements

Table 6C: Governmental Activities

August 31, 2023 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Placements		
				Principal	Interest	Total
General Obligation Bonds						
2024	\$ 650,480	\$ 517,199	\$ 1,167,679	\$	\$ 12,705	\$ 12,705
2025	671,445	495,932	1,167,377		12,705	12,705
2026	684,150	465,489	1,149,639		12,705	12,705
2027	600,075	442,488	1,042,563		12,705	12,705
2028	694,080	412,696	1,106,776		12,705	12,705
2029-2033	3,445,565	1,651,837	5,097,402	53,000	60,938	113,938
2034-2038	3,477,345	964,343	4,441,688	201,106	28,274	229,380
2039-2043	2,253,855	284,791	2,538,646			
2044-2048	539,370	25,097	564,467			
Subtotal	<u>13,016,365</u>	<u>5,259,872</u>	<u>18,276,237¹</u>	<u>254,106¹</u>	<u>152,737</u>	<u>406,843</u>
Premium	771,214		771,214	24,864		24,864
Discount	<u>(2,225)</u>		<u>(2,225)</u>			
Total	<u>\$ 13,785,354</u>	<u>\$ 5,259,872</u>	<u>\$ 19,045,226</u>	<u>\$ 278,970</u>	<u>\$ 152,737</u>	<u>\$ 431,707</u>
Revenue Bonds						
2024	\$ 331,865	\$ 158,753	\$ 490,618	\$	\$	\$
2025	346,175	142,379	488,554			
2026	361,445	126,751	488,196			
2027	374,445	114,179	488,624			
2028	385,200	98,851	484,051			
2029-2033	1,461,176	235,264	1,696,440			
2034-2038	421,250	39,424	460,674			
2039-2043	<u>124,810</u>	<u>4,680</u>	<u>129,490</u>			
Subtotal	<u>3,806,366</u>	<u>920,281</u>	<u>4,726,647</u>	<u>0</u>	<u>0</u>	<u>0</u>
Premium	<u>142,762</u>		<u>142,762</u>			
Total	<u>\$ 3,949,128</u>	<u>\$ 920,281</u>	<u>\$ 4,869,409</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

¹ Includes accretion adjustments on deep discount bonds.

Debt Service Requirements

Table 6D: Business-Type Activities

August 31, 2023 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Placements		
				Principal	Interest	Total
General Obligation Bonds						
2024	\$ 275,095	\$ 111,274	\$ 386,369	\$ 15,100	\$ 2,196	\$ 17,296
2025	297,180	104,342	401,522	15,770	1,238	17,008
2026	302,115	95,581	397,696	5,340	626	5,966
2027	286,560	86,873	373,433	4,560	314	4,874
2028	267,330	78,698	346,028	1,820	59	1,879
2029-2033	1,029,445	295,913	1,325,358			
2034-2038	753,955	172,160	926,115			
2039-2043	551,590	78,655	630,245			
2044-2048	210,690	18,529	229,219			
2049-2053	47,715	3,351	51,066			
2054-2058	3,155	79	3,234			
Subtotal	<u>4,024,830¹</u>	<u>1,045,455</u>	<u>5,070,285</u>	<u>42,590¹</u>	<u>4,433</u>	<u>47,023</u>
Premium	<u>73,862</u>		<u>73,862</u>			
Total	<u>\$ 4,098,692</u>	<u>\$ 1,045,455</u>	<u>\$ 5,144,147</u>	<u>\$ 42,590</u>	<u>\$ 4,433</u>	<u>\$ 47,023</u>
Revenue Bonds						
2024	\$ 2,468,500	\$ 1,468,311	\$ 3,936,811	\$ 14,070	\$ 12,428	\$ 26,498
2025	1,265,765	1,438,499	2,704,264	14,365	11,600	25,965
2026	1,326,265	1,384,944	2,711,209	14,675	11,277	25,952
2027	1,244,475	1,329,333	2,573,808	8,675	10,991	19,666
2028	1,224,445	1,278,015	2,502,460	6,975	10,786	17,761
2029-2033	6,795,779	5,579,790	12,375,569	9,805	52,342	62,147
2034-2038	6,468,100	4,117,763	10,585,863		51,975	51,975
2039-2043	6,129,487	2,777,720	8,907,207	225,000	39,255	264,255
2044-2048	6,074,165	1,577,798	7,651,963			
2049-2053	4,063,270	458,868	4,522,138			
2054-2058	299,440	29,643	329,083			
Subtotal	<u>37,359,691</u>	<u>21,440,684</u>	<u>58,800,375</u>	<u>293,565</u>	<u>200,654</u>	<u>494,219</u>
Accretion	(435,856)		(435,856)			
Premium	2,608,009		2,608,009			
Discount	<u>(166)</u>		<u>(166)</u>			
Total	<u>\$ 39,531,678</u>	<u>\$ 21,440,684</u>	<u>\$ 60,972,362</u>	<u>\$ 293,565</u>	<u>\$ 200,654</u>	<u>\$ 494,219</u>

¹ Includes accretion adjustments on deep discount bonds.

Debt Service Requirements

Table 6E: Component Units

August 31, 2023 (Amounts in Thousands)

Year	Principal	Interest	Total
Revenue Bonds			
2024	\$ 375	\$ 3,389	\$ 3,764
2025	1,310	3,345	4,655
2026	1,380	3,297	4,677
2027	1,425	3,246	4,671
2028	1,515	3,193	4,708
2029-2033	8,250	15,091	23,341
2034-2038	10,765	13,351	24,116
2039-2043	13,630	10,796	24,426
2044-2048	16,510	7,467	23,977
2049-2053	18,855	3,190	22,045
2054-2058	2,156	59	2,215
Subtotal	<u>76,171</u>	<u>66,424</u>	<u>142,595</u>
Premium	<u>3,355</u>		<u>3,355</u>
Total	<u>\$ 79,526</u>	<u>\$ 66,424</u>	<u>\$ 145,950</u>

See Note 16 for debt issued subsequent to Aug. 31, 2023.

General Obligation Bonds and General Obligation Bonds - Direct Placements - General Comments

The *Texas Constitution* authorizes the state to issue several types of general obligation bonds and general obligation bonds - direct placements. Each issue of general obligation bonds and general obligation bonds - direct placements is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority (TPFA), the Texas Water Development Board (TWDB), the Constitutional Appropriation Bonds (CABs) and the Texas Transportation Commission Highway Improvement Bonds.

The purpose and primary pledged revenue sources of each type of general obligation bond and general obligation bond - direct placement are summarized below.

The Texas Higher Education Coordinating Board issues bonds for educational loans to eligible Texas col-

lege students. Payments received on the loan contracts are applied to debt service on the bonds.

The Texas Parks and Wildlife Department (TPWD) issues bonds to finance the acquisition and development of state park sites. Park entrance fees, sporting goods sales tax revenue and investment earnings are applied to debt service on the bonds.

TPFA issues bonds to finance the acquisition, construction or renovation of buildings for the use of state agencies and institutions of higher education and to fund cancer research. The TPFA is also authorized to issue bonds to assist local government economic development projects and the Texas Military Value Revolving Loan Fund (TMVRLF). The bonds are payable from state appropriations.

TWDB issues bonds to provide financial assistance to political subdivisions for water conservation and development, water quality enhancement projects and flood control projects. Debt service payments are funded by principal and interest received on loans to political subdivisions, repayments of purchased water storage contracts, earnings on temporary investments and general revenues.

The Veterans Land Board (VLB) issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

The Texas Department of Transportation (TxDOT), prior to Jan. 1, 2015, through the Texas mobility fund, issued general obligation bonds and general obligation bonds - direct placements to pay or reimburse the state highway fund for the payment of part of the costs of constructing, reconstructing, acquiring and expanding state highways. In addition, the bond proceeds provided funds for participation by the state in the payment of part of the costs of constructing and providing certain publicly owned toll roads and

other public transportation projects. After Jan. 1, 2015, TxDOT may only issue debt to refund existing debt in certain circumstances. Sources of pledged revenue for the Texas mobility fund include the United We Stand license plate fees, investment income, motor vehicle inspection fees, driver record information fees, driver license fees and certificate of title fees. Debt service for highway improvement bonds is provided by the state's general revenue.

CABs are issued in support of the construction programs of institutions of higher education not benefiting from the permanent university fund (PUF), which is dedicated to the University of Texas System (UT System) and Texas A&M University System (A&M System). Debt service payments on bonds issued are limited to the \$196.9 million in general revenue funds available for debt service each year.

The Economic Development and Tourism Office (EDTO), a division within the Office of the Governor, issues general obligation bonds to provide financial assistance to export businesses, promote domestic business development, provide loans to finance the commercialization of new and improved products and processes, and provide loans to defense-related communities for economic development projects. Debt service payments are funded from revenues of the EDTO, primarily from the repayment of loans and the disposition of debt instruments.

General Obligation Bonds - Authorized But Unissued

The *Texas Constitution* limits the amount of bonds that can be issued in any of the general obligation categories. The amounts of general obligation bonds, other than CABs, authorized but unissued, as of Aug. 31, 2023, is presented in table 6F.

General Obligation Bonds – Authorized But Unissued

Table 6F

August 31, 2023 (Amounts in Thousands)

Bond Type	Authorized But Unissued
SELF-SUPPORTING	
Texas Agricultural Finance Authority Bonds	\$ 230,000
Farm and Ranch Loan Bonds	300,000
Veterans Land and Housing Bonds	772,650
Texas Water Development Bonds	5,804,405
College Student Loan Bonds	792,420
Texas Military Value Revolving Loan Fund	200,405
Texas Mobility Bonds	3,565,920
Total Self-Supporting	<u>11,665,800</u>
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	3,194,827
Water Development Bonds - Economically Distressed Areas Program	105,579
Water Development Bonds - State Participation	200,000
Total Not-Self Supporting	<u>3,665,246</u>
Total General Obligation Bonds	<u>\$15,331,046</u>

Revenue Bonds and Revenue Bonds - Direct Borrowings/Placements - General Comments

Each series of revenue bonds and revenue bonds - direct borrowings/placements is backed by the pledged revenue sources and restricted funds specified in the bond resolution. The purpose and primary pledged revenue sources of each type of revenue bond are summarized below. For more information on pledged revenues, also see Note 5, *Long-Term Liabilities*.

Self-Supporting

The VLB issues bonds to assist in the construction of skilled nursing care facilities for veterans and to make land and home mortgage loans to veterans. The bonds are limited and special revenue obligations payable solely from the income, revenues, receipts and collateral pledged under the related trust indentures.

The Texas Department of Housing and Community Affairs (TDHCA) issues bonds to assist in financing the

purchase of homes or the construction of rental housing for families with very low to moderate incomes and persons with special needs. Loan payments provide the revenues for debt service payments. The TDHCA also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans and to carry out financial assistance programs.

TWDB issues bonds for the state water pollution control revolving fund. The proceeds are used to provide financial assistance to political subdivisions for water quality enhancement purposes. Principal and interest repayments from political subdivision loans are pledged for debt service requirements of the bonds.

The UT System and the A&M System issue PUF bonds to build, equip or buy buildings or other permanent improvements. The *Texas Constitution* limits the UT System's and the A&M System's PUF debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of PUF assets, excluding real estate. Revenue from investments of the PUF is pledged to secure the payment of principal and interest. The cost value of PUF assets as of Aug. 31, 2023, excluding real estate, was \$29.3 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is presented in table 6G.

bonds - direct borrowings/placements issued by each institution's governing board are secured by the pledged revenue of the respective institutions and are not an obligation of the state of Texas.

TxDOT issues revenue bonds and revenue bonds - direct placements to finance state highway improvement projects. Pledged revenues include all revenues deposited to the credit of the state highway fund, including dedicated registration fees, dedicated taxes, dedicated federal revenues, amounts collected or received pursuant to other state highway fund revenue laws and any interest or earnings from the investment of these funds.

The Texas Transportation Commission issued bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System located in the city of Austin's Travis and Williamson counties. The bond obligations are payable from and secured solely by a first and second lien as applicable and pledge of the trust estate.

Not Self-Supporting

The following revenue bonds are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

The Texas Military Department (TMD), previously named the Adjutant General's Department, assumed the Texas Military Facilities Commission's (TMFC) responsibilities on Sept. 1, 2007. The TMFC's title to facilities, rental and other income pledged to the bonds was transferred to the TPFA. Title will pass to TMD upon final discharge of all bond obligations. Bonds are issued for the construction, expansion and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the TMD. As of Aug. 31, 2023, the bond obligations were still outstanding.

Permanent University Fund Bonds			
Table 6G: Business-Type Activities			
August 31, 2023 (Amounts in Thousands)			
University System	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	\$ 5,850,886	\$ 2,614,470	\$ 3,236,416
Texas A&M University System	2,925,443	1,523,285	1,402,158
Total Bonds	\$ 8,776,329	\$ 4,137,755	\$ 4,638,574

Miscellaneous college, university revenue bonds and university revenue bonds - direct borrowings/placements are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds and revenue

TPFA issues bonds to finance the acquisition of real property and to construct, equip or renovate buildings for the use of state agencies and institutions of higher education. The bonds are payable from specified pledged revenues, collected primarily from occupant-agency rentals.

TPWD issues bonds for infrastructure repairs and construction. The bonds are payable from rent payments, funded by state appropriations, made by the TPWD to the TPFA.

Build America Bonds (BABs)

The *American Recovery and Reinvestment Act* (ARRA) of 2009 was implemented in Feb. 2009. As part of this federal legislation, a new bond program called BABs was created. Authority to issue BABs expired on Dec. 31, 2010.

Texas Transportation Commission (TTC) and the UT System had \$3.3 billion and \$1.13 billion of direct payment BABs outstanding respectively, as of Aug. 31, 2023.

Under the *Budget Control Act* of 2011, across-the-board sequestration took effect on March 1, 2013. This resulted in the 35 percent federal subsidy for BABs interest payments being reduced by the applicable federal sequestration reduction rate.

Variable Rate Bonds

Five state agencies had a total of 54 variable rate bond issues with outstanding balances as of Aug. 31, 2023. Most of the issues' interest rates reset every seven days. The remaining issues' interest rates reset daily or monthly. The potential vola-

tility for related debt service increases with these interest rate reset provisions.

Demand Bonds

The VLB, TDHCA, TxDOT and the UT System had outstanding demand bonds as of Aug. 31, 2023.

A bond holder may tender any of these bonds for repurchase prior to maturity, usually every seven days. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under a letter of credit, liquidity agreement or standby purchase agreement of the respective agency until such time as the remarketing is finalized. There were no purchased bonds held by liquidity providers under the terms of the various agreements as of Aug. 31, 2023. Details are presented in tables 6H and 6I.

Demand Bonds

Table 6H
August 31, 2023

Description of Bond Issue	Number of Demand Bond Issues	Number of Standby Purchase Agreements ¹	Number of Others ²	Principal Balance Outstanding (Amounts In Thousands)
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds				
Texas Department of Transportation	1	—	1	\$ 150,000
Total General Obligation Bonds	1	0	1	150,000
Revenue Bonds				
Texas Department of Transportation	1	1	—	300,000
Total Revenue Bonds	1	1	0	300,000
Total Governmental Activities	2	1	1	\$ 450,000
BUSINESS-TYPE ACTIVITIES				
General Obligation Bonds				
Veterans Land Board	37	36	1	\$ 2,861,035
Total General Obligation Bonds	37	36	1	2,861,035
Revenue Bonds				
University of Texas System	4	—	4	1,226,475
Texas Department of Housing and Community Affairs	2	—	2	12,700
Total Revenue Bonds	6	0	6	1,239,175
Total Business-Type Activities	43	36	7	\$ 4,100,210

¹ See Demand Bonds - Standby Purchase Agreements table 6I.

² In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.

Demand Bond – Standby Purchase Agreements

Table 6I
August 31, 2023

Counterparties	Number of Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Federal Home Loan Bank of Dallas	1	0.20%	12/18/24
Federal Home Loan Bank of Dallas	1	0.20%	01/09/25
Federal Home Loan Bank of Dallas	1	0.20%	01/13/26
Federal Home Loan Bank of Dallas	2	0.20%	11/01/27
Federal Home Loan Bank of Dallas	1	0.20%	06/27/28
JPMorgan Chase Bank, NA	1	0.35%	04/10/24
State Street Bank and Trust Company	7	0.32%	11/11/26
State Street Bank and Trust Company	2	0.35%	07/24/28
State Street Bank and Trust Company	7	0.35%	09/22/28
State Street Bank and Trust Company	6	0.35%	11/13/28
State Street Bank and Trust Company	1	0.35%	04/19/30
State Street Bank and Trust Company	2	0.36%	11/14/25
State Street Public Lending Corporation	1	0.35%	07/24/28
Sumitomo Mitsui Banking Corp	1	0.30%	01/15/27
Sumitomo Mitsui Banking Corp	1	0.30%	06/28/27
Sumitomo Mitsui Banking Corp	1	0.2 - 2.3%	10/01/26
T.D. Bank, NA	1	0.22%	12/18/24
Total Secured Bond Issue Agreements	<u>37</u>		

Takeout agreements are used by TxDOT to provide an alternative debt instrument to replace any repurchased bonds that were not remarketed within the prescribed time constraints. The estimated impact of such an event as of Aug. 31, 2023, is presented in table 6J.

Demand Bonds – Takeout Agreement Provisions

Table 6J: Governmental Activities
August 31, 2023

Description of Bond Issue	Estimated Debt Service ¹ (Amounts in Thousands)	Rate	Basis
Revenue Bonds			
Texas Department of Transportation			
State Highway Fund Revenue			
Bonds Series 2014-B	\$ 404,797	9.50%	Base Rate +2%

¹ Replacement debt is subject to semi-annual payments over three years starting the first day of the sixth month of that period.

Early Extinguishment of Debt

Early debt extinguishments for the fiscal year ended 2023, is presented in table 6K. The source of funds used for the extinguishments included loan repayments and other available funds.

Early Extinguished Debt Issues

Table 6K
August 31, 2023 (Amounts in Thousands)

Description of Bond	Early Extinguished Debt Issues
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	\$ 11,550
General Land Office	<u>26,630</u>
Total General Obligation Bonds	<u>38,180</u>
Revenue Bonds	
Texas Department of Housing and Community Affairs	<u>100,467</u>
Total Revenue Bonds	<u>100,467</u>
Total Bonds	<u>\$ 138,647</u>

Refunding

Bonds refunded to lower interest rates or to restructure debt service requirements for cash management purposes for the fiscal year ended 2023, are presented in table 6L.

Refunding Issues

Table 6L

August 31, 2023 (Amounts in Thousands)

Description of Refunding Issue	Types of Refunding	Par Value of Refunding Issue	Par Value Refunded	Cash Flow Difference Increase (Decrease)	Economic Gain (Loss)
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Texas Water Development Board	Current Refunding	\$ 35,750	\$ 38,240	\$ 1,780	\$ 1,448
Revenue Bonds					
Texas Department of Transportation	Current Refunding	263,225	298,030	35,690	3,471
University of Texas System	Current Refunding	222,090	240,340	42,115	28,307
Total Business-Type Activities		<u>521,065</u>	<u>576,610</u>	<u>79,585</u>	<u>33,226</u>
Total Refunding Issues		<u>\$ 521,065</u>	<u>\$ 576,610</u>	<u>\$ 79,585</u>	<u>\$ 33,226</u>

Defeased Bonds

Texas defeases various bond issues by placing funds in irrevocable trusts with external financial institutions to provide for all future debt service payments on the old bonds. The amounts of defeased bonds, at par, that remain outstanding for all bond issuers as of Aug. 31, 2023, is presented in table 6M. Also included are various bond issues defeased by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company (Trust Company). Funds placed in the Trust Company to defease \$224.4 million in bonds are included in the state's financial statements in an custodial fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements. GASB Statement No. 86, *Certain Debt Extinguishment Issues*, establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the purpose of extinguishing debt. Cash defeasance undertaken for cost considerations as of Aug. 31, 2023, is presented in table 6N.

Defeased Bonds Outstanding

Table 6M

August 31, 2023 (Amounts in Thousands)

Description of Bond	Defeased Bonds Outstanding
GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Public Finance Authority	\$ 224,405
Texas Water Development Board	6,380
Texas Department of Transportation	1,827,575
Revenue Bonds	
Texas Department of Transportation	358,625
Total Governmental Activities	<u>2,416,985</u>
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	62,635
Revenue Bonds	
Texas Department of Transportation	1,519,772
Texas State University System	30,105
Revenue Bonds – Direct Placements	
Texas Department of Transportation	83,775
Total Business-Type Activities	<u>1,696,287</u>
Total Defeased Bonds Outstanding	<u>\$ 4,113,272</u>

Cash Defeasance

Table 6N

August 31, 2023

Description of Cash Defeasance	Number of Cash Defeasance	(Amounts in Thousands)		
		Cash Defeasance	Placed with Escrow Agent	Cash Flows Required to Service Defeased Debt
BUSINESS-TYPE ACTIVITIES				
Revenue Bonds				
University of Texas System	1	\$ 81,967	\$ 79,675	\$ 79,675
Total Cash Defeasance	1	\$ 81,967	\$ 79,675	\$ 79,675

Conduit Debt

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations and clarity associated with commitments extended by issuers, arrangements associated with conduit debt obligations and related note disclosures.

The Texas State Affordable Housing Corporation (TSAHC), a discrete component unit of the state, is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under *Texas Government Code*, Section 2306.555. The 501(c)(3) tax-exempt multifamily mortgage revenue bond program provides long-term variable-rate or fixed-rate financing to nonprofit borrowers/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. TSAHC may finance single developments or pools of properties located throughout the state of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. TSAHC finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. TSAHC, the state and any political subdivision thereof are not obligated in any manner for repayment of the bonds. Accordingly, the

bonds are not reported as liabilities in the accompanying statements.

As of Aug. 31, 2023, there were 28 series of multifamily housing revenue bonds outstanding with an aggregate \$465.4 million principal amount payable.

The Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit of the state, issued seven series of bonds in the aggregate amount of \$3.6 billion that remains outstanding as of Aug. 31, 2023. The proceeds were loaned to LBJ Infrastructure Group LLC, NTE Mobility Partners LLC, NTE Mobility Partners Segments 3 LLC and Blueridge Transportation Group, LLC to finance the development and expansion of public transportation projects. Debt service is funded from loan and interest repayments from the borrowers. The bonds do not constitute a debt or pledge of the faith and credit of TxPABST, TxDOT or the state of Texas. Remaining bond authority has expired.

In accordance to GASB Statement No. 91, the Texas Department of Housing and Community Affairs (TDHCA) eliminated debt related to the Multifamily Bond Program where the Department is only a conduit issuer. As of Aug. 31, 2023, the bonds issues outstanding and notes outstanding are primarily issued to provide funding to nonprofit and for-profit developers of multifamily properties to construct or rehabilitate rental housing and are secured by these assets and their respective revenue. These bonds and notes are limited obligations of the Department and are payable solely from the payments received from the assets and guarantors, which secure the bonds and notes.

Interest Rate Swaps

Effective interest rate swap agreements are considered hedging derivatives. The aggregate debt service requirements and associated net swap payments are

detailed in this note. See Note 7, *Derivative Instruments*, for additional information.

Estimated Debt Service of Swap Payments

The debt service requirements of the state's variable-rate, fixed-rate bonds and associated net swap payments were estimated using rates as of Aug. 31, 2023 and are presented in tables 6O, 6P and 6Q.

Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

Table 6O

August 31, 2023 (Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2024	\$ 277,390	\$ 192,036	\$ (70,263)	\$ 399,163
2025	306,010	184,977	(66,561)	424,426
2026	295,205	171,721	(62,618)	404,308
2027	291,030	158,826	(58,747)	391,109
2028	274,045	146,379	(55,067)	365,357
2029 - 2033	1,166,705	571,475	(227,663)	1,510,517
2034 - 2038	915,905	359,603	(166,740)	1,108,768
2039 - 2043	336,735	211,390	(123,347)	424,778
2044 - 2048	383,305	120,224	(75,254)	428,275
2049 - 2053	297,715	19,489	(11,583)	305,621
2054 - 2058	3,155	120	(36)	3,239
Total	<u>\$ 4,547,200</u>	<u>\$ 2,136,240</u>	<u>\$ (917,879)</u>	<u>\$ 5,765,561</u>

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

Table 6P

August 31, 2023 (Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2024	\$ 1,735	\$ 1,088	\$ (618)	\$ 2,205
2025	1,845	986	(560)	2,271
2026	1,955	878	(499)	2,334
2027	2,080	763	(434)	2,409
2028	2,210	641	(364)	2,487
2029 - 2033	10,155	1,036	(589)	10,602
Total	<u>\$ 19,980</u>	<u>\$ 5,392</u>	<u>\$ (3,064)</u>	<u>\$ 22,308</u>

Pay-Variable, Receive-Fixed Interest Rate Swaps: Estimated Debt Service Requirements of Fixed-Rate Debt Outstanding and Net Swap Payments

Table 6Q

August 31, 2023 (Amounts in Thousands)

Year	Fixed-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2024	\$	\$ 6,409	\$ 851	\$ 7,260
2025		6,409	1,038	7,447
2026		6,409	1,038	7,447
2027		6,409	1,038	7,447
2028		6,409	1,038	7,447
2029 - 2033	128,180	28,919	4,685	161,784
Total	<u>\$ 128,180</u>	<u>\$ 60,964</u>	<u>\$ 9,688</u>	<u>\$ 198,832</u>

The tables were prepared assuming current interest rates and swap index relationships remain the same for their terms. As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Note 7

Derivative Instruments

Derivative instruments are financial instruments (securities or contracts) whose value is linked to or derived from changes in interest rates, currency rates and stock and commodity prices. These securities or contracts serve as components of the investment strategies of certain state agencies, public employee retirement systems and institutions of higher education. Those investment strategies are utilized to manage and reduce the risk of the overall investment portfolio. Investment derivative levels and types are monitored to ensure that portfolio derivatives are consistent with the intended purpose and at the appropriate level.

Hedging derivative instruments are entered into to reduce the overall cost of borrowing long-term capital and protect against the risk of rising interest rates. The hedging derivative instruments primarily consist of interest rate swap agreements entered into in connection with long-term bonds. The derivative instrument contracts enable the state to issue bonds at a cost less than what the state would have paid to issue conventional fixed rate debt.

Investment derivative instruments are entered into with the intention of managing transaction risk, reducing interest cost, or reducing currency exchange risk in purchasing, selling or holding investments. Ineffective hedges are also reported as investment derivative instruments.

Summary of Derivative Instrument Activity

The fair value of effective hedging derivative instruments is recorded as derivative instrument assets (positive fair value) and derivative instrument liabilities (negative fair value). The cumulative change in fair value of effective hedging derivative instruments is reported as deferred outflows of resources and deferred inflows of resources. The type of derivative instruments held by

entity as of Aug. 31, 2023, is presented in table 7A. The state's cumulative derivative instrument activity as of Aug. 31, 2023, is presented in table 7B. The notional amounts are presented in U.S. dollar equivalents.

Derivative Instruments by Entity and Type

Table 7A

August 31, 2023

Type/Entity of Derivative Instruments

Hedging Derivative Instruments

Texas Department of Housing and Community Affairs (TDHCA)

Investment Derivative Instruments

Comptroller - Fiscal (CPA)

Comptroller Treasury - Fiscal (TREAS)

Employees Retirement System of Texas (ERS)

Office of Consumer Credit Commission (OCCC)

Teacher Retirement System of Texas (TRS)

Texas Department of Agriculture (TDA)

Texas Historical Commission (THC)

Texas Permanent School Fund Corporation (Texas PSF)¹

Texas Tech University System (TTU System)

Hedging and Investment Derivative Instruments

University of Texas System (UT System)

Veterans Land Board (VLB)

¹ The Texas PSF is a discretely presented component unit of the state of Texas.

Summary of Derivative Instrument Activity

Table 7B

August 31, 2023 (Amounts in Thousands)

Derivative Instrument Type	Change in Fair Value	Fair Value	Notional Amount
GOVERNMENTAL ACTIVITIES			
<i>Investment Derivative Instruments</i>			
Total Return Swaps	\$ (1,197)	\$ 1,088	\$ 324,133
BUSINESS-TYPE ACTIVITIES			
<i>Cash Flow Hedges</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ 166,955	\$ 231,128	\$ 4,547,200
Pay-Variable Receive-Fixed Interest Rate Swaps	541	541	128,180
<i>Investment Derivative Instruments</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ (15,366)	\$ (23,579)	\$ 2,111,456
Pay-Variable Receive-Fixed Interest Rate Swaps	8,720	12,156	262,911
Basis Swaps	339	99	19,980
Commodity Swaps	(2,654)	(2,654)	196,808
Credit Default Swaps	4,181	4,403	343,364
Currency Swaps	177	42	12,847
Equity Swaps	(21,397)	(21,397)	1,420,861
Fixed Income Swaps	612	612	135,305
Foreign Currency Forward	(12,161)	(12,161)	3,330,741
Futures	(580)	(580)	6,048,443
Options	(9,915)	26,262	3,134,209
Volatility Swaps	536	561	20,912
Total Return Swaps	48,431	25,808	566,978
<i>Investment Derivative Instrument Assets</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ 13,607	\$ 41,277	\$ 804,760
<i>Investment Derivative Instrument Liabilities</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ 974	\$	\$
FIDUCIARY ACTIVITIES			
<i>Investment Derivative Instruments</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ (65)	\$ (97)	\$ 8,039
Pay-Variable Receive-Fixed Interest Rate Swaps	32	44	953
Commodity Swaps	(10)	(10)	769
Credit Default Swaps	46,551	4,180	655,319
Currency Swaps	1		48
Equity Swaps	(88)	(88)	5,398
Fixed Income Swaps	2	2	502
Foreign Currency Forward	(73)	(73)	12,631
Forwards Contracts	(98,726)	52,859	4,452,430
Futures	(119,137)	153,722	16,311,108
Options	89,182	(10,684)	(9,516)
Volatility Swaps	2	2	78
Interest Rate Swaps	5,585	2,650	471,212
Rights	(33)	80	594
Total Return Swaps	477,824	39,679	6,666,682
Warrants	(12,690)	7,430	908
DISCRETE COMPONENT UNITS			
<i>Investment Derivative Instruments</i>			
Futures	\$ (77,278)	\$	\$ 938,843
Options	162	162	9,540
Total Return Swaps	5,152	2,745	60,318

Fair Value Measurement

Derivative instruments are recorded at fair value. The fair values of the interest rate swaps were determined using a combination of methods.

The University of Texas System (UT System) has calculated the fair value of the interest rate swaps using a forecast of expected discounted future net cash flows. The UT System continued to use the zero-coupon method in determining the fair values of their effective interest rate swaps, but also considered the nonperformance risk of the parties, as required by GASB Statement No. 72, *Fair Value Measurement and Application*. All of the UT System's interest rate swaps are classified in Level 2 of the fair value hierarchy. Other swaps are fair valued by using independent broker quotes or using models with primarily externally verifiable model inputs and are also classified as Level 2.

The Veterans Land Board's (VLB) fair value measurements of its swap transactions were calculated by an independent third-party swap advisory consultant using the income approach, as described in GASB Statement No. 72. Using observable inputs from interest rate markets and credit default swap prices, the fair value measurements are determined based upon the present value of future implied cash flows. Since the inputs to these

fair value measurements are observable from market data sources, they constitute Level 2 measurements, as described in GASB Statement No. 72.

Several of VLB's effective interest rate swaps contain a provision for the state to be "knocked out" of the swaps by the respective counterparties upon the breach of certain predetermined barriers. In each of these cases, VLB was paid an up-front option premium by the respective counterparties. For swaps with knock-out provisions, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the respective barrier is breached. The knock-out provisions are an integral part of the associated swaps and the fair values of the swaps include the effects of the knock-outs.

Texas Department of Housing and Community Affairs (TDHCA) adopted the income approach from GASB Statement No. 72 in the fair value measurement of their derivative instruments. Using observable inputs of interest rate markets and municipal bond yields, the fair value measurement is based on the present value of future implied cash flows reflective of nonperformance risk. All TDHCA's derivative instruments are classified in Level 2 of the fair value hierarchy.

Hedging Derivative Instruments

The state entered into interest rate swap agreements with various counterparties, all of which are highly rated financial institutions, to manage various risks associated with the state's debt programs. The state's interest rate swaps are contractual agreements entered into between the state and a counterparty under which each party agrees to exchange periodic fixed or variable payments, based upon a stated notional amount, over the stated life of the agreement. The net differential paid or received is recognized over the life of the agreement as an adjustment to interest expense. Interest rate swaps determined to be hedging derivative instruments are designated as cash flow hedges. In fiscal 2023 all, except

two, cash flow hedges were pay-fixed interest rate swaps. The combination of these swaps and variable-rate bonds creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered the state's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds.

The VLB is a party to one pay-variable, receive-variable rate bond issue. The swap is a One Month Fallback SOFR-to-SIFMA basis swap, and effectively converts the variable rate on the associated taxable variable-rate bond issue from a One Month Fallback SOFR (Secured Overnight Financing Rate), taxable, based rate to a SIFMA (Securities Industry and Financial Markets Association), tax-exempt, based rate. This swap is expected to generate an effective lower borrowing cost over the life of the swap.

The UT System is a party to one pay-variable, receive-fixed rate bond issue. The interest rate on the variable rate bonds is a tax-exempt interest rate based on the System's credit rating(s). The variable receipt on the interest rate swap is based on either a tax-exempt index (SIFMA) or a taxable index (SOFR).

Significant Terms and Credit Ratings

The significant terms and credit ratings of the state's hedging derivative instruments as of Aug. 31, 2023, are presented in table 7C. The variable rates are quoted in terms of a percentage of the Fallback Secured Overnight Financing Rate (SOFR) or Securities Industry and Financial Markets Association (SIFMA) municipal swap or United States Federal Funds (USDF) index rates as noted. Standard & Poor's and Moody's Investors Service credit ratings are disclosed for each swap.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings

Table 7C

August 31, 2023 (Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
Vet Hsg Fund II Bds Ser 2001A-2	\$ 15,225	03/22/2001	12/01/2029	Pay 4.259%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Bds Ser 2001C-2	21,245	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of USD-Fallback-SOFR-1M
Vet Land Bds Ser 2002	9,745	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Bds Ser 2002A-2	22,040	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Bds Ser 2003A	13,480	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Bds Ser 2003B	14,460	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Bds Ser 2004B	16,495	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Bds Ser 2005A	16,270	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Bds Ser 2006A	19,525	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Bds Ser 2006D	20,325	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Bds Ser 2007A	21,085	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Bds Ser 2007B	21,440	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Bds Ser 2008A	22,320	03/26/2008	12/01/2038	Pay 3.189%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Bds Ser 2008B	23,405	09/11/2008	12/01/2038	Pay 3.225%; receive 68% of USD-Fallback-SOFR-1M
Vet Bds Ser 2010C	40,970	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of USD-Fallback-SOFR-3M
Vet Bds Ser 2011A	40,345	03/09/2011	06/01/2041	Pay 2.675%; receive 68% of USD-SOFR-Compound + 0.1779%
Vet Bds Ser 2011B	41,200	08/25/2011	12/01/2041	Pay 2.367%; receive 68% of USD-SOFR-Compound + 0.1779%
Vet Bds Ser 2011C	41,965	12/15/2011	06/01/2042	Pay 1.917%; receive 68% of USD-Fallback-SOFR-3M
Vet Bds Ser 2012A	41,280	05/23/2012	12/01/2042	Pay 1.692%; receive 68% of USD-Fallback-SOFR-3M
Vet Bds Ser 2012B	53,390	11/01/2012	12/01/2042	Pay 1.447%; receive 68% of USD-Fallback-SOFR-3M
Vet Bds Ser 2013A	60,005	03/20/2013	06/01/2043	Pay 1.7%; receive 68% of USD-Fallback-SOFR-3M
Vet Bds Ser 2013B	89,655	08/22/2013	12/01/2043	Pay 2.145%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Tax Ref Bds Ser 2013C	14,505	12/01/2006	12/01/2026	Pay 5.461%; receive 100% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Tax Ref Bds Ser 2013C	24,360	12/01/2007	06/01/2029	Pay 4.658%; receive 100% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Tax Ref Bds Ser 2013C	36,745	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of USD-Fallback-SOFR-6M
Vet Bds Ser 2014A	93,260	03/03/2014	06/01/2044	Pay 2.179%; receive 68% of USD-Fallback-SOFR-1M
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	4,215	06/01/2004	12/01/2024	Pay 5.45%; receive 100% of USD-Fallback-SOFR-6M
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	1,600	12/01/2005	12/01/2023	Pay 4.929%; receive 100% of USD-Fallback-SOFR-1M
Vet Hsg Fund I/II Tax Ref Bds Ser 2014B-1 & C-2	6,735	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of USD-Fallback-SOFR-1M
Vet Land Tax Ref Bds Ser 2014B-3	7,290	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of USD-Fallback-SOFR-6M
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	14,985	08/01/2012	12/01/2033	Pay 3.76%; receive 68% of USD-Fallback-SOFR-1M

¹ PUF stands for permanent university fund and RFS stands for revenue financing system.

Continued on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (continued)

Table 7C

August 31, 2023 (Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
Vet Hsg Fund II Bds Ser 2001A-2	N/A	\$	A / A2
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AA- / Aa2
Vet Land Bds Ser 2002	N/A		A- / A1
Vet Hsg Fund II Bds Ser 2002A-2	N/A		A+ / Aa2
Vet Hsg Fund II Bds Ser 2003A	N/A		A+ / Aa2
Vet Hsg Fund II Bds Ser 2003B	N/A		AA- / Aa2
Vet Hsg Fund II Bds Ser 2004B	N/A		A+ / Aa2
Vet Hsg Fund II Bds Ser 2005A	N/A		AA- / Aa2
Vet Hsg Fund II Bds Ser 2006A	N/A		A+ / Aa1
Vet Hsg Fund II Bds Ser 2006D	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2007A	N/A		AA- / Aa2
Vet Hsg Fund II Bds Ser 2007B	N/A		A+ / Aa2
Vet Hsg Fund II Bds Ser 2008A	N/A		A+ / Aa1
Vet Hsg Fund II Bds Ser 2008B	N/A		AA- / Aa2
Vet Bds Ser 2010C	N/A		A- / A1
Vet Bds Ser 2011A	N/A		AA- / Aa2
Vet Bds Ser 2011B	N/A		AA- / Aa2
Vet Bds Ser 2011C	N/A		AA- / Aa2
Vet Bds Ser 2012A	N/A		AA- / Aa2
Vet Bds Ser 2012B	N/A		AA- / Aa2
Vet Bds Ser 2013A	N/A		AA- / Aa2
Vet Bds Ser 2013B	N/A		AA- / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2013C	USD-Fallback-SOFR-1M \geq 7.00%; USD-Fallback-SOFR-6M $>$ 4.00% and SIFMA/Fallback SOFR Ratio $>$ 74%	2,652 1,018	A+ / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2013C	USD-Fallback-SOFR-1M \geq 7.00%; SIFMA/5Y ISDA CMS $>$ 71%	935 1,020	A+ / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2013C	USD-Fallback-SOFR-6M \geq 7.00%	2,740	A+ / Aa2
Vet Bds Ser 2014A	N/A		A+ / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	USD-Fallback-SOFR-6M \geq 7.00%	1,442	A+ / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	USD-Fallback-SOFR-1M \geq 7.00%; USD-Fallback-SOFR-6M $>$ 4.00% and SIFMA/Fallback SOFR Ratio $>$ 74%	484 267	A+ / Aa2
Vet Hsg Fund I/II Tax Ref Bds Ser 2014B-1 & C-2	USD-Fallback-SOFR-1M \geq 7.00%; USD-Fallback-SOFR-6M $>$ 4.00% and SIFMA/Fallback SOFR Ratio $>$ 74%	1,367 567	A+ / Aa2
Vet Land Tax Ref Bds Ser 2014B-3	USD-Fallback-SOFR-6M \geq 7.00%	1,542	A+ / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	USD-Fallback-SOFR-1M \geq 7.00%	579	A+ / Aa1

¹ PUF stands for permanent university fund and RFS stands for revenue financing system.

Continued on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (continued)

Table 7C

August 31, 2023 (Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	\$ 13,555	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	7,830	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of USD-Fallback-SOFR-6M
Vet Hsg Fund II Tax Ref Bds Ser 2014C-1 & C-2	39,755	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of USD-Fallback-SOFR-1M
Vet Hsg Fund II Tax Ref Bds Ser 2014C-1 & C-2	12,710	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of USD-Fallback-SOFR-1M
Vet Land Tax Ref Bds Ser 2014C-3	10,645	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of USD-Fallback-SOFR-6M
Vet Land Tax Ref Bds Ser 2014C-3	8,890	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of USD-Fallback-SOFR-1M
Vet Land Tax Ref Bds Ser 2014C-4	1,290	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of USD-Fallback-SOFR-1M
Vet Land Tax Ref Bds Ser 2014C-4	3,825	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of USD-Fallback-SOFR-6M
Vet Land Tax Ref Bds Ser 2014C-4	7,215	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of USD-Fallback-SOFR-6M
Vet Land Tax Ref Bds Ser 2014C-4	14,200	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of USD-Fallback-SOFR-1M
Vet Bds Ser 2014D	63,285	09/10/2014	06/01/2045	Pay 1.9395%; receive 68% USD-SOFR-Compound + 0.07785%
Vet Bds Ser 2015A	80,525	02/11/2015	06/01/2045	Pay 1.51%; receive 68% USD-SOFR-Compound + 0.07785%
Vet Bds Ser 2015B	85,320	07/22/2015	06/01/2046	Pay 1.771%; receive 68% of USD-Fallback-SOFR-1M
Vet Bds Ser 2016	135,305	12/01/2016	12/01/2046	Pay 1.564%; receive 68% of USD-Fallback-SOFR-1M
Vet Bonds Series 2017	149,470	08/01/2017	12/01/2047	Pay 1.175%; receive 68% of USD-Fallback-SOFR-1M + 0.085%
Vet Bonds Series 2018	178,290	04/01/2019	12/01/2049	Pay 2.0745%; receive 72% of USD-SOFR-Compound + 0.08240%
Vet Bonds Series 2019	194,250	12/01/2019	06/01/2050	Pay 1.851%; receive 65% of USD Fed Funds + 0.24%
Vet Bonds Series 2020	207,755	09/01/2020	12/01/2050	Pay 1.0847%; receive 65% of USD Fed Funds + 0.24%
Vet Bonds Series 2021	226,255	12/01/2021	12/01/2051	Pay 0.649%; receive 66.5% of USD Fed Funds + 0.18%
Vet Bonds Series 2022	248,090	12/01/2023	06/01/2053	Pay 2.0143%; receive 65% of USD Fed Funds + 0.24%
Vet Bonds Series 2023	250,000	05/23/2023	06/01/2054	Pay 2.6450%; receive 65% of USD-SOFR + 0.24%
Vet Bonds Taxable Series 2023A	250,000	09/01/2023	12/01/2054	Pay 3.6130%; receive 100% of USD-SOFR
VETERANS LAND BOARD – PAY-VARIABLE, RECEIVE-VARIABLE INTEREST RATE SWAPS				
Vet Land Tax Ref Bds Ser 2014C-3	19,980	08/05/2002	12/01/2032	Pay 131.25% of SIFMA; receive 100% of 1M Fallback SOFR
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2005A Single Family	7,485	08/01/2005	09/01/2036	Pay 4.01%; The lesser of (the greater of 65% of 1M Fallback SOFR and 56% of 1M Fallback SOFR + 0.45%) and 1M Fallback SOFR; currently 65% of 1M Fallback SOFR
2007A Single Family	5,215	06/05/2007	09/01/2038	Pay 4.013%; The lesser of (the greater of 65% of 1M Fallback SOFR and 56% of 1M Fallback SOFR + 0.45%) and 1M Fallback SOFR; currently 65% of 1M Fallback SOFR
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS¹				
RFS Bonds 2007B	141,760	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	141,760	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
PUF Bonds 2008A	162,453	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	162,453	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2008B	94,830	03/18/2008	08/01/2036	Pay 3.900%; receive SIFMA
RFS Bonds 2008B	94,830	03/18/2008	08/01/2036	Pay 3.900%; receive SIFMA
RFS Bonds 2008B	178,390	03/18/2008	08/01/2039	Pay 3.614%; receive SIFMA
RFS Bonds 2016G	250,000	12/01/2016	08/01/2045	Pay 2.000%; receive 100% of \$1M SOFR
RFS Taxable Commercial Paper	250,000	11/01/2020	08/01/2049	Pay 1.576%; receive 100% of \$1M SOFR
UNIVERSITY OF TEXAS SYSTEM – PAY-VARIABLE, RECEIVE-FIXED INTEREST RATE SWAPS¹				
PUF Bonds 2023A	128,180	09/01/2023	07/01/2023	Pay SIFMA; Receive 3.250%

¹ PUF stands for permanent university fund and RFS stands for revenue financing system.

Concluded on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (concluded)

Table 7C

August 31, 2023 (Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	USD-Fallback-SOFR-1M \geq 7.00%	\$ 1,992	A+ / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	USD-Fallback-SOFR-6M \geq 7.00%	1,493	A+ / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2014C-1 & C-2	USD-Fallback-SOFR-1M \geq 7.00%	2,355	A+ / Aa2
	USD-Fallback-SOFR-6M $>$ 4.00% and SIFMA/Fallback SOFR Ratio $>$ 74%	1,427	
Vet Hsg Fund II Tax Ref Bds Ser 2014C-1 & C-2	N/A		AA- / Aa2
Vet Land Tax Ref Bds Ser 2014C-3	USD-Fallback-SOFR-6M \geq 7.00%	1,931	A+ / Aa2
Vet Land Tax Ref Bds Ser 2014C-3	USD-Fallback-SOFR-1M \geq 7.00%	466	A+ / Aa2
	USD-Fallback-SOFR-6M $>$ 4.00% and SIFMA/Fallback SOFR Ratio $>$ 74%	208	
Vet Land Tax Ref Bds Ser 2014C-4	USD-Fallback-SOFR-1M \geq 7.00%	1,896	A+ / Aa2
Vet Land Tax Ref Bds Ser 2014C-4	USD-Fallback-SOFR-6M \geq 7.00%	2,075	A- / A1
Vet Land Tax Ref Bds Ser 2014C-4	USD-Fallback-SOFR-6M \geq 7.00%	886	AA- / Aa2
Vet Land Tax Ref Bds Ser 2014C-4	USD-Fallback-SOFR-1M \geq 7.00%	2,725	A+ / Aa2
Vet Bds Ser 2014D	N/A		AA- / Aa2
Vet Bds Ser 2015A	N/A		AA- / Aa2
Vet Bds Ser 2015B	N/A		A+ / Aa2
Vet Bds Ser 2016	N/A		A+ / Aa2
Vet Bonds Series 2017	N/A		A+ / Aa3
Vet Bonds Series 2018	N/A		AA- / Aa2
Vet Bonds Series 2019	N/A		A+ / Aa3
Vet Bonds Series 2020	N/A		A+ / Aa3
Vet Bonds Series 2021	N/A		A+ / A1
Vet Bonds Series 2022	N/A		AA- / Aa2
Vet Bonds Series 2023	N/A		AA- / Aa2
Vet Bonds Taxable Series 2023A	N/A		AA- / Aa2
VETERANS LAND BOARD – PAY-VARIABLE, RECEIVE-VARIABLE INTEREST RATE SWAPS			
Vet Land Tax Ref Bds Ser 2014C-3	N/A		A- / A1
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
2005A Single Family	N/A		A+ / Aa2
2007A Single Family	N/A		A+ / Aa2
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS¹			
RFS Bonds 2007B	N/A		A+ / Aa2
RFS Bonds 2007B	N/A		A+ / Aa2
PUF Bonds 2008A	N/A		A+ / Aa2
PUF Bonds 2008A	N/A		A+ / Aa3
RFS Bonds 2008B	N/A		A+ / Aa2
RFS Bonds 2008B	N/A		A- / A1
RFS Bonds 2008B	N/A		A+ / Aa2
RFS Bonds 2016G	N/A		A+ / Aa3
RFS Taxable Commercial Paper	N/A		A+ / Aa3
UNIVERSITY OF TEXAS SYSTEM – PAY-VARIABLE, RECEIVE-FIXED INTEREST RATE SWAPS¹			
PUF Bonds 2023A	N/A		A+ / Aa2

¹ PUF stands for permanent university fund and RFS stands for revenue financing system.

Risks

Credit Risk: The state is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. The state mitigates the credit risk associated with its swaps by entering into transactions with a diversified group of highly-rated counterparties. The interest rate swap agreements also contain varying collateral agreements and insurance policies with the counterparties. Posted collateral may be held either by the state itself or by a quality third party custodian. Swap contracts with a negative fair value do not necessarily expose the state to credit risk. As of Aug. 31, 2023, the state was not exposed to credit risk because the swaps recorded in the positive fair value position were offset by other swaps with negative fair values.

Interest Rate Risk: On the pay-fixed, receive-variable interest rate swaps, as SOFR, SIFMA, or USDF rates municipal swap index decrease, the state's net payment on the swap increases. For the related hedged variable-rate debt, as SOFR, SIFMA, or USDF rates municipal swap index decreases, the state's interest payments on the bonds decrease. The value of interest rate swap agreements with a longer weighted average maturity tend to be more sensitive to changing interest rates, and therefore, more volatile than those with shorter maturities. On the pay-variable, receive variable or pay-variable, receive-fixed interest rate swaps, SOFR and SIFMA may not change in the same proportions. This will cause the swap to be a less effective hedge.

Basis Risk: The state is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. The state mitigates this risk by matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue and by selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match

the interest rate resets on the associated variable-rate bonds over the life of each bond issue. Additionally, tax-exempt interest rates can change without a corresponding change in taxable interest rates due to factors affecting the tax-exempt market that do not have a similar effect on the taxable market. On the pay-variable, receive-variable swaps and the pay-variable, receive-fixed swaps the state will be exposed to basis risk should SOFR and SIFMA rates converge. The swap agreements provide options for early termination.

Termination Risk: Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events.

The state or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed-rate and the state would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets. At termination, if the fair value of the swap is negative, the state would owe the counterparty a termination payment equal to the swap's negative fair value; however, if the fair value of the swap is positive, the counterparty would owe the state a termination payment equal to the swap's positive fair value.

Several swap agreements include optional early termination provisions granting the state the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date or after the breach of certain counterparty credit ratings.

Rollover Risk: Rollover risk is the risk caused by a mismatch between the amortization of a derivative instrument contract and the underlying hedged bonds. The maturity dates of the state's effective interest rate swaps were designed to extend to the maturity dates of the underlying bonds.

Market-access Risk: Each swap associated with underlying variable-rate debt subject to tender at the option of the bondholder is subject to market-access risk. In the event the state is unable to remarket its variable-rate bonds, the state may choose to refund the variable-rate bonds with fixed-rate bonds and optionally terminate the related interest rate swap agreements. If an early termination event occurs, the state could be required to pay or to receive a substantial termination payment.

LIBOR Discontinuation Risk: On July 27, 2017, the Financial Conduct Authority (FCA) announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR rates after 2021. On March 5, 2021, the FCA confirmed that all LIBOR (London Interbank Offered Rate) settings will either cease to be provided by any administrator or no longer be representative immediately after December 31, 2021, for 1-week and 2-month USD LIBOR settings; and immediately after June 30, 2023, in the case of the remaining USD LIBOR settings.

Some of the state's swaps use a LIBOR-based rate as a reference rate for determining payments to be received or payments to be made thereunder. Upon the USD LIBOR discontinuation on June 30, 2023, the LIBOR-based payments in the swaps converted to the respective Fallback Rates established under the ISDA (International Swaps and Derivatives Association) Protocol. The Fallback Rates are based on Secured Overnight Financing Rate (SOFR) plus predetermined spreads. The Fallback Rate and SOFR differ from the discontinued LIBOR rate and such transition may have an impact on the swaps' economics.

Swap Payments and Associated Debt

Aggregate debt service requirements of the state's variable-rate debt and net receipts/payments on associated hedging derivative instruments are disclosed in Note 6, *Bonded Indebtedness*.

Contingent Features

Some of the state's derivative instruments include provisions that require the posting of collateral in the event that the contracting agency's credit rating falls below a specified level as issued by Standard & Poor's and Moody's Investor Service. If the contracting agency fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. Note 15, *Commitments and Contingencies*, discloses detail about derivative instruments with contingent features.

Investment Derivative Instruments

Investment derivative instruments expose the state to certain investment related risks. Note 3, *Deposits, Investments and Repurchase Agreements*, discloses detail about the state's investment derivative instruments.

Note 8

Leases and Subscription-Based Information Technology Arrangements

Leases

GASB Statement No. 87, *Leases*, established a single model for lease accounting based on the principal that leases are financings of the right to use an underlying asset. This single model eliminated the distinction between operating and capital leases. Under GASB Statement No. 87, a lessee is required to recognize a right-to-use lease obligation and an intangible right-to-use (RTU) lease asset. A lessor is required to recognize a lease receivable and a deferred inflow of resources. The intangible RTU asset is amortized over the shorter of the lease term or the asset's life and the lease liability is reduced by payments of principal and interest. A lessor records receipts from the lessees as a reduction of the receivable and interest revenue, while the deferred inflow of resources is amortized over the life of the lease. The underlying asset is also depreciated over its

useful life. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the earliest period presented.

Limited exceptions to the single approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments and certain regulated leases. GASB Statement No. 87 does not apply to the following:

- Leases of intangible assets, including rights to explore for or to exploit natural resources such as oil, gas, minerals and similar nonregenerative resources; licensing contracts for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and licensing contracts for computer software,
- Leases of biological assets, including timber, living plants and living animals,
- Leases of inventory,
- Contracts that meet the definitions set forth in GASB Statement No. 94, Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA), for PPP, APA and service concession arrangements,
- Leases in which the underlying asset is financed with outstanding conduit debt, unless both the underlying asset and conduit debt are reported by the lessor or
- Supply contracts, such as power purchase agreements.

The Texas Comptroller of Public Accounts (Comptroller's office) has established a materiality threshold of \$100 thousand for leases capitalization. The lease liability was measured based upon the stated interest rate, when available, or the incremental borrowing rate, determined to be the quarterly average of Treasury Constant Maturities as reported by the Federal Reserve.

State as Lessee

The state of Texas has entered into agreements to lease (as lessee) certain buildings and building improvements, land and other improvements, infrastructure and equipment. Although lease terms vary, most leases are subject to biennial appropriation from the Texas Legislature to continue the lease obligation. The agreements to lease qualify as other than short-term leases; therefore, they have been recorded at the present value of the future minimum lease payments. The value of the RTU assets and their accumulated amortization may be found in Note 2, *Capital Assets*.

As of Aug. 31, 2023, the net RTU assets and corresponding lease liabilities associated with future lease payments reported on the statement of net position totaled \$2 billion each. For fiscal year 2023, the total cash payments for RTU lease obligations were \$375.4 million. The principal and interest expenses for the next five years and beyond are presented in Table 8A.

Right to Use (RTU) Lease Obligations

Table 8A

August 31, 2023 (Amounts in Thousands)

Year	Minimum Future RTU Lease Payments		
	Principal	Interest	Total
PRIMARY GOVERNMENT			
Governmental			
2024	\$ 173,016	\$ 10,861	\$ 183,877
2025	153,598	9,261	162,859
2026	132,115	7,185	139,300
2027	105,722	5,313	111,035
2028	88,707	6,392	95,099
2029 - 2033	72,526	5,122	77,648
2034 - 2038	10,841	1,929	12,770
2039 - 2043	3,163	1,204	4,367
2044 - 2048	3,536	709	4,245
2049 - 2053	2,881	161	3,042
Total Payments	<u>\$ 746,105</u>	<u>\$ 48,137</u>	<u>\$ 794,242</u>
CY Variable Payments	3,272		
Business Type			
2024	\$ 358,839	\$ 18,380	\$ 377,219
2025	121,321	16,104	137,425
2026	107,966	14,727	122,693
2027	94,893	13,529	108,422
2028	81,863	11,288	93,151
2029 - 2033	254,438	39,796	294,234
2034 - 2038	135,725	22,402	158,127
2039 - 2043	54,808	12,190	66,998
2044 - 2048	16,274	9,110	25,384
2049 - 2053	5,905	8,072	13,977
2054 and beyond	53,121	61,701	114,822
Total Payments	<u>\$ 1,285,153</u>	<u>\$ 227,299</u>	<u>\$ 1,512,452</u>
CY Variable Payments	10,302		
Component Units			
2024	\$ 1,585	\$ 488	\$ 2,073
2025	1,464	421	1,885
2026	1,426	376	1,802
2027	1,223	333	1,556
2028	1,274	291	1,565
2029 - 2033	7,583	758	8,341
Total Payments	<u>\$ 14,555</u>	<u>\$ 2,667</u>	<u>\$ 17,222</u>
Fiduciary Funds			
2024	\$ 925	\$ 54	\$ 979
2025	879	36	915
2026	720	20	740
2027	372	10	382
2028	233	4	237
2029 - 2033	192	1	193
Total Payments	<u>\$ 3,321</u>	<u>\$ 125</u>	<u>\$ 3,446</u>

Some of the state's long-term leases are classified as finance-type leases if the contract transfers ownership of the underlying asset to the lessee by the end of the contract and does not contain a termination option. See Note 5, Long-Term Liabilities, for disclosures relating to finance-type leases.

Seven agencies account for 90.6 percent of the lease liability for the primary government. These are the University of Texas System, Texas Health and Human Services Commission, the Texas A&M University System, Texas Department of Criminal Justice, Texas Department of Public Safety, Office of the Attorney General and Texas Tech University System.

The University of Texas System (UT System) entered various leases for land, buildings, equipment, vehicles and infrastructure. The agreements have terms that will expire in various years through 2118. In fiscal 2023, UT System had total lease obligations of \$1 billion and accounted for 49.5 percent of the lease liability for the primary government.

Texas Health and Human Services Commission (HHSC) is part of multiple real estate leases which they share with Texas Department of Family and Protective Services (DFPS), Texas Department of State Health Service (DSHS) and Texas Workforce Commission (TWC). The agreements have terms that will expire in various years through 2037. All amounts of rent paid or due under lease obligations are prorated and paid from the cost pool fund consisting of contributions from all the participating agencies, according to the occupancy of each agency. In fiscal 2023, the prorated allocations are \$34 million for DFPS, \$5.6 million for DSHS and \$173 thousand for TWC. In fiscal 2023, HHSC had total lease obligations of \$362.6 million and accounted for 17.7 percent of the primary government's lease liability.

The Texas A&M University System (A&M System) has executed lease contracts for land, buildings, equipment, vehicles and others. These arrangements range in

terms up to 2048. For fiscal 2023, the total lease obligations were \$196 million and accounted for 9.6 percent of the primary government's lease liability.

Texas Department of Criminal Justice (TDCJ) entered various leases for buildings and equipment. These agreements range in terms up to 2038. In fiscal 2023, the total lease obligations were \$99.8 million for governmental activities and \$1.8 million for business-type activities. TDCJ accounted for 5 percent of the primary government's lease liability.

Texas Department of Public Safety (DPS) has executed lease contracts for building space. These agreements range in terms up to 2053. In fiscal 2023, the total lease obligations were \$82.4 million and accounted for 4 percent of the primary government's lease liability.

Office of the Attorney General (OAG) entered various leases for buildings and equipment. These agreements range in terms up to 2032. In fiscal 2023, the total lease obligations were \$51 million and accounted for 2.5 percent of the primary government's lease liability.

The Texas Tech University System (TTU System) entered various leases for buildings, land and equipment. These agreements range in terms up to 2043. In fiscal 2023, the total lease obligations were \$46.1 million and accounted for 2.3 percent of the primary government's lease liability.

Some agencies had variable lease payments. These agencies were the UT System, Texas State Technical College, Texas Department of Transportation, TWC, and the OAG.

Variable payments based upon the use of the underlying asset are not included in the lease liability because they are not fixed in substance; therefore, these payments are not included in the RTU assets or lease liabilities. These variable lease payments are derived from a percentage of sales or use of the lease assets. The UT System recognized \$7.8 million as expenses from these variable payments for the year ended Aug. 31, 2023.

These payments accounted for 57.7 percent of the primary government's variable payments.

Texas State Technical College had variable payments in the amount of \$2.5 million or 18.1 percent of the primary government's variable payments.

Texas Department of Transportation (TxDOT) had variable payments in the amount of \$1.8 million or 13.5 percent of the primary government's variable payments.

Texas Workforce Commission had variable payments in the amount of \$949 thousand or 7 percent of the primary government's variable payments.

OAG had variable payments in the amount of \$497 thousand or 3.7 percent of the primary government's variable payments.

Some agencies had subleases or leases which had not commenced. These agencies were UT System, the A&M System, the TTU System and Texas Department of Motor Vehicles (TxDMV).

The UT System subleases certain portions of various RTU building assets to third parties. Since UT System is both a lessee and a lessor in these sublease arrangements, the lessor transactions are included with the lessor disclosures, separately from the lessee transactions related to the original leases which are included in the lessee disclosures (Table 8A). There were no residual value guarantees as part of the sublease agreements.

The UT System entered into additional leases that have not yet commenced as of Aug. 31, 2023. These leases are for building space with terms that range from 2024 to 2034 with a future commitment of \$21.7 million.

The A&M System subleases certain portions of RTU buildings to third parties. The net value of the subleases RTU buildings is \$6.9 million. These sublease arrangements result in lease receivables of \$1.6 million.

The A&M System has entered into two additional building leases which have not yet commenced as of

Aug. 31, 2023. These future leases have a total RTU asset value of \$2.3 million.

The TTU System has two lease commitments for which the term had not commenced as of Aug. 31, 2023 for office and academic classroom space in Irving, TX and office space for the TTU Small Business Development Center. Both leases have a commencement date of Sept. 1, 2023, with terms that extend through 2030. The total future commitment is \$3.2 million.

The TxDMV entered additional leases that have not yet commenced as of Aug. 31, 2023, including leases for equipment. The terms range is 2024–2028 with a future commitment of \$496 thousand.

The TTU System has a lease-leaseback arrangement with a community public television station. KCOS leases office space and broadcasting facilities from El Paso Community College (ECC). As a requirement of the lease, TTU System leases back to ECC exclusive rights to broadcast on a certain sub channel and access on the premises to do so at no cost to ECC for the duration of the lease term. The lease was terminated Aug. 31, 2023.

The Teachers' Retirement System of Texas (TRS) entered into a sale-leaseback transaction on its Red River headquarters. The leaseback term is for two years with an additional one-year renewal option. The sale-leaseback transaction involves the sale of an underlying asset by the owner and a lease of the property back to the seller (original owner). According to GASB Statement No. 87, a transaction qualifies for sale-leaseback accounting only if it includes a sale. It also contains specific provisions for when a sale-leaseback has off-market terms. The substance of sale-leaseback transactions with off-market terms is different from similar transactions with market terms and the benefits of recognizing the substance of the transaction outweigh concerns about the possible cost and complexity of identifying and calculating the difference between market and off-market terms. The TRS lease agreement included off-market terms stating that TRS shall not pay base rent during

the lease period, but it shall cover its proportionate share of real estate taxes and operating expenses. TRS estimated the fair market value for rent at \$28 per square foot, referring to the appraisal conducted before the sale. The sales transaction resulted in a gain of \$101.6 million being amortized over the two year leaseback period. In fiscal 2023, \$46.6 million of the gain was recognized. The economic substance of the lease part of the transaction was based on a total of 198,972 square feet resulting in a RTU asset of \$11.1 million.

State as Lessor

As a lessor, the state recognized a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held for investment, certain regulated leases, short-term leases and leases that transfer ownership of the underlying asset. The asset underlying the lease was not derecognized. The lease receivable was measured at the present value of the lease payments expected to be received during the lease term. Interest revenue was recognized on the lease receivable and an inflow of resources was recognized in a systematic and rational manner over the term of the lease.

The state has entered into agreements to lease (as lessor) certain buildings and other capital assets to outside parties. The agreements to lease terms will expire in various years through 2054 and beyond. In fiscal 2023, the state's total lease income was \$40.9 million and total variable lease income was \$6.5 million. Five universities and university systems account for 97.3 percent of these lease receivables. They are UT System (46.1 percent), A&M System (41.9 percent), TTU System (3.8 percent) UNT System (3.6 percent) and Texas State Technical College (2 percent).

The UT system has entered into agreements to lease (as lessor) certain buildings and other capital assets to outside parties. The agreements have lease terms that will expire in various years through 2043. In fiscal

2023, the total RTU lease income was \$25.7 million, including interest revenue, and total lease receivables are \$229 million.

The UT System also entered into some leases which call for payments that are partially or completely variable; therefore, they were not included in lease receivables or deferred inflow of resources. These variable lease payments are derived from a percentage of sales or use of the leased asset. The UT System recognized a total of \$3.4 million as revenue from these variable payments for the year ended Aug. 31, 2023.

The A&M System has entered into agreements to lease (as lessor) certain buildings and land to third parties. The agreements to lease have terms that will expire in various years through 2054 and beyond. Total lease receivables are \$208.2 million. In fiscal 2023, the total lease income was \$7.6 million.

The A&M System also had five leases which call for payments that are completely variable and were not included in lease receivables or deferred inflows of resources. These variable payments were derived from a percentage of sales, facility or classroom usage or the amount of net cash flow. Total revenue recognized due to variable payments was \$3.3 million for the year ended Aug. 31, 2023.

The TTU System has entered into agreements to lease (as lessor) certain buildings, office space, equipment and land to third parties. The agreements to lease have terms that will expire in various years through 2054 and beyond. Total lease receivables are \$18.7 million. In fiscal 2023, the total lease income was \$806 thousand. The TTU System also has lease income from agreements for cell phone towers and antennas affixed to component universities' property.

The UNT System has entered into agreements to lease (as lessor) certain buildings and other capital assets to third parties. The agreements to lease have terms that will expire in various years through 2039. Total lease

receivables are \$17.7 million. In fiscal 2023, the total lease income was \$4.6 million.

Texas State Technical College (TSTC) has entered into agreements to lease (as lessor) certain buildings and land to third parties. The agreements to lease have terms that will expire in various years through 2048. Total lease receivables are \$9.3 million. In fiscal 2023, the total lease income was \$1.1 million.

Regulated Leases

Certain regulated leases are subject to external laws, regulations or legal rulings and meet the following requirements:

- Lease rates cannot exceed a reasonable amount, with reasonableness being subject to determination by an external regulator,
- Lease rates should be similar for lessees that are similarly situated and
- The lessor cannot deny potential lessees the right to enter leases if facilities are available, provided that the lessee's use of the facilities complies with generally applicable use restrictions.

For certain lease agreements related to airport gates and aprons, specific terms are regulated by the Federal Aviation Administration (FAA). The A&M System entered into various lease agreements to grant the right to use these airport gates and aprons to third parties in accordance with the provisions set by the FAA. This is the only regulated lease for the state.

The lease revenue related to these regulated agreements amounted to \$322 thousand for the year ended Aug. 31, 2023. This amount includes exclusive and joint use of the terminal building space. Currently there is a holdover provision in place that allows tenancy to continue month-to-month until a new contract is established, or the tenant may terminate with 30 days written notice.

Subscription-Based Information Technology Arrangements

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, effective in fiscal 2023, improves financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for contracts that meet this definition. The standards for SBITAs are based on the standards established in GASB Statement No. 87, *Leases*. IT arrangements will fall under one of four groups: Software as a Service (SaaS), Platform as a Service (PaaS), Infrastructure as a Service (IaaS) and Data Warehouse as a Service (DaaS).

A subscriber will recognize an intangible right-to-use (RTU) subscription asset and a corresponding subscription liability when the underlying IT software is placed in service. A subscriber amortizes the subscription asset as an outflow of resources over the subscription term. Subscriptions should be recognized and measured using the facts and circumstances that exist at the beginning of the earliest period presented.

GASB Statement No. 96 does not apply to the following:

- Contracts for the right to use IT software and tangible capital assets meeting the definition of a lease under GASB Statement No. 87,
- Contracts that meet the definition of a public-private and public-public partnership in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*,
- Agencies or universities that provide the right to use their IT software to other entities through a SBITA contract,
- Perpetual licensing arrangements or contracts with bilateral termination clauses,
- Contracts that provide professional services with no software subscription,

- Short-term SBITAs which have a maximum possible contract term of 12 months. This includes any options to extend, regardless of their probability of being exercised.

Activities associated with a SBITA, other than making subscription payments, should be grouped into three stages as their costs are accounted for differently.

- Preliminary Stage, includes evaluating alternatives, determining needed technology, selecting a SBITA vendor, as well as other activities. Outlays in this stage are expensed as incurred.
- Initial Implementation Stage, includes all ancillary charges necessary to place the subscription asset into service. These activities are capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, includes all subsequent implementation activities, maintenance and other ongoing operations related to the SBITA. Unless they meet specific capitalization criteria, these activities are expensed as incurred.

Subscribers are allowed to capitalize outlays from the second and third stages incurred prior to the implementation of GASB Statement No. 96. Training costs are expensed no matter when they occur.

The Texas Comptroller of Public Accounts (Comptroller's Office) has established a materiality threshold for the present value of future subscription payments of \$500 thousand for SBITA capitalization. The subscription liability was measured based upon the stated interest rate, when available, or the incremental borrowing rate, determined to be the quarterly average of Treasury Constant Maturities as reported by the Federal Reserve.

State as Subscriber

The state of Texas has entered into subscription arrangements for many different types of software. Although subscription terms vary, most subscriptions are subject to biennial appropriation from the Texas Leg-

islature to continue the subscription obligation. These subscription contracts have been recorded at the present value of the future minimum subscription payments. The value of the RTU assets and their accumulated amortization may be found in Note 2, *Capital Assets*.

As of Aug. 31, 2023, the net RTU assets and corresponding subscription obligations associated with future subscription payments reported on the statement of net position total \$638.3 million and \$596 million respectively. For fiscal 2023, the total cash payments for SBITA contracts were \$401.8 million, which includes \$16.6 million in variable payments. The principal and interest expenses for the next five years and beyond are presented in Table 8B.

Ten agencies account for 88.6 percent of the SBITA liability for the state of Texas. These are Texas Department of Transportation (TxDOT), the University of Texas System (UT System), Office of Court Administration, Texas Health and Human Services Commission (HHSC), the Texas A&M University System (A&M System), the Texas Tech University System (TTU System), Texas Workforce Commission (TWC), Texas Department of Motor Vehicles, Employees' Retirement System of Texas, and the University of North Texas System (UNT System).

TxDOT entered into numerous and varied IT subscriptions with agreements having terms that extend through 2026. In fiscal 2023, TxDOT had SBITA obligations of \$42.7 million for governmental activities and \$108.9 million for business type activities, totaling \$151.6 million. TxDOT accounted for 25.4 percent of the SBITA liability for the state of Texas.

The UT System entered into numerous and varied IT subscriptions with agreements having terms that extend through 2033. In fiscal 2023, the System had SBITA obligations of \$138.5 million and accounted for 23.2 percent of the SBITA liability for the state of Texas. The UT System has entered into additional SBITA contracts that have not yet commenced as of

Subscription-Based Information Technology Arrangement Obligations (SBITAs)

Table 8B

August 31, 2023 (Amounts in Thousands)

Year	Minimum Future SBITA Payments		
	Principal	Interest	Total
PRIMARY GOVERNMENT			
Governmental			
2024	\$ 85,076	\$ 9,218	\$ 94,294
2025	65,474	5,499	70,973
2026	43,874	2,435	46,309
2027	25,392	665	26,057
2028	4,120	124	4,244
Total Payments	<u>\$ 223,936</u>	<u>\$ 17,941</u>	<u>\$ 241,877</u>
CY Variable Payments	2,058		
Business Type			
2024	\$ 137,734	\$ 7,259	\$ 144,993
2025	107,382	4,679	112,061
2026	68,224	2,094	70,318
2027	21,514	950	22,464
2028	7,433	549	7,982
2029 - 2033	2,914	90	3,004
Total Payments	<u>\$ 345,201</u>	<u>\$ 15,621</u>	<u>\$ 360,822</u>
CY Variable Payments	4,754		
Component Units			
2024	\$ 2,633	\$ 108	\$ 2,741
2025	2,415	39	2,454
2026			
2027			
2028			
Total Payments	<u>\$ 5,048</u>	<u>\$ 147</u>	<u>\$ 5,195</u>
CY Variable Payments	196		
Fiduciary Funds			
2024	\$ 11,052	\$ 632	\$ 11,684
2025	7,651	298	7,949
2026	2,959	93	3,052
2027	188	6	194
2028			
Total Payments	<u>\$ 21,850</u>	<u>\$ 1,029</u>	<u>\$ 22,879</u>
CY Variable Payments	9,613		

Aug. 31, 2023, with both fixed and variable payments required. Terms range from 2024 to 2028 with a future commitment of \$8.4 million.

The Office of Court Administration (OCA) entered into numerous and varied IT subscriptions with agreements having terms that extend through 2027. In fiscal 2023, OCA had SBITA obligations of \$83.6 million and accounted for 14 percent of the SBITA liability for the state of Texas.

HHSC entered into numerous and varied IT subscriptions with agreements having terms that extend through 2032. In fiscal 2023, HHSC had SBITA obligations of \$38.6 million and accounted for 6.5 percent of the SBITA liability for the state of Texas.

The A&M System entered into numerous and varied IT subscriptions with agreements having terms that extend through 2028. In fiscal 2023, the A&M System had SBITA obligations of \$37.7 million and accounted for 6.3 percent of the SBITA liability for the state of Texas.

The TTU System entered into numerous and varied IT subscriptions with agreements having terms that extend through 2028. In fiscal 2023, the TTU System had SBITA obligations of \$18.3 million and accounted for 3.1 percent of the SBITA liability for the state of Texas. The TTU System has entered into an additional SBITA contract that has not yet commenced as of Aug. 31, 2023. This agreement between Angelo State University and iBridge Group for Blackboard Learn has terms that extend through 2027 and a total future commitment of \$998,424.

TWC entered into numerous and varied IT subscriptions with agreements having terms that extend through 2028. In fiscal 2023, TWC had SBITA obligations of \$18.1 million and accounts for 3 percent of the SBITA liability for the state of Texas.

Texas Department of Motor Vehicles (DMV) entered into numerous and varied IT subscriptions with agreements having terms that extend through 2027. In

fiscal 2023, the DMV had SBITA obligations of \$14.5 million and accounted for 2.4 percent of the SBITA liability for the state of Texas. The DMV had entered into additional SBITA contracts that have not yet commenced as of Aug. 31, 2023, with both fixed and variable payments required. Terms range from 2024 to 2027 with a future commitment of \$15.3 million.

The Employees' Retirement System of Texas (ERS) entered into numerous and varied IT subscriptions with agreements having terms that extend through 2027. In fiscal 2023, ERS had SBITA obligations of \$13.8 million and accounts for 2.3 percent of the SBITA liability for the state of Texas.

The UNT System entered into numerous and varied IT subscriptions with agreements having terms that extend through 2028. In fiscal 2023, the UNT System had SBITA obligations of \$13.4 million and accounted for 2.3 percent of the SBITA liability for the state of Texas. The UNT System had committed to an additional SBITA contract that have not yet commenced as of Aug. 31, 2023. This software is estimated to go-live in March, 2024. The future commitments total \$2.4 million.

Additionally, the Office of the Attorney General (OAG) entered into additional subscription agreements that have not commenced as of Aug. 31, 2023. The terms range up to 2025 with a future commitment of \$3.5 million.

Eight agencies had significant variable payments in fiscal 2023. Teachers' Retirement System of Texas had variable payments of \$9.6 million accounting for 61.6 percent of the payments made by the state of Texas. The TTU System had variable payments of \$1.8 million accounting for 12 percent of the total payments. TWC had variable payments of \$1.6 million accounting for 10.6 percent of the total payments. The final 15.8 percent consists of variable payments by the UT System, Texas State Technical College, the OAG, Texas Permanent School Fund Corporation and State Office of Risk Management.

Note 9

Retirement Plans

Defined Benefit Pension Plans

The state of Texas has three retirement systems in its financial reporting entity - Employees Retirement System of Texas (ERS), Teacher Retirement System of Texas (TRS) and Texas Emergency Services Retirement System (TESRS). These three retirement systems administer the following six defined benefit pension plans:

- ERS - the Employees Retirement System of Texas Plan (ERS Plan), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS Plan), the Judicial Retirement System of Texas Plan One (JRS1 Plan) and Judicial Retirement System of Texas Plan Two (JRS2 Plan);
- TRS - the Teacher Retirement System of Texas Plan (TRS Plan); and
- TESRS - the Texas Emergency Services Retirement System Plan (TESRS Plan).

ERS, LECOS, JRS2, TRS and TESRS Plans are administered through trust; JRS1 Plan is operated on a pay-as-you-go basis.

Additionally, the University of Texas M. D. Anderson Cancer Center has two single-employer nonqualified noncontributory defined benefit pension plans that are not administered through trust. Due to changes in *Internal Revenue Code (IRC)* section 457, these plans are reported in this note.

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the fiscal year ended Aug. 31, 2023, the state recognized pension expense of \$707.7 million. Of this amount, negative \$1.9 billion was incurred as an employer and \$2.6 billion as a non-employer contribut-

ing entity. The reported deferred outflows of resources and deferred inflows of resources related to pensions are identified in Note 27, *Deferred Outflows of Resources and Deferred Inflows of Resources*.

Employees Retirement System of Texas (ERS)

The board of trustees of ERS is the administrator of the ERS, LECOS, JRS1 and JRS2 Plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. Each of these four plans is considered a single employer defined benefit plan under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The benefit and contribution provisions of the ERS Plans are authorized by state law (*Texas Government Code (TGC)*, Title 8, Subtitle B for the ERS and LECOS Plans; *TGC*, Title 8, Subtitles D and E for the JRS1 and JRS2 Plans, respectively) and may be amended by the Texas Legislature.

Employees Retirement System of Texas Plan (ERS Plan)

In addition to the state of Texas, the ERS Plan includes employers that are component units of the state. ERS and the Texas Treasury Safekeeping Trust Company, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS Plan. Pension activity for the ERS Plan is reported in governmental activities in the state's basic financial statements. Additionally, due to immateriality, separate disclosure for the State Bar of Texas is not presented.

The ERS Plan covers members in employee and elected classes. Employee class includes employees and appointed officers of the agencies of the state of Texas except those who are included in the coverage of TRS, JRS1 and JRS2 Plans. Elected class includes elected state officials not included in the coverage of the JRS1

and JRS2 Plans, members of the Texas Legislature and district and criminal district attorneys.

The monthly benefit may vary by membership class.

The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3 percent of a member's average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date. For members hired on or before Aug. 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after Sept. 1, 2009 and before Sept. 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of the highest 60 months of compensation.

The monthly standard annuity of the elected class equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change.

The plan provisions detailed above are for members hired prior to Sept. 1, 2022. ERS issues a stand-alone audited Annual Comprehensive Financial Report (ACFR). ERS's ACFR, information on vesting, tier requirements and other financial data may be obtained at the agency's website: www.ers.texas.gov/about-ers/reports-and-studies.

Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS Plan)

The LECOS Plan provides a supplemental retirement benefit to some employees in the ERS employee class.

The LECOS Plan covers custodial officers who are certified in accordance with the statutory require-

ments as having a normal job assignment that requires frequent or infrequent regularly planned contact with inmates managed by hiring institutions. The plan also covers law enforcement officers who have been commissioned by the Commission on Law Enforcement Officer Standards and Education. The monthly benefit amount payable to LECOS Plan members is equal to the excess of total benefit over the regular benefit payable to the same members under the ERS Plan.

Total monthly standard annuity of the LECOS Plan members equals the statutory percentage of 2.3 percent from the ERS Plan plus an additional 0.5 percent from the LECOS Plan of the average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the LECOS Plan members may vary depending on the hire date. For members hired on or before Aug. 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after Sept. 1, 2009 and before Sept. 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of the highest 60 months of compensation. Information on vesting and tier requirements may be obtained from ERS's ACFR.

Judicial Retirement System of Texas Plan Two (JRS2 Plan)

The JRS2 Plan covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts and certain commissioners to a court who first became members after Aug. 31, 1985.

The average monthly compensation of the JRS2 Plan varies depending on the retirement date. The monthly benefit for members of the JRS2 Plan retiring prior to Sept. 1, 2019 is equal to 50 percent of the salary for the position from which the member retired and

is increased by 10 percent of final compensation if in office within one year of benefit commencement. Members retiring on or after Sept. 1, 2019 receive a monthly benefit between 40 percent to 47.7 percent (depending on age) of the salary for the position from which the member retired. An additional 10 percent is paid when a member retires within one year of benefit commencement. Information on vesting and tier requirements may be obtained from ERS's ACFR.

The membership data for the ERS, LECOS and JRS2 Plans as of the measurement date of Aug. 31, 2022 is presented in table 9A.

Membership Data			
Table 9A: Employees Retirement System of Texas			
As of Measurement Date of August 31, 2022			
Type of Member	ERS Plan	LECOS Plan	JRS2 Plan
Retirees and Beneficiaries			
Currently Receiving Benefits	122,720	15,923	536
Terminated Employees Entitled to Benefits But Not Yet Receiving Them			
Benefits But Not Yet Receiving Them	155,148	32,371	192
Current Employees			
Vested and Non-Vested	133,751	31,075	583
Total Members	411,619	79,369	1,311

The contribution rates for the state and the members are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the ERS, LECOS and JRS2 Plans for the measurement period of fiscal 2022 are presented in table 9B.

Required Contribution Rates			
Table 9B: Employees Retirement System of Texas			
As of Measurement Date of August 31, 2022			
Plan	Employee Class	Elected Class	
		Legislator	Other
Employer			
ERS	10%	10%	10%
LECOS ¹	1.32% ²	N/A	N/A
JRS2	15.663%	N/A	N/A
Members			
ERS	9.5%	9.5%	9.5%
LECOS ¹	0.5%	N/A	N/A
JRS2	9.5%	N/A	N/A

¹ Amount contributed is supplemental to amount contributed for the employee class of the ERS Plan.

² The 1.32% consists of 0.5% of member payroll and a portion of court costs collected under Local Government Code, Section 133.102. The contribution from the court costs equals approximately .82% of payroll.

The state's contributions recognized by the ERS, LECOS and JRS2 Plans during the fiscal 2022 measurement period were \$1.3 billion, \$21.4 million and \$14.4 million, respectively.

The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the five-year period from Sept. 1, 2014 through Aug. 31, 2019. Table 9C presents the actuarial methods and assumptions used to measure the total pension liability for the ERS, LECOS and JRS2 Plans as of the Aug. 31, 2022 measurement date.

Actuarial Methods and Assumptions

Table 9C: Employees Retirement System of Texas

As of Measurement Date of August 31, 2022

Description	ERS Plan	LECOS Plan	JRS2 Plan
Actuarial Valuation Date	Aug. 31, 2022	Aug. 31, 2022	Aug. 31, 2022
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll, plus Level Dollar Legacy Payment	Level Percent of Payroll, Open	Level Percent of Payroll, Open
Actuarial Assumptions:			
Discount Rate	7.00%	4.45%	5.77%
Investment Rate of Return	7.00%	7.00%	7.00%
Inflation	2.30%	2.30%	2.30%
Salary Increase	0% to 8.80%	3.75% to 8.75%	2.30% plus follows state judicial tiered salary schedule per Texas Government Code 659.012
Cost-of-living Adjustments	None - Employee ¹ 2.30% - Elected compounded annually on Sept. 1	None	None
Mortality	The mortality rates for service retirees and beneficiaries are based on the 2020 State Retirees of Texas Mortality Tables with generational mortality improvements projected from the year 2020, which is based on the most recent Ultimate MP scale as published by Retirement Plans Experience Committee of the Society of Actuaries. Rates for male law enforcement and custodial officers are set forward one year.		

¹ Per TGC 814.604, the actuarial accrued liability includes a one-time permanent monthly annuity increase for a limited group of retirees in January 2025, when the funding period requirement is assumed to be met.

Table 9D presents the single blended rate applied to measure the total pension liability, the long-term expected rate of return on pension plan investments, the 20-year municipal bond rate and the year when the fiduciary net positions are projected to be depleted for the ERS, LECOS and JRS2 Plans.

Assumptions for Single Discount Rate

Table 9D: Employees Retirement System of Texas

As of Measurement Date of August 31, 2022

Type of Rate	ERS Plan	LECOS Plan	JRS2 Plan
Single Discount Rate	7.00%	4.45%	5.77%
Investment Rate of Return	7.00%	7.00%	7.00%
Municipal Bond Rate ¹	3.91%	3.91%	3.91%
Year Fiduciary Net Position Depleted	N/A ²	2038	2046

¹ The source of the municipal bond rate is Fidelity Index's "20-Year Municipal GO AA Index" rate for Fixed Income Market Data/Yield Curve/Data municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

² The current contribution structure is expected to eliminate the unfunded actuarial accrued liability (UAAL) in 32 years based on current benefit provisions and actuarial assumptions. Therefore, the municipal bond rate and depletion year do not apply to the ERS Plan.

The fiduciary net position for the LECOS and JRS2 Plans is projected to be depleted in fiscal years 2038 and 2046, respectively. As a result, the long-term expected investment rate of return was applied to projected benefit payments through fiscal year 2037 for the LECOS Plan and fiscal year 2045 for the JRS2 Plan. The municipal bond rate was applied to all remaining projected benefit payments after fiscal year 2037 for the LECOS Plan and after fiscal year 2045 for the JRS2 Plan.

Senate Bill (SB) 321, enacted during the 87th Legislative Session, changed the funding structure of the ERS Plan from a fixed contribution rate structure to an actuarially determined structure by introducing a new level dollar contribution structure called legacy payments, beginning in fiscal year 2022. These amounts are calculated for each biennium to fully amortize the unfunded actuarial accrued liability (UAAL) before the end of fiscal 2054 and are in addition to the member and state percentage of payroll contributions. As a result, the municipal bond rate and depletion year do not apply to the ERS Plan.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employer are based on contributions for the most recent five-year period as of the measurement date, adjusted on consideration of subsequent events. The actuarially determined legacy payment amount for fiscal year 2022 and 2023 is \$510 million each year for the ERS Plan. Projected employer contributions are based on fiscal year 2022 funding levels. There were no changes made to the state contribution levels in the 87th Legislative Session. This contribution level is not considered sound funding for the LECOS and JRS2 Plans as of the Aug. 31, 2022 valuation date.

Assumptions reflected as of the measurement date of Aug. 31, 2022 were last updated at the May 2020 Board meeting. These include a long-term rate of return assumption of 7 percent after considering the long-term expected return from the building block method; an analysis of long-term expected return performed by the Board investment consultant; and analyses and recommendations of the Board pension actuary. There have been no changes to the benefit provisions of the ERS, LECOS or JRS2 plans since the prior measurement date for employees hired before Sept. 1, 2022, except for some amendments to the calculation of total disability benefits in the ERS Plan.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocations and best estimates of rates of return for each major asset class for the ERS, LECOS and JRS2 Plans' investment portfolio are presented in table 9E.

Target Allocations

Table 9E: Employees Retirement System of Texas

As of Measurement Date of August 31, 2022

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return ¹	Long-Term Expected Portfolio Real Rate of Return ²
Global Equity	37.00%	8.10%	2.15%
Private Equity	13.00%	11.20%	1.16%
Global Credit	13.00%	5.80%	0.39%
Special Situations	1.00%	7.80%	0.17%
Real Estate Investment Trust	3.00%	7.60%	0.16%
Private Real Asset			
Infrastructure/Land	7.00%	7.20%	0.34%
Private Real Estate	9.00%	5.70%	0.31%
Fixed Income-Rates	11.00%	1.90%	-0.04%
Absolute Returns	5.00%	5.80%	0.18%
Cash	1.00%	1.80%	-0.03%
Totals	<u>100.00%</u>		<u>4.79%</u>

¹ The real rate of return for each asset class is geometric, whereas the overall real rate of return is arithmetic.

² The expected nominal rate of return of 7.09% is derived by adding expected inflation rate of 2.3% to the long-term expected rate of return of 4.79%.

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net pension liability. The results of the analysis for the ERS, LECOS and JRS2 Plans are presented in table 9F.

Sensitivity of Net Pension Liability (NPL) to Changes in Discount Rate

Table 9F: Employees Retirement System of Texas

As of Measurement Date of August 31, 2022

(Amounts in Thousands)

Plan Type	1% Decrease	Current Discount Rate	1% Increase
ERS Plan:			
Discount Rate	6.00%	7.00%	8.00%
NPL	\$ 19,386,261	\$ 13,876,394	\$ 9,293,605
LECOS Plan:			
Discount Rate	3.45%	4.45%	5.45%
NPL	\$ 1,745,059	\$ 1,360,330	\$ 1,052,818
JRS2 Plan:			
Discount Rate	4.77%	5.77%	6.77%
NPL	\$ 229,224	\$ 153,787	\$ 89,349

The pension plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. More detailed information on the plan's investment valuation, investment policy, assets and fiduciary net position may be obtained from ERS's fiscal 2022 ACFR.

The state's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2022. For fiscal 2023 reporting, the measurement date of the state's net pension liability is Aug. 31, 2022. The schedule of changes in the state's net pension liability for the fiscal year ended Aug. 31, 2023 is presented in table 9G.

Schedule of Changes in Net Pension Liability

Table 9G: Employees Retirement System of Texas

As of Measurement Date of August 31, 2022 (Amounts in Thousands)

Schedule of Changes	ERS Plan	LECOS Plan	JRS2 Plan
Total Pension Liability			
Service Cost	\$ 985,244	\$ 93,712	\$ 31,450
Interest on the Total Pension Liability	3,027,806	80,910	38,248
Difference Between Expected and Actual			
Experience of the Total Pension Liability	509,628	65,927	(4,769)
Assumption Changes ¹		(739,123)	(36,200)
Benefit Payments and Refunds	(2,843,879)	(97,196)	(37,108)
Net Change in Total Pension Liability	<u>1,678,799</u>	<u>(595,770)</u>	<u>(8,379)</u>
Total Pension Liability – Beginning	<u>44,183,687</u>	<u>2,998,396</u>	<u>728,608</u>
Total Pension Liability – Ending	<u>\$ 45,862,486</u>	<u>\$ 2,402,626</u>	<u>\$ 720,229</u>
Plan Fiduciary Net Position			
Contributions – Employer	\$ 1,259,883	\$ 21,428	\$ 14,385
Contributions – Member	721,520	8,729	8,576
Pension Plan Net Investment Income	(728,036)	(5,026)	(4,269)
Benefit Payments and Refunds	(2,843,879)	(97,196)	(37,108)
Pension Plan Administrative Expense	(31,640)	(1,680)	(322)
Net Change in Plan Fiduciary Net Position	<u>(1,622,152)</u>	<u>(73,745)</u>	<u>(18,738)</u>
Plan Fiduciary Net Position – Beginning	<u>33,608,244</u>	<u>1,116,041</u>	<u>585,180</u>
Plan Fiduciary Net Position – Ending	<u>\$ 31,986,092</u>	<u>\$ 1,042,296</u>	<u>\$ 566,442</u>
Net Pension Liability – Beginning	<u>10,575,443</u>	<u>1,882,355</u>	<u>143,428</u>
Net Pension Liability – Ending	<u>\$ 13,876,394</u>	<u>\$ 1,360,330</u>	<u>\$ 153,787</u>

¹ The change in the total pension liability due to the change in the single discount rate is included as an assumption change.

For the fiscal year ended Aug. 31, 2023, the state recognized pension expense of negative \$3.4 billion, \$670 thousand and \$20.1 million, respectively, for the ERS, LECOS and JRS2 Plans. Negative pension expense for the ERS Plan is due primarily to the recognition of deferred inflows resulting from changes

in assumptions as the ERS Plan has changed from a contribution rate structure to an actuarially determined structure. At Aug. 31, 2023, the state reported deferred outflows of resources and deferred inflows of resources related to pension from the sources for these plans in table 9H.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 9H: Employees Retirement System of Texas

August 31, 2023 (Amounts in Thousands)

Deferral Type	ERS Plan		LECOS Plan		JRS2 Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 394,770	\$ 284,671	\$ 47,461	\$ 22,277	\$	\$ 6,840
Changes of Assumptions	630,962	8,688,948	155,002	532,086	23,021	65,115
Net Difference Between Projected and Actual						
Investment Return		233,839		24,750		11,068
Contributions Subsequent to the Measurement Date	<u>2,205,097</u>		<u>24,800</u>		<u>14,686</u>	
Total	<u>\$ 3,230,829</u>	<u>\$ 9,207,458</u>	<u>\$ 227,263</u>	<u>\$ 579,113</u>	<u>\$ 37,707</u>	<u>\$ 83,023</u>

The \$2.2 billion, \$24.8 million and \$14.7 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the ERS, LECOS and JRS2 Plans, respectively, will be recognized as a reduction in the net pension liability for the fiscal year ending Aug. 31, 2024. The amount for the ERS Plan includes a legacy payment of \$494 million and a one-time additional funding of \$900 million.

Table 9I presents amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense in the following years for the ERS, LECOS and JRS2 Plans.

Amortization Impact of Deferred Outflows of Resources and Deferred Inflows of Resources on Pension Expense¹			
Table 9I: Employees Retirement System of Texas			
For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)			
Year	ERS Plan	LECOS Plan	JRS2 Plan
2024	\$(6,544,864)	\$(92,614)	\$(18,676)
2025	(1,864,703)	(175,104)	(34,305)
2026	(382,021)	(125,081)	(15,967)
2027	609,864	16,149	8,945
2028			
Thereafter			

¹ Negative amounts indicate decrease in pension expense; positive amounts indicate increase in pension expense.

During the measurement period of fiscal 2023, ERS's calculated single discount rate remained 7 percent, and increased from 4.45 percent to 7 percent and from 5.77 percent to 7 percent for the LECOS and JRS2 Plans, respectively. For fiscal 2024, the net pension liability will increase for the ERS Plan by an estimated \$66.3 million, and will decrease for the LECOS and JRS2 Plans by an estimated \$601.3 million and \$67.7 million, respectively, due to changes detailed below.

Across the board salary increases approved by the 88th Legislative Session increased the ERS Plan's

UAAL; however, SB 30 provided additional one-time funding for the ERS Plan of \$900 million toward the accrued actuarial liability (reflected in the amount of contributions subsequent to measurement date). Additionally, employees hired after Aug. 31, 2022 are now enrolled in a defined benefit retirement structure known as a cash balance benefit in the ERS Plan or LECOS Plan, designed to mitigate the risk of significant future liabilities. Features of the new benefit include:

- lower employee contribution rate (6% of pay),
- five-year vesting period,
- state match equal to 150 percent of the account balance at retirement,
- a lifetime annuity in retirement, based on the balance in the employee's account at retirement (including the state match) accrued over their lifetime,
- guaranteed earnings of at least 4 percent annually,
- up to 3 percent per year more in gain-share, when the ERS Trust Fund has investment earnings (or "gain") of more than 4 percent over a five-year average and
- the possibility of annuity increases in retirement when the gain-sharing benefit is achieved.

The 88th Legislature also approved House Bill 1, known as the *General Appropriations Act*, which increased state contributions for the LECOS Plan and the JRS2 Plan to 1.75% and 19.25%, respectively, starting in fiscal 2024. Additional payments of \$772 million and \$99 million for the LECOS Plan and the JRS2 Plan, respectively, were made in September 2023 to pay off the unfunded liability. Both plans are considered to be fully funded upon receipt of these one-time funds. Additionally, SB 1245 created a new cash balance benefit plan in the JRS2 Plan for judges that are sworn into office on or after Sept. 1, 2024 to further mitigate the risk of significant future liabilities.

Judicial Retirement System of Texas Plan One (JRS1 Plan)

The JRS1 Plan is a single-employer defined benefit pension plan that is not administered through trust.

The JRS1 Plan covers the same kind of membership as the JRS2 Plan except JRS1 Plan members began membership prior to Sept. 1, 1985.

As a result of new judicial officers participating in the JRS2 Plan, the JRS1 Plan membership continues to decrease. Table 9J presents the membership for the JRS1 Plan as of Aug. 31, 2022.

Membership Data	
Table 9J: Judicial Retirement System of Texas Plan One	
As of Measurement Date of August 31, 2022	
Membership	JRS1 Plan
Retirees and Beneficiaries Currently Receiving Benefits	264
Current Employees Vested and Non-Vested	<u>2</u>
Total Members	<u>266</u>

Members are required to contribute a percentage of their monthly gross compensation to the general revenue fund, and the state is obligated to make appropriations from the general revenue fund in an amount sufficient to pay benefits on a pay-as-you-go basis. The contribution requirements are statutorily established similar to the other ERS Plans.

The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied in the actuarial valuations were based on a May 2020 experience study covering the five-year period from Sept. 1, 2014 through Aug. 31, 2019. The discount rate increased from 1.95 percent as of Aug. 31, 2021 to 3.91 percent as of Aug. 31, 2022. There were no other changes in assumptions. Table 9K presents the actuarial methods and assumptions used to measure the total pension liability for the JRS1 Plan as of the Aug. 31, 2022 measurement date. There have been no changes to the benefit provisions of the JRS1 Plan since the prior measurement date.

Actuarial Methods and Assumptions

Table 9K: Judicial Retirement System of Texas Plan One
For the Fiscal Year Ended August 31, 2023

Description	Actuarial Method/Assumption
Actuarial Valuation Date	Aug. 31, 2022
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate ¹	3.91%
Inflation	2.30%
Salary Increase	2.30%
Mortality:	
Active Members	Pub-2010 General Employees Active Member Mortality table. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2010.
Service Retirees, Beneficiaries and Inactive Members	2020 State Retirees of Texas mortality table. Generational mortality improvements in accordance with the ultimate rates from the scales published through 2019 by Retirement Plans Experience Committee of the Society of Actuaries (Ultimate MP) and projected from the year 2020.
Cost-of-living Adjustments	2.30% compounded annually on Sept. 1

¹ The source of the municipal bond rate is the rate for Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax exempt municipal bonds as reported in Fidelity Index's 20-Year Municipal GO AA Index.

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's total pension liability. The results of the analysis for the JRS1 Plan are presented in table 9L.

Sensitivity of Total Pension Liability to Changes in Discount Rate

Table 9L: Judicial Retirement System of Texas Plan One
August 31, 2023 (Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	2.91%	3.91%	4.91%
Total Pension Liability	\$ 189,273	\$ 175,128	\$ 162,756

The state's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2022.

For fiscal 2023 reporting, the measurement date of the state’s total pension liability is Aug. 31, 2022. The schedule of changes in the state’s total pension liability for the fiscal year ended Aug. 31, 2023 is presented in table 9M.

Schedule of Changes in Total Pension Liability¹

Table 9M: Judicial Retirement System of Texas Plan One
As of Measurement Date of August 31, 2022 (Amounts in Thousands)

Schedule of Changes	Total Pension Liability
Service Cost	\$ 154
Interest on the Total Pension Liability	4,084
Difference Between Expected and Actual Experience of the Total Pension Liability	149
Assumption Changes ²	(29,717)
Benefit Payments and Refunds	(17,768)
Net Change in Total Pension Liability	(43,098)
Total Pension Liability – Beginning	218,226
Total Pension Liability – Ending	\$ 175,128

¹ There are no assets accumulated in a trust that meets the criteria in Paragraph 4 of GASB Statement No. 73 to pay related benefits.

² The change in the total pension liability due to the change in the single discount rate is included as an assumption change.

For the fiscal year ended Aug. 31, 2023, the state recognized pension expense of negative \$25.3 million for the JRS1 Plan, chiefly due to the change in the single discount rate. Since the expected remaining service lives is one year, at Aug. 31, 2023, the state did not report deferred outflows of resources and deferred inflows of resources related to pensions for:

- Differences between expected and actual experience and
- Changes of assumptions.

The \$16.9 million reported as deferred outflows of resources resulting from transactions subsequent to the measurement date for the JRS1 Plan will be recognized as a reduction in the total pension liability for the fiscal year ending Aug. 31, 2024.

Teacher Retirement System of Texas (TRS)

Teacher Retirement System of Texas Plan (TRS Plan)

TRS is the administrator of the TRS Plan, a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation.

The employers of the TRS Plan include the state of Texas, TRS, the state’s public schools, education service centers, charter schools, junior and community colleges. All employees of public, state-supported education institutions in Texas who are employed for one-half or more of the standard workload and not exempted from membership under *Texas Government Code*, Title 8, Section 822.002 are covered by the system. Employees of TRS and state of Texas colleges, universities and medical schools are members of the TRS Plan.

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The benefit and contribution provisions of the TRS Plan are authorized by state law and may be amended by the Texas Legislature. The pension benefit formulas are based on members’ average annual compensation and years of service credit. The standard annuity is 2.3 percent of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before Aug. 31, 2005, and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. The plan does not provide automatic cost-of-living adjustments.

TRS issued a stand-alone audited Annual Comprehensive Financial Report (ACFR). The TRS ACFR may be obtained from their website at www.trs.texas.gov and searching for financial reports.

The state is both an employer and a nonemployer contributing entity under the TRS Plan. The state makes contributions to the plan for its employees as well as the employees of the Texas public school districts. During the measurement period of 2022 for fiscal

2023 reporting, the amount of the state's contributions recognized by the plan was \$833.8 million for the state as an employer and \$2.2 billion for the state as a nonemployer contributing entity. Similar to the ERS, LECOS and JRS2 Plans, the contribution rates are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the state and the members in the measurement period of fiscal 2022 are presented in table 9N.

Required Contribution Rates	
Table 9N: Teacher Retirement System of Texas Plan	
For the Fiscal Year Ended August 31, 2023	
Contributor	Rate
Employer	7.75%
Nonemployer Contributing Entity (State)	7.75%
Employees	8.00%

The actuarial valuation was performed as of Aug. 31, 2021. Update procedures were used to roll forward the total pension liability to Aug. 31, 2022. Table 9O presents the actuarial methods and assumptions used to measure the total pension liability for the TRS Plan as of the Aug. 31, 2022 measurement date.

The actuarial assumptions and methods have been modified. These new assumptions were adopted in conjunction with an actuarial experience study for the four-year period ending Aug. 31, 2021 and adopted in July, 2022. The primary assumption change was the lowering of the single discount rate from 7.25 percent to 7 percent. The mortality rates were based on tables identified in table 9O. There have been no changes to the benefit provisions of the plan since the prior measurement date.

Actuarial Methods and Assumptions

Table 9O: Teacher Retirement System of Texas Plan
For the Fiscal Year Ended August 31, 2023

Description	Actuarial Method/Assumption
Actuarial Valuation Date	Aug. 31, 2021, rolled forward to Aug. 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Discount Rate	7.00%
Long-term Expected Return	7.00%
Municipal Bond Rate	3.91% ¹
Inflation	2.30 %
Salary Increase	2.95% to 8.95% including inflation
Last year ending Aug. 31 in projection period (100 years)	2121
Mortality:	
Active	PUB(2010) Mortality Tables for Teachers, below median, with full generational mortality.
Post-Retirement	2021 TRS Healthy Pensioner Mortality Tables
Ad Hoc Post-Employment Benefit Changes	None

¹ The source of the municipal bond rate is the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's 20-Year Municipal GO AA Index.

The discount rate used to measure the total pension liability for the TRS Plan was 7 percent as of the end of the measurement year, a decrease from the 7.25 percent used as of the beginning of the measurement year. The single discount rate was based on the expected rate of return on pension plan investments of 7 percent and a municipal bond rate of 3.91 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and nonemployer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and state contributions will be 8.5 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent over the next several years. This includes all employer and state contributions for active and rehired retirees. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the

future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments and inflation factor. Under this method, best estimate ranges of expected future real rates of

return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocations and best estimates of geometric real rates of return for each major asset class for the TRS Plan's investment portfolio are presented in table 9P.

Target Allocations			
Table 9P: Teacher Retirement System of Texas Plan			
August 31, 2023			
Asset Class	Target Allocation²	Long-Term Expected Geometric Real Rate of Return³	Expected Contribution to Long Term Portfolio Returns
Global Equity			
USA	18.00%	4.60%	1.12%
Non-US Developed	13.00%	4.90%	0.90%
Emerging Markets	9.00%	5.40%	0.75%
Private Equity	14.00%	7.70%	1.55%
Stable Value			
Government Bonds	16.00%	1.00%	0.21%
Absolute Return ¹	0.00%	3.70%	0.00%
Stable Value Hedge Funds	5.00%	3.40%	0.18%
Real Return			
Real Estate	15.00%	4.10%	0.94%
Energy, Natural Resources and Infrastructure	6.00%	5.10%	0.36%
Commodities	0.00%	3.60%	0.00%
Risk Parity			
Risk Parity	8.00%	4.60%	0.43%
Asset Allocation Leverage			
Cash	2.00%	3.00%	0.01%
Asset Allocation Leverage	(6.00)%	3.60%	(0.05)%
Inflation Expectation			2.70%
Volatility Drag ⁴			(0.91)%
Total	<u>100.00%</u>		<u>8.19%</u>

¹ Absolute Return includes Credit Sensitive Investments.
² Target allocations are based on the fiscal year 2022 policy model.
³ Capital market assumptions come from Aon Hewitt as of Aug. 31, 2022.
⁴ The volatility drag results from the conversion between arithmetic and geometric mean returns.

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net pension liability. The results of the analysis are presented in table 9Q.

investment policy, assets and fiduciary net position, may be obtained from TRS' fiscal 2022 ACFR.

At Aug. 31, 2023, the state reported a liability of \$10.6 billion for its proportionate share of the collective net pension liability as an employer and a liability of \$27.4 billion for its proportionate share of the collective net pension liability as a nonemployer contributing entity. The collective net pension liability was measured as of Aug. 31, 2022, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of Aug. 31, 2021, rolled forward to Aug. 31, 2022. The state's proportion increased from 16.66 percent at Aug. 31, 2021, to 17.87 percent at Aug. 31, 2022,

Sensitivity of Net Pension Liability to Changes in Discount Rate			
Table 9Q: Teacher Retirement System of Texas Plan			
August 31, 2023 (Amounts in Thousands)			
State as:	1% Decrease	Current Discount Rate	1% Increase
Employer			
Discount Rate	6.00%	7.00%	8.00%
NPL	\$ 16,501,951	\$ 10,607,952	\$ 5,830,589
Nonemployer Contributing Entity			
Discount Rate	6.00%	7.00%	8.00%
NPL	\$ 42,620,760	\$ 27,397,910	\$ 15,059,076

The TRS Plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the TRS Plan. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Measurement, recognition, or disclosure of an asset or liability depends on the aggregation or disaggregation of the unit of account of the asset or liability. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach and the income approach. More detailed information on the TRS Plan's

and decreased from 50.16 percent to 46.15 percent for its role as an employer and nonemployer contributing entity, respectively. The state's proportions of the collective net pension liability were based on its contributions to the pension plan relative to the contributions of all the employers and nonemployer contributing entity to the plan for the period Sept. 1, 2021 through Aug. 31, 2022.

The state recognized pension expense for its employees' pension and grant expense for the pension of Texas public school district and junior college employees. For the fiscal year ended Aug. 31, 2023, the state recognized pension expense of \$1.4 billion and grant expense of \$2.6 billion for the TRS Plan. At Aug. 31, 2023, the state reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources for the TRS Plan in table 9R.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 9R: Teacher Retirement System of Texas Plan

August 31, 2023 (Amounts in Thousands)

Deferral Type	State as Employer		State as Nonemployer Contributing Entity	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 153,814	\$ 231,273	\$ 397,267	\$ 597,326
Changes of assumptions	1,976,607	492,626	5,105,122	1,272,339
Net difference between projected and actual investment return	1,048,032		2,706,826	
Change in proportion and contribution difference	1,201,829	728,141	328,375	2,028,732
Contributions subsequent to the measurement date	962,143		2,279,409	
Total	\$ 5,342,425	\$ 1,452,040	\$ 10,816,999	\$ 3,898,397

The \$962.1 million and \$2.3 billion reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as an employer and nonemployer contributing entity, respectively, will be recognized as a reduction in the net pension liability for the fiscal year ending Aug. 31, 2024.

Table 9S presents amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense and grant expense in the following years for the TRS Plan.

Amortization Impact of Deferred Outflows of Resources and Deferred Inflows of Resources on Pension/Grant Expense

Table 9S: Teacher Retirement System of Texas Plan

August 31, 2023 (Amounts in Thousands)

Year Ended	State as Employer	State as Nonemployer Contributing Entity
Aug. 31:	(Pension Expense ¹)	(Grant Expense ¹)
2024	\$ 825,894	\$ 1,265,082
2025	464,453	491,106
2026	140,760	(67,892)
2027	1,272,850	2,770,833
2028	224,286	180,065
Thereafter		

¹ Negative amounts indicate decrease in pension/grant expense; positive amounts indicate increase in pension/grant expense.

During the measurement period of fiscal 2023, the actuarial assumptions used in the determination of the total pension liability were based on the assumptions used in the actuarial valuation as of Aug. 31, 2022. Although actuarial assumptions have remained the same, the TRS Plan's net pension liability is expected to increase by \$9.3 billion for fiscal 2024, due primarily to an increase in the TRS Plan's total pension liability. The state's proportionate share is estimated to increase \$1.7 billion and \$4.3 billion for its role as an employer and nonemployer contributing entity, respectively.

The Texas 2023 Legislature passed a one-time stipend to certain eligible retirees. The stipend was paid to retirees beginning in September 2023. Appropriated funds paid for this one-time stipend so that net pension liability will be unaffected. Additionally, a cost of living adjustment was approved during November 2023 that will be paid in January 2024 and therefore will not be reflected in net pension liability for fiscal 2024.

Texas Emergency Services Retirement System (TESRS)

Texas Emergency Services Retirement System Plan (TESRS Plan)

TESRS is an agency of the state of Texas and the administrator of the TESRS Plan, a cost-sharing multi-

ple-employer defined benefit pension plan with a special funding situation.

The TESRS Plan provides pension benefits for emergency services personnel who serve without significant monetary remuneration through participating fire or emergency services departments within the state. The TESRS Plan provides pension benefits to members with vested service and their beneficiaries as well as death and disability benefits to active volunteer fire fighters and first responders. The benefit and contribution provisions of the TESRS Plan are set by the TESRS board authorized by state law (*Texas Government Code*, Title 8, Subtitle H) and may be amended by the board. Members are 50 percent vested after the tenth year of service, with the vesting percent increasing 10 percent for each of the next five years of service. For a vested member, the monthly pension benefit equals the member’s vested percent multiplied by six times the average monthly contribution of the governing body (of the participating department) over the member’s years of qualified service. For years of service in excess of 15 years, the monthly benefit is increased at the rate of 6.2 percent compounded annually. There is no provision for automatic post-retirement benefit changes.

Contribution provisions are composed of two parts: Part One contributions and Part Two contributions. Part One contributions are determined by the TESRS board of trustees and Part Two contributions are actuarially determined.

Part One contributions: The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for the department. The contributions from the governing bodies are at a minimum rate of \$36 per member and there is no limit to the maximum rate. Individuals who are members of the TESRS Plan are not required, nor allowed, to make contributions. The state is required to contribute an amount necessary to make the system actuarially sound each year, which may not exceed

one-third of the total contributions made by participating governing bodies in a particular year.

Part Two contributions: In case the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation, an actuarially determined contribution not to exceed 15 percent of the Part One contributions is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of Aug. 31, 2022, the Part Two contributions are not required for an adequate contribution arrangement.

The state of Texas is not an employer of the members under the TESRS Plan. However, the state makes contributions directly to the TESRS Plan for members of the participating fire or emergency services departments in the state. During the measurement period of 2022 for fiscal 2023 reporting, the amount of the state’s contributions recognized by the TESRS Plan was \$1.3 million.

The total pension liability is determined by an actuarial valuation as of Aug. 31, 2022. Table 9T presents the actuarial methods and assumptions used to measure the total pension liability for the TESRS Plan as of the Aug. 31, 2022 measurement date.

Actuarial Methods and Assumptions

Table 9T: Texas Emergency Services Retirement System Plan
As of August 31, 2023

Description	Actuarial Method/Assumption
Actuarial Valuation Date	Aug. 31, 2022
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar
Actuarial Assumptions:	
Discount Rate	7.5%
Investment Rate of Return	7.5%
Inflation	3.0%
Salary Increase	N/A
Mortality	PubS-2010 (public safety) below-median income mortality tables for employees and for retirees, projected for mortality improvement generationally using projection scale MP-2019
Ad Hoc Post-Retirement Benefit Changes	None

The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study from 2020 as indicated by Rudd and Wisdom, Inc., TESRS' actuary. There has been one change in the entry age actuarial cost method since the prior measurement date. The span over which each of the normal cost components is spread was adjusted to go from entry age to last assumed age for each benefit. Previously, the span was to the last assumed age for each benefit. This change only affected the termination and disability benefit allocations; and while the normal cost increased somewhat, the actuarial accrued liability decreased by a small amount. There have been no changes in assumptions or to the benefit provisions since the prior measurement date.

The discount rate of 7.5 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement date. No projection of cash flows was used to determine the discount rate because the Aug. 31, 2022 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability in 30 years using the level dollar amortization method. Because of the 30-year amortization period with the amortization method, TESRS Plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on the TESRS Plan investments was applied to all periods of projected benefit payments without incorporating the municipal bond rate.

The long-term expected net real rate of return on the TESRS Plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments and inflation factor. Under this method, expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These rates are combined

to produce the long-term expected rate of return by weighting the expected future net real rates of return by the target asset allocation percentage and by adding expected inflation. In addition, the final 7.5 percent assumption was selected by rounding down.

The target allocations and long-term expected arithmetic net real rates of return for each major asset class for the TESRS Plan's investment portfolio are presented in table 9U.

Target Allocations

Table 9U: Texas Emergency Services Retirement System Plan
August 31, 2023

Asset Class	Target Allocations	Long-Term Expected Net Real Rate of Return ¹
Equities:		
Large Cap Domestic	20%	5.83%
Small/Mid Cap Domestic	10%	5.94%
Developed International	15%	6.17%
Emerging Markets	5%	7.36%
Global Infrastructure	5%	6.61%
Real Estate	10%	4.48%
Multi Asset Income	5%	3.86%
Fixed Income	30%	1.95%
Total Allocations	<u>100%</u>	
Weighted Average		4.61%

¹ The above components are weighted to arrive at an average of 4.61%, which is added to the expected inflation of 3%. The final rate of 7.5% assumption was selected by rounding down.

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net pension liability. The results of the analysis are presented in table 9V.

Sensitivity of Net Pension Liability to Changes in Discount Rate

Table 9V: Texas Emergency Services Retirement System Plan
August 31, 2023 (Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	6.50%	7.50%	8.50%
Net Pension Liability	\$ 16,708	\$ 10,651	\$ 5,745

The TESRS Plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by TESRS. Contributions are recognized immediately upon billing, reflecting actual participation in the member fire department during the prior six months. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the TESRS Plan are reported at fair value in accordance with GASB Statement No. 72, *Fair Value*. The fair value of investments is based on market prices provided by the fund custodian. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, determines the fair values for the individual investments. More detailed information on the TESRS Plan's investment policy, assets and fiduciary net position may be obtained from the fiscal 2022 audited Annual Financial Report at the website www.tesrs.org/financial-information.

At Aug. 31, 2023, the state reported a liability of \$10.7 million for its proportionate share of the collective net pension liability as a nonemployer contributing entity. The collective net pension liability was measured as of Aug. 31, 2022, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of Aug. 31, 2022. The state's proportion as a nonemployer contributing entity decreased from 27.69 percent at Aug. 31, 2021 to 25.96 percent at Aug. 31, 2022. The state's proportion of the collective net pension liability was based on a fiscal 2022 schedule of contributions consisting of Part One contributions by the contributing fire and/or emergency services department members and the appropriated maximum state contributions as defined in the *Texas Emergency Services Retirement System Act*.

The state recognized grant expense as a nonemployer contributing entity for the pension of the volunteer emergency services personnel in the state. Amounts recognized in pension expense represent changes between

current and prior measurement dates. For the fiscal year ended Aug. 31, 2023, the state recognized grant expense of \$1.9 million for the TESRS Plan. At Aug. 31, 2023, the state reported deferred outflows and inflows of resources related to the emergency services personnel's pension from the following TESRS Plan sources in table 9W.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 9W: Texas Emergency Services Retirement System Plan
August 31, 2023 (Amounts in Thousands)

Deferral Type	State as Nonemployer Contributing Entity	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 405	\$
Change of Assumptions		54
Net Difference Between Projected and Actual Investment Return	3,928	
Change in Proportion and Contribution Difference		369
Contributions Subsequent to the Measurement Date	1,263	
Total TESRS Plan	<u>\$ 5,596</u>	<u>\$ 423</u>

The \$1.3 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as a nonemployer contributing entity will be recognized as a reduction in the net pension liability for the fiscal year ending Aug. 31, 2024.

Table 9X presents amounts reported as deferred outflows of resources and deferred inflows of resources that will be recognized as grant expense in the following years for the TESRS Plan.

Amortization Impact of Deferred Outflows of Resources and Deferred Inflows of Resources in Grant Expense

Table 9X: Texas Emergency Services Retirement System Plan
August 31, 2023 (Amounts in Thousands)

Year Ended Aug. 31:	State as Nonemployer Contributing Entity (Grant Expense ¹)
2024	\$ 988
2025	644
2026	800
2027	1,478
2028	
Thereafter	

¹ Positive amounts indicate increase in grant expense.

Physicians Referral Service (PRS) Supplemental Retirement Plan (SRP) Retirement Benefit Plan (RBP)

The University of Texas M. D. Anderson Cancer Center (M. D. Anderson), a component university of the University of Texas System (UT System), offers two *Internal Revenue Code (IRC)* section 457(f) plans in accordance with *Texas Government Code (TGC)*, Title 6, Subtitle A, Subchapter D that are determined to be pension plans under GASB Statement No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The Physicians Referral Service Supplemental Retirement Plan (SRP) and the Retirement Benefit Plan (RBP) are single-employer nonqualified noncontributory defined benefit pension plans that are not administered through trust. The plan administrator is the PRS Executive Council and the Retirement Board acts as the advisory to the council. The President of M. D. Anderson is the chair of the PRS Executive Council and has the ultimate decision authority.

The assets of the SRP/RBP Plans of approximately \$622 million at Aug. 31, 2023 are measured at fair value and presented as restricted investments in the UT Systems' statement of net position. The plan assets are

not held in trust and the plan assets remain subject to the claims of the general creditors of M. D. Anderson.

Pension expense for fiscal year 2023 is \$56.4 million.

Eligible employees of M. D. Anderson prior to July 1, 1986 may participate in the SRP. Eligible employees include physicians with a license to practice medicine in the state of Texas, other individuals with certain advanced degrees and individuals elected to membership by the Executive Council of PRS as an administrative staff officer. No new members have been admitted to the SRP since May 31, 1989 as the SRP is closed to new entrants. In general, participants are fully vested in the SRP after five years of credited service. Former participants not in active service on Jan. 1, 1985, require ten years of credited service as required by previous plan provisions. An active member receives full retirement benefits based on the SRP payment formula at age 65, age 60 with 20 years of credited service, or age 55 with 25 years of credited service. A vested member who becomes inactive for any reason other than death or retirement is entitled to an earned retirement allowance. This is a deferred allowance with benefit payments beginning at the former participant's normal retirement age. Participants in the SRP are not taxed on the employer's contributions made until benefits are paid since the SRP is grandfathered under the provisions of *IRC* section 457.

On Sept. 1, 1990, PRS established the RBP. Eligible employees may participate in the RBP upon the later of their employment date or Sept. 1, 1990. Employees who were eligible for the SRP because of their employment date had a one-time option to become members of the RBP and forego membership in the SRP. The amount of a participant's benefit is equal to each participant's account balance, as outlined in the RBP provisions. In general, a participant's account balance is equal to a stated percentage of annual compensation for each year of service plus a provision for annual interest credits. The earnings credit percentage is equal to the Moody's Average Corporate Bond yield

determined as of the first day of such plan year. Participants are taxed on the employer's contributions made when the contributions become vested. Participants become vested in their account balances after five years of service. Any vested member who becomes inactive for any reason other than death or retirement and has not attained the age of 55 will have his or her account maintained under RBP until retirement and earn half the interest credits of active participants. Upon vesting, participants are subject to federal income and Social Security taxes on the amount of deferred compensation. M. D. Anderson pays the taxes to, or on behalf of, participants. These amounts are reflected as a liability on M. D. Anderson's financial statements.

The membership data for the SRP/RBP Plans as of the measurement date of Sept. 1, 2022 is presented in table 9Y.

Membership Data	
Table 9Y: SRP/RBP Plans	
As of Measurement Date of September 1, 2022	
Type of Member	SRP/RBP
Inactive Employees Receiving Benefit Payments	511
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	278
Active Employees	<u>1,590</u>
Total Members	<u><u>2,379</u></u>

The total pension liability for the SRP/RBP Plans is determined by an annual actuarial valuation. Some key demographic assumptions, such as termination and retirement, are based upon a review of the PRS participant experience. This experience study is documented in the assumption rationale as last being conducted in 2021. Table 9Z below presents the actuarial methods and assumptions used to measure the total pension liability as of the Sept. 1, 2022 measurement date.

Actuarial Methods and Assumptions	
Table 9Z: SRP/RBP Plans	
As of August 31, 2023	
Description	Actuarial Method/Assumption
Actuarial Valuation Date	September 1, 2022
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Average Remaining Service Life
Asset Valuation Method	NA - Unfunded Plan
Actuarial Assumptions:	
Discount Rate ¹	3.59 %
Inflation	NA
Rate of Compensation Increase	4.00 %
Ad Hoc Post-Retirement Benefit Changes	None
Mortality	The mortality table is based on the final report of PRI-2012 Mortality Tables and MP-2021 mortality improvement scale as published by the Society of Actuaries (SOA) Retirement Plans Experience Committee (RPEC). This table and projection scale represents the most recent available data as of the valuation date.

¹ The discount rate was determined using the 20-year yields on the Bond Buyer 20-Bond GO Index as of Aug. 31 2022.

The discount rate of 3.59 percent was applied to measure the total pension liability. The discount rate increased from 2.14 percent as of Sept. 1, 2021 to 3.59 percent as of Sept. 1, 2022. The mortality table was updated from RP-2014 with modified projection scale using MP-2014 to Pri-2012 with projection scale MP-2021. The cash balance crediting rate was updated to use the actual rate in the first year following the valuation date. There have been no changes to the benefit provisions of the SRP/RBP Plan since the prior measurement date. Sensitivity analysis was performed on the impact of changes in the discount rate on M. D. Anderson's total pension liability. The results of the analysis for the SRP/RBP Plans are presented in table 9AA.

Sensitivity of Total Pension Liability to Changes in Discount Rate

Table 9AA: SRP/RBP Plans

August 31, 2023 (Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	2.59%	3.59%	4.59%
Total Pension Liability	\$ 1,001,974	\$ 918,839	\$ 846,111

At Aug. 31, 2023, M. D. Anderson reported a total pension liability of \$919 million for the SRP/RBP Plans. The schedule of changes in the state's total pension liability for the fiscal year ended Aug. 31, 2023 is presented in table 9AB.

Schedule of Changes in Total Pension Liability¹

Table 9AB: SRP/RBP Plans

As of Measurement Date of September 1, 2022
(Amounts in Thousands)

Schedule of Changes	Total Pension Liability
Service Cost	\$ 40,514
Interest on the Total Pension Liability	22,719
Difference Between Expected and Actual Experience	(6,620)
Changes of Assumptions ²	(133,970)
Benefit Payments and Refunds	(49,856)
Net Change in Total Pension Liability	(127,213)
Total Pension Liability – Beginning	1,046,052
Total Pension Liability – Ending	\$ 918,839

¹ There are no assets accumulated in a trust that meets the criteria in Paragraph 4 of GASB Statement No. 73 to pay related benefits.

² The change in the total pension liability due to the change in the single discount rate is included as an assumption change.

The \$49.3 million reported as deferred outflows of resources resulting from benefit payments subsequent to measurement date will be recognized as a reduction in the total pension liability for the fiscal year ending Aug. 31, 2024. At Aug. 31, 2023, the state reported deferred outflows of resources and deferred inflows of resources related to the SRP/RBP Plans in table 9AC.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 9AC:SRP/RBP Plans

August 31, 2023 (Amounts in Thousands)

Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 50,706	\$ 117,983
Difference Between Expected and Actual Experience		5,830
Benefit Payments Subsequent to Measurement Date	49,322	
Administrative Costs Subsequent to Measurement Date	847	
Total	\$ 100,875	\$ 123,813

Table 9AD presents amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense in the following years for the SRP/RBP Plans.

Amortization Impact of Deferred Outflows of Resources and Deferred Inflows of Resources on Pension Expense

Table 9AD:SRP/RBP Plans

August 31, 2023 (Amounts in Thousands)

Year Ended Aug. 31:	Increase (Decrease) of Pension Expense
2024	\$(7,731)
2025	(7,731)
2026	(7,731)
2027	(7,731)
2028	(7,731)
Thereafter	(34,453)

Defined Contribution Pension Plan Optional Retirement Program (ORP)

The state's contributions to the ORP are authorized by *Texas Government Code*, Chapter 830. Full-time faculty and certain other employees in public higher education are eligible to elect ORP in lieu of the TRS

Plan before the 91st day after becoming eligible. It is a one-time irrevocable choice between two distinct plans. ORP is administered by each employer. The Texas Higher Education Coordinating Board (THECB) develops policies, practices and procedures to provide greater uniformity in the administration of ORP.

ORP is a defined contribution retirement plan in which each participant selects from a variety of investments offered by several insurance and investment companies through annuity contracts or mutual fund investments. These types of investments are authorized by Internal Revenue Code, Section 403(b). With the purchase of these individual contracts, the state has effectively transferred the obligation for the payment of benefits to the companies. Participants vest in ORP after one year of participation.

The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent and 6.6 percent, respectively, for fiscal 2023. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate of up to 1.9 percent of payroll.

Individual accounts are maintained at the insurance and investment companies selected by each ORP participant. Separate financial statements for ORP are not prepared because the state retains no assets in a trust or equivalent arrangement, no liability for plan performance and has very limited administrative involvement.

The employers of ORP are institutions of higher education, one educational state agency and some two-year college institutions that are not part of the state reporting entity. State entity participation in ORP for fiscal 2023 resulted in participant contributions of \$317.9 million and employer contributions of \$375.8 million.

As of Aug. 31, 2023, ORP had 35,612 participants. The total participant contributions were \$341.3 million and total employer contributions were \$406.2 million. Additional information for ORP is included in the fiscal 2023 *ORP Participation Report Summary*, published

annually by the THECB. The report is available on the THECB's website at www.highered.texas.gov.

Note 10

Deferred Compensation

The state of Texas offers the Employees Retirement System (ERS) TexaSaver 401(k) / 457(b) Program to all state employees. The TexaSaver Program is a deferred compensation plan and is an other employee benefit. Per *Texas Government Code (TGC)* Chapter 609.502, the board of trustees of ERS establishes the rules for any deferred compensation plan. The state of Texas does not contribute to either plan in the TexaSaver Program. These plans are established in accordance with *Internal Revenue Code (IRC)*, Section 457(b) and *IRC*, Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying financial statements. The state makes no contributions to either plan, the assets do not belong to the state and the state has no liability related to the plans.

IRC Section 457(f) plans are also offered by some universities. These plans allow only the employer to make contributions to the plan and contain certain conditions that must be met before distributions from the plan can be made. GASB Statement No. 97 - *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* requires that *IRC* Section 457 plans be classified as either a pension plan or as an other employee benefit plan.

The University of Texas System (UT System) offers two deferred compensation plans. The UTSaver Deferred Compensation 457(b) Plan was created in accordance with *IRC*, Section 457(b), where all UT System employees are eligible to participate and do not

participate in the plan offered by the state of Texas, per *TGC* Chapter 609.702. All investments, amounts, property and rights held under the deferred compensation trust fund are held for the exclusive benefit of participants and beneficiaries at the fair value of the plan account for each participant. The UT System has no liability under the plan. The UTSaver Executive Deferred Compensation 457(f) Plan is also offered and is in accordance with *IRC* Section 457(f). This plan provides financial incentives in the recruitment of highly qualified candidates for employment and to retain existing employees. It does not provide retirement income nor postemployment benefits.

The Texas A&M University System (A&M System) participates in the ERS TexaSaver 401(k)/ 457(b) Program and additionally offers the Texas A&M University System 457(f) Deferred Compensation Plan. All A&M System employees are eligible to participate in the ERS TexaSaver plan. Participation in the *IRC* 457(f) plan is subject to the approval of the A&M System board of regents, the chancellor or any chancellor-designated member chief executive officer. This allows the A&M System to defer income for eligible participants without regard to the amount deferred or an adverse impact on other retirement plans in which the participant is enrolled. Distributions are made during employment as additional compensation. Should a participant in the *IRC* 457(f) plan leave before the distribution date, the deferred amounts are forfeit.

Note 11

Postemployment Benefits Other Than Pensions

The state of Texas has two retirement systems and two university systems in its financial reporting entity that administer the state's Other Postemployment Benefit (OPEB) plans in addition to providing pension benefits:

- Employees Retirement System of Texas (ERS),
- Teacher Retirement System of Texas (TRS),
- Texas A&M University System (A&M System), and
- the University of Texas System (UT System).

These two retirement systems and two university systems administer the following four defined benefit OPEB plans:

- ERS—the State Retiree Health Plan (SRHP);
- TRS—the Texas Public School Retired Employees Group Insurance Program (TRS-Care);
- A&M System—the A&M System Retiree Group Insurance Program (A&M Plan); and
- UT System—the UT System Employee Group Insurance Program (UT Plan).

SRHP and TRS-Care are administered through trust, while the A&M Plan and UT Plan are not; and all OPEB plans are operated on a pay-as-you-go basis. These benefits are authorized by statute and contributions are established by the General Appropriations Act.

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended Aug. 31, 2023, the state recognized OPEB expense of negative \$2.4 billion. Of this amount, negative \$605.1 million was incurred as an employer and negative \$1.8 billion as a nonemployer contributing entity. The reported deferred outflows of resources and deferred inflows of resources related to OPEB are identified in Note 27.

Employees Retirement System of Texas

The state of Texas contributes to SRHP, a cost-sharing, multiple-employer defined benefit OPEB plan with a special funding situation. ERS's board of trustees administers SRHP.

ERS issued a stand-alone audited Annual Comprehensive Financial Report (ACFR). The ERS ACFR may be obtained from their website at www.ers.texas.gov and searching for reports and studies.

Plan Description

SRHP provides postemployment health care, life and dental insurance coverage for participants on a pay-as-you-go basis as authorized by *Texas Insurance Code*, Chapter 1551. The benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Texas Legislature. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the SRHP. Surviving spouses and dependents of retirees are also covered by SRHP. SRHP does not provide automatic cost-of-living adjustments.

Contributors to SRHP include active and retired members, employers, and the state of Texas as the only nonemployer contributing entity. Employers include state of Texas agencies, universities, junior and community colleges, and other entities specified by the Texas Legislature with the state of Texas being the principal participating employer.

Funding Policy

The state is both an employer and a nonemployer contributing entity in SRHP. The state makes contributions to the SRHP for its employees as well as part of the premiums for the junior and community colleges. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contributions. During the measurement period of 2022, for fiscal 2023 reporting, the amount of the state contributions recognized by the SRHP was \$627.6 million for the state as employer and \$47.3 million for the state as a nonemployer contributing entity. The contribution

requirements for the employers of SRHP during the measurement period are presented in table 11A.

Required Contribution Rates – Retiree Health and Basic Life Premium

Table 11A: State Retiree Health Plan
For the Fiscal Year Ended August 31, 2023

Level of Coverage	Employer Monthly Premium Rates
Retiree Only	\$ 625
Retiree and Spouse	1,340
Retiree and Children	1,104
Retiree and Family	1,819

Measurement Date

ERS has elected to use a measurement date that is twelve months in advance of the fiscal year, with a measurement date of Aug. 31, 2022 for fiscal year ended Aug. 31, 2023.

Actuarial Methods and Assumptions

The total OPEB liability (TOL) is determined by an annual actuarial valuation. Table 11B presents the actuarial methods and assumptions used to measure the TOL for the SRHP as of the measurement date.

The many actuarial assumptions used in the valuation were primarily based on the result of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period Sept. 1, 2014 to Aug. 31, 2019 for state agency members and for the period Sept. 1, 2010 to Aug. 31, 2017 for higher education members. The mortality rates were based on the tables identified in table 11B.

Actuarial Methods and Assumptions

Table 11B: State Retiree Health Plan

For the Fiscal Year Ended August 31, 2023

Description	Actuarial Method/Assumption
Actuarial Valuation Date	Aug. 31, 2022
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Not applicable
Actuarial Assumptions:	
Inflation	2.30%
Discount Rate	3.59% ¹
Salary Increase	2.30% to 8.95% , includes inflation
Annual Healthcare Trend Rates:	
HealthSelect	5.60% for fiscal 2024, 5.30% for fiscal 2025, 5.00% for fiscal 2026, 4.75% for fiscal 2027, 4.60% for fiscal 2028, decreasing 10 basis points per year to an ultimate rate of 4.30% for fiscal 2031 and later years
HealthSelect Medicare Advantage	66.67% for fiscal 2024, 24.00% for fiscal 2025, 5.00% for fiscal 2026, 4.75% for fiscal 2027, 4.60% for fiscal 2028, decreasing 10 basis points per year to an ultimate rate of 4.30% for fiscal 2031 and later years
Pharmacy	10.00% for fiscal 2024 and fiscal 2025, decreasing 100 basis points per year to 5.00% for fiscal 2030 and 4.30% for fiscal 2031 and later years
Ad Hoc Post-Employment Benefit Changes	None
Mortality:	
State Agency Members:	
Service Retirees, Survivors and other Inactive Members	2020 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2020
Disability Retirees	2020 State Retirees of Texas Mortality table set forward three years for males and females. Generational mortality improvements in accordance with the Ultimate MP-2019 Projection Scale are projected from the year 2020. Minimum rates of 3.0% and 2.5% apply at all ages for males and females, respectively
Active Members	Pub-2010 General Employees Active Member Mortality table for non-CPO/CO members and Pub-2010 Public Safety Active Member Mortality table for CPO/CO members with Ultimate MP-2019 Projection Scale from the year 2010
Higher Education Members:	
Service Retirees, Survivors and other Inactive Members	Tables based on TRS experience with Ultimate MP-2021 Projection Scale from the year 2021
Disability Retirees	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct Pub-2010 Amount-Weighted Below-Median Income Teacher Mortality with a 2-year set forward for males with Ultimate MP Projection Scale from the year 2010

¹ The source of the municipal bond rate is the Bond Buyer Index of General Obligation Bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

The following assumptions and other inputs have been adopted since the prior valuation to reflect plan experience and trends as expected by ERS and the actuaries attesting to the results of the valuation:

- a. assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution trends have been updated to reflect recent experience and its effects on short-term expectations,
- b. the Patient-Centered Outcomes Research Institute fee payable under the Affordable Care Act has been updated to reflect the most recent information,
- c. percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence,
- d. proportion of future retirees assumed to cover dependent children,
- e. the proportion of future retirees assumed to elect health coverage at retirement and proportion of future retirees expected to receive the Opt-Out Credit at retirement,
- f. the discount rate assumption was changed from 2.14 percent to 3.59 percent to utilize the updated yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

The only benefit revisions adopted since the prior valuation is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect for those HealthSelect retirees and dependents for whom Medicare is not primary. These minor ben-

efit changes are reflected in the following fiscal 2023 Assumed Per Capita Health Benefit Costs.

Other future actuarial methods may differ significantly from the current measurement period due to such factors as the following: plan experience, changes in economic or demographic assumptions, methodology used and changes in plan provisions or applicable laws.

The discount rate used to measure the TOL for SRHP is the municipal bond rate of 3.59 percent as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.14 percent. Projected cash flows into SRHP are equal to projected benefit payments out of the plan. As the plan operates on a pay-as-you-go basis and is not intended to accumulate assets, there is no long-term expected rate of return.

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net OPEB liability (NOL). The results of the analysis are presented in table 11C.

Sensitivity of Net OPEB Liability to Changes in Discount Rate			
Table 11C: State Retiree Health Plan			
For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)			
Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	2.59 %	3.59 %	4.59 %
State as Employer	\$ 28,302,606	\$ 24,266,958	\$ 21,039,410
State as Nonemployer Contributing Entity	\$ 2,134,993	\$ 1,830,565	\$ 1,587,097

Sensitivity analysis was performed on the impact of changes in the healthcare cost trend rates on the state's NOL. The result of the analysis are presented in table 11D.

Sensitivity of Net OPEB Liability to Changes in Healthcare Cost Trend Rates

Table 11D: State Retiree Health Plan

For the Fiscal Year Ended August 31, 2023

(Amounts in Thousands)

Activity	1% Decrease	Current Rate	1% Increase
State as Employer	\$ 20,781,315	\$ 24,266,958	\$ 28,717,184
State as Nonemployer Contributing Entity	\$ 1,567,628	\$ 1,830,565	\$ 2,166,266

Net OPEB Liability, Deferrals and OPEB Expense

The OPEB plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

At Aug. 31, 2023, the state reported a liability of \$24.3 billion for its proportionate share of the collective NOL as an employer, which was comprised of a current portion of \$927.1 million and a noncurrent portion of \$23.3 billion, and a liability of \$1.8 billion for its proportionate share of the collective NOL as a nonemployer contributing entity, which was comprised of a current portion of \$69.9 million and a noncurrent portion of \$1.8 billion. The collective NOL was measured as of Aug. 31, 2022, and the TOL used to calculate the NOL was determined by an actuarial valuation as of that date. The state's proportion decreased from 85.32 percent at Aug. 31, 2021, to 85.19 percent at Aug. 31, 2022, and increased from

6.13 percent to 6.43 percent for its role as employer and nonemployer contributing entity, respectively. The state's proportions of the collective NOL was based on its contributions to the OPEB plan relative to the contributions of all the employers and nonemployer contributing entity to the SRHP for the period Sept. 1, 2021 through Aug. 31, 2022.

The state recognized OPEB expense for its employees' OPEB and grant expense for the OPEB of the junior and community college employees. For the fiscal year ended Aug. 31, 2023, the state recognized OPEB expense of negative \$1.2 billion and grant expense of \$51.2 million for SRHP. At Aug. 31, 2023, the state reported deferred outflows of resources and deferred inflows of resources related to OPEB from the sources in table 11E.

The \$660.9 million and \$54.2 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as employer and nonemployer contributing entity respectively will be recognized as a reduction in the NOL for the fiscal year ending Aug. 31, 2024.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 11E: State Retiree Health Plan

August 31, 2023 (Amounts in Thousands)

Deferral Type	State as Employer		State as Non-Employer Contributing Entity	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$	\$ 765,652	\$	\$ 57,757
Changes of Assumptions or Other Inputs	1,425,781	7,501,146	107,553	565,845
Net Difference Between Projected and Actual Investment Return	4,186		316	
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share	441,134	791,885	171,455	35,281
Contributions Subsequent to the Measurement Date	660,852		54,188	
Total	<u>\$ 2,531,953</u>	<u>\$ 9,058,683</u>	<u>\$ 333,512</u>	<u>\$ 658,883</u>

Table 11F presents amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB that will be recognized in OPEB expense and grant expense in the following years for SRHP.

Amortization Impact of Deferred Outflows of Resources and Deferred Inflows of Resources on OPEB/Grant Expense

Table 11F: State Retiree Health Plan
For the Fiscal Year Ended August 31, 2023
(Amounts in Thousands)

Year	State as Employer (OPEB Expense) ¹	State as Nonemployer Contributing Entity (Grant Expense) ¹
2024	\$ (2,122,377)	\$ (64,371)
2025	(1,541,829)	(100,008)
2026	(1,474,143)	(94,525)
2027	(1,298,981)	(75,611)
2028	(750,253)	(45,043)
Thereafter		

¹ Negative amounts indicate decrease in OPEB/grant expense.

During the measurement period of fiscal 2023, the following SRHP changes were updated by ERS. ERS increased the discount rate from 3.59 percent to 3.81 percent, changed assumed per capita health benefit costs and retiree contribution trends, changed the percentage of current retirees and their spouses not yet eligible for participation in SRHP, changed the proportion of future retirees assumed to cover dependent children in SRHP, changed the percentage of future retirees assumed to elect health coverage at retirement and changed the proportion of future retirees expected to receive the Opt-Out credit at retirement. This is expected to decrease SRHP's NOL by \$1.8 billion for fiscal year 2024 of which the state's proportionate share is estimated to decrease \$1.5 billion and \$113.7 million for its role as employer and non-employer contributing entity, respectively.

Teacher Retirement System of Texas

The state of Texas contributes to TRS-Care, a cost-sharing, multiple-employer defined benefit OPEB plan with a special funding situation. TRS's board of trustees (Board) administers TRS-Care.

TRS issued a stand-alone audited Annual Comprehensive Financial Report (ACFR). The TRS ACFR may be obtained from their website at www.trs.texas.gov and searching for financial reports.

Plan Description

TRS-Care provides basic and optional group insurance coverage for participants on a pay-as-you-go basis as authorized by *Texas Insurance Code*, Chapter 1575. 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 or non-Medicare participants may pay premiums to participate in one of the two standard insurance plans with more comprehensive benefits. The benefit provisions of TRS-Care are authorized by state law and may be amended by the Board. The Board may adopt rules, plans, procedures and orders reasonably necessary to administer the program, including minimum benefits and financing standards. Retirees must meet certain age and service requirements, have at least 10 years of service at retirement and be a member of the TRS Pension System in order to participate in the TRS-Care plan. The TRS-Care plan does not provide automatic cost-of-living adjustments.

Contributors to TRS-Care include active and retired members, employers, and the state of Texas as the only nonemployer contributing entity. Employers include public schools, educational districts, regional education service centers and open-enrollment charter schools whose employees are members of TRS.

The *General Appropriations Act* passed by the 86th Legislative Session included funding to maintain TRS-Care premiums at their current level through Aug. 31, 2021. The 86th Legislative Session also passed Senate

Bill 1682 requiring TRS to establish a contingency reserve in the TRS-Care plan’s fund equal to 60 days of expenditures. As of the measurement date of Aug. 31, 2022, this amount is estimated at \$300 million.

Funding Policy

The state is a nonemployer contributing entity in TRS-Care per *Texas Insurance Code*, Chapter 1575. There is no continuing obligation to provide benefits beyond each fiscal year. TRS-Care is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding is provided by retiree premiums, state contributions, active members and participating employers based on active member compensation. The Board does not have the authority to set or amend contribution rates. The *Texas Insurance Code*, Chapter 1575, Sections 202-204 establishes the contribution rates, while the *General Appropriations Act* from each legislative session establishes the actual public school contribution rate. Employers are also required to pay a surcharge of \$535 per month when employing a retiree of TRS. During the measurement period of 2022, for fiscal 2023 reporting, the amount of the state contributions recognized by the TRS-Care plan was \$534.3 million. The contribution requirements for the employers of TRS-Care during the measurement period are presented in table 11G.

A supplemental appropriation was authorized by Senate Bill 8 passed by the 87th Legislature, Third Called Session, provided \$83 million to TRS-Care from the federal American Rescue Plan Act to help defray COVID-19 related health care costs during fiscal 2022.

Measurement Date

TRS has elected to use a measurement date that is twelve months in advance of the fiscal year, with a measurement date of Aug. 31, 2022 for fiscal year ended Aug. 31, 2023.

Actuarial Methods and Assumptions

The actuarial valuation was performed as of Aug. 31, 2021. Update procedures were used to roll forward the total OPEB liability (TOL) to Aug. 31, 2022. Table 11H presents the actuarial methods and assumptions used to measure the TOL for the TRS-Care plan as of the measurement date.

The many actuarial assumptions used in the valuation were primarily based on the results of actuarial experience studies performed by the TRS retirement plan actuary for the three year period ended Aug. 31, 2017 and adopted in July 2018. The mortality rates were based on tables identified in table 11H.

Required Contribution Rates – Retiree Healthcare		
Table 11G: TRS-Care		
For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)		
Contributor	Contribution	
	Rate	Amount
Active Employee	0.65%	\$ 263,328
Nonemployer Contributing Entity (State)	1.25%	451,341
Participating Employer	0.75%	303,839
Federal/Private Funding ¹	1.25%	55,047
Total		\$ 1,073,555

¹ Contributions paid from federal funds and private grants are remitted by the employer and paid at the state rate.

Actuarial Methods and Assumptions

Table 11H: TRS-Care

For the Fiscal Year Ended August 31, 2023

Description

Actuarial Valuation Date	Aug. 31, 2021, rolled forward to Aug. 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Actuarial Assumptions:	
Inflation	2.30 %
Discount Rate	3.91% ¹
Aging Factors	Based on plan specific experience
Expenses	Third party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims cost
Salary Increase	3.05% to 9.05% (includes inflation)
Healthcare Cost and Trend Rate	Initial medical trend rates of 8.25% for Medicare retirees and 7.25% for non-Medicare retirees. Initial prescription drug trend rate of 8.25% for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 13 years.
Election Rates	Normal Retirement Participation: 62% participation prior to age 65 and 25% participation after age 65. 30% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad Hoc Post-Employment Benefit Changes	None
Demographic	The rates of mortality, retirement, termination and disability incidence are identical to the assumptions used to value the pension liabilities of TRS. These assumptions were developed in the experience study performed by TRS for the period ending Aug. 31, 2017.
Mortality:	
Post-Retirement	Tables based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with projection on a fully generational basis using the ultimate improvement rates from mortality projection scale MP-2018
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90%, with projection on a fully generational basis using the ultimate improvement rates from mortality projection scale MP-2018

¹ The source of the municipal bond rate is the fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's 20-Year Municipal GO AA Index as of Aug. 31, 2022.

The following assumptions and other inputs have been adopted since the prior valuations to reflect future plan experience as expected by the actuaries attesting to the results of the valuation:

- a. The discount rate changed from 1.95 percent as of Aug. 31, 2021 to 3.91 percent as of Aug. 31, 2022. (Lower participation rates and updates to

the health care trend rate assumptions were also factors that decreased TOL.)

Other future actuarial methods may differ significantly from the current measurement period due to the following factors: plan experience, changes in economic or demographic assumptions, methodology used and changes in plan provisions or applicable laws.

There were no changes in benefit terms since the prior measurement date.

The discount rate used to measure the TOL for TRS-Care is the municipal bond rate of 3.91 percent as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 1.95 percent. Projected cash flows into and out of the TRS-Care plan are equal to projected benefit payments out of the TRS-Care plan assumed that members, employers, and nonemployer contributing entities make their contributions at the statutorily required rates. As the TRS-Care plan operates on a pay-as-you-go basis and is not intended to accumulate assets, there is no long-term expected rate of return.

Sensitivity analysis was performed on the impact of changes in the discount rate on the net OPEB liability (NOL). The result of the analysis is presented in table 11I for the state's proportionate share.

Sensitivity of Net OPEB Liability to Changes in Discount Rate			
Table 11I: TRS-Care			
For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)			
Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	2.91%	3.91%	4.91%
Balance	\$ 15,513,917	\$ 13,157,654	\$ 11,248,778

Sensitivity analysis was performed on the impact of changes in the healthcare cost trend rates on the NOL. The result of the analysis is presented in table 11J for the state's proportionate share.

Sensitivity of Net OPEB Liability to Changes in Healthcare Cost Trend Rates			
Table 11J: TRS-Care			
For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)			
Activity	1% Decrease	Current Rate	1% Increase
Balance	\$ 10,841,966	\$ 13,157,654	\$ 16,159,645

Net OPEB Liability, Deferrals and OPEB Expense

The TRS-Care plan's fiduciary net position is determined using the economic measurement focus and accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the basis of the plan.

At Aug. 31, 2023, the state reported a liability of \$13.2 billion for its proportionate share of the collective NOL as nonemployer contributing entity, with a non-current portion of \$13.2 billion. The collective NOL was measured as of Aug. 31, 2022 and the TOL used to calculate the collective NOL was determined by an actuarial valuation as of that date. The state's proportion decreased from 57.26 percent at Aug. 31, 2021, to 54.95 percent at Aug. 31, 2022. The state's proportion of the collective NOL was based on its contributions to the OPEB plan relative to the contributions of all employers and nonemployer contributing entity to the TRS-Care for the period Sept. 1, 2021 through Aug. 31, 2022.

For the fiscal year ended Aug. 31, 2023, the state recognized grant expense of negative \$1.9 billion and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources in table 11K for its portion as nonemployer contributing entity to TRS-Care.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 11K: TRS-Care

August 31, 2023 (Amounts in Thousands)

Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 731,519	\$ 10,961,507
Changes of Assumptions or Other Inputs	2,004,171	9,141,155
Net Difference Between Projected and Actual Investment Return	39,193	
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share	115,367	1,666,668
Contributions Subsequent to the Measurement Date	495,642	
Total	<u>\$ 3,385,892</u>	<u>\$ 21,769,330</u>

The \$495.6 million reported as deferred outflows of resources for the TRS-Care plan resulted from contributions subsequent to the measurement date, which will be recognized as a reduction in the NOL for the fiscal year ending Aug. 31, 2024.

Table 11L presents amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB that will be recognized in grant expense in the following years for the TRS-Care plan.

Amortization Impact of Deferred Outflows of Resources and Deferred Inflows of Resources on Grant Expense

Table 11L: TRS-Care

For the Fiscal Year Ended August 31, 2023
(Amounts in Thousands)

Year	Grand Expense ¹
2024	\$ (3,449,105)
2025	(3,448,962)
2026	(2,890,986)
2027	(2,135,590)
2028	(2,303,309)
Thereafter	(4,651,129)

¹ Negative amounts indicate decrease in grant expense.

During the measurement period of fiscal 2023, the following TRS-Care plan changes were updated by TRS. TRS increased the discount rate from 3.91 percent to 4.13 percent, lowered the participation rates and updated the health care trend rate assumption. This is expected to decrease TRS-Care's NOL by \$1.8 billion for fiscal year 2024 of which the state's proportionate share is estimated to decrease \$992.3 million for its role as nonemployer contributing entity.

A&M System and UT System

The state of Texas contributes to two single-employer defined benefit retiree health care and life insurance benefit plans: the A&M Plan and the UT Plan. The A&M System is the administrator of the A&M Plan and the UT System is the administrator of the UT Plan.

The A&M System and the UT System each issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to the systems at the following addresses:

A&M System
301 Tarrow Street
College Station, Texas 77840-7896

UT System
Controller's Office
210 West 7th Street
Austin, Texas 78701

Plan Descriptions

Each plan provides certain health care and life insurance benefits on a pay-as-you-go basis as authorized by *Texas Insurance Code*, Chapter 1601. The benefit and contribution provisions of each plan are authorized by state law and may be amended by the Texas Legislature. Retirees must meet certain age and

service requirements and have at least 10 years of service at retirement to participate in the plan. Substantially all of the employees of the A&M System and the UT System may become eligible for benefits as long as they reach normal retirement age while working for the state. Surviving spouses and dependents of retirees are also covered by the plans. The plans does not provide automatic cost-of-living adjustments and there are no assets accumulated in a trust that meets the criteria in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, paragraph 4. As of the measurement date in table 11M, the following employees were covered by the benefit terms.

Employees Covered by Benefit Terms		
Table 11M: A&M System and UT System		
For the Fiscal Year Ended August 31, 2023		
Type of Member	A&M Plan	UT Plan
Measurement Date	Sept. 1, 2021	Dec. 31, 2021
Inactive Employees or Beneficiaries		
Currently Receiving Benefit Payments	11,156	31,104
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	3,389	15,091
Active Members	<u>24,029</u>	<u>104,546</u>
Total	<u>38,574</u>	<u>150,741</u>

Funding Policy

The state contributes to the cost of each participant's insurance coverage as required by *Texas Insurance Code*, Chapter 1551, Section 310 and 311. The funds are appropriated under the *General Appropriations Act Higher Education Employees Group Insurance Contributions*. During the measurement period of 2022, for fiscal 2023 reporting, the amount of state employer benefit payments recognized by the A&M Plan was \$81.8 million and the UT Plan was \$249 million. The contribution rates are determined annually by each system based on the recommendations of their Office of Risk Manage-

ment and Benefits Administration, Office of Employee Benefits and consulting actuary. Contributions rates are determined based on the benefit and administrative costs that are expected to be incurred, the funds appropriated for the plans and the funding policy established by the Texas Legislature which is revised as necessary to match expected costs with available revenue. The employer does not contribute toward dental, optional life insurance, optional dependent life insurance, vision, AD&D or long term care. The monthly contribution requirements are presented in table 11N.

Required Contribution Rates – Retiree Healthcare and Life Insurance Premium

Table 11N: A&M System and UT System
For the Fiscal Year Ended August 31, 2023

Level of Coverage	A&M Plan	UT Plan
Retiree Only	\$ 815	\$ 675
Retiree and Spouse	1,377	1,029
Retiree and Children	1,206	902
Retiree and Family	1,606	1,258

Measurement Date

The A&M System has elected to use a measurement date that is twelve months in advance of the fiscal year, with a measurement date of Sept. 1, 2022 for fiscal year ended Aug. 31, 2023.

The UT System has elected to use a measurement date that is eight months in advance of the fiscal year, with a measurement date of Dec. 31, 2022 for fiscal year ended Aug. 31, 2023.

Actuarial Methods and Assumptions

The total OPEB liability (TOL) for both plans is determined by a biennial actuarial valuation. Table 11O presents the actuarial methods and assumptions used to measure the TOL as of the measurement dates for the A&M and UT Plans.

Actuarial Methods and Assumptions

Table 110 - A&M System and UT System

For the Fiscal Year Ended August 31, 2023

Description	A&M Plan	UT Plan
Actuarial Valuation Date	Sept. 1, 2021, rolled forward to Sept. 1, 2022	Dec. 31, 2021, rolled forward to Dec. 31, 2022
Actuarial Assumptions:		
Inflation	2.30 %	2.30 %
Salary Increase	3.05% to 9.05% (includes inflation)	3.05% to 9.05% (includes inflation)
Discount Rate	3.64% ¹	3.72% ¹
Healthcare Cost and Trend Rate:		
Medical	5.50% for fiscal 2024, 5.25% for fiscal 2025, 5.00% for fiscal 2026, 4.75% for fiscal 2027, 4.60% for fiscal 2028, 4.50% for fiscal 2029, 4.40% for fiscal 2030 and 4.30% for fiscal 2031 and later years	UT Select: 5.50% for fiscal 2024, 5.25% for fiscal 2025, 5.00% for fiscal 2026, 4.75% for fiscal 2027, 4.60% for fiscal 2028, 4.50% for fiscal 2029, 4.40% for fiscal 2030 and 4.30% for fiscal 2031 and later years UT Care: 0.00% for fiscal 2024, 3.00% for fiscal 2025, 5.00% for fiscal 2026, 4.75% for fiscal 2027, 4.60% for fiscal 2028, 4.50% for fiscal 2029, 4.40% for fiscal 2030 and 4.30% for fiscal 2031 and later years
Pharmacy	10.00% for fiscal 2024, 9.50% for fiscal 2025, 9.00% for fiscal 2026, 8.00% for fiscal 2027, 7.00% for fiscal 2028, 6.00% for fiscal 2029, 5.00% for fiscal 2030 and 4.30% for fiscal 2031 and later years	10.00% for fiscal 2024, 9.50% for fiscal 2025, 9.00% for fiscal 2026, 8.00% for fiscal 2027, 7.00% for fiscal 2028, 6.00% for fiscal 2029, 5.00% for fiscal 2030 and 4.30% for fiscal 2031 and later years
Mortality:		
Service Retirees, Survivors and Other Inactive Members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018
Disabled Retirees	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014
Ad Hoc Post-Employment Benefit Changes	None	None

¹ The source of the municipal bond rate is the Bond Buyer Index of General Obligation Bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

The many actuarial assumptions used in the valuations were primarily based on the result of actuarial experience studies performed by the TRS retirement plan actuary as of Aug. 31, 2017 for higher education members. The mortality rates were based on the tables identified in table 110.

The following assumptions and other inputs have been adopted since the prior valuation to reflect future plan experience as expected by the actuaries attesting to the results of the valuation:

- a. the discount rate has changed for the A&M and UT Plans,

- b. the assumed per capita health benefit costs and health benefit cost trends to reflect increases in retiree cost sharing in UT Select and the implementation of UT Care effective Jan. 1, 2023 for the UT Plan and
- c. the expenses directly related to the payment of the UT Plan's health benefits.

The discount rate that was used to measure the TOL for each plan is the municipal bond rate of 3.64 percent for the A&M Plan and 3.72 percent for the UT Plan, as of the end of the measurement year; as of the

beginning of the measurement year, the discount rate was 2.14 percent and 2.06 percent, respectively.

There were no changes in benefit terms since the prior measurement date for the A&M Plan; however, there were changes in benefit terms since the prior measurement date for the UT Plan. These changes include increases in retiree cost sharing for retirees for whom Medicare is not primary and an increase in the employer funded life insurance coverage for retirees who do not opt out of the UT Plan's health benefit coverage upon retirement.

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's TOL. The results of the analysis are presented in table 11P for the A&M and UT Plans.

Sensitivity of Total OPEB Liability to Changes in Discount Rate			
Table 11P: A&M System and UT System			
For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)			
University System Plan	1% Decrease	Current Discount Rate	1% Increase
A&M Plan:			
Discount Rate	2.64 %	3.64 %	4.64 %
Balance	\$ 4,645,450	\$ 3,919,177	\$ 3,346,616
UT Plan:			
Discount Rate	2.72 %	3.72 %	4.72 %
Balance	\$ 11,541,848	\$ 9,768,107	\$ 8,365,128

Sensitivity analysis was performed on the impact of changes in the healthcare cost trend rates on the state's TOL. The results of the analysis are presented in table 11Q for the A&M and UT Plans.

Sensitivity of Total OPEB Liability to Changes in Healthcare Cost Trend Rates

Table 11Q: A&M System and UT System

For the Fiscal Year Ended August 31, 2023

(Amounts in Thousands)

University System Plan	1% Decrease	Current Rate	1% Increase
A&M Plan	\$ 3,268,985	\$ 3,919,177	\$ 4,774,326
UT Plan	\$ 8,155,993	\$ 9,768,107	\$ 11,890,417

Total OPEB Liability, Deferrals, and OPEB Expense

At Aug. 31, 2023, the state reported a liability of \$3.9 billion for the A&M Plan and \$9.8 billion for the UT Plan. The A&M Plan's TOL is comprised of a current portion of \$106.4 million and a noncurrent portion of \$3.8 billion, and the UT Plan's TOL is comprised of a current portion of \$251.6 million and a noncurrent portion of \$9.5 billion. The collective TOL was measured as of the measurement date for each respective plan. The schedule of changes in the state's TOL for the measurement dates Sept. 1, 2022 and Dec. 31, 2022 are presented in table 11R for the A&M and UT Plans, respectively.

Schedule of Changes in Total OPEB Liability

Table 11R - A&M System and UT System

For the Fiscal Year Ended August 31, 2023

(Amounts in Thousands)

Schedule of Changes	A&M Plan	UT Plan
Measurement Date	Sept. 1, 2022	Dec. 31, 2022
Total OPEB Liability		
Service Cost	\$ 234,264	\$ 1,059,373
Interest on the Total OPEB Liability	107,639	388,732
Changes of Benefit Terms		(63,735)
Changes of Assumptions or Other		
Inputs	(1,177,391)	(9,302,804)
Benefit Payments (Employer)	(81,792)	(249,004)
Net Change in Total OPEB Liability	(917,280)	(8,167,438)
Total OPEB Liability – Beginning	4,836,457	17,935,545
Total OPEB Liability – Ending	\$ 3,919,177	\$ 9,768,107

For the fiscal year ended Aug. 31, 2023, the state recognized OPEB expense of \$193 million for the A&M Plan and \$434.2 million for the UT Plan, respectively. At Aug. 31, 2023, the state reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources in table 11S for each plan.

The \$89 million reported as deferred outflows of resources for the A&M Plan and \$153.9 million for the UT Plan resulted from transactions subsequent to the measurement date, which will be recognized as a reduction in the TOL for the fiscal year ending Aug. 31, 2024.

Table 11T presents amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB that will be recognized in OPEB expense in the following years for each plan.

During the measurement period of fiscal 2023, the following A&M Plan change was updated by the A&M System. Beginning in fiscal 2024, for retirees for whom Medicare is primary, medical benefits will be provided through a fully insured Medicare Advantage Plan. This is expected to decrease the A&M Plan's TOL to \$2.5 billion for fiscal 2024, using the current discount rate of 3.64 percent.

During the measurement period of fiscal 2023, the following UT Plan change was updated by the UT System. Senate Bill 1055 passed by the 88th Legislature, Regular Session, added Stephen F. Austin State University (SFA) into the UT System. As a result, eligible employees of SFA will become members under the UT Plan. This is expected to increase the UT Plan's TOL to \$9.9 billion for fiscal year 2024, using the current discount rate of 3.72 percent.

Deferred Outflows of Resources and Deferred Inflows of Resources¹

Table 11S: A&M System and UT System
August 31, 2023 (Amounts in Thousands)

Deferral Type	A&M Plan		UT Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$	\$ 295,644	\$ 150,349	\$ 98,952
Changes of Assumptions or Other Inputs	729,507	1,163,247	3,000,879	9,304,903
Transactions Subsequent to the Measurement Date	89,002		153,938	
Total	<u>\$ 818,509</u>	<u>\$ 1,458,891</u>	<u>\$ 3,305,166</u>	<u>\$ 9,403,855</u>

¹ Both plans are a single-employer defined benefit OPEB plan. Due to statute requiring appropriations for funding the plans, the state reports a proportionate share in governmental activities and business-type activities. The change in proportion and contributions are recorded and amortized to expense as in a cost-sharing plan. However, since the amounts net for each plan between deferred outflows of resources and expense for this type of deferral, the amounts are not included in the above schedule.

Amortization Impact of Deferred Outflows of Resources and Deferred Inflows of Resources on OPEB Expense¹

Table 11T: A&M System and UT System
For the Fiscal Year Ended August 31, 2023
(Amounts in Thousands)

Year	A&M Plan	UT Plan
2024	\$ (162,644)	\$ (953,958)
2025	(55,956)	(891,999)
2026	(56,834)	(754,705)
2027	(110,707)	(688,145)
2028	(163,642)	(583,554)
Thereafter	(179,602)	(2,380,265)

¹ Negative amounts indicate an decrease in OPEB expense.

Note 12

Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions refer to financial interactions with legally separate entities, i.e., discrete component units and other governments, and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity with a requirement for repayment. These loans are reported as interfund receivables/payables and are classified as either current or noncurrent.

Interfund services are sales and purchases of goods and services for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year-end are accrued as due from/due to. Activity occurring within the same fund is eliminated. Additional eliminations are made and transfers in and out are netted and presented in the government-wide statement of activities as transfers-internal activities.

Certain reclassifications and eliminations are made between the fund financial statements and the govern-

ment-wide financial statements. Resource flows between the primary government and its discretely presented component units are reported as revenues and expenses, as if they were external transactions, on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and fiduciary funds are reported as transfers on the fund financial statements and are reclassified to revenues and expenses, as if they were external transactions, on the government-wide financial statements.

Due from/due to amounts between the primary government and the discretely presented component units are reported separately from due from/due to amounts between funds in the fund financial statements and the government-wide financial statements. Due from/due to amounts between governmental or business-type activities and fiduciary funds are reported as due from/due to amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/payables to fiduciary funds, as if they were external transactions, on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. These reimbursements are reported in the appropriate expenditure/expense category in the fund responsible for the payment.

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the general revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriations Act, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. There is a \$1.6 billion receivable for the Texas A&M University System from the University

of Texas System from permanent university funds. The earnings will be used for bond payments.

Significant transfers include a \$2.8 billion transfer from the property tax relief fund and a \$2.2 billion transfer from the lottery fund to the foundation school fund for educational programs. There is \$3.1 billion due from amount for the state highway fund from the Texas Comptroller of Public Accounts' office related to a November 2014 amendment to Article III, Section

49-g of the Texas Constitution. Under the amendment, a portion of the funds collected and deposited in the general revenue fund are transferred equally to the economic stabilization fund and the state highway fund. The funds were transferred to the state highway fund in November 2023.

The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2023, are presented in tables 12A-E.

Interfund Receivables/Payables						
Table 12A						
August 31, 2023 (Amounts in Thousands)						
Fund Type	Current		Noncurrent		Total	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
GOVERNMENTAL FUNDS						
General Fund	\$ 1,491	\$ 189	\$ 3,746	\$	\$ 5,237	\$ 189
Nonmajor Governmental Funds						
Total Governmental Funds	<u>1,491</u>	<u>189</u>	<u>3,746</u>	<u>0</u>	<u>5,237</u>	<u>189</u>
PROPRIETARY FUNDS						
Colleges and Universities	65,118	66,639	1,502,418	1,506,164	1,567,536	1,572,803
Nonmajor Enterprise Funds	219				219	
Total Proprietary Funds	<u>65,337</u>	<u>66,639</u>	<u>1,502,418</u>	<u>1,506,164</u>	<u>1,567,755</u>	<u>1,572,803</u>
Total Interfund Receivables/Payables	<u>\$ 66,828</u>	<u>\$ 66,828</u>	<u>\$ 1,506,164</u>	<u>\$ 1,506,164</u>	<u>\$ 1,572,992</u>	<u>\$ 1,572,992</u>

Due From/Due To

Table 12B

August 31, 2023 (Amounts in Thousands)

Fund Type	Due From			Due To		
	Other Funds	Primary Government	Component Unit	Other Funds	Primary Government	Component Unit
GOVERNMENTAL FUNDS						
General Fund	\$ 1,207,610	\$	\$	\$ 7,268,529	\$	\$
State Highway Fund	3,348,672			36,666		
Permanent School Fund	53		1,016	24		
Nonmajor Governmental Funds	1,047,484			231,534		
Total Governmental Funds	<u>5,603,819</u>	<u>0</u>	<u>1,016</u>	<u>7,536,753</u>	<u>0</u>	<u>0</u>
PROPRIETARY FUNDS						
Colleges and Universities	2,452,218			551,978		
Unemployment Trust Fund	7,485					
Lottery Fund				86,378		
Water Development Board Funds				3,903		
Nonmajor Enterprise Funds	123,141			33,736		
Internal Service Fund	6,150			25,820		
Total Proprietary Funds	<u>2,588,994</u>	<u>0</u>	<u>0</u>	<u>701,815</u>	<u>0</u>	<u>0</u>
FIDUCIARY FUNDS						
Pension and Other Employee Benefit Trust Funds	138,117			92,362		
Total Fiduciary Funds	<u>138,117</u>	<u>0</u>	<u>0</u>	<u>92,362</u>	<u>0</u>	<u>0</u>
DISCRETELY PRESENTED COMPONENT UNITS						
Total Due From/Due To	<u>\$ 8,330,930</u>	<u>\$ 0</u>	<u>\$ 1,016</u>	<u>\$ 8,330,930</u>	<u>\$ 1,016</u>	<u>\$ 0</u>

Transfers In/Transfers Out

Table 12C

For the Fiscal Year Ended August 31, 2023

(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
GOVERNMENTAL FUNDS		
General Fund	\$ 8,643,198	\$ 15,727,874
State Highway Fund	3,436,540	681,386
Permanent School Fund		123,644
Nonmajor Governmental Funds	2,621,770	5,059,293
Total Governmental Funds	<u>14,701,508</u>	<u>21,592,197</u>
PROPRIETARY FUNDS		
Colleges and Universities	10,200,906	1,417,409
Unemployment Trust Fund	758,691	758,691
Lottery Fund		2,161,541
Water Development Funds	99,816	13,461
Nonmajor Enterprise Funds	272,244	91,246
Total Proprietary Funds	<u>11,331,657</u>	<u>4,442,348</u>
FIDUCIARY FUNDS		
Pension and Other Employee Benefit Trust Funds	155,544	154,264
Custodial Funds	100	
Total Fiduciary Funds	<u>155,644</u>	<u>154,264</u>
Total Transfers In/Transfers Out	<u>\$ 26,188,809</u>	<u>\$ 26,188,809</u>

Internal Balances per the Government-wide Financial Statements

Table 12D

August 31, 2023 (Amounts in Thousands)

Internal Balances	Governmental Activities	Business-Type Activities	Total
Noncurrent Assets	\$ 3,746	\$ (3,746)	\$ 0
Current Liabilities	\$ 1,905,638	\$ (1,905,638)	\$ 0

Transfers – Internal Activities per the Government-wide Financial Statements

Table 12E

For the Fiscal Year Ended August 31, 2023

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	\$ (6,891,397)
Business-Type Activities	\$ 6,891,397

Note 13

Classification of Fund Balances/Net Position

A summary of the governmental fund balances by fund type and specific purpose as of Aug. 31, 2023, is presented in table 13A.

The classifications of nonspendable, restricted, committed, assigned and unassigned are the fund balance classifications according to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. With the exception of nonspendable fund balances, fund balances are presented based on each fund's specific purpose. For the general fund, special revenue funds, capital projects funds and nonmajor permanent funds, the specific purpose of the fund is determined by the Texas Legislature. The revenues received to fund the programs within the fund and the applicable expenditures allowed from the fund are derived through statute. The fund may support multiple programs within multiple agencies. The remaining unspent fund balances are determined to be restricted, committed, assigned or unassigned at fiscal year-end. Unassigned fund balances are then reported by the governmental function assigned to the agency.

Of the \$49.8 billion governmental funds total unassigned fund balance, \$17.5 billion is for the economic stabilization fund (ESF). The ESF was authorized by the *Texas Constitution*, Article III, Section 49g. This authorized a transfer to the ESF within 90 days after the end of the fiscal year. In November of each year, a transfer is made from the general revenue fund equal to 75 percent of the excess of the prior fiscal year net collections for oil and natural gas production taxes over 1987 collections. The transfer amount of each production tax is calculated separately and must be in excess of the 1987 threshold. An amendment to the *Texas Constitution*, passed in November 2014, amended the transfer to include the state highway fund. As of fiscal

2015, the ESF receives at least one-half of the 75 percent transferred with the remainder transferred to the state highway fund.

The ESF also receives a transfer from the general revenue fund, by the 90th day of each biennium, for one-half of any unencumbered positive balance remaining in the general revenue fund on the last day of the preceding biennium. The Texas Legislature may appropriate within the constitutional guidelines by a three-fifths vote of the members present in each house, amounts in the ESF that do not exceed the amount of any unanticipated deficit in a current biennium or anticipated revenue decline during the next biennium. The Texas Legislature may also appropriate any amount from the ESF for any purpose only if approved by at least two-thirds of the members present in each house.

The corpus of the permanent school fund (PSF) is classified as nonspendable, and the balance of the PSF is classified as restricted based on provisions in the *Texas Constitution* which limits the use of the PSF to the support of public free schools. The *Texas Constitution*, Article 7 describes the fund as permanent, specifically describes how the PSF may be spent and explicitly restricts the Texas Legislature from appropriating any part of the PSF to any other purpose. The *Texas Constitution* allows the PSF to be spent on:

- Transfers to the available school fund in accordance with constitutional requirements.
- Expenses of managing the PSF land and investments.
- Guaranteed bond payments in the event of default.

Accordingly, the portion of the fund balance that is spendable is classified as restricted based on constitutional provisions that limit the use of the PSF to these purposes. The remainder of the fund balance is classified as nonspendable, in alignment with the PSF's permanent nature as described in the *Texas Constitution*.

Restrictions of net position are listed on the face of the government-wide and proprietary statements of net position. Per GASB Statement No. 54, balances reported as restricted in the fund financial statements

plus the nonspendable permanent fund corpus balances are reported as restricted in the statement of net position. All other fund financial balances are reported as unrestricted in the statement of net position.

Governmental Fund Balances – Nonspendable, Restricted, Committed, Assigned and Unassigned

Table 13A

August 31, 2023 (Amounts in Thousands)

Governmental Fund	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Nonspendable for:					
Inventory	\$ 260,796	\$ 151,099	\$	\$ 3,680	\$ 415,575
Long-term Receivables	629,865				629,865
Permanent Principal	20,000		6,435,059	966,565	7,421,624
Prepaid Items	7,538		1	34	7,573
Total Nonspendable	<u>918,199</u>	<u>151,099</u>	<u>6,435,060</u>	<u>970,279</u>	<u>8,474,637</u>
Restricted for:					
Capital Purposes	209,823			815,549	1,025,372
Debt Service				195,668	195,668
Economic and Consumer Affairs	531,816			4,694	536,510
Education – Public Schools	376,289		58,373	1,352,459	1,787,121
Education – Loan Programs				1,392,262	1,392,262
Environment and Natural Resources - Other	152,263			3,731	155,994
Environment and Natural Resources - Water Programs	422			4,049,675	4,050,097
General Government ¹	180,647			79,717	260,364
Parks and Recreation	416,381			2,125	418,506
Public Health and Welfare – Federal Programs	61,606				61,606
Public Health and Welfare – Public Programs	1,614,655			129,115	1,743,770
Public Safety and Criminal Justice	128,492			15,037	143,529
Public Safety and Criminal Justice – Law Enforcement	18,414			12,971	31,385
Regulatory Agencies				20,529	20,529
Transportation – Construction		6,818,630			6,818,630
Transportation – Licensing and Regulation		118,592			118,592
Transportation – Maintenance		575,553			575,553
Transportation – Other	9,451	3,537,489		483,701	4,030,641
Total Restricted	<u>3,700,259</u>	<u>11,050,264</u>	<u>58,373</u>	<u>8,557,233</u>	<u>23,366,129</u>

Concluded on the following page

¹ General government is tasked with the collection of revenues that benefit the state overall and has expenditures that are not restricted to carry out specific programs or purposes. Included in the classification are the fund balances of state agencies that are semi-independent and do not receive appropriations for operating purposes.

Governmental Fund Balances – Nonspendable, Restricted, Committed, Assigned and Unassigned (concluded)

Table 13A

August 31, 2023 (Amounts in Thousands)

Governmental Fund	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Committed to:					
Capital Purposes	\$ 22,414	\$	\$	\$	\$ 22,414
Economic and Consumer Affairs	1,215,413				1,215,413
Education – Public Schools	4,530,796			15,803	4,546,599
Education – Loan Programs	250,892				250,892
Environment and Natural Resources - Other	3,150,802				3,150,802
Environment and Natural Resources Water Programs	86,592				86,592
General Government ¹	510,091			4,405	514,496
Parks and Recreation	141,703				141,703
Public Health and Welfare – Federal Programs	254				254
Public Health and Welfare – Public Programs	446,006				446,006
Public Safety and Criminal Justice	156,204				156,204
Public Safety and Criminal Justice – Corrections	29,642			57,615	87,257
Public Safety and Criminal Justice – Law Enforcement	15,118				15,118
Transportation – Other	9,593			145,708	155,301
Total Committed	<u>10,565,520</u>	<u>0</u>	<u>0</u>	<u>223,531</u>	<u>10,789,051</u>
Assigned to:					
Economic and Consumer Affairs	391				391
Education	482				482
Environment and Natural Resources - Other	2,670				2,670
General Government ¹	14				14
Public Safety and Criminal Justice – Corrections	1,843				1,843
Public Health and Welfare	123				123
Transportation – Other	124				124
Regulatory Agencies	100				100
Total Assigned	<u>5,747</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,747</u>
Unassigned:					
Education	(21,516,526)				(21,516,526)
Environment and Natural Resources	(325,150)				(325,150)
General Government ¹	72,345,891			(11,368)	72,334,523
General Government - ESF	17,480,076				17,480,076
Public Health and Welfare	(9,569,118)				(9,569,118)
Public Safety and Criminal Justice – Corrections	(8,849,784)				(8,849,784)
Regulatory Agencies	233,341				233,341
Transportation	(9,496)			(54)	(9,550)
Total Unassigned	<u>49,789,234</u>	<u>0</u>	<u>0</u>	<u>(11,422)</u>	<u>49,777,812</u>
Total Fund Balances – Governmental Funds	<u>\$ 64,978,959</u>	<u>\$ 11,201,363</u>	<u>\$ 6,493,433</u>	<u>\$ 9,739,621</u>	<u>\$ 92,413,376</u>

¹ General government is tasked with the collection of revenues that benefit the state overall and has expenditures that are not restricted to carry out specific programs or purposes. Included in the classification are the fund balances of state agencies that are semi-independent and do not receive appropriations for operating purposes.

Note 14

Restatement of Beginning Balances

During fiscal 2023, certain accounting changes and adjustments were made that required the restatement of

fund balances or net position. The beginning balances and all related restatements for the components of the state's financial reporting entity as of Aug. 31, 2023, are presented in table 14A and discussed on the following pages.

Restatements to Net Position/Fund Balances					
Table 14A					
For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)					
Fund Type	Sept. 1, 2022, As Previously Reported	Change in Accounting Principle	Change in Reporting Entity	Correction of Prior Year Errors	Sept. 1, 2022, As Restated
GOVERNMENT-WIDE ACTIVITIES:					
PRIMARY GOVERNMENT:					
Governmental Activities	\$ 113,388,645	\$ 2,733,988	\$ (42,265,087)	\$ (195,648)	\$ 73,661,898
Business-Type Activities	91,996,247	(3,222,250)		(6,752)	88,767,245
Total Primary Government	<u>\$ 205,384,892</u>	<u>\$ (488,262)</u>	<u>\$ (42,265,087)</u>	<u>\$ (202,400)</u>	<u>\$ 162,429,143</u>
Discrete Component Units	\$ 1,685,651	\$	\$ 42,265,076	\$ 3,416	\$ 43,954,143
FUND FINANCIAL STATEMENTS:					
GOVERNMENTAL FUNDS					
Major Governmental Funds:					
General Fund	\$ 45,131,534	\$	\$	\$ (102,377)	\$ 45,029,157
State Highway Fund	12,552,386	(2,555,281)			9,997,105
Permanent School Fund	56,810,663		(42,265,087)		14,545,576
Nonmajor Governmental Funds:					
Special Revenue Funds	5,850,674			11,129	5,861,803
Debt Service Funds	560,321				560,321
Capital Project Funds	658,695				658,695
Permanent Funds	1,806,096				1,806,096
Total Governmental Funds	<u>\$ 123,370,369</u>	<u>\$ (2,555,281)</u>	<u>\$ (42,265,087)</u>	<u>\$ (91,248)</u>	<u>\$ 78,458,753</u>
PROPRIETARY FUNDS					
Major Enterprise Funds:					
Colleges and Universities	\$ 83,163,835	\$ 3,511	\$	\$ (14,918)	\$ 83,152,428
Unemployment Trust Fund	2,209,171				2,209,171
Lottery Fund	(20,805)				(20,805)
Water Development Funds	5,344,126				5,344,126
Nonmajor Enterprise Funds	1,299,919	(3,225,761)		8,166	(1,917,676)
Total Proprietary Funds	<u>\$ 91,996,246</u>	<u>\$ (3,222,250)</u>	<u>\$ 0</u>	<u>\$ (6,752)</u>	<u>\$ 88,767,244</u>
Internal Service Fund	\$ 3,129,542	\$	\$	\$ 1	\$ 3,129,543
FIDUCIARY FUNDS					
Pension and Other Employee					
Benefit Trust Funds	\$ 221,307,819	\$ 762	\$	\$ 9,485	\$ 221,318,066
External Investment Trust Funds	32,353,280				32,353,280
Private-Purpose Trust Funds	4,420,107				4,420,107
Custodial Funds	4,440,342			(499,938)	3,940,404
Total Fiduciary Funds	<u>\$ 262,521,548</u>	<u>\$ 762</u>	<u>\$ 0</u>	<u>\$ (490,453)</u>	<u>\$ 262,031,857</u>
Total Reporting Entity ¹	<u>\$ 469,592,091</u>	<u>\$ (487,500)</u>	<u>\$ (11)</u>	<u>\$ (689,437)</u>	<u>\$ 468,415,143</u>

¹ Reporting entity includes primary government, discrete component units and fiduciary funds.

Restatements are grouped in table 14A by the following types of activity:

Changes in the Reporting Entity

Texas Permanent School Fund Corporation (Texas PSF) is a discretely presented component unit of the state of Texas. On Sept. 1, 2022, Texas PSF started business operations as a legally separate, special purpose governmental corporation. Restatements were necessary to establish Texas PSF as a business enterprise. An increase in net position of \$42.3 billion resulted from transfers of beginning asset and liability balances from the Texas Education Agency to Texas PSF; thereby, transferring the investment activities of the Permanent School Fund from the governmental permanent fund to the discretely presented component unit.

Changes in Accounting Principles

Three new GASB statements were implemented in fiscal 2023. These were GASB Statement No. 91, *Conduit Debt Obligations*, GASB Statement No. 94, *Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA)* and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*.

A \$546.8 thousand restatement increase is to record the effect of the implementation of GASB Statement No. 91 which allows the conduit debt issuer to assume no responsibility for debt service payments beyond the resources provided by the third-party obligor. This restatement was the result of conduit debt obligations being removed from the statement of net position of the issuer in Other Nonmajor Enterprise funds.

A \$492 million restatement decrease is to record the effect of the implementation of GASB Statement No. 94 which expanded the reporting requirements for all types of government contracts with operators to provide public services. Adjustments were made to the State Highway Fund for a decrease of \$2.6 billion, \$965.5

thousand increase to Colleges and University funds and \$3.2 billion decrease to Other Nonmajor Enterprise funds. A \$2.8 billion increase is recorded, as part of the change in governmental activities, consisting of a \$1.5 billion decrease in capital assets with a corresponding increase of \$6.3 billion to long-term liabilities and \$487.6 million increase in deferred revenue.

A \$3.9 million increase is to record the effect of the implementation of GASB Statement No. 96. The objective of this statement relates to capturing the long-term obligations which result from IT subscription contracts and the corresponding intangible right-to-use subscription assets. College and University funds account for \$2.5 million of the increase, Pension and Other Employee Benefit Trust funds increased by \$761.6 thousand and capital assets increased by \$636.9 thousand.

Correction of Prior Year Errors

Government-wide activities: Governmental activities include a restatement decrease of \$195.6 million consisting of \$102.4 million decrease in the General Fund, \$11.1 million increase in Special Revenue funds and \$104.4 million decrease in governmental activities and a minor change in Internal Service Fund. The restatement to governmental activities consists of \$114.8 million decrease in construction in progress, \$10.3 million increase in capital asset valuation, with the remaining \$15.6 thousand decrease in long-term liabilities.

Fund Financial Statements-Governmental: The restatements for governmental funds related to the \$102.4 million decrease in the General Fund primarily include an increase of \$1.1 million in general revenue, a decrease of \$103.5 million primarily from decrease adjustments in due to and due from other agencies, federal receivables and prepaid expenses.

Special Revenue funds had a decrease of \$4.2 million primarily consisting of a restatement for a lump sum retiree payout.

Fund Financial Statements-Proprietary: The restatement of proprietary funds is a decrease of \$6.8 million consisting of a decrease of \$14.9 million in College and University funds and an increase of \$8.2 million in Other Nonmajor Enterprise funds. The restatement to College and University funds consists of a decrease of \$3.5 million in construction in progress, \$5.5 million decrease in general revenue, \$6.7 million decrease in audit adjustments and other expenses and \$773.3 thousand increase in capital asset valuation. The restatement to Other Nonmajor Enterprise funds consists of \$8 million increase in merchandise inventory

and the remaining \$141.9 thousand is an increase to investment balances.

Fund Financial Statements-Fiduciary: The restatement of fiduciary funds is a decrease of \$490.5 million consisting of \$9.5 million increase in Pension and Other Employee Benefit Trust funds from long-term liabilities and a decrease in interest receivables and \$500 million decrease in Custodial funds from an over-payment in the refund of revenue.

The restatements to Change in Net Position as of Aug. 31, 2023, are presented in table 14B.

Restatements to Change in Net Position							
Table 14B							
For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)							
Fund Type	Sept. 1, 2021 Net Position, As Restated	Change in Net Position Aug. 31, 2022 As Previously Reported	Change in Accounting Principle	Change in Reporting Entity	Correction of Prior Year Errors	Change in Net Position Aug. 31, 2022 as Restated	Net Position Sept. 1, 2022 as Restated
GOVERNMENT-WIDE ACTIVITIES:							
PRIMARY GOVERNMENT:							
Governmental Activities	\$ 73,257,606	\$ 40,131,039	\$ 2,733,988	\$ (42,265,087)	\$ (195,648)	\$ 404,292	\$ 73,661,898
Business-Type Activities	85,276,337	6,719,910	(3,222,250)		(6,752)	3,490,908	88,767,245
Total Primary Government	<u>\$ 158,533,943</u>	<u>\$ 46,850,949</u>	<u>\$ (488,262)</u>	<u>\$ (42,265,087)</u>	<u>\$ (202,400)</u>	<u>\$ 3,895,200</u>	<u>\$ 162,429,143</u>
Discrete Component Units	\$ 992,324	\$ 693,327	\$	\$ 42,265,076	\$ 3,416	\$ 42,961,819	\$ 43,954,143

Note 15

Commitments and Contingencies

Commitments

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes. These loan commitments are provided from remaining current bond proceeds, future bond proceeds and federal drawdowns. The Texas Water Development Board has loan commitments of \$3.2 billion as of Aug. 31, 2023. The Texas Department of Transportation (TxDOT) has equity loan commitments of \$8.7 billion. The \$8.7 billion is used by the Grand Parkway Transportation Corporation to pay for certain costs related to development, construction, operation, maintenance and financing of projects in Harris County and possible extensions or expansions of the Grand Parkway in the Houston area.

Investment Funds

As of Aug. 31, 2023, state agencies, public employee retirement systems and institutions of higher education have entered into capital commitments with investment managers for future funding of investment funds. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. As of Aug. 31, 2023, the remaining commitment was \$68.7 billion.

Construction and Other Commitments

As of Aug. 31, 2023, TxDOT had contractual commitments of approximately \$22.1 billion for construction and comprehensive developments. These are not recognized liabilities because the terms of the contracts or agreements were not met and benefits were not received as of the end of the fiscal year.

Additionally, TxDOT is party to several pass-through toll agreements with local entities. Under these

agreements, the local entities will finance, design and construct certain roadway projects and may maintain them for a specified period of time. Upon completion of the projects, TxDOT will make payments (i.e., pass-through toll payments) to the entities based on traffic utilization of the roadways and other payment requirements governed by the agreements. Motorists traveling these roadways will not be required to pay a toll. Estimated payments under the agreements are included as notes payable as each project is completed. Liabilities for uncompleted agreements are not recognized. As of Aug. 31, 2023, there is no unrealized payable for pass-through toll agreement. In addition, TxDOT has equity grant commitments of \$105.9 million to various local toll project entities.

The University of North Texas System implemented approximately \$394.2 million in capital commitments for construction and renovation of various facilities in numerous stages of development.

The Texas Parks and Wildlife Department had contractual commitments of approximately \$172 million for facilities and other improvements, building replacements, building maintenance and repairs, infrastructure and infrastructure maintenance and repairs.

The University of Texas System continues to implement its \$8.6 billion capital improvement program, planned for fiscal 2024 through fiscal 2029, to upgrade facilities. Contracts have been entered into for the construction and renovation of various facilities. These projects are in various stages of completion.

Contingencies

Protested Tax Payments

As of Aug. 31, 2023, pending litigation filed by taxpayers seeking refunds of state taxes totaled \$214.3 million. The protested taxes include sales, franchise, insurance and other taxes, as well as statutory interest imposed by *Texas Tax Code*, Section 112.060(a). Although the outcome of these cases cannot presently

be determined, adverse rulings in some of them could result in significant additional refund liabilities.

Unpaid Claims and Lawsuits

A variety of cases that may affect the state were filed as of Aug. 31, 2023. These claims totaled \$280.6 million and include a number of lawsuits and claims significant to individual state agencies. Although the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Additionally, TxDOT filed cases exercising eminent domain for \$515.9 million.

Federal Assistance

The state receives federal financial assistance subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state but is considered immaterial to its overall financial condition.

The Office of the Attorney General and the Texas Health and Human Services Commission's Office of Inspector General investigate allegations of overpayments to Medicaid providers. Until investigations are completed, the total amount of overpayments to providers is potentially subject to recovery (amounts associated with the open case list) and may represent a corresponding potential liability for the federal share of these payments - about 55 to 60 percent of that total.

An actual liability is realized only after a completed investigation substantiates an overpayment and the provider is notified of the results and given an opportunity to submit rebuttal or claims for offsets. The percent of total dollars on the open case list that are ultimately confirmed as overpayments cannot be reliably predicted. The state estimates the amounts that may become pay-

able to the federal government will be immaterial to its overall financial condition.

The funds for the Lost Wages Assistance Program came from the Federal Emergency Management Agency. A small percentage of the unemployment benefits were to individuals who may not have been entitled to receive them whether by error or by fraudulent activities. As of Aug. 31, 2023, this amount is estimated at \$4.2 million. It is uncertain if this amount will eventually be remitted to the Federal Emergency Management Agency.

Guaranteed Debt

In 1983, Texas voters approved a constitutional amendment authorizing the guarantee of the permanent school fund (PSF). Approval by the state of Texas attorney general is required for each bond issuance and on approval by the Texas commissioner of education, bonds properly issued by a school district are fully guaranteed by the PSF. In 2011, legislation was enacted further authorizing the use of PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools designated as charter districts by the commissioner of education. As of Aug. 31, 2023, PSF has a defined guarantee capacity of up to \$153.7 billion in school district bonds. In the event of default by a school district or charter district, the PSF will transfer to the paying agent/registrant an amount necessary to pay the maturing or matured principal and/or interest to bondholders. As of Aug. 31, 2023, \$111.6 billion debt in outstanding bond issues was guaranteed by the PSF for 857 school districts and \$4.1 billion for 32 charter districts within the state. Under statute, payments by the PSF on such guarantees are recoverable from the state of Texas. These dollar amounts represent the principal amount and do not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities), nor do they include interest on current interest bonds or variable rate notes. These

amounts also exclude bonds that were refunded and released from the bond guarantee program. From the inception of the program through Aug. 31, 2023, none of the school districts or charter districts with PSF guaranteed debt have defaulted on the debt.

Arbitrage

Rebatable arbitrage is defined by *Internal Revenue Code*, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and institutions of higher education responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that the rebatable arbitrage liability, if any, will be immaterial to the overall financial condition.

Bond Yield Reduction

Pursuant *Internal Revenue Code*, Section 143(g) (2), pertaining to the effective rate of mortgage interest on home loans originated with proceeds of tax-exempt qualified veterans' mortgage bonds cannot exceed the yield on the applicable bond issue by more than 1.125 percent. To the extent that such limitation is exceeded, the Veterans' Land Board may pay a yield reduction payment to the federal government. As of Aug. 31, 2023 there is an accumulated yield reduction liability of \$21.1 million with respect to tax-exempt bonds issued by the Veterans' Land Board.

Derivative Commitments

All of the Texas Department of Housing and Community Affairs' (TDHCA) hedging derivative instruments include provisions that require posting collateral

in the event its credit rating falls below a specified level as issued by Moody's Investor Service and Standard & Poor's. If TDHCA fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. As of Aug. 31, 2023, the aggregate fair value of all derivative instruments with collateral provisions was negative \$171.1 thousand. If the posting requirements had been triggered, TDHCA would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments. Since the posting requirements were not triggered, TDHCA posted no collateral as of Aug. 31, 2023.

The Teacher Retirement System of Texas (TRS) derivative investments include provisions that require TRS to post collateral in the event that the fair value surpasses a specified contractual threshold. As of Aug. 31, 2023, the aggregate fair value of all derivative instruments with these provisions was \$90.5 million, and \$260.8 million was posted as collateral. TRS has not triggered any events that would require the posting of additional collateral to its counterparties.

As of Aug. 31, 2023, the Texas General Land Office (GLO) had outstanding natural gas commitments/open positions with third parties valued at negative \$12.7 million. Power contracts are priced off Electricity Reliability Council of Texas (ERCOT) grid. The fair value of future cash flows from electric contracts is not reported because the electric service provider is responsible for hedging these transactions and GLO simply has a credit risk related to these future cash flows.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded and Other Debt Financing

State agencies and institutions of higher education issued \$1.6 billion in new bonds and \$1 billion in commercial paper since Aug. 31, 2023, as presented in table

16A. There were \$564.3 million in refunding bonds issued during this time period. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

Bonds and Commercial Paper Issued/Refunded Subsequent to August 31, 2023			
Table 16A			
(Amounts in Thousands)			
Description	Amount	Issuance Date	Purpose
TEXAS AFFORDABLE HOUSING CORPORATION			
Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds (Eden Court Apartments Project)	\$ 14,726	09/01/23	Multifamily housing revenue bonds
Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds (Norman Commons)	\$ 31,500	12/01/23	Multifamily housing revenue bonds
DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS			
Residential Mortgage Revenue Bonds, Series 2023BC	\$ 250,000	09/27/23	Bonds are being issued for the primary purpose of providing funds for the purchase of mortgage-backed securities guaranteed as timely payments of principle and interest by Government National Mortgage Association ("Ginnie Mae")
Single Family Mortgage Revenue Bonds, Series 2023CD	\$ 250,000	12/20/23	Bonds are being issued for the primary purpose of providing funds for the purchase of mortgage-backed securities guaranteed as timely payments of principle and interest by Government National Mortgage Association ("Ginnie Mae")
TEXAS PUBLIC FINANCE AUTHORITY			
Revenue Commercial Paper Notes (TFC), Taxable Series 2016A	\$ 1,200	09/12/23	Fund various projects of Texas Facilities Commission
General Obligation Commercial Paper Notes, Taxable Series A, Cancer Prevention and Research Institute of Texas (CPRIT)	\$ 92,800	10/03/23	Fund CPRIT grant awards
Revenue Commercial Paper Notes, Series 2019A	\$ 30,000	10/19/23	Fund various projects for Texas Health and Human Services Commission
General Obligation and Refunding Bonds, Taxable Series 2023A	\$ 298,400	11/15/23	Refund outstanding GO CP Notes CPRIT A (Taxable) and fund grants made by CPRIT for cancer research and prevention, and pay for the operation of CPRIT during FY2024
Revenue Commercial Paper , Series 2019A	\$ 5,000	01/10/24	Fund HHSC deferred repair and rehabilitation projects at state hospitals and state supported living centers
Revenue Commercial Paper , Series 2019A	\$ 30,000	02/01/24	Fund HHSC deferred repair and rehabilitation projects at state hospitals and state supported living centers

Concluded on the following page

Bonds and Commercial Paper Issued/Refunded Subsequent to August 31, 2023 (concluded)

Table 16A

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
TEXAS WATER DEVELOPMENT BOARD			
State Water Implementation Revenue Fund for Texas (SWIRFT) Revenue Bonds, Series 2023A	\$ 1,007,490	10/12/23	To provide financial assistance for projects in the State Water Plan through the purchase of or entering into political subdivision obligations and to pay the costs of issuance of the bonds. As a part of the closing on the bonds, \$98.8 million was transferred from the State Water Implementation Fund for Texas to SWIRFT.
State Water Implementation Revenue Fund for Texas (SWIRFT) Revenue Bonds, Series 2023B	\$ 5,080	10/12/23	To provide financial assistance for projects in the State Water Plan through the purchase of or entering into political subdivision obligations and to pay the costs of issuance of the bonds.
TEXAS DEPARTMENT OF TRANSPORTATION			
Texas Private Activity Bond Surface Transportation Corporation Senior Lien Revenue Refunding Bonds, Series 2020B	\$ 265,900	11/20/23	To refund outstanding conduit debt issued to finance the North Tarrant Express Segment 3 Managed Lanes Project
TEXAS TECH UNIVERSITY SYSTEM			
Revenue Financing System Commercial Paper Notes, Tax-Exempt, Series A	\$ 10,000	09/27/23	Acquire new proceeds for construction of TTU Academic Sciences Building.
Revenue Financing System Commercial Paper Notes, Taxable Series A	\$ 3,300	09/27/23	Acquire new proceeds for construction of TTU Athletics Rip Griffin Park Renovation
Revenue Financing System Commercial Paper Notes, Tax-Exempt Series A	\$ 20,000	12/05/23	Acquire new proceeds for construction of TTU Academic Sciences Building
Revenue Financing System Commercial Paper Notes, Taxable Series A	\$ 4,500	12/05/23	Acquire new proceeds for construction of TTU Academic Sciences Building, Museum East Wing Expansion, and Talkington CVPA Phase II
Revenue Financing System Commercial Paper Notes, Tax-Exempt Series A	\$ 2,700	01/08/24	Acquire new proceeds for construction of TTU National Ranching Heritage Center
TEXAS STATE UNIVERSITY SYSTEM			
Commercial Paper Notes, Tax-Exempt	\$ 10,500	10/03/23	To finance capital projects.
Commercial Paper Notes, Tax-Exempt	\$ 15,226	12/06/23	To finance capital projects.
Commercial Paper Notes, Tax-Exempt	\$ 400	01/24/24	To finance capital projects.
TEXAS A&M UNIVERSITY SYSTEM			
Revenue Financing System Commercial Paper Notes	\$ 35,000	09/05/23	To provide interim financing for construction projects.
Revenue Financing System Taxable Commercial Paper Notes	\$ 40,000	09/05/23	To provide interim financing for construction projects.
Revenue Financing System Commercial Paper Notes	\$ 45,000	10/26/23	To provide interim financing for construction projects.
Revenue Financing System Taxable Commercial Paper Notes	\$ 55,000	10/26/23	To provide interim financing for construction projects.
Permanent University Fund Taxable Commercial Paper Notes	\$ 85,000	01/19/24	To provide interim financing for construction projects.
UNIVERSITY OF TEXAS SYSTEM			
Revenue Financing System (RFS) Commercial Paper Notes, Series B	\$ 41,000	09/20/23	To finance a variety of capital projects and equipment purchases.
Revenue Financing System (RFS) Commercial Paper Notes, Series B	\$ 50,000	11/01/23	To finance a variety of capital projects and equipment purchases.
RFS Taxable Commercial Paper Notes, Series B	\$ 250,000	11/28/23	To finance a variety of capital projects and equipment purchases.
Permanent University Fund Tax-Exempt Commercial Paper Notes, Series A	\$ 200,000	12/05/23	To finance a variety of capital projects and equipment purchases.
Total Bond and Commercial Paper Issued/Refunded	<u>\$ 3,149,722</u>		

Other Subsequent Events

At the Oct. 19, 2023 board meeting, the Veteran's Land Board (VLB) updated its investment policy statement changing the investment officer from the chief investment officer to the director of bond funds management. Additionally, the VLB Board changed the interest rates on land loans from 6.95 percent to 7.25 percent effective for loans applied for on or after October 23, 2023.

During November 2023, in accordance with Section 204.123(a) of the *Labor Code*, \$28.4 million was transferred from the Employment Training Investment Act (ETIA) Holding Fund to the Skills Development Program since the amount in the Unemployment Trust Fund Account was above the statutorily defined floor as computed under Section 201.061, calculated as one percent of total taxable wages for the four calendar quarters ending June 30, 2023.

During the 88th Regular Legislative Session, House Bill 1, the *General Appropriation Act*, included a one-time appropriation payment of \$588.5 million for Teacher Retirement System to keep the average premium rate increase in TRS-ActiveCare below 10 percent. This payment will be paid in late October 2023. Senate Bill 10 also passed to provide two types of benefit enhancements to eligible annuitants in the amount of \$1.6 billion. The stipends, regardless of annuity amount, were paid in September 2023 as follows:

- A one-time \$7,500 stipend to eligible annuitants who are 75 years of age and older
- A one-time \$2,400 stipend to eligible annuitants ages 70 to 74.

House Joint Resolution 2 was approved by Texas voters in the Nov. 7, 2023 constitutional amendments election to provide cost of living adjustments (COLA) to be paid in January 2024 based on retirement dates of eligible retirees. The cost of living adjustments will be paid in the following manner:

- 2% COLA for eligible retirees who retired between Sept. 1, 2013 through Aug. 31, 2020
- 4% COLA for eligible retirees who retired between Sept. 1, 2001 through Aug. 31, 2013
- 6% COLA for eligible retirees who retired on or before Aug. 31, 2001.

The 88th Texas Legislature appropriated one-time payments of \$772 million to the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS) and \$99 million to Judicial Retirement System of Texas Plan Two (JRS II) to pay-off the unfunded accrued actuarial liability. These payments were received in September 2023 and will be reflected in Employees Retirement System of Texas (ERS's) financial statements for the year ending Aug. 31, 2024.

The 88th Texas Legislature passed Senate Bill 28 and Senate Joint Resolution 75 providing for the creation of the Texas Water Fund. In addition, Senate Bill 30 authorized a one-time, \$1 billion supplemental appropriation of general revenue to the Texas Water Fund, contingent on enactment of SB 28 and approval of SRJ 75 by voters. On November 7, 2023, the voters of Texas approved the supporting Texas Constitutional amendment authorizing the creation of the Texas Water Fund and the \$1 billion appropriation.

On Nov. 17, 2023, Moody's Investors Service upgraded Grand Parkway Transportation Corporation's (GPTC) \$1.6 billion first tier toll revenue bond and note rating to A1 from A2 and maintained a stable outlook. The upgrade of GPTC's first tier revenue bonds to A1 reflects strong revenue collection that has exceeded both GPTC's and Moody's prior forecasts and the successful completion of segments H and I of the Grand Parkway toll road.

On Sept. 1, 2023, the Stephen F. Austin State University was reestablished in statute as a member of the University of Texas System (UT System) pursuant to legislation enacted by the 88th Texas Legislature. Prior to that date, SFA was an independent public university

within the state of Texas. As of this date, SFA's Board of Regents was dissolved and the university became subject to the authority of the UT System Board of Regents and eligible to participate in the Permanent University Fund Bond program provided by Section 18, Article VII, *Texas Constitution*, to the same extent as similar institutions of the UT System. At its August 2023 meeting, the UT System Board of Regents approved an operating budget for SFA of \$249 million for fiscal 2023-2024. In September and November 2023, the UT System Board of Regents issued and repaid a combined \$8.2 million of UT System Revenue Financing System Taxable Commercial Paper Notes, Series B related to SFA's Forestry, Agriculture and Interdisciplinary Project. SFA has engaged an architect to assist in the design and development stage of the project. In September 2023, Moody's Investor Services upgraded the revenue bond ratings for SFA from Aa1 to A1 with a stable ratings outlook. This upgrade reflects the university's new status as a member of the UT System. In August 2023, Fitch Ratings affirmed its A+ bond rating on various Revenue Financing System (RFS) bonds previously issued by the SFA Board of Regents with a stable ratings outlook. Although SFA is part of the UT System as of Sept. 1, the previously issued SFA bonds are secured only by the university's legally available revenues and fund balances rather than by those of the entire UT System.

On Dec. 18, 2023, The University of Texas at Austin and The University of Texas MD Anderson Cancer Center received approval to implement the Definition Phase of The University of Texas at Austin - MD Anderson Joint Medical Center project. Approval of this request will allow the expenditure of up to \$145 million to complete the Definition Phase.

On Nov. 7, 2023, Texas citizens voted in favor of a constitutional amendment to create the Texas University Fund (TUF), a permanent endowment to support academic teaching institutions in Texas in achieving national prominence as major research universities. Texas Tech

University System (TTU System) will receive the highest level of funding offered by TUF, an estimated \$44 million per year, with the first funds expected in early 2024. Eligible institutions, including TTU System, are entitled to include a portion of the TUF corpus when reporting institutional endowment funds. TTU System estimates their portion of the TUF corpus to be approximately \$975 million, providing a significant positive effect on the university's endowment.

University of North Texas System (UNT System) will also participate in Texas University Fund, a permanent endowment that will generate more than \$22 million per year for UNT System to fund vital research, elevate national rankings, and create more career-ready graduates to help drive the Texas economy.

On Nov. 7, 2023, Texas voters approved Proposition 14, Creation of the Centennial Parks Conservation Fund. The proposition amends the state constitution to create the Centennial Parks Conservation Fund as a trust fund outside of the state treasury. The fund consists of money:

- Appropriated, credited or transferred by the legislature
- Gifts, grants and donations received by the Parks and Wildlife Department
- Investment earnings.

Money in the fund is to be used to create and improve state parks. The Texas Legislature also passed Senate Bill 1648, the implementing legislation, during the 2023 regular legislative session. SB 1648 amended the *Parks and Wildlife Code* to authorize the Parks and Wildlife Department (TPWD) to administer the proposed fund. SB 1648 authorized the TPWD to request a disbursement from the fund to acquire property in Texas to create and improve state parks. The bill prohibits money in the fund to be used for department salaries, employee benefits, costs associated with employee benefits or the administration of the department, or the maintenance and operation of state parks. It will take effect on Jan. 1, 2024.

Note 17

Risk Management

The state of Texas is exposed to various risks of loss related to property, general and employer liability, net income and personnel. The state of Texas and its employees are covered by numerous immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against the state or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance or a combination of these risk financing techniques.

Estimates of liabilities for incurred but not reported claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. Claims liabilities include specific, incremental claims adjustment expenditures/expenses. In addition, estimated recoveries on unsettled claims, such as salvage and subrogation, are evaluated in terms of their estimated realizable value and deducted from the liability for unpaid claims. Unallocated claim adjustment expenditures/expenses are not included in the liability for claims and judgments.

There were no significant reductions in insurance coverage in the past year. Also, in the past three years, settlements have not exceeded insurance coverage.

Property and Liability

The *Texas Labor Code*, Chapter 412, states that the State Office of Risk Management (SORM) shall operate as a full-service risk and insurance manager for state agencies and shall administer programs to reduce property and liability losses, including workers' compensation losses.

SORM administers the statewide workers' compensation program. The state does not carry commercial insurance for workers' compensation, but instead uses

the general revenue fund to account for its risk financing activities. Certain agencies are exempt from the SORM program or elect to purchase additional insurance coverage outside of the program. The University of Texas System (UT System), Texas A&M University System (A&M System) and Texas Department of Transportation administer separate self-insured workers' compensation programs.

Where applicable, certain agencies purchased fire and extended insurance coverage for buildings financed through the issuance of bonds. Other risks are addressed through a combination of interim financing and commercial coverage for fire and all other perils, as well as coverage for medical malpractice, torts, named windstorms, floods and other potential liabilities.

Health, Life and Dental

Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. All state employees not covered by insurance plans provided by the UT System and the A&M System are included in the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas. Public school employees and their dependents are covered by the Texas School Employees Uniform Group Benefits Program (TRS-ActiveCare) administered by the Teacher Retirement System of Texas. Risk of loss is retained with self-insured plans or transferred to the insurance carrier with health maintenance organization (HMO) plans.

Texas Employees Group Benefits Program

Claims for health, life, vision, accidental death and dismemberment (AD&D), disability and dental insurance coverages are established under the GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, HMO contracts and dental HMO contracts.

UT System & A&M System

The UT System and the A&M System provide health insurance, dental insurance, vision insurance, life insurance, AD&D, long-term disability, short-term disability, long-term care and flexible-spending account coverages to all benefits-eligible employees. These insurance benefits are provided through both self-funded and fully insured arrangements.

Teacher Retirement System

TRS-ActiveCare is a health benefits program that offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan at higher premiums. TRS-ActiveCare covers members currently employed by public educational employers that participate in the plan.

TRS-ActiveCare offers employees of participating entities the option of three preferred provider organization plans and also offers employees of certain areas the option of choosing coverage under an HMO plan. In fiscal 2023, 1,241 entities participated in the program. The risk associated with TRS-ActiveCare is retained by the plan's participants, and no risk is transferred to the plan administrator, employers or the state.

Changes in Claims Liability Balances

The changes in claims liability reported in various balance sheet/statement of net position liability accounts during fiscal 2022 and fiscal 2023, are presented in table 17A. Claims and judgment amounts presented in Note 5 are also included in table 17A.

Of the fiscal 2023 claims liability ending balance, \$729.7 million relates to long-term claims liabilities, which are reported in Note 5 and \$836.6 million relates to the state's health, life and dental insurance programs and the remainder to miscellaneous claims and judgments, all of which are reported as accounts payable.

Note 18

Contested Taxes

The state may assess a tax liability against one or multiple taxpayers. Taxpayers may petition for a redetermination hearing before an administrative law judge if they wish to contest a tax liability assessed by the state. If the request for a redetermination hearing is received by a specified date, the taxpayer is not obligated to pay the tax liability until 20 days after a final decision is made by the Texas Comptroller of Public Accounts (Comptroller's office) in a redetermination hearing and served on the taxpayer. As of Aug. 31, 2023, there was an estimated \$480.4 million of assessments filed that are currently in the redetermination hearing process. Collectability of these assessments is dependent upon the Comptroller's office decision in the redetermination hearing. These assessments are not recognized as tax revenue until after a Comptroller's office decision becomes final. Therefore, contested taxes are not included in the receivables reported in the financial statements.

Changes in Claims Liability Balances

Table 17A

August 31, 2023 (Amounts in Thousands)

Year	Beginning Balance	Increases	Decreases	Ending Balance
2022	\$ 1,135,029	\$ 6,466,542	\$ 6,421,895	\$ 1,179,676
2023	\$ 1,179,676	\$ 7,116,589	\$ 6,729,135	\$ 1,567,130

Note 19

Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. Other component units are discretely presented. Two of the discrete component units for the state of Texas are presented as major component units on the combined statements. The remaining nonmajor discrete component units are presented for informational purposes of interested parties in the combining statements. The component units are reported for the fiscal year ended Aug. 31, 2023 unless indicated otherwise.

Blended Component Units

The state is financially accountable for the following legally separate entities. These component units are reported as if they are part of the primary government because they provide substantially all of their services directly to the state, or the component units' debts are expected to be repaid entirely or almost entirely with the resources of the state. The component units' financial data is blended in the appropriate funds within the financial statements.

Texas Private Activity Bond Surface Transportation Corporation (TxPABST) is a legally separate entity that acts on behalf of the Texas Department of

Transportation (TxDOT) in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements (CDA) entered into by TxDOT. Bonds issued by TxPABST are not legal obligations of the state and are payable solely from payments received by or on behalf of a CDA developer. TxPABST is blended rather than discretely presented because the Texas Transportation Commission (TTC) appoints the voting majority of TxPABST's governing board, and has the ability to remove appointed board members at will. TxPABST does not have any financial activity, as its sole purpose is to issue debt on behalf of TxDOT. TxPABST does not issue separate financial statements. Information about TxPABST may be obtained by contacting TxPABST at 125 East 11th St., Austin, Texas 78701.

Grand Parkway Transportation Corporation (GPTC) is a legally separate entity that acts on behalf of TxDOT in the promotion and development of the Grand Parkway project by issuing bonds and entering into CDAs with developers for the design and construction of several segments of the Grand Parkway project. TTC appoints the members of GPTC's governing board, all of whom must be TxDOT employees. GPTC is blended rather than discretely presented because all members of the board are appointed by TTC and they have the ability to remove appointed board members at will. The financial activity of GPTC is reported in the financial statements of TxDOT. Information about GPTC may be obtained by contacting GPTC at 125 East 11th St., Austin, Texas 78701.

Employees Retirement System of Texas (ERS) is a legally separate entity established by the Texas Legislature to administer benefits for officers and employees of the state. ERS is governed by a six-member board of trustees. The six-member board is composed of three elected members and three members who are appointed respectively by the governor, the speaker of the Texas

House of Representatives, and the chief justice of the Supreme Court of Texas. ERS is blended rather than discretely presented because the state of Texas has the ability to impose its will upon ERS through its legislative and budget approval powers. Separate financial statements may be obtained by contacting ERS at P.O. Box 13207, Austin, Texas 78711.

Texas Treasury Safekeeping Trust Company

(Trust Company) is a legally separate entity established by the Texas Legislature. The Texas Comptroller of Public Accounts (Comptroller's office) is the single shareholder of the Trust Company and is charged with managing the Trust Company. The Trust Company is blended rather than discretely presented because the Comptroller's office is the single shareholder of the Trust Company and their activities benefit the state. The Trust Company is authorized to manage, disburse, transfer, safe-keep and invest funds and securities provided by statute or belonging to state and local entities and gives the Comptroller's office direct access to services provided by the Federal Reserve System. Separate financial statements may be obtained by contacting the Trust Company at 208 E. 10th St., 4th Floor, Austin, Texas 78701.

Alamo Trust, Inc. (ATI), (formerly known as Alamo Complex Management), is a legally separate entity, established to operate exclusively for the benefit of the Texas General Land Office (GLO). ATI is blended rather than discretely presented because GLO appoints a majority of ATI, has the ability to remove board members at will, has the ability to modify or approve the budget of ATI, has the ability to modify or approve the rates of ATI affecting the revenue of ATI, has the ability to veto, overrule or modify the decisions of ATI's governing body, has the ability to appoint, hire, reassign or dismiss those persons responsible for ATI's day-to-day operations and its ability to unilaterally abolish ATI by ordering ATI to cease operations. ATI is reported for the fiscal year ended June 30, 2023. Infor-

mation about ATI may be obtained by contacting GLO at 1700 N. Congress Ave., Austin, Texas 78701.

Windham School District (WSD) is a legally separate entity that provides education to offenders within the Texas Department of Criminal Justice. The Texas Board of Criminal Justice serves as the board of trustees for WSD. WSD is blended rather than discretely presented because the primary government is able to impose its will on WSD through its ability to modify or approve the budget of WSD. WSD's entire debt is covered by the state of Texas through appropriations, and the state is liable for any and all outstanding debt. WSD does not issue separate financial statements. Information about WSD may be obtained by contacting the Texas Department of Criminal Justice at P.O. Box 13034, Austin, Texas 78711.

Friends of the Texas Historical Commission

(Friends) is a legally separate entity whose sole purpose is to support the activities of the Texas Historical Commission (THC). Friends is reported as a component unit due to it being closely related to the primary government. Friends is blended rather than discretely presented because the primary government can appoint and remove board members at will. THC provides office space and administrative services that include staff support to Friends. In addition, the staff of Friends participates in programs sponsored by THC. Separate financial statements may be obtained by contacting Friends at P.O. Box 13497, Austin, Texas 78711.

Texas Tech Foundation Inc. (TTFI) is a legally separate entity established to financially support and serve the fundraising needs of Texas Tech University System (TTU System). TTFI is blended rather than discretely presented because TTFI operates exclusively for the benefit of TTU System and component institutions and there is a fiscal dependency and financial benefit relationship between TTFI and TTU System. The board of regents has the ability to impose its will on TTFI through its ability to veto, override, or modify

the decisions of TTFI and its ability to modify or approve the budget of TTFI. Separate financial statements may be obtained by contacting the TTFI Office of Institutional Advancement, located at 1508 Knoxville Ave., Suite 315, Lubbock, Texas 79409.

Red Raider Facilities Foundation, Inc. (RRFFI) is a legally separate nonprofit corporation established exclusively for charitable and educational purposes to benefit Texas Tech University (TTU). It was formed to support and promote, and otherwise hold, invest, construct and administer property, and make expenditures for the benefit of athletic activities and endeavors of TTU. The RRFFI board of directors are appointed one each by the TTU president, the TTU system chancellor and the Texas Tech board of regents chairman. Although RRFFI is legally separate from TTU, financial transactions have been blended into the financial statements of TTU rather than discretely presented because RRFFI operates exclusively for the benefit of TTU. Audited financial statements may be obtained by mail request to 801 Cherry St., Suite 500, Fort Worth, Texas 76102.

Texas Tech Physician Associates (TTPA) is a legally separate entity established for the sole purpose of, and is operated exclusively for, the benefit of the Texas Tech University Health Science Center (TTUHSC) and TTUHSC at El Paso. TTPA is blended rather than discretely presented because the nine-member governing board is appointed by TTUHSC, controls all financial and operational transactions of TTPA, and has the ability to remove board members at will. Separate financial statements may be obtained by contacting TTPA at Provider Payor Relations, 3601 4th St., Lubbock, Texas 79430.

The Angelo State University Foundation (ASUF) is a legally separate nonprofit organization created exclusively to provide financial assistance to Angelo State University (ASU) primarily from gifts and earnings on endowed funds. There is no appointment of

board members. The TTU System chancellor, ASU president, ASU faculty senate president and ASU chief financial officer are non-voting ex-officio members on the board of directors. ASUF is blended rather than discretely presented because they operate exclusively for the benefit of ASU. ASUF is closely related to ASU. Failure to include the financial information of ASUF would result in misleading financial statements. Separate financial statements may be obtained by contacting ASUF at 2601 W. Ave. N, San Angelo, Texas 76909.

Texas State University Research Foundation (TSURF) is a legally separate entity established to support the mission of Texas State University System (TSU System) and its objectives of promoting higher education, conducting research, providing public service and assisting in economic development in Texas. The key business officers of TSU System compose the entirety of TSURF's officers and directors. TSURF is blended rather than discretely presented because TSU System is able to impose its will on TSURF through its ability to modify or approve the budget of TSURF, its ability to modify or approve the rates or fees affecting revenues of TSURF and its ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of TSURF. TSURF is reported for the fiscal year ended Feb. 28, 2023. Separate financial statements may be obtained by contacting Texas State University, Director of Accounting, General Accounting Office at 601 University Drive, JCK 589, San Marcos, Texas 78666-4684.

Harold M. Freeman Educational Foundation (Freeman Foundation) is a legally separate entity formed through a trust to make the use of the Freeman Ranch available exclusively to TSU System. The Freeman Ranch is used and operated solely for farm, ranch and game management, education and research purposes in connection with the educational activities of TSU System. There is no formal governing board for the Freeman Foundation. TSU System acts as an active co-

trustee to operate the ranch. Frost Bank operates as an inactive trustee to ensure the provisions of the trust are followed. The Freeman Foundation is blended rather than discretely presented because they operate exclusively for TSU System. Separate financial statements are not issued by the Freeman Foundation. Information about the Freeman Foundation may be obtained by contacting Texas State University, Director of Accounting, General Accounting Office at 601 University Drive, JCK 589, San Marcos, Texas 78666-4684.

Texas A&M Research Foundation (Research Foundation) is included as a blended component unit in the combined financial statements of the Texas A&M University System (A&M System). This determination is based on the close relationship and joint agreements in effect between the Research Foundation and A&M System in regard to research grant/contract administration. Complete financial statements of the Research Foundation may be obtained by contacting their administrative offices at 400 Harvey Mitchell Parkway South, Suite 300, College Station, Texas 77845.

U.T. Southwestern Health Systems, Inc. (SHSI) is a legally separate entity established to support the University of Texas Southwestern Medical Center (UTSWMC). SHSI is blended rather than discretely presented because UTSWMC appoints the three-member governing board of SHSI, has the ability to remove appointed board members at will, its ability to modify or approve the budget of SHSI and its ability to modify or approve rates or fees affecting revenues of SHSI. Separate financial statements may be obtained by contacting SHSI at 5323 Harry Hines Blvd., Dallas, Texas 75390.

U.T. Southwestern Moncrief Cancer Center (SW Moncrief) is a legally separate entity established to support UTSWMC. SW Moncrief is blended rather than discretely presented because the president of UTSWMC appoints its four-member governing board, has the ability to impose its will on SW Moncrief through its abil-

ity to remove appointed board members at will, its ability to modify or approve the budget of SW Moncrief and its ability to modify or approve rates or fees affecting revenues of SW Moncrief. Separate financial statements may be obtained by contacting SW Moncrief at 400 West Magnolia Ave., Fort Worth, Texas 76104.

Moncrief Cancer Foundation (Moncrief) is a legally separate entity established to support the UTSWMC. Moncrief is blended rather than discretely presented because the president of UTSWMC appoints the six-member governing board, has the ability to impose its will on Moncrief through its ability to remove appointed board members at will, its ability to modify or approve the budget of Moncrief and its ability to modify or approve rates or fees affecting revenues of Moncrief. Separate financial statements may be obtained by contacting Moncrief at 5323 Harry Hines Blvd., Dallas, Texas 75390.

UTMB Healthcare Systems, Inc. (Healthcare Systems) is a legally separate entity established to support the University of Texas Medical Branch at Galveston (UTMB). Healthcare Systems is blended rather than discretely presented because its eight-member governing board is appointed by UTMB, has the ability to impose its will on Healthcare Systems through its ability to remove appointed board members, its ability to modify the budget of Healthcare Systems, its ability to appoint, hire, reassign or dismiss those responsible for Healthcare Systems' day-to-day operations and its ability to unilaterally abolish Healthcare Systems. Separate financial statements may be obtained by contacting Healthcare Systems at 301 University Blvd., Galveston, Texas 77555.

University Medical Branch Student Book Store and Hospitality Shop, Inc. (Book Store) is a legally separate entity established to operate the book store for UTMB. Book Store is blended rather than discretely presented because its five-member governing board is appointed by UTMB, has the ability to impose its will

through its ability to remove appointed board members at will and its ability to appoint, hire, reassign or dismiss those responsible for the Book Store's day-to-day operations. Separate financial statements may be obtained by contacting the Book Store at 301 University Blvd., Galveston, Texas 77555.

Medical Branch Innovations, Inc. (MBII) is blended rather than discretely presented because it operates exclusively in support of the education, clinical, and research missions of UTMB. Its three-member board is appointed by UTMB. Separate financial statements may be obtained by contacting MBII at 301 University Blvd., Galveston, Texas 77555.

University of Texas Physicians (UT Physicians) is a legally separate entity established to provide management services for the physician practice plan at the University of Texas Health Science Center at Houston (UTHSCH). UT Physicians is blended rather than discretely presented because UTHSCH appoints its nine-member governing board, has the ability to impose its will on UT Physicians through its ability to modify or approve the budget of UT Physicians, its ability to modify or approve rates or fees affecting revenues of UT Physicians and its ability to appoint, hire, reassign or dismiss those responsible for UT Physicians' day-to-day operations. Separate financial statements may be obtained by contacting UT Physicians at 7000 Fannin St., Suite 860, Houston, Texas 77030.

University Physicians Group (UPG) is a legally separate entity established to provide health care education and research activity services to the University of Texas Health Science Center at San Antonio (UTHSCSA). UPG is blended rather than discretely presented because UTHSCSA appoints its five-member governing board consisting of the dean of the School of Medicine and four members elected by the physician practice plan board at UTHSCSA, has the ability to remove board members at will, the ability to modify or approve the budget of UPG, the ability to veto, overrule or modify

the decisions of UPG's board, the ability to appoint, hire, reassign or dismiss those responsible for UPG's day-to-day operations and the ability to unilaterally abolish UPG. Separate financial statements may be obtained by contacting UPG at 8431 Fredericksburg Road, Suite 500, San Antonio, Texas 78229.

UT Health San Antonio Regional Physicians Network (Corporation) is a legally separate entity established to provide, manage, coordinate and promote accountability for the quality, patient safety, cost and overall patient support for University of Texas Health Science Center at San Antonio. The Corporation is blended rather than discretely presented because it provides primarily all of its services for UTHSCA. The Corporation is governed by a seven-member board. The dean of the school of medicine serves as chair of the board of directors. Separate financial statements may be obtained by contacting the Corporation at 8431 Fredericksburg Road, Suite 503, San Antonio, Texas 78229.

M.D. Anderson Physicians Network (MDAPN) is a legally separate entity established to support the University of Texas M.D. Anderson Cancer Center (Cancer Center). MDAPN is blended rather than discretely presented because the president of the Cancer Center appoints the nine-member board and has the ability to remove appointed board members at will. Separate financial statements may be obtained by contacting MDAPN at 1515 Holcomb Blvd., Unit 1670, Houston, Texas 77030-4009.

M.D. Anderson Services Corporation (MDASC) is a legally separate entity established to support the Cancer Center. MDASC is blended rather than discretely presented because the president of the Cancer Center appoints the seven-member board of directors and the president may remove appointed board members at will. Separate financial statements may be obtained by contacting MDASC at 1515 Holcomb Blvd., Unit 1670, Houston, Texas 77030-4009.

East Texas Quality Care Network (ETQCN) is a legally separate entity established to provide agency nursing services to the University of Texas Health Science Center at Tyler (UTHSCT). ETQCN is blended rather than discretely presented because its four-member governing board is appointed by UTHSCT, has the ability to remove board members at will, the ability to modify or approve the budget of ETQCN, the ability to modify or approve rates or fees affecting revenues of ETQCN, the ability to veto, overrule or modify the decisions of ETQCN's board, the ability to appoint, hire, reassign or dismiss those responsible for ETQCN's day-to-day operations and the ability to unilaterally abolish ETQCN. Separate financial statements may be obtained by contacting ETQCN at 11937 US Highway 271, Tyler, Texas 75708-3154.

University of Texas/Texas A&M Investment Management Co. (UTIMCO) is a legally separate entity established to provide investment management services to University of Texas System (UT System) and Texas A&M University System (A&M System). UTIMCO is blended rather than discretely presented because it provides investment management services entirely or almost entirely for UT System. Its nine-member board consists of at least three members of UT System board of regents, four members appointed by UT System board of regents (one of whom may be the chancellor of UT) and two members appointed by A&M System board of regents. At least three members appointed by UT System board of regents and at least one member appointed by A&M System board of regents must have substantial background and expertise in investments. Separate financial statements may be obtained by contacting UTIMCO at 210 West 7th St., Suite 1700, Austin, Texas 78701.

University of Texas Communication Foundation (UTCF) is a legally separate entity established to support the UT-Austin College of Communication. UTCF is blended rather than discretely presented because its

three-member governing board is appointed by UT-Austin and UT-Austin has the ability to impose its will on UTCF through its ability to remove appointed board members at will, its ability to modify or approve the UTCF's budget, its ability to veto, overrule or modify the decisions of UTCF and unilaterally abolish UTCF. Separate financial statements may be obtained by contacting UT-Austin at P.O. Box 7322, Austin, Texas 78713.

The University of Texas at Austin - Mexico Institute, A.C. (Mexico Institute) is a legally separate entity established to advance collaborative cross-disciplinary academic and scientific research partnerships in science, technology, engineering and mathematics and scholarly and cultural studies between UT-Austin and Mexico's academic institutions, the public and private sector stakeholders. Mexico Institute is blended rather than discretely presented because its four-member board is appointed by UT-Austin. Mexico Institute is reported for the fiscal year ended Dec. 31, 2022. Separate financial statements may be obtained by contacting UT-Austin Director of Institutional Relations - Mexico, Jorge Rene Pinon, at 2275 Speedway, Austin, Texas 78712.

The Crow Museum of Asian Art - Foundation (CMAA Foundation) is established to support the Crow Museum of Art. Its five-member governing board is appointed by University of Texas Dallas (UT-Dallas). CMAA Foundation is blended rather than discretely presented because CMAA Foundation is organized as a not-for-profit corporation and UT-Dallas is the sole corporate member. CMAA Foundation is reported for the fiscal year ended Dec. 31, 2022. In fiscal year 2021, substantially all assets and operations of CMAA Foundation transferred to UT-Dallas in accordance with a unanimous consent letter executed by the board of directors. Assets distributed to UT-Dallas will be managed in accordance with the memorandum of understanding associated with the 2018 donation of the Crow Museum of Asian Art. CMAA Foundation will

continue its corporate existence as deemed advisable by the board of directors. Separate financial statements may be obtained by contacting CMAA Foundation at 2010 Flora St., Dallas, Texas 75201.

The Office of Community-Based Care Transition (TOCBCT) is a legally separate entity established to support and improve the expansion of Community-Based Care. TOCBCT is blended rather than discretely presented because its total debt outstanding including leases, is expected to be repaid with the resources of Texas Department of Family and Protective Services (DFPS). TOCBCT will be abolished on the date that community-based care is implemented in the last department region in the state. TOCBCT does not issue separate financial statements. Information about TOCBCT may be obtained by contacting DFPS at 4900 N. Lamar, Austin, Texas 78751.

Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the component units do not provide services entirely or almost entirely to the state nor are the component units' debts expected to be repaid entirely or almost entirely with the resources of the state. The component units' financial data is discretely presented in the component unit column of the state's government-wide financial statements. Based on an analysis performed at year-end, two of the discretely presented component units warrant separate presentation; nevertheless, all of the following component units are presented as omission would result in misleading financial statements.

Texas Permanent School Fund Corporation (Texas PSF) is a legally separate entity established by the Texas Legislature to govern all PSF investment functions formerly managed by the Texas Education Agency and the General Land Office. Texas PSF serves the public by making a distribution each year to pay a portion of educational costs in each school district within the

state, and by providing a guarantee for bonds issues by participating local school districts, as well as for bonds of qualified participating charter schools. Texas PSF is governed by a nine-member board of directors, composition is as follows: five elected members of the State Board of Education, the elected land commissioner, one member appointed by the School Land Board and two members appointed by the governor. Separate financial statements may be obtained at the following URL: <https://texaspsf.org/reports/>.

Teacher Retirement System of Texas (TRS) is a legally separate entity established by the Texas Legislature to administer retirement and disability annuities to employees and beneficiaries of public school systems and institutions of higher education. TRS is governed by a nine-member board of trustees, three of whom are direct appointments of the governor. The remaining trustees are appointed by the governor from lists prepared by various constituent groups. TRS is subject to the budget approval powers of the Texas Legislature, and therefore is fiscally dependent on the state of Texas. The active employees insurance program and 403(b) administrative program are reported in the component unit column of the government-wide financial statements; whereas the employee benefit trust fund and retired employees insurance are reported in the pension and other employee benefit trust funds financial statements. TRS has a blended component unit, Teacher Retirement Investment Company of Texas Ltd. (TRICOT). It is a private company limited by shares in the United Kingdom that began operating in Nov. 2015. TRICOT was formed for the purpose of opening a London investment office to increase investment opportunities for the TRS portfolio. TRICOT serves the pension trust fund. Separate financial statements may be obtained by contacting TRS at 1000 Red River St., Austin, Texas 78701.

State Bar of Texas (State Bar) is a public corporation and an administrative agency of the judicial branch

of government. The purpose of State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The annual budget for State Bar must be reviewed and approved by the Supreme Court, thus making State Bar fiscally dependent on the state of Texas. State Bar is reported for the fiscal year ended May 31, 2023. Separate financial statements may be obtained by contacting State Bar at 1414 Colorado St., Austin, Texas 78701.

Texas State Affordable Housing Corporation (TSAHC) was incorporated under the Texas Nonprofit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans, professional educators, firefighters and police officers who are first-time home buyers and are not afforded housing finance options through conventional lending channels. TSAHC provides single and multi-family loans to low and moderate income Texans. Prior to any bonds being issued by TSAHC, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and the Comptroller. Separate financial statements may be obtained by contacting TSAHC at 2200 East Martin Luther King Jr. Blvd., Austin, Texas 78702.

OneStar National Service Commission and **OneStar Foundation, Inc.** (OneStar) are legally separate nonprofit corporations that administer the AmeriCorps*Texas program. They serve as the state's liaison to and oversee Texas' participation in OneStar programs for the Corporation for National and Community Service (a federal agency), as well as prepare a comprehensive three-year national service plan for the state. The governor appoints all members of OneStar's boards. The governor can also remove any board member at will. OneStar performs all administrative duties of the OneStar National Service Commission, as well as provides technical assistance, education, information and other support to the volunteer community.

OneStar is reported for the fiscal year ended Dec. 31, 2022. Separate financial statements may be obtained by contacting OneStar at 9011 Mountain Ridge Drive, Suite 100, Austin, Texas 78759.

Texas Low-Level Radioactive Waste Disposal Compact Commission (Commission) is a legally separate organization established to promote the health, safety and welfare of the citizens and environment of the states participating in the Texas Low-Level Radioactive Waste Disposal Compact (Compact), known as party states. There are currently two party states, Texas and Vermont, with Texas serving as the host party state. The mission of the Commission is to:

- Limit the number of radioactive waste disposal facilities;
- Effectively, efficiently and economically manage low-level radioactive waste; and
- Encourage the reduction of the generation thereof.

Since Texas serves as the host party state for Compact, it is entitled to six voting members, whereas the other party state is only entitled to one voting member. The governor appoints the six members of the Commission serving on behalf of Texas. As host party state, Texas has the authority to establish the disposal fees assessed at the facility for disposal of low-level radioactive waste generated in the party states. The Texas Legislature, with the approval of the governor, also has the authority to revise the portion of Compact pertaining to the volume of waste the host party state will dispose of without the consent of the nonhost party state. Separate financial statements may be obtained by contacting the Commission at 919 Congress Ave., Suite 830, Austin, Texas 78701.

Texas Prepaid Tuition Scholarship Foundation (TPTSF) is a legally separate entity created to provide prepaid tuition scholarships to students meeting economic or academic requirements. TPTSF is a direct-support organization of the Texas Guaranteed Tuition

Plan and is authorized by the *Texas Education Code*. TPTSF is governed by a board composed of the Comptroller, a member appointed by the governor with the advice and consent of the Senate and three members appointed jointly by the Comptroller and the member who is appointed by the governor. The Comptroller serves as the executive director of the board and assigns and supervises employees responsible for the day-to-day operations of TPTSF. TPTSF does not issue separate financial statements. Information may be obtained by contacting the Texas Comptroller of Public Accounts, Texas Guaranteed Tuition Plan at 111 E. 17th St., Austin, Texas 78774.

Texas Match the Promise Foundation (TMPF) is a legally separate entity established to implement the Texas Save and Match Program, which helps families save for college by offering competitive matching scholarships and tuition grants to Texas students who participate in the Texas Tuition Promise Fund. The Comptroller appoints TMPF's governing board and can remove appointed board members at will. The Comptroller also assigns and supervises employees responsible for the day-to-day operations of TMPF. TMPF does not issue separate financial statements. Information may be obtained by contacting the Texas Comptroller of Public Accounts, Texas Guaranteed Tuition Plan at 111 E. 17th St., Austin, Texas 78774.

Texas Windstorm Insurance Association (Association) is a legally separate organization established to provide an adequate market for windstorm and hail insurance in the seacoast territory of Texas and serves as an insurer of last resort. The commissioner of the Texas Department of Insurance (TDI) appoints the nine-member board of directors, and the board is responsible and accountable to the commissioner. The state of Texas has the ability to impose its will on the Association through TDI commissioner approval of rates and maximum liability limits for windstorm and hail insurance policies issued by the Association. The Association is

reported for the fiscal year ended Dec. 31, 2022. Separate financial statements may be obtained by contacting the Association at 4801 Southwest Parkway, Bldg. 1, Suite 200, Austin, Texas 78735.

Surplus Lines Stamping Office of Texas (Stamping Office) is a legally separate nonprofit organization created by the Texas Legislature to assist TDI in the regulation of surplus lines insurance. TDI's commissioner appoints all nine members of the board of directors. The Stamping Office performs its functions under a plan of operation approved by order of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the fiscal year ended Dec. 31, 2022. Separate financial statements may be obtained by contacting the Stamping Office at 1601 E. Pflugerville Parkway, Suite 3301, Pflugerville, Texas 78660.

Texas FAIR Plan Association (TFPA) is a legally separate entity established to administer the Fair Access to Insurance Requirements Plan, which delivers property insurance to Texas residents in underserved areas. The 11-member governing board is appointed by TDI's commissioner. The commissioner may remove appointed board members at will. TFPA is reported for the fiscal year ended Dec. 31, 2022. Separate financial statements may be obtained by contacting TFPA at 4801 Southwest Parkway, Bldg. 1, Suite 200, Austin, Texas 78735.

Texas Boll Weevil Eradication Foundation, Inc. (TBWEF) is a legally separate entity that establishes and implements a boll weevil eradication program for Texas. It is governed by 21 board members. The Texas Department of Agriculture's (TDA) commissioner appoints five of the board members. Although TDA must approve TBWEF's budget, assessment fees

and debt, a financial benefit or financial burden does not exist between TBWEF and the primary government. Therefore, the primary government is not financially accountable for the TBWEF. However, based on TBWEF's financial relationship with TDA, omitting TBWEF would result in incomplete financial statements. TBWEF is reported for the fiscal year ended Dec. 31, 2022. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Agricultural Finance Authority (TAFA) is a legally separate entity that provides financial assistance for the expansion, development and diversification of agricultural businesses, and primarily benefits the citizens of Texas. TAFA is governed by a board of directors composed of the commissioner of agriculture, the director of the Institute for International Agribusiness Studies at Prairie View A&M University and nine members appointed by the commissioner of agriculture. The commissioner of TDA administers TAFA with the assistance of the board of directors. If there are insufficient funds to pay TAFA's bond obligations, the primary government is obligated to transfer money from the state treasury to TAFA in an amount sufficient to pay those obligations. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority (Authority) is a legally separate entity created by the Texas Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects, and primarily benefits the citizens of Texas. A board of directors, composed of the three members of the Texas Water Development Board (TWDB), governs the Authority. The members of TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Separate financial statements may be obtained by

contacting TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas Appraiser Licensing and Certification Board (TALCB) is a legally separate entity statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) to serve the real estate community in Texas. The governor appoints the members of the governing board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TREC is not financially accountable for TALCB, to exclude it would result in the presentation of incomplete financial statements. Separate financial statements may be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Disaster Relief Fund (TDRF) is a 501(c)(3) corporation established to help the Office of the Governor (Office) provide disaster relief. TDRF benefits the citizens of Texas by assisting the Office in responding to the needs of the citizens before, during and after a disaster in Texas. TDRF is reported for the fiscal year ended Dec. 31, 2022. Separate financial statements may be obtained by contacting the Office at P.O. Box 12428, Austin, Texas 78711.

Texas Health Services Authority (THSA) is a legally separate entity created for the improvement of the Texas health care system. THSA promotes and coordinates the electronic exchange of health information throughout the state to ensure information is available to health care providers and to improve patient safety and quality of care. The board of directors consists of 14 members appointed by the governor, with the advice and consent of the Senate. The governor may order the dissolution of THSA at any time he declares that the purpose of THSA has been fulfilled or that THSA is inoperative or abandoned. THSA is reported for the fiscal year ended Sept. 30, 2022. Separate financial statements may be obtained by contacting THSA at 901 South Mopac Expressway, Bldg. 1, Suite 300, Austin, Texas 78746.

Beacon State Fund (BSF) is a 501(c)(3) organization established to support the goals of the Governor's Commission for Women (GCW) in promoting issues affecting the women of Texas. BSF benefits the citizens of Texas by increasing public awareness of issues affecting the women of Texas through distributing of information, holding media campaign events and supporting community outreach programs, which are consistent with the goals of GCW. The board is elected annually by the current board of directors at its annual meeting. The Office provides reasonable use of its office facilities and personnel. BSF is reported for the fiscal year ended Dec. 31, 2022. Separate financial statements may be obtained by contacting the Office at P.O. Box 12428, Austin, Texas 78711.

State Agency Council (SAC) is a 501(c)(3) organization established to support the goals of GCW. SAC benefits the citizens of Texas by honoring women who have made significant contributions to Texas through their work in state government, providing opportunities for professional development to its state agency representatives and supporting community outreach programs consistent with the goals of GCW. The director of GCW appoints the board and has operational influence on the activities of SAC. Separate financial statements may be obtained by contacting GCW at P.O. Box 12428, Austin, Texas 78711.

Texas Governor's Mansion Administration (TGMA) is a nonprofit organization established to support the financial administration of catering, facility and other expenses associated with the use of the official residence of the governor of Texas for events and operations. While legally separate from the Office, TGMA is closely related to and administratively supported by the Office. TGMA is reported for the fiscal year ended Dec. 31, 2022. Separate financial statements may be obtained by contacting the Office at P.O. Box 12428, Austin, Texas 78711.

Robert G. Carr and Nona K. Carr Scholarship Foundation (Carr Foundation) is a legally separate entity established for the sole purpose of providing scholarships to students of ASU, a campus within TTU System. The nine-member Carr Foundation board of trustees is comprised of all members of the TTU System board of regents, who have the ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of the Carr Foundation. Separate financial statements may be obtained by contacting the Carr Foundation at P.O. Box 11007C, ASU Station, San Angelo, Texas 76909.

University of North Texas Foundation (UNTF) is a legally separate entity established to raise funding for scholarships for students of the University of North Texas System (UNT System), as well as provide funding for the benefit of UNT System. The majority of endowments supporting UNT System scholarships and other university programs are owned by UNTF. Therefore, UNTF is closely related to the UNT System, and failure to include its financial activities would lead to incomplete financial statements. Separate financial statements may be obtained by contacting UNTF at 1155 Union Circle #311250, Denton, Texas 76203-5017.

University of North Texas Health Science Center Foundation (UNTHSCF) is a legally separate entity established to raise funding for scholarships for students of the University of North Texas Health Science Center (UNTHSC), as well as provide funding for the benefit of UNTHSC. The majority of endowments supporting UNTHSC scholarships and other university programs are owned by UNTHSCF. Therefore, UNTHSCF is closely related to UNTHSC, and failure to include its financial activities would lead to incomplete financial statements. Separate financial statements may be obtained by contacting UNTHSCF at 3500 Camp Bowie Blvd., Fort Worth, Texas 76107-2699.

Texas State University Development Foundation (Development Foundation) is a legally separate

entity formed to support the educational, scientific and research mission of Texas State University (TSU). Development Foundation raises and manages endowment funds designated for scholarships and other support of TSU. The 47-member board of trustees is comprised of a cross-section of alumni and notable leaders who assist in the development and support of TSU. Development Foundation is reported for the fiscal year ended June 30, 2023. Separate financial statements may be obtained at the following URL: <http://www.ua.txstate.edu/about/development-foundation/Financials/Accountability.html>.

Emmett and Miriam McCoy College of Business Development Foundation (McCoy Foundation) is a legally separate entity dedicated exclusively to the support of the McCoy College of Business Administration at TSU. The McCoy Foundation's 10-member board of directors manages its investments and determines McCoy's annual funding to support chairs, professorships, undergraduate scholarships and graduate fellowships, as well as the development of faculty, programs and students. Board composition includes the university president, dean of McCoy College and two employees of the College of Business Administration. Separate financial statements may be obtained at the following URL: <https://www.mccoycollegefoundation.org/>.

Texas Governor's Mansion Greenhouse Project (TGMGP) is a 501(c)(3) corporation established to raise and distribute funds for the construction and maintenance of a greenhouse on the grounds of the historic Texas Governor's Mansion, which will be open to members of the general public during specialized grounds tours and certain educational tours. While legally separate from the Office of the Governor (Office), TGMGP is closely related to and administratively supported by the Office. TGMGP is reported for the fiscal year ended Dec. 31, 2022. Separate financial statements may be obtained by contacting the Office at P.O. Box 12428, Austin, Texas 78711.

Texas Tech Research Park, Inc. (TTRP) is a Texas nonprofit corporation operated exclusively for charitable, educational, and scientific purposes. TTRP was formed to provide support for and promote, sponsor, assist and carry out the educational, scientific, and related activities and objectives of the Texas Tech University System (TTUS) and will support and enhance scientific research and collaborative innovation opportunities for TTUS and the surrounding region. The nine-member board of directors are appointed two each by the Texas Tech University president and Texas Tech University Health Science Center president, one appointment by the TTUS chancellor and the remaining four director roles are elected by existing TTRP board of directors. No board members may be employees of TTUS and appointing persons have the right to revoke and remove the director role he/she appoints at any time. Separate financial statements may be obtained by mail request to 3911 4th St., Box 43005, Lubbock, Texas 79415.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, but the state is not financially accountable for the entity.

Texas Economic Development Corporation (TxEDC) operates as a nonprofit corporation to assist, promote, develop and advance economic development in the state of Texas. TxEDC is no longer reported as a component unit, but is included because a majority of the board is appointed by the Office, but the Office is not financially accountable for TxEDC.

Texas Mutual Insurance Company (Texas Mutual) operates as a domestic mutual insurance company providing workers' compensation insurance in the state of Texas and also serves as the insurer of last resort. The commissioner of insurance regulates Texas Mutual to the same extent as a private mutual insurance company. The governor, with the advice and consent of the Sen-

ate, appoints five of the nine members of Texas Mutual's board of directors.

Texas Title Insurance Guaranty Association (TTIGA) is a legally separate nonprofit organization created for the purpose of providing funds for the protection of holders of covered claims as defined in the *Texas Insurance Code*. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's commissioner.

Texas Life and Health Insurance Guaranty Association (TLHIGA) is a legally separate entity created to protect persons against failure in the performance of contractual obligations under life, accident and health insurance policies and annuity contracts due to the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's commissioner appoints TLHIGA's nine-member board of directors.

Charter School Finance Corporation is a nonprofit organization with the sole purpose of issuing revenue bonds for authorized open-enrollment charter schools for the acquisition, construction, repair or renovation of education facilities at those schools. The Texas Public Finance Authority appoints the board of directors in consultation with the commissioner of the Texas Education Agency and subject to the governor's approval.

Texas State University System Foundation, Inc. (TSUSF) is a nonprofit corporation organized for the purpose of providing financial support for the universities and colleges within the TSU System. TSUSF provides funds for student scholarships and faculty awards and assists the chancellor in performing their duties. TSUSF's seven-member board of directors is appointed by the chairman of the TSU System board of regents.

Operation Game Thief Committee is a nonprofit corporation established to administer the Operation Game Thief Program (The Program). The Program facilitates the apprehension and prosecution of persons who violate Texas laws intended to protect the state's

natural or cultural resources and the public safety of persons using those natural or cultural resources. The Program also pays rewards and death benefits authorized by Texas statute. The Texas Parks and Wildlife Department's executive director appoints the 11 members of the committee.

Parks and Wildlife Foundation of Texas, Inc. (Foundation) is a legally separate nonprofit organization established to manage and conserve the natural and cultural resources of Texas and to provide hunting, fishing and outdoor recreation opportunities for the use and enjoyment of present and future generations. The Foundation provides private support to the Texas Parks and Wildlife Department (TPWD), but TPWD is not financially accountable for the Foundation, nor is the Foundation fiscally dependent on TPWD. The Foundation is governed by a group of trustees, the majority of whom are appointed by the chairman of TPWD.

The Texas Higher Education Foundation (THEF) is a Texas nonprofit organization that is organized to support the Texas Higher Education Coordinating Board (THECB) program initiatives. THEF is a legally separate, fiscally independent entity for which THECB appoints a voting majority of the board, but THECB is not financially accountable for, nor can THECB impose its will on THEF. There is no financial benefit or burden relationship between THECB and THEF, therefore, THEF has been classified as a related organization.

River Authorities are political subdivisions created by Texas statute. The *Texas Constitution*, Article XVI, Section 59, authorizes the Texas Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes:

- The control, storing, preservation and distribution for irrigation, power and all other useful purposes of storm waters.
- Flood waters and the waters of rivers and streams.

- The reclamation and irrigation of arid, semiarid and other lands needing irrigation.
- The reclamation of drainage of overflowed lands and other lands needing drainage.
- The conservation and development of forests, water and hydro-electric power.
- The navigation of inland and coastal waters.
- The preservation and conservation of all such natural resources of the state.

The state of Texas appoints the voting majority for the following 16 river/water authorities:

- Angelina and Neches River Authority
- Brazos River Authority
- Guadalupe-Blanco River Authority
- Lavaca-Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River Authority
- Sabine River Authority
- San Antonio River Authority
- San Jacinto River Authority
- Sulphur River Basin Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches River Municipal Water Authority

Note 20

Deficit Fund Balances/Net Position of Individual Nonmajor Funds

Proprietary Funds

The **Grand Parkway Transportation Corporation** (GPTC), a blended component unit of the Texas Department of Transportation, reported a deficit of \$3.7 billion. The deficit is primarily due to the removal of service concession arrangements (SCAs) intangible assets of \$3.2 billion from the Business-Type-Activities

statement of net position of TxDOT, when the Governmental Accounting Standards Board (GASB) statement 94 was implemented in fiscal 2023. The largest expense in fiscal 2023 included \$186.4 million of interest. Interest was capitalized as intangible assets prior to substantial completion of the five segments of the System in March 2016. Starting April 2016, interest was reported as expense.

The **Texas Tech Research Park, Inc.** (TTRP) is a discretely presented component unit of the Texas Tech University System. TTRP reported a deficit balance of \$138 thousand for fund 4172. The deficit is a result of accounts payable exceeding cash at the end of fiscal 2023.

Note 21

Texas Lawsuits

Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The settling tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total \$15.3 billion over the first 25 years of the agreement. The court-ordered annual payment amounts are subject to adjustments based on the tobacco companies' domestic cigarette sales, the agreed inflation adjustment and any other court-ordered factors. A revenue accrual of \$268.7 million is based on the payments received in December 2023. Tobacco settlement revenues were \$530 million in fiscal 2022 and \$490.9 million in fiscal 2023. As of fiscal 2023, cumulative actual tobacco settlement revenues were \$13.1 billion.

During fiscal 2023, the state of Texas and certain tobacco manufacturers filed a lawsuit and countersuit seeking court enforcement of the Texas settlement agreement. The lawsuit concerns the authority for the

tobacco manufacturers to unilaterally alter a material term in the Base Year Net Operating Profit used to calculate the manufacturer's annual payments during the period 2019 to present. Although the outcome of this case cannot presently be determined, favorable ruling is estimated to result in significant additional income, totaling \$125-150 million.

Opioid Settlement

During fiscal 2021, the state of Texas and its political subdivisions participated in obtaining final settlement agreements and judgments against multiple companies to resolve legal claims related to the companies' role in the opioid crisis. Texas' allocation, less attorney fees, is estimated to be \$1.6 billion over an 18 year period based on the settlement agreements negotiated through fiscal 2023. Funding is dependent on the number of subdivisions or local governments that join the settlement agreements and the specific payment schedules in a settlement agreement. The funding must be used to support any of a wide variety of strategies to fight the opioid crisis. Separate provisions exist to compensate attorneys who have pursued opioid litigation on behalf of states and local governments. Future opioid litigation may result in additional settlement agreements or judgments, or suspension and reduction of payments, and each agreement or judgment may have unique terms governing payment timing and duration. Opioid settlement revenues received in fiscal 2023 were \$270.2 million, and the cumulative total of opioid settlement revenues as of fiscal 2023 were \$441.5 million. The attorney fees received by the Office of the Attorney General in fiscal 2023 were \$18.6 million, and the cumulative total of attorney fees as of 2023 were \$32.5 million.

The Texas Opioid Abatement Fund Council (council) was created by Senate Bill 1827 of the 87th Legislature, Regular Session to ensure that money recovered through the joint efforts of the state and its political

subdivisions through statewide opioid settlement agreements and judgments are allocated fairly and spent to remediate the opioid crisis using efficient, cost-effective methods. The council is administratively attached to the Texas Comptroller of Public Accounts (Comptroller's office), which provides the staff and facilities as necessary to assist the council in performing its duties, maintain copies of settlement agreements online and submit annual report of expenditures made by the council to the Legislature. The legislation also created the Opioid Abatement Account (account) as a dedicated account in the General Revenue Fund that is administered by the Comptroller's office and the Opioid Abatement Trust Fund (fund) as a trust fund outside of the state treasury that is administered by the Texas Treasury Safekeeping Trust Company. Of the money received by the state under a statewide opioid settlement agreement, or resulting from an action by the state against an opioid manufacturer, distributor or any other person in the opioid industry, 15 percent is deposited into the account and 85 percent is deposited into the fund. Requirements related to the allowable uses and distributions of the account and fund, along with the composition and duties of the council, are defined in Subchapter R, as added by the bill, in Chapter 403 of the *Texas Government Code*.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of \$5.4 billion on investments available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported as of Aug. 31, 2023, are presented in table 22A.

Donor-Restricted Endowments

Table 22A

August 31, 2023 (Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Position
True Endowments	\$5,371,457	Expendable
Term Endowments	62,915	Expendable
Total Endowments	<u>\$5,434,372</u>	

True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment are met. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms. Non-expendable funds are those required to be retained in perpetuity.

The majority of the state's endowments are the results of donations made to institutions of higher education. The *Uniform Prudent Management of Institutional Funds Act, Texas Property Code*, Chapter 163, provides general guidelines on how endowments should be maintained. An institution may appropriate for expenditures or accumulate as much as the institution determines prudent for the uses, benefits, purposes and duration of the endowment. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan.

Net appreciation on related investment balances for the University of North Texas Foundation and University of North Texas Health Science Center Foundation, discrete component units of the University of North Texas System, have a combined ending net appreciation balance of \$26.8 million. These amounts are not included in table 22A.

Note 23

Taxes Receivable and Tax Refunds Payable

Details by tax type for taxes receivable and tax refunds payable, reported on the statement of net position - governmental funds as of Aug. 31, 2023, are presented in tables 23A and 23B.

Taxes Receivable by Tax Type

Table 23A

August 31, 2023 (Amounts in Thousands)

Tax Type	Taxes Receivable
Sales and Use Tax	\$ 3,363,104
Motor Vehicle and Manufactured Housing	110,684
Motor Fuels	11,027
Oil and Natural Gas Production	1,220,832
Franchise	496,246
Insurance Occupation	420,195
Cigarette and Tobacco	17,161
Other	319,812
Total Taxes Receivable ¹	<u>\$ 5,959,061</u>
Liquidity Characteristics:	
Current Taxes Receivable	\$ 5,847,839
Noncurrent Taxes Receivable	111,222
Total Taxes Receivable	<u>\$ 5,959,061</u>
¹ Total Taxes Receivable General Fund	
Current Taxes Receivable:	\$ 5,959,061
State Highway Fund	248,981
Nonmajor Governmental Funds	83,211
Noncurrent Taxes Receivable:	
State Highway Fund	41
Nonmajor Governmental Funds	14
Total Taxes Receivable - Statement of Net Position - Governmental Funds	<u>\$ 6,291,308</u>

Tax Refunds Payable by Tax Type

Table 23B

August 31, 2023 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Oil and Natural Gas Production	\$ 374,059
Franchise	785,130
Total Tax Refunds Payable	<u>\$ 1,159,189</u>

Texas franchise tax receivables represent balances due as of Aug. 31, 2023, for business-type activity that occurred in calendar year 2022. The franchise tax payments were due May 15, 2023 and taxpayers were allowed to extend the filing date to November 2023.

Franchise taxes are considered earned when the business-type activity occurs. Franchise tax applies to certain for-profit entities doing business or chartered in Texas and is based on the total revenue, that is, income reported to the Internal Revenue Service with various deductions, limitations and exceptions. There are no required quarterly estimated payments under this tax. Annual franchise tax reports and tax payments are due May 15 unless it falls on a weekend or holiday, then the next business day. Generally the tax earned during the first eight months of calendar year 2023 is not due until May 2024. As a result, the taxes receivable and related revenue that are earned in this eight month period are not measurable and are not accrued at fiscal year-end.

Note 24

Termination Benefits

Health Care Related Termination Benefits

Health care continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is available for eligible former employees and their dependents following both voluntary and involuntary terminations; however, coverage is limited to the benefits in place at the time when employment is terminated. COBRA members are allowed to remain in their eligible insurance program for 18 months (29 months if disabled). Health Maintenance Organization (HMO) participants are eligible for an additional six months, for a maximum of 24 months. Covered dependents are eligible to remain in the program until 36 months, even if the former employee does not continue coverage. COBRA plan administrators for the state include the Employees

Retirement System of Texas, the University of Texas System and the Texas A&M University System.

For self-insured and fully-insured plans, the insurance carrier performs the billing and collections process for COBRA participants. If the plan is self-insured, the insurance carrier then forwards the premium to the plan administrators, net of a 2 percent administrative fee, which is intended to cover costs related to the billing and collection functions. The plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2023, the cost to the state was approximately \$29.4 million for 3,383 COBRA participants.

For the fully-insured health maintenance organization health insurance plans, the insurance carrier retains all premiums and is liable for all claims and expenses. Premium and expense information is not available for these plans.

Non-Health Care Related Termination Benefits

Generally, state employees are not awarded severance pay. Institutions of higher education and agencies with specific statutory authority may offer voluntary or involuntary termination payments for separation. Agencies may offer career counseling and outplacement services.

Note 25

Segment Information

Primary Government

A segment is a separately identifiable activity reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this rev-

enue stream. Segment disclosure is not required for an activity whose only outstanding debt is conduit debt or if an individual fund is both a segment and reported as a major fund. Therefore, the following programs have met the requirements for disclosure as a segment.

These programs were funded by the issuance of revenue bonds, which require revenues, expenses, gains, losses, assets and liabilities to be separately accounted for:

- The **Single Family Bond Program** was created to originate below-market rate loans for eligible low and moderate-income residents who are purchasing a residence and
- The **Residential Mortgage Revenue Bond Program (RMRB)** was created to purchase single-family loans, while proceeds from the remaining RMRB bond issues are used to purchase pass-through certificates created through the origination of single-family loans.

The condensed statement of net position for each program as of Aug. 31, 2023, is presented in table 25A. The condensed statement of revenues, expenses and changes in net position for each program for the fiscal year ended Aug. 31, 2023, is presented in table 25B. The condensed statement of cash flows for each program for the fiscal year ended Aug. 31, 2023, is presented in table 25C.

Condensed Statement of Net Position

Table 25A

August 31, 2023 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds
ASSETS		
Current Restricted Assets	\$ 336,807	\$ 80,554
Noncurrent Restricted Assets	<u>1,175,896</u>	<u>881,037</u>
Total Assets	<u>1,512,703</u>	<u>961,591</u>
Deferred Outflows of Resources	<u>171</u>	<u>0</u>
LIABILITIES		
Current Liabilities	39,748	21,106
Noncurrent Liabilities	<u>1,315,596</u>	<u>835,970</u>
Total Liabilities	<u>1,355,344</u>	<u>857,076</u>
NET POSITION		
Restricted	<u>157,530</u>	<u>104,515</u>
Total Net Position	<u>\$ 157,530</u>	<u>\$ 104,515</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Table 25B

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds
OPERATING REVENUES (EXPENSES)		
Interest and Investment Income	\$ 47,444	\$ 31,741
Net Decrease in Fair Value	(38,895)	(26,533)
Other Operating Revenues	19,386	26,126
Operating Expenses	<u>(61,776)</u>	<u>(50,835)</u>
Operating Loss	<u>(33,841)</u>	<u>(19,501)</u>
NONOPERATING REVENUES (EXPENSES)		
Transfer In (Out)	<u>(112)</u>	<u>(2,466)</u>
Changes in Net Position	<u>(33,953)</u>	<u>(21,967)</u>
Net Position, September 1, 2022	<u>191,483</u>	<u>126,482</u>
Net Position, August 31, 2023	<u>\$ 157,530</u>	<u>\$ 104,515</u>

Condensed Statement of Cash Flows

Table 25C

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds
NET CASH PROVIDED (USED) BY:		
Operating Activities	\$ (16,311)	\$ (13,176)
Non capital Financing Activities	353,350	338,178
Investing Activities	<u>(185,776)</u>	<u>(296,893)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	<u>151,263</u>	<u>28,109</u>
Cash and Cash Equivalents, September 1, 2022	<u>172,155</u>	<u>49,179</u>
Cash and Cash Equivalents, August 31, 2023	<u>\$ 323,418</u>	<u>\$ 77,288</u>

Note 26

Public-Private and Public-Public Partnerships

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, supersedes GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, thus expanding the reporting requirements for all types of government contracts with operators which provide public services. GASB Statement No. 94 provides a definition for Public-Private and Public-Public Partnerships (PPP), giving uniform guidance for state agencies to report assets and deferred inflow of resources related to PPPs on a consistent basis and provides disclosure requirements. A PPP is an arrangement in which the government (the transferor) contracts with a governmental or non-governmental operator to provide a public service by conveying control of the right to operate or use a nonfinancial asset of the government, such as infrastructure or other capital assets (the underlying PPP asset) for a period of time in an exchange or exchange-like transaction.

GASB Statement No. 94 kept the definition of a service concession arrangement (SCA) intact. It simply expanded the scope of contracts requiring disclosures. An SCA is defined as a PPP which has all of the following characteristics:

- The governmental transferor conveys to the operator the right and related obligation to provide public services through the use and operation of an underlying PPP asset in exchange for significant consideration, such as up-front payments, installment payments, a new facility or improvements to an existing facility.
- The operator collects and is compensated by fees from third parties, excluding custodial relationships.
- The transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services and the prices or rates that can be charged for the services.
- The transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

There are three scenarios under which a contract is recognized as a PPP:

1. An underlying PPP asset is an existing asset of the transferor at the commencement of the PPP term. The operator could make improvements to the asset in order to be considered a PPP.
2. An underlying PPP asset is a new asset purchased or constructed by the operator and the PPP meets the definition of an SCA.
3. An underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does not meet the definition of an SCA.

If the underlying PPP asset is an existing asset, the government (transferor) will continue to recognize the asset. The transferor will also recognize a receivable for installment payments, if any, and a deferred inflow of

resources. If the underlying asset is a new asset purchased or constructed by the operator and the PPP meets the definition of an SCA, the transferor will recognize an asset when it is placed into service, a receivable for any installment payments and a deferred inflow of resources. If the underlying asset is a new asset purchased or constructed by the operator and the PPP does not meet the definition of an SCA, the transferor will recognize a receivable for the underlying PPP asset, a receivable for any installment payments and a deferred inflow of resources. For all PPPs, the receivable for installment payments is determined by the discount rate specified in the contract. If this rate is not explicit or an implicit interest rate determined from the contract, the government may

use their incremental borrowing rate that corresponds to the contract term. The state's incremental borrowing rate is based on the quarterly average of Treasury Constant Maturities as reported by the Federal Reserve. The PPP asset receivable is based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership.

As of Aug. 31, 2023, the receivables for installment payments and deferred inflow of resources reported on the statement of net position totaled \$87.1 million and \$11.4 billion respectively. The balance for receivables for PPP assets is \$2.1 billion. A general description of each PPP, including status, term and duration, as of Aug. 31, 2023, is presented in table 26A.

Public-Private and Public-Public Partnerships				
Table 26A				
August 31, 2023				
Arrangement Name	Construction Status	PPP Term	FY PPP Dates	
			Begin	End
GOVERNMENTAL ACTIVITIES				
Texas Department of Transportation				
IH 10 "Katy Managed Lanes"	Complete	42 years	2009	2050 ¹
SH 130 Segments 5 and 6	Complete	51 years	2013	2063
SH 121 "Sam Rayburn Tollway"	Complete	45 years	2012	2056
North Tarrant Exp Seg 1 and 2-West	Complete	47 years	2015	2061
North Tarrant Exp Seg 3A, 3B and 3C	Complete	44 years	2018	2061
LBJ/IH-635 Managed Lanes	Complete	47 years	2016	2062
SH 288 - Brazoria County	Complete	29 years	2021	2049 ¹
SH 288 - Harris County	Complete	48 years	2021	2068 ¹
Texas Parks and Wildlife				
Garner State Park	N/A	15 years	2011	2026
<i>Concluded on the following page</i>				
¹ Estimated. PPP period extends until Harris County/Brazoria County is fully reimbursed for cost of construction and debt service.				

Public-Private and Public-Public Partnerships (concluded)

Table 26A

August 31, 2023

Arrangement Name	Construction Status	PPP Term	FY PPP Dates	
			Begin	End
BUSINESS-TYPE ACTIVITIES				
Stephen F. Austin State University				
Dining Facility	Under Construction	7 years	2021	2028
Texas Women's University				
Student Housing Facility	Complete	40 years	2018	2058
Texas Tech University System				
TTU Athletics Facilities Concessions and Catering	N/A	19 years	2010	2029
TTU Campus Bookstore and Café	Complete	3 years	2021	2024
Texas Tech Club	Complete	5 years	2022	2027
Angelo State University Campus Bookstore	Existing Asset	15 years	2013	2028
Angelo State University Food Service Agreement	Existing Asset	15 years	2015	2030
University of North Texas System				
UNT Campus Bookstore	Existing Asset	12 years	2013	2025
Texas State University System				
Seahawk Landing Apartments	Complete	30 Years	2016	2046
University of Houston System				
Dining Services	Complete	15 years	2017	2032
College Apartments	Complete	46 years	1989	2035
U of H Bookstore	Complete	5 years	2019	2024
Texas A&M University System				
Higher Education Center (McAllen)	Complete	20 years	2017	2037
Park West Apartments	Complete	32 years	2015	2047
White Creek (Housing)	Complete	32 years	2014	2046
U Center at Northgate	Complete	40 years	2013	2053
Engineering Research Lab	Complete	20 years	2014	2034
Clayton W. Williams Jr. Alumni Center	Complete	50 years	1983	2033
Prairie View Student Housing Phase IX	Complete	32 years	2019	2051
University of Texas System				
UT Arlington Dining Services	Complete	10 years	2021	2031
UT Arlington College Apartments	Complete	35 years	1994	2029
UT Arlington Bookstore	Complete	25 years	1999	2024
UT Austin Arena	Complete	35 years	2022	2057
UT Dallas Dining Services	Complete	16 years	2019	2035
UT Rio Grande Valley Medical Office Building	Complete	21 years	2009	2030
UT Rio Grande Valley School Building (Harlingen CISD)	Complete	35 years	2021	2056
UT Rio Grande Valley Dining Services	Complete	12 years	2011	2023
UT San Antonio Bookstore	Under Construction	15 years	2023	2038
UT San Antonio Dining Services	Complete	15 years	2020	2035

¹ Estimated. PPP period extends until Harris County/Brazoria County is fully reimbursed for cost of construction and debt service.

As of Aug. 31, 2023, Texas Department of Transportation (TxDOT) has entered into eight agreements that meet the definition of a PPP, which are presented in table 26A. In the year in which a PPP project opens to traffic, TxDOT records the capital assets at their acquisition value with a corresponding entry to deferred inflow of resources. The deferred inflow of resources balance is then reduced and revenue is recognized in a systematic

manner over the term of the arrangement, beginning when the infrastructure asset is placed into operation. In some cases, TxDOT is obligated to make contributions of public funds to the PPP project during the construction phase for portions of the design, construction or right-of-way costs. These outlays of TxDOT funds are recorded as additions to construction in progress as they are incurred. TxDOT retains ownership of the projects

at the end of the PPP term, as well as ongoing operations and maintenance. TxDOT had balances for receivables for PPP assets of \$2 billion, along with deferred inflow of resources of \$10.8 billion, as of Aug. 31, 2023. The nature and extent of the rights retained by TxDOT as the transferor apply to all of the PPP contracts. After the PPP term, the underlying PPP assets will be returned to TxDOT. Rights granted to the operators during the PPP terms are to develop, finance and construct the projects, as well as manage, operate and maintain the underlying PPP assets during the operational phase.

The *Texas Parks and Wildlife Code*, section 13.015(b), authorizes the Texas Parks and Wildlife Department (TPWD) to both operate and enter into a contract to operate concessions in state parks, on causeways and beach drives. The State Park Concession Program was created to meet customer expectations by offering ancillary products and services to help enhance the experience while visiting state parks. As of Aug. 31, 2023, TPWD has entered into one long-term concession agreement that qualifies as a PPP in the operation of Garner State Park resulting in deferred inflow of resources in the amount of \$516 thousand. TPWD retains the rights to determine, modify or approve which services the operator provides, as well as to set prices and rates to be charged for these services. The operator has the rights to provide these services using TPWD land and facilities. TPWD does not own all of the state parks, including their land, buildings and facilities, as such these assets are excluded from GASB Statement No. 94.

Several universities and university systems have entered into contracts that qualify as PPPs. These include University of Texas System (UT System), Texas A&M University System (A&M System), University of Houston System (U of H System), Stephen F. Austin State University (SFA), Texas Tech University System (TTU System), Texas State University System (TSU System), Texas Women's University (TWU) and University of North Texas System (UNT System).

The UT System has entered into ten PPP arrangements including the operation of student housing, operation of sports and recreational arenas and general improvements made to dining facilities across five campuses. The nature and extent of rights retained by UT System as transferor under these PPP arrangements include, but are not limited to, maintaining residual interest of the utility of the assets used and setting prices and hours of operations. Rights granted to the operators may include the ability to make improvements to the space with written permission from UT System. As of Aug. 31, 2023, ownership of some of the underlying PPP assets has not been transferred to UT System; therefore, receivables for PPP assets of \$6 million have been recognized. Receivables for installment payments of \$33.7 million and deferred inflow of resources of \$393.8 million were also recognized. Variable payments were derived from a revenue or profit-sharing arrangement, usage of the underlying PPP asset or changes in an index or rate. The UT System received \$7.9 million in these variable revenues in fiscal 2023.

The A&M System has identified seven qualifying PPP arrangements. These PPP initiatives include student housing, academic or office buildings, hotels and bookstores. As of Aug. 31, 2023, the ownership of some of the underlying PPP assets has not been transferred to A&M System; therefore, receivables for PPP assets were recognized of \$26.1 million. Deferred inflow of resources of \$24.9 million were also recognized. Variable payments were derived from a revenue or profit-sharing arrangement, usage of the underlying asset or changes in an index or rate. The A&M System received \$1.1 million in these variable revenues in fiscal 2023. There is no receivable for installment payments because of the variable revenue structures. As the transferor, the A&M System maintains the residual interest in the newly developed assets or improvements undertaken by the operator within the PPP arrangement. The rights granted to the operator involve the operator's ability

to utilize the premises as outlined in the contractual agreement. Additionally, the operator may have the authority to initiate the construction of new assets or make improvements to existing assets, subject to explicit permission granted by the A&M System.

U of H System has entered into three PPP agreements. A receivable for installment payments was recognized of \$43.2 million and deferred inflow of resources of \$42.7 million, as well as \$289 thousand in variable payments, as of Aug. 31, 2023. These variable payments are as a result of underlying payments derived from a profit-sharing arrangement, usage of the underlying PPP asset or changes in an index or rate. The nature and extent of rights retained by U of H System include, but are not limited to, maintaining residual interest of the utility of the assets and setting prices and hours of operations. Rights granted to the operators may include the ability to make improvements to the space with written permission from U of H System.

SFA entered in a PPP agreement for the management of the on-campus dining services. The university maintained final approval over prices, operating terms and payment schedules. Part of the contract includes guaranteed commissions, cash donations and investments in infrastructure including contributions to the new dining facility. As of Aug. 31, 2023, SFA has balances for deferred inflow of resources of \$6.4 million and a receivable for installment payments of \$7.4 million. The nature and extent of rights retained by SFA as transferor under these PPP arrangements include, but are not limited to, maintaining residual interest of the utility of the assets used and setting prices and hours of operations. Rights granted to the operators may include the ability to make improvements to the space with written permission from SFA.

TTU System has entered into five PPP contracts for use of existing underlying PPP assets. Improvements were made to the underlying assets of the TTU Campus Bookstore and Cafe and the Texas Tech Club. In addition,

new assets were purchased for the Texas Tech Club resulting in a receivable for PPP assets of \$458 thousand. As of Aug. 31, 2023, TTU system recognized deferred inflow of resources of \$5.4 million and receivables for installment payments of \$2.8 million. \$3.5 million were received for variable and other payments not included in the receivable for installment payments in fiscal 2023. The nature and extent of rights retained by TTU System include, but are not limited to, maintaining residual interest of the utility of the assets and setting prices and hours of operations. Rights granted to the operators may include the ability to make improvements to the space with written permission from TTU System.

TSU System entered into a PPP arrangement for the design, construction and operation of campus apartments. As of Aug. 31, 2023, ownership of the campus apartment building has not been transferred to TSU System; therefore, receivables for PPP assets of \$1.3 million and a corresponding \$1.3 million for deferred inflow of resources have been recognized. Additionally, TSU System entered into a ground lease for the PPP term for the operator to build on some of the university system's land. The nature and extent of rights retained by TSU System under the PPP contract include, but are not limited to, the entitlement of residual interest in the service utility of the PPP asset at the end of the arrangement. Rights granted to the operator include the ability to utilize the underlying PPP asset to provide services to certain tenants, as well as to set and collect rental rates and payments with input from TSU System. The operator is entitled to retain rent generated from the apartments.

Texas Women's University (TWU) entered into a contract for the construction, furnishing and operating of a student housing facility. This includes site development and various amenities and improvements on behalf of TWU. As of Aug. 31, 2023, ownership of the PPP asset has not been transferred to TWU; therefore, receivables for PPP assets of \$59.8 million and a corresponding \$59.8 million for deferred inflow

of resources have been recognized. The operator must return the underlying PPP asset in its original condition at the end of the PPP term. Additionally, TWU entered into a ground lease for the PPP term for the operator to build on some of the university's land. As debt was issued to finance the construction of the housing facility, the operator must make deposits with a trustee to cover the debt service payments. Rental rates are set by the operator and are used to meet the requirements of the debt service schedule. The operator retains income from all rents, charges and other income from the student housing facility and remits the balance to TWU after debt service and expenses are paid. In fiscal 2023, these variable payments were \$1.6 million. The nature and extent of rights retained by TWU under the PPP contract include, but are not limited to, the entitlement of residual interest in the service utility of the PPP asset at the end of the arrangement.

UNT System entered into a contract for the operation of a full-service bookstore on the main campus.

This PPP agreement grants the right to operate in the UNT Student Union. Contract payments are based on a percentage of gross sales with an annual guaranteed minimum sales of \$1.1 million. These sales are considered variable until the completion of the first year of the contract. The UNT System received \$137.5 thousand in these variable revenues in fiscal 2023. At the conclusion of this agreement, UNT System will retain the rights to the UNT Student Union space. As of Aug. 31, 2023, a deferred inflow of resources of \$319 thousand was recognized. The nature and extent of the rights retained by UNT System, as the transferor under the PPP arrangement include, but are not limited to, maintaining residual interest of the utility of the assets used, setting prices and hours of operations and purchasing inventory. Rights granted to the operator may include the ability to make improvements to the space with written permission from the UNT System.

As of Aug. 31, 2023, the PPP-related amounts reported are presented in table 26B.

Public-Private and Public-Public Partnerships – Amounts Recognized in Financial Statements

Table 26B

August 31, 2023 (Amounts in Thousands)

Arrangement Name	Receivables for PPP Assets ¹	Receivables for Installment Payments	Deferred Inflows of Resources ²	Variable and Other Payments ³
GOVERNMENTAL ACTIVITIES				
Texas Department of Transportation				
IH 10 "Katy Managed Lanes"	\$ 250,000	\$	\$ 160,714	\$
SH 130 Segments 5 and 6			1,194,149	
SH 121 "Sam Rayburn Tollway"	1,631,340		3,540,859	
North Tarrant Exp Seg 1 and 2-West			1,385,424	
North Tarrant Exp Seg 3A, 3B and 3C			1,854,184	
LBJ/IH-635 Managed Lanes			1,713,439	
SH 288 - Brazoria County	79,427		71,210	
SH 288 - Harris County			911,363	
TxDOT Total	<u>1,960,767</u>	<u>0</u>	<u>10,831,342</u>	<u>0</u>
Texas Parks and Wildlife				
Garner State Park			516	
TPWD Total	<u>0</u>	<u>0</u>	<u>516</u>	<u>0</u>
Governmental Activities Total	<u>1,960,767</u>	<u>0</u>	<u>10,831,858</u>	<u>0</u>

Concluded on the following page

¹ Underlying PPP assets are recognized at the carrying value when title is transferred.

² The deferred inflow of resources balance that is related to up-front payments received is recorded in the fiscal year it is received.

³ Payments not included in the measurement of the receivable for installment payments.

Public-Private and Public-Public Partnerships – Amounts Recognized in Financial Statements (concluded)

Table 26B

August 31, 2023 (Amounts in Thousands)

Arrangement Name	Receivables for PPP Assets ¹	Receivables for Installment Payments	Deferred Inflows of Resources ²	Variable and Other Payments ³
BUSINESS-TYPE ACTIVITIES				
Stephen F. Austin State University				
Dining Facility		7,376	6,446	
SFA Total	0	7,376	6,446	0
Texas Women's University				
Student Housing Facility	59,781		59,781	1,591
TWU Total	59,781	0	59,781	1,591
Texas Tech University System				
TTU Athletics Facilities Concessions and Catering				2,253
TTU Campus Bookstore and Café			449	774
Texas Tech Club	458		2,626	466
Angelo State University Campus Bookstore		832	826	
Angelo State University Food Service Agreement		1,943	1,534	
TTU System Total	458	2,775	5,435	3,493
University of North Texas System				
UNT Campus Bookstore			319	138
UNT System Total	0	0	319	138
Texas State University System				
Seahawk Landing Apartments	1,339		1,339	
TSU System Total	1,339	0	1,339	0
University of Houston System				
Dining Services, College Apartment and U of H Bookstore		43,245	42,743	289
U of H System Total	0	43,245	42,743	289
Texas A&M University System				
Higher Education Center (McAllen)	500		465	
Park West Apartments	14,745		14,154	
White Creek (Housing)	4,629		4,428	
U Center at Northgate	1,783		1,726	
Engineering Research Lab	1,638		1,508	
Clayton W. Williams Jr. Alumni Center	1,358		1,267	
Prairie View Student Housing Phase IX	1,439		1,388	
A&M System Total	26,092	0	24,936	1,119
University of Texas System				
UT Arlington, UT Austin, UT Dallas, UT Rio Grande Valley and UT San Antonio	5,959	33,700	393,783	7,895
UT System Total	5,959	33,700	393,783	7,895
Business-Type Activities Total	93,629	87,096	534,782	14,525
Grand Total	\$ 2,054,396	\$ 87,096	\$ 11,366,640	\$ 14,525

¹ Underlying PPP assets are recognized at the carrying value when title is transferred.

² The deferred inflow of resources balance that is related to up-front payments received is recorded in the fiscal year it is received.

³ Payments not included in the measurement of the receivable for installment payments.

Note 27

Deferred Outflows of Resources and Deferred Inflows of Resources

In fiscal 2023, the state reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, Public-Private and Public-Public Partnerships (PPPs), bond refunding, pensions, other postemployment benefits other than pensions, government acquisitions, irrevocable split-interest agreements, direct borrowings/place-ments obligations, unclaimed properties, asset retire-ment obligations, lease income and various types of revenues earned but not available at the fiscal year-end.

The balances of deferred outflows of resources and deferred inflows of resources for governmental activities, business-type activities and governmental funds as of Aug. 31, 2023, are presented in table 27A.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 27A

August 31, 2023 (Amounts in Thousands)

Fund Type	Deferred Outflows of Resources	Deferred Inflows of Resources
GOVERNMENT-WIDE FINANCIAL STATEMENTS		
<i>Governmental Activities</i>		
Bond/Debt Refunding	\$ 156,823	\$ 30,048
Public-Private and Public-Public Partnerships (PPPs) (Note 26)		10,831,858
Pensions (Note 9) ²	16,123,706	14,295,897
OPEB (Note 11) ³	6,589,324	33,372,936
Asset Retirement Obligation	1,093	
Unclaimed Properties		757,584
Lease Income (Note 8)		3,899
Total Governmental Activities	<u>\$ 22,870,946</u>	<u>\$ 59,292,222</u>
<i>Business-Type Activities</i>		
Bond/Debt Refunding	\$ 265,507	\$ 47,307
Public-Private and Public-Public Partnerships (PPPs) (Note 26)		534,782
Derivative Instruments (Note 7) ¹	59,760	291,429
Pensions (Note 9)	3,654,865	1,048,370
OPEB (Note 11) ³	4,576,917	9,767,732
Split Interest Agreements		66,417
Direct Placements	242	
Government Acquisitions	12,921	
Asset Retirement Obligation	3,635	
Lease Income (Note 8)		483,370
Total Business-Type Activities	<u>\$ 8,573,847</u>	<u>\$ 12,239,407</u>
FUND FINANCIAL STATEMENTS		
<i>Governmental Funds</i>		
Revenue Earned But Not Available	\$	\$ 1,695,614
Public-Private and Public-Public Partnerships (PPPs) (Note 26)		2,481,070
Unclaimed Properties		757,584
Lease Income		3,899
Total Governmental Funds	<u>\$ 0</u>	<u>\$ 4,938,167</u>

¹ The \$59,760 and \$291,429 fair values for cash flow hedges are reported as a hedging derivative instrument liability and a hedging derivative instrument asset, respectively.

² The deferred outflows of resources related to governmental activities pension includes \$16.9 million in transactions subsequent to measurement date for the JRS1 plan. For more details, see Note 9 text.

³ The deferred outflows of resources and deferred inflows of resources related to OPEB includes \$29.3 million and \$761.9 million for governmental activities and \$761.9 million and \$29.1 million for business-type activities, respectively, for the proportionate change between governmental and business-type activities in relation to the A&M and UT plans. For more details, see Note 11 text and table 11S.

Deferred outflows of resources in business-type activities of \$59.8 million related to hedging derivative instruments in a liability position. The hedging derivative instrument liability of \$59.8 million and the hedging derivative instrument asset of \$291.4 million are disclosed in Note 7.

Deferred outflows of resources in business-type activities of \$12.9 million represent the unamortized balance of the excess consideration over the net position acquired in the acquisition of various university assets.

Deferred inflows of resources in governmental activities of \$10.8 billion were related to eight different Public-Private and Public-Public Partnerships (PPPs) arrangements entered into by the Texas Department of Transportation (TxDOT) with non-state entities. Several universities also reported \$534.8 million deferred inflows of resources related to Public-Private and Public-Public Partnerships (PPPs) in business-type activities. This amount reflects the unamortized balance of upfront PPPs payments received and capital improvements acquired from these entities. Details of the state's PPPs are disclosed in Note 26.

Deferred outflows of resources of \$156.8 million in governmental activities were related to losses TxDOT and Texas Public Finance Authority incurred on bond refunding transactions. TxDOT and several universities also had bond refunding transactions in fiscal 2023 in business-type activities for \$265.5 million in deferred outflows of resources related to losses.

Deferred inflows of resources in governmental activities of \$30.0 million were related to gains TxDOT and the Texas Higher Education Coordinating Board incurred on bond refunding transactions. Several universities and TxDOT also reported \$47.3 million deferred inflows of resources related to bond refunding gains in business-type activities.

Deferred inflows of resources of \$4.9 billion in governmental funds included \$1.7 billion related to various types of revenues earned but not available within 60

days of fiscal year-end, \$2.5 billion related to TxDOT PPPs and lease income, and \$757.6 million related to unclaimed properties.

The state reported \$16.1 billion of deferred outflows of resources and \$14.3 billion of deferred inflows of resources related to pensions in governmental activities. The state also reported \$3.7 billion of deferred outflows of resources and \$1.0 billion of deferred inflows of resources related to pensions in business-type activities. Details of the state's pensions are disclosed in Note 9.

The state reported \$6.6 billion of deferred outflows of resources and \$33.4 billion of deferred inflows of resources related to OPEB in governmental activities. The state also reported \$4.6 billion of deferred outflows of resources and \$9.8 billion of deferred inflows of resources related to OPEB in business-type activities. Details of the state's OPEB are disclosed in Note 11.

The state reported \$242 thousand of deferred outflows of resources related to direct placement obligations and \$66.4 million of deferred inflows of resources related to split-interest agreements in business-type activities.

In fiscal 2023, the state reported \$1.1 million of deferred outflows of resources related to asset retirement obligations in governmental activities and \$3.6 million of deferred outflows of resources related to asset retirement obligations in business-type activities. In accordance with GASB Statement No. 84, *Fiduciary Activities*, the state reported \$757.6 million in governmental activities in deferred inflows of resources related to special revenue unclaimed property fund.

The state reported \$3.9 million of deferred inflows of resources related to lease income in governmental activities. The state also reported \$483 million of deferred inflows of resources related to lease income in business-type activities. Note 8 provides details on the type of lease agreements entered into by the state as a lessor.

Note 28

Nonexchange Financial Guarantees

The state of Texas has two active programs that extend nonexchange financial guarantees to other entities.

Article VII, Section 5 of the *Texas Constitution* and *Texas Education Code*, Title 2, Subtitle I, Chapter 45 provides for the guarantee of school district bonds by the permanent school fund (PSF). The PSF is also authorized for use to guarantee revenue bonds issued for certain open-enrollment charter schools designated by the commissioner of education. In the event of default by a school district or charter school district, funds may be withheld from state money payable to the district or school in an amount necessary for payment of principal and/or interest. Guarantees extend through maturity dates of the bonds. As of Aug. 31, 2023, no school districts or charter school districts have ever defaulted on their guaranteed bond indebtedness and the total principal debt guaranteed by the PSF on bond issues is approximately \$115.7 billion.

The Texas Credit Enhancement Program was established to provide a guarantee fund for issuing tax exempt revenue bonds to provide financing for the acquisition, construction, repair or renovation of Texas charter school facilities within federal program guidelines. A consortium consisting of the Texas Public Finance Authority Charter School Finance Corporation (CSFC), the Texas Charter Schools Association and the Texas Education Agency was awarded a federal grant to create the guarantee fund. The CSFC is a nonprofit corporation in which the directors are appointed by the Texas Public Finance Authority (TPFA) in consultation with the commissioner of education and subject to the approval of the governor pursuant to Section 53.351 of *Texas Education Code*. TPFA provides administrative and staff support for CSFC. Reimbursement periods commence on the date of a guarantee payment and end

12 months following such payment. Borrowers will reimburse CSFC within the guarantee period by making level monthly principal repayments for each guaranty period during the reimbursement period. Guarantees extend through maturity dates of the bonds. As of Aug. 31, 2023, no charter schools have ever defaulted thereafter on their guaranteed bond indebtedness and \$12.2 million of available grant funds have been committed.

Note 29

Tax Abatements

The state of Texas provides tax abatements under the following programs: Agricultural or Timber programs, Research and Development Tax Credit Programs, Texas Enterprise Zone Programs, Texas Data Center Sales Tax Exemption Program and Certified Rehabilitation of Certified Historic Structures Program. All abatement amounts are based on estimates.

Information related to these programs for the fiscal year ended 2023, is presented in tables 29A-D.

Tax Abatement Programs

Table 29A

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

Description	Agricultural and Timber Programs			
	Agricultural Machinery and Equipment	Agricultural Products (not covered by blanket exemptions)	Timber Products	Farm/ Timber Use - Motor Vehicle
Purpose of Program:	Provides exemptions or refunds of state sales and use tax paid for anyone producing agricultural or timber products for sale in the regular course of business.			
Tax being abated:	Sales and Use Tax	Sales and Use Tax	Sales and Use Tax	Motor Vehicle Sales and Use Tax
Authority granting abatement:	<i>Texas Tax Code Section 151.316</i>	<i>Texas Tax Code Section 151.316</i>	<i>Texas Tax Code Section 151.3162</i>	<i>Texas Tax Code Section 152.091</i>
Criteria to be eligible:	<ul style="list-style-type: none"> •Valid Texas Agricultural and Timber Exemption Registration Number •Valid Texas Agricultural Sales and Use Tax Exemption Certificate •Purchaser must be a commercial farmer or rancher engaged in producing agricultural products for sale or entities commonly hired to help with commercial production of agricultural products such as field hands, custom harvesters, crop dusters and veterinarians who make farm and ranch calls. •Timber includes seedlings of trees grown for commercial timber and machinery and equipment used in the processing, packing, or marketing of timber products by an original producer if it is from a location operated by the original producer and at least 50 percent of the value of the timber products are from that location. 			
How taxes are reduced/amount of abatement is determined:	Purchase of qualified items are not subject to the state's sales and use tax of 6.25 percent			
Provision for recapture:	N/A	N/A	N/A	N/A
Additional commitment by the state other than to reduce taxes:	No other commitments are made		No other commitments are made	
Amount of Taxes Abated:	<u>\$ 117,100</u>	<u>\$ 414,200</u>	<u>\$ 32,903</u>	<u>\$ 39,735</u>

Tax Abatement Programs

Table 29B

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

Description	Research and Development Tax Credit Program	
	Exemptions	Credits
Purpose of Program:	Provides a sales and use tax exemption or a franchise tax credit; but not both to encourage economic development in Texas, election is not permanent and can be changed.	
Tax being abated:	Sales and Use Tax	Franchise Tax
Authority granting abatement:	<i>Texas Tax Code</i> Section 151.3182 Expires Dec. 31, 2026	<i>Texas Tax Code</i> Section 171.654
Criteria to be eligible:	Must be for purchase, lease, rental, storage or use of depreciable tangible personal property directly used in qualified research expenditures.	
How taxes are reduced/amount of abatement is determined:	Purchase of qualified items are not subject to the state's sales and use tax of 6.25 percent	<ul style="list-style-type: none"> •Generally equal to 5 percent of the difference between the qualified research expenses in the reporting year and 50 percent of the average qualified research expense in the three preceding tax periods. •Unused credits can be carried forward.
Provision for recapture:	Whenever the Texas Comptroller of Public Accounts or the registrant cancels or otherwise terminates the registration number, the registrant will be required to pay the tax, penalty and interest due from the date of purchase on all ineligible tax-free purchases.	N/A
Additional commitment by the state other than to reduce taxes:	No other commitments are made	No other commitments are made
Amount of Taxes Abated:	<u>\$ 258,800</u>	<u>\$ 384,584</u>

Tax Abatement Programs

Table 29C

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

Description	Texas Enterprise Zone Programs	
	Refunds	Refunds
Purpose of Program:	Allows local communities to partner with the state to encourage job creation and capital investment in economically distressed areas, local communities can nominate a new or expanding business as an enterprise project.	
Tax being abated:	Sales and Use Tax	Hotel Occupancy Tax
Authority granting abatement:	<i>Texas Tax Code</i> Section 151.429	<i>Texas Tax Code</i> Section 151.429
Criteria to be eligible:	<ul style="list-style-type: none"> •Nominated projects that are approved are eligible to apply for state sales and use tax refunds on qualified expenditures. •The nominating community files the application on behalf of the companies receiving the refunds. 	A hotel proposed to be constructed by a municipality or a nonprofit municipally sponsored local government corporation created under the <i>Texas Transportation Corporation Act</i> , Chapter 431, <i>Transportation Code</i> , that is within 1,000 feet of a convention center owned by a municipality having a population of 1,500,000 or more, including shops, parking facilities and any other facilities ancillary to the hotel, <i>Texas Government Code Section 2303.003</i> .
How taxes are reduced/amount of abatement is determined:	<ul style="list-style-type: none"> •Level and amount depend on the capital investment and jobs created at the qualified business site. •Abatements last from one to five years, in addition to a 90-day window prior to the application date. •Employment and capital investment commitments must be incurred and met within this time frame. •Rebates range from: \$25,000 for a project investing \$40,000 in capital and creating 10 jobs to \$3.75 million for a project investing \$250 million in capital and creating 500 or more jobs. 	Qualified hotel projects within approved enterprise zones can receive refunds of state sales and use taxes paid or collected and all hotel occupancy taxes collected by the hotel during the first ten years after the project is open for initial occupancy.
Provision for recapture:	<ul style="list-style-type: none"> •Rebate is conditioned on project maintaining at least the same level of employment of qualified employees as existed at the time it qualified for the refund for a period of three years from that date. •If the Texas Comptroller of Public Accounts (Comptroller's office) certifies that the level of employment has not been maintained, the Comptroller's office shall assess that portion of the refund made attributable to any such decrease in employment, including penalty and interest from the date of the refund. 	N/A
Additional commitment by the state other than to reduce taxes:	No other commitments are made	No other commitments are made
Amount of Taxes Abated:	<u>\$ 12,361</u>	<u>\$ 15,509</u>

Tax Abatement Programs

Table 29D

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

Description	Other Programs	
	Texas Data Center Program Exemption	Certified Rehabilitation of Certified Historic Structures Credit
Purpose of Program:	Provides a sales and use tax exemption on certain goods and services necessary and essential to the operation of single-operator data centers.	Earns a franchise tax credit for expenses incurred for the rehabilitation of a certified historic structure in which the entity has an ownership interest.
Tax being abated:	Sales and Use Tax	Franchise Tax
Authority granting abatement:	<i>Texas Tax Code</i> Sections 151.359 and 151.3595	<i>Texas Tax Code</i> Section 171.904-171.909
Criteria to be eligible:	<ul style="list-style-type: none"> •Data center must be single-occupant •Obtain exemption through application •Required to create at least 20 qualifying jobs •Make capital investment of at least \$200 million over a five year period beginning on the date the data center is certified by the Comptroller's office as a qualifying data center. 	<ul style="list-style-type: none"> •Acquire certificate of eligibility from the Texas Historical Commission. •Rehabilitation/certified costs exceed \$5,000 in the year the structure is placed in service.
How taxes are reduced/amount of abatement is determined:	Qualified items are not subject to the state's sales and use tax of 6.25 percent at the time of purchase or as a refund.	<ul style="list-style-type: none"> •Amount is limited to 25 percent of the total eligible cost and expenses incurred. •May not exceed the amount of franchise tax due. •May carry credit forward no more than five years. •An entity that has established eligibility may assign or sell credits to another entity.
Provision for recapture:	Each entity or person that has their registration number revoked is liable for the state sales and use tax, including penalty and interest from the date of purchase on all tax-free purchases made under the qualified data center exemption.	N/A
Additional commitment by the state other than to reduce taxes:	No other commitments are made	No other commitments are made
Amount of Taxes Abated:	<u>\$ 290,971</u>	<u>\$ 22,873</u>