

---

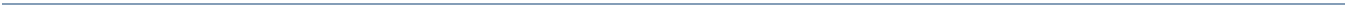
**Section Two (continued)**

---

# Management's Discussion and Analysis

---





---

## Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2014. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2014 report.

### Highlights Government-wide

#### *Net Position*

The assets and deferred outflows of resources of the state of Texas exceeded its liabilities and deferred inflows of resources by \$175.6 billion as of Aug. 31, 2014, an increase of \$17 billion or 10.7 percent from fiscal 2013. The majority of the increase is primarily due to an increase of \$16.2 billion in restricted net position. The net position is comprised of \$79.8 billion in net investment in capital assets, \$81.7 billion in restricted, and \$14.1 billion in unrestricted.

#### **Fund Level**

##### *Governmental Funds*

As of Aug. 31, 2014, the state's governmental funds reported a combined ending fund balance of \$62.7 billion, an increase of \$11.2 billion or 21.7 percent from fiscal 2013, primarily due to an increase in tax revenues. The state reported a positive unassigned fund balance of \$10.3 billion in fiscal 2014.

##### *Proprietary Funds*

The proprietary funds reported a net position of \$56.2 billion as of Aug. 31, 2014, an increase of \$7.3 billion or 14.9 percent from fiscal 2013, primarily due to a decrease in interest and investment income.

#### **Long-Term Debt**

The state's total bonds outstanding increased by \$60.7 million or .15 percent during fiscal 2014. This

amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During fiscal 2014, the state issued bonds totaling \$6.8 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

## Overview of the Financial Statements

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

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

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

The report also includes statistical and economic data.

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

## Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of account-

---

ing. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

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

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

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

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

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

### ***Governmental Activities***

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

### ***Business-Type Activities***

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

### ***Component Units***

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. The state has 29 discretely presented component units. Financial information for these entities is presented separately in the supplemental statements and in the notes.

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

---

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

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

### **Governmental Funds**

---

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

Governmental funds are accounted for using the modified accrual basis of accounting, which measures

---

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

## Proprietary Funds

---

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

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

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

## Reporting on the State's Fiduciary Responsibilities

---

The state is the trustee or fiduciary for six defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only

for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. The activities are reported separately from other financial activities because the state cannot use the assets to finance its operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

## Financial Analysis of the State as a Whole

### Net Position

---

Total assets of the state as of Aug. 31, 2014, were \$260.3 billion, an increase of \$21.8 billion or 9.1 percent. Total liabilities as of Aug. 31, 2014, were \$80 billion, an increase of \$5 billion or 6.8 percent. Net position was affected by a number of factors. All cash and cash equivalents on the Statement of Net Position increased by \$2.7 billion from fiscal 2013. Unrestricted noncurrent investments increased by \$7.6 billion. The state's bonded indebtedness was \$40.9 billion, which included new issuances of \$6.8 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$7.1 billion in bonded debt was retired or refunded. Net position was \$175.6 billion in fiscal 2014, an increase of \$17 billion or 10.7 percent. Of the state's net position, \$79.8 billion was net investment in capital assets, while \$81.7 billion was restricted by the state constitution or other legal requirements and was not available to finance day-to-day operations of the state. Unrestricted net position was \$14.1 billion. The majority of the net position increase is primarily due to an increase of \$16.2 billion in restricted net position.

## Statement of Net Position

August 31, 2014 and 2013 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
<b>ASSETS</b>						
Assets Other Than Capital Assets	\$ 74,110,983	\$ 65,054,470	\$ 73,306,854	\$ 65,626,393	\$ 147,417,837	\$ 130,680,863
Capital Assets	85,693,336	82,159,770	27,158,624	25,648,266	112,851,960	107,808,036
Total Assets	<u>159,804,319</u>	<u>147,214,240</u>	<u>100,465,478</u>	<u>91,274,659</u>	<u>260,269,797</u>	<u>238,488,899</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>76,655</u>	<u>0</u>	<u>576,569</u>	<u>432,091</u>	<u>653,224</u>	<u>432,091</u>
<b>LIABILITIES</b>						
Current Liabilities	12,146,740	10,497,004	12,107,507	11,015,563	24,254,247	21,512,567
Noncurrent Liabilities	23,102,244	21,721,743	32,741,159	31,784,828	55,843,403	53,506,571
Total Liabilities	<u>35,248,984</u>	<u>32,218,747</u>	<u>44,848,666</u>	<u>42,800,391</u>	<u>80,097,650</u>	<u>75,019,138</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>5,226,734</u>	<u>5,254,633</u>	<u>16,063</u>	<u>17,499</u>	<u>5,242,797</u>	<u>5,272,132</u>
<b>NET POSITION</b>						
Net Investment in Capital Assets	68,739,464	64,095,431	11,055,379	10,329,909	79,794,843	74,425,340
Restricted	41,659,436	34,406,773	40,020,583	31,092,846	81,680,019	65,499,619
Unrestricted	9,006,356	11,238,656	5,101,356	7,466,105	14,107,712	18,704,761
Total Net Position	<u>\$ 119,405,256</u>	<u>\$ 109,740,860</u>	<u>\$ 56,177,318</u>	<u>\$ 48,888,860</u>	<u>\$ 175,582,574</u>	<u>\$ 158,629,720</u>

## Changes in Net Position

The state's net position as of Aug. 31, 2014 increased by \$17 billion. The state earned program revenues of \$90.2 billion and general revenues of \$53.9 billion, for total revenues of \$144.1 billion, an increase of \$12.5 billion or 9.5 percent from fiscal 2013. The major components of this increase were tax revenues, which had an increase of \$2.8 billion and operating grants and contributions, with an increase of \$7.8 billion. Federal revenues increased \$771 million and interest and investment income increased \$6.1 billion.

The expenses of the state were \$127.1 billion, an increase of \$5.7 billion or 4.7 percent. The expense fluctuations in governmental activities are largely attributable to a \$3.1 billion increase in health and human services and a \$1.8 billion increase in education services. In business-type activities there was a \$1.1 billion increase in education services which was offset by a decrease in health and human services of \$1.1 billion.

Further discussion of results for changes in the state's financial condition follows in the analysis of the state's funds.

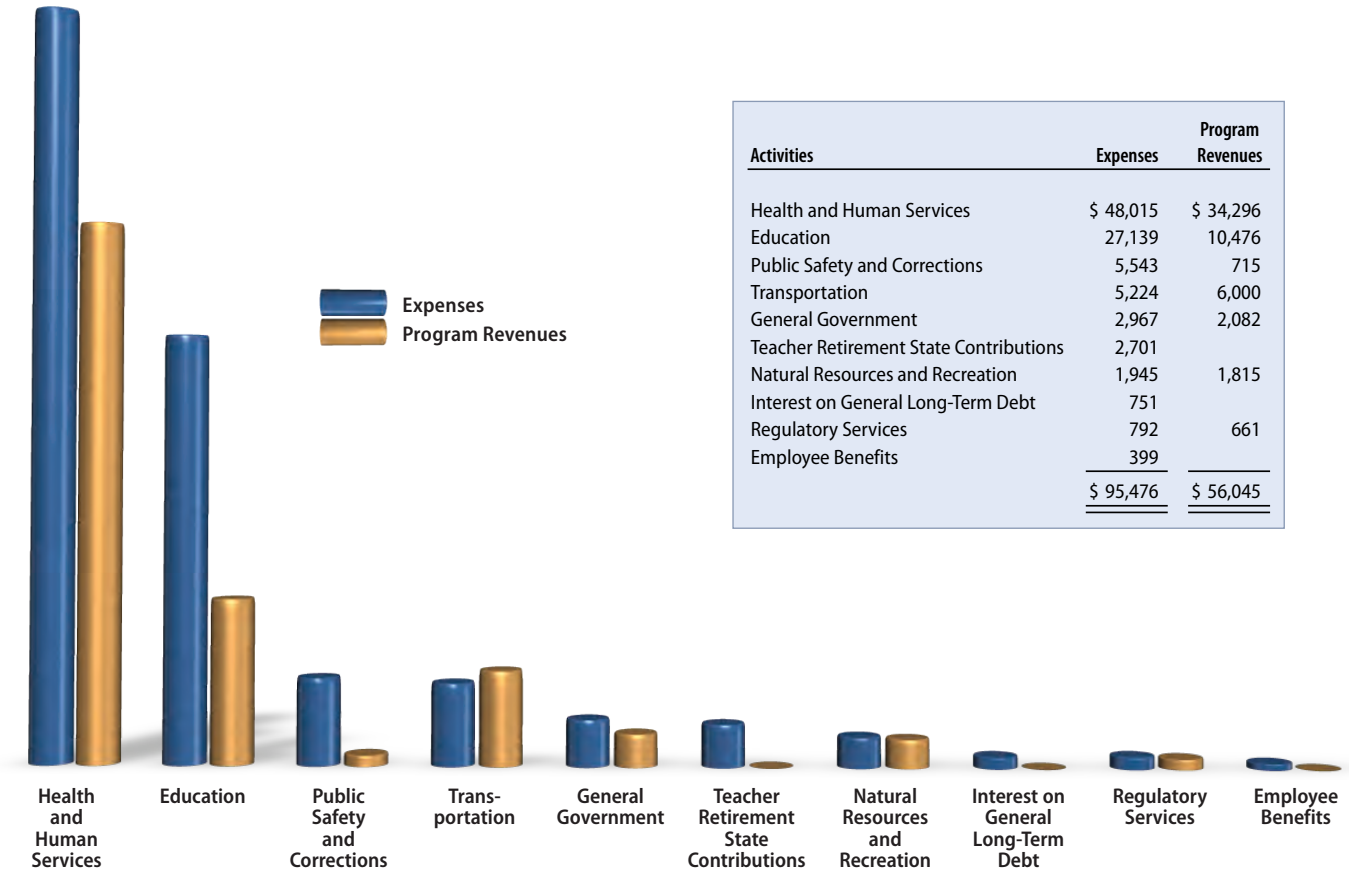
## Changes in Net Position

For the Fiscal Years Ended August 31, 2014 and 2013 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
<b>REVENUES</b>						
Program Revenues:						
Charges for Services	\$ 9,042,614	\$ 8,051,224	\$ 20,503,577	\$ 19,844,127	\$ 29,546,191	\$ 27,895,351
Operating Grants and Contributions	46,903,926	42,868,081	13,120,148	9,320,966	60,024,074	52,189,047
Capital Grants and Contributions	96,802	31,248	522,211	350,922	619,013	382,170
Total Program Revenues	<u>56,043,342</u>	<u>50,950,553</u>	<u>34,145,936</u>	<u>29,516,015</u>	<u>90,189,278</u>	<u>80,466,568</u>
General Revenues:						
Taxes	50,916,366	48,118,538			50,916,366	48,118,538
Unrestricted Investment Earnings	300,423	142,724	165,597	11,566	466,020	154,290
Settlement of Claims	574,082	640,565	99	3,187	574,181	643,752
Gain on Sale of Capital Assets	1,865	376	11,469		13,334	376
Gain on Other Financial Activity	6,708				6,708	
Other General Revenues	1,755,856	2,045,961	195,964	164,538	1,951,820	2,210,499
Total General Revenues	<u>53,555,300</u>	<u>50,948,164</u>	<u>373,129</u>	<u>179,291</u>	<u>53,928,429</u>	<u>51,127,455</u>
Total Revenues	<u>109,598,642</u>	<u>101,898,717</u>	<u>34,519,065</u>	<u>29,695,306</u>	<u>144,117,707</u>	<u>131,594,023</u>
<b>EXPENSES</b>						
General Government	2,967,443	2,873,598	122,356	149,735	3,089,799	3,023,333
Education	27,138,847	25,321,607	24,896,493	23,828,365	52,035,340	49,149,972
Employee Benefits	399,454	437,939			399,454	437,939
Teacher Retirement State Contributions	2,700,533	2,492,310			2,700,533	2,492,310
Health and Human Services	48,015,340	44,888,201	2,759,024	3,854,869	50,774,364	48,743,070
Public Safety and Corrections	5,542,840	5,316,819	95,749	91,331	5,638,589	5,408,150
Transportation	5,223,720	5,384,628	248,827	228,769	5,472,547	5,613,397
Natural Resources and Recreation	1,944,520	1,850,253	315,963	319,094	2,260,483	2,169,347
Regulatory Services	792,267	461,418			792,267	461,418
Interest on General Long-Term Debt	750,946	741,397			750,946	741,397
Lottery			3,164,120	3,185,869	3,164,120	3,185,869
Total Expenses	<u>95,475,910</u>	<u>89,768,170</u>	<u>31,602,532</u>	<u>31,658,032</u>	<u>127,078,442</u>	<u>121,426,202</u>
Excess (Deficiency) Before Contributions and Transfers	<u>14,122,732</u>	<u>12,130,547</u>	<u>2,916,533</u>	<u>(1,962,726)</u>	<u>17,039,265</u>	<u>10,167,821</u>
Capital Contributions	(152,616)	475			(152,616)	475
Contributions to Permanent and Term Endowments			238,951	184,108	238,951	184,108
Transfers	(4,130,757)	(4,028,026)	4,130,757	4,028,026		
Change in Net Position	<u>9,839,359</u>	<u>8,102,996</u>	<u>7,286,241</u>	<u>2,249,408</u>	<u>17,125,600</u>	<u>10,352,404</u>
Net Position, Beginning Balance	109,740,860	101,772,176	48,888,860	46,804,735	158,629,720	148,576,911
Restatements	(174,963)	(134,312)	2,217	(165,283)	(172,746)	(299,595)
Net Position, Beginning Balance, as Restated	<u>109,565,897</u>	<u>101,637,864</u>	<u>48,891,077</u>	<u>46,639,452</u>	<u>158,456,974</u>	<u>148,277,316</u>
Net Position, Ending Balance	<u>\$ 119,405,256</u>	<u>\$ 109,740,860</u>	<u>\$ 56,177,318</u>	<u>\$ 48,888,860</u>	<u>\$ 175,582,574</u>	<u>\$ 158,629,720</u>

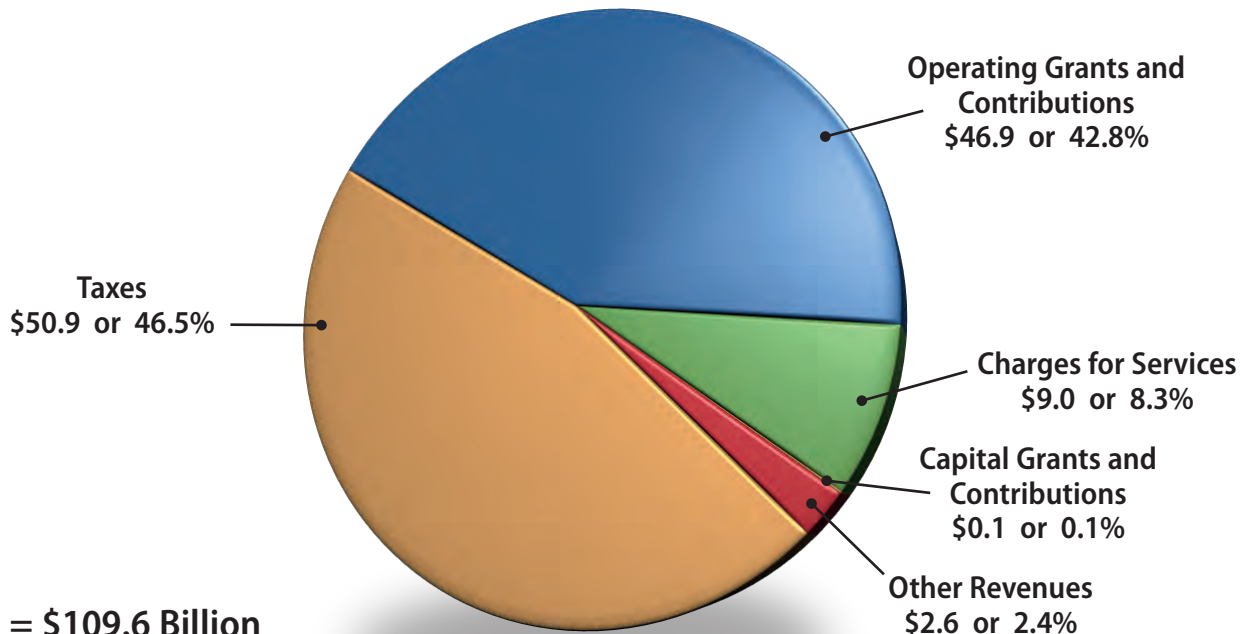
## Expenses and Program Revenues: Governmental Activities

For the Fiscal Year Ended August 31, 2014 (In Millions)



## Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2014 (In Billions)\*



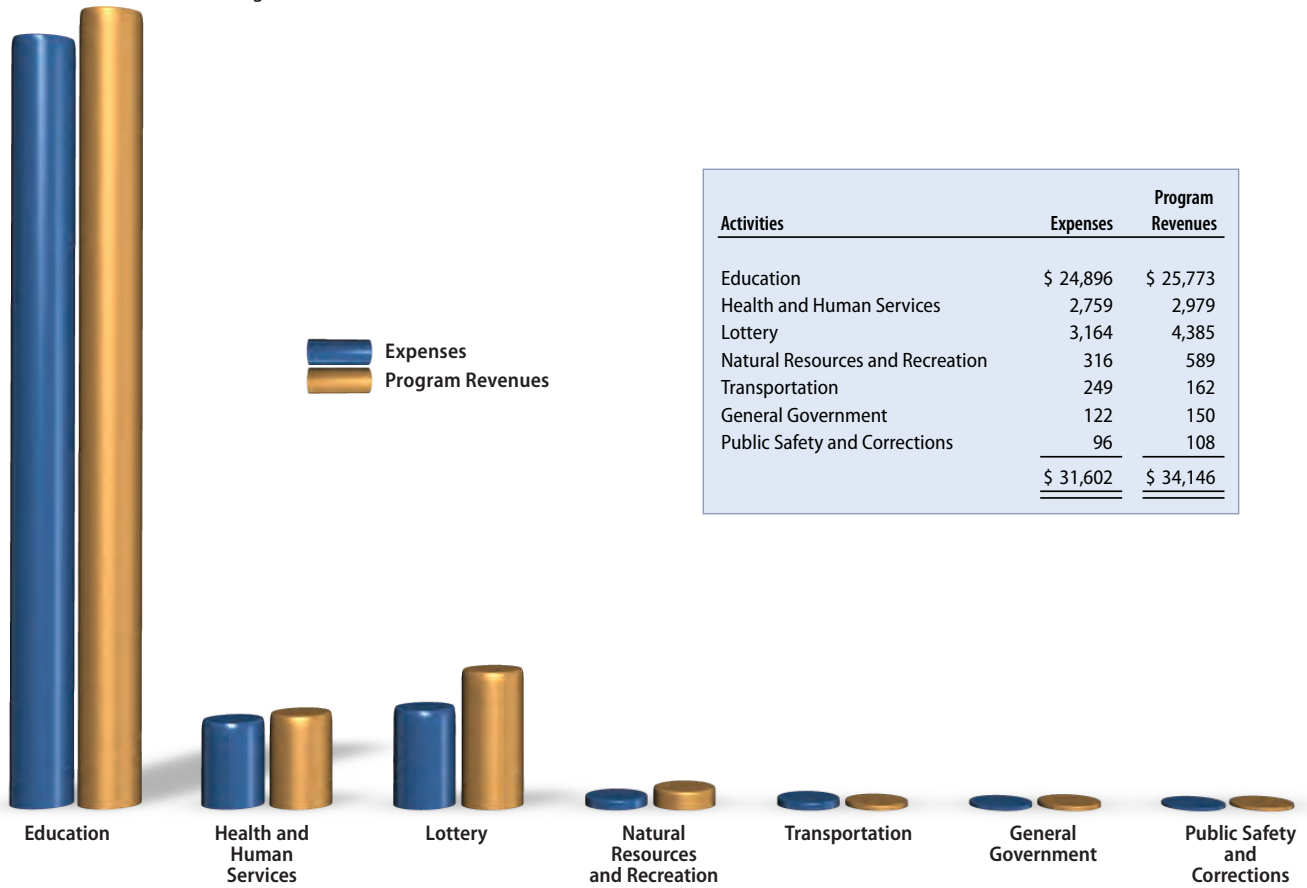
**Total = \$109.6 Billion**

\* Totals may not add due to rounding



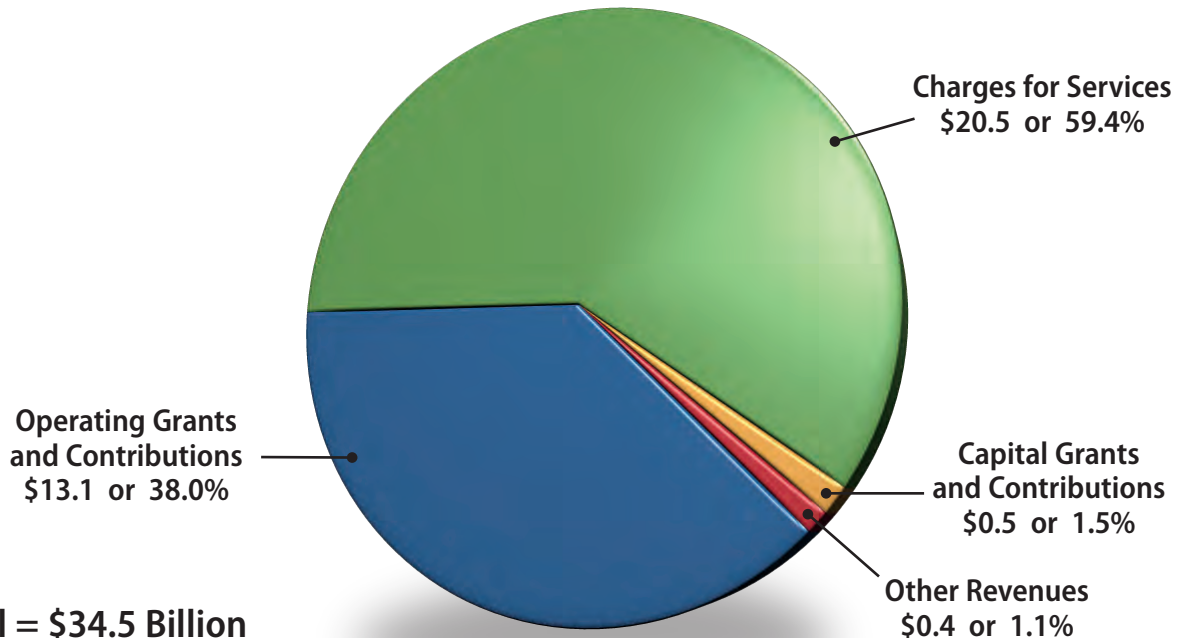
## Expenses and Program Revenues: Business-Type Activities

For the Fiscal Year Ended August 31, 2014 (In Millions)



## Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2014 (In Billions)\*



**Total = \$34.5 Billion**

\* Totals may not add due to rounding

## Governmental Activities

The governmental activities program revenue was \$56 billion, including charges for services of \$9 billion, operating grants and contributions of \$47 billion and capital grants and contributions of \$96.8 million. The largest change, a \$4 billion increase, was for operating grants and contributions. Taxes had increases of \$2.8 billion from general revenue sources, with the largest increase in sales tax revenue.

### Net Cost (Income) of the State's Governmental Activities

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 2,967,443	\$ 885,796
Education	27,138,847	16,663,216
Employee Benefits	399,454	399,384
Teacher Retirement State Contributions	2,700,533	2,700,533
Health and Human Services	48,015,340	13,719,261
Public Safety and Corrections	5,542,840	4,828,189
Transportation	5,223,720	(776,032)
Natural Resources and Recreation	1,944,520	130,012
Regulatory Services	792,267	131,263
Interest on General Long-Term Debt	750,946	750,946
Total	<u>\$ 95,475,910</u>	<u>\$ 39,432,568</u>

### Net Cost (Income) of the State's Business-Type Activities

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 122,356	\$ (27,651)
Education	24,896,493	(876,043)
Health and Human Services	2,759,024	(219,834)
Public Safety and Corrections	95,749	(11,795)
Transportation	248,827	86,546
Natural Resources and Recreation	315,963	(273,416)
Lottery	3,164,120	(1,221,211)
Total	<u>\$ 31,602,532</u>	<u>\$ (2,543,404)</u>

Governmental activities expenses were \$95.5 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except the transportation function which reported a slight surplus. The education function and the health and human services function account for 78.7 percent of governmental activities expenses and 77 percent of the net cost. The tax collections of the state provide the primary source of funding, which when added to program revenues, support payment for governmental services.

## Business-Type Activities

Business-type activities generated program revenue of \$34.1 billion, including charges for services of \$20.5 billion, operating grants and contributions of \$13 billion and capital grants and contributions of \$522 million. The total expenses for business-type activities were \$31.6 billion. The largest changes occurred in education, with a \$1.1 billion increase for colleges and universities, and in the health and human services function, where there was a decrease of \$1.1 billion in health and human services. There was an increase in Net Position in the government's business-type activities of \$7.3 billion in comparison to the prior year's increase of \$2.1 billion.

## Financial Analysis of the State's Funds

### Governmental Funds

As of Aug. 31, 2014, governmental funds reported fund balances of \$62.7 billion. The general fund reported a positive \$17.8 billion fund balance.

### General Fund

The fund balance for the general fund as of Aug. 31, 2014, was \$17.8 billion, an increase of \$2.7 billion from fiscal 2013, mostly due to an increase in tax revenues.

---

The state constitution, state statute, and federal rule or bond covenants constrains \$6.3 billion. The unassigned fund balance was \$10.9 billion, which includes \$6.7 billion in the economic stabilization fund, commonly called “the rainy day fund”. Contributing to the higher balance was an increase of \$3.7 billion in tax revenues.

### *State Highway Fund*

The fund balance for the state highway fund as of Aug. 31, 2014, was \$3.7 billion, an increase of \$3.6 billion from \$100.2 million as of Aug. 31, 2013. Cash and cash equivalents decreased \$261.2 million as natural resource costs increased by \$3 billion.

### *Permanent School Fund*

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2014, totaled \$35 billion, an increase of \$4.3 billion since Aug. 31, 2013. This increase was primarily attributable to an increase in valuation of investments of \$3.7 billion. Value in the fund provided \$838 million in transfers to provide funding for public education. The PSF also supports the state’s public school system through a bond guarantee program, where the PSF is pledged to guarantee bonds issued by Texas school districts, enhancing their credit rating. As of Aug. 31, 2014, a total of \$58.4 billion in school district bond issues were guaranteed.

### *Proprietary Funds*

Proprietary funds reported net position of \$56.2 billion as of Aug. 31, 2014, an increase of \$7.3 billion from fiscal 2013. The state’s public colleges and universities hold 89.4 percent of the reported net position in proprietary funds.

### *Colleges and Universities*

Colleges and universities’ net position as of Aug. 31, 2014, totaled \$50.2 billion, an increase of \$6.4 billion from Aug. 31, 2013. There was an increase of

\$4.4 billion in net income before capital contributions, endowments and transfers and \$545 million in capital contributions and transfers from fiscal 2013. There was an increase in interest and investment income of \$4.2 billion due to favorable market performance. There also was \$1.2 billion collected from land mineral income, such as oil royalties, deposited to the Permanent University Fund (PUF) for the benefit of the University of Texas and Texas A&M University Systems. The PUF’s net position after distributions increased by \$2.5 billion from \$14.9 billion in fiscal 2013 to \$17.4 billion in fiscal 2014. This endowment fund contributes to the support of 24 institutions in the University of Texas System and 23 in the Texas A&M University System.

### *Unemployment Trust Fund*

The unemployment trust fund reports activity related to the administration of statewide unemployment benefits in proprietary funds. The funds reported a net position of \$1.2 billion as of Aug. 31, 2014, an increase of \$536.5 million from \$677.3 million as of Aug. 31, 2013. During fiscal 2014, unemployment taxes collected decreased \$216.9 million from \$2.7 billion 2013 while federal contributions decreased \$1 billion in 2014. Benefits payments dropped \$1.1 billion as the unemployment rate continued to drop and the federally funded emergency unemployment compensation program expired.

### *Lottery Fund*

The Texas Lottery Commission operates on-line and instant ticket lottery games to generate revenue for the state’s foundation school fund. The lottery fund had a net position of \$61.1 million on Aug. 31, 2014, a slight increase above the \$58.5 million at the end of fiscal 2013. The Commission recorded its highest level of total sales in its 20-plus history during fiscal 2014, with collections of \$4.4 billion. Payments to state agencies totaled \$1.2 billion, the highest level of revenue transfers in the Commission’s history.

---

## Fiduciary Funds

Fiduciary funds reported \$175.8 billion in net position as of Aug. 31, 2014, an increase of \$16.2 billion from \$159.6 billion in fiscal 2013, a 10.2 percent increase.

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

Total net position for pension and other employee benefit trust funds was \$159.6 billion, an increase of \$17.6 billion from the \$142 billion reported in fiscal 2013. The majority of plan assets are held as investments for the pension funds. Additions from all sources increased \$11.6 billion from fiscal 2013, while benefit payments increased \$801.3 million. Increases in additions are due primarily to more favorable conditions in the financial markets and legislative increases to state contributions. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas, was 16.9 percent and 14.7 percent, respectively, compared to the previous year's returns of 9 and 10.1 percent.

### *External Investment Trust Fund*

The Treasury Safekeeping Trust is the only external investment trust fund. It administers and invests funds belonging to state and local entities as well as providing direct access to services of the Federal Reserve System. The Trust reported a total net position of \$12.7 billion in fiscal 2014, a decrease of \$1.8 billion from fiscal 2013. The decrease in net position is due to a decrease in both TexPool and TexPool Prime revenue.

## *Private-Purpose Trust Funds*

Total net position for private-purpose trust funds was \$3.4 billion in fiscal 2014, an increase of \$278.5 million from fiscal 2013. Additions from all sources of \$687.8 million exceeded total deductions of \$409.3 million. The net increase of \$278.5 million is an increase of 37.9 percent from the net increase of \$201.9 million in fiscal 2013.

## Budgetary Highlights

### Variances for the General Fund

The differences from original and final revenue budgets are due to both economic and legislative reasons.

Budget mechanisms allow budget revisions for certain revenues when collections exceed the original budget. Accordingly, major revisions were made to both total revenues and expenditures for a net change of \$1.8 billion.

There was a negative \$1.6 billion variance between the actual and final budget revenues. The largest negative revenue variances occurred with taxes, sales of goods and services revenues, which reported a \$1 billion and \$636 million difference, respectively.

The largest negative expenditure variances related to the education function and the health and human services function.

## Capital Assets – Net of Depreciation and Amortization

August 31, 2014 and 2013 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land and Land Improvements	\$ 10,844,164	\$ 10,246,645	\$ 1,737,988	\$ 1,683,668	\$ 12,582,152	\$ 11,930,313
Infrastructure	62,496,935	62,591,370	2,785,800	2,775,670	65,282,735	65,367,040
Construction in Progress	9,035,700	5,914,487	3,153,661	2,257,927	12,189,361	8,172,414
Buildings and Building Improvements	2,174,347	2,332,550	15,145,336	14,930,337	17,319,683	17,262,887
Facilities and Other Improvements	61,597	67,170	1,078,053	1,001,063	1,139,650	1,068,233
Furniture and Equipment	306,637	250,877	1,617,537	1,579,924	1,924,174	1,830,801
Vehicles, Boats and Aircraft	422,771	425,643	79,861	76,602	502,632	502,245
Other Capital Assets	178,161	168,551	1,236,098	985,264	1,414,259	1,153,815
Intangible Capital Assets, Net	173,024	162,477	324,290	357,811	497,314	520,288
Total Capital Assets	<u>\$ 85,693,336</u>	<u>\$ 82,159,770</u>	<u>\$ 27,158,624</u>	<u>\$ 25,648,266</u>	<u>\$ 112,851,960</u>	<u>\$ 107,808,036</u>

## Capital Assets and Debt Administration

### Capital Assets

As of Aug. 31, 2014, the state had \$112.9 billion in net capital assets. This total represents an increase of \$5 billion in total capital assets or 4.7 percent from fiscal 2013. Included in this amount is an increase to construction in progress of \$3.1 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$220.1 million to buildings and building improvements.

To ensure future availability of essential services and to finance capital improvements, TxDOT made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated \$27.1 billion. These commitments extend beyond the end of the fiscal year and represent future costs to the state.

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

### Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the

government-wide statement of net position. Additional detail is also found in Note 2 for capital assets.

The state accounts for its system of roads and highways using the depreciation method. Prior use of the modified approach was discontinued and replaced with the depreciation method.

### Debt Administration

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

The state's general obligation bond issues were rated Aaa by Moody's Investors Service, AAA by Standard & Poor's and AAA by Fitch Ratings as of August 2014. During fiscal 2014, Texas' state agencies and institutions of higher education issued \$6.8 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment, and other projects. General obligation debt accounted for \$2.8 billion of state bonds issued in fiscal 2014. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$4 billion is due to new issuances of revenue bonds,

## Outstanding Bonded Debt

August 31, 2014 and 2013 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds Payable	\$ 12,052,116	\$ 12,089,019	\$ 3,765,126	\$ 3,669,914	\$ 15,817,242	\$ 15,758,933
Revenue Bonds Payable	4,661,544	4,099,579	20,403,923	20,963,515	25,065,467	25,063,094
Total Bonds Payable	<u>\$ 16,713,660</u>	<u>\$ 16,188,598</u>	<u>\$ 24,169,049</u>	<u>\$ 24,633,429</u>	<u>\$ 40,882,709</u>	<u>\$ 40,822,027</u>

which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of \$539.3 million in general obligation bonds and \$936.5 million in revenue bonds. Also, \$2.4 billion in general obligation bonds and \$3.3 billion in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2014, was \$15.8 billion. This represents an increase of \$58 million or .37 percent from fiscal 2013. An additional \$15.8 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were \$25.1 billion, which is an increase of \$2.4 million or .01 percent from fiscal 2013. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detailed information on the state's bonded indebtedness.

### Economic Condition

In 2014 the Texas economy continued its post-recession expansion, adding 441,200 nonfarm jobs over the 12 month period ending November 2014, an increase of 3.9 percent. Private sector employment grew by 4.3 percent, while government employment (federal, state and local combined) grew by 1.7 percent. In addition to adding more jobs than any state over the 12 month period, Texas had the lowest unemployment rate among the 10 most populous states as of November 2014. The comparatively vibrant economic conditions

during a slow national recovery have resulted in an influx of new residents into Texas, adding an estimated 179,000 net new residents (inbound arrivals less out-bound residents) during the year. Even with the growing labor force, the Texas economy produced sufficient jobs to allow the unemployment rate to fall from 6.1 percent in November 2013 to 4.9 percent in November 2014. The Texas unemployment rate has remained below the national rate since January 2007.

Personal income in Texas grew by 5.6 percent from the third quarter of 2013 to the third quarter of 2014, according to the U.S. Bureau of Economic Analysis. This was the second highest rate of growth among all the states, exceeded only by the considerably less-populated state of Alaska. Personal income growth for the nation as a whole was 3.9 percent over this period.

### Contacting the State's Financial Management

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