

Report to the Citizens of Texas

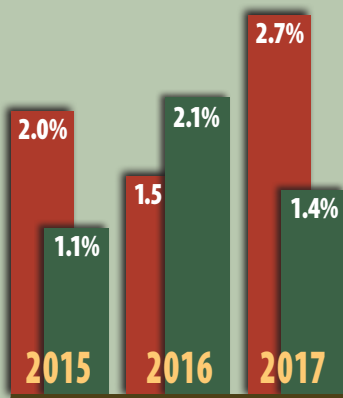
Fiscal 2017 • Sept. 1, 2016 — Aug. 31, 2017

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Texas' Employment Growth

Government Private Sector



Source: Texas Comptroller of Public Accounts, Revenue Estimating Division and U.S. Bureau of Labor Statistics; data based on calendar year.



Comptroller's Mission Statement

The office of the Texas Comptroller of Public Accounts will serve the people of Texas by applying the tax and fiscal laws fairly and consistently.

We will continue to improve our services through innovative management and technology, carrying out all our duties with integrity, openness and at the least cost to the taxpayer.

Texas Continues to Lead the Charge

Open for Business

Texas was ranked best of the best for the 13th straight year in *Chief Executive Magazine's* 2017 *Best & Worst States for Business* due to the state's pro-growth business environment, moderate tax rates and accommodating regulatory environment. The cost of doing business in Texas in 2017 was 11.5 percent below the national average.

Texas placed second best in *Forbes' Best and Worst States for Business* 2017 list, up two spots from fourth in 2016. *Forbes* analyzed states across six categories: business costs, labor supply, regulatory environment, economic climate, growth prospects and quality of life. Texas ranked first for economic climate.

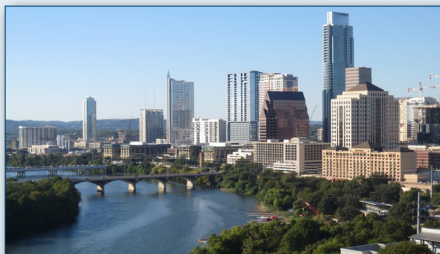
Chief Executive Magazine also ranked Texas #1 as a hotbed for high-tech, fostering growth in a variety of high-tech sectors including biotech, telecommunications, cloud computing and hardware, with Austin as the high-tech mecca for startups.

Texas' massive \$1.5 trillion economy is the second-biggest in the U.S., with 100 of the 1,000 largest public and private companies based in the Lone Star State including AT&T, ExxonMobil, Dell, Texas Instruments, Lockheed Martin, Raytheon and Southwest Airlines.

Texas consumers have also reaped the benefits of the state's strong business climate. The Consumer Confidence Index for the West South Central Region includes Texas and measures consumer confidence affecting sales of housing, vehicles and other major

purchases. The index for the region was up by 40 percent in fiscal 2017, while the index for the nation as a whole was up only 21 percent.

Texas is the nation's leading exporting state and has been for more than a decade. Texas exports comprised 16.5 percent of total U.S. exports through the first 11 months of fiscal 2017.



Job Growth Picks Up Pace

According to the 2017 *State of Texas Annual Cash Report*, Texas added more new jobs during fiscal 2017 than any other state.

Texas' 2.5 percent total job growth (from end of fiscal 2016 to end of fiscal 2017) was second-highest

among the 10 most populous states and fifth-highest among all states.

Texas employment in the goods-producing industries increased by 4.6 percent during fiscal 2017, led by a 13.8 percent employment jump in *mining and logging*.

Texas' manufacturing industry gained 35,600 jobs, a 4.2 percent increase. *Fabricated metal* and *machine manufacturing* were the dominant sectors, both closely associated with oil and natural gas exploration and production.

Texas' *service-providing* industries, which account for more than 85 percent of the state's total nonfarm employment, saw job growth of 2.1 percent during fiscal 2017. Growth was led by *education and health services* (up 46,300 for a total of 1,686,600 jobs in August 2017) and *leisure and hospitality* (up 34,600, for a total of 1,328,700 jobs in August 2017, representing about 11 percent of total employment).

Texas by the Numbers

Fiscal Year ¹	Resident Population ¹	Per Capita Income ¹	Nonfarm Employment ¹	Unemployment Rate (percent) ¹	Per Capita State Tax Collections ²	State Tax Collections ²
2017	28,241,000	\$48,296	12,227,000	4.7	\$1,758	\$49,643,421,639
2016	27,808,000	\$47,296	11,984,000	4.6	\$1,743	\$48,476,226,223

Source: ¹2018-2019 *Certification Revenue Estimate* (Oct. 2017). ²2017 *State of Texas Annual Cash Report* (Nov. 2017). Prior year numbers subject to benchmark revisions.

Mega Metro in the Making

Austin and San Antonio are merging to become the nation's fastest-growing metropolis. No regional economy in the nation has greater momentum. Smaller cities between the two such as San Marcos are growing even more rapidly.

Austin

Dubbed by *Texas Monthly* as "the land of perpetual boom," Austin continues to live up to its name:

- Austin employment since 2000 has expanded 52.3 percent, 15 percent more than either Dallas-Ft. Worth or Houston, and has the largest high-wage job sector in the nation.
- Employment in STEM fields (science; technology; engineering; math) has expanded 35 percent since 2000, compared to just 10 percent for the country as a whole.
- Austin's population has grown at the fastest rate among U.S. metro areas above a million in the nation since 2000, an amazing 60 percent, more than six times the rate of Los Angeles or New York.



San Marcos

The city of San Marcos is establishing itself as the link between the tech hub of Austin and the manufacturing hub of San Antonio. Residents are seeing historic economic and population growth. San Marcos has:

- Texas State University, producing chemists and engineers for the high-tech sector through its PhD programs, and housing an advanced materials incubator.
- Amazon's 855,000-square foot distribution warehouse facility, the sixth such facility in Texas.
- Tech growth and significant venture capital investment that could transform the area into another San Jose/Silicon Valley.



Photo: The University Star

San Antonio

Long known as a slower-paced city with great food and tourist attractions, San Antonio is a growing leader in manufacturing and tech. The Alamo City:

- Is forecasted to grow by 1 million residents by 2040.
- Is a center for growth industries such as aerospace and cybersecurity.
- Has seen its business and professional services job base expand by 44 percent since 2000 and has a millennial population growth rate that ranks in the top 10 of America's big cities, comparable to Austin and well ahead of Boston, New York and San Francisco.



State Performance Measures

These performance measures as reported by state agencies show Texas' performance and expectations in business and economic development, education, natural resources, public health, public safety and transportation — all key government services influencing and affecting citizens' quality of life.

Selected State Performance Measures	FY 2017 Targeted	FY 2017 Actual	FY 2016 Actual
Business and Economic Development			
Businesses developed as recruitment prospects	120	201	204
Entrepreneur services provided to veterans and their families through the entrepreneur program	645	3,635	1,031
Education			
Students with disabilities who graduate from high school	79%	79%	78.2%
Students receiving Texas grants	71,500	72,497	73,466
Natural Resources			
State parks in operation	91	74	88
Total land acreage in Texas managed to enhance wildlife through Texas Parks and Wildlife Department-approved plans	19.4%	19.3%	18%
Public Health			
Total value of Supplemental Nutrition Assistance Program (SNAP) benefits distributed	\$5.2 Billion	\$5.4 Billion	\$5.3 Billion
Women, Infants and Children (WIC) participants provided nutritious supplemental food	958,644	812,057	855,542
Public Safety			
Texas National Guard members	23,000	21,493	21,803
Cleaned up identified leaking petroleum storage tank sites	93%	95%	95%
Transportation			
Construction projects completed on budget	90%	84.3%	87.2%
Highway pavements in good or better condition	91%	86.3%	87.3%

Source: Legislative Budget Board

Are there other specific performance measures you would like to see reported here?

Submit your suggestions to the Comptroller's Fiscal Management Division at: statewide.accounting@cpa.texas.gov

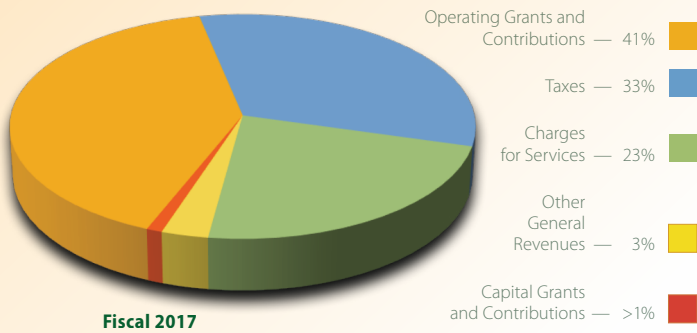
The Comptroller's **Report to the Citizens of Texas** has been awarded the Certificate of Excellence in Citizen-Centric Reporting from the Association of Government Accountants (AGA) for each fiscal year since 2008.



Texas Finances

The amounts below are presented in thousands for fiscal years ending Aug. 31, 2017 and Aug. 31, 2016. An audit of the state's financial statements resulted in a clean audit opinion. Find complete financial information at: <https://fm.x.cpa.texas.gov/fm/pubs/cafr>.

Sources of Revenue

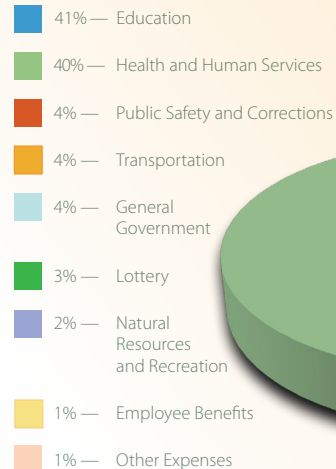


REVENUE BY SOURCE	2017	2016	% Change
Charges for Services	\$ 35,235,999	\$ 33,993,274	3.66
Operating Grants and Contributions	63,063,245	59,244,934	6.44
Capital Grants and Contributions	231,984	115,686	100.53
Taxes	50,187,814	47,534,436	5.58
Other General Revenues	4,003,759	3,526,606	13.53
TOTAL REVENUES	\$ 152,722,801	\$ 144,414,936	5.75

Note: **Operating Grants** provides funding for the day-to-day operations of the state including personnel, administration and other regular expenses. **Capital Grants** provides funding for buildings, construction or equipment, rather than program or operating expenses. **Other General Revenues** includes investment earnings, the settlement of claims and gain on the sale of capital assets and loss on other financial activity.

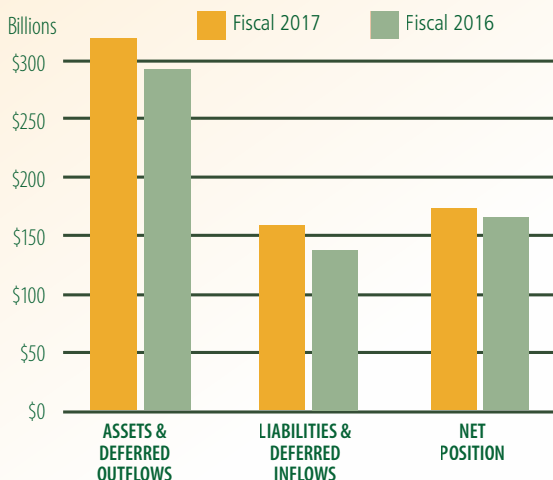
Functional Expenses

EXPENSES	2017	2016	% Change
General Government	\$ 5,352,348	\$ 2,705,170	97.86
Education	58,352,285	57,331,288	1.78
Employee Benefits	2,152,237	2,123,065	1.37
Health and Human Services	58,184,206	58,730,015	-0.93
Public Safety and Corrections	6,453,756	6,314,067	2.21
Transportation	6,595,149	6,189,857	6.55
Natural Resources and Recreation	2,520,097	2,406,190	4.73
Lottery	3,749,583	3,665,907	2.28
Other Expenses	587,388	897,156	-34.53
TOTAL EXPENSES	\$ 143,947,049	\$ 140,362,715	2.55



Note: **Employee Benefits** includes teacher retirement benefits. **Other Expenses** includes regulatory services and interest on general long-term debt.

Net Position



STATEMENT of NET POSITION	2017	2016	% Change
Assets & Deferred Outflows	\$ 320,712,369	\$ 297,814,493	7.69
Liabilities & Deferred Inflows	(153,026,716)	(138,422,244)	10.55
NET POSITION	\$ 167,685,653	\$ 159,392,449	5.20

Note: **Assets** are resources the government controls that can be converted into cash. **Liabilities** are obligations that use up resources the government has little or no discretion to avoid. **Deferred Outflows** is the consumption of a resource by the government that should be reported in a future period. **Deferred Inflows** is the acquisition of a resource by the government that should be reported in a future period. **Net Position** is the balance of all financial statement elements (Assets + Deferred Outflows – Liabilities – Deferred Inflows).

Growing Amidst Challenges



Employment and Economic Outlook

After a year of slow growth in 2016 associated with depressed oil prices, the Texas economy picked up steam in fiscal 2017. Nonfarm employment grew by 2 percent in 2017, compared to 1.4 in 2016, for a total of 12.2 million Texans employed during fiscal 2017.

As employment strengthened, the Texas unemployment rate, as reported by the U.S. Bureau of Labor Statistics, declined ending with a rate of 4.4 percent in the last month of the fiscal year. Likewise, the state's economy — as measured by inflation-adjusted gross state product (GSP) — jumped from a sluggish 0.3 percent growth in 2016 to a more-usual-for-Texas 3 percent in 2017.

Looking forward, the Comptroller's office forecasts Texas employment to grow at an average of 2 percent over fiscal years 2018 and 2019, while GSP is projected to grow at a percentage rate of 3.7 in 2018 and 3.2 in 2019.

Consumer price inflation is expected to remain muted as it has for over a decade. The Texas population is expected to be over 29 million in fiscal 2019 — second only to California — growing by 1.5 percent annually during fiscal years 2018 and 2019.

Key Issues Moving Forward

Infrastructure

Continually maintained with capacity added annually, it includes bridges, highways, ports, airports, electric transmission grid, internet backbone and pipelines. Texas' burgeoning population places a continual strain on these lower-profile but vital components that must be constantly monitored for safety, efficiency and wear.

Education

Always a key element of public policy and budget discussions, education is an integral part of the state budget, especially K-12. Local property taxes levied by independent school districts — the local portion of the state/local education funding partnership — continue to be addressed by the Legislature, particularly the amount currently levied and how fast tax bills are rising.

Other Areas

Several related areas always of key interest in Texas include water, housing and state population which, according to the Texas State Library, has quadrupled in the 70 years following the end of WWII. Of interest moving forward, the new Texas Bullion Depository is slated to break ground outside of Austin in 2018.

Challenges Posed by Hurricane Harvey

Texans on the Gulf Coast are still recovering and rebuilding from the damage associated with Hurricane Harvey, including the population-dense Houston metropolitan area.

Coming ashore as a Category 4 hurricane at Rockport on the evening of Aug. 25, 2017, Harvey was already pegged for a disaster-in-the-making. Stalling out, the storm dropped mammoth amounts of rainfall on the Houston area in less



Photo: Eddie Seal

than a week. The National Weather Service reported almost all of the Houston metro area received 30 inches of rainfall over five days, with some areas receiving 40 inches or more. FEMA estimates 41,500 square miles of Texas were impacted by the hurricane.

While strides are made daily, the rebuilding of Texas areas affected by Harvey will continue for many months, if not years to come. Dollars are flowing through federal agencies to aid in the recovery. As of mid-January 2018, there had been \$8 billion in national flood insurance payments made and \$3 billion in SBA loans approved. Additionally, FEMA and other agencies have been providing federal hurricane relief.

At the state level, the governor has created the Commission to Rebuild Texas to oversee rebuilding efforts, provide coordination between all stakeholders and assist with access to needed recovery information. Many state agencies are involved in the Harvey recovery effort and all affected local governments are assisting their residents and businesses as recovery continues.

**we value
your feedback!**

Did you find this report informative?
Is there other information you'd like to see?
Please let us know.

Contact the Comptroller's Fiscal Management Division:
statewide.accounting@cpa.texas.gov

Texas Economic Outlook for Fiscal 2017 Through 2019

Source: 2018-2019 Certification Revenue Estimate for Texas (Oct. 2017)	2017	2018	2019
Real Gross State Product — total value of goods and services produced (billions adjusted for inflation)	\$ 1,536	\$ 1,593	\$ 1,645
Annual Percent Change	3.0	3.7	3.2
NYMEX Oil Price (\$ per barrel)	\$ 48.77	\$ 50.00	\$ 53.00
NYMEX Natural Gas Price (\$ per Million BTUs)	\$ 3.00	\$ 3.00	\$ 2.90
Nonfarm Employment	12,227,000	12,480,000	12,723,000
Annual Percent Change	2.0	2.1	2.0
Unemployment Rate (percent)	4.7	4.4	4.1

For Oil Price and Natural Gas Price, NYMEX means New York Mercantile Exchange. In Natural Gas, BTUs means per British Thermal Units. Nonfarm Employment excludes farm workers, self-employed proprietors, domestic household workers and non-civilian members of the military.



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