APPENDIX A

February 2013

The State of Texas

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The following information is designed to provide a general description of the State of Texas (the "State") and its finances and is not intended to be exhaustive. Except where otherwise indicated, all financial and related information has been provided by the State from its official records. Historical data and trends presented below are not intended to predict future events or continuing trends, and no representation is made that past experience will continue in the future. Except for the information presented below which has been provided by State agencies and officials, the State has made no attempt to verify the accuracy or completeness of such information, and no representation is made by the State as to accuracy or completeness of the information set forth below or the absence of material adverse changes subsequent to the date of this Official Statement. As a result of rounding, certain tables set forth below may contain immaterial inaccuracies.

STATE GOVERNMENT

Organization

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

Division of Powers

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

The Legislative Department

The legislative power of the State is vested in a House of Representatives and a Senate, which together constitute the Legislature of the State. The House of Representatives consists of 150 members who are elected for terms of two years each, and the Senate consists of 31 members who are elected for four-year terms. After senatorial redistricting, which occurs every 10 years, each member must run for re-election. At that time the members must draw lots, with 15 Senators to serve two-year terms and 16 Senators to serve four-year terms. Proceedings in the House of Representatives are presided over by the Speaker of the House, who is selected by the members of the House of Representatives from among their ranks, and proceedings in the Senate are presided over by the Lieutenant Governor, who is elected by a statewide vote, as described under the caption "Executive Department," below, or in his absence, the President pro tempore of the Senate, who is selected by the members of the Senate from among their ranks.

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

The Executive Department

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

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

The *Governor* is elected for a term of four years and is eligible to seek re-election for an unlimited number of terms. The Constitution requires the Governor to cause the laws of the State to be faithfully executed and to conduct all business of the State with other states and the United States. The Constitution also requires the Governor to present a message on the condition of the State to the Legislature at the commencement of each session of the Legislature and at the end of his term in office, and to recommend to the Legislature such measures as he deems expedient. The Governor has the power to veto any bill or concurrent resolution passed by the Legislature and to veto specific items in appropriation bills, but the Legislature may override any veto, including a line item veto of an appropriation, by a two-thirds vote. If the Governor becomes disabled, he is succeeded in office by the Lieutenant Governor, who continues as Governor until the next general election. The current Governor is Rick Perry who began his third full-term in January 2011.

The *Lieutenant Governor* is elected for a term of four years and is eligible to seek re-election for an unlimited number of terms. The Governor and the Lieutenant Governor are elected separately and may be members of different political parties. The Lieutenant Governor is the President of the Senate and is empowered to cast the deciding vote in the event the Senate is equally divided on any question. The Lieutenant Governor also performs the duties of the Governor during any period that the Governor is unable or refuses to do so or is absent from the State. If the office of the Lieutenant Governor becomes vacant, a successor is elected by the members of the Senate from their ranks. Until a successor is elected, or if the Lieutenant Governor is absent or temporarily unable to act, the duties of the Lieutenant Governor are performed by the President pro tempore of the Senate. The current Lieutenant Governor is David Dewhurst who began his third four-year term in January 2011.

The *Comptroller of Public Accounts* (the “Comptroller”) is elected for a term of four years and is the chief accounting officer of the State. The Comptroller is generally responsible for maintaining the accounting records of the State and collecting taxes and other revenues due to the State, although other State officials share responsibility for both of these functions. The Comptroller is required by statute to prepare an annual statement of the funds of the State and of the State’s revenues and expenditures for the preceding fiscal year. In addition, the Constitution requires the Comptroller to submit to the Governor and the Legislature, at the commencement of each regular session of the Legislature, an itemized estimate of the anticipated revenues that will be received by the State during the succeeding biennium based upon existing laws. The Constitution also requires the Comptroller to submit supplemental statements at any special session of the Legislature and at such other times as may be necessary to show probable changes. The State Constitution also requires the Comptroller to certify that any appropriations bill passed by the Legislature falls within available revenues before the bill goes to the Governor for his signature. In recent years, the Comptroller’s responsibilities have been expanded by the Legislature and/or the voters to include the following: the start up of the Texas Lottery, the transfer of the Property Tax Board to the Comptroller’s office, the administration of the Texas Tomorrow Fund, the transfer of the job duties and responsibilities of the State Treasurer to the Comptroller's office and the transfer of the responsibilities of the State Energy Conservation Office. The current Comptroller is Susan Combs who began her second four-year term in January 2011.

The *Commissioner of the General Land Office* is elected for a term of four years. The Commissioner of the General Land Office is generally responsible for administering the public lands owned by the State. The Commissioner of the General Land Office serves as the chairman of the School Land Board, which has authority over the sale and lease of State owned lands, and as chairman of the Veterans’ Land Board. The Commissioner of the General Land Office also serves as the chairman of boards that control the exploration for oil, gas and other minerals on State lands. The current Commissioner of the General Land Office is Jerry Patterson who began his third four-year term in January 2011.

The *Attorney General* is elected for a term of four years and is the chief legal officer of the State. The Attorney General is required to prosecute and defend all actions in the Supreme Court or the Courts of Appeals in which the State may be interested. The Attorney General also is required, upon request, to advise the Governor, the head of any department of the State government and certain other State and county officials upon any question touching the public interest or concerning their official duties. The Attorney General is the exclusive representative of State agencies, and other attorneys may be retained only if the Attorney General is unable to provide the specific service in question. The current Attorney General is Greg Abbott who began his third four-year term in January 2011.

The *Secretary of State* is appointed by the Governor, with the advice and consent of the Senate, and serves during the term of service of the Governor by whom he or she is appointed. The Secretary of State is required to maintain official records of all laws and all official acts of the Governor and to perform such other duties as are required by law. The Legislature has made the Secretary of State generally responsible for the supervision of elections and for corporate and other similar filings. The current Secretary of State is John Steen Jr., who was appointed by Governor Perry in November of 2012.

The Judicial Department

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

FISCAL MATTERS

Accounting System

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

During the 1987 session, the Legislature imposed uniform accounting and financial reporting procedures on all State agencies and provided that accounting for State agencies is reported in accordance with generally accepted accounting principles ("GAAP"). Sections 2101.012 through 2101.014, Government Code, require the Comptroller, with the review of the State Auditor, to prescribe uniform accounting and financial reporting procedures. The Comptroller is also required by section 403.013, Government Code, to prepare a report to the Governor containing financial information of all State agencies prepared in accordance with GAAP. This report is due annually on the last day of February and is in addition to the cash report also required under this section that is due annually on the first Monday in November. The cash report contains a statement of State funds and accounts, revenues and expenditures during the preceding fiscal year on a cash basis. An audited *Texas Comprehensive Annual Financial Report* was produced for the first time in 1990 and will continually be used for the February report cited. The 1990-2011 reports all received the "Certificate of Achievement for Excellence in Financial Reporting" awarded by the Government Finance Officers Association. Beginning in fiscal year 2002, the Comptroller implemented the new financial reporting requirements established by Statements No. 34 and 35 of the Governmental Accounting Standards Board.

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

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

Appropriations and Budgeting

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

Article III, section 49a of the Constitution, the so-called "pay-as-you-go" provision, provides that an appropriation from any fund other than the General Revenue Fund is not valid if it exceeds the amount of cash and estimated revenues of the fund from which such appropriation is to be paid.
The Constitution requires the Comptroller to submit to the Governor and the Legislature, at the commencement of each regular session of the Legislature, a statement that contains, among other things, an itemized estimate of anticipated revenues, based on laws then in effect, that will be received by the State during the succeeding biennium. The Constitution also requires the Comptroller to submit supplementary statements at any special session of the Legislature and at such other times as may be necessary to show probable changes. No appropriations bill passed by the Legislature may be sent to the Governor for consideration until the Comptroller has certified that the amounts appropriated are within the amounts estimated to be available in the affected funds.

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

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

Legislative Budget Board

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

Non-legislative Powers with Respect to Appropriations

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

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

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

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

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

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

Interfund Borrowing

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

Tax and Revenue Anticipation Notes

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

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

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

Audits

The State Auditor is appointed by the Legislative Audit Committee, composed of the Lieutenant Governor, the Speaker of the House of Representatives, the chairmen of the House Appropriations Committee and the House Ways and Means Committee, the chairman of the Senate Finance Committee and one member of the Senate appointed by the Lieutenant Governor. The State Auditor serves at the will of the Legislative Audit Committee. The State Auditor is charged with the responsibility of devising and recommending the audit plan for the State for each fiscal year to the Audit Committee for approval. The Auditor may conduct financial audits, compliance audits, economy and efficiency audits, effectiveness audits, special audits and investigations of State agencies and institutions of higher education. The State Auditor shall prepare a written report for each audit conducted and file a copy with the Governor, Lieutenant Governor, Speaker of the House of Representatives, Secretary of State, Legislative Reference Library, each member of the governing body and administrative head of the audited entity and members of the Legislature on a committee with oversight responsibility for the entity or program that is the subject of the report. If improprieties are found, the State Auditor, after consulting with the agency head, shall immediately report to the Governor, the committee and the appropriate legal authority. The State Auditor does not audit the constitutionally required "cash basis" report prepared by the Comptroller. However, since fiscal 1987, the Comptroller is required by law to issue a statewide annual financial report that conforms to generally accepted accounting principles (GAAP) for state governments. The Texas Comprehensive Annual Financial Report is required to be audited by the State Auditor. The audited version of the 2011 report was issued on February 28, 2012. Copies of the audited annual financial report are available to the public by writing to the Fiscal Integrity Division, Comptroller of Public Accounts, P.O. Box 13528, Austin, TX 78711 or by visiting the State Comptroller's website at: http://www.window.state.tx.us/fm/pubs/cafr/.

General Investment Authority and Portfolio

The Comptroller is responsible for holding and investing State funds and other funds as required by law. The Comptroller invests funds in investments authorized by statute and consistent with the Texas State Comptroller Investment Policy, dated May 2012. The size of the Treasury investment pool ranges from approximately $23 billion to $32 billion depending on seasonal variations in revenues and expenditures.

Authorized Investments

a) The Comptroller may determine and designate the amount of State funds to be deposited in time deposits in State depositories. The percentage of State funds to be deposited in State depositories shall be based on the interest rates available in competing investments, the demand for funds from Texas banks, and the State's liquidity requirements.

b) State funds not deposited in State depositories shall be invested by the Comptroller in: (1) direct security repurchase agreements; (2) reverse security repurchase agreements; (3) direct obligations of or obligations the principal and interest of which are guaranteed by the United States; (4) direct obligations of or obligations guaranteed by agencies or instrumentalities of the United States government; (5) bankers' acceptances that: (A) are eligible for purchase by the Federal Reserve System; (B) do not exceed 270 days to maturity; and (C) are issued by a bank whose other comparable short-term obligations are rated in the highest short-term rating category, within which there may be subcategories or gradations indicating relative standing including such subcategories or gradations as "rating category" or "rated" by a nationally recognized statistical rating organization, as defined by Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 by the Securities and Exchange Commission; (6) commercial paper that: (A) does not exceed 270 days to maturity; and (B) except as provided by Subsection (i), is issued by an entity whose other comparable short-term obligations are rated in the highest short-term rating category by a nationally recognized statistical rating organization; (7) contracts written by the Treasury in which the Treasury grants the purchaser the right to purchase securities in the Treasury's marketable securities portfolio at a specified price over a specified period and for which the treasury is paid a fee and specifically prohibits naked-option or uncovered option trading; (8) direct obligations of or obligations guaranteed by the Inter-American Development Bank, the International Bank for Reconstruction and Development (the World Bank), the African Development Bank, the Asian Development Bank, and the International Finance Corporation that have received the highest long-term rating categories for debt obligations by a nationally recognized statistical rating organization; (9) bonds issued, assumed, or guaranteed by the State of Israel; (10) obligations of a state or an agency, county, city, or other political subdivision of a state; (11) mutual funds secured by obligations that are described by Subdivisions (1) through (6) or by obligations consistent with Rule 2(a)-7 (17 C.F.R. Section 270.2(a)-7, promulgated by the Securities and Exchange Commission, including pooled funds: (A) established by the Texas Treasury Safekeeping Trust Company; (B) operated like a mutual fund; (C) with portfolios consisting only of dollar-denominated securities; (12) foreign currency for the sole purpose of facilitating investment by state agencies that have the authority to invest in foreign securities; (13) asset-backed securities, as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7), that are rated at least A or its equivalent by a nationally recognized statistical rating organization and that have a weighted-average maturity of five years or less; and (14) corporate debt obligations that are rated at least A or its equivalent by a nationally recognized statistical rating organization and mature in five years or less from the date on which the obligations were "acquired," as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7).

c) Investments in direct security repurchase agreements and reverse security repurchase agreements may be made with state or national banks doing business in this state or with primary dealers as approved by the Federal Reserve System. Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received under the terms of a reverse security repurchase agreement may be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

d) The Comptroller may contract with a depository for the payment of interest on time or demand deposits at a rate not to exceed a rate that is lawful under an Act of Congress and rules and regulations of the board of governors of the Federal Reserve System, the board of directors of the Federal Deposit Insurance Corporation, the National Credit Union Administration Board, and the Federal Home Loan Banking Board.

e) The Treasury may not purchase any of the following types of investments: (1) obligations the payment of which represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations the payment of which represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

f) The Comptroller by rule may define derivative investments other than those described by Subsection (e). The Treasury may not purchase investments defined by rule adopted under this subsection in an amount that at the time of purchase will cause the aggregate value of the investments to exceed five percent of the Treasury's total investments.

g) To the extent practicable, the Comptroller shall give first consideration to Texas banks when investing in direct security repurchase agreements.

h) The Comptroller may not use State funds to invest in or purchase obligations of a private corporation or other private business entity doing business in Northern Ireland unless the corporation or other entity: (1) adheres to fair employment practices; and (2) does not discriminate on the basis of race, color, religion, sex, national origin, or disability.

i) Notwithstanding Subsection (b)(6)(B), the Comptroller may purchase commercial paper with a rating lower than the rating required by that paragraph to provide liquidity for commercial paper issued by the Comptroller or an agency of the State.

j) If the Comptroller is required by law to invest funds other than as provided by this section, and if other law does not establish a conflicting standard governing that investment, the Comptroller shall invest those funds under the restrictions and procedures for making the investments that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the prevailing circumstances, would follow in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital.

k) The Comptroller may contract with private professional investment managers to assist the Comptroller in investing funds under the care, custody, and control of the Comptroller.

l) The Comptroller may lend securities under procedures established by the Comptroller. The procedures must be consistent with industry practice and must include a requirement to fully secure the loan with cash, obligations described by Subsections (b) (1)-(6), or a combination of cash and the described obligations. Notwithstanding any law to the contrary, cash may be reinvested in the items permitted under Subsection (b) or mutual funds, as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7).

m) In entering into a direct security repurchase agreement or a reverse security repurchase agreement, the Comptroller may agree to accept cash on an overnight basis in lieu of the securities, obligations, or participation certificates identified in Section 404.001 (3). Cash held by the state under this subsection is not a deposit of state or public funds for purposes of any statute, including this subchapter or Subchapter D, that requires a deposit of state or public funds to be collateralized by eligible securities.

n) Notwithstanding any other law to the contrary, any government investment pool created to function as a money market mutual fund and managed by the Comptroller or the Texas Treasury Safekeeping Trust Company may invest the funds it receives in investments that are "eligible securities," as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7), if it maintains a dollar-weighted average portfolio maturity of 90 days or less, with the maturity of each portfolio security calculated in accordance with Rule 2a-7 (17 C.F.R. Section 270.2a-7), and meets the diversification requirements of Rule 2a-7.

Investment Policies

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

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

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

Texas Treasury Safekeeping Trust Company

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

The Comptroller currently manages numerous separate portfolios by and through the Trust Company which is authorized to operate the TexPool portfolios, the local government investment pools comprised of TexPool, the largest, and TexPool Prime. The State Treasurer organized TexPool in 1989, and its balances have ranged from $11 billion to $21 billion in the last few years. Since May 12, 1997, the day-to-day administration of TexPool has been outsourced. These activities are currently managed for the Comptroller by Federated Investors Inc. The types of authorized investments within TexPool are U.S. Government Securities, Agencies and Instrumentalities, Repurchase Agreements, Reverse Repurchase Agreements and Money Market Mutual Funds. The types of authorized investments within TexPool Prime are U.S. Government Securities, Agencies and Instrumentalities, Repurchase Agreements, Reverse Repurchase Agreements, Certificates of Deposit, Commercial Paper and Money Market Mutual Funds. As of February 1, 2013, TexPool had 2,277 members and a fund balance of $19 billion; TexPool Prime had 153 members and a fund balance of $1.4 billion. TexPool and TexPool Prime are AAAm money market funds rated by Standard and Poor's. Texpool's average maturity is 48 days and TexPool Prime is 56 days as of February 1, 2013.

STATE REVENUES AND EXPENDITURES

Current Treasury Investments

As of February 1, 2013, the beginning balance in the Treasury was $29.3 billion, of which $2.6 billion is invested by the Comptroller at the discretion of the State Permanent School Fund, Permanent University Fund, and employee pension funds. As of such date, the fair value of Treasury investments by category was as follows:

Table A-1
Current Treasury Investments

Investment Type	Fair Value (in millions)	Percent of Total
Bank Deposits	460	1.57
Treasury Bills	900	3.07
Treasury Notes	11,041	37.64
Treasury TIPS	431	1.47
Corporate Bonds	2,189	7.46
Asset Backed Securities	2,288	7.80
Money Market Funds	1,695	5.78
Agency Notes	1162	3.96
Agency Discount Notes	228	0.78
Repurchase Agreements	2,189	7.46
Lottery Award Annuities	972	3.31
Mortgage Backed Securities	2,633	8.98
SBA Securities	56	0.19
Commercial Paper	3,153	10.75
Trust Stock	1	0
Reverse Repurchase Agreements	-67	-0.23
Totals (1)	**29,332**	**100**

(1) Totals may not add due to rounding
Source: Texas Treasury Safekeeping Trust Company

These securities do not include any prohibited securities. The average remaining term of these securities (excluding securities matched to State lottery prize liabilities) is 488 days. Information on the Trust Company, Investment Policies and Investments may be found on the Trust Company's website at www.ttstc.com.

Identity of Funds

An understanding of the relative importance of each of the State's revenue sources requires a brief explanation of the State's fund accounting process. As stated above, there are several hundred different funds within the Treasury. The General Revenue Fund, due to its character and the large number of programs financed through it, provides an indication of the State's financial condition. In fiscal 2010, the General Revenue Fund accounted for most of the State's total net revenue (see Table A-4). The category of State funds that provides a broader understanding of the State's financial condition consists of non-trust funds, which includes the General Revenue Fund, other operating and disbursing funds, constitutionally created funds, federal funds, pledged and bond funds and other special funds. The remaining funds consist of trust funds and accounts that are held in trust for specific State programs, such as sales tax revenues that must be distributed to local governments in the State and suspense accounts to hold money pending identification of where the actual deposit should be made. Trust and suspense accounts are generally excluded from the discussion of revenues and expenditures.

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

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

Revenue Sources

Sales tax provided the State's primary source of income in fiscal 2011, which accounted for 55.3% of the total tax revenue (see Table A-5). Federal receipts came in second, while licenses, fees, permits, fines and penalties provided a distant third largest revenue source to the State. Franchise taxes, motor fuel taxes and motor vehicle sales/rental taxes came in as the fourth, fifth and sixth largest respectively. The remainder of the State's revenue was derived primarily from oil and gas severance taxes, interest and investment income, net lottery proceeds, insurance premium tax and other revenues. The State has no personal or corporate income tax, although the State does impose a franchise tax based on taxable margin, defined as gross receipts less either cost of goods sold or compensation.

Table A-2 describes the major taxes levied by the State, which are sources of revenue for the General Revenue Fund.

Table A-2
Major State Taxes

Taxes	**Rate and Base**
Sales Taxes	• Limited Sales and Use: 6.25 percent of the sales price of tangible personal property and selected services. • Boat and Boat Motor: 6.25 percent of the total consideration paid for a boat or boat motor; $15 tax for each boat or boat motor brought into the State by a new resident. • Fireworks: 2.0 percent of the sales price of fireworks, in addition to the 6.25 percent limited sales and use tax. • Texas Emissions Reduction Plan Surcharge: 2.0 percent of the sale or lease price of all off-road, heavy-duty diesel equipment (other than some implements of husbandry).
Natural Gas Taxes	• 7.5 percent of the market value of natural gas produced in the State. • 4.6 percent of the market value of condensate produced in the State or 4.6¢ per barrel of condensate produced in the State, whichever is higher.
Oil Production and Regulation Taxes	• Production: 4.6 percent of the market value of oil produced in the State or 4.6¢ per barrel of crude oil produced in the State, whichever is higher. • Regulation: 3/16 of 1¢ on each barrel of crude oil produced in the State.
Motor Fuel Taxes	• Motor Fuel: 20¢ per gallon of gasoline or diesel fuel (eligible transit companies qualify for a refund of 1¢ per gallon on gasoline and 1/2¢ per gallon on diesel fuel). • Special Fuels: 15¢ per gallon of liquefied gas.
Motor Vehicle Sales and Use, Rental, and Manufactured Housing Sales Taxes	• Sales and Use: 6.25 percent of vehicle sales price, less any trade-in; $90 tax for each motor vehicle brought into the State by a new resident; $10 tax paid by donee for each gift of a motor vehicle; $5 tax paid by each party in an even exchange of two motor vehicles; 1 percent or 2.5 percent Texas Emissions Reduction Plan surcharge on certain diesel trucks. • Rental: 10 percent of gross receipts on rentals of 30 days or less; 6.25 percent on rentals of 31 to 180 days. • Manufactured Housing Sales: 5 percent of 65 percent of the sales price on the initial sale or use of a new manufactured home.
Cigarette and Cigar/Tobacco Products Taxes	• Cigarette: 1. $70.50 per 1,000 weighing 3 pounds or less ($1.41 per pack of 20); 2. $72.60 per 1,000 weighing more than 3 pounds ($1.452 per pack of 20). • Cigars and Tobacco Products: 1. Cigars rate varies with weight per 1,000 cigars, constituents, and price: From 1¢ per 10 cigars for weight under 3 lbs. to $15 per 1,000 cigars for weight over 3 lbs; 2. Snuff, chewing tobacco, pipe tobacco, and roll your own tobacco: $1.16 per ounce of manufacturer's list weight in fiscal 2012.
Franchise Tax	• 1 percent of taxable margin (taxable entities not primary engaged in wholesale or retail trade), or 0.5 percent of taxable margin (taxable entities primarily engaged in

	wholesale or retail trade). Taxpayers with total revenue of $10 million or less may elect to pay tax on revenue apportioned to Texas at a rate of 0.575 percent.
Alcoholic Beverage Taxes	• Beer: $6.00 per 31-gallon barrel. • Liquor: $2.40 per gallon. • Wine: 1. Alcohol volume not over 14 percent—20.4¢ per gallon; 2. More than 14 percent alcohol—40.8¢ per gallon; 3. Sparkling Wine—51.6¢ per gallon. • Malt Liquor (Ale): 19.8¢ per gallon. • Mixed Beverage: 14 percent of gross receipts. • Airline/Passenger Train Beverage: 5¢ per serving..
Insurance Premium Taxes	• Life Insurance and Health Maintenance Organizations: 0.875 percent of the first $450,000 in taxable gross life premiums or HMO taxable gross receipts, and 1.75 percent of taxable gross life premiums or HMO taxable gross receipts in excess of $450,000. • Property and Casualty Insurance: 1.6 percent of gross premiums written in Texas. • Accident and Health Insurance: 1.75 percent of gross premiums written in Texas. • Unauthorized, Independently Procured, and Surplus Lines Insurance: 4.85 percent of gross premiums written for the insureds whose home state is Texas. • Title Insurance: 1.35 percent of gross premiums written in Texas.
Inheritance Tax	• None: Federal law incrementally phased out the State's share of the federal tax until it was fully eliminated for deaths in calendar 2005 and beyond.
Utility Taxes	• Public Utility Gross Receipts Assessment: One sixth of 1 percent of gross receipts. • Gas, Electric and Water Utility: 1. Cities 1,000—2,499 population – 0.581 percent of gross receipts; 2. Cities 2,500—9,999 population – 1.070 percent of gross receipts; 3. Cities 10,000 population or more – 1.997 percent of gross receipts. • Gas Utility Pipeline: One half of 1 percent of gross income (gross receipts less the cost of natural gas sold) of gas utilities.
Hotel Occupancy Tax	• 6 percent of room rate paid by occupant.

Source: Texas Comptroller of Public Accounts.

Limitations on Taxing Powers

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

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

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

Historical Revenues, Expenditures, and Cash Condition

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

Table A-3
Statement of Cash Position for the Consolidated General Revenue Fund[1]
Fiscal Year Ending August 31

Fund Balance - September 1	**2008**	**2009**	**2010**	**2011**	**2012**
Cash in State Treasury	12,398,954,284	9,811,664,072	3,899,868,146	1,951,287,994	2,629,414,943
Cash in Petty Cash Accounts	7,529,717	7,746,243	7,866,228	7,914,801	7,927,699
Prior Period Adjustments[3]	0	0	0	0	1,509,396
	$12,406,484,001	**$9,819,410,314**	**$3,907,734,373**	**$1,959,202,795**	**$2,638,852,038**

Net Revenue:	**2008**	**2009**	**2010**	**2011**	**2012**
Tax Collections	38,817,412,304	35,311,021,756	33,312,179,646	36,607,538,492	41,337,350,053
Federal Income	23,395,635,005	26,179,959,043	27,407,709,839	29,204,935,388	28,266,640,222
Licenses, Fees, Fines and Penalties	5,652,556,880	5,585,108,539	5,224,540,778	5,693,804,762	5,663,241,533
Interest and Investment Income	316,227,924	91,581,338	39,061,000	74,819,100	19,878,041
Net Lottery Proceeds	1,597,487,228	1,581,961,572	1,633,922,591	1,675,475,975	1,830,916,003
Sales of Goods and Services	177,447,585	164,585,471	159,497,158	152,121,623	159,978,391
Settlements of Claims	547,598,514	563,222,317	556,464,444	586,834,547	558,112,743
Land Income	19,634,634	23,147,901	20,878,648	23,691,289	41,027,874
Contributions to Employee Benefits	15,020,092	270,553	169,068	157,887	126,448
Other Revenue	2,735,865,256	3,311,752,108	1,633,922,591	3,511,663,289	4,160,635,102
Total Net Revenue	**$73,274,885,423**	**$72,812,610,598**	**$71,689,219,078**	**$77,531,042,350**	**$82,037,906,412**

Other Sources:	**2008**	**2009**	**2010**	**2011**	**2012**
Bond and Note Proceeds	(2,325,000)	4,000,000	3,168,000	8,500,000	5,000,000
Sale/Redemption of Investments	9,158,884	8,100,000	7,650,000	7,200,000	2,307,555
Deposits to Trust and Suspense	(762,318)	1,565,864	7,050,152	13,492,563	8,805,350
Direct Deposit Transfers				0	0
Departmental Transfers	768,072,119	861,482,955	896,573,950	845,715,354	833,075,596
Operating Transfers	35,033,415,937	35,355,787,847	36,355,105,474	40,584,404,617	36,665,253,329
Residual Equity Transfers	2,711,915	8,013,569	7,925	28,854,334	1,551
Other Sources	38,561	30,265	39,257	10,752	116,421
Total Other Sources	**$35,810,310,099**	**$36,238,980,500**	**$37,269,594,758**	**$41,488,177,621**	**$37,514,559,801**
Total Net Revenue and Other Sources	**$109,085,195,522**	**$109,051,591,098**	**$108,958,813,836**	**$119,019,219,971**	**$119,552,466,213**

Table A-3
Statement of Cash Position for the Consolidated General Revenue Fund[1] (concluded)
Fiscal Year Ending August 31

Net Expenditures:	**2008**	**2009**	**2010**	**2011**	**2012**
General Government	2,399,137,967	2,756,079,378	3,030,670,876	3,211,235,725	2,611,650,991
Education	28,857,993,367	31,269,186,426	28,612,029,293	28,809,869,330	30,547,883,536
Employee Benefits	2,598,135,918	2,555,491,601	2,939,061,264	3,025,233,606	2,922,005,611
Health and Human Services	29,621,557,282	32,858,353,183	35,109,439,106	37,902,888,956	38,005,054,577
Public Safety and Corrections	3,525,201,200	4,495,436,787	4,220,019,045	4,078,917,413	3,752,373,282
Transportation	5,970,253	6,382,244	20,437,486	22,850,524	18,145,866
Natural Resources/ Recreational Services	1,171,165,520	1,339,188,012	1,302,901,069	1,211,699,553	1,613,580,272
Regulatory Agencies	301,359,762	356,325,497	332,296,149	311,538,233	288,992,399
Lottery Winnings Paid [2]	422,894,727	491,322,426	486,716,618	541,356,469	619,034,021
Payment of Interest	171,246,129	121,019,731	159,167,122	176,304,172	201,768,977
Capital Outlay	204,361,220	241,923,859	279,129,748	286,301,826	287,166,396
Total Net Expenditures	**$69,279,023,345**	**$76,490,709,144**	**$76,491,867,776**	**$79,578,195,808**	**$80,867,655,928**

Other Uses:	**2008**	**2009**	**2010**	**2011**	**2012**
Purchase of Investments	17,373,838	2,704,000	2,102,000	5,243,867	144,432
Trust and Suspense Payments	6,257	18,181	5,327	3,483	9,511
Teacher and Employee Retirement Payments	1,703,548	1,603,122	1,552,736	1,815,576	2,532,409
Direct Deposit Transfers	0	0	0	0	0
Departmental Transfers	678,578,946	745,974,744	793,556,407	750,849,676	757,747,799
Operating Fund Transfers	41,212,134,910	37,467,705,217	33,435,599,902	37,774,886,167	38,370,757,444
Residual Equity Transfers	2,458,841	5,292,801	87,830	28,854,334	15
Other Uses	255,086	150,250	182,622,009	17,162,650	11,518,205
Debt Service Principal	480,950,961	249,229,566	87,830	184,081,461	184,267,537
Total Other Uses	**$42,393,462,389**	**$38,472,677,880**	**$34,415,526,212**	**$38,762,897,214**	**$39,326,977,351**
Total Net Expenditures and Net Increase/(Decrease)	**$111,672,485,734**	**$114,963,387,024**	**$110,907,393,988**	**$118,341,093,022**	**$120,194,633,280**
To Petty Cash Accounts	**$216,526**	**$119,985**	**$48,573**	**$12,898**	**$511,784**
Fund Balance-Year Ended August 31	**$9,819,410,314**	**$3,907,734,373**	**$1,959,202,795**	**$2,637,342,642**	**$1,997,196,755**
Cash in State Treasury	**$9,811,664,072**	**$3,899,868,146**	**$1,951,287,994**	**$2,629,414,943**	**$1,988,757,273**
Cash in Petty Cash Accounts	**$7,746,243**	**$7,866,228**	**$7,914,801**	**$7,927,699**	**$8,439,483**

(1) Consolidated General Revenue contains activity and balances for the General Revenue Fund and dedicated accounts in General Revenue.
(2) Does not include payments made by retailers.
(3) Beginning cash balances have been restated due to reclassification of funds and accounts. Totals may not sum due to rounding.
Source: Texas Comptroller of Public Accounts, Annual Cash Reports (various years).

Table A-4 provides information concerning the cash condition of the State's Consolidated General Revenue Fund, special revenue funds and trust and suspense funds for the fiscal year ending August 31, 2012, and for the total of all of the State's funds and accounts as of such date. The information in the table does not include cash held in certain funds maintained by State-operated institutions of higher education (see "Education—Higher Education") or certain other funds that are not accounted for through the Comptroller of Public Accounts.

Table A-4
Statement of Cash Position
Fiscal Year Ending August 31, 2012

Fund Balance - September 1	**Consolidated General Revenue[1]**	**Special Revenue**	**All Other Funds**	**Total All Funds**
Cash in State Treasury	$ 2,629,414,943	$ 14,683,551,921	$ 5,197,391,266	$ 22,510,358,130
Cash in Petty Cash Accounts	7,927,699	1,021,585	59,000	9,008,284
Prior Period Adjustments (3)	1,509,396	3,937,111	(5,446,508)	0
Total	**$2,638,852,038**	**$14,688,510,617**	**$5,192,003,758**	**$22,519,366,414**
Net Revenue:	**Consolidated General Revenue[1]**	**Special Revenue**	**All Other Funds**	**Total All Funds**
Tax Collections	41,337,350,053	2,741,768,696	2,533,193,163	46,612,311,912
Federal Income	28,266,640,222	4,655,400,235	2,917,483,571	35,839,524,029
Licenses, Fees, Permits, Fines and Penalties	5,663,241,533	1,944,443,777	146,793,119	7,754,478,429
Interest and Investment Income	19,878,041	1,079,052,185	257,117,979	1,356,048,204
Net Lottery Proceeds	1,830,916,003	0	0	1,830,916,003
Sales of Goods and Services	159,978,391	202,772,919	38,387,415	401,138,725
Settlements of Claims	558,112,743	1,718,931	5,107,141	564,938,815
Land Income	41,027,874	1,331,235,796	0	1,372,263,670
Contributions to Employee Benefits	126,448	0	6,149,059,294	6,149,185,743
Other Revenue	4,160,635,102	667,088,844	4,837,635,854	9,665,359,800
Total Net Revenue	**$82,037,906,412**	**$12,623,481,383**	**$16,884,777,536**	**$111,546,165,330**
Other Sources:	**Consolidated General Revenue[1]**	**Special Revenue**	**All Other Funds**	**Total All Funds**
Bond and Note Proceeds	5,000,000	21,697,611,566	0	21,702,611,566
Sale/Redemption of Investments	2,307,555	2,879,075,673	6,476,849,100	9,358,232,327
Deposits to Trust and Suspense	8,805,350	50,288,444	9,517,079,526	9,576,173,321
Direct Deposit Transfers	0	0	0	0
Departmental Transfers	833,075,596	25,070,096	581,702	858,727,394
Operating Fund Transfers	36,665,253,329	31,946,490,868	14,549,790,599	83,161,534,795
Residual Equity Transfers	1,551	0	0	1,551
Other Sources	116,421	197,675	0	314,096
Total Other Sources	**$37,514,559,801**	**$56,598,734,323**	**$30,544,300,927**	**$124,657,595,051**
Total Net Revenue and Other Sources				
TOTAL NET REVENUE	**$ 119,552,466,213**	**$ 69,222,215,705**	**$ 47,429,078,463**	**$ 236,203,760,381**

Table A-4
Statement of Cash Position
Fiscal Year Ending August 31, 2012
(Continued)

Net Expenditures	Consolidated General Revenue[1]	Special Revenue	All Other Funds	Total All Funds
General Government	2,611,650,991	413,879,013	4,443,519,295	7,469,049,299
Education	30,547,883,536	3,154,848,282	203,974,985	33,906,706,803
Employee Benefits	2,922,005,611	398,603,962	6,189,459,188	9,510,068,761
Health and Human Services	38,005,054,577	122,379,860	5,129,388,201	43,256,822,639
Public Safety and Corrections	3,752,373,282	542,367,830	0	4,294,741,113
Transportation	18,145,866	6,871,700,979	(113,613)	6,889,733,233
Natural Resources/Recreational Services	1,613,580,272	549,543,413	18,444	2,163,142,128
Regulatory Agencies	288,992,399	46,769,145	7,625,220	343,386,764
Lottery Winnings Paid [2]	619,034,021	0	0	619,034,021
Payment of Interest	201,768,977	1,084,324,729	81,468,938	1,367,562,644
Capital Outlay	287,166,396	204,847,070	7,349,995	499,363,461
Total Net Expenditures	**$80,867,655,928**	**$13,389,264,285**	**$16,062,690,652**	**$110,319,610,866**

Other Sources:	Consolidated General Revenue[1]	Special Revenue	All Other Funds	Total All Funds
Purchase of Investments	144,432	3,677,685,149	1,417,467,371	5,095,296,951
Trust and Suspense Payments	9,511	0	6,742,255,208	6,742,264,719
Teacher and Employee Retirement Payments	2,532,409	0	9,448,349,306	9,450,881,715
Direct Deposit Transfers	0	0	0	0
Departmental Transfers	757,747,799	76,308,150	2,298,766	836,354,714
Operating Fund Transfers	38,370,757,444	30,542,710,798	13,061,647,039	81,975,115,281
Residual Equity Transfer	15	1,535	0	1,551
Other Uses	11,518,205	200,100	0	11,718,305
Debt Service Principal	184,267,537	11,526,930,030	316,435,000	12,027,632,566
Total Other Uses	**$39,326,977,351**	**$45,823,835,763**	**$30,988,452,689**	**$116,139,265,803**
Total Net Expenditures and Other Uses	**$120,194,633,280**	**$59,213,100,047**	**$47,051,143,341**	**$226,458,876,668**
Net Increase (Decrease) To Petty Cash Accounts	511,784	2,425	0	514,209
Fund Balance/Year Ending August 31, 2012	**$1,997,196,755**	**$24,697,628,700**	**$5,569,938,879**	**$32,264,764,335**
Cash in State Treasury	**$1,988,757,273**	**$24,696,604,690**	**$5,569,879,879**	**$32,255,241,843**
Cash in Petty Cash Accounts	**$8,439,483**	**$1,024,010**	**$59,000**	**$9,522,493**

(1) Consolidated General Revenue contains activity and balances for the General Revenue Fund and dedicated accounts in General Revenue.
(2) Does not include payments made by retailers.
(3) Beginning cash balances have been restated due to reclassification of funds and accounts.
Totals may not sum due to rounding.
Source: Texas Comptroller of Public Accounts, *2012 Annual Cash Report*.

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

Table A-5
Revenue by Source
All Funds Excluding Trust Funds
Fiscal Year Ending August 31

Tax Collection by Major Tax	**2008**	**2009**	**2010**	**2011**	**2012**
Sales Tax	21,604,090,350	21,014,065,089	19,630,305,704	21,478,982,942	24,191,240,632
Motor Vehicle Sales and Rental, Mfg. Housing Sales Taxes	3,341,588,813	2,600,939,347	2,630,137,405	2,977,664,128	3,559,231,370
Motor Fuels Taxes	3,101,526,779	3,032,770,482	3,041,973,016	3,104,200,331	3,169,239,669
Franchise Tax	4,451,325,736	4,250,332,029	3,856,865,935	3,932,114,437	4,564,730,635
Insurance Taxes	1,450,184,267	1,257,314,168	1,324,703,043	1,349,641,599	1,496,251,178
Natural Gas Tax	2,684,647,510	1,407,739,109	725,538,388	1,109,718,098	1,534,630,438
Cigarette and Tobacco Taxes	1,446,894,671	1,556,793,276	1,388,764,873	1,559,505,630	1,428,102,956
Alcoholic Beverage Taxes	784,068,675	796,948,327	809,233,737	862,032,126	929,700,476
Oil Production Tax	1,436,879,156	884,510,773	1,008,664,357	1,472,846,659	2,103,268,285
Inheritance Tax	5,580,142	2,004,064	81,458	1,806,641	(483,557)
Utility Taxes	503,878,555	518,883,903	478,742,739	457,722,479	450,907,026
Hotel Occupancy Tax	370,979,724	343,544,448	330,809,436	348,796,113	401,411,015
Other Taxes	176,284,575	156,607,998	143,080,974	201,144,550	250,888,626
Total Tax Collections	**$41,357,928,953**	**$37,822,453,013**	**$35,368,901,064**	**$38,856,175,733**	**$44,079,118,749**

Revenue by Source	**2008**	**2009**	**2010**	**2011**	**2012**
Tax Collections	41,357,928,953	37,822,453,013	35,368,901,064	38,856,175,733	44,079,118,749
Federal Income	26,238,327,684	30,859,931,204	36,856,626,791	38,430,475,826	32,922,040,458
Licenses, Fees, Permits, Fines, and Penalties	10,227,892,331	7,198,061,506	6,862,918,564	7,876,583,174	7,607,685,311
Interest and Investment Income	2,309,013,776	1,346,545,322	1,058,575,154	1,034,609,817	1,098,930,226
Net Lottery Proceeds	1,597,487,228	1,581,961,572	1,633,922,591	1,675,475,975	1,830,916,003
Sales of Goods and Services	495,941,577	427,644,257	408,052,872	283,090,826	362,751,310
Settlements of Claims	548,521,665	564,752,988	557,255,238	587,983,147	559,831,674
Land Income	1,050,029,895	788,045,918	760,614,257	1,461,788,448	1,372,263,670
Contributions to Employee Benefits	15,020,092	270,553	169,068	157,887	126,448
Other Revenue Sources	3,142,862,204	3,695,796,980	3,850,122,615	4,064,549,016	4,827,723,946
Total Net Revenue	**$86,983,025,406**	**$84,285,463,312**	**$87,357,158,214**	**$94,270,889,849**	**$94,661,387,794**

Totals may not sum due to rounding.
Source: Texas Comptroller of Public Accounts, 2012 *Annual Cash Report.*

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

Table A-6
Texas Per Capita State Tax Collections

Fiscal Year	State Tax Collections	State Population	Per Capita Tax Collections	Percentage Change	Taxes as a Percent of Personal Income	
2008	41,357,928,953	24,250,000	1,705	9.7	4.3	%
2009	37,822,453,013	24,737,000	1,529	(10.3)	4.1	
2010	35,368,901,064	25,197,000	1,404	(8.2)	3.8	
2011	38,856,175,733	25,622,000	1,517	8.0	3.9	
2012	44,079,118,749	26,053,000	1,692	11.6	4.2	

Sources: Tax collection data were compiled by the Texas Comptroller of Public Accounts from the Annual Cash Reports.
Population estimates and personal income figures are from the Comptroller's Fall 20121 AREMOS data bank.

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

Table A-7
Net Expenditures by Function
All Funds Excluding Trust Funds
Fiscal Year Ending August 31

General Government:	**2008**	**2009**	**2010**	**2011**	**2012**
Executive	2,145,868,899	2,475,761,834	3,211,531,452	3,924,487,295	2,622,286,326
Legislative	123,099,351	141,750,457	131,134,280	138,916,998	121,712,840
Judicial	245,226,538	254,971,650	275,209,846	278,932,076	281,530,839
Total General Government	**$2,514,194,788**	**$2,872,483,941**	**$3,617,875,578**	**$4,342,336,370**	**$3,025,530,004**

Expenditures	**2008**	**2009**	**2010**	**2011**	**2012**
Education	30,776,388,790	33,120,732,460	32,417,865,207	33,558,059,096	33,702,731,818
Employee Benefits	2,980,023,946	2,928,101,148	3,342,199,847	3,410,610,368	3,320,609,573
Health and Human Services	29,681,049,686	33,492,032,588	36,300,566,652	38,718,145,379	38,127,434,438
Public Safety and Corrections	4,048,228,642	5,043,393,457	4,704,097,676	4,549,016,677	4,294,741,113
Transportation	7,667,605,856	6,722,847,158	5,972,091,701	6,706,420,175	6,889,846,846
Natural Resources/ Recreational Services	2,103,124,122	2,069,187,656	1,813,346,873	1,808,419,674	2,163,123,685
Regulatory Agencies	301,359,762	356,325,497	332,560,491	312,396,315	335,761,544
Lottery Winnings Paid(1)	422,894,727	491,322,426	486,716,618	541,356,469	619,034,021
Debt Service – Interest	972,573,502	1,005,304,449	880,981,008	979,692,074	1,286,093,706
Capital Outlay	468,387,959	473,903,973	565,841,518	532,373,550	492,013,466
Total Net Expenditures	**$81,935,831,778**	**$88,575,634,753**	**$90,434,143,170**	**$95,458,826,147**	**$94,256,920,213**

(1) Does not include payments made by retailers.
Totals may not sum due to rounding.
Source: Texas Comptroller of Public Accounts, *2012 Annual Cash Report.*

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

Table A-8
Net Expenditures by Object
All Funds Excluding Trust Funds
Fiscal Year Ending August 31

Public Assistance	**2008**	**2009**	**2010**	**2011**	**2012**
Public Assistance Payments	27,331,223,848	30,822,572,237	33,484,170,555	35,935,051,183	34,916,037,739
Intergovernmental Payments	**2008**	**2009**	**2010**	**2011**	**2012**
Foundation School Program Grants	18,029,972,378	19,691,248,882	16,293,092,453	17,674,668,169	19,222,015,479
Other Public Education Grants	4,671,296,909	4,937,017,983	7,629,111,731	7,536,111,081	6,329,470,849
Grants to Higher Education	1,039,080,505	1,221,480,454	1,152,576,833	1,193,358,218	1,143,310,454
Other Grants	2,070,544,852	3,020,404,953	2,963,539,728	2,941,083,735	2,628,761,369
Highway Construction and Maintenance	5,208,591,565	4,252,879,534	3,353,467,064	3,774,008,186	4,186,493,637
Capital Outlay	468,387,959	473,903,973	565,841,518	532,373,550	492,013,466
Cost of Goods Sold	898,838,329	690,930,232	420,583,612	491,485,471	466,004,486
Salaries and Wages	9,695,131,557	10,210,385,672	10,431,562,840	10,325,278,936	10,255,623,349
Employee Benefits	**2008**	**2009**	**2010**	**2011**	**2012**
Employee Benefit Payments	2,196,143,665	2,337,223,052	2,527,442,834	2,547,833,362	2,267,659,536
Payroll Related Costs	2,421,070,653	2,340,341,661	2,710,027,219	2,772,767,943	2,709,221,497
Professional Services and Fees	1,841,278,814	1,903,734,141	2,210,094,255	2,298,846,575	2,079,300,952
Travel	149,353,979	161,498,108	151,108,116	143,941,586	143,551,689
Supplies and Materials	919,756,061	932,386,485	999,590,844	1,028,045,704	1,079,339,070
Communication and Utilities	512,153,408	437,383,137	474,294,718	501,595,522	472,565,322
Repairs and Maintenance	628,642,339	723,208,164	762,653,007	834,847,239	927,318,700
Rentals and Leases	241,695,076	260,238,514	262,828,695	265,550,456	265,513,723
Printing and Reproduction	43,670,563	46,322,766	44,324,304	37,805,083	38,311,087
Payment of Interest	972,573,502	1,005,304,449	880,981,008	979,692,074	1,286,093,706
Lottery Winnings Paid(1)	422,894,727	491,322,426	486,716,618	541,356,469	619,034,021
Claims and Judgments	102,543,281	89,992,819	120,513,588	101,753,940	105,704,021
Other Expenditures	2,070,987,808	2,525,855,113	2,509,621,629	3,001,371,664	2,623,576,063
Total Net Expenditures	**$81,935,831,778**	**$88,575,634,753**	**$90,434,143,170**	**$95,458,826,147**	**$94,256,920,213**

(1) Does not include payments made by retailers.
Totals may not sum due to rounding
Source: Texas Comptroller of Public Accounts, *2012 Annual Cash Report.*

Recent Legislative and State Budgets

2010-11 Budget:

In January 2009, the State Legislature began its eighty-first regular session (the "81st Legislature"). In May 2009, the 81st Legislature adopted a General Appropriations Act ("GAA") totaling $182.2 billion in all-funds appropriations for the 2010-2011 biennium, resulting in a $10.1 billion overall budget increase. The General Revenue appropriations totaled $80.6 billion, which represents a 1.3% reduction from the 2008-2009 biennium. The decrease is attributable to $6.4 billion of the American Recovery and Reinvestment Act ("ARRA") funds received from the federal government and appropriated in Article XII of the GAA replacing General Revenue appropriations made elsewhere in the GAA. The ARRA funds used to replace General Revenue appropriations are primarily associated with education and health and human services programs. Along with the $6.4 billion in ARRA funding that replaced certain General Revenue appropriations, an additional $5.7 billion in ARRA funds were appropriated outside the General Revenue Fund for various government functions including highway and bridge construction, weatherization programs, grants for special education and grants to local educational agencies.

In addition, the 81st Legislature passed, House Bill 4586, a supplemental appropriations bill for the current fiscal year 2009 and for the 2010-2011 biennium. H.B. 4586 provides for $2.4 billion in all-funds appropriations. These supplemental appropriations include $2.3 billion from ARRA funds, net reductions of $122.1 million in General Revenue appropriations, net appropriations of $49.6 million from various General Revenue dedicated accounts and the remainder in appropriations from federal and other funds. The ARRA funds included in the supplemental appropriations legislation represent appropriations primarily for highway and bridge construction and additional federal Medicaid funding. Estimated appropriations of ARRA funds, including those made in the GAA, total $14.3 billion.

2012-13 Budget:

In January 2011, the State Legislature began its eighty-second regular session (the "82nd Legislature"). During the Regular Session, the 82nd Legislature passed H.B. 275 authorizing the transfer of $3.2 billion from the Economic Stabilization Fund to the General Revenue Fund in order to cover the budgetary shortfall for fiscal year 2011. By the end of June 2011, the 82nd Legislature, both in the regular session and one special session adopted a budget totaling $173.5 billion in all-funds appropriations for the 2012-2013 biennium, resulting in a $14 billion overall budget decrease. The decrease is attributable to negative cash flow created by the economic recession affecting fiscal year 2009 and 2010 and the loss of $16 billion in federal stimulus monies provided during the recession. The reductions primarily affected the budgets of the Health and Human Services agencies, reducing their appropriations by $11 billion. Public education funding reflected a $2.3 billion deferral of the August 2013 Foundation School Program payment until September 2013 (the first month of fiscal year 2014). The General Revenue Fund appropriations totaled $81.3 billion, which represents a 0.8% reduction from the 2010-2011 biennium.

Table A-9 compares the budget for the 2012-2013 biennium to the actual budgeted expenditures for the 2010-2011 biennium.

Table A-9
The Budget for Texas State Government for the 2012-2013 Biennium
Compared to Actual Budgeted Expenditures for the 2010-2011 Biennium
All Funds (In Millions)

		Expended/Budgeted 2010-2011 [1]	Appropriated 2012-2013 [2]	Biennial Change	Percent Change
Article I	General Government	5,026.3	4,469.0	(557.3)	(11.1)
Article II	Health and Human Services	65,464.2	55,426.4	(10,037.8)	(15.3)
Article III	Agencies of Education	76,416.0	72,871.3	(3,544.7)	(4.6)
Article V	The Judiciary	672.9	643.1	(29.8)	(4.4)
Article V	Public Safety and Criminal Justice	12,072.9	11,507.4	9,565.5	(4.7)
Article VI	Natural Resources	3,562.2	3,888.3	326.1	9.2
Article VII	Business and Economic Development	23,196.6	23,660.8	464.2	2.0
Article III	Regulatory	736.1	677.8	(58.2)	(7.9)
Article IX	General Provisions [3]	0.0	0.0	0.0	NA
Article X	The Legislature	369.2	339.9	(29.3)	(7.9)
	Total, All Functions	**$187,516.5**	**$173,484.20**	**($14,032.3)**	**(7.5)**

(1) Reflects provisions in House Bill 4, Eighty-second Legislature, Regular Session, 2011, relating to appropriation changes made in fiscal year 2011.
(2) Reflects certain appropriation adjustments made in Article IX of House Bill 1, Eighty-second Legislature, Regular Session, 2011, Governor's veto, House Bill 4, Eighty-second Legislature, Regular Session, 2011, Senate Bill 2, Eighty-second Legislature, First Called Session, 2011, and other legislation enacted by the Eighty-second Legislature which make or change appropriations.
(3) In addition to amounts indicated, Article IX, Section 17.01 of Senate Bill 1, Eighty-first Legislature, Regular Session, 2009, appropriated funds for Salary Schedule C pay raised for commissioned peace officers.
Notes: Article totals exclude interagency contracts.
Source: Legislative Budget Board

Revenue Forecasts: Fiscal Years 2012-2013

Table A-10 sets forth information concerning estimated revenues for the State's 2013 fiscal year, along with actual collections for comparable revenues for the State's 2010 - 2012 years. The information is for all funds, excluding trust and local funds.

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

Tax Collection by Major Tax	2010 Actual	2011 Actual	2012 Actual	2013 Estimated
Tax Collections				
Sales Tax	19,630,306	21,478,983	24,191,241	26,124,905
Motor Vehicle Sales and Rental, Mfg Housing	2,630,137	2,977,664	3,559,231	3,742,958
Motor Fuels Taxes	3,041,973	3,104,200	3,169,240	3,292,486
Franchise Tax	3,856,866	3,932,114	4,564,731	4,677,008
Insurance Taxes	1,324,703	1,349,642	1,496,251	1,580,980
Natural Gas Tax	725,538	1,109,718	1,534,630	1,062,239
Cigarette and Tobacco Taxes	1,388,765	1,559,506	1,428,103	1,558,712
Alcoholic Beverage Taxes	809,234	862,032	929,700	986,793
Oil Production Tax	1,008,664	1,472,847	2,103,268	2,324,589
Inheritance Tax	81	1,807	(484)	0
Utility Taxes	478,743	457,722	450,907	443,796
Hotel Tax	330,809	348,796	401,411	422,284
Other Taxes	143,081	201,145	250,889	230,441
Total Tax Collections	**$35,368,901**	**$38,856,175**	**$44,079,119**	**$46,447,191**

Revenue By Source	2010 Actual	2011 Actual	2012 Actual	2013 Estimated
Tax Collections	35,368,901	38,856,175	44,079,119	46,447,191
Federal Income	36,856,627	38,430,476	32,922,040	37,799,957
Licenses, Fees, Permits, Fines, and Penalties	6,862,919	7,876,583	7,595,067	8,841,019
Interest and Investment Income	1,058,575	1,034,610	1,098,905	1,118,686
Net Lottery Proceeds	1,633,923	1,675,476	1,830,916	1,738,776
Sales of Goods and Services	408,053	283,091	362,749	379,386
Settlements of Claims	557,255	487,983	559,832	538,199
Land Income	760,614	1,461,789	1,372,264	1,101,633
Contributions to Employee Benefits	169	158	126	118
Other Revenue	3,850,123	4,064,549	4,820,035	4,534,282
Total Net Revenue	**$87,357,158**	**$94,270,889**	**$94,641,053**	**$102,499,247**

Totals may not sum due to rounding.
Source: Texas Comptroller of Public Accounts, *2014-2015 Biennial Revenue Estimate* and *2012 Annual Cash Report.*

The revenue estimate released in January 2013 for the 2014-2015 biennium was prepared by the Comptroller as directed by Section 403.0131, Texas Government Code and Article 3, Section 49a of the Texas Constitution. (See "Fiscal Matters-Appropriations and Budgeting.") The revenue estimate is based on an econometric model of the Texas economy created by the Comptroller, using extensive databases relating to State and local economic conditions and demographic statistics. These models are supplemented by economic services such as IHS Global Insight, which provide the national economic data used in the State forecast. Similar models have been used in preparing prior revenue estimates.

The State of Texas finished fiscal 2012 with a $2.0 billion positive cash balance in the Consolidated General Revenue Fund. This was the 25th consecutive year that Texas ended a fiscal year with a positive balance in its Consolidated General Revenue Fund.

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

Table A-11
Texas State Treasury Ending Cash Balances
Years Ending August 31
(Amounts in Thousands)

Fund Type	2008	2009	2010	2011	2012
General Revenue (0001)	4,531,602	(1,008,321)	(3,541,584)	(2,697,785)	(3,705,935)
General Revenue Accounts	5,280,062	4,908,189	5,492,872	5,327,200	5,694,693
Consolidated General Revenue	9,811,664	3,899,868	1,951,288	2,629,415	1,988,757
Non-consolidated Funds and Petty Cash Accounts	26,311,491	21,908,447	28,707,133	19,889,951	30,276,007
All Funds	**$36,123,155**	**$25,808,315**	**$30,658,421**	**$22,519,366**	**$32,264,764**

Ending Non-consolidated balances include $6.4 billion in Tax and Revenue Anticipation Note proceeds received August 31, 2008.
Ending Non-consolidated balances include $7.8 billion in Tax and Revenue Anticipation Note proceeds received August 31, 2010.
Ending Non-consolidated balances include $9.8 billion in Tax and Revenue Anticipation Note proceeds received August 30, 2012.

Source: Texas Comptroller of Public Accounts, *2012 Annual Cash Report*.

STATE DEBT

Introduction

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

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

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

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

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

TPFA was also authorized to issue G.O. bonds on behalf of the Texas Natural Research Laboratory Commission (this authorization was repealed by HB 1320, 74th Leg), the Texas Parks and Wildlife Department, the Texas Military Preparedness Commission and the Cancer Prevention Research Institute of Texas.

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

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

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

State General Obligation Debt–Annual Debt Service Requirements

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

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

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

State Revenue Bonds

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

In addition to the foregoing revenue obligations issued by State agencies, other State programs may be financed with revenue bonds or similar obligations payable from revenues generated by the specific authorized programs rather than from the general revenues of the State or its taxing power. Among the State entities authorized to issue such revenue bonds are the TWDB, the Texas Agricultural Finance Authority, the Comptroller on behalf of the Texas School Facilities Finance Program, the Texas Department of Housing and Community Affairs, the Texas Department of Economic Development –

Office of the Governor, the TPFA, VLB and Texas colleges and universities (described below). The TXDOT is also authorized to issue revenue bonds for the Texas Turnpike Authority and the State Highway Fund.

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

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

Recent Developments Affecting State Debt

The 82nd Legislature authorized additional G.O. debt that was approved by the voters at the November 2011 general election. These include SJR 4 for $6.00 billion in evergreen bonding authority for water projects; and SJR 50 for $1.86 billion in evergreen bonding authority to finance educational loans to students.

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

In August 2009, Standard & Poor's (S&P) raised Texas' issuer credit and general obligation credit ratings to AA+ from AA on the State's outstanding G.O. debt. This rating on Texas' G.O. debt reflects a steadily growing and diversifying economy, which despite the recession continues to perform better than the nation in terms of both economic activity and employment.

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

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

The 77th Legislature authorized the TTC, the governing Commission of the TXDOT, to issue debt for the Texas Mobility Fund, and voters approved the constitutional amendment in November, 2001 allowing the TXDOT to issue bonds secured by future revenue. The 77th Legislature also authorized the TTC to issue debt for the State Highway Fund in an amount not to exceed $3 billion with no more than $1 billion to be issued per year. This authority was amended by SB 792, Acts, 80th Legislature authorizing the program in an amount not to exceed $6 billion with no more than $1.5 billion to be issued per year.

Article III, Section 49-j of the Texas Constitution prohibits the Legislature from authorizing additional State debt payable from general revenues, including authorized but unissued bonds and lease purchase contracts in excess of $250,000 or for a term of greater than five years, if the resulting annual debt service exceeds five percent of an amount equal to the average amount of general revenue for the three immediately preceding years, excluding revenues constitutionally dedicated for purposes other than payment of debt service. The debt service ratio for outstanding debt was 1.34% as of August 31, 2012. With the inclusion of authorized but unissued debt, the ratio was 3.48%. Although backed by the full faith and credit of the State, debt service for self-supporting G.O. bonds are reasonably expected to be paid from other revenue sources and is therefore not expected to create a draw on general revenue.

Selected Data Concerning State Debt

Table A-12 (see following page), sets forth certain information concerning the debt service requirements of general obligation and other constitutionally authorized indebtedness of the State as well as revenue bonds payable from the State's General Revenue Fund for fiscal years 2012 and beyond.

General Obligation Bond Debt Service and Revenue Bond
Debt Service Payable from General Revenue (1)
Determined as of November 30, 2012
Table A-12
(in thousands)

Fiscal Year	General Obligation Bonds Self Supporting (2) Principal	General Obligation Bonds Self Supporting (2) Interest	General Obligation Bonds Payable from General Revenue Principal	General Obligation Bonds Payable from General Revenue Interest	Total G.O. Bonds (3)	Revenue Bonds Payable from General Revenue (4) Principal	Revenue Bonds Payable from General Revenue (4) Interest	Total Revenue Bonds	Total
2013	234,481	331,045	79,530	117,817	762,873	39,076	20,806	59,882	822,755
2014	256,575	470,483	203,997	224,864	1,155,919	36,332	19,387	55,719	1,211,638
2015	277,247	459,383	251,149	184,997	1,172,777	29,930	5,265	35,195	1,207,971
2016	293,893	446,567	251,232	143,108	1,134,800	26,565	3,850	30,415	1,165,215
2017	313,195	433,533	207,646	132,452	1,086,826	22,140	2,671	24,811	1,111,638
2018	313,270	419,698	206,931	123,077	1,062,976	19,415	1,678	21,093	1,084,069
2019	327,775	405,513	209,225	113,567	1,056,080	10,165	976	11,141	1,067,221
2020	326,705	390,503	182,900	104,982	1,005,090	5,960	616	6,576	1,011,667
2021	327,255	375,394	182,625	96,786	982,061	2,990	418	3,408	985,469
2022	339,300	360,262	184,026	88,324	971,912	2,715	289	3,004	974,916
2023	364,990	344,712	184,426	79,666	973,794	1,390	169	1,559	975,352
2024	347,290	328,246	181,562	70,970	928,068	1,435	104	1,539	929,607
2025	379,145	310,754	154,729	62,948	907,576	455	36	491	908,067
2026	399,430	292,987	149,005	55,627	897,049	455	12	467	897,516
2027	377,750	275,328	143,832	48,503	845,412	-	-	-	845,412
2028	384,640	257,849	142,999	41,380	826,868	-	-	-	826,868
2029	400,245	240,438	135,951	34,498	811,132	-	-	-	811,132
2030	546,550	221,806	111,669	27,903	907,928	-	-	-	907,928
2031	420,720	203,628	87,085	22,658	734,092	-	-	-	734,092
2032	417,900	184,198	56,485	19,212	677,795	-	-	-	677,795
2033	430,280	164,919	40,160	16,719	652,078	-	-	-	652,078
2034	498,195	144,762	41,370	14,859	699,186	-	-	-	699,186
2035	461,420	124,180	42,630	12,922	641,153	-	-	-	641,153
2036	470,125	103,331	43,925	10,927	628,308	-	-	-	628,308
2037	487,765	86,936	45,265	8,871	628,837	-	-	-	628,837
2038	587,800	63,196	46,645	6,752	704,393	-	-	-	704,393
2039	543,390	35,600	48,065	4,568	631,624	-	-	-	631,624
2040	44,510	6,357	49,530	2,318	102,716	-	-	-	102,716
2041	44,660	4,539	-	-	49,199	-	-	-	49,199
2042	10,550	2,695	-	-	13,245	-	-	-	13,245
2043	3,065	2,425	-	-	5,490	-	-	-	5,490
2044	1,205	2,314	-	-	3,519	-	-	-	3,519
2045	46,265	2,146	-	-	48,411	-	-	-	48,411
2046	1,330	140	-	-	1,470	-	-	-	1,470
2047	1,400	72	-	-	1,472	-	-	-	1,472
2048	-	-	-	-	-	-	-	-	-
2049	-	-	-	-	-	-	-	-	-
2050	-	-	-	-	-	-	-	-	-
2051	-	-	-	-	-	-	-	-	-
Total	$ 10,680,317	$ 7,444,994	$ 3,723,952	$ 1,864,698	$ 23,459,176	$ 199,408	$ 56,376	$ 255,784	$ 23,714,960

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

2 On November 30, 2012 the Texas Agricultural Finance Authority had outstanding $9 million in general obligation commercial paper. The debt service on the commercial paper is not included in the figures shown in this table. Debt service is not known since the paper will be refunded periodically. It is anticipated that the Authority's program will not rely on the state's general revenue for debt service.

The Veterans Land and Housing Assistance Bonds debt service figures include the estimated payments on $2.04 billion of variable-rate debt outstanding as of November 30, 2012.

3 As of November 30, 2012, $17.70 billion of general obligation bonds were authorized but unissued, $10.14 billion of which are designed to be self-supporting.

The Higher Education Constitutional Appropriation bonds are limited only to the extent that the debt service in any year may not exceed 50 percent of the amount required to be appropriated by the State Constitution.

4 On November 30, 2012, the Texas Public Finance Authority had $76.8 million in revenue commercial paper outstanding that is payable from general revenue.

Source: Texas Comptroller of Public Accounts and Texas Bond Review Board, Office of the Executive Director.

Table A-13 sets forth information concerning the principal amount of G.O. bonds and revenue bonds payable from the State's General Revenue Fund for selected years and the amount of debt service paid from the General Revenue Fund on such bonds. The table does not include debt service information (data) on outstanding G.O. or revenue bonds paid from sources other than State general revenue. The information contained in the table does not reflect outstanding PUF bonds or bonds guaranteed by the Texas Permanent School Fund or the debt service on such bonds. The State's Tax and Revenue Anticipation Notes do not constitute debt within the meaning of the State Constitution and are therefore not shown in the Table.

Table A-13
General Obligation Bonds and Revenue Bonds
Payable from General Revenue
Fiscal Year Ending August 31, 2012

	2008	2009	2010	2011	2012
Principal Amount Outstanding (Millions) (1)	$ 11,251	$ 12,889	$ 13,284	$ 14,368	$ 14,526
Principal Amount Per Capita (1)	454	521	525	561	555
Principal Amount as a Percentage of Personal Income (1)	1.14%	1.36%	1.41%	1.44%	1.35%
Annual Debt Service Paid from General Revenue (Millions) (2)	652	370	342	360	386
Debt Service Paid from General Revenue as a Percentage of Available General Revenue Fund Revenues (2)	1.77%	1.07%	1.01%	0.94%	0.91%
Annual Debt Service Paid from General Revenue Per Capita (2)	$ 26.33	$ 14.95	$ 13.51	$ 14.06	$ 14.76
Debt Service Paid from General Revenue as a Percentage of Personal Income (2)	0.07%	0.04%	0.04%	0.04%	0.04%

(1) Includes general obligation bonds which, although legally secured by the State's taxing authority, are expected to be repaid with sources outside of the State's general revenue fund. Due to statutory or contractual restrictions, these amounts are dedicated for specific purposes and are not considered available.
(2) Includes only that debt service which was paid out of the State's general revenue fund.
Source: Texas Comptroller of Public Accounts

Table A-14
General Revenue Available After Constitutional Allocations and Other Restrictions
Fiscal Year Ending August 31, 2012

Revenue Source

Tax Collections	General Revenue Fund 0001(1)	Restrictions from Constitutional Allocations	Other Restrictions(2)	Unrestricted Balance Available
Sales Tax	$24,100,152,007	$	$37,135,311	$24,063,016,696
Motor Vehicle Sale/Rental, and Mfg Housing Sales	3,529,032,055			3,529,032,055
Motor Fuels Taxes	3,169,239,669	3,122,848,437	16,943,750	29,447,482
Franchise Tax	2,707,760,773			2,707,760,773
Insurance Taxes	1,495,154,972	350,602,476	136,964,355	1,007,588,142
Natural Gas Production Tax (3)	1,534,630,438	389,174,037		1,145,456,401
Cigarette and Tobacco Taxes	564,812,188			564,812,188
Alcoholic Beverages Taxes	929,700,476			929,700,476
Oil Production Tax	2,103,268,285	511,600,886		1,591,667,399
Inheritance Tax	(483,557)			(483,557)
Utility Taxes	450,907,026	110,213,068		340,693,958
Hotel Tax	401,411,015		32,712,501	368,698,515
Other Taxes	157,850,914	38,886,660		118,964,254
Total Tax Collections	**$41,143,436,260**	**$4,523,325,564**	**$223,755,916**	**$36,396,354,780**

Tax Collections	General Revenue Fund 0001(1)	Restrictions from Constitutional Allocations	Other Restrictions(2)	Unrestricted Balance Available
Tax Collections (above)	$41,143,436,260	$4,523,325,564	$223,755,916	$36,396,354,780
Federal Income	20,013,161,986		19,951,106,538	62,055,447
Licenses, Fees, Permits, Fines and Penalties	3,302,271,574		810,678	3,301,460,897
Interest and Investment Income	(37,545,715)			(37,545,715)
Sales of Goods and Services	154,328,335			154,328,335
Settlements of Claims	549,647,158			549,647,158
Land Income	25,593,933			25,593,933
Contributions to Employee Benefits	126,448			126,448
Other Revenue Sources	2,922,727,154			2,922,727,154
Economic Stabilization Fund Transfer(3)		1,087,635,777		(1,087,635,777)
Total Net Revenue, Allocations and Restrictions	**$ 68,073,747,134**	**$ 5,610,961,340**	**$ 20,175,673,133**	**$ 42,287,112,661**

(1) Tobacco suit settlement receipts received in General Revenue Account 5040 are included in the General Revenue Fund 0001 totals. Account 5040 was created to receive settlement money resulting from the final judgment in the *State of Texas v. the American Tobacco Company et. al.* All monies received are considered unrestricted.
(2) Due to statutory or contractual restrictions, these amounts are dedicated for specific purposes and are not considered available.
(3) As required by Article III, Section 49-g of the Texas Constitution, a transfer to the Economic Stabilization Fund 0599 in the amount of $1,087,635,776.78 was made in fiscal 2012.

Source: Texas Comptroller of Public Accounts, *2012 Annual Cash Report.*

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

Table A-15
Cash Management

Fiscal Year	Tax and Revenue Anticipation Notes Issued (in millions)	Commercial Paper Notes Issued (in millions)	Interfund Borrowing[(1)] (in millions)	Total (in millions)
2006	6,200	-	-	6,200
2007	4,600	-	-	4,600
2008	4,900	-	-	4,900
2009	6,400	-	-	6,400
2010	5,500	-	-	5,500
2011	7,800	-	-	7,800
2012	9,800	500	-	10,300
2013	9,800	-	-	9,800

(1) Interfund borrowing has not been used due to the consolidation of numerous funds into the General Revenue Fund on August 31, 1993, but remains as an option, if needed, for cash-flow deficits. See “State Revenues and Expenditures-Identity of Funds” for a description of funds consolidation.
Source: Texas Comptroller of Public Accounts, Treasury Operations

ECONOMIC INFORMATION

Principal Business Activities

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

With other economic engines and a comparatively stable housing market, Texas remains ahead of the nation in economic performance. Even with diversification, Texas’ mix of industries retains substantial concentration in energy. The oil and gas sector remains five times more concentrated than the nation’s, helping the state economy balance the negatives when energy prices are high. Texas avoided the nation’s most recent recession longer and emerged from it earlier because of energy exploration. During the recession, the nation lost 6.3 percent of its jobs from its peak in January 2008 to its low point in February 2010, while Texas’ nonfarm employment fell by a comparatively milder 4.1 percent from its peak in August 2008 to its bottoming out in December 2009. By December 2011, Texas had more than recovered all the jobs lost during the recession, while the nation had recovered only 30 percent. By November 2012, Texas had 258,000 more jobs than at it pre-recession peak.

Technology-based commerce and oil and gas have changed their relative importance over time. As with the national economy, service-providing sectors, which include trade, transportation and utilities, information, financial activities, educational and health services, professional and business services, leisure and hospitality services and government, maintained jobs much better than the goods industries during the recent recession. However, since the low point of Texas employment in December 2009, goods employment growth (8.4 percent) has increased faster than that of services (6.4 percent), mostly because of renewed health in oil and gas exploration. Mining, construction, and manufacturing have all added jobs in the state over this period, with growth mostly grounded in the demand for oil field machinery, rigs, and drilling equipment. Among the eight service-providing industries[1], only information (down 3.9 percent) and government (down 2.5 percent) failed to experience net job growth from December 2009 to November 2012.

Texas' location and transportation accessibility have made it a distribution center for the southwestern United States, as well as an international marketplace for export trade. According to the Foreign Trade Division of the U. S. Census Bureau, Texas exports increased by 27 percent in 2010 and another 20.7 percent in 2011. This compares to export growth of 21 percent and 15.8 percent for those years among all U.S. states. Up another 7.1 percent year-to-year through October of 2012, exports now account for 19 percent of the state's gross domestic product. Based on the Census Bureau's Origin of Movement series, the state's export total ranks first among the states, as it has done since 2002.

While Texas ranked seventh among the states in manufacturing employment during most of the 1980s, the state now ranks second, with 847,000 manufacturing jobs. The value of manufacturing as a part of the state's gross domestic product valued in 2005 dollars increased by 2.2 percent, from $160.7 billion in 2010 to $164.4 billion in 2011, according to the U.S. Bureau of Economic Analysis and the Texas Comptroller. Manufacturing job growth of 2.1 percent over the past year has boosted manufacturing production, which had continued to grow even during several years of job losses, because of productivity improvements. The Comptroller's econometric forecast predicts that the Texas economy will grow by 3.3 percent annually over the thirty years from 2011 through 2041, outpacing forecasts of national economic growth from IHS Global Insight (2.5 percent).

Geographic Variations

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

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

[1] The term "industry" in this paper corresponds to NAICS supersectors. There are three goods-producing industries and eight service-providing industries.

Table A-16
Texas Economic History and Outlook for Calendar Years
Winter 2012-13 Economic Forecast

Texas Economy	2009	2010	2011	2012*	2013*	2014*	2015*
Gross State Product (Billion 2005$)	1,057.7	1,113.1	1,149.9	1,186.5	1,226.7	1,270.5	1,321.7
Annual % Change	-1.8	5.2	3.3	3.2	3.4	3.6	4.0
Gross State Product (Bil. Current $)	1,129.5	1,222.9	1,308.1	1,380.1	1,450.9	1,530.8	1,620.9
Annual % Change	-6.6	8.3	7.0	5.5	5.1	5.5	5.9
Personal Income (Billion Current $)	907.6	965.3	1,030.2	1,081.4	1,136.4	1,195.8	1,258.8
Annual % Change	-5.8	6.4	6.7	5.0	5.1	5.2	5.3
Nonfarm Employment (Thousands)	10,303.0	10,339.9	10,554.8	10,793.4	11,030.3	11,263.5	11,532.7
Annual % Change	-2.8	0.4	2.1	2.3	2.2	2.1	2.4
Resident Population (Thousands)	24,856.7	25,305.5	25,728.5	26,107.3	26,490.6	26,938.1	27,377.6
Annual % Change	2.0	1.8	1.7	1.5	1.5	1.7	1.6
Unemployment Rate (%)	7.5	8.2	8.0	6.9	6.3	6.1	5.9
Taxable Oil Price ($ per Barrel)	$57.56	$76.10	$91.71	$91.99	$82.49	$81.41	$79.64
Taxable Nat. Gas Price ($ per MCF)	$3.32	$4.12	$4.27	$2.85	$3.33	$4.02	$4.05

U. S. ECONOMY	2009	2010	2011	2012*	2013*	2014*	2015*
Gross Domestic Product (Billion 2005$)	12,758.0	13,063.0	13,299.1	13,574.6	13,819.5	14,226.9	14,704.5
Annual % Change	-3.1	2.4	1.8	2.1	1.8	2.9	3.4
Consumer Price Index (1982-4=100)	21,456.5	218.1	224.9	229.5	232.5	236.6	240.6
Annual % Change	-0.3	-99.0	3.1	2.0	1.3	1.8	1.7
Prime Interest Rate (%)	3.3	3.3	3.3	3.2	3.2	3.3	3.7

*Projected, based on actual or historical periods and growth rates from the Texas Comptroller's Winter 2012-13 Economic Forecast.

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

Employment and Unemployment—Historical Review

Texas employment rose from 9.3 million to 9.6 million during the first five years of the 2000s. From January 2005 until the state's nonfarm employment peaked in August 2008 at 10.64 million, Texas added more than one million additional nonfarm jobs, but recessionary conditions caused the state to give up 427,600 jobs from August 2008 until employment bottomed out in December 2009. Nonfarm employment has increased 685,400 since then, including 278,800 Since last November, a year over year growth rate of 2.6 percent.

Texas added jobs at a faster rate than any of the ten largest states over the past year. (See Table A-17).

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

TOTAL NONFARM EMPLOYMENT BY STATE (*thousands*)

	November		Change	
State	**2011**	**2012**	**Number**	**Percent**
Texas	10,618.7	10,897.5	278.8	2.6%
Ohio	5,097.1	5,197.5	100.4	2.0%
California	14,137.8	14,406.4	268.6	1.9%
Georgia	3,890.2	3,954.4	64.2	1.7%
North Carolina	3,935.7	3,995.7	60.0	1.5%
Florida	7,318.9	7,402.2	83.3	1.1%
New York	8,711.7	8,800.3	88.6	1.0%
Illinois	5,674.2	5,727.4	53.2	0.9%
Pennsylvania	5,704.1	5,751.4	47.3	0.8%
Michigan	3,950.8	3,983.2	32.4	0.8%

Even though Table A-17 only shows the 10 most populous states, Texas ranked fourth among all 50 states in the rate of job change over the past year, exceeded only by the comparatively low population states of North Dakota, Utah, and Hawaii. Among the ten largest states, Texas also had the lowest unemployment rate, at 6.2 percent in November 2012. The remaining nine largest states had unemployment rates that ranged from 6.8 percent in Ohio to 9.8 percent in California.

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

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

Year	Texas Civilian Labor Force(1)	Texas Total Employment(1)	Texas Unemployment Rate	U.S. Civillian Labor Force(1)	U.S. Total Employment(1)	U.S. Unemployment Rate
1997	9,930.5	9,399.3	5.4	136,297.0	129,558.0	4.9
1998	10,095.8	9,598.3	4.9	137,673.0	131,463.0	4.5
1999	10,251.5	9,766.7	4.7	139,368.0	133,488.0	4.2
2000	10,364.3	9,911.1	4.4	142,583.0	136,891.0	4
2001	10,544.5	10,014.3	5	143,734.0	136,933.0	4.7
2002	10,771.0	10,085.9	6.4	144,863.0	136,485.0	5.8
2003	10,940.4	10,207.6	6.7	146,510.0	137,736.0	6
2004	11,036.4	10,372.9	6	147,401.0	139,252.0	5.5
2005	11,151.9	10,553.0	5.4	149,320.0	141,730.0	5.1
2006	11,312.9	10,755.9	4.9	151,428.0	144,427.0	4.6
2007	11,412.3	10,916.2	4.4	153,124.0	146,047.0	4.6
2008	11,653.2	11,077.7	4.9	154,287.0	145,362.0	5.8
2009	11,972.0	11,074.8	7.5	154,142.0	139,877.0	9.3
2010	12,268.1	11,264.7	8.2	153,889.0	139,064.0	9.6
2011	12,451.5	11,463.2	7.9	153,617.0	139,869.0	8.9
2012**	12,612.1	11,729.3	6.9	154,975.0	142,469.0	8.1

(1) In thousands

2011 and 2012 data are subject to benchmark revisions.
**2012 data are estimated.

Source: U. S. Bureau of Labor Statistics

Based on total economic production, Texas avoided three of the nation's six recessions since the early 1970s, even though the state had its own recession in 1986. In 2012, Texas' nominal gross domestic product (GDP) was estimated to be $1.38 trillion, a 5.4 percent increase from 2010, based on estimates from the U.S. Bureau of Economic Analysis (BEA) and the Comptroller's economic forecast model. Texas, if it were a nation, would be the fourteenth largest economy in the world.

While the nation's goods-producing employment expanded by 1.2 percent from November 2011 to November 2012, Texas' goods-producing employment increased by 2.9 percent, adding 48,900 jobs and accounting for nearly 23 percent of the nation's net increase of goods-producing jobs. Mining and logging added 8,900jobs and grew by a robust 3.5 percent. The fastest growing service-providing industry was leisure and hospitality, which expanded its job count by 4.5 percent and added 49,900 jobs. Trade, transportation and utilities is the state's largest major industry and it added the largest number of jobs statewide (69,600). Other major industries adding more than 30,000 jobs over the past year were professional and business services (up37,400), education and health services (up 45,700) and construction (up37,400). Only one major sector, Information, had a net contraction of jobs (down 3,400) over the year from November 2011 to November 2012.

Largely because of the state's comparatively youthful workforce and an international border region with particularly high unemployment rates, Texas' statewide jobless rate exceeded the national average in most years from 1985 through 2006. However, with an economy that avoided the worst part of the nation's downturn, the Texas unemployment rate inched below the national unemployment rate in early 2007 and has remained below the national rate since. The Texas unemployment rate, at 6.2 percent, currently stands well below the U.S. rate of 7.8 percent. Twenty-one of the state's 25 metropolitan areas had unemployment rates at or below 7 percent. Of the four metropolitan areas with rates exceeding the national average, three were along the Mexican border. Midland (3.0 percent) had the lowest urban unemployment rate in the state, while Brownsville-Harlingen, at 9.7 percent, had the highest rate.

Consumer confidence is key to economic health since it affects the sale of housing, automobiles, and other major purchases. The Consumer Confidence Index in the West South Central States (Texas, Oklahoma, Arkansas, and Louisiana) dropped precipitously from lofty levels in 2008 and early 2009 to its lowest level on record, 46.4 in March 2009 (1985=100). The U.S. index plummeted even more, dropping to a record low of 25.3 in February 2009. Because the West South Central region saw a gentler fall in its housing market and had a greater concentration of industries that benefited from oil and natural gas, its consumer confidence was more resilient than the national index and declined later. Consumer confidence in the West South Central states stood at 95.3 in December 2012, up 22 percent from its level in December 2011.

Table A-19 shows monthly Texas non-agricultural employment by industry and unemployment since January 2009.

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

Year	Month	Natural Resources & Mining	Construction	Manufacturing	Transportation, Trade, Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure, Hospitality, & Other Services	Government	Total	Unemployment Rate
2009	Jan	230.6	643.5	892.0	2,112.00	212.1	638.0	1,298.80	1,310.00	1,376.10	1,802.70	10,515.80	6.3
	Feb	223.6	637.1	881.1	2,100.00	211.0	635.6	1,284.10	1,313.40	1,375.70	1,803.40	10,465.00	6.6
	Mar	216.8	622.2	867.5	2,086.20	209.3	632.6	1,272.30	1,314.80	1,371.60	1,805.40	10,398.70	6.8
	Apr	205.9	605.4	852.5	2,071.60	207.1	629.7	1,250.30	1,323.30	1,367.40	1,816.40	10,329.60	7.1
	May	200.6	601.8	843.4	2,065.40	205.5	628.6	1,252.20	1,329.80	1,368.80	1,814.50	10,310.60	7.4
	Jun	196.1	596.3	832.0	2,057.10	204.0	626.8	1,247.20	1,334.70	1,367.80	1,819.40	10,281.40	7.6
	Jul	193.8	589.3	822.0	2,050.80	202.4	625.8	1,239.00	1,341.50	1,366.50	1,816.90	10,248.00	7.8
	Aug	192.4	584.2	821.9	2,045.90	201.3	624.8	1,235.20	1,345.50	1,365.90	1,810.20	10,227.30	8.0
	Sep	191.3	577.6	817.9	2,042.40	200.2	624.1	1,231.40	1,349.50	1,362.50	1,822.20	10,219.10	8.0
	Oct	190.4	573.4	812.8	2,034.20	199.9	623.5	1,233.00	1,354.50	1,358.80	1,832.50	10,213.00	8.1
	Nov	192.1	569.7	809.0	2,030.20	199.0	623.4	1,241.20	1,358.20	1,360.20	1,831.90	10,214.90	8.1
	Dec	194.1	566.8	806.9	2,029.50	198.7	623.0	1,239.00	1,362.10	1,357.80	1,834.20	10,212.10	8.2
2010	Jan	195.8	564.5	808.1	2,033.30	197.5	623.0	1,248.60	1,366.70	1,356.60	1,835.10	10,229.20	8.2
	Feb	197.4	562.3	808.2	2,036.00	196.6	622.9	1,252.40	1,371.40	1,357.70	1,840.30	10,245.20	8.2
	Mar	199.0	562.7	809.9	2,039.80	196.1	622.9	1,258.20	1,375.50	1,359.50	1,847.50	10,271.10	8.2
	Apr	201.0	562.9	808.1	2,044.80	196.6	621.8	1,259.70	1,378.00	1,359.00	1,858.50	10,290.40	8.2
	May	203.3	563.1	809.7	2,050.00	195.6	623.1	1,268.30	1,382.10	1,363.70	1,892.20	10,351.10	8.2
	Jun	205.1	562.4	810.1	2,052.40	196.2	623.7	1,271.90	1,385.70	1,363.90	1,882.90	10,354.30	8.1
	Jul	206.7	565.6	811.8	2,054.40	194.9	623.7	1,277.30	1,383.20	1,362.20	1,866.50	10,346.30	8.1
	Aug	209.2	566.2	814.0	2,055.70	195.2	624.5	1,282.30	1,388.70	1,368.30	1,856.80	10,360.90	8.1
	Sep	211.6	564.7	814.7	2,058.40	194.4	624.9	1,287.70	1,391.80	1,373.80	1,848.20	10,370.20	8.2
	Oct	213.6	566.0	817.0	2,064.90	194.7	630.1	1,293.70	1,396.30	1,383.20	1,848.10	10,407.60	8.2
	Nov	215.9	563.0	817.5	2,067.00	194.8	631.9	1,296.60	1,397.50	1,385.30	1,847.90	10,417.40	8.2
	Dec	218.0	562.5	818.9	2,070.20	194.7	631.8	1,303.30	1,399.30	1,389.30	1,846.50	10,434.50	8.2
2011	Jan	220.5	560.1	821.1	2,077.90	195.1	633.8	1,308.50	1,403.70	1,387.40	1,844.10	10,452.20	8.1
	Feb	223.2	559.6	822.9	2,083.30	194.9	634.3	1,314.40	1,404.20	1,386.80	1,841.30	10,464.90	8.0
	Mar	225.5	560.0	826.7	2,088.50	194.7	635.7	1,322.90	1,407.10	1,398.40	1,836.50	10,496.00	8.0
	Apr	227.9	558.8	831.1	2,104.40	194.9	636.8	1,328.70	1,412.10	1,402.60	1,832.50	10,529.80	8.0
	May	229.7	559.7	832.3	2,100.80	195.1	636.3	1,332.60	1,412.90	1,403.80	1,829.40	10,532.60	8.1
	Jun	232.1	560.4	835.3	2,102.60	195.0	635.5	1,335.30	1,415.20	1,407.20	1,833.30	10,551.90	8.1
	Aug	239.3	559.3	841.7	2,104.60	196.1	638.7	1,342.00	1,429.70	1,415.90	1,818.80	10,586.10	8.1
	Sep	241.8	559.5	840.1	2,112.60	196.2	641.3	1,356.70	1,435.50	1,420.50	1,790.70	10,594.90	7.9
	Oct	245.8	556.5	840.9	2,117.90	195.3	639.2	1,355.10	1,443.80	1,432.70	1,778.60	10,605.80	7.8
	Nov	248.6	557.0	844.4	2,113.60	194.4	643.4	1,355.80	1,444.30	1,440.50	1,776.70	10,618.70	7.6
	Dec	253.5	554.7	844.6	2,126.00	193.5	646.3	1,359.90	1,445.50	1,442.90	1,776.30	10,643.20	7.4

Table A-19 (continued)

Year	Month	Natural Resources & Mining	Construction	Manufacturing	Transportation, Trade, Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure, Hospitality, & Other Services	Government	Total	Unemployment Rate
2012	Jan	260.7	563.2	846.5	2,143.30	192.3	648.6	1,375.10	1,449.90	1,460.70	1,770.60	10,710.90	7.3
	Feb	259.9	568.8	847.5	2,147.40	193.2	650.1	1,373.50	1,451.70	1,460.00	1,778.70	10,730.80	7.1
	Mar	261.4	565.6	850.2	2,143.80	196.2	652.5	1,370.80	1,458.70	1,463.00	1,780.20	10,742.40	7.0
	Apr	263.5	572.9	856.6	2,147.30	196.6	648.6	1,366.30	1,460.80	1,463.10	1,781.50	10,757.20	6.9
	May	262.7	575.2	856.0	2,150.40	196.0	649.3	1,374.90	1,458.60	1,469.10	1,778.60	10,770.80	6.9
	Jun	259.8	582.2	853.7	2,153.70	192.0	652.6	1,376.50	1,458.30	1,475.50	1,781.90	10,786.20	7.0
	Jul	257.5	583.6	857.9	2,146.60	192.6	647.3	1,384.00	1,471.80	1,470.00	1,796.30	10,807.60	7.1
	Aug	261.2	596.4	853.6	2,158.20	192.0	651.3	1,390.30	1,467.90	1,476.10	1,789.60	10,836.60	7.1
	Sep	257.0	592.3	857.4	2,167.30	190.9	652.3	1,403.90	1,474.50	1,481.00	1,781.00	10,857.60	6.8
	Oct	257.3	602.7	853.9	2,162.60	192.1	651.8	1,391.50	1,485.30	1,490.40	1,787.80	10,875.40	6.8
	Nov	257.5	594.4	847.0	2,183.20	191.0	652.7	1,393.20	1,490.00	1,499.40	1,789.10	10,897.50	6.2

Note 1: All figures are seasonally adjusted.
Note 2: Data for 2011 and 2012 are subject to revisions.
Source: Texas Workforce Commission.

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

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

Year	Natural Resources & Mining	Construction	Manufacturing	Transportation, Trade, Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure, Hospitality, & Other Services	Government	Total	Unemployment Rate
1990	155.2	355.0	941.2	1,624.4	177.7	456.7	698.4	779.3	923.5	1,375.6	7,101.0	6.4
1991	153.6	379.1	965.3	1,676.0	183.2	469.3	750.4	811.5	955.1	1,413.5	7,181.7	7.0
1992	149.3	409.5	994.5	1,724.1	194.8	472.0	794.0	851.7	993.7	1,445.4	7,274.9	7.6
1993	149.7	437.4	1,016.1	1,761.5	205.7	483.7	842.2	887.7	1,021.5	1,458.2	7,487.2	7.2
1994	159.3	468.4	1,044.3	1,805.2	227.0	505.7	921.7	934.1	1,064.9	1,484.0	7,756.8	6.6
1995	159.8	505.1	1,076.5	1,867.5	239.7	535.4	995.8	961.1	1,098.0	1,504.0	8,029.0	6.1
1996	140.5	536.7	1,062.7	1,919.5	251.4	557.7	1,047.5	976.9	1,132.5	1,534.3	8,263.7	5.8
1997	143.2	567.0	1,067.3	1,976.7	272.0	567.6	1,108.1	1,002.9	1,165.8	1,561.4	8,614.5	5.4
1998	152.9	580.3	1,026.0	1,986.0	269.8	577.5	1,104.9	1,041.2	1,189.5	1,586.4	8,942.9	4.9
1999	145.2	568.0	948.1	1,948.9	249.3	579.7	1,066.5	1,082.4	1,202.3	1,626.3	9,159.6	4.7
2000	146.6	552.0	899.4	1,915.7	233.7	585.5	1,058.7	1,118.6	1,213.9	1,646.7	9,431.8	4.4
2001	153.0	544.3	890.4	1,944.9	224.9	595.3	1,100.6	1,149.4	1,238.3	1,654.9	9,514.5	5.0
2002	166.0	566.8	896.8	1,993.3	223.1	609.5	1,161.7	1,183.7	1,254.7	1,683.1	9,416.8	6.4
2003	185.8	605.3	923.9	2,049.3	221.6	628.2	1,240.8	1,215.8	1,288.1	1,705.0	9,370.9	6.7
2004	207.4	648.2	934.1	2,113.2	221.0	644.0	1,302.3	1,254.1	1,335.1	1,733.3	9,495.9	6.0
2005	230.1	673.8	924.6	2,143.1	217.2	647.1	1,336.4	1,287.0	1,369.1	1,776.9	9,738.7	5.4
2006	202.3	597.3	838.3	2,060.4	204.2	628.0	1,252.0	1,336.4	1,366.6	1,817.5	10,063.8	4.9
2007	206.4	563.8	812.3	2,052.2	195.6	625.4	1,275.0	1,384.7	1,368.5	1,855.9	10,392.7	4.4
2008	235.5	558.8	835.0	2,103.3	195.2	638.2	1,337.3	1,423.3	1,412.9	1,815.4	10,605.2	4.9
2009	202.3	597.8	838.0	2,060.4	204.3	628.0	1,252.3	1,336.5	1,366.5	1,821.2	10,303.0	7.5
2010	206.4	563.8	812.3	2,052.2	195.6	625.4	1,275.0	1,384.7	1,368.5	1,855.9	10,339.9	8.2
2011*	235.5	558.8	835.0	2,103.3	195.2	638.2	1,337.3	1,423.3	1,412.9	1,815.4	10,554.8	7.9
2012**	259.9	581.6	852.8	2,154.9	193.2	650.6	1,381.8	1,466.1	1,473.5	1,783.2	10,797.5	6.9

*2011 and 2012 numbers are subject to revisions.

**2012 data are averages for January- November of the year.
Totals may not add, due to rounding

Source: Texas Workforce Commission.

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

Year	Natural Resources & Mining	Construction	Manufacturing	Transportation, Trade, Utilities	Information	Financial Activities	Professional & Business Services	Education & Health Services	Leisure, Hospitality, & Other Services	Government	Total
1990	2.19	5.00	13.26	22.88	2.50	6.43	9.84	10.97	13.01	19.37	100
1991	2.14	5.28	13.44	23.34	2.55	6.53	10.45	11.30	13.30	19.68	100
1992	2.05	5.63	13.67	23.70	2.68	6.49	10.91	11.71	13.66	19.87	100
1993	2.00	5.84	13.57	23.53	2.75	6.46	11.25	11.86	13.64	19.48	100
1994	2.05	6.04	13.46	23.27	2.93	6.52	11.88	12.04	13.73	19.13	100
1995	1.99	6.29	13.41	23.26	2.99	6.67	12.40	11.97	13.68	18.73	100
1996	1.70	6.49	12.86	23.23	3.04	6.75	12.68	11.82	13.70	18.57	100
1997	1.66	6.58	12.39	22.95	3.16	6.59	12.86	11.64	13.53	18.13	100
1998	1.71	6.49	11.47	22.21	3.02	6.46	12.36	11.64	13.30	17.74	100
1999	1.59	6.20	10.35	21.28	2.72	6.33	11.64	11.82	13.13	17.76	100
2000	1.55	5.85	9.54	20.31	2.48	6.21	11.22	11.86	12.87	17.46	100
2001	1.61	5.72	9.36	20.44	2.36	6.26	11.57	12.08	13.01	17.39	100
2002	1.76	6.02	9.52	21.17	2.37	6.47	12.34	12.57	13.32	17.87	100
2003	1.98	6.46	9.86	21.87	2.36	6.70	13.24	12.97	13.75	18.19	100
2004	2.18	6.83	9.84	22.25	2.33	6.78	13.71	13.21	14.06	18.25	100
2005	2.36	6.92	9.49	22.01	2.23	6.64	13.72	13.21	14.06	18.25	100
2006	2.01	5.93	8.33	20.47	2.03	6.24	12.44	13.28	13.58	18.06	100
2007	1.99	5.43	7.82	19.75	1.88	6.02	12.27	13.32	13.17	17.86	100
2008	2.22	5.27	7.87	19.83	1.84	6.02	12.61	13.42	13.32	17.12	100
2009	1.96	5.80	8.13	20.00	1.98	6.10	12.15	12.97	13.26	17.68	100
2010	2.00	5.45	7.86	19.85	1.89	6.05	12.33	13.39	13.24	17.95	100
2011*	2.23	5.29	7.91	19.93	1.85	6.05	12.67	13.48	13.39	17.20	100
2012**	2.41	5.39	7.90	19.96	1.79	6.03	12.80	13.58	13.65	16.51	100

*2011 and 2012 numbers are subject to revisions.

**2012 data are averages for January-November of the year.

Source: Texas Workforce Commission.

Personal Income

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

Table A-22
Personal Income of State Residents

Year	Personal Income	Percentage Change from Prior Year
1991	309,036	5.0
1992	333,257	7.8
1993	352,573	5.8
1994	374,279	6.2
1995	399,463	6.7
1996	430,511	7.8
1997	470,064	9.2
1998	511,509	8.8
1999	542,721	6.1
2000	597,042	10.0
2001	622,217	4.2
2002	628,275	1.0
2003	652,611	3.9
2004	696,801	6.8
2005	756,686	8.6
2006	824,282	8.9
2007	884,121	7.3
2008	962,992	8.9
2009	907,609	(5.8)
2010	965,250	6.4
2011	1,030,226	6.7
2012*	1,081,448	5.0

*Estimated.
Source: U.S. Bureau of Economic Analysis.

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

Table A-23
Per Capita Personal Income

Year	Texas Per Capita Personal Income	Texas Percent Change From Prior Year	U.S. Per Capita Personal Income	U.S. Percent Change From Prior Year	Texas as a Percentage of U.S.
1991	$17,763		$19,818		89.6%
1992	$18,765	5.6	$20,799	5.0	90.2%
1993	$19,413	3.5	$21,385	2.8	90.8%
1994	$20,161	3.9	$22,297	4.3	90.4%
1995	$21,070	4.5	$23,262	4.3	90.6%
1996	$22,260	5.6	$24,442	5.1	91.1%
1997	$23,812	7.0	$25,654	5.0	92.8%
1998	$25,376	6.6	$27,258	6.3	93.1%
1999	$26,399	4.0	$28,333	3.9	93.2%
2000	$28,506	8.0	$30,319	7.0	94.0%
2001	$29,185	2.4	$31,157	2.8	93.7%
2002	$28,966	(0.8)	$31,481	1.0	92.0%
2003	$29,622	2.3	$32,295	2.6	91.7%
2004	$31,115	5.0	$33,909	5.0	91.8%
2005	$33,220	6.8	$35,452	4.6	93.7%
2006	$35,287	6.2	$37,725	6.4	93.5%
2007	$37,098	5.1	$39,506	4.7	93.9%
2008	$39,615	6.8	$40,947	3.6	96.7%
2009	$36,595	(7.6)	$38,637	(5.6)	94.7%
2010	$38,222	4.4	$39,791	3.0	96.1%
2011	$40,147	5.0	$41,560	4.4	96.6%
2012*	$41,087	2.6	$42,349	2.1	97.0%

*First half of 2012 with percent changes from first half of 2011.

Source: U.S. Bureau of Economic Analysis

Table A-24 shows comparative information about the sources of personal income for residents of Texas and of the United States for the first three quarters of 2012.

Table A-24
Sources of Personal Income
Quarters I-III of 2012

Source Wages and Salaries:	Sources of Personal Income (Texas) Total (Billion $)	Sources of Personal Income (Texas) Percent	Sources of Personal Income (U.S.) Total (Billion $)	Sources of Personal Income (U.S.) Percent
Agricultural Services and Farm	6.02	0.2	113.49	0.3
Mining	91.66	2.9	222.03	0.6
Utilities	15.74	0.5	166.62	0.4
Construction	98.15	3.1	920.31	2.3
Manufacturing	177.76	5.5	2,217.07	5.5
Trade	224.32	7	2,473.61	6.2
Transportation and Warehousing	70.89	2.2	648.56	1.6
Information	42.95	1.3	665.08	1.7
Finance and Insurance	102.2	3.2	1,506.30	3.8
Real estate	28.59	0.9	293.2	0.7
Professional and technical services	150.94	4.7	1,970.78	4.9
Management Services	29.43	0.9	640.21	1.6
Administrative and Waste Services	79.43	2.5	840.17	2.1
Educational Services	17.7	0.6	383.35	1
Health Care and Social Assistance	156.92	4.9	2,327.99	5.8
Arts, Entertainment, and Recreation	11.29	0.4	223.56	0.6
Accommodation and food services	56.33	1.8	714.56	1.8
Other Services	50.94	1.6	647.75	1.6
Government				
Federal Civilian	42.92	1.3	645.78	1.6
Military	29.16	0.9	298.56	0.7
State and Local	198.47	6.2	2,605.04	6.5
Supplements to Wages	388.04	12.1	4,999.51	12.5
Farm Proprietors	4.7	0.1	229.62	0.6
Nonfarm Proprietors	419.66	13.1	3,423.44	8.6
Property and Interest Income	440.49	13.7	6,505.04	16.3
Transfer Payments	494.12	15.4	7,101.04	17.8
Contributions for Social Insurance	-210.88	-6.6	-2,830.03	-7.1
Residence Adjustment	-7.18	-0.2	2.36	0
Total Personal Income	**3,210.75**	**100**	**39,954.97**	**100**

Totals may not add due to rounding.
Data are presented as annual averages.
Source: U.S. Bureau of Economic Analysis

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

Table A-25
Oil and Natural Gas Production

Year	Texas Oil Production (Million Bbl)	Texas Oil Production	Percentage Change in States Oil Production	Percentage of United Per Bbl	Average Taxable Price SCF)	Production (Trillion Texas Marketed Gas	Texas Gas Production	Percentage Change in Marketed Production	Percentage of US Gas Per MCF	Average Taxable Price
1993	619	-4.8	24.8	16.23	4.97	3.3	26.2	1.77		
1994	591	-4.6	24.3	15.08	5.05	1.5	25.6	1.59		
1995	560	-5.3	23.4	16.45	5.05	0.0	25.9	1.39		
1996	543	-2.9	23.0	20.41	5.13	1.7	25.9	1.96		
1997	537	-1.2	22.8	18.76	5.17	0.7	26.0	2.07		
1998	505	-5.9	22.1	12.36	5.23	1.2	26.2	1.79		
1999	449	-11.0	20.9	17.39	5.05	-3.3	25.5	2.08		
2000	443	-1.3	20.8	28.72	5.28	4.5	26.1	3.73		
2001	424	-4.3	20.0	23.74	5.28	0.0	25.7	3.77		
2002	412	-2.9	19.6	24.36	5.14	-2.7	25.9	2.91		
2003	406	-1.5	19.6	29.38	5.24	2.0	26.3	4.74		
2004	393	-3.2	19.8	38.95	5.07	-3.4	26.0	5.46		
2005	388	-1.3	20.5	52.77	5.28	4.1	27.9	7.27		
2006	397	2.5	21.3	61.52	5.55	5.1	28.6	6.18		
2007	397	0.0	21.5	68.51	6.12	10.4	30.3	6.32		
2008	398	0.3	22.0	96.50	6.96	13.0	33.0	7.87		
2009	404	1.5	20.6	57.58	6.82	-1.0	31.5	3.35		
2010	417	3.1	20.7	76.10	6.72	-2.1	30.0	4.17		
2011	544	26.8	26.3	91.89	7.02	4.5	29.0	4.2		

Note: Oil Production includes condensates
MCF = 1,000 cubic feet.
SCF = standard cubic feet
Sources: Texas Comptroller of Public Accounts and U.S. Energy Information Administration

Two frequently used barometers of oil and gas exploration activity are rotary drilling rig usage and the number of wells drilled. The following table sets forth historical information concerning these two statistics. In 1990, drilling activity showed a significant increase in Texas for the first time since 1984. This increase reflected the success of horizontal drilling in South Texas, but the level of rig activity declined again in 1991, to 315 operating rigs. In 1992, the Texas rig count dropped to historical lows bottoming out in June with 209 rigs. By December 1992, the rig count had risen to 328 because of a rush to drill before the yearend expiration of a federal tax break for certain natural gas wells. During January 1994, the Texas rig count fell to 253 before rising to 281 by December. In March 1995, the Texas rig count fell to a low of 233; the rig count peaked for the year in August with 265 rigs operating. The Texas rig count increased during the 1996-1997 time period, and in 1997 peaked in October at 386 after a minimum of 306 in January 1997.

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

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

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

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

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

In 2006, steady demand growth and fear of losses of supplies from the Persian Gulf over the fighting in Lebanon and Iran's pursuit of nuclear-arms inherently pushed oil prices to an all time high of $69.82 per barrel by July. However, prices began to soften and averaged $61.53 for the year as risk premium diminished while inventory levels continued to build and remain above the historical norm. Contrary to the downward price movement since the all time high, monthly rig counts steadily climbed higher to 780 by December and averaged 746 for the year, a 21 percent increase over 2005.

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

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

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

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

In 2011, the disruption of Libya oil production along with rising demand that has tighten the global spare capacity, the unabated geopolitical turmoil in the Middle East and North Africa, diminishing excess storage levels, the narrowing differentials between the Brent and the West Texas Intermediate (WTI) pricing benchmarks on NYMEX crude oil futures, and the weakness of the dollar elevated NYMEX crude oil futures above $110 level by April. However, as the European financial crisis continues to deepen, fear of its contagion along with the possible slowing of China's economy brought oil prices down to the mid $70s by October. By this time, the threat of crude supply disruption through Strait of Hormuz intensified and caused prices to rise to $100 level by year's end and through Spring 2012. As fear of supply disruption gave way to the on-going European financial crisis, prices subsequently declined and retested mid $70 level by June 2012 for the third time in less than a year.

Riding on the drilling boom to develop unconventional resources, notably the Eagle Ford shale, Texas crude oil production began to grow in fiscal 2009, continued in 2010, and accelerated in 2011 confirming the reversal of a nearly four-decade production decline that began when Texas oil production peaked in 1972. By November 2012, Texas production climbed to more than 1.8 million barrels per day, a production level not seen since 1993. However, given limitations in the supply of water available for oil and natural gas well fracture-stimulation operations because of the ongoing Texas drought, and the competition for manpower and equipment in the development of other unconventional plays in North America, Texas oil production growth may experience a temporary slowdown in the short term.

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

For 2011, during the first half, NYMEX natural gas prices remained range-bound in the mid $4 level. Although much of the US experienced record breaking temperatures during the summer, particularly in Texas, increased consumption was not enough to compensate for the increase in production nationwide. The production increase in combination with a mild winter ultimately led to record storage levels and suppressed prices to the $3 level by the end of the year. Because of the steep discount relative to oil, natural gas rig counts have remained in the low 300s, while rig counts for crude oil have risen to just under 600. The relatively higher crude oil prices have also increased drilling for natural gas liquids and condensates, contributing to higher overall volumes of liquids production and associated tax revenues.

In 2012, natural gas prices continued its downward trend and temporarily dropped below the $2 level in April for the first time since January 2002. Due primarily to shale play activity, production has thus far remained stable. However, the combination of a warm summer- keeping storage levels lower than anticipated, a colder winter forecast, and significantly lower natural gas rig counts have reversed the downward price trend and appears to be providing support to prices going forward. Renewed interests from the power, transportation, and manufacturing sectors that take advantage of the price differential between oil and natural gas have also given natural gas a hopeful future where prices will eventually be at a reasonable level relative to oil.

With oil prices commanding a premium over natural gas, the development of natural gas plays rich in liquids such as the Eagle Ford shale in Texas continues to accelerate. While production from the Barnett Shale may have reached a plateau, production from the Eagle Ford Shale is accelerating with great potential. With plentiful domestic supply and abundant resources, natural gas has asserted itself as an ideal bridge fuel for power generation, transportation, petrochemical and agricultural feedstocks, along with residential and commercial heating. As such, production from shale formations such as Eagle Ford, Haynesville and Marcellus is expected to compose a larger portion of overall U.S. production in the future.

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

Table A-26
Petroleum Drilling Activity

Year	Texas Average Annual Rotary Rig Activity	Rig Activity Percent Change	Total Wells Drilled	Wells Completed Oil	Wells Completed Gas
1988	280	-4.4	12,261	6,441	2,665
1989	264	-5.7	10,054	4,914	2,760
1990	348	31.8	11,231	5,593	2,894
1991	315	-9.5	11,295	6,025	2,755
1992	252	-20.3	9,498	5,031	2,537
1993	264	5.2	9,969	4,646	3,295
1994	274	3.8	9,299	3,962	3,553
1995	251	-8.4	9,785	4,334	3,778
1996	283	12.7	9,747	4,061	4,060
1997	358	26.5	10,778	4,482	4,594
1998	303	-15.4	11,057	4,509	4,907
1999	227	-25.4	6,658	2,049	3,566
2000	343	51.8	8,854	3,111	4,580
2001	462	34.7	10,005	3,082	5,787
2002	338	-26.8	9,877	3,268	5,474
2003	449	32.8	10,420	3,111	6,336
2004	506	12.7	11,587	3,446	7,118
2005	614	21.2	11,726	3,454	7,197
2006	746	21.6	13,854	4,761	8,534
2007	834	11.8	13,778	5,084	8,643
2008	898	7.7	16,615	6,208	10,361
2009	432	-51.9	14,585	5,860	8,706
2010	659	52.5	9,477	5,392	4,071
2011	840	27.5	8,391	5,380	3,008

Sources: Texas Railroad Commission and Baker Hughes Incorporated.

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

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

Year	Producing Wells on December 31	Estimated Proved Reserves (Million Bbl)	Producing Wells on December 31	Estimated Dry Gas Proved Reserves (Trillion CF)
1988	196,580	7,043	49,577	38.167
1989	190,821	6,966	50,017	38.381
1990	194,962	7,106	49,989	38.192
1991	196,292	6,797	49,825	36.174
1992	193,310	6,441	49,839	35.093
1993	186,342	6,171	50,794	34.718
1994	179,955	5,847	52,614	35.974
1995	177,397	5,743	53,612	36.542
1996	175,277	5,736	55,052	38.27
1997	175,475	5,687	56,736	37.761
1998	170,288	4,927	58,436	37.584
1999	162,620	5,339	59,088	40.157
2000	161,097	5,273	60,486	42.082
2001	159,357	4,944	63,598	43.527
2002	155,865	5,015	65,686	44.297
2003	153,461	4,583	68,686	45.73
2004	151,205	4,613	72,237	49.955
2005	151,286	4,919	76,510	56.507
2006	151,832	4,871	83,218	61,836
2007	153,223	5,122	88,311	72,091
2008	156,588	4,555	96,502	77,546
2009	157,807	5,006	101,097	80,424

Note: Reserves are as of December 31, of each year.
Sources: Texas Railroad Commission and U.S. Energy Information Administration.

An Overview of Texas Industries by NAICS Sector

Mining and Logging

Since the discovery of the Spindletop Field in southeast Texas in 1901, sharp changes in the price of oil have propelled Texas into economic booms or busts that have countered trends in the national economy. While the oil and gas industry comprised 25.3 percent of Texas' gross state product in 1981, weak oil prices in later years caused economic turmoil and spawned diversification in the state economy. The Texas oil and gas industry (drilling, production, refining, chemicals and energy-related manufacturing) fell to only 8.1 percent of the State's economy by 2002, but with continuing shifts in oil and natural gas prices, this percentage fluctuated back up. The share of the Texas economy accounted for by oil and gas was 17 percent of the state's gross domestic product in 2011.

The oil and gas industry remains five times more important to Texas than to the nation as a whole, based on the percentage of wages from mining in Table A-24. As such, it insulates the state economy when energy prices rise. Because Texas is a headquarters center for oil and gas exploration worldwide, the State gets substantial economic benefit from energy exploration around the world. Employment in the mining and logging industry follows the ups and downs of oil and fuel prices with a lag of several months. Mining and logging employment had dropped from about 4 percent of all Texas nonfarm jobs in 1985 to 1.5 percent in 2000, before rising back to 2.4 percent today. The gross state product from the oil and gas industry was estimated to be $215 billion in 2011, a brisk 15 percent increase in a year.

The Texas oil industry's volatility is evidenced by the number of operating drilling rigs, which sank from a robust 946 rigs in September 2008 (its highest level since 1983) to 329 in June 2009 before rebounding back as high as 932 in May and June 2012. As of December , the number of operating rigs is 838. With worldwide demand for oil, refining capacity constraints, speculation, and political and weather-related shocks, oil prices have ranged from about $145 per barrel in July 2008 to lows around $34 in February 2009. The price during this update in the winter of 2012-2013 is fluctuating around $90 per barrel. Prices were stable and high enough for Texas' mining and logging employment to increase from a recent low of 190,400 in October 2009 to 257,500 in November 2012, although it is off its record high peak of 263,500 in April.

Construction

Construction activity, likewise, has been very changeable in the state and nation over the last quarter century. Following near-boom levels from 2005 through most of 2008, a 17.1 percent recessionary employment contraction occurred from October 2008 to February 2010. Texas construction employment remained mostly flat during this period, even declining a bit more in 2010 and 2011. Still the industry was much healthier than its counterpart nationally, as home prices in the state kept their value much better than the national average, allowing for some residential construction to continue.

Over the past year, some segments of the construction industry have added jobs while some have contracted. Residential homebuilding has emerged from its doldrums, but most job growth has been spawned by heavy and civil engineering and utility system construction. Heavy and civil engineering construction was the fastest growing sector in the Texas economy over the past year, expanding by 19.4 percent and adding 21,700 jobs. The construction of buildings was responsible for an additional 11,600 jobs. The state's overall number of construction jobs grew by 6.9 percent from November 2011 to November 2012, to total 594,400.

Trade, Transportation, and Utilities

The trade sectors typically mirror the overall State economy and grow at a rate in tandem with total nonfarm employment. Over the last year, trade, transportation and utilities continued this pattern. Texas' largest industry added 69,600 jobs and grew by 3.3 percent. Retail trade, employing more than 1.2 million Texans, comprises 56 percent of the jobs in this industry, and posted an increase of 36,200 jobs, with the largest percentage gains among automobile dealers and clothing and accessory retailers. Wholesale trade tacked on an additional 22,300 jobs, with machinery and electrical equipment related to oil and gas exploration the subsector with the largest gain in employment. All segments of the transportation sector except airlines remained stable or added jobs, with support activities and truck transportation accounting for most of them. Airline jobs declined by 1.9 percent, or 1,100 jobs. Uncharacteristically, private utilities expanded much faster than transportation, adding 2,500 jobs statewide, for a 5 percent annual increase.

In the transportation and warehousing sector, the largest percentage job expansion was in truck transportation, which grew by 4.4 percent (5,100 jobs). Overall transportation and warehousing grew by 1.8 percent, or 8,000 jobs, from November 2011 to November 2012.

As evidence of the importance of trade to the state economy, the Port of Houston had total shipment volume of 227.1 million tons in the most recently reported year (2010). Houston's port nearly matched the Port of South Louisiana (236.3 million tons), the nation's busiest port. The Port of Houston is the nation's largest port for foreign trade, handling 39 percent more value than the second largest port. Among the ten busiest U.S. ports in 2010, four were in Texas. After Houston, the other three were Beaumont at 4^{th}, Corpus Christi at 6^{th}, and Texas City at 10^{th}. Of the nation's total waterborne tonnage, 20.8 percent went through Texas ports in 2010, and Texas ports accounted for 25.4 percent of the nation's international waterborne tonnage.

The Dallas/Fort Worth area is a major regional distribution center for Texas and surrounding states, as evidenced by having the fourth busiest airport in the nation and eighth busiest in the world, with 57.8 million passenger enplanements during 2011 and 34.2 million during the first seven months of 2012. Houston's IAH is the eleventh busiest airport in the U.S., with passenger enplanements of 40.2 million in 2011 and 23.8 million during the first seven months of 2012.

Sales tax collections, of which more than 50 percent come from households, are an indicator of retail sales activity in the state. In keeping with the national recession, Texas sales tax collections, after its first decline since 2002 in 2009, increased by 0.3 percent in 2010 and rebounded by a robust 10.9 percent in calendar year 2011. Calendar 2012 Texas sales tax collections were up by even more—12 percent—compared to 2011.

Table A-28 shows annual historical retail sales data for 1995 through the first quarter of 2012. The Census Bureau no longer publishes retail sales numbers for states, so the Texas numbers below are from the Texas Comptroller's office, and are based on gross retail sales, including hotel/motel accommodation and food services.

Table A-28
Retail Sales

Year	Texas Gross Retail Sales Total (Millions	Percent Change from Prior Year
1995	198,835	5.4
1996	216,302	8.8
1997	232,711	7.6
1998	244,911	5.2
1999	265,074	8.2
2000	298,614	12.7
2001	307,070	2.8
2002	290,719	(5.3)
2003	306,342	5.4
2004	340,363	11.1
2005	364,788	7.2
2006	380,303	4.3
2007	394,884	3.8
2008	435,256	10.2
2009	389,524	-10.5
2010	400,445	2.8
2011	435,901	8.9
2012*	217,400	7.3

*First half 2012 retail sales percentage change from first half of 2012.
Note: Amounts and growth rates for 1995 through 2002 are based on the SIC-based definition of gross retail sales. Amounts and growth rates from 2003 onward are based on the NAICS-based definition.
Source: Susan Combs, Texas Comptroller.

Over the years, international trade has become increasingly important in the Texas economy, so changes in export markets are felt more acutely in Texas than ever before. Even when adjusted for inflation, Texas exports more than tripled in twenty years increasing from 9.6 percent of gross state product in 1988 to 15.7 percent in 2008. The worldwide recession of 2009 halted this growth and exports from Texas declined 15.1 percent, with the nation's exports down even more, by 17.9 percent. Despite the one-year drop in 2009, the resumption of robust growth in 2010 and 2011 led Texas exports to reach a record value of $251 billion in 2011, or 19.2 percent of the Texas gross domestic product. Growth is continuing in 2012, with total exports through October up another 7.1 percent over the corresponding period in 2011.

With only 8.3 percent of the nation's population, Texas accounts for more than double this proportion (17 percent) of the nation's exports, based on "origin of movement" data. Chemicals, computers and electronics, petroleum products, industrial machinery, and transportation equipment comprise more than three-quarters (77 percent) of the state's exports.

Texas' exports to neighboring Mexico, at $69.69 billion in the first three quarters of 2012, comprise 36 percent of all Texas exports and 43 percent of total U. S. exports to Mexico. Some major U.S. corporations have sister plant operations known as maquiladoras along the Texas-Mexico border, where goods are partly manufactured in Mexico and partly in the United States, and these substantially affect Texas/Mexico export trade. Exports to Canada were just under 9 percent of Texas exports, and exports to China and Taiwan totaled 5.1 percent during the first nine months of 2012.

Manufacturing

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

Productivity gains have allowed Texas manufacturers to produce more with fewer workers, allowing it to grow even with the outsourcing of jobs to lower-wage countries and recent international recessions. Manufacturing production in Texas, as measured by real gross state product, rose 61 percent from 2003 to 2012. This growth occurred despite a 4.8 percent decline in Texas manufacturing employment over this period. Productivity improvements advanced about twice as fast for Texas manufacturing as nationally, based on per-worker real gross domestic product estimates. Much of this is because energy-related manufacturing, of which Texas has a comparatively large share, is high in the value added per unit of production.

Statewide employment in the industry totaled a seasonally adjusted 847,000 in November 2012, and Texas annual gross state product for manufacturing is projected to total $206 billion in 2012.

The State's agricultural and timber resources provide raw materials for a substantial part of Texas' manufacturing industry. Wood product, furniture, and paper manufacturing account for 6 percent of manufacturing employment, and food and beverage processing employs another 11.5 percent of all manufacturing workers. Today, 65 percent of Texas manufacturing employees work in the durable goods component of manufacturing, up from 56 percent in 1993, and boosted recently by the increased demand for drilling rigs and equipment. Manufacturing jobs directly related to oil and gas or petrochemicals account for 15.7 percent of the state's manufacturing employment.

From November 2011 to November 2012, Texas' manufacturing employment increased by a seasonally-adjusted 2,600 jobs—an increase of .3 percent. A gain of 5.0 percent manufacturing employment since bottoming out in December 2009 has followed after the loss of 13.9 percent of the state's manufacturing jobs during the recession. As bad as this loss was, the nation experienced an even worse 17.8 percent decline in the manufacturing workforce over the same recessionary period.

Table A-29 shows Texas manufacturing employment by industry in November 2012.

Manufacturing Employment by Industry
Table A-29

Manufacturing Sector	Employment (Thousands)	Percentage of Manufacturing Employment
Durable Goods		
Wood Products	17.4	2.0
Minerals (nonmetallic) and Concrete	30.6	3.6
Primary Metals	21.8	2.6
Fabricated Metals	130.6	15.4
Machinery, except Computers	102.2	12.0
Computers and Electronics	95.0	11.2
Electrical Equipment & Appliances	18.4	2.2
Transportation Equipment	91.7	10.8
Furniture	21.6	2.5
Miscellaneous Durables	27.1	3.2
Total Durable Goods	**556.4**	**65.5**
Nondurable Goods		
Food Manufacturing	86.5	10.2
Beverages	11.6	1.4
Paper	17.1	2.0
Printing	25.5	3.0
Petroleum and Coal Products	25.2	3.0
Chemicals	73.0	8.6
Plastics and Rubber	37.3	4.4
Other Nondurables, incl. Apparel	17.4	2.0
Total Nondurable Goods	**293.6**	**34.5**
Total	**850.0**	**100.0**

Notes: The data in this table are not seasonally adjusted.
Totals may not sum exactly due to rounding.
Source: Texas Workforce Commission.

Information

The information industry is a conglomerate of several sub-industries, some old-economy (such as newspaper publishing, data processing, television broadcasting, and wired telephone services) and some newer (cellular telephone providers, Internet and DSL providers, and software). Since the unraveling of the "dot com" boom in 2000, this industry has not added net jobs in any calendar year. Information lost a remarkable 31.8 percent of its jobs since the end of 2000, including a1.7 percent loss from November 2011 to November 2012. One sector of information has added jobs, and that is internet service providers and web portals, which added 400 jobs (1.5 percent) over the past year. Job losses continue in newspapers, publishing, and telecommunications, and the Texas industry remains largely comprised of the highly competitive telecommunications sector. Although it has some very different jobs than in 1994, the total information industry employment in September 2012 matched its 1994-1995 employment level, at 191,000 Texas jobs.

Professional and Business Services

The professional and business services industry includes many positions in engineering, software, management, law, accounting, and architecture, as well as many lower-skilled and temporary positions. After being the fastest growing service industry every year from 2004 through 2008, professional and business services underwent a difficult retrenchment of 111,000 jobs from its July 2008 peak to its low point in September 2009. After a two year recovery, this industry surpassed its 2008 peak employment in late 2011 and has been expanding since. With 2.8percent job growth over the past year, the industry has resumed the role as one of the major drivers of new Texas jobs. From November 2011 to November 2012, professional and business services added 37,400 jobs, to reach a total employment of1,393,200.

All sectors of this industry except for management, scientific, and technical consulting services and management of companies and enterprises added jobs or remained stable over the past year. The largest number of new positions in the industry was added in administrative and support services (38,500), including 20,900 temporary and employment service jobs, the fastest growing sector in the industry. Hiring in temporary help services historically has been a favorable leading indicator of future job creation, as companies eventually hire full-time employees to replace temporary workers, and this sector expanded by 8.0 percent. Also strong were accounting, bookkeeping and payroll services, which tacked on 4,800 jobs for a 7.8 percent increase. Since its recession low in September 2009, professional and business services has added 161,800 jobs in Texas an increase of more than 13 percent.

Education and Health Services

The education and health services industry added 45,700 jobs over the past year, a 3.3 percent increase, well more than half due to hiring by ambulatory health care services (up19,800) and social assistance (up14,100). The social assistance sector had the fastest growth rate among health sectors, with a 7.5 percent increase. All sectors of this industry added jobs, with the slowest rate of job growth in physician's offices, but these private offices still grew by 2.6 percent over the past year.

The education services component is considerably smaller than health care, largely because this segment only includes private education services. (Public school teachers and public college and university jobs are categorized as local and state government employment.) On an annual basis, employment in this sector has risen in every year since 1990 and increased by more than 34 percent from 2000 to 2011. However the number of private education jobs declined by .7 percent (-1,200) from November 2011 to November 2012. Employment in the private education services sector—including specialty education, trade schools, and private elementary and secondary schools, colleges, and universities—now totals 176, 400 jobs statewide.

Including the much larger health services component, overall education and health services employment in Texas reached 1,490,000 in November 2012.

Financial Activities

Employment in the financial activities industry—which includes banking, credit businesses, insurance, real estate, and rental and leasing—grew somewhat slower than the overall economy, adding 9,300 jobs (1.4 percent) from November 2011 to November 2012. Relatively stable home values in Texas contributed to minimizing retrenchment in real estate employment during the recent recession, with the median sales prices of existing single-family homes in Texas only dropping by 0.6 percent in 2008 and 0.7 percent in 2009, before rising by 1.6 percent in 2010 and 0.6 percent more during 2011. Over the past year, employment in the real estate and rental services sector increased at about the same rate as the overall financial activities industry, adding 2,500 jobs, representing 1.4 percent year-to-year growth.

Providers of securities, financial investments, and stock equities had a resurgence of investment activity, to add 2, 300 jobs and become the strongest sector of the finance industry over the past year (up 4.8 percent). Insurance carriers and related activities added jobs at a 3.5 percent rate, but one of the larger segments of the finance industry, depository institutions, experienced little job growth (0.3 percent). In contrast, nondepository credit intermediation employment increased at a rate somewhat higher than the industry as a whole, 1.7 percent, to reach 73,300 positions in November 2012.

Even with slow employment growth, Texas banks and savings institutions are healthier than nationwide averages, reflecting the relatively intact Texas housing market and comparatively resilient strength in the overall economy. Although house prices in Texas did not rise as much as national averages during the middle years of the past decade, neither did they crater during the national recession. In fact, they nudged upward. The average selling price of an existing Texas house is now 6.0 percent higher (at $212,300) than the average selling price five years ago ($200,300) before the recession.[2]

According to the Federal Deposit Insurance Corporation, only 6.6 percent of Texas depository institutions were unprofitable during the period ending September 30, 2012, less than the national average of 10.7 percent. Texas banks had an average return on equity of 10.5 percent, compared to 9.1 percent nationally. The gap was even wider for savings institutions, where Texas savings institutions had a 15.0 percent return on equity as of September 30, 2012, compared to 8.6 percent nationally.

The financial activities industry employed 652,700 Texans in November 2012.

Leisure and Hospitality Services

The leisure and hospitality services industry was the fastest growing service-providing industry in Texas over the past year. The industry is experiencing an energetic restaurant and bar sector, which added 42,200 jobs, for a growth rate of 5.0 percent from November 2011 to November 2012. Disposable income is the lifeblood of the leisure and hospitality industry, and Texas' real (inflation-adjusted) personal income grew by 3.5 percent in 2011 and another 3.0 percent in 2012. The accommodation sector (hotels and motels) saw an employment increase of 2.8 percent (3,000 jobs) from November 2011 to November 2012 and now employs 109,000 Texans.

In total, the leisure and hospitality services industry added 49,900 jobs over the past year to reach 1,112,300. This industry has grown 29 percent over the past decade and now employs 31 percent more workers than the Texas manufacturing industry. Employment growth has averaged 2.6 percent per year over the past decade, which is nearly twice as fast as the state's overall nonfarm job growth over that period (1.4 percent per year).

Other Services

The amorphous "Other Services" industry includes a mix of sectors that encompass activities from repair and maintenance services, laundry, religious, political, and civic services, funeral services, parking garages, beauty salons, and a wide range of personal services. With consumers wringing more years of service from automobiles and appliances, it is not surprising that repair and maintenance services employment was responsible for almost all the net job growth in this industry, increasing by a strong 7.0 percent over the year ending November 2012. Personal and laundry services also gained employment, increasing by 1,500, , while religious, political and civic organization saw a decrease in employment of

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[2] Using three-month moving average and average prices from the Texas A&M Real Estate Center, comparing August 2012 prices with those of August 2007.

200. In sum, the other services industry had overall employment growth of 9,000 (2.4 percent) from November 2011 to November 2012, to total 387,100 jobs statewide.

Government

Government employment decreased substantially in 2011 from that of 2010. Federal, state, and local government all saw decreases in excess of 2 percent. These job losses were the result of budget constraints, postal service cutbacks, and funding losses for school districts. State and local government employment has recovered somewhat in 2012, with state employment increasing by 6,400 (1.8 percent) and local government by 8,000 (.6 percent) from November 2011 to November 2012. Federal government employment, however, has continued to decline, with November 2012 employment a further 2,600 (1.3 percent) less than that of November 2011.

Fifty-five percent of government employment in Texas is in either local school districts or state colleges and universities. Local government accounts for 68 percent of all government jobs in Texas, and school district employment still accounts for nearly two-thirds of local government employment. Local government education employment was up slightly (0.1 percent) to 827,300, while that of state government education increased by 1.5 percent to 194,300

Total government employment in Texas increased by 12,400 jobs 0.7 percent) in the twelve months ending in November 2012.

Regional Metropolitan Variations

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

The Houston economy has mostly fared better than the State's overall economy during the past two years, boosted largely by its relatively greater mix of oil and gas firms that benefited from strong oil prices, as well as from bustling health care and import/export industries. Construction employment is up sharply from November 2011, increasing by almost 9 percent. Even manufacturing added substantial job growth (3.2 percent compared to the statewide average of 0.3), and as a result, Houston's percent job growth over the past year has outpaced the state average by more than half a percentage point. Every industry in the metropolitan area except government and information added jobs, with the strongest growth in construction, followed by education/health services and leisure/hospitality services. The merger of Continental and United Airlines resulted in Houston becoming the world's largest hub for United Airlines, even larger than Chicago. Compared with other large cities, the Houston area continues to rank favorably for low costs by the ACCRA Cost of Living Index.

The Dallas/Fort Worth area grew slightly more slowly than the state average over the past year (up 2.5 percent). The Fort Worth MSA grew at a faster rate than the state average, adding 3.1 percent more jobs over the past year, while the Dallas MSA increased employment by only 2.2 percent over that period. The Dallas area was buttressed by particularly strong growth in leisure and hospitality services and education/health services. The Fort Worth area had its best job growth rates in professional/business services, health services, and unlike Dallas, in manufacturing. Weak natural gas prices have hurt prospects for the Barnett Shale natural gas fields. The DFW area built much of its success around the telecommunications boom, so it suffered more during the subsequent bust in that industry, but the outlook for telecom and 4G technologies is optimistic again. Excellent transportation infrastructure and comparatively low business costs combined with a skilled workforce to portend stronger economic growth.

The Austin economy is outperforming the state average, with a 4.4 percent increase in jobs over the past year, undergirded by an 11.2 percent increase in professional and business services jobs. The downturn in worldwide demand for semiconductors and outsourcing in the computer manufacturing market hurt Austin's economy, but the demand for remote servers and "cloud" computing is driving a second wave of high technology employment. Employment in the leisure and hospitality (up 6 percent) and government (up 3.9 percent) sectors has also increased sharply over the past year. An educated workforce matching available jobs has held down the unemployment rate, although transportation infrastructure has expanded more slowly than growth. The Austin area was the state's fastest-growing metropolitan area over the past decade, according to the U.S. Census Bureau.

San Antonio typically is buffered from national recessions by regional military government operations, but financial services and information suffered during the past year and manufacturing employment was virtually unchanged. Tourism, however, remains one of San Antonio's primary economic engines, and Toyota has become a cornerstone of the area's manufacturing job growth. San Antonio saw an increase in health, and education jobs but the star performers were leisure and hospitality (up 8.0 percent) and construction (up 4.0 percent). Employment in the government and trade, transportation, and utilities sectors was also up from the November 2011 levels. San Antonio's immediate economic prospects include military and health construction projects already in the pipeline.

El Paso's employment generally declines less than the state average during recessions and grows more slowly during strong economic times. Currently, El Paso's employment has slowed a bit, but is still adding jobs at a 1.6 percent year-to-year clip, boosted by education and health services, leisure and hospitality services, mining, and renewed growth of the federal and local government workforce. Manufacturing has been hurt by outsourcing and decreased by 1.7 percent from November 2011 to November 2012. Realignment of military personnel has helped Fort Bliss, and a new medical school and the ongoing resolution of a border trucking and trade issues are positive signs for the future.

Among all the state's metropolitan areas, Midland (at 3.0 percent), Odessa (3.6), and Amarillo (4.1), had the state's lowest unemployment rates in November 2012. Of the state's six largest metropolitan areas, Austin had the lowest rate, at 4.9 percent, followed by San Antonio at 5.6 percent, and Dallas/Fort Worth and Houston (5.7 and 5.8 percent, respectively). El Paso, in keeping with a history of higher rates along the Texas/Mexico border, had the highest unemployment rate of the largest metros, at 8.2 percent. Each of Texas' 25 metropolitan areas saw unemployment rates drop to lower improved levels over the past year.

Property Values

State-wide property values in Texas increased in 2011. In 2010, the total value of real and personal taxable property in Texas decreased for the first time since 1992. Taxable values increased 2.06 percent from 2010 to 2011. The total taxable property value in Texas on January 1, 2011 was $1.689 trillion according to records maintained by the Comptroller's Property Tax Assistance Division.

Property value changes from 2010 to 2011 were varied from property category to property category. The market value of single-family homes increased slightly by 0.96 percent to $944.9 billion. Multi-family residential property increased by 3.03 percent from 2010 levels to $85.5 billion. The value of residential inventory – new, unsold homes held for sale –decreased 3.83 percent from 2010 to 2011 to $7.7 billion. The value of commercial and industrial real property was $373.9 billion, an increase of 2.46 percent. Commercial and industrial personal property increased 4.64 percent to $215.7 billion. The taxable value of land qualified for agricultural use valuation rose by 0.81 percent to a value of $219.9 billion from 2010 to 2011.

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

Year	Billions	Percent Change
1991	622.15	0.85%
1992	614.46	-1.24%
1993	620.99	1.06%
1994	638.53	2.82%
1995	660.47	3.44%
1996	691.49	4.70%
1997	694.85	0.49%
1998	736.46	5.99%
1999	779.01	5.78%
2000	847.82	8.83%
2001	943.29	11.26%
2002	1,000.72	6.09%
2003	1,043.82	4.31%
2004	1,109.85	6.32%
2005	1,204.54	8.53%
2006	1,355.22	12.51%
2007	1,505.45	11.09%
2008	1,668.89	10.86%
2009	1,686.05	1.03%
2010	1,654.84	-1.85%
2011	1,689.00	2.06%

Source: State Property Tax Board Publications and Texas Comptroller of Public Accounts, Property Tax Assistance Division.

Agriculture

Texas has faced devastating challenges to its agriculture industry which have been brought on by long-lasting droughts and wildfires, and a slow economic recovery that has reduced the demand for many of Texas' agricultural products.

Agriculture cash receipts for all commodities in January-October 2012 have contributed about $17 billion to the Texas economy, the fifth largest cash receipts amount among all states. The only states to generate more agricultural cash receipts for all commodities were California at $33.1 billion, Iowa - $27.5 billion, Nebraska - $19.1 billion and Illinois - $17.8 billion. October 2012 was the largest agricultural cash receipts month for Texas, garnering $2.1 billion.[i] Beef cattle production represents the largest single segment of agriculture in Texas with $7.4 billion or 56.7 percent of Texas' agricultural cash receipts, followed by cotton at $1.9 billion (14.6 percent), greenhouse/nursery at $1.5 billion (11.4 percent), broilers at $1.3 billion (10 percent), and dairy products at $947 million ($7.3 percent).[ii]

Texas leads the nation in the production of cattle, hay, sheep, wool, goats, mohair and horses.[iii] There are more than 7,000 sheep and lamb operations throughout the state with nearly 1.1 million sheep and lambs or 17.5 percent of the national total. These operations also produce more than 5.5 million pounds of wool which accounts for nearly 14.5 percent of all wool in the U.S. For 2008-2012, the average sale of lamb and mutton was worth nearly $175 million. The top 10 counties with the largest number of sheep and lambs and producing wool are: Crockett (112,600 head/675,000 lbs.), Val Verde (98,000 head/603,000 lbs.), Tom Green (78,000 head/287,000 lbs.), Pecos (67,400 head/335,960 lbs.), Schleicher (53,400 head/329,000 lbs.), Concho (51,400 head/275,600 lbs.), Gillespie (45,600 head/223,000 lbs.), Edwards (35,100 head/195,200 lbs.), Menard (34,600 head/187,400 lbs.) and Sterling (31,200 head/164,400 lbs.). The southwest counties of Texas are also the top producers of goats, mohair fiber and goat meat: Edwards, Sutton, Val Verde, Mills, Kimble, Crockett, Schleicher, Gillespie, Uvalde and Tom Green. Mohair production sales in 2012 were $3.5 million.[iv]

The state also ranks among the top ten producers nationally for a wide range of commodities such as broilers, citrus, corn, fruits, grain, greenhouse and nursery, honey, milk, onions, peanuts, pecans, rice, sorghum, sweet potatoes, watermelon, wheat and much more.[v] Food grain (rice/wheat) cash receipts in 2011 declined by 14.9 percent below 2010.[vi] The top 10 rice producing counties are: Wharton (370.6 million pounds), Colorado (229.3 million pounds), Matagorda (151.4 million pounds), Brazoria (104.4 million pounds), Jefferson (98.5 million pounds), Jackson (94.6 million pounds), Chambers (72.5 million pounds), Waller (64.5 million pounds), Liberty (58.4 million pounds) and Fort Bend (55 million pounds). Food grains (rice and wheat) in 2011 had $591 million in cash receipts or a 14.9 percent decrease as compared to 2010.[vii]

The state also produces 49.4 million bushels of wheat on approximately 5.8 million acres. The amount of acreage used to plant wheat in 2012 increased by 500,000 from 2011.[viii] In 2008, food grains received more than $1 billion in cash receipts which was 41.1 percent higher than the cash receipts received in 2011.[ix] Texas is ranked fourth in the nation in producing winter wheat. The state produces approximately 97.6 million bushels of wheat on approximately 3.2 million harvested acres. The primary wheat producing counties can be found in these counties: Sherman, Hansford, Dallam, Ochiltree, Parmer, Deaf Smith, Castro, Hartley, Knox, and Moore.[x]

Food crops (barley, corn, hay, oats, sorghum) in 2011 had a 26.4 percent decrease in cash receipts as compared to 2010. Of the particular food crops, oats saw the biggest decline in cash receipts in 2011 of 52.6 percent as compared to 2010.[xi] Grain sorghum on the other hand plays a critical role in the state's agriculture production because it has a high tolerance for heat and drought. As a result, grain sorghum generates more than $1 billion annually in Texas.[xii]

In 2012, Texas was ranked 12th in corn production with 230 million bushels produced or an average statewide yield of 140 bushels per acre and valued at approximately $600 million.[xiii]

Other Texas crops include oil crops (peanuts, soybeans and sunflowers). During 2006-2011, oil crop cash receipts have been erratic. Comparing 2011 v. 2010 cash receipts, oil crops had a 38.1 percent decrease in cash receipts.[xiv]

As the leading cattle producing state in the nation, Texas has nearly 14 million heads (5-year average of 2008-2012) which accounts for 14.4 percent of the U.S. inventory followed by Kansas, Nebraska, California and Oklahoma. The top 10 beef producing counties in Texas are: Lavaca, Gonzales, Fayette, DeWitt, Leon, Houston, Milam, Robertson, Limestone and Brazoria. Over 5 million calves are born each year on more than 130,000 cow-calf operations in Texas.[xv] Texas in 2011 had a 47.7 percent increase in cash receipts for cattle and calves and a 32.1 percent increase in cash receipts for hogs over 2010.[xvi] 2011 cash receipts for these meat animals (cow/hog) were 58.6 percent higher as compared to the lowest point in 2009.[xvii] In November 2012, Texas was ranked 15th with nearly 37,000 commercial hogs butchered.[xviii]

Commercial red meat (beef, veal, pork, lamb and mutton) production in Texas as of November 2012 is the fourth largest in the U.S. with 408.3 million pounds, just behind Nebraska, Iowa and Kansas. The production in November 2012 was 102 percent of November 2011 at 402.2 pounds. In November 2012, Texas was ranked second in terms of commercial cattle slaughtered, behind Nebraska at 525,000 heads of cattle.[xix]

In 2011, Texas has seen a 34.5 percent increase in livestock cash receipts over 2010 and a 47.7 percent increase since the depths of the 2009 recession. 2011 dairy cash receipts has had significant increases of 31.9 percent over 2010 and 69.5 percent over 2009.[xx] In November 2012, Texas was ranked seventh in the U.S. with 430,000 milk cows and sixth with 761 million pounds of milk being produced.[xxi] The top five counties that produce milk are: Erath, Deaf Smith, Parmer, Hopkins and Castro.[xxii]

Poultry and eggs contribute more than 9 percent of Texas cash receipts. In 2012, there were 4.7 million broilers with cash receipts totaling $1.2 billion in Texas which accounts for 52.8 percent of all broilers produced in the U.S. There were 7.3 million turkeys in 2012 which accounts for approximately $600 million in cash receipts in Texas.[xxiii] Cash receipts for chickens bred for meat production (broilers) in 2011 decreased by 2.9 percent over the year as compared to 2010. In 2011, cash receipts for chicken eggs were $420 million, an increase of 6.5 percent over 2010. Cash receipts for chicken eggs have not returned to the 2008 levels of $462 million.[xxiv]

Texas is the third leading state in cash receipts for production agriculture – farms and ranches. Production agriculture highlights the trend that the majority of the gross cash sales are generated by fewer farms and ranches. Marketing and production are becoming more intertwined and technology is being used to manage the supply chain from producer to consumer in a more efficient manner. [xxv] There are 247,500 farms and ranches in Texas, the largest of any state in the U.S.[xxvi] This agricultural activity occurs on more than 130 million of Texas' 166 million acres, comprising 78 percent of the state's land area.[xxvii] Approximately 98.5 percent of Texas' agricultural operations are maintained by individuals or families. Agricultural employment in Texas is significant in that it employs one out of every seven working Texans.[xxviii] Texas is ranked sixth in the U.S. for net farm income valued at $5.3 billion for 2011.[xxix]

Texas is ranked fifth in the U.S. in nursery/greenhouse production. There are more than 2,100 farms in the state that are nurseries and greenhouses with annual sales of $704.4 million.[xxx] The top 10 counties with nursery/greenhouse sales are Cherokee ($83.9 million), Matagorda ($60.8 million), Bexar ($48 million), Smith ($42.9 million), Harris ($30.2 million), Wharton ($27.1 million), Van Zandt (($25.8 million), Tarrant ($19.2 million), Gonzales ($18.4 million) and Cameron ($18 million). The top five counties with the largest number of nursery/greenhouse farms are Harris, Smith, Matagorda Cherokee and Van Zandt.[xxxi]

Texas is ranked first among all states for having the most cotton bales ginned. Cotton is produced on more than 8,500 farms in Texas.[xxxii] On January 1, 2013, Texas had 4.8 million cotton bales ginned for a 41.3 percent increase over January 1, 2012. However, Texas has suffered a steep decline of 32.3 percent in the amount of cotton bales ginned when comparing 2013 to 2011, which was at 7.1 million bales ginned.[xxxiii] Cotton lint cash receipts in 2011 showed a 20.6 percent decrease in cash receipts and a 22.8 percent decrease for cottonseed over 2010.[xxxiv] Despite the economic challenges, Texas still produces 25 percent of the entire U.S. crop of cotton and plants over 5 million acres annually. There are 244 cotton gins in Texas. Approximately 65 percent of the cotton gins are in West Texas, 20 percent along the Texas coast and the remainder can be found in Central Texas.[xxxv]

i. United States Department of Agriculture – Economic Research Service, www.ers.gov/data-products/state-export-data.aspx
ii. Texas Future Farmers Association, 2012 Farm Facts, pg. 5
iii. Texas Department of Agriculture Strategic Plan: Fiscal Years 2013-2017
iv. Texas Future Farmers Association, 2012 Farm Facts, pgs. 23-25
v. Texas Department of Agriculture Strategic Plan: Fiscal Years 2013-2017
vi. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=CashReceipts_Commodity, December 2012
vii. Texas Future Farmers Association, 2012 Farm Facts, pg. 21
viii. Texas Department of Agriculture, Statistical Profile of Texas Agriculture, July 26, 2012
ix. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=CashReceipts_Commodity, December 2012
x. Texas Future Farmers Association, 2012 Farm Facts, pg. 24-25
xi. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=CashReceipts_Commodity, December 2012
xii. Texas Future Farmers Association, 2012 Farm Facts, pg. 15
xiii. Texas Future Farmers Association, 2012 Farm Facts, pg. 7-8
xiv. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=CashReceipts_Commodity, December 2012
xv. Texas Future Farmers Association, 2012 Farm Facts, pg. 4
xvi. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=CashReceipts_Commodity, December 2012
xvii. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=CashReceipts_Commodity, December 2012
xviii. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=Livestock_Slaughter, December 2012
xix. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=LIVESTOCK_SLAUGHTER, December 2012
xx. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=CashReceipts_Commodity, December 2012
xxi. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=CROPS, December 2012
xxii. Texas Future Farmers Association, 2012 Farm Facts, pg. 13
xxiii. Texas Future Farmers Association, 2012 Farm Facts, pg. 20
xxiv. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=CashReceipts_Commodity, December 2012
xxv. Texas A&M AgriLife Extension Service: The Food and Fiber System and Production Agriculture's Contributions to the Texas Economy
xxvi. Texas Department of Agriculture, Statistical Profile of Texas Agriculture, July 26, 2012
xxvii. Texas Department of Agriculture Strategic Plan: Fiscal Years 2013-2017
xxviii. Texas Department of Agriculture, Statistical Profile of Texas Agriculture, July 26, 2012
xxix. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=CROPS
xxx. Texas Future Farmers Association, 2012 Farm Facts, pg. 27
xxxi. Texas Future Farmers Association, 2012 Farm Facts, pg. 18-19
xxxii. Texas Future Farmers Association, 2012 Farm Facts, pg. 10
xxxiii. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=CROPS, December 2012
xxxiv. United States Department of Agriculture, National Agricultural Statistics Service, http://www.nass.usda.gov/Statistics_by_Subject/index.php?sector=CashReceipts_Commodity, December 2012
xxxv. Texas Future Farmers Association, 2012 Farm Facts, pg. 11-12

DEMOGRAPHIC INFORMATION

Geography and Cities

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

The capital of Texas is Austin (with a population of 821,000 as of July 2011), and the largest city is Houston (2,145,000). Other major cities include Arlington (374,000), Corpus Christi (308,000), Dallas (1,223,000), El Paso (666,000), Fort Worth (759,000), Laredo (242,000), Plano (270,000), and San

Antonio (1,360,000). Houston, San Antonio and Dallas are respectively the fourth, seventh and ninth most populous cities in the United States.

Almost two-thirds of Texas' population (65 percent) in July 2011 resided in the four largest Metropolitan Statistical Areas: Dallas-Fort Worth-Arlington (population 6,527,000), Houston-Sugar Land-Baytown (6,087,000), San Antonio-New Braunfels (2,195,000) and Austin-Round Rock-San Marcos (1,784,000).

State Population

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

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

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

As of July 2012, Texas' population was 26.1 million, an average annual increase of 1.6 percent from April 2010. The United States' population was 313.9 million, an average annual increase of 0.7 percent from April 2010

In July 1994, Texas surpassed New York to become the nation's second most populous state, which was made official with the release of the 2000 census figures. As of July 2012, Texas has 6.5 million more residents than New York State. Table A-31 provides an historical review of the total Texas population since 1970.

According to Census Bureau estimates for July 2011, the median age of Texas' population was 33.7 years, 3.6 years younger than the national median of 37.3 years. Only Utah had a younger median age than Texas, at 29.5 years. Table A-32 sets forth information concerning the composition of Texas' population by age group, along with comparable information for the United States.

Texas' population of persons less than 18 years of age in July 2011 was 6,961,000, the second largest population in this age group among the states. This rank applies as well for the college-age population (18 to 24), which stood at 2,630,000; the young adult population (25 to 44) at 7,187,000; and the older adult population (45 to 64) at 6,190,000. Texas' population of persons age 65 and older, at 2,706,000, ranked 3rd among the states.

Texas' population has become increasingly urban. In the year 1900, the Census Bureau categorized 17 percent of Texas' residents as urban, compared to a national average of 40 percent. By 2010, 85 percent of Texas' residents lived in urban areas, while a smaller share of the nation's population—81 percent—was categorized as urban. As of July 2011, over 88 percent of Texas' population lived in its 25 metropolitan statistical areas.

The Texas State Data Center at the University of Texas at San Antonio estimated that the racial and ethnic population shares for Texas in April 2010 were as follows: 45 percent Non-Hispanic White, 38 percent Hispanic, 11 percent Non-Hispanic Black, and 6 percent Non-Hispanic "Other." Between April 2000 and

April 2010, the number of non-Hispanic "Other" Texans (primarily Asian and Pacific Islanders and Native Americans) increased by 104 percent (an average of 7 percent per year), and the number of Hispanic Texans increased by over 42 percent (4 percent per year).

Table A-31 sets forth information concerning Texas' population since 1970.

Table A-31
Historical Review of Texas Population

Month	Year	Texas Resident Population	Average Annual Percent Change	Population Rank Among States
April	1970	11,196,730	1.6	4
April	1980	14,229,191	2.4	3
April	1990	16,986,510	1.8	3
April	2000	20,851,820	2.1	2
April	2010	25,145,561	1.9	2
July	2010	25,243,000	1.6	2
July	2011	25,632,000	1.5	2

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

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

Age Group	Percentage of Texas April 1990	Percentage of Texas April 2000	Percentage of Texas July 2011	Percentage of U.S. April 1990	Percentage of U.S. April 2000	Percentage of U.S. July 2011
0-4	8.4%	7.8%	7.6%	7.5%	6.8%	6.5%
5-17	20.2%	20.4%	19,5%	18.2%	18.9%	17.2%
18-24	11.2%	10.6%	10.2%	10.8%	9.7%	10.0%
25-44	33.1%	31.1%	28.0%	32.4%	30.2%	26.4%
45-54	9.5%	12.5%	13.5%	10.1%	13.4%	14.4%
55-64	7.6%	7.7%	10.7%	8.5%	8.6%	12.2%
Over 64	10.1%	9.9%	10.5%	12.5%	12.4%	13.3%

Sources: United States and Texas population figures are from the U.S. Bureau of the Census, except where noted. Texas' 25 Metropolitan Statistical Areas are based on U.S. Office of Management and Budget definitions as of December 2009.

EDUCATION

Primary and Secondary Education

Primary and secondary public education in the State is provided by 1,029 school districts and 208 State Charter Schools, which in the 2011-12 school year operated 9,176 campuses, including 4,656 elementary schools, 310 junior high schools and 1,354 middle schools, 1,627 high schools and 1,205 combined elementary and secondary schools. These numbers do not include private elementary and high schools.

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

According to the Texas Education Agency, student enrollment for the 2011-12 year totaled 4,978,120. All children between the ages of 6 and 18 are required to attend school. School districts are required to offer pre-kindergarten programs for eligible three-year olds and four-year olds. Hispanic students make up 50.8 percent, African American students 12.8 percent, Asian and American Indian 4.0 percent, and White 30.5 percent of the total student enrollment.

For the 2011-12 school year, there were 324,145 full-time equivalent teachers, 57,783 professional support staff, 18,481 campus administrators, 6,543 central administrators, 58,114 educational aides in the public schools, and 172,779 auxiliary staff. The average teacher salary for 2011-12 was $48,375.

For the 2010-11 school year, total actual revenues for public education from state, local, federal, and other sources were $50.8 billion. Of that total, $22 billion came from state sources (including the state fiscal stabilization fund) $20.6 billion from local tax revenues, and $6.0 billion from federal sources, and $2.0 billion from other local and intermediate sources

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

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

Texas has two debt tax rate equalization programs, the Instructional Facilities Allotment (IFA) program, started in 1997, to assist low property wealth districts with new debt, and the Existing Debt Allotment Program (EDA), started in 1999, to help districts service existing debt. Each school district is guaranteed a specified amount per student in state and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds. Funding of these programs is on a biennial basis with a fixed appropriation. Appropriations for the two programs during the 2010-2011 biennium were $1.463 billion. For the 2012-2013 biennium, appropriations for these programs are $1.366 billion. No new IFA grants were funded for this biennium.

On November 22, 2005 the state Supreme Court found that Texas' school finance system constituted a statewide property tax prohibited by the state constitution because so many school districts were taxing at or near the maximum allowable maintenance and operations (M&O) tax rate—$1.50 for most districts. The legislature, in an attempt to return to school districts "meaningful discretion" in setting local tax rates met in a special legislative session April 17, 2006 to change the school finance system before the Court's June 1, 2006 injunction to cut off state aid to schools could go into effect. During the 79th Third Called Session, in House Bill 1, the Legislature significantly reduced school district M&O tax rates—approximately 11 percent in 2007 and 33 percent in 2008. After the special session, plaintiffs agreed with attorneys for the state that new school funding, and the difference—created in HB1—between the new lower compressed tax rates and the M&O rate cap was large enough to merit dissolution of the Supreme Court injunction.

In 2011, the Legislature appropriated about $35.1 billion in state funds to public schools for the upcoming 2012-2013 biennium, including about $4.5 billion to continue the property tax relief initiated in the 79th 3rd Special Session of 2006. The Legislative Budget Board estimates that local revenues during the 2012-2013 biennium will be about $39.5 billion, while federal revenues are estimated at about $10.5 billion.

Educational Achievement

According to the U.S. Census Bureau, 2010 American Community Survey, 80.7 percent of the State's population age 25 and older were high school graduates, as compared to an 85.6 percent share for the nation. In addition, 25.9 percent of the State's population age 25 and older had received a bachelor's degree, as compared to a national share of 28.2 percent.

Higher Education

The State has 148 public and independent institutions of higher education in Texas:

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

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

The certified headcount enrollment in all colleges and universities in the state in the fall of 2012 was 1,330,765. Higher education in the state at public and, to a lesser extent, private institutions is supervised by the Texas Higher Education Coordinating Board, which has authority over program offerings and the use of certain funds appropriated by the Legislature for higher education. The higher education institutions are under the control of separate boards of regents.

Public higher education in the state is funded through a combination of tuition, student fees and other local funds (including gifts from benefactors), income from the Permanent University Fund (PUF), appropriations made by the Legislature, and tuition revenue bonds. In 2003, the State ended legislative control over tuition rates at public universities effective with the 2003 fall semester.

In the past, governing boards of institutions of higher education could set a rate within statutory limits set by the Legislature. Effective with the 2003 fall semester, Section 54.0513, Education Code, allows the governing boards to charge any amount and vary amounts by program and course level, and to set different rates "to increase graduation rates, encourage efficient use of facilities, or enhance employer performance."

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

According to the Legislative Budget Board, the 82nd Legislature appropriated $22.2 billion to support higher education for the 2012-2013 biennium. Excluding benefits, the Legislature appropriated $19.8 billion in All Funds and $10.2 billion in General Revenue funds. This is a decrease of $474.5 million in All Funds and $623 million in General Revenue from the 2010-2011 biennium. Funding levels for 2012-2013 include:

- TEXAS Grant Program, $559.5 million
- Tuition Equalization Grant Program, $168.8 million
- Professional Nursing Shortage Reduction Program, $30million
- B-On-Time Program, $112 million
- Adult Basic Education Community College Grants, $4.0 million
- Texas Educational Opportunity Grant Program, $ 24.0 million
- Baylor College of Medicine Undergraduate Medical Education, $ 75.3 million
- Joint Admission Medical Program, $7million
- Hospital Based Nursing Grant Program, $4.8 million
- Developmental Education Program, $4.0 million
- Family Practice Residency Program, $ 15.5 million
- Teach for Texas Loan Repayment Program, $ 1 million
- Baylor College of Medicine Graduate Medical Education formula allocation, $ 10.3 million

The Legislature appropriated $39.6 million for Top Ten Percent Scholarships in the 2012-13 biennium, a decrease of $8.9 million from 2010-11. General academic enrollment growth for 4-year and 2-year institutions received no funding for the 2012-13 biennium. There was also no funding for new community college campuses or alternative teaching certification programs at community colleges.

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

In 2003, the State enacted Subchapter B, Chapter 54, Education Code, requiring governing boards to set aside 20 percent of tuition charged above $46 per semester credit hour for resident undergraduate and graduate financial assistance. The assistance may include grants, scholarships, work-study programs, student loans, and student loan repayment assistance. In 2003, the State also enacted Subchapter Q, Chapter 54, Education Code, creating the Texas B-On-Time Loan program. Under this program, students at public and private institutions of higher education may receive no-interest student loans, provided that they complete the recommended or advanced high school program; the 80th Legislature through HB 1250 extended the eligibility to include students that complete an equivalent program. If a student who receives a loan graduates from an institution of higher education in the customary amount of time allotted for the degree (i.e. four years for most bachelor degree programs) and has a cumulative grade point average of 3.0 on a four-point scale, the loan will be forgiven. The 80th Legislature passed HB 3900 adding Subchapter H to Chapter 54, Texas Education Code, establishing the Texas Tomorrow Fund II, a trust fund outside of the state treasury that is a prepaid tuition undergraduate education program financed by fund assets. Contract purchasers may buy "units" worth one percent of one year's tuition and required fees at today's rates that are redeemable at the time the student enrolls in the institution for an equivalent percentage of costs.

The Permanent University Fund (PUF) is a permanent endowment fund with a market value of $13,854,579,476 as of December 31, 2012, according to The University of Texas (UT) System, which administers the Fund. Income from the Fund is dedicated first to payment of debt service of PUF bonds, which may be used for capital improvement at certain institutions in the UT and Texas A&M University (TAMU) systems. The amount of PUF bonds that may be issued is limited to 30 percent of the book value of the Fund, which was $11,901,784,585 as of December 31, 2012. The residual amount of income of the PUF, after debt service, is dedicated to excellence programs for The University of Texas at Austin, Texas A&M University (College Station) and Prairie View A&M University.

Under Section 66.08, Texas Education Code, the UT System Board of Regents may delegate investment authority and contract with a nonprofit corporation, allowing them to invest funds under the control and management of the board, including the PUF. The corporation may not engage in any business other than investing funds designated by the board under the contract. In March 1996, the University of Texas Investment Management Company (UTIMCO) was created as a 501(c) (3) investment-management corporation whose sole purpose is the management of investment assets under the fiduciary care of the Board of Regents of the University of Texas System. UTIMCO, the first external investment corporation formed by a public university system, oversees investments of approximately $28.4 billion as of December 31, 2012 including the Permanent University Fund. UTIMCO is governed by a nine-member Board of Directors appointed by the Board of Regents of the University of Texas System.

In November 1999, voters approved a constitutional amendment designed to increase the amount of money available to 17 campuses of the UT and TAMU systems. As a result of the amendment's passage, the University of Texas Board Of Regents is able to increase the income from the PUF that is placed into the Available University Fund (AUF). The amendment allows the UT Board of Regents to transfer the income from the PUF into the AUF, including the gains from the sale of securities. The amendment includes safeguards designed to ensure that this change in policy does not affect the long-term ability of the PUF to support the two university systems. Another change in the investment policy involves the type of investments that the UT Board of Regents may acquire for the PUF. The approved language authorizes the Board of Regents to manage any kind of investment of the PUF in accordance with the standards of a "prudent investor." This change allows the Board of Regents to take into consideration the investment of all the assets of the Fund, rather than a single investment, when making investment decisions. This allows the Fund to increase its earnings over time without risking the Fund's principal.

The Higher Education Fund (HEF) was established to provide support to institutions that are ineligible for PUF monies. Proceeds from the HEF may be used for construction, land acquisition and to acquire capital equipment, and library books and library equipment. The 2012-13 General Revenue appropriation for the HEF is $525 million.

In 2003, the State enacted Subchapter E, Chapter 62, Texas Education Code, which merged the Texas Excellence Fund (TEF) and the University Research Fund (URF) into a new Research Development Fund (RDF) beginning with the 2005 fiscal year; the RDF, however was never created as a stand-alone fund. Instead, the Legislature appropriates general revenue to each affected institution in a line item named

"Research Development Fund." RDF appropriations for the 2012-13 biennium total $65.3 million. The RDF is intended to promote increased research capacity at universities other than the University of Texas at Austin, Texas A&M University (College Station) and Prairie View A&M University.

In a constitutional amendment election held in November 2009, Proposition 4 created the National Research University Fund (NRUF).This change was designed to assist the state in developing more public universities into national research universities. The balance of the NRUF was $606,802,339.77as of January 31, 2013.

Under this fund awards will be based on an institution meeting benchmarks in the following areas:

(1) Expenditure of at least $45 million in restricted research;
(2) Four of the following:
(3) $400 million endowment;
(4) 200 Ph.D.'s awarded annually;
(5) Freshmen class with high academic achievement;
(6) Membership in Association of Research Libraries, Phi Beta Kappa or equivalent national recognition;
(7) High quality faculty; Commitment to high quality graduate education.

The 81st Texas Legislature passed HB 51 which among other things established the Research University Development Fund (RUDF). The purpose of the RUDF is for recruitment and retention of faculty and to enhance research productivity at research and emerging research universities. The 82nd Legislature provided no funding for the RUDF in the 2012-2013 biennium.

The law also created the Texas Research Incentive Program (TRIP). Under TRIP, matching funds will be awarded based on how much an institution raises in private gifts and endowments to enhance research activities. For the 2012-2013 biennium, the legislature appropriated $35.6 million to TRIP, a decrease of $11.9 million from the 2010-2011 biennium.

In 2003, the State changed the way that indirect cost recovery funds earned by certain institutions of higher education are treated in the appropriations process. Prior to the 2004-2005 state budget, one-half of these amounts earned by institutions of higher education (other than health-related institutions) were used to reduce State general revenue appropriations to those institutions. Section 145.001, Education Code, now requires that indirect cost recovery funds no longer be used as a method of finance in order to reduce general revenue appropriations. The 80th Legislature passed SB 1446 removing indirect cost recovery fees from the list of items that must be accounted for as educational and general funds by institutions of higher education.

RETIREMENT SYSTEMS

The State operates three defined-benefit retirement systems: the Teacher Retirement System of Texas (TRS), the Employees Retirement System of Texas (ERS) and the Judicial Retirement System of Texas (JRS). In addition, State employees, except those compensated on a fee basis, are covered under the federal Social Security System. Political subdivisions of the State may voluntarily provide coverage for their employees under the State's agreement with the federal Social Security Administration.

TRS is the largest of the three retirement systems, with 1,003,655 current members and 331,747 retirement recipients as of August 31, 2012. TRS provides benefits to all employees of the public school system within the State as well as faculty and staff members of State-supported institutions of higher education. In addition, TRS administers the Texas Public School Employees Group Insurance Program, which was established by legislation enacted in June 1985. This program provides healthcare benefits to TRS retirees. On September 1, 2002, TRS began administering the Texas School Employees Uniform Group Insurance Program, which provides healthcare benefits to TRS active employees of school districts participating in the program.

ERS covers State employees and Law Enforcement and Custodial Officers System (LECOS) and, as of August 31, 2012, had 132,669 active contributing members for ERS and 37,404 for LECOS. ERS had 87,799 annuitants and LECOS had 7,129 annuitants. ERS also administers the Texas Employees Group Benefits Program, which provides insurance coverage to active and retired State employees and their families and employees of certain Texas higher education institutions. JRS provides benefits to judicial officers of the State and, with 558 active contributing members and 648 annuitants for JRS Plan One and Two, is the smallest of the three systems. JRS is administered by ERS although, technically, it is a separate legal entity.

TRS and ERS are maintained on an actuarial basis. As of August 31, 2012, the unfunded accrued actuarial liability of TRS was $26.1 billion and for ERS, $5,704.6 million. The TRS fair value of investments, as of August 31, 2012, was $110.0 billion. The ERS fair value of pooled investments as of August 31, 2012, was $22.8 billion.

Prior to 1985, JRS was maintained on a pay-as-you-go basis. However, legislation enacted in 1985 divided JRS into two plans by changing the name of the existing plan and establishing a second, separate plan. The new plan, known as JRS Plan Two, is maintained on an actuarially sound basis and covers individuals who become judicial officers after August 31, 1985. The unfunded actuarial liability of JRS Plan Two as of August 31, 2012, was $14.8 million**.** The old plan, known as JRS Plan One, is maintained on a pay-as-you-go basis and covers judicial officers who were active on August 31, 1985, or had retired on or before that date.

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

For the 2012-2013 biennium, the Legislature set the State's contribution rates to the retirement systems at the following rates: ERS at 6.00 percent and 6.50 percent respectively and TRS at 6.0 percent and 6.4 percent respectively of payroll, and JRS Plan Two at 6.0 percent and 6.5 percent respectively of payroll. Member contribution rates are 6.5 percent for ERS and 6.0 percent for JRS Plan Two and 6.4 percent for TRS.

State laws prohibit by statute the implementation of changes in the ERS, JRS and TRS systems that would cause the period required to amortize the unfunded actuarial liability of the plans to exceed 31 years. Prior to the adoption of these measures, the State had no official limit on the amortization period for unfunded actuarial liability, although the management of both ERS and TRS had adopted an informal policy of limiting the period to 30 years.

Table A-33 sets forth selected financial information concerning each of the three State-operated retirement systems for the fiscal year ended August 31, 2012.

Table A-33
Selected Financial Information Regarding State-Operated Retirement Systems

	Teacher Retirement System	Employees Retirement System	Judicial Retirement System Plan II
Contributions, Investment Income & Other Revenue	$12,240,496,731	$2,444,111,653	$49,501,503
Benefits and Refunds Paid	$8,178,322,850	$1,804,535,370	$12,981,930
Plan Net Assets Available for Benefits[1]	$111,449,887,034	$21,825,643,968	$295,912,873
Plan Net Assets Available for Benefits to Benefits and Refunds Paid Ratio	13.63:1	12.09:1	22.79:1
Revenue to Payout Ratio	1.50:1	1.35:1	3.81:1

(1) Due to the implementation of GASB 25, investments are now reported at fair value instead of book value.

Sources: Audited Comprehensive Annual Financial Report for Fiscal Year ended August 31, 2012 Employees Retirement System of Texas; Audited Comprehensive Annual Financial Report for Fiscal Year ended August 31, 2012 and Actuarial Valuation report for Fiscal Year ended August 31, 2012, Teacher Retirement System of Texas

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

Postemployment Health Care and Life Insurance Benefits

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

The Employees Retirement System (ERS) administers the program for State retirees with at least 10 years of state service under the retirement programs of ERS or the Teacher Retirement System (TRS). Retirees who elected to participate in the Optional Retirement Program are eligible for these benefits, providing that contributions have not been withdrawn. Public school district retirees that are members of TRS are also eligible for the health care benefits.

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

For the year ended August 31, 2012, the State made monthly contributions for health care and life insurance. Contribution rates are shown below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

Table A-34
State Contribution Rates – Retiree Health and Basic Life Premium
For the Fiscal Year Ended August 31, 2012

Level of Coverage	TRS	ERS	Texas A&M University	University of Texas*
Retiree Only	$438	$438	$342	$330
Retiree/Spouse	$689	$689	$484	$503
Retiree/Children	$606	$606	$430	$441
Retiree/Family	$857	$857	$555	$615

* The amounts shown for the University of Texas represent self-funded insurance.
The monthly contribution per full-time retirees participating in the fully insured programs (HMO's) ranged from $322 to $679 depending upon the region and the level of coverage selected.

TRS administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care) provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents. Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Part A or Part B of Medicare. The deductible is $1,800 for those eligible for Part A, $3,000 for those not eligible for Part A but eligible for Part B, and $4,000 for those not eligible for either Part A or Part B. Funding for free basic coverage is provided based on public school district payroll. For fiscal year 2012, the State of Texas, active school employee and school districts contribution rates are 1.0%, 0 .65%, and 0.55% of school district payroll, respectively.

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

Expenditures recognized for fiscal year 2012 for retiree health and life insurance benefits paid for by the State are shown below in Table A-35.

Table A-35
Postemployment Health Care and Life Insurance

Benefits Provided Through:	Number of Retirees	Cost (Thousands)
Employees Retirement System	95,375	$696,085
University of Texas System	14,747	$36,867
Texas A&M University System	6,145	$29,745
Teacher Retirement System*	176,460	$271,925
Total	**292,727**	**$1,034,622**

*Public School District Employees

Administrators of the ERS' and TRS' plans for Other Postemployment Benefits (OPEB) began reporting additional information concerning those plans in fiscal year 2007. As of August 31, 2012, the unfunded accrued actuarial liability of TRS was $26.8 billion. The State of Texas began including similar information in its financial statements in fiscal year 2008. As of August 31, 2012, the unfunded accrued actuarial liability of ERS was $20.82 billion. The inclusion of this additional information to the financial statements does not signify any plans by the state to change its current funding of OPEB, which is on a pay-as-you-go basis. However, obtaining this additional information will require actuarial valuations and a calculation, for information purposes only, of an amount in excess of the annual contributions based on current funding methods. These disclosures are for informational purposes only and will not impact the net assets of the State.

LITIGATION

The State of Texas is a party to various legal proceedings concerning its operations and governmental functions but unrelated to the security for the Bonds. In the opinion of the State Comptroller of Public Accounts, based on information provided by the State Attorney General as to the existence and legal status of such proceedings, none of such proceedings, except for the five school finance lawsuits, *and M.D., by her next friend, Sarah R. Stukenberg, et al. v. Rick Perry, in his official capacity as Governor of the State of Texas, et al. case,* as discussed below, if finally decided adversely to the State, could possibly have a materially adverse effect on the long term financial condition of the State.

In 2011 and 2012 there were five lawsuits and a Plea in Intervention filed in the Travis County District Court which challenged the constitutionality of the public school finance system in Texas: *The Texas Taxpayer & Student Fairness Coalition, et al. v. Michael Williams, Commissioner of Education, et al.*; *Calhoun County Independent School District, et al. v. Michael Williams, Texas Commissioner of Education, et al.; Edgewood Independent School District, et al. v. Michael Williams , in his Official Capacity as Commissioner of Education, et al.; Fort Bend Independent School District, et al. v. Michael Williams, Texas Commissioner of Education, et al;. Mario Flores et al. and Texas Charter School Association v. Michael Williams , et al*,; and the Plea in Intervention filed by Texans for Real Efficiency and Equity in Education, the Texas Association of Business and other "Efficiency Intervenors." On February 4, 2013, the District Court ruled that the school finance system: (1) violates Art. VII, § 1 of the Texas Constitution for failure to provide an "efficient" education, failure to make suitable provision for the support of the system, and failure to provide substantially equal access to revenues necessary to provide a general diffusion of knowledge; and (2) violates Art. VIII, §1-e of the Texas Constitution because it prevents districts from exercising meaningful discretion in setting their tax rates. The Court also ruled that the school finance system does not violate Art. VIII, §1(a) of the Texas Constitution, the equal and uniform tax provision. The Court declined to grant any relief to the Texas Charter School Association and to the Efficiency Intervenors, ruling that the issues raised by the Efficiency Intervenors reflect policy decisions that were within the sound discretion of the Legislature. Finally, the Court ruled that it was within the Legislature's discretion to fund charter schools differently than traditional public schools and that any disparities did not rise to the level of rendering the entire system unconstitutional. The Court indicated that it would take four to six weeks to prepare a Final Judgment. After the Judgment is issued, the parties may appeal it.

M.D., by her next friend, Sarah R. Stukenberg, et al. v. Rick Perry, in his official capacity as Governor of the State of Texas, et al. This is a class action lawsuit filed in United States District Court on behalf of foster children in Texas. Plaintiffs allege that the current foster care system fails to adequately care for and serve the foster children in violation of various constitutional and federal statutory rights. The District Court certified the class, but on March 23, 2012, the U.S. Court of Appeals for the Fifth Circuit vacated the class certification order and remanded the case to the District Court for further proceedings. Since then discovery is ongoing and another class certification hearing is scheduled for the week of January 22, 2012.

In addition, the State Comptroller of Public Accounts is a party to various State tax law proceedings that are unrelated to the security for Bonds. None of the individual tax cases, if finally decided against the state, would have a materially adverse effect on the long term financial condition of the State. However, if a negative precedent were applied to all similarly situated taxpayers, then there could possibly be an adverse affect on the financial condition of the State. The following cases, discussed below, are examples of this type of state tax law proceeding: *Nestle USA, Inc., et al v. Combs, et al., Southwest Royalties, Inc. v. Combs, et al.*, and *Leoncito Plant, LLC v. Combs.*

Nestle USA, Inc. v. Combs, et al. On June 15, 2012, the plaintiff filed a second original mandamus action directly with the Texas Supreme Court challenging the constitutionality of the State's franchise tax based upon the "equal and uniform" clause in the Texas Constitution and the equal protection, due process and commerce clause provisions of the United States Constitution. On October 19, 2012, the Texas Supreme Court denied the plaintiff's petition for writ of mandamus and upheld the constitutionality of the Texas franchise tax under both the Texas and United States Constitution. On December 14, 2012, the Texas Supreme Court denied Nestle's motion for rehearing. If Nestle seeks certiorari review of its federal claims in the U.S. Supreme Court, it must file its petition by March 14, 2013.

There are two sales tax cases related to the manufacturing exemption in §151.318, Tax Code, that are presently pending on appeal. In both *Southwest Royalties, Inc. v. Combs, et al.*, and *Leoncito Plant, LLC v. Combs,* the plaintiff requested a refund of sales tax paid to purchase certain drilling or mining equipment, claiming that it was exempt from sales tax based upon the manufacturing exemption. The Comptroller denied those refund requests and both plaintiffs filed suit in State District Court. In both cases, the District Court ruled in favor of the State and the plaintiff appealed. *Southwest Royalties, Inc.*, filed its appeal at the Third Court of Appeals on July 30, 2012 and *Leoncito Plant, LLC* filed its appeal at the Seventh Court of Appeals on June 5, 2012.