PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 12, 2011

RATINGS:
Moody's: MIG1
Standard & Poor's: SP1+
Fitch: F1+
(See "Ratings" herein.)

NEW ISSUE—BOOK-ENTRY ONLY

In the opinion of Bond Counsel, the interest on the State of Texas Tax and Revenue Anticipation Notes, Series 2011A (the "Series 2011A Notes"), is excludable from gross income for federal income tax purposes under existing law and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, or except as provided herein, corporations. See "Tax Exemption" herein for a discussion of the opinion of Bond Counsel and the alternative minimum tax on corporations.

$9,800,000,000*
STATE OF TEXAS
TAX AND REVENUE ANTICIPATION NOTES
SERIES 2011A

Dated: September 1, 2011 **CUSIP Number: 882722 ___**** **Due: August 30, 2012**

The Series 2011A Notes will be issued as fully registered notes, registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2011A Notes. Purchases of beneficial interests in the Series 2011A Notes may be made only in book-entry form in denominations of $5,000, or any integral multiple thereof, as more fully described herein. Purchasers of such beneficial interests will not receive certificates representing their ownership interests in the Series 2011A Notes purchased. The principal of and interest on the Series 2011A Notes will be payable by the Comptroller of Public Accounts (the "Comptroller") of the State of Texas (the "State") to Cede & Co., as nominee of DTC. DTC will be responsible for distributing the principal and interest payments to the participating members of DTC, and the participating members will be responsible for distributing the payments to the owners of beneficial interests in the Series 2011A Notes. See "Description of the Series 2011A Notes – DTC and Book-Entry System."

The Series 2011A Notes are being issued to manage cash flow in the State's General Revenue Fund within fiscal year 2012, which begins on September 1, 2011 and ends on August 31, 2012. Pursuant to State law, the Series 2011A Notes are valid and binding limited obligations of the State, and will be issued pursuant to Subchapter H, Chapter 404 of the Texas Government Code, as amended (the "Act"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), and an order (the "Note Order") to be issued by the Comptroller.

Interest on the Series 2011A Notes will accrue at the rate of ___% per annum and will be payable at maturity. The Series 2011A Notes are not subject to redemption prior to maturity. The principal of and interest on the Series 2011A Notes are payable solely from and to the extent of amounts on deposit at any time in a proceeds account (the "Proceeds Account"), a payment account (the "Payment Account") and a sinking account (the "Sinking Account") established for the Series 2011A Notes within the tax and revenue anticipation note fund created by the Act and the Note Order and any warrants drawn on the State's General Revenue Fund for that purpose. The Comptroller covenants in the Note Order to make payments from the State's General Revenue Fund into the Payment Account and the Sinking Account, to the fullest extent allowed by law, at such times and in such amounts as are necessary to provide for the full payment of the principal of and interest on the Series 2011A Notes. The 82nd Legislature of the State has appropriated from the State's General Revenue Fund sufficient amounts for that purpose. The Comptroller expressly reserves the right to incur additional "Parity Obligations" (as defined in the Note Order) that are also payable from amounts on deposit in the Proceeds Account and the Payment Account. See "Description of the Series 2011A Notes – Additional Notes and Other Parity Obligations."

The Series 2011A Notes are offered when, as and if issued, subject to prior sale and to the receipt of certain approvals, certificates and opinions, including the approving opinion of the Attorney General of the State of Texas and the opinion as to legality by Andrews Kurth LLP, Austin and Houston, Texas ("Bond Counsel"). It is expected that the Series 2011A Notes will be available for delivery to DTC on or about September 1, 2011.

The Series 2011A Notes are being offered at public sale by competitive bids to be received by the Comptroller through the website operated by Grant Street Group accessible at https://www.TRANTEXAS.com (the "TRANTEXAS website") on Tuesday, August 23, 2011, between 9:00 a.m. and 10:00 a.m., Central Daylight Saving Time. The Series 2011A Notes will bear interest at the rate established by the Comptroller and made available through the TRANTEXAS website no later than 12:00 noon, Central Daylight Saving Time, on the day preceding bidding. The Comptroller reserves the right to reject any or all bids. The Comptroller also reserves the right to extend the date and/or time for the receipt of bids or to change the principal amount of Series 2011A Notes to be bid by notice posted on the TRANTEXAS website. Any such notice will be given not later than 3:00 p.m., Central Daylight Saving Time, on the date preceding the date previously fixed for the receipt of bids. If the Comptroller rejects all bids, the Comptroller reserves the right to establish a new time for receipt of bids for up to 48 hours after the time initially established for receipt of bids by posting the new time for receipt of bids on the TRANTEXAS website.

Dated:

---

* Preliminary, subject to change.

** A CUSIP number has been assigned to this issue by the CUSIP Service Bureau and is included solely for the convenience of the purchasers of the Series 2011A Notes. Neither the Comptroller nor the underwriters shall be responsible for the selection or correctness of the CUSIP number shown above.

STATE OFFICIALS

Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Greg Abbott
Attorney General

Susan Combs
Comptroller of Public Accounts

Jerry Patterson
Commissioner of the General Land Office

Todd Staples
Commissioner of Agriculture

CASH MANAGEMENT COMMITTEE

Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Susan Combs
Comptroller of Public Accounts

Joe Straus III
Speaker of the House of Representatives

BOND COUNSEL
Andrews Kurth LLP
Austin and Houston, Texas

FINANCIAL ADVISOR
Raymond James & Associates, Inc.
Dallas, Texas

TABLE OF CONTENTS

[This Page Intentionally Left Blank]

SUMMARY STATEMENT

THIS SUMMARY STATEMENT IS SUBJECT IN ALL RESPECTS TO THE MORE COMPLETE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT (THE "OFFICIAL STATEMENT") AND THE OFFERING OF THE SERIES 2011A NOTES TO POTENTIAL PURCHASERS IS MADE ONLY BY MEANS OF THE ENTIRE OFFICIAL STATEMENT. NO PERSON IS AUTHORIZED TO DETACH THIS SUMMARY STATEMENT FROM THE OFFICIAL STATEMENT OR OTHERWISE TO USE IT WITHOUT THE ENTIRE OFFICIAL STATEMENT.

Issuer

The State of Texas (the "State"). See "Appendix A – The State of Texas."

Description of the Series 2011A Notes

The State of Texas Tax and Revenue Anticipation Notes, Series 2011A (the "Series 2011A Notes") will be issued in the aggregate principal amount of $9,800,000,000* pursuant to an order (the "Note Order") to be issued by the Comptroller of Public Accounts of the State (the "Comptroller").

The Series 2011A Notes are dated September 1, 2011, and mature on August 30, 2012. The Series 2011A Notes bear interest at the rate of ___% per annum. Principal of and interest on the Series 2011A Notes are not subject to redemption prior to maturity. See "Description of the Series 2011A Notes."

Purpose of the Issue

The Series 2011A Notes are being issued to avoid a temporary cash shortfall in the unrestricted accounts in the State's General Revenue Fund during its fiscal year 2012. The Comptroller currently projects that the maximum temporary cash shortfall within fiscal year 2012 will be $13.2 billion before application of note proceeds and other available interfund and intrafund borrowing. See "Description of the Series 2011A Notes."

As required by the Texas Constitution, the State Legislature enacted a two-year balanced budget for the biennium ending August 31, 2013. The State expects to begin fiscal year 2012 on September 1, 2011 with a negative cash balance in the unrestricted accounts in the General Revenue Fund of $1.8 billion. The General Revenue Fund is expected to end fiscal year 2012 with a negative cash balance of $6.7 billion in the unrestricted accounts. See "Plan of Finance."

Security and Pledge

The Series 2011A Notes, any additional notes issued on a parity therewith (the "Additional Notes"), and any related credit agreements and arbitrage rebate liabilities (collectively, the "Parity Obligations") are secured by a lien on all amounts held in the Proceeds Account of the Note Fund (the "Proceeds Account"), and all amounts held in the Payment Account of the Note Fund (the "Payment Account"). The Series 2011A Notes, and any Additional Notes of any series, together with any credit agreement and arbitrage rebate liability related to the notes of such series, will also be secured by a lien on all amounts held in the Sinking Account of the Note Fund created for the notes of such series. The Sinking Account created for a particular series of obligations will not secure payment of any other series of obligations. The pledges and liens granted in the Note Order on amounts in the Proceeds Account, Payment Account and any Sinking Accounts will expire at 12:00 midnight, Central Daylight Saving Time, on August 31, 2013. In the Note Order, the Comptroller on behalf of the State covenants to make payments into the Payment Account and any Sinking Accounts to the fullest extent allowed by law at such times and in such amounts as are necessary to provide for the full payment of the principal of and interest on the Series 2011A Notes, any Additional Notes, related credit agreements and related arbitrage rebate liability when due. See "Sources of Payment of and Security for the Series 2011A Notes."

*Preliminary, subject to change.

Book-Entry Form Only	The Series 2011A Notes initially will be issuable in book-entry form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), which will act as securities depository therefore. Beneficial owners of the Series 2011A Notes will not receive physical delivery of note certificates. See "Description of the Series 2011A Notes – DTC and Book-Entry System."
Authority for the Issue	The Series 2011A Notes are issued by the State pursuant to Subchapter H, Chapter 404 of the Texas Government Code, as amended (the "Act"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), and the Note Order. See "Description of the Series 2011A Notes – Statutory Authority."
Tax Exemption	In the opinion of Andrews Kurth LLP, Bond Counsel, interest on the Series 2011A Notes (i) is excludable from gross income for federal income tax purposes under existing law and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, or except as provided herein, corporations. See "Tax Exemption" herein for a discussion of the opinion of Bond Counsel and the alternative minimum tax on corporations. A form of the proposed opinion is attached to this Official Statement as Appendix B. See also "Tax Treatment of Original Issue Premium" herein.
Series 2011B Notes	Subsequent to the issuance of the Series 2011A Notes, the Comptroller expects to adopt an order authorizing the issuance of the State's Tax and Revenue Anticipation Commercial Paper Notes, Series 2011B (the "Series 2011B Notes"), which may be issued from time to time in a maximum aggregate principal amount at any one time outstanding of $500 million, to supplement the funding provided by the Series 2011A Notes. The Series 2011B Notes are not expected to be issued as Additional Notes.
Additional Information	Questions regarding this Official Statement may be directed to the Comptroller of Public Accounts of the State of Texas, Treasury Operations, 208 E. 10th Street, Room 239, Austin, Texas 78701, Attn: Robert Coalter, (512) 463-4751; or Raymond James & Associates, Inc., 2001 Ross Avenue, Suite 4500, Dallas, Texas 75201, Attn: Gary Machak, (214) 965-0644.

[The Remainder of This Page Intentionally Left Blank]

OFFICIAL STATEMENT

$9,800,000,000*
STATE OF TEXAS
TAX AND REVENUE ANTICIPATION NOTES
SERIES 2011A

INTRODUCTION

The purpose of this Official Statement (this "Official Statement") of the State of Texas (the "State") is to furnish certain information with respect to the State's Tax and Revenue Anticipation Notes, Series 2011A (the "Series 2011A Notes"). The Series 2011A Notes will be issued by the State in the aggregate principal amount of $9,800,000,000* pursuant to Subchapter H, Chapter 404 of the Texas Government Code, as amended (the "Act"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), and an order to be issued by the Comptroller of Public Accounts of the State (the "Comptroller") on behalf of the State to provide for issuance of the Series 2011A Notes (the "Note Order").

Under the Act, the Comptroller is authorized to borrow money on behalf of the State in anticipation of the collection of taxes and revenues to be credited to the State's General Revenue Fund during the fiscal year covering the period from September 1, 2011 to August 31, 2012, and to issue notes to evidence such borrowing. The Series 2011A Notes are part of the State's plan to provide for payment of authorized expenditures during fiscal year 2012.

As required by the Texas Constitution, the 82nd State Legislature enacted a two-year balanced budget to provide appropriations for State expenditures for the fiscal biennium covering the period from September 1, 2011 to August 31, 2013 (the "2012-2013 Biennium"). The unrestricted accounts in the General Revenue Fund are the source of payment for expenditures for most State agencies. See "Plan of Finance – General Revenue Fund." These unrestricted accounts have historically been subject to a temporary cash shortfall during each fiscal year because taxes and other revenues are received more slowly than expenditures are paid through the first eight months of the fiscal year. The Series 2011A Notes, which mature on August 30, 2012, are being issued to meet the temporary cash shortfall in the unrestricted accounts in the General Revenue Fund anticipated during fiscal year 2012. Subsequent to the issuance of the Series 2011A Notes, the Comptroller expects to adopt an order authorizing the issuance of the State's Tax and Revenue Anticipation Commercial Paper Notes, Series 2011B (the "Series 2011B Notes"), which may be issued from time to time in a maximum aggregate principal amount at any one time outstanding of $500 million, to supplement the funding provided by the Series 2011A Notes. The Series 2011B Notes are not expected to be issued as Additional Notes. The principal amount of tax and revenue anticipation notes (including the Series 2011A Notes and the Series 2011B Notes) outstanding at any one time may not exceed the maximum "temporary cash shortfall," as defined by the Act, forecast by the Comptroller and submitted to the Cash Management Committee (described below), that authorized amount being $13.2 billion for fiscal year 2012. See "Description of the Series 2011A Notes – Statutory Authority." As required, the Comptroller may also borrow from other funds and accounts managed by or in the custody of the Comptroller in order to manage temporary cash shortfalls during fiscal year 2012. See "Plan of Finance – Cash Management in Fiscal Year 2012." After payment of the Series 2011A Notes and any Series 2011B Notes, the General Revenue Fund is projected to end fiscal year 2012 with a negative cash balance of $6.7 billion in its unrestricted accounts.

Pursuant to State law, the Series 2011A Notes are valid and binding limited obligations of the State payable from and to the extent of the sources of funds described herein. The Series 2011A Notes are not debts of the State within the meaning of any State Constitutional prohibition.

The Series 2011A Notes and any additional tax and revenue anticipation notes hereafter issued in fiscal year 2012 and secured with the Series 2011A Notes by an equal and ratable pledge of and lien on the Proceeds Account and Payment Account established within the Note Fund (as hereinafter defined) pursuant to the Note Order

---
* Preliminary, subject to change.

(“Additional Notes”) are herein referred to as the “Notes.” The Series 2011B Notes are not expected to constitute Additional Notes.

Set forth in this Official Statement are brief descriptions of the Series 2011A Notes, the security for and payment provisions of the Series 2011A Notes and certain provisions of the Note Order. Certain financial and other information concerning the State is contained in Appendix A attached hereto. The summaries of the Series 2011A Notes and the Note Order contained herein do not purport to be complete and are qualified in their entirety by reference to those documents.

DESCRIPTION OF THE SERIES 2011A NOTES

Statutory Authority

Before issuing tax and revenue anticipation notes under the Act, the Comptroller is required by the Act to prepare a forecast of the general revenue cash flow shortfall for the fiscal year, based on the most recent estimate of revenues prepared by the Comptroller, and to submit the forecast to the Cash Management Committee (the “Committee”), which is composed of the Governor, the Lieutenant Governor, the Comptroller and the Speaker of the House of Representatives. The Act requires that the Committee meet to approve the issuance of tax and revenue anticipation notes by the State and to determine the maximum outstanding balance of such notes in any fiscal year and the method of sale of such notes.

The amount of tax and revenue anticipation notes issued under the Act may not exceed the lesser of (i) the maximum amount permitted by the Act as described below or (ii) the amount approved by the Committee. The maximum outstanding balance of tax and revenue anticipation notes in any fiscal year that may be approved by the Committee may not exceed the maximum “temporary cash shortfall,” as defined in the Act, forecast by the Comptroller for the unrestricted accounts of the General Revenue Fund during any period in such fiscal year. On July 19, 2011, to meet the temporary cash shortfall for fiscal year 2012, the Committee approved the issuance of (i) tax and revenue anticipation notes of the State in the maximum aggregate principal amount of $9.8 billion and (ii) tax and revenue anticipation commercial paper notes of the State in the maximum aggregate principal amount outstanding at any one time of $500 million, which amount does not exceed the maximum temporary cash shortfall for any period in fiscal year 2012 contained in the forecast submitted by the Comptroller to the Committee. The Committee may approve the issuance of a greater outstanding amount of notes under the Act for fiscal year 2012 so long as the greater amount does not exceed the maximum temporary cash shortfall forecast by the Comptroller for any period in such fiscal year. See “Plan of Finance” herein.

Creation of Note Fund; Uses of Note Proceeds

Pursuant to the Act and the Note Order, a special fund of the State has been established and designated as the “tax and revenue anticipation note fund” (the “Note Fund”). Within the Note Fund, the Comptroller has established a Proceeds Account, a Payment Account and a Sinking Account for the Series 2011A Notes. See “Table 4 Tax and Revenue Anticipation Note Fund Projected Cash Position, Fiscal Year 2012.” The Comptroller may also establish within the Note Fund a separate Sinking Account for any series of Additional Notes and has reserved the right in the Note Order to create additional special accounts of the Note Fund in connection with the issuance of any Additional Notes or other tax and revenue anticipation notes under the Act. The proceeds from the sale of the Series 2011A Notes will be deposited into the Proceeds Account. Amounts in the Proceeds Account are used first to pay costs of issuance of the Notes and then are transferred from time to time to the General Revenue Fund Account in the State’s General Revenue Fund, which unrestricted account is the source of payment for expenditures for most State agencies. The costs of issuance of the Series 2011A Notes are estimated to be $490,000 including, but not limited to, payment of legal and financial advisory fees, expenses and disbursements, rating agency fees, and all other fees, charges and expenses.

General Terms

The Series 2011A Notes bear interest from September 1, 2011 (the “Dated Date”), payable at maturity, at the rate of ____% per annum. The Series 2011A Notes mature on August 30, 2012 (the “Maturity Date”). Interest on the Series 2011A Notes will be computed from and including the Dated Date to and excluding the Maturity Date on the basis of a 366-day year for 364 actual days elapsed. The Series 2011A Notes are not subject to redemption prior to maturity.

The Series 2011A Notes will be issued as fully registered Series 2011A Note certificates, without interest coupons, registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"). So long as Cede & Co., as nominee of DTC, is the registered owner of all of the Series 2011A Notes, all Series 2011A Note certificates will be held in the custody of DTC. Purchasers of beneficial interests in the Series 2011A Notes (the "Beneficial Owners") will not receive physical delivery of certificates. By purchasing a beneficial interest in a Series 2011A Note, a Beneficial Owner will have waived the right to receive a certificate except under the circumstances described in "DTC and Book-Entry System." Beneficial interests in the Series 2011A Notes will be available to Beneficial Owners only in book-entry form, in denominations of $5,000 and integral multiples thereof.

The principal of and interest on the Series 2011A Notes will be payable by the Comptroller to Cede & Co., as nominee of DTC. DTC will be responsible for distributing such payments to direct participants in DTC's book-entry system (the "DTC Participants"), and the DTC Participants will be responsible for subsequent remittance to the Beneficial Owners of the Series 2011A Notes. See "DTC and Book-Entry System."

Additional Notes and Other Parity Obligations

In the Note Order, the Comptroller reserves the right to issue Additional Notes in fiscal year 2012 either under the Act to finance the temporary cash shortfall in fiscal year 2012 or under Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), to refund the Series 2011A Notes, or previously issued Additional Notes. Additional Notes may bear such rate or rates of interest and have such other terms as the Comptroller determines and may mature prior to the maturity date of the Series 2011A Notes. In connection with the issuance of Additional Notes, the Comptroller also may incur obligations under a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitment to purchase Additional Notes, purchase or sale agreement, forward payment conversion agreement, interest rate or currency exchange "swap" agreement or other commitment or contract (a "Credit Agreement"). The Note Order does not limit the Comptroller's authority to issue Additional Notes or enter into related Credit Agreements, except that no Additional Notes may mature between August 23, 2012, and August 29, 2012, both inclusive, and the aggregate principal amount of Notes and other tax and revenue anticipation notes issued under the Act (including, without limitation, the Series 2011B Notes) must be approved by the Committee. See "Description of the Series 2011A Notes – Statutory Authority." Pursuant to the Note Order, the Comptroller may agree to serve as the liquidity provider for any Additional Notes to be issued as commercial paper notes and may utilize investment assets held in the State Treasury for such purpose. See "Sources of Payment of and Security for the Series 2011A Notes – State Treasury Investments." The Series 2011B Notes are not expected to be issued as Additional Notes. The Comptroller expects to serve as the liquidity provider for the Series 2011B Notes.

The proceeds of any Additional Notes issued under the Act will be deposited in the Proceeds Account pending payment of issuance costs and transfer of remaining amounts to the General Revenue Fund Account in the General Revenue Fund. The proceeds of Additional Notes issued under Chapter 1207 to refund the Series 2011A Notes or other Additional Notes will be set aside solely for that purpose.

The Additional Notes and any related Parity Obligations (as hereinafter defined) will be equally and ratably payable from and secured by a lien on and pledge of the same funds and accounts as the Series 2011A Notes, except that the separate Sinking Accounts for the Series 2011A Notes or any series of Additional Notes will secure only the Notes of that series and any related Credit Agreements and arbitrage rebate liability and must be used to pay such obligations first. See "Sources of Payment of and Security for the Series 2011A Notes" herein for a description of the sources of payment and security for the Series 2011A Notes and Parity Obligations as well as required and permitted deposits to the respective Sinking Accounts. See "Plan of Finance – Cash Management in Fiscal Year 2012" herein for a description of the State's intentions with respect to the issuance of the Series 2011B Notes and any Additional Notes.

DTC and Book-Entry System

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Comptroller.

The State recognizes DTC as securities depository for the Series 2011A Notes. The Series 2011A Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2011A Note certificate will be issued for each issue of Series 2011A Notes, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of beneficial interests in the Series 2011A Notes, in integral multiples of $5,000, under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011A Notes on DTC's records. The ownership interest of each actual purchaser of each Series 2011A Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Series 2011A Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. **BENEFICIAL OWNERS WILL NOT RECEIVE SERIES 2011A NOTE CERTIFICATES REPRESENTING THEIR OWNERSHIP INTEREST IN THE SERIES 2011A NOTES AND WILL NOT BE, OR BE CONSIDERED TO BE, OWNERS THEREOF UNDER THE TERMS OF THE NOTE ORDER. FOR AS LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2011A NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO HOLDERS OR OWNERS OF THE SERIES 2011A NOTES (EXCEPT FOR PURPOSES OF FEDERAL INCOME TAXES) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS.**

To facilitate subsequent transfers, all Series 2011A Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2011A Notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011A Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011A Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2011A Notes, such as redemptions, tenders, defaults, and proposed amendments to the Series 2011A Note documents. **THE STATE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS, WITH RESPECT TO THE PAYMENT BY DTC, ANY DIRECT PARTICIPANT, OR INDIRECT PARTICIPANT, OF THE**

PRINCIPAL OF OR INTEREST ON THE SERIES 2011A NOTES OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS OR WITH RESPECT TO: (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; OR (B) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SERIES 2011A NOTES.

Redemption notices shall be sent to DTC. If less than all of the Series 2011A Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2011A Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Comptroller as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2011A Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2011A Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participant's accounts, upon DTC's receipt of funds and corresponding detail information from the Comptroller, on such payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC nor its nominee, or the Comptroller, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Comptroller, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

In accordance with the terms of a letter of representations from the State to DTC, DTC may determine to discontinue providing its service with respect to the Series 2011A Notes at any time by giving 90 days prior notice to the State and discharging its responsibilities with respect thereto under applicable law. In addition, the State may determine to discontinue the use of book-entry transfers through DTC. Under such circumstances the State shall appoint a successor securities depository to maintain and hold the records of ownership in book-entry form and to pay the principal and interest as set forth on such records at maturity of the Series 2011A Notes. The State may also appoint a Paying Agent for the Series 2011A Notes. In the event that the State appoints a Paying Agent for the Series 2011A Notes, Series 2011A Note certificates will be delivered to the Beneficial Owners or their nominees, all as described in the Note Order. The Beneficial Owners or their nominees, upon registration and delivery of Series 2011A Note certificates, will become the registered owners of the Series 2011A Notes.

PLAN OF FINANCE

General Revenue Fund

The General Revenue Fund consists of 265 separate accounts, including 236 restricted accounts. The General Revenue Fund supports approximately 50.6% of all appropriations made from state funds for the 2012-2013 Biennium. See "The 2012-2013 Biennium Budget."

The General Revenue Fund is expected to begin fiscal year 2012 with a negative cash balance of $1.8 billion in its unrestricted accounts and a positive cash balance of $3.6 billion in its restricted accounts. Balances in the restricted accounts are available for intrafund borrowing to meet the required disbursements from the General Revenue Fund, including transfers to the Note Fund to provide for payment of the Series 2011A Notes. Additionally, balances in certain special funds outside the General Revenue Fund are available for interfund borrowing by the General Revenue Fund. See "Plan of Finance – Interfund and Intrafund Borrowing."

Appendix A includes a detailed discussion of the appropriation and budgeting process, investment of state funds by the Comptroller and information regarding audits and statewide accounting.

The 2012-2013 Biennium Budget

The State's budget period is a biennium of 24 months beginning on September 1 in each odd numbered year and is composed of two fiscal years. Under the State Constitution, no funds may be expended from the State Treasury except upon appropriation by the State Constitution or the State Legislature. The State Constitution prohibits the State Legislature from making any appropriation in excess of available cash and anticipated revenues during the biennium except in an emergency and urgent public necessity with a four-fifths vote of each house of the State Legislature. The State Constitution requires the Comptroller to certify that bills containing appropriations adopted by the State Legislature for a biennium do not appropriate amounts in excess of the estimated revenues.

In January 2011, the State Legislature convened its eighty-second legislative session (the "82nd Legislature"). By the end of June 2011, the 82nd Legislature, in both a regular session and one special session adopted a budget totaling $172.9 billion in all-funds appropriations for the 2012-2013 Biennium, resulting in a $13.8 billion overall budget decrease. The decrease is attributable to negative cash flow created by the economic recession affecting fiscal years 2009-2010 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 $11.0 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 $87.4 billion, which represents a 0.4% reduction from the 2010-2011 Biennium.

Table 1 lists appropriations from the General Revenue Fund, including the restricted and unrestricted accounts therein, for the 2012-2013 Biennium.

[The Remainder of this Page Intentionally Left Blank]

TABLE 1
GENERAL REVENUE FUND APPROPRIATIONS
FOR THE 2010-2011 AND 2012-2013 BIENNIA
(MILLIONS OF DOLLARS)

All Functions	Estimated/ Budgeted 2010-11[(1) (2)]	Appropriated 2012-13[(2)]	Biennial Change	Percent Change
Article I – General Government	$ 2,939.2	$ 2,992.5	$ 53.3	1.8%
Article II – Health and Human Services	22,430.3	23,334.7	904.3	4.0%
Article III – Agencies of Education	49,241.1	51,518.4	2,277.3	4.6%
Public Education	34,179.3	36,846.0	2,666.7	7.8%
Higher Education	15,061.8	14,672.4	(389.4)	(2.6) %
Article IV – The Judiciary	479.2	461.4	(17.9)	(3.7) %
Article V – Public Safety and Criminal Justice	8,655.9	8,377.5	(278.4)	(3.2) %
Article VI – Natural Resources	2,048.3	1,665.2	(383.1)	(18.7) %
Article VII – Business and Economic Development	940.2	983.7	43.5	4.6%
Article VIII – Regulatory	646.1	666.3	20.2	3.1%
Article IX – General Provisions	0.0	(2,936.5)	(2,936.5)	NA
Article X – The Legislature	360.5	339.4	(21.0)	(5.9) %
Total, All Functions	$ 87,740.8	$ 87,402.4	$ (338.4)	(0.4)%

(1) Includes certain anticipated supplemental spending needs.
(2) Reflects legislative appropriations enacted by the 82nd Legislature in its regular session and one special session.

Note: Biennial change and percentage change are calculated on actual amounts before rounding. Therefore, table and figure amounts may not add because of rounding.
SOURCE: Legislative Budget Board and Texas Comptroller of Public Accounts.

Cash Management History Through Fiscal Year 2011

Historically, the unrestricted accounts in the General Revenue Fund have been subject to temporary cash shortfalls during each fiscal year due to revenues and expenditures not coinciding within any given month. Prior to fiscal year 1996, cash shortages typically began early in the fiscal year and reached a maximum shortfall early in January. In May 1995, the State Legislature adopted statutory changes affecting the monthly apportionment to school districts. The 1995 schedule of payments increased the percentage of the total payments from the State's Foundation School Program during the first quarter of the fiscal year while reducing payments in the remaining months.

To manage the temporary cash shortfall in the unrestricted accounts of the General Revenue Fund during recent fiscal years, the Comptroller issued tax and revenue anticipation notes in the following amounts: $4.9 billion during the 2008 fiscal year; $6.4 billion during the 2009 fiscal year; $5.5 billion during the 2010 fiscal year; and $7.8 billion during the 2011 fiscal year (the "Series 2010 Notes").

On August 24, 2011, the final transfer will be made to the Payment Account for repayment of the Series 2010 Notes on August 31, 2011. After the Series 2010 Notes are paid, the Comptroller projects a negative cash balance in the unrestricted accounts of the General Revenue Fund to be $1.8 billion on August 31, 2011.

Cash Management in Fiscal Year 2012

The State plans to manage the cash flow needs of the unrestricted accounts of the General Revenue Fund by using the proceeds from the sale of the Series 2011A Notes and any Series 2011B Notes. As required, the Comptroller may also borrow from other funds and accounts managed by or in the custody of the Comptroller in order to meet the temporary cash shortfall. The maximum temporary cash shortfall in the unrestricted accounts in the General Revenue Fund during fiscal year 2012 is anticipated to occur in December, 2011 and is expected to be $13.2 billion. This temporary cash shortfall in the unrestricted accounts of the General Revenue Fund is primarily due to public education expenditures in the first three months of fiscal year 2012. See "Plan of Finance – Basis for Qualifications to Projections."

Any Series 2011B Notes are expected to be issued as commercial paper notes in a maximum principal amount outstanding at any one time of $500,000,000. The Comptroller intends to covenant that no Series 2011B Notes will mature between August 23, 2012 and August 29, 2012, and that not more than $100,000,000 in aggregate principal amount of the Series 2011B Notes shall mature on any one day prior to August 1, 2012. All Series 2011B Notes are expected to mature on or before August 30, 2012.

The Comptroller expects to serve as the liquidity provider for the Series 2011B Notes and agrees to purchase as investments of the State Treasury any Series 2011B Notes that the commercial paper dealer is unable to sell and is not otherwise obligated to purchase. As of July 31, 2011, the Comptroller was the liquidity provider for other state agencies in a maximum authorized principal amount of approximately $1.389 billion, of which $749 million was outstanding. See "Sources of Payment and Security for the Series 2011A Notes – State Treasury Investments."

Interfund and Intrafund Borrowing

The Comptroller may transfer available cash from any account in the General Revenue Fund to any other account, including transfers necessary for repayment of the Series 2011A Notes and any Series 2011B Notes. In addition, under Section 403.092 of the Texas Government Code, the Comptroller may transfer surplus cash from any fund that is managed by or in the custody of the Comptroller and that is not constitutionally dedicated to any other fund in the State Treasury. If the Comptroller transfers available cash, interest earnings on the cash is required to be allocated as if the transfer had not occurred, and the Comptroller is required to return the surplus cash to the fund from which it was transferred as soon as practicable.

After payment of the Series 2011A Notes and any Series 2011B Notes, the General Revenue Fund is projected to end fiscal year 2012 with a negative cash balance of $6.7 billion in its unrestricted accounts. The balances available for interfund borrowing and the balances available for intrafund borrowing may be used to meet the required disbursements of the General Revenue Fund, including transfers to the Note Fund from the General Revenue Fund, in the event that amounts in the General Revenue Fund Account are insufficient to make such disbursements. During the 2012 fiscal year the Comptroller estimates that the cash balances available for interfund and intrafund borrowing will average $10.3 billion, which amount includes the estimated balance in the Economic Stabilization Fund of $6 billion. The Comptroller expects that the 2012 fiscal year will end with a positive cash balance of $7.2 billion available for interfund borrowing in special funds outside of the General Revenue Fund (including the estimated balance in the Economic Stabilization Fund) and a positive cash balance of $3.4 billion available for intrafund borrowing in the restricted accounts in the General Revenue Fund. See Table 3 Projected General Revenue Fund Cash Flow, fiscal year 2012.

Basis for and Qualifications to Projections

The foregoing forecasts of the general revenue temporary cash shortfall for fiscal year 2012 are based on estimates of State revenues as forecast by the Comptroller and current trends in revenue collections. The cash flow forecast is derived from estimates of hundreds of individual sources of revenues and expenditures. The process begins with making an annual estimate for each amount of revenue and expenditure. These estimates are then converted to monthly estimates which, in turn, are converted to daily forecasts. Forecasts of expenditures are based upon the appropriations bill enacted by the State Legislature and discussions with the staffs of various State agencies. See "Plan of Finance – The 2012-2013 Biennium Budget." Estimates of revenue receipts are made in accordance with general expectations regarding the United States and State economies for fiscal year 2012. See "Plan of Finance – Economic Assumptions."

In preparing the forecast of available interfund and intrafund borrowing, the Comptroller has relied upon agency appropriations, forecasts of receipts of federal funds, discussions with the staffs of the agencies which provide the borrowed funds and prior years' cash flow patterns.

Although the forecasts discussed in the foregoing discussion and accompanying tables represent the best available projections of available cash flow to pay debt service on the Series 2011A Notes, there can be no assurance that such projections will be realized. Actual general revenues are dependent upon overall performance of the United States and State economies and the other factors described herein under "Plan of Finance – Economic Assumptions." See "Forward-Looking Statements."

[*The Remainder of this Page Intentionally Left Blank*]

TABLE 2
ACTUAL AND PROJECTED GENERAL REVENUE FUND CASH FLOW[1]
FISCAL YEAR 2011
(MILLIONS OF DOLLARS)

BEGINNING CASH BALANCE (Before Interfund Borrowing)	Sep 10	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11	Forecast Jul 11	Forecast Aug 11	TOTAL FY 2011
	($1,466)	$1,319	($453)	($1,523)	($1,451)	($1,250)	($551)	($973)	($269)	$1,946	$2,681	$392	($1,466)
Revenues:													
Sales Tax	1,571	1,618	1,845	1,808	1,828	1,750	1,604	1,866	1,952	1,723	1,737	1,820	21,121
Oil Production Tax	95	90	104	105	120	120	96	147	153	155	110	100	1,395
Natural Gas Production Taxes	116	107	13	93	78	104	113	97	102	71	58	62	1,014
Motor Vehicle Sales/Rental Tax	237	234	236	222	232	215	282	257	212	270	215	225	2,838
Motor Fuels Tax	267	259	265	265	251	249	229	270	260	265	260	264	3,105
Franchise Tax	(50)	(20)	38	(262)	18	8	173	193	3,577	(970)	(54)	24	2,675
Alcoholic Beverage Taxes	67	67	71	66	79	64	69	78	76	76	74	72	859
Insurance Occupation Taxes	12	13	11	12	13	338	387	(1)	19	19	285	195	1,302
Utility Taxes	0	34	89	1	82	5	2	50	51	0	40	102	457
Inheritance Tax	0	0	0	0	0	1	0	0	0	0	0	0	1
Hotel and Motel Tax	30	29	32	26	24	26	29	36	30	33	34	34	362
Lottery	142	115	116	157	145	127	181	133	129	155	159	138	1,698
Federal Funds	1,333	1,792	1,790	1,697	1,842	1,870	1,784	1,961	1,770	2,066	1,724	1,625	21,254
Property Tax Relief Transfer	65	81	73	86	62	43	79	83	74	919	137	371	2,073
Cigarette Tax	128	27	71	31	42	46	76	31	68	57	40	(33)	585
Other Revenue Sources	508	621	352	1,009	511	658	382	796	472	654	692	602	7,256
Tobacco Settlement Money	0	0	0	468	0	0	0	15	0	0	0	0	483
Transfers From Series 2010 Proceeds Account	7,800	0	0	0	0	0	0	0	0	0	0	0	7,800
Total Revenues	12,321	5,067	5,107	5,785	5,327	5,625	5,486	6,011	8,945	5,492	5,513	5,600	76,278
Expenditures:													
Construction/Equipment/Materials	72	51	56	60	42	51	71	57	58	72	90	60	741
Payroll/Benefits	937	1,163	1,177	1,111	1,139	1,148	1,108	980	987	979	659	672	12,059
Public Assistance Payments	3,064	2,343	2,630	3,372	2,427	2,758	2,995	2,684	2,744	3,001	2,782	2,615	33,415
Intergovernmental Payments	290	273	186	229	171	107	244	207	149	208	302	106	2,472
Professional Service and Fees	212	52	202	113	39	189	122	52	200	118	77	119	1,493
Other Expenditures	293	291	276	264	257	302	339	257	336	289	289	266	3,460
Transfers to Foundation School Fund	4,288	2,583	1,179	523	1,117	295	500	654	896	1,216	1,420	1,658	16,331
Transfer to Economic Stabilization Fund	0	0	451	0	0	0	0	0	0	0	0	0	451
Transfers to Series 2010 Fund	0	0	0	0	0	0	350	430	1,170	1,950	1,950	1,950	7,800
Total Expenditures	9,156	6,756	6,157	5,672	5,192	4,850	5,728	5,321	6,541	7,834	7,570	7,445	78,222
REVENUES LESS EXPENDITURES	3,165	(1,689)	(1,050)	113	134	775	(242)	690	2,404	(2,342)	(2,057)	(1,845)	(1,944)
Revenue Interfund Transfers	2,660	1,247	1,198	1,081	1,229	1,218	1,100	1,161	948	4,438	1,065	1,705	19,050
Expenditure Interfund Transfers	3,040	1,330	1,218	1,121	1,162	1,294	1,279	1,147	1,137	1,362	1,297	2,044	17,433
NET INTERFUND TRANSFERS	(380)	(83)	(20)	(40)	66	(76)	(180)	14	(189)	3,076	(232)	(340)	1,617
ENDING CASH BALANCE (Before Interfund Borrowing)	1,319	(453)	(1,523)	(1,451)	(1,250)	(551)	(973)	(269)	1,946	2,681	392	(1,792)	(1,792)
GENERAL REVENUE BORROWABLE ACCOUNTS	3,393	3,364	3,549	3,517	3,516	3,617	3,571	3,524	3,649	3,485	3,483	3,553	3,553
TOTAL GENERAL REVENUE	4,712	2,911	2,025	2,067	2,266	3,066	2,598	3,255	5,595	6,166	3,875	1,760	1,760
OTHER BORROWABLE RESOURCES	7,836	7,905	8,324	8,298	8,407	8,341	8,333	8,352	8,318	5,250	5,144	134	134
EXPANDED BORROWABLE FUNDS	839	861	840	858	927	752	780	892	871	886	962	1,001	1,001
ENDING CASH BALANCE AND BORROWABLE RESOURCES	$13,387	$11,677	$11,190	$11,223	$11,600	$12,159	$11,711	$12,499	$14,783	$12,302	$9,981	$2,896	$2,896

[1] General Revenue Fund excludes Restricted Accounts. Cash flows reflect issuance and payment of Series 2010 Notes.

Note: Totals may not add due to rounding.

SOURCE: Texas Comptroller of Public Accounts - Treasury Operations

TABLE 3
PROJECTED GENERAL REVENUE FUND CASH FLOW[1]
FISCAL YEAR 2012
(MILLIONS OF DOLLARS)

BEGINNING CASH BALANCE (Before Interfund Borrowing)	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12	TOTAL FY 2012
	($1,792)	$2,566	($163)	($1,463)	($622)	$107	$597	($75)	$252	$2,339	($639)	($3,148)	($1,792)
Revenues:													
Sales Tax	1,616	1,663	1,893	1,856	1,876	1,797	1,649	1,915	2,000	1,794	1,809	1,892	21,759
Oil Production Tax	93	95	98	98	89	103	96	94	94	101	98	94	1,155
Natural Gas Production Taxes	55	55	13	54	51	55	55	54	96	85	86	44	702
Motor Vehicle Sales/Rental Tax	242	239	242	228	237	221	287	262	217	276	225	225	2,902
Motor Fuels Tax	264	250	257	247	257	248	238	273	265	276	271	270	3,116
Franchise Tax	(54)	(22)	41	(284)	20	9	187	209	3,872	(1,050)	(58)	26	2,896
Alcoholic Beverage Taxes	67	67	71	66	79	64	69	78	76	76	74	72	860
Insurance Occupation Taxes	12	13	11	13	13	364	419	(1)	20	19	305	206	1,395
Utility Taxes	0	37	105	1	95	5	2	56	58	0	45	122	526
Inheritance Tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Hotel and Motel Tax	30	29	32	26	24	26	29	35	30	33	33	33	360
Lottery	125	125	160	125	125	160	125	125	160	125	125	160	1,637
Federal Funds	1,486	1,505	1,541	1,765	1,389	1,600	1,363	1,891	1,503	1,610	1,537	1,942	19,132
Property Tax Relief Transfer	2	17	57	64	56	66	54	57	64	1,227	114	347	2,124
Cigarette Tax	122	74	74	20	48	30	72	35	55	52	41	(90)	533
Other Revenue Sources	519	670	375	1,028	404	695	506	747	449	589	735	646	7,364
Tobacco Settlement Money	0	0	0	426	0	0	0	11	0	0	0	0	438
Series 2011B CP Notes	0	0	500	0	0	0	0	0	0	0	0	0	500
Transfers From Series 2011A TRAN Proceeds Account	9,800	0	0	0	0	0	0	0	0	0	0	0	9,800
Total Revenues	14,379	4,817	5,469	5,732	4,763	5,443	5,152	5,841	8,961	5,212	5,439	5,988	77,197
Expenditures:													
Construction/Equipment/Materials	53	72	56	62	53	67	107	108	71	57	109	126	941
Payroll/Benefits	969	992	1,015	1,021	1,072	1,063	1,000	994	962	876	908	846	11,717
Public Assistance Payments	2,526	2,370	2,081	2,606	2,084	2,897	2,824	2,754	2,556	2,705	2,465	2,967	30,834
Intergovernmental Payments	230	213	141	189	154	71	191	163	133	188	163	136	1,972
Professional Service and Fees	162	75	159	75	35	152	80	52	167	67	62	66	1,153
Other Expenditures	284	272	217	218	154	162	574	220	262	249	261	242	3,115
Transfers to Foundation School Fund	5,167	3,143	1,894	457	456	271	455	672	893	1,213	1,442	1,952	18,015
Transfer to Economic Stabilization Fund	0	0	957	0	0	0	0	0	0	0	0	0	957
Series 2011B CP Notes	0	0	0	0	0	0	0	0	0	0	0	500	500
Transfers to Series 2011A TRAN Fund	0	0	0	0	0	0	350	350	1,750	2,450	2,450	2,450	9,800
Total Expenditures	9,391	7,136	6,522	4,628	4,008	4,684	5,580	5,311	6,795	7,804	7,860	9,285	79,004
REVENUES LESS EXPENDITURES	4,987	(2,318)	(1,053)	1,104	756	759	(429)	530	2,166	(2,592)	(2,421)	(3,296)	(1,807)
Revenue Interfund Transfers	1,580	903	837	784	846	732	1,035	979	867	1,000	1,035	1,312	11,909
Expenditure Interfund Transfers	2,208	1,314	1,086	1,046	872	1,002	1,278	1,182	944	1,386	1,123	1,569	15,011
NET INTERFUND TRANSFERS	(629)	(411)	(248)	(262)	(27)	(270)	(243)	(204)	(78)	(386)	(88)	(256)	(3,101)
ENDING CASH BALANCE (Before Interfund Borrowing)	2,566	(163)	(1,463)	(622)	107	597	(75)	252	2,339	(639)	(3,148)	(6,700)	(6,700)
GENERAL REVENUE BORROWABLE ACCOUNTS	3,240	3,281	3,370	3,339	3,503	3,564	3,523	3,511	3,428	3,340	3,227	3,363	3,363
TOTAL GENERAL REVENUE	5,807	3,118	1,907	2,718	3,610	4,161	3,448	3,762	5,768	2,701	79	(3,337)	(3,337)
OTHER BORROWABLE RESOURCES	5,134	5,212	6,105	6,102	6,171	6,143	6,132	6,226	6,176	6,160	6,255	6,179	6,179
EXPANDED BORROWABLE FUNDS	914	936	913	931	1,002	823	852	966	892	920	1,019	1,032	1,032
ENDING CASH BALANCE AND BORROWABLE RESOURCES	$11,854	$9,266	$8,924	$9,751	$10,783	$11,127	$10,432	$10,955	$12,836	$9,781	$7,353	$3,874	$3,874

[1] General Revenue Fund excludes Restricted Accounts. Cash flows reflect issuance and payment of Series 2011A and Series 2011B Notes.

Note: Totals may not add due to rounding.

SOURCE: Texas Comptroller of Public Accounts - Treasury Operations

TABLE 4
TAX AND REVENUE ANTICIPATION NOTE FUND
PROJECTED CASH POSITION
FISCAL YEAR 2012[1]
(MILLIONS OF DOLLARS)

	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12	FY2012
BEGINNING CASH BALANCE	$10,009.55	$209.56	$213.66	$217.90	$222.01	$226.25	$230.50	$584.47	$938.72	$2,692.83	$5,147.08	$7,601.20	
Plus:													
Transfers from General Revenue	0.00	0.00	0.00	0.00	0.00	0.00	350.00	350.00	1,750.00	2,450.00	2,450.00	2,450.00	9,800.00
Interest Earnings[2]	0.01	4.10	4.24	4.10	4.24	4.25	3.97	4.25	4.11	4.25	4.12	8.38	50.03
Total Available	10,009.56	213.66	217.90	222.01	226.25	230.50	584.47	938.72	2,692.83	5,147.08	7,601.20	10,059.58	9,850.03
Less:													
Transfer to General Revenue	9,800.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9,800.00
Principal Payment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9,800.00	9,800.00
Interest Payment[3]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	243.66	243.66
Total Disbursements	9,800.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10,043.66	10,043.66
ENDING CASH BALANCE	$209.56	$213.66	$217.90	$222.01	$226.25	$230.50	$584.47	$938.72	$2,692.83	$5,147.08	$7,601.20	$15.92	

[1] Assumes par and premium in Note Fund at beginning of September 2011. Par amount of the Series 2011A Notes will be transferred to the General Revenue Fund Account at the beginning of September. Totals may not add due to rounding.

[2] Represents interest earnings on the Note Fund, including Depository Interest at an assumed rate of 50 basis points. Depository interest for a given month is credited to the account in the following month except for August, which is estimated and paid by the last day of the month.

[3] Coupon rate on the Series 2011A Notes is 2.5%.

SOURCE: Texas Comptroller of Public Accounts - Treasury Operations

Economic Assumptions

The forecasts for the General Revenue Fund cash balance at the end of fiscal years 2011 and 2012 are based in part on an economic forecast prepared by the Comptroller. The Comptroller's state economic model is an econometric forecasting tool that uses extensive databases of economic and demographic conditions throughout Texas and serves as the basis for producing the State's revenue forecasts.

The General Revenue Fund cash flow forecast for fiscal year 2012 anticipates a continued recovery in the Texas economy, although more gradual than usual following a recession, with state economic growth expected to grow in tandem with the nation's rate in fiscal year 2012. Partly due to the strength of the energy industry through most of 2008, the State's nonfarm employment continued to increase much longer than the nation's, peaking at over 10,642,000 jobs in August 2008, but Texas lost 434,100 jobs (-4.1 percent) before bottoming out in December 2009. Renewed growth occurred in fiscal year 2010, with an increase of 130,800 jobs (1.3 percent growth) in nonfarm employment from August 2009 to August 2010. Job growth accelerated moderately during the first nine months of fiscal year 2011, with Texas adding another 201,500 net jobs. Through May 2011, Texas has regained 82 percent of the jobs lost during the recession. Comparatively, and through June 2011, the nation had replaced 20 percent of its jobs (16.5 percent when excluding Texas) since its employment peak in January 2008.

Growth is expected in major Texas industries during fiscal year 2012, although the financial activities industry and the government sector are projected to increase employment by less than one percent. A gain of 226,900 jobs is expected (2.1 percent) during fiscal year 2012. Real gross product in Texas will rise more rapidly than employment, reflecting continuing gains in productivity. The outlook for the U.S. economy, the relative attractiveness of the State's business environment, energy prices, inflation and interest rate changes, retail sales, exports, and housing forecasts all underlie the economic and revenue forecasts. These economic trends are discussed in further detail in the "Economic Information" section of Appendix A.

The major economic projections underlying the Comptroller's forecast of State revenues for fiscal year 2012 are reflected in the table below. The table provides comparative historical information for recent years and forecast data for calendar years 2011 and 2012.

[The Remainder of this Page Intentionally Left Blank]

TABLE 5
TEXAS ECONOMIC HISTORY AND OUTLOOK FOR CALENDAR YEARS
TEXAS COMPTROLLER'S WINTER 2010-11 STATE ECONOMIC FORECAST (REVISED)

	2007	2008	2009	2010	2011*	2012*
TEXAS ECONOMY						
Real Gross State Product (Billion) 2005$)	$1,072.7	$1,070.8	$1,076.4	$1,106.2	$1,133.7	$1,167.9
Annual percent change	*5.4%*	*-0.2%*	*0.5%*	*2.8%*	*2.5%*	*3.0%*
Gross State Product (Billion Current $)	$1,148.0	$1,202.1	$1,146.6	$1,207.5	$1,258.0	$1,314.1
Annual percent change	*8.7%*	*4.7%*	*-4.6%*	*5.3%*	*4.2%*	*4.5%*
Personal Income (Billion Current $)	$884.1	$968.2	$956.8	$993.1	$1,037.0	$1,080.8
Annual percent change	*7.1%*	*9.5%*	*-1.2%*	*3.8%*	*4.4%*	*4.2%*
Nonfarm Employment (Thousands)	10,394.9	10,607.0	10,307.3	10,340.4	10,556.9	10,738.8
Annual percent change	*3.3%*	*2.0%*	*-2.8%*	*0.3%*	*2.1%*	*2.1%*
Resident Population (Thousands)	23,895.2	24,364.0	24,841.5	25,312.0	25,760.6	26,196.2
Annual percent change	*2.0%*	*2.0%*	*2.0%*	*1.9%*	*1.8%*	*1.7%*
Unemployment Rate (%)	4.4%	4.9%	7.5%	8.3%	8.1%	7.6%
Oil Price ($ per Barrel)	$68.5	$96.49	$57.58	$76.09	$90.84	$85.05
Natural Gas Price ($ per MCF)	$6.23	$7.68	$3.43	$4.20	$4.01	$4.09
U.S. ECONOMY						
Real Gross Domestic Product (Billion) 2005$)	$13.228.9	$13,228.9	$12,880.6	$13,248.2	$13,582.8	$13,947.4
Annual percent change	*1.9%*	*0.0%*	*-2.6%*	*2.9%*	*2.5%*	*2.7%*
Consumer Price Index (1982-84=100)	207.3	215.3	214.5	218.1	224.6	228.4
Annual percent change	*2.8%*	*3.8%*	*-0.4%*	*1.6%*	*3.0%*	*1.7%*
Prime Interest Rate (%)	8.1%	5.1%	3.3%	3.3%	3.3%	4.3%

* Estimated or projected. Values through 2010 include benchmark revisions.
SOURCES: Susan Combs, Texas Comptroller; and HIS Global Insight, Inc.

[The Remainder of this Page Intentionally Left Blank]

SOURCES OF PAYMENT OF AND SECURITY FOR THE SERIES 2011A NOTES

Sources of Payment

The Series 2011A Notes are valid and binding limited obligations of the State. The Series 2011A Notes, any Additional Notes, related Credit Agreements, and any arbitrage rebate obligations (collectively, the "Parity Obligations") are payable solely from and to the extent of amounts on deposit in the Proceeds Account, the Payment Account and any Sinking Accounts of the Note Fund and any warrants drawn on the State's General Revenue Fund for that purpose as described herein and in the Note Order. Amounts on deposit in the Proceeds Account, the Payment Account and any Sinking Accounts are not available to pay debt service on any other tax and revenue anticipation notes issued under the Act (including, without limitation, the Series 2011B Notes). Amounts on deposit in any Sinking Accounts for the Notes of any series must be used to discharge the Notes of such series, and Credit Agreements and arbitrage rebate obligations with respect to such series, before being used to pay any other obligations. Incident to the authorization of the Series 2011B Notes, the Comptroller expects to establish within the Note Fund a separate "proceeds account" and "payment account" for the Series 2011B Notes and pledge the amounts on deposit in such accounts solely to insure payment of the Series 2011B Notes and certain other obligations that may be incurred in connection therewith.

Security for Payment

To secure payment of the Series 2011A Notes, any Additional Notes, and any other Parity Obligations, the Comptroller, in the Note Order, irrevocably pledges and imposes a lien on all amounts held in the Proceeds Account, until the amounts deposited therein are used for authorized purposes, and all amounts held in the Payment Account. To secure the payment of the Notes of any series for which a Sinking Account is established by the Note Order and any Credit Agreements and arbitrage rebate obligations with respect to such series, the Comptroller in the Note Order irrevocably pledges and imposes a lien on all amounts held for the credit of the Sinking Account for such series. Pursuant to Chapter 1371 and the Note Order, the pledges of and liens on amounts deposited in the Proceeds Account, the Payment Account and any Sinking Accounts are immediately effective without any physical delivery thereof or further act, subject to applicable bankruptcy laws. The liens on and pledges of amounts in the Proceeds Account, the Payment Account and any Sinking Accounts will expire upon payment in full of the Notes and all other related Parity Obligations, and in any event at 12:00 midnight, Central Daylight Saving Time, on August 31, 2013; except that the liens on and pledges of amounts in a Sinking Account will expire upon payment in full of the series of Notes for which such Sinking Account is established and any Credit Agreements and arbitrage rebate obligations with respect to such series; and except that any amounts set aside to pay any arbitrage rebate obligations will continue to be held in trust and paid to the United States of America. Amounts on deposit in the Proceeds Account, the Payment Account and any Sinking Accounts are not pledged to secure (and are not available to pay) debt service on any other tax and revenue anticipation notes issued under the Act (including, without limitation, the Series 2011B Notes) or any obligations incurred in connection therewith. Further, amounts on deposit in a "proceeds account" or "payment account" established by the Comptroller for the Series 2011B Notes will not be pledged to secure (and will not be available to pay) the Series 2011A Notes, any Additional Notes, or any other Parity Obligations.

Discharge by Deposit

Any Notes will be deemed to have been paid and will no longer be deemed outstanding or be entitled to any right, benefit or security under the Note Order if there shall have been deposited and held in escrow by either an escrow agent in trust or a paying agent, if any, either (i) direct obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Comptroller adopts or approves the proceedings authorizing the issuance of refunding bonds or notes, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Comptroller adopts or approves the proceedings authorizing the issuance of refunding bonds or notes, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, which, in the case of (i), (ii) or (iii), may be in book-entry form, and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide moneys in an amount which, together with other moneys (if any) held in escrow at the same time and available for such purpose, shall be sufficient to pay the principal of and interest on such Notes at the maturity date thereof.

General Covenants Regarding Payment Account and Sinking Accounts

In the Note Order, the Comptroller on behalf of the State covenants to make payments into the Payment Account and any Sinking Accounts to the fullest extent allowed by law, including the Act, at such times and in such amounts as are necessary to provide for the full payment of the principal of and the interest on the Notes when due. The Comptroller further covenants that (i) moneys deposited in the Payment Account may be used solely for the payment of the Notes and any other Parity Obligations, and (ii) moneys deposited in a Sinking Account may be used solely for the payment of the Notes of the series with respect to which such Sinking Account was established, and any Credit Agreements and arbitrage rebate obligations with respect to such series, until no such Notes or related Parity Obligation remains outstanding; and pending such payments, such money may not be transferred to any other fund or account in the State Treasury.

Required and Permitted Transfers to Sinking Accounts

The Comptroller covenants in the Note Order to transfer to the Sinking Account for the Series 2011A Notes from the General Revenue Fund (to the extent funds have been up to that time transferred to the General Revenue Fund from the Proceeds Account), on or before each date specified below (each, a "Transfer Date"), the required deposit for the Series 2011A Notes set forth below such that the balance of such Sinking Account equals or exceeds the required balance set forth opposite such transfer date below:

Series 2011A Notes

Transfer Date	Required Transfer	Required Balance
March 30, 2012	$350,000,000	$350,000,000
April 30, 2012	$350,000,000	$700,000,000
May 31, 2012	$1,750,000,000	$2,450,000,000
June 29, 2012	$2,450,000,000	$4,900,000,000
July 31, 2012	$2,450,000,000	$7,350,000,000

If Additional Notes of a series are issued, on each Transfer Date the Comptroller shall transfer to the Sinking Accounts created for such series of Additional Notes from the General Revenue Fund, subject to limitations described below, such amounts and on such dates, if any, as are specified in the supplemental order. No supplemental order may permit transfers to any such Sinking Account which would result in an aggregate balance therein as of any date that bears a greater proportion to the aggregate principal amount of the Additional Notes of the related series then outstanding than the proportion of the amount, if any, required then to be held for the credit of the Sinking Account for the Series 2011A Notes to the aggregate principal amount of the Series 2011A Notes then outstanding.

If the resulting balance required by the Note Order and any supplemental order to be maintained as of any date specified above in all Sinking Accounts bears a lesser proportion to the aggregate principal amount of Notes of all series then outstanding than the proportion of the amount set forth opposite such date under "Series 2011A Notes" above to the aggregate principal amount of Series 2011A Notes then outstanding, then the required balance of the Sinking Account for the Series 2011A Notes as of such date to be funded by the transfer required on such date will be increased to the extent required to make such proportions equal.

Required Transfer to Payment Account

On or before August 23, 2012, the Comptroller is required by the Note Order to transfer to the Payment Account, first, from the General Revenue Fund, an aggregate amount equal to the cumulative amount theretofore transferred from the Proceeds Account to the General Revenue Fund in fiscal year 2012 less the cumulative amount theretofore transferred from the General Revenue Fund to any Sinking Accounts and the Payment Account in fiscal year 2012, and, second, from and to the extent of the balance of the Proceeds Account, the amount, if any, required to produce an aggregate balance in the Payment Account and any Sinking Accounts equal to the aggregate amounts due and to become due on the Notes and any other Parity Obligations through the end of fiscal year 2012.

Contingent Deposits

The Comptroller also covenants in the Note Order that, as of the first business day of April, May, June, July and August in 2012 (each such business day, a "Review Date"), she will review forecasts containing a detailed report of the money estimated to be received by the General Revenue Fund Account in the General Revenue Fund from that Review Date through the end of fiscal year 2012. If, on any Review Date, the Comptroller determines that, based on such forecasts, the sum of the cumulative amount required to be transferred to any Sinking Accounts and the Payment Account from such Review Date through August 23, 2012, plus the principal amount of the then outstanding tax and revenue anticipation notes issued under the Act (including, without limitation, the Series 2011B Notes) that do not constitute Series 2011A Notes or Additional Notes, is greater than an amount equal to 80% of money so forecasted to be received by the General Revenue Fund Account in the General Revenue Fund during such period, the Comptroller (i) will transfer any amount in the Proceeds Account to the Sinking Accounts (in proportion to the then required balance of each such Sinking Account) and (ii) will transfer from the available cash balance (not otherwise restricted by the State Constitution, State law or federal law) in the General Revenue Fund Account in the General Revenue Fund, including the next moneys (not otherwise so restricted) received by said General Revenue Fund Account in the General Revenue Fund, immediately as received, to the Sinking Accounts and to any separate payment and sinking accounts within the Note Fund created by any other order of the Comptroller authorizing other tax and revenue anticipation notes under the Act (including, without limitation, the Series 2011B Notes) that do not constitute Series 2011A Notes or Additional Notes, in proportion to the principal amount of the outstanding Notes of each series (reduced by the amount then on deposit in the Sinking Account for such series) and the outstanding principal amount of such other tax and revenue anticipation notes (reduced by the amount then on deposit in any separate payment and sinking accounts within the Note Fund for such other tax and revenue anticipation notes), until such time as the sum of the cumulative amount required to be transferred to the Sinking Accounts and the Payment Account thereafter through August 23, 2012 plus the principal amount of the then outstanding tax and revenue anticipation notes issued under the Act (including, without limitation, the Series 2011B Notes) that do not constitute Series 2011A Notes or Additional Notes, reduced by the amount then on deposit in any separate payment and sinking accounts within the Note Fund for such other tax and revenue anticipation notes, is less than or equal to 80% of the money so forecasted to be received by the General Revenue Fund Account in the General Revenue Fund from such time through August 23, 2012.

If, due to limitations on transfers imposed by the Note Order or otherwise, the aggregate amount which may be transferred to any Sinking Accounts as of any date is less than the aggregate amounts which would then be required by the Note Order so to be transferred (but for such limitation), then available funds will be transferred to each Sinking Account in proportion to the amount which would then be required to be transferred thereto (but for such limitation).

Notwithstanding the foregoing, any of the foregoing transfers required to be made to the Sinking Accounts on or after August 1, 2012, shall be made instead to the Payment Account.

General Revenue Fund Appropriation

The 82nd Legislature appropriated moneys from the General Revenue Fund to pay the principal of and interest on the Notes to the extent that amounts otherwise credited to the Payment Account and any Sinking Accounts are insufficient to make such payments. The Comptroller covenants in the Note Order to cause a warrant on the General Revenue Fund to be issued promptly upon a determination by the Comptroller that, after the transfer of Investment Income (as hereinafter defined) and transfers from the General Revenue Fund on or before August 23, 2012, the aggregate balance of the Proceeds Account, the Payment Account and any Sinking Accounts is less than the aggregate amounts due and to become due on the Notes, any related Credit Agreements, and any related arbitrage rebate obligations through the end of fiscal year 2012. The warrant so issued is to be in the amount of the deficiency and to be payable to the Note Fund. Under the Note Order, such warrant must be converted to cash (to the extent moneys are legally available) and such cash must be deposited in the Payment Account not later than the close of business on August 24, 2012. If amounts on deposit in the Proceeds Account, the Payment Account and any Sinking Accounts on August 30, 2012, are insufficient to pay the Notes, any related Credit Agreements, and any related arbitrage rebate obligations then due in full, the Comptroller covenants in the Note Order to cause warrants on the General Revenue Fund to be issued, payable to holders of the Notes and other persons to whom such parity obligations are owed, in the net amounts owed to them, and immediately convertible to cash from available funds.

Limitations on Transfers

Notwithstanding anything described herein to the contrary, no transfer from the General Revenue Fund to the Note Fund may be made with money otherwise restricted by the State Constitution, State law or federal law. If, as of any date on which any such transfer is required by the Note Order, legally available amounts held for the credit of the General Revenue Fund are insufficient to make such transfer in full, the Comptroller must, pursuant to the Act and the Note Order, cause available cash to be transferred into the General Revenue Fund by interfund transfer from other legally available funds or accounts managed by or in the custody of the Comptroller, authorized under existing law, as necessary to complete the above described transfers. See "Plan of Finance – Interfund and Intrafund Borrowing." If, notwithstanding all available interfund transfers, legally available amounts in the General Revenue Fund are insufficient to make any such required transfer to the Note Fund in full, the Comptroller is required by the Note Order to transfer to the applicable account of the Note Fund the next moneys (not otherwise restricted by the State Constitution, State law or federal law) received by the General Revenue Fund through August 31, 2013, immediately as received, until the required amount has been transferred.

Investment of Note Fund; Deposits of Investment Income

All Investment Income received by or credited to the Note Fund prior to August 23, 2012, is required by the Note Order to be deposited to the Proceeds Account, and on August 23, 2012, and thereafter, to the Payment Account. As used herein, "Investment Income" means all income on Segregated Investments (as hereinafter defined) and all Depository Interest (as hereinafter defined) received by or credited to the Note Fund in accordance with the Note Order.

Amounts deposited in the Proceeds Account or, prior to August 23, 2012, in the Payment Account or any Sinking Accounts may be invested either (i) in investments segregated from all other funds and accounts in the charge of the Comptroller and made, held, and accounted for as separate investments of the respective account ("Segregated Investments") or (ii) commingled in a "treasury pool" with the other funds and accounts in the charge of the Comptroller. On and after August 23, 2012, the Comptroller is required to invest all amounts held for the credit of the Payment Account and each Sinking Account solely in Segregated Investments that mature no later than August 30, 2012.

Amounts held for the credit of the Note Fund, whether separated or commingled for investment purposes, may be invested in any investment authorized by Section 404.024 of the Texas Government Code, as amended from time to time; provided, however, that from and after August 23, 2012, no amounts held for the credit of the Payment Account or any Sinking Account will be invested in any reverse security repurchase agreement that matures after August 29, 2012 or deposited in State depositories designated by the Comptroller.

Income earned from investments of money in funds and accounts in the charge of the Comptroller in the treasury pool, other than income from Segregated Investments, including income credited or to be credited to the Note Fund, is referred to in the Note Order as "Depository Interest." Depository Interest from the following sources is included in calculating the amount of Investment Income credited to the Note Fund: (i) Depository Interest attributable to amounts on deposit in the Proceeds Account, the Payment Account and any Sinking Accounts that are not invested in Segregated Investments; and (ii) Depository Interest attributable to the difference, for each day of accrual, between the aggregate cumulative amounts transferred from the Proceeds Account to the General Revenue Fund in fiscal year 2012 and the aggregate cumulative amounts transferred from the General Revenue Fund to the Payment Account in fiscal year 2012. Accordingly, Depository Interest is credited to the Note Fund as if amounts transferred from the Proceeds Account to the General Revenue Fund had not been transferred.

The Note Order provides that Depository Interest in the foregoing amounts will be calculated and credited to the Note Fund (i) during each month by the last day of the immediately succeeding month and (ii) during the period from August 1, 2012 to August 23, 2012, on such later date. Income from Segregated Investments must be deposited as received and in any event no later than August 30, 2012.

State Treasury Investments

The Comptroller is responsible for holding and investing the cash deposits of the State and of individual state agencies holding cash in the State Treasury, which cash is commingled for investment in the treasury pool. The investment of State funds is managed by the Comptroller through the Texas Treasury Safekeeping Trust Company, a special purpose trust company and a component unit of the Comptroller's office. No substantial change in investment strategy is planned for the 2011 fiscal year. The Comptroller pools the funds of the State and all State agencies and invests the State's assets in investments authorized by statute and consistent with the Texas State Comptroller Investment Policy, dated September 2009. The investment authority of the Comptroller is presented in more detail in Appendix A. The size of the investment pool on August 1, 2011 was $25.2 billion. Amounts in the investment pool are available to the Comptroller to honor its liquidity obligations to other State agencies. As of July 31, 2011, the Comptroller was the liquidity provider for other State agencies with short-term borrowings in an aggregate maximum authorized principal amount of $1.389 billion of which $749 million was outstanding. In addition, the Comptroller has agreed to provide liquidity for short term borrowings for an additional $155 million, which will become effective September 1, 2011 through November 30, 2011 at which point the Comptroller will reduce the aggregate maximum authorized principle by $55 million to $1.489 billion. In addition, the Comptroller intends to provide liquidity support for the Series 2011B Notes expected to be issued during September 2011 in the maximum aggregate principal amount at any one time outstanding of $500 million.

[The Remainder of this Page Intentionally Left Blank]

As of August 1, 2011, the balance was invested in the following categories:

Table A-1
Current Treasury Investments

Investment Type	Fair Value (in millions)	Percent of Total
Bank Deposits	$ 534	2.12%
Treasury Bills	400	1.59%
Treasury Notes	16,277	64.57%
Corporate Bonds	449	1.78%
Asset Backed Securities	1,342	5.33%
Treasury TIPS	28	0.11%
Agency Discount Notes	2,246	8.91%
Agency Notes	403	1.60%
Lottery Award Annuities	1,131	4.49%
Mortgage Backed Securities	1,795	7.12%
SBA Securities	40	0.16%
Commercial Paper	575	2.28%
Bankers Acceptance	50	0.20%
Trust Stock	1	0.00%
Covered Calls	0	0.00%
Reverse Repurchase Agreements	-62	-0.25%
Totals [(1)]	**$25,209**	**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 329 days. Information on the Trust Company, Investment Policies and Investments may be found on the Trust Company's website at www.ttstc.com.

Enforcement of Covenants

The Act provides that payment of the Series 2011A Notes and performance of official duties prescribed by the State Constitution and the Act may be enforced in the Supreme Court of the State by mandamus or other appropriate proceeding. Although the State itself may not be sued without consent of the State Legislature, holders of the Series 2011A Notes may enforce the Series 2011A Notes and the Note Order by initiating an action for a writ of mandamus to direct the Comptroller to observe and perform the duties and obligations imposed on the Comptroller therein. In the Act and the Note Order, the State has pledged and agreed with the holders of the Series 2011A Notes that the State will not limit or alter the rights vested in the Comptroller to fulfill the terms of any agreements made with the holders, or in any way impair the remedies of the holders, until the Series 2011A Notes are fully discharged.

LITIGATION

There is no action, suit or proceeding pending or, to the knowledge of the Attorney General of the State, threatened against or affecting the Comptroller or the State, relating to the Act, the Note Order or the Series 2011A Notes in any court or before or by any governmental department, agency or instrumentality which (i) seeks to prohibit, restrain or enjoin the issuance, execution or delivery of the Series 2011A Notes; or (ii) in any manner questions the authority of the State or the Comptroller to issue, or the issuance, validity or payment of principal of or interest on the Series 2011A Notes; or (iii) questions the constitutionality of the Act, or the validity or enforceability of the Note Order, the Series 2011A Notes, or any proceedings authorizing the issuance of the Series 2011A Notes; or (iv) affects the provisions to be made for the payment or security of the Series 2011A Notes; or (v) contests the title of the Comptroller or any other State official to his or her office; or (vi) contests in any way the completeness, accuracy or fairness of this Official Statement. See Appendix A to this Official Statement for information concerning legal proceedings to which the State is a party relating to its operations and governmental functions but unrelated to the Series 2011A Notes. Further, on July 29, 2011, a lawsuit was filed in the Texas Supreme Court, challenging the constitutionality of that portion of the State's franchise tax that is assessed on partnership interests owned by individuals. *In re Allcat Claims Service, L.P. & John Weakly*, Cause No. 11-0589, an original proceeding pending at the Texas Supreme Court, (Tex. July 29, 2011), available at http://www.supreme.courts.state.tx.us/ebriefs/11/11058901.pdf. In the opinion of the Comptroller, none of the proceedings described in Appendix A or the *Allcat Claims Services* case, if finally decided against the State, would have a materially adverse effect on the ability of the Comptroller to comply with her covenants contained in the Note Order or on the ability of the State to pay the Series 2011A Notes in accordance with their terms.

UNDERWRITING

The Series 2011A Notes have been sold to the following firms through competitive bidding. The following table sets forth the winning bidders, the aggregate principal amount of Series 2011A Notes sold to each, and the premium above the principal amount to be paid by each for the Series 2011A Notes.

Winning Bidder	Principal Amount	Premium

The winning bidders have agreed to purchase all of the Series 2011A Notes awarded to them. They have sole discretion in establishing the price at which the Series 2011A Notes awarded to them will be offered to the public, may change such offering prices at any time, and may offer such Series 2011A Notes to certain parties at prices different from the public offering price.

TAX EXEMPTION

In the opinion of Andrews Kurth LLP, Bond Counsel, (i) interest on the Series 2011A Notes is excludable from gross income for federal income tax purposes under existing law, (ii) the Series 2011A Notes are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and (iii) interest on the Series 2011A Notes will not be subject to the alternative minimum tax on individuals, or except as provided herein, corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2011A Notes, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service. The Comptroller has covenanted in the Note Order to comply with these requirements.

The opinion of Bond Counsel will assume continuing compliance with the covenants of the Note Order pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Series 2011A Notes for federal income tax purposes and, in addition, will rely on representations by the Comptroller and the Underwriters with respect to matters solely within the knowledge of the Comptroller and the Underwriters, respectively, which Bond Counsel has not independently verified. If the Comptroller should fail to comply with the covenants in the Note Order or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the

Series 2011A Notes could become taxable from the date of delivery of the Series 2011A Notes, regardless of the date on which the event causing such taxability occurs.

Interest on all tax-exempt obligations, including the Series 2011A Notes, owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed. Purchasers of Series 2011A Notes are directed to the discussion entitled "TAX EXEMPTION" set forth in the Official Statement.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2011A Notes, received or accrued during the year.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Series 2011A Notes.

Prospective purchasers of the Series 2011A Notes should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Series 2011A Notes. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

The opinion of Bond Counsel is based on existing law, which is subject to change. Such opinion is further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, the opinion of Bond Counsel is not a guarantee of result and is not binding on the Internal Revenue Service (the "Service"); rather, such opinion represents the legal judgment of Bond Counsel based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinion. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Series 2011A Notes. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Comptroller as the taxpayer and the Beneficial Owners may not have a right to participate in such audit. Public awareness of any future audit of the Series 2011A Notes could adversely affect the value and liquidity of the Series 2011A Notes during the pendency of the audit regardless of the ultimate outcome of the audit.

TAX TREATMENT OF ORIGINAL ISSUE PREMIUM

The initial public offering price of the Series 2011A Notes is greater than the amount payable on the Series 2011A Notes at maturity. An amount equal to the difference between the initial public offering price (net of accrued interest) of the Series 2011A Notes (assuming that a substantial amount of the Series 2011A Notes is sold to the public at such price) and the principal amount thereof constitutes premium to the initial purchaser of such Series 2011A Notes. The basis for federal income tax purposes of a Series 2011A Note in the hands of such initial purchaser must be reduced by the amortizable premium. Such reduction in basis will increase the amount of any gain or decrease the amount of any loss to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Series 2011A Note. Purchasers of the Series 2011A Notes should consult with their own tax advisors with respect to the determination of amortizable premium for federal income tax purposes and the state and local tax consequences of owning Series 2011A Notes purchased at a premium.

CONTINUING DISCLOSURE OF INFORMATION

In the Note Order, the Comptroller has made the following agreement, in compliance with Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission ("SEC"), for the benefit of the holders and beneficial owners of the Series 2011A Notes. The State is obligated to observe the agreement for so long as the State remains obligated to advance funds to pay the Series 2011A Notes.

Material Event Notices

The Comptroller will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The Comptroller will provide notice of any of the following events with respect to the Series 2011A Notes: (1) principal and interest payment delinquencies; (2) nonpayment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Series 2011A Notes, or other events affecting the tax status of the Series 2011A Notes; (7) modifications to rights of beneficial owners of the Series 2011A Notes, if material; (8) Series 2011A Note calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2011A Notes, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the State or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the State or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the State or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Series 2011A Notes. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws.

Availability of Information

The Comptroller has agreed to provide the foregoing notices as required under the Rule. The Comptroller is obligated to file its continuing disclosure information using the Electronic Municipal Market Access ("EMMA") system, which is the format currently prescribed by the MSRB and has been established by the MSRB to make such continuing disclosure information available to investors free of charge. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The Comptroller has agreed to provide notices of material events only as described above. The Comptroller has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Comptroller makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Series 2011A Notes at any future date. The Comptroller disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of the Comptroller's continuing disclosure agreement or from any statement made pursuant to the Comptroller's agreement, although holders of Series 2011A Notes may seek a writ of mandamus to compel the Comptroller to comply with the Comptroller's agreement.

Compliance with Prior Undertakings

During the past five years, the Comptroller has not failed to comply in any material respect with any continuing disclosure agreement in accordance with the Rule.

LEGALITY FOR INVESTMENT

Pursuant to State law, the Series 2011A Notes are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries and trustees and for the sinking fund of cities, towns, villages, school districts and other political subdivisions or public agencies of the State; are eligible to secure deposits of any public funds of the State or any political subdivision or public agency of the State; and are lawful and sufficient security for the deposits to the extent of their market value.

CERTAIN LEGAL MATTERS INCIDENT TO THE ISSUANCE OF THE SERIES 2011A NOTES

The validity of the Note Order and proceedings relating to the issuance of the Series 2011A Notes will be passed upon by the Attorney General of the State of Texas and by Bond Counsel. Bond Counsel will also pass upon the excludability of the interest on the Series 2011A Notes from gross income for federal income tax purposes as described above. The Attorney General of the State will also deliver an opinion as described herein under "Litigation" and to the effect that there is no litigation or other governmental proceeding pending, or, to his knowledge, threatened against the State that seeks to prohibit, restrain or enjoin the issuance, sale or delivery of the Series 2011A Notes.

Bond Counsel has reviewed the information appearing in this Official Statement under the captions "Description of the Series 2011A Notes," "Sources of Payment of and Security for the Series 2011A Notes," "Tax Exemption," "Tax Treatment of Original Issue Premium," "Continuing Disclosure of Information" and "Legality for Investment" solely to determine that, insofar as such information purports to summarize certain provisions of the Series 2011A Notes, the Note Order, and applicable law, such information presents a fair and accurate summary of such provisions. Except as set forth above, Bond Counsel will not pass upon the fairness, accuracy or completeness of this Official Statement, and no person is entitled to rely upon the limited participation by such firm in such capacity as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of the information contained herein. The fees for the services of Bond Counsel with respect to the Series 2011A Notes are contingent upon the issuance and delivery of the Series 2011A Notes.

FINANCIAL ADVISOR

The State has retained Raymond James & Associates, Inc., Dallas, Texas, as Financial Advisor in connection with the State's financing plans and with respect to the issuance of the Series 2011A Notes. The Financial Advisor is not obligated to undertake and has not undertaken to make an independent verification of, or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in the Official Statement. The Financial Advisor will not participate in the underwriting of the Series 2011A Notes.

RATINGS

The Series 2011A Notes are rated "M1G1" by Moody's Investors Service ("Moody's"), "SP1+" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), and "F1+" by Fitch Ratings ("Fitch"). Such ratings reflect only the view of those respective organizations, and the State makes no representation as to the appropriateness of such ratings. An explanation of the significance of such ratings may be obtained only from such organizations. Generally, a rating agency bases its rating on information provided to it by the issuer of the obligations in question and on investigation, studies and assumptions made by the rating agency. There is no assurance that the ratings given will continue for any period of time or that the ratings will not be revised downward or withdrawn entirely if, in the judgment of Moody's, S&P, or Fitch, circumstances so warrant. A downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series 2011A Notes.

REGISTRATION AND QUALIFICATION OF THE SERIES 2011A NOTES FOR SALE

The Series 2011A Notes have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemption provided by Section 3(a)(2) thereof. The Series 2011A Notes have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein. In addition, the Series 2011A Notes have not been registered or qualified under the securities act of any jurisdiction. The State assumes no responsibility for registration or qualification of the Series 2011A Notes under the securities laws of any jurisdiction in which the Series 2011A Notes may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Series 2011A Notes shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided to the reader by the Comptroller, that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the Comptroller's expectations, assumptions, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Comptroller on the date hereof, and the Comptroller assumes no obligation to update any such forward-looking statements. It is important to note that actual results could differ materially from those in such forward looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates; possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances; and conditions and actions taken or omitted to be taken by third parties and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Comptroller. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS

The purpose of this Official Statement is to supply information to prospective buyers of the Series 2011A Notes and the beneficial interests therein. It is not intended or authorized to be used for any other purpose. Quotations from and explanations of the Series 2011A Notes, the Note Order, the Act and other statutes and documents referred to herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions. All references to the provisions of such documents are subject to applicable laws concerning bankruptcy, insolvency, reorganization and moratorium.

The information, estimates, and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change therein since the date hereof.

Except as otherwise noted, all data contained herein and in Appendix A hereto have been taken or constructed from State records. So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. The forecasts and projections contained herein are based upon assumptions considered to be reasonable by the Comptroller. However, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material.

This Official Statement has been approved as to form and content, and the use thereof in the offering of the Series 2011A Notes will be authorized, ratified and confirmed by the Comptroller by issuance of the Note Order.

APPENDIX A

August 2011

The State of Texas

TABLE OF CONTENTS

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 Esperanza "Hope" Andrade, who was appointed by Governor Perry in July 2008.

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 be 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 1990-2009 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 2010 report was issued on February 28, 2011. 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 September 2009. 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 August 1, 2011, TexPool had 2,248 members and a fund balance of $15.0 billion; TexPool Prime had 129 members and a fund balance of $1.3 billion. TexPool and TexPool Prime are AAAm money market funds rated by Standard and Poor's. Texpool's average maturity is 43 days and TexPool Prime is 32 days as of August 1, 2011.

STATE REVENUES AND EXPENDITURES

Current Treasury Investments

As of August 1, 2011, the beginning balance in the Treasury was $25.2 billion, of which $2.60 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	534	2.12
Treasury Bills	400	1.59
Treasury Notes	16,277	64.57
Corporate Bonds	449	1.78
Asset Backed Securities	1,342	5.33
Treasury TIPS	28	0.11
Agency Discount Notes	2,246	8.91
Agency Notes	403	1.60
Lottery Award Annuities	1,131	4.49
Mortgage Backed Securities	1,795	7.12
SBA Securities	40	0.16
Commercial Paper	575	2.28
Bankers Acceptance	50	0.20
Trust Stock	1	0.00
Covered Calls	0	0.00
Reverse Repurchase Agreements	-62	-0.25
Totals (1)	**25,209**	**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 329 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

Federal receipts provided the State's primary source of income in fiscal 2010 (see Table A-5). The sales tax (which accounted for 55.5 percent of total tax revenue) 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.
Natural Gas Tax	• 7.5 percent of the market value of 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 crude 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 Fuels Taxes	• Motor Fuels: 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 the vehicle sales price, less any trade-in; $90 tax for each motor vehicle brought into the State by a new resident; $5 tax paid by each party in an even exchange of two motor vehicles; $10 tax paid by donee for each gift of a motor vehicle; 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 (based on weight per 1,000 and selling price): 1. Cigars rate varies with weight per 1,000, constituents, and price: From 1¢ per 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: $1.10 per ounce of manufacturer's list weight in fiscal 2010..
Franchise Tax	• 1.0 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 of an alcoholic beverage.

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 tax levied on gross premiums written in Texas.
- Accident and Health Insurance: 1.75 percent tax levied on gross premiums written in Texas.
- Unauthorized, Independently Procured, and Surplus Lines Insurance: 4.85 percent tax levied on gross premiums written in Texas.
- Title Insurance: 1.35 percent tax levied on gross premiums written in Texas.

Inheritance Tax

- None; State tax was eliminated under federal law for deaths after December 31, 2004. Texas will continue to collect revenue as a result of audits and payment plans.

Utility Taxes

- Public Utility Gross Receipts: 1/6 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: ½ of 1 percent of gross income (gross receipts less the cost of gas sold) of gas utilities.

Hotel Occupancy Tax

- 6 percent of the price paid by the 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	2006	2007	2008	2009	2010
Cash in State Treasury	4,793,695,518	9,172,213,163	12,398,954,284	9,811,664,072	3,899,868,146
Cash in Petty Cash Accounts	7,462,408	7,519,284	7,529,717	7,746,243	7,866,228
Prior Period Adjustments[3]	0	(51,560)	0	0	0
	$4,801,157,926	**$9,179,680,887**	**$12,406,484,001**	**$9,819,410,314**	**$3,907,734,373**

Net Revenue:	2006	2007	2008	2009	2010
Tax Collections	33,509,610,144	36,194,031,584	38,817,412,304	35,311,021,756	33,312,179,646
Federal Income	21,562,906,186	22,335,903,710	23,395,635,005	26,179,959,043	27,407,709,839
Licenses, Fees, Fines and Penalties	4,861,231,081	5,493,499,361	5,652,556,880	5,585,108,539	5,224,540,778
Interest and Investment Income	184,737,873	374,974,792	316,227,924	91,581,338	39,061,000
Net Lottery Proceeds	1,585,180,718	1,551,975,844	1,597,487,228	1,581,961,572	1,633,922,591
Sales of Goods and Services	159,798,399	156,504,402	177,447,585	164,585,471	159,497,158
Settlements of Claims	539,730,269	541,454,656	547,598,514	563,222,317	556,464,444
Land Income	21,190,243	47,254,957	19,634,634	23,147,901	20,878,648
Contributions to Employee Benefits	220,923,679	237,887,499	15,020,092	270,553	169,068
Other Revenue	2,077,057,972	2,582,599,043	2,735,865,256	3,311,752,108	1,633,922,591
Total Net Revenue	**$64,722,366,563**	**$69,516,085,847**	**$73,274,885,423**	**$72,812,610,598**	**$71,689,219,078**

Other Sources:	2,006	2,007	2,008	2,009	2,010
Bond and Note Proceeds	(2,000,000)	42,956,841	(2,325,000)	4,000,000	3,168,000
Sale/Redemption of Investments	5,100,000	5,000,000	9,158,884	8,100,000	7,650,000
Deposits to Trust and Suspense	11,222,556	(2,584,689)	(762,318)	1,565,864	7,050,152
Direct Deposit Transfers	(2,364)	699			
Departmental Transfers	476,595,124	553,090,888	768,072,119	861,482,955	896,573,950
Operating Transfers	24,568,500,558	27,903,682,956	35,033,415,937	35,355,787,847	36,355,105,474
Residual Equity Transfers	0	51,897	2,711,915	8,013,569	7,925
Other Sources	192,025	43,306	38,561	30,265	39,257
Total Other Sources	**$25,059,607,899**	**$25,502,241,898**	**$35,810,310,099**	**$36,238,980,500**	**$37,269,594,758**
Total Net Revenue and Other Sources	**$89,781,974,462**	**$98,018,327,745**	**$109,085,195,522**	**$109,051,591,098**	**$108,958,813,836**

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

Net Expenditures:	**2006**	**2007**	**2008**	**2009**	**2010**
General Government	2,323,926,266	2,216,830,515	2,399,137,967	2,756,079,378	3,030,670,876
Education	20,919,230,376	24,049,813,124	28,857,993,367	31,269,186,426	28,612,029,293
Employee Benefits	2,361,660,149	2,470,238,571	2,598,135,918	2,555,491,601	2,939,061,264
Health and Human Services	25,212,656,535	27,527,886,366	29,621,557,282	32,858,353,183	35,109,439,106
Public Safety and Corrections	3,771,614,296	3,320,711,924	3,525,201,200	4,495,436,787	4,220,019,045
Transportation	8,315,203	8,725,852	5,970,253	6,382,244	20,437,486
Natural Resources/ Recreational Services	749,118,197	989,325,357	1,171,165,520	1,339,188,012	1,302,901,069
Regulatory Agencies	229,377,403	233,153,863	301,359,762	356,325,497	332,296,149
Lottery Winnings Paid (2)	475,826,398	389,758,161	422,894,727	491,322,426	486,716,618
Payment of Interest	96,172,752	100,215,464	171,246,129	121,019,731	159,167,122
Capital Outlay	161,782,812	139,821,592	204,361,220	241,923,859	279,129,748
Total Net Expenditures	**$56,309,680,387**	**$61,446,480,788**	**$69,279,023,345**	**$76,490,709,144**	**$76,491,867,776**

Other Uses:	**2006**	**2007**	**2008**	**2009**	**2010**
Purchase of Investments	7,107,000	5,328,300	17,373,838	2,704,000	2,102,000
Trust and Suspense Payments	5,087	9,938	6,257	18,181	5,327
Teacher and Employee Retirement Payments	1,203,382	1,457,713	1,703,548	1,603,122	1,552,736
Direct Deposit Transfers	0	0			
Departmental Transfers	384,988,591	468,487,003	678,578,946	745,974,744	793,556,407
Operating Fund Transfers	28,591,934,270	32,762,022,311	41,212,134,910	37,467,705,217	33,435,599,902
Residual Equity Transfers	0	589	2,458,841	5,292,801	87,830
Other Uses	248,900	105,300	255,086	150,250	182,622,009
Debt Service Principal	108,289,199	107,694,682	480,950,961	249,229,566	87,830
Total Other Uses	**$29,093,776,430**	**$33,345,105,837**	**$42,393,462,389**	**$38,472,677,880**	**$34,415,526,212**
Total Net Expenditures and Other Uses	**$85,403,456,817**	**$94,791,586,625**	**$111,672,485,734**	**$114,963,387,024**	**$110,907,393,988**
To Petty Cash Accounts	**$56,875**	**$61,994**	**$216,526**	**$119,985**	**$48,573**
Fund Balance-Year Ended August 31	**$9,179,732,447**	**$12,406,484,001**	**$9,819,410,314**	**$3,907,734,373**	**$1,959,202,795**
Cash in State Treasury	**$9,172,213,163**	**$12,398,954,284**	**$9,811,664,072**	**$3,899,868,146**	**$1,951,287,994**
Cash in Petty Cash Accounts	**$7,519,284**	**$7,529,717**	**$7,746,243**	**$7,866,228**	**$7,914,801**

(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 fund classification changes in petty cash 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, 2010, 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, 2010

Fund Balance - September 1	**Consolidated General Revenue[1]**	**Special Revenue**	**All Other Funds**	**Total All Funds**
Cash in State Treasury	3,899,868,146	17,658,078,468	4,241,464,760	25,799,411,374
Cash in Petty Cash Accounts	7,866,228	978,665	59,000	8,903,892
Total	**$3,907,734,373**	**$17,659,057,132**	**$4,241,523,760**	**$25,808,315,266**
Net Revenue:	**Consolidated General Revenue[1]**	**Special Revenue**	**All Other Funds**	**Total All Funds**
Tax Collections	33,312,179,646	2,056,721,419	2,004,634,082	37,373,535,146
Federal Income	27,407,709,839	9,448,916,952	4,587,507,551	41,444,134,342
Licenses, Fees, Permits, Fines and Penalties	5,224,540,778	1,638,377,786	105,871,246	6,968,789,810
Interest and Investment Income	39,061,000	1,019,514,154	245,883,937	1,304,459,091
Net Lottery Proceeds	1,633,922,591	0	0	1,633,922,591
Sales of Goods and Services	159,497,158	248,555,714	2,240	408,055,112
Settlements of Claims	556,464,444	790,795	4,943,071	562,198,309
Land Income	20,878,648	739,735,609	0	760,614,257
Contributions to Employee Benefits	169,068	0	5,970,932,207	5,971,101,275
Other Revenue	3,334,795,907	515,326,708	3,956,479,209	7,806,601,823
Total Net Revenue	**$71,689,219,078**	**$15,667,939,136**	**$16,876,253,543**	**$104,233,411,757**
Other Sources:	**Consolidated General Revenue[1]**	**Special Revenue**	**All Other Funds**	**Total All Funds**
Bond and Note Proceeds	3,168,000	16,352,112,084	0	16,355,280,084
Sale/Redemption of Investments	7,650,000	2,199,379,523	5,226,150,000	7,433,179,523
Deposits to Trust and Suspense	7,050,152	(570,748)	8,102,634,177	8,109,113,581
Direct Deposit Transfers		0	143,650,790	143,650,790
Departmental Transfers	896,573,950	47,085,888	615,946	944,275,785
Operating Fund Transfers	36,355,105,474	28,492,501,690	17,855,961,687	82,703,568,850
Residual Equity Transfers	7,925	0	0	7,925
Other Sources	39,257	6,475	0	45,732
Total Other Sources	**$37,269,594,758**	**$47,090,514,912**	**$31,329,012,601**	**$115,689,122,271**
Total Net Revenue and Other Sources	**$108,958,813,836**	**$62,758,454,048**	**$48,205,266,144**	**$219,922,534,028**

Table A-4
Statement of Cash Position
Fiscal Year Ending August 31, 2010
(Continued)

Net Expenditures	Consolidated General Revenue[1]	Special Revenue	All Other Funds	Total All Funds
General Government	3,030,670,876	587,204,702	3,893,715,577	7,511,591,155
Education	28,612,029,293	3,805,835,913	243,980,524	32,661,845,731
Employee Benefits	2,939,061,264	403,138,584	5,403,671,702	8,745,871,549
Health and Human Services	35,109,439,106	1,191,127,546	7,888,730,746	44,189,297,398
Public Safety and Corrections	4,220,019,045	484,078,632	250	4,704,097,926
Transportation	20,437,486	5,951,654,215	18,343,782	5,990,435,482
Natural Resources/Recreational Services	1,302,901,069	510,445,804	6,453	1,813,353,326
Regulatory Agencies	332,296,149	264,342	36,264,051	368,824,542
Lottery Winnings Paid [2]	486,716,618	0	0	486,716,618
Payment of Interest	159,167,122	721,813,886	3,612,973	884,593,981
Capital Outlay	279,129,748	286,711,770	11,011,810	576,853,328
Total Net Expenditures	**$76,491,867,776**	**$13,942,275,394**	**$17,499,337,868**	**$107,933,481,038**

Other Sources:	Consolidated General Revenue[1]	Special Revenue	All Other Funds	Total All Funds
Purchase of Investments	2,102,000	3,232,207,535	1,747,178,952	4,981,488,487
Trust and Suspense Payments	5,327	0	5,758,787,888	5,758,793,215
Teacher and Employee Retirement Payments	1,552,736	1,093	8,137,917,953	8,139,471,782
Direct Deposit Transfers		0	143,650,790	143,650,790
Departmental Transfers	793,556,407	112,222,678	3,092,080	908,871,166
Operating Fund Transfers	33,435,599,902	31,977,705,100	14,855,112,125	80,268,417,127
Residual Equity Transfer		7,925	0	7,925
Other Uses	87,830	41,020	0	128,850
Debt Service Principal	182,622,009	6,751,534,300	4,044,381	6,938,200,690
Total Other Uses	**34,415,526,212**	**42,073,719,652**	**30,649,784,169**	**107,139,030,032**
Total Net Expenditures and Other Uses	**$110,907,393,988**	**$56,015,995,046**	**$48,149,122,037**	**$215,072,511,070**
Net Increase (Decrease) To Petty Cash Accounts	48,573	34,545		83,118
Fund Balance/Year Ending August 31, 2010	**$1,959,202,795**	**$24,401,550,679**	**$4,297,667,867**	**$30,658,421,342**
Cash in State Treasury	**$1,951,287,994**	**$24,400,537,469**	**$4,297,608,867**	**$30,649,434,331**
Cash in Petty Cash Accounts	**$7,914,801**	**$1,013,210**	**$59,000**	**$8,987,011**

(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 a correction in petty cash accounts.
Totals may not sum due to rounding. Source: Texas Comptroller of Public Accounts, *2010 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	**2006**	**2007**	**2008**	**2009**	**2010**
Sales Tax	18,275,209,754	20,270,476,222	21,604,090,350	21,014,065,089	19,630,305,704
Motor Vehicle Sales and Rental, Mfg. Housing Sales Taxes	3,075,153,783	3,325,596,670	3,341,588,813	2,600,939,347	2,630,137,405
Motor Fuels Taxes	2,933,569,575	3,053,812,019	3,101,526,779	3,032,770,482	3,041,973,016
Franchise Tax	2,605,447,409	3,144,059,392	4,451,325,736	4,250,332,029	3,856,865,935
Insurance Taxes	1,233,493,584	1,346,576,684	1,450,184,267	1,257,314,168	1,324,703,043
Natural Gas Tax	2,339,147,491	1,895,487,909	2,684,647,510	1,407,739,109	725,538,388
Cigarette and Tobacco Taxes	545,904,191	1,334,038,617	1,446,894,671	1,556,793,276	1,388,764,873
Alcoholic Beverage Taxes	680,748,138	731,677,225	784,068,675	796,948,327	809,233,737
Oil Production Tax	862,360,868	835,025,116	1,436,879,156	884,510,773	1,008,664,357
Inheritance Tax	13,360,123	5,291,127	5,580,142	2,004,064	81,458
Utility Taxes	480,792,722	506,069,409	503,878,555	518,883,903	478,742,739
Hotel Occupancy Tax	308,018,897	340,634,147	370,979,724	343,544,448	330,809,436
Other Taxes	131,291,012	166,885,345	176,284,575	156,607,998	143,080,974
Total Tax Collections	**$33,544,497,547**	**$36,955,629,884**	**$41,357,928,953**	**$37,822,453,013**	**$35,368,901,064**

Revenue by Source	**2006**	**2007**	**2008**	**2009**	**2010**
Tax Collections	33,544,497,547	36,955,629,884	41,357,928,953	37,822,453,013	35,368,901,064
Federal Income	24,726,453,940	24,376,052,502	26,238,327,684	30,859,931,204	36,856,626,791
Licenses, Fees, Permits, Fines, and Penalties	5,999,063,646	6,914,295,978	10,227,892,331	7,198,061,506	6,862,918,564
Interest and Investment Income	1,949,502,792	2,372,705,358	2,309,013,776	1,346,545,322	1,058,575,154
Net Lottery Proceeds	1,585,180,718	1,551,975,844	1,597,487,228	1,581,961,572	1,633,922,591
Sales of Goods and Services	492,439,009	538,835,356	495,941,577	427,644,257	408,052,872
Settlements of Claims	545,573,929	537,942,295	548,521,665	564,752,988	557,255,238
Land Income	860,755,135	751,358,474	1,050,029,895	788,045,918	760,614,257
Contributions to Employee Benefits	220,923,679	237,887,499	15,020,092	270,553	169,068
Other Revenue Sources	2,496,559,098	2,952,608,025	3,142,862,204	3,695,796,980	3,850,122,615
Total Net Revenue	**$72,420,949,493**	**$77,189,291,213**	**$86,983,025,406**	**$84,285,463,312**	**$87,357,158,214**

Totals may not sum due to rounding.
Source: Texas Comptroller of Public Accounts, *2010 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
2006	$33,544,497,547	23,339,000	$1,437	9.7	4.1
2007	$36,955,629,884	23,778,000	1,554	8.1	4.3
2008	$41,357,928,953	24,246,000	1,706	9.8	4.5
2009	$37,822,453,013	24,722,000	1,530	-10.3	4.2
2010	$35,368,901,064	25,196,000	1,404	-8.2	3.8

Sources: Tax collection data were compiled by the Texas Comptroller of Public Accounts from the Annual Financial Reports (Austin: various years). Population and personal income figures for 2006 to 2009 are from U.S. Department of Commerce (Bureau of the Census and Bureau of Economic Analysis), adjusted to Texas fiscal years by the Texas Comptroller of Public Accounts. Data for 2010 include partial estimates by the Texas Comptroller of Public Accounts.

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:	**2006**	**2007**	**2008**	**2009**	**2010**
Executive	2,094,183,923	1,970,160,437	2,145,868,899	2,475,761,834	3,211,531,452
Legislative	116,446,124	129,463,817	123,099,351	141,750,457	131,134,280
Judicial	201,446,076	25,340,159	245,226,538	254,971,650	275,209,846
Total General Government	**$2,412,076,123**	**$2,324,964,413**	**$2,514,194,788**	**$2,872,483,941**	**$3,617,875,578**

Expenditures	**2006**	**2007**	**2008**	**2009**	**2010**
Education	23,184,842,869	26,324,526,875	30,776,388,790	33,120,732,460	32,417,865,207
Employee Benefits	2,709,012,170	2,836,431,787	2,980,023,946	2,928,101,148	3,342,199,847
Health and Human Services	25,458,226,682	27,894,746,580	29,681,049,686	33,492,032,588	36,300,566,652
Public Safety and Corrections	4,218,096,456	3,778,469,104	4,048,228,642	5,043,393,457	4,704,097,676
Transportation	7,316,549,724	7,609,018,395	7,667,605,856	6,722,847,158	5,972,091,701
Natural Resources/ Recreational Services	1,633,668,145	1,897,573,779	2,103,124,122	2,069,187,656	1,813,346,873
Regulatory Agencies	229,377,403	233,153,863	301,359,762	356,325,497	332,560,491
Lottery Winnings Paid(1)	475,826,398	389,758,161	422,894,727	491,322,426	486,716,618
Debt Service – Interest	785,365,914	837,363,803	972,573,502	1,005,304,449	880,981,008
Capital Outlay	410,122,057	374,808,786	468,387,959	473,903,973	565,841,518
Total Net Expenditures	**$68,833,163,941**	**$4,500,815,546**	**$81,935,831,778**	**$88,575,634,753**	**$90,434,143,170**

(1) Does not include payments made by retailers.
Totals may not sum due to rounding.
Source: Texas Comptroller of Public Accounts, *2010 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	**2006**	**2007**	**2008**	**2009**	**2010**
Public Assistance Payments	23,265,998,034	25,479,602,083	27,331,223,848	30,822,572,237	33,484,170,555
Intergovernmental Payments	**2006**	**2007**	**2008**	**2009**	**2010**
Foundation School Program Grants	10,831,343,625	14,048,103,441	18,029,972,378	19,691,248,882	16,293,092,453
Other Public Education Grants	5,049,848,143	4,536,948,156	4,671,296,909	4,937,017,983	7,629,111,731
Grants to Higher Education	1,004,787,718	983,559,929	1,039,080,505	1,221,480,454	1,152,576,833
Other Grants	2,343,193,215	1,816,913,012	2,070,544,852	3,020,404,953	2,963,539,728
Highway Construction and Maintenance	5,132,818,911	5,359,397,359	5,208,591,565	4,252,879,534	3,353,467,064
Capital Outlay	410,122,057	374,808,786	468,387,959	473,903,973	565,841,518
Cost of Goods Sold	688,418,635	854,039,395	898,838,329	690,930,232	420,583,612
Salaries and Wages	8,800,028,500	9,271,344,844	9,695,131,557	10,210,385,672	10,431,562,840
Employee Benefits	**2006**	**2007**	**2008**	**2009**	**2010**
Employee Benefit Payments	1,963,652,583	2,165,668,909	2,196,143,665	2,337,223,052	2,527,442,834
Payroll Related Costs	2,203,147,309	2,317,440,566	2,421,070,653	2,340,341,661	2,710,027,219
Professional Services and Fees	1,695,841,187	1,823,261,109	1,841,278,814	1,903,734,141	2,210,094,255
Travel	120,888,794	134,048,195	149,353,979	161,498,108	151,108,116
Supplies and Materials	785,815,957	789,776,764	919,756,061	932,386,485	999,590,844
Communication and Utilities	623,677,580	453,819,849	512,153,408	437,383,137	474,294,718
Repairs and Maintenance	532,797,235	552,529,692	628,642,339	723,208,164	762,653,007
Rentals and Leases	225,767,394	225,936,379	241,695,076	260,238,514	262,828,695
Printing and Reproduction	40,030,323	44,125,556	43,670,563	46,322,766	44,324,304
Payment of Interest	785,365,914	837,363,803	972,573,502	1,005,304,449	880,981,008
Lottery Winnings Paid(1)	475,826,398	389,758,161	422,894,727	491,322,426	486,716,618
Claims and Judgments	98,032,253	77,866,740	102,543,281	89,992,819	120,513,588
Other Expenditures	1,755,762,177	1,964,502,820	2,070,987,808	2,525,855,113	2,509,621,629
Total Net Expenditures	**$68,833,163,941**	**$74,500,815,546**	**$81,935,831,778**	**$88,575,634,753**	**$90,434,143,170**

(1) Does not include payments made by retailers.
Totals may not sum due to rounding
Source: Texas Comptroller of Public Accounts, *2010 Annual Cash Report.*

Recent Legislative and State Budgets

2006-07 Budget:

In January 2005, the State Legislature began its seventy-ninth regular session (the "79th Legislature"). In May 2005, the State Legislature adopted a General Appropriations Act ("GAA"). The Governor subsequently line-item vetoed $33.7 billion in all-funds appropriations, primarily to the Texas Education Agency for public education. During the regular session, the Legislature passed House Bill 10, which appropriated $1.9 billion of the Economic Stabilization Fund, with a contingency for an additional $100 million to the trusteed program within the Office of the Governor relating to funding emerging technology industries.

Subsequently, the Governor called three special sessions, two in the summer of calendar 2005, and a third in April 2006. The result was the reinstatement of $33.1 billion of the Governor's line-item vetoes, and increases in the franchise, cigarette, and tobacco taxes, and a reduction in local school district property taxes while increasing the State contribution.

In April 2006, and before the start of the third called session of the 79th Legislature, the Comptroller released a new estimate for the 2006-07 biennium. The balance available for general purposes at the close of the 2006-07 biennium—after setting aside $2.5 billion for the required transfer to the Economic Stabilization Fund—was expected to be $5.9 billion, absent any legislative action.

House Bill 1 from the Third Called Session appropriated $3.8 billion to local school districts and repealed $1.8 billion in contingency appropriations to the Texas Education Agency. Other legislation during the Third Called Session generated new revenue for the remainder of the 2006-07 biennium of approximately $500 million.

All appropriations of the 79th Legislature through the Third Called Session for the 2006-2007 Biennium totaled $142.0 billion in all-funds; including $68.0 billion in General Revenue related appropriations.

On January 8, 2007 the Comptroller released the revenue estimate for the 2008-09 biennium. The available General Revenue balance at the close of the 2006-07 biennium was expected to be $7.0 billion, absent any legislative action.

2008-09 Budget:

The 80th Legislature convened on January 9, 2007. In May 2007, the State Legislature adopted a General Appropriations Act ("GAA"). The Governor subsequently line-item vetoed $569.8 million in all-funds appropriations. In addition to the GAA, the Legislature passed House Bill 2, which appropriated $14.2 billion in all-funds for property tax relief and House Bill 15, a supplemental appropriations bill appropriating $1.8 billion, the majority of which went for the settlement of the *Frew v. Hawkins* lawsuit to improve access to medically necessary services.

2010-11 Budget:

Table A-9 compares the budget for the 2010-2011 biennium to the actual budgeted expenditures for the 2008-2009 biennium.

Table A-9
The Budget for Texas State Government for the 2010-2011 Biennium
Compared to Actual Budgeted Expenditures for the 2008-2009 Biennium
All Funds (In Millions)

		Expended/Budgeted 2008-2009	Appropriated 2010-2011(2)	Biennial Change	Percent Change
Article I	General Government	4,034.80	4,466.40	431.6	10.7
Article II	Health and Human Services	55,376.40	59,746.50	4,370.10	7.89
Article III	Agencies of Education	73,942.20	75,451.70	1,509.50	2.04
Article V	The Judiciary	624.2	671.8	47.6	7.63
Article V	Public Safety and Criminal Justice	10,874.30	10,767.80	-106.5	-0.98
Article VI	Natural Resources	3,494.60	$3,463.80	-30.8	-0.88
Article VII	Business and Economic Development	21,510.30	20,714.60	-795.7	-3.7
Article III	Regulatory	768.6	847.2	78.6	10.23
Article IX	General Provisions	0	27.8	27.8	N/A
Article X	The Legislature	344	354.9	10.9	3.17
Article XII	American Recovery and Reinvestment Act	662.2	5,675.50	5,013.30	757.07
	Total, All Functions	**$171,631.60**	**$182,188.00**	**$10,556.40**	**6.15**

(1) Excludes supplemental appropriations and vetoes from House Bill 15.
(2) Includes certain anticipated supplemental spending needs.
(3) Excludes contingent appropriations.
(4) Includes gubernatorial vetoes.

Notes: Excludes interagency contracts. Biennial change and percentage change are calculated on actual amounts before rounding. Therefore, table and figure amounts may not total because of rounding.
Source: Legislative Budget Board and Texas Comptroller of Public Accounts

Revenue Forecasts: Fiscal Years 2011-2013

Table A-10 sets forth information concerning estimated revenues for the State's 2011-2013 fiscal years, along with actual collections for comparable revenues for the State's 2010 year. The information is for all funds, excluding trust funds.

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

Tax Collection by Major Tax	2010 Actual	2011 Estimated	2012 Estimated	2013 Estimated
Tax Collections				
Sales Tax	19,630,306	20,585,742	21,669,342	22,422,243
Motor Vehicle Sales and Rental, Mfg Housing	2,630,137	2,729,687	2,922,957	3,021,572
Motor Fuels Taxes	3,041,973	3,051,860	3,115,509	3,190,259
Franchise Tax	3,856,866	4,019,800	4,321,054	4,444,826
Insurance Taxes	1,324,703	1,349,216	1,395,933	1,444,816
Natural Gas Tax	725,538	621,430	702,034	787,576
Cigarette and Tobacco Taxes	1,388,765	1,458,026	1,312,791	1,403,544
Alcoholic Beverage Taxes	809,234	827,603	851,647	882,940
Oil Production Tax	1,008,664	1,003,422	1,154,899	1,174,330
Inheritance Tax	81	0	0	0
Utility Taxes	478,743	500,573	526,250	551,273
Hotel Tax	330,809	344,703	360,215	378,226
Other Taxes	143,081	156,798	160,115	162,397
Total Tax Collections	**$35,368,901**	**$36,648,860**	**$38,492,746**	**$39,864,002**

Revenue By Source	2010 Actual	2011 Estimated	2012 Estimated	2013 Estimated
Tax Collections	35,368,901	36,648,860	38,492,746	39,864,002
Federal Income	36,856,627	38,536,884	35,094,680	35,073,070
Licenses, Fees, Permits, Fines, and Penalties	6,862,919	7,044,542	7,364,737	7,469,845
Interest and Investment Income	1,058,575	959,793	1,006,689	1,110,388
Net Lottery Proceeds	1,633,923	1,630,708	1,637,231	1,643,199
Sales of Goods and Services	408,053	417,269	418,868	420,524
Settlements of Claims	557,255	494,000	462,399	453,879
Land Income	760,614	903,483	713,187	695,587
Contributions to Employee Benefits	169	169	169	169
Other Revenue	3,850,123	3,590,491	3,649,826	3,706,284
Total Net Revenue	**$87,357,158**	**$90,226,199**	**$88,840,532**	**$90,436,947**

Totals may not sum due to rounding.
Source: Texas Comptroller of Public Accounts, *2012-2013 Biennial Revenue Estimate (revised)*, and *2010 Annual Cash Report.*

The revenue estimate released in January 2011 and revised in March and in May of the same year for the 2012-2013 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 Global Insight, Inc., 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 2010 with a $2.0 billion positive cash balance in the General Revenue Fund. This was the 21st consecutive year that Texas ended a fiscal year with a positive balance in its 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	2006	2007	2008	2009	2010
General Revenue (0001)	5,077,970	7,982,436	4,531,602	(1,008,321)	(3,541,584)
General Revenue Accounts	4,094,243	4,416,518	5,280,062	4,908,189	5,492,872
Consolidated General Revenue	9,172,213	12,398,954	9,811,664	3,899,868	1,951,288
Non-consolidated Funds and Petty Cash Accounts	12,357,639	10,446,362	26,311,491	21,908,447	28,707,133
All Funds	**$21,529,853**	**$22,845,316**	**$36,123,155**	**$25,808,315**	**$30,658,421**

Ending Non-consolidated balances include $4.6 billion in Tax and Revenue Anticipation Note proceeds received August 31, 2006.
Ending Non-consolidated balances include $6.4 billion in Tax and Revenue Anticipation Note proceeds received August 31, 2008.
Source: Texas Comptroller of Public Accounts, *2010 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. The State and various 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 is 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

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.

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.

Texans approved constitutional amendments in November 2001 authorizing $3.525 billion of additional G.O. bonds for issuance by the TPFA, the TWDB and the VLB. The TPFA bond proceeds will provide $175 million of financing for roadway projects in border colonias and $850 million for State agency construction and repair projects. The new authority also includes $2.5 billion of self-supporting G.O. bonds. The TWDB was authorized to issue an additional $2 billion to provide financing for water projects, and the VLB was authorized to issue $500 million for veterans’ housing loans and cemeteries.

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 1.36% as of August 31, 2010. With the inclusion of authorized but unissued debt, the ratio was 4.10%. 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 2011 and beyond.

General Obligation Bond Debt Service and Revenue Bond
Debt Service Payable from General Revenue (1)
Determined as of May 31, 2011
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
2011	87,951	83,492	51,382	28,419	251,244	6,020	5,589	11,609	262,853
2012	218,139	458,344	281,171	165,092	1,122,746	44,014	22,433	66,447	1,189,193
2013	233,576	447,896	274,470	151,715	1,107,656	39,461	20,905	60,366	1,168,022
2014	243,925	439,190	222,677	201,007	1,106,799	36,332	19,387	55,719	1,162,519
2015	258,632	428,216	225,634	160,597	1,073,080	29,930	5,265	35,195	1,108,275
2016	271,348	415,721	213,177	119,742	1,019,988	26,565	3,850	30,415	1,050,403
2017	285,575	403,210	171,141	110,463	970,389	22,140	2,671	24,811	995,200
2018	278,975	390,238	169,736	102,381	941,329	19,415	1,678	21,093	962,422
2019	280,585	377,284	171,590	94,204	923,664	10,165	976	11,141	934,804
2020	284,975	364,256	144,780	87,001	881,012	5,960	616	6,576	887,589
2021	291,575	350,879	143,910	80,436	866,800	2,990	418	3,408	870,208
2022	309,630	337,091	144,771	73,676	865,167	2,715	289	3,004	868,171
2023	337,245	322,561	144,476	66,777	871,059	1,390	169	1,559	872,618
2024	315,480	307,077	140,547	59,924	823,028	1,435	104	1,539	824,566
2025	349,745	290,658	128,254	53,430	822,087	455	36	491	822,578
2026	369,510	273,975	122,530	47,299	813,315	455	12	467	813,782
2027	345,495	257,448	117,367	41,388	761,697	0	0	0	761,697
2028	353,795	241,193	116,534	35,507	747,029	0	0	0	747,029
2029	367,655	224,870	109,486	29,884	731,895	0	0	0	731,895
2030	512,100	207,308	85,219	24,599	829,225	0	0	0	829,225
2031	383,725	190,407	49,260	20,670	644,062	0	0	0	644,062
2032	389,685	172,443	40,450	18,597	621,176	0	0	0	621,176
2033	401,450	154,216	40,160	16,719	612,545	0	0	0	612,545
2034	468,805	135,051	41,370	14,859	660,085	0	0	0	660,085
2035	430,360	115,488	42,630	12,922	601,401	0	0	0	601,401
2036	440,000	95,737	43,925	10,927	590,589	0	0	0	590,589
2037	461,215	80,371	45,265	8,871	595,722	0	0	0	595,722
2038	560,665	57,610	46,645	6,752	671,672	0	0	0	671,672
2039	508,430	31,026	48,065	4,568	592,089	0	0	0	592,089
2040	8,520	3,213	49,530	2,318	63,581	0	0	0	63,581
2041	7,570	2,881	0	0	10,451	0	0	0	10,451
2042	3,410	2,589	0	0	5,999	0	0	0	5,999
2043	2,090	2,418	0	0	4,508	0	0	0	4,508
2044	1,205	2,314	0	0	3,519	0	0	0	3,519
2045	1,265	2,252	0	0	3,517	0	0	0	3,517
2046	46,330	1,164	0	0	47,494	0	0	0	47,494
2047	1,400	72	0	0	1,472	0	0	0	1,472
2048	0	0	0	0	0	0	0	0	0
2049	0	0	0	0	0	0	0	0	0
Total	$10,112,037	$7,670,158	$3,626,150	$1,850,745	$23,259,089	$249,442	$84,397	$333,840	$23,592,929

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

(2) On May 31, 2011 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.

(3) The Veterans Land and Housing Assistance Bonds debt service figures include the estimated payments on $1.80 billion of variable-rate debt outstanding as of May 31, 2011.

(4) As of May 31,2011, $12.02 billion of general obligation bonds were authorized but unissued, $3.89 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.

(5) On August 31, 2010, the Texas Public Finance Authority had $104.6 million in revenue commercial paper outstanding that is payable from general revenue.

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, 2010

	2006	2007	2008	2009	2010
Principal Amount Outstanding (Millions) (1)	$7,705	$10,115	$11,251	$12,889	$13,284
Principal Amount Per Capita (1)	$336	$424	$454	$521	$537
Principal Amount as a Percentage of Personal Income (1)	1.16%	1.21%	1.14%	1.36%	1.41%
Annual Debt Service Paid from General Revenue (Millions) (2)	$425	$403	$442	$370	$342
Debt Service Paid from General Revenue as a Percentage of Available General Revenue Fund Revenues (2)	1.30%	1.12%	1.20%	1.07%	1.00%
Annual Debt Service Paid from General Revenue Per Capita (2)	$18.51	$16.91	$17.85	$14.96	$13.81
Debt Service Paid from General Revenue as a Percentage of Personal Income (2)	0.06%	0.05%	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, 2010

Revenue Source

Tax Collections	General Revenue Fund 0001[1]	Restrictions from Constitutional Allocations	Other Restrictions[2]	Unrestricted Balance Available
Sales Tax	19,560,056,004		86,414,029	19,473,641,975
Motor Vehicle Sale/Rental, and Mfg Housing Sales	2,620,530,432			2,620,530,432
Motor Fuels Taxes	3,041,973,016	3,002,823,475	16,810,431	22,339,110
Franchise Tax	2,648,908,968			2,648,908,968
Insurance Taxes	1,322,696,352	278,227,460	133,473,286	910,995,606
Natural Gas Production Tax [3]	725,538,388	183,686,556		541,851,833
Cigarette and Tobacco Taxes	573,719,190			573,719,190
Alcoholic Beverages Taxes	809,233,737			809,233,737
Oil Production Tax	1,008,664,357	243,947,049		764,717,308
Inheritance Tax	81,458			81,458
Utility Taxes	478,742,739	89,247,682		389,495,056
Hotel Tax	330,809,436		27,391,051	303,418,384
Other Taxes	60,087,594	13,853,113		46,234,481
Total Tax Collections	**$33,181,041,670**	**$3,811,785,335**	**$264,088,797**	**$29,105,167,538**

Tax Collections	General Revenue Fund 0001[1]	Restrictions from Constitutional Allocations	Other Restrictions[2]	Unrestricted Balance Available
Tax Collections (above)	33,181,041,670	3,811,785,335	264,088,797	29,105,167,538
Federal Income	18,750,865,208		18,700,991,918	49,873,289
Licenses, Fees, Permits, Fines and Penalties	3,061,691,206		583,993	3,061,107,213
Interest and Investment Income	(34,439,852)			(34,439,852)
Sales of Goods and Services	155,130,652			155,130,652
Settlements of Claims	549,249,015			549,249,015
Land Income	8,152,297			8,152,297
Contributions to Employee Benefits	169,068			169,068
Other Revenue Sources	1,989,519,852			1,989,519,852
Economic Stabilization Fund Transfer[3]		869,898,640		(869,898,640)
Total Net Revenue, Allocations and Restrictions	**$57,661,379,116**	**$4,681,683,975**	**$18,965,664,709**	**$34,014,030,432**

(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) The Texas Constitution mandates that if natural gas production or oil production tax receipts exceed the net amount received in fiscal 1987, an amount equal to 75 percent of each excess must be transferred to the State's Economic Stabilization Fund 0599 from the General Revenue Fund. In fiscal year 2008, these tax collections exceeded the amount collected in fiscal 1987. An amount equal to 75 percent of the excess collections is shown as other restrictions.

Source: Texas Comptroller of Public Accounts, *2010 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)
2004	7,438	-	-	7,438
2005	6,600	-	-	6,600
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

(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.

Texas’ mix of industries retains a particular character. 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 recent recession longer, but as energy prices plummeted in late 2008, this economic buffer toppled, and the state economy joined in the national recession. As oil prices rose again, renewed energy exploration helped Texas outperform the national economy.

With other economic engines and a more stable housing market, Texas remains ahead of the nation in economic performance. During the most recent recession, the nation lost 6.3 percent of its jobs from its peak in January 2008 to its low point 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. Texas has since recovered 88 percent of its jobs from the low point, while the nation has recovered 20 percent.

Technology-based commerce and oil and gas have changed their relative importance over time, and 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 (6.5 percent) has increased twice as fast as that of services (3.2 percent), mostly from renewed health in oil and gas exploration. Mining, construction, and manufacturing have all added jobs in the state during the year, with construction boosted by heavy civil engineering and specialty trade projects and manufacturing boosted by a demand for rigs and oil equipment. Among the eight service-providing industries[1], only information (down 5.9 percent) failed to experience net job gain since the recent recession's low point in December 2009.

Texas' location and transportation accessibility have made it a distribution center for the southwestern United States, as well as an international market for export trade. According to the Foreign Trade Division of the U. S. Census Bureau, after suffering a 15.2 percent decline in 2009, the growth in Texas exports during 2010 was up a robust 26.8 percent. This compares to export growth of 19.9 percent among the other U.S. states for this period. Texas exports in 2010 exceeded the 2008 export record, and accounted for 16.1 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 830,200 Texas manufacturing jobs. Although manufacturing employment fell by 12.3 percent between 2006 to 2010 (and was down 17.5 percent nationally), the value of manufacturing as a part of the state's gross domestic product increased from $158.5 billion in 2006 to $160.7 billion in 2010, according to BEA. Growing manufacturing productivity, as measured by gross domestic product per worker, has allowed the total value of production to increase despite the loss of almost 124,000 Texas manufacturing jobs over those four years.

The Comptroller's econometric forecast predicts that the Texas economy will grow by 3.4 percent annually over the long-term (2011-2040), outpacing forecasts of national economic growth from IHS Global Insight (2.6 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 the various parts 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 an economy 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 a change 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 2010-2011 State Economic Forecast
CALENDAR YEARS

TEXAS ECONOMY	2008	2009	2010	2011*	2012*	2013*	2014*	2015*
Real Gross State Product (Billion 2005 $)	1,070.80	1,076.40	1,106.20	1,133.70	1,167.90	1,207.70	1,251.80	1,296.30
Annual % Change	-0.2	0.5	2.8	2.5	3	3.4	3.7	3.6
Personal Income (Billion Current $)	968.2	956.8	993.1	1,037.00	1,080.80	1,131.30	1,203.80	1,280.30
Annual % Change	9.5	-1.2	3.8	4.4	4.2	4.7	6.4	6.4
Nonfarm Employment (Thousands)	10,607.00	10,307.30	10,340.40	10,556.90	10,783.80	11,047.70	11,320.50	11,596.30
Annual % Change	2	-2.8	0.3	2.1	2.1	2.4	2.5	2.4
Resident Population (Thousands)	24,364.00	24,841.50	25,312.00	25,760.60	26,196.20	26,619.30	27,047.50	27,496.40
Annual % Change	2	2	1.9	1.8	1.7	1.6	1.6	1.7
Unemployment Rate (%)	4.9	7.5	8.3	8.1	7.6	7	6.4	5.9

U. S. ECONOMY	2008	2009	2010	2011*	2012*	2013*	2014*	2015*
Gross Domestic Product (Billion 2005 $)	13,228.90	12,880.60	13,248.20	13,582.80	13,947.40	14,337.60	14,799.80	15,245.40
Annual % Change	0	-2.6	2.9	2.5	2.7	2.8	3.2	3
Consumer Price Index (1982-84=100)	215.3	214.5	218.1	224.6	228.4	232.8	237.6	242.6
Annual % Change	3.8	-0.4	1.6	3	1.7	1.9	2.1	2.1
Prime Interest Rate (%)	5.1	3.3	3.3	3.3	4.3	6.4	7.1	7.7

*Estimated or Projected
*Projected, based on actual data for historical periods and growth rates from the Comptroller's Winter 2010-11 Economic Forecast.
SOURCES: Susan Combs, Texas Comptroller of Public Accounts, and Global Insight, Inc.

Employment and Unemployment—Historical Review

Texas' annual nonagricultural employment growth averaged 3.0 percent during the 1990s, and 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 nonfarm jobs, but recessionary conditions caused the state to give up 433,400 jobs from August 2008 until employment bottomed out in December 2009. A recovery of 379,600 jobs since then, and 220,000 over the past year, shows that moderate growth has returned, at 2.1 percent from June 2010 to June 2011.

Even though slow for a recovery by historical standards, Texas added more jobs than any other state over the past year. (See Table A-17).

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

	Number of Nonfarm Jobs		Change	
State	**June 2010**	**June 2011**	**Number**	**Percent**
Texas	10,368.60	10,588.60	220.0	2.10%
Michigan	5,033.20	5,105.60	72.4	1.40%
Illinois	3,867.80	3,921.20	53.4	1.40%
Pennsylvania	13,911.60	14,068.60	157.0	1.10%
Ohio	5,618.70	5,677.70	59.0	1.10%
California	5,630.50	5,676.90	46.4	0.80%
North Carolina	7,194.00	7,247.00	53.0	0.70%
Florida	8,580.60	8,622.50	41.9	0.50%
New York	3,873.50	3,870.80	-2.7	-0.10%
Georgia	3,838.10	3,818.00	-20.1	-0.50%

Source: U. S. Bureau of Labor Statistics.

Even though Table A-17 only shows the 10 most populous states, Texas ranked third among all 50 states in the rate of job change over the past year, exceeded only by the low population states of North Dakota and Vermont.

Among the ten largest states, only Pennsylvania (at 7.6 percent unemployment) and New York (8.0 percent) had a lower unemployment rate than Texas, which had an 8.2 percent seasonally adjusted rate in June 2011. The remaining seven largest states had unemployment rates that ranged from 8.8 percent in Ohio to 11.8 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 Civilian Labor Force(2)	U.S. Total Employment(2)	U.S Unemployment Rate
1997	9,889.70	9,358.00	5.4	136.3	129.6	4.9
1998	10,137.20	9,649.40	4.8	137.7	131.5	4.5
1999	10,266.80	9,792.40	4.6	139.4	133.5	4.2
2000	10,401.60	9,960.40	4.2	142.6	136.9	4.0
2001	10,530.60	10,020.40	4.8	143.8	136.9	4.7
2002	10,686.80	10,009.30	6.3	144.9	136.5	5.8
2003	10,964.80	10,228.60	6.7	146.5	137.7	6.0
2004	11,071.20	10,403.30	6.0	147.4	139.2	5.5
2005	11,196.30	10,592.60	5.4	149.3	141.7	5.1
2006	11,377.60	10,815.90	4.9	151.4	144.4	4.6
2007	11,475.00	10,972.20	4.4	153.1	146.0	4.6
2008	11,701.60	11,126.40	4.9	154.3	145.4	5.8
2009	11,910.10	11,010.20	7.5	154.2	139.9	9.3
2010*	12,133.40	11,140.50	8.2	153.9	139.1	9.6
2011**	12,245.00	11,248.10	8.1	153.4	139.6	9.0

(1) In thousands
(2) In millions
*2010 data are subject to benchmark revisions.
**First six months of 2011.
Source: U. S. Bureau of Labor Statistics

Current Situation

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 2010, Texas' nominal gross domestic product (GDP) was estimated to be $1.21 trillion, a 5.3 percent increase from 2009, based on estimates from the U.S. Bureau of Economic Analysis and the Texas Comptroller's Office. This would rank Texas, if it were a nation, as the fourteenth largest economy in the world, between Australia and Mexico.

The renewed growth has been boosted by manufacturing and construction. While the nation's construction employment was virtually unchanged from June 2010 to June 2011, Texas' construction employment increased by 4.6 percent, adding 26,000 jobs. Mining and logging, having replaced its 2009 job losses, grew by a robust 17.2 percent, for the fastest job growth rate of all major Texas industries, adding 35,700 jobs. It was a service-providing industry, however, that accounted for the largest job gain (49,700) over the past year, and this was in professional and business services, which expanded its job count by 3.9 percent, owing in large part to temporary positions that often grow quickly in an economic recovery. Trade, transportation, and utilities, and education and health services, also added large numbers of jobs (38,300 and 37,600 respectively). Overall, nine of the state's eleven major industries[2] added jobs over the past year.

[2] NAICS supersectors.

Largely because the state's comparatively youthful workforce and an international border region with particularly high unemployment rates, Texas' statewide jobless rate exceeded the national average through most of the past 25 years. However, with a state economy that avoided the worst part of the nation's downturn and because of improvements in high jobless rates in cities along the Mexican border, the Texas unemployment rate inched below the national unemployment rate in early 2007. The Texas unemployment rate is 8.2 percent in June 2011, one percentage point lower than the U.S. rate of 9.2 percent. Ten of the state's 25 metropolitan areas had unemployment rates below 8 percent in June 2011 and four had a rate exceeding 10 percent. Midland (5.2 percent) had the lowest urban unemployment rate in the state, while the international border metro area of McAllen-Edinburg-Mission (13.0 percent) had the highest rate.

Consumer confidence is a key to economic health since it is a factor underlying housing, automobile 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. The U.S. index, plummeting even more than that for the West South Central states, dropped 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 benefit from the exploration for and production of energy, its consumer confidence was more resilient than the national index and declined later. Although having improved by 23.5 percent from July 2010 to July 2011, consumer confidence in the West South Central states remains 18.5 points below its 1985 baseline level. With the nation's index still 40.5 points below its baseline, the index in the West South Central states is comparatively optimistic.

Table A-19 shows monthly Texas non-agricultural employment by industry and unemployment since January 2008.

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	228.0	649.0	893.2	2113.3	212.1	638.3	1298.3	1309.6	1376.2	1806.2	10524.2	6.4
	Feb	222.4	636.5	880.4	2100.0	210.9	635.9	1283.6	1313.0	1375.4	1804.3	10462.4	6.7
	Mar	216.6	624.1	867.5	2086.4	209.3	633.0	1272.5	1315.2	1371.9	1807.0	10403.5	7.0
	Apr	206.9	606.3	853.1	2071.9	207.6	630.6	1254.9	1323.1	1368.6	1820.4	10343.4	7.2
	May	202.2	604.1	843.8	2065.0	205.7	628.7	1252.9	1329.4	1368.2	1818.8	10318.8	7.5
	June	197.7	597.8	832.7	2057.5	204.1	626.6	1249.0	1334.5	1367.9	1824.0	10291.8	7.7
	July	195.4	590.7	822.1	2048.5	202.7	625.4	1238.5	1342.4	1366.5	1823.7	10255.9	7.8
	Aug	193.3	584.9	820.6	2044.1	201.2	624.4	1234.1	1345.3	1364.9	1818.2	10231.0	7.9
	Sep	191.8	578.5	817.4	2043.0	200.3	623.8	1231.3	1349.4	1361.3	1823.8	10220.6	8.0
	Oct	190.4	570.7	812.0	2036.2	200.0	623.0	1232.9	1355.6	1358.9	1834.7	10214.4	8.1
	Nov	190.6	566.8	807.7	2030.6	199.1	623.2	1240.6	1358.8	1359.3	1835.3	10212.0	8.1
	Dec	191.8	564.2	805.8	2028.8	198.7	622.9	1238.6	1362.0	1358.4	1837.8	10209.0	8.1
2010	Jan	193.4	567.4	808.3	2034.3	197.7	623.5	1248.1	1367.0	1356.2	1839.0	10234.9	8.2
	Feb	196.1	560.6	806.9	2035.8	196.7	623.1	1251.7	1371.0	1356.9	1840.7	10239.5	8.2
	Mar	198.7	564.2	809.4	2040.0	196.1	623.4	1258.9	1376.0	1359.8	1848.5	10275.0	8.2
	Apr	202.2	564.7	809.1	2045.1	197.0	622.7	1264.4	1380.2	1360.5	1856.8	10302.7	8.2
	May	205.2	565.9	810.6	2050.4	195.8	622.7	1269.3	1383.5	1363.6	1890.9	10357.9	8.1
	June	207.0	564.7	810.9	2053.8	196.2	622.6	1273.3	1387.5	1363.7	1888.9	10368.6	8.1
	July	208.5	567.6	812.0	2053.5	194.4	620.8	1276.4	1386.0	1361.5	1869.6	10350.3	8.1
	Aug	210.1	567.4	813.0	2054.9	194.6	621.1	1280.7	1390.0	1366.7	1863.3	10361.8	8.2
	Sep	211.1	565.9	812.6	2056.4	193.8	620.8	1284.1	1393.6	1372.9	1850.4	10361.6	8.2
	Oct	211.1	571.4	813.8	2056.9	193.2	619.7	1285.1	1400.8	1376.4	1856.5	10384.9	8.2
	Nov	214.0	576.1	810.3	2052.2	193.8	619.8	1290.6	1409.3	1379.2	1858.0	10403.3	8.3
	Dec	217.2	597.1	812.2	2062.2	192.8	620.8	1290.6	1406.6	1384.4	1860.8	10444.7	8.3
2011	Jan	220.5	596.4	816.3	2071.0	191.2	622.1	1288.4	1415.8	1382.9	1866.4	10471.0	8.3
	Feb	225.5	596.6	817.5	2071.6	188.4	621.6	1301.9	1417.0	1385.7	1863.1	10488.9	8.2
	Mar	231.3	597.2	821.6	2075.9	187.1	622.7	1314.3	1417.9	1397.5	1858.7	10524.2	8.1
	Apr	234.9	587.6	819.6	2091.6	186.7	626.2	1318.7	1430.3	1399.1	1859.8	10554.5	8.0
	May	239.5	591.1	821.8	2091.2	187.1	627.2	1322.3	1425.1	1395.1	1856.2	10556.6	8.0
	Jun	242.7	590.7	830.2	2092.1	187.0	627.9	1323.0	1425.1	1401.4	1868.5	10588.6	8.2

Note 1: All figures are seasonally adjusted.
Note 2: Data for 2010 and 2011 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
1993	155.2	355.0	941.3	1,624.5	177.7	456.7	698.4	779.3	923.4	1,375.9	7,487.5	7.2
1994	153.6	379.1	965.2	1,676.0	183.2	469.3	750.4	811.5	955.0	1,413.5	7,756.6	6.4
1995	149.3	409.5	994.4	1,723.9	194.8	472.0	794.0	851.7	993.7	1,445.6	8,029.0	6.0
1996	149.7	437.4	1,016.1	1,761.4	205.7	483.7	842.2	887.7	1,021.8	1,457.8	8,263.5	5.6
1997	159.3	468.4	1,044.4	1,805.3	227.0	505.7	921.7	934.1	1,065.0	1,483.4	8,614.2	5.4
1998	159.8	505.1	1,076.6	1,867.6	239.7	535.4	995.8	961.1	1,097.9	1,504.2	8,943.2	4.9
1999	140.5	536.7	1,062.7	1,919.6	251.4	557.7	1,047.5	976.9	1,132.3	1,534.8	9,160.0	4.7
2000	143.2	567.0	1,067.2	1,976.6	272.0	567.6	1,108.1	1,002.9	1,166.1	1,561.9	9,432.1	4.4
2001	152.9	580.3	1,026.0	1,985.9	269.8	577.5	1,104.9	1,041.2	1,189.9	1,586.3	9,514.4	5.0
2002	145.2	568.0	948.1	1,948.8	249.3	579.7	1,066.5	1,082.4	1,202.8	1,626.1	9,416.8	6.4
2003	146.6	552.0	899.5	1,915.8	233.7	585.5	1,058.7	1,118.6	1,214.4	1,646.2	9,370.7	6.7
2004	153.0	544.3	890.4	1,945.0	224.9	595.3	1,100.6	1,149.4	1,237.6	1,655.6	9,496.4	6.0
2005	166.0	566.8	896.7	1,993.4	223.1	609.5	1,161.7	1,183.7	1,249.2	1,684.0	9,739.2	5.4
2006	185.8	605.3	923.8	2,049.1	221.6	628.2	1,240.8	1,215.8	1,288.4	1,706.8	10,065.3	4.9
2007	207.5	647.9	934.0	2,113.4	221.0	644.0	1,302.2	1,254.1	1,335.4	1,734.9	10,394.3	4.4
2008	230.1	673.4	924.4	2,143.2	217.2	647.0	1,336.5	1,287.1	1,369.2	1,779.0	10,607.2	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	10,307.3	7.5
2010	206.2	569.4	810.8	2,049.6	195.2	621.8	1,272.8	1,387.6	1,366.8	1,860.3	10,340.4	8.2
2011*	232.4	593.3	821.2	2,082.2	187.9	624.6	1,311.4	1,421.9	1,393.6	1,862.1	10,530.6	8.1

*First half of 2011
Notes: 2010 numbers are subject to benchmark revisions.
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
1993	2.08	4.75	12.59	21.73	2.38	6.11	9.18	10.43	12.35	18.39	100
1994	1.98	4.90	12.47	21.65	2.37	6.06	9.53	10.48	12.33	18.24	100
1995	1.86	5.11	12.41	21.51	2.43	5.89	9.75	10.63	12.40	18.02	100
1996	1.81	5.30	12.32	21.35	2.49	5.86	10.06	10.76	12.38	17.66	100
1997	1.85	5.44	12.14	21.00	2.64	5.88	10.57	10.86	12.38	17.23	100
1998	1.79	5.65	12.05	20.95	2.68	5.99	11.01	10.76	12.29	16.82	100
1999	1.53	5.86	11.61	21.04	2.75	6.09	11.31	10.68	12.37	16.76	100
2000	1.52	6.02	11.33	20.98	2.89	6.02	11.65	10.64	12.38	16.57	100
2001	1.61	6.10	10.79	20.89	2.84	6.07	11.56	10.95	12.52	16.67	100
2002	1.54	6.03	10.08	20.71	2.65	6.16	11.27	11.50	12.79	17.27	100
2003	1.57	5.89	9.60	20.46	2.50	6.25	11.25	11.95	12.97	17.57	100
2004	1.61	5.74	9.38	20.49	2.37	6.27	11.54	12.11	13.05	17.43	100
2005	1.71	5.83	9.21	20.48	2.29	6.26	11.88	12.16	12.89	17.29	100
2006	1.85	6.02	9.18	20.37	2.20	6.24	12.28	12.09	12.81	16.96	100
2007	2.00	6.23	8.99	20.33	2.13	6.20	12.53	12.06	12.85	16.69	100
2008	2.17	6.35	8.71	20.20	2.05	6.10	12.60	12.14	12.91	16.77	100
2009	1.96	5.80	8.13	19.99	1.98	6.09	12.15	12.97	13.26	17.67	100
2010	1.99	5.51	7.84	19.82	1.89	6.01	12.31	13.42	13.22	17.99	100
2011*	2.21	5.63	7.80	19.77	1.78	5.93	12.45	13.50	13.23	17.68	100

*First half of 2011
Note: 2010 numbers are subject to annual benchmark revisions.
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 (Millions)	Percent Change From Prior Year
1991	309,037	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	470,065	9.2
1998	511,509	8.8
1999	542,720	6.1
2000	597,041	10.0
2001	622,217	4.2
2002	628,274	1.0
2003	652,610	3.9
2004	696,796	6.8
2005	756,683	8.6
2006	824,281	8.9
2007	884,119	7.3
2008	968,231	9.5
2009	956,808	-1.2
2010	991,891	3.7
2011*	1,034,376	6.2

*First quarter of 2011, with percentage change over the first quarter of 2010.
Source: U.S. Bureau of Economic Analysis.

Texas' total personal income in 2010 increased by 3.7 percent, and jumped by 6.2 percent from the first quarter of 2010 to the first quarter of 2011. Personal income in Texas has grown faster or declined less than that of the nation in every year from 2002 through 2010, averaging 5.9 percent growth annually, compared to 4.1 percent nationally. Even though Texas' total personal income has been increasing faster than the nation's, the state's per capita income remains below the national average. There is wide variability in per capita personal income in different parts of Texas, from well above the national average in the largest metropolitan areas to far below the national average in pockets along the international border. The State's mean per capita income in the first quarter of 2011 was 97.8 percent that of the nation, having risen from its recent low of 91.7 percent in 2003, but strong net migration to the state suppresses the ratio. 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	$28,504	8.0	$30,318	7.0	94.0%
2001	$29,167	2.3	$31,145	2.7	93.6%
2002	$28,938	-0.8	$31,461	1.0	92.0%
2003	$29,586	2.2	$32,271	2.6	91.7%
2004	$31,082	5.1	$33,881	5.0	91.7%
2005	$33,185	6.8	$35,424	4.6	93.7%
2006	$35,272	6.3	$37,698	6.4	93.6%
2007	$37,089	5.2	$39,461	4.7	94.0%
2008	$39,838	7.4	$40,674	3.1	97.9%
2009	$38,609	-3.1	$39,635	-2.6	97.4%
2010	$39,493	2.3	$40,584	2.4	97.3%
2011*	$40,289	4.3	$41,204	3.7	97.8%

* First quarter 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 fourth quarter of 2010.

Table A-24
Sources of Personal Income

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	2.11	0.2	38.23	0.3
Mining	27.23	2.6	66.63	0.5
Utilities	4.80	0.5	50.60	0.4
Construction	29.29	2.8	281.34	2.2
Manufacturing	53.53	5.2	699.27	5.4
Trade	66.39	6.4	770.06	6.0
Transportation and Warehousing	20.96	2	203.64	1.6
Information	12.75	1.2	210.15	1.6
Finance and Insurance	31.86	3.1	483.51	3.7
Real estate	8.18	0.8	90.13	0.7
Professional and technical services	45.11	4.4	617.74	4.8
Management Services	7.98	0.8	192.00	1.5
Administrative and Waste Services	23.83	2.3	267.87	2.1
Educational Services	5.52	0.5	121.41	0.9
Health Care and Social Assistance	50.85	4.9	752.82	5.8
Arts, Entertainment, and Recreation	3.75	0.4	72.21	0.6
Accommodation and food services	17.15	1.7	222.29	1.7
Other Services	15.72	1.5	206.70	1.6
Government				
Federal Civilian	13.23	1.3	203.79	1.6
Military	9.50	0.9	102.04	0.8
State and Local	66.60	6.4	864.61	6.7
Supplements to Wages	120.02	11.6	1610.71	12.5
Farm Proprietors	4.54	0.4	60.84	0.5
Nonfarm Proprietors	136.57	13.2	1039.33	8.0
Property and Interest Income	166.35	16.1	2272.07	17.6
Transfer Payments	159.59	15.4	2336.91	18.1
Contributions for Social Insurance	-66.90	-6.5	-922.65	-7.1
Residence Adjustment	-2.12	-0.2	0.74	0.0
Total Personal Income	**1,034.38**	**100**	**12915.01**	**100**

Totals may not add due to rounding.
Data are annualized.
Sources: 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)	Percentage Change in Texas Oil Production	Percentage of United States Oil Production	Average Taxable Price Per Bbl	Texas Marketed Gas Production (Trillion SCF)	Percentage Change in Texas Gas Production	Percentage of US Gas Marketed Production	Average Taxable Price Per MCF
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	2.04
2000	443	-1.3	20.8	28.72	5.28	4.5	26.1	3.66
2001	424	-4.3	20.0	23.74	5.28	0.0	25.7	3.74
2002	412	-2.9	19.6	24.36	5.14	-2.7	25.9	2.89
2003	406	-1.5	19.6	29.38	5.24	2.0	26.3	4.61
2004	393	-3.2	19.8	38.95	5.07	-3.4	26.0	5.41
2005	388	-1.3	20.5	52.78	5.28	4.1	27.9	7.05
2006	397	2.5	21.3	61.52	5.55	5.1	28.6	6.14
2007	397	0.0	21.5	68.50	6.12	10.4	30.3	6.23
2008	398	0.3	22.0	96.40	6.92	13.0	32.6	7.68
2009	404	1.5	20.6	57.56	6.85	-1.0	31.0	3.43
2010	417	3.1	20.7	76.09	6.68	-2.1	29.6	4.21

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 o 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.

For 2011 year to date, 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, and the continuing weakness of the dollar are expected to keep prices elevated in the near future.

Regarding the offshore drilling moratorium in the Gulf of Mexico (GOM), because of tougher federal regulations, few drilling permits have been issued since the moratorium has been lifted. However, because of the fungible nature of crude oil, future losses of the U.S. crude oil output from the GOM caused by the drilling delays are expected to be replaced with more imports and rising onshore production from oil shale plays such as the Bakken and the Eagle Ford.

Similarly natural gas rig counts and prices have been mimicking oil on the down side since 2008. 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 year to date, NYMEX natural gas prices remained range-bound in the low $4 area with a steady production level. However, renewed interests from the power and transportation sectors, in part, caused by the nuclear crisis in Japan and rising oil prices, have given natural gas a hopeful future where prices will be at a reasonable level relative to oil.

With improving rig availability, gains in efficiency along with technological advances in drilling and fracturing wells horizontally, costs per mcf has been driven to levels in favor of less risk and high volume shale wells over conventional wells. In addition, 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 has accelerated in spite of subpar gas prices. While natural gas production from the Barnett Shale may have reached a plateau, production from the Eagle Ford Shale is just beginning with great potential. With plentiful domestic supply and abundance resources, natural gas may have asserted itself as an ideal bridge fuel for power generation and transportation that could reduce imports and provide new jobs in time of high unemployment. As such, production from shale formations such as 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

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[3] Sector

Mining and Logging

Since the discovery of the Spindletop Field in southeast Texas in 1901, sharp changes in the price of oil propelled Texas into economic booms or busts that countered trends in the national economy. After comprising 25.3 percent of Texas' gross state product in 1981, a 1986 crash in oil prices caused economic turmoil but 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. With changing oil and natural gas prices, this percentage fluctuates, rising to 17.3

[3] Texas' industrial sectors are defined using the North American Industry Classification System (NAICS), the standard used by the federal government to classify industries. The Comptroller's office combines two NAICS sectors – Leisure and Hospitality and Other Services – to form a single industry.

percent in 2008 and falling back to 14.2 percent in 2009. As oil prices rose, the share of the Texas economy accounted for by oil and gas rose again in 2010, to 15.5 percent of the state's gross domestic product.

The oil and gas industry remains more than five times as important to Texas than the nation, based on the percentage of wages from mining in Table A-24. As such, it insulates the state economy when energy prices rise and hurts the state economy when they fall. 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 jobs in 1985 to 1.5 percent in January 2003, before rising back to 2.3 percent today. The gross state product from mining and logging was estimated to be $187 billion in 2010.

The Texas oil industry reached lofty levels of activity in 2008, dipped in 2009, and has bounced back in 2010 and 2011. As evidence, the number of operating oil and gas drilling rigs sank from 946 in September 2008 (its highest level since 1983) to 329 in June 2009 before rebounding back to 864 in late July 2011. With worldwide demand for oil, refining capacity constraints, speculation, and political and weather-related shocks, oil prices are volatile, having bounced from $140 per barrel at times in 2008 before crashing to lows around $35 in 2009. The price in late July 2011 was about $100 per barrel. Firmer prices have seen Texas' mining and logging employment recover in recent months, from its recent low of 190,400 in October 2009 to 242,700 in June 2011, its highest level ever.

Construction

Construction activity, likewise, has been very volatile in the state and nation over the last quarter century. Texas construction experienced three years of employment losses during 2002-2004, followed by near-boomtime levels from 2005 through most of 2008, a 17 percent recessionary employment contraction from October 2008 to February 2010, and an emerging recovery of 5.4 percent of its Texas jobs since then.

As evidence of a modest recovery, Texas home prices have kept their value much better than the national average, so the state has not suffered as seriously from mortgage defaults grounded in house values collapsing below the amount owed on mortgages. House prices in Texas did not rise excessively during the middle years of the past decade, as they did in much of the nation, and in the face of cratering prices in some bi-coastal U.S. housing markets, the median selling price of an existing Texas house fell by only 2.4 percent and has recovered 2.7 percent to surpass its previous high since then[4].

Most Texas construction sectors added jobs over the past year, some recovering strongly. The largest percentage job gain was in utility system construction, which posted an 11.6 percent increase in jobs from June 2010 to June 2011. Heavy and civil engineering construction also saw a 10.6 percent job increase, although jobs in highway, street, and bridge construction dropped by 6.5 percent. While experiencing double-digit percentage losses through most of 2009 and a 4.7 percent loss in 2010, the state's overall number of construction jobs increased by 4.6 percent from June 2010 to June 2011, expanding by 26,000 jobs to a total of 590,700.

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'

[4] Using twelve month moving average prices from the Texas A&M Real Estate Center.

largest industry added 38,300 and grew by 1.9 percent. Retail trade, employing more than 1.1 million Texans, comprises 54 percent of the jobs in this industry, and posted an increase of 18,700 jobs, with the largest percentage gains among clothing stores, automobile dealers and automobile parts stores, and gasoline stations. Wholesale trade tacked on an additional 14,000 jobs, mostly due to merchant wholesalers and machinery equipment related to oil and gas exploration. Even the transportation sector overcame fuel price increases and small losses in warehousing and among airlines to grow by 2.6 percent growth, primarily in truck transportation. Utilities, likewise, added 1,800 jobs (3.7 percent).

As evidence of the importance of trade to the state economy, the Port of Houston had total shipment volume of 211.3 million tons in the most recently reported year (2009 data). Even with damage incurred earlier from Hurricane Rita, Houston's port nearly matched the Port of South Louisiana (212.6 million tons), the nation's busiest port. The Port of Houston is the nation's largest port for foreign trade, handling 42 percent more value than the second largest port. Among the ten busiest U.S. ports in 2009, four were in Texas. After Houston, the other three were Corpus Christi at 5th, Beaumont at 7th, and Texas City at 10th. Of the nation's total waterborne tonnage, 20.4 percent went through Texas ports in 2009, and Texas ports accounted for 25.1 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 an airport that ranks fourth busiest in the nation and eighth busiest in the world, with 59.3 million passenger enplanements during the twelve month period ending in March 2011. Houston's IAH is the ninth busiest airport in the U.S., up from 11th ten years ago, with passenger enplanements of 39.7 million over the same period.

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 were down 8.2 percent in calendar-year 2009, for its first decline since a 2 percent drop in 2002. In 2010, Texas sales tax collections increased by 0.3 percent. A very weak first quarter 2010 was followed by growth in all other quarters, including an 8.3 percent increase in the fourth quarter. This evidence of economic strength was repeated in the first half of 2011, as sales tax collections from January through June exceeded those from a year earlier by 9.8 percent.

Table A-28 shows annual historical retail sales data for 1995 through 2010. 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 accommodation and food services.

Table A-28
Retail Sales

Year	Texas Gross Retail Sales Total (Millions)	Percent Change from Prior Year
1995	198,825	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	436,634	10.6
2009	390,325	-10.6
2010	407,177	4.7

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. The growth in Texas exports was extraordinarily robust from 1998 to 2008, growing nearly two-and-one-half times in dollar terms. 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. Owing to a rolling wave of worldwide recessions, 2009 halted the growth and exports from Texas were down 15.1 percent, with the nation's exports down even more, by 17.9 percent. Even with that drop, a strong 26.8 percent growth in exports in 2010 led Texas exports to reach a record value of $206.6 billion, representing 17.1 percent of the Texas gross domestic product. Texas' exports grew another 24.2 percent in the first quarter of 2011, compared to shipments in the first quarter of 2010.

With only 8.2 percent of the nation's population, Texas accounts for double that proportion (16.5 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 of the state's exports.

Texas' exports to neighboring Mexico, at $72.4 billion during 2010, accounted for 35 percent of all Texas exports and comprised 44.3 percent of total U. S. exports to Mexico. Some major U.S. corporations have sister plant operations along the Texas-Mexico border. In these "twin bond" plants, also known as "maquiladoras," goods are partly manufactured in Mexico and partly in the United States. Exports to Canada were 9 percent of Texas exports, and exports to China and Taiwan totaled 7 percent during 2010.

In the transportation and warehousing sector, the largest percentage job expansion was in general freight trucking (up 6.3 percent). Support activities for transportation grew by 3.6 percent and courier and messenger employment increased by 3.3 percent.

Manufacturing

The manufacturing segment of the State's economy has diversified, but the predominant sectors remain technology manufacturing and the recovery and processing of the State's natural resources. Generally, employment shifted toward computer and electronics industries in the 1990s and mostly toward energy-focused activities since 2000.

Productivity gains in Texas and nationwide have allowed manufacturers to produce more with fewer workers, and outsourcing to lower-wage countries played a role in dampening domestic job growth in manufacturing even before the national recession.

Manufacturing production in Texas, as measured by real gross state product, rose 39 percent from 2003 to 2010. This growth occurred despite a 9.9 percent decline in Texas manufacturing employment over this period. Productivity improvements advanced about twice as fast for Texas manufacturing as nationwide, based on per-worker real gross domestic product estimates. Much of this is because energy-related manufacturing, of which Texas has a comparatively high share, is high in value added per unit of production.

Statewide employment in the industry totaled a seasonally adjusted 830,200 in June 2011, and Texas annual gross state product for manufacturing was $160.7 billion in 2010.

The State's agricultural and timber resources provide raw materials for a substantial part of Texas' manufacturing industry. Timber, furniture, and paper manufacturing account for 7.0 percent of manufacturing employment, and food and beverage processing employs another 11.9 percent of all manufacturing workers. Today, 64.5 percent of Texas manufacturing employees work in the durable goods component of manufacturing, up from 56 percent in 1993, and boosted over the past year by the increased demand for drilling rigs. Jobs directly related to oil and gas production account for 15.8 percent of the state's manufacturing employment.

From June 2010 to June 2011, Texas manufacturing employment increased by a seasonally-adjusted 19,300 jobs—a 2.4 percent increase. This is a gain following on the heels of a loss of 14.0 percent of the state's manufacturing jobs since the industry began to shed jobs in the middle of 2007 until the end of 2009. In light of the nation's 17.6 percent decline in the manufacturing workforce over the same period, as well as losses that started earlier in the nation, Texas manufacturers fared better in keeping jobs than their counterparts elsewhere in the U.S.

Table A-29 shows Texas manufacturing employment by industry in June 2011.

Manufacturing Employment by Industry
Table A-29

Manufacturing Sector	Employment (Thousands)	Percentage of Manufacturing Employment
Durable Goods		
Wood Products	18.7	2.2
Minerals (nonmetallic) and Concrete	31.2	3.8
Primary Metals	20.9	2.5
Fabricated Metals	121.1	14.6
Machinery, except Computers	94.8	11.4
Computers and Electronics	97.2	11.7
Electrical Equipment & Appliances	16.2	1.9
Transportation Equipment	87.5	10.5
Furniture	22.6	2.7
Miscellaneous Durables	26.2	3.2
Total Durable Goods	**536.4**	**64.5**
Nondurable Goods		
Food Manufacturing	88.1	10.6
Beverages	11.2	1.3
Paper	17.3	2.1
Printing	27.1	3.3
Petroleum and Coal Products	23.9	2.9
Chemicals	69.9	8.4
Plastics and Rubber	37.3	4.5
Other Nondurables, incl. Apparel	20.3	2.4
Total Nondurable Goods	**295.1**	**35.5**
Total	**831.5**	**100**

Notes: The data in this table are not seasonally adjusted.
Totals may not add 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). The industry remains in the doldrums, with only one year (2005) of gains in average annual employment in Texas since the unraveling of the “dot com” boom in 2000. Information was the only private Texas industry to lose jobs over the year ending June 2011, and the job losses affected all of its reported subsectors. The Texas industry consists largely of the highly competitive telecommunications sector, which has been surrendering jobs for many years. Losses have spread to newspapers, publishers, Internet services, data services, and all other sectors of the industry. Over the past year, Information has lost 9,200 jobs in the state, for a 4.7 percent decline. Total industry employment in June 2011 matched its late 1994 level of 187,000.

Professional and Business Services

The professional and business services industry includes many positions in engineering, software, management, law, accounting, and architecture. After being the fastest growing service industry every year from 2004 through 2008, professional and business services experienced its weakest year in 2009 since being tracked as a NAICS industry almost twenty years ago. Typically accounting for a large chunk of the state's job growth, this industry underwent a difficult retrenchment of 110,400 jobs from its August 2008 peak to its low point in September 2009. Back on the mend, this industry has resumed its role as the major source of new jobs, growing more than twice as fast as overall state employment. From June 2010 to June 2011, professional and business services added 49,700 jobs.

Employment changes varied considerably in the professional and business services industry, with a large increase in employment services jobs (23,400) partially countered by job losses in legal services, architectural services, and computer systems design. The employment services sector, at 10.5 percent job growth for the year, was the fastest growing service sector. Robust hiring in temporary help services has historically been a favorable leading indicator of future job creation, as companies eventually hire full-time employees to replace temporary workers. Another 8,900 jobs were added in building and dwelling services, which includes exterminators, landscape services, janitorial services, carpet cleaning, and convention planning. Even with job losses in the legal and accounting services subsectors, a net 8,800 jobs were added in the professional and technical services sector.

Overall, the professional and business services employment expanded by 3.9 percent from June 2010 to June 2011, pushing industry employment to 1,323,000 in June 2011.

Education and Health Services

The second greatest source of job growth in Texas over the past year was in the education and health services industry. The industry added 37,600 jobs from June 2010 to June 2011, a 2.7 percent increase, and the second fastest rate of growth among service providing industries. The education services sector actually lost 3.1 percent of its jobs, and therefore all net job growth took place in the health care services sector. Growth in the health care sectors was widespread, with 5.7 percent growth in nursing and residential care services. Another rapidly growing sector—home health care services—increased by 5.3 percent, also in response to the growing elderly segment of the state's population.

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.) The private education services sector fell to 147,500 jobs over the past year. Private colleges, universities and professional schools added 100 jobs, but specialty education schools, trade schools, and private elementary and secondary schools, in sum, lost 4,800. Overall, education and health services employment in the state reached 1,425,100 in June 2011.

Financial Activities

Employment in the financial activities industry—which includes banking, credit businesses, insurance, real estate, and rental and leasing—was the second weakest private industry, but it managed to add 5,300 jobs (0.9 percent) from June 2010 to June 2011. Relatively stable home values in Texas contributed to minimizing the 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 1.2 percent year-over-year during the first six months of 2011 As demand for office and warehouse space dropped during the recession, vacancy rates elevated, taking a toll on rental and leasing services. Rental and leasing remains the weakest link in the Texas financial industry, with a 4.0 percent drop. Providers of securities, financial investments, and stock equities benefited from stock market resurgence and added 1,400 jobs over the past year, for a 2.9 percent increase. Insurance suffered a 1.3 percent job loss over the past year.

Texas banks and savings institutions are healthier than nationwide averages, likewise reflecting the relatively intact Texas housing market and comparatively resilient strength in the overall economy. Banks and savings institutions added 2,200 jobs from June 2010 to June 2011 (0.9 percent). The percentage of Texas' commercial banks with earnings gains grew substantially from 44.4 percent on December 31, 2009 to 63.0 percent on December 31, 2010, according to the Federal Deposit Insurance Corporation. 20.6 percent of the nation's commercial banks were unprofitable on December 31, 2010, compared to 12.4 percent in Texas.

The financial activities industry employed 627,900 Texans in June 2011.

Leisure and Hospitality Services

The leisure and hospitality services industry in Texas is experiencing a resurgent hotel and motel business, leading to a 3.2 percent employment increase in the accommodation services sector over the year ending June 2011. In addition to 4,800 more hotel and motel jobs, employment in restaurants and drinking places increased by 28,000 jobs (3.5 percent). Tight household budgets may have encouraged Texans to vacation within the state's borders, which contributed to pepping up hotel, motel, and restaurant sales in the state. Arts, entertainment, and recreation services, however, lost 1,600 jobs as some establishments, such as amusement parks and racetracks, struggled to remain profitable when faced with interstate competition and household budget cutbacks. Even with these challenges, the state's leisure and hospitality industry added 32,300 jobs in the last year.

Disposable income is the lifeblood of the leisure and hospitality industry, and even with losses in 2009, Texas' real (inflation-adjusted) per capita income remains fractionally higher than it was three years ago. The state's leisure and hospitality services industry, which now employs 1,035,900 Texans, has grown 24 percent over the past decade and now employs 25 percent more workers than the Texas manufacturing industry. Employment growth has averaged 2.2 percent per year over the past decade, which is more than twice as fast as the state's overall nonfarm job growth over that period (1.0 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 grew by 3.0 percent over the year ending June 2011. Personal and laundry services added 1.0 percent, and there were job gains in religious, political and civic organizations of 0.9 percent. In sum, all sectors added jobs, with overall employment growth of 5,400 (1.5 percent) from June 2010 to June 2011, to a total 365,500 jobs.

Government

Government employed fewer Texans in June 2011 than in June 2010, primarily as a result of temporary 2010 Census workers inflating the federal government payrolls last year. The net result is that federal government employment declined by 31,300, or 13.6 percent over the year. Texas had 1,700 fewer postal workers in June 2011 but 2,100 more defense jobs.

State government also contracted by 1.0 percent during the June 2010 to June 2011 period, reflecting budget constraints.

The local government sector, which is primarily comprised of school districts in Texas and is also affected by tighter funding, expanded by a modest 0.7 percent, which is considerably slower job growth than usual. Total government employment in Texas was 1,868,500 in June 2011, down 20,400 jobs or a negative 1.1 percent.

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 five years, boosted largely by its relatively greater mix of oil and gas firms that benefited from mostly strong energy prices, as well as from bustling health care and import/export industries. However, because of weakness in finance and information, Houston's employment is growing at about the same rate as the state over the past year, at 2.0 percent. Boding well for its future, the energy industry is growing again. The Houston area was ranked as having one of the lowest costs of living and some of the most affordable housing among large U. S. metro areas by the ACCRA Cost of Living Index.

The Dallas/Fort Worth area is growing just slightly faster than the state average over the past year (up 2.2 percent, with stronger growth in the Dallas MSA than in the Fort Worth MSA.). The area was buttressed by particularly a strong financial activities industry, but was hurt by rather steep losses in information and manufacturing jobs. 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. Corporate relocations to DFW, largely from California, are likely to boost the area in the near future.

The downturn in worldwide demand for semiconductors and outsourcing in the computer manufacturing market hurt Austin's economy, but the impact has been tempered by the presence of state government, recreation and education. The Austin area had particularly strong growth in education, health, and leisure/hospitality services over the past year, but with relatively weak business services and government sectors recently, it currently is growing more slowly than the state average, at 1.2 percent. The Austin area had been the fastest growing of the state's six largest metropolitan areas from 2009 to 2010, with 1.2 percent job growth compared to 0.3 percent statewide.

San Antonio is buffered from national recessions by regional military government operations, but its finance, information, and government industries suffered during the past year. The area saw an increase in manufacturing and hospitality jobs but the star performance was the robust growth in health and education services, up 8.2 percent. Even so, San Antonio job growth, at 1.4 percent currently falls below the state average, but is soon to be aided by military 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 is growing more slowly than the other largest metropolitan areas in the state, at 0.8 percent. The area was helped by expansions in professional and business services, trade, and government, but it suffered losses in information and transportation services.

Midland (at 5.2 percent), Amarillo, Odessa, and San Angelo had the state's lowest unemployment rates in June 2011. Of the state's six largest metropolitan areas, Austin had the lowest rate, at 7.6 percent, followed by San Antonio at 8.1 percent, Dallas/Fort Worth at 8.7 percent, and Houston at 9.0 percent. El Paso, in keeping with a history of higher rates along the Texas/Mexico border, had a 10.9 percent rate.

Property Values

State-wide property values in Texas showed a decline during the continued economic slump in 2010. The total value of real and personal taxable property in Texas decrease for the first time since 1992 recording a 1.83 percent decrease from 2009 to 2010. The total taxable property value in Texas on January 1, 2010 was $1,655.15 billion according to records maintained by the Comptroller's Property Tax Assistance Division.

Property value changes were varied from property category to property category from 2009 to 2010. The market value of single-family homes decreased very slightly by 0.11 percent to $936.0 billion. Multi-family residential property decreased 4.09 percent from 2009 levels to $83 billion. The value of residential inventory – new, unsold homes held for sale – decreased 17.01 percent from 2009 to 2010 to $8 billion.

The value of commercial and industrial real property was $365 billion, a decline of 3.83 percent. Commercial and industrial personal property dropped 7.11 percent to $206.2 billion. The value of land qualified for agricultural use valuation rose by 2.25 percent to a value of $218.1 billion from 2009 to 2010.

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

Year	Billions	Percent Change
1990	616.90	0.94%
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	1,657.60	-1.69%

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

Agriculture

Agriculture receipts contributed about $21.6 billion to the Texas economy in 2010, an increase of 17.6 percent over the previous year. Texas ranks third in total export value in agricultural production in the nation, behind California and Iowa. Estimated cash receipts from all agricultural enterprises have averaged $19.8 billion annually since 2007.

Texas typically leads the nation in the production of livestock and cotton, in addition to being a major producer of peanuts and rice. Cash receipts for crops raised in the state between 2007 and 2010 made up 43.8 percent of total agricultural receipts, or $10.3 billion. Milk, horticultural products and poultry also contributed significantly to total farm income. Several niche enterprises have added diversity to the state's agricultural mix and are growing in importance and income.

Cattle dominate livestock production in Texas, accounting for approximately 67 percent of the cash receipts generated from livestock enterprises in 2010. That year, the AgriLife Extension Service of the Texas A&M System reported cash receipts from beef cattle and calves at $6.5 billion. The average value between 2007 and 2010 was about $6.5 billion.

Texas leads the nation in most livestock rankings in both quantity and value. Texas is the number one producer of cattle and calves in the country and feeds and markets more cattle than any other state in the U.S. Texas ranks third among all states in live animal and meat production, trailing Iowa and Nebraska.

In addition to cattle, many commodities have contributed to the state's dominance in livestock income. Milk production, poultry, hogs, goats and sheep have traditionally played major roles in providing income to Texas farms and ranches. Combined cash receipts for these pursuits totaled $3.2 billion in 2010. Commercial operations engaged in raising livestock other than cattle, poultry, sheep, hogs and goats contributed about $3.1 million in cash receipts in Texas in 2010. These other types of livestock include ostriches, emus, rheas, llamas, deer, antelope and alligators. Cash receipts for livestock products, such as honey, mohair, and wool averaged $13.3 million annually between 2007 and 2010.

Nursery receipts were $1.6 billion in 2010, the second highest receipts in the crop commodity sector. Nursery receipts averaged $1.7 billion between 2007 and 2010, and represents 9.2 percent of total agricultural receipts in Texas during the time span.

Texas has been the leading cotton producing state in the U.S. since 1878 and many of Texas' largest cities trace their beginnings directly to the cotton industry. In 2010, the cash receipt value of cotton lint and seed was an estimated $3.5 billion. Texas ranks as the number one state in Upland cotton production (5,800,000 bales) and harvested acreage (4,100,000) in the Unites States, more than twice the production capacity (2,525,000 bales) of the second state, Arkansas.

Other crops produced in the state include food grains, such as rice, rye and wheat; feed crops, such as barley, corn, hay, oats, and grain sorghum; and oil crops, such as peanuts, soybeans, and sunflowers. In 2010, cash receipts for these commodity groups totaled $744 million, $3.2 billion and $247.7 million respectively. Texas farmers also produce significant amounts of vegetables, pecans and citrus. The value of Texas vegetable receipts in 2010 was $533.8 million while fruit and nut cash receipts totaled $219 million the same year.

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 268,581 square miles.

The capital of the State is Austin (with a population of 790,390 as of April 2010), and the largest city in the State is Houston (2,099,451). Other major cities include Arlington (365,438), Corpus Christi (305,215), Dallas (1,197,816), El Paso (649,121), Fort Worth (741,206), Laredo (236,091), Plano (259,841), and San Antonio (1,327,407). As of July 2009, Houston, San Antonio and Dallas are respectively the fourth, seventh and ninth most populous cities in the United States.

Almost two-thirds of the State's population (64 percent) in April 2010 resided in the State's four largest Metropolitan Statistical Areas: Dallas-Fort Worth-Arlington (population 6,371,773), Houston-Sugar Land-Baytown (5,946,800), San Antonio-New Braunfels (2,142,508) and Austin-Round Rock-San Marcos (1,716,289).

State Population

Based on U.S. Bureau of the Census figures, Texas' population grew by 2.8 million between April 1980 and April 1990, 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 the

State's population growth during the 1980s, while in the preceding 1970-1980 decade migration accounted for 58 percent of the State's growth.

Between April 1990 and April 2000, the State's 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 growth.

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.

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 April 2010, Texas had 5.8 million more residents than New York State. Table A-31 provides an historical review of the Texas population since 1970.

According to Census Bureau estimates for July 2009, the median age of the State's population was 33.0 years, almost four years younger than the national median of 36.8 years. Only one state, Utah, had a younger median age (28.8 years) than Texas. Table A-32 sets forth information concerning the composition of the State's population by age group, along with comparable information for the United States.

The State's population of persons less than 18 years of age in July 2009 was 6,896,000, 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 2,523,000, the young adult population (25 to 44) at 7,065,000, and the older adult population (45 to 64) at 5,759,000. Texas' population of persons age 65 and older, at 2,539,000, ranked 4th among the states.

The State's population has become increasingly urban. In the year 1900, the Census Bureau categorized 17.1 percent of the State's residents as urban, compared to a national average of 39.6 percent. By 2000, 82.5 percent of the State's residents lived in urban areas, while a smaller share of the nation's population—79.0 percent—was categorized as urban. As of April 2010, almost 88 percent of the State's 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 July 2009 were as follows: 46 percent Non-Hispanic White, 38 percent Hispanic, 12 percent Non-Hispanic Black, and 4 percent Non-Hispanic "Other." Between April 2000 and July 2009, the number of non-Hispanic "Other" Texans (Asian and Pacific Islanders, and Native Americans) increased by 60 percent (an average of 5.9 percent per year), and the number of Hispanic Texans increased by over 42 percent (4.3 percent per year).

Table A-31 sets forth information concerning the State's 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	-	4
April	1980	14,225,191	2.4	3
April	1990	16,986,335	1.8	3
April	2000	20,851,820	2.1	2
July	2000	20,946,000	1.8	2
July	2001	21,333,000	1.8	2
July	2002	21,711,000	1.8	2
July	2003	22,058,000	1.6	2
July	2004	22,418,000	1.6	2
July	2005	22,802,000	1.7	2
July	2006	23,369,000	2.5	2
July	2007	23,838,000	2.0	2
July	2008	24,304,000	2.0	2
July	2009	24,782,000	2.0	2
April	2010	25,145,561	2.0	2

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 November 2008.

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 2009	Percentage of U.S. April 1990	Percentage of U.S. April 2000	Percentage of U.S. July 2009
0-4	8.4%	7.8%	8.4%	7.5%	6.8%	6.9%
5-17	20.2%	20.4%	19.5%	18.2%	18.9%	17.4%
18-24	11.2%	10.6%	10.2%	10.8%	9.7%	9.9%
25-44	33.1%	31.1%	28.5%	32.4%	30.2%	27.1%
45-54	9.5%	12.5%	13.4%	10.1%	13.4%	14.5%
55-64	7.6%	7.7%	9.8%	8.5%	8.6%	11.3%
Over 64	10.1%	9.9%	10.2%	12.5%	12.4%	12.9%

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 November 2008.

EDUCATION

Primary and Secondary Education

Primary and secondary public education in the State is provided by 1,030 school districts and 207 State Charter Schools, which in the 2009-10 school year operated 8,435 campuses, including 4,524 elementary schools, 370 junior high schools and 1,305 middle schools, 1,765 high schools and 471 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 2009-10 year totaled 4,824,778. All children between the ages of 6 and 18 are required to attend school. School districts offer pre-kindergarten programs for eligible three-year olds and four-year olds. Hispanic students make up 48.6 percent, African American students 14.0 percent, Asian and Native Americans 4.1 percent, and White 33.3 percent of the total student enrollment.

For the 2009-10 school year, there were 333,007 full-time equivalent teachers, 58,576 professional support staff, 18,543campus administrators, 6,853 central administrators, 64,701educational aides in the public schools, and 178,141auxiliary staff. The average teacher salary for 2009-10 was $48,263.

For the 2008-09 school year, total actual revenues for public education from State, local, federal, and other sources were $47.1 billion. Of that total, $20.2 billion came from State sources, $22.2 billion from local sources, and $4.7 billion from federal sources.

The State shares in 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 2008-2009 biennium were $1.539 billion. For the 2010-2011 biennium, appropriations for these programs is 1.463 billion.

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 the last Regular Session (Spring of 2009), the Legislature appropriated about $40billion in state funds to public schools for the upcoming 2010-2011 biennium, including about $5.5 billion to continue the property tax relief initiated in the 81st Session. The Legislative Budget Board estimates that local revenues during the 2010-2011 biennium will be about $43 billion, while federal revenues are estimated at about $9.1 billion.

Aside from the federal funds Texas normally receives for public education, the state also appropriated $5.9 billion to TEA from the federal American Recovery and Reinvestment Act.

Educational Achievement

According to the U.S. Census Bureau, 2005-2009 American Community Survey, 79.3 percent of the State's population, age 25 and older, were high school graduates, as compared to an 84.6 percent share for the nation. In addition, 25.4 percent of the State's population age 25 and older had received a bachelor's degree, as compared to a national share of 27.5 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 upperdivision 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. Following the 2009 legislation three new universities were created: Texas A&M-Central Texas, formerly part of Tarleton State University; Texas A&M-San Antonio, formerly part of Texas A&M-Kingsville and the University of North Texas at Dallas formerly part of the University of North Texas at Denton.

According to the Texas Higher Education Coordinating Board, the appropriation by the 81st Texas Legislature for higher education for the 2010-2011 biennium is about $12.7 billion. This funding included monies from the American Recovery and Reinvestment Act of 2009.

According to the Legislative Budget Board, state general revenue funds for the 2010-2011 biennium for Texas higher education will increase by $1.286 billion. Funding increases included:

- TEXAS grant program, $614.8 million
- Professional Nursing Shortage Reduction Program, $ 49.7 million
- B-On-Time Program, $ 52.0 million
- Adult Basic Education Community College Grants, $10.0 million
- Texas Educational Opportunity Grant Program, $ 24.0 million
- Baylor College of Medicine Undergraduate Medical Education, $ 83.3 million
- Joint Admission Medical Program, $ 10.6 million
- Hospital Based Nursing Grant Program, $5.0 million
- Developmental Education Program, $5.0 million
- Family Practice Residency Program, $ 21.2million
- General Academic Enrollment Growth, $3.5 million
- New Campus Funding ($3.5 million), Alzheimer's disease centers $ 6.9 million
- Teach for Texas Loan Repayment Program, $ 11.5 million
- Baylor College of Medicine Graduate Medical Education formula allocation, $ 15.3 million
- Alternative Teaching Certification Programs, $2.3 million

Higher education funding for the 2010-2011 biennium includes $80 million for incentive funding and $54 million for Top Ten Percent Scholarships, an increase of $34 million more than the $100 million provided in 2008–09 for the combined programs.

The Texas Legislature increased its commitment to student financial aid through the TEXAS Grants, Tuition Equalization Grants, B-On-Time Loan Program, Texas College Work Study, and Texas Educational Opportunity Grants in the 2010–11 biennium, appropriating an increase of $ 212.1 million in general revenue funds more than the 2008–09 funding level.

The 81st Texas Legislature passed HB 1935 which appropriates to the Comptroller of Public Accounts $25 million in FY 2010 to award grants to expand existing programs and develop new programs that prepare students for careers in high-demand occupations, including the startup costs associated with career and technical education courses, and to provide scholarships for students in career and technical programs.

The certified headcount enrollment in all colleges and universities in the state in the fall of 2010 was 1,445,157. 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.

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.

Section 54.0515, Texas Education Code, enacted in 2003, creates a legislative oversight committee on higher education to monitor the performance of colleges and universities in meeting state goals for higher education and the impact of tuition deregulation on access to higher education. The Committee reports its findings to the Legislature regularly, along with recommendations for any legislative action needed to achieve state goals and enhance access and affordability to higher education.

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 $12,825,835,987 June 30, 2011, 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 $10,885,941,180 as of June 30, 2011. 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 is the first external investment corporation formed by a public university system and oversees investments of approximately $27.2 billion as of June 30, 2011 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 change will allow the Fund to increase its earnings over time without risking the Fund's principal.

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; however, the RDF was never created. Instead, the Legislature appropriated general revenue to each affected institution for the 2006-2007 biennium in a line item named "Research Development Fund;" however, this is not a separate fund. The TEF and URF were created in 2001 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. Funding for the TEF was set at an amount equal to the portion of the total return on all investment assets of the Higher Education Fund (HEF) in the preceding State fiscal year computed by multiplying that total return by the percentage of the total return on all investment assets of the Permanent Fund for Tobacco Education and Enforcement. By law, funding for the TEF came from the annual $50 million deposit of general revenue to the permanent HEF. Funding for the URF came from general revenue appropriations in an amount equal to the amount deposited in the TEF.

In a constitutional amendment election held in November 2009, Proposition 4 created the National Research University Fund (NRUF) which repurposed the Higher Education Fund (HEF). This change was designed to assist the state in developing more public universities into national research universities. The balance of the NRUF was $619,833,360.62 as of July 31, 2011.

During the 2002-2003 biennium, the State deposited a little more than $33 million into each Fund. During the 2004-2005 biennium, the State deposited $11.6 million into each Fund. The 78th Legislature did not appropriate the $50 million annual amount for the permanent HEF for the 2004-2005 biennium, but the General Appropriations Act (GAA) included funding for the TEF and URF at the levels prescribed by statute. The Governor vetoed the appropriations to both excellence funds when he signed the GAA; however, in August 2004, the Governor and the Legislative Budget Board restored the fiscal 2005 appropriations using budget execution authority; there have been no additional appropriations to either fund.

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.

The 81st Texas Legislature passed HB 51 which appropriates $25 million annually for the 2010-2011 biennium to implement provisions related to funding and incentives that will both strengthen the state's existing public Tier 1 universities and develop Tier 1 status at emerging public research universities. Currently Texas has seven emerging public research universities: Texas Tech, the University of Houston, the University of North Texas in Denton and the University of Texas institutions in Arlington, Dallas, San Antonio and El Paso.

HB 51 will provide the Research University Development Fund (RUDF) with $126.2 million over the next biennium. The purpose of RUDF is for recruitment and retention of faculty and to enhance research productivity at research and emerging research universities. This funding can go only to UT-Austin, Texas A&M, Texas Tech and the University of Houston; in subsequent years, however, the other five emerging research universities will be eligible to receive appropriations from the fund as well.

The new law also creates a Texas Research Incentive Program (TRIP) with $50 million in funding over the next two years. Under TRIP, matching funds will be awarded based on how much an institution raises in private gifts and endowments to enhance research activities. . Additionally, with the approval of Texas voters, HB 51 will create a National Research University Fund. 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;
(8) Commitment to high quality graduate 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 1,004,189 current members and 296,491 retirement recipients as of August 31, 2010. 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, 2010, had 142,490 active contributing members for ERS and 39,052 for LECOS. ERS had 79,311 annuitants and LECOS had 7,175 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 561 active contributing members and 611 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, 2010, the unfunded accrued actuarial liability of TRS was $22.9 billion and for ERS, $4,947.0 million. The TRS fair value of investments, as of August 31, 2010, was $94.9 billion. The ERS fair value of pooled investments as of August 31, 2010, was $20.4 billion. An interim valuation was performed for TRS as of February 28, 2011 in which the unfunded accrued actuarial liability of TRS was $25.7 billion. As of February 28, 2011, the fair market value of investments was $107.8 billion. The increase in the unfunded liability of the trust was entirely due to the recognition of significant deferred investment losses from fiscal years 2008 and 2009.

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, 2010, was $17.2 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 2010-2011 biennium, the Legislature set the State's contribution rates to the retirement systems at the following rates: ERS at 6.95 percent, effective January 1, 2010, and TRS at 6.644 percent of payroll, and JRS Plan Two at 16.83 percent of payroll. Member contribution rates are 6.5 percent for ERS, effective January 1, 2010, and 6.0 percent for JRS Plan Two and 6.4 percent for TRS.

The Legislature is prohibited by statute from implementing 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, 2010.

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	$13,999,917,386	$2,151,255,138	$29,218,156
Benefits and Refunds Paid	$6,934,491,451	$1,615,167,466	$9,407,059
Plan Net Assets Available for Benefits[1]	$95,688,405,009	$20,248,963,390	$225,264,667
Plan Net Assets Available for Benefits to Benefits and Refunds Paid Ratio	13.80:1	12.54:1	23.95:1
Revenue to Payout Ratio	2.02:1	1.33:1	3.11:1

(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, 2010 Employees Retirement System of Texas; Audited Comprehensive Annual Financial Report for Fiscal Year ended August 31, 2010 and Actuarial Valuation report for Fiscal Year ended August 31, 2010, 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, 2010, 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, 2010

Level of Coverage	TRS	ERS	Texas A&M University	University of Texas*
Retiree Only	$385	$385	$342	$330
Retiree/Spouse	$606	$606	$484	$503
Retiree/Children	$533	$533	$430	$441
Retiree/Family	$753	$753	$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. The State of Texas and active school employee contribution rates are 1.0 percent and .65 percent of school district payroll, respectively, with school districts contributing a percentage of payroll, set at 0.55%, for fiscal year 2010.

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 2010 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	86,111	$643,389
University of Texas System	14,747	$36,867
Texas A&M University System	6,145	$29,745
Teacher Retirement System*	161,578	$279,251
Total	**268,581**	**$989,252**

*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, 2010, the unfunded accrued actuarial liability of TRS was $25.0 billion. The State of Texas began including similar information in its financial statements in fiscal year 2008. As of August 31, 2010, the unfunded accrued actuarial liability of ERS was $22.33 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 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 them, if finally decided against the State, would have a materially adverse effect on the long term financial condition of the State.

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 *Southwestern Bell Telephone Company v. Strayhorn*, and *Health Care Service Corporation v. Combs*, et al. cases, discussed below, are examples of this type of state tax law proceeding.

Southwestern Bell Telephone Company v. Carole Keeton Strayhorn, Comptroller of Public Accounts, and Greg Abbott, Attorney General of Texas. Southwestern Bell Telephone Company filed suit claiming a variety of sales and use tax exemptions, including whether: (1) its telecommunications equipment qualifies for the manufacturing exemption because it processes tangible personal property; (2) its pay phones qualify for the resale exemption; (3) its electricity purchases qualify for the resale exemption as an integral part of other property used to perform a taxable service; and (4) its installation labor is non-taxable. The lawsuit is set for trial on December 5, 2011.

Other plaintiffs have filed similar lawsuits alleging that telecommunications equipment qualifies for the manufacturing exemption. In a related case with a favorable disposition, *GTE Southwest Inc. v. Susan Combs, et al.*, the State's motion for summary judgment was granted by the trial court, affirmed by the Third Court of Appeals, and the Texas Supreme Court denied both GTE's petition for review and its motion for rehearing. The Texas Supreme Court disposition is now final.

Health Care Service Corporation (Successor to Blue Cross and Blue Shield of Texas) v. Combs, et al. This is a sales tax refund case related to Plaintiff's health care management services contracts for the federal government. Plaintiff claims that its purchases of tangible personal property and payments for services in the performance of the contracts were made for resale and not subject to sales and use tax. In 2008, the District Court ruled that the items of tangible personal property and services were subject to the sale for resale exemption, and that the plaintiff qualifies for the sale for resale tax exemption as a contractor of health care management services for the federal government. On July 30, 2009, the District Court issued a final judgment that the plaintiff was entitled to a refund. The Comptroller appealed and on March 16, 2011, the Third Court of Appeals affirmed the district court's ruling. The Comptroller has filed a petition for review with the Texas Supreme Court. Effective October 1, 2011, Tax Code, Section 151.006, has been amended to clarify the definition of "sale for resale" with respect to the sale of tangible personal property or a taxable service to a purchaser who acquires the property or service to perform a non-taxable service for resale. This clarification addresses the legal issue under consideration in *Health Care Service Corporation (Successor to Blue Cross and Blue Shield of Texas) v. Combs, et al*.

APPENDIX B

FORM OF OPINION OF BOND COUNSEL

September 1, 2011

ANDREWS KURTH LLP HAS ACTED AS BOND COUNSEL for the State of Texas (the "State") in connection with the notes hereinafter described (the "Notes"):

> $9,800,000,000* STATE OF TEXAS TAX AND REVENUE ANTICIPATION NOTES, SERIES 2011A dated September 1, 2011; issuable in fully registered form, originally issued in the name of Cede & Co., as nominee for The Depository Trust Company, the securities depository for the Notes (purchases of beneficial interests in the Notes to be made in book-entry form in denominations of $5,000, or any integral multiple thereof); maturing August 30, 2012; and bearing interest as set out in the Notes and in the Order (hereinafter defined), interest as computed on the basis of a 366-day year for 364 actual days elapsed and payable August 30, 2012.

WE HAVE ACTED as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Notes under the Constitution and laws of the State, and with respect to the exclusion of interest on the Notes from gross income for federal income tax purposes. We have not been requested to investigate or verify and have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the State or the disclosure thereof in connection with the sale of the Notes. Our role in connection with the State's Official Statement prepared for use in connection with the sale of the Notes has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have examined a transcript of certified proceedings pertaining to the Notes which contains certified copies of certain proceedings of the Comptroller of Public Accounts of the State (the "Comptroller") and of the Cash Management Committee of the State, customary certificates of officers, agents and representatives of the State, other certified showings relating to the authorization and issuance of the Notes and the opinion of the Attorney General of the State approving the Order and the Notes. We have also examined executed Note No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(1) The Notes have been lawfully authorized, issued and delivered in accordance with the Constitution and laws of the State. The issuance, sale and delivery of the Notes are authorized in accordance with the terms of an order (the "Order") duly issued by the Comptroller on August 23, 2011, which Order is a legal, valid and binding order of the Comptroller.

(2) The Notes are valid and legally binding limited obligations of the State, payable both as to principal and interest from amounts on deposit in the Proceeds Account (as defined in the Order), the Payment Account (as defined in the Order) and the Sinking Account (as defined in the Order) established for the Notes, all such accounts being within the Tax and Revenue Anticipation Note Fund of the State (the "Note Fund").

(3) As security for payment of the Notes, the Comptroller has irrevocably pledged and granted a lien on the amounts held for the credit of the Proceeds Account, until such amounts are transferred to the General Revenue Fund Account (as defined in the Note Order) or otherwise used for their authorized purposes, the amounts held for the credit of the Payment Account and the amounts held for the credit of the Sinking Account established for the Notes. The lien on amounts deposited in the Proceeds Account, the Payment Account and the Sinking Account established for the Notes is valid and binding as against all persons of any kind having a claim against the State. The Comptroller covenanted in the Order to make payments into the Payment Account and the Sinking Account established for the Notes to the fullest extent allowed by law at such times and in such amounts as are necessary to provide for the full payment of the principal of and interest on the Notes when due.

---

* Preliminary, subject to change.

THE RIGHTS OF THE HOLDERS of the Notes and the enforceability of the Order and the Notes may be subject to the exercise of judicial discretion in accordance with general principles of equity, to the valid exercise of the sovereign powers of the State and the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws heretofore or hereafter enacted affecting creditors' rights, to the extent constitutionally applicable.

IT IS OUR FURTHER OPINION that:

(1) Interest on the Notes is excludable from gross income for federal income tax purposes under existing law.

(2) The Notes are not "private activity bonds" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Notes is not subject to the alternative minimum tax on individuals, or except as provided herein, corporations.

In providing such opinions, we have relied on representations of the Comptroller with respect to matters solely within the knowledge of the Comptroller which we have not independently verified and have assumed continuing compliance with the covenants in the Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Notes for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete or the State fails to comply with the foregoing covenants of the Order, interest on the Notes could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Interest on all tax-exempt obligations, including the Notes, owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed. Purchasers of Notes are directed to the discussion entitled "TAX EXEMPTION" set forth in the Official Statement.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of, the Notes.

Holders of the Notes should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain "S" corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Notes).

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Notes. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Comptroller has covenanted in the Order not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Notes as includable in gross income for federal income tax purposes.

ANDREWS KURTH LLP