



HOW DOES TEXAS COMPARE TO OTHER STATES?

Texas ranks 19th among US states for its fiscal health, based on its fiscal solvency in five separate categories.

1. Texas ranks 33rd in terms of cash solvency.

Cash solvency measures whether a state has enough cash to cover its short-term bills. The cash ratio is a measure of the amount of liquid cash relative to short-term bills. The quick ratio and current ratio include less liquid forms of cash, such as receivables and investments. A cash or quick ratio greater than one and a current ratio greater than 2 is an indication that the state has enough cash to meet short-term obligations.

	Cash ratio	Quick ratio	Current ratio
Texas	1.32	1.88	2.26
National average	2.23	3.02	3.37

2. Texas ranks 8th in terms of budget solvency.

Budget solvency measures whether a state can cover its fiscal year spending out of current revenues. Did it run a shortfall during the year? The operating ratio is the proportion of total revenues available to cover total expenses. A ratio greater than one indicates the state has more revenues than expenses. The surplus (deficit) per capita measures the change in net assets divided by state population.

	Operating Ratio	Surplus (deficit) per capita
Texas	1.09	\$397
National average	1.07	\$473

3. Texas ranks 16th in terms of long-run solvency.

Long-run solvency measures whether a state has a hedge against large, long-term liabilities. Are there enough assets available to cushion the state from potential shocks or long-term fiscal risks? The net asset ratio measures the total of restricted and unrestricted assets, or net assets, as a portion of total assets. Net assets are a subset of total assets, which also include capital and government buildings. The greater the level of net assets, the more government has on hand to cover long-term liabilities. The long-term liability ratio represents the proportion of long-term liabilities (outstanding bonds, loans, claims and judgments, compensated employee absences), relative to total assets. A lower long-term liability ratio signifies good fiscal health. Long-term liabilities are also expressed on a per capita basis.

	Net asset ratio	Long-term liability ratio	Long-term liability per capita
Texas	0.35	0.22	\$2,053
National average	0.03	0.40	\$2,768

4. Texas ranks 9th in terms of service-level solvency.

Service-level solvency measures how high taxes, revenues, and spending are when compared to state personal income. Do states have enough "fiscal slack"? If spending commitments demand more revenues, is a state in a good position to increase taxes without harming the economy? Is spending high relative to the tax base? The three service-level solvency metrics measure the ratio of total taxes, revenues, and income to state personal income. A higher ratio indicates that the state may have difficulties sustaining spending or finding revenues to meet budget commitments.

	Tax to income ratio	Revenues to income ratio	Expenses to income ratio
Texas	0.04	0.11	0.10
National average	0.06	0.14	0.13

5. Texas ranks 12th in terms of trust fund solvency.

Trust fund solvency measures how much debt a state has. How large are unfunded pension liabilities, other postemployment benefits (OPEB), and state debt compared to the state personal income? The pension to income ratio measures the risk-adjusted unfunded pension liabilities relative to state personal income. The OPEB to income ratio measures the unfunded OPEB liabilities relative to state income. The debt to income ratio is a measure of the total amount of primary government debt relative to state income. Higher ratios for these metrics indicate that long-term obligations represent a larger share of state income.

	Pension to income ratio	OPEB to income ratio	Debt to income ratio
Texas	0.20	0.05	0.04
National average	0.29	0.04	0.04

State Debt

State debt is calculated from each state's Comprehensive Annual Financial Report. State debt reports on general obligation (GO) bonds and total primary government debt, which includes GO bonds, revenue bonds, and other debt instruments. The ratio of debt to state personal income measures the total primary government debt to state personal income, a measure of the economy. Total primary government debt is also expressed on a per capita basis.

	General obligation bonds	Total primary government debt	Personal income	Ratio of debt to personal income	Total primary debt per capita
Texas	\$15.76 billion	\$44.70 billion	\$1,160.08 billion	3.9%	\$1,715
National average	\$6.08 billion	\$12.60 billion	\$282.05 billion	4.0%	\$1,824

Pension Liability

Pension liability is calculated from each state's pension actuarial reports. The unfunded pension liability is based on the expected return on the pension fund's investment. The market value of the unfunded liability recalculates the value of pension obligations using the risk-adjusted discount rate, or the return on 15-year Treasury bonds, to reflect the legal guarantee associated with benefits. Changing the discount rate reveals the full liability for the plan and also reduces the funded ratio of the plan.

	Unfunded liability	Funded ratio	Market value of unfunded liability (risk-free discount rate)	MVL funded ratio
Texas	\$39.87 billion	81%	\$227.03 billion	43%
National average	\$19.85 billion	70%	\$78.79 billion	40%

OPEB Liability

OPEB liability is calculated from each state's Comprehensive Annual Financial Report. The unfunded OPEB liability is based on the reported numbers provided in state financial reports. Most OPEB plans have few assets set aside to back liabilities; thus the average funded ratio across the states is 11 percent.

	Total unfunded OPEB liability	Funded ratio
Texas	\$61.21 billion	0%
National average	\$10.84 billion	11%

Interpreting the Ratios: Financial Indicators Used to Measure Fiscal Condition

See mercatus.org/statefiscalrankings for a complete explanation of the methodology used to calculate Texas's fiscal health rankings.

Eileen Norcross, "Ranking the States by Fiscal Condition"
(Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, July 2015).