



HOW DOES PENNSYLVANIA COMPARE TO OTHER STATES?

Pennsylvania ranks 41st among US states for its fiscal health, based on its fiscal solvency in five separate categories.

Pennsylvania's fiscal performance in FY 2013 was weak in several areas according to its financials. The state had just enough cash to cover short-term liabilities and was able to cover fiscal year expenses with revenues. On a long-run basis, Pennsylvania's liabilities accounted for 41 percent of total assets. Unfunded pension liabilities amounted to \$153 billion, more than three times the state's estimates. Other postemployment benefits (OPEB) was largely unfunded, adding a further \$16 billion to the state's long-term liabilities.

1. Pennsylvania ranks 45th in terms of cash solvency.

Cash solvency measures whether a state has enough cash to cover its short-term bills, which include accounts payable, vouchers, warrants, and short-term debt. Pennsylvania's cash position in FY 2013 indicates the state had available 83 percent of the most liquid cash needed to cover short-term liabilities. The state's position improved slightly when including less liquid forms of cash, with the state carrying between 1.1 and 1.4 times the cash needed to cover short-term spending. By all measures, Pennsylvania's cash solvency was well below the national average.

	Cash ratio	Quick ratio	Current ratio
Pennsylvania	0.83	1.19	1.48
National average	2.23	3.02	3.37

2. Pennsylvania ranks 39th 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? In FY 2013 Pennsylvania's operating ratio indicates revenues matched expenses with a slight surplus of \$69 per capita.

	Operating Ratio	Surplus (deficit) per capita
Pennsylvania	1.01	\$69
National average	1.07	\$473

3. Pennsylvania ranks 36th 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? Pennsylvania's negative net asset ratio indicates that the state did not have sufficient assets to cover all of its debts. (Net assets are those left over after the government has paid its debts. They are a subset of total assets, which also include capital and government buildings. The net asset ratio measures the total of restricted and unrestricted assets, or net assets, as a portion of total assets.) Long-term liabilities represented 41 percent of total assets. The long-term liability per capita was \$1,887, lower than the national average.

	Net asset ratio	Long-term liability ratio	Long-term liability per capita
Pennsylvania	-0.09	0.41	\$1,888
National average	0.03	0.40	\$2,768

4. Pennsylvania ranks 17th 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, are states in a good position to increase taxes without harming the economy? Is spending high or low relative to the tax base? Pennsylvania's taxes as a proportion of state income were 5 percent. Total revenues represented 12 percent of state personal income, indicating the state relied on nontax sources to meet expenses.

	Tax to income ratio	Revenues to income ratio	Expenses to income ratio
Pennsylvania	0.05	0.12	0.12
National average	0.06	0.14	0.13

5. Pennsylvania ranks 26th in terms of trust fund solvency.

Trust fund solvency measures how much debt a state has. How large are unfunded pension liabilities, OPEB liabilities, and state debt compared to the state personal income? When calculated on a guaranteed-to-be-paid basis, Pennsylvania's total unfunded pension liabilities accounted for 26 percent of state personal income in FY 2013. (Pension benefits are recalculated based on a discount rate of 3.38 percent to account for the government's guarantee to pay employees earned benefits.) OPEB and debt each accounted for 3 percent of state personal income.

	Pension to income ratio	OPEB to income ratio	Debt to income ratio
Pennsylvania	0.26	0.03	0.03
National average	0.29	0.04	0.04

State Debt

State debt is calculated from each state's Comprehensive Annual Financial Report. Pennsylvania's total bonded indebtedness amounted to \$17 billion in FY 2013, or \$1,348 per capita.

	General obligation bonds	Total primary government debt	Personal income	Ratio of debt to personal income	Total primary debt per capita
Pennsylvania	\$11.82 billion	\$17.21 billion	\$590.17 billion	2.9%	\$1,348
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 total unfunded pension liability in Pennsylvania was \$153 billion when calculated on a guaranteed-to-be paid basis, more than three times the state's estimates.

	Unfunded liability	Funded ratio	Market value of unfunded liability (risk-free discount rate)	MVL funded ratio
Pennsylvania	\$47.45 billion	64%	\$153.06 billion	36%
National average	\$19.85 billion	70%	\$78.79 billion	40%

OPEB Liability

OPEB liability is calculated from each state's Comprehensive Annual Financial Report. Pennsylvania's unfunded OPEB liability was about \$16 billion in FY 2013, which was slightly below the national average as a percentage of state personal income. This liability is only 1 percent funded, leaving the system on a largely pay-as-you-go basis.

	Total unfunded OPEB liability	Funded ratio
Pennsylvania	\$16.27 billion	1%
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 Pennsylvania's fiscal health rankings.

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