



## RANKING THE STATES BY FISCAL CONDITION

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In new research for the Mercatus Center at George Mason University, Senior Research Fellow [Eileen Norcross](#) ranks each US state's financial health based on short- and long-term debt and other key fiscal obligations, including unfunded pensions and health care benefits. The study, which builds on [previous Mercatus research about state fiscal conditions](#), provides information from the states' audited financial reports in an easily accessible format, presenting an accurate snapshot of each state's fiscal health.

With new spending commitments for Medicaid and growing long-term obligations for pensions and health care benefits, states must be ever vigilant to consider both the short- and long-term consequences of policy decisions. Understanding how each state is performing in regard to a variety of fiscal indicators can help state policymakers as they make these decisions.

A closer analysis of the individual metrics behind the ranking shows how each state's fiscal condition should be assessed. Notably, nearly all states have unfunded pension liabilities that are large relative to state personal income, indicating that all states need to take a closer look at their unfunded pensions, which represent a significant portion of each state's economy. Another financial crisis could mean serious trouble for many states that are otherwise fiscally stable.

To read the study in its entirety and learn more about its author, see "[Ranking the States by Fiscal Condition](#)."

### SUMMARY AND KEY FINDINGS

The financial health of each state can be analyzed through the states' own audited financial reports. By looking at states' basic financial statistics on revenues, expenditures, cash, assets, liabilities, and debt, states may be ranked according to how easily they will be able to cover short-term and long-term bills, including pensions.

This ranking of the 50 states is based on their fiscal solvency in five separate categories:

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- *Cash solvency.* Does a state have enough cash on hand to cover its short-term bills?
- *Budget solvency.* Can a state cover its fiscal year spending with current revenues? Or does it have a budget shortfall?
- *Long-run solvency.* Can a state meet its long-term spending commitments? Will there be enough money to cushion it from economic shocks or other long-term fiscal risks?
- *Service-level solvency.* How much fiscal “slack” does a state have to increase spending should citizens demand more services?
- *Trust fund solvency.* How much debt does a state have? How large are its unfunded pension and health care liabilities?

### **Top Five States**

Alaska, North Dakota, South Dakota, Nebraska, and Florida rank in the top five states.

While these states are considered fiscally healthy relative to other states because they have significant amounts of cash on hand and relatively low short-term debt obligations, each state faces substantial long-term challenges concerning its pension and health care benefits systems.

### **Bottom Five States**

Illinois, New Jersey, Massachusetts, Connecticut, and New York rank in the bottom five states, largely owing to low amounts of cash on hand and large debt obligations.

High deficits and debt obligations in the forms of unfunded pensions and health care benefits continue to drive each state into fiscal peril. Each holds tens, if not hundreds, of billions of dollars in unfunded liabilities—constituting a significant risk to taxpayers in both the short and the long term.

## **CONCLUSION**

How financially healthy is your state? Most states are nearly back to normal since the Great Recession, although there are troubling signs that many states are still ignoring the risks on their books, mainly in underfunded pensions and health care benefits. Even states that appear to be fiscally robust—perhaps owing to large amounts of cash on hand or revenue streams from natural resources—must take stock of their long-term fiscal health before making future public policy decisions.

## Ranking of States by Fiscal Condition (FY 2013)

| Rank | State          | Fiscal condition index | Rank | State                      | Fiscal condition index |
|------|----------------|------------------------|------|----------------------------|------------------------|
| 1    | Alaska         | 8.26                   | 26   | Georgia                    | -0.58                  |
| 2    | North Dakota   | 2.97                   | 27   | North Carolina             | -0.63                  |
| 3    | South Dakota   | 2.84                   | 28   | Wisconsin                  | -0.64                  |
| 4    | Nebraska       | 2.75                   | 29   | Arkansas                   | -0.66                  |
| 5    | Florida        | 2.74                   | 30   | Delaware                   | -0.69                  |
| 6    | Wyoming        | 2.67                   | 31   | Minnesota                  | -0.70                  |
| 7    | Ohio           | 1.30                   | 32   | Arizona                    | -0.78                  |
| 8    | Tennessee      | 1.10                   | 33   | Mississippi <sup>(a)</sup> | -0.78                  |
| 9    | Oklahoma       | 0.99                   | 34   | Michigan                   | -0.80                  |
| 10   | Montana        | 0.98                   | 35   | Louisiana                  | -0.85                  |
| 11   | Utah           | 0.95                   | 36   | New Mexico <sup>(b)</sup>  | -0.92                  |
| 12   | Nevada         | 0.62                   | 37   | Maryland                   | -0.98                  |
| 13   | Alabama        | 0.60                   | 38   | Rhode Island               | -1.06                  |
| 14   | Missouri       | 0.49                   | 39   | Vermont                    | -1.08                  |
| 15   | Idaho          | 0.32                   | 40   | Hawaii <sup>(c)</sup>      | -1.08                  |
| 16   | Indiana        | 0.07                   | 41   | Pennsylvania               | -1.14                  |
| 17   | South Carolina | -0.03                  | 42   | Maine                      | -1.15                  |
| 18   | Iowa           | -0.04                  | 43   | West Virginia              | -1.20                  |
| 19   | Texas          | -0.12                  | 44   | California                 | -1.41                  |
| 20   | New Hampshire  | -0.13                  | 45   | Kentucky                   | -1.42                  |
| 21   | Virginia       | -0.21                  | 46   | New York                   | -1.49                  |
| 22   | Colorado       | -0.27                  | 47   | Connecticut                | -1.83                  |
| 23   | Washington     | -0.43                  | 48   | Massachusetts              | -1.84                  |
| 24   | Kansas         | -0.48                  | 49   | New Jersey                 | -1.86                  |
| 25   | Oregon         | -0.50                  | 50   | Illinois <sup>(d)</sup>    | -1.86                  |

Source: Eileen Norcross, “[Ranking the States by Fiscal Condition](#)” (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, July 2015), 28; using data from analysis of the most recent Comprehensive Annual Financial Reports (CAFRs) for all 50 states.

Note: The fiscal condition index is the sum of the cash, budget, long-run, service-level, and trust fund solvency indexes weighted as follows:  $(0.35 \times \text{cash solvency score}) + (0.35 \times \text{budget solvency score}) + (0.1 \times \text{long-run solvency score}) + (0.1 \times \text{service-level solvency score}) + (0.1 \times \text{trust fund solvency score})$ .

(a) Arizona’s fiscal condition score is  $-0.7833$  and Mississippi’s is  $-0.7838$ . This is why Arizona is ranked 32nd and Mississippi is ranked 33rd, though the rounded scores are the same.

(b) As of October 1, 2014, New Mexico had not released its FY 2013 CAFR. This analysis uses inflation-adjusted figures from New Mexico’s FY 2012 CAFR.

(c) Vermont’s fiscal condition score is  $-1.0785$  and Hawaii’s is  $-1.0815$ . This is why Vermont is ranked 39th and Hawaii is ranked 40th, though the rounded scores are the same.

(d) New Jersey’s fiscal condition score is  $-1.8563$  and Illinois’s is  $-1.8586$ . This is why New Jersey is ranked 49th and Illinois is ranked 50th, though the rounded scores are the same.