



## HOW DOES NORTH CAROLINA COMPARE TO OTHER STATES?

North Carolina ranks 27th among US states for its fiscal health, based on its fiscal solvency in five separate categories.

North Carolina performed unevenly in FY 2013. Cash solvency was relatively weak, with the state holding about 80 percent of the most liquid cash needed to cover short-term bills. North Carolina ran a small surplus, and on a long-run basis, liabilities accounted for 22 percent of total revenues, far lower than the national average. Its trust funds were well funded compared to those in other states, putting North Carolina on a relatively sound basis. However, when calculating the state's pension liabilities on a guaranteed-to-be-paid basis, total unfunded liabilities were more than \$65 billion, with other postemployment benefits (OPEB) adding a further \$23 million and total debt adding an additional \$9 billion.

### 1. North Carolina ranks 42nd 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. In FY 2013 North Carolina's cash position was weak. The state had only 80 percent of the most liquid forms of cash on hand to cover short-term bills. When adding in less liquid forms of cash, the state's cash position improved to between 1.5 and 1.8 times the amount of cash needed to cover short-term liabilities. However, North Carolina still fell short of the national average for all measures of cash to cover short-term liabilities.

	Cash ratio	Quick ratio	Current ratio
North Carolina	0.80	1.53	1.88
National average	2.23	3.02	3.37

### 2. North Carolina ranks 18th 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? North Carolina had revenues 6 percent greater than expenses in FY 2013 and realized a surplus of \$290 per capita.

	Operating Ratio	Surplus (deficit) per capita
North Carolina	1.06	\$290
National average	1.07	\$473

### 3. North Carolina ranks 24th 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? A negative net asset ratio indicates that in FY 2013 North Carolina had assets slightly lower than liabilities. (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.) North Carolina's long-term liabilities were low, representing 22 percent of total assets. And the state's long-term liability per capita was less than half the national average at \$1,300.

	Net asset ratio	Long-term liability ratio	Long-term liability per capita
North Carolina	-0.04	0.22	\$1,300
National average	0.03	0.40	\$2,768

### 4. North Carolina ranks 24th 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? North Carolina's taxes represented 6 percent of total state personal income in FY 2013. The state relied on other revenue sources to meet expenses, with these two ratios each representing 12 percent of total state personal income.

	Tax to income ratio	Revenues to income ratio	Expenses to income ratio
North Carolina	0.06	0.12	0.12
National average	0.06	0.14	0.13

## 5. North Carolina ranks 9th 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) liabilities, and state debt compared to the state personal income? When calculated on a guaranteed-to-be paid basis, North Carolina's total unfunded pension liability was 17 percent of total state personal income. (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 accounted for 6 percent of state personal income and debt represented 2 percent of state personal income.

	Pension to income ratio	OPEB to income ratio	Debt to income ratio
North Carolina	0.17	0.06	0.02
National average	0.29	0.04	0.04

### State Debt

State debt is calculated from each state's Comprehensive Annual Financial Report. In FY 2013 North Carolina reported \$4 billion in general obligation debt. Total primary government debt amounted to slightly more than \$9 billion, representing 2.4 percent of state personal income.

	General obligation bonds	Total primary government debt	Personal income	Ratio of debt to personal income	Total primary debt per capita
North Carolina	\$4.00 billion	\$9.13 billion	\$380.95 billion	2.4%	\$937
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 liability for North Carolina's pensions totaled more than \$65 billion, about 17 times the state's estimates.

	Unfunded liability	Funded ratio	Market value of unfunded liability (risk-free discount rate)	MVL funded ratio
North Carolina	\$3.80 billion	96%	\$65.96 billion	55%
National average	\$19.85 billion	70%	\$78.79 billion	40%

### OPEB Liability

OPEB liability is calculated from each state's Comprehensive Annual Financial Report. OPEB liabilities in North Carolina totaled \$23 billion and were funded at 3 percent.

	Total unfunded OPEB liability	Funded ratio
North Carolina	\$23.10 billion	3%
National average	\$10.84 billion	11%

### Interpreting the Ratios: Financial Indicators Used to Measure Fiscal Condition

See [mercatus.org/statefiscalrankings](http://mercatus.org/statefiscalrankings) for a complete explanation of the methodology used to calculate North Carolina's fiscal health rankings.

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