



## HOW DOES NORTH DAKOTA COMPARE TO OTHER STATES?

North Dakota ranks 2nd among US states for its fiscal health, based on its fiscal solvency in five separate categories.

North Dakota's exceptionally strong fiscal performance in FY 2013 was due to high revenues from the oil and gas industry. Strong performance in this sector contributed to very high levels of cash solvency and excess revenues relative to spending during the fiscal year. On a long-run basis, North Dakota's position was also strong, with a robust level of excess assets and long-term liabilities small relative to total assets. At more than \$7 billion, unfunded pension obligations were three times larger than the state estimate, representing about 20 percent of state personal income.

### 1. North Dakota ranks 7th 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. North Dakota's cash position was very strong in FY 2013. The state had three to five times the amount of cash needed to cover short-term liabilities, far higher than the national average.

	Cash ratio	Quick ratio	Current ratio
North Dakota	3.64	4.37	5.67
National average	2.23	3.02	3.37

### 2. North Dakota ranks 2nd 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 Dakota's operating ratio in FY 2013 indicates that revenues exceeded expenses by 51 percent in FY 2013, and the state showed a surplus of \$4,540 per capita.

	Operating Ratio	Surplus (deficit) per capita
North Dakota	1.51	\$4,540
National average	1.07	\$473

### 3. North Dakota ranks 10th 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? On a long-run basis, North Dakota's picture was very strong in FY 2013. After paying for its debts, the state had excess assets on hand representing 56 percent of total assets. (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 in the state were low, accounting for 14 percent of total assets. But long-term liabilities per capita are higher than the national average at \$3,935.

	Net asset ratio	Long-term liability ratio	Long-term liability per capita
North Dakota	0.56	0.14	\$3,935
National average	0.03	0.40	\$2,768

### 4. North Dakota ranks 49th 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? Service-level solvency is the only area in which North Dakota had a poor ranking. Total taxes as a percent of total personal income were double the national average at 13 percent. In addition to robust tax revenues, other sources of revenue accounted for 24 percent of total state personal income, largely driven by the state's oil industry. Expenses did not match revenues but accounted for 16 percent of total personal income, indicating the state was taking in a high level of revenues but not committing all of it to immediate spending.

	Tax to income ratio	Revenues to income ratio	Expenses to income ratio
North Dakota	0.13	0.24	0.16
National average	0.06	0.14	0.13

## 5. North Dakota ranks 14th 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? North Dakota's unfunded pension liability accounted for 20 percent of 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.) But the state carried very little OPEB and average amount of debt relative to personal income at 4 percent.

	Pension to income ratio	OPEB to income ratio	Debt to income ratio
North Dakota	0.20	0.00	0.04
National average	0.29	0.04	0.04

### State Debt

State debt is calculated from each state's Comprehensive Annual Financial Report. Total primary government debt in North Dakota amounted to \$1.59 billion in FY 2013, or 4 percent of state income, which was close to the national average.

	General obligation bonds	Total primary government debt	Personal income	Ratio of debt to personal income	Total primary debt per capita
North Dakota	\$0.18 billion	\$1.59 billion	\$38.47 billion	4.1%	\$2,266
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. At \$7.70 billion on a guaranteed basis, North Dakota's unfunded pension liability was more than three times larger than the state's estimate.

	Unfunded liability	Funded ratio	Market value of unfunded liability (risk-free discount rate)	MVL funded ratio
North Dakota	\$2.28 billion	61%	\$7.70 billion	32%
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 amounted to \$0.12 billion in North Dakota, a relatively small amount, though the funded status is unclear from reports.

	Total unfunded OPEB liability	Funded ratio
North Dakota	\$0.12 billion	n/a
National average	\$10.84 billion	11%

n/a: not available.

### 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 Dakota's fiscal health rankings.

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