

EMERSON LETTER™

April 24, 2018

Crisis of States

If you live in Florida, you can see the mass exodus of people moving from high tax states such as Connecticut, New Jersey, New York, Illinois and other states whose tax rates have created a burden on the pocket books of those residents. Those state leaders should expect to see a dramatic loss of their taxpayer bases, due to their profligate spending, and dreadful mismanagement of their state finances. New federal tax changes to the deductibility of state income and property taxes will only increase the flight from these states. Approximately 7 ½ years ago, Meredith Whitney in her 600-page report “Tragedy of the Commons”, described murky patterns of spending, revenues and benefits programs, and likened states poor disclosure and accounting rules to those used by the banks before the 2008 – 2009 financial crisis. She was taken to the woodshed, and hasn’t been heard of much since. Many of the problems she described, such as states leverage to the housing market, growing pension liabilities and other postemployment benefits, as well as increasing long term liabilities, have not gone away, but rather have only increased in scale. A fair amount of complacency in the muni market, combined with financial stress and/or default by states as we have seen recently with Puerto Rico, could very well add fuel to the next economic crisis. The following tables from the Mercatus Center at George Mason University published in 2017, illustrate just how profound many states debt and finances have become. At the end of this report is a summary of their findings, as well as a link to their website for further in-depth analysis.

TABLE B3. COMPONENTS OF LONG-RUN SOLVENCY: NET ASSET RATIO, LONG-TERM LIABILITY RATIO, AND LONG-TERM LIABILITIES PER CAPITA (FISCAL YEAR 2015)

State	Net asset ratio	Long-term liability ratio	Long-term liability per capita (\$)	State	Net asset ratio	Long-term liability ratio	Long-term liability per capita (\$)
Alabama	-0.02	0.32	2,137	Montana	0.22	0.21	2,336
Alaska	0.78	0.10	11,473	Nebraska	0.28	0.05	379
Arizona	0.06	0.36	2,267	Nevada	-0.04	0.47	1,967
Arkansas	0.10	0.33	2,772	New Hampshire	-0.09	0.54	2,529
California	-0.62	0.93	5,476	New Jersey	-2.92	3.60	16,821
Colorado	0.01	0.46	3,043	New Mexico	0.53	0.20	3,551
Connecticut	-1.69	2.21	15,937	New York	-0.24	0.56	4,355
Delaware	-0.14	0.58	7,018	North Carolina	0.03	0.17	1,028
Florida	0.10	0.34	2,303	North Dakota	0.58	0.13	4,418
Georgia	-0.06	0.48	2,220	Ohio	0.07	0.55	3,620
Hawaii	-0.19	0.87	11,779	Oklahoma	0.36	0.10	610
Idaho	0.36	0.12	1,114	Oregon	0.13	0.39	3,112
Illinois	-2.77	3.17	12,118	Pennsylvania	-0.27	0.59	2,922
Indiana	-0.11	0.47	1,971	Rhode Island	-0.53	0.89	5,377
Iowa	0.17	0.21	1,592	South Carolina	0.13	0.28	1,509
Kansas	0.00	0.35	2,128	South Dakota	0.34	0.10	803
Kentucky	-1.16	1.33	9,249	Tennessee	0.12	0.10	585
Louisiana	-0.20	0.65	4,197	Texas	0.24	0.33	3,259
Maine	-0.26	0.52	2,542	Utah	0.26	0.23	2,336
Maryland	-0.50	0.94	6,554	Vermont	-0.28	0.62	4,282
Massachusetts	-1.84	2.39	9,919	Virginia	-0.06	0.34	1,752
Michigan	-0.08	0.43	1,790	Washington	0.00	0.68	8,445
Minnesota	0.05	0.35	2,333	West Virginia	-0.13	0.43	4,223
Mississippi	-0.06	0.36	2,799	Wisconsin	-0.02	0.36	2,693
Missouri	-0.02	0.27	1,816	Wyoming	0.72	0.10	4,136

TABLE B7. STATE DEBT (FISCAL YEAR 2015)

State	Total general obligation bonds (\$ thousands)	Total primary government debt (\$ thousands)	Personal income (\$ thousands)	Ratio of debt to personal income	Total primary debt per capita (\$)
Alabama	n/a	n/a	184,784,917	0.00	n/a
Alaska	656,599	1,874,621	41,312,407	0.05	2,538
Arizona	0	10,006,384	266,755,995	0.04	1,465
Arkansas	1,602,810	4,098,619	116,485,302	0.04	1,376
California	80,509,802	114,456,650	2,061,337,141	0.06	2,923
Colorado	0	6,429,751	275,107,294	0.02	1,178
Connecticut	16,402,537	22,404,499	240,519,358	0.09	6,238
Delaware	2,067,323	3,058,315	45,093,172	0.07	3,233
Florida	11,080,000	24,557,000	894,189,554	0.03	1,211
Georgia	9,367,381	14,095,984	414,274,158	0.03	1,380
Hawaii	5,963,928	8,112,352	68,373,394	0.12	5,666
Idaho	0	1,329,908	62,082,853	0.02	803
Illinois	27,421,318	32,537,089	636,280,652	0.05	2,530
Indiana	0	1,057,910	271,425,899	0.00	160
Iowa	0	3,679,039	140,500,814	0.03	1,178
Kansas	0	3,699,167	133,590,648	0.03	1,270
Kentucky	0	7,706,270	172,550,404	0.04	1,741
Louisiana	4,672,593	12,603,436	202,048,237	0.06	2,698
Maine	430,947	1,208,234	55,940,671	0.02	909
Maryland	8,677,214	17,549,780	337,174,077	0.05	2,921
Massachusetts	20,801,956	28,432,229	414,723,656	0.07	4,184
Michigan	1,734,000	7,099,000	421,043,532	0.02	715
Minnesota	6,885,776	9,106,240	277,482,539	0.03	1,659
Mississippi	4,381,327	5,528,472	106,074,837	0.05	1,847
Missouri	266,275	3,627,792	260,122,599	0.01	596
Montana	134,795	257,741	42,646,600	0.01	249
Nebraska	0	15,475	91,039,758	0.00	8
Nevada	1,607,930	3,513,195	121,973,291	0.03	1,215
New Hampshire	992,080	1,614,702	72,947,535	0.02	1,213
New Jersey	2,372,695	44,234,882	535,604,084	0.08	4,937
New Mexico	326,755	2,895,590	80,200,588	0.04	1,388
New York	3,189,000	57,390,000	1,142,485,112	0.05	2,899
North Carolina	3,469,220	8,496,607	408,364,221	0.02	846
North Dakota	0	1,725,459	41,165,870	0.04	2,279
Ohio	9,149,055	17,712,676	504,992,961	0.04	1,525
Oklahoma	107,395	2,223,048	173,186,712	0.01	568
Oregon	7,116,789	11,287,737	173,170,241	0.07	2,801
Pennsylvania	12,976,531	17,564,940	629,709,649	0.03	1,372

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State	Total general obligation bonds (\$ thousands)	Total primary government debt (\$ thousands)	Personal income (\$ thousands)	Ratio of debt to personal income	Total primary debt per capita (\$)
Rhode Island	1,022,895	2,625,036	52,905,465	0.05	2,485
South Carolina	1,126,138	3,108,192	186,285,746	0.02	635
South Dakota	0	555,504	38,637,376	0.01	647
Tennessee	1,960,437	2,178,722	277,706,507	0.01	330
Texas	18,132,000	46,970,000	1,284,262,294	0.04	1,710
Utah	2,950,000	5,930,000	116,992,288	0.05	1,979
Vermont	585,200	628,470	29,967,864	0.02	1,004
Virginia	675,371	7,135,834	437,111,414	0.02	851
Washington	19,872,000	24,819,000	366,789,878	0.07	3,461
West Virginia	412,368	2,084,960	68,328,638	0.03	1,130
Wisconsin	7,449,469	13,694,133	263,301,072	0.05	2,373
Wyoming	0	26,636	32,417,226	0.00	45

TABLE B8. PENSION LIABILITIES UNDER STATE DISCOUNT RATE ASSUMPTIONS (FISCAL YEAR 2015)

State (number of plans)	Assets (\$ thousands)	Liabilities (\$ thousands)	Unfunded liability (\$ thousands)	Funded ratio (%)	Unfunded liability/ personal income (%)
Alabama (3)	31,201,904	46,398,986	15,197,083	67	8
Alaska (5)	14,533,857	20,653,185	6,119,327	70	15
Arizona (4)	41,217,599	59,207,616	17,990,017	70	7
Arkansas (6)	23,571,429	29,520,651	5,949,222	80	5
California (8)	532,954,124	716,564,170	183,610,047	74	9
Colorado (6)	41,333,244	66,980,815	25,647,571	62	9
Connecticut (5)	29,408,013	55,544,928	26,136,916	53	11
Delaware (7)	9,105,122	9,913,313	808,190	92	2
Florida (1)	143,195,531	165,548,928	22,353,397	86	2
Georgia (7)	76,724,022	95,174,089	18,450,067	81	4
Hawaii (2)	14,463,670	23,238,395	8,774,725	62	13
Idaho (3)	14,393,568	15,887,880	1,494,312	91	2
Illinois (6)	114,023,112	230,514,913	116,491,801	49	18
Indiana (8)	30,322,475	46,268,666	15,946,191	66	6
Iowa (4)	30,703,877	36,860,891	6,157,014	83	4
Kansas (3)	17,408,578	25,947,781	8,539,203	67	6
Kentucky (4)	29,330,864	60,006,702	30,675,839	49	18
Louisiana (10)	38,666,600	59,564,792	20,898,192	65	10
Maine (4)	12,876,269	15,403,693	2,527,424	84	5
Maryland (8)	46,170,624	66,281,781	20,111,157	70	6
Massachusetts (2)	46,666,919	77,794,919	31,128,000	60	8
Michigan (6)	59,642,490	95,641,291	35,998,801	62	9
Minnesota (9)	58,136,807	73,675,696	15,538,889	79	6
Mississippi (4)	24,882,024	41,205,125	16,323,101	60	15
Missouri (7)	55,267,624	68,069,869	12,802,246	81	5
Montana (9)	9,875,615	13,570,989	3,695,374	73	9
Nebraska (5)	11,645,457	12,939,940	1,294,484	90	1
Nevada (1)	33,717,900	46,070,100	12,352,200	73	10
New Hampshire (2)	7,321,898	12,384,349	5,062,451	59	7
New Jersey (7)	86,918,342	145,849,865	58,931,523	60	11
New Mexico (6)	25,766,795	37,065,300	11,298,506	70	14
New York (3)	303,820,800	309,920,800	6,100,000	98	1
North Carolina (7)	88,518,068	91,617,821	3,099,753	97	1
North Dakota (4)	4,341,727	6,646,147	2,304,420	65	6
Ohio (4)	172,236,291	227,414,329	55,178,038	76	11
Oklahoma (6)	27,805,606	36,595,067	8,789,462	76	5
Oregon (2)	55,638,800	73,398,800	17,760,000	76	10
Pennsylvania (3)	86,320,167	143,093,594	56,773,427	60	9
Rhode Island (5)	7,843,106	12,651,639	4,808,533	62	9

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State (number of plans)	Assets (\$ thousands)	Liabilities (\$ thousands)	Unfunded liability (\$ thousands)	Funded ratio (%)	Unfunded liability/ personal income (%)
South Carolina (5)	31,853,737	50,687,596	18,833,859	63	10
South Dakota (1)	10,352,405	10,352,405	0	100	0
Tennessee (1)	42,905,200	43,407,300	502,100	99	0
Texas (8)	210,447,304	259,440,230	48,992,926	81	4
Utah (8)	27,124,095	31,140,335	4,016,240	87	3
Vermont (3)	3,728,979	5,526,982	1,798,002	67	6
Virginia (6)	64,392,482	88,268,952	23,876,470	73	5
Washington (11)	71,466,000	83,583,300	12,117,300	86	3
West Virginia (8)	11,397,709	16,949,245	5,551,536	67	8
Wisconsin (1)	91,502,400	91,526,500	24,100	100	0
Wyoming (9)	7,863,264	9,956,013	2,092,749	79	6
TOTAL	3,031,004,491	4,061,926,673	1,030,922,182		

Source: Governmental Accounting Standards Board, "Statement No. 27 of the Governmental Accounting Standards Board: Accounting for Pensions by State and Local Governmental Employers" (No. 116-C, Governmental Accounting Standard Series, November 1994).

**TABLE B9. PENSION LIABILITIES DISCOUNTED USING RISK-FREE DISCOUNT RATE
(FISCAL YEAR 2015)**

State (number of plans)	Market value of liability (MVL) (\$ thousands)	Market value of unfunded liability (\$ thousands)	Funded ratio (%)	Unfunded liability/ personal income (%)
Alabama (3)	100,297,331	69,095,427	31	37
Alaska (5)	44,613,787	30,079,930	33	73
Arizona (4)	126,806,203	85,588,604	33	32
Arkansas (6)	62,279,461	38,708,032	38	33
California (8)	1,458,647,984	925,693,860	37	45
Colorado (6)	135,052,287	93,719,043	31	34
Connecticut (5)	124,153,601	94,745,588	24	39
Delaware (7)	19,167,485	10,062,363	48	22
Florida (1)	340,848,540	197,653,009	42	22
Georgia (7)	191,543,911	114,819,889	40	28
Hawaii (2)	47,845,511	33,381,841	30	49
Idaho (3)	29,870,822	15,477,254	48	25
Illinois (6)	458,869,056	344,845,943	25	54
Indiana (8)	83,990,427	53,667,952	36	20
Iowa (4)	74,399,698	43,695,821	41	31
Kansas (3)	56,089,440	38,680,862	31	29
Kentucky (4)	120,854,908	91,524,044	24	53
Louisiana (10)	122,521,681	83,855,081	32	42
Maine (4)	29,472,158	16,595,888	44	30
Maryland (8)	134,578,270	88,407,646	34	26
Massachusetts (2)	162,418,303	115,751,384	29	28
Michigan (6)	206,686,591	147,044,101	29	35
Minnesota (9)	158,079,492	100,114,154	37	36
Mississippi (4)	86,027,038	61,145,014	29	58
Missouri (7)	145,872,811	90,605,187	38	35
Montana (9)	28,333,175	18,457,560	35	43
Nebraska (5)	27,853,861	16,208,404	42	18
Nevada (1)	99,586,402	65,868,502	34	54
New Hampshire (2)	24,124,689	16,802,791	30	23
New Jersey (7)	310,914,682	223,996,340	28	42
New Mexico (6)	77,384,015	51,617,220	33	64
New York (3)	624,888,081	321,067,281	49	28
North Carolina (7)	178,378,533	89,860,465	50	22
North Dakota (4)	14,093,798	9,752,071	31	24
Ohio (4)	484,333,882	312,097,591	36	62
Oklahoma (6)	76,793,577	48,987,971	36	28
Oregon (2)	153,240,195	97,601,395	36	56
Pennsylvania (3)	287,493,913	201,173,746	30	32

(CONTINUED)

State (number of plans)	Market value of liability (MVL) (\$ thousands)	Market value of unfunded liability (\$ thousands)	Funded ratio (%)	Unfunded liability/ personal income (%)
Rhode Island (5)	25,509,286	17,666,180	31	33
South Carolina (5)	102,200,545	70,346,808	31	38
South Dakota (1)	20,156,973	9,804,568	51	25
Tennessee (1)	87,521,407	44,616,207	49	16
Texas (8)	552,512,472	342,065,168	38	27
Utah (8)	62,787,732	35,663,637	43	30
Vermont (3)	11,864,577	8,135,598	31	27
Virginia (6)	165,954,559	101,562,077	39	23
Washington (11)	174,866,258	103,400,258	41	28
West Virginia (8)	34,174,477	22,776,768	33	33
Wisconsin (1)	139,238,169	47,735,769	66	18
Wyoming (9)	20,785,917	12,922,653	38	40
TOTAL	8,305,977,967	5,275,144,945		

This ranking of the 50 states, reproduced from page 29 of the study, is based on their fiscal solvency in five separate categories:

- *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 if citizens demand more services?
- *Trust fund solvency.* How large are each state’s unfunded pension and healthcare liabilities?



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Emerson Letter Editor

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