IN THE DANGER ZONE:

A COMPARATIVE ANALYSIS OF NEW YORK STATE'S LONG-TERM OBLIGATIONS

March 2010

FOREWORD

Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York City and New York State governments.

The Commission conducts research and regularly issues reports and recommendations based on that research. The research is conducted by staff members and consultants and guided by committees composed of Trustees of the CBC. This report was prepared by Charles Brecher, Executive Vice President and Director of Research, Citizens Budget Commission and Selma Mustovic, Senior Research Associate. Brecher is also a professor at the Robert F. Wagner Graduate School of Public Service, New York University.

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A comparative analysis of the 50 states indicates that New York's debt burden is in a "danger zone;" it is well above national averages and greater than that of all but three states. As a result New Yorkers are currently paying about $5.6 billion in debt service, and in four years the state's credit card obligation will be over $7.1 billion or one of every ten dollars paid in taxes.[1]

The comparative analysis builds upon a methodology initially developed by the Citizens Budget Commission (CBC) in 2000[2] and updated in 2005.[3] The current analysis improves on the approach by incorporating data about unfunded liabilities for health insurance benefits to retirees; the unfunded liabilities for pension benefits were included in the previous analyses, but the information about post-employment benefits other than pensions were not available at the time of the earlier analyses. These long-term obligations are included along with long-term bonds in measuring a state's debt.

The approach consists of six steps:

1. Identify the relevant bonded debt outstanding for each state.
2. Add unfunded pension obligations and unfunded obligations for other post-employment benefits (OPEB) to the state's bonded debt.
3. Determine the resources (revenue base) available to draw upon in repaying the total debts.
4. Adjust available resources to reflect the division of responsibility between a state and its local governments.
5. Adjust available resources to take into account the likely impact of a future national economic downturn; a recession should not jeopardize debt repayment, and states likely to suffer disproportionately from national trends should include a safety margin.
6. Compute the ratio of total relevant debt to the adjusted resource base for each state; a state with a ratio far above the average for all states can be judged as having too much debt.

Each of these steps is described more fully below.

[1] New York State Division of Budget, *2010-11 Executive Budget Five-Year Capital Program and Financing Plan*, January 19, 2010, and *2010-11 Executive Budget 21 Day Amendments*, February 9, 2010.
[2] Citizens Budget Commission, *An Affordable Debt Policy for New York State and New York City*, October 2000. See also Charles Brecher, Kurt Richwerger and Marcia Van Wagner, "An Approach to Measuring the Affordability of State Debt," *Public Budgeting & Finance*, Vol. 23, No. 4, (Winter 2003) pp. 65-85.
[3] Citizens Budget Commission, *Debt Beyond Our Means*, September 2005.

1. Identify the Amount of Relevant Bonded Debt

State and local governments issue a variety of types of debt. Not all debt is relevant to the assessment of debt affordability. Specifically, short-term debt, defined as debt repayable in less than one year and incurred for operating purposes, and long-term debt that is supported by revenues other than government taxes and mandatory fees should not be included in the analysis.[4] Short-term borrowing for operating expenses is to be repaid relatively quickly, and is not critical in determining the long-term viability of a jurisdiction. Neither is long-term debt that is repaid from sources that are independent from government taxation, such as state university debt repaid by dormitory rents or tuition and airport debt to be repaid by fees charged airlines.

For states, measures of debt meeting these criteria are available from the U.S. Census Bureau. The comprehensive data available for fiscal year 2008 are used in this analysis.[5] The specific Census Bureau category used is "net long-term debt outstanding." This category includes the debt of state agencies and of "state dependent entities," but includes only debt used for "public purposes." Net long-term debt is distinguished from gross long-term debt which includes "long-term debt offsets," such as cash and security holdings in debt service or sinking funds held for debt repayment or retirement.

The Census Bureau's categorization of debt differs from that used by the New York State Comptroller in defining "state related debt."[6] The Census Bureau includes all the debt included by the Comptroller, but also includes certain bonds issued by public authorities not included by the Comptroller. Notably, the Census Bureau includes debt issued by the Metropolitan Transportation Authority and backed by certain taxes authorized by the State, and the Census Bureau includes debt issued by the New York State Environmental Facilities Corporation to support projects sponsored by local governments. This analysis uses the data gathered by the Census Bureau because it applies a common definition to all 50 states.

The states vary greatly in their amount of net long-term debt outstanding, both in absolute terms and relative to their personal income and population. (See Table 1.) The range in absolute amounts is from $83 million in Wyoming to $90 billion in California. In absolute terms New York is in second place, behind California. For debt as a share of personal income, the range is from 0.3 percent in Wyoming to 10.6 percent in Massachusetts, and on a per capita basis, from $155 to $5,240 (also Wyoming and Massachusetts, respectively). New York ranked fifth highest in both these measures.

[4] Short-term debt in the form of bond anticipation notes (BANs) should be and is included. This is short-term borrowing for the same purposes as long-term borrowing and is relevant.

[5] U.S. Census Bureau, Census of Governments, *State Government Finances, 2008 Annual Survey of State Government Finances*, http://www2.census.gov/govs/state/08state35.txt, January 13, 2010

[6] New York State, Office of the State Comptroller, "New York State's Debt Policy; A Need for Reform," February 2005, p. 107.

Table 1
Long-Term Debt Outstanding by State, Fiscal Year 2008 (dollars in thousands)

State	Long-Term Debt Outstanding		Debt as a Share of Personal Income		Debt per Capita	
	Amount	Rank	Percent	Rank	Amount	Rank
Alabama	$6,348,787	22	4.2%	21	$1,357	24
Alaska	2,159,996	36	7.7%	6	3,139	6
Arizona	6,354,609	21	2.9%	33	978	36
Arkansas	1,984,721	37	2.2%	39	692	41
California	89,506,603	1	5.7%	11	2,447	9
Colorado	2,992,232	34	1.5%	45	606	43
Connecticut	15,129,621	8	7.8%	4	4,319	2
Delaware	2,717,634	35	7.9%	3	3,102	7
Florida	30,028,213	5	4.2%	20	1,630	18
Georgia	9,502,205	16	2.9%	35	980	35
Hawaii	5,020,074	25	9.6%	2	3,899	3
Idaho	448,021	48	0.9%	46	293	47
Illinois	27,660,188	6	5.2%	15	2,154	13
Indiana	1,389,254	42	0.6%	48	217	48
Iowa	1,850,147	40	1.7%	43	618	42
Kansas	3,571,898	29	3.4%	28	1,277	29
Kentucky	6,166,303	23	4.7%	18	1,438	22
Louisiana	7,891,558	20	5.1%	17	1,773	14
Maine	941,800	45	2.0%	40	714	40
Maryland	9,860,212	15	3.7%	25	1,743	15
Massachusetts	34,286,383	3	10.6%	1	5,240	1
Michigan	12,889,719	12	3.8%	24	1,289	27
Minnesota	5,076,880	24	2.3%	38	971	37
Mississippi	4,423,356	28	5.1%	16	1,504	21
Missouri	4,904,494	26	2.4%	37	823	38
Montana	986,772	43	3.0%	31	1,019	34
Nebraska	375,827	49	0.6%	49	211	49
Nevada	3,042,928	33	2.9%	34	1,163	31
New Hampshire	1,897,044	39	3.4%	29	1,435	23
New Jersey	32,675,947	4	7.5%	7	3,772	4
New Mexico	3,437,537	30	5.4%	13	1,730	16
New York	**71,928,898**	**2**	**7.8%**	**5**	**3,695**	**5**
North Carolina	11,418,369	13	3.6%	27	1,235	30
North Dakota	701,746	46	3.0%	32	1,094	33
Ohio	14,868,187	9	3.7%	26	1,290	26
Oklahoma	4,771,872	27	3.9%	23	1,310	25
Oregon	8,210,277	19	6.2%	10	2,170	12
Pennsylvania	16,133,342	7	3.3%	30	1,284	28
Rhode Island	3,073,906	32	7.3%	9	2,918	8
South Carolina	10,454,181	14	7.4%	8	2,321	10
South Dakota	578,022	47	2.0%	41	718	39
Tennessee	1,911,297	38	0.9%	47	306	46
Texas	13,387,003	11	1.5%	44	551	45
Utah	1,650,833	41	1.9%	42	605	44
Vermont	943,459	44	4.0%	22	1,519	20
Virginia	8,955,010	17	2.7%	36	1,149	32
Washington	14,298,688	10	5.3%	14	2,178	11
West Virginia	3,103,481	31	5.7%	12	1,710	17
Wisconsin	8,813,485	18	4.3%	19	1,566	19
Wyoming	82,624	50	0.3%	50	155	50
U.S. Total	**$530,805,647**		**4.5%**		**$1,747**	

Sources: U.S. Census Bureau, Census of Governments, *State Government Finances, 2008 Annual Survey of State Government Finances*, http://www2.census.gov/govs/state/08state35.txt, January 13, 2010; 2007 personal income data from U.S. Bureau of Economic Analysis, *State Annual Personal Inccome, SA1-3 - Personal Income, 2007*, http://www.bea.gov/regional/spi/default.cfm?selTable=summary, January 13, 2010; 2008 population data from U.S. Census Bureau, *Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2000 to July 1, 2009 (NST-EST2009-01)*, http://www.census.gov/popest/states/NST-ann-est.html, December 16, 2009.

2. Add Unfunded Pension and OPEB Liabilities to Bonded Debt

Repaying a bond is not the only long-term liability that may draw upon a state's resources. Governments sponsor pension plans for their employees, and the funding of defined benefit plans (those that guarantee a specific benefit when the worker qualifies) requires annual contributions from the employer that are based on actuarial calculations. If these annual contributions are made in a full and timely way, then the pension fund is adequately funded. If the contributions are less than actuarial assumptions require or lag in some way, then the government sponsor has a long-term liability in the form of unfunded pension liabilities. Eventually, when the benefits must be paid to eligible workers, the entity will have to pay for this liability. Such unfunded pension liabilities should be added to long-term debt in considering the ability of an entity to repay its debt.

The link between pension liabilities and long-term debt is highlighted by the debt instrument known as the pension obligation bond. Governments with underfunded pension systems sometimes choose to eliminate the underfunding by borrowing sufficient funds to bring the system to full funding. The bond issued to raise the funds essentially converts a contingent liability (underfunded pension benefits) to a fixed liability (bond repayments). Ignoring the pension liability, even when it remains a contingent liability, understates a jurisdiction's debt obligations.

Credit rating agencies generally consider unfunded pension liabilities in assessing state and local governments. The federal General Accounting Office, in its studies of state and local finances, also recognizes unfunded pension liabilities as a form of debt, and cautions: "Although state and local governments rarely become insolvent or cease to operate, those with underfunded pension plans may face difficult budget choices in the future if they do not work toward full funding. Their future taxpayers will face a liability for benefits earned by current and former government workers, leaving these governments to choose between reducing future pension benefits or raising revenues."[7]

This also is true for unfunded OPEB liabilities. These benefits are provided separately from a pension plan, and may include medical, pharmacy, dental, vision, life, long-term disability and long-term care benefits. Many state and local governments offer some of these benefits to retirees as part of the total compensation package, but until recently most did not report in their financial reports the costs of OPEB until the promised benefits were paid. This was problematic from an accrual accounting perspective for two reasons: 1) the cost of OPEB benefits was not recognized in the same period when the employee services were rendered, and; 2) no information was provided about the actuarial accrued liabilities for promised benefits and the extent to which those liabilities have been funded.

In August 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement 45, requiring state and local governments to measure and report the liabilities associated with OPEB.[8] The impetus for GASB 45 was the growing concern over the potential magnitude of these obligations. According to the schedule of implementation of GASB 45, government employers with annual revenues greater than $100 million, which qualifies all 50 states, were to comply with the new reporting requirements for fiscal years beginning after December 15, 2006.

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[7] U.S. General Accounting Office, *Public Pensions, State and Local Government Contributions to Underfunded Plans*, GAO/HEHS-96-56, March 1996.

[8] Governmental Accounting Standards Board, *News Release 08/02/04: GASB Issues Statement That Addresses Employer Reporting of Postemployment Benefits Other Than Pensions*, http://www.gasb.org/news/nr080204.html, March 1, 2010.

GASB 45 requirements do not address how state and local governments pay for costs associated with OPEB. Most OPEB plans are financed on a pay-as-you-go basis, which means that their future liabilities are almost entirely unfunded. This is different from most pension plans of state and local governments, which have dedicated trust funds with assets that cover some share of their accrued liabilities. In 2008, estimated total future pension liability of state and local pension plans was $2.4 trillion.[9] State and local pension funds were estimated to have enough assets to cover 87 percent of expected future pension costs, on the average. The total OPEB liability was estimated to range from $600 billion to $1.6 trillion,[10] which suggests that that the total unfunded liability associated with future OPEB payments is even larger than the unfunded portion of future pension liabilities.

The unfunded pension liability data in this analysis were obtained from The Public Fund Survey, an online compendium of information about state and local pension systems sponsored by the National Association of State Retirement Administrators and the National Council on Teacher Retirement.[11] Data were adjusted in two ways. First, an estimate was made of the state share of combined state-local pension plans. The state share was estimated based on each state's share of total state and local full-time equivalent employment, which is provided by the U.S. Census Bureau.[12] Second, unfunded pension liability was adjusted to reflect only the share assigned to employer contributions. The split in contribution between employer and employees was calculated for each state, and the employer's share of contributions multiplied by that state's unfunded pension liability. Data for this adjustment is also available from the U.S. Census Bureau.[13] Data for the unfunded OPEB liabilities were taken from a 2009 report by the U.S. Government Accountability Office.[14] (See Table 2.)

In terms of estimated unfunded pension liability, New York is in a much better position than most other states. It is one of only three states (along with Oregon and Florida) that have more assets than needed in their pension funds; in contrast, Illinois and California have unfunded liabilities of about $9.2 billion and $7.8 billion, respectively.

With respect to unfunded OPEB liabilities, New York fares much worse. Its more than $50.8 billion in unfunded liability ranks second only to California. As a result, the combined unfunded pension and OPEB liability in New York, more than $48.1 billion, ranks third highest behind only California and New Jersey.

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[9] Elizabeth McNichol, *Accounting for the Cost of Retiree Health and Other Benefits (GASB 45)* (Washington: Center on Budget and Policy Priorities, March 2008), http://www.cbpp.org/cms/?fa=view&id=1192, December 11, 2009.
[10] U.S. Government Accountability Office, *State and Local Government Retiree Health Benefits*, GAO-10-61, November 2009.
[11] The Public Fund Survey, *2008 Public Fund Survey*, http://www.publicfundsurvey.org, January 13, 2010.
[12] U.S. Census Bureau, *Government Employment & Payroll, 2008 State Government*, http://www.census.gov/govs/apes/, September 18, 2009.
[13] U.S. Census Bureau, *2007 State and Local Government Employee-Retirement Systems, Revenues of State and Local Government Employee-Retirement Systems by State and Level of Government: 2006-2007*, http://ftp2.census.gov/govs/retire/2007ret02.txt, September 18, 2009.
[14] U.S. Government Accountability Office, *State and Local Government Retiree Health Benefits*, GAO-10-61, November 2009.

Table 2

State Long-Term Unfunded Pension and OPEB Libailities (dollars in thousands)

	Unfunded Pension Liability	State Share Factor	Employer Share Factor	Adjusted Unfunded Pension Liability	Unfunded OPEB Liability	Total Unfunded Liability
Alabama	$9,164,561	31.0%	62.7%	$1,779,254	$2,984,796	$4,764,050
Alaska	3,524,901	48.4%	74.3%	1,267,700	2,106,970	3,374,670
Arizona	8,328,762	22.5%	49.8%	933,792	71,180	1,004,972
Arkansas	2,692,000	36.8%	81.7%	809,025	1,748,182	2,557,207
California	50,442,000	23.3%	65.9%	7,752,479	62,000,000	69,752,479
Colorado	15,851,170	30.1%	58.4%	2,786,447	1,326,332	4,112,779
Connecticut	14,392,325	34.5%	77.1%	3,834,661	2,318,800	6,153,461
Delaware	(202,093)	52.8%	78.0%	(83,250)	5,486,100	5,402,850
Florida	(6,633,333)	20.6%	94.9%	(1,294,871)	2,404,323	1,109,452
Georgia	3,938,889	24.1%	70.1%	664,499	18,457,641	19,122,140
Hawaii	5,106,773	80.1%	76.3%	3,121,326	8,788,892	11,910,218
Idaho	(573,400)	27.9%	62.0%	(99,360)	489,421	390,061
Illinois	53,378,958	29.7%	58.0%	9,186,654	24,200,000	33,386,654
Indiana	10,558,117	25.7%	79.9%	2,172,010	442,268	2,614,278
Iowa	2,665,094	29.9%	62.5%	498,652	404,362	903,014
Kansas	5,551,800	23.6%	61.6%	805,511	316,640	1,122,151
Kentcky	12,065,755	53.8%	56.8%	3,684,334	11,661,694	15,346,028
Louisiana	10,977,726	32.5%	70.5%	2,520,642	12,542,953	15,063,595
Maine	2,912,250	33.7%	67.6%	662,621	2,283,806	2,946,427
Maryland	10,094,353	29.7%	75.0%	2,249,682	14,733,420	16,983,102
Massachusetts	10,491,797	28.5%	55.7%	1,662,795	11,320,000	12,982,795
Michigan	9,340,900	32.1%	75.5%	2,263,234	14,914,900	17,178,134
Minnesota	9,407,521	68.0%	54.9%	3,511,475	1,011,444	4,522,919
Mississippi	7,719,974	29.9%	61.7%	1,424,086	570,248	1,994,334
Missouri	8,839,634	30.6%	66.7%	1,804,738	2,851,826	4,656,564
Montana	1,391,136	36.0%	54.5%	273,120	631,918	905,038
Nebraska	673,972	27.6%	58.0%	107,654	0	107,654
Nevada	7,258,239	24.9%	89.0%	1,608,011	4,100,000	5,708,011
New Hampshire	2,519,282	27.4%	30.8%	212,174	2,558,500	2,770,674
New Jersey	32,731,808	30.9%	60.6%	6,126,679	50,649,500	56,776,179
New Mexico	4,619,733	37.5%	58.5%	1,013,298	2,946,289	3,959,587
New York	**(11,217,700)**	**26.9%**	**89.5%**	**(2,703,566)**	**50,819,000**	**48,115,434**
North Carolina	(2,468,032)	33.2%	38.0%	(311,850)	28,741,560	28,429,710
North Dakota	548,900	43.6%	60.3%	144,242	81,546	225,788
Ohio	26,110,340	23.0%	58.5%	3,512,819	20,389,222	23,902,041
Oklahoma	11,492,459	33.3%	70.0%	2,679,886	359,800	3,039,686
Oregon	(6,456,600)	31.6%	98.0%	(2,002,406)	609,793	(1,392,613)
Pennsylvania	13,239,000	27.1%	51.1%	1,837,298	11,685,919	13,523,217
Rhode Island	4,924,784	46.7%	69.1%	1,588,827	788,189	2,377,016
South Carolina	10,795,544	29.9%	57.1%	1,842,152	8,609,121	10,451,273
South Dakota	192,500	30.9%	51.0%	30,327	76,406	106,733
Tennessee	1,602,802	26.2%	78.3%	329,028	2,398,673	2,727,701
Texas	13,414,362	26.3%	57.6%	2,029,840	7,007,453	9,037,293
Utah	2,869,805	37.7%	92.3%	998,778	669,617	1,668,395
Vermont	466,606	37.9%	66.6%	117,698	1,614,582	1,732,280
Virginia	10,301,000	29.6%	93.6%	2,854,292	3,639,000	6,493,292
Washington	3,900,000	35.0%	59.4%	811,814	3,799,530	4,611,344
West Virginia	4,867,236	38.4%	72.4%	1,353,446	7,761,000	9,114,446
Wisconsin	320,500	24.4%	96.0%	74,969	1,472,774	1,547,743
Wyoming	1,316,247	26.3%	51.0%	176,748	174,161	350,909
U.S. Total	**$395,450,357**	**28.8%**	**68.2%**	**$78,623,414**	**$417,019,751**	**$495,643,165**

Sources: Unfunded Pension Liability data from The Public Fund Survey, *2008 Public Fund Survey*, http://www.publicfundsurvey.org, January 13, 2010; State Share Factor based on data from U.S. Census Bureau, *Government Employment & Payroll, 2008 State Government*, http://www.census.gov/govs/apes/, September 18, 2009; Employer Share Factor based on data from U.S. Census Bureau, *2007 State and Local Government Employee-Retirement Systems, Revenues of State and Local Government Employee-Retirement Systems by State and Level of Government: 2006-2007*, http://ftp2.census.gov/govs/retire/2007ret02.txt, September 18, 2009; Unfunded OPEB Liability data from U.S. Government Accountability Office, *State and Local Government Retiree Health Benefits, GAO-10-61*, November 2009.

[a] Missing in the PPCC's 2001 Survey database.

3. Identify the Resources Available to Repay Debt

The affordability of debt should be judged in the context of the resources available in the state to repay that debt. The measures cited earlier—debt per capita and debt as a share of personal income—are common indicators that seek to capture this relationship. But per capita measures can be inaccurate because local populations vary in their incomes, and personal income does not capture all the economic activity in an area. For example, communities with exportable business activity (such as tourism or mineral deposits) may have more of a resource base than personal income alone suggests.

The concept of a Representative Revenue System (RRS), initially developed by the Advisory Commission on Intergovernmental Relations to measure tax capacity and tax effort, provides a broad and accurate measure of available resources. The purpose of the RRS is to indicate how much revenue a state would have if it relied on a tax and fee schedule similar to that used by all other states. This approach identifies a representative revenue system based on national averages of state tax rates and other revenue sources. This representative set of rates can be applied to actual resource base values for a given state in order to calculate a standardized revenue base against which to assess affordability.

The RRS is used in this analysis is the one developed as part of a joint project among the Urban Institute, Brookings Institution and Federal Reserve Bank of Boston.[15] It is based on state policies in effect in 2002.[16] (See Table 3.) The mix of state and local revenues in that year included relatively heavy reliance on sales, personal income and property taxes.

The revenue yield from the RRS for each state based on its relevant tax base in 2002 is shown in the first column in Table 4. In order to make the resource base more relevant to the debt measures in 2008, the 2002 base was adjusted to reflect economic changes from 2002 to 2008. Specifically, the revenue base derived from the 2002 calculations was adjusted to reflect the growth in personal income in that state during the 2002-2008 period.[17] The product of this adjustment is the "implied revenue capacity" in Table 4.

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[15] For a more complete description of the RRS see Yesim Yilmaz, Sonya Hoo, Matthew Nagowski, Kim Rueben, and Robert Tannenwald, "Measuring Fiscal Disparities Across the U.S. States: A Representative Revenue System/Representative Expenditure System Approach, Fiscal Year 2002," New England Public Policy Center, Working Paper No. 06-2 (A joint report with the Urban Institute-Brookings Tax Policy Center), October 2006.

[16] Yesim Yilmaz et al., *Measuring Fiscal Disparities across U.S. States*, Supplementary Datasets, Representative Revenue System 2002 Dataset (October 2006).

[17] U.S. Bureau of Economic Analysis, State *Annual Personal Income, SA1-3 - Personal Income, 2003 and 2008*, http://www.bea.gov/regional/spi/default.cfm?selTable=summary, September 17, 2009.

Table 3
Representative Revenue System for States, Fiscal Year 2002

Revenue Sources	Collections (thousands)	Revenue Base (thousands)	Standard Rate	
Retail Sales	$222,428,207	$3,412,613,104	0.07	per dollar
Selective Sales Taxes				
Motor Fuels	33,009,033	166,620,425	0.20	per gallon
Public Utilities	20,097,439	603,377,236	0.03	per dollar
Insurance Premiums	11,158,103	926,755,259	0.01	per dollar
Tobacco	9,075,676	287,376,577	0.03	per pack
Alcoholic Beverages				
Spirits	4,800,186	143,427	33.47	per gallon
Wine	1,368,110	61,442	22.27	per gallon
Beer	5,868,169	291,197	20.15	per gallon
Amusement	4,079,377	125,616,441	0.03	per dollar
Pari Mutuels	308,408	18,113,666	0.02	per dollar
License Taxes				
Motor Vehicles	16,924,579	229,835	73.64	per license
Vehicle Operators	1,418,939	194,533	7.29	per license
Corporation	5,842,054	5,645	1,034.83	per license
Fishing and	1,181,990	43,299	27.30	per license
Personal Income	201,908,959	6,013,233,560	0.03	per dollar
Corporate Income	27,940,613	573,874,370	0.05	per dollar
Property	278,318,291	20,951,291,184	0.01	per dollar
Estate and Gift	7,384,434	26,400,632	0.28	per dollar
Severance	4,233,989	131,293,583	0.03	per dollar
Other Taxes	51,837,935	8,847,084,714	0.01	per dollar
Charges and Other Revenues				
User Charges	264,224,961	8,847,084,714	0.03	per dollar
Misc Revenues	149,758,381	8,847,084,714	0.02	per dollar
Lottery	15,766,320	39,265,559	0.40	per dollar
RRS Total	$1,338,934,152			

Source: Yesim Yilmaz, Sonya Hoo, Matthew Nagowski, Kim Rueben, and Robert Tannenwald, "Measuring Fiscal Disparities Across the U.S. States: A Representative Revenue System/Representative Expenditure System Approach, Fiscal Year 2002," New England Public Policy Center, Working Paper No. 06-2 (A joint report with the Urban-Brookings Tax Policy Center), Supplementary Datasets, Representative Revenue System 2002 Dataset (October 2006).

Table 4

Unadjusted and Adjusted State Revenue Capacity (dollars in thousands)

State	2002 Revenue Capacity	Ratio of 2002 Revenue Capacity to 2002 Personal Income	2008 Personal Income	Implied 2008 Revenue Capacity	State Share of State/Local Revenues	Index of State Share of State/Local Revenues	Adjusted Revenue Capacity
Alabama	$17,090,929	0.148	$157,421,997	$23,315,093	65.9%	111.1	$25,893,102
Alaska	3,524,159	0.165	30,223,608	5,000,237	74.5%	125.6	6,278,685
Arizona	22,603,911	0.153	223,184,451	34,046,700	61.7%	104.0	35,419,289
Arkansas	9,612,793	0.146	92,505,191	13,544,667	80.5%	135.7	18,380,094
California	177,567,459	0.150	1,604,112,764	239,891,986	66.3%	111.8	268,222,602
Colorado	23,770,315	0.151	212,320,185	31,992,558	49.5%	83.4	26,669,536
Connecticut	21,704,319	0.145	197,023,620	28,610,154	60.9%	102.6	29,363,720
Delaware	4,552,330	0.171	35,376,923	6,032,927	79.4%	133.8	8,074,937
Florida	78,861,039	0.155	719,707,709	111,637,926	53.2%	89.7	100,092,595
Georgia	37,091,366	0.148	337,960,830	49,889,513	55.2%	93.1	46,450,272
Hawaii	5,995,599	0.160	54,175,210	8,667,350	77.5%	130.7	11,326,334
Idaho	5,264,025	0.151	50,398,859	7,598,353	74.2%	125.1	9,507,463
Illinois	60,959,931	0.144	546,344,259	78,662,375	54.6%	92.0	72,366,142
Indiana	26,393,147	0.150	220,670,002	33,205,415	66.4%	111.8	37,129,958
Iowa	12,800,427	0.152	112,302,300	17,019,868	59.2%	99.7	16,972,249
Kansas	11,451,219	0.142	108,778,736	15,431,393	60.7%	102.3	15,787,939
Kentucky	17,129,867	0.162	136,939,777	22,215,111	72.2%	121.7	27,029,009
Louisiana	17,166,682	0.148	160,658,930	23,803,904	62.4%	105.1	25,019,182
Maine	5,629,876	0.151	47,994,130	7,227,617	63.6%	107.2	7,751,119
Maryland	27,281,223	0.135	272,542,169	36,781,454	55.8%	94.0	34,569,147
Massachusetts	38,482,420	0.151	333,046,494	50,422,040	64.4%	108.6	54,746,609
Michigan	45,434,373	0.150	349,612,178	52,422,227	64.3%	108.3	56,796,710
Minnesota	25,413,704	0.149	224,670,738	33,400,071	75.1%	126.5	42,261,505
Mississippi	9,586,220	0.145	89,331,219	12,944,090	73.2%	123.4	15,973,183
Missouri	24,614,944	0.148	216,546,820	32,090,310	55.8%	94.0	30,165,347
Montana	3,831,065	0.164	33,515,577	5,494,220	70.9%	119.5	6,565,931
Nebraska	7,644,280	0.146	69,820,901	10,206,272	57.0%	96.1	9,804,280
Nevada	11,304,325	0.167	107,079,263	17,846,336	60.4%	101.7	18,155,524
New Hampshire	6,959,482	0.156	57,399,130	8,949,732	45.9%	77.3	6,916,841
New Jersey	48,517,350	0.142	445,928,224	63,336,945	57.3%	96.6	61,195,865
New Mexico	7,337,034	0.158	66,336,940	10,502,817	74.1%	124.9	13,120,185
New York	**100,562,459**	**0.148**	**950,209,504**	**140,802,897**	**47.1%**	**79.4**	**111,830,077**
North Carolina	35,491,997	0.150	325,953,820	48,876,355	69.7%	117.5	57,446,254
North Dakota	2,790,866	0.161	25,575,905	4,116,782	68.4%	115.3	4,747,927
Ohio	49,848,202	0.146	413,732,085	60,539,923	56.4%	95.1	57,578,984
Oklahoma	13,329,813	0.146	131,070,218	19,122,796	69.2%	116.6	22,295,100
Oregon	16,319,407	0.156	137,569,686	21,443,349	60.7%	102.4	21,947,333
Pennsylvania	54,379,968	0.140	499,669,401	70,122,970	59.0%	99.4	69,734,703
Rhode Island	5,023,035	0.147	43,468,678	6,369,730	57.8%	97.4	6,202,826
South Carolina	15,808,082	0.148	146,334,933	21,622,505	62.9%	106.1	22,936,706
South Dakota	3,305,880	0.155	31,090,547	4,806,653	52.9%	89.2	4,287,110
Tennessee	23,894,811	0.146	217,372,834	31,825,722	62.0%	104.5	33,265,281
Texas	92,918,500	0.148	918,921,246	135,903,139	49.1%	82.8	112,547,799
Utah	9,277,987	0.155	87,411,357	13,545,071	66.1%	111.4	15,093,011
Vermont	2,868,075	0.155	24,034,394	3,734,539	87.4%	147.4	5,503,500
Virginia	34,485,584	0.140	343,580,294	48,207,717	57.7%	97.2	46,841,225
Washington	29,625,497	0.148	280,677,561	41,476,037	64.3%	108.3	44,914,835
West Virginia	6,380,321	0.145	57,410,905	8,347,044	76.0%	128.1	10,695,629
Wisconsin	24,371,984	0.145	212,553,339	30,882,828	62.1%	104.6	32,293,737
Wyoming	2,675,873	0.168	25,892,041	4,345,524	62.4%	105.1	4,567,490
U.S. Total	**$1,338,934,152**	**0.148**	**$12,186,457,882**	**$1,808,281,239**	**59.3%**	**100.0**	**$1,822,734,877**

Sources: 2002 Revenue Capacity data from Yesim Yilmaz, Sonya Hoo, Matthew Nagowski, Kim Rueben, and Robert Tannenwald, "Measuring Fiscal Disparities Across the U.S. States: A Representative Revenue System/Representative Expenditure System Approach, Fiscal Year 2002," New England Public Policy Center, Working Paper No. 06-2 (A joint report with the Urban-Brookings Tax Policy Center), Supplementary Datasets, Representative Revenue System 2002 Dataset (October 2006); Personal Income data from U.S. Bureau of Economic Analysis, State Annual Personal Income, SA1-3 - Personal Income, 2003 and 2008, http://www.bea.gov/regional/spi/default.cfm?selTable=summary, January 13, 2010.

4. Adjust Resources to Reflect the Division of State and Local Responsibility

Comparisons among states using the revenue base estimates directly from the RRS can be misleading because of the variability in the division of responsibilities between states and their localities. The revenue base estimates are derived from the combined state and local taxes, and all the revenue is not available to the state. Local governments must have revenue available to cover the costs of the services they are required to provide, a decision typically mandated in state law.

A reasonable proxy for the division of functional responsibilities is the division of combined state and local revenues between the two levels of government. Nationwide the average state share of combined revenues is 59.3 percent and the local share is 40.7 percent. Relatively greater shares of combined revenues used by local governments indicate more spending responsibility at the local level; similarly, a greater share of revenues used by states indicate that state governments have more financing responsibilities. In Table 4 a state's share, when indexed to the national average, is referred to as the Index of State Fiscal Responsibility. It is used to adjust the revenue capacities of the states by multiplying the index by the implied 2008 RRS revenue capacity. The result, shown in the last column of Table 4, is "adjusted revenue capacity," a reasonable measure of resources available to a state for its state-level responsibilities.

5. Adjust Resources to Allow For An Economic Downturn

Debt service is a fixed obligation that does not change in response to economic conditions; consequently, a national recession should not jeopardize a state's ability to repay its debt. However, the impact of a recession varies among state's, depending primarily on the industrial mix of its economy. For example, the 1991 recession hit New York State especially hard. In 1991 New York State's real personal income dropped 2.17 percent from 1990, while the other 49 states in combination fell only 0.29 percent.[18] In other words, New York's real personal income fell 1.88 percentage points more than the rest of the states'. In the 2001 recession, New York's relative decline in real personal income was even greater, 2.23 percentage points more than was the case in the rest of the nation. It is very likely that New York fared even worse in the most recent recession, but the data is still not available to make the exact calculation.

In order to adjust for the differential impacts of recessions, the "adjusted revenue capacity" can be further modified to reflect a state's cyclical volatility. Table 5 presents a "recession adjustment factor" for each state based on its experience in the 2001 recession. This measure is 1.00 if state's personal income changed in that recession at the same pace as the nation's personal income; the factor is greater than one to the extent the decline is slower than the national average, and it is lower than 1.00 to the extent the percentage decline is greater than the national average. New York, where personal income declined 0.34 percent, has an index of 0.98. Applying the measure to the "adjusted revenue capacity" yields a "recession adjusted revenue capacity," which is shown in the last column of Table 5.

[18] U.S. Department of Commerce, Bureau of Economic Analysis, *Regional Economic Information System*, http://fisher.lib.virginia.edu/reis/, 13 September 2000.

Table 5
Recession Adjusted State Revenue Capacity (dollars in thousands)

State	Adjusted Revenue Capacity	Personal Income Change 2001-2002	Recession Adjustment Factor for Revenue Capacity	Recession Adjusted Revenue Capacity
Alabama	$25,893,102	3.09%	1.01	$26,183,410
Alaska	6,278,685	3.36%	1.01	6,365,629
Arizona	35,419,289	3.81%	1.02	36,072,260
Arkansas	18,380,094	2.04%	1.00	18,393,684
California	268,222,602	1.09%	0.99	265,868,567
Colorado	26,669,536	0.24%	0.98	26,207,929
Connecticut	29,363,720	-0.24%	0.98	28,713,612
Delaware	8,074,937	3.89%	1.02	8,229,745
Florida	100,092,595	3.52%	1.02	101,644,042
Georgia	46,450,272	1.80%	1.00	46,372,791
Hawaii	11,326,334	3.54%	1.02	11,504,096
Idaho	9,507,463	2.40%	1.00	9,548,626
Illinois	72,366,142	1.59%	1.00	72,087,280
Indiana	37,129,958	2.74%	1.01	37,413,996
Iowa	16,972,249	3.70%	1.02	17,266,165
Kansas	15,787,939	1.34%	0.99	15,688,942
Kentucky	27,029,009	2.49%	1.01	27,168,143
Louisiana	25,019,182	2.26%	1.00	25,090,538
Maine	7,751,119	2.54%	1.01	7,795,157
Maryland	34,569,147	3.74%	1.02	35,180,524
Massachusetts	54,746,609	0.34%	0.98	53,856,469
Michigan	56,796,710	1.31%	0.99	56,421,077
Minnesota	42,261,505	2.70%	1.01	42,569,827
Mississippi	15,973,183	1.98%	1.00	15,974,067
Missouri	30,165,347	2.66%	1.01	30,371,783
Montana	6,565,931	2.06%	1.00	6,571,551
Nebraska	9,804,280	2.20%	1.00	9,827,165
Nevada	18,155,524	3.52%	1.02	18,436,449
New Hampshire	6,916,841	1.80%	1.00	6,905,345
New Jersey	61,195,865	1.22%	0.99	60,735,634
New Mexico	13,120,185	1.92%	1.00	13,113,776
New York	**111,830,077**	**-0.34%**	**0.98**	**109,250,791**
North Carolina	57,446,254	1.46%	0.99	57,152,443
North Dakota	4,747,927	1.69%	1.00	4,734,484
Ohio	57,578,984	2.31%	1.00	57,776,527
Oklahoma	22,295,100	0.02%	0.98	21,859,882
Oregon	21,947,333	2.89%	1.01	22,149,096
Pennsylvania	69,734,703	2.66%	1.01	70,216,787
Rhode Island	6,202,826	3.56%	1.02	6,301,553
South Carolina	22,936,706	2.54%	1.01	23,067,506
South Dakota	4,287,110	0.81%	0.99	4,237,530
Tennessee	33,265,281	3.08%	1.01	33,634,508
Texas	112,547,799	1.12%	0.99	111,594,072
Utah	15,093,011	2.79%	1.01	15,216,439
Vermont	5,503,500	1.74%	1.00	5,491,004
Virginia	46,841,225	2.89%	1.01	47,273,181
Washington	44,914,835	2.04%	1.00	44,947,249
West Virginia	10,695,629	3.36%	1.01	10,844,484
Wisconsin	32,293,737	2.78%	1.01	32,555,687
Wyoming	4,567,490	3.28%	1.01	4,627,334
U.S. Total	**$1,822,734,877**	**1.97%**	**1.00**	**$1,822,734,877**

Sources: See Table 4 for sources for Adjusted Revenue Capacity; Personal Income data from U.S. Bureau of Economic Analysis, *Local Area Personal Income, CA1-3 - Personal income, population, per capita personal income, 2001 and 2002*, http://www.bea.gov/regional/reis/, February 20, 2010.

6. Calculate the debt burden ratios and examine distribution to identify states in a "Danger Zone"

After the adjustments are made to the amount of debt and to the resource base for repayment, then it is possible to calculate a ratio of debt to resources for each state. Higher ratios represent greater levels of indebtedness and less affordability. If some entities have ratios that are greatly out of line with the others, then they can be judged to be in a danger zone of having more debt than is affordable given inter-state competitive pressures to keep tax burdens within competitive bounds.

Table 6 shows the results of the affordability analysis for the 50 states. Debt-to-resources ratios range from 0.049 in Nebraska to 1.473 in New Jersey. New York ranks fourth highest with a ratio of 1.099.

How high a ratio represents "too much" debt? There is no absolute answer, but states whose ratio is more than one standard deviation above the mean can be judged as having substantially more debt relative to their resources than their peers. Using this criterion of being more than one standard deviation above the mean, six states fall in the danger zone – New Jersey, Hawaii, West Virginia, New York, Delaware and Louisiana.

In order for New York to be below the danger zone threshold, it would have to lower its long-term liabilities from the 2008 level of $120.0 billion by $20.4 billion. Since New York has no unfunded pension liability, the reduction would be in OPEB liability and/or in long-term bonds. If all the reduction were in long-term bonds, then that debt would have to be lowered from $71.9 billion to $51.5 billion.

Table 6
Affordability Analysis by State (dollars in thousands)

	Total Long-Term Obligations Outstanding	Recession Adjusted Revenue Capacity	Ratio of LT Obligations to Adjusted Revenue Capacity
New Jersey	$89,452,126	$60,735,634	1.473
Hawaii	16,930,292	11,504,096	1.472
West Virginia	12,217,927	10,844,484	1.127
New York	**120,044,332**	**109,250,791**	**1.099**
Delaware	8,120,484	8,229,745	0.987
Louisiana	22,955,153	25,090,538	0.915
South Carolina	20,905,454	23,067,506	0.906
Massachusetts	47,269,178	53,856,469	0.878
Alaska	5,534,666	6,365,629	0.869
Rhode Island	5,450,922	6,301,553	0.865
Illinois	61,046,842	72,087,280	0.847
Kentucky	21,512,331	27,168,143	0.792
Maryland	26,843,314	35,180,524	0.763
Connecticut	21,283,082	28,713,612	0.741
North Carolina	39,848,079	57,152,443	0.697
New Hampshire	4,667,718	6,905,345	0.676
Ohio	38,770,228	57,776,527	0.671
Georgia	28,624,345	46,372,791	0.617
California	159,259,082	265,868,567	0.599
New Mexico	7,397,124	13,113,776	0.564
Michigan	30,067,853	56,421,077	0.533
Maine	3,888,227	7,795,157	0.499
Vermont	2,675,739	5,491,004	0.487
Nevada	8,750,939	18,436,449	0.475
Alabama	11,112,837	26,183,410	0.424
Pennsylvania	29,656,560	70,216,787	0.422
Washington	18,910,032	44,947,249	0.421
Mississippi	6,417,690	15,974,067	0.402
Oklahoma	7,811,558	21,859,882	0.357
Virginia	15,448,302	47,273,181	0.327
Wisconsin	10,361,228	32,555,687	0.318
Missouri	9,561,058	30,371,783	0.315
Oregon	6,817,664	22,149,096	0.308
Florida	31,137,665	101,644,042	0.306
Kansas	4,694,049	15,688,942	0.299
Montana	1,891,810	6,571,551	0.288
Colorado	7,105,011	26,207,929	0.271
Arkansas	4,541,928	18,393,684	0.247
Minnesota	9,599,799	42,569,827	0.226
Utah	3,319,228	15,216,439	0.218
Arizona	7,359,581	36,072,260	0.204
Texas	22,424,297	111,594,072	0.201
North Dakota	927,534	4,734,484	0.196
South Dakota	684,755	4,237,530	0.162
Iowa	2,753,161	17,266,165	0.159
Tennessee	4,638,998	33,634,508	0.138
Indiana	4,003,532	37,413,996	0.107
Wyoming	433,533	4,627,334	0.094
Idaho	838,082	9,548,626	0.088
Nebraska	483,481	9,827,165	0.049
U.S. Total	**$1,026,448,812**	**$1,822,734,877**	**0.563**

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