Municipal Bond Credit Perspectives

State of the States

June 2024

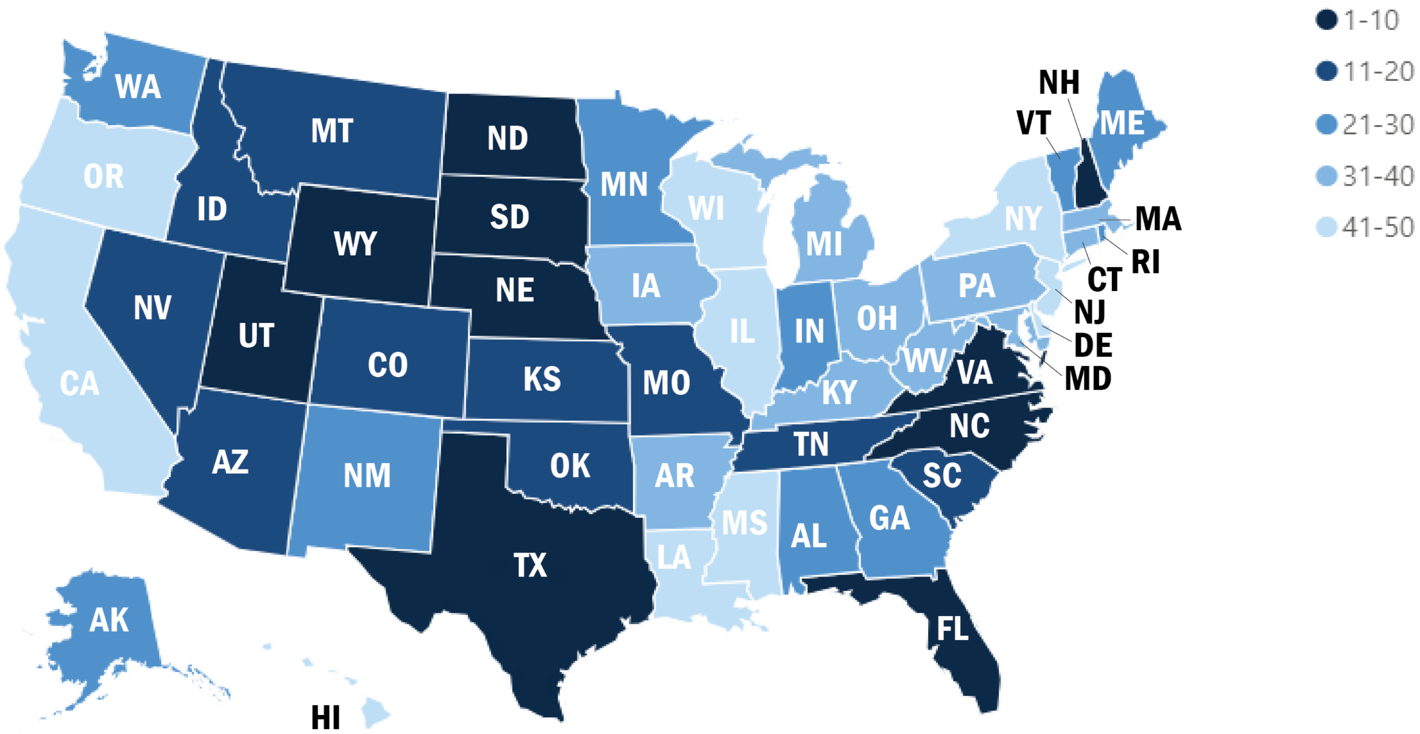
ASSET MANAGEMENT | WHITE PAPER

Conning Assigns “Stable” Outlook

Key Findings

- Conning has revised its outlook on state credit quality to “Stable” from “Declining,” anticipating a return to pre-pandemic fiscal conditions.
- State rainy-day funds have remained at near-record levels, offering a cushion against potential revenue declines.
- The surge in federal funds, economic growth, and stock market gains bolstered states’ financial stability, but inflation and increased costs are now impacting budgets.
- States are encouraged to engage in realistic discussions about prioritizing needs over wants to successfully navigate the changing fiscal landscape.

Exhibit 1: State of the States Rank June 2024



Contents

Conning Changes Outlook to "Stable"

Conning has revised its outlook on state credit quality to "Stable" from "Declining," anticipating a return to pre-pandemic fiscal conditions. The "Declining" outlook in our 2023 report reflected an anticipated slowdown from a period of robust economic growth and substantial federal aid post-pandemic, confirmed by last year's decrease in state tax collections mainly due to reduced personal income tax revenues following recent tax cuts. While the surge in federal funds, economic growth, and stock market gains bolstered states' financial stability, inflation and increased costs are now impacting budgets. Conning encourages states to engage in realistic discussions about prioritizing needs over wants to successfully navigate the changing fiscal landscape. Despite these challenges, state rainy-day funds have remained at near-record levels, offering a cushion against potential revenue declines.

The 2024 State of the States Report reveals notable shifts at the top of its overall rankings, with Nebraska and Wyoming claiming the top two spots, pushing Florida down to third. Texas saw a decline, dropping five spots to sixth due to subpar tax revenue growth. Rhode Island made significant advancements, moving up 21 spots.

Real U.S. GDP improved for every state last year except Delaware. Top-performing states such as North Dakota, Texas, Wyoming, Alaska, Oklahoma, and Nebraska relied heavily on natural resources like oil, natural gas, coal, and agriculture for real GDP growth. On the other hand, the financial services industry saw a small negative contribution in 2023 after a positive contribution in the year prior, which impacted states like Delaware and New York, which had subpar real GDP growth.

Population growth trends varied in 2023, with South Carolina, Florida, and Texas boasting the greatest increases. Population shifts can have profound effects on labor markets, where job growth accelerates with an expanded workforce (South Carolina is a case in point). However, when a state fails to provide sufficient employment opportunities, it can result in high unemployment rates even with strong population growth (e.g., Nevada).

Employment plays a pivotal role in shaping state finances, driving individual income tax revenue through paychecks and stimulating consumer spending which in turn generates sales and corporate tax income. Decreasing employment conditions can signal rising costs for states, such as increased demand for safety-net assistance.

These population and employment changes also impact activity in the housing sector and drive up state and local government spending. Several states in the Northeast performed well last year, suggesting that affordability issues may have become a concern for states that previously experienced the most significant home price appreciation such as Utah and Idaho, which were highly ranked in our 2023 report but saw significant drops this year.

In recent years, strong financial performance has limited the need for new debt issuance, and some states like Connecticut, Illinois, Kentucky, and New Jersey[1] have utilized financial windfalls to bolster funding for pension and other post-employment benefit plans.

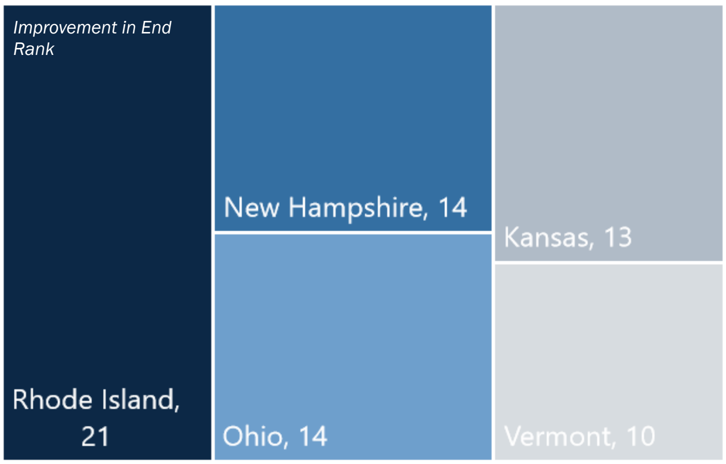
Overall, we believe states are generally in better financial shape than before the pandemic. Despite growth rates that are expected to revert to pre-pandemic levels, state credit quality should remain stable with the potential for regional improvements. While the highest-ranked states were typically west of the Mississippi before the pandemic, this year we observed most positive changes occurring in the Northeast, Great Plains, and Great Lakes regions.

2024 State Overall Rank

For our 2024 State of the States Report, we observed shifts at the top, with Nebraska and Wyoming claiming the top two spots, consequently pushing Florida down to third overall. North Dakota ascended to fourth place, while South Dakota dropped two spots to fifth overall. Several top-performing states relied heavily on natural resources such as oil, natural gas, coal, and agriculture, fostering economic growth and maintaining relatively strong financial metrics.

Texas, the top-ranked state in our 2023 report, dropped five spots to sixth overall. Texas derives a significant portion (62%) of its total tax revenue from sales taxes which were up 7% in the state in 2023, well ahead of the national average gain of 3%. As a result, Texas's total tax collections rose 1.8% in 2023, while the national average declined 4.4%.[2,3] However, Texas witnessed a substantial relative drop in the housing price index (HPI) year-over-year change indicator. Delaware experienced the most significant decline in our overall rankings, plummeting to 45 from 21, attributed to weak HPI growth and disappointing real GDP and personal income growth. Rhode Island made the most significant advancement, climbing 27 spots to 21, driven by robust growth in tax revenue, employment, and HPI.[4,5,6,7,8] Other states that performed well are highlighted in Exhibit 2A.

Exhibit 2A Largest Year-over-Year Improvement in End Rank, 2023 - 2024

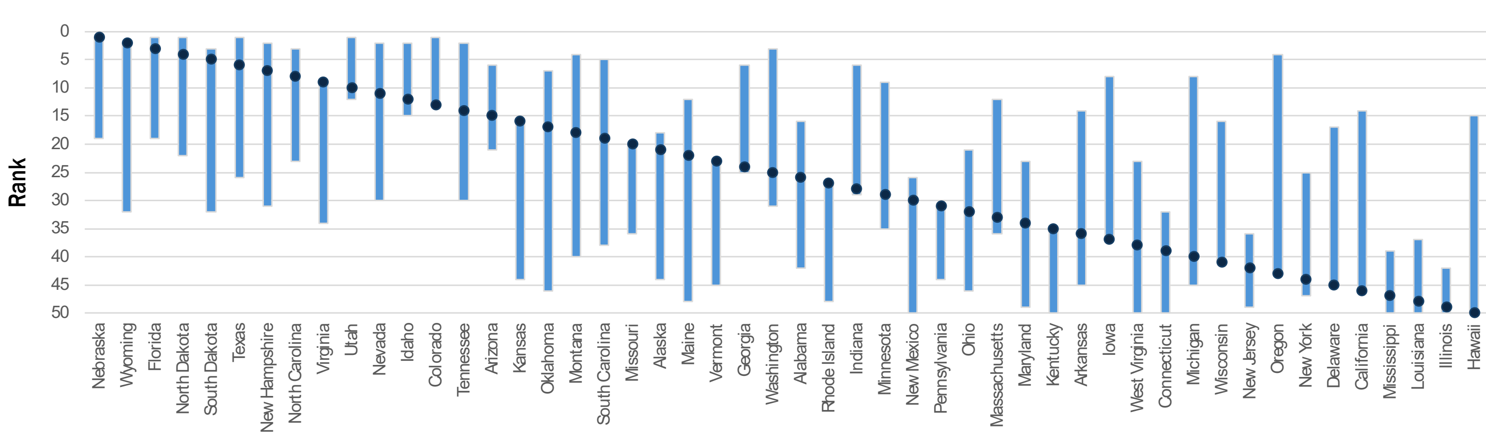


Source: ©2024 Conning, Inc.

- Conning changes its outlook on state credit quality for 2024 to Stable after a normalization of conditions in 2023, even though tax revenue collections declined in 2023.
- Offsetting factors include strong balance sheets with reserves at all-time highs, improving leverage metrics, and continuing U.S. economic growth.
- Energy-producing states did well with Nebraska and Wyoming moving into the top two spots, improving seven and nine positions, respectively. North Dakota moved up six spots into fourth overall.
- There were significant shifts in ranking: three New England states (Rhode Island, New Hampshire and Vermont) rose notably (21, 14, and 10 spots, respectively) while Delaware and Hawaii plummeted 21 and 11 spots, respectively, into the bottom five, alongside perennially low-ranking states Illinois, Louisiana, and Mississippi.

Exhibit 2B displays the range of Conning's state overall rankings over the past decade, illustrating both positive and negative trends. States showing improvement over time include Florida (3 overall in our 2024 report), Georgia (24), Idaho (12), Maine (22), North Carolina (8), and Tennessee (14). Conversely, states exhibiting declining trends are Hawaii (50), Louisiana (48), Maryland (34), and Minnesota (29). States maintaining consistency are Utah (10), Colorado (13), Mississippi (47), and Illinois (49).

Exhibit 2B Conning State Ranking Range, 2014 - 2024



Source: ©2024 Conning, Inc.

Economic Activity

Our comprehensive analysis of state economic conditions involves key metrics such as real GDP growth, GDP per capita, employment growth, and unemployment rates. We scrutinize real GDP growth to identify economic trends, focusing on sectors delineated by the North American Industry Classification System (NAICS), with states often showcasing specialization in specific industries. For instance, Texas excels in oil and gas production and advanced manufacturing, while California thrives in technology, entertainment, and agriculture, and New York dominates in finance and business services.[9] Assessing GDP per capita reveals a state's efficiency in utilizing its population, with states like California, boasting the largest GDP, contrasted with others like Wyoming at the opposite end. Employment growth and unemployment rates provide valuable insights into a region's economic dynamics, indicating its ability to accommodate further population growth through job creation. Low unemployment rates signify a robust labor market, correlating with economic expansion, increased wages, prosperity, and higher tax revenues.

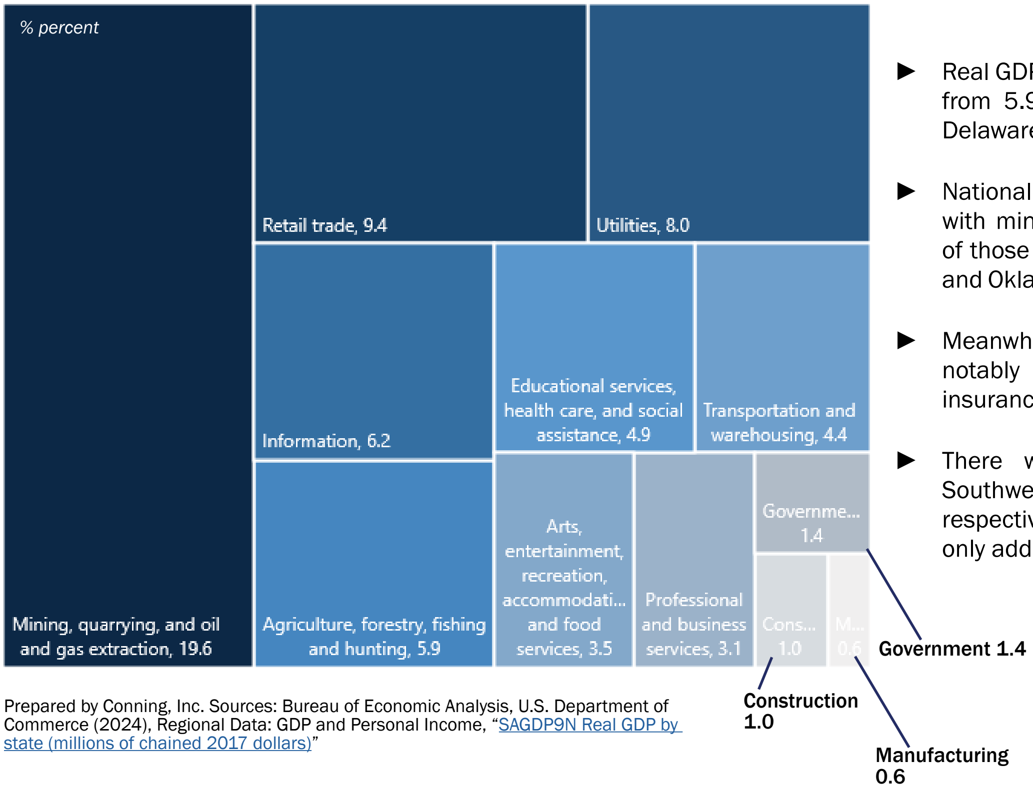
GDP Growth by State

Assessing GDP on a per capita basis illuminates a state's effectiveness in leveraging its population. States with a higher percentage of retirees tend to rank lower on a per capita basis, allowing us to compare a state like California, which boasts the largest economy by GDP, with a state like Vermont, which has the smallest.[10]

Our approach emphasizes real GDP as the measure for assessing a state's economic growth, eliminating the influence of inflation and providing a clear focus on the state's economic output. However, as we will elaborate in our discussion on tax revenue growth, it is imperative to acknowledge that inflation continues to positively influence sales tax collections. Therefore, while it is not the focus here, it remains a significant factor.

Our top-performing states in our 2024 report in terms of real GDP growth—North Dakota, Texas, Wyoming, Alaska, Oklahoma, and Nebraska—relied heavily on natural resources such as oil, natural gas, coal, and agriculture in 2023. Retail trade, utilities, and information were also among the industries that posted strong GDP growth. Retail trade saw a 9% year-over-year increase in GDP. Retail trade GDP was up in all 50 states and was a leading contributor to growth in 23 states. Utilities and information each posted 8% and 6% GDP growth year over year, respectively. Information GDP was positive in 43 states while utilities GDP grew in 44 states.[11] (Exhibit 3 features the leading industry contributors to GDP growth.)

Exhibit 3 GDP Growth by NAICS Sector, 2022 - 2023



- Real GDP was up in all 50 states in 2023, ranging from 5.9% growth in North Dakota to 1.2% in Delaware.
- Nationally, real GDP expanded by 2.5% in 2023, with mining-led growth in seven states and four of those - North Dakota, Texas, Wyoming, Alaska, and Oklahoma - ranking highest in GDP increases.
- Meanwhile, retail trade drove growth in 23 states, notably Florida (+12.9%), while finance and insurance saw declines, especially in Delaware.
- There were major regional differences: the Southwest and Southeast gained 5.1% and 3.1%, respectively, while the Great Lakes and Mideast only added 1.2% and 1.3%, respectively.

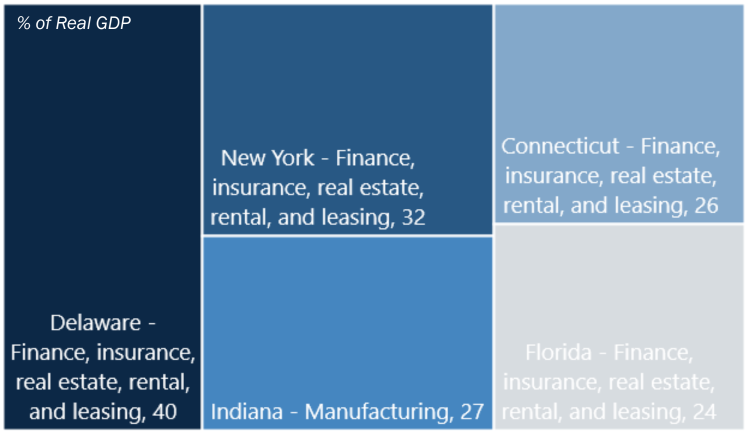
Prepared by Conning, Inc. Sources: Bureau of Economic Analysis, U.S. Department of Commerce (2024), Regional Data: GDP and Personal Income, "SAGDP9N Real GDP by state (millions of chained 2017 dollars)"

GDP per Capita

Measuring GDP per capita adjusts for state size differences, providing insight into a state's efficient utilization of its population. States with large populations but lower relative productivity highlight untapped potential. The top six states from our 2023 report maintained their positions in 2024, primarily concentrated on the East and West Coasts, reflecting the stability of this metric which requires significant shifts in population or economic activity to change substantially. Nebraska ascended five positions to seventh place, propelled by robust (+5.2%) real GDP growth, while Hawaii made even greater strides, climbing six spots to 25.

Hawaii presents a unique scenario where its below-average real GDP growth of 2% didn't hinder the rise in its GDP-per-capita rank, primarily due to a decrease in population. The wildfires in Maui during 2023 affected Hawaii's economic growth in the latter half of the year due to business disruptions and a downturn in tourism.[12] Additionally, the displacement of people and potential reluctance to migrate to Hawaii post-disaster could have significantly influenced its relatively small population.

Exhibit 4A Five States with Largest Single-Sector GDP Contributors, 2023

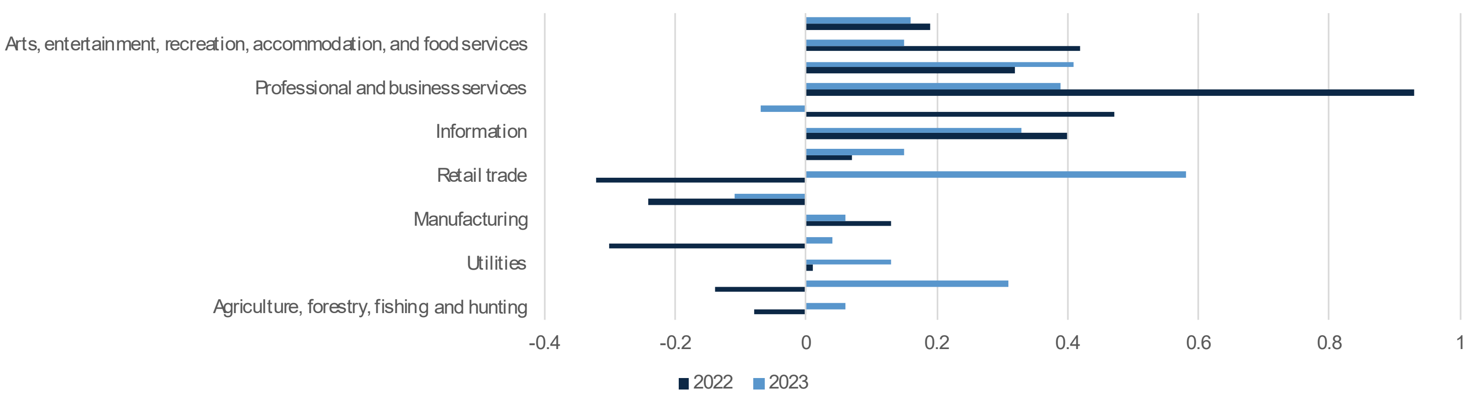


Prepared by Conning, Inc. Sources: Bureau of Economic Analysis, U.S. Department of Commerce (2024), Regional Data: GDP and Personal Income, "SAGDP9N Real GDP by state (millions of chained 2017 dollars)"

- GDP per capita is fairly sticky and requires a large change in population or economic activity to move the needle. Hawaii bounced back six spots after standing out as a laggard in 2022 while Texas did the opposite, dropping seven spots.
- Higher-ranked states remained concentrated on the East and West Coasts, where there are large metropolitan areas.
- Despite the disparity in GDP and population growth in 2023, our top-ranked states were relatively stable in terms of GDP per capita. The top five states – New York, Massachusetts, Washington California, and Connecticut - were unchanged.
- There was very little change among the lower-ranked states: Mississippi, West Virginia, Arkansas, and Alabama. States with a large percentage of retirees tend to score lower.

When examining year-over-year changes in industry-level contributions to the percentage change in real GDP growth, our 2024 reporting found a shift toward a larger majority of industries now making positive contributions to GDP, highlighting that GDP growth was broad-based. In our 2023 report, five industries had a negative impact on GDP growth, while in 2024 only two industries posted negative contributions. Retail trade experienced a significant turnaround for our 2024 report following a weak performance previously, while the construction and mining sectors also made positive contributions. The financial services industry, which made a positive contribution to GDP in our 2023 report, saw a small negative contribution for this year's report.

Exhibit 4B NAICS Sector Contribution to National GDP Growth, 2022 vs 2023 (in percentage points)



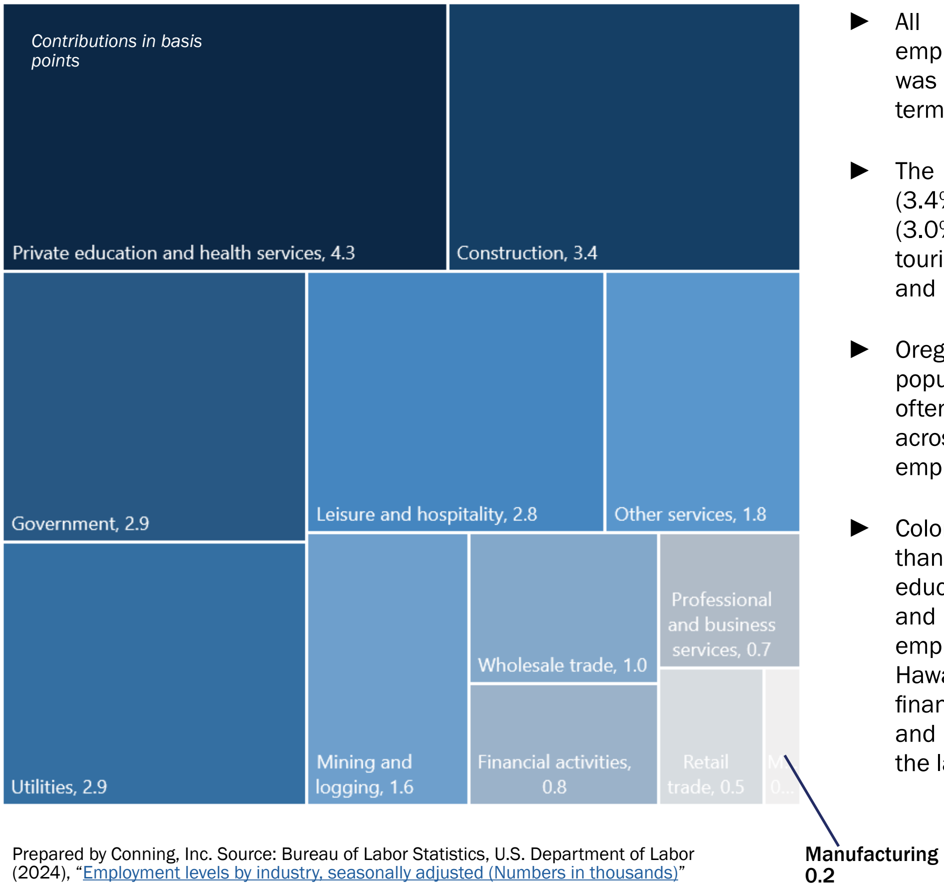
Prepared by Conning, Inc. Sources: Bureau of Economic Analysis, U.S. Department of Commerce (2024), Regional Data: GDP and Personal Income, "SAGDP11N Contributions to percent change in real GDP (percentage points)"

Employment Growth

Employment growth signifies a state's capacity to accommodate further population expansion through the creation of new jobs and industries. Nevada led the pack in our 2024 report with a growth rate of around 3%, maintaining its top position from the previous year. Notably, Alaska and South Carolina also experienced robust growth rates of approximately 3%, marking substantial improvements in their job-growth rankings by 36 and 13 places, respectively. South Carolina's strong performance aligns with its first-place population growth. However, Nevada and Alaska owe their strong employment gains to other factors, as their population growth ranked 20 and 41, respectively.

Hawaii witnessed minimal employment growth, resulting in a significant drop of 45 places in its job-growth ranking to 49. Tennessee and Oregon similarly experienced notable declines, dropping 39 and 37 places, respectively. Across the U.S., manufacturing, transportation, and professional services employment growth lagged (see Exhibit 5A), while construction, utilities, health care, and education did well. Also, government employment bounced back,[13] benefitting states like Wyoming, Alaska, New Mexico, and West Virginia, all of which had government employment account for over 25% of total employment.[14]

Exhibit 5A Employment Growth by NAICS Industry, 2023



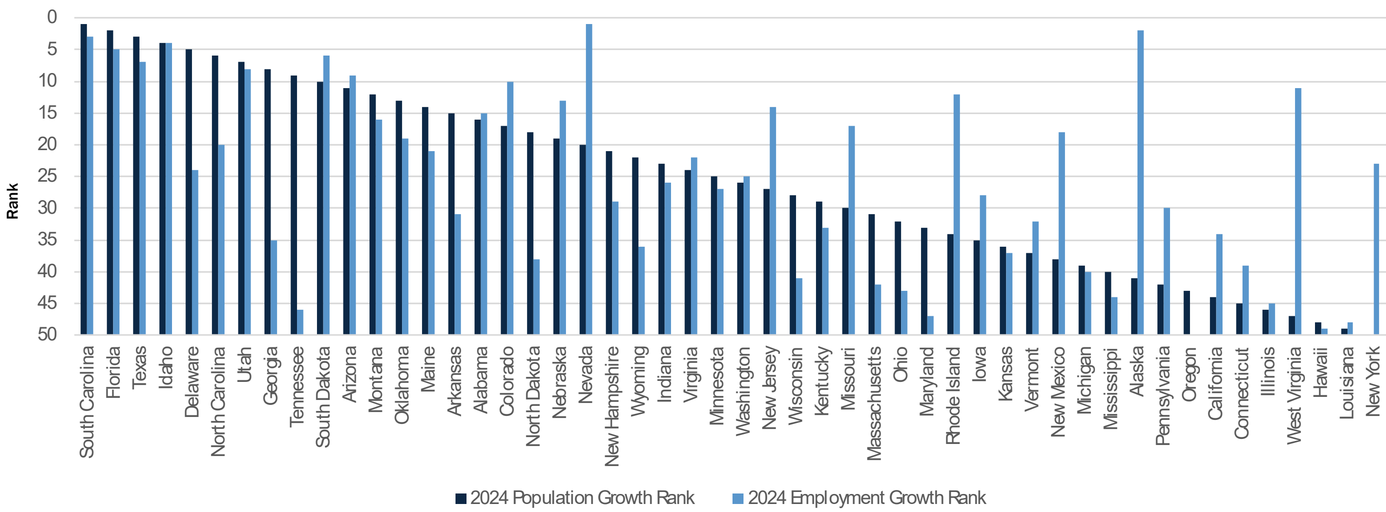
Prepared by Conning, Inc. Source: Bureau of Labor Statistics, U.S. Department of Labor (2024), "Employment levels by industry, seasonally adjusted (Numbers in thousands)"

- All 50 states except Oregon recorded employment growth. Total employment growth was 1.3%, with the largest job gains in absolute terms in Texas, California, and Florida.
- The largest percentage increases - Nevada (3.4%), Alaska (3.1%), and South Carolina (3.0%) - highlight the diversity of contributions: tourism in Nevada, natural resources in Alaska, and manufacturing in South Carolina.
- Oregon's decline may be linked to its shrinking population, with population gains/declines often correlating with job growth/losses across most states. Tourism continued to drive employment growth.
- Colorado surged 39 spots to tenth place thanks to employment growth in government, education and health services, and professional and business services, all of which are large employment sectors for the state. Conversely, Hawaii fell 45 spots due to job losses in the financial activities and trade, transportation, and utilities sectors, the last of which is among the largest employment sectors in the state.

Considering that individuals often relocate for employment opportunities, it stands to reason that there should be a correlation between a state's performance in population growth and employment growth. The better condition for a state is when its rank in employment growth surpasses its rank in population growth, a phenomenon illustrated in Exhibit 5B. Noteworthy are states such as New York, West Virginia, Alaska, Rhode Island, and Missouri, which exhibit robust employment growth despite modest population growth.

States like Georgia, Tennessee, Arkansas, North Dakota, and Wyoming are cause for concern, as their population growth outpaces employment growth, potentially indicating a shortage of job opportunities for residents.

Exhibit 5B Population Growth and Employment Growth Rank, 2024



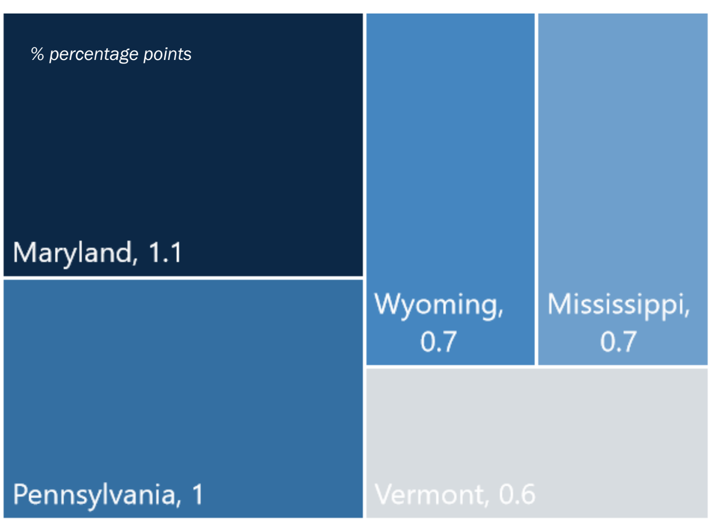
Prepared by Conning, Inc. Sources: Bureau of Labor Statistics, U.S. Department of Labor (2024), "Unemployment Rates for States, 2023 Annual Averages", and Bureau of Labor Statistics, U.S. Department of Labor (2024), "Unemployment Rates for States, 2022 Annual Averages", and Census Bureau (Population Division), U.S. Department of Commerce (2023), "Annual Estimates of the Resident Population for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2023 (NST-EST2023-POP)"

Unemployment Rate

Fluctuations in unemployment rates affect state budgets, increasing demand for government services and reducing tax revenues during periods of higher unemployment. This is an area of concern to monitor in 2024: if the labor market deteriorates, we would anticipate a return of workers to office settings as employers gain leverage in remote-work discussions. This shift may benefit states with larger metropolitan areas.

Despite concerns of a recession, unemployment rates remained low throughout 2023. States such as North Dakota (which had the lowest unemployment rate), South Dakota (third-lowest), and New Hampshire (fifth-lowest), which had already attained low unemployment levels in recent years, maintained their top-five positions. Maryland (tied with South Dakota) and Vermont (second-lowest) experienced substantial leaps in the rankings, with increases of 19 and five places, respectively. Further notable states' performances are highlighted in Exhibit 6.

Exhibit 6 Largest Unemployment Rate Percentage-Point Improvement, 2022 - 2023



Prepared by Conning, Inc. Sources: Bureau of Labor Statistics, U.S. Department of Labor (2024), "Unemployment Rates for States, 2023 Annual Averages", and Bureau of Labor Statistics, U.S. Department of Labor (2024), "Unemployment Rates for States, 2022 Annual Averages"

- The national unemployment rate stayed low in 2023 at 3.6%. South and North Dakota maintained some of the lowest rates, while Nevada and Illinois ranked among the highest.
- High unemployment rates can adversely affect state economies, leading to increased public assistance needs, reduced consumer spending, and decreased productivity, resulting in lower incomes.
- Maryland and Vermont made significant strides, entering the top five for lowest unemployment rates, whereas California and New Jersey slipped into the bottom five.
- In all, 28 states had annual changes within +/- 0.2%. For some top-performing states (e.g., Nebraska and South Dakota) this is due partly to their already low unemployment (<2.4%).

Following Maryland's lead with a decrease of 1.1% year over year, Pennsylvania and Wyoming also saw significant declines in their unemployment rates, registering drops of 1.0% and 0.7%, respectively. At the other end of the spectrum, New Jersey (47) and California (49) saw their rates go up by 0.7% and 0.6%, respectively. Both states have large and important service sectors, including industries such as finance, healthcare, and professional services, which fell behind in 2023. Lastly, both states have some of the highest minimum wages[15] which might pressure the labor market.

The government employment sector performed well in our 2024 report. Government sector hiring post-pandemic lagged the private sector but made up ground in 2023.[16] States such as North Dakota, South Dakota, and Vermont, whose employment growth was driven by strong 2023 growth in government jobs,[17] boasted the three lowest unemployment rates.

Socioeconomic Activity

Economic factors, as we have seen in the previous section, play a pivotal role in shaping a state's economic landscape. But socioeconomic elements such as population shifts, income levels, and tax policies also determine a state's overall well-being. Particularly, we emphasize the importance of population dynamics as a key indicator of a state's future fiscal health, as financial resources typically grow in tandem with the tax base. We also consider affordability, analyzing housing price fluctuations and personal income benchmarks. Our assessment of a state's tax climate aims to isolate and predict future socioeconomic trends.

The U.S. socioeconomic landscape in 2023 presented a mixed picture. On the positive side, the economy grew modestly in the first half, fueled by consumer spending, and the job market stayed strong with low unemployment and steady job creation. However, inflation remained a concern, though it moderated through the year before rising slightly again. Looming over this was the possibility of a mild recession in mid-2023 caused by rising interest rates and decreasing consumer savings. Socially, there were contrasting trends. Real median household income has been lackluster (-0.6% in 2022 and +1.5% in 2023[18]) because of persistent inflation, but personal income growth rebounded strongly in 2023 (+5.2%) as did the housing market (+6.0%).[19,20]

Population

Population shifts serve as a reliable indicator of future credit quality, as states experiencing growth often maintain lower tax rates, thereby enhancing their appeal to prospective residents. The Covid-19 pandemic caused a dramatic slowdown in U.S. population growth, which reached a record low in 2020-2021 of 0.2% before rebounding to 0.5% in 2023, closer to pre-pandemic levels. Growth was not uniform across the country in 2023: South Carolina led the pack with 1.7%, while last-place New York saw a population decline of 0.5%.

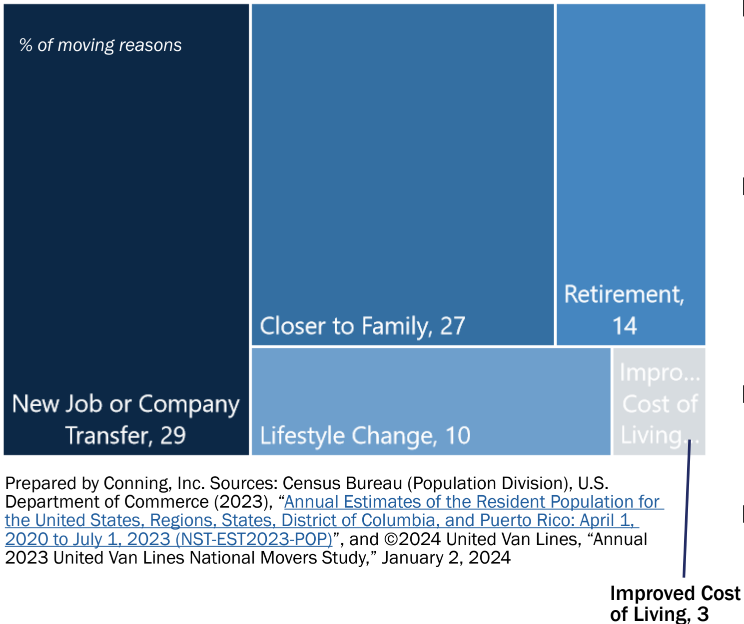
Outside of New York, which was hard hit during the pandemic (its population has declined 2.9% since 2020),[21] some states in regions that experienced high out-migration during the pandemic (Midwest, Northeast) did attract more people again. For example, New Jersey (ranked 27 in population growth), Rhode Island (34), and Massachusetts (31) each improved eight to seven ranking spots in our 2024 report. Meanwhile, previously booming western states like Arizona (11) and Idaho (4) showed signs of slowing population growth, dropping three and two spots, respectively.

During the past 10 years, six states have seen decreases in population: West Virginia's declined 4.5%, followed by Illinois (2.7%), Mississippi (1.6%), Louisiana (1.1%), Alaska (0.5%), and New York (0.3%).[22] While a shrinking population can strain revenues and create budgetary challenges for local governments, it's not an insurmountable issue if managed effectively; governments must adjust their operations accordingly. States with the most vulnerable credit profiles in this scenario usually have existing problems such as high fixed costs, limited autonomy over budget decisions due to legal constraints, or unaddressed capital needs. Therefore, when evaluating states, we consider factors like economic health, tax climate, reserves, and fixed costs, as well as socioeconomic indicators.

Not only do migration patterns change, but so do the reasons people move. According to United Van Lines's annual study of why people move, the primary reason in 2023 was for a new job or company transfer (29.1%); a significant factor but well below the 2018 (pre-pandemic) level of 47.6%.[23] Meanwhile, moves for family reasons (27.1% in 2023) were down from 32.4% in 2022.[24] This suggests the pandemic influenced people to prioritize proximity to family and, because of work-from-home opportunities, job-related moves have become less prevalent. Additionally, decreases in moves for lifestyle changes (10.2% in 2023 v. 17.2% in 2022) and cost-of-living factors (2.7% in 2023 v. 8.2% in 2022) suggest these factors became less pressing for movers.

For the snapshot of 2023's reasons people move from the United Van Lines study, see exhibit 7.

Exhibit 7 Top Reasons for Moving, 2018 - 2023



Prepared by Conning, Inc. Sources: Census Bureau (Population Division), U.S. Department of Commerce (2023), "Annual Estimates of the Resident Population for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2023 (NST-EST2023-POP)", and ©2024 United Van Lines, "Annual 2023 United Van Lines National Movers Study," January 2, 2024

- Population trends in 2023 show a return to pre-pandemic norms with a decrease in annual deaths, a reversion to pre-2020 migration patterns, and 0.5% growth nationwide: the more than 1.6 million people added in 2023 is the largest gain since 2018.
- More states experienced population growth in 2023 than in any year since the start of the pandemic. The top four states from our 2023 report (Florida, Idaho, South Carolina and Texas) remained the same albeit in different order, but Delaware replaced South Dakota as the fifth-fastest-growing state.
- Sunbelt states like Arizona and Florida continued to see positive net migration, while negative net migration continued in states like California and Illinois.
- Several Northeastern states (New Jersey, Rhode Island, Massachusetts) moved up significantly, but other perennial laggards (New York, Illinois, Connecticut and California) remained near the bottom of the rankings.

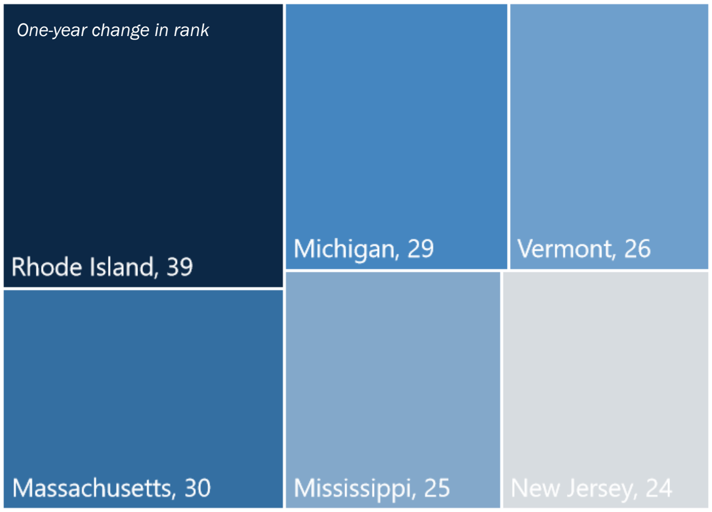
Housing Price Index

The Federal Housing Finance Agency's Housing Price Index (HPI) serves as a barometer for a state's economic health: if the underlying economy remains robust and residents perceive job stability, prices are likely to trend upward. For states such as Vermont and Wyoming, which rely on property taxes for 27% and 16% of their total revenues, respectively, the increase in home prices will directly result in higher tax collections.[25]

Although the U.S. housing market saw sustained growth (6%[26]) in 2023 despite higher mortgage rates, indications suggest this upward trend may not be sustainable in certain regions.

Exhibit 8 highlights some of the states with the greatest year-over-year improvements. Interestingly, the Northeast performed well, possibly due to affordability challenges stemming from escalating home prices impacting states that had previously been top performers in HPI. States like Utah (ranked 2 in our 2022 report but dropping to 46 in 2023 and 47 this year) and Idaho (ranked 3 in 2022 but 49 in 2023 and remaining there this year) have fallen behind.

Exhibit 8 Greatest Improvement in HPI Rank, 2023 - 2024



Prepared by Conning, Inc. Source: Federal Housing Finance Agency (FHFA) (2024), "States (Seasonally Adjusted and Not Adjusted)", and ©2023 Conning, Inc., and Fannie Mae (2024), "October 2023 30 Year Fixed"

- FHFA's Housing Price Index rose 6.5% in 2023, less than the 8.1% gain in 2022, but still marking 12 consecutive years of growth. Growth continued to be strong amid a rising mortgage rate environment which approached 8% for the first time since the financial crisis.
- The Northeast did well with states like Rhode Island, Vermont, Connecticut, New Jersey, and New York all making the top 10. Hawaii was the only state with an annual decline, but states like Montana, Utah, Colorado, and Idaho also disappointed despite strong population growth.
- The West South fell behind due to rising home prices, likely caused by higher demand as increased remote work during the pandemic allowed people to move to the region from the East Coast and California.
- Increases in home prices generally lead to higher property tax collections, albeit with an approximately 18-month lag. It also gives local governments flexibility to lower tax rates.

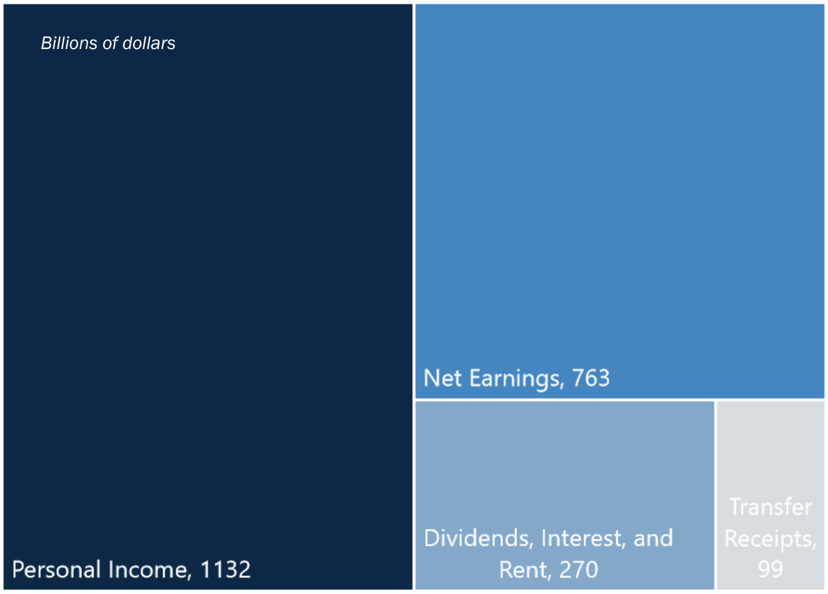
In our 2023 report, we spotlighted Utah as a state potentially grappling with challenges in providing affordable housing and establishing transportation options for workers facing lengthy commutes. This predicament could trigger a shift in which individuals opt to relocate to more economically viable areas with adequate resources. While the pandemic's surge in remote work initially inflated housing prices in certain regions, recent developments suggest a possible trend reversal. According to this year's United Van Lines study,[27] Alabama (ranked 38 in HPI), South Carolina (9), Iowa (31), Tennessee (27), and Nebraska (36) emerged as the top five destinations due to improved cost of living. With the exception of South Carolina, these states experienced below-median HPI growth in 2023, indicating potential for further affordability-driven migration, although as previously noted these moves were less prevalent last year.

Personal Income Growth

We analyze personal income growth because of its correlation with population changes, which we consider a valuable predictor of future credit quality, as a state's financial resources typically grow alongside its tax base. Consequently, it serves as another indicator for identifying regional areas of strength, particularly for states that impose income taxes, as it relates directly to tax revenue collections.

Following a tepid 2022 performance with a modest 2.4% increase, U.S. personal income growth rebounded strongly in 2023, surging by 5.2%, with all 50 states experiencing growth. While strong, this growth rate is still below the 7.4% gain of 2021 and 6.6% increase in 2020. This significant expansion in personal income in 2023 offers promising prospects for future credit quality assessments. The nationwide surge in personal income can be attributed to increased earnings, property income, and transfer receipts (see Exhibit 9A).

Exhibit 9A Growth in Select Components of U.S Personal Income, 2022 - 2023

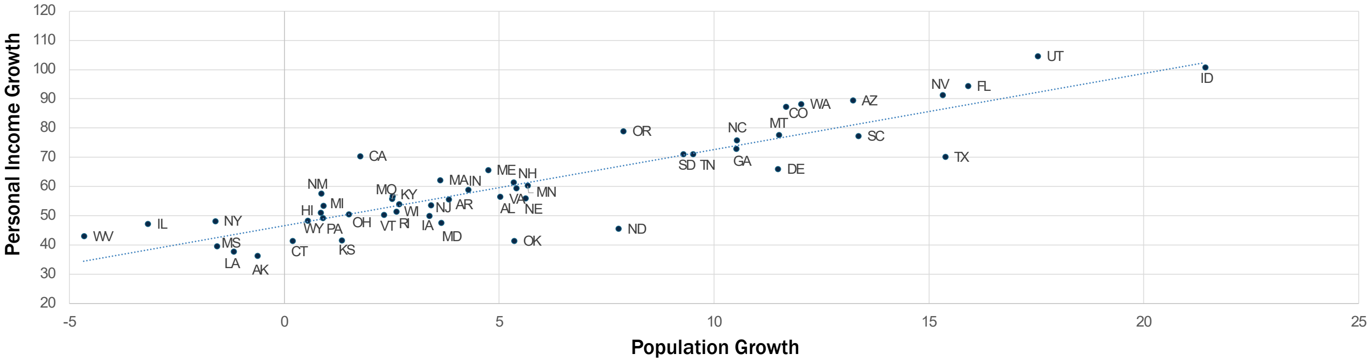


Prepared by Conning, Inc. Sources: Bureau of Economic Analysis, U.S. Department of Commerce (2024), "SAINC1 State annual personal income summary: personal income, population, per capita personal income", (April 5th, 2024), and Bureau of Economic Analysis, U.S. Department of Commerce (2024), "Gross Domestic Product by State and Personal Income by State, 4th Quarter 2023 and Preliminary 2023", (April 5th, 2024)

- Personal income growth – comparatively weak in 2022 (2.4%) versus prior years – bounced back in 2023 to 5.2%. All 50 states registered increases.
- Nationwide, personal income surged due to gains in earnings, property income, and transfer receipts. Earnings notably increased in 21 out of 24 industries tracked by the Bureau of Economic Analysis. Gains in personal income and population serve as strong predictors of future credit quality.
- In Florida, personal income surged 7%, driven by growth in earnings within professional, scientific, and technical services, as well as health care and social assistance sectors.
- Utah and Wyoming experienced the second- and third-largest increases in personal income (+6.8%) with state and local government sectors being the primary contributors. Additionally, states in the bottom 10 showed strong growth, averaging 4% gains.

As demonstrated in past years, population growth and personal income growth are strongly correlated, a trend consistent since at least 2017 even amid pandemic disruptions. However, Exhibit 9B reveals interesting outliers: California boasts robust personal income growth despite modest population increases, while Texas exhibits the opposite pattern. Despite California's comparatively weaker population growth, its economy is dominated by high-paying industries like technology and biotech.[28] Conversely, Texas' economy is more historically centered around the less-remunerative petroleum industry.[29] That being said, recent trends in technology firms - and therefore jobs - moving to cities such as Austin may help align Texas with the broader trend of syncing of personal income and population growth.

Exhibit 9B Population Growth vs Personal Income Growth, 2013 - 2023



Prepared by Conning, Inc. Source: Bureau of Economic Analysis, U.S. Department of Commerce (2024), "SAINC1 State annual personal income summary: personal income, population, per capita personal income", (April 5th, 2024)

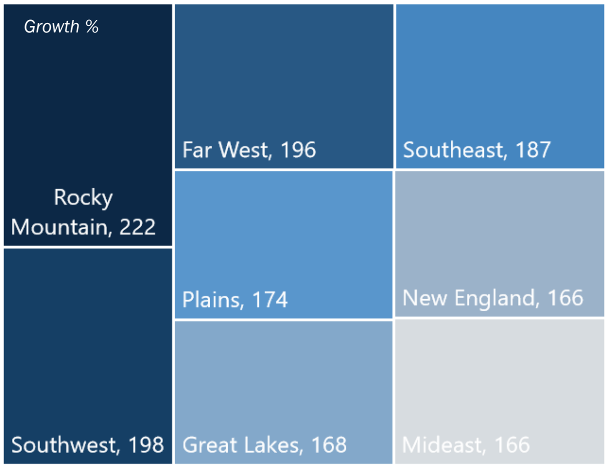
Personal Income Per Capita

We track personal income per capita because, in theory, a wealthier population can incur a higher tax burden needed to support higher debt levels. If wealthier residents move out, they leave behind a debt burden for a smaller and potentially less affluent population.

Typically, states with higher per capita debt levels exhibit above-average wealth metrics. However, this trend shifted slightly in our 2024 report: we found 10 states (Hawaii, West Virginia, Mississippi, Wisconsin, Louisiana, Ohio, New Mexico, Kansas, Kentucky, and Alabama) with below-average personal income levels; in our 2023 report, there were only seven. The increase suggests a broader divergence between a state's debt levels and personal income metrics across the nation. This situation is worrying because less economically advantaged states may struggle to manage a relatively high debt burden compared to more affluent states.

Our 2024 report notes robust personal income growth across all 50 states, driven by increases in earnings, property income, and transfer receipts. This growth, particularly in earnings across various industries, along with population expansion bodes well for future credit quality. States like Florida (top-ranked for personal income growth), Utah (2), and Wyoming (3) experienced significant increases in personal income, with a diverse range of contributing sectors. Even states traditionally ranking lower in personal income growth such as Louisiana (ranked 50 in our 2023 report) and Hawaii (49) displayed strong improvements, moving up 10 and 28 spots, respectively, indicating widespread economic momentum. (We highlight long-term regional growth rates in Exhibit 10.)

Exhibit 10 Personal Income Growth by Region, 2010 - 2023



Prepared by Conning, Inc. Sources: Bureau of Economic Analysis, U.S. Department of Commerce (2024), "SAINC1 State annual personal income summary: personal income, population, per capita personal income", (April 5th, 2024), and Census Bureau (Population Division), U.S. Department of Commerce (2024), "Annual Estimates of the Resident Population for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2023 (NST-EST2023-POP)"

- Personal income per capita rose 4.7% in 2023 versus 2.0% in 2022. Massachusetts, ranking first, nearly doubled the per capita income of Mississippi, the lowest-ranked state. Industry composition is a factor; sectors like finance, technology, and professional services typically offer higher incomes.
- Top-ranking states in per capita personal income remained stable, while the bottom 10 experienced minimal changes, with only Georgia and Idaho swapping positions.
- States with the highest personal income per capita often have more burdensome tax climates, though exceptions include New Hampshire, Wyoming, and Alaska. Lower income taxes in some states may attract residents, potentially leading to higher personal income levels over time.
- States with higher personal income levels often have a higher cost of living, necessitating a larger income to maintain a similar standard of living compared to states with lower income levels. Year-over-year changes are typically modest, with Montana notably increasing by seven spots, and Arizona and Missouri each rising by six spots.

State Tax Climate

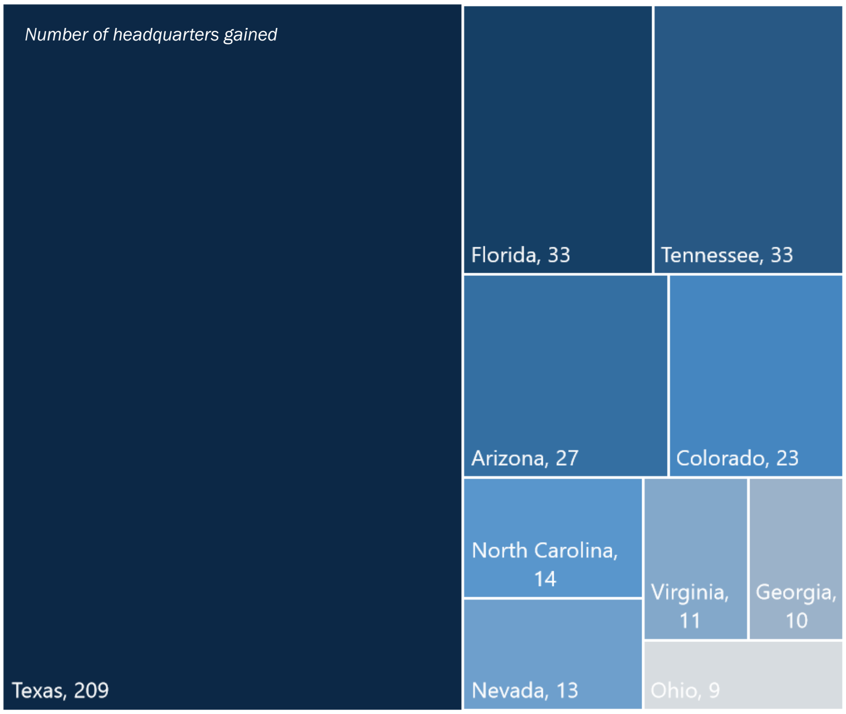
The analysis provided by the Tax Foundation's "State Business Tax Climate" report delves into the tax environment of each state. This data supplements our financial, economic, and socioeconomic metrics, painting a comprehensive picture of each state's overall strength.

State-to-state disparities are prompting businesses to relocate in search of more favorable conditions. A review conducted by CBRE Americas Consulting[30] of business headquarters relocations from 2018 to 2023 revealed that the business climate and lower taxes were the top reasons for relocations. States capable of attracting new businesses inherently generate more job opportunities for their residents, stimulating economic activity and rendering them more appealing. Moreover, the significance of a state's tax system is underscored by its potential influence on retirement choices, population migrations, revenue growth, public services, and fulfillment of debt service and pension obligations.

Among the top 10 states, the absence of a significant tax is a recurring trend. While property taxes and unemployment insurance taxes are universal, several states forgo one or more major taxes such as corporate income, individual income, or sales taxes. Nevada (ranked 7 for tax climate), South Dakota (2), and Wyoming (1) lack both corporate and individual income taxes (although Nevada imposes gross receipts taxes). Alaska (3) lacks individual income and state-level sales taxes, Florida (4) doesn't impose an individual income tax, and New Hampshire (6) and Montana (5) waive sales taxes. However, a state can still rank in the top 10 while imposing all major taxes, such as Indiana (9) and Utah (8), which maintain low rates on broad bases across all major tax types.

Texas attracted the most Fortune 500 headquarters relocations (209 - see Exhibit 11), but Florida (33), Tennessee (33), Arizona (27), and Colorado (23) were also leading destinations. None of these five states ranked in the top 10 of the Tax Foundation's Corporate Tax Rank, underscoring the argument that corporations move for a variety of reasons. Only North Carolina and Colorado have a favorable corporate tax rank and a relatively high number of headquarters inflows.

Exhibit 11 Top Ten States with Greatest Number of Fortune 500 Headquarters Relocations, 2018 - 2023



Prepared by Conning, Inc. Sources: © 2024 Tax Foundation, "2024 State Business Tax Climate Index", and © CBRE (2024), "The Shifting Landscape of Headquarters Relocations: Trends and Outlooks"

- Corporate income taxes affect decisions such as where to locate headquarters and spill over to economic conditions. Like businesses, individuals can move out of certain states because of tax issues.
- Top ranking went to a trio of Western states where governments don't touch individual income (Wyoming, South Dakota, and Alaska). Generally, higher-ranked states do not levy certain taxes, like a corporate income tax, individual income tax or sales tax.
- Arizona and Iowa moved up five spots each as they dropped their income tax rates to the lowest in the nation. Massachusetts dropped the most while Minnesota remained poorly ranked due to their adopting a millionaires' tax and a change to the corporate income tax regime, respectively.
- A state's tax climate impacts revenue volatility, an important bellwether for future credit quality. Income taxes, followed by sales taxes and property taxes, are the most volatile.

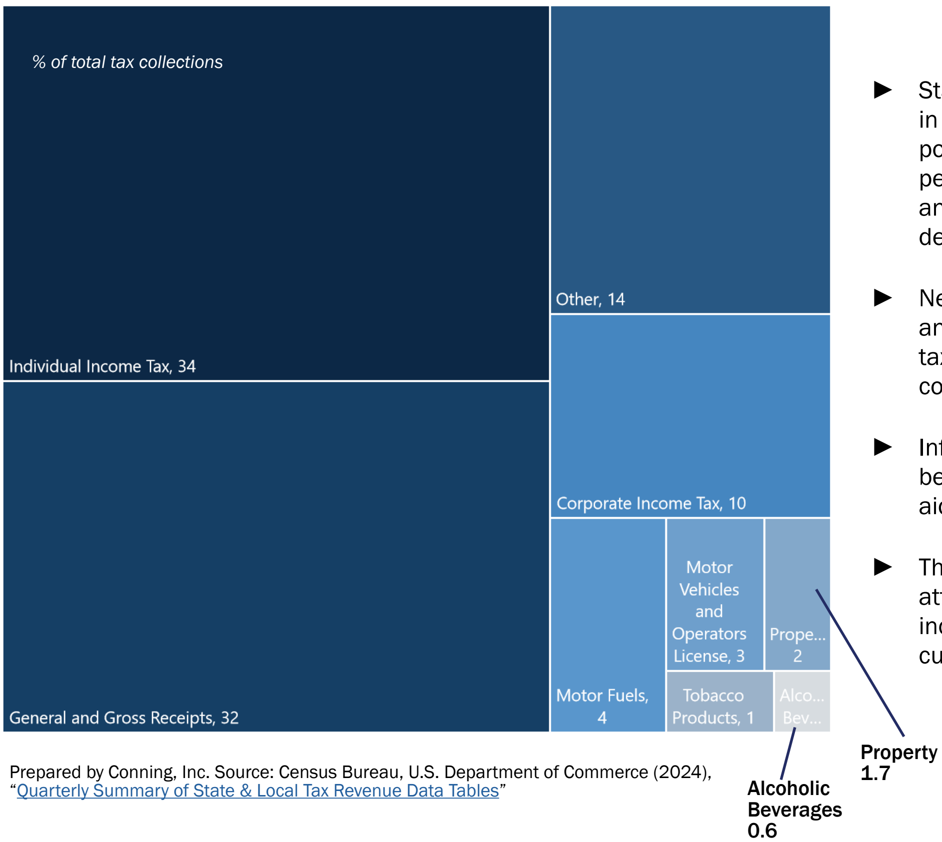
Financial Metrics

Throughout our discussion of economic and socioeconomic indicators, we highlighted how several factors drove tax revenues (i.e., economic growth, inflation, home price appreciation, federal aid). As states generally approached fiscal year 2022 and fiscal year 2023 conservatively, reserves increased and liabilities improved. Before delving into the balance-sheet implications of tax revenue growth, let's first examine the actual tax revenue growth in fiscal 2023.

State Tax Revenue Growth

Conning's tax revenue growth indicator, as assessed by the U.S. Census Bureau on a calendar-year basis, provides insights into the primary revenue sources for each state and their annual fluctuations. Nationally, income, sales, and property taxes contribute 34%, 32%, and 2%, respectively, to total state tax collections (see Exhibit 12A).

Exhibit 12A State Tax Revenue Source, 2023



Prepared by Conning, Inc. Source: Census Bureau, U.S. Department of Commerce (2024), "Quarterly Summary of State & Local Tax Revenue Data Tables"

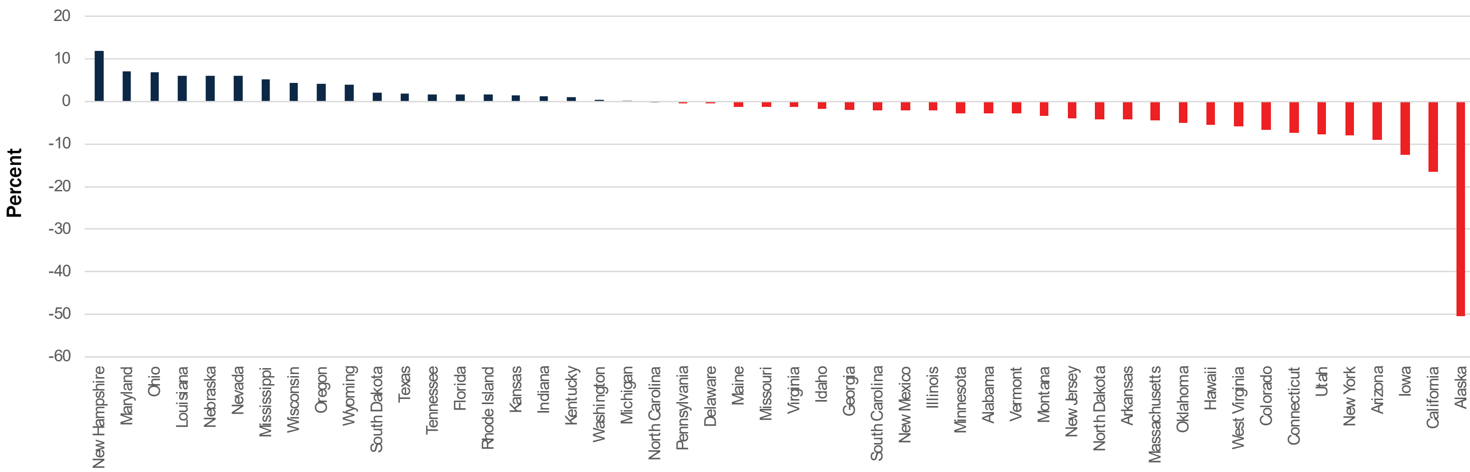
- State government tax collections dipped 4.4% in 2023 after two years of robust growth (36%) post-pandemic. While sales tax revenues rose 3%, personal income tax revenues plummeted 14%, and corporate income tax revenues saw a 3.3% decline.
- New Hampshire, devoid of taxes on wages, salaries and sales, clinched the top rank as property tax collections surged, driving overall state tax collections up 12% from the prior year.
- Inflation typically bolsters sales tax revenues, benefiting states reliant on such collections and aiding their fiscal stability.
- The decrease in income tax collections can be attributed in part to one-fifth of states reducing income tax rates or implementing automatic tax cuts.

However, as discussed in our analysis of a state's tax climate, significant disparities exist among states. For instance, states such as Alaska, Delaware, Missouri, New Hampshire, and Oregon lack a general sales tax, leading to a greater reliance on income and/or property taxes. Additionally, personal income taxes are not imposed in Nevada, Ohio, Texas, Washington, and Wyoming, further accentuating the differentiation in performance across states in 2023. Lastly, our findings suggest that tax revenue trends can fluctuate—whether increasing, decreasing, or remaining stable—on the predominant economic sectors within each state as well.

Since the onset of the pandemic, tax revenues surged by over 36%. However, in 2023, they collectively declined by 4.4%, attributable to widespread tax cuts that notably reduced personal income taxes by 14%. Corporate income taxes also saw a decrease of 3.3%. Despite these reductions, sales taxes remained resilient, posting a year-over-year increase of 3% in 2023.[31] This growth can be attributed not only to inflation but also to the expansion of sales tax collections from online sales, which have positively impacted sales tax revenues. Lastly, property taxes, although representing a small portion of the overall revenue, remained relatively stable throughout the year.

In 2023, tax revenue growth declined in 30 states, showcasing a significant disparity between states. Notably, New Hampshire saw a nearly 12% increase in tax revenues compared to 2022; Alaska witnessed a staggering 50% decline. Severance tax collections - a function of oil prices and production and a significant majority of Alaska's total tax revenue - in 2023 were only 39% of 2022 totals, a victim of a price decline. See Exhibit 12B for a comprehensive overview of year-over-year state changes.

Exhibit 12B State Tax Revenue Growth/Decline (% of total tax collections), 2023



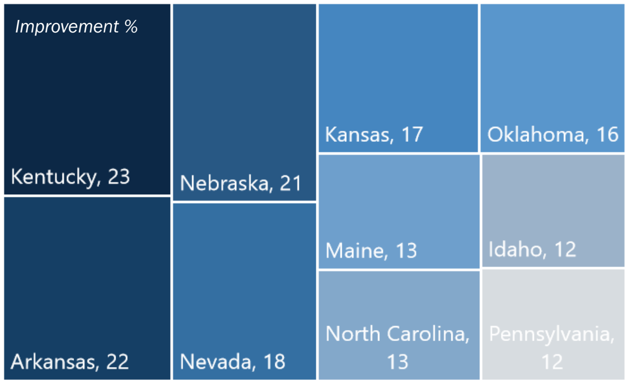
Prepared by Conning, Inc. Source: Census Bureau, U.S. Department of Commerce (2024), "2023 Quarterly Summary of State & Local Tax Revenue Data Tables"

Reserves

Approximately half of the states observed an uptick in their rainy-day fund balances by the conclusion of fiscal year 2023, while the remainder drew down reserves due to temporary factors such as the diminishing impact of federal pandemic aid and tightening fiscal conditions amid slower economic growth and inflation. While many states extended the duration for which they could sustain government operations solely on rainy-day funds, others experienced declines, notably in Alaska (-18.5%), South Carolina (-12.1%), Wyoming (-11.8%), and Colorado (-8.2%).[32]

The robustness of states' rainy-day funds exhibited considerable variation, ranging from Wyoming, which set aside reserves equivalent to over 300 days' worth of operating costs, to Washington, with just over a week's worth. New Jersey, in contrast, remains at only a couple of days' worth.[33] States showing the most significant improvement in reserves as a percentage of expenditures between 2020 and 2023 are detailed in Exhibit 13A.

Exhibit 13A Greatest Improvement in Reserves as a % of Expenditures, 2020 – 2023



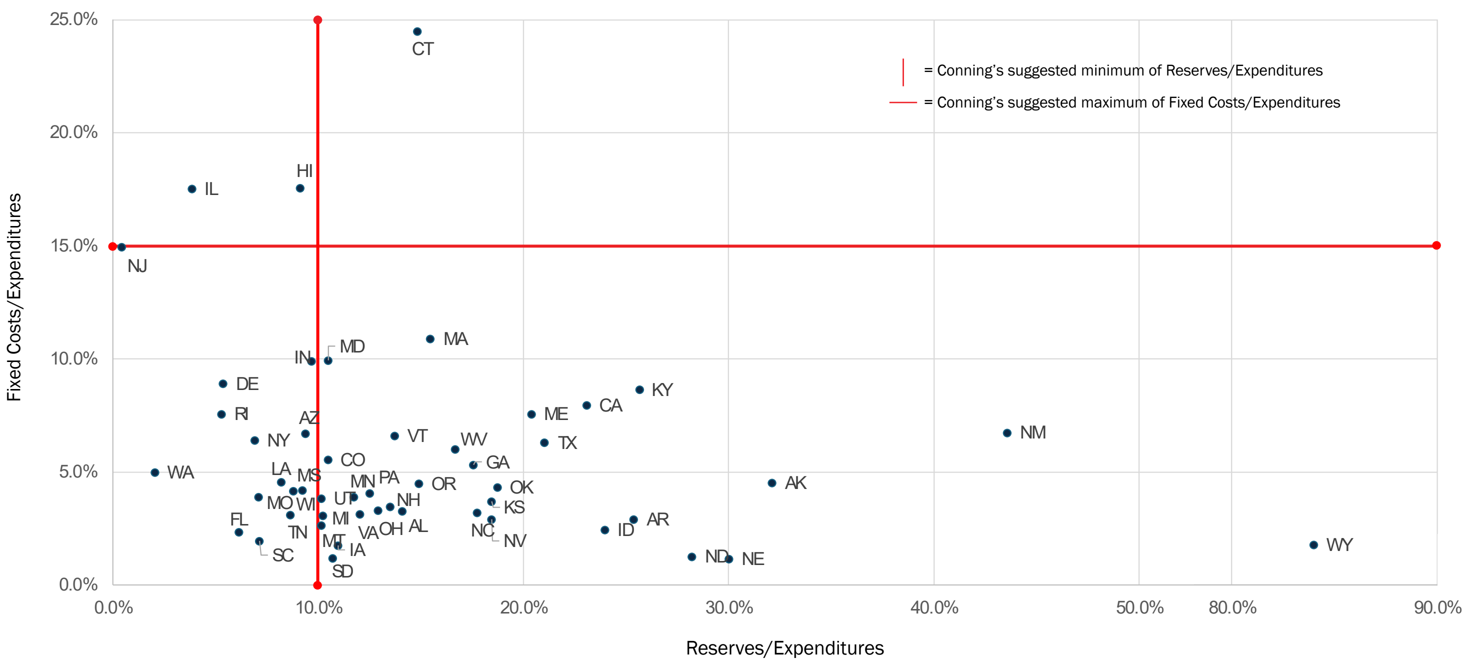
Prepared by Conning, Inc. Source: ©2023 The National Association of State Budget Officers (NASBO), "The Fiscal Survey of States - Fall 2023"

- FY 2023 reserve levels reached all-time highs in 38 states and new highs in terms of days cash on hand to 19. Since the end of the Great Financial Crisis of 2008-2009, median reserve levels have risen to 12.3% of expenditures from 1.8%.
- States with more volatile revenue sources tend to have higher reserves, hence the reason oil-production-reliant states like Wyoming, Alaska, New Mexico, Nebraska, and North Dakota lead the rankings.
- But state policy and fiscal conditions play a part as well: for FY 2024, enacted budget balances show a total decline of 6.7% as some states plan to use reserves to balance budgets.
- Some states have filled their rainy-day funds, meaning that additional dollars normally used for fund balances can be redirected.

Since 2020, 40 states have shown significant progress, while four of the 10 states witnessing declines (Connecticut, North Dakota, West Virginia, and Wyoming) are still in close proximity to Conning's recommended minimum reserve threshold of 15% of expenditures, with 18 states meeting this standard. Maintaining adequate reserves is essential for navigating budgetary uncertainty and ensuring fiscal stability, with bond rating agencies closely monitoring their levels. Policymakers should tailor savings objectives according to factors such as revenue volatility and potential spending pressures during economic downturns, employing tools like budget stress tests to effectively prepare for fiscal challenges.

It is vital that state leaders recognize the significant constraints they face when trying to reduce expenditures. They must consider mandated levels of services – such as education, police and fire departments - along with unionized municipal employees and commitments made through pensions and other post-employment benefits (OPEB). Achieving cost reductions is inherently challenging, and we consider reserve and fixed-cost levels as an effective proxy for a state's budget flexibility, with states ideally positioned in the lower right quadrant of Exhibit 13B.

Exhibit 13B Fixed Costs & Reserves vs Expenditures, 2023



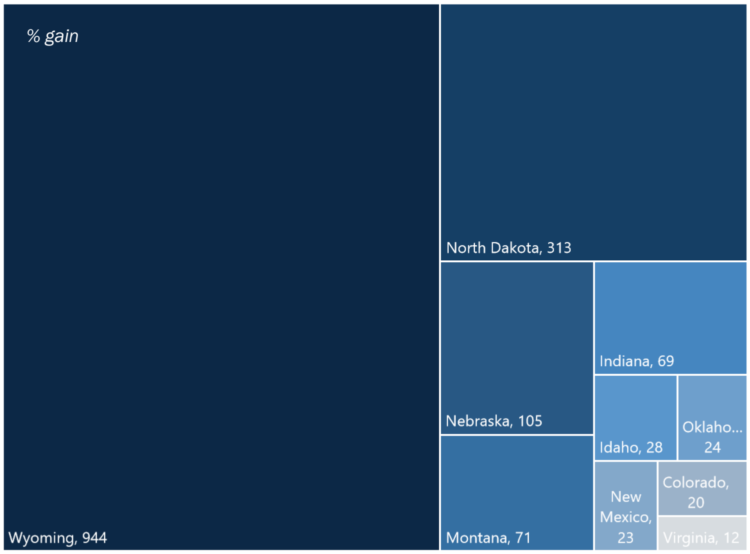
Prepared by Conning, Inc. Source: ©2024 The National Association of State Budget Officers (NASBO), "The Fiscal Survey of States - Fall 2023", Fixed Costs/ Expenditures: Made from data available from Investortools.

Economic Debt per Capita

To help ensure Conning creates more of an apples-to-apples comparison of state debt burdens, our economic debt per capita looks beyond the total debt figure and includes factors in population change and the absolute size of the population. For states with shrinking populations, the debt burden gets heavier on each remaining resident. This can force tough choices on policymakers. Raising taxes or cutting spending will become more likely, potentially making the state less attractive in the long run. In the short term, states might be tempted to simply issue more debt to avoid immediate pain. But that's kicking the can down the road - it just adds to the long-term burden.

States with minimal debt-per-capita levels in our 2023 report generally maintained their positions in 2024, with notable exceptions like Arizona, which improved nine spots as its net-tax-supported-debt levels fell and its population growth has been strong. North Dakota stands out as an exception, dropping 14 spots to 18 in our 2024 report, due to a significant increase in net tax-supported debt. It's important to highlight that despite this decline, North Dakota's debt per capita remains relatively low at $701, significantly below the national average of $1,804. Nebraska solidified its top spot in our 2024 report with debt per capita of just $39.

Exhibit 14A States with Largest % Change in Debt per Capita, 2022 – 2023



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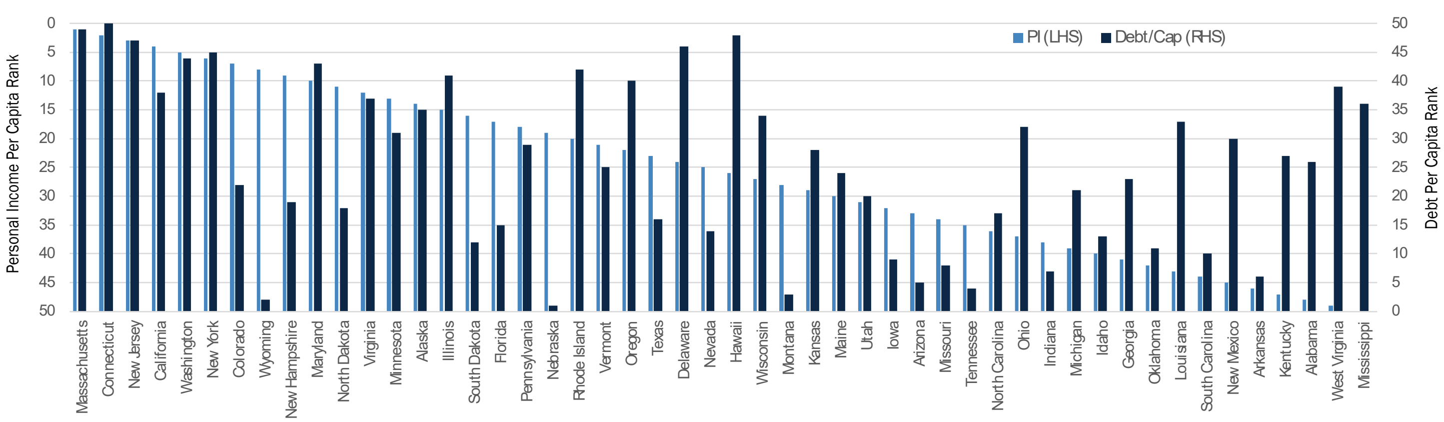
- Debt-per-capita levels decreased 0.5% in 2023, attributed to a reduction in net tax-supported debt coupled with population growth. This provides states with increased budgetary flexibility, potential credit-rating enhancements, and lower interest payments.
- The top three states in our 2023 report (Nebraska, Wyoming, and Montana) maintained their positions at the top this year. Tennessee and Arizona ascended into the top five, notably the latter for reducing its long-term debt by two-thirds since the Great Financial Crisis.
- Lower debt-per-capita levels may contribute to a reduced cost of living, as states with manageable debt are less inclined to raise taxes, thus stabilizing living expenses. Manageable debt-per-capita levels also suggest responsible governance.
- Conversely, minimal changes were observed at the bottom, with the bottom six states (Connecticut, Massachusetts, Hawaii, New Jersey, Delaware, and New York) remaining largely unaltered. These states typically exhibit higher infrastructure needs and lesser reliance on natural resources for funding, thus the greater need for borrowing.

Connecticut continues to occupy the bottom position in our 2024 report with a debt per capita of $8,008. This heavy debt burden, coupled with Connecticut's tendency for negative population growth, signifies that this financial strain (the figure has risen from $6,816 in our 2020 report) will increasingly fall on a shrinking population.

As Exhibit 14B shows, states with some of the highest debt-per-capita ranks, like Connecticut, Massachusetts, New York, New Jersey, and California, also boast some of the higher personal-income-per-capita ratios. As noted previously, a wealthier population may be able to support a higher tax burden, but the math comes undone when wealthier residents move out and leave behind a debt burden for a smaller and potentially less affluent population.

Exhibit 14B Debt per Capita Rank and Personal Income per Capita Rank, 2024



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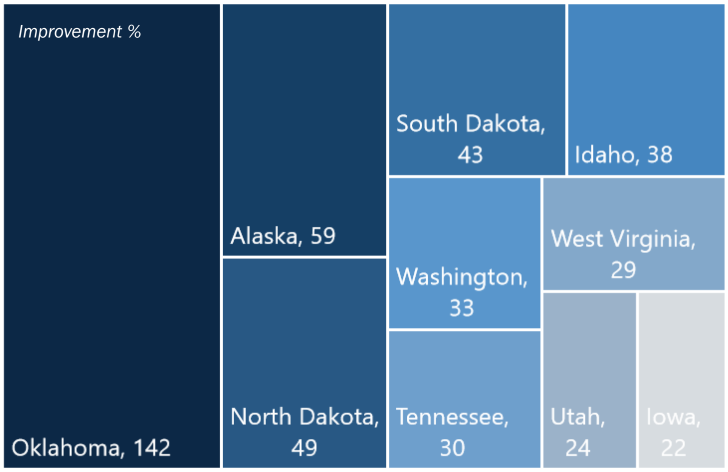
Economic Debt per Personal Income

We rank states based on economic debt to assess the total debt burden on a state's tax base. As previously reported, pension systems have increasingly strained state budgets due to rising liabilities and declining returns, leading to higher annual contributions. However, in recent years, strong financial performance has limited the issuance of new-money debt. Some states, like Connecticut, have utilized surplus revenues to make additional pension contributions.[34] Even without these one-off contributions, states have generally increased their pension and OPEB contributions. OPEB is traditionally funded on a pay-as-you-go basis but now more states are making contributions resulting in decreased liabilities. Lastly, higher interest rates currently are also reducing pension and retiree healthcare liabilities, offering opportunities to lower investment risk and asset volatility.

There have been fewer significant changes at the top of our 2024 report compared to previous years, with only Iowa (ranked 5 for economic debt per personal income) and Idaho (6) switching positions among the top five states in this category. This demonstrates the challenge for states to improve their debt levels relative to their personal income. However, Alaska (23) and Arkansas (11) both saw advancements, rising by 18 and 11 spots, respectively, by reducing pension and OPEB liabilities. (Exhibit 15 showcases the states that have made notable strides in reducing pension and OPEB liabilities.)

The states at the bottom end of the table often draw focus, typically featuring higher debt per personal-income-per-capita levels. Notable among these states are New York (37), California (39), Connecticut (49), and New Jersey (50). This scrutiny is particularly relevant given reports[35] of people leaving these states, which further exacerbates the debt burden on a per-person income basis. However, a study by the Fiscal Policy Institute[36] of migration out of New York state spanning eight years found that state taxes have not been a significant factor in the out-migration of high-earners. Despite a temporary increase in the departure of high earners during the pandemic, the typical trend shows that high earners leave the state at a rate approximately one-fourth that of other New Yorkers. Additionally, when high earners do relocate, they tend to move to other high-tax states more frequently than low-tax states.

Exhibit 15 Largest Improvements in OPEB and Pension Liabilities as a % of Total Economic Debt, 2022 - 2023



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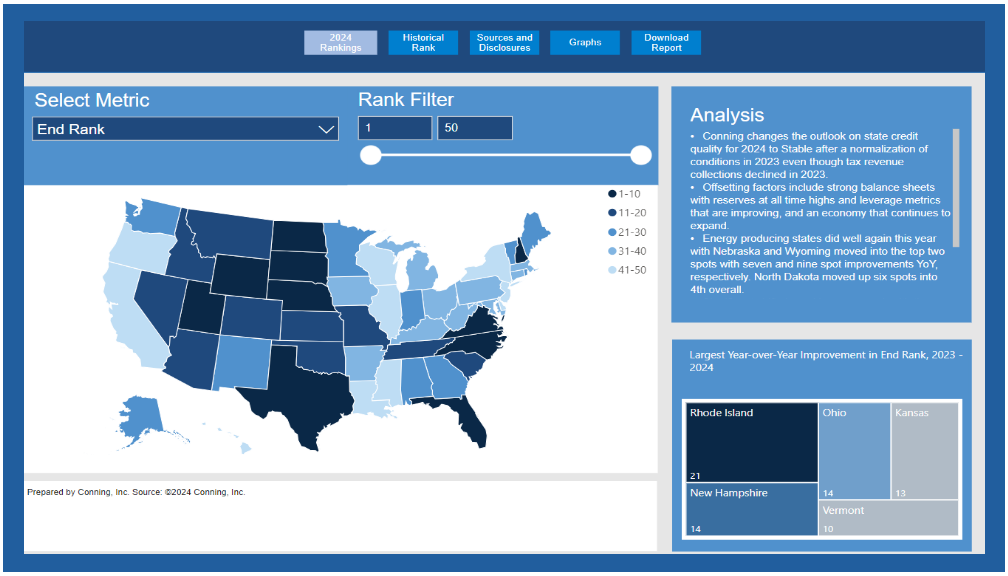
- Economic debt came down across the board, driven by strong declines in pension liabilities and, to a lesser extent, other post-employment benefits. Higher interest rates and increased contributions were the leading drivers.
- Debt issuance was moderate: states were still flush with cash but a high inflationary environment drove up costs. As a percentage of personal income, debt levels came down.
- There were few changes in rank on either end of the spectrum, with the top 10 states staying the same except for North Dakota replacing Wyoming.
- Alaska and Arkansas saw significant upward shifts, rising by 18 and 11 spots, respectively, attributed to improved funding of pension plans and post-employment benefits. Conversely, California dropped five spots to 39 due to lackluster personal income growth.

Interactive Analysis Available

Please visit our website to explore State of the State metrics.



You may also scan the QR code below to access the interactive analysis.

Conning's Municipal Credit Research Team

Conning manages more than $6 billion of municipal bonds held in client portfolios. Its dedicated municipal research team follows the firm's existing holdings and makes recommendations for new purchases.

Karel Citroen is a Managing Director and Head of Municipal Credit Research. Prior to joining Conning in 2015, he was in municipal portfolio surveillance with MBIA and previously was a banking and securities lawyer for financial institutions in the Netherlands. Mr. Citroen earned an LL.M. from the University of Amsterdam and an MBA from Yale University and is a member of the Municipal Analyst Group of New York.

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About Conning

Conning (www.conning.com) is a leading investment management firm with a long history of serving the insurance industry. Conning supports institutional investors, including insurers and pension plans, with investment solutions, risk modeling software, and industry research. Founded in 1912, Conning has investment centers in Asia, Europe and North America.

Footnotes:

[1] ©2024 The Pew Charitable Trusts, "State Pension Contributions Hit Important Benchmark", https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/10/state-pension-contributions-hit-important-benchmark

[2] Census Bureau, U.S. Department of Commerce (2024), "Quarterly Summary of State & Local Tax Revenue Data Tables," https://www.census.gov/programs-surveys/qtax/data/tables.All.html

[3] Census Bureau, U.S. Department of Commerce (2024), "Quarterly Summary of State & Local Tax Revenue Data Tables," https://www.census.gov/programs-surveys/qtax/data/tables.All.html

[4] Federal Housing Finance Agency (FHFA) (2024), "States (Seasonally Adjusted and Not Adjusted)," https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/HPI_2023Q4.pdf

[5] Bureau of Economic Analysis, U.S. Department of Commerce (2024), "SAGDP9N Real GDP by state", https://apps.bea.gov/itable/?ReqID=70&step=1&_gl=1*1vxykzb*_ga*MTE0ODQwMzQ4My4xNzEyMDkwMTU5*_ga_J4698JNNFT*MTcxNjQ5MTU4NS4yOS4xLjE3MTY0OTE1OTAuNTUuMC4w#eyJhcHBpZCI6NzAsInN0ZXBzIjpbMSwyOSwyNSwzMSwyNiwyNywzMF0sImRhdGEiOltbIlRhYmxlSWQiLCI1MTIiXSxbIk1ham9yX0FyZWEiLCIwIl0sWyJTdGF0ZSIsWyIwIl1dLFsiQXJlYSIsWyJYWCJdXSxbIlN0YXRpc3RpYyIsWyItMSJdXSxbIlVuaXRfb2ZfbWVhc3VyZSIsIlBlcmNlbnRDaGFuZ2UiXSxbIllYXIiLFsiMjAyMyJdXSxbIllYXJCZWdpbiIsIi0xIl0sWyJZZWFyX0VuZCIsIi0xIl1dfQ==

[6] Bureau of Economic Analysis, U.S. Department of Commerce (2024), "SAINC1 State annual personal income summary: personal income, population, per capita personal income", https://apps.bea.gov/itable/?ReqID=70&step=1&_gl=1*1vxykzb*_ga*MTE0ODQwMzQ4My4xNzEyMDkwMTU5*_ga_J4698JNNFT*MTcxNjQ5MTU4NS4yOS4xLjE3MTY0OTE1OTAuNTUuMC4w#eyJhcHBpZCI6NzAsInN0ZXBzIjpbMSwyOSwyNSwzMSwyNiwyNywzMF0sImRhdGEiOltbIlRhYmxlSWQiLCIyMSJdLFsiTWFqb3JfQXJlYSIsIjAiXSxbIlN0YXRlIixbIjAiXV0sWyJBcmVhIixbIlhYIl1dLFsiU3RhdGlzdGljIixbIi0xIl1dLFsiVW5pdF9vZl9tZWFzdXJlIiwiUGVyY2VudENoYW5nZSJdLFsiWWVhciIsWyIyMDIzIl1dLFsiWWVhckJlZ2luIiwiLTEiXSxbIllYXJfRW5kIiwiLTEiXV19

[7] Census Bureau, U.S. Department of Commerce (2024), "Quarterly Summary of State & Local Tax Revenue Data Tables," https://www.census.gov/programs-surveys/qtax/data/tables.All.html

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Appendix A — Methodology and Description of Indicators

Conning analyzes 13 metrics indicative of state credit health to calculate our state rankings, measuring business climate, financial metrics, and economic data including income levels and housing activity.

Debt Per Capita (8%)

Dividing net tax-supported state debt by population provides a measure of a state's debt burden.

Sources: ©2023 Moody's Investors Services, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates – used with limited permission, "Ability to service long-term liabilities and fixed costs improves" (September 26, 2023), https://www.moodys.com/research/doc--PBM_1364405, and Census Bureau (Population Division), U.S. Department of Commerce (2024), "Annual Estimates of the Resident Population for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2023 (NST-EST2023-POP)" https://www2.census.gov/programs-surveys/popest/tables/2020-2023/state/totals/NST-EST2023-POP.xlsx, and ©2022 Moody's Investors Services, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates – used with

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Economic Debt Per Personal Income (8% weight)

A ranking of each state according to its economic debt as a percentage of 2022 annual personal income.

Conning defines economic debt for each state as its net tax-supported debt + unfunded pension liabilities + unfunded OPEB liabilities. Each state's economic debt is then divided by its personal income.

Sources: ©2023 Moody's Investors Services, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates – used with limited permission, "Ability to service long-term liabilities and fixed costs improves" (September 26, 2023), https://www.moodys.com/research/doc--PBM_1364405 and Bureau of Economic Analysis, U.S. Department of Commerce (2024), "SAINC1 State annual personal income summary: personal income, population, per capita personal income", (April 5th, 2024), https://apps.bea.gov/itable/?ReqID=70&step=1&_gl=1*tzlaom*_ga*MTE0ODQwMzQ4My4xNzEyMDkwMTU5*_ga_J4698JNNFT*MTcxNDQ4MjQwNy4yNS4xLjE3MTQ0ODI1NTYuNjAuMC4w#eyJhcHBpZCI6NzAsInN0ZXBzIjpbMSwyOSwyNSwzMSwyNiwyNywzMF0sImRhdGEiOltbIlRhYmxlSWQiLCIyMSJdLFsiTWFqb3JfQXJlYSIsIjAiXSxbIlN0YXRlIixbIjAiXV0sWyJBcmVhIixbIjAwMDAwIl1dLFsiU3RhdGlzdGljIixbIjEiXV0sWyJVbml0X29mX21lYXN1cmUiLCJMZXZlbHMiXSxbIlllYXIiLFsiMjAyMyIsIjIwMjIiXV0sWyJZZWFyQmVnaW4iLCItMSJdLFsiWWVhcl9FbmQiLCItMSJdXX0=

Employment Growth (8% weight)

A ranking of states based on year-over-year total employment growth from March 2023 to March 2024 (preliminary).

Sources: Bureau of Labor Statistics, U.S. Department of Labor (2024), "Table 3. Employees on nonfarm payrolls by state and selected industry sector, seasonally adjusted" https://www.bls.gov/news.release/laus.t03.htm

Gross Domestic Product (GDP) Growth by State (8% weight)

A ranking of each state's annualized real dollar GDP growth.

Sources: Bureau of Economic Analysis, U.S. Department of Commerce (2024), Regional Data: GDP and Personal Income, "SAGDP9N Real GDP by state (millions of chained 2017 dollars)", https://apps.bea.gov/itable/?ReqID=70&step=1&_gl=1*tzlaom*_ga*MTE0ODQwMzQ4My4xNzEyMDkwMTU5*_ga_J4698JNNFT*MTcxNDQ4MjQwNy4yNS4xLjE3MTQ0ODI1NTYuNjAuMC4w#eyJhcHBpZCI6NzAsInN0ZXBzIjpbMSwyOSwyNSwzMSwyNiwyNywzMF0sImRhdGEiOltbIlRhYmxlSWQiLCI1MTIiXSxbIk1ham9yX0FyZWEiLCIwIl0sWyJTdGF0ZSIsWyIwIl1dLFsiQXJlYSIsWyJYWCJdXSxbIlN0YXRpc3RpYyIsWyItMSJdXSxbIlVuaXRfb2ZfWVhc3VyZSIsIkxldmVscyJdLFsiWWVhciIsWyIyMDIzIiwiMjAyMiJdXSxbIllYXJCZWdpbiIsIi0xIl0sWyJZZWFyX0VuZCIsIi0xIl1dfQ==

Gross Domestic Product Per Capita (8% weight)

A ranking that compares each state's annualized real dollar GDP divided by its population.

Sources: Bureau of Economic Analysis, U.S. Department of Commerce (2024), Regional Data: GDP and Personal Income, "SAGDP9N Real GDP by state (millions of chained 2017 dollars)", https://apps.bea.gov/itable/?ReqID=70&step=1&_gl=1*tzlaom*_ga*MTE0ODQwMzQ4My4xNzEyMDkwMTU5*_ga_J4698JNNFT*MTcxNDQ4MjQwNy4yNS4xLjE3MTQ0ODI1NTYuN-jAuMC4w#eyJhcHBpZCI6NzAsInN0ZXBzIjpbMSwyOSwyNSwzMSwyNiwyNywzMF0sImRhdGEiOltbIlRhYmxlSWQiLCI1MTIiXSxbIk1ham9yX0FyZWEiLCIwIl0sWyJTdGF0ZSIsWyIwIl1dLFsiQXJlY-SIsWyJYWCJdXSxbIlN0YXRpc3RpYyIsWyItMSJdXSxbIlVuaXRfb2ZfWVhc3VyZSIsIkxldmVscyJdLFsiWWVhciIsWyIyMDIzIl1dLFsiWWVhckJlZ2luIiwiLTEiXSxbIllYXJfRW5kIiwiLTEiXV19 and Census Bureau (Population Division), U.S. Department of Commerce (2024), "Annual Estimates of the Resident Population for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2023 (NST-EST2023-POP)" https://www2.census.gov/programs-surveys/popest/tables/2020-2023/state/totals/NST-EST2023-POP.xlsx

House Price Index Change (8% weight)

A ranking of states based on one-year change House Price Index, 4Q2022 – 4Q2023.

Source: Federal Housing Finance Agency (FHFA) (2024), "States (Seasonally Adjusted and Not Adjusted)," https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/HPI_2023Q4.pdf, and Fannie Mae (2024), "October 2023 30 Year Fixed", https://singlefamily.fanniemae.com/imported-content/ape-historical-yield/october-30-year-fixed

Appendix A — Methodology and Description of Indicators *(continued)*

Personal Income Growth YoY (8% weight)

A ranking of states by personal income growth, comparing year over year growth from 2022 to 2023.

Sources: Bureau of Economic Analysis, U.S. Department of Commerce (2024), “SAINC1 State annual personal income summary: personal income, population, per capita personal income”, (April 5th, 2024), https://apps.bea.gov/itable/?ReqID=70&step=1&_gl=1*tzlaom*_ga*MTE0ODQwMzQ4My4xNzEyMDkwMTU5*_ga_J4698JNNFT*MTcxNDQ4MjQwNy4yNS4xL-jE3MTQ0ODI1NTYuNjAuMC4w#eyJhcHBpZCI6NzAsInN0ZXBzIjpbMSwyOSwyNSwzMSwyNiwyNywzMF0sImRhdGEiOltbIlRhYmxlSWQiLCIyMSJdLFsiTWFqb3JfQXJlYSIsIjAiXSxbIlN0YXRlIixbIjAiX-V0sWyJBcmVhIixbIjAwMDAwIl1dLFsiU3RhdGlzdGljIixbIjEiXV0sWyJVbml0X29mX21lYXN1cmUiLCJMZXZlbHMiXSxbIlllYXIiLFsiMjAyMyIsIjIwMjIiXV0sWyJZZWFyQmVnaW4iLCItMSJdLFsiWWVh-cl9FbmQiLCItMSJdXX0=, and Bureau of Economic Analysis, U.S. Department of Commerce (2024), “Gross Domestic Product by State and Personal Income by State, 4th Quarter 2023 and Preliminary 2023”, (April 5th, 2024), https://www.bea.gov/news/2024/gross-domestic-product-state-and-personal-income-state-4th-quarter-2023-and-preliminary

Personal Income Per Capita (8% weight)

A ranking of states by Personal Income per Capita.

Sources: Bureau of Economic Analysis, U.S. Department of Commerce (2024), “SAINC1 State annual personal income summary: personal income, population, per capita personal income”, (April 5th, 2024), https://apps.bea.gov/itable/?ReqID=70&step=1&_gl=1*tzlaom*_ga*MTE0ODQwMzQ4My4xNzEyMDkwMTU5*_ga_J4698JNNFT*MTcxNDQ4MjQwNy4yNS4x-LjE3MTQ0ODI1NTYuNjAuMC4w#eyJhcHBpZCI6NzAsInN0ZXBzIjpbMSwyOSwyNSwzMSwyNiwyNywzMF0sImRhdGEiOltbIlRhYmxlSWQiLCIyMSJdLFsiTWFqb3JfQXJlYSIsIjAiXSxbIlN0YXRlIixbI-jAiXV0sWyJBcmVhIixbIlhYIl1dLFsiU3RhdGlzdGljIixbIjEiXV0sWyJVbml0X29mX21lYXN1cmUiLCJMZXZlbHMiXSxbIllYXIiLFsiMjAyMyIsIjIwMTAiXV0sWyJZZWFyQmVnaW4iLCItMSJdLFsiWWVh-cl9FbmQiLCItMSJdXX0= and Census Bureau (Population Division), U.S. Department of Commerce (2024), “Annual Estimates of the Resident Population for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2023 (NST-EST2023-POP)” https://www2.census.gov/programs-surveys/popest/tables/2020-2023/state/totals/NST-EST2023-POP.xlsx

Population Growth (8% weight)

A ranking of states by annual change in population from 2022 to 2023.

Sources: Census Bureau (Population Division), U.S. Department of Commerce (2023), “Annual Estimates of the Resident Population for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2023 (NST-EST2023-POP)” https://www2.census.gov/programs-surveys/popest/tables/2020-2023/state/totals/NST-EST2023-POP.xlsx, and ©2024 United Van Lines, “Annual 2023 United Van Lines National Movers Study,” January 2, 2024

Reserves (8% weight)

A ranking of states that compares available funds to expenditures. Each state’s total funds—the sum of its General Fund balance and budget stabilization fund—are divided by state expenditures.

Source: ©2023 The National Association of State Budget Officers (NASBO), “The Fiscal Survey of States - Fall 2023”, https://www.nasbo.org/reports-data/fiscal-survey-of-states

Tax Foundation’s State Business Tax Climate Index (4% weight)

A report comparing states’ tax systems intending to show how well states structure their systems and offering ideas for improvement.

Sources: © 2024 Tax Foundation, “2024 State Business Tax Climate Index,” https://taxfoundation.org/research/all/state/2024-state-business-tax-climate-index/, and © CBRE (2024), “The Shifting Landscape of Headquarters Relocations: Trends and Outlooks”, https://www.cbre.com/insights/viewpoints/the-shifting-landscape-of-headquarters-relocations-trends-and-outlook

Tax Revenue Growth (8%)

A ranking of states by annual total tax revenue growth 2022-2023.

Source: Census Bureau, U.S. Department of Commerce (2024), “Quarterly Summary of State & Local Tax Revenue Data Tables,” https://www.census.gov/programs-surveys/qtax/data/tables.All.html

Unemployment Rate (8% weight)

A ranking of states by the average their average unemployment rates over 2023.

Sources: Bureau of Labor Statistics, U.S. Department of Labor (2024), “Unemployment Rates for States, 2023 Annual Averages” https://www.bls.gov/lau/lastrk23.htm, and Bureau of Labor Statistics, U.S. Department of Labor (2024), “Unemployment Rates for States, 2022 Annual Averages” https://www.bls.gov/lau/lastrk22.htm

Appendix B—State Rankings by Credit Indicator

State	Debt per Capita	Economic Debt	Employment Growth	GDP Growth	GDP/Cap	HPI Change	Personal Inc Change YOY	Personal Inc/Cap	Population Growth	Reserves	Tax Climate	Tax Rev Growth	Unemployment Rate Avg	Raw Score	End Rank
Alabama	26	27	8	21	47	38	20	48	16	21	41	33	7	26.6	26
Alaska	35	23	2	4	9	30	43	14	41	3	3	50	44	23.96	21
Arizona	5	8	5	19	35	25	4	33	11	36	19	45	38	21.88	15
Arkansas	6	11	40	22	48	28	47	46	15	7	40	37	27	28.32	36
California	38	39	48	32	4	35	45	4	44	9	48	48	49	33.52	46
Colorado	22	16	1	17	8	43	28	7	17	31	21	43	23	21.32	13
Connecticut	50	49	35	31	5	4	19	2	45	20	47	47	36	29.32	39
Delaware	46	46	32	50	10	37	36	24	5	46	16	25	42	32.56	45
Florida	15	9	10	7	34	23	1	17	2	45	4	17	11	15.44	3
Georgia	23	14	29	46	27	20	38	41	8	16	32	27	23	26.24	24
Hawaii	48	47	45	33	25	50	21	26	48	38	43	42	17	36.92	50
Idaho	13	6	15	14	46	49	13	40	4	8	15	26	22	21.08	12
Illinois	41	48	47	41	12	15	39	15	46	48	36	34	48	36.16	49
Indiana	7	20	34	39	30	16	50	38	23	35	9	12	27	26.84	28
Iowa	9	5	33	42	20	31	48	32	35	28	38	49	11	28.96	37
Kansas	28	31	39	10	21	14	14	29	36	14	25	18	9	22.04	16
Kentucky	27	43	24	13	42	26	25	47	29	6	18	19	44	28.32	35
Louisiana	33	36	44	16	40	46	40	43	49	41	39	7	34	35.88	48
Maine	24	35	20	34	39	19	26	30	14	11	35	24	11	24.36	22
Maryland	43	42	43	30	13	29	17	10	33	30	46	35	3	28.08	34
Massachusetts	49	45	49	35	2	13	46	1	31	18	34	13	30	27.92	33
Michigan	21	28	25	38	37	7	37	39	39	32	12	20	38	29.36	40
Minnesota	31	17	28	45	16	39	35	13	25	27	45	31	10	27.16	29
Mississippi	36	33	37	47	50	6	49	50	40	37	27	4	23	34.04	47
Missouri	8	21	22	27	36	17	6	34	30	43	11	23	17	23.16	20
Montana	3	22	19	26	44	40	12	28	12	33	5	29	11	22.52	18
Nebraska	1	1	21	6	7	36	9	19	19	4	31	6	6	12.04	1
Nevada	14	13	9	20	26	42	15	25	20	13	7	11	50	20.92	11
New Hampshire	19	25	38	44	18	12	23	9	21	23	6	1	5	19.28	7
New Jersey	47	50	23	37	11	5	27	3	27	50	50	36	47	31.04	42
New Mexico	30	34	14	11	41	33	42	45	38	2	22	3	36	27.2	30

Appendix B—State Rankings by Credit Indicator

State	Debt per Capita	Economic Debt	Employment Growth	GDP Growth	GDP/Cap	HPI Change	Personal Inc Change YOY	Personal Inc/Cap	Population Growth	Reserves	Tax Climate	Tax Rev Growth	Unemployment Rate Avg	Raw Score	End Rank
New York	45	37	31	48	1	8	24	6	50	44	49	44	44	32.52	44
North Carolina	17	15	13	18	31	21	18	36	6	15	10	22	32	19.92	8
North Dakota	18	10	26	1	6	34	30	11	18	5	17	38	1	16.52	4
Ohio	32	19	36	43	29	11	33	37	32	24	37	2	32	27.88	32
Oklahoma	11	2	6	5	43	32	34	42	13	12	23	41	23	22.04	17
Oregon	40	30	50	29	22	48	31	22	43	19	24	8	34	31.04	43
Pennsylvania	29	38	42	28	24	22	22	18	42	25	33	10	30	27.72	31
Rhode Island	42	40	7	36	32	1	32	20	34	47	42	5	17	26.72	27
South Carolina	10	41	4	12	45	9	5	44	1	42	30	40	17	22.8	19
South Dakota	12	3	16	24	23	24	44	16	10	29	2	14	3	17.52	5
Tennessee	4	4	46	15	28	27	11	35	9	40	14	15	27	21.44	14
Texas	16	29	11	2	17	45	7	23	3	10	13	16	38	17.88	6
Utah	20	7	12	23	19	47	2	31	7	34	8	46	8	20.8	10
Vermont	25	44	18	40	38	2	16	21	37	22	44	32	2	25.52	23
Virginia	37	24	17	25	14	18	10	12	24	26	26	28	11	20.72	9
Washington	44	26	41	8	3	44	8	5	26	49	29	21	43	26.6	25
West Virginia	39	32	3	9	49	3	29	49	47	17	20	39	38	29.12	38
Wisconsin	34	18	27	49	33	10	41	27	28	39	28	30	17	29.36	41
Wyoming	2	12	30	3	15	41	3	8	22	1	1	9	11	12.6	2