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The Week in Public Finance: How the New NAFTA Deal Impacts States.

The revised trade pact keeps the original agreement's free trade zone intact while placing some new burdens on the auto industry.

After President Trump threatened for more than a year to withdraw from NAFTA, auto-manufacturing states breathed a sigh of relief when he announced a renegotiated trade agreement earlier this month with Canada and Mexico.

A U.S. withdrawal from the 1994 pact would have resulted in the reimposition of tariffs on specific goods between the U.S., Canada and Mexico. The impact would have been felt most acutely by states such as Michigan that do a lot of business with the two countries.

The revised trade pact, dubbed the United States Mexico Canada Agreement, keeps the free trade zone intact while placing some new burdens on the auto industry. Two new key requirements include introducing a higher minimum-wage standard and boosting the required share of auto parts and components from North America up to 75 percent from 62.5 percent.

Industry observers have reacted positively to the deal mainly because there is one. "It's a positive compared with the alternative," says Moody's Investors Service analyst Ted Hampton. "But a lot remains to be seen."

Michigan stands to benefit the most from the deal; more than one-quarter of the state's economy is subject to the NAFTA trade zone, according to an analysis released this week by Moody's. That's largely thanks to both its heavy reliance on auto manufacturing and its shared border with Canada.

Alabama, Indiana and Kentucky also stand to benefit as large parts of their economy rely on auto manufacturing.

Still, a lot of uncertainty remains when it comes to the new agreement and trade in general.

For starters, Congress and the Canadian and Mexican legislatures still need to approve the deal, which is scheduled to take effect in 2020.

In addition, the new labor and part sourcing restrictions are expected to cut into the auto industry's bottom line. While that could encourage more auto jobs to move to the U.S., it could also discourage auto production overall in North America. "At this point we don't anticipate that," says Hampton, "but it certainly is a risk."

Meanwhile, other global trade hurdles imposed by the president still threaten state economies. Trump has imposed tariffs on Chinese goods worth $250 billion, has threatened tariffs on another $276 billion in Chinese products, and has applied tariffs on steel and on foreign aluminum — to which Canada and Mexico are still subject.

Those moves have raised import and domestic costs significantly. According to a report this week from the group Tariffs Hurt the Heartland, tariff costs increased by nearly half in August compared with a year earlier. In Michigan, tariff costs tripled and they more than doubled in states such as Illinois, Texas and West Virginia.

In other public finance news:

The Most- and Least-Solvent States

Nebraska, South Dakota, Tennessee, Florida, and Oklahoma are the top five most fiscally sound states, according to the Mercatus Center at George Mason University, which ranks the 50 states according to their financial condition.

The study measures how well states can meet short-term and long-term bills by examining their financial statements. The study found that most states are in a stable condition, with the exception of those with large unfunded pension liabilities.

The least fiscally solvent state is Illinois. Not only are its long-term liabilities equal to three times the state's total assets, it doesn't even have enough cash on hand to meet its short-term liabilities. Illinois is followed by Connecticut, New Jersey, Massachusetts and Kentucky.

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