The Only 2 States That Can't Afford a Recession.

SPEED READ:

- **Moody’s Investors Service concludes that Illinois and New Jersey are least-prepared to weather the next recession.**
- **The report is based on savings, pension risks and state revenues.**
- **Illinois has enough savings to cover a few months; New Jersey even less.**

The chronic budget-balancing struggles of Illinois and New Jersey since the Great Recession have earned them a dubious distinction this week: They are the only two states not prepared to weather the next recession.

That was the assessment from Moody’s Investors Service, which measured how drastically each state’s revenue was likely to drop during a mild recession and whether the state had budget reserves or other funds available to help cover the gap. The analysis also evaluated what would happen to public pension funds if a recession leads to a loss of the investment assets that pay benefits.

When it comes to pension debt, Illinois has more than six times the size of its annual revenue, while New Jersey’s is more than triple, according to Moody’s. Illinois has enough savings to cover a few months of revenue declines, but New Jersey’s would cover even less. (Louisiana, New York and Pennsylvania also have slim-to-no reserves.)

Illinois Gov. J.B. Pritzker is under pressure to close a billion-dollar budget gap and address $133.5 billion in unfunded pension liabilities. While his plan to eliminate the state’s flat income tax in favor of a progressive structure is aimed at addressing these two problems, it would also make the state’s tax revenue more volatile and susceptible to declines during a recession.

New Jersey Gov. Phil Murphy is advocating a so-called millionaire’s tax to help his state’s chronic budget woes. But legislative leaders say it won’t pass. State Treasurer Elizabeth Maher Muoio, who has advocated for the millionaire’s tax, issued a statement in response to the Moody’s report and called on the legislature to stop “punting on its responsibilities” to bolster budget reserves.

“While our projected surplus is certainly better than the far-too-risky position New Jersey had become accustomed to in recent years,” she said, “we are still far behind most states when it comes to being adequately positioned to weather a future economic downturn.”

The findings are an update from the first report of this kind that Moody’s conducted three years ago. That report, which did not include pension risk and only studied the 20 most populous states, found that California and Illinois were the least-prepared.

California has since added to its savings and is now rated by Moody’s as moderately prepared, meaning it has enough in reserves and other financial flexibility to weather a recession with mild adjustments, such as spending cuts.

GOVERNING.COM

BY LIZ FARMER | MAY 24, 2019 AT 4:00 AM