MUNICIPAL CREDIT RESEARCH

State of the States

OCTOBER 2014

PAUL MANSOUR, MANAGING DIRECTOR

Our State of the States report is prepared twice a year. A state's ranking contributes to our internal rating, which also considers security features plus fiscal and budget policies. We believe that certain credit and macroeconomic indicators provide an accurate assessment of both current and future credit quality. Having a quantitative forward-looking model to rank state credit quality provides Conning with a disciplined approach to manage both direct State GO debt and other credits within each respective state.

KEY FINDINGS

- Conning has an improving outlook on state credit quality;
- Economic growth is bolstering state revenues, leading to increases in fund balances for most;
- Legacy costs, which are a key credit determinant, vary dramatically by state;
- The "fly over" states are generally prospering;
- Among the larger states, Illinois and New Jersey are lagging in terms of credit improvement.

EXECUTIVE SUMMARY

The ongoing economic recovery continues to lift up overall state credit quality. Employment growth, higher consumer confidence, and improved housing prices are driving up revenues, while states continue to keep expenditure growth in check. Caution on new projects has led to lower aggregate outstanding debt than a year ago. Debt refundings have reduced interest costs and lowered debt service even further. Over the past six months, California and New York, two of the largest issuers in the marketplace, have earned rating agency upgrades. We see relative credit improvement in several midsized states including West Virginia, Indiana, Michigan and Missouri in particular. While most states are improving, Illinois, Kentucky, New Jersey and Connecticut continue to face budget pressures due to slow-growing economies and high legacy costs. High legacy costs are proving to be a very sticky problem which economic growth alone cannot overcome. It will take many years for these states to meaningfully reduce debt levels and unfunded retirement costs.

The states with the lowest expenditure and fixed cost burdens have been able to take full advantage of the improving economy. Our lower-ranked states are experiencing a more muted economic recovery. For many of these states, legacy costs are draining away a higher percentage of state revenues. Our rankings do not preclude us from buying any particular state's direct GO debt. Many factors are considered. We do, however, feel that it is important to have a grasp on the credit indicators that drive state credit quality before making investment decisions.

STATE REVENUES – GROWTH TAKES A PAUSE

Since our last report in April, growth in state tax revenues has taken a pause, according to the two widely acknowledged sources of state revenues (U.S. Census Bureau and the Nelson A. Rockefeller Institute of Government). Following 17 consecutive quarters of rising state revenue, state revenues declined modestly. Non-recurring events have been the culprit. A major part of the revenue decline can be ascribed to an imperfect

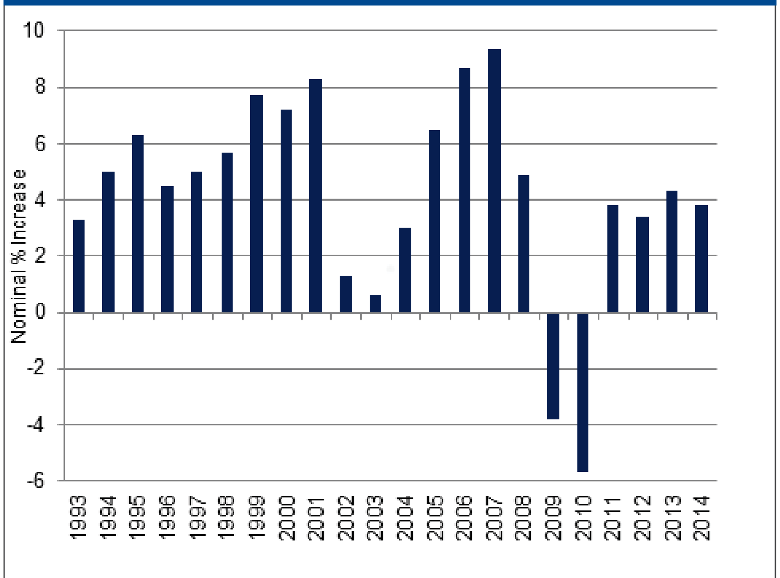
Exhibit 1: State Revenues

Calendar Year	State Revenues $ billions	% Change
Jan to June 2014	467.830	-0.05%
Jan to June 2013	468.059	--
2013	859.0	7.0%
2012	802.7	4.0%
2011	773.3	7.5%
2010	716.3	4.1%
2009	688.1	-11.2%
2008	774.9	1.9%
2007	760.3	4.4%
2006	728.2	7.0%

[(1)]*Source: U.S. Census Bureau. Quarterly Summary of State and Local Tax Revenue. Retrieved September 2014 from https://www.census.gov/govs/qtax/*

comparison due to changes in federal tax rates that led to an acceleration of capital gains taxes paid in 2013. The unusually cold winter of 2014, which was largely responsible for negative GDP growth in the first quarter, also reduced state sales tax revenues. We expect positive growth to resume for the second half of 2014 consistent with the rate of growth for the nation's GDP.

Exhibit 2: State General Fund Expenditure Growth (%)



Source: NASBO Fiscal Survey of the States - Spring 2014, Conning Analysis

STATE EXPENDITURES - GROWTH KEPT IN CHECK

Despite strong pressure to grow expenditures, states have been able to keep the rate of expenditure growth below the rate of state tax revenue growth. As per the National Association of State Budget Officers (NASBO), actual state general fund spending increased a modest 3.8% for FY 2014. This rate of growth of expenditures is below the 35-year historical average annual growth rate of 5.6%, as well as the four-year tax revenue growth of 5.7% (see Exhibit 2).

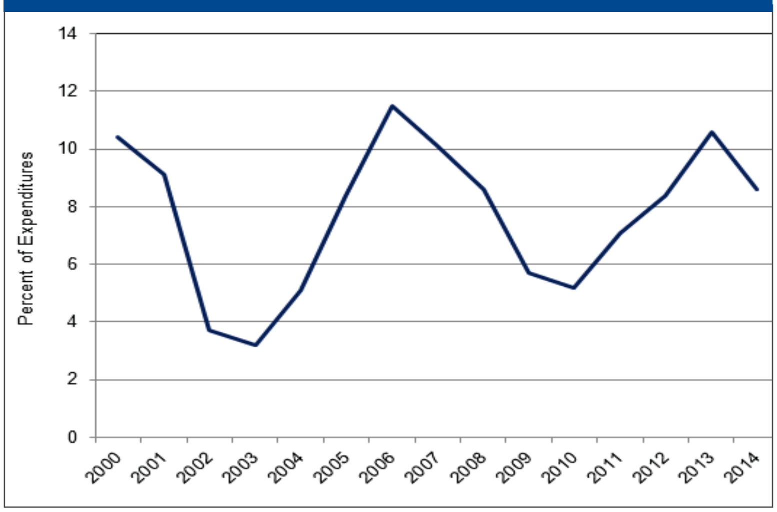
GENERAL FUND BALANCES - RECOVERED FOR MOST STATES

General fund balances are an important measure of a state's fiscal health. They include both a state's ending general fund balance and its budget reserve or "Rainy Day" balance, if it has one. Budget reserves provide revenue flexibility that states rely upon during recessions. A healthy figure is 10% of annual state general fund expenditures. For FY 2013, this percentage was 10.6%. According to NASBO figures, the preliminary percentage has softened for FY 2014 to 8.6%, still a safe level. At the depth of the recession, aggregate reserves were just 4% of expenditures. The current results are skewed, with a handful of states such as Texas and Alaska having huge balances, while several states, including Pennsylvania, Illinois and New Jersey, have virtually no fund balances. These states are at greater risk for credit stress if they are unable to rebuild their fund balances prior to the onset of the next recession.

ECONOMIC INDICATORS - IMPROVING STATE CREDIT QUALITY

States receive the bulk of their revenues via income taxes and sales taxes, both of which are driven by the level of economic activity. Macroeconomic measures related to economic growth are an effective leading indicator for state revenue performance. While there are always exceptions given state-specific tax policy and revenue drivers, growth in economic output (GDP), income, consumer confidence, and employment continue to shape the ebb and flow of state revenues.

Exhibit 3: Year-End Fund Balance as a Percentage of Expenditures



Source: NASBO Fiscal Survey of the States - Spring 2014, Conning Analysis

Recent performance in most economic indicators has been positive. The weather-related -2.1% decline in GDP in Q1 2014 bounced back with a very strong 4.6% revised print for Q2. Conning expects third- and fourth-quarter GDP growth to range between 3% and 3.5%. Housing prices, which are an important indicator of state fiscal health, continue to steadily, albeit slowly, move higher. Per-capita income grew nearly .89% in the past six months, inferring an annual growth rate that would outperform our 1.1% average annual growth rate for 2009-2013. Despite volatility and some recent softening, Bloomberg's consumer comfort index has shown positive performance over the past year, and the more recent 35.5 rating is higher than the approximate 34 rating at the time of our last report (April 2014). Broadly speaking, there is a link between GDP and aggregate state revenues; however, it is difficult to model state tax revenues due to the role that state and federal tax policies play into the amount and timing of state revenues.

EMPLOYMENT GROWTH – UNEQUAL RECOVERY BY THE STATES

Total employment in August of 2014 grew a solid 1.7% from the August 2013 figures. Total employment in the aggregate has surpassed the figures from January 2008, which was the start of the last recession. The recovery has been uneven, however, with many states still not recovered all the lost jobs. Employment is a key driver and leading indicator of state fiscal health.

States with the most employment growth over the past year by percentage are listed in Exhibit 4. In most cases, strong job growth overlaps with states with strong overall credit profiles. There are instances, such as in Nevada, where the strong percentage growth is due to a modest increase from a low base. States with the weakest employment gains over the past six months are listed in Exhibit 5. Again, many of these states overlap with states with relatively weaker overall credit profiles. There are instances, such as in Alaska, where a modest decrease over the year drove a large percentage drop due to the small size of the employed population.

PENSION BURDEN – IMPROVEMENT REMAINS ELUSIVE

Exhibit 4: States with the Most Employment Growth

State	Employment 000's Aug-2014	Employment 000's Aug-2013	Employment 000's Change	%Change
North Dakota	466.8	447.1	19.70	4.41%
Utah	1,337.3	1,291.7	45.60	3.53%
Texas	11,623.4	11,228.2	395.20	3.52%
Nevada	1,220.6	1,179.4	41.20	3.49%
Florida	7,818.5	7,607.3	211.20	2.78%
Delaware	440.3	428.6	11.70	2.73%
Oregon	1,721.6	1,676.9	44.70	2.67%

Source: Bureau of Labor Statistics

Exhibit 5: States with the Least Employment Growth

State	Employment 000's Aug-2014	Employment 000's Aug-2013	Employment 000's Change	%Change
Alaska	333.6	336.3	(2.70)	-0.80%
New Jersey	3,949.5	3,946.5	3.00	0.08%
Connecticut	1,665.3	1,659.7	5.60	0.34%
Ohio	5,292.9	5,274.7	18.20	0.35%
New Hampshire	642.9	640.2	2.70	0.42%
Vermont	306.7	305.4	1.30	0.43%
Maryland	2,608.3	2,597.0	11.30	0.44%

Source: Bureau of Labor Statistics

A state's pension funded ratio is the key indicator of the health of a plan at any point in time. Many municipal analysts use an 80% funded ratio as the minimum safe level. Each state uses a different assumption, making it difficult to assess pension health at face value and to make comparisons between state plans. New Governmental Accounting Standards Board (GASB) accounting standards effective FY 2014 will standardize assumptions used and will make comparisons more realistic. Based on 2013 data from several industry sources plus Conning, the aggregate state pension funded ratio is 75%. This is little changed from prior years. There has been limited and sporadic success to date in reducing the burden of growing pension costs on municipal governments for a variety of reasons, including the failure of some states to make their annual required contribution or ARC.

A state's pension burden is a major differentiating credit distinction. There are proving to be both political and legal barriers to making meaningful changes to existing retirement plans. Landmark pension reform was approved by Illinois lawmakers and signed into law in December 2013. The reform will save the state $160 billion over the next 30 years by reducing the growth in benefits. The law is currently being challenged in court by We are One Illinois, a coalition of labor unions. The case is currently with the Sangamon County Circuit Court which is overseeing five consolidated lawsuits filed by labor unions and others. A decision is expected by year end. Implementation of the reform has been stayed pending the outcome of the trial.

We are One Illinois is arguing that the state's constitution prohibits any impairment of vested benefits. Illinois is arguing that its police powers trump the constitutional provision against reducing public employee retirement benefits. Those powers include the state's ability to properly fund education, healthcare and public safety. Those sectors would experience substantial cuts if the state's already large pension burden grows. If any portion of the lawsuit is successful it would have a chilling effect on the state's credit quality. This process illustrates the difficulty that States with high pension burdens face in reducing their pension burdens even when there is public support.

Adding to the focus on pension funding is the fact that the GASB's new rules on pension reporting are effective this year for states with fiscal years ending after June 15. For most plans, the new accounting standards will result in larger unfunded actuarial liabilities through use of a lower discount rate.

The combination of the above factors leads to our conclusion that state pension plan ARCs are likely to continue to grow, siphoning ever more money away from other general fund expenditures such as education, transportation and healthcare. For those states with large unfunded pension liabilities, pension burdens will remain a major drag to credit quality improvement.

ECONOMIC DEBT – MAJOR DIFFERENCES AMONG THE STATES

Exhibit 6: States with the Highest Economic Debt Levels

State	Economic Debt to Personal Income
Alaska	46.0%
Hawaii	43.5%
Illinois	29.6%
Connecticut	29.6%
New Jersey	28.8%

Source: Conning Municipal Credit Group

Exhibit 7: States with the Lowest Economic Debt Levels

State	Economic Debt to Personal Income
South Dakota	2.7%
Tennessee	2.7%
Nebraska	2.9%
Wisconsin	4.7%
Idaho	5.2%

Source: Conning Municipal Credit Group

We define economic debt as direct debt, unfunded pension liabilities, unfunded Other Post-Retirement Benefits (OPEB) and federal borrowings for state unemployment benefit obligations.

Conning believes that including unfunded pension and OPEB as debt equivalents is a more comprehensive and accurate measure of a state's fixed cost burden. We recognize that the amount of these unfunded obligations, unlike debt, can fluctuate materially from year to year due to plan changes and actuarial studies. It has, however, proved both legally and politically difficult to materially alter vested benefits.

States are permitted to borrow from the federal government to make unemployment claim payments during recessions when monies collected from employers, including reserves, are not sufficient to make claim payments. Economic debt levels vary widely among the states. The states with the highest and lowest economic debt to personal income are set forth in Exhibits 6 and 7.

States issue debt for a variety of purposes. What is most important is the amount of debt outstanding, not its purpose. For instance, the states of Connecticut and Hawaii issue general obligation GO debt for local school construction, while for most states (with some exceptions) this debt issuance occurs at the local level. Other states issue debt for economic development. We feel using economic debt per personal income and direct GO per capita as credit indicators provides a comprehensive assessment of outstanding fixed obligations for which each state is responsible, regardless of its purpose.

EXPENDITURE BURDEN – PERCENTAGE OF STATE ANNUAL EXPENDITURES THAT ARE FIXED

Conning measures each state's fixed expenditures as a percentage of its total general fund expenditures to measure financial flexibility. States with high expenditure burdens have less budget flexibility during recessionary periods. We define fixed payments as debt service and each state's ARC to its pension plans, not what is actually contributed. Not all states fully fund their ARCs on an annual basis. The amount of each state's ARC and what percentage is actually contributed to its pension plans are both important credit factors. Failure to pay the full ARC is a negative credit factor.

Medicaid expenditures are a significant growing expenditure for most states as a result of the Affordable Care Act. Although not included in this indicator because states do exert some control over these expenditures, they are largely a fixed cost and pose a threat to future state budgets. State Medicaid costs have become an important credit factor.

Exhibit 8: States with the Highest Expenditure Burdens

State	Expenditure Burden
Nevada	43.2%
Ohio	36.4%
Illinois	30.3%
California	25.4%
Kentucky	24.7%

Source: Conning Municipal Credit Group

Exhibit 9: States with the Lowest Expenditure Burdens

State	Expenditure Burden
North Dakota	5.1%
Vermont	6.8%
Nebraska	7.1%
Alaska	8.4%
Iowa	8.5%

Source: Conning Municipal Credit Group

STATE OF THE STATES METHODOLOGY – QUANTITATIVE MEASURES OF STATE PERFORMANCE

We rank the credit quality of states using 12 indicators. The specific definition and sources of the data of our indicators are shown in Appendix A. The selected indicators measure a state's business climate, credit specific metrics, economic and income levels, and housing activity.

Exhibit 10 sets forth the indicators and the weightings assigned to arrive at the credit rankings.

Exhibit 10: Quantative Measures of State Performance

Credit Indicator		Measurement	Weighting
State Economic Competitiveness	**12%**		
Laffer State Economic Competitiveness Ranking		**State Business Climate**	*12%*
State Credit Metrics	**40%**		
Economic Debt to Personal Income		**Financial Condition**	*8%*
FY 2013 General Fund Balance as a % of General Fund Expenditures		**Financial Condition**	*8%*

Debt per Capita		**Financial Condition**	*8%*
Tax Revenue Growth		**Financial Condition**	*8%*
Expenditure Burden		**Financial Condition**	*8%*
Economic and Income Measures	**40%**		
Real State GSP 5-year average growth		**Economic Activity**	*8%*
Year-over-Year Employment Growth		**Economic Activity**	*8%*
GSP per Capita		**Economic Activity**	*8%*
Unemployment Rate		**Economic Activity**	*8%*
Per Capita Income		**Income Level**	*8%*
Housing Indicators	**8%**		
One-Year Home Price Change		**Housing**	*8%*
TOTAL			**100%**

Source: Conning Municipal Credit Group

THE RESULTS – A WESTERN STORY

Once again, the line of states from North Dakota/Montana south to Texas contains all of our highest-ranked states with the exception of Florida, which is ranked seventh. While these states all enjoy pro-business climates, strong job growth, and lower debt burdens than their coastal and Midwestern peers, there is a clear trend of credit strength in states with a high component of natural resource extraction in the economy.

Our ten weakest states still show a modest clustering in the mid-Atlantic region with New Jersey, New York, Pennsylvania, Connecticut and Rhode Island all represented. It becomes more geographically diverse after that, however, with Alabama, New Mexico, Kentucky, Mississippi, and Illinois rounding out the remainder. While most of these states share the common problem of high fixed cost burdens and sluggish economies, their ongoing credit challenges are more idiosyncratic. Pennsylvania and Illinois passed budgets reliant on one-time measures for 2015. Alabama and Mississippi have persistent low per capita income and high unemployment. Kentucky's manufacturing base has not participated in strong sector growth. New Mexico's housing base has not shown much recovery post-crisis, and New York is penalized by its comparatively inhospitable business climate.

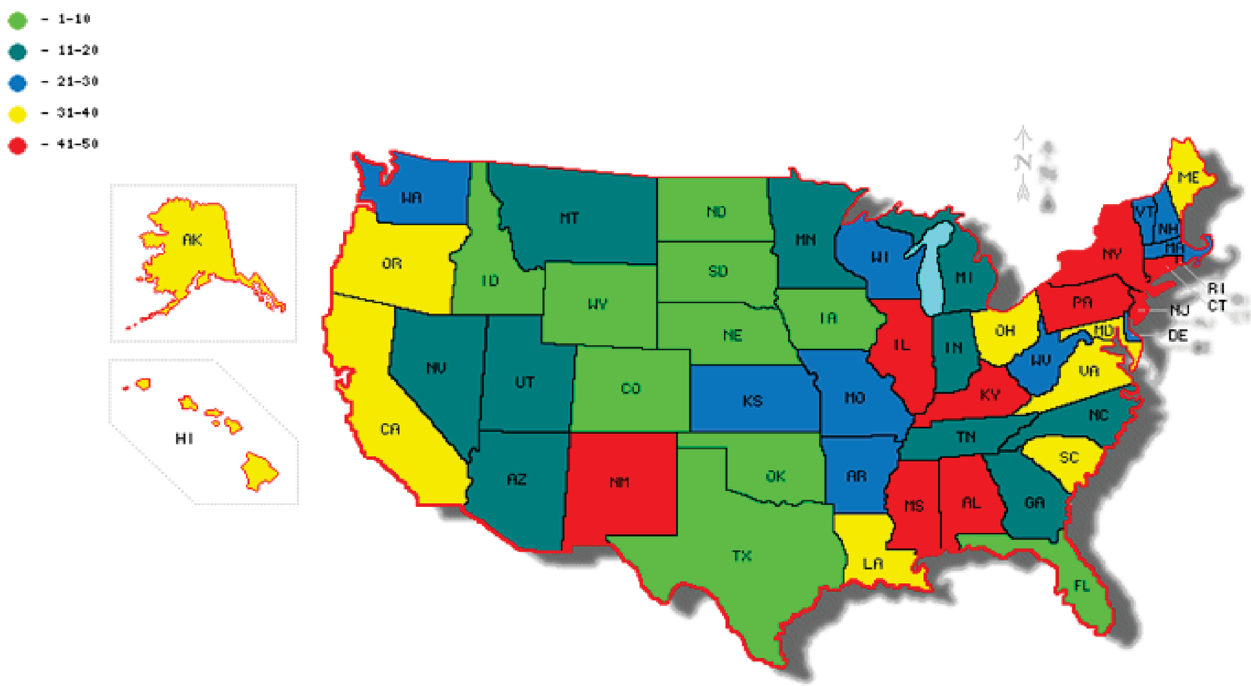
Rank order changes from the prior report in April 2014 primarily result from changes in employment, tax revenue, housing, and general fund operations over the past six months. Business conditions and debt levels tend to be more stable indicators. The following table and map provides our current state rankings as compared to April 2014. Appendix B contains each state's ranking by each of our 12 credit rank indicators.

Exhibit 11: State Ranking Results

State	Rank October '14	Rank April '14	Improvement / Decline in Rank
Alabama	41	36	-5
Alaska	39	27	-12
Arizona	13	12	-1
Arkansas	29	38	9
California	36	32	-4
Colorado	5	6	1
Connecticut	45	49	4
Delaware	27	35	8
Florida	7	7	0
Georgia	17	15	-2

State	Rank October '14	Rank April '14	Improvement / Decline in Rank
Hawaii	35	26	-9
Idaho	8	10	2
Illinois	50	46	-4
Indiana	11	25	14
Iowa	10	9	-1
Kansas	22	30	8
Kentucky	46	50	4
Louisiana	37	29	-8
Maine	40	43	3
Maryland	33	20	-13
Massachusetts	28	28	0
Michigan	19	33	14
Minnesota	18	16	-2
Mississippi	48	41	-7
Missouri	26	37	11
Montana	15	13	-2
Nebraska	6	8	2
Nevada	20	22	2
New Hampshire	30	31	1
New Jersey	49	45	-4
New Mexico	44	47	3
New York	47	42	-5
North Carolina	16	14	-2
North Dakota	1	1	0
Ohio	38	40	2
Oklahoma	9	11	2
Oregon	32	18	-14
Pennsylvania	43	44	1
Rhode Island	42	48	6
South Carolina	31	24	-7
South Dakota	4	2	-2
Tennessee	14	23	9
Texas	3	3	0
Utah	12	4	-8
Vermont	25	34	9
Virginia	34	21	-13
Washington	24	17	-7
West Virginia	23	39	16
Wisconsin	21	19	-2
Wyoming	2	5	3

Exhibit 12: Conning State of the States — October 2014



Source: Conning Credit Group

IMPROVING STATES

The following states experienced the largest improvements in their state rankings since our last report. The most common ingredients for our improved states are growing employment, tax revenue growth, and progress in reducing debt burdens.

Exhibit 13: Improving States

State	Rank Oct '14	Rank Apr '14	Improvement in Rank	Reasons for Relative Rank Improvement
West Virginia	23	39	16	Employment and tax revenue growth
Michigan	19	33	14	Better state output and bolstered fund balances
Indiana	11	25	14	Positive progress in reducing debt burden and improved housing prices
Missouri	26	37	11	Positive progress in reducing debt burden and employment growth
Vermont	25	34	9	Significant decrease in expenditure burden
Tennessee	14	23	9	Employment and tax revenue growth
Arkansas	29	38	9	Growing state product and low debt
Delaware	27	35	8	Strong GF operations and higher wealth levels
Kansas	22	30	8	Lower employment and favorable business climate
Rhode Island	42	48	6	Tax revenue growth
Connecticut	45	49	4	Tax revenue growth
Kentucky	46	50	4	Tax revenue growth

Source: Conning Municipal Credit Group

DECLINING STATES

The following states experienced largest declines in their relative ranking. Common factors among the states that fell in the rankings included slow employment and tax revenue growth.

Exhibit 14: Declining States

State	Rank Oct '14	Rank Apr '14	Decline in Rank	Reasons for Relative Rank Decline
Oregon	32	18	-14	Weak tax revenue growth and a higher expenditure burden
Maryland	33	20	-13	Increased debt burden and slowing revenue growth
Virginia	34	21	-13	Increased debt burden and slow GSP growth
Alaska	39	27	-12	Declining employment and tax revenues plus slow GSP and revenue growth
Hawaii	35	26	-9	Increased debt burden and softening employment growth
Utah	12	4	-8	Slower tax revenue growth high debt levels
Louisiana	37	29	-8	Slower tax revenue and home price growth
Washington	24	17	-7	Higher debt levels
South Carolina	31	24	-7	Higher debt levels and lower wealth levels
Mississippi	48	41	-7	Higher unemployment and lower wealth levels
New York	47	42	-5	Higher debt levels weak competitive position
Alabama	41	36	-5	Slow growth with low wealth levels
New Jersey	49	45	-4	Higher debt levels with weaker GF operations
Illinois	50	46	-4	Higher debt levels with weaker GF operations
California	36	32	-4	Slower tax revenue growth with a high unemployment rate

Source: Conning Municipal Credit Group

RECENT STATE PUBLISHED RATING CHANGES - IN LINE WITH OUR RANKINGS

As illustrated below in date order, published rating actions over the past six months have been highly correlated with Conning's ranking movement changes from our prior report. Our experience has been that a Conning's State of the States ranking and ranking direction is a good predictor of future rating agency credit actions.

Exhibit 15: State Published Rating Changes

Credit	Agency	Action	Date	Prior Rating	Rating	Prior Outlook	Outlook	Reason	Conning Rank April 2014	Conning Rank October 2013
NEW HAMPSHIRE	S&P	Outlook Lowered	4/21/2014	AA	AA	Stable	Negative	Thinning financial position and softening pension funded status	30	29
KANSAS	Moody's	Downgrade	4/30/2014	Aa1	Aa2	Negative	Stable	Sluggish economic recovery	22	18
NEW JERSEY	Fitch	Downgrade	5/1/2014	AA-	A+	Negative	Negative	Revenue shortfalls and persistent budgetary imbalance	49	44
NEW JERSEY	Moody's	Downgrade	5/13/2014	Aa3	A1	Negative	Negative	Revenue shortfalls and persistent budgetary imbalance	49	44
NEW JERSEY	S&P	Outlook Lowered	6/2/2014	A+	A+	Stable	Watch Negative	Revenue shortfalls and persistent budgetary imbalance	49	44
KENTUCKY	Moody's	Outlook Improved	6/2/2014	Aa2	Aa2	Negative	Stable	Proactive financial control and improved manufacturing activity	46	48
MAINE	Moody's	Outlook Change	6/4/2014	Aa2	Aa2	Negative	Stable	Progress toward structural balance	40	40
NEW YORK	Moody's	Upgrade	6/16/2014	Aa2	Aa1	Positive	Stable	Economic recovery and strong fiscal management	47	35

MICHIGAN	S&P	Outlook Improved	6/17/2014	AA-	AA-	Positive	Stable	Softening revenues and a fund draw	19	31
CALIFORNIA	Moody's	Upgrade	6/25/2014	A1	Aa3	Stable	Stable	Rapidly improving budgetary performance	36	36
NEW YORK	S&P	Upgrade	7/23/2014	AA	AA+	Positive	Stable	Economic recovery and strong fiscal management	47	35
PENNSYLVANIA	Moody's	Downgrade	7/21/2014	Aa2	Aa3	Stable	Stable	Passage of budget reliant on one-time revenues	43	43
ILLINIOS	S&P	Outlook Change	7/23/2014	A-	A-	Developing	Negative	Persistent budgetary weakness and lack of progress on pension status	50	49
KANSAS	S&P	Downgrade	8/6/2014	AA+	AA	Stable	Negative	Sluggish economic recovery, tax cuts without corresponding spending cuts	22	18
NEW JERSEY	Fitch	Downgrade	9/5/2014	A+	A	Watch Negative	Negative	Revenue shortfalls and persistent budgetary imbalance	49	44
NEW JERSEY	S&P	Downgrade	9/10/2014	A+	A	Watch Negative	Stable	Revenue shortfalls and persistent budgetary imbalance	49	44
PENNSYLVANIA	Fitch	Downgrade	9/23/2014	AA-	AA	Negative	Stable	Unexpected revenue shortfall in 2014, structurally unbalanced budget for 2015	43	43
PENNSYLVANIA	S&P	Downgrade	9/25/2014	AA-	AA	Negative	Stable	Weakening financial flexibility and continued inaction on pension reform	43	43

Source: Conning Municipal Credit Group

CONNING'S MUNICIPAL CREDIT RESEARCH TEAM

Conning manages more than $10 billion of municipal bonds held in client portfolios. Our dedicated municipal research team follows our existing holdings and makes recommendations for new purchases.

Paul Mansour, Managing Director and Research Analyst, joined Conning in 2006. Previously, Mr. Mansour was employed by MBIA Corporation as a Managing Director of municipal credit analysis and by New York State Power Authority as a revenue analyst. Mr. Mansour is a graduate of Colgate University with a degree in Economics and earned an MBA from Pace University. He is a member of MAGNY and the Municipal Bond Club of New York.

Sharif Soussi, CFA, Associate and Research Analyst, joined Conning in 2007 in the Investment Accounting & Reporting group. Previously, he was employed by the United States Peace Corps. Mr. Soussi is a graduate of McGill University with a degree in Commerce. He earned a graduate certificate from Harvard University and an MBA from the Barney School of Business.

Diane Diaz, Assistant Vice President, joined Conning in 2014. Previously, Diane worked in several public sector positions. Diane is a graduate of the University of Pittsburgh and is a recent graduate of the University of Connecticut with a Masters in Public Administration.

ABOUT CONNING

Conning (www.conning.com) is a leading investment management company for the global insurance industry, with more than $92 billion in assets under management as of September 30, 2014 through Conning, Inc., Conning Asset Management Limited, Cathay Conning Asset Management Limited, and Goodwin Capital Advisers, Inc. Conning's unique combination of asset management, risk and capital management solutions and insurance research helps clients achieve their financial goals through customized business and investment strategies. Founded in 1912, Conning is focused on the future, providing clients with innovative solutions, leveraging its global capabilities, investment experience, and proprietary research. Conning is headquartered in Hartford, Connecticut, with additional offices in New York, London, Cologne, and Hong Kong.

Appendix A - DESCRIPTION OF INDICATORS

Laffer State Competitive Environment (12% weight)

Arthur Laffer, a supply-side economist, developed the Laffer State Economic Competitive Index. The report assigns an Economic Outlook Rank based on a state's current standing in 16 state policy variables including top marginal personal and corporate income tax rates, property and sales tax burdens, and state minimum wage. Rankings are from his published report in 2014.
http://www.alec.org/publications/rich-states-poor-states/

Economic Debt to Personal Income (8% weight)

This indicator ranks each state according to its economic debt as a percentage of each state's first quarter personal income. Conning defines "Economic Debt" for each state as its net tax-supported debt + State Unemployment Trust Fund Loan Balance (if any) + Unfunded Pension Liabilities + Unfunded OPEB Liabilities. Each state's Economic Debt is then divided by its 1Q14 personal income.

$$\text{Economic Debt} = \frac{\text{Net Tax Supported Debt + State Trust Fund Loans + Unfunded Pensions + OPEB Liabilities}}{\text{1Q2014 Personal Income}}$$

Moody's Investor Services. 2014 State Debt Medians Report. May 2014
http://www.ncsl.org/issues-research/labor/state-unemployment-trust-fund-loans.aspx

FY13 General Fund Balance as a percentage of GF Expenditures (8% weight)

This indicator ranks the states according to their General Fund balance as a percentage of expenditures for FY13. Each state's ending balance and budget stabilization fund are added together to equal their total funds. Each state's total fund is then divided by that state's expenditures. This data was taken from The Fiscal Survey of States (April 2014), published by the National Association of State Budget Officers.
http://www.nasbo.org/publications-data/fiscal-survey-of-the-states

State and Local Debt to Personal Income (8% weight)

This represents direct state debt outstanding divided by its 1Q2014 personal income. Data was obtained from the Census Bureau; Moody's and state financial reports.
https://www.census.gov/govs/local/

Tax Revenue Growth (8% weight)

This indicator ranks the states according to their tax revenue growth for the 12 months ended June 30, 2014 as compared same period a year earlier. The data was obtained from the U.S. Census Bureau.
http://www.census.gov/govs/qtax/index.html

Expenditure Burden (8% weight)

This indicator ranks the states according to their "expenditure burden." Conning defines "expenditure burden" as a state's actuarially required contribution or ARC for pension plans plus its debt service divided by its FY 2013 general fund expenditures available for debt service. Data is obtained from Moody's, the National Association of State Budget Officers, and individual state CAFRs.
http://www.nasbo.org/publications-data/state-expenditure-report

Gross State Product (GSP) Growth by State (8% weight)

This indicator ranks each state's annual growth in its GSP – 2013 over 2012. This information comes from the U.S. Bureau of Economic Analysis.

Year-over-Year Employment Growth (8% weight)

This indicator ranks the states based on their year over year total employment growth August 2014 vs. August 2013. This data was obtained through the Bureau of Labor Statistics using seasonally adjusted figures.
http://www.bls.gov/lau/

Unemployment Rate (8% weight)

This indicator ranks the states by their August 2014 unemployment rate. The unemployment rate is the percentage of the labor force that is unemployed but is actively seeking employment and is willing and able to work. The data was obtained from the Bureau of Labor Statistics.
http://www.bls.gov/lau/

Real Gross State Product (GSP) divided by population (8% weight)

This indicator ranks the states according to their GSP per capita. This GSP data comes from the U.S. Bureau of Economic Analysis and the population data from the U.S. Census Bureau's Population Division.

Per Capita Income (8% weight)

This indicator ranks the states according to their 1Q14 per capita income statistics. This information was taken from the U.S. Bureau of Economic Analysis and the U.S. Census Bureau. Per capita income is the mean income computed for every individual in a particular group. This is calculated by dividing the total income of a group by the total population in that group.

One-Year change in Home Prices (8% weight)

This indicator ranks the states based on their one-year change in home prices. The data was obtained through the Federal Housing Finance Agency (FHFA) and covers the period ended July 31, 2014.
http://www.fhfa.gov/webfiles/26102/Q42013HPIreleasepacketfinal.pdf

Appendix B - STATE RANKINGS BY CREDIT INDICATOR

Final Rank	State	Raw score	Laffer	Economic Debt to Personal Income	FY13 General Fund Balance % of Expenditures	Debt Per Capita	Tax Revenue Growth	Expenditure Burden	1-yr GSP Growth	Unemployment Rate	YoY Employment Growth	GSP per capita	Per Capita Income	YoY Home Price Change
41	Alabama	30.10	20	35	38	20	40	11	43	40	33	46	42	40
39	Alaska	29.36	18	50	1	35	50	4	50	38	50	1	9	48
13	Arizona	19.13	7	14	13	22	9	31	36	41	14	40	41	4
29	Arkansas	25.17	26	20	50	12	21	12	16	26	24	42	48	45
36	California	27.72	47	36	43	42	16	47	20	44	13	12	11	2
5	Colorado	12.53	22	21	10	9	5	26	6	15	9	17	15	7
45	Connecticut	33.83	44	47	40	50	1	45	39	33	48	4	1	49
27	Delaware	24.66	27	43	11	43	20	15	28	32	6	6	20	47
7	Florida	14.54	16	9	15	24	4	23	18	26	5	45	27	5
17	Georgia	21.12	9	25	39	26	7	20	25	50	10	36	40	6
35	Hawaii	27.54	36	49	14	48	17	41	22	6	31	19	18	42
8	Idaho	15.12	5	5	28	8	6	16	5	11	42	49	49	11
50	Illinois	37.36	48	48	49	44	43	48	40	36	38	16	16	29
11	Indiana	17.95	3	11	16	11	39	21	19	22	15	30	39	25
10	Iowa	17.02	25	6	8	4	41	5	12	9	30	20	23	36
22	Kansas	23.26	15	23	19	28	49	28	23	14	35	27	25	22
46	Kentucky	34.19	39	44	44	40	15	46	29	41	26	43	44	37
37	Louisiana	28.55	29	40	32	34	12	42	34	22	23	23	32	39
40	Maine	29.53	40	24	45	23	36	24	41	17	25	44	29	41
33	Maryland	27.27	34	28	29	37	11	25	49	29	44	10	6	27
28	Massachusetts	24.88	28	41	35	49	18	32	30	22	20	5	2	17
19	Michigan	21.93	12	34	9	17	32	17	21	44	36	38	36	8
18	Minnesota	21.30	46	17	25	33	46	7	13	6	22	13	13	14
48	Mississippi	34.49	14	42	46	36	29	34	31	49	40	50	50	50
26	Missouri	24.59	24	10	27	15	33	29	44	26	18	34	33	32
15	Montana	20.76	43	27	7	5	35	22	10	11	17	41	37	23
6	Nebraska	13.73	35	3	4	1	8	3	11	2	41	14	21	24
20	Nevada	22.62	8	29	18	14	31	50	38	47	4	32	35	1
30	New Hampshire	25.22	32	26	33	19	34	19	42	8	46	22	8	28
49	New Jersey	34.66	45	46	48	47	27	39	37	33	49	8	3	33
44	New Mexico	32.86	37	45	20	31	25	37	32	36	39	39	43	44
47	New York	34.45	50	32	42	46	42	43	46	29	28	7	5	38
16	North Carolina	20.94	6	18	37	18	47	10	17	38	8	31	38	20
1	North Dakota	3.85	4	7	2	3	19	1	1	1	1	2	4	3
38	Ohio	28.97	23	39	21	27	44	49	26	21	47	28	30	21
9	Oklahoma	16.79	21	13	22	10	13	18	4	11	16	35	28	43
32	Oregon	26.43	42	12	30	39	37	44	14	43	7	11	31	9
43	Pennsylvania	30.74	33	31	47	29	28	38	47	22	34	25	19	35
42	Rhode Island	30.54	41	33	26	41	24	35	33	48	29	24	14	34
31	South Carolina	25.36	31	38	12	16	23	30	35	29	19	48	46	19
4	South Dakota	10.71	2	1	17	7	14	8	9	2	37	21	22	13
14	Tennessee	19.92	19	2	24	6	26	6	45	44	11	37	34	18
3	Texas	10.66	13	15	6	13	3	13	8	16	3	15	24	12
12	Utah	18.42	1	19	23	30	45	40	7	2	2	29	45	15
25	Vermont	23.51	49	30	34	21	10	2	24	5	45	33	17	30
34	Virginia	27.30	11	22	31	32	38	33	48	17	43	18	10	46
24	Washington	23.40	38	16	41	45	30	36	15	17	12	9	12	10
23	West Virginia	23.38	30	37	5	25	22	27	3	33	32	47	47	16
21	Wisconsin	23.22	17	4	36	38	48	14	27	17	21	26	26	31
2	Wyoming	8.90	10	8	3	2	2	9	2	10	27	3	7	26

Source: Conning Municipal Credit Group