

2006 COMPTROLLER'S REPORT ON THE FINANCIAL CONDITION OF NEW YORK STATE

FOR FISCAL YEAR ENDED MARCH 31, 2006

OFFICE OF THE STATE COMPTROLLER • ALAN G. HEVESI



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**Award for
Outstanding
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PRESENTED TO

State of New York

**For the fiscal year ending
March 31, 2005**



Carla E. Perry
President

Jeffrey L. Esser
Executive Director

COMPTROLLER'S 2006 REPORT ON THE FINANCIAL CONDITION OF NEW YORK STATE

This report provides citizens with an overview of the financial condition of New York State. It presents selected financial, economic, and demographic information in an easy-to-understand format.

It also presents basic information on trends in State receipts (revenues) and spending, the State's financial position as measured by Generally Accepted Accounting Principles (GAAP), and selected economic and demographic trends affecting the State. Although it fills an information need not met by the traditional, more detailed financial reports issued by the Comptroller's Office, it is not meant to replace them. Detailed accounting data still can be found in reports such as the Comprehensive Annual Financial Report.

Financial condition is a broad concept aimed at assessing the ability of a government to meet current and future financial and service obligations. It deals with the State's ability to deliver acceptable levels of services at acceptable levels of taxation, while achieving budget balance and making required debt service payments and pension contributions.

The Office of the State Comptroller was honored this past year when it received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association for the 2005 Financial Condition Report.

MESSAGE FROM THE COMPTROLLER

I am pleased to present the Financial Condition Report for the State of New York for the fiscal year ending March 31, 2006.

As the current administration ends its tenure, the State faces significant financial challenges. The 2006-07 enacted budget contains an estimated two-year budget gap of as much as \$13.9 billion, with spending projected to grow twice as fast as revenues between 2005-06 and 2008-09. The final budget authorized a total of \$16.5 billion in new debt this year alone, including \$11.8 billion of State debt, with the remainder supported by the City of New York for school construction.

Clearly, this type of fiscal management is not sustainable for the long-term. However, a new governor will take office in January, which will provide an opportunity for the Executive and Legislature to initiate a commitment to fiscal responsibility.

The new administration must make significant changes to strengthen New York's financial future. There have been many calls for reform of the State's budgeting practices. The Legislature acted upon some changes this year, but more should be done.

My office released a fiscal reform agenda this year to improve responsibility, enhance transparency and accountability, provide the public with better information, and foster public participation. While the momentum for change has begun, it must culminate in real reforms that provide the public with assurances that their tax dollars are being protected, and that long-term fiscal stability is not sacrificed for short-term political gain.

Stronger fiscal practices are essential to make New York State economically competitive. Too many areas of the State are still marked by stagnant job growth and high local taxes which make it difficult to attract or retain businesses and jobs. While this year brought significant investments by certain industries in some regions, notably the commitment to high tech jobs in the capital region, the State's leaders should send a strong message to the business community that they are serious about making New York State hospitable to growth for future.

It took many years for the State to develop unhealthy fiscal practices, and it will take some time to institute all the reforms needed to put our fiscal house in order. Currently, New York State is on a dangerous fiscal course that will make change inevitable. The future for many generations to come will be defined by whether New York State makes needed reforms before a crisis occurs, or waits to respond to a crisis, which will make the cost of repairs higher and the time for recovery longer. Clearly, the time to act is now.



ALAN G. HEVESI
STATE COMPTROLLER

GOVERNMENT-WIDE FINANCIAL DATA

New York State's government-wide financial statements include a Statement of Net Assets and a Statement of Activities, both of which distinguish between the State's governmental and business activities.

The full accrual method of accounting is used by many businesses and recognizes revenues and expenses when the earning process is complete regardless of when cash is received or disbursed. This results in a long-term perspective on finances.

The Statement of Net Assets reports the State's total assets and liabilities. The Statement of Net Assets reports the differences between assets and liabilities in three categories: Capital Assets Net of Related Debt, Restricted Net Assets, and Unrestricted Net Assets.

Condensed Statement of Net Assets – Primary Government As of March 31, 2006

(amounts in millions)

	Governmental Activities	Business- type Activities	Total
Assets:			
Cash and investments	\$ 13,911	\$ 5,474	\$ 19,385
Receivables, net	15,602	3,097	18,699
Internal balances	(185)	267	82
Other assets	927	194	1,121
Capital assets	78,008	6,927	84,935
Total Assets	108,263	15,959	124,222
Liabilities:			
Tax refunds payable	6,444	–	6,444
Payable to local governments	2,970	–	2,970
Accrued liabilities & accounts payable	6,795	1,027	7,822
Other liabilities due within one year	3,538	2,080	5,618
Liabilities due in more than one year	42,519	9,716	52,235
Total liabilities	62,266	12,823	75,089
Net Assets:			
Invested in capital assets net of related debt	62,071	9	62,080
Restricted for debt service and other purposes	4,836	2,517	7,353
Unrestricted (deficit)	(20,910)	610	(20,300)
Total Net Assets	\$ 45,997	\$ 3,136	\$ 49,133

Condensed Statement of Activities – Primary Government For the year ended March 31, 2006

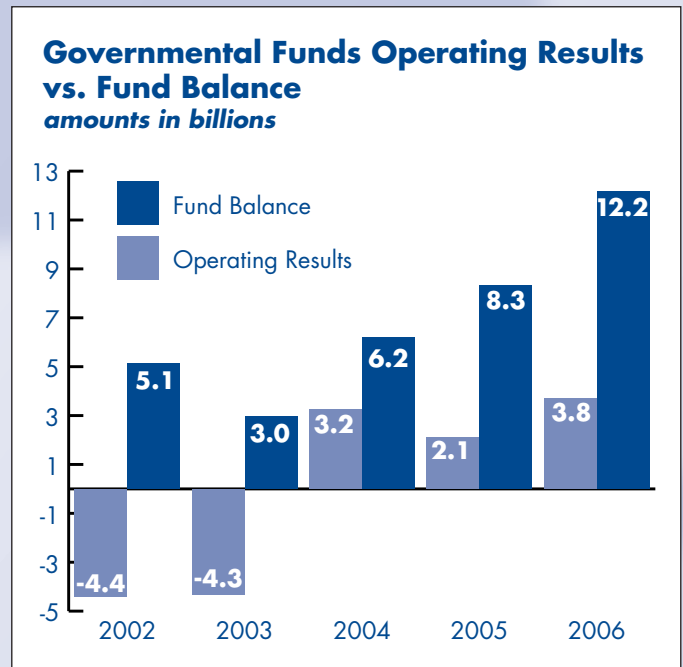
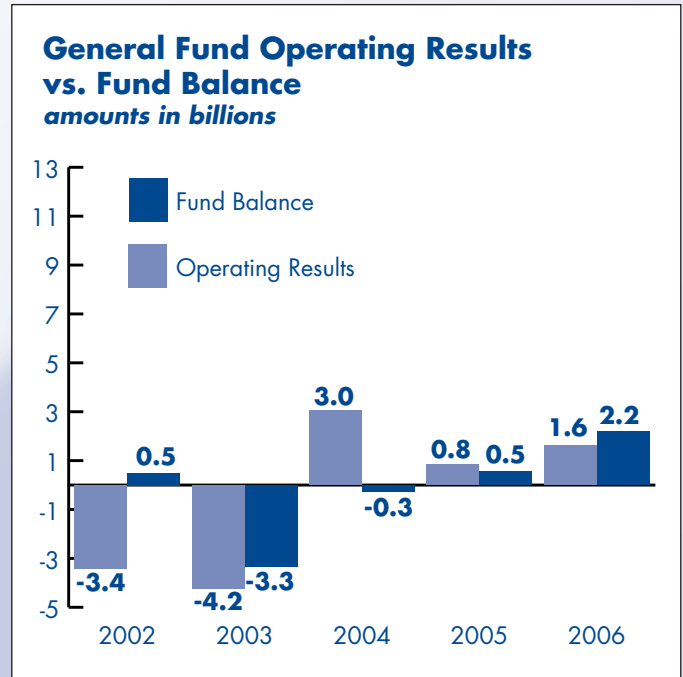
(amounts in millions)

Functions/Programs	Expense	Program Revenue	Net (Expense) Revenue
Governmental activities:			
Education	\$ 25,303	\$ 3,833	\$ (21,470)
Public health	41,631	31,526	(10,105)
Public welfare	10,669	8,204	(2,465)
Public safety	5,001	480	(4,521)
Transportation	5,836	1,782	(4,054)
Environment and recreation	1,193	428	(765)
Support and regulate business	1,507	299	(1,208)
General government	8,280	1,797	(6,483)
Interest on debt	1,712	–	(1,712)
Total governmental activities	101,132	48,349	(52,783)
Business-type activities:			
Lottery	4,721	6,803	2,082
Unemployment insurance	2,507	2,754	247
State University of New York	6,396	4,141	(2,255)
City University of New York	2,056	1,392	(664)
Total business-type activities	15,680	15,090	(590)
Total primary government	\$ 116,812	\$ 63,439	(53,373)
General revenues and net transfers:			
Taxes			54,329
Other			5,372
Net transfers			(1,030)
Total general revenues and net transfers			58,671
Change in Net Assets (increase)			\$ 5,298

The Statement of Activities reports the expenses of each of the State's programs reduced by the revenues generated by those programs to arrive at net program expense. The net program expense is then reduced by general revenues and other gains and losses to arrive at a change in net assets for the year.

FUND FINANCIAL DATA

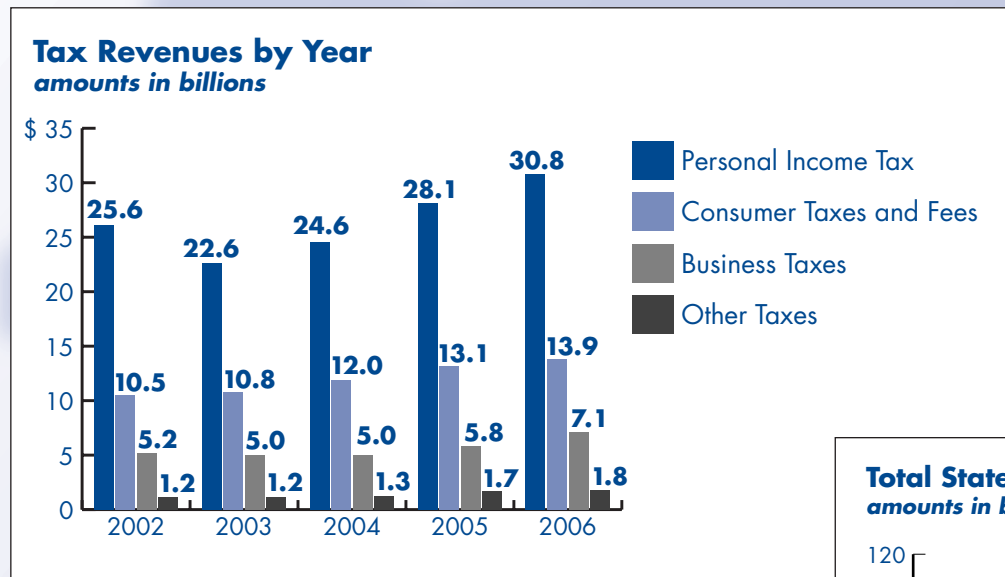
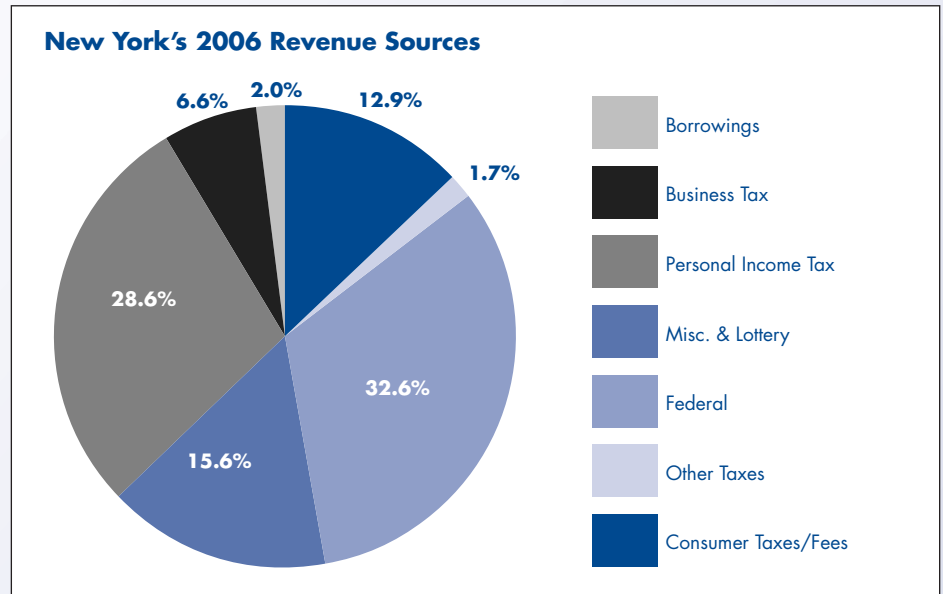
- The State also prepares fund financial statements. Funds present sources of funding and spending for particular purposes. The General Fund is used to report sources of funds and expenditures that are not required to be accounted for in another separate fund. In New York, significant sources of funds that normally would be reported in the General Fund have been pledged or dedicated to other funds for repayment of debt or project funding and are therefore reported in other governmental funds.
- Fund financial statements provide a short-term view of government finances. Thus, payment of fund expenditures from proceeds from long-term borrowing will not have any impact on the fund balance because the liability to repay the borrowing is not reported in the fund.
- The relationship between fund operating results and accumulated surplus (deficit) is graphically depicted in the charts on this page.
- As of the year ended March 31, 2006, the State reported a \$3.8 billion combined governmental funds operating surplus which included a General Fund surplus of \$1.6 billion and increased the combined governmental fund balance to \$12.2 billion.



TOTAL REVENUES

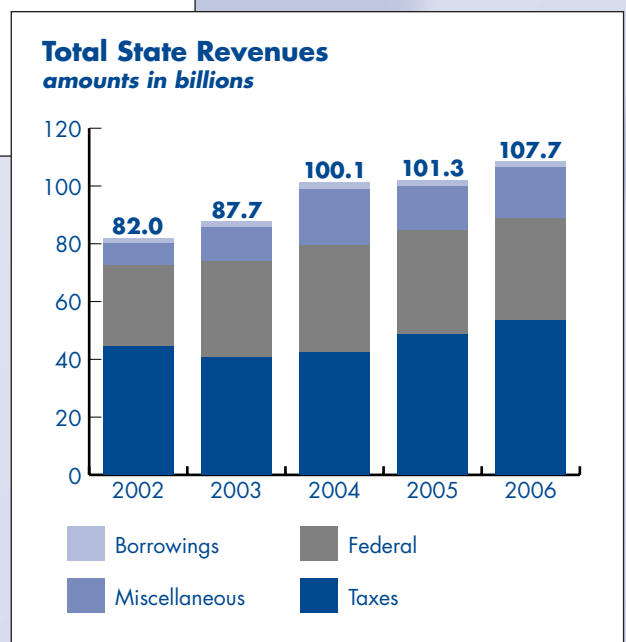
Revenues are affected by economic changes and changes in federal and State policies. Tax base is a measure of the State's ability to generate revenue. A decreasing tax base may force spending reductions and/or increase in taxes. Appendix 3 contains State revenues by major source for the past five fiscal years.

- Revenues have increased \$25.7 billion (31.3%) since 2002.
- In 2006, total tax revenues of \$53.6 billion represented a 26.1% increase over 2002 tax revenues.
- Revenues from the federal government increased 24.9% since 2002. Medicaid was responsible for the largest increase in federal revenues.



- Personal income tax and consumer taxes and fees accounted for 41.5% of 2006 revenues, and have increased 23.7% since 2002.
- During fiscal year 2006, the State experienced a 9.6% increase in personal income tax (PIT) revenues — its largest revenue source.

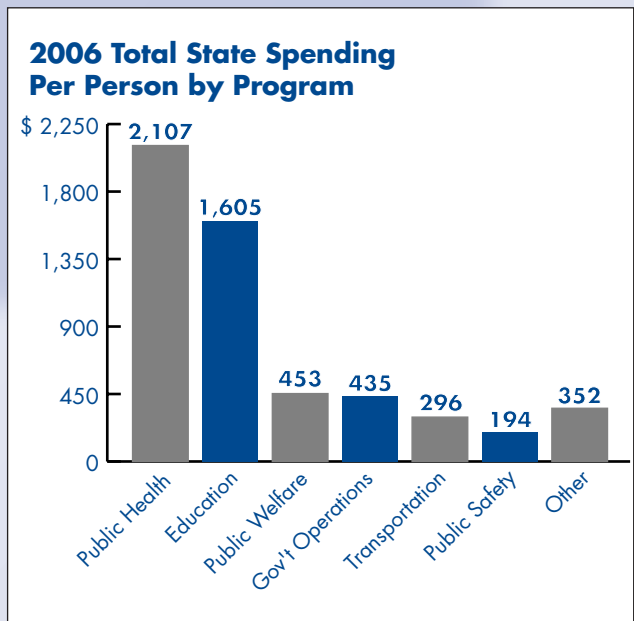
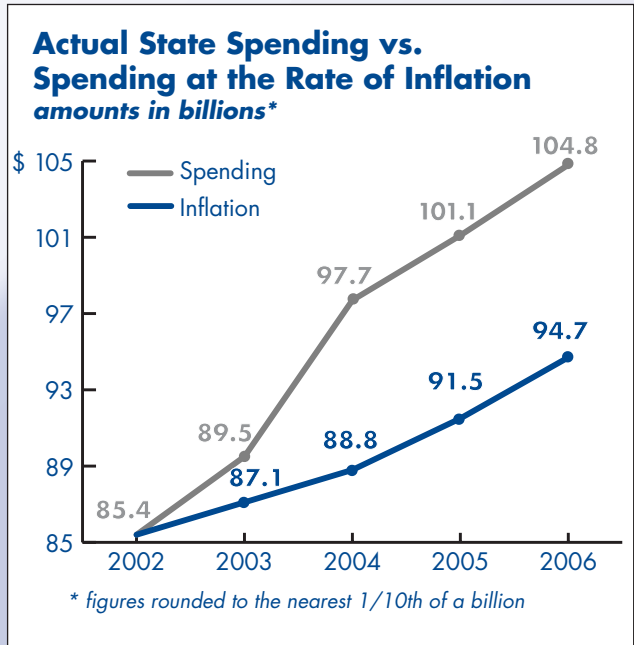
In 2006 Personal Income Taxes and Consumer Taxes and Fees constituted 41.5% of State Revenue.



TOTAL SPENDING

Spending data can be used to evaluate the State's program priorities and, compared to revenue data, can be used to measure the State's ability to support continuing programs. Appendices 1 and 2 show a history of State spending by major program for the past five fiscal years.

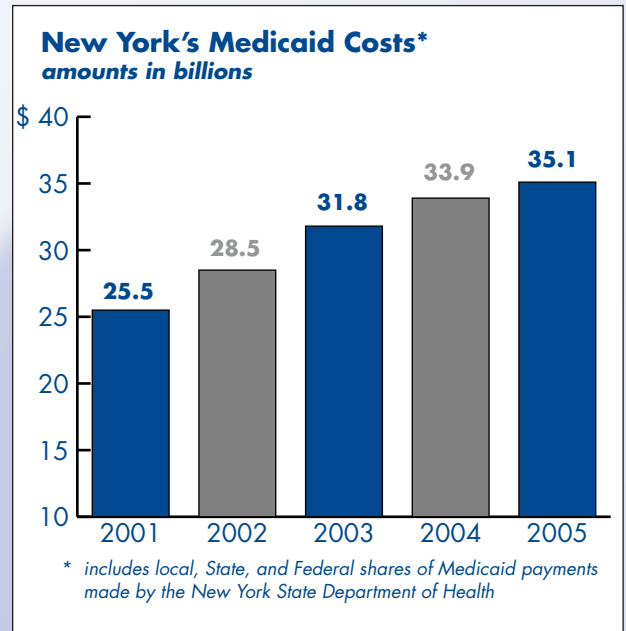
- State spending totaled \$104.8 billion in 2006, an increase of \$3.7 billion (3.6%) from the prior year.
- Since 2002, growth in State spending (22.7%) has out-paced inflation (Consumer Price Index), (10.9%).
- State spending has been partially paid for by borrowing \$10.8 billion since 2002, including \$2.1 billion in 2006.
- New York's spending in 2006 was \$5,443 per person.
- Education and public health spending represents 68.2% of total State spending.



Spending has increased 22.7% since 2002.

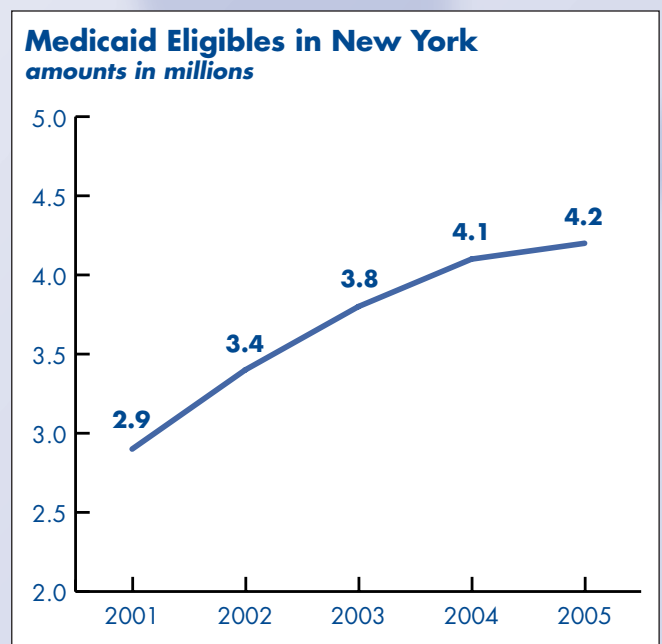
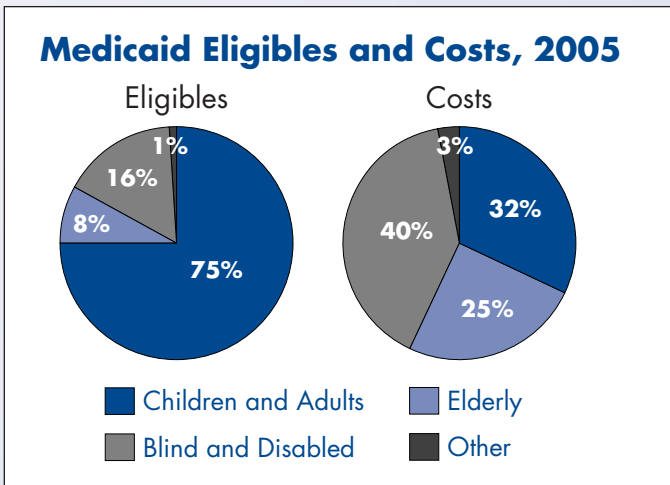
MEDICAID

- New York experienced slower growth in both Medicaid costs and eligible beneficiaries in 2005. Medicaid costs increased 3.3% to nearly \$35.1 billion, compared to 2004, while the number of eligible beneficiaries increased 4% to 4.2 million.
- In 2005, Medicaid costs and the monthly average number of Medicaid-eligible beneficiaries increased by less than 10% for the second time in the last three years. With 2005's increases, Medicaid spending has grown by over \$9.5 billion (37.3%) and the number of Medicaid eligible beneficiaries has grown by more than 1.3 million (46.9%) since 2001.
- During 2005, the elderly, blind and disabled represented 24% of Medicaid-eligible beneficiaries, but accounted for 65.3% of the State's Medicaid costs.
- The increase in eligible beneficiaries in 2005 is due primarily to continued growth in the Family Health Plus (FHP) program, which began in October 2001 and provides public health insurance to adults ages 19 to 64 whose incomes are too high to otherwise qualify for Medicaid.
- In 2005, the FHP monthly average number of eligibles grew by over 80,000 (17.1%) to 548,555. By December 2005, FHP had over 565,000 eligibles, of which 74% resided in New York City.
- Medicaid spending rose primarily due to the rising number of Medicaid recipients (including those in FHP), increases in utilization and growth in the cost of services and prescription drugs. Compared to 2004, Medicaid utilization increased 3.7% while the cost of services (including prescription drugs) increased 3.9%.
- The monthly average number of Medicaid managed care enrollees increased by over 122,000 (6.5%) in 2005, with total enrollment at over two million (69.8%) of approximately 2.9 million recipients eligible to participate in Medicaid managed care.



Cost figure for 2005 is based on an extrapolation of average Medicaid expenditures for the first nine months of the year. Expenditure data for October, November, and December 2005 are not available.

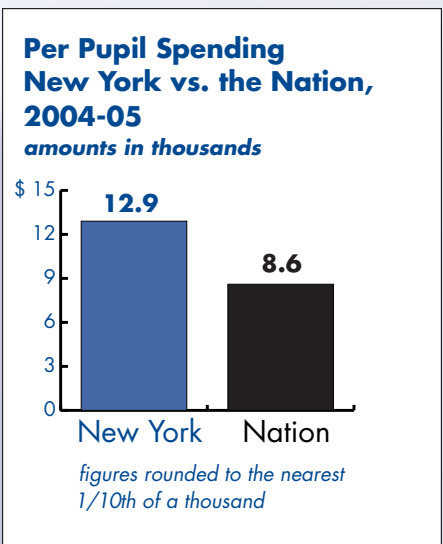
Medicaid eligibles and Medicaid costs have increased steadily.



EDUCATION

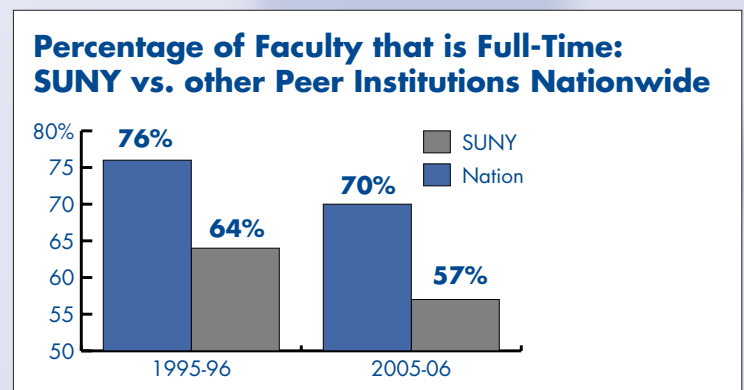
Elementary and Secondary

- On a per-pupil basis, New York State is credited with making a significant investment in the public elementary and secondary education system. During the 2004-05 school year, the State once again had the highest estimated per pupil expenditures at \$12,879 per pupil, 50 % more than the national average of \$8,554 per pupil.
- In 2002-03, support for public elementary and secondary schools came from federal, State and local sources in the amounts of \$2.6, \$17.3 and \$18.0 billion, respectively. Over the three school years 2000-01 to 2002-03, State support has increased from \$15.8 billion to \$17.3 billion or by 9.2%
- Beginning in school year 2005-06, the State replaced the Grade 4 and Grade 8 testing program with the new Grades 3-8 testing program to comply with the federally mandated No Child Left Behind Act (NCLB). Testing will be expanded to include Grades 3-6 and 8. Results of the Math and English tests are expected in August and September 2006, respectively. Federal NCLB funds could be in jeopardy if State schools do not meet required performance standards.
- In response to the Campaign for Fiscal Equity (CFE) court order, the 2006-07 enacted budget includes \$700 million in sound basic education (SBE) aid and nearly \$12 billion in capital funding for New York City and school districts statewide. Although this is a significant increase in school funding, the CFE maintains the State must also provide an additional \$14.1 billion in operating aid over the four years beginning 2005-06 and has called for a Court order to the executive and legislative branches requiring specific action during the 2006 legislative season.



Higher Education

- In the fall of 1995, full-time faculty made up 64% of the total faculty positions at SUNY four year colleges and universities; by the fall of 2005 full-time faculty represented only 57%. Nationally, full-time faculty made up 76% at peer institutions in the fall of 1995 and 70% in the fall of 2005.
- The State spent \$227 per person on higher education in fiscal year 2005-06, a \$16 increase from the prior fiscal year. The State's per capita spending ranked 5th out of the 10 most populous states. California and New Jersey spent the most of those states at \$266 and \$232 per person, respectively.
- Over the past ten years, the State has increased its support for higher education by only 27% while national spending rose by 47%. During the same period, the Higher Education College and University Operations Price Index (HEPI) rose 42%.
- The cost of tuition and fees paid by full-time, in-state students at public four-year institutions in the State in 2005-06 was \$4,993, an increase of 39% from the 1995-96 average of \$3,603.
- For the 2005-06 school year, full-time, in-state tuition and fees at SUNY community colleges totaled \$3,257. This was nearly 50% above the national average of \$2,191 and ranked New York 7th highest in cost of community college tuition in the nation.



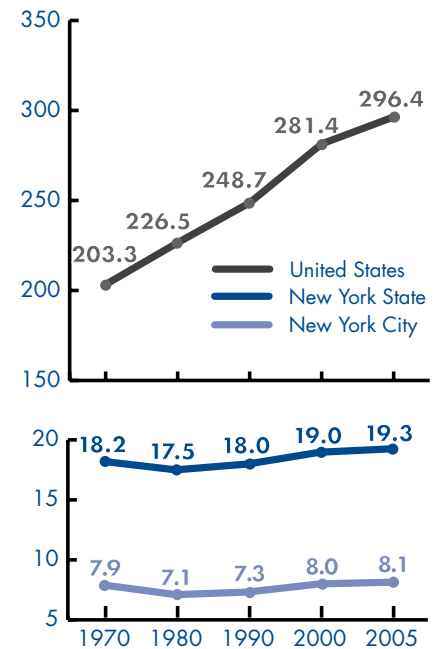
ECONOMIC AND DEMOGRAPHIC TRENDS

Economic and demographic trends affect both the demand for State programs — such as those for the elderly, economic development, education, and income assistance — and the level of resources available to fund these programs. Though some programs receive funding from the federal government, locally-generated revenues (such as taxes), provide much of the resources needed to fund State programs.

- The State's population has continued to grow, increasing by 1.3% between 2000 and 2005. Between 1980 and 2000, the State's population increased 8.4%, after declining in the 1970s. The nation's population, however, has increased at a faster rate, growing by 5% between 2000 and 2005 and by 24.2% during the two previous decades.
- Over 42% of the State's population resides in New York City. Between 2000 and 2005, New York City's population increased by 1.6%. During the 1990s, its population grew by a rapid 9.3%, after only modest gains during the 1980s and a significant drop during the 1970s.
- Between 2000 and 2005, 49% of the State's population increase occurred in New York City, while downstate suburbs and the Hudson Valley accounted for another 48.1% of the State's population increase. Thus the downstate region accounts for virtually all of the State's population growth in the 2000s. This was also the case in the 1990s, when New York City's contribution was even greater — it accounted for 70% of the State's population increase during that decade.
- The State's population has become more diverse as gains in minority groups — through both immigration and births — have fueled much of the population increase during the 1990s and 2000s. Mirroring national trends, the Hispanic and Latino population has experienced very strong growth during this period, growing from 12.3% of the State's population in 1990 to 16.1% in 2004.
- New York State's population has become better educated. By 2004, 30.5% of the State's population age 25 years and over held at least a bachelor's degree, compared to 27.4% in 2000 and 23.1% in 1990. The share of population with at least a high school diploma has also increased, reaching 83.9% in 2004, up from 74.8% in 1990. The State's share of population with at least a high school degree is similar to the nation's, but its share of the population with at least a bachelor's degree is somewhat higher.
- Although the State's economy is producing jobs during the current economic expansion, the pace of growth is slower than the nation's. Between the first four months of 2006 and the same period in 2003, employment in the State rose by 1.9%, while employment in the nation increased by 3.6%. The last recession was also more severe in the State than in other parts of the country. The number of jobs in the State declined by 3.0% between the first four months of 2001 and the first four months of 2003, while the nation lost jobs at a rate of 1.8%.
- Currently, 42.6% of the jobs in New York State are located in New York City, with another 18.2% located in the downstate suburbs and the Hudson Valley. Employment changes in these regions have a major influence on the economic performance of the State.
- Employment in New York City increased by 2.6% between the first four months of 2006 and the same period of 2003, while downstate suburban areas and the Hudson Valley experienced growth ranging between 1.9% and 3.1% during this period. Most of the State's job losses during the recession were concentrated in New York City, although there were also significant declines in several major upstate metropolitan areas, including Binghamton, Buffalo, and Rochester. Since 2003, job growth has resumed in all major upstate areas except Rochester. The number of jobs in the State has not yet returned to pre-recession levels.

Population Trends

amounts in millions



figures rounded to the nearest 1/10th of a million

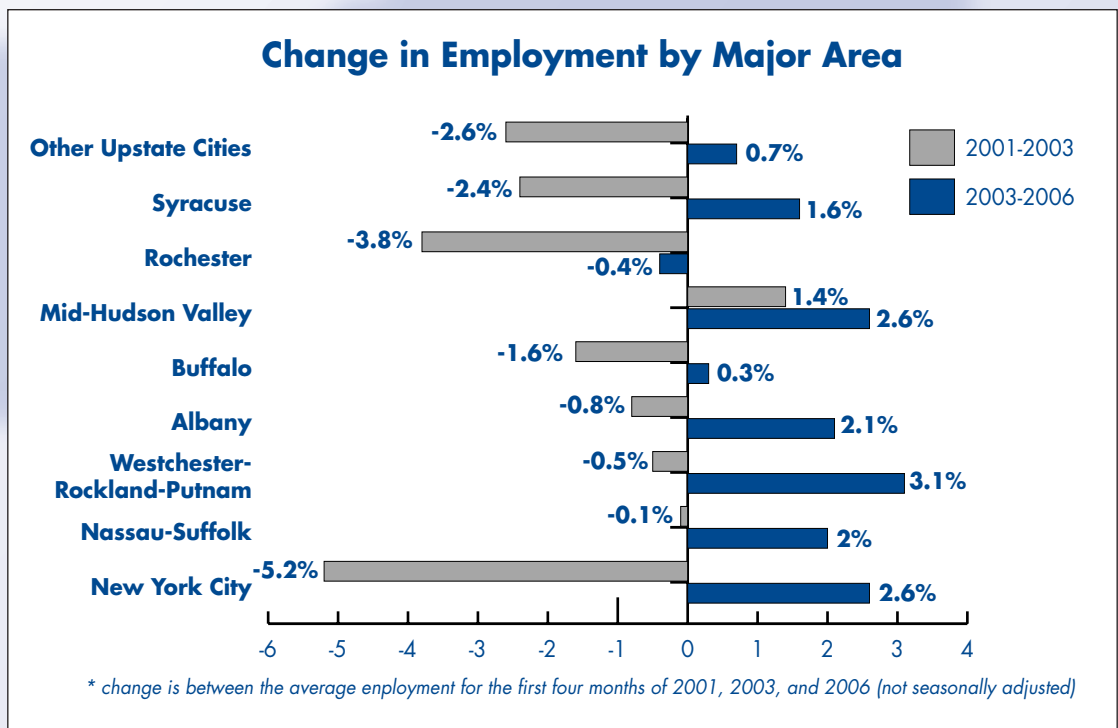
Employment Levels and Job Growth – New York State vs. the US

Job Growth and Loss*

	New York State			United States		
	Percent Change		Level	Percent Change		Level
	2001-2003	2003-06	2006	2001-2003	2003-06	2006
Manufacturing	-14.5%	-9.3%	563	-13.2%	-3.5%	14,151
Construction & Mining	-4.3%	3.5%	310	-2.7%	12.8%	7,784
Trade, Transportation, and Utilities	-4.2%	2.4%	1,486	-3.3%	2.8%	25,772
Information	-15.5%	-3.2%	269	-12.9%	-5.1%	3,056
Financial Activities	-6.7%	4.1%	719	2.1%	4.2%	8,234
Professional and Business Services	-7.1%	4.2%	1,069	-5.1%	7.9%	16,933
Educational and Health Services	5.2%	4.9%	1,569	6.7%	6.8%	17,677
Leisure and Hospitality	0.5%	4.7%	638	1.2%	7.1%	12,565
Other Services	1.4%	2.8%	356	3.7%	0.0%	5,367
Government	1.6%	0.0%	1,498	3.3%	1.2%	22,131
Total	-3.0%	1.9%	8,477	-1.8%	3.6%	133,670

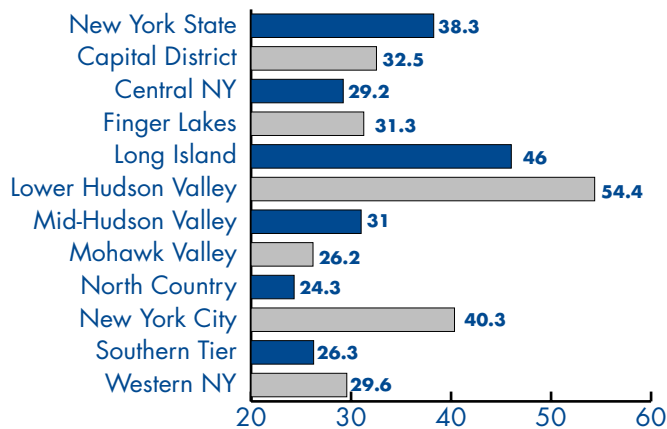
*Average nonagricultural employment for four months ended April 2001, 2003, and 2006 (not seasonally adjusted)

■ Unemployment rates rose during the recession, but are now declining as the economy recovers. During the first five months of 2006, the State's unemployment rate averaged 5%, down from an average of 6.7% in the first five months of 2003. The nation's unemployment rate has also fallen, averaging 4.7% during the first four months of 2006 compared to 6.7% during the same period in 2003.



- New York City's unemployment rate has been consistently higher than national and State rates since the late 1980s. The City's unemployment rate had a greater percentage point reduction than the State and national rates between the first four months of 2006 and the same period of 2003: it fell from 8.6% to 5.5%. Nevertheless the City's rate remains higher than the State and national rates.
- Across the State, average unemployment rates for the first four months of 2006 were highest in Bronx, Essex, and Lewis counties (all at 6.6%), while the lowest rates occurred in Tompkins County (2.9%), Putnam County (3.3%), and Saratoga County (3.4%).

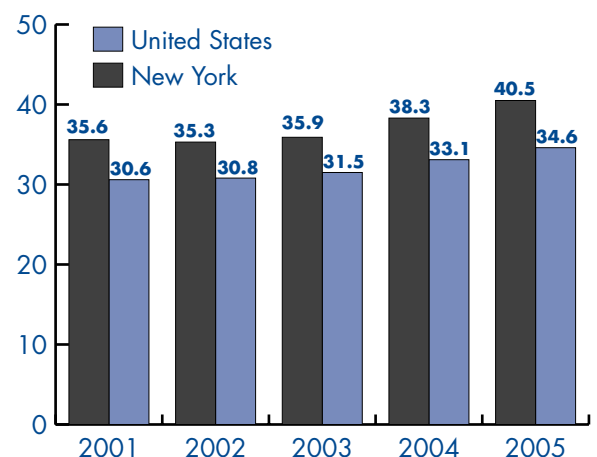
Per Person Incomes are Higher Downstate 2004 amounts in thousands



■ The economic health of both the State and New York City is tied to the securities industry. Every securities industry job added in New York City creates two other new jobs in the City and one job in the City's suburbs. Since the end of 2002, the financial markets have recovered from the early 2000s bear market. Although broker/dealer profits declined to \$9.4 billion in 2005 from \$13.7 billion in 2004 as rising interest rates offset strong revenue gains, the consolidated earnings at the seven largest New York-based investment firms increased by 42.5% in 2005 to \$45 billion. This strong performance was driven by robust merger and acquisition activity: the volume of such activity worldwide rose 34% in 2005 to over \$2.1 trillion. Year-end bonuses in the securities industry are estimated to have more than doubled between 2002 and 2005, contributing to an improvement in revenue collections.

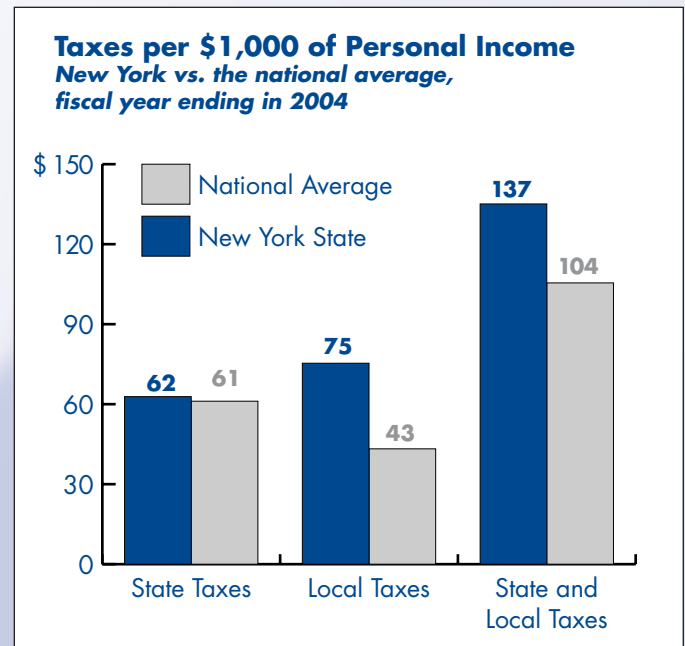
- Salaries are highest in the securities industry, which paid an average salary of \$256,254 in 2004. In the rest of the financial sector the average salary was \$83,002, while nonfinancial industries paid an average of \$43,731. The securities industry represented only 2.2% of all jobs in the State in 2004, but accounted for 11.2% of the total compensation paid. The gap between salaries in the securities industry and the nonfinancial industries has been growing. In the early 1990s salaries in the securities industry were 2.9 times higher than nonfinancial salaries, but in 2004 they were 5.1 times higher. Of all the securities industry jobs in the State, 90% are located in New York City. During 2004, the securities industry accounted for 4.7% of all jobs in the City, but 19.6% of all wages paid.
- The recession and declines on Wall Street adversely affected income growth throughout the State in the early 2000s, but recent growth has been much improved. Total State personal income increased 17.6% between 2000 and 2005, compared to a 21.7% increase nationwide. The State ranked 46th among the 50 states in personal income growth during this period.
- New York State's per capita personal income (\$40,507 in 2005) continues to be higher than the nation's (\$34,586 in 2005). The State ranked fifth in 2005, behind Connecticut, Massachusetts, New Jersey, and Maryland. Per capita personal income is much higher in downstate counties than in the rest of the State, primarily reflecting the higher wages and salaries paid by jobs in that region.
- Home values in many parts of the State have risen dramatically in recent years, both during the recent recession and the subsequent recovery. Between 2000 and 2004, the largest increases in median sales prices for single-family homes were in Suffolk County (83.2%), New York City (82.3%), Dutchess County (74%), and Orange County (70.8%). The smallest increase was in Chemung County (10.3%). Home values were also highest in the downstate area, led by Westchester County (\$570,000), Rockland County (\$435,000), and Nassau County (\$427,000). In New York City, the median home value was \$396,500. The lowest median home value was in Allegany County (\$54,000).
- Rising energy prices have made inflation a growing concern. Energy prices in the downstate New York metropolitan area (there are no Statewide inflation measures) rose by 18.1% in 2005, with another increase of 18.5% in the first four months of 2006 when compared to the same period one year earlier. Nationally, energy prices rose by 16.9% in 2005 and by 19.9% in the first four months of 2006. Overall inflation in the downstate region rose by 3.9% in 2005, compared to a 3.4% increase for the nation.

Personal Income Per Person, NY vs. US amounts in thousands



TAXES: WHERE NEW YORK STANDS

- In 2004, New York's combined State and local tax revenues were 32.1% above the national average per \$1,000 of personal income. Local taxes were 74.2% above the national average while State taxes were only 2.1% above the national average.
- New York has the highest combined State and local taxes as a percent of personal income in the nation with local taxes ranking first and State taxes ranking 30th.
- One contributing factor to New York's high local tax burden is that, unlike other states, New York's local governments pay a significant portion of Medicaid costs. To help alleviate the high cost of Medicaid to local governments, the 2005-06 Enacted Budget capped Medicaid costs at 2005 levels with maximum annual adjustments of 3.5% in 2006, 3.25% in 2007, and 3% thereafter.
- Local property tax levies grew by 60% from 1995 to 2005, more than twice the rate of inflation during that period (28%). However, as a result of the Medicaid cap, local property tax levies moderated somewhat in 2006.
- In 2003, New York taxpayers with incomes exceeding \$200,000 represented 3.7% of all taxpayers, but accounted for 45.2% of all State taxes paid in New York.
- New York relies more heavily on the personal income tax as a source of revenue than most states. In 2005, personal income tax as a percent of total taxes was 56% in New York while the national average was 34.1%.
- The personal income tax surcharge on higher income taxpayers which took effect in 2003 expired on December 31, 2005. Also, as a result of legislation passed in SFY 2005-06, the permanent sales tax exemption on clothing under \$110 was reinstated on April 1, 2006.



**In 2005 Personal
Income Taxes
equaled 56% of all
State Taxes.**

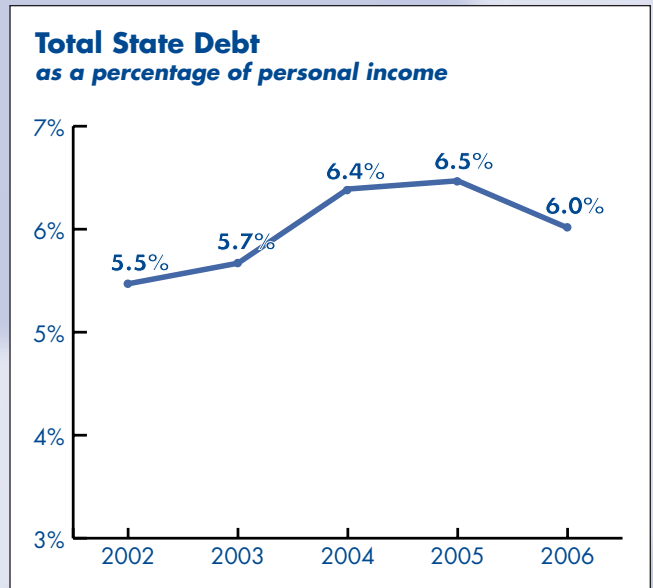
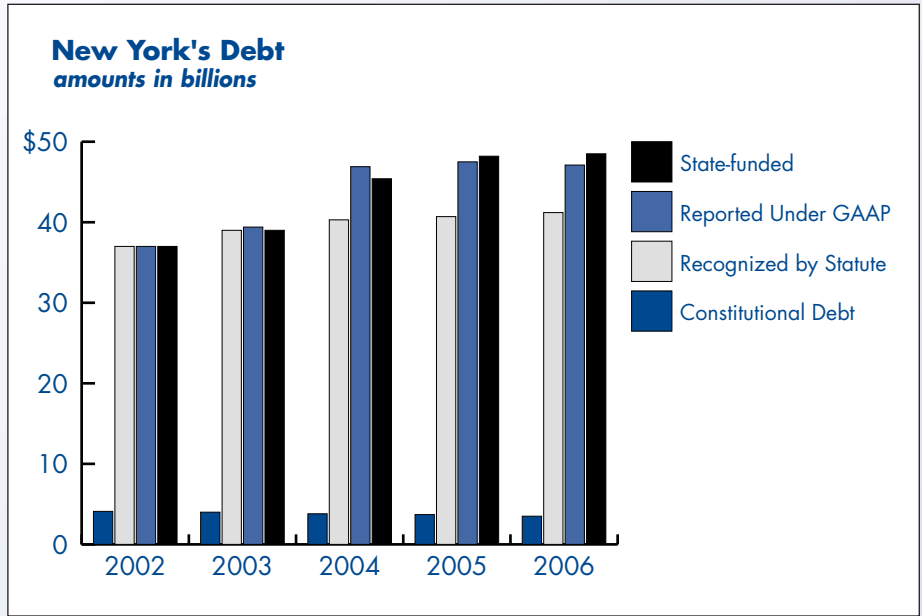
DEBT

Debt can affect government's current operations as well as the State's long term financial health. High levels of government borrowing may:

- Indicate the State is unable to support current programs with current revenues,
- Force future program reductions, increased taxation or additional borrowing when future resources are needed to repay debt, and
- Limit capacity to finance additional capital assets, budgetary deficits, and capital grants.

■ State debt levels by March 31, 2006 included the following measurements:

- Constitutionally recognized (voter-approved) general obligation debt (\$3.5 billion);
 - Debt as statutorily defined in 2000: State-supported (\$41.2 billion); and
 - Debt reported in accordance with full accrual accounting (Generally Accepted Accounting Principles) (\$47.1 billion).
- State-funded debt: primary repayment sources are future State funds: (\$48.5 billion). The State Comptroller has defined this category as a comprehensive measurement because it reflects more directly on the State's capacity to issue additional debt than the other measures.
- Since 2002, debt recognized under the State Constitution (voter-approved) has decreased 16%, debt recognized under the Debt Reform Act of 2000 has increased 11%, debt recognized in accordance with GAAP has increased 27%, and debt requiring State funding has increased 31%.

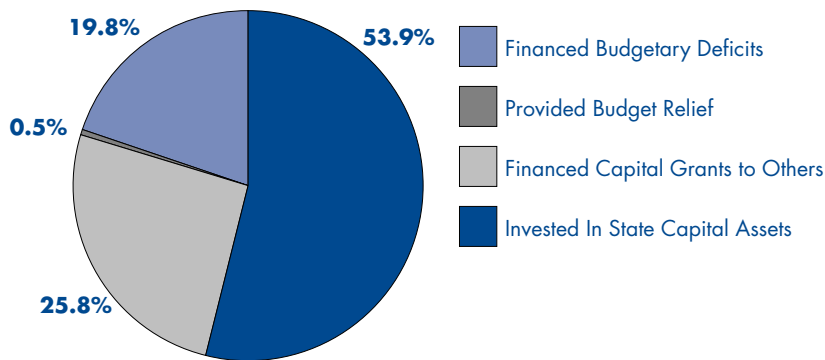


- In 2005, New York was the 2nd most indebted state behind California, but still had nearly twice as much debt as the 3rd most indebted state. In 2005, New York also ranked 5th among all states in debt per person.
- On March 31, 2006, New York's outstanding debt per person was \$2,446, which was equal to 6% of New Yorkers' personal income.

The State had committed to funding debt service for \$48.2 billion in outstanding debt.

■ The significant differences between debt reported under the State-funded measurement (cash reporting) criteria and debt reported under GAAP are: State-funded debt includes \$2.5 billion in debt issued in fiscal year 2006 that will be repaid from future sales tax revenues of the State but that is not recognized under GAAP; debt reported under GAAP includes bond premiums (\$1.1 billion), appreciation of certain debts issued at a discount (\$319 million), and vendor-financed capital lease obligations (\$369 million) that is not included in the State-funded criteria.

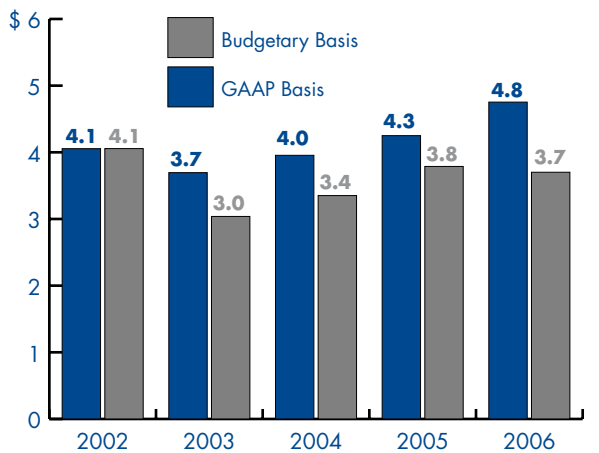
State Debt by Major Purpose (GAAP Basis)
excluding capital leases



- Debt service expenditures over the past five years have been affected by the use of reserve funds used to pay debt service and deferring debt service during refundings. During the past four years the State engaged in a series of refunding transactions totaling over \$18 billion which refinanced portions of both the principal due in the current and near terms and interest accrued on certain refunded debt. These refunding transactions, along with deficit financing, provided significant near-term budgetary relief in fiscal years 2003 through 2006.

- The ability of the State to issue new debt relates to how rapidly existing debt is repaid. As existing debt is repaid, borrowing capacity is restored.

Debt Service
amounts in billions



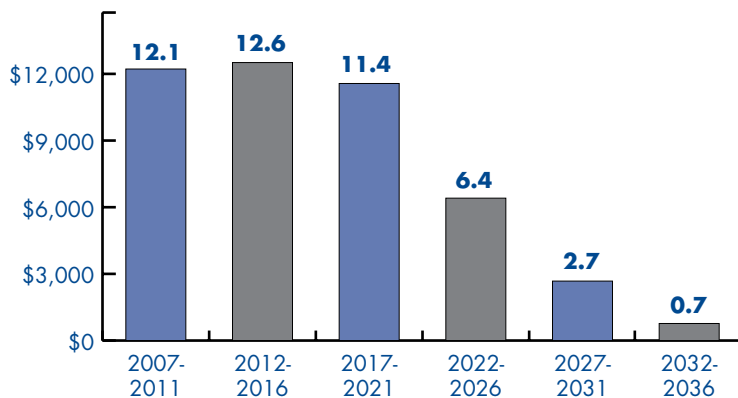
- The graph at bottom left illustrates the rapidity of the repayment of the State's entire debt portfolio based upon bond maturity dates. The graph shows the par amounts of bonds currently outstanding that will be repaid during each of the next five-year periods.

- The State's current Capital Program & Financing Plan (updated July 31, 2006) relies upon issuing \$25.8 billion in new debt and retiring \$12.6 billion ending March 31, 2011. Thus, the State plans to issue new debt twice as fast as it will retire existing debt.

- The State has used 53.9% of the debt it issued to finance State-owned capital assets, 19.8% to finance budget deficits, and 25.8% to finance grants that were once funded through a pay-as-you-go basis.

- Based upon schedule repayment dates, the State's accumulated deficit financing (\$9 billion as of March 31, 2006) will not be fully repaid until 2028.

Rapidity of Repayment of Debt
Based on Principal Maturities
amounts in billions



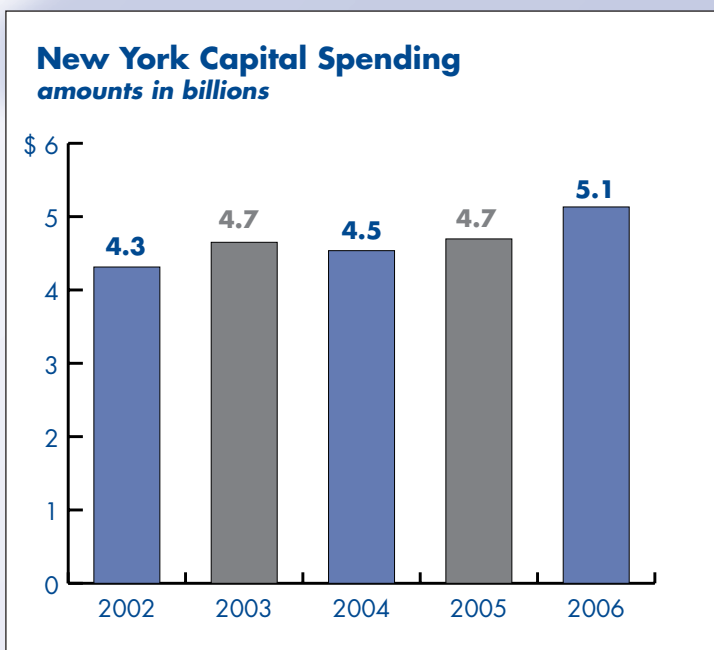
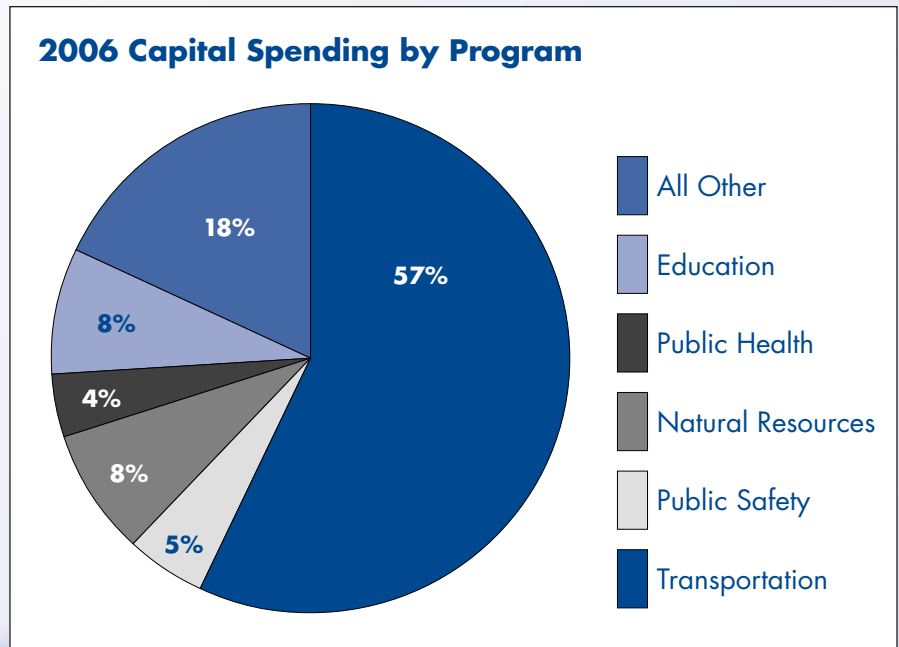
- The State has relied on variable rate debt and interest rate exchange agreements (swaps) to lower the cost of borrowing and facilitate restructuring of its debt portfolio. By March 31, 2006 the State had \$6 billion in variable-to-fixed swaps, \$970 million of fixed-to-variable rate swaps, \$2.1 billion in net (un-hedged) variable rate bonds outstanding, and \$2.4 in convertible bonds whose interest rates reset to either a new fixed or new variable rate at dates ranging from 2009 to 2013.

Between FY 2002 and FY 2006, State-Funded debt outstanding increased by nearly \$11.5 billion or 31%.

CAPITAL

A deterioration in capital assets can have a direct impact on the State's economy and its ability to attract and retain business. Capital assets not only include highways and bridges, but also include education, government, health and recreation facilities.

- Overall capital spending in 2006 was \$819 million (19%) higher than in 2002. Transportation and all other spending accounts for most of the increase.
- In 1994, the pay-as-you-go share of non-federal capital financing was 51%. Since then, pay-as-you-go financing has averaged 43%.
- In the current Capital Program and Financing Plan, spending is projected to average \$8.4 billion per year through 2010-11. At the same time, the projected share of non-Federal capital spending financed on a pay-as-you-go basis will average 26% over the five-year period.
- By March 31, 2006 the State reported \$84.9 billion in capital assets, an increase of \$700 million or .8% from the prior year. Capital assets include buildings, construction in progress, equipment, land preparation, and infrastructure such as roads and bridges.

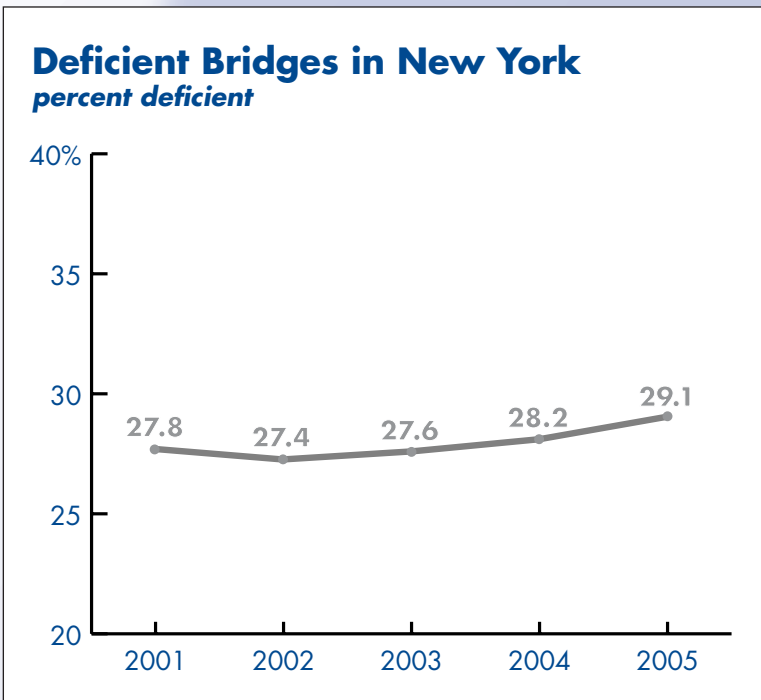
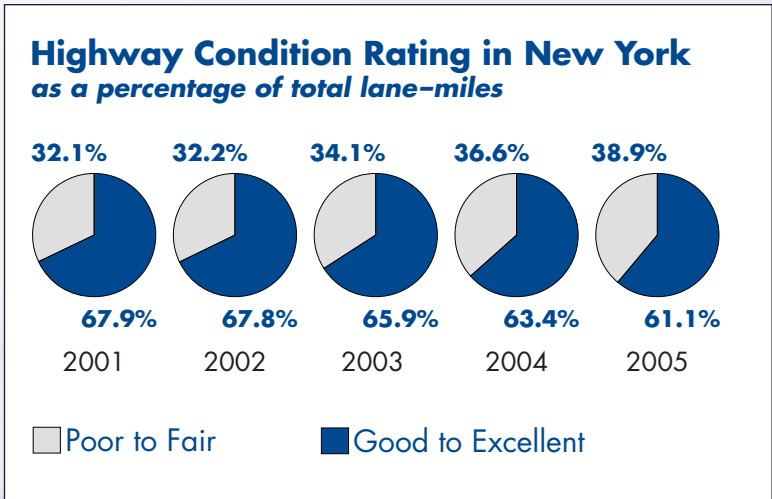


**The State reported
\$84.9 billion in capital assets
at March 31, 2006.**

ROADS AND BRIDGES

Data on the condition of highways and bridges, as provided by the State Department of Transportation, provide insight into the quality of infrastructure which is used daily by residents and businesses.

- The State is responsible for maintaining more than 42,000 lane-miles of highway.
- The number of highway lane-miles rated poor/fair has increased by 21.4% since 2001.
- In 2005, 61.1% of the State's highways were rated good or excellent, a 10.0% decline since 2001.
- The State is responsible for maintaining more than 7,800 bridges, of which 29.1% were rated deficient in 2005 as compared to 27.8% in 2001, reflecting little change.
- The State's 2005 percentage (29.1%) of deficient bridges compares to the nationwide percentage of 22.4%. A deficient rating means a bridge is either structurally or functionally deficient, but not a current safety threat.



LOCAL GOVERNMENTS

Local governments in New York continue to face fiscal challenges. Many have responded to increased fiscal pressure by cutting services or increasing local sales tax rates and/or property taxes. In response, the State has provided cities, towns and villages with increased revenue sharing. In addition, an expanded shared services grant program is now available to help local governments improve efficiency. However, even with this additional assistance, local governments (particularly in upstate) face an uncertain long-term outlook as continued demographic decline, a stagnant State economy, and growing service demands place additional strains on their budgets.

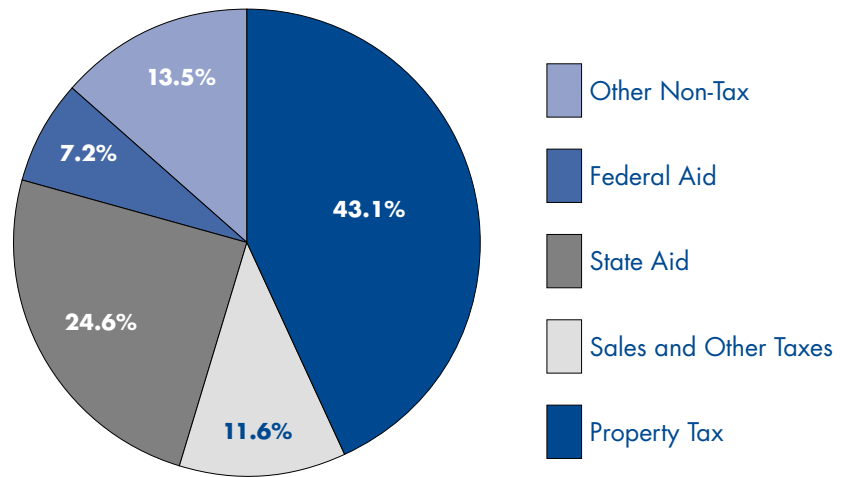
- The property tax is the largest tax that local governments have imposed in New York State, representing 79% of all local taxes outside of New York City. Local property tax levies totaled \$38 billion in 2005 — reflecting an increase of more than \$11 billion (42%) since 2000, generating more revenue than even the State’s \$31 billion personal income tax. In fact, even including other sources of revenue (such as State and Federal aid) it is still the largest single source of all revenue for local governments in New York State, accounting for 43% of all municipal revenues in 2004.

- Local property tax levies grew by 60% from 1995 to 2005, more than twice the rate of inflation during that period (28%). Most of this growth occurred in the last five years, when property tax levies increased by 42%, compared to inflation of 13%.

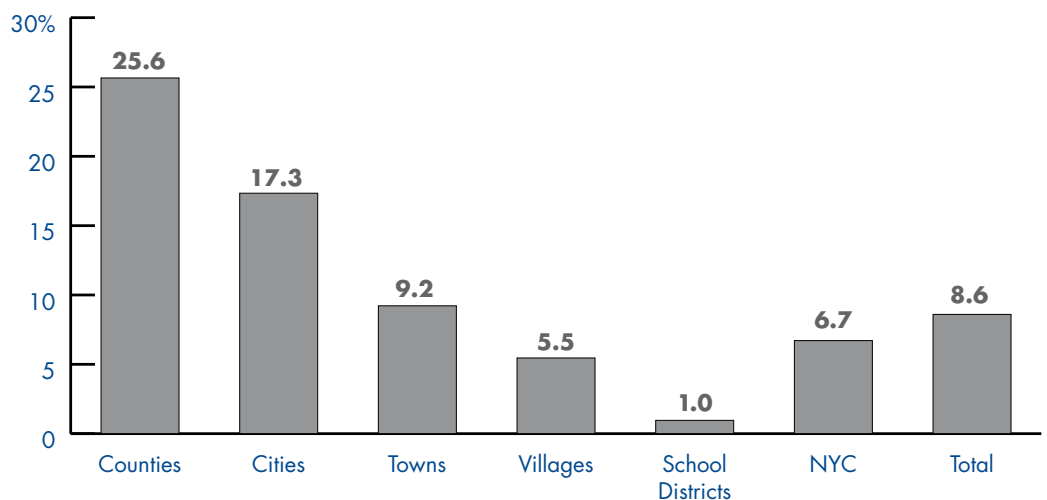
- Sales tax rates in New York range from 7 to 9.5%, some of the highest rates in the nation (the State portion of the tax is currently 4%). Fifty counties have received specific State approval for rates above the 3% statutory limit on the local portion of the sales tax, including six counties with local rates that exceed 4%. New York City has a local sales tax rate of 4%.

- A recent OSC survey of New York State counties shows that most (43 of 57) share at least some portion of their sales tax revenues with other local governments within their borders.

Local Government Revenue Sources, 2004
excluding New York City

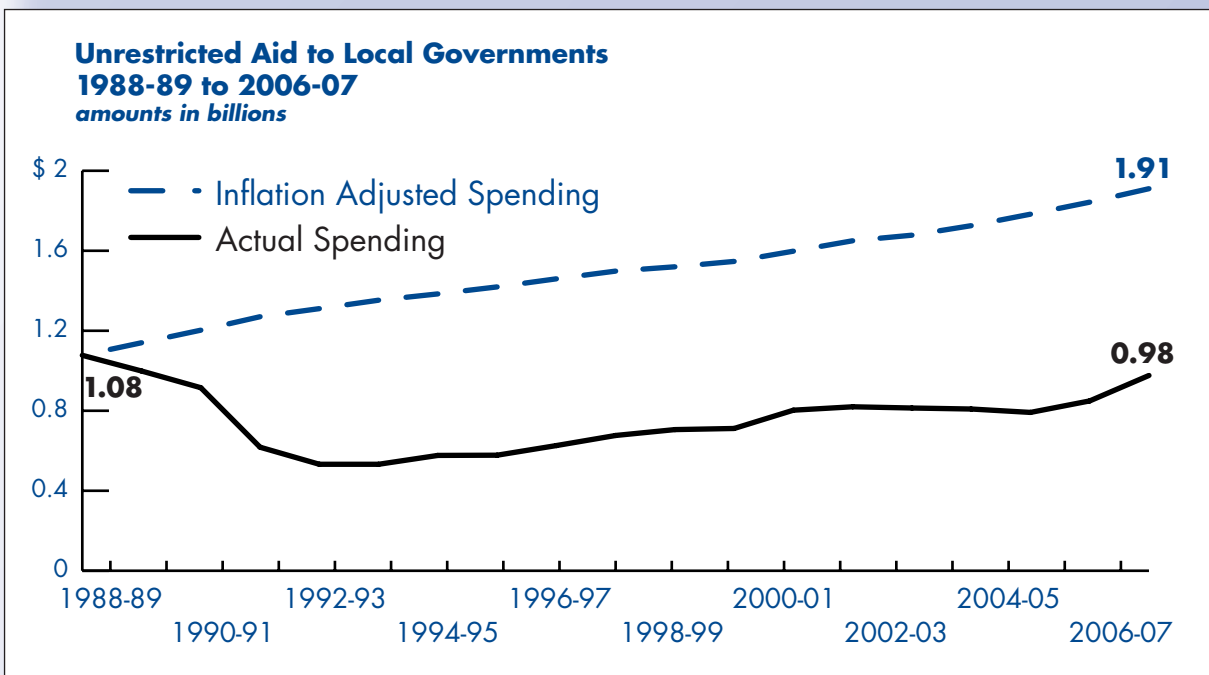
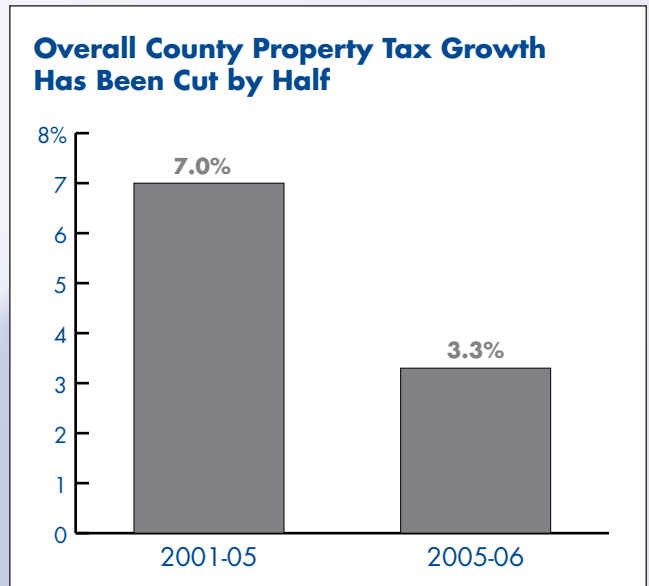


Sales Tax Revenue as a Percentage of Total Revenue, 2004



■ Unrestricted aid to cities, towns and villages in 2006-07 totals \$977 million, an increase of \$127 million or 15% higher than 2005-06 aid. This level of unrestricted aid is nearly as high as it was when funding for the program peaked in SFY 1988-89 at almost \$1.1 billion. However, if this funding had kept pace with inflation, the 2006-07 disbursements would have grown by nearly double to \$1.9 billion; more than \$900 million over the current appropriation of \$977 million. The distribution of funds has changed significantly over this period because increases have primarily targeted cities other than New York City. In the past two enacted State budgets, in response to growing fiscal stress, cities have received significant increases in their unrestricted State aid: a two-year increase of 41% from 2004-05 to 2006-07. To help cities focus on the long-range impact of fiscal decisions, a considerable portion of this increase in aid is tied to a requirement that each city produce a multiyear financial plan.

■ The enactment of a cap on growth in local Medicaid costs in 2005 was a major accomplishment in relieving pressure on local property taxes. County property taxes increased by half as much in 2006 as they had in the previous five-year period. The new Medicaid cap, which took effect January 1, 2006, limits the growth of each county's 2006 Medicaid costs to 3.5% above 2005 expenditures, a significant change from the double digit spending growth that many counties had been experiencing in recent years. Growth will be capped at 3.25% in 2007 and 3.0% in 2008 and beyond. While the Medicaid cap has introduced a much needed element of predictability for local Medicaid spending, Medicaid costs are projected to continue to grow faster than inflation, raising questions about the sustainability of the cap in the absence of programmatic reforms.



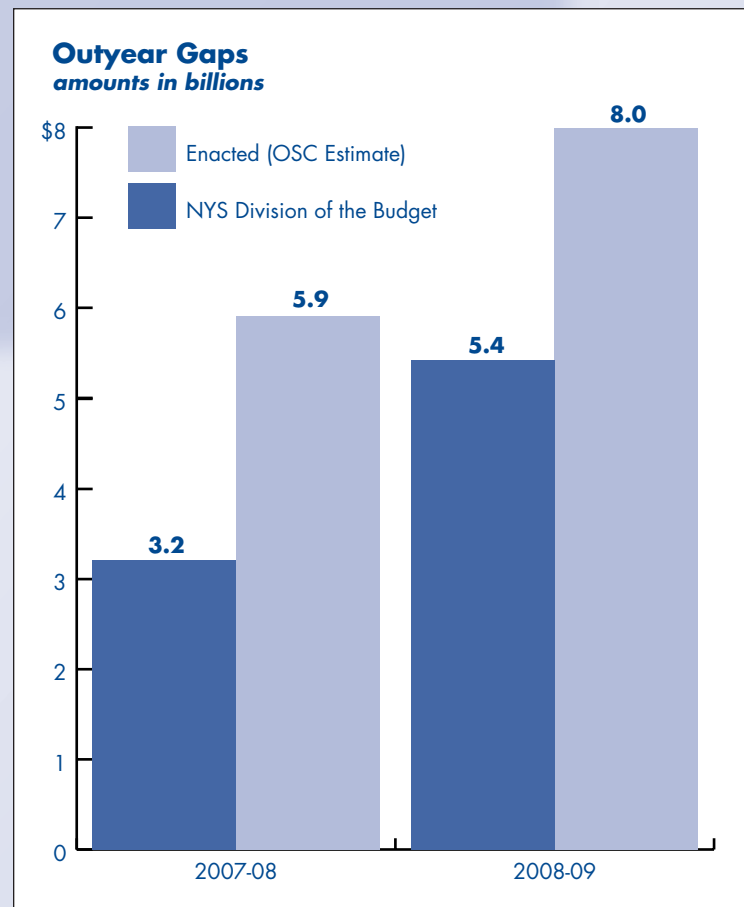
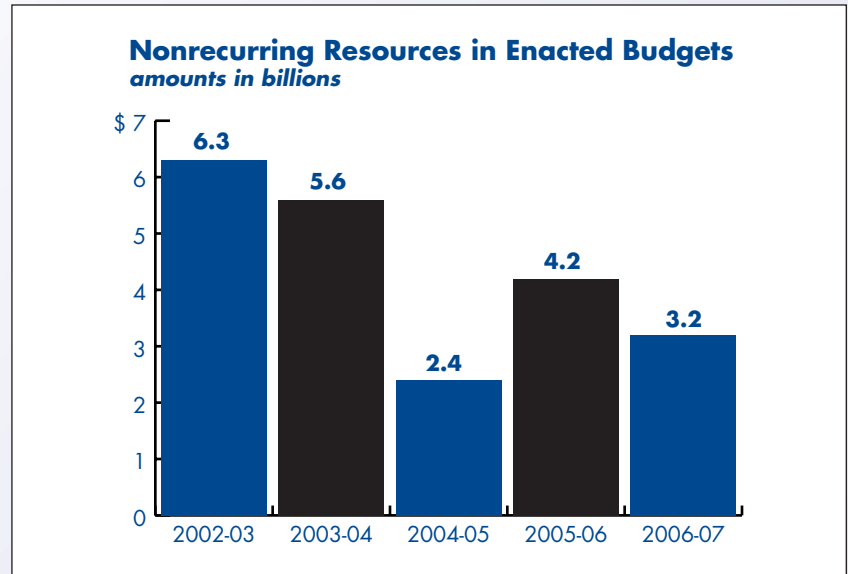
IMPLICATIONS FOR THE FUTURE

New York has a history of structural imbalance. As of March 31, 2006, over 20 percent of New York State's outstanding debt had been issued to provide budgetary relief or to provide deficit financing. The use of nonrecurring resources and debt to pay for recurring costs exacerbates the structural imbalance by placing additional constraints on the future resources which are committed to paying debt service.

The 2006-07 budget relies on an estimated \$3.2 billion in nonrecurring resources to maintain balance throughout the year, representing over 6% of General Fund spending. This structural imbalance, caused when the State's policy determining revenue is not balanced with policy decisions regarding spending, contributes to massive out-year deficits, is the most prominent sign of New York's precarious financial condition.

In addition to relying on non-recurring resources, the 2006-07 budget also holds significant risks in what it fails to include. For instance, while the enacted budget includes \$11.2 billion in financing authority (of which \$6.5 billion is State-funded debt) to address the capital portion of the Campaign for Fiscal Equity lawsuit, it does not address a possible obligation of nearly \$3 billion in additional operating aid. In addition, much will be at stake when the Health Care Reform Act (HCRA) comes up for reauthorization in June 2007. Increasing spending levels and use of nonrecurring revenues could affect a wide range of HCRA-funded health care programs including Medicaid, Graduate Medical Education and Elderly Pharmaceutical Insurance Coverage.

The OSC projects future budget gaps at \$5.9 billion in 2007-08 and \$8 billion in 2008-09. The use of nonrecurring resources, coupled with spending and revenue risks, worsens the State's structural gap and has long-term negative implications for the State.

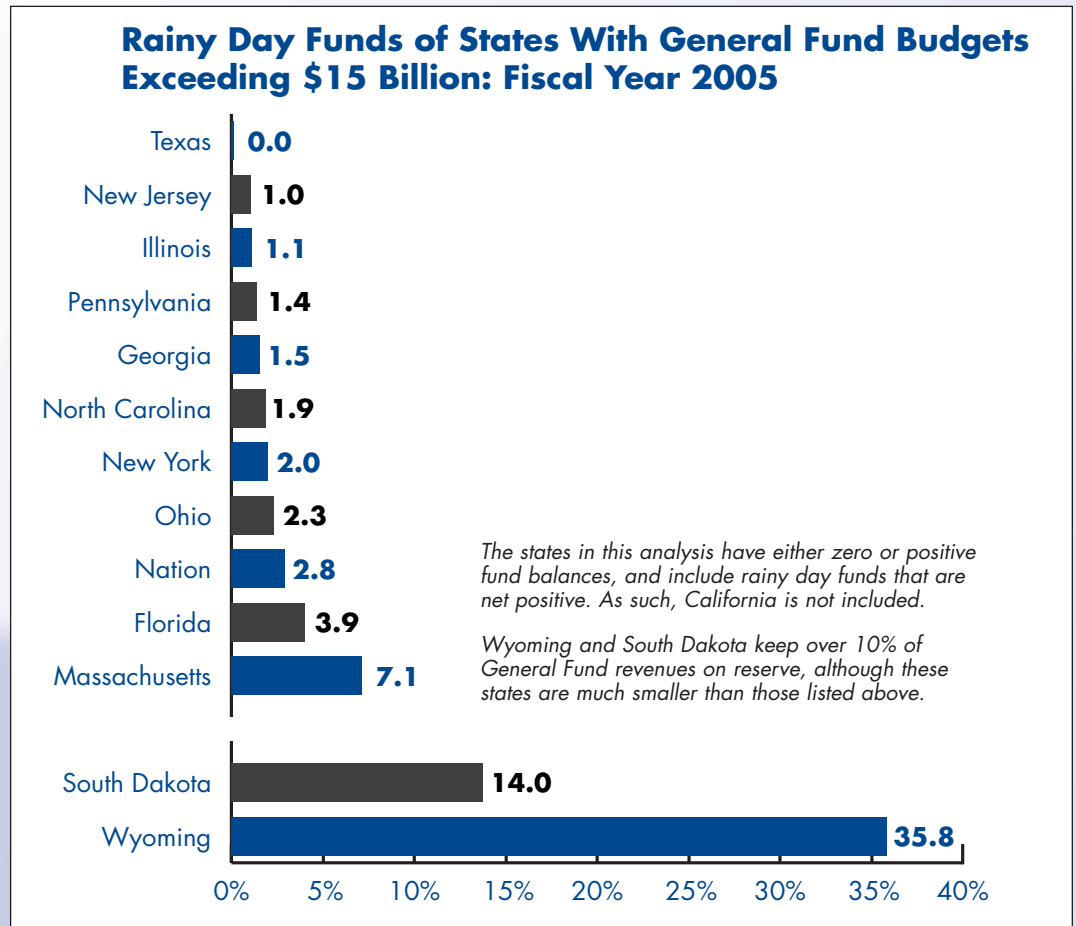


New York's rainy day fund — the reserve set aside for times of economic downturn — is much smaller than the national average. The 2005 national average was 2.8% of General Fund revenues, but New York had reserved only 2%, the maximum permitted by current New York State law. Other large states are able to keep at least 2% of General Fund revenues in reserve, and some states do even better: Wyoming and South Dakota reserve 36% and 14%, respectively.

The capped contribution and balance limitations for New York's rainy day fund make its fiscal benefit minimal when resources are scarce, and the State is in need of budgetary assistance. Instead of capping the fund's balance, a more fiscally-prudent approach would be to allow for a

larger balance to accumulate in the Rainy Day Fund. Expanding the fund by allowing more revenues to be deposited in times of prosperity would provide greater resources to support the State's finances during times of economic downturn, thus reducing the incentive to rely on fiscal gimmicks such as non-recurring resources and borrowing that generate significant additional costs for future generations.

The State's lack of long-term planning contributes to the chronic use of these harmful budget-balancing practices. The Comptroller advocates reforms such as long-term financial planning, the establishment of a meaningful rainy day fund, and an improved budget process. To fully take advantage of all the State's vast resources, and to effectively serve the interests of the public, budgets must be approached strategically, rather than reactively. Setting aside adequate reserves is fundamentally important.



NEW YORK'S PUBLIC AUTHORITIES

Public authorities are legally separate entities created by State and local governments to provide public services. While generally supported through revenues derived from their activities, State and local governments do, in some cases, provide financial assistance and support for operating and other expenses. New Yorkers pay for public authorities in the form of rates, tolls or fees, and New York taxes offset authority-related tax exemptions and pay the debt service on certain authority-issued debt.

- As of December 31, 2005, the 19 public authorities shown in the chart below had outstanding debt of \$100 million or more, and the aggregate outstanding debt, including refunding bonds, of these public authorities was approximately \$124 billion, only a portion of which constitutes State supported or State related debt.
- Of the 740 public authorities in the State, 266 operate either Statewide, regionally, interstate or internationally and employed over 107,000 people in 2004-05. The other 474 public authorities were local in jurisdiction.
- In 2004-05, the public authorities and subsidiaries that submit annual procurement data to OSC entered into 10,404 contracts valued at \$5.5 billion. These same entities made payments of \$4.8 billion pursuant to contracts in 2004-05.

The State's fiscal stability is related in part to the fiscal stability of certain public authorities closely related to the State. The State's access to public credit markets could be impaired if certain public authorities closely associated to the State were to default on their obligations.

In March 2006, the State Comptroller issued final regulations with the goal of increasing accountability and improving transparency of public authority operations. The regulations expand reporting and supervision requirements to reach all State and major regional public authorities, require authorities to prepare an annual budget and four-year financial plan, set a consistent standard for all authorities to follow in the establishment of investment guidelines, and require timely and detailed reporting by authorities that issue State-supported debt.

Source: Office of the State Comptroller

Outstanding Debt of Certain Authorities⁽¹⁾ as of December 31, 2005 (millions of dollars)

Authority	Total Debt ⁽²⁾⁽³⁾	State Debt ⁽²⁾⁽⁴⁾
Dormitory Authority ⁽⁵⁾	\$32,281	\$14,081
Metropolitan Transportation Authority	15,261	2,333
Port Authority of NY & NJ	10,984	–
Thruway Authority	10,578	8,680
Triborough Bridge and Tunnel Authority	7,160	242
Environmental Facilities Corporation	7,126	592
Long Island Power Authority ⁽⁶⁾	7,017	–
Housing Finance Agency	6,831	1,295
UDC\ESDC	6,688	6,110
Local Government Assistance Corporation	4,317	4,317
Tobacco Settlement Financing Corporation	4,278	4,278
Energy Research and Development Authority	3,672	17
State of New York Mortgage Agency	2,905	–
Power Authority	2,299	–
Battery Park City Authority	1,041	–
Convention Center Development Corporation	700	–
Municipal Bond Bank Agency	559	504
Niagara Frontier Transportation Authority	187	–
United Nations Development Corporation	128	–
TOTAL OUTSTANDING	\$124,012	\$42,449

⁽¹⁾ Includes only certain of the public authorities which have more than \$100 million in bonds outstanding.

⁽²⁾ Amounts outstanding reflect original par amounts for bonds and financing arrangements or original net proceeds in the case of capital appreciation bonds. Amounts outstanding do not reflect accretion of capital appreciation bonds or premiums received.

⁽³⁾ Includes short-term and long-term debt.

⁽⁴⁾ Reflects debt for which the primary repayment source is from State appropriations or assigned revenues of the State.

⁽⁵⁾ Includes debt previously issued by New York State Medical Care Facilities Finance Agency, which was consolidated with the Dormitory Authority on September 1, 1995.

⁽⁶⁾ Includes \$155 million in bonds issued by the Energy Research and Development Authority and included in amounts reported for both ERDA and LIPA.

APPENDIX 1

STATE FUNDS SPENDING BY MAJOR SERVICE FUNCTION

amounts in millions

STATE FUNDS SPENDING FOR THE FISCAL YEAR ENDING MARCH 31:	2002	2003	2004	2005	2006
EDUCATION	\$23,175	\$22,209	\$25,790	\$25,981	\$27,094
Public Schools	15,338	14,333	17,037	16,581	17,394
State University of New York	3,694	4,059	4,184	4,438	4,804
School Tax Relief (STAR)	2,510	2,664	2,820	3,059	3,213
City University of New York	814	714	1,049	860	620
Tuition Assistance Program	690	310	586	929	943
Higher Education Services	77	78	68	69	76
Cultural Programs	52	51	46	45	44
PUBLIC HEALTH	11,916	13,001	13,675	14,691	17,774
Health and Mental Health Services	3,378	3,381	3,193	3,450	4,371
Medical Assistance (Medicaid)	8,456	9,467	10,461	11,127	13,252
Payments made by the Dormitory Authority	82	153	21	114	151
PUBLIC WELFARE	3,423	2,832	3,562	3,598	3,602
Public Welfare	3,029	2,418	3,147	3,183	3,190
Public Housing	188	208	186	188	191
Employment Services	206	206	229	227	221
PUBLIC SAFETY	2,975	2,986	3,127	3,262	3,443
Criminal Justice & Correctional Alternatives	904	891	933	947	1,070
Emergency Management & Security Services	54	86	96	78	90
Prisons and Reformatons	2,017	2,009	2,098	2,237	2,283
TRANSPORTATION	3,758	4,074	3,903	3,901	4,461
Traffic Safety	190	188	179	187	189
Transportation	3,299	3,608	3,417	3,413	3,954
Payments Made by the New York State Thruway Authority	269	278	307	301	318
ENVIRONMENT AND RECREATION	836	794	853	780	859
Environmental Protection	570	538	574	515	551
Parks, Recreation & Historic Preservation	266	256	279	265	308
SUPPORT AND REGULATE BUSINESS	579	562	441	474	754
Commerce, Industry & Agriculture	375	341	237	262	459
Regulate Business	204	221	204	212	295
SHARE GENERAL REVENUES WITH LOCAL GOVERNMENTS	832	963	853	1,034	1,079
REPAY BORROWED MONEY AND REDUCE DEBT	4,143	3,038	3,351	3,788	3,701
GENERAL GOVERNMENT	5,904	6,251	6,761	7,420	8,105
Executive Agencies	948	1,011	978	1,006	1,086
Office of the State Comptroller	143	156	149	160	171
Office of the Attorney General	139	146	139	161	166
Legislature	208	219	202	207	210
Court Administration	1,393	1,456	1,429	1,506	1,616
Pension Contributions & Other Employee Benefits	2,719	2,958	3,528	4,090	4,505
Other	354	305	336	290	351
TOTAL STATE FUNDS SPENDING	\$57,541	\$56,710	\$62,316	\$64,929	\$70,872

APPENDIX 2

FEDERAL FUNDS SPENDING BY MAJOR SERVICE FUNCTION

amounts in millions

FEDERAL FUNDS SPENDING FOR THE FISCAL YEAR ENDING MARCH 31:

	2002	2003	2004	2005	2006
EDUCATION	\$2,372	\$3,025	\$3,621	\$3,506	\$3,815
Public Schools	2,210	2,466	3,218	3,319	3,649
State University of New York	144	166	174	167	159
Tuition Assistance Program	11	385	224	12	2
Higher Education Services	6	7	4	7	4
Cultural Programs	1	1	1	1	1
PUBLIC HEALTH	18,125	20,772	22,657	23,920	22,799
Health and Mental Health Services	3,165	3,380	3,585	3,700	3,790
Medical Assistance (Medicaid)	14,960	17,392	19,072	20,220	19,009
PUBLIC WELFARE	4,890	5,840	5,481	5,053	5,127
Public Welfare	4,231	5,031	4,749	4,490	4,617
Public Housing	15	14	13	13	17
Employment Services	644	795	719	550	493
PUBLIC SAFETY	817	1,322	1,882	1,731	302
Criminal Justice & Correctional Alternatives	126	115	274	306	125
Emergency Management & Security Services	614	1,112	1,573	1,410	147
Prisons and Reformatons	77	95	35	15	30
TRANSPORTATION	1,030	1,158	1,074	1,353	1,233
Traffic Safety	11	15	15	14	12
Transportation	1,019	1,143	1,059	1,339	1,221
ENVIRONMENT AND RECREATION	306	280	271	242	269
Environmental Protection	302	273	265	235	263
Parks, Recreation & Historic Preservation	4	7	6	7	6
SUPPORT AND REGULATE BUSINESS	15	45	17	16	22
Commerce, Industry & Agriculture	14	44	16	15	21
Regulate Business	1	1	1	1	1
SHARE GENERAL REVENUES WITH LOCAL GOVERNMENTS	95	101	117	102	107
GENERAL GOVERNMENT	204	233	219	231	264
Executive Agencies	27	27	24	24	29
Office of the Attorney General	19	22	18	22	24
Court Administration	3	5	5	3	5
Pensions and Other Employee Benefits	155	179	172	182	206
TOTAL FEDERAL FUNDS SPENDING	<u>\$27,854</u>	<u>\$32,776</u>	<u>\$35,339</u>	<u>\$36,154</u>	<u>\$33,938</u>

APPENDIX 3

STATE REVENUES BY MAJOR SOURCE

amounts in millions

STATE REVENUES FOR THE FISCAL YEAR ENDING MARCH 31:	2002	2003	2004	2005	2006
TOTAL TAXES	\$42,475	\$39,625	\$42,851	\$48,642	\$53,578
PERSONAL INCOME TAX⁽¹⁾	25,574	22,648	24,647	28,100	30,813
CONSUMER TAXES AND FEES	10,543	10,804	11,919	13,080	13,857
Sales Tax	8,540	8,796	9,907	11,016	11,196
Motor Vehicle Fees	584	612	654	710	720
Cigarette and Tobacco Products Taxes	532	446	419	406	974
Motor Fuel Tax	489	544	516	530	531
Alcohol Beverage Tax	212	222	237	227	234
Highway Use Tax	148	147	147	151	160
Auto Rental Tax	38	37	39	40	42
BUSINESS TAXES	5,185	4,983	5,007	5,806	7,088
Corporation Franchise Tax	1,702	1,612	1,700	2,111	3,053
Corporation and Utilities Taxes	1,218	1,091	882	827	832
Insurance Taxes	696	776	1,031	1,108	1,083
Bank Tax	566	481	342	675	974
Petroleum Business Tax	1,003	1,023	1,052	1,085	1,146
OTHER TAXES	1,173	1,190	1,278	1,656	1,820
Real Property Gains Tax	5	5	4	1	1
Estate and Gift Taxes	767	708	736	898	857
Pari-Mutuel Taxes	30	29	27	26	23
Real Estate Transfer Tax	370	447	510	730	938
Racing and Boxing Exhibition Taxes	1	1	1	1	1
GAMING AND LOTTERY INCOME	1,713	1,931	2,129	2,222	2,413
FEDERAL GRANTS	28,124	33,256	37,323	36,213	35,129
OTHER REVENUES	7,727	10,773	15,218	12,061	14,418
Student Tuitions and Fees	1,149	1,191	1,376	1,800	1,965
Hospital Patient Fees	1,073	1,290	1,280	1,412	1,337
Income from Investments	427	84	56	78	264
Abandoned Property	407	729	597	563	541
Reimbursement of Advances	692	892	918	704	740
Transfers from Public Benefit Corporations	138	572	344	672	457
Regulatory Assessments	1,853	2,740	2,580	1,502	1,594
Tobacco Control & Insurance Initiatives Pool	495	1,258	2,075	3,202	2,725
Securitization of Tobacco Settlement Funds	-	-	4,200	-	-
Transfers from Tobacco Settlement Fund	91	90	-	183	-
Miscellaneous Licenses, Fees and Other	1,402	1,727	1,792	1,945	2,052
Loans from HCRA Pools	-	200	-	-	-
Public Asset Sale — Non-Profit Conversion	-	-	-	-	2,743
BORROWED AND ADDED TO DEBT	1,930	2,174	2,534	2,134	2,117
Bonds and Notes Issued by the State	211	245	140	178	159
Public Authority Financings ⁽²⁾	1,719	1,929	2,394	1,956	1,958
TOTAL STATE REVENUES	\$81,969	\$87,759	\$100,055	\$101,272	\$107,655

⁽¹⁾ Personal Income Tax (PIT) receipts have been restated to include funds held in reserve to pay PIT refunds in the following fiscal year.

⁽²⁾ Amount includes financing from the NYS Thruway Authority and the Dormitory Authority of the State of New York.

2006 COMPTROLLER'S REPORT ON THE FINANCIAL CONDITION OF NEW YORK STATE



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Washington Higher Education Coordinating Board

