

# 2003

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## **Comptroller's Report on the Financial Condition of New York State**

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*Alan G. Hevesi*





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Alan G. Hevesi

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# COMPTROLLER'S 2003 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. It fills an information need not met by the traditional, more detailed financial reports issued by the Comptroller's Office, but it is not meant to replace them. Detailed accounting data continues to be provided 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 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 2002 Financial Condition Report.

## **Award for Outstanding Achievement in Popular Annual Financial Reporting**

**PRESENTED TO**

**STATE OF  
NEW YORK**

**For the fiscal year ending  
March 31, 2002**



*William Patrick Pate*  
President

*Jeffrey L. Esser*  
Executive Director



# Message from the Comptroller

I am pleased to present this year's Report on the Financial Condition of New York State. This report explains how the State's financial condition and operations affect taxpayers and details many of the factors and trends by which the State's fiscal health is measured.

The report focuses on the fundamental fiscal issues that will determine the State's financial future. This year's budget continued the State's reliance on debt, non-recurring resources and other fiscal gimmicks. As a result, lawmakers will again face difficult budgetary challenges next year when it becomes clear that many of the solutions they adopted were only temporary.

This past year, New York faced extraordinary fiscal challenges as a result of the economic downturn, the failure to exercise budgetary restraint during more prosperous times, and the failure to act quickly when the State's finances began to show signs of difficulty, as well as the collapse of the stock market through 2002 and the devastation, both in human and financial terms, of 9-11.

These factors, however, are symptomatic of greater problems: a structural deficit, late budgets, surpluses of recent years that were squandered, increased and enormous debt which grew exponentially with the securitization of tobacco settlement dollars, and available reserves that sunk to dangerously low levels. This report reflects a General Fund accumulated deficit of \$3.3 billion, the first such deficit since 1997.

As we struggle to emerge from a recession, we must change our approach to problem solving. Now, more than ever, fiscal discipline is needed to ensure budget balance and to provide a healthy environment in which our economy can grow. We must limit debt to the most necessary uses to protect future generations of taxpayers and to attract businesses. And we need a comprehensive economic development plan that will provide opportunities for all New Yorkers.

New York's potential is unparalleled in the nation and in the world. By developing stronger fiscal practices that prepare our State for the future, we can build a brighter future for generations to come.

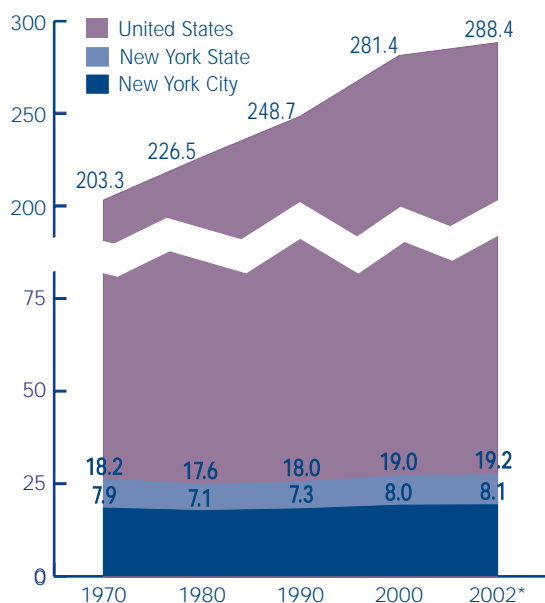


# ECONOMIC/DEMOGRAPHIC

Economic and demographic trends impact funding received from the Federal Government and indicate whether renewed attention is needed in State programs for the elderly, economic development, education, and income assistance.

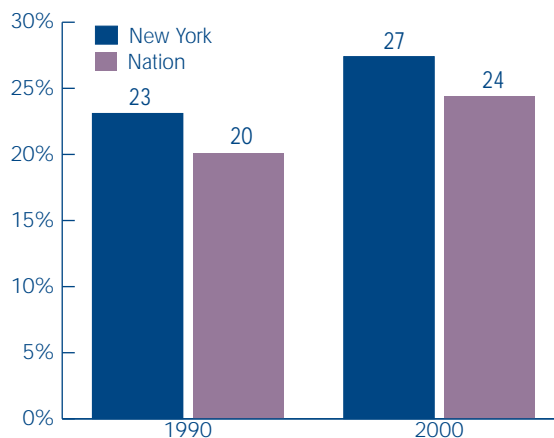
- The State's population fell during the 1970s and has only recently surpassed its 1970 level. Since its population began to rise again in 1980, it has increased just 8.1%, while the US population has increased by 24%. Most of the State's population growth occurred in the 1990s. The Census Bureau estimates that the State's population grew by 1% between the 2000 Census and the middle of 2002, while the nation's population increased 2.5% during this period.
- Based on results from the 2000 Census, New York State lost two seats in the U.S. House of Representatives in 2002. During the prior ten years, New York State had 31 members, down from 43 in 1960.
- New York City's population grew by a rapid 9.3% in the 1990s to a new record level, after only modest gains in the 1980s and a significant drop in the 1970s. Since the 2000 Census, the City's population is estimated to have increased 0.9%. Over 42% of the State's population resides in the City of New York.
- New York City accounted for 70% of the State's population increase in the 1990s. When combined with the gains in the suburbs surrounding the City, the downstate region was responsible for more than 90% of the State's growth. This strong growth reflected the strength of the area's economy in those years. Population across much of the upstate region has declined in response to the area's poor economic performance during the last decade.
- New York State has become more diverse in the 1990s. While the white nonhispanic population has declined, strong growth in minority groups — either through immigration or births — has fueled the State's population increase in the 1990s.
- New York State's population became better educated in the 1990s. In 1990, 23.1% of the population aged 25 years and over had a bachelor's degree or a bachelor's and graduate or professional degree. In 2000, the share of the population with this level of education rose to 27.4%, compared to 24.4% in the nation.

Population Trends  
figures in millions



\* Estimated.

Educational Attainment  
Percentage of Citizens with Bachelor, Graduate  
or Professional Degrees



## Employment and Job Growth – New York State vs. the U.S.

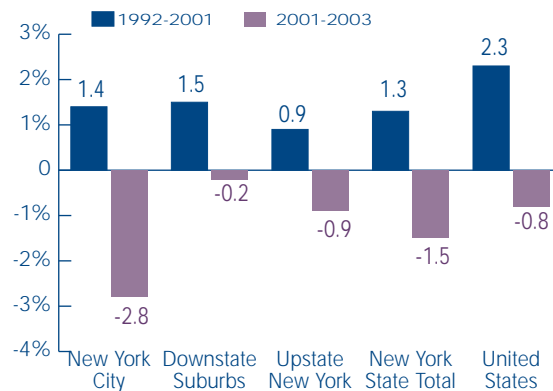
### Job Growth and Loss\*

	New York State			United States		
	Percent Change		Level	Percent Change		Level
	1992-2001	2001-03	2003	1992-2001	2001-03	2003
Manufacturing	-16.5%	-14.2%	621	0.7%	-12.1%	14,797
Construction & Mining	34.8%	-3.2%	309	43.3%	-1.8%	6,978
Trade, Transportation, and Utilities	6.0%	-3.3%	1,467	18.3%	-3.3%	25,087
Information	25.6%	-14.8%	280	40.3%	-10.6%	3,299
Financial Activities	2.4%	-6.0%	695	19.6%	2.0%	7,905
Professional and Business Services	38.6%	-7.1%	1,027	54.1%	-4.3%	15,833
Educational and Health Services	24.9%	4.1%	1,485	31.2%	6.3%	16,522
Leisure and Hospitality	21.2%	0.3%	618	28.5%	0.5%	11,788
Other Services	27.9%	1.0%	346	23.8%	2.2%	5,367
Government	2.6%	0.7%	1,487	11.8%	2.8%	21,822
Total	12.0%	-3.0%	8,335	22.3%	-1.7%	129,398

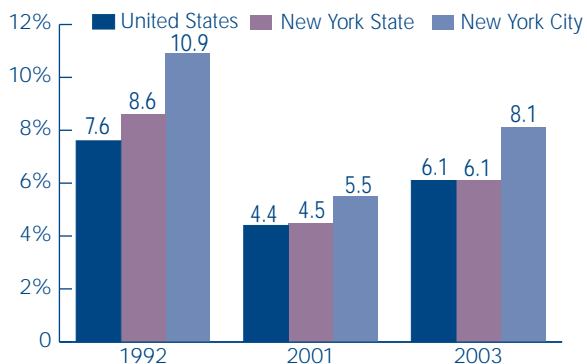
\*Average nonagricultural employment for five months ended May 1992, 2001, and 2003 (not seasonally adjusted)

- From the first five months of 1992 to the first five months of 2001—the period of time that approximates the last economic expansion—the number of jobs in New York State grew by 12%, while the number of jobs in the nation expanded at almost twice that rate, or 22.3%. In the State, job growth was especially strong in professional and business services, information, and construction, while manufacturing continued to lose jobs.
- Almost 72% of the job growth in New York State during the expansion was in New York City and the downstate suburbs.
- Most of the recent job losses in the State have been concentrated in New York City, although there have also been significant declines in the major upstate metropolitan areas of Binghamton, Buffalo, Elmira, and Rochester.
- The recession and the World Trade Center attack had a greater impact upon the State’s job market than the national job market. The number of jobs in New York State declined 3% over the past two years while the nation lost jobs at a 1.7% rate. The industries in the State that were hit the hardest were manufacturing, information, financial activities, and professional and business services.
- After New York State’s unemployment rate steadily declined, reaching its lowest level in early 2001, the rate rebounded as the long boom of 1990s came to an end. As of May 2003, the State’s unemployment rate stood at 6.1%, tied with the national rate. New York City’s rate has been consistently higher than the national and State rates since the late 1980s. The City’s unemployment rate reached 8.1% in May 2003. Despite the recent increases in the national, State, and local unemployment rates, levels are still lower than at their peaks during the prior recession in 1992.

Total Job Changes 1992-2003  
First five months of the year, annual average percent change



Unemployment Rate  
NYS, US and NYC as of May of each year

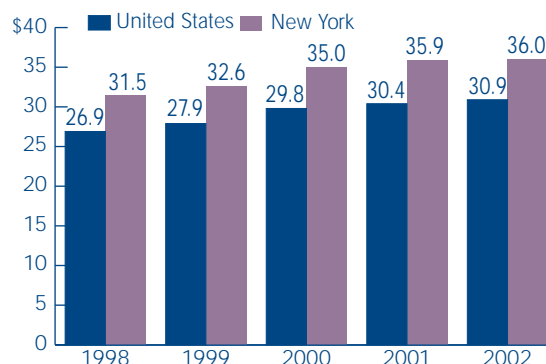




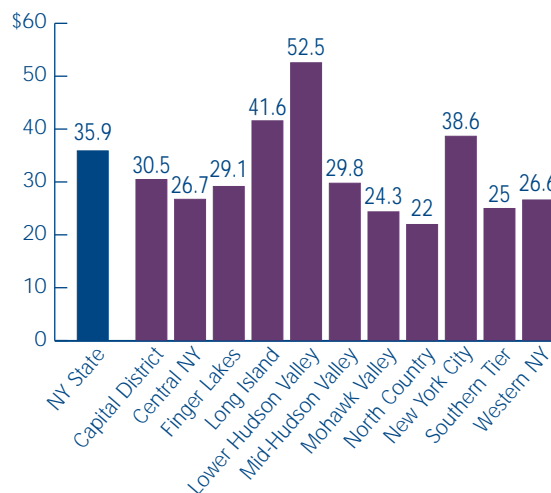
# PERSONAL INCOME

- Total State personal income has increased 37.2% since 1995, compared to a 44.1% increase nationwide. New York State ranked 42nd out of the 50 states in growth in personal income during this period.
- The State's per person personal income in 2002 (\$36,043) continues to be higher than that of the U.S. (\$30,941). The State's per person personal income increased by 0.5% in 2001, while per person personal income in the nation grew by 1.7%.
- The State ranked fifth highest in per person personal income in 2002, behind Connecticut, New Jersey, Massachusetts, and Maryland. After having ranked fourth highest from 1993 through 2001, New York slipped behind Maryland in the latest rankings.
- Per person personal income is much higher in the downstate counties than in the rest of the State, primarily reflecting the higher wages and salaries paid by jobs in the downstate region. In 2001, per person personal income averaged \$38,643 in New York City, \$41,559 on Long Island, and \$52,540 in the Lower Hudson Valley. For the rest of the State, per person personal income ranged from \$21,957 in the North Country to \$30,465 in the Capital District. On a county basis, the highest per person personal income was in New York County (Manhattan) (\$92,984) while the lowest was in Lewis County (\$18,927).
- Salaries are highest on Wall Street, which paid an average salary of \$237,006 in 2001. In the rest of the financial sector, the average salary was \$75,615, while non-financial industries paid an average of \$39,726. The Wall Street sector represented only 2.5% of the total jobs in the State in 2001, but accounted for 12.8% of the total compensation paid. The gap between Wall Street's salaries and those of the non-financial industries has also been growing significantly.
- The sharp slowdown in growth in personal income in New York State resulted in part from the State's economic dependency on the financial industry. Wall Street has been particularly hard hit during the last few years, suffering the effects of the national economic slowdown, the impacts of corporate scandals and war worries. With the financial markets in decline, securities industry profits have fallen over the last two years, from a record high of \$21 billion in 2000 to \$7 billion in 2002. Bonuses paid to Wall Street workers fell by 35% in 2001 and another 41% in 2002.
- New York State's poverty rate, which remained essentially unchanged between 1994 and 1998, dropped substantially in 1999, to 14.1%, and then fell again to 13.4% in 2000. The national poverty rate fell steadily from 14.5% in 1994 to 11.3% in 2000.

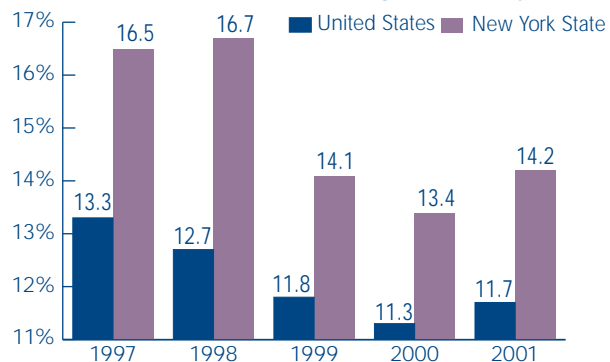
Personal Income Per Person  
NYS vs US (figures in thousands)



Per Person Incomes are Higher Downstate  
as of 2001, figures in thousands



Percent of Population Living in Poverty



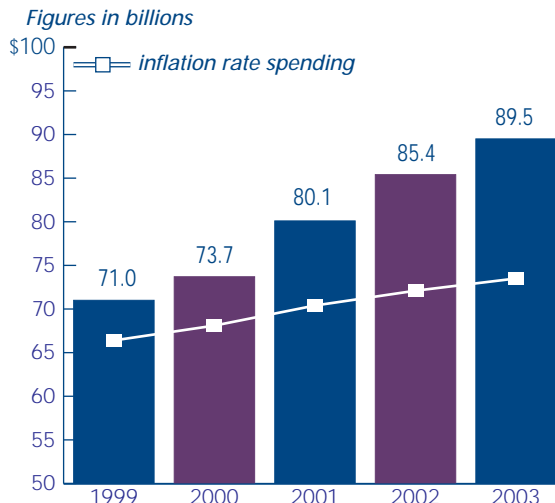


# TOTAL SPENDING

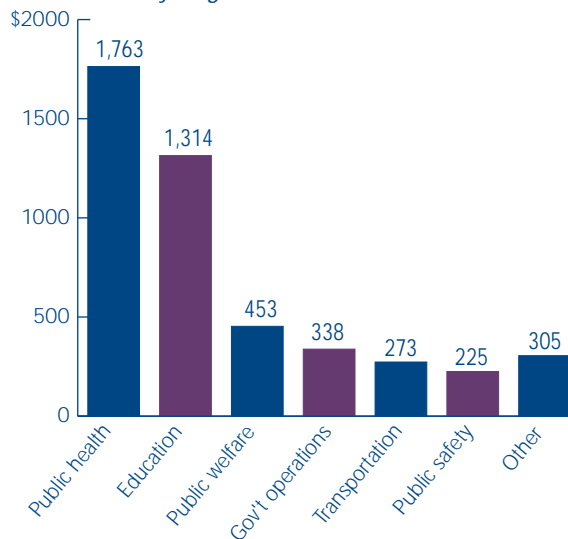
Spending data can be used to evaluate the State's program priorities and, compared to revenue data, can be used to measure the State's ability to support continuing programs. Appendices 1 and 2 show a history of State spending by major program for the past five fiscal years.

- State spending totaled \$89.5 billion in 2003, an increase of \$4.1 billion (4.8%) from the prior year.
- Since 1999, growth in State spending (26.1%) has outpaced inflation (Consumer Price Index), (10.7%).
- State spending has been partially paid for by borrowing \$10.5 billion since 1999, including \$2.2 billion in 2003.
- In 2002, New York's spending per person (\$4,457) was 19.2% higher than the national average (\$3,738).
- Education and public health spending represents 65.9% of total State spending.

Actual State Spending vs. Spending at the Rate of Inflation



2003 Total State Spending Per Person by Program

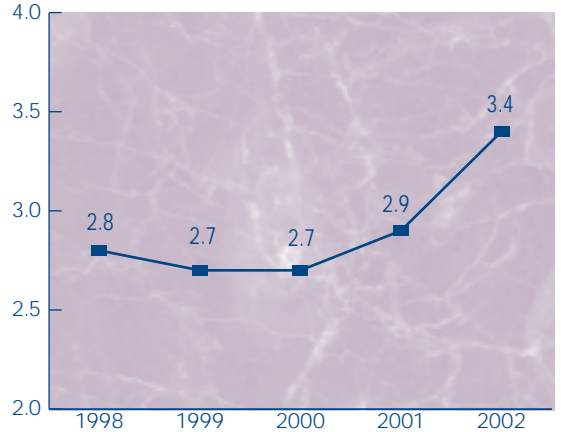


During the past five years, New York's spending grew faster than inflation.

# MEDICAID

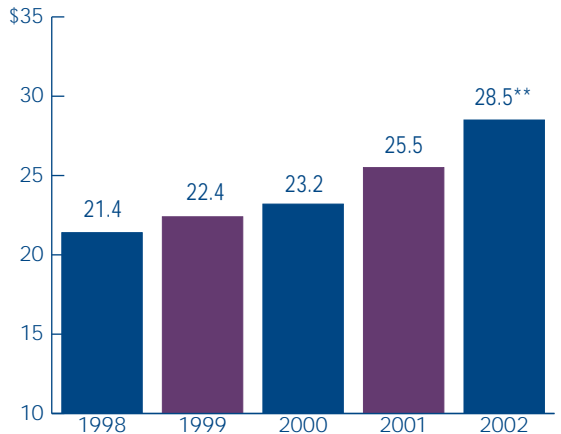
- In 2002, New York experienced a second consecutive year of significant growth in Medicaid costs and eligible beneficiaries, after several years of slow growth or declines in spending and steady drops in eligibles.
- From 1998 through 2001, the monthly average number of Medicaid eligible beneficiaries increased only 2.3%. From 2001 to 2002, the number increased 18.7% to just over 3.4 million eligibles.
- The number of eligible beneficiaries rose primarily due to the economic slowdown and the increasing popularity of the Family Health Plus program, which provides public health insurance to adults ages 19 to 64 whose incomes are too high to otherwise qualify for Medicaid. Family Health Plus started in October 2001. In 2002, the average monthly number of enrollees was approximately 85,000. In December 2002, the Family Health Plus program had almost 187,000 enrollees, two-thirds of them in New York City.
- In 1997, New York received federal authorization to implement mandatory managed care for eligible Medicaid recipients. In December 2002, over 1.3 million (60%) of approximately 2.3 million recipients eligible for enrollment signed up for Medicaid managed care — a 67% increase over the number of eligibles who enrolled in December 2001.
- From 1998 through 2001, State and federal Medicaid spending increased about 4.9% a year in New York. From 2001 to 2002, Medicaid spending in New York increased almost 12%.
- Spending rose primarily due to continued high medical inflation and the costs of covering many more eligible beneficiaries. The U.S. Bureau of Labor Statistics estimates that New York-area medical care inflation rose 4.4% in 2002. This is marginally higher than 2001, but still the highest calendar-year increase since 1993.
- During 2002, the elderly and disabled represented 27.9% of Medicaid eligibles, but accounted for 69.1% of the State's Medicaid costs.

Medicaid Eligibles in New York  
number of eligibles in millions\*



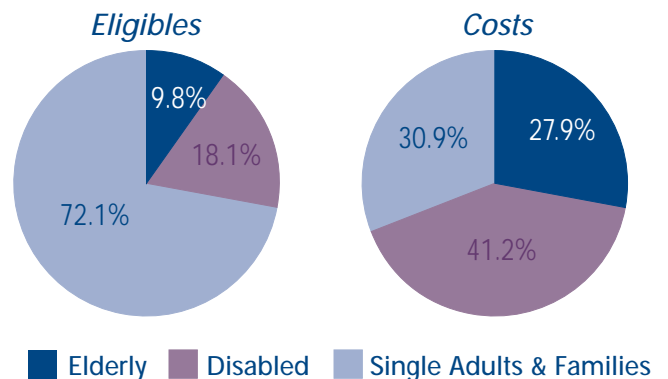
\* Figures rounded to the nearest 1/10th of a million.

New York's Medicaid Costs  
figures in billions\*



\* Figures rounded to the nearest 1/10th of a million.  
\*\* Based upon preliminary data, subject to change.

Medicaid Eligibles and Costs 2002



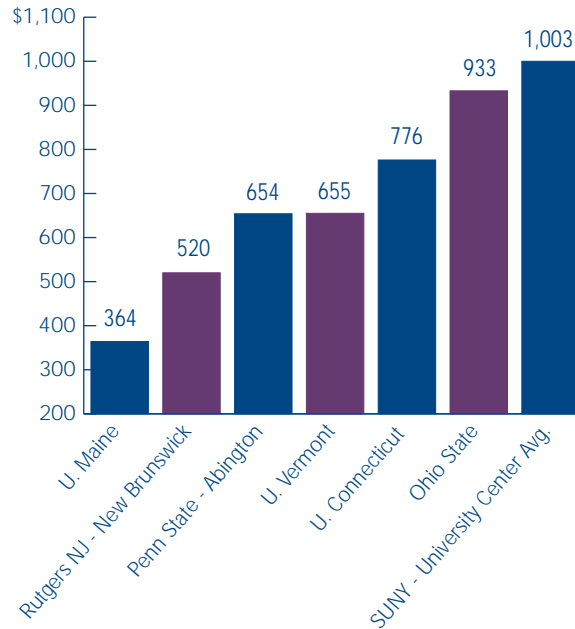
**Medicaid eligibles and Medicaid costs both increased significantly in 2002.**

# EDUCATION

## Higher Education

- Over the past 10 years, New York State has increased its support for higher education by only 33%, while national spending rose by 60%. New York State spends \$200 per person, annually, on higher education — less than the national average of \$222, and ranks 34th among the states.
- For school year 2003-04, full-time, undergraduate tuition at SUNY will increase by \$950, to \$4,350 for residents and by \$2,000 to \$10,300 for non-residents. Full-time, undergraduate tuition at City University of New York institutions will increase by \$800 to \$4,000 at senior colleges and by \$300 to \$2,800 at community colleges.
- Fees, which have increased by 150% since 1995-96, are another important consideration in terms of affordability. When combined, the average cost of undergraduate tuition and fees at SUNY University Centers will increase by more than \$1,000 between 2002-03 and 2003-04.

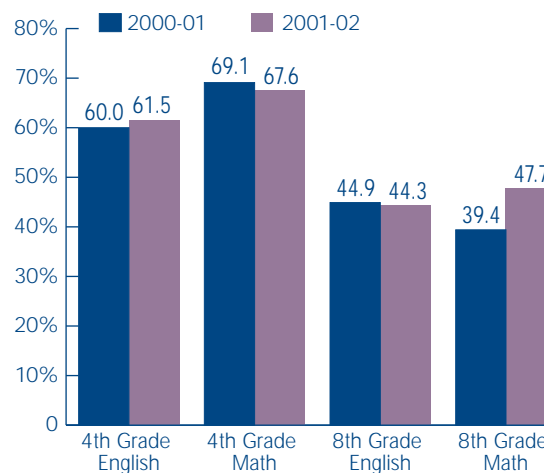
Growth in Tuition and Fees at SUNY Universities per student  
From 2002-03 to 2003-04 Compared to Nearby States



## Elementary and Secondary

- There have been only marginal changes statewide in meeting high educational standards for 2001-02, as shown in the results of the 4th and 8th grades english and math standardized tests. However, for 2001-02, 48% of the State's 8th grade students met the math standards, representing an increase of more than 8% over 2000-01. Despite this advance, improved results are not found across the board, with gaps existing between regions and level of need. These gaps are associated with the varying financial needs of school districts.
- For the first time in 12 years, school aid has experienced a year-to-year decrease in funding. State school aid for 2003-04, totals \$14.5 billion, representing \$199 million or a 1.4% funding level reduction from 2002-03. New York State is credited with making a significant investment in the public elementary and secondary educational system. Specifically, for the 2001-02 school year, New York State had the highest estimated per pupil expenditures at \$10,725, compared to the national average of \$7,524 per pupil. However, for the period 1998 to 2002, New York's per pupil increase in public elementary and secondary education expenditures of 7% was below the national percentage change of 7.8%, when adjusted for inflation, and ranked only 22nd highest.

Percentage of New York Students Meeting Standards



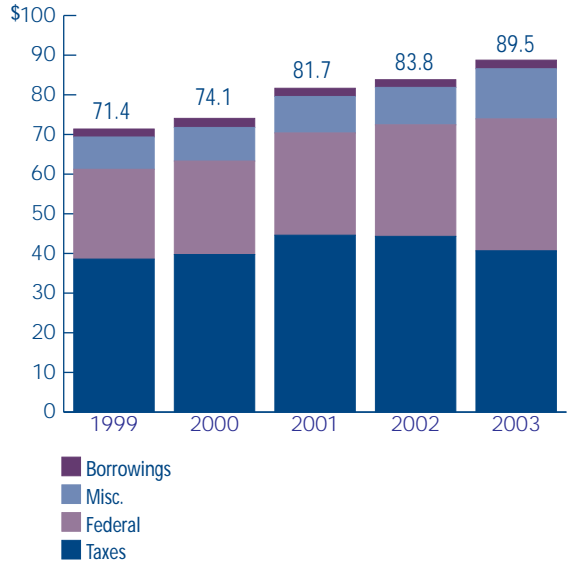
**The State cut funding for schools for the first time in 12 years.**

# TOTAL REVENUES

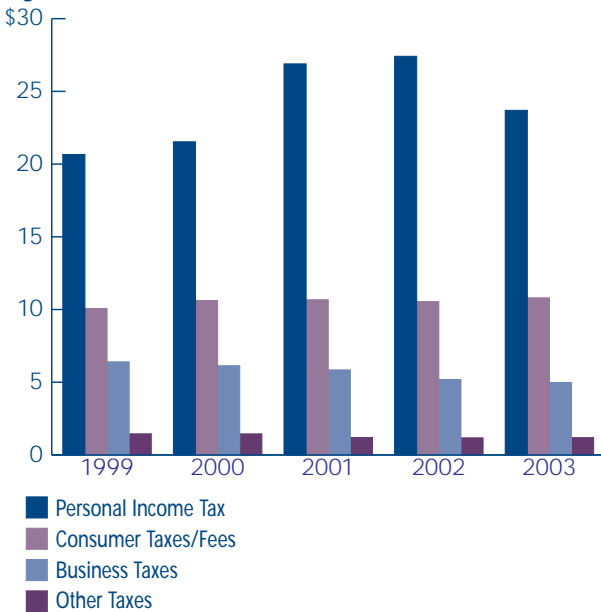
Revenues are affected by economic changes and changes in federal and State policies. Tax base is a measure of the State's ability to generate revenue. A decreasing tax base may force spending reductions and/or increased taxes. Appendix 3 contains State revenues by major source for the past five fiscal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

- Revenues have increased \$17.4 billion (24.3%) since 1999 while personal income has grown at a rate of 17%.
- In 2003, total tax revenues of \$40.7 billion represented a 5.4% increase over 1999 tax revenues.
- Revenues from the Federal Government increased 46.9% since 1999. Medicaid was responsible for the largest increase in federal revenues.
- Personal income tax and consumer taxes and fees accounted for 38.9% of 2003 revenues, and have increased 12.3% since 1999.

Total State Revenues  
figures in billions

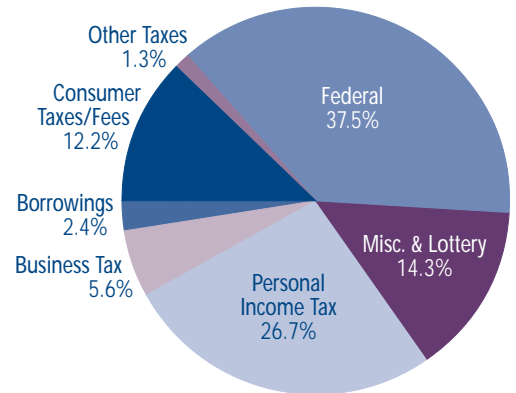


Tax Revenue by Year  
figures in billions



- During fiscal year 2003, the State experienced a 13.6% decline in personal income tax (PIT) revenues — its largest revenue source. The decline in PIT revenues had a corresponding effect on the State's fiscal year 2003 operating results causing the State to implement mid-year spending reductions in an effort to rebalance spending and revenues.

New York's 2003 Revenue Sources



**New York's largest revenue source declined by 13.6% last year.**

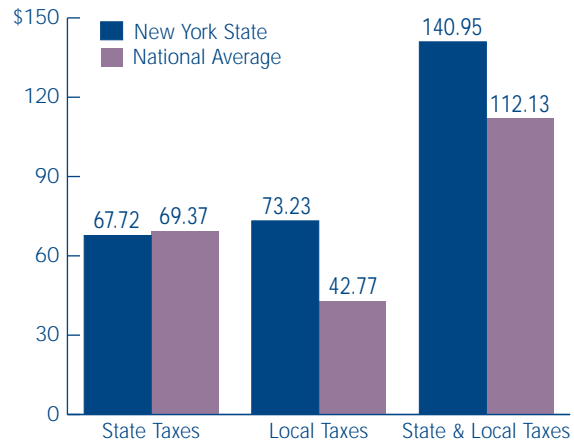


# TAXES

## Where New York Stands

- New York's combined State and local taxes are 26% above the national average per share of personal income, primarily because local taxes are nearly 71% above the national average. State taxes alone are 2% below the national average.
- Using taxes as a share of personal income, New York ranks highest in local taxes and highest in combined State and local taxes. New York State taxes alone ranked 29th among the states.
- One factor contributing to New York's high local tax burden is that, unlike local governments in other states, New York's local governments pay a significant portion of Medicaid costs. Other factors include the large number of local governments and their tendency to provide a broad range of services, many of which are mandated by the State.
- In the past several years, prior to 2003, steps had been taken to reduce the State's tax burden. Multiple year cuts in personal income tax rates have been instituted and homeowners' school property tax payments were reduced under the STAR school property tax relief program. However, the State's 2003-04 fiscal year budget included a reduction in regular aid payments to schools and local governments as well as increased State taxes. This reduced aid and increased State taxes will increase both the State and local government tax burden.

Taxes per \$1,000 of Personal Income  
New York State vs. the National Average,  
Fiscal Year Ending in 2000



**To balance its budget, New York has raised taxes and cut aid to local governments in 2003.**

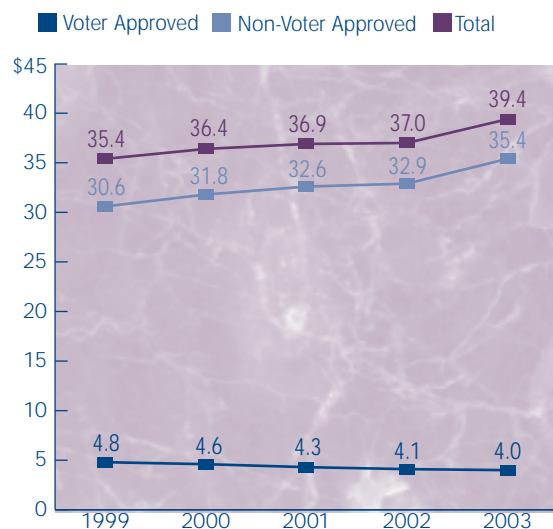
# DEBT

Debt can impact government operations both currently and in the long term. Debt may:

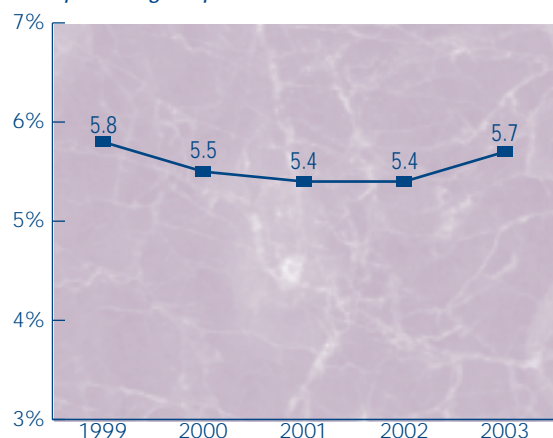
- Indicate that the State is unable to support current programs with current revenues.
  - Force future program reductions or additional borrowing to pay interest costs on the debt.
  - Carry higher interest costs when that debt is not approved by the voters.
- In 2002, New York State continued to have more debt outstanding than any other State, equaling almost one-fifth of the debt outstanding for all other state governments combined and almost 30% more debt than the next most indebted state.
  - Total State-supported debt has increased more than 6% in the last year and almost 16% since 1998.
  - Only 10.2% of outstanding State-supported debt in 2003 is voter approved, compared to 100% in 1960. The amount of non-voter approved debt has continued to increase while voter approved debt has declined.
  - In 2003, New York's outstanding debt per person was \$2,055 which was equal to 5.7% of New Yorkers' personal income.
  - In June 2003, the State's general obligation bond rating was downgraded by one rating agency — Fitch Ratings. The ratings assigned are as follows: A2 by Moody's Investor Services, AA- by Fitch Ratings, and AA, with negative outlook, by Standard & Poor's Investor Services.
  - Debt outstanding is growing faster than the growth in personal income.

**State debt continues to increase.**

New York's Debt  
figures in billions

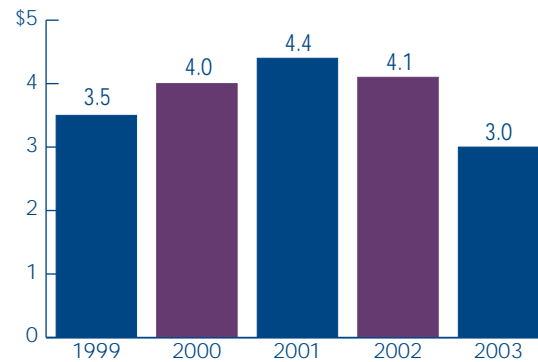


Total State Debt  
as a percentage of personal income

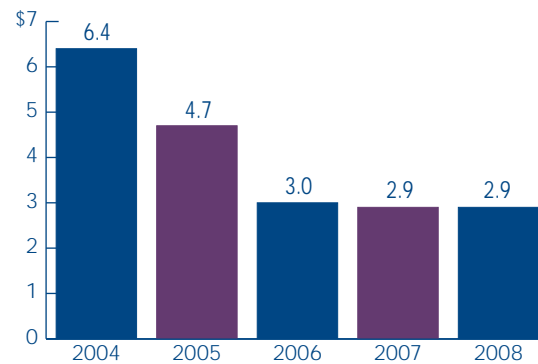


- Debt service expenditures over the past five years have gone up and down largely as a result of budgetary action rather than a change in the cost of debt outstanding. In fiscal years 2000 and 2001, the State released \$591.5 million in reserve funds to pay debt service in advance. Then, in 2003, the State engaged in a series of refunding transactions which refinanced portions of both the principal currently due and interest accrued on certain refunded debt. These refunding transactions involved a restructuring of debt service both in 2003 and immediate future years that provided budgetary relief from debt service.
- Based upon rates in effect and current payment schedules, the future interest cost of repaying all State-supported debt has grown to \$21.8 billion — an increase of \$600 million from last year.
- The State is relying on increased variable rate debt and interest rate swap agreements (a derivative instrument) to lower the cost of borrowing. At March 31 2003, 14.5% of State debt was in variable rate form, 39% of which was subject to variable-to-fixed rate interest rate exchange agreements.
- Future issuance of debt includes all State-supported borrowings identified in the Governor’s Capital Program and Financing Plan as well as other borrowings outside the plan for deficit financing and prior school aid claim liquidation.
- Subsequent to March 31, 2003, the State has sold a portion of its future revenues to one of its component units to obtain long-term deficit financing. The State plans to obtain a total of \$4.2 billion in deficit financing. The State has also arranged to issue \$502 million in bonds to liquidate portions of its unpaid prior year school aid claims. Both these financings are outside the official borrowing plans but will be repaid from resources of the State or resources that would go to the State if not needed to repay debt.
- The State has been collecting an issuance fee on certain debt issued for itself and certain other borrowers. In fiscal year 2002-03, these fees approximated \$152 million.

Debt Service Expenditures in New York  
*figures in billions*



Planned Future Debt Issuances  
*figures in billions*



**The State has planned \$4.2 billion in long-term deficit financing.**

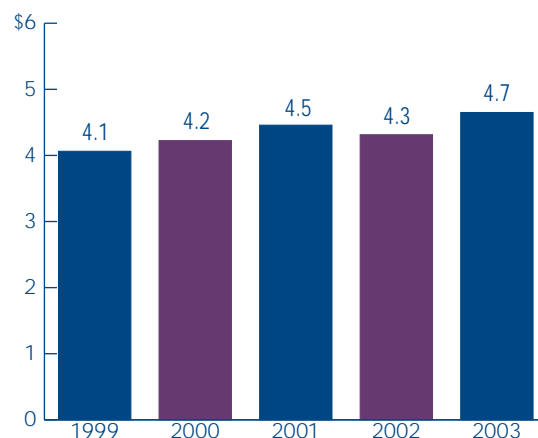
# CAPITAL

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.

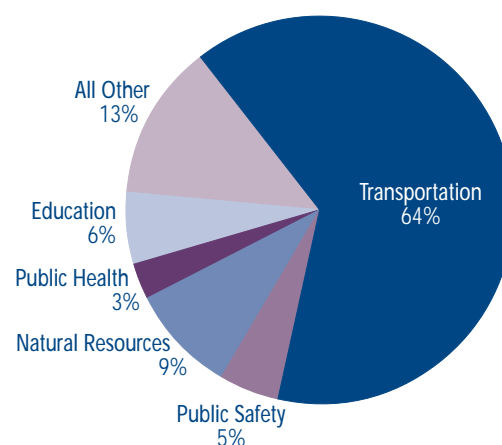
- Overall capital spending in 2003 was \$587 million (14%) higher than in 1998. Transportation-related spending accounts for most of the increase.
- In 1994, the pay-as-you-go share of non-federal capital financing was 51%. Since then, pay-as-you-go financing has averaged 39%.
- In the Capital Program and Financing Plan, spending is projected to be \$4.9 billion in 2007-08. At the same time, the projected share of non-Federal capital spending financed on a pay-as-you-go basis will decrease to an average 32.5% over the 5-year period.
- At March 31, 2003 the State reported \$81.9 billion in capital assets, an increase of \$1.6 billion or 2% from the prior year. Capital assets include buildings, construction in progress, equipment, land preparation, and infrastructure such as roads and bridges.

**New York reported \$81.9 billion in capital assets at March 31, 2003.**

New York Capital Spending  
*figures in billions*



2003 Capital Spending by Program



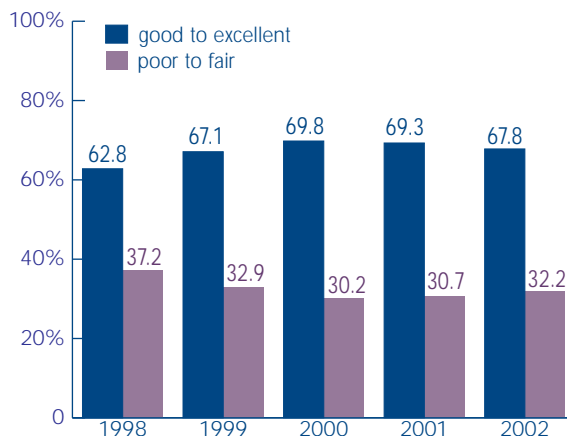


# ROADS AND BRIDGES

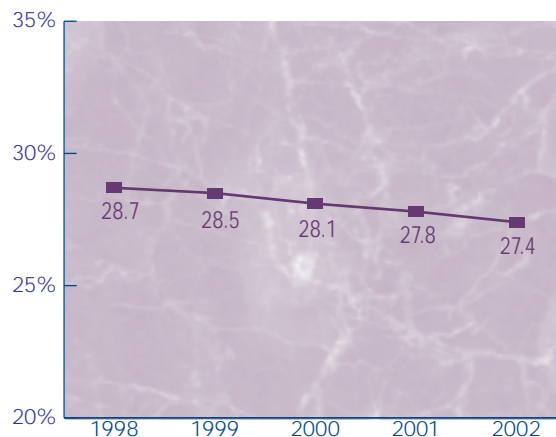
Data on the condition of highways and bridges, as provided by the State Department of Transportation, provide insight into the quality of infrastructure which is used daily by residents and businesses.

- The State is responsible for maintaining more than 42,000 lane miles of highway.
- The number of highway lane miles rated poor/fair has improved by 13.1% since 1998.
- In 2002, 67.8% of the State's highways were rated good or excellent, an 8.4% improvement since 1998.
- The State is responsible for maintaining more than 7,700 bridges, of which 27.4% were rated deficient in 2002, as compared to 28.7% in 1998, reflecting a 4.1% improvement.
- The State's 2002 percentage (27.4%) of deficient bridges compares to the nationwide percentage of 22.5%. A deficient rating means it is either structurally or functionally deficient, but not a current safety threat.

Highway Condition Rating in New York  
As a percentage of total lane miles



Deficient Bridges in New York  
Percent deficient



# GOVERNMENT-WIDE FINANCIAL DATA

In 2003, New York State implemented new accounting standards which required issuance of new financial statements that report financial position and activities of the State as a whole using the full accrual method of accounting. These new 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 revenue 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 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.

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

**The State is now reporting its financial position with a longer-term view.**

## Condensed Statement of Activities – Primary Government

For the year ended March 31, 2003  
(figures in millions)

Functions/Programs	Expense	Program Revenue	Net Expense
<b>Governmental activities:</b>			
Education	\$ 21,215	\$ 2,628	\$ (18,587)
Public health	35,427	24,636	(10,791)
Public welfare	11,230	9,046	(2,184)
Public safety	4,948	1,727	(3,221)
Transportation	6,043	1,554	(4,489)
Environment and recreation	1,163	552	(611)
Support and regulate business	873	475	(398)
General government	6,467	802	(5,665)
Interest on debt	1,206	—	(1,206)
<b>Total governmental activities</b>	<b>88,572</b>	<b>41,420</b>	<b>(47,152)</b>
<b>Business-type activities:</b>			
Lottery	3,717	5,396	1,679
Unemployment insurance	4,590	3,911	(679)
State University of New York	5,484	3,428	(2,056)
City University of New York	1,852	1,127	(725)
<b>Total business-type activities</b>	<b>15,643</b>	<b>13,862</b>	<b>(1,781)</b>
<b>Total primary government</b>	<b>\$ 104,215</b>	<b>\$ 55,282</b>	<b>(48,933)</b>
<b>General revenues and net transfers:</b>			
Taxes			39,612
Other			4,597
Net transfers			(746)
<b>Total general revenues and net transfers</b>			<b>43,463</b>
<b>Change in Net Assets (decrease)</b>			<b>\$ (5,470)</b>

## Condensed Statement of Net Assets – Primary Government

As of March 31, 2003 (figures in millions)

	Governmental Activities	Business-type Activities	Total
<b>Assets:</b>			
Cash and investments	\$ 7,833	\$ 5,652	\$ 13,485
Receivables, net	12,982	2,975	15,957
Internal balances	(211)	513	302
Other assets	846	201	1,047
Capital assets	76,237	5,695	81,932
<b>Total Assets</b>	<b>97,687</b>	<b>15,036</b>	<b>112,723</b>
<b>Liabilities:</b>			
Tax refunds payable	4,708	-	4,708
Payable to local governments	5,248	-	5,248
Accrued liabilities & accounts payable	6,972	1,070	8,042
Other liabilities due within one year	2,475	2,142	4,617
Liabilities due in more than one year	35,888	9,324	45,212
<b>Total liabilities</b>	<b>55,291</b>	<b>12,536</b>	<b>67,827</b>
<b>Net Assets:</b>			
Invested in capital assets net of related debt	60,823	(520)	60,303
Restricted for debt service and other purposes	2,419	2,151	4,570
Unrestricted (deficit)	(20,846)	869	(19,977)
<b>Total Net Assets</b>	<b>\$ 42,396</b>	<b>\$ 2,500</b>	<b>\$ 44,896</b>

# FUND FINANCIAL DATA

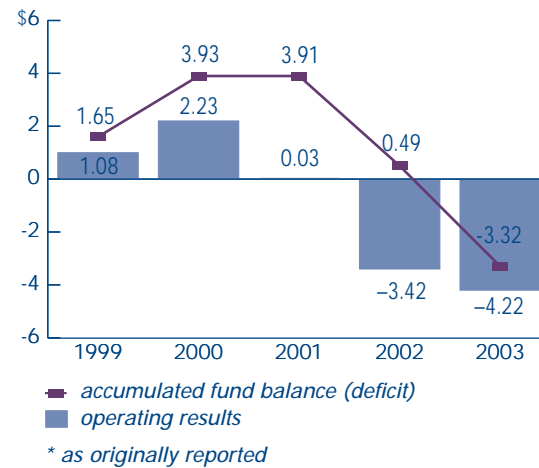
As in the past, the State continues to prepare fund financial statements. Funds present sources of funding and spending for particular purposes. The General Fund is used to report sources of funds and expenditures that are not required to be accounted for in another separate fund. In New York, significant 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.

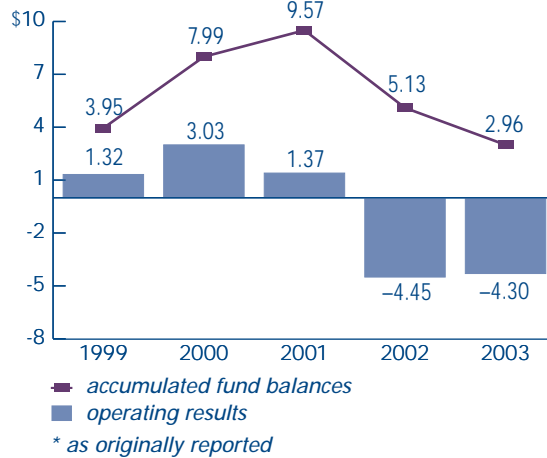
Subsequent to March 31, 2003, the State obtained \$2.2 billion in net proceeds from borrowing that were used to pay liabilities of the General Fund at March 31, 2003. The use of these borrowed funds had the effect of removing a like amount of the General Fund accumulated deficit reported at March 31, 2003. This transaction is a long-term deficit financing and has the effect of shifting a portion of this year's costs to future years. On the Statement of Net Assets (condensed version on the preceding page) this borrowing would have the effect of substituting accrued liabilities with long-term obligations due in more than one year. On the Statement of Activities it would have no effect.

- The relationship between fund operating results and accumulated fund balance (deficit) is graphically depicted above.
- The State has experienced operating deficits in each of the past two years that have caused a \$3.3 billion accumulated General Fund deficit and significantly reduced the combined governmental funds fund balance.

General Fund Operating Results vs. Accumulated Fund Balance (Deficit)\*  
figures in billions



Governmental Funds Operating Results vs. Accumulated Fund Balances\*  
figures in billions



**New York has experienced two consecutive years of operating deficits.**

# LOCAL GOVERNMENT

Local governments provide essential public services, some of which are partially State-funded and virtually all of which operate under State regulation and mandates. In the current economic environment, local governments face increased fiscal pressures. In turn, this affects the State government, which will be called upon to intervene when local fiscal conditions become untenable.

To close its 2003-04 budget gap, the City of New York requested the State to enact additional local taxes and provide additional aid payments equal to \$2.7 billion. The State responded by enacting a different package of new local taxes and additional aid that provided the City with the necessary gap-closing assistance. The State also recently created a control board to oversee the finances of the City of Buffalo.

## Spending

- Local spending totaled \$108 billion in 2001-up 23% since 1997.
- At 27% of total expenditures in 2001, education represented the largest spending category.

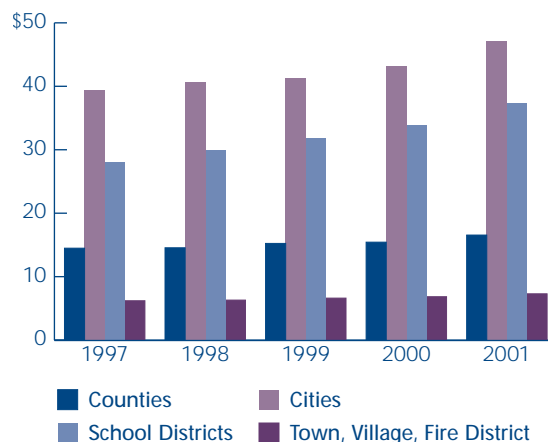
## Revenue

- In 2001, sales tax (the majority of non-property tax collections) accounted for 24% of county revenue and 18% of city revenue.
- Between 1996 and 2002, the real property tax base increased 32% in towns, but decreased 5.5% in the larger cities.
- In cities and school districts, property tax revenues have increased faster than the tax base has grown, meaning tax rates have increased.

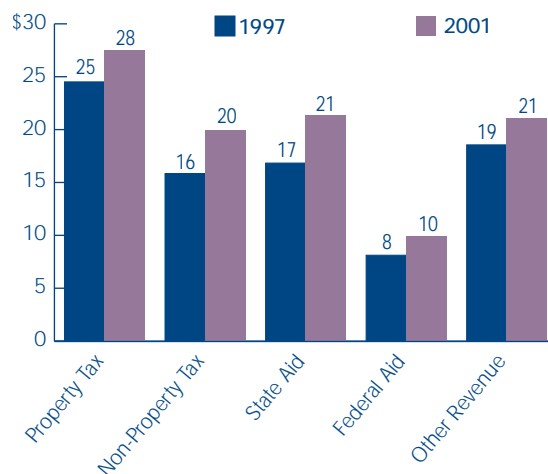
## Debt

- Between 1997 and 2001 local government debt increased \$12.1 billion, or 24%.

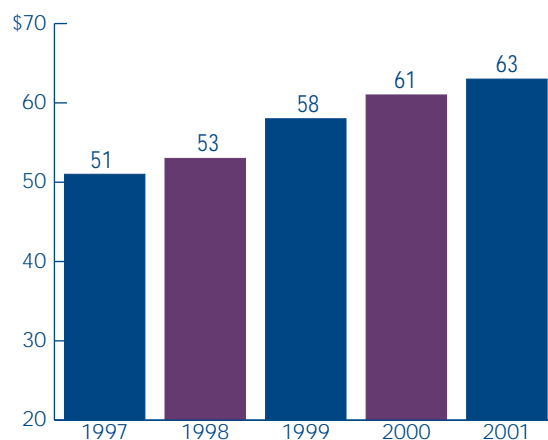
Local Government Spending  
figures in billions



Local Government Revenue  
figures in billions



Local Government Debt  
figures in billions

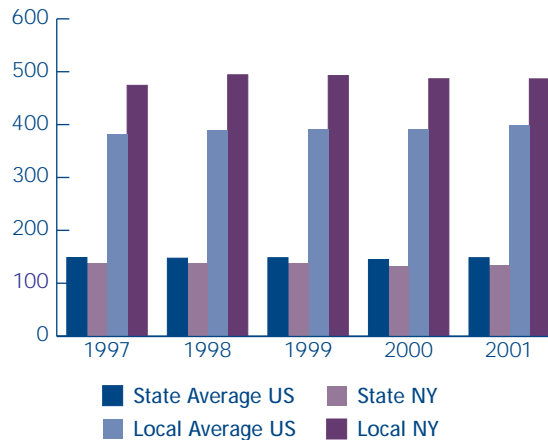




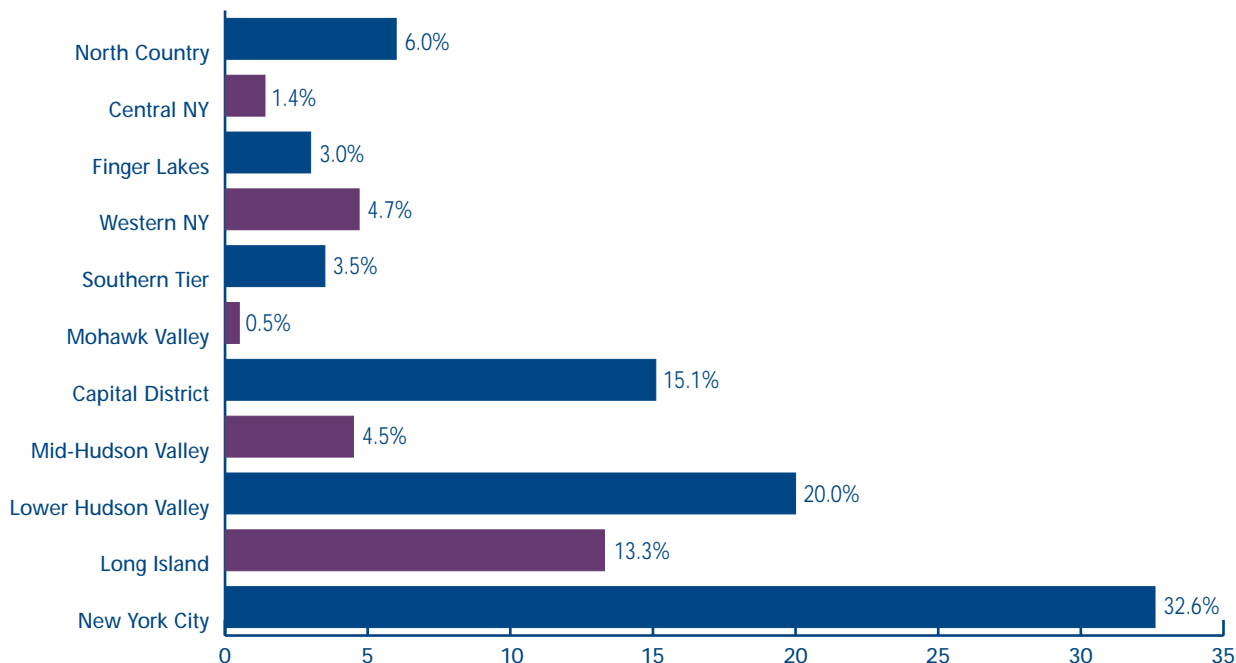
## Employment and Job Growth

- The State continues to employ fewer employees per 10,000 population than the national average.
- The number of local government employees per 10,000 population has consistently and significantly exceeded the national average. In 2001, New York had 487 local government employees per 10,000 population versus the national average of 398.
- In May 2003, unemployment rates across New York State were highest in Bronx County (9.7%), Kings County (9.1%), Oswego County (8.9%), and New York County (8%), while the lowest rates occurred in the counties of Dutchess (3.8%), Saratoga (3.4%), Albany (3.3%), and Putnam (3.2%).
- The most recently available data shows that between 1989 and 2001, the State's real wage income increased by 21.5%. Overall, the largest gains occurred in New York City (32.6%), while the weakest real wage increase was in the Mohawk Valley, which had only a 0.5% increase during this period. However, nearly all areas of the State experienced a real wage decline in 2001, the last year of this period, driven mostly by job losses in that year.

State and Local Government Employment  
number of employees per 10,000 population



Changes in Real Wages and Salaries by Region, 1989–2001  
in 2001 dollars



Wages have grown the most downstate.

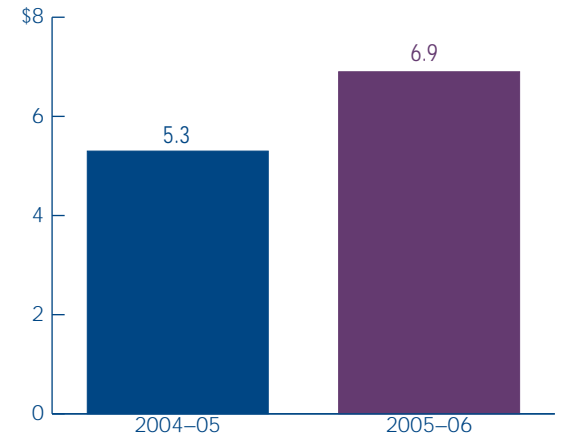
# IMPLICATIONS FOR THE FUTURE

The State enjoyed six years of budget surplus due to unanticipated revenues generated by a strong economy. However, in March 2001, the economy entered a recession and revenue collection slowed significantly. The weak economy, fueled by stock market scandals, the recent conflict in Iraq, and the tragic events of September 11 further inhibited receipts, leading to two years of severe fiscal instability. The State budget over the last two fiscal years has relied on the use of nearly \$12 billion in non-recurring resources, exacerbating future budget gaps.

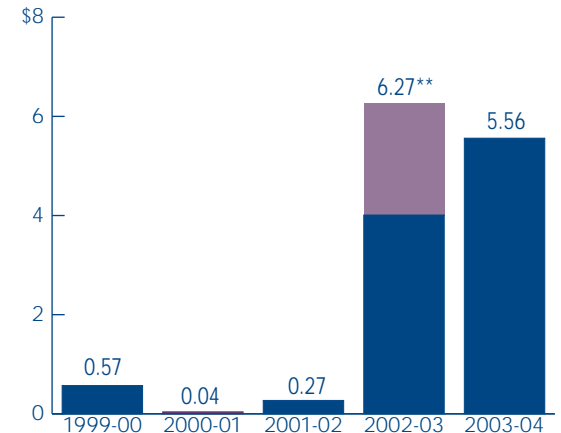
Over the last two years, the State's use of non-recurring resources has increased exponentially, increasing from \$270 million in 2001-02 to \$6.3 billion to end the 2002-03 fiscal year in balance, reflecting an increase of over 2,300%. The 2003-04 enacted budget plans on utilizing another \$5.6 billion.

- The 2003-04 budget utilized a myriad of non-recurring resources, including fund raids, acceleration of the receipt of federal funds, delayed payments and the securitization of \$4.2 billion in tobacco funds to balance the year's financial plan.
- The Comptroller estimates outyear gaps of \$5.3 billion and \$6.9 billion for 2004-05 and 2005-06, respectively. The use of non-recurring resources, coupled with increased spending, further adds to the State's structural gaps and has other negative implications for the State. While the State has effectively overcome large gaps in the past, the continued use of non-recurring resources and questionable debt practices to balance the State's finances avoids sound long-term budget planning needed to restore the State to financial wellness.

Outyear Gaps\*  
figures in billions



Non-Recurring Resources in Enacted Budgets\*\*  
figures in billions



\* Office of the State Comptroller estimates of outyear gaps.

\*\* The 2002-03 enacted budget required \$4.01 billion in non-recurring resources to achieve balance. The 2003-04 proposed budget added an additional \$1.9 billion in the form of reduced debt service and proceeds from tobacco securitization (borrowing). When agreement could not be reached on tobacco securitization, the State utilized an additional \$2.26 billion in non-recurring actions, including the deferment of \$1.9 billion in 2002-03 payments to 2003-04 and \$360 million in one-time debt service savings.

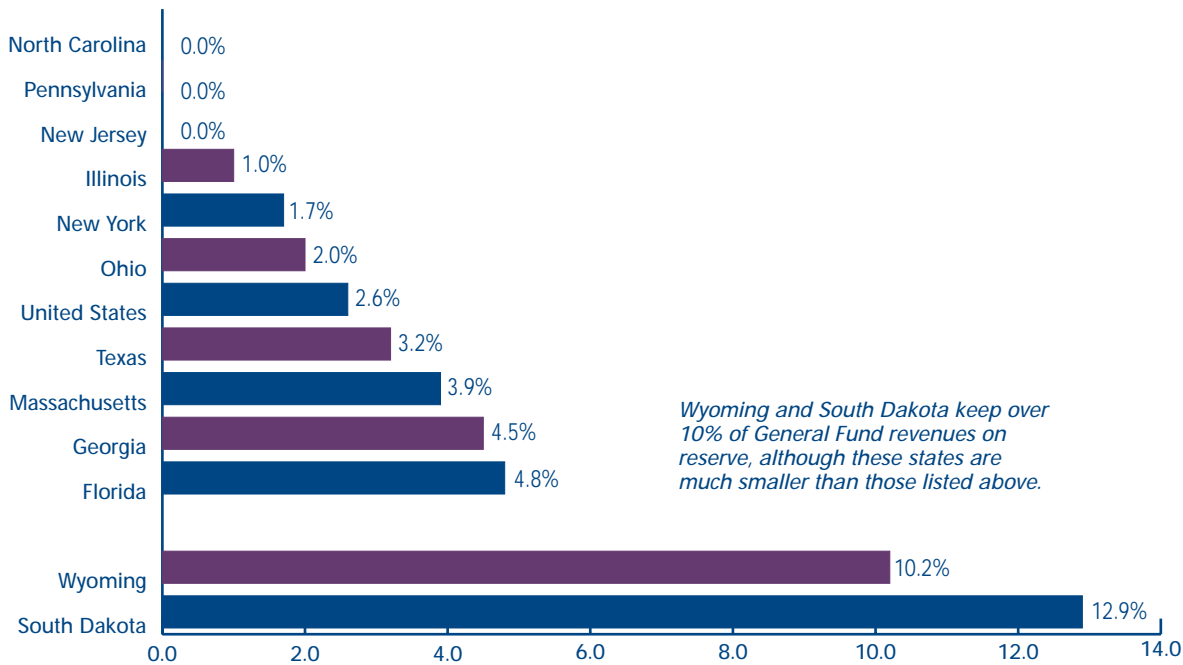
In 2001, the State’s true rainy day reserve that is set aside for use in times of economic downturn was well below the national average of 3.8%. The decline to the current national average of 2.6% is primarily due to the recent use of reserves in other states throughout the country in the last year.<sup>1</sup> Compared to the national average and the top 10 states (as measured by General Fund revenues) with positive balances, the State ranks in the lower half with less than 2% of general fund revenues put aside in true reserves. This stands in contrast to other states of similar size that keep over 2% of general fund revenues in reserve; and Wyoming and South Dakota, that keep 10% and 13%, respectively.

Over the past decade, the State has consistently projected budget gaps in future years. This structural imbalance — the condition of spending growth being greater than underlying revenue growth — is the most prominent sign of the State’s precarious financial condition.

Even though the State has faced continual structural deficits, including an 18-month, nearly \$12 billion shortfall, its rainy day fund (Tax Stabilization Reserve Fund) has not been utilized. Instead, the State has turned to unrestricted reserves, tax and fee increases, and administrative actions, along with fiscal gimmicks like fund raids, debt, and delayed payments to address shortfalls.

These harmful practices are magnified because the State puts little emphasis on long-term planning, such as the establishment of meaningful and restricted reserves. The Comptroller advocates meaningful budget reform that includes long-term planning 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.

Rainy Day Funds of Top 10 States – Fiscal Year 2002 Actual\*



*Wyoming and South Dakota keep over 10% of General Fund revenues on reserve, although these states are much smaller than those listed above.*

\*Includes rainy day funds that are net positive, thus excluding California.

<sup>1</sup> California is not included in this analysis because they have a negative reserve balance that is largely funded with short-term debt. The states considered in this analysis have either zero or positive fund balances.

# APPENDIX 1

## State Funds Spending by Major Service Function

*figures in millions*

STATE FUNDS SPENDING FOR THE YEAR ENDED MARCH 31:	1999	2000	2001	2002	2003
<b>EDUCATION</b>	\$17,874	\$19,365	\$21,464	\$23,123	\$22,158
Public Schools	12,682	13,286	14,285	15,338	14,333
State University of New York	3,257	3,549	3,903	3,823	4,176
School Tax Relief (STAR)	582	1,195	1,877	2,510	2,664
City University of New York	648	637	684	685	597
Tuition Assistance Program	631	626	639	690	310
Higher Education Services	74	72	76	77	78
<b>PUBLIC HEALTH</b>	9,959	10,288	10,803	11,916	13,001
Health and Mental Health Services	2,514	2,592	2,858	3,378	3,381
Medical Assistance (Medicaid)	7,445	7,575	7,877	8,456	9,467
Payments made by the Dormitory Authority	—	121	68	82	153
<b>PUBLIC WELFARE</b>	3,722	3,426	3,522	3,423	2,832
Public Welfare	3,347	3,061	3,159	3,029	2,418
Public Housing	195	184	167	188	208
Employment Services	180	181	196	206	206
<b>PROTECT THE PEOPLE</b>	2,800	2,724	2,943	2,975	2,986
Criminal Justice & Correctional Alternatives	842	852	884	904	891
Emergency Management & Security Services	46	39	38	54	86
Prisons and Reformatons	1,912	1,833	2,021	2,017	2,009
<b>TRANSPORTATION</b>	3,926	3,875	3,806	3,758	4,074
Traffic Safety	182	187	184	190	188
Transportation	3,431	3,361	3,374	3,299	3,608
Payments Made by the New York State Thruway Authority	313	327	248	269	278
<b>PRESERVATION OF NATURAL AND CULTURAL RESOURCES</b>	847	792	956	888	845
Environmental Protection	567	523	596	570	538
Parks, Recreation & Historic Preservation	228	217	306	266	256
Cultural Programs	52	52	54	52	51
<b>SUPPORT AND REGULATE BUSINESS</b>	490	507	575	579	562
Commerce, Industry, & Agriculture	309	324	377	375	341
Regulate Business	181	183	198	204	221
<b>SHARE GENERAL REVENUES WITH LOCAL GOVERNMENTS</b>	914	923	980	832	963
<b>REPAY BORROWED MONEY AND REDUCE DEBT</b>	3,275	3,577	4,083	4,143	3,038
<b>OPERATE THE STATE GOVERNMENT</b>	4,883	5,096	5,625	5,904	6,251
Other Executive Agencies	825	890	965	948	1,011
Office of the State Comptroller	101	110	129	143	156
Office of the Attorney General	104	115	129	139	146
Legislature	183	192	196	208	219
Court Administration	1,140	1,156	1,309	1,393	1,456
Pension Contributions & Other Employee Benefits	2,257	2,382	2,612	2,719	2,958
Other	273	251	285	354	305
<b>TOTAL STATE FUNDS SPENDING</b>	<u>\$48,690</u>	<u>\$50,573</u>	<u>\$54,757</u>	<u>\$57,541</u>	<u>\$56,710</u>



# APPENDIX 2

## Federal Funds Spending by Major Service Function

*figures in millions*

FEDERAL FUNDS SPENDING FOR THE YEAR ENDED MARCH 31:	1999	2000	2001	2002	2003
<b>EDUCATION</b>	\$1,946	\$2,147	\$2,260	\$2,371	\$3,024
Public Schools	1,823	2,025	2,124	2,210	2,466
State University of New York	120	117	131	144	166
Tuition Assistance Program	3	5	5	11	385
Higher Education Services	—	—	—	6	7
<b>PUBLIC HEALTH</b>	14,834	15,895	16,949	18,125	20,772
Health and Mental Health Services	2,728	2,920	3,235	3,165	3,380
Medical Assistance (Medicaid)	12,106	12,975	13,714	14,960	17,392
<b>PUBLIC WELFARE</b>	4,026	3,286	4,250	4,890	5,840
Public Welfare	3,522	2,863	3,685	4,231	5,031
Public Housing	22	16	15	15	14
Employment Services	482	407	550	644	795
<b>PROTECT THE PEOPLE</b>	238	357	306	817	1,322
Criminal Justice & Correctional Alternatives	64	74	88	126	115
Emergency Management & Security Services	90	76	109	614	1,112
Prisons and Reformatons	84	207	109	77	95
<b>TRANSPORTATION</b>	909	955	933	1,030	1,158
Traffic Safety	7	7	10	11	15
Transportation	902	948	923	1,019	1,143
<b>PRESERVATION OF NATURAL AND CULTURAL RESOURCES</b>	146	258	351	307	281
Environmental Protection	143	255	348	302	273
Parks, Recreation & Historic Preservation	3	3	3	4	7
Cultural Programs	—	—	—	1	1
<b>SUPPORT AND REGULATE BUSINESS</b>	8	7	13	15	45
Commerce, Industry, & Agriculture	7	7	11	14	44
Regulate Business	1	-	2	1	1
<b>SHARE GENERAL REVENUES WITH LOCAL GOVERNMENTS</b>	66	66	77	95	101
<b>OPERATE THE STATE GOVERNMENT</b>	147	170	174	204	233
Other Executive Agencies	21	21	22	27	27
Office of the Attorney General	20	16	18	19	22
Court Administration	-	4	3	3	5
Pensions and Other Employee Benefits	106	129	131	155	179
<b>TOTAL FEDERAL FUNDS SPENDING</b>	<u>\$22,320</u>	<u>\$23,141</u>	<u>\$25,313</u>	<u>\$27,854</u>	<u>\$32,776</u>

## APPENDIX 3

## STATE REVENUES BY MAJOR SOURCE

*figures in millions*

STATE REVENUES FOR THE YEAR ENDED MARCH 31:	1999	2000	2001	2002	2003
TOTAL TAXES	\$38,580	\$39,729	\$44,607	\$44,315	\$40,675
PERSONAL INCOME TAX	20,662	21,533	26,892	27,414	23,698
CONSUMER TAXES AND FEES	10,067	10,614	10,670	10,543	10,804
Sales Tax	7,912	8,532	8,732	8,540	8,796
Motor Vehicle Fees	552	531	495	584	612
Cigarette and Tobacco Products Taxes	667	643	528	532	446
Motor Fuel Tax	502	519	510	489	544
Alcohol Beverage Tax	231	200	211	212	222
Highway Use Tax	169	150	155	148	147
Auto Rental Tax	34	39	39	38	37
BUSINESS TAXES	6,401	6,134	5,846	5,185	4,983
Corporation Franchise Tax	2,262	2,168	2,631	1,702	1,612
Corporation and Utilities Taxes	1,728	1,692	1,009	1,218	1,091
Insurance Taxes	743	658	644	696	776
Bank Tax	635	611	591	566	481
Petroleum Business Tax	1,033	1,005	971	1,003	1,023
OTHER TAXES	1,450	1,448	1,199	1,173	1,190
Real Property Gains Tax	29	15	6	5	5
Estate and Gift Taxes	1,071	1,055	758	767	708
Pari-Mutuel Taxes	37	36	29	30	29
Real Estate Transfer Tax	312	340	405	370	447
Racing and Boxing Exhibition Taxes	1	2	1	1	1
LOTTERY INCOME	1,576	1,496	1,587	1,713	1,931
FEDERAL GRANTS	22,645	23,570	25,786	28,124	33,256
OTHER REVENUES	6,567	6,981	7,605	7,727	10,713
Student Tuitions and Fees	1,172	1,219	1,079	1,149	1,174
Hospital Patient Fees	1,016	952	931	1,073	1,290
Income from Investments	335	365	581	427	77
Abandoned Property	268	286	305	407	729
Reimbursement of Advances	596	997	748	692	883
Transfers from Public Benefit Corporations	88	68	124	138	572
Regulatory Assessments	1,899	1,695	1,764	1,853	2,740
Tobacco Control & Insurance Initiatives Pool	-	-	373	495	1,258
Transfers from Tobacco Settlement Fund	-	-	328	91	90
Miscellaneous Licenses, Fees and Other	1,193	1,399	1,372	1,402	1,700
Loans from HCRA Pools	-	-	-	-	200
BORROWED AND ADDED TO DEBT	2,012	2,289	2,073	1,930	2,174
Bonds and Notes Issued by the State	249	208	219	211	245
Public Authority Financings <sup>1</sup>	1,763	2,081	1,854	1,719	1,929
TOTAL STATE REVENUES	<u>\$71,380</u>	<u>\$74,065</u>	<u>\$81,658</u>	<u>\$83,809</u>	<u>\$88,749</u>

<sup>1</sup> Amount includes financing from the NYS Thruway Authority and the Dormitory Authority of the State of New York.



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## DATA SOURCES

Office of the State Comptroller

NYS Division of the Budget

NYS Department of Labor

NYS Department of Health

NYS Department of Taxation and Finance

NYS Department of Transportation

NYS Education Department

Grapevine Study, Illinois State University

State Statistical Trends – Public School Finance,  
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and Bureau of Economic Analysis

U.S. Department of Labor — Bureau of Labor Statistics

Moody's Investors Services

The Fiscal Survey of States: June 2003,  
National Association of State Budget Officers

**Comptroller's Report on the  
Financial Condition of New York State  
Alan G. Hevesi**

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