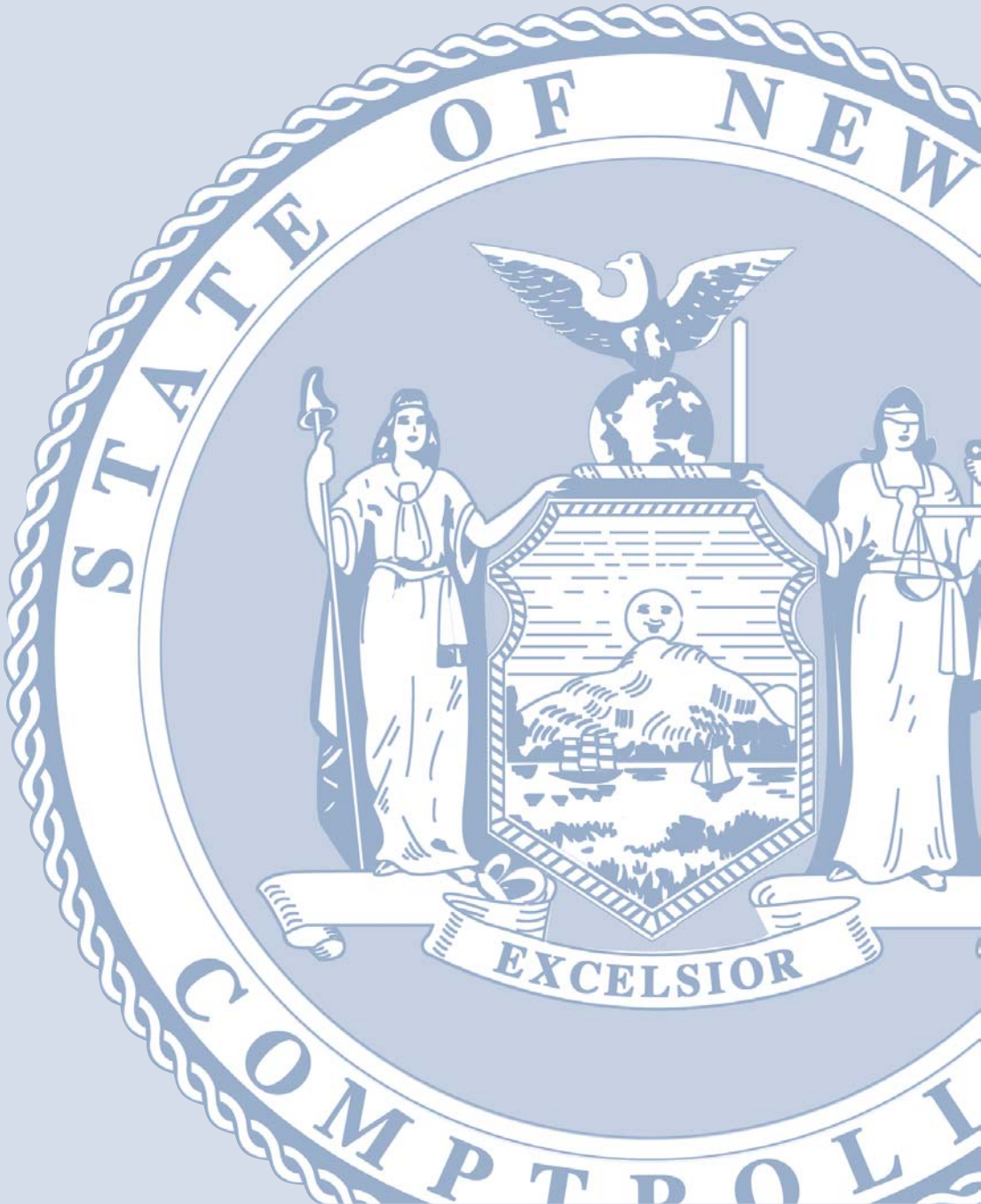
STATE OF NEW YORK
Comptroller's Office

2004 Comptroller's Report on the Financial Condition of New York State

ALAN G. HEVESI



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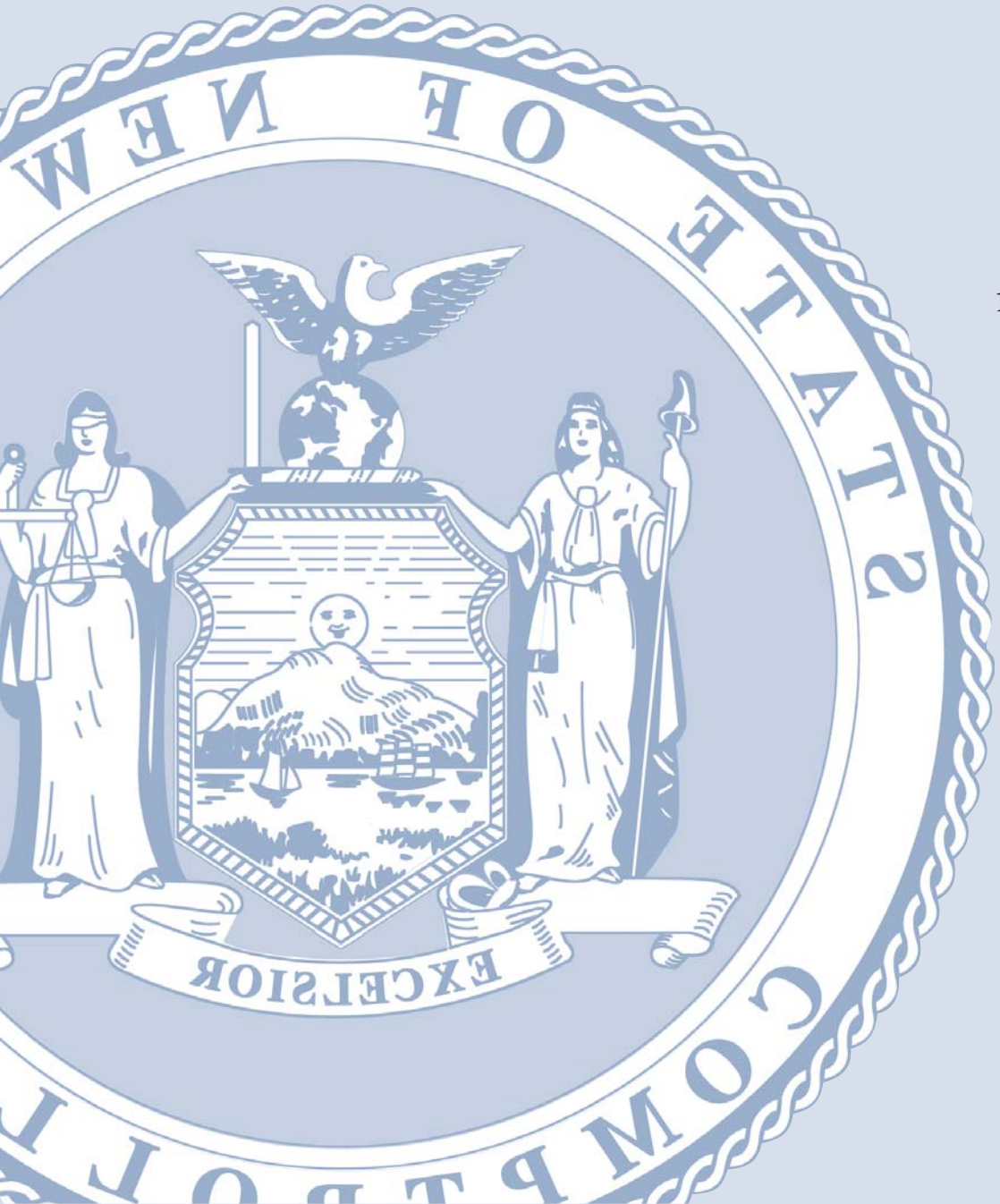

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Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

STATE OF NEW YORK

For the fiscal year ending March 31, 2003

President

Executive Director

COMPTROLLER'S 2004 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 2003 Financial Condition Report.

Message from the Comptroller

Alan G. Hevesi

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 position and operations affect taxpayers and it details many of the factors by which the State's fiscal health is measured.

At the end of the 2003-2004 fiscal year, the State's General Fund was able to report an operating surplus of $3 billion, largely as a result of using the proceeds of tobacco bonds to pay operating expenses. It makes sense to issue bonds to finance lasting improvements, like infrastructure, that will benefit future generations. However, the tobacco bonds force future taxpayers to pay for current operating expenses, and that is in violation of sound financial principles. The State has been too quick to issue debt in response to State needs. Last year the State's outstanding debt grew by nearly twenty percent to $47 billion, with most of this debt issued by public authorities.

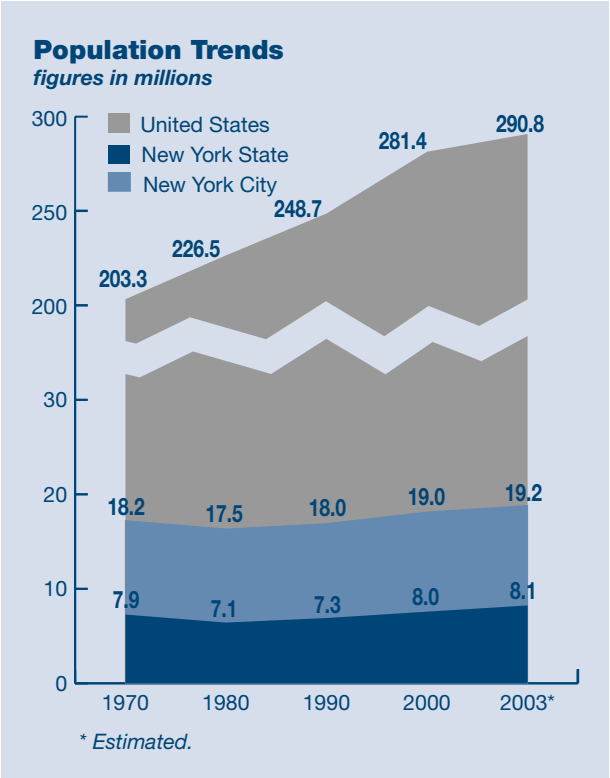
New York State relies on its public authorities not only to issue debt but also to build infrastructure, operate mass transit, deliver energy, promote economic development and accomplish many other governmental purposes. Many of these entities do good and important work, but my Office has found too many instances of waste, abuse and mismanagement. This year, with support from Attorney General Eliot Spitzer and a broad-based coalition of business, civic, environmental, labor, and good government groups, I have called for major reform to hold authorities accountable and ensure that they use their resources to serve the important public tasks they have been given.

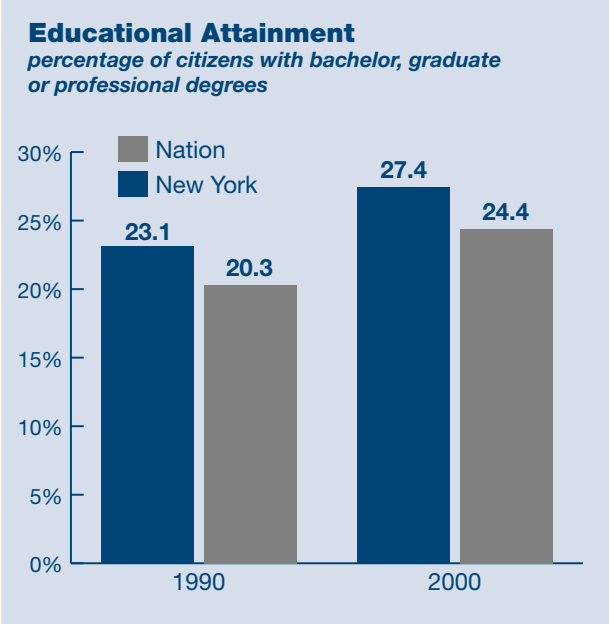
New Yorkers support the work of public authorities through their tolls and taxes. They deserve to know how their money is being spent and how assets of the State are being managed. With the finances of our State so dependent on public authorities, I will continue to use the resources and powers of my Office to press for transparency and integrity in their operations.

New York's economic outlook calls for the careful management of all State resources. Although New York's economy finally began to grow after over two years of decline, the State's economy is still not strong enough. New York has not regained the number of jobs we had in 2000 when the economy reached its peak, and New York's gains have not been as big as the rest of the country. Federal monetary policy changes to control inflation may have an impact on further economic growth in New York and I am urging caution as we plan for the future.

Unfortunately, for the twentieth straight year, the State budget was late, and months passed with no financial plan in place. A court-imposed deadline to fix the financing system for New York City public schools expired and required court intervention. Local governments, school districts and not-for-profit organizations have been forced to manage their budgets with no certainty about the level of State support. New York State is missing the opportunity to responsibly plan for its financial future.

This report is intended to provide citizens with a better understanding of the strengths of New York and the fundamental challenges that our State faces. My Office will continue to highlight opportunities for improvement in government, through our audits and reviews of State agencies, local governments and public authorities. But it is citizen involvement that will lead to the reforms that are needed to assure a better future for New York.





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 but began to rise again in the 1980s. Between 1980 and 2000, it has increased just 8.4%, while the US population has increased by 24.2%. Most of the State's population growth occurred in the 1990s. The Census Bureau estimates that the State's population grew by 1.1% between the 2000 Census and the middle of 2003, while the nation's population increased 3.3% 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 1%. 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.

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
	2001-2003	2003-04	2004	2001-2003	2003-04	2004
Manufacturing	-14.4%	-3.9%	596	-13.1%	-2.4%	14,283
Construction & Mining	-4.4%	-0.1%	305	-2.7%	2.5%	7,161
Trade, Transportation, and Utilities	-4.0%	0.2%	1,459	-3.2%	0.3%	25,165
Information	-15.2%	-1.3%	275	-12.8%	-1.8%	3,160
Financial Activities	-6.5%	0.8%	697	2.1%	0.7%	7,970
Professional and Business Services	-6.8%	0.7%	1,036	-4.9%	2.2%	16,094
Educational and Health Services	5.1%	2.0%	1,529	6.7%	1.9%	16,889
Leisure and Hospitality	0.3%	1.8%	630	0.9%	1.4%	12,006
Other Services	1.5%	-0.1%	347	3.6%	-0.1%	5,371
Government	1.6%	-0.3%	1,495	3.2%	-0.3%	21,830
Total	**-2.9%**	**0.3%**	**8,369**	**-1.8%**	**0.5%**	**129,929**

**Average nonagricultural employment for five months ended May 2001, 2003, and 2004 (not seasonally adjusted)*

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 2.9% during the first five months of 2003 compared to the same period in 2001, while the nation lost jobs at a rate of 1.8%. The industries in the State that were hit the hardest were manufacturing, information, financial activities, and professional and business services. Most of the State's job losses during the recession were concentrated in New York City, although there were also significant declines in the major upstate metropolitan areas of Binghamton, Buffalo, Elmira, and Rochester. However, job growth continued in some areas, such as parts of the Hudson Valley.

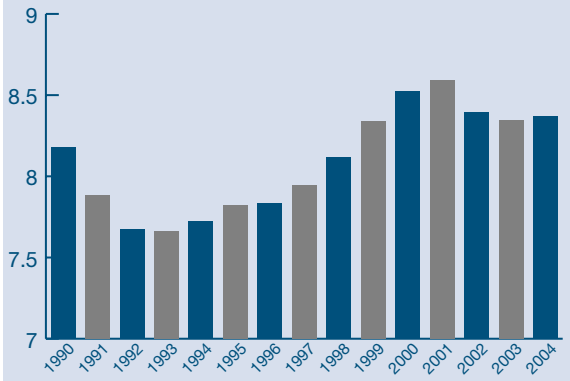
The State's economy has begun to recover from the last recession. For the first five months of 2004 compared to the same period of 2003, employment in the State rose 0.3%. Employment in New York City has begun to grow again, and declines have ceased in several upstate cities. Areas that grew or had few job losses during the recession — such as Long Island and the Hudson Valley — are experiencing growth ranging between 1% and 2%. Nationally, employment has also begun to increase, rising by 0.5% during this period.

Unemployment rates rose during the recession, but are now starting to decline as the economy recovers. As of May 2004, the State's unemployment rate stood at 5.5%, while the nation's was 5.3%. Both were at 6.1% one year earlier. Since the late 1980s, New York City's rate has been consistently higher than the national and State rates. In May 2003 New York City's unemployment rate reached 8.1%, but fell to 6.6% through May 2004.

In May 2004, unemployment rates across New York State were highest in Bronx County (8.5%), Oswego County (8.5%), St. Lawrence County (8.3%), and Allegany County (8.3%), while the lowest rates occurred in the counties of Albany (3.5%), Saratoga (3.4%), Columbia (3.2%), and Putnam (3.1%).

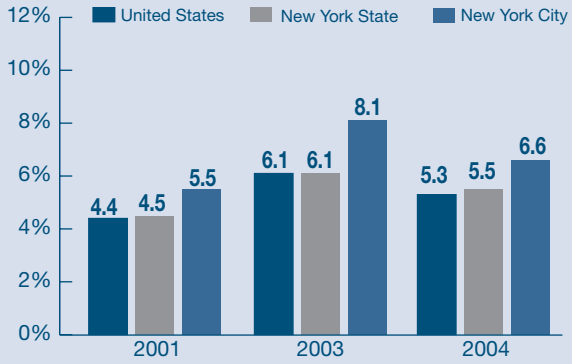
NYS Total Employment

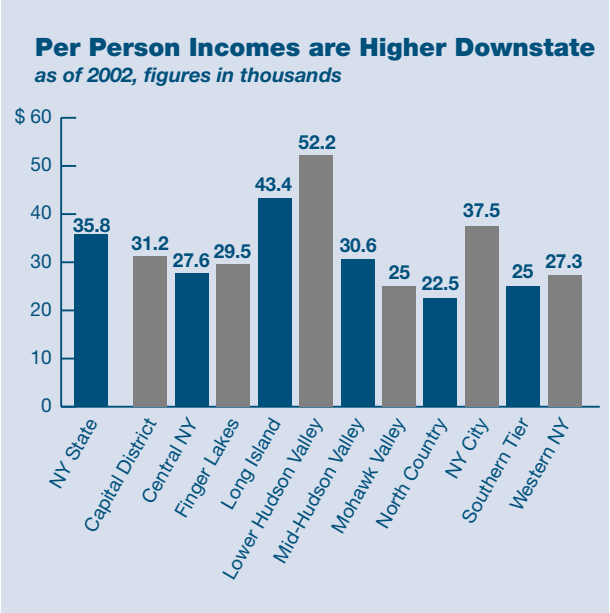
avg. employment during the first five months of the year amounts in millions



Unemployment Rate

US, NYS and NYC as of May of each year





The economic health of both New York State and New York City is tied to the securities industry. The 1990s bull market lifted employment, incomes, and tax revenues for the State and City. Every securities industry job added in the City creates two other new jobs in the City and one job in the New York suburbs. The bear market that began in August 2000, however, lowered the Standard & Poor's 500 Stock Index by 44% through early 2003, and securities industry profits fell from a record high of $21 billion in 2000 to $7 billion in 2002. Bonuses paid to Wall Street workers fell by 34% in 2001 and another 33% in 2002. These declines, coupled with lower capital gains realizations resulting from the falling financial markets, adversely impacted State revenue collections, especially the personal income tax. During 2003 the financial markets recovered, with the S&P index rising by over 20% for the full year, while securities industry profits rose to $16.8 billion (the second-highest level on record), and year-end bonuses increased by 25%.

The recession and declines on Wall Street adversely affected income growth throughout the State. Total State personal income increased 6% between 2000 and 2003, compared to a 9.3% increase nationwide. New York State ranked 49th out of the 50 states in personal income growth during this period.

New York State's per person personal income ($36,574 in 2003) continues to be higher than that of the U.S. ($31,632 in 2003). The State's per person personal income increased by 2.1% in 2003, while per person personal income in the nation grew by 2.3%.

The State ranked 5th in personal income per person in 2003, behind Connecticut, New Jersey, Massachusetts, and Maryland. After having ranked fourth from 1993 through 2001, New York State slipped behind Maryland beginning in 2002.

Per person 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 the downstate region. In 2002, per person personal income averaged $37,476 in New York City, $43,349 on Long Island, and $52,155 in the Lower Hudson Valley. For the rest of the State, per person personal income ranged from $22,497 in the North Country to $31,160 in the Capital District. On a county basis, the highest per person personal income was in New York County/Manhattan ($84,591) while the lowest was in Allegany County ($19,925).

Salaries are highest on Wall Street, which paid an average salary of $218,208 in 2002. In the rest of the financial sector the average salary was $73,700, while nonfinancial industries paid an average of $41,031. The Wall Street sector represented only 2.2% of all jobs in the State in 2001, but accounted for 10.5% of the total compensation paid. The gap between the salaries on Wall Street and those in nonfinancial industries has also been growing. In the early 1990s Wall Street salaries increased, from nearly 3 times higher than nonfinancial salaries to more than 5 times nonfinancial salaries.

New York State's poverty rate, which had remained in the 16% to 17% range between 1994 and 1998, dropped substantially in 1999 to 14.1% and then fell again in 2000 to 13.4%. The national poverty rate fell steadily from 14.5% in 1994 to 11.3% in 2000. Poverty rates have since increased in both the State and the nation. During 2002, the nation's poverty rate was 12.1%, while the State's was 14%.

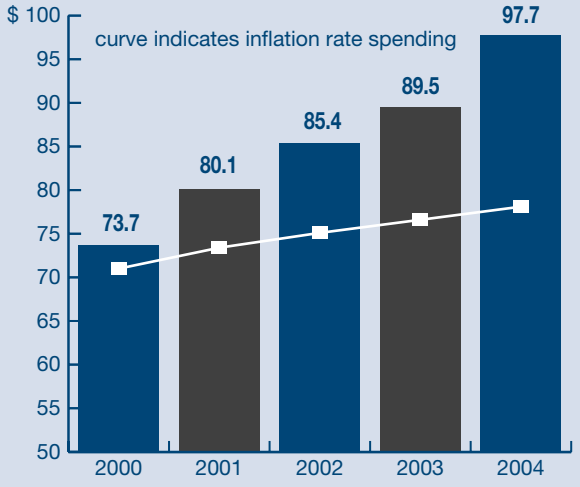
TOTAL SPENDING

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 $97.7 billion in 2004, an increase of $8.2 billion (9.1%) from the prior year.
- Spending during 2004 included $1.9 billion for expenditures that were planned for 2003 but deferred until 2004 due to an imbalance between actual revenues and planned spending.
- Since 2000, growth in State spending (32.5%) has outpaced inflation (Consumer Price Index), (10.0%).
- State spending has been partially paid for by borrowing $15.2 billion since 2000, including $6.7 billion in 2004.
- 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 67.3% of total State spending.

Actual State Spending vs. Spending at the Rate of Inflation

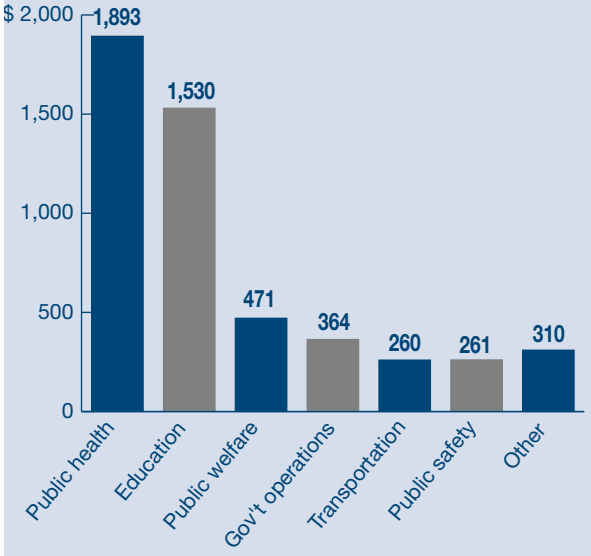
figures in billions



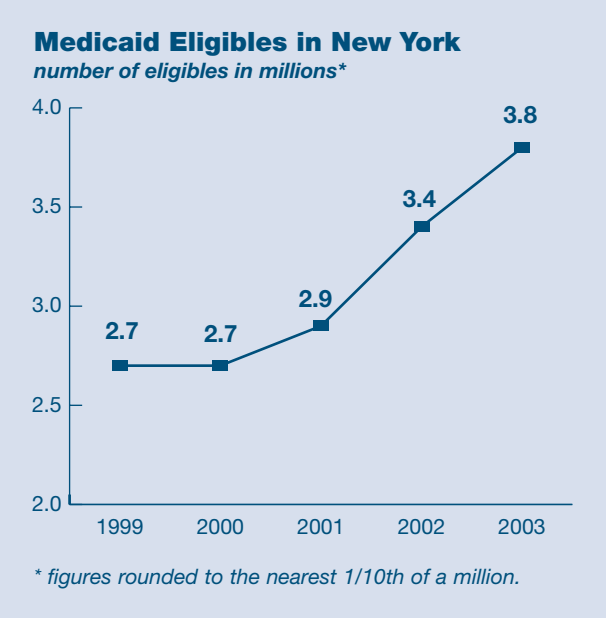
Proceeds from the sale of bonds to be repaid from the State's future tobacco revenues funded $4.2 billion of expenditures in 2004.

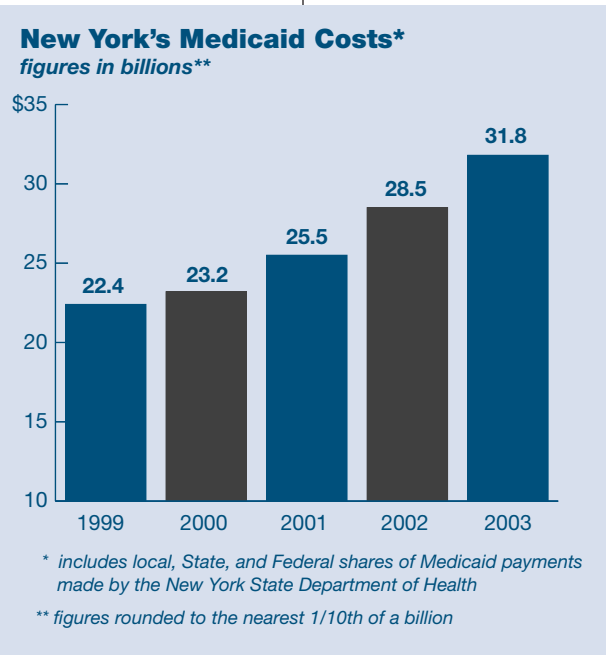
2004 Total State Spending

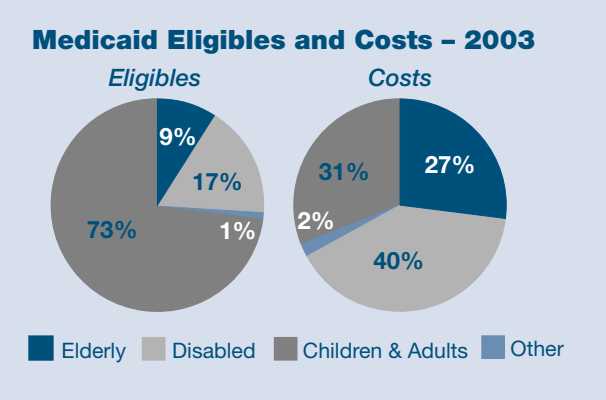
per person by program



MEDICAID







- In 2003, New York experienced another year of significant growth in Medicaid costs and eligible beneficiaries. Medicaid costs increased over $3.3 billion (11.6%), while the number of eligible beneficiaries increased nearly 350,000 or 10% compared to 2002.

- From 1999 through 2001, the monthly average number of Medicaid eligible beneficiaries increased by about 140,000 (5.1%) to 2.9 million eligibles. From 2001 through 2003, the number increased by over 885,000 (almost 31%) to approximately 3.8 million eligibles.

- The number of eligible beneficiaries rose primarily due to the lingering effects of 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. The program's average monthly number of enrollees grew from 85,059 in 2002 to 306,444 in 2003. In December 2003, Family Health Plus had over 395,000 enrollees, more than 70% of them in New York City.

- In 2003, the monthly average number of enrollees in Medicaid managed care totaled 1.6 million (62%) of approximately 2.6 million recipients eligible to participate, up from almost 1.1 million (48%) of approximately 2.2 million eligible recipients in 2002.

- From 1999 through 2001, Medicaid spending increased by over $3 billion (almost 14%) to $25.5 billion. From 2001 through 2003, Medicaid spending increased by $6.3 billion (almost 25%) to $31.8 billion.

- Spending rose primarily due to increases in caseload and service utilization. In 2003, the U.S. Bureau of Labor Statistics estimates that medical care inflation in the New York Metro area increased 2.9%, which is the lowest annual increase since 1994.

- During 2003, the elderly, blind and disabled represented about 26% of Medicaid eligibles, but accounted for 67% of the State's Medicaid costs.

Both Medicaid eligibles and Medicaid costs continued to increase in 2003.

EDUCATION

Higher Education

- Over the past 10 years, New York State has increased its support for higher education by only 22%, while national spending rose by 47%. During the same period the Higher Education College and University Operations Price Index (HEPI) rose 42%.

- New York State spends $194 per person annually on higher education, a $6 reduction from fiscal year 2002-03. New York spending, ranked 33rd in the nation, is also less than the national median spending rate of $211.

- The cost of tuition and fees paid by full-time students at public four-year institutions in New York State has increased by 45% between 1994-95 and 2003-04. In 2003-04, SUNY tuition alone increased by $950, resulting in a ten year increase of 64%.

- For the school year 2003-04, full-time, in-state tuition and fees at SUNY community colleges totaled $3,033. This was nearly double the national average of $1,560 and ranked New York the third highest among the states.

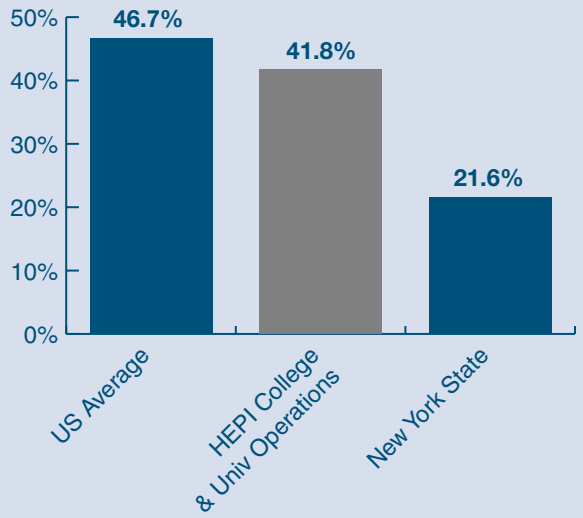
Elementary and Secondary

- There have been significant gains in 2002-03 in the percentage of students meeting 4th grade math standards and only marginal changes in other 4th and 8th grade standardized tests. For 2002-03, 79% of the State's 4th grade students met the math standards, representing an increase of over 11%. Despite this advance, improved results are not found across the board, with gaps still occurring between regions and level of need. These gaps are associated with varying financial needs of school districts.

- New York State is credited with making a significant investment in the public elementary and secondary educational system. Specifically, for 2003, New York State had the highest estimated per pupil expenditures at $11,507, compared to the national average of $7,883 per pupil.

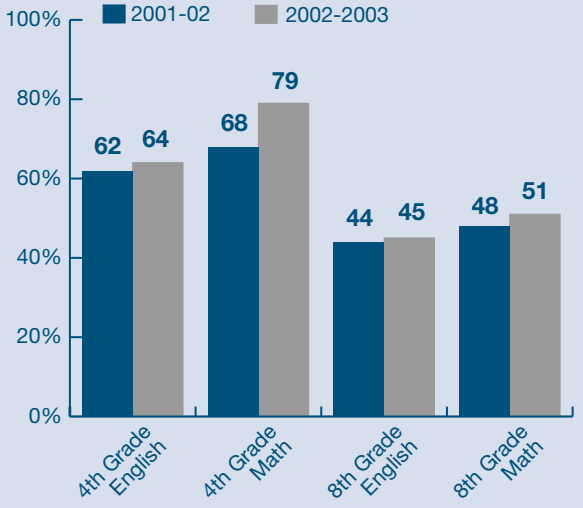
- Despite the higher overall spending per pupil in New York State as a whole, in June 2003, the Court of Appeals ruled that the State's financing system for New York City public schools is unconstitutional.

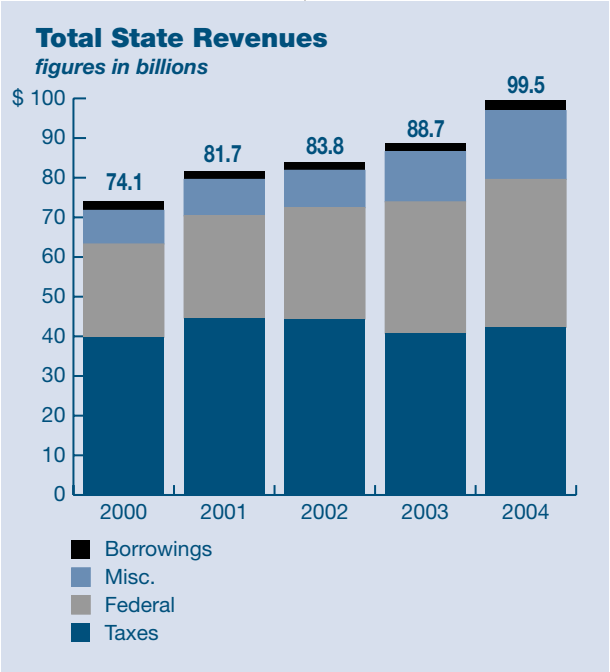
New York vs. the Nation in Support for Higher Education
Growth in Spending from Fiscal Year 1993-94 to 2003-04



The State is under a court order to change its school funding system.

Percentage of New York Students Meeting Standards



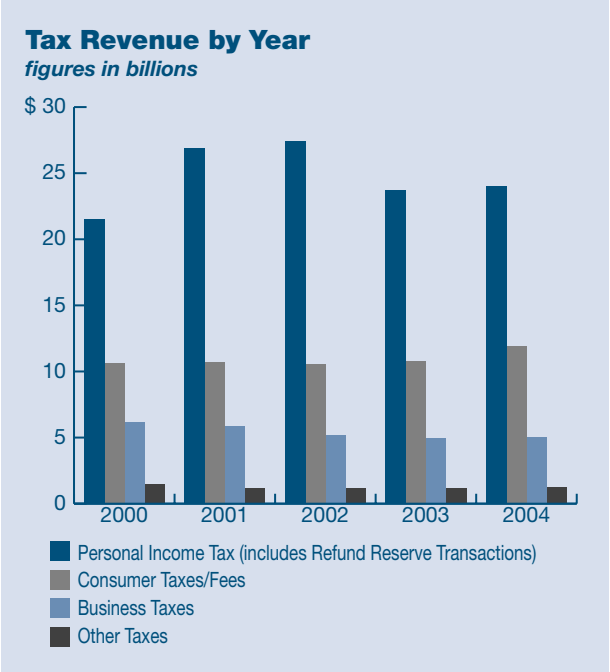


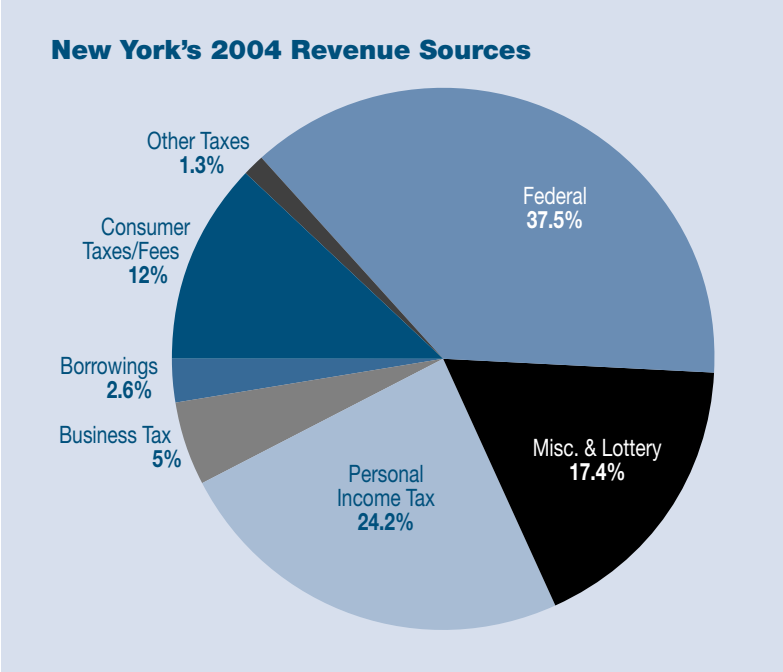
TOTAL REVENUES

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 $25.4 billion (34.3%) since 2000 while personal income has grown at a rate of 13.4%.
- In 2004, total tax revenues of $42.3 billion represented a 6.4% increase over 2000 tax revenues.
- Revenues from the federal government increased 58.4% since 2000. Medicaid was responsible for the largest increase in federal revenues.
- Personal income tax and consumer taxes and fees accounted for 36.2% of 2004 revenues, and have increased 12% since 2000.
- During fiscal year 2004, the State experienced a 1.5% increase in personal income tax (PIT) revenues — its largest revenue source. This followed a 13.6% decline in 2003. Collections are still more than 10% below 2001 and 2002 levels.

Tax revenues have improved as the State has come out of the latest recession, however, tax rates have also increased.





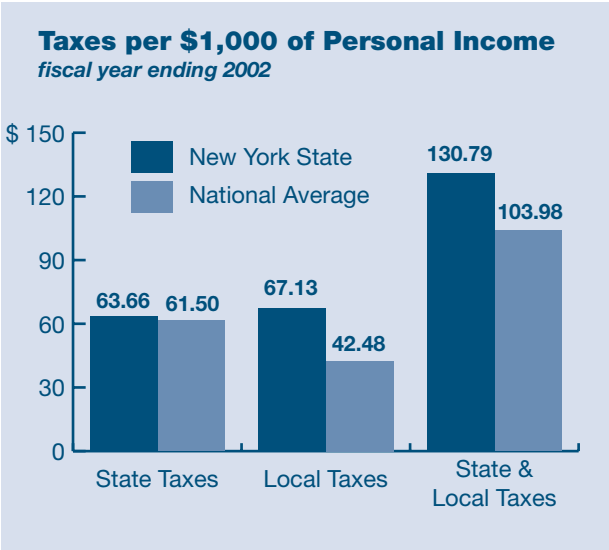
TAXES: WHERE NEW YORK STANDS

- 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 58% above the national average. State taxes alone are 3.5% above the national average.

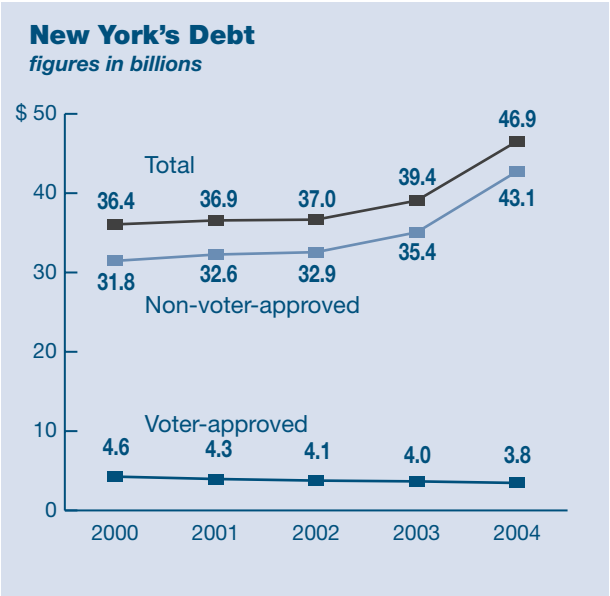
- Using taxes as a share of personal income, New York State ranks highest in local taxes and highest in combined State and local taxes. New York State taxes alone ranked 24th among the states.

- One factor contributing to New York's high local tax burden is that, unlike local governments in most 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.

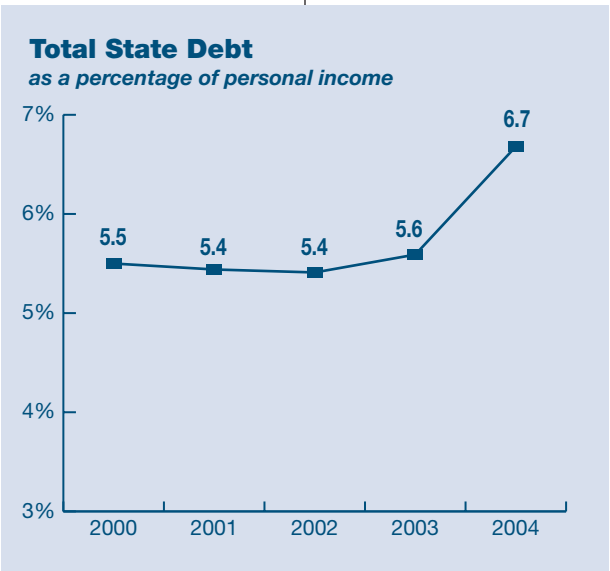
- Prior to 2003, steps were taken to reduce the State's tax burden. Multiple year cuts in personal income tax rates had been instituted and homeowners' school property tax payments were reduced under the STAR school property tax relief program. However, the State's 2003-04 fiscal year budget included a reduction in regular aid payments to schools and local governments as well as increased State taxes. This reduced aid and increased State taxes have increased both the State and local government tax burden.



New York State taxes per $1,000 of personal income were below the national average prior to 2001.



State debt is up significantly due to the issuance of tobacco bonds.



DEBT

Debt can impact government operations both currently and in the long term. Debt can be accumulated in two ways: by incurring expenses which do not require payment in the current or near current periods, such as liabilities for compensated absences earned by employees, and through acts of borrowing, such as issuance of general obligation bonds. The following discussion of debt reflects debt only from acts of borrowing. Existence of high levels of government borrowing 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.

- Total State debt has increased more than 19% in the last year and almost 29% since 2000. A significant portion of the increase was due to the issuance of $4.6 billion in financing arrangements in fiscal year 2003-04 related to the New York State's share of future revenues from the 1998 Settlement Agreement with participating cigarette manufacturers ("tobacco bonds"). Net proceeds from the tobacco bonds were used to provide $4.2 billion to the State General Fund to finance current expenditures.

- In 2003, New York State continued to have more debt outstanding than any other state, equal to 15% of the reported debt outstanding for all other state governments. In 2003, New York State also ranked 4th among all states in debt per person.

- Only 8.1% of State debt in 2004 was voter-approved, compared to 100% in 1960. The amount of non-voter-approved debt has continued to increase while voter-approved debt has declined.

- At March 31, 2004, New York's outstanding debt per person was $2,445, which was equal to 6.7% of New Yorkers' personal income.

- The State's general obligation bond ratings assigned are as follows: A2 by Moody's Investor Service, AA- by Fitch Ratings, and AA, with negative outlook, by Standard & Poor's.

- Debt outstanding has grown faster than personal income.

- Debt service expenditures over the past five years have been affected by the use of reserve funds to pay debt service and deferring debt service during refundings. During the past two years the State engaged in a series of refunding transactions totaling $13.3 billion which refinanced portions of both the principal due in the current and near terms and interest accrued on certain refunded debt. These transactions provide near-term budgetary relief.

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

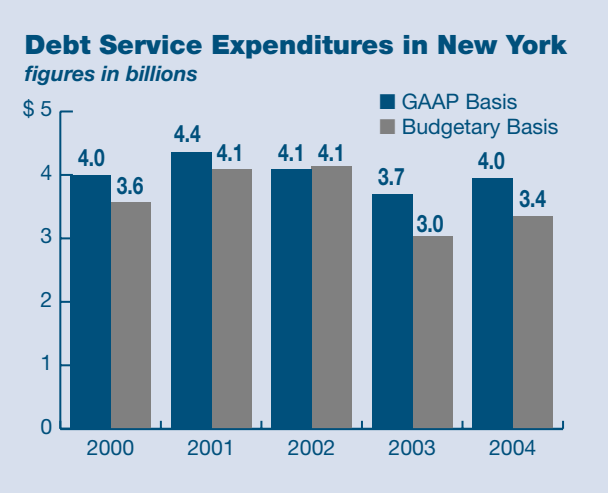
- The graph at the right illustrates the rapidity of the repayment of New York State's entire debt portfolio based upon bond maturity dates. The graph shows the par amounts of bonds currently outstanding that will be repaid, not including interest, during each of the next five year periods. The graph (below right) shows how fast the State's debt will be repaid.

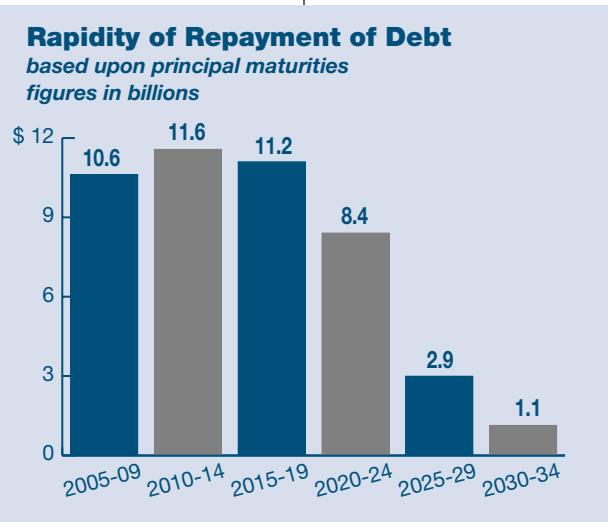
- The State's currently proposed Capital Program & Financing Plan relies upon issuing $15.8 billion of new debt during the five years ending March 31, 2009. Thus, the State plans to issue new debt faster than it will retire existing debt.

- The future interest cost of repaying all State debt, based upon rates in effect at March 31, 2004 and current payment schedules, has grown to $25.2 billion — an increase of $3.4 billion from last year.

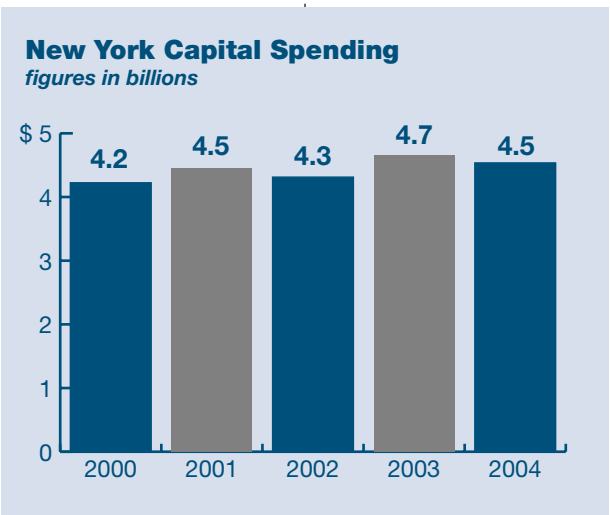
- Historically low interest rates have had a favorable effect on keeping future interest costs as low as possible.

- The State has relied upon variable rate debt and interest rate exchange (swap) agreements (a derivative instrument) to lower the cost of borrowing and restructure the portfolio of debt. On March 31 2004, 22.4% of State debt was in variable rate form, 54% ($5.5 billion) of which was subject to variable-to-fixed rate swap agreements. Variable-to-fixed rate swap agreements are conservative "hedges" against higher future interest rates.

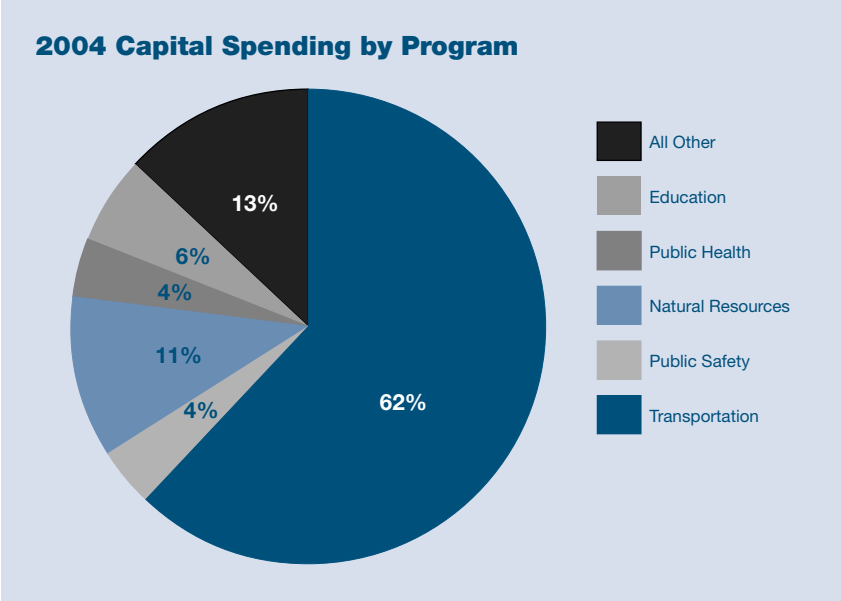




Over the next five years the State will continue to borrow more rapidly than it will repay debt.



New York reported $82.9 billion in capital assets at March 31, 2004.



CAPITAL

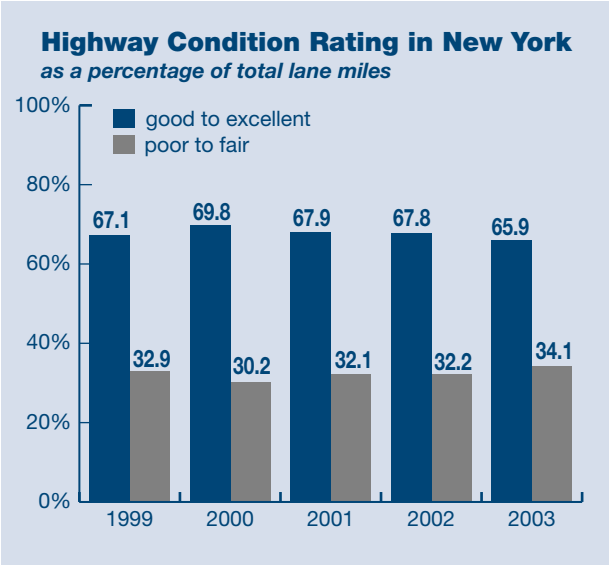
A deterioration in capital assets can have a direct impact on the State's economy and its ability to attract and retain business. Capital assets not only include highways and bridges, but also include education, government, health and recreation facilities.

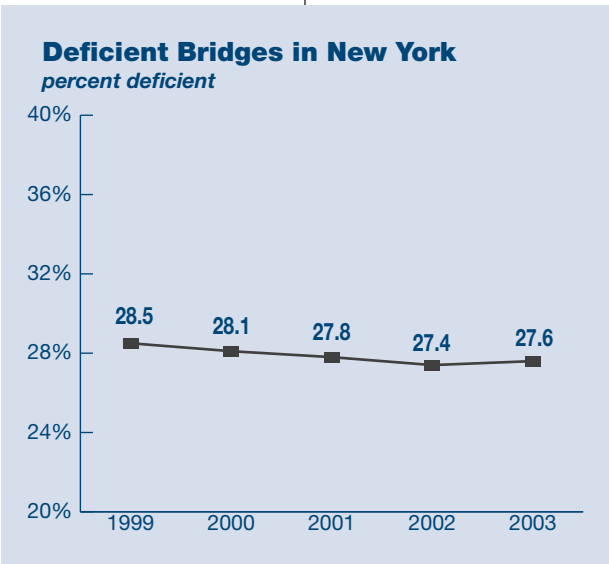
- Overall capital spending in 2004 was $312 million (7.4%) higher than in 2000. Transportation-related spending accounts for most of the increase.
- In 1994, the pay-as-you-go share of non-federal capital financing was 51%. Since then, pay-as-you-go financing has averaged 38%.
- In the currently proposed Capital Program and Financing Plan, spending is projected to average $5.9 billion per year through 2008-09. 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 19% over the 5-year period.
- At March 31, 2004 the State reported $82.9 billion in capital assets, an increase of $920 million or 1.1% from the prior year. Capital assets include buildings, construction in progress, equipment, land preparation, and infrastructure such as roads and bridges.

Roads and Bridges

Data on the condition of highways and bridges, as provided by the State Department of Transportation, provides 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 4.9% since 1999.
- In 2003, 65.9% of the State's highways were rated good or excellent.
- The State is responsible for maintaining more than 7,700 bridges, of which 27.6% were rated deficient in 2003 as compared to 28.5% in 1999, reflecting a 3.1% improvement.
- The State's 2003 percentage (27.6%) of deficient bridges compares to the nationwide percentage of 22.3%. A deficient rating means it is either structurally or functionally deficient, but not a current safety threat.





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. Government-wide financial statements present the State's operating results and financial position as a single entity and include future obligations.

The full accrual method of accounting is used, like many businesses, and recognizes revenue and expenses when the earning process is complete regardless of when cash is received or disbursed. This results in the broadest perspective on finances.

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 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.

Condensed Statement of Net Assets — Primary Government

As of March 31, 2004 (amounts in millions)

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and investments	$ 9,701	$ 6,117	$ 15,818
Receivables, net	13,814	2,739	16,553
Internal balances	31	388	419
Other assets	681	177	858
Capital assets	76,651	6,201	82,852
Total Assets	**100,878**	**15,622**	**116,500**
Liabilities:			
Tax refunds payable	5,403	-	5,403
Payable to local governments	3,598	-	3,598
Accrued liabilities & accounts payable	7,542	1,022	8,564
Other liabilities due within one year	3,003	2,696	5,699
Liabilities due in more than one year	42,246	9,816	52,062
Total liabilities	**61,792**	**13,534**	**75,326**
Net Assets:			
Invested in capital assets net of related debt	60,441	23	60,464
Restricted for debt service and other purposes	2,694	1,596	4,290
Unrestricted (deficit)	(24,049)	469	(23,580)
Total Net Assets	**$ 39,086**	**$ 2,088**	**$ 41,174**

Condensed Statement of Activities — Primary Government

For the year ended March 31, 2004 (amounts in millions)

Functions/Programs	Expense	Program Revenue	Net Expense
Governmental activities:			
Education	$ 22,845	$ 3,259	$ (19,586)
Public health	38,013	26,505	(11,508)
Public welfare	11,642	8,321	(3,321)
Public safety	5,961	2,170	(3,791)
Transportation	4,740	1,620	(3,120)
Environment and recreation	1,259	538	(721)
Support and regulate business	1,250	406	(844)
General government	7,041	1,747	(5,294)
Interest on debt	1,851	—	(1,851)
Total governmental activities	**94,602**	**44,566**	**(50,036)**
Business-type activities:			
Lottery	3,993	5,848	1,855
Unemployment insurance	3,877	3,590	(287)
State University of New York	5,732	3,532	(2,200)
City University of New York	1,953	1,034	(919)
Total business-type activities	**15,555**	**14,004**	**(1,551)**
Total primary government	**$ 110,157**	**$ 58,570**	**(51,587)**
General revenues and net transfers:			
Taxes			43,706
Other			4,602
Net transfers			(443)
Total general revenues and net transfers			**47,865**
Change in Net Assets (decrease)			**$ (3,722)**

The State's net asset position declined in 2004 by $3.7 billion.

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.

During the fiscal year ended March 31, 2004, the State issued $4.6 billion in tobacco bonds. As a result of these financing arrangements the General Fund received $4.2 billion of the net proceeds which were used to finance expenditures for fiscal years ended March 31, 2003 and 2004. The remaining proceeds were used to fund a debt service reserve, capitalized interest account, and to pay for cost of issuance. The use of these borrowed funds had the effect of removing a like amount of General Fund accumulated deficit reported at March 31, 2003. This transaction is long-term deficit financing and has the effect of shifting a portion of expenditures incurred in fiscal years ended March 31, 2003 and 2004 to future years.

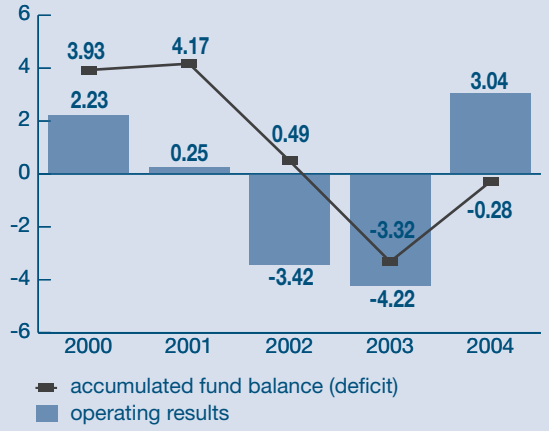
- The relationship between fund operating results and accumulated fund balance (deficit) is graphically depicted above.

- During 2004, the State also received temporary federal aid announced after the budget was enacted which provided the General Fund with $1.2 billion to fund expenditures.

- For and as of the year end March 31, 2004, the State reported a $3.2 billion combined governmental funds operating surplus which reduced the accumulated General Fund deficit to $281 million and increased the combined governmental fund balance to $6.2 billion. If the General Fund had not received $4.2 billion in proceeds from tobacco revenue bonds and $1.2 billion in additional federal aid, the General Fund would have reported a deficit of $2.4 billion and the governmental funds would have a combined deficit of $2.8 billion. The General Fund accumulated deficit would have been $5.7 billion.

General Fund Operating Results vs. Accumulated Fund Balance (Deficit)*

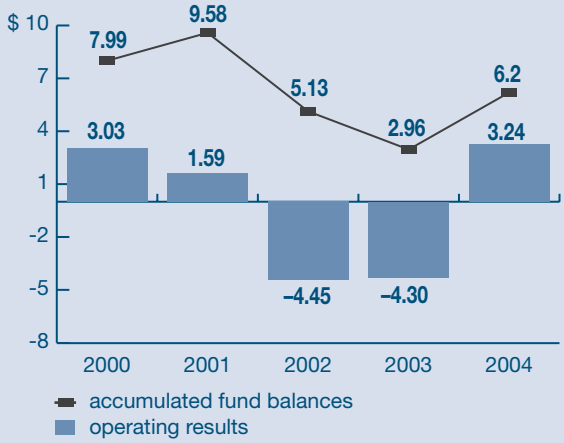
figures in billions



** as originally reported, without restatements required by subsequently implemented accounting standards.*

Governmental Operating Results vs. Accumulated Fund Balances*

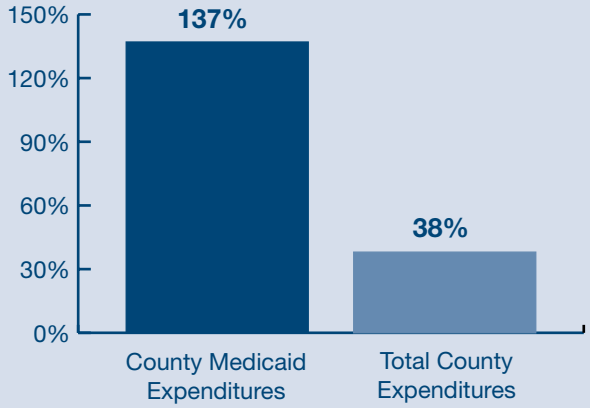
figures in billions



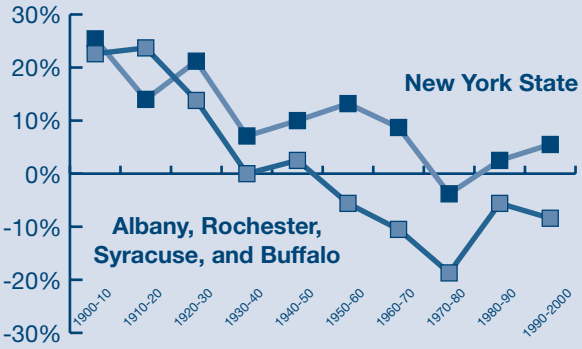
** as originally reported, without restatements required by subsequently implemented accounting standards.*

Issuance of tobacco revenue bonds financed $4.2 billion in General Fund spending in 2004, creating a surplus.

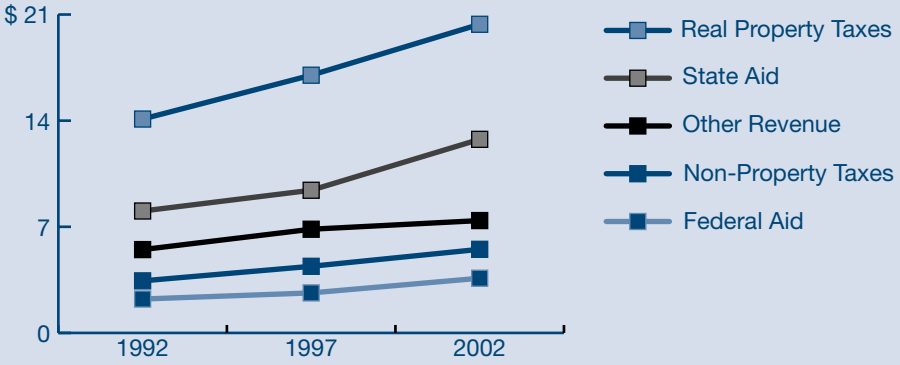
Growth in County Medicaid Expenditures Outpaces Growth in Overall County Expenditures
percent change 1992-2002



Upstate City Populations Have Declined Dramatically
% change



Real Property Tax Revenue Represents the Largest Source of Revenue for Local Governments
figures in billions



LOCAL GOVERNMENTS

New York's local governments face tough fiscal challenges even as some positive economic signs emerge. Local responses to diminishing resources and increasing demands for services have included budget cuts, increased sales tax rates, and increased local taxes and fees. Some communities have also sought emergency assistance, such as authorization for deficit financing and State aid increases or payment accelerations.

- New York's Medicaid program is one of the most expensive in the nation and requires a local match of between 10 and 25 percent, depending on the service provided. These expenditures consume a significant (and growing) portion of county budgets.

- Other expenditures such as public safety and employee healthcare are also growing rapidly, a trend that is expected to continue.

- In response to budgetary pressures, most counties have received State approval to increase their local sales tax rates beyond 3 percent. In fact, by the end of the 2004-05 legislative session, approximately 46 of 57 counties will have a sales tax rate that exceeds the 3 percent local limit they were previously subject to. Presently 39 counties now have combined State/local sales tax rates exceeding eight percent.

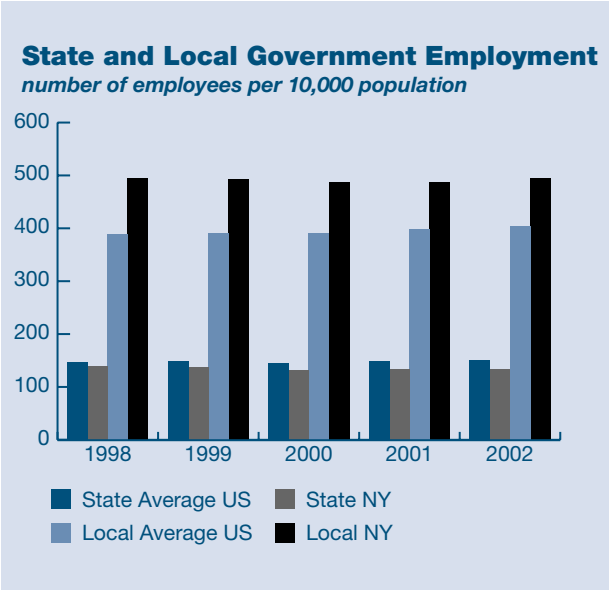
- New York's local tax burden is the highest in the nation and is driven primarily by local property taxes.

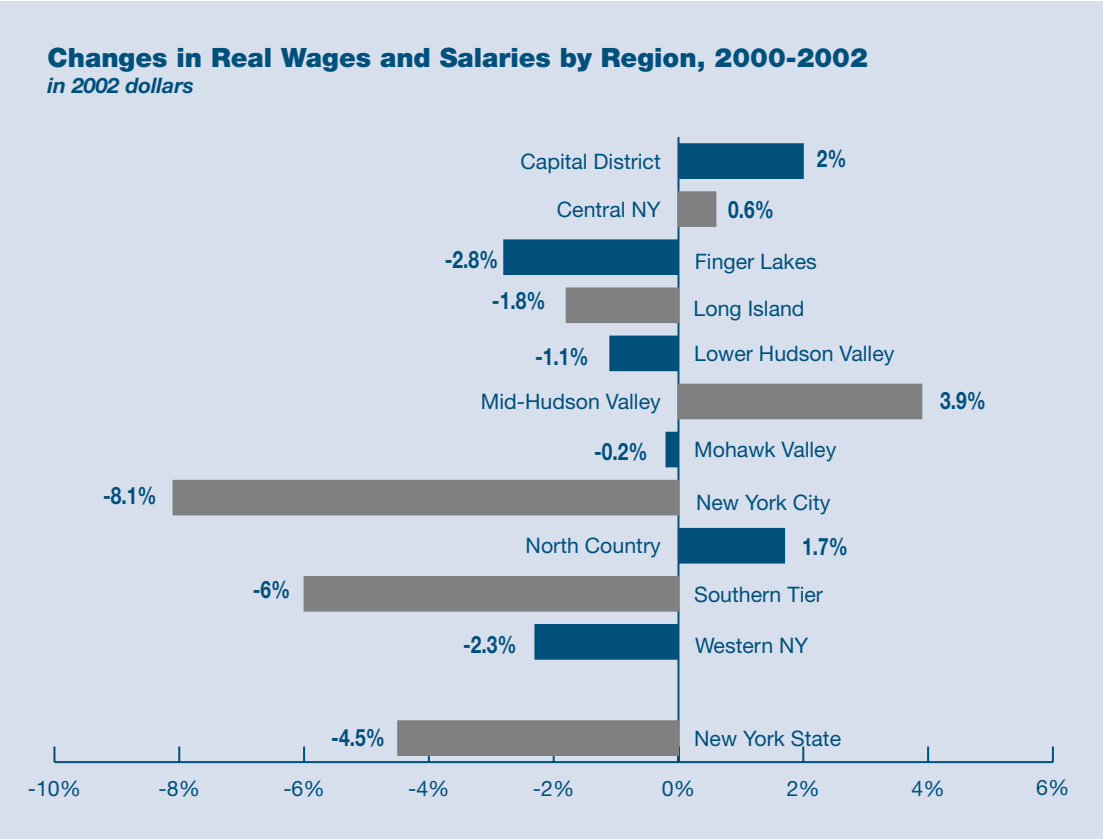
- Fiscal stress in large upstate cities far exceeds that found among other types of municipalities. As cities have lost population to surrounding suburbs, the economic base has deteriorated, leaving a higher burden on remaining residents just to maintain current services.

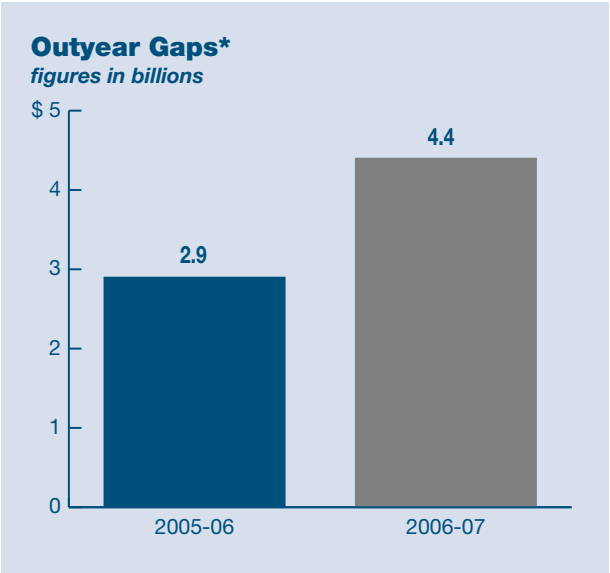
- The State continues to employ fewer employees per 10,000 population than the national average.

- The number of local government employees per 10,000 population has consistently and significantly exceeded the national average. In 2002, New York had 494 local government employees per 10,000 population versus the national average of 404.

- During the 1990s expansion, many areas of the State experienced real wage gains, with the largest increases occurring in the downstate region, especially New York City. However, the recent recession was particularly severe in New York, and nearly all areas of the State experienced real wage declines during the 2000-2002 period. With New York City's economy also hit hard by the World Trade Center attack and the downturn in the financial markets, the largest real wage decline since 2000 has been in the City (8.1%). Upstate, significant manufacturing declines have fueled declines in the Southern Tier (6%), the Finger Lakes (2.8%), and Western New York (2.3%). However, with job gains continuing despite the recession, real wages still rose in the Mid-Hudson Valley (3.9%) during this period.







* Office of the State Comptroller estimates of outyear gaps.

IMPLICATIONS FOR THE FUTURE

Beginning in 1996, New York enjoyed six years of budget surpluses due to unanticipated revenues generated by a strong economy. However, in March 2001, the national 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. As part of over $12 billion in non-recurring resources utilized in the 2002-03 and 2003-04 fiscal years, the State refinanced over $13 billion in outstanding debt, temporarily relieving debt service costs. The relief came primarily in two forms, lower interest rates and deferred debt service payments.

- Between the 2002-03 and 2003-04 fiscal years, the State refunded approximately $13 billion in State debt, much of which was replaced with variable rate debt or used in derivative transactions which created a synthetic fixed rate.

- While these transactions reduced debt service costs in those two years, much of the reduction was due to restructured debt service schedules, which will result in increased costs in subsequent years.

- In 2005-06, temporary increases in income and sales taxes will expire, resulting in lower revenue and contributing to outyear gaps.

- In February, the Division of the Budget estimated outyear gaps of $2.9 billion and $4.4 billion for 2005-06 and 2006-07, respectively. Increased spending and the use of non-recurring resources, including deferred debt service, further adds to the State's structural gaps and has other negative implications for the State. While New York has effectively overcome large gaps in the past, the continued use of non-recurring resources and high risk debt practices that add costs to future years to balance the State's finances impedes sound long-term budget planning.

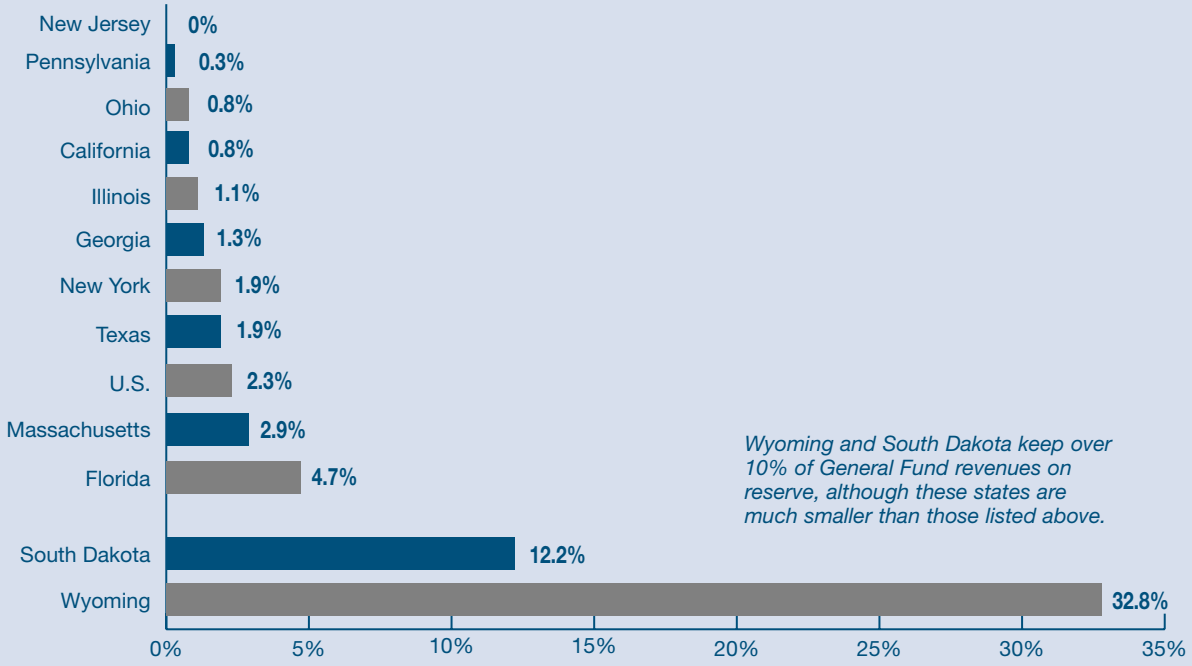
In 2003, the State's rainy day reserve that is set aside for use in times of economic downturn was well below the national average of 2.3%. Compared to the national average and the top ten states (as measured by General Fund revenues), New York ranks in the lower half with less than 2% of General Fund revenues put aside in 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 33% and 12%, respectively.

Over the past decade, New York has consistently projected budget gaps in future years. This ongoing structural imbalance — the condition of spending growth being greater than underlying revenue growth — creates a shortfall that must be addressed annually.

The State has turned to unrestricted reserves, tax and fee increases, and administrative actions, along with fiscal gimmicks like fund raids, reliance on debt, and delayed payments to address shortfalls.

Rainy Day Funds of Top 10 States — Fiscal Year 2003 Actual

based upon size of budget



The states considered in this analysis have either zero or positive fund balances, and includes rainy day funds that are net positive.

NEW YORK'S PUBLIC AUTHORITIES

Public authorities are legally separate entities that provide services to the public as well as State and local governments. 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.

- The 18 largest public authorities in New York State had outstanding debt of over $114 billion in 2003. This includes only public authorities that are not reported as part of a local government, some of which do have more than $100 million in bonds outstanding.

- Of the more than 640 public authorities in the State, 212 operate either statewide or regionally and employed over 97,000 people in 2002.

- The 44 public authorities that report procurement activity to the Comptroller's Office awarded 11,270 contracts valued at more than $10.5 billion in 2002 alone.

The fiscal stability of the State 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. The following authorities are not related to a local government and have more than $100 million in debt outstanding.

Outstanding Debt of Certain Authorities

as of December 31, 2003
millions of dollars

Authority	Total Debt [1] [2]	State Debt [3]
Dormitory Authority	$31,020	$13,096
Metropolitan Transportation Authority	11,610	2,395
Thruway Authority	9,930	8,220
Port Authority of NY & NJ	9,333	0
Long Island Power Authority	7,146	0
Triborough Bridge and Tunnel Authority	6,949	292
UDC\ESDC	6,206	5,648
Housing Finance Agency	5,990	1,267
Environmental Facilities Corporation	5,960	528
Local Government Assistance Corporation	4,569	4,569
Tobacco Settlement Financing Corporation	4,551	4,551
Energy Research and Development Authority	3,753	43
State of New York Mortgage Agency	3,260	0
Power Authority	2,526	0
Battery Park City Authority	1,162	0
Municipal Bond Bank Agency	575	510
Niagara Frontier Transporation Authority	185	0
United Nations Development Corporation	133	0
TOTAL OUTSTANDING	$114,858	$41,119

[1] Amounts outstanding reflect original par amounts or original net proceeds in the case of capital appreciation bonds. Amounts outstanding do not reflect accretion of capital appreciation bonds or premiums received.

[2] Includes short-term and long-term debt.

[3] Reflects debt for which the primary repayment source is from State appropriations or assigned revenues of the State.

Appendix 1

State Funds Spending by Major Service Function

figures in millions

STATE FUNDS SPENDING FOR THE YEAR ENDED MARCH 31:	2000	2001	2002	2003	2004
EDUCATION	**$19,365**	**$21,464**	**$23,123**	**$22,158**	**$25,744**
Public Schools	13,286	14,285	15,338	14,333	17,037
State University of New York	3,549	3,903	3,823	4,176	4,184
School Tax Relief (STAR)	1,195	1,877	2,510	2,664	2,820
City University of New York	637	684	685	597	1,049
Tuition Assistance Program	626	639	690	310	586
Higher Education Services	72	76	77	78	68
PUBLIC HEALTH	**10,288**	**10,803**	**11,916**	**13,001**	**13,675**
Health and Mental Health Services	2,592	2,858	3,378	3,381	3,193
Medical Assistance (Medicaid)	7,575	7,877	8,456	9,467	10,461
Payments made by the Dormitory Authority	121	68	82	153	21
PUBLIC WELFARE	**3,426**	**3,522**	**3,423**	**2,832**	**3,562**
Public Welfare	3,061	3,159	3,029	2,418	3,147
Public Housing	184	167	188	208	186
Employment Services	181	196	206	206	229
PROTECT THE PEOPLE	**2,724**	**2,943**	**2,975**	**2,986**	**3,127**
Criminal Justice & Correctional Alternatives	852	884	904	891	933
Emergency Management & Security Services	39	38	54	86	96
Prisons and Reformations	1,833	2,021	2,017	2,009	2,098
TRANSPORTATION	**3,875**	**3,806**	**3,758**	**4,074**	**3,903**
Traffic Safety	187	184	190	188	179
Transportation	3,361	3,374	3,299	3,608	3,417
Payments Made by the New York State Thruway Authority	327	248	269	278	307
PRESERVATION OF NATURAL AND CULTURAL RESOURCES	**792**	**956**	**888**	**845**	**899**
Environmental Protection	523	596	570	538	574
Parks, Recreation & Historic Preservation	217	306	266	256	279
Cultural Programs	52	54	52	51	46
SUPPORT AND REGULATE BUSINESS	**507**	**575**	**579**	**562**	**441**
Commerce, Industry, & Agriculture	324	377	375	341	237
Regulate Business	183	198	204	221	204
SHARE GENERAL REVENUES WITH LOCAL GOVERNMENTS	**923**	**980**	**832**	**963**	**853**
REPAY BORROWED MONEY AND REDUCE DEBT	**3,577**	**4,083**	**4,143**	**3,038**	**3,351**
OPERATE THE STATE GOVERNMENT	**5,096**	**5,625**	**5,904**	**6,251**	**6,761**
Other Executive Agencies	890	965	948	1,011	978
Office of the State Comptroller	110	129	143	156	149
Office of the Attorney General	115	129	139	146	139
Legislature	192	196	208	219	202
Court Administration	1,156	1,309	1,393	1,456	1,429
Pension Contributions & Other Employee Benefits	2,382	2,612	2,719	2,958	3,528
Other	251	285	354	305	336
TOTAL STATE FUNDS SPENDING	**$50,573**	**$54,757**	**$57,541**	**$56,710**	**$62,316**

APPENDIX 2

Federal Funds Spending by Major Service Function

figures in millions

FEDERAL FUNDS SPENDING FOR THE YEAR ENDED MARCH 31:	2000	2001	2002	2003	2004
EDUCATION	**$2,147**	**$2,260**	**$2,371**	**$3,024**	**$3,620**
Public Schools	2,025	2,124	2,210	2,466	3,218
State University of New York	117	131	144	166	174
Tuition Assistance Program	5	5	11	385	224
Higher Education Services	—	—	6	7	4
PUBLIC HEALTH	**15,895**	**16,949**	**18,125**	**20,772**	**22,657**
Health and Mental Health Services	2,920	3,235	3,165	3,380	3,585
Medical Assistance (Medicaid)	12,975	13,714	14,960	17,392	19,072
PUBLIC WELFARE	**3,286**	**4,250**	**4,890**	**5,840**	**5,481**
Public Welfare	2,863	3,685	4,231	5,031	4,749
Public Housing	16	15	15	14	13
Employment Services	407	550	644	795	719
PROTECT THE PEOPLE	**357**	**306**	**817**	**1,322**	**1,882**
Criminal Justice & Correctional Alternatives	74	88	126	115	274
Emergency Management & Security Services	76	109	614	1,112	1,573
Prisons and Reformations	207	109	77	95	35
TRANSPORTATION	**955**	**933**	**1,030**	**1,158**	**1,074**
Traffic Safety	7	10	11	15	15
Transportation	948	923	1,019	1,143	1,059
PRESERVATION OF NATURAL AND CULTURAL RESOURCES	**258**	**351**	**307**	**281**	**272**
Environmental Protection	255	348	302	273	265
Parks, Recreation & Historic Preservation	3	3	4	7	6
Cultural Programs	—	—	1	1	1
SUPPORT AND REGULATE BUSINESS	**7**	**13**	**15**	**45**	**17**
Commerce, Industry, & Agriculture	7	11	14	44	16
Regulate Business	-	2	1	1	1
SHARE GENERAL REVENUES WITH LOCAL GOVERNMENTS	**66**	**77**	**95**	**101**	**117**
OPERATE THE STATE GOVERNMENT	**170**	**174**	**204**	**233**	**219**
Other Executive Agencies	21	22	27	27	24
Office of the Attorney General	16	18	19	22	18
Court Administration	4	3	3	5	5
Pensions and Other Employee Benefits	129	131	155	179	172
TOTAL FEDERAL FUNDS SPENDING	**$23,141**	**$25,313**	**$27,854**	**$32,776**	**$35,339**

APPENDIX 3

STATE REVENUES BY MAJOR SOURCE

figures in millions

STATE REVENUES FOR THE YEAR ENDED MARCH 31:	2000	2001	2002	2003	2004
TOTAL TAXES	**$39,729**	**$44,607**	**$44,315**	**$40,675**	**$42,254**
PERSONAL INCOME TAX	**21,533**	**26,892**	**27,414**	**23,698**	**24,050**
CONSUMER TAXES AND FEES	**10,614**	**10,670**	**10,543**	**10,804**	**11,919**
Sales Tax	8,532	8,732	8,540	8,796	9,907
Motor Vehicle Fees	531	495	584	612	654
Cigarette and Tobacco Products Taxes	643	528	532	446	419
Motor Fuel Tax	519	510	489	544	516
Alcohol Beverage Tax	200	211	212	222	237
Highway Use Tax	150	155	148	147	147
Auto Rental Tax	39	39	38	37	39
BUSINESS TAXES	**6,134**	**5,846**	**5,185**	**4,983**	**5,007**
Corporation Franchise Tax	2,168	2,631	1,702	1,612	1,700
Corporation and Utilities Taxes	1,692	1,009	1,218	1,091	882
Insurance Taxes	658	644	696	776	1,031
Bank Tax	611	591	566	481	342
Petroleum Business Tax	1,005	971	1,003	1,023	1,052
OTHER TAXES	**1,448**	**1,199**	**1,173**	**1,190**	**1,278**
Real Property Gains Tax	15	6	5	5	4
Estate and Gift Taxes	1,055	758	767	708	736
Pari-Mutuel Taxes	36	29	30	29	27
Real Estate Transfer Tax	340	405	370	447	510
Racing and Boxing Exhibition Taxes	2	1	1	1	1
GAMING AND LOTTERY INCOME	**1,496**	**1,587**	**1,713**	**1,931**	**2,129**
FEDERAL GRANTS	**23,570**	**25,786**	**28,124**	**33,256**	**37,323**
OTHER REVENUES	**6,981**	**7,605**	**7,727**	**10,713**	**15,218**
Student Tuitions and Fees	1,219	1,079	1,149	1,174	1,376
Hospital Patient Fees	952	931	1,073	1,290	1,280
Income from Investments	365	581	427	77	56
Abandoned Property	286	305	407	729	597
Reimbursement of Advances	997	748	692	883	918
Transfers from Public Benefit Corporations	68	124	138	572	344
Regulatory Assessments	1,695	1,764	1,853	2,740	2,580
Tobacco Control & Insurance Initiatives Pool	-	373	495	1,258	2,057
Securitization of Tobacco Settlement Funds	-	-	-	-	4,200
Transfers from Tobacco Settlement Fund	-	328	91	90	-
Miscellaneous Licenses, Fees and Other	1,399	1,372	1,402	1,700	1,792
Loans from HCRA Pools	-	-	-	200	-
BORROWED AND ADDED TO DEBT	**2,289**	**2,073**	**1,930**	**2,174**	**2,534**
Bonds and Notes Issued by the State	208	219	211	245	140
Public Authority Financings[1]	2,081	1,854	1,719	1,929	2,394
TOTAL STATE REVENUES	**$74,065**	**$81,658**	**$83,809**	**$88,749**	**$99,458**

[1] *Amount includes financing from the NYS Thruway Authority and the Dormitory Authority of the State of New York.*

2004 Comptroller's Report on the Financial Condition of New York State

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Data Sources

Office of the State Comptroller

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