

PART II

STATE DEBT SERVICE

STATE DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS

The 2000-01 Budget recommendations for debt service appropriations reflect the State's continued commitment to finance critical capital needs while effectively managing its debt portfolio to ensure that both the level and costs of State debt remain affordable.

DEBT REFORM

As part of the 2000-01 Executive Budget, the Governor is proposing a Constitutional and Statutory Debt Reform initiative that will:

- Cap new debt outstanding at 3.5 percent of personal income, reflecting a significant decline from the current level of 6 percent of State income.
- Cap new debt service costs at 5 percent of All Funds receipts.
- Ban "back door" borrowing and Constitutionally authorize a limited amount of revenue-backed debt (no more than 1.75 percent of personal income).
- Authorize multiple general obligation bond act proposals.
- Restrict the use of debt to financing capital purposes only.
- Reduce the maximum term of debt to 30 years.
- Require that debt proposals be aired publicly for 14 days prior to Legislative action.

DEBT REDUCTION RESERVE FUND INCREASED TO HISTORIC HIGH

The Debt Reduction Reserve Fund (DRRF) will contain \$250 million at the end of 1999-2000. The Governor is recommending a record deposit of \$500 million to the Debt Reduction Reserve Fund in 2000-01 — \$250 million from one-time moneys received by the State as part of its recoveries under the tobacco settlement agreement and \$250 million from the 1999-2000 surplus — increasing the DRRF balance at the beginning of 2000-01 to an historic high of \$750 million. Two-thirds, or \$500 million of the DRRF balance, will be used in 2000-01 to pay off the State's high cost debt or avoid new debt by increasing pay-as-you-go spending for previously bond-financed programs. The balance will recapitalize DRRF, ensuring the State's commitment to debt reduction continues into 2001-02. Over the five-year Capital Program and Financing Plan, payments from DRRF will reduce State debt by \$750 million, ultimately saving taxpayers approximately \$1.5 billion in lower debt service costs.

DEBT COSTS ARE CONTROLLED AND AFFORDABLE

The combination of the Governor's Debt Reform proposal and his recommendation to increase the Debt Reduction Reserve Fund ensures that debt affordability improves over the five-year Capital Plan.

The recommended debt service appropriations reflect the maximum estimated debt service payments for outstanding bonds and future State-supported bond issuances. The appropriations for State general obligation, Local Government Assistance Corporation (LGAC), and Housing Finance Agency (HFA) Service Contract Obligation Revenue (SCOR) variable rate bonds reflect a maximum interest rate of 18 percent. However, such rates are expected to be approximately 4 percent for tax exempt and 6 percent for taxable obligations. In addition, the contingent appropriations for interest rate swaps executed for the Dormitory Authority SUNY Educational Facilities program, as well as projected swap transactions for LGAC and the Urban Development Corporation's (UDC) Correctional Facilities bonding programs, are also appropriated at a maximum rate of 18 percent.

Issuances for 2000-01 reflect the continued implementation of certain capital initiatives, such as the 1996 voter-approved Clean Water/Clean Air Bond Act. It is anticipated that \$445 million in Clean Water/Clean Air bonds will be issued during the 1999-2000 and 2000-01

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fiscal years. Total general obligation bonds to be issued during 2000-01 are estimated at \$331 million, including \$45 million for commercial paper redemption.

To reduce costs, the State has effectively diversified its debt portfolio to include a prudent level of short-term obligations, including the commercial paper program and a limited amount of interest rate swaps. The share of State-supported debt which is comprised of short term obligations will increase from 6.8 percent in 2000-01 to 8.8 percent in 2004-05. The projected amounts of short-term debt in the State's portfolio will still remain well within credit rating agency guidelines which recommend a general upper limit of approximately 15 percent of debt outstanding. Market conditions permitting, the Executive Budget's recommendation to extend the current authorization to issue interest rate swaps under a limited, experimental program will support the expansion of the State's short-term portfolio.

The following sections discuss the recommended debt service appropriations in greater detail. The appropriations are grouped by fund.

GENERAL FUND - STATE PURPOSES ACCOUNT

Interest on short-term general obligation debt, primarily bond anticipation notes (BANs) issued in the form of commercial paper, is paid directly from the General Fund. An appropriation of \$8.5 million is recommended for payment of interest and certain issuance costs on commercial paper to finance capital spending during fiscal year 2000- 01. Since the costs of borrowing for both the commercial paper program and variable rate debt are comparable, and both instruments preserve the effective use of short-term debt, the commercial paper program will be replaced with the issuance of additional variable rate debt. As a result, it is anticipated that an average of only \$45 million in such BANs will be outstanding during the coming fiscal year.

An appropriation of \$15 million is recommended for the State's potential liability to rebate arbitrage earnings on general obligation bonds to the Federal government. A \$225 million appropriation is recommended for the redemption of general obligation serial bonds, should this become necessary to maintain the exemption from Federal taxation of the interest paid to bondholders. This appropriation would only be used if the State received payments from any party found to be responsible for site contamination for which 1986 Hazardous Waste and 1996 Clean Water/Clean Air bonds were sold and disbursed to finance site clean-up. Since every effort is made to find the responsible party prior to the issuance of bonds, the potential use of this appropriation is unlikely and no disbursements from it are anticipated.

GENERAL DEBT SERVICE FUND

The General Debt Service Fund provides for principal, interest, and related payments on general obligation bonds, and lease-purchase and contractual obligation payments to public authorities and municipalities. The Fund's moneys are provided through transfers from the General Fund, and other available transfers and revenues.

Appropriations from the General Debt Service Fund for general obligation bonds are recommended at \$703 million. Appropriations for projected debt service reflect actual payments on outstanding general obligation bonds, and estimated payments on bonds anticipated to be issued in March and June of 2000. Payments for the State's continued issuance of variable rate general obligation bonds are also included.

Appropriations of \$2.3 billion are recommended from the General Debt Service Fund for lease purchase and other financing agreement payments to the following:

- Thruway Authority, for Local Highway and Bridge service contract bonds for local transportation purposes. Spending from this appropriation (\$215 million) is financed by transfers from the Dedicated Highway and Bridge Trust Fund.
- Environmental Facilities Corporation, for State Revolving Loan Fund service contract bonds, the Jobs 2000 Pipeline for Jobs program and the financing of parks and other environmental programs (\$61 million).

- Urban Development Corporation, for financing the construction and rehabilitation of correctional facilities, State facilities, youth facilities, stadia facilities, the pine barrens land acquisition, Economic Development and Natural Resources Preservation, projects at various University Technology Centers, the Higher Education Applied Technology (HEAT) program, and the Onondaga Convention Center (\$349 million). This includes appropriation authority for payments on projected interest rate swaps.
- Dormitory Authority, for SUNY educational, athletic facilities and upstate community colleges, State Education Department facilities, CUNY senior and community colleges, Jobs 2000 University Facilities program, RESCUE for school construction, Child Care Facilities, the Department of Health's Axelrod Laboratory, Albany Airport, the Library for the Blind, pension obligation bonds, and new State facilities (\$997 million). The latter includes bonds sold to finance the new parking garage and a building for the Office of the State Comptroller and the Common Retirement Fund. DA SUNY educational facilities also includes appropriations for interest rate swaps.
- Housing Finance Agency, pursuant to agreements between the State and HFA to finance the State's housing programs (\$143 million). This includes payments for variable rate housing bonds, including the only State-supported taxable variable rate bonds.
- Triborough Bridge and Tunnel Authority (TBTA), for the financing of the Javits Convention Center in New York City (\$43 million).
- Bonds authorized to be issued by the Urban Development Corporation, the Dormitory Authority, the Housing Finance Agency, and/or the Thruway Authority to finance the Community Enhancement Facilities Assistance Program (\$175 million).
- Lease purchase payments for various State facilities, including the 50 Wolf Road building, the new Department of Environmental Conservation office building in downtown Albany, and a new Department of Transportation region one headquarters building to be located in Schenectady.
- Metropolitan Transportation Authority (MTA), for service contracts payments (\$162 million) on bonds issued to finance transit and commuter rail projects during the MTA's first two Capital Plans.
- The Dormitory Authority, for service contracts to finance the capital needs of financially distressed hospitals (\$83 million). In the event that hospital repayments and other available funds are inadequate to meet debt service, such payments are to be made pursuant to service contracts with the State. The recommended appropriation reflects the State's potential liability on debt service payable on DA bonds. Legislative authorization for this program expired in March 1998, and State payments are not expected to be required for this program in 2000-01.

HOUSING DEBT FUND

Payments from local governments and housing companies which benefit from housing and urban renewal projects funded with State general obligation bonds are deposited in the Housing Debt Fund, and are used to pay debt service on such bonds. A \$31 million appropriation is recommended for 2000-01.

STATE UNIVERSITY DORMITORY INCOME FUND

This Fund receives payments for the use of dormitory rentals and other fees at dormitories operated by SUNY. Debt service on bonds issued by the DA for the construction and rehabilitation of SUNY dormitories has first claim on all dormitory revenues deposited in the

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Fund. An appropriation of \$54 million is recommended for lease-purchase payments to the DA.

MENTAL HEALTH SERVICES FUND

The Dormitory Authority is authorized to issue bonds to finance capital programs for the Department of Mental Hygiene. Revenues received for the care and treatment of patients at State mental health facilities are deposited in this Fund, and are used to make lease-purchase payments to the DA for debt service on mental health services bonds. These rental payments have the first claim on moneys in the Fund. The DA also makes loans to eligible not-for-profit agencies providing mental health services. In return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance the project. Such payments are also deposited in the Mental Health Services Fund. The recommended appropriation from this Fund is \$360 million.

HEALTH INCOME FUND

The Department of Health (DOH) has entered into contractual agreements with the Dormitory Authority to finance the construction and rehabilitation of State hospitals and veterans' homes. These agreements require DOH to make lease-purchase rental payments to the DA. Such payments have first claim on revenues received in this Fund from patient care at DOH facilities. Pursuant to 1997 legislation, the Roswell Park Cancer Institute is now a public corporation. Consistent with existing bonding pledges and statutory requirements, the Corporation's moneys continue to flow into the Fund as security for and payment to bondholders. As a result, the State's Financial Plan only reflects the portion of the Corporation's receipts that are attributable to debt service. Lease-purchase obligations during 2000-01, which also include obligations for the New York City Veterans' Home, require appropriations of \$39 million.

EMERGENCY HIGHWAY RECONDITIONING AND PRESERVATION FUND EMERGENCY HIGHWAY CONSTRUCTION AND RECONSTRUCTION FUND

The Commissioner of Transportation contracted with the New York State Thruway Authority to finance, through the Authority's bonds, highway reconditioning and preservation and construction and reconstruction projects. To enable the Thruway Authority to meet its debt service on these bonds, receipts attributable to seven-eighths of one cent of the tax on each gallon of gasoline and diesel fuel sold in the State have been earmarked to the Emergency Highway Reconditioning and Preservation and Emergency Highway Construction and Reconstruction Funds. Appropriations of \$32 million from each of these funds are recommended for the 2000-01 fiscal year.

CENTRALIZED SERVICES FUND

The State issues Certificates of Participation (COPs) to finance the purchase of equipment on an installment or lease-purchase basis for State departments, agencies, and public authorities. Moneys from the operating budgets of participating agencies are deposited to the Centralized Services Fund for payment to the trustees of COPs issuances. Such obligations' maturities are predominantly short-term in nature, reflecting the useful life of the equipment financed. An appropriation of \$205 million is recommended to pay debt service on outstanding COPs and those expected to be issued in 2000-01, including the purchase of welfare computer systems to augment case management capacity, and to comply with Federal data requirements.

LOCAL GOVERNMENT ASSISTANCE TAX FUND

To eliminate the State's annual spring cash flow borrowing, 1990 legislation authorized LGAC to issue bonds to finance payments to local governments previously funded by the State. LGAC has issued its entire \$4.7 billion net authorization. Revenues equal to one-quarter of the four cent State sales and use tax are deposited into the Local Government Assistance Tax Fund and used to pay debt service on LGAC obligations. The recommended appropriation of \$518 million represents anticipated debt service on all fixed-rate bonds, the maximum interest rate for outstanding variable rate bonds and planned interest rate swaps, and administrative costs. Moneys not needed for debt service are transferred to the State's General Fund.

SCHOOL CAPITAL FACILITIES FINANCING RESERVE FUND

An appropriation of \$30 million is recommended from the School Capital Facilities Financing Reserve Fund, a fiduciary fund, to pay debt service on bonds issued by the Dormitory Authority on behalf of special act and certain other authorized types of local school districts. The districts have assigned State local assistance payments for building aid and other tuition revenues to the DA. The revenues are deposited into the Fund and used to make debt service payments to the DA.

DEDICATED HIGHWAY AND BRIDGE TRUST FUND

An appropriation of \$450 million is recommended for 2000-01 debt service payments to the Thruway Authority for Dedicated Highway and Bridge Trust Fund bonds, which will support the new Department of Transportation five-year transportation plan. Debt service payments for the highway program are supported by the statutory dedication of revenues to the Fund. However, after debt service payments are made, they and a commensurate amount of Fund revenues are reclassified from the capital projects to the debt service fund group. Therefore, the debt service appropriation is included in the Debt Service Budget Bill.

DEBT REDUCTION RESERVE FUND

The Debt Reduction Reserve Fund (DRRF) will have a balance of \$750 million at the beginning of 2000-01. An appropriation of \$500 million is recommended to ensure that two-thirds, or \$500 million of the moneys in DRRF, are used in 2000-01 to pay off the State's high cost debt and increase pay-as-you-go spending for previously bond-financed projects programs. The balance of the moneys, or \$250 million, will recapitalize DRRF — ensuring that debt is further reduced in 2001-02.

ALL FUNDS

A contingent debt service appropriation of \$250 million is recommended from All Funds. This appropriation, which is limited to meet any debt service payments due, provides protection in the unlikely event that other appropriations are unavailable or insufficient to meet required payments.

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ALL FUNDS FISCAL REQUIREMENTS DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS

Fund	Available 1999-00	Recommended 2000-01	Change
General Fund			
State Purposes Account			
Rebates to Federal Government	\$10,000,000	\$15,000,000	+\$5,000,000
General Obligation Notes	15,250,000	8,500,000	-6,750,000
Redemption of General Obligation Bonds	225,000,000	225,000,000
Subtotal: General Fund	\$250,250,000	\$248,500,000	-\$1,750,000
Internal Service Funds			
Centralized Services Fund			
Financing Agreements	\$210,000,000	\$205,000,000	-\$5,000,000
Subtotal: Internal Service Funds	\$210,000,000	\$205,000,000	-\$5,000,000
Fiduciary Funds			
School Capital Facilities Financing Reserve Fund			
Trust and Agency Financing	\$25,000,000	\$30,000,000	+\$5,000,000
Subtotal: Fiduciary Funds	\$25,000,000	\$30,000,000	+\$5,000,000
Debt Service Funds			
Mental Health Services Fund			
Financing Agreements	\$345,000,000	\$360,000,000	+\$15,000,000
General Debt Service Fund			
General Obligation Bonds	741,500,000	703,000,000	-38,500,000
Financing Agreements	2,031,100,000	2,242,200,000	+211,100,000
Lease Purchase Payments	57,900,000	61,400,000	+3,500,000
Housing Debt Fund			
General Obligation Bonds	36,000,000	31,000,000	-5,000,000
Health Income Fund			
Financing Agreements	36,250,000	37,250,000	+1,000,000
Financing Agreements	1,750,000	2,000,000	+250,000
Emergency Highway Reconditioning and Preservation Fund			
Financing Agreements	32,000,000	32,000,000
State University Dormitory Income Fund			
Financing Agreements	45,000,000	53,500,000	+8,500,000
Emergency Highway Construction and Reconstruction Fund			
Financing Agreements	32,000,000	32,000,000
Local Government Assistance Tax Fund			
Financing Agreements	537,000,000	518,200,000	-18,800,000
Subtotal: Debt Service Funds	\$3,895,500,000	\$4,072,550,000	+\$177,050,000
Capital Projects Funds - Other			
Debt Reduction Reserve Fund			
Debt Reduction	\$500,000,000	+\$500,000,000
Dedicated Highway and Bridge Trust Fund			
Financing Agreements	\$366,500,000	450,000,000	+83,500,000
Subtotal: Capital Projects Funds - Other	\$366,500,000	\$950,000,000	+\$583,500,000
All Funds			
Contingent Appropriation	\$250,000,000	+\$250,000,000
Subtotal: All Funds	\$250,000,000	+\$250,000,000	
Total Fiscal Year:	\$4,747,250,000	\$5,756,050,000	+\$1,008,800,000
Appropriated 1999-00	\$4,747,250,000		