Annual Information Statement

State of New York

October 2, 2001

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Dated: October 2, 2001

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Annual Information Statement of the State of New York

Introduction

This Annual Information Statement ("Annual Information Statement" or "AIS") is dated October 2, 2001 and contains information only through that date. This AIS constitutes the official disclosure information regarding the financial condition of the State. It includes a discussion of the State's current fiscal year and results from three prior fiscal years, as well as information on the State's economy, debt and other financing activities, governmental organization, public authorities and localities, and litigation.

The financial plan information summarized herein does not contain any revisions related to the terrorist attacks that occurred in New York City on September 11, 2001. The State expects to revise its current spending and revenue estimates in future Financial Plan Updates as the fiscal impact of the attack becomes clearer.

The State plans to issue updates to this Annual Information Statement in November 2001 and January 2002. The State intends to announce publicly when an update or a supplement is issued. The State may choose to incorporate by reference all or a portion of this Annual Information Statement in future Official Statements or related disclosure documents for State or State-supported debt issuance. Readers may obtain informational copies of the AIS, updates, and supplements by contacting Mr. Louis Raffaele, Chief Budget Examiner, Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705, or the Office of the State Comptroller, Gov. A.E. Smith State Office Building, Albany, NY 12236, (518) 474-4015. The General Purpose Financial Statements for the 2000-01 fiscal year can be obtained from the Office of the State Comptroller, Governor A.E. Smith State Office Building, Albany, NY 12236.

This AIS is also available electronically on the Division of the Budget (DOB) Internet site at www.state.ny.us/dob and has been filed with Nationally Recognized Municipal Securities Information Repositories. The information on DOB's website has been prepared by DOB for the convenience of persons seeking certain information therein. Typographical or other errors may have occurred in converting the original source documents to their digital format, and DOB assumes no liability or responsibility for errors or omissions contained at the Internet site. Further, DOB disclaims any duty or obligation to either maintain availability of or to update the information contained at the Internet site or any responsibility or liability for any damages caused by viruses contained within the electronic files at the Internet site.

The information relating to the State of New York in this Annual Information Statement has been furnished by DOB and the Office of the State Comptroller (OSC), with additional information obtained from sources that the State believes to be reliable. Information presented in this document has been compiled from a variety of audited and unaudited sources, and is deemed reliable, but its presentation herein has not been subject to an independent audit process. Information relating to matters described in the section entitled "Litigation" is furnished by the Office of the State Attorney General. This Annual Information Statement, including the Exhibits attached hereto, should be read in its entirety, together with any update or supplement.

During the fiscal year, the Governor, the State Comptroller, State legislators, and others may issue statements or reports that contain predictions, projections or other information relating to the State's financial condition, including potential operating results for the current fiscal year and projected baseline gaps for future fiscal years, that may vary materially from the information provided in this Annual Information Statement. Investors, and other market participants should, however, refer to this Annual Information Statement, as revised, updated, or supplemented, for official information regarding the financial condition of the State.

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Current Fiscal Year

Recent Events Related to New York City Terrorist Attack

The State, in close cooperation with the federal government and the City of New York, is carefully assessing the economic and fiscal implications of the terrorist attack that occurred in New York City (the "City") on September 11, 2001. The Division of the Budget (DOB) expects the attack will depress, at least temporarily, the normal growth in State tax receipts and increase the State's operating costs. A preliminary assessment by DOB suggests that the loss of receipts will be in the range of $1 billion to $3 billion in the current fiscal year (which ends on March 31, 2002) and in the range of $2 billion to $6 billion next fiscal year as a result of disruptions to business activity and tax payment processes. The State anticipates that it will take necessary actions to maintain budget balance for the remainder of the 2001-02 fiscal year, including the use of available reserves. To the extent such reserves need to be utilized in the current fiscal year, the General Fund closing balance would decrease and these reserves would be unavailable to guard against financial plan risks in future fiscal years. The State does not believe the attack or other events will affect its ability to pay the principal and interest on its bonds or other debt service obligations in this or any future fiscal year.

On September 11, 2001, the President of the United States declared the City a national disaster area. The disaster declaration made New York eligible for extraordinary financial assistance from the federal government. On September 15, 2001, the United States Congress enacted an emergency supplemental appropriation of $40 billion for disaster assistance and counter-terrorism measures, with not less than $20 billion allocated to disaster relief and recovery initiatives in New York, Virginia, and Pennsylvania. The State expects to receive a significant share of federal funding for the costs of emergency operations and the reconstruction of damaged sections of the City. In addition, the State has asked for federal assistance to compensate for economic and revenue losses that may follow in the aftermath of the attack. To expedite the flow of federal aid and other assistance, the State enacted $5.5 billion in appropriations on September 13, 2001. It has also authorized $2.5 billion in additional bonding authority for the New York City Transitional Finance Authority (TFA) to fund City costs related to or arising from the terrorist attack.

Readers should note that DOB's current analysis of the impact of the attack on the State's financial condition is preliminary and subject to significant revision as more information is known. Accordingly, the State's 2001-02 Financial Plan summarized below does not contain any revisions related to the events of September 11, 2001. The State expects to revise its current spending and revenue estimates in future Financial Plan Updates as the fiscal impact of the attack becomes clearer. A discussion of certain potential financial ramifications of the World Trade Center attack on the State's economy and finances is contained in "Special Considerations" below.

Recent Events Related to 2001-02 Financial Plan

The State's current fiscal year began on April 1, 2001 and ends on March 31, 2002. The Legislature failed to take final action on the Executive Budget by April 1, but did enact appropriations for State-supported, contingent, contractual, and certain other debt service obligations for the entire 2001-02 fiscal year on March 29, 2001. The State Legislature also passed legislation that extended certain revenue-raising authority and made interim appropriations for State personal service costs, various grants to local governments, and certain other items through August 2, 2001. In prior years, the State Legislature enacted similar interim appropriations to permit operations to continue until the Legislature took final action on the Executive Budget.

On August 3, 2001, the Legislature passed what it characterized as a "baseline" budget for the 2001-02 fiscal year. This "baseline" budget omitted all reappropriations recommended in the Executive Budget, and did not approve new funding proposals. The Governor asserts that the Legislature took certain actions in enacting this "baseline" budget that violate the State Constitution and State Finance Law and has filed suit over the Legislature's actions. For a discussion of the case, please see the section entitled "Litigation" in this AIS.

On September 13, 2001, the Legislature enacted all reappropriations the Governor proposed in the Executive Budget, as well as reappropriations for certain legislative initiatives. Following enactment of the reappropriations, DOB issued a Financial Plan for the 2001-02 fiscal year (the "2001-02 Financial Plan") on September 21, 2001. The 2001-02 Financial Plan sets forth projected receipts and disbursements based on the actions of the Legislature to date. DOB expects to update the 2001-02 Financial Plan quarterly during the fiscal year, and may provide more frequent updates as the fiscal and economic ramifications of the terrorist attack in New York City become clearer.

Overview of the 2001-02 Financial Plan

The 2001-02 Financial Plan described below does not contain any revisions related to the impact of the attack on the World Trade Center in New York City on September 11, 2001.

In fiscal year 2001-02, General Fund receipts, including transfers from other funds, are expected to total $43.61 billion, an increase of $3.73 billion over 2000-01 results. DOB has substantially revised its economic forecast for the 2001-02 fiscal year, and is calling for national and State economic growth to fall below the estimates contained in the Executive Budget Financial Plan released in February 2001 (the "February Financial Plan").

Total General Fund receipts in the 2001-02 Financial Plan are projected to total $43.61 billion, an increase of $951 million over the February Financial Plan estimates. However, after adjusting for the movement of additional receipts from the 2000-01 surplus that were made available in the 2001-02 fiscal year through the tax refund reserve transaction, total projected receipts in the 2001-02 Financial Plan are $263 million below the February Financial Plan estimates.

General Fund disbursements, including transfers to other funds, are projected to total $41.99 billion in fiscal year 2001-02, an increase of $2.29 billion over 2000-01. Projected disbursements in the 2001-02 Financial Plan exceed the February Financial Plan estimates by $650 million, with the net growth in spending comprised of the following: $785 million in higher costs from the failure to achieve cost-saving measures proposed in the Executive Budget; $291 million for costs incurred in 2000-01 but payable in 2001-02, and $159 million in new costs based upon spending results to date. These spending increases are offset in part by $585 million in savings from the Legislature's elimination of proposed General Fund support for various programs and new initiatives proposed by the Governor.

The following table summarizes projected spending for the General Fund, State Funds, and All Governmental Funds in the 2001-02 Financial Plan. Readers unfamiliar with the distinctions among these spending categories should refer to the definitions in Exhibit A.

	Actual 2000-01	Projected 2001-02	Dollar Change	Percent Change From 2000-01	Avg. Annual Percent Change 1994-95 thru 2001-02
General Fund	**$39,702**	**$41,993**	**$2,291**	**5.8%**	**3.3%**
State Funds	**54,172**	**57,957**	**3,785**	**7.0%**	**4.4%**
All Funds	**79,753**	**84,050**	**4,297**	**5.4%**	**4.5%**

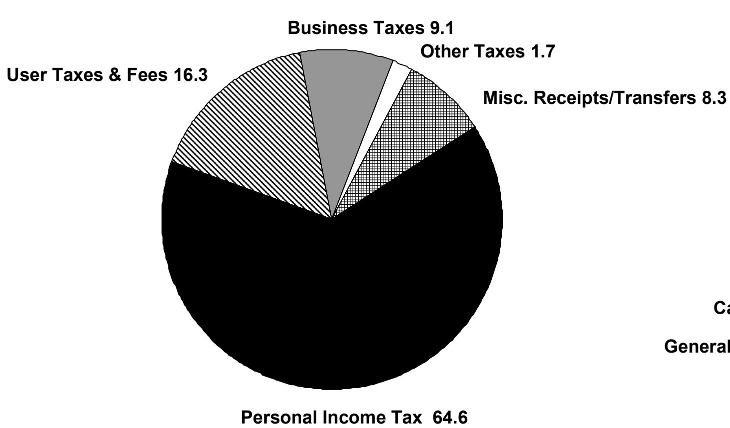
The 2001-02 Financial Plan projects a closing balance in the General Fund of $2.71 billion. This amount is comprised of $1.48 billion in a new reserve for economic uncertainties, $627 million in the Tax Stabilization Reserve Fund, $300 million in undesignated reserves, $151 million in the Contingency Reserve Fund, $142 million in the Community Projects Fund, and $14 million in the Universal Pre-K Fund. To the extent that reserves are utilized to offset the impact of costs associated with the World Trade Center disaster, the projected General Fund closing balance would decrease and these reserves would be unavailable in future fiscal years.

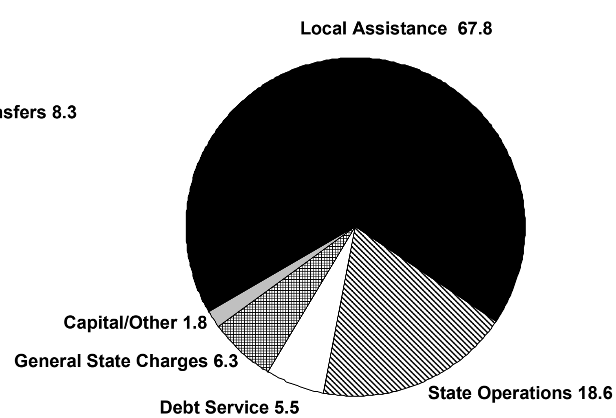
2001-02 State Financial Plan

Four governmental fund types comprise the State Financial Plan: the General Fund, the Special Revenue Funds, the Capital Projects Funds, and the Debt Service Funds. The State's fund structure adheres to the accounting standards of the Governmental Accounting Standards Board. This section discusses significant activities in the General Fund and the other governmental funds anticipated in 2001-02.

General Fund

The General Fund is the principal operating fund of the State and is used to account for all financial transactions except those required to be accounted for in another fund. It is the State's largest fund and receives almost all State taxes and other resources not dedicated to particular purposes. In the State's 2001-02 fiscal year, the General Fund is expected to account for approximately 46 percent of All Governmental Funds disbursements and 67 percent of State Funds disbursements. General Fund moneys are also transferred to other funds, primarily to support certain capital projects and debt service payments in other fund types. The graphs below depict the components of projected receipts and disbursements in the General Fund.





Many complex political, social and economic forces influence the State's economy and finances, which may in turn affect the State Financial Plan. These forces may affect the State unpredictably from fiscal year to fiscal year and are influenced by governments, institutions, and organizations that are not subject to the State's control. The 2001-02 Financial Plan is also necessarily based upon forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies. The recent terrorist attacks in the City magnify the uncertainties inherent in the State's forecasts, and substantially increase the likelihood that current projections will differ materially and adversely from the projections set forth in this AIS. See the section entitled "Special Considerations" below for a discussion of certain risks and uncertainties faced by the State.

Projected General Fund Receipts

The receipts projections for the 2001-02 fiscal year described below are based on DOB's revised economic forecast, which calls for national and State economic growth to fall below the estimates contained in the Executive Budget Financial Plan released in February 2001. However, the projections are not adjusted to reflect the Financial Plan impact of the World Trade Center disaster. A preliminary assessment by DOB suggests that the loss of receipts will be in the range of $1 billion to $3 billion in the current fiscal year (which ends on March 31, 2002) and in the range of $2 billion to $6 billion next fiscal year as a result of disruptions to business activity and tax payment processes.

Total General Fund receipts, including transfers from other funds are projected to total $43.61 billion in fiscal year 2001-02, an increase of $3.73 billion from 2000-01. This total includes $40.01 billion in tax receipts, $1.50 billion in miscellaneous receipts, and $2.10 billion in transfers from other funds. The transfer of $3.4 billion in resources through the tax refund reserve account from fiscal year 2000-01 to fiscal year 2001-02 has the effect of exaggerating the growth in State receipts from year to year by depressing 2000-01 figures and inflating 2001-02 projections. Table 3 at the end of this section outlines the movement of resources across the fiscal years.

Personal Income Taxes			
1998-99	**1999-00**	**2000-01**	**2001-02**
$20,080	**$20,339**	**$23,566**	**$28,181**

The *personal income tax* is imposed on individuals, estates and trusts and is based, with certain modifications, on federal definitions of income and deductions. Net General Fund personal income tax collections are projected to reach $28.18 billion in fiscal year 2001-02. Collections in this category, which account for well over half of General Fund receipts, are expected to exceed 2000-01 results by $4.62 billion. However, after excluding the impact of the tax refund reserve transaction and the diversion of certain income tax receipts to the STAR fund, the underlying growth in projected receipts is approximately $440 million, or 1.7 percent.

User Taxes and Fees			
1998-99	**1999-00**	**2000-01**	**2001-02**
$7,244	**$7,604**	**$7,404**	**$7,094**

User taxes and fees are comprised of the State's sales and use tax; and cigarette, tobacco, alcoholic beverage, and auto rental taxes. They also include receipts from motor vehicle fees and alcoholic beverage license fees. Dedicated transportation funds outside the General Fund receive all the revenues of the motor fuel tax and motor vehicle registration fees, and all highway use taxes and fees. Receipts from user taxes and fees are projected to total $7.10 billion in fiscal year 2001-02, a decrease of $310 million from 2000-01.

Business Taxes			
1998-99	**1999-00**	**2000-01**	**2001-02**
$4,857	**$4,560**	**$4,328**	**$3,979**

Business taxes include franchise taxes based generally on the net income of business, banking, and insurance corporations, taxes based on the gross receipts of utilities, and gallonage-based petroleum business taxes.

Total business tax collections are projected to total $3.98 billion in fiscal year 2001-02, a decrease of $349 million from 2000-01. The year-to-year decline is attributable to the ongoing phase-in of tax reductions, the largest of which is the corporation franchise tax cut, which is entering its third year. Other tax reductions that affect receipts in this category include: reductions in the bank and insurance franchise tax rates, a reduction in the cap on tax liability for non-life insurers, the expansion of tax credits for economically-distressed areas, the reduction of the gross receipts tax, and the continuation of the "Power for Jobs" program.

Other Taxes			
1998-99	**1999-00**	**2000-01**	**2001-02**
$1,138	**$1,107**	**$795**	**$757**

Other taxes include the estate and gift tax, the real property gains tax, and pari-mutuel taxes. Other taxes are projected to total $757 million in fiscal year 2001-02, a decrease of $38 million from 2000-01. The primary factors accounting for this decline include tax reductions in pari-mutuel taxes, real property gains taxes, and estate and gift taxes enacted in prior fiscal years.

Miscellaneous Receipts			
1998-99	**1999-00**	**2000-01**	**2001-02**
$1,587	**$1,648**	**$1,553**	**$1,499**

Miscellaneous receipts include investment income, abandoned property receipts, medical provider assessments, minor federal grants, receipts from public authorities, and certain license and fee revenues. Receipts in this category are projected to total $1.50 billion in fiscal year 2001-02, a decrease of $54 million from 2000-01.

Transfers From Other Funds			
1998-99	**1999-00**	**2000-01**	**2001-02**
$1,917	**$2,137**	**$2,237**	**$2,098**

Transfers from other funds to the General Fund consist primarily of tax revenues in excess of debt service requirements, including the one percent sales tax used to support payments to the Local Government Assistance Corporation (LGAC). Transfers from other funds are projected to total $2.10

billion in fiscal year 2001-02, a decrease of $139 million from 2000-01. Sales tax revenues in excess of LGAC requirements are expected to decline by $19 million compared to 2000-01, while all other transfers are expected to decline by $120 million.

Projected General Fund Disbursements

The disbursements projections summarized below do not reflect the potential Financial Plan impact of the World Trade Center disaster.

General Fund disbursements, including transfers to other funds, are projected to total $42.0 billion in fiscal year 2001-02, an increase of $2.30 billion over 2000-01.

Spending for education programs accounts for $1.39 billion of the $2.3 billion annual increase in spending. On a State fiscal year basis, school aid will grow by $979 million (8.5 percent) over 2000-01. Spending on special education and higher education programs is projected to grow by $410 million in fiscal year 2001-02, primarily for handicapped programs ($247 million) and the State University of New York ($159 million). Outside of education, the largest growth in spending is for Medicaid ($398 million). All other spending grows by $504 million over 2000-01 levels.

Projected spending in the 2001-02 Financial Plan is $650 million above the February Financial Plan. The growth results from Legislative inaction on cost-saving proposals, costs incurred since the February Financial Plan, and timing changes in spending, offset by spending cuts and the elimination of all new initiatives.

Legislative inaction to date on the Governor's Executive Budget savings proposals has added $785 million in costs above February Financial Plan. These proposals include building aid reform ($245 million), a new multi-State lottery initiative ($125 million), Medicaid cost containment ($138 million), EPIC prescription drug cost containment ($41 million), and the ability to continue to apply TANF Block Grant monies to finance welfare and child welfare spending ($188 million).

New costs incurred since the February Financial Plan added $159 million to the 2001-02 Financial Plan, primarily for pensions ($44 million), child welfare ($60 million), health care litigation and other related costs ($55 million).

Timing-related spending increases, which reflect spending budgeted to occur in fiscal year 2000-01 but delayed to fiscal year 2001-02, added $291 million in new costs. These include certain legislative initiatives ($126 million), collective bargaining costs ($55 million), litigation costs ($43 million), and preschool special education claims ($67 million).

Spending cuts and the elimination of all new initiatives in the February Financial Plan lowered projected spending in the 2001-02 Financial Plan by $585 million. These actions include the elimination of proposed General Fund support to health care services currently funded from special revenue funds ($137 million), non-personal service cuts across various State agencies ($113 million), as well as reduced funding for mental hygiene programs ($74 million), economic development programs ($65 million), statewide transit subsidies ($38 million), and technology initiatives ($32 million).

Grants to Local Governments			
1998-99	**1999-00**	**2000-01**	**2001-02**
$24,776	**$25,590**	**$26,667**	**$28,453**

Grants to local governments is the largest category of General Fund disbursements and includes financial aid to local governments and non-profit organizations, as well as entitlement payments for individuals. The largest areas of spending in local assistance are for aid to public schools (44 percent) and for the State's share of Medicaid payments to medical providers (22 percent). Spending for higher education programs (6 percent), mental hygiene programs (5 percent), welfare assistance (4 percent), and children and families services (4 percent) represent the next largest areas of local aid.

Spending in local assistance is projected to total $28.45 billion in fiscal year 2001-02, an increase of $1.79 billion (6.7 percent) from 2000-01. The change in spending is comprised primarily of increases for school aid, Medicaid, children and families services, and health programs, offset by decreases in welfare costs and stock transfer incentive aid payments.

General Fund spending for school aid is projected at $12.50 billion in fiscal year 2001-02 (on a State fiscal year basis) an increase of $979 million (8.5 percent). This reflects the fiscal year cost of the school year increase of $745 million to fund formula-based and categorical aid programs, as well as the "tail" of aid payable from the 2000-01 school year. Included in the school aid increase is the loss of building aid reforms ($245 million) proposed by the Governor in the Executive Budget but not enacted by the Legislature.

Medicaid spending is estimated at $6.12 billion in fiscal year 2001-02, an increase of $398 million (7.0 percent) from 2000-01. This reflects underlying spending growth of 6.9 percent and the loss of proposed cost containment measures, partially offset by efforts to ensure appropriate federal financing. General Fund spending for other health programs is projected at $631 million, an increase of $146 million (30.1 percent) from 2000-01. This increase is primarily due to growth in the elderly prescription drug program ($86 million) and costs associated with the containment of the West Nile Virus ($22 million).

Spending on welfare is projected at $1.05 billion in fiscal year 2001-02, a decrease of $263 million from 2000-01. This decrease is largely attributable to continued welfare caseload declines and increased support provided by federal funding in such areas as the Earned Income Tax Credit and the Child and Dependent Care Tax Credit. The welfare caseload is projected at about 741,000 recipients, down 37,000 from 2000-01 levels.

Local assistance spending for Children and Families Services is projected at $1.08 billion in fiscal year 2001-02, up $224 million from 2000-01. The increase in spending includes the loss of federal Temporary Assistance for Needy Families block grant funds that must now be supported by the General Fund, as well as program growth in child protective services.

Spending for all other local assistance programs will total $7.07 billion in fiscal year 2001-02, a net increase of $302 million (4.5 percent) from the prior year. This includes increased State support for tuition assistance ($57 million) and children with special educational needs ($247 million), partially offset by the elimination of stock transfer incentive aid payments ($114 million).

State Operations			
1998-99	**1999-00**	**2000-01**	**2001-02**
$6,617	**$6,600**	**$7,604**	**$7,808**

State operations pays for the costs of operating the Executive, Legislative, and Judicial branches of government. Spending in this category is projected at $7.81 billion in fiscal year 2001-02, an increase of $204 million or 2.7 percent over the prior year. The growth in State operations is primarily attributable to the annualized costs of labor agreements and related costs with State employee unions ($238 million).

The State's overall workforce is projected to total 193,500 persons on March 31, 2002, down about 1,400 from March 31, 2001. For more information on the State's workforce, see the section entitled "State Organization – State Government Employment" in this AIS.

General State Charges			
1998-99	1999-00	2000-01	2001-02
$2,259	$2,087	$2,567	$2,659

General State charges (GSCs) account for the costs of providing fringe benefits to State employees and retirees of the Executive branch, Legislature, and Judiciary. These payments, many of which are mandated by statute and collective bargaining agreements, include employer contributions for pensions, social security, health insurance, workers' compensation, and unemployment insurance. GSCs also cover State payments-in-lieu-of-taxes to local governments for certain State-owned lands, and the costs of defending lawsuits against the State and its public officers.

Disbursements for GSCs are estimated at $2.66 billion in fiscal year 2001-02, an increase of $92 million from the prior year. The growth results from higher health insurance rates in calendar year 2001, primarily to cover the increasing cost of providing health insurance benefits for State employees, as well as higher costs for pensions and related benefits.

Debt Service			
1998-99	1999-00	2000-01	2001-02
$9	$6	$1	$0

Debt service covers short-term State obligations, and formerly included interest costs on the State's commercial paper program. In fiscal year 2001-02, all of the State's debt service is for long-term bonds, and is shown as a transfer to the General Debt Service Fund.

To reduce costs, the State continues to diversify its debt portfolio to include a prudent level of short-term debt obligations. Since borrowing costs for the commercial paper program and variable rate bonds are comparable and both are effective short-term debt instruments, the use of the commercial paper program was eliminated during fiscal year 2000-01 and replaced with the issuance of additional variable rate general obligation debt. As a result, the State satisfied its remaining commercial paper debt service obligations in fiscal year 2000-01.

Transfers to other funds from the General Fund are made primarily to finance certain portions of State capital projects spending and debt service on long-term bonds where these costs are not funded from other sources. For a full discussion of the State's capital and debt programs, see the section entitled "Debt and Other Financing Activities" in this AIS.

Transfer to Other Funds			
1998-99	1999-00	2000-01	2001-02
$2,854	$2,887	$2,862	$3,073

Transfers in support of debt service are General Fund resources used to pay principal, interest, and related expenses on long-term bonds that are not funded from other resources. Long-term debt service transfers are projected at $2.29 billion in fiscal year 2001-02, an increase of $74 million from 2000-01. This increase reflects debt service costs from new capital spending, primarily for education and corrections purposes. In addition, the Legislature's inaction on the proposed revenue bond initiative results in increased debt service costs of about $21 million.

Transfers for capital projects provide General Fund support for projects that are not financed by bond proceeds, dedicated taxes, other revenues, or federal grants. Transfers for capital projects of $316 million in 2001-02 are projected to increase $31 million from the prior year, reflecting continued cash support of the bonded programs converted to cash in the prior years and the Governor's recommended General Fund support for the proposed superfund.

All other transfers, which reflect the remaining transfers from the General Fund to other funds, are estimated to total $468 million in 2001-02, an increase of $106 million. This reflects a State subsidy of $69 million to SUNY and General Fund support of the court facilities incentive aid program ($37 million).

Fund Balances

The 2001-02 Financial Plan projects a closing balance in the General Fund of $2.71 billion. This amount is comprised of $1.48 billion in a new reserve for economic uncertainties, $627 million in the Tax Stabilization Reserve Fund, $300 million in undesignated reserves, $151 million in the Contingency Reserve Fund, $142 million in the Community Projects Fund, and $14 million in the Universal Pre-K Fund. To the extent that reserves are utilized to offset the impact of costs associated with the World Trade Center disaster, the projected General Fund closing balance would decrease and such reserves would be unavailable in future fiscal years.

Outyear Projections of Receipts and Disbursements

DOB will formally update its projections of receipts and disbursements for future years as part of the Governor's 2002-03 Executive Budget submission. The 2001-02 Executive Budget, as amended, projected budget gaps of $2.49 billion in 2002-03 and $2.92 billion in 2003-04. The projections did not include unspecified spending "efficiencies," nor did they assume the use of any of the unspecified reserves set aside for economic uncertainties. *Preliminary analysis indicates that the outyear gaps produced by legislative action on the 2001-02 budget are comparable to these estimates; however, these estimates do not yet reflect any impact from the World Trade Center disaster, which could have a materially adverse impact on these projections.*

In recent years, the State has closed projected budget gaps which DOB estimated at $5.0 billion (1995-96), $3.9 billion (1996-97), $2.3 billion (1997-98), and less than $1.0 billion (fiscal years 1998-99 through 2000-01). The Governor will submit a balanced budget and Financial Plan for 2002-03 with the Executive Budget.

Other Governmental Funds

In addition to the General Fund, the 2001-02 Financial Plan includes Special Revenue Funds, Capital Projects Funds, and Debt Service Funds. These are discussed below.

All Governmental Funds spending is estimated at $84.05 billion in fiscal year 2001-02, an increase of $4.30 billion over 2000-01. When spending for the STAR tax cut relief program is excluded, spending growth is 4.6 percent. The spending growth is comprised of changes in the General Fund ($2.08 billion, excluding transfers), federal support for Medicaid spending ($856 million), and the STAR tax cut relief program ($694 million). All other spending grows by $666 million or 2.4 percent.

Special Revenue Funds

Total disbursements for programs supported by Special Revenue Funds are projected at $36.29 billion in fiscal year 2001-02, an increase of $1.93 billion over 2000-01. Special Revenue Funds include federal grants and State special revenue funds. The estimates described below do not include any federal aid or State assistance related to the attack on the World Trade Center.

Federal grants comprise 68 percent of all Special Revenue spending in fiscal year 2001-02, comparable to prior years. Disbursements from federal funds are estimated at $24.65 billion, up by $540 million (2.2 percent) from 2000-01. Medicaid is the largest program within federal funds, accounting for over half of total spending in this category. In fiscal year 2001-02, federal support for Medicaid spending is projected at $14.20 billion, an increase of $856 million over 2000-01. This growth is offset by decreases in children and families services resulting from funding eliminated by the Legislature.

State special revenue spending is projected to be $11.64 billion in fiscal year 2001-02, an increase of $1.39 billion or 13.6 percent from 2000-01. The major components of growth include the final phase of the STAR program valued at $2.6 billion (up $694 million from 2000-01), additional spending of $146 million for Mass Transportation programs, $144 million in additional spending under the Health Care Reform Act of 2000, and an increase of $90 million for the Elderly Pharmaceutical Insurance Coverage Program.

Capital Projects Funds

Spending from Capital Projects Funds in fiscal year 2001-02 is projected at $4.92 billion, an increase of $458 million (10.3 percent) from the prior year. The increase is primarily attributable to $362 million for new capital projects in transportation, housing and economic development.

Debt Service Funds

Spending from Debt Service Funds are estimated at $3.92 billion in fiscal year 2001-02, a decrease of $175 million, or 4.3 percent, from 2000-01. This results from the use of $421 million of DRRF monies in 2000-01 to defease high cost debt. The remaining increases are for a variety of purposes, including transportation, education, mental health, corrections, and general obligation financings.

As proposed by the Governor, $500 million in deposits to the Debt Reduction Reserve Fund (DRRF) will be used in the current year to pay off the State's high cost debt and increase pay-as-you-go spending for previously bond financed programs. The use of DRRF is expected to reduce the State's total future debt service costs by more than $700 million.

2001-02 GAAP-Basis Financial Plan

The projections summarized below do not reflect the potential Financial Plan impact of the World Trade Center disaster.

State law requires the State to update its projected GAAP-basis financial results for the current fiscal year on or before September 1 of each year. The State bases its GAAP projections on the cash estimates in the Enacted Budget Report and on actual results for the 2000-01 fiscal year as reported by the State Comptroller on July 27, 2001.

The State ended the 2000-01 fiscal year with an accumulated GAAP-basis surplus in the General Fund of $4.17 billion. In 2001-02, the General Fund GAAP Financial Plan shows total revenues of $40.56 billion, total expenditures of $41.22 billion and net other financing uses of $609 million. The State projects an operating deficit in the General Fund of $1.27 billion, primarily from the use of prior-year surplus revenues. The State's accumulated GAAP surplus is projected to total $2.90 billion at the end of fiscal year 2001-02.

Special Considerations

The ramifications of the terrorist attack in New York raise many complex issues related to State finances. The State expects substantial federal aid to be available to pay for most of the costs for disaster assistance and reconstruction. On September 15, 2001, the United States Congress enacted an emergency supplemental appropriation of $40 billion for disaster assistance and counter-terrorism measures, with not less than $20 billion allocated to disaster relief and recovery initiatives in New York, Virginia, and Pennsylvania. To expedite the flow of federal aid and other assistance, the State Legislature enacted $5.5 billion in appropriations on September 13, 2001. It also authorized $2.5 billion in additional bonding authority for the TFA to fund City costs related to or arising from the terrorist attack.

Federal funding for disaster assistance is available in several forms. Under current law, the federal government pays 75 percent or more of the costs for emergency response activities and the repair of public buildings. On September 21, 2001, the President waived any matching requirement for the State and the City, clearing the way for 100 percent reimbursement for all eligible disaster-related costs. Other significant assistance is available through the Small Business Administration for property losses, cash-flow needs, and hazard mitigation.

The terrorist attack in New York City may have materially adverse consequences for the State, but at this time it is not possible to provide a definitive assessment. A preliminary assessment suggests that the loss of tax and other receipts will be in the range of $1 billion to $3 billion in the 2001-02 fiscal year and in the range of $2 billion to $6 billion next fiscal year. It is expected that a number of economic sectors that generate State tax revenues will be disrupted temporarily, including finance, insurance, real estate, and tourism. In the long term, the most significant risk is the possible loss of financial sector firms and related businesses to other states. The financial sector is an important economic activity in the State and a substantial reduction in its operations would likely have an adverse impact on State tax revenues, leading to material changes to the 2001-02 Financial Plan and the State's outyear projections of receipts, adding further pressure to budget balance in future fiscal years.

Aside from the recent terrorist attacks in New York City, many complex political, social and economic forces influence the State's economy and finances, which may in turn affect the State's Financial Plan. These forces may affect the State unpredictably from fiscal year to fiscal year and are influenced by governments, institutions, and events that are not subject to the State's control. The Financial Plan is also necessarily based upon forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies.

In every year, many uncertainties exist in the forecast of the national and State economies. Given the recent terrorist attacks, the nation's war-time preparations, and the volatility in financial markets, such uncertainties are significantly more pronounced at this time. For example, the current downturn in the financial markets could continue over a sustained period. The securities industry is more important to the New York economy than to the national economy as a whole, potentially amplifying the impact of such a downturn. A large change in stock market performance during the forecast horizon could result in wage and unemployment levels that are significantly different from those embodied in the current forecast.

Two variables which stand out as being particularly vulnerable to financial market volatility, and which are closely associated with the recent strength of State personal income tax receipts, are finance sector bonus income and capital gains realizations. Historically, financial sector bonus income has been closely tied to security firm profits. With many Wall Street profit-making activities (such as initial public offerings and mergers and acquisitions) now significantly below 2000 levels, DOB is forecasting a significant decline in financial sector profits for 2001, which is likely to be exacerbated by the terrorist attacks. DOB also expects that the decline in equity values observed since early 2000, combined with the recent decline in the average holding period for equities, will produce a decline in capital gains realizations for this year. However, both bonus income and capital gains realizations have historically been subject to a large degree of variation and are likely to fall substantially below earlier expectations.

An ongoing risk to the State Financial Plan arises from the potential impact of certain litigation and federal disallowances now pending against the State, which could produce adverse effects on the State's projections of receipts and disbursements. The Financial Plan contains projected reserves of $151 million in 2001-02 for such events, but assumes no significant federal disallowances or other federal actions that could adversely affect State finances. For more information on certain litigation pending against the State, see the section entitled "Litigation" in this AIS.

The Division of the Budget expects to revise its projections of receipts and disbursements relating to the 2001-02 Financial Plan as the impact of the terrorist attack in New York becomes clearer. Actual results, therefore, could differ materially and adversely from the projections set forth in this AIS. In the past, the State has taken management actions to address potential financial plan shortfalls, and DOB believes it could take similar actions should adverse variances occur in its projections for the current fiscal year. To help guard against such risks, the State is maintaining a total of $2.6 billion in General Fund reserves (this amount excludes balances in the Community Projects Fund and Universal Pre-K Fund).

Table 1
General Fund Receipts and Disbursements
State Fiscal Year 2001-2002
(millions of dollars)

	February Estimate	Change	September Estimate
OPENING FUND BALANCE	1,144	(46)	1,098
Personal Income Tax	26,736	1,445	28,181
User Taxes and Fees:			
Sales and Use Tax	6,518	(367)	6,151
Cigarette and Tobacco Tax	463	34	497
Motor Vehicle Fees	195	5	200
Alcoholic Beverage Taxes and Fees	209	(2)	207
Auto Rental Tax	38	1	39
Subtotal	7,423	(329)	7,094
Business Taxes:			
Corporation Franchise Tax	2,221	(221)	2,000
Corporation and Utilities Taxes	875	(14)	861
Insurance Taxes	540	40	580
Bank Tax	505	33	538
Subtotal	4,141	(162)	3,979
Other Taxes:			
Estate and Gift Taxes	736	(14)	722
Real Property Gains Tax	3	2	5
Pari-mutuel Tax	31	(2)	29
Other Taxes	1	0	1
Subtotal	771	(14)	757
Miscellaneous Receipts & Federal Grants	1,429	70	1,499
Transfers from Other Funds:			
Sales Tax in Excess of LGAC Debt Service	1,861	(122)	1,739
All Other Transfers	296	63	359
Subtotal	2,157	(59)	2,098
TOTAL RECEIPTS	42,657	951	43,608
Grants to Local Governments	27,790	663	28,453
State Operations	7,897	(89)	7,808
General State Charges	2,589	70	2,659
Debt Service	0	0	0
Transfers to Other Funds:			
In Support of Debt Service	2,268	21	2,289
In Support of Capital Projects	341	(25)	316
All Other Transfers	458	10	468
Subtotal	3,067	6	3,073
TOTAL DISBURSEMENTS	41,343	650	41,993
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	1,314	301	1,615
CLOSING FUND BALANCE	2,458	255	2,713

Source: New York State Division of the Budget

Table 2
Cash Basis Financial Plan
All Governmental Funds
State Fiscal Years 2001-02
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,098	2,199	(89)	422	3,630
Receipts					
Taxes	40,011	2,919	1,549	2,666	47,145
Miscellaneous receipts	1,499	6,942	1,768	614	10,823
Federal grants	0	24,797	1,451	0	26,248
Total receipts	41,510	34,658	4,768	3,280	84,216
Disbursements					
Grants to local governments	28,453	29,227	967	0	58,647
State operations	7,808	6,599	0	7	14,414
General State charges	2,659	462	0	0	3,121
Debt service	0	0	0	3,913	3,913
Capital projects	0	6	3,949	0	3,955
Total disbursements	38,920	36,294	4,916	3,920	84,050
Other financing sources (uses)					
Transfers from other funds	2,098	2,511	595	4,995	10,199
Transfers to other funds	(3,073)	(2,064)	(778)	(4,124)	(10,039)
Bond and note proceeds	0	0	237	0	237
Use of Debt Reduction Reserve Fund	0	0	0	(500)	(500)
Net other financing sources (uses)	(975)	447	54	371	(103)
Change in fund balance	1,615	(1,189)	(94)	(269)	63
Closing fund balance	2,713	1,010	(183)	153	3,693

Source: New York State Division of the Budget

Tax Refund Reserve Account

Personal income tax net collections in recent years have been affected by the pattern of refund payments made and reflect transactions in the tax refund reserve account. The tax refund reserve account is used to hold moneys designated to pay tax refunds. The Comptroller deposits into this account tax moneys in the amounts and at the times determined in the discretion of the Commissioner of Taxation and Finance. The deposit of moneys into the account during a fiscal year has the effect of reducing receipts for such fiscal year, and the withdrawal of moneys from the account has the effect of increasing receipts in the fiscal year of withdrawal. The tax refund reserve account also includes amounts made available as a result of the LGAC financing program that are required to be on deposit in this account. Beginning in 1998-99, a portion of personal income tax collections was deposited directly in the School Tax Reduction (STAR) Fund to be used to make payments to reimburse local governments for their revenue decreases due to the STAR program. The 2001-02 Financial Plan also assumes an additional $250 million deposit of personal income taxes to the Debt Reduction Reserve Fund.

The chart below shows actual components of gross collections, the State/City offset, refund reserve activity, refunds and net collections of personal income tax for fiscal years 1998-99, 1999-2000 and 2000-2001 as well as projected amounts for the 2001-02 fiscal year.

Table 3
Personal Income Tax Collections,
Refunds And Refund Reserve Activity
(Millions of Dollars)

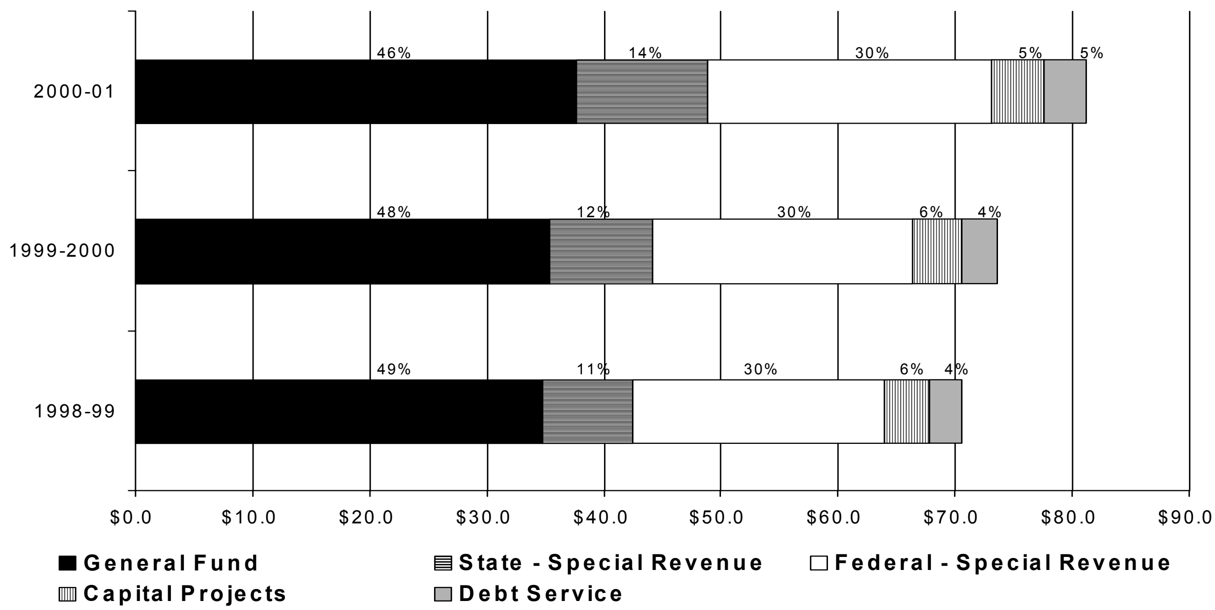
	1998-99	1999-2000	2000-01	2001-02 (1)
Withholdings	$16,521	$18,460	$20,955	$21,251
Estimated Payments	5,155	5,835	6,874	6,690
Final Payments	1,229	1,429	1,684	1,905
Delinquencies	466	512	558	575
Gross Collections	$23,371	$26,236	$30,071	$30,421
State/City Offset	($300)	($325)	($169)	($225)
Refund Reserve (Increase) Decrease	86	(1,661)	450	2,916
Refunds	(2,495) (2)	(2,716) (3)	(3,460) (4)	(3,310) (5)
Reported Tax Collections	$20,662	$21,534	$26,892	$29,802
STAR Fund Deposits	($582)	($1,195)	($3,076)	($1,371)
DRRF	---	---	(250)	(250)
General Fund	$20,080	$20,339	$23,566	$28,181

Source: State Division of the Budget.
(1) As projected on September 21, 2001.
(2) Reflects the payment of the balance of refunds on 1997 liability and the payment of $460 million of 1998 calendar year refunds in the last quarter of the State's 1998-99 fiscal year and a balance in the tax refund reserve account of $2.306 billion.
(3) Reflects the payment of the balance of refunds on 1998 liability and the payment of $460 million of 1999 calendar year refunds in the last quarter of the State's 1999-2000 fiscal year and a balance in the tax refund reserve account of $3.967 billion.
(4) Reflects the payment of the balance of refunds on 1999 liability and the payment of $960 million of 2000 calendar year refunds in the last quarter of the State's 2000-2001 fiscal year and a balance in the tax refund reserve account of $3.517 billion.
(5) Reflects the payment of the balance of refunds on 2000 liability and the payment of $960 million of 2001 calendar year refunds in the last quarter the State’s 2001-02 fiscal year and a balance in the tax refund reserve account of $601 million.

Prior Fiscal Years

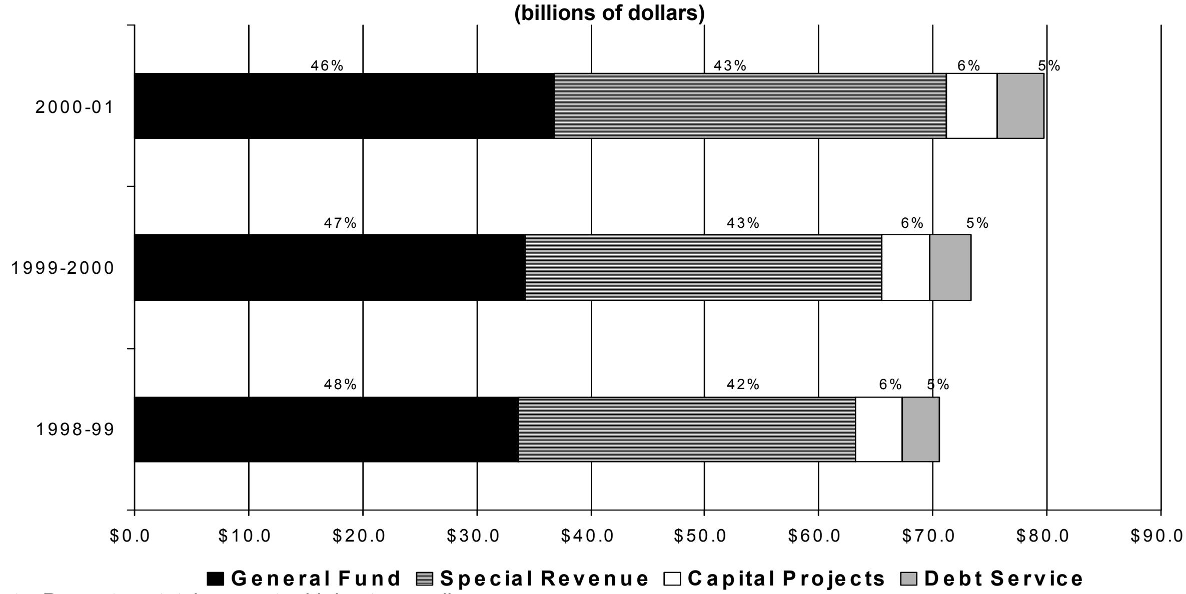
The following four tables show the composition of the State's governmental funds and its General Fund. Following the tables is a summary of the cash-basis results for the State's three most recent fiscal years for the four governmental fund types, with particular emphasis on the General Fund.

Table 4
Governmental Funds Receipts
State Fiscal Years 1998-99, 1999-2000, and 2000-01
(billions of dollars)



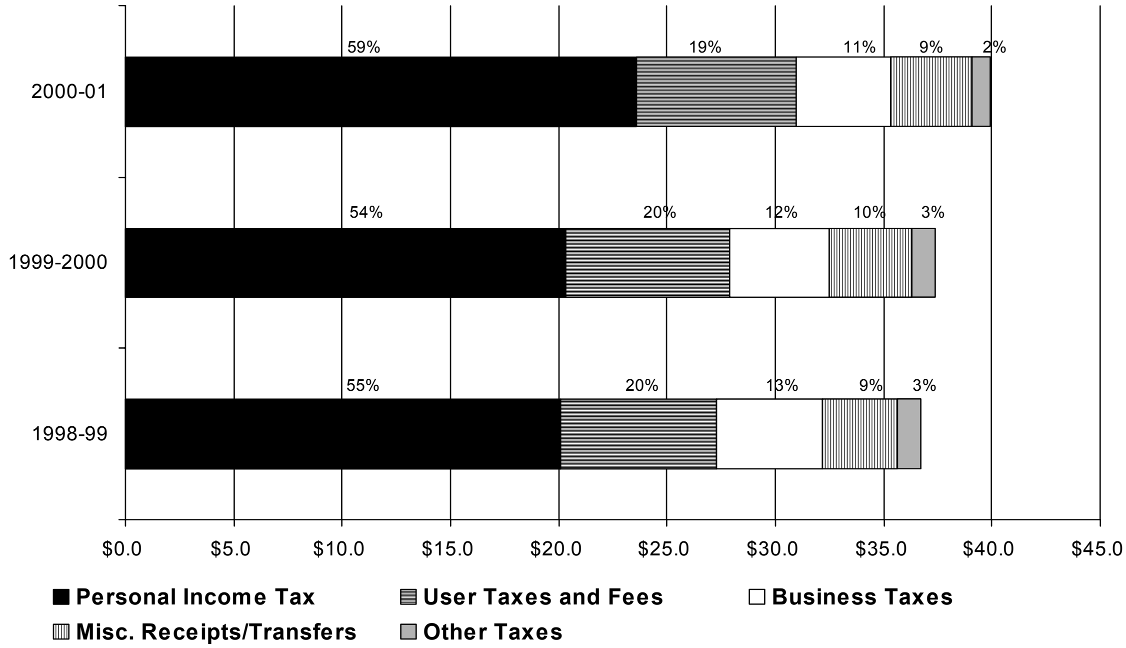
Note: Percentage total may not add due to rounding.

Table 5
Governmental Funds Disbursements
State Fiscal Years 1998-99, 1999-2000, and 2000-01
(billions of dollars)



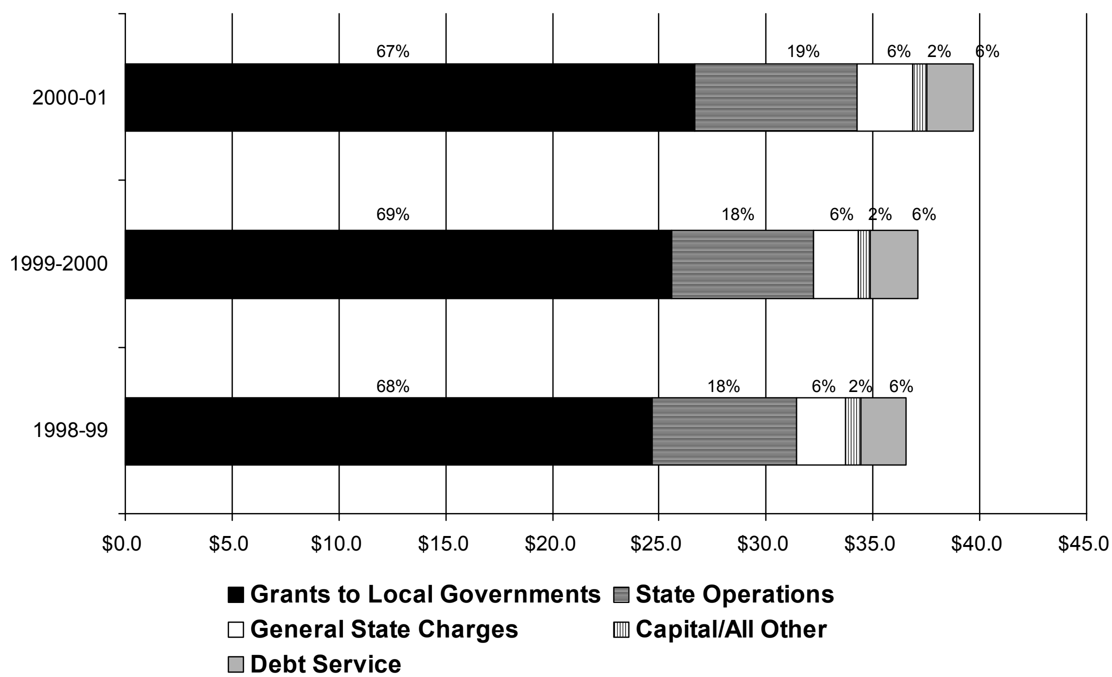
Note: Percentage total may not add due to rounding.

Table 6
General Fund Receipts and Transfers by Source
State Fiscal Years 1998-99, 1999-2000, and 2000-01
(billions of dollars)



Note: Percentage total may not add due to rounding.

Table 7
General Fund Disbursements and Transfers by Type
State Fiscal Years 1998-99, 1999-2000, and 2000-01
(billions of dollars



Note: Percentage total may not add due to rounding.

Cash-Basis Results for Prior Fiscal Years

The State reports its financial results on two bases of accounting: the cash basis, showing receipts and disbursements; and the modified accrual basis, prescribed by Generally Accepted Accounting Principles (GAAP), showing revenues and expenditures. These financial terms are described in the Glossary of Financial Terms in Exhibit A to this AIS.

General Fund 1998-99 through 2000-01

The General Fund is the principal operating fund of the State and is used to account for all financial transactions, except those required to be accounted for in another fund. It is the State's largest fund and receives most State taxes and other resources not dedicated to particular purposes. General Fund moneys are also transferred to other funds, primarily to support certain capital projects and debt service payments in other fund types.

New York State's financial operations have improved during recent fiscal years. During its last nine fiscal years, the State has recorded balanced budgets on a cash basis, with positive year-end fund balances.

A narrative description of cash-basis results in the General Fund for the prior three fiscal years is presented below, followed by tables that summarize actual General Fund results. For a description of the principal State taxes and fees, see Exhibit B to this AIS.

2000-01 Fiscal Year

The State ended its 2000-01 fiscal year on March 31, 2001 in balance on a cash basis with a General Fund surplus of $2.73 billion as reported by DOB. After year-end adjustments described below, the closing balance in the General Fund was $1.10 billion, a decrease of $69 million from the 1999-2000 fiscal year. Of this balance, $627 million was held in the Tax Stabilization Reserve Fund (TSRF) (after a deposit of $80 million in fiscal year 2000-01), $150 million in the Contingency Reserve Fund (CRF), $292 million in the Community Projects Fund (CPF), and $29 million in the Universal Pre-Kindergarten Fund.

The closing fund balance excludes $3.52 billion on deposit in the tax refund reserve account at the end of the 2000-01 fiscal year. The tax refund reserve account is used to adjust personal income tax collections across fiscal years to pay for tax refunds, as well as to accomplish other Financial Plan objectives. The Governor has proposed retaining $1.73 billion of the $3.52 billion balance for reserves, with $1.48 billion to be set aside for economic uncertainties and $250 million to be deposited into the Debt Reduction Reserve Fund. The remaining balance of $1.79 billion is comprised of $1.22 billion that is available to accomplish Financial Plan objectives, $521 million from the Local Government Assistance Corporation (LGAC) that may be used to pay tax refunds during fiscal year 2001-02 but must be on deposit on March 31, 2002, and $51 million in additional funds designated to pay refunds related to the Earned Income Tax Credit and the Dependent Care Tax Credit.

The 2000-01 General Fund closing balance excludes $1.2 billion that was on deposit in the School Tax Relief (STAR) Special Revenue Fund at the end of the 2000-01 fiscal year (to meet a portion of the STAR payments in fiscal year 2001-02) and $250 million on deposit in the Debt Reduction Reserve Fund (DRRF) (for debt reduction in fiscal year 2001-02).

General Fund receipts, including transfers from other funds, totaled $39.88 billion for the 2000-01 fiscal year, an increase of $2.49 billion (6.7 percent) over fiscal year 1999-2000 results. Receipts results for fiscal year 2000-01 reflect refund reserve transactions that had the effect of reducing personal income tax receipts in the 2000-01 fiscal year and increasing them in the 2001-02 fiscal year, as discussed above.

In comparison to the 2000-01 Financial Plan enacted in May 2000 (the "May Financial Plan"), receipts were $3 billion higher than projected, prior to the refund reserve transaction. The growth in receipts above the May 2000 estimate was largely due to stronger than anticipated growth in the personal income tax.

General Fund disbursements, including transfers to other funds, totaled $39.70 billion for the 2000-01 fiscal year, an increase of $2.53 billion (6.8 percent) from the 1999-2000 fiscal year. In comparison to the projections contained in the May Financial Plan, disbursements were $778 million higher than projected. The increase in projected disbursements is related primarily to the financing of labor agreements that were ratified by State employee unions and approved by the Legislature after adoption of the May Financial Plan. The May Financial Plan provided a reserve to fully finance the estimated costs of these agreements, but did not reflect higher projected disbursements since the contracts were not yet finalized. Accordingly, disbursements for State Operations and General State Charges exceeded the May Financial Plan by $497 million and $376 million, respectively, primarily as a result of these agreements. Lower spending for local assistance ($166 million) and transfers for debt service ($45 million), offset, in part, by higher transfers for capital projects ($51 million) and other transfers ($68 million) accounted for the balance of changes from May 2000.

1999-2000 Fiscal Year

The State ended its 1999-2000 fiscal year in balance on a cash basis, with a General Fund cash-basis surplus of $1.51 billion as reported by DOB. As in recent years, strong growth in receipts above forecasted amounts produced most of the year-end surplus. Spending was also modestly below projections, further adding to the surplus.

The State reported a closing balance of $1.17 billion in the General Fund, an increase of $275 million over the closing balance from the prior year. The balance was comprised of $547 million in the TSRF after a deposit of $74 million in 1999-2000; $107 million in the CRF; $250 million in the DRRF; and $263 million in the CPF.

The closing fund balance excluded $3.97 billion that the State deposited into the tax refund reserve account at the close of 1999-2000 to pay for tax refunds in 2000-01 of which $521 million was made available as a result of the LGAC financing program and was required to be on deposit as of March 31, 2000. The tax refund reserve account transaction had the effect of decreasing reported personal income tax receipts in 1999-2000, while increasing reported receipts in 2000-01.

General Fund receipts and transfers from other funds (net of tax refund reserve account activity) for the 1999-2000 fiscal year totaled $37.40 billion, an increase of 1.6 percent over 1998-99. General Fund disbursements and transfers to other funds totaled $37.17 billion, an increase of 1.6 percent from the prior fiscal year.

1998-99 Fiscal Year

The State ended its 1998-99 fiscal year on March 31, 1999 in balance on a cash basis, with a General Fund cash surplus as reported by the DOB of $1.82 billion. The cash surplus was derived primarily from higher-than-projected tax collections as a result of continued economic growth, particularly in the financial markets and the securities industries.

The State reported a General Fund closing cash balance of $892 million, an increase of $254 million from the prior fiscal year. The TSRF closing balance was $473 million, following an additional deposit of $73 million in 1998-99. The CRF closing balance was $107 million, following a deposit of $39 million in 1998-99. The CPF closed the fiscal year with a balance of $312 million.

The closing fund balance excluded $2.31 billion that the State deposited into the tax refund reserve account at the close of 1998-99 to pay for tax refunds in 1999-2000. The remaining balance of $521 million in the tax refund reserve account was made available as a result of the LGAC financing program and was required to be on deposit as of March 31, 1999.

General Fund receipts and transfers from other funds (net of tax refund reserve account activity) for the 1998-99 fiscal year totaled $36.82 billion, an increase of 6.2 percent from 1997-98 levels. General Fund disbursements and transfers to other funds totaled $36.57 billion for the 1998-99 fiscal year, an increase of 6.1 percent from 1997-98 levels.

Other Governmental Funds (1998-99 through 2000-01)

The State All Governmental Funds Financial Plan is comprised of the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds. Activity outside the General Fund has increased in recent years: beginning in fiscal year 1995-96, combined disbursements from Special Revenue, Capital Projects, and Debt Service Funds ("other governmental funds") have accounted for 50 percent or more of the State's All Governmental Funds disbursements. In fiscal year 2000-01, disbursements from governmental funds other than the General Fund totaled $42.91 billion.

Several programmatic changes have increased activity in these funds, including the financing of several health care initiatives under the Health Care Reform Act of 2000 through Special Revenue Funds, the creation of the School Tax Relief (STAR) program that is funded by the diversion of personal income tax receipts to a Special Revenue Fund, and the redirection of a portion of transportation-related revenues from the General Fund to two dedicated funds in the Special Revenue and Capital Projects fund types to support the capital programs of the Department of Transportation, the Metropolitan Transportation Authority (MTA) and other transit entities.

In the Special Revenue Funds, disbursements increased from $29.65 billion in fiscal year 1998-99 to $34.36 billion in 2000-01 (an average annual growth rate of 7.7 percent). The growth is primarily attributable to increased federal payments for Medicaid, the phase-in of the STAR program, and the financing of health care programs under HCRA.

Disbursements in the Capital Projects Funds increased from $4.06 billion in 1998-99 to $4.46 billion in 2000-01, primarily for education, environment, public protection and transportation programs. The composition of this fund type's receipts has also changed as dedicated taxes, federal grants and reimbursements from public authority bonds increased, while general obligation bond proceeds declined.

Activity in the Debt Service Funds reflected increased use of bonds during the three-year period for improvements to the State's capital facilities and the ongoing costs of the LGAC fiscal reform program. The increases were moderated by the refunding savings achieved by the State over the last several years. Disbursements in this fund type increased from $3.27 billion in 1998-99 to $4.09 billion in 2000-01.

Table 8
Comparison of Actual General Fund Receipts and Disbursements
(millions of dollars)

	1998-99	1999-2000	2000-01
OPENING FUND BALANCE (1)	638	942	917
Personal Income Tax	20,080	20,339	23,566
User Taxes and Fees:			
Sales and Use Tax	5,697	6,141	6,272
Cigarette and Tobacco Tax	667	643	528
Motor Fuel Tax	171	180	17
Motor Vehicle Fees	444	401	337
Alcoholic Beverage Taxes and Fees	212	200	211
Container Tax	19	0	0
Auto Rental Tax	34	39	39
Subtotal	7,244	7,604	7,404
Business Taxes:			
Corporation Franchise Tax	2,050	1,939	2,335
Corporation and Utilities Taxes	1,489	1,418	817
Insurance Taxes	672	589	584
Bank Tax	544	525	506
Petroleum Business Tax	102	89	86
Subtotal	4,857	4,560	4,328
Other Taxes:			
Estate and Gift Taxes	1,071	1,055	759
Real Property Gains Tax	29	15	6
Pari-mutuel Tax	37	36	29
Other Taxes	1	1	1
Subtotal	1,138	1,107	795
Miscellaneous Receipts & Federal Grants	1,587	1,648	1,553
Transfers from Other Funds:			
Sales Tax in Excess of LGAC Debt Service	1,555	1,719	1,758
All Other Transfers	362	418	479
Subtotal	1,917	2,137	2,237
TOTAL RECEIPTS	36,823	37,395	39,883
Grants to Local Governments	24,776	25,590	26,667
State Operations	6,671	6,600	7,604
General State Charges	2,259	2,087	2,567
Debt Service	9	6	1
Transfers to Other Funds:			
In Support of Debt Service	2,089	2,242	2,215
In Support of Capital Projects	246	211	285
All Other Transfers	519	434	363
Subtotal	2,854	2,887	2,863
TOTAL DISBURSEMENTS	36,569	37,170	39,702
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	254	225	181
CLOSING FUND BALANCE	892	1,167	1,098

Source: Division of the Budget.
(1) 1999-2000 opening fund balance reflects reclassification of DRRF from the Debt Service Fund type to the General Fund. 2000-01 opening fund balance reflects reclassification of DRRF from General Fund to Capital Projects Fund.

Table 9
Cash Financial Plan
All Governmental Funds
2000-01
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance (1)	917	762	(19)	448	2,108
Receipts					
Taxes	36,093	4,532	1,237	2,746	44,608
Miscellaneous receipts	1,549	6,646	1,674	860	10,729
Federal grants	4	24,273	1,509	0	25,786
Total receipts	37,646	35,451	4,420	3,606	81,123
Disbursements					
Grants to local governments	26,667	27,734	707	0	55,108
State operations	7,605	6,316	0	13	13,934
General State charges	2,567	301	0	0	2,868
Debt service	1	0	0	4,082	4,083
Capital projects	0	9	3,751	0	3,760
Total disbursements	36,840	34,360	4,458	4,095	79,753
Other financing sources (uses)					
Transfers from other funds	2,237	2,396	376	4,751	9,760
Transfers to other funds	(2,862)	(2,050)	(627)	(4,288)	(9,827)
Bond and note proceeds	0	0	219	0	219
Use of Debt Reduction Reserve Fund	0	0	0	0	0
Net other financing sources (uses)	(625)	346	(32)	463	152
Change in fund balance	181	1,437	(70)	(26)	1,522
Closing fund balance	1,098	2,199	(89)	422	3,630

Source: Office of the State Comptroller.
(1) The opening fund balances of the General Fund and the Debt Service Funds are changed by $250 million to reflect the reclassification of the Debt Reduction Reserve Fund from the General Fund to the Debt Service Funds Group.

Table 10
Governmental Funds Combined Statement of Cash Receipts, Disbursements And Changes in Fund Balances for the Fiscal Year Ended March 31, 2000 on a Financial Plan Basis
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance (1)	942	672	19	170	1,803
Receipts:					
Taxes	33,611	2,607	1,123	2,388	39,729
Miscellaneous receipts	1,643	6,081	1,775	611	10,110
Federal grants	4	22,185	1,381	0	23,570
Total receipts	35,258	30,873	4,279	2,999	73,409
Disbursements:					
Grants to local governments	25,590	24,372	477	0	50,439
State operations	6,600	6,236	0	14	12,850
General State charges	2,087	554	0	0	2,641
Debt service	6	0	0	3,571	3,577
Capital projects	0	12	3,747	0	3,759
Total disbursements	34,283	31,174	4,224	3,585	73,266
Other financing sources (uses):					
Transfers from other funds	2,137	2,352	240	4,605	9,334
Transfers to other funds	(2,887)	(1,961)	(541)	(3,991)	(9,380)
Bond and note proceeds	0	0	208	0	208
Net other financing sources (uses)	(750)	391	(93)	614	162
Change in fund balance	225	90	(38)	28	305
Closing fund balance	1,167	762	(19)	198	2,108

Source: Office of the State Comptroller.
(1) Reflects reclassification of DRRF from the Debt Service Funds Group to the General Fund.

Table 11
Governmental Funds Combined Statement of Cash Receipts, Disbursements And Changes in Fund Balances for the Fiscal Year Ended March 31, 1999 on a Financial Plan Basis
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	638	616	72	164	1,490
Receipts:					
Taxes	33,319	1,934	1,124	2,204	38,581
Miscellaneous receipts	1,583	5,813	1,567	630	9,593
Federal grants	4	21,422	1,219	0	22,645
Total receipts	34,906	29,169	3,910	2,834	70,819
Disbursements:					
Local assistance grants	24,776	23,447	438	0	48,661
Departmental operations	6,671	5,920	0	4	12,595
General State charges	2,259	276	0	0	2,535
Debt service	9	0	0	3,266	3,275
Capital projects	0	6	3,625	0	3,631
Total disbursements	33,715	29,649	4,063	3,270	70,697
Other financing sources (uses):					
Transfers from other funds	1,917	2,444	274	4,370	9,005
Transfers to other funds	(2,854)	(1,908)	(423)	(3,878)	(9,063)
Bond and note proceeds	0	0	249	0	249
Net other financing sources (uses)	(937)	536	100	492	191
Change in fund balance	254	56	(53)	56	313
Closing fund balance	892	672	19	220	1,803

Source: Office of the State Comptroller. Reflects accounting restatements of medical provider assessments in the General Fund which has the affect of increasing miscellaneous receipts and local assistance grants by $82 million.

GAAP-Basis Results for Prior Fiscal Years

The Comptroller prepares a comprehensive annual financial report on a GAAP basis for governments as promulgated by the Governmental Accounting Standards Board. The report, generally released in July each year, contains general purpose financial statements with a Combined Balance Sheet and its Combined Statement of Revenues, Expenditures and Changes in Fund Balances. These statements are audited by independent certified public accountants. The following table summarizes recent governmental funds results on a GAAP basis. For information regarding the State's accounting and financial reporting requirements, see the section entitled "State Organization—Accounting, Financial Reporting and Budgeting."

Table 12
Comparison of Actual GAAP-Basis Operating Results
(millions of dollars)

Fiscal Year Ended	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	All Governmental Funds	Accum. General Fund Surplus/(Deficit)
March 31, 2001	245	1,252	(20)	109	1,586	4,170
March 31, 2000	2,229	665	38	99	3,031	3,925
March 31, 1999	1,078	(117)	209	154	1,324	1,696*

*As restated (see discussion below).

The General Purpose Financial Statements for the 2000-01 fiscal year can be obtained from the Office of the State Comptroller, Governor A.E. Smith State Office Building, Albany, NY 12236.

2000-01 Fiscal Year

The State completed its 2000-01 fiscal year with a combined governmental funds operating surplus of $1.59 billion, which included operating surpluses in the General Fund ($245 million), in Special Revenue Funds ($1.25 billion) and in Capital Projects Funds ($109 million) offset, in minor part, by an operating deficit in the Debt Service Funds ($20 million).

General Fund

The State reported a General Fund operating surplus of $245 million for the 2000-01 fiscal year, as compared to an operating surplus of $2.23 billion for the 1999-2000 fiscal year. The operating surplus for the 2000-01 fiscal year resulted in part from a cash basis operating surplus and increases in taxes and other receivables of $686 million and $13 million, respectively, and decreases in deferred revenues, pension contributions payable and other liabilities of $101 million. These gains were partially offset by decreases in other assets and amounts due from other funds of $258 million, increases in payables to local governments of $368 million and an increase in tax refunds payable of $252 million. The State reported an accumulated fund balance of $4.17 billion in the General Fund for its 2000-01 fiscal year.

General Fund revenues increased $682 million (1.8 percent) from the 1999-2000 fiscal year with an increase reported only for personal income taxes. Business, consumption and use and other taxes and miscellaneous revenues fell from the prior fiscal year. Personal income taxes grew $1.89 billion, an increase of nearly 8.4 percent. The increase in personal income taxes was caused by strong employment, wage and bonus payment growth and an increase in interest and dividend income during 2000. This increase was partially offset by decreases in consumption and use, business and other taxes and miscellaneous revenues. Consumption and use taxes decreased $305 million, or 4.0 percent, primarily as a result of the reduction in motor fuel taxes and motor vehicle fees distributed to the General Fund and a decline in cigarette and tobacco products taxes. Business taxes decreased $488 million, or 10.7 percent, primarily due to a reduction in certain corporation and utility taxes distributed to the General Fund and because of reductions in the corporate and utility tax rates. Other taxes, primarily estate and gift taxes, decreased over $381 million, or 34.4 percent due mainly to a decline in the stock market and tax rate reductions. Miscellaneous revenues decreased $30 million (1.2 percent).

General Fund expenditures increased $2.30 billion (6.3 percent) from the 1999-2000 fiscal year, with the largest increases occurring in the areas of education, health and environment and social services. Education expenditures grew $1.17 billion (9.1 percent) due mainly to an increase in spending for support for public schools and municipal and community colleges. Social services expenditures increased $238 million (2.6 percent) due primarily to increased spending for Medicaid and income maintenance programs. Health and environment expenditures increased over $145 million (16.9 percent) primarily reflecting increased spending for the Elderly Pharmaceutical Insurance Coverage and Child Health Plus programs.

Personal service costs increased $473 million (7.4 percent) principally as a result of increases in wages as required by recently approved collective bargaining agreements. Non-personal service costs increased $164 million (6.5 percent) due primarily to increased spending for goods and services. General state charges increased $144 million (8.1 percent) primarily because of an increase in the State's health insurance premiums.

Net other financing sources in the General Fund decreased $369 million (60.5 percent) in part because transfers from the Hospital Bad Debt and Charity Care Fund decreased by nearly $240 million while State subsidies for higher education (SUNY and CUNY) increased $170 million.

Special Revenue, Debt Service and Capital Projects Fund Types

An operating surplus of $1.25 billion was reported for the Special Revenue Funds for the 2000-01 fiscal year which increased the accumulated fund balance in this fund type to $3.39 billion. Revenues increased $4.54 billion over the prior fiscal year (13.5 percent) as a result of increases in tax, federal grants, and miscellaneous revenues. Expenditures increased $3.63 billion (12.6 percent) as a result of increased costs for local assistance grants and non-personal service. Net other financing uses increased $324 million (8.1 percent).

Debt Service Funds ended the 2000-01 fiscal year with an operating deficit of $20 million and, as a result, the accumulated fund balance in this fund type decreased to $2.04 billion. Revenues rose $143 million (4.9 percent) primarily because of increases in dedicated taxes while debt service expenditures increased $366 million (11.1 percent). Net other financing sources increased $174 million (40.8 percent) due primarily to increases in transfers from the General Fund.

An operating surplus of $109 million was reported in the Capital Projects Funds for the State's 2000-01 fiscal year and, as a result, the accumulated fund balance deficit decreased to $20 million. Revenues increased $226 million (8.7 percent) primarily because the allocation of motor fuel taxes and motor vehicle fees was increased $131 million and federal grant revenues increased $90 million for transportation projects. Expenditures increased $212 million (5.5 percent) primarily because of increases in spending for grants to local governments - education and health and environment programs and capital construction spending for transportation projects. Net other financing sources decreased by $4 million (0.3 percent).

1999-2000 Fiscal Year

The State completed its 1999-2000 fiscal year with a combined governmental funds operating surplus of $3.03 billion, which included operating surpluses in the General Fund ($2.23 billion), in Special Revenue Funds ($665 million), in Debt Service Funds ($38 million) and in Capital Projects Funds ($99 million).

General Fund

The State reported a General Fund operating surplus of $2.23 billion for the 1999-2000 fiscal year, as compared to an operating surplus of $1.08 billion for the 1998-99 fiscal year. The operating surplus for 1999-2000 resulted in part from higher personal income tax receipts, and increases in taxes receivable and other assets of $754 million and $137 million, respectively, and decreases in deferred revenues, due to other funds and other liabilities of $134 million. These gains were partially offset by decreases in accounts receivable and money due from other funds of $77 million, increases in payables to local governments and accrued liabilities of $80 million and $175 million, respectively, and an increase in tax refunds payable of $537 million.

General Fund revenues increased $2.30 billion (6.4 percent) over the prior fiscal year with increases in personal income and consumption and use taxes, and miscellaneous revenues. Business tax and other tax revenues fell from the prior fiscal year. Personal income taxes grew $1.98 billion, an increase of nearly 9.7 percent. The increase in personal income taxes was caused by strong employment and wage growth and the continued strong performance of the financial markets during 1999. Consumption and use taxes increased $327 million, or 4.5 percent, to reflect a continuing high level of consumer confidence. Miscellaneous revenues increased $303 million (14.1 percent), primarily due to growth in investment earnings, fees, licenses, royalties and rents and reimbursements from regulated industries used to fund State administrative costs (e.g., banking and insurance). These increases were partially offset by decreases in business and other taxes. Business taxes decreased nearly $301 million, or 6.2 percent, because of prior year refunds and the application of credit carryforwards which were applied against current year (1999) liabilities. Other taxes decreased $12 million, or 1.1 percent.

General Fund expenditures increased $1.39 billion (3.9 percent) from the prior fiscal year, with the largest increases occurring in education, health and environment. Education expenditures grew $739 million (6.1 percent) due mainly to an increase in spending for support for public schools, handicapped pupil education and municipal and community colleges. Health and environment expenditures increased over $215 million (33.5 percent) primarily reflecting increased spending for local health programs. Personal service costs increased $202 million (3.3 percent) principally as a result of increases in wages as required by recently approved collective bargaining agreements. Non-personal service costs increased $264 million (11.7 percent) due primarily to increased spending for goods and services.

Net other financing sources in the General Fund increased $192 million (45.9 percent) primarily because transfers of surplus revenues from the Debt Service Funds increased by nearly $100 million and transfers from the Abandoned Property Fund and the Hospital Bad Debt and Charity Accounts increased by nearly $120 million.

Special Revenue, Debt Service and Capital Projects Fund Types

An operating surplus of $665 million was reported for the Special Revenue Funds for the 1999-2000 fiscal year which increased the accumulated fund balance to $2.14 billion after restatement of prior year fund balances. As a result of legislation enacted during the fiscal year ended March 31, 2000, the Hospital Bad Debt and Charity Accounts were reclassified to Special Revenue Funds thereby increasing the beginning fund balance by $1.01 billion. Revenues increased $2.15 billion over the prior fiscal year (6.9 percent) as a result of increases in tax, federal grants, and miscellaneous revenues. Expenditures increased $1.49 billion (5.4 percent) as a result of increased costs for local assistance grants and non-personal service. Net other financing uses increased $174 million (4.5 percent).

Debt Service Funds ended the 1999-2000 fiscal year with an operating surplus of $38 million and, as a result, the accumulated fund balance increased to $2.06 billion. Revenues increased $200 million (7.4 percent) primarily because of increases in dedicated taxes. Debt service expenditures increased $429 million (15.0 percent). Net other financing sources increased $113 million (36.1 percent) due primarily to increases in transfers from the General Fund.

An operating surplus of $99 million was reported in the Capital Projects Funds for the State's 1999-2000 fiscal year and, as a result, the accumulated fund balance deficit decreased to $129 million. Revenues increased $93 million (3.7 percent) primarily because federal grant revenues increased $90 million for transportation projects. Expenditures increased $84 million (2.3 percent) primarily because of increases in capital construction spending for transportation projects. Net other financing sources decreased by $63 million (4.6 percent).

1998-99 Fiscal Year

The State completed its 1998-99 fiscal year with a combined governmental funds operating surplus of $1.32 billion, which included operating surpluses in the General Fund ($1.078 billion), in Debt Service Funds ($209 million) and in Capital Projects Funds ($154 million) offset, in part, by an operating deficit in Special Revenue Funds ($117 million).

General Fund

The State reported a General Fund operating surplus of $1.078 billion for the 1998-99 fiscal year, as compared to an operating surplus of $1.562 billion for the 1997-98 fiscal year. As a result, the State reported an accumulated fund balance of $1.696 billion, as restated, in the General Fund. The 1998-99 fiscal year operating surplus resulted, in part, from an increase in taxes receivable of $516 million, a decrease in payables to local government of $262 million, a decrease in accrued liabilities of $129 million and a decrease in deferred revenues of $69 million. These gains were partially offset by a decrease in other assets of $117 million and an increase in tax refunds payable of $102 million.

Revenues increased $1.969 billion (5.7 percent) over the prior fiscal year with increases in personal income, consumption and use and other taxes, and miscellaneous revenues. Business tax revenues fell from the prior fiscal year. Personal income taxes grew $1.733 billion, an increase of nearly 9.3 percent. The increase in personal income taxes was caused by strong employment and wage growth and the continued strong performance by the financial markets during 1998. Consumption and use taxes increased $269 million, or 3.8 percent, due to increased consumer confidence. Other taxes increased $73 million, or 6.9 percent. Miscellaneous revenues increased $145 million, a 5.6 percent increase, primarily because of an increase in reimbursements from regulated industries (e.g., banking and insurance) to fund the State's administrative costs. Business taxes decreased nearly $252 million, or 4.9 percent, because of prior year refunds and carry forwards which were applied against the current year (1998) liabilities.

Expenditures increased $1.826 billion (5.5 percent) from the prior fiscal year, with the largest increases occurring in State aid for education and general purpose aid spending. Education expenditures grew $1.014 billion (9.1 percent) due mainly to an increase in spending for support for public schools, handicapped pupil education and municipal and community colleges. General purpose aid increased nearly $329 million (56.5 percent) due to statutory changes in the payment schedule. Personal service and fringe benefit costs increased due to increases in wages and continuing fringe benefits required by collective bargaining agreements.

Net other financing sources decreased $626 million (159.3 percent) primarily because appropriated transfers from the Special Revenue Funds declined by over $230 million with increases of $265 million in appropriated transfers to Special Revenue, Debt Service and College and University Funds. In addition, transfers to public benefit corporations increased over $170 million primarily because of a change in reporting for the Roswell Park Cancer Institute.

Special Revenue, Debt Service and Capital Projects Fund Types

An operating deficit of $117 million was reported for the Special Revenue Funds for the 1998-99 fiscal year which decreased the accumulated fund balance to $464 million. Revenues increased $1.108 billion over the prior fiscal year (4.0 percent) as a result of increases in tax and federal grants revenues. Expenditures increased $1.308 billion (5.3 percent) as a result of increased costs for local assistance grants. Net other financing uses increased $34 million (1.0 percent).

Debt Service Funds ended the 1998-99 fiscal year with an operating surplus of $209 million and, as a result, the accumulated fund balance increased to $2.07 billion. Revenues increased $160 million (6.3 percent) primarily because of increases in dedicated taxes. Debt service expenditures increased $162 million (6.0 percent). Net other financing sources increased $253 million (227.4 percent) due primarily to increases in transfers from the General Fund, patient revenue transfers and the establishment of the Debt Reduction Reserve Fund.

An operating surplus of $154 million was reported in the Capital Projects Funds for the State's 1998-99 fiscal year and, as a result, the accumulated deficit fund balance decreased to $228 million. Revenues increased $242 million (10.6 percent) primarily because tax revenues increased $101 million and federal grant revenues increased $94 million for transportation projects. Expenditures increased $355 million (10.5 percent) primarily because of increases in capital construction spending for transportation and correctional services projects. Net other financing sources increased by $35 million.

Economic and Demographics

The economic forecast presented below does not reflect the impact of the terrorist attack on the World Trade Center, which is expected to have a substantial adverse impact on the New York City, State, and national economies. Transportation and communications have been disrupted. The financial markets remained closed for four days. The Federal Reserve Board has acted to calm worldwide markets and assist the national economy by injecting large reserves into the banking system and lowering the federal funds rate by an additional 100 basis points since September 11, 2001. The magnitude of the impact that these events will have on financial markets, tourism, and other economic activity remains uncertain. While it is difficult to gauge the full magnitude of this event on the economy at this time, DOB recognizes that there are significant risks to the forecast presented below.

The following section also presents additional historical information which may be relevant in evaluating the future prospects of the State economy. However, the demographic and statistical data, which have been obtained from the sources indicated, do not represent all of the factors which may have a bearing on the State's fiscal and economic affairs. Further, such information requires economic and demographic analysis in order to assess its significance, and may be interpreted differently by individual experts.

The U.S. Economy

National economic growth slowed significantly during the second half of 2000 and first half of 2001, with the longest economic expansion on record now in its eleventh year. Real U.S. Gross Domestic Product (GDP) grew by only 0.2 percent during the second quarter of 2001, following growth of 1.9 percent in the last quarter of 2000 and 1.3 percent during the first quarter of 2001. The Division of the Budget expects this reduced pace of growth to continue for the remainder of calendar year 2001. Real U.S. GDP is expected to grow by 1.7 percent for all of 2001, following a 4.1 percent increase in calendar year 2000.

In an effort to boost the economy, the Federal Reserve Board has cut the federal funds target rate nine times through October 2, 2001 by a total of 400 basis points. Lower interest rates are expected to stimulate growth in consumption, housing investment, and business spending.

Personal income is estimated to have grown nationally by 7.0 percent in 2000. Growth in wages and salaries, along with increased growth in interest income, are the primary factors which contributed to strong personal income growth for last year. Slower growth in wages and interest income is expected for 2001. Overall, personal income growth of 4.8 percent is expected for this year. Non-agricultural employment grew 2.2 percent in 2000, but growth is expected to slow to 0.6 percent in 2001, given the current economic slowdown. The unemployment rate averaged 4.0 percent during 2000, but is expected to average 4.6 percent in 2001, consistent with weaker employment and output growth.

There are significant risks to the current forecast. In the light of the events of September 11, output growth could be weaker due to the sudden decline in economic activity in the days immediately following the disaster, particularly in the transportation, communications, and financial sectors. Corporate profits, which have already declined for four consecutive quarters, may be reduced further, resulting in more employee layoffs and less capital investment than expected. Should the stock market decline more than projected, the resulting decline in the value of household wealth, coupled with employee layoffs, could further reduce consumer confidence and consumption growth. Slower global growth than anticipated could cause greater declines in exports, posing additional risk to the national economy. Should all of the risks mentioned above materialize, the national economy could slip into a recession. However, in the intermediate future, efforts to rebuild in the aftermath of the World Trade Center disaster could stimulate sustained growth beyond what is currently anticipated.

Table 13
Economic Indicators for the United States

	1997	1998	1999	2000	2001(1)
Gross Domestic Product					
(billions $)	8318.4	8781.5	9268.6	9872.9	10293.3
Percent Change	6.5	5.6	5.5	6.5	4.3
(billions 1996 chain wt.)	8159.5	8508.9	8856.5	9224.0	9380.0
Percent Change	4.4	4.3	4.1	4.1	1.7
Personal Income					
(billions $)	6937.0	7426.0	7777.3	8319.2	8720.3
Percent Change	6.0	7.0	4.7	7.0	4.8
Nonagricultural Employment					
(millions)	122.7	125.9	128.9	131.8	132.6
Percent Change	2.6	2.6	2.4	2.2	0.6
Unemployment Rate (Percent)	4.9	4.5	4.2	4.0	4.6
Consumer Price Index					
(1982-84=100)	160.5	163.0	166.6	172.2	178.0

Sources: US Department of Commerce, Bureau of Economic Analysis; US Department of Labor, Bureau of Labor Statistics. Table reflects adjustments by source agencies to figures for prior years.

(1) As projected by the Division of the Budget, based on National Income and Product Account data through June 2001, except for nonagricultural employment and unemployment rate which are based on U.S. Department of Labor data through early July 2001.

The New York Economy

New York is the third most populous state in the nation and has a relatively high level of personal wealth. The State's economy is diverse, with a comparatively large share of the nation's finance, insurance, transportation, communications and services employment, and a very small share of the nation's farming and mining activity. The State's location and its air transport facilities and natural harbors have made it an important link in international commerce. Travel and tourism constitute an important part of the economy. Like the rest of the nation, New York has a declining proportion of its workforce engaged in manufacturing, and an increasing proportion engaged in service industries.

Services: The services sector, which includes entertainment, personal services, such as health care and auto repairs, and business-related services, such as information processing, law and accounting, is the State's leading economic sector. The services sector accounts for more than three of every ten nonagricultural jobs in New York and has a noticeably higher proportion of total jobs than does the rest of the nation.

Manufacturing: Manufacturing employment continues to decline in New York, as in most other states, and New York's economy is less reliant on this sector than in the past. However, it remains an important sector of the State economy, particularly for the upstate economy, as high concentrations of manufacturing industries for transportation equipment, optics and imaging, materials processing, and refrigeration, heating, and electrical equipment products are located in the upstate region.

Trade: Wholesale and retail trade is the second largest sector in terms of nonagricultural jobs in New York but is considerably smaller when measured by income share. Trade consists of wholesale businesses and retail businesses, such as department stores and eating and drinking establishments.

Finance, Insurance and Real Estate: New York City is the nation's leading center of banking and finance and, as a result, this is a far more important sector in the State than in the nation as a whole. Although this sector accounts for under one-tenth of all nonagricultural jobs in the State, it contributes about one-fifth of total wages.

Agriculture: Farming is an important part of the economy in rural areas, although it constitutes a very minor part of total State output. Principal agricultural products of the State include milk and dairy products, greenhouse and nursery products, fruits, and vegetables. New York ranks among the nation's leaders in the production of these commodities.

Government: Federal, State and local governments together are the third largest sector in terms of nonagricultural jobs, with the bulk of the employment accounted for by local governments. Public education is the source of nearly one-half of total State and local government employment.

The importance of the different sectors of the State's economy relative to the national economy is shown in the following table, which compares nonagricultural employment and wages by sector for the State and the nation as a whole. Relative to the nation, the State has a smaller share of manufacturing and construction and a larger share of service-related industries. The State's finance, insurance, and real estate share, as measured by wages, is particularly large relative to the nation. The State is likely to be less affected than the nation as a whole during an economic recession that is concentrated in manufacturing and construction, but likely to be more affected by any economic downturn that is concentrated in the services sector.

Table 14
Nonagricultural Employment and Wages by Categories
Annual 2000 Percentage Composition

	Employment		Wages	
	State	United States	State	United States
Construction	3.8	5.1	3.9	5.4
Transportation, Communication and Utilities	5.0	5.3	5.5	6.6
Finance, Insurance and Real Estate	8.7	5.7	19.7	8.9
Manufacturing	10.1	14.0	11.6	17.3
Government	17.0	15.7	15.2	15.7
Retail Trade	15.1	17.7	7.2	9.4
Wholesale Trade	5.2	5.3	6.2	6.9
Services	35.2	31.1	30.8	29.8

Source: NYS Department of Labor; US Department of Labor, Bureau of Labor Statistics; US Department of Commerce, Bureau of Economic Analysis.

Continued growth is projected for the State's economy for 2001 in employment, wages, and personal income, although growth will moderate significantly from the rates achieved in 2000. Overall employment is expected to grow at a much more modest rate than in 2000, reflecting the slowdown in the national economy. New York personal income is estimated to have grown by 7.5 percent in 2000, fueled in part by a large increase in finance sector bonus payments and strong growth in total employment. State personal income is projected to grow 3.3 percent in 2001. The slowdown in growth is attributable primarily to slower national employment growth and weakness in income payments, particularly bonuses in the financial sector.

The most significant risks to the State economic forecast revolve around the impact of the World Trade Center disaster, which occurred during the State's first economic slowdown since the recession of the early 1990s. The disaster could trigger weaker financial market activity than currently projected, resulting in lower bonus payments and, therefore, lower wages and personal income than indicated by the DOB forecast. Moreover, weaker stock market performance than projected could produce a lower level of capital gains realizations and, hence, reduced taxable personal income. Additionally, weaker State employment growth than currently projected and job relocations associated with the World Trade Center destruction could produce lower wage and personal income levels. For an additional discussion of the potential impact of this disaster on the State's economy, see the section entitled "Current Fiscal Year – Special Considerations" in this AIS.

Table 15
Economic Indicators for New York State

	1997	1998	1999	2000		2001(1)
Personal Income						
(billions $)	553.5	585.8	616.9	662.9	(2)	684.8
Percent Change	4.2	5.8	5.3	7.5		3.3
Nonagricultural Employment						
(thousands)	8067.1	8236.7	8455.4	8632.3		8730.2
Percent Change	1.6	2.1	2.7	2.1		1.1
Unemployment Rate (Percent)	6.4	5.6	5.2	4.6		5.0

Sources: US Department of Commerce, Bureau of Economic Analysis; NYS Department of Labor. Table reflects adjustments by source agency to figures for prior years and certain adjustments to published data by the Division of the Budget.
(1) As projected by the Division of the Budget, based on National Income and Product Account and employment data through June 2001.
(2) As projected by the Division of the Budget.

Economic and Demographic Trends

In the calendar years 1990 through 1998, the State's rate of economic growth was somewhat slower than that of the nation. In particular, during the 1990-91 recession and post-recession period, the economy of the State, and that of the rest of the Northeast, was more heavily damaged than that of the nation as a whole and has been slower to recover. However, the situation has been improving during recent years. In 1999, for the first time in 13 years, the employment growth rate of the State surpassed the national growth rate, and, in 2000, the rates were essentially the same. Although the State unemployment rate was higher than the national rate from 1991 to 2000, the gap between them has narrowed in recent years.

The following table compares population change in the State and in the United States since 1960.

Table 16
Comparative Population Figures

	State			US	
	Total Population (thousands)	% Change From Preceding Period	Percentage of U.S. Population	Total Population (thousands)	% Change from Preceding Period
1960	16,782	13.2	9.4	179,323	18.5
1970	18,241	8.7	9.0	203,302	13.4
1980	17,558	(3.7)	7.8	226,542	11.4
1990	17,990	2.5	7.2	248,710	9.8
2000	18,976	5.5	6.7	281,422	13.2

Source: US Department of Commerce, Census Bureau.

Total State nonagricultural employment has declined as a share of national nonagricultural employment. The following historical table compares these levels and the rate of unemployment for the State and the nation.

Table 17
Nonagricultural Employment and Unemployment Rate For New York and the United States

	Employment (Thousands)		State Percentage of US Employment	Unemployment Rate (percent)	
	State	US		State	US
1960	6,182	54,189	11.4	N/A	5.5
1970	7,156	70,879	10.1	4.5	5.0
1980	7,207	90,406	8.0	7.5	7.2
1990	8,212	109,403	7.5	5.3	5.6
2000 (prelim.)	8,632	131,759	6.6	4.6	4.0

Source: US and NYS Departments of Labor.
Note: Nonagricultural employment and unemployment rates are generated from separate surveys.

State per capita personal income has historically been significantly higher than the national average, although the ratio has varied substantially. Because New York City is a regional employment center for a multi-state region, State personal income measured on a residence basis understates the relative importance of the State to the national economy and the size of the base to which State taxation applies. The following table compares per capita personal income for the State and the nation.

Table 18
Per Capita Personal Income
(dollars)

	State	US	State/US
1960	2,788	2,293	1.22
1970	4,895	4,137	1.18
1980	11,101	10,258	1.08
1990	23,331	19,715	1.18
2000 (prelim.)	34,686	29,428	1.18

Source: US Department of Commerce, Bureau of Economic Analysis.

Debt and Other Financing Activities

Legal Categories of State Debt and Other Financings

Financing activities of the State include general obligation debt and State-guaranteed debt, to which the full faith and credit of the State has been pledged, as well as lease-purchase and contractual-obligation financings, moral obligation and other financings through public authorities and municipalities, where the State's legal obligation to make payments to those public authorities and municipalities for their debt service is subject to annual appropriation by the Legislature. These categories are described in more detail below.

The State has never defaulted on any of its general obligation indebtedness or its obligations under lease-purchase or contractual-obligation financing arrangements and has never been called upon to make any direct payments pursuant to its guarantees.

General Obligation and State-Guaranteed Financing

There are a number of methods by which the State itself may incur debt. The State may issue general obligation bonds. Under the State Constitution, the State may not, with limited exceptions for emergencies, undertake long-term general obligation borrowing (i.e., borrowing for more than one year) unless the borrowing is authorized in a specific amount for a single work or purpose by the Legislature and approved by the voters. There is no constitutional limitation on the amount of long-term general obligation debt that may be so authorized and subsequently incurred by the State. However, the Debt Reform Act of 2000 imposes statutory limitations on new State-supported debt outstanding, which apply to general obligations bonds, as well as other State-supported bonds, issued on and after April 1, 2000 (see "Debt Reform Act – Limitations on State-Supported Debt" below). General obligation bonds must be paid in equal annual installments or installments that result in substantially level or declining debt service payments, within 40 years after issuance, and beginning not more than one year after issuance of such bonds. However, general obligation housing bonds must be paid within 50 years after issuance, commencing no more than three years after issuance.

The State may undertake short-term borrowings without voter approval (i) in anticipation of the receipt of taxes and revenues, by issuing tax and revenue anticipation notes (TRANs), and (ii) in anticipation of the receipt of proceeds from the sale of duly authorized but unissued general obligation bonds, by issuing bond anticipation notes (BANs). TRANs must mature within one year from their dates of issuance and may not be refunded or refinanced beyond such period. However, since 1990, the State's ability to issue TRANs has been limited due to enactment of the fiscal reform program which created LGAC (see "Local Government Assistance Corporation" below). BANs may only be issued for the purposes and within the amounts for which bonds may be issued pursuant to voter authorizations. Such BANs must be paid from the proceeds of the sale of bonds in anticipation of which they were issued or from other sources within two years of the date of issuance or, in the case of BANs for housing purposes, within five years of the date of issuance. In order to provide flexibility within these maximum term limits, the State had previously utilized the BANs authorization to conduct a commercial paper program to fund disbursements eligible for general obligation bond financing. The State does not anticipate issuing new BANs during the 2001-02 fiscal year.

Pursuant to specific constitutional authorization, the State may also directly guarantee certain public authority obligations. The State Constitution provides for the State guarantee of the repayment of certain borrowings for designated projects of the New York State Job Development Authority (JDA). The State has never been called upon to make any direct payments pursuant to any such guarantees.

In February 1997, the JDA issued approximately $85 million of State-guaranteed bonds to refinance certain of its outstanding bonds and notes in order to restructure and improve JDA's capital finances. Due to concerns regarding the economic viability of its programs, JDA's loan and loan guarantee activities were suspended in 1995. JDA resumed its lending activities in 1997 under a revised set of lending programs and underwriting guidelines. As a result of the structural imbalances in JDA's capital structure, and defaults in its loan portfolio and loan guarantee program incurred between 1991 and 1996, JDA would have experienced a debt service cash flow shortfall had it not completed the 1997 refinancing. JDA anticipates that it will transact an additional refinancing in 2003 to complete its long-term plan of finance and further alleviate cash flow imbalances which are likely to occur in future years. The State does not anticipate that it will be called upon to make any payments pursuant to the State guarantee in the 2001-02 fiscal year.

Payments of debt service on State general obligation and State-guaranteed bonds and notes are legally enforceable obligations of the State.

Lease-Purchase and Contractual-Obligation Financing

The State employs additional long-term financing mechanisms, lease-purchase and contractual-obligation financings, which involve obligations of public authorities or municipalities that are State-supported, but are not general obligations of the State. Under these financing arrangements, certain public authorities and municipalities have issued obligations to finance the construction and rehabilitation of facilities or the acquisition and rehabilitation of equipment, and expect to meet their debt service requirements through the receipt of rental or other contractual payments made by the State. Although these financing arrangements involve a contractual agreement by the State to make payments to a public authority, municipality or other entity, the State's obligation to make such payments is generally expressly made subject to appropriation by the Legislature and the actual availability of money to the State for making the payments.

The State has entered into a financing arrangement with the Local Government Assistance Corporation (LGAC) to restructure the way the State makes certain local aid payments (see "Local Government Assistance Corporation" below). The State also participates in the issuance of certificates of participation (COPs) in a pool of leases entered into by the State's Office of General Services on behalf of several State departments and agencies interested in acquiring operational equipment, or in certain cases, real property. Legislation enacted in 1986 established restrictions upon and centralized State control, through the Comptroller and the Director of the Budget, over the issuance of COPs representing the State's contractual obligation, subject to annual appropriation by the Legislature and availability of money, to make installment or lease-purchase payments for the State's acquisition of such equipment or real property.

The State is also committed under numerous capital lease-purchase agreements covering electronic data processing and telecommunications equipment and real property capital lease-purchase agreements. Expenditures for these obligations during the 2000-01 fiscal year were $39.6 million comprised of $26.4 million attributable to principal and $13.2 million attributable to interest. As of March 31, 2001, the remaining State liability for scheduled payments over the remaining term of these capital lease-purchase agreements is approximately $357 million, comprised of approximately $215 million attributable to principal and $142 million attributable to interest. Included in these amounts is approximately $167 million attributable to principal and $138 million attributable to interest for real property capital lease-purchase agreements. As such obligations do not entail a traditional bond, note, or COPs financing, these amounts are not reflected in the tables describing State-supported debt.

Moral Obligation and Other Financing

Moral obligation financing generally involves the issuance of debt by a public authority to finance a revenue-producing project or other activity. The debt is secured by project revenues and includes statutory provisions requiring the State, subject to appropriation by the Legislature, to make up any deficiencies which may occur in the issuer's debt service reserve fund. There has never been a default on any moral obligation debt of any public authority. The State does not intend to increase statutory authorizations for moral obligation bond programs. From 1976 through 1987, the State was called upon to appropriate and make payments totaling $162.8 million to make up deficiencies in the debt service reserve funds of the Housing Finance Agency (HFA) pursuant to moral obligation provisions. In the same period, the State also expended additional funds to assist the Project Finance Agency, the Urban Development Corporation (UDC) and other public authorities which had moral obligation debt outstanding. The State has not been called upon to make any payments pursuant to any moral obligations since the 1986-87 fiscal year and no such requirements are anticipated during the 2001-02 fiscal year.

In addition to the moral obligation financing arrangements described above, State law provides for the creation of State municipal assistance corporations, which are public authorities established to aid financially troubled localities. The Municipal Assistance Corporation for the City of New York (NYC MAC) was created in 1975 to provide financing assistance to New York City. To enable NYC MAC to pay debt service on its obligations, NYC MAC receives, subject to annual appropriation by the Legislature, receipts from the four percent New York State sales tax for the benefit of New York City, the State-imposed stock transfer tax and, subject to certain prior liens, certain local assistance payments otherwise payable to New York City. The legislation creating NYC MAC also includes a moral obligation provision. Under its enabling legislation, NYC MAC's authority to issue moral obligation bonds and notes (other than refunding bonds and notes) expired on December 31, 1984 and no bonds containing the moral obligation pledge are currently outstanding. In 1995, the State created the Municipal Assistance Corporation for the City of Troy (Troy MAC). The bonds issued by Troy MAC do not include moral obligation provisions.

The State also provides for contingent contractual-obligation financing for the Secured Hospital Program pursuant to legislation enacted in 1985. Under this financing method, the State entered into service contracts which obligate the State to pay debt service, subject to annual appropriations, on bonds either formerly issued by the New York State Medical Care Facilities Finance Agency (MCFFA) and now included as debt of the Dormitory Authority of the State of New York (DASNY), or bonds issued directly by DASNY, in the event there are shortfalls of revenues from other sources. The State has never been required to make any payments pursuant to this financing arrangement, nor does it anticipate being required to do so during the 2001-02 fiscal year. The statutory authorization to issue bonds under this program expired on March 1, 1998.

Local Government Assistance Corporation

In 1990, as part of a State fiscal reform program, legislation was enacted creating LGAC, a public benefit corporation empowered to issue long-term obligations to fund certain payments to local governments that had been traditionally funded through the State's annual seasonal borrowing. The legislation authorized LGAC to issue its bonds and notes in an amount to yield net proceeds not in excess of $4.7 billion (exclusive of certain refunding bonds). Over a period of years, the issuance of these long-term obligations, which are to be amortized over no more than 30 years, was expected to eliminate the need for continued short-term seasonal borrowing. The legislation also dedicated revenues equal to one percent of the four percent State sales and use tax to pay debt service on these bonds. The legislation also imposed a cap on the annual seasonal borrowing of the State at $4.7 billion, less net proceeds of bonds issued by LGAC and bonds issued to provide for capitalized interest, except in cases where the

Governor and the legislative leaders have certified the need for additional borrowing and provided a schedule for reducing it to the cap. If borrowing above the cap is thus permitted in any fiscal year, it is required by law to be reduced to the cap by the fourth fiscal year after the limit was first exceeded. This provision capping the seasonal borrowing was included as a covenant with LGAC's bondholders in the resolution authorizing such bonds.

As of June 1995, LGAC had issued bonds and notes to provide net proceeds of $4.7 billion, completing the program. The impact of LGAC's borrowing, as well as other changes in revenue and spending patterns, is that the State has been able to meet its cash flow needs throughout the fiscal year without relying on short-term seasonal borrowings.

2001-02 Borrowing Plan

Section 22-c of the State Finance Law requires the Governor to submit the five-year Capital Program and Financing Plan (the "Plan") with the Executive Budget. The proposed 2001-02 through 2005-06 Capital Program and Financing Plan was released with the Executive Budget on January 16, 2001 and updated to reflect the 30-Day Amendments on February 13, 2001. The Plan is required to be updated by the later of July 30 or 90 days after the enactment of the State Budget. A copy of the current Plan and the updated Plan, when available, can be obtained by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705, or by visiting its website at www.state.ny.us/dob.

The State's 2001-02 borrowing plan projects issuances of $237 million in general obligation bonds. The State Legislature did not authorize the issuance of any COPs in the 2001-02 fiscal year.

Borrowings by public authorities pursuant to lease-purchase and contractual-obligation financings for capital programs of the State are projected to total approximately $2.94 billion, including costs of issuance, reserve funds, and other costs, net of anticipated refundings and other adjustments in 2001-02. Included therein are borrowings by: (i) DASNY for the State University of New York (SUNY); the City University of New York (CUNY); mental health facilities; child care facilities; school construction (RESCUE); and university facilities (Jobs 2000); (ii) the Thruway Authority for the Dedicated Highway and Bridge Trust Fund and Consolidated Highway Improvement Program; (iii) UDC (doing business as the Empire State Development Corporation) for prisons, youth facilities; and sports facilities; (iv) the Environmental Facilities Corporation (EFC) for environmental projects, including Water Pollution Control and Pipeline for Jobs (Jobs 2000); (v) HFA for housing programs; and (vi) MTA, for service contract bonds related to their debt restructuring. Borrowings for 2001-02 include the Community Enhancement Facilities Assistance Program (CEFAP) for economic development purposes. Four public authorities (Thruway Authority, DASNY, UDC and HFA) are authorized to issue bonds under this program. Borrowings for 2001-02 also include the Strategic Investment Program (SIP) for environmental, historic preservation, economic development, arts, and cultural purposes. Three public authorities (DASNY, UDC and EFC) are authorized to issue bonds under this program. The projections of State borrowings for the 2001-02 fiscal year are subject to change as market conditions, interest rates and other factors vary throughout the fiscal year.

Debt Reform Act - Limitations on State-Supported Debt

Chapter 59 of the Laws of 2000 enacted the Debt Reform Act of 2000 (Debt Reform Act). The Debt Reform Act implemented statutory initiatives intended to improve the State's borrowing practices. The Debt Reform Act applies to all new State-supported debt issued on and after April 1, 2000 and imposes phased-in caps on new debt outstanding and new debt service costs. The Act also limited the use of debt to capital works and purposes only, and established a maximum term of 30 years on such debt.

The cap on new State-supported debt outstanding begins at 0.75 percent of personal income in 2000-01 and is gradually increased until it is fully phased-in at 4 percent of personal income in 2010-11. Similarly, the cap on new State-supported debt service costs begins at 0.75 percent of total governmental funds receipts in 2000-01 and is gradually increased until it is fully phased-in at 5 percent in 2013-14.

The Debt Reform Act requires the limitations on the issuance of State-supported debt and debt service costs to be calculated by October 31 of each year and reported in the quarterly Financial Plan Update most proximate to October 31st of each year. If the calculations for new State-supported debt outstanding and debt service costs are less than the State-supported debt outstanding and debt service costs permitted under the Debt Reform Act, new State-supported debt may continue to be issued. However, if either the debt outstanding or the debt service cap is met or exceeded, the State would be precluded from contracting new State-supported debt until the next annual cap calculation is made and State-supported debt is found to be within the appropriate limitations. The Division of the Budget expects that the prohibition on issuing new State-supported debt if the caps are met or exceeded will provide an incentive to treat the debt caps as absolute limits that should not be reached, and therefore DOB intends to manage subsequent capital plans and issuance schedules under these limits.

Pursuant to the provisions of the Debt Reform Act, the first calculation of the Debt Reform Act's limitations will be reported in the Financial Plan Update most proximate to October 31, 2001. The Division of the Budget expects that debt outstanding and debt service costs for the 2000-01 fiscal year will be within the statutory caps applicable to debt issued on or after April 1, 2000. In addition, the Division of the Budget expects that debt outstanding and debt service costs for the 2001-02 fiscal year also will be within the statutory caps.

Outstanding Debt of the State and Certain Authorities

For purposes of analyzing the financial condition of the State, debt of the State and of certain public authorities may be classified as *State-supported debt*, which includes general obligation debt of the State and lease-purchase and contractual obligations of public authorities (and municipalities) where debt service is paid from State appropriations (including dedicated tax sources, and other revenues such as patient charges and dormitory facilities rentals). In addition, a broader classification, referred to as *State-related debt*, includes State-supported debt, as well as certain types of contingent obligations, including moral obligation financings, certain contingent contractual-obligation financing arrangements, and State-guaranteed debt described above, where debt service is expected to be paid from other sources and State appropriations are contingent in that they may be made and used only under certain circumstances.

State-Supported Debt Outstanding

General Obligation Bond Programs

The first type of State-supported debt, general obligation debt, is currently authorized for transportation, environment and housing purposes. The amount of general obligation bonds and BANs issued in the 1998-99 through 2000-01 fiscal years (excluding bonds issued to redeem BANs and refunding bonds) were $249 million, $208 million, and $219 million, respectively. Transportation-related bonds are issued for State highway and bridge improvements, aviation, highway and mass transportation projects and purposes, and rapid transit, rail, canal, port and waterway programs and projects. Environmental bonds are issued to fund environmentally-sensitive land acquisitions, air and water quality improvements, municipal non-hazardous waste landfill closures and hazardous waste site cleanup projects. As of March 31, 2001, the total amount of outstanding general obligation debt was $4.3 billion.

The following table sets forth information regarding the levels of authorized, unissued and outstanding State general obligation debt by purpose as of March 31, 2001.

Table 19
State General Obligation Debt
As of March 31, 2001
(millions of dollars)

Purpose/Year Authorized	Total Authorized	Authorized but Unissued	Total Debt Outstanding
Transportation Bonds:			
Transportation Capital Facilities (1967)			
Highways	1,250.0	0.0	0.0
Mass Transportation	1,000.0	0.0	174.3
Aviation	250.0	0.0	81.1
Rail Preservation (1974)	250.0	0.0	72.5
Energy Conservation Through Improved Transportation (1979)			
Local Streets and Highways	100.0	0.0	0.0
Rapid Transit and Rail Freight	400.0	1.7	93.2
Rebuild New York Through Transportation Infrastructure Renewal (1983)			
Highway Related Projects	1,064.0	29.0	19.2
Rapid Transit, Rail and Aviation Projects	136.6	0.0	75.1
Ports, Canals, and Waterways	49.4	0.0	7.2
Accelerated Capacity and Transportation Improvements of the Nineties (1988)	3,000.0	61.8	1,466.0
Total Transportation Bonds	7,500.0	92.5	1,988.6
Environmental Bonds:			
Park and Recreation Land Acquisition (1960)	100.0	0.8	0.3
Pure Waters (1965)	1,000.0	33.7	235.2
Outdoor Recreation Development (1966)	200.0	0.2	1.1
Environmental Quality (1972)			
Water	650.0	6.7	271.9
Air	150.0	24.4	37.0
Land and Wetlands	350.0	35.4	103.2
Environmental Quality (1986)			
Solid Waste Management	1,200.0	299.5	690.2
Land and Forests	250.0	8.5	149.0
Clean Water/Clean Air (1996)			
Safe Drinking Water	355.0	130.0	197.5
Clean Water	790.0	568.6	218.2
Solid Waste	175.0	130.4	44.4
Environmental Restoration	200.0	184.0	15.5
Air Quality	230.0	81.5	136.1
Total Environmental Bonds	5,650.0	1,503.7	2,099.6
Housing Bonds:			
Low-Income Housing (through 1958)	960.0	7.9	167.1
Middle-Income Housing (through 1958)	150.0	0.5	79.1
Urban Renewal (1958)	25.0	1.6	1.1
Total Housing Bonds	1,135.0	10.0	247.3
Education Bonds:			
Higher Education Facilities (1957)	250.0	0.0	10.5
TOTAL GENERAL OBLIGATION DEBT	14,535.0	1,606.2	4,346.0

Source: Office of the State Comptroller.

Lease-Purchase and Contractual-Obligation Financing Programs

The second type of State-supported debt, lease-purchase and contractual-obligation financing arrangements with public authorities and municipalities, has been used primarily by the State to finance the State's highway and bridge program, SUNY and CUNY buildings, health and mental hygiene facilities, prison construction and rehabilitation, and various other State capital projects.

The State has utilized and expects to continue to utilize lease-purchase and contractual-obligation financing arrangements to finance its capital programs, in addition to authorized general obligation bonds. Some of the major capital programs financed by lease-purchase and contractual obligation agreements are highlighted below.

Transportation. The State Department of Transportation is primarily responsible for maintaining and rehabilitating the State’s system of highways and bridges, which includes 40,000 State highway lane miles and 7,500 State bridges. The Department also oversees and funds programs for rail, port, transit and aviation projects and programs that help defray local capital expenses associate with road and bridge projects.

Legislation enacted in 1991 established the Dedicated Highway and Bridge Trust Fund to provide for the dedication of a portion of the petroleum business tax and certain other transportation-related taxes and fees for transportation improvements. Since 1993, periodic legislation has authorized a series of multi-year capital plans for the State’s transportation programs. Most recently, legislation enacted in 2000 authorized a $17.1 billion 2000-01 through 2004-05 capital program for highways and bridges, canals, rail, ports, aviation, and non-MTA transit systems. This original plan also included $2.2 billion from the Transportation Infrastructure Bond Act of 2000 (the “Bond Act”) that was not approved by the voters in November, 2000. As a result of the Bond Act not passing, the 2001-02 Executive Budget proposed to the State Legislature a revised $15.5 billion five-year transportation plan, including a new highway and bridge capital program for State Fiscal Years 2000-01 through 2004-05. The revised State transportation plan includes funding for highways and bridges, associated engineering and construction inspection, preventative maintenance, a Multi-Modal Program, industrial access, canal, rail, aviation, local highway and bridge, and other programs. The new program will be financed by a combination of federal grants, pay-as-you-go capital and bond proceeds supported by the Dedicated Highway and Bridge Trust Fund, and revenues from the Dedicated Mass Transportation Trust Fund.

The State has supported the capital plans of the MTA in part by entering into service contracts relating to certain bonds issued by the MTA. Legislation adopted in 1992 and 1993 also authorized payments, subject to appropriation, of a portion of the petroleum business tax from the State's Dedicated Mass Transportation Trust Fund to the MTA and authorized it to be used as a source of payment for bonds to be sold by the MTA to support its capital program. Legislation adopted in 2000 provided for increases in amounts dedicated to the MTA through the Dedicated Mass Transportation Trust Fund by increasing the portion of the petroleum business tax and other transportation-related taxes and fees that would flow to that Fund. The legislation schedules these increases throughout the 2000-01 through 2004-05 period. See the section entitled "Authorities and Localities" for additional information about the MTA.

Education. The State finances the physical infrastructure of SUNY and CUNY and their respective community colleges and the State Education Department through direct State capital spending and through financing arrangements with DASNY, paying all capital costs of the senior colleges and sharing equally with local governments for the community colleges, except that SUNY dormitories are financed through dormitory fees.

The 34 SUNY campuses include more than 2,300 buildings, including classrooms, dormitories, libraries, athletic and student facilities and other buildings of which 84 percent are over 20 years of age. Together with the 30 SUNY community colleges, the SUNY system serves nearly 373,000 students. The CUNY system is comprised of 11 senior colleges and 6 community colleges that serve approximately 195,000 degree credit students.

Mental Hygiene/Health. The State provides care for its citizens with mental illness, mental retardation and developmental disabilities, and for those with chemical dependencies, through the Office of Mental Health (OMH), the Office of Mental Retardation and Developmental Disabilities (OMRDD) and the Office of Alcoholism and Substance Abuse Services (OASAS). Historically, this care has been provided at large State institutions. Beginning in the 1980s the State adopted policies to provide institutional care to those most in need and to expand care in community residences.

OMRDD's capital program supports a State institutional infrastructure comprising 13 Developmental Disabilities Services Offices with approximately 400 buildings, and a State- and non-profit operated community network of approximately 35,000 beds. The program continues the recent shift in emphasis from the development of new facilities (primarily in the community) to the improvement and maintenance of existing State- and non-profit infrastructure.

OMH's capital program supports an institutional physical plant consisting of 23 campuses with over 1,000 buildings as well as 10,000 State- and non-profit operated community residential beds. The overall policy direction of this program has limited institutional capital projects to those that are necessary to ensure the health and safety of clients and staff, retain program accreditation, and maintain the condition of existing facilities. In addition, the program supports the preservation of the existing capital base of State-and non-profit operated community beds and the development of new non-profit operated community beds.

As the need for institutional beds has declined over recent years, both OMRDD and OMH have consolidated, reconfigured or closed many of their campuses, permitting the planned development of alternate uses for the surplus facilities. Capital investments for these programs are primarily supported by patient revenues through financing arrangements with DASNY.

Various capital programs for Department of Health facilities have also been financed by DASNY using contractual-obligation financing arrangements.

Corrections. During the 10-year period 1983 through 1992, the State's prison system more than doubled in size due to the unprecedented increase in demand for prison space. Today, the system houses approximately 70,000 inmates in 71 facilities with 3,400 buildings. With the completion of the Five Points Correctional Facility signaling the end of the most recent capacity expansion effort, the capital program will now focus on critical physical plant maintenance and rehabilitation projects.

Other Programs. The State also uses lease-purchase and contractual-obligation financing arrangements for the institutional facilities of the Office of Children and Family Services (formerly known as the Division for Youth), the State's housing programs, and various environmental, economic development, and State building programs. In addition, DASNY has issued taxable pension bonds to refinance the balance of a pre-existing State pension liability, for the purpose of achieving present value savings.

The following table shows the total amount of authorized and outstanding State-supported debt as of March 31, 2001. In addition to showing the amounts of authorized and outstanding general obligation and LGAC debt, the table provides the amount of authorized and outstanding lease-purchase and contractual-obligation debt by purpose, issuer, and program. Debt authorizations for certain programs are approved or enacted all at one time and are expected to be fully issued over time. Authorizations for other capital programs are enacted annually by the Legislature and are usually consistent with bondable capital projects appropriations. Authorization does not, however, indicate an intent to sell bonds for the entire amount of those authorizations, because capital appropriations often include projects that do not materialize or are financed from other sources. For example, there are no current plans for the Thruway Authority to issue any of the authorizations for the suburban transportation program or the remaining emergency highway authorizations.

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Table 20
Outstanding State-Supported Debt(1)
(millions of dollars)

	Authorized As of 3/31/01	Authorized but Unissued As of 3/31/01	Outstanding As of 3/31/01 (2)
GENERAL OBLIGATION	14,535	1,606	4,346
LOCAL GOVERNMENT ASSISTANCE CORP.	4,700	0	4,728
OTHER LEASE-PURCHASE AND CONTRACTUAL OBLIGATION FINANCING ARRANGEMENTS			
Transportation:			
MTA:			
1981 Act Service Contract	no limit	no limit	870
1986-87 Acts Service Contract	859	0	1,030
Thruway Authority:			
Emergency Highways	670	58	78
Consolidated Highway Improvement and Suburban Highway Improvement Programs	3,788	1,330	2,334
Dedicated Highway & Bridge Trust	10,250	5,656	4,158
DASNY:			
Albany County Airport	40	1	39
Education:			
DASNY:			
SUNY Educational Facilities (3)	3,200	837	4,080
SUNY Dormitory Facilities	no limit	no limit	349
SUNY Upstate Community Colleges	no limit	no limit	452
CUNY Educational Facilities (4)	3,415	654	3,179
State Education Department Facilities	no limit	no limit	73
Library for the Blind	16	0	18
SUNY Athletic Facilities	22	0	25
RESCUE	195	130	65
Judicial Training Institute	no limit	no limit	16
Health/Mental Hygiene:			
DASNY/MCFFA:			
Department of Health Facilities	474	2	455
Mental Health Facilities (5)	5,050	1,022	3,610
Corrections:			
UDC\ESDC:			
Prison Facilities	4,551	925	3,390
Youth Facilities	328	146	158
Environment:			
EFC:			
Riverbank State Park	no limit	0	62
Water Pollution Control	no limit	0	176
Pilgrim Sewage Treatment	no limit	no limit	9
State Park Infrastructure	18	0	13
Fuel Tanks	23	0	15
Pipeline for Jobs (Jobs 2000)	23	14	8
Energy Research and Development Authority:			
Western New York Nuclear Service Center	104	0	78
UDC\ESDC:			
Long Island Pine Barrens	15	0	15
State Building/Equipment:			
UDC\ESDC:			
Empire State Plaza	133	10	90
State Buildings	45	25	15
State Capital Projects	200	0	242
Albany County-Empire State Plaza	no limit	no limit	4
Other Municipalities	24	2	0
Certificates of Participation	no limit	no limit	435
DASNY:			
State Facilities	no limit	no limit	90

(Continued on next page)

Table 20 (continued)
Outstanding State-Supported Debt
(millions of dollars)

	Authorized As of 3/31/01	Authorized but Unissued As of 3/31/01	Outstanding As of 3/31/01 (2)
Housing:			
HFA:			
Capital Programs	1,235	173	918
Economic Development:			
CEFAP	425	188	233
Triborough Bridge and Tunnel Authority:			
Convention Center Project	375	0	341
UDC\ESDC\DASNY:			
University Technology Centers	288	53	189
Onondaga Convention Center	40	0	44
Broadway Development Project	6	6	0
Sports Facilities	145	15	131
University Facilities (Jobs 2000)	48	48	0
Natural Resources Preservation	25	0	28
Child Care Facilities	30	30	0
Bio-Tech Facilities	10	10	0
Strategic Investment	225	225	0
Other:			
DASNY:			
Pension Obligation	787	14	369
Total Other Financing Arrangements			27,884
TOTAL STATE SUPPORTED DEBT			36,958

Source: Office of the State Comptroller.
(1) Includes only Authorized programs that are currently active and have outstanding balances.
(2) Amounts issued may exceed the stated amount authorized for the purpose of providing for the cost of issuance, reserve fund requirements and, in certain circumstances, refunding bonds.
(3) Authorization also includes any amount necessary to refund outstanding Housing Finance Agency (HFA) State University Construction Bonds, all of which have been refunded.
(4) The amount outstanding includes one half of $659.1 million for CUNY Community Colleges for which the State pays 50 percent of the debt service and the City pays 50 percent of the debt service. The total amount authorized for CUNY Senior Colleges was unlimited for resolutions adopted prior to 7/1/85 and limited to $3.415 billion for both CUNY Senior and CUNY Community Colleges for resolutions adopted after 7/1/85.
(5) Authorization also includes any amount necessary to refund outstanding HFA Mental Hygiene Bonds, all of which have been refunded.

State-Related Debt Outstanding

The category of State-related debt includes the State-supported debt described above, moral obligation and certain other financings and State-guaranteed debt.

The following table contains information on the amounts of State-related debt at the close of the three most recent fiscal years, including the levels of State-supported debt, contingent contractual-obligation financing, moral obligation financing and State-guaranteed debt. There are no notes outstanding under any of the moral obligation programs listed below.

Table 21
Outstanding State-Related Debt
(millions of dollars)

	As of 3/31/99	As of 3/31/00	As of 3/31/01
State-Supported Debt			
General Obligation	4,825	4,556	4,346
Local Government Assistance Corporation	5,115	4,874	4,728
Other Lease-Purchase and Contractual-Obligation Financing Arrangements	25,902	27,367	27,884
Total State-Supported Debt	35,842	36,797	36,958
Contingent Contractual-Obligation Financing			
DASNY/MCFFA (1)	1,082	1,060	1,035
Moral Obligation Financing			
Housing Finance Agency	528	497	459
MCFFA-Hospitals and Nursing Homes	101	97	92
Total Moral Obligation Financing	629	594	551
State-Guaranteed Debt			
Job Development Authority	187	133	119
Total State-Guaranteed Debt	187	133	119
TOTAL STATE-RELATED DEBT	37,740	38,584	38,663

Source: Office of the State Comptroller.
(1) Includes bonds issued for the Secured Hospital Program, for which the State's contingent obligation, subject to annual appropriation, is to provide funds for debt service in the event there is a shortfall of revenues from other specified sources.

Debt Service Requirements

The table below presents the current and future debt service (principal and interest) requirements on State-supported debt outstanding as of March 31, 2001. The requirements of LGAC and other financing obligations of public authorities are the gross amounts due from the authorities to bondholders within the fiscal year when such authorities make the payments. The amounts shown do not reflect other associated costs or revenues anticipated to be available, such as interest earnings or capitalized interest. Thus, the requirements shown are generally in excess of the amounts expected to be paid by the State during its fiscal year.

Table 22
Debt Service Requirements on State-Supported Debt
Outstanding As of March 31, 2001
(millions of dollars)

Fiscal Years Ending March 31	General Obligation(1)	Local Government Assistance Corporation(2)	Other Financing Obligations	Total
2001-02	634	358	2,970	3,962
2002-03	577	338	2,908	3,823
2003-04	505	339	2,768	3,612
2004-05	460	369	2,614	3,443
2005-06	436	378	2,549	3,363
Thereafter	3,426	6,553	31,603	41,582
Total	6,038	8,335	45,412	59,785

Source: Office of the State Comptroller
(1) Assumes a projected average interest rate of 4.72 percent on $655.4 million of tax-exempt variable rate bonds outstanding on March 31, 2001 and a projected average interest rate of 5.89 percent on $66.7 million of taxable variable rate bonds outstanding on March 31, 2001.
(2) Assumes a projected average interest rate of 6 percent on approximately $917 million of outstanding LGAC variable rate bonds.

Legislation accompanying the 1998-99 budget created the Debt Reduction Reserve Fund (DRRF) in an effort to set aside resources that could be used to reduce State indebtedness either through the use of DRRF as a pay-as-you-go financing source or to defease outstanding debt. In 1998-99, $50 million was deposited to the DRRF. Those deposits were used in 1999-2000 to pay cash for projects that would have otherwise been bond financed. Additional deposits to DRRF include $250 million in 1999-2000 and $500 million in 2000-01. In 2000-01, $500 million of DRRF deposits were disbursed, $422 million of which was used to defease existing high cost debt and $78 million used to pay for projects that otherwise would have been bond financed. The 2001-02 Financial Plan assumes that the balance of DRRF deposits will be used to pay cash for transportation projects that would otherwise be bond financed, and includes an additional deposit of $250 million to further reduce high cost debt or pay cash for projects that would otherwise be financed with bonds.

Long-Term Trends

The following tables provide an overview of trends during the last ten years and an estimate for the current year. They compare: (1) the growth in State-supported debt service requirements with the growth in total governmental funds receipts; (2) the growth in State-supported and State-related debt with the growth in personal income in the State; and (3) the growth in State-supported and State-related debt requirements with the number of State residents.

Table 27 compares the total amount of State-supported debt service with total governmental funds receipts. During the prior ten years, State-supported long-term debt service increased on an average annual basis by 9.06 percent to $4.19 billion by 2000-01 while Total Governmental Funds Receipts increased on an average annual basis by 5.13 percent. Debt Service for 2000-01 reflects the use of $422 million of DRRF funds to defease existing high-cost debt. Excluding this amount, debt service grew by 7.78 percent during the prior ten years. During the first five years of this ten year period, debt service increased by an annual average of 9.36 percent and over the remaining five years of the period the annual average growth in debt service has slowed to 8.82 percent. Excluding the use of $422 million of DRRF funds to defease existing high cost debt, debt service over the remaining five years grew by an annual average of 6.53%. The relative growth in receipts and debt service resulted in a general trend of increases in the ratio of debt service to receipts from fiscal years 1991-92 to 2000-01. The ratio is estimated to decrease to 5.00 percent in fiscal year 2001-02.

Table 23
State-Supported Debt Service Requirements
Total Governmental Funds Receipts

Fiscal Year	Total State-Supported Debt Service (dollars in millions)	Total Governmental Funds Receipts (dollars in millions)	State-Supported Debt Service as a % of Total Governmental Funds Receipts
1991-92	1,922	51,706	3.72%
1992-93	2,198	54,601	4.03%
1993-94	2,266	57,971	3.91%
1994-95	2,490	61,106	4.07%
1995-96	2,749	62,969	4.37%
1996-97	2,827	62,886	4.50%
1997-98	3,195	66,246	4.82%
1998-99	3,387	70,819	4.78%
1999-2000	3,672	73,502	5.00%
2000-01	4,194 (1)	81,123	5.17%
2001-02 (estimated)	4,121	82,437	5.00%

Source: State Division of the Budget.
(1) Includes $422 million in DRRF funds used to defease high-cost debt.

Included in the table above are principal and interest payments on general obligation bonds and interest payments on BANs which were $677.5 million for the 2000-01 fiscal year, and are estimated to be $632.6 million for 2001-02. State payments for debt service on fixed rate and variable rate bonds issued by LGAC were $323.6 million for the 2000-01 fiscal year, and are estimated to be $307.5 million for 2001-02. State lease-purchase and contractual-obligation payments (including State installment payments relating to COPs), classified as "Other Financing Obligations", were $3.19 billion in fiscal year 2000-01, and are estimated to be $3.17 billion for 2001-02.

Table 24 below compares total State-supported and State-related debt outstanding to New York State personal income. Total outstanding State-related debt increased from $31.11 billion at the end of the 1991-92 fiscal year to $38.66 billion at the end of the 2000-01 fiscal year, an average annual increase of 2.44 percent. State-supported debt increased from $21.56 billion at the end of the 1991-92 fiscal year to $36.96 billion at the end of the 2000-01 fiscal year, an average annual increase of 6.17 percent. During the first five years of this ten year period, State-related debt outstanding grew by an annual average of 5.54 percent and over the remaining five years of the period the annual average growth in State-related debt outstanding has remained flat. During the first five years of this ten year period, State-supported debt outstanding grew by an annual average of 9.51 percent and over the remaining five years of the period the annual growth in State supported debt outstanding has slowed to 3.57 percent. During the prior ten year period, annual personal income in the State rose from $431.7 billion to $655.6 billion, an average annual increase of 4.75 percent. Thus, State-supported debt grew at a faster rate than personal income while State-related obligations grew at a slower rate. Expressed in other terms, the total amount of

State-supported debt outstanding grew from 4.99 percent of personal income in the 1991-92 fiscal year to a peak of 6.24 percent in the 1996-97 fiscal year, and has gradually declined since then to 5.64 percent for the 2000-01 fiscal year while State-related debt outstanding declined from 7.21 percent to 5.90 percent of personal income for the same period. These long-term trends are expected to continue in the 2001-02 fiscal year, although State-supported debt outstanding is expected to modestly decrease to 5.63 percent of personal income.

Table 24
State-Supported and State-Related Debt Compared with Personal Income

	NYS	State-Supported Debt		State-Related Debt	
Fiscal Year	**Personal Income ($billions)(1)**	**Amount ($millions)**	**As % of Personal Income**	**Amount ($millions)**	**As % of Personal Income**
1991-92	431.7	21,562	4.99%	31,110	7.21%
1992-93	455.7	23,971	5.26%	32,930	7.23%
1993-94	464.2	26,696	5.75%	35,014	7.54%
1994-95	478.6	28,169	5.89%	36,359	7.60%
1995-96	503.2	31,009	6.16%	38,593	7.67%
1996-97	531.0	33,130	6.24%	37,478	7.06%
1997-98	553.5	34,247	6.19%	36,999	6.68%
1998-99	590.4	35,842	6.07%	37,740	6.39%
1999-2000	614.6	36,797	5.99%	38,584	6.28%
2000-01	655.6	36,958	5.64%	38,663	5.90%
2001-02 (estimated)	684.3	38,492	5.63%	40,115	5.86%

Source: State Division of the Budget.
1) For calendar year ending in State's fiscal year. Based on US Department of Commerce, Bureau of Economic Analysis (BEA) data through September, 2001. Personal income for 2000 and 2001 estimated by State Division of The Budget.

The table below provides historical amounts of State-supported and State-related debt per capita based on State population statistics.

Table 25
State-Supported and State-Related Debt Per Capita

Fiscal Year	Total State Population (millions)(1)	State-Supported Debt Amount ($millions)	State-Supported Debt State Supported Debt/$Capita	State-Related Debt Amount ($millions)	State-Related Debt State Related Debt/$Capita
1991-92	18.0	21,562	1,198	31,110	1,728
1992-93	18.1	23,971	1,324	32,930	1,819
1993-94	18.1	26,696	1,475	35,014	1,934
1994-95	18.2	28,169	1,548	36,359	1,998
1995-96	18.1	31,009	1,713	38,593	2,132
1996-97	18.1	33,130	1,830	37,478	2,071
1997-98	18.1	34,247	1,892	36,999	2,044
1998-99	18.2	35,842	1,969	37,740	2,074
1999-2000	18.2	36,797	2,022	38,584	2,120
2000-01 (2)	19.0	36,958	1,945	38,663	2,035
2001-02 (estimated)(2)	19.0	38,492	2,026	40,115	2,111

Source: State Division of the Budget.
(1) For calendar year ending in State's fiscal year.
(2) All population figures for the years 1991 through 1999 are estimates based on the 1990 Census, however, the figure for 2000 reflects Census 2000 counts. As a result, the large increase in population from 1999 to 2000 cannot be attributed to an increase in the actual population

State Organization

State Government

The State has a centralized administrative system with most executive powers vested in the Governor. The State has four officials elected in statewide elections, the Governor, Lieutenant Governor, Comptroller and Attorney General. These officials serve four-year terms that next expire on December 31, 2002.

Name	Office	Party Affiliation	First Elected
George E. Pataki	Governor	Republican	1994
Mary Donohue	Lieutenant Governor	Republican	1998
H. Carl McCall	Comptroller	Democrat	1993*
Eliot Spitzer	Attorney General	Democrat	1998

*Pursuant to a vote of the State Legislature, Comptroller McCall took office in 1993; he was elected in the Statewide election of November 1994.

The Governor is elected on a single ticket with the Lieutenant Governor, while the Comptroller and Attorney General are elected on separate tickets. The Governor and the Comptroller have principal responsibility for the State's financial operations. The Governor appoints the heads of most State departments, including the Director of the Budget (the current Director is Carole E. Stone). The Division of the Budget is responsible for preparing the Governor's Executive Budget, negotiating that budget with the State Legislature, and implementing the budget once it is adopted, which includes updating the State's fiscal projections quarterly. The Comptroller, the State's chief auditor and fiscal officer, is responsible for auditing the disbursements, receipts and accounts of the State, as well as for auditing State departments, agencies, public authorities and municipalities. The Comptroller is also charged with managing much of the State's debt and most of its investments (see "Fiscal Controls" and "Investment of State Moneys" below). The Attorney General, the State's chief legal officer, is the legal advisor to State departments, represents the State and certain public authorities in legal proceedings and opines upon the validity of all State general obligations.

The State Legislature is composed of a 61-member Senate and a 150-member Assembly, all elected from geographical districts for two-year terms, expiring December 31, 2002. Both the Senate and the Assembly operate on a committee system. The Legislature meets annually, generally for about six months, and remains formally in session the entire year. In recent years there have been special sessions, as well. The current majority leaders of the Legislature are Joseph Bruno (Republican), Temporary President of the Senate, and Sheldon Silver (Democrat), Speaker of the Assembly. The minority leaders are Martin Connor (Democrat) in the Senate and John Faso (Republican) in the Assembly.

State Financial Procedures

The State Budget Process

The requirements of the State budget process are set forth in Article VII of the State Constitution and the State Finance Law. The process begins with the Governor's submission of the Executive Budget to the Legislature each January, in preparation for the start of the fiscal year on April 1. (The submission date is February 1 in years following a gubernatorial election.) The budget must contain a complete plan of estimated available receipts and projected disbursements for the ensuing fiscal year ("State Financial Plan"). The proposed State Financial Plan must be balanced on a cash basis and must be accompanied by bills that: (i) set forth all proposed appropriations and reappropriations, (ii) provide for any new or modified revenue measures, and (iii) make any other changes to existing law necessary to implement the budget recommended by the Governor.

In acting on the bills submitted by the Governor, the Legislature has the power to alter both recommended appropriations and proposed changes to existing law. The Legislature may strike out or reduce an item of appropriation recommended by the Governor. The Legislature may add items of appropriation, provided such additions are stated separately. These additional items are then subject to line-item veto by the Governor. If the Governor vetoes an appropriation or a bill (or portion thereof) related to the budget, these items can be reconsidered in accordance with the rules of each house of the Legislature. If approved by two-thirds of the members of each house, such items will become law notwithstanding the Governor's veto.

Once the appropriation bills and other bills become law, DOB revises the State Financial Plan to reflect the Legislature's actions, and begins the process of implementing the budget. Throughout the fiscal year, DOB monitors actual receipts and disbursements, and may adjust the estimates in the State Financial Plan. Adjustments may also be made to the State Financial Plan to reflect changes in the economy, as well as new actions taken by the Governor or the Legislature. As required by the State Finance Law, the Governor updates the State Financial Plan within 30 days of the close of each quarter of the fiscal year, generally issuing reports by July 30, October 30, and in January as part of the Executive Budget. The Governor is required to submit these updates to the Legislature and explain any changes from the previous State Financial Plan.

Subject to approval by the Governor, the Legislature may enact additional appropriation bills or revenue measures (including tax reductions) during any regular session or, if called into session for that purpose, any special session. In the event additional appropriation bills or revenue measures are disapproved by the Governor, the Legislature has authority to override the Governor's veto upon the vote of two-thirds of the members of each house of the Legislature. The Governor may present deficiency appropriations to the Legislature near the end of any fiscal year to supplement inadequate appropriations or to provide new appropriations for purposes not covered by the regular and supplemental appropriations

Fiscal Controls

The State Constitution requires the Comptroller to audit the accrual and collection of State receipts. In addition, the Comptroller is required to audit all official State accounts and all claims against the State before payment. No such payment may be made unless the Comptroller has approved it.

Disbursements from State funds are limited to the lowest of (i) appropriations, (ii) available cash or (iii) the amounts allocated by the Director of the Budget. Disbursements from federal funds must be appropriated in accordance with appropriate legal authority, are limited to the amounts anticipated from federal programs and may not be made in the absence of appropriate certifications from the Director of the Budget. Contracts for disbursements in excess of $10,000 require the Comptroller's approval and depend in most cases upon the existence of an appropriation and the issuance of a certificate of availability by the Director of the Budget. The Budget Director must review all applications for State participation in continuing grant- or contract-supported programs, with specified exceptions. Certain legislative leaders have the opportunity to make recommendations on the applications.

No appropriation may be increased or decreased by transfer or otherwise, except by (i) the interchange within a fund, among items of a particular program or purpose, of moneys appropriated for such program or purpose in such fund, with limited exceptions, or (ii) the enactment of certain emergency appropriations. Moneys or other financial resources from one fund may also be loaned to another fund, but only if such loan is repaid in full prior to the end of the month in which the loan was made, except as provided by law.

In addition, the Governor has traditionally exercised substantial authority in administering the State Financial Plan by limiting disbursements after the Legislature has enacted appropriation bills and revenue measures. The Governor may, primarily through DOB, limit spending by State departments, or delay construction projects to control disbursements. An important limitation of the Governor's ability to restrict disbursements is that local assistance payments, which make up 67 percent of General Fund disbursements (including operating transfers to other funds), are generally mandated by statute. The State Court of Appeals has held that, even in an effort to maintain a balanced Financial Plan, neither the Governor nor the Director of the Budget has the authority to refuse to make a disbursement mandated by law.

In May 2000, the State enacted several statutory provisions designed to restrict the amount of new debt that can be issued in the future. These debt reform provisions are discussed in the section entitled "Debt and Other Financing Activities" in this AIS.

Investment of State Moneys

The Comptroller is responsible for the investment of substantially all State moneys. By law, such moneys may be invested only in obligations issued or guaranteed by the federal government or the State, obligations of certain federal agencies that are not guaranteed by the federal government, certain general obligations of other states, direct obligations of the State's municipalities and obligations of certain public authorities, certain short-term corporate obligations, certain bankers' acceptances, and certificates of deposit secured by legally qualified governmental securities. All securities in which the State invests moneys held by funds administered within the State Treasury must mature within twelve years of the date they are purchased. Money impounded by the Comptroller for payment of TRANs may only be invested, subject to the provisions of the State Finance Law, in (i) obligations of the federal government, (ii) certificates of deposit secured by such obligations, or (iii) obligations of or obligations guaranteed by agencies of the federal government as to which the payment of principal and interest is guaranteed by the federal government.

Accounting, Financial Reporting and Budgeting

Historically, the State has accounted for, reported and budgeted its operations on a cash basis. Under this form of accounting, receipts are recorded only at the time money or checks are deposited in the State Treasury, and disbursements are recorded only at the time a check is drawn. As a result, actions and circumstances, including discretionary decisions by certain governmental officials, can affect the timing of payments and deposits and therefore can significantly affect the cash amounts reported in a fiscal year. Under cash-basis accounting, all estimates and projections of State receipts and disbursements relating to a particular fiscal year are of amounts to be deposited in or disbursed from the State Treasury during that fiscal year, regardless of the fiscal period to which particular receipts or disbursements may otherwise be attributable.

The State also has an accounting and financial reporting system based on GAAP and currently formulates a GAAP financial plan. GAAP for governmental entities requires use of (i) the modified accrual basis of accounting for governmental and certain fiduciary fund types to measure changes in financial position, and (ii) the full accrual basis of accounting for public benefit corporations, college and university funds (except for depreciation on fixed assets) and certain fiduciary fund types to measure net income. Under modified accrual procedures, revenues are recorded when they become both measurable and available to finance expenditures; expenditures are generally recognized and recorded when the State incurs a liability to pay for goods or services, or makes a commitment to make State aid payments, regardless of when actually paid. Financial statements prepared in accordance with GAAP differ in format from the State's traditional financial statements in that, among other things, they are prepared on a modified or full accrual basis, whichever is appropriate, rather than on a cash basis and include a combined balance sheet, reflect a reorganization of the State's fund structure and report on the activities of all funds.

State Government Employment

The State has approximately 193,500 full-time equivalent (FTE) employees funded from all funds including part-time and temporary employees but excluding seasonal, legislative and judicial employees.

The current size of the State workforce reflects continuing efforts to streamline operations and improve efficiency. The workforce is now 16 percent smaller than it was eleven years ago, when it peaked at 230,600 positions and the State began its workforce reduction efforts. In January 1995, the State implemented concerted initiatives designed to reduce the size of the workforce and now has 16,800 fewer full-time employees than it had at that time. FTE levels have been stable in recent years.

Negotiating units for State employees are defined by the State Public Employment Relations Board. Collective bargaining negotiations are conducted by the Governor's Office of Employee Relations except for employees of the Judiciary, public authorities and the Legislature. Such negotiations include terms and conditions of employment, except grade classification policies and certain pension benefits. Approximately 93 percent of the State workforce is unionized. The remainder of the workforce (about 12,000) is designated as managerial or confidential and is excluded from collective bargaining. In practice, however, the results of collective bargaining negotiations are generally applied to all State employees within the executive agencies. Under the State's Taylor Law, the general statute governing public employee-employer relations in the State, employees are prohibited from striking. A strike against the State last occurred in 1979 by employees of the Department of Correctional Services.

State Retirement Systems

General

The New York State and Local Retirement Systems (the "Systems") provide coverage for public employees of the State and its localities (except employees of New York City and teachers, who are covered by separate plans). The Systems comprise the New York State and Local Employees Retirement System and the New York State and Local Police and Fire Retirement System. The Comptroller is the administrative head of the Systems. State employees made up about 36 percent of the membership during the 2000-01 fiscal year. There were 2,896 other public employers participating in the Systems, including all cities and counties (except New York City), most towns, villages and school districts (with respect to non-teaching employees) and a large number of local authorities of the State.

As of March 31, 2001, 626,565 persons were in membership and 298,078 pensioners and beneficiaries were receiving benefits. The State Constitution considers membership in any State pension or retirement system to be a contractual relationship, the benefits of which shall not be diminished or impaired. Members cannot be required to begin making contributions or make increased contributions beyond what was required when membership began.

Contributions

Funding is provided in large part by employer and employee contributions. Employers contribute on the basis of the plan or plans they provide for members. Members joining since mid-1976, other than police and fire members, have been required to contribute 3 percent of their salaries. Recently, the Governor signed new legislation which eliminates such member contributions after employees have completed 10 years of retirement system service or membership. For State employees, the Governor is granted the discretion to confer this benefit by negotiating unit.

By law, the State makes its annual payment to the Systems on or before March 1 for the then current fiscal year ending on March 31 based on an estimate of the required contribution prepared by the Systems. The Director of the Budget is authorized to revise and amend the estimate of the Systems' bill for purposes of preparing the State's budget for a fiscal year. Legislation also provides that any underpayments by the State (as finally determined by the Systems) must be paid, with interest at the actuarially assumed interest earnings rate, in the second fiscal year following the year of the underpayment. Similarly, any overpayment for a fiscal year serves as a credit against the Systems' estimated bill for the second fiscal year following the fiscal year in which the overpayment is made.

During the 2000-01 fiscal year, the State paid the System's 2000-01 estimated bill of $94.6 million. The difference between the amounts paid on the estimated bill and the final bill with interest results in an underpayment of the final bill in the amount of $2.6 million and will be billed on March 1, 2003 ($2.5 million if paid on September 1, 2002).

Assets and Liabilities

Assets are held exclusively for the benefit of members, pensioners and beneficiaries. Investments for the Systems are made by the Comptroller as trustee of the Common Retirement Fund, a pooled investment vehicle. The net assets available for benefits as of March 31, 2001 were $114.0 billion (including $2.3 billion in receivables). The present value of anticipated benefits for current members, retirees, and beneficiaries as of March 31, 2001 was $120.2 billion. For current retirees and beneficiaries alone the amount was $39.3 billion. Under the funding method used by the Systems, the net assets, plus future actuarially determined contributions, are expected to be sufficient to pay for the anticipated benefits of current members, retirees and beneficiaries. For information on the growth of assets held by the Systems, see the following tables.

Table 26
Contributions and Benefits
New York State and Local Retirement Systems
(millions of dollars)

Fiscal Year Ended March 31	Contributions Recorded				Total Benefits Paid(2)
	All Participating Employers(1)	Local Employers(1)	State(1)	Employees	
1997	904	497	407	348	3,204
1998	463	358	105	369	3,395
1999	292	156	136	400	3,570
2000	165	11	154	423	3,787
2001	215	112	103	319	4,267

Source: State and Local Retirement Systems.
(1) Includes employer premiums to Group Life Insurance Plan.
(2) Includes payments from Group Life Insurance Plan.

Table 27
Net Assets Available for Benefits of the
New York State and Local Retirement Systems(1)
(millions of dollars)

Fiscal Year Ended March 31	Total Assets(2)	Percent Increase/ (Decrease) From Prior Year
1997	83,947	8.4
1998	106,319	26.7
1999	112,723	6.0
2000	128,889	14.3
2001	114,044	(11.5)

Source: State and Local Retirement Systems.
(1) Includes relatively small amounts held under the Group Life Insurance Plan. Includes some employer contribution receivables. Fiscal year ending March 31, 2001 includes approximately $2.3 billion of receivables.
(2) Includes certain accrued employer contributions to be paid with respect to service rendered during fiscal years other than the year shown.

Authorities and Localities

Public Authorities

The fiscal stability of the State is related in part to the fiscal stability of its public authorities. For the purposes of this AIS, public authorities refer to public benefit corporations, created pursuant to State law, other than local authorities. Public authorities are not subject to the constitutional restrictions on the incurrence of debt that apply to the State itself and may issue bonds and notes within the amounts and restrictions set forth in legislative authorization. The State's access to the public credit markets could be impaired and the market price of its outstanding debt may be materially and adversely affected if any of its public authorities were to default on their respective obligations, particularly those using the financing techniques referred to as State-supported or State-related debt under the section entitled" Debt and Other Financing Activities" in this AIS. As of December 31, 2000, there were 18 public authorities that had outstanding debt of $100 million or more, and the aggregate outstanding debt, including refunding bonds, of these State public authorities was almost $98 billion, only a portion of which constitutes State-supported or State-related debt. The table below summarizes the outstanding debt of these State public authorities.

Table 28
Outstanding Debt of Certain Authorities
As of December 31, 2000
(millions of dollars)

Authority	Amount(1)
Dormitory Authority (2)	28,815
Port Authority of NY & NJ	8,724
Long Island Power Authority	7,344
Metropolitan Transportation Authority	9,228
Thruway Authority	7,521
Triborough Bridge and Tunnel Authority	6,134
Local Government Assistance Corporation	4,728
Energy Research and Development Authority	4,007
UDC\ESDC	5,130
State of New York Mortgage Agency	4,150
Housing Finance Agency	4,331
Environmental Facilities Corporation	3,918
Power Authority	2,381
Battery Park City Authority	711
Niagara Frontier Transporation Authority	196
United Nations Development Corporation	141
Job Development Authority	132
Project Finance Agency	103
TOTAL OUTSTANDING	97,694

Source: Office of the State Comptroller.
(1) Includes short-term and long-term debt.
(2) Includes debt previously issued by New York State Medical Care Facilities Finance Agency, which was consolidated with the Dormitory Authority on September 1, 1995.

The State has numerous public authorities with various responsibilities, including those which finance, construct and/or operate revenue-producing public facilities. Public authorities generally pay their operating expenses and debt service costs from revenues generated by the projects they finance or operate, such as tolls charged for the use of highways, bridges or tunnels, charges for public power, electric and gas utility services, rentals charged for housing units, and charges for occupancy at medical care facilities. In addition, State legislation authorizes several financing techniques for public authorities that are described under the section entitled "Debt and Other Financing Activities" above. Also, there are statutory arrangements providing for State local assistance payments otherwise payable to localities to be made under certain circumstances to public authorities. Although the State has no obligation to provide additional assistance to localities whose local assistance payments have been paid to public authorities under these arrangements, the affected localities may seek additional State assistance if local assistance payments are diverted. Some authorities also receive moneys from State appropriations to pay for the operating costs of certain of their programs. As described below, the MTA receives the bulk of this money in order to provide transit and commuter services.

Beginning in 1998, the Long Island Power Authority (LIPA) assumed responsibility for the provision of electric utility services previously provided by the Long Island Lighting Company for Nassau, Suffolk and a portion of Queens counties, as part of an estimated $7 billion financing plan. As of the date of this AIS, LIPA has issued over $7 billion in bonds secured solely by ratepayer charges. LIPA's debt is not considered either State-supported or State-related debt.

Metropolitan Transportation Authority

On September 19, 2001, the MTA issued a statement informing bondholders that certain portions of its operations were affected by the World Trade Center disaster. The MTA reported that, in addition to damage to a small number of subway cars and buses at the scene, damage occurred to tunnels, stations and infrastructure at transit system locations at or around the World Trade Center. The MTA expects that insurance and federal disaster assistance funds will cover substantially all of the property losses related to this event. Bridges and tunnels operated by the Triborough Bridge and Tunnel Authority (an MTA affiliate), while suffering no structural damage, are subject to sporadic closings and restrictions on traffic coordinated by federal, state and local agencies. The commuter systems suffered no damage and continue normal operations. The MTA's financial and business systems are fully operational. The MTA continues to assess the long-term impact of (1) any loss of ridership on the transit system caused by the property damage, (2) the disruption on traffic on certain TBTA bridges and tunnels, and (3) state subsidies generated by regional economic transactions, such as the regional sales and use tax and certain business taxes. While the loss of revenues may be significant, the MTA does not expect that it will materially affect its obligations to bondholders and others.

The MTA oversees the operation of subway and bus lines in New York City by its affiliates, the New York City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority (collectively, the TA). The MTA operates certain commuter rail and bus services in the New York metropolitan area through the MTA's subsidiaries, the Long Island Rail Road Company, the Metro-North Commuter Railroad Company, and the Metropolitan Suburban Bus Authority. In addition, the Staten Island Rapid Transit Operating Authority, an MTA subsidiary, operates a rapid transit line on Staten Island. Through its affiliated agency, the Triborough Bridge and Tunnel Authority (TBTA), the MTA operates certain intrastate toll bridges and tunnels. Because fare revenues are not sufficient to finance the mass transit portion of these operations, the MTA has depended on, and will continue to depend on, operating support from the State, local governments and TBTA, including loans, grants and subsidies. If current revenue projections are not realized and/or operating expenses exceed current projections, the TA or commuter railroads may be required to seek additional State assistance, raise fares or take other actions.

Since 1980, the State has enacted several taxes including a surcharge on the profits of banks, insurance corporations and general business corporations doing business in the 12-county Metropolitan Transportation Region served by the MTA and a special one-quarter of one percent regional sales and use tax that provide revenues for mass transit purposes, including assistance to the MTA. Since 1987, State law also has required that the proceeds of a one-quarter of 1 percent mortgage recording tax paid on certain mortgages in the Metropolitan Transportation Region be deposited in a special MTA fund for operating or capital expenses. In 1993, the State dedicated a portion of certain additional petroleum business tax receipts to fund operating or capital assistance to the MTA. The 2000-01 Enacted Budget provided State assistance to the MTA totaling approximately $1.35 billion and initiated a five-year State transportation plan that included nearly $2.2 billion in dedicated revenue support for the MTA's 2000-2004 Capital Program. This capital commitment includes an additional $800 million of newly dedicated State petroleum business tax revenues, motor vehicle fees, and motor fuel taxes not previously dedicated to the MTA.

State legislation accompanying the 2000-01 Enacted State budget increased the aggregate bond cap for the MTA, TBTA and TA to $16.5 billion in order to finance a portion of the $17.1 billion MTA capital plan for the 2000 through 2004 calendar years (the "2000-04 Capital Program"). On May 4, 2000, the Capital Program Review Board approved the MTA's $17.1 billion capital program for transit purposes for 2000 through 2004. The 2000-04 Capital Program is the fifth capital plan since the Legislature authorized procedures for the adoption, approval and amendment of MTA capital programs and is designed to upgrade the performance of the MTA's transportation systems by investing in new rolling stock, maintaining replacement schedules for existing assets, bringing the MTA system into a state of good repair, and making major investments in system expansion projects such as the Second Avenue Subway project and the East Side Access project.

The 2000-04 Capital Program approved by the Capital Program Review Board assumes the issuance of an estimated $8.9 billion in new money MTA bonds. The remainder of the plan is projected to be financed with assistance from the federal government, the State, The City of New York, and from various other revenues generated from actions taken by the MTA. Legislation enacted in 2000 authorized the MTA to refund approximately $13.7 billion in bonds, consolidate its credit sources, and obviate the need for certain debt service reserves. The authorization for debt restructuring includes outstanding bonds secured by service contracts with the State.

The 2000-04 Capital Plan assumed $1.6 billion in State support using proceeds from State general obligation bonds under the proposed $3.8 billion Transportation Infrastructure Bond Act of 2000, which was defeated by the voters in the November 2000 general election. The MTA is currently reviewing options to offset the loss of the Bond Act funds.

There can be no assurance that all the necessary governmental actions for the current or future capital programs will be taken or that funding sources currently identified will not be decreased or eliminated. Moreover, should the MTA's plans to issue additional debt to replace funding anticipated from the defeated Transportation Infrastructure Bond Act not materialize, the State and the City could come under pressure to provide additional funding to the MTA. Should funding levels ultimately fall below the levels assumed in the plan approved by the Capital Program Review Board, the MTA would have to revise its 2000-04 Capital Program accordingly. If the 2000-04 Capital Plan is delayed or reduced, ridership and fare revenue may decline, which could impair the MTA's ability to meet its operating expenses without additional State assistance.

The City of New York

The projections and forecasts contained in this Section of the Annual Information Statement were made prior to the September 11 attack on the World Trade Center and have not been revised to reflect changes that may occur as a result of this event. Prior to the events of September 11, the national and local economic had been weakening, reflecting lower business investment, increased unemployment and, recently a decline in consumer confidence. It is expected that the destruction of the World Trade Center will have an adverse impact on the City and its economy. Reduced economic activity is expected to lower corporate profits, increase job losses and reduce consumer spending, which would result in reduced personal income and sales tax receipts and other business tax revenues for the City and could negatively affect real property values. The events of September 11 increased substantially the risk of a recession and a delay in recovery. It is not possible to quantify at present with any certainty the short-term or long-term adverse impact of the September 11 events on the City and its economy, any offsetting economic benefits which may result from recovery and rebuilding activities, and the amount of additional resources from federal, State,City and other sources which will be required.

The fiscal health of the State may also be affected by the fiscal health of New York City, which continues to receive significant financial assistance from the State. State aid contributes to the City's ability to balance its budget and meet its cash requirements. The State may also be affected by the ability of the City and certain entities issuing debt for the benefit of the City to market their securities successfully in the public credit markets.

The City has achieved balanced operating results for each of its fiscal years since 1981 as measured by the GAAP standards in force at that time. The City prepares a four-year financial plan annually and updates it periodically, and prepares a comprehensive annual financial report each October describing its most recent fiscal year. For current information on the City's Financial Plan and its most recent financial disclosure, contact the Office of the Comptroller, Municipal Building, Room 517, One Centre Street, New York, NY 10007, Attention: Deputy Comptroller for Public Finance.

To successfully implement its Financial Plan, the City and certain entities issuing debt for the benefit of the City must market their securities successfully. This debt is issued to finance the rehabilitation of the City's infrastructure and other capital needs and to refinance existing debt, as well as to finance seasonal needs. In recent years, the State constitutional debt limit would have prevented the City from entering into new capital contracts without the creation of the New York City Transitional Finance Authority (TFA) in 1997 and TSASC, Inc., in 1999 (a local development corporation empowered to issue tax-exempt debt backed by tobacco settlement revenues). The City expects that these actions will provide sufficient financing capacity to continue its capital program through City fiscal year 2004-05.

For its 1999-2000 fiscal year, (ending June 30, 2000), the City had an operating surplus of $3.2 billion, before discretionary and other transfers, and achieved balanced operating results, after discretionary and other transfers, in accordance with GAAP. The City is projecting a $2.9 billion surplus for its 2000-01 fiscal year and a balanced budget for 2001-02. However, it forecasts budget gaps in subsequent fiscal years. The cost of tax reductions enacted between City fiscal years 1994-95 and 2000-01 totals over $2.6 billion in City fiscal year 2000-01, primarily affecting collections of the personal and business income taxes and the sales tax. These reductions are expected to be worth $3.0 billion by City fiscal year 2004-05. The City's current financial plan includes additional tax reductions that would increase the worth of the reductions to $3.7 billion in City fiscal year 2004-05.

Fiscal Oversight

In response to the City's fiscal crisis in 1975, the State took action to assist the City in returning to fiscal stability. Among those actions, the State established the Municipal Assistance Corporation for the City of New York (NYC MAC) to provide financing assistance to the City; the New York State Financial Control Board (FCB) to oversee the City's financial affairs; and the Office of the State Deputy Comptroller for the City of New York (OSDC) to assist the Control Board in exercising its powers and responsibilities. A "control period" existed from 1975 to 1986, during which the City was subject to certain statutorily-prescribed fiscal controls. The FCB terminated the control period in 1986 when certain statutory conditions were met. State law requires the FCB to reimpose a control period upon the occurrence, or "substantial likelihood and imminence" of the occurrence, of certain events, including (but not limited to) a City operating budget deficit of more than $100 million or impaired access to the public credit markets.

Currently, the City and its Covered Organizations (i.e., those organizations which receive or may receive moneys from the City directly, indirectly or contingently) operate under the City's Financial Plan. The City's Financial Plan summarizes its capital, revenue and expense projections and outlines proposed gap-closing programs for years with projected budget gaps. The City's projections set forth in its Financial Plan are based on various assumptions and contingencies, some of which are uncertain and may not materialize. Unforeseen developments (such as the World Trade Center attack) and changes in major assumptions could significantly affect the City's ability to balance its budget as required by State law and to meet its annual cash flow and financing requirements.

Monitoring Agencies

The staffs of the FCB, OSDC and the City Comptroller issue periodic reports on the City's Financial Plans. The reports analyze the City's forecasts of revenues and expenditures, cash flow, and debt service requirements, as well as evaluate compliance by the City and its Covered Organizations with the Financial Plan. According to recent staff reports, economic growth in the City has been very strong in recent years, led by a surge in Wall Street profitability which resulted in increased tax revenues and helped produce substantial surpluses for the City in City fiscal years 1996-97 through 2000-01.

Although several sectors of the City's economy have expanded over the last several years, especially tourism, media, business and professional services, City tax revenues remain heavily dependent on the continued profitability of the securities industries and the performance of the national economy. However, the national economy began to slow in late 2000, and the City’s economy has slowed somewhat in 2001. In addition, Wall Street profitability in 2001 is projected to be below the record level set in 2000, and the City enacted additional tax reductions. Thus, the City’s revenue is expected to decline during its 2001-02 fiscal year.

The monitoring agencies’ reports indicate that recent City budgets have been balanced in part through the use of substantial surpluses and other non-recurring resources and that the City's Financial Plan relies in part on actions outside its direct control. These reports have also indicated that the City has not yet brought its long-term expenditure growth in line with recurring revenue growth and that the City is likely to continue to face substantial gaps between forecast revenues and expenditures in future years that must be closed with reduced expenditures and/or increased revenues. In addition to these monitoring agencies, the Independent Budget Office (IBO) has been established, pursuant to the City Charter, to provide analysis to elected officials and the public on relevant fiscal and budgetary issues affecting the City. Copies of the most recent staff reports are available by contacting; FCB, 123 William Street, 23rd Floor, New York, NY 10038, Attention: Executive Director; OSDC, 59 Maiden Lane, 29th Floor, New York, NY 10038, Attention: Deputy Comptroller; City Comptroller, Municipal Building, Room 517, One Centre Street, New York, NY 1007-2341, Attention: Deputy Comptroller for Public Finance; and IBO, 110 William Street, 14th Floor, New York, NY 10038, Attention: Director.

Other Localities

Certain localities outside New York City have experienced financial problems and have requested and received additional State assistance during the last several State fiscal years. The potential impact on the State of any future requests by localities for additional oversight or financial assistance is not included in the projections of the State's receipts and disbursements for the State's 2001-02 fiscal year or thereafter.

To help resolve persistent fiscal difficulties in Nassau County, the State enacted legislation (Chapter 84 of the Laws of 2000) creating the Nassau County Interim Finance Authority. The Authority is empowered to issue bonds, backed solely by diverted Nassau County sales tax revenues, to achieve short-term budget relief and ensure credit market access for the County. The Authority has issued $436 million in bonds as of the date of this AIS. The Authority may also impose financial plan requirements on Nassau County. The State paid $30 million in transitional assistance to the County for State fiscal year 2000-01, and the Governor has proposed providing up to $75 million in State assistance over the next four State fiscal years, which is subject to appropriation by the State Legislature. Allocation of any such assistance is contingent upon the Authority's approval of Nassau County's financial plan.

The State has provided extraordinary financial assistance to certain municipalities, primarily cities, since the 1996-97 fiscal year. Funding has essentially been continued or increased in each subsequent fiscal year and totaled $200.4 million in 2000-01.

Counties, cities, towns, villages, school districts and fire districts have engaged in substantial short-term and long-term borrowings. In 1999, the total indebtedness of all localities in the State, other than New York City, was approximately $21.8 billion. A small portion of that indebtedness represented borrowing to finance budgetary deficits; $116 million in deficit financing was authorized pursuant to enabling State legislation. For further information on the debt of New York localities, see tables 29 and 30 below. State law requires the Comptroller to review and make recommendations concerning the budgets of those local government units (other than New York City) authorized by State law to issue debt to finance deficits during the period that such deficit financing is outstanding. Twenty-one localities had outstanding indebtedness for deficit financing at the close of their fiscal year ending in 1999.

Like the State, local governments must respond to changing political, economic and financial influences over which they have little or no control. Such changes may adversely affect the financial condition of certain local governments. For example, the federal government may reduce (or in some cases eliminate) federal funding of some local programs which, in turn, may require local governments to fund these expenditures from their own resources. It is also possible that the State, New York City, Nassau County, or any of their respective public authorities may suffer serious financial difficulties that could jeopardize local access to the public credit markets, which may adversely affect the marketability of notes and bonds issued by localities within the State. Localities may also face unanticipated problems resulting from certain pending litigation, judicial decisions and long-range economic trends. Other large-scale potential problems, such as declining urban populations, increasing expenditures, and the loss of skilled manufacturing jobs, may also adversely affect localities and necessitate State assistance.

Table 29
Debt of New York City
as of June 30 of each year
(millions of dollars)

Year	General Obligation Bonds	Obligations of MAC	Obligations of TFA	Obligations of TSASC, Inc.	Other(1) Obligations	Treasury Obligations	Total
1980	6,178.5	6,116.2	---	---	1,111.9	(294.6)	13,112.0
1990	13,499.0	7,121.6	---	---	542.8	(1,670.9)	19,492.5
1995	24,504.5	4,882.0	---	---	720.3	(1,243.1)	28,863.7
1996	26,179.2	4,724.2	---	---	730.0	(1,121.7)	30,511.7
1997	27,148.2	4,423.6	---	---	783.2	(391.0)	31,964.0
1998	26,879.0	4,066.5	2,150.0	---	787.9	(365.5)	33,517.9
1999	27,441.1	3,832.4	4,150.0	---	746.2	(298.8)	35,870.9
2000	26,892.1	3,531.6	6,438.2 (2)	709.3	690.6	(230.5)	38,031.3

Source: Office of the State Comptroller.
(1) Includes bonds issued by the Dormitory Authority of the State of New York for the City University Construction Fund and for the New York City Educational Construction Fund, and bonds issued by the Samurai Funding Corporation which will be repaid from revenues of the City or revenues that would otherwise be available to the City if not needed for debt service.
(2) Includes $515 million of bond anticipation notes.

Table 30
Debt of New York Localities(1)
(millions of dollars)

Locality Fiscal Year Ending	Combined New York City Debt (2)		Other Localities Debt(3)		Total Locality Debt(3)	
	Bonds	Notes	Bonds(4)	Notes(4)	Bonds(3)(4)	Notes(4)
1980	13,112.0	---	6,835.4	1,792.9	19,947.4	1,792.9
1990	19,492.5	---	10,252.8	3,082.1	29,745.3	3,082.1
1995	28,863.7	---	15,828.6	3,218.7	44,692.3	3,218.7
1996	30,511.7	---	16,413.8	3,590.4	46,925.5	3,590.4
1997	31,964.0	---	17,526.1	3,208.1	49,490.1	3,208.1
1998	33,517.9	---	17,099.5	3,203.1	50,617.4	3,203.1
1999	35,870.9	---	18,435.5	3,411.2	54,306.4	3,411.2
2000	38,031.3	---	N/A	N/A	N/A	N/A

N/A: Not Available
Source: Office of the State Comptroller.

NOTE: For localities other than New York City, the amounts shown for fiscal years ending in 1990 through 1997 may include debt that has been defeased through the issuance of refunding bonds.
(1) Because the State calculates locality debt differently for certain localities (including New York City), the figures above may vary from those reported by such localities. In addition, this table excludes indebtedness of certain local authorities and obligations issued in relation to State lease-purchase arrangements.
(2) Debt of New York City includes its general obligation bonds as well as bonds and notes of the Municipal Assistance Corporation for the City of New York, the New York City Transitional Finance Authority, TSASC, Inc., and certain other obligations as explained in Table 28.
(3) Outstanding bonded debt shown includes bonds issued by the localities and certain debt guaranteed by the localities and excludes assets held in sinking funds and certain amounts available at the start of a fiscal year for redemption of debt.
(4) Does not include the indebtedness of certain localities that did not file annual financial reports with the Comptroller.

Litigation

General

The legal proceedings listed below involve State finances and programs and miscellaneous civil rights, real property, contract and other tort claims in which the State is a defendant and the potential monetary claims against the State are deemed to be material, generally in excess of $100 million. As explained below, these proceedings could adversely affect the financial condition of the State in the 2001-02 fiscal year or thereafter. The State intends to describe newly initiated proceedings which the State deems to be material, as well as any material and adverse developments in the listed proceedings, in quarterly updates and/or supplements to this AIS.

For the purpose of this Litigation section of the AIS, the State defines "material and adverse developments" as rulings or decisions on or directly affecting the merits of a proceeding that have a significant adverse impact upon the State's ultimate legal position, and reversals of rulings or decisions on or directly affecting the merits of a proceeding in a significant manner, whether in favor of or adverse to the State's ultimate legal position. The State intends to end disclosure with respect to any individual case after a final determination on the merits or upon a determination by the State that the case does not meet the materiality threshold described above.

As of the date of this AIS, except as described below, there is no current material litigation involving the State's Constitutional or statutory authority to contract indebtedness, issue its obligations, or pay such indebtedness when due, or affects the State's power or ability, as a matter of law, to impose or collect significant amounts of taxes and revenues.

The State is party to other claims and litigation, which either its legal counsel has advised that it is not probable that the State will suffer adverse court decisions or the State has determined do not meet the materiality threshold described in the first paragraph of this section. Although the amounts of potential losses, if any, resulting from this litigation are not presently determinable, it is the State's opinion that its ultimate liability in any of these cases is not expected to have a material and adverse effect on the State's financial position in the 2001-02 fiscal year or thereafter.

The General Purpose Financial Statements for the 2000-01 fiscal year report estimated probable awarded and anticipated unfavorable judgments of $730 million, of which $242 million is expected to be paid during the 2001-02 fiscal year (for more information on the State's estimated liability, see footnote 13 in the General Purpose Financial Statements for the 2000-01 fiscal year).

Adverse developments in the proceedings described below, other proceedings for which there are unanticipated, unfavorable and material judgments, or the initiation of new proceedings could affect the ability of the State to maintain a balanced 2001-02 Financial Plan. The State believes that the proposed 2001-02 Financial Plan includes sufficient reserves to offset the costs associated with the payment of judgments that may be required during the 2001-02 fiscal year. These reserves include (but are not limited to) amounts appropriated for Court of Claims payments and projected fund balances in the General Fund (for a discussion of the State's projected fund balances for the 2001-02 fiscal year, see the section entitled "Current Fiscal Year"). In addition, any amounts ultimately required to be paid by the State may be subject to settlement or may be paid over a multi-year period. There can be no assurance, however, that adverse decisions in legal proceedings against the State would not exceed the amount of all potential 2001-02 Financial Plan resources available for the payment of judgments, and could therefore affect the ability of the State to maintain a balanced 2001-02 Financial Plan.

State Finance Policies

Tax Law

There are two separate cases reported in this section.

In *New York Association of Convenience Stores, et al. v. Urbach, et al.*, petitioners are seeking to compel respondents to enforce sales and excise taxes imposed, pursuant to Tax Law Articles 12-A, 20 and 28, on tobacco products and motor fuel sold to non-Indian consumers on Indian reservations. In orders dated August 13, 1996 and August 24, 1996, the Supreme Court, Albany County, ordered, among other things, that there be equal implementation and enforcement of said taxes for sales to non-Indian consumers on and off Indian reservations, and further ordered that, if respondents failed to comply within 120 days, no tobacco products or motor fuel could be introduced onto Indian reservations other than for Indian consumption or, alternatively, the collection and enforcement of such taxes would be suspended statewide. Respondents appealed to the Appellate Division, Third Department. In a decision entered May 8, 1997, the Third Department modified the orders by deleting the portion thereof that provided for the statewide suspension of the enforcement of the enforcement and collection of the sales and excise taxes on motor fuel and tobacco products. On May 22, 1997, respondents appealed to the Court of Appeals on other grounds. On July 9, 1998, the New York Court of Appeals reversed the order of the Appellate Division, Third Department, and remanded the matter to the Supreme Court, Albany County, for resolution of the question of whether there was a rational basis for the Tax Department's policy of non-enforcement of the sales and excise taxes on reservation sales of cigarettes and motor fuel to non-Indians. In a footnote, the Court stated that, in view of its disposition of the case, petitioners' cross-appeal regarding the statewide suspension of the taxes was "academic." By decision and judgment dated July 9, 1999, the Supreme Court, Albany County, granted judgement dismissing the petition. On August 3, 2000, the Third Department affirmed the judgment dismissing the petition. On July 2, 2001, the Court of Appeals denied petitioners' motion for leave to appeal.

In *Tennessee Gas Pipeline Co., Inc. v. Urbach*, plaintiff, a natural gas pipeline company, challenged the facial constitutionality of the Natural Gas Import Tax, Tax Law section 189 (as well as the related surcharges imposed by sections 189-a and 189-b)(the gas import tax) as violative of the Commerce Clause of the United States Constitution.

This action was commenced in 1998. By decision and order dated April 28, 1999, the Supreme Court, Albany County, held that plaintiff had not demonstrated that the gas import tax was facially unconstitutional. By decision and order dated May 25, 2000, the Appellate Division, Third Department agreed, declaring that the gas import tax had not been shown to be facially unconstitutional. However, by decision dated May 1, 2001, the Court of Appeals reversed the Appellate Division and declared that the gas import tax was facially unconstitutional. The Court of Appeals found that the gas import tax was not fairly apportioned for Commerce Clause purposes, because it created the possibility of multiple state taxations of interstate gas transactions and thus violated the judicial "internal consistency test."

Line Item Veto

In *Silver v. Pataki*, the Speaker of the Assembly of the State of New York challenges the Governor's application of his constitutional line item veto to certain portions of budget bills adopted by the State Legislature contained in Chapters 56, 57 and 58 of the Laws of 1998. By decision dated July 20, 2000, the Appellate Division reversed the January 7, 1999 order of the Supreme Court, New York County, and dismissed the petition. By opinion dated July 10, 2001, the Court of Appeals reversed the decision of the Appellate Division, holding that plaintiff has the capacity and standing to sue as a member of the Assembly.

Budget Process

In *Pataki v. McCall, et al.,* the Governor seeks a judgment declaring that the actions of the Senate and the Assembly in voting and passing 46 budget bills on August 2, 2001 and August 3, 2001 violated Article 7, sections 4 and 5 of the State Constitution, because they deleted provisions of appropriations proposed by the Governor, substituted other appropriations, and considered other bills prior to taking action on the appropriation bills submitted by the Governor. The action also seeks to enjoin the approval of vouchers submitted pursuant to the budget bills enacted by the Senate and Assembly. This action would not affect appropriations enacted to pay debt service obligations for the 2001-02 fiscal year.

Real Property Claims

On March 4, 1985 in *Oneida Indian Nation of New York, et al. v. County of Oneida*, the United States Supreme Court affirmed a judgment of the United States Court of Appeals for the Second Circuit holding that the Oneida Indians have a common-law right of action against Madison and Oneida counties for wrongful possession of 872 acres of land illegally sold to the State in 1795. At the same time, however, the Court reversed the Second Circuit by holding that a third-party claim by the counties against the State for indemnification was not properly before the federal courts. The case was remanded to the District Court for an assessment of damages, which action is still pending. The counties may still seek indemnification in the State courts.

In 1998, the United States filed a complaint in intervention in *Oneida Indian Nation of New York*. In December 1998, both the United States and the tribal plaintiffs moved for leave to amend their complaints to assert claims for 250,000 acres, including both monetary damages and ejectment, to add the State as a defendant, and to certify a class made up of all individuals who currently purport to hold title within the affected 250,000 acre area. On September 25, 2000, the District Court granted the motion to amend the complaint to the extent that it sought to add the State as a defendant and to assert money damages with respect to the 250,000 acres and denied the motion to certify a class of individual landowners and to seek the remedy of ejectment.

Other Indian land claims include Cayuga Indian Nation of New York v. Cuomo, et al., and Canadian St. Regis Band of Mohawk Indians, et al., v. State of New York, et al., both in the United States District Court for the Northern District of New York and Seneca Nation of Indians, et al. v. State, et al., in the United States District Court for the Western District of New York.

In the *Cayuga Indian Nation of New York* case, plaintiffs seek monetary damages for their claim that approximately 64,000 acres in Seneca and Cayuga Counties were illegally purchased by the State in 1795. Prior to trial, the court held that plaintiffs were not entitled to seek the remedy of ejectment. In October 1999, the District Court granted the federal government's motion to have the State held liable for any damages owed to the plaintiffs. In February, 2000, at the conclusion of the damages phase of the trial of this case, a jury verdict of $35 million in damages plus $1.9 million representing the fair rental value of the tract at issue was rendered against the defendants. By decision and judgment dated October 2, 2001, the District Court also granted plaintiffs $211 million in prejudgment interest.

In the *Canadian St. Regis Band of Mohawk Indians* case, plaintiffs seek ejectment and monetary damages with respect to their claim that approximately 15,000 acres in Franklin and St. Lawrence Counties were illegally transferred from their predecessors-in-interest.

In the *Seneca Nation of Indians* case, plaintiffs seek monetary damages and ejectment with regard to their claim of ownership of certain islands in the Niagara River and the New York State Thruway right of way where the Thruway crosses the Cattaraugus reservation in Erie and Chatauqua Counties. By order dated November 22, 1999, the District Court confirmed the July 12, 1999 magistrate's report, which recommended granting the State's motion to dismiss that portion of the action relating to the Thruway right of way and denying the State's motion to dismiss the federal government's damage claims.

Civil Rights Claims

Yonkers

In an action commenced in 1980, (*United States, et al. v. Yonkers Board of Education, et al.*), the United States District Court for the Southern District of New York found, in 1985, that Yonkers and its public schools were intentionally segregated and in 1986 ordered Yonkers to develop and comply with a remedial education improvement plan (EIP I). On January 19, 1989, the District Court granted motions by Yonkers and the NAACP to add the State Education Department, the Yonkers Board of Education, and the State Urban Development Corporation as defendants, based on allegations that they had participated in the perpetuation of the segregated school system. On August 30, 1993, the District Court found that vestiges of a dual school system continued to exist in Yonkers. Based on these findings, on September 3, 1996, the United States Court of Appeals for the Second Circuit held the State defendants liable under 42 U.S.C. §1983 and the Equal Educational Opportunity Act, 20 U.S.C. §§ 1701, et seq., for the unlawful dual school system, because the State, among other things, had taken no action to force the school system to desegregate despite its actual or constructive notice of *de jure* segregation.

By order dated October 8, 1997, the District Court held that vestiges of the prior segregated school system continued to exist and that, based upon the State's conduct in creating and maintaining that system, the State is liable for eliminating segregation and its vestiges in Yonkers and ordered the State to fund a remedy to accomplish that goal (EIP II). A final judgment to implement EIP II was entered on October 14, 1997. Additionally, by order dated December 2, 1997 and judgment dated February 10, 1998, the Court ordered that the State pay to Yonkers approximately $9.85 million as its pro rata share of the funding of EIP I for the 1996-97 school year. The State appealed to the Second Circuit from both the October 14, 1997 and February 10, 1998 judgments.

In a decision dated November 16, 1999, the Second Circuit affirmed the District Court's December 2, 1997 order. The Second Circuit found no basis for the District Court's findings in the October 8, 1997 order that vestiges of a dual system continued to exist in Yonkers, and therefore remanded to the District Court for the limited purpose of making further findings on the existing record as to whether any other vestiges of the dual system remain in the Yonkers public schools and to impose any further remedy, if necessary. On May 22, 2000, the United States Supreme Court denied the State's petition for certiorari, seeking leave to appeal the November 16, 1999 decision and the underlying September 3, 1996 decision. In a decision dated November 30, 2000, the District Court affirmed its findings in the October 8, 1997 order that vestiges of the dual system continued to exist, and remanded the case to a court-appointed monitor for further proceedings to recommend an appropriate remedy.

On June 15, 1998, the District Court issued an opinion setting forth its formula for the allocation of the costs of EIP I and EIP II between the State and the City for the schools years 1997-98 through 2005-06. That opinion was reduced to an order on July 27, 1998 which directed the State to pay $37.5 million by August 1, 1998 for estimated EIP costs for the 1997-98 school year. The State made this payment as directed. The State, the City of Yonkers and the Yonkers Board of Education have all appealed from the July 27, 1998 order. Since that time, the District Court issued, and the State appealed, additional orders on April 15, 1999 and April 17, 2000, directing the State to pay additional sums to Yonkers as its share of the estimated EIP costs for the 1997-98, 1998-99 and 1999-2000 school years. The State paid all sums directed by these orders. By decision dated May 9, 2001, the Second Circuit upheld the District Court's decisions in these funding orders. By order dated July 6, 2001, the District Court issued an additional funding order directing the State to pay $8.5 million, in addition the $30.1 million previously paid, to Yonkers as its share of the estimated EIP costs for the 2000-01 school year.

School Aid

In *Campaign for Fiscal Equity, Inc. et al. v. State, et al.*(Supreme Court, New York County), plaintiffs challenge the State's method of providing funding for New York City public schools. Plaintiffs seek a declaratory judgment that the State's public school financing system violates article 11, section 1 of the State Constitution and Title VI of the federal Civil Rights Act of 1964 and injunctive relief that would require the State to satisfy State Constitutional standards.

This action was commenced in 1993. In 1995, the Court of Appeals affirmed the dismissal of claims under the equal protection clauses of the federal and State constitutions and Title VI of the federal Civil Rights Act of 1964. It reversed dismissal of the claims under article 11, section 1 of the State Constitution and implementing regulations of Title VI, and remanded these claims for trial.

By decision dated January 9, 2001, following trial, the trial court held that the State's education funding mechanism does not provide New York City students with a "sound basic education" as required by the State Constitution, and that it has a disparate impact on plaintiffs in violation of regulations enacted by the U.S. Department of Education pursuant to Title VI of the Civil Rights Act of 1964. The court ordered that defendants put in place reforms of school financing and governance designed to redress those constitutional and regulatory violations, but did not specify the manner in which defendants were to implement these reforms. The State has appealed. The trial Court's decision is stayed pending resolution of the appeal.

State Programs

Medicaid

There are three separate cases or lines of cases reported in this section.

Several cases challenge provisions of Chapter 81 of the Laws of 1995 which alter the nursing home Medicaid reimbursement methodology on and after April 1, 1995. Included are *New York State Health Facilities Association, et al., v. DeBuono, et al., St. Luke's Nursing Center, et al. v. DeBuono, et al., New York Association of Homes and Services for the Aging v. DeBuono, et al*. (three cases), *Healthcare Association of New York State v. DeBuono and Bayberry Nursing Home et al. v. Pataki, et al.* Plaintiffs allege that the changes in methodology have been adopted in violation of procedural and substantive requirements of State and federal law.

In a consolidated action commenced in 1992 (*Dowd, et al. v. Bane*, Supreme Court, New York County), Medicaid recipients and home health care providers and organizations challenge (1) the 1992 promulgation by the State Department of Social Services (DSS) of a home assessment resource review instrument (HARRI), to be used by DSS to determine eligibility for and the nature of home health care services for Medicaid recipients, and (2) the DSS policy of limiting reimbursable hours of service until a patient is assessed using the HARRI. In a related case, *Rodriguez v. DeBuono*, on April 19, 1999, the United States District Court for the Southern District of New York enjoined the State's use of task based assessment, which is similar to the HARRI, unless the State assesses safety monitoring as a separate task based assessment, on the ground that such use would violate federal Medicaid law and the Americans with Disabilities Act. By order dated October 6, 1999, the Second Circuit reversed the April 19, 1999 order and vacated the injunction.

Several cases, including *Port Jefferson Health Care Facility, et al. v. Wing* (Supreme Court, Suffolk County), challenged the constitutionality of Public Health Law §2807-d, which imposes a tax on the gross receipts that hospitals and residential health care facilities receive from all patient care services. Plaintiffs alleged that the tax assessments were not uniformly applied, in violation of federal regulations. By decision entered December 16, 1999, the Court of Appeals reversed the decisions of the Supreme Court and the Appellate Division, Second Department, and upheld the constitutionality of §2807-d. The United States Supreme Court has denied plaintiffs' petition for certiorari.

Social Security Disability Benefits

In *Muller v. State*, claimant, a former inpatient of a state-operated mental health facility, challenged the use of Social Security disability benefits paid to the facility's director as her representative payee to pay the cost of claimant's care and treatment at the facility as a violation of the provisions of the Mental Hygiene Law and the State and federal constitutions.

This action was commenced in 1991. In 1998, the Court of Claims granted claimant's motion for summary judgment against the State. On appeal, the Supreme Court, Appellate Division, Fourth Department, affirmed the decision of the court below. On June 12, 2001, the Court of Appeals denied the State's motion for leave to appeal.

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Exhibit A to Annual Information Statement

Glossary of Financial Terms

The following glossary, which is an integral part of this AIS, includes certain terms that are used herein and are intended for use only in connection with the entire AIS.

Appropriation: An appropriation is a statutory authorization against which liabilities may be incurred during a specific year, and from which disbursements may be made, up to a stated amount, for the purposes designated. Appropriations generally are authorizations, rather than mandates, to spend, and disbursements from an appropriation need not, and generally do not, equal the amount of the appropriation. An appropriation represents maximum spending authority. Appropriations may be adopted at any time during the fiscal year.

Bond Anticipation Note or BANs: A bond anticipation note is a short-term obligation, the principal of which is paid from the proceeds of the bonds in anticipation of which such note is issued.

Capital Projects Funds: Capital Projects Funds, one of the four GAAP-defined governmental fund types, account for financial resources of the State to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Funds, Proprietary Funds and Fiduciary Funds).

Cash Basis Accounting: Accounting, budgeting and reporting of financial activity on a cash basis results in the recording of receipts at the time money or checks are deposited in the State Treasury and the recording of disbursements at the time a check is drawn, regardless of the fiscal period to which the receipts or disbursements relate.

Certificates of Participation or COPs: Certificates of Participation represent undivided proportionate interests in certain lease payments made by the State with respect to equipment or real property of the departments and agencies of the State. Such lease payments are subject to annual appropriation by the Legislature and the availability of money to the State for making such payments.

College and University Funds: College and University Funds account for the operations of both the State University of New York and the senior colleges of the City University of New York, including the research foundations, endowment loan fund and capital and debt related activity.

Community Projects Fund or CPF: The State created this fund within the General Fund in 1996 to finance certain community projects for the Legislature and the Governor. The State transfers moneys from other General Fund accounts into the CPF, as provided by law. Spending out of the CPF is governed by specific appropriations for each account in the Fund, but cannot exceed the cash balance for that account.

Contingency Reserve Fund or CRF: This fund was established in 1993 to assist the State in financing the costs of any extraordinary known or anticipated litigation. Deposits to this fund are made from the General Fund.

Contractual-Obligation Financing: Contractual-obligation financing is an arrangement pursuant to which the State makes periodic payments to a public benefit corporation under a contract having a term not less than the amortization period of debt obligations issued by the public benefit corporation in connection with such contract. Payments made by the State are used to pay debt service on such obligations and are subject to annual appropriation by the Legislature and the availability of moneys to the State for the purposes of making contractual payments.

Debt Reduction Reserve Fund or DRRF: The State created DRRF in 1998 to accumulate surplus revenues to pay debt service costs on State-supported bonds, retire or defease such bonds, and to finance capital projects. Use of DRRF funds requires an appropriation.

Debt Service: Debt service refers to the payment of principal and interest on bonds, and interest on bond anticipation notes and tax and revenue anticipation notes, in accordance with the respective terms thereof.

Debt Service Funds: Debt Service Funds, one of the four GAAP-defined governmental fund types, account for the accumulation of resources (including receipts from certain taxes, transfers from other funds and miscellaneous revenues, such as dormitory room rental fees, which are dedicated by statute for payment of lease-purchase rentals) for the payment of general long-term debt service and related costs and payments under lease-purchase and contractual-obligation financing arrangements.

Disbursement: A disbursement is a cash outlay and in the General Fund includes transfers to other funds.

Executive Budget: The Executive Budget is the Governor's constitutionally mandated annual submission to the Legislature which contains his recommended program for the forthcoming fiscal year. The Executive Budget is an overall plan of recommended appropriations. It projects disbursements and expenditures needed to carry out the Governor's recommended program and receipts and revenues expected to be available for such purpose. The recommendations contained in the Executive Budget serve as the basis for the State Financial Plan (defined below) which is adjusted after the Legislature acts on the Governor's submission. Under the State Constitution, the Governor is required each year to propose an Executive Budget that is balanced on a cash basis.

Expenditure: An expenditure, in GAAP terminology, is a decrease in net financial resources as measured under the modified accrual basis of accounting. In contexts other than GAAP, the State uses the term expenditure to refer to a cash outlay or disbursement.

Fiduciary Funds: Fiduciary Funds refers to a GAAP-defined fund type which accounts for assets held by the State in a trustee capacity or as agent for individuals, private organizations and other governmental units and/or other funds. These funds are custodial in nature and do not involve the measurement of operations. Although the Executive Budget for a fiscal year generally contains operating plans for Fiduciary Funds, and their results are included in the Comptroller's GAAP-based financial statements, they are not included in the State Financial Plan.

Financial Plan: see State Financial Plan.

Fiscal Year: The State's fiscal year commences on April 1 and ends on March 31. The term fiscal year refers to the fiscal year of the State unless the context clearly indicates otherwise.

Fund Accounting: The accounts of the State are presented on the basis of GAAP funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise the fund's assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

GAAP: GAAP refers to generally accepted accounting principles for state and local governments, which are the uniform minimum standards of and guidelines for financial accounting and reporting prescribed by the Governmental Accounting Standards Board. GAAP requires fund accounting for all government resources and the modified accrual basis of accounting for measuring the financial position and changes therein of governmental funds. The modified accrual basis of accounting recognizes revenues when they become measurable and available to finance expenditures, and expenditures when a liability to pay for goods or services is incurred or a commitment to make aid payments is made, regardless of when actually paid.

General Fund: The General Fund, one of the four GAAP-defined governmental fund types, is the major operating fund of the State and receives all receipts that are not required by law to be deposited in another fund, including most State tax receipts and certain fees, transfers from other funds and miscellaneous receipts from other sources.

General obligation bonds: Long-term obligations of the State, used to finance capital projects. These obligations must be authorized by the voters in a general election, are issued by the Comptroller, and are backed by the full faith and credit of the State. Under current provisions of the Constitution, only one bond issue may be put before the voters at each general election, and it must be for a single work or purpose. Debt service must be paid from the first available taxes whether or not the Legislature has enacted the required appropriations for such payments.

General State Charges: Costs mandated by statute or court decree or by agreements negotiated with employee unions for which the State is liable, including: pensions; health, dental and optical benefits; payments on behalf of State employees for Social Security; unemployment insurance benefits; employee benefit programs; court judgments and settlements; assessments for local improvements; and taxes on public lands;

Governmental Funds: Governmental funds refers to a category of GAAP-defined funds which account for most governmental functions and which, for the State, include four GAAP-defined governmental fund types: the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. The State's projections of receipts and disbursements in the governmental funds comprise the State Financial Plan.

Interfund Transfers: Under GAAP fund accounting principles, each fund is treated as a separate fiscal and accounting unit with limitations on the kinds of disbursements to be made. To comply with these limitations, moneys are moved from one fund to another to make them available for use in the proper fund, and are accounted for as "interfund transfers."

Lease-Purchase Financing: Lease-purchase financing is an arrangement pursuant to which the State leases facilities from a public benefit corporation or municipality for a term not less than the amortization period of the debt obligations issued by the public benefit corporation or municipality to finance acquisition and construction, and pays rent which is used to pay debt service on the obligations. At the expiration of the lease, title to the facility vests in the State in most cases. Generally the State's rental payments are expressly subject to annual appropriation by the Legislature and availability of moneys to the State for the purposes thereof.

Local Assistance: Disbursements of State grants to counties, cities, towns, villages, school districts and other local entities, certain contractual payments to localities, and financial assistance to, or on behalf of, individuals and not-for-profit organizations.

Moral obligation debt: Long-term bonds issued by certain State public benefit corporations which are essentially supported by their own revenues. Moral obligation debt is not incurred pursuant to a referendum, is not considered State debt, and is not backed by the full faith and credit of the State. However, the authorities selling such obligations have been allowed to establish procedures where, under certain conditions, the State may be requested to meet deficiencies in debt service reserve funds supporting such bonds. An appropriation must be enacted by the Legislature to meet any such request.

Official Statement: A disclosure document prepared to accompany an issuance of bonds, notes and certificates of participation offered for sale by the State or its public authorities. Its primary purpose is to provide prospective bond or note purchasers sufficient information to make informed investment decisions. It describes, among other things, the issuer, the project or program being financed and the security behind the bond issue.

Pay-as-you-go financing: The use of current State resources (as opposed to bonds) to finance capital projects. Also referred to as "hard dollar" financing.

Receipts: Receipts consist of cash actually received during the fiscal year and in the General Fund include transfers from other funds.

Revenue Accumulation Fund: This fund holds certain tax receipts temporarily before their deposit into other funds.

Revenues: Revenues, in GAAP terminology, are an increase in net financial resources, as measured for governmental funds under the modified accrual basis of accounting. In contexts other than GAAP, the State uses the term revenues to refer to income or receipts.

Short-Term Investment Pool or STIP: The combination of available cash balances in funds within the State Treasury on a daily basis for investment purposes.

Special Revenue Funds: Special Revenue Funds, one of the four GAAP-defined governmental fund types, account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects), such as federal grants, that are legally restricted to specified purposes.

State Financial Plan: The State Financial Plan sets forth projections of State receipts and disbursements in the governmental fund types for each fiscal year and is prepared by the Director of the Budget based initially upon the recommendations contained in the Executive Budget. After the budget is enacted, the State Financial Plan is adjusted to reflect revenue measures, appropriation bills and certain related bills enacted by the Legislature. It serves as the basis for the administration of the State's finances by the Director of the Budget, and is updated quarterly, or more frequently as necessary, during the fiscal year.

State Funds: State funds refers to a category of funds which includes the General Fund and all other State-controlled moneys, excluding federal grants. This category captures all governmental disbursements except spending financed with federal grants.

State-guaranteed debt: Debt authorized by the voters to be sold by three public authorities: the Job Development Authority, the New York State Thruway Authority, and the Port Authority of New York and New Jersey. State-guaranteed bonds issued for the Thruway Authority and the Port Authority were fully retired on July 1, 1995 and December 31, 1996, respectively . Such debt is backed by the full faith and credit of the State.

State Operations: Operating costs of State departments and agencies, the Legislature and the Judiciary, including salaries and other compensation for most State employees.

State-related debt: This broad category combines all forms of debt for which the State is liable, either directly or on a contingent basis, including all State-supported debt and State guaranteed and moral obligation debt.

State-supported debt: This category includes all obligations for which the State appropriates and pays debt service, including general obligation debt, lease-purchase and contractual obligation debt, and certificates of participation. While tax supported debt (obligations supported by State taxes) represents the majority of obligations in this category, obligations supported by other State revenues (such as dormitory fees or patient revenues) are also included.

Tax and Revenue Anticipation Notes or TRANs: Notes issued in anticipation of the receipt of taxes and revenues, direct or indirect, for the purposes and within the amounts of appropriations theretofore made.

Tax Refund Reserve Account: The tax refund reserve account is used to hold moneys available to pay tax refunds. During a given fiscal year, the deposit of moneys in the account reduces receipts and the withdrawal of moneys from the account increases receipts. There is no requirement that moneys withdrawn from this account be replaced.

Tax Stabilization Reserve Fund or TSRF: This fund was created to hold surplus revenue that can be used in the event of any unanticipated General Fund deficit. Amounts within this fund can be borrowed to cover any year-end deficit and must be repaid within six years in no less than three equal annual installments. The fund balance cannot exceed two percent of General Fund disbursements for the fiscal year; contributions are limited to two-tenths of one percent of General Fund disbursements in that year.

Exhibit B to Annual Information Statement

Principal State Taxes and Fees

Personal income taxes are imposed on the New York income of individuals, estates and trusts. Personal income taxes accounted for almost 60 percent of estimated General Fund receipts during the State's 2000-01 fiscal year. The State tax adheres closely to the definitions of adjusted gross income and itemized deductions used for federal personal income tax purposes, with certain modifications. New York allows a standard deduction of $13,000 for married couples filing jointly, with lower deductions for the other types of filers. New York also allows a $1,000 exemption for dependents. The tax rate schedule has five tax brackets which, for married couples filing jointly, start at 4 percent for taxable income below $16,000 and increase to 6.85 percent on taxable income over $40,000. There are comparable tax rate schedules for heads of households and single and married couples filing separately. New York also allows several credits against the tax. The most significant are the: household credit, credit for taxes paid to other states, the investment tax credit, employment incentive credit, child care credit, real property tax circuit breaker credit, and the earned income tax credit. Receipts from this tax are sensitive to changes in economic conditions in the State.

User taxes and fees consist of several taxes on consumption, the largest of which is the State sales and compensating use tax. The *sales and use tax* is imposed, in general, on the receipts from the sale of all tangible personal property unless exempted, and all services are exempt unless specifically enumerated. Certain charges for meals, admissions, hotel and motel occupancy and dues are also subject to the tax. The State sales tax rate is 4 percent, of which 3 percent is deposited in the General Fund and 1 percent is deposited in the Local Government Assistance Tax Fund to meet debt service obligations. Receipts in excess of debt service requirements are transferred to the General Fund. Although there are numerous exemptions, the most significant are: food; clothing and footwear costing less than $110; drugs; medicine and medical supplies; residential energy; capital improvements and installation charges; machinery and equipment used in manufacturing; trade-in allowances; and goods sold to federal, state or local governments. Legislation enacted in 2000 totally or partially exempted: receipts from the transmission and distribution of energy, certain equipment and services purchased by telecommunications, broadcasting, cable and web hosting companies, virtually all purchases related to farm production, vending machine purchases of food and drink under 75 cents, most purchases made by qualifying businesses located in Empire Zones and pollution abatement equipment. Receipts from these taxes and fees are sensitive to economic conditions in the State.

The State imposes a *tax on cigarettes* at the rate of $1.11 per package of 20 cigarettes and imposes a *tax on other tobacco products* equal to 20 percent of the wholesale price of such products. The tax rate on cigarettes was raised from 39 cents to 56 cents, and the tax rate on tobacco products other than cigarettes was increased from 15 percent to 20 percent in 1993. The tax on cigarettes was raised from 56 cents to $1.11 per pack on March 1, 2000. The revenue derived from the tax is split, with 50.5 percent of receipts deposited in the General Fund and the balance deposited in the Tobacco Control and Insurance Initiatives Pool established by the Health Care Reform Act of 2000.

Motor fuel and *diesel motor fuel taxes* are levied at 8 cents per gallon upon the sale, generally for highway use, of gasoline and diesel fuel. The diesel fuel tax was reduced from 10 cents per gallon to 8 cents per gallon on January 1, 1996. The 2000-01 Enacted Budget contained legislation to deposit additional gasoline and diesel motor fuel taxes in the dedicated transportation funds. After the implementation of that legislation, the dedicated funds will receive all receipts from the gasoline tax and 5.75 cents of the 8 cents per gallon diesel tax. The General Fund will receive the remaining 2.25 cents per gallon of the diesel tax. In addition, the legislation provided that all motor fuel taxes be deposited in the dedicated transportation funds by 2001-02.

Motor vehicle fees are derived from a variety of sources, including motor vehicle registration fees and driver licensing fees, which together account for most motor vehicle fee revenue. From April 1, 1993, to December 31, 1994, 13 percent of registration fee receipts were earmarked to the Dedicated Highway and Bridge Trust Fund. On January 1, 1995, this percentage rose to 17 percent and on January 1, 1996 (and thereafter) to 20 percent of such receipts. Legislation enacted in 1997 provided for five-year licenses instead of four-year licenses, and for the retention of refunds. Legislation enacted in 1998 reduced motor vehicle registration fees by 25 percent and re-instituted the prior refund policy and increased the percent of such fees earmarked to the Dedicated Highway and Bridge Trust Fund to 28 percent on April 1, 1998, 34 percent on July 1, 1998, and to 45.5 percent on February 1, 1999. Legislation enacted with the 2000-01 Budget directs the remaining 54.5 percent of registration fees to the dedicated transportation funds. Over the next three years, the legislation directs the deposit of additional motor vehicle fee revenue to those funds.

The State imposes *alcoholic beverage excise taxes* at various rates on liquor, beer, wine and specialty beverages. Separate licensing fees are imposed on those who sell alcoholic beverages in New York. The fees vary depending on the type and location of the establishment or premises operated by the licensee, as well as the class of beverage for which the license is issued. Legislation enacted in 1999 reduced the excise tax on beer from 13.5 cents per gallon to 12.5 cents per gallon, and expanded an exemption for small brewers. Legislation enacted with the 2000-01 Budget reduces the tax on a gallon of beer from 12.5 cents to 11 cents on September 1, 2003, and accelerates the current exemption for small brewers to January 1, 2000.

The *highway use tax* revenue is derived from three sources: the truck mileage tax, related highway use permit fees and the fuel use tax. The truck mileage tax is levied on commercial vehicles, at rates graduated by vehicle weight, based on miles traveled on State highways. Legislation enacted in 1998 cut the truck mileage tax by 25 percent beginning in January 1999. Highway use permits are issued triennially at $15 for an initial permit and $4 for a permit renewal. The fuel use tax is an equitable compliment to the State's motor fuel tax and sales tax paid by those who purchase fuel in New York. It is levied on commercial vehicles having three or more axles or a gross vehicle weight of more than 26,000 pounds. Currently all collections from the highway use tax are deposited in the Dedicated Highway and Bridge Trust Fund. Legislation enacted with the 2000-01 Budget reduced the Supplemental Truck Mileage Tax from 50 percent of the base tax to 40 percent of the base tax and increased the flow of motor vehicle receipts to the Dedicated Highway and Bridge Trust Fund to compensate for the revenue loss.

The State imposes a 5 percent *auto rental tax* on charges for any rental of passenger cars rented or used in the State, subject to certain exceptions including leases covering a period of one year or more.

Business taxes include a general business corporation franchise tax as well as specialized franchise taxes on banks, insurance companies, utilities and certain transportation and transmission companies, and a cents-per-gallon-based levy on businesses engaged in the sale or importation for sale of various petroleum products. During the State's 1991-92, 1992-93, and 1993-94 fiscal years, business taxes were generally subject to a 15 percent surcharge. Beginning in 1994 the surcharge was phased out over a three-year period and has been eliminated since July 1, 1997.

The *corporation franchise tax* is the largest of the business taxes, and the State's third largest source of revenue. It is imposed on all domestic general business corporations and foreign general business corporations which do business or conduct certain other activities in the State. The tax is imposed, generally, at a rate of 8.5 percent of taxable income allocated to New York and at a rate as low as 7.5

percent for small businesses. Taxable income is defined as federal taxable income with certain modifications.

Legislation enacted in 1998 reduced the general business tax rate from 9 percent to 7.5 percent in three steps beginning in 1999; reduced the corporate alternative minimum tax rate from 3.5 percent to 3 percent in two steps beginning in 1998; reduced the fixed-dollar minimum corporate tax for most small businesses from $325 to $100 beginning in 1998; reduced the tax rate applied to subchapter S-corporations by 40 percent or more beginning in 1998; adopted an investment tax credit for investment in securities trading infrastructure and institutes tax benefits for investments and employment in emerging technology companies. Significant statutory changes enacted in 1999 include: reforms to the subsidiary capital tax; a further reduction on the alternative minimum tax rate from 3 percent to 2.5 percent; doubling the economic development zone and zone equivalent area wage tax credits; and reforms to the apportionment of income for the airline industry. In 2000, legislation was enacted to: shift the taxation of public utilities from taxation under a gross earnings tax to taxation as general business corporations; reduce taxes for small businesses; change the allocation formula for financial services companies; add new credits for "green buildings," low-income housing, alternative fuel vehicles, and certain transportation projects; and eliminate energy taxes paid by industrial and manufacturing businesses. Empire Zones were created which provide various credits and exemptions to companies meeting employment criteria within economic development zones.

The franchise taxes on public utilities and certain other transmission and transportation companies are the second largest source of receipts among the business taxes. These consist of various franchise taxes imposed on public utilities, including taxes on the utilities' issued stock and taxes on utilities' intrastate gross earnings and gross income.

Legislation enacted in 1996 provided that as of January 1, 1997 the franchise tax rate imposed on truckers and railroads was reduced from 0.75 percent to 0.6 percent of gross earnings. As of January 1, 1998 truckers and railroads were allowed to choose between taxation under this tax or taxation under the general business corporation tax.

Legislation enacted in 1997 reduced the 3.5 percent gross receipts tax imposed upon gas, electric, and telephone service to 3.25 percent on October 1, 1998, and then to 2.5 percent on January 1, 2000. Local telephone companies and other franchise taxpayers will realize an additional rate cut of .375 percent in their franchise tax on July 1, 2000. Also, the franchise tax on trucking and railroads will be reduced on July 1, 2000, from 0.6 percent to 0.375 percent. Additional 1997 legislation established the Power for Jobs program which made 400 megawatts of low-cost power available for job creation and expansion with the utilities recouping their losses through a tax credit. Legislation enacted in 1998 expands to 450 megawatts and accelerates the phase-in of the Power for Jobs program.

In 2000, legislation was enacted which alters the way traditional gas and electric utilities are taxed. The changes include the: shift from a franchise tax imposed on gross earnings to taxation based on net income or the alternative bases under Article 9-A of the Tax Law, phase-out of the gas import tax, phase-out of the gross receipts tax on gas and electricity for business consumers, and overall reductions in remaining gross receipts taxes. The legislation also provides for an expansion of the Power for Jobs program which allows credits against the gross receipts taxes paid by utilities furnishing low-cost power.

Insurance taxes are imposed on insurance corporations, brokers and certain insurers at a basic rate of 9 percent of entire net income allocable to New York, based on the level of activity of an insurance company in the State during the taxable year. In addition, there is a franchise tax on net premiums written or received by insurance corporations on risks resident or located within the State, at rates between 0.8 percent and 1.3 percent, depending on policy type, as well as certain taxes imposed under the Insurance

Law. Legislation enacted in 1997 provided that on or after January 1, 1998 the overall limit on the combined taxes of 2.6 percent of premiums for life insurance companies is reduced to 2.0 percent and the gross premiums tax on such components is decreased from 0.8 percent to 0.7 percent. Also, the legislation provides preferential premium tax rates to captive insurance companies that insure the primary risks of their parent and affiliated companies. Legislation enacted in 1999 provides for a phased reduction in the net income tax rate applicable to insurance companies from 9 percent to 7.5 percent. In addition, provisions enacted in 1999 reduce the limitation on tax liability for non-life insurers over a three-year period. Legislation enacted in 2000 extends the investment tax credit for equipment used in the trading of securities by insurance companies and expands the existing certified capital company program.

The State imposes a *franchise tax on banking corporations* at a basic tax rate of 9 percent of entire net income with certain exclusions, and subject to special rates for institutions with low net worth. The 9 percent rate represents a reduction from the rate of 12 percent that was in effect until 1985, when the bank tax was restructured. The 1985 changes were extended through taxable years beginning before January 1, 2001. Legislation enacted in 1997 allows banks a net operating loss deduction which can be carried forward against the bank franchise tax. This applies to net operating losses sustained on or after January 1, 2001. The legislation also allows banks to form subchapter S-corporations which will exempt them from taxation under the bank tax and allow the same tax treatment as other subchapter S-subsidiaries. Legislation enacted in 1998 authorizes an investment tax credit for the purchase of tangible personal property used in a bank's normal course of business as a broker or dealer in connection with the purchase or sale of stocks or bonds. Legislation enacted in 1999 provides for a phased reduction in the net income tax rate applicable to banks from 9 percent to 7.5 percent.

The State imposes a *petroleum business tax* on the privilege of operating a petroleum business in the State. This tax is measured by the quantity of various petroleum products imported into the State for sale or use. The tax is imposed at various cents-per-gallon rates depending on the type of petroleum product. The cents-per-gallon tax rates are indexed to reflect petroleum price changes but are limited to changes of no more than 5 percent of the tax rate in any one year. The portion of the receipts from this tax deposited to the General Fund has declined significantly, reflecting the dedication of receipts to transportation accounts, and the adoption in 1994, 1995, and 1996 of a variety of tax relief measures. Legislation enacted in 1996, which was fully phased in on April 1, 1999, provided for reductions in the petroleum business taxes on residual petroleum, non-automotive diesel and diesel fuel used by motor vehicles and railroads, utilities, and commercial enterprises, and the elimination of the petroleum business taxes imposed on fuel used in manufacturing. In addition, the legislation also provided reimbursements of the tax paid for aviation gasoline when the fuel is consumed outside New York. Legislation enacted in 1999 cut the tax rate on fuel used for commercial heating, eliminated the tax on fuel used for mining and adjusted the proportions of the tax going to dedicated funds to save-harmless the revenue flowing to those funds. Legislation enacted in 2000 eliminated certain minimum taxes and reduced the tax rate on commercial heating fuels. In addition, the legislation provided that the remaining General Fund receipts from this tax be directed to the dedicated transportation funds.

Other tax revenues include taxes on pari-mutuel wagering, the estate tax, taxes on real estate transfers, certain other minor taxes, and residual receipts following the repeal of the real property gains tax and the gift tax.

The State imposes *estate taxes* on the estates of deceased New York residents, and on that part of a nonresident's net estate made up of real and tangible personal property located within New York State. Estate tax liability is computed on the basis of the federal definition of "gross estate" and is set equal to the federal credit for federal estate tax liability allowable for State estate taxes paid. This essentially eliminates the additional New York State liability imposed under prior law. Reflecting the composition of many decedents' estates in New York, collections of this tax are heavily influenced by fluctuations in the value of common stock.

Gift taxes are imposed on taxable gifts made during a taxpayer's lifetime after allowable exclusions. Under legislation enacted in 1997 the gift tax was reduced in 1999 and was repealed effective January 1, 2000.

The *real estate transfer tax* applies to each real property conveyance, subject to certain exceptions, at a rate of $2 for each $500 of consideration or fraction thereof. Pursuant to statute, $112 million of real estate transfer tax receipts are deposited in the Environmental Protection Fund (EPF) and the remaining receipts are deposited in the Clean Water/Clean Air Debt Service Fund. Receipts in excess of the debt service requirements are transferred back to the General Fund.

The *real property gains tax* had been levied at the rate of 10 percent on gains derived from certain real property transactions where the consideration is $1 million or more. Legislation adopted in 1996 repealed the real property gains tax on transfers occurring on or after June 15, 1996; however, some receipts continue to flow to the General Fund based on transactions occurring prior to such date.

The State levies *pari-mutuel taxes* on wagering activity conducted at horse racetracks, simulcast theaters and off-track betting parlors throughout the State. In previous years the State temporarily reduced its tax rates and expanded simulcast opportunities and increased purses. Legislation enacted in 1998 extended the tax cut and simulcast provisions to 2002. In addition to pari-mutuel taxes, a 4 percent tax is levied on the charge for admissions to racetracks and simulcast theaters, and a 3.0 percent tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights. Legislation enacted in 1999 and 2000 reduced taxes on races run at non-profit racing association tracks and dedicates the reduction to increasing purses at those tracks and to operate the Breeders Cup races.

Miscellaneous receipts and other revenues include various fees, fines, tuition, license revenues, lottery revenues, investment income, assessments on various businesses (including healthcare providers), and abandoned property. Miscellaneous receipts also include minor amounts received from the federal government and deposited directly in the General Fund. Legislation enacted in 1997 provided for a phase-out of most of the assessments on health care providers by April 1, 2001. Legislation enacted in 1998 and 1999 accelerated the phase-out of the health care provider assessments; they were eliminated in January 2000.