

SUPPLEMENT TO THE ANNUAL INFORMATION STATEMENT

Dated May 22, 2002

This supplement to the Annual Information Statement (“AIS”) is dated May 22, 2002 and contains information only about the specific matters described herein and only through this date. This is the second supplement to the Annual Information Statement dated October 2, 2001, as last updated on January 31, 2002 (the “January Update”) and supplemented on April 5, 2002 (the “April Supplement”). The AIS, the January Update and the April Supplement should each be read in their entirety along with the information contained in this supplement.

This supplement (the “May Supplement”) summarizes the 2002-03 Enacted Budget and Financial Plan as prepared by the Division of the Budget (“DOB”), including an updated forecast for the national and State economy based upon recent data.

The State Legislature adopted a budget for the 2002-03 fiscal year on May 16, 2002 and the State released its 2002-03 Financial Plan (the “Enacted Financial Plan”) on May 22, 2002. An explanation of the 2002-03 Financial Plan is included in the State’s 2002-03 Enacted Budget Report, which is available on the DOB Internet website at <http://www.state.ny.us/dob>.

The State expects to release the 2002-03 Annual Information Statement in early June 2002. It will include substantially all of the information contained in the May Supplement and the 2002-03 Enacted Budget Report, and will include a complete discussion of the State’s current fiscal year, financial results from three prior fiscal years, information on the State’s economy, debt and other financing activities, governmental organization, its public authorities and localities, and a review of major litigation against the State. Upon its release, the 2002-03 Annual Information Statement will supersede the AIS as updated and supplemented through May 22, 2002.

Readers may obtain current and upcoming State disclosure by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705, or the Office of the State Comptroller, 110 State Street, Albany, NY 12236, (518) 474-4015. Informational copies of the AIS, updates and supplements are also available electronically on the DOB Internet site at <http://www.state.ny.us/dob>, as well as on file with Nationally Recognized Municipal Securities Information Repositories.

Recent Events

The State’s current fiscal year began on April 1, 2002 and ends on March 31, 2003. The State Legislature enacted appropriations for all State-supported, contingent contractual, and certain other debt service obligations for the entire 2002-03 fiscal year on March 26, 2002. The State Legislature enacted the remaining appropriations and accompanying legislation constituting the budget for the 2002-03 fiscal year on May 16, 2002. Under the State Constitution, the Governor has ten days to review legislative additions to the Executive Budget, which are subject to line-item veto. If the Governor vetoes an appropriation or a bill (or a 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.

2002-03 Financial Plan

In January 2002, the Governor presented a balanced 2002-03 Financial Plan with proposals that closed a combined 2001-02 and 2002-03 General Fund budget gap of \$6.8 billion. These proposals included legislative and administrative savings actions of \$2.4 billion taken during 2001-02 in the wake of the World Trade Center disaster, the use of \$1.1 billion in reserves set aside for economic uncertainty and \$885 million in reserves from the Temporary Assistance for Needy Families (TANF) program, and \$2.4 billion in revenue and spending actions, including approximately \$560 million in non-recurring actions. As a result, the 2001-02 and 2002-03 Financial Plans projected balance on a cash basis at that time.

An additional shortfall of approximately \$1.4 billion was projected in April 2002 as compared to the February Financial Plan based primarily on final revenue results for the 2001-02 fiscal year, as well as the impact on the State's tax structure from the business depreciation measures enacted as part of the federal stimulus package. DOB expects that the majority of this additional shortfall will be non-recurring. Most of the receipts shortfall is associated with the final settlement of 2001 tax liability. A significant portion of this loss is attributable to income losses associated with the World Trade Center terrorist attacks, primarily in area business losses. The Enacted Financial Plan includes a series of non-recurring actions to offset these revenue losses and produce a balanced 2002-03 Financial Plan, including a tax amnesty program, increased receipts from abandoned property, a change in the payment date on various business taxes, conversion of certain hard dollar capital projects to bonding, and utilization of available cash reserves and other fund balances.

The Enacted Financial Plan also supports additional spending of approximately \$600 million related to education, health, economic development, and human services. These costs are financed through actions to reduce spending or increase revenues on a recurring basis, including education building aid reform, workforce savings through attrition and an early retirement program, and tobacco tax increases and enforcement actions, as well as the use of resources from other funds.

The Enacted Financial Plan was released on May 22, 2002. General Fund receipts and transfers from other funds are projected to total \$39.90 billion in 2002-03, a decrease of \$1.25 billion or -3.0 percent from the previous fiscal year. General Fund disbursements, including transfers to other funds, are projected to total \$40.22 billion for 2002-03, an annual decrease of \$1.01 billion or -2.4 percent. The projected General Fund closing balance is \$716 million, a decrease of \$316 million from 2001-02. The General Fund closing balance projection consists of \$710 million in the Tax Stabilization Reserve Fund (the State's "rainy day" fund) and \$6 million in the Contingency Reserve Fund (the State's litigation reserve).

Projected General Fund disbursements in the Enacted Financial Plan are essentially unchanged from the levels projected in the February Financial Plan. The net annual decrease in spending primarily reflects efforts to limit the growth of State operations, capital and debt service, and by the transfer of General Fund spending to alternate financing sources, including the utilization of federal TANF revenues and health care resources created under the Health Care Reform Act (HCRA). These reductions are partially offset by increases for school aid, collective bargaining, pensions and other fringe benefit costs, and underlying programmatic growth in health programs.

The 2002-03 General Fund opening balance does not include \$1.1 billion in reserves for economic uncertainties that were deposited to the General Fund from the refund reserve account. These reserves are

expected to be used as planned to replace revenues lost in the aftermath of the World Trade Center disaster and to help balance the Enacted Financial Plan. The refund reserve account is used to pay for tax refunds across fiscal years and to help accomplish other Financial Plan objectives, including the movement of resources from one fiscal year to the next. Changes to the refund reserve impact the level of reported personal income tax receipts. The State had a balance of \$1.68 billion on deposit in the refund reserve account at the end of the 2001-02 fiscal year.

All Governmental Funds spending for 2002-03 is projected to be \$89.56 billion, consisting of \$59.35 billion in State Funds and \$30.21 billion in federal funds. This represents an increase of \$5.08 billion or 6.0 percent for 2001-02 when federal World Trade Center “pass-through” disaster assistance funds to The City of New York and other localities are excluded.

Economic Outlook

National Economy

The events of September 11 dealt a substantial blow to the U.S. economy. The slowdown in economic activity that began in early 2001 deepened significantly in the wake of the attack. Almost one million jobs were lost in the fourth quarter alone. However, continued U.S. consumer spending combined with an expansionary fiscal and monetary policy helped keep the nation’s first recession in ten years relatively mild. Unlike most recessions, real U.S. gross domestic product (GDP) declined for only one quarter (the third quarter of 2001). The national economy grew an unexpected 1.7 percent in the fourth quarter of 2001, followed by growth of almost 6 percent in the first quarter of 2002.

The stronger-than-expected economic growth of the last two quarters has resulted in an improved economic outlook for 2002 compared to the Executive Budget. DOB projects that real U.S. GDP is expected to grow 2.5 percent for 2002, following growth of 1.2 percent in 2001. Both the robust growth in real consumer spending and the unexpected strength of the housing market underlie the upward revision to national economic growth. The outlook for personal income is also more optimistic. DOB expects U.S. personal income to grow 3.0 percent for 2002, with its largest component, wages and salaries, expected to grow 2.6 percent. The U.S. unemployment rate is forecast to average 6.0 percent for this year.

In contrast, the outlook for corporate profits has deteriorated since January. Following a steep decline of over 30 percent in the fourth quarter of 2001, producing a decline of 17.4 percent for the year, U.S. corporate profits are now expected to fall 7.0 percent in 2002. The projection for the stock market is also more negative than the Executive Budget forecast, as equity markets continue to struggle with a poor profits outlook and the increased scrutiny of company balance sheets in the wake of the Enron collapse.

There are significant risks to the current forecast, foremost among them being global political instability. A further escalation of tensions in the Middle East could put upward pressure on energy prices, negatively impacting both consumer spending and corporate profits. Higher energy prices could also delay the global recovery, reducing export growth below expectations. In contrast, a stronger global recovery than anticipated could result in stronger export and profits growth than expected. A weakening of growth in consumer spending or a failure of investment spending to grow could result in a return to recessionary conditions. Although the current forecast presumes no further terrorist attacks on U.S. soil, the possibility poses what is perhaps the gravest risk to the U.S. economy in the current environment.

State Economy

As expected, with New York at the center of the World Trade Center attacks, the events of September 11 had a more devastating impact on the State economy than on the national economy as a

whole. As a result, it is possible that the State's economy will remain in recession after the initiation of a recovery for the nation overall. DOB is now estimating State employment to have declined 0.5 percent in 2001 followed by an estimated decline of 0.8 percent for 2002. Wages and salaries are expected to show an increase of 2.4 percent for 2001, followed by a decline of 1.5 percent for 2002. Total State personal income, of which wages and salaries are the largest component, is projected to grow 0.5 percent in 2002, following growth of 2.9 percent for 2001.

The risks to the New York forecast are substantial. Weaker than expected growth for both the national and international economies could delay the onset of the State's recovery. This would result in even slower employment and income growth than projected. In contrast, stronger national and international growth could produce an earlier-than-projected recovery. The cleanup of the World Trade Center site is proceeding faster than anticipated and redevelopment is expected to commence shortly. As a result, employment growth could be stronger than projected. Financial sector activity remains the largest risk to the New York forecast. Wall Street compensation fell precipitously in early 2002. Continued weakness in this sector would have a deleterious impact on the State's prospects for economic recovery.

Special Considerations

The September 2001 terrorist attacks in New York City and the lingering effects of the national recession are expected to have continued adverse consequences for the State. DOB believes their impact is adequately reflected in the current financial forecast, but the combined effect of both factors adds significant uncertainty to the Enacted Financial Plan estimates.

Another uncertainty is the assumed performance of the financial sector. The securities industry is more important to the New York economy than to the national economy as a whole, amplifying the impact of continued volatility in the financial markets. A further reduction in financial sector jobs coupled with a large negative change in stock market performance during the forecast horizon would result in wage and unemployment levels that are significantly different from those embodied in the current forecast.

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. For more information on certain litigation pending against the State, see the section entitled "Litigation" in the AIS (as updated and supplemented).

As a result of these factors, there can be no assurance that the State's budget projections for 2002-03 will not differ materially and adversely from the projections set forth at this time.

State law requires the Governor to propose a balanced budget each year. The Executive Budget, as amended, projected General Fund budget gaps of \$2.8 billion for 2003-04 and \$3.3 billion for 2004-05. DOB will formally update its projections of receipts and disbursements for future years as part of the Governor's 2003-04 Executive Budget submission. Preliminary analysis by DOB indicates that the State will have a 2003-04 budget gap that is larger than projected at the time of the Executive Budget, but substantially below the shortfall that was closed as a part of actions on the 2002-03 enacted budget. In recent years, the State has closed projected budget gaps that have ranged from \$7 billion in 2002-03 to less than \$1 billion.