The seal of the State of New York is centered in the background. It features an eagle with wings spread at the top, perched on a shield. The shield depicts a Native American holding a bow and arrow. Below the shield is a banner with the word 'EXCELSIOR'. Two female figures stand on either side of the shield: one on the left holding a torch, and one on the right holding a scale of justice.

**Annual  
Information  
Statement**

**State of New York**

**May 30, 2003**



# Annual Information Statement

## State of New York

*Dated: May 30, 2003*

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# Annual Information Statement of the State of New York

## Introduction

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This Annual Information Statement (“AIS”) is dated May 30, 2003 and contains information only through that date. This AIS constitutes the official disclosure information regarding the financial condition of the State of New York (the “State”). This AIS, including the Exhibits attached hereto, should be read in its entirety, together with any update or supplement issued during the fiscal year.

In this AIS, readers will find:

1. A section entitled the “Current Fiscal Year” that contains (a) the Enacted Budget Financial Plan prepared by the Division of the Budget (“DOB”), including the State’s official Financial Plan projections and (b) a discussion of potential risks that may affect the State’s Financial Plan during the current fiscal year under the heading “Special Considerations.”
2. Information on other subjects relevant to the State’s fiscal condition, including: (a) operating results for the three prior fiscal years, (b) the State’s revised economic forecast and a profile of the State economy, (c) debt and other financing activities, (d) governmental organization, and (e) activities of public authorities and localities.
3. The status of significant litigation that has the potential to adversely affect the State’s finances.

DOB is responsible for organizing and presenting the information that appears in this AIS on behalf of the State. In preparing the AIS, DOB relies on information drawn from several sources, including the Office of the State Comptroller (“OSC”), public authorities, and other sources believed to be reliable, but its presentation herein has not been subject to an independent audit process by DOB. Information relating to matters described in the section entitled "Litigation" is furnished by the Office of the State Attorney General.

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 AIS. Investors and other market participants should, however, refer to this AIS, as revised, updated, or supplemented, for official information regarding the financial condition of the State.

The State plans to issue updates to this AIS on a quarterly basis (generally in July, November and January of each fiscal year) and may issue supplements or other disclosure notices as events warrant. The State intends to announce publicly whenever an update or a supplement is issued. The State may choose to incorporate by reference all or a portion of this AIS in 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, New York State Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705. This AIS has also been filed with the Nationally Recognized Municipal Securities Information Repositories. The Basic Financial

Statements for the 2002-03 fiscal year are expected to be available in July 2003 and may be obtained from the Office of the State Comptroller, 110 State Street, Albany, NY 12236.

Informational copies of this AIS are available electronically on the DOB website at [www.budget.state.ny.us](http://www.budget.state.ny.us). 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.

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## Current Fiscal Year

The State's current fiscal year began on April 1, 2003 and ends on March 31, 2004. On March 31, 2003, the State Legislature enacted appropriations for all State-supported, contingent contractual, and certain other debt service obligations for the entire 2003-04 fiscal year. On May 2, 2003, the Legislature completed action on the remaining appropriations and accompanying legislation constituting the budget for the 2003-04 fiscal year. The Governor vetoed substantial portions of the budget revisions enacted by the Legislature, but the Legislature overrode the vetoes on May 15, 2003. Accordingly, DOB issued the Enacted Budget Financial Plan on May 28, 2003 that reflected final action on the 2003-04 State Budget by the Legislature.

*The Enacted Budget Financial Plan set forth below was prepared by the DOB and reflects actions by the State Legislature through the date of this AIS. The Enacted Budget Financial Plan contains estimates and projections of future results that should not be construed as statements of fact. These estimates and projections are based upon various assumptions that may be affected by numerous factors, including future economic conditions in the State and nation and potential litigation concerning actions by the State Legislature in enacting the 2003-04 budget. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained in the Enacted Budget Financial Plan.*

### Enacted Budget Financial Plan

#### Overview

The 2003-04 Executive Budget reflected recommendations to close a combined 2002-03 and 2003-04 budget gap of over \$11.5 billion. These recommendations included savings from spending restraint of \$6.3 billion, tobacco securitization proceeds of \$3.8 billion, and revenue/fee increases of \$1.4 billion. Assuming these budget recommendations were enacted in their entirety, the Executive Budget projected potential outyear budget gaps of \$2.8 billion in 2004-05 and \$4.1 billion in 2005-06.

The Legislature completed action on the budget for the 2003-04 fiscal year on May 15, overriding the Governor's vetoes of \$3.2 billion in tax increases and spending additions. DOB (DOB) analysis of the Enacted Budget, which is detailed in this report and in a preliminary report released on May 1, 2003\*, indicates that changes since the Executive Budget will increase General Fund spending by \$2.3 billion above the levels recommended by the Governor. As compared to the Executive Budget, revenues are projected to increase by \$1.4 billion, reflecting enacted tax and revenue increases offset by lower revenue results for 2002-03 and the April income tax settlement. This leaves the General Fund Financial Plan with a potential imbalance of roughly \$900 million in 2003-04, and increases the outyear gaps by \$3.7 billion in 2004-05 and \$4.2 billion in 2005-06, before potential benefits provided by recently enacted Federal aid changes and savings from a Fiscal Management Plan being developed. Also excluded are revenues from certain measures enacted by the Legislature that DOB considers to be highly speculative at this time. The combination of Federal aid and management actions will keep the 2003-04 budget in balance and are discussed in more detail later in this report.

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\* Note: Reported in the May 2, 2003 Supplement to the 2002-03 AIS.

## Summary of General Fund Revenue Changes

Legislative changes are projected to increase revenues by \$1.9 billion in 2003-04, \$1.4 billion in 2004-05, and \$605 million in 2005-06. The outyear values of the revenue proposals decrease primarily because of "sunset" provisions enacted for the tax increases. In addition to these changes, revenues are projected to decrease from the Executive Budget forecast by \$462 million in 2003-04 primarily due to the impact of 2002-03 actuals on the current year, and the April 2003 income tax settlement. The net 2003-04 revenue change since the Executive Budget is therefore \$1.4 billion.

Not counted within these revenue totals are certain other revenue measures adopted by the Legislature that DOB considers to be speculative. Examples include receipts from video lottery terminals (VLTs) at racetracks, collection of cigarette and motor fuel taxes on Indian reservations, and use tax collections.

Net revenue changes since the Executive Budget include the following:

<b>Net Revenue Changes from 30-Day Estimates</b>			
<b>Increases (Decreases)</b>			
<b>(millions of dollars)</b>			
	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Personal Income Tax Surcharge	1,400	1,200	1,000
Increase Sales Tax by 1/4 Cent	450	572	100
Restrict Sales Tax on Clothing	86	(315)	(435)
Recapture Bonus Depreciation	58	100	90
Redirect State Sales Tax to NYC	(170)	(170)	(170)
Revenue Losses	(462)	(609)	(609)
All Other	39	20	20
<b>Net Revenue Increases</b>	<b>1,401</b>	<b>798</b>	<b>(4)</b>

These revenue changes and speculative revenue sources are described in more detail later in this report.

## Summary of General Fund Spending Changes

General Fund spending is projected to increase from the Executive Budget by a net \$2.3 billion in 2003-04, \$4.5 billion in 2004-05 and \$4.2 billion in 2005-06. This spending increase reflects net legislative restorations and adds to the Governor's 2003-04 Executive Budget, including the denial of the Governor's pension reform proposals included in the Executive Budget (\$434 million in 2004-05 and \$197 million in 2005-06, after deferring required 2003-04 payments with interest to 2005-06). It also reflects increased outyear costs resulting from the May 15, 2003 school aid database update (\$184 million in 2004-05 and \$60 million in 2005-06).

In addition, the net spending changes include costs DOB projects but which the Legislature believes may not occur. Examples include a \$200 million lump sum appropriation for member items which DOB values at \$200 million in costs and which the Legislature valued at \$100 million; various Medicaid savings DOB believes are not fully attainable; and higher costs associated with shelter allowances for welfare recipients.

<b>Net General Fund Spending Changes from 30-Day Estimates</b>			
<b>Increases (Decreases)</b>			
<b>(millions of dollars)</b>			
	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Medicaid (including HCRA)	840	1,681	1,494
School Aid (including 5/15 Database update)	599	1,354	1,409
Member Items	200	0	0
Higher Education	193	323	303
Handicapped/All Other Education	132	110	111
Welfare	114	157	157
Public Health	40	100	136
General State Charges (including pension deferral)	34	555	338
State Operations	2	94	102
All Other	171	132	101
<b>Net Spending Increases</b>	<b>2,325</b>	<b>4,506</b>	<b>4,151</b>

These spending changes are described in more detail later in this report.

## Spending Projections

As a result of the deferred tobacco securitization proceeds and payment delays, 2002-03 actual receipts and disbursements were understated by \$1.9 billion and 2003-04 estimates will be overstated by a like amount. To provide a meaningful year-to-year comparison of receipts and disbursements, the 2002-03 actuals and 2003-04 Enacted Budget estimates have been adjusted for this transaction in most of the tabular data in this report. Specifically, Miscellaneous Receipts and various spending categories (mainly Grants to Local Governments) were increased by \$1.9 billion in 2002-03 and decreased by a like amount in 2003-04. (See Financial Plan tables at the end of this report for the detailed adjustments.)

<b>2002-03 General Fund Payment Deferrals</b>	
<b>(millions of dollars)</b>	
School Aid	1,312
CUNY Senior Colleges	219
Medicaid Payment to Counties	82
Education	54
Welfare	47
All Other	186
<b>Total Payment Deferrals</b>	<b>1,900</b>

The following table summarizes current spending levels for the General Fund, State Funds and All Governmental Funds under the 2003-04 Enacted Budget, after adjusting for the 2002-03 payment deferrals.



<b>2003-04 Spending Projections</b> (millions of dollars)				
	<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>\$ Change from 2002-03</b>	<b>% Change from 2002-03</b>
<b>General Fund</b>	39,513	40,837	1,324	3.4
<b>State Funds</b>	57,712	61,087	3,375	5.8
<b>All Governmental Funds</b>	90,956	94,474	3,518	3.9

*Note: Adjusted actuals account for the impact of \$1.9 billion in spending deferrals described earlier that would reduce 2002-03 actual spending and increase 2003-04 estimates from the amounts shown above.*

Annual spending is projected to increase by \$1.3 billion (3.4 percent) in the General Fund, by \$3.4 billion (5.8 percent) in State Funds, and by \$3.5 billion (3.9 percent) in All Governmental Funds. These changes are explained in more detail below, and do not reflect any increased Federal aid or possible spending reductions associated with the Fiscal Management Plan.

## **Fiscal Management Plan/Federal Assistance**

The recently enacted Federal economic stimulus legislation provides \$20 billion nationwide in fiscal relief to states, to be distributed as \$10 billion in revenue sharing grants and \$10 billion from a 15-month increase in the Federal share of Medicaid. DOB expects New York to receive \$2.1 billion as a result of this legislation over the next two State fiscal years.

The State's revenue sharing grant is estimated to be \$645 million. The impact of the 2.95 percent increase in the Federal share of Medicaid costs is estimated to yield \$1.4 billion for the State and its local governments. The State's share of this total is roughly \$900 million.

In order to manage cash flow, assure budget balance in the current fiscal year, and begin to address significant 2004-05 and 2005-06 budget gaps, the Governor has directed DOB to develop a Fiscal Management Plan to reduce State operations costs, curtail non-essential spending, and identify other cost containment actions to bring the General Fund into balance. This plan will be developed in cooperation with State agency managers and is expected to be detailed by the time the State's First Quarterly Financial Plan Update is released in July. Elements of the plan are expected to include:

- Continuing statewide austerity measures that limit discretionary spending, ban non-essential travel, and restrict or terminate lower-priority capital spending and other contractual liabilities.
- Mandating agency management plans to eliminate, consolidate, and streamline governmental services.
- Making significant further reductions in the State workforce.
- Maximizing Federal aid.
- Developing cost containment proposals that can be presented for legislative action later this year.

As noted in the messages accompanying the Governor's vetoes, certain appropriations and spending authorizations may be legally flawed. The State will review all such authorizations and continue to assess the degree to which any legal deficiencies may reduce overall spending levels.

DOB will also monitor and work to achieve additional revenues, as specified in the Senate Finance Committee Staff Report on the Budget, from certain measures enacted by the Legislature that DOB believes are speculative in nature and thus not reflected in the Financial Plan. These include Video Lottery Terminals (VLTs) at racetracks (legislative value of \$150 million), collection of cigarette and motor fuel taxes on Indian Reservations (legislative value of \$186 million), and collection of use tax

(legislative value of \$25 million), as well as other measures that the Legislature believes will reduce the outyear gaps (casino revenue and streamlined sales tax are examples).

## **Explanation of the Financial Plan**

The State's Enacted Budget Financial Plan forecasts receipts and disbursements for the fiscal year. The economic forecast of DOB and the State's tax and fee structure serve as the basis for projecting receipts. After consulting with public and private sector experts, DOB prepares a detailed economic forecast for both the nation and New York, showing Gross Domestic Product (GDP), employment levels, inflation, wages, consumer spending, and other relevant economic indicators. It then projects the yield of the State's revenue structure against the backdrop of these forecasts.

Projected disbursements are based on agency staffing levels, program caseloads, levels of service needs, formulas contained in State and Federal law, inflation and other factors. The factors that affect spending estimates vary by program. For example, welfare spending is based primarily on anticipated caseloads that are estimated by analyzing historical trends, projected economic conditions and changes in Federal law. In criminal justice, spending estimates are based on recent trends and data from the criminal justice system, as well as on estimates of the State's prison population. All projections account for the timing of payments, since not all the amounts appropriated in the Budget are disbursed in the same fiscal year.

## **The State's Fund Structure**

The State accounts for all of its spending and receipts by the fund in which the activity takes place (such as the General Fund or the Capital Projects Fund), and the broad category or purpose of that activity (such as State Operations or Capital Projects). The Financial Plan tables sort all State projections and results by fund and category.

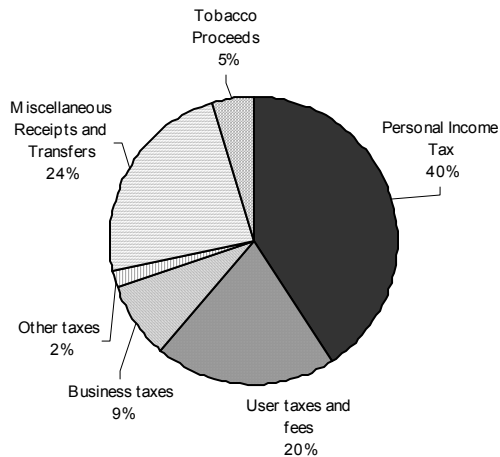
The General Fund receives the majority of State taxes. State Funds include the General Fund and funds specified for dedicated purposes, with the exception of Federal Funds. The All Governmental Funds Financial Plan, which includes State Funds and Federal Funds, is comprised of four major fund types, and includes:

- The General Fund, which receives most of the State's tax revenue and accounts for spending on programs that are not supported directly by dedicated fees and revenues;
- Special Revenue Funds, which receive Federal grants, certain dedicated taxes, fees and other revenues that are used for a specified purpose;
- Capital Projects Funds, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and
- Debt Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

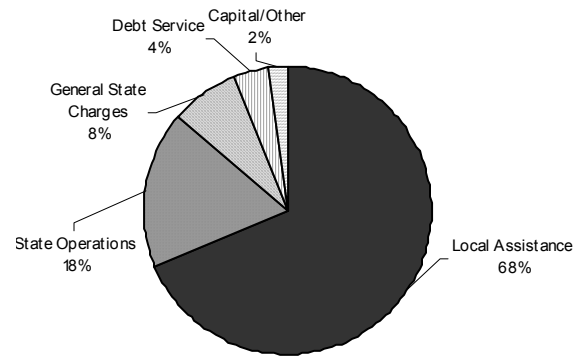
Within each of these fund types, revenues and spending are classified by major categories of the Financial Plan (e.g., Taxes, Miscellaneous Receipts, Grants to Local Governments, State Operations). Activity in these Financial Plan categories is described in greater detail later in this Report. Summary charts display the annual change for each category of the Financial Plan, and a narrative explanation of major changes follows each chart. The tables at the end of the Report summarize projected General Fund, State Funds and All Governmental Funds receipts and disbursements for the 2003-04 fiscal year.

## 2003-04 General Fund Financial Plan Where It Comes/Where It Goes

### General Fund 2003-04 Adjusted Enacted



**Receipts**



**Disbursements**

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 2003-04 fiscal year, the General Fund is expected to account for approximately 41 percent of All Governmental Funds disbursements. General Fund moneys are also transferred to and from other funds, primarily to support certain capital projects and debt service payments in other fund types. The graphs above depict the components of projected receipts and disbursements in the General Fund (in percent).

Many complex political, social and economic forces influence the State's economy and finances, which may in turn affect the State Financial Plan and increase the likelihood that current projections will differ materially from the projections set forth in this Enacted Budget Report. 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 2003-04 Enacted 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.

### National Economy

U.S. economic growth slowed to 1.6 percent during the first quarter of 2003, partly due to severe weather conditions and the uncertainty surrounding the war in Iraq. Now that the war is over, the nation's economic recovery is expected to gain momentum. The national economy grew at a slower pace than anticipated in the Executive Budget during early 2003. However, higher growth toward the end of the year is expected to bring real U.S. GDP growth up to 2.3 percent for 2003, only slightly below the Executive Budget projection of 2.4 percent. Buttressed by low inflation and high productivity growth, the national economy is expected to grow 3.4 percent during 2004.

Although a boost in Federal spending contributed positively to GDP growth, the impact of the war on the labor market was clearly negative, with 220,000 reservists having been called up for duty as of April 2003. The Budget Division now expects no net growth in employment for 2003, compared to the

0.6 percent growth projected in the Executive Budget. Income growth for 2003, especially in wages, is also expected to be modestly below the Executive Budget projection. This is mainly due to the downward revision made to the data for the third quarter of 2003 by the U.S. Bureau of Economic Analysis.

Higher output growth toward the end of this year is expected to be fueled by a rebound in private investment activity. If business sector financial conditions do not improve, hiring may be delayed, leading to an even weaker labor market than now anticipated. On the positive side of the ledger, given the current and lagged effects of expansionary monetary and fiscal policy, the economy could grow faster than expected. A lower dollar could lead to higher exports and, therefore, higher output growth.

<b>Major Economic Indicators</b>			
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Gross Domestic Product (real)	2.4	2.3	3.4
Personal Income	2.8	3.8	5.2
Corporate Profits	(0.7)	12.7	15.2
Unemployment Rate	5.8	5.8	5.5
Consumer Price Index	1.6	2.5	2.3
Note: Numbers above are percent change/calendar year, except for unemployment rate. The New York State Division of the Budget estimates are based on National Income and Product Account data through April 2003, except for nonagricultural employment and the unemployment rate which are based on U.S. Department of Labor data through early May 2003.			

## State Economy

The September 11<sup>th</sup> terrorist attack had a more severe impact on the New York economy than on that of any other state. Therefore, not surprisingly, the State's economy is only now emerging from the most recent recession.

DOB now estimates that State employment fell 1.8 percent in 2002, and wage income is estimated to have declined 3.8 percent. The unemployment rate for 2002 was 6.1 percent and is expected to remain virtually unchanged for 2003.

Employment growth was weaker than expected during the last quarter of 2002. The weaker job base, combined with the sluggishness of the national economic recovery, has led DOB to anticipate marginally lower employment growth for the 2003-04 State fiscal year than projected in the Executive Budget. Growth in wages and salaries is expected to be marginally lower as well.

In addition to the risks associated with the national economic forecast, there are specific risks to the State economy. Chief among them is a more prolonged downturn in the financial sector than is currently projected, producing sharper declines in both employment and compensation. Moreover, significant numbers of business relocations out of the State could imply slower job and income growth as well. In contrast, a stronger national economy than expected could result in stronger equity market growth and, in turn, a stronger demand for financial market services, fueling a rebound in income growth in that sector.

Major Economic Indicators			
	2002	2003	2004
Personal Income	0.0	3.0	4.1
Nonagricultural Employment	(1.8)	0.3	1.0
Unemployment Rate	6.1	6.0	5.5
Note: Numbers above are percent change/calendar year. Personal income and nonagricultural employment growth for 2002 and all forecasts for 2003 and 2004 are projected by DOB.			

## General Fund Revenue Actions

Revenue actions included with the 2003-04 Enacted Budget include: a personal income tax increase (\$1.4 billion); a limited liability company filing fee increase (\$26 million); income tax withholding for certain partnerships (\$15 million); reduced interest for late refunds (\$5 million); increasing the State sales tax rate from 4 percent to 4.25 percent (\$450 million); temporarily replacing the permanent sales tax exemption on items of clothing and shoes priced under \$110 with a sales tax free week in August 2003 and another in January 2004 for the same items and thresholds (\$449 million); including the New York City cigarette excise tax in the sales tax base (\$7 million); changing the tax structure for insurance companies (\$158 million); decoupling from the Federal bonus depreciation provisions (\$58 million); decoupling from Federal expensing provisions for SUVs; and reducing the time period for collecting abandoned property related to the demutualization of insurance companies (\$75 million). In total, the Budget includes over \$2.4 billion in revenue actions including those contained in the Executive Budget.

As part of the Enacted Budget, the Legislature also enacted tobacco securitization legislation that creates a bankruptcy-remote corporation to securitize all or a portion of the State's future share of tobacco settlement payments. The corporation will issue debt backed by payments from the tobacco industry under the master settlement agreement (MSA) and a contingent-contractual obligation on behalf of the State to pay debt service if MSA payments prove insufficient. The structure is designed to reduce overall borrowing costs to a level comparable to a typical State bond sale.

The Financial Plan assumes net proceeds of \$3.8 billion (\$1.9 billion on an adjusted basis) from this transaction in 2003-04 and \$400 million in 2004-05; these amounts are reflected as miscellaneous receipts in the Financial Plan. It is possible that, in order to reduce costs of issuance, take advantage of current low interest rates and improve its cash flow balances, the State may securitize amounts sufficient to receive the entire \$4.2 billion in 2003-04, reserving the \$400 million for 2004-05 budget balance.

## General Fund Receipts

General Fund Receipts (millions of dollars)				
	2002-03 Adjusted Actuals	2003-04 Adjusted Enacted	Annual \$ Change	Change from 30-Day Estimate
Total Tax Receipts	27,977	28,561	584	1,148
All Other Receipts	11,319	11,279	(40)	255
<b>Total Receipts</b>	<b>39,296</b>	<b>39,840</b>	<b>544</b>	<b>1,403</b>

Total General Fund receipts in support of the 2003-04 Financial Plan are projected to be \$39.84 billion, an increase of \$544 million from the \$39.30 billion recorded in 2002-03. This total includes \$28.56 billion in tax receipts, \$3.67 billion in miscellaneous receipts, and \$7.61 billion in transfers from other funds. The increase largely reflects the impact of revenue actions adopted with the Budget. There are additional legislative actions enacted with the 2003-04 Budget that may have a positive impact on revenues but are too speculative at this point to value with any confidence, including the addition of a use

tax line on the personal income tax return, non-resident sales of real property, six-day liquor sales, and VLTs.

General Fund receipts net of refund reserve account transactions are estimated at \$39.69 billion for 2003-04. Adjusting for the impact of revenue actions, General Fund tax receipts have been reduced by \$463 million from estimates released with the 30-day amendments to the Executive Budget. This revision reflects several factors including: the impact of lower-than-anticipated 2002-03 receipts on the 2003-04 revenue base; a modest net loss in personal income tax receipts due to a lower-than-expected net settlement of 2002 income tax liability in April and May; and continued weakness in corporate tax collections.

<b>Personal Income Tax (millions of dollars)</b>			
<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>Annual \$ Change</b>	<b>Change from 30-Day Estimate</b>
16,791	16,285	(506)	833

General Fund personal income tax receipts are projected to decrease by \$506 million from 2002-03. This is due to economic improvement in 2003-04 and enactment of a temporary tax increase, more than offset by a lower settlement for 2002 tax returns, a reduction in revenue reserves flowing through the refund reserve accounts, and a higher deposit into the Revenue Bond Tax Fund. Overall, net of law changes, personal income tax payments associated with the 2002 tax year are down modestly from what was anticipated in the Executive Budget.

The estimate for withholding tax collections increased by \$1.03 billion from the Executive Budget estimate, reflecting the enacted temporary tax increase offset somewhat by lower wage growth than forecast with the Executive Budget. Estimated tax installment payments have been increased by \$300 million, again reflecting the enacted temporary tax increase.

Additionally, reflecting April and May results on the settlement of 2002 tax liabilities, the estimate for payments with final returns has been increased by \$100 million and the estimate for refunds has been increased by \$175 million.

The estimate for delinquent collections of the personal income tax has been reduced by \$50 million, reflecting the State tax amnesty program bringing greater-than-expected receipts forward into 2002-03.

General Fund personal income tax receipts, including refund reserve account transactions, are expected to be \$833 million higher than the 30-day amendments to the Executive Budget adjusted for a higher net contribution from the refund reserve account. This increase is due to the temporary tax increase, offset somewhat by the lower-than-anticipated income tax settlement for 2002 tax liability, lower withholding resulting from a weaker-than-expected economy for 2003-04, lower expected assessment collections, and a higher STAR fund deposit due to the Legislature's rejection of the STAR spending limitation proposed in the Executive Budget.

<b>User Taxes and Fees</b> (millions of dollars)			
<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>Annual \$ Change</b>	<b>Change from 30-Day Estimate</b>
7,063	8,007	944	499

Receipts for user taxes and fees for 2003-04 are projected to total \$8.01 billion, an increase of \$944 million from reported 2002-03 collections. Included in this category are: receipts from the State sales tax, cigarette and tobacco products taxes; alcoholic beverage taxes and fees; and motor vehicle license and registration fees.

The projected growth in sales tax cash receipts of 15.1 percent is largely attributable to the enactment of a temporary increase in the overall tax rate (to 4.25 percent) and a change in the clothing and footwear exemption. The Enacted Budget eliminated the exemption on items of clothing and footwear for one year, effective June 1, 2003, and replaced it with two temporary one-week exemptions with the same \$110 thresholds -- one in August 2003 and another in January 2004. Growth in the sales tax base, after adjusting for tax law changes and other factors, is projected at 4.3 percent.

The decline in General Fund cigarette tax receipts is the result of a continuation of the long-term consumption decline in cigarettes.

User taxes and fees are expected to rise by \$499 million from the 30-day amendments to the Executive Budget. This adjustment mainly reflects tax increases contained in the Enacted Budget.

<b>Business Taxes</b> (millions of dollars)			
<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>Annual \$ Change</b>	<b>Change from 30-Day Estimate</b>
3,380	3,498	118	(184)

Receipts for business taxes for 2003-04 are projected to total \$3.50 billion, an increase of \$118 million from 2002-03 collections. Business taxes include the corporate franchise tax, corporation and utilities taxes, the insurance franchise tax, and the bank franchise tax. Business tax receipts for 2003-04 have been revised down by \$184 million from the 30-day amendments to the Executive Budget to reflect lower 2002-03 actuals during closeout and anticipated enhanced refund activity. These negatives in 2002-03 have been offset by the effect of decoupling from the Federal bonus depreciation.

Corporate franchise tax receipts have been revised down by \$141 million from the 30-day amendments to the Executive Budget. The difference is attributable to a closeout adjustment and enhanced refund activity. These reductions are offset by an increase in revenues of \$58 million based on decoupling from Federal bonus depreciation provisions.

Corporation and utilities taxes, and insurance franchise tax receipts remain unchanged from the 30-day Executive Budget estimate.

Bank tax receipts are estimated to be \$43 million lower than the 30-day Executive Budget estimate. This result is primarily attributable to continued weak earnings growth, and the decline in the 2002-03 base.

<b>Other Taxes (millions of dollars)</b>			
<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>Annual \$ Change</b>	<b>Change from 30-Day Estimate</b>
743	771	28	0

Other tax receipts are now projected to total \$771 million or \$28 million above last year's amount. Sources in this category include the estate and gift tax, the real property gains tax and pari-mutuel taxes.

Previously enacted legislation to repeal both the real property gains tax and the gift tax and to reduce the estate and pari-mutuel taxes have significantly reduced the yield from this category of receipts.

Other taxes estimated in this category are unchanged from the 30-day estimate.

<b>Miscellaneous Receipts (millions of dollars)</b>			
<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>Annual \$ Change</b>	<b>Change from 30-Day Estimate</b>
3,991	3,669	(322)	90

Miscellaneous receipts, adjusted for the tobacco securitization, are expected to reach \$3.67 billion, a decrease of \$322 million from 2002-03 and an increase of \$90 million from the 30-day estimate. The annual decrease in receipts is the result of several non-recurring actions taken in the 2002-03 Enacted Budget, including transferring available balances from various State authorities. The increase in receipts from the 30-day estimates is attributed to a delay in the collection of a settlement recovery from various Wall Street firms originally expected in 2002-03, as well as the net impact of several legislative actions, which on balance increase receipts by an estimated \$50 million.

<b>Transfers From Other Funds (millions of dollars)</b>				
	<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>Annual \$ Change</b>	<b>Change from 30-Day Estimate</b>
PIT in Excess of Revenue Bond Debt Service	4,215	5,125	910	260
Sales Tax in Excess of LGAC Debt Service	1,919	1,853	(66)	(146)
Real Estate Taxes in Excess of CW/CA Debt Service	263	202	(61)	0
All Other Transfers	931	430	(501)	51
<b>Total Transfers From</b>	<b>7,328</b>	<b>7,610</b>	<b>282</b>	<b>165</b>

Transfers from other funds are expected to total \$7.61 billion, or \$282 million more than total receipts from this category during 2002-03 and \$165 million higher than the 30-day estimates. The \$910 million year-to-year increase in transfers of personal income tax (PIT) in excess of revenue bond debt service requirements is primarily attributable to higher dedicated PIT receipts (\$1.1 billion), including legislative tax increases, offset by increased debt service requirements (\$222 million). The \$260 million net increase from the 30-day estimate reflects the legislative tax increases, offset by increased debt service costs.



The annual decrease of \$66 million in transfers from the sales tax in excess of LGAC debt service reflects increased debt service requirements (\$67 million) and an annual payment to New York City intended to cover debt service costs related to restructuring NYC MAC debt for City fiscal relief (\$170 million), offset by increased sales tax receipts (\$171 million). The 2003-04 estimate is \$146 million lower than the 30-day estimate primarily due to the legislation requiring a payment of State sales tax to New York City.

Provisions enacted with the 2003-04 Budget relating to the Local Government Assistance Corporation (LGAC) and the Municipal Assistance Corporation of the City of New York (MAC) appear to intend that the State assume responsibility for debt service payments on the remaining \$2.5 billion in outstanding MAC bonds. Thirty annual payments of \$170 million from sales tax receipts dedicated to LGAC are authorized to be pledged to a New York City-created not-for-profit corporation allowing the maturity of the debt to be extended through 2034, well beyond the original 2008 maturity of the outstanding MAC debt. The structure of this bonding may be flawed and counsel are continuing to evaluate the constitutional and legal issues raised by the legislation, the implications on the State's Debt Reform Act of 2000, and the impact on LGAC and other bondholders.

The annual decline of \$61 million in transfers from the real estate transfer tax is due to a projected decrease in tax receipts (\$43 million) and an increase in Clean Water/Clean Air debt service requirements (\$18 million). The 2003-04 enacted estimate is unchanged from the 30-day estimate.

The \$501 million expected annual decrease in all other transfers is primarily due to the loss of one-time 2002-03 transfers from the Environmental Protection Fund (\$269 million) and Federal reimbursement of World Trade Center related costs (\$231 million). All other transfers increased by \$51 million from the 30-day estimates due to an increase in expected receipts for the Waste Tire Management Recycling Act (\$20 million) and one-time transfers from various non-General funds (\$31 million).

## General Fund Disbursements

General Fund Disbursements (millions of dollars)				
	2002-03 Adjusted Actuals	2003-04 Adjusted Enacted	Annual \$ Change	Change from 30-Day Estimate
Welfare	496	1,127	631	114
General State Charges	2,732	3,199	467	34
Member Items	105	455	350	200
Medicaid (including HCRA)	5,951	6,269	318	840
Public Health	525	566	41	40
School Aid (including 5/15 database update)	12,278	12,312	34	599
Handicapped/All Other Education	1,341	1,323	(18)	132
Higher Education	1,528	1,488	(40)	193
State Operations	7,715	7,168	(547)	2
All Other	6,842	6,930	88	171
<b>Total General Fund Disbursements</b>	<b>39,513</b>	<b>40,837</b>	<b>1,324</b>	<b>2,325</b>

Total General Fund disbursements, including transfers to support capital projects, debt service and other purposes, are estimated at \$40.84 billion for 2003-04, an increase of \$1.32 billion or 3.4 percent from 2002-03. The annual growth in spending is primarily attributable to the use of non-recurring offsets in the previous fiscal year for welfare assistance programs (\$631 million), higher costs for General State

Charges mostly due to pensions and health insurance (\$467 million), additional spending for member items (\$350 million), and growth in Medicaid (\$318 million), offset by lower State Operations spending (\$547 million). The annual change in spending is explained by financial plan category in more detail below.

Total projected spending in the 2003-04 Enacted Budget is \$2.33 billion higher than the level recommended in the Governor's Executive Budget. Spending changes primarily reflect net legislative restorations and adds in Medicaid (\$840 million), school aid (\$599 million), funding for member items (\$200 million), higher education programs (\$193 million), handicapped/all other education programs (\$132 million), and welfare programs (\$114 million).

In addition, the net spending changes include certain costs resulting from the Legislature's action or inaction on several spending items. Examples include a \$200 million lump sum appropriation for member items which the Legislature valued at \$100 million; various Medicaid savings DOB believes are not fully attainable including additional Federal reimbursement for prescription drug costs and home care costs; and inaction on cost containment provisions which DOB believes results in higher welfare costs.

<b>Grants to Local Governments</b> (millions of dollars)			
<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>Annual \$ Change</b>	<b>Change from 30-Day Estimate</b>
26,713	28,009	1,296	2,229

Grants to Local Governments (also known as local assistance) include financial aid to local governments and non-profit organizations, as well as entitlement payments to individuals. The largest shares 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 mental hygiene programs (6 percent), higher education 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 estimated at \$28.01 billion in 2003-04, an increase of \$1.30 billion (4.9 percent) over the 2002-03 fiscal year. This net spending growth is primarily attributable to welfare assistance programs (\$631 million), Medicaid (\$318 million), additional spending in the Community Projects Fund (\$350 million), higher spending for the Higher Education Service Corporation (\$123 million) and various other local assistance programs. These increases are partially offset by an annual decline in spending for the City University of New York (\$176 million) and a scheduled decline in payments for the Yonkers settlement agreement (\$110 million).

General Fund spending for school aid on a State fiscal year basis is projected at \$12.31 billion in 2003-04, an increase of \$34 million over 2002-03. This net increase reflects the "tail" cost of the 2002-03 school year increase offset in part by the reduced spending in the 2003-04 enacted school year aid package. On a school year basis, school aid is projected at \$14.43 billion for 2003-04, a decrease of \$185 million from the prior school year. This decrease is primarily due to a reduction in operating aid (\$285 million), which is partially offset by increases in transportation aid, excess cost aid and BOCES.

Medicaid spending is estimated at \$6.27 billion in 2003-04, an increase of \$318 million (5.3 percent) from the prior year. The net increase is primarily attributable to expected underlying spending growth of approximately 8 percent (\$478 million), the sunset of the Tobacco Transfer Fund used to reimburse medical care providers for services rendered to Medicaid patients (\$91 million), the Federally mandated phase out of the nursing home intergovernmental transfers (\$90 million), and the reduction of the nursing home gross receipts assessment used to offset Medicaid costs (\$78 million). The growth in Medicaid

spending is partially offset by increased Federal aid from an increase in disproportionate share payments to public hospitals (\$324 million), additional financing through the Health Care Reform Act (\$117 million), and various cost containment proposals, as well as the phase out of Disaster Relief Medicaid related to the September 11<sup>th</sup> attack on the World Trade Center. In addition, the Enacted Budget "rolls" the last Medicaid cycle payable on March 31, 2004 to the first day of the 2004-05 fiscal year (\$170 million), decreasing 2003-04 and increasing 2004-05 costs. The Medicaid estimate does not include possible savings related to the temporary increase in the Federal share of Medicaid costs.

Spending on welfare is projected at \$1.13 billion, an increase of \$631 million (127.2 percent) from 2002-03. This increase is due primarily to the use of Federal TANF reserve funds to offset welfare spending in 2002-03 (\$465 million) and the increased cost of the welfare caseload (\$166 million). The projected welfare caseload of 622,067 recipients represents an increase from 2002-03 of approximately 10,248 recipients.

Higher Education Services Corporation (HESC) spending is projected at \$442 million, an increase of \$123 million (38.6 percent) from 2002-03. This increase reflects underlying program growth (\$163 million) and a reduction in available Federal TANF funds (\$64 million), offset by a deferral of Tuition Assistance Program costs into the 2004-05 fiscal year (\$104 million).

City University of New York (CUNY) spending is projected at \$681 million, a decrease of \$176 million (20.5 percent) from 2002-03. The decrease is primarily due to the impact of a tuition increase at the senior colleges used to offset General Fund spending (\$91 million) and a reduction in costs due to a one-time retroactive collective bargaining payment made in 2002-03 (\$70 million).

Spending for all other local assistance programs will total \$7.18 billion in 2003-04, a net increase of \$366 million (5.4 percent) from the 2002-03 fiscal year. This increase is largely attributable to additional spending for member items (\$350 million), increased spending for children and family services (\$90 million), public health programs (\$41 million), mental hygiene programs (\$27 million), and various other local assistance programs. These increases are offset by spending declines across other agencies and programs including an annual decrease in the funding for the Yonkers settlement agreement (\$110 million).

The 2003-04 enacted estimate for local assistance spending increased by \$2.23 billion from the 30-day estimate primarily as a result of net legislative adds and restorations of Executive Budget proposals. The largest adds and restorations occurred in Medicaid (\$840 million), school aid (\$599 million), additional funding for the Community Projects Fund (\$200 million), higher education programs (\$193 million), handicapped/all other education programs (\$132 million), and welfare programs (\$114 million). These net legislative adds reflect resources identified by the Legislature to delay the last Medicaid cycle in the 2003-04 fiscal year to the following fiscal year (\$170 million) and defer Tuition Assistance Program payments to colleges out of 2003-04 into 2004-05 (\$104 million).

<b>State Operations</b> (millions of dollars)			
<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>Annual \$ Change</b>	<b>Change from 30-Day Estimate</b>
7,715	7,168	(547)	2

State Operations accounts for the cost of operating the Executive, Legislative, and Judicial branches of government. Spending in this category is projected at \$7.17 billion, a decrease of \$547 million or 7.1 percent from 2002-03. The annual decline in State Operations spending is comprised of lower spending in both personal service (\$493 million) and non-personal service (\$54 million).

The State Operations estimates reflect \$1.03 billion in savings initiatives. Included in these savings are \$363 million from continuation of the strict Statewide hiring freeze, aggressive use of a retirement incentive for State employees, and various actions to restrain non-personal service spending in all agencies. A total of \$662 million in savings is projected to be available in 2003-04 from a variety of revenue maximization efforts to finance State Operations spending. Among these savings are additional SUNY revenues from an anticipated tuition increase and other revenue measures used to support General Fund costs (\$325 million), additional Federal revenues to offset spending on mental hygiene programs (\$174 million), and various shifts of General Fund costs to other funds (\$133 million) -- most notably funding \$93 million in Department of Motor Vehicles transportation-related spending in the Dedicated Highway Fund.

The savings initiatives and revenue maximization efforts are partially offset by base spending growth of \$478 million, including normal salary step increases and required non-personal service cost increases and the loss of one-time offsets used in 2002-03. Virtually all Executive agencies are held flat or reduced from 2002-03 levels.

The 2003-04 State Operations estimate is \$2 million higher than the estimate prepared at the time of the 30-day Amendments to the Executive Budget in February 2003. This additional spending represents minor legislative changes to the Executive Budget estimates.

The State's All Funds workforce is projected to be 186,000 at the end of 2003-04, a decrease of approximately 10,000 from November 2001 when the Governor announced a series of cost savings actions following the World Trade Center attacks. This reduction resulted from attrition and the use of early retirement incentives. Additional declines are possible as a result of the Fiscal Management Plan to be implemented during the fiscal year.

<b>General State Charges (millions of dollars)</b>			
<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>Annual \$ Change</b>	<b>Change from 30-Day Estimate</b>
2,732	3,199	467	34

General State Charges (GSCs) account for the costs of providing fringe benefits to State employees and retirees of the Executive, Legislative and Judicial branches, as well as certain fixed costs of the State. Fringe benefit payments, many of which are mandated by statute or collective bargaining agreements, include employer contributions for pensions, social security, health insurance, workers' compensation and unemployment insurance. Fixed costs include State payments-in-lieu-of-taxes to local governments for certain State-owned lands, and the costs of litigation against the State and its public officers.

Total spending for GSCs is estimated at \$3.20 billion, an increase of \$467 million or 17.0 percent from the prior year. The projected annual growth is primarily attributable to higher pension and health insurance costs.

Pension investment losses resulting in significantly higher contributions to the New York State and Local Retirement System for the 2003-04 fiscal year. The employer pension contribution rate is the Executive Budget was projected to increase to 4 percent of payroll in 2003-04, increasing pension costs by \$250 million (171 percent). Pension reform legislation approved with the Enacted Budget requires a minimum pension contribution equal to 4.5 percent of payroll annually. This change along with higher than expected retirement incentive costs would increase the 2003-04 fiscal year contribution by an additional \$94 million to \$344 million. However, the Legislature did not provide sufficient appropriation

authority to allow the entire pension bill to be paid to the retirement system in 2003-04. As a result, it is anticipated that the State will pay this unbudgeted amount in 2005-06 at 8 percent annual interest, for a total cost of approximately \$110 million.

Health insurance premiums are expected to increase by approximately \$178 million (11 percent) in 2003-04 to cover the rising costs of employee and retiree health care. The enacted budget reflects \$43 million in health benefit changes, which is expected to reduce the underlying growth in employee health insurance costs from \$221 million (13.7 percent). These changes, some of which are subject to negotiations with State employee unions, would: place restrictions on pharmacy benefits, require a higher co-payments for prescription drugs, modernize the hospital benefit plan, and increase employee co-payments, deductibles and coinsurance levels for doctor visits.

The \$34 million increase from the 30-day estimate is largely the result of the Legislature's denial of a proposal to change to the current 9 percent statutory interest rate on Court of Claims judgments to market-based rates, and partial restoration of Executive Budget proposals to change employee health insurance benefits.

<b>Transfers to Other Funds (millions of dollars)</b>				
	<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>Annual \$ Change</b>	<b>Change from 30-Day Estimate</b>
Transfers in Support of Debt Service	1,496	1,583	87	0
Transfers in Support of Capital Projects	170	251	81	45
Transfers in Support of State University	26	145	119	0
All Other Transfers	661	482	(179)	15
<b>Total Transfers to Other Funds</b>	<b>2,353</b>	<b>2,461</b>	<b>108</b>	<b>60</b>

Transfers to other funds are expected to total \$2.46 billion, or \$108 million higher than total receipts from this category during 2002-03 and \$60 million higher than the 30-day estimates. The annual net increase in debt service transfers of \$87 million reflects planned growth in underlying debt service costs, offset by debt reduction efforts. As compared to the 30-day estimate, transfers in support of debt service remain unchanged.

Transfers for capital projects provide General Fund support for projects that are not financed by bond proceeds, dedicated taxes, Federal grants or other revenues. The \$81 million projected increase in 2003-04 reflects year-to-year increases in pay-as-you-go spending for legislative adds for transportation and the environment (\$49 million) and changes in the timing of the receipt of bond proceeds to reimburse capital spending. Compared to the 30-day estimate for 2003-04, the \$45 million increase in capital projects transfers reflects the legislative adds for transportation and the environment.

The State's cost of transfers to the State University are estimated to increase by \$119 million over 2002-03 due to the timing of State subsidy payments to the SUNY hospitals (\$107 million) and the use of Dormitory Authority funds in 2002-03 to help subsidize the SUNY hospitals (\$12 million). This transfer remained unchanged from the 30-day estimate.

All other transfers are estimated to total \$482 million in 2003-04, a decline of \$179 million from 2002-03. This decline is primarily due to decreases in the Community Service Provider Assistance Program (\$100 million), the State's share of Medicaid payments to SUNY hospitals (\$48 million), and payments to the State Lottery Fund (\$17 million). All other transfers increased \$15 million from the 30-day estimates.

## Non-Recurring Actions

A total of \$5.1 billion in gross nonrecurring actions, with a net impact of \$3.2 billion on the Financial Plan, are incorporated in the 2003-04 Enacted Budget. These include resources from the securitization of tobacco settlement payments (\$3.8 billion), the use of Federal TANF moneys to offset General Fund welfare, HESC, and school aid program spending (\$458 million), spending delays for a Medicaid cycle and TAP payments (\$274 million), the one-time shift of various pay-as-you-go capital projects to bonding (\$122 million), debt management actions to reduce debt service costs (\$161 million), recoveries of school aid and welfare overpayments (\$88 million), abandoned property collections (\$75 million), and various routine fund sweeps (\$138 million).

The 2003-04 spending projections include \$1.9 billion of one-time payment delays from 2002-03 pending receipt of tobacco securitization proceeds. These one-time payment deferrals are “matched-up” with \$1.9 billion of the \$3.8 billion tobacco proceeds, for a net one-time impact of \$3.2 billion (\$5.1 billion of total actions offset by \$1.9 billion linked to one-time costs).

## General Fund Closing Balance

The Enacted Budget Financial Plan projects a closing General Fund balance of \$730 million at the end of the 2003-04 fiscal year, unchanged from the 30-day projection. The closing balance represents monies on deposit in the Tax Stabilization Reserve Fund (\$710 million) and the Contingency Reserve Fund (\$20 million). The balance assumes achievement of \$912 million of savings from the Fiscal Management Plan including additional Federal aid described earlier.

## Governmental Funds Financial Plans

### State Funds

State Funds represent the portion of the State's budget supported exclusively by State revenues: taxes, fees, fines, and other revenues imposed and collected by the State. Federal grants are not included as part of State Funds.

State Funds Receipts (millions of dollars)				
	2002-03 Adjusted Actuals	2003-04 Adjusted Enacted	Annual \$ Change	Change from 30-Day Estimate
Taxes	40,676	42,672	1,996	1,541
Miscellaneous Receipts	15,903	17,483	1,580	297
<b>Total State Funds Receipts</b>	<b>56,579</b>	<b>60,155</b>	<b>3,576</b>	<b>1,838</b>

Total State Funds receipts are projected to total \$60.16 billion in 2003-04, an increase of \$3.58 billion or 6.3 percent from 2002-03. State Funds tax receipts are projected to total \$42.67 billion, an increase of \$2.0 billion from 2002-03 primarily reflecting a new personal income tax surcharge (\$1.4 billion) and a one-quarter percent increase in sales tax (\$450 million), offset by revenue losses associated with the closeout of 2002-03 and the April PIT settlement (\$462 million). These changes are discussed in more detail in the General Fund section above.

Miscellaneous receipts in the State Funds are projected to total \$17.48 billion, an increase of \$1.58 billion over 2002-03. The growth in miscellaneous receipts primarily reflects the timing of the receipt of bond proceeds to reimburse capital spending from the Dedicated Highway and Bridge Trust Fund (\$961 million), economic development spending that is not counted by the State Comptroller as spending even

though the bond proceeds are counted as State-supported debt (\$325 million), and growth in SUNY revenues primarily attributable to an anticipated tuition increase (\$280 million). These increases are offset by a decline in General Fund miscellaneous receipts primarily due to the loss of non-recurring actions (\$322 million).

The increase in State Funds receipts of \$1.84 billion over the 30-day estimates is comprised of a projected tax increase of \$1.54 billion and miscellaneous receipts increase of \$297 million. The projected tax growth is consistent with the enacted tax increases described above. The growth in miscellaneous receipts is primarily attributable to the timing of the receipt of bond proceeds to reimburse capital spending (\$482 million), offset by a decline in State Funds receipts in support of Medicaid due to the legislative restoration of the proposed home care and hospital assessments (\$281 million).

Total State Funds disbursements are projected at \$61.09 billion in 2003-04, an increase of \$3.38 billion or 5.8 percent from 2002-03. Of this amount, \$1.32 billion is due to a net increase in General Fund spending as described in detail above, and \$2.05 billion is due to growth in other State funds.

<b>State Funds Disbursements</b> (millions of dollars)				
	<b>2002-03</b> <b>Adjusted Actuals</b>	<b>2003-04</b> <b>Adjusted Enacted</b>	<b>Annual</b> <b>\$ Change</b>	<b>Change from</b> <b>30-Day Estimate</b>
Welfare	496	1,127	631	114
General State Charges	3,088	3,608	520	43
Medicaid	8,413	8,852	439	559
Community Projects Fund	105	455	350	200
Debt Service	3,038	3,387	349	27
Public Health	2,023	2,218	195	88
SUNY	4,043	4,225	182	58
STAR	2,664	2,800	136	93
School Aid	14,121	14,225	104	608
Transportation	3,521	3,600	79	42
Handicapped/All Other Education	1,522	1,443	(79)	152
Mental Hygiene	2,645	2,572	(73)	42
Public Protection	2,902	2,899	(3)	18
All Other	9,131	9,676	545	172
<b>Total State Funds Disbursements</b>	<b>57,712</b>	<b>61,087</b>	<b>3,375</b>	<b>2,216</b>

State Funds Medicaid spending growth of \$439 million (5.2 percent) reflects increased General Fund spending of \$318 million (discussed in the General Fund section above) and an increase of \$121 million in Special Revenue Funds. Additional HCRA financing for the Family Health Plus program, workforce recruitment and retention initiatives, and additional funding for Medicaid pharmacy costs represent \$389 million of the net growth in the Special Revenue Funds. This increase is partially offset by lower spending attributable to the use of available pool balances in the Indigent Care Fund (\$125 million) in 2002-03, the sunset of the Tobacco Transfer Fund used to reimburse medical care providers for services rendered to Medicaid patients (\$91 million), and the legislative reduction of the nursing home gross receipts assessment from 6 percent to 5 percent (\$45 million).

Spending from Debt Service Funds is estimated to increase by \$349 million or 11.5 percent from 2002-03. The net increase in debt service spending reflects planned growth in costs, and additional bonding enacted by the Legislature for the CHIPs capital program and equipment for E-911 cellular emergency systems. Net debt service costs increased modestly (\$27 million) from the 30-day estimates.

Public Health spending supported by State Funds is projected to increase \$195 million (9.6 percent) from the prior year, of which the General Fund supports \$41 million. The increase in other State-supported spending is primarily attributable to additional spending for the Elderly Pharmaceutical Insurance Coverage Program (EPIC) providing senior citizens with prescription drug insurance (\$105 million) and the Child Health Plus program providing health insurance to children up to age 19 (\$68 million).

Projected annual spending growth of \$182 million for SUNY is primarily attributable to enrollment growth at the State-operated campuses, hospital program expansion, and anticipated increases in disbursements for capital programs. The annual growth in the STAR program of \$136 million is mainly due to inflation and increased taxpayer participation.

Annual State Funds spending growth due mostly to General Fund changes include: Welfare (\$631 million), primarily reflecting the use of non-recurring Federal TANF reserve funds to offset 2002-03 welfare spending; General State Charges (\$520 million), primarily due to higher pension and health insurance costs; and increased spending from the Community Projects Funds (\$350 million).

Major areas experiencing modest annual increases or decreases on a State Funds basis include: school aid (up \$104 million), transportation (up \$79 million), handicapped/all other education (down \$79 million), mental hygiene (down \$73 million) and public protection (down \$3 million).

State Funds disbursements increased \$2.22 billion over the 30-day estimates primarily due to net legislative changes including school aid (\$608 million), Medicaid (\$559 million), the Community Projects Fund (\$200 million), handicapped/all other education (\$152 million), and welfare (\$114 million).

## All Governmental Funds

All Governmental Funds includes activity in the four governmental funds types: the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service funds. All Governmental Funds spending combines State funds (discussed earlier) with Federal grants across these fund types. It excludes Fiduciary, Internal Services, and Enterprise Funds.

<b>All Governmental Funds Receipts (millions of dollars)</b>				
	<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>Annual \$ Change</b>	<b>Change from 30-Day Estimate</b>
Taxes	40,676	42,672	1,996	1,541
Miscellaneous Receipts	16,056	17,705	1,649	301
Federal Grants	33,242	33,444	202	1,426
<b>Total All Governmental Funds Receipts</b>	<b>89,974</b>	<b>93,821</b>	<b>3,847</b>	<b>3,268</b>

All Governmental Funds receipts are projected to be \$93.82 billion in 2003-04, an increase of \$3.85 billion or 4.3 percent from 2002-03. Tax receipts are projected to increase by \$2.0 billion to total \$42.67 billion primarily reflecting the impact of the enacted tax increases previously discussed.



Miscellaneous receipts are projected to increase by \$1.65 billion to total \$17.71 billion over 2002-03. The growth in All Governmental Funds miscellaneous receipts primarily reflects the timing of the receipt of bond proceeds to reimburse capital spending, economic development spending, and SUNY tuition increases, offset by a decline in General Fund miscellaneous receipts as discussed above.

Federal Grants are projected to total \$33.44 billion, an increase of \$202 million from 2002-03. Federal grants represent reimbursement from the Federal government for programs financed by the State in the first instance. Federal receipts are generally assumed to be received in the State fiscal year in which spending is incurred; therefore, the revisions to Federal receipts correspond to the adjustments to the federally-reimbursed spending revisions described below.

The All Governmental Funds receipts increase of \$3.27 billion over the 30-day estimates is comprised of enacted tax increases described above and Federal grants of \$1.43 billion primarily due to increases in Medicaid spending.

All Governmental Funds spending is estimated at \$94.47 billion in 2003-04, an annual increase of \$3.52 billion or 3.9 percent. The spending growth is comprised of the State Funds increases of \$3.38 billion and growth in Federal Funds of \$143 million. The growth in Federal spending is primarily due to increases for Medicaid (\$1.02 billion), offset by declines in welfare (\$426 million), World Trade Center costs (\$302 million) and education (\$180 million).

<b>All Governmental Funds Disbursements (millions of dollars)</b>				
	<b>2002-03 Adjusted Actuals</b>	<b>2003-04 Adjusted Enacted</b>	<b>Annual \$ Change</b>	<b>Change from 30-Day Estimate</b>
Medicaid	25,315	26,778	1,463	2,003
Public Health	3,230	3,778	548	137
General State Charges	3,272	3,774	502	43
Community Projects Fund	105	455	350	200
Debt Service	3,038	3,387	349	27
Welfare	2,803	3,008	205	124
Mental Hygiene	4,983	5,174	191	45
SUNY	4,208	4,368	160	58
STAR	2,664	2,800	136	93
School Aid	14,121	14,225	104	608
Handicapped/All Other Education	3,922	3,663	(259)	187
Transportation	4,907	4,834	(73)	13
Public Protection	3,096	3,027	(69)	18
All Other	15,292	15,203	(89)	109
<b>Total All Funds Disbursements</b>	<b>90,956</b>	<b>94,474</b>	<b>3,518</b>	<b>3,665</b>

All Governmental Funds Medicaid spending growth of \$1.46 billion reflects previously discussed State Funds spending growth of \$439 million, and an increase of \$1.02 billion (6.1 percent) in Medicaid spending supported by Federal Funds, which are estimated to total \$26.78 billion in 2003-04. The net increase is primarily attributable to expected underlying spending growth of approximately 8 percent (\$1.10 billion) and increased aid governed from an increase in disproportionate share payments to public hospitals (\$394 million). This increase is partially offset by the mandated phase out of the nursing home intergovernmental transfers (\$119 million), the phase out of Disaster Relief Medicaid related to the

September 11<sup>th</sup> attack on the World Trade Center (\$83 million), nonrecurring additional indigent care payments (\$72 million), and various other cost containment proposals. The Medicaid estimate does not include possible savings related to the temporary increase in the Federal share of Medicaid costs.

Public health spending supported by All Governmental Funds is expected to increase by \$548 million from 2002-03 of which \$195 million is attributable to increased State Funds support and the remaining \$353 million consisting of additional Federal aid. The growth in Federal aid is largely attributable to increased spending for the Child Health Plus program (\$324 million).

Spending from All Governmental Funds in support of welfare initiatives increased \$205 million from 2002-03 actuals and reflects the State Funds increase described above (\$631 million) offset by decreased welfare spending from federal funds (\$426 million). The decreased spending is primarily due to the loss of one-time credits that were used to support 2002-03 spending.

All Governmental Funds spending growth largely attributable to State Funds spending includes growth for General State Charges (\$502 million), Community Projects Fund (\$350 million), debt service (\$349 million), SUNY (\$160 million), STAR (\$136 million), and school aid (\$104 million).

Major areas experiencing modest annual increases or decreases on an All Governmental Funds basis include: mental hygiene (up \$191 million), handicapped/all other education (down \$259 million), transportation (down \$73 million), and public protection (down \$69 million).

All Governmental Funds disbursements increased \$3.67 billion over the 30-day estimates due to State Funds spending increases of \$2.22 billion described above and growth in Federal Medicaid spending (\$1.45 billion) attributable to legislative restorations of various cost containment and revenue maximizations, as well as revised estimates for underlying Federal Medicaid spending.

## **First Quarter Cash Flow**

Unlike previous years, the 2003-04 General Fund first quarter cash flow estimates assume continued implementation of emergency cash management actions implemented after delays in enacting tobacco securitization legislation led to potential cash imbalances. The General Fund cash flow position is expected to be extremely tight during the first quarter of the 2003-04 fiscal year and thus requires continued management actions to maintain positive balances until \$2.1 billion of tobacco proceeds are received in late June. DOB continues to monitor cash balances on a daily basis and has administratively managed the flow of funds and disbursements while continuing essential governmental operations through a statewide austerity plan. Under the current cash management plan, daily cash balances are expected to fluctuate significantly.

The General Fund balances assume continued deferrals of discretionary payments through June, including school aid payments scheduled in May and early June until the State receives the tobacco securitization proceeds. Thereafter, cash balances are expected to be healthy until March of the fiscal year.

The General Fund is projected to end May with a balance of \$2.15 billion. This balance, along with June receipts, will be used to make the school aid payment deferred from March on June 2 (\$1.2 billion) as well as weekly Medicaid, payroll, and other critical payments. As a result, cash balances are expected to decline to very low levels by mid-June. The State expects to make the remaining May and June school aid payments (\$2.5 billion) in late June upon the receipt of tobacco securitization proceeds. Absent these proceeds, General Fund resources would be insufficient to pay school aid and end the month with a positive cash balance.

The 2003-04 Enacted Budget amends State Finance Law to permit the State Comptroller to make balances in other funds and accounts temporarily available to the General Fund for intra-month cash flow needs as long as such balances can be repaid by the end of the month. This provision is set to expire on March 31, 2004.

## **GAAP-Basis Financial Plans**

The February Financial Plan included General Fund Financial Plans prepared in accordance with Generally Accepted Accounting Principles (GAAP) for State fiscal years 2002-03 through 2005-06. The accounting principles that DOB applied in preparing the GAAP projections are consistent with those applied by the State Comptroller for the 2001-02 GAAP-basis Financial Statements. Accordingly, the projections do not reflect the impact of any pending proposals of the Governmental Accounting Standards Board, including GASB 34. The changes mandated by GASB 34 are expected to significantly change the presentation of GAAP-basis financial results for state and local governments in 2002-03.

The General Fund GAAP Financial Plan issued as part of the February Financial Plan projected that the State would end the 2002-03 fiscal year with an operating imbalance of \$2.74 billion. The operating result reflected the use of reserves in response to the World Trade Center disaster. As a result of the operating deficit, the accumulated surplus was projected to decline from \$492 million at the end of 2001-02 to a \$2.24 billion accumulated deficit at the end of 2002-03.

Certain legislative actions, including deferring a Medicaid Cycle (\$170 million), and delaying TAP payments (\$104 million) are expected to negatively impact the GAAP Financial Plan.

Additionally, the deferral of \$1.9 billion in spending from 2002-03 until 2003-04 is expected to increase the 2002-03 accumulated GAAP-basis deficit, since the deferred payments are expected to be accrued to the 2002-03 fiscal year. However, the tobacco settlement revenues originally anticipated in 2002-03 but now expected in 2003-04 are likely to be accrued to the 2003-04 fiscal year resulting in no net change to the accumulated GAAP deficit by the end of 2003-04.

DOB expects to update the GAAP Financial Plan estimates for 2003-04 in the First Quarterly Financial Plan Update to be issued in July 2003.

## **Outyear General Fund Financial Plan Projections**

General Fund budget gaps for the 2004-05 and 2005-06 fiscal years have increased significantly from the 30-day projections. It is currently estimated that spending and revenue actions in the Enacted Budget in concert with events since presentation of the Executive Budget will increase gaps to over \$6 billion in 2004-05 and \$8 billion in 2005-06, before reflecting savings from the Fiscal Management Plan or extra Federal aid. The Fiscal Management Plan savings will be implemented in 2003-04, and these actions coupled with new Federal assistance are expected to produce recurring savings in the outyears, reducing the gaps by approximately \$900 million in each year.

Future budget gaps are subject to substantial revision as additional information becomes available about the national and State economies, financial sector activity, entitlement spending and social service caseloads, and State reimbursement obligations that are driven by local government activity. Key factors include: end-of-year business tax collections; calendar year economic results; year-end financial sector bonus income data; the school aid database update in November; and quarterly Medicaid cycle trend analysis.

These factors have historically been subject to a high degree of fluctuation across the forecast period, and could produce results above or below the current projections.

The outyear gap estimates do not assume any collective bargaining salary increases. If the projected budget gap for 2004-05 is closed fully with recurring actions, the 2005-06 budget gap would be reduced to under \$2 billion.

Revenues are projected to increase from the Executive Budget as a result of legislative changes by \$1.4 billion in 2004-05 and \$605 million in 2005-06. The revenue proposals decrease primarily because of “sunset” provisions enacted for the tax increases. New revenue actions include a personal income tax surcharge (\$1.2 billion in 2004-05 and \$1.0 billion in 2005-06), one-quarter percent increase in sales tax (\$572 million in 2004-05 and \$100 million in 2005-06), and a decoupling from Federal bonus depreciation provisions (\$100 million in 2004-05 and \$90 million in 2005-06). These revenue actions are offset by the loss of receipts due to the sales tax free week proposed in the Executive Budget (\$315 million in 2004-05 and \$435 million in 2005-06), and the intended transfer of State sales tax receipts to New York City (\$170 million annually).

In addition, revenues are expected to decrease by \$609 million in 2004-05 and 2005-06 primarily reflecting the impact of 2002-03 actuals and the April 2003 PIT settlement.

As compared to the Executive Budget, spending is projected to increase by \$4.5 billion in 2004-05 and \$4.2 billion in 2005-06. This spending increase reflects revisions based on actual results and net legislative adds to the Governor’s Executive Budget, including Medicaid programs (\$1.7 billion in 2004-05 and \$1.5 billion in 2005-06), school aid, including revised estimates resulting from the May 15 database update (\$1.4 billion in 2004-05 and 2005-06), higher education (\$323 million in 2004-05 and \$303 million in 2005-06), and higher general state charges primarily driven by restorations of health insurance savings initiatives and the planned payment of the full required pension bill in 2004-05 and 2005-06 (\$555 million in 2004-05 and \$338 million in 2005-06).

2004-05 spending grows \$2.2 billion above the \$2.3 billion increase in 2003-04 from the Executive Budget (for a total 2004-05 increase of \$4.5 billion). This incremental growth is driven by the annualization of Medicaid restorations (\$403 million), HCRA (\$268 million), and the deferral of a 2003-04 Medicaid cycle into 2004-05 (\$170 million), the “tail” of school aid adds and restorations including the loss of proposed BOCES and Building Aid reforms (\$571 million), the May 15 school aid database revisions (\$184 million), and increased fringe benefits costs including the denial of the Governor’s proposed pension reforms and the restoration of proposed health insurance cost containment (\$521 million).

Fiscal Management Plan savings include continuing the statewide austerity measures implemented during 2003-04, mandating agencies to eliminate, consolidate, and streamline governmental services, reducing the State workforce further, maximizing Federal aid, and planning legislative actions that may include statutory modifications to programs.

A more detailed discussion of these revenue and spending changes, as well as the Fiscal Management Plan, is described in the Overview and General Fund sections above.

**CASH FINANCIAL PLAN  
GENERAL FUND  
2002-2003 and 2003-2004  
ADJUSTED FOR 2002-2003 DELAYS  
(millions of dollars)**

	<b>2002-2003 Adjusted Actual</b>	<b>2003-2004 Adjusted Enacted</b>	<b>Annual Change</b>
<b>Opening fund balance</b>	<u>1,032</u>	<u>815</u>	<u>(217)</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	16,791	16,285	(506)
User taxes and fees	7,063	8,007	944
Business taxes	3,380	3,498	118
Other taxes	743	771	28
Miscellaneous receipts	3,991	3,669	(322)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	4,215	5,125	910
Sales tax in excess of LGAC debt service	1,919	1,853	(66)
Real estate taxes in excess of CW/CA debt service	263	202	(61)
All other	931	430	(501)
<b>Total receipts</b>	<u>39,296</u>	<u>39,840</u>	<u>544</u>
<b>Disbursements:</b>			
Grants to local governments	26,713	28,009	1,296
State operations	7,715	7,168	(547)
General State charges	2,732	3,199	467
Transfers to other funds:			
Debt service	1,496	1,583	87
Capital projects	170	251	81
State University	26	145	119
Other purposes	661	482	(179)
<b>Total disbursements</b>	<u>39,513</u>	<u>40,837</u>	<u>1,324</u>
<b>Fiscal Management Plan/Federal Aid</b>	<u>0</u>	<u>912</u>	<u>912</u>
<b>Change in fund balance</b>	<u>(217)</u>	<u>(85)</u>	<u>132</u>
<b>Closing fund balance</b>	<u>815</u>	<u>730</u>	<u>(85)</u>
Tax Stabilization Reserve Fund	710	710	0
Contingency Reserve Fund	20	20	0
Community Projects Fund	85	0	(85)

**CASH FINANCIAL PLAN  
GENERAL FUND  
2003-2004  
ADJUSTED FOR 2002-2003 DELAYS  
(millions of dollars)**

	<u>30-Day</u>	<u>Change</u>	<u>Adjusted Enacted</u>
<b>Opening fund balance</b>	<u>805</u>	<u>10</u>	<u>815</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	15,452	833	16,285
User taxes and fees	7,508	499	8,007
Business taxes	3,682	(184)	3,498
Other taxes	771	0	771
Miscellaneous receipts	3,579	90	3,669
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	4,865	260	5,125
Sales tax in excess of LGAC debt service	1,999	(146)	1,853
Real estate taxes in excess of CW/CA debt service	202	0	202
All other	379	51	430
<b>Total receipts</b>	<u>38,437</u>	<u>1,403</u>	<u>39,840</u>
<b>Disbursements:</b>			
Grants to local governments	25,780	2,229	28,009
State operations	7,166	2	7,168
General State charges	3,165	34	3,199
Transfers to other funds:			
Debt service	1,583	0	1,583
Capital projects	206	45	251
State university	145	0	145
Other purposes	467	15	482
<b>Total disbursements</b>	<u>38,512</u>	<u>2,325</u>	<u>40,837</u>
<b>Fiscal Management Plan/Federal Aid</b>	<u>0</u>	<u>912</u>	<u>912</u>
<b>Change in fund balance</b>	<u>(75)</u>	<u>(10)</u>	<u>(85)</u>
<b>Closing fund balance</b>	<u>730</u>	<u>0</u>	<u>730</u>
Tax Stabilization Reserve Fund	710	0	710
Contingency Reserve Fund	20	0	20

*Note: The 30-Day opening fund balance was reduced by \$198 million and the personal income tax receipts were increased by \$198 million to reflect the tax refund reserve transaction.*

**CASH FINANCIAL PLAN  
GENERAL FUND  
2002-2003 and 2003-2004  
(millions of dollars)**

	<u>2002-2003</u> <u>Actual</u>	<u>2003-2004</u> <u>Enacted</u>	<u>Change</u>
<b>Opening fund balance</b>	<u>1,032</u>	<u>815</u>	<u>(217)</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	16,791	16,285	(506)
User taxes and fees	7,063	8,007	944
Business taxes	3,380	3,498	118
Other taxes	743	771	28
Miscellaneous receipts	2,091	5,569	3,478
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	4,215	5,125	910
Sales tax in excess of LGAC debt service	1,919	1,853	(66)
Real estate taxes in excess of CW/CA debt service	263	202	(61)
All other	931	430	(501)
<b>Total receipts</b>	<u>37,396</u>	<u>41,740</u>	<u>4,344</u>
<b>Disbursements:</b>			
Grants to local governments	24,887	29,835	4,948
State operations	7,678	7,205	(473)
General State charges	2,699	3,232	533
Transfers to other funds:			
Debt service	1,496	1,583	87
Capital projects	166	255	89
State University	26	145	119
Other purposes	661	482	(179)
<b>Total disbursements</b>	<u>37,613</u>	<u>42,737</u>	<u>5,124</u>
<b>Fiscal Management Plan/Federal Aid</b>	<u>0</u>	<u>912</u>	<u>912</u>
<b>Change in fund balance</b>	<u>(217)</u>	<u>(85)</u>	<u>132</u>
<b>Closing fund balance</b>	<u>815</u>	<u>730</u>	<u>(85)</u>
Tax Stabilization reserve Fund	710	710	0
Contingency Reserve Fund	20	20	0
Community Projects Fund	85	0	(85)

*Note: Actuals reflect the amounts published in the Comptroller's Cash Basis Report released on April 15, 2003.*

**CASH FINANCIAL PLAN  
GENERAL FUND  
2002-2003  
(millions of dollars)**

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted Actual</u>
<b>Opening fund balance</b>	<u>1,032</u>	<u>0</u>	<u>1,032</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	16,791	0	16,791
User taxes and fees	7,063	0	7,063
Business taxes	3,380	0	3,380
Other taxes	743	0	743
Miscellaneous receipts	2,091	1,900	3,991
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	4,215	0	4,215
Sales tax in excess of LGAC debt service	1,919	0	1,919
Real estate taxes in excess of CW/CA debt service	263	0	263
All other	931	0	931
<b>Total receipts</b>	<u>37,396</u>	<u>1,900</u>	<u>39,296</u>
<b>Disbursements:</b>			
Grants to local governments	24,887	1,826	26,713
State operations	7,678	37	7,715
General State charges	2,699	33	2,732
Transfers to other funds:			
Debt service	1,496	0	1,496
Capital projects	166	4	170
State University	26	0	26
Other purposes	661	0	661
<b>Total disbursements</b>	<u>37,613</u>	<u>1,900</u>	<u>39,513</u>
<b>Change in fund balance</b>	<u>(217)</u>	<u>0</u>	<u>(217)</u>
<b>Closing fund balance</b>	<u>815</u>	<u>0</u>	<u>815</u>
Tax Stabilization Reserve Fund	710	0	710
Contingency Reserve Fund	20	0	20
Community Projects Fund	85	0	85

*Note: Actuals reflect the amounts published in the Comptroller's Cash Basis Report released on April 15, 2003.*



**CASH FINANCIAL PLAN  
GENERAL FUND  
2003-2004  
(millions of dollars)**

	<u>Enacted</u>	<u>Adjustments</u>	<u>Adjusted Enacted</u>
<b>Opening fund balance</b>	<u>815</u>	<u>0</u>	<u>815</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	16,285	0	16,285
User taxes and fees	8,007	0	8,007
Business taxes	3,498	0	3,498
Other taxes	771	0	771
Miscellaneous receipts	5,569	(1,900)	3,669
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,125	0	5,125
Sales tax in excess of LGAC debt service	1,853	0	1,853
Real estate taxes in excess of CW/CA debt service	202	0	202
All other	430	0	430
<b>Total receipts</b>	<u>41,740</u>	<u>(1,900)</u>	<u>39,840</u>
<b>Disbursements:</b>			
Grants to local governments	29,835	(1,826)	28,009
State operations	7,205	(37)	7,168
General State charges	3,232	(33)	3,199
Transfers to other funds:			
Debt service	1,583	0	1,583
Capital projects	255	(4)	251
State University	145	0	145
Other purposes	482	0	482
<b>Total disbursements</b>	<u>42,737</u>	<u>(1,900)</u>	<u>40,837</u>
<b>Fiscal Management Plan/Federal Aid</b>	<u>912</u>	<u>0</u>	<u>912</u>
<b>Change in fund balance</b>	<u>(85)</u>	<u>0</u>	<u>(85)</u>
<b>Closing fund balance</b>	<u>730</u>	<u>0</u>	<u>730</u>
Tax Stabilization Reserve Fund	710	0	710
Contingency Reserve Fund	20	0	20

*Note: The 30-Day opening fund balance was reduced by \$198 million and the personal income tax receipts were increased by \$198 million to reflect the PIT refund reserve transaction.*

**CURRENT STATE RECEIPTS  
GENERAL FUND  
2002-2003 and 2003-2004  
ADJUSTED FOR 2002-2003 DELAYS  
(millions of dollars)**

	<b>2002-2003 Adjusted Actual</b>	<b>2003-2004 Adjusted Enacted</b>	<b>Annual Change</b>
<b>Personal income tax</b>	16,791	16,285	(506)
<b>User taxes and fees</b>	7,063	8,007	944
Sales and use tax	6,328	7,285	957
Cigarette and tobacco taxes	446	425	(21)
Motor vehicle fees	67	75	8
Alcoholic beverages taxes	180	180	0
Alcoholic beverage control license fees	42	42	0
<b>Business taxes</b>	3,380	3,498	118
Corporation franchise tax	1,407	1,450	43
Corporation and utilities tax	860	805	(55)
Insurance taxes	704	818	114
Bank tax	409	425	16
<b>Other taxes</b>	743	771	28
Estate tax	701	737	36
Gift tax	7	0	(7)
Real property gains tax	5	2	(3)
Pari-mutuel taxes	29	31	2
Other taxes	1	1	0
<b>Total taxes</b>	27,977	28,561	584
<b>Miscellaneous receipts</b>	3,991	3,669	(322)
<b>Total</b>	31,968	32,230	262

*Note: Adjusted miscellaneous receipts include \$1.9 billion in tobacco securitization proceeds in 2002-03 that will be received in 2003-04.*

**CURRENT STATE RECEIPTS**  
**ALL GOVERNMENTAL FUNDS**  
**2002-2003 and 2003-2004**  
**ADJUSTED FOR 2002-2003 DELAYS**  
(millions of dollars)

	<b>2002-2003</b> <b>Adjusted</b> <b>Actual</b>	<b>2003-2004</b> <b>Adjusted</b> <b>Enacted</b>	<b>Change</b>
<b>Personal income tax</b>	23,698	24,460	762
<b>User taxes and fees</b>	10,804	11,984	1,180
Sales and use taxes	8,796	9,956	1,160
Cigarette and tobacco taxes	446	425	(21)
Motor fuel tax	544	537	(7)
Motor vehicle fees	612	651	39
Highway use tax	147	149	2
Alcoholic beverage taxes	180	180	0
Alcoholic beverage control license fees	42	42	0
Auto rental tax	37	44	7
<b>Business taxes</b>	4,983	5,052	69
Corporation franchise tax	1,612	1,655	43
Corporation and utilities taxes	1,091	993	(98)
Insurance taxes	776	903	127
Bank tax	481	500	19
Petroleum business taxes	1,023	1,001	(22)
<b>Other taxes</b>	1,191	1,176	(15)
Estate tax	701	737	36
Gift tax	7	0	(7)
Real property gains tax	5	2	(3)
Real estate transfer tax	448	404	(44)
Pari-mutuel taxes	29	32	3
Other taxes	1	1	0
<b>Total taxes</b>	40,676	42,672	1,996
<b>Miscellaneous receipts</b>	16,056	17,705	1,649
<b>Federal grants</b>	33,242	33,444	202
<b>Total</b>	89,974	93,821	3,847

*Note: Adjusted miscellaneous receipts include \$1.9 billion in tobacco securitization proceeds in 2002-03 that will be received in 2003-04.*

**GENERAL FUND  
TAX REFUND RESERVE ACCOUNT  
2002-2003 AND 2003-2004  
ADJUSTED FOR 2002-2003 DELAYS  
(millions of dollars)**

	<u>2002-2003 Adjusted Actual</u>	<u>2003-2004 Adjusted Enacted</u>	<u>Annual Change</u>
Withholdings	19,959	22,135	2,176
Estimated Payments	4,855	4,780	(75)
Final Payments	1,334	1,241	(93)
Delinquencies	<u>796</u>	<u>670</u>	<u>(126)</u>
<b>Gross Collections</b>	<b>26,944</b>	<b>28,826</b>	<b>1,882</b>
State/City Offset	(288)	(300)	(12)
Refund Reserve	1,050	159	(891)
Refunds	<u>(4,008) <sup>(1)</sup></u>	<u>(4,225) <sup>(2)</sup></u>	<u>(217)</u>
<b>Reported Tax Collections</b>	<b>23,698</b>	<b>24,460</b>	<b>762</b>
STAR	(2,664)	(2,800)	(136)
RBTF	<u>(4,243)</u>	<u>(5,375)</u>	<u>(1,132)</u>
<b>General Fund</b>	<b><u>16,791</u></b>	<b><u>16,285</u></b>	<b><u>(506)</u></b>

Net personal income tax collections are affected by 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 receipts into this account at 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 the 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. Beginning in 1998-99, a portion of personal income tax collections is deposited directly in the School Tax Reduction (STAR) Fund and used to make payments to reimburse local governments for their revenue decreases due to the STAR program.

*Note 1: Reflects the payment of the balance of refunds on 2001 liability and payment of \$960 million of calendar year 2002 refunds in the last quarter of the State's 2002-03 fiscal year and a balance in the Tax Refund Reserve Account of \$627 million.*

*Note 2: Reflects the payment of the balance of refunds on 2002 liability and the projected payment of \$960 million of calendar year 2003 refunds in the last quarter of the State's 2003-04 fiscal year and a projected balance in the Tax Refund Reserve Account of \$468 million.*

**CASH FINANCIAL PLAN  
STATE FUNDS  
2003-2004  
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	<u>815</u>	<u>894</u>	<u>(560)</u>	<u>158</u>	<u>1,307</u>
<b>Receipts:</b>					
Taxes	28,561	4,401	1,765	7,945	42,672
Miscellaneous receipts	5,569	9,880	3,232	702	19,383
Federal grants	0	0	0	0	0
<b>Total receipts</b>	<u>34,130</u>	<u>14,281</u>	<u>4,997</u>	<u>8,647</u>	<u>62,055</u>
<b>Disbursements:</b>					
Grants to local governments	29,835	10,191	1,095	0	41,121
State operations	7,205	4,561	0	8	11,774
General State charges	3,232	410	0	0	3,642
Debt service	0	0	0	3,387	3,387
Capital projects	0	2	3,061	0	3,063
<b>Total disbursements</b>	<u>40,272</u>	<u>15,164</u>	<u>4,156</u>	<u>3,395</u>	<u>62,987</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	7,610	801	401	4,844	13,656
Transfers to other funds	(2,465)	(231)	(1,068)	(10,093)	(13,857)
Bond and note proceeds	0	0	248	0	248
<b>Net other financing sources (uses)</b>	<u>5,145</u>	<u>570</u>	<u>(419)</u>	<u>(5,249)</u>	<u>47</u>
<b>Fiscal Management Plan/Federal Aid</b>	<u>912</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>912</u>
<b>Change in fund balance</b>	<u>(85)</u>	<u>(313)</u>	<u>422</u>	<u>3</u>	<u>27</u>
<b>Closing fund balance</b>	<u>730</u>	<u>581</u>	<u>(138)</u>	<u>161</u>	<u>1,334</u>

**CASH FINANCIAL PLAN  
STATE FUNDS  
2003-2004  
ADJUSTED FOR 2002-2003 DELAYS  
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	<u>815</u>	<u>894</u>	<u>(560)</u>	<u>158</u>	<u>1,307</u>
<b>Receipts:</b>					
Taxes	28,561	4,401	1,765	7,945	42,672
Miscellaneous receipts	3,669	9,880	3,232	702	17,483
Federal grants	0	0	0	0	0
<b>Total receipts</b>	<u>32,230</u>	<u>14,281</u>	<u>4,997</u>	<u>8,647</u>	<u>60,155</u>
<b>Disbursements:</b>					
Grants to local governments	28,009	10,191	1,095	0	39,295
State operations	7,168	4,561	0	8	11,737
General State charges	3,199	410	0	0	3,609
Debt service	0	0	0	3,387	3,387
Capital projects	0	2	3,057	0	3,059
<b>Total disbursements</b>	<u>38,376</u>	<u>15,164</u>	<u>4,152</u>	<u>3,395</u>	<u>61,087</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	7,610	801	397	4,844	13,652
Transfers to other funds	(2,461)	(231)	(1,068)	(10,093)	(13,853)
Bond and note proceeds	0	0	248	0	248
<b>Net other financing sources (uses)</b>	<u>5,149</u>	<u>570</u>	<u>(423)</u>	<u>(5,249)</u>	<u>47</u>
<b>Fiscal Management Plan/Federal Aid</b>	<u>912</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>912</u>
<b>Change in fund balance</b>	<u>(85)</u>	<u>(313)</u>	<u>422</u>	<u>3</u>	<u>27</u>
<b>Closing fund balance</b>	<u>730</u>	<u>581</u>	<u>(138)</u>	<u>161</u>	<u>1,334</u>

**CASH FINANCIAL PLAN**  
**ALL GOVERNMENTAL FUNDS**  
**2003-2004**  
(millions of dollars)

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	815	986	(791)	158	1,168
<b>Receipts:</b>					
Taxes	28,561	4,401	1,765	7,945	42,672
Miscellaneous receipts	5,569	10,102	3,232	702	19,605
Federal grants	0	31,806	1,638	0	33,444
<b>Total receipts</b>	<u>34,130</u>	<u>46,309</u>	<u>6,635</u>	<u>8,647</u>	<u>95,721</u>
<b>Disbursements:</b>					
Grants to local governments	29,835	38,677	1,312	0	69,824
State operations	7,205	7,790	0	8	15,003
General State charges	3,232	576	0	0	3,808
Debt service	0	0	0	3,387	3,387
Capital projects	0	2	4,350	0	4,352
<b>Total disbursements</b>	<u>40,272</u>	<u>47,045</u>	<u>5,662</u>	<u>3,395</u>	<u>96,374</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	7,610	3,221	401	4,844	16,076
Transfers to other funds	(2,465)	(2,594)	(1,200)	(10,093)	(16,352)
Bond and note proceeds	0	0	248	0	248
<b>Net other financing sources (uses)</b>	<u>5,145</u>	<u>627</u>	<u>(551)</u>	<u>(5,249)</u>	<u>(28)</u>
<b>Fiscal Management Plan/Federal Aid</b>	<u>912</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>912</u>
<b>Change in fund balance</b>	<u>(85)</u>	<u>(109)</u>	<u>422</u>	<u>3</u>	<u>231</u>
<b>Closing fund balance</b>	<u>730</u>	<u>877</u>	<u>(369)</u>	<u>161</u>	<u>1,399</u>

**CASH FINANCIAL PLAN  
ALL GOVERNMENTAL FUNDS  
2003-2004  
ADJUSTED FOR 2002-2003 DELAYS  
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	815	986	(791)	158	1,168
<b>Receipts:</b>					
Taxes	28,561	4,401	1,765	7,945	42,672
Miscellaneous receipts	3,669	10,102	3,232	702	17,705
Federal grants	0	31,806	1,638	0	33,444
<b>Total receipts</b>	<u>32,230</u>	<u>46,309</u>	<u>6,635</u>	<u>8,647</u>	<u>93,821</u>
<b>Disbursements:</b>					
Grants to local governments	28,009	38,677	1,312	0	67,998
State operations	7,168	7,790	0	8	14,966
General State charges	3,199	576	0	0	3,775
Debt service	0	0	0	3,387	3,387
Capital projects	0	2	4,346	0	4,348
<b>Total disbursements</b>	<u>38,376</u>	<u>47,045</u>	<u>5,658</u>	<u>3,395</u>	<u>94,474</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	7,610	3,221	397	4,844	16,072
Transfers to other funds	(2,461)	(2,594)	(1,200)	(10,093)	(16,348)
Bond and note proceeds	0	0	248	0	248
<b>Net other financing sources (uses)</b>	<u>5,149</u>	<u>627</u>	<u>(555)</u>	<u>(5,249)</u>	<u>(28)</u>
<b>Fiscal Management Plan/Federal Aid</b>	<u>912</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>912</u>
<b>Change in fund balance</b>	<u>(85)</u>	<u>(109)</u>	<u>422</u>	<u>3</u>	<u>231</u>
<b>Closing fund balance</b>	<u>730</u>	<u>877</u>	<u>(369)</u>	<u>161</u>	<u>1,399</u>



**CASH FINANCIAL PLAN  
SPECIAL REVENUE FUNDS  
2003-2004  
(millions of dollars)**

	<u>State</u>	<u>Federal</u>	<u>Total</u>
<b>Opening fund balance</b>	<u>894</u>	<u>92</u>	<u>986</u>
<b>Receipts:</b>			
Taxes	4,401	0	4,401
Miscellaneous receipts	9,880	222	10,102
Federal grants	<u>0</u>	<u>31,806</u>	<u>31,806</u>
<b>Total receipts</b>	<u>14,281</u>	<u>32,028</u>	<u>46,309</u>
<b>Disbursements:</b>			
Grants to local governments	10,191	28,486	38,677
State operations	4,561	3,229	7,790
General State charges	410	166	576
Debt service	0	0	0
Capital projects	<u>2</u>	<u>0</u>	<u>2</u>
<b>Total disbursements</b>	<u>15,164</u>	<u>31,881</u>	<u>47,045</u>
<b>Other financing sources (uses):</b>			
Transfers from other funds	801	2,420	3,221
Transfers to other funds	(231)	(2,363)	(2,594)
Bond and note proceeds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net other financing sources (uses)</b>	<u>570</u>	<u>57</u>	<u>627</u>
<b>Change in fund balance</b>	<u>(313)</u>	<u>204</u>	<u>(109)</u>
<b>Closing fund balance</b>	<u>581</u>	<u>296</u>	<u>877</u>

**CASH FINANCIAL PLAN  
CAPITAL PROJECTS FUNDS  
2003-2004  
ADJUSTED FOR 2002-2003 DELAYS  
(millions of dollars)**

	<u>State</u>	<u>Federal</u>	<u>Total</u>
<b>Opening fund balance</b>	<u>(560)</u>	<u>(231)</u>	<u>(791)</u>
<b>Receipts:</b>			
Taxes	1,765	0	1,765
Miscellaneous receipts	3,232	0	3,232
Federal grants	0	1,638	1,638
<b>Total receipts</b>	<u>4,997</u>	<u>1,638</u>	<u>6,635</u>
<b>Disbursements:</b>			
Grants to local governments	1,095	217	1,312
State operations	0	0	0
General State charges	0	0	0
Debt service	0	0	0
Capital projects	3,057	1,289	4,346
<b>Total disbursements</b>	<u>4,152</u>	<u>1,506</u>	<u>5,658</u>
<b>Other financing sources (uses):</b>			
Transfers from other funds	397	0	397
Transfers to other funds	(1,068)	(132)	(1,200)
Bond and note proceeds	248	0	248
<b>Net other financing sources (uses)</b>	<u>(423)</u>	<u>(132)</u>	<u>(555)</u>
<b>Change in fund balance</b>	<u>422</u>	<u>0</u>	<u>422</u>
<b>Closing fund balance</b>	<u>(138)</u>	<u>(231)</u>	<u>(369)</u>

**CASH FLOW  
GENERAL FUND  
2003-2004  
(millions of dollars)**

	<u>April</u>	<u>May</u>	<u>June</u>
<b>Opening fund balance</b>	<u>815</u>	<u>2,786</u>	<u>2,145</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	2,811	304	1,582
Sales tax	450	462	737
User taxes and fees	103	56	59
Business taxes	56	(128)	722
Other taxes	49	67	73
Miscellaneous receipts	70	103	2,239
Transfers from other funds	898	330	782
<b>Total receipts</b>	<u>4,437</u>	<u>1,194</u>	<u>6,194</u>
<b>Disbursements:</b>			
Grants to local governments	1,462	694	5,284
State operations	743	814	611
General State charges	32	241	236
Transfers to other funds	229	86	350
<b>Total disbursements</b>	<u>2,466</u>	<u>1,835</u>	<u>6,481</u>
<b>Change in fund balance</b>	<u>1,971</u>	<u>(641)</u>	<u>(287)</u>
<b>Closing fund balance</b>	<u>2,786</u>	<u>2,145</u>	<u>1,858</u>

## Special Considerations

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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. DOB believes that its current estimates related to the performance of the State and national economies are reasonable. However, there can be no assurance that actual results will not differ materially and adversely from the current forecast. For a discussion of the DOB economic forecast, see the sections entitled "Economic and Demographics," "Current Fiscal Year – National Economy" and "Current Fiscal Year – State Economy" in this AIS.

Based on current projections, the 2003-04 Financial Plan depends in part on the implementation of a fiscal management plan to maintain budget balance in the current fiscal year. The plan currently under development by DOB is expected to contain a range of actions that can be implemented administratively, as well as proposals that may require legislative approval. The fiscal management plan will also integrate savings from the Federal aid package enacted by Congress on May 23, 2003. DOB estimates the Federal package will provide the State and localities a total of \$2.1 billion in fiscal relief over the next two State fiscal years, consisting of a temporary 2.95 percent increase in the Federal matching rate for State Medicaid expenditures (valued at \$1.5 billion) and unrestricted aid payments (valued at \$645 million). The Federal aid is expected to enhance the State's flexibility in preparing the fiscal management plan and maintaining a balanced budget in the 2003-04 fiscal year. DOB expects to incorporate the fiscal management plan into the Financial Plan projections by the release of the First Quarterly Update to the Financial Plan.

The Executive is reviewing legal questions surrounding certain actions taken by the Legislature in enacting the 2003-04 budget. The State Constitution provides that the Legislature may not alter an appropriation bill submitted by the Governor except to strike out or reduce items, or to add appropriations that are stated separately and distinctly from the original appropriations. A number of court cases have interpreted and clarified the Legislature's powers to act on the appropriations contained in the Executive Budget (see the section entitled "Litigation" for a discussion of two ongoing cases). In light of the provisions of the State Constitution and existing case law, the Executive believes that the Legislature, in enacting changes to the Governor's Executive Budget for 2003-04, may have acted in a manner that violates State constitutional and statutory requirements.

Labor contracts between the State and most State employee unions expired on March 31, 2003 and collective bargaining negotiations are underway on a new round of contracts. The Financial Plan contains no reserves to finance potential new costs related to any new labor agreements. DOB projects that every one percent increase in salaries for all State employees would result in a General Fund Financial Plan cost of approximately \$80 million.

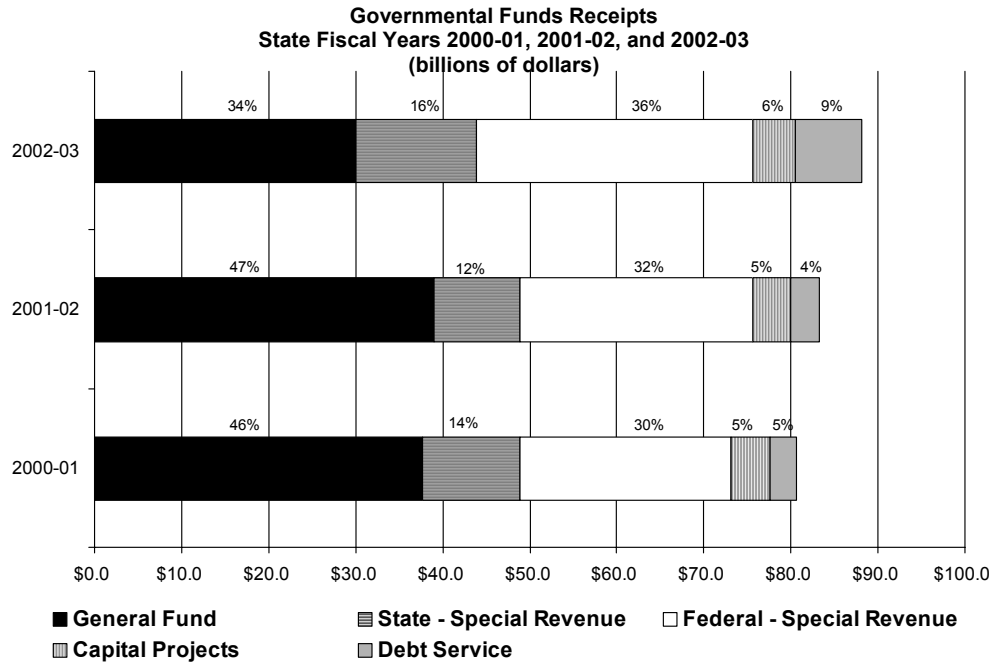
DOB expects the State's cash flow position to experience pressure in the first quarter of the 2004-05 fiscal year. A number of administrative options are available to DOB to manage General Fund cash flow needs during any fiscal year. The State is prohibited from issuing seasonal notes in the public credit markets to finance cash flow needs, unless the State satisfies certain restrictive conditions imposed under the Local Government Assistance Corporation ("LGAC") statute and related bond covenants. For a discussion of the LGAC restrictions, see the section entitled "Debt and Other Financing Activities – Local Government Assistance Corporation" in this AIS.

An ongoing risk to the 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 example, the Federal government has issued a draft disallowance for certain claims, and deferred the payment of other claims, submitted by school districts related to school supportive health services. It is unclear at this time what impact, if any, such disallowances may have on the State Financial Plan in the current year or in the future. The Financial Plan 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.

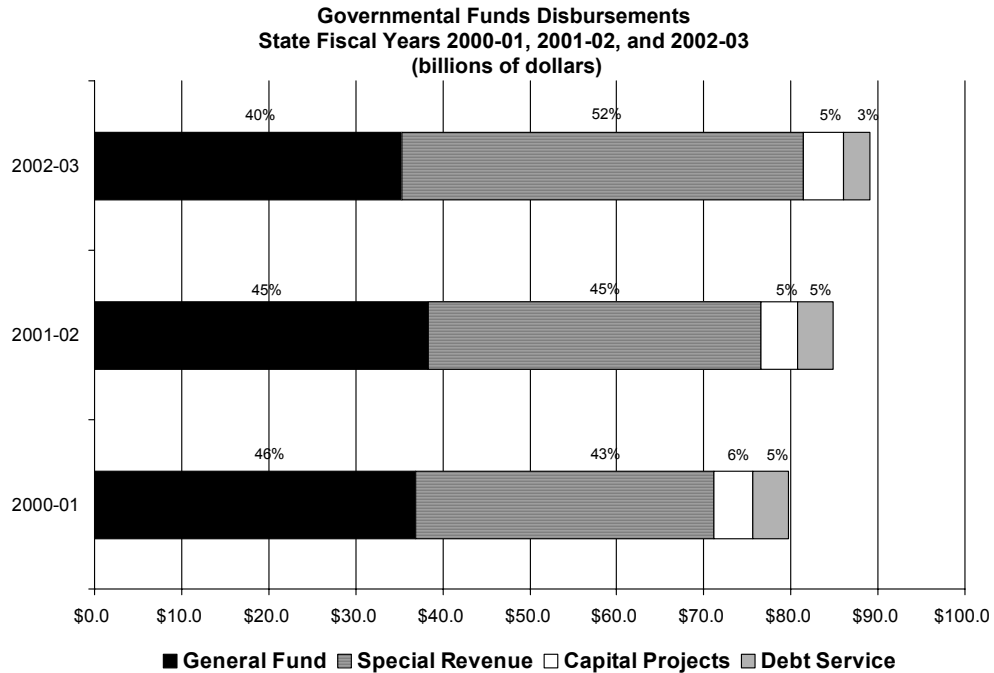
In the past, the State has taken management actions to address potential financial plan shortfalls, and DOB believes it could take similar actions should adverse variances occur in its projections for the current fiscal year. To help guard against such risks, the State is maintaining a total of \$730 million in General Fund reserves, after implementation of the fiscal management plan.

## 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 with particular emphasis on the General Fund.

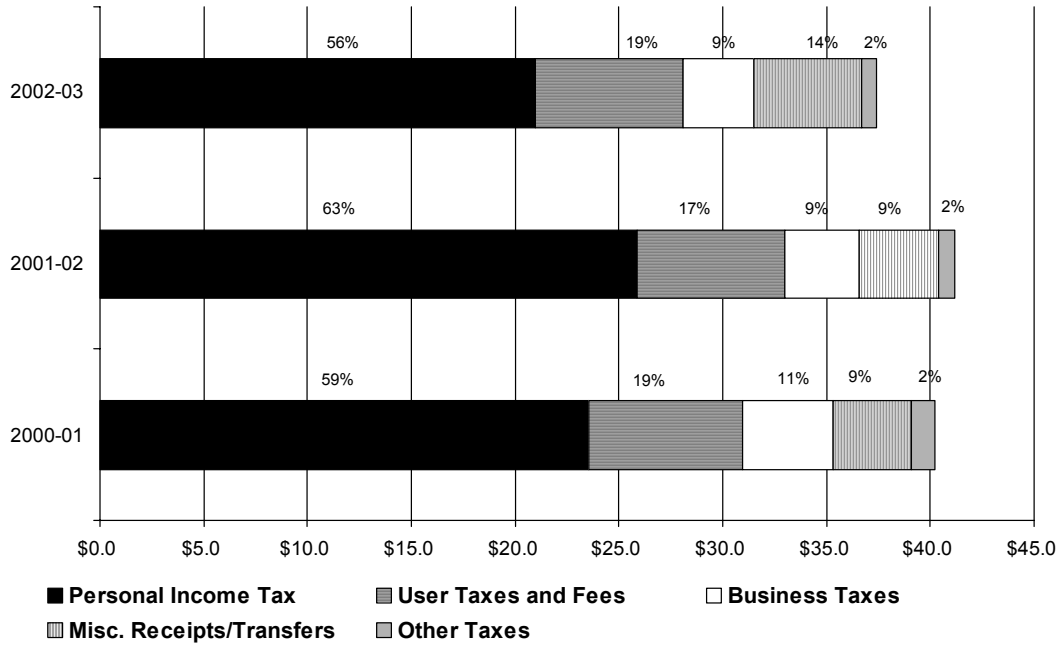


Note: Percentage total may not add due to rounding.



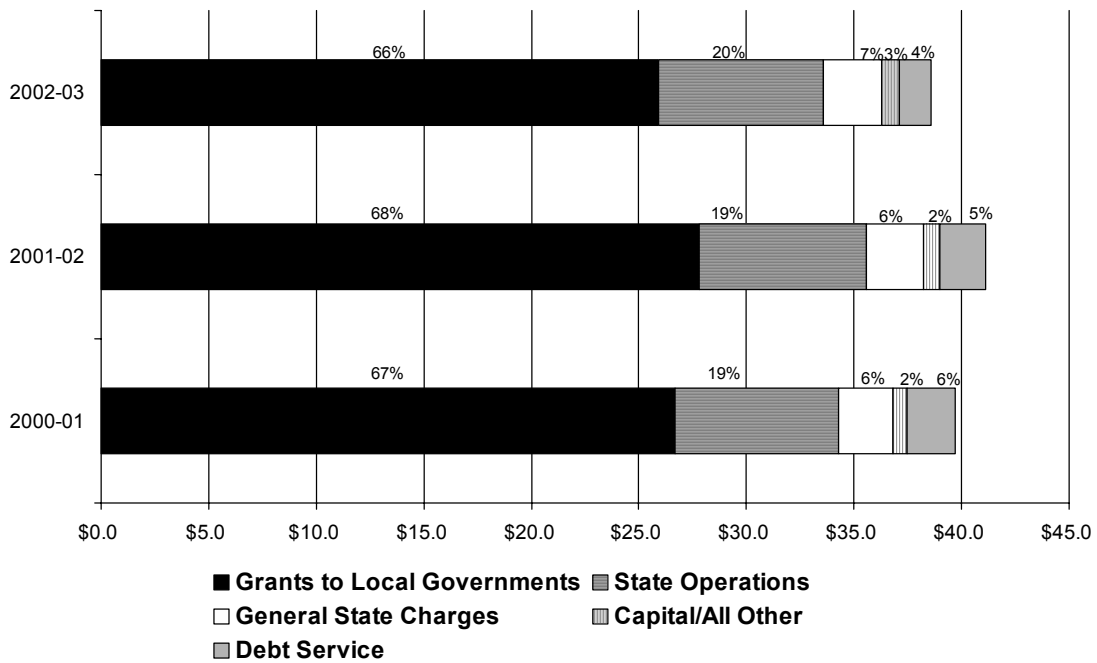
Note: Percentage total may not add due to rounding.

**General Fund Receipts and Transfers by Source**  
**State Fiscal Years 2000-01, 2001-02, and 2002-03**  
 (billions of dollars)



Note: Percentage total may not add due to rounding.

**General Fund Disbursements and Transfers by Type**  
**State Fiscal Years 2000-01, 2001-02, and 2002-03**  
 (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 2000-01 through 2002-03

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.

Over the last three years, State finances have been affected by a number of factors, including the impact of the September 11<sup>th</sup> terrorist attacks on New York City, the persistent national recession, the ongoing weakness of the financial services sector, and the use of non-recurring resources and reserves to support spending.

Actual General Fund spending has declined from \$41.2 billion in 2001-02 to \$37.6 billion in 2002-03, a decrease of \$3.6 billion (8.8 percent). After adjusting 2002-03 results to include the impact of \$1.9 billion in spending delays to balance the 2002-03 fiscal year (see below), General Fund spending would have fallen by \$1.7 billion (4.2 percent). Unless otherwise noted, the spending levels reported for the 2002-03 fiscal year have been adjusted to include \$1.9 billion in spending that was budgeted to occur in 2002-03 but was deferred until 2003-04 to maintain budget balance. All information for 2002-03 is unaudited. The comparative tables at the end of this section report spending on both an adjusted and unadjusted basis.

Over the three-year period beginning in 2000-01, General Fund spending has remained essentially flat (after adjusting for payment deferrals). Since 1960, General Fund spending has declined on an annual basis only two other times (1989-90 to 1990-91 and 1994-95 to 1995-96).

### *2002-03 Fiscal Year*

In the revised 2002-03 Financial Plan dated February 28, 2003 (the "February Financial Plan"), the State projected a 2002-03 budgetary imbalance of \$2.4 billion in the General Fund attributable primarily to a projected revenue shortfall of \$2.2 billion. The State achieved \$700 million in administrative savings during the year to reduce the imbalance to \$1.7 billion. To help close the remaining projected 2002-03 imbalance, improve the State's cash flow position, and reduce the projected budget gaps in 2003-04 and 2004-05, the Governor proposed selling a portion of the State's future share of tobacco settlement payments to a statutorily created, bankruptcy-remote corporation. However, the State Legislature did not enact legislation authorizing the tobacco settlement sale during 2002-03. Therefore, to eliminate the remaining \$1.7 billion imbalance in 2002-03 and maintain reserves at a level consistent with the February Financial Plan, the State implemented a contingency plan in which it deferred \$1.9 billion in planned spending to 2003-04.

After these actions, the State ended the 2002-03 fiscal year with available General Fund cash resources of \$1.01 billion. The General Fund cash balance at year-end totaled \$815 million and the refund reserve account had \$200 million in resources not budgeted for other purposes. The General Fund balance was comprised of \$710 million in the Tax Stabilization Reserve Fund (TSRF), \$20 million in the



Contingency Reserve Fund (CRF) to pay costs related to litigation against the State, and \$85 million in the Community Projects Fund, which pays primarily for legislative “member items.”

The closing balance excluded amounts on deposit in the refund reserve account. The State ended the 2002-03 fiscal year with \$627 million on deposit in the refund reserve account, an increase of \$200 million above budgeted levels. 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 year to the next. Changes to the refund reserve affect the level of reported personal income tax receipts.

General Fund receipts and transfers from other funds totaled \$37.4 billion in 2002-03, a decrease of \$2.3 billion from the February Financial Plan forecast. The February Financial Plan had counted on \$1.9 billion in revenues from the tobacco settlement sale. General Fund disbursements and transfers to other funds totaled \$37.6 billion, a decrease of \$2.2 billion from the February Financial Plan. The substantial decline resulted from the deferral of \$1.9 billion in payments originally scheduled for 2002-03 and \$253 million in one-time savings. After adjusting for the payment deferrals, General Fund disbursements would have totaled \$39.5 billion in 2002-03 (a decrease of \$1.7 billion or 4 percent from 2001-02 results).

### ***2001-02 Fiscal Year***

The State ended its 2001-02 fiscal year on March 31, 2002 in balance on a cash basis. There was no General Fund surplus reported by DOB. After year-end adjustments related to the refund reserve account, the closing balance in the General Fund was \$1.03 billion, a decrease of \$67 million from the 2000-01 fiscal year. Of this balance, \$710 million was held in the Tax Stabilization Reserve Fund (TSRF) (after a deposit of \$83 million in fiscal year 2001-02), \$157 million in the Contingency Reserve Fund (CRF), \$159 million in the Community Projects Fund (CPF), and \$5 million in the Universal Pre-kindergarten Fund. The closing fund balance excludes \$1.68 billion on deposit in the refund reserve account at the end of the 2001-02 fiscal year.

General Fund receipts, including transfers from other funds, totaled \$41.14 billion for the 2001-02 fiscal year, an increase of \$1.26 billion (3.3 percent) over fiscal year 2000-01 results. Receipts results for fiscal year 2001-02 reflect refund reserve transactions that had the effect of reducing personal income tax receipts in the 2001-02 fiscal year and increasing them in the 2002-03 fiscal year, as discussed previously in the AIS. In comparison to the 2001-02 Financial Plan projected in January 2002 (the January Financial Plan), receipts were \$1.3 billion lower than projected. When the refund reserve is adjusted for the set-aside of \$1.07 billion for economic uncertainties, General Fund receipts and transfers from other funds totaled \$42.21 billion, a decrease of \$225 million from the January Financial Plan (the January Financial Plan also adjusted the refund reserve for a projected deposit of \$1.13 billion for economic uncertainties). The decrease of \$225 million in receipts reflected lower-than-expected personal income and business tax collections due from 2001 tax year liability.

General Fund disbursements, including transfers to other funds, totaled \$41.22 billion for the 2001-02 fiscal year, an increase of \$1.52 billion (3.8 percent) from the 2000-01 fiscal year. In comparison to the January Financial Plan, disbursements were \$233 million lower than projected. A portion of the lower amount of spending was attributable to the timing of payments and these payments are expected to occur in the 2002-03 fiscal year.

### ***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 excluded \$3.52 billion on deposit in the tax refund reserve account at the end of the 2000-01 fiscal year. The State retained \$2.65 billion of the \$3.52 billion balance for reserves, with \$2.4 billion set aside for economic uncertainties and \$250 million deposited into the Debt Reduction Reserve Fund in 2001-02. The remaining balance of \$865 million was comprised of \$293 million in resources to pay for costs incurred in 2000-01 but disbursed in 2001-02, \$521 million from the Local Government Assistance Corporation (LGAC) that was used to pay tax refunds during fiscal year 2001-02 and \$51 million in additional funds used to pay refunds related to the Earned Income Tax Credit and the Dependent Care Tax Credit.

The 2000-01 General Fund closing balance also excluded \$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. 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.

## State Funds

The State Funds Financial Plan comprises that portion of the All Governmental Funds Plan supported exclusively by State taxes, fees, and other resources. It includes the General Fund and State-financed special revenue, capital, and debt service funds, but excludes Federal aid.

State Funds spending declined from \$57 billion in 2001-02 to \$55.8 billion in 2002-03 (after reflecting \$1.9 billion in payment delays), a decrease of \$1.2 billion. The General Fund portion of State Funds declined by \$3.0 billion, offset in part by \$1.8 billion in higher spending for programs supported by special revenue, capital projects, and debt service funds. Spending in State-supported special revenue funds for health care increased by \$1.6 billion, reflecting in large part the refinancing of health programs that were previously paid for in the General Fund. Other sources of annual growth included increases in transportation-related spending (\$208 million), higher support for schools financed from the Lottery Fund (\$282 million), and growth in the operations of State agencies paid for outside the General Fund (\$382 million, with over half the growth in SUNY).

After adjusting for the 2002-03 payment deferrals, adjusted State Funds spending of \$57.7 billion would have grown by \$671 million over 2001-02 and by \$3.5 billion from 2000-01. In recent years, the State has financed a larger portion of its operations outside of the General Fund, accounting for the growth in State Funds even as General Fund spending has remained flat. In 2002-03, the “non-General Fund” fund types (special revenue, capital projects, and debt service) comprised 31 percent of State-supported spending (after adjusting for payment deferrals), up from 27 percent in 2000-01.

Major programmatic changes that have increased activity outside the General Fund include the financing of certain Medicaid and other health care costs under the Health Care Reform Act, the creation of the School Tax Relief program that is funded by directing personal income tax receipts to a special revenue fund, and growth in the 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 and other transit entities.

## **All Funds**

The All Governmental Funds Financial Plan (“All Funds”) includes Federal aid received by the State, making it the broadest measure of the State budget. The All Funds Financial Plan records the operations of the four governmental fund types: the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

All Funds spending totaled \$89.1 billion in 2002-03, (after reflecting \$1.9 billion in payment delays). The Federal component of All Funds spending grew by \$5.2 billion, which, when offset by the State Funds decline of \$1.2 billion described above, produced an annual increase of \$4.0 billion over 2001-02 results. After including the \$1.9 billion in 2002-03 payment deferrals, All Governmental Fund spending would have totaled \$91.0 billion, an increase of \$5.9 billion (7 percent) over 2001-02.

On an All Funds basis, Medicaid spending increased by \$3.5 billion over the prior year, accounting for roughly 85 percent of the annual growth in All Funds. Federal aid financed \$2.4 billion of the higher spending in Medicaid and consisted of underlying program growth (inflation, caseload, etc.), spending related to the Disaster Relief Medicaid program, growth in Medicaid expansion programs including Family Health Plus, spending for workforce recruitment and retention programs, and additional upper payment limit and intergovernmental transfers.

Other significant areas of Federal growth included: Federal reimbursement for costs at the World Trade Center site (\$599 million), one-time TANF resources to support welfare and education programs (\$706 million), growth in State operations funded by Federal revenue (\$359 million), and increased aid for education under Title I (\$260 million).

**COMPARISON OF ACTUAL GENERAL FUND RECEIPTS AND DISBURSEMENTS  
2000-01 THROUGH 2002-03  
(MILLIONS OF DOLLARS)**

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03 Actual</u>	<u>2002-03 Adjusted</u>
<b>OPENING FUND BALANCE (1) (2)</b>	<u>917</u>	<u>1,110</u>	<u>1,032</u>	<u>1,032</u>
<b>Personal Income Tax (3)</b>	23,566	25,854	21,006	21,006
<b>User Taxes and Fees:</b>				
Sales and Use Tax	6,272	6,131	6,328	6,328
Cigarette and Tobacco Tax	528	532	446	446
Motor Fuel Tax	17	0	0	0
Motor Vehicle Fees	337	185	67	67
Alcoholic Beverage Taxes and Fees	211	212	180	180
Container Tax	0	0	0	0
Auto Rental Tax	39	38	42	42
<b>Subtotal</b>	<u>7,404</u>	<u>7,098</u>	<u>7,063</u>	<u>7,063</u>
<b>Business Taxes:</b>				
Corporation Franchise Tax	2,335	1,515	1,407	1,407
Corporation and Utilities Taxes	817	972	860	860
Insurance Taxes	584	633	704	704
Bank Tax	506	496	409	409
Petroleum Business Tax	86	0	0	0
<b>Subtotal</b>	<u>4,328</u>	<u>3,616</u>	<u>3,380</u>	<u>3,380</u>
<b>Other Taxes:</b>				
Estate and Gift Taxes	759	767	708	708
Real Property Gains Tax	6	5	5	5
Pari-mutuel Tax	29	30	29	29
Other Taxes	1	1	1	1
<b>Subtotal</b>	<u>795</u>	<u>803</u>	<u>743</u>	<u>743</u>
<b>Miscellaneous Receipts &amp; Federal Grants</b>	1,553	1,625	2,091	3,991
<b>Transfers from Other Funds:</b>				
Sales Tax in Excess of LGAC Debt Service	1,758	1,750	1,919	1,919
All Other Transfers	479	398	1,194	1,194
<b>Subtotal</b>	<u>2,237</u>	<u>2,148</u>	<u>3,113</u>	<u>3,113</u>
<b>TOTAL RECEIPTS</b>	<u>39,883</u>	<u>41,144</u>	<u>37,396</u>	<u>39,296</u>
<b>Grants to Local Governments</b>	26,667	27,835	24,887	26,713
<b>State Operations</b>	7,604	7,839	7,678	7,715
<b>General State Charges</b>	2,567	2,650	2,699	2,732
<b>Debt Service</b>	1	0	0	0
<b>Transfers to Other Funds:</b>				
In Support of Debt Service	2,215	2,086	1,496	1,496
In Support of Capital Projects	285	289	166	170
All Other Transfers	363	523	687	687
<b>Subtotal</b>	<u>2,863</u>	<u>2,898</u>	<u>2,349</u>	<u>2,353</u>
<b>TOTAL DISBURSEMENTS</b>	<u>39,702</u>	<u>41,222</u>	<u>37,613</u>	<u>39,513</u>
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	<u>181</u>	<u>(78)</u>	<u>(217)</u>	<u>(217)</u>
<b>CLOSING FUND BALANCE</b>	<u>1,098</u>	<u>1,032</u>	<u>815</u>	<u>815</u>

Source: NYS DOB

(1) 2000-01 opening fund balance reflects reclassification of DRRF from General Fund to Capital Projects Fund.

(2) 2001-02 opening balance reflects reclassification of the Fringe Benefit Escrow Fund from the Agency Group Fund to the General Fund.

(3) Includes \$4.2 billion in receipts that flow into the Revenue Bond Tax Fund and are then transferred to the General Fund.

**CASH FINANCIAL PLAN  
STATE FUNDS  
2000-2001  
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	917	879	185	448	2,429
<b>Receipts:</b>					
Taxes	36,093	4,532	1,237	2,746	44,608
Miscellaneous receipts	1,553	6,520	1,672	860	10,605
Federal grants	0	0	0	0	0
<b>Total receipts</b>	<u>37,646</u>	<u>11,052</u>	<u>2,909</u>	<u>3,606</u>	<u>55,213</u>
<b>Disbursements:</b>					
Grants to local governments	26,667	6,444	401	0	33,512
State operations	7,605	3,627	0	13	11,245
General State charges	2,567	167	0	0	2,734
Debt service	1	0	0	4,082	4,083
Capital projects	0	9	2,600	0	2,609
<b>Total disbursements</b>	<u>36,840</u>	<u>10,247</u>	<u>3,001</u>	<u>4,095</u>	<u>54,183</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	2,237	652	376	4,751	8,016
Transfers to other funds	(2,862)	(143)	(619)	(4,288)	(7,912)
Bond and note proceeds	0	0	219	0	219
<b>Net other financing sources (uses)</b>	<u>(625)</u>	<u>509</u>	<u>(24)</u>	<u>463</u>	<u>323</u>
<b>Change in fund balance</b>	<u>181</u>	<u>1,314</u>	<u>(116)</u>	<u>(26)</u>	<u>1,353</u>
<b>Closing fund balance</b>	<u>1,098</u>	<u>2,193</u>	<u>69</u>	<u>422</u>	<u>3,782</u>

Source: NYS DOB

**CASH FINANCIAL PLAN  
STATE FUNDS  
2001-2002  
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	<u>1,110</u>	<u>2,193</u>	<u>69</u>	<u>422</u>	<u>3,794</u>
<b>Receipts:</b>					
Taxes	37,371	2,779	1,505	2,659	44,314
Miscellaneous receipts	1,625	7,003	1,443	614	10,685
Federal grants	0	0	0	0	0
<b>Total receipts</b>	<u>38,996</u>	<u>9,782</u>	<u>2,948</u>	<u>3,273</u>	<u>54,999</u>
<b>Disbursements:</b>					
Grants to local governments	27,835	7,612	306	0	35,753
State operations	7,839	3,689	0	6	11,534
General State charges	2,650	259	0	0	2,909
Debt service	0	0	0	4,143	4,143
Capital projects	0	6	2,633	0	2,639
<b>Total disbursements</b>	<u>38,324</u>	<u>11,566</u>	<u>2,939</u>	<u>4,149</u>	<u>56,978</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	2,148	818	313	4,742	8,021
Transfers to other funds	(2,898)	(137)	(755)	(4,119)	(7,909)
Bond and note proceeds	0	0	211	0	211
<b>Net other financing sources (uses)</b>	<u>(750)</u>	<u>681</u>	<u>(231)</u>	<u>623</u>	<u>323</u>
<b>Change in fund balance</b>	<u>(78)</u>	<u>(1,103)</u>	<u>(222)</u>	<u>(253)</u>	<u>(1,656)</u>
<b>Closing fund balance</b>	<u>1,032</u>	<u>1,090</u>	<u>(153)</u>	<u>169</u>	<u>2,138</u>

Source: NYS DOB

**CASH FINANCIAL PLAN  
STATE FUNDS  
2002-2003  
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	<u>1,032</u>	<u>1,090</u>	<u>(153)</u>	<u>169</u>	<u>2,138</u>
<b>Receipts:</b>					
Taxes	27,977	4,205	1,690	6,804	40,676
Miscellaneous receipts	2,091	9,428	1,677	807	14,003
Federal grants	0	0	0	0	0
<b>Total receipts</b>	<u>30,068</u>	<u>13,633</u>	<u>3,367</u>	<u>7,611</u>	<u>54,679</u>
<b>Disbursements:</b>					
Grants to local governments	24,887	10,036	399	0	35,322
State operations	7,678	4,068	0	7	11,753
General State charges	2,700	357	0	0	3,057
Debt service	0	0	0	3,038	3,038
Capital projects	0	4	2,579	0	2,583
<b>Total disbursements</b>	<u>35,265</u>	<u>14,465</u>	<u>2,978</u>	<u>3,045</u>	<u>55,753</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	7,329	854	183	4,384	12,750
Transfers to other funds	(2,349)	(218)	(1,224)	(8,961)	(12,752)
Bond and note proceeds	0	0	245	0	245
<b>Net other financing sources (uses)</b>	<u>4,980</u>	<u>636</u>	<u>(796)</u>	<u>(4,577)</u>	<u>243</u>
<b>Change in fund balance</b>	<u>(217)</u>	<u>(196)</u>	<u>(407)</u>	<u>(11)</u>	<u>(831)</u>
<b>Closing fund balance</b>	<u>815</u>	<u>894</u>	<u>(560)</u>	<u>158</u>	<u>1,307</u>

Source: NYS DOB

**CASH FINANCIAL PLAN  
STATE FUNDS  
2002-2003 ADJUSTED FOR DELAYS  
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	1,032	1,090	(153)	169	2,138
<b>Receipts:</b>					
Taxes	27,977	4,205	1,690	6,804	40,676
Miscellaneous receipts	3,991	9,428	1,677	807	15,903
Federal grants	0	0	0	0	0
<b>Total receipts</b>	<u>31,968</u>	<u>13,633</u>	<u>3,367</u>	<u>7,611</u>	<u>56,579</u>
<b>Disbursements:</b>					
Grants to local governments	26,713	10,036	399	0	37,148
State operations	7,715	4,068	0	7	11,790
General State charges	2,737	357	0	0	3,094
Debt service	0	0	0	3,038	3,038
Capital projects	0	4	2,579	0	2,583
<b>Total disbursements</b>	<u>37,165</u>	<u>14,465</u>	<u>2,978</u>	<u>3,045</u>	<u>57,653</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	7,329	854	183	4,384	12,750
Transfers to other funds	(2,349)	(218)	(1,224)	(8,961)	(12,752)
Bond and note proceeds	0	0	245	0	245
<b>Net other financing sources (uses)</b>	<u>4,980</u>	<u>636</u>	<u>(796)</u>	<u>(4,577)</u>	<u>243</u>
<b>Change in fund balance</b>	<u>(217)</u>	<u>(196)</u>	<u>(407)</u>	<u>(11)</u>	<u>(831)</u>
<b>Closing fund balance</b>	<u>815</u>	<u>894</u>	<u>(560)</u>	<u>158</u>	<u>1,307</u>

Source: NYS DOB



**CASH FINANCIAL PLAN  
ALL GOVERNMENTAL FUNDS  
2000-2001  
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	917	762	(19)	448	2,108
<b>Receipts:</b>					
Taxes	36,093	4,532	1,237	2,746	44,608
Miscellaneous receipts	1,553	6,646	1,674	860	10,733
Federal grants	0	24,273	1,509	0	25,782
<b>Total receipts</b>	<u>37,646</u>	<u>35,451</u>	<u>4,420</u>	<u>3,606</u>	<u>81,123</u>
<b>Disbursements:</b>					
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
<b>Total disbursements</b>	<u>36,840</u>	<u>34,360</u>	<u>4,458</u>	<u>4,095</u>	<u>79,753</u>
<b>Other financing sources (uses):</b>					
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
<b>Net other financing sources (uses)</b>	<u>(625)</u>	<u>346</u>	<u>(32)</u>	<u>463</u>	<u>152</u>
<b>Change in fund balance</b>	<u>181</u>	<u>1,437</u>	<u>(70)</u>	<u>(26)</u>	<u>1,522</u>
<b>Closing fund balance</b>	<u>1,098</u>	<u>2,199</u>	<u>(89)</u>	<u>422</u>	<u>3,630</u>

Source: NYS OSC (reflecting amounts published in the Cash Basis Report for 2000-01)

**CASH FINANCIAL PLAN  
ALL GOVERNMENTAL FUNDS  
2001-2002  
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	1,110	2,199	(89)	422	3,642
<b>Receipts:</b>					
Taxes	37,371	2,779	1,505	2,659	44,314
Miscellaneous receipts	1,625	7,129	1,444	614	10,812
Federal grants	0	26,698	1,423	0	28,121
<b>Total receipts</b>	<u>38,996</u>	<u>36,606</u>	<u>4,372</u>	<u>3,273</u>	<u>83,247</u>
<b>Disbursements:</b>					
Grants to local governments	27,835	31,270	650	0	59,755
State operations	7,839	6,565	0	6	14,410
General State charges	2,650	416	0	0	3,066
Debt service	0	0	0	4,143	4,143
Capital projects	0	6	3,664	0	3,670
<b>Total disbursements</b>	<u>38,324</u>	<u>38,257</u>	<u>4,314</u>	<u>4,149</u>	<u>85,044</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	2,148	2,530	313	4,742	9,733
Transfers to other funds	(2,898)	(2,031)	(761)	(4,119)	(9,809)
Bond and note proceeds	0	0	211	0	211
<b>Net other financing sources (uses)</b>	<u>(750)</u>	<u>499</u>	<u>(237)</u>	<u>623</u>	<u>135</u>
<b>Change in fund balance</b>	<u>(78)</u>	<u>(1,152)</u>	<u>(179)</u>	<u>(253)</u>	<u>(1,662)</u>
<b>Closing fund balance</b>	<u>1,032</u>	<u>1,047</u>	<u>(268)</u>	<u>169</u>	<u>1,980</u>

Source: NYS OSC (reflecting amounts published in the Cash Basis Report for 2001-02)

**CASH FINANCIAL PLAN  
ALL GOVERNMENTAL FUNDS  
2002-2003  
(millions of dollars)**

	<b>General Fund</b>	<b>Special Revenue Funds</b>	<b>Capital Projects Funds</b>	<b>Debt Service Funds</b>	<b>(MEMO) Total</b>
<b>Opening fund balance</b>	1,032	1,047	(268)	169	1,980
<b>Receipts:</b>					
Taxes	27,977	4,205	1,690	6,804	40,676
Miscellaneous receipts	2,091	9,580	1,678	807	14,156
Federal grants	0	31,675	1,567	0	33,242
<b>Total receipts</b>	<u>30,068</u>	<u>45,460</u>	<u>4,935</u>	<u>7,611</u>	<u>88,074</u>
<b>Disbursements:</b>					
Grants to local governments	24,887	38,249	855	0	63,991
State operations	7,678	7,302	0	7	14,987
General State charges	2,700	541	0	0	3,241
Debt service	0	0	0	3,038	3,038
Capital projects	0	4	3,795	0	3,799
<b>Total disbursements</b>	<u>35,265</u>	<u>46,096</u>	<u>4,650</u>	<u>3,045</u>	<u>89,056</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	7,329	3,034	183	4,384	14,930
Transfers to other funds	(2,349)	(2,459)	(1,236)	(8,961)	(15,005)
Bond and note proceeds	0	0	245	0	245
<b>Net other financing sources (uses)</b>	<u>4,980</u>	<u>575</u>	<u>(808)</u>	<u>(4,577)</u>	<u>170</u>
<b>Change in fund balance</b>	<u>(217)</u>	<u>(61)</u>	<u>(523)</u>	<u>(11)</u>	<u>(812)</u>
<b>Closing fund balance</b>	<u>815</u>	<u>986</u>	<u>(791)</u>	<u>158</u>	<u>1,168</u>

Source: NYS OSC (reflecting amounts published in the Cash Basis Report for 2002-03)

**CASH FINANCIAL PLAN  
ALL GOVERNMENTAL FUNDS  
2002-2003 ADJUSTED FOR DELAYS  
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	<u>1,032</u>	<u>1,047</u>	<u>(268)</u>	<u>169</u>	<u>1,980</u>
<b>Receipts:</b>					
Taxes	27,977	4,205	1,690	6,804	40,676
Miscellaneous receipts	3,991	9,580	1,678	807	16,056
Federal grants	0	31,675	1,567	0	33,242
<b>Total receipts</b>	<u>31,968</u>	<u>45,460</u>	<u>4,935</u>	<u>7,611</u>	<u>89,974</u>
<b>Disbursements:</b>					
Grants to local governments	26,713	38,249	855	0	65,817
State operations	7,715	7,302	0	7	15,024
General State charges	2,737	541	0	0	3,278
Debt service	0	0	0	3,038	3,038
Capital projects	0	4	3,795	0	3,799
<b>Total disbursements</b>	<u>37,165</u>	<u>46,096</u>	<u>4,650</u>	<u>3,045</u>	<u>90,956</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	7,329	3,034	183	4,384	14,930
Transfers to other funds	(2,349)	(2,459)	(1,236)	(8,961)	(15,005)
Bond and note proceeds	0	0	245	0	245
<b>Net other financing sources (uses)</b>	<u>4,980</u>	<u>575</u>	<u>(808)</u>	<u>(4,577)</u>	<u>170</u>
<b>Change in fund balance</b>	<u>(217)</u>	<u>(61)</u>	<u>(523)</u>	<u>(11)</u>	<u>(812)</u>
<b>Closing fund balance</b>	<u>815</u>	<u>986</u>	<u>(791)</u>	<u>158</u>	<u>1,168</u>

Source: NYS DOB

## GAAP-Basis Results for Prior Fiscal Years

The Comptroller prepares general purpose financial statements on a GAAP basis for governments as promulgated by the Governmental Accounting Standards Board. The statements, released in July each year, contain a Combined Balance Sheet and Combined Statement of Revenues, Expenditures and Changes in Fund Balances. These statements are audited by independent certified public accountants. The Comptroller also prepares and issues a Comprehensive Annual Financial Report, which includes a financial overview, the general purpose financial statements, individual fund combining statements, and a statistical section. For information regarding the State's accounting and financial reporting requirements, see the section entitled "State Organization—Accounting, Financial Reporting and Budgeting."

Both the Basic Financial Statements and Comprehensive Annual Financial Reports for prior fiscal years can be obtained from the Office of the State Comptroller, 110 State Street, Albany, NY 12236 or at the OSC website at [www.osc.state.ny.us](http://www.osc.state.ny.us). The following table summarizes recent governmental funds results on a GAAP basis.

**Comparison of Actual GAAP-Basis Operating Results  
Surplus/(Deficit)  
(millions of dollars)**

<u>General Fund</u>	<u>Revenue Funds</u>	<u>Service Funds</u>	<u>Projects Funds</u>	<u>Governmental Funds</u>	<u>General Fund Surplus/(Deficit)</u>
(3,418)	(970)	76	(134)	(4,446)	493
245	1,252	(20)	109	1,586	3,910 **
2,229	665	38	99	3,031	3,925

\*\* As restated in 2002.

The Basic Financial Statements for 2002-03 are expected to be available from the State Comptroller in July 2003. Readers should note that the 2002-03 Statements will be prepared in accordance with Governmental Accounting Standards Board (GASB) Statement 34 ("GASB 34"). GASB 34 will significantly affect the accounting and financial reporting for all state and local governments. For the State the standard will be effective for its fiscal year ending March 31, 2003. The new financial reporting model will redefine the current financial reporting model by changing its focus to major funds, rather than fund types, require a new section called management discussion and analysis (the "MD&A"), and contain new government-wide financial statements which will include all revenues and all costs of providing services each year. The new Basic Financial Statements and the MD&A will be issued in place of the general purpose financial statements. The new statements will also report on all current assets and liabilities and also long-term assets and liabilities, such as capital assets, including infrastructure (e.g., roads and bridges).

## Economic and Demographics

The following section presents economic information which may be relevant in evaluating the future prospects of the State economy. **For a discussion of DOB's current economic forecast supporting the Enacted Budget Financial Plan, please see the "Enacted Budget Financial Plan" in this AIS.**

The demographic and statistical data in this section, 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

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The national economy has remained in an adjustment phase in the wake of the bursting of the high-tech/stock market bubble, a phase which has been prolonged by the uncertainty surrounding national security and the conflict in Iraq. Over 500,000 of the 2.1 million jobs lost since the start of the 2001 recession were lost between January and April 2003 alone. The U.S. economy grew well below its potential growth rate during the fourth quarter of 2002 and the first quarter of 2003. However, with the war now ended, the nation's economic recovery is expected to gain momentum, particularly toward the end of the year, resulting in real U.S. GDP growth 2.3 percent for all of 2003. Buttressed by low inflation and high productivity growth, the national economy is expected to grow 3.4 percent during 2004, slightly above its potential.

The increase in output growth projected for the second half of this year is expected to be fueled by a rebound in private business investment. Investment growth will be supported by corporate profits growth of 12.7 percent in 2003, following a decline of 0.7 percent for 2002. However, the increase in investment will not be accompanied by a significant amount of job creation. Although the increase in Federal defense spending for the war in Iraq contributed positively to GDP growth, the impact of the war on the labor market was clearly negative, with 220,000 reservists having been called up for duty as of April 2003. DOB now expects no net growth in employment for 2003, following a decline of 0.9 percent for 2002. The unemployment rate is projected to remain at 5.8 percent. Consistent with a weak labor market, wages and salaries are expected to grow only 3.6 percent for 2003, a significant improvement over the 1.1 percent growth experienced in 2002, but well below historical average rates. Total personal income is expected to grow 3.8 percent for this year, following growth of 2.8 percent for 2002.

The reliance on strengthening demand from within the business sector poses a significant risk to the forecast. If business sector financial conditions do not improve, hiring may be delayed, leading to an even weaker labor market, and, in turn, weaker consumption growth. In addition, slower global growth than expected could result in lower than anticipated exports. On the other hand, given the current and lagged effects of expansionary monetary and fiscal policy, the economy could grow faster than expected. Better than expected financial conditions may encourage firms to invest more and hire more workers than expected. A lower dollar could lead to higher exports, and therefore, higher output growth.

**Economic Indicators for the United States**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003(1)</u>
<b>Gross Domestic Product</b>					
Nominal (billions \$)	9,274.3	9,824.6	10,082.1	10,446.2	10,860.5
Percent Change	5.6	5.9	2.6	3.6	4.0
<b>Real (billions \$)</b>					
Real (billions \$)	8,859.0	9,191.4	9,214.5	9,439.9	9,658.6
Percent Change	4.1	3.8	0.3	2.4	2.3
<b>Personal Income</b>					
(billions \$)	7,786.5	8,406.6	8,685.3	8,929.1	9,272.2
Percent Change	4.9	8.0	3.3	2.8	3.8
<b>Nonagricultural Employment</b>					
(millions)	128.9	131.7	131.9	130.8	130.8
Percent Change	2.4	2.2	0.2	(0.9)	(0.0)
<b>Unemployment Rate (%)</b>					
Unemployment Rate (%)	4.2	4.0	4.8	5.8	5.8
<b>Consumer Price Index</b>					
(1982-84=100)	166.6	172.2	177.1	179.9	184.4
Percent Change	2.2	3.4	2.8	1.6	2.5

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 NYS DOB, based on National Income and Product Account data through April 2003, except for nonagricultural employment and unemployment rate, which are based on U.S. Department of Labor data through early May 2003.

## The New York Economy

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The September 11<sup>th</sup> terrorist attack had a more severe impact on the New York economy than on any other state. It is therefore not surprising that the State economy is only now emerging from the most recent recession. State employment is projected to rise 0.3 percent in 2003, following a steep decline of 1.8 percent in 2002. Similarly, wage income is estimated to rise 2.0 percent in 2003, following a decline of 3.8 percent in 2002. Both wage and total personal income growth for 2003 are expected to be well below historical averages, due in part to further declines in bonus payments for the first quarter of 2003 on a year-over-year basis. The unemployment rate 2002 for was 6.1 percent and is expected to remain virtually unchanged for 2003.

In addition to the risks associated with the national economic forecast, there also exist specific risks to the State economy. Chief among them is a more prolonged downturn in the financial sector than is currently projected, producing sharper declines in both employment and compensation. Moreover, significant numbers of business relocations out of the State would likely result in slower job and income growth as well. In contrast, a stronger national economy than expected could result in stronger equity market growth and, in turn, a stronger demand for financial market services, fueling stronger income growth in that sector.

## Economic Indicators for New York State

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002(1)</u>	<u>2003(1)</u>
Personal Income					
(billions \$)	616.3	665.8	684.7	684.5	704.8
Percent Change	4.4	8.0	2.8	0.0	3.0
Nonagricultural Employment					
(thousands)	8,455.9	8,635.2	8,591.7	8,439.4	8,460.6
Percent Change	2.7	2.1	(0.5)	(1.8)	0.3
Unemployment Rate (%)	5.2	4.6	4.9	6.1	6.0

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

(1) Personal income and employment data for 2002 represent NYS DOB staff estimates; data for 2003 are projected by NYS DOB based on data through early May 2003.

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 financial activities, information, education, and health 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. Beginning in 2003, Federal and state government employment and wage statistics are being reported in accordance with the new NAICS industrial classification system

*Services:* Under NAICS, the services industries includes professional and business services, education and healthcare, leisure and hospitality services, and other services. These industries account for more than four of every ten nonagricultural jobs in New York, and have a noticeably higher proportion of total jobs than does the rest of the nation. With the exception of the professional and business services sector, the services industries tend to be relatively low-paying, accounting for only about one third of total State wages.

*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, Transportation & Utilities:* As defined under NAICS, the trade, transportation, and utilities sector accounts for the largest component of State nonagricultural employment, but only the third largest when measured by income share. This sector accounts for slightly less employment and wages for the State than for the nation. This sector tends to offer low-income employment, particularly within the retail trade industry.

*Financial Activities:* 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 comprise the second 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 industries. The financial activities sector share of total wages is particularly large for the State 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.

**Composition of Nonagricultural Employment and Wages by Major NIACS Sector for 2001  
(Percent)**

	Employment		Wages	
	State	United States	State	United States
Mining	0.0	0.4	0.0	0.7
Construction	3.9	5.2	4.0	5.6
Manufacturing	7.9	12.0	7.7	14.5
Trade, Transportation & Utilities	17.6	19.3	13.4	17.2
Information	3.7	2.6	5.4	4.3
Financial Activities	8.7	5.8	21.4	9.1
Professional and Business Services	12.9	12.4	16.1	15.2
Educational and Health Services	16.3	11.7	11.6	10.5
Leisure and Hospitality	7.4	9.0	3.4	3.9
Other Services	4.9	4.8	2.5	2.8
Government	16.6	16.8	14.7	16.3

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

## 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 had been slower to recover. However, the situation subsequently improved. 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. In 2001, the September 11th attack resulted in a slowdown in New York that was more severe than in the nation as a whole. 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.

	Comparative Population Figures			US	
	Total Population (000s)	State % Change from Preceding Period	Percentage of U.S. Population	Total Population (000s)	% 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
2002 (prelim.)	19,158	1.0	6.6	290,977	3.4

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.

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

	Employment (000s)		State Percentage of US Employment	Unemployment Rate (%)	
	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	8,635	131,720	6.6	4.9	4.0
2002 (prelim.)	8,440	130,791	6.5	6.1	5.8

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.

	<b>Per Capita Personal Income (Dollars)</b>		
	<b><u>State</u></b>	<b><u>US</u></b>	<b><u>State/US</u></b>
1960	2,788	2,276	1.22
1970	4,887	4,095	1.19
1980	11,095	10,183	1.09
1990	23,292	19,572	1.19
2000	35,041	29,760	1.18
2002 (prelim.)	36,043	30,941	1.16

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

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## **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 includes general obligation bonds issued on and after April 1, 2000. The State Constitution also provides that general obligation bonds must be paid in equal annual principal 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. General obligation housing bonds must be paid within 50 years after issuance, with principal commencing no more than three years after issuance. However, the Debt Reform Act of 2000 limits the maximum term of State-supported bonds, including general obligation bonds, to thirty years (see "Limitations on State-Supported Debt – Debt Reform Act of 2000" below).

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 date of issuance and cannot be refunded or refinanced beyond such period. However, since 1990, the State's ability to issue TRANs has been limited due to the 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, and 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 2003-04 fiscal year.

Pursuant to specific constitutional authorization, the State may also directly guarantee certain public authority obligations. The only current authorization 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, 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. In February of 2003, JDA issued \$30 million of State Guaranteed Commercial Paper Notes. It is anticipated that the audit report as of March 31, 2003 will indicate that JDA will have a positive fund (net worth) balance. The State does not anticipate that it will be called upon to make any payments pursuant to the State guarantee in the 2003-04 fiscal year.

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

## **State Personal Income Tax Revenue Bond Financing**

Legislation enacted in 2001 provided for the issuance of State Personal Income Tax Revenue Bonds by the Urban Development Corporation, the New York State Housing Finance Agency, the New York State Thruway Authority, the Dormitory Authority of the State of New York, and the New York State Environmental Facilities Corporation (collectively the "Authorized Issuers"). The first State Personal Income Tax Revenue Bonds were issued on May 9, 2002, and since that time, all of the Authorized Issuers have issued State Personal Income Tax Revenue Bonds. As of March 31, 2003, approximately \$2.4 billion of State Personal Income Tax Revenue Bonds have been issued and are outstanding. The outstanding State Personal Income Tax Revenue Bonds are included in the tables under the respective capital programs for which the proceeds were issued. State Personal Income Tax Revenue Bonds are expected to continue to be the primary financing vehicle for a broad range of State-supported debt programs authorized to be secured by service contract or lease-purchase payments.

The legislation provides that 25 percent of State personal income tax receipts (excluding refunds owed to taxpayers and deposits to the STAR Fund) be deposited to the Revenue Bond Tax Fund for purposes of making debt service payments on these bonds, with excess amounts returned to the General Fund. In the event that (i) the State Legislature fails to appropriate amounts required to make all debt service payments on the State Personal Income Tax Revenue Bonds or (ii) having been appropriated and set aside pursuant to a certificate of the Director of the Budget, financing agreement payments have not been made when due on the bonds, the legislation requires that personal income tax receipts continue to be deposited to the Revenue Bond Tax Fund until amounts on deposit in the Fund equal the greater of 25 percent of annual personal income tax receipts or \$6 billion.

## **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 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.

Subject to legislative authorization, the State may also participate 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 the issuance of COPs and centralized State control of this equipment acquisition program. COPs represent 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 expects that State Personal Income Tax Revenue Bonds will be used to finance the acquisition of equipment that are authorized to be issued under this program in 2003-04.

The State also enters into numerous capital lease-purchase agreements covering electronic data processing and telecommunications equipment and 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 2003-04 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. See "Authorities and Localities – the City of New York."

Legislation enacted with the 2003-04 Budget relating to the Local Government Assistance Corporation (see "Local Government Assistance Corporation" below) and NYC MAC intends that the State assume responsibility for debt service payments on the remaining \$2.5 billion in outstanding NYC MAC bonds. Thirty annual payments of \$170 million from sales tax receipts dedicated to LGAC are authorized to be pledged to a New York City-created public benefit corporation allowing the maturity of

the debt to be extended through 2034, well beyond the original 2008 maturity of the outstanding NYC MAC debt. The Executive believes that the structure may be flawed and is continuing to evaluate the constitutional and legal issues raised by the legislation, the implications on the State's Debt Reform Act of 2000 (see below), and the impact on LGAC bondholders. Tables contained in this AIS do not include the issuance of such debt.

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 a moral obligation provision.

## **Contingent Contractual-Obligation Financing**

The State may also enter into statutorily authorized contingent contractual-obligation financings under which the State may enter into service contracts obligating it to pay debt service on bonds, subject to annual appropriation, in the event there are shortfalls in revenues from other non-State resources pledged, or otherwise available, to pay the debt service on the bonds. The State has never been required to make any payments, and does not expect to make payments, under this financing arrangement in the 2003-04 fiscal year.

Pursuant to legislation enacted in 1985, the State entered into service contracts establishing a contingent contractual-obligation under financings related to the Secured Hospital Program for the purpose of enabling certain financially distressed not-for-profit hospitals to gain access to the capital markets. The State service contracts obligate the State to pay debt service, subject to annual appropriations, on bonds 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) and bonds issued by DASNY, in the event there are shortfalls of revenues from other sources, which include hospital payments made under loan agreements between DASNY and the hospitals, and certain reserve funds held by the applicable trustees for the bonds. As of March 31, 2003, there were 11 secured hospital borrowers and a total of \$975 million in bonds outstanding with annual debt service payments of \$85 million due during State fiscal year 2003-04. The State has never been required to make any payments pursuant to this financing arrangement.

The statutory authorization to issue bonds under the Secured Hospital Program expired on March 1, 1998. However, legislation enacted in 2002 allowed certain eligible secured hospital borrowers with outstanding secured hospital debt to refinance and extend the maturity of their debt. Under this authorization, one eligible borrower, North General Hospital, refinanced its outstanding debt. As of March 31, 2003, there were \$138 million in outstanding secured hospital bonds attributable to North General, with annual debt service payments of \$7 million due during State fiscal year 2003-04. The legislative authorization for such refinancings expires on December 31, 2004.

In April 2003, one eligible borrower, St. Agnes Hospital, ceased operations and surrendered its operating certificate. DASNY has commenced an action against St. Agnes Hospital to foreclose upon certain property on which the Authority holds the mortgage, which, in addition to the pledge of certain payments under the loan agreement between DASNY and St. Agnes Hospital, secure St. Agnes' payments to DASNY. As of March 31, 2003, there were approximately \$36 million in outstanding secured hospital bonds attributable to St. Agnes, with annual debt service payments of \$3 million due in State fiscal year 2003-04.

The State anticipates that the annual debt service payments due during the State's 2003-04 fiscal year on all outstanding Secured Hospital Program bonds will be paid pursuant to the loan agreements between the hospitals and DASNY or from other revenue sources, which may include the reserve funds for the

bonds. Thus, the State does not anticipate being required to make any payments under the Secured Hospital Program during the 2003-04 fiscal year.

Legislation enacted with the 2003-04 Budget authorizes the creation of a bankruptcy-remote corporation to securitize all or a portion of the State's future share of tobacco settlement payments. The corporation is expected to issue debt in an amount not to exceed the statutory limitation of \$4.2 billion (net of costs of issuance and reserve funds) that will be secured by payments from the tobacco industry under the master settlement agreement (MSA) and a contingent-contractual obligation on behalf of the State to pay debt service if MSA payments prove insufficient.

## **Local Government Assistance Corporation**

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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 also dedicated revenues equal to the first one percent of the State sales and use tax to pay debt service on these bonds. As of June 1995, LGAC had issued bonds and notes to provide net proceeds of \$4.7 billion, completing the program. 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 imposed a limitation on the annual seasonal borrowing of the State except in cases where the Governor and the legislative leaders have certified the need for additional seasonal borrowing, based on emergency or extraordinary factors or factors unanticipated at the time of adoption of the budget, and provided a schedule for eliminating it over time. Any seasonal borrowing is required by law to be eliminated by the fourth fiscal year after the limit was first exceeded (i.e., no TRAN seasonal borrowing in the fifth year). This provision limiting the State's seasonal borrowing practices was included as a covenant with LGAC's bondholders in the resolution authorizing such bonds. No restrictions were placed upon the State's ability to issue deficit notes.

The impact of the LGAC reforms, 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.

Legislation enacted with the 2003-04 Budget relating to the Local Government Assistance Corporation (LGAC) and NYC MAC (see "Authorities and Localities – the City of New York.") intends that the State assume responsibility for debt service payments on the remaining \$2.5 billion in outstanding NYC MAC bonds. Thirty annual payments of \$170 million from sales tax receipts dedicated to LGAC are authorized to be pledged to a New York City-created public benefit corporation allowing the maturity of the debt to be extended through 2034, well beyond the original 2008 maturity of the outstanding NYC MAC debt. The Executive believes that the structure may be flawed and is continuing to evaluate the constitutional and legal issues raised by the legislation, the implications on the State's Debt Reform Act of 2000 (see below), and the impact on LGAC bondholders. Tables in this AIS do not include the issuance of such debt.



## **Limitations on State-Supported Debt**

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### **Debt Reform Act of 2000**

Chapter 59 of the Laws of 2000 enacted the Debt Reform Act of 2000 (Debt Reform Act). The Debt Reform Act is 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 began at 0.75 percent of personal income in 2000-01 and will gradually increase 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 began at 0.75 percent of total governmental funds receipts in 2000-01 and will gradually increase until it is fully phased in at 5 percent in 2013-14.

The Debt Reform Act requires that the limitations on the issuance of State-supported debt and debt service costs be calculated by October 31 of each year and reported in the quarterly Financial Plan Update most proximate to such date. 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 prohibition on issuing new State-supported debt if the caps are met or exceeded provides 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 most recent annual calculation of the limitations imposed by Debt Reform Act was reported in the Financial Plan Update most proximate to October 31, 2002. On October 30, 2002, the State reported that it was in compliance with both debt caps, with debt issued after March 31, 2000 and then outstanding at 0.67 percent of personal income and debt service on such debt at 0.36 percent of total governmental receipts compared to the caps of 1.25 percent each. DOB expects that debt outstanding and debt service costs for the 2002-03 and 2003-04 fiscal years will also be within the statutory caps.

### **Variable Rate Obligations and Interest Rate Exchange Agreements**

Chapter 81 of the Laws of 2002 authorizes issuers of State-supported debt to issue a limited amount of variable rate obligations and, subject to various statutory restrictions (e.g., minimum counterparty ratings, monthly reporting requirements, and the adoption of guidelines by the governing boards of such issuer) enter into a limited amount of interest rate exchange agreements. The statute limits the use of debt instruments which result in a variable rate exposure (e.g., variable rate obligations and interest rate exchange agreements) to no more than 15 percent of total outstanding State-supported debt, and limits the use of interest rate exchange agreements to a total notional amount of no more than 15 percent of total outstanding State-supported debt. As of March 31, 2003, there was approximately \$2.0 billion in debt instruments resulting in a variable rate exposure. In addition, four authorized issuers entered into a total notional amount of \$2.2 billion in interest rate exchange agreements, with a mark-to-market value of about \$63 million. Both amounts are less than the authorized totals of 15 percent of total outstanding State-supported debt (about \$5.9 billion each). DOB expects that the amount of interest rate exchange agreements and net variable rate obligations outstanding will remain within the statutory limitations imposed on the use of such debt instruments.

## 2003-04 Borrowing Plan

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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 2003-04 through 2007-08 Capital Program and Financing Plan was released with the Executive Budget on January 29, 2003 and updated to reflect the 30-Day Amendments on February 28, 2003. 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.budget.state.ny.us/dob](http://www.budget.state.ny.us/dob).

The State-supported issuance plan for 2003-04 and the remaining years of the Capital Plan reflects the expectation that State Personal Income Tax Revenue Bonds will continue to be issued to finance certain programs previously authorized to be secured by service contract or lease-purchase payments. (see "State Personal Income Tax Revenue Bond Financing." above).

The State's 2003-04 borrowing plan projects issuance of \$248 million in general obligation bonds; \$1.5 billion in Dedicated Highway and Bridge Trust Fund Bonds issued by the Thruway Authority to finance capital projects for transportation; \$234 million in Mental Health Facilities Improvement Revenue Bonds issued by DASNY to finance capital projects at mental health facilities; \$106 million in SUNY Dormitory Facilities Revenue Bonds to finance capital projects related to student dormitories; and \$1.7 billion in State Personal Income Tax Revenue Bonds to finance various capital programs. State Personal Income Tax Revenue Bond borrowings include issuances by: (i) DASNY for school construction (RESCUE), university facilities (Jobs 2000), SUNY community colleges and State court facilities; (ii) the Thruway Authority for the Consolidated Highway Improvement Program; (iii) UDC (doing business as the Empire State Development Corporation) for prisons, youth facilities, sports facilities, homeland security, State facilities; Jobs Now Program; and equipment acquisitions (iv) the Environmental Facilities Corporation (EFC) for State Environmental Infrastructure Projects, including Water Pollution Control and Pipeline for Jobs (Jobs 2000); and (v) HFA for housing programs. State Personal Income Tax Revenue Bonds for 2003-04 also include the Community Enhancement Facilities Assistance Program (CEFAP) for economic development purposes which may be issued by the Thruway Authority, DASNY, UDC and HFA; the Strategic Investment Program (SIP) for environmental, historic preservation, economic development, arts, and cultural purposes, which may be issued by DASNY, UDC and EFC and Regional Economic Development Programs, including the Empire Opportunity Fund program, the Gen\*NY\*sis biotechnology program, and the Community Capital Assistance Program which may be issued by DASNY and UDC.

The projections of State borrowings for the 2003-04 fiscal year are subject to change as market conditions, interest rates and other factors vary throughout the fiscal year.

## Outstanding Debt of the State and Certain Authorities

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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 issued in the 2002-03 fiscal year (excluding refunding bonds) was \$244 million. 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, 2003, the total amount of general obligation debt outstanding was \$4.0 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, 2003.

**State General Obligation Debt  
As of March 31, 2003  
(millions of dollars)**

<b>Purpose/Year Authorized</b>	<b>Total Authorized</b>	<b>Authorized but Unissued</b>	<b>Total Debt Outstanding</b>
<b>Transportation Bonds:</b>			
Transportation Capital Facilities (1967)			
Highways	1,250.0	0.0	0.0
Mass Transportation	1,000.0	0.0	117.0
Aviation	250.0	0.0	63.5
Rail Preservation (1974)	250.0	0.0	56.0
Energy Conservation Through Improved Transportation (1979)			
Local Streets and Highways	100.0	0.0	0.0
Rapid Transit and Rail Freight	400.0	0.9	56.7
Rebuild New York Through Transportation Infrastructure Renewal (1983)			
Highway Related Projects	1,064.0	28.5	8.8
Rapid Transit, Rail and Aviation Projects	136.6	0.0	61.0
Ports, Canals, and Waterways	49.4	0.0	4.0
Accelerated Capacity and Transportation Improvements of the Nineties (1988)	<u>3,000.0</u>	<u>58.8</u>	<u>1,172.2</u>
<b>Total Transportation Bonds</b>	<b>7,500.0</b>	<b>88.2</b>	<b>1,539.2</b>
<b>Environmental Bonds:</b>			
Park and Recreation Land Acquisition (1960)	100.0	0.8	0.2
Pure Waters (1965)	1,000.0	33.7	179.5
Outdoor Recreation Development (1966)	200.0	0.2	0.7
Environmental Quality (1972)			
Water	650.0	6.7	226.2
Air	150.0	24.4	31.4
Land and Wetlands	350.0	29.5	88.2
Environmental Quality (1986)			
Solid Waste Management	1,200.0	245.5	668.0
Land and Forests	250.0	5.5	130.0
Clean Water/Clean Air (1996)			
Safe Drinking Water	355.0	30.0	255.1
Clean Water	790.0	385.9	390.1
Solid Waste	175.0	54.0	114.5
Environmental Restoration	200.0	174.1	23.3
Air Quality	230.0	62.2	137.3
<b>Total Environmental Bonds</b>	<b>5,650.0</b>	<b>1,052.5</b>	<b>2,244.5</b>
<b>Housing Bonds:</b>			
Low-Income Housing (through 1958)	960.0	7.9	138.0
Middle-Income Housing (through 1958)	150.0	0.5	71.8
Urban Renewal (1958)	25.0	1.6	0.6
<b>Total Housing Bonds</b>	<b>1,135.0</b>	<b>10.0</b>	<b>210.4</b>
<b>Education Bonds:</b>			
Higher Education Facilities (1957)	250.0	0.0	2.3
<b>TOTAL GENERAL OBLIGATION DEBT</b>	<b><u>14,535.0</u></b>	<b><u>1,150.7</u></b>	<b><u>3,996.4</u></b>

Source: NYS OSC

## ***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. The State expects to finance many of these capital programs with State Personal Income Tax Revenue Bonds.

*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 associated with road and bridge projects.

The Department of Transportation's programs are 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. Legislation has been periodically adopted to increase the deposit of revenues into the Dedicated Highway and Bridge Trust Fund and the Dedicated Mass Transportation Trust Fund to meet program needs.

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. In 2002, the MTA implemented an overall debt restructuring program that included the State service contract bonds and the Dedicated Mass Transportation Trust Fund bonds. The restructuring simplified and structured MTA credits, modernized resolutions and restructured existing debt to create new capital capacity and better match maturity of liabilities with the economic life of the assets being financed. 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 approximately 2,600 buildings, including classrooms, dormitories, libraries, athletic and student facilities and other buildings. Nearly 85 percent exceed 20 years of age. Together with the 30 SUNY community colleges, the SUNY system serves more than 402,000 students. The CUNY system is comprised of 11 senior colleges and 6 community colleges that serve approximately 208,000 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 14 service districts with approximately 380 buildings, and a State- and non-profit operated community network of approximately 32,000 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 a State- and non-profit operated community network of approximately 26,500 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 existing State- and 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.* The State prison system houses approximately 67,000 inmates in 70 facilities with 3,700 buildings. With the completion of the Five Points Correctional Facility in 2000 signaling the end of the most recent capacity expansion effort, the capital program has shifted its focus to 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.

The following table shows the total amount of authorized and outstanding State-supported debt as of March 31, 2003. 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 (which includes outstanding State Personal Income Tax Revenue Bonds) 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.

**Outstanding State-Supported Debt (1)**  
**As of March 31, 2003**  
(millions of dollars)

	<u>Authorized As of 3/31/03</u>	<u>Authorized but Unissued As of 3/31/03 (2)</u>	<u>Outstanding As of 3/31/03 (3)</u>
<b>GENERAL OBLIGATION</b>	14,535	1,152	3,996
<b>LOCAL GOVERNMENT ASSISTANCE CORP.</b>	4,700	0	4,575
<b>OTHER LEASE-PURCHASE AND CONTRACTUAL OBLIGATION FINANCING ARRANGEMENTS</b>			
<b>Transportation:</b>			
MTA:			
Service Contract Bonds	Note 4	Note 4	2,395
Thruway Authority:			
Consolidated Highway Improvement Program	3,788	865	2,600
Dedicated Highway & Bridge Trust	10,250	4,473	4,808
DASNY:			
Albany County Airport	40	1	36
<b>Education:</b>			
DASNY/MBBA:			
SUNY Educational Facilities (5)	3,200	324	4,353
SUNY Dormitory Facilities (6)	405	250	560
SUNY Upstate Community Colleges	175	159	481
CUNY Educational Facilities (7)	3,415	330	3,253
State Education Department Facilities	Note 8	Note 8	70
Library for the Blind	16	0	17
SUNY Athletic Facilities	22	0	25
RESCUE	195	54	136
Univeristy Facilities (Jobs 2000)	48	25	25
School District Capital Outlay Grants	140	48	92
Judicial Training Institute	16	0	15
<b>Health/Mental Hygiene:</b>			
DASNY/MCFFA:			
Department of Health Facilities	474	2	428
Mental Health Facilities (9)	5,050	844	3,400
<b>Corrections:</b>			
UDC\ESDC:			
Prison Facilities	4,551	458	3,810
Homeland Security	15	1	14
Youth Facilities	328	110	187
<b>Environment:</b>			
EFC:			
Environmental Infrastructure Projects	135	3	132
Riverbank State Park	78	18	59
Water Pollution Control	453	68	174
Pilgrim Sewage Treatment	Note 8	Note 8	9
State Park Infrastructure	18	6	11
Fuel Tanks	23	0	10
Pipeline for Jobs (Jobs 2000)	23	11	13
ERDA:			
Western New York Nuclear Service Center	104	0	55
UDC\ESDC:			
Long Island Pine Barrens	15	0	13
<b>State Building/Equipment:</b>			
UDC\ESDC:			
Empire State Plaza	133	10	66
State Capital Projects	200	0	228
Certificates of Participation	Note 10	Note 10	185

(Continued on next page)

**Outstanding State-Supported Debt (1)**  
**As of March 31, 2003**  
(millions of dollars)

	<u>Authorized As of 3/31/03</u>	<u>Authorized but Unissued As of 3/31/03 (2)</u>	<u>Outstanding As of 3/31/03 (3)</u>
<b>Housing:</b>			
HFA:			
Capital Programs	1,410	12	1,175
<b>Economic Development:</b>			
CEFAP	425	110	242
Triborough Bridge and Tunnel Authority:			
Convention Center Project	375	0	292
UDC\ESDC\DASNY:			
University Technology Centers	288	53	167
Onondaga Convention Center	40	0	42
Sports Facilities	145	15	123
Natural Resources Preservation	25	0	20
Child Care Facilities	30	1	29
Bio-Tech Facilities	10	10	0
Strategic Investment	225	77	145
Regional Economic Development (11)	900	603	297
Buffalo Inner Harbor	50	50	0
Jobs Now	14	1	14
State Facilities (12)	143	65	181
<b>Other:</b>			
DASNY:			
Pension Obligation	787	14	79
<b>Total Other Financing Arrangements</b>			<u>30,466</u>
<b>TOTAL STATE SUPPORTED DEBT</b>			<u><u>39,037</u></u>
<b>DEBT REDUCTION RESERVE FUND OFFSETS (13)</b>			<u>(194)</u>
<b>NET STATE-SUPPORTED DEBT OUTSTANDING</b>			<u>38,843</u>

Source: NYS DOB

(1) Includes only authorized programs that are active at March 31, 2003 or have outstanding balances or both.

(2) Amounts issued may exceed the stated amount authorized by premiums received, for the purpose of providing for the cost of issuance, reserve fund requirements and, in certain circumstances, refunding bonds.

(3) Amounts outstanding reflect original par amounts or original net proceeds in the case of capital appreciation bonds. Amounts outstanding do not reflect accretion of capital appreciation bonds or premiums received.

(4) Authorization is limited to \$165 million in annual debt service maturing no later than July 1, 2031.

(5) Authorization also includes any amount necessary to refund outstanding Housing Finance Agency (HFA) State University Construction Bonds, all of which have been refunded.

(6) Authorizations apply to bonds issued after March 31, 2002, prior to that date there was no limit.

(7) The amount outstanding includes one half of \$633.1 million for CUNY Community Colleges for which the State pays 50 percent of the debt service and New York 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.

(8) Legislation enacted in May 2002 prohibits further issuance of bonds for this purpose, except for refunding purposes.

(9) Authorization also includes any amount necessary to refund outstanding HFA Mental Hygiene bonds, all of which have been refunded.

(10) Certificates of Participation were legislatively authorized to be issued annually between 1986 and 2001, but no new issuances were authorized after 2001.

(11) An additional \$300 million in authorization is contingent upon the opening of an Indian gaming facility.

(12) Includes bonds issued for the OSC Building, East Parking Garage, Ten Eyck Building, OGS Capital Projects, Elk Street Parking Garage, the Alfred E. Smith Office Building, and judiciary buildings. There is no limit for the amount of bonds that may be issued for the OSC building, East Parking Garage, and Ten Eyck office building.

(13) During fiscal year 2001-02, the State transferred \$350 million to several State authorities for the purpose of providing for the payment of \$355 million of State-supported debt (\$45 million for mental health bonds and \$229 for pension obligation bonds to DASNY; \$45 million in prison facilities bonds to UDC/ESDC; and \$36 million in Water Pollution control bonds to EFC). As of March 31, 2003, a portion of these funds remain held in the form of cash and investments for this purpose. However, under the terms of the financing resolutions under which such bonds were issued, these bonds are still considered legally outstanding.

## 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.

**Outstanding State-Related Debt**  
**As of March 31, 2003 (1)**  
**(millions of dollars)**

	<u>As of 3/31/01</u>	<u>As of 3/31/02</u>	<u>As of 3/31/03</u>
<b>State-Supported Debt</b>			
General Obligation	4,346	4,142	3,996
Local Government Assistance Corporation	4,728	4,621	4,575
Other Lease-Purchase and Contractual-Obligation Financing Arrangements	<u>27,884</u>	<u>28,214</u>	<u>30,466</u>
<b>Total State-Supported Debt (2)</b>	<u>36,958</u>	<u>36,977</u>	<u>39,037</u>
<b>Contingent Contractual-Obligation Financing</b>			
DASNY/MCFFA - Secured Hospital Program(3)	1,035	999	975
<b>Moral Obligation Financing</b>			
Housing Finance Agency	459	429	397
MCFFA-Hospitals and Nursing Homes	<u>92</u>	<u>88</u>	<u>41</u>
<b>Total Moral Obligation Financing</b>	<u>551</u>	<u>517</u>	<u>438</u>
<b>State-Guaranteed Debt</b>			
Job Development Authority	<u>119</u>	<u>110</u>	<u>81</u>
<b>Total State-Guaranteed Debt</b>	<u>119</u>	<u>110</u>	<u>81</u>
<b>TOTAL STATE-RELATED DEBT</b>	<u><u>38,663</u></u>	<u><u>38,603</u></u>	<u><u>40,531</u></u>

Source: NYS OSC

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

(2) During fiscal year 2001-02, the State transferred \$350 million to several State authorities for the purpose of providing for the payment of \$355 million of State-supported debt. As of March 31, 2002, a portion of these funds remain held in the form of cash and investments for this purpose. However, under the terms of the financing resolutions under which such bonds were issued, these bonds are still considered legally outstanding.

(3) 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, 2003. 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 actually paid by the State during its fiscal year. Debt service projections for variable rate issues were calculated at rates in effect at March 31, 2003 ranging from 0.88 percent to 2.05 percent.



**Debt Service Requirements on State-Supported Debt  
As of March 31, 2003  
(millions of dollars)**

<b>Fiscal Years</b>	<b>General</b>	<b>Local</b>		<b>Total (3)</b>
		<b>Government</b>	<b>Other</b>	
<b>Ending March 31</b>	<b>Obligation(1)</b>	<b>Assistance</b>	<b>Financing</b>	
	<b>Corporation(2)</b>	<b>(3)</b>	<b>Obligations (3)</b>	
2004	519	182	2,976	3,677
2005	475	288	3,023	3,786
2006	453	307	2,987	3,747
2007	441	306	2,895	3,642
2008	421	339	2,797	3,557
2009 through 2013	1,662	1,770	12,660	16,092
2014 through 2018	849	1,809	10,306	12,964
2019 through 2023	243	1,573	6,475	8,291
2024 through 2029	81	211	3,486	3,778
2029 through 2033	46	0	1,374	1,420
<b>Total</b>	<b>5,190</b>	<b>6,785</b>	<b>48,979</b>	<b>60,954</b>

Source: NYS OSC

(1) Debt service requirements on approximately \$779 million in general obligation variable rate bonds are calculated using the rate in effect as of 3/31/03. Debt service requirements on \$220 million of general obligation variable rate bonds in commercial paper mode are calculated at the rate most recently remarketed as of 3/31/03. The State's general obligation variable rate bonds are adjusted on a periodic basis depending on the mode that they are remarketed. Currently, the State's general obligation variable rate bond portfolio consists of \$220 million in commercial paper mode (1 - 270 days), \$304.6 million in short-term intermediate rate mode (1 - 365 days) and \$254.4 million in auction rate mode (weekly and every 28 days).

(2) Debt service requirements on approximately \$893.6 million in LGAC tax exempt variable rate bonds are calculated using the rate in effect as of 3/31/03. LGAC variable rate bonds are reset weekly at rates determined by the Corporation's remarketing agents.

(3) At March 31, 2003 \$2.21 billion of non-general obligation variable rate State-supported debt was subject to fixed rate interest rate exchange agreements (swaps). Debt service includes variable rate interest at rates in effect at 3/31/03 plus net swap payments estimated to be paid during the term of the agreements.

The Debt Reduction Reserve Fund (DRRF) was created in 1998 to set aside resources that could be used to reduce State-supported indebtedness either through the use of DRRF as a pay-as-you-go financing source, reduce debt service costs, or 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, \$500 million in 2000-01, \$250 million in 2001-02, and \$53 million in 2003-04. 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. In 2001-02, \$500 million in DRRF was used to defease or provide resources to redeem existing high-cost State-supported debt. In April of 2003, \$53 million of the \$78 million disbursed for capital projects in 2000-01 was not needed for its intended purpose, and was returned to DRRF for the purpose of reducing debt service costs. The State does not expect to make additional deposits to the DRRF in 2003-04.

## 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.

The following table 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 3.66 percent to \$3.1 billion in 2002-03, while adjusted Total Governmental Funds Receipts increased on an average annual basis by 5.01 percent. During the first five years of this ten-year period, debt service increased by an annual average of 8.97 percent and over the remaining five years of the period debt service has decreased by an annual average of 1.93 percent. The relative growth in receipts and debt service resulted in a general trend of decreases in the ratio of debt service to receipts from fiscal years 1993-94 to 2002-03. The ratio is estimated to increase to 3.67 percent in fiscal year 2003-04.

<b>State-Supported Debt Service Requirements Total Governmental Funds Receipts</b>				
<b>Fiscal Year</b>	<b>Total State-Supported Debt Service (dollars in millions)</b>	<b>Total Governmental Funds Receipts (dollars in millions)</b>	<b>State-Supported Debt Service as a % of Total Governmental Funds Receipts (includes DRRF)</b>	<b>State-Supported Debt Service as a % of Total Governmental Funds Receipts (excludes DRRF)</b>
1993-94	2,266	57,971	3.91%	3.91%
1994-95	2,490	61,106	4.07%	4.07%
1995-96	2,749	62,969	4.37%	4.37%
1996-97	2,827	62,886	4.50%	4.50%
1997-98	3,195	66,246	4.82%	4.82%
1998-99	3,387	70,819	4.78%	4.78%
1999-2000	3,672	73,502	5.00%	5.00%
2000-01	4,194 (1)	81,123	5.17%	4.64%
2001-02	4,262 (2)	83,247	5.12%	4.55%
2002-03	3,133	89,974 (3)	3.48%	3.48%
2003-04 (estimated)	3,443	93,821 (3)	3.67%	3.67%

Source: NYS DOB

(1) Includes \$422 million in DRRF funds used to defease high-cost debt.

(2) Includes \$500 million in DRRF funds used to defease or provide for the payment of high-cost debt.

(3) 2002-03 and 2003-04 receipts have been adjusted by \$1.9 billion each, relating to receipts from the expected tobacco securitization transaction.

Included in the table above are principal and interest payments on general obligation bonds which were \$571 million for the 2002-03 fiscal year, and are estimated to be \$527 million for 2003-04. State payments for debt service on bonds issued and interest rate exchange agreements entered into by LGAC were \$183 million for the 2002-03 fiscal year, and are estimated to be \$252 million for 2003-04. State lease-purchase and contractual-obligation payments (including State installment payments relating to COPs), classified as "Other Financing Obligations", were \$2.4 billion in fiscal year 2002-03, and are estimated to be \$2.7 billion for 2003-04.

The following two tables compare total State-supported and State-related debt outstanding to New York State personal income and population. Total outstanding State-related debt increased from \$35.0 billion at the end of the 1993-94 fiscal year to \$40.5 billion at the end of the 2002-03 fiscal year, an average annual increase of 1.64 percent. State-supported debt increased from \$26.7 billion at the end of

the 1993-94 fiscal year to \$39.0 billion at the end of the 2002-03 fiscal year, an average annual increase of 4.31 percent. During the first five years of this ten-year period, State-related debt outstanding grew by an annual average of 1.39 percent and over the remaining five years of the period the annual average growth in State-related debt outstanding has increased slightly to 1.80 percent. During the first five years of this ten-year period, State-supported debt outstanding grew by an annual average of 6.43 percent and over the remaining five years of the period the annual growth in State supported debt outstanding has slowed to 2.16 percent. During the prior ten year period, annual personal income in the State rose from \$464.2 billion to \$684.5 billion, an average annual increase of 4.41 percent. Thus, State-supported debt grew at a slower rate than personal income and State-related obligations exhibited the same trend. Expressed in other terms, the total amount of State-supported debt outstanding declined from 5.75 percent of personal income in the 1993-94 fiscal year to 5.70 percent in the 2002-03 fiscal year, while State-related debt outstanding declined from 7.54 percent to 5.92 percent of personal income for the same period. State-supported debt outstanding is expected to increase modestly in 2003-04 to 5.82 percent of personal income. State-related debt is expected to increase to 6.60 percent of personal income, primarily related to the issuance of tobacco bonds.

#### State-Supported and State-Related Debt Compared with Personal Income

Fiscal Year	NYS Personal Income (\$billions)(1)	State-Supported Debt		State-Related Debt	
		Amount (\$millions)	As % of Personal Income	Amount (\$millions)	As % of Personal Income
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	616.3	36,797	5.97%	38,584	6.26%
2000-01	665.8	36,958	5.55%	38,663	5.81%
2001-02	684.7	36,977 (2)	5.40%	38,603	5.64%
2002-03	684.5	39,037	5.70%	40,531	5.92%
2003-04 (estimated)	704.8	41,003	5.82%	46,541 (3)	6.60%

Source: NYS DOB

(1) For calendar year ending in State's fiscal year. Based on US Department of Commerce, Bureau of Economic Analysis (BEA) data through May, 2003. Personal income for 2002 and 2003 estimated by State Division of the Budget.

(2) During fiscal year 2001-02, the State transferred \$350 million to several State authorities for the purpose of providing for the payment of \$355 million of State-supported debt. As of March 31, 2003, a portion of these funds continue to be held in the form of cash and investments for this purpose. However, under the terms of the financing resolutions under which such bonds were issued, these bonds are still considered legally outstanding.

(3) Includes the issuance of tobacco bonds secured by a State contingent-contractual obligation.

**State-Supported and State-Related Debt Per Capita**

<u>Fiscal Year</u>	<u>Total State Population (millions)(1)</u>	<u>State-Supported Debt</u>		<u>State-Related Debt</u>	
		<u>Amount (\$millions)</u>	<u>State Supported Debt/\$Capita</u>	<u>Amount (\$millions)</u>	<u>State Related Debt/\$Capita</u>
1993-94	18.4	26,696	1,451	35,014	1,903
1994-95	18.5	28,169	1,523	36,359	1,965
1995-96	18.5	31,009	1,676	38,593	2,086
1996-97	18.6	33,130	1,781	37,478	2,015
1997-98	18.7	34,247	1,831	36,999	1,979
1998-99	18.8	35,842	1,906	37,740	2,007
1999-2000	18.9	36,797	1,947	38,584	2,041
2000-01	19.0	36,958	1,945	38,663	2,035
2001-02	19.1	36,977 (2)	1,936	38,603	2,021
2002-03	19.2	39,037	2,033	40,531	2,111
2003-04 (estimated)	19.2	41,003	2,136	46,541 (3)	2,424

Source: NYS DOB

(1) For calendar year ending in State's fiscal year.

(2) During fiscal year 2001-02, the State transferred \$350 million to several State authorities for the purpose of providing for the payment of \$355 million of State-supported debt. As of March 31, 2003, these funds were held in the form of cash and investments for this purpose. However, under the terms of the financing resolutions under which such bonds were issued, these bonds are still considered legally outstanding.

(3) Includes the issuance of tobacco bonds secured by a State contingent-contractual obligation.

# State Organization

## State Government

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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, 2006.

<u>Name</u>	<u>Office</u>	<u>Party Affiliation</u>	<u>First Elected</u>
George E. Pataki	Governor	Republican	1994
Mary Donohue	Lieutenant Governor	Republican	1998
Alan G. Hevesi	Comptroller	Democrat	2002
Eliot Spitzer	Attorney General	Democrat	1998

The Governor is elected on a single ticket with the Lieutenant Governor; the Comptroller and Attorney General are elected on separate tickets. The Governor appoints the heads of most State departments, including the Director of the Budget (the current Director is Carole E. Stone). DOB 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. DOB is also responsible for coordinating the State's capital program and debt financing activities. The Comptroller 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 the State's general obligation debt and most of its investments (see "Fiscal Controls" and "Investment of State Moneys" below). The Attorney General 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 62-member Senate and a 150-member Assembly, all elected from geographical districts for two-year terms, expiring December 31, 2004. 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 David Patterson (Democrat) in the Senate and Charles Nesbitt (Republican) in the Assembly.

## State Financial Procedures

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### 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 Executive 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 certain powers to alter the 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 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.

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 \$15,000 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 typically make up close to 70 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. GASB 34, which is described in the section "GAAP-Basis Results for Prior Fiscal Years" in this AIS, is expected to substantially alter the content and form of GAAP-basis financial information.

## **State Government Employment**

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The State currently has approximately 188,000 full-time equivalent annual salaried employees funded from all funds including some 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 18.5 percent smaller than it was thirteen 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 23,200 fewer full-time employees than it had at that time. State workforce levels had been generally stable in the late 1990s. However, following the September 11th terrorist attacks, the Governor announced a series of cost-saving actions that included reducing the workforce by 10,000 employees. As a result, the State expects to end the 2003-04 fiscal year with a workforce of roughly 186,000 employees.

Negotiating units for State employees are defined by the State Public Employment Relations Board. Collective bargaining negotiations with the State's unions are conducted by the Governor's Office of Employee Relations with the exception 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. Collective bargaining agreements with most of the State's employer unions expired on March 31, 2003. The Governor's Office of Employee Relations commenced new bargaining negotiations with the various employee unions in February and such negotiations are continuing at this time.

While 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 Branch. 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

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### 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 35 percent of the membership during the 2001-02 fiscal year. There were 2,859 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, 2002, 637,896 persons were members and 306,604 pensioners or 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, are required to contribute 3 percent of their salaries for their first 10 years of membership.

Legislation enacted in May, 2003 realigns the Retirement Systems billing cycle to match governments' budget cycles and the legislation also institutes a minimum annual payment. The employer contribution for a given fiscal year will be based on the value of the pension fund and its liabilities on the prior April 1. In addition, employers will be required to make a minimum contribution of at least 4.5 percent of payroll every year. The legislation also eliminates the State's ability to delay payments when the amounts owed are greater than the amount budgeted, effective in fiscal year 2004-2005.

Due to the enactment of this legislation, the State bill due in the fiscal year ending March 31, 2004 will be at the minimum contribution level, approximately \$480 million. Employer contributions for the fiscal year ending March 31, 2005 are expected to rise significantly due primarily to the poor equity market performance for the last few years.

### 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. OSC reports the net assets available for benefits as of March 31, 2002 were \$112.7 billion (including \$2.1 billion in receivables), a decline of \$1.3 billion or 1.2 percent from the 2000-01 level of \$114 billion, reflecting, in large part, equity market performance. OSC reports that the present value of anticipated benefits for current members, retirees, and beneficiaries as of March 31, 2002 was \$127 billion (including \$42.7 billion for current retirees and beneficiaries), an increase of \$6.8 billion or 5.7 percent from the 2000-01 level of \$120.2 billion. The funding method used by the Systems anticipates that the net assets, plus future actuarially determined contributions, will be sufficient to pay for the anticipated benefits of current members, retirees and beneficiaries. Actuarially determined contributions are calculated using actuarial assets and the present value of anticipated benefits. Actuarial assets differ from net assets in that they are calculated using a five-year smoothing method for valuing

equity investments and using amortized cost instead of market value for bonds and mortgages. Actuarial assets increased from \$119.5 billion in 2001 to \$125.2 billion on March 31, 2002. The table below shows the actuarially determined contributions that have been made over the last six years. See also "Contributions" above.

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

<b>Fiscal Year Ended</b>	<b>Total Assets(2)</b>	<b>Increase/ (Decrease) From Prior Year</b>
<b>March 31</b>		
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)
2002	112,725	(1.2)

Sources: State and Local Retirement Systems.

(1) Includes relatively small amounts held under Group Life Insurance Plan. Includes some employer contribution receivables. Fiscal year ending March 31, 2002 includes approximately \$2.1 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.

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

<b>Fiscal Year Ended March 31</b>	<b>Contributions Recorded</b>				<b>Total Benefits Paid(2)</b>
	<b>All Participating Employers(1)</b>	<b>Local Employers(1)</b>	<b>State(1)</b>	<b>Employees</b>	
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
2002	264	199	65	210	4,576

Sources: State and Local Retirement Systems.

(1) Includes employer premiums to Group Life Insurance Plan.

(2) Includes payments from Group Life Insurance Plan.



## Authorities and Localities

### Public Authorities

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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, 2002, there were 17 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 \$104.7 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.

**Outstanding Debt of Certain Authorities  
As of December 31, 2002  
(millions of dollars)**

<u>Authority</u>	<u>Amount (1)</u>
Dormitory Authority (2)	30,189,503,673
Metropolitan Transportation Authority	10,774,570,000
Port Authority of New York and New Jersey	9,334,708,000
Thruway Authority	8,762,950,000
Long Island Power Authority	7,555,000,000
Triborough Bridge and Tunnel Authority	6,220,759,000
Empire State Development Corporation	5,677,737,000
Housing Finance Agency	5,228,283,659
Local Government Assistance Corporation	4,527,340,000
Mortgage Agency	3,961,075,226
Environmental Facilities Corporation	4,815,186,000
Energy Research and Development Authority	3,952,555,000
Power Authority	2,607,975,000
Battery Park City Authority	663,020,000
Niagara Frontier Transportation Authority	193,593,000
United Nations Development Corporation	135,862,500
Job Development Authority	110,420,000
<b>Total Outstanding</b>	<b>104,710,538,058</b>

Sources: NYS DOB and public authorities.

(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.

## **Metropolitan Transportation Authority** \_\_\_\_\_

*The following information was prepared from information furnished by the Metropolitan Transportation Authority (MTA) and is provided for informational purposes only. This section is intended to provide readers with a brief summary of State oversight and financial assistance to the MTA. The official financial disclosure of the MTA and its subsidiaries is available by contacting the Metropolitan Transportation Authority, Finance Department, 347 Madison Avenue, 6th Floor, New York, New York 10017 or by visiting the MTA website at [www.mta.info/mta/investor.htm](http://www.mta.info/mta/investor.htm). The State assumes no liability or responsibility for any financial information reported by the MTA or for any errors or omissions that may be contained at the MTA website.*

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.

The MTA Board has approved a financial plan for the years 2003 and 2004 for itself and its affiliates and subsidiaries (the 2003-2004 Financial Plan) that will enable all such entities to maintain their respective operations on a self-sustaining basis through 2004. The 2003-2004 Financial Plan tracks the final two years of the 2000-2004 Capital Programs of the transit and commuter systems (the 2000-2004 Capital Programs) that were approved by the Capital Program Review Board. The 2003-2004 Financial Plan assumes the successful implementation of fare increases on the transit and commuter systems and toll increases on TBTA's bridges and tunnels, all of which increases have become effective. However, an action challenging the fare increases was filed in Supreme Court and the judge has ordered MTA to roll back the transit and commuter fare increases; that order is presently stayed pending a hearing in the Appellate Division. Subsequently, an action was filed challenging the bridge and tunnel toll increases; no decision has been rendered and additional legal briefs are due during the week of May 27. Neither the MTA nor the State can predict the outcome of these actions or their effects on the fare or toll increases or the financial condition of MTA and its affiliates and subsidiaries.

On May 4, 2000, the Capital Program Review Board approved the MTA's \$17.1 billion 2000-2004 Capital Programs. Minor amendments were subsequently approved. The 2000-2004 Capital Programs are the fifth approved 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 2000-2004 Capital Programs approved by the Capital Program Review Board assume the issuance of an estimated \$10.6 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.

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 initiated a five-year State transportation plan that included nearly \$2.2 billion in dedicated revenue support for the MTA's 2000-2004 Capital Programs. This capital commitment includes approximately \$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 Budget increased the aggregate bond cap for the MTA, TBTA and TA to \$16.5 billion in order to finance a portion of the 2000-2004 Capital Programs.

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. As appropriate, the MTA and the Capital Program Review Board may amend the 2000-2004 Capital Programs from time to time to reflect the level of funding available to pay for the capital projects anticipated to be undertaken during the time period covered by the approved programs. If the 2000-2004 Capital Programs are 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**

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*The following information was prepared from information furnished by the City of New York and is provided for informational purposes only. This section is intended to provide readers with a brief summary of the financial condition of the City of New York, which is the largest municipal recipient of State assistance to local governments. The fiscal demands on the State may be affected by the fiscal condition of the City, which relies in part on State aid to balance its budget and meet its cash requirements. It is also possible that the State's finances may be affected by the ability of the City, and certain entities issuing debt for the benefit of the City, to market securities successfully in the public credit markets. The official financial disclosure of the City of New York and financing entities issuing debt on its behalf is available by contacting Raymond J. Orlando, Director of Investor Relations, (212) 788-5875 or contacting the Office of Management and Budget, 75 Park Place, 6<sup>th</sup> Floor, New York, NY 10007. The State assumes no liability or responsibility for any financial information reported by the City of New York.*

As required by law, the City prepares a four-year annual financial plan, which is reviewed and revised on a quarterly basis and includes the City's capital, revenue, and expense projections, and outlines proposed gap-closing programs for years with projected budget gaps.

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 fund seasonal needs and recovery costs related to the attacks on the World Trade Center. In recent years, the State constitutional debt limit would have prevented the City from entering into new capital contracts, except for the creation of the TFA in 1997 and TSASC Inc., in 1999 (a local development corporation empowered to issue debt backed by tobacco settlement revenues). The City expects that these actions, combined with the City's remaining capacity, will provide sufficient financing capacity to continue its capital program at least through fiscal year 2013.

For its normal operations, the City depends on aid from the State both to enable the City to balance its budget and to meet its cash requirements. There can be no assurance that there will not be reductions in State aid to the City from amounts currently projected; that State budgets will be adopted by the April 1 statutory deadline, or interim appropriations will be enacted; or that any such delays will not have adverse impacts on the City's cash flow or expenditures.

For the 2000-2001 and 2001-2002 fiscal years (ending June 30), the City's General Fund had operating surpluses of \$2.9 billion and \$682 million, respectively, before discretionary and other transfers, and achieved balanced operating results in accordance with GAAP, after discretionary and other transfers.

The June 2002 financial plan included gap-closing actions of \$4.8 billion that balance the 2002-2003 budget. The 2002-2003 gap-closing program included resources from agency actions and actions to be taken by the Federal and State governments and the municipal unions. The 2002-2003 budget also includes \$1.5 billion in bond proceeds from the TFA to mitigate a portion of the lost tax revenues related to the attack on the World Trade Center on September 11, 2001.

On January 28, 2003, the City released a modification to its four-year financial plan, which incorporated changes since the June 2002 financial plan. Compared to the June Plan, the January modification projects significantly lowered tax revenues due to the continuing decline in financial services sector profits, and reflected other revised forecasts, such as higher pension costs. The modification also reflected the implementation of an 18.49 percent property tax increase, effective January 1, 2003, as well as agency actions to reduce planned spending and increased revenues that were included in the November modification.

The January modification assumed the successful implementation of a program to close projected gaps of approximately \$486 million in fiscal year 2002-2003 and \$3.4 billion in fiscal year 2003-2004. The modification included further reductions in planned agency spending, revenue increases, and City proposals that required approval by the State (\$1.7 billion) and Federal governments (\$850 million) and the municipal unions (\$600 million). The gap-closing program also assumed a \$600 million retroactive payment and an ongoing \$92 million payment from the Port Authority of New York and New Jersey for airport leases. The financial plan did not include wage increases for any City employees beyond the current round of collective bargaining and did not make any assumptions regarding State aid provided in the Governor's Executive Budget.

On April 15, 2003 the City released the Executive Budget for FY 2003-04 and, primarily as a result of the continued decline in the tax revenue forecast and added costs arising from the State's Executive

Budget (published after the January preliminary budget) the budget gap was projected to be \$3.8 billion in FY 2003-2004. The plan anticipated closing this budget gap through a \$600 million gap-closing program, state actions totaling \$2.7 billion (included a request for restoration of executive budget cuts, PIT reform and other State legislative proposals), \$1 billion contingency plan if the State failed to act on these proposals, a streamlining of the delivery of social services saving \$75 million, a Federal program worth \$200 million and \$200 million in revenue as part of the phased-in payment for the airport lease.

The City has recognized \$2.7 billion in State assistance as a result of the FY 2003-04 State Budget that was enacted in May of 2003.

## **Fiscal Oversight**

In response to the City's fiscal crisis in 1975, the State took action to help the City return to fiscal stability. These actions included the establishment of the Municipal Assistance Corporation for the City of New York (NYC MAC), to provide the City with financing assistance; 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.

The staffs of the FCB, OSDC, the City Comptroller and the Independent Budget Office, issue periodic reports on the City's financial plans. Copies of the most recent reports are available by contacting: FCB, 123 William Street, 23<sup>rd</sup> Floor, New York, NY 10038, Attention: Executive Director; Independent Budget Officer, OSDC, 59 Maiden Lane, 29<sup>th</sup> Floor, New York, NY 10038, Attention: Deputy Comptroller; City Comptroller, Municipal Building, 6<sup>th</sup> Floor, One Centre Street, New York, NY 10007-2341, Attention: Deputy Comptroller for Budget; and IBO, 110 William Street, 14<sup>th</sup> Floor, New York, NY 10038, Attention: Director.

## **Other Localities**

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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 2003-04 fiscal year or thereafter.

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 or disallow certain claims which, in turn, may require local governments to fund these expenditures from their own resources. It is also possible that New York City, other localities, 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.



The following tables summarize the debt of (i) all localities in the State outside of New York City and (ii) New York City.

<b>Debt of New York Localities(1)</b>						
(millions of dollars)						
<b>Locality Fiscal Year Ending</b>	<b>Combined</b>		<b>Other Localities Debt(3)</b>		<b>Total Locality Debt(3)</b>	
	<b>New York City Debt (2)</b>		<b>Bonds(4)</b>	<b>Notes(4)</b>	<b>Bonds(3)(4)</b>	<b>Notes(4)</b>
	<b>Bonds</b>	<b>Notes</b>				
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	37,516.3	515.0	19,058.9	3,991.6	56,575.2	4,506.6
2001	38,597.0	---	20,180.4	4,255.8	58,777.4	4,255.8
2002	40,818.8	2,200.0	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

(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.

(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.

**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
2001	26,835.8	3,217.0	7,386.0	703.7	622.9	(168.4)	38,597.0
2002	28,465.5	2,879.6	10,488.7 (3)	740.1	561.2	(116.3)	43,018.8

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

(2) Includes \$515 million of bond anticipation notes issued to finance the City's capital expenditures.

(3) Includes \$1.2 billion of bond anticipation notes issued to finance the City's capital expenditures and \$1 billion of bond anticipation notes for costs related to and arising from events on September 11, 2001 at the World Trade Center.

# Litigation

## General

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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 State's finances in the 2003-04 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 discontinue 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 2003-04 fiscal year or thereafter.

The General Purpose Financial Statements for fiscal year 2002-03 will report probable, awarded and anticipated unfavorable judgments against the State. The Statements will be available in July 2003.

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 2003-04 Financial Plan. The State believes that the proposed 2003-04 Financial Plan includes sufficient reserves to offset the costs associated with the payment of judgments that may be required during the 2003-04 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, after implementation of the fiscal management plan (for a discussion of the State's fiscal management plan and projected fund balances for the 2003-04 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 2003-04 Financial Plan resources available for the payment of judgments, and could therefore adversely affect the ability of the State to maintain a balanced 2003-04 Financial Plan.

## State Finance Policies

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### Empire Conversion

In *Consumers Union of U.S., Inc. v. State*, plaintiffs challenge the constitutionality of those portions of Chapter 1 of the Laws of 2002 which relate to the authorization of the conversion of Empire Health Choice, d/b/a Empire Blue Cross and Blue Shield from a not-for-profit corporation to a for-profit corporation. Chapter 1 requires, in part, that upon such conversion, assets representing 95 percent of the fair market value of the not-for-profit corporation be transferred to a fund designated as the “public asset fund” to be used for the purpose set forth in § 7317 of the Insurance Law. The State and private defendants have separately moved to dismiss the complaint. On November 6, 2002, the Supreme Court, New York County, granted a temporary restraining order, directing that the proceeds from the initial public offering of the for-profit corporation be deposited with the State Comptroller in an interest-bearing account, pending the hearing of a motion for a preliminary injunction, which was returnable simultaneously with the motions to dismiss, on November 26, 2002.

By decision dated February 28, 2003, the Supreme Court, New York County, granted the defendants’ motions to dismiss. In its decision, the court also granted plaintiffs leave to amend their complaint to assert a new cause of action and deferred decision on plaintiffs’ motion for a preliminary injunction. The plaintiffs and defendants have appealed from the February 28, 2003 decision. Plaintiffs served an amended complaint on April 1, 2003. On April 15, 2003, the defendants moved to dismiss the amended complaint.

### 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. By order dated June 17, 2002, the Supreme Court, New York County, granted defendant's motion for summary judgment, dismissing the complaint. Plaintiff has appealed to the Appellate Division, First Department. On July 22, 2002, the Senate of the State of New York moved in Supreme Court to intervene and for reargument.

### Gaming

In *Dalton, et al. v. Pataki, et al.*, plaintiffs seek a judgment declaring as unconstitutional, under provisions of the Constitutions of the United States and the State, parts B, C and D of Chapter 383 of the Laws of 2001, which respectively authorize (1) the governor to enter into tribal-state compacts for the operation by Indian tribes of gambling casinos in certain areas of the State, (2) the Division of the Lottery to license the operation of video lottery terminals at certain race tracks in the State and (3) the Division of the Lottery to enter into a joint, multi-jurisdiction and out-of-state lottery. Plaintiffs also seek to enjoin defendants from taking any action to implement the provisions of Chapter 383.

### 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 appropriation 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.

By decision and order dated November 7, 2001, the Supreme Court, Albany County, granted the State Comptrollers motion to dismiss this action as against the Comptroller. The plaintiff has appealed from that order. By decision and order dated January 17, 2002, the Supreme Court, Albany County, granted summary judgment dismissing certain affirmative defenses and declaring the actions of the Legislature in enacting the budget bills as modified or proposed by the Legislature other than the Legislative and Judiciary budget bills an unconstitutional violation of article VII of the State Constitution and denied defendants cross-motions for summary judgment. Defendants have appealed from the January 17, 2002 order to the Appellate Division, Third Department.

## Real Property Claims

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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.

In a decision dated March 29, 2002, the District Court granted, in part, plaintiffs' motion to strike the State's defenses and counterclaims. The defenses that were dismissed may not be asserted as to liability, but may still be asserted with respect to damages. The District Court also denied the State's motion to dismiss for failure to join indispensable parties.

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. The State has appealed from the judgment to the United States Court of Appeals for the Second Circuit.

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 Chatauga Counties. By order dated November 17, 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. By decision and order dated June 21, 2002, the District Court granted summary judgment to defendants dismissing that portion of the action relating to the islands in the Niagara River. A judgment entered June 21, 2002 dismissed all aspects of this action. Plaintiff has appealed from the judgment to the U.S. Court of Appeals for the Second Circuit.

## **School Aid**

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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 appealed, and the trial court's decision was stayed pending resolution of the appeal. By decision and order entered June 25, 2002, the Appellate Division, First Department, reversed the January 9, 2001 decision and dismissed the claim in its entirety. On July 22, 2002, the plaintiffs filed a notice of appeal to the decision and order to the Court of Appeals.

## **State Programs**

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### **Medicaid**

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 related case, *Charles T. Sitrin Health Care Center, Inc., et al. v. SONY, et al.*, plaintiffs seek a judgment declaring as unconstitutional, under provisions of the Constitutions of the United States and the State, amendments to Public Health Law § 2907-d, enacted as part of Chapter 1 of the Laws of 2002, also known as the Health Care Workforce Recruitment & Retention Act of 2002, or “HCRA 2002,” which impose a 6 percent assessment on nursing home gross receipts from patient care services and operating income. In a decision dated April 24, 2003, the Court granted summary judgment to defendants dismissing this case.

# 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 f 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, personal income tax revenue bonds, 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

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**Personal income taxes** are imposed on the New York income of individuals, estates and trusts. Personal income taxes are projected to account for roughly 57 percent of estimated All Government Funds tax receipts during the State's 2003-04 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 \$14,200 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. Legislation enacted in 2003 temporarily adds two higher tax rates and brackets for the 2003 through 2005 tax years. For the 2003 year, rates of 7.5 percent and 7.7 percent have been added for married couples with taxable incomes exceeding \$150,000 or \$500,000, respectively. 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 and dependent care credit, real property tax circuit breaker credit, earned income tax credit, and college tuition credit. Receipts from this tax are sensitive to changes in economic conditions in the State.

In 2001, legislation was enacted to provide for the issuance of State Personal Income Tax Revenue Bonds, which has become the primary financing vehicle for a broad range of existing State-supported debt programs previously secured by service contract or lease-purchase payments. The first bonds were issued in May 2002. The legislation provides that 25 percent of personal income tax receipts (excluding refunds owed to taxpayers and deposits to the STAR Fund) be deposited to the Revenue Bond Tax Fund for purposes of making debt service payments on the bonds, with excess amounts transferred to the General Fund.

In the event that (i) the State Legislature fails to appropriate amounts required to make all debt service payments on the State Personal Income Tax Revenue Bonds or (ii) having been appropriated and set aside pursuant to a certificate of the Director of the Budget, financing agreement payments have not been made when due on the bonds, the legislation requires that personal income tax receipts continue to be deposited to the Revenue Bond Tax Fund until amounts on deposit in the Fund equal the greater of 25 percent of annual personal income tax receipts or \$6 billion.

**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 current State sales tax rate is 4.25 percent, of which 3.25 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. Legislation enacted in 2002 lowered the electronic funds transfer threshold for taxpayers from \$1 million to \$500,000. Receipts from these taxes and fees are sensitive to economic conditions in the State. Legislation enacted in 2003 increased the sales tax rate from 4 percent to 4.25 percent beginning on June 1, 2003, and expiring on May 31, 2005. In addition, the legislation limited the exemption for clothing and footwear costing less than \$110 to two one-week periods in the State's 2003-04 fiscal year and resumed the permanent exemption on May 31, 2004.

The State imposes a *tax on cigarettes* at the rate of \$1.50 per package of 20 cigarettes and imposes a *tax on other tobacco products* equal to 37 percent of the wholesale price. 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 and from 20 percent to 37 percent on July 3, 2002. The tax on cigarettes was raised from 56 cents to \$1.11 per pack on March 1, 2000 and to \$1.50 per pack on April 3, 2002. The revenue derived from the tax is split, with 38.78 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 which provided that all motor fuel taxes be deposited in the dedicated transportation funds effective April 1, 2001.

*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 pool, of which 63 percent goes to the Dedicated Highway and Bridge Trust Fund. Legislation enacted in 2001 directed the deposit of \$169 million in non-registration fees to the Trust Fund in State fiscal year 2001-02. Legislation enacted in 2002 redirected \$171.6 million in non-registration fees to the Trust Fund in State fiscal year 2002-03 and \$152.7 million in State fiscal year 2003-04. Legislation enacted in 2003 increased the fee for certificate of sale (\$12 million) and for original title application (\$14.7 million) and directs those receipts, as well as \$59.9 million in existing non-registration motor vehicle fee revenues, to the Trust Fund effective April 1, 2004.

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 2002 raised fees on the majority of licenses by 28 percent. 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 reduced the tax on a gallon of beer from 12.5 cents to 11 cents on September 1, 2003, and accelerated 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 complement 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 fee 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. Legislation enacted in 2002 provided that effective April 1, 2002, all auto rental tax receipts be deposited in the dedicated transportation funds.

**Business taxes** include a general business corporation franchise tax as well as specialized franchise taxes on banks, insurance companies, 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. The franchise tax on utilities was eliminated as of January 1, 2000. Utilities now are taxed under the general business tax.

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 7.5 percent of taxable income allocated to New York. 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; and 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 included: reforms to the subsidiary capital tax; a further reduction on the alternative minimum tax rate from 3 percent to 2.5 percent; doubling the Empire 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 qualified companies meeting certain employment criteria. In 2002, legislation was enacted authorizing six new Empire Zones, and increasing the mandatory first installment of estimated business tax payments from 25 percent to 30 percent for businesses. In 2003, legislation was enacted that decouples New York from the Federal bonus depreciation provisions. This applies to property placed in service on or after June 1, 2003, except for qualified Resurgence Zone and New York Liberty Zone property. The legislation also requires the addback of certain expenses and payments related to intangible holding companies.

The *excise tax on telecommunications companies* and the *gross receipts tax on utilities* are the second largest source of receipts among the business taxes.

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 realized an additional rate cut of .375 percent in their franchise tax on July 1, 2000. Also, the franchise tax on trucking and railroads was 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 altered 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. In 2002, legislation was enacted increasing the mandatory first installment of estimated business tax payments from 25 percent to 30 percent. In 2003, legislation was enacted that would dedicate the remaining 20 percent of section 183 and section 184 revenues to the Dedicated Highway and Bridge Trust Fund.

*Insurance taxes* are imposed on insurance corporations, brokers and certain insurers at a basic rate of 7.5 percent (as of July 1, 2002) 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. 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. In 2002, legislation was enacted increasing the mandatory first installment payment from 25 percent to 30 percent. Legislation enacted in 2003 amends the insurance tax to place property and casualty insurance companies solely on a premiums tax base and imposes a minimum tax for life insurance companies.

The State imposes a *franchise tax on banking corporations* at a basic tax rate of 7.5 percent (as of July 1, 2002) of entire net income with certain exclusions, and subject to special rates for institutions with low net worth. The 7.5 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. This was extended in 2001 for two more years. 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-subsidaries. 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. In 2002, legislation was enacted increasing the mandatory first installment payment from 25 percent to 30 percent. In 2003, legislation was enacted extending the bank tax provisions concerning the taxation of commercial banks for two years, until December 31, 2004.

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. 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. New York has not conformed to the most recent changes in Federal law and thus the base of the tax is, in general, unaffected by such changes.

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. 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. Legislation enacted in 2003 provided for unlimited simulcasting, imposed a regulatory fee of 0.39 percent, allows racetracks to set the takeout rate, and eliminated minimum balances on telephone betting accounts. These actions are expected to increase revenue to the General Fund and to fully fund the expenses of regulating the industry. 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.

**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. Legislation enacted in 2002 re-imposed assessments on nursing home care providers and imposed a surcharge on State wireless communication services and increased bond issuance charges. Legislation enacted 2003 reduced the time period for collecting abandoned property related to the demutualization or similar reorganization of an insurance company from five years to two years. In addition, the \$4.2 billion in proceeds expected to be received from the sale of the State's tobacco payments under the national Master Settlement Agreement are budgeted as miscellaneous receipts.