Annual Information Statement

State of New York

September 19, 2004

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Dated: September 19, 2004

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Annual Information Statement of the State of New York

Introduction

This Annual Information Statement ("AIS") is dated September 19, 2004 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) extracts from the 2004-05 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." The first part of the Enacted Budget Financial Plan summarizes the major changes to the 2004-05 Executive Budget and the projected impact on operating results, annual spending growth, and the magnitude of future potential budget gaps; the second part provides detailed information on total receipts and disbursements projected in the State's governmental funds in 2004-05.

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. Information relating to matters described in the section entitled "Litigation" is furnished by the State Office of the 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 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. The State has filed this AIS with the Central Post Office, Disclosure USA. The Municipal Advisory Council of Texas (Texas MAC), has established this internet-based disclosure filing system approved by the Securities and Exchange Commission to facilitate the transmission of disclosure-related information to the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs). An official copy of this AIS may be obtained from the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705 or from any NRMSIR. The Basic Financial Statements for the 2003-04 fiscal year issued in July 2004 may be obtained from the Office of the State Comptroller, 110 State Street, Albany, NY 12236.

Usage Notice

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An informational copy of this AIS is available on the DOB website (www.budget.state.ny.us). The availability of this AIS in electronic form at DOB's website is being provided to you solely as a matter of convenience to readers and does not create any implication that there have been no changes in the financial condition of the State at any time subsequent to its release date. Maintenance of the AIS on this website is not intended as a republication of the information therein on any date subsequent to its release date.

Neither this AIS nor any portion thereof may be included in a Preliminary Official Statement, Official Statement, or other offering document, or incorporated by reference in an Official Statement unless (i) DOB has expressly consented thereto following a written request to the State of New York, Division of the Budget, State Capitol, Albany, NY 12224 and (ii) a CDA relating to the series of bonds or notes described in such Preliminary Official Statement, Official Statement, or other offering document has been agreed to be executed by DOB. Any such use, or incorporation by reference, of this AIS or any portion thereof in a Preliminary Official Statement, Official Statement, or other offering document or incorporated by reference in any Official Statement or other offering document without such consent and agreement by DOB to execute a CDA is unauthorized and the State expressly disclaims any responsibility with respect to the inclusion, intended use, and updating of this AIS if so misused.

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Current Fiscal Year

The State's current fiscal year began on April 1, 2004 and ends on March 31, 2005. On March 31, 2004, the State Legislature enacted appropriations for all State-supported, contingent contractual, and certain other debt service obligations for the entire 2004-05 fiscal year. On August 11, 2004, the Legislature completed action on the remaining appropriations and accompanying legislation constituting the budget for the 2004-05 fiscal year. The Governor vetoed portions of the budget revisions enacted by the Legislature on August 20, 2004. The Legislature is authorized to take action on the Governor's vetoes until December 31, 2004. The 2004-05 Enacted Budget Financial Plan, extracts of which are set forth below, was prepared by the DOB and reflects the actions of the Legislature and Governor as of the date of this AIS.

The 2004-05 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. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained in the 2004-05 Enacted Budget Financial Plan set forth herein.

2004-05 Enacted Budget Financial Plan

General Fund Summary

The 2004-05 Executive Budget recommended actions to close a General Fund budget gap of $5.1 billion. The recommendations included $2.6 billion in savings from spending restraint (including program restructuring and the use of alternate funding sources), $972 million in new revenues, and $1.5 billion in other measures. The Executive Budget projected budget gaps of $2.9 billion in 2005-06 and $4.4 billion in 2006-07, a reduction of $3.8 billion and $3.5 billion, respectively, from the initial gaps at the start of the 2004-05 budget cycle. The gap estimates assumed all the Executive Budget savings proposals were enacted in their entirety.

The Legislature completed action on the budget for the 2004-05 fiscal year on August 11, 2004. Consistent with prior years, the debt service bill was enacted by March 31, 2004. DOB estimates that, in comparison to the Executive Budget, the Legislative Budget Agreement identified $1.1 billion in new General Fund resources to fund $1.5 billion in additions and $280 million in new costs, leaving an imbalance of roughly $600 million to $700 million in 2004-05 and gaps of approximately $6 billion in 2005-06 and $8 billion in 2006-07.

The Governor vetoed General Fund spending additions valued at $235 million in 2004-05, reducing the projected General Fund imbalance in the current year to approximately $400 million. The vetoes are expected to generate comparable savings in 2005-06 and 2006-07. The Governor also vetoed $1.6 billion in new bonding for capital spending approved by the Legislature. Under the State Constitution, the Legislature may take action on the Governor's vetoes through December 31, 2004, or enact additional appropriations, subject to gubernatorial veto, at any time during the 2004-05 fiscal year.

General Fund Gaps (millions of dollars)			
	2004-05	**2005-06**	**2006-07**
2004-05 Executive Budget	**0**	**(2,852)**	**(4,354)**
Net Additions	(1,527)	(2,618)	(2,788)
New Costs	(280)	(650)	(823)
Available Resources	1,138	(230)	11
2004-05 Legislative Budget Agreement	**(669)**	**(6,350)**	**(7,954)**
Vetoes	235	211	259
Fiscal Management Plan	434	450	450
2004-05 Enacted Budget	**0**	**(5,689)**	**(7,245)**

The DOB, in close cooperation with State agencies, expects to develop a Fiscal Management Plan intended to balance the 2004-05 budget and reduce the outyear gaps. The Plan will be described in the Mid-Year Update to the Financial Plan that is expected to be issued by October 30, 2004. DOB expects that the Fiscal Management Plan will produce savings sufficient to balance the 2004-05 fiscal year and reduce the outyear gaps to the range of $5 billion to $6 billion in 2005-06 and roughly $7 billion in 2006-07. It is expected that with a Fiscal Management Plan, the State will not need to borrow from the rainy day reserve of $794 million to end the fiscal year in balance on a cash basis in the General Fund.

The DOB projects that All Funds spending will total $101.2 billion in 2004-05, an increase of $3.9 billion or 4.0 percent above actual 2003-04 results. When 2003-04 spending is adjusted to reflect certain deferrals, adjusted 2004-05 All Fund spending increases by $5.8 billion or 6.1 percent over 2003-04 levels.

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The following sections provide more detail on the General Fund changes since the Executive Budget, including legislative additions, vetoes, new costs and new resources.

General Fund Additions to the Executive Budget

DOB projects that the net General Fund additions above the level projected in the Executive Budget total $1.3 billion in 2004-05, $2.4 billion in 2005-06, and $2.5 billion in 2006-07, after reflecting available resources and vetoes. The following table summarizes, by major function, the Legislature's "gross" additions to the Executive Budget, the available resources specifically identified to offset certain spending additions, and the savings generated by the Governor's vetoes.

General Fund Additions -- Change from Executive Budget (millions of dollars)			
	2004-05	2005-06	2006-07
Gross Additions	**1,950**	**2,680**	**2,863**
Education/STAR	575	725	688
Higher Education	373	448	467
Medicaid/Health	507	954	1,299
Housing/Transportation/Environment	115	86	108
Human Services	107	134	136
Criminal Justice	76	98	98
General Government/Economic Development	27	27	17
Mental Hygiene	10	10	10
Tax/Revenue Restorations	60	98	40
Member Items	100	100	0
"Avails" Identified to Offset Gross Additions	**(423)**	**(62)**	**(75)**
Use 2004-05 VLTs to Finance School Aid Add	(240)	0	0
Bond Projects Financed on PAYGO Basis	(95)	2	4
Adjust Current TAP Roll at 70/30	(60)	0	0
Medicare Discount Cards	(18)	(19)	0
Resources Made Available by TAP Rejection	(10)	(45)	(79)
Total General Fund Additions (before vetoes)	**1,527**	**2,618**	**2,788**
Vetoes	**(235)**	**(211)**	**(259)**
Education/STAR	(28)	(12)	(12)
Higher Education	(30)	(50)	(69)
Medicaid/Health	(5)	(40)	(72)
Housing/Transportation/Environment	(75)	(13)	(13)
Human Services	(48)	(21)	(21)
Criminal Justice	(24)	(49)	(49)
General Government/Economic Development	(16)	(17)	(14)
Mental Hygiene	(9)	(9)	(9)
Total General Fund Additions (after vetoes)	**1,292**	**2,407**	**2,529**

The following information provides more detail on the legislative additions to the Executive Budget, including the impact of the Governor's vetoes.

Education/STAR[1]

General Fund Education/STAR Summary (millions of dollars)	2004-05	2005-06	2006-07
Increase School Aid (State Fiscal Year)	506	673	673
Reject STAR Plus Proposal	20	20	0
All Other Revisions	49	32	15
Gross Additions	**575**	**725**	**688**
Use 2004-05 VLTs to Finance School Aid Add	(240)	0	0
Vetoes	(28)	(12)	(12)
Net Additions	**307**	**713**	**676**

Total gross additions in the legislative budget for education are projected at $575 million in 2004-05, including $506 million for school aid. The 2004-05 school year increase is $751 million. The Legislature did not enact proposed reforms for Building Aid and Flex Aid, and restored most proposed reductions including: Board of Continuing Education Services (BOCES); Teacher Support Aid (TSA); other teacher-related programs; Library Aid; and Public Broadcasting.

In *Campaign for Fiscal Equity (CFE) v. State of New York*, the State Court of Appeals directed the State to implement a remedy by July 30, 2004 that ensures all children in New York City have the opportunity to receive a sound basic education (SBE). Although the Governor called the Legislature into special session on July 22, 2004 to enact legislation in response to the CFE decision, the Legislature failed to reach agreement on a remedy. As a result, the Court subsequently appointed a panel of three special masters who will submit a report by November 30, 2004 that summarizes their review and recommendations on the measures the State has taken to bring its school financing system into constitutional compliance with respect to New York City schools. For a discussion of this litigation, see the section entitled "Litigation - State Programs - School Aid" in this AIS.

Projected revenues of $240 million from video lottery terminals (VLTs) directed by the Legislature to offset the school aid addition in 2004-05, as well as vetoes of $28 million, result in a net addition of $307 million. The outyear value of VLTs are reserved for compliance with the CFE court case. For a discussion of litigation affecting VLTs, see the section entitled "Litigation - State Finance Policies - Gaming" in this AIS.

[1] School Tax Relief.

Higher Education

General Fund Higher Education Summary (millions of dollars)	2004-05	2005-06	2006-07
Reject TAP Restructuring Savings	272	302	302
SUNY Operating Aid	35	50	50
CUNY Operating Aid	25	33	33
SUNY/CUNY Community College	28	37	37
All Other Revisions	13	26	45
Gross Additions	**373**	**448**	**467**
Resources Made Available by TAP Rejection	(10)	(45)	(79)
Adjust Current TAP Roll at 70/30	(60)	0	0
Bond Projects Financed on PAYGO Basis	(95)	2	4
Vetoes	(30)	(50)	(69)
Net Additions	**178**	**355**	**323**

The budget included $373 million in gross additions for higher education, including $272 million to reflect legislative rejection of the Tuition Assistance Program (TAP) program restructuring initiatives, operating aid increases of $35 million for the State University of New York (SUNY), and $25 million for the City University of New York (CUNY), and $28 million for SUNY and CUNY community colleges.

The Legislature identified resources totaling $165 million to offset the gross additions in higher education, including $60 million in costs rolled into 2005-06 to maintain TAP program funding at 70 percent in the current fiscal year, and $95 million in bond financing for programs originally expected to be funded with pay-as-you-go resources. Together with $30 million in vetoes, the net additions are estimated to total $178 million.

Medicaid/Public Health

General Fund Medicaid/Public Health Summary (millions of dollars)	2004-05	2005-06	2006-07
Rejects Hospital/Home Care Assessments	198	217	217
Rejects Preferred Drug Program	37	119	119
Partially Rejects Nursing Home Assessment	36	43	258
Partially Rejects Pharmacy Cost Containment	37	52	52
Partially Rejects FHP Cost Containment	28	37	37
Rejects Closing Long-Term Care Loopholes	25	82	82
State Takeover of FHP Costs	25	158	226
Rejects Streamlining of Benefit Packages	32	35	35
Partially Rejects HCRA Cost Containment	22	32	52
Public Health	12	70	93
All Other Medicaid	55	109	128
Gross Additions	**507**	**954**	**1,299**
Medicare Discount Card	(18)	(19)	0
Vetoes	(5)	(40)	(72)
Net Additions	**484**	**895**	**1,227**

The Legislature did not enact Executive Budget cost containment initiatives to create a Preferred Drug Program and to reform the Family Health Plus (FHP), Early Intervention, and Long Term Care programs. The budget maintained a nursing home assessment of 5 percent in 2004-05 (the Executive Budget proposed 6 percent) and 2005-06, with complete elimination in 2006-07, but denied the 0.7 percent assessment on hospitals and home care providers. Finally, the State will begin paying for 50 percent of the local costs of the FHP beginning in January 2005 growing to 100 percent in January 2006 (the Executive Budget proposed the takeover of Long Term Care costs). Total gross additions are offset by $18 million in savings for the Elderly Pharmaceutical Insurance Coverage (EPIC) Program related to the Medicare discount card and $5 million in vetoes, for a net addition of $484 million.

Housing/Transportation/Environmental Conservation

General Fund Housing/Transportation/Environmental Conservation Summary (millions of dollars)	2004-05	2005-06	2006-07
Housing Capital	57	0	0
Shift EPF Expenses to the General Fund	14	25	25
Decrease DWI/DWAI Annual Surcharge	9	32	54
Reject $15 Surcharge for Parking Tickets	8	8	8
Restore 5 Percent Cuts in Agriculture Programs	7	7	7
Reject ATV Fee Increase	6	6	6
Add for Neighborhood Preservation Program	5	5	5
Add for Rural Preservation Program	2	2	2
All Other	7	1	1
Gross Additions	**115**	**86**	**108**
Vetoes	(75)	(13)	(13)
Net Additions	**40**	**73**	**95**

The Legislature added a total of $115 million including $57 million in capital spending financed with a portion of the $225 million available State of New York Mortgage Agency (SONYMA) balance (see "Available Resources" later in this AIS) and an additional $14 million transfer from the Environmental Protection Fund (EPF) to fund initiatives in the General Fund. Vetoes reduced the total additions by $75 million.

Human Services

General Fund Human Services Summary (millions of dollars)	2004-05	2005-06	2006-07
Reject Welfare Reform Proposals	50	104	107
Temp. Assistance for Needy Families	22	0	0
Increase Foster Care Payments to NYC	10	10	10
Reject Detention Block Grant	7	11	11
All Other	18	9	8
Gross Additions	**107**	**134**	**136**
Vetoes	(48)	(21)	(21)
Net Additions	**59**	**113**	**115**

The Legislature rejected most of the Executive's welfare reform proposals, including a reduction in welfare grant levels, a step-down in the level of the Earned Income Disregard and imposition of "full family" sanctions. In addition, the Legislature added $10 million in General Fund spending to support the

State's share of the total funding increase necessary to bring New York City foster care payments up to the full maximum State aid rate. In 2004-05, gross additions are projected at $107 million offset by $48 million in vetoes.

Criminal Justice

General Fund
Criminal Justice Summary
(millions of dollars)

	2004-05	2005-06	2006-07
Denial of Handgun Fees	31	11	11
Denial of the Work Zone Speed Enforcement	15	33	33
Increase Correction Officer Staffing Ratio	7	27	27
Add Funding for Correctional Facilites	6	11	11
Add Funding for Fulton Work Release Program	6	6	6
Restore Funding for Westchester Policing Program	3	3	3
All Other	8	7	7
Gross Additions	**76**	**98**	**98**
Vetoes	(24)	(49)	(49)
Net Additions	**52**	**49**	**49**

The Legislature added $76 million by denying proposed Executive fee increases ($31 million for handgun fees and $15 million for speed enforcement fines in transportation work zones), rejecting the closure of three correctional facilities, and increasing correction officer staffing ratios. Total gross additions were reduced by $24 million in vetoes for a net addition of $52 million.

General Government/Economic Development

General Fund
General Government/Economic Development Summary
(millions of dollars)

	2004-05	2005-06	2006-07
Various Economic Development Adds	12	13	13
Accelerate PILOT Payments	7	7	0
New Add for Capital Improvements	3	3	0
All Other Revisions	5	4	4
Gross Additions	**27**	**27**	**17**
Vetoes	(16)	(17)	(14)
Net Additions	**11**	**10**	**3**

The Legislature added $27 million in 2004-05. These additions include $12 million for economic development, including grants for local tourism and high-technology programs, and $7 million to accelerate payments otherwise due in future years to the city of Albany under the Payment in Lieu of Taxes (PILOT) program. These additions were lowered by $16 million in vetoes.

Mental Hygiene

General Fund Mental Hygiene Summary (millions of dollars)	2004-05	2005-06	2006-07
Restore OMH/OASAS Local Service Cuts	7	7	7
Senate Priority Program Adds	2	2	2
All Other	1	1	1
Gross Additions	**10**	**10**	**10**
Vetoes	(9)	(9)	(9)
Net Additions	**1**	**1**	**1**

The Legislature added $10 million to partially restore recommended cuts in the Office of Mental Health (OMH) and the Office of Alcoholism and Substance Abuse Services (OASAS) and to fund program adds in all of the Mental Hygiene agencies. The additions were offset by $9 million in vetoes.

Tax/Revenue Restorations

General Fund Tax/Revenue Restorations Summary (millions of dollars)	2004-05	2005-06	2006-07
Rejected/Modified Revenue Actions	**(29)**	**(21)**	**43**
Eliminate Restrictions of Quick Draw	(43)	(68)	(68)
Direct Wine Shipments	(2)	(3)	(3)
Empire Zones	0	(25)	(25)
Single Sales Factor for Manufacturers	0	8	16
Biotechnology Investment Credit	5	10	10
STAR Inflation Adjustment	11	57	113
New Tax Cuts	**(31)**	**(77)**	**(83)**
Long-Term Care Credit	(18)	(20)	(20)
Film Production Credit	(12)	(25)	(25)
Brownfields Expansion - Income/Corporate	0	(30)	(30)
All Other Sales Tax	(1)	(2)	(2)
New CAPCO Allocation	0	0	(6)
Net Additions	**(60)**	**(98)**	**(40)**

The Legislature did not approve several revenue actions proposed in the Executive Budget. The revenue lost by not enacting these proposals is projected to total $29 million in 2004-05. In addition, the Legislature added several tax reduction proposals not included in the Executive Budget that are expected to reduce revenues by $31 million in 2004-05.

Member Items

The Legislature added a $200 million lump sum for "member items." It is expected that this addition will result in costs of $100 million in 2004-05 and $100 million in 2005-06.

General Fund -- New Costs Since the Executive Budget

The 2004-05 Financial Plan reflects several new costs incurred since the Executive Budget was proposed by the Governor. These total $280 million in 2004-05, $650 million in 2005-06, and $823 million in 2006-07.

General Fund New Costs -- Change from Executive Budget (millions of dollars)			
	2004-05	2005-06	2006-07
Collective Bargaining Settlements (Statewide Pattern)	274	473	621
SUNY Capital Costs	21	0	0
Changes to Pension Reform	(15)	177	202
LGAC/STARC Payment to New York City	170	0	0
City Offset for LGAC/STARC	(170)	0	0
Total General Fund New Costs	**280**	**650**	**823**

Collective Bargaining: Since the start of the fiscal year, the State has reached labor settlements with many of the major employee unions, including the Civil Service Employees Association, the United University Professions, and the Professional Employee Federation, as well as the State's Management-Confidential employees. DOB projects that if, as expected, the State settles all the remaining contracts following the pattern set by these unions, it will result in $274 million in costs in 2004-05, growing to $473 million in 2005-06 and $621 million in 2006-07.

Pensions: Pension legislation enacted in July 2004 provides current year savings of $15 million above the Executive proposal, but is projected to cost $177 million in 2005-06, growing to $202 million in 2006-07. The legislation authorizes State and local governments to amortize 2004-05 pension costs above 7 percent of salary expenditures over a period of ten years at a market rate to be established by the State Comptroller. The first annual payment is due in 2005-06. In addition, the legislation extends the amortization option to local governments for costs above 9.5 percent in 2005-06 and 10.5 percent in 2006-07. In contrast, the Executive Budget proposed reforms would have produced recurring savings.

LGAC[2]/STARC[3]: The Legislature rejected the Executive Budget proposal to provide fiscal relief to New York City in a less costly way than having STARC issue bonds to stretch out existing New York City debt from the 1970s to 2034 at an estimated cost of $5.1 billion. The Legislature provided an appropriation to make a payment to the City of $170 million in 2004-05 (that would result, subject to annual appropriations, in $5.3 billion of payments to the City rather than the previous legislative agreement of $5.1 billion). However, it is expected that the City will provide $170 million to the State in 2004-05 to ensure that the State's Financial Plan does not incur unplanned costs.

[2] Local Government Assistance Corporation.
[3] State Tax Asset Receivable Corporation.

General Fund -- Available Resources Above the Executive Budget

General Fund available resources above the level projected in the Executive Budget are estimated to total $1.1 billion in 2004-05 and $11 million in 2006-07, and to drive additional costs of $230 million in 2005-06. These available resources are summarized below. See the section entitled "2004-05 Governmental Funds Financial Plans" in this AIS for a discussion of the receipts forecast.

General Fund Available Resources -- Change from Executive Budget (millions of dollars)			
	2004-05	2005-06	2006-07
Revenue Consensus Forecast	325	350	375
Spending Reductions/Reestimates/Other	225	38	39
Housing SONYMA Balances	225	(225)	0
Empire Conversions	200	0	0
Alteration of Clothing Sales Tax Exemption	83	(429)	(451)
2003-04 Surplus Above Executive Budget Projection	47	0	0
Fund Balances	25	0	0
Abandoned Property Resources	20	21	21
Seven Day Sales at Liquor Stores	1	2	2
Internet Affiliate/Procurement	0	13	25
Native American Regulations	(13)	0	0
Total General Fund Available Resources	**1,138**	**(230)**	**11**

Revenue Consensus: The current DOB forecast of $325 million in additional available resources is based on the mid-point of the consensus revenue forecast agreed to with the Legislature in March 2004 ($150 million to $500 million). DOB believes that current economic conditions and actual collections experience support this estimate. While the forecast has upside potential given receipt collections through August in certain components of revenue, the recent slowdown in employment growth and consumer spending and large increases in energy prices, combined with recent declines in equity market valuations, represent risks to the current year forecast.

Spending Reductions/Reestimates/Other: This category consists of legislative spending cuts in various programs and agencies, and lower projected spending based on actual results through August 2004.

Housing SONYMA Balances: The Enacted Budget accelerates into 2004-05 the use of a one-time fund balance of $225 million from SONYMA originally planned to reduce the 2005-06 budget gap.

Empire Conversions: The Financial Plan assumes that the conversion of Empire Blue Cross and Blue Shield to a for-profit corporation will produce $1.2 billion in receipts in State Fiscal Year 2004-05, $200 million above the level forecast in the Executive Budget. The Executive Budget proposed language authorizing additional insurance conversions intended to assure the receipt of the assumed Empire conversion proceeds. The Legislative Budget Agreement did not include that language which could jeopardize receipt of these proceeds.

Alteration of Clothing Sales Tax Exemption: The Legislature did not enact the Executive proposal to permanently substitute four “sales-tax-free” weeks (for items less than $500) for the current clothing exemption for items under $110. Instead, the Legislature passed the reform for 2004-05 only. The outyear cost of the Legislature’s action would exceed $400 million annually if the reform is not extended.

Native American Regulations: The Department of Taxation and Finance estimated additional collections of $60 million in All Funds receipts if the Executive Budget proposal for parity agreements was enacted. That legislation was replaced by the Legislature with an action that implements proposed Tax Department regulations by January 1, 2005. This action is expected to lead to a General Fund loss of $13 million in 2004-05.

General Fund -- Nonrecurring Resources

The Executive Budget recommended a total of $1.5 billion in nonrecurring actions which were detailed in the Executive Budget Financial Plan. The Legislature accepted these actions and added roughly $550 million in additional nonrecurring resources to fund a portion of its additions. The additional nonrecurring resources are comprised of surplus reserves from the Housing Finance Agency (HFA) originally planned to lower the projected 2005-06 gap ($225 million), additional Empire conversion proceeds ($200 million), additional bonding of capital spending, sweeps of available fund balances, and 2003-04 surplus amounts above the Executive Budget projection.

2004-05 Nonrecurring Resources (millions of dollars)	
Revenues:	**1,182**
2003-04 Surplus	308
SONYMA Balances	225
Tobacco Securitization	182
LGAC Payment from NYC	170
PASNY	100
Fund Sweeps	97
Reverse Meyers Tax Decision	50
Bond Issuance Charges	50
Spending:	**883**
Bonding of Capital Spending	378
Empire Conversion	200
Delay Medicaid Cycle	190
Federal Welfare Funds	115
Total Nonrecurring Resources	**2,065**

Vetoes

The Governor vetoed 105 separate legislative additions, generating General Fund savings of roughly $700 million over three years. In addition, the Governor vetoed $1.6 billion in additional bond-financed capital spending, to avoid roughly $2.5 billion of long-term debt service costs.

Fiscal Management Plan

In order to assure budget balance in the current fiscal year and to begin to address the 2005-06 and 2006-07 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 October when DOB issues the Mid-Year Update to the 2004-05 Financial Plan. 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;
- Updating agency management plans to eliminate, consolidate, and streamline governmental services;
- Maximizing Federal aid; and
- Developing cost containment proposals that can be presented for legislative action later this year.

In addition, DOB will continue to review actual results against plan.

All Governmental Funds Summary

Summary of Receipts Growth

Total receipts in 2004-05 are projected to be $42.7 billion in the General Fund, $63.2 billion in State Funds, and $100.1 billion in All Governmental Funds, an annual increase of $328 million (.8 percent), $1.0 billion (1.6 percent) and $1.1 billion (1.1 percent) respectively.

Summary of Annual Receipts Growth (millions of dollars)

	General Fund	State Funds	All Funds
2003-04 Actuals	**42,327**	**62,170**	**98,989**
2004-05 Executive Budget	**41,846**	**63,142**	**99,521**
Available Resourses	689	774	774
New Costs/Reestimates	121	(714)	(128)
Vetoes	(1)	(49)	(49)
Net Change from Executive Budget	**809**	**11**	**597**
2004-05 Enacted Budget	**42,655**	**63,153**	**100,118**
Annual Change from 2003-04			
-- Dollar Change	***328***	***983***	***1,129***
-- Percent Change	***0.8%***	***1.6%***	***1.1%***
Annual Change Adjusted for $1.9B in Tobacco Proceeds Received in 2003-04			
-- Dollar Change	***2,228***	***2,883***	***3,029***
-- Percent Change	***5.5%***	***4.8%***	***3.1%***

NOTE: Annual growth is affected by the receipt of $1.9 billion in tobacco bond proceeds in 2003-04. The nonrecurring increase in receipts artificially inflates the 2003-04 revenue base and thus understates the annual change to 2004-05. Accordingly, DOB is reporting the annual revenue change on both an adjusted (excluding the impact of tobacco proceeds) and unadjusted basis.

Receipts in the 2004-05 Enacted Budget exceed the level recommended in the Governor's Executive Budget by $809 million in the General Fund, $11 million in State Funds, and $597 million in All Funds.

The major components of these receipt changes are summarized in the following table and in the section entitled "2004-05 Governmental Funds Financial Plans" in this AIS.

Summary of Receipts Changes (millions of dollars)	General Fund	State Funds	All Funds
2004-05 Executive Budget	**41,846**	**63,142**	**99,521**
Revenue Consensus Forecast	325	325	325
Housing SONYMA Balances	225	225	225
City Offset for LGAC/STARC	170	170	170
Alteration of Clothing Sales Tax Exemption	83	83	83
Fund Balances	25	0	0
Abandoned Property Resources	20	20	20
2003-04 Surplus Above Executive Budget Projection	21	21	21
Native American Regulations	(13)	(13)	(13)
Tax/Revenue Restorations	(60)	(60)	(60)
Health Care Provider Assessments	0	(264)	(264)
All Other	13	(496)	90
2004-05 Enacted Budget	**42,655**	**63,153**	**100,118**
Change from Executive Budget	**809**	**11**	**597**

The largest areas of All Governmental Funds receipt growth since the Executive Budget include the revised revenue consensus forecast ($325 million), the SONYMA balance ($225 million), and the expected New York City one-time payment to the State as part of the LGAC/STARC transaction ($170 million). For a more detailed discussion of these changes, see “General Fund Available Resources” and “New Costs” earlier in this AIS.

Total State Funds and All Governmental Funds receipts are offset by the Legislature's rejection of certain health care provider assessments ($264 million) and various reestimates in the Capital Projects and Special Revenue fund types based upon prior-year actual results and year-to-date experience.

Summary of Disbursement Growth

DOB projects General Fund disbursements will total $43.0 billion in 2004-05, an increase of $974 million (2.3 percent) over 2003-04 actual results. State Funds and All Governmental Funds disbursements are projected to reach $64.3 billion and $101.2 billion in 2004-05, an increase of $3.0 billion (4.8 percent) and $3.9 billion (4.0 percent) over the prior year. When adjusted for $1.9 billion of payment deferrals which artificially increased 2003-04 spending levels, the annual spending increases are 7.2 percent, 8.2 percent and 6.1 percent, respectively, for the General Fund, State Funds, and All Funds.

The spending estimates in this AIS reflect savings from the Governor’s vetoes as well as a $90 million reduction in the level of projected spending for legislative member items in 2004-05, based on actual experience to date.

Summary of Annual Disbursement Growth (millions of dollars)	General Fund	State Funds	All Funds
2003-04 Actuals	**42,065**	**61,332**	**97,326**
2004-05 Executive Budget	**41,896**	**63,503**	**99,811**
Net Spending Additions	1,417	1,548	1,928
New Costs/Reestimates	(38)	(472)	(227)
Vetoes	(236)	(286)	(305)
Net Change from Executive Budget	**1,143**	**790**	**1,396**
2004-05 Enacted Budget	**43,039**	**64,293**	**101,207**
Annual Change from 2003-04			
-- Dollar Change	***974***	***2,961***	***3,881***
-- Percent Change	***2.3%***	***4.8%***	***4.0%***
Annual Change Adjusted for $1.9B in Payment Deferrals Paid in 2003-04			
-- Dollar Change	***2,874***	***4,861***	***5,781***
-- Percent Change	***7.2%***	***8.2%***	***6.1%***

NOTE: Annual growth is affected by the deferral of $1.9 billion in payments from 2002-03 to 2003-04. The deferral artificially inflates the 2003-04 spending base and thus understates the annual change to 2004-05. Accordingly, DOB is reporting the annual spending change on both an adjusted (excluding the impact of payment deferrals) and unadjusted basis.

Estimated disbursements in the 2004-05 Enacted Budget exceed the level recommended in the Governor's Executive Budget by $1.1 billion in the General Fund, $790 million in State Funds and $1.4 billion in All Funds. The major components of these disbursement changes are summarized in the following table, and are explained in more detail below and in the section entitled "2004-05 Governmental Funds Financial Plans" in this AIS.

Summary of Disbursement Changes (millions of dollars)	General Fund	State Funds	All Funds
2004-05 Executive Budget	**41,896**	**63,503**	**99,811**
Medicaid	200	154	583
School Aid/STAR	309	561	671
All Other Education	73	81	171
Higher Education	272	224	224
Collective Bargaining Settlements (Statewide Pattern)	274	359	417
LGAC/STARC Payment to New York City	170	170	170
All Other	(155)	(759)	(840)
2004-05 Enacted Budget	**43,039**	**64,293**	**101,207**
Change from Executive Budget	**1,143**	**790**	**1,396**

The largest areas of All Governmental Funds disbursement changes since the Executive Budget (excluding Federal education reclassification) are in the areas of Medicaid ($583 million), school aid/STAR ($671 million), all other education programs ($171 million), and higher education ($224 million). The changes in these major programs, which represent most of the spending additions to the 2004-05 Executive Budget, are described in more detail below.

Collective bargaining settlements and the LGAC/STARC payment to New York City are the other significant factors in the growth in spending above the Executive Budget forecast. The increases in spending are partially offset by legislative spending reductions and reestimates in projected spending for capital projects and Federal programs based upon prior-year actual results and year-to-date experience.

Medicaid

DOH Medicaid - Sources of Changes from Executive Budget (millions of dollars)

	General Fund	Other State Supported Funds	State Funds	Federal Funds	All Funds
2004-05 Executive Budget	**6,325**	**2,987**	**9,312**	**19,406**	**28,718**
Provider Assessments	234	(264)	(30)	0	(30)
Pharmacy Cost Containment	74	0	74	148	222
Additional Support by HCRA	68	28	96	83	179
State Takeover of Local Costs	25	0	25	0	25
All Other Adds	93	0	93	147	240
Additional Resources	(218)	218	0	0	0
All Other Changes	(76)	(28)	(104)	51	(53)
2004-05 Enacted Budget	**6,525**	**2,941**	**9,466**	**19,835**	**29,301**
Change from Executive Budget	**200**	**(46)**	**154**	**429**	**583**

New York's Medicaid program is financed jointly by the Federal government, the State, and local governments (including New York City). The Federal Government matching rate on eligible Medicaid expenditures is 50 percent, the lowest matching rate possible. Total Medicaid financing (including administrative costs) from all sources is projected to reach $44.5 billion in 2004-05, consisting of $22.9 billion in Federal support, $14.2 billion in State funding, and $7.1 billion in local government financing. The Financial Plan does not include the local government share of Medicaid funding, but does include the entire Federal share of the program. Total State Medicaid spending of $14.2 billion consists of Department of Health (DOH) State Funds of $9.5 billion, as well as $4.7 billion in spending by other State agencies and administrative costs.

Compared to the Executive Budget projections for 2004-05, DOH Medicaid spending has increased by $200 million in the General Fund, $154 million in State Funds, and $583 million in All Governmental Funds.

The Legislature did not accept some of the cost savings measures proposed by the Executive, adding spending above 2003-04 levels of $494 million to the General Fund, $258 million in State Funds and $636 million in All Funds. The spending increases are expected to be partially financed in the General Fund by $200 million in additional Empire conversion proceeds and an estimated $18 million from the implementation of auto-enrollment into the Medicare Transitional Drug Discount Card Program. The additional spending comprises:

Provider Assessments: The Legislature rejected the Executive Budget proposals to restore a 0.7 percent assessment on hospital and home care revenues, and to restore the nursing home reimbursable assessment to 6.0 percent of revenues to finance a portion of State Medicaid spending. Instead, the nursing home assessment will continue at 5.0 percent in 2004-05 and 2005-06 and be completely phased out in 2006-07. As a result, spending is increased by $234 million in the General Fund and reduced by $264 million in the Provider Assessment Special Revenue Fund, which is supported by the assessment revenues.

Pharmacy Cost Containment: Several proposals intended to control the rising costs of prescription drugs and reduce spending growth were restored by the Legislature at an estimated cost of $74 million to the General Fund and $148 million to Federal Funds. The proposals included a Preferred Drug Program, requiring prior authorization for certain high-cost drugs; reducing the reimbursement rate to pharmacies; and increasing pharmacy co-payments for Medicaid recipients.

Additional Support by the Health Care Reform Act (HCRA): The denial of cost containment initiatives in various programs supported by HCRA, including the FHP and Child Health Plus (CHP) programs, that would have reduced General Fund and HCRA costs, is projected to add spending of $68 million to the General Fund, $28 million in the HCRA Transfer Special Revenue Fund, and $83 million in Federal Funds.

State Takeover: The Legislature did not accept the proposed multi-year State takeover of local government Medicaid costs of long-term care services. Instead it required the State to take over 50 percent of local government FHP costs beginning in January 2005, growing to 100 percent of the local government share in January 2006. As a result, 2004-05 General Fund spending is increased by $25 million above the Executive Budget plan and provides a total local benefit of $49 million in 2004-05 growing to $291 million in 2005-06.

All Other Adds: Other rejected Executive cost containment and savings initiatives increase Medicaid costs by $93 million in the General Fund and $147 million in Federal Funds. These items include the elimination of various optional services provided to Medicaid recipients, closing long-term care eligibility loopholes, nursing home cost containment initiatives including the elimination of payment "add-ons" for facilities with more than 300 beds and hospital-based facilities, and various other cost containment initiatives.

School Aid/STAR

School Aid/STAR - Sources of Changes from Executive Budget (millions of dollars)

	General Fund	Other State Supported Funds	State Funds	Federal Funds	All Funds
2004-05 Executive	**12,530**	**5,018**	**17,548**	**0**	**17,548**
School Aid Increase	506	0	506	0	506
VLT Revenues	(240)	240	0	0	0
Quick Draw Restriction	43	(43)	0	0	0
RESCUE	0	35	35	0	35
Reject STAR Plus Proposal	0	20	20	0	20
Federal Education Aid Reclassification	0	0	0	1,175	1,175
Federal Education Aid Reestimate	0	0	0	110	110
2004-05 Enacted Budget	**12,839**	**5,270**	**18,109**	**1,285**	**19,394**
Change from Executive Budget	**309**	**252**	**561**	**1,285**	**1,846**

In the General Fund, school aid spending increased by $309 million above the level projected in the 2004-05 Executive Budget. Spending from State Funds grew by $561 million, primarily reflecting the use of VLT revenues to finance a portion of the 2004-05 school aid increase. In addition to the State Funds increase, Federal Funds increased by $1.3 billion primarily due to the reclassification of certain federally supported education programs (Title 1, teacher quality, and other reading programs) from other education to school aid. These changes are described below:

School Aid Increase: The Legislature added $506 million on a fiscal year basis to the General Fund, producing a 2004-05 school year increase of $751 million over the prior year.

VLT Revenue: The Executive Budget set aside $240 million in VLT revenues to support SBE requirements. The Enacted Budget redirects the VLT revenues in 2004-05 to partially finance the General Fund school aid increase. For litigation affecting VLTs, see the section entitled "Litigation - State Finance Policies - Gaming" in this AIS.

Quick Draw Restrictions: The Legislature rejected the Executive Budget proposal to eliminate restrictions on the Quick Draw program. As a result, spending is projected to increase by $43 million in the General Fund and decline by an equal amount in the Lottery Special Revenue Fund.

RESCUE: Due to delayed school district claiming, school district claims for payment under the Rebuilding Schools to Uphold Education (RESCUE) program that were originally budgeted in 2003-04 are now expected to be paid in 2004-05, resulting in an increase of $35 million above the Executive Budget spending estimates.

STAR Plus Proposal: The Legislature rejected an inflationary adjustment to the STAR benefit for residents of school districts that complied with a proposed cap on spending growth (the cap was rejected, as well) adding $20 million to the Executive Budget estimate.

Federal Education Aid: The increase of $1.3 billion in Federal Aid reflects the reclassifications of certain programs from all other education to school aid, as well as reestimates since the Executive Budget projections in Federal aid of approximately $110 million based upon prior year results for various grants to local education agencies.

All Other Education Aid

Other Education Aid - Sources of Changes from Executive Budget (millions of dollars)					
	General Fund	Other State Supported Funds	State Funds	Federal Funds	All Funds
2004-05 Executive Budget	**1,412**	**73**	**1,485**	**2,820**	**4,305**
Federal Education Aid Reclassification	0	0	0	(1,175)	(1,175)
Federal Education Aid Reestimate	0	0	0	90	90
All Other Revisions	73	8	81	0	81
2004-05 Enacted Budget	**1,485**	**81**	**1,566**	**1,735**	**3,301**
Change from Executive Budget	**73**	**8**	**81**	**(1,085)**	**(1,004)**

State Funds education aid (other than general support to public schools) is projected to increase by $81 million over the 2004-05 Executive Budget recommendation. In addition to the State Funds increase, All Governmental Funds decreased by $1.0 billion primarily due to the reclassification of certain federally supported education programs (Title 1, teacher quality, and other reading programs) from all other education aid to school aid. The major changes include:

Federal Education Aid: The decrease of $1.1 billion in Federal Funds reflects the reclassification of $1.2 billion offset by an upward reestimate of $90 million based upon 2003-04 actual results. The higher Federal estimate reflects additional funding from various education grants.

All Other Revisions: Includes the restoration of library aid, Bundy aid, as well as reestimates related to the closeout of the 2003-04 fiscal year.

Higher Education

Higher Education - Sources of Changes from Executive Budget (millions of dollars)					
	General Fund	Other State Supported Funds	State Funds	Federal Funds	All Funds
2004-05 Executive Budget	**2,673**	**3,705**	**6,378**	**182**	**6,560**
Reject TAP Restructuring Savings	272	0	272	0	272
Current TAP Roll	(60)	0	(60)	0	(60)
SUNY Operating Aid Add	35	0	35	0	35
CUNY Operating Aid Add	25	0	25	0	25
SUNY/CUNY CC Adds	8	0	8	0	8
All Other Revisions	(8)	(48)	(56)	0	(56)
2004-05 Enacted Budget	**2,945**	**3,657**	**6,602**	**182**	**6,784**
Change from Executive Budget	**272**	**(48)**	**224**	**0**	**224**

Spending is projected to increase from the Executive Budget level by $224 million, reflecting $272 million in the General Fund partially offset by a decrease of $48 million in other State-supported funds. The major components of higher education spending changes include:

Reject TAP Restructuring: The Executive Budget proposed reforms in TAP which would defer one-third of each student's award until graduation as an incentive for timely degree completion. The Legislature rejected those reforms, and as a result, spending increased by $272 million from the Executive Budget projections.

Current TAP Roll: $60 million in additional costs associated with the restoration of the TAP program will occur in 2005-06 to maintain program funding at 70 percent in the current fiscal year.

SUNY/CUNY Operating Aid Adds: The Legislature added operating aid of $35 million for SUNY and $25 million for CUNY.

SUNY/CUNY Community College Adds: The Legislature added $8 million for SUNY and CUNY community colleges for a $50 per full-time student base aid increase.

General Fund Outyear Projections

At the beginning of the 2004-05 budget cycle, the State faced potential General Fund budget gaps of $6.7 billion in 2005-06 and $7.8 billion in 2006-07. The recurring savings proposed in the 2004-05 Executive Budget recommendations reduced the gaps to $2.9 billion and $4.4 billion, respectively.

Compared to Executive Budget projections, the General Fund budget gaps for the 2005-06 and 2006-07 fiscal years have increased, and now are estimated at roughly $5 billion to $6 billion in 2005-06 and roughly $7 billion in 2006-07. The gaps are roughly $1 billion below the original baselevel projections.

Projected General Fund Outyear Gaps (millions of dollars)		
	2005-06	**2006-07**
2004-05 Baselevel Budget	**(6,727)**	**(7,805)**
Proposed Executive Budget Actions	3,875	3,451
2004-05 Executive Budget	**(2,852)**	**(4,354)**
Net Additions	(2,618)	(2,788)
New Costs	(650)	(823)
Available Resources	(230)	11
2004-05 Legislative Budget Agreement	**(6,350)**	**(7,954)**
Vetoes	211	259
Fiscal Management Plan/Revenue Forecast	450	450
2004-05 Enacted Budget -- Remaining Gaps	**(5,689)**	**(7,245)**
2006-07 Gap if 2005-06 Gap is Closed with Recurring Actions		***(1,556)***

The current budget gap estimates reflect the Legislature's revisions to the budget, new costs, the value of gubernatorial vetoes, and expected savings resulting from a Fiscal Management Plan that will be implemented in 2004-05. If the 2005-06 budget gap were closed entirely with recurring actions, the 2006-07 gap would be reduced to $1.6 billion.

It should be noted that the current gap projections are subject to revision as additional information becomes available about, among other things, 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 and welfare cycle trend analyses. Historically, these factors have been subject to a high degree of fluctuation across the forecast period, and could produce results above or below the current projections.

Sources of Projected General Fund Outyear Gaps

The projected General Fund gaps are primarily the result of anticipated spending increases that exceed the growth in revenue collections, as well as the loss of nonrecurring resources used to help balance the budget in 2004-05.

Sources of 2005-06 Budget Gap (billions of dollars)	
	2005-06
Revenue Growth	2.2
Loss of Nonrecurring Actions	(2.1)
PIT/Sales Tax Temporary Surcharge Phase-out	(0.6)
Clothing Exemption	(0.4)
All Other Revenue Changes	(0.9)
Medicaid	(1.6)
School Aid	(0.6)
Pension Costs	(0.4)
All Other Spending Growth	(1.3)
2005-06 Projected Budget Gap	**(5.7)**

The major sources of the 2005-06 budget gap are described in more detail below.

Outyear Receipts

Sources of Annual Increase/(Decrease) in Projected Receipts (millions of dollars)	
	2005-06
Total Receipts Change	**(912)**
Revenue Growth	2,230
Loss of Nonrecurring Revenues	(1,182)
PIT/Sales Tax Temporary Surcharge Phase-out	(621)
Clothing Exemption	(429)
Final Use of Tobacco Proceeds	(400)
Revenue Bond Tax Fund	(174)
STAR Fund Transfer	(159)
Additional Tax Cuts	(49)
All Other	(128)

Receipts in 2005-06 are projected to decrease by $912 million from the current year. Underlying revenue growth of $2.2 billion (4.8 percent) in 2004-05 revenue growth is offset by decreases attributable to the loss of several one-time revenues ($308 million from the 2003-04 surplus; $225 million from SONYMA; $182 million in tobacco settlement payments; $170 million from the City of New York related to the LGAC/STARC transaction; $100 million from the Port Authority of New York and New Jersey; $97 million from fund sweeps; $50 million from the legislation to reverse the effect of the "Meyers" decision to eliminate delays in collecting tax payments and $50 million from the continuation of bond issuance changes). In addition, revenues decline due to the phase-out of the personal income tax (PIT) surcharge and a one-quarter percent increase in sales tax ($621 million), the change in the clothing exemption ($429 million), the final use of the tobacco securitization proceeds ($400 million) and transfers for the Revenue Bond Tax Fund (RBTF) for increasing debt service costs and STAR for local property tax relief ($333 million).

Outyear Disbursements

Sources of Annual Increase/(Decrease) in Projected Disbursements (millions of dollars)	2005-06
Total Disbursements Change	**4,893**
Loss of Nonrecurring Actions	
Bonding of Capital Spending	378
Empire Conversion Proceeds	200
Delay of Medicaid Cycle	190
Use of Federal Welfare Funds	115
Spending Growth	
Medicaid	1,648
School Aid	646
Social Services	381
Higher Education	163
Pension Costs	429
Employee Health Insurance	335
All Other	408

Spending is projected to increase by $4.8 billion in 2005-06. The growth is primarily attributable to the loss of one-time savings, and growth in Medicaid, school aid, social services, higher education, mental hygiene, and employee benefits. The assumptions behind the current projections are summarized below.

The use of nonrecurring actions in 2004-05 is expected to add roughly $883 million in costs in 2005-06, as resources to lower spending are no longer available. The major components include bonding of capital spending ($378 million), the use of additional Empire Conversion proceeds ($200 million), delayed Medicaid cycle payments ($190 million), and availability of Federal Welfare Funds ($115 million).

Growth in Medicaid of $1.6 billion in 2005-06 is attributable to the increasing cost of providing health care services, as well as the rising number of recipients and corresponding increases in medical service utilization. These trends account for a projected increase of nearly half of the overall growth. This estimate is based on current experience in the State's Medicaid program and the Congressional Budget Office's national projections. In addition to this growth, the expiration of a temporary 2.95 percent Federal share increase will result in $220 million in higher State share spending in 2005-06. The remaining growth includes $242 million ($49 million in 2004-05 growing to $291 million in 2005-06 and $468 million in 2006-07) to finance the continued phase-in of the State takeover of local government FHP costs, and various other changes including the planned repayment of a 2002-03 loan from HCRA and the discontinuation of certain county shares adjustments.

The school aid projections assume growth in expense-based programs and other selected aid categories. On a State fiscal year basis, school aid spending is projected to grow by $646 million in 2005-06. The school year basis growth is estimated at roughly $350 million in 2005-06 and $250 million in

2006-07, however these increases do not reflect additional spending for CFE as the Legislature did not address this issue in the 2004-05 Enacted Budget.

Social services spending is projected to increase by $381 million in 2005-06 primarily due to projected increases in both the family assistance caseload (4.7 percent) and single adult/childless couples caseload (10 percent), as well as growth in expenditures per person (3 percent).

Spending for higher education programs in 2005-06 ($163 million) is largely attributable to projected growth in CUNY and SUNY operating costs.

State pension costs are anticipated to grow $429 million in 2005-06, due to prior year pension fund investment losses that have significantly increased the employer contribution rate to the New York State and Local Retirement Systems and the impact of amortizing a portion of the 2004-05 pension bill. The projections reflect employer costs of roughly 10.5 percent of payroll in 2005-06 and 12.5 percent in 2006-07. Rising employee health care costs of $335 million in 2005-06 assume 15 percent annual premium increases.

All other spending growth is comprised of inflationary spending increases across numerous local assistance programs, cost of collective bargaining agreements with many of the State's employee unions and the anticipated settlements with the remaining unions ($199 million in 2005-06) and normal salary step increases and non-personal service increases (roughly $125 million).

Cash Flow

In 2004-05, while certain daily cash balances have been low, General Fund month-end balances have been strong. Accordingly, DOB projects positive quarterly balances of $2.2 billion in September, $1.3 billion by the end of December 2004, and $1.1 billion at the end of March 2005 (including Fiscal Management Plan savings). The lowest projected month-end cash flow balance is $1.0 billion in November 2004. See the tables later in this AIS for monthly cash flow projections.

The State Comptroller invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments, through the State's Short-Term Investment Pool (STIP), which comprises of joint custody funds (Governmental Funds, Internal Service Funds, Enterprise Funds, and Private Purpose Trust Funds), as well as several sole custody funds.

OSC is authorized to make temporary loans from the State's STIP to cover temporary cash shortfalls in certain funds and accounts resulting from the timing of receipts and disbursements. The Legislature authorizes the funds and accounts that may receive loans each year. Loans may be granted only for amounts that are "receivable on account" or can be repaid from the current operating receipts of the particular fund (i.e., loans cannot be granted in expectation of future revenue enhancements). The 2004-05 Enacted Budget extends legislation that permits OSC to temporarily loan balances in other funds to the General Fund within any month that must be repaid by month end. This authorization was utilized in May 2004 to support intra-month cash flow needs; however, as required under the legislation, the General Fund ended May 2004 with a positive cash balance of $1.2 billion.

GAAP Financial Plans

DOB also prepares the General Fund and All Governmental Funds Financial Plans in accordance with Generally Accepted Accounting Principles (GAAP). The GAAP operating results for 2003-04 and the projections for 2004-05 are based on the accounting principles applied by the State Comptroller in the financial statements issued for the 2003-04 State fiscal year, and reflect the impact of Governmental

Accounting Standards Board (GASB) Statement 34. GASB 34 has significantly changed the presentation of GAAP financial information for state and local governments. The changes are intended to portray the State's net overall financial condition, including activities that affect State assets and liabilities during the fiscal year. Based on the new GASB 34 presentation, the State had a net positive asset condition on March 31, 2004 of $39.1 billion, a decrease of $3.3 billion from the prior year.

In the General Fund, the State ended the 2003-04 fiscal year with an operating surplus of $3.0 billion. This operating result is attributable primarily to a GAAP benefit received from financing $1.9 billion of 2002-03 payment deferrals in 2003-04, from $400 million of tobacco proceeds received in 2003-04 but which were reserved for 2004-05 budget balance, and the 2003-04 General Fund operating surplus of $308 million. As a result, the 2002-03 accumulated deficit of $3.3 billion was reduced in 2003-04 to $281 million.

The General Fund is anticipated to end the 2004-05 fiscal year with an operating deficit of $1.1 billion on a GAAP basis, which is primarily attributable to the use of the 2003-04 surplus and the remaining tobacco reserves in 2004-05. As a result, the accumulated deficit is projected at $1.4 billion by the end of the 2004-05 fiscal year.

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2004-05 Governmental Funds Financial Plans

The following sections summarize the receipts and disbursement activity within the four major fund types that comprise the All Governmental Fund type: General Fund, Special Revenue Funds (SRFs), Capital Projects Funds (CPFs) and Debt Service Funds (DSFs).

General Fund

The General Fund receives most of the State's tax revenue and accounts for spending on programs that are not supported directly by dedicated fees and revenues.

In 2004-05, the projected General Fund receipts of $42.7 billion, disbursements of $43.0 billion (including transfers), and $434 million in savings from a Fiscal Management Plan. The General Fund is projected to end the 2004-05 fiscal year with a $1.1 billion fund balance, comprising $794 million in the Tax Stabilization Reserve Fund, $312 million in the Community Projects Fund, and $21 million in the Contingency Reserve Fund for litigation.

Receipts

General Fund Receipts (millions of dollars)					
	2003-04 Actuals	**2004-05 Enacted**	**Annual $ Change**	**Annual % Change**	**Change from 30-Day**
Personal Income Tax	15,774	18,490	2,716	17.2%	(11)
User Taxes and Fees	7,979	8,679	700	8.8%	297
Business Taxes	3,413	3,714	301	8.8%	5
Other Taxes	768	764	(4)	-0.5%	2
Miscellaneous Receipts (1)	5,917	2,438	(3,479)	-58.8%	351
Federal Grants (1)	654	0	(654)	-100.0%	0
Transfers From Other Funds					
Revenue Bond Fund	5,244	5,612	368	7.0%	(10)
LGAC Fund	1,971	2,158	187	9.5%	97
CW/CA Fund	307	246	(61)	-19.9%	0
All Other	300	554	254	84.7%	78
Total Receipts	**42,327**	**42,655**	**328**	**0.8%**	**809**

(1) Actuals reflect amounts published in Comptroller's Cash Basis Report for 2003-04.

Total General Fund receipts in support of the 2004-05 Financial Plan are projected to be $42.7 billion, an increase of $328 million (0.8 percent) from 2003-04. This total includes $31.6 billion in Taxes, $2.4 billion in Miscellaneous Receipts, and $8.6 billion in Transfers from Other Funds. The increase largely reflects the combined impact of an improving economy and net-revenue increases adopted this year and with the 2003-04 budget, offset by the loss of the one-time benefit of tobacco securitization receipts in 2003-04 ($4.2 billion).

Personal Income Tax

General Fund PIT receipts are projected to increase by $2.7 billion (17.2 percent) from 2003-04. This is due to continued economic improvement in 2004, enactment of a three-year temporary tax increase from 2003 to 2005, and a robust settlement for 2003 tax returns. This amount is slightly offset by a larger deposit into the PIT Refund Reserve Account and a higher deposit into the RBTF.

The preliminary results of the 2003 PIT settlement from April and May, and overall results through August, have required some modifications within the cash components of the income tax, but have no net impact on 2004-05 estimates. More specifically, extension payments filed with 2003 tax returns have been increased by $425 million, while final payments filed with 2003 tax returns have been reduced by $110 million and the refund estimate has been increased by $315 million.

General Fund PIT receipts, including refund reserve transactions, are expected to be reduced by $11 million from the Executive Budget estimate. This reflects a $32 million loss in net revenue actions, including an expansion of the long term care credit and a new film production credit, offset by $21 million in additional resources from the 2003-04 actual results (increasing income tax receipts through the PIT Refund Reserve Account).

User Taxes and Fees

User taxes and fees include receipts from the State sales tax, cigarette and tobacco products taxes, alcoholic beverage taxes and fees, motor fuel taxes, and motor vehicle license and registration fees. Receipts for user taxes and fees for 2004-05 are projected to total $8.7 billion, an increase of $700 million (8.8 percent) from reported 2003-04 collections.

The projected growth in sales tax cash receipts of $777 million (10.7 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 postponed the exemption on items of clothing and footwear for one year, until May 31, 2005, and replaced it with two temporary one-week exemptions with the same $110 thresholds – one beginning in August 2004 and another in January 2005. Growth in the sales tax base, after adjusting for tax law changes and other factors, is projected at 5.5 percent.

The decline in General Fund cigarette tax receipts of $8 million from the prior year is the result of a continuation of the long-term consumption decline in cigarettes.

User taxes and fees are expected to rise by $297 million from the Executive Budget estimates. This increase mainly reflects tax actions contained in the Enacted Budget and improvements in cash collections through August.

Business Taxes

Business taxes include the corporate franchise tax, corporation and utilities taxes, the insurance franchise tax, and the bank franchise tax. Receipts for business taxes for 2004-05 are projected to total $3.7 billion, an increase of $301 million (8.8 percent) from 2003-04 collections. This increase is primarily due to the continued economic recovery as reflected in the corporate franchise tax. Business tax receipts for 2004-05 have been revised up by $5 million from the Executive Budget level, to reflect the Legislature's rejection of an Executive Budget proposal to allow biotechnology companies to transfer net operating losses.

Corporation and utilities taxes, bank tax, and insurance franchise tax receipts remain unchanged from Executive Budget estimates.

Other Taxes

Other tax receipts are now projected to total $764 million, which is $4 million below last year's amount, but $2 million above the Executive Budget estimate. This category includes the estate and gift tax, 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, has significantly reduced collection from resources.

Miscellaneous Receipts

Miscellaneous receipts are expected to reach nearly $2.4 billion, a decrease of $3.5 billion from the 2003-04 actuals. After adjusting for the receipt of one-time tobacco securitization moneys ($4.2 billion) in 2003-04, the annual increase is projected at $721 million. This increase is primarily due to the acceleration of $225 million in housing SONYMA balances from 2005-06 into 2004-05, and the receipt of $182 million from the Tobacco Settlement Fund.

The increase in miscellaneous receipts of $351 million from the Executive Budget estimate is primarily attributable to the early collection of housing SONYMA balances and the NYC payment of $170 million for LGAC/STARC, offset by legislative rejection of several proposed increases in licenses and fees.

Transfers From Other Funds

Transfers from Other Funds are expected to total $8.6 billion, an increase of $748 million from 2003-04. This annual increase is comprised of higher transfers from the RBTF Fund ($368 million), the LGAC Fund ($187 million), and all other funds ($254 million), offset by lower transfers form the Clean Water/Clean Air (CW/CA) Fund ($61 million). Compared to the Executive Budget estimates, Transfers from Other Funds increased by $165 million.

PIT receipts in excess of RBTF debt service costs is projected to total $5.6 billion in 2004-05, an increase of $368 million from last year and a decrease of $10 million from the Executive Budget estimate. The annual increase is primarily attributable to higher dedicated PIT receipts ($475 million), including legislative tax increases, offset by increased debt service requirements ($107 million).

Transfers from sales tax in excess of LGAC debt service costs are projected to total $2.2 billion in 2004-05, an increase of $187 million from the prior year and $97 million from the Executive Budget estimate. These changes are primarily due to the legislation altering the permanent exemption on items of clothing and footwear for one year.

Real estate taxes in excess of CW/CA debt service costs are projected at $246 million in 2004-05, a decrease of $61 million from 2003-04, primarily resulting from a decrease in projected tax receipts ($49 million). The 2004-05 Enacted Budget estimate is unchanged from the Executive Budget estimate.

All other transfers are projected to total $554 million in 2004-05, an annual increase of $254 million. This is due primarily to nonrecurring fund sweeps ($100 million) and transfers from SUNY and CUNY to reimburse the General Fund for equipment costs ($184 million). Compared to the Executive Budget estimate, all other transfers increased by $78 million primarily due to additional transfers from SUNY and CUNY to reimburse General Fund equipment costs.

Revenue Actions

The 2004-05 Enacted Budget contains over $178 million in All Governmental Funds revenue actions in the 2004-05 State fiscal year, including:

Revenue Enhancements:

- Provide a temporary (two-year) increase in the fixed dollar minimum amounts under the corporate franchise tax ($40 million);
- Create additional abandoned property collections through increased out-of-state audits ($20 million);
- Postpone the exemption on items of clothing and footwear for one year ($83 million);
- Include the gain from the sale of residential cooperative housing as New York source income from non-residents ($5 million in 2004-05, $20 million annually thereafter);
- Allow for seven day sales of alcoholic beverages in wine and liquor stores ($1 million); and
- Change various licenses and fees ($62 million).

Tax Reductions:

- Create a new credit to provide an incentive for filmmakers to film on soundstages in New York State($12 million in 2004-05, $25 million annually thereafter);
- Double the existing Long-term care credit by increasing the credit from 10 to 20 percent of premiums($18 million);
- Increase the aggregate limit for the low-income housing credit from $4 million to $6 million ($2 million);
- Create a credit or refund for water taxis under the sales tax ($100,000); and
- Provide a new exemption for maintenance and certain other services performed on private aircraft under the sales tax ($400,000).

In addition, several revenue actions with outyear implications were included in the 2004-05 Enacted Budget, including:

Revenue Enhancement:

- Require companies, including affiliates, entering into contracts with the State to comply with various sales and use tax obligations ($12.5 million in 2005-06 and $25 million annually thereafter).

Tax Reductions:

- Expand the Brownfields program ($30 million annually, beginning in 2005-06); and
- Establish a fourth phase of the CAPCO program ($6 million annually for ten years beginning in 2006-07).

Disbursements

General Fund Disbursements (millions of dollars)					
	2003-04 Actuals	**2004-05 Enacted**	**Annual $ Change**	**Annual % Change**	**Change from 30-Day**
Grants to Local Governments	27,420	29,392	1,972	7.2%	921
State Operations	7,056	7,501	445	6.3%	250
General State Charges	3,214	3,671	457	14.2%	19
Transfers to Other Funds					
Debt Service	1,474	1,737	263	17.8%	(11)
Capital Projects	225	196	(29)	-12.9%	9
All Other	776	542	(234)	-30.2%	(45)
2002-03 Payment Deferrals	1,900	0	(1,900)	-100.0%	0
Total Disbursements	**42,065**	**43,039**	**974**	**2.3%**	**1,143**

The State projects General Fund disbursements of $43.0 billion in 2004-05, an increase of $974 million (2.3 percent) from the current year, and $1.1 billion from the Executive Budget level. These changes are discussed in more detail below.

Grants to Local Governments

Grants to Local Governments include financial aid to local governments and nonprofit organizations, as well as entitlement payments to individuals. Local assistance spending is projected to be $29.4 billion in 2004-05, an increase of $2.0 billion (7.2 percent) from the prior year. This spending increase is primarily attributable to higher spending in Medicaid ($463 million), Higher Education Services Corporation ($352 million), school aid ($466 million), special education programs ($132 million), Office of Children and Family Services ($61 million) and the community projects fund ($58 million).

Local assistance spending increased by $921 million from the Executive Budget level. This increase is primarily due to legislative restorations and adds in school aid ($309 million), Medicaid ($200 million), and higher education ($272 million).

State Operations

State Operations accounts for the cost of running the Executive, Legislative, and Judicial branches of government and is projected to total $7.5 billion in 2004-05, an increase of $445 million (6.3 percent) from the prior year. Personal service costs (e.g., State employee payroll) comprise 73 percent of State Operations spending. The remaining 27 percent represents non-personal service costs for contracts, rent, supplies, and other operating expenses.

The projected annual increase in State Operations costs includes higher spending of $225 million (with additional costs of $49 million in fringe benefits for a total of $274 million) resulting from the ratification of several State employee union labor contracts, which included provisions for a nonrecurring lump sum payment and salary increases of 2.5 percent. In addition, an extra institutional payroll occurring in 2004-05 increases spending by $130 million.

Compared to the Executive Budget estimate, projected State Operations spending increased by $250 million primarily attributable to the impact of the collective bargaining agreements, which was not included in the Executive Budget projections ($225 million).

The State's Executive agency all funds workforce is projected to total 187,900 by the end of 2004-05, level with the current year.

General State Charges

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 fixed costs for taxes on public lands and litigation costs.

General Fund spending for GSCs is projected to be $3.7 billion in 2004-05, an increase of $457 million (14.2 percent) over the prior year. This annual increase is due mostly to rising costs of employee health benefits (an increase of $225 million to $2.1 billion), higher costs related to employer pension contributions (an increase of $159 million to $654 million) and $49 million in fringe benefit increases relating to collective bargaining settlements. Compared to the Executive Budget estimates, GSC spending increased by $19 million.

Transfers to Other Funds

Transfers to Other Funds are projected to total $2.5 billion in 2004-05 and includes General Fund transfers to support debt service ($1.7 billion), capital projects ($196 million), and other funds ($542 million).

The net increase in the General Fund transfers for debt service of $263 million (17.8 percent) from 2003-04 is primarily attributable to higher debt service costs for education (including SUNY and CUNY), corrections, the Metropolitan Transportation Authority (MTA), housing, and the environment, offset by significant savings from refundings and the use of variable rate bonds and interest rate exchange agreements. The $11 million decrease from the Executive Budget estimate reflects modest reestimates.

The $29 million (12.9 percent) reduction in capital projects spending financed by the General Fund primarily reflects the use of bond proceeds to finance SUNY capital costs previously supported by the General Fund, as well as minor reestimates to other areas of capital projects spending. Compared with Executive Budget estimates, transfers in support of capital projects have increased by $9 million.

All other transfers are projected to decline by $234 million (30.2 percent) in 2004-05 primarily due to a nonrecurring transfer to the HCRA Special Revenue Fund to finance 2003-04 legislative restorations ($128 million) and the “doubling up” of 2002-03 and 2003-04 State subsidy payments to SUNY hospitals in 2003-04 ($41 million). Compared with Executive Budget estimates, all other transfers have declined by $45 million.

Special Revenue Funds

SRFs receive State and Federal revenues dedicated to finance specific activities. SRFs are intended to be self-supporting, with receipts equaling or exceeding disbursements. When statutorily authorized, certain funds and accounts may borrow from the State's STIP to cover temporary cash shortfalls resulting from the timing of receipts and disbursements (i.e., disbursements occurring prior to receipts being received).

In 2004-05 the Special Revenue Funds Cash Financial Plan projects total receipts of $51.0 billion, total disbursements of $51.8 billion, and net other financing sources of $246 million, resulting in an operating deficit of $557 million. This operating result primarily reflects the transfer of Federal moneys to the Tobacco Control and Insurance Initiatives Pool in 2004-05, which were received in 2003-04 and reflected in the SRFs opening fund balance ($289 million), and use of prior-year cash balances to support current-year spending.

Receipts

Special Revenue Funds Receipts (millions of dollars)					
	2003-04 Actuals	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Taxes	4,442	4,758	316	7.1%	(26)
Miscellaneous Receipts	10,517	11,256	739	7.0%	(226)
Federal Grants	35,121	34,972	(149)	-0.4%	547
Total Receipts	**50,080**	**50,986**	**906**	**1.8%**	**295**

Total SRF receipts are projected to be $51.0 billion, an increase of $906 million (1.8 percent) from 2003-04. The annual growth is due to increases in taxes ($316 million) and miscellaneous receipts ($739 million), offset by a decrease in Federal grants ($149 million). Compared to Executive Budget estimates, projected SRF receipts increased by $295 million primarily attributable to increased Federal grants ($547 million) offset by decreased miscellaneous receipts ($226 million) and taxes ($26 million). These changes are described in more detail below.

Taxes

Tax receipts in the SRF are projected to be $4.8 billion, an increase of $316 million (7.1 percent) from 2003-04, driven primarily by taxes dedicated to support the STAR program ($199 million) and the Dedicated Mass Transportation Trust Fund ($116 million). Projected SRF tax receipts declined from the Executive Budget level due to the Legislature's rejection of both a new surcharge on sales tax proposed to support the New York State Wireless Telephone Emergency Service program ($38 million) offset by the inflationary adjustment to the STAR program ($20 million).

Miscellaneous Receipts

Miscellaneous receipts are projected to be $11.3 billion, an increase of $739 million (7.0 percent) from 2003-04. The annual growth is primarily due to additional transfers from the "off-budget" HCRA pools, including Empire conversions ($350 million), higher lottery receipts ($212 million) and SUNY tuition revenues ($91 million). Compared to the Executive Budget estimate, projected SRF miscellaneous receipts declined by $226 million. This decline is primarily attributable to the Legislature's rejection of Executive Budget proposals to restore assessments on hospital, home care and nursing home revenues ($264 million).

Federal Grants

Federal grants are projected to be $35 billion, a decrease of $149 million from 2003-04 actuals and an increase of $547 million from the Executive Budget estimate. Changes to Federal grants generally correspond to changes in federally-reimbursed spending as described later in this report; however, since Federal reimbursement was assumed to be received in the State fiscal year in which spending occurs, additional timing-related variances resulted. Major program areas projected to grow significantly from 2003-04 levels include Medicaid and welfare.

Disbursements

Special Revenue Funds Disbursements (millions of dollars)					
	2003-04 Actuals	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Grants to Local Governments	41,368	42,895	1,527	3.7%	464
State Operations	7,866	8,207	341	4.3%	180
General State Charges	601	686	85	14.1%	26
Capital Projects	9	1	(8)	-88.9%	(1)
Total Disbursements	**49,844**	**51,789**	**1,945**	**3.9%**	**669**

Total SRF disbursements are projected to be $51.8 billion, an increase of $1.9 billion (3.9 percent) from 2003-04. The annual growth is due primarily to increases in Grants to Local Governments ($1.5 billion) and State Operations ($341 million). Compared to the Executive Budget estimate, projected SRF disbursements increased by $669 million, attributable primarily to increased Grants to Local Governments ($464 million) and State Operations ($180 million) spending. The disbursements changes are described in more detail below.

Grants to Local Governments

Grants to Local Government SRF disbursements are projected to be $42.9 billion, an increase of $1.5 billion (3.7 percent) from 2003-04. The annual growth is primarily due to projected growth in Medicaid ($1.3 billion), school aid ($307 million), and STAR ($199 million). Compared to the Executive Budget estimate, Grants to Local Governments disbursements increased by $464 million. This increase is primarily attributable to several Medicaid proposals rejected by the Legislature, including various cost containment and savings initiatives ($410 million), and the use of VLT revenues to support school aid increases ($240 million) offset by the Legislature’s elimination of appropriations to implement the Help America Vote Act ($118 million).

State Operations

State Operations SRF disbursements are projected to be $8.2 billion, an increase of $341 million (4.3 percent) from 2003-04 and $180 million from the Executive Budget estimates. These increases are primarily attributable to the impact of the collective bargaining agreements, which was not included in the Executive Budget projections ($104 million).

General State Charges

GSCs SRF disbursements are projected to be $686 million, an increase of $85 million (14.1 percent) from 2003-04. Growing employer pension contributions and higher employee health insurance costs account for most of the annual growth in GSCs. Compared to the Executive Budget estimate, GSCs disbursements increased by $26 million primarily due to the impact of the collective bargaining agreements.

Other Financing Sources/(Uses)

Special Revenue Funds Other Financing Sources (Uses) (millions of dollars)					
	2003-04 Results	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Transfers From Other Funds	3,447	3,137	(310)	-9.0%	(33)
Transfers To Other Funds	(2,539)	(2,891)	(352)	13.9%	(72)
Net Other Financing Sources	**908**	**246**	**(662)**	**-72.9%**	**(105)**

Transfers from Other Funds are projected to be $3.1 billion, a decrease of $310 million (9.0 percent) from 2003-04. The annual decline is primarily due to a nonrecurring General Fund transfer to the HCRA fund in 2003-04 ($128 million) and a reduction in available patient care revenues ($101 million). Compared to the Executive Budget estimate, projected Transfers from Other Funds decreased by $33 million, reflecting modest reestimates.

Transfers to Other Funds are estimated to be $2.9 billion, an increase of $352 million (13.9 percent) from 2003-04. The annual growth is due to nonrecurring transfers from SUNY and CUNY to reimburse the General Fund for equipment costs ($184 million), and various other fund sweeps to the General Fund ($100 million). Compared to the Executive Budget estimate, projected Transfers to Other Funds increased by $72 million primarily due to additional transfers from SUNY and CUNY to reimburse the General Fund for equipment costs ($94 million) offset by a reduction in the expected revenues from the Waste Tire Management and Recycling Program ($34 million).

Capital Projects Funds

The CPF group accounts for spending from the CPF, which is supported by a transfer from the General Fund, and spending from other funds for specific purposes, including transportation, mental health, housing, public protection, education and the environment. Other funds include the Dedicated Highway and Bridge Trust Fund, Mental Hygiene Capital Facilities Improvement Fund, Housing Assistance and Housing Program Funds, the Correctional Facilities Capital Improvement Fund, the SUNY Residence Hall Rehabilitation Fund, the Hazardous Waste Remedial Fund, and EPF. Receipts from dedicated State taxes, miscellaneous receipts (which include proceeds from State-supported bonds issued by certain public authorities) and Federal grants disbursements in the CPF group.

The following tables for CPFs reflect an accounting adjustment for capital projects activity because certain capital spending is not reported by the State Comptroller in actual cash spending results, although it is reflected in the GAAP Financial Statements. The spending is related to programs which are financed in the first instance by bond proceeds, rather than with a short-term loan from STIP or cash from the General Fund. Capital spending for these types of programs was $861 million in 2003-04 and is projected to grow to nearly $1.1 billion in 2004-05. It includes spending for local transportation projects for the Consolidated Highway Improvement Program (CHIPs), education projects for CUNY higher education facilities, SUNY community colleges and dormitory facilities, the Department of Mental Hygiene and a variety of economic development programs. These receipts and disbursements are included in this section in order to present a comprehensive overview of State capital projects spending. The CPFs table also includes a spending adjustment of $400 million to reflect anticipated underspending in 2004-05 that is expected to occur across all agencies and financing sources based on lower 2003-04 results.

Receipts

Capital Projects Funds Receipts (millions of dollars)					
	2003-04 Actuals	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Taxes	1,756	1,795	39	2.2%	(10)
Miscellaneous Receipts	3,029	3,077	48	1.6%	(664)
Federal Grants	1,548	1,864	316	20.4%	24
Total Receipts	**6,333**	**6,736**	**403**	**6.4%**	**(650)**
Accounting Adjustment	(861)	(1,090)	(229)	26.6%	220
Financial Plan Receipts	**5,472**	**5,646**	**174**	**3.2%**	**(430)**

CPF receipts include tax receipts from highway-related taxes earmarked to the Dedicated Highway and Bridge Trust Fund, and real estate transfer taxes that are designated for the EPF. Miscellaneous receipts include bond proceeds that finance capital projects across all functional areas, as well as other fees, including State park fees, industry-specific environmental fees and receipts from the sale of surplus land.

Taxes

The $39 million increase in 2004-05 taxes from 2003-04 actuals is attributable to increases in Dedicated Highway and Bridge Trust Fund receipts, as the EPF receives a statutory dedication of $112 million annually from the real estate transfer tax. The $10 million reduction in dedicated taxes from the Executive Budget estimate is attributable to reestimated Dedicated Highway and Bridge Trust Fund receipts.

Miscellaneous Receipts

The $48 million increase in miscellaneous receipts from 2003-04 is primarily attributable to increases in spending for capital programs which are reimbursed or financed directly with bond proceeds, including education and general government ($245 million), and the environment ($100 million), offset by a reduction in bond proceeds to reimburse transportation ($200 million) and economic development spending (74). Compared to the Executive Budget estimate, miscellaneous receipts are projected to decrease by $664 million and are attributable primarily to increases in bond-financed spending added by the Legislature for CHIPs and increases in bond proceeds to reimburse transportation spending ($112 million), offset by a reduction in bond proceeds to reimburse the Higher Education Facilities Capital Matching Grants Program that was vetoed ($30 million) and reestimates in bonded education spending ($30 million) also included in this change is a $400 million reduction to reflect reduced receipts based on actual 2003-04 results.

Federal Grants

The $316 million increase in Federal Funds over the prior year reflects increases in Federal support for transportation, and the $24 million increase in Federal Funds compared to the Executive Budget estimate reflects reestimates to Federal support for transportation.

Disbursements

Capital Projects Funds Disbursements (millions of dollars)					
	2003-04 Actuals	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Transportation	3,219	3,611	392	12.2%	73
Education	640	768	128	20.0%	(39)
Parks and Environment	568	667	99	17.4%	18
Economic Development and Govnt Oversight	215	475	260	120.9%	(327)
Mental Health	297	298	1	0.3%	0
Public Protection	201	215	14	7.0%	0
Health and Social Welfare	149	128	(21)	-14.1%	0
General Government/Other	108	261	153	141.7%	1
Anticipated Underspending	N/A	(400)	(400)	100.0%	(400)
Total Disbursements	**5,397**	**6,023**	**626**	**11.6%**	**(674)**
Accounting Adjustment	(861)	(1,090)	(229)	26.6%	220
Financial Plan Disbursements	**4,536**	**4,933**	**397**	**8.8%**	**(454)**

Compared to 2003-04, total CPFs spending is projected to increase $397 million, or about 9.0 percent, and is primarily attributable to increases in transportation spending for highways and bridges spending ($392 million); environment spending for the State Superfund Program, the EPF, and the Hudson River Park ($99 million); spending for a variety of economic development programs, including Centers of Excellence, Empire Opportunity Fund, Gen*NY*sis, RESTORE and the New Regional Economic Growth Program ($260 million); education spending for SUNY, CUNY, RESCUE, and the Capital Transition Grant Program ($128 million); public protection and mental health spending to support the maintenance and preservation of infrastructure at correctional facilities and institutional and community-based mental health institutions ($15 million); general government spending to support the construction and renovation of State office buildings and $110 million in spending for local public safety answering point equipment upgrades for wireless E-911 service ($110 million); and increased Federal spending for homeland security ($43 million); offset by a $21 million decrease in health and social welfare spending, a $229 million increase in the accounting adjustment primarily attributable to increases in bond-financed spending for economic development programs ($135 million) and CHIPs ($56 million). The almost $1.1 billion accounting adjustment in spending financed with authority bonds reflect capital projects activity for which certain capital spending is not reported by OSC in cash financial statements, although it is reflected in the GAAP Financial Statements. These programs are financed directly from bond proceeds, rather than in the first instance by a short-term loan from the STIP or cash from the General Fund.

Compared to the Executive Budget estimate, CPF spending is projected to decrease by $454 million which is attributable to $400 million in lower spending based on actual 2003-04 results, increases in spending from legislative adds to the Enacted Budget and reestimates ($84 million), and a decrease in other spending financed with bond proceeds ($138 million). The $84 million increase in spending reflects a $72 million increase in transportation spending from reestimates ($43 million) and legislative adds to CHIPs ($28 million); an $18 million increase in spending for parks and the environment attributable to legislative adds ($20 million) offset by reestimates to spending in parks ($2 million), reestimates to spending for economic development programs and homeland security ($33 million); offset by a $38 million decrease in education, attributable to reestimates to spending for RESCUE ($35 million) and other higher education spending ($43 million), and by the veto of the Higher Education Facilities Capital Matching Grants Program ($30 million).

Other Financing Sources (Uses)

Capital Projects Funds Other Financing Sources (Uses) (millions of dollars)					
	2003-04 Results	**2004-05 Enacted**	**Annual $ Change**	**Annual % Change**	**Change From 30-Day**
Transfers From Other Funds	254	234	(20)	-7.9%	9
Transfers To Other Funds	(1,028)	(1,124)	(96)	9.3%	(16)
Bond Proceeds	140	193	53	37.9%	62
Net Other Financing Sources (Uses)	**(634)**	**(697)**	**(63)**	**9.9%**	**55**

The $20 million decrease in transfers from other funds from 2003-04 is attributable to a decrease in the transfer from the General Fund to the CPF ($47 million), which supports pay-as-go capital spending in a variety of agencies, and a decrease in the transfer from the Transportation Safety Account to the Dedicated Highway and Bridge Trust Fund ($5 million); offset by transfers from the General Fund to the Hazardous Waste Remedial Transfer Fund ($15 million), from the License Fee Surcharge Account to the Hazardous Waste Remedial Transfer Fund ($14 million), and from the SUNY Dormitory Income Account to the SUNY Dormitory Rehabilitation Fund ($4 million).

The $96 million increase in CPF transfers to other funds primarily reflect increases in the transfer of receipts from the Dedicated Highway and Bridge Trust Fund to reimburse the General DSF for debt service paid on Dedicated Highway and Bridge Trust Fund and CHIPs bonds ($106 million) and the transfer from the Hazardous Waste Remedial Fund to the General Fund ($27 million); offset by the transfer from the EPF to the General Fund ($46 million). The $53 million increase in bond and note proceeds reflect the receipt of General Obligation CW/CA Bonds to reimburse the CPF for environment spending. The $62 million increase is due to a reestimate of CW/CA spending.

Debt Service Funds

All tax-financed State debt service on long-term debt and payments on certain lease-purchase or other contractual obligations are paid from DSF. These account for the accumulation of money for, and the payment of principal and interest on, general long-term debt and certificates of participation. Lease-purchase payments for SUNY, Health and Mental Hygiene facilities under contractual agreements with public authorities are also paid from funds classified as DSFs. Debt service on highway bonds supported by dedicated highway revenues is also reflected in this fund type. DSF revenue sources include transfers from the General Fund, dedicated taxes and other revenues.

In 2004-05 the DSFs Cash Financial Plan projects total receipts of $9.4 billion, total disbursements of $3.9 billion, and net other financing sources (uses) of $5.5 billion, resulting in an operating deficit of $19 million.

The DSFs are projected to end the 2004-05 fiscal year with a fund balance of $155 million. This balance primarily reflects amounts statutorily and contractually required to be set aside for debt service payments in the next fiscal year, including $89 million in the SUNY Dormitory Income Fund and $40 million in the Mental Health Services Fund.

Receipts

Debt Service Funds Receipts (millions of dollars)					
	2003-04 Actuals	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Taxes	8,122	8,754	632	7.8%	90
Miscellaneous Receipts	810	647	(163)	-20.1%	0
Total Receipts	**8,932**	**9,401**	**469**	**5.3%**	**90**

Total DSF receipts are projected to be $9.4 billion, an increase of $469 million (5.3 percent) from 2003-04. The annual growth is due to increases in taxes ($632 million) offset by a decrease in miscellaneous receipts ($163 million). Compared to the Executive Budget estimates, projected DSF receipts increased by $89 million, all of which is attributable to increased taxes. These changes are described in more detail below.

Taxes

The $632 million (7.8 percent) increase in taxes deposited to the DSF from 2003-04 is attributable primarily to growth in dedicated PIT receipts deposited to the RBTF ($475 million) and the growth in sales and use taxes deposited to the Local Government Assistance Tax Fund ($207 million), offset by decreases in real estate transfer taxes deposited to the CW/CA Fund ($49 million). Compared to the Executive Budget estimate, projected taxes deposited to the DSF increased by $89 million, reflecting an increase in the growth of dedicated sales and use tax receipts ($96 million) offset by a modest reduction in dedicated PIT receipts ($7 million).

Miscellaneous Receipts

The projected decrease in miscellaneous receipts of $163 million (20.1 percent) from 2003-04 is primarily attributable to reduced funding of the Debt Reduction Reserve Fund ($53 million) and reduced miscellaneous receipts from health and mental health patient income ($109 million) and housing ($16 million) programs, offset by modest increases in receipts from SUNY dormitory fees ($15 million). Miscellaneous receipts remain unchanged from the Executive Budget.

Disbursements

Debt Service Funds Disbursements (millions of dollars)					
	2003-04 Actuals	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
General Debt Service Fund	2,751	3,223	472	17.2%	(6)
LGAC	296	316	20	6.8%	4
Mental Health	165	264	99	60.0%	5
All Other	148	118	(30)	-20.3%	(1)
Total Disbursements	**3,360**	**3,921**	**561**	**16.7%**	**2**

Total disbursements from the DSF are projected to increase from $3.4 billion in 2003-04 to $3.9 billion in 2004-05. The $561 million increase (16.7 percent) is due to growth in debt service costs from previous and planned bond sales offset by savings from debt management efforts, including refundings, and the use of variable rate bonds and interest rate exchange agreements. The $9 million reduction in disbursements from the Executive Budget estimate reflects modest reestimates in projected debt service costs, debt service savings as a result of vetoing the $350 million Higher Education Facilities Capital Matching Grant Program, offset by an increase in debt service costs for the $35 million added to CHIPs.

General Debt Service Fund

Spending from the General DSF is projected to increase by $472 million (17.2 percent) from 2003-04 and reflects an increase in the transfer from the General Fund and other funds to support the debt service on bonds for various capital programs including corrections, SUNY and CUNY, MTA transportation, housing, and environmental ($284 million), spending from the RBTF to support debt service on State PIT Revenue Bonds ($143 million), and spending for debt service supported by dedicated sources of taxes and fees from the Dedicated Highway and Bridge Trust Fund ($45 million).

LGAC

The Local Government Assistance Tax Fund is projected to receive $2.5 billion in 2004-05 from the dedicated one-cent statewide sales tax. Debt service costs on LGAC bonds are projected at $316 million in 2004-05, an increase of $20 million (6.8 percent) from the prior year. These payments reflect LGAC debt service requirements only, and do not reflect any local aid payments to New York City after these debt service obligations are met, which are reflected in the local assistance portion of the budget.

Mental Health

Patient revenues of $2.6 billion deposited to the Mental Health Services Fund will satisfy debt service obligations of $264 million in 2004-05. Debt service and related costs for this program are projected to increase by $99 million (60.0 percent) from 2003-04 actuals. This increase is primarily due to significant savings achieved during the 2003-04 fiscal year from refundings.

All Other

All other reflects debt service spending from the Health Income Fund, Housing Debt Fund, SUNY Dormitory Income Fund, and the Debt Reduction Reserve Fund. The $30 million decrease in spending from 2003-04 is attributable to the spend out of Debt Reduction Reserve Fund moneys in 2003-04 ($53 million) and modest declines in debt service spending for housing and health ($9 million), offset by an increase in debt service for SUNY dormitory bonds ($32 million).

Debt Service Funds Other Financing Sources (Uses) (millions of dollars)					
	2003-04 Results	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Transfers From Other Funds	4,794	5,234	440	9.2%	(2)
Transfers To Other Funds	(10,349)	(10,733)	(384)	3.7%	(103)
Net Other Financing Sources	**(5,555)**	**(5,499)**	**56**	**-1.0%**	**(105)**

Other Financing Sources (Uses)

The $440 million (9.2 percent) increase in Transfers from Other Funds from 2003-04 reflects increases in transfers from the General Fund and various other dedicated funds, including the Dedicated Highway and Bridge Trust Fund and the Centralized Services Fund, to the General DSF ($365 million); transfers from the Federal Health and Human Services SRFs to the Mental Health DSF ($101 million); and a net reduction in all other transfers of $26 million. Compared to the Executive Budget estimate, Transfers from Other Funds declined by $2 million.

The $384 million (3.7 percent) increase in Transfers to Other Funds from 2003-04 primarily reflects the excess beyond the debt service due on State PIT Revenue Bonds from the RBTF ($368 million) and the Local Government Assistance Tax Fund ($187 million), offset by decreases in transfers in excess of debt service to SRFs from Mental Health and the Health DSF ($114 million), to the General Fund from the Clean Water DSF ($61 million), and modest changes in other transfers ($3 million). Transfers to Other Funds increased by $103 million from the Executive Budget estimates due to higher sales tax revenues from the LGAC Fund ($98 million).

Health Care Reform Act Financial Plan

In accordance with Chapters 62 and 686 of the Laws of 2003, the following provides the Financial Plan information regarding the HCRA receipts and disbursements for 2004-05. Readers should refer to the Financial Plan of the 2004-05 Executive Budget – Appendix II for more detailed information.

Overview

HCRA was established in 1996 to improve the fiscal health of hospitals and ensure that affordable and quality health care coverage was available to all New Yorkers. Subsequent extensions and modifications of the legislation have initiated new health care programs and provided additional funding for workforce recruitment and training. HCRA legislation expires on June 30, 2005.

The 2004-05 Executive Budget included a series of cost savings actions that were expected to produce a State Financial Plan benefit of more than $240 million in 2004-05. These proposals included reducing the cost of the EPIC Program, realigning FHP coverage consistent with private insurance policies, maximizing the use of Medicaid dollars in the financing of Graduate Medical Education costs, and eliminating unnecessary insurance pilot programs. With the exception of the Graduate Medical Education initiative, the Legislature rejected the majority of these cost savings actions. HCRA balances were not negatively impacted since the Legislature directed General Fund resources to HCRA to offset the loss of savings from the rejected actions. The Legislature also added an additional $21 million in HCRA spending in 2004-05.

The Legislature also failed to enact legislation authorizing additional insurance industry conversions resulting in the loss of $400 million in anticipated receipts in the first quarter of 2005-06. The absence of this legislation may also increase the risk that certain assumed Empire Conversion proceeds may not become available, which could trigger HCRA's General Fund Tobacco Revenue guarantee, as authorized pursuant to Chapters 62 and 686 of the Laws of 2003.

HCRA Receipts

HCRA receipts are primarily collected in the Public Goods Pool and in the Tobacco Control and Insurance Initiatives Pool. Receipts include surcharges and assessments on hospital revenues, a covered lives assessment paid by insurance carriers, a portion of cigarette tax revenues, proceeds from insurance company conversions, Federal revenues received with the renewal of the State's Medicaid managed care waiver, and Federal relief associated with the World Trade Center disaster.

HCRA Receipts 2004-05 (millions of dollars)	
Public Goods Pool:	**2,632**
Surcharges	1,493
Covered Lives Assessment	703
Hospital Assessment (1 percent)	217
Federal Funds/Other	219
Tobacco Control and Insurance Initiatives Pool:	**2,200**
Empire Conversion Proceeds	1,217
Cigarette Tax	693
Federal Funds	290
Total Receipts	**4,832**

Total receipts, estimated at $4.8 billion in 2004-05, are primarily comprised of surcharges ($1.5 billion), Empire conversion proceeds ($1.2 billion), covered lives assessment ($703 million), cigarette taxes ($693 million), Federal funds ($509 million), and hospital assessments of 1 percent ($217 million). Since the Executive Budget projections, HCRA receipt estimates have increased by $398 million, which reflects an additional $200 million in Empire Conversion proceeds and greater than anticipated HCRA surcharge receipts.

HCRA Disbursements

HCRA Disbursements 2004-05 (millions of dollars)	
Medicaid/Public Health Support	1,067
Hospital Indigent Care	826
EPIC	494
Graduate Medical Education	383
FHP	381
CHP	375
Workforce Recruitment/Retention	329
All Other	617
Total Disbursements	**4,472**

Total disbursements of nearly $4.5 billion are projected in 2004-05, an increase of $107 million since the Executive Budget projections, largely attributed to $200 million in increased transfers to Medicaid assumed in the Enacted Budget offset by spending revisions in various programs based on prior year results and current year experience.

Roughly three-quarters of HCRA disbursements are appropriated in the State Budget, and are reflected in the financial plan estimates earlier in this Report. . The largest "on-budget" program spending includes transfers to accommodate various Medicaid and public health costs ($1.1 billion), hospital indigent care ($826 million), EPIC ($494 million); FHP ($381 million); CHP ($375 million); provider workforce recruitment and retention funds paid through Medicaid rates ($329 million), and roughly $100 million of all other program spending primarily for mental health expansion programs. The remaining spending that is not included in the State Budget comprises Graduate Medical Education ($383 million) and roughly $500 million for various other program spending (including Roswell subsidy payments, excess medical malpractice, programs serving the uninsured, and anti-tobacco programs).

The cash balance is projected to be $790 million at the end of 2004-05, declining to approximately $165 million on June 30, 2005 when the HCRA statute expires.

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 CPF), 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 State Constitution requires the Governor to submit an Executive Budget that is balanced in the General Fund which receives the majority of State taxes. State Funds include the General Fund and funds specified for dedicated purposes, with the exception of Federal Funds. All Governmental Funds, which includes State Funds and Federal Funds, comprises four major fund types, and provides the most comprehensive view of the financial operations of the State. It 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;

SRFs, which receive Federal grants, certain dedicated taxes, fees and other revenues that are used for a specified purpose;

CPFs, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and

DSFs, 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 Overview. Summary charts display the annual change for each category of the Financial Plan, and a narrative explanation of major changes follows each chart.

The following tables summarize projected General Fund, State Funds and All Governmental Funds receipts and disbursements for the 2003-04 through 2006-07 fiscal years.

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CASH FINANCIAL PLAN
GENERAL FUND
2003-2004 and 2004-2005
(millions of dollars)

	2003-2004 Actual	2004-2005 Enacted	Change
Opening fund balance	815	1,077	262
Receipts:			
Taxes:			
Personal income tax	15,774	18,490	2,716
User taxes and fees	7,979	8,679	700
Business taxes	3,413	3,714	301
Other taxes	768	764	(4)
Miscellaneous receipts (1)	5,917	2,438	(3,479)
Federal Grants (1)	654	0	(654)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,244	5,612	368
Sales tax in excess of LGAC debt service	1,971	2,158	187
Real estate taxes in excess of CW/CA debt service	307	246	(61)
All other	300	554	254
Total receipts	42,327	42,655	328
Disbursements:			
Grants to local governments	29,246	29,392	146
State operations	7,093	7,501	408
General State charges	3,247	3,671	424
Transfers to other funds:			
Debt service	1,474	1,737	263
Capital projects	229	196	(33)
Other purposes	776	542	(234)
Total disbursements	42,065	43,039	974
Fiscal Management Plan	0	434	434
Change in fund balance	262	50	(212)
Closing fund balance	1,077	1,127	50
Tax Stabilization Reserve Fund	794	794	0
Contingency Reserve Fund	21	21	0
Community Projects Fund	262	312	50

(1) Actuals reflect amounts published in Comptroller's Cash Basis Report for 2003-04.

CASH FINANCIAL PLAN
GENERAL FUND
2004-2005
(millions of dollars)

	30-Day	Change	Enacted
Opening fund balance	1,014	63	1,077
Receipts:			
Taxes:			
Personal income tax	18,501	(11)	18,490
User taxes and fees	8,382	297	8,679
Business taxes	3,709	5	3,714
Other taxes	762	2	764
Miscellaneous receipts	2,087	351	2,438
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,622	(10)	5,612
Sales tax in excess of LGAC debt service	2,061	97	2,158
Real estate taxes in excess of CW/CA debt service	246	0	246
All other	476	78	554
Total receipts	41,846	809	42,655
Disbursements:			
Grants to local governments	28,471	921	29,392
State operations	7,251	250	7,501
General State charges	3,652	19	3,671
Transfers to other funds:			
Debt service	1,748	(11)	1,737
Capital projects	187	9	196
Other purposes	587	(45)	542
Total disbursements	41,896	1,143	43,039
Fiscal Management Plan	0	434	434
Change in fund balance	(50)	100	50
Closing fund balance	964	163	1,127
Tax Stabilization Reserve Fund	794	0	794
Contingency Reserve Fund	20	1	21
Community Projects Fund	150	162	312

Source: NYS DOB

CASHFLOW
GENERAL FUND
2004-2005
(dollars in millions)

	2004 April	May	June	July	August	September	October	November	December	2005 January	February	March	Total
Opening Fund Balance	1,077	3,842	1,227	1,865	1,740	2,462	2,166	1,585	1,004	1,325	4,731	5,437	1,077
Receipts:													
Taxes													
Personal income tax	3,851	526	1,945	1,215	1,338	1,764	554	569	1,270	3,065	1,831	562	18,490
Sales tax	626	576	857	622	600	825	593	586	875	621	505	732	8,018
User taxes and fees	79	41	52	62	53	57	53	52	59	59	47	47	661
Business taxes	148	(9)	727	91	60	745	52	12	753	37	18	1,080	3,714
Other taxes	68	50	79	60	49	61	65	63	72	64	67	66	764
Miscellaneous receipts	70	68	319	245	122	165	176	194	467	172	168	272	2,438
Transfers from other funds													
Revenue Bond Fund	875	158	648	405	379	602	184	71	424	1,021	416	429	5,612
LGAC	181	33	0	0	787	178	180	176	263	194	3	163	2,158
Clean Water/Clean Air	52	26	77	23	66	0	0	4	(2)	0	1	(1)	246
All Other Transfers	4	0	0	6	1	220	1	1	44	1	1	275	554
Total receipts	5,954	1,469	4,704	2,729	3,455	4,617	1,858	1,728	4,225	5,234	3,057	3,625	42,655
Disbursements:													
Grants to local governments	1,621	3,089	2,805	1,669	1,694	2,822	1,454	1,422	2,313	1,182	1,869	7,452	29,392
State operations	837	708	790	795	601	740	513	597	819	528	316	257	7,501
General State charges	423	179	214	268	306	958	256	148	243	268	161	247	3,671
Transfers to other funds													
Debt Service	211	45	220	50	34	326	51	174	353	14	28	231	1,737
Capital Projects	1	46	23	56	31	48	19	30	237	(106)	43	(232)	196
All Other Transfers	96	17	14	16	67	19	146	18	19	22	14	94	542
					143								
Total disbursements	3,189	4,084	4,066	2,854	2,733	4,913	2,439	2,389	3,984	1,908	2,431	8,049	43,039
Fiscal Management Plan	0	0	0	0	0	0	0	80	80	80	80	114	434
Excess (deficiency) of receipts over disbursements	2,765	(2,615)	638	(125)	722	(296)	(581)	(581)	321	3,406	706	(4,310)	50
Closing Fund Balance	**3,842**	**1,227**	**1,865**	**1,740**	**2,462**	**2,166**	**1,585**	**1,004**	**1,325**	**4,731**	**5,437**	**1,127**	**1,127**

Note: April through July cashflow is based on actual experience, August reflects preliminary results and the remaining months are projections.

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2004-2005
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,077	1,703	(336)	174	2,618
Receipts:					
Taxes	31,647	4,758	1,795	8,754	46,954
Miscellaneous receipts	2,438	11,126	1,987	647	16,198
Federal grants	0	1	0	0	1
Total receipts	34,085	15,885	3,782	9,401	63,153
Disbursements:					
Grants to local governments	29,392	11,336	1,002	0	41,730
State operations	7,501	4,919	0	22	12,442
General State charges	3,671	479	0	0	4,150
Debt service	0	0	0	3,899	3,899
Capital projects	0	1	2,071	0	2,072
Total disbursements	40,564	16,735	3,073	3,921	64,293
Other financing sources (uses):					
Transfers from other funds	8,570	961	234	5,234	14,999
Transfers to other funds	(2,475)	(406)	(1,115)	(10,733)	(14,729)
Bond and note proceeds	0	0	193	0	193
Net other financing sources (uses)	6,095	555	(688)	(5,499)	463
Fiscal Management Plan	434	0	0	0	434
Change in fund balance	50	(295)	21	(19)	(243)
Closing fund balance	1,127	1,408	(315)	155	2,375

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2004-2005
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,077	2,183	(489)	174	2,945
Receipts:					
Taxes	31,647	4,758	1,795	8,754	46,954
Miscellaneous receipts	2,438	11,256	1,987	647	16,328
Federal grants	0	34,972	1,864	0	36,836
Total receipts	34,085	50,986	5,646	9,401	100,118
Disbursements:					
Grants to local governments	29,392	42,895	1,220	0	73,507
State operations	7,501	8,207	0	22	15,730
General State charges	3,671	686	0	0	4,357
Debt service	0	0	0	3,899	3,899
Capital projects	0	1	3,713	0	3,714
Total disbursements	40,564	51,789	4,933	3,921	101,207
Other financing sources (uses):					
Transfers from other funds	8,570	3,137	234	5,234	17,175
Transfers to other funds	(2,475)	(2,891)	(1,124)	(10,733)	(17,223)
Bond and note proceeds	0	0	193	0	193
Net other financing sources (uses)	6,095	246	(697)	(5,499)	145
Fiscal Management Plan	434	0	0	0	434
Change in fund balance	50	(557)	16	(19)	(510)
Closing fund balance	1,127	1,626	(473)	155	2,435

Source: NYS DOB

CASH DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
(thousands of dollars)

	2003-2004 Actual	2004-2005 Enacted	Annual Change
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	65,436	88,992	23,556
Alcoholic Beverage Control	10,558	10,220	(338)
Banking Department	55,868	60,221	4,353
Consumer Protection Board	3,113	2,465	(648)
Economic Development, Department of	39,122	345,557	306,435
Empire State Development Corporation	50	65,975	65,925
Energy Research and Development Authority	29,557	26,123	(3,434)
Housing Finance Agency	0	0	0
Housing and Community Renewal, Division of	248,348	219,674	(28,674)
Insurance Department	105,913	128,217	22,304
Olympic Regional Development Authority	7,575	7,750	175
Public Service, Department of	47,080	57,429	10,349
Science, Technology and Academic Research, Office of	35,584	80,170	44,586
Functional Total	648,204	1,092,793	444,589
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,207	4,523	316
Environmental Conservation, Department of	820,901	901,821	80,920
Environmental Facilities Corporation	6,788	12,416	5,628
Parks, Recreation and Historic Preservation, Office of	194,993	228,028	33,035
Functional Total	1,026,889	1,146,788	119,899
TRANSPORTATION			
Motor Vehicles, Department of	203,748	217,695	13,947
Thruway Authority	2,865	4,000	1,135
Transportation, Department of	4,610,012	5,334,101	724,089
Functional Total	4,816,625	5,555,796	739,171
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	1,213	4,044	2,831
Aging, Office for the	177,333	171,228	(6,105)
Children and Families, Council on	470	0	(470)
Children and Family Services, Office of	3,364,763	3,092,522	(272,241)
Health, Department of	31,480,929	33,478,337	1,997,408
Medical Assistance	27,561,478	29,300,766	1,739,288
Medicaid Administration	578,628	542,400	(36,228)
All Other	3,340,823	3,635,171	294,348
Human Rights, Division of	14,067	14,884	817
Labor, Department of	879,965	766,602	(113,363)
Prevention of Domestic Violence, Office of	2,063	1,602	(461)

CASH DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
(thousands of dollars)

	2003-2004 Actual	2004-2005 Enacted	Annual Change
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	4,177,608	4,455,899	278,291
Welfare Assistance	2,868,220	3,124,959	256,739
Welfare Administration	339,924	341,133	1,209
All Other	969,464	989,807	20,343
Welfare Inspector General, Office of	892	1,083	191
Workers' Compensation Board	130,832	145,860	15,028
Functional Total	40,230,135	42,132,061	1,901,926
MENTAL HEALTH			
Mental Health, Office of	2,048,760	2,172,437	123,677
Mental Retardation and Developmental Disabilities, Office of	2,609,153	2,820,865	211,712
Alcohol and Substance Abuse Services, Office of	471,437	478,649	7,212
Developmental Disabilities Planning Council	3,270	3,730	460
Quality of Care for the Mentally Disabled, Commission on	9,722	11,200	1,478
Functional Total	5,142,342	5,486,881	344,539
PUBLIC PROTECTION			
Capital Defenders Office	12,519	12,519	0
Correction, Commission of	2,503	2,427	(76)
Correctional Services, Department of	2,127,272	2,140,898	13,626
Crime Victims Board	60,392	61,858	1,466
Criminal Justice Services, Division of	305,713	304,234	(1,479)
Investigation, Temporary State Commission of	3,071	3,426	355
Judicial Commissions	2,298	2,542	244
Military and Naval Affairs, Division of (1)	1,630,324	1,840,922	210,598
Parole, Division of	188,005	175,903	(12,102)
Probation and Correctional Alternatives, Division of	76,114	75,480	(634)
Public Security, Office of	7,737	11,929	4,192
State Police, Division of	486,640	489,083	2,443
Functional Total	4,902,588	5,121,221	218,633
EDUCATION			
Arts, Council on the	45,949	45,789	(160)
City University of New York	830,448	1,134,572	304,124
Education, Department of	21,603,046	22,694,716	1,091,670
School Aid	15,414,132	16,375,841	961,709
STAR Property Tax Relief	2,819,455	3,018,000	198,545
Handicapped	1,320,140	1,432,976	112,836
All Other	2,049,319	1,867,899	(181,420)
Higher Education Services Corporation	872,380	1,014,996	142,616
State University Construction Fund	8,184	9,402	1,218
State University of New York	4,337,870	4,634,189	296,319
Functional Total	27,697,877	29,533,664	1,835,787

CASH DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
(thousands of dollars)

	2003-2004 Actual	2004-2005 Enacted	Annual Change
GENERAL GOVERNMENT			
Audit and Control, Department of	148,963	176,815	27,852
Budget, Division of the	28,955	39,786	10,831
Civil Service, Department of	20,148	21,652	1,504
Elections, State Board of	3,356	6,616	3,260
Employee Relations, Office of	3,298	3,550	252
Executive Chamber	12,458	14,916	2,458
General Services, Office of	200,234	213,756	13,522
Inspector General, Office of	5,194	5,441	247
Law, Department of	149,095	170,823	21,728
Lieutenant Governor, Office of the	358	458	100
Lottery, Division of	159,224	159,651	427
Public Employment Relations Board	3,262	3,472	210
Racing and Wagering Board, State	13,734	14,832	1,098
Real Property Services, Office of	43,472	53,800	10,328
Regulatory Reform, Governor's Office of	3,227	3,375	148
State, Department of	125,628	234,589	108,961
Tax Appeals, Division of	2,676	2,718	42
Taxation and Finance, Department of	344,957	338,027	(6,930)
Technology, Office for	32,737	19,897	(12,840)
TSC Lobbying	1,044	1,325	281
Veterans Affairs, Division of	10,953	12,517	1,564
Functional Total	1,312,973	1,498,016	185,043
ALL OTHER CATEGORIES			
Legislature	202,252	201,629	(623)
Judiciary (excluding fringe benefits)	1,431,275	1,508,013	76,738
Homeland Security	15,676	141,974	126,298
Local Government Assistance	823,952	802,661	(21,291)
Long-Term Debt Service	3,351,303	3,898,993	547,690
General State Charges/Miscellaneous	3,824,451	4,176,765	352,314
Capital Accounting Adjustment (2)	0	(1,090,000)	(1,090,000)
One-time Payment Deferrals (3)	1,900,000	0	(1,900,000)
Functional Total	11,548,909	9,640,035	(1,908,874)
TOTAL ALL GOVERNMENTAL FUNDS SPENDING	97,326,542	101,207,255	3,880,713

Note 1: Projected 2004-05 includes $1.7 billion in World Trade Center spending that will be reflected in various agencies at year end.

Note 2: Projected 2004-05 spending by function has been adjusted to include certain off-budget capital projects spending, however it is excluded from total projected spending. This spending is not included in actual cash results by the State Comptroller on a cash basis but is reflected on a GAAP basis.

Note 3: To provide a comparable annual change by function, spending by function has been adjusted for $1.9 billion in one-time payment deferrals from 2002-03 to 2003-04. The payment deferrals are shown in aggregate and were detailed most recently in the 2003-04 Year-End Report.

Special Considerations

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 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 section entitled "Economics and Demographics," in this AIS.

Based on current projections, the 2004-05 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. DOB expects to incorporate the fiscal management plan into the Financial Plan projections in the Mid-Year Update to the Financial Plan, planned for October 2004.

As of the close of 2003-04, balances in the State's principal reserves to guard against unbudgeted risks totaled $815 million. The reserves include $794 million in the Tax Stabilization Reserve Fund and $21 million in the Contingency Reserve Fund for litigation. To permanently improve the State's reserve levels, the Governor has proposed legislation to increase both the maximum size of the State's rainy day fund from 2 percent to 5 percent of General Fund spending, and the maximum annual deposits from two-tenths of one percent to five-tenths of one percent of spending. Absent this legislation, the Fund will reach its statutory maximum balance of 2 percent or $840 million with the next annual deposit.

Aside from the $21 million in the Contingency Reserve Fund, the current Financial Plan does not set aside specific reserves to cover potential costs that could materialize as a result of adverse rulings in pending litigation, Federal disallowances, or other Federal actions that could adversely affect the State's projections of receipts and disbursements.

Federal Issues

The Federal government is currently auditing Medicaid claims submitted since 1993 under the School Supportive Health Services Program. At this point, these audits have not been finalized, and, as a result, the liability of the State and school districts for any disallowances cannot be determined. Federal regulations include an appeals process that could postpone repayment of any disallowances. The current Financial Plan assumes the Federal government will fully reimburse these costs.

In addition, a portion of Federal Medicaid payments related to School Supportive Health Services have been deferred by the Federal Centers for Medicare and Medicaid Services pending finalization of audits. Since the State has continued to reimburse local school districts for these costs, these Federal deferrals, if not resolved, could negatively impact the Financial Plan. Alternatively, if the State suspends reimbursement, local governments could be adversely affected.

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.

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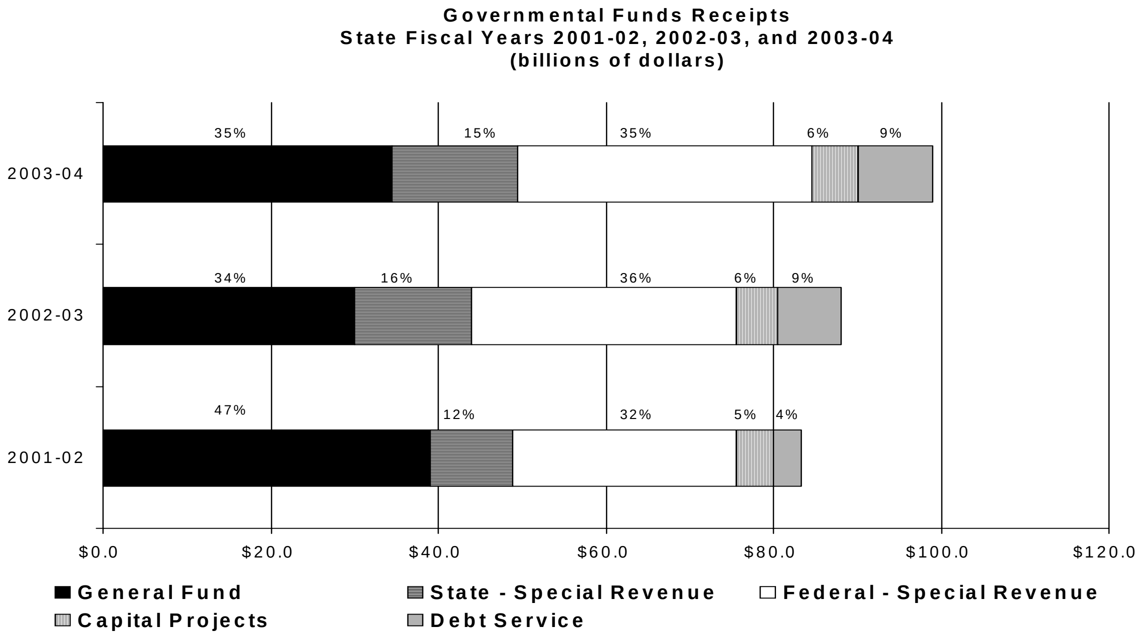
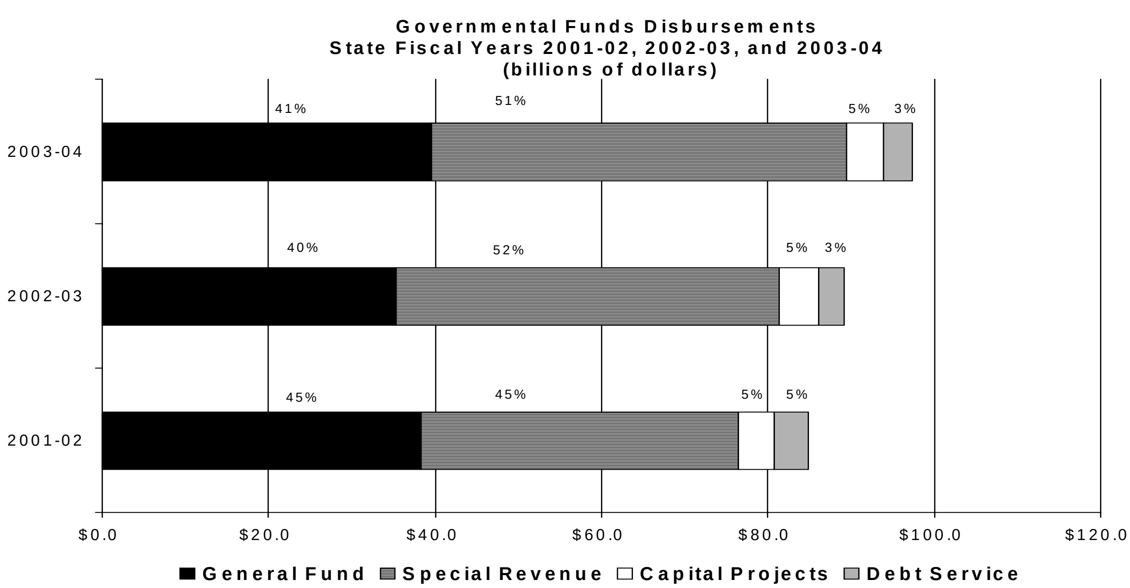
Prior Fiscal Years

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.

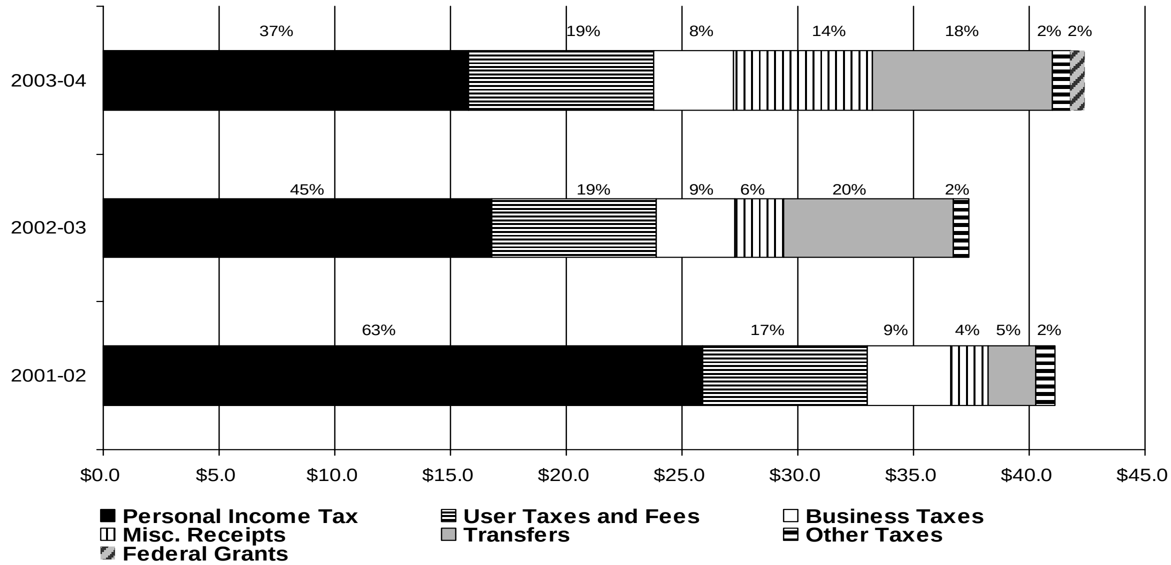


Note: Percentage total may not add due to rounding.



Note: Percentage total may not add due to rounding.

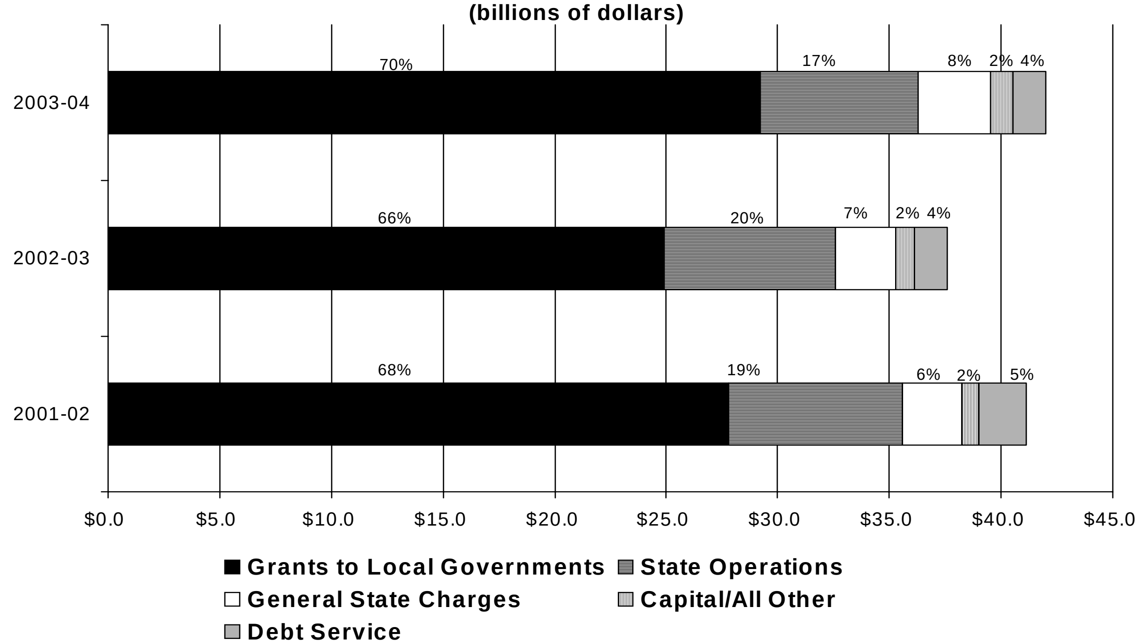
General Fund Receipts and Transfers by Source
State Fiscal Years 2001-02, 2002-03, and 2003-04
(billions of dollars)



Notes: Decrease in personal income tax component, and corresponding increase in transfers is partly attributable to the revenue bond tax fund transaction beginning in 2002-03. Miscellaneous receipts are affected by tobacco securitization in 2003-04 (miscellaneous receipts for 2003-04 include $4.2 billion in tobacco securitization proceeds).

Percentage total may not add due to rounding.

General Fund Disbursements and Transfers by Type
State Fiscal Years 2001-02, 2002-03, and 2003-04
(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 GAAP, showing revenues and expenditures. Unless specifically noted, the Financial Plan results reported in this section have been audited.

General Fund 2001-02 through 2003-04

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 single 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.

Recent Trends

Over the last three years, State finances have been affected by a number of factors, including the impact of the September 11th terrorist attacks on New York City, the national recession, weakness in the financial services sector, and the use of non-recurring resources and reserves to support spending. However, there is ample evidence that the State economy has fully emerged from recession and that the State's current economic expansion, estimated to have begun in August 2003, will be sustainable.

In 2002-03, the Governor proposed selling a portion of the State's future share of tobacco settlement payments, but the State Legislature did not enact legislation authorizing the tobacco settlement sale until 2003-04. Therefore, to eliminate a budget imbalance at the end of 2002-03 and maintain reserve levels, the State deferred $1.9 billion in planned spending to 2003-04. As a result, actual General Fund spending increased from $37.6 billion in 2002-03 to $42.1 billion in 2003-04, an increase of $4.5 billion (11.8 percent). The annual impact of payment deferrals had the effect of lowering 2002-03 spending by $1.9 billion and increasing 2003-04 spending by the same amount. If the General Fund results were adjusted to include the impact of $1.9 billion in deferrals, spending would have increased by $652 million (1.7 percent). The spending levels reported in this section for the 2002-03 and 2003-04 fiscal years have not been adjusted to include this $1.9 billion in spending deferrals.

Over the three-year period beginning in 2001-02, General Fund spending has grown by an average of 1 percent annually. This three-year growth trend is low by historical comparisons. Since 1995, General Fund spending has grown by an average 2.6 percent annually.

2003-04 Fiscal Year

The Division of Budget (DOB) reported a 2003-04 General Fund surplus of $308 million. Total receipts, including transfers from other funds, were $42.3 billion. Disbursements, including transfers to other funds, totaled $42.1 billion.

The General Fund ended the 2003-04 fiscal year with a balance of $1.1 billion, which included dedicated balances of $794 million in the Tax Stabilization Reserve Fund (the State's "rainy day fund") (after an $84 million deposit at the close of 2003-04), the Contingency Reserve Fund ($21 million), and the Community Projects Fund ($262 million). The closing fund balance excludes $1.2 billion on deposit in the refund reserve account at the end of the 2003-04 fiscal year.

	2003-04 General Fund Spending Results			
($ in millions)	**Enacted Projection**	**FMAP***	**Other Changes**	**Year- End Actual**
General Fund	**42,737**	(506)	(166)	**42,065**

* Temporary increase in the Federal Medical Assistance Percentage (FMAP) from 50% to 52.95% effective April 1, 2003 through June 30, 2004.

The State Legislature approved the annual budget for fiscal year 2003-04 on May 15, 2003, successfully overriding gubernatorial vetoes totaling $3.2 billion. On May 28, 2003, DOB issued its 2003-04 Enacted Budget Financial Plan summarizing the impact of the Legislature's actions and other events on the State's 2003-04 Financial Plan as submitted by the Governor in January 2003. DOB reported that the annual budget approved by the Legislature created a potential imbalance of $912 million in the General Fund, which DOB planned to correct through a combination of management actions and temporary Federal aid that the President had signed into law after the State Legislature had acted on the budget. At the time, the Legislature did not agree with DOB's Financial Plan estimates.

As noted in the following table, General Fund actual results in 2003-04 were $69 million better than the initial DOB estimates, after excluding the impact of Federal aid.

	2003-04 General Fund Operating Results			
($ in millions)	**Enacted Projection**	**Federal Aid***	**All Other Changes**	**Year- End Actual**
General Fund (Deficit)/Surplus	**(912)**	1,151	69	**308**

* FMAP and revenue sharing grant

The temporary Federal aid produced nearly $1.2 billion in General Fund relief during the 2003-04 fiscal year, which eliminated the initial projected $912 million imbalance. New York's share of the national aid package consisted of a revenue sharing grant worth $645 million and a temporary 2.95 percent increase in the Federal Medical Assistance Percentage (FMAP) that produced $506 million in General Fund savings. The grant increased General Fund receipts, while the higher matching rate lowered Medicaid spending in the General Fund, but increased the amount spent from Federal Funds.

Aside from the extraordinary Federal aid, the net General Fund operating variance was $69 million, although 2003-04 year-end results for a number of programs varied from the initial projections. In particular, even though the State economy rebounded modestly in 2003-04, the persistent effects of the national recession and a weak recovery continued to put pressure on the State's social services programs to a greater extent than anticipated in the Enacted Budget Financial Plan. The actual number of people receiving Medicaid and welfare benefits during the year exceeded initial projections, driving additional Financial Plan costs. However, the positive impact of Federal aid, modestly higher tax receipts, and spending that came in below projections in other programs, were more than sufficient to offset the growth in social services costs.

2002-03 Fiscal Year

After deferring $1.9 billion in planned spending to 2003-04, the State ended the 2002-03 fiscal year on March 31, 2003 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), and $85 million in the Community Projects Fund. The closing fund balance excludes $627 million on deposit in the refund reserve account at the end of the 2002-03 fiscal year.

General Fund receipts and transfers from other funds totaled $37.4 billion in 2002-03, a decrease of $2.3 billion (6 percent) 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 (5 percent) 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 TSRF (after a deposit of $83 million in fiscal year 2001-02), $157 million in the CRF, $159 million in the Community Projects Fund, 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 percent) over fiscal year 2000-01 results. Receipts results for fiscal year 2001-02 reflect refund reserve transactions that had the effect of reducing PIT receipts in the 2001-02 fiscal year and increasing them in the 2002-03 fiscal year. In comparison to the 2001-02 Financial Plan projected in January 2002 (the January Financial Plan), receipts were $1.3 billion (3 percent) 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 (4 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 that did not occur until the next fiscal year.

State Funds 2001-02 through 2003-04

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.

Recent Trends

State Funds spending increased from $55.8 billion in 2002-03 to $61.3 billion in 2003-04, an increase of $5.6 billion or 10 percent. If State Funds spending were adjusted to reflect payment delays discussed earlier, the year-to-year increase would have been $1.8 billion or 3 percent. The General Fund portion of State Funds increased by $4.3 billion. The remaining growth consisted of higher spending for programs supported by special revenue ($858 million), capital projects ($86 million), and debt service funds ($315 million). Spending in State-supported SRFs for Medicaid increased by $310 million, reflecting in large part alternate financing of health programs that were previously paid for in the General Fund. Spending in State-supported SRFs for higher education programs increased by $294 million, reflecting in large part the increases in tuition at CUNY and SUNY. Sources of annual growth in State debt service included planned growth in the PIT Revenue Bond Program ($220 million) and the Dedicated Highway and Bridge Program ($104 million).

Over the three-year period beginning in 2001-02, State Funds spending has grown by an average 3.8 percent annually. In recent years, the State has financed a larger portion of its operations outside of the General Fund, accounting for the higher average annual growth rate in State funds than in the General Fund over the last three years. In 2003-04, the "non-General Fund" fund types (special revenue, capital projects, and debt service) comprised 35 percent of State-supported spending, up from 33 percent in 2001-02.

Major programmatic changes that have increased activity outside the General Fund include the financing of certain Medicaid and other health care costs under HCRA and the creation of the STAR program that is funded by directing PIT receipts to a special revenue fund. The State has also seen growth in the portion of transportation-related revenues transferred 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 MTA and other transit entities.

2003-04 Fiscal Year

The State ended the 2003-04 fiscal year with a State Funds cash balance of $2.6 billion. In addition to the $1.1 billion General Fund balance described above, the State's SRFs had a closing balance of $1.7 billion and the debt service funds had a closing balance of $175 million, partially offset by a negative balance in the capital projects funds of $336 million. The fund balance in the SRFs partly reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). The largest special revenue fund balance was dedicated to finance the operations and activities of SUNY campuses and central administration ($442 million). The remaining fund balances were held in numerous funds/accounts that support a variety of programs including industry regulation, public health, and public safety. The negative balance in the capital projects fund results from outstanding loans from STIP used to finance capital projects costs prior to the receipt of bond proceeds.

State Funds receipts totaled $62.2 billion in 2003-04, a decrease of $235 million from the February Financial Plan. The variance was primarily the result of lower-than-expected collections from miscellaneous receipts partially offset by higher-than-expected receipts from taxes. Actual State Funds disbursements totaled $61.3 billion in 2003-04, a decrease of $791 million (1 percent) from the February Financial Plan projections. The variance was largely related to lower capital spending when projects were impacted by inclement weather and a delay in the start of the 2003 construction season.

2002-03 Fiscal Year

The State ended the 2002-03 fiscal year with a State Funds cash balance of $1.6 billion. In addition to the $815 million General Fund balance described above, the State's SRFs had a closing balance of $1.2 billion and the debt service funds had a closing balance of $158 million, partially offset by a negative balance in the capital projects funds of $558 million. The largest fund balance in the SRFs was dedicated to finance the operations and activities of SUNY campuses and central administration ($218 million).

State Funds receipts totaled $54.7 billion for the 2002-03 fiscal year, a decrease of $3.1 billion (5 percent) from the February Financial Plan. The revenue shortfall in the General Fund related to the delay in tobacco securitization accounted for $2.3 billion of the variance. Miscellaneous receipts outside the General Fund were down by $777 million from projections ($778 million in capital projects funds, $180 million in the SRFs and offset by an increase of $181 million in the debt service funds). The variance in the capital projects funds resulted from a delay (from March 2003 until May 2003) in a bond sale for the Dedicated Highway program. In the SRFs, spending below projections for various health programs, including Medicaid and EPIC, produced a corresponding reduction in the level of receipts that needed to be transferred from the Tobacco Control and Insurance Initiative Pool.

State Funds disbursements totaled $55.8 billion for the 2002-03 fiscal year, a decrease of $3.2 billion (5 percent) from the February Financial Plan projections. The General Fund accounted for $2.2 billion of the spending reduction, primarily related to the deferral of payments caused by the delay in tobacco securitization, followed by capital projects ($581 million), special revenue ($344 million), and debt service ($53 million). Actual spending for capital projects came in below the February Financial Plan primarily as a result of delays in spending across programs financed with authority bonds. In the SRFs, spending below projections in several health care accounts (CHP, HCRA, EPIC and Provider Assessments) and across accounts in the miscellaneous special revenue fund accounted for the $344 million variance.

2001-02 Fiscal Year

The State ended the 2001-02 fiscal year with a State Funds cash balance of $2.1 billion. In addition to the $1.03 billion General Fund balance, the State's SRFs had a closing balance of $1.1 billion and the debt service funds had a closing balance of $169 million, partially offset by a negative balance in the capital projects funds of $153 million. The largest fund balance in the SRFs was dedicated to finance the operations of public transportation systems ($162 million).

State Funds receipts totaled $55 billion for the 2001-02 fiscal year, a decrease of $1.7 billion (3 percent) from the February Financial Plan. The revenue shortfall in the General Fund, following the January Financial Plan, accounted for $1.3 billion of the variance. While taxes outside the General Fund were down by $92 million from projections, miscellaneous receipts outside the General Fund were down by $321 million from projections ($288 million in capital projects funds, $41 million in the SRFs and offset by an increase of $8 million in the debt service funds). The variance in the capital projects funds resulted from reduced capital construction and reduced capital investments at year-end.

State Funds disbursements totaled $57 billion for the 2001-02 fiscal year, a decrease of $727 million (1 percent) from the February Financial Plan projections. In addition to the General Fund reduction (see above), the other reductions were in SRFs ($308 million), followed by capital projects ($152 million), and debt service ($42 million). In the SRFs, spending below projections in transportation, STAR, State University accounts and across accounts in the miscellaneous special revenue fund accounted for the $308 million variance.

All Funds 2001-02 through 2003-04

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 Project Funds, and Debt Service Funds.

Recent Trends

All Funds spending totaled $97.3 billion in 2003-04, $8.3 billion (9.3 percent) higher than in 2002-03. The annual impact of payment deferrals, which had the effect of lowering 2002-03 spending by $1.9 billion and increasing 2003-04 spending by the same amount, accounted for $3.8 billion (46 percent) of the annual increase. Adjusting for the payment deferrals, the year-to-year increase in All Funds spending would have been $4.5 billion or 5 percent. The Federal component of All Funds spending grew by $2.7 billion (8 percent), from 2002-03 levels.

Significant areas of Federal growth included Medicaid, education aid, World Trade Center relief, and mental hygiene. Medicaid spending increased by $1.8 billion, primarily reflecting underlying program growth (inflation, caseload, etc.) and the temporary 2.95 percent increase in FMAP. Federal aid for education increased by $750 million, particularly in programs for disadvantaged students (Title I). Federal aid that flows through the State Financial Plan, related to World Trade Center recovery efforts, increased spending by $430 million. Increased mental hygiene spending by $359 million was primarily attributable to growth in available patient care revenues. All other Federal spending increases totaled $216 million.

Lower spending for welfare, transportation and higher education programs partially offset the growth in Federal Funds. Federal Temporary Assistance for Needy Families (TANF) reserve funds used to offset 2002-03 spending that were no longer available contributed to declines in Federal spending for welfare ($519 million) and higher education ($156 million). Transportation spending decreased by $167 million.

2003-04 Fiscal Year

The State ended the 2003-04 fiscal year with an All Funds cash balance of $2.9 billion. In addition to the $2.6 billion State Funds balance described above, the Federal Funds had a closing balance of $321 million, including $480 million in Federal SRFs, partially offset by a negative balance in the Federal capital projects funds of $159 million. The fund balance in the SRFs partly reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). The negative balance in the capital projects fund results from outstanding loans from STIP used to finance capital projects costs prior to the receipt of bond proceeds.

All Funds receipts for 2003-04 totaled $99 billion, a decrease of $75 million from the February Financial Plan projections. The variance was primarily the result of lower-than-expected collections from miscellaneous receipts partially offset by higher-than-expected receipts from taxes and Federal grants. All Funds disbursements for 2003-04 totaled $97.3 billion, a decrease of $977 million (1 percent) from the February Financial Plan projections. The decline in State Funds spending of $791 million, combined with a decline in Federal Funds spending of $186 million, account for the variance. In addition to the State Funds variance described above, Federal funds for welfare and Medicaid experienced transaction delays.

2002-03 Fiscal Year

The State ended the 2002-03 fiscal year with an All Funds cash balance of $1.2 billion. Offsetting the $1.3 billion State Funds balance described above, the Federal Funds had a negative closing balance of $139 million, including $92 million in Federal SRFs and a negative balance in the Federal capital projects funds of $231 million.

All Funds receipts for 2002-03 totaled $88.1 billion, a decrease of $2.3 billion (3 percent) from the February Financial Plan projections. Federal aid exceeded projections by $805 million but was more than offset by the $3.1 billion decline in State Funds revenues.

All Funds disbursements for 2002-03 totaled $89.1 billion, a decrease of $1.8 billion (2 percent) from the February Financial Plan projections. The decline in State Funds spending of $3.2 billion, offset by an increase in Federal spending of $1.4 billion, accounted for the change. Federal Medicaid spending exceeded planned levels by $1.2 billion due mainly to the realization of one-time payments under the disaster assistance program implemented following the September 11th terrorist attacks. Disbursements supported by Federal aid also increased for Children and Family Services ($377 million) and education ($264 million). Federal spending for cleanup and reconstruction activities at the World Trade Center site ($1.1 billion) was $684 million below projections.

2001-02 Fiscal Year

The State ended the 2001-02 fiscal year with an All Funds cash balance of $2 billion. Offsetting the $2.1 billion State Funds balance described above, the Federal Funds had a negative closing balance of $158 million, including a negative balance of $43 million in Federal SRFs and a negative balance in the Federal capital projects funds of $115 million.

All Funds receipts for 2001-02 totaled $83.2 billion, a decrease of $549 million (7 percent) from the February Financial Plan projections. Partially offsetting the $1.7 billion State Funds decrease described above was higher-than-projected Federal receipts of $1.15 billion. The increase in Federal receipts was primarily the result of higher-than-expected Federal grants.

All Funds disbursements for 2001-02 totaled $85 billion, an increase of $446 million from the February Financial Plan projections. The decline in State Funds spending of $727 million, offset by an increase in Federal spending of $1.2 billion, accounted for the change. Disbursements supported by Federal aid increased for World Trade Center cleanup, Medicaid, and welfare.

COMPARISON OF ACTUAL GENERAL FUND RECEIPTS AND DISBURSEMENTS
2001-02 THROUGH 2003-04
(millions of dollars)

	2001-02	2002-03	2003-04
OPENING FUND BALANCE (1)	1,110	1,032	815
Personal Income Tax (2)	25,854	16,791	15,774
User Taxes and Fees:			
Sales and Use Tax (3)	6,131	6,328	7,241
Cigarette and Tobacco Tax	532	446	419
Motor Fuel Tax	0	0	0
Motor Vehicle Fees	185	67	82
Alcoholic Beverage Taxes and Fees	212	222	237
Container Tax	0	0	0
Auto Rental Tax	38	0	0
Subtotal	7,098	7,063	7,979
Business Taxes:			
Corporation Franchise Tax	1,515	1,407	1,482
Corporation and Utilities Taxes	972	860	715
Insurance Taxes	633	704	930
Bank Tax	496	409	286
Petroleum Business Tax	0	0	0
Subtotal	3,616	3,380	3,413
Other Taxes:			
Estate and Gift Taxes	767	708	736
Real Property Gains Tax	5	5	4
Pari-mutuel Tax	30	29	27
Other Taxes	1	1	1
Subtotal	803	743	768
Miscellaneous Receipts & Federal Grants	1,625	2,091	6,571
Transfers from Other Funds:			
PIT in excess of Revenue Bond debt service	0	4,215	5,244
Sales Tax in Excess of LGAC Debt Service	1,750	1,919	1,971
All Other Transfers	398	1,194	607
Subtotal	2,148	7,328	7,822
TOTAL RECEIPTS	41,144	37,396	42,327
Grants to Local Governments	27,835	24,887	29,246
State Operations	7,839	7,678	7,093
General State Charges	2,650	2,699	3,247
Debt Service	0	0	0
Transfers to Other Funds:			
In Support of Debt Service	2,086	1,496	1,474
In Support of Capital Projects	289	166	243
All Other Transfers	523	687	762
Subtotal	2,898	2,349	2,479
TOTAL DISBURSEMENTS (4)	41,222	37,613	42,065
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	(78)	(217)	262
CLOSING FUND BALANCE	1,032	815	1,077

Source: NYS Office of State Comptroller.

(1) 2001-02 opening balance reflects the State Comptroller's reclassification of the Fringe Benefit Escrow Fund from the Agency Group Fund to the General Fund.

(2) Excludes $4.2 billion in receipts for 2002-03, and $5.2 billion in receipts for 2003-04, that flow into the Revenue Bond Tax Fund in the first instance and are then transferred to the General Fund after debt service obligations are satisfied.

(3) Excludes sales tax in excess of LGAC Debt Service.

(4) Disbursement totals are not adjusted for $1.9 billion in payment deferrals from 2002-03 to 2003-04 when tobacco settlement authorization was delayed.

CASH FINANCIAL PLAN
STATE FUNDS (1)
2001-2002
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,110	2,193	69	422	3,794
Receipts:					
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
Total receipts	38,996	9,782	2,948	3,273	54,999
Disbursements:					
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
Total disbursements	38,324	11,566	2,939	4,149	56,978
Other financing sources (uses):					
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
Net other financing sources (uses)	(750)	681	(231)	623	323
Change in fund balance	(78)	(1,103)	(222)	(253)	(1,656)
Closing fund balance	1,032	1,090	(153)	169	2,138

Source: NYS DOB

(1) DOB calculation of State Funds excludes activity in certain miscellaneous special revenue funds that are financed primarily with Federal funds. The activity in these funds is reflected in the All Governmental Funds Financial Plan.

CASH FINANCIAL PLAN
STATE FUNDS
2002-2003 (1)
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,032	1,090	(153)	169	2,138
Receipts:					
Taxes	27,977	4,205	1,690	6,804	40,676
Miscellaneous receipts	2,091	9,427	1,677	807	14,002
Federal grants	0	0	0	0	0
Total receipts	30,068	13,632	3,367	7,611	54,678
Disbursements:					
Grants to local governments	24,887	10,036	399	0	35,322
State operations	7,678	4,069	0	7	11,754
General State charges	2,699	356	0	0	3,055
Debt service	0	0	0	3,038	3,038
Capital projects	0	4	2,578	0	2,582
Total disbursements	35,264	14,465	2,977	3,045	55,751
Other financing sources (uses):					
Transfers from other funds	7,328	1,131	183	4,383	13,025
Transfers to other funds	(2,349)	(212)	(1,223)	(8,960)	(12,744)
Bond and note proceeds	0	0	245	0	245
Net other financing sources (uses)	4,979	919	(795)	(4,577)	526
Change in fund balance	(217)	86	(405)	(11)	(547)
Closing fund balance	815	1,176	(558)	158	1,591

Source: NYS DOB

(1) DOB calculation of State Funds excludes activity in certain miscellaneous special revenue funds that are financed primarily with Federal funds. The activity in these funds is reflected in the All Governmental Funds Financial Plan.

CASH FINANCIAL PLAN
STATE FUNDS (1)
2003-2004
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance (2)	815	1,230	(558)	158	1,645
Receipts:					
Taxes	27,934	4,442	1,756	8,122	42,254
Miscellaneous receipts	5,917	10,372	2,162	811	19,262
Federal grants	654	0	0	0	654
Total receipts	34,505	14,814	3,918	8,933	62,170
Disbursements:					
Grants to local governments	29,246	10,399	290	0	39,935
State operations	7,093	4,497	0	9	11,599
General State charges	3,247	424	0	0	3,671
Debt service	0	0	0	3,351	3,351
Capital projects	0	3	2,773	0	2,776
Total disbursements	39,586	15,323	3,063	3,360	61,332
Other financing sources (uses):					
Transfers from other funds	7,822	994	177	4,794	13,787
Transfers to other funds	(2,479)	(12)	(949)	(10,350)	(13,790)
Bond and note proceeds	0	0	139	0	139
Net other financing sources (uses)	5,343	982	(633)	(5,556)	136
Change in fund balance	262	473	222	17	974
Closing fund balance	1,077	1,703	(336)	175	2,619

Source: NYS DOB

(1) DOB calculation of State Funds excludes activity in certain miscellaneous special revenue funds that are financed primarily with Federal funds. The activity in these funds is reflected in the All Governmental Funds Financial Plan.

(2) The Special Revenue Funds opening fund balance has been increased by $54 million to reflect the State Comptroller's reclassification of the Expendable and Non-expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type pursuant to GASB 34.

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,110	2,199	(89)	422	3,642
Receipts:					
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
Total receipts	38,996	36,606	4,372	3,273	83,247
Disbursements:					
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
Total disbursements	38,324	38,257	4,314	4,149	85,044
Other financing sources (uses):					
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
Net other financing sources (uses)	(750)	499	(237)	623	135
Change in fund balance	(78)	(1,152)	(179)	(253)	(1,662)
Closing fund balance	1,032	1,047	(268)	169	1,980

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)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,032	1,047	(268)	169	1,980
Receipts:					
Taxes	27,977	4,205	1,690	6,804	40,676
Miscellaneous receipts	2,086	9,570	1,678	807	14,141
Federal grants	5	31,684	1,567	0	33,256
Total receipts	30,068	45,459	4,935	7,611	88,073
Disbursements:					
Grants to local governments	24,887	38,249	855	0	63,991
State operations	7,678	7,302	0	7	14,988
General State charges	2,699	540	0	0	3,239
Debt service	0	0	0	3,038	3,038
Capital projects	0	4	3,795	0	3,799
Total disbursements	35,264	46,096	4,650	3,045	89,055
Other financing sources (uses):					
Transfers from other funds	7,328	3,035	183	4,383	14,929
Transfers to other funds	(2,349)	(2,460)	(1,235)	(8,960)	(15,004)
Bond and note proceeds	0	0	245	0	245
Net other financing sources (uses)	4,979	575	(807)	(4,577)	170
Change in fund balance	(217)	(62)	(522)	(11)	(812)
Closing fund balance	815	985	(790)	158	1,168

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

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance (1)	815	1,039	(790)	158	1,222
Receipts:					
Taxes	27,934	4,442	1,756	8,122	42,254
Miscellaneous receipts	5,917	10,517	2,168	811	19,413
Federal grants	654	35,121	1,548	0	37,323
Total receipts	34,505	50,080	5,472	8,933	98,990
Disbursements:					
Grants to local governments	29,246	41,368	781	0	71,395
State operations	7,093	7,866	0	9	14,968
General State charges	3,247	601	0	0	3,848
Debt service	0	0	0	3,351	3,351
Capital projects	0	9	3,755	0	3,764
Total disbursements	39,586	49,844	4,536	3,360	97,326
Other financing sources (uses):					
Transfers from other funds	7,822	3,447	254	4,794	16,317
Transfers to other funds	(2,479)	(2,539)	(1,028)	(10,350)	(16,396)
Bond and note proceeds	0	0	139	0	139
Net other financing sources (uses)	5,343	908	(635)	(5,556)	60
Change in fund balance	262	1,144	301	17	1,724
Closing fund balance	1,077	2,183	(489)	175	2,946

Source: NYS OSC (reflecting amounts published in the Cash Basis Report for 2003-04)

(1) The Special Revenue Funds opening fund balance has been increased by $54 million to reflect the State Comptroller's reclassification of the Expendable and Non-expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type pursuant to GASB 34.

GAAP-Basis Results for Prior Fiscal Years

The Comptroller prepares Basic Financial Statements on a GAAP basis for governments as promulgated by GASB. The Basic Financial Statements, released in July each year, include the Statement of Net Assets and Activities, the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds, the Statements of Net Assets, Revenues, Expenses and Changes in Fund Net Assets and Cash Flows for the Enterprise Funds, the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets and the Combining Statements of Net Assets and Activities for Discretely Presented Component Units. 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 Basic Financial Statements, other supplementary information which includes 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. The following table summarizes recent governmental funds results on a GAAP basis.

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

Fiscal Year Ended	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	All Governmental Funds	Accum. General Fund Surplus/(Deficit)
March 31, 2004	3,039	(578)	173	603	3,237	(281)
March 31, 2003	(4,221)	(231)	(243)	391	(4,304)	(3,320)
March 31, 2002 (1)	(3,418)	(970)	76	(134)	(4,446)	493

(1) Prior to implementation of GASB 34.

Beginning in 2002-03, statements are prepared in accordance with GASB 34. GASB 34 has significantly affected the accounting and financial reporting for all state and local governments. The new financial reporting model redefined the financial reporting model by changing its focus to major funds, rather than fund types, requiring a new section called management discussion and analysis (the "MD&A"), and containing new government-wide financial statements which includes all revenues and all costs of providing services each year. The new Basic Financial Statements and the MD&A are issued in place of the general purpose financial statements. The new statements 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).

Summary of Net Assets
(millions of dollars)

Fiscal Year Ended	Governmental Activities	Business-Type Activities	Total Primary Government
March 31, 2004	39,086	2,088	41,174
March 31, 2003	42,396	2,500	44,896
March 31, 2002 (1)	47,679	2,687	50,366

(1) Prior to implementation of GASB 34.

Economics and Demographics

The following section presents economic information that may be relevant in evaluating the future prospects of the State economy. Additional information on the economic forecast that supports the current financial plan projections appears in the section entitled "Current Fiscal Year" 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

Although growth has slowed from the brisk pace of the second half of 2003 and the first quarter of 2004, the national economy is continuing to expand, due in large part to momentum generated by favorable monetary and fiscal policies. The economy is expected to accelerate to above trend growth during the second half of this year, following growth of only 2.8 percent for the second quarter. The overall strength of the national economy permitted the Federal Reserve Board to embark upon a "measured" course of monetary tightening at the end of June. Nevertheless, interest rates are expected to remain relatively accommodative well into the forecast period. Low interest rates and a strengthening world economy are expected to maintain a favorable environment for both business investment and international trade. DOB has slightly lowered the forecast for real U.S. Gross Domestic Product (GDP) from that presented with the Executive Budget. Real U.S. GDP is currently projected to grow 4.3 percent in 2004, followed by slightly above trend growth of 3.3 percent for 2005.

Corporate profits from current production grew 16.8 percent in 2003, followed by additional growth of 22.9 percent in the first half of 2004 compared with the first half of 2003. However, strong profit growth has combined with heightened uncertainty due to high energy prices and national security concerns to create an unusual degree of volatility in the labor market. Since August 2003, the national economy has gained almost half of the private sector jobs that were lost during the 2001 recession and its aftermath, with over one million private sector jobs created during the first five months of this year. However, labor market growth slowed to a trickle in June and July. DOB expects moderate growth of 1.1 percent in employment for 2004, following a decline of 0.3 percent for 2003. The unemployment rate is projected to decline to 5.5 percent in 2004 from 6.0 percent in 2003. Consistent with a strengthening labor market, wages and salaries are expected to grow 5.1 percent for 2004, following growth of 2.6 percent for 2003. Total personal income is expected to grow 5.4 percent for this year, following growth of 3.2 percent for 2003. Current projections for personal income and wages for 2004 represent upward revisions compared to the Executive Budget forecast. However, these revisions to the forecast are largely due to revisions to the underlying data by the Bureau of Economic Analysis for 2003.

A benchmark oil price rose to a new record high in August. Unexpectedly high world demand, attacks upon production facilities in the Middle East, and uncertainty in Russia have all contributed significantly to the rise in prices. These developments have resulted in an upward revision to the DOB forecast for consumer inflation, as represented by growth in the Consumer Price Index (CPI), to 2.7 percent for 2004. Nevertheless, the energy market continues to pose a risk to the DOB forecast for inflation. High energy prices also present a risk to domestic and global economic growth. Lower global growth could result in lower than anticipated exports. In contrast, better than expected economic conditions may encourage firms to invest more and hire more workers than expected, resulting in higher wages and higher consumption spending as well. A lower dollar could lead to higher exports, and therefore, higher output growth than projected.

Economic Indicators for the United States

	2000	2001	2002	2003	2004(1)
Gross Domestic Product					
Nominal (billions $)	9,817.0	10,128.0	10,487.0	11,004.0	11,730.9
Percent Change	5.9	3.2	3.5	4.9	6.6
Real (billions $)	9,817.0	9,890.6	10,074.8	10,381.3	10,832.2
Percent Change	3.7	0.8	1.9	3.0	4.3
Personal Income					
(billions $)	8,429.7	8,724.1	8,878.9	9,161.8	9,655.1
Percent Change	8.0	3.5	1.8	3.2	5.4
Nonagricultural Employment					
(millions)	131.8	131.8	130.3	129.9	131.3
Percent Change	2.2	0.0	(1.1)	(0.3)	1.1
Unemployment Rate (%)	4.0	4.7	5.8	6.0	5.5
Consumer Price Index					
(1982-84=100)	172.2	177.1	179.9	184.0	188.9
Percent Change	3.4	2.8	1.6	2.3	2.7

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 DOB, based on National Income and Product Account data through August 2004.

The New York Economy

The September 11th terrorist attack had a more devastating impact on the New York economy than on any other state. New York City is still recovering from the severity of the blow. However, there is evidence that the State economy has emerged from recession and that the State's current economic expansion, estimated to have begun in August 2003, will be sustainable. The State economy has added over 72,000 private sector jobs since August of last year. Total State employment is projected to rise 0.5 percent in 2004, following a decline of 0.6 percent in 2003. Wage income is projected to rise 5.6 percent in 2004, following growth of only 1.4 percent in 2003. Employment, wage, and total personal income growth projected for 2004 are much closer to historical averages for New York and reflect the belief that the State economy is solidly on an expansionary path. The unemployment rate is projected to fall from 6.3 percent in 2003 to 6.2 percent for 2004.

In addition to the risks associated with the national economic forecast, there exist specific risks to the State economy. Chief among them is a weaker performance within the financial sector than is currently projected. Higher energy prices and a new round of global instability appear to be having a more negative impact on equity markets than on the economy as a whole. A weaker financial market performance than expected could result in lower bonus payment growth than projected, though this impact would be largely felt during the first quarter of 2005. In contrast, a stronger national economy than expected could result in stronger equity market growth and, in turn, greater demand for financial market services and even stronger income growth in that sector than expected.

Economic Indicators for New York State

Personal Income					
(billions $)	663.0	679.6	685.1	703.0	740.2
Percent Change	7.0	2.5	0.8	2.6	5.3
Nonagricultural Employment					
(thousands)	8,635.2	8,591.7	8,459.0	8,403.5	8,447.6
Percent Change	2.1	(0.5)	(1.5)	(0.7)	0.8
Unemployment Rate (%)	4.6	4.9	6.1	6.3	6.0

Sources: US Department of Commerce, Bureau of Economic Analysis; NYS Department of Labor.
(1) Data for 2004 are projected by DOB based on data through early July 2004.

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 account for a higher proportion of total jobs than the rest of the nation.

Manufacturing: Manufacturing employment continues to decline in New York, as in most other states, and New York's economy is less reliant on this sector than in the past. However, it remains an important sector of the State economy, particularly for the upstate region, 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 fourth largest when measured by income share. This sector accounts for slightly less employment and wages for the State than for the nation.

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 nearly 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 2002
(Percent)

	Employment		Wages	
	State	United States	State	United States
Mining	0.0	0.4	0.0	0.6
Construction	3.8	5.1	4.0	5.5
Manufacturing	7.6	11.3	7.6	13.6
Trade, Transportation & Utilities	17.4	19.2	13.5	17.0
Information	3.4	2.5	5.5	4.2
Financial Activities	8.4	5.9	18.9	8.9
Professional and Business Services	12.5	12.1	16.0	14.7
Educational and Health Services	17.3	12.3	12.4	11.0
Leisure and Hospitality	7.5	9.0	3.6	4.1
Other Services	4.9	5.0	2.7	3.2
Government	17.1	17.2	15.7	17.1

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

	State			US	
	Total Population (000s)	% 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	226,546	11.4
1990	17,990	2.5	7.2	248,710	9.8
2000	18,976	5.5	6.6	281,422	13.2
2003 (prelim.)	19,190	1.1	6.6	290,810	3.3

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	131,785	6.6	4.9	4.0
2003 (prelim.)	8,403	129,931	6.5	6.3	5.6

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 an 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.

Per Capita Personal Income
(Dollars)

	State	US	State/US
1960	2,788	2,276	1.22
1970	4,874	4,085	1.19
1980	11,015	10,114	1.09
1990	23,523	19,477	1.21
2000	34,900	29,847	1.17
2003 (prelim.)	36,574	31,632	1.16

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

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Debt and Other Financing Activities

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 and to update it by the later of July 30 or 90 days after the enactment of the State Budget. The proposed 2004-05 through 2008-09 Capital Program and Financing Plan was released with the Executive Budget on January 20, 2004 and updated to reflect the 30-Day Amendments on February 12, 2004. 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 at www.budget.state.ny.us.

Legal Categories of State Debt and Other Financings

For purposes of analyzing the financial condition of the State, debt may be classified as *State-supported debt* and *State-related debt*. *State-supported debt* includes general obligation debt, to which the full faith and credit of the State has been pledged, and lease-purchase and contractual obligations of public authorities and municipalities, where the State's legal obligation to make payments to those public authorities and municipalities is subject to and paid from annual appropriations made by the Legislature (see "State-supported Debt"). *State-related debt* includes State-supported debt referenced above, as well as State-guaranteed debt (to which the full faith and credit of the State has been pledged), moral obligation financings and certain contingent-contractual obligation financings, 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 (see "State-related Debt Outstanding"). Both of these categories of financings 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.

State-supported Debt

State-supported debt includes general obligation debt, to which the full faith and credit of the State has been pledged, and lease-purchase and contractual obligations of public authorities and municipalities, where that State's legal obligation to make payments to those public authorities and municipalities is subject to and paid from annual appropriations made by the Legislature. Annual issuances of State-supported debt finance a portion of the State's five-year Capital Program and Financing Plan, which is statutorily required to be submitted with the Executive Budget and updated by the later of July 30 or 90 days after the enactment of the State budget (see "2004-05 State-supported Borrowing Plan"). The Capital Program and Financing Plan finances capital projects and programs in a variety of areas, including transportation, the environment, health and mental hygiene, public protection, economic development, housing, and State buildings and equipment acquisitions (see "General Obligation Financings" and "State-supported Lease-Purchase and Contractual-Obligation Financings" below).

General Obligation Financings

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 (Debt Reform Act) imposes statutory limitations on new State-supported debt issued on and after April 1, 2000. Except as noted in the next sentence, 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, mature within 40 years after issuance, and begin to amortize 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 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).

Under the State Constitution, 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 BANs during the 2004-05 fiscal year.

General Obligation Bonds Outstanding

General obligation debt is currently authorized for transportation, environment and housing purposes. 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. The amount of general obligation bonds issued in the 2003-04 fiscal year (excluding refunding bonds) was $139 million, and as of March 31, 2004, the total amount of general obligation debt outstanding was $3.8 billion. The 2004-05 Enacted Budget projects that about $150 million in General Obligation Bonds will be issued in 2004-05. The following table sets forth information regarding the levels of authorized, unissued and outstanding State general obligation debt by purpose as of March 31, 2004.

State General Obligation Debt
As of March 31, 2004
(millions of dollars)

Purpose/Year Authorized	Total Authorized	Authorized but Unissued	Total Debt Outstanding
Transportation Bonds:			
Transportation Capital Facilities (1967)			
Highways	1,250.0	0.0	0.0
Mass Transportation	1,000.0	0.0	95.4
Aviation	250.0	0.0	55.7
Rail Preservation (1974)	250.0	0.0	48.8
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	47.3
Rebuild New York Through Transportation Infrastructure Renewal (1983)			
Highway Related Projects	1,064.0	28.5	6.9
Rapid Transit, Rail and Aviation Projects	136.6	0.0	54.0
Ports, Canals, and Waterways	49.4	0.0	3.0
Accelerated Capacity and Transportation Improvements of the Nineties (1988)	3,000.0	58.8	1,075.2
Total Transportation Bonds	7,500.0	88.2	1,386.3
Environmental Bonds:			
Park and Recreation Land Acquisition (1960)	100.0	0.8	0.1
Pure Waters (1965)	1,000.0	33.8	158.7
Outdoor Recreation Development (1966)	200.0	0.2	0.5
Environmental Quality (1972)			
Water	650.0	6.7	210.0
Air	150.0	9.1	44.3
Land and Wetlands	350.0	13.7	93.6
Environmental Quality (1986)			
Solid Waste Management	1,200.0	220.5	660.0
Land and Forests	250.0	5.5	119.0
Clean Water/Clean Air (1996)			
Safe Drinking Water	355.0	0.1	255.4
Clean Water	790.0	367.4	397.0
Solid Waste	175.0	19.0	142.8
Environmental Restoration	200.0	174.0	21.6
Air Quality	230.0	62.2	127.5
Total Environmental Bonds	5,650.0	913.0	2,230.5
Housing Bonds:			
Low-Income Housing (through 1958)	960.0	7.9	117.7
Middle-Income Housing (through 1958)	150.0	0.5	67.9
Urban Renewal (1958)	25.0	1.6	0.4
Total Housing Bonds	1,135.0	10.0	186.0
Education Bonds:			
Higher Education Facilities (1957)	250.0	0.0	0.8
TOTAL GENERAL OBLIGATION DEBT	14,535.0	1,011.2	3,803.6

Source: Office of the State Comptroller

State-supported Lease-Purchase and Contractual-Obligation Financings

The State utilizes certain long-term financing mechanisms, lease-purchase and contractual-obligation financings, including Certificates of Participation (COPs) as described herein, which involve obligations of public authorities or municipalities where debt service is payable by the State, but are not general obligations of the State. Under these financing arrangements, certain public authorities and municipalities have issued obligations to finance certain payments to local governments (see "Local Government Assistance Corporation" below), various capital programs, including those which finance the State's highway and bridge program, SUNY and CUNY educational facilities, health and mental hygiene facilities, prison construction and rehabilitation, economic development projects, State buildings and housing programs, and equipment acquisitions, and expect to meet their debt service requirements through the receipt of rental or other contractual payments made by the State.

Debt service payable to certain public authorities from State appropriations for such lease-purchase and contractual obligation financings may be paid from general resources of the State or from dedicated tax and other sources (e.g., State personal income taxes, motor vehicle and motor fuel related-taxes, dormitory facility rentals, and patient charges). Although these financing arrangements involve a contractual agreement by the State to make payments to a public authority, municipality or other entity, the State's obligation to make such payments is generally expressly made subject to appropriation by the Legislature and the actual availability of money to the State for making the payments.

The State expects to continue to use lease-purchase and contractual-obligation financing arrangements to finance its capital programs, and expects to finance many of these capital programs with State PIT Revenue Bonds (see "State Personal Income Tax Revenue Bond Financing" below). The 2004-05 Enacted Budget projects that $1.9 billion of State PIT Revenue Bonds, $77 million of SUNY Dormitory Facilities Revenue Bonds, $209 million of Mental Health Facilities Improvement Revenue Bonds, $877 million of Dedicated Highway and Bridge Trust Fund Bonds, and $7 million of DOH Revenue Bonds will be issued in 2004-05 (See "2004-05 State-supported Borrowing Plan").

Some of the major capital programs financed by lease-purchase and contractual-obligation agreements are highlighted below.

Transportation. The State Department of Transportation is primarily responsible for maintaining and rehabilitating the State's system of highways and bridges, which includes 40,000 State highway lane miles and 7,500 State bridges. The Department also oversees and funds programs for rail, port, transit and aviation projects and programs that help defray local capital expenses 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 State-supported 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 non-State-supported 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 between 2000-01 and 2004-05. In 2002, the MTA implemented an overall debt restructuring program that included the State-supported service contract bonds and the non-State-supported Dedicated Mass Transportation Trust Fund bonds. The restructuring simplified and restructured MTA credits, modernized resolutions and restructured existing debt to create new capital capacity and better match the 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 the Dormitory Authority of the State of New York (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 410,000 students. The CUNY system is comprised of 11 senior colleges and 6 community colleges that serve approximately 213,000 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 OMH, the Office of Mental Retardation and Developmental Disabilities (OMRDD) and OASAS. Capital investments for these programs are primarily supported by patient revenues through financing arrangements with DASNY. 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 370 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 26,800 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.

Various capital programs for DOH facilities have also been financed by DASNY using patient revenues and contractual-obligation financing arrangements.

Public Protection. The State prison system houses approximately 64,900 inmates in 70 facilities with 3,800 buildings. With the completion of the Five Points Correctional Facility in 2000 marking the end of the most recent capacity expansion effort, the capital program has shifted its focus to critical physical plant maintenance and rehabilitation projects.

Equipment Acquisitions. 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 to acquire equipment, or in certain cases, real property, to facilitate the delivery of services that achieve the mission of agencies. 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 has not issued COPs since 2001 and expects that State PIT Revenue Bonds will be used to finance the acquisition of equipment that may be authorized to be issued under this program in 2004-05.

The State also enters into numerous capital lease-purchase agreements covering electronic data processing and telecommunications equipment and real property capital lease-purchase agreements. Expenditures for these obligations during the 2003-04 fiscal year were $25 million, comprised of $15 million attributable to principal and $10 million attributable to interest. As of March 31, 2004, payments over the remaining term of these capital lease-purchase agreements were approximately $291 million, comprised of approximately $176 million attributable to principal and $115 million attributable to interest. Included in these amounts are approximately $165 million attributable to principal and $115 attributable to interest for real property capital lease-purchase agreements. As such obligations do not entail a traditional bond, note, or COPs financing, these amounts are not reflected in the tables describing State-supported debt.

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.

Local Government Assistance Corporation

In 1990, as part of a State fiscal reform program, legislation was enacted creating LGAC, a public benefit corporation empowered to issue long-term obligations to fund certain payments to local governments that had been traditionally funded through the State's annual seasonal borrowing. The legislation 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 State-supported 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 TRANs 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 General Bond Resolution and General Subordinate Lien Bond 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 in 2003 currently requires LGAC to certify $170 million annually to provide an incentive for the State to seek an annual appropriation to provide local assistance payments to New York City or its assignee. In May 2004, LGAC amended its General Bond Resolution and General Subordinate Lien Bond Resolution to make clear that any failure to certify or make payments to the City or its assignee has no impact on LGAC's own bondholders; and that if any such act or omission were to occur with respect to any possible bonds issued by NYC or its assignee, that act or omission would not constitute an Event of Default with respect to LGAC bonds. In June 2004, the Corporation's Trustee, The Bank of New York, notified LGAC's bondholders of these amendments.

State-supported Debt Outstanding

The following table shows the total amount of authorized and outstanding State-supported debt as of March 31, 2004. The table includes the amounts of authorized and outstanding general obligation, LGAC, lease-purchase and contractual-obligation debt by purpose, issuer, and program. The information provided in the table for lease-purchase and contractual-obligation debt includes outstanding State PIT Revenue Bonds that have been issued to finance many of the capital programs included therein (see "State Personal Income Tax Revenue Bond Financing"). Debt authorizations for capital programs are either approved or enacted all at one time and are expected to be fully issued over time, or 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, 2004
(millions of dollars)

	Authorized As of 3/31/04	Authorized but Unissued As of 3/31/04 (2)	Outstanding As of 3/31/04 (3)
GENERAL OBLIGATION	14,535	1,011	3,804
LOCAL GOVERNMENT ASSISTANCE CORP.	4,700	0	4,569
OTHER LEASE-PURCHASE AND CONTRACTUAL OBLIGATION FINANCING ARRANGEMENTS			
Transportation:			
MTA:			
Service Contract Bonds	Note 4	Note 4	2,395
Thruway Authority:			
Consolidated Highway Improvement Program	3,870	588	2,738
Dedicated Highway & Bridge Trust	10,250	3,058	5,788
DASNY:			
Albany County Airport	40	1	34
Education:			
DASNY/MBBA:			
SUNY Educational Facilities (5)	3,550	629	4,272
SUNY Dormitory Facilities (6)	420	206	590
SUNY Upstate Community Colleges	210	166	496
CUNY Educational Facilities (7)	3,465	380	3,226
State Education Department Facilities (8)	0	0	69
Library for the Blind	16	0	16
SUNY Athletic Facilities	22	0	25
RESCUE	195	36	144
University Facilities (Jobs 2000)	48	17	28
School District Capital Outlay Grants	140	48	85
Judicial Training Institute	17	1	15
Health/Mental Hygiene:			
DASNY/MCFFA:			
Department of Health Facilities	474	2	418
Mental Health Facilities (9)	5,050	660	3,497
Public Protection			
UDC\ESDC:			
Prison Facilities	4,551	271	3,921
Homeland Security	15	1	23
Youth Facilities	328	93	197
Environment:			
EFC:			
Environmental Infrastructure Projects (10)	223	49	161
Hazardous Waste Remediation	1,200	1,151	49
Riverbank State Park	78	18	58
Water Pollution Control	453	39	170
Pilgrim Sewage Treatment (8)	0	0	8
State Park Infrastructure	18	6	19
Fuel Tanks	23	0	8
Pipeline for Jobs (Jobs 2000)	23	2	20
ERDA:			
Western New York Nuclear Service Center	104	0	43
UDC\ESDC:			
Long Island Pine Barrens	15	0	13
State Building/Equipment:			
UDC\ESDC:			
Empire State Plaza	133	10	55
State Capital Projects (1995 Refunding)	200	0	221
State Facilities (11)	160	64	227
Equipment Acquisition (12)	70	31	146

(Continued on next page)

Outstanding State-supported Debt (1)
As of March 31, 2004
(millions of dollars)

	Authorized As of 3/31/04	Authorized but Unissued As of 3/31/04 (2)	Outstanding As of 3/31/04 (3)
Housing:			
HFA:			
Capital Programs	1,526	17	1,267
Economic Development:			
CEFAP	425	53 (13)	198
Triborough Bridge and Tunnel Authority:			
Convention Center Project	375	0	268
UDC\ESDC\DASNY:			
University Technology Centers (incl. HEAT)	288	13	157
Onondaga Convention Center	40	0	40
Sports Facilities	145	0	134
Natural Resources Preservation	25	0	15
Child Care Facilities	30	1	29
Bio-Tech Facilities	10	10	0
Strategic Investment	225	76	117
Regional Economic Development (14)	1,200	656	532
Buffalo Inner Harbor	50	50	0
Jobs Now	14	1	11
Total Other Financing Arrangements			31,943
TOTAL STATE SUPPORTED DEBT (15)			40,316

Source: NYS DOB

(1) Includes only authorized programs that are active at March 31, 2004 or have outstanding balances or both.

(2) Amounts issued may exceed the stated amount authorized by premiums, by 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.

(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) Authorization applies to bonds issued after March 31, 2002, prior to that date there was no limit.

(7) The amount outstanding includes one half of $599.1 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) Includes bonds issued for West Valley, DEC Environmental Infrastructure Projects, Environmental Protection Fund, Onondaga Lake, Office of Parks, Recreation and Historic Preservation.

(11) 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.

(12) Includes Certificates of Participation and State Personal Income Tax Revenue Bonds.

(13) Amounts authorized but unissued are reduced by $28.2 million, reflecting the use of $28.2 in Debt Reduction Reserve Fund (DRRF) moneys to pay-as-you-go finance of a portion of the total $425 million CEFAP program.

(14) Includes bonds issued for Community Capital Assistance Program (CCAP), Rebuilding the Empire State Through Opportunities in Regional Economies Program (RESTORE), Empire Opportunity Fund (EOF), Generating Employment Through New York Science Program (Gen*NY*sis), Multi-Modal Transportation Program, and Center of Excellence Program.

(15) Reflects State-supported debt as defined by section 67-a of the State Finance Law.

State Personal Income Tax Revenue Bond Financing

Legislation enacted in 2001 provided for the issuance of State PIT Revenue Bonds by the Urban Development Corporation (UDC), HFA, the New York State Thruway Authority (Thruway Authority), DASNY, and the New York State Environmental Facilities Corporation (EFC) (collectively the "Authorized Issuers").

The 2001 legislation provided that 25 percent of State PIT receipts (excluding refunds owed to taxpayers and deposits to the STAR Fund be deposited to the RBTF 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 PIT 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 State PIT Revenue Bonds, the legislation requires that PIT receipts continue to be deposited to the RBTF until amounts on deposit in the Fund equal the greater of (i) 25 percent of annual PIT receipts or (ii) $6 billion.

The first State PIT Revenue Bonds were issued on May 9, 2002, and since that time, all of the Authorized Issuers have issued State PIT Revenue Bonds. To date, State PIT Revenue Bonds have been issued for five general purposes, Education, Economic Development and Housing, Environment, State Facilities and Equipment and Transportation, to support individual capital programs related to those purposes. State PIT Revenue Bonds are expected to continue to be the primary financing vehicle for a broad range of existing or new State-supported debt programs authorized to be secured by service contract or lease-purchase payments. The following table shows the amount of State PIT Revenue Bonds outstanding by general purpose. As of March 31, 2004, approximately $3.3 billion of State PIT Revenue Bonds were outstanding. Those outstanding State PIT Revenue Bonds are also included in the respective capital programs in the Outstanding State-supported Debt table shown above. The 2004-05 Enacted Budget projects that $1.9 billion of State PIT Revenue Bonds will be issued in 2004-05 (see "2004-05 State-supported Borrowing Plan" below).

Outstanding State Personal Income Tax Revenue Bonds
(millions of dollars)

	As of 3/31/03	As of 3/31/04
State Personal Income Tax Revenue Bonds		
Education	629	702
Economic Development & Housing	726	1,037
Environment	163	156
State Facilities & Equipment	591	864
Transportation	246	577
Total State Personal Income Tax Revenue Bonds	2,355	3,336

Source: NYS DOB

Limitations on State-supported Debt

Debt Reform Act of 2000

Chapter 59 of the Laws of 2000 enacted the Debt Reform Act, which is intended to improve the State's borrowing practices and applies to all new State-supported debt issued on and after April 1, 2000. The Debt Reform Act imposed phased-in caps on new debt outstanding and new debt service costs, limits the use of debt to capital works and purposes only, and establishes 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 a significant 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, 2003. On October 30, 2003, the State reported that it was in compliance with both debt caps, with debt issued after March 31, 2000 and then outstanding at 1.21 percent of personal income and debt service on such debt at 0.53 percent of total governmental receipts, compared to the caps of 1.65 percent for each. DOB expects that debt outstanding and debt service costs for the 2003-04 and 2004-05 fiscal years will also be within the statutory caps.

Variable Rate Obligations and Interest Rate Exchange Agreements

Chapter 81 of the Laws of 2002 authorized issuers of State-supported debt to issue a limited amount of variable rate obligations and to 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, 2004, State-supported debt in the amount of $40.3 billion was outstanding, resulting in a variable rate exposure cap of approximately $6 billion and an interest rate exchange agreement cap of approximately $6 billion. As of March 31, 2004, there was approximately $1.9 billion, or 4.7 percent of total debt outstanding, in outstanding debt instruments resulting in net variable rate exposure. In addition, five issuers, DASNY, UDC, HFA, LGAC and the Thruway

Authority have entered into $5.5 billion, or 13.6 percent of total debt outstanding, notional amount of interest rate exchange agreements. Thus, at March 31, 2004, both the amount of outstanding variable rate instruments resulting in a variable rate exposure and interest rate exchange agreements are less than the authorized totals of 15 percent of total outstanding State-supported debt.

At March 31, 2004, the State also had $2.4 billion in convertible bonds, that at various dates in the future can remain in a fixed rate mode (at new rates to be established at future mandatory tender dates) or convert to a variable rate. Since the convertible bonds currently bear fixed rates of interest, they are not counted as net variable rate obligations under the cap at this time.

The interest rate exchange agreements authorized by the legislation are subject to various statutory restrictions, including minimum counterparty ratings, monthly reporting requirements, the adoption of guidelines by the governing boards of the authorized issuers, collateral requirements, an independent finding that swaps reflect a fair market value, and the use of standardized ISDA documents. All of the payments made to counterparties on outstanding State-supported interest rate exchange agreements described above are subordinated to bondholder debt service payments, and the State expects that all such payments on any interest rate exchange agreements the authorized issuers may enter into in the future will be similarly subordinated to bondholder debt service payments.

The $5.5 billion in interest rate exchange agreements outstanding at March 31, 2004 involve nine different counterparties. All of the interest rate exchange agreements were part of refunding transactions that resulted in fixed rates (i.e., synthetic fixed rate interest rate exchange agreements) that range between 2.86 percent and 3.66 percent – rates that were significantly lower than the fixed bond rates at the time the refunding bonds were issued. At March 31, 2004, the net mark-to-market value of all the outstanding swaps (the aggregate termination amount) was approximately $132 million – the total amount the State would be required to pay to the collective authorized issuers for payments to the counterparties should all the swaps be terminated. The mark-to-market value of the outstanding interest rate exchange agreements fluctuates with interest rates and other market conditions. Generally, as interest rates rise from levels that existed on March 31, 2004, it is expected that the counterparties would owe the State termination payments. The State plans to continue to monitor and manage counterparty risk in a number of ways, including by (i) entering into swaps only with counterparties that are rated at least in the two highest investment grade categories from a national rating agency (and at least in the three highest investment grade categories from any other national rating agency), and (ii) entering into "excluded agreements" under statute as more fully described below.

The five-year Capital Program and Financing Plan released with the Executive Budget anticipated that, within the limitations established by Chapter 81 of the Laws of 2002, the State would increase its variable rate exposure by $1 billion in 2004-05 and $1 billion in 2005-06. Depending on market conditions, this increase in variable rate exposure could be achieved by issuing variable rate demand bonds, auction rate securities, one-year notes, and entering into synthetic variable rate interest rate exchange agreements, or by a combination of these alternatives. To the extent that synthetic variable rate interest rate exchange agreements are used to expand the State's variable rate exposure with existing counterparties, while having the effect of reducing the State's overall counterparty exposure under the State's existing synthetic fixed rate interest rate exchange agreement portfolio, then such synthetic variable rate interest rate exchange agreements would be considered an "excluded agreement" under Chapter 81 and not counted under the caps imposed by such Chapter.

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, 2004. 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, 2004 ranging from 0.91 percent to 3.50 percent.

Estimated Debt Service Requirements on State-supported Debt
As of March 31, 2004
(millions of dollars)

Fiscal Years Ending March 31	General Obligation (1)	Local Government Assistance Corporation (1) (2)	State Personal Income Tax Financing Obligation	Other Financing Obligations (2)	Total (2)
2005	482	296	342	2,730	3,850
2006	465	314	342	2,741	3,862
2007	454	312	330	2,674	3,770
2008	435	346	323	2,719	3,823
2009	406	357	283	2,559	3,605
2010 through 2014	1,560	1,814	1,313	11,969	16,656
2015 through 2019	709	1,851	849	9,472	12,881
2020 through 2024	191	1,320	741	5,448	7,700
2025 through 2029	78	104	440	2,833	3,455
2030 through 2034	31	0	320	738	1,089
Total	4,811	6,714	5,283	43,883	60,691

Source: Office of the State Comptroller and NYS DOB

(1) Debt Service Requirements on variable rate bonds are calculated using the rates in effect as of 3/31/2004.
(2) Includes debt service requirements on bonds that were synthetically fixed by swaps calculated at the fixed swap rates in effect as of March 31, 2004.

Long-Term Trends

The following discussion provides an overview of State-supported trends during the last ten years and an estimate for the current year. It compares: (1) the growth in State-supported debt service requirements with the growth in total governmental funds receipts; (2) the growth in State-supported debt with the growth in personal income in the State; and (3) the growth in State-supported debt 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 3.53 percent to $3.4 billion in 2003-04, while adjusted Total Governmental Funds Receipts increased on an average annual basis by 5.59 percent. Thus, State-supported debt service grew at a slower rate than total receipts. During the first five years of this ten-year period, debt service increased by an annual average of 8.00 percent and over the remaining five years of the period debt service has decreased by an annual average of 1.88 percent. The relative growth in receipts and debt service resulted in a general trend of increases in the ratio of debt service to receipts from fiscal years 1994-95 to 1999-2000. The period from 2000-01 to 2003-04 has seen a general trend of decreases in the ratio of debt service to receipts. The ratio is estimated to increase to 3.95 percent in fiscal year 2004-05.

Debt Service Requirements on State-supported Debt
As of March 31, 2004
(millions of dollars)

Fiscal Year	Total State-Supported Debt Service (dollars in millions)		Total Governmental Funds Receipts (dollars in millions)		State-supported Debt Service as a % of Total Governmental Funds Receipts (includes DRRF)	State-supported Debt Service as a % of Total Governmental Funds Receipts (excludes DRRF)
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%	4.65%
2001-02	4,262	(2)	83,247		5.12%	4.52%
2002-03	3,133		88,274		3.55%	3.55%
2003-04	3,403		99,692	(3)	3.41%	3.41%
2004-05 (estimated)	3,950		100,118		3.95%	3.95%

Source: Office of the State Comptroller and NYS DOB
(1) Reflects the disbursement of $422 million in Debt Reduction Reserve Fund (DRRF) moneys used to defease high-cost debt.
(2) Reflects the disbursement of $500 million in Debt Reduction Reserve Fund (DRRF) moneys used to defease or provide for the payment of high-cost debt.
(3) 2003-04 receipts have been adjusted by $400 million, relating to receipts from the tobacco securitization transaction.

Included in the table above are principal and interest payments on general obligation bonds which were $509 million for the 2003-04 fiscal year, and are estimated to be $486 million for 2004-05. State payments for debt service on bonds issued and interest rate exchange agreements entered into by LGAC were $310 million for the 2003-04 fiscal year, and are estimated to be $296 million for 2004-05. State lease-purchase and contractual-obligation payments (including

State PIT Revenue Bonds and State installment payments relating to COPs), classified as "Other Financing Obligations", were $2.6 billion in fiscal year 2003-04, and are estimated to be $3.15 billion for 2004-05.

The following table compares total State-supported debt outstanding to New York State personal income and population. State-supported debt increased from $28.2 billion at the end of the 1994-95 fiscal year to $40.3 billion at the end of the 2003-04 fiscal year, an average annual increase of 4.06 percent. During the first five years of this ten-year period, State-supported debt outstanding grew by an annual average of 6.21 percent and over the remaining five years of the period the annual growth in State supported debt outstanding has slowed to 2.31 percent. During the ten-year period, annual personal income in the State rose from $476.0 billion to $701.9 billion, an average annual increase of 4.41 percent. Thus, State-supported debt grew at a slower rate than personal income. Expressed in other terms, the total amount of State-supported debt outstanding declined from 5.92 percent of personal income in the 1994-95 fiscal year to 5.74 percent in the 2003-04 fiscal year. State-supported debt outstanding is expected to decrease modestly in 2004-05 to 5.63 percent of personal income. State-supported debt relative to the State's population has increased during the last ten years, primarily because population has not increased significantly.

State-supported Debt Compared with Personal Income and Population
As of March 31,2004
(Millions of Dollars)

Fiscal Year	NYS Personal Income ($billions)(1)	Total State Population (millions)(1)	State-supported Debt Outstanding ($millions)	State-supported Debt As % of Personal Income	State-supported Debt/$Capita
1994-95	476.0	18.5	28,169	5.92%	1,523
1995-96	501.7	18.5	31,009	6.18%	1,676
1996-97	528.4	18.6	33,130	6.27%	1,781
1997-98	557.0	18.7	34,247	6.15%	1,831
1998-99	591.8	18.8	35,842	6.06%	1,906
1999-2000	619.7	18.9	36,797	5.94%	1,947
2000-01	663.0	19.0	36,958	5.57%	1,948
2001-02	679.6	19.1	36,977 (2)	5.44%	1,938
2002-03	685.1	19.1	39,037 (2)	5.70%	2,044
2003-04	701.9	19.2	40,316	5.74%	2,098
2004-05 (estimated)	738.8	19.2	41,595	5.63%	2,166

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 January, 2004.

(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 and 2003, a portion of these funds continued 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, those bonds were still considered legally outstanding.

2004-05 State-supported Borrowing Plan

Section 22-c of the State Finance Law requires the Governor to submit the five-year Capital Program and Financing Plan (the Plan) with the Executive Budget. The proposed 2004-05 through 2008-09 Capital Program and Financing Plan was released with the Executive Budget on January 20, 2004 and updated to reflect the 30-Day Amendments on February 12, 2004. 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 at www.budget.state.ny.us.

The State-supported issuance plan for 2004-05 and the remaining years of the Capital Plan reflects the expectation that State PIT Revenue Bonds will continue to be issued to finance certain new programs and 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 2004-05 borrowing plan projects issuance of $150 million in general obligation bonds; $877 million in Dedicated Highway and Bridge Trust Fund Bonds issued by the Thruway Authority to finance capital projects for transportation; $209 million in Mental Health Facilities Improvement Revenue Bonds issued by DASNY to finance capital projects at mental health facilities; $77 million in SUNY Dormitory Facilities Revenue Bonds to finance capital projects related to student dormitories; $7 million in DOH Revenue Bonds to support a portion of the costs to construct a new veteran’s nursing home; and $1.9 billion in State PIT Revenue Bonds to finance various capital programs, as described below.

State PIT Revenue Bond borrowings include issuances by: (i) DASNY for school construction (RESCUE), university facilities (Jobs 2000), SUNY community colleges; (ii) the Thruway Authority for CHIPs; (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) EFC for State Environmental Infrastructure Projects, including Water Pollution Control and Pipeline for Jobs (Jobs 2000); and (v) HFA for housing programs. State PIT Revenue Bonds for 2004-05 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, E911, and the Community Capital Assistance Program which may be issued by DASNY and UDC.

The projections of State borrowings for the 2004-05 fiscal year are subject to change as market conditions, interest rates and other factors vary throughout the fiscal year.

State-related Debt Outstanding

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

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 2004-05 fiscal year.

Secured Hospital Program

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 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, 2004, there were 11 secured hospital borrowers and a total of $941 million in bonds outstanding with annual debt service payments of $85 million due during State fiscal year 2004-05. 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, 2004, 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 2004-05. 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, 2004, 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 2004-05.

The State anticipates that the annual debt service payments due during the State's 2004-05 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 2004-05 fiscal year.

Tobacco Settlement Financing Corporation

Legislation enacted in 2003 authorized the State to sell (i.e., securitize) all of its tobacco settlement payments (an asset) to the Tobacco Settlement Financing Corporation (TSFC) (a corporation created under the legislation that is a subsidiary of the Municipal Bond Bank Agency) through asset-backed securitization transactions. To avoid the yield premium paid by other states that have similarly elected to securitize their tobacco payments, the legislation authorized the State to enter into contingency contracts obligating the State to pay debt service, subject to annual appropriations, on the TSFC bonds in the event that tobacco receipts and bond reserves are insufficient. To ensure that State contractual payments will not be required and that tobacco receipts and bond reserves are sufficient to pay debt service, the TSFC bonds were structured to meet or exceed all rating agency tobacco bonds stress tests. The bonds carry a final nominal maturity of 20 years and an expected final maturity of 13 years. The $4.2 billion of upfront payments received by the State from the securitization were used to help restore State budget balance in 2003-04 ($3.8 billion) and 2004-05 ($400 million). As of March 31, 2004, approximately $4.6 billion in TSFC bonds were outstanding.

Moral Obligation Financings

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 HFA pursuant to moral obligation provisions. In the same period, the State also expended additional funds to assist the Project Finance Agency, 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 2004-05 fiscal year.

Of the aggregate outstanding moral obligation debt of $377 million, bonds issued by HFA to finance construction of the Co-op City housing project comprise approximately $207 million. Co-op City is a 15,300 unit housing project located in the Bronx, New York. It was constructed under the State’s Mitchell-Lama housing program and remains subject to regulation by the State’s Division of Housing and Community Renewal. Construction of the project was financed by the issuance of $419 million of HFA bonds. HFA has been advised by Co-op City that it has approved third party financing in lieu of an agency bond-financed transaction, which would eliminate the moral obligation debt.

State-guaranteed Financings

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, 2004 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 2004-05 fiscal year.

Payments of debt service on State-guaranteed bonds and notes are legally enforceable obligations of the State. 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 (1)
(Millions of Dollars)

	As of 3/31/02(3)	As of 3/31/03(3)	As of 3/31/04
State-Supported Debt			
General Obligation	4,142	3,996	3,804
Local Government Assistance Corporation	4,621	4,575	4,569
Other Lease-Purchase and Contractual-Obligation Financing Arrangements	28,214	28,111	28,607
State Personal Income Tax Revenue Bond Financing	0	2,355	3,336
Total State-Supported Debt	36,977	39,037	40,316
Contingent Contractual-Obligation Financing (2)			
DASNY/MCFFA - Secured Hospital Program	999	975	941
Tobacco Settlement Financing Corporation	0	0	4,551
	999	975	5,492
Moral Obligation Financing			
Housing Finance Agency (4)	429	397	345
MCFFA-Hospitals and Nursing Homes	88	41	32
Total Moral Obligation Financing	517	438	377
State-Guaranteed Debt			
Job Development Authority	110	81	79
Total State-Guaranteed Debt	110	81	79
TOTAL STATE-RELATED DEBT	38,603	40,531	46,264

Source: Office of the State Comptroller

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

(2) Includes bonds issued for the Secured Hospital Program and bonds issued by the Tobacco Settllement Financing Corporation, 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.

(3) During fiscal year 2001-02, the State transferred $350 million to several State authorities for the purpose of economically defeasing $355 million of State-supported debt. As March 31, 2002 and March 31, 2003 a portion of these funds remained 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 were still considered legally outstanding.

(4) Includes bonds issued for Co-Op City which had outstanding debt as follows: 3/31/02 $220 million, 3/31/03 $207 million and 3/31/04 $193 million.

The following table provides an overview of State-related debt trends during the last ten years and an estimate for the current year. The table compares (1) the growth in State-related debt with the growth in personal income in the State and (2) the growth in State-related debt with the number of State residents. Total outstanding State-related debt increased from $36.4 billion at the end of the 1994-95 fiscal year to $46.3 billion at the end of the 2003-04 fiscal year, an average annual increase of 2.71 percent. During the first five years of this ten-year period, State-related debt outstanding grew by an annual average of 0.94 percent and over the remaining five years of the period the annual average growth in State-related debt outstanding has increased to 4.64 percent. During the ten-year period, annual personal income in the State rose from $476.0 billion to $701.9 billion, an average annual increase of 4.41 percent. Thus, State-related obligations grew at a slower rate than personal income. Expressed in other terms, the total amount of State-related debt outstanding declined from 7.64 percent to 6.59 percent of personal income for the same period. State-related debt is expected to decrease slightly in 2004-05 to 6.42 percent of personal income.

State-related Debt Compared with Personal Income and Population
As of March 31,2004
(millions of dollars)

Fiscal Year	NYS Personal Income ($billions)(1)	Total State Population (millions)(1)	State-related Debt Outstanding ($millions)	State-related Debt As % of Personal Income	State-related Debt/$Capita
1994-95	476.0	18.5	36,359	7.64%	1,965
1995-96	501.7	18.5	38,593	7.69%	2,086
1996-97	528.4	18.6	37,478	7.09%	2,015
1997-98	557.0	18.7	36,999	6.64%	1,979
1998-99	591.8	18.8	37,740	6.38%	2,007
1999-2000	619.7	18.9	38,584	6.23%	2,041
2000-01	663.0	19.0	38,663	5.83%	2,037
2001-02	679.6	19.1	38,603	5.68%	2,023
2002-03	685.1	19.1	40,531	5.92%	2,122
2003-04	701.9	19.2	46,264 (2)	6.59%	2,408
2004-05 (estimated)	738.8	19.2	47,449 (2)	6.42%	2,471

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 January, 2004. Personal income for 2003 and 2004 estimated by State Division of the Budget.

(2) Includes the issuance of tobacco bonds, which are primarily secured by the assignment of future revenues under the 1998 Master Settlement Agreement with participating cigarette manufacturers, and secondarily secured by a State contingent-contractual obligation.

State Organization

State Government

The State has a centralized administrative system with most executive powers vested in the Governor. The State has four officials elected in statewide elections, the Governor, Lieutenant Governor, Comptroller and Attorney General. These officials serve four-year terms that next expire on December 31, 2006.

Name	Office	Party Affiliation	First Elected
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

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 local assistance 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.

The Comptroller invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments through STIP, which is comprised of joint custody funds (Governmental Funds, Internal Service Funds, Enterprise Funds and Private Purpose Trust Funds), as well as several sole custody funds including the Tobacco Settlement Fund. The interest earnings accrued are allocated and deposited to the credit of those funds with positive balances that contribute to the overall invested STIP pool.

The Comptroller is authorized to make temporary loans from STIP to cover temporary cash shortfalls in certain funds and accounts resulting from the timing of receipts and disbursements. The Legislature authorizes the funds and accounts that may receive loans each year, based on legislation submitted with the Executive Budget. Loans may be granted only for amounts that the

Director of the Budget certifies are "receivable on account" or can be repaid from the current operating receipts of the fund (i.e., loans cannot be granted in expectation of future revenue enhancements).

The State Comptroller repays loans from the first cash receipts into the borrowing fund or account. Fund balances outside the General Fund are presented on a net basis, i.e., they are reduced by the amount of outstanding temporary loans from STIP. The primary sources of this outstanding loan balance include timing-related delays in the receipt from Federal Funds and the sale of bonds used to finance capital projects, a delinquent SUNY hospital loan, and unreimbursed costs related to the Office for Technology Internal Service funds.

The total outstanding loan balance at March 31, 2004 was $1.3 billion, a decrease of $410 million from the outstanding loan balance of $1.7 billion at March 31, 2003. The decrease in the outstanding loan balance is primarily attributable to the receipt of planned bond proceeds that reimburse capital projects spending.

The 2003-04 Enacted Budget included legislation that permitted the Comptroller to temporarily loan balances in other funds to the General Fund within any month. The State relied on this authorization in 2003-04 to support intra-month cash flow needs. This authorization has been extended through March 31, 2005 pursuant to Chapter 19 of the laws of 2004.

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 the accrual basis of accounting for the government-wide financial statements which includes governmental and business-type activities and component units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are prepared using the modified accrual basis of accounting. 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.

State Government Employment

As of March 31, 2004, the State had approximately 187,900 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 workforce is now 18.5 percent smaller than it was fourteen years ago, when it peaked at 230,600 positions.

In January 1995, the State implemented concerted initiatives designed to reduce the size of the workforce and now has 23,300 fewer full-time employees than it had at that time. State workforce levels had been generally stable in the late 1990s. The State ended the 2003-04 fiscal year with 187,900 positions and expects to end the 2004-05 fiscal year at the same level.

The State Public Employment Relations Board defines negotiating units for State employees. The Governor's Office of Employee Relations conducts collective bargaining negotiations with the State's unions, with the exception of employees of the Judiciary, public authorities and the Legislature. Such negotiations include terms and conditions of employment, except pension benefits. Collective bargaining agreements with most of the State's employee unions expired on March 31, 2003. Accordingly, the State has engaged in good faith bargaining with the various employee unions over the past 19 months. Recently, the State negotiated new collective bargaining agreements with the Civil Service Employees Association, the United University Professions, the Public Employees Federation, and District Council 37 which will govern employee compensation and benefit policies through early 2007. The State has also recently reached agreement with certain employee unions which cover most of the employees of the Judiciary. The State continues to negotiate in good faith with the remaining unions.

While approximately 93 percent of the State workforce is unionized, the remainder of the workforce (about 12,500) 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

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 33 percent of the membership during the 2003-04 fiscal year. There were 2,835 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, 2004, 641,721 persons were members and 328,355 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 realigned the Retirement Systems billing cycle to match governments' budget cycles and also instituted 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. Recent 2004 legislation modified the amortization schedule of the 2004-05 bill by changing it to a ten-year schedule at 5 percent interest with the first payment due in 2005-06.

The State bill due in the fiscal year ending March 31, 2005, payable September 1, 2004, utilizing the amortization feature, was $653.7 million and has been fully paid.

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, 2004 were $120.8 billion (including $1.4 billion in receivables), an increase of $23.4 billion or 24.1 percent from the 2002-03 level of $97.4 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 April 1, 2003 was $130.5 billion (including $46.1 billion for current retirees and beneficiaries), an increase of $3.5 billion or 2.8 percent from the April 1, 2002 level of $127 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 decreased from $125.2 billion on April 1, 2002 to $106.7 billion on April 1, 2003. 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)

Fiscal Year Ended March 31	Total Assets(2)	Increase/ (Decrease) From Prior Year
1999	112,723	6.0
2000	128,889	14.3
2001	114,044	(11.5)
2002	112,725	(1.2)
2003	97,373	(13.6)
2004	120,829	24.1

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, 2004 includes approximately $1.4 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)

Fiscal Year Ended March 31	Contributions Recorded				Total Benefits Paid(2)
	All Participating Employers(1)	Local Employers(1)	State(1)	Employees	
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
2003	652	378	274	219	5,030
2004	1,287	832	455	222	5,424

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

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Authorities and Localities

Public Authorities

The fiscal stability of the State is related in part to the fiscal stability of its public authorities. For the purposes of this disclosure, 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 statement. As of December 31, 2003, there were 18 public authorities that had outstanding debt of $100 million or more, and the aggregate outstanding debt, including refunding bonds, of these State public authorities was $114.9 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 (1)
As of December 31, 2003
(millions of dollars)

Authority	Amount(2)(3)
Dormitory Authority (4)	31,020
Metropolitan Transportation Authority	11,610
Thruway Authority	9,930
Port Authority of NY & NJ	9,333
Long Island Power Authority	7,146
Triborough Bridge and Tunnel Authority	6,949
UDC\ESDC	6,206
Housing Finance Agency	5,990
Environmental Facilities Corporation	5,960
Local Government Assistance Corporation	4,569
Tobacco Settlement Financing Corporation	4,551
Energy Research and Development Authority	3,753
State of New York Mortgage Agency	3,260
Power Authority	2,526
Battery Park City Authority	1,162
Municipal Bond Bank Agency	575
Niagara Frontier Transportation Authority	185
United Nations Development Corporation	133
TOTAL OUTSTANDING	114,858

Source: Office of the State Comptroller.
(1) Includes only public authorities that are not reported as part of a local government, some of which do have more than $100 million in bonds oustanding.
(2) 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
(3) Includes short-term and long-term debt.
(4) 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.

Metropolitan Transportation Authority

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. 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 City of New York

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, 6th Floor, New York, NY 10007. The State assumes no liability or responsibility for any financial information reported by the City of New York.

Fiscal Oversight for New York City

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, 23rd Floor, New York, NY 10038, Attention: Executive Director; OSDC, 59 Maiden Lane, 29th Floor, New York, NY 10038, Attention: Deputy Comptroller; City Comptroller, Municipal Building, 6th Floor, One Centre Street, New York, NY 10007-2341, Attention: Deputy Comptroller for Budget; and IBO, 110 William Street, 14th Floor, New York, NY 10038, Attention: Director.

Other Localities

Certain localities outside New York City have experienced financial problems and have requested and received additional State assistance during the last several State fiscal years. The potential impact on the State of any future requests by localities for additional oversight or financial assistance is not included in the projections of the State's receipts and disbursements for the State's 2004-05 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.

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

Locality Fiscal Year Ending	Combined New York City Debt (2)		Other Localities Debt(3)		Total Locality Debt(3)	
	Bonds	Notes	Bonds(4)	Notes(4)	Bonds(3)(4)	Notes(4)
1980	13,112.0	---	6,835.4	1,792.9	19,947.4	1,792.9
1990	19,492.5	---	10,252.8	3,082.1	29,745.3	3,082.1
1995	28,863.7	---	15,828.6	3,218.7	44,692.3	3,218.7
1996	30,511.7	---	16,413.8	3,590.4	46,925.5	3,590.4
1997	31,964.0	---	17,526.1	3,208.1	49,490.1	3,208.1
1998	33,517.9	---	17,099.5	3,203.1	50,617.4	3,203.1
1999	35,870.9	---	18,447.5	3,419.7	54,318.4	3,419.7
2000	37,516.3	515.0	19,078.5	4,004.8	56,594.8	4,519.8
2001	38,597.0	---	20,190.2	4,267.5	58,787.2	4,267.5
2002	40,818.8	2,200.0	21,681.6	4,728.3	62,500.4	6,928.3

Source: Office of the State Comptroller.

NOTE: For localities other than New York City, the amounts shown for fiscal years ending in 1990 through 1997 may include debt that has been defeased through the issuance of refunding bonds.

(1) Because the State calculates locality debt differently for certain localities (including New York City), the figures above may vary from those reported by such localities. In addition, this table excludes indebtedness of certain local authorities and obligations issued in relation to State lease-purchase arrangements.

(2) Debt of New York City includes its general obligation bonds as well as bonds and notes of the Municipal Assistance Corporation for the City of New York, the New York City Transitional Finance Authority, TSASC, Inc., and certain other obligations.

(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
2003	29,679.0	2,151.3	13,134.3	(4)	1,258.3	506.4	(64.0)	46,665.3

Source: Office of the State Comptroller.

(1) Includes bonds issued by the Dormitory Authority of the State of New York for the City University Construction Fund and for the New York City Educational Construction Fund, and bonds issued by the Samurai Funding Corporation which will be repaid from revenues of the City or revenues that would otherwise be available to the City if not needed for debt service.

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

(3) Includes $2.2 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.

(4) Includes $1.11 billion of revenue anticipation notes issued to finance the City's capital expenditures.

Litigation

General

The legal proceedings listed below involve State finances and programs and miscellaneous civil rights, real property, contract and other tort claims in which the State is a defendant and the potential monetary claims against the State are deemed to be material, generally in excess of $100 million. As explained below, these proceedings could adversely affect the State's finances in the 2004-05 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 2004-05 fiscal year or thereafter. The Basic Financial Statements for fiscal year 2003-04 report probable, awarded and anticipated unfavorable judgments against the State.

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 2004-05 Financial Plan. The State believes that the proposed 2004-05 Financial Plan includes sufficient reserves to offset the costs associated with the payment of judgments that may be required during the 2004-05 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. 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 2004-05 Financial Plan resources available for the payment of judgments, and could therefore adversely affect the ability of the State to maintain a balanced 2004-05 Financial Plan.

State Finance Policies

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.

By decision dated October 1, 2003, the court denied defendants’ motions to dismiss, except for the motions to dismiss brought by the individually named members of the board of directors of Empire Healthchoice, Inc. The court also declined to vacate the 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. The defendants have appealed from the October 1, 2003 decision.

By decision and order dated May 20, 2004, the Appellate Division, First Department affirmed the dismissal of plaintiff's original complaint but also affirmed the denial of defendants' motion to dismiss the amended claim. The State, the other defendants and the plaintiffs have moved in the Appellate Division for leave to appeal to the Court of Appeals.

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.

By decision entered December 11, 2003, the Appellate Division, First Department, affirmed the decision of the Supreme Court, New York County, dismissing the complaint. Plaintiff has appealed this decision to the Court of Appeals.

Gaming

In *Dalton, et al. v. Pataki, et al.* and *Karr v. Patiaki, 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 VLTs 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.

By opinion and order entered July 7, 2004, the Appellate Division, Third Department, upheld the constitutionality of tribal-state compacts and the joint, multi-jurisdiction and out of State lottery. The Appellate Division held that the statute authorizing the Division of the Lottery to license the operation of VLTs at certain racetracks in the State violated the provisions of the State Constitution that require the net proceeds of State-operated lotteries be applied exclusively to or in aid or support of education in this State as the Legislature may prescribe. The State, certain other defendants, and the plaintiffs in both *Dalton, et al. v. Pataki, et al* and *Karr v. Pataki, et al*. have appealed from this order.

Budget Process

In *Pataki v. New York State Assembly, 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 Comptroller's 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.

By opinion and order dated April 22, 2004, the Appellate Division, Third Department, affirmed the decision and order of the Supreme Court, Albany County. Defendants have appealed from this opinion and order to the Court of Appeals.

Real Property Claims

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

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

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 *Seneca Nation of Indians* case, plaintiffs seek monetary damages and ejectment with regard to their claim of ownership of certain islands in the Niagara River and the New York State Thruway right of way where the Thruway crosses the Cattaraugus reservation in Erie and Chatauqua Counties. By order dated November 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 appealed from the judgment to the U.S. Court of Appeals for the Second Circuit. By decision dated September 9, 2004, the Second Circuit affirmed the judgment of the District Court.

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. By decision dated July 28, 2003, the District Court granted, in most respects, a motion by plaintiffs to strike defenses and dismiss counterclaims contained in defendants' answers. By decision dated October 20, 2003, the District Court denied the States motion for reconsideration of that portion of the July 28, 2003 decision which struck a counterclaim against the United States for contribution.

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. On October 1, 2003, the State served the United States Department of the Interior and the United States Department of Justice with a statement of claim asserting that the United States is jointly and severally liable with the State for the $248 million judgment and post-judgment interest. A statement of claim is a precursor to filing a proceeding in the United States Court of Claims.

Local Government Assistance Corporation

In *Local Government Assistance Corporation et al. v. Sales Tax Asset Receivable Corporation and The City of New York* (Supreme Court, Albany County), the petitioners challenge, inter alia, the constitutionality of Public Authorities Law section 3238-a, which requires LGAC to annually transfer $170 million to The City of New York. Section 3238-a was enacted in 2003 as part of legislation (Part A4 of Chapter 62 and Part V of Chapter 63 of the Laws of 2003) authorizing the refinancing of debt incurred by the Municipal Assistance Corporation (the MAC Refinancing Act). By decision and order dated September 17, 2003, the court held that the MAC Refinancing Act was constitutional. Petitioners have appealed from the decision and order to the Appellate Division, Third Department. By decision and order entered August 27, 2003, the Appellate Division, Third Department granted a preliminary injunction restraining defendants, inter alia, from issuing any bonds pursuant to the MAC Refinancing Act pending appeal.

By memorandum and order entered March 4, 2004, the Appellate Division, Third Department, held that, to the extent that Public Authorities Law §3240 exempted payments made pursuant to Public Authorities Law 3238-a from the necessity of annual legislative appropriations, it violated the provisions of article VII, section 11 of the New York State Constitution. The Appellate Division then severed the offending portion of section 3240 and upheld the constitutionality of the remainder of the MAC Refinancing Act. Both parties have appealed from the March 4, 2004 memorandum and order to the Court of Appeals.

By opinion dated May 13, 2004, the Court of Appeals modified the order of the Appellate Division, Third Department, by reinstating the September 17, 2003 order of the Supreme Court and, as so modified, affirmed.

Tobacco Master Settlement Agreement

In *Freedom Holdings Inc. et al. v. Spitzer et ano*., two cigarette importers brought an action in 2002 challenging portions of laws enacted by the State under the 1998 Tobacco Master Settlement Agreement (“MSA”) that New York and many other states entered into with the major tobacco manufacturers. The initial complaint alleged: (1) violations of the Commerce Clause of the United States Constitution; (2) the establishment of an “output cartel” in conflict with the Sherman Act; and (3) selective nonenforcement of the laws on Native American reservations in violation of the Equal Protection Clause of the United States Constitution. The United States District Court for the Southern District of New York granted defendants’ motion to dismiss the complaint for failure to state a cause of action. Plaintiffs appealed from this dismissal. In an opinion decided January 6, 2004, the United States Court of Appeals for the Second Circuit (1) affirmed the dismissal of the Commerce Clause claim; (2) reversed the dismissal of the Sherman Act claim; and (3) remanded the selective enforcement claim to the District Court for further proceedings. Plaintiffs have filed an amended complaint that also challenges the MSA itself (as well as other related State statutes) primarily on preemption grounds, and plaintiffs currently are seeking preliminary injunctive relief.

State Programs

School Aid

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

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

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

By decision dated June 26, 2003, the Court of Appeals reversed that portion of the June 25, 2002 decision and order of the Appellate Division, First Department relating to the claims arising under the State Constitution. The Court held that the weight of the credible evidence supported the trial court’s conclusion that New York City schoolchildren were not receiving the constitutionally mandated opportunity for a sound basic education and further held that the plaintiffs had established a causal link between the present education funding system and the failure to provide said sound basic education. The Court remitted the case to the trial court for further proceedings in accordance with its decision.

On August 3, 2004, the Supreme Court, New York County, referred this case to a panel of three referees. The panel is to make recommendations to the court as to how the State should fulfill the Court of Appeals mandate to provide New York City school children with a sound basic education.

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 Supreme Court, Oneida County, granted summary judgment to defendants dismissing this case. In light of the decision dismissing *Sitrin*, the plaintiffs in *New York Association of Homes and Services for the Aging, Inc. v. Novello, et al.,* have discontinued the case.

In a decision dated June 3, 2003, involving seven consolidated cases (*Matter of St. James Nursing Home v. DeBuono*), the Supreme Court, Albany County, partially granted petitioners claims that the State violated the procedural requirements of the Boren Amendment and directed the State to recalculate the Medicaid rates associated with State Plan Amendment 95-23. The court dismissed petitioners' claims as to the Medicaid rates associated with State Plan Amendments 95-24 and 96-24. The State has appealed from this decision.

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.

Business-type Activities: Business-type activities describes those operations that are financed in whole or in part by fees charged to external parties for goods or services. These activities are usually reported in enterprise funds and include the Lottery, Unemployment Insurance Benefit, SUNY and CUNY - senior colleges.

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 SRFs, 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.

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

Community Projects Fund: 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 Community Projects Fund, as provided by law. Spending out of the Community Projects Fund 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 TRANs, in accordance with the respective terms thereof.

Debt Service Funds: DSFs, 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.

Expenses: Expenses, in GAAP terminology, are a decrease in net financial resources as measured in the government-wide financial statements under the accrual basis of accounting.

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 GASB. GAAP requires that the government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the Enterprise Funds, Component Units and the Fiduciary Funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The modified accrual basis of accounting recognizes revenues when they become both measurable and available to finance expenditures. Expenditures and related liabilities are recognized in the accounting period they are incurred to the extent they are expected to be paid within the next 12 months, under the modified accrual basis of accounting.

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 Activities: Governmental activities describes those operations that are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues and are reported in the governmental funds.

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 the government-wide financial statements under the accrual basis of accounting and for the 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: SRFs, 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 Division of Budget, based initially upon the recommendations contained in the Executive

Budget. After the budget is enacted, the State Financial Plan is adjusted to reflect revenue measures, appropriation bills and certain related bills enacted by the Legislature. It serves as the basis for the administration of the State's finances by the Director of the Budget, and is updated quarterly, or more frequently as necessary, during the fiscal year.

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

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

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

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

State-supported debt: This category includes all obligations for which the State appropriates money that is used to pay debt service, including general obligation debt, PIT 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

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 2004-05 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. Receipts from this tax are sensitive to changes in economic conditions in the State. New York allows a standard deduction of $14,600 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 2004 year, rates of 7.375 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. In 2004, legislation was enacted to create, expand, and extend several credits. The credit for long term care insurance premiums was increased from 10 to 20 percent; the credit for the purchase of alternative fuel vehicles was extended by one year; and a new credit for film production activity in New York was created. Also in 2004, legislation was enacted to include the proceeds from the sale of residential cooperative housing as New York taxable income for non-state residents.

In 2001, legislation was enacted to provide for the issuance of State PIT 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 PIT receipts (excluding refunds owed to taxpayers and deposits to the STAR Fund) be deposited to the RBTF 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 PIT 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 PIT receipts continue to be deposited to the RBTF until amounts on deposit in the Fund equal the greater of 25 percent of annual PIT 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 and 2004-05 fiscal years and resumed the permanent exemption on May 31, 2005. In 2004, legislation was enacted to provide exemptions for certain water transportation and aircraft repair parts and labor. In addition, the law required certain State contractors to have their affiliates register as sales tax vendors.

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. 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. In addition, 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 was adopted in 2003, which allowed for the option to sell liquor or wine on Sundays provided the establishment closed on one other day. In 2004, legislation was enacted to allow seven day liquor sales.

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. In 2004, legislation was enacted that temporarily creates two new fixed dollar minimum tax amounts under the corporate franchise tax; increases the Statewide annual aggregate limit for the low-income housing credit from $4 million to $6 million; extends the Qualified Emerging Technology Company (QETC) credit to biotechnology; and extends the Empire Zones program to March 31, 2005.

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. In 2004, legislation was enacted that extends and modifies the Power for Jobs Program under Article 9.

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. In 2004, legislation was enacted that establishes a fourth certified capital company program.

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-subsidiaries. Legislation enacted in 1998 authorizes an investment tax credit for the purchase of tangible personal property used in a bank's normal course of business as a broker or dealer in connection with the purchase or sale of stocks or bonds. 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. In 2004, legislation was enacted that extends the bank tax and the Federal Gramm-Leach-Bliley Act transition provisions until 2006.

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. In 2004, legislation was enacted to exempt aviation fuels burned during a flight and exempted all aviation fuels for certain interstate carriers.

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 EPF and the remaining receipts are deposited in the CW/CA 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. Legislation enacted in 2004 created the Vehicle and Traffic Local Prosecution Program to offset the cost associated with District Attorneys prosecuting these offenses, and instituted the Driver Responsibility Program. In addition, the $4.2 billion in proceeds from the sale of the State's tobacco payments under the national Master Settlement Agreement has been collected. Legislation enacted in 2001, authorized the Division of the Lottery to license up to eight racetracks to operate VLTs. The first license began operations in January of 2003 and currently there are four racetracks operating VLTs. The VLT program was ruled unconstitutional by the Appellate Division, Third Department. The State is expected to appeal to the Court of Appeals.