

PART II

STATE DEBT SERVICE

STATE DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS

DEBT SERVICE APPROPRIATIONS FOR 2005-06

The recommended debt service appropriations meet all the State's potential obligations to bondholders and thus reflect the maximum estimated debt service payments for outstanding bonds, including payments due on outstanding variable rate debt and interest rate exchange agreements ("swaps") and new State-supported bond issuances.

Recommended debt service appropriations for 2005-06 reflect ongoing debt management initiatives to reduce debt service costs, including the issuance of lower-cost State Personal Income Tax Revenue Bonds (PIT Revenue Bonds) to finance capital projects and the use of a limited amount of variable rate obligations and swaps. To further reduce debt service costs by \$150 million in 2005-06, the State will continue to maximize refunding opportunities, including the use of the State's remaining swaps capacity, and to expand its variable rate exposure in the least costly manner.

Total State-supported debt service costs remain within the caps imposed by the Debt Reform Act of 2000. The Governor will resubmit a Constitutional Debt Reform bill to make the statutory caps and other debt limitations imposed by the Debt Reform Act permanent:

- Constitutionally implement the debt caps now imposed by the Debt Reform Act;
- Ban "back door" borrowing;
- Constitutionally authorize a limited amount of revenue-backed debt, and require that at least one-half of all new debt be approved by the voters; and
- Authorize multiple general obligation bond act proposals.

GENERAL DEBT SERVICE FUND

The General Debt Service Fund provides for principal, interest and related payments due on fixed and/or variable rate general obligation bonds, revenue bonds, lease-purchase and contractual obligation payments to public authorities and municipalities, and payments for interest rate exchange and similar agreements. The General Debt Service Fund's moneys are provided from the General Fund and other available transfers and revenues.

Total appropriations of \$3.4 billion are recommended from the General Debt Service Fund, of which \$680 million are recommended from the Revenue Bond Tax Fund. Appropriations from the General Debt Service Fund for general obligation bonds are recommended at \$480 million and reflect payments on outstanding fixed rate and variable rate general obligation bonds, and estimated payments on new bonds anticipated to be issued.

Appropriations of \$2.25 billion to the following public authorities are recommended from the General Debt Service Fund for lease purchase and other financing agreement payments, including variable rate and interest rate exchange agreement payments, due on outstanding State appropriation-backed bonds:

- Thruway Authority, for Local Highway and Bridge service contract bonds for local transportation purposes (\$213 million). Spending from this appropriation is financed by transfers from the Dedicated Highway and Bridge Trust Fund;
- Environmental Facilities Corporation, for State Revolving Loan Fund service contract bonds, the Pipeline for Jobs Program, and the financing of parks and other environmental programs (\$61 million);

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- Urban Development Corporation (UDC), for financing the construction and rehabilitation of correctional facilities, State facilities, youth facilities, stadium facilities, the pine barrens land acquisition, economic development and natural resources preservation, projects at various university technology centers, the Higher Education Applied Technology program, and the Onondaga Convention Center (\$406 million);
- Dormitory Authority of the State of New York (DASNY), for the State University of New York (SUNY) educational facilities, athletic facilities and upstate community colleges, State Education Department facilities, City University of New York senior and community colleges, RESCUE school construction, child care facilities, the Department of Health's Axelrod Laboratory, Albany Airport, the Library for the Blind and the Judicial Training Institute (\$752 million);
- DASNY, for financing the construction of the Department of Audit and Control building, and the Empire State Plaza East Garage (\$7 million);
- Housing Finance Agency, pursuant to agreements to finance the State's housing programs (\$85 million);
- Triborough Bridge and Tunnel Authority, for the Javits Convention Center in New York City (\$43 million);
- Bonds authorized to be issued by various authorities, including UDC and DASNY, to finance the Community Enhancement Facilities Assistance Program (\$35 million);
- Lease-purchase payments for various State facilities (\$21 million), including the 50 Wolf Road building in Albany, the Department of Environmental Conservation building at 625 Broadway in Albany and the Department of Transportation Region One headquarters building in Schenectady;
- Metropolitan Transportation Authority, for service contracts payments on bonds issued to finance transit and commuter rail projects (\$165 million);
- Energy Research Development Authority, for service contract payments on bonds issued to finance the West Valley Project (\$10 million);
- DASNY, for contingent contractual obligations related to distressed hospitals that are available in the event that hospital repayments and other available funds are inadequate to meet debt service (\$95 million). Legislative authorization for new projects in this program expired in March 1998, and State payments are not expected to be required for this program in 2005-06; and
- Tobacco Settlement Financing Corporation (TSFC), for contingent contractual obligations related to TSFC Asset-Backed Revenue Bonds (i.e., Tobacco Bonds) that are available to pay principal and interest on Tobacco Bonds only in the event that the tobacco receipts sold to TSFC are insufficient to make such payments. As required by the contingent contract, the debt service bill includes a recommended appropriation that is equal to the debt service payable by TSFC on the Bonds in 2005-06 (\$360 million). The State expects that tobacco receipts will be sufficient to meet all of the obligations of TSFC and, thus, does not expect to make any contingent contractual payments in 2005-06.

New State-supported issuances are anticipated to be financed under the State's revenue credits, including the PIT Revenue Bond program, Dedicated Highway and Bridge Trust Fund program, the Mental Hygiene program, Department of Health and the SUNY Dormitory Facilities program.

REVENUE BOND TAX FUND

Appropriations of \$680 million from the Revenue Bond Tax Fund, an account within the General Debt Service Fund, are provided for PIT Revenue Bonds. These bonds are secured by the pledge of payments from the Revenue Bond Tax Fund, which receives 25 percent of State personal income tax receipts. Personal income tax receipts in excess of debt service requirements are transferred back to the General Fund.

The following appropriations for PIT Revenue Bonds, which are issued under broad functional areas by Authorized Issuers of State-supported bonds are provided:

- Economic Development and Housing (\$265 million);
- Education (\$130 million);
- Environment (\$35 million);
- Healthcare (\$5 million);
- State Facilities and Equipment (\$135 million);
- Transportation (\$100 million); and
- Related expenses (\$10 million).

HOUSING DEBT FUND

Payments from local governments and housing companies that benefit from housing and urban renewal projects funded with State general obligation bonds are deposited in the Housing Debt Fund, and are used to pay debt service on such bonds. A \$25 million appropriation is recommended for 2005-06.

STATE UNIVERSITY DORMITORY INCOME FUND

This Fund receives payments for dormitory rentals and other fees at dormitories operated by SUNY. Debt service on bonds issued by DASNY for the construction and rehabilitation of SUNY dormitories has first claim on all dormitory revenues deposited in the Fund. An appropriation of \$70 million is recommended for lease-purchase payments to DASNY.

MENTAL HEALTH SERVICES FUND

DASNY is authorized to issue bonds to finance capital programs for the Department of Mental Hygiene. Revenues received for the care and treatment of patients at State mental health facilities are deposited in this Fund, and are used to make lease-purchase payments to DASNY for debt service on mental health services bonds. These rental payments have the first claim on moneys in the Fund. DASNY also makes loans to eligible not-for-profit agencies providing mental health services. In return, these voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects. These payments are also deposited in the Mental Health Services Fund. The recommended appropriation of \$316 million from this Fund includes variable rate and interest rate exchange agreement payments.

HEALTH INCOME FUND

The Department of Health (DOH) has entered into contractual agreements with DASNY to finance the construction and rehabilitation of State hospitals and veterans' homes. These agreements require DOH to make lease-purchase rental payments to DASNY. Such payments have first claim on revenues received in this Fund from patient care at DOH facilities. Consistent with existing bonding pledges and statutory requirements, the Roswell Park Cancer Institute Corporation's moneys continue to flow into the Fund as security for and payment to bondholders. As a result, the State's Financial Plan reflects the portion of the Corporation's receipts that are attributable to debt service. Lease-purchase obligations during 2005-06 require appropriations of \$37 million.

CENTRALIZED SERVICES FUND

Certificates of Participation (COPs) have been issued to finance the purchase of equipment on an installment or lease-purchase basis for State departments, agencies, and public authorities. Moneys from the operating budgets of participating agencies are deposited to the Centralized Services Fund for payment to the trustees of COPs issuances. Such

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obligations' maturities are predominantly short-term in nature, reflecting the useful life of the equipment financed. An appropriation of \$25 million is recommended to pay debt service on outstanding COPs. The Capital Program and Financing Plan anticipates that the more cost effective PIT Revenue Bond program will be continue to be used to finance equipment acquisitions, which are essential to the mission of various State agencies.

LOCAL GOVERNMENT ASSISTANCE TAX FUND

To eliminate the State's annual spring cash flow borrowing, 1990 legislation authorized the Local Governments Assistance Corporation (LGAC) to issue bonds to finance payments to local governments previously funded by the State. LGAC has issued its entire \$4.7 billion net authorization. Revenues equal to the first cent of the four and one-quarter cent State sales and use tax are deposited into the Local Government Assistance Tax Fund (LGATF) and used to pay debt service on LGAC obligations. The recommended appropriation of \$348 million represents anticipated debt service on all outstanding fixed and variable rate bonds, interest rate exchange agreement payments and related expenses. Local aid payments from the LGATF due to New York City and assigned by the City to the Sales Tax Asset Receivable Corporation (STARC) are appropriated in the local assistance portion of the budget.

SCHOOL CAPITAL FACILITIES FINANCING RESERVE FUND

An appropriation of \$40 million is recommended from the School Capital Facilities Financing Reserve Fund, a fiduciary fund, to pay debt service on bonds issued by DASNY on behalf of special act and certain other authorized local school districts. The districts have assigned State local assistance payments to DASNY, which are deposited into the Fund and used to make debt service payments.

DEDICATED HIGHWAY AND BRIDGE TRUST FUND

An appropriation of \$775 million is recommended for 2005-06 debt service payments to the Thruway Authority for outstanding Dedicated Highway and Bridge Trust Fund bonds and new issuances which will partially support the new five-year Department of Transportation Capital Plan. Debt service payments for the highway program are supported by the statutory dedication of highway-related taxes and fees to the Fund.

GENERAL FUND – STATE PURPOSES ACCOUNT

An appropriation of \$20 million is recommended for the State's potential liability to rebate arbitrage earnings on general obligation bonds to the Federal government. A \$225 million appropriation is recommended for the redemption of general obligation serial bonds, should this become necessary to maintain the exemption from Federal taxation of the interest paid to bondholders. This appropriation would only be used if the State received payments from any party found to be responsible for site contamination for which 1986 Hazardous Waste and 1996 Clean Water/Clean Air bonds were sold and disbursed to finance site clean-up. Since every effort is made to find the responsible party prior to the issuance of bonds, the potential use of this appropriation is unlikely and no disbursements from it are anticipated.

ALL FUNDS

An All Funds appropriation of \$2.35 billion provides appropriation authority for a maximum interest rate of 18 percent on both the maximum amount of variable rate bonds and the notional amount of interest rate exchange agreements which may be entered into under Article 5-D of the State Finance Law. This appropriation is available to all Authorized Issuers

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of State-supported debt, and provides assurances to bondholders and counterparties of interest rate exchange agreements that sufficient authorization is available to pay the maximum amounts which may become due on such variable rate instruments. In addition, it provides the State the flexibility needed to manage such instruments, including the ability to terminate agreements and effectively manage risk.

ALL FUNDS FISCAL REQUIREMENTS DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS (dollars)

Fund	Available 2004-05	Recommended 2005-06	Change
General Fund			
State Purposes Account			
Rebates to Federal Government	20,000,000	20,000,000	0
Redemption of General Obligation Bonds	225,000,000	225,000,000	0
Subtotal	245,000,000	245,000,000	0
Internal Service Funds			
Centralized Services Fund			
Financing Agreements	35,000,000	25,000,000	(10,000,000)
Subtotal	35,000,000	25,000,000	(10,000,000)
Fiduciary Funds			
School Capital Facilities Financing Reserve Fund			
Trust and Agency Financing	40,000,000	40,000,000	0
Subtotal	40,000,000	40,000,000	0
Debt Service Funds			
Mental Health Services Fund			
Financing Agreements	276,000,000	316,000,000	40,000,000
General Debt Service Fund			
General Obligation Bonds	485,000,000	480,000,000	(5,000,000)
Financing Agreements	2,130,100,000	2,190,400,000	60,300,000
Revenue Bond Payments	480,000,000	680,000,000	200,000,000
Lease Purchase Payments	61,700,000	61,900,000	200,000
Housing Debt Fund			
General Obligation Bonds	25,000,000	25,000,000	0
Health Income Fund			
Financing Agreements	34,500,000	34,500,000	0
Financing Agreements	2,500,000	2,500,000	0
State University Dormitory Income Fund			
Financing Agreements	70,000,000	70,000,000	0
Local Government Assistance Tax Fund			
Financing Agreements	323,000,000	348,000,000	25,000,000
Subtotal	3,887,800,000	4,208,300,000	320,500,000
Capital Projects Funds - Other			
Dedicated Highway and Bridge Trust Fund			
Financing Agreements	750,000,000	775,000,000	25,000,000
Subtotal	750,000,000	775,000,000	25,000,000
Unspecified Funds			
All Funds			
Contingent Appropriation	2,310,000,000	2,350,000,000	40,000,000
Subtotal	2,310,000,000	2,350,000,000	40,000,000
Total Fiscal Year	7,267,800,000	7,643,300,000	375,500,000
Appropriated 2004-05	<u>7,267,800,000</u>		