Annual Information Statement

State of New York

June 12, 2006

Annual Information Statement
State of New York
Dated: June 12, 2006

Table of Contents

Annual Information Statement of the State of New York

Introduction

This Annual Information Statement ("AIS") is dated June 12, 2006 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") and replaces the Annual Information Statement dated May 4, 2005 and all updates and supplements thereto. The AIS is scheduled to be updated in August 2006, November 2006, and February 2007 and is subject to being supplemented from time to time as developments may warrant. 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 2006-07 Enacted Budget Financial Plan dated May 12, 2006 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 components of the 2006-07 Enacted 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 projected total receipts and disbursements in the State's governmental funds in 2006-07.

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 a number of 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. OSC expects to issue the Basic Financial Statements for the 2005-06 fiscal year in July 2006. Copies may be obtained by contacting the Office of the State Comptroller, 110 State Street, Albany, NY 12236 and will be available on its website at www.osc.state.ny.us.

Usage Notice

The AIS has been supplied by the State to provide updated information about the financial condition of the State in connection with financings of certain issuers, including public authorities of the State, that may depend in whole or in part on State appropriations as sources of payment of their respective bonds, notes or other obligations and for which the State has contractually obligated itself to provide such information pursuant to an applicable continuing disclosure agreement (a "CDA").

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 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 the 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 (i) included in a Preliminary Official Statement, Official Statement, or other offering document, or incorporated by reference in an Official Statement unless DOB has expressly consented thereto following a written request to the State of New York, Division of the Budget, State Capitol, Albany, NY 12224 or (ii) considered to be continuing disclosure in connection with any offering unless a CDA relating to the series of bonds or notes has been 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 continuing disclosure filing or incorporated by reference in any Official Statement or other offering document or continuing disclosure filing without such consent and agreement by DOB is unauthorized and the State expressly disclaims any responsibility with respect to the inclusion, intended use, and updating of this AIS if so misused.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Current Fiscal Year

The 2006-07 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 through May 12, 2006.

The 2006-07 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, Federal law changes, and adverse judgments against the State. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained in the 2006-07 Enacted Budget Financial Plan set forth herein.

2006-07 Enacted Budget Financial Plan

The State finalized the Enacted Budget for 2006-07 on April 26, 2006. The General Fund is balanced on a cash basis, with annual spending projected to grow by over 9 percent, reflecting substantial increases in school aid, health care, and higher education. All Governmental Funds[1] spending, which includes Federal aid, is estimated at $112.5 billion, an increase of 7.8 percent from 2005-06. State tax receipts are expected to return to a historical growth rate of roughly 5 percent over 2005-06 levels, following two consecutive years in which growth exceeded 10 percent for the first time ever. State debt outstanding is projected to total $50.7 billion in 2006-07, with debt service equal to roughly 4.2 percent of All Funds receipts.

2006-07 Enacted Budget at a Glance: Impact on Key Measures (dollars in billions)

	2005-06 Results	2006-07 Executive	2006-07 Enacted
Disbursements			
General Fund	46.5	49.7	50.8
State Funds	69.7	75.0	77.1
All Funds	104.3	110.6	112.5
Outyear Gap Forecast			
2007-08	n/ap	1.9	3.7
2008-09	n/ap	3.9	4.3
Key Reserves			
Spending Stabilization Reserve	2.0	2.1	1.8
Rainy Day Reserve	0.9	0.9	0.9
Debt			
Debt Service as % All Funds	4.0%	4.2%	4.2%
Debt Outstanding	46.9	49.1	50.7

[1] Hereafter "All Funds." Comprised of the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

Entering the 2006-07 budget cycle, the State estimated a budget imbalance of $751 million in 2006-07 and gaps in the range of $3 billion to $4 billion in future years. The Governor's Executive Budget proposal, if enacted in its entirety, would have eliminated the 2006-07 imbalance and left gaps of $1.9 billion in 2007-08 and $3.9 billion in 2008-09. The Enacted Budget Financial Plan, which incorporates both the Legislature's modifications to the Executive proposal and the impact of gubernatorial vetoes and subsequent legislative overrides (through May 12, 2006, the date of the Enacted Budget Financial Plan), is also balanced in 2006-07, but projects an estimated gap of $3.7 billion in 2007-08 and $4.3 billion in 2008-09.

General Fund Operating Forecast: Initial Budget to Enactment
(dollars in billions)

	2006-07	2007-08	2008-09
Initial Surplus/(Gap)	**(0.8)**	**(3.2)**	**(3.9)**
Savings Actions	1.7	0.9	1.2
Spending Additions	(1.5)	(2.2)	(2.5)
Tax Policy Changes	(0.9)	(0.9)	(0.9)
Reestimates/Other	1.2	0.8	0.9
Use of 2006 Surplus/Stabilization Reserve	0.3	0.9	0.9
Enacted Surplus/(Gap)	**0.0**	**(3.7)**	**(4.3)**

The Enacted Budget includes a number of substantive fiscal and policy actions. These include:

- An increase of nearly $1.3 billion in school aid (school year basis).
- A $1.1 billion All Funds spending increase in Medicaid including the completion of the takeover by the State of Family Health Plus (FHP) costs from counties and State (rather than county) payment of all Medicaid costs in excess of 3.25 percent growth.
- A new statewide school construction grant program totaling $2.6 billion, with $1.8 billion for New York City, $400 million for other high-need districts, and $400 million for all other districts.
- Authorization for New York City to issue $9.4 billion in bonds for school construction through the Transitional Finance Authority, which will be supported in part by state building aid payments.
- Elimination of the sales tax on clothing purchases under $110, which is expected to lower receipts by roughly $600 million annually.
- A limitation on duplicative prescription drug coverage for persons eligible for both Medicare Part D and Medicaid, which is estimated to avoid roughly $220 million in costs (2006-07 only).
- A new Medicaid Inspector General's Office (created administratively) to identify, investigate, and prosecute Medicaid fraud.

- A $1.8 billion spending stabilization reserve which is planned to lower the 2007-08 and 2008-09 budget gaps in equal amounts.
- A $250 million deposit to the State's Debt Reduction Reserve that will be used to eliminate high-cost debt.
- The balance of this Enacted Budget Financial Plan describes the information presented in this synopsis in more detail.

2006-07 Budget Enactment

Initial Legislative Action

The Legislature adopted a budget for 2006-07 by April 1, 2006, the start of the State's fiscal year. As in past years, the Legislature enacted the entire debt service bill in mid-March. After reaching general agreement with the Executive in early March that $750 million in additional "consensus" revenues were available to finance legislative additions to the Governor's Executive Budget, the Senate and Assembly negotiated a budget agreement that culminated with the passage of final budget bills on March 31, 2006.

Although the Legislature adopted the budget on time, the process was, and continues to be, marked by substantive policy disagreements between the Governor and Legislature. During the Legislature's deliberations, the Governor expressed concerns with the overall levels of spending under consideration for 2006-07, the diminution of reserves, the potentially adverse impact of the budget on structural balance, and the absence of substantive reforms to Medicaid and other programs.

On March 31, 2006, DOB issued its initial fiscal assessment of the legislative budget.[2] DOB estimated the budget for 2006-07 would be balanced, but leave potential budget gaps of roughly $6 billion in both 2007-08 and 2008-09, more than double the level projected if the Executive Budget had been adopted in its entirety. Under the legislative budget, the outyear gaps increased in large part because of the recurring value of legislative adds and because the entire 2005-06 surplus (i.e., the "spending stabilization reserve") would be needed to finance spending in 2006-07, rather than applied in equal amounts to lower the 2007-08 and 2008-09 gaps, as recommended in the Executive Budget.

Gubernatorial Vetoes and Legislative Overrides

In mid-April, the Governor completed his review of the 2006-07 budget bills passed by the Legislature, vetoing 207 individual items of appropriation and the entire "revenue" bill (companion legislation that authorized numerous tax law changes). The Governor said the vetoes were done to (1) maintain a properly balanced budget in 2006-07, provide for adequate reserves, and ensure manageable outyear budget gaps and (2) remedy unconstitutional revisions made by the Legislature to the Executive Budget. DOB estimates that the vetoes, had they been sustained in their entirety, would have provided recurring General Fund savings of $2.1 billion, resulting in a balanced budget in 2006-07 without use of the 2005-06 surplus, and budget gaps of $2.4 billion in 2007-08 and $3.0 billion in 2008-09.

The Legislature has constitutionally overridden 165 of the Governor's vetoes through the date of this Annual Information Statement, generating estimated General Fund costs of roughly $600 million in 2006-07 growing to over $1.2 billion in 2007-08. The most significant items restored by the Legislature included: additional operating aid increases for public universities, increased spending for the Tuition

[2] The DOB report, entitled "Review of the 2006-07 Legislative Budget Agreement" (March 31, 2006) is available at www.budget.state.ny.us.

Assistance Program (TAP), grants in aid to local school districts and other education-related entities subject to allocation by the Legislature, and discretionary “member item” spending for grants and projects initiated by individual legislators.

Non-Implementation of Unconstitutional Items

In acting on the legislative budget, the Governor vetoed 39 items worth $1.5 billion in the General Fund ($2.2 billion All Funds) on constitutional grounds. The Legislature subsequently attempted to override 27 of those vetoes. However, the courts have held that an Executive’s disapproval of an item on the basis of its unconstitutionality is not subject to override by the Legislature.[3] Even a two-thirds vote of the members of both houses cannot transform an unconstitutional budgetary item into a law that can be validly executed by State officials.[4] Accordingly, the Enacted Budget Financial Plan estimates set forth herein incorporate the savings generated by the Governor’s vetoes of such items, the most significant of which concerned Medicaid and a new tax rebate program. The General Fund value of the unconstitutional items is $1.5 billion in 2006-07, and roughly $1.1 billion in each of the outyears. The Legislature and other parties have indicated they will challenge the Executive’s constitutional authority concerning one or more of such items.[5] A complete list of the unconstitutional items is provided later in this Financial Plan.

Recap of Three-Year General Fund Operating Forecast: Initial Budget through Enactment

Since the 2006-07 Executive Budget forecast, the operating forecast for 2006-07 has remained in balance from the combined impact of enacted cost containment (achieved largely through vetoes), spending additions, new resources, and the use of reserves. At the same time, the gap between spending and revenues for 2007-08 has widened, as the recurring value of legislative additions grows and the use of a portion of the spending stabilization funds in 2006-07 instead of the outyears creates a “two-for-one” negative impact. The following table summarizes the evolution of the General Fund operating forecast for 2006-07 through 2008-09 from the initial budget forecast through enactment.

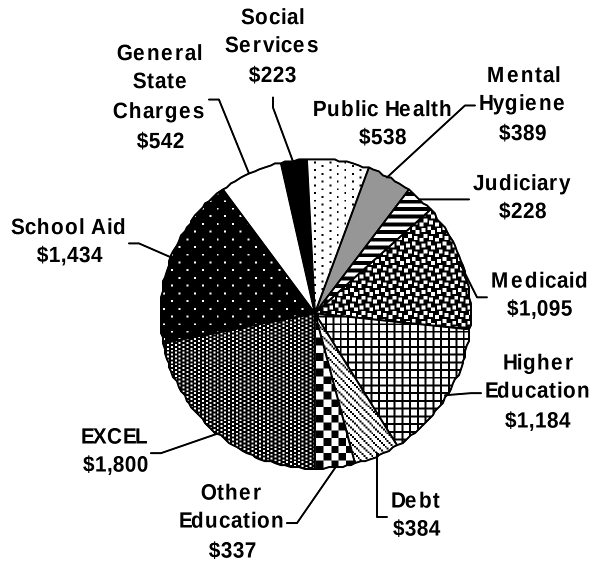
[3] See *Silver v. Pataki*, 4 N.Y. 3d 75 (2004); 1982 Op. Att’y General 21.
[4] See *City Council of N.Y. v. Bloomberg*, 2006 N.Y. LEXIS 149 (2006).
[5] See the section entitled "Litigation" in this AIS for updated information on legal proceedings.

Changes to General Fund Operating Forecast for 2006-07 Through 2008-09 (dollars in millions)			
	2006-07	**2007-08**	**2008-09**
Initial Budget Surplus/(Gap) Estimate (Before Actions)	**(751)**	**(3,155)**	**(3,895)**
Savings Actions	2,251	3,291	3,492
Spending Additions	(406)	(898)	(1,269)
Tax Policy Changes	(844)	(2,210)	(3,268)
Debt Reduction Reserve	(250)	0	0
Spending Stabilization Reserve	0	1,053	1,053
Executive Budget Surplus/(Gap) Estimate	**0**	**(1,919)**	**(3,887)**
Legislative Additions	(3,135)	(3,959)	(2,448)
Available Resources	1,086	885	985
Use Stabilization Reserve to Balance 2006-07	2,049	(1,024)	(1,025)
Budget Before Veto Process	**0**	**(6,017)**	**(6,375)**
Total Gubernatorial Vetoes:	2,070	2,250	2,148
Constitutional Vetoes (not subject to override)	*1,489*	*1,076*	*1,045*
Other Vetoes	*581*	*1,174*	*1,103*
Reestimates	174	347	241
Collective Bargaining	(115)	(78)	(78)
Restore Entire Reserve for Use in Outyears	(2,129)	1,065	1,064
Budget After Gubernatorial Vetoes	**0**	**(2,433)**	**(3,000)**
Legislative Veto Overrides (Constitutional)	(579)	(1,172)	(1,102)
Use of Stabilization Reserve/Other Changes	579	(72)	(196)
2006-07 Enacted Budget Surplus/(Gap) Estimate	**0**	**(3,677)**	**(4,298)**

2006-07 Enacted Budget Spending

General Fund spending, including transfers to other funds, is projected to total $50.8 billion in 2006-07, an increase of $4.3 billion (9.4 percent) over 2005-06 results. State Funds spending, which includes both the General Fund and spending from other funds supported by State revenues, is projected to increase by $7.4 billion (10.6 percent) and total $77.1 billion in 2006-07. All Funds spending, the broadest measure of State spending that includes Federal aid, is projected to total $112.5 billion in 2006-07, an increase of $8.1 billion (7.8 percent).

2006-07 All Funds Spending Growth
$8.1 Billion
(dollars in millions)



Enacted Budget Spending Estimates (millions of dollars)				
	2005-06 Results*	2006-07 Enacted	Annual $ Change	Annual % Change
General Fund	46,495	50,843	4,348	9.4%
State Funds	69,723	77,100	7,377	10.6%
All Funds	104,341	112,463	8,122	7.8%

*Unaudited

The major sources of annual spending from 2005-06 to 2006-07 are summarized in the following table and briefly described below. The reasons for the annual growth in spending for the State's major programs and activities are described in detail in the section entitled "2006-07 Financial Plan." The Financial Plan impact of Temporary Assistance for Needy Families (TANF), Environmental Protection Fund (EPF), and Federal anti-drug funding has also been incorporated.

Size of the Budget 2006-07 Enacted Budget Spending Estimates - Sources of Annual Change (millions of dollars)			
	----- DOB Values -----		
	General Fund	State Funds	All Funds
2005-06 Results	**46,495**	**69,723**	**104,341**
Medicaid	503	976	1,095
Other Public Health (including HCRA)	116	611	538
School Aid	1,035	1,418	1,434
School Construction (EXCEL)	0	1,800	1,800
Other Education Aid	253	285	337
School Tax Relief	0	155	155
Higher Education	716	1,171	1,184
Social Services	140	152	223
Mental Hygiene	351	424	389
Transportation	(88)	180	308
Municipal Aid	158	158	158
Judiciary	191	225	228
General State Charges	438	505	542
Debt Service	39	384	384
All Other	496	(1,067)	(653)
2006-07 Enacted Budget Spending	**50,843**	**77,100**	**112,463**
Annual $ Change	***4,348***	***7,377***	***8,122***
Annual % Change	***9.4%***	***10.6%***	***7.8%***

Medicaid: Prior to cost containment efforts, General Fund spending was projected to increase by $1.9 billion in 2006-07, driven by the State cap on local Medicaid expenditures, the State takeover of FHP, and steady increases in utilization, drug prices, medical inflation, and the total number of recipients. The Enacted Budget includes roughly $1.4 billion in Medicaid savings and cost avoidance (versus the current services forecast), including limiting the "wrap-around" prescription drug benefit for people eligible for both Medicare Part D and Medicaid for one year and adjustments to hospital, nursing home, and pharmacy payment rates which expire at the end of 2006-07; stepped-up anti-fraud activities; and a range of other cost-saving measures. Much of the savings in Medicaid stems from the non-implementation of unconstitutional legislative restorations and new program adds vetoed by the Governor.

Other Public Health (HCRA): Increases are primarily the result of higher HCRA current services spending, namely for Graduate Medical Education, Healthy New York, AIDS Drug Assistance Program and cancer services, as well as Enacted Budget targeted investments for anti-tobacco programs, Physicians Excess Medical Malpractice, and stockpiling medications and supplies for Avian Flu. Other increases are due to accelerated HEAL NY capital spending and growth in EPIC as a result of the rising cost of prescription drugs and increasing enrollment.

School Aid: The Budget authorizes an increase of nearly $1.3 billion in school aid on a school year basis. Annual increases are provided for most categories of aid, including Sound Basic Education Aid ($375 million), Excess Cost Aid ($125 million), Transportation Aid ($99 million), Building Aid ($92 million), Flex Aid ($85 million), and Tax Limitation Aid ($77 million), as well as other categorical and formula-based programs.

School Construction (EXCEL): During fiscal year 2006-07, the State expects to finance $1.8 billion of the $2.6 billion EXCEL program. The program provides $1.8 billion for school construction financing to New York City, $400 million to other "high needs" school districts, and $400 million to all other school districts based on a per-pupil formula. Consistent with current accounting treatment, this spending is reflected only in the State's GAAP accounting results, not on a budgetary basis of reporting. However, for transparency purposes, the Financial Plan reflects this and other capital spending for programs financed in the first instance by bond proceeds in the specific programmatic area of responsibility. The overall Financial Plan is subsequently adjusted to account for this spending only in the GAAP, rather than the cash-basis, results.

Other Education Programs: Spending is driven by enrollment and cost increases in special education programs; additional funding for legislatively-directed education-related programs; aid enhancements for libraries; public broadcasting; vocational services; math and science high schools; and increases for agency operations.

School Tax Relief (STAR): Annual growth is the product of rising property valuations, number of applicants, and an enhancement in the benefit for senior citizens.

Higher Education: The Budget authorizes an expansion of the State University of New York (SUNY) and the City University of New York (CUNY) capital programs, and operating increases for senior and community colleges. Eligibility limits on TAP partially offset the growth in aid to public universities.

Social Services: Caseloads continue to decline, but program enhancements, particularly in child welfare and employment support, drive spending growth.

Mental Hygiene: Additional funding is provided for community-based initiatives, as well as capital improvements and operating inflationary costs at State facilities and programs. Savings are generated by maximizing Federal aid, audit recoveries, overtime controls, and efficiency savings for certain local programs.

Transportation: Reflects the acceleration of $245 million in State Funds transit aid from 2006-07 to 2005-06, and additional capital spending pursuant to the second year of the Department of Transportation (DOT) five-year Capital Plan.

Municipal Aid: The Budget includes second year increases in funding for local governments under the Aid and Incentives for Municipalities program, as well as additional unrestricted aid.

Judiciary: Reflects increased operational costs including proposed salary increases, consistent with the Judiciary's budget request.

General State Charges: Premiums for the State employee health plan are projected to increase by 8.5 percent in 2006-07. Spending growth is also attributable to increases in the State's pension contribution rate applied to higher salary costs.

Debt Service: Planned increases in bond-financed capital spending and reduced refunding savings compared to 2005-06 drive most of the increase in debt service.

Executive Budget vs. Enacted Budget "Scorecard"

The Enacted Budget includes $1.7 billion of the $2 billion in 2006-07 actions to restrain spending growth recommended in the Executive Budget. Medicaid cost containment, including roughly $600 million in savings from the Governor's vetoes of unconstitutional additions, totals $1.3 billion, or roughly 80 percent of the total. Outside of Medicaid, savings are expected from strengthened eligibility requirements for the State's TAP, maximization of Federal aid related to Mental Hygiene programs, and efficiencies in State agencies. However, the outyear savings in the Enacted Budget are substantially below that proposed in the Executive Budget because the cost containment implemented this year through gubernatorial vetoes of unconstitutional actions will expire.

The Enacted Budget also includes substantially higher spending for school aid, higher education, and discretionary "member items". The level of statutory tax reductions is modestly higher than in the Executive Budget, reflecting a permanent sales tax exemption on clothing purchases under $110 authorized by the Legislature, offset by the rejection of a number of targeted tax reductions advanced in the Executive Budget. The following table compares the actions approved in the Enacted Budget against those proposed in the Executive Budget.

General Fund Gap Closing Actions
(millions of dollars)

	2006-07 Executive Proposal	2006-07 Enacted Budget	2007-08 Executive Proposal	2007-08 Enacted Budget
Spending Restraint	**1,983**	**1,675**	**3,136**	**941**
Medicaid	1,277	1,288	2,322	500
Medicare Part D	*246*	*338*	*405*	*234*
Anti-Fraud Initiatives	*151*	*151*	*240*	*240*
Hospital Cost Containment	*163*	*163*	*217*	*0*
Nursing Home Cost Containment	*233*	*200*	*340*	*84*
Nursing Home Assessments @ 6 percent	*0*	*0*	*258*	*0*
Pharmacy Cost Containment	*172*	*172*	*213*	*77*
Managed Care Cost Containment	*29*	*29*	*52*	*52*
Long Term Care Cost Containment	*41*	*41*	*105*	*0*
Other Financing	*176*	*128*	*403*	*(272)*
All Other Medicaid Savings	*66*	*66*	*89*	*85*
Public Universities: Flexible Cost Reductions	111	0	131	0
Tuition Assistance: Performance/Eligibility Incentives	136	49	201	74
Mental Hygiene: Patient Income Account; Audit Recoveries	180	187	196	196
Welfare: "Full-family" Sanctions; Work Participation Incentives	39	11	102	46
All Other	240	140	184	125
Fines/Fees/Other	**94**	**0**	**155**	**0**
Non-Recurring Resources	**227**	**259**	**0**	**0**
Debt Reduction	**(250)**	**(250)**	**0**	**0**
Spending Additions/Member Items	**(406)**	**(1,462)**	**(834)**	**(2,215)**
School Aid (Executive School Aid Increase as a Base adjustment)	(11)	(622)	(69)	(900)
Local Government/General Government	(86)	(149)	(155)	(164)
Medicaid/Health	(79)	(129)	(199)	(240)
Mental Hygiene	(60)	(91)	(148)	(176)
Public Protection	(58)	(50)	(55)	(72)
Agriculture/Housing/Environment	(43)	(89)	(41)	(81)
Human Services	(31)	(91)	(91)	(156)
Higher Education	(28)	(119)	(60)	(237)
Economic Development	(10)	(35)	(16)	(47)
Transportation	0	(12)	0	(17)
Member Item Additions	0	(75)	0	(125)
Net Tax Policy Actions	**(844)**	**(866)**	**(2,210)**	**(863)**

The table below summarizes the changes in All Funds spending from the Executive Budget through the final Enacted Budget.

2006-07 All Funds Spending (dollars in millions)	
Executive Budget	$110,605
Net Legislative Changes	$4,900
Initial Legislative Budget	$115,505
Collective Bargaining Costs	388
Vetoes (After Overrides)	(2,172)
All Other Revisions	(1,258)
Enacted Budget	$112,463

Projected 2006-07 Year-End Balances

DOB projects the State will end the 2006-07 fiscal year with a General Fund balance of $3.3 billion. This balance is not a surplus from 2006-07 operations, but reflects $1.0 billion in long-term undesignated reserves and $2.3 billion previously set aside to finance existing or planned commitments.

The long-term reserves consist of $944 million in the State's Rainy Day Reserve, which has a balance that is at the statutory maximum of 2 percent, and $21 million in the Contingency Reserve for litigation risks. The reserves previously set aside for planned commitments include $276 million in the Community Projects Fund to finance existing legislative and gubernatorial initiatives, $1.8 billion in a spending stabilization reserve (the amount of the 2005-06 surplus remaining after balancing the 2006-07 budget) that is planned to be used in equal amounts to lower the projected 2007-08 and 2008-09 budget gaps, and $250 million for debt reduction.

It is expected that the money for debt reduction will be used by the end of the fiscal year to reduce high cost debt and future debt service costs. If that happens, the General Fund closing balance in 2006-07 would be $3.0 billion.

Risks to the Financial Plan

In any year, the Financial Plan is subject to risks that, if they were to materialize, could affect operating results. A full discussion of risks to the State Financial Plan appears in the sections entitled "Special Considerations" and "Economics and Demographics." The most significant risks include the following:

School Finance Litigation: In 2003, the State Court of Appeals found that the State's school financing system failed to provide students in New York City with an opportunity for a "sound basic education (SBE)," in violation of the State Constitution. The State's SBE aid program that began in 2005-06 is part of an effort to comply with the State Court of Appeals ruling. On May 8, 2006, the Court of Appeals authorized an expedited briefing schedule to hear arguments related to the State's compliance with the Court's order. Oral arguments may occur as early as September 2006.

The 2006-07 Budget includes $700 million in SBE Aid in the 2006-07 school year, of which approximately 60 percent is for New York City (an increase of roughly $225 million in 2006-07). Approximately 40 percent of "traditional" school aid is also provided to New York City. The State's Financial Plan projects traditional school aid increases of roughly $500 million annually. In addition, video lottery terminal (VLT) revenues are forecast to reach $1.0 billion in 2007-08 and $1.5 billion by 2008-09, with the entire amount earmarked to finance SBE aid. Delays in the opening of currently authorized VLT facilities or the failure to approve proposed expansion of the number of authorized facilities may adversely affect the level of VLT revenues available to finance SBE grants.

To directly address the New York City school construction funding directed by the Court, the Budget further authorizes (1) $1.8 billion in capital grants for New York City school construction, and (2) the City's Transitional Finance Authority to issue $9.4 billion in bonds for school construction.

Litigation is ongoing and there is no assurance that these remedies will be sufficient to meet the Court's standards, or that other litigation will not arise related to the adequacy of the State's school financing system.[6]

Federal Actions: At the request of the Federal government, the State discontinued intergovernmental transfer payments in 2005-06 pending Federal approval of a State Plan Amendment (SPA). The SPA was approved late in the 2005-06 fiscal year for a one-year term only and must be resubmitted annually. These payments are related to disproportionate share hospital payments to public hospitals throughout the State, including those operated by the New York City Health and Hospital Corporation, SUNY and the counties. If these payments are not approved in 2006-07 and beyond, the State's health care financing system could be adversely affected.

Medicare Part D Implementation: The State incurred costs related to the emergency financial coverage of prescription drug costs for dual-eligible individuals (i.e., eligible for both Medicare and Medicaid benefits) due to nationwide implementation issues with the Federal Medicare Part D Program. These costs totaled roughly $120 million as of March 31, 2006. The Federal government has assured the State that it will fully reimburse these costs, but there can be no assurance that it will do so in a timely manner or at the levels identified by the State.

Labor Contracts: Existing labor contracts with all the State's major employee unions are set to expire at the end of 2006-07. The existing contracts cover a four-year period and included an $800 lump sum payment and general salary increases of 2.5 percent in 2004-05, 2.75 percent in 2005-06 and 3.0 percent in 2006-07, as well as a recurring $800 increase to base pay effective April 2007, at a total cost of approximately $2.2 billion to the General Fund and $2.9 billion in All Funds. The current Financial Plan does not set aside any reserves for future collective bargaining agreements in 2007-08 or beyond. Each future one percent salary increase would cost roughly $83 million annually in the General Fund and $129 million in All Funds.

Miscellaneous Receipts: The State Financial Plan assumes approximately $500 million annually in receipts that are the subject of ongoing negotiations between the State and counties and New York City. Actual receipts in 2005-06 were $450 million below planned levels, which was offset by a reduction in spending for State aid to localities. There can be no assurance that comparable shortfalls will not occur in 2006-07 or in future years, or that offsetting spending reductions will occur.

[6] See the section entitled "Litigation" in this AIS for more information.

General Fund Outyear Forecast

Absent policy changes, growth in spending is expected to outpace revenues over the next two years, based on DOB's economic forecast and current-services projections for the State's major programs. The DOB currently projects General Fund budget gaps of $3.7 billion in 2007-08 and $4.3 billion in 2008-09[7].

The following chart provides a "zero-based" look at the causes of the 2007-08 budget gap. It is followed by a brief summary of the assumptions behind the projections. For a detailed explanation of the specific assumptions supporting the revenue and spending projections, see the section entitled "General Fund Financial Plan Projections for 2007-08 and 2008-09."

General Fund Gap Estimate for 2007-08: "Zero-Based" Estimate Savings/(Costs) (dollars in millions)

	2007-08
Receipts	**495**
Constant Law Growth	3,200
Tax Reductions	(863)
Phaseout of Temporary PIT Actions	(447)
Loss of One-Time Revenues	(478)
Change in RBTF, STAR, LGAC	(236)
Change in All Other Debt Service	(270)
Phase-in of Other Tax Actions	(156)
All Other	(255)
Disbursements	**(5,006)**
Medicaid	(2,191)
Medicaid Cap/Family Health Plus Takeover	(593)
Subsidy to HCRA	(627)
School Aid	(558)
Welfare/Children and Families	(288)
General State Charges	(329)
Mental Hygiene	(168)
All Other Spending	(252)
Use of Stabilization Reserve/Other Fund Balances	**834**
BUDGET GAP FOR 2007-08	**(3,677)**

The gap for 2007-08 is a forecast based on assumptions related to economic performance, revenue collections, spending patterns, and projections for the "current services" costs of program activities. DOB believes the gap forecast and the assumptions from which it is derived are reasonable. However, as with any forecast, the gap estimate is subject to estimation risks that can lead to significant variations. The most significant assumptions affecting the 2007-08 gap include the following:

[7] According to DOB, over the last ten years, the State has successfully closed gaps ranging from a high of roughly $10 billion in the aftermath of September 11, 2001, to under $1 billion during the peak of the 1990's economic expansion.

1. **Economic growth will continue at a steady pace over the forecast period**. The DOB forecast expects personal income to grow at roughly 5.9 percent, bolstered by slow but consistent employment growth and moderate growth in the financial services sector. A significant shock to the economy, such as another terrorist attack, spiraling energy prices, or a steep decline in the housing market, pose the most significant risks to the State economy in the short-run.

2. **Revenues, adjusting for tax law changes, will grow at roughly 5.8 percent in 2007-08**. The growth rate is consistent with DOB's forecast for the economy, but, as in any year, is subject to significant volatility. Changes in the economic growth rate, Federal law, and taxpayer behavior all have a significant influence on receipts collections.

3. **Medicaid cost containment achieved through gubernatorial vetoes will generate savings only in 2006-07**. Since the Medicaid vetoes generally affect 2006-07 appropriations, the Financial Plan assumes that this cost containment will expire. The 2007-08 gap would be roughly $900 million lower than the current projection if this Medicaid cost containment were continued in 2007-08. In past years, DOB has reflected the continuation of cost containment unless specific "sunset" provisions were included in law. However, since these savings are being achieved in 2006-07 without the concurrence of the Legislature, they are not counted as recurring.

4. **The assessment on nursing homes (valued at $258 million) will expire at the end of 2006-07, rather than be extended in future years**. Since 2002, when the nursing home assessment was reinstituted, the Legislature has extended it on three occasions, most recently in 2005-06 (for two years), but it was not continued as part of budget deliberations beyond 2006-07.

5. **The majority of the Medicaid cost containment approved annually since 1995 will continue**, providing roughly $500 million in savings annually over the Financial Plan.

6. **The General Fund will be required to make Tobacco Guarantee and other subsidy payments to HCRA totaling $627 million in 2007-08 and $486 million in 2008-09**. HCRA expires on July 1, 2007. In the past, reauthorization of HCRA has produced new savings actions or revenues that resulted in fully solvent plans that did not require direct General Fund support.

7. **School Aid is projected to increase by roughly $900 million annually (including SBE aid outside the General Fund**). Recent budgets have authorized higher increases. The projections assume that this total level of spending increase will be sufficient to satisfy court directives.

8. **Receipts of roughly $500 million that are budgeted in both 2006-07 and 2007-08 are the subject of ongoing negotiations between the State and counties and New York City**. Actual miscellaneous receipts in 2005-06 were $450 million less than planned.

9. **The Federal government will not make substantive funding changes** to major aid programs, including TANF, Medicaid, and transportation aid.

10. **Spending for employee and retiree health care costs assumes an average annual premium increase of 11 percent.** Escalating health care costs, including prescription drugs, may significantly influence future health care premiums. In addition, projections do not

include any additional health care costs driven by new labor settlements once the current contracts expire.

11. **The projections for 2007-08 and 2008-09 do not include any extra costs for new labor settlements** once the current round of contracts expire on April 1, 2007. Thus, the projections assume that any future collective bargaining cost increases will be offset by productivity improvements.

Significant changes to any of these assumptions have the potential to materially alter the size of the budget gap for 2007-08.

Unconstitutional Items

As described earlier, the Governor vetoed a number of items in the 2006-07 budget on constitutional grounds. The following table provides an item-by-item listing of the 2006-07 unconstitutional actions, with the respective All Funds cash impact.

Unconstitutional Items Vetoed from the 2006-07 Budget
All Funds -- $ in 000's

Veto #	Agency	Purpose	Amount
6	ABC	Field investigators	700
7	ABC	Problem Premises Task Force	250
10	DOCS	Additional funding for Camp Pharsalia operations	5,200
11	DCJS	Anti-drug, anti-violence, crime control, prevention and treatment programs	2,523
18	LGA	Buffalo - Efficiency Incentive	8,000
20	LGA	Aid and Incentives to Municipalities	N/A
21	ABC	Problem Premises Task Force	N/A
33	ERDA	Electric utility public benefit programs	131,250
34	ERDA	Renewable energy programs	35,000
40	DMV	Department operations	20,000
41	DMV	Dedicated Fund offset change	-20,000
57	UDC	Seneca Army Depot	900
74	ESDC	Power for Jobs	50,000
75	ERDA	Conservation and efficiency pilot program	N/A
77	ESDC	Electric Utility Public Benefit Fund	N/A
115	Misc.	Local Property Tax Rebate program	756,000
124	UDC	Photovoltaic technology advancement	15,000
125	UDC	Conservation and efficiency pilot programs	15,000
126	UDC	Certain economic development/other projects	10,000
130	SED	Distribution and redistribution of program funds	N/A
158	DOH	Medical Assistance program	633,474
159	DOH	Medical Assistance program	489,124
162	DOH	Family Health Plus co-pay provisions	500
188	DOH	Part D wrap	N/A*
189	DOH	Nursing home rebasing	N/A*
190	DOH	Grants to public nursing homes	N/A*
191	DOH	Detox	N/A*
192	DOH	AIDS ADHC rate add on	N/A*
193	DOH	DEFRA Asset transfer	N/A*
194	DOH	Ambulance supplement	N/A*
195	DOH	Managed Care Transition	N/A*
197	DOH	ER rate increase	N/A*
198	DOH	ER physician services	N/A*
199	OMH	COLA	N/A*
207	OMH	DASNY transfer of land	0
208	TAX	Local Property Tax Rebate program (value above)	N/A
209		Chapter Amendment Items	18,141
210	DOH	Medicaid funding for certain outpatient services	N/A*
211	ESDC	Loan Forgiveness provisions	0
213	TAX	Local Property Tax Rebate program (value above)	N/A
	TOTAL VALUE OF VETOED UNCONSTITUTIONAL ITEMS		2,171,062

* Funding associated with medical assistance article VII vetos are included in veto numbers 158 and 159 (above) as these items are reflected in medical assistance appropriations.

2006-07 Financial Plan

Introduction

This section describes the State's Financial Plan projections for receipts and disbursements based on 2006-07 Enacted Budget actions. The receipts forecast describe estimates for the State's principal taxes, miscellaneous receipts, and transfers from other funds. The spending projections summarize the annual growth in current services spending and the impact of Enacted Budget actions on each of the State's major areas of spending (e.g., Medicaid, school aid, human services).

The 2006-07 Financial Plan projections are presented on an All Funds basis, which encompasses activity in the General Fund, other State-supported Funds, and Federal Funds, thus providing the most comprehensive view of the financial operations of the State.

2006-07 Receipts Forecast

Financial Plan receipts comprise a variety of taxes, fees, charges for State-provided services, Federal grants, and other miscellaneous receipts. The receipts estimates and projections have been prepared by DOB with the assistance of the Department of Taxation and Finance and other agencies concerned with the collection of State receipts.

Total Receipts
(millions of dollars)

	2005-06 Results*	2006-07 Enacted	Annual	Percent
General Fund	47,206	50,860	3,654	7.7%
State Funds	71,728	75,440	3,712	5.2%
All Funds	107,027	111,179	4,152	3.9%

*Unaudited

All Funds receipts for 2006-07 are projected to total $111.2 billion, an increase of 3.9 percent or $4.2 billion over 2005-06 collections. The estimated increase reflects growth in tax receipts of $3.3 billion, Federal grants of $467 million, and miscellaneous receipts of $423 million.

Enacted Budget Receipt Projections Major Sources of Annual Change (millions of dollars)			
	General Fund	**State Funds**	**All Funds**
2005-06 Results	**47,206**	**71,728**	**107,027**
Personal Income Tax	2,437	3,406	3,406
User Taxes & Fees	(316)	(240)	(240)
Business Taxes	219	221	221
Miscellaneous Receipts	828	452	422
All Other	486	(127)	343
2006-07 Enacted Budget Estimate	**50,860**	**75,440**	**111,179**
Dollar Change	*3,654*	*3,712*	*4,152*
Percent Change	*7.7%*	*5.2%*	*3.9%*

Total 2006-07 General Fund receipts, including transfers from other funds, are estimated to be $50.9 billion, an increase of $3.7 billion, or 7.7 percent over the prior year. General Fund tax receipts growth is projected at 6.7 percent. General Fund miscellaneous receipts are projected to increase by 41.1 percent, largely due to several one-time transactions expected in the current fiscal year.

Total State Funds receipts are estimated to be $75.4 billion, an increase of $3.7 billion, or 5.2 percent, from 2005-06 receipts.

Total All Funds receipts in 2006-07 are expected to reach $111.2 billion, an increase of $4.2 billion, or 3.9 percent, over 2005-06. Tax receipts are projected to increase by $3.3 billion, or 6.1 percent (and 9.8 percent after factoring in the impact of law changes and shifts across funds). The majority of this increase is attributable to the expectation of continued economic expansion offset by the sunset of the personal income tax surcharge and the newly enacted tax reductions included with this Budget. Federal grants are expected to increase by $467 million, or 2.1 percent. Miscellaneous receipts are projected to increase by $423 million, or 2.3 percent.

Personal Income Tax

General Fund personal income tax (PIT) receipts for 2006-07 are expected to total $23.1 billion, an 11.8 percent increase over the prior year. General Fund personal income tax receipts for 2007-08 are projected to reach $23.9 billion in 2007-08, an increase of 3.4 percent from 2006-07.

All Funds PIT receipts for 2006-07 are estimated to total $34.2 billion, an increase of approximately $3.4 billion, or 11.1 percent, over the prior year. The forecast reflects continued strong growth in taxable income for 2006, along with the residual benefit of the 2005 tax payments made in April, which includes the impact of the last year of the temporary personal income tax surcharge. Projected growth for 2006-07 reflects the expiration of the temporary surcharge and the part-year impact of the new Empire State Child Credit (effective for tax years beginning in 2006) authorized in the Enacted Budget.

All Funds PIT projected receipts for 2007-08 of $35.3 billion reflect an increase of 3.3 percent or $1.1 billion above the estimate for 2006-07. The forecast reflects continued economic growth, the full-year impact of the expiration of the temporary surcharge and tax reductions authorized in the Enacted Budget. These include the Empire State Child Credit and an increase in the standard deduction to eliminate the "marriage penalty." All Funds receipts for 2008-09 continue to reflect relatively strong growth in tax liability, and are estimated at $37.9 billion, an increase of $2.5 billion or 7.2 percent above 2007-08.

User Taxes and Fees

General Fund receipts for user taxes and fees are estimated to be $8.3 billion in 2006-07, a decrease of 3.7 percent from 2005-06. General Fund sales tax receipts are projected to be $7.7 billion, a decrease of $292 million, or 3.7 percent.

General Fund user taxes and fees receipts for 2007-08 are projected to reach $8.7 billion, an increase of $343 million, or 4.1 percent, from 2006-07. Sales tax receipts are projected to increase $327 million, or 4.3 percent, due to modest growth in the economic base. General Fund other user taxes and fees in 2007-08 are projected to be virtually unchanged from 2006-07.

All Funds user taxes and fees collections for 2006-07 are estimated to be $13.7 billion, a decrease of 1.7 percent from 2005-06. The decrease in the General Fund and All Funds largely reflects the impact of the exemption of clothing and footwear priced under $110. All Funds user taxes and fees receipts for 2007-08 are projected to be $14.2 billion, an increase of $519 million, or 3.8 percent, from 2006-07.

In 2008-09, All Funds user taxes and fees receipts are projected to total $14.6 billion, an increase of $441 million or 3.1 percent over 2007-08. The projection reflects continued modest sales tax base growth and relative stability in the other tax categories.

Business Taxes

General Fund business taxes are expected to reach $5.3 billion in 2006-07, an increase of 4.3 percent. General Fund business tax receipts for 2007-08 are estimated to increase by a modest 1.5 percent over the prior year.

All Funds business tax receipts for 2006-07 are estimated to reach $7.3 billion, an increase of $221 million, or 3.1 percent over the prior year. The estimate reflects a return to more moderate levels of growth in business taxes following extraordinary growth of 22.1 percent in 2005-06. The overall increase in the business tax category for 2006-07 is due primarily to growth in the corporate franchise tax (4.1 percent), insurance tax (9.5 percent) and petroleum business taxes (4 percent), offset by declines in corporate utility taxes (4.9 percent) and the bank tax (1.4 percent). The estimates expect that audit and compliance receipts from the corporate franchise and bank tax will return to more normal levels after the exceptional results in 2005-06. Receipts for 2006-07 also reflect the impact of tax reductions reflected in the Enacted Budget, including the elimination of the S-Corporation differential tax, the extension and increase in the Empire State Film Production credit, and the reduction in taxes paid by certain life insurance companies.

All Funds receipts for 2007-08 are projected to increase by 1.8 percent, or $132.5 million, over the prior year. The reduced growth is attributable to the impact of tax reductions included in the Enacted Budget, including those described above, a new Empire State Commercial Production credit, and a new credit for the production of alternative bio-fuels; and the return to historical levels of audit and compliance receipts.

In 2008-09, All Funds business tax receipts are projected to increase $144.4 million or 1.9 percent over the prior year. The increase reflects trend growth in underlying business tax receipts, the impact of the final phase-in of a business allocation formula that uses only sales as a factor enacted in 2005, and the impact of 2006-07 tax reductions. This includes Empire Zone benefits for substantial investments in regionally significant projects that are expected to begin reducing receipts in 2008-09.

Other Taxes

General Fund receipts in 2006-07 from other taxes are projected to increase $15 million, or 1.6 percent, to $896 million. Growth of $19 million in estate tax receipts is partially offset by the loss of receipts from the repealed gift tax and real property gains tax. With rate reductions enacted in 2006, pari-mutuel taxes are expected to decline by $1.5 million from 2005-06 levels.

All Funds receipts for other taxes are projected at $1.7 billion in 2006-07, down $124 million, or 6.8 percent, from 2005-06 receipts. The expected decline reflects a $138 million decrease in real estate transfer tax receipts due to an anticipated "cooling" of the downstate real estate market. The decline in real estate transfer tax receipts is partially offset by an anticipated $19 million increase in estate tax receipts. Compared to the Executive Budget estimate, the other taxes receipts projection is down $3.8 million, reflecting the legislative enactment of a pari-mutuel tax reduction.

The All Funds receipts projection for other taxes is $1.8 billion in 2007-08, up $71 million (4.2 percent) from 2006-07 receipts. In 2008-09, other taxes are estimated at $1.8 billion, an increase of $63 million, or 3.6 percent from 2007-08 receipts. Increases in other tax receipts are attributable to continued growth in estate tax receipts.

Miscellaneous Receipts

In the General Fund, miscellaneous receipts include income derived annually from abandoned property, investment earnings, fees, licenses, fines, surcharges, patient income, and reimbursement income. In addition, miscellaneous receipts typically include certain non-recurring transactions. General Fund miscellaneous receipts are projected to total over $2.8 billion in 2006-07, an increase of $817 million from 2005-06. All Funds miscellaneous receipts are expected to increase by $412 million. The large General Fund miscellaneous receipts is offset by expected declines in other funds, largely reflecting the loss of health conversion proceeds.

Federal Grants

General Fund Federal grants are projected to total $9 million in 2006-07, an increase of $9 million from 2005-06.

ENACTED BUDGET TAX LEGISLATION

The table below summarizes the new tax legislation affecting the Financial Plan that was included in the 2006-07 Enacted Budget.

2006-07 New Tax Legislation
(dollars in millions)

TAX REDUCTIONS	2006-07	2007-08	2008-09
Personal Income Tax			
EITC Strengthening Familes	-	(20)	(20)
Eliminate Marriage Penalty (standard deduction only)	-	(50)	(50)
Child Credit	(75)	(625)	(600)
National Guard Exemption	(1)	(1)	(1)
Land Conservation Credits	-	(1)	(2)
Farmer's School Property Tax Credit	-	(10)	(10)
Credit for Volunteer Firefighters	-	-	(20)
STAR			
Enhanced STAR	(72)	-	-
User Taxes and Fees			
Clothing Exemption Return to Permanent	(608)	-	-
Exemption for Admission Charges to Amusement Parks	(1)	(1)	(1)
Sales Tax Vendor Credit	(24)	(54)	(54)
Business Taxes			
Empire Zones Significant Capital Investment	-	-	(33)
Eliminate S Corp Differential Rate	(40)	(40)	(40)
Encourage Alternative Fuel Production - Biofuel	-	(10)	(10)
Brownfields	-	-	-
Commercial Production Credit	-	(7)	(7)
Film Production Credit	(35)	(35)	(35)
Low Income Housing	(4)	(4)	(4)
Marginal Tax Rate for Annuity Premiums	(3)	(3)	(3)
Other Taxes			
Pari-Mutuel Rate and Reductions	(4)	(2)	(2)
TOTAL TAX REDUCTIONS	**(866)**	**(863)**	**(892)**

2006-07 DISBURSEMENTS FORECAST

Total Disbursements (millions of dollars)				
	2005-06 Results*	2006-07 Enacted	Annual $ Change	Annual % Change
General Fund	46,495	50,843	4,348	9.4%
State Funds	69,723	77,100	7,377	10.6%
All Funds	104,341	112,463	8,122	7.8%

*Unaudited

In 2006-07, General Fund spending, including transfers to other funds, is projected to total $50.8 billion, an increase of 9.4 percent over 2005-06 unaudited year-end results. State Funds spending, which includes spending from both the General Fund and other funds supported by dedicated taxes, assessments, tuition revenues, HCRA resources and other non-Federal revenues, is projected to total $77.1 billion in 2006-07. All Funds spending, the broadest measure of the State Budget that includes Federal aid is projected to total $112.5 billion in 2006-07. When adjusted to exclude the incremental increase in the cost of the State Medicaid cap and FHP takeover, both of which provide local property tax and mandate relief, annual spending growth is roughly 7.7 percent in the General Fund, 9.5 percent in State Funds, and 7.1 percent in All Funds.

The major sources of annual spending change between 2005-06 and 2006-07 are summarized in the following table.

Enacted Budget Spending Projections Major Sources of Annual Change (millions of dollars)	General Fund	*Other State Funds*	State Funds	*Federal Funds*	All Funds
2005-06 Results	**46,495**	***23,228***	**69,723**	***34,618***	**104,341**
Major Functions					
Public Health:					
Medicaid	503	*473*	976	*119*	1,095
Public Health (including HCRA)	116	*495*	611	*(73)*	538
K-12 Education:					
School Aid	1,035	*383*	1,418	*16*	1,434
School Construction (EXCEL)	0	*1,800*	1,800	*0*	1,800
All Other Education Aid	253	*32*	285	*52*	337
STAR	0	*83*	83	*0*	83
Enhanced STAR for Seniors	0	*72*	72	*0*	72
STAR Plus	0	*0*	0	*0*	0
Higher Education	716	*455*	1,171	*13*	1,184
Social Services:					
Welfare	(4)	*0*	(4)	*479*	475
Children and Family Services	144	*12*	156	*(408)*	(252)
Mental Hygiene	351	*73*	424	*(35)*	389
Transportation	(88)	*268*	180	*128*	308
General State Charges	438	*67*	505	*37*	542
Debt Service	39	*345*	384	*0*	384
Other Changes					
All Other (Net)*	845	(1,491)	(684)	417	(267)
2006-07 Enacted Budget	**50,843**	**26,295**	**77,100**	**35,363**	**112,463**
Annual Dollar Change	*4,348*	*3,067*	*7,377*	*745*	*8,122*
Annual Percent Change	*9.4%*	*13.2%*	*10.6%*	*2.2%*	*7.8%*

*See detailed table later in this section

The spending forecast for each of the State's major programs and activities follows on a program-by-program basis. In general, the forecasts are described in two parts: the first describes the current services estimate for the 2006-07 fiscal year for each major program or activity; the second summarizes the Enacted Budget actions. The combination of current services spending growth and Enacted Budget actions produce the resulting annual change in spending.

Current services disbursements from 2006-07 have been updated since the Executive Budget as more information has become available. The current services estimates are based on agency staffing levels, program caseloads, formulas contained in State and Federal law, inflation and other factors. The factors that affect spending estimates vary by program. For example, welfare spending is based primarily on anticipated caseloads that are estimated by analyzing historical trends, projected economic conditions, and changes in Federal law. In correctional services, spending estimates are based in part on estimates of the State's prison population, which in turn depend on forecasts of incarceration rates, release rates, and conviction rates. All projections account for the timing of payments, since not all the amounts appropriated in the budget are disbursed in the same fiscal year.

2006-07 General Fund Financial Plan

General Fund Disbursement Projections
(millions of dollars)

	2005-06 Results	2006-07 Enacted	Annual Change	Percent Change
Grants to Local Governments:	**31,287**	**34,210**	**2,923**	**9.3%**
School Aid	13,500	14,535	1,035	7.7%
Medicaid	8,291	8,794	503	6.1%
Higher Education	1,782	2,264	482	27.0%
All Other Education	884	986	102	11.5%
Mental Hygiene (OMR/OMH/OASAS)	1,438	1,563	125	8.7%
Welfare	1,251	1,247	(4)	-0.3%
Children and Families Services	1,251	1,342	91	7.3%
All Other	2,890	3,479	589	20.4%
State Operations:	**8,160**	**9,455**	**1,295**	**15.9%**
Personal Service	5,705	6,902	1,197	21.0%
Non-Personal Service	2,455	2,553	98	4.0%
General State Charges	3,975	4,413	438	11.0%
Debt Service	1,710	1,749	39	2.3%
Capital Projects	267	219	(48)	-18.0%
All Other	1,096	797	(299)	-27.3%
Total Disbursements	**46,495**	**50,843**	**4,348**	**9.4%**

The State projects General Fund disbursements, including transfers to other funds, of $50.8 billion in 2006-07, an increase of $4.3 billion (9.4 percent) over 2005-06 actual results. Increases in Grants to Local Governments, State Operations, and General State Charges are partially offset by a decrease in transfers to other funds. The major components of these disbursement changes are summarized below and are explained in more detail in the section entitled “2006-07 Financial Plan”.

Grants to local Governments include financial aid to local governments and non-profit organizations, as well as entitlement payments to individuals. After the impact of all Enacted Budget actions, local assistance spending is projected at $34.2 billion in 2006-07, an increase of $2.9 billion from the prior year. The largest annual increases are for school aid, Medicaid, and Higher Education, as described earlier.

State Operations accounts for the cost of running the Executive, Legislative, and Judicial branches of government and is projected to total $9.5 billion in 2006-07, an increase of $1.3 billion (15.9 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.

Personal service spending increased $1.2 billion from the prior year. Growth is primarily affected by projected collective bargaining costs, in addition to the use of $150 million in patient income revenues in 2006-07 to offset General Fund non-personal service spending instead of personal service spending, as was done in 2005-06. Salary increases under existing collective bargaining agreements ($306 million), pay raises for judges ($70 million) and staffing increases, primarily in Judiciary and Mental Hygiene, account for the remaining increase. Non-personal service spending, after adjusting for the $150 million patient income revenue reclassification, is projected to grow by $248 million. Inflation ($82 million), SUNY operations ($73 million), and legislative additions including General Fund support of Homeland Security costs previously funded by non-general funds ($30 million), account for majority of the change.

DOB projects the Executive branch workforce will total 191,267 in 2006-07, a decrease of 124 from 2005-06. Tables that summarize the historical, current, and projected workforce levels by All Funds and the General Fund appear in the tables at the end of this section.

General State Charges 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 General State Charges is projected to be $4.4 billion in 2006-07, an increase of $438 million (11.0 percent) over the prior year. This annual increase is due mostly to rising costs of employee health benefits and higher pension contributions.

Transfers to Other Funds are projected to total $2.8 billion in 2006-07 and include General Fund transfers for debt service ($1.7 billion), capital projects ($219 million), and other funds ($797 million).

General Fund transfers for debt service increased by $39 million (2.3 percent) from 2005-06. Transfers to support capital projects are expected to decrease by $48 million, mainly due to timing delays for bond reimbursements. The decline in other funds transfers is largely due to non-recurring transfers from the General Fund in 2005-06 to the Lottery Fund to support a shortfall in receipts ($183 million), and a reduction in transfers to the VLT account ($30 million) to support school aid and SBE spending for 2006-07.

Major assumptions used in preparing the spending projections for the State's major programs and activities are summarized in the following table.

Selected Fiscal Measures That Affect Spending Projections					
	Actual		Forecast		
	2004-05	2005-06*	2006-07	2007-08	2008-09
Economic Indicators					
Base Revenue Growth	12.0%	11.2%	8.2%	5.3%	5.3%
Inflation Rate	3.0%	3.6%	2.8%	2.6%	2.6%
Health					
Medicaid Caseload (excl. FHP)	3,531,938	3,744,808	3,893,762	4,013,762	4,137,460
Medicaid Inflation	4.1%	3.9%	3.8%	3.7%	3.7%
Medicaid Utilization	3.2%	3.7%	3.8%	3.9%	4.0%
State Takeover of County/NYC Costs (in millions)					
- Family Health Plus (in millions)	$60	$289	$528	$573	$573
- Medicaid Cap	N/A	$113	$638	$1,186	$1,844
Education					
School Aid (School Year - in millions)	$15,400	$16,400	$17,600	$18,400	$19,400
K-12 Enrollment	2,850,124	2,826,981	2,810,128	2,810,128	2,810,128
Public Higher Education Enrollment (FTEs)	490,916	496,189	500,070	500,070	500,070
State Tuition Assistance Recipients	336,700	343,881	343,881	343,881	343,881
Social Services					
Family Assistance Caseload	485,500	453,200	441,400	419,200	414,800
Single Adult/No Children Caseload	140,200	146,000	141,700	133,100	132,800
Mental Hygiene Community Beds	81,446	82,948	84,445	86,105	86,943
Prison Population	63,307	62,890	63,100	63,100	63,100
State Operations					
Negotiated Salary Increases (1)	2.5%	2.75%	3.00%	0.0%	0.0%
Personal Service Inflation	0.8%	0.8%	0.8%	0.8%	0.8%
State Workforce	188,925	191,400	191,275	191,675	191,675
General State Charges					
Pension Contribution Rate	7.0%	8.8%	10.2%	10.2%	10.0%
Employee/Retiree Health Insurance Increase	13.5%	8.2%	8.5%	11.4%	11.1%
State Debt					
Interest on Fixed Rate Variable Rate Debt	1.44%	2.65%	3.25%	3.25%	3.30%
Interest on Fixed Rate 30-Year Bonds	5.09%	5.00%	5.65%	6.00%	6.15%

*Preliminary data, subject to revision.

(1) Negotiated salary increases also include a recurring $800 base salary adjustment effective April 1, 2007. Current contracts are generally set to expire on March 31, 2007.

GENERAL FUND FINANCIAL PLAN PROJECTIONS FOR 2007-08 AND 2008-09

IMPACT OF ENACTED BUDGET ON GAP FORECAST

The 2006-07 Enacted Budget, after all legislative actions and veto overrides, results in outyear gaps of $3.7 billion for 2007-08 and $4.3 billion in 2008-09. By contrast, the recommendations set forth in the 2006-07 Executive Budget, if enacted in their entirety, would have resulted in General Fund outyear budget gaps of $1.9 billion in 2007-08 and $3.9 billion in 2008-09.

Enacted Budget receipts are expected to result in roughly 6.0 percent annual base-level growth over the outyears. The small annual change in expected 2007-08 receipts reflects the impact of the tax law changes that will lower receipts. Spending is projected to grow about 8 percent on average through 2008-09, based on the "current services" forecast.

The table below summarizes the impact of the 2006-07 Enacted Budget on the 2007-08 and 2008-09 budget gaps, as well as the annual changes in projected receipts, disbursements, and the use of reserves.

General Fund Financial Plan Projections, 2006-07 through 2008-09
(millions of dollars)

	2006-07	2007-08	Annual Change	2008-09	Annual Change
Enacted Receipts	50,860	51,355	495	53,806	2,451
Enacted Spending	50,843	55,849	5,006	59,145	3,296
Balances/Reserves (Deposit)/Use	(17)	817	834	1,041	224
Enacted Budget Gaps	0	(3,677)		(4,298)	

The following sections present a more detailed view of expected receipts and disbursements in each of the next two outyears, 2007-08 and 2008-09.

Outyear General Fund Receipt Projections

General Fund receipts, including transfers from other funds, are projected to total $51.4 billion in 2007-08, an increase of $495 million from 2006-07 estimates. Receipts are projected to grow by nearly $2.5 billion in 2008-09 to total $53.8 billion. The growth in underlying tax receipts for 2006 through 2008 is consistent with average historical growth during the mature stages of an economic expansion. In general, there is significant uncertainty associated with forecasts of receipts more than 18 months into the future. Overall, the tax receipt projections for the out-years follow the path dictated by our forecast of economic growth. History suggests a large range of potential outcomes around these estimates.

General Fund Receipts Forecast
(millions of dollars)

	2006-07	2007-08	Annual Change	2008-09	Annual Change
Personal Income Tax	23,137	23,914	777	25,691	1,777
User Taxes and Fees	8,323	8,665	342	8,969	304
Business Taxes	5,303	5,385	82	5,504	119
Other Taxes	896	967	71	1,030	63
Miscellaneous Receipts	2,846	2,368	(478)	2,146	(222)
Federal Grants	9	9	0	9	0
Transfers from Other Funds					
Revenue Bond Fund	7,135	7,010	(125)	7,314	304
LGAC Fund	2,208	2,305	97	2,404	99
CW/CA Fund	533	485	(48)	488	3
All Other	470	247	(223)	251	4
Total Receipts	**50,860**	**51,355**	**495**	**53,806**	**2,451**
Annual Percent Change			*1.0%*		*4.8%*

Taxes[8]

In general, income tax growth for 2007-08 and 2008-09 is governed by projections of growth in taxable personal income and its major components, including wages, interest and dividend earnings, realized taxable capital gains, and business net income and income derived from partnerships and S corporations. In addition, recent past and current tax law changes affect year-over-year comparisons.

General Fund income tax receipts are projected to increase by $777 million to just over $23.9 billion in 2007-08. The change from 2006-07 reflects the impact of the elimination of the temporary surcharge on the growth in base liabilities, and the full-year impact of the Enacted Budget tax reductions discussed above. General Fund PIT receipts for 2008-09 are projected to increase by $1.8 billion to $25.7 billion, reflecting growth in liability that is consistent with an expanding personal income base during a period of expected economic growth.

The 2007-08 and 2008-09 projections also assume increases in the other major components of income, consistent with continued growth in the overall economy.

General Fund user taxes and fees receipts for 2007-08 are projected to reach $8.7 billion, an increase of $343 million, or 4.1 percent, from 2006-07. Sales tax receipts are projected to increase $327 million,

[8] See Exhibit B in this AIS for more information on the State's principal taxes and fees.

or 4.2 percent due to a modest growth and in the base of the sales tax. Other user taxes and fees in the General Fund are projected to be virtually unchanged from 2006-07.

General Fund user taxes and fees are expected to grow to $9.0 billion in 2008-09. The economy is expected to continue to grow at trend rates over this period, resulting in sales tax growth consistent with historical averages.

General Fund business tax receipts are expected to increase to $5.4 billion in 2007-08 and to $5.5 billion in 2008-09 reflecting trend growth in business tax receipts and the continued impact of the 2006-07 tax reductions described above.

General Fund receipts from other taxes are expected to increase to $967 million in 2007-08 and $1.0 billion in 2008-09, primarily reflecting continued growth in estate tax receipts.

Miscellaneous Receipts

General Fund miscellaneous receipts in 2007-08 are projected to be nearly $2.4 billion, down $478 million from the current year. This decrease is primarily the result of the loss of certain receipts from public authorities. In 2008-09, General Fund miscellaneous receipts collections are projected to be over $2.1 billion, down $222 million from 2007-08. This decrease results from expected declines in licenses and fees, the loss of bond issuance charges from the base, and a decrease in the value of the local government revenue and disbursement program.

Transfer from Other Funds

Transfers from other funds are estimated to decline $300 million to $10.0 billion in 2007-08, and grow to $10.5 billion in 2008-09. In 2007-08, the projected decline is due to increases in debt service related to PIT Revenue Bonds, LGAC Bonds and Clean Water/Clean Air general obligation debt service ($404 million), the decline in real estate tax receipts ($40 million) and the decline in all-other transfers (225 million) due in part to the loss of non-recurring fund sweeps. These variances are partially offset by projected increases in PIT and sales tax receipts ($368 million). In 2008-09, transfers are projected to grow due primarily to the net increase of tax receipts ($695 million) in excess of debt service payments on revenue bonds ($290 million).

Outyear General Fund Disbursement Projections

General Fund Disbursement Projections (millions of dollars)					
	2006-07	**2007-08**	**Annual Change**	**2008-09**	**Annual Change**
Grants to Local Governments:	**34,210**	**38,158**	**3,948**	**41,051**	**2,893**
School Aid	14,535	15,093	558	15,626	533
Medicaid	8,794	11,578	2,784	13,578	2,000
Welfare	1,247	1,420	173	1,417	(3)
Mental Hygiene (OMR/OMH/OASAS)	1,563	1,731	168	1,850	119
Higher Education	2,264	2,367	103	2,439	72
Children and Families Services	1,342	1,457	115	1,530	73
Public Health	618	713	95	741	28
Local Government Assistance	1,177	1,224	47	1,219	(5)
Education -All Other	1,700	1,593	(107)	1,646	53
All Other	970	982	12	1,005	23
State Operations:	**9,455**	**9,616**	**161**	**9,883**	**267**
Personal Service	6,902	6,919	17	7,017	98
Non-Personal Service	2,553	2,697	144	2,866	169
General State Charges	**4,413**	**4,742**	**329**	**5,024**	**282**
Pensions	1,222	1,236	14	1,214	(22)
Health Insurance	2,389	2,682	293	2,963	281
All Other	802	824	22	847	23
Transfers to Other Funds:	**2,765**	**3,333**	**568**	**3,187**	**(146)**
Debt Service	1,749	1,768	19	1,750	(18)
Capital Projects	219	242	23	239	(3)
All Other	797	1,323	526	1,198	(125)
Total Disbursements	**50,843**	**55,849**	**5,006**	**59,145**	**3,296**
Annual Percent Change			*9.8%*		*5.9%*

DOB forecasts General Fund "current services" spending of $55.9 billion in 2007-08, an increase of $5.0 billion (9.9 percent) over the 2006-07 Enacted expenditure level, while 2008-09 growth is projected at $3.3 billion (5.9 percent). The growth levels are derived from estimates of outyear current service projections based on the 2006-07 Enacted Budget. The main sources of annual spending growth for 2007-08 and 2008-09 are itemized in the above table.

GRANTS TO LOCAL GOVERNMENTS

Annual growth in local assistance is driven primarily by Medicaid and school aid. The following table summarizes some of the factors that affect the local assistance projections over the Financial Plan period.

Forecast for Selected Program Measures Affecting Local Assistance

	Actual		Forecast		
	2004-05	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Medicaid					
Medicaid Coverage (excl. FHP)	3,531,938	3,744,808	3,893,762	4,013,762	4,137,460
Medicaid Inflation	4.1%	3.9%	3.8%	3.7%	3.7%
Medicaid Utilization	3.2%	3.7%	3.8%	3.9%	4.0%
State Takeover of County/NYC Costs					
- Family Health Plus (in millions)	$60	$289	$528	$573	$573
- Medicaid	N/A	$113	$638	$1,186	$1,844
Education					
School Aid (School Year - in millions)	$15,400	$16,400	$17,600	$18,400	$19,400
K-12 Enrollment	2,850,124	2,826,981	2,810,128	2,810,128	2,810,128
Public Higher Education Enrollment (FTEs)	490,916	496,189	500,070	500,070	500,070
TAP Recipients	336,700	343,881	343,881	343,881	343,881
Welfare					
Family Assistance Caseload	485,500	453,200	441,400	419,200	414,800
Single Adult/No Children Caseload	140,200	146,000	141,700	133,100	132,800
Mental Hygiene					
Mental Hygiene Community Beds	81,446	82,948	84,445	86,105	86,943

School Aid

On a school year basis, school aid (including funding for SBE Aid) is projected at $18.4 billion in 2007-08 and $19.4 billion in 2008-09. Growth of $800 million in 2007-08 and $1.0 billion in 2008-09 reflects traditional school aid increases ($500 million in each of 2007-08 and 2008-09), and growth in SBE Aid ($300 million in 2007-08 and $500 million in 2008-09). SBE Aid is projected to increase from $700 million in 2006-07 to $1.0 billion in 2007-08 and $1.5 billion in 2008-09.

On a State fiscal year basis, General Fund school aid spending is projected to grow by approximately $558 million in 2007-08 and $533 million in 2008-09. This growth is attributable to Building Aid (roughly $100 million in 2007-08 and 2008-09); special education cost increases (approximately $125 million in 2007-08 and 2008-09); Transportation Aid (roughly $125 million in 2007-08 and 2008-09) and growth in other aid categories. Outside of the General Fund, revenues from the general lottery are projected to increase slightly (by $36 million in 2007-08 and $65 million in 2008-09) and VLT revenues are projected to increase by $462 million in 2007-08 and another $245 million in 2008-09. Outyear VLT estimates assume the start of new operations at two racetracks, Yonkers (in September 2006) and Aqueduct (in October 2007).

The recently enacted $2.6 billion EXCEL school construction program, which authorizes State bonding for school construction throughout the State, is projected to total $1.8 billion in 2006-07 and $400 million each year in 2007-08 and 2008-09. Of the $2.6 billion, $1.8 billion is for New York City, $400 million will go to "high-needs" school districts, while the remaining $400 million will go to all other school districts based on a per-pupil formula. These districts will be able to use the EXCEL aid to help cover the local taxpayer share of costs for new school building projects.

School districts will be able to use EXCEL funds either in lieu of building aid (provided as part of school aid) or as a supplement to building aid. To the extent that New York City and other school districts use EXCEL funds in lieu of building aid, projected building aid growth could be somewhat dampened as a result of the new EXCEL program. To the extent that EXCEL funds are used in conjunction with building aid to fully fund local school construction costs, there could be an acceleration in school construction that may produce an eventual increase in projected building aid growth. However, any such potential increase in State building aid over the next two to five years should be relatively modest due to: school districts using EXCEL funds to offset the recent construction materials cost increases that may exceed maximum cost allowances; the lead time needed to plan and implement school construction programs; the finite capacity of local school districts to undertake school construction programs; the payment of building aid on an assumed amortization basis; and the lag in initial building aid payments until at least 18 months after construction plans have been approved by the State Education Department (for school districts other than New York City).

Medicaid

General Fund spending for Medicaid, after the impact of 2006-07 Enacted Budget actions, is expected to grow by roughly $2.8 billion in 2007-08 and another $2.0 billion in 2008-09. This growth results, in part, from the combination of more recipients, higher service utilization, and medical-care cost inflation, including prescription drug prices. These factors are projected to add about $1.0 billion in 2007-08 and $1.5 billion in 2008-09. In addition, the savings for cost avoidance initiatives achieved through gubernatorial vetoes included in 2006-07 will expire. This increases costs by approximately $900 million in 2007-08 and $800 million in 2008-09 of which roughly $220 million is attributed to the expiration of legislation which would prevent cost shifting from Medicare Part D to the State Medicaid program. The remaining growth is primarily attributed to the State cap on local Medicaid costs and takeover of local FHP costs growing from $1.1 billion in 2006-07 to $1.7 billion in 2007-08 and to $2.4 billion in 2008-09. These projections also include the expiration of nursing home assessments ($258 million in both 2007-08 and 2008-09). In addition, the Financial Plan includes a transfer from the General Fund (excluded from these projections) to provide support for HCRA in the outyears ($627 million in 2007-08 and $486 million in 2008-09).

DOB projects the average number of Medicaid recipients will grow to 4 million in 2007-08, an increase of 2.6 percent over the estimated 2006-07 caseload of almost 3.9 million. FHP enrollment is estimated to grow to approximately 748,000 in 2007-08, an increase of 14 percent over projected 2006-07 enrollment of 658,000.

Welfare

Welfare spending, including administration, is projected at $1.4 billion in 2007-08, an increase of $173 million (13.9 percent) from 2006-07. Although the caseloads for family assistance and single adult/childless couples are projected to decline (5 percent and 6.1 percent, respectively), increased use of TANF for employment-related initiatives is expected to reduce the amount of TANF available to support General Fund public assistance spending.

Other Local

All other local assistance programs total $10.1 billion in 2007-08, an increase of $433 million (4.5 percent) over 2006-07 Enacted Budget levels. This increase consists primarily of growth in mental health and mental retardation programs ($168 million), children and families services ($115 million), higher education ($103 million), public health ($95 million), and local government assistance ($47 million).

Forecast of Selected Program Measures Affecting State Operations					
	2004-05	2005-06	2006-07	2007-08	2008-09
State Operations					
Prison Population (Corrections)	63,307	62,890	63,100	63,100	63,100
Negotiated Salary Increases (1)	2.5%	2.75%	3.00%	0.0%	0.0%
Personal Service Inflation	0.8%	0.8%	0.8%	0.8%	0.8%
State Workforce	188,925	191,400	191,275	191,675	191,675

(1) Negotiated salary increases include a recurring $800 base salary adjustment effective April 1, 2007.

State Operations

State Operations spending in the General Fund is expected to total $9.6 billion in 2007-08, an annual increase of $161 million (1.7 percent). In 2008-09, spending is projected to grow by another $267 million to a total of $9.9 billion (2.8 percent). In 2007-08, personal service costs increase with an $800 base salary adjustment effective April 1, 2007, and both years reflect longevity and other related salary increases. Offsetting the personal service growth from 2006-07 to 2007-08 is the retroactive component associated with the NYSCOPBA award, which does not recur in 2007-08. As noted, there is no provision for additional collective bargaining costs in 2007-08 or 2008-09.

General State Charges (GSCs)

Forecast of Selected Program Measures Affecting General State Charges					
	2004-05	2005-06	2006-07	2007-08	2008-09
General State Charges					
Pension Contribution Rate	7.0%	8.8%	10.2%	10.2%	10.0%
Employee/Retiree Health Insurance Rate	13.5%	8.2%	8.5%	11.4%	11.1%

GSCs are projected to total $4.7 billion in 2007-08 and $5 billion in 2008-09. The annual increases are due mainly to anticipated cost increases in health insurance for State employees and retirees.

The State's pension contribution rate to the New York State and Local Retirement Systems is expected to remain at 10.2 percent in both 2006-07 and 2007-08 with a decline to 10.0 percent in 2008-09. Spending for employee and retiree health care costs is expected to increase by $293 million in 2007-08 and another $281 million in 2008-09, and assumes average annual premium increases of 11 percent. Health insurance is projected at $2.7 billion in 2007-08 ($1.6 billion for active employees and $1.0 billion for retired employees) and $3.0 billion in 2008-09 ($1.8 billion for active employees and $1.2 billion for retired employees).

Transfers to Other Funds

Forecast of Selected Program Measures Affecting Debt Service					
	2004-05	2005-06	2006-07	2007-08	2008-09
State Debt					
Interest on Variable Rate Debt	1.44%	2.65%	3.25%	3.25%	3.30%
Interest on Fixed Rate 30-Year Bonds	5.09%	5.00%	5.65%	6.00%	6.15%

Transfers to other funds are estimated to total $3.3 billion in 2007-08 and $3.2 billion in 2008-09. The $568 million increase in 2007-08 is largely due to a $627 million transfer to HCRA as a result of the denial of the proposed cigarette tax increase. This transfer is expected to decline by $141 million in 2008-09 and accounts for the All Other decline of $125 million. Debt service transfers from the General Fund are projected to remain stable primarily because increases in debt service costs are reflected in State Funds due to the accounting treatment of the personal income tax revenue bond program.

2006-07 Governmental Funds Financial Plan

(By Fund Type - Excluding General Fund)

This section summarizes the 2006-07 Financial Plan from the perspective of the three major fund types outside the General Fund that comprise the All Funds budget: Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

Special Revenue Funds

Special Revenue Funds receive dedicated State and Federal revenues used to finance specific activities. They are intended to be self-supporting, with receipts equaling or exceeding disbursements. However, when statutorily authorized, specified funds and accounts may borrow from the State's Short-Term Investment Pool to cover temporary cash shortfalls resulting from the timing of receipts and disbursements (i.e., disbursements occurring prior to receipts being received).

In 2006-07, the Special Revenue Funds Cash Financial Plan projects total receipts of $52.7 billion, total disbursements of $54.3 billion, net other financing sources of $313 million, and use of fund balances of $1.3 billion, resulting in a closing fund balance of $2.9 billion. The use of fund balances consists primarily of health care conversion proceeds available in 2005-06 that will be used to support HCRA programs in 2006-07 ($1.0 billion).

Receipts

Special Revenue Funds Receipts (millions of dollars)				
	2005-06 Results	2006-07 Enacted	Annual Change	Percent Change
Taxes	6,057	6,249	192	3.2%
Miscellaneous Receipts	13,767	12,575	(1,192)	-8.7%
Federal Grants	33,363	33,868	505	1.5%
Total Receipts	**53,187**	**52,692**	**(495)**	**-0.9%**

Total 2006-07 Special Revenue Fund receipts are projected to decline by $495 million from the prior-year forecast. This change is comprised of a decline in miscellaneous receipts offset by increases in Federal grants and taxes. The major components of these receipt changes are summarized below.

Tax receipts growth primarily includes additional taxes dedicated to support the STAR program, resulting from program growth and a newly enacted cost-of-living adjustment for seniors and growth in tax receipts dedicated to Mass Transit and the Dedicated Mass Transportation Trust Fund. The annual decline in miscellaneous receipts is primarily due to the receipt of $2.2 billion of health care conversion proceeds in 2005-06 that will be used to support State Medicaid and other public health care costs. Changes to Federal grants generally correspond to changes in federally reimbursed spending. However, since Federal reimbursement is assumed to be received in the State fiscal year in which spending occurs, timing-related variances may result.

Disbursements

Special Revenue Funds Disbursements
(millions of dollars)

	2005-06 Results	2006-07 Enacted	Annual Change	Percent Change
Grants to Local Governments	**43,010**	**45,054**	**2,044**	**4.8%**
Medicaid	21,919	22,512	593	2.7%
School Aid	5,051	5,418	367	7.3%
STAR	3,213	3,368	155	4.8%
Transportation	2,232	2,312	80	3.6%
Social Services	4,263	4,328	65	1.5%
Public Health	3,004	3,441	437	14.5%
Mental Hygiene	1,365	1,423	58	4.2%
All Other	1,963	2,252	289	14.7%
State Operations	**8,217**	**8,366**	**149**	**1.8%**
Personal Service	4,946	4,931	(15)	-0.3%
Non-Personal Service	3,271	3,435	164	5.0%
General State Charges	**760**	**864**	**104**	**13.7%**
Capital Projects	**41**	**2**	**(39)**	**-95.1%**
Total Disbursements	**52,028**	**54,286**	**2,258**	**4.3%**

Total Special Revenue Fund disbursements are projected to be $54.3 billion, an increase of $2.3 billion (4.3 percent) from the prior year. The major changes in disbursements are summarized below and are explained in more detail in the section entitled “2006-07 Disbursements Forecast.”

Grants to Local Governments are projected to increase $2.0 billion from 2005-06. Sources of growth in major programs include higher spending in Medicaid, public health, STAR, and school aid. All other changes consist of growth in Federal spending for homeland security ($188 million) and implementation of the Help America Vote Act ($190 million).

State Operations disbursements are projected to increase $149 million from 2005-06. Annual growth in personal service and non-personal service amount to $135 million and $14 million, respectively, after adjusting for the reclassification of spending from personal service to non-personal service. Spending increases are the result of collective bargaining agreements and performance advances ($134 million) and inflation ($94 million), offset by a decline in non-personal service spending supported by HCRA resulting from a technical change in the categorization of costs ($85 million).

Disbursements for General State Charges are expected to increase $104 million from the prior year. Growing employer pension contributions and higher health insurance costs account for most of the annual growth in General State Charges.

OTHER FINANCING SOURCES/(USES)

Special Revenue Funds Other Financing Sources/(Uses)
(millions of dollars)

	2005-06 Results	2006-07 Enacted	Annual Change	Percent Change
Transfers From Other Funds	3,856	3,600	(256)	-6.6%
Transfers To Other Funds	(2,826)	(3,287)	(461)	16.3%
Net Other Financing Sources/(Uses)	**1,030**	**313**	**(717)**	**-69.6%**

Transfers from other funds are projected to total $3.6 billion, a decrease of $256 million (6.6 percent) from the prior year. Non-recurring transfers from the General Fund to the Lottery Fund to support a shortfall in receipts ($183 million) and a decrease in SUNY transfers ($110 million) accounts for the majority of the change.

Transfers to other funds are estimated at $3.3 billion, an increase of $461 million (16.3 percent) from 2005-06. The annual growth is due to increased capital spending for HEAL-NY supported by HCRA ($64 million), an increase in Federal Medicaid reimbursement for Mental Hygiene services before payment of debt service ($196 million), a transfer from the Revenue Arrearage Account to the General Fund ($50 million); the receipt of Federal Medicare Part D moneys ($60 million), transfers from DCJS accounts to support General Fund programs including Operation IMPACT, and aid for crime labs, prosecution and defense programs ($49 million) and an increase in transfers expected from the Tribal State Compact Account ($28 million).

CAPITAL PROJECTS FUNDS

The following section summarizes action on spending from the Capital Projects Fund type. A more complete explanation of the State's capital and debt programs are included in the Enacted Budget Five-Year Capital Program and Financing Plan.

The Capital Projects Fund group includes spending from the Capital Projects Fund, which is supported by a General Fund transfer, and spending from other funds for specific purposes, such as transportation, environment, economic development, health, education, public protection, and mental health.

The following capital projects tables reflect accounting adjustments for capital projects activity for certain capital spending that is not currently reported in actual cash spending results, but is reported in the State's GAAP Financial Statements. This spending relates to programs which are financed directly from bond proceeds, totaled $1.0 billion in 2005-06 and is projected at $3.1 billion in 2006-07. Spending for EXCEL, the new school construction program is anticipated to total $1.8 billion in fiscal year 2006-07.

Receipts

Capital Projects Funds Receipts (millions of dollars)				
	2005-06 Results	**2006-07 Enacted**	**Annual Change**	**Percent Change**
Taxes	1,941	2,066	125	6.4%
Miscellaneous Receipts	2,731	5,681	2,950	108.0%
Federal Grants	1,766	1,730	(36)	-2.0%
Total Receipts	**6,438**	**9,477**	**3,039**	**47.2%**
GAAP Adjustment	(1,017)	(3,101)	(2,084)	204.9%
Financial Plan Total	**5,421**	**6,376**	**955**	**17.6%**

Total Capital Projects Fund receipts include dedicated tax receipts from highway-related taxes deposited into the Dedicated Highway and Bridge Trust Fund, and real estate transfer taxes deposited into EPF. Miscellaneous receipts include bond proceeds that finance capital projects across all functional areas, as well as other dedicated fees, such as State park fees. Federal grants reflect reimbursements for State spending advanced pursuant to agreements with various Federal agencies.

Taxes

Taxes deposited to the Capital Projects Fund are projected to be almost $2.1 billion in 2006-07, an increase of $125 million (6.4 percent) from 2005-06. The projected growth reflects increases in highway-related taxes deposited to the Dedicated Highway and Bridge Trust Fund and a statutory increase of $35 million in 2006-07 from the portion of the real estate transfer tax dedicated to EPF.

Miscellaneous Receipts

Miscellaneous receipts are projected to total almost $5.7 billion in 2006-07, an increase of almost $3 billion from 2005-06. The projected increase is driven primarily by increases for projects for education ($2.2 billion), transportation ($361 million), parks and environment ($105 million), and economic development ($91 million) financed with public authority bond proceeds, and for timing related year-to-year shifts of authority bond proceeds reimbursements resulting from delayed or deferred 2005-06 bond sales.

Federal Grants

Federal grants are estimated at approximately $1.7 billion in 2006-07, virtually unchanged from the amount for 2005-06.

Disbursements

Capital Projects Funds Disbursements (millions of dollars)	2005-06 Results	2006-07 Enacted	Annual Change	Percent Change
Transportation	3,215	3,530	315	9.8%
Parks and Environment	500	615	115	23.0%
Economic Development and Gov't Oversight	501	532	31	6.2%
Health and Social Welfare	154	206	52	33.8%
Education (mostly SUNY/CUNY)	725	1,190	465	64.1%
EXCEL	0	1,800	1,800	N/A
Public Protection	285	323	38	13.3%
Mental Hygiene	355	357	2	0.6%
General Government	116	145	29	25.0%
Other	298	351	53	17.8%
Total Disbursements	**6,149**	**9,049**	**2,900**	**47.2%**
GAAP Adjustment	(1,017)	(3,101)	(2,084)	204.9%
Financial Plan Total	**5,132**	**5,948**	**816**	**15.9%**

Spending from the Capital Projects Fund (prior to adjustments) is projected to total almost $9.1 billion in 2006-07, an increase of $2.9 billion. The majority of the increase is for programs in education ($2.3 billion), Transportation ($315 million), and parks and environment ($115 million).

Other Financing Sources/(Uses)

Capital Projects Funds Other Financing Sources/(Uses) (millions of dollars)	2005-06 Results	2006-07 Enacted	Annual Change	Percent Change
Transfers From Other Funds	279	341	62	22.2%
Transfers To Other Funds	(877)	(844)	33	-3.8%
Bond Proceeds	159	236	77	48.4%
Net Other Financing Sources/(Uses)	**(439)**	**(267)**	**172**	**-39.2%**

Transfers from other funds are estimated at $341 million in 2006-07, an increase of $62 million from 2005-06. The change is attributable primarily to the increase of $64 million transfer from HCRA directly to the Capital Projects Fund to finance anticipated non-bondable spending for HEAL NY, offset by reestimates for other programs.

Capital Projects Fund transfers to other funds declined from 2005-06 ($877 million) to 2006-07 ($844 million) and reflect primarily initial debt service savings resulting from the refinancing of Dedicated Highway and Bridge Trust Fund bonds.

On this table, bond proceeds reflect General Obligation bonds which are issued pursuant to voter approval, as opposed to bonds issued for the State by public authorities pursuant to contractual agreements. The $236 million estimate for 2006-07 is $77 million higher than the estimate for 2005-06 and primarily reflects the first full year of spending activity for the recently approved Rebuild and Renew New York 2005 General Obligation bonds.

DEBT SERVICE FUNDS

The following section briefly summarizes activity in the Debt Service Funds type. Debt Service Funds are used to account for all receipts, transfers and debt service payments made on State-supported bonds. State-supported bonds include general obligation bonds, for which the State is constitutionally obligated to pay debt service, as well as bonds issued by State public authorities (e.g., Empire State Development Corporation, Dormitory Authority of the State of New York, Thruway Authority, Local Government Assistance Corporation) for which the State is contractually obligated to pay debt service, subject to an appropriation. Debt service is paid through transfers from the General Fund, dedicated taxes and fees, and other resources, such as patient income revenues.

Total receipts in the debt service funds are projected at $11.6 billion in 2006-07. Disbursements for debt service and related expenses are expected to total $4.2 billion. Receipts in excess of those required to satisfy the State's debt service obligations are transferred to the General Fund or to other funds to support capital or operating disbursements.

Receipts

Debt Service Funds Receipts (millions of dollars)

	2005-06 Results	2006-07 Enacted	Annual Change	Percent Change
Taxes	10,341	10,932	591	5.7%
Miscellaneous Receipts	745	665	(80)	-10.7%
Total Receipts	**11,086**	**11,597**	**511**	**4.6%**

Total Debt Service Funds receipts are projected to be $11.6 billion, an increase of $511 million (4.6 percent) from 2005-06. The annual growth is due to increases in dedicated taxes ($591 million) offset by a modest decrease in miscellaneous receipts ($80 million). These changes are described in more detail below.

Taxes

The $591 million (5.7 percent) increase in taxes deposited to the Debt Service Funds is attributable to growth in dedicated personal income tax receipts deposited to the Revenue Bond Tax Fund ($813 million), offset by reduced sales and use taxes deposited to the Local Government Assistance Tax Fund ($48 million) and real estate transfer taxes deposited to the Clean Water/Clean Air Fund ($173 million). Starting in 2006-07, an additional portion of the real estate transfer tax deposits will be redirected to the EPF to further support environmental programs.

Miscellaneous Receipts

The projected $80 million decrease from 2005-06 is due to reduced receipts from SUNY dormitory fees ($27 million) and less patient income for mental hygiene and health facilities ($56 million), as offset by slightly higher receipts supporting general obligation housing bonds ($2 million).

Disbursements

Debt Service Funds Disbursements (millions of dollars)				
	2005-06 Results	2006-07 Enacted	Annual Change	Percent Change
General Debt Service Fund	2,573	2,885	312	12.1%
Dedicated Highway Fund	474	458	(16)	-3.4%
LGAC	321	358	37	11.5%
Mental Hygiene	288	333	45	15.6%
All Other	103	117	14	13.6%
Total Disbursements	**3,759**	**4,151**	**392**	**10.4%**

Total disbursements from the Debt Service Funds are projected to increase from $3.8 billion in 2005-06 to $4.2 billion in 2006-07. The increase primarily reflects higher debt service costs associated with supporting ongoing bonded capital needs, as well as the early debt service impacts of the $3.8 billion of new bond-financed capital included in the Enacted Budget. This includes $2.6 billion for school construction (EXCEL), $750 million for SUNY and CUNY, $390 for economic development, $43 million for environmental purposes, $25 million for housing, and $15 million for library construction.

Offsetting these increases are several savings initiatives being implemented with the 2006-07 Enacted Budget, which are expected to reduce debt service costs by about $50 million. Of this, approximately $15 million was realized with the Governor's 30-Day Amendments, leaving $35 million yet to be achieved. Specifically, the State will continue to use PIT revenue bonds (recently upgraded to S&P's highest rating of AAA) to finance a variety of capital programs; maximize savings opportunities using available swaps capacity; employ less costly variable rate debt if market conditions are favorable; and use the $250 million deposited to the Debt Reduction Reserve Fund (DRRF) to reduce State debt levels.

General Debt Service Fund

Spending from the General Debt Service Fund is projected to increase by $312 million (12.1 percent). As the State continues to transition from State appropriation backed bonds to PIT revenue bonds to finance its capital needs, spending in the General Debt Service Fund will decline, while spending in the Revenue Bond Tax Fund will increase proportionally.

Dedicated Highway and Bridge Trust Fund

Spending from the Dedicated Highway and Bridge Trust Fund, which the Comptroller reclassifies to the General Debt Service Fund, is projected to decrease by $16 million (3.4 percent) in 2005-06. This primarily reflects the continuing impact of the 2005 restructuring of existing bonds to better match the projects' useful lives.

LGAC

The LGAC Tax Fund is projected to receive $2.6 billion in 2006-07 from the dedicated one-cent statewide sales tax. Debt service and related costs on LGAC bonds are projected at $358 million in 2006-07, an increase of $37 million (11.5 percent) from the current year. Local aid payments due to the State Tax Asset Receivable Corporation are paid from the Local Government Assistance Tax Fund after all LGAC debt and related obligations are met, and are reflected in the local assistance portion of the Financial Plan.

MENTAL HYGIENE

Patient income revenues of $2.9 billion deposited and transferred to the Mental Health Services Fund, will satisfy debt service obligations of $333 million in 2006-07. Debt service and related costs for this program are projected to increase by $45 million (15.5 percent) from 2005-06 levels. This increase is driven by new issuances to support the Mental Hygiene capital program coupled with lower recurring refunding savings.

ALL OTHER

This category includes debt service spending from the Health Income Fund, Housing Debt Fund, and the SUNY Dormitory Income Fund. The $14 million increase in spending from 2005-06 is largely attributable to increased debt service for SUNY dormitory bonds.

Debt Service Funds Other Financing Sources/(Uses)
(millions of dollars)

	2005-06 Results	2006-07 Enacted	Annual Change	Percent Change
Transfers From Other Funds	5,168	5,386	218	4.2%
Transfers To Other Funds	(12,458)	(12,808)	(350)	2.8%
Net Other Financing Sources/(Uses)	**(7,290)**	**(7,422)**	**(132)**	**1.8%**

OTHER FINANCING SOURCES/(USES)

The increase in transfers from other funds compared to 2005-06 ($218 million) reflects increased transfers from the Federal Health and Human Services Special Revenue Funds to the Mental Health Services Fund ($196 million), along with higher transfers from the Dedicated Highway and Bridge Trust Fund ($21 million), the General Fund ($39 million), SUNY Operations ($9 million), and the Centralized Services Fund ($17 million) to the General Debt Service Fund and Revenue Bond Tax Fund, and modest net decreases in other transfers ($64 million).

The $350 million (2.8 percent) increase in transfers to other funds from 2005-06 reflects the excess beyond the debt service due on State PIT Revenue Bonds from the Revenue Bond Tax Fund ($635 million) offset by reduced transfers to the General Fund from and the Local Government Assistance Tax Fund ($86 million), the Clean Water Debt Service Fund ($182 million), and others ($17 million).

RESERVES

The State's General Fund reserves total $3.3 billion at the end of 2005-06, with nearly $1 billion in undesignated reserves available to deal with unforeseen contingencies and $2.3 billion designated for subsequent use. Reserves are expected to be $3.2 billion at the end of 2006-07, with $2.3 billion designated for future use and $1 billion in undesignated reserves.

The $2.3 billion of reserves designated for future use includes $1.8 billion in a spending stabilization reserve (the Financial Plan projects the reserve will be used in equal installments in 2007-08 and 2008-09), and $276 million to fund existing member item programs from the Community Projects Fund. Another $250 million is currently reflected in reserves in 2006-07 for debt reduction, but is expected to be used in 2006-07 to eliminate high cost debt.

The $1 billion of undesignated reserves includes $944 million in the Rainy Day Reserve, after the maximum deposit of $72 million in 2005-06, and $21 million in the Contingency Reserve Fund for litigation risks. The Rainy Day Reserve is currently at its statutory maximum balance of 2 percent, and can be used only to respond to unforeseen mid-year budget shortfalls.

General Fund Estmated Closing Balance 2006-07
(dollars in millions)

	2006-07		
	30-Day	***Change***	**Enacted**
Closing Fund Balance	**3,833**	***(559)***	**3,274**
General Reserves			
Statutory Rainy Day Reserve Fund	945	*(1)*	944
Contingency Reserve Fund	21	*0*	21
Designated Reserves			
Spending Stabilization Reserve	2,106	*(323)*	1,783
Collective Bargaining Reserve	275	*(275)*	0
Debt Reduction Reserve	250	*0*	250
Community Projects Fund	236	*40*	276

Aside from the reserves noted above, the 2006-07 Financial Plan does not set aside specific reserves to cover potential costs that may materialize from economic and revenue risks, potential adverse rulings in pending litigation, future collective bargaining agreements with State employee unions, Federal disallowances, or other Federal actions that could adversely affect the State's projections of receipts and disbursements.

Cash Flow Forecast

In 2006-07, the General Fund is projected to have quarterly-ending balances of $4.5 billion in June 2006, $5.5 billion in September 2006, $3.7 billion by the end of December 2006, and $3.3 billion at the end of March 2007. The lowest projected month-end cash flow balance is the $3.3 billion in March. The 2006-07 General Fund cash flow estimates all final Enacted Budget actions including vetoes, veto overrides and chapter amendments as known at the time of this report. DOB's detailed monthly cash flow projections for 2006-07 are set forth in the Financial Plan tables at the end of this section.

The Office of the State Comptroller (OSC) invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments through the Short-Term Investment Pool (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.

OSC is authorized to make short-term loans from STIP to cover temporary cash needs 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).

GAAP-Basis Financial Plans/GASB 45

In addition to the cash-basis Financial Plans, the General Fund and All Funds Financial Plans are prepared on a basis of GAAP in accordance with Governmental Accounting Standards Board (GASB) regulations. Tables comparing the cash basis and GAAP basis General Fund Financial Plans are provided at the end of this Financial Plan. The GAAP projections for both years are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2004-05.

In 2005-06, the General Fund GAAP Financial Plan shows total revenues of $40.9 billion, total expenditures of $48.8 billion, and net other financing sources of $9.8 billion, resulting in an operating surplus of $1.9 billion, increasing the 2004-05 accumulated surplus of $546 million to a projected accumulated surplus of $2.4 billion. The operating results primarily reflect the moneys set aside in a spending stabilization reserve.

In 2006-07, the General Fund GAAP Financial Plan shows total revenues of $41.1 billion, total expenditures of $54.1 billion, and net other financing sources of $11.4 billion, resulting in an operating deficit of $1.5 billion and a projected accumulated surplus of $881 million. These changes are due primarily to the impact of enacted tax reductions on revenue accruals and a partial use of the 2005-06 surplus in 2006-07. The projected accumulated surplus of $881 million is roughly $300 million higher than 2004-05 actuals.

The GAAP basis results for 2004-05 showed the State in a net positive overall financing condition of $43.8 billion. The net positive financial condition of $43.8 billion is before the State reflects the impact of GASB 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions". GASB 45 requires State and local governments to reflect the value of post-employment benefits, predominately health care, for current employees and retirees. The State has hired an independent actuarial consulting firm to complete the analysis of retiree health care liabilities, and expects to have results available later in the fiscal year. The value of these benefits will be reflected in the 2007-08 fiscal year GAAP-basis financial statements. It is expected that these costs may be substantial, and could significantly reduce or even potentially eliminate the current net positive condition.

DOB's GAAP Financial Plan tables for 2005-06 and 2006-07 are in the Financial Plan tables at the end of this section. Detailed GAAP Financial Plans for 2005-06 through 2008-09 can be found in the 2006-07 Enacted Budget Report, in the sections entitled "Financial Plan Tables" and "Supplemental Financial Plan Information".

Health Care Reform Act (HCRA) Financial Plan

The 2005-06 Enacted Budget extended the HCRA authorization through June 30, 2007, and created a new HCRA Resources Fund. As a result, all of HCRA is now "on budget" (i.e., accounted for in the All Governmental Funds Financial Plan). Prior to 2005-06, roughly 25 percent of spending (about $900 million in 2004-05) financed through HCRA was "off budget" (i.e., outside the Financial Plan). HCRA spending can be found in the following functions: Medicaid, Public Health, the State Office for the Aging, and the Office of Mental Health.

OVERVIEW

HCRA was established in 1996 to improve the financing system for hospitals and consolidate a range of health care expansion programs. Subsequent extensions and modifications of HCRA enabling legislation have initiated new health care programs including the FHP Program and Healthy New York, and provided additional funding for the expansion of existing programs such as Child Health Plus (CHP) program. HCRA has also provided financing for the health care industry, including investments in worker recruitment and retention and in the Health Care Equity and Affordability Law for New Yorkers (HEAL NY).

Over time, spending levels in major entitlement programs, such as CHP, FHP, and EPIC, have increased, placing added pressure on recurring revenues to keep pace with rising demands. In 2005-06, the receipt of over $2.7 billion in health care conversion proceeds resulted in a sizeable balance at March 31, 2006. These proceeds will be used to support HCRA programs in the 2006-07 fiscal year and beyond.

However, continued growth in existing programs and additional funding for new and expanded programs added in the 2006-07 Enacted Budget, coupled with the use of nonrecurring revenues result in a projected deficit of over $100 million by the end of 2007-08 growing to $1.0 billion in 2008-09. Current HCRA authorization expires on June 30, 2007 at which time HCRA is estimated to have a positive balance of roughly $282 million.

The following chart summaries the annual receipts and disbursements for the HCRA Financial Plan.

HCRA Financial Plan
2005-06 through 2008-09
(millions of dollars)

	2005-06	2006-07	2007-08	2008-09
Opening Balance	**251**	**1,601**	**601**	**(122)**
Total Receipts	6,176	4,430	4,569	4,449
Conversion Proceeds	2,743	1,000	500	550
Surcharges	1,560	1,741	1,782	1,774
Covered Lives Assessment	682	775	775	775
Hospital Assessment (1 percent)	223	199	199	199
Cigarette Tax Revenue	571	563	578	570
All Other	397	152	735	581
Total Disbursements	4,826	5,430	5,292	5,330
Medicaid Assistance Account	1,985	2,144	1,882	1,862
HCRA Program Account (incl. GME)	869	1,135	1,100	1,106
Hospital Indigent Care	819	841	841	841
EPIC	541	582	626	626
Child Health Plus	345	365	384	384
Public Health Programs	129	156	137	137
Mental Health Programs	86	92	92	92
All Other	52	115	230	282
Change in Fund Balance	**1,350**	**(1,000)**	**(723)**	**(881)**
Closing Balance	**1,601**	**601**	**(122)**	**(1,003)**

The most significant revenue actions included in the Enacted Budget are the planned acceleration of $500 million in additional revenues from conversion proceeds for a total of $1.0 billion in 2006-07 and required delinquency billings for HCRA revenue payers. The recommended increase in cigarette tax and authorization of new insurance conversions to stabilize HCRA financing were not enacted.

The Enacted Budget provides targeted investments for anti-tobacco programs, Physicians Excess Medical Malpractice, and capital spending within the HEAL NY program, as well as additional funding to improve the quality of care for nursing homes, creating a new worker recruitment and retention program for home care providers, and various other initiatives.

CASH FINANCIAL PLAN
GENERAL FUND
2005-2006 and 2006-2007
(millions of dollars)

	2005-2006 Actuals[1]	2006-2007 Enacted	Change
Opening fund balance	2,546	3,257	711
Receipts:			
Taxes:			
Personal income tax	20,700	23,137	2,437
User taxes and fees	8,639	8,323	(316)
Business taxes	5,084	5,303	219
Other taxes	881	896	15
Miscellaneous receipts	2,029	2,846	817
Federal Grants	0	9	9
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,500	7,135	635
Sales tax in excess of LGAC debt service	2,295	2,208	(87)
Real estate taxes in excess of CW/CA debt service	715	533	(182)
All other	363	470	107
Total receipts	47,206	50,860	3,654
Disbursements:			
Grants to local governments	31,287	34,210	2,923
State operations	8,160	9,455	1,295
General State charges	3,975	4,413	438
Transfers to other funds:			
Debt service	1,710	1,749	39
Capital projects	267	219	(48)
Other purposes	1,096	797	(299)
Total disbursements	46,495	50,843	4,348
Change in fund balance	711	17	(694)
Closing fund balance	3,257	3,274	17
General Reserves			
Statutory Rainy Day Reserve Fund	944	944	0
Contingency Reserve Fund	21	21	0
Designated Reserves			
Spending Stabilization Reserve	2,041	1,783	(258)
Community Projects Fund	251	276	25
Debt Reduction Reserve	0	250	250

[1] Unaudited results.

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2006-2007
(millions of dollars)

	30-Day	Change	Enacted
Opening fund balance	3,301	(44)	3,257
Receipts:			
Taxes:			
Personal income tax	22,720	417	23,137
User taxes and fees	8,799	(476)	8,323
Business taxes	4,999	304	5,303
Other taxes	900	(4)	896
Miscellaneous receipts	2,631	215	2,846
Federal Grants	9	0	9
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,995	140	7,135
Sales tax in excess of LGAC debt service	2,356	(148)	2,208
Real estate taxes in excess of CW/CA debt service	533	0	533
All other	267	203	470
Total receipts	50,209	651	50,860
Disbursements:			
Grants to local governments	33,674	536	34,210
State operations	8,897	558	9,455
General State charges	4,344	69	4,413
Transfers to other funds:			
Debt service	1,745	4	1,749
Capital projects	255	(36)	219
Other purposes	762	35	797
Total disbursements	49,677	1,166	50,843
Change in fund balance	532	(515)	17
Closing fund balance	3,833	(559)	3,274
General Reserves			
Statutory Rainy Day Reserve Fund	945	(1)	944
Contingency Reserve Fund	21	0	21
Designated Reserves			
Spending Stabilization Reserve	2,106	(323)	1,783
Collective Bargaining Reserve	275	(275)	0
Debt Reduction Reserve	250	0	250
Community Projects Fund	236	40	276

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2006-2007 through 2008-2009
(millions of dollars)

	2006-2007 Enacted	2007-2008 Estimated	2008-2009 Estimated
Receipts:			
Taxes:			
Personal income tax	23,137	23,914	25,691
User taxes and fees	8,323	8,665	8,969
Business taxes	5,303	5,385	5,504
Other taxes	896	967	1,030
Miscellaneous receipts	2,846	2,368	2,146
Federal Grants	9	9	9
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	7,135	7,010	7,314
Sales tax in excess of LGAC debt service	2,208	2,305	2,404
Real estate taxes in excess of CW/CA debt service	533	485	488
All other	470	247	251
Total receipts	50,860	51,355	53,806
Disbursements:			
Grants to local governments	34,210	38,158	41,051
State operations	9,455	9,616	9,883
General State charges	4,413	4,742	5,024
Transfers to other funds:			
Debt service	1,749	1,768	1,750
Capital projects	219	242	239
Other purposes	797	1,323	1,198
Total disbursements	50,843	55,849	59,145
Deposit to/(use of) Community Projects Fund	25	75	(150)
Deposit to/(use of) Debt Reduction Reserve	250	0	0
Deposit to/(use of) Spending Stabilization Reserve Fund	(258)	(892)	(891)
Margin	0	(3,677)	(4,298)

Source: NYS DOB

CASH RECEIPTS
GENERAL FUND
2005-2006 and 2006-2007
(millions of dollars)

	2005-2006 Results[1]	2006-2007 Enacted	Change
Personal income tax	20,700	23,137	2,437
User taxes and fees	8,639	8,323	(316)
Sales and use tax	7,978	7,686	(292)
Cigarette and tobacco taxes	403	402	(1)
Motor fuel tax	0	0	0
Motor vehicle fees	24	0	(24)
Alcoholic beverages taxes	192	191	(1)
Alcoholic beverage control license fees	42	44	2
Auto rental tax	0	0	0
Business taxes	5,084	5,303	219
Corporation franchise tax	2,665	2,806	141
Corporation and utilities tax	591	593	2
Insurance taxes	987	1,083	96
Bank tax	841	821	(20)
Petroleum business tax	0	0	0
Other taxes	881	896	14
Estate tax	855	874	19
Gift tax	2	0	(2)
Real property gains tax	1	0	(1)
Pari-mutuel taxes	23	21	(2)
Other taxes	1	1	0
Total Taxes	35,304	37,659	2,354
Miscellaneous receipts	2,029	2,846	817
Federal Grants	0	9	9
Total	37,334	40,514	3,180

[1] Unaudited results.

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	3,257	3,747	(406)	221	6,819
Receipts:					
Taxes	37,659	6,249	2,066	10,932	56,906
Miscellaneous receipts	2,846	12,433	2,580	665	18,524
Federal grants	9	1	0	0	10
Total receipts	40,514	18,683	4,646	11,597	75,440
Disbursements:					
Grants to local governments	34,210	14,813	940	0	49,963
State operations	9,455	5,262	0	65	14,782
General State charges	4,413	613	0	0	5,026
Debt service	0	0	0	4,086	4,086
Capital projects	0	1	3,242	0	3,243
Total disbursements	48,078	20,689	4,182	4,151	77,100
Other financing sources (uses):					
Transfers from other funds	10,346	1,223	341	5,386	17,296
Transfers to other funds	(2,765)	(503)	(831)	(12,808)	(16,907)
Bond and note proceeds	0	0	236	0	236
Net other financing sources (uses)	7,581	720	(254)	(7,422)	625
Change in fund balance	17	(1,286)	210	24	(1,035)
Closing fund balance	3,274	2,461	(196)	245	5,784

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2007-2008
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	2,461	(196)	245	2,510
Receipts:					
Taxes	38,931	6,412	2,150	11,260	58,753
Miscellaneous receipts	2,368	12,283	3,193	671	18,515
Federal grants	9	1	0	0	10
Total receipts	41,308	18,696	5,343	11,931	77,278
Disbursements:					
Grants to local governments	38,158	14,522	834	0	53,514
State operations	9,616	5,334	0	66	15,016
General State charges	4,742	622	0	0	5,364
Debt service	0	0	0	4,660	4,660
Capital projects	0	2	4,414	0	4,416
Total disbursements	52,516	20,480	5,248	4,726	82,970
Other financing sources (uses):					
Transfers from other funds	10,047	1,740	453	5,574	17,814
Transfers to other funds	(3,333)	(435)	(920)	(12,746)	(17,434)
Bond and note proceeds	0	0	404	0	404
Net other financing sources (uses)	6,714	1,305	(63)	(7,172)	784
Deposit to/(use of) Community Projects Fund	75	0	0	0	75
Deposit to/(use of) Spending Stabilization Reserve Fund	(892)	0	0	0	(892)
Change in fund balance	(3,677)	(479)	32	33	(4,091)
Closing fund balance	(3,677)	1,982	(164)	278	(1,581)

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2008-2009
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,982	(164)	278	2,096
Receipts:					
Taxes	41,194	6,621	2,167	11,956	61,938
Miscellaneous receipts	2,146	12,616	3,083	680	18,525
Federal grants	9	1	0	0	10
Total receipts	43,349	19,238	5,250	12,636	80,473
Disbursements:					
Grants to local governments	41,051	15,102	767	0	56,920
State operations	9,883	5,359	0	66	15,308
General State charges	5,024	639	0	0	5,663
Debt service	0	0	0	5,082	5,082
Capital projects	0	2	4,437	0	4,439
Total disbursements	55,958	21,102	5,204	5,148	87,412
Other financing sources (uses):					
Transfers from other funds	10,457	1,619	478	5,751	18,305
Transfers to other funds	(3,187)	(448)	(1,033)	(13,209)	(17,877)
Bond and note proceeds	0	0	531	0	531
Net other financing sources (uses)	7,270	1,171	(24)	(7,458)	959
Deposit to/(use of) Community Projects Fund	(150)	0	0	0	(150)
Deposit to/(use of) Spending Stabilization Reserve Fund	(891)	0	0	0	(891)
Change in fund balance	(4,298)	(693)	22	30	(4,939)
Closing fund balance	(4,298)	1,289	(142)	308	(2,843)

Source: NYS DOB

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2005-2006 and 2006-2007
(millions of dollars)

	2005-2006 Results [1]	2006-2007 30-Day	2006-2007 Enacted	Enacted vs. Actuals [1]	Enacted vs. 30-Day
Personal income tax	30,812	33,663	34,218	3,406	555
User taxes and fees	13,923	14,694	13,683	(240)	(1,011)
Sales and use tax	11,196	11,538	10,939	(257)	(599)
Cigarette and tobacco taxes	974	1,375	965	(9)	(410)
Motor fuel tax	531	525	525	(6)	0
Motor vehicle fees	786	814	813	27	(1)
Alcoholic beverages taxes	192	191	191	(1)	0
Highway use tax	160	162	161	1	(1)
Alcoholic beverage control license fees	42	44	44	2	0
Auto rental tax	42	45	45	3	0
Business taxes	7,088	6,963	7,309	221	346
Corporation franchise tax	3,053	3,049	3,179	126	130
Corporation and utilities tax	832	780	791	(41)	11
Insurance taxes	1,083	1,166	1,186	103	20
Bank tax	974	776	961	(13)	185
Petroleum business tax	1,146	1,192	1,192	46	0
Other taxes	1,820	1,700	1,696	(124)	(4)
Estate tax	855	874	874	19	0
Gift tax	2	0	0	(2)	0
Real property gains tax	1	0	0	(1)	0
Real estate transfer tax	938	800	800	(138)	0
Pari-mutuel taxes	23	25	21	(2)	(4)
Other taxes	1	1	1	0	0
Total Taxes	53,643	57,020	56,906	3,263	(114)
Miscellaneous receipts	18,254	16,896	18,666	422	1,770
Federal grants	35,130	35,827	35,607	467	(220)
Total	107,027	109,743	111,179	4,152	1,436

[1] Unaudited results.

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	3,257	4,194	(604)	221	7,068
Receipts:					
Taxes	37,659	6,249	2,066	10,932	56,906
Miscellaneous receipts	2,846	12,575	2,580	665	18,666
Federal grants	9	33,868	1,730	0	35,607
Total receipts	40,514	52,692	6,376	11,597	111,179
Disbursements:					
Grants to local governments	34,210	45,054	1,106	0	80,370
State operations	9,455	8,366	0	65	17,886
General State charges	4,413	864	0	0	5,277
Debt service	0	0	0	4,086	4,086
Capital projects	0	2	4,842	0	4,844
Total disbursements	48,078	54,286	5,948	4,151	112,463
Other financing sources (uses):					
Transfers from other funds	10,346	3,600	341	5,386	19,673
Transfers to other funds	(2,765)	(3,287)	(844)	(12,808)	(19,704)
Bond and note proceeds	0	0	236	0	236
Net other financing sources (uses)	7,581	313	(267)	(7,422)	205
Change in fund balance	17	(1,281)	161	24	(1,079)
Closing fund balance	3,274	2,913	(443)	245	5,989

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2007-2008
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	2,913	(443)	245	2,715
Receipts:					
Taxes	38,931	6,412	2,150	11,260	58,753
Miscellaneous receipts	2,368	12,421	3,193	671	18,653
Federal grants	9	35,428	1,823	0	37,260
Total receipts	41,308	54,261	7,166	11,931	114,666
Disbursements:					
Grants to local governments	38,158	46,302	1,000	0	85,460
State operations	9,616	8,456	0	66	18,138
General State charges	4,742	877	0	0	5,619
Debt service	0	0	0	4,660	4,660
Capital projects	0	3	6,050	0	6,053
Total disbursements	52,516	55,638	7,050	4,726	119,930
Other financing sources (uses):					
Transfers from other funds	10,047	4,113	453	5,574	20,187
Transfers to other funds	(3,333)	(3,217)	(934)	(12,746)	(20,230)
Bond and note proceeds	0	0	404	0	404
Net other financing sources (uses)	6,714	896	(77)	(7,172)	361
Deposit to/(use of) Community Projects Fund	75	0	0	0	75
Deposit to/(use of) Spending Stabilization Reserve Fund	(892)	0	0	0	(892)
Change in fund balance	(3,677)	(481)	39	33	(4,086)
Closing fund balance	(3,677)	2,432	(404)	278	(1,371)

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2008-2009
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	2,432	(404)	278	2,306
Receipts:					
Taxes	41,194	6,621	2,167	11,956	61,938
Miscellaneous receipts	2,146	12,755	3,083	680	18,664
Federal grants	9	37,178	1,717	0	38,904
Total receipts	43,349	56,554	6,967	12,636	119,506
Disbursements:					
Grants to local governments	41,051	48,520	933	0	90,504
State operations	9,883	8,564	0	66	18,513
General State charges	5,024	898	0	0	5,922
Debt service	0	0	0	5,082	5,082
Capital projects	0	3	5,966	0	5,969
Total disbursements	55,958	57,985	6,899	5,148	125,990
Other financing sources (uses):					
Transfers from other funds	10,457	4,043	478	5,751	20,729
Transfers to other funds	(3,187)	(3,320)	(1,046)	(13,209)	(20,762)
Bond and note proceeds	0	0	531	0	531
Net other financing sources (uses)	7,270	723	(37)	(7,458)	498
Deposit to/(use of) Community Projects Fund	(150)	0	0	0	(150)
Deposit to/(use of) Spending Stabilization Reserve Fund	(891)	0	0	0	(891)
Change in fund balance	(4,298)	(708)	31	30	(4,945)
Closing fund balance	(4,298)	1,724	(373)	308	(2,639)

Source: NYS DOB

CASHFLOW
GENERAL FUND
2006-2007
(dollars in millions)

	2006 April Prelim. Actual	May Projected	June Projected	July Projected	August Projected	September Projected	October Projected	November Projected	December Projected	2007 January Projected	February Projected	March Projected	Total Projected
Opening fund balance	3,257	7,544	4,200	4,511	4,678	4,106	5,451	4,680	3,443	3,682	8,016	8,233	3,257
Receipts:													
Taxes													
Personal income tax	4,207	696	2,405	1,319	1,534	2,208	1,005	569	1,730	4,345	1,907	1,212	23,137
User taxes and fees	617	617	867	634	597	859	614	614	826	735	559	784	8,323
Business taxes	296	22	1,166	73	51	1,197	53	0	1,106	67	30	1,242	5,303
Other taxes	106	72	72	72	73	73	71	72	72	71	72	70	896
Miscellaneous receipts	167	162	297	76	89	273	189	486	255	195	191	466	2,846
Federal Grants	0	1	1	1	1	1	1	1	1	1	1	(1)	9
Transfers from other funds													
PIT in excess of Revenue Bond debt service	1,400	201	801	439	384	763	284	56	575	1,447	225	560	7,135
Sales tax in excess of LGAC debt service	179	17	436	190	180	192	186	185	254	224	2	163	2,208
Real estate taxes in excess of CW/CA debt service	65	51	48	50	46	45	44	45	38	33	28	40	533
All Other	0	0	148	60	1	10	10	6	10	0	0	225	470
Total receipts	7,037	1,839	6,241	2,914	2,956	5,621	2,457	2,034	4,867	7,118	3,015	4,761	50,860
Disbursements:													
Grants to local governments													
School Aid	135	1,989	1,686	113	351	1,055	538	513	1,174	327	617	6,037	14,535
Medicaid (includes DOH and other agencies)	915	1,143	876	501	976	849	354	804	701	730	549	725	9,123
Welfare (includes Admin)	76	198	26	154	154	22	154	154	14	154	154	(13)	1,247
All Other	214	412	802	634	690	835	977	406	1,261	614	672	1,788	9,305
State operations													
Personal Service	595	767	890	621	756	497	470	707	419	392	312	490	6,916
Non-Personal Service	177	204	214	219	253	202	215	192	197	208	223	235	2,539
General State charges	296	228	1,225	413	229	391	312	270	282	300	146	321	4,413
Transfers to other funds													
Debt service	204	120	221	29	56	332	53	171	392	7	25	139	1,749
Capital projects	27	85	(43)	36	40	61	82	(11)	90	24	77	(249)	219
Other purposes	111	37	33	27	23	32	73	65	98	28	23	247	797
Total disbursements	2,750	5,183	5,930	2,747	3,528	4,276	3,228	3,271	4,628	2,784	2,798	9,720	50,843
Change in fund balance	4,287	(3,344)	311	167	(572)	1,345	(771)	(1,237)	239	4,334	217	(4,959)	17
Closing fund balance	7,544	4,200	4,511	4,678	4,106	5,451	4,680	3,443	3,682	8,016	8,233	3,274	3,274

Source: NYS DOB

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

	2005-2006 Actuals[1]	2006-2007 Enacted	Annual Change
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	84,036	106,845	22,809
Alcoholic Beverage Control	10,286	12,091	1,805
Banking Department	56,278	59,783	3,505
Consumer Protection Board	2,622	3,007	385
Economic Development, Department of	435,010	360,676	(74,334)
Empire State Development Corporation	31,628	120,398	88,770
Energy Research and Development Authority	26,151	32,656	6,505
Housing and Community Renewal, Division of	256,949	307,136	50,187
Insurance Department	124,142	152,644	28,502
Olympic Regional Development Authority	8,550	13,886	5,336
Public Service, Department of	50,453	53,093	2,640
Science, Technology and Academic Research, Office of	59,411	70,078	10,667
Functional Total	1,145,516	1,292,293	146,777
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,398	4,905	507
Environmental Conservation, Department of	814,171	856,564	42,393
Environmental Facilities Corporation	8,034	14,258	6,224
Parks, Recreation and Historic Preservation, Office of	231,390	268,670	37,280
Functional Total	1,057,993	1,144,397	86,404
TRANSPORTATION			
Motor Vehicles, Department of	238,186	289,626	51,440
Thruway Authority	1,671	2,000	329
Metropolitan Transportation Authority	38,078	38,050	(28)
Transportation, Department of	5,638,018	5,945,500	307,482
Functional Total	5,915,953	6,275,176	359,223
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	18	0	(18)
Aging, Office for the	178,683	207,058	28,375
Children and Family Services, Office of	3,174,373	2,922,055	(252,318)
Health, Department of	35,186,395	36,727,647	1,541,252
Medical Assistance	30,209,572	31,305,407	1,095,835
Medicaid Administration	575,158	482,600	(92,558)
All Other	4,401,665	4,939,640	537,975
Human Rights, Division of	14,942	15,127	185
Labor, Department of	569,032	559,605	(9,427)
Medicaid Inspector General, Office of	1,049	30,950	29,901
Prevention of Domestic Violence, Office of	1,969	2,539	570

[1] Unaudited results.

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

	2005-2006 Actuals(1)	2006-2007 Enacted	Annual Change
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	4,389,984	4,825,210	435,226
Welfare Assistance	2,979,052	3,440,268	461,216
Welfare Administration	368,537	382,897	14,360
All Other	1,042,395	1,002,045	(40,350)
Welfare Inspector General, Office of	1,004	1,178	174
Workers' Compensation Board	140,892	144,816	3,924
Functional Total	43,658,341	45,436,185	1,777,844
MENTAL HEALTH			
Mental Health, Office of	2,318,666	2,466,227	147,561
Mental Hygiene, Department of	9,370	8,645	(725)
Mental Retardation and Developmental Disabilities, Office of	2,949,259	3,138,640	189,381
Alcohol and Substance Abuse Services, Office of	483,212	534,893	51,681
Developmental Disabilities Planning Council	4,081	3,648	(433)
Quality of Care for the Mentally Disabled, Commission on	12,650	14,116	1,466
Functional Total	5,777,238	6,166,169	388,931
PUBLIC PROTECTION			
Capital Defenders Office	4,572	1,200	(3,372)
Correction, Commission of	2,515	2,607	92
Correctional Services, Department of	2,315,295	2,895,971	580,676
Crime Victims Board	55,565	62,016	6,451
Criminal Justice Services, Division of	183,873	325,454	141,581
Homeland Security	19,586	282,278	262,692
Investigation, Temporary State Commission of	3,586	3,934	348
Judicial Commissions	2,714	2,888	174
Military and Naval Affairs, Division of	165,839	188,572	22,733
Parole, Division of	193,231	201,355	8,124
Probation and Correctional Alternatives, Division of	69,397	77,658	8,261
State Police, Division of	598,904	626,804	27,900
Functional Total	3,615,077	4,670,737	1,055,660
EDUCATION			
Arts, Council on the	42,825	52,125	9,300
City University of New York	796,137	1,552,862	756,725
Education, Department of	24,238,340	27,953,982	3,715,642
School Aid	18,549,645	21,784,170	3,234,525
STAR Property Tax Relief	3,213,204	3,368,000	154,796
Handicapped	1,560,076	1,671,058	110,982
All Other	915,415	1,130,754	215,339
Higher Education Services Corporation	1,018,291	1,001,919	(16,372)
State University Construction Fund	10,013	12,077	2,064
State University of New York	5,066,096	5,508,717	442,621
Functional Total	31,171,702	36,081,682	4,909,980

(1) Unaudited results.

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

	2005-2006 Actuals(1)	2006-2007 Enacted	Annual Change
GENERAL GOVERNMENT			
Audit and Control, Department of	225,148	232,399	7,251
Budget, Division of the	37,423	52,215	14,792
Civil Service, Department of	26,391	23,958	(2,433)
Elections, State Board of	4,206	215,119	210,913
Employee Relations, Office of	3,579	3,956	377
Executive Chamber	13,937	15,480	1,543
General Services, Office of	260,291	269,018	8,727
Inspector General, Office of	5,336	6,369	1,033
Law, Department of	182,175	200,056	17,881
Lieutenant Governor, Office of the	348	485	137
Lottery, Division of	176,524	201,365	24,841
Racing and Wagering Board, State	13,093	19,133	6,040
Real Property Services, Office of	43,830	56,112	12,282
Regulatory Reform, Governor's Office of	3,661	3,744	83
State Labor Relations Board	3,508	3,776	268
State, Department of	132,559	189,763	57,204
Tax Appeals, Division of	2,958	3,423	465
Taxation and Finance, Department of	341,429	358,381	16,952
Technology, Office for	21,018	22,818	1,800
TSC Lobbying	1,572	3,029	1,457
Veterans Affairs, Division of	11,812	12,697	885
Functional Total	1,510,798	1,893,296	382,498
ALL OTHER CATEGORIES			
Legislature	210,051	213,863	3,812
Judiciary (excluding fringe benefits)	1,618,170	1,846,198	228,028
World Trade Center	81,607	32,550	(49,057)
Local Government Assistance	1,018,896	1,176,592	157,696
Long-Term Debt Service	3,702,254	4,085,928	383,674
General State Charges/Miscellaneous	4,875,058	5,250,182	375,124
Capital GAAP Adjustments (2)	(1,017,218)	(3,101,868)	(2,084,650)
Functional Total	10,488,818	9,503,445	(985,373)
TOTAL ALL GOVERNMENTAL FUNDS SPENDING	104,341,436	112,463,380	8,121,944

(1) Unaudited results.

(2) Reflects an accounting adjustment for certain capital spending that is not reported in actual cash spending results, but is reported in the State's GAAP Financial Statements. This spending is related to programs which are financed directly from bond proceeds that are on deposit at various public authorities rather than from a short-term loan from Short-Term Investment Pool or cash from the General Fund, and has been included in the above agency totals and removed from net spending totals. The detailed amounts by agency are presented on the table entitled "Capital Off-Budget Spending".

Source: NYS DOB

CASH FLOW
HEALTH CARE REFORM ACT RESOURCES FUND
2006-2007
(millions of dollars)

	First Quarter (Projected)	Second Quarter (Projected)	Third Quarter (Projected)	Fourth Quarter (Projected)	Total (Projected)
Opening fund balance	1,600	1,854	1,326	545	1,600
Receipts:					
Cigarette Taxes	148	138	139	138	563
Miscellaneous Receipts	469	806	813	1,779	3,867
Total receipts	617	944	952	1,917	4,430
Disbursements:					
Medical Assistance Account	6	511	922	705	2,144
HCRA Program Account	162	233	261	479	1,135
Hospital Indigent Care Fund	96	230	285	230	841
Elderly Pharmaceutical Insurance Coverage (EPIC)	0	304	101	177	582
Child Health Plus (CHP)	59	115	91	100	365
Public Health	21	38	47	50	156
Mental Health	9	28	15	40	92
All Other	10	13	11	81	115
Total disbursements	363	1,472	1,733	1,862	5,430
Change in fund balance	254	(528)	(781)	55	(1,000)
Closing fund balance	1,854	1,326	545	600	600

Source: NYS DOB

GAAP FINANCIAL PLAN
GENERAL FUND
2005-2006 and 2006-2007
(millions of dollars)

	2005-2006 Actuals[1]	2006-2007 Enacted	Change
Revenues:			
Taxes:			
Personal income tax	22,128	21,736	(392)
User taxes and fees	8,670	8,340	(330)
Business taxes	5,322	5,414	92
Other taxes	740	928	188
Miscellaneous revenues	3,995	4,753	758
Federal grants	0	9	9
Total revenues	40,855	41,180	325
Expenditures:			
Grants to local governments	34,556	38,954	4,398
State operations	10,771	11,495	724
General State charges	3,428	3,669	241
Debt service	25	27	2
Capital projects	0	0	0
Total expenditures	48,780	54,145	5,365
Other financing sources (uses):			
Transfers from other funds	13,680	13,876	196
Transfers to other funds	(4,674)	(5,444)	(770)
Proceeds from financing arrangements/ advance refundings	783	3,004	2,221
Net other financing sources (uses)	9,789	11,436	1,647
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	1,864	(1,529)	(3,393)
Accumulated Surplus/(Deficit)	2,410	881	(1,529)

[1] Unaudited results.

Source: NYS DOB

GAAP FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Revenues:					
Taxes	36,418	6,251	2,066	10,937	55,672
Patient fees	0	0	0	326	326
Miscellaneous revenues	4,753	4,576	284	22	9,635
Federal grants	9	34,865	1,731	0	36,605
Total revenues	41,180	45,692	4,081	11,285	102,238
Expenditures:					
Grants to local governments	38,954	41,467	1,096	0	81,517
State operations	11,495	1,793	0	65	13,353
General State charges	3,669	287	0	0	3,956
Debt service	27	0	0	3,241	3,268
Capital projects	0	2	4,316	0	4,318
Total expenditures	54,145	43,549	5,412	3,306	106,412
Other financing sources (uses):					
Transfers from other funds	13,876	277	317	5,407	19,877
Transfers to other funds	(5,444)	(3,339)	(859)	(13,374)	(23,016)
Proceeds of general obligation bonds	0	0	236	0	236
Proceeds from financing arrangements/ advance refundings	3,004	0	1,892	0	4,896
Net other financing sources (uses)	11,436	(3,062)	1,586	(7,967)	1,993
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	(1,529)	(919)	255	12	(2,181)

Source: NYS DOB

Special Considerations

Many complex political, social, and economic forces influence the State's economy and finances. Such forces may affect the State Financial Plan unpredictably from fiscal year to fiscal year. For example, the Financial Plan is necessarily based on forecasts of national and State economic activity. Economic forecasts have frequently failed to accurately predict the timing and magnitude of specific and cyclical changes to the national and State economies. For a discussion of the DOB economic forecast, see the section entitled "Economics and Demographics," in this AIS. The Financial Plan also relies on estimates and assumptions concerning Federal aid, law changes, and audit activity.

Non-Implementation of Unconstitutional Items

In acting on the legislative budget, the Governor vetoed 39 items worth $1.5 billion in the General Fund ($2.2 billion All Funds) on constitutional grounds. The Enacted Budget Financial Plan estimates set forth herein incorporate the savings generated by the Governor's vetoes of such items, the most significant of which concerned Medicaid and a new tax rebate program. The General Fund value of the unconstitutional items is $1.5 billion in 2006-07, and roughly $1.1 billion in each of the out-years. For litigation concerning the non-implementation of certain items vetoed by the Governor, please see the section entitled "Litigation" in this AIS. If litigation challenging the non-implementation of one or more of the vetoed items is ultimately successful, the Financial Plan could be at risk for an amount up to the value of the vetoes.

Reduction in Sales Tax on Gasoline/Other Budgetary Items

The Financial Plan set forth in this AIS reflects the actions of the Legislature and Governor through May 12, 2006. Since that time, the State enacted a "cap" on the State sales tax for gasoline. Prior to the cap, the State collected an average of 12 cents in sales taxes on a gallon of gas at current prices; this law caps the tax at 8 cents per gallon. DOB estimates that the cap, which took effect on June 1, 2006, will result in a revenue loss of roughly $160 million in the current fiscal year and $220 million annually thereafter. The impact of this tax reduction, along with any other changes that may be enacted through the end of the regular legislative session in June 2006, will be reflected in the State's First Quarterly Update to the 2006-07 Financial Plan that DOB plans to issue in July 2006.

Risks to the U.S. Forecast

In addition to the risks outlined above, a shock to the economy related to geopolitical uncertainty, particularly in the form of a direct attack, remains the greatest risk to the U.S. forecast. DOB's outlook for household sector spending continues to rely on healthy growth in employment and wages, a gradual receding of inflationary pressures, a slow decline in the housing market, and the settling of interest rates at a relatively "neutral" level. If the Federal Reserve believes that the long bond term premium is permanently lower, then it might feel the need to raise short-term interest rates by more than in the past in order to preempt inflationary pressure, presenting the possibility that the Federal Reserve could overshoot. A weaker labor or housing market, or higher interest rates than expected could result in lower consumer spending than projected. Energy market speculation in the face of a tight and uncertain supply of oil remains a risk to the inflation forecast, and is compounded by risks to the value of the dollar. Finally, excessive volatility in equity prices represents an additional source of uncertainty. However, stronger job growth, lower energy prices, or lower long-term interest rates than anticipated could result in a stronger national economy than projected.

Risks to the New York Forecast

All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, interest rate risk and equity market volatility pose a particularly large degree of uncertainty for New York. Finance and insurance sector bonuses fell 7.7 percent during the 1994-95 State fiscal year in the wake of the Federal Reserve's policy shift. This risk would become amplified should the central bank overshoot its target. The impact of rising rates on the State's housing sector also poses a risk. Should the State's real estate market cool more rapidly than anticipated, household consumption and taxable capital gains realizations could be negatively affected. These effects could ripple though the economy, depressing both employment and wage growth. In contrast, should the national and world economies grow faster than expected, a stronger upturn in stock prices, along with even stronger activity in mergers and acquisitions and other Wall Street activities, could result in higher wage and bonuses growth than projected.

School Finance Litigation

In *Campaign for Fiscal Equity v. State of New York*, the State Court of Appeals directed the State to implement a remedy by July 30, 2004 that would guarantee that all children in New York City have the opportunity to receive a sound basic education (SBE). In August 2004, the State Supreme Court directed a panel of three Special Masters to report and make recommendations on the measures the State had taken to bring its school financing system into constitutional compliance with respect to New York City schools.

After a series of hearings, the Special Masters recommended that New York City's education operating budget should be increased by $5.6 billion over a four-year period and that $9.2 billion be provided in capital funds for New York City schools over a five-year period. In February 2005, Justice DeGrasse adopted the special masters' recommendations and ordered the State to comply with them within 90 days.

In April 2005, the State filed an appeal of Justice DeGrasse's order with New York State's Appellate Court. In March 2006, the Appellate Court ruled that Justice DeGrasse's order should be modified to "vacate the confirmation of the [special masters' report]." The ruling directed that "in enacting a budget for the fiscal year commencing April 1, 2006, the Governor and the Legislature consider, as within the range of constitutionally required funding for the New York City School District, as demonstrated by this record, the [State's] proposed funding plan of $4.7 billion in additional operating funds and the [special masters'] recommended annual expenditure of $5.63 billion, or an amount in between, phased in over four years, and that they appropriate such amount, in order to remedy the constitutional deprivations found in CFE II, and that in enacting such budget, the Governor and the Legislature implement a capital improvement plan that expends $9.179 billion over the next five years and otherwise satisfies the City schools' constitutionally recognized needs..." The litigation is on appeal to the New York State Court of Appeals.

On April 17, 2006, the Campaign for Fiscal Equity appealed the Court of Appeals' March 2006 ruling which vacated the confirmation of the Special Masters' report. On April 18, CFE filed an appeal to issue a quick and specific order that would bring final resolution to the case. The State filed its cross-appeal on April 21, 2006. In response, the Court of Appeals set an expedited briefing schedule and is expected to set the case down for oral argument as early as September, 2006.

The 2006-07 State Budget includes a $1.3 billion statewide increase in school aid, including an increase of $375 million in Sound Basic Education Aid. In addition, the Budget authorizes $11.2 billion for New York City school construction. This includes a new $2.6 billion school capital program, with $1.8 billion in capital grants for New York City school construction, $400 million for other "high-needs" districts and $400 million for other school districts. The 2006-07 State Budget also authorizes New York City's Transitional Finance Authority to issue an amount outstanding of up to $9.4 billion in bonds and that the Mayor may assign all or a portion of local assistance building aid payments to support these bonds.

Revenues from VLTs and non-recurring General Fund resources will support $700 million in Sound Basic Education Aid in 2006-07, with projected growth to $1.0 billion in 2007-08. So far, VLTs have been implemented at five of the State's racetracks. Four other racetracks have received authorization to operate VLTs, and are in various stages of implementation. Two major facilities located at Yonkers and Aqueduct Raceways are expected to begin operations in September 2006 and October 2007, respectively, but delays are possible, especially with Aqueduct. These two facilities are expected to produce the majority of the growth of VLT receipts under current law. Any significant delay in the opening of the currently authorized facilities would adversely affect the level of VLT revenues.

The State is a defendant in several court cases that could ultimately result in costs to the State Financial Plan. For a complete summary of significant litigation affecting the State, refer to the "Litigation" section later in this Annual Information Statement.

Federal

The Office of the Inspector General (OIG) of the United States DOH and Human Services is conducting six audits of aspects of New York State's School Supportive Health Services program with regard to Medicaid reimbursement that cover $1.4 billion in claims submitted between 1990 and 2001. To date, OIG has issued three final audit reports, which cover claims submitted by upstate and New York City school districts for speech pathology and transportation services. The final audits recommend that the Centers for Medicare and Medicaid Services (CMS) disallow $173 million of the $362 million in claims for upstate speech pathology services, $17 million of $72 million for upstate transportation services, and $436 million of the $551 million in claims submitted for New York City speech pathology services. New York State disagrees with the audit findings on several grounds and has requested that these be withdrawn. If these recommended disallowances are not withdrawn Federal regulations do include an appeals process that could postpone repayment of any disallowances.

While CMS has not taken any action with regard to the disallowances recommended by OIG, CMS is deferring 25 percent of New York City claims and 9.7 percent of claims submitted by the rest of the State, pending completion of the audits. Since the State has continued to reimburse school districts for certain costs, these Federal deferrals are projected to drive additional spending of $161 million over the next three years, which has been reflected in the State's Financial Plan.

At the request of CMS, the State discontinued intergovernmental transfer payments in 2005-06 pending the approval of a State Plan Amendment (SPA). The SPA was approved late in the 2005-06 fiscal year for a one-year term only and must be resubmitted annually. These payments are related to disproportionate share hospital payments to public hospitals throughout the State, including those operated by the New York City Health and Hospital Corporation, SUNY and the counties. If these payments are not approved in 2006-07 and beyond, the State's health care financing system could be adversely affected.

Other Risks

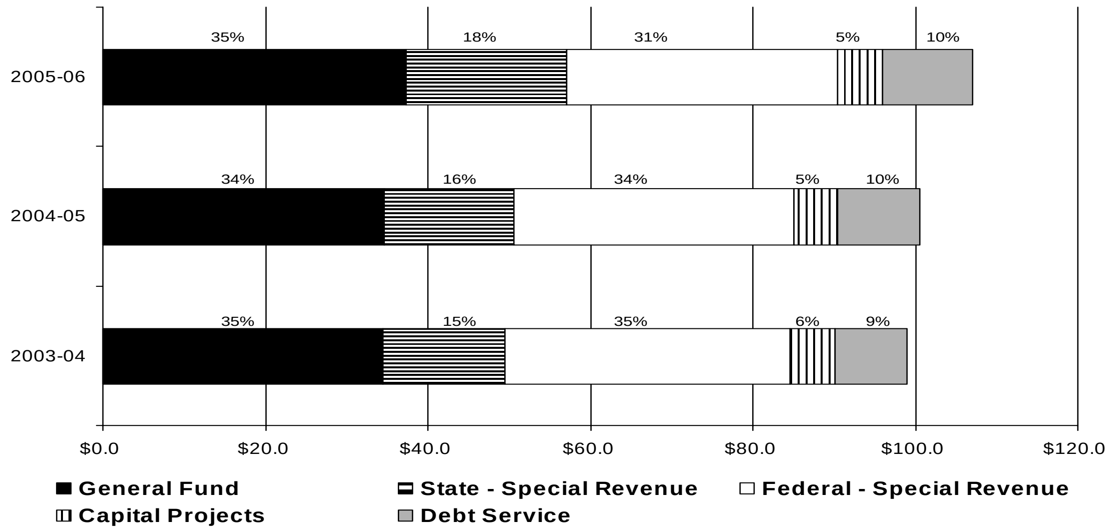
Existing labor contracts with all the State's major employee unions are set to expire at the end of 2006-07. The existing agreement covered a four-year period and included an $800 lump sum payment and general salary increases of 2.5 percent in 2004-05, 2.75 percent in 2005-06 and 3.0 percent in 2006-07, as well as a recurring $800 increase to base pay effective April 2007, at a cost of approximately $2.2 billion to the General Fund and $2.9 billion on an All Funds basis over the life of the agreement. The current Financial Plan does not set aside any reserves for future collective bargaining agreements in 2007-08 or beyond. Each future 1 percent salary increase would cost the General Fund roughly $83 million annually and $129 million in All Funds.

The State Financial Plan assumes the receipt of approximately $500 million annually in miscellaneous receipts that are the subject of ongoing negotiations between the State and counties and New York City. Actual miscellaneous receipts in 2005-06 were $450 million less than planned levels, and there can be no assurance that a comparable shortfall will not occur in 2006-07 or in future years.

Prior Fiscal Years

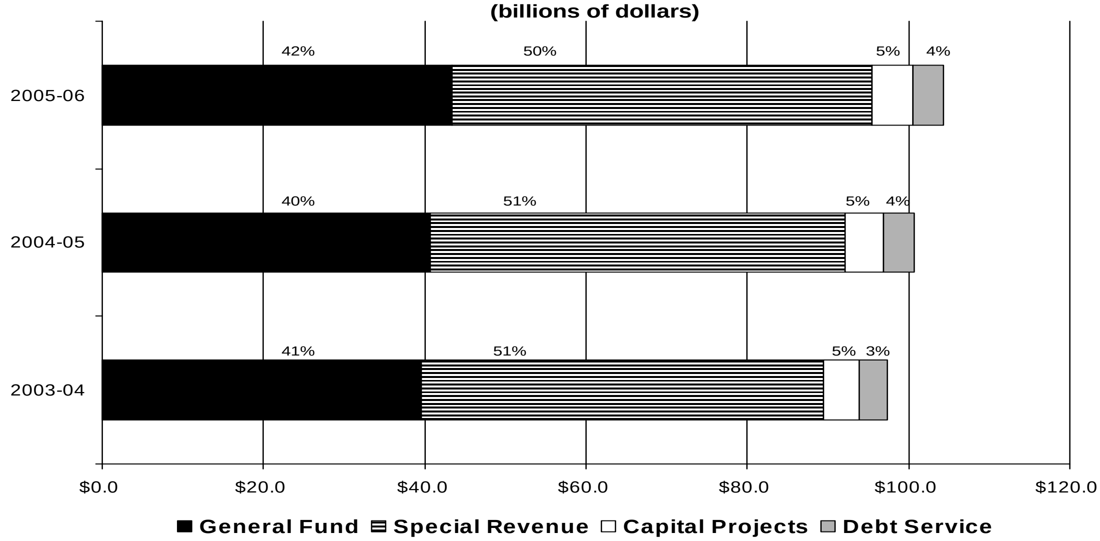
The following four tables show the composition of the State's governmental funds and its General Fund. Following the tables is a summary of the cash-basis results for the State's three most recent fiscal years.

Governmental Funds Receipts
State Fiscal Years 2003-04, 2004-05, and 2005-06
(billions of dollars)



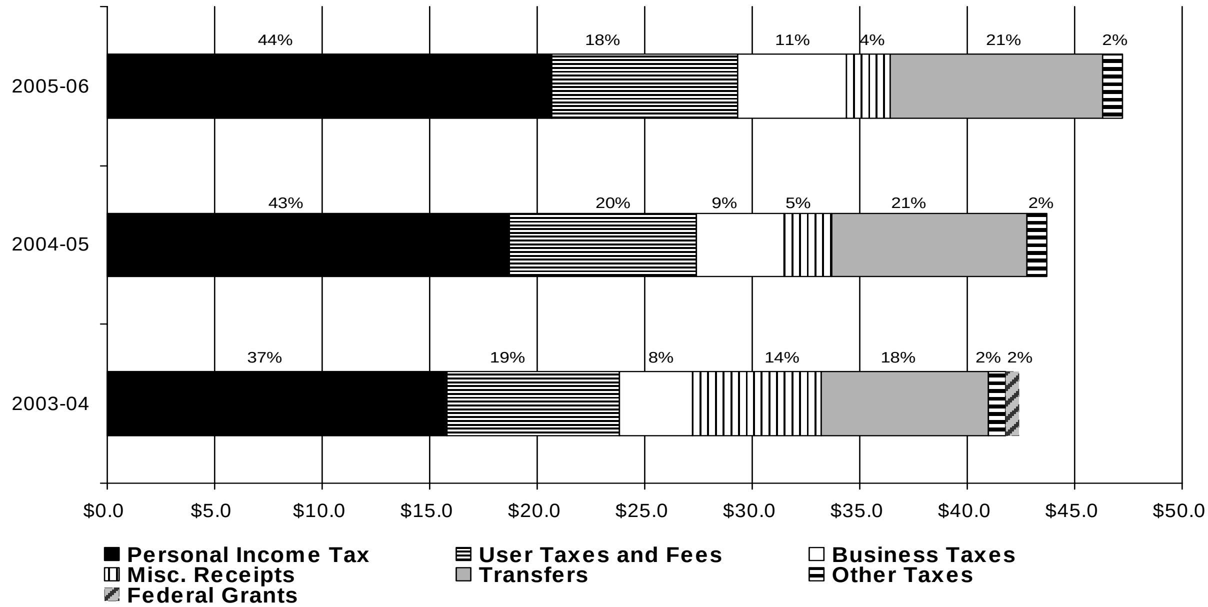
Note: Percentage total may not add due to rounding.

Governmental Funds Disbursements
State Fiscal Years 2003-04, 2004-05, and 2005-06
(billions of dollars)



Note: Percentage total may not add due to rounding.

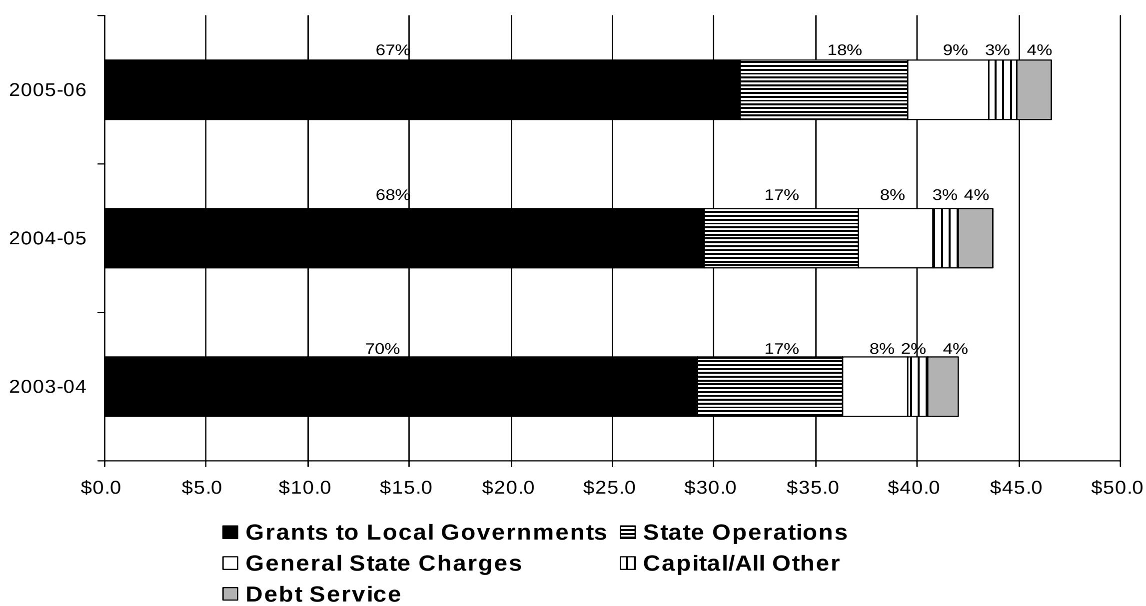
General Fund Receipts and Transfers by Source
State Fiscal Years 2003-04, 2004-05, and 2005-06
(billions of dollars)



Notes: 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 2003-04, 2004-05, and 2005-06
(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 2003-04 through 2005-06

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 rebounded from the lingering effects of the September 11th terrorist attacks on New York City and the national recession, weakness in the financial services sector, and the use of non-recurring resources and reserves to support spending. The State's recovery is securely in the middle of its third year and the State's economy is experiencing robust growth. The State ended each of the last three fiscal years with an increasing level of operating surplus in the General Fund.

2005-06 Fiscal Year

DOB reported a 2005-06 General Fund surplus of $2.0 billion. Total receipts, including transfers from other funds, were $47.2 billion. Disbursements, including transfers to other funds, totaled $46.5 billion.

The General Fund ended the 2005-06 fiscal year with a balance of $3.3 billion, which included dedicated balances of $944 million in the TSRF (the State's "rainy day fund") (after a $72 million deposit at the close of 2005-06), the Contingency Reserve Fund ($21 million), and the Community Projects Fund ($251 million). The closing balance also included $2.0 billion in a spending stabilization reserve.

General Fund receipts, including transfers from other funds and the impact of the tax refund reserve transaction, totaled $47.2 billion in 2005-06, an increase of $3.3 billion from 2004-05 results. Tax receipts increased by $3.8 billion and transfers increased by $743 million, while miscellaneous receipts decreased by $197 million. The decline in miscellaneous receipts was primarily attributable to the loss of various one-time receipts including the securitization of tobacco proceeds.

General Fund spending, including transfers to other funds, totaled $46.5 billion in 2005-06, an increase of $2.9 billion from 2004-05. The main sources of annual growth were Medicaid, school aid, and fringe benefits.

2004-05 Fiscal Year

DOB reported a 2004-05 General Fund surplus of $1.2 billion. Total receipts, including transfers from other funds, were $43.9 billion. Disbursements, including transfers to other funds, totaled $43.6 billion.

The General Fund ended the 2004-05 fiscal year with a balance of $2.5 billion, which included dedicated balances of $872 million in the TSRF (the State's "rainy day fund") (after a $78 million deposit at the close of 2004-05), the Contingency Reserve Fund ($21 million), and the Community Projects Fund ($325 million). The closing fund balance also included $1.3 billion on deposit in the refund reserve account at the end of the 2004-05 fiscal year, including $601 million in the new fiscal stability reserve fund.

General Fund receipts, including transfers from other funds, totaled $43.9 billion in 2004-05, an increase of $939 million from 2003-04 results. Tax receipts, including the impact of the tax refund reserve transaction, increased by nearly $4 billion on an annual basis. The growth was offset by an annual decline of $3.5 billion in miscellaneous receipts, due mainly to the State's securitization of tobacco settlement payments in 2003-04.

General Fund spending, including transfers to other funds, totaled $43.6 billion in 2004-05, an increase of $1.6 billion from 2003-04. Medicaid, school aid, fringe benefits, and debt service were the main sources of annual growth.

2003-04 Fiscal Year

DOB reported a 2003-04 General Fund surplus of $308 million. Total receipts, including transfers from other funds, were $42.9 billion. Disbursements, including transfers to other funds, totaled $42.1 billion.

The General Fund ended the 2003-04 fiscal year with a balance of $2.3 billion, which included dedicated balances of $794 million in the TSRF (the State's "rainy day fund") (after an $84 million deposit at the close of 2003-04), $21 million in the Contingency Reserve Fund, and $262 million in the Community Projects Fund. The closing fund balance also included $1.2 billion on deposit in the refund reserve account at the end of the 2003-04 fiscal year.

General Fund receipts, including transfers from other funds, totaled $42.9 billion in 2003-04, an increase of $4.9 billion from 2002-03 results. Tax receipts, including the impact of the tax refund reserve transaction, increased by $451 million on an annual basis. Miscellaneous receipts increased by $3.8 billion, due mainly to the State's securitization of tobacco settlement payments. Federal grants also increased by $645 million, reflecting extraordinary Federal aid.

General Fund spending, including transfers to other funds, totaled $42.1 billion in 2003-04, an increase of $4.5 billion from 2002-03 results. The growth was largely attributable to the annual impact of payment deferrals and spending growth in welfare and Medicaid.

State Funds 2003-04 through 2005-06

The State Funds Financial Plan comprises that portion of the All 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 $64.0 billion in 2004-05 to $69.7 billion in 2005-06, an increase of $5.8 billion or 9.0 percent. The General Fund portion of State Funds increased by $2.9 billion. The remaining growth consisted of higher spending for programs supported by special revenue ($2.5 billion), and capital projects ($548 million), partially offset by lower spending for programs supported by debt service funds ($40 million). Spending in State-supported special revenue funds for the Health Care Reform Act (HCRA) increased by $957 million, reflecting additional spending related to bringing all HCRA funded programs on-budget. Spending in State-supported special revenue funds for the Medicaid program increased by $607 million, reflecting in large part the costs associated with the State takeover of the local share of the FHP program and the State cap on local costs. Spending in State-supported special revenue funds for transportation increased by $567 million, largely attributable to the prepayment of 2006-07 obligations. Sources of annual growth in State capital projects included work done at State University (SUNY) and City University (CUNY), and increased funding for the New York State Economic Development Program. Sources of reduced spending in debt service reflect reduced debt service costs from restructuring, refunding, and other debt management activities.

Over the three-year period beginning in 2003-04, State Funds spending has grown by an average 6.6 percent annually. In recent years, the State has financed 35-38 percent of its operations outside of the General Fund. Historically, the State has financed an increasing share of its operations outside of the General Fund.

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 DOT, MTA and other transit entities.

2005-06 Fiscal Year

The State ended the 2005-06 fiscal year with a State Funds cash balance of $6.8 billion. In addition to the $3.3 billion General Fund balance, the State's special revenue funds had a closing balance of $3.7 billion and the debt service funds had a closing balance of $221 million, partially offset by a negative balance in the capital projects funds of $406 million. The fund balance in the special revenue funds largely reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). The largest fund balances are dedicated to finance ongoing HCRA programs ($1.6 billion) and the operations and activities of SUNY campuses ($339 million). The remaining special revenue fund balances are held in numerous funds and accounts that support a variety of programs including industry regulation, public health, and public safety. The fund balance in the debt service funds reflects the timing of bond sales. 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 $71.7 billion in 2005-06, an increase of $7.4 billion from the 2004-05 results. The annual growth in General Fund receipts combined with growth in other State taxes and miscellaneous receipts, particularly the receipt of $2.7 billion in health care conversion proceeds in 2005-06, accounted for the annual change. Actual State Funds disbursements totaled $69.7 billion, an increase of $5.8 billion from the 2004-05 results. The annual change in General Fund spending combined with growth in other State funds spending, particularly for HCRA and Medicaid, accounted for the annual change.

2004-05 Fiscal Year

The State ended the 2004-05 fiscal year with a State Funds cash balance of $3.2 billion. In addition to the $1.2 billion General Fund balance, the State's special revenue funds had a closing balance of $2.0 billion and the debt service funds had a closing balance of $184 million, partially offset by a negative balance in the capital projects funds of $206 million. The fund balance in the special revenue funds largely reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). The fund balance was held in numerous funds/accounts that support a variety of programs including operations and activities of SUNY campuses, industry regulation, public health, public safety, and transportation. The fund balance in the debt service funds reflects the timing of bond sales. 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 $64.2 billion in 2004-05, an increase of $2.0 billion from the 2003-04 results. In addition to the growth in General Fund receipts described above, tax receipts to other State funds also increased. Actual State Funds disbursements totaled $64.0 billion in 2004-05, an increase of $2.6 billion from the 2003-04 results. Medicaid, school aid, higher education, and fringe benefits were the main sources of annual growth.

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, the State's special revenue funds 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 special revenue funds 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, an increase of $7.5 billion from the 2002-03 results. The increase to State Funds receipts was primarily driven by proceeds from the securitization of tobacco moneys and tax increases included in the 2003-04 Enacted Budget. Actual State Funds disbursements totaled $61.3 billion in 2003-04, an increase of $5.9 billion from the 2002-03 results. This annual change reflects the impact of payment deferrals, and spending growth in public assistance, Medicaid, and fringe benefits.

All Funds 2003-04 through 2005-06

The All Funds Financial Plan 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 $104.3 billion in 2005-06, $3.7 billion (3.6 percent) higher than in 2004-05. The State funds component of All Funds spending increased by $5.8 billion, as described above, was partly offset by the Federal component of All Funds spending which declined by $2.1 billion (5.7 percent) from 2004-05 levels.

Significant areas of Federal decline included World Trade Center costs and Medicaid, partly offset by increased Federal grants for school aid. World Trade Center costs declined by $1.3 billion because the payment of Federal funds which "pass-through" from the State to New York City, for costs directly related to the September 11th attacks, was largely completed in 2004-05. Medicaid spending supported by Federal funds decreased by $1.1 billion, primarily reflecting the phase-out of temporary Federal aid increases in 2004-05 and delay in Federal approval of certain payments to hospitals. Federal aid to school increased by $230 million and consisted of increased grants to high-poverty school districts around the State and increased aid for the School Lunch and Breakfast program.

2005-06 Fiscal Year

The State ended the 2005-06 fiscal year with an All Funds cash balance of $7.1 billion. In addition to the $6.8 billion State Funds balance described above, the Federal Funds had a closing balance of $249 million, including $447 million in Federal special revenue funds, partially offset by a negative balance in the Federal capital projects funds of $198 million. The fund balance in the special revenue funds 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 2005-06 totaled $107 billion, an increase of $6.3 billion over 2004-05 results. Strong growth in tax collections and moderate growth in miscellaneous receipts, were partially offset by a decline in Federal grants. All Funds disbursements for 2005-06 totaled $104.3 billion, an increase of $3.7

billion over 2004-05 results. The annual change reflects growth in Medicaid, other public health programs, and school aid, partially offset by the decline in Federal pass-through aid for the World Trade Center.

2004-05 Fiscal Year

The State ended the 2004-05 fiscal year with an All Funds cash balance of $4.3 billion. Partially offsetting the $3.2 billion State Funds balance described above, the Federal Funds had a negative closing balance of $249 million, including $248 million in Federal capital projects funds and $1 million in Federal special revenue funds. 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 2004-05 totaled $100.7 billion, an increase of $1.6 billion from the 2003-04 results. Increased personal income tax collections, business tax and real estate transfer tax collections were partially offset by a decline in both miscellaneous receipts and Federal Grants. All Funds disbursements for 2004-05 totaled $100.7 billion, an increase of $3.3 billion from the 2003-04 results. The annual change largely reflects growth in Medicaid, school aid, fringe benefits, and debt service.

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 special revenue funds, partially offset by a negative balance in the Federal capital projects funds of $159 million. The fund balance in the special revenue funds partly reflected 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 resulted 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, an increase of $10.9 billion from 2002-03 results. The annual change reflects the growth in State Funds receipts described above, combined with growth in Federal aid. All Funds disbursements for 2003-04 totaled $97.3 billion, an increase of $8.3 billion from 2002-03 results. The annual change reflects the growth in State Funds disbursements described above, combined with growth in Federal aid for Medicaid, K-12 education, and the World Trade Center.

COMPARISON OF ACTUAL GENERAL FUND RECEIPTS AND DISBURSEMENTS
2003-04 THROUGH 2005-06
(millions of dollars)

	2003-04	2004-05	2005-06
OPENING FUND BALANCE (1)	1,443	2,302	2,546
Personal Income Tax (1) (2)	16,371	18,781	20,700
User Taxes and Fees:			
Sales and Use Tax (3)	7,241	8,094	7,978
Cigarette and Tobacco Tax	419	406	403
Motor Fuel Tax	0	0	0
Motor Vehicle Fees	82	4	24
Alcoholic Beverage Taxes and Fees	237	227	234
Subtotal	7,979	8,731	8,639
Business Taxes:			
Corporation Franchise Tax	1,482	1,858	2,664
Corporation and Utilities Taxes	715	617	591
Insurance Taxes	930	1,007	987
Bank Tax	286	587	842
Subtotal	3,413	4,069	5,084
Other Taxes:			
Estate and Gift Taxes	736	898	857
Real Property Gains Tax	4	1	1
Pari-mutuel Tax	27	26	22
Other Taxes	1	1	1
Subtotal	768	926	881
Miscellaneous Receipts & Federal Grants	6,571	2,226	2,029
Transfers from Other Funds:			
PIT in excess of Revenue Bond debt service	5,244	5,981	6,500
Sales Tax in Excess of LGAC Debt Service	1,971	2,182	2,295
All Other Transfers	607	967	1,078
Subtotal	7,822	9,130	9,873
TOTAL RECEIPTS	42,924	43,863	47,206
Grants to Local Governments	29,246	29,493	31,287
State Operations	7,093	7,565	8,160
General State Charges	3,247	3,653	3,975
Transfers to Other Funds:			
In Support of Debt Service	1,474	1,731	1,710
In Support of Capital Projects	229	193	286
All Other Transfers	776	984	1,077
Subtotal	2,479	2,908	3,073
TOTAL DISBURSEMENTS	42,065	43,619	46,495
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	859	244	711
CLOSING FUND BALANCE	2,302	2,546	3,257

Source: Office of State Comptroller.

(1) The opening balances and personal income tax receipts have been adjusted to reflect the inclusion of the Personal Income Tax Refund Reserve in the General Fund.

(2) Excludes personal income tax receipts that flow into the Revenue Bond Tax Fund in the first instance and are then transferred to the General Fund after debt service obligation are satisfied.

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

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
STATE FUNDS (1)
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	32,403	4,859	1,862	9,371	48,495
Miscellaneous receipts	2,217	10,972	1,753	768	15,710
Federal grants	9	1	0	0	10
Total receipts	34,629	15,832	3,615	10,139	64,215
Disbursements:					
Grants to local governments	29,493	11,131	340	0	40,964
State operations	7,565	4,917	0	10	12,492
General State charges	3,653	524	0	0	4,177
Debt service	0	0	0	3,789	3,789
Capital projects	0	11	2,538	0	2,549
Total disbursements	40,711	16,583	2,878	3,799	63,971
Other financing sources (uses):					
Transfers from other funds	9,131	1,221	217	5,134	15,703
Transfers to other funds	(2,908)	(167)	(1,002)	(11,464)	(15,541)
Bond and note proceeds	0	0	178	0	178
Net other financing sources (uses)	6,223	1,054	(607)	(6,330)	340
Change in fund balance	141	303	130	10	584
Closing fund balance	1,218	2,006	(206)	184	3,202

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
2005-2006
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	2,546	2,006	(206)	184	4,530
Receipts:					
Taxes	35,304	6,057	1,941	10,341	53,643
Miscellaneous receipts	2,018	13,596	1,713	745	18,072
Federal grants	11	2	0	0	13
Total receipts	37,333	19,655	3,654	11,086	71,728
Disbursements:					
Grants to local governments	31,287	13,403	281	0	44,971
State operations	8,160	5,126	0	58	13,344
General State charges	3,975	546	0	0	4,521
Debt service	0	0	0	3,701	3,701
Capital projects	0	41	3,145	0	3,186
Total disbursements	43,422	19,116	3,426	3,759	69,723
Other financing sources (uses):					
Transfers from other funds	9,873	1,454	279	5,168	16,774
Transfers to other funds	(3,073)	(252)	(866)	(12,458)	(16,649)
Bond and note proceeds	0	0	159	0	159
Net other financing sources (uses)	6,800	1,202	(428)	(7,290)	284
Change in fund balance	711	1,741	(200)	37	2,289
Closing fund balance	3,257	3,747	(406)	221	6,819

Source: NYS DOB

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.

The opening balances and personal income tax receipts have been adjusted to reflect the inclusion of the Personal Income Tax Refund Reserve in the General Fund beginning in 2005-06 pursuant to Section 70 of the State Finance Law. This change in presentation has no impact on net Financial Plan results.

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.

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)	175	2,946
Receipts:					
Taxes	32,403	4,859	1,862	9,371	48,495
Miscellaneous receipts	2,217	11,116	1,759	768	15,860
Federal grants	9	34,491	1,721	0	36,221
Total receipts	34,629	50,466	5,342	10,139	100,576
Disbursements:					
Grants to local governments	29,493	42,644	852	0	72,989
State operations	7,565	8,095	0	10	15,670
General State charges	3,653	712	0	0	4,365
Debt service	0	0	0	3,789	3,789
Capital projects	0	11	3,844	0	3,855
Total disbursements	40,711	51,462	4,696	3,799	100,668
Other financing sources (uses):					
Transfers from other funds	9,131	3,613	217	5,134	18,095
Transfers to other funds	(2,908)	(2,796)	(1,006)	(11,464)	(18,174)
Bond and note proceeds	0	0	178	0	178
Net other financing sources (uses)	6,223	817	(611)	(6,330)	99
Change in fund balance	141	(179)	35	10	7
Closing fund balance	1,218	2,004	(454)	185	2,953

Source: NYS OSC (reflecting amounts published in the Cash Basis Report).

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2005-2006
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	2,546	2,005	(454)	184	4,281
Receipts:					
Taxes	35,304	6,057	1,941	10,341	53,643
Miscellaneous receipts	2,018	13,767	1,714	745	18,244
Federal grants	11	33,363	1,766	0	35,140
Total receipts	37,333	53,187	5,421	11,086	107,027
Disbursements:					
Grants to local governments	31,287	43,010	739	0	75,036
State operations	8,160	8,217	0	58	16,435
General State charges	3,975	760	0	0	4,735
Debt service	0	0	0	3,701	3,701
Capital projects	0	41	4,393	0	4,434
Total disbursements	43,422	52,028	5,132	3,759	104,341
Other financing sources (uses):					
Transfers from other funds	9,873	3,856	279	5,168	19,176
Transfers to other funds	(3,073)	(2,826)	(877)	(12,458)	(19,234)
Bond and note proceeds	0	0	159	0	159
Net other financing sources (uses)	6,800	1,030	(439)	(7,290)	101
Change in fund balance	711	2,189	(150)	37	2,787
Closing fund balance	3,257	4,194	(604)	221	7,068

Source: NYS OSC (reflecting amounts published in the cash basis report).

The opening balances and personal income tax receipts have been adjusted to reflect the inclusion of the Personal Income Tax Refund Reserve in the General Fund beginning in 2005-06 pursuant to Section 70 of the State Finance Law. This change in presentation has no impact on net Financial Plan results.

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 in the AIS dated May 4, 2005 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, 2005	827	833	361	89	2,110	546
March 31, 2004	3,039	(578)	173	603	3,237	(281)
March 31, 2003	(4,221)	(231)	(243)	391	(4,304)	(3,320)

Beginning with the fiscal year ended March 31, 2003, statements have been 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 as well as 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, 2005	41,190	2,645	43,835
March 31, 2004	39,086	2,088	41,174
March 31, 2003	42,396	2,500	44,896

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 this AIS in the section entitled "Current Fiscal Year."

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

The U.S. economy rebounded in the first quarter of 2006 with growth of 4.8 percent, following anemic growth of only 1.7 percent in the fourth quarter of last year. Much of the weakness in the fourth quarter was due to timing factors and, thus, a strong first quarter performance was expected. However, the 3.3 percent average growth rate over the two quarters represents a slowdown from the 4.1 percent average over the prior two and one-half years. With interest rates rising and the housing market exhibiting signs of cooling, the national economy is expected to significantly decelerate over the course of the year and into 2007. This outlook is consistent with the consensus economic forecasting process conducted by the Executive and the Legislature in advance of the enactment of the State's 2006-07 Budget. Despite the slowdown, several factors — including: continued improvement in business spending and hiring, substantial outlays for post-hurricane reconstruction, and continued growth abroad — are expected to lead to growth at roughly the long-term trend rate over most of the forecast horizon.

Since the release of the 2006-07 Executive Budget with 30-day amendments in February 2006, revisions to third and fourth quarter data indicate that the national economy entered the year with slightly more momentum than originally thought. Both income and output were modestly stronger than preliminary data indicated. Therefore, DOB has slightly increased projected growth in real U.S. GDP for 2006 to 3.4 percent, following growth of 3.5 percent for 2005.

Inflation and Monetary Policy

Geopolitical concerns have sent energy prices higher since the release of the Executive Budget with 30-day amendments. Earlier in the year, favorable inventories reports made it appear as if crude oil prices would moderate, but they in fact did just the opposite. With supply concerns becoming a more permanent feature of the energy landscape, DOB has altered its outlook for oil prices accordingly. However, a slowing economy and well-anchored expectations regarding inflation mean that higher energy prices should translate into only slightly higher growth in the general price level. Consumer price inflation is projected to be 3.1 percent for 2006.

After almost two years and 15 consecutive interest rate increases of 25 basis points each, long-term interest rates have finally risen above their levels when the Federal Reserve initiated its policy shift at the end of June 2004. In late April, the 10-year Treasury yield breached 5 percent for the first time since 2002. Nevertheless, the interest rate term spread remains historically narrow for what is believed to be the middle and not the end of an economic expansion. How the Federal Reserve views the causes of the widely discussed "interest rate conundrum" may determine how much tightening the monetary authority thinks it needs in order to maintain price stability. In the past, narrowing term spreads have often signaled the onset of a recession. However, the currently prevailing view is that the recent narrowing of the term spread has been the result of a declining term premium, rather than a harbinger of bad times to come.[9] Possible explanations for the decline in the term premium include: more moderate inflation and economic

[9] For an exposition of this view, see Ben Bernanke, "Reflections on the Yield Curve and Monetary Policy," The Federal Reserve Board, remarks before the Economic Club of New York, New York, NY, March 20, 2006.

volatility, due in part to well-anchored inflation expectations; currency market interventions by foreign governments; asset management strategies pursued by pension funds; and a tight supply of long-term securities relative to demand.

Since long-term rates are viewed as more important to the decision-making of households and businesses than short-term rates, the behavior of the term premium could have important implications for the conduct of monetary policy. For example, a lower term premium could imply a higher policy-neutral interest rate target relative to the historical average. DOB expects that the central bank will accelerate the pace of growth in its federal funds target, then pause once it reaches 5 percent, leaving its longer-term path unchanged from the Executive Budget forecast. Consequently, the 10-year Treasury yield is also expected to rise more quickly over the course of 2006 than was projected in February.

Household Spending and Housing Market Risk

The Executive Budget presentation outlined the potential risks to consumption and residential investment spending from a cooling housing market. The most recent data suggests that the cooling process has already begun. Like other long-term interest rates, mortgage rates have had an unusual relationship with the federal funds rate since mid-2004. Nonetheless, mortgage rates are at their highest levels since early 2003, implying a decline in housing affordability, all else being equal. Consequently, both new and existing home sales have fallen from their 2005 peaks and construction employment growth has leveled off.

With the rise in interest rates and the cooling of the housing market, mortgage equity withdrawals are expected to diminish. This decline could act to diminish consumer spending. Data collected by Freddie Mac indicate that the 2005 volume of equity cash-outs was even stronger than had been projected in February. However, cash withdrawals are expected to fall by about half for 2006, and the eventual impact on consumption growth could be even larger than originally estimated. But the lags with which households are believed to spend these withdrawals should ensure that the impact will unfold gradually. In addition, the national labor market remains strong, with employment gains averaging 218,000 for the five-month post-hurricane period of November 2005 through March 2006. Employment growth is projected at 1.6 percent for 2006, slightly stronger than the 1.5 percent growth experienced in 2005. The forecast for 2006 translates into average monthly gains of about 170,000 jobs for the remainder of the year, more than sufficient to absorb the expected growth in the labor force. Moreover, revisions to wages by the U.S. Bureau of Economic Analysis indicate even stronger growth for last year than originally estimated, resulting in a higher forecast for both wages and personal income for 2006 as well. Wage and personal income growth are projected at 5.5 percent and 6.2 percent, respectively, for 2006.

The DOB expects that the strength in employment and income growth will almost fully compensate for the decline in stimulus coming from the housing market. Total consumption spending is expected to grow 3.4 percent for 2006, slightly below the 3.5 percent rate for 2005, and slightly above the Executive Budget projection. A subdued housing market is still expected to sharply reduce residential construction spending from 7.1 percent in 2005 to 1.3 percent for 2006. However, the downside risks to the forecast stemming from the household sector are perhaps more pronounced now than in February. Elevated energy prices, particularly for gasoline, could take a larger bite out of consumer spending than projected. In addition, an accelerated pace of interest rate increases could imply a quicker falloff in mortgage refinancings and equity withdrawals, as well as home sales.

Business Sector Spending

In addition to the strong recent gains in employment, the nation’s business sector has shown an increased propensity to spend on plant and equipment. Year-over-year growth in shipments of nondefense capital goods has accelerated recently, after falling off during much of 2005. This falloff occurred despite extremely robust growth in corporate profits. Investment in equipment and software in the fourth quarter was brought down by a slowdown in auto purchases by businesses, following a strong response to buyer incentives offered over the summer. However, after adjusting for this timing factor, it becomes apparent that momentum in overall business spending is building. Indeed, spending for nonresidential structures also appears to be on the upswing, perhaps in anticipation of higher future long-term interest rates. These developments have led the DOB to increase projected growth in nonresidential fixed investment for 2006 to 8.9 percent, following growth of 8.6 percent for 2005.

Growth in corporate profits from current production, including the inventory valuation and capital consumption adjustments, was exceedingly strong in the fourth quarter of last year, bringing growth up to 16.4 percent for all of 2005. Profits are expected to remain strong, consistent with higher projected energy prices. Therefore, the DOB has raised its forecast for profits growth for 2006 to 13.9 percent. This increase in projected corporate earnings is expected to be largely offset by faster growth in long-term interest rates. Thus, projected equity market growth for 2006, as represented by growth in the S&P 500 price index, is virtually unchanged at 10.4 percent, following growth of 6.8 percent in 2005.

Twin Deficits Remain a Risk

There are indications that global growth is exceeding expectations, which combined with revised data for the fourth quarter, has resulted in faster export growth than projected in February. Real export growth of 8.0 percent is now projected for 2006, following growth of 6.9 percent for 2005. However, preliminary data, along with stronger projected investment growth, have resulted in higher projected import growth as well. Real import growth of 8.4 percent is projected for 2006, following growth of 6.3 percent for 2005. Thus, these revisions to foreign sector growth still imply a deteriorating trade deficit for this year. In addition, the war and reconstruction efforts, along with the recent expansion of the Medicare program, imply continued stimulus from Federal fiscal policy. Based on revised data for the fourth quarter of 2005 and preliminary data for the first quarter of 2006, DOB has increased the projected rate of real government spending for 2006 to 2.1 percent, following growth of 1.8 percent for 2005.

The Federal budget deficit, along with an ever-widening trade deficit, continues to pose a risk to the U.S. dollar. With growth prospects now significantly improving, the Bank of Japan’s effort to depress the value of the yen relative to the dollar could diminish with time. Indeed, Japan’s foreign holdings of U.S. Treasury securities as of January 2006 were actually below the January 2005 level. Moreover, Chinese holdings of U.S. Treasuries, the second largest outside of the U.S., grew at a much slower rate over the course of 2005 than over the prior year. Strengthening global growth can be expected to generate concern about inflation and, hence, rising interest rates worldwide, leaving the dollar more vulnerable to depreciation risk as a result of the growing twin deficits.

Economic Indicators for the United States

	2002	2003	2004	2005	2006(1)
Gross Domestic Product					
Nominal (billions $)	10,469.6	10,971.3	11,734.3	12,487.2	13,319.3
Percent Change	3.4	4.8	7.0	6.4	6.7
Real (billions $)	10,048.9	10,320.6	10,755.7	11,134.8	11,516.3
Percent Change	1.6	2.7	4.2	3.5	3.4
Personal Income					
(billions $)	8,881.9	9,169.1	9,713.3	10,248.3	10,880.7
Percent Change	1.8	3.2	5.9	5.5	6.2
Nonagricultural Employment					
(millions)	130.3	130.0	131.4	133.5	135.6
Percent Change	(1.1)	(0.3)	1.1	1.5	1.6
Unemployment Rate (%)	5.8	6.0	5.5	5.1	4.8
Consumer Price Index					

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

(1) As projected by the NYS DOB, based on National Income and Product Account data through April 2006.

Risks to the U.S. Forecast

In addition to the risks outlined above, a shock to the economy related to geopolitical uncertainty, particularly in the form of a direct attack, remains the greatest risk to the U.S. forecast. The DOB's outlook for household sector spending continues to rely on healthy growth in employment and wages, a gradual receding of inflationary pressures, a slow decline in the housing market, and the settling of interest rates at a relatively "neutral" level. If the Federal Reserve believes that the long bond term premium is permanently lower, then it might feel the need to raise short-term interest rates by more than in the past in order to preempt inflationary pressure, presenting the possibility that the Federal Reserve could overshoot. A weaker labor or housing market, or higher interest rates than expected could result in lower consumer spending than projected. Energy market speculation in the face of a tight and uncertain supply of oil remains a risk to the inflation forecast, and is compounded by risks to the value of the dollar. Finally, excessive volatility in equity prices represents an additional source of uncertainty. However, stronger job growth, lower energy prices, or lower long-term interest rates than anticipated could result in a stronger national economy than projected.

The New York Economy

The State's recovery is securely in the middle of its third year. The State's financial and housing sectors have been strongly supported by low interest rates and rising home prices, while the professional and business services sector has benefited from robust growth in U.S. corporate profits. In addition, New York City's tourism boom appears to be continuing. However, the most recent data continues to indicate that the State's economic momentum may have peaked in 2005, with growth expected to slow going forward. State private sector employment growth is projected to slow to 0.9 percent in 2006, consistent with the consensus economic forecasting process conducted by the Executive and the Legislature in advance of the enactment of the State's 2006-07 Budget.

The most recent establishment-level data, which permits a more detailed analysis of the State's labor market dynamics, continues to support a positive outlook for State employment growth. The State's gross rate of job creation comfortably exceeds the gross rate of job destruction. Nevertheless, the recent upturn in the job destruction index may be yet another indicator of the slowing of State economic growth. As mentioned above, recent Federal Reserve policy appears aimed at engineering a soft landing for the U.S. economy as was successfully accomplished in 1994-95. However, as the events of that period demonstrated, because of the State's position as a financial market capital, the New York economy tends to be more sensitive to monetary policy actions than the economies of other states. Employment growth at both the State and national levels responded negatively to the seven consecutive interest rate hikes implemented by the Federal Reserve between January 1994 and January 1995. Thus the soft landing projected for the nation could turn into a significant slowdown for New York.

Revisions to State Income

The most recent data indicates that employment dynamics at the firm level continue to support a positive outlook for State employment growth. The State's gross rate of job creation comfortably exceeds the gross rate of job destruction. Nevertheless, a slight upturn in the job destruction index may be yet another indicator of the slowing of State economic growth. As mentioned above, recent Federal Reserve policy appears aimed at engineering a soft landing for the U.S. economy as was successfully accomplished in 1994-95. However, as the events of that period demonstrated, because of the State's position as a financial market capital, the New York economy tends to be more sensitive to monetary policy actions than the economies of other states. Employment growth at both the State and national levels responded negatively to the seven consecutive interest rate hikes implemented by the Federal Reserve between January 1994 and January 1995. Thus the soft landing projected for the nation could turn into a significant slowdown for New York.

Risks to the New York Forecast

All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, interest rate risk and equity market volatility pose a particularly large degree of uncertainty for New York. Finance and insurance sector bonuses fell 7.7 percent during the 1994-95 State fiscal year in the wake of the Federal Reserve's policy shift. This risk would become amplified should the central bank overshoot its target. The impact of rising rates on the State's housing sector also poses a risk. Should the State's real estate market cool more rapidly than anticipated, household consumption and taxable capital gains realizations could be negatively affected. These effects could ripple though the economy, depressing both employment and wage growth. In contrast, should the national and world economies grow faster than expected, a stronger upturn in stock prices, along with even stronger activity in mergers and acquisitions and other Wall Street activities, could result in higher wage and bonuses growth than projected.

Economic Indicators for New York State

	2002	2003	2004	2005	2006(1)
Personal Income					
(billions $)	677.6	691.1	737.8	779.9	825.9
Percent Change	(0.3)	2.00	6.7	5.7	5.9
Nonagricultural Employment					
(thousands)	8,459.0	8,407.0	8,461.9	8,528.3	8594.9
Percent Change	(1.5)	(0.6)	0.7	0.8	0.8
Unemployment Rate (%)	6.2	6.4	5.8	5.0	4.7

Sources: US Department of Commerce, Bureau of Economic Analysis; NYS Department of Labor. Table reflects revisions by source agencies to data for prior years.

(1) As projected by Division of the Budget, based on National Income and Product Account and employment data available through April 2006.

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. In 2003, Federal and state governments began reporting employment and wage statistics in accordance with the NAICS industrial classification system.

Services: Under NAICS, the services industries include 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 and many other types of equipment 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 only about 0.2 percent 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 NAICS Sector for 2005
(Percent)

	Employment		Wages	
	State	United States	State	United States
Natural Resources and Mining	0.1	0.5	0.1	0.7
Construction	3.8	5.5	3.7	5.6
Manufacturing	6.8	10.7	6.8	12.6
Trade, Transportation & Utilities	17.6	19.4	13.3	16.7
Information	3.2	2.3	4.6	3.5
Financial Activities	8.4	6.1	20.3	9.3
Professional and Business Services	12.7	12.6	16.2	15.2
Educational and Health Services	18.1	13.0	13.0	11.6
Leisure and Hospitality	7.8	9.6	3.7	4.2
Other Services	4.2	4.0	2.8	3.1
Government	17.4	16.3	15.1	16.8

Source: NYS Department of Labor; US Department of Labor, Bureau of Labor Statistics; 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 since closed.

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	226,542	11.4
1990	17,990	2.5	7.2	248,710	9.8
2000	18,976	5.5	6.7	281,422	13.2

Source: US Department of Commerce, Census Bureau.

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

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	54,296	11.4	N/A	5.5
1970	7,156	71,006	10.1	4.5	4.9
1980	7,207	90,528	8.0	7.5	7.1
1990	8,212	109,487	7.5	5.3	5.6
2000	8,635	131,785	6.6	4.5	4.0
2005 (prelim.)	8,528	133,463	6.4	5.0	5.1

Source: US Department of Labor and NYS Department 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	2,821	2,269	1.24
1970	4,874	4,085	1.19
1980	11,015	10,114	1.09
1990	23,523	19,477	1.21
2000	34,897	29,845	1.17
2005 (prelim.)	40,507	34,586	1.17

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

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 submit an update to the Plan (the "Enacted Plan") by the later of July 30 or 90 days after the enactment of the State Budget. A copy of the Executive Budget and the Enacted Budget Capital Program and Financing Plans can be obtained, when available, by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705, or at www.budget.state.ny.us.

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 or the broader measure of State-related debt. *State-related debt* consists of State-supported debt, where the State, subject to an appropriation, is directly responsible for paying debt service, 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"). *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").

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-Related Debt Outstanding

The category of State-related debt includes the State-supported debt, contingent contractual-obligation financings, moral obligation financings, State-guaranteed debt, and certain other debt (MBBA Prior Year School Aid claims).

Outstanding State-Related Debt (1)
(Millions of Dollars)

	As of 3/31/04	As of 3/31/05	As of 3/31/06
State-Supported Debt			
General Obligation	3,804	3,652	3,470
Local Government Assistance Corporation	4,569	4,449	4,317
Other Lease-Purchase and Contractual-Obligation Financing Arrangements	28,605	28,138	27,067
State Personal Income Tax Revenue Bond Financing	3,336	4,461	6,323
Total State-Supported Debt	40,314	40,699	41,177
Contingent Contractual-Obligation Financing *(2)*			
DASNY/MCFFA - Secured Hospital Program	941	871	837
Tobacco Settlement Financing Corporation	4,551	4,495	4,278
Total Contingent Contractual-Obligation Financing	5,492	5,366	5,115
Moral Obligation Financing			
Housing Finance Agency (3)	345	96	58
MCFFA-Hospitals and Nursing Homes	32	16	9
Total Moral Obligation Financing	377	112	67
State-Guaranteed Debt			
Job Development Authority	79	64	63
Other State Financings			
MBBA Prior Year School Aid Claims	510	507	504
TOTAL STATE-RELATED DEBT	46,772	46,748	46,926

Source: Data provided by the Office of the State Comptroller for 3/31/04 and 3/31/05 and NYS Division of the Budget for 3/31/06. Presentation of data supplied by DOB.

(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 Settlement Financing Corporation, for w hich the State's contingent obligation, subject to annual appropriation, is to provide funds for debt service in the event there is a shortfall of revnues from other specified sources.

(3) Includes bonds issued for Co-Op City w hich had outstanding debt as follow s: 3/31/04 $193 million, 3/31/05 and 3/31/06 $0.

State-Supported Debt Outstanding

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.

General Obligation Financings

Under the State Constitution, the State may not, with limited exceptions for emergencies, undertake a 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) imposed statutory limitations on new State-supported debt issued on and after April 1, 2000. The State Constitution 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 the issuance of such bonds. However, general obligation housing bonds must be paid within 50 years after issuance, with principal commencing no more than three years after issuance. Regardless, 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 2006-07 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 and local highway and bridge improvements, aviation, mass transportation, 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 2005-06 fiscal year (excluding refunding bonds) was $159 million, and as of March 31, 2006, the total amount of general obligation debt outstanding was $3.5 billion. The following table sets forth information regarding the levels of authorized, unissued and outstanding State general obligation debt by purpose as of March 31, 2006. The Enacted Capital Plan projects that approximately $236 million in general obligation bonds will be issued in 2006-07.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

State General Obligation Debt
As of March 31, 2006
(millions of dollars) (1)

Purpose/Year Authorized	**Total Authorized**	**Authorized but Unissued**	**Total Debt Outstanding**
Transportation Bonds:			
Transportation Capital Facilities (1967)			
Highways	1,250	0	0
Mass Transportation	1,000	0	64
Aviation	250	0	43
Rail Preservation (1974)	250	0	35
Energy Conservation Through Improved Transportation (1979)			
Local Streets and Highways	100	0	0
Rapid Transit and Rail Freight	400	1	37
Rebuild New York Through Transportation Infrastructure Renewal (1983)			
Highway Related Projects	1,064	24	8
Rapid Transit, Rail and Aviation Projects	137	0	40
Ports, Canals, and Waterways	49	0	1
Accelerated Capacity and Transportation Improvements of the Nineties (1988)	3,000	34	916
Rebuild & Renew New York Transportation Bonds (2005)			
Highway Facilities	1,450	1,443	7
Mass Transit - Metropolitan Transportation Authority	1,450	1,410	40
Total Transportation Bonds	10,400	2,912	1,191
Environmental Bonds:			
Park and Recreation Land Acquisition (1960)	100	1	0
Pure Waters (1965)	1,000	29	131
Outdoor Recreation Development (1966)	200	0	0
Environmental Quality (1972)			
Water	650	7	176
Air	150	9	36
Land and Wetlands	350	12	74
Environmental Quality (1986)			
Solid Waste Management	1,200	99	684
Land and Forests	250	4	96
Clean Water/Clean Air (1996)			
Safe Drinking Water	355	0	186
Clean Water	790	274	461
Solid Waste	175	16	127
Environmental Restoration	200	164	28
Air Quality	230	38	127
Total Environmental Bonds	5,650	653	2,126
Housing Bonds:			
Low-Income Housing (through 1958)	960	8	93
Middle-Income Housing (through 1958)	150	1	60
Urban Renewal (1958)	25	2	0
Total Housing Bonds	1,135	11	153
Education Bonds:			
Higher Education Facilities (1957)	250	0	0
TOTAL GENERAL OBLIGATION DEBT	17,435	3,576	3,470

Source: Office of the State Comptroller

(1) Amounts have been rounded to the nearest million.

State-Supported Lease-Purchase and Contractual-Obligation Financings

The State utilizes certain long-term financing mechanisms, lease-purchase and contractual-obligation financings which involve obligations of public authorities or municipalities where debt service is payable by the State, but which 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 Enacted Capital Plan projects that $4.8 billion of State PIT Revenue Bonds, $92 million of SUNY Dormitory Facilities Revenue Bonds, $312 million of Mental Health Facilities Improvement Revenue Bonds and $21 million of DOH Revenue Bonds will be issued in 2006-07. The Enacted Capital Plan also reflects the issuance of $768 million of Dedicated Highway and Bridge Trust Fund Bonds.

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

Transportation. The State DOT 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 2005-2010 Transportation Capital Plan continues to reflect a five-year DOT capital plan and a five-year MTA capital plan of $17.9 billion each. The Transportation Capital Plan includes the entire DOT plan, but only reflects the portion of the MTA capital plan that is financed by State-supported bonds. The balance of the MTA capital plan is financed by a combination of other State, City and MTA resources (see below). To partially fund the new DOT and MTA plans, the voters passed a $2.9 billion Rebuild and Renew New York Transportation General Obligation Bond Act in November 2005. Proceeds from the Bond Act are divided equally between the DOT and the MTA capital programs ($1.45 billion for each program). Additional resources still need to be identified in the outyears of the plan to support the DOT and MTA capital plans.

DOT’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. In addition, general obligation bond acts have been used to support capital transportation spending.

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 bond maturities with the useful lives of the projects financed. See the section entitled "Authorities and Localities" for additional information about MTA.

Education. The State finances the physical infrastructure of SUNY and CUNY and their respective community colleges and SED 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 Enacted Capital Plan also includes language amendments to the Higher Education Capital Matching Grants Program which will streamline the financing of capital projects at private colleges. Also included in the Financial Plan is $2.6 billion in new bond issuances to support school construction projects for the Expanding our Children’s Education and Learning (EXCEL) program.

The 34 SUNY senior colleges and 30 SUNY community college campuses include approximately 2,700 buildings, including classrooms, dormitories, libraries, athletic and student facilities and other buildings. Nearly 85 percent of these structures exceed 20 years of age. Together with the 30 SUNY community colleges, the SUNY system serves approximately 413,000 students. The CUNY system is comprised of 11 senior colleges and 6 community colleges that serve more than 223,000 students.

Mental Hygiene/Health. The State provides care for its citizens with mental illness, mental retardation and developmental disabilities, and for those with chemical dependencies, through the Office of Mental Health (OMH), the Office of Mental Retardation and Developmental Disabilities (OMRDD) and the Office of Alcoholism and Substance Abuse Services (OASAS). 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.

OMH's capital program supports an institutional physical plant consisting of 22 campuses with over 1,000 buildings as well as a State and non-profit operated community network of more than 28,000 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.

OMRDD's capital program supports a State institutional infrastructure comprising 14 service districts with approximately 350 buildings, and a State- and non-profit operated community network of over 33,000 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.

As the need for institutional beds has declined over recent years, both OMH and OMRDD 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 63,100 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 OGS 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 funds, 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 under this program in 2006-07.

Other Programs. The State also uses lease-purchase and contractual-obligation financing arrangements for the institutional facilities of OCFS (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 1 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 eliminated 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, in addition to its own cash needs, $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. The 2006-07 Enacted Budget includes a local assistance appropriation of $170 million from the Local Government Assistance Tax Fund to New York City.

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), Housing Finance Agency (HFA), the New York State Thruway Authority (Thruway Authority), DASNY, and the New York State Environmental Facilities Corporation (EFC) (collectively, the "Authorized Issuers").

The legislation provided that 25 percent of State PIT receipts (excluding refunds owed to taxpayers and deposits to the STAR Fund) be deposited to the Revenue Bond Tax Fund (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 to support programs related to five general purposes: Education, Economic Development and Housing, Environment, State Facilities and Equipment and Transportation. The Enacted Capital Plan anticipates that State PIT Revenue Bonds will be issued for a sixth general purpose – Health Care, to support the Health Care Efficiency and Affordability Law for New Yorkers (Heal NY) Capital Grant Program. 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, 2006, approximately $6.3 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-related debt table shown below. The 2006-07 Enacted Budget projects that $4.8 billion of State PIT Revenue Bonds will be issued in 2006-07 (see "2006-07 State-supported Borrowing Plan" below).

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

	As of 3/31/04	As of 3/31/05	As of 3/31/06
State Personal Income Tax Revenue Bonds			
Education	702	784	1,842
Economic Development & Housing	1,037	1,299	1,520
Environment	156	317	460
State Facilities & Equipment	864	1,159	1,400
Transportation	577	902	1,101
Total State Personal Income Tax Revenue Bonds	3,336	4,461	6,323

Source: NYS Division of the Budget

State-Related Debt

State Bond Caps and Debt Outstanding by Program

The following table shows the total amount of State-related debt outstanding as of March 31, 2006 by program and by issuer. Also included in the table are the amount of bonds authorized and bonds authorized but unissued. The bond authorization amounts and related unissued amounts have been updated through May 12, 2006 to include all legislative actions taken on the 2006-07 Enacted Budget. The table includes bond information for general obligation, LGAC, lease-purchase and contractual-obligation bonds. 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 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-Related Debt (1)
As of March 31, 2006
(millions of dollars)

	Authorized As of 5/12/06	Authorized but Unissued As of 5/12/06 (3)	Outstanding As of 3/31/06 (4)
GENERAL OBLIGATION (2)	17,435	3,576	3,470
LOCAL GOVERNMENT ASSISTANCE CORP.	4,700	0	4,317
OTHER LEASE-PURCHASE AND CONTRACTUAL OBLIGATION FINANCING ARRANGEMENTS			
Transportation:			
MTA:			
Service Contract Bonds	Note (5)	Note (5)	2,311
Thruway Authority:			
Consolidated Highway Improvement Program	5,710	1,809	3,052
Dedicated Highway & Bridge Trust	16,500	8,289	5,555
DASNY:			
Albany County Airport	40	1	32
Education:			
DASNY:			
SUNY Educational Facilities (6)	7,073	3,419	4,663
SUNY Dormitory Facilities (7)	800	449	688
SUNY Upstate Community Colleges	301	182	529
CUNY Educational Facilities (8)	5,632	2,225	3,296
State Education Department Facilities (9)	0	0	65
Library for the Blind	16	0	15
SUNY Athletic Facilities	22	0	23
RESCUE	195	0	152
University Facilities (Jobs 2000)	48	12	27
School District Capital Outlay Grants	140	40	67
Judicial Training Institute	16	0	13
Transportation Transition Grants	80	12	55
Public Broadcasting Facilities	15	10	5
Higher Education Capital Matching Grants	150	150	0
Excel School Construction	2,600	2,600	0
Library Facilities	14	14	0
Health/Mental Hygiene:			
DASNY/MCFFA:			
Department of Health Facilities	495	24	396
Mental Health Facilities (10)	5,857	1,056	3,677
HEAL NY Capital Program	750	750	0
Public Protection			
UDC\ESDC:			
Prison Facilities	5,000	332	4,107
Homeland Security	25	1	21
Youth Facilities	329	81	181
E-911 Program	100	65	32
Environment:			
EFC:			
Environmental Infrastructure Projects (11)	457	102	324
Hazardous Waste Remediation	1,200	1,052	138
Riverbank State Park	78	18	54
Water Pollution Control	482	42	154
Pilgrim Sewage Treatment	0	0	7
State Park Infrastructure	30	0	8
Fuel Tanks	23	0	3
Pipeline for Jobs (Jobs 2000)	29	3	22
ERDA:			
Western New York Nuclear Service Center	104	0	17
UDC\ESDC:			
Long Island Pine Barrens	15	0	11
State Building/Equipment:			
UDC\ESDC:			
Empire State Plaza	133	10	36
State Capital Projects (1995 Refunding)	200	0	204
State Facilities	Note (12)	Note (12)	272
Equipment Acquisition (13)	273	118	179

(Continued on next page)

Outstanding State-Related Debt (1)
As of March 31, 2006
(millions of dollars)

	Authorized As of 5/12/06	Authorized but Unissued As of 5/12/06 (3)	Outstanding As of 3/31/06 (4)
Housing:			
HFA:			
Capital Programs	1,891	163	1,398
Economic Development:			
Triborough Bridge and Tunnel Authority:			
Convention Center Project (JAVITS/Prior Issue)	375	0	214
UDC\ESDC\DASNY:			
Community Enhancement Facilities (CEFAP)	425	109 (14)	108
University Technology Centers (incl. HEAT)	248	13	128
Onondaga Convention Center	40	0	35
Sports Facilities	145	0	120
Natural Resources Preservation	25	0	5
Child Care Facilities	30	1	26
Bio-Tech Facilities	10	10	0
Strategic Investment Program	225	71	59
Regional Economic Development (Fund 002) (15)	1,200	341	720
NYS Economic Development (2004) (16)	350	200	147
Regional Economic Development (CCAP) (2004) (17)	250	250	0
High Technology and Development (2005)	250	250	0
Regional Economic Development (SPUR)	90	56	33
Buffalo Inner Harbor	50	50	0
Jobs Now	14	1	6
Economic Development 2006 (18)	996	996	0
Convention Center Project (JAVITS/New Issues '06)	350	350	0
Queens Stadium	75	75	0
Bronx Stadium	75	75	0
NYS Economic Development (Stadium '06)	75	75	0
Total Other Lease Purchase and Contractual Obligation Debt			**33,390**
TOTAL STATE-SUPPORTED DEBT			**41,177**
Other State Financings:			
Tobacco Settlement Financing Corporation Bonds			**4,278**
MBBA Special Purpose School Aid Bonds			**504**
Other (19)			**967**
TOTAL STATE-RELATED DEBT			**46,926**

Source: NYS Division of the Budget

(1) Includes only authorized programs that are active at March 31, 2006 or have outstanding program balances or both.

(2) Includes the authorized $2.9 billion Rebuild and Renew New York Transportation General Obligation Bond Act, approved by the voters in November 2005.

(3) 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. In some cases, Authorized but Unissued bond cap amounts have been reduced by the higher of (1) net bond proceeds available to fund program, or (2) par amount of bonds issued.

(4) Amounts outstanding reflect original par amounts or original net proceeds in the case of capital appreciation bonds.

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

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

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

(8) The amount outstanding includes the State's portion of CUNY Community Colleges debt service. New York City pays 50 percent of the debt service on most on CUNY CC bonds. The total amount authorized for CUNY Senior Colleges w as unlimited for resolutions adopted prior to 7/1/85 and limited to $5.632 billion for both CUNY Senior and CUNY Community Colleges for resolutions adopted after 7/1/85.

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

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

(11) Includes bonds issued for West Valley, DEC Environmental Infrastructure Projects, Environmental Protection Fund, Onondaga Lake, Office of Parks and Recreation and Historic Preservation.

(12) Includes bonds issued for the OSC Buildings, East Parking Garage, Ten Eyck Building, OGS Capital Projects, Elk Street Parking Garage, the Alfred E. Smith Office Building, Judiciary Court buildings, the Division of Military and Naval Affairs and New York State Police Troop G. There is no limit for the amount of bonds that may be issued for the OSC building, East Parking Garage, and the Ten Eyck office building.

(13)Authorized amounts includes Certificates of Participation, w hich have been issued as bonds after March 31, 2003.

(14) 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.

(15) 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. (Law s of 2002)

(16) Includes bonds issued for the Empire Opportunity Fund, RESTORE and CCAP (Law s of 2004).

(17) Includes bonds to be issued for economic development projects outside cities of 1 million or more in population (Law s of 2004).

(18) Includes bonds to be issued for economic development and environmental projects from the Law s of 2006.

(19) Includes bonds issued for Secured Hospital Program, Housing Finance Agency, MCFFA-Hospitals and Nursing Homes and the Job Development Authority.

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 2006-07 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 by DASNY (all now included as debt of 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, 2006, there were ten secured hospital borrowers and a total of $837.1 million in bonds outstanding with annual debt service payments of $86.6 million due during State fiscal year 2006-07. 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, two eligible borrowers, North General Hospital and Catskill Regional Medical Center, the successor to Community General Hospital of Sullivan County, refinanced its outstanding debt. As of March 31, 2006, there were $138.1 million in outstanding secured hospital bonds attributable to North General Hospital, with annual debt service payments of $11.8 million due during State fiscal year 2006-07 and $51.4 million in outstanding secured hospital bonds attributable to Catskill Regional Medical Center, with annual debt service payments of $5.1 million due during State fiscal year 2006-07. The legislative authorization for such refinancings expired on December 31, 2004.

In regard to St. Agnes Hospital, DASNY obtained a Judgment of Foreclosure and Sale against St. Agnes on October 22, 2004 and sold the property subject to DASNY's mortgage at a sale of foreclosure on December 14, 2004. The net proceeds of the foreclosure sale, along with reserve funds established for the bonds and other resources, were applied in February 15, 2005 to the redemption of all outstanding bonds. Thus, the State no longer has a contingent contractual obligation related to St. Agnes Hospital.

The State anticipates that the annual debt service payments due during the State's 2006-07 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 2006-07 fiscal year.

Tobacco Settlement Financing Corporation

Legislation enacted in 2003 authorized the State to securitize all of its tobacco settlement payments to the Tobacco Settlement Financing Corporation (TSFC, a corporation created under the legislation that is a subsidiary of the Municipal Bond Bank Agency) through an asset-backed securitization transaction. To lower costs, 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 $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, 2006, approximately $4.278 billion in TSFC bonds were outstanding.

The bonds carry a final nominal maturity of 20 years and an expected final maturity of 13 years, based on optional redemptions. The expected final maturity may deviate due to the optional nature of the redemptions and adjustments to tobacco settlement payments due from participating manufacturers. Various manufacturers, including the original participating manufacturers, have adjusted payments downward or indicated that they plan on adjusting subsequent payments downward to states and territories, or otherwise have deposited or will deposit payments into a special disputed payments account awaiting determination of entitlement to adjustments.

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 payment 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 2006-07 fiscal year.

State-Guaranteed Financings

Pursuant to specific constitutional authorization, the State may also directly guarantee certain public authority obligations. Payments of debt service on State-guaranteed bonds and notes are legally enforceable obligations of the State. 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.

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 of which $15 million is outstanding as of March 31, 2006. In April 2004, JDA issued approximately $42.4 million of State-guaranteed bonds to refinance certain of its outstanding bonds and notes in order to restructure and improve JDA's capital finances. As of March 31, 2006, JDA had approximately $48.3 million of bonds outstanding. It is anticipated that the audit report as of March 31, 2006 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 2006-07 fiscal year.

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, State-guaranteed debt, and State funded financings.

State-Related Debt Long-Term Trends

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 $37.5 billion at the end of the 1996-97 fiscal year to $46.9 billion at the end of the 2005-06 fiscal year, an average annual increase of 2.53 percent. During the first five years of this ten-year period, State-related debt outstanding increased by an annual average rate of 0.78 percent and over the remaining five years of the period the annual average growth in State-related debt outstanding has increased to 3.95 percent. During the ten-year period, annual personal income in the State rose from $531.0 billion to $779.9 billion, an average annual increase of 4.36 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 7.06 percent to 6.04 percent of personal income for the same period. State-related debt is expected to increase slightly in 2006-07 to 6.19 percent of personal income.

State-Related Debt Compared with Personal Income and Population
As of March 31, 2006

Fiscal Year	NYS Personal Income ($billions)(1)	Total State Population ($millions)(1)	State-Related Debt Outstanding ($millions)(2)	State-Related Debt As % of Personal Income	State-Related 'Debt/Capita (In Dollars)
1996-97	530,990	18.6	37,478.0	7.1%	2,016
1997-98	553,543	18.7	36,999.0	6.7%	1,983
1998-99	590,406	18.8	37,740.0	6.4%	2,012
1999-2000	616,292	18.9	38,584.0	6.3%	2,043
2000-01	655,583	19.0	38,663.0	5.9%	2,037
2001-02	682,206	19.1	38,603.0	5.7%	2,023
2002-03	684,070	19.2	40,531.0	5.9%	2,116
2003-04	701,852	19.2	46,772.0	6.7%	2,434
2004-05	737,039	19.2	46,748.0	6.3%	2,431
2005-06	779,941	19.3	46,926.0	6.0%	2,437
2006-07 projected	825,922	19.3	50,683.0	6.1%	2,631

Source: NYS Division of the Budget. Debt outstanding data provided by the Office of the State Comptroller.

(1) For calendar year ending in State's fiscal year. Based on US Department of Commerce, Bureau of Economic Analysis (BEA) data through March, 2006. Personal income for 2005 estimated by the BEA and 2006 estimated by the Division of the Budget.

(2) Starting in 2003-04, debt outstanding 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-Related Debt Service Requirements

The table following presents the current and future debt service (principal and interest) requirements on State-Related debt outstanding as of March 31, 2006. 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, capitalized interest or debt service reserve fund releases. 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 Requirements on State-Related Debt
As of March 31, 2006

Fiscal Year	Total State-Related Debt Service (dollars in millions)		Total Governmental Funds Receipts (dollars in millions)	State-Related Debt Service as a % of Total Governmental Funds Receipts (includes DRRF)	State-Related Debt Service as a % of Total Governmental Funds Receipts (excludes DRRF)
1996-97	3,684		62,886	5.86%	5.86%
1997-98	3,737		66,246	5.64%	5.64%
1998-99	3,738		72,551	5.15%	5.15%
1999-2000	3,887		76,804	5.06%	5.06%
2000-01	4,368	(1)	83,527	5.23%	4.72%
2001-02	4,437	(2)	84,312	5.26%	4.67%
2002-03	3,358		88,274	3.80%	3.80%
2003-04	3,847		99,698	3.86%	3.86%
2004-05	4,412		101,381	4.35%	4.35%
2005-06	4,264		107,027	3.98%	3.98%
2006-07 projected	4,699		111,175	4.23%	4.23%

Source: NYS Division of the Budget

(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.

Estimated Debt Service Requirements on State-Related Debt (1)
As of March 31, 2006
(millions of dollars)

Fiscal Years Ending March 31	General Obligation	Local Government Assistance Corporation	State Personal Income Tax Financing Obligations	Other State-Supported Financing Obligations	Tobacco (2)	All Other State Related	Total
2007	497	321	672	2,597	438	154	4,679
2008	475	355	666	2,536	444	152	4,628
2009	441	367	584	2,404	503	152	4,451
2010	422	369	578	2,458	511	151	4,489
2011	389	369	548	2,359	517	151	4,333
2012 through 2016	1,389	1,847	2,357	12,358	2,689	702	21,342
2017 through 2021	547	1,890	1,734	9,057	499	484	14,211
2022 through 2026	205	671	1,354	4,621	0	254	7,105
2027 through 2031	97	0	895	2,170	0	21	3,183
2032 through 2036	31	0	499	250	0	0	780
Total	**4,493**	**6,189**	**9,887**	**40,810**	**5,601**	**2,221**	**69,201**

Source: NYS Division of the Budget

(1) Reflects debt issued as of March 31, 2006. Estimated debt service requirements are calculated based on sw ap rates in effect at March 31, 2006 for all bonds that w ere synthetically fixed under an interest rate exchange agreement. Debt service requirements for variable rate bonds for w hich there are no related interest rate exchange agreements w ere calculated at rates ranging from 3.50 percent to 5.38 percent.

(2) Estimated debt service numbers are based on available information as of March 31, 2006. Subsequent to that date, certain monies expected to flow to the State under the Master Settlement Agreement w ere w itheld and placed in an escrow account. Pending the outcome of a resolution betw een participating manufactures and the states, the debt service numbers w ill be adjusted accordingly.

Debt Reduction Reserve Fund

The Debt Reduction Reserve Fund (DRRF) was created in 1998 to set aside resources that could be used to reduce State-supported indebtedness either through the use of DRRF as a pay-as-you-go financing source, reduce debt service costs, or defease outstanding debt. Since 1998-99, over $1.1 billion has been deposited to the DRRF and used to (i) pay cash for projects that would have otherwise been bond financed, (ii) defease existing high cost debt or (iii) provide resources to redeem existing high-cost State-supported debt. In 2006-07, the State plans to make additional deposits of $250 million to the DRRF to reduce the State's debt burden.

State-Supported Debt 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 3.0 percent to $3.7 billion in 2005-06, while adjusted Total Governmental

Funds Receipts increased on an average annual basis by 6.1 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 10.37 percent and over the remaining five years of the period debt service has decreased by an annual average of 2.45 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 1996-97 to 2001-02. After a sharp reduction in 2002-03, when several management actions were implemented to reduce debt service costs, there has been a gradual increase in the ratio of debt service to receipts, except for 2005-06 which showed a slight decline due to significant revenue growth and a modest increase in debt service costs.

Debt Service Requirements on State-supported Debt
As of March 31, 2006

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)
1996-97	2,827	62,886	4.50%	4.50%
1997-98	3,195	66,246	4.82%	4.82%
1998-99	3,387	72,551	4.67%	4.67%
1999-2000	3,672	76,804	4.78%	4.78%
2000-01	4,195 (1)	83,527	5.02%	4.65%
2001-02	4,262 (2)	84,312	5.05%	4.52%
2002-03	3,133	88,274	3.55%	3.55%
2003-04	3,403	99,698	3.41%	3.41%
2004-05	3,797	101,381	3.75%	3.75%
2005-06	3,704	107,027	3.46%	3.46%
2006-07 projected	4,107	111,175	3.69%	3.69%

Source: NYS Division of the Budget
(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.

Included in the table above are principal and interest payments on general obligation bonds which were $487 million for the 2005-06 fiscal year, and are estimated to be $496 million for 2006-07. State payments for debt service on bonds issued and interest rate exchange agreements entered into by LGAC which were $316 million for the 2005-06 fiscal year and are estimated to be $352 million for 2006-07. 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 $2.9 billion in fiscal year 2005-06, and are estimated to be $3.3 billion for 2006-07.

The following table compares total State-supported debt outstanding to New York State personal income and population. State-supported debt increased from $33.1 billion at the end of the 1996-97 fiscal year to $41.2 billion at the end of the 2005-06 fiscal year, an average annual increase of 2.45 percent. During the first five years of this ten-year period, State-supported debt outstanding grew by an annual average of 2.77 percent and over the remaining five years of the period the annual growth in State supported debt outstanding has slowed to 2.19 percent. During the ten-year period, annual personal income in the State rose from $531.0 billion to $779.9 billion, an average annual increase of 4.36 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 6.24 percent of personal income in the 1996-97 fiscal year to 5.30 percent in the 2005-06 fiscal year. State-supported debt outstanding is expected to increase in 2006-07 to 5.52 percent of personal income. State-supported debt relative to the State's population has increased during the last ten years, primarily because population growth has been relatively flat.

State-Supported Debt Compared with Personal Income and Population
As of March 31, 2006

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 (In Dollars)
1996-97	530,990	18.6	33,130		6.2%	1,782
1997-98	553,543	18.7	34,247		6.2%	1,836
1998-99	590,406	18.8	35,842		6.1%	1,911
1999-2000	616,292	18.9	36,796		6.0%	1,949
2000-01	655,583	19.0	36,958		5.6%	1,948
2001-02	682,206	19.1	36,620	(2)	5.4%	1,919
2002-03	684,070	19.2	38,843	(2)	5.7%	2,028
2003-04	701,852	19.2	40,314		5.7%	2,098
2004-05	737,039	19.2	40,695		5.5%	2,117
2005-06	779,941	19.3	41,177		5.3%	2,139
2006-07 projected	825,922	19.3	45,240		5.5%	2,348

Source: NYS Division of the Budget
(1) For calendar year ending in State's fiscal year. Based on US Department of Commerce, Bureau of Economic Analysis (BEA) data through January, 2006.
(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.

2006-07 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 and to submit an update to the Plan (the Enacted Plan) by the later of July 30 or 90 days after the enactment of the State Budget. The proposed 2006-07 through 2010-11 Capital Program and Financing Plan was released with the Executive Budget on January 17, 2006 and updated to reflect the 30-Day Amendments on February 9, 2006. The Enacted Plan was released on May 26, 2006, and reflects final action on the Budget. A copy of the Enacted Plan 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 Enacted 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 borrowing plan projects new issuance of $236 million in general obligation Bonds in 2006-07 including $100 million of Rebuild and Renew New York Transportation Bonds which was approved by the voters in November 2005; $720 million in Dedicated Highway and Bridge Trust Fund Bonds issued by the Thruway Authority to finance capital projects for transportation; $312 million in Mental Health Facilities Improvement Revenue Bonds issued by DASNY to finance capital projects at mental health facilities; $92 million in SUNY Dormitory Facilities Revenue Bonds to finance capital projects related to student dormitories; $21 million in DOH Revenue Bonds to support a portion of the costs to construct a new veteran's home; and $4.77 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 (EXCEL), university facilities (Jobs 2000), SUNY higher education facilities and community colleges, CUNY senior and community colleges, Higher Education Capital Matching Grants for private colleges, for health care grants under the Health Care Efficiency and Affordability Law for New Yorkers (Heal NY) Capital Grant Program, equipment upgrades at public broadcasting facilities, library facilities, and for local public safety answering point equipment and technology upgrades associated with wireless E-911 service; (ii) the Thruway Authority for CHIPs; (iii) UDC (doing business as the Empire State Development Corporation) for correctional and youth facilities, sports facilities, State facilities and equipment acquisitions; (iv) EFC for State Environmental Infrastructure Projects, including Water Pollution Control and Pipeline for Jobs (Jobs 2000) and Hazardous Waste Remediation; and (v) HFA for housing programs. State PIT Revenue Bonds for 2006-07 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 Program, Higher Technology and Development Program, Economic Development Initiatives, and the Regional Economic Growth Program which includes EOF, Gen*NY*sis, CCAP, RESTORE, Multi-Modal Transportation Program and the Center of Excellence Program, which may be issued by DASNY and UDC and the Jacob Javits Center Expansion and Extension that will be issued by ESDC. For detailed information on the State's projected 2006-07 bond issuances, please refer to the State's Capital Program and Financing Plan Update that was released on May 26, 2006.

The projections of State borrowings for the 2006-07 fiscal year are subject to change as market conditions, interest rates and other factors vary throughout the fiscal year.

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 imposes 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 the Debt Reform Act was reported in the Financial Plan Update most proximate to October 31, 2005. On October 30, 2005, the State reported that it was in compliance with both debt caps, with debt issued after March 31, 2000 and outstanding at March 31, 2005 at 1.73 percent of personal income and debt service on such debt at 1.07 percent of total governmental receipts, compared to the caps of 2.32 percent for each. DOB projects that debt outstanding and debt service costs for 2006-07 and the entire five-year forecast period through 2010-11 will also be within the statutory caps.

Interest Rate Exchange Agreements and Net Variable Rate Obligations

Chapter 81 of the Laws of 2002 authorized issuers of State-supported debt to issue a limited amount of variable rate debt instruments and to enter into a limited amount of interest rate exchange agreements. The statute limits the use of debt instruments which result in a net variable rate exposure (e.g., both variable rate debt and interest rate exchange agreements) to no more than 15 percent of total outstanding State-supported debt. It also 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, 2006, State-supported debt in the amount of $41.2 billion was outstanding, resulting in a variable rate exposure cap and an interest rate exchange agreement cap of about $6.2 billion each. As discussed below, as of March 31, 2006, both the amount of outstanding variable rate debt instruments and interest rate exchange agreements are less than the authorized totals of 15 percent of total outstanding State-supported debt, and are projected to be below the caps for the entire forecast period through 2010-11 (see "Variable Rate Obligations", later in this section, for further discussion on the cap).

Interest Rate Exchange Agreements

As of March 31, 2006 five issuers, DASNY, UDC, HFA, LGAC and the Thruway Authority have entered into a notional amount of $5.97 billion of interest rate exchange agreements that are subject to the interest rate exchange agreement cap, or 14.5 percent of total debt outstanding.

The interest rate exchange agreements outstanding at March 31, 2006 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. In these transactions, the State issued variable rate bonds and entered into swaps in which it receives a variable rate payment expected to approximate the costs of the variable rate bonds, and pays a fixed rate. As of March 31, 2006, the net mark-to-market value of all the outstanding swaps (the aggregate termination amount) was approximately $118 million – the total amount the State would receive from the collective authorized issuers for payments from 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 in March 2006, it is expected that the counterparties would owe the State higher termination payments. The State plans to continue to monitor and manage counterparty risk on a monthly basis.

At the close of the 2005-06 fiscal year, the State also entered into approximately $970 million in swaps to create synthetic variable rate exposure, including $277 million of synthetic variable rate obligations and $693 million of forward starting synthetic variable rate obligations. In these transactions, the State issued fixed rate bonds and entered into swaps in which it receives a fixed rate comparable to the rate it pays on the bonds, and pays the Bond Market Association (BMA) variable rate, resulting in the State paying net variable rates. The net variable rate costs the State incurred with the synthetic variable rate bonds are lower than the net costs of issuing traditional variable rate bonds because they do not require additional support costs (liquidity, insurance, broker-dealer fees, and remarketing fees). Thus, this approach can be a less costly way to achieve additional variable rate exposure. The synthetic variable rate debt also provides the additional benefit of reducing the State's counterparty exposure under the synthetic fixed rate bonds discussed above (as determined by an independent financial advisor), and thus are "excluded agreements" under the legislation, and not counted under the swaps cap. As of March 31, 2006, the net mark-to-market value of the State's synthetic variable rate swaps is $6.5 million -- the total amount the State would have to pay to the collective authorized issuers should all swaps be terminated. They do, however, count towards the variable rate debt instruments cap.

The interest rate exchange agreements authorized by the legislation are subject to various statutory restrictions, including minimum counterparty ratings that are in at least the two highest investment grade categories from a national rating agency, 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 International Swaps and Derivatives Association (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.

Net Variable Rate Obligations

As of March 31, 2006 the State had about $2.1 billion of outstanding variable rate debt instruments that are subject to the net variable rate exposure cap or 5.1 percent of total debt outstanding. That amount includes $1.8 billion of unhedged variable rate obligations and $277 million of in synthetic variable rate obligations described above (see "Interest Rate Exchange Agreements").

The State's current policy is to count 35 percent of the notional amount of outstanding 65 percent of LIBOR fixed rate swaps in its variable rate exposure. This policy reserve accounts for the potential that tax policy or market conditions could result in significant differences between payments owed on the underlying variable rate bonds and the amount received by the State under their 65 percent of LIBOR swaps, and that the factors affecting such payments can be consistent with variable rate exposure. Variable rate bonds that are related to swaps pursuant to which the State pays a fixed rate of interest are excluded from the calculation of variable rate debt instruments outstanding.

Variable Rate Obligations	**As of March 31, 2006 (millions $)**
Variable Rate Exposure Cap	$6,177
Current Unhedged Variable Rate Obligations	$1,822
Synthetic Variable Rate Swaps	$277
Total Net Variable Rate Exposure	**$2,099**
Percent of Net Variable Rate Exposure to Debt Outstanding	**5.1%**
Policy Reserve for LIBOR Swaps	$2,090
Total Variable Rate Exposure (with Policy Reserve)	**$4,189**
Percent of Variable Rate Exposure to Debt Outstanding	**10.2%**

In addition to the variable rate obligations described above, as of March 31, 2006, about $2.4 billion in State-supported convertible rate bonds are currently outstanding. These bonds bear a fixed rate until future mandatory tender dates in 2009, 2011, 2012 and 2013 at which time they can convert to either a fixed or variable rate. Similar to these convertible bonds, the $693 million in forward starting synthetic variable rate obligations described above (see "Interest Rate Exchange Agreements") result in the State paying a fixed rate through 2014, and a variable rate between 2014 and 2030. Legislation enacted in 2005 amended the State Finance Law to clarify that convertible bonds, synthetic variable obligations and similar obligations that were issued on or before July 1, 2005 and which result in the State paying a fixed rate in a fiscal year do not count under the variable rate cap until the fiscal year in which the State may pay a variable rate.

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 John F. Cape). 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, 2006. 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 James Tedisco (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 $50,000 require the Comptroller's approval (except for OGS expenditure contracts, for which the threshold for Comptroller's approval is $85,000, and for small business and MWBE contracts, for which the threshold is $100,000) 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, 2006 was $1.39 billion, an increase of $105 million from the outstanding loan balance of $1.29 billion at March 31, 2005. The increase in the outstanding loan balance is primarily attributable to the receipt of planned bond proceeds that reimburse capital projects spending.

The 2004-05 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 several times in 2003-04 and 2004-05 to support intra-month cash flow needs. This authorization was extended permanently in the 2005-06 Enacted Budget.

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 within 12 months of the end of the current fiscal period to finance expenditures; expenditures are recorded in the accounting period the liability is incurred to the extent it is expected to be paid within the next 12 months with the exception of expenditures such as debt service, compensated absences, and claims and judgments. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Nonexchange grants and subsidies such as local assistance grants and public benefit corporation subsidies are recognized as expenditures when all requirements of the grant and or subsidy have been satisfied.

State Government Employment

As of March 31, 2006, the State had approximately 191,400 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 17 percent smaller than it was fifteen 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 19,800 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 2005-06 fiscal year with 191,400 positions and, with the Enacted Budget, expects to end the 2006-07 fiscal year with a total 191,275 filled positions.

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. The State has reached new collective bargaining agreements with the Civil Service Employees Association, the United University Professions, the Public Employees Federation, District Council 37, the Graduate Student Employees Union, the State Troopers Police Benevolent Association and certain employee unions which cover most of the employees in the Judiciary. These agreements will govern employee compensation and benefit policies through early 2007. Security employees represented by the New York State Correctional Officers and Police Benevolent Association recently received an arbitration award which will similarly cover them through early 2007. Investigators of the Bureau of Criminal Investigation in the Division of State Police were provided one two-year arbitration award for the period 2003 through early 2005, and just secured a second interest arbitration award for the period through 2007. The State is currently involved in binding arbitration proceedings with two remaining units represented by Council 82 which are the Security Supervisors and Agency Law Enforcement Services units.

While approximately 93 percent of the State workforce is unionized, the remainder of the workforce (about 12,750) 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 2004-05 fiscal year. There were 2,992 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, 2005, 647,758 persons were members and 334,251 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 are required to make a minimum contribution of at least 4.5 percent of payroll every year.

Employer contributions due from the State for the fiscal year ending March 31, 2006, payable on July 1, 2005, totaled $965.2 million which included the first amortization payment from the 2005 bill of $64 million and was calculated assuming that the State will amortize $155 million of the 2006 bill over 10 years. The State paid this bill on July 1, 2005 with the exception of a portion of the payment for Judiciary personnel of $4.6 million which was paid on March 1, 2006. Also on July 1, 2005, the State made an additional payment of $19.5 million to reduce its remaining retirement incentive costs and several other small costs. Estimated employer contributions due from the State for the fiscal year ending March 31, 2007, payable on September 1, 2006, total $1,087.3 million, which includes the Judiciary bill.

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 that the net assets available for benefits as of March 31, 2005 were $128.0 billion (including $2.6 billion in receivables), an increase of $7.2 billion or 6.0 percent from the 2003-04 level of $120.8 billion, reflecting, in large part, equity market performance. OSC reports that the present value of anticipated benefits for current members, retirees, and beneficiaries increased from $140.2 billion on April 1, 2004 to $146.5 billion (including $55.2 billion for current retirees and beneficiaries) on April 1, 2005. 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 differed from net assets on April 1, 2005 in that amortized cost was used instead of market value for bonds and mortgages and the non-fixed investments utilized a smoothing method which recognized 20 percent of unexpected gain for the 2005 fiscal year. Actuarial assets increased from $117.5 billion on April 1, 2004 to $123.8 billion on April 1, 2005. The table that follows shows the actuarially determined contributions that have been made over the last seven 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	120,799	24.1
2005	128,038	6.0

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, 2005 includes approximately $2.6 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
2005	2,965	1,877	1,088	227	5,691

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

Authorities and Localities

Public Authorities

For the purposes of this disclosure, public authorities refer to certain of its public benefit corporations, created pursuant to State law. 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 certain 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, 2005, the 19 public authorities below had outstanding debt of $100 million or more, and the aggregate outstanding debt, including refunding bonds, of these public authorities was approximately $124 billion, only a portion of which constitutes State-supported or State-related debt. The table below summarizes the outstanding debt of these public authorities.

Outstanding Debt of Certain Public Authorities (1)
As of December 31, 2005
(millions of dollars)

Public Authority	Amount(2)(3)
Dormitory Authority (4)	32,281
Metropolitan Transportation Authority	15,261
Port Authority of NY & NJ	10,984
Thruway Authority	10,578
Triborough Bridge and Tunnel Authority	7,160
Environmental Facilities Corporation	7,126
Long Island Power Authority (5)	7,017
Housing Finance Agency	6,831
UDC/ESDC	6,688
Local Government Assistance Corporation	4,317
Tobacco Settlement Financing Corporation	4,278
Energy Research and Development Authority	3,672
State of New York Mortgage Agency	2,905
Power Authority	2,299
Battery Park City Authority	1,041
Convention Center Development Corporation	700
Municipal Bond Bank Agency	559
Niagara Frontier Transportation Authority	187
United Nations Development Corporation	128
TOTAL OUTSTANDING	124,012

Source: Office of the State Comptroller.
(1) Includes only certain of the public authorities which have more than $100 million in bonds outstanding.
(2) Amounts outstanding reflect original par amounts for bonds and financing arrangements or original issue amounts in the case of capital appreciation bonds and 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.
(5) Includes $155 million in bonds issued by the New York State Energy Research and Development Authority and included in amounts reported for both NYSERDA and LIPA.

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 the 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 2006-07 fiscal year or thereafter.

To help resolve persistent fiscal difficulties in Erie County, the State enacted legislation in July 2005 that created the Erie County Fiscal Stability Authority (ECFSA). Under this statute, the County is required to take annual budgetary actions necessary to address increasing percentages of its projected budget gaps and the ECFSA is authorized to finance the remaining budget gaps through the issuance of deficit bonds and through restructuring or refinancing of outstanding debt. The County's sales tax revenues and certain statutorily defined State aid payments are pledged as revenue to support any bonds issued by ECFSA.

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 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)(3)		Other Localities Debt(4)		Total Locality Debt(4)	
	Bonds	Notes	Bonds(5)	Notes(5)	Bonds(4)(5)	Notes(5)
1980	12,995	---	6,835	1,793	19,830	1,793
1990	20,027	---	10,253	3,082	30,280	3,082
1995	29,930	---	15,829	3,219	45,759	3,219
1996	31,623	---	16,414	3,590	48,037	3,590
1997	33,046	---	17,526	3,208	50,572	3,208
1998	34,690	---	17,100	3,203	51,790	3,203
1999	37,352	---	18,448	3,420	55,800	3,420
2000	39,244	515	19,079	4,005	58,323	4,520
2001	40,305	---	20,199	4,278	60,504	4,278
2002	42,721	2,200	21,689	4,730	64,410	6,930
2003	47,376	1,110	23,817	5,923	71,193	7,033
2004	50,265	---	26,568	4,635	76,833	4,635
2005	54,421	---	N/A	N/A	N/A	N/A

N/A: Not Available

Source: Office of the State Comptroller.

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

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

(2) New York City's debt outstanding has been revised as presented in the FY 2004 City Comptroller's Comprehensive Annual Financial Report.

(3) Includes New York City capital leases obligations which were not reflected in previous years. Includes bonds issued by the Dormitory Authority of the State of New York for education, health and courts capital projects, the Samurai Funding Corporation and other long-term financing leases 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.

(4) Outstanding bonded debt shown includes bonds issued by the localities and certain debt guaranteed by the localities and excludes capital lease obligations, assets held in sinking funds and certain amounts available at the start of a fiscal year for redemption of debt.

(5) 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 TFA		Obligations of MAC	Obligations of STAR Corp. (1)	Obligations of TSASC, Inc.	Other(2) Obligations	Treasury Obligations	Total
1980	6,179	---		6,116	---	---	995	(295)	12,995
1990	13,499	---		7,122	---	---	1,077	(1,671)	20,027
1995	24,992	---		4,882	---	---	1,299	(1,243)	29,930
1996	26,627	---		4,724	---	---	1,394	(1,122)	31,623
1997	27,549	---		4,424	---	---	1,464	(391)	33,046
1998	27,310	2,150		4,066	---	---	1,529	(365)	34,690
1999	27,834	4,150		3,832	---	---	1,835	(299)	37,352
2000	27,245	6,438	(3)	3,532	---	709	2,065	(230)	39,759
2001	27,147	7,386		3,217	---	704	2,019	(168)	40,305
2002	28,465	10,489	(4)	2,880	---	740	2,463	(116)	44,921
2003	29,679	13,134	(5)	2,151	---	1,258	2,328	(64)	48,486
2004	31,378	13,364		1,758	---	1,256	2,561	(52)	50,265
2005	33,903	12,977		---	2,551	1,283	3,746	(39)	54,421

Source: Office of the State Comptroller.

(1) A portion of the proceeds of the Sales Tax Asset Receivable Corporation (STARC) Bonds were used to retire outstanding Municipal Assistance Corporation bonds. The debt service on STARC bonds will be funded from annual revenues to be provided by the State, subject to annual appropriation. These revenues have been assigned to the Corporation by the Mayor of the City of New York.

(2) Includes New York City capital leases obligations which were not reflected in previous years. Includes bonds issued by the Dormitory Authority of the State of New York for education, health and courts capital projects, the Samurai Funding Corporation and other long-term

financing leases 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.

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

(4) Includes $2.2 billion of bond anticipation notes used to finance the City's capital expenditures in the amount of $1.2 billion and Recovery notes for costs related to and arising from events on September 11, 2001 at the World Trade Center in the amount of $1 billion

(5) Includes $1.11 billion of bond 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 2006-07 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 2006-07 fiscal year or thereafter. The Basic Financial Statements for fiscal year 2005-06, which OSC expects to issue in July 2006, will report possible and 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 2006-07 Financial Plan. The State believes that the proposed 2006-07 Financial Plan includes sufficient reserves to offset the costs associated with the payment of judgments that may be required during the 2006-07 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 2006-07 Financial Plan resources available for the payment of judgments, and could therefore adversely affect the ability of the State to maintain a balanced 2006-07 Financial Plan.

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.

On December 7, 2004, settlement agreements were signed between the State, the Oneidas of Wisconsin and the Stockbridge-Munsee Tribe, which contemplated the extinguishment of all Oneida and other Indian claims in the tract at issue in this litigation. Although the agreements provided for monetary payment, transfers of lands and other consideration to non-signatory tribal plaintiffs, these agreements were not signed by the United States, the Oneidas of New York, the Oneidas of the Thames Band or the New York Brothertown. The settlement agreements required the passage of State and Federal legislation by September 1, 2005 in order to become effective, unless the parties agreed to an extension of time. No such legislation was enacted and no extension of time was agreed upon. On August 18, 2005, the District Court stayed all further proceedings in this case until it was known whether the plaintiffs in the *Cayuga Indian Nation of New York* case would ask the United States Supreme Court to review the Second Circuit’s June 28, 2005 decision. Proceedings in this case were stayed pending the Supreme Court's decision on plaintiffs' application for certiorari.

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 and *the Onondaga Nation v. The State of New York, et al.*

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 Chautauqua 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. Plaintiffs 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. On July 8, 2005, the Second Circuit denied the United States' motion for rehearing *en banc*. On September 2, 2005, the Second Circuit also denied the other plaintiffs' petitions for rehearing *en banc*. On January 17, 2006, plaintiffs filed for a petition for a writ of certiorari before the United States Supreme Court, seeking review of the September 9, 2004 decision. On June 5, 2006, the Supreme Court denied plaintiffs’ petition for certiorari.

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 State's motion for reconsideration of that portion of the July 28, 2003 decision which struck a counterclaim against the United States for contribution. On November 29, 2004, the plaintiff tribal entities, with on exception, approved a settlement proposed by the State, which would require enactment of State and Federal legislation to become effective. The plaintiff tribal entity that did not approve the proposed settlement on November 29, 2004, subsequently expressed its approval. A bill that would implement the terms of the Haudenosaunee-Mohawk settlement agreement has been passed by the New York State Assembly and awaits action by the New York State Senate. On February 10, 2006, the District Court stayed all further proceedings in this case until 45 days after the United States Supreme Court issued a final decision in the *Cayuga Indian Nation of the New York* Case.

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. Following argument of the appeal, the Second Circuit requested that the parties brief the Court on the impact of the decision of the United States Supreme Court in *City of Sherrill v. Oneida Indian nation of New York, et al*., a case to which the State is not a named party, in which the Unites States Supreme Court has held that parcels of land recently acquired by the Oneida Indian Nation of New York within the 1788 reservation boundaries are subject to local property taxation. On October 1, 2004, the State filed an action in the District Court for the Northern District Court under the Federal Tort Claims Act, seeking contribution from the United States toward the $248 million judgment and post-judgment interest. On June 28, 2005, the Second Circuit held that plaintiffs' possessory land claim is subject to the defense of laches and is barred on that basis. The Court reversed the judgment of the District Court and entered judgment for defendants. On September 8, 2005 the Second Circuit denied plaintiff’s motion for reconsideration and *en banc* review. On February 3, 2006, the United States and the tribal plaintiffs filed petitions for a writ of certiorari. On May 15, 2006, the Supreme Court denied plaintiffs' petitions for certiorari.

Settlements were signed by the Governor of the State with the Chief of the Seneca-Cayuga Tribe of Oklahoma on November 12, 2004 and with the Cayuga Indian nation of New York on November 17, 2004 which required, in part, require enactment of State and Federal legislation by September 1, 2005 in order to become effective, unless the parties agreed to an extension of time. These agreements provided for differential payments to be made to the plaintiff tribes, based upon the outcome of the appeal then pending in the Second Circuit. No legislation was enacted by September 1, 2005 and no extension of time was agreed upon.

In *The Onondaga Nation v. The State of New York*, et al., plaintiff seeks a judgment declaring that certain lands allegedly constituting the aboriginal territory of the Onondaga Nation within the State are the property of the Onondaga Nation and the Haudenosaunee, or "Six Nations Iroquois Confederacy," and that conveyances of portions of that land pursuant to treaties during the period 1788 to 1822 are null and void. The "aboriginal territory" described in the complaint consists of an area or strip of land running generally north and south from the St. Lawrence River in the north, along the east side of Lake Ontario, and south as far as the Pennsylvania border, varying in width from about 10 miles to more than 40 miles, including the area constituting the City of Syracuse. On October 28, 2005, the District Court stayed all further proceedings in this case until it was known whether the plaintiffs in the *Cayuga Indian Nation of New York* case would ask the United States Supreme Court to review the Second Circuit's June 28, 2005 decision. Proceedings in this case were stayed pending the Supreme Court's decision on plaintiffs' application for certiorari.

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 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 dated 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. On September 14, 2004, the District Court denied all aspects of plaintiffs' motion for a preliminary injunction, except that portion of the motion relating to the ability of tobacco manufacturers to obtain the release of certain funds from escrow. Plaintiffs have appealed from the denial of the remainder of the motion to the United States Court of Appeals for the Second Circuit. In May 2005, the Second Circuit affirmed the denial of the preliminary injunction.

State Finance Policies

Budget Process

In Greater New York Hospital Ass'n., et al. v. Pataki, et al. (Sup. Ct., New York County), the plaintiffs seek a declaratory judgment that certain Medicaid appropriations for the State's 2006-2007 fiscal year enacted by the Legislature over the Governor's veto are constitutional and that the Governor and his co-defendants are constitutionally obligated to implement those appropriations and to take no action to prevent their implementation. On June 8, 2006, the Supreme Court, New York County denied plaintiffs' request for a temporary restraining order. In Healthcare Association of New York State, et al. v. Pataki, et al. (Sup. Ct., Albany County), the petitioners also challenge the Governor's refusal to authorize spending on Medicaid, mental health and other health appropriations for the State's 2006-07 fiscal year enacted by the Legislature over the Governor's veto.

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 SBE 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 SBE and further held that the plaintiffs had established a causal link between the present education funding system and the failure to provide said SBE. 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 was 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 SBE. On November 30, 2004, the panel issued its report and recommendations. It recommended that the Supreme Court direct the State to pay to New York City schools a total of $14.08 billion over the next four years in additional funding and $9.179 billion over the next five years for capital improvements. On March 15, 2005, the Supreme Court, New York County, issued an order confirming the panel's report and recommendations and directing the State to take all steps necessary to provide additional funding for New York City schools in the amounts of $1.41 billion in 2005-06, $2.82 billion in 2006-07, $4.22 billion in 2007-08 and $5.63 billion in 2008-

09, totaling $14.08 billion over the next four years. The Court also directed the State to take all steps necessary to provide additional capital funding in the amount of $1.836 billion annually totaling $9.179 billion over the next five years. The State has appealed from the March 15, 2005 order to the Appellate Division, First Department and the trial court's decision was stayed pending resolution of the appeal. On May 3, 2005, the First Department denied the plaintiffs' motion to lift the automatic stay.

On March 23, 2006, the Appellate Division, First Department, by a three-member majority, vacated the March 15, 2005 order of the Supreme Court, New York County, confirming the referee's report and directed the Governor and the Legislature to:

(1) "Consider, as within the range of constitutionally required [operational] funding for the New York City School District," between $4.7 billion and 5.63 billion, phased in over four years, and "that they appropriate such amount" in order to remedy the constitutional deprivations found in the Court of Appeals' June 26, 2003 decision; and

(2) "Implement a capital improvement plan that expends $9.179 billion over the next five years or otherwise satisfies the City schools' constitutionally recognized capital needs."

In so directing the Governor and the Legislature, the First Department noted that "in the final analysis it is for the Governor and the Legislature to make the determination as to the constitutionally mandated amount of funding, including such considerations as how the funds shall be raised, how additional expenditures will affect other necessary appropriations and the economic viability of the State, and how the funding shall be allocated between the State and the City."

On April 17, 2006, the plaintiffs appealed to the Court of Appeals from the March 23, 2006 decision of the First Department. The State defendants cross appealed on April 21, 2006.

Medicaid

There are numerous cases in which nursing homes have challenged the statutory provisions setting the reimbursement methodology pursuant to which they receive Medicaid payments, including *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. (six cases);* and *Matter of Nazareth Home of the Franciscan Sisters, et al. v. Novello.* Plaintiffs allege that the changes in methodologies have been adopted in violation of procedural and substantive requirements of State and Federal law.

In *New York Association of Homes and Services for the Aging v. DeBuono, et al*., the United States District Court for the Northern District of New York dismissed plaintiffs' complaint by order dated May 19, 2004. On April 6, 2006, the Second Circuit Court of Appeals affirmed the order of the District Court. Several related State Court cases involving the same parties and issues have been held in abeyance pending the result of the litigation in Federal Court.

In *Matter of Nazareth Home of the Franciscan Sisters, et al. v. Novello,* the Supreme Court, Erie County, dismissed the petition by decision, order and judgment dated December 22, 2004. By order entered September 30, 2005, the Supreme Court, Appellate Division, Fourth Department affirmed the decision of the lower court. On December 22, 2005, the Appellate Division, Fourth Department, granted petitioners' motion for leave to appeal to the Court of Appeals.

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.

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: 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 source income of individuals, estates and trusts. Personal income taxes are projected to account for roughly 60 percent of estimated All Government Funds tax receipts during the State's 2006-07 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. Legislation enacted in 2006, and effective for tax years beginning after 2005, eliminates the "marriage penalty" by increasing the standard deduction for married couples filing jointly to $15,000, or double the standard deduction provided for individual taxpayers. Comparable increases were also made to the standard deduction for married taxpayers filing separately. 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 added two higher tax rates and brackets for the 2003 through 2005 tax years. For the 2005 year, rates of 7.25 percent and 7.7 percent were 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. Legislation enacted in 2006 provides for new credits, the most significant of which include a refundable Empire State Child Credit, applicable to tax years beginning in 2006, for qualifying children, generally equal to 33 percent of the Federal credit. New York also allows several other credits against the tax. The most significant are the: household credit, credit for taxes paid to other states, the investment tax credit, various Empire Zone credits, child and dependent care credit, real property tax circuit breaker credit, earned income tax credit, long-term life insurance credit, and college tuition credit.

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 following discussion describes these taxes and summarizes significant revenue actions taken since 2000. 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 4.0

percent, of which 3.0 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 most purchases made by qualifying businesses located in Empire Zones. 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. In 2005, legislation was enacted to continue the two one-week exemptions for clothing and footwear costing less than $110 per item until March 31, 2007 if the Governor does not propose other tax reductions. The 2006-07 Executive Budget did contain tax reduction proposals, and as a result, the clothing exemption was reactivated on March 31, 2006. The 2006-07 Enacted budget increased the vendor credit. In May of 2006, legislation was enacted to convert the sales tax on motor fuel to a cents-per-gallon basis.

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 HCRA 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. 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 directed $59.9 million in existing non-registration motor vehicle fee revenues, to the Trust Fund effective April 1, 2004. Legislation enacted in 2005 directed all remaining General Fund receipts be moved to the dedicated funds pool.

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. 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 outside but consumed 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 decoupled 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 required the addback of certain expenses and payments related to intangible holding companies. In 2004, legislation was enacted that temporarily created two new fixed dollar minimum tax amounts under the corporate franchise tax; increased the Statewide annual aggregate limit for the low-income housing credit from $4 million to $6 million; extended the Qualified Emerging Technology Company (QETC) credit to biotechnology; and extended the Empire Zones program to March 31, 2005. Legislation enacted in 2005: extended the Empire Zones program until June 30, 2011 and expanded the program to include 12 new zones; adopted a single sales factor formula for corporate franchise taxpayers and banks that provide certain services; adopted tax shelter provisions; reduced the small business tax rate; increased the low income housing tax credit from $6 million to $8 million; expanded and extended the green buildings tax credit program; increased the capital base cap under the corporate franchise tax; and created new tax credits for emerging technology companies. Legislation enacted in 2006 eliminated the S-corporation differential; extended and increased the Empire State Film Production and authorized a new Empire State Commercial Production Credit and a new credit for the production of alternative bio-fuels; accelerated the authorization of six of the remaining nine Empire Zones initially authorized in 2005, and provided zone benefits to enterprises that make substantial investments in regionally significant projects; and increased the low income housing credit from $8 million to $12 million.

Receipts from the *corporation* and *utilities taxes* are primarily attributable to taxes imposed on transportation and transmission companies, utility services and telecommunication services.

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 0.375 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 expanded the low-cost power available to 450 megawatts and accelerated 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 included: 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 provided 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 dedicated the remaining 20 percent of section 183 and section 184 revenues to the Dedicated Highway and Bridge Trust Fund. In 2004 and 2005, legislation was enacted that extended and modified 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 reduced the limitation on tax liability for non-life insurers over a three-year period. Legislation enacted in 2000 extended the investment tax credit for equipment used in the trading of securities by insurance companies and expanded 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 amended the insurance tax to place property and casualty insurance companies solely on a premiums tax base and imposed a minimum tax for life insurance companies. In 2004, legislation was enacted that established a fourth certified capital company program. In 2005, legislation was enacted that established a fifth certified capital company program. Legislation enacted in 2006 amended the method in which life insurance companies calculate their taxes when more than 95 percent of their total premiums consist of annuity premiums.

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 allowed banks a net operating loss deduction which can be carried forward against the bank franchise tax. This applied to net operating losses sustained on or after January 1, 2001. The legislation also allowed 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 authorized 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 extended 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. 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 reduced the tax rate on commercial heating by 33 percent. Legislation enacted in 2004 eliminated the tax on fuels used for aircraft overflight and landing.

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 an *estate tax* 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 as it existed on July 22, 1998. 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, beginning in State fiscal year 2007-08, $187 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. The EPF dedication for 2006-07 is $147 million. 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 1999 and 2000 reduced taxes on races run at non-profit racing association tracks and dedicated the reduction to increasing purses at those tracks and operating the Breeders Cup races. Legislation enacted in 2003 provided for unlimited simulcasting, imposed a regulatory fee of 0.39 percent, allowed racetracks to set the takeout rate, and eliminated minimum balances on telephone betting accounts. Legislation enacted in 2005 revised the fee to 0.5 percent. These actions are expected to increase revenue to the General Fund and to fund the expenses of regulating the industry. Legislation enacted in 2006 reduced tax rates on wagers placed on certain thoroughbred races. This reduction is expected to provide additional revenue for Off-Track Betting Corporations and to the thoroughbred breeders' fund during the 2006-07 fiscal year. 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 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 2001, authorized the Division of the Lottery to license eligible racetracks to operate VLTs. The first license began operations in January 2003 and currently there are five racetracks operating VLTs. 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 in 2003 reduced the time period for collecting abandoned property related to the demutualization or similar reorganization of an insurance company from five years to two years. In 2004, $4.2 billion in proceeds from the sale of the State's tobacco payments under the national Master Settlement Agreement was collected. Legislation enacted in 2005 increased the photo image fee and authorized New York Power Authority pilot payments. Legislation enacted in 2006 increased certain banking fines and penalties, accelerated the dormancy period on uncashed checks and securities, and created the internet point insurance reduction program.