

Update to Annual Information Statement (AIS)

State of New York

November 6, 2006

This quarterly update (the "AIS Update") is the second quarterly update to the Annual Information Statement of the State of New York, dated June 12, 2006 (the "AIS") and contains information only through November 6, 2006. This AIS Update should be read in its entirety, together with the AIS issued in June.

In this AIS Update, readers will find:

1. Extracts from the Mid-Year Update to the 2006-07 Financial Plan (the "Updated Financial Plan"), which the Division of the Budget ("DOB") issued on October 30, 2006. The Updated Financial Plan includes (a) revised Financial Plan projections for fiscal years 2006-07, 2007-08, and 2008-09, (b) a review of operating results for the first half of fiscal year 2006-07, (c) an updated economic forecast, (d), the Generally Accepted Accounting Principles (GAAP)-basis Financial Plan projections for 2006-07, and (e) a summary on debt and capital management. It is available on the DOB website, www.budget.state.ny.us.
2. A discussion of special considerations related to the State Financial Plan for fiscal year 2006-07.
3. A summary of GAAP-basis results for the 2005-06 fiscal year (the full statements are available on the State Comptroller's website, www.osc.state.ny.us). This information is reprinted from the August 4, 2006 update to the AIS as a convenience to the reader and includes no new information since that time.
4. Updated information regarding the State Retirement Systems.
5. 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 Update on behalf of the State. In preparing the AIS Update, DOB relies on information drawn from other sources, such as the Office of the State Comptroller ("OSC"). Information relating to matters described in the section entitled "Litigation" is furnished by the State Office of the Attorney General.

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

The State plans to issue its next quarterly update to the AIS in February 2007 and may issue AIS 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 Update 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 A.

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 Update 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 Update may be obtained from the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705 or from any NRMSIR.

Usage Notice

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

Neither this AIS Update nor any portion thereof may be (i) included in a Preliminary Official Statement, Official Statement, or other offering document, or incorporated by reference therein, 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 Update or any portion thereof in a Preliminary Official Statement, Official Statement, or other offering document or continuing disclosure filing or incorporated by reference therein 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 Update if so misused.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Update to the 2006-07 Financial Plan

The AIS is updated quarterly in conjunction with the State's quarterly revisions to the Financial Plan that are required under State Finance Law. Each update to the AIS includes extracts from the most recently revised Financial Plan. DOB issued the Updated Financial Plan on October 30, 2006, extracts of which are set forth below.

The Updated Financial Plan is based on (a) revised budgetary projections for the 2006-07 through 2008-09 fiscal years, (b) actual operating results through the second quarter of the 2006-07 fiscal year, (c) an updated economic forecast, and (d) a review of program trends. Except where noted, the Financial Plan extracts herein present information on a budgetary (cash) basis of accounting, in accordance with the State Constitution and State Finance Law.

In the extracts from the Updated Financial Plan, readers will find:

- Updated projections for the 2006-07 through 2008-09 fiscal years;
- A review of mid-year revenue and spending results;
- A revised economic forecast for the nation and State;
- A summary of changes from the First Quarterly Financial Plan issued on July 31, 2006;
- A discussion of Financial Plan risks and reserves;
- Updated monthly General Fund cash flow projections for 2006-07;
- Revised GAAP projections;
- Updated 2006-07 receipts and disbursements estimates for programs budgeted as part of the Health Care Reform Act (HCRA);
- Updated information on the State's debt measures; and
- Financial Plan tables that summarize (a) the General Fund, State Funds, and All Funds Cash-basis Financial Plans, (b) the monthly General Fund cash flow projections, (c) All Funds spending by agency and major program, (d) the quarterly HCRA cash flow projections, and (e) GAAP Financial Plans.

The Updated Financial Plan projections are subject to revision as additional information becomes available about, among other things, the national and State economies, financial sector activity, entitlement spending and social service caseloads, and State reimbursement obligations that are driven by local government activity. Key factors include: business tax collections; calendar year economic results; year-end financial sector bonus income; periodic school aid database updates that affect the distribution of certain aid; and quarterly Medicaid and welfare cycle trend analyses. Historically, many of these factors have been subject to a high degree of fluctuation across the forecast period, and could produce results that differ from the current projections.

The Updated Financial Plan contains estimates and projections of future results that should not be construed as statements of fact. These estimates and projections are based upon various assumptions that

may be affected by numerous factors, including future economic conditions in the State and nation and potential litigation. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained therein.

The State accounts for all of its spending and revenues by the fund in which the activity takes place (such as the General Fund), and the broad category or purpose of that activity (such as State Operations). The Financial Plan tables sort all State projections and results by fund and category. The State Constitution requires the Governor to submit an Executive Budget that is balanced on a cash basis in the General Fund, — the Fund that receives the majority of State taxes, and all income not earmarked for a particular program or activity. Since this is the fund that is required to be balanced, the focus of the State’s budget discussion is often weighted toward the General Fund.

The State also reports spending and revenue activity by two other broad measures: State Funds, which includes the General Fund and funds specified for dedicated purposes, but excludes Federal Funds; and All Governmental Funds ("All Funds"), which includes both State and Federal Funds and provides the most comprehensive view of the financial operations of the State.

Fund types of the State include: the General Fund; State special revenue funds (“SRFs”), which receive certain dedicated taxes, fees and other revenues that are used for a specified purpose; Federal SRFs, which receive Federal grants; State and Federal Capital Projects Funds, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and Debt Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

The Updated Financial Plan is available on the DOB website at www.budget.state.ny.us or by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705.

2006-07 UPDATED FINANCIAL PLAN EXTRACTS

UPDATED FINANCIAL PLAN AT-A-GLANCE

2006-07 Financial Plan At-A-Glance: Impact on Key Measures (billions of dollars)					
	2005-06 Results	2006-07			Change from July
		Enacted	July Update	Mid-Year	
Receipts (All Funds)					
Taxes	53.6	56.9	57.1	57.8	0.7
Miscellaneous Receipts	18.3	18.7	18.3	18.8	0.5
Federal Grants	35.1	35.6	35.9	36.2	0.3
Disbursements					
General Fund	46.5	50.8	51.0	51.3	0.3
State Funds	69.7	77.1	78.1	78.1	0.0
All Funds	104.3	112.5	113.6	114.0	0.4
Outyear Gap Forecast					
2007-08	n/a	3.7	3.2	2.4	(0.8)
2008-09	n/a	4.3	5.4	4.5	(0.9)
Key Reserves					
Spending Stabilization Reserve	2.0	1.8	0.8	0.8	0.0
Rainy Day Reserve	0.9	0.9	0.9	1.0	0.1
Cash-basis Surplus	2.0	n/a	n/a	1.1	1.1
Debt					
Debt Service as % All Funds	4.0%	4.2%	4.2%	4.5%	0.3%
State-Related Debt Outstanding	46.9	50.7	51.0	48.8	(2.2)

- Current year operations have improved since the July Update Financial Plan, resulting in a \$1.1 billion projected General Fund surplus, due to roughly \$700 million in higher receipts and \$400 million in lower spending that impact surplus results.
- Of the \$1.1 billion surplus, \$500 million is expected to be set aside to guard against risks¹, \$81 million is expected to be deposited in the Rainy Day Reserve to bring the balance to its statutory maximum of 2 percent (\$1.0 billion), and the remaining amount is expected to be used in equal installments to reduce the outyear gaps.
- The estimated 2007-08 General Fund budget gap has been reduced from \$3.2 billion at the July Update Financial Plan to \$2.4 billion, and the 2008-09 gap is down roughly \$900 million to \$4.5

¹ Risks are discussed in the section entitled "Risks to the Financial Plan."

billion. At this time, the 2007-08 gap of \$2.4 billion reflects the use of the entire spending stabilization reserve (\$787 million) and a portion of the 2006-07 surplus (\$256 million) to support operations in 2007-08. In addition, the 2008-09 gap of \$4.5 billion is also reduced by the use of a portion of the 2006-07 surplus (\$255 million).

- The Health Care Reform Act (HCRA) outyear gap, which is in addition to the General Fund gap, has been reduced by roughly \$300 million to an annual amount of \$420 million in 2007-08 and \$1.0 billion in 2008-09.
- Since the July Update Financial Plan, estimated All Governmental Funds² receipts have been adjusted upward by roughly \$1.1 billion primarily in the personal income tax (PIT), business taxes, and miscellaneous receipts, reflecting an increase in estimated PIT payments, and audit collections, as well as a payment from New York City that is subject to ongoing negotiations.
- All Funds spending projections for 2006-07 have increased by roughly \$400 million. The increase is primarily due to the full reimbursement to New York City for the City University of New York (CUNY) costs (\$428 million), which is offset in the Mid-Year Financial Plan by expected higher receipts from New York City, and the use of moneys previously set aside to reduce outyear debt service costs (\$250 million), partially offset by downward revisions to spending projections for Public Health/HCRA, employee benefits, Judiciary, and Medicaid.
- General reserves have increased by \$1.1 billion from the July Update Financial Plan consistent with the projected surplus for 2006-07. Projected year-end General Fund reserves consist of \$1.0 billion from the estimated 2006-07 surplus, \$1.0 billion in the Rainy Day Reserve after a planned deposit of \$81 million, which is available only for unforeseen shortfalls after the beginning of the fiscal year, and \$787 million available in a spending stabilization reserve.
- Reserves set aside for designated purposes are projected to decline by \$250 million from the July Update Financial Plan. The change reflects the use of the Debt Reduction Reserve Fund, as expected, to reduce outyear debt service costs by \$380 million.
- The economic forecast is relatively unchanged from the July Update Financial Plan. Real U.S. Gross Domestic Product of 3.5 percent is now forecast for 2006, with the economy expected to lose considerable momentum over the course of the year. Growth of 2.7 percent is projected for 2007, with rates of economic expansion that are slightly below the nation's long-term trend rate projected for much of the forecast horizon.
- State debt outstanding is projected to total \$48.8 billion at the end of 2006-07, with debt service equal to roughly 4.4 percent of All Funds receipts. The decline of \$2.2 billion from the July Update Financial Plan reflects delays in the timing of bond sales primarily for the EXCEL and the Advance Micro Devices (AMD) initiatives.
- On a Generally Accepted Accounting Principles (GAAP) basis, the State expects to end 2006-07 with an accumulated General Fund surplus of roughly \$1.4 billion, an increase of \$800 million from the July Update Financial Plan primarily due to the projected cash-basis surplus.

² Hereafter "All Funds". Comprises the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.
Update - 6 -

- The State reported \$49.1 billion in net assets at the end of 2005-06 on a GAAP basis. This does not reflect liabilities for retiree health care costs that will be reported starting with 2007-08 GAAP results under a new accounting rule -- Governmental Accounting Standards Board Statement 45 (GASB 45). The State continues to review a preliminary report prepared by the State's consultants. The report indicates that as of April 1, 2006 the State's total unfunded long-term liability could be roughly \$47 billion based on several actuarial cost methods, or up to \$54 billion based on one method, with the liability amortized over a period of up to 30 years. Beginning with the fiscal year ending March 31, 2008, the total unfunded liability will be disclosed in the footnotes to the financial statements as a long-term obligation, but only the annual amortized value (currently projected at roughly \$2.7 billion beyond the current pay-as-you-go amounts of \$1 billion based on several actuarial methods and \$5.1 billion based on one method) would be recognized in the financial statements.
- The State's risk profile remains similar to what was described in the July Update Financial Plan, with a payment agreement with New York City and School Supportive Health Services audits presenting the most significant risks in the current year, and school finance litigation, economic uncertainties, adverse Federal actions, and future labor settlements posing the greatest potential long-term fiscal risks. However, given the fact that the updated Financial Plan has been revised to include significant reductions in spending and increases in receipts, DOB believes it is prudent to create additional reserves of \$500 million to guard against current-year transaction risks.

**SUMMARY OF MULTI-YEAR CHANGES TO THE JULY UPDATE FINANCIAL PLAN
(GENERAL FUND)**

Since the July Update Financial Plan, DOB has revised its revenue and spending estimates based on actual operating results through the first six months of the 2006-07 fiscal year,³ a review of program trends that affect current service costs, and a revised economic forecast. The table below summarizes the impact of these revisions on the three-year operating forecast for the General Fund.

Revisions to General Fund Operating Forecast for 2006-07 Through 2008-09			
Savings/(Costs)			
(millions of dollars)			
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
July Update Surplus/(Gap) Estimate (after use of reserves)	0	(3,166)	(5,405)
<i>Personal Income Tax Receipts</i>	225	412	412
<i>Personal Income Tax Receipts Transferred from RBTF</i>	75	138	138
<i>Business Tax Receipts</i>	420	(248)	(231)
<i>Medicaid</i>	359	538	658
<i>State University</i>	(74)	2	(33)
<i>School Aid</i>	(65)	(161)	12
<i>Video Lottery Terminal Revenue Revision</i>	0	(247)	0
<i>Judiciary</i>	60	(44)	(52)
<i>Disaster Assistance</i>	(38)	(58)	(30)
<i>Child Welfare Adjustment</i>	(33)	(67)	(81)
<i>Mental Hygiene</i>	32	(47)	(82)
<i>Employee Benefits</i>	31	116	72
<i>Transportation</i>	(18)	(7)	(157)
<i>All Other</i>	118	134	38
Net Impact of Revenue and Spending Changes	1,092	461	664
Mid-Year Surplus/(Gap) Estimate (before use of 2006-07 surplus)	1,092	(2,705)	(4,741)
<i>Use Portion of 2006-07 Surplus to Reduce Outyear Gaps</i>	(511)	256	255
<i>Reserve Portion of 2006-07 Surplus for Risks</i>	(500)		
<i>Maximum Rainy Day Reserve Deposit</i>	(81)		
Mid-Year Surplus/(Gap) Estimate (after use of reserve/surplus)	0	(2,449)	(4,486)

The updated Financial Plan projects that the State will end 2006-07 with a surplus of \$1.1 billion on a budgetary (cash) basis of accounting. Improved operations are due primarily to an upward revision to the revenue forecast of roughly \$700 million and lower expected spending of nearly \$400 million in Medicaid that impact surplus results.

³ Operating results through the first six months are discussed in the section entitled "Mid-year Operating Results."

The 2007-08 budget gap is roughly \$700 million below the level projected in the July Update Financial Plan. The positive revision to the revenue and spending forecast and the use of \$256 million from the 2006-07 surplus (for planning purposes) account for the reduction. In addition, the gap estimate reflects the use of \$787 million from the stabilization reserve as reported previously in the July Update Financial Plan. The gap for 2008-09 has decreased by over \$900 million as a result of an improved revenue forecast and lower estimated spending, primarily for slowed Medicaid spending growth consistent with national trends, and the planned use of the remaining \$255 million from the 2006-07 surplus.

Below is a description of the substantive revisions since the July Update Financial Plan.

- **Personal Income Tax (PIT):** Receipts have been revised upward by \$300 million, including transfers, based on year-to-date results and DOB's latest economic forecast. The outyear estimates also reflect growth associated with an increase in extensions and final return payments related to the 2006 tax year.
- **Business Taxes:** The 2006-07 increase reflects stronger than anticipated tax base and audit collections. The decrease in the outyear estimates primarily reflect an increase in estimated refunds associated with the current year base increase, as well as a return to historical levels of audit collection results.
- **Medicaid:** Spending estimates have been revised downward by roughly \$359 million in 2006-07 (growing to \$538 million in 2007-08 and \$658 million in 2008-09) due to \$190 million in recurring a savings attributable to overall lower-than-expected trends in utilization, costs and Family Health Plus enrollment. In addition, the reconciliation of actual 2005 base year costs used to calculate the cap on local Medicaid costs resulted in lower local government costs and a resultant reduction in State costs (\$198 million in 2006-07; \$366 million in 2007-08; and \$583 million in 2008-09). Local governments permanently benefit from lower cap payments attributed to slowed program growth and implementation of cost containment. These savings are partially offset by additional funding for bills passed at the end of the legislative session including funds for the Westchester Hospital (\$19 million in 2006-07; \$18 million in 2007-08; and \$14 million in 2008-09)
- **State University (SUNY):** Spending increases primarily reflect higher-than-expected energy costs and an earlier than planned payment of the State subsidy to SUNY hospitals.
- **School Aid:** The spending estimate has increased due to updates in expenditure estimates provided by the State Education Department and a projected shortfall in the receipt of Federal Medicaid reimbursement for certain special education costs.⁴
- **Video Lottery Terminals:** Outyear revenue projections for VLTs have been revised due to a delay in the anticipated opening of the Aqueduct VLT facility from October 2007 to April 2008, which results in an increase in General Fund support for Sound Basic Education (SBE) Aid in 2007-08.

⁴ The Federal government's audit of School Supportive Health Services claims is discussed in the section entitled "Risks to the Financial Plan."

- **Judiciary:** Lower spending in 2006-07 primarily includes a revision in the timing of costs for the Court Facilities Incentive Aid (CFIA) Fund and personal service revisions due to slower than expected judgeship appointments.
- **Disaster Assistance:** Includes aid to the communities impacted by the summer flooding in Central New York and the early snow in Western New York. These amounts reflect direct aid to individuals, families and businesses, as well as assistance to localities in meeting the required match to Federal grants for repair, recovery, and future disaster mitigation.
- **Children and Family Services:** Reflects upward trends in local district claims for reimbursement for child welfare costs.
- **Mental Hygiene:** Includes delays in new local program initiatives and bed development, as well as additional operational efficiencies. Revised outyear costs are due to rising residential costs, Federal aid reductions, enhanced community development, and increased bed capacity for sexually violent predators confined in psychiatric centers.
- **Employee Benefits:** Costs have been revised downward based on actual experience to date, and updated information, primarily in the area of pensions, health insurance, and Social Security.
- **Transportation:** Includes General Fund support to eliminate projected outyear shortfalls in the Dedicated Highway and Bridge Trust Fund, which have increased by \$150 million -- from \$40 million to \$190 million -- in 2008-09. The revisions reflect updated revenue estimates and General Fund support to close a \$6 million deficit in the Public Transportation Operating Assistance Fund in 2006-07, and an additional \$3 million in 2007-08.
- **Other changes:** These include lower debt service costs in 2007-08 (\$189 million) consistent with revised spending patterns in New York City for the issuance of State bonds associated with the EXCEL program (\$75 million) and a later than planned bond sale for the AMD project (\$83 million). Other adjustments include lower than expected spending for public health, the new Office of the Medicaid Inspector General, Division of Probation and Correctional Alternatives, and Welfare.

The updated Financial Plan includes full reimbursement to New York City for CUNY related costs (\$428 million). These costs are offset by higher expected miscellaneous receipts from New York City that are the subject of ongoing negotiations between the State and New York City.

In addition, reserves previously set aside for debt reduction purposes (\$250 million) were transferred from the General Fund and used to defease debt and reduce long-term debt service costs by \$380 million (net present value savings of 10.4 percent). The use of reserves to reduce debt is reflected as debt service spending in 2006-07.

2006-07 RECEIPTS IN THE MID-YEAR PLAN

Summary of All Funds Receipts Changes to the July Update

2006-2007 Budget Receipts Estimates, Revised for Mid-year Update (millions of dollars)				
	July Update	Mid-Year	Change	
			Dollar	Percent
General Fund	50,005	51,162	1,157	2.3%
State Funds	75,396	76,694	1,298	1.7%
All Funds	111,214	112,877	1,663	1.5%

General Fund receipts, including transfers from other funds, are now projected to total \$51.2 billion in 2006-07, an upward revision of \$1.2 billion from the July Update Financial Plan estimate. State Funds and All Funds receipts have increased by \$1.3 billion and \$1.7 billion, respectively. All Funds tax receipts are now projected to total \$57.8 billion, an increase of nearly \$800 million from the July Update Financial Plan, primarily due to upward revisions to projections for PIT and corporate franchise tax. In addition, miscellaneous receipts collections have also been revised upward to reflect an expected payment that is subject to ongoing negotiations with New York City, revisions to HCRA receipts, and a one-time fine collection.

Personal Income Tax (PIT)/Revenue Bond Tax Fund

All Funds PIT receipts for 2006-07 have been increased by \$300 million, and is entirely due to stronger-than-expected results in estimated tax payments for the current 2006 tax year.

General Fund PIT receipts have been revised upward by \$225 million from the July Update Financial Plan, which reflect an additional \$300 million in current year estimated payments, which includes a \$75 million increase in the amount of receipts deposited to the Revenue Bond Tax Fund (RBTF) that are transferred to the General Fund.

Projected General Fund PIT receipts for 2007-08 have been increased by \$412 million (1.7 percent). The increase is attributable to higher current year (2007) estimated payments of \$300 million, along with an increase in extension and final return payments on tax year 2006 liabilities of \$125 million each, offset by an additional transfer to the RBTF of \$138 million. Projected General Fund PIT receipts for 2008-09 have been similarly revised.

User Taxes and Fees

General Fund and All Funds user taxes and fees for 2006-07 are reduced by \$31 million and \$49 million, respectively, primarily due to the reduction in sales and use tax collections due to higher fuel prices and lower light truck sales offset by an alcohol and beverage license fee accounting adjustment.

All Funds receipts have been reduced in 2007-08 and 2008-09 by \$73 million and \$85 million, respectively, to reflect year-to-date collections and modestly weaker economic assumptions for the sales tax forecast partially offset by a slight increase in alcohol and beverage license fees.

Business Taxes

All Funds business tax receipts for 2006-07 are up \$518 million or 6.9 percent, mainly due to higher-than-anticipated growth in audit collections and significant growth in corporate collections to date that together are estimated to increase corporate franchise tax receipts by \$550 million from the July Update Financial Plan estimates. Estimated All Funds receipts for corporate and utilities taxes remain unchanged from the July Update Financial Plan, while estimated receipts for the bank tax and insurance taxes collectively increased by \$10 million and estimated receipts from the petroleum business tax were revised downward by \$42 million.

General Fund business tax receipts have been increased by \$420 million in 2006-07, reflecting stronger-than-expected growth in corporate franchise tax receipts. Estimated General Fund receipts from the insurance taxes, the bank tax, and corporation and utilities taxes remain unchanged from the July Update Financial Plan.

Estimated General Fund corporate franchise tax receipts were decreased by \$409 million over the 2007-08 and 2008-09 period, and bank tax receipts were reduced by \$56 million over the two years combined. Projected General Fund receipts from insurance taxes are decreased by \$14 million for 2007-08 and remain unchanged for 2008-09. Estimated corporation and utilities tax receipts for 2007-08 and 2008-09 remain unchanged from the July Update Financial Plan.

Other Taxes

General Fund and All Funds receipts estimates for other taxes are unchanged from the July Update Financial Plan, however the estate tax estimate has been revised up by \$12 million which is entirely offset by an unexpected refund in the gift tax. Positive collection trends continue in the estate tax as well as the real estate transfer tax. However, the real estate market is exhibiting a modest leveling off.

Projected General Fund and All Funds receipts for 2007-08 and 2008-09 are unchanged from the July Update Financial Plan.

Miscellaneous Receipts

General Fund miscellaneous receipts estimates have been revised upward by \$475 million in 2006-07 to reflect an expected payment from New York City and a one-time fine collected by the State. All Funds miscellaneous receipts are up \$543 million, mainly due to increased HCRA receipts resulting from a revised forecast and collections to date in addition to the General Fund increases identified above.

Projected General Fund miscellaneous receipts increased by \$2 million in 2007-08 and increased by \$79 million in 2008-09 due to forecasted growth in fee income. All Funds receipts have been increased consistent with the HCRA revisions described above.

Summary of All Funds Annual Receipts Changes

Annual Growth in Receipts, 2005-06 Results to 2006-07 Current Forecast (millions of dollars)				
	2005-06 Results	2006-07 Mid-Year	Annual Change	
			Dollar	Percent
General Fund	47,206	51,162	3,956	8.4%
State Funds	71,728	76,694	4,966	6.9%
All Funds	107,027	112,877	5,850	5.5%

In 2006-07, General Fund receipts, including transfers from other funds, are projected to total \$51.2 billion. State Funds receipts, which include receipts from both the General Fund and other funds where dedicated taxes, assessments, tuition revenues, HCRA resources and other non-Federal revenues are reflected, is projected to total \$76.7 billion in 2006-07. All Funds receipts, which include Federal aid, is projected to total \$112.9 billion in 2006-07.

Annual Receipts 2006-07 Budget Receipts Estimates - Annual Increases/(Decreases) (millions of dollars)			
	General Fund	State Funds	All Funds
2005-06 Receipts Results	47,206	71,728	107,027
Personal Income Tax	2,136	3,677	3,677
User Taxes and Fees	(423)	(282)	(282)
Business Taxes	815	907	907
Other Taxes	43	(46)	(46)
Miscellaneous Receipts	881	532	518
Federal Grants	180	178	1,076
Transfers From Other Funds	324	n/a	n/a
2006-07 Receipts Estimate	51,162	76,694	112,877
Annual \$ Change	3,956	4,966	5,850
Annual % Change	8.4%	6.9%	5.5%

Personal Income Tax (PIT)

All Funds 2006-07 PIT receipts are projected to increase by just under \$3.7 billion or 11.9 percent over the prior year, principally reflecting expected growth in withholding of \$1.6 billion (6.7 percent), growth in estimated taxes of \$1.3 billion (14.1 percent) and lower anticipated refunds of \$435 million (7.6 percent). The decline in 2006-07 refunds is primarily attributable to the \$552 million increase in 2005 tax year refunds paid in the last quarter of 2005-06.

Business Taxes

All Funds 2006-07 business tax receipts are projected to increase by \$907 million or 12.8 percent over the prior year. The overall increase in the business tax category is due primarily to growth in the corporate franchise tax (31 percent) and insurance tax (10 percent), offset by declines in corporation and utilities taxes (5 percent), the bank tax (9.6 percent) and the petroleum business tax (1.8 percent).

User Taxes and Fees

All Funds 2006-07 user taxes and fees are projected to decrease by \$282 million or 2.0 percent from 2005-06. The decline in 2006-07 is attributable to a decrease in sales and use tax collections from the enactment of the permanent exemption on clothing and footwear priced under \$110, the tax law change of capping sales and compensating use taxes on motor fuel and diesel motor fuel at 8 cents per gallon and the increase in the vendor credit allowance.

Other Taxes

All Funds 2006-07 other tax receipts are projected to be \$46 million or 2.5 percent less than the prior year. The year over year decline is attributable to the expected weakness in real estate transfer tax collections compared to last year.

Miscellaneous Receipts

All Funds miscellaneous receipts are projected to increase by \$518 million from 2005-06. The growth is comprised of higher expected receipts in the General Fund (\$881 million) offset by a net decline in other funds). General Fund growth primarily reflects the expected receipt of a \$428 million payment from New York City in 2006-07 and one-time fines collected in 2006-07. Capital Projects receipts increase to finance higher spending on projects for transportation (\$312 million), economic development (\$152 million), SUNY (\$84 million), and environment (\$80 million), as well as timing related year-to-year shifts of authority bond proceeds reimbursements resulting from delayed or deferred 2005-06 bond sales. Special Revenue receipts decline due to the receipt of health care conversion proceeds in 2005-06 that are being used to support State Medicaid and other public health care costs in 2006-07 (\$1.7 billion), partially offset by projected increases in provider assessments (\$312 million), SUNY (\$271 million), and lottery receipts, including VLT revenues (\$136 million).

Federal Grants

All Funds Federal grants are projected to increase by \$1.1 billion from 2005-06 to total \$36.2 billion. Federal aid changes generally correspond to changes in federally-reimbursed spending and do not necessarily reflect changes in aid levels for New York authorized by Congress. The annual growth is largely due to increases in the areas of Medicaid (\$747 million), Welfare (\$480 million), Homeland Security (\$229 million) and SUNY (\$172 million). In addition, the State expects to receive Federal monies in 2006-07 related to Medicare Part D, including a \$120 million one-time reimbursement for costs associated with initial implementation delays experienced nationwide (\$180 million). These increase are partially offset by expected declines in Child and Family Services (\$379 million) and other modest decreases in various agencies.

2006-07 SPENDING IN THE MID-YEAR PLAN

Summary of All Funds Changes to the July Update

2006-07 Spending Estimates, Revised for Mid-Year Plan (millions of dollars)				
	July Update	Mid-Year	Change	
			Dollar	Percent
General Fund	50,984	51,299	315	0.6%
State Funds	78,081	78,065	(16)	0.0%
All Funds	113,607	114,048	441	0.4%

The Mid-Year Plan projects General Fund spending in 2006-07 that is \$315 million higher than forecast at the time of the July Update Financial Plan. State Funds spending is down by \$16 million, mainly due to projected decreases in HCRA, including Family Health Plus, spending that is partially offset by the General Fund increases. All Funds spending is now estimated at \$114.0 billion in 2006-07, an increase of \$441 million over the last update, mainly due to increases in Federal Aid, primarily in Medicaid. The main revisions to 2006-07 All Funds spending estimates since the July Update Financial Plan are summarized in the following table.

Revisions to 2006-07 Spending Forecast July Update to Mid-Year Plan -- Increases/(Decreases) (millions of dollars)			
	General Fund	State Funds	All Funds
2006-07 July Update Estimate	50,984	78,081	113,607
Reimbursement to NYC for CUNY costs	428	428	428
Use of Reserves to reduce high cost debt	250	250	250
Medicaid reestimates	(359)	(440)	(23)
Public Health/HCRA	(6)	(79)	(79)
State University of New York	50	55	55
School Aid (excludes EXCEL)	52	52	52
Employee Benefits/Other	(38)	(39)	(44)
Judiciary Reestimates	(23)	(37)	(37)
All Other	(38)	(207)	(161)
2006-07 Mid-Year Estimate	51,299	78,065	114,048
\$ Change	315	(16)	441
% Change	0.6%	0.0%	0.4%

Full reimbursement to New York City for CUNY-related costs, the use of debt reduction reserves to reduce long-term debt service costs, and Medicaid revisions are responsible for most of the General Fund spending change since the July Update Financial Plan. Other upward revisions reflect increased school aid costs based on revised spending projections from the Education Department and a projected decrease in

Federal Medicaid reimbursement used to offset school aid spending; and higher spending in SUNY primarily for energy costs. In addition, spending has been lowered in various other areas including Judiciary personal service due to slower than expected judgeship appointments, as well as employee benefit costs mainly for employee health insurance and social security.

The State Funds changes are consistent with the General Fund revisions described above, and include lower spending for various public health programs financed by HCRA including Elderly Pharmaceutical Insurance Coverage, Child Health Plus, and Family Health Plus.

In All Funds, in addition to the State Funds changes as noted above, Federal aid has been adjusted upward to reflect additional Federal Medicaid reimbursement (\$400 million) and hospital grants under the Community Health Care Conversion Demonstration Project (\$169 million) based on actual experience to date, which is partially offset by a reduction in estimated Family Health Plus spending.

Summary of All Funds Annual Spending Changes

Annual Growth in Spending, 2005-06 Results to 2006-07 Mid-Year Forecast (millions of dollars)				
	2005-06 Results	2006-07 Mid-Year	Annual Change	
			Dollar	Percent
General Fund	46,495	51,299	4,804	10.3%
State Funds	69,723	78,065	8,342	12.0%
All Funds	104,341	114,048	9,707	9.3%

In 2006-07, General Fund spending, including transfers to other funds, is projected to total \$51.3 billion. 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 \$78.1 billion in 2006-07. All Funds spending, the broadest measure of the State Budget that includes Federal aid, is projected to total \$114.0 billion in 2006-07.

Size of the Budget 2006-07 Budget Spending Estimates - Annual Increases/(Decreases) (millions of dollars)			
	General Fund	State Funds	All Funds
2005-06 Actual Spending Results	46,495	69,723	104,341
Medicaid (including administrative costs)	538	1,012	1,688
Public Health (including HCRA)	59	518	454
School Aid (Excludes EXCEL)	1,087	1,470	1,486
Other Education Aid	252	271	323
Local Property Tax Relief/STAR	0	828	828
Higher Education	778	1,048	1,080
Social Services	135	145	199
Mental Hygiene	314	388	352
Transportation	(87)	179	333
General State Charges	388	428	450
Debt Service/Use of Debt Reduction Reserve	54	608	608
Correctional Services	466	458	487
Judiciary	182	203	206
Municipal Aid	158	158	158
All Other	481	629	1,054
2006-07 Mid-Year Spending Estimate	51,299	78,065	114,048
Annual \$ Change	4,804	8,342	9,707
Annual % Change	10.3%	12.0%	9.3%

Medicaid: Higher State costs are driven by modest increases in utilization, the total number of recipients and medical inflation (roughly \$700 million), the State cap on local Medicaid expenditures (\$327 million), the

State takeover of Family Health Plus (\$149 million), as well as program changes associated with Medicare Part D and HCRA. This growth is offset by the receipt of hospital assessment revenue used to finance a portion of General Fund costs (\$212 million).

Public Health (HCRA): Increases are primarily the result of higher spending for Graduate Medical Education, Healthy New York, AIDS Drug Assistance Program and cancer services, as well as targeted investments for anti-tobacco programs, Physicians Excess Medical Malpractice, and stockpiling medications and supplies for Avian Flu.

School Aid: Reflects 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 SBE Aid (\$375 million), Supplemental Extraordinary Needs Aid (\$136 million), Excess Cost Aid (\$126 million), Transportation Aid (\$100 million), Building Aid (\$96 million), Flex Aid (\$86 million), Tax Limitation Aid (\$76 million), BOCES (\$55 million), and additional Pre-K (\$50 million), as well as other categorical and formula-based programs.

School Construction (EXCEL): The State expects to finance roughly \$800 million of the \$2.6 billion EXCEL program in 2006-07 and the balance in 2007-08. The original expectation was for \$1.8 billion of financing to occur in 2006-07. Based on current accounting treatment, spending for EXCEL is not reflected in actual cash-basis results since spending will occur directly from bond proceeds.

Other Education Aid: 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 rehabilitation services; math and science high schools; and increases for agency operations.

Local Property Tax Relief: Estimates reflect the new local property tax rebate/credit program (\$675 million) and growth of \$153 million in the existing School Tax Relief (STAR) program associated with changes in property valuations, school tax rates, increased number of STAR exemptions, and an enhancement in the benefit for senior citizens.

Higher Education: Reflects an expansion of SUNY and CUNY capital programs, operating increases for senior and community colleges, as well as a full reimbursement to New York City for CUNY-related costs. Eligibility limits on the Tuition Assistance Program partially offset the growth in aid to public universities.

Social Services: Public Assistance caseloads continue to decline, but cost-of-living adjustments for foster care workers, increased local claims under the open-ended child welfare services program, and the loss of one-time offsets drive spending growth.

Mental Hygiene: Additional funding is provided for new or expanded community-based initiatives, as well as capital improvements and inflation in operating costs at State-operated and non-profit facilities and programs. The estimates reflect maximizing Federal aid, audit recoveries, overtime controls, and efficiency efforts for certain local programs.

Transportation: The annual change reflects the acceleration of \$245 million in transit aid to 2005-06 from 2006-07, and additional capital spending pursuant to the second year of the Department of Transportation's five-year Capital Plan.

General State Charges: Premiums for the State employee health plan are projected to increase by 9.1 percent in 2006-07. Spending growth is also attributable to increases in the State’s pension contribution rate (from 8.8 percent to 10.2 percent) applied to higher salary costs.

Debt Service: Increases in bond-financed capital spending as detailed later in this report drive most of the growth in debt service.

Advanced Micro Devices (AMD): The State expects to finance \$650 million for this economic development project in 2007-08. The original expectation was for this financing to occur in 2006-07. Like EXCEL, this spending is not reflected in actual cash-basis accounting reports.

Other Changes: Other increases include retroactive lump sum collective bargaining payments for correctional officers; increased operational costs including expected salary increases for the Judiciary; and second year increases in funding for local governments under the Aid and Incentives for Municipalities program, as well as additional unrestricted aid.

Based on current accounting treatment, roughly \$1.9 billion of capital spending for projects spent directly from bond proceeds is not reflected in the State’s budgetary basis results. A table at the end of this Mid-Year Plan details the 2006-07 “off-budget” capital spending, which is roughly \$900 million more than 2005-06 (mostly for EXCEL).

Projected 2006-07 Year-End Balances (General Fund)

DOB projects the State will end the 2006-07 fiscal year with a General Fund balance of \$3.1 billion, as detailed below.

General Fund Estimated Closing Balance 2006-07			
(millions of dollars)			
	<u>July Update</u>	<u>Change</u>	<u>Mid-Year</u>
Closing Fund Balance	2,278	842	3,120
Statutory Rainy Day Reserve Fund	944	81	1,025
Contingency Reserve Fund	21	0	21
Spending Stabilization Reserve	787	0	787
Remaining 2006-07 Surplus (after Rainy Day deposit)	0	1,011	1,011
Community Projects Fund	276	0	276
Debt Reduction Reserve	250	(250)	0

The reserves consist of \$1.0 billion in the State’s Rainy Day Reserve, which, after a planned deposit of \$81 million, will increase the balance to its statutory maximum of 2 percent of spending; \$21 million in the Contingency Reserve for litigation risks; and \$500 million of the 2006-07 surplus set aside in a reserve for risks. Reserves set aside for planned commitments include \$787 million in a spending stabilization reserve (the amount of the 2005-06 surplus remaining after balancing the 2006-07 budget) and \$511 million from the projected 2006-07 surplus that is currently planned to be used in equal amounts to lower the projected 2007-08 and 2008-09 budget gaps, as well as \$276 million in the Community Projects Fund to finance existing legislative and gubernatorial initiatives.

The \$250 million reserve for debt reduction is being used, as planned, to reduce high cost debt and future debt service costs.

OPERATING RESULTS, APRIL THROUGH SEPTEMBER 2006

GENERAL FUND

The General Fund ended the first six months of the 2006-07 fiscal year with a cash balance of \$4.7 billion, \$345 million lower than the July Update Financial Plan projection. This variance is attributable to \$320 million in spending occurring earlier than planned and \$25 million in lower than expected receipts.

General Fund Year-to-Date Results vs. July Update Financial Plan Projections

2006-07 Fiscal Year Year-to-Date Results through September 2006 General Fund Results vs. July Update Projections (millions of dollars)				
	July Update Projection	Actual Results	Favorable/ (Unfavorable) vs. Plan	Increase/ (Decrease) from 2005-06
Opening Balance (April 1, 2006)	3,257	3,257	n/a	711
<u>Receipts</u>	<u>26,095</u>	<u>26,070</u>	<u>(25)</u>	<u>1,657</u>
Personal Income Tax	12,031	12,071	40	1,061
User Taxes and Fees	4,188	4,151	(37)	(277)
Business Taxes	2,714	2,697	(17)	319
All Other Taxes, Receipts & Grants	1,549	1,640	91	417
Transfers From Other Funds	5,613	5,511	(102)	137
<u>Disbursements</u>	<u>24,273</u>	<u>24,593</u>	<u>(320)</u>	<u>2,558</u>
Local Assistance	14,705	15,246	(541)	1,854
State Operations	<u>5,252</u>	<u>5,157</u>	<u>95</u>	<u>540</u>
<i>Personal Service</i>	3,930	3,896	34	405
<i>Non-Personal Service</i>	1,322	1,261	61	135
General State Charges	2,805	2,663	142	(2)
Transfers To Other Funds	1,511	1,527	(16)	166
Change in Operations	1,822	1,477	(345)	(901)
Closing Balance (September 30, 2006)	5,079	4,734	(345)	(189)

Through September 2006, General Fund receipts, including transfers from other funds, totaled \$26.1 billion, \$25 million lower than the July Update Financial Plan forecast. This decrease is primarily due to lower than expected collections in the sales tax, corporate franchise taxes, and transfers from other funds, which is partially offset by higher than anticipated estimated tax payments on personal income and miscellaneous receipts.

General Fund disbursements, including transfers to other funds, totaled \$24.6 billion, \$320 million above the July Update Financial Plan estimate. The vast majority of variances are timing-related and are not expected to impact year-end results. Local assistance spending for the first six months exceeded projections by \$541 million. Earlier than anticipated initial school year aid payments, later-than-expected application of the public assistance offset, payments to CUNY for collective bargaining, and higher-than-projected spending for Children and Families and mental hygiene, were partially offset by lower-than-expected disbursements for public health, and a range of other programs. In State Operations, spending came in \$95 million below expectations, primarily due to shifts in spending patterns as compared to prior year trends. In General State Charges, later than expected payments for worker's compensation and taxes on public lands (\$130 million occurred in October rather than September) accounted for most of the \$142 million in under-spending. Transfers to other funds were slightly above planned levels.

General Fund Year-to-Date Results vs. Prior Year

Through September 2006, total taxes, before the deposits to the debt service funds and the STAR Fund, increased by \$2.0 billion, or 8.5 percent, compared to the same period in 2005-06. This increase is largely attributable to continued economic improvement in 2005, strong payments on current and prior year PIT liability, and continued strength in the real estate market.

General Fund spending through September 2006 was \$2.6 billion, or 10.5 percent, higher than actual results through the same period for fiscal year 2005-06. The increase in year-to-year spending is concentrated in Medicaid (\$806 million) due to price and utilization increases, and the State takeover initiatives; higher than planned School Aid spending (\$527 million); and CUNY (\$134 million) and Welfare (\$168 million) increases due largely to timing of payments between years; and higher personal service spending driven by contractual salary increases and regular advancement through grade levels.

ALL FUNDS

2006-07 Fiscal Year				
Year-to-Date Disbursements through September 2006				
All Governmental Funds Results vs. July Update Projections				
(millions of dollars)				
	July Projection	Actual Results	Favorable/ (Unfavorable) vs. Plan	Increase/ (Decrease) from 2005-06
Total Disbursements	<u>52,369</u>	<u>51,771</u>	<u>598</u>	<u>3,437</u>
General Fund (excluding transfers)	22,762	23,066	(304)	2,392
Special Revenue Funds	25,249	24,427	822	948
Capital Projects Funds	2,569	2,518	51	117
Debt Service Funds	1,789	1,760	29	(20)

Other Governmental Funds Year-to-Date Results vs. July Update Financial Plan Projections

Through September 2006, All Funds disbursements totaled \$51.8 billion, \$598 million below the July Update Financial Plan projection. Special Revenue Funds spending was under the July Update Financial Plan

forecast by \$822 million. The lower spending is mainly due to: lower than anticipated Federal education spending due to reduced claims processed through the summer months (\$463 million); the delayed processing of an offset that reduces welfare spending, as described earlier (\$222 million); lower-than-projected Federal spending in the foster care and day care programs (\$153 million); and lower-than-projected spending in various other Federal aid programs (\$100 million). This lower spending is partially offset by higher Federal Medicaid spending (\$531 million).

Other Funds Year-to-Date Results vs. Prior Year

Compared to the same period in 2005-06, Special Revenue disbursements were roughly \$950 million higher, due primarily to an increase in Federal Medicaid spending (\$837 million) and implementation of the Local Property Tax Rebate Program in September 2006 (\$393 million). The Capital Projects Funds spending increase from the prior year is primarily driven by higher spending in the Dedicated Highway and Bridge Trust Fund (\$122 million). Slightly lower Debt Service Funds spending versus the prior year reflects the continued implementation of the PIT Revenue Bond program, which is gradually replacing service-contract-based financing programs.

ECONOMIC FORECAST

The National Economy

As anticipated in the first quarterly update to the Financial Plan the U.S. economy has lost substantial momentum since the first quarter of the year. A cooling housing market, combined with the effects of past energy price and interest rate increases, have generated a significant drag on economic growth. In addition, the most recent auto industry data are signaling a substantial inventory correction. The national economy is expected to continue to lose momentum through the end of this year, landing gently in the 2.0 percent range. However, with the Federal Reserve's most recent tightening cycle behind us and energy prices down significantly from their summer peaks, growth is expected to return to the economy's long-term trend rate by the second half of 2007. DOB now projects growth of 2.5 percent for 2007, following growth of 3.3 percent for 2006. These same forces are expected to have the reverse effect on inflation. An inflation rate of 3.6 percent is estimated for 2006, virtually unchanged from July, followed by a rate of 2.6 percent for 2007.

Strong corporate earnings, boosted by high energy sector profits, have continued to produce strong corporate profits from current production. Indeed, as of the second quarter of 2006, the most recent quarter for which data are available, profits had grown 34.5 percent in just two years. However, revisions to the historical data released by the U.S. Bureau of Economic Analysis (BEA) in its annual comprehensive revision at the end of July have led to a downward revision to profit growth for 2006. The Budget Division now projects corporate profits to rise 19.3 percent for 2006. Receding energy prices and a slower economy are expected bring profit growth for 2007 down to 4.0 percent for 2007. DOB forecast for employment growth for this year is virtually unchanged at 1.4 percent, followed by only slightly slower growth of 1.3 percent for 2007. However, when the U.S. Bureau of Labor Statistics (BLS) releases revised data in early February, the magnitude of the 2007 slowdown in job growth is expected to be larger. Based on revised data already released by BEA, U.S. personal income growth is expected to fall from 7.2 percent in 2006 to 6.1 percent in 2007, with growth in its largest component, wages and salaries, expected to fall from 7.9 percent in 2006 to 5.8 percent in 2007.

Major U.S. Economic Indicators			
	2005	2006	2007
Gross Domestic Product (real)	3.2	3.3	2.5
Personal Income	5.2	7.2	6.1
Corporate Profits (with IVA and CCA)	12.5	19.3	4.0
Consumer Price Index	3.4	3.6	2.6
Note: Projected growth rates are percent changes, calendar year basis. Budget Division estimates are based on National Income and Product Account data through September 2006. Source: Moody's Economy.com, DOB staff estimates.			

Geopolitical concerns continue to pose a risk to the U.S. forecast. The recent declines in energy prices could easily reverse and take a larger bite out of both household and business spending than expected. In addition, should the housing market correction be more extensive than currently anticipated, consumption spending could be lower than expected. Lower household spending could, in turn, lead the business sector to pare down inventories even further, putting downward pressure on a labor market that has already shown signs of slowing. In contrast, stronger job growth or lower energy prices than anticipated could result in a stronger national economy than projected.

The New York State Economy

The New York economy began its fourth year of expansion at the end of the summer poised to grow at a slower pace than was observed in 2005 and earlier this year. The most recent data continue to indicate that the State's economic momentum peaked during the first half of 2005, presaging the current national slowdown. Because of the State's position as a financial market capital, the State economy was expected to be more sensitive to the Federal Reserve's ongoing policy of monetary tightening than the economies of other states. While the health, education, professional and business services, and tourism sectors are expected to continue to lead State economic growth, the overall pace of growth is expected to slow going forward. Total State employment growth of 0.8 percent is now projected for 2006, followed by growth of 0.7 percent for 2007. Private sector employment growth is projected to slow to 0.8 percent in 2007, following growth of 1.0 percent for this year. Correspondingly, DOB now projects growth in State wages to slow from 6.3 percent in 2006 to 5.5 percent in 2007. Similarly, growth in total State personal income is now projected to slow to 5.4 percent for 2007 from 5.8 percent in 2006.

All of the risks to the U.S. forecast apply to the State forecast as well, although interest rate risk and equity market volatility pose a particularly large degree of uncertainty for New York. Although it is DOB's view that the Federal Reserve's cycle of monetary tightening has ended, the effects of past interest rate increases continue to pose a risk to financial sector profits, particularly if IPO and merger and acquisition activity fall off more than anticipated. Lower than expected securities industry profits could result in lower bonus and wage income, the effects of which would ripple through the downstate regional economy. In addition, should the State's real estate market cool more rapidly than anticipated, household consumption and taxable capital gains realizations could be negatively affected. A return to last summer's high energy prices poses a particular risk to the State's tourism sector. In contrast, should the national and world economies grow faster than expected, an upturn in equity markets and other financial market activity could result in higher wage and bonus growth than projected. In addition, stronger growth in U.S. corporate profits could boost State employment growth beyond current expectations.

Major New York Economic Indicators			
	2005	2006	2007
Personal Income	4.2	5.8	5.4
Nonagricultural Employment	0.9	0.8	0.7
Unemployment Rate	5.0	4.9	5.2
Note: Numbers above are percent changes for personal income and nonagricultural employment and percents for the unemployment rate, calendar year basis. Data for 2006 and 2007 are projected by the Budget Division. Source: Moody's Economy.com, NYS Department of Labor, DOB staff estimates.			

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. The profile of risk has not changed materially since the July Update Financial Plan. However, given the fact that the Financial Plan has been revised to include significant reductions in spending and increases in receipts, DOB believes it is prudent to create additional reserves of \$500 million to guard against current-year transaction risks.

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 were made on October 10, 2006, and a decision is anticipated within the next few months.

Approximately 40 percent of "traditional" school aid is provided to New York City. The 2006-07 Budget also 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 over 2005-06). VLT revenues, which are earmarked to finance SBE Aid, are forecasted to total \$328 million in State fiscal year 2006-07, \$663 million in State Fiscal Year 2007-08 and \$1.3 billion in State fiscal year 2008-09. To supplement VLT revenues until operations commence in all facilities, the State has provided \$100 million in General Fund support in 2006-07 and projects another \$247 million in 2007-08. Further delays in the opening of currently authorized VLT facilities or the failure to approve proposed expansion of the number of authorized facilities would adversely affect the level of VLT revenues available to finance SBE Aid. Specifically, the VLT estimate for 2008-09 depends on the Aqueduct VLT facility opening in April 2008. The expected opening has been moved from October 2007 due to delays in facility development. Also, additional VLT estimates of \$330 million beginning in 2008-09 depend upon the passage of legislation authorizing an expansion in the number of VLT facilities. It should be noted that the Legislature has not adopted proposed expansion legislation for the past three years. The Mid-Year Plan projects traditional school aid increases of roughly \$500 million annually for 2007-08 and 2008-09.

To directly address New York City school construction funding, the 2006-07 Budget authorized (1) \$1.8 billion in capital grants issued by the State for New York City school construction, and (2) the City's Transitional Finance Authority (TFA) to issue \$9.4 billion in bonds for school construction, which will be supported in part with State building aid receipts that the City may assign to TFA.

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.

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 Hospitals Corporation, SUNY and the counties. If these payments are not approved in 2006-07 and beyond, the State's health care financing system would be adversely affected.

Labor Contracts: Existing labor contracts with all of the State's major employee unions expire at the end of 2006-07. The Updated 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 roughly \$88 million annually in the General Fund and \$136 million in All Funds.

Miscellaneous Receipts: The State Financial Plan projections for 2006-07 and beyond assume approximately \$450 million annually in receipts that are the subject of ongoing negotiations between the State and New York City. Actual receipts in 2005-06 were \$450 million below planned levels, which the State recovered on a cash-basis by reducing spending for State aid to the City for reimbursement of CUNY costs.

School Supportive Health Services: The Office of the Inspector General (OIG) of the United States Department of Health 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 four 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, \$436 million of the \$551 million in claims submitted for New York City speech pathology services, and \$96 million of the \$123 million for New York City transportation services. New York State disagrees with the audit findings on several grounds and has requested that they be withdrawn. If the recommended disallowances are not withdrawn, the State expects to appeal.

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.

GENERAL FUND OUTYEAR PROJECTIONS (2007-08 and 2008-09)

General Fund Mid-Year Plan (millions of dollars)					
	2006-07	2007-08	Annual Change	2008-09	Annual Change
Receipts:					
Personal Income Tax	22,836	23,959	1,123	25,296	1,337
User Taxes and Fees	8,216	8,525	309	8,821	296
Business Taxes	5,899	5,343	(556)	5,483	140
Other Taxes	924	994	70	1,054	60
Miscellaneous Receipts/Federal	3,090	2,244	(846)	2,110	(134)
Transfers from Other Funds	10,197	10,101	(96)	10,211	110
Total Receipts	51,162	51,166	4	52,975	1,809
Disbursements:					
Grants to Local Governments	34,386	37,534	3,148	39,985	2,451
State Operations	9,477	9,731	254	10,016	285
General State Charges	4,363	4,601	238	4,928	327
Transfers to Other Funds	3,073	2,717	(356)	2,937	3,283
Total Disbursements	51,299	54,583	3,284	57,866	3,283
Change in Reserves:					
Community Projects Fund	25	75	50	(150)	(225)
Tax Stabilization Reserve Fund	81	0	(81)	0	0
Spending Stabilization Reserve	(1,254)	(787)	467	0	787
2006-07 Surplus	1,011	(256)	(1,267)	(255)	1
Deposit to/(Use of):	(137)	(968)	(831)	(405)	563
Mid-Year Outyear Surplus/(Gap) Estimate		<u>(2,449)</u>		<u>(4,486)</u>	

Absent policy changes, growth in spending is expected to outpace revenue growth over the next two years, based on DOB's economic forecast and current services projections for the State's major programs.

General Fund receipts are expected to increase at roughly 5 percent annually in 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 6 percent on average through 2008-09, based on the current services forecast.

DOB currently projects General Fund budget gaps of \$2.4 billion in 2007-08 and \$4.5 billion in 2008-09, after reflecting the use of \$1.0 billion in reserves (the entire \$787 million spending stabilization reserve and \$256 million from the 2006-07 surplus) to lower the 2007-08 and another \$255 million from the 2006-07 surplus to lower the 2008-09 gap. The HCRA Special Revenue Fund outyear budget gap of \$420 million in 2007-08 and another \$1.0 billion in 2008-09 are in addition to this gap, and described later in this Update.

For a detailed discussion of the revisions to the gap forecast since budget enactment, see the section entitled "Summary of Changes to the July Update Financial Plan" earlier in this Update.

The following chart provides a "zero-based" look at the causes of the 2007-08 General Fund 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 sections entitled "Outyear General Fund Receipt Projections" and "Outyear General Fund Disbursement Projections" in this Update.

General Fund Gap Estimate for 2007-08: "Zero-Based" Estimate	
Annual Change	
Savings/(Costs)	
(millions of dollars)	
	2007-08
Receipts	4
Constant Law Growth	2,869
Tax Reductions	(1,590)
Phaseout of Temporary PIT Actions	(425)
Increase in Debt Service (PIT/LGAC/CWCA)/Capital	(380)
Non-recurring 2006-07 NYPA/SONYMA payments	(297)
Decrease in STAR Deposits	292
Abandoned Property	(150)
Non-recurring 2006-07 Federal Medicare Part D Reimbursements	(120)
All Other	(195)
Total Disbursements	(3,284)
Local Assistance	(3,148)
Medicaid (incl. admin)	(1,458)
<i>Price/Utilization/Admin Growth</i>	(614)
<i>Medicaid Cap/Family Health Plus Takeover</i>	(425)
<i>Elimination of Hospital Assessment/Other Financing</i>	(419)
School Aid	(914)
<i>Regular School Aid/Database</i>	(767)
<i>VLT subsidy</i>	(147)
Children and Family Services	(198)
Welfare	(172)
Mental Hygiene	(266)
All Other Local Assistance	(140)
State Operations	(254)
Personal Service	(90)
<i>\$800 Base Salary Adjustment and Performance/Merit Awards</i>	(300)
<i>Nonrecurring 2006-07 NYSCOPBA Arbitration Award</i>	210
Non-personal Service	(164)
General State Charges	(238)
Health Insurance -- Active Employees	(130)
Health Insurance -- Retired Employees	(87)
Pensions	24
All Other	(45)
Transfers to Other Funds (Use of \$250M DRRF/\$120M VLT in 2006-07)	356
Change in Reserves used for Operations	800
Change in Deposit to Community Projects Fund/Rainy Day Fund	31
BUDGET GAP FOR 2007-08	(2,449)

The gap for 2007-08 is a forecast based on assumptions of 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:

1. **The entire \$787 million spending stabilization reserve and \$256 million of the 2006-07 surplus are projected to be used to lower the 2007-08 gap.**
2. **Economic growth will continue at a steady pace over the forecast period.** DOB's forecast expects personal income in New York to grow at 5.9 percent in 2006 and 5.2 percent in 2007, 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.
3. **Revenues, adjusting for tax law changes, will grow at roughly 5.2 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.
4. **The majority of the Medicaid cost containment approved annually since 1995 will continue,** providing roughly \$500 million in savings annually over the Financial Plan.
5. **Any shortfall in the HCRA will be closed without the need for additional General Fund resources in 2007-08.** 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.
6. **Anti-fraud savings are projected to increase from \$300 million in 2006-07 to \$390 million and \$520 million in 2007-08 and 2008-09, respectively.** These savings estimates are expected from reducing Medicaid fraud by providers and recipients, as well as initiatives to improve detection and strengthen the State's fraud fighting capabilities.
7. **School Aid is projected to increase annually (including SBE Aid outside the General Fund) in amounts consistent with a phase-in of the plan submitted to the court. This growth includes \$500 million annually on a school year basis as well as funding for SBE aid of \$700 million in 2006-07, increasing to \$1 billion in 2007-08 and \$1.5 in 2008-09.** The projections assume that this total level of spending increase will be sufficient to satisfy court directives. In both 2006-07 and 2007-08, SBE Aid is funded by VLT receipts and a subsidy from the General Fund (\$100 million in 2006-07; \$247 million in 2007-08). On a State fiscal year basis, VLT receipts are projected to total \$663 million in 2007-08 and \$1.3 billion in 2008-09. The VLT estimates depend on the opening of the Aqueduct VLT facility (now expected in April 2008), and legislative approval of an expansion of VLT gaming. Lack of legislative approval for VLT expansion (as experienced in recent years) and delays in development at the Aqueduct facility constitute a risk to these assumptions. For example, an April 2008 opening of the Aqueduct VLT facility, which coincides with the start of the State fiscal year, is valued at \$300 million in 2008-09 and the VLT expansion is valued at an additional \$300 million in 2008-09.

8. **Receipts of roughly \$450 million annually are budgeted in 2006-07, 2007-08 and 2008-09 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 but offsetting cash-basis savings were achieved through a reduction in State aid.
9. **The Federal government will not make substantive funding changes** to major aid programs.
10. **The projections for 2007-08 and 2008-09 do not include any extra costs for new labor settlements** once the current contracts expire on April 1, 2007. Each 1 percent salary increase is valued at \$88 million in the General Fund and \$136 million in All Funds.
11. **Spending for employee and retiree health care costs assumes a premium increase of 9.4 percent.** Escalating health care costs, including prescription drugs, will significantly influence future health care premiums.
12. **The projections do not assume any pre-funding for costs that would be reported under GASB 45,** but do include pay-as-you-go costs for retiree healthcare of roughly \$1.0 billion in 2007-08 and \$1.1 billion in 2008-09.
13. Changes to any of these assumptions have the potential to materially alter the size of the budget gap for 2007-08. A detailed discussion of the receipts and disbursement estimates for 2007-08 and 2008-09 follows.

OUTYEAR GENERAL FUND RECEIPT PROJECTIONS

General Fund receipts, including transfers from other funds, are projected to total \$51.2 billion in 2007-08, essentially unchanged from 2006-07 estimates mainly due to significant tax reduction enacted in 2006. Receipts are projected to grow by more than \$1.8 billion in 2008-09 to total nearly \$53 billion. The estimated 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 future years follows the path dictated by DOB's forecast of economic growth. History suggests a wide 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	22,836	23,959	1,123	25,296	1,337
User Taxes and Fees	8,216	8,525	309	8,821	296
Business Taxes	5,899	5,343	(556)	5,483	140
Other Taxes	924	994	70	1,054	60
Miscellaneous Receipts	2,910	2,184	(726)	2,050	(134)
Federal Grants	180	60	(120)	60	0
Transfers from Other Funds					
Revenue Bond Tax Fund	7,048	7,129	81	7,100	(29)
LGAC Fund	2,164	2,259	95	2,355	96
CW/CA Fund	583	510	(73)	512	2
All Other	402	203	(199)	244	41
Total Receipts	51,162	51,166	4	52,975	1,809
<i>Annual Percent Change</i>			<i>0.0%</i>		<i>3.5%</i>

Taxes

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, recently enacted tax law changes have a significant impact on year-over-year comparisons.

General Fund PIT receipts are projected to increase by \$1.1 billion to nearly \$24 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. General Fund PIT receipts for 2008-09 are projected to increase by \$1.3 billion to \$25.3 billion, reflecting growth in liability that is consistent with an expanding personal income base during a period of expected economic growth, along with the continued impact of Enacted Budget tax reductions.

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 for 2007-08 are projected to increase by over \$300 million due to the reduction in sales and use tax collections resulting from law changes including the cap on the sales tax charged on gasoline purchases and the increase in the vendor allowance, which are more than offset by increases in user tax base due to forecasted economic growth.

General Fund business tax receipts are expected to decrease to \$5.3 billion in 2007-08 and increase to \$5.5 billion in 2008-09, reflecting trend growth in business tax receipts, slower growth in corporate profits, a return to audit collection levels that reflect historical trends, and the continued impact of tax reductions enacted in 2006 and earlier years.

General Fund receipts from other taxes are expected to increase to \$994 million in 2007-08 and \$1.1 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 \$2.2 billion, down \$726 million from the current year. This decrease is primarily the result of revised estimates of abandoned property receipts and the loss of one-time revenues. In 2008-09, General Fund miscellaneous receipts collections are projected to be slightly more than \$2.0 billion, down \$134 million from 2007-08. This decrease results from expected declines in licenses and fee receipts, investment income and a decrease in the value of the local government revenue and disbursement program.

Transfers from Other Funds

Transfers from other funds are estimated to decline \$96 million to \$10.1 billion in 2007-08, and grow to \$10.2 billion in 2008-09. In 2007-08, the projected decline is primarily due to the loss of one-time transfers of available fund balances from certain non-General Fund accounts in 2006-07 (\$200 million) offset by the net increase of dedicated tax receipts in excess of associated debt service payments for the PIT Revenue Bonds, the Local Government Assistance Corporation (LGAC) Bonds and Clean Water/Clean Air general obligation bonds. In 2008-09, transfers are projected to grow due primarily to the net increase of tax receipts in excess of the related debt service payments for such bonds.

OUTYEAR GENERAL FUND DISBURSEMENT PROJECTIONS

DOB forecasts General Fund current services spending of \$54.6 billion in 2007-08, an increase of \$3.3 billion (6.4 percent) over 2006-07 projections. Growth in 2008-09 is projected at \$3.3 billion (6.0 percent). The main sources of current services annual spending growth for 2007-08 and 2008-09 are itemized in the following table.

General Fund Disbursement Projections (millions of dollars)					
	2006-07	2007-08	Annual Change	2008-09	Annual Change
Grants to Local Governments:	34,386	37,534	3,148	39,985	2,451
School Aid	14,587	15,501	914	15,614	113
Medicaid (incl. admin)	9,019	10,478	1,458	12,375	1,898
Higher Education	2,283	2,360	77	2,411	51
Education Aid - All Other	1,714	1,614	(100)	1,661	47
Mental Hygiene	1,575	1,841	266	1,982	141
Children and Family Services	1,355	1,553	198	1,658	105
Welfare	1,250	1,423	172	1,434	11
Local Government Assistance	1,177	1,220	43	1,230	10
Public Health	595	689	94	707	19
All Other	830	857	27	913	56
State Operations:	9,477	9,731	254	10,016	285
Personal Service	6,786	6,877	90	6,988	111
Non-Personal Service	2,691	2,854	164	3,028	174
General State Charges:	4,363	4,601	238	4,928	327
Pensions	1,222	1,198	(24)	1,214	16
Health Insurance	2,397	2,615	218	2,913	298
All Other	744	788	44	801	13
Transfers to Other Funds:	3,073	2,717	(356)	2,937	220
Debt Service	1,764	1,755	(9)	1,732	(23)
Capital Projects	224	250	26	441	191
All Other	1,085	712	(373)	764	52
Total Disbursements	51,299	54,583	3,284	57,866	3,283
<i>Annual Percent Change</i>			6.4%		6.0%

Grants to Local Governments

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

Forecast for Selected Program Measures Affecting Local Assistance					
(millions of dollars)					
	Actual		Forecast		
	2004-05	2005-06	2006-07	2007-08	2008-09
Medicaid					
Medicaid Coverage (excl. FHP)	3,531,938	3,674,167	3,690,578	3,839,312	3,992,884
Medicaid Inflation	4.1%	3.9%	4.2%	2.4%	3.7%
Medicaid Utilization	3.2%	3.7%	2.2%	1.3%	4.0%
State Takeover of County/NYC Costs					
- Family Health Plus	\$60	\$289	\$438	\$483	\$513
- Medicaid	N/A	\$113	\$440	\$820	\$1,261
Education					
School Aid (School Year)	\$15,400	\$16,400	\$17,700	\$18,500	\$19,500
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	334,124	334,124	334,124
Welfare					
Family Assistance Caseload	485,500	453,200	416,200	403,500	399,600
Single Adult/No Children Caseload	140,200	146,000	151,100	156,100	156,200
Mental Hygiene					
Mental Hygiene Community Beds	81,446	82,948	84,445	86,105	86,943

School Aid

Major Sources of Annual Change in School Aid Growth (billions of dollars)		
	<u>Increase from Prior Year</u>	
	<u>2007-08</u>	<u>2008-09</u>
<u>State Fiscal Year Basis:</u>		
Total General Fund and Lottery:	1.0	0.9
General Fund	0.9	0.1
Lottery/VLTs	0.1	0.8
<u>School Year Basis:</u>		
Total State Funds:	0.8	1.0
General School Aid	0.5	0.5
Sound Basic Education	0.3	0.5

On a school year basis, school aid (including funding for SBE Aid) is now projected at \$18.5 billion in 2007-08 and \$19.5 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. SBE aid is projected at \$700 million in 2006-07 growing to \$1 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 \$914 million in 2007-08 and \$113 million in 2008-09. The growth is attributable to a General Fund supplement to SBE aid (\$247 million in 2007-08), Building Aid increases (roughly \$100 million in 2007-08 and 2008-09); special education cost increases (approximately \$125 million in 2007-08 and 2008-09); Transportation Aid increases (roughly \$125 million in 2007-08 and 2008-09) and growth in other aid categories. The decrease in the level of annual growth in General Fund school aid, from \$914 million in 2007-08 to \$113 million in 2008-09 is largely attributable to a temporary shift in funding sources for the State's SBE program. 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 roughly \$335 million in 2007-08 and another \$687 million in 2008-09. Outyear VLT estimates assume the start of new operations at two racetracks, Yonkers (opened in October 2006) and Aqueduct (projected to open in April 2008), and the approval of an expansion plan early in 2007-08 providing \$300 million of the increase planned in 2008-09.

The \$2.6 billion EXCEL program, which authorizes State bonding for school construction throughout the State, is projected to total roughly \$800 million in 2006-07 and \$1.8 billion in 2007-08. The EXCEL Program is authorized to provide \$1.8 billion for New York City schools, \$400 million for "high-needs" school districts, and the remaining \$400 million will go to all other school districts based on a per-pupil formula. Based on current accounting treatment, spending for EXCEL is not reflected in actual cash-basis results since spending will occur directly from bond proceeds.

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 is expected to grow by roughly \$1.5 billion in 2007-08 and another \$1.9 billion in 2008-09.

Major Sources of Annual Change in Medicaid Growth		
General Fund		
(billions of dollars)		
	Increase from Prior Year	
	2007-08	2008-09
Price/Utilization/Admin Growth	0.7	1.2
Medicaid Cap/FHP Takeover	0.4	0.5
Provider Assessments	0.2	0.1
HCRA Financing	0.2	0.1
Total	1.5	1.9

This growth results, in part, from the combination of modest growth in recipients, service utilization, and medical-care cost inflation. These factors are projected to add roughly \$700 million in 2007-08 and \$1.2 billion in 2008-09. In addition, the State cap on local Medicaid costs and takeover of local Family Health Plus costs is projected to increase spending by \$425 million in 2007-08 and \$471 million in 2008-09. The remaining growth is primarily attributed to the elimination of the 0.35 percent assessment on hospital revenues and lower levels of HCRA financing, both of which are used to lower General Fund costs.

DOB revised Medicaid projections for slowed growth rates in enrollment for Medicaid and Family Health Plus. The average number of Medicaid recipients is expected to grow to 3.8 million in 2007-08, an increase of 4 percent from the estimated 2006-07 caseload of almost 3.7 million. Family Health Plus enrollment is estimated to grow to approximately 528,000 in 2007-08, an increase of 2.7 percent over projected 2006-07 enrollment of 514,000.

Welfare

Welfare spending, including administration, is projected at \$1.4 billion in 2007-08, an increase of \$172 million (12.1 percent) from 2006-07, and is expected to remain at the same level in 2008-09. Although the

caseloads for family assistance and single adult/childless couples are projected to decline, spending from this caseload is expected to drop only marginally. This reduction is then countered by the use of less Federal TANF to support public assistance costs, thereby driving General Fund spending growth.

Mental Hygiene

Mental Hygiene spending, comprising of the Office of Mental Health (OMH), the Office of Mental Retardation and Developmental Disabilities (OMRDD), the Office of Alcoholism and Substance Abuse Services (OASAS), and the Commission on Quality of Care and Advocacy for Persons with Disabilities (CQC) is projected at \$1.8 billion in 2007-08 and \$2.0 billion in 2008-09 reflecting spending increases of \$266 million and \$141 million, respectively. The growth is largely attributable to increases in projected State share of Medicaid costs and other human services cost of living increases (2.5 percent in 2007-08 and 2.6 percent in 2008-09), projected expansions of the various mental hygiene service systems including a major expansion of OMH's Children's Services, increases in the NYS-CARES program and in the development of children's beds for out-of-state placements in OMRDD, the NY/NY III Supportive Housing agreement and community bed expansion in OMH, and several new chemical dependence treatment and prevention initiatives.

Children and Family Services

Children and Family Services spending is projected to grow by \$198 million (15.8 percent) in 2007-08 and an additional \$105 million (7.2 percent) in 2008-09 to total \$1.7 billion. The increases are driven primarily by expected growth in the open-ended child welfare services program and cost-of-living increases for workers in foster care, and foster and adoptive parents enacted in 2006-07.

Other Local

All other local assistance programs total \$6.7 billion in 2007-08, an increase of \$140 million over 2006-07 revised levels. This growth in spending primarily includes: higher education, with the majority of growth occurring in various public health programs including Early Intervention and expected growth in reimbursements to counties for General Public Health Works (\$94 million); local government assistance primarily due to new funding for municipalities hosting VLT facilities (\$42 million net increase); and the Tuition Assistance Program (\$18 million). These increases are partially offset by a decline in other education aid, including additional grants-in-aid to certain school districts, public libraries and not for profit institutions, and specifically for the Teacher Resources and Computer Training Centers and the Teacher Mentor intern program, in 2006-07 that does not recur in 2007-08 (\$100 million).

State Operations

Forecast of Selected Program Measures Affecting State Operations					
	Actual		Forecast		
	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	192,375	193,525	194,425

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

State Operations spending in the General Fund is expected to total \$9.7 billion in 2007-08, an annual increase of \$254 million (2.7 percent). In 2008-09, spending is projected to grow by another \$285 million (2.9 percent) to a total of \$10.0 billion.

Personal service costs increase in 2007-08 and 2008-09 by \$90 million and \$111 million, respectively. Growth in 2007-08 reflects an \$800 base salary adjustment effective April 1, 2007, and both years reflect longevity increases. The 2007-08 growth is partially offset by the retroactive component associated with the NYSOPBA arbitration award paid in 2006-07 that does not recur in 2007-08 (\$210 million). As noted previously, there is no provision for additional collective bargaining costs in 2007-08 or 2008-09.

Non-personal service spending is projected to grow by roughly 5 percent annually. Agencies projecting growth beyond inflation include: Correctional Services mainly driven by increases in the cost of housing inmates and providing inmate medical services (\$41 million); OMRDD quality assurance activities to ensure not-for-profit program and fiscal compliance and projected cost increases for continuing State-operated programs including pharmacy, energy and other inflationary adjustments (\$32 million); Judiciary due mostly to increases in security related equipment and contracts (\$27 million); OMH, due to projected increases in drug and utilities costs (\$15 million); and OCFS, driven primarily by exhaustion of prior year Federal revenue for the child welfare information system (\$15 million).

General State Charges (GSCs)

Forecast of Selected Program Measures Affecting General State Charges					
	Actual		Forecast		
	2004-05	2005-06	2006-07	2007-08	2008-09
General State Charges					
Pension Contribution Rate	7.0%	8.8%	10.2%	9.4%	9.9%
Employee/Retiree Health Insurance Rate	13.5%	8.2%	9.1%	9.4%	11.0%

GSCs are projected to total \$4.6 billion in 2007-08 and \$4.9 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 decrease from 10.2 percent to 9.4 percent in 2007-08. Spending for employee and retiree health care costs is expected to increase by \$218 million in 2007-08 and another \$298 million in 2008-09. Health insurance is projected at \$2.6 billion in 2007-08 (\$1.6 billion for active employees and \$1.0 billion for retired employees) and \$2.9 billion in 2008-09 (\$1.8 billion for active employees and \$1.1 billion for retired employees). The projections do not assume any pre-funding of the GASB 45 liability.

Transfers to Other Funds

Forecast of Selected Program Measures Affecting Debt Service					
	Actual		Forecast		
	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 \$2.7 billion in 2007-08, \$356 million below 2006-07 levels mainly due to one-time transfers from the General Fund in 2006-07 of \$250 million to reduce high cost debt and \$120 million to supplant lower than originally projected VLT revenues to fund SBE aid.

In 2008-09, transfers are expected to increase by \$220 million as a result of General Fund support to the Dedicated Highway and Bridge Trust Fund to obviate a projected shortfall.

CASH FLOW FORECAST (2006-07)

General Fund

In 2006-07, the General Fund is projected to have quarterly-ending balances of \$2.0 billion at the end of December 2006, and \$3.1 billion at the end of March 2007. The components of the year-end balances are discussed in the section entitled "Projected 2006-07 Year-End Balances (General Fund)."

The 2006-07 General Fund cash flow estimates by month appear in the Financial Plan Tables.

All Funds

All Funds quarterly-ending balances are expected to be \$6.1 billion by the end of December 2006, and at the end of March 2007. In addition to the General Fund cash flow described above, the All Funds cash flow includes the operations and resulting balances in Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

The projected 2006-07 year-end balance is comprised of \$3.1 billion in the General Fund, \$3.2 billion in Special Revenue Funds and \$243 million in Debt Service Funds partially offset by a negative cash balance of \$462 million in the Capital Projects Fund. The fund balance in the Special Revenue Funds reflects the timing of receipts and disbursements (e.g. dedicated moneys received for a specified purpose prior to disbursement). The largest fund balances are dedicated to finance ongoing HCRA programs (\$708 million), mass transit (\$437 million), and the operations and activities of SUNY campuses (\$406 million). The remaining fund balances are held in numerous funds and accounts that support a variety of programs including industry regulation, public health, and public safety. The negative balance in the Capital Projects funds results from outstanding loans from the Short-Term Investment Pool used to finance capital projects costs prior to the receipt of bond proceeds. The Debt Service Fund balance primarily reflects monies required to be set aside for future debt service payments and other programmatic needs. These include the SUNY Dorms Fund (\$151 million), Mental Health Services Fund (\$66 million), and the Health Income Fund (\$25 million).

The projected year end All Funds balance reflects a decline of nearly \$1.0 billion from the March 31, 2006 balance, which is largely due to the use of health care conversion proceeds, as planned, in 2006-07 that were received in the HCRA Fund in 2005-06 and included in the year end balance.

The 2006-07 Special Revenue Funds, Capital Projects Funds, and Debt Service Funds by cash flow estimates by quarter appear in the Financial Plan Tables.

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 GAAP basis in accordance with Governmental Accounting Standards Board (GASB) regulations. The GAAP projections are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2005-06.

In 2006-07, the General Fund GAAP Financial Plan projects total revenues of \$43.4 billion, total expenditures of \$51.8 billion, and net other financing sources of \$7.5 billion, resulting in an operating deficit of roughly \$800 million and a projected accumulated surplus of \$1.4 billion. The operating results primarily reflect the 2006-07 cash-basis surplus, the impact of enacted tax reductions on revenue accruals and a partial use of the 2005-06 surplus to support 2006-07 operations.

The GAAP basis results for 2005-06 showed the State in a net positive overall asset condition of \$49.1 billion. The net positive asset condition 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, predominantly health care, for current employees and retirees beginning with the financial statements for the 2007-08 fiscal year.

The State has hired an independent actuarial consulting firm to complete the analysis of retiree health care liabilities. A preliminary analysis has been completed by the firm and is currently under review by the State. Assuming there is no pre-funding of this liability, the preliminary analysis indicates that the present value of the actuarial accrued total liability for benefits to date would be roughly \$47 billion under several actuarial methods and \$54 billion under one method. This is based on a 4.1 percent annual discount rate. Any determination to pre-fund this liability via a trust fund or comparable structure would result in a higher discount rate, with a corresponding reduction in the estimated actuarial accrued liabilities to roughly \$27 billion under several actuarial methods (assuming an 8 percent discount rate).

The State's total unfunded liability will be disclosed in the 2007-08 basic financial statements. While the total liability is substantial, GASB rules indicate the liability may be amortized over a 30 year period; therefore, only the annual amortized value above the current pay-as-you-go costs would be reported as a liability in the financial statements. Assuming no pre-funding, the 2007-08 liability would total roughly \$3.7 billion under several actuarial methods in total based on a level percent of salary (under one method it would be \$6.1 billion in total), or \$2.7 billion above the current pay-as-you-go costs. Assuming pre-funding, the 2007-08 liability would total roughly \$2.4 billion under several actuarial methods in total (under one method it would be \$3.9 billion in total), or \$1.4 billion above the current pay-as-you-go costs. GASB does not require the additional costs to be funded on the State's budgetary basis, and no funding is assumed for this purpose in the Financial Plan. On a budgetary (cash) basis, the State continues to finance these costs, along with all other employee health care expenses, on a pay-as-you-go basis. Anticipated increases in these costs are reflected in the State's multi-year Financial Plan. DOB's detailed GAAP Financial Plans for 2005-06 through 2008-09 appear in the Financial Plan tables at the end of this Updated Financial Plan.

2006-07 UPDATED HCRA FINANCIAL PLAN

2006-07 through 2008-09 (millions of dollars)			
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Opening Balance	1,600	708	(420)
Total Receipts	4,476	4,129	4,298
Conversion Proceeds	1,000	500	550
Surcharges	1,713	1,901	2,020
Covered Lives Assessment	775	775	775
Hospital Assessment (1 percent)	248	268	285
Cigarette Tax Revenue	563	578	570
All Other	177	107	98
Total Disbursements	5,368	5,257	5,256
Medicaid Assistance Account	2,112	1,841	1,750
<i>Pharmacy Costs</i>	625	418	304
<i>Family Health Plus</i>	446	496	519
<i>Workforce Recruitment and Retention</i>	481	370	370
<i>All Other</i>	560	557	557
HCRA Program Account (incl. GME)	1,163	1,177	1,231
Hospital Indigent Care	841	841	841
Elderly Prescription Insurance Coverage	542	586	586
Child Health Plus	335	354	354
Public Health Programs	160	133	133
Mental Health Programs	93	92	92
All Other	122	233	269
Excess/(Deficiency) of Receipts over Disbursements	(892)	(1,128)	(958)
Closing Balance ⁽¹⁾	708	(420)	(1,378)

⁽¹⁾ Prior to required spending reductions.

- The HCRA Fund for 2006-07 is balanced on a budgetary (cash) basis of accounting, with over \$700 million projected to be available at year end for use in 2007-08. The current statutory authorization for HCRA expires on June 30, 2007.

- Since the July Update Financial Plan, the 2006-07 operational forecast has improved by nearly \$200 million reflecting a combination of higher receipts and lower projected spending.
- Cumulative outyear operating gaps have decreased to roughly \$400 million (from \$900 million) in 2007-08 and \$1.4 billion (from \$2.2 billion) in 2008-09. These decreases are primarily due to an upwards revision of estimated receipts, partially offset by a slight increase in spending.
- HCRA is now fully on budget. Under the current HCRA appropriation structure, spending reductions will occur if resources are insufficient to meet spending levels. These spending reductions could potentially impact core HCRA programs and the fiscal status of the General Fund. The reauthorizations of HCRA in prior years restored HCRA's solvency without the need for automatic spending reductions.

The table below summarizes the impact of changes since the July Update Financial Plan on the three-year operating forecast for the HCRA Financial Plan.

Changes to HCRA Operating Forecast for 2006-07 Through 2008-09			
Savings/(Costs)			
(millions of dollars)			
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Opening Fund Balance	1,600	708	(420)
First Quarter Operational Surplus/(Gap)	<u>(1,086)</u>	<u>(1,368)</u>	<u>(1,381)</u>
Family Health Plus	80	76	50
Elderly Prescription Insurance Coverage	40	40	40
Child Health Plus	30	30	30
Interest Earnings	27	1	(5)
Surcharges	15	162	298
Hospital Assessment (1 percent)	7	26	43
Workforce Recruitment and Retention	4	1	1
Medicaid Pharmacy Costs	0	0	100
Healthy NY	(5)	(68)	(107)
All Other	(4)	(28)	(27)
Total Revenue and Spending Changes	<u>194</u>	<u>240</u>	<u>423</u>
Current Budget Operational Surplus/(Gap)	<u><u>(892)</u></u>	<u><u>(1,128)</u></u>	<u><u>(958)</u></u>
Closing Balance⁽¹⁾	708	(420)	(1,378)

⁽¹⁾ Prior to required spending reductions.

The updated HCRA Financial Plan projects disbursements will exceed receipts by nearly \$900 million in 2006-07, which will be financed by the significant fund balance available at the beginning

of the fiscal year as a result of the receipt of \$2.7 billion in health care conversion proceeds in 2005-06. All conversion proceeds are expected to be utilized by the end of 2008-09. The outyear operating gaps have declined since the July Update Financial Plan primarily due to an increase in estimated receipts and a reduction in 2008-09 in Medicaid pharmacy costs paid for by HCRA.

Below is a description of the revisions since the July Update Financial Plan.

- Surcharges and the 1 percent assessment on hospital revenues have been revised upward based on current trends and a revised forecast. The increased projections are the result of a change in the forecasting model which is used to determine estimated collections.
- Interest earnings in 2006-07 have been realized from the balance resulting from the receipt of \$2.7 billion in health care conversion proceeds in 2005-06.
- Elderly Pharmaceutical Insurance Coverage spending has been lowered based on current experience and accelerated enrollment in Medicare Part D.
- Enrollment growth in the Child Health Plus program has been revised based on more recent experience with State share spending expected to decrease by 2.7 percent.
- Based on current trends, a slight re-estimate is made for public workforce and recruitment grants.
- HCRA financing of Medicaid pharmacy costs has been reduced in 2008-09 and is instead recognized in the General Fund.
- Healthy NY spending is expected to increase as a result of upward enrollment trends of 30,000 to 40,000.
- Family Health Plus re-estimate reflects lower enrollment projections.
- Additional detail on HCRA quarterly receipts and disbursements is contained in the Financial Plan Tables.

STATUTORY DEBT LIMITATIONS

Debt Reform Act

The Debt Reform Act of 2000 imposed statutory limitations which restricted the issuance of State-supported debt to capital purposes only and established a maximum term of 30 years for such debt. The statute also imposed phased-in caps that ultimately limit the amount of new State-supported debt to 4 percent of State personal income and new State-supported debt service costs to 5 percent of All Funds receipts. The restrictions apply to all new State-supported debt issued on and after April 1, 2000.

The statute requires that the limitations on the amount of State-supported debt and debt service costs be calculated by October 31 of each year and reported in the updated Financial Plan. If the actual new State-supported debt outstanding and debt service costs are below the caps at this time, 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 issuing new State-supported debt until the next cap calculation is made and debt is found to be within the applicable limitations.

For the 2005-06 fiscal year, the cumulative debt outstanding and debt service caps are 2.65 percent each. As shown in the table below, the actual level of debt outstanding and debt service costs continue to remain below the statutory caps. From April 1, 2000 through March 31, 2006 the State has issued new debt resulting in \$14.9 billion of debt outstanding applicable to the debt reform cap. This is \$5.6 billion below the statutory debt outstanding limitation. In addition, the debt service costs on this new debt totaled \$1.2 billion in 2005-06 – or roughly \$1.6 billion below the statutory debt service limitation.

Debt Outstanding Cap (millions of dollars)	
New Debt Outstanding	\$14,871
Personal Income (CY 2005)	\$771,568
Debt Outstanding (Percent of PI)	1.93%
Cap Imposed by Debt Reform Act	2.65%

Debt Service Cap (millions of dollars)	
New Debt Service	\$1,247
Governmental Funds Receipts*	\$107,027
Debt Service (Percent of Gov'tl Fund Receipts)	1.16%
Cap Imposed by Debt Reform Act	2.65%

* Excludes surplus amounts.

Current projections also estimate that debt outstanding and debt service costs will continue to remain below the limits imposed by the Act throughout the current capital plan period, as noted in the tables below. However, the estimates assume that in 2008-09 and beyond, new debt issuances return to more moderate levels of about \$4 billion annually rather than levels projected in 2006-07 and 2007-08 (primarily driven by EXCEL and new economic development initiatives).

New Debt Outstanding (millions of dollars)				
<u>Year</u>	<u>Personal Income*</u>	<u>Cap %</u>	<u>Actual/Recommended %</u>	<u>%(Above)/Below Cap</u>
2000-01 (Actual)	655,583	0.75	0.38	0.37
2001-02 (Actual)	682,206	1.25	0.67	0.58
2002-03 (Actual)	684,070	1.65	1.21	0.44
2003-04 (Actual)	701,852	1.98	1.55	0.43
2004-05 (Actual)	737,039	2.32	1.73	0.59
2005-06 (Actual)	771,568	2.65	1.93	0.72
2006-07	817,575	2.98	2.29	0.70
2007-08	861,286	3.32	2.97	0.35
2008-09	904,281	3.65	3.23	0.42
2009-10	949,231	3.98	3.40	0.59
2010-11	998,387	4.00	3.50	0.50

New Debt Service Costs (millions of dollars)				
<u>Year</u>	<u>All Funds Receipts*</u>	<u>Cap %</u>	<u>Actual/Recommended %</u>	<u>%(Above)/Below Cap</u>
2000-01 (Actual)	83,527	0.75	0.09	0.66
2001-02 (Actual)	84,312	1.25	0.36	0.89
2002-03 (Actual)	88,274	1.65	0.53	1.12
2003-04 (Actual)	99,698	1.98	0.84	1.14
2004-05 (Actual)	101,381	2.32	1.07	1.25
2005-06 (Actual)	107,027	2.65	1.16	1.49
2006-07	112,517	2.98	1.33	1.65
2007-08	115,895	3.32	1.70	1.62
2008-09	120,840	3.65	2.15	1.50
2009-10	124,367	3.98	2.44	1.55
2010-11	127,726	4.32	2.74	1.58

*Note: Pursuant to statutory requirements, personal income and All Funds Receipts are not adjusted subsequent to their actual calculation date under the Debt Reform Act of 2000

DEBT/CAPITAL UPDATE

CAPITAL AND DEBT SUMMARY

The updated Financial Plan reflects revised estimates of bond-financed capital authorizations. The most significant changes from the July Update Financial Plan are for the EXCEL and AMD programs. EXCEL is now expected to result in roughly \$800 million of State issuances in 2006-07 and \$1.8 billion in 2007-08. The change is consistent with revised spending patterns for the EXCEL program received from New York City. The delay of the \$650 million for the AMD project to 2007-08 is also consistent with revised spending patterns.

The other revisions are based primarily on year-to-date results.

Revisions to All Funds Capital Projects Spending Forecast					
July Update to Mid-Year Update -- Increases/(Decreases)					
(millions of dollars)					
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
2006-07 July Update Estimate	\$9,650	\$9,589	\$8,669	\$8,049	\$7,727
EXCEL	(\$1,050)	\$1,050	\$0	\$0	\$0
AMD	(\$650)	\$650	\$0	\$0	\$0
Transportation	(\$50)	\$1	\$21	\$13	\$27
Housing Grants	(\$28)	\$28	\$0	\$0	\$0
CUNY	(\$50)	(\$90)	(\$90)	\$0	\$40
SUNY	\$0	\$20	\$23	(\$22)	(\$75)
All Other	(\$32)	\$8	\$89	\$177	\$67
2006-07 Mid-year Estimate	\$7,790	\$11,256	\$8,712	\$8,217	\$7,786
\$ Change	(1,860)	1,667	43	168	59

The following tables summarize the net impact of these changes on State debt. The adjustments to debt outstanding, debt issuances and debt service costs detailed below are consistent with the capital spending changes noted in the previous chart. In addition, the changes in debt reflect revisions based on more recent information regarding the amount and timing of bond sales, and the savings associated with the use of \$250 million from the Debt Reduction Reserve Fund to pay down existing high cost debt.

Annual Information Statement Update, November 6, 2006

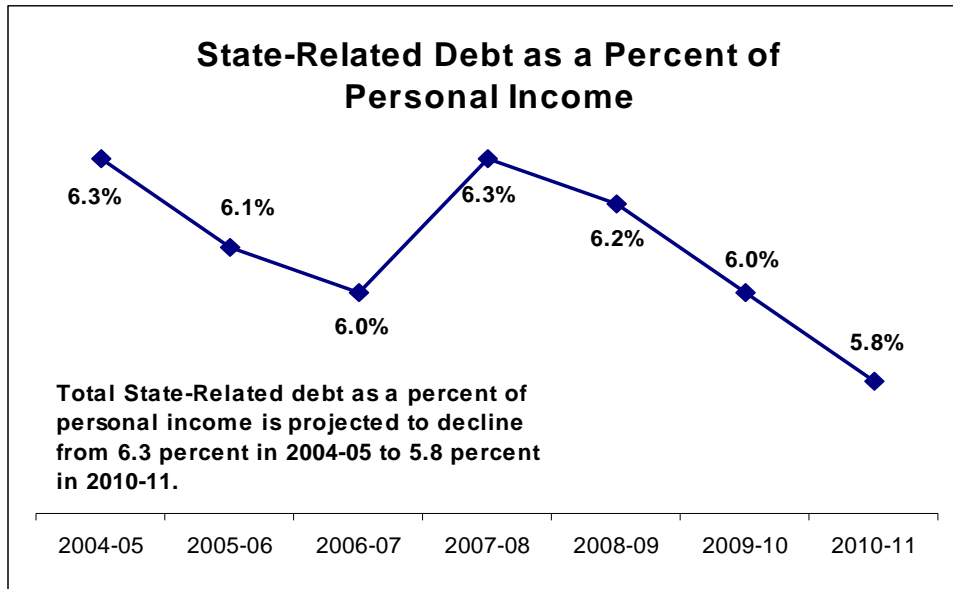
Revisions to Projected State-Related Debt Outstanding					
July Update to Mid-Year Update -- Increases/(Decreases)					
(millions of dollars)					
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
2006-07 July Update Estimate	50,954	54,171	56,308	57,411	58,251
Use of Reserves to Defeas High-Cost Debt	(243)	(243)	(243)	(243)	(243)
EXCEL Sale Delays	(1,071)	31	34	37	40
AMD Sale Delays	(663)	50	54	58	62
Other Economic Development Sale Timing	(88)	5	5	5	6
All Other Reestimates	(57)	(4)	(111)	(79)	(87)
2006-07 Mid-year Estimate	48,832	54,010	56,047	57,189	58,029
\$ Change	(2,122)	(161)	(261)	(222)	(222)

Revisions to Projected State-Related Debt Issuances					
July Update to Mid-Year Update -- Increases/(Decreases)					
(millions of dollars)					
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
2006-07 July Update Estimate	6,417	5,925	4,989	4,325	4,175
EXCEL Sale Delays	(1,071)	1,071	0	0	0
AMD Sale Delays	(663)	663	0	0	0
Other Economic Development Sale Timing	(88)	88	0	0	0
All Other Reestimates	(36)	52	(107)	32	(6)
2006-07 Mid-year Estimate	4,559	7,799	4,882	4,357	4,169
\$ Change	(1,858)	1,874	(107)	32	(6)

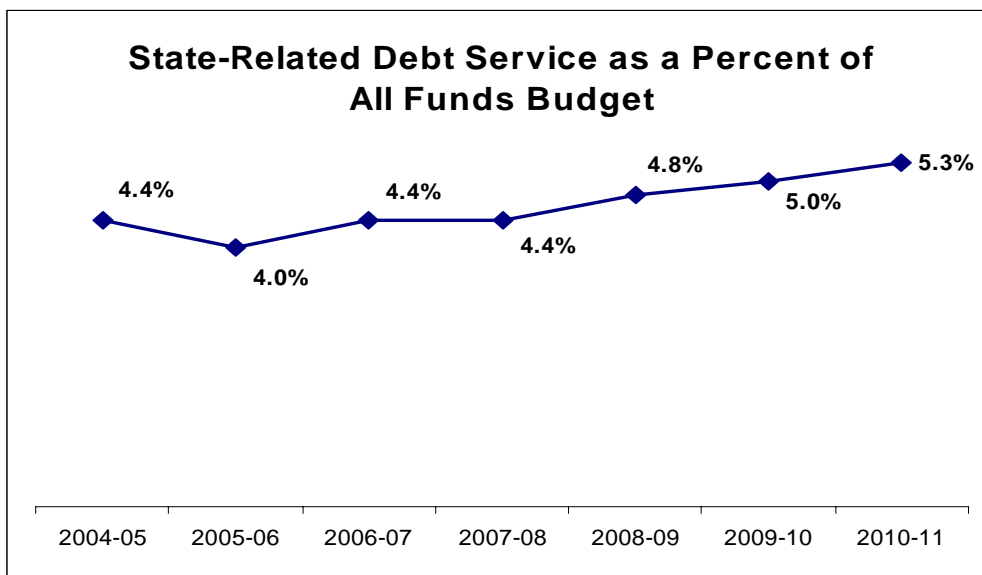
Revisions to Projected State-Related Debt Service/Use of Debt Reduction Reserve					
July Update to Mid-Year Update -- Increases/(Decreases)					
(millions of dollars)					
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
2006-07 July Update Estimate	4,700	5,338	5,830	6,254	6,761
Use of Reserves to Defeas High-Cost Debt	250	0	0	0	0
Debt Service Savings from Defeasance	(1)	(14)	(14)	(14)	(14)
EXCEL Sale Delays	0	(75)	3	3	3
AMD Sale Delays	0	(83)	2	2	2
Other Economic Development Sale Timing	0	(10)	1	0	0
All Other Reestimates	(45)	(7)	(6)	(11)	(7)
2006-07 Mid-year Estimate	4,904	5,149	5,816	6,234	6,745
\$ Change	204	(189)	(14)	(20)	(16)

DEBT AFFORDABILITY

State debt levels and costs, while higher, continue to remain affordable based on a variety of debt measures commonly used by the financial community. Some key measures are summarized below. All measures reflect the cash-basis total level of State-related debt issued for all State purposes as reported in the State's Comprehensive Annual Financial Report.

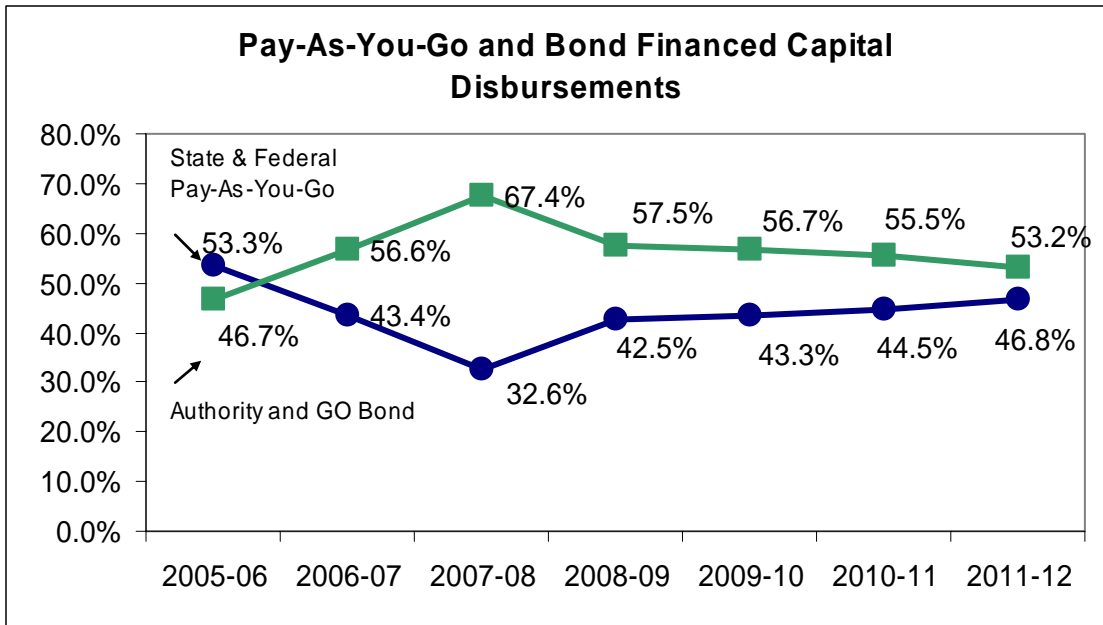


The projections from 2005-06 to 2010-11 reflect a roughly 4 percent average annual increase in debt levels and a roughly 5 percent average annual increase in statewide personal income.



Beginning in 2006-07, debt service costs are projected to increase by an average of 8.3 percent annually, while All Funds receipts are projected to grow by 3.2 percent annually. The greater debt service costs primarily reflect increased costs for the Dedicated Highway and Bridge Trust Fund, the new EXCEL school construction initiative, the expanding SUNY and CUNY capital programs, and economic development initiatives like AMD.

The level of projects financed with cash from both State and Federal sources (i.e., PAYGO) is expected to average roughly 40 percent for the five years.

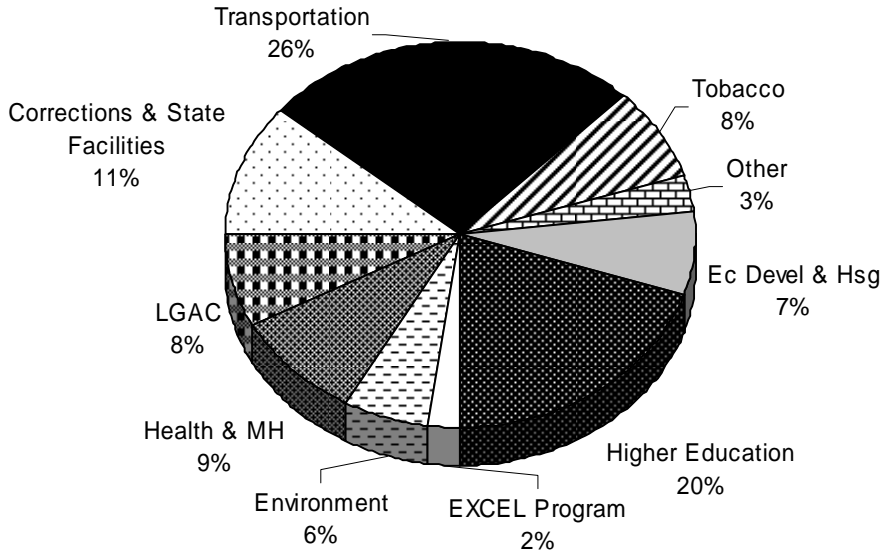


Debt Outstanding

The State's debt levels are the result of three factors: (i) the amount of debt issued in prior years, (ii) the amount of capital spending that will be financed with new debt during the forecast period, and (iii) the amount of debt that is planned to be retired (paid off) during the forecast period.

The \$49 billion of State-related debt in 2006-07 consists of debt issued for each of the major programmatic areas as summarized below. The debt of the Local Government Assistance Corporation (LGAC), issued to eliminate seasonal borrowing) and Tobacco bonds (issued to stabilize finances after September 11th) are not allocable to any specific functional area since they served a statewide purpose.

**Debt Outstanding by Function
\$49 Billion Projected at March 31, 2007**

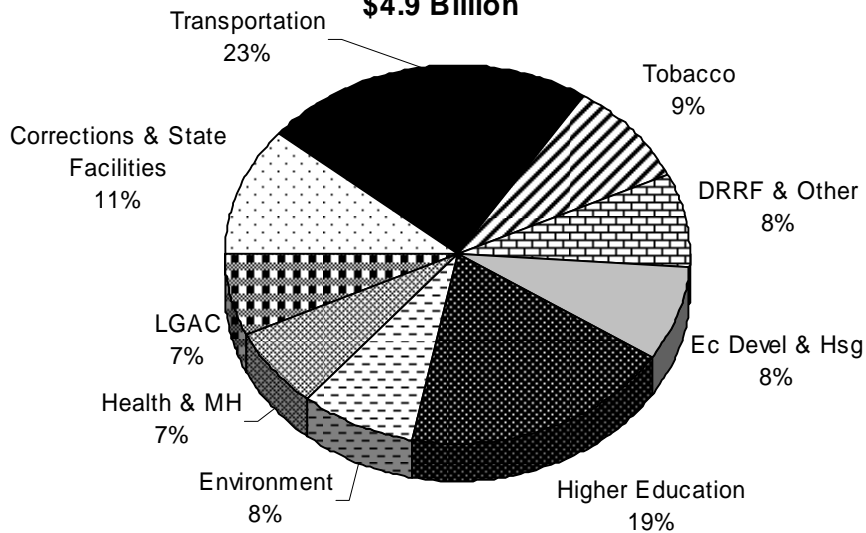


Debt Service

The following chart provides a summary of the major debt service costs by function. Significant bond-financed capital investments, primarily for transportation, education, corrections, economic development, mental hygiene facilities, and the environment, drive more than 80 percent of the State's debt service costs.

2006-07 Debt Service by Function

\$4.9 Billion



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

	<u>2005-2006</u> <u>Actuals</u>	<u>2006-07</u> <u>Mid-Year</u>	<u>Annual</u> <u>Change</u>
Opening fund balance	<u>2,546</u>	<u>3,257</u>	<u>711</u>
Receipts:			
Taxes:			
Personal income tax	20,700	22,836	2,136
User taxes and fees	8,639	8,216	(423)
Business taxes	5,084	5,899	815
Other taxes	882	924	42
Miscellaneous receipts	2,028	2,910	882
Federal Grants	0	180	180
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,500	7,048	548
Sales tax in excess of LGAC debt service	2,295	2,164	(131)
Real estate taxes in excess of CW/CA debt service	715	583	(132)
All other	363	402	39
Total receipts	<u>47,206</u>	<u>51,162</u>	<u>3,956</u>
Disbursements:			
Grants to local governments	31,287	34,386	3,099
State operations	8,160	9,477	1,317
General State charges	3,975	4,363	388
Transfers to other funds:			
Debt service	1,710	1,764	54
Capital projects	286	224	(62)
Other purposes	1,077	1,085	8
Total disbursements	<u>46,495</u>	<u>51,299</u>	<u>4,804</u>
Change in fund balance	<u>711</u>	<u>(137)</u>	<u>(848)</u>
Closing fund balance	<u>3,257</u>	<u>3,120</u>	<u>(137)</u>
Reserves			
Statutory Rainy Day Reserve Fund	944	1,025	81
Contingency Reserve Fund	21	21	0
Spending Stabilization Reserve	2,041	787	(1,254)
2006-07 Surplus (After deposit to Rainy Day Reserve)	0	1,011	1,011
Community Projects Fund	251	276	25

Source: NYS DOB

**CURRENT STATE RECEIPTS
GENERAL FUND
2005-2006 and 2006-2007
(millions of dollars)**

	<u>2005-2006 Actuals</u>	<u>2006-2007 Mid-Year</u>	<u>Annual Change</u>
Personal income tax	20,700	22,836	2,136
User taxes and fees:	8,639	8,216	(423)
Sales and use tax	7,978	7,567	(411)
Cigarette and tobacco taxes	403	402	(1)
Motor vehicle fees	24	0	(24)
Alcoholic beverages taxes	192	191	(1)
Alcoholic beverage control license fees	42	56	14
Business taxes:	5,084	5,899	815
Corporation franchise tax	2,665	3,477	812
Corporation and utilities tax	591	593	2
Insurance taxes	987	1,083	96
Bank tax	841	746	(95)
Other taxes:	882	924	42
Estate tax	855	912	57
Gift tax	2	(11)	(13)
Real property gains tax	1	1	0
Pari-mutuel taxes	23	21	(2)
Other taxes	1	1	0
Total Taxes	<u>35,305</u>	<u>37,875</u>	<u>2,570</u>
Miscellaneous receipts	<u>2,028</u>	<u>2,910</u>	<u>882</u>
Federal grants	<u>0</u>	<u>180</u>	<u>180</u>
Total	<u><u>37,333</u></u>	<u><u>40,965</u></u>	<u><u>3,632</u></u>

Source: NYS DOB

**GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2005-2006 and 2006-2007
(millions of dollars)**

	<u>2005-2006 Actuals</u>	<u>2006-2007 Mid-Year</u>	<u>Annual Change</u>
Withholdings	24,761	26,410	1,649
Estimated Payments	9,158	10,452	1,294
Final Payments	1,849	2,100	251
Delinquencies	<u>776</u>	<u>824</u>	<u>48</u>
Gross Collections	36,544	39,786	3,242
State/City Offset	(466)	(440)	26
Refunds	<u>(5,265)</u>	<u>(4,856)</u>	<u>409</u>
Reported Tax Collections	30,813	34,490	3,677
STAR	(3,213)	(4,041)	(828)
RBTF	<u>(6,900)</u>	<u>(7,613)</u>	<u>(713)</u>
General Fund	<u><u>20,700</u></u>	<u><u>22,836</u></u>	<u><u>2,136</u></u>

Source: NYS DOB

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

	<u>July Update</u>	<u>Change</u>	<u>Mid-Year</u>
Opening fund balance	<u>3,257</u>	<u>0</u>	<u>3,257</u>
Receipts:			
Taxes:			
Personal income tax	22,611	225	22,836
User taxes and fees	8,247	(31)	8,216
Business taxes	5,479	420	5,899
Other taxes	924	0	924
Miscellaneous receipts	2,435	475	2,910
Federal Grants	180	0	180
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,971	77	7,048
Sales tax in excess of LGAC debt service	2,179	(15)	2,164
Real estate taxes in excess of CW/CA debt service	583	0	583
All other	396	6	402
Total receipts	<u>50,005</u>	<u>1,157</u>	<u>51,162</u>
Disbursements:			
Grants to local governments	34,278	108	34,386
State operations	9,503	(26)	9,477
General State charges	4,401	(38)	4,363
Transfers to other funds:			
Debt service	1,760	4	1,764
Capital projects	225	(1)	224
Other purposes	817	268	1,085
Total disbursements	<u>50,984</u>	<u>315</u>	<u>51,299</u>
Change in fund balance	<u>(979)</u>	<u>842</u>	<u>(137)</u>
Closing fund balance	<u>2,278</u>	<u>842</u>	<u>3,120</u>
Reserves			
Statutory Rainy Day Reserve Fund	944	81	1,025
Contingency Reserve Fund	21	0	21
Spending Stabilization Reserve	787	0	787
2006-07 Surplus (After deposit to Rainy Day Reserve)	0	1,011	1,011
Community Projects Fund	276	0	276
Debt Reduction Reserve	250	(250)	0

Source: NYS DOB

**CURRENT STATE RECEIPTS
GENERAL FUND
2006-2007
(millions of dollars)**

	<u>July Update</u>	<u>Change</u>	<u>Mid-Year</u>
Personal income tax	22,611	225	22,836
User taxes and fees:	8,247	(31)	8,216
Sales and use tax	7,610	(43)	7,567
Cigarette and tobacco taxes	402	0	402
Alcoholic beverages taxes	191	0	191
Alcoholic beverage control license fees	44	12	56
Business taxes:	5,479	420	5,899
Corporation franchise tax	3,057	420	3,477
Corporation and utilities tax	593	0	593
Insurance taxes	1,083	0	1,083
Bank tax	746	0	746
Other taxes:	924	0	924
Estate tax	900	12	912
Gift tax	1	(12)	(11)
Real property gains tax	1	0	1
Pari-mutuel taxes	21	0	21
Other taxes	1	0	1
Total Taxes	<u>37,261</u>	<u>614</u>	<u>37,875</u>
Miscellaneous receipts	<u>2,435</u>	<u>475</u>	<u>2,910</u>
Federal grants	<u>180</u>	<u>0</u>	<u>180</u>
Total	<u><u>39,876</u></u>	<u><u>1,089</u></u>	<u><u>40,965</u></u>

Source: NYS DOB

**GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2006-2007
(millions of dollars)**

	<u>July Update</u>	<u>Change</u>	<u>Mid-Year</u>
Withholdings	26,410	0	26,410
Estimated Payments	10,152	300	10,452
Final Payments	2,100	0	2,100
Delinquencies	<u>824</u>	<u>0</u>	<u>824</u>
Gross Collections	39,486	300	39,786
State/City Offset	(440)	0	(440)
Refunds	<u>(4,856)</u>	<u>0</u>	<u>(4,856)</u>
Reported Tax Collections	34,190	300	34,490
STAR	(4,041)	0	(4,041)
RBTF	<u>(7,538)</u>	<u>(75)</u>	<u>(7,613)</u>
General Fund	<u><u>22,611</u></u>	<u><u>225</u></u>	<u><u>22,836</u></u>

Source: NYS DOB

**CASH FINANCIAL PLAN
GENERAL FUND
2007-2008
(millions of dollars)**

	<u>July Update</u>	<u>Change</u>	<u>Mid-Year</u>
Receipts:			
Taxes:			
Personal income tax	23,547	412	23,959
User taxes and fees	8,573	(48)	8,525
Business taxes	5,591	(248)	5,343
Other taxes	994	0	994
Miscellaneous receipts	2,182	2	2,184
Federal Grants	60	0	60
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,822	307	7,129
Sales tax in excess of LGAC debt service	2,276	(17)	2,259
Real estate taxes in excess of CW/CA debt service	510	0	510
All other	187	16	203
Total receipts	<u>50,742</u>	<u>424</u>	<u>51,166</u>
Disbursements:			
Grants to local governments	37,527	7	37,534
State operations	9,663	68	9,731
General State charges	4,717	(116)	4,601
Transfers to other funds:			
Debt service	1,768	(13)	1,755
Capital projects	248	2	250
Other purposes	697	15	712
Total disbursements	<u>54,620</u>	<u>(37)</u>	<u>54,583</u>
Deposit to/(use of) Community Projects Fund	<u>75</u>	<u>0</u>	<u>75</u>
Deposit to/(use of) Spending Stabilization Reserve Fund	<u>(787)</u>	<u>0</u>	<u>(787)</u>
Deposit to/(use of) 2006-07 Surplus	<u>0</u>	<u>(256)</u>	<u>(256)</u>
Margin	<u>(3,166)</u>	<u>717</u>	<u>(2,449)</u>

Source: NYS DOB

**CASH FINANCIAL PLAN
GENERAL FUND
2008-2009
(millions of dollars)**

	<u>July Update</u>	<u>Change</u>	<u>Mid-Year</u>
Receipts:			
Taxes:			
Personal income tax	24,884	412	25,296
User taxes and fees	8,877	(56)	8,821
Business taxes	5,714	(231)	5,483
Other taxes	1,054	0	1,054
Miscellaneous receipts	1,971	79	2,050
Federal Grants	60	0	60
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,966	134	7,100
Sales tax in excess of LGAC debt service	2,375	(20)	2,355
Real estate taxes in excess of CW/CA debt service	512	0	512
All other	191	53	244
Total receipts	<u>52,604</u>	<u>371</u>	<u>52,975</u>
Disbursements:			
Grants to local governments	40,491	(506)	39,985
State operations	9,923	93	10,016
General State charges	4,999	(71)	4,928
Transfers to other funds:			
Debt service	1,749	(17)	1,732
Capital projects	284	157	441
Other purposes	713	51	764
Total disbursements	<u>58,159</u>	<u>(293)</u>	<u>57,866</u>
Deposit to/(use of) Community Projects Fund	<u>(150)</u>	<u>0</u>	<u>(150)</u>
Deposit to/(use of) 2006-07 Surplus	<u>0</u>	<u>(255)</u>	<u>(255)</u>
Margin	<u>(5,405)</u>	<u>919</u>	<u>(4,486)</u>

Source: NYS DOB

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

	<u>2006-2007</u> <u>Mid-Year</u>	<u>2007-2008</u> <u>Estimated</u>	<u>2008-2009</u> <u>Estimated</u>
Receipts:			
Taxes:			
Personal income tax	22,836	23,959	25,296
User taxes and fees	8,216	8,525	8,821
Business taxes	5,899	5,343	5,483
Other taxes	924	994	1,054
Miscellaneous receipts	2,910	2,184	2,050
Federal Grants	180	60	60
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	7,048	7,129	7,100
Sales tax in excess of LGAC debt service	2,164	2,259	2,355
Real estate taxes in excess of CW/CA debt service	583	510	512
All other	402	203	244
Total receipts	<u>51,162</u>	<u>51,166</u>	<u>52,975</u>
Disbursements:			
Grants to local governments	34,386	37,534	39,985
State operations	9,477	9,731	10,016
General State charges	4,363	4,601	4,928
Transfers to other funds:			
Debt service	1,764	1,755	1,732
Capital projects	224	250	441
Other purposes	1,085	712	764
Total disbursements	<u>51,299</u>	<u>54,583</u>	<u>57,866</u>
Deposit to/(use of) Community Projects Fund	<u>25</u>	<u>75</u>	<u>(150)</u>
Deposit to/(use of) Tax Stabilization Reserve	<u>81</u>	<u>0</u>	<u>0</u>
Deposit to/(use of) Spending Stabilization Reserve Fund	<u>(1,254)</u>	<u>(787)</u>	<u>0</u>
Deposit to/(use of) 2006-07 Surplus (\$500 million maintained in reserve)	<u>1,011</u>	<u>(256)</u>	<u>(255)</u>
Margin	<u>0</u>	<u>(2,449)</u>	<u>(4,486)</u>

Source: NYS DOB

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	<u>3,257</u>	<u>3,747</u>	<u>(406)</u>	<u>221</u>	<u>6,819</u>
Receipts:					
Taxes	37,875	7,096	2,027	10,836	57,834
Miscellaneous receipts	2,910	12,599	2,507	664	18,680
Federal grants	180	0	0	0	180
Total receipts	<u>40,965</u>	<u>19,695</u>	<u>4,534</u>	<u>11,500</u>	<u>76,694</u>
Disbursements:					
Grants to local governments	34,386	15,442	849	0	50,677
State operations	9,477	5,325	0	65	14,867
General State charges	4,363	586	0	0	4,949
Debt service	0	0	0	4,309	4,309
Capital projects	0	2	3,261	0	3,263
Total disbursements	<u>48,226</u>	<u>21,355</u>	<u>4,110</u>	<u>4,374</u>	<u>78,065</u>
Other financing sources (uses):					
Transfers from other funds	10,197	1,266	346	5,624	17,433
Transfers to other funds	(3,073)	(493)	(806)	(12,728)	(17,100)
Bond and note proceeds	0	0	227	0	227
Net other financing sources (uses)	<u>7,124</u>	<u>773</u>	<u>(233)</u>	<u>(7,104)</u>	<u>560</u>
Change in fund balance	<u>(137)</u>	<u>(887)</u>	<u>191</u>	<u>22</u>	<u>(811)</u>
Closing fund balance	<u>3,120</u>	<u>2,860</u>	<u>(215)</u>	<u>243</u>	<u>6,008</u>

Source: NYS DOB

**CASH FINANCIAL PLAN
STATE FUNDS
2005-2006 and 2006-2007
(millions of dollars)**

	2005-06 Actuals	First Quarter	Mid-Year	Mid-Year vs. Actuals	Mid-Year vs. First Quarter
Opening fund balance	<u>4,530</u>	<u>6,819</u>	<u>6,819</u>	<u>2,289</u>	<u>0</u>
Receipts:					
Taxes	53,578	57,065	57,834	4,256	769
Miscellaneous receipts	18,148	18,151	18,680	532	529
Federal grants	<u>2</u>	<u>180</u>	<u>180</u>	<u>178</u>	<u>0</u>
Total receipts	<u>71,728</u>	<u>75,396</u>	<u>76,694</u>	<u>4,966</u>	<u>1,298</u>
Disbursements:					
Grants to local governments	44,971	50,821	50,677	5,706	(144)
State operations	13,344	14,883	14,867	1,523	(16)
General State charges	4,521	4,988	4,949	428	(39)
Debt service	3,701	4,087	4,309	608	222
Capital projects	<u>3,186</u>	<u>3,302</u>	<u>3,263</u>	<u>77</u>	<u>(39)</u>
Total disbursements	<u>69,723</u>	<u>78,081</u>	<u>78,065</u>	<u>8,342</u>	<u>(16)</u>
Other financing sources (uses):					
Transfers from other funds	16,774	17,123	17,433	659	310
Transfers to other funds	(16,649)	(16,847)	(17,100)	(451)	(253)
Bond and note proceeds	<u>159</u>	<u>236</u>	<u>227</u>	<u>68</u>	<u>(9)</u>
Net other financing sources (uses)	<u>284</u>	<u>512</u>	<u>560</u>	<u>276</u>	<u>48</u>
Change in fund balance	<u>2,289</u>	<u>(2,173)</u>	<u>(811)</u>	<u>(3,100)</u>	<u>1,362</u>
Closing fund balance	<u>6,819</u>	<u>4,646</u>	<u>6,008</u>	<u>(811)</u>	<u>1,362</u>

Source: NYS DOB

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	<u>0</u>	<u>2,860</u>	<u>(215)</u>	<u>243</u>	<u>2,888</u>
Receipts:					
Taxes	38,821	6,689	2,132	11,255	58,897
Miscellaneous receipts	2,184	13,095	3,412	671	19,362
Federal grants	60	0	0	0	60
Total receipts	<u>41,065</u>	<u>19,784</u>	<u>5,544</u>	<u>11,926</u>	<u>78,319</u>
Disbursements:					
Grants to local governments	37,534	15,134	826	0	53,494
State operations	9,731	5,575	0	66	15,372
General State charges	4,601	606	0	0	5,207
Debt service	0	0	0	4,532	4,532
Capital projects	0	2	4,612	0	4,614
Total disbursements	<u>51,866</u>	<u>21,317</u>	<u>5,438</u>	<u>4,598</u>	<u>83,219</u>
Other financing sources (uses):					
Transfers from other funds	10,101	1,131	460	5,545	17,237
Transfers to other funds	(2,717)	(410)	(915)	(12,841)	(16,883)
Bond and note proceeds	0	0	403	0	403
Net other financing sources (uses)	<u>7,384</u>	<u>721</u>	<u>(52)</u>	<u>(7,296)</u>	<u>757</u>
Deposit to/(use of) Community Projects Fund	<u>75</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>75</u>
Deposit to/(use of) Spending Stabilization Reserve Fund	<u>(787)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(787)</u>
Deposit to/(use of) 2006-07 Surplus	<u>(256)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(256)</u>
Change in fund balance	<u>(2,449)</u>	<u>(812)</u>	<u>54</u>	<u>32</u>	<u>(3,175)</u>
Closing fund balance	<u>(2,449)</u>	<u>2,048</u>	<u>(161)</u>	<u>275</u>	<u>(287)</u>

Source: NYS DOB

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	<u>0</u>	<u>2,048</u>	<u>(161)</u>	<u>275</u>	<u>2,162</u>
Receipts:					
Taxes	40,654	6,924	2,176	11,800	61,554
Miscellaneous receipts	2,050	14,072	3,195	680	19,997
Federal grants	60	0	0	0	60
Total receipts	<u>42,764</u>	<u>20,996</u>	<u>5,371</u>	<u>12,480</u>	<u>81,611</u>
Disbursements:					
Grants to local governments	39,985	15,921	791	0	56,697
State operations	10,016	5,519	0	66	15,601
General State charges	4,928	617	0	0	5,545
Debt service	0	0	0	5,140	5,140
Capital projects	0	2	4,736	0	4,738
Total disbursements	<u>54,929</u>	<u>22,059</u>	<u>5,527</u>	<u>5,206</u>	<u>87,721</u>
Other financing sources (uses):					
Transfers from other funds	10,211	1,189	682	5,716	17,798
Transfers to other funds	(2,937)	(495)	(1,025)	(12,966)	(17,423)
Bond and note proceeds	0	0	545	0	545
Net other financing sources (uses)	<u>7,274</u>	<u>694</u>	<u>202</u>	<u>(7,250)</u>	<u>920</u>
Deposit to/(use of) Community Projects Fund	<u>(150)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(150)</u>
Deposit to/(use of) 2006-07 Surplus	<u>(255)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(255)</u>
Change in fund balance	<u>(4,486)</u>	<u>(369)</u>	<u>46</u>	<u>24</u>	<u>(4,785)</u>
Closing fund balance	<u>(4,486)</u>	<u>1,679</u>	<u>(115)</u>	<u>299</u>	<u>(2,623)</u>

Source: NYS DOB

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	<u>3,257</u>	<u>4,194</u>	<u>(604)</u>	<u>221</u>	<u>7,068</u>
Receipts:					
Taxes	37,875	7,096	2,027	10,836	57,834
Miscellaneous receipts	2,910	12,757	2,507	664	18,838
Federal grants	180	34,278	1,747	0	36,205
Total receipts	<u>40,965</u>	<u>54,131</u>	<u>6,281</u>	<u>11,500</u>	<u>112,877</u>
Disbursements:					
Grants to local governments	34,386	46,292	987	0	81,665
State operations	9,477	8,439	0	65	17,981
General State charges	4,363	822	0	0	5,185
Debt service	0	0	0	4,309	4,309
Capital projects	0	2	4,906	0	4,908
Total disbursements	<u>48,226</u>	<u>55,555</u>	<u>5,893</u>	<u>4,374</u>	<u>114,048</u>
Other financing sources (uses):					
Transfers from other funds	10,197	3,639	346	5,624	19,806
Transfers to other funds	(3,073)	(3,217)	(819)	(12,728)	(19,837)
Bond and note proceeds	0	0	227	0	227
Net other financing sources (uses)	<u>7,124</u>	<u>422</u>	<u>(246)</u>	<u>(7,104)</u>	<u>196</u>
Change in fund balance	<u>(137)</u>	<u>(1,002)</u>	<u>142</u>	<u>22</u>	<u>(975)</u>
Closing fund balance	<u>3,120</u>	<u>3,192</u>	<u>(462)</u>	<u>243</u>	<u>6,093</u>

Source: NYS DOB

Annual Information Statement Update, November 6, 2006

**CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2005-2006 and 2006-2007
(millions of dollars)**

	2005-06 Actuals	First Quarter	Mid-Year	Mid-Year vs. Actuals	Mid-Year vs. First Quarter
Opening fund balance	<u>4,281</u>	<u>7,068</u>	<u>7,068</u>	<u>2,787</u>	<u>0</u>
Receipts:					
Taxes	53,578	57,065	57,834	4,256	769
Miscellaneous receipts	18,320	18,295	18,838	518	543
Federal grants	35,129	35,854	36,205	1,076	351
Total receipts	<u>107,027</u>	<u>111,214</u>	<u>112,877</u>	<u>5,850</u>	<u>1,663</u>
Disbursements:					
Grants to local governments	75,036	81,321	81,665	6,629	344
State operations	16,435	18,029	17,981	1,546	(48)
General State charges	4,735	5,229	5,185	450	(44)
Debt service	3,701	4,087	4,309	608	222
Capital projects	4,434	4,941	4,908	474	(33)
Total disbursements	<u>104,341</u>	<u>113,607</u>	<u>114,048</u>	<u>9,707</u>	<u>441</u>
Other financing sources (uses):					
Transfers from other funds	19,176	19,500	19,806	630	306
Transfers to other funds	(19,234)	(19,581)	(19,837)	(603)	(256)
Bond and note proceeds	159	236	227	68	(9)
Net other financing sources (uses)	<u>101</u>	<u>155</u>	<u>196</u>	<u>95</u>	<u>41</u>
Change in fund balance	<u>2,787</u>	<u>(2,238)</u>	<u>(975)</u>	<u>(3,762)</u>	<u>1,263</u>
Closing fund balance	<u>7,068</u>	<u>4,830</u>	<u>6,093</u>	<u>(975)</u>	<u>1,263</u>

Source: NYS DOB

**CURRENT STATE RECEIPTS
ALL GOVERNMENTAL FUNDS
2005-2006 and 2006-2007
(millions of dollars)**

	2005-2006	2006-2007	2006-2007	Mid-Year	Mid-Year
	Actuals	July	Mid-Year	vs.	vs.
		Update		Actuals	July Update
Personal income tax	30,813	34,190	34,490	3,677	300
User taxes and fees	13,857	13,624	13,575	(282)	(49)
Sales and use taxes	11,196	10,847	10,782	(414)	(65)
Cigarette and tobacco taxes	974	964	964	(10)	0
Motor fuel tax	531	520	521	(10)	1
Motor vehicle fees	720	854	854	134	0
Highway use tax	160	159	161	1	2
Alcoholic beverage taxes	192	191	191	(1)	0
Alcoholic beverage control license fees	42	44	57	15	13
Auto rental tax	42	45	45	3	0
Business taxes	7,088	7,477	7,995	907	518
Corporation franchise tax	3,053	3,457	4,007	954	550
Corporation and utilities taxes	832	791	791	(41)	0
Insurance taxes	1,083	1,186	1,191	108	5
Bank tax	974	876	881	(93)	5
Petroleum business taxes	1,146	1,167	1,125	(21)	(42)
Other taxes	1,820	1,774	1,774	(46)	0
Estate tax	855	900	912	57	12
Gift tax	2	1	(11)	(13)	(12)
Real property gains tax	1	1	1	0	0
Real estate transfer tax	938	850	850	(88)	0
Pari-mutuel taxes	23	21	21	(2)	0
Other taxes	1	1	1	0	0
Total taxes	53,578	57,065	57,834	4,256	769
Miscellaneous receipts	18,320	18,295	18,838	518	543
Federal grants	35,129	35,854	36,205	1,076	351
Total	107,027	111,214	112,877	5,850	1,663

Source: NYS DOB

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	<u>0</u>	<u>3,192</u>	<u>(462)</u>	<u>243</u>	<u>2,973</u>
Receipts:					
Taxes	38,821	6,689	2,132	11,255	58,897
Miscellaneous receipts	2,184	13,241	3,412	671	19,508
Federal grants	60	35,749	1,924	0	37,733
Total receipts	<u>41,065</u>	<u>55,679</u>	<u>7,468</u>	<u>11,926</u>	<u>116,138</u>
Disbursements:					
Grants to local governments	37,534	47,311	992	0	85,837
State operations	9,731	8,721	0	66	18,518
General State charges	4,601	848	0	0	5,449
Debt service	0	0	0	4,532	4,532
Capital projects	0	3	6,349	0	6,352
Total disbursements	<u>51,866</u>	<u>56,883</u>	<u>7,341</u>	<u>4,598</u>	<u>120,688</u>
Other financing sources (uses):					
Transfers from other funds	10,101	3,497	460	5,545	19,603
Transfers to other funds	(2,717)	(3,130)	(928)	(12,841)	(19,616)
Bond and note proceeds	0	0	403	0	403
Net other financing sources (uses)	<u>7,384</u>	<u>367</u>	<u>(65)</u>	<u>(7,296)</u>	<u>390</u>
Deposit to/(use of) Community Projects Fund	<u>75</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>75</u>
Deposit to/(use of) Spending Stabilization Reserve Fund	<u>(787)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(787)</u>
Deposit to/(use of) 2006-07 Surplus	<u>(256)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(256)</u>
Change in fund balance	<u>(2,449)</u>	<u>(837)</u>	<u>62</u>	<u>32</u>	<u>(3,192)</u>
Closing fund balance	<u>(2,449)</u>	<u>2,355</u>	<u>(400)</u>	<u>275</u>	<u>(219)</u>

Source: NYS DOB

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	<u>0</u>	<u>2,355</u>	<u>(400)</u>	<u>275</u>	<u>2,230</u>
Receipts:					
Taxes	40,654	6,924	2,176	11,800	61,554
Miscellaneous receipts	2,050	14,220	3,195	680	20,145
Federal grants	60	37,569	1,794	0	39,423
Total receipts	<u>42,764</u>	<u>58,713</u>	<u>7,165</u>	<u>12,480</u>	<u>121,122</u>
Disbursements:					
Grants to local governments	39,985	49,564	957	0	90,506
State operations	10,016	8,756	0	66	18,838
General State charges	4,928	867	0	0	5,795
Debt service	0	0	0	5,140	5,140
Capital projects	0	3	6,343	0	6,346
Total disbursements	<u>54,929</u>	<u>59,190</u>	<u>7,300</u>	<u>5,206</u>	<u>126,625</u>
Other financing sources (uses):					
Transfers from other funds	10,211	3,604	682	5,716	20,213
Transfers to other funds	(2,937)	(3,305)	(1,038)	(12,966)	(20,246)
Bond and note proceeds	0	0	545	0	545
Net other financing sources (uses)	<u>7,274</u>	<u>299</u>	<u>189</u>	<u>(7,250)</u>	<u>512</u>
Deposit to/(use of) Community Projects Fund	<u>(150)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(150)</u>
Deposit to/(use of) 2006-07 Surplus	<u>(255)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(255)</u>
Change in fund balance	<u>(4,486)</u>	<u>(178)</u>	<u>54</u>	<u>24</u>	<u>(4,586)</u>
Closing fund balance	<u>(4,486)</u>	<u>2,177</u>	<u>(346)</u>	<u>299</u>	<u>(2,356)</u>

Source: NYS DOB

Annual Information Statement Update, November 6, 2006

CASHFLOW
GENERAL FUND
2006-2007
(dollars in millions)

	2006	2007	August		September		October		November		December		January		February		March		Total
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Total
OPENING BALANCE	3,257	7,517	3,730	4,486	4,957	3,944	4,734	4,170	2,202	2,023	6,872	7,248	3,257						
RECEIPTS:																			
Personal Income Tax	4,170	689	2,393	1,340	1,537	1,943	785	348	1,816	4,476	1,936	1,403	22,836						
User Taxes and Fees	600	597	843	663	607	882	603	603	810	727	562	769	8,216						
Business Taxes	325	83	1,002	120	76	1,091	499	25	1,039	117	79	1,443	5,899						
Other Taxes	104	80	112	119	70	61	96	56	56	56	56	58	924						
Total Taxes	5,199	1,449	4,350	2,232	2,290	3,947	1,983	1,032	3,721	5,376	2,623	3,673	37,875						
Miscellaneous Receipts	167	121	279	117	110	187	180	400	245	185	239	680	2,910						
Federal Grants	0	0	112	0	0	0	15	1	25	1	1	25	180						
PI/T in excess of Revenue Bond Debt Service	1,388	199	803	445	386	673	248	57	493	1,491	244	621	7,048						
Sales Tax in Excess of LGAC Debt Service	163	53	385	187	187	189	182	182	250	222	2	162	2,164						
Real Estate Taxes in Excess of CW/CA Debt Service	92	72	57	53	64	0	41	41	41	41	41	40	583						
All Other	1	0	63	30	9	10	10	10	6	0	56	207	402						
Total Transfers from Other Funds	1,644	324	1,308	715	646	872	481	286	794	1,764	343	1,030	10,197						
TOTAL RECEIPTS	7,010	1,894	6,049	3,064	3,046	5,006	2,659	1,719	4,785	7,316	3,206	5,408	51,162						
DISBURSEMENTS:																			
School Aid	135	1,948	1,567	128	393	1,302	503	700	1,177	339	574	5,820	14,586						
Medicaid	916	1,195	820	626	1,117	493	386	922	787	359	516	554	8,691						
Welfare	77	203	59	75	142	173	31	157	177	37	126	(7)	1,250						
All Other	201	615	723	590	936	812	695	461	1,360	681	779	2,006	9,859						
Total Local Assistance Grants	1,329	3,961	3,169	1,419	2,588	2,780	1,615	2,240	3,501	1,416	1,995	8,373	34,386						
Personal Service	595	766	531	587	856	561	591	712	422	398	313	454	6,786						
Non-Personal Service	177	234	239	183	233	195	195	202	221	229	243	340	2,691						
Total State Operations	772	1,000	770	770	1,089	756	786	914	643	627	556	794	9,477						
General State Charges	296	443	1,193	228	230	273	411	273	256	327	145	288	4,363						
Debt Service	205	122	186	60	48	316	44	171	395	7	25	185	1,764						
Capital Projects	26	124	(64)	37	57	17	87	10	106	20	90	(286)	224						
Other Purposes	122	31	39	79	47	74	280	79	63	70	19	182	1,085						
Total Transfers to Other Funds	353	277	161	176	152	407	411	260	564	97	134	81	3,073						
TOTAL DISBURSEMENTS	2,750	5,681	5,293	2,593	4,059	4,216	3,223	3,687	4,964	2,467	2,830	9,536	51,299						
Excess/(Deficiency) of Receipts over Disbursements	4,260	(3,787)	756	471	(1,013)	790	(564)	(1,968)	(179)	4,849	376	(4,128)	(137)						
CLOSING BALANCE	7,517	3,730	4,486	4,957	3,944	4,734	4,170	2,202	2,023	6,872	7,248	3,120	3,120						

Source: NYS DOB

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

	<u>2005-2006 Actuals</u>	<u>2006-2007 Mid-Year</u>	<u>Annual Change</u>
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	85,309	113,377	28,068
Alcoholic Beverage Control	10,286	12,076	1,790
Banking Department	56,278	59,783	3,505
Consumer Protection Board	2,622	3,003	381
Economic Development, Department of	440,376	365,676	(74,700)
Empire State Development Corporation	47,699	180,933	133,234
Energy Research and Development Authority	26,151	33,356	7,205
Housing and Community Renewal, Division of	259,534	282,508	22,974
Insurance Department	124,142	152,644	28,502
Olympic Regional Development Authority	8,550	13,886	5,336
Public Service, Department of	50,453	54,214	3,761
Science, Technology and Academic Research, Office of	61,088	71,078	9,990
Functional Total	<u>1,172,488</u>	<u>1,342,534</u>	<u>170,046</u>
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,398	4,928	530
Environmental Conservation, Department of	816,046	892,927	76,881
Environmental Facilities Corporation	8,034	14,258	6,224
Parks, Recreation and Historic Preservation, Office of	248,329	288,297	39,968
Functional Total	<u>1,076,807</u>	<u>1,200,410</u>	<u>123,603</u>
TRANSPORTATION			
Motor Vehicles, Department of	238,186	274,160	35,974
Thruway Authority	1,671	1,787	116
Metropolitan Transportation Authority	38,078	38,050	(28)
Transportation, Department of	5,640,342	5,937,768	297,426
Functional Total	<u>5,918,277</u>	<u>6,251,765</u>	<u>333,488</u>
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	18	0	(18)
Aging, Office for the	185,516	210,606	25,090
Children and Family Services, Office of	3,196,915	2,917,185	(279,730)
Health, Department of	35,205,297	37,347,221	2,141,924
<i>Medical Assistance</i>	30,209,572	31,780,313	1,570,741
<i>Medicaid Administration</i>	575,158	692,100	116,942
<i>All Other</i>	4,420,567	4,874,808	454,241
Human Rights, Division of	14,942	15,227	285
Labor, Department of	573,112	564,815	(8,297)
Medicaid Inspector General, Office of	1,049	47,901	46,852
Prevention of Domestic Violence, Office of	1,985	2,549	564

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

	<u>2005-2006 Actuals</u>	<u>2006-2007 Mid-Year</u>	<u>Annual Change</u>
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	4,391,625	4,848,790	457,165
<i>Welfare Assistance</i>	2,979,052	3,444,868	465,816
<i>Welfare Administration</i>	368,537	381,897	13,360
<i>All Other</i>	1,044,036	1,022,025	(22,011)
Welfare Inspector General, Office of	1,004	1,178	174
Workers' Compensation Board	140,892	144,670	3,778
Functional Total	<u>43,712,355</u>	<u>46,100,142</u>	<u>2,387,787</u>
MENTAL HEALTH			
Mental Health, Office of	2,319,598	2,423,765	104,167
Mental Hygiene, Department of	9,370	8,645	(725)
Mental Retardation and Developmental Disabilities, Office of	2,953,803	3,153,740	199,937
Alcohol and Substance Abuse Services, Office of	484,831	531,928	47,097
Developmental Disabilities Planning Council	4,081	3,648	(433)
Quality of Care for the Mentally Disabled, Commission on	12,770	14,524	1,754
Functional Total	<u>5,784,453</u>	<u>6,136,250</u>	<u>351,797</u>
PUBLIC PROTECTION			
Capital Defenders Office	4,572	1,600	(2,972)
Correction, Commission of	2,515	2,607	92
Correctional Services, Department of	2,316,062	2,803,076	487,014
Crime Victims Board	55,565	62,016	6,451
Criminal Justice Services, Division of	193,336	327,877	134,541
Homeland Security	19,586	310,619	291,033
Investigation, Temporary State Commission of	3,586	3,934	348
Judicial Commissions	2,714	2,888	174
Military and Naval Affairs, Division of	209,562	362,820	153,258
Parole, Division of	193,231	200,605	7,374
Probation and Correctional Alternatives, Division of	72,254	73,708	1,454
State Police, Division of	598,904	638,848	39,944
Functional Total	<u>3,671,887</u>	<u>4,790,598</u>	<u>1,118,711</u>
EDUCATION			
Arts, Council on the	42,825	52,125	9,300
City University of New York	797,286	1,375,085	577,799
Education, Department of	24,252,348	27,639,917	3,387,569
<i>School Aid (includes EXCEL)</i>	18,549,341	20,785,703	2,236,362
<i>STAR Property Tax Relief</i>	3,213,204	4,041,000	827,796
<i>Handicapped</i>	1,560,076	1,671,058	110,982
<i>All Other</i>	929,727	1,142,156	212,429
Higher Education Services Corporation	1,018,291	983,254	(35,037)
State University Construction Fund	10,013	12,077	2,064
State University of New York	5,073,769	5,611,049	537,280
Functional Total	<u>31,194,532</u>	<u>35,673,507</u>	<u>4,478,975</u>

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

	<u>2005-2006</u> <u>Actuals</u>	<u>2006-2007</u> <u>Mid-Year</u>	<u>Annual</u> <u>Change</u>
GENERAL GOVERNMENT			
Audit and Control, Department of	225,148	238,417	13,269
Budget, Division of the	37,423	69,562	32,139
Civil Service, Department of	26,391	24,051	(2,340)
Elections, State Board of	4,206	76,126	71,920
Employee Relations, Office of	3,579	3,843	264
Executive Chamber	13,937	15,480	1,543
General Services, Office of	260,359	258,367	(1,992)
Inspector General, Office of	5,336	6,369	1,033
Law, Department of	182,295	199,059	16,764
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	53,428	9,598
Regulatory Reform, Governor's Office of	3,661	3,744	83
State Labor Relations Board	3,508	3,776	268
State, Department of	158,194	186,451	28,257
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	20,018	(1,000)
TSC Lobbying	1,572	2,663	1,091
Veterans Affairs, Division of	13,599	15,084	1,485
Functional Total	<u>1,538,408</u>	<u>1,759,225</u>	<u>220,817</u>
ALL OTHER CATEGORIES			
Legislature	210,051	213,863	3,812
Judiciary (excluding fringe benefits)	1,618,170	1,823,674	205,504
World Trade Center	38,003	32,550	(5,453)
Local Government Assistance	1,018,896	1,177,042	158,146
Long-Term Debt Service	3,701,385	4,309,190	607,805
General State Charges/Miscellaneous	4,702,942	5,134,620	431,678
Capital GAAP Adjustments ⁽¹⁾	(1,017,218)	(1,896,835)	(879,617)
Functional Total	<u>10,272,229</u>	<u>10,794,104</u>	<u>521,875</u>
TOTAL ALL GOVERNMENTAL FUNDS SPENDING	<u>104,341,436</u>	<u>114,048,535</u>	<u>9,707,099</u>

⁽¹⁾ 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".

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

	<u>2005-2006</u> <u>Actuals</u>	<u>2006-2007</u> <u>Mid-Year</u>	<u>Change</u>
Revenues:			
Taxes:			
Personal income tax	21,060	22,201	1,141
User taxes and fees	8,454	8,076	(378)
Business taxes	4,970	6,083	1,113
Other taxes	1,028	902	(126)
Miscellaneous revenues	5,579	6,003	424
Federal grants	0	180	180
Total revenues	<u>41,091</u>	<u>43,445</u>	<u>2,354</u>
Expenditures:			
Grants to local governments	33,678	36,642	2,964
State operations	10,681	11,450	769
General State charges	3,962	3,656	(306)
Debt service	0	26	26
Capital projects	0	1	1
Total expenditures	<u>48,321</u>	<u>51,775</u>	<u>3,454</u>
Other financing sources (uses):			
Transfers from other funds	13,993	12,894	(1,099)
Transfers to other funds	(5,381)	(5,698)	(317)
Proceeds from financing arrangements/ advance refundings	254	347	93
Net other financing sources (uses)	<u>8,866</u>	<u>7,543</u>	<u>(1,323)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>1,636</u>	<u>(787)</u>	<u>(2,423)</u>
Accumulated Surplus/(Deficit)	<u>2,182</u>	<u>1,395</u>	<u>(787)</u>

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	37,262	7,060	2,028	10,857	57,207
Patient fees	0	0	0	326	326
Miscellaneous revenues	6,003	4,693	277	23	10,996
Federal grants	180	35,955	1,748	0	37,883
Total revenues	43,445	47,708	4,053	11,206	106,412
Expenditures:					
Grants to local governments	36,642	43,290	987	0	80,919
State operations	11,450	1,713	0	65	13,228
General State charges	3,656	326	0	0	3,982
Debt service	26	0	0	3,484	3,510
Capital projects	1	2	4,541	0	4,544
Total expenditures	51,775	45,331	5,528	3,549	106,183
Other financing sources (uses):					
Transfers from other funds	12,894	258	322	5,645	19,119
Transfers to other funds	(5,698)	(3,276)	(841)	(13,273)	(23,088)
Proceeds of general obligation bonds	0	0	227	0	227
Proceeds from financing arrangements/ advance refundings	347	0	1,899	0	2,246
Net other financing sources (uses)	7,543	(3,018)	1,607	(7,628)	(1,496)
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	(787)	(641)	132	29	(1,267)

Source: NYS DOB

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

	First Quarter (Actual)	Second Quarter (Actual)	Third Quarter (Projected)	Fourth Quarter (Projected)	Total (Projected)
Opening fund balance	1,600	2,041	1,541	954	1,600
Receipts:					
Cigarette Taxes	148	155	126	134	563
Miscellaneous Receipts	773	770	727	1,643	3,913
Total receipts	921	925	853	1,777	4,476
Disbursements:					
Medical Assistance Account	2	517	570	1,023	2,112
HCRA Program Account	169	320	253	421	1,163
Hospital Indigent Care Fund	110	243	285	203	841
Elderly Pharmaceutical Insurance Coverage (EPIC)	80	130	182	150	542
Child Health Plus (CHP)	70	136	67	62	335
Public Health	29	43	46	42	160
Mental Health	6	22	26	39	93
All Other	14	14	11	83	122
Total disbursements	480	1,425	1,440	2,023	5,368
Change in fund balance	441	(500)	(587)	(246)	(892)
Closing fund balance	2,041	1,541	954	708	708

Source: NYS DOB

Special Considerations

The Financial Plan is necessarily based upon forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies. DOB believes that its current receipts and spending estimates related to the performance of the State and national economies are reasonable. However, there can be no assurance that actual results will not differ materially and adversely from the current forecast. For a discussion of additional risks to the Financial Plan, see the sections entitled “Risks to the Financial Plan” and “Litigation” in this AIS Update.

GAAP-Basis Results for Prior Fiscal Years

(Reprinted from August 4, 2006 Update to the AIS)

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 June 12, 2006 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)

<u>Fiscal Year Ended</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>All Governmental Funds</u>	<u>Accum. General Fund Surplus/(Deficit)</u>
March 31, 2006	1,636	3,128	(664)	(251)	3,849	2,182
March 31, 2005	827	833	361	89	2,110	546
March 31, 2004	3,039	(578)	173	603	3,237	(281)

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 financial reporting model redefined the financial reporting model by changing its focus to major funds, rather than fund types, requiring a new section called management discussion and analysis (the

“MD&A”), and containing new government-wide financial statements which includes all revenues and all costs of providing services each year. The new Basic Financial Statements and the MD&A are issued in place of the general purpose financial statements. The new statements also report on all current assets and liabilities and also long-term assets and liabilities, such as capital assets, including infrastructure (e.g., roads and bridges).

Summary of Net Assets
(millions of dollars)

<u>Fiscal Year Ended</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
March 31, 2006	45,997	3,136	49,133
March 31, 2005	41,190	2,645	43,835
March 31, 2004	39,086	2,088	41,174

State Organization

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 2005-06 fiscal year. There were 3,000 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, 2006, 653,291 persons were members and 342,245 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.

The State paid its employer contributions for the fiscal year ending March 31, 2007, which totaled \$1,067.2 million as of June 1, 2006. This amount included the Judiciary bill and the amortization payments for the 2005 and 2006 bills. Also, an additional payment of \$21 million was made on June 1, 2006 to reduce the State's remaining retirement incentive costs. The estimated bill for the fiscal year ending March 31, 2008 totals \$1,045.4 million payable as of September 1, 2007. The amount also includes the Judiciary bill and amortization payments for the 2005 and 2006 bills.

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, 2006 were \$142.6 billion (including \$2.8 billion in receivables), an increase of \$14.6 billion or 11.4 percent from the 2004-05 level of \$128.0 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 \$146.5 billion on April 1, 2005 to \$153.7 billion (including \$58.8 billion for current retirees and beneficiaries) on April 1, 2006. 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, 2006 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 2006 fiscal year and 40 percent of the unexpected gain for the 2005 fiscal year. Actuarial assets increased from \$123.8 billion on April 1, 2005 to \$132.1 billion on April 1, 2006. The table that follows shows the actuarially determined contributions that have been made over the last eight 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	Total	Percent
March 31	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
2006	142,620	11.4

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, 2006 includes approximately \$2.8 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
2006	2,782	1,714	1,068	241	6,073

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

(2) Includes payments from Group Life Insurance Plan.

Litigation

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 11, 2006, the defendants moved for summary judgment on the issue of laches.

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. This case is now concluded.

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 one 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. On November 6, 2006, the defendants moved for judgment on the pleadings.

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 United 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. The case is now concluded.

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. The District Court has granted defendants permission to move to dismiss the complaints or for summary judgment on the issue of laches. On August 15, 2006, the defendants moved for summary judgment on the issue of laches.

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. Both of these cases have been discontinued by agreement of the parties.

State Programs

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. This

Annual Information Statement Update, November 6, 2006

case is now concluded. Several related State Court cases involving the same parties and issues had 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. On October 24, 2006, the Court of Appeals affirmed the order of the Appellate Division dismissing the petition.