

PART II

STATE DEBT SERVICE

STATE DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS

DEBT SERVICE APPROPRIATIONS FOR 2006-07

The 2006-07 recommended debt service appropriations meet all of the State's potential obligations to bondholders, and reflect the maximum estimated debt service payments for outstanding bonds, including payments due on outstanding variable rate debt, interest rate exchange agreements ("swaps") and new State-supported bond issuances.

For 2006-07, the recommended appropriations also separately distinguish between amounts due for debt service (principal, interest, and swap payments) and related expenses required pursuant to financing agreements (letter of credit fees, trustee fees, and public authority administrative expenses for certain bond-financed capital programs). This is consistent with efforts by the Office of the State Comptroller to account for these as operational-type expenses rather than debt service spending.

In addition, the appropriations for 2006-07 demonstrate ongoing debt management initiatives to reduce debt service costs, including the issuance of lower-cost State Personal Income Tax (PIT) revenue bonds to finance capital projects, and the continued use of authorizations for variable rate obligations and swaps. To further reduce debt service costs by \$50 million in 2006-07, the State will continue to maximize refunding opportunities, including the use of the State's remaining swaps capacity. New State-supported bond issuances are anticipated to be financed under the State's revenue credits, including the Personal Income Tax Revenue Bond program, Dedicated Highway and Bridge Trust Fund program, the Mental Hygiene program, Department of Health, and the State University of New York Dormitory Facilities program.

The recommendations also include increased funding of \$250 million for debt reduction efforts, which would be utilized to reduce high cost debt and/or avoid new debt issuances.

Total State-supported debt service costs remain within the caps imposed by the Debt Reform Act of 2000. To build on the success of that legislation, the Governor will submit a Constitutional Debt Reform bill to:

- Create limits on State debt levels and debt service costs;
- Ban "back door" borrowing;
- Limit debt to capital purposes only;
- Authorize a limited amount of revenue-backed debt, and require that at least one-half of all new debt be approved by the voters; and
- Authorize multiple general obligation bond act proposals.

For a comprehensive discussion of the State's debt service obligations and debt-financing activities, including affordability and performance measures, please see the State's Five-Year Capital Program and Financing Plan.

GENERAL DEBT SERVICE FUND

The General Debt Service Fund provides for debt service and related expenses due on fixed and/or variable rate general obligation bonds, Personal Income Tax revenue bonds, and lease-purchase and contractual obligation payments to public authorities. The General Debt Service Fund's moneys are provided from the General Fund and other available transfers and revenues. Total appropriations of \$3.5 billion are recommended from the General Debt Service Fund. These amounts include contingent appropriations for obligations related to tobacco and secured hospital financings, which are more fully discussed in the Contingent and Other Appropriations section.

DEBT SERVICE

General Obligation Bonds

Appropriations from the General Debt Service Fund for general obligation bonds are recommended at \$480 million, and reflect payments on outstanding fixed rate and variable rate general obligation bonds, and estimated payments on new bonds anticipated to be issued.

Lease Purchase Obligations

Appropriations of \$63 million are recommended for lease-purchase payments for various State facilities, including the 50 Wolf Road building in Albany, the Department of Environmental Conservation building at 625 Broadway in Albany and the Department of Transportation Region One headquarters building in Schenectady.

Special Contractual Obligations

Appropriations of \$1.7 billion are recommended from the General Debt Service Fund to the following public authorities for special contractual obligations due on outstanding State appropriation-backed bonds:

- Thruway Authority, for Local Highway and Bridge service contract bonds for local transportation purposes (\$208 million). Spending from this appropriation is financed by transfers from the Dedicated Highway and Bridge Trust Fund;
- Environmental Facilities Corporation, for State Revolving Loan Fund service contract bonds, the Pipeline for Jobs Program, and the financing of parks and other environmental programs (\$53 million);
- Urban Development Corporation (UDC), for financing the construction and rehabilitation of correctional facilities, State facilities, youth facilities, stadia facilities, the pine barrens land acquisition, economic development purposes, projects at various university technology centers, the Higher Education Applied Technology (HEAT) program, and the Onondaga Convention Center (\$369 million);
- Dormitory Authority of the State of New York (DASNY), for State University of New York (SUNY) educational facilities, athletic facilities and upstate community colleges, State Education Department facilities, City University of New York senior and community colleges, RESCUE school construction, child care facilities, the Department of Health's Axelrod Laboratory, the Albany Airport, and the Department of Audit and Control building and East Garage (\$764 million);
- Housing Finance Agency, pursuant to agreements to finance the State's housing programs (\$76 million);
- Triborough Bridge and Tunnel Authority, for the Javits Convention Center in New York City (\$43 million);
- Metropolitan Transportation Authority, for service contracts payments on bonds issued to finance transit and commuter rail projects (\$165 million);
- Energy Research Development Authority, for service contract payments on bonds issued to finance the West Valley Project (\$6.0 million);

Revenue Bond Tax Fund

Appropriations of \$860 million are recommended from the Revenue Bond Tax Fund (RBTF), an account within the General Debt Service Fund, and are provided for the payment of State Personal Income Tax revenue bonds. These bonds are secured by the pledge of payments from the Revenue Bond Tax Fund, which receives 25 percent of State personal income tax receipts. Tax receipts in excess of debt service requirements are then transferred back to the General Fund.

Personal Income Tax revenue bonds are issued under broad functional areas by certain public authorities and are provided, as follows:

- Economic Development and Housing (\$300 million);
- Education (\$220 million);
- Environment (\$50 million);
- Healthcare (\$5 million);
- State Facilities and Equipment (\$165 million);
- Transportation (\$115 million)
- Related Expenses (\$5 million)

HOUSING DEBT FUND

Payments from local governments and housing companies that benefit from housing and urban renewal projects funded with State general obligation bonds are deposited in the Housing Debt Fund, and are used to pay debt service on such bonds. A \$25 million appropriation is recommended for 2006-07.

CENTRALIZED SERVICES FUND

Certificates of Participation (COPs) have been issued to finance the purchase of equipment on an installment or lease-purchase basis for State departments, agencies, and public authorities. Moneys from the operating budgets of participating agencies are deposited to the Centralized Services Fund for payment to the Certificates of Participation trustees. Such obligations' maturities are predominantly short-term in nature, reflecting the useful life of the equipment financed. An appropriation of \$22 million is recommended to pay debt service and related expenses on outstanding Certificates of Participation. More cost-effective Personal Income Tax revenue bonds are anticipated to continue to be used for new equipment acquisition financings.

HEALTH INCOME FUND

The Department of Health (DOH) has entered into contractual agreements with the Dormitory Authority of the State of New York to finance the construction and rehabilitation of State hospitals and veterans' homes. These agreements require the Department of Health to make lease-purchase rental payments to the Dormitory Authority of the State of New York. Such payments have first claim on revenues received in this Fund from patient care at the Department of Health facilities. Consistent with existing bonding pledges and statutory requirements, the Roswell Park Cancer Institute Corporation's moneys continue to flow into the Fund as security for and payment to bondholders. As a result, the State's Financial Plan reflects the portion of the Corporation's receipts that are attributable to debt service. Lease-purchase obligations during 2006-07 require appropriations of \$33 million.

STATE UNIVERSITY DORMITORY INCOME FUND

This Fund receives payments from student dormitory rentals and other fees at dormitories operated by the State University of New York. Debt service on bonds issued by the Dormitory Authority of the State of New York for the construction and rehabilitation of the State University of New York dormitory facilities has first claim on all revenues deposited in the Fund. An appropriation of \$70 million is recommended for lease-purchase payments to the Dormitory Authority of the State of New York.

DEBT SERVICE

MENTAL HEALTH SERVICES FUND

The Dormitory Authority of the State of New York is authorized to issue bonds to finance capital programs for the Department of Mental Hygiene. Patient revenues received from care and treatment activities at State mental health facilities are deposited into the Mental Health Services Fund, and are used to make payments to the Dormitory Authority of the State of New York for debt service on mental health services bonds. These payments have first claim on moneys in the Fund. The Dormitory Authority of the State of New York also makes loans to eligible not-for-profit agencies providing mental health services. In return, these voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects. These payments are also deposited in the Fund. The recommended appropriation for these obligations is \$340 million.

LOCAL GOVERNMENT ASSISTANCE TAX FUND

To eliminate the State's annual spring cash flow borrowing, 1990 legislation authorized the Local Government Assistance Corporation (LGAC) to issue bonds to finance payments to local governments previously funded by the State. By 1995, the Local Government Assistance Corporation had issued its entire \$4.7 billion net authorization, and its activities are primarily limited to the ongoing maintenance of those existing obligations. Revenues equal to the first cent of the four cent State sales and use tax are deposited into the Local Government Assistance Tax Fund (LGATF) and used to pay debt service on the Local Government Assistance Corporation bonds. The recommended appropriation of \$373 million represents anticipated debt service on all outstanding fixed and variable rate bonds, interest rate exchange agreement payments and related administrative expenses. Local aid payments from the Local Government Assistance Tax Fund due to New York City, and assigned by the City to the Sales Tax Asset Receivable Corporation (STARC) are appropriated in the local assistance portion of the budget.

SCHOOL CAPITAL FACILITIES FINANCING RESERVE FUND

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

DEDICATED HIGHWAY AND BRIDGE TRUST FUND

An appropriation of \$475 million is recommended to the Thruway Authority for 2006-07 debt service payments and related expenses on Dedicated Highway and Bridge Trust Fund bonds. Debt service payments for the highway program are supported by the statutory dedication of highway-related taxes and fees to the Fund.

DEBT REDUCTION RESERVE FUND

An appropriation of \$250 million is recommended from one-time resources for the State's Debt Reduction Reserve Fund (DRRF). Consistent with prior deposits of \$1 billion into DRRF, these moneys will be used to reduce high cost debt and pay hard dollar for capital projects that would otherwise be financed through the issuance of additional State debt.

CONTINGENT AND OTHER APPROPRIATIONS

Appropriations in this section of the debt service appropriation bill provide for the State's contingent liability to make payments on certain other types of debt instruments. These include arbitrage rebate and defeasance obligations required by Federal tax code limitations, the maximum potential variable rate, swap, or termination payments on State-supported debt obligations, as well as contingent-contractual obligations for tobacco and secured hospital bonds. The State does not anticipate making disbursements from any of these appropriations during the 2006-07 fiscal year. Nonetheless, these appropriations are required pursuant to various bond financing requirements. Therefore, they supply appropriation authority for the unlikely event that the primary obligated parties cannot provide sufficient funds to meet their own debt service obligations, or for unforeseen additional expenses that may arise on State-supported obligations.

General Fund – State Purposes Account

An appropriation of \$20 million is recommended for the State's potential liability to rebate arbitrage earnings on general obligation bonds to the Federal government. In addition, a \$225 million appropriation is recommended for the redemption of general obligation bonds, should this become necessary to maintain the exemption from Federal taxation of the interest paid to General Obligation bondholders. This appropriation would only be used if the State received payments from any party found to be responsible for site contamination for which 1986 Hazardous Waste and 1996 Clean Water/Clean Air bonds were sold and disbursed to finance site clean-ups. The potential use of this appropriation is unlikely, as every effort is made to find the responsible parties prior to the issuance of bonds.

All Funds

An All Funds appropriation of \$2.5 billion provides authority for a maximum interest rate of 18 percent on both variable rate bonds and the notional amount of interest rate exchange agreements which are permitted by the limitations under Article 5-D of the State Finance Law. This appropriation is available to all Authorized Issuers of State-supported debt, and provides assurances to bondholders and counterparties of interest rate exchange agreements that sufficient authorization is available to pay the maximum amounts which may become due on such variable rate and swap instruments. In addition, it provides the State the flexibility needed to comprehensively manage such instruments and State-supported obligations, including the ability to terminate swap agreements and effectively manage risk.

Secured Hospitals

This appropriation is provided to the Dormitory Authority of the State of New York for contingent-contractual obligations related to financially distressed hospitals, in the event that hospital loan repayments and other available funds are inadequate to meet debt service and related expenses (\$91 million). Legislative authorization for new projects in this program expired in March 1998.

Tobacco Settlement Financing Corporation

This appropriation is provided to the Tobacco Settlement Financing Corporation (TSFC), for contingent-contractual obligations that are available to pay debt service on tobacco bonds. Such funds would only be called upon in the unlikely event that tobacco receipts sold

DEBT SERVICE

to the Tobacco Settlement Financing Corporation are insufficient to make such payments. As required by the contingent contract, the debt service bill includes a recommended appropriation that is equal to amounts payable on the Corporation's bonds in 2006-07 (\$361 million).

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

Fund	Available 2005-06	Recommended 2006-07	Change
General Fund			
State Purposes Account			
Rebates to Federal Government	20,000,000	20,000,000	0
Redemption of General Obligation Bonds	225,000,000	225,000,000	0
Subtotal	<u>245,000,000</u>	<u>245,000,000</u>	<u>0</u>
Internal Service Funds			
Centralized Services Fund			
Financing Agreements	25,000,000	22,010,000	(2,990,000)
Subtotal	<u>25,000,000</u>	<u>22,010,000</u>	<u>(2,990,000)</u>
Fiduciary Funds			
School Capital Facilities Financing Reserve Fund			
Trust and Agency Financing	40,000,000	40,000,000	0
Subtotal	<u>40,000,000</u>	<u>40,000,000</u>	<u>0</u>
Debt Service Funds			
Debt Reduction Reserve Fund			
Debt Reduction	0	250,000,000	250,000,000
Mental Health Services Fund			
Financing Agreements	316,000,000	340,000,000	24,000,000
General Debt Service Fund			
General Obligation Bonds	480,000,000	480,000,000	0
Financing Agreements	2,190,400,000	2,136,320,000	(54,080,000)
Revenue Bond Payments	680,000,000	859,900,000	179,900,000
Lease Purchase Payments	61,900,000	62,700,000	800,000
Housing Debt Fund			
General Obligation Bonds	25,000,000	25,000,000	0
Health Income Fund			
Financing Agreements	34,500,000	30,000,000	(4,500,000)
Financing Agreements	2,500,000	2,500,000	0
State University Dormitory Income Fund			
Financing Agreements	70,000,000	70,000,000	0
Local Government Assistance Tax Fund			
Financing Agreements	348,000,000	373,000,000	25,000,000
Subtotal	<u>4,208,300,000</u>	<u>4,629,420,000</u>	<u>421,120,000</u>
Capital Projects Funds - Other			
Dedicated Highway and Bridge Trust Fund			
Financing Agreements	775,000,000	475,150,000	(299,850,000)
Subtotal	<u>775,000,000</u>	<u>475,150,000</u>	<u>(299,850,000)</u>
All Funds			
All Funds			
Contingent Appropriation	2,350,000,000	2,450,000,000	100,000,000
Subtotal	<u>2,350,000,000</u>	<u>2,450,000,000</u>	<u>100,000,000</u>
Total Fiscal Year	<u>7,643,300,000</u>	<u>7,861,580,000</u>	<u>218,280,000</u>
Appropriated 2005-06	<u>7,643,300,000</u>		