

PART II



STATE DEBT SERVICE

STATE DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS

INTRODUCTION

The 2007-08 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.

A broad overview of the State's debt management practices, debt affordability measures, and five year information and trends on State debt levels and capital costs is available in the Five Year Capital Program and Financing Plan released with the Budget.

VISION

The 2007-08 Executive Budget would enhance the State's debt management efforts. To reduce borrowing costs, the Budget recommends use of \$250 million to retire high-cost debt. Other recommendations include efforts to enhance refunding savings, prudently increase the use of swaps and variable rate instruments to lower interest costs, and increase competitive processes. Greater transparency would be achieved through providing comprehensive information with respect to the State's total overall bond authorizations.

OPERATING HIGHLIGHTS

Debt financing is used to help pay for the State's capital program, providing necessary funding for the State's transportation, education, economic development and other major programs. State-supported debt is expected to total over \$47 billion at the end of the 2007-08 fiscal year. State-related debt – a more comprehensive measure, which includes other contingent debt obligations for which the State is ultimately responsible – is projected to total \$53 billion. Debt service spending – the costs of repaying those debt obligations – is projected to total \$4.4 billion on State-supported debt, and \$5.0 billion on the more-inclusive State-related debt measure.

KEY STRATEGIES

The 2007-08 Executive Budget seeks to reform the State's debt management practices and reduce its costs of borrowing. These recommendations are expected to produce debt service savings totaling about \$40 million in 2007-08, and include:

- A recommended \$250 million deposit to the Debt Reduction Reserve Fund to reduce high cost debt and/or pay hard dollar cash for capital spending that would otherwise be financed through new debt issuances.
- For the first time ever, all State-supported bond authorizations would be consolidated into a single provision of law. This would ensure greater public knowledge about existing and proposed new bond authorizations, permitting the public and elected

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officials understand the cumulative effect of the budget's reliance on debt financings. This approach would also ensure that all State debt authorizations and practices are conducted on a consistent and streamlined basis.

- Authorization is proposed to refund older service contract debt under a consolidated credit structure, thereby enhancing efficiencies and increasing savings opportunities.
- Enhanced flexibility and savings opportunities would be provided through increasing both the State's interest rate swaps and variable rate debt authorizations from 15 to 20 percent of debt outstanding, and by increasing the use of competitive processes.

GENERAL DEBT SERVICE FUND

The General Debt Service Fund pays for debt service and related expenses on fixed and 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, dedicated personal income taxes, and other available transfers and revenues. Total appropriations of \$3.9 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.

General Obligation Bonds

Appropriations from the General Debt Service Fund for General Obligation bonds are recommended at \$483 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 \$58.4 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 (\$243 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 (\$39 million);

- Urban Development Corporation , for financing the construction and rehabilitation of prisons, State facilities, youth facilities, stadiums, the pine barrens land acquisition, economic development purposes, projects at various university technology centers, the Higher Education Applied Technology program, and the Onondaga Convention Center (\$385 million);
- Dormitory Authority of the State of New York, for State University of New York 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 (\$770 million);
- Housing Finance Agency, pursuant to agreements to finance the State’s housing programs (\$72 million);
- Triborough Bridge and Tunnel Authority, for the Javits Convention Center in New York City (\$43 million);
- Metropolitan Transportation Authority, for service contract payments on bonds issued to finance transit and commuter rail projects (\$165 million); and
- Energy Research Development Authority, for service contract payments on bonds issued to finance the West Valley Project (\$2 million).

Revenue Bond Tax Fund

The appropriations for 2007-08 demonstrate ongoing debt management initiatives to reduce borrowing costs through the continued use of the Standard and Poor’s AAA-rated, low-cost personal income tax revenue bond holders. Appropriations of \$1.2 billion are recommended from the Revenue Bond Tax Fund, an account within the General Debt Service Fund, providing for the payment to personal income tax revenue bond holders. 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 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 (\$330 million);
- Education (\$425 million);
- Environment (\$55 million);
- Healthcare (\$5 million);
- State Facilities and Equipment (\$200 million);
- Transportation (\$145 million); and
- Related Expenses (\$8 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 \$21 million appropriation is recommended for 2007-08.

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HEALTH INCOME FUND

The Department of Health 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 payments 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 2007-08 require appropriations of \$32.5 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 \$69 million is recommended for lease-purchase payments to the Dormitory Authority of the State of New York.

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 \$330 million.

LOCAL GOVERNMENT ASSISTANCE TAX FUND

To eliminate the State's annual spring cash flow borrowing, 1990 legislation authorized the Local Government Assistance Corporation 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 and used to pay debt service on the Local Government Assistance Corporation bonds. The recommended appropriation of \$388 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 due to New York City from the Local Government Assistance Tax Fund, and assigned by the City to the Sales Tax Asset Receivable Corporation, 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 \$505 million is recommended to the Thruway Authority for 2007-08 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 for the State's Debt Reduction Reserve Fund. Consistent with prior deposits of \$1.3 billion into the Debt Reduction Reserve Fund, these moneys would be used to reduce high cost debt and/or pay hard dollar for capital projects that would otherwise be financed by 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, termination or other 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 2007-08 fiscal year. Nonetheless, these appropriations are mandatory 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

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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 \$3.6 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 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 (\$90 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, 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 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 2007-08 (\$353 million).

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

Fund	Available 2006-07	Recommended 2007-08	Change
General Fund			
State Purposes Account			
Rebates to Federal Government	20,000,000	20,000,000	0
Redemption of General Obligation Bonds	225,000,000	225,000,000	0
Subtotal	245,000,000	245,000,000	0
Internal Service Funds			
Centralized Services Fund			
Financing Agreements	22,010,000	0	(22,010,000)
Subtotal	22,010,000	0	(22,010,000)
Fiduciary Funds			
School Capital Facilities Financing Reserve Fund			
Trust and Agency Financing	40,000,000	40,000,000	0
Subtotal	40,000,000	40,000,000	0
Debt Service Funds			
Debt Reduction Reserve Fund			
Debt Reduction	250,000,000	250,000,000	0
Mental Health Services Fund			
Financing Agreements	340,000,000	330,000,000	(10,000,000)
General Debt Service Fund			
General Obligation Bonds	480,000,000	483,000,000	3,000,000
Financing Agreements	2,136,320,000	2,161,720,000	25,400,000
Revenue Bond Payments	859,900,000	1,167,900,000	308,000,000
Lease Purchase Payments	62,700,000	58,400,000	(4,300,000)
Housing Debt Fund			
General Obligation Bonds	25,000,000	21,000,000	(4,000,000)
Health Income Fund			
Financing Agreements	30,000,000	30,000,000	0
Financing Agreements	2,500,000	2,500,000	0
State University Dormitory Income Fund			
Financing Agreements	70,000,000	69,000,000	(1,000,000)
Local Government Assistance Tax Fund			
Financing Agreements	373,000,000	388,000,000	15,000,000
Subtotal	4,629,420,000	4,961,520,000	332,100,000
Capital Projects Funds - Other			
Dedicated Highway and Bridge Trust Fund			
Financing Agreements	475,150,000	505,200,000	30,050,000
Subtotal	475,150,000	505,200,000	30,050,000
All Funds			
All Funds			
Contingent Appropriation	2,450,000,000	3,550,000,000	1,100,000,000
Subtotal	2,450,000,000	3,550,000,000	1,100,000,000
Total Fiscal Year	7,861,580,000	9,301,720,000	1,440,140,000
Appropriated 2006-07	7,861,580,000		

