PART II

STATE DEBT SERVICE

STATE DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS

INTRODUCTION

The 2010-11 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.

OPERATING HIGHLIGHTS

Debt financing is used to partially finance the State's capital program, providing necessary funding for transportation, education, economic development, and other major program areas. State-related debt – a comprehensive measure which includes debt issued by the State, by public authorities on behalf of the State, and other debt obligations for which the State is contractually or morally responsible – is projected to grow from $54.8 billion in 2009-10 to $57.5 billion by the end of 2010-11. Debt service spending – the costs of repaying those debt obligations – is projected to grow from $5.6 billion in 2009-10 to approximately $6.4 billion by the end of 2010-11.

KEY STRATEGIES

The 2010-11 Executive Budget seeks to reduce the State's costs of borrowing through a number of debt management efforts. These are expected to produce debt service savings totaling approximately $26.5 million in 2010-11 and include the following.

- Reducing the State's debt burden and debt service costs through a Capital Reduction Program of planned bond-financed capital spending.
- Continuing efforts to reduce State interest costs through new financing structures authorized by the Federal stimulus legislation, such as the Build America Bonds (BAB) program.
- Extending opportunities for increased efficiencies and savings with the Personal Income Tax Revenue Bond Program through continued issuer flexibility.
- Using competitive bond sales for a minimum of 25 percent of State-supported debt issuances, subject to market conditions.
- Continuing to refund higher cost debt, including refunding older service contract bonds under a consolidated credit structure, thereby enhancing efficiencies and increasing savings opportunities.

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 $4.8

billion are recommended from the General Debt Service Fund. These amounts include contingent appropriations for obligations related to deficit (tobacco securitization) 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 $515 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 $39.9 million are recommended for lease-purchase payments for various State facilities, including the Empire State Plaza in Albany, the Library for the Blind in Albany and the Department of Transportation Region One headquarters building in Schenectady.

Special Contractual Obligations

Appropriations of $1.8 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 ($245 million). Spending from this appropriation is financed by transfers from the Dedicated Highway and Bridge Trust Fund.
- Environmental Facilities Corporation for environmental infrastructure service contract bonds, the Pipeline for Jobs Program, and the financing of parks and other environmental programs ($33 million).
- Urban Development Corporation for financing the construction and rehabilitation of prisons, State facilities, youth facilities, 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 ($408 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, the Department of Audit and Control building, and the East Garage in Albany ($749 million).
- Housing Finance Agency pursuant to agreements to finance the State's housing programs ($63 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).
- Related and capital expenses ($53 million).

Revenue Bond Tax Fund

The appropriations for 2010-11 reflect the continued use of the Personal Income Tax revenue bond program (rated AAA by Standard and Poor's) to reduce State borrowing costs. Appropriations of $2.1 billion are recommended from the Revenue Bond Tax Fund, an account within the General Debt Service Fund that provides for the payment of 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 State's 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 ($390 million);
- Education ($470 million);
- Environment ($100 million);
- General Purpose ($625 million)
- Health care ($20 million);
- State Facilities and Equipment ($220 million);
- Transportation ($250 million); and
- Related and capital expenses ($19 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 $16.5 million appropriation is recommended for 2010-11.

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 2010-11 require appropriations of $33.7 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 $91 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 $375 million.

LOCAL GOVERNMENT ASSISTANCE TAX FUND

To eliminate the State's annual cash flow borrowing to finance payments in the first quarter of the State Fiscal Year, 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 Corporation had issued its entire $4.7 billion net authorization, and its activities are now 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 $398 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 $30.5 million is recommended from the School Capital Facilities Financing Reserve Fund, a fiduciary fund, to pay debt service and related expenses 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 respective facilities.

DEDICATED HIGHWAY AND BRIDGE TRUST FUND

An appropriation of $920.2 million is recommended to the Thruway Authority for 2010-11 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 transportation-related taxes and fees to the Fund.

DEBT REDUCTION RESERVE FUND

An appropriation of $250 million is recommended from the Debt Reduction Reserve Fund to allow the State flexibility to defease high cost debt and/or pay hard dollar for capital projects that would otherwise be financed with debt. No disbursements are anticipated from this appropriation in 2010-11.

CONTINGENT AND OTHER APPROPRIATIONS

Contingent and other appropriations are required pursuant to various bond financing agreements. Therefore, they supply appropriation authority in the unlikely event that the primary obligated parties cannot provide sufficient funds to meet their own debt service obligations, or to pay unforeseen additional expenses that may arise on State-supported obligations. Appropriations of $2.8 billion are recommended in this section of the debt service appropriation bill to provide for the State's contingent liabilities 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 deficit (tobacco securitization) and secured hospital bonds. The State may make disbursements from the secured hospital appropriations during the 2010-11 fiscal year, depending on developments related to certain health care facilities. It does not anticipate disbursements for any of the other appropriations described in this section.

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 an effort is made to find the responsible parties prior to the issuance of bonds.

All Funds

An All Funds appropriation of $2.1 billion provides authority for a maximum interest rate of 18 percent on variable rate bonds, and the estimated costs for potential terminations on all interest rate exchange agreements outstanding, 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 consistent with stressed market conditions, including the ability to terminate swap agreements and effectively manage risks.

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 ($83 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 bonds issued by the Corporation to help eliminate a deficit in 2003-04. 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 2010-11 ($338 million).

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

Fund	Available 2009-10	Recommended 2010-11	Change
General Fund			
State Operations 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
Fiduciary Funds			
School Capital Facilities Financing Reserve Fund			
Trust and Agency Financing	35,500,000	30,500,000	(5,000,000)
Subtotal	35,500,000	30,500,000	(5,000,000)
Debt Service Funds			
Debt Reduction Reserve Fund			
Debt Reduction	250,000,000	250,000,000	0
Mental Health Services Fund			
Financing Agreements	410,000,000	375,000,000	(35,000,000)
General Debt Service Fund			
General Obligation Bonds	490,000,000	515,000,000	25,000,000
Financing Agreements	2,132,400,000	2,179,700,000	47,300,000
Revenue Bond Payments	1,716,500,000	2,093,800,000	377,300,000
Lease Purchase Payments	39,900,000	39,875,000	(25,000)
Housing Debt Fund			
General Obligation Bonds	21,000,000	16,500,000	(4,500,000)
Department of Health Income			
Financing Agreements	32,000,000	32,000,000	0
Financing Agreements	3,000,000	1,700,000	(1,300,000)
State University Dormitory Income Fund			
Financing Agreements	94,500,000	91,000,000	(3,500,000)
Local Government Assistance Tax Fund			
Financing Agreements	403,000,000	398,000,000	(5,000,000)
Subtotal	5,592,300,000	5,992,575,000	400,275,000
Capital Projects Funds - Other			
Dedicated Highway and Bridge Trust Fund			
Financing Agreements	615,200,000	920,200,000	305,000,000
Subtotal	615,200,000	920,200,000	305,000,000
All Funds			
All Funds			
Contingent Appropriation	3,370,000,000	2,100,000,000	(1,270,000,000)
Subtotal	3,370,000,000	2,100,000,000	(1,270,000,000)
Total Fiscal Year	9,858,000,000	9,288,275,000	(569,725,000)
Appropriated 2009-10	9,858,000,000		