

Debt Service

Budget Highlights

Introduction

The FY 2022 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. Appropriations are also included to support liquidity financings in FY 2022.

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

The State finances a substantial share of its capital program through the issuance of debt, providing funding for transportation, education, economic development, and other purposes. State-related debt – 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 \$59.9 billion in FY 2021 to \$67.8 billion by the end of FY 2022. Debt service – the costs of repaying the principal and interest of debt obligations – is projected to increase from \$6.0 billion in FY 2021, excluding liquidity financings, to approximately \$6.4 billion by the end of FY 2022, which reflects the prepayment of \$465 million of FY 2021 debt service in FY 2020.

Key Strategies

The FY 2022 Executive Budget seeks to reduce the State's costs of borrowing through ongoing debt management efforts, including:

- Continuing to issue all debt through three highly-rated and established credits: State Personal Income Tax Revenue Bonds; State Sales Tax Revenue Bonds; and State General Obligation Bonds.
- Continuing to sell 50 percent of State-supported debt issuances competitively, subject to market conditions. This provides the State with attractive pricing, as well as a benchmark to use for negotiated sales.
- Continuing to take advantage of favorable market conditions to refund higher cost debt, including refunding older bonds under consolidated and lower-cost financing structures.

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, Sales Tax Revenue Bonds, and contractual obligation payments to public authorities. The General Debt Service Fund's moneys are provided from the General Fund, dedicated personal income and sales taxes, and other available transfers and revenues. Total appropriations of \$20 billion are recommended from the General Debt Service Fund. The total appropriations include \$11 billion in liquidity financing appropriations, including up to \$8 billion of PIT Notes and a \$3 billion line of credit.

General Obligation Bonds

Appropriations from the General Debt Service Fund for General Obligation Bonds are recommended at \$503 million and reflect payments on outstanding fixed rate and variable rate General Obligation Bonds and estimated payments on new bonds anticipated to be issued.

Revenue Bond Tax Fund

The appropriations for FY 2022 reflect the continued use of the Personal Income Tax Revenue Bond program to reduce State borrowing costs. Appropriations of \$14 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 and subordinate PIT Notes. These bonds are secured by the dedication of payments from the Revenue Bond Tax Fund, which receives 50 percent of State personal income tax receipts and 50 percent of receipts from the Employer Compensation Expense Program. Tax receipts in excess of debt service requirements are then transferred to the State's General Fund.

Sales Tax Revenue Bond Tax Fund

The appropriations for FY 2022 reflect the continued use of the Sales Tax Revenue Bond program to reduce

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State borrowing costs. Appropriations of \$2.0 billion are recommended from the Sales Tax Revenue Bond Tax Fund, an account within the General Debt Service Fund that provides for the payment of Sales Tax Revenue Bonds. These bonds are secured by the dedication of payments from the Sales Tax Revenue Bond Tax Fund, which receives two percent of the State's four percent sales tax receipts, up from one percent as a result of the retirement of all LGAC obligations on 4/1/2021. Tax receipts in excess of debt service requirements are then transferred to the State's General Fund.

Special Contractual Obligations

Appropriations of \$3.5 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 (no new long-term issuances are expected in FY 2022):

- Urban Development Corporation (UDC) for consolidated service contract refunding bonds (\$50 million).
- Dormitory Authority of the State of New York (DASNY) for service contract bonds for financing State University of New York educational facilities and upstate community colleges, City University of New York senior and community colleges, and for consolidated service contract refunding bonds (\$340 million).
- Housing Finance Agency (HFA) pursuant to agreements to finance the State's housing programs (\$10 million).
- Line of Credit facility for liquidity financing purposes, in response to the COVID-19 pandemic (\$3 billion).
- Related and capital expenses, including line of credit fees (\$110 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 \$6 million appropriation is recommended for FY 2022.

Health Income Fund

Department of Health (DOH) has entered into contractual agreements with DASNY to finance the construction and rehabilitation of State hospitals and veterans' homes. These agreements require DOH to make lease-purchase rental payments to DASNY. Such payments have first claim on revenues received in this Fund from patient care at the DOH 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 FY 2022 require appropriations of \$36 million.

Mental Health Services Fund

DASNY 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 DASNY for debt service on mental health services bonds. These payments have first claim on moneys in the Fund. DASNY 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 voluntary payments are sent directly to the trustee as an offset for debt service expenses. The recommended appropriation for these obligations is \$52 million.

Local Government Assistance Tax Fund

To eliminate the State's annual cash flow borrowing used to finance payments in the first quarter of the State Fiscal Year, the Local Government Assistance Corporation issued bonds in the early 1990s 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 one percent of the four percent 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. All LGAC Bonds are expected to be retired by 4/1/2021 and the recommended appropriation of \$11 million represents authorization for any final 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 \$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 DASNY on behalf of special act

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and certain other authorized local school districts. The districts have assigned to DASNY their State local assistance payments, 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 \$201 million is recommended to the Thruway Authority for FY 2022 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 \$500 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 FY 2022.

Contingent and Other Appropriations

Contingent and other appropriations are required pursuant to various bond financing agreements. Therefore, they supply appropriation authority in the 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 \$1.5 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 secured hospital bonds.

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.

All Funds

An All Funds appropriation of \$1.3 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 market conditions, including the ability to terminate swap agreements and effectively manage risks.

Secured Hospitals

This appropriation is provided to DASNY 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 (\$41 million). Legislative authorization for new projects in this program expired in March 1998. Based on recent DASNY analyses, the State expects to pay about \$27 million in FY 2022 for certain hospitals that are failing to meet their payment obligations.

ALL FUNDS APPROPRIATIONS (dollars)

Category	Available FY 2021	Appropriations Recommended FY 2022	Change From FY 2021	Reappropriations Recommended FY 2022
Debt Service	22,216,350,000	22,411,000,000	194,650,000	0
Total	22,216,350,000	22,411,000,000	194,650,000	0

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

Fund	Available FY 2021	Recommended FY 2022	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			
School Capital Facilities Financing Reserve Fund			
Trust and Agency Financing	4,600,000	5,000,000	400,000
Subtotal	4,600,000	5,000,000	400,000
Debt Service Funds			
Debt Reduction Reserve Fund			
Debt Reduction	500,000,000	500,000,000	0
Mental Health Services Fund			
Financing Agreements	62,000,000	52,000,000	(10,000,000)
General Debt Service Fund			
Debt Service	3,000,000,000	3,075,000,000	75,000,000
Financing Agreements	558,750,000	476,000,000	(82,750,000)
General Obligation Bonds	502,500,000	502,500,000	0
Revenue Bond Payments	15,552,500,000	16,052,500,000	500,000,000
Housing Debt Fund			
General Obligation Bonds	5,500,000	5,500,000	0
Department of Health Income			
Financing Agreements	32,000,000	36,000,000	4,000,000
Local Government Assistance Tax Fund			
Financing Agreements	303,000,000	11,000,000	(292,000,000)
Subtotal	20,516,250,000	20,710,500,000	194,250,000
Capital Projects Funds - Other			
Dedicated Highway and Bridge Trust Fund			
Financing Agreements	200,500,000	200,500,000	0
Subtotal	200,500,000	200,500,000	0
Unspecified Funds			
All Funds			
Contingent Appropriation	1,250,000,000	1,250,000,000	0
Total	22,216,350,000	22,411,000,000	194,650,000

Note: Most recent estimates as of 01/19/2021