

PART II

STATE DEBT SERVICE

STATE DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS

OVERVIEW

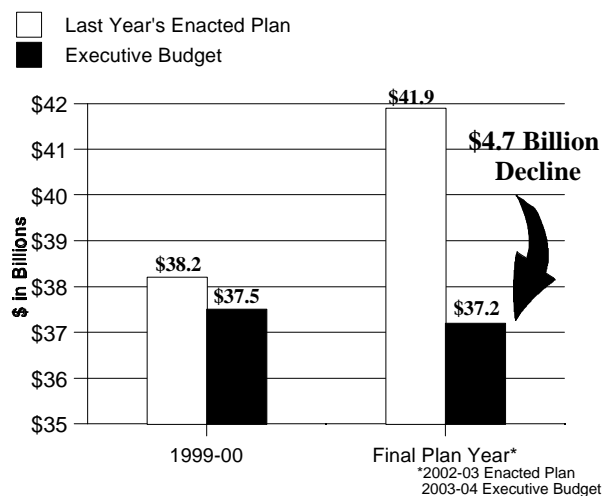
DEBT OUTSTANDING AND DEBT SERVICE COSTS ARE REDUCED

The 1999-2000 budget recommendations for debt service appropriations reflect the State's continued efforts to balance capital needs with debt affordability. For the first time in decades, aggressive debt reduction initiatives, the continuation of efforts to manage the State's debt portfolio, and increased pay-as-you-go financing will ensure that both debt outstanding and debt service costs decline over the Capital Program and Financing Five Year Plan (the Plan). These initiatives are highlighted by efforts that will:

- Improve key debt affordability measures—ensuring that debt as a percent of personal income continues to decline;
- Continue to increase the amount of short-term instruments in the State's debt portfolio;
- Reduce issuances and debt service costs by using hard dollar resources instead of bond financing for eight entire programs;
- Shorten bond maturities to reduce the average life of debt obligations, including using significantly shorter maturities for portions of the reduced Community Enhancement Facilities Assistance Program (CEFAP); and
- Further reduce market crowding and the competition between State-supported programs with the coordination of a debt sale schedule which reflects a reduction in both the number and dollar volume of new issuances.

The recommended debt service appropriations reflect the maximum estimated debt service payments for outstanding bonds and anticipated State-supported sales to come. The appropriations for State general obligation, the Local Government Assistance Corporation (LGAC), and Housing Finance Agency (HFA) Service Contract Obligation Revenue (SCOR) variable rate bonds reflect a maximum interest rate of 18 percent. However, such rates are expected to be approximately 4 percent for tax exempt and 6 percent for taxable obligations. In addition, the contingent appropriations for interest rate swaps executed for the Dormitory Authority SUNY Educational Facilities program, as well as projected swap transactions for LGAC and the Urban Development Corporation's (UDC) Correctional Facilities bonding programs, are also appropriated at a maximum rate of 18 percent.

Debt Outstanding Declines



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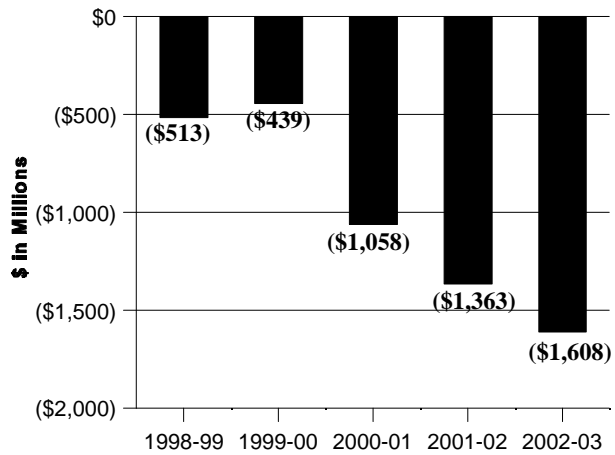
Compared to the 1998-99 enacted Plan, new State-supported bond issuances for 1999-2000 are projected to decline by \$439 million. The decline is largely due to the recommended debt reduction initiatives and refinements in projected levels of spending, partially offset by the delay in the sale of Certificates of Participation for computer equipment to support welfare systems upgrades from the current year to 1999-2000. Issuances for 1999-2000 reflect the continued implementation of certain capital initiatives, such as the 1996 voter-approved Clean Water/Clean Air Bond Act. It is anticipated that \$203 million in Clean Water/Clean Air bonds will be issued during the 1998-99 and 1999-2000 fiscal years. Total general obligation bonds to be issued during 1999-2000 are estimated at \$235 million, including \$140 million for commercial paper redemption. As part of the State's efforts to increase its use of short-term debt instruments, this includes an additional \$115 million in variable rate general obligation bonds to be issued during the 1999-2000 fiscal year.

Compared to the 1998-99 enacted Plan, increases in pay-as-you-go spending and other efforts to manage spending will reduce debt issuances by nearly \$5 billion.

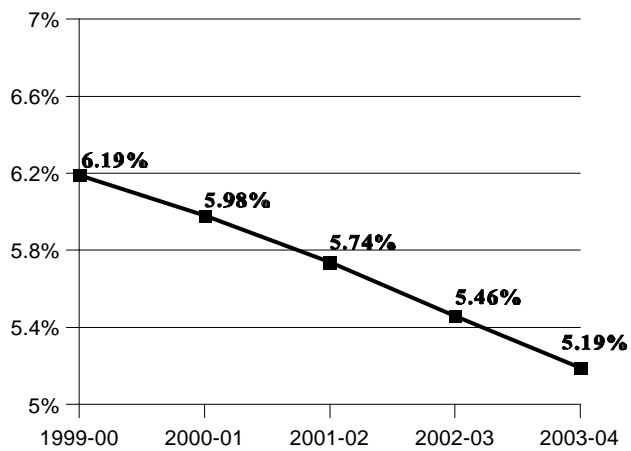
These historic debt reduction efforts, together with continued debt management measures, will improve debt affordability. Outstanding debt to personal income, expected to be 6.2 percent in 1999-2000, is projected to decline to 5.2 percent in the last year of the Plan. In addition, both General Fund transfers in support of debt service and total debt service costs are projected to decline in the later years of the Plan. Debt service costs as a percentage of All Funds resources is projected to decline from 5.38 percent in 1999-2000 to 5.05 percent 2003-04. These efforts will significantly reduce debt and improve affordability.

The State also expects to continue its efforts to increase the use of short-term debt instruments as a percentage of total State-supported debt. The share of State-supported debt which is comprised of short term debt will increase to 6.0 percent in 1999-2000. That share of short-term debt will continue to increase to 8.8 percent in 2003-04 with the issuance of additional short-term instruments. With favorable market conditions, the State will continue to implement the interest rate swaps program. The projected amounts of short-term debt in the State's portfolio will still remain well within credit rating agency guidelines which recommend a general upper limit of approximately 15 to 20 percent of debt outstanding.

Debt Issuances Decline



Percent of State-Supported Debt to Personal Income



The following sections discuss the recommended debt service appropriations in greater detail. The appropriations are grouped by fund.

GENERAL FUND - STATE PURPOSES ACCOUNT

Interest on short-term general obligation debt, primarily bond anticipation notes (BANs) issued in the form of commercial paper, is paid directly from the General Fund. An appropriation of \$15 million is recommended for payment of interest and certain issuance costs on commercial paper to finance capital spending during fiscal year 1999-2000. It is anticipated that an average of \$287 million in such BANs will be outstanding during the coming fiscal year, the same level as in 1998-99.

An appropriation of \$10 million is recommended for the State's potential liability to rebate arbitrage earnings on general obligation bonds to the Federal government. A \$225 million appropriation is recommended for the redemption of general obligation serial bonds, should this become necessary to maintain the exemption from Federal taxation of the interest paid to 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-up. Since every effort is made to find the responsible party prior to the issuance of bonds, the potential use of this appropriation is minimal and no disbursements from it are included in the 1999-2000 Financial Plan.

GENERAL DEBT SERVICE FUND

The General Debt Service Fund provides for principal, interest, and related payments on general obligation bonds, and lease-purchase and contractual obligation payments to public authorities and municipalities. The Fund's moneys are provided through transfers from the General Fund, and other available transfers and revenues.

Appropriations from the General Debt Service Fund for general obligation bonds are recommended at \$742 million. Appropriations for projected debt service reflect actual payments on outstanding general obligation bonds, and estimated payments on bonds anticipated to be issued in March and June of 1999. Payments for the State's continued issuance of variable rate general obligation bonds are also included.

Appropriations of \$2.09 billion are recommended from the General Debt Service Fund for financing agreement payments to the following:

- Lease purchase payments for various State facilities, including the 50 Wolf Road building, to reflect financing on a lease-purchase, rather than lease basis; and the construction of a new Department of Environmental Conservation office building in downtown Albany.
- Metropolitan Transportation Authority (MTA), for service contracts payments (\$162 million) on bonds issued to finance transit and commuter rail projects during the MTA's first two Capital Plans.
- Thruway Authority, for Local Highway and Bridge service contract bonds for local transportation purposes. Spending from this appropriation (\$180 million) is financed by transfers from the Dedicated Highway and Bridge Trust Fund.
- Environmental Facilities Corporation, for State Revolving Loan Fund service contract bonds and the financing of parks and environmental programs (\$51 million).
- Urban Development Corporation, for financing the construction and rehabilitation of correctional facilities, State facilities, youth facilities, stadia facilities, the pine barrens land acquisition, high technology projects at various universities, the Higher Education Applied Technology (HEAT) program, and the Onondaga Convention Center (\$347 million). This includes appropriation authority for payments on projected interest rate swaps, as authorized during 1997.

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- Dormitory Authority, for SUNY educational, upstate community colleges (previously appropriated as local aid), and athletic facilities, State Education Department facilities, CUNY senior and community colleges, the Department of Health's Axelrod Laboratory, Albany Airport, the Library for the Blind, pension obligation bonds, and new State facilities (\$925 million). The latter includes bonds sold to finance a new parking garage and a new building for the Office of the State Comptroller and the Common Retirement Fund. DA SUNY educational facilities also includes appropriations for interest rate swaps entered into in March 1997 and projected for the 1999-2000 fiscal year.
- Housing Finance Agency, pursuant to agreements between the State and HFA to finance the State's housing programs (\$128 million). This includes payments for variable rate housing bonds, including the only State-supported taxable variable rate bonds.
- Triborough Bridge and Tunnel Authority (TBTA), for the financing of the Javits Convention Center in New York City (\$43 million).
- The Dormitory Authority, for service contracts to finance the capital needs of financially distressed hospitals (\$76 million). In the event that hospital repayments and other available funds are inadequate to meet debt service, such payments are to be made pursuant to service contracts with the State. The recommended appropriation reflects the State's potential liability on debt service payable on DA bonds. Legislative authorization for this program expired in March 1998, and State payments are not expected to be required for this program in 1999-2000.
- The Community Enhancement Facilities Assistance Program (\$125 million), which is authorized to be financed with bonds issued by the Urban Development Corporation, the Dormitory Authority, the Housing Finance Agency, and/or the Thruway Authority.

HOUSING DEBT FUND

Payments from local governments and housing companies benefitting 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 \$36 million appropriation is recommended for 1999-2000.

STATE UNIVERSITY DORMITORY INCOME FUND

This Fund receives payments for the use of dormitory rentals and other fees at dormitories operated by SUNY. Debt service on bonds issued by the DA for the construction and rehabilitation of SUNY dormitories has first claim on all dormitory revenues deposited in the Fund. An appropriation of \$45 million is recommended for lease-purchase payments to the DA.

MENTAL HEALTH SERVICES FUND

The Dormitory Authority is authorized to issue bonds to finance capital programs for the Department of Mental Hygiene. Revenues received for the care and treatment of patients at State mental health facilities are deposited in this Fund, and are used to make lease-purchase payments to the DA for debt service on mental health services bonds. These rental payments have the first claim on moneys in the Fund. The DA also makes loans to eligible not-for-profit agencies providing mental health services. In return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance the project. Such payments are also deposited in the Mental Health Services Fund. The recommended appropriation from this Fund is \$345 million.

HEALTH INCOME FUND

The Department of Health (DOH) has entered into contractual agreements with the Dormitory Authority to finance the construction and rehabilitation of State hospitals and veterans' homes. These agreements require DOH to make lease-purchase rental payments to the DA. Such payments have first claim on revenues received in this Fund from patient care at DOH facilities. Pursuant to legislation passed during the 1997 legislative session, the Roswell Park Cancer Institute recently transferred its operations to a public authority. Consistent with existing bonding pledges and statutory requirements, the Corporation's moneys will continue to flow into the Fund as security for and payment to bondholders. However, only the amount needed for debt service will be reflected in the State's financial plan. Lease-purchase obligations during 1999-2000 require appropriations of \$38 million, including obligations for the New York City Veterans' Home.

**EMERGENCY HIGHWAY RECONDITIONING AND PRESERVATION FUND
EMERGENCY HIGHWAY CONSTRUCTION AND RECONSTRUCTION FUND**

The Commissioner of Transportation contracted with the New York State Thruway Authority to finance, through the Authority's bonds, highway reconditioning and preservation and construction and reconstruction projects. To enable the Thruway Authority to meet its debt service on these bonds, receipts attributable to seven-eighths of one cent of the tax on each gallon of gasoline and diesel fuel sold in the State have been earmarked to the Emergency Highway Reconditioning and Preservation and Emergency Highway Construction and Reconstruction Funds. Appropriations of \$32 million from each of these funds are recommended for the 1999-2000 fiscal year.

CENTRALIZED SERVICES FUND

The State has issued Certificates of Participation (COPs) 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 trustees of COPs issuances. Such obligations' maturities are predominantly short-term in nature, reflecting the useful life of the equipment to be financed. An appropriation of \$210 million is recommended to pay debt service on outstanding and planned COPs, which includes equipment planned to be purchased to implement new Welfare Reform computer systems.

LOCAL GOVERNMENT ASSISTANCE TAX FUND

In an effort to eliminate the State's annual spring cash flow borrowing, legislation enacted in 1990 authorized LGAC to issue bonds to finance payments to local governments previously funded by the State. LGAC has issued its entire \$4.7 billion net authorization. Revenues equal to one-quarter 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 LGAC obligations. The recommended appropriation of \$517 million represents anticipated debt service on all fixed-rate bonds, the maximum interest rate for outstanding variable rate bonds and planned interest rate swaps, and administrative costs. Moneys not needed for debt service are transferred back to the State's General Fund.

SCHOOL CAPITAL FACILITIES FINANCING RESERVE FUND

An appropriation of \$25 million is recommended from the School Capital Facilities Financing Reserve Fund, a fiduciary fund, to pay debt service on bonds issued by the

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Dormitory Authority on behalf of special act and certain other authorized types of local school districts. The districts have assigned State local assistance payments for building aid and other tuition revenues to the DA. The revenues are deposited into the Fund and used to make debt service payments to the DA.

DEDICATED HIGHWAY AND BRIDGE TRUST FUND

An appropriation of \$365 million is recommended for 1999-2000 debt service payments to the Thruway Authority for Dedicated Highway and Bridge Trust Fund bonds. The debt service for the highway program is supported by revenues of this Fund, as authorized by law. However, after debt service payments are made, they and a commensurate amount of Fund revenues are reclassified from the capital projects to the debt service fund group. Therefore, the debt service appropriation is recommended in the Debt Service Budget Bill.

**ALL FUNDS FISCAL REQUIREMENTS
DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS**

Fund	Available 1998-99	Recommended 1999-00	Change
General Fund			
State Purposes Account			
Redemption of General Obligation Bonds	\$225,000,000	\$225,000,000
Rebates to Federal Government	5,000,000	10,000,000	+ \$5,000,000
General Obligation Notes	<u>12,650,000</u>	<u>15,250,000</u>	+ 2,600,000
Sub-Total General Fund	\$242,650,000	\$250,250,000	+ \$7,600,000
Internal Service Funds			
Centralized Services Fund			
Financing Agreements	\$104,620,000	\$210,000,000	+ \$105,380,000
Sub-Total Internal Service Funds	\$104,620,000	\$210,000,000	+ \$105,380,000
Fiduciary Funds			
School Capital Facilities Financing Reserve Fund			
Trust and Agency Financing	\$12,000,000	\$25,000,000	+ \$13,000,000
Sub-Total Fiduciary Funds	\$12,000,000	\$25,000,000	+ \$13,000,000
Capital Project Funds			
Dedicated Highway and Bridge Trust Fund			
Financing Agreements	\$282,500,000	\$365,000,000	+ \$82,500,000
Sub-Total Capital Project Funds	\$282,500,000	\$365,000,000	+ \$82,500,000
Debt Service Funds			
Mental Health Services Fund			
Financing Agreements	\$305,570,000	\$345,000,000	+ \$39,430,000
General Debt Service Fund			
Financing Agreements	1,822,240,000	2,085,000,000	+ 262,760,000
General Obligation Bonds	750,850,000	741,500,000	-9,350,000
Housing Debt Fund			
General Obligation Bonds	34,500,000	36,000,000	+ 1,500,000
Health Income Fund			
Financing Agreements	18,000,000	36,250,000	+ 18,250,000
Financing Agreements	1,500,000	1,750,000	+ 250,000
Emergency Highway Reconditioning and Preservation Fund			
Financing Agreements	32,000,000	32,000,000
State University Dormitory Income Fund			
Financing Agreements	45,000,000	45,000,000
Emergency Highway Construction and Reconstruction Fund			
Financing Agreements	32,000,000	32,000,000
Local Government Assistance Tax Fund			
Financing Agreements	535,750,000	517,000,000	-18,750,000
Sub-Total Debt Service Funds	\$3,577,410,000	\$3,871,500,000	+ \$294,090,000
Total Fiscal Year	\$4,219,180,000	<u>\$4,721,750,000</u>	<u>+ \$502,570,000</u>
Adjustments:			
Transfers to:			
General Services, Office of			
General Fund (State Operations)	+ 3,000,000		
Correctional Services, Department of			
General Fund (State Operations)	<u>+ 2,900,000</u>		
Appropriated 1998-99	<u>\$4,225,080,000</u>		