Annual Information Statement Update

State of New York

May 25, 2001

Supplement to the Annual Information Statement of the State of New York

Dated May 25, 2001

This supplement to the Annual Information Statement of the State of New York (AIS) is dated May 25, 2001 and contains information only about the specific matters described herein and only through that date. This supplement, which should be read in conjunction with the AIS dated May 31, 2000 and the Third Quarterly Update to the AIS dated January 26, 2001, presents the following information:

? An update on the status of the proposed 2001-02 State Financial Plan;

? Unaudited cash-basis Financial Plan results for the 2000-01 fiscal year;

? A discussion of the State's most recent economic and revenue forecasts;

? A discussion of special considerations that may affect State finances;

? An update on certain issues affecting the Metropolitan Transportation Authority and the City of New York; and

? A summary of recent events concerning litigation against the State.

Readers may obtain informational copies of the AIS, updates, and supplements by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705, or the Office of the State Comptroller, Gov. A.E. Smith State Office Building, Albany, NY 12236, (518) 474-4015. This information is also available electronically on the Division of the Budget's Internet site at http://www.state.ny.us/dob and on file with Nationally Recognized Municipal Securities Information Repositories.

Recent Events

The Governor submitted his 30-day amendments to the Executive Budget for the 2001-02 fiscal year on February 13, 2001, at which time the Division of the Budget issued a revised Financial Plan that incorporated the proposed amendments. The revised Financial Plan projected total General Fund receipts, including transfers from other funds, of $42.66 billion in the 2001-02 fiscal year, an increase of $200 million over the Executive Budget forecast. Total disbursements, including transfers to other funds, remained unchanged at $41.34 billion. The revised Financial Plan also added $250 million in income tax receipts to the Debt Reduction Reserve Fund. The Governor proposed retaining the additional receipts for a reserve, consistent with his recommendations in the Executive Budget for the use of the 2000-01 cash surplus projected at that time. The outyear gap projections remained essentially unchanged from the

Executive Budget forecast, with potential imbalances of $2.48 billion in the 2002-03 fiscal year and $2.93 billion in the 2003-04 fiscal year.

The State has not yet enacted a budget for the 2001-02 fiscal year, which began on April 1, 2001, but did enact appropriations for State-supported, contingent contractual, and certain other debt- service-like obligations for the entire 2001-02 fiscal year on March 29, 2001. The State has also passed legislation that extends certain revenue-raising authority and makes interim appropriations for State personal service costs, various grants to local governments, and certain other items through June 17, 2001. In prior years, the State enacted similar interim appropriations to permit the State to continue operations until final action on the Executive Budget.

2000-01 State Financial Plan

The State ended its 2000-01 fiscal year on March 31, 2001 with a General Fund surplus of $2.73 billion as reported by DOB. After year-end adjustments described below, the closing balance in the General Fund was $1.10 billion. Of this balance, $627 million was held in the Tax Stabilization Reserve Fund (after a deposit of $80 million in fiscal year 2000-01), $150 million in the Contingency Reserve Fund, $292 million in the Community Projects Fund, and $29 million in the Universal Pre-Kindergarten Fund.

In addition to the General Fund closing balance of $1.10 billion, the State had $3.52 billion on deposit in the tax refund reserve account at the end of the 2000-01 fiscal year. The refund reserve account is used to adjust personal income tax collections across fiscal years to pay for tax refunds, as well as to accomplish other Financial Plan objectives (for a more complete discussion of the tax refund reserve account, see table 6 in the AIS). The Governor has proposed retaining $1.73 billion of the $3.52 billion balance for reserves, with $1.48 billion set aside for economic uncertainties and $250 million for deposit into the Debt Reduction Reserve Fund. The remaining balance of $1.79 billion is comprised of $1.22 billion that is available to accomplish Financial Plan objectives, $521 million from LGAC that may be used to pay tax refunds during fiscal year 2001-02 but must be on deposit at the close of the fiscal year, and $51 million in additional funds designated to pay refunds related to the Earned Income Tax Credit and the Dependent Care Tax Credit.

The 2000-01 General Fund closing balance also excludes $1.2 billion that was deposited in the School Tax Relief (STAR) Special Revenue Fund at the end of the 2000-01 fiscal year (to meet a portion of the STAR payments in fiscal year 2001-02) and $250 million on deposit in the Debt Reduction Reserve Fund (for debt reduction in fiscal year 2001-02).

General Fund receipts, including transfers from other funds, totaled $39.88 billion for the 2000-01 fiscal year, an increase of $2.49 billion (6.7 percent) over fiscal year 1999-2000 results. It should be noted that the receipts results for fiscal year 2000-01 reflect year-end refund reserve transactions that had the effect of reducing personal income tax receipts in the 2000-01 fiscal year and increasing them in the 2001-02 fiscal year, as discussed above. In comparison to the 2000-01 Financial Plan enacted in May 2000 (the "May Financial Plan"), receipts were $3 billion higher than projected, prior to the refund reserve transaction. The growth in receipts above the May 2000 estimate was largely due to stronger than anticipated growth in the personal income tax.

General Fund disbursements, including transfers to other funds, totaled $39.70 billion for the 2000-01 fiscal year, an increase of $2.53 billion (6.8 percent) from the 1999-2000 fiscal year. In comparison to the projections contained in the May Financial Plan, disbursements were $778 million higher than projected. The increase in projected disbursements is related primarily to the financing of labor agreements that were ratified by State employee unions and approved by the Legislature after adoption of the May Financial Plan. The May Financial Plan provided a reserve to fully finance the estimated costs of these agreements, but did not reflect higher projected disbursements since the contracts were not yet finalized. Accordingly, disbursements for State Operations and General State Charges exceeded the May Financial Plan by $497 million and $376 million, respectively, primarily as a result of these agreements. Lower spending for local assistance ($166 million) and transfers for debt service ($45 million), offset, in part, by higher transfers for capital projects ($51 million) and other transfers ($68 million) accounted for the balance of changes from May 2000.

Economics and Demographics

National Economy

National economic growth slowed significantly during the second half of 2000 and first quarter of 2001, as the longest economic expansion on record starts its eleventh year. Real U.S. Gross Domestic Product (GDP) grew by 1.3 percent during the first quarter of 2001, following growth of 1.0 percent in the last quarter of 2000. Real U.S. GDP is expected by DoB to grow by 2.2 percent for the year, following a 5.0 percent increase in 2000.

In an attempt to boost the economy, the Federal Reserve Board cut the federal funds target rate five times by a total of 250 basis points during the first five months of 2001. Lower interest rates are expected to stimulate growth in consumption, housing investment and business spending. The positive impact of the rate cuts is anticipated to occur in the second half of calendar year 2001.

Personal income is estimated to have grown 6.3 percent in 2000 and 6.1 percent during the first quarter of 2001. Growth in wages and salaries and interest income are the primary factors which contributed to strong personal income growth for 2000. Slower growth in wages and interest income is expected for 2001. Overall, personal income growth of 4.8 percent is expected in 2001. Non-agricultural employment grew 2.0 percent in 2000, but growth is expected to slow to 0.9 percent in 2001, in line with the anticipated economic slowdown. The unemployment rate averaged 4.0 percent during 2000, but is expected to average 4.5 percent in 2001, as employment and output growth weaken.

The most significant risks to the forecast set forth in this supplement relate to those factors which may cause the economy to slow down substantially more than projected. With increased layoff announcements, employment growth may be below expectations. This suggests lower income growth and, hence, lower consumption growth than projected. Another potential risk to the national economy lies in the uncertain future of the financial markets. Should the stock market continue to undergo significant declines, the resultant reduction in the value of household wealth could reduce consumption growth even further than anticipated. Alternatively, the Federal Reserve's accelerated pace of interest rate reductions could lead to an earlier and sharper-than-expected rebound in consumption and investment.

Table A-1
Economic Indicators for the United States

	1997	1998	1999	2000	2001(1
Gross Domestic Product					
(billions $)	8318.	8790.	9299.2	9963.	10386.
Percent Change	6.5	5.7	5.8	7.2	4.2
(billions 1996 chain	8159.	8515.	8875.7	9318.	9522.5
Percent Change	4.4	4.4	4.2	5.0	2.2
Personal Income					
(billions $)	6937.	7391.	7789.7	8281.	8676.5
Percent Change	6.0	6.5	5.4	6.3	4.8
Nonagricultural					
(millions)	122.7	125.8	128.8	131.4	132.6
Percent Change	2.6	2.6	2.3	2.0	0.9
Unemployment Rate	4.9	4.5	4.2	4.0	4.5
Consumer Price Index					
(1982-84=100)	160.6	163.1	166.7	172.3	176.9
Percent Change	2.3	1.6	2.2	3.4	2.7

Sources: US Department of Commerce, Bureau of Economic Analysis; US Department of Labor, Bureau of Labor Statistics. Table reflects adjustments by source agencies to figures for prior years.

(1) Growth rates based on the 2001-02 Executive Budget, as amended.

State Economy

The economic forecast for the State has been modified from that presented with the Executive Budget for 2001-02 to reflect more recent economic data, as well as the change in the national outlook. Continued growth is projected for 2001 in employment, wages, and personal income, although growth will moderate significantly from the rates achieved in 2000. New York personal income is estimated to have grown by 7.7 percent in 2000, fueled in part by a large increase in finance sector bonus payments and strong growth in total employment. State personal income is projected to grow 4.5 percent in 2001. The slowdown in growth is attributable to slower employment growth and expected weakness in the financial sector. Overall employment is expected to grow at a more modest rate than in 2000, reflecting the slowdown in the national economy, continued fiscal restraint, and restructuring in the manufacturing, health care, social service, and financial sectors.

Table A-2
Economic Indicators for New York State

	1997	1998	1999	2000	2001(1
Personal Income					
(billions $)	553.5	585.8	616.9	664.2 (2)	694.3
Percent Change	4.2	5.8	5.3	7.7	4.5
Nonagricultural					
(thousands)	8067.	8236.	8455.4	8632.	8735.9
Percent Change	1.6	2.1	2.7	2.1	1.2
Unemployment Rate (Percent)	6.4	5.6	5.2	4.6	5.0

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Sources: US Department of Commerce, Bureau of Economic Analysis; NYS Department of Labor. Table reflects adjustments by source agencies to figures for prior years and certain adjustments to published data by the State Division of the Budget.

(1) Growth rates based on the 2001-02 Executive Budget, as amended.

(2) As projected by the State Division of the Budget.

Special Considerations

The Division of the Budget believes that the economic assumptions and projections of receipts and disbursements accompanying the 2001-02 Executive Budget, as amended, are reasonable, and that the 2001-02 State Financial Plan is balanced as currently projected. However, there can be no assurance that the Legislature will enact the Executive Budget as currently proposed or that the State's actions will be sufficient to preserve budgetary balance or to align recurring receipts and disbursements in either 2001-02 or in future fiscal years. Both houses of the Legislature have adopted budget resolutions which provide an outline of their intended spending and revenue changes to the Executive Budget. The Division of the Budget's analysis of these resolutions indicates that, if enacted, they would increase the size of the State's future budget gaps.

The revised 2001-02 State Financial Plan projects budget gaps of $2.48 billion in 2002-03 and $2.93 billion in 2003-04. For a detailed description of the assumptions underlying the State's projected budget gaps, please see "Outyear Projections of Receipts and Disbursements" in the third quarterly update to the AIS and the Financial Plan Projections published with the 2001-02 Executive Budget with 30-Day Amendments, both of which are available at the DOB website that is listed on page one of this Supplement.

The New York State and Local Retirement Systems' (the "Systems") investment performance has reduced employers' regular pension contributions over the last few years. In April the Systems notified local governments that because of recent negative returns on the Systems' stock portfolio, it was possible that the billing rate for employer contributions could be as much as 1.5 percent of employer payroll above estimates provided earlier. The increase could be a smaller amount. The Governor's proposed budget for the 2001-02 fiscal year assumes that the State will make no regular employer contributions during that fiscal year. However, the State could be required to make contributions in the same range as municipalities. The actual rate of employer contributions will not be finalized until all the financial reporting for the fiscal year ended March 31, 2001 is completed in late June.

Many uncertainties exist in any forecast of the national and State economies. Given the recent volatility in financial markets, such uncertainties are more pronounced at this time. Two variables which stand out as being particularly vulnerable to financial market volatility, and which are closely associated with the recent strength of State personal income tax receipts, are capital gains realizations and finance sector bonus income. With many Wall Street profit making activities (such as initial public offerings and mergers and acquisitions) now significantly below 2000 levels, DOB is forecasting a significant decline in financial sector profits for 2001. Historically, financial sector bonus income has been closely tied to industrial profits. Moreover, DOB expects that the decline in equity values observed since early 2000, combined with the recent decline in the average holding period for equities, will produce a decline in capital gains realizations for this year. However, both bonus income and capital gains realizations have historically been subject to a large degree of variation and could easily fall below (or rise above) expectations. The Governor has proposed setting aside $1.48 billion from the 2000-01 fiscal year surplus to guard against economic uncertainties. In addition, the State has another $627 million available in the Tax Stabilization Reserve Fund.

An ongoing risk to the State Financial Plan arises from the potential impact of certain litigation and federal disallowances now pending against the State, which could produce adverse effects on the State's projections of receipts and disbursements. The Financial Plan contains projected reserves of $150 million in 2001-02 for such events, but assumes no significant federal disallowances or other federal actions that could affect State finances. For more information on certain litigation pending against the State, see the section entitled “Litigation” in this Supplement and in the AIS.

The Governor is required by law to propose a balanced budget each year and is to propose steps necessary to address any potential budget gaps in subsequent budgets. In recent years, the State has closed projected budget gaps which DOB estimated at $5.0 billion (1995-96), $3.9 billion (1996-97), $2.3 billion (1997-98), and less than $1.0 billion (1998-99 through 2000-01). According to DOB, the State ended each of these years with surpluses in the General Fund ($445 million in 1995-96, $1.42 billion in 1996-97, $2.04 billion in 1997-98, $1.85 billion in 1998-99, $1.51 billion in 1999-2000 and $2.73 billion in 2000-01.)

For more information on other risks to the State’s Financial Plan, see the sections entitled “Special Considerations” in the AIS and subsequent updates and supplements.

Authorities and Localities

MTA

The 2000-04 Capital Program approved by the Capital Program Review Board assumes the issuance of an estimated $8.9 billion in new money MTA bonds. The remainder of the plan is projected to be financed with assistance from the Federal Government, the State, the City of New York, and from various other revenues generated from actions taken by the MTA. Legislation enacted in 2000 authorized the MTA to undertake a major restructuring initiative, which will authorize the MTA to refund approximately $13.7 billion in bonds, consolidate its credit sources, and obviate the need for debt service reserves. The authorization for debt restructuring includes outstanding bonds secured by service contracts with the State.

The 2000-04 Capital Plan assumed $1.6 billion in State support using proceeds from State general obligation bonds under a proposed $3.8 billion Transportation Infrastructure Bond Act of 2000, which was defeated by the voters in the November 2000 general election. The MTA is currently reviewing options to offset the loss of the Bond Act funds.

There can be no assurance that all the necessary governmental actions for the current or future capital programs will be taken or that funding sources currently identified will not be decreased or eliminated. Moreover, should the MTA’s plans to issue additional debt to replace funding anticipated from the defeated Transportation Infrastructure Bond Act not materialize, the State and the City could come under pressure to provide additional funding to the MTA. Should funding levels ultimately fall below the levels assumed in the plan approved by the Capital Program Review Board, the MTA would have to revise its 2000-04 Capital Program accordingly. If the 2000-04 Capital Plan is delayed or reduced, ridership and fare revenue may decline, which could impair the MTA’s ability to meet its operating expenses without additional State assistance.

New York City

For its 1999-2000 fiscal year, which ended June 30, 2000, the City had an operating surplus of $3.2 billion, before discretionary and other transfers, and achieved balanced operating results, after discretionary and other transfers, in accordance with GAAP. The City is projecting a substantial surplus for its 2000-01 fiscal year and a balanced budget for 2001-02. However, it forecasts budget gaps in subsequent fiscal years. Although several sectors of the City’s economy have expanded over the last several years, especially tourism, media, business and professional services, City tax revenues remain heavily dependent on the continued profitability of the securities industries and the performance of the national economy. In addition, the cost of tax reductions enacted since City fiscal year 1994-95 totals over $2.6 billion in City fiscal year 2000-01, primarily affecting collections of the personal and business income taxes and the sales tax. These reductions are expected to be worth $3.0 billion by City fiscal year 2004-05. The City has proposed additional tax reductions that would increase the value of the tax reductions to $4.3 billion in City fiscal year 2004-05.

Litigation

Tax Law

In *Tennessee Gas Pipeline Co., Inc. v. Urbach*, plaintiff, a natural gas pipeline company, challenged the facial constitutionality of the Natural Gas Import Tax, Tax Law section 189 (as well as the related surcharges imposed by sections 189-a and 189-b) (the gas import tax) as violative of the Commerce Clause of the United States constitution.

This action was commenced in 1998. By decision and order dated April 28, 1999, the Supreme Court, Albany County, held that plaintiff had not demonstrated that the gas import tax was facially unconstitutional. By decision and order dated May 25, 2000, the Appellate Division, Third Department agreed, declaring that the gas import tax had not been shown to be facially unconstitutional.

By decision dated May 1, 2001, the Court of Appeals reversed the Appellate Division and declared that the gas import tax was facially unconstitutional. The Court of Appeals found that the gas import tax was not fairly apportioned for Commerce Clause purposes, because it created the possibility of multiple state taxation of interstate gas transactions and thus violated the "internal consistency test."

Line Item Veto

In an action commenced in June 1998 by the Speaker of the Assembly of the State of New York against the Governor of the State of New York (*Silver v. Pataki*, Supreme Court, New York County), the Speaker challenges the Governor's application of his constitutional line item veto authority to certain portions of budget bills adopted by the State Legislature contained in Chapters 56, 57 and 58 of the Laws of 1998. On July 10, 1998, the State filed a motion to dismiss this action. By order entered January 7, 1999, the Court denied the State's motion to dismiss. On January 27, 1999, the State appealed that order. By decision dated July 20, 2000, the Appellate Division reversed the January 7, 1999 order and dismissed the petition. Plaintiff has appealed the July 20, 2000 decision to the Court of Appeals. Oral argument before the Court of Appeals took place on May 3, 2001.

Real Property Claims

In 1998, the United States filed a complaint in intervention in *Oneida Indian Nation of New York*. In December 1998, both the United States and the tribal plaintiffs moved for leave to amend their complaints to assert claims for 250,000 acres, to add the State as a defendant, and to certify a class made up of all individuals who currently purport to hold title within said 250,000 acre area. On September 25, 2000, the District Court denied the motion to amend the complaint to the extent that it sought to certify a class of individual landowners and granted the motion to add the State as a defendant. The plaintiffs have amended their complaint in accordance with the court's decision. The State has amended its answer to respond to the amended complaint. By order dated February 24, 1999, the District Court appointed a federal settlement master. A conference scheduled by the District Court for May 26, 1999 to address the administration of this case has been adjourned indefinitely. A motion for intervention by the alleged successors to the Brothertown Indians is pending. On April 11, 2001, a scheduling conference was held. Pursuant to the federal magistrate's order of that date, on May 18, 2001, defendants filed a motion to dismiss for failure to join indispensable parties with potential competing claims to the tract claimed by plaintiffs. On that same date, plaintiffs moved to dismiss counter-claims asserted in the answers to the amended complaint, and complaint-and-intervention. The April 11, 2001 order also contemplates that on or before September 4, 2001, plaintiffs will file a motion for partial summary judgment on the issue of liability.

Other Indian land claims include *Cayuga Indian Nation of New York v. Cuomo, et al.*, and *Canadian St. Regis Band of Mohawk Indians, et al. v. State of New York, et al.*, both in the United States District Court for the Northern District of New York and *Seneca Nation of Indians, et al. v. State, et al.*,in the United States District Court for the Western District of New York. The Supreme Court's holding in *Oneida Indian Nation of New York* may impair or eliminate certain of the State's defenses to these actions, but may enhance others. In the *Cayuga Indian Nation of New York* case, by order dated March 29, 1999, the United States District Court for the Northern District of New York appointed a federal settlement master. In October 1999, the District Court granted the Federal Government's motion to have the State held jointly and severally liable for any damages owed to the plaintiffs. At the conclusion of the damages phase of the trial of this case, a jury verdict of $35 million in damages plus $1.9 million representing the fair rental value of the properties at issue was rendered against the defendants. From July 17, 2000 through August 18, 2000, a bench hearing was held to determine whether prejudgment interest is appropriate and, if so, the amount thereof. The briefing of the issues raised in the bench hearing has been completed. The motion is pending. In the *Canadian St. Regis Band of Mohawk Indians* case, the United States District Court for the Northern District of New York has directed the parties to rebrief outstanding motions to dismiss brought by the defendants. The State filed its brief on July 1, 1999. The motions were argued in September 1999. No decision has been rendered on these motions. In *Seneca Nation of Indians*, by order dated November 22, 1999, the District Court confirmed the July 12, 1999 magistrate's report, which recommended granting the State's motion to dismiss that portion of the action relating to the right of way where the New York State Thruway crosses the Cattaraugus Reservation in Erie and Chatauqua Counties and denying the State's motion to dismiss the Federal Government's damage claims. On October 17, 2000, the District Court advised the parties that it would resolve that portion of the case related to the plaintiff's claims of ownership of the islands of the Niagara River on summary judgment motions without a trial. Oral argument was completed on January 30, 2001.

Civil Rights Claims

Yonkers

In an action commenced in 1980 (*United States, et al. v. Yonkers Board of Education, et al.),* the United States District Court for the Southern District of New York found, in 1985, that

Yonkers and its public schools were intentionally segregated. In 1986, the District Court ordered Yonkers to develop and comply with a remedial educational improvement plan (EIP I). On January 19, 1989, the District Court granted motions by Yonkers and the NAACP to add the State Education Department, the Yonkers Board of Education, and the State Urban Development Corporation as defendants, based on allegations that they had participated in the perpetuation of the segregated school system. On August 30, 1993, the District Court found that vestiges of a dual school system continued to exist in Yonkers. On March 27, 1995, the District Court made factual findings regarding the role of the State and the other State defendants (the State) in connection with the creation and maintenance of the dual school system, but found no legal basis for imposing liability. On September 3, 1996, the United States Court of Appeals for the Second Circuit, based on the District Court's factual findings, held the State defendants liable under 42 USC §1983 and the Equal Educational Opportunity Act, 20 USC §§1701, *et seq*., for the unlawful dual school system, because the State, *inter alia*, had taken no action to force the school district to desegregate despite its actual or constructive knowledge of *de jure* segregation. By order dated October 8, 1997, the District Court held that vestiges of the prior segregated school system continued to exist and that, based on the State's conduct in creating and maintaining that system, the State is liable for eliminating segregation and its vestiges in Yonkers and must fund a remedy to accomplish that goal. Yonkers presented a proposed educational improvement plan (EIP II) to eradicate these vestiges of segregation. The October 8, 1997 order of the District Court ordered that EIP II be implemented and directed that, within 10 days of the entry of the order, the State make available to Yonkers $450,000 to support planning activities to prepare the EIP II budget for 1998-99 and the accompanying capital facilities plan. A final judgment to implement EIP II was entered on October 14, 1997. On November 7, 1997, the State appealed that judgment to the Second Circuit. Additionally, the Court adopted a requirement that the State pay to Yonkers approximately $9.85 million as its pro rata share of the funding of EIP I for the 1996-97 school year. The requirement for State funding of EIP I was reduced to an order on December 2, 1997 and reduced to a judgment on February 10, 1998. The State appealed that order to the Second Circuit on December 31, 1997 and amended the notice of appeal after entry of the judgment.

In a decision dated November 16, 1999, the Second Circuit affirmed the District Court's order requiring the State to pay one-half of the cost of EIP I for the 1996-97 school year. The Second Circuit also found no basis for the District Court's findings that vestiges of a dual system continued to exist in Yonkers, and therefore vacated the District Court's EIP II order. The Second Circuit, however, remanded to the District Court for the limited purpose of making further findings on the existing record as to whether any other vestiges of the dual system remain in the Yonkers public schools. On May 22, 2000, the United States Supreme Court denied the State's petition for certiorari, seeking leave to appeal the November 16, 1999 decision and the underlying September 3, 1996 decision.

On June 15, 1998, the District Court issued an opinion setting forth the formula for the allocation of the costs of EIP I and EIP II between the State and the City for the school years 1997-98 through 2005-06. That opinion was reduced to an order on July 27, 1998. The order directed the State to pay $37.5 million by August 1, 1998 for estimated EIP costs for the 1997-98 school year. The State made this payment, as directed. On August 24, 1998, the State appealed that order to the Second Circuit. The City of Yonkers and the Yonkers Board of Education cross-appealed to the Second Circuit from that order. By stipulation of the parties approved by the Second Circuit on November 19, 1998, the appeals from the July 27, 1998 order were withdrawn without prejudice to reinstatement upon determination of the State's appeal of the October 14, 1997 judgment discussed above. The appeals were reinstated after the November 16, 1999 Second Circuit decision was issued.

On April 15, 1999, the District Court issued two additional orders. The first order directed the State to pay to Yonkers an additional $11.3 million by May 1, 1999, as the State's remaining share of EIP costs for the 1997-98 school year. The second order directed the State to pay to Yonkers $69.1 million as its share of the estimated EIP costs for the 1998-99 school year. The State made both payments on April 30, 1999. The State appealed both of the April 15, 1999 orders.

On April 17, 2000, the District Court issued an additional order, directing the State to pay to Yonkers $44.3 million as its share of the estimated EIP costs for the 1999-2000 school year. On May 17, 2000, the State appealed that order to the Second Circuit. The appeals of all funding orders discussed in this and the two immediately preceding paragraphs have been consolidated with the May 17, 2000 appeal of the April 17, 2000 order. Argument of the appeals took place on March 21, 2001.

School Aid

In *Campaign for Fiscal Equity, Inc., et al. v. State, et al.* (Supreme Court, New York County), plaintiffs challenge the funding for New York City public schools. Plaintiffs seek a declaratory judgment that the State's public school financing system violates article 11, section 1 of the State Constitution and Title VI of the federal Civil Rights Act of 1964 and injunctive relief that would require the State to satisfy State Constitutional standards.

This action was commenced in 1993. In 1995, the Court of Appeals affirmed the dismissal of claims under the equal protection clauses of the federal and State constitutions and Title VI of the federal Civil Rights Act of 1964, and reversed dismissal of the claims under article 11, section 1 of the State Constitution and the implementing regulations of Title VI.

The trial of this action concluded July 27, 2000. By decision dated January 9, 2001, the trial court held that the education provided for New York City students violates plaintiffs' rights under the State Constitution and the State's method for funding education in the State violates plaintiffs' rights under regulations enacted by the U.S. Department of Education pursuant to Title VI of the Civil Rights Act of 1964. The court ordered that defendants put in place reforms of school financing and governance designed to redress these constitutional and regulatory violations, setting a deadline of September 15, 2001 to implement these reforms. The State has appealed. On April 5, 2001, the Appellate Division, Third Department, ordered that the appeal be perfected for its October 2001 term and that the statutory stay against enforcement of the judgment would remain in place provided the appeal was so perfected.

State Programs

Medicaid

Several cases, including *Port Jefferson Health Care Facility, et al. v. Wing* (Supreme Court, Suffolk County), challenge the constitutionality of Public Health Law §2807-d, which imposes a tax on the gross receipts hospitals and residential health care facilities receive from all patient care services. Plaintiffs allege that the tax assessments were not uniformly applied, in violation of federal regulations. In a decision dated June 30, 1997, the Court held that the 1.2 percent and 3.8 percent assessments on gross receipts imposed pursuant to Public Health Law §§ 2807-d(2)(b)(ii) and 2807-d(2)(b)(iii), respectively, are unconstitutional. An order entered August 27, 1997 enforced the terms of the decision. The State appealed that order. By decision and order dated August 31, 1998, the Appellate Division, Second Department, affirmed that order. On September 30, 1998, the State moved for re-argument or, in the alternative, for a certified question for the Court of Appeals to review. By order dated January 7, 1999, the motion was denied. A final order was entered in Supreme Court on January 26, 1999. On February 23, 1999, the State appealed that order to the Court of Appeals. In a decision entered December 16, 1999, the Court of Appeal reversed the decision below and upheld the constitutionality of the assessments. On May 15, 2000, plaintiffs filed a petition for certiorari with the United States Supreme Court seeking to appeal the December 16, 1999 decision. The State chose not to file any responding papers.

Social Security Disability Benefits

In *Muller v. State*, claimant, a former inpatient of a state-operated mental health facility, challenges the use of Social Security disability benefits paid to the facility's director as her representative payee to pay the cost of claimant's care and treatment at the facility as a violation of the provisions of the Mental Hygiene Law and the State and federal constitutions.

This action was commenced in 1991. In 1998, the Court of Claims granted claimant's motion for summary judgment against the State. On appeal, the Supreme Court, Appellate Division, Fourth Department, affirmed the decision of the court below. The State's motion for leave to appeal is now pending before the Court of Appeals.

TABLE A-3
GENERAL FUND RECEIPTS AND DISBURSEMENTS
STATE FISCAL YEAR 2000-01
(millions of dollars)

	January Estimate (1)	Change	30-Day Estimate (2)	Change	Unaudited Actuals
OPENING FUND BALANCE	$917	$0	$917	$0	$917
Personal Income Tax	$23,791	$60	$23,851	($285)	$23,566
User Taxes and Fees:					
Sales and Use Tax	6,296	(19)	6,277	(5)	6,272
Cigarette and Tobacco Tax	522	(1)	521	7	528
Motor Fuel Tax	19	0	19	(2)	17
Motor Vehicle Fees	338	0	338	(1)	337
Alcoholic Beverage Taxes and Fees	210	1	211	0	211
Container Tax	0	0	0	0	0
Auto Rental Tax	37	0	37	2	39
Subtotal	$7,422	($19)	$7,403	$1	$7,404
Business Taxes:					
Corporation Franchise Tax	2,412	(30)	2,382	(47)	2,335
Corporation and Utilities Taxes	845	0	845	(28)	817
Insurance Taxes	567	0	567	17	584
Bank Tax	551	(30)	521	(15)	506
Petroleum Business Tax	88	0	88	(2)	86
Subtotal	$4,463	($60)	$4,403	($75)	$4,328
Other Taxes:					
Estate and Gift Taxes	745	0	745	14	759
Real Property Gains Tax	4	0	4	2	6
Pari-mutuel Tax	31	0	31	(2)	29
Other Taxes	1	0	1	0	1
Subtotal	$781	$0	$781	$14	$795
Miscellaneous Receipts & Federal Grants	$1,500	$25	$1,525	$28	$1,553
Transfers from Other Funds:					
Sales Tax in Excess of LGAC Debt Service	1,759	(6)	1,753	5	1,758
All Other Transfers	406	0	406	73	479
Subtotal	$2,165	($6)	$2,159	$78	$2,237
TOTAL RECEIPTS	$40,122	$0	$40,122	($239)	$39,883
Grants to Local Governments	26,860	(12)	26,848	(181)	26,667
State Operations	7,620	12	7,632	(28)	7,604
General State Charges	2,582	0	2,582	(15)	2,567
Debt Service	1	0	1	0	1
Transfers to Other Funds:					
In Support of Debt Service	2,218	0	2,218	(3)	2,215
In Support of Capital Projects	235	0	235	50	285
All Other Transfers	379	0	379	(16)	363
Subtotal	$2,832	$0	$2,832	$31	$2,863
TOTAL DISBURSEMENTS	$39,895	$0	$39,895	($193)	$39,702
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	$227	$0	$227	($46)	$181
CLOSING FUND BALANCE	$1,144	$0	$1,144	($46)	$1,098

Source: State Division of the Budget.

(1) As estimated on January 16, 2001.
(2) As estimated on February 13, 2001.

TABLE A-4
GENERAL FUND RECEIPTS AND DISBURSEMENTS
STATE FISCAL YEAR 2001-02
(millions of dollars)

	January Estimate	Change	30-Day Estimate
OPENING FUND BALANCE	$1,144	$0	$1,144
Personal Income Tax	$26,481	$255	$26,736
User Taxes and Fees:			
Sales and Use Tax	6,537	(19)	6,518
Cigarette and Tobacco Tax	463	0	463
Motor Fuel Tax	0	0	0
Motor Vehicle Fees	195	0	195
Alcoholic Beverage Taxes and Fees	209	0	209
Auto Rental Tax	38	0	38
Subtotal	$7,442	($19)	$7,423
Business Taxes:			
Corporation Franchise Tax	2,251	(30)	2,221
Corporation and Utilities Taxes	875	0	875
Insurance Taxes	540	0	540
Bank Tax	505	0	505
Petroleum Business Tax	0	0	0
Subtotal	$4,171	($30)	$4,141
Other Taxes:			
Estate and Gift Taxes	736	0	736
Real Property Gains Tax	3	0	3
Pari-mutuel Tax	31	0	31
Other Taxes	1	0	1
Subtotal	$771	$0	$771
Miscellaneous Receipts & Federal Grants	$1,429	$0	$1,429
Transfers from Other Funds:			
Sales Tax in Excess of LGAC Debt Service	1,867	(6)	1,861
All Other Transfers	296	0	296
Subtotal	$2,163	($6)	$2,157
TOTAL RECEIPTS	$42,457	$200	$42,657
Grants to Local Governments	27,774	16	27,790
State Operations	7,894	3	7,897
General State Charges	2,589	0	2,589
Debt Service	0	0	0
Transfers to Other Funds:			
In Support of Debt Service	2,288	(20)	2,268
In Support of Capital Projects	340	1	341
All Other Transfers	458	0	458
Subtotal	$3,086	($19)	$3,067
TOTAL DISBURSEMENTS	$41,343	$0	$41,343
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	$1,114	$200	$1,314
CLOSING FUND BALANCE	$2,258	$200	$2,458

Source: State Division of the Budget.

TABLE A-5
COMPARISON OF ACTUAL GENERAL FUND RECEIPTS AND DISBURSEMENTS
(millions of dollars)

	1998-99	1999-2000	2000-01 Unaudited
OPENING FUND BALANCE (1)	$638	$942	$917
Personal Income Tax	$20,080	$20,339	$23,566
User Taxes and Fees:			
Sales and Use Tax	5,697	6,141	6,272
Cigarette and Tobacco Tax	667	643	528
Motor Fuel Tax	171	180	17
Motor Vehicle Fees	444	401	337
Alcoholic Beverage Taxes and Fees	212	200	211
Container Tax	19	0	0
Auto Rental Tax	34	39	39
Subtotal	$7,244	$7,604	$7,404
Business Taxes:			
Corporation Franchise Tax	2,050	1,939	2,335
Corporation and Utilities Taxes	1,489	1,418	817
Insurance Taxes	672	589	584
Bank Tax	544	525	506
Petroleum Business Tax	102	89	86
Subtotal	$4,857	$4,560	$4,328
Other Taxes:			
Estate and Gift Taxes	1,071	1,055	759
Real Property Gains Tax	29	15	6
Pari-mutuel Tax	37	36	29
Other Taxes	1	1	1
Subtotal	$1,138	$1,107	$795
Miscellaneous Receipts & Federal Grants	$1,587	$1,648	$1,553
Transfers from Other Funds:			
Sales Tax in Excess of LGAC Debt Service	1,555	1,719	1,758
All Other Transfers	362	418	479
Subtotal	$1,917	$2,137	$2,237
TOTAL RECEIPTS	$36,823	$37,395	$39,883
Grants to Local Governments	24,776	25,590	26,667
State Operations	6,671	6,600	7,604
General State Charges	2,259	2,087	2,567
Debt Service	9	6	1
Transfers to Other Funds:			
In Support of Debt Service	2,089	2,242	2,215
In Support of Capital Projects	246	211	285
All Other Transfers	519	434	363
Subtotal	$2,854	$2,887	$2,863
TOTAL DISBURSEMENTS	$36,569	$37,170	$39,702
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	$254	$225	$181
CLOSING FUND BALANCE	$892	$1,167	$1,098

Source: State Division of the Budget.

(1) 1999-2000 opening fund balance reflects reclassification of DRRF from the Debt Service Fund type to the General F
2000-01 opening fund balance reflects reclassification of DRRF from General Fund to Capital Projects Fund.

TABLE A-6
CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
UNAUDITED ACTUALS
2000-2001
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance (1)	$917	$762	($19)	$448	$2,108
Receipts					
Taxes	36,093	4,532	1,237	2,746	44,608
Miscellaneous receipts	1,549	6,649	1,674	860	10,732
Federal grants	4	24,270	1,509	0	25,783
Total receipts	$37,646	$35,451	$4,420	$3,606	$81,123
Disbursements					
Grants to local governments	26,667	27,734	707	0	55,108
State operations	7,604	6,316	0	13	13,933
General State charges	2,568	301	0	0	2,869
Debt service	1	0	0	4,082	4,083
Capital projects	0	9	3,751	0	3,760
Total disbursements	$36,840	$34,360	$4,458	$4,095	$79,753
Other financing sources (uses)					
Transfers from other funds	2,237	2,396	376	4,751	9,760
Transfers to other funds	(2,862)	(2,050)	(627)	(4,288)	(9,827)
Bond and note proceeds	0	0	219	0	219
Net other financing sources (uses)	($625)	$346	($32)	$463	$152
Change in fund balance	$181	$1,437	($70)	($26)	$1,522
Closing fund balance	$1,098	$2,199	($89)	$422	$3,630

(1) The opening fund balances of the General Fund and the Debt Service Funds are changed by $250 million to reflect the reclassification of the Debt Reduction Reserve Fund from the General Fund to the Debt Service Funds

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Source: Office of the State Comptroller.

TABLE A-7
RECOMMENDED CASH BASIS FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
AS UPDATED FOR EXECUTIVE BUDGET AMENDMENTS
2001-2002
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	$1,144	$1,799	($55)	$428	$3,316
Receipts					
Taxes	39,071	2,903	1,547	2,723	46,244
Miscellaneous receipts	1,429	6,915	1,838	614	10,796
Federal grants	0	24,883	1,451	0	26,334
Total receipts	$40,500	$34,701	$4,836	$3,337	$83,374
Disbursements					
Grants to local governments	27,790	29,342	992	0	58,124
State operations	7,897	6,717	0	7	14,621
General State charges	2,589	463	0	0	3,052
Debt service	0	0	0	3,904	3,904
Capital projects	0	5	3,974	0	3,979
Total disbursements	$38,276	$36,527	$4,966	$3,911	$83,680
Other financing sources (uses)					
Transfers from other funds	2,157	2,507	624	4,993	10,281
Transfers to other funds	(3,067)	(2,071)	(791)	(4,187)	(10,116)
Bond and note proceeds	0	0	237	0	237
Use of Debt Reduction Reserve Fund	0	0	0	(500)	(500)
Net other financing sources (uses)	($910)	$436	$70	$306	($98)
Change in fund balance	$1,314	($1,390)	($60)	($268)	($404)
Closing fund balance	$2,458	$409	($115)	$160	$2,912

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Source: State Division of the Budget.