Annual Information Statement

State of New York

May 31, 2000

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Dated: May 31, 2000

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Introduction

This Annual Information Statement (AIS) is dated May 31, 2000 and contains information only through that date. This AIS constitutes the official disclosure information regarding the financial condition of the State. This AIS includes a discussion of the State's current fiscal year and results for the three prior fiscal years, as well as information on the State's economy, debt and other financing activities, governmental organization, public authorities and localities, and litigation.

The State will periodically update the AIS and plans to issue updates in August and November, 2000 and January, 2001. The State intends to announce publicly when an update or a supplement is issued. The State may choose to incorporate by reference all or a portion of this AIS in future Official Statements or related disclosure documents for State or State-supported debt issuance. 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 (DOB) Internet site at www.state.ny.us/dob and has been filed with Nationally Recognized Municipal Securities Information Repositories. The information on the DOB Internet site has been prepared by DOB for the convenience of persons seeking certain information therein. Typographical or other errors may have occurred in converting the original source documents to their digital format, and DOB assumes no liability or responsibility for errors or omissions contained at the Internet site. Further, DOB disclaims any duty or obligation to either maintain availability of or to update the information contained at the Internet site or any responsibility or liability for any damages caused by viruses contained within the electronic files at the Internet site.

The information relating to the State of New York in this AIS has been furnished by DOB and the Office of the State Comptroller (OSC), with additional information obtained from sources that the State believes to be reliable. Information relating to matters described in the section entitled "Litigation" is furnished by the Office of the State Attorney General. This AIS, including the Exhibits attached hereto, should be read in its entirety, together with any update or supplement.

During the fiscal year, the Governor, the State Comptroller, State legislators, and others may issue statements or reports that contain predictions, projections or other information relating to the State's financial condition, including potential operating results for the current fiscal year and projected baseline gaps for future fiscal years, that may vary materially from the information provided in this AIS. Investors, bondholders and other market participants should, however, refer to this AIS, as revised, updated, or supplemented, for official information regarding the financial condition of the State.

Current Fiscal Year

Overview

The State's current fiscal year began on April 1, 2000 and ends on March 31, 2001. On March 30, 2000, the State adopted the debt service portion of the State budget for the 2000-01 fiscal year; the remainder of the budget was enacted by the State Legislature on May 5, 2000, 35 days after the statutory deadline of April 1. The Governor approved the budget as passed by the Legislature. Prior to passing the budget in its entirety for the current fiscal year, the State enacted interim appropriations that permitted the State to continue its operations.

Following enactment of the budget, the State prepared a Financial Plan for the 2000-01 fiscal year (the "2000-01 Financial Plan") that sets forth projected receipts and disbursements based on the actions taken by the Legislature. This section provides a summary of the Financial Plan which was released on May 10, 2000. The State expects to update the Financial Plan quarterly. The Office of the State Comptroller is conducting a review of the 2000-01 Enacted Budget and is expected to issue a report in early June, 2000. The report, when available, can be obtained from the Office of the State Comptroller, Governor Alfred E. Smith State Office Building, Albany, N.Y. 12236, (518) 474-4015, or electronically at www.osc.state.ny.us.

In 2000-01, General Fund disbursements, including transfers to support capital projects, debt service and other funds, are estimated at $38.92 billion, an increase of $1.75 billion or 4.72 percent over 1999-2000. Projected spending under the 2000-01 enacted budget is $992 million above the Governor's Executive Budget recommendations, including 30-day amendments submitted January 31, 2000.

The 2000-01 Financial Plan projects closing balances in the General Fund and other reserves of $3.2 billion, including $1.71 billion in the General Fund. This closing balance is comprised of $675 million in reserves for potential labor costs resulting from new collective bargaining agreements and other spending commitments, $547 million in the Tax Stabilization Reserve Fund (for use in case of unanticipated deficits), $150 million in the Contingency Reserve Fund (which helps offset litigation risks), and $338 million in the Community Projects Fund (which finances legislative initiatives). In addition to the $1.71 billion balance in the General Fund, $1.2 billion is projected for reserve in the STAR Special Revenue Fund and $250 million in the Debt Reduction Reserve Fund (DRRF).

Several developments arising from negotiations on the budget will affect State finances in subsequent years. First, a portion of Legislative additions to the 2000-01 Executive Budget will recur at higher spending levels in 2001-02 and beyond, including increased funding for school aid, tuition assistance, and prescription drug coverage for the elderly. Second, the Legislature enacted the Debt Reform Act of 2000 (Debt Reform Act). The Debt Reform Act, which applies to new State-supported debt issued on or after April 1, 2000, imposes caps on new debt outstanding and new debt service costs, restricts the use of debt to capital purposes only, and restricts the maximum term of State debt issuances to no more than 30 years. Finally, the State adopted an additional tax relief package that will reduce tax receipts by $1.2 billion when fully effective; this package includes the elimination or reduction of gross receipts taxes on energy ($330 million), the expansion of the "Power for Jobs" energy tax credit program ($125 million), a college tuition deduction or credit taken against personal income taxes ($200 million), and reduction of the marriage penalty for taxpayers who file jointly ($200 million).

The following table summarizes projected spending for the General Fund, State Funds, and All Governmental Funds in the 2000-01 Financial Plan. (Readers unfamiliar with the distinctions among the General Fund, State Funds and All Governmental Funds should refer to the definitions in Exhibit A).

Table 1
Cash Disbursement Comparison
State Fiscal Year Basis
(Millions of Dollars)

	Actual 1999-2000	Projected 2000-2001	$ Change	Percent Change From 1999-2000	Average Annual Percent Change 1995-96 thru 2000-2001
General Fund	$37,170	$38,924	$1,754	4.7%	2.6%
State Funds	49,850	53,288	3,438	6.9%	3.9%
All Governmental Funds	73,359	77,529	4,170	5.7%	3.8%

Source: State Division of the Budget.

Many complex political, social and economic forces influence the State's economy and finances, which may in turn affect the State Financial Plan. These forces may affect the State unpredictably from fiscal year to fiscal year and are influenced by governments, institutions, and organizations that are not subject to the State's control. The 2000-01 Financial Plan is also necessarily based upon forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies. The Division of Budget believes that its projections of receipts and disbursements relating to the 2000-01 Financial Plan, and the assumptions on which they are based, are reasonable. Actual results, however, could differ materially and adversely from the projections set forth in this AIS, and those projections may be changed materially and adversely from time to time. See the section entitled "Special Considerations" below for a discussion of risks and uncertainties faced by the State.

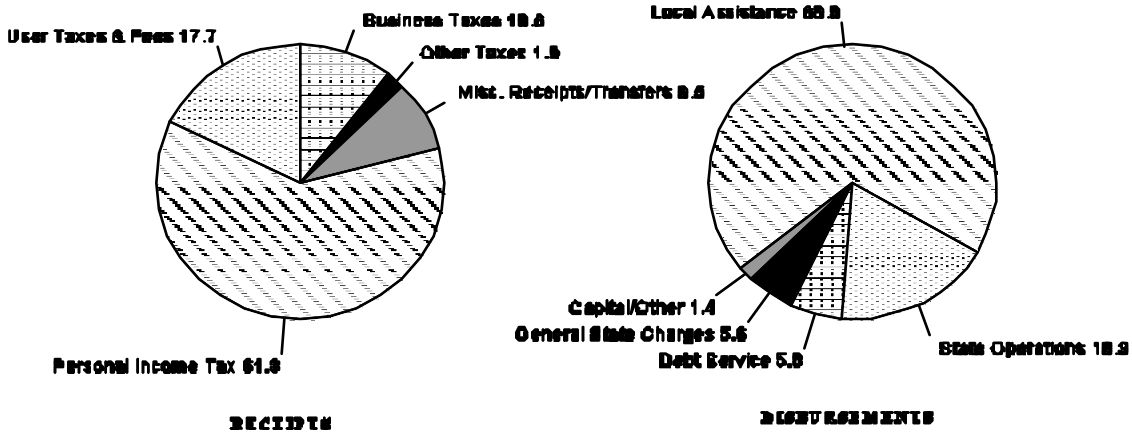
2000-01 State Financial Plan

Four governmental fund types comprise the State Financial Plan: the General Fund, the Special Revenue Funds, the Capital Projects Funds, and the Debt Service Funds. The State's fund structure adheres to the accounting standards of the Governmental Accounting Standards Board. This section discusses significant activities in the General Fund and the other governmental funds anticipated in 2000-01.

General Fund

The General Fund is the principal operating fund of the State and is used to account for all financial transactions except those required to be accounted for in another fund. It is the State's largest fund and receives almost all State taxes and other resources not dedicated to particular purposes. In the State's 2000-01 fiscal year, the General Fund (exclusive of transfers) is expected to account for approximately 46.6 percent of All Governmental Funds disbursements and 67.8 percent of total State Funds disbursements. General Fund moneys are also transferred to other funds, primarily to support certain capital projects and debt service payments in other fund types. Table 2 below depicts the components of projected receipts and disbursements in the General Fund.

Table 2
Projected Shares of General Fund Receipts and Disbursements
State Fiscal Year 2000-01



Total General Fund receipts and transfers from other funds are projected to be $39.72 billion in 2000-01, an increase of $2.32 billion over 1999-2000. Total General Fund disbursements and transfers to other funds are projected to be $38.92 billion, an increase of $1.75 billion over 1999-2000. Table 4 at the end of this section compares the General Fund as projected in the 2000-01 Financial Plan to actual General Fund results for 1999-2000.

Projected General Fund Receipts

Total General Fund receipts and transfers from other funds in 2000-01 are projected to be $39.72 billion, an increase of $2.32 billion from the $37.40 billion recorded in 1999-2000. This total includes $36.35 billion in tax receipts, $1.34 billion in miscellaneous receipts, and $2.03 billion in transfers from other funds. The transfer of $3.4 billion in net resources through the tax refund reserve account from 1999-2000 to the 2000-01 fiscal period has the effect of exaggerating the growth in State receipts from year to year by depressing reported 1999-2000 figures and inflating 2000-01 projections. Table 6 at the end of this section outlines the movement of resources across fiscal years.

PERSONAL INCOME TAX ($ millions)			
1997-98	**1998-99**	**1999-2000**	**2000-01 (PROJ.)**
$17,759	$20,080	$20,339	$24,334

The *Personal Income Tax* is imposed on the income of individuals, estates and trusts and is based, with certain modifications, on federal definitions of income and deductions. Net General Fund personal income tax collections are projected to reach $24.33 billion in 2000-01, well over half of all General Fund receipts and nearly $4 billion above the reported 1999-2000 collection total. Much of this increase is associated with the $3.4 billion net impact of the transfer of the surplus from 1999-2000 to the current year as partially offset by the diversion of an additional $1.99 billion in income tax receipts to the STAR Fund. The STAR program was created in 1998 as a State-funded local property tax relief program funded through the use of personal income tax receipts. Adjusted for these transactions, the growth in net income tax receipts is roughly $1.3 billion, an increase of nearly 5 percent. This growth is largely a function of two factors: (i) the 9 percent growth in income tax liability projected for tax year 2000; and (ii) the impact of the 1999 tax year settlement recorded early in this fiscal year.

The most significant statutory changes made this fiscal year provide for: an increase, phased in over two years, in the earned income tax credit from 25 percent to 30 percent of the federal credit; a three-year phased-in reduction of the marriage penalty; a four-year phased-in deduction or credit for college tuition; and enhancement of the child and dependent care credit effective January 1, 2000.

USER TAXES AND FEES ($ millions)			
1997-98	**1998-99**	**1999-2000**	**2000-01 (PROJ.)**
$7,036	$7,244	$7,604	$7,021

User taxes and fees are comprised of three-quarters of the State's four percent sales and use tax, cigarette, tobacco products, alcoholic beverage, and auto rental taxes, and a portion of the motor fuel excise levies. This category also includes receipts from the motor vehicle fees and alcoholic beverage license fees. Dedicated transportation funds outside of the General Fund receive a portion of the motor fuel tax and motor vehicle registration fees and all of the highway use taxes and fees. Receipts from user taxes and fees are projected to total $7.02 billion, a decrease of $583 million below reported collections in 1999-2000.

The sales tax and cigarette tax components of this category account for virtually all of the 2000-01 decline. Growth in base sales tax yield, after adjusting for tax law changes and other factors, is projected at 4.5 percent. The projected decrease in sales tax cash receipts of 3.4 percent reflects, in large part, the impact of the permanent exemption for clothing and footwear items costing under $110. Cigarette tax and tobacco products tax receipts are projected to decline by $146 million primarily due to reduced taxable consumption associated with the increase in the cigarette tax of 55 cents per pack imposed on March 1, 2000. The decline in the motor fuel taxes and motor vehicle fees in the General Fund largely reflect the increased dedication of these revenue sources to the Dedicated Highway and Bridge Trust Fund and the Dedicated Mass Transportation Trust Fund. Alcoholic beverage taxes are expected to decline modestly, consistent with historical trends. Alcoholic beverage license fees are projected to increase significantly as 2000-01 is the final year in the transition to the new license renewal schedule. A modest increase in auto rental tax receipts over 1999-2000 levels is projected.

BUSINESS TAXES ($ millions)			
1997-98	**1998-99**	**1999-2000**	**2000-01 (PROJ.)**
$5,047	$4,857	$4,560	$4,228

Business taxes include franchise taxes based generally on net income of general business, bank and insurance corporations, as well as gross receipts-based taxes on utilities and gallonage-based petroleum business taxes.

Total business tax collections in 2000-01 are now projected to be $4.23 billion, $332 million below results for the prior fiscal year. The category includes receipts from: (1) franchise tax levies imposed on general business corporations, banks, and insurance companies; (2) gross receipts taxes on energy and telecommunication service providers; and (3) a tax imposed at various rates on petroleum businesses.

The year-over-year decline in projected receipts in business tax collections is largely attributable to statutory changes. These include the first year impact of a scheduled bank and insurance franchise tax rate reduction, a reduction in the cap on tax liability for non-life insurers, and the expansion of the economic development zone (renamed Empire Zones, effective May 19, 2000) and zone equivalent areas tax credits. Ongoing tax reductions include the second year of the corporation franchise rate reduction, the gross receipts tax rate cut from 3.25 percent to 2.5 percent, the continuation of the "Power for Jobs" program, and the use of tax credits for investments in certified capital companies.

Legislation enacted this fiscal year affecting receipts in this category include: a phased reduction in the gross receipts tax, an expansion of the "Power for Jobs" program, expansion of the tax credit for investments in certified capital companies, establishment of the Empire Zones program, reforms to allocation rules for financial service companies, tax rate reductions for small businesses and S-corporations, a new tax credit for investments in "green buildings," and a new tax credit for investment in low- and moderate-income housing.

OTHER TAXES **($ millions)**			
1997-98	**1998-99**	**1999-2000**	**2000-01 (PROJ.)**
$1,094	$1,138	$1,107	$766

Other taxes include the estate and gift tax, the real property gains tax and pari-mutuel taxes. Other tax receipts are now projected to total $766 million, $341 million below 1999-2000 levels. The primary factors accounting for this decline are legislation enacted previously that repealed both the real property gains tax and the gift tax and significantly reduced estate tax rates, and the incremental effects of tax reductions in the pari-mutual tax.

MISCELLANEOUS RECEIPTS **($ millions)**			
1997-98	**1998-99**	**1999-2000**	**2000-01 (PROJ.)**
$1,718	$1,587	$1,648	$1,339

Miscellaneous receipts include investment income, abandoned property receipts, medical provider assessments, minor federal grants, receipts from public authorities, and certain other license and fee revenues. Total miscellaneous receipts are expected to reach $1.34 billion, down $309 million from the prior year amount. This reflects the absence in 2000-01 of non-recurring receipts received in 1999-2000 and the phase-out of the medical provider assessments, completed in January 2000. The State Comptroller has restated medical provider assessments in the General Fund, which has the effect of increasing reported miscellaneous receipts and spending in grants to local governments by $120 million in 1997-98 and $82 million in 1998-99.

TRANSFERS FROM OTHER FUNDS ($ millions)			
1997-98	**1998-99**	**1999-2000**	**2000-01 (PROJ.)**
$2,018	$1,917	$2,137	$2,029

Transfers from other funds to the General Fund consist primarily of tax revenues in excess of debt service requirements, including the one percent sales tax used to support payments to Local Government Assistance Corporation (LGAC).

Transfers from other funds are expected to total $2.03 billion, or $108 million less than total receipts from this category during 1999-2000. Total transfers of sales taxes in excess of LGAC debt service requirements are expected to decrease by $74 million consistent with the sales tax projections described above, while transfers from all other funds are expected to decrease by $34 million.

Projected General Fund Disbursements

General Fund disbursements, including transfers to support capital projects, debt service and other funds, are currently estimated at $38.92 billion in 2000-01, an increase of $1.75 billion or 4.7 percent over 1999-2000.

Following the pattern of the last three fiscal years, education programs receive the largest share of increased funding in the 2000-01 Financial Plan. School aid is projected to grow by $850 million or 8.0 percent over 1999-2000 (on a State fiscal year basis). Spending on other local education and higher education programs will also increase significantly from the prior year, growing by $376 million or 13.3 percent. Outside of education, the largest growth in spending is for State operations ($507 million) and general State charges ($104 million), as described in more detail below.

Projected spending in the 2000-01 Financial Plan is $992 million above the Executive Budget projections. The increase in General Fund spending is comprised of legislative additions to the Executive Budget (primarily in education), offset by various spending reestimates, including lower projected spending for Medicaid, welfare, debt service and general State charges.

The Financial Plan also reflects the use of resources from the Health Care Reform Act of 2000 (HCRA 2000) that will help finance several health and mental hygiene programs in Special Revenue Funds, including prescription drug assistance for the elderly, supplemental Medicare insurance, and other public health services. See "Tobacco Settlement Proceeds and Uses" later in this section for a discussion of HCRA 2000 and the tobacco settlement.

GRANTS TO LOCAL GOVERNMENTS ($ millions)			
1997-98	**1998-99**	**1999-2000**	**2000-01 (PROJ.)**
$23,388	$24,776	$25,636	$26,833

Grants to Local Governments is the largest category of General Fund disbursements and includes financial aid to local governments and not-for-profit organizations, as well as entitlement payments for individuals. The largest areas of spending in this category are for aid to public schools (43 percent) and for the State's share of Medicaid payments to medical providers (21 percent). Grants to Local Governments are projected at $26.83 billion in 2000-01, an increase of $1.20 billion or 4.7 percent over 1999-2000.

General Fund spending on school aid is projected at $11.47 billion in 2000-01 (on a State fiscal year basis), an increase of $850 million from the prior year. School aid will grow by $1.2 billion (8.7 percent) on a school year basis, and funds operating aid, building aid, transportation, and other aid programs. For all other education and higher education programs, disbursements are projected to grow by $376 million to $3.23 billion. This growth includes funding to support an increase in the maximum award level for the Tuition Assistance Program (TAP) to $5,000, as well as the expansion of the income ceiling for TAP eligibility to $80,000.

Spending for Medicaid in 2000-01 is projected to total $5.59 billion. This reflects underlying spending growth in this program of 4 percent, and efforts to maximize federal moneys. In addition, resources from HCRA 2000 and the tobacco settlement revenues are utilized to support overall health care spending. The State Comptroller has restated medical provider assessments in the General Fund, which has the effect of increasing reported miscellaneous receipts and spending in grants to local governments by $120 million in 1997-98 and $82 million in 1998-99.

Welfare spending is projected at $1.20 billion, a decrease of $77 million from the prior year. This decrease results from a projected caseload decline of approximately 65,000 recipients (or 7.4 percent) to an average annual total of approximately 814,000 recipients in 2000-01. Welfare spending also reflects increased availability of federal Temporary Assistance for Needy Families (TANF) Block Grant funds.

Disbursements for all other health and social welfare programs are projected to total $1.93 billion, an increase of $262 million from the prior fiscal year. This includes an expansion of the EPIC prescription drug program that increases income eligibility to $35,000 for single seniors and $50,000 for married couples, and a reduction in certain fees.

Unrestricted aid programs to local governments are projected at $923 million, an increase of $98 million from the prior year. This additional funding includes a 5 percent across-the-board revenue sharing increase for all cities, towns, and villages outside of New York City, and $87 million in additional aid to counties and selected cities, towns, villages, and school districts.

STATE OPERATIONS ($ millions)			
1997-98	**1998-99**	**1999-2000**	**2000-01 (PROJ.)**
$6,193	$6,671	$6,600	$7,107

State operations pays for the costs of operating the Executive, Legislative, and Judicial branches of government. Spending in this category is projected at $7.11 billion, an increase of $507 million or 7.7 percent over the prior year. The growth in State operations is attributable in part to a reduction in one-time receipts from the State University that had offset General Fund spending in 1999-2000 ($38 million), and a decrease in federal grant awards from the Department of Correctional Services ($56 million), a portion of which is timing-related.

Other sources of growth in State operations include the costs of salary related increases and inflation ($100 million), the labor contract between the United University Professionals (UUP) and the State University ($30 million), the development of computerized systems in various State agencies ($80 million), increases in the Judiciary budget ($52 million), and higher costs in the Department of Correctional Services in 2000-01, including the full cost of staffing two new State prisons ($32 million). The 2000-01 spending estimate does not yet include costs of new labor contracts that have not been approved by the Legislature. These costs will be funded through collective bargaining reserves of $675 million, which are carried separately in the 2000-01 Financial Plan. These reserves, when paid, will be reflected in various financial plan spending categories and will cover costs for both the 1999-2000 and 2000-01 fiscal year.

The State has reached agreement with most of its major unions on a new four-year labor contract. The 2000-01 Financial Plan has reserved sufficient moneys for the added costs incurred under collective bargaining agreements, and reserves are contained in the preliminary outyear projection for 2001-02 to cover the projected recurring costs of new agreements.

The State's overall workforce is projected to be approximately 195,000 employees at the end of 2000-01, up about 2,700 from the end of 1999-2000. For more information on the State's workforce, see the section entitled "State Organization — State Government Employment" in this AIS.

GENERAL STATE CHARGES ($ millions)			
1997-98	**1998-99**	**1999-2000**	**2000-01 (PROJ.)**
$2,265	$2,259	$2,087	$2,191

General State charges (GSCs) account for the costs of providing fringe benefits to State employees and retirees of the Executive, Legislature, and Judiciary. These payments, many of which are mandated by statute and collective bargaining agreements, include employer contributions for pensions, social security, health insurance, workers' compensation, and unemployment insurance. GSCs also cover State payments-in-lieu-of-taxes to local governments for certain State-owned lands, and the costs of defending lawsuits against the State and its public officers.

Disbursements for GSCs are estimated at $2.19 billion, an increase of $104 million from the prior year. The change mainly reflects higher health insurance rates in calendar year 2000, primarily to cover the increasing cost of providing prescription drug benefits for State employees. The 2000-01 spending estimate continues to assume the $250 million in offset funds related to the dissolution of the Medical Malpractice Insurance Association (MMIA), which is the last year these funds are expected to be available.

DEBT SERVICE ($ millions)			
1997-98	**1998-99**	**1999-2000**	**2000-01 (PROJ.)**
$10	$9	$6	$5

This category accounts for debt service on short-term obligations of the State, which consists of interest costs on the State's commercial paper program. The commercial paper program is expected to have a maximum of $45 million outstanding during 2000-01, as this program is being replaced with additional variable rate general obligation bonds. The majority of the State's debt service is for long-term bonds, and is shown in the Financial Plan as a transfer to the General Debt Service Fund.

TRANSFERS TO OTHER FUNDS ($ millions)			
1997-98	**1998-99**	**1999-2000**	**2000-01 (PROJ.)**
$2,611	$2,854	$2,841	$2,788

Transfers to other funds from the General Fund are made primarily to finance certain portions of State capital projects spending and debt service on long-term bonds where these costs are not funded from other sources. For a full discussion of the State's capital and debt programs, see the section entitled "Debt and Other Financing Activities" in this AIS.

Long-term debt service transfers are projected at $2.26 billion in 2000-01, an increase of $18 million from 1999-2000. The increase reflects debt service costs from prior year bond sales (net of refunding savings), and certain sales planned to occur during the 2000-01 fiscal year to support new capital spending, primarily for economic development, the environment and education.

Transfers for capital projects provide General Fund support for projects that are not financed by bond proceeds, dedicated taxes, other revenues, or federal grants. Transfers for capital projects of $234 million in 2000-01 are projected to increase $23 million from the prior year.

All other transfers, which reflect the remaining transfers from the General Fund to other funds, are estimated to total $294 million in 2000-01, a decrease of $94 million from the prior fiscal year . This amount takes into account the use of HCRA 2000 funding for the State’s subsidy to the Roswell Park Cancer Institute.

The Debt Reduction Reserve Fund (DRRF) is assumed by DOB to be reclassified from the General Fund to the Capital Projects fund type in 2000-01. The 2000-01 Financial Plan reflects the deposit of an additional $250 million in General Fund receipts to DRRF in 2000-01, as well as $250 million in one-time resources from the State’s share of tobacco settlement proceeds.

Non-recurring Resources

The Division of the Budget estimates that the 2000-01 Financial Plan contains new actions in the enacted budget that provide non-recurring resources totaling approximately $36 million, excluding use of the 1999-2000 surplus.

Fund Balances

The 2000-01 Financial Plan projects closing balances in the General Fund and other reserves of $3.2 billion, including $1.71 billion in the General Fund. This closing balance is comprised of $675 million in reserves for collective bargaining and other spending commitments, $547 million in the Tax Stabilization Reserve Fund, $150 million in the Contingency Reserve Fund (which helps offset litigation risks), and $338 million in the Community Projects Fund (which finances legislative initiatives). In addition to the $1.71 billion reserved in the General Fund, $1.2 billion is projected for reserve in the STAR Special Revenue Fund and $250 million in DRRF.

Outyear Projections of Receipts and Disbursements

State law requires the Governor to propose a balanced budget each year. Preliminary analysis by DOB indicates that the State will have a 2001-02 budget gap of approximately $2 billion, which is comparable with gaps projected following enactment of recent budgets. This estimate includes the projected costs of new collective bargaining agreements, no assumed operating efficiencies, and the planned application of approximately $1.2 billion in STAR tax reduction reserves.

In recent years, the State has closed projected budget gaps which have ranged from $5 billion to less than $1 billion (as estimated by DOB). Sustained growth in the State's economy could contribute to closing potential budget imbalances over the next several years, both in terms of higher-than-projected tax receipts and in lower-than-expected entitlement spending. Savings from initiatives by State agencies to deliver services more efficiently, workforce management efforts, and maximization of federal and non-General Fund spending offsets could also help bring projected disbursements and receipts into balance.

The Division of the Budget will formally update its projections of receipts and disbursements for future years as part of the Governor's 2001-02 Executive Budget submission. The revised expectations for these years will reflect updated estimates of receipts and disbursements as well as new 2001-02 Executive Budget recommendations.

Tobacco Settlement Proceeds and Uses

On November 23, 1998, the attorneys general for forty-six states (including New York) entered into a master settlement agreement (MSA) with the nation's largest tobacco manufacturers. Under the terms of the MSA, the states agreed to release the manufacturers from all smoking-related claims in exchange for specified payments and the imposition of restrictions on tobacco advertising and marketing. New York is projected to receive $25 billion over 25 years under the MSA, with payments apportioned among the State (51 percent), counties (22 percent), and New York City (27 percent). The projected payments (but not the apportionment of the payments) are an estimate and subject to adjustments for, among other things, the annual change in the volume of cigarette shipments and the rate of inflation. From 1999-2000 through 2002-03, the State expects to receive $1.54 billion under the nationwide settlement with cigarette manufacturers. Counties, including New York City, are projected to receive settlement payments of $1.47 billion over the same period.

The 2000-01 Financial Plan utilizes certain resources from HCRA 2000, the successor legislation to the Health Care Reform Act of 1996. HCRA 2000 continues the negotiated reimbursement system for non-governmental payors, and provides funding for, among other things, graduate medical education, indigent care, and the expansion of health insurance coverage for uninsured adults and children. HCRA 2000 will help finance several health-related programs, including prescription drug assistance for the elderly, supplemental Medicare insurance, and other public health services that were previously funded from the General Fund. Programs under HCRA 2000 will be financed with revenues generated from the financing mechanisms continued from HCRA 1996, a share of the State's tobacco settlement and revenues from an increased excise tax on cigarettes.

The State plans to use $1.29 billion in tobacco settlement money over the next three years to finance health programs under HCRA 2000 ($1.01 billion) and projected increased costs in Medicaid ($274 million). The remaining $250 million in one-time tobacco payments from 1999-2000 will be deposited to DRRF. The table below summarizes the projected payments, and enacted and proposed uses by fiscal year.

Table 3
New York State Tobacco Settlement Funds
($ in millions)

	2000-01 (1)	*2001-02*	*2002-03*	*Total Thru 2002-03*
Total Tobacco Settlement Funds	***$668***	***$396***	***$474***	***$1,538***
Uses:				
Finance Health Care (2)	$326	$305	$383	$1,014
Fund New Medicaid Needs	92	91	91	274
Deposit to Debt Reduction Reserve	250	0	0	250

(1) Includes $302 million in initial payments received in 1999-2000.
(2) Includes $50 million required for cash flow that will be used for health care in 2003-04.

Other Governmental Funds

In addition to the General Fund, the 2000-01 Financial Plan includes Special Revenue Funds, Capital Projects Funds and Debt Service Funds which are discussed below. Amounts below do not include other sources and uses of funds transferred to or from other fund types.

All Governmental Funds spending is estimated at $77.53 billion in 2000-01, an increase of $4.17 billion or 5.7 percent above the prior year. When spending for the STAR tax relief program is excluded, spending growth is 4.6 percent. The spending growth is comprised of changes in the General Fund ($1.81 billion excluding transfers), Special Revenue Funds ($2.03 billion), Capital Projects Funds ($124 million) and Debt Service Funds ($206 million).

Special Revenue Funds

Total disbursements for programs supported by Special Revenue Funds are projected at $33.25 billion, an increase of $2.03 billion or 6.5 percent over 1999-2000. Special Revenue Funds include federal grants and State special revenue funds.

Federal grants comprise 69 percent of all Special Revenue spending in 2000-01, comparable to prior years. Disbursements from federal funds are estimated at $22.87 billion, up by $798 million or 3.6 percent. Medicaid is the largest program within federal funds, accounting for over half of total spending in this category. In 2000-01, federal support for Medicaid spending is projected at $14.93 billion, an increase of $396 million over 1999-2000. The remaining growth in federal funds is primarily for the Child Health Plus program, which is estimated to increase by $86 million in 2000-01, as well as increased spending in various social services programs.

State special revenue spending is projected to be $10.38 billion, an increase of $1.23 billion or 13.5 percent from last year. The spending reflects the next phase of the STAR program valued at $2.0 billion (up $785 million from 1999-2000), and $617 million in additional spending resulting from HCRA 2000. This growth is offset by decreased spending of $176 million due to the elimination of medical provider assessments on January 1, 2000.

Capital Projects Funds

Spending from Capital Projects Funds in 2000-01 is projected at $4.35 billion, an increase of $124 million or 2.9 percent from last year. The increase is attributable to $184 million for new capital projects, primarily for transportation, economic development, the environment and education and planned increases for school construction and economic development programs.

Debt Service Funds

Spending from Debt Service Funds is estimated at $3.79 billion in 2000-01, an increase of $206 million, or 5.7 percent from the prior year. Transportation purposes, including debt service on bonds issued for State and local highway and bridge programs financed through the New York State Thruway Authority and supported by the Dedicated Highway and Bridge Trust Fund, account for $127 million of the year-to-year increase. Debt service for education purposes, including State and City University programs financed through the Dormitory Authority, will increase by $59 million. The remaining growth is for a variety of programs in mental health and corrections, and for general obligation financings.

2000-01 GAAP-Basis Financial Plan

Statutory reporting requirements provide for updates to the State's projected financial results when presented on a GAAP basis on or before September first of each fiscal year. The Division of the Budget will provide a GAAP-basis update to the 2000-01 Financial Plan later in the fiscal year, after the completion of the 1999-2000 audited financial statements.

Special Considerations

Despite recent budgetary surpluses recorded by the State, actions affecting the level of receipts and disbursements, the relative strength of the State and regional economy, and actions by the federal government could impact projected budget gaps for the State. These gaps would result from a disparity between recurring revenues and the costs of increasing the level of support for State programs. To address a potential imbalance in any given fiscal year, the State would be required to take actions to increase receipts and/or reduce disbursements as it enacts the budget for that year, and, under the State Constitution, the Governor is required to propose a balanced budget each year. There can be no assurance, however, that the Legislature will enact the Governor's proposals or that the State's actions will be sufficient to preserve budgetary balance in a given fiscal year or to align recurring receipts and disbursements in future fiscal years.

Many complex political, social and economic forces influence the State's economy and finances, which may in turn affect the 2000-01 Financial Plan. These forces may affect the State unpredictably from fiscal year to fiscal year and are influenced by governments, institutions, and events that are not subject to the State's control. The 2000-01 Financial Plan is based upon forecasts of national and State economic activity developed through both internal analysis and review of national and State economic forecasts prepared by commercial forecasting services and other public and private forecasters. Many uncertainties exist in forecasts of both the national and State economies, including consumer attitudes toward spending, the extent of corporate and governmental restructuring, the condition of the financial sector, federal fiscal and monetary policies, the level of interest rates, and the condition of the world economy, which could have an adverse effect on the State. There can be no assurance that the State economy will not experience results in the current fiscal year that are worse than predicted, with corresponding material and adverse effects on the State's projections of receipts and disbursements. For a discussion of uncertainties in the current economic forecast, see the section entitled "Economics and Demographics — Current Economic Outlook" in this AIS.

Projections of total State receipts in the 2000-01 Financial Plan are based on the State tax structure in effect during the current fiscal year and on assumptions relating to basic economic factors and their historical relationships to State tax receipts. In preparing projections of State receipts, economic forecasts relating to personal income, wages, consumption, profits and employment have been particularly important. The projection of receipts from most tax or revenue sources is generally made by estimating the change in yield of such tax or revenue source caused by economic and other factors, rather than by estimating the total yield of such tax or revenue source from its estimated tax base. The forecasting methodology, however, ensures that State fiscal year collection estimates for taxes that are based on a computation of annual liability, such as the business and personal income taxes, are consistent with estimates of total liability under such taxes.

Projections of total State disbursements are based on assumptions relating to economic and demographic factors, potential collective bargaining agreements, levels of disbursements for various services provided by local governments (where the cost is partially reimbursed by the State), and the results of various administrative and statutory mechanisms in controlling disbursements for State operations. Factors that may affect the level of disbursements in the fiscal year include uncertainties relating to the economy of the nation and the State, the policies of the federal government, collective bargaining negotiations and changes in the demand for and use of State services.

Over the long-term, uncertainties with regard to the economy present the largest potential risk to future budget balance in New York State. For example, a downturn in the financial markets or the wider economy is possible, a risk that is heightened by the lengthy expansion currently underway. The securities industry is more important to the New York economy than the national economy as a whole, potentially amplifying the impact of an economic downturn. A large change in stock market performance during the forecast horizon could result in wage, bonus, and unemployment levels that are significantly different from those embodied in the 2000-01 Financial Plan forecast. Merging and downsizing by firms, as a consequence of deregulation or continued foreign competition, may also have more significant adverse effects on employment than expected.

An ongoing risk to the 2000-01 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 2000-01 Financial Plan contains projected reserves of $150 million in 2000-01 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 AIS.

Additional risks to the 2000-01 Financial Plan may arise from the enactment of legislation by the U.S. Congress. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 created a new Temporary Assistance to Needy Families program (TANF) partially funded with a fixed federal block grant to states. Congress has recently debated proposals under which the federal government would take a portion of state reserves from the TANF block grant for use in funding other federal programs. It has also considered proposals that would lower the State's share of mass transit operating assistance. Finally, several proposals to alter federal tax law that have surfaced in recent years could adversely affect State revenues, since many State taxes depend on federal definitions of income. While Congress has not enacted these proposals, it may do so in the future, or it may take other actions that could have an adverse effect on State finances.

The 2000-01 Financial Plan assumes the availability of certain resources to finance portions of General Fund spending for fringe benefits, health and welfare programs. These resources could become unavailable or decrease, placing additional pressures on budget balance.

The Division of the Budget believes that its projections of receipts and disbursements relating to the current State Financial Plan, and the assumptions on which they are based, are reasonable. Actual results, however, could differ materially and adversely from the projections set forth in this AIS. In the past, the State has taken management actions to address potential financial plan shortfalls, and DOB believes it could take similar actions should adverse variances occur in its projections for the current fiscal year. In addition, the State has projected year-end fund balances of up to $3.2 billion in 2000-01, as described in the section entitled "Fund Balances" in this AIS.

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Table 4
2000-2001 General Fund Financial Plan
Comparison of Receipts and Disbursements
(millions of dollars)

	1999-2000 Actual	2000-01 Enacted	Change	Percent Change
OPENING FUND BALANCE (1)	$942	$917	($25)	
Personal Income Tax	$20,339	$24,334	$3,995	19.6%
User Taxes and Fees:				
Sales and Use Tax	6,141	5,935	(206)	-3.4%
Cigarette and Tobacco Tax	643	497	(146)	-22.7%
Motor Fuel Tax	180	19	(161)	-89.4%
Motor Vehicle Fees	401	321	(80)	-20.0%
Alcoholic Beverage Taxes and Fees	200	207	7	3.5%
Container Tax	0	0	0	0.0%
Auto Rental Tax	39	42	3	7.7%
Subtotal	$7,604	$7,021	($583)	-7.7%
Business Taxes:				
Corporation Franchise Tax	1,939	2,150	211	10.9%
Corporation and Utilities Taxes	1,418	816	(602)	-42.5%
Insurance Taxes	589	632	43	7.3%
Bank Tax	525	540	15	2.9%
Petroleum Business Tax	89	90	1	1.1%
Subtotal	$4,560	$4,228	($332)	-7.3%
Other Taxes:				
Estate and Gift Taxes	1,054	728	(326)	-30.9%
Real Property Gains Tax	15	4	(11)	-73.3%
Pari-mutuel Tax	36	33	(3)	-8.3%
Other Taxes	2	1	(1)	-50.0%
Subtotal	$1,107	$766	($341)	-30.8%
Miscellaneous Receipts	$1,648	$1,339	($309)	-18.8%
Transfers from Other Funds:				
Sales Tax in Excess of LGAC Debt Service	1,719	1,645	(74)	-4.3%
All Other Transfers	418	384	(34)	-8.1%
Subtotal	$2,137	$2,029	($108)	-5.1%
TOTAL RECEIPTS	$37,395	$39,717	$2,322	6.2%
Grants to Local Governments	$25,636	$26,833	$1,197	4.7%
State Operations	$6,600	$7,107	$507	7.7%
General State Charges	$2,087	$2,191	$104	5.0%
Debt Service	$6	$5	($1)	-16.7%
Transfers to Other Funds:				
In Support of Debt Service	2,242	2,260	18	0.8%
In Support of Capital Projects	211	234	23	10.9%
All Other Transfers	388	294	(94)	-24.2%
Subtotal	$2,841	$2,788	($53)	-1.9%
TOTAL DISBURSEMENTS	$37,170	$38,924	$1,754	4.7%
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	$225	$793	$568	
CLOSING FUND BALANCE	$1,167	$1,710	$543	

Source: State Division of the Budget.

(1) The 2000-2001 opening fund balance is $250 million lower than the 1999-2000 closing fund balance due to the proposed reclassification of the Debt Reduction Reserve Fund (DRRF) from the General Fund to the Capital Projects funds in 2000-2001.

Table 5
Cash Financial Plan
2000-2001 All Governmental Funds
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	$917	$762	$232	$198	$2,109
Receipts:					
Taxes	36,349	4,623	1,510	2,314	44,796
Miscellaneous receipts	1,339	6,727	2,000	570	10,636
Federal grants	0	22,903	1,392	0	24,295
Total receipts	$37,688	$34,253	$4,902	$2,884	$79,727
Disbursements:					
Grants to local governments	26,833	26,499	1,064	0	54,396
State operations	7,107	6,193	0	7	13,307
General State charges	2,191	559	0	0	2,750
Debt service	5	0	0	3,784	3,789
Capital projects	0	3	3,284	0	3,287
Total disbursements	$36,136	$33,254	$4,348	$3,791	$77,529
Other financing sources (uses):					
Transfers from other funds	2,029	2,308	259	4,895	9,491
Transfers to other funds	(2,788)	(2,122)	(659)	(4,009)	(9,578)
Bond and note proceeds	0	0	322	0	322
Use of Debt Reduction Reserve Fund	0	0	(500)	0	(500)
Net other financing sources (uses)	($759)	$186	($578)	$886	($265)
Change in fund balance	$793	$1,185	($24)	($21)	$1,933
Closing fund balance	$1,710	$1,947	$208	$177	$4,042

Source: State Division of the Budget.

Tax Refund Reserve Account

Personal income tax net collections in recent years have been affected by the pattern of refund payments made and reflect transactions in the tax refund reserve account. The tax refund reserve account is used to hold moneys designated to pay tax refunds. The Comptroller deposits into this account tax moneys in the amounts and at the times determined in the discretion of the Commissioner of Taxation and Finance. The deposit of moneys into the account during a fiscal year has the effect of reducing receipts for such fiscal year, and the withdrawal of moneys from the account has the effect of increasing receipts in the fiscal year of withdrawal. The tax refund reserve account also includes amounts made available as a result of the LGAC financing program that are required to be on deposit in this account. Beginning in 1998-99, a portion of personal income tax collections was deposited directly in the School Tax Reduction (STAR) Fund to be used to make payments to reimburse local governments for their revenue decreases due to the STAR program. The 2000-01 Financial Plan also assumes an additional $250 million deposit of personal income taxes to the Debt Reduction Reserve Fund.

The chart below shows actual components of gross collections, the State/City offset, refund reserve activity, refunds and net collections of personal income tax for fiscal years 1997-98, 1998-99, and 1999-2000 as well as projected amounts for the 2000-01 fiscal year.

Table 6
Personal Income Tax Collections,
Refunds And Refund Reserve Activity
(Millions of Dollars)

	1997-98		1998-99		1999-2000		2000-2001(1)	
Withholdings	$15,285		$16,521		$18,460		$19,386	
Estimated Payments	4,419		5,155		5,835		6,258	
Final Payments	957		1,229		1,429		1,510	
Delinquencies	427		466		512		510	
Gross Collections	$21,088		$23,371		$26,236		$27,664	
State/City Offset	($278)		($300)		($325)		($330)	
Refund Reserve (Increase) Decrease	(530)		86		(1,661)		3,400	
Refunds	(2,521)	(2)	(2,495)	(3)	(2,716)	(4)	(2,970)	(5)
Reported Tax Collections	$17,759		$20,662		$21,534		$27,764	
STAR Fund Deposits	---		($582)		($1,195)		($3,180)	
DRRF	---		---		---		(250)	
General Fund	$17,759		$20,080		$20,339		$24,334	

Source: State Division of the Budget.

(1) As projected on May 10, 2000.

(2) Reflects the payment of the balance of refunds on 1996 liability and the payment of $500 million of 1997 calendar year refunds in the last quarter of the State's 1997-98 fiscal year and a balance in the tax refund reserve account of $2.392 billion.

(3) Reflects the payment of the balance of refunds on 1997 liability and the payment of $460 million of 1998 calendar year refunds in the last quarter of the State's 1998-99 fiscal year and a balance in the tax refund reserve account of $2.306 billion.

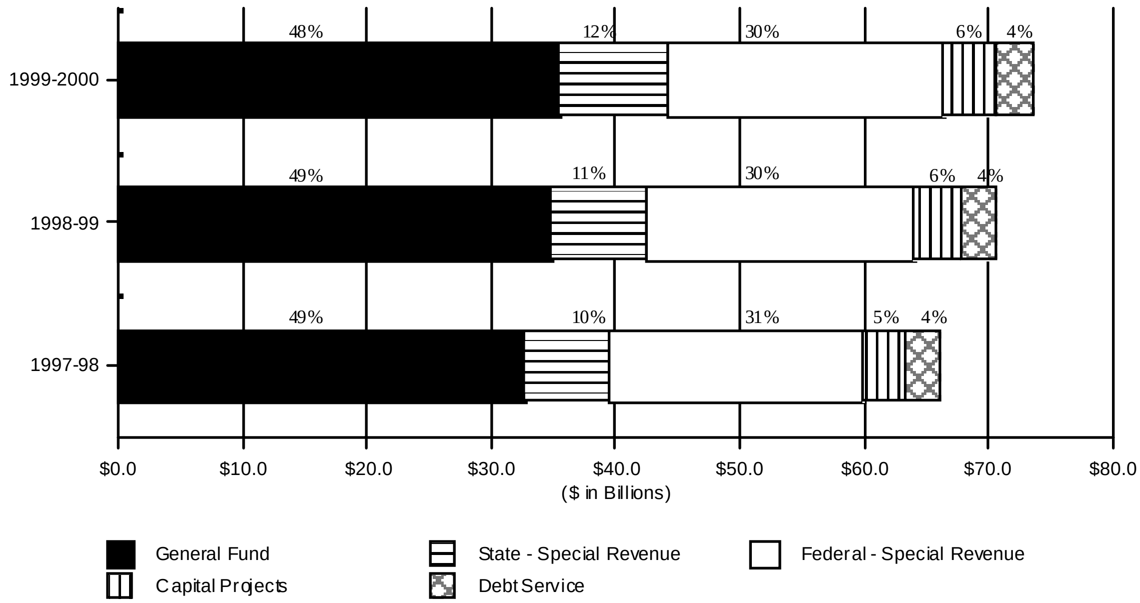
(4) Reflects the payment of the balance of refunds on 1998 liability and the payment of $460 million of 1999 calendar year refunds in the last quarter of the State's 1999-2000 fiscal year and a balance in the tax refund reserve account of $3.967 billion.

(5) Reflects the payment of the balance of refunds on 1999 liability and the payment of $460 million of 2000 calendar year refunds in the last quarter of the State's 2000-2001 fiscal year and a balance in the tax refund reserve account of $567 million.

Prior Fiscal Years

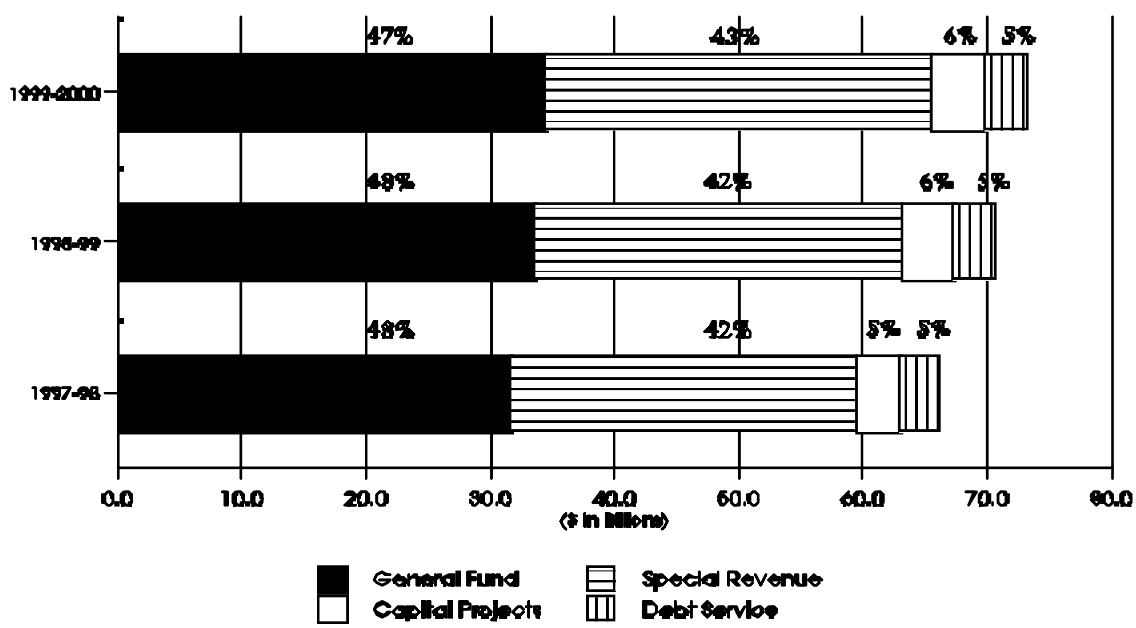
The following four tables (7-10) show the composition of the State's governmental funds and its General Fund. Following the tables is a summary of the results for the State's three most recent fiscal years for the four governmental fund types on a cash basis of accounting, with particular emphasis on the General Fund.

Table 7
Governmental Funds Receipts
State Fiscal Years 1997-98, 1998-99, and 1999-2000



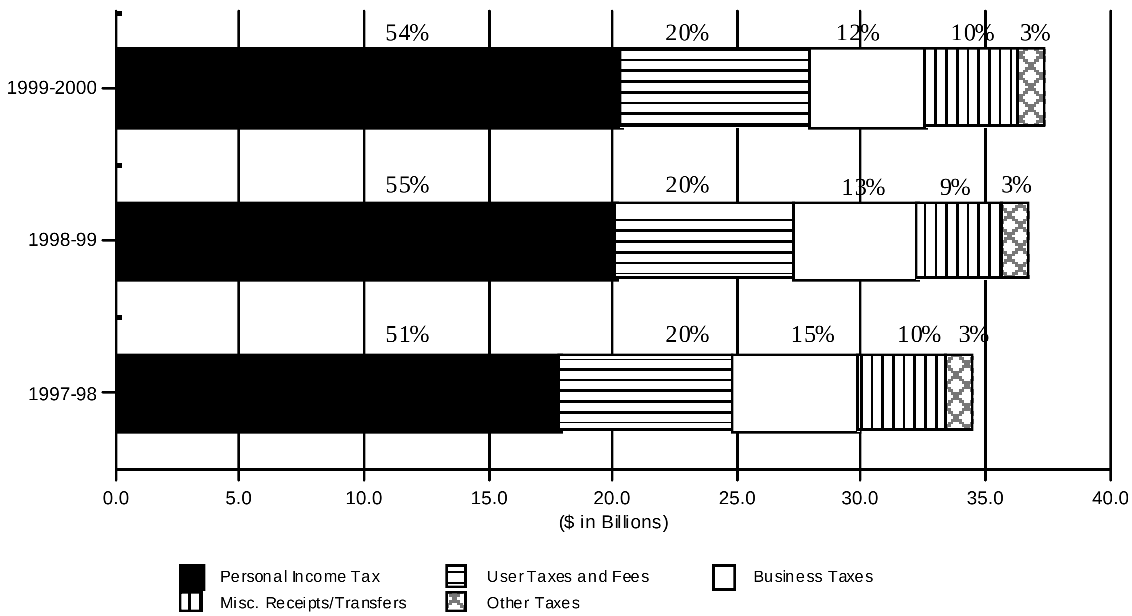
Note: Percentage total may not add due to rounding.

Table 8
Governmental Funds Disbursements
State Fiscal Years 1997-98, 1998-99, and 1999-2000



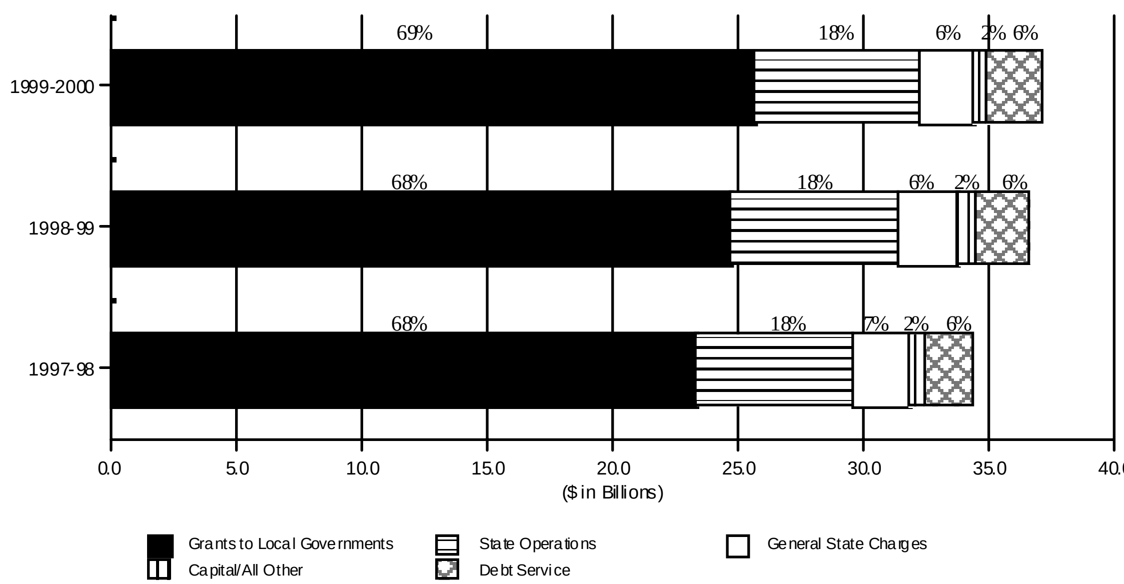
Note: Percentage total may not add due to rounding.

Table 9
General Fund Receipts and Transfers by Source
State Fiscal Years 1997-98, 1998-99, and 1999-2000



Note: Percentage total may not add due to rounding.

Table 10
General Fund Disbursements and Transfers by Type
State Fiscal Years 1997-98, 1998-99, and 1999-2000



Note: Percentage total may not add due to rounding.

Cash-Basis Results for Prior Fiscal Years

The State reports its financial results on two bases of accounting: the cash basis, showing receipts and disbursements; and the modified accrual basis, prescribed by Generally Accepted Accounting Principles (GAAP), showing revenues and expenditures. These financial terms are described in the Glossary of Financial Terms in Exhibit A to this AIS.

General Fund 1997-98 through 1999-2000

The General Fund is the principal operating fund of the State and is used to account for all financial transactions, except those required to be accounted for in another fund. It is the State's largest fund and receives most State taxes and other resources not dedicated to particular purposes. General Fund moneys are also transferred to other funds, primarily to support certain capital projects and debt service payments in other fund types.

New York State's financial operations have improved during recent fiscal years. During its last eight fiscal years, the State has recorded balanced budgets on a cash basis, with positive year-end fund balances.

A narrative description of cash-basis results in the General Fund for the prior three fiscal years is presented below, followed by tables that summarize actual General Fund results. For a description of the principal State taxes and fees, see Exhibit B to this AIS.

1999-2000 Fiscal Year

The State ended its 1999-2000 fiscal year in balance on a cash basis, with a General Fund cash-basis surplus of $1.51 billion as reported by DOB. As in recent years, strong growth in receipts above forecasted amounts produced most of the year-end surplus. Spending was also modestly below projections, further adding to the surplus.

The State reported a closing balance of $1.17 billion in the General Fund, an increase of $275 million over the closing balance from the prior year. The balance was held in four accounts within the General Fund: the Tax Stabilization Reserve Fund (TSRF), the Contingency Reserve Fund (CRF) , the Debt Reduction Reserve Fund (DRRF) and the Community Projects Fund (CPF) which is used to finance legislative initiatives. The balance is comprised of $547 million in the TSRF after a deposit of $74 million in 1999-2000; $107 million in the CRF; $250 million in the DRRF; and $263 million in the CPF.

The closing fund balance excludes $3.97 billion that the State deposited into the tax refund reserve account at the close of 1999-2000 to pay for tax refunds in 2000-01 of which $521 million was made available as a result of the Local Government Assistance Corporation (LGAC) financing program and was required to be on deposit as of March 31, 2000. The tax refund reserve account transaction has the effect of decreasing reported personal income tax receipts in 1999-2000, while increasing reported receipts in 2000-01.

General Fund receipts and transfers from other funds (net of tax refund reserve account activity) for the 1999-2000 fiscal year totaled $37.40 billion, an increase of 1.6 percent over 1998-99. General Fund disbursements and transfers to other funds totaled $37.17 billion, an increase of 1.6 percent from the prior fiscal year.

1998-99 Fiscal Year

The State ended its 1998-99 fiscal year on March 31, 1999 in balance on a cash basis, with a General Fund cash surplus as reported by the DOB of $1.82 billion. The cash surplus was derived primarily from higher-than-projected tax collections as a result of continued economic growth, particularly in the financial markets and the securities industries.

The State reported a General Fund closing cash balance of $892 million, an increase of $254 million from the prior fiscal year. The TSRF closing balance was $473 million, following an additional deposit of $73 million in 1998-99. The CRF closing balance was $107 million, following a deposit of $39 million in 1998-99. The CPF closed the fiscal year with a balance of $312 million.

The closing fund balance excluded $2.31 billion that the State deposited into the tax refund reserve account at the close of 1998-99 to pay for tax refunds in 1999-2000. The remaining balance of $521 million in the tax refund reserve account was made available as a result of the Local Government Assistance Corporation (LGAC) financing program and was required to be on deposit as of March 31, 1999.

General Fund receipts and transfers from other funds (net of tax refund reserve account activity) for the 1998-99 fiscal year totaled $36.82 billion, an increase of 6.2 percent from 1997-98 levels. General Fund disbursements and transfers to other funds totaled $36.57 billion for the 1998-99 fiscal year, an increase of 6.1 percent from 1997-98 levels.

1997-98 Fiscal Year

The State ended its 1997-98 fiscal year in balance on a cash basis, with a General Fund cash surplus as reported by DOB of approximately $2.04 billion. The cash surplus was derived primarily from higher-than-anticipated receipts and lower spending on welfare, Medicaid, and other entitlement programs.

The General Fund had a closing balance of $638 million, an increase of $205 million from the prior fiscal year. The TSRF closing balance was $400 million, following a required deposit of $15 million (repaying a transfer made in 1991-92) and an additional deposit of $68 million made from the 1997-98 surplus. The CRF closing balance was $68 million, following a $27 million deposit from the surplus. The CPF closed the fiscal year with a balance of $170 million. The General Fund closing balance did not include $2.39 billion in the tax refund reserve account, of which $521 million was made available as a result of the LGAC financing program and was required to be on deposit on March 31, 1998.

General Fund receipts and transfers from other funds (net of tax refund reserve account activity) for the 1997-98 fiscal year totaled $34.67 billion, an annual increase of 4.9 percent over 1996-97. General Fund disbursements and transfers to other funds were $34.47 billion, an annual increase of 4.8 percent.

Other Governmental Funds (1997-98 through 1999-2000)

The size of the three other governmental fund types has grown over the last three fiscal years, with federally-funded programs comprising approximately one-third of these funds. The most significant changes in the structure of these funds has been the redirection of a portion of transportation-related revenues from the General Fund to two dedicated funds in the Special Revenue and Capital Projects fund types support the capital programs of the Department of Transportation, the Metropolitan Transportation Authority (MTA) and other transit entities, and the creation of the School Tax Relief (STAR) program through the diversion of personal income tax receipts to a special revenue fund.

In the *Special Revenue Funds*, disbursements increased from $27.65 billion to $31.22 billion over the last three years, primarily as a result of increased costs for the federal share of Medicaid and the initial costs of the STAR program. Other activity reflected dedication of taxes for mass transportation purposes, new lottery games, and new fees for criminal justice programs.

Disbursements in the *Capital Projects Funds* increased over the three-year period from $3.57 billion to $4.22 billion, primarily for education, environment, public protection and transportation programs. The composition of this fund type's receipts has also changed as dedicated taxes, federal grants and reimbursements from public authority bonds increased, while general obligation bond proceeds declined.

Activity in the *Debt Service Funds* reflected increased use of bonds during the three-year period for improvements to the State's capital facilities and the ongoing costs of the LGAC fiscal reform program. The increases were moderated by the refunding savings achieved by the State over the last several years. Disbursements in this fund type increased from $3.09 billion to $3.59 billion over the three-year period.

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Table 11
Comparison of Actual General Fund Receipts and Disbursements
(Millions of Dollars)

	1997-98(1)	1998-99(1)	1999-2000
OPENING FUND BALANCE (2)	$433	$638	$942
Personal Income Tax	$17,759	$20,080	$20,339
User Taxes and Fees:			
Sales and Use Tax	5,442	5,697	6,141
Cigarette and Tobacco Tax	676	667	643
Motor Fuel Tax	165	171	180
Motor Vehicle Fees	487	444	401
Alcoholic Beverage Taxes and Fees	207	212	200
Container Tax	27	19	0
Auto Rental Tax	32	34	39
Subtotal	$7,036	$7,244	$7,604
Business Taxes:			
Corporation Franchise Tax	2,081	2,050	1,939
Corporation and Utilities Taxes	1,504	1,489	1,418
Insurance Taxes	641	672	589
Bank Tax	707	544	525
Petroleum Business Tax	114	102	89
Subtotal	$5,047	$4,857	$4,560
Other Taxes:			
Estate and Gift Taxes	1,022	1,071	1,055
Real Property Gains Tax	33	29	15
Pari-mutuel Tax	38	37	36
Other Taxes	1	1	1
Subtotal	$1,094	$1,138	$1,107
Miscellaneous Receipts & Federal Grants	$1,718	$1,587	$1,648
Transfers from Other Funds:			
Sales Tax in Excess of LGAC Debt Service	1,484	1,555	1,719
All Other Transfers	534	362	418
Subtotal	$2,018	$1,917	$2,137
TOTAL RECEIPTS	$34,672	$36,823	$37,395
Grants to Local Governments	$23,388	$24,776	$25,636
State Operations	$6,193	$6,671	$6,600
General State Charges	$2,265	$2,259	$2,087
Debt Service	$10	$9	$6
Transfers to Other Funds:			
In Support of Debt Service	2,021	2,089	2,242
In Support of Capital Projects	206	246	211
All Other Transfers	384	519	388
Subtotal	$2,611	$2,854	$2,841
TOTAL DISBURSEMENTS	$34,467	$36,569	$37,170
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	$205	$254	$225
CLOSING FUND BALANCE	$638	$892	$1,167

Source: Division of the Budget.

(1) Reflects accounting restatements of medical provider assessments in the General Fund which has the affect of increasing miscellaneous receipts and local assistance grants by $120 million in 1997-98 and $82 million in 1998-99.

(2) 1999-2000 Opening Fund Balance reflects reclassification of DRRF from the Debt Service Fund type to the General Fund.

Table 12
Governmental Funds Combined Statement of Cash Receipts, Disbursements And Changes in Fund Balances for the Fiscal Year Ended March 31, 2000 on a Financial Plan Basis
(Millions of Dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance (1)	$942	$672	$19	$170	$1,803
Receipts:					
Taxes	33,611	2,607	1,123	2,388	39,729
Miscellaneous receipts	1,643	6,174	1,775	611	10,203
Federal grants	4	22,185	1,381	0	23,570
Total receipts	$35,258	$30,966	$4,279	$2,999	$73,502
Disbursements:					
Grants to local governments	25,636	24,419	477	0	50,532
State operations	6,600	6,236	0	14	12,850
General State charges	2,087	554	0	0	2,641
Debt service	6	0	0	3,571	3,577
Capital projects	0	12	3,747	0	3,759
Total disbursements	$34,329	$31,221	$4,224	$3,585	$73,359
Other financing sources (uses):					
Transfers from other funds	2,137	2,306	241	4,605	9,289
Transfers to other funds	(2,841)	(1,961)	(541)	(3,991)	(9,334)
Bond and note proceeds	0	0	208	0	208
Net other financing sources (uses)	($704)	$345	($92)	$614	$163
Change in fund balance	$225	$90	($37)	$28	$306
Closing fund balance	$1,167	$762	($18)	$198	$2,109

Source: Office of the State Comptroller.
(1) Reflects reclassification of DRRF from the Debt Service Funds Group to the General Fund.

Table 13
Governmental Funds Combined Statement of Cash Receipts, Disbursements And Changes in Fund Balances for the Fiscal Year Ended March 31, 1999 on a Financial Plan Basis
(Millions of Dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening Fund Balance	$638	$616	$72	$164	$1,490
Receipts:					
Taxes	33,319	1,934	1,124	2,204	38,581
Miscellaneous receipts	1,583	5,813	1,567	630	9,593
Federal grants	4	21,422	1,219	0	22,645
Total receipts	$34,906	$29,169	$3,910	$2,834	$70,819
Disbursements:					
Local assistance grants	24,776	23,447	438	0	48,661
Departmental operations	6,671	5,920	0	4	12,595
General State charges	2,259	276	0	0	2,535
Debt service	9	0	0	3,266	3,275
Capital projects	0	6	3,625	0	3,631
Total disbursements	$33,715	$29,649	$4,063	$3,270	$70,697
Other financing sources (uses):					
Transfers from other funds	1,917	2,444	274	4,370	9,005
Transfers to other funds	(2,854)	(1,908)	(423)	(3,878)	(9,063)
Bond and note proceeds	0	0	249	0	249
Net other financing sources (uses)	($937)	$536	$100	$492	$191
Change in fund balance	$254	$56	($53)	$56	$313
Closing fund balance	$892	$672	$19	$220	$1,803

Source: Office of the State Comptroller. Reflects accounting restatements of medical provider assessments in the General Fund which has the affect of increasing miscellaneous receipts and local assistance grants by $82 million.

Table 14
Governmental Funds Combined Statement of Cash Receipts, Disbursements And Changes in Fund Balances for the Fiscal Year Ended March 31, 1998 on a Financial Plan Basis
(Millions of Dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening Fund Balance	$433	$600	($200)	$150	$983
Receipts:					
Taxes	30,936	1,371	1,020	2,064	35,391
Miscellaneous receipts	1,714	5,531	1,324	639	9,208
Federal grants	4	20,512	1,131	0	21,647
Total receipts	$32,654	$27,414	$3,475	$2,703	$66,246
Disbursements:					
Local assistance grants	23,388	21,646	438	0	45,472
Departmental operations	6,193	5,681	0	4	11,878
General State charges	2,265	320	0	0	2,585
Debt service	10	0	0	3,081	3,091
Capital projects	0	3	3,127	0	3,130
Total disbursements	$31,856	$27,650	$3,565	$3,085	$66,156
Other financing sources (uses):					
Transfers from other funds	2,018	2,481	220	4,263	8,982
Transfers to other funds	(2,611)	(2,229)	(344)	(3,867)	(9,051)
Bond and note proceeds	0	0	486	0	486
Net other financing sources (uses)	($593)	$252	$362	$396	$417
Change in fund balance	$205	$16	$272	$14	$507
Closing fund balance	$638	$616	$72	$164	$1,490

Source: Office of the State Comptroller. Reflects accounting restatements of medical provider assessments in the General Fund which has the affect of increasing miscellaneous receipts and local assistance grants by $120 million.

GAAP-Basis Results for Prior Fiscal Years

The Comptroller prepares a comprehensive annual financial report on a GAAP basis for governments as promulgated by the Governmental Accounting Standards Board. The report, generally released in July each year, contains general purpose financial statements with a Combined Balance Sheet and its Combined Statement of Revenues, Expenditures and Changes in Fund Balances. These statements are audited by independent certified public accountants. The following table summarizes recent governmental funds results on a GAAP basis. For information regarding the State's accounting and financial reporting requirements, see the section entitled "State Organization — Accounting, Financial Reporting and Budgeting."

Table 15
Comparison of Actual GAAP Operating Results
(dollars in millions) (1)

Fiscal Year Ended	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	All Governmental Funds	Accumulated General Fund (Deficit)/Surplus
March 31, 1999	$1,078	($117)	$209	$154	$1,324	$1,645
March 31, 1998	1,562	49	(43)	232	1,800	567
March 31, 1997	1,933	65	(37)	98	2,059	(995)

(1) Deficits noted in parenthesis.

The General Purpose Financial Statements for the 1999-2000 fiscal year are expected to become available in July 2000. When available, copies of this report can be obtained from the Office of the State Comptroller, Governor Alfred E. Smith Office Building, Albany, NY 12236.

1998-99 Fiscal Year

The State completed its 1998-99 fiscal year with a combined governmental funds operating surplus of $1.32 billion, which included operating surpluses in the General Fund ($1.078 billion), in Debt Service Funds ($209 million) and in Capital Projects Funds ($154 million) offset, in part, by an operating deficit in Special Revenue Funds ($117 million).

General Fund

The State reported a General Fund operating surplus of $1.078 billion for the 1998-99 fiscal year, as compared to an operating surplus of $1.562 billion for the 1997-98 fiscal year. As a result, the State reported an accumulated fund balance of $1.645 billion in the General Fund. The 1998-99 fiscal year operating surplus resulted, in part, from an increase in taxes receivable of $516 million, a decrease in payables to local government of $262 million, a decrease in accrued liabilities of $129 million and a decrease in deferred revenues of $69 million. These gains were partially offset by a decrease in other assets of $117 million and an increase in tax refunds payable of $102 million.

Revenues increased $1.969 billion (5.7 percent) over the prior fiscal year with increases in personal income, consumption and use and other taxes, and miscellaneous revenues. Business tax revenues fell from the prior fiscal year. Personal income taxes grew $1.733 billion, an increase of nearly 9.3 percent. The increase in personal income taxes was caused by strong employment and wage growth and the continued strong performance by the financial markets during 1998. Consumption and use taxes increased $269 million, or 3.8 percent, due to increased consumer confidence. Other taxes increased $73 million, or 6.9

percent. Miscellaneous revenues increased $145 million, a 5.6 percent increase, primarily because of an increase in reimbursements from regulated industries (e.g., banking and insurance) to fund the State's administrative costs. Business taxes decreased nearly $252 million, or 4.9 percent, because of prior year refunds and carry forwards which were applied against the current year (1998) liabilities.

Expenditures increased $1.826 billion (5.5 percent) from the prior fiscal year, with the largest increases occurring in State aid for education and general purpose aid spending. Education expenditures grew $1.014 billion (9.1 percent) due mainly to an increase in spending for support for public schools, handicapped pupil education and municipal and community colleges. General purpose aid increased nearly $329 million (56.5 percent) due to statutory changes in the payment schedule. Personal service and fringe benefit costs increased due to increases in wages and continuing fringe benefits required by collective bargaining agreements.

Net other financing sources decreased $626 million (159.3 percent) primarily because appropriated transfers from the Special Revenue Funds declined by over $230 million with increases of $265 million in appropriated transfers to Special Revenue, Debt Service and College and University Funds. In addition, transfers to public benefit corporations increased over $170 million primarily because of a change in reporting for the Roswell Park Cancer Institute.

Special Revenue, Debt Service and Capital Projects Fund Types

An operating deficit of $117 million was reported for the Special Revenue Funds for the 1998-99 fiscal year which decreased the accumulated fund balance to $464 million. Revenues increased $1.108 billion over the prior fiscal year (4.0 percent) as a result of increases in tax and federal grants revenues. Expenditures increased $1.308 billion (5.3 percent) as a result of increased costs for local assistance grants. Net other financing uses increased $34 million (1.0 percent).

Debt Service Funds ended the 1998-99 fiscal year with an operating surplus of $209 million and, as a result, the accumulated fund balance increased to $2.07 billion. Revenues increased $160 million (6.3 percent) primarily because of increases in dedicated taxes. Debt service expenditures increased $162 million (6.0 percent). Net other financing sources increased $253 million (227.4 percent) due primarily to increases in transfers from the General Fund, patient revenue transfers and the establishment of the Debt Reduction Reserve Fund.

An operating surplus of $154 million was reported in the Capital Projects Funds for the State's 1998-99 fiscal year and, as a result, the accumulated deficit fund balance decreased to $228 million. Revenues increased $242 million (10.6 percent) primarily because tax revenues increased $101 million and federal grant revenues increased $94 million for transportation projects. Expenditures increased $355 million (10.5 percent) primarily because of increases in capital construction spending for transportation and correctional services projects. Net other financing sources increased by $35 million.

1997-98 Fiscal Year

The State completed its 1997-98 fiscal year with a combined Governmental Funds operating surplus of $1.80 billion, which included an operating surplus in the General Fund of $1.56 billion, in Capital Projects Funds of $232 million and in Special Revenue Funds of $49 million, offset in part by an operating deficit of $43 million in Debt Service Funds.

General Fund

The State reported a General Fund operating surplus of $1.56 billion for the 1997-98 fiscal year, as compared to an operating surplus of $1.93 billion for the 1996-97 fiscal year. As a result, the State reported an accumulated surplus of $567 million in the General Fund for the first time since it began reporting its operations on a GAAP-basis. The 1997-98 fiscal year operating surplus reflects several major factors, including the cash-basis operating surplus resulting from the higher-than-anticipated personal income tax receipts, an increase in taxes receivable of $681 million, an increase in other assets of $195 million and a decrease in pension liabilities of $144 million. This was partially offset by an increase in payables to local governments of $308 million and tax refunds payable of $147 million.

Revenues increased $617 million (1.8 percent) over the prior fiscal year, with increases in personal income, consumption and use, and business taxes, and decreases reported for other taxes, federal grants and miscellaneous revenues. Personal income taxes grew $746 million, an increase of nearly 4.2 percent. The increase in personal income taxes resulted from strong employment and wage growth and the strong performance by the financial markets during 1997. Consumption and use taxes increased $334 million or 5.0 percent as a result of increased consumer confidence. Business taxes grew $28 million, an increase of 0.5 percent. Other taxes fell primarily because revenues for estate and gift taxes decreased. Miscellaneous revenues decreased $380 million, or 12.7 percent decrease, due to a decline in receipts from the Medical Malpractice Insurance Association and medical provider assessments.

Expenditures increased $147 million (0.4 percent) from the prior fiscal year, with the largest increases occurring in State aid for education and social services spending. Education expenditures grew $391 million (3.6 percent) due mainly to an increase in spending for support for public schools. This growth was offset, in part, by a reduction in spending for municipal and community colleges. Social services expenditures increased $233 million (2.6 percent) due mainly to program growth. Increases in other State aid spending were offset by a decline in general purpose aid of $235 million (28.8 percent) due to statutory changes in the payment schedule. Increases in personal and non-personal service costs were offset by a decrease in pension contribution of $660 million, a result of the refinancing of the State's pension amortization that occurred in 1997.

Net other financing sources decreased $841 million (68.2 percent) due to the nonrecurring use of bond proceeds ($769 million) provided by the Dormitory Authority of the State of New York (DASNY) to pay the outstanding pension amortization liability incurred in 1997.

Special Revenue, Debt Service and Capital Projects Fund Types

An operating surplus of $49 million was reported for the Special Revenue Funds for the 1997-98 fiscal year, which increased the accumulated fund balance to $581 million. Revenues rose by $884 million over the prior fiscal year (3.3 percent) as a result of increases in tax and federal grant revenues. Expenditures increased $795 million (3.3 percent) as a result of increased costs for local assistance grants. Net other financing uses decreased $105 million (3.3 percent).

Debt Service Funds ended the 1997-98 fiscal year with an operating deficit of $43 million and, as a result, the accumulated fund balance declined to $1.86 billion. Revenues increased $246 million (10.6 percent) as a result of increases in dedicated taxes. Debt service expenditures increased $341 million (14.4 percent). Net other financing sources increased $89 million (401.3 percent) due primarily to savings achieved through advance refundings of outstanding bonds.

An operating surplus of $232 million was reported in the Capital Projects Funds for the State's 1997-98 fiscal year and, as a result, the accumulated deficit in this fund type decreased to $381 million. Revenues increased $180 million (8.6 percent) primarily as a result of a $54 million increase in dedicated tax revenues and an increase of $101 million in federal grants for transportation and local waste water treatment projects. Expenditures increased $146 million (4.5 percent) primarily as a result of increased capital construction spending for transportation and local waste water treatment projects. Net other financing sources increased by $100 million primarily as a result of a decrease in transfers to certain public benefit corporations engaged in housing programs.

1996-97 Fiscal Year

The State completed its 1996-97 fiscal year with a combined Governmental Funds operating surplus of $2.1 billion, which included an operating surplus in the General Fund of $1.9 billion, in the Capital Projects Funds of $98 million and in the Special Revenue Funds of $65 million, offset in part by an operating deficit of $37 million in the Debt Service Funds.

General Fund

The State reported a General Fund operating surplus of $1.93 billion for the 1996-97 fiscal year, as compared to an operating surplus of $380 million for the prior fiscal year. The 1996-97 fiscal year GAAP operating surplus reflects several major factors, including the cash basis operating surplus, the benefit of bond proceeds which reduced the State's pension liability, an increase in taxes receivable of $493 million, and a reduction in tax refund liabilities of $196 million. This was offset by an increased payable to local governments of $244 million.

Revenues increased $1.91 billion (nearly 6.0 percent) over the prior fiscal year with increases in all revenue categories. Personal income taxes grew $620 million, an increase of nearly 3.6 percent, despite the implementation of scheduled tax cuts. The increase in personal income taxes was caused by moderate employment and wage growth and the strong financial markets during 1996. Consumption and use taxes increased $179 million or 2.7 percent as a result of increased consumer confidence. Business taxes grew $268 million, an increase of 5.6 percent, primarily as a result of the strong financial markets during 1996. Other taxes increased primarily because revenues from estate and gift taxes increased. Miscellaneous revenues increased $743 million, a 33.1 percent increase, because of legislated increases in receipts from the Medical Malpractice Insurance Association and from medical provider assessments.

Expenditures increased $830 million (2.6 percent) from the prior fiscal year, with the largest increase occurring in pension contributions and State aid for education spending. Pension contribution expenditures increased $514 million (198.2 percent) primarily because the State paid off its 1984-85 and 1985-86 pension amortization liability. Education expenditures grew $351 million (3.4 percent) due mainly to an increase in spending for support for public schools and physically handicapped children offset by a reduction in spending for municipal and community colleges. Modest increases in other State aid spending was offset by a decline in social services expenditures of $157 million (1.7 percent). Social services spending continues to decline because of cost containment strategies and declining caseloads.

Net other financing sources increased $475 million (62.6 percent) due mainly to bond proceeds provided by DASNY to pay the outstanding pension amortization, offset by elimination of prior year LGAC proceeds.

Special Revenue, Debt Service and Capital Projects Fund Types

An operating surplus of $65 million was reported for the Special Revenue Funds for the 1996-97 fiscal year, increasing the accumulated fund balance to $532 million. Revenues increased $583 million over the prior fiscal year (2.2 percent) as a result of increases in tax and lottery revenues. Expenditures increased $384 million (1.6 percent) as a result of increased costs for departmental operations. Net other financing uses decreased $275 million (8.0 percent) primarily because of declines in amounts transferred to other funds.

Debt Service Funds ended the 1996-97 fiscal year with an operating deficit of $37 million and, as a result, the accumulated fund balance declined to $1.90 billion. Revenues increased $102 million (4.6 percent) because of increases in both dedicated taxes and mental hygiene patient fees. Debt service expenditures increased $47 million (2.0 percent). Net other financing sources decreased $277 million (92.6 percent) due primarily to an increase in payments on advance refundings.

An operating surplus of $98 million was reported in the Capital Projects Funds for the State's 1996-97 fiscal year and, as a result, the accumulated fund deficit decreased to $614 million. Revenues increased $100 million (5.0 percent) primarily because a larger share of the real estate transfer tax was shifted to the Environmental Protection Fund and federal grant revenues increased for transportation and local waste water treatment projects. Expenditures decreased $359 million (10.0 percent) because of declines in capital grants for education, housing and regional development programs and capital construction spending. Net other financing sources decreased by $637 million as a result of a decrease in proceeds from financing arrangements.

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Economics and Demographics

This section presents economic information which may be relevant in evaluating the future prospects of the State. However, the demographic and statistical data, which have been obtained from the sources indicated, do not present all factors which may have a bearing on the State's fiscal and economic affairs. Further, such information requires economic and demographic analysis in order to assess the importance of the data presented. The data and analysis may be subject to different interpretations.

The 2000-2001 Financial Plan is based upon a May 2000 projection by DOB of national and State economic activity. The information in this section summarizes the national and State economic situation and outlook upon which projections of receipts and certain disbursements were made for the 2000-01 Financial Plan.

The U.S. Economy

The national economy has experienced a robust rate of growth during the past six months as the longest U.S. expansion on record continues. Growth in real Gross Domestic Product (GDP) for 2000 is expected to be 4.2 percent falling to 3.0 percent in 2001. Growth is expected to moderate over the course of the year and into 2001. Growth in real GDP will exceed 4 percent in 2000 largely because of the extremely strong growth in the fourth quarter of 1999, which raises the base upon which 2000 GDP growth is calculated.

Various factors are expected to lead to slower growth in the quarters ahead: higher interest rates, as the Federal Reserve Board (FRB) tightens monetary policy to restrain inflation; softer stock prices, which may gradually restrain consumer spending; weaker consumer confidence, which is expected to fall from exceptionally high levels; and slower investment spending in the residential sector as the cost of borrowing rises.

Inflation, as measured by the Consumer Price Index, is projected to be 2.7 percent. Inflation is expected to moderate to 2.5 percent in 2001 if, as expected, the Federal Reserve remains vigilant in controlling any acceleration in consumer prices. Employment growth, which is expected to grow at the rate of 2.0 percent in 2000, will slow to 1.6 percent in 2001. Personal income and wages are estimated to increase by 5.9 percent and 6.5 percent respectively in 2000.

The economic forecast outlined here contains some uncertainties. Stronger-than-expected gains in employment and wages or in stock market prices could lead to stronger growth in consumer spending. The inflation rate may differ significantly from expectations due to the conflicting impacts of a tight labor market and improved productivity growth as well as to the future direction of commodity prices such as petroleum products. Stronger-than-expected inflation could lead the Federal Reserve to increase interest rates more aggressively, which could lead to slower economic growth than currently anticipated.

Table 16
Economic Indicators for the United States

	1996	1997	1998	1999	2000(1)	2001(1)
Gross Domestic Product						
(billions 1996 chain weight $)	7176.0	7480.7	7802.9	8126.7	8470.7	8724.4
Percent Change	3.6	4.2	4.3	4.1	4.2	3.0
Personal Income(2)						
(billions $)	6547.4	6951.1	7358.9	7791.8	8255.1	8716.0
Percent Change	5.6	6.2	5.9	5.9	5.9	5.6
Nonagricultural Employment						
(millions)	119.6	122.7	125.8	128.6	131.2	133.3
Percent Change	2.1	2.6	2.6	2.2	2.0	1.6
Unemployment Rate (Percent)	5.4	4.9	4.5	4.2	4.0	4.0
Consumer Price Index						
(1982-84=100)	157.0	160.6	163.1	166.7	171.1	175.3
Percent Change	2.9	2.3	1.6	2.2	2.7	2.5

Sources: US Department of Commerce, Bureau of Economic Analysis, NYS Division of the Budget.
(1) As projected by the State Division of the Budget, based on National Income and Product Account and employment data through April 2000.
(2) Personal Income is subject to revisions due to either definitional changes or data revisions.

The New York Economy

New York is the third most populous state in the nation and has a relatively high level of personal wealth. The State's economy is diverse, with a comparatively large share of the nation's finance, insurance, transportation, communications and services employment, and a very small share of the nation's farming and mining activity. The State's location and its air transport facilities and natural harbors have made it an important link in international commerce. Travel and tourism constitute an important part of the economy. Like the rest of the nation, New York has a declining proportion of its workforce engaged in manufacturing, and an increasing proportion engaged in service industries.

Services: The services sector, which includes entertainment, personal services, such as health care and auto repairs, and business-related services, such as information processing, law and accounting, is the State's leading economic sector. The services sector accounts for more than three of every ten nonagricultural jobs in New York and has a noticeably higher proportion of total jobs than does the rest of the nation. In recent years, many industries in the services sector, especially high-technology firms, have been prospering.

Manufacturing: Manufacturing employment continues to decline in New York, as in most other states, and New York's economy is less reliant on this sector than in the past. However, it remains an important sector of the State economy, particularly for the upstate economy, as high concentrations of manufacturing industries for transportation equipment, optics and imaging, materials processing, and refrigeration, heating, and electrical equipment products are located in the upstate region.

Trade: Wholesale and retail trade is the second largest sector in terms of nonagricultural jobs in New York but is considerably smaller when measured by income share. Trade consists of wholesale businesses and retail businesses, such as department stores and eating and drinking establishments.

Finance, Insurance and Real Estate: New York City is the nation's leading center of banking and finance and, as a result, this is a far more important sector in the State than in the nation as a whole. Although this sector accounts for under one-tenth of all nonagricultural jobs in the State, it contributes about one-fifth of total wages.

Agriculture: Farming is an important part of the economy in rural areas, although it constitutes a very minor part of total State output. Principal agricultural products of the State include milk and dairy products, greenhouse and nursery products, fruits, and vegetables. New York ranks among the nation's leaders in the production of these commodities.

Government: Federal, state and local governments together are the third largest sector in terms of nonagricultural jobs, with the bulk of the employment accounted for by local governments. Public education is the source of nearly one-half of total State and local government employment.

The importance of the different sectors of the State's economy relative to the national economy is shown in the following table, which compares nonagricultural employment and wages by sector for the State and the nation as a whole. Relative to the nation, the State has a smaller share of manufacturing and construction and a larger share of service-related industries. The State's finance, insurance, and real estate share, as measured by wages, is particularly large relative to the nation. The State is likely to be less affected than the nation as a whole during an economic recession that is concentrated in manufacturing and construction, but likely to be more affected by any economic downturn that is concentrated in the services sector.

Table 17
Nonagricultural Employment and Wages by Categories
Annual 1999 Percentage Composition

	Employment		Wages	
	State	United States	State	United States
Construction	3.4	4.8	3.6	5.1
Transportation, Communication and Utilities	5.0	5.2	5.2	6.3
Finance, Insurance and Real Estate	8.9	5.9	20.1	9.0
Manufacturing	11.1	14.9	11.7	17.4
Government	17.3	15.8	15.4	16.0
Retail Trade	14.9	17.7	7.0	9.3
Wholesale Trade	5.3	5.4	6.3	7.0
Services	34.0	29.8	30.0	28.2

Sources: NYS Department of Labor; US Department of Labor, Bureau of Labor Statistics; US Department of Commerce, Bureau of Economic Analysis.

Listed below in alphabetical order are the 10 largest industrial and commercial employers in the State as of 1998.

Table 18
Ten Largest Industrial and Commercial Employers
1998

Firms	Principal Place of Business in New York State
Chase Manhattan Corporation	New York City
Consolidated Edison Co of NY Inc.	New York City
Eastman Kodak Company	Rochester
Federated Corporate Services Inc.*	New York City
IBM	Endicott
NYNEX (New York Telephone Company)	New York City
United Parcel Service, Inc.	New York City
Wal-Mart Associates Inc.	Various
Wegman's Food Markets, Inc.	Rochester
Xerox Corporation	Rochester

Note: List does not include hospitals or educational facilities.
*Macy's, Bloomingdales, Bon Marche, Sterns, and other stores.

The forecast of the State's economy shows continued expansion throughout 2000. Most major sectors recorded significant employment gains for the first quarter of 2000, with the services sector accounting for most of the increase. Much of this increase occurred in business services. The employment growth rate in 2000 is expected to be 2.1 percent, which, although lower than 1999's 2.6 percent, represents another strong year relative to recent historical performance. The unemployment rate is expected to be 4.9 percent in 2000, down from 5.1 percent in 1999.

Personal income is expected to rise 6.1 percent in 2000, with a 7.5 percent increase in wages. Two major factors are working to produce this impressive growth in wages. One is the overall tightness in the labor market, and the other is strong growth in financial sector bonus payments.

Given the importance of the securities industry in the New York State economy, a significant change in stock market performance during the forecast horizon could result in financial sector profits and bonuses that are significantly different from those embodied in the forecast. Any actions by the Federal Reserve Board to moderate inflation by increasing interest rates more than anticipated may have an adverse impact in New York given the sensitivity of financial markets to interest rate shifts and the prominence of these markets in the New York economy. In addition, there is a possibility that greater-than-anticipated mergers, downsizing, and relocation of firms caused by deregulation and global competition may have a significant adverse effect on employment growth.

Table 19

Economic Indicators for New York State

	1996	1997	1998	1999(1)	2000(1)	2001(1)
Personal Income(2)						
(billions $)	531.0	554.1	583.1	617.7	655.4	688.2
Percent Change	5.5	4.3	5.2	5.9	6.1	5.0
Nonagricultural Employment						
(thousands)	7,938.7	8,067.8	8,237.8	8,452.8	8,631.7	8,763.5
Percent Change	0.6	1.6	2.1	2.6	2.1	1.5
Unemployment Rate (Percent)	6.2	6.4	5.6	5.1	4.9	4.9

Sources: US Department of Commerce, Bureau of Economic Analysis; NYS Department of Labor. Table reflects adjustments by source agency to figures for prior years and certain adjustments to published data by the State Division of the Budget.
(1) As projected by the State Division of the Budget, based on National Income and Product Account and employment data through April 2000.
(2) Personal Income is subject to revisions due to either definitional changes or data revisions.

Economic and Demographic Trends

In the calendar years 1987 through 1998, the State's rate of economic growth was somewhat slower than that of the nation. In particular, during the 1990-91 recession and post-recession period, the economy of the State, and that of the rest of the Northeast, was more heavily damaged than that of the nation as a whole and has been slower to recover. However, the situation has been improving during recent years. In 1999, for the first time in 13 years, the employment growth rate of the State surpassed the national growth rate. Although the State unemployment rate has been higher than the national rate since 1991, the gap between them has narrowed in recent years.

The following table compares population change in the State and in the United States since 1960.

Table 20

Comparative Population Figures

	State			US	
	Total Population (thousands)	% Change From Preceding Period	Percentage of U.S. Population	Total Population (thousands)	% Change from Preceding Period
1960	16,782		9.4	179,323	
1970	18,241	8.7	9.0	203,212	13.3
1980	17,558	(3.7)	7.8	226,546	11.5
1990	17,991	2.5	7.2	248,718	9.8
1999(prelim.)	18,197	0.1	6.7	272,691	0.9

Source: US Department of Commerce, Bureau of the Census.

Total State nonagricultural employment has declined as a share of national nonagricultural employment. The following historical table compares these levels and the rate of unemployment for the State and the nation.

Table 21
Nonagricultural Employment and Unemployment Rate for New York and the United States

	Employment (Thousands)		State Percentage of US	Unemployment Rate (Percent)	
	State	US	Employment	State	US
1960	6,182	54,189	11.4	N/A	5.5
1970	7,156	70,879	10.1	4.5	5.0
1980	7,207	90,406	8.0	7.5	7.2
1990	8,212	109,403	7.5	5.3	5.6
1999 (prelim.)	8,451	128,615	6.6	5.2	4.2

Source: US and NYS Departments of Labor. Note: Nonagricultural employment and the unemployment rate are generated from separate surveys.

State per capita personal income has historically been significantly higher than the national average, although the ratio has varied substantially. Because New York City is a regional employment center for a multi-state region, State personal income measured on a residence basis understates the relative importance of the State to the national economy and the size of the base to which State taxation applies. The following table compares per capita personal income for the State and the nation.

Table 22
Per Capita Personal Income

	State	US	State/US
1960	$ 2,712	$ 2,302	1.18
1970	4,895	4,139	1.18
1980	11,101	10,258	1.08
1990	23,331	19,714	1.18
1999 (prelim.)	33,946	28,574	1.19

Source: US Department of Commerce, Bureau of Economic Analysis.

Debt and Other Financing Activities

Legal Categories of State Debt and Other Financings

Financing activities of the State include general obligation debt and State-guaranteed debt, to which the full faith and credit of the State has been pledged, as well as lease-purchase and contractual-obligation financings, moral obligation and other financings through public authorities and municipalities, where the State's legal obligation to make payments to those public authorities and municipalities for their debt service is subject to annual appropriation by the Legislature. These categories are described in more detail below.

The State has never defaulted on any of its general obligation indebtedness or its obligations under lease-purchase or contractual-obligation financing arrangements and has never been called upon to make any direct payments pursuant to its guarantees.

General Obligation and State-Guaranteed Financing

There are a number of methods by which the State itself may incur debt. The State may issue general obligation bonds. Under the State Constitution, the State may not, with limited exceptions for emergencies, undertake long-term general obligation borrowing (i.e., borrowing for more than one year) unless the borrowing is authorized in a specific amount for a single work or purpose by the Legislature and approved by the voters. There is no constitutional limitation on the amount of long-term general obligation debt that may be so authorized and subsequently incurred by the State. With the exception of general obligation housing bonds (which must be paid in equal annual installments or installments that result in substantially level or declining debt service payments, within 50 years after issuance, commencing no more than three years after issuance), general obligation bonds must be paid in equal annual installments or installments that result in substantially level or declining debt service payments, within 40 years after issuance, beginning not more than one year after issuance of such bonds.

The State may undertake short-term borrowings without voter approval (i) in anticipation of the receipt of taxes and revenues, by issuing tax and revenue anticipation notes (TRANs), and (ii) in anticipation of the receipt of proceeds from the sale of duly authorized but unissued general obligation bonds, by issuing bond anticipation notes (BANs). TRANs must mature within one year from their dates of issuance and may not be refunded or refinanced beyond such period. However, since 1990, the State's ability to issue TRANs has been limited due to enactment of the fiscal reform program which created LGAC (see "Local Government Assistance Corporation" below). BANs may only be issued for the purposes and within the amounts for which bonds may be issued pursuant to voter authorizations. Such BANs must be paid from the proceeds of the sale of bonds in anticipation of which they were issued or from other sources within two years of the date of issuance or, in the case of BANs for housing purposes, within five years of the date of issuance. In order to provide flexibility within these maximum term limits, the State has utilized the BANs authorization to conduct a commercial paper program to fund disbursements eligible for general obligation bond financing. The State expects to redeem the remaining BANs outstanding and does not anticipate issuing new BANs during the 2000-01 fiscal year.

Pursuant to specific constitutional authorization, the State may also directly guarantee certain public authority obligations. The State Constitution provides for the State guarantee of the repayment of certain borrowings for designated projects of the Job Development Authority (JDA). The State has never been called upon to make any direct payments pursuant to any such guarantees.

In February 1997, the JDA issued approximately $85 million of State-guaranteed bonds to refinance certain of its outstanding bonds and notes in order to restructure and improve JDA's capital finances. Due to concerns regarding the economic viability of its programs, JDA's loan and loan guarantee activities were suspended in 1995. JDA resumed its lending activities in 1997 under a revised set of lending programs and underwriting guidelines. As a result of the structural imbalances in JDA's capital structure, and defaults in its loan portfolio and loan guarantee program incurred between 1991 and 1996, JDA would have experienced a debt service cash flow shortfall had it not completed the 1997 refinancing. JDA anticipates that it will transact an additional refinancing in 2003 to complete its long-term plan of finance and further alleviate cash flow imbalances which are likely to occur in future years. The State does not anticipate that it will be called upon to make any payments pursuant to the State guarantee in the 2000-01 fiscal year.

Payments of debt service on State general obligation and State-guaranteed bonds and notes are legally enforceable obligations of the State.

Lease-Purchase and Contractual-Obligation Financing

The State employs additional long-term financing mechanisms, lease-purchase and contractual-obligation financings, which involve obligations of public authorities or municipalities that are State-supported but not general obligations of the State. Under these financing arrangements, certain public authorities and municipalities have issued obligations to finance the construction and rehabilitation of facilities or the acquisition and rehabilitation of equipment, and expect to meet their debt service requirements through the receipt of rental or other contractual payments made by the State. Although these financing arrangements involve a contractual agreement by the State to make payments to a public authority, municipality or other entity, the State's obligation to make such payments is generally expressly made subject to appropriation by the Legislature and the actual availability of money to the State for making the payments. The State has also entered into a financing arrangement with LGAC to restructure the way the State makes certain local aid payments (see "Local Government Assistance Corporation" below).

The State also participates in the issuance of certificates of participation (COPs) in a pool of leases entered into by the State's Office of General Services on behalf of several State departments and agencies interested in acquiring operational equipment, or in certain cases, real property. Legislation enacted in 1986 established restrictions upon and centralized State control, through the Comptroller and the Director of the Budget, over the issuance of COPs representing the State's contractual obligation, subject to annual appropriation by the Legislature and availability of money, to make installment or lease-purchase payments for the State's acquisition of such equipment or real property.

The State is also committed under numerous capital lease-purchase agreements covering electronic data processing and telecommunications equipment and real property capital lease-purchase agreements. Expenditures for these obligations during the 1999-2000 fiscal year were $35.1 million comprised of $22.4 million attributable to principal and $12.7 million attributable to interest. As of March 31, 2000, the remaining State liability for scheduled payments pursuant to these capital lease-purchase agreements is approximately $380 million, comprised of approximately $226 million attributable to principal and $154 million attributable to interest. Included in these amounts is approximately $171 million attributable to principal and $148 million attributable to interest for real property capital lease-purchase agreements. As such obligations do not entail a traditional bond, note, or COPs financing, these amounts are not reflected in the tables describing State-supported debt.

Moral Obligation and Other Financing

Moral obligation financing generally involves the issuance of debt by a public authority to finance a revenue-producing project or other activity. The debt is secured by project revenues and includes statutory provisions requiring the State, subject to appropriation by the Legislature, to make up any deficiencies which may occur in the issuer's debt service reserve fund. There has never been a default on any moral obligation debt of any public authority. The State does not intend to increase statutory authorizations for moral obligation bond programs. From 1976 through 1987, the State was called upon to appropriate and make payments totaling $162.8 million to make up deficiencies in the debt service reserve funds of the Housing Finance Agency (HFA) pursuant to moral obligation provisions. In the same period, the State also expended additional funds to assist the Project Finance Agency, the Urban Development Corporation (UDC) and other public authorities which had moral obligation debt outstanding. The State has not been called upon to make any payments pursuant to any moral obligations since the 1986-87 fiscal year and no such requirements are anticipated during the 2000-01 fiscal year.

In addition to the moral obligation financing arrangements described above, State law provides for the creation of State municipal assistance corporations, which are public authorities established to aid financially troubled localities. The Municipal Assistance Corporation for the City of New York (NYC MAC) was created in 1975 to provide financing assistance to New York City. To enable NYC MAC to pay debt service on its obligations, NYC MAC receives, subject to annual appropriation by the Legislature, receipts from the four percent New York State sales tax for the benefit of New York City, the State-imposed stock transfer tax and, subject to certain prior liens, certain local assistance payments otherwise payable to New York City. The legislation creating NYC MAC also includes a moral obligation provision. Under its enabling legislation, NYC MAC's authority to issue moral obligation bonds and notes (other than refunding bonds and notes) expired on December 31, 1984 and no such bonds are outstanding. In 1995, the State created the Municipal Assistance Corporation for the City of Troy (Troy MAC). The bonds issued by Troy MAC do not include moral obligation provisions.

The State also provides for contingent contractual-obligation financing for the Secured Hospital Program pursuant to legislation enacted in 1985. Under this financing method, the State entered into service contracts which obligate the State to pay debt service, subject to annual appropriations, on bonds either formerly issued by the New York State Medical Care Facilities Finance Agency (MCFFA) and now included as debt of the Dormitory Authority of the State of New York (DASNY), or bonds issued directly by DASNY, in the event there are shortfalls of revenues from other sources. The State has never been required to make any payments pursuant to this financing arrangement, nor does it anticipate being required to do so during the 2000-01 fiscal year. The statutory authorization to issue bonds under this program expired on March 1, 1998.

Local Government Assistance Corporation

In 1990, as part of a State fiscal reform program, legislation was enacted creating LGAC, a public benefit corporation empowered to issue long-term obligations to fund certain payments to local governments that had been traditionally funded through the State's annual seasonal borrowing. The legislation authorized LGAC to issue its bonds and notes in an amount to yield net proceeds not in excess of $4.7 billion (exclusive of certain refunding bonds). Over a period of years, the issuance of these long-term obligations, which are to be amortized over no more than 30 years, was expected to eliminate the need for continued short-term seasonal borrowing. The legislation also dedicated revenues equal to one percent of the four percent State sales and use tax to pay debt service on these bonds. The legislation also imposed a cap on the annual seasonal borrowing of the State at $4.7 billion, less net proceeds of bonds issued by LGAC and bonds issued to provide for capitalized interest, except in cases where the Governor and the legislative leaders have certified the need for additional borrowing and provided a schedule for reducing it to the cap. If borrowing above the cap is thus permitted in any fiscal year, it is required by law to be reduced to the cap by the fourth fiscal year after the limit was first exceeded. This provision capping the seasonal borrowing was included as a covenant with LGAC's bondholders in the resolution authorizing such bonds.

As of June 1995, LGAC had issued bonds and notes to provide net proceeds of $4.7 billion, completing the program. The impact of LGAC's borrowing, as well as other changes in revenue and spending patterns, is that the State has been able to meet its cash flow needs throughout the fiscal year without relying on short-term seasonal borrowings.

2000-01 Borrowing Plan

Section 22-c of the State Finance Law, as amended by Chapter 389 of the Laws of 1997, requires the Governor to submit the five-year Capital Program and Financing Plan (the "Plan") with the Executive Budget. The proposed 2000-01 through 2004-05 Capital Program and Financing Plan was released with the Executive Budget on January 11, 2000 and updated to reflect the 30-Day Amendments on January 31, 2000. The Plan is required to be updated by the later of July 30 or 90 days after the enactment of the State Budget. A copy of the current Plan and the updated Plan, when available, can be obtained by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705, or by visiting its website at www.state.ny.us/dob.

The State's 2000-01 borrowing plan projects issuances of $367 million in general obligation bonds, including $45 million for purposes of redeeming the remaining outstanding BANs. The State does not anticipate issuing new BANs during the 2000-01 fiscal year. The State is expected to issue up to $276 million in COPs to finance equipment purchases (including costs of issuance, reserve funds, and other costs) during the 2000-01 fiscal year. Of this amount, it is anticipated that approximately $76 million will be used to finance agency equipment acquisitions. Approximately $200 million is expected to finance the purchase of new welfare computer systems designed to improve case management, fraud detection and child support collection capabilities.

Borrowings by public authorities pursuant to lease-purchase and contractual-obligation financings for capital programs of the State are projected to total approximately $2.91 billion, including costs of issuance, reserve funds, and other costs, net of anticipated refundings and other adjustments in 2000-01. Included therein are borrowings by: (i) DASNY for the State University of New York (SUNY); the City University of New York (CUNY); health and mental health facilities; child care facilities; biomedical facilities; the Judicial Training Institute; school construction (RESCUE); and university facilities (Jobs 2000); (ii) the Thruway Authority for the Dedicated Highway and Bridge Trust Fund and Consolidated Highway Improvement Program; (iii) UDC (doing business as the Empire State Development Corporation) for prisons, youth facilities; and economic development purposes, including sports facilities and projects within the Buffalo inner harbor area; (iv) the Environmental Facilities Corporation (EFC) for environmental projects, including Pipeline for Jobs (Jobs 2000); and (v) HFA for housing programs. Borrowings for 2000-01 include the Community Enhancement Facilities Assistance Program (CEFAP) for economic development purposes. Four public authorities (Thruway Authority, DASNY, UDC and HFA) are authorized to issue bonds under this program. Borrowings for 2000-01 also include the Strategic Investment Program (SIP) for environmental, historic preservation, economic development, arts, and cultural purposes. Three public authorities (DASNY, UDC and EFC) are authorized to issue bonds under this program. The projections of State borrowings for the 2000-01 fiscal year are subject to change as market conditions, interest rates and other factors vary throughout the fiscal year.

Outstanding Debt of the State and Certain Authorities

For purposes of analyzing the financial condition of the State, debt of the State and of certain public authorities may be classified as *State-supported debt*, which includes general obligation debt of the State and lease-purchase and contractual obligations of public authorities (and municipalities) where debt service is paid from State appropriations (including dedicated tax sources, and other revenues such as patient charges and dormitory facilities rentals). In addition, a broader classification, referred to as *State-related debt*, includes State-supported debt, as well as certain types of contingent obligations, including moral obligation financings, certain contingent contractual-obligation financing arrangements, and State-guaranteed debt described above, where debt service is expected to be paid from other sources and State appropriations are contingent in that they may be made and used only under certain circumstances.

State-Supported Debt Outstanding

General Obligation Bond Programs

The first type of State-supported debt, general obligation debt, is currently authorized for transportation, environment and housing purposes. The amount of general obligation bonds and BANs issued in the 1997-98 through 1999-2000 fiscal years (excluding bonds issued to redeem BANs) were $486 million, $249 million, and $208 million, respectively. Transportation-related bonds are issued for State highway and bridge improvements, aviation, highway and mass transportation projects and purposes, and rapid transit, rail, canal, port and waterway programs and projects. Environmental bonds are issued to fund environmentally-sensitive land acquisitions, air and water quality improvements, municipal non-hazardous waste landfill closures and hazardous waste site cleanup projects. As of March 31, 2000, the total amount of outstanding general obligation debt was $4.6 billion, including $45 million in BANs.

Chapter 58 of the laws of 2000 enacted the proposed $3.8 billion Transportation Infrastructure Bond Act of 2000, which will be presented to the voters for approval in the State's November 2000 general election.

The following table sets forth information regarding the levels of authorized, unissued and outstanding State general obligation debt by purpose as of March 31, 2000.

Table 23
State General Obligation Debt
As of March 31, 2000
(Millions of Dollars)

Purpose/Year Authorized	**Total Authorized**	**Authorized but Unissued**	**Total Debt Outstanding**
Transportation Bonds:			
Transportation Capital Facilities (1967)			
Highways	$1,250.0	$0.0	$0.0
Mass Transportation	1,000.0	0.0	206.7
Aviation	250.0	0.0	90.0
Rail Preservation (1974)	250.0	0.0	81.6
Energy Conservation Through Improved Transportation (1979)			
Local Streets and Highways	100.0	0.0	0.0
Rapid Transit and Rail Freight	400.0	1.7	111.3
Rebuild New York Through Transportation Infrastructure Renewal (1983)			
Highway Related Projects	1,064.0	30.5	47.7
Rapid Transit, Rail and Aviation Projects	136.6	0.0	81.7
Ports, Canals, and Waterways	49.4	0.0	10.2
Accelerated Capacity and Transportation Improvements of the Nineties (1988)	3,000.0	68.8	1,622.2
Total Transportation Bonds	$7,500.0	$101.0	$2,251.4
Environmental Bonds:			
Park and Recreation Land Acquisition (1960)	$100.0	$0.8	$0.5
Pure Waters (1965)	1,000.0	33.8	265.0
Outdoor Recreation Development (1966)	200.0	0.2	1.2
Environmental Quality (1972)			
Water	650.0	6.7	294.1
Air	150.0	24.4	14.0
Land and Wetlands	350.0	36.4	112.6
Environmental Quality (1986)			
Solid Waste Management	1,200.0	306.0	714.2
Land and Forests	250.0	21.0	141.8
Clean Water/Clean Air (1996)			
Safe Drinking Water	355.0	180.0	161.4
Clean Water	790.0	627.6	161.9
Solid Waste	175.0	153.2	9.8
Environmental Restoration	200.0	191.7	8.3
Air Quality	230.0	132.0	91.4
Total Environmental Bonds	$5,650.0	$1,713.8	$1,976.2
Housing Bonds:			
Low-Income Housing (through 1958)	$960.0	$7.9	$183.9
Middle-Income Housing (through 1958)	150.0	0.5	82.5
Urban Renewal (1958)	25.0	1.6	1.4
Total Housing Bonds	$1,135.0	$10.0	$267.8
Education Bonds:			
Higher Education Facilities (1957)	$250.0	$0.0	$15.7
Subtotal: General Obligation Debt	$14,535.0	$1,824.8	$4,511.1
Bond Anticipation Notes			$45.0
TOTAL GENERAL OBLIGATION DEBT			$4,556.1

Source: Office of the State Comptroller.

Lease-Purchase and Contractual-Obligation Financing Programs

The second type of State-supported debt, lease-purchase and contractual-obligation financing arrangements with public authorities and municipalities, has been used primarily by the State to finance the State's highway and bridge program, SUNY and CUNY buildings, health and mental hygiene facilities, prison construction and rehabilitation, and various other State capital projects.

The State has utilized and expects to continue to utilize lease-purchase and contractual-obligation financing arrangements to finance its capital programs, in addition to authorized general obligation bonds. Some of the major capital programs financed by lease-purchase and contractual obligation agreements are highlighted below.

Transportation. The State Department of Transportation is primarily responsible for maintaining and rehabilitating the State's system of highways and bridges, which includes 40,000 State highway lane miles and 7,500 State bridges. The Department also oversees and funds programs for rail, port, transit and aviation projects and programs that help defray local capital expenses associated with road and bridge projects.

Legislation enacted in 1991 established the Dedicated Highway and Bridge Trust Fund to provide for the dedication of a portion of the petroleum business tax and certain other transportation-related taxes and fees for transportation improvements. Since 1993, periodic legislation has authorized a series of multi-year capital plans for the State's transportation programs. Most recently, legislation enacted in 2000 authorized a $17.1 billion 2000-01 through 2004-05 capital program for highways and bridges, canals, rail, ports, aviation, and non-MTA transit systems. The new program will be financed by a combination of Federal grants, pay-as-you-go capital and bond proceeds supported by the Dedicated Highway and Bridge Trust Fund, revenues from the Dedicated Mass Transportation Trust Fund and a portion of the proceeds of bonds issued pursuant to the $3.8 billion Transportation Infrastructure Bond Act of 2000, if approved by the voters in the November 2000 general election.

The State has supported the capital plans of the MTA in part by entering into service contracts relating to certain bonds issued by the MTA. Legislation adopted in 1992 and 1993 also authorized payments, subject to appropriation, of a portion of the petroleum business tax from the State's Dedicated Mass Transportation Trust Fund to the MTA and authorized it to be used as a source of payment for bonds to be sold by the MTA to support its capital program. Legislation adopted in 2000 provided for increases in amounts dedicated to the MTA through the Dedicated Mass Transportation Trust Fund by increasing the portion of the petroleum business tax and other transportation-related taxes and fees that would flow to that Fund. The legislation schedules these increases throughout the 2000-01 through 2004-05 period. See the section entitled "Authorities and Localities" for additional information about the MTA.

Education. The State finances the physical infrastructure of SUNY and CUNY and their respective community colleges and the State Education Department through direct State capital spending and through financing arrangements with DASNY, paying all capital costs of the senior colleges and sharing equally with local governments for the community colleges, except that SUNY dormitories are financed through dormitory fees.

The 34 SUNY campuses include more than 2,300 buildings, including classrooms, dormitories, libraries, athletic and student facilities and other buildings of which 84 percent are over 20 years of age. Together with the 30 SUNY community colleges, the SUNY system serves nearly 370,000 students. The CUNY system is comprised of 11 senior colleges and 6 community colleges that serve approximately 199,000 degree credit students.

Mental Hygiene/Health. The State provides care for its citizens with mental illness, mental retardation and developmental disabilities, and for those with chemical dependencies, through the Office of Mental Health (OMH), the Office of Mental Retardation and Developmental Disabilities (OMRDD) and the Office of Alcoholism and Substance Abuse Services (OASAS). Historically, this care has been provided at large State institutions. Beginning in the 1980s the State adopted policies to provide institutional care to those most in need and to expand care in community residences.

OMRDD's capital program supports a State institutional infrastructure comprising 13 Developmental Disabilities Services Offices with almost 400 buildings, and a State- and non-profit operated community network of approximately 25,000 beds. The program continues the recent shift in emphasis from the development of new facilities (primarily in the community) to the improvement and maintenance of existing State- and non-profit infrastructure.

OMH's capital program supports an institutional physical plant consisting of 23 campuses with over 1,000 buildings as well as 10,000 State- and non-profit operated community residential beds. The overall policy direction of this program has limited institutional capital projects to those that are necessary to ensure the health and safety of clients and staff, retain program accreditation, and maintain the condition of existing facilities. In addition, the program supports the preservation of the existing capital base of State-and non-profit operated community beds and the development of new non-profit operated community beds.

As the need for institutional beds has declined over recent years, both OMRDD and OMH have consolidated, reconfigured or closed many of their campuses, permitting the planned development of alternate uses for the surplus facilities. Capital investments for these programs are primarily supported by patient revenues through financing arrangements with DASNY.

Various capital programs for Department of Health facilities have also been financed by DASNY using contractual-obligation financing arrangements.

Corrections. During the 10-year period 1983 through 1992, the State's prison system more than doubled in size due to the unprecedented increase in demand for prison space. Today, the system houses approximately 72,000 inmates in 70 facilities with 3,400 buildings. Although the Department of Correctional Services (DOCS) capital program was focused primarily on rehabilitation of existing facilities in the early 1990s, continued inmate population growth and projected future growth indicate the need for both expansion of existing facilities and new facilities. The State has added approximately 4,600 beds in response to this population growth.

Other Programs. The State also uses lease-purchase and contractual-obligation financing arrangements for the institutional facilities of the Office of Children and Family Services (formerly known as the Division for Youth), the State's housing programs, and various environmental, economic development, and State building programs. In addition, DASNY has issued taxable pension bonds to refinance the balance of a pre-existing State pension liability, for the purpose of achieving present value savings.

The following table shows the total amount of authorized and outstanding State-supported debt as of March 31, 2000. In addition to showing the amounts of authorized and outstanding general obligation and LGAC debt, the table provides the amount of authorized and outstanding lease-purchase and contractual-obligation debt by purpose, issuer, and program. Debt authorizations for certain programs are approved or enacted all at one time and are expected to be fully issued over time. Authorizations for other capital programs are enacted annually by the Legislature and are usually consistent with bondable capital projects appropriations. Authorization does not, however, indicate an intent to sell bonds for the entire amount of those authorizations, because capital appropriations often include projects that do not materialize or are financed from other sources. For example, there are no current plans for the Thruway Authority to issue any of the authorizations for the suburban transportation program or the remaining emergency highway authorizations.

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Table 24
Outstanding State-Supported Debt
(Millions of Dollars)

	Authorized As of 3/31/00	Authorized but Unissued As of 3/31/00	Outstanding As of 3/31/00 (1)
GENERAL OBLIGATION (2)	$14,535	$1,825	$4,556
LOCAL GOVERNMENT ASSISTANCE CORP.	4,700	0	4,874
OTHER LEASE-PURCHASE AND CONTRACTUAL OBLIGATION FINANCING ARRANGEMENTS			
Transportation:			
MTA:			
1981 Act Service Contract (3)	no limit	no limit	895
1986-87 Acts Service Contract	859	0	1,062
Thruway Authority:			
Emergency Highways(4)	670	58	133
Suburban Transportation	no limit	no limit	0
Westway Right-of-Way	50	50	0
Consolidated Highway Improvement and Suburban Highway Improvement Programs	2,500	390	2,049
Dedicated Highway & Bridge Trust	4,750	997	3,490
DASNY:			
Albany County Airport	40	1	40
Education:			
DASNY:			
SUNY Educational Facilities (5)	3,200	1,081	3,999
SUNY Dormitory Facilities	no limit	no limit	372
SUNY Upstate Community Colleges	no limit	no limit	388
CUNY Educational Facilities (6)	3,415	818	3,119
State Education Department Facilities	no limit	no limit	75
Library for the Blind	16	0	18
SUNY Athletic Facilities	22	0	25
RESCUE	145	145	0
Judicial Training Institute	no limit	no limit	0
Health/Mental Hygiene:			
DASNY/MCFFA:			
Department of Health Facilities	474	2	469
Mental Health Facilities (7)	4,400	516	3,799
Corrections:			
UDC\ESDC:			
Prison Facilities	4,282	881	3,243
Youth Facilities	236	54	164
Youth Centers	37	37	0
Environment:			
EFC:			
Riverbank State Park	60	0	62
Water Pollution Control	300	0	221
Pilgrim Sewage Treatment	no limit	no limit	10
State Park Infrastructure	18	0	14
Fuel Tanks	no limit	no limit	17
Pipeline for Jobs (Jobs 2000)	23	23	0
Energy Research and Development Authority:			
Western New York Nuclear Service Center	104	0	88
UDC\ESDC:			
Long Island Pine Barrens	15	0	15
State Building/Equipment:			
UDC\ESDC:			
Empire State Plaza	133	10	100
State Buildings	20	0	16
State Capital Projects	200	0	245
Albany County-Empire State Plaza(8)	no limit	no limit	16
Other Municipalities	24	2	0
Certificates of Participation	no limit	no limit	503
DASNY:			
State Facilities	no limit	no limit	92

(Continued on next page)

Table 24 (continued)
Outstanding State-Supported Debt
(Millions o Dollars)

	Authorized As of 3/31/00	Authorized but Unissued As of 3/31/00	Outstanding As of 3/31/00 (1)
Housing:			
HFA:			
Capital Programs	1,110	48	1,094
Economic Development:			
CEFAP	425	188	261
Triborough Bridge and Tunnel Authority:			
Convention Center Project	375	0	365
UDC\ESDC\DASNY:			
University Technology Centers	288	53	200
Onondaga Convention Center	40	0	45
Broadway Development Project	6	6	0
Sports Facilities	130	0	134
University Facilities (Jobs 2000)	48	48	0
Natural Resources Preservation	25	0	28
Child Care Facilities	15	15	0
Other:			
DASNY:			
Pension Obligation	787	14	501
Total Other Financing Arrangements			$27,367
TOTAL STATE SUPPORTED DEBT			$36,797

Source: Office of the State Comptroller.

(1) Amounts outstanding may exceed the stated amount authorized for the purpose of providing for the cost of issuance, reserve fund requirements and, in certain circumstances, refunding bonds.

(2) Includes $45 million of bond anticipation notes.

(3) An agreement between the State and the MTA limits the State's payments for support of these bonds.

(4) Includes bonds authorized under the Emergency Highway Construction and Reconstruction, and the Emergency Highway Rehabilitation and Preservation Programs.

(5) Authorization also includes any amount necessary to refund outstanding Housing Finance Agency (HFA) State University Construction Bonds, all of which have been refunded.

(6) The amount outstanding includes one half of $688.1 million for CUNY Community Colleges for which the State pays 50 percent of the debt service and the City pays 50 percent of the debt service. The total amount authorized for CUNY Senior Colleges was unlimited for resolutions adopted prior to 7/1/85 and limited to $3.415 billion for both CUNY Senior and CUNY Community Colleges for resolutions adopted after 7/1/85.

(7) Authorization also includes any amount necessary to refund outstanding HFA Mental Hygiene Bonds, all of which have been refunded.

(8) The State and the County of Albany have a contract that this amount will not exceed $985 million.

Debt Reform Act of 2000

Chapter 59 of the Laws of 2000 enacted the Debt Reform Act of 2000 (Debt Reform Act). The Debt Reform Act implements statutory initiatives intended to improve the State's borrowing practices. The Debt Reform Act applies to all new State-supported debt issued on and after April 1, 2000 and includes the following provisions:

— A phased-in cap on new State-supported debt outstanding of 4 percent of personal income (the existing State-supported debt level is 6 percent of personal income);

— A phased-in cap on new State-supported debt service costs of 5 percent of total governmental funds receipts (the existing State-supported debt service costs are 5 percent of total governmental receipts);

— A limit on the use of debt to capital works and purposes only; and

— A limit on the maximum term of new State-supported debt to 30 years.

The cap on new State-supported debt outstanding begins at 0.75 percent of personal income in 2000-01 and is gradually increased until it is fully phased in at 4 percent of personal income in 2010-11. Similarly, the phased-in cap on new State-supported debt service costs begins at 0.75 percent of total governmental funds receipts and is gradually increased until it is fully phased in at 5 percent in 2013-14. State-supported bond issuances during the 2000-01 borrowing plan are projected by DOB to be within the Debt Reform Act's statutory caps.

The Debt Reform Act requires the limitations on the issuance of State-supported debt and debt service costs to be calculated by October 31 of each year and reported in the quarterly Financial Plan Update most proximate to October 31st of each year. If the calculations for new State-supported debt outstanding and debt service costs are less than the State-supported debt outstanding and debt service costs permitted under the Debt Reform Act, new State-supported debt may continue to be issued. However, if either the debt outstanding or the debt service cap is met or exceeded, the State would be precluded from contracting new State-supported debt until the next annual cap calculation is made and State-supported debt is found to be within the appropriate limitations. The Division of the Budget expects that the prohibition on issuing new State-supported debt if the caps are met or exceeded will provide an incentive to treat the debt caps as absolute limits that should not be reached, and therefore DOB intends to manage subsequent capital plans and issuance schedules under these limits.

State-Related Debt Outstanding

The category of State-related debt includes the State-supported debt described above, moral obligation and certain other financings and State-guaranteed debt.

The following table contains information on the amounts of State-related debt at the close of the three most recent fiscal years, including the levels of State-supported debt, contingent contractual-obligation financing, moral obligation financing and State-guaranteed debt. There are no notes outstanding under any of the moral obligation programs listed below.

Table 25
Outstanding State-Related Debt
(Millions of Dollars)

	As of 3/31/98	As of 3/31/99	As of 3/31/00
State-Supported Debt			
General Obligation	$5,033	$4,825	$4,556
Local Government Assistance Corporation	5,199	5,115	4,874
Other Lease-Purchase and Contractual-Obligatic Financing Arrangements	24,015	25,902	27,367
Total State-Supported Debt	$34,247	$35,842	$36,797
Contingent Contractual-Obligation Financi			
DASNY/MCFFA (1)	$1,102	$1,082	$1,060
Moral Obligation Financing			
Housing Finance Agency	$800	$528	$497
MCFFA-Hospitals and Nursing Homes	111	101	97
Municipal Assistance Corporation for the City of New York	479	0	0
Total Moral Obligation Financing	$1,390	$629	$594
State-Guaranteed Debt			
Job Development Authority	260	187	133
Total State-Guaranteed Debt	$260	$187	$133
TOTAL STATE-RELATED DEBT	$36,999	$37,740	$38,584

Source: Office of the State Comptroller.
(1) Includes bonds issued for the Secured Hospital Program, for which the State's contingent obligation, subject to annual appropriation, is to provide funds for debt service in the event there is a shortfall of revenues from other specified sources.

Debt Service Requirements

The table below presents the current and future debt service (principal and interest) requirements on State-supported debt outstanding as of March 31, 2000. The requirements of LGAC and other financing obligations of public authorities are the gross amounts due from the authorities to bondholders within the fiscal year when the authorities make the payments. The amounts shown do not reflect other associated costs or revenues anticipated to be available, such as interest earnings or capitalized interest. Thus, the requirements shown are generally in excess of the amounts expected to paid by the State during the State fiscal year.

Table 26
Debt Service Requirements on State-Supported Debt
Outstanding As of March 31, 2000
(Millions of Dollars)
(unaudited)

Fiscal Years Ending March 31	General Obligation(1)	Local Government Assistance Corporation(2)	Other Financing Obligations	Total
2000-01	$686	$375	$2,810	$3,871
2001-02	613	375	2,831	3,819
2002-03	557	339	2,740	3,636
2003-04	483	340	2,603	3,426
2004-05	439	382	2,474	3,295
Thereafter	3,607	6,932	31,779	42,318
Total	$6,385	$8,743	$45,237	$60,365

Source: Office of the State Comptroller
(1) Assumes a projected average interest rate of 5.48 percent on $572.6 million of tax-exempt variable rate bonds outstanding on March 31, 2000 and a projected average interest rate of 7.28 percent on $12.5 million of taxable variable rate bonds outstanding on March 31, 2000.
(2) Assumes a projected average interest rate of 6 percent on approximately $964 million of outstanding LGAC variable rate bonds.

Legislation accompanying the 1998-99 budget created the Debt Reduction Reserve Fund (DRRF) in an effort to set aside resources that could be used to reduce State indebtedness either through the use of DRRF as a pay-as-you-go financing source or the use of DRRF to reduce or retire outstanding debt. DRRF deposits have grown from $50 million in fiscal year 1998-99 to $750 million in 2000-01, with an expected closing fund balance of $250 million at the end of the 2000-01 fiscal year.

Long-Term Trends

The following tables provide an overview of trends during the last ten years and an estimate for the current year. They compare: (1) the growth in State-supported debt service requirements with the growth in total governmental funds receipts; (2) the growth in State-supported and State-related debt with the growth in personal income in the State; and (3) the growth in State-supported and State-related debt requirements with the number of State residents.

Table 27 compares the total amount of State-supported debt service with total governmental funds receipts. During the prior ten years, State-supported long-term debt service increased on an average annual basis by 10.4 percent to $3.67 billion by 1999-2000 while Total Governmental Funds Receipts increased on an average annual basis by 5.0 percent. During the first five years of this ten year period, debt service increased by an annual average of 13.3 percent and over the remaining five years of the period the annual average growth in debt service has slowed to 8.1 percent. The relative comparable growth in receipts and debt service resulted in a general trend of increases in the ratio of debt service to receipts from fiscal years 1990-91 to 1999-2000. The ratio is estimated to remain relatively stable at 5.0 percent in fiscal year 2000-01.

Table 27
State-Supported Debt Service Requirements Compared to Total Governmental Funds Receipts

Fiscal Year	Total State-Supported Debt Service ($ in Millions)	Total Governmental Funds Receipts ($ in Millions)	State-Supported Debt Service as a % of Total Governmental Funds Receipts
1990-91	$1,511	$47,236	3.20%
1991-92	1,922	51,706	3.72
1992-93	2,198	54,601	4.03
1993-94	2,266	57,971	3.91
1994-95	2,490	61,106	4.07
1995-96	2,749	62,969	4.37
1996-97	2,827	62,886	4.50
1997-98	3,195	66,246	4.82
1998-99	3,387	70,819	4.78
1999-00	3,672	73,502	5.00
2000-01 (estimated)	3,986	79,727	5.00

Source: State Division of the Budget.

Included in the table above are principal and interest payments on general obligation bonds and interest payments on BANs which were $724.0 million for the 1999-2000 fiscal year, and are estimated to be $687.4 million for 2000-01. State payments for debt service on fixed rate and variable rate bonds issued by LGAC were $315.3 million for the 1999-2000 fiscal year, and are estimated to be $329.3 million for 2000-01. State lease-purchase and contractual-obligation payments (including State installment payments relating to COPs), classified as "Other Financing Obligations", were $2.63 billion in fiscal year 1999-2000, and are estimated to be $2.97 billion for 2000-01.

Table 28 below compares total State-supported and State-related debt outstanding to New York State personal income. Total outstanding State-related debt increased from $28.07 billion at the end of the 1990-91 fiscal year to $38.58 billion at the end of the 1999-2000 fiscal year, an average annual increase of 3.60 percent. State-supported debt increased from $17.17 billion at the end of the 1990-91 fiscal year to $36.80 billion at the end of the 1999-2000 fiscal year, an average annual increase of 8.84 percent. During the first five years of this ten year period, State-related debt outstanding grew by an annual average of 6.7 percent and over the remaining five years of the period the annual average growth in State-related debt outstanding has slowed to 1.2 percent. During the first five years of this ten year period, State-supported debt outstanding grew by an annual average of 13.2 percent and over the remaining five years of the period the annual growth in State supported debt outstanding has slowed to 5.5 percent. During the prior ten year period, annual personal income in the State rose from $416.0 billion to $617.7 billion, an average annual increase of 4.49 percent. Thus, State-supported debt grew at a faster rate than personal income while State-related obligations grew at a slightly slower rate. Expressed in other terms, the total amount of State-supported debt outstanding grew from 4.13 percent of personal income in the 1990-91 fiscal year to 5.96 percent for the 1999-2000 fiscal year while State-related debt outstanding declined from 6.75 to 6.25 percent of personal income for the same period. These trends are expected to continue in the 2000-01 fiscal year, although State-supported debt outstanding is expected to modestly decrease to 5.79 percent of personal income.

Table 28
State-Supported and State-Related Debt Compared with Personal Income

Fiscal Year	NYS Personal Income ($billions)(1)	State-Supported Debt Amount ($millions)	State-Supported Debt As % of Personal Income	State-Related Debt Amount ($millions)	State-Related Debt As % of Personal Income
1990-91	415.9	$17,174	4.13%	$28,065	6.75%
1991-92	425.5	21,562	5.07	31,110	7.31
1992-93	448.4	23,971	5.35	32,930	7.34
1993-94	460.3	26,696	5.80	35,014	7.61
1994-95	476.3	28,169	5.91	36,359	7.63
1995-96	503.2	31,009	6.16	38,593	7.67
1996-97	531.0	33,130	6.24	37,478	7.06
1997-98	554.1	34,247	6.18	36,999	6.68
1998-99	583.1	35,842	6.15	37,740	6.47
1999-00	617.7	36,797	5.96	38,584	6.25
2000-01 (estimated)	655.4	37,921	5.79	39,626	6.05

Source: State Division of the Budget.
1) For calendar year ending in State's fiscal year. Based on US Department of Commerce, Bureau of Economic Analysis (BEA) data through January, 2000. Personal income for 1999 and 2000 estimated by State Division of the Budget.

The table below provides historical amounts of State-supported and State-related debt per capita based on State population statistics.

Table 29
State-Supported and State-Related Debt Per Capita

Fiscal Year	Total State Population ($millions)(1)	State-Supported Debt Amount ($millions)	State Supported Debt/Capita	State-Related Debt Amount ($millions)	State Related Debt/Capita
1990-91	18.0	$17,174	$955	$28,065	$1,560
1991-92	18.0	21,562	1,196	31,110	1,726
1992-93	18.1	23,971	1,326	32,930	1,821
1993-94	18.1	26,696	1,472	35,014	1,930
1994-95	18.2	28,169	1,552	36,359	2,003
1995-96	18.1	31,009	1,709	38,593	2,127
1996-97	18.1	33,130	1,827	37,478	2,067
1997-98	18.1	34,247	1,888	36,999	2,040
1998-99	18.2	35,842	1,969	37,740	2,074
1999-00	18.2	36,797	2,022	38,584	2,120
2000-01 (estimated)	18.2	37,921	2,084	39,626	2,177

Source: State Division of the Budget.
(1) For calendar year ending in State's fiscal year.

State Organization

State Government

The State has a centralized administrative system with most executive powers vested in the Governor. The State has four officials elected in statewide elections, the Governor, Lieutenant Governor, Comptroller and Attorney General. These officials serve four-year terms that next expire on December 31, 2002.

Name	Office	Party Affiliation	First Elected
George E. Pataki	Governor	Republican	1994
Mary Donohue	Lieutenant Governor	Republican	1998
H. Carl McCall	Comptroller	Democrat	1993*
Eliot Spitzer	Attorney General	Democrat	1998

*Pursuant to a vote of the State Legislature, Comptroller McCall took office in 1993; he was elected in the Statewide election of November 1994.

The Governor is elected on a single ticket with the Lieutenant Governor, while the Comptroller and Attorney General are elected on separate tickets. The Governor and the Comptroller have principal responsibility for the State's financial operations. The Governor appoints the heads of most State departments, including the Director of the Budget (the current Acting Director is Carole E. Stone). The Division of the Budget is responsible for preparing the Governor's Executive Budget, negotiating that budget with the State Legislature, and implementing the budget once it is adopted, which includes updating the State's fiscal projections quarterly. The Comptroller, the State's chief auditor and fiscal officer, is responsible for auditing the disbursements, receipts and accounts of the State, as well as for auditing State departments, agencies, public authorities and municipalities. The Comptroller is also charged with managing much of the State's debt and most of its investments (see "Fiscal Controls" and "Investment of State Moneys" below). The Attorney General, the State's chief legal officer, is the legal advisor to State departments, represents the State and certain public authorities in legal proceedings and opines upon the validity of all State general obligations.

The State Legislature is composed of a 61-member Senate and a 150-member Assembly, all elected from geographical districts for two-year terms, expiring December 31, 2000. Both the Senate and the Assembly operate on a committee system. The Legislature meets annually, generally for about six months, and remains formally in session the entire year. In recent years there have been special sessions, as well. The current majority leaders of the Legislature are Joseph Bruno (Republican), Temporary President of the Senate, and Sheldon Silver (Democrat), Speaker of the Assembly. The minority leaders are Martin Connor (Democrat) in the Senate and John Faso (Republican) in the Assembly.

State Financial Procedures

The State Budget Process

The requirements of the State budget process are set forth in Article VII of the State Constitution and the State Finance Law. The process begins with the Governor's submission of the Executive Budget to the Legislature each January, in preparation for the start of the fiscal year on April 1. (The submission date is February 1 in years following a gubernatorial election.) The budget must contain a complete plan of estimated available receipts and projected disbursements for the ensuing fiscal year ("State Financial Plan").

The proposed State Financial Plan must be balanced on a cash basis and must be accompanied by bills that: (i) set forth all proposed appropriations and reappropriations, (ii) provide for any new or modified revenue measures, and (iii) make any other changes to existing law necessary to implement the budget recommended by the Governor.

In acting on the bills submitted by the Governor, the Legislature has the power to alter both recommended appropriations and proposed changes to existing law. The Legislature may strike out or reduce an item of appropriation recommended by the Governor. The Legislature may add items of appropriation, provided such additions are stated separately. These additional items are then subject to line-item veto by the Governor. If the Governor vetoes an appropriation or a bill (or portion thereof) related to the budget, these items can be reconsidered in accordance with the rules of each house of the Legislature. If approved by two-thirds of the members of each house, such items will become law notwithstanding the Governor's veto.

Once the appropriation bills and other bills become law, DOB revises the State Financial Plan to reflect the Legislature's actions, and begins the process of implementing the budget. Throughout the fiscal year, DOB monitors actual receipts and disbursements, and may adjust the estimates in the State Financial Plan. Adjustments may also be made to the State Financial Plan to reflect changes in the economy, as well as new actions taken by the Governor or the Legislature. As required by the State Finance Law, the Governor updates the State Financial Plan within 30 days of the close of each quarter of the fiscal year, generally issuing reports by July 30, October 30, and in January as part of the Executive Budget. The Governor is required to submit these updates to the Legislature and explain any changes from the previous State Financial Plan.

Subject to approval by the Governor, the Legislature may enact additional appropriation bills or revenue measures (including tax reductions) during any regular session or, if called into session for that purpose, any special session. In the event additional appropriation bills or revenue measures are disapproved by the Governor, the Legislature has authority to override the Governor's veto upon the vote of two-thirds of the members of each house of the Legislature. The Governor may present deficiency appropriations to the Legislature near the end of the fiscal year to supplement inadequate appropriations or to provide new appropriations for purposes not covered by the regular and supplemental appropriations.

Fiscal Controls

The State Constitution requires the Comptroller to audit the accrual and collection of State receipts. In addition, the Comptroller is required to audit all official State accounts and all claims against the State before payment. No such payment may be made unless the Comptroller has approved it.

Disbursements from State funds are limited to the lowest of (i) appropriations, (ii) available cash or (iii) the amounts allocated by the Director of the Budget. Disbursements from federal funds must be appropriated in accordance with appropriate legal authority, are limited to the amounts anticipated from federal programs and may not be made in the absence of appropriate certifications from the Director of the Budget. Contracts for disbursements in excess of $10,000 require the Comptroller's approval and depend in most cases upon the existence of an appropriation and the issuance of a certificate of availability by the Director of the Budget. The Budget Director must review all applications for State participation in continuing grant- or contract-supported programs, with specified exceptions. Certain legislative leaders have the opportunity to make recommendations on the applications.

No appropriation may be increased or decreased by transfer or otherwise, except by (i) the interchange within a fund, among items of a particular program or purpose, of moneys appropriated for such program or purpose in such fund, with limited exceptions, or (ii) the enactment of certain emergency appropriations. Moneys or other financial resources from one fund may also be loaned to another fund, but only if such loan is repaid in full prior to the end of the month in which the loan was made, except as provided by law.

In addition, the Governor has traditionally exercised substantial authority in administering the State Financial Plan by limiting disbursements after the Legislature has enacted appropriation bills and revenue measures. The Governor may, primarily through DOB, limit spending by State departments, or delay construction projects to control disbursements. An important limitation of the Governor's ability to restrict disbursements is that local assistance payments, which make up approximately 70 percent of General Fund disbursements (including operating transfers to other funds), are generally mandated by statute. The State Court of Appeals has held that, even in an effort to maintain a balanced Financial Plan, neither the Governor nor the Director of the Budget has the authority to refuse to make a disbursement mandated by law.

In May 2000, the State enacted several statutory provisions designed to restrict the amount of new debt that can be issued in the future. These debt reform provisions are discussed in the section entitled "Debt and Other Financing Activities" in this AIS.

Investment of State Moneys

The Comptroller is responsible for the investment of substantially all State moneys. By law, such moneys may be invested only in obligations issued or guaranteed by the federal government or the State, obligations of certain federal agencies that are not guaranteed by the federal government, certain general obligations of other states, direct obligations of the State's municipalities and obligations of certain public authorities, certain short-term corporate obligations, certain bankers' acceptances, and certificates of deposit secured by legally qualified governmental securities. All securities in which the State invests moneys held by funds administered within the State Treasury must mature within twelve years of the date they are purchased. Money impounded by the Comptroller for payment of TRANs may only be invested, subject to the provisions of the State Finance Law, in (i) obligations of the federal government, (ii) certificates of deposit secured by such obligations, or (iii) obligations of or obligations guaranteed by agencies of the federal government as to which the payment of principal and interest is guaranteed by the federal government.

Accounting, Financial Reporting and Budgeting

Historically, the State has accounted for, reported and budgeted its operations on a cash basis. Under this form of accounting, receipts are recorded only at the time money or checks are deposited in the State Treasury, and disbursements are recorded only at the time a check is drawn. As a result, actions and circumstances, including discretionary decisions by certain governmental officials, can affect the timing of payments and deposits and therefore can significantly affect the cash amounts reported in a fiscal year. Under cash-basis accounting, all estimates and projections of State receipts and disbursements relating to a particular fiscal year are of amounts to be deposited in or disbursed from the State Treasury during that fiscal year, regardless of the fiscal period to which particular receipts or disbursements may otherwise be attributable.

The State also has an accounting and financial reporting system based on GAAP and currently formulates a GAAP financial plan. GAAP for governmental entities requires use of (i) the modified accrual basis of accounting for governmental and certain fiduciary fund types to measure changes in financial position, and (ii) the full accrual basis of accounting for public benefit corporations, college and university funds (except for depreciation on fixed assets) and certain fiduciary fund types to measure net income. Under modified accrual procedures, revenues are recorded when they become both measurable and available to finance expenditures; expenditures are generally recognized and recorded when the State incurs a liability to pay for goods or services, or makes a commitment to make State aid payments, regardless of when actually paid. Financial statements prepared in accordance with GAAP differ in format from the State's traditional financial statements in that, among other things, they are prepared on a modified or full accrual basis, whichever is appropriate, rather than on a cash basis and include a combined balance sheet, reflect a reorganization of the State's fund structure and report on the activities of all funds.

State Government Employment

The State has approximately 192,300 full-time equivalent employees funded from all funds, including part-time and temporary employees but excluding seasonal, legislative and judicial employees.

The current size of the State workforce reflects continuing efforts to streamline operations and improve efficiency. The workforce is now 17 percent smaller than it was ten years ago, when it peaked at 230,600 positions and the State began its workforce reduction efforts. In January, 1995, the State implemented concerted initiatives designed to reduce the size of the workforce and now has 18,900 fewer full-time employees than it had at that time.

Negotiating units for State employees are defined by the State Public Employment Relations Board. Collective bargaining negotiations are conducted by the Governor's Office of Employee Relations except for employees of the Judiciary, public authorities and the Legislature. Such negotiations include terms and conditions of employment, except grade classification policies and certain pension benefits. Approximately 93 percent of the State workforce is unionized. The remainder of the workforce (about 12,000) is designated as managerial or confidential and is excluded from collective bargaining. In practice, however, the results of collective bargaining negotiations are generally applied to all State employees within the executive agencies. The State has completed or is currently negotiating with various unions to establish new agreements as most of the existing contracts expired on March 31, 1999. Please see the section entitled "Current Fiscal Year" in this AIS for the current status of negotiations.

Under the State's Taylor Law, the general statute governing public employee-employer relations in the State, employees are prohibited from striking. A strike against the State last occurred in 1979 by employees of the Department of Correctional Services.

State Retirement Systems

General

The New York State and Local Retirement Systems (the "Systems") provide coverage for public employees of the State and its localities (except employees of New York City and teachers, who are covered by separate plans). The Systems comprise the New York State and Local Employees Retirement System and the New York State and Local Police and Fire Retirement System. The Comptroller is the administrative head of the Systems. State employees made up about 37 percent of the membership during the 1998-99 fiscal year. There were 2,842 other public employers participating in the Systems, including all cities (except New York City), all counties, most towns, villages and school districts (with respect to nonteaching employees) and a large number of local authorities of the State.

As of March 31, 1999, 593,188 persons were in membership and 289,046 pensioners and beneficiaries were receiving benefits. The State Constitution considers membership in any State pension or retirement system to be a contractual relationship, the benefits of which shall not be diminished or impaired. Members cannot be required to begin making contributions or make increased contributions beyond what was required when membership began.

Contributions

Funding is provided in large part by employer and employee contributions. Employers contribute on the basis of the plan or plans they provide for members. Members joining since mid-1976, other than police and fire members, have been required to contribute 3 percent of their salaries. Recently, the Governor's Office and the State's largest employee union agreed to seek new legislation which would eliminate such member contributions after employees have completed 10 years of retirement system service. The legislation would also provide that certain employees who joined prior to mid-1976 will receive one month of service credit for each year of service, up to a maximum of 24 months. Such legislation has not been enacted as of the date of this AIS.

By law, the State makes its annual payment to the Systems on or before March 1 for the then current fiscal year ending on March 31 based on an estimate of the required contribution prepared by the Systems. The Director of the Budget is authorized to revise and amend the estimate of the Systems' bill for purposes of preparing the State's budget for a fiscal year. Legislation also provides that any underpayments by the State (as finally determined by the Systems) must be paid, with interest at the actuarially assumed interest earnings rate, in the second fiscal year following the year of the underpayment. Similarly, any overpayment for a fiscal year serves as a credit against the Systems' estimated bill for the second fiscal year following the fiscal year in which the overpayment is made.

During the 1998-99 fiscal year, the State paid the Systems' 1998-99 estimated bill of $122.3 million. The difference between the amounts paid on the estimated bill and the final bill with interest results in an underpayment of the final bill in the amount of $2.0 million and will be billed on March 1, 2001 ($1.9 million if paid on September 1, 2000).

Assets and Liabilities

Assets are held exclusively for the benefit of members, pensioners and beneficiaries. Investments for the Systems are made by the Comptroller as trustee of the Common Retirement Fund, a pooled investment vehicle. The net assets available for benefits as of March 31, 1999 were $112.7 billion (including $2.2 billion in receivables). The present value of anticipated benefits for current members, retirees, and beneficiaries as of March 31, 1999 was $92.5 billion. For current retirees and beneficiaries alone the amount was $29.4 billion. Under the funding method used by the Systems, the net assets, plus future actuarially determined contributions, are expected to be sufficient to pay for the anticipated benefits of current members, retirees and beneficiaries. For information on the growth of assets held by the Systems, see the tables below.

Table 30
Contributions and Benefits
New York State and Local Retirement Systems
(Millions of Dollars)

Fiscal Year Ended March 31	Contributions Recorded				Total Benefits Paid(2)
	All Participating Employers(1)	Local Employers(1)	State(1)	Employees	
1994	$530	$366	$164	$308	$2,394
1995	315	272	43	334	2,676
1996	777	487	290	342	3,042
1997	904	497	407	348	3,204
1998	463	358	105	369	3,395
1999	292	156	136	400	3,570

Source: State and Local Retirement Systems.
(1) Includes employer premiums to Group Life Insurance Plan.
(2) Includes payments from Group Life Insurance Plan.

Table 31
Net Assets Available for Benefits of the
New York State and Local Retirement Systems(1)
(Millions of Dollars)

Fiscal Year Ended March 31	Total Assets(2)	Percent Increase
1994	$60,122	3.6%
1995	65,413	8.8
1996	77,453	18.4
1997	83,947	8.4
1998	106,319	26.7
1999	112,723	6.0

Source: State and Local Retirement Systems.
(1) Includes relatively small amounts held under the Group Life Insurance Plan. Includes some employer contribution receivables. Fiscal year ending March 31, 1999 includes approximately $2.2 billion of receivables.
(2) Includes certain accrued employer contributions to be paid with respect to service rendered during fiscal years other than the year shown.

Authorities and Localities

Public Authorities

The fiscal stability of the State is related in part to the fiscal stability of its public authorities. For the purposes of this AIS, public authorities refer to public benefit corporations, created pursuant to State law, other than local authorities. Public authorities are not subject to the constitutional restrictions on the incurrence of debt that apply to the State itself and may issue bonds and notes within the amounts and restrictions set forth in legislative authorization. The State's access to the public credit markets could be impaired and the market price of its outstanding debt may be materially and adversely affected if any of its public authorities were to default on their respective obligations, particularly those using the financing techniques referred to as State-supported or State-related debt under the section entitled "Debt and Other Financing Activities" in this AIS. As of December 31, 1999, there were 17 public authorities that had outstanding debt of $100 million or more, and the aggregate outstanding debt, including refunding bonds, of these State public authorities was $95 billion, only a portion of which constitutes State-supported or State-related debt. Table 32 summarizes the outstanding debt of these State public authorities.

Table 32
Outstanding Debt of Certain Authorities
As of December 31, 1999
(Millions of Dollars)

Authority	Amount(1)
Dormitory Authority (2)	$28,633
Port Authority of NY & NJ	8,634
Long Island Power Authority	7,185
Metropolitan Transportation Authority	8,937
Thruway Authority	6,581
Triborough Bridge and Tunnel Authority	5,490
Local Government Assistance Corporation	5,003
Energy Research and Development Authority	3,936
UDC\ESDC	5,079
State of New York Mortgage Agency	4,103
Housing Finance Agency	4,286
Environmental Facilities Corporation	3,948
Power Authority	2,207
Battery Park City Authority	681
Job Development Authority	187
United Nations Development Corporation	144
Project Finance Agency	115
TOTAL OUTSTANDING	$95,149

Source: Office of the State Comptroller.
(1) Includes short-term and long-term debt.
(2) Includes debt previously issued by New York State Medical Care Facilities Finance Agency, which was consolidated with the Dormitory Authority on September 1, 1995.

The State has numerous public authorities with various responsibilities, including those which finance, construct and/or operate revenue-producing public facilities. Public authorities generally pay their operating expenses and debt service costs from revenues generated by the projects they finance or operate, such as tolls charged for the use of highways, bridges or tunnels, charges for public power, electric and gas utility services, rentals charged for housing units, and charges for occupancy at medical care facilities. In addition, State legislation authorizes several financing techniques for public authorities that are described under the section entitled "Debt and Other Financing Activities" above. Also, there are statutory arrangements providing for State local assistance payments otherwise payable to localities to be made under certain circumstances to public authorities. Although the State has no obligation to provide additional assistance to localities whose local assistance payments have been paid to public authorities under these arrangements, the affected localities may seek additional State assistance if local assistance payments are diverted. Some authorities also receive moneys from State appropriations to pay for the operating costs of certain of their programs. As described below, the MTA receives the bulk of this money in order to provide transit and commuter services.

Beginning in 1998, the Long Island Power Authority (LIPA) assumed responsibility for the provision of electric utility services previously provided by Long Island Lighting Company for Nassau, Suffolk and a portion of Queen counties, as part of an estimated $7 billion financing plan. As of the date of this AIS, LIPA has issued over $7 billion in bonds secured solely by ratepayer charges. LIPA's debt is not considered either State-supported or State-related debt.

Metropolitan Transportation Authority

The MTA oversees the operation of subway and bus lines in New York City by its affiliates, the New York City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority (collectively, the TA). The MTA operates certain commuter rail and bus services in the New York metropolitan area through the MTA's subsidiaries, the Long Island Rail Road Company, the Metro-North Commuter Railroad Company, and the Metropolitan Suburban Bus Authority. In addition, the Staten Island Rapid Transit Operating Authority, an MTA subsidiary, operates a rapid transit line on Staten Island. Through its affiliated agency, the Triborough Bridge and Tunnel Authority (TBTA), the MTA operates certain intrastate toll bridges and tunnels. Because fare revenues are not sufficient to finance the mass transit portion of these operations, the MTA has depended on, and will continue to depend on, operating support from the State, local governments and TBTA, including loans, grants and subsidies. If current revenue projections are not realized and/or operating expenses exceed current projections, the TA or commuter railroads may be required to seek additional State assistance, raise fares or take other actions.

Since 1980, the State has enacted several taxes—including a surcharge on the profits of banks, insurance corporations and general business corporations doing business in the 12-county Metropolitan Transportation Region served by the MTA and a special one-quarter of one percent regional sales and use tax—that provide revenues for mass transit purposes, including assistance to the MTA. Since 1987, State law also has required that the proceeds of a one-quarter of 1 percent mortgage recording tax paid on certain mortgages in the Metropolitan Transportation Region be deposited in a special MTA fund for operating or capital expenses. In 1993, the State dedicated a portion of certain additional petroleum business tax receipts to fund operating or capital assistance to the MTA. The 2000-01 Enacted Budget provides State assistance to the MTA totaling approximately $1.35 billion and initiates a five-year State transportation plan that includes nearly $2.2 billion in dedicated revenue support for the MTA's 2000-2004 Capital Program. This capital commitment includes an additional $800 million of newly dedicated State petroleum business tax revenues, motor vehicle fees, and motor fuel taxes not previously dedicated to the MTA.

State legislation accompanying the 2000-01 Enacted State budget increased the aggregate bond cap for the MTA, TBTA and TA to $16.5 billion in order to finance a portion of the $17.1 billion MTA capital plan for the 2000 through 2004 calendar years (the "2000-04 Capital Program"). On May 4, 2000, the Capital

Program Review Board approved the MTA's $17.1 billion capital program for transit purposes for 2000 through 2004. The 2000-04 Capital Program is the fifth capital plan since the Legislature authorized procedures for the adoption, approval and amendment of MTA capital programs and is designed to upgrade the performance of the MTA's transportation systems by investing in new rolling stock, maintaining replacement schedules for existing assets, bringing the MTA system into a state of good repair, and making major investments in system expansion projects such as the Second Avenue Subway project and the East Side Access project.

The currently approved 2000-04 Capital Program assumes the issuance of an estimated $8.9 billion in new money 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. In addition, $1.6 billion in State support is projected to be financed using proceeds from State general obligation bonds under the proposed $3.8 billion Transportation Infrastructure Bond Act of 2000, if approved by the voters in the November 2000 general election. Further, the enacted State budget authorized the MTA to undertake a major debt restructuring initiative which will enable 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.

There can be no assurance that all the necessary governmental actions for future capital programs will be taken, that funding sources currently identified will not be decreased or eliminated, that the Transportation Infrastructure Bond Act will be approved by voters or that the 2000-04 Capital Program (or parts thereof) will not be delayed or reduced. Should the Transportation Infrastructure Bond Act be defeated, the State could come under pressure to provide additional funding to the MTA. Should funding levels fall below current projections, the MTA would have to revise its 2000-04 Capital Program accordingly. If the 2000-04 Capital Program is delayed or reduced, ridership and fare revenues may decline, which could impair the MTA's ability to meet its operating expenses without additional State assistance.

The City of New York

The fiscal health of the State may also be affected by the fiscal health of New York City, which continues to receive significant financial assistance from the State. State aid contributes to the City's ability to balance its budget and meet its cash requirements. The State may also be affected by the ability of the City and certain entities issuing debt for the benefit of the City to market their securities successfully in the public credit markets.

The City has achieved balanced operating results for each of its fiscal years since 1981 as measured by the GAAP standards in force at that time. The City prepares a four-year financial plan annually and updates it periodically, and prepares a comprehensive annual financial report each October describing its most recent fiscal year. For current information on the City's Financial Plan and its most recent financial disclosure, contact the Office of the Comptroller, Municipal Building, Room 517, One Centre Street, New York, NY 10007, Attention: Deputy Comptroller for Public Finance.

To successfully implement its Financial Plan, the City and certain entities issuing debt for the benefit of the City must market their securities successfully. This debt is issued to finance the rehabilitation of the City's infrastructure and other capital needs and to refinance existing debt, as well as to finance seasonal needs. In City fiscal years 1997-98, 1998-99 and 1999-2000, the State Constitutional debt limit would have prevented the City from entering into new capital contracts. To prevent disruptions in the capital program, two actions were taken to increase the City's capital financing capacity: (i) the State Legislature created the New York City Transitional Finance Authority (TFA) in 1997, and (ii) in 1999, the City created TSASC, Inc., a not-for-profit corporation empowered to issue tax-exempt debt backed by tobacco settlement revenues. Despite these actions, the City, in order to continue its capital program, will need additional financing capacity beginning in City fiscal year 2000-01, which could be provided through increasing the borrowing authority of the TFA or amending the State constitutional debt limit for City fiscal year 2001-02 and thereafter.

Fiscal Oversight

In response to the City's fiscal crisis in 1975, the State took action to assist the City in returning to fiscal stability. Among those actions, the State established the Municipal Assistance Corporation for the City of New York (NYC MAC) to provide financing assistance to the City; the New York State Financial Control Board (the Control Board) to oversee the City's financial affairs; and the Office of the State Deputy Comptroller for the City of New York (OSDC) to assist the Control Board in exercising its powers and responsibilities. A "control period" existed from 1975 to 1986, during which the City was subject to certain statutorily-prescribed fiscal controls. The Control Board terminated the control period in 1986 when certain statutory conditions were met. State law requires the Control Board to reimpose a control period upon the occurrence, or "substantial likelihood and imminence" of the occurrence, of certain events, including (but not limited to) a City operating budget deficit of more than $100 million or impaired access to the public credit markets.

Currently, the City and its Covered Organizations (i.e., those organizations which receive or may receive moneys from the City directly, indirectly or contingently) operate under the City's Financial Plan. The City's Financial Plan summarizes its capital, revenue and expense projections and outlines proposed gap-closing programs for years with projected budget gaps. The City's projections set forth in its Financial Plan are based on various assumptions and contingencies, some of which are uncertain and may not materialize. Unforeseen developments and changes in major assumptions could significantly affect the City's ability to balance its budget as required by State law and to meet its annual cash flow and financing requirements.

Monitoring Agencies

The staffs of the Control Board, OSDC and the City Comptroller issue periodic reports on the City's Financial Plans. The reports analyze the City's forecasts of revenues and expenditures, cash flow, and debt service requirements, as well as evaluate compliance by the City and its Covered Organizations with its Financial Plan. According to recent staff reports, economic growth in the City has been very strong in recent years, lead by a surge in Wall Street profitability which resulted in increased tax revenues and helped produce substantial surpluses for the City in City fiscal years 1996-97, 1997-98 and 1998-99. These staff reports also indicate that the City projects a substantial surplus for City fiscal year 1999-2000. 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 recent tax reductions has increased to over $2.3 billion in City fiscal year 1999-2000 through the expiration of a personal income tax surcharge, the repeal of the non-resident earnings tax and the elimination of the sales tax on clothing items costing less than $110. The Mayor has proposed additional tax reductions that would raise the total worth of recent tax cuts to $3.5 billion by City fiscal year 2003-04.

These reports indicate that recent City budgets have been balanced in part through the use of non-recurring resources and that the City's Financial Plan relies in part on actions outside its direct control. These reports have also indicated that the City has not yet brought its long-term expenditure growth in line with recurring revenue growth and that the City is likely to continue to face substantial gaps between forecast revenues and expenditures in future years that must be closed with reduced expenditures and/or increased revenues. In addition to these monitoring agencies, the Independent Budget Office (IBO) has been established pursuant to the City Charter to provide analysis to elected officials and the public on relevant fiscal and budgetary issues affecting the City. Copies of the most recent staff reports by the Control Board, OSDC, City Comptroller, and IBO are available by contacting the Control Board at 270 Broadway, 21st Floor, New York, NY 10007, Attention: Executive Director; OSDC at 270 Broadway, 23rd Floor, New York, NY 10007, Attention: Deputy Comptroller; the City Comptroller at Municipal Building, Room 517, One Centre Street, New York, NY 10007, Attention: Deputy Comptroller for Public Finance; and the IBO at 110 William Street, 14th Floor, New York, NY 10038, Attention: Director.

Other Localities

Certain localities outside New York City have experienced financial problems and have requested and received additional State assistance during the last several State fiscal years. The potential impact on the State of any future requests by localities for additional oversight or financial assistance is not included in the projections of the State's receipts and disbursements for the State's 2000-01 fiscal year.

The State is considering various measures to help resolve persistent fiscal difficulties in Nassau County. The Governor has proposed actions which would, if legislation is enacted, establish a Nassau County Interim Finance Authority. The Authority would be empowered to issue bonds, backed solely by diverted Nassau County sales tax revenues, to achieve short-term budget relief and ensure credit market access for the County. Such Authority would also impose financial plan requirements on Nassau County. The Governor has also proposed that transitional State assistance be appropriated in State fiscal year 2000-01, and in four subsequent State fiscal years. Allocation of such assistance would be subject to the Authority's approval of Nassau County's financial plan. There is no assurance that such proposals will be enacted, or that future actions will not be required by the State to assist Nassau County, resulting in increased State expenditures for extraordinary local assistance.

The State has provided extraordinary financial assistance to select municipalities, primarily cities, since the 1996-97 fiscal year. Funding has essentially been continued or increased in each subsequent fiscal year, and in 2000-01 totals $200.4 million. The 2000-01 enacted budget also increased General Purpose State Aid for local governments by $11 million to $562 million.

While the distribution of General Purpose State Aid for local governments was originally based on a statutory formula, in recent years both the total amount appropriated and the shares appropriated to specific localities have been determined by the Legislature. A State commission established to study the distribution and amounts of general purpose local government aid failed to agree on any recommendations for a new formula.

Counties, cities, towns, villages, school districts and fire districts have engaged in substantial short-term and long-term borrowings. In 1998, the total indebtedness of all localities in the State, other than New York City, was approximately $20.3 billion. A small portion (approximately $80 million) of that indebtedness represented borrowing to finance budgetary deficits and was issued pursuant to enabling State legislation. For further information on the debt of New York localities, see tables 33 and 34 below. State law requires the Comptroller to review and make recommendations concerning the budgets of those local government units (other than New York City) authorized by State law to issue debt to finance deficits during the period that such deficit financing is outstanding. Twenty-three localities had outstanding indebtedness for deficit financing at the close of their fiscal year ending in 1998.

Like the State, local governments must respond to changing political, economic and financial influences over which they have little or no control. Such changes may adversely affect the financial condition of certain local governments. For example, the federal government may reduce (or in some cases eliminate) federal funding of some local programs which, in turn, may require local governments to fund these expenditures from their own resources. It is also possible that the State, New York City, Nassau County, or any of their respective public authorities may suffer serious financial difficulties that could jeopardize local access to the public credit markets, which may adversely affect the marketability of notes and bonds issued by localities within the State. Localities may also face unanticipated problems resulting from certain pending litigation, judicial decisions and long-range economic trends. Other large-scale potential problems, such as declining urban populations, increasing expenditures, and the loss of skilled manufacturing jobs, may also adversely affect localities and necessitate State assistance.

Table 33
Debt of New York City
as of June 30 of each year
(Millions of Dollars)

Year	General Obligation Bonds	General Obligation Notes	Obligations of MAC	Obligations of TFA	Other(1) Obligations	Treasury Obligations	Total
1970 (2)	$4,206.3	$1,293.4	----	----	----	----	$5,499.7
1980	6,178.5	----	$6,116.2	----	$1,111.9	($294.6)	13,112.0
1990	13,499.0	----	7,121.6	----	542.8	(1,670.9)	19,492.5
1995	24,504.5	----	4,882.0	----	720.3	(1,243.1)	28,863.7
1996	26,179.2	----	4,724.2	----	730.0	(1,121.7)	30,511.7
1997	27,148.2	----	4,423.6	----	783.2	(391.0)	31,964.0
1998	26,879.0	----	4,066.5	$2,150.0	787.9	(365.5)	33,517.9
1999	27,441.1	----	3,832.4	4,150.0	746.2	(298.8)	35,870.9

Source: Office of the State Comptroller.

(1) Includes bonds issued by the Dormitory Authority of the State of New York for the City University Construction Fund, and for the New York City Educational Construction Fund and bonds issued by the Samurai Funding Corporation which will be repaid from revenues of the City or revenues that would otherwise be available to the City if not needed for debt service.

(2) Figures for 1970 do not include obligations funded by the City that where issued by component units or other third parties on the City's behalf or the effect of Treasury Obligations that may have been held by the City.

Table 34
Debt of New York Localities(1)
(Millions of Dollars)

Locality Fiscal Year Ending	Combined New York City Debt (2)		Other Localities Debt(3)		Total Locality Debt(3)	
	Bonds	Notes	Bonds(4)	Notes(4)	Bonds(3)(4)	Notes(4)
1970	$4,206.3	$1,293.4	$4,223.2	$2,079.7	$8,429.5	$3,373.1
1980	13,112.0	----	6,835.4	1,792.9	19,947.4	1,792.9
1990	19,492.5	----	10,252.8	3,082.1	29,745.3	3,082.1
1995	28,863.7	----	15,828.6	3,218.7	44,692.3	3,218.7
1996	30,511.7	----	16,413.8	3,590.4	46,925.5	3,590.4
1997	31,964.0	----	17,526.1	3,208.1	49,490.1	3,208.1
1998	33,517.9	----	17,129.2 (5)	3,201.2	50,647.1	3,201.2
1999	35,870.9	----	N/A	N/A	N/A	N/A

N/A: Not Available

Source: Office of the State Comptroller.

(1) Because the State calculates locality debt differently for certain localities (including New York City), the figures above may vary from those reported by such localities. In addition, this table excludes indebtedness of certain local authorities and obligations issued in relation to State lease-purchase arrangements.

(2) Debt of New York City includes its general obligation bonds and notes as well as bonds and notes of the Municipal Assistance Corporation for the City of New York, the New York City Transitional Finance Authority, and certain other obligations as explained in Table 33.

(3) Outstanding bonded debt shown includes bonds issued by the localities and certain debt guaranteed by the localities and excludes assets held in sinking funds and certain amounts available at the start of a fiscal year for redemption of debt.

(4) Does not include the indebtedness of certain localities which did not file annual financial reports with the Comptroller.

(5) 1998 amounts do not include debt which has been defeased through the issuance of refunding bonds.

Litigation

General

The legal proceedings listed below involve State finances and programs and miscellaneous civil rights, real property, contract and other tort claims in which the State is a defendant and the potential monetary claims against the State are substantial, generally in excess of $100 million. These proceedings could adversely affect the financial condition of the State in the 2000-01 fiscal year or thereafter. The State will describe newly initiated proceedings which the State believes to be material, as well as any material and adverse developments in the listed proceedings, in updates or supplements to this AIS.

As of the date of this AIS, except as described below, no current litigation involves the State's authority, as a matter of law, to contract indebtedness, issue its obligations, or pay such indebtedness when due, or affects the State's power or ability, as a matter of law, to impose or collect significant amounts of taxes and revenues.

The State is party to other claims and litigation which its legal counsel has advised are not probable of adverse court decisions or are not deemed adverse and material. Although the amounts of potential losses resulting from this litigation, if any, are not presently determinable, it is the State's opinion that its ultimate liability in these cases is not expected to have a material and adverse effect on the State's financial position in the 2000-01 fiscal year or thereafter.

The General Purpose Financial Statements for the 1999-2000 fiscal year report estimated probable awarded and anticipated unfavorable judgments of $895 million, of which $132 million was expected to be paid during the 1999-2000 fiscal year (for more information on the State's estimated liability, see footnote 14 in the General Purpose Financial Statements for the 1999-2000 fiscal year). These estimates will be updated upon release of the 2000-01 General Purpose Financial Statements in July 2000.

Adverse developments in the proceedings described below, other proceedings for which there are unanticipated, unfavorable and material judgments, or the initiation of new proceedings could affect the ability of the State to maintain a balanced 2000-01 Financial Plan. The State believes that the proposed 2000-01 Financial Plan includes sufficient reserves to offset the costs associated with the payment of judgments that may be required during the 2000-01 fiscal year. These reserves include (but are not limited to) amounts appropriated for Court of Claims payments and projected fund balances in the General Fund (for a discussion of the State's projected fund balances for the 2000-01 fiscal year, see the section entitled "Current Fiscal Year"). In addition, any amounts ultimately required to be paid by the State may be subject to settlement or may be paid over a multi-year period. There can be no assurance, however, that adverse decisions in legal proceedings against the State would not exceed the amount of all potential 2000-01 Financial Plan resources available for the payment of judgments, and could therefore affect the ability of the State to maintain a balanced 2000-01 Financial Plan.

State Finance Policies

Tax Law

In *New York Association of Convenience Stores, et al. v. Urbach, et al.*, petitioners, New York Association of Convenience Stores, National Association of Convenience Stores, M.W.S. Enterprises, Inc. and Sugarcreek Stores, Inc. are seeking to compel respondents, the Commissioner of Taxation and Finance and the Department of Taxation and Finance, to enforce sales and excise taxes imposed, pursuant to Tax Law Articles 12-A, 20 and 28, on tobacco products and motor fuel sold to non-Indian consumers on Indian reservations. In orders dated August 13, 1996 and August 24, 1996, the Supreme Court, Albany County, ordered, *inter alia*, that there be equal implementation and enforcement of said taxes for sales to non-Indian consumers on and off Indian reservations, and further ordered that, if respondents failed to comply within 120 days, no tobacco products or motor fuel could be introduced onto Indian reservations other than for Indian consumption or, alternately, the collection and enforcement of such taxes would be suspended statewide. Respondents appealed to the Appellate Division, Third Department, and invoked CPLR 5519(a)(1), which provides that the taking of the appeal stayed all proceedings to enforce the orders pending the appeal. Petitioners' motion to vacate the stay was denied. In a decision entered May 8, 1997, the Third Department modified the orders by deleting the portion thereof that provided for the statewide suspension of the enforcement and collection of the sales and excise taxes on motor fuel and tobacco products. The Third Department held, *inter alia*, that petitioners had not sought such relief in their petition and that it was an error for the Supreme Court to have awarded such undemanded relief without adequate notice of its intent to do so. On May 22, 1997, respondents appealed to the Court of Appeals on other grounds, and again invoked the statutory stay. On October 23, 1997, the Court of Appeals granted petitioners' motion for leave to cross-appeal from the portion of the Third Department's decision that deleted the statewide suspension of the enforcement and collection of the sales and excise taxes on motor fuel and tobacco. On July 9, 1998, the New York Court of Appeals reversed the order of the Appellate Division, Third Department, and remanded the matter to the Supreme Court, Albany County, for further proceedings. The Court held that the petitioners had standing to assert an equal protection claim, but that their claim did not implicate racial discrimination. The Court remanded the case to Supreme Court, Albany County, for resolution of the question of whether there was a rational basis for the Tax Department's policy of non-enforcement of the sales and excise taxes on reservation sales of cigarettes and motor fuel to non-Indians. In a footnote, the Court stated that, in view of its disposition of the case, petitioners' cross-appeal regarding the statewide suspension of the taxes is "academic." By decision and judgment dated July 9, 1999, the Supreme Court, Albany County, granted judgment dismissing the petition. On September 2, 1999, petitioners appealed to the Appellate Division, Third Department, from the July 9, 1999 decision and order. The appeal is scheduled to be argued June 8, 2000.

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. On April 27, 1999, the Appellate Division, First Department, held that the State's automatic stay of litigation pending the resolution of the appeal would be vacated unless the State perfected its appeal for the Court's September 1999 appellate term. The State perfected its appeal on July 12, 1999. On September 9, 1999, the Appellate Division, First Department, heard the appeal.

Real Property Claims

On March 4, 1985 in *Oneida Indian Nation of New York, et al. v. County of Oneida*, the United States Supreme Court affirmed a judgment of the United States Court of Appeals for the Second Circuit holding that the Oneida Indians have a common-law right of action against Madison and Oneida counties for wrongful possession of 872 acres of land illegally sold to the State in 1795. At the same time, however, the

Court reversed the Second Circuit by holding that a third-party claim by the counties against the State for indemnification was not properly before the federal courts. The case was remanded to the District Court for an assessment of damages, which action is still pending. The counties may still seek indemnification in the State courts.

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. These motions were argued March 29, 1999 and are still awaiting determination. The District Court has not yet rendered a decision. 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.

Several other actions involving Indian claims to land in upstate New York are also pending. Included are *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. On July 5, 2000, a bench hearing is scheduled to determine whether prejudgment interest is appropriate and, if so, the amount thereof. 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. The District Court has set a trial date of October 17, 2000 for that portion of the case related to the plaintiff's claim of ownership of the islands in the Niagara River.

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. By decision dated June 22, 1999, as discussed below, 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 and remanded the case to the District Court for further proceedings consistent with its 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.

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.

In a decision dated June 22, 1999, the Second Circuit found no basis for the District Court's findings that vestiges of a dual system continued to exist in Yonkers and reversed the order directing the implementation of EIP II. The Second Circuit also 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 and remanded the case to the District Court for further proceedings consistent with its decision. On July 2, 1999 the NAACP filed a petition for rehearing of the June 22, 1999 decision before the Second Circuit, *en banc*. The State has joined in the City of Yonker's motion to stay further implementation of EIP II pending the decision on the petition for rehearing. By order dated August 5, 1999, the Second Circuit granted the motion staying further implementation of EIP II pending appeal.

On July 27, 1999, the City of Yonkers moved in the District Court to modify the July 27, 1998 order to require the State to make payments for EIP expenses each month from July 1999 through April 2000 of $9.22 million per month instead of paying $92.2 million by May 1, 2000. By memorandum and order dated July 29, 1999, the District Court denied this motion.

In a decision dated November 16, 1999, the Second Circuit vacated its June 22, 1999 decision. In this decision, the Second Circuit again 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.

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. The trial of this action commenced October 12, 1999.

State Programs

Medicaid

Several cases challenge provisions of Chapter 81 of the Laws of 1995 which alter the nursing home Medicaid reimbursement methodology on and after April 1, 1995. Included are *New York State Health Facilities Association, et al. v. DeBuono, et al., St. Luke's Nursing Center, et al. v. DeBuono, et al., New York Association of Homes and Services for the Aging v. DeBuono et al.* (three cases), *Healthcare Association of New York State v. DeBuono* and *Bayberry Nursing Home et al. v. Pataki, et al.* Plaintiffs allege that the changes in methodology have been adopted in violation of procedural and substantive requirements of State and federal law.

In a consolidated action commenced in 1992, Medicaid recipients and home health care providers and organizations challenge promulgation by the State Department of Social Services (DSS) in June 1992 of a home assessment resource review instrument (HARRI), which is to be used by DSS to determine eligibility for and the nature of home care services for Medicaid recipients, and challenge the policy of DSS of limiting reimbursable hours of service until a patient is assessed using the HARRI (*Dowd, et al. v. Bane*, Supreme Court, New York County). In a related case, *Rodriguez v. DeBuono*, on April 19, 1999, the United States District Court for the Southern District of New York enjoined the State's use of task based assessment, which is similar to the HARRI, unless the State assesses safety monitoring as a separate task based assessment, on the grounds that its use without such additional assessment violated federal Medicaid law and the Americans with Disabilities Act. The State appealed from the April 19, 1999 order and on July 12, 1999 argued the appeal before the Second Circuit. By order dated October 6, 1999, the Second Circuit reversed the April 19, 1999 order and vacated the injunction. On October 20, 1999, petitioners filed a request for rehearing *en banc.*

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's response is due June 15, 2000.

In *Dental Society, et al. v. Pataki, et al.* (United States District Court, Northern District of New York, commenced February 2, 1999), plaintiffs challenge the State's reimbursement rates for dental care provided under the State's dental Medicaid program. Plaintiffs claim that the State's Medicaid fee schedule violates Title XIX of the Social Security Act (42 U.S.C. § 1396a et seq.) and the federal and State Constitutions. On June 25, 1999, the State filed its answer. The parties have entered into a settlement agreement dated May 8, 2000 that will increase medicaid dental reimbursement rates prospectively over a four-year period, beginning June 1, 2000.

Shelter Allowance

In an action commenced in March 1987 against State and New York City officials *(Jiggetts, et al. v. Bane, et al.*, Supreme Court, New York County), plaintiffs allege that the shelter allowance granted to recipients of public assistance is not adequate for proper housing. In a decision dated April 16, 1997, the Court held that the shelter allowance promulgated by the Legislature and enforced through the State Department of Social Services regulations is not reasonably related to the cost of rental housing in New York City and results in homelessness to families in New York City. A judgment was entered on July 25, 1997, directing, *inter alia*, that the State (i) submit a proposed schedule of shelter allowances (for the Aid to Dependent Children program and any successor program) that bears a reasonable relation to the cost of housing in New York City; and (ii) compel the New York City Department of Social Services to pay plaintiffs a monthly shelter allowance in the full amount of their contract rents, provided they continue to meet the eligibility requirements for public assistance, until such time as a lawful shelter allowance is implemented, and provide interim relief to other eligible recipients of Aid to Dependent Children under the interim relief system established in this case. The State appealed to the Appellate Division, First Department from each and every provision of this judgment except that portion directing the continued provision of interim relief. By decision and order dated May 6, 1999, the Appellate Division, First Department, affirmed the July 25, 1997 judgment. By order dated July 8, 1999, the Appellate Division denied the State's motion for leave to appeal to the Court of Appeals from the May 6, 1999 decision and order. By order dated October 14, 1999, the Court of Appeals dismissed the State's motion for leave to appeal.

Food Stamp Program

In an action commenced April 5, 1999 by New York and several other states against the Federal Government (*State of Arizona, et al. v. Shalala, et al.*, United States District Court, District of Columbia), plaintiffs challenge a federal directive which requires states to change their method of allocating costs associated with the Food Stamp program. On July 29, 1999, plaintiffs moved for summary judgment. On September 23, 1999, defendant cross-moved for summary judgment. No date for argument of these motions has been set.

Proprietary Schools

In an action unsealed in February, 1996, the relator claims, *inter alia*, that the State violated the Federal False Claims Act, 31 USC § 3729, *et seq. (United States ex rel. Long v. SCS Business and Technical Institute, Inc., et al.*, United States District Court, District of Columbia). On March 29, 1999, the District of Columbia Circuit Court reversed a decision by the District Court and granted the State's motion to dismiss the action. The United States has petitioned for certiorari to the United States Supreme Court, which is holding the petition pending its decision in a similar case, *U.S. ex rel. Stevens v. State of Vermont.* The State filed its response in September 1999.

Exhibit A to Annual Information Statement

Glossary of Financial Terms

The following glossary, which is an integral part of this AIS, includes certain terms that are used herein and are intended for use only in connection with the entire AIS.

Appropriation: An appropriation is a statutory authorization against which liabilities may be incurred during a specific year, and from which disbursements may be made, up to a stated amount, for the purposes designated. Appropriations generally are authorizations, rather than mandates, to spend, and disbursements from an appropriation need not, and generally do not, equal the amount of the appropriation. An appropriation represents maximum spending authority. Appropriations may be adopted at any time during the fiscal year.

Bond Anticipation Note or *BANs:* A bond anticipation note is a short-term obligation, the principal of which is paid from the proceeds of the bonds in anticipation of which such note is issued.

Capital Projects Funds: Capital Projects Funds, one of the four GAAP-defined governmental fund types, account for financial resources of the State to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Funds, Proprietary Funds and Fiduciary Funds).

Cash Basis Accounting: Accounting, budgeting and reporting of financial activity on a cash basis results in the recording of receipts at the time money or checks are deposited in the State Treasury and the recording of disbursements at the time a check is drawn, regardless of the fiscal period to which the receipts or disbursements relate.

Certificates of Participation or *COPs:* Certificates of Participation represent proportionate interests in certain lease payments made by the State with respect to equipment or real property of the departments and agencies of the State. Such lease payments are subject to annual appropriation by the Legislature and the availability of money to the State for making such payments.

College and University Funds: College and University Funds account for the operations of both the State University of New York and the senior colleges of the City University of New York, including the research foundations, endowment loan fund and capital and debt related activity.

Community Projects Fund or *CPF*: The State created this fund within the General Fund in 1996 to finance certain community projects for the Legislature and the Governor. The State transfers moneys from other General Fund accounts into the CPF, as provided by law. Spending out of the CPF is governed by specific appropriations for each account in the Fund, but cannot exceed the cash balance for that account.

Contingency Reserve Fund or *CRF*: This fund was established in 1993 to assist the State in financing the costs of any extraordinary known or anticipated litigation. Deposits to this fund are made from the General Fund.

Contractual-Obligation Financing: Contractual-obligation financing is an arrangement pursuant to which the State makes periodic payments to a public benefit corporation under a contract having a term not less than the amortization period of debt obligations issued by the public benefit corporation in connection with such contract. Payments made by the State are used to pay debt service on such obligations and are subject to annual appropriation by the Legislature and the availability of moneys to the State for the purposes of making contractual payments.

Debt Reduction Reserve Fund or *DRRF*: The State created DRRF in 1998 to accumulate surplus revenues to pay debt service costs on State-supported bonds, retire or defease such bonds, and to finance capital projects. The State will make deposits to DRRF from the General Fund in 2000-01. Use of DRRF funds requires an appropriation.

Debt Service: Debt service refers to the payment of principal and interest on bonds, and interest on bond anticipation notes and tax and revenue anticipation notes, in accordance with the respective terms thereof.

Debt Service Funds: Debt Service Funds, one of the four GAAP-defined governmental fund types, account for the accumulation of resources (including receipts from certain taxes, transfers from other funds and miscellaneous revenues, such as dormitory room rental fees, which are dedicated by statute for payment of lease-purchase rentals) for the payment of general long-term debt service and related costs and payments under lease-purchase and contractual-obligation financing arrangements.

Disbursement: A disbursement is a cash outlay and in the General Fund includes transfers to other funds.

Executive Budget: The Executive Budget is the Governor's constitutionally mandated annual submission to the Legislature which contains his recommended program for the forthcoming fiscal year. The Executive Budget is an overall plan of recommended appropriations. It projects disbursements and expenditures needed to carry out the Governor's recommended program and receipts and revenues expected to be available for such purpose. The recommendations contained in the Executive Budget serve as the basis for the State Financial Plan (defined below) which is adjusted after the Legislature acts on the Governor's submission. Under the State Constitution, the Governor is required each year to propose an Executive Budget that is balanced on a cash basis.

Expenditure: An expenditure, in GAAP terminology, is a decrease in net financial resources as measured under the modified accrual basis of accounting. In contexts other than GAAP, the State uses the term expenditure to refer to a cash outlay or disbursement.

Fiduciary Funds: Fiduciary Funds refers to a GAAP-defined fund type which accounts for assets held by the State in a trustee capacity or as agent for individuals, private organizations and other governmental units and/or other funds. These funds are custodial in nature and do not involve the measurement of operations. Although the Executive Budget for a fiscal year generally contains operating plans for Fiduciary Funds, and their results are included in the Comptroller's GAAP-based financial statements, they are not included in the State Financial Plan.

Financial Plan: see State Financial Plan.

Fiscal Year: The State's fiscal year commences on April 1 and ends on March 31. The term fiscal year refers to the fiscal year of the State unless the context clearly indicates otherwise.

Fund Accounting: The accounts of the State are presented on the basis of GAAP funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise the fund's assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

GAAP: GAAP refers to generally accepted accounting principles for state and local governments, which are the uniform minimum standards of and guidelines for financial accounting and reporting prescribed by the Governmental Accounting Standards Board. GAAP requires fund accounting for all government resources and the modified accrual basis of accounting for measuring the financial position and changes therein of governmental funds. The modified accrual basis of accounting recognizes revenues when they become measurable and available to finance expenditures, and expenditures when a liability to pay for goods or services is incurred or a commitment to make aid payments is made, regardless of when actually paid.

General Fund: The General Fund, one of the four GAAP-defined governmental fund types, is the major operating fund of the State and receives all receipts that are not required by law to be deposited in another fund, including most State tax receipts and certain fees, transfers from other funds and miscellaneous receipts from other sources.

General obligation bonds: Long-term obligations of the State, used to finance capital projects. These obligations must be authorized by the voters in a general election, are issued by the Comptroller, and are backed by the full faith and credit of the State. Under current provisions of the Constitution, only one bond issue may be put before the voters at each general election, and it must be for a single work or purpose. Debt service must be paid from the first available taxes whether or not the Legislature has enacted the required appropriations for such payments.

General State Charges: Costs mandated by statute or court decree or by agreements negotiated with employee unions for which the State is liable, including: pensions; health, dental and optical benefits; Social Security payments on behalf of State employees; unemployment insurance benefits; employee benefit programs; court judgments and settlements; assessments for local improvements; and taxes on public lands;

Governmental Funds: Governmental funds refers to a category of GAAP-defined funds which account for most governmental functions and which, for the State, include four GAAP-defined governmental fund types: the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. The State's projections of receipts and disbursements in the governmental funds comprise the State Financial Plan.

Interfund Transfers: Under GAAP fund accounting principles, each fund is treated as a separate fiscal and accounting unit with limitations on the kinds of disbursements to be made. To comply with these limitations, moneys are moved from one fund to another to make them available for use in the proper fund, and are accounted for as "interfund transfers."

Lease-Purchase Financing: Lease-purchase financing is an arrangement pursuant to which the State leases facilities from a public benefit corporation or municipality for a term not less than the amortization period of the debt obligations issued by the public benefit corporation or municipality to finance acquisition and construction, and pays rent which is used to pay debt service on the obligations. At the expiration of the lease, title to the facility vests in the State in most cases. Generally the State's rental payments are expressly subject to annual appropriation by the Legislature and availability of moneys to the State for the purposes thereof.

Local Assistance: Disbursements of State grants to counties, cities, towns, villages, school districts and other local entities, certain contractual payments to localities, and financial assistance to, or on behalf of, individuals and not-for-profit organizations.

Moral obligation debt: Long-term bonds issued by certain State public authorities, also known as public benefit corporations, which are essentially supported by their own revenues. Moral obligation debt is not incurred pursuant to a referendum, is not considered State debt, and is not backed by the full faith and credit of the State. However, the authorities selling such obligations have been allowed to establish procedures where, under certain conditions, the State may be called upon to meet deficiencies in debt service reserve funds supporting such bonds. An appropriation must be enacted by the Legislature to meet any such obligation.

Official Statement: A disclosure document prepared to accompany an issuance of bonds, notes and publicly sold certificates of participation offered for sale by the State or its public authorities. Its primary purpose is to provide prospective bond or note purchasers sufficient information to make informed investment decisions. It describes the issuer, the project or program being financed and the security behind the bond issue.

Pay-as-you-go financing: The use of current State resources (as opposed to bonds) to finance capital projects. Also referred to as "hard dollar" financing.

Receipts: Receipts consist of cash actually received during the fiscal year and in the General Fund include transfers from other funds.

Revenue Accumulation Fund: This fund holds certain tax receipts temporarily before their deposit into other funds.

Revenues: Revenues, in GAAP terminology, are an increase in net financial resources, as measured for governmental funds under the modified accrual basis of accounting. In contexts other than GAAP, the State uses the term revenues to refer to income or receipts.

Short-Term Investment Pool or *STIP:* The combination of available cash balances in funds within the State Treasury on a daily basis for investment purposes.

Special Revenue Funds: Special Revenue Funds, one of the four GAAP-defined governmental fund types, account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects), such as federal grants, that are legally restricted to specified purposes.

State Financial Plan: The State Financial Plan sets forth projections of State receipts and disbursements in the governmental fund types for each fiscal year and is prepared by the Director of the Budget based initially upon the recommendations contained in the Executive Budget. After the budget is enacted, the State Financial Plan is adjusted to reflect revenue measures, appropriation bills and certain related bills enacted by the Legislature. It serves as the basis for the administration of the State's finances by the Director of the Budget, and is updated quarterly, or more frequently as necessary, during the fiscal year.

State Funds: State funds refers to a category of funds which includes the General Fund and all other State-controlled moneys, excluding federal grants. This category captures all governmental disbursements except spending financed with federal grants.

State-guaranteed debt: Debt authorized by the voters to be sold by three public authorities: the Job Development Authority, the New York State Thruway Authority, and the Port Authority of New York and New Jersey. State-guaranteed bonds issued for the Thruway Authority and the Port Authority were fully retired on July 1, 1995 and December 31, 1996, respectively . Such debt is backed by the full faith and credit of the State.

State Operations: Operating costs of State departments and agencies, the Legislature and the Judiciary, including salaries and other compensation for most State employees.

State-related debt: This broad category combines all forms of debt for which the State is liable, either directly or on a contingent basis, including all State-supported debt and State guaranteed and moral obligation debt.

State-supported debt: This category includes all obligations for which the State appropriates and pays debt service, including general obligation debt, appropriation-backed debt, and certificates of participation. While tax supported debt (obligations supported by State taxes) represents the majority of obligations in this category, obligations supported by other State revenues (such as dormitory fees or patient revenues) are also included.

Tax and Revenue Anticipation Notes or *TRANs:* Notes issued in anticipation of the receipt of taxes and revenues, direct or indirect, for the purposes and within the amounts of appropriations theretofore made.

Tax Refund Reserve Account: The tax refund reserve account is used to hold moneys available to pay tax refunds. During a given fiscal year, the deposit of moneys in the account reduces receipts and the withdrawal of moneys from the account increases receipts. There is no requirement that moneys withdrawn from this account be replaced.

Tax Stabilization Reserve Fund or *TSRF*: This fund was created to hold surplus revenue that can be used in the event of any unanticipated General Fund deficit. Amounts within this fund can be borrowed to cover any year-end deficit and must be repaid within six years in no less than three equal annual installments. The fund balance cannot exceed two percent of General Fund disbursements for the fiscal year; contributions are limited to two-tenths of one percent of General Fund disbursements in that year.

Exhibit B to Annual Information Statement

Principal State Taxes and Fees

Personal income taxes are imposed on the New York income of individuals, estates and trusts. Personal income taxes will account for more than 54 percent of estimated General Fund receipts during the State's 1999-2000 fiscal year. The State tax adheres closely to the definitions of adjusted gross income and itemized deductions used for federal personal income tax purposes, with certain modifications. New York allows a standard deduction of $13,000 for married couples filing jointly, with lower deductions for the other types of filers. New York also allows a $1,000 exemption for dependents. The tax rate schedule has five tax brackets which, for married couples filing jointly, start at 4 percent for taxable income below $16,000 and increase to 6.85 percent on taxable income over $40,000. There are comparable tax rate schedules for heads of households and single and married couples filing separately. New York also allows several credits against the tax. The most significant are the: household credit, credit for taxes paid to other states, the investment tax credit, employment incentive credit, child care credit, real property tax circuit breaker credit, and the earned income tax credit. The 2000-01 Enacted Budget contained enhancements to the child care credit and the earned income tax credit, added a new credit/deduction for college tuition expenses, and reduced the marriage penalty for couples filing jointly. Receipts from this tax are sensitive to changes in the economic conditions of the State.

User taxes and fees consist of several taxes on consumption, the largest of which is the State sales and compensating use tax. The *sales and use tax* is imposed, in general, on the receipts from the sale of all tangible personal property unless exempted, and all services are exempt unless specifically enumerated. Certain charges for meals, admissions, hotel and motel occupancy and dues are also subject to the tax. The State sales tax rate is 4 percent, of which 3 percent is deposited in the General Fund and 1 percent is deposited in the Local Government Assistance Tax Fund to meet debt service obligations. Receipts in excess of debt service requirements are transferred to the General Fund. Although there are numerous exemptions, the most significant are: food; clothing and footwear costing less than $110; drugs; medicine and medical supplies; residential energy; capital improvements and installation charges; machinery and equipment used in manufacturing; trade-in allowances; and goods sold to Federal, state or local governments. Legislation enacted in 2000 totally or partially exempted: receipts from the transmission and distribution of energy, certain equipment and services purchased by telecommunications, broadcasting, cable and web hosting companies, virtually all purchases related to farm production, vending machine purchases of food and drink under 75 cents, most purchases made by qualifying businesses located in Empire Zones and pollution abatement equipment. Receipts from this tax are sensitive to the economic condition of the State.

The State imposes a *tax on cigarettes* at the rate of $1.11 per package of 20 cigarettes and imposes a *tax on other tobacco products* equal to 20 percent of the wholesale price of such products. The tax rate on cigarettes was raised from 39 cents to 56 cents, and the tax rate on tobacco products other than cigarettes was increased from 15 percent to 20 percent in 1993. The tax on cigarettes was raised from 56 cents to $1.11 per pack on March 1, 2000. The revenue derived from the tax is split, with 50.5 percent of receipts deposited in the General Fund and the balance deposited in the Tobacco Control and Insurance Initiatives Pool established in the Health Care Reform Act of 2000.

Motor fuel and *diesel motor fuel taxes* are levied at 8 cents per gallon upon the sale, generally for highway use, of gasoline and diesel fuel. The diesel fuel tax was reduced from 10 cents per gallon to 8 cents per gallon on January 1, 1996. The 2000-01 Enacted Budget contained legislation to deposit additional gasoline and diesel motor fuel taxes in the dedicated transportation funds. After the implementation of that legislation, the dedicated funds will receive all receipts from the gasoline tax and 5.75 cents of the 8 cents per gallon diesel tax. The General Fund will receive the remaining 2.25 cents per gallon of the diesel tax. In addition, the legislation provided that all motor fuel taxes be deposited in the dedicated transportation funds by 2001-02.

Motor vehicle fees are derived from a variety of sources, including motor vehicle registration fees and driver licensing fees, which together account for most motor vehicle fee revenue. From April 1, 1993, to December 31, 1994, 13 percent of registration fee receipts were earmarked to the Dedicated Highway and Bridge Trust Fund. On January 1, 1995, this percentage rose to 17 percent and on January 1, 1996 (and thereafter) to 20 percent of such receipts. Legislation enacted in 1997 provided for five-year licenses instead of four-year licenses, and for the retention of refunds. Legislation enacted in 1998 reduced motor vehicle registration fees by 25 percent and re-instituted the prior refund policy and increased the percent of such fees earmarked to the Dedicated Highway and Bridge Trust Fund to 28 percent on April 1, 1998, 34 percent on July 1, 1998, and to 45.5 percent on February 1, 1999. Legislation enacted with the 2000-01 Budget directs the remaining 54.5 percent of registration fees to the dedicated transportation funds. Over the next three years, the legislation directs the deposit of additional motor vehicle fee revenue to those funds.

The State imposes *alcoholic beverage excise taxes* at various rates on liquor, beer, wine and specialty beverages. Separate licensing fees are imposed on those who sell alcoholic beverages in New York. The fees vary depending on the type and location of the establishment or premises operated by the licensee, as well as the class of beverage for which the license is issued. Legislation enacted in 1999 reduced the excise tax on beer from 13.5 cents per gallon to 12.5 cents per gallon, and expanded an exemption for small brewers. Legislation enacted with the 2000-01 Budget reduces the tax on a gallon of beer from 12.5 cents to 11 cents on September 1, 2003, and accelerates the current exemption for small brewers to January 1, 2000.

The *highway use tax* revenue is derived from three sources: the truck mileage tax, related highway use permit fees and the fuel use tax. The truck mileage tax is levied on commercial vehicles, at rates graduated by vehicle weight, based on miles traveled on State highways. Legislation enacted in 1998 cut the truck mileage tax by 25 percent beginning in January 1999. Highway use permits are issued triennially at $15 for an initial permit and $4 for a permit renewal. The fuel use tax is an equitable compliment to the State's motor fuel tax and sales tax paid by those who purchase fuel in New York. It is levied on commercial vehicles having three or more axles or a gross vehicle weight of more than 26,000 pounds. Currently all collections from the highway use tax are deposited in the Dedicated Highway and Bridge Trust Fund. Legislation enacted with the 2000-01 Budget reduced the Supplemental Truck Mileage Tax from 50 percent of the base tax to 40 percent of the base tax and increased the flow of motor vehicle receipts to the Dedicated Highway and Bridge Trust Fund to compensate for the revenue loss.

The State imposes a 5 percent *auto rental tax* on charges for any rental of passenger cars rented or used in the State, subject to certain exceptions including leases covering a period of one year or more.

Business taxes include a general business corporation franchise tax as well as specialized franchise taxes on banks, insurance companies, utilities and certain transportation and transmission companies, and a cents-per-gallon-based levy on businesses engaged in the sale or importation for sale of various petroleum products. During the State's 1991-92, 1992-93, and 1993-94 fiscal years, business taxes were generally subject to a 15 percent surcharge. Beginning in 1994 the surcharge was phased out over a three-year period and has been eliminated since July 1, 1997.

The *corporation franchise tax* is the largest of the business taxes, and the State's third largest source of revenue. It is imposed on all domestic general business corporations and foreign general business corporations which do business or conduct certain other activities in the State. The tax is imposed, generally, at a rate of 8.5 percent of taxable income allocated to New York and at a rate as low as 7.5 percent for small businesses. Taxable income is defined as federal taxable income with certain modifications.

Legislation enacted in 1998 reduced the general business tax rate from 9 percent to 7.5 percent in three steps beginning in 1999; reduced the corporate alternative minimum tax rate from 3.5 percent to 3 percent in two steps beginning in 1998; reduced the fixed-dollar minimum corporate tax for most small businesses from $325 to $100 beginning in 1998; reduced the tax rate applied to subchapter S-corporations by 40 percent or more beginning in 1998; adopted an investment tax credit for investment in securities trading infrastructure and institutes tax benefits for investments and employment in emerging technology companies. Significant statutory changes enacted in 1999 include: reforms to the subsidiary capital tax; a further reduction on the alternative minimum tax rate from 3 percent to 2.5 percent; doubling the economic development zone and zone equivalent area wage tax credits; and reforms to the apportionment of income for the airline industry. In 2000, legislation was enacted to: shift the taxation of public utilities from taxation under a gross earnings tax to taxation as general business corporations; reduce taxes for small businesses; change the allocation formula for financial services companies; add new credits for “green buildings,” low-income housing, alternative fuel vehicles, and certain transportation projects; and eliminate energy taxes paid by industrial and manufacturing businesses. Empire Zones were created which provide various credits and exemptions to companies meeting employment criteria within economic development zones.

The *franchise taxes on public utilities and certain other transmission and transportation companies* are the second largest source of receipts among the business taxes. These consist of various franchise taxes imposed on public utilities, including taxes on the utilities' issued stock and taxes on utilities' intrastate gross earnings and gross income.

Legislation enacted in 1996 provided that as of January 1, 1997 the franchise tax rate imposed on truckers and railroads was reduced from 0.75 percent to 0.6 percent of gross earnings. As of January 1, 1998 truckers and railroads were allowed to choose between taxation under this tax or taxation under the general business corporation tax.

Legislation enacted in 1997 reduced the 3.5 percent gross receipts tax imposed upon gas, electric, and telephone service to 3.25 percent on October 1, 1998, and then to 2.5 percent on January 1, 2000. Local telephone companies and other franchise taxpayers will realize an additional rate cut of .375 percent in their franchise tax on July 1, 2000. Also, the franchise tax on trucking and railroads will be reduced on July 1, 2000, from 0.6 percent to 0.375 percent. Additional 1997 legislation established the Power for Jobs program which made 400 megawatts of low-cost power available for job creation and expansion with the utilities recouping their losses through a tax credit. Legislation enacted in 1998 expands to 450 megawatts and accelerates the phase-in of the Power for Jobs program.

In 2000, legislation was enacted which alters the way traditional gas and electric utilities are taxed. The changes include the: shift from a franchise tax imposed on gross earnings to taxation based on net income or the alternative bases under Article 9-A of the Tax Law, phase-out of the gas import tax, phase-out of the gross receipts tax on gas and electricity for business consumers, and overall reductions in remaining gross receipts taxes. The legislation also provides for an expansion of the Power for Jobs program which allows credits against the gross receipts taxes paid by utilities furnishing low-cost power.

Insurance taxes are imposed on insurance corporations, brokers and certain insurers at a basic rate of 9 percent of entire net income allocable to New York, based on the level of activity of an insurance company in the State during the taxable year. In addition, there is a franchise tax on net premiums written or received by insurance corporations on risks resident or located within the State, at rates between 0.8 percent and 1.3 percent, depending on policy type, as well as certain taxes imposed under the Insurance Law. Legislation enacted in 1997 provided that on or after January 1, 1998 the overall limit on the combined taxes of 2.6 percent of premiums for life insurance companies is reduced to 2.0 percent and the gross premiums tax on such components is decreased from 0.8 percent to 0.7 percent. Also, the legislation provides preferential premium tax rates to captive insurance companies that insure the primary risks of their parent and affiliated companies. Legislation enacted in 1999 provides for a phased reduction in the net income tax rate applicable to insurance companies from 9 percent to 7.5 percent. In addition, provisions enacted in 1999 reduce the limitation on tax liability for non-life insurers over a three-year period. Legislation enacted in 2000 extends the investment tax credit for equipment used in the trading of securities by insurance companies and expands the existing certified capital company program.

The State imposes a *franchise tax on banking corporations* at a basic tax rate of 9 percent of entire net income with certain exclusions, and subject to special rates for institutions with low net worth. The 9 percent rate represents a reduction from the rate of 12 percent that was in effect until 1985, when the bank tax was restructured. The 1985 changes were extended through taxable years beginning before January 1, 2001. Legislation enacted in 1997 allows banks a net operating loss deduction which can be carried forward against the bank franchise tax. This applies to net operating losses sustained on or after January 1, 2001. The legislation also allows banks to form subchapter S-corporations which will exempt them from taxation under the bank tax and allow the same tax treatment as other subchapter S-subsidiaries. Legislation enacted in 1998 authorizes an investment tax credit for the purchase of tangible personal property used in a bank's normal course of business as a broker or dealer in connection with the purchase or sale of stocks or bonds. Legislation enacted in 1999 provides for a phased reduction in the net income tax rate applicable to banks from 9 percent to 7.5 percent.

The State imposes a *petroleum businesses tax* on the privilege of operating a petroleum business in the State. This tax is measured by the quantity of various petroleum products imported into the State for sale or use. The tax is imposed at various cents-per-gallon rates depending on the type of petroleum product. The cents-per-gallon tax rates are indexed to reflect petroleum price changes but are limited to changes of no more than 5 percent of the tax rate in any one year. The portion of the receipts from this tax deposited to the General Fund has declined significantly, reflecting the dedication of receipts to transportation accounts, and the adoption in 1994, 1995, and 1996 of a variety of tax relief measures. Legislation enacted in 1996, which was fully phased in on April 1, 1999, provided for reductions in the petroleum business taxes on residual petroleum, non-automotive diesel and diesel fuel used by motor vehicles and railroads, utilities, and commercial enterprises, and the elimination of the petroleum business taxes imposed on fuel used in manufacturing. In addition, the legislation also provided reimbursements of the tax paid for aviation gasoline when the fuel is consumed outside New York. Legislation enacted in 1999 cut the tax rate on fuel used for commercial heating, eliminated the tax on fuel used for mining and adjusted the proportions of the tax going to dedicated funds to save-harmless the revenue flowing to those funds. Legislation enacted in 2000 eliminated certain minimum taxes and reduced the tax rate on commercial heating fuels. In addition, the legislation provided that the remaining General Fund receipts from this tax be directed to the dedicated transportation funds.

Other tax revenues include taxes on pari-mutuel wagering, the estate tax, taxes on real estate transfers, certain other minor taxes, and residual receipts following the repeal of the real property gains tax and the gift tax.

The State imposes *estate taxes* on the estates of deceased New York residents, and on that part of a nonresident's net estate made up of real and tangible personal property located within New York State. Estate tax liability is computed on the basis of the federal definition of "gross estate" and is set equal to the federal credit for federal estate tax liability allowable for State estate taxes paid. This essentially eliminates the additional New York State liability imposed under prior law. Reflecting the composition of many decedents' estates in New York, collections of this tax are heavily influenced by fluctuations in the value of common stock.

Gift taxes are imposed on taxable gifts made during a taxpayer's lifetime after allowable exclusions. Under legislation enacted in 1997 the gift tax was reduced in 1999 and was repealed effective January 1, 2000.

The *real estate transfer tax* applies to each real property conveyance, subject to certain exceptions, at a rate of $2 for each $500 of consideration or fraction thereof. Pursuant to statute, $112 million of real estate transfer tax receipts are deposited in the Environmental Protection Fund (EPF) and the remaining receipts are deposited in the Clean Water/Clean Air Debt Service Fund. Receipts in excess of the debt service requirements are transferred back to the General Fund.

The *real property gains tax* had been levied at the rate of 10 percent on gains derived from certain real property transactions where the consideration is $1 million or more. Legislation adopted in 1996 repealed the real property gains tax on transfers occurring on or after June 15, 1996; however, some receipts continue to flow to the General Fund based on transactions occurring prior to such date.

The State levies *pari-mutuel taxes* on wagering activity conducted at horse racetracks, simulcast theaters and off-track betting parlors throughout the State. In previous years the State temporarily reduced its tax rates and expanded simulcast opportunities and increased purses. Legislation enacted in 1998 extended the tax cut and simulcast provisions to 2002. In addition to pari-mutuel taxes, a 4 percent tax is levied on the charge for admissions to racetracks and simulcast theaters, and a 3.0 percent tax is levied on gross receipts from boxing and wresting exhibitions, including receipts from broadcast and motion picture rights. Legislation enacted in 1999 and 2000 reduced taxes on races run at non-profit racing association tracks and dedicates the reduction to increasing purses at those tracks and to operate the Breeders Cup races.

Miscellaneous receipts and other revenues include various fees, fines, tuition, license revenues, lottery revenues, investment income, assessments on various businesses (including healthcare providers), and abandoned property. Miscellaneous receipts also include minor amounts received from the federal government and deposited directly in the General Fund. Legislation enacted in 1997 provided for a phase-out of most of the assessments on health care providers by April 1, 2001. Legislation enacted in 1998 and 1999 accelerated the phase-out of the health care provider assessments; they were eliminated in January 2000.