

PART II

STATE DEBT SERVICE

STATE DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS

DEBT REFORM ACT OF 2000 ENSURES DEBT COSTS ARE CONTROLLED AND AFFORDABLE

Debt service appropriations for 2001-02 reflect the Governor's ongoing commitment to reform the State's debt practices with the implementation of the historic Debt Reform Act of 2000, the use of \$750 million in deposits to the Debt Reduction Reserve Fund (DRRF) and new initiatives that will continue to improve debt affordability.

Debt service projections on new debt issuances reflect a prudent balance between financing strategic capital investments with pay-as-you-go resources and State-supported bonds. That balance ensures that new debt issuances in both 2000-01 and over the remaining years of the Five-Year Capital Program and Financing Plan are well below the caps and limitations imposed by the Debt Reform Act, which, effective April 1, 2000:

- Imposed a phased-in cap on new debt outstanding of 4 percent of personal income, reflecting a one-third decline from the current level of 6 percent of State income.
- Imposed a phased-in cap on new debt service costs of 5 percent of All Funds receipts, ensuring that the amount of resources devoted to debt service costs remain affordable and stable.
- Restricted the use of debt to financing capital works and purposes.
- Reduced the maximum term of debt to 30 years, ensuring that exceptionally long maturities do not dramatically increase debt service costs.

CONSTITUTIONAL DEBT REFORM

To ensure that the statutory caps and other debt limitations imposed by the Debt Reform Act of 2000 are made permanent, the Governor will resubmit his Constitutional Debt Reform bill. The bill, which has already unanimously passed the State Senate, will:

- Constitutionally mandate the State-supported debt outstanding and debt service caps now imposed by the Debt Reform Act of 2000.
- Ban "back door" borrowing.
- Constitutionally authorize a limited amount of revenue-backed debt and require that at least one-half of all new debt is approved by the voters.
- Authorize multiple general obligation bond act proposals.

DEBT REDUCTION RESERVE FUND DRAMATICALLY REDUCES DEBT SERVICE COSTS

In 1998-99, the Governor proposed the Debt Reduction Reserve Fund (DRRF) as a prudent mechanism to set aside available resources to reduce State-supported debt and taxpayer costs. By the end of 2000-01, deposits to DRRF will reach \$750 million. The combined \$750 million DRRF investment will save taxpayers \$1.2 billion in lower debt service costs.

NEW DEBT REFORM INITIATIVES WILL FURTHER REDUCE COSTS

To build upon the historic adoption of the Debt Reform Act and other debt management initiatives that have already reduced borrowing costs, the Executive Budget will recommend legislation that will improve the marketability and creditworthiness of State-supported

DEBT SERVICE

debt by proposing a new statutory Revenue Debt structure to gradually enhance the State's debt profile. This proposal will expand the State's existing "revenue-backed" debt to provide a structure that will "guarantee" the State will, subject to appropriation, satisfy the debt service obligation due on the new revenue-backed bonds. The proposal is designed to:

- Reduce borrowing costs and expand the investor base for State-supported obligations by providing the marketplace with a new, highly-rated, secure debt instrument.
- Permit the State to consolidate its current bonding programs and provide the statutory framework for the issuance of Constitutional Revenue Debt.

DEBT SERVICE APPROPRIATIONS FOR 2001-02

The recommended debt service appropriations reflect the maximum estimated debt service payments for outstanding bonds and new State-supported bond issuances. The appropriations for State general obligation, Local Government Assistance Corporation (LGAC), and Housing Finance Agency (HFA) Service Contract Obligation Revenue (SCOR) variable rate bonds reflect a maximum interest rate of 18 percent. Debt service appropriations for new variable rate debt projected to be issued under the Urban Development Corporation's (UDC) Correctional Facilities and Youth Facilities bonding programs will also be appropriated at the maximum rate. However, such rates are expected to be approximately 4 percent for tax exempt and 6 percent for taxable obligations. In addition, the contingent appropriations for interest rate swaps executed for the Dormitory Authority (DA) SUNY Educational Facilities program, as well as projected swap transactions for LGAC and the UDC Correctional Facilities bonding programs, are also appropriated at a maximum rate of 18 percent. Consistent with rating agency guidelines, the State will continue to diversify its debt portfolio by increasing the use of short-term debt instruments (i.e., variable rate debt and a limited amount of interest rate swaps) as a percentage of total debt outstanding.

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

GENERAL DEBT SERVICE FUND

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

Appropriations from the General Debt Service Fund for general obligation bonds are recommended at \$715 million. Appropriations for projected debt service reflect actual payments on outstanding general obligation bonds, and estimated payments on bonds anticipated to be issued in March and June of 2001. Payments for the State's continued issuance of variable rate general obligation bonds are also included.

Appropriations of \$2.4 billion are recommended from the General Debt Service Fund for lease purchase and other financing agreement payments due on State-appropriation backed bonds. The following appropriations may also be used to satisfy the debt service due on new Revenue Debt authorized to be issued for the bonding programs described below. Bond caps for such programs will be reduced by the amount of Revenue Debt issued for such program. The 2001-02 Debt Service Bill recommends appropriations for lease purchase and other financing obligations to the following authorities:

- Thruway Authority, for Local Highway and Bridge service contract bonds for local transportation purposes. Spending from this appropriation (\$235 million) is financed by transfers from the Dedicated Highway and Bridge Trust Fund.

- Environmental Facilities Corporation, for State Revolving Loan Fund service contract bonds, the Jobs 2000 Pipeline for Jobs program and the financing of parks and other environmental programs (\$59 million).
- Urban Development Corporation, for financing the construction and rehabilitation of correctional facilities, State facilities, youth facilities, stadia facilities, the pine barrens land acquisition, economic development and natural resources preservation, high technology research facilities and business incubators, projects at various university technology centers, the Higher Education Applied Technology (HEAT) program, and the Onondaga Convention Center (\$375 million). These include appropriation authority for payments on projected interest rate swaps.
- Dormitory Authority, for SUNY educational, athletic facilities and upstate community colleges, State Education Department facilities, CUNY senior and community colleges, the Jobs 2000 University Facilities program, RESCUE for school construction, child care facilities, the Department of Health's Axelrod Laboratory, Albany Airport, the Library for the Blind, pension obligation bonds, and certain State facilities (\$1 billion). The SUNY educational facilities appropriations also include interest rate swaps.
- Housing Finance Agency, pursuant to agreements between the State and HFA to finance the State's housing programs (\$138 million). This includes payments for variable rate housing bonds.
- Triborough Bridge and Tunnel Authority (TBTA), for the financing of the Javits Convention Center in New York City (\$43 million).
- Bonds authorized to be issued by various authorities, including the UDC and the DA to finance the Community Enhancement Facilities Assistance Program (\$175 million) and the Strategic Investment Program (\$50 million).
- Lease purchase payments for various State facilities (\$62 million), including the 50 Wolf Road building in Albany, the new Department of Environmental Conservation building at 625 Broadway in Albany, and a new Department of Transportation Region One headquarters building to be located in Schenectady.
- Metropolitan Transportation Authority (MTA), for service contracts payments (\$165 million) on bonds issued to finance transit and commuter rail projects.
- Energy Research Development Authority, for service contract payments (\$16 million) on bonds issued to finance the West Valley Project.
- Dormitory Authority, for service contracts to finance the capital needs of financially distressed hospitals (\$95 million). In the event that hospital repayments and other available funds are inadequate to meet debt service, such payments are to be made pursuant to service contracts with the State. The recommended appropriation reflects the State's potential liability on debt service payable on DA bonds. Legislative authorization for this program expired in March 1998, and State payments are not expected to be required for this program in 2001-02.

HOUSING DEBT FUND

Payments from local governments and housing companies which benefit from housing and urban renewal projects funded with State general obligation bonds are deposited in the Housing Debt Fund, and are used to pay debt service on such bonds. A \$29 million appropriation is recommended for 2001-02.

STATE UNIVERSITY DORMITORY INCOME FUND

This Fund receives payments for the use of dormitory rentals and other fees at dormitories operated by SUNY. Debt service on bonds issued by the DA for the

DEBT SERVICE

construction and rehabilitation of SUNY dormitories has first claim on all dormitory revenues deposited in the Fund. An appropriation of \$55 million is recommended for lease-purchase payments to the DA.

MENTAL HEALTH SERVICES FUND

The Dormitory Authority is authorized to issue bonds to finance capital programs for the Department of Mental Hygiene. Revenues received for the care and treatment of patients at State mental health facilities are deposited in this Fund, and are used to make lease-purchase payments to the DA for debt service on mental health services bonds. These rental payments have the first claim on moneys in the Fund. The DA also makes loans to eligible not-for-profit agencies providing mental health services. In return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects. Such payments are also deposited in the Mental Health Services Fund. The recommended appropriation from this Fund is \$355 million.

HEALTH INCOME FUND

The Department of Health (DOH) has entered into contractual agreements with the DA to finance the construction and rehabilitation of State hospitals and veterans' homes. These agreements require DOH to make lease-purchase rental payments to the DA. Such payments have first claim on revenues received in this Fund from patient care at DOH facilities. Consistent with existing bonding pledges and statutory requirements, the Roswell Park Cancer Institute Corporation's moneys continue to flow into the Fund as security for and payment to bondholders. As a result, the State's Financial Plan only reflects the portion of the Corporation's receipts that are attributable to debt service. Lease-purchase obligations during 2001-02, which also include obligations for the New York City Veterans' Home, require appropriations of \$39 million.

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

The Commissioner of Transportation contracted with the New York State Thruway Authority to finance, through the Authority's bonds, highway reconditioning and preservation and construction and reconstruction projects. To enable the Thruway Authority to meet its debt service on these bonds, receipts attributable to seven-eighths of one cent of the tax on each gallon of gasoline and diesel fuel sold in the State have been earmarked to the Emergency Highway Reconditioning and Preservation and Emergency Highway Construction and Reconstruction Funds. Appropriations of \$32 million from each of these funds are recommended for the 2001-02 fiscal year.

CENTRALIZED SERVICES FUND

Certificates of Participation (COPs) have been issued to finance the purchase of equipment on an installment or lease-purchase basis for State departments, agencies, and public authorities. Moneys from the operating budgets of participating agencies are deposited to the Centralized Services Fund for payment to the trustees of COPs issuances. Such obligations' maturities are predominantly short-term in nature, reflecting the useful life of the equipment financed. An appropriation of \$210 million is recommended to pay debt service on COPs.

LOCAL GOVERNMENT ASSISTANCE TAX FUND

To eliminate the State's annual spring cash flow borrowing, 1990 legislation authorized LGAC to issue bonds to finance payments to local governments previously funded by the State. LGAC has issued its entire \$4.7 billion net authorization. Revenues equal to one-quarter of the four cent State sales and use tax are deposited into the Local Government Assistance Tax Fund and used to pay debt service on LGAC obligations. The recommended appropriation of \$463 million represents anticipated debt service on all fixed-rate bonds, the maximum interest rate for outstanding variable rate bonds, planned interest rate swaps, and administrative costs. Moneys not needed for debt service are transferred to the State's General Fund.

SCHOOL CAPITAL FACILITIES FINANCING RESERVE FUND

An appropriation of \$40 million is recommended from the School Capital Facilities Financing Reserve Fund, a fiduciary fund, to pay debt service on bonds issued by the DA on behalf of special act and certain other authorized types of local school districts. The districts have assigned State local assistance payments to the DA, which are deposited into the Fund and used to make debt service payments.

DEDICATED HIGHWAY AND BRIDGE TRUST FUND

An appropriation of \$525 million is recommended for 2001-02 debt service payments to the Thruway Authority for Dedicated Highway and Bridge Trust Fund bonds, which will support the new Department of Transportation five-year transportation plan. Debt service payments for the highway program are supported by the statutory dedication of revenues to the Fund. However, after debt service payments are made, they and a commensurate amount of Fund revenues are reclassified from the capital projects to the debt service fund group. Therefore, the debt service appropriation is included in the Debt Service Budget Bill.

DEBT REDUCTION RESERVE FUND

An appropriation of \$250 million is recommended to ensure that the Debt Reduction Reserve Fund will be used to further reduce taxpayer costs in 2001-02.

GENERAL FUND - STATE PURPOSES ACCOUNT

An appropriation of \$15 million is recommended for the State's potential liability to rebate arbitrage earnings on general obligation bonds to the Federal government. A \$225 million appropriation is recommended for the redemption of general obligation serial bonds, should this become necessary to maintain the exemption from Federal taxation of the interest paid to bondholders. This appropriation would only be used if the State received payments from any party found to be responsible for site contamination for which 1986 Hazardous Waste and 1996 Clean Water/Clean Air bonds were sold and disbursed to finance site clean-up. Since every effort is made to find the responsible party prior to the issuance of bonds, the potential use of this appropriation is unlikely and no disbursements from it are anticipated. Also since the use of State commercial paper was replaced with additional general obligation bonds, an appropriation is no longer necessary for that purpose.

DEBT SERVICE

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

<u>Fund</u>	<u>Available 2000-01</u>	<u>Recommended 2001-02</u>	<u>Change</u>
General Fund			
State Purposes Account			
Rebates to Federal Government	15,000,000	15,000,000	0
General Obligation Notes	8,500,000	0	(8,500,000)
Redemption of General Obligation Bonds	<u>225,000,000</u>	<u>225,000,000</u>	<u>0</u>
Subtotal	248,500,000	240,000,000	(8,500,000)
Internal Service Funds			
Centralized Services Fund			
Financing Agreements	<u>205,000,000</u>	<u>210,000,000</u>	<u>5,000,000</u>
Subtotal	205,000,000	210,000,000	5,000,000
Fiduciary Funds			
School Capital Facilities Financing Reserve Fund			
Trust and Agency Financing	<u>30,000,000</u>	<u>40,000,000</u>	<u>10,000,000</u>
Subtotal	30,000,000	40,000,000	10,000,000
Debt Service Funds			
Mental Health Services Fund			
Financing Agreements	360,000,000	355,000,000	(5,000,000)
General Debt Service Fund			
General Obligation Bonds	703,000,000	715,000,000	12,000,000
Financing Agreements	2,250,800,000	2,457,600,000	206,800,000
Lease Purchase Payments	62,900,000	62,100,000	(800,000)
Housing Debt Fund			
General Obligation Bonds	31,000,000	29,000,000	(2,000,000)
Health Income Fund			
Financing Agreements	37,250,000	37,250,000	0
Financing Agreements	2,000,000	2,000,000	0
Emergency Highway Reconditioning and Preservation Fund			
Financing Agreements	32,000,000	32,000,000	0
State University Dormitory Income Fund			
Financing Agreements	53,500,000	55,000,000	1,500,000
Emergency Highway Construction and Reconstruction Fund			
Financing Agreements	32,000,000	32,000,000	0
Local Government Assistance Tax Fund			
Financing Agreements	<u>518,200,000</u>	<u>463,000,000</u>	<u>(55,200,000)</u>
Subtotal	4,082,650,000	4,239,950,000	157,300,000
Capital Projects Funds - Other			
Debt Reduction Reserve Fund			
Debt Reduction	500,000,000	250,000,000	(250,000,000)
Dedicated Highway and Bridge Trust Fund			
Financing Agreements	<u>450,000,000</u>	<u>525,000,000</u>	<u>75,000,000</u>
Subtotal	950,000,000	775,000,000	(175,000,000)
Total Fiscal Year	<u>5,516,150,000</u>	<u>5,504,950,000</u>	<u>(11,200,000)</u>
Appropriated 2000-01	<u>5,516,150,000</u>		