Update to the Annual Information Statement of The State of New York

February 3, 2003

This quarterly update to the AIS (the "Update") of the State of New York is dated February 3, 2003 and contains information only through that date. It is the third quarterly update to the AIS of the State of New York dated June 3, 2002. The information in this Update is organized into three parts.

Part I contains information on the State's Financial Plan projections. In this Part, readers will find:

1. Extracts from the Financial Plan Overview contained in Appendix II of the Governor's Executive Budget for 2003-04 presented to the Legislature on January 29, 2003. The Financial Plan Overview includes updated Financial Plan projections for State fiscal years 2002-03 through 2005-06 and detailed narrative descriptions of the receipts and disbursement estimates for the State's governmental funds.

   The balance of Appendix II (including the Financial Plan tables; economic forecast for calendar years 2002 and 2003; detailed forecasts for State receipts; and the proposed Capital Program and Financing Plan for the 2003-04 through 2007-08 fiscal years) is incorporated by reference. The entire 2003-04 Executive Budget, including Appendix II, is available on the Division of the Budget's website, www.budget.state.ny.us.

2. A discussion of special considerations related to the State Financial Plan.

Part II of this Update contains information on the Metropolitan Transportation Authority and New York City. The GAAP-basis results and retirement information, which contain no revisions, are reprinted from the November 14, 2002 Update.

Part III updates information related to litigation against the State.

Readers may obtain the AIS, updates and any supplements by contacting the Division of the Budget ("DOB"), State Capitol, Albany, NY 12224, (518) 473-8705. Informational copies of the AIS, updates and supplements are also available electronically on the DOB Internet site and on file with Nationally Recognized Municipal Securities Information Repositories. Please note that DOB's new internet address is http://www.budget.state.ny.us. 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.

PART I

1. Governor's 2003-04 Executive Budget

On January 29, 2003, the Governor submitted a revised Financial Plan for 2002-03 and new Financial Plans for 2003-04 through 2005-06 as part of the 2003-04 Executive Budget. This section of Part I contains extracts from the Financial Plan Overview contained in Appendix II of the Governor's Executive Budget for 2003-04. The Financial Plan Overview includes updated Financial Plan projections for State fiscal years 2002-03 through 2005-06 and detailed narrative descriptions of the receipts and disbursement estimates for the State's governmental funds.

The balance of Appendix II (including the Financial Plan tables; economic forecast for calendar years 2002 and 2003; detailed forecasts of State receipts; and the proposed Capital Program and Financing Plan for the 2003-04 through 2007-08 fiscal years) is incorporated by reference. The entire 2003-04 Executive Budget, including Appendix II, is available on the Division of the Budget's website, www.budget.state.ny.us.

Part I. 1. Extracts from the Financial Plan Overview, including updated Financial Plan projections for State fiscal years 2002-03 through 2005-06 and detailed narrative descriptions of the receipts and disbursement estimates for the State's governmental funds.

The following extracts from the Financial Plan Overview contain forecasts and projections of future results. There can be no assurance that such results will be achieved. Such forecasts and projections are based on certain assumptions, some or all of which may not occur. For example, the national and/or State economies may not behave as predicted, financial markets may not perform as predicted, the budget as finally adopted may be significantly different from the proposed Executive Budget, legislation required to achieve certain results may not be enacted or may not be enacted at the time assumed, or changes in Federal or state law could occur that were not anticipated in the projections. Any statement in the Financial Plan Overview that an event "will" occur is intended to mean that such event is a projected or forecasted event.

INTRODUCTION

The Financial Plan Overview summarizes the Governor's Executive Budget for 2003-04. The State Constitution and State Finance Law prescribe the content and format of budgetary information to be supplied by the Governor at the time of submission of the Executive Budget. The Financial Plan Overview fulfills the requirements of section 22 of the State Finance Law, providing summary financial plans and explanations of projected receipts and disbursements for the State's major governmental funds.

MAINTAINING 2002-03 BUDGET BALANCE

Before the Governor's actions and recommendations, the State was facing a potential $2.2 billion shortfall in 2002-03. The Governor's plan will close the entire shortfall. The causes of the potential shortfall and the recommended solutions to maintain budget balance are summarized in the tables below. A more detailed description of both the causes and recommended solutions to maintain 2002-03 budget balance is provided in the "2002-03 Financial Plan Update" section later in this document.

Causes of 2002-03 Shortfall (billions of dollars)	
Receipts Below Plan	$2.1
Spending Above Plan	0.1
Total Shortfall	**$2.2**
Recommended Solutions (billions of dollars)	
Administrative Savings Actions	$0.7
Tobacco Securitization	1.5
Total Savings	**$2.2**

The $2.1 billion in lower-than-projected receipts includes $1.9 billion in personal income taxes and $320 million in business taxes, offset by higher-than-projected receipts of $83 million in all other categories. In addition, before savings actions commenced by the Governor, the projected increase in spending would have been roughly $100 million more than expected, primarily in higher costs for Medicaid ($100 million), the World Trade Center ($51 million), the Tuition Assistance Program ($33 million), and the Early Intervention Program ($30 million), partially offset by lower than expected spending in fringe benefit costs ($71 million) and in a variety of other programs ($20 million).

Nearly $700 million in savings are projected from efforts begun earlier this year to reduce costs. This reflects stringent controls on operations including a 5 percent reduction in State agency spending, aggressive use of the targeted retirement incentive plan, and Federal maximization efforts ($328 million). In addition, prudent debt management actions, including efforts to take advantage of record-low interest rates and refinance high-cost State debt, will lower debt service costs ($364 million).

To avoid disruptive mid-year reductions to school aid and other programs, the Governor is seeking authorization to securitize the State's share of receipts from the tobacco manufacturer Master Settlement Agreement. Roughly $1.5 billion of the first $1.9 billion installment will be used to help balance the State Financial Plan in 2002-03 in a manner that will permit an orderly transition to recurring structural budget balance. The remainder will be reserved for use in 2003-04.

MAINTAINING 2003-04 BUDGET BALANCE

The State is facing a potential $9.3 billion shortfall in 2003-04. The Governor's Executive Budget recommendations will close the entire shortfall. The causes of the potential budget gap and the recommended solutions to maintain budget balance are summarized in the tables below. A more detailed description of both the causes and recommended solutions to maintain 2003-04 budget balance is provided in the "2003-04 General Fund Financial Plan" section later in this document.

Causes of 2003-04 Imbalance (billions of dollars)	
Projected Spending Increases	$4.6
Receipts Below Plan	3.1
Use of Reserves in 2002-03	1.6
Total Projected Shortfall	**$9.3**
Recommended Solutions (billions of dollars)	
Spending Restraint	$5.6
Tobacco Securitization	2.3
Revenue Increases	1.4
Total Savings	**$9.3**

Most of the $3.1 billion revenue shortfall is due to lower than expected income tax receipts, while the $4.6 billion in projected spending growth is primarily for Medicaid, welfare, debt service, pensions, school aid and health insurance. The use of reserves in 2002-03 helped offset the losses created in the wake of the World Trade Center disaster, but these reserves are now unavailable in 2003-04.

Recommendations in 2003-04 include $5.6 billion in savings from controlling the growth in State spending through program restructuring and the utilization of Federal and other revenue sources to offset spending growth. Significant proposals include savings in school aid ($1.27 billion), Medicaid cost containment initiatives ($1.02 billion), State Operations savings ($1 billion), use of Federal funds and other efforts to support welfare spending ($587 million), spending restraint and Federal aid maximization efforts in other local assistance programs ($977 million), debt management actions to reduce debt service costs ($516 million), and nearly $300 million in spending restraint in all other program areas.

Revenue proposals of $1.4 billion in 2003-04 include eliminating the permanent exemption on clothing and footwear priced under $110 and replacing it with an exemption on clothing and footwear priced under $500 effective during four separate weeks during the year ($363 million), reimposition of a hospital and home care assessment to support health care programs ($207 million), insurance tax changes ($158 million), a one-year cap on School Tax Relief (STAR) benefit increases ($93 million), and a variety of fee increases and other actions ($527 million).

Tobacco securitization proceeds contribute $2.3 billion in 2003-04 and another $400 million is reserved for 2004-05. These proceeds will be used as a transitional financing tool to avoid more draconian actions and help bring the State budget into structural balance through recurring spending restraint over a multi-year period.

The Executive Budget recommendations preserve the Tax Stabilization Reserve Fund (the State's rainy day fund), maintain tax cuts enacted in previous budgets, and do not rely on uncertain Federal actions for budget balance. The rainy day fund totals $710 million, its highest level ever.

2003-04 RECOMMENDATIONS REDUCE THE OUTYEAR GAP

Prior to the 2003-04 Executive Budget recommendations, the State also faced outyear budget gaps of $10.2 billion in 2004-05 and $11.1 billion in 2005-06. As summarized below, the recommendations proposed by the Governor balance the 2003-04 budget and dramatically reduce the outyear gaps to $2.9 billion in 2004-05 and $4.2 billion in 2005-06. Clearly, these recommendations represent an important step in returning State finances to structural budget balance. These outyear projections are explained in more detail in the "General Fund Financial Plan Outyear Projections" section later in this document.

OUTYEAR SAVINGS FROM 2003-04 EXECUTIVE BUDGET RECOMMENDATIONS (millions of dollars)			
	2003-04	**2004-05**	**2005-06**
Projected Base Level Gaps	**(9,264)**	**(10,171)**	**(11,080)**
Spending Restraint	5,638	5,660	5,696
Revenue Proposals	1,348	1,212	1,148
Tobacco Securitization	2,278	400	0
Remaining Gaps	**0**	**(2,899)**	**(4,236)**

2003-04 RECOMMENDATIONS RESTRAIN SPENDING

The chart below summarizes General Fund, State Funds, and All Governmental Funds spending projections reflecting the 2002-03 and 2003-04 Executive Budget recommendations described above.

2003-04 SPENDING PROJECTIONS (millions of dollars)				
	2002-03	**2003-04**	**Dollar Change from 2002-03**	**% Change from 2002-03**
General Fund	39,787	38,644	(1,143)	(2.9)
State Funds	58,963	58,890	(73)	(0.1)
All Governmental Funds	90,948	90,822	(126)	(0.1)

As a result of these recommendations, annual General Fund spending declines by $1.14 billion. State Funds and All Funds spending remains essentially flat, with the proposed budget actions offsetting the planned growth in program costs. These changes are explained in more detail later in this document.

EXPLANATION OF THE FINANCIAL PLAN

The State's Executive Budget Financial Plan forecasts receipts and disbursements for each fiscal year. The economic forecast of the Division of the Budget (DOB) and the State's tax and fee structure serve as the basis for projecting receipts. After consulting with public and private sector experts, DOB prepares a detailed economic forecast for both the nation and New York, showing Gross Domestic Product (GDP), employment levels, inflation, wages, consumer spending, and other relevant economic indicators. It then projects the yield of the State's revenue structure against the backdrop of these forecasts.

Projected disbursements are based on agency staffing levels, program caseloads, levels of service needs, formulas contained in State and Federal law, inflation and other factors. The factors that affect spending estimates vary by program. For example, welfare spending is based primarily on anticipated caseloads that are estimated by analyzing historical trends, projected economic conditions and changes in Federal law. In criminal justice, spending estimates are based on recent trends and data from the criminal justice system, as well as on estimates of the State's prison population. All projections account for the timing of payments, since not all the amounts appropriated in the budget are disbursed in the same fiscal year.

This Overview summarizes the updated Financial Plan projections of receipts and disbursements for 2002-03, and describes the recommended Financial Plan for 2003-04. It then provides an explanation of the State's estimates for 2004-05 and 2005-06.

THE STATE'S FUND STRUCTURE

The State accounts for all of its spending and receipts by the fund in which the activity takes place (such as the General Fund or the Capital Projects Fund), and the broad category or purpose of that activity (such as State Operations or Capital Projects). The Financial Plan tables sort all State projections and results by fund and category.

The State Constitution requires the Governor to submit an Executive Budget that is balanced in the General Fund — the Fund that receives the majority of State taxes. State Funds include the General Fund and funds specified for dedicated purposes, with the exception of Federal Funds. All Governmental Funds, which includes State Funds and Federal Funds, comprises four major fund types, and provides the most comprehensive view of the financial operations of the State. It includes:

- The General Fund, which receives most of the State's tax revenue and accounts for spending on programs that are not supported directly by dedicated fees and revenues;
- Special Revenue Funds, which receive Federal grants, certain dedicated taxes, fees and other revenues that are used for a specified purpose;
- Capital Projects Funds, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and
- Debt Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

Within each of these fund types, revenues and spending are classified by major categories of the Financial Plan (e.g., Taxes, Miscellaneous Receipts, Grants to Local Governments, State Operations). Activity in these Financial Plan categories is described in greater detail later in this Overview. Summary charts display the annual change for each category of the Financial Plan, and a narrative explanation of major changes follows each chart. The tables at the end of the Overview summarize projected General Fund, State Funds and All Governmental Funds receipts and disbursements for the 2002-03 through 2005-06 fiscal years.

2002-03 ACCOUNTING RECLASSIFICATION

In 2002-03, the State Comptroller chose to restate the classification of debt service payments to the Revenue Bond Tax Fund (where debt service is paid on personal income tax revenue bonds). This restatement has the effect of shifting over $4 billion in personal income tax receipts out of the General Fund and, after a deduction for debt service, transferring these funds back to the General Fund. Both reported personal income taxes and reported debt service spending in the General Fund are thereby distorted. Please see the tables at the back of this section for a crosswalk of this restatement.

THE 2002-03 FINANCIAL PLAN UPDATE

The updated 2002-03 Financial Plan reflects revisions based on a review of actual operating results through mid-January 2003, an updated analysis of underlying economic, revenue, and spending trends and the accounting reclassification by the State Comptroller described above. The recommendations in 2002-03 maintain budget balance by proposing a series of actions totaling $2.2 billion.

The $2.2 billion potential imbalance reflects projected lower receipts of $2.1 billion and higher spending of just over $100 million. The decline in revenues from the last plan includes $1.9 billion in personal income taxes and $320 million in business taxes, offset by $83 million in higher revenues in all other categories. The spending increase of roughly $100 million before savings actions results from higher costs for Medicaid ($100 million), the World Trade Center ($51 million), the Tuition Assistance Program ($33 million), and the Early Intervention Program ($30 million), partially offset by lower than expected spending in fringe benefit costs ($71 million) and in a variety of other programs ($20 million).

The budget is kept in balance by $692 million of savings initiatives, including debt management actions to take advantage of lower interest rates ($364 million), and the Governor's imposition of stringent controls on operations including a 5 percent reduction in State agency spending, aggressive use of the targeted retirement incentive plan, and Federal maximization efforts ($328 million).

To avoid disruptive mid-year reductions to school aid and other local assistance programs, the Governor is proposing the sale of tobacco settlement payments of $1.9 billion in 2002-03 — $1.5 billion to help maintain 2002-03 budget balance and the remainder to act as a reserve for use in 2003-04.

In early December of last year, the Governor put forward a tobacco securitization plan. This proposal would authorize the sale of future tobacco receipts by a newly established entity and transfer from taxpayers the risk that tobacco companies might not be able to sustain these agreed-upon payments. The financing plan is structured to generate these resources at the lowest possible cost to taxpayers.

While legislative inaction to date precludes receipt of these funds by early March, immediate action following submission of this budget should allow tobacco securitization receipts to be available by the close of the current fiscal year. If such approval is not forthcoming, the State may be forced to temporarily delay payments until the first quarter of 2003-04, when the transaction must be completed in order to finance these payments.

UPDATE TO 2002-03 RECEIPTS ESTIMATES

Total General Fund receipts, including transfers from other funds and tobacco securitization proceeds, are now estimated at $39.94 billion, a decrease from 2001-02 of $1.21 billion. General Fund receipts are projected to be $40 million above the projections contained in the Mid-Year Update. Due largely to the accounting change by the State Comptroller regarding the treatment of the Revenue Bond Tax Fund, tax receipts are expected to decline by $8.85 billion from 2001-02 and are $6.56 billion below Mid-Year estimates.

Correcting for revenue movements in and out of the General Fund from Refund Reserve transactions, STAR Fund deposits, and Revenue Bond Tax Fund deposits, General Fund tax receipts are estimated to be $2.85 billion below 2001-02 results and $2.22 billion lower than Mid-Year estimates. The significant year-over-year decline and the large revision in the estimates is the result of continued weakness in the economy, the multi-year impact of the September 11 attack on the financial services sector, and the associated decline in equity markets. The estimated impact of the World Trade Center disaster on 2002-03 receipts remains significant, and within the range estimated in the immediate aftermath of the September 11 attacks. The revisions in the estimates also reflect more up-to-date information on the economy and tax collections. To date, tax collection results are much worse than predicted at the time of the Mid-Year Update and have led to significant downward revisions to the receipts estimates, especially for personal income and business taxes. The "Recent Trends in All Funds Receipts" section in Part II of this Appendix provides a detailed description of recent tax receipt trends which corrects for accounting transactions and allows for easy year-to-year comparisons.

GENERAL FUND RECEIPTS — CHANGE FROM MID-YEAR UPDATE
(millions of dollars)

	October	Restatement	2002-03 Restated October	Change	January
Personal Income Tax	**23,342**	**(4,770)**	**18,572**	**(1,390)**	**17,182**
Gross Collections	28,841		28,841	(1,641)	27,200
Refunds	(4,119)		(4,119)	(176)	(4,295)
Subtotal	24,722	0	24,722	(1,817)	22,905
Refund Reserve	1,250		1,250		1,250
STAR Fund Deposit	(2,630)		(2,630)	(37)	(2,667)
STAR Fund Reserve Deposit	0		0		0
DRRF Deposit/RBTF	0	(4,770)	(4,770)	464	(4,306)
User Taxes and Fees	**7,105**		**7,105**	**(53)**	**7,052**
Business Taxes	**3,842**		**3,842**	**(320)**	**3,522**
Other Taxes	**787**		**787**	**(26)**	**761**
Total Taxes	**35,076**	**(4,770)**	**30,306**	**(1,789)**	**28,517**
Adjusted Total Taxes*	**36,456**	**0**	**36,456**	**(2,216)**	**34,240**
Miscellaneous Receipts	**2,148**		**2,148**	**1,937**	**4,085**
Tobacco Securitization	0		0	1,900	1,900
Misc. receipts without tobacco	2,148		2,148	37	2,185
Subtotal (excluding transfers)	**37,224**	**(4,770)**	**32,454**	**148**	**32,602**
Adjusted Subtotal**	**38,604**	**0**	**38,604**	**(2,179)**	**36,425**
Transfers	**2,674**	**4,609**	**7,283**	**53**	**7,336**
PIT RBTF	0	4,609	4,609	(331)	4,278
LGAC	1,808		1,808	42	1,850
RETT	0	170	170	96	266
Other	866	(170)	696	246	942
General Fund Total	**39,898**	**(161)**	**39,737**	**201**	**39,938**
Adjusted Total**	**41,278**	**0**	**41,278**	**(1,795)**	**39,483**

* Adjusted for STAR, Refund Reserve and RBTF transactions.

** Adjusted for STAR, Refund Reserve, RBTF and Tobacco transactions.

GENERAL FUND RECEIPTS — YEAR OVER YEAR COMPARISON (millions of dollars)	2001-02 Actual	2002-03 January	Change from 2001-02	Percent Change
Personal Income Tax	**25,854**	**17,182**	**(8,672)**	**(33.5)**
Gross Collections	29,090	27,200	(1,890)	(6.5)
Refunds	(3,516)	(4,295)	(779)	22.2
Subtotal	25,574	22,905	(2,669)	(10.4)
Refund Reserve	1,840	1,250	(590)	
STAR Fund Deposit	(2,510)	(2,667)	(157)	
STAR Fund Reserve Deposit	1,200	0	(1,200)	
DRRF Deposit/RBTF	(250)	(4,306)	(4,056)	
User Taxes and Fees	**7,098**	**7,052**	**(46)**	**(0.6)**
Business Taxes	**3,616**	**3,522**	**(94)**	**(2.6)**
Other Taxes	**803**	**761**	**(42)**	**(5.2)**
Total Taxes	**37,371**	**28,517**	**(8,854)**	**(23.7)**
Adjusted Total Taxes*	**37,091**	**34,240**	**(2,851)**	**(7.7)**
Miscellaneous Receipts	**1,625**	**4,085**	**2,460**	**151.3**
Tobacco Securitization	0	1,900	1,900	
Misc. receipts without tobacco	1,625	2,185	560	**34.4**
Subtotal (excluding transfers)	**38,996**	**32,602**	**(6,394)**	**(16.4)**
Adjusted Subtotal**	**38,716**	**36,425**	**(2,291)**	**(5.9)**
Transfers	**2,148**	**7,336**	**5,188**	**241.6**
PIT RBTF	0	4,278	4,278	
LGAC	1,750	1,850	100	**5.7**
RETT	193	266	73	**37.8**
Other	205	942	737	**360.9**
General Fund Total	**41,144**	**39,938**	**(1,206)**	**(2.9)**
Adjusted Total**	**40,864**	**39,483**	**(1,381)**	**(3.4)**

* Adjusted for STAR, Refund Reserve and RBTF transactions.

** Adjusted for STAR, Refund Reserve, RBTF and Tobacco transactions.

After RBTF deposits, personal income tax receipts for 2002-03 are estimated to reach $17.18 billion, a decrease of $8.67 billion (33.5 percent) from 2001-02. This is due primarily to a $4.31 billion deposit into the RBTF, a large decrease in the net contribution from the Refund Reserve fund, and decreases in withholding, estimated tax, and 2001 tax year settlement payments. Without the RBTF/DRRF deposit, receipts would have decreased by $4.62 billion (16.9 percent). The net Refund Reserve transaction for 2002-03 is $1.25 billion. It reflects a $1.67 billion draw-down in April 2002, offset by an expected deposit of $427 million on March 31, 2003. Underlying income tax collections, measured by gross payments minus refunds, are expected to decline by $2.67 billion (10.4 percent) from 2001-02 and $1.82 billion from the Mid-Year Update. The large downward revision in the estimate reflects the significant decline in December payments and continued weakness in the financial services sector.

User tax and fee receipts in 2002-03 are projected at $7.05 billion, $46 million or 0.7 percent below 2001-02 collections and $53 million below the Mid-Year Update. The decline from 2001-02 is mostly due to the increased dedication of motor vehicle fees, auto rental tax, and cigarette tax receipts to other funds, as well as declines in cigarette consumption ($227 million). These declines are partially offset by an increase in sales tax and alcohol-related receipts of $181 million.

Total business taxes are now projected at $3.52 billion in 2002-03, $94 million below 2001-02 receipts. Corporation and utility tax receipts in 2002-03 are expected to total $868 million, a decrease of $104 million from 2001-02. Corporate franchise tax receipts for 2002-03 are estimated to increase by $20 million, based on accelerated payments from the increase in the first installment and tax amnesty, offset by previously enacted tax cuts. Receipts from the bank tax in 2002-03 are projected to decline by $47 million from 2001-02, due largely to increased refunds and overall economic weakness. Net collections from insurance taxes are expected to reach $670 million in 2002-03, an increase of $37 million from the prior year. Business tax receipts are estimated at $320 million below the Mid-Year Update, largely due to a more prolonged weakness in corporate earnings than anticipated and December collection results.

The yield from other taxes in 2002-03 is estimated at $761 million, $42 million below 2001-02 results. The estimated decline reflects year-to-date collection results in the estate tax, the first full-year impact of prior year tax reductions, and the impact of the decline in equity market values on taxable estates. Since the Mid-Year Update, the estimate of other taxes has decreased by $26 million.

Miscellaneous receipts for 2002-03 are estimated at $4.09 billion, a $2.46 billion increase from 2001-02. The main increases, other than the $1.90 billion in tobacco proceeds, are in abandoned property ($300 million from sales of securities); payments from authorities ($287 million); bond issuance charges ($158 million); three large fines ($87 million); and the wireless surcharge ($38 million). The largest decrease is in investment income ($285 million). Miscellaneous receipts, excluding tobacco proceeds, are now estimated at $37 million above the Mid-Year Update. The change reflects the lower earnings from investment income compensated by higher-than-expected collections from bond issuance charges and unanticipated fines.

Transfers from other funds in 2002-03 are estimated at $7.34 billion, an increase of $5.19 billion from 2001-02, reflecting changes in amounts available for transfer to the General Fund, especially from the Revenue Bond Tax Fund and LGAC. Transfers from other funds are now estimated at $4.66 billion above the Mid-Year Update. The increase reflects better-than-anticipated year-to-date collection experience for the sales and real estate transfer taxes, as well as a reduction in debt service requirements from the Thruway Authority, and the Comptroller's classification of the Revenue Bond Tax Fund.

UPDATE TO 2002-03 DISBURSEMENTS ESTIMATES

The State projects total General Fund disbursements, including transfers to other funds, of $39.79 billion in 2002-03, a net decrease of $266 million from the restated Mid-Year Update. The Mid-Year spending estimate was restated to reflect the Comptroller's accounting treatment of debt service spending for personal income tax revenue bonds. After this restatement, which lowered General Fund spending by $161 million, disbursements decline by $266 million. This reflects the lower spending associated with the aggressive savings efforts begun earlier this year and reestimates in General State Charges and other programs ($91 million), partially offset by higher costs primarily related to Medicaid ($100 million), the World Trade Center ($51 million), the Tuition Assistance Program ($33 million), and the Early Intervention Program ($30 million). In addition, lower spending is reflected for the Community Projects Fund ($75 million), which is now projected to occur in 2003-04 rather than 2002-03.

RESERVES/CLOSING BALANCE IN THE GENERAL FUND

Reserves and closing balances had been at healthy levels as a result of seven consecutive maximum deposits to the Tax Stabilization Reserve Fund (the State's rainy day fund) and significant additional deposits made to other State reserve funds in recent years.

These reserves included the Contingency Reserve Fund (a litigation reserve), reserves set aside for revenue losses resulting from the World Trade Center attacks, a reserve for economic uncertainties, and a reserve to fund the multi-year STAR property tax cut. Most of these reserves have now been used to help maintain budget balance in the General Fund since September 11, 2001. The rainy day fund remains available to protect against unanticipated mid-year shortfalls.

The closing balance in the General Fund is projected to total $1.18 billion, including $710 million in the rainy day fund, $378 million in tobacco securitization reserves, $20 million in the Contingency Reserve Fund, and $75 million in the Community Projects Fund.

The closing balance of $1.18 billion at the end of the 2002-03 fiscal year is an increase of $467 million from the Mid-Year Update. This increase includes $378 million from the securitization of tobacco (reserved for use in 2003-04), $75 million from slower spending in the Community Projects Fund (which pays for legislative and gubernatorial initiatives), and $14 million in additional moneys deposited into the Contingency Reserve Fund.

UPDATE TO 2002-03 STATE FUNDS

Total State Funds receipts are now projected to be $58.04 billion, a decrease of $139 million from the Mid-Year Update. The increase in General Fund receipts of $147 million, after the accounting restatement described above, is augmented by increases in tax receipts to the Clean Water/Clean Air Fund ($90 million) and to the STAR fund ($37 million). In addition, miscellaneous receipts are projected to increase in health care programs ($30 million). These increases are offset by a decline in personal income tax receipts dedicated to the RBTF ($464 million).

State Funds spending in 2002-03 is projected at $58.96 billion, a decrease of $395 million from the Mid-Year Update. The downward revision reflects debt service savings from the refunding of high-cost fixed-rate bonds with less costly variable-rate or synthetic fixed-rate bonds, lower operational spending from the aggressive savings action begun earlier this year, and slower spending for legislative member items.

UPDATE TO 2002-03 ALL GOVERNMENTAL FUNDS

All Governmental Funds spending in 2002-03 is projected at $90.95 billion, an increase of $1.39 billion from the Mid-Year Update. The main reason for the upward revision is that, consistent with the Comptroller's accounting treatment, the Financial Plan has been increased to include Federal pass-through spending related to the World Trade Center ($1.70 billion). Federal pass-through spending represents Federal aid that flows through the State to New York City and other localities, but is counted by the State Comptroller as State spending. The impact of including pass-through spending on All Governmental Funds spending for 2002-03 is partially offset by the $395 million in program reestimates described in the State Funds update above.

Federal receipts are generally assumed to be received in the State fiscal year in which spending is incurred; therefore, the revisions to Federal receipts correspond to the adjustments to the federally-reimbursed spending revisions described above. Accordingly, All Governmental Funds receipts are now projected at $90.62 billion, up $1.94 billion from the Mid-Year Update, reflecting the inclusion of Federal pass-through aid and other minor revisions to Federal aid estimates.

For further detailed discussions of State Funds and All Governmental Funds receipts, please refer to the "Explanation of Receipts Estimates" in Part II of this Appendix.

THE 2003-04 GENERAL FUND FINANCIAL PLAN

ECONOMIC AND RECEIPTS OUTLOOK

When projecting receipts, the Division of the Budget first forecasts the economic outlook for both the nation and New York. After meeting with a group of fiscal and economic experts from different regions of the State and different industry segments, a detailed economic forecast is prepared for both the national and State economies. This economic forecast is used to derive estimates of receipts by using the historical relationship between economic performance and tax collections. For example, if the economic forecast calls for growth in wages, withholdings would also be expected to increase consistent with the structural relationship between wages and withholding tax collections.

The Division of the Budget also adjusts for the impact of changes in the State's tax laws on the receipts projections. The 2003-04 Executive Budget reflects the continued phase-in of tax actions for a variety of taxes, including additional tax cuts, that total $13.5 billion for 2003-04. For a more detailed discussion of the economy and sources of State revenue, see the "Explanation of Receipts Estimates" section later in this document.

U.S. Economy

Although the national economic recovery weakened substantially toward the end of 2002, the Division of the Budget expects the national economy to continue to expand throughout 2003, with some acceleration of growth in the second half of the year. Real U.S. GDP is expected to grow at an annual rate of 2.4 percent in 2003, the same rate as in 2002. In an effort to provide additional stimulus to the economy, the Federal Reserve reduced interest rates by 50 basis points in November 2002, for a total reduction since the pre-recession peak of 525 basis points. This has resulted in the lowest short-term interest rates since the early 1960s. In addition, a number of Federal fiscal initiatives are expected to provide additional stimulus. These monetary and fiscal actions are expected to provide insurance against a double dip recession. By the second half of 2003, an expected revival of investment spending will increase the GDP growth rate. An improving economy, along with higher oil prices, will likely result in higher inflation. The CPI is expected to rise by 2.4 percent in 2003, after an increase of 1.6 percent in 2002. The unemployment rate is expected to average 5.8 percent in 2003.

State Economy

The New York economy suffered more than the nation as a whole during the recession, due to the September 11 devastation of downtown New York City and the importance of the finance and tourism industries to the State economy. Only now are there signs of an economic turnaround. Total State employment is expected to rise 0.7 percent in 2003, following a decline of 1.6 percent for 2002. Private sector employment is expected to rise 0.9 percent in 2003, following a decline of 2.1 percent for 2002. Bonus payments paid to financial services workers have been reduced significantly due to the recession and the steep decline in the stock market. On a calendar year basis, bonuses are estimated to have fallen 23.0 percent for 2002, followed by a 10.2 percent decline projected for 2003. In the aftermath of the bursting of the stock market bubble, it is expected that for the next two years bonuses in the finance and insurance sector will remain at about one-half of their 2001 peak level. Wages are expected to rise 2.3 percent in 2003, following a decline of 3.2 percent for 2002. Total State personal income is projected to increase 3.1 percent in 2003.

For a detailed discussion of the national and State economies, refer to the section entitled "Economic Backdrop" in Part II of this Appendix.

Receipts Outlook

GENERAL FUND RECEIPTS (millions of dollars)	2002-03 Estimate	2003-04 Recommended	Change
Personal Income Tax	17,182	15,250	(1,932)
Gross Collections	27,200	27,450	250
Refunds	(4,295)	(4,355)	(60)
Subtotal	22,905	23,095	190
Refund Reserve	1,250	(41)	(1,291)
STAR Fund Deposit	(2,667)	(2,707)	(40)
STAR Fund Reserve Deposit	0	0	0
DRRF Deposit/RBTF	(4,306)	(5,097)	(791)
User Taxes and Fees	**7,052**	**7,508**	**456**
Business Taxes	**3,522**	**3,682**	**160**
Other Taxes	**761**	**771**	**10**
Total Taxes	**28,517**	**27,211**	**(1,306)**
Adjusted Total Taxes*	**34,240**	**35,056**	**816**
Miscellaneous Receipts	**4,085**	**3,538**	**(547)**
Tobacco Securitization	1,900	1,900	0
Misc. receipts without tobacco	2,185	1,638	(547)
Subtotal (excluding transfers)	**32,602**	**30,749**	**(1,853)**
Adjusted Subtotal**	**36,425**	**36,694**	**269**
Transfers	**7,336**	**7,441**	**105**
PIT RBTF	4,278	4,864	586
LGAC	1,850	1,999	149
Other	1,208	578	(630)
General Fund Total	**39,938**	**38,190**	**(1,748)**
Adjusted Total**	**39,483**	**39,271**	**(212)**

* Adjusted for STAR, Refund Reserve and RBTF transactions.

** Adjusted for STAR, Refund Reserve, RBTF and Tobacco transactions.

Estimated General Fund receipts for 2003-04 are projected at $38.19 billion, or $1.75 billion below 2002-03 estimates. After correcting for the Refund Reserve transaction, STAR and Revenue Bond Tax Fund (RBTF) deposits and the impact of tobacco proceeds, General Fund receipts are expected to decrease by $212 million, or less than 1 percent, from 2002-03 estimates. Adjusted total tax receipts are estimated to increase by $816 million or 2.4 percent including increases due to proposed revenue actions of over $500 million.

PERSONAL INCOME TAX (millions of dollars)			
SFY:	**2002-03**	**2003-04**	**Annual Change**
Personal Income Tax	17,182	15,250	(1,932)

Personal income tax collections for 2003-04 are projected to reach $15.25 billion, a decrease of $1.93 billion (11.2 percent) from 2002-03 due largely to two factors: a $791 million increased RBTF deposit; and a $1.29 billion lower contribution from the Refund Reserve account.

The underlying weakness in income tax liability in 2002 and 2003 is mainly attributable to the significant economic devastation caused by the events of September 11 and their aftermath. Decreases in State employment, wages, Wall Street bonuses, and non-wage income contribute to an estimated adjusted gross income decline for 2002 and a minimal increase for 2003. Gross proceeds minus refunds in the income tax are expected to increase by $190 million in 2003-04 largely reflecting continued weakness in underlying liability.

USER TAXES AND FEES (millions of dollars)			
SFY:	2002-03	2003-04	Annual Change
User Taxes and Fees	7,052	7,508	456

User tax and fee receipts in 2003-04 will rise by $456 million, to $7.51 billion. This reflects the impact of $309 million in revenue gains from proposed legislation. Adjusted for these legislative proposals, the underlying growth rate is 2.1 percent.

The sales and use tax accounts for nearly 90 percent of projected user tax and fee receipts. Sales and use tax receipts are responsive to economic trends, such as growth in income, prices, and employment. Growth in disposable income, combined with modest employment gains, produce a projected increase in the base of 4.3 percent for 2003-04.

User taxes and fees also include cigarette, tobacco, and alcoholic beverage taxes and motor vehicle fees. Generally, the majority of the receipts from these sources are attributable to flat-rate volume-based levies that respond little, if at all, to short-term economic developments (other than price changes impacting consumption) and are marked, in the main, by declining consumption trends.

BUSINESS TAXES (millions of dollars)			
SFY:	2002-03	2003-04	Annual Change
Business Taxes	3,522	3,682	160

In 2003-04, business taxes are expected to total $3.68 billion — $160 million above 2002-03 estimates.

Corporation and utility tax receipts in 2003-04 are projected to total $805 million, a decrease of $63 million from 2002-03. This decrease is primarily due to continued stagnation in telecommunications related receipts, and further rate reductions in the utility sector.

Corporate franchise receipts are projected to increase by $56 million to $1.59 billion in 2003-04, resulting from improved corporate profitability, offset by the impact of enacted tax reductions.

Other business taxes include franchise taxes on insurance companies and banks. In 2003-04, bank taxes are projected to be $468 million — $19 million above estimates for 2002-03, reflecting a modest rebound in bank earnings. Net collections from insurance taxes are projected at $818 million, an increase of $148 million from 2002-03, due largely to the proposed law change restructuring the insurance tax.

OTHER TAXES (millions of dollars)			
SFY:	2002-03	2003-04	Annual Change
Other Taxes	761	771	10

Other taxes include receipts from the estate tax, the real property gains tax, pari-mutuel taxes, the racing admissions tax and the boxing and wrestling exhibitions tax.

In 2003-04, other taxes will yield a projected $771 million, $10 million above expected 2002-03 results. The estimate reflects the expectation of growth in the value of taxable estates offset somewhat by the acceleration of the unified credit/exemption. Pari-mutuel tax receipts are expected to increase due to legislation submitted with this budget to expand wagering opportunities.

MISCELLANEOUS RECEIPTS (millions of dollars)			
SFY:	**2002-03**	**2003-04**	**Annual Change**
Miscellaneous Receipts	4,085	3,538	(547)

Miscellaneous receipts include license revenues, fee and fine income, investment income, abandoned property proceeds, a portion of medical provider assessments and various nonrecurring receipts.

Miscellaneous receipts for 2003-04 are estimated at $3.54 billion, a decrease of $547 million from 2002-03. Tobacco proceeds remain flat at $1.90 billion. The decrease of $547 million in other miscellaneous receipts reflects the one-time nature of transactions that added to receipts in 2002-03.

TRANSFERS FROM OTHER FUNDS (millions of dollars)			
SFY:	**2002-03**	**2003-04**	**Annual Change**
PIT in Excess of Revenue Bond Debt Service	4,278	4,864	586
Sales Tax in Excess of LGAC Debt Service	1,850	1,999	149
Real Estate Taxes in Excess of CW/CA Debt Service	266	202	(64)
All Other Transfers	942	377	(565)
Total Transfers from Other Funds	**7,336**	**7,442**	**106**

Personal income tax transfers in excess of revenue bond debt service requirements are projected to increase by $586 million from 2002-03 to 2003-04 due to the estimated increase in dedicated funds of $791 million, offset by increased by debt service requirements.

The increase in transfers from the sales tax is due to an increase in dedicated sales tax receipts of $156 million, partially offset by increased debt service requirements of $7 million.

The decline in transfers from the real estate transfer tax is due to a projected decline in dedicated tax receipts of $44 million and an increase in Clean Water/Clean Air (CW/CA) debt service requirements of $20 million.

The $565 million decrease in all other transfers in 2003-04 is primarily due to the loss of one-time transfers from the Environmental Protection Fund ($283 million), Federal reimbursement of the World Trade Center-related costs ($240 million), as well as the conclusion of transfers to the Emergency Highway Funds ($115 million). These decreases are partially offset by an increase in receipts from Indian casinos ($41 million).

DISBURSEMENTS OUTLOOK

GENERAL FUND DISBURSEMENTS (millions of dollars)			
SFY:	**2002-03**	**2003-04**	**Annual Change**
Total Disbursements	39,787	38,644	(1,143)

The State projects General Fund disbursements of $38.64 billion in 2003-04, a decrease of $1.14 billion (2.9 percent) from the current year. The following major changes comprise the net annual decline in spending as described in more detail below:

ANNUAL CHANGE IN GENERAL FUND DISBURSEMENTS (millions of dollars)		
	Annual Change	**Percent Change**
State Operations	(610)	(7.9)
School Aid	(559)	(4.5)
Medicaid	(482)	(8.1)
Fringe Benefits (including pensions & health insurance)	395	14.2
Debt Service	109	7.4
All Other	4	0.0
Total Change	**(1,143)**	**(2.9)**

Total General Fund disbursement estimates reflect $5.6 billion in savings from various efficiencies including program restructuring, workforce reductions and maximization of Federal and other revenue sources. These reductions are offset by planned spending increases for pensions costs, employee health insurance, debt service and other fixed costs, plus projected programmatic increases in school aid, Medicaid, and higher education. The net decrease in spending is $1.14 billion.

GRANTS TO LOCAL GOVERNMENTS (millions of dollars)			
SFY:	**2002-03**	**2003-04**	**Annual Change**
Grants to Local Governments	26,932	25,913	(1,019)

Grants to Local Governments spending includes financial aid to local governments and non-profit organizations, as well as entitlement payments to individuals. The most significant areas of spending in local assistance are for aid to public schools (45 percent) and for the State's share of Medicaid payments (21 percent). Other large areas of spending include mental hygiene programs (6 percent), higher education programs (5 percent), children and family services (4 percent), welfare assistance (4 percent), general purpose local aid to counties and municipalities (3 percent), handicapped education programs (3 percent), and public health programs (2 percent).

Local assistance spending declines $1.02 billion from 2002-03 resulting from the combination of cost containment initiatives offset by planned spending growth. This budget recommends $4.06 billion of cost containment initiatives, reforms, and revenue maximization efforts primarily in school aid, Medicaid, the Tuition Assistance Program (TAP), and welfare. These savings initiatives are partially offset by projected spending growth across all local assistance programs, including Medicaid, welfare and school aid.

General Fund spending for school aid is projected at $11.74 billion in 2003-04 (on a State fiscal year basis), a decrease of $559 million (4.5 percent) from 2002-03. On a school year basis, the annual decrease totals $1.24 billion (8.5 percent). This decrease includes reductions in discretionary categorical programs which, when coupled with expense-based declines in building aid and enrollment-based declines in growth aid, generates savings of

$607 million — or nearly one-half of the proposed $1.24 billion school aid reduction. Other school aid recommendations include an operating aid reduction that is sensitive to each district's relative wealth and student needs, as well as other targeted savings and reforms.

Medicaid spending is estimated at $5.46 billion in 2003-04, a decrease of $482 million (8.1 percent) from 2002-03. This net decrease results from roughly $1.23 billion in cost reductions related to proposed restructuring of various programs ($1.02 billion) and revenue maximization actions ($207 million), including the restoration of 0.7 percent hospital and 0.6 percent home care assessments, offset primarily by projected underlying spending growth of approximately 7.5 percent. Program restructuring proposals include a range of cost containment initiatives for hospitals, nursing homes and home care ($233 million), proposals to control the rising costs of prescription drugs ($112 million) and various other efficiencies. Proposed actions that will lower General Fund costs also include increased Federal aid governed from an increase in the cap on disproportionate share payments to public hospitals ($324 million). In addition, the recommendations include a realignment of program responsibilities which would result in the State picking up the entire local share of pharmacy costs, while the local share of costs related to fee-for-service hospital and clinics would increase from 25 percent to 37 percent ($227 million).

Spending on welfare in 2003-04 is projected at $984 million, an increase of $488 million (98.4 percent) over 2002-03. The year-to-year increase is due primarily to the use of Federal TANF reserve funds in 2002-03 ($465 million). The projected welfare caseload of 651,400 recipients represents an increase from 2002-03 of approximately 32,900 recipients (5.3 percent).

Higher Education Services Corporation (HESC) spending is projected at $407 million, an increase of $90 million (28.5 percent) from 2002-03. This net change reflects a reduction in available Federal TANF funds ($155 million) and underlying program growth ($176 million), partly offset by a restructuring of the TAP to provide greater incentives for timely degree completion ($241 million).

City University of New York (CUNY) spending is projected at $668 million, a decrease of $192 million (22.4 percent) from 2002-03. The decrease is primarily due to savings measures to be determined by the senior colleges ($91 million), and a reduction in costs due to a one-time retroactive collective bargaining payment made in 2002-03 ($63 million).

All other spending for local assistance programs will total $6.65 billion in 2003-04, a net decrease of $364 million (5.2 percent) from the current year. This decrease is largely attributable to the shift of Empire State Development Corporation capital programs ($95 million) and the Consolidated Highway Improvement Program ($24 million) to other funding sources, nonrecurring adds and program restructuring within the Education Department ($156 million), proposed efficiencies in public protection programs ($33 million), the sunset of county aid ($22 million), and savings initiatives proposed across all agencies and local assistance programs.

STATE OPERATIONS (millions of dollars)			
SFY:	**2002-03**	**2003-04**	**Annual Change**
State Operations	7,762	7,152	(610)

State Operations accounts for the cost of running the Executive, Legislative, and Judicial branches of government. The projected $610 million annual spending decrease comprises lower spending in both personal service ($470 million) and non-personal service ($140 million) across almost all Executive agencies. Spending for the Legislature is flat year-to-year and the Judiciary is up $33 million from 2002-03.

The State Operations estimates reflect $1.04 billion in savings initiatives. Included in these savings are $481 million from continuation of the strict Statewide hiring freeze, aggressive use of a retirement incentive for State employees, and various actions to restrain non-personal service spending in all agencies. A total of $564 million in additional savings is projected to be available in 2003-04 from various revenue maximization efforts to finance State Operations spending. These include additional mental hygiene Federal revenues ($306 million), various shifts of General Fund costs to other funding sources ($134 million) including moving additional Department of Motor Vehicle costs to the Dedicated Highway Fund, and motor vehicle fee increases which offset General Fund spending ($43 million). The savings initiatives and revenue maximization efforts are partially offset by planned base level spending growth of $430 million, primarily attributable to a decline in revenues that support General Fund spending ($146 million) and to normal salary step increases and non-personal service inflationary increases ($133 million).

The State's Executive agency All Funds workforce is projected to be 186,000 by the end of 2003-04, a decrease of approximately 10,000 from November 2001, primarily through attrition. This will be the lowest headcount level in decades.

GENERAL STATE CHARGES (millions of dollars)			
SFY:	2002-03	2003-04	Annual Change
General State Charges	2,770	3,165	395

General State Charges (GSCs) account for the costs of providing fringe benefits to State employees and retirees of the Executive, Legislative and Judicial branches, as well as fixed costs for taxes on public lands and litigation costs. Fringe benefit payments, many of which are mandated by statute or collective bargaining agreements, include employer contributions for pensions, social security, health insurance, workers' compensation and unemployment insurance. Fixed costs include 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.

The projected GSC growth of $395 million corresponds to pension fund investment losses and rising health insurance costs. Pension investment losses are expected to result in additional contributions to the New York State and Local Retirement Systems for fiscal year 2003-04. The employer pension contribution rate is projected to increase to 4 percent of payroll in 2003-04, increasing pension costs by $250 million (169 percent). Health insurance premiums are expected to increase by approximately $220 million in 2003-04 to cover the rising expense and utilization of employee health care. The Executive Budget proposes $70 million in savings from benefit changes that would reduce the growth in support for employee health insurance to $150 million (9.3 percent). These changes, many of which are subject to negotiations with State employee unions, would place restrictions on pharmacy benefits;

require a higher co-payment for nonessential prescription drugs; modernize the hospital benefit plan; increase employee co-payments, deductibles and coinsurance levels for doctor visits; and raise the share of health insurance premiums paid by employees and retirees.

TRANSFERS TO OTHER FUNDS (millions of dollars)			
SFY:	**2002-03**	**2003-04**	**Annual Change**
Transfers in Support of Debt Service	1,474	1,583	109
Transfers in Support of Capital Projects	170	206	36
Transfers in Support of State University	26	145	119
All Other Transfers	653	480	(173)
Total Transfers to Other Funds	**2,323**	**2,414**	**91**

The net increase in debt service transfers of $109 million reflects planned growth in debt service costs, partially offset by previous debt reduction efforts, the use of lower-cost revenue bonds, the impact of legislation to allow the State to diversify its debt portfolio and reduce borrowing costs, and the State Comptroller's accounting treatment of debt service costs for the personal income tax revenue bond program.

The $36 million increase in the Capital Projects Fund transfer primarily reflects the receipt of $31 million in bond proceeds in 2002-03 to reimburse spending which occurred in 2001-02.

The increase in transfers of $119 million to the State University is due to the timing of State subsidy payments to the SUNY hospitals ($107 million) and the use of Dormitory Authority funds ($12 million) in 2002-03 to help subsidize the SUNY hospitals; these are not available in 2003-04.

All other transfers declined by $173 million in 2003-04 due to decreases in the Community Service Provider Assistance Program ($100 million), payments to the State Lottery Fund ($14 million), and the State's share of Medicaid payments to SUNY hospitals ($45 million).

NONRECURRING ACTIONS

A total of $3.3 billion in nonrecurring actions is incorporated in the 2003-04 Financial Plan, including resources from the securitization of tobacco settlement payments ($2.3 billion), the use of Federal TANF moneys to offset General Fund welfare and HESC program spending ($408 million), the one-time shift of various pay-as-you-go capital projects to bonding ($176 million), debt management actions to reduce debt service costs ($163 million), one-year cap of STAR benefit increases ($93 million), recoveries of school aid and welfare overpayments ($88 million), and various routine fund sweeps ($101 million).

RESERVES/CLOSING BALANCE IN THE GENERAL FUND

The State projects a closing balance of $730 million at the end of the 2003-04 fiscal year, a decline of $453 million from 2002-03. The closing balance of $730 million represents the moneys on deposit in the Tax Stabilization Reserve Fund ($710 million) and the Contingency Reserve Fund ($20 million). The decline is due to the planned use in 2003-04 of balances in the Community Projects Fund ($75 million) and tobacco securitization reserves ($378 million).

To permanently improve the State's reserve levels, the Executive Budget includes legislation to gradually increase the maximum size of the State's rainy day fund from 2 percent of General Fund spending to 5 percent, and to increase maximum annual deposits from 0.2 percent to 0.5 percent of spending.

GOVERNMENTAL FUNDS FINANCIAL PLANS

STATE FUNDS

STATE FUND DISBURSEMENTS (millions of dollars)			
SFY:	2002-03	2003-04	Annual Change
Total Disbursements	58,963	58,890	(73)

State Funds represent the portion of the State's budget supported exclusively by State taxes, fees, fines, and other revenues imposed and collected by the State. Federal grants are excluded from the State Funds Financial Plan. The following table summarizes the major areas comprising the annual change in State Funds spending.

Annual Change in State Funds Spending (millions of dollars)		
	Annual Change	Percent Change
School Aid	(567)	(4.0)
State Operations	(197)	(1.7)
CUNY Local	(192)	(22.1)
Education Local	(156)	(26.2)
Medicaid	(123)	(1.5)
Yonkers Settlement	(110)	(78.6)
Transportation Local	(105)	(5.6)
Children & Family Services Local	92	9.7
Community Projects Fund	130	113.8
Debt Service	271	8.8
General State Charges	443	14.2
Capital Projects	518	14.4
All Other	(77)	(0.8)
Total Change	**(73)**	**(0.1)**

State Funds receipts are projected to total $58.03 billion in 2003-04, virtually unchanged from 2002-03. Tax receipts are projected to total $40.93 billion, a decrease of $310 million from 2002-03 reflecting the impact of the economic downturn described previously. Miscellaneous receipts are projected to total $17.11 billion, an increase of $300 million over 2002-03. The growth in State Funds miscellaneous receipts is concentrated in SUNY ($314 million) and Medicaid ($331 million). This growth is offset by a decrease in miscellaneous receipts in the General Fund ($547 million) as well as projected decreases in lottery receipts for school aid ($47 million) and receipts to HESC ($34 million).

In 2003-04, spending from State Funds is estimated at $58.89 billion, a decrease of $73 million from 2002-03. The decrease is primarily attributable to lower spending for school aid ($567 million), mental health programs ($300 million), local aid for City University programs ($192 million), education programs ($156 million) Medicaid ($123 million), and the Yonkers school desegregation settlement ($110 million). These declines are partially offset by programs and activities experiencing significant year-to-year growth including welfare ($488 million), debt service ($271 million), SUNY ($192 million), the Community Projects Fund ($130 million), capital programs related to economic development ($125 million), HESC ($91 million), and environmental conservation ($103 million).

ALL GOVERNMENTAL FUNDS

ALL GOVERNMENTAL FUNDS DISBURSEMENTS (millions of dollars)			
SFY:	2002-03	2003-04	Annual Change
Total Disbursements	90,948	90,822	(126)

The All Governmental Funds Financial Plan combines activity in the four governmental fund types: the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds. All Governmental Funds excludes Fiduciary, Internal Service, and Enterprise funds. The following table summarizes the major areas comprising the annual change in All Funds spending.

Annual Change in All Governmental Funds Spending (millions of dollars)		
	Annual Change	Percent Change
World Trade Center Local	(988)	(54.0)
School Aid	(567)	(4.0)
CUNY Local	(192)	(22.4)
State Operations	(176)	(1.2)
Yonkers Settlement	(110)	(78.6)
Education	(105)	(4.6)
Transportation	(104)	(5.5)
Community Projects Fund	130	113.0
Children & Family Services Local	147	5.9
Welfare	192	7.0
Child Health Plus	225	28.2
Debt Service	271	8.8
General State Charges	441	13.4
Medicaid	515	2.1
Capital Projects	581	11.5
All Other	(385)	(3.0)
Total Change	**(126)**	**(0.1)**

Spending supported by Federal aid declines by $53 million from 2002-03. When combined with the State Funds decrease of $73 million described above, spending from All Governmental Funds in 2003-04 is projected to decline by $126 million to $90.82 billion. The change in federally-supported spending consists of the following: World Trade Center pass-through spending ($829 million of the $988 million decline), the share of TAP financed by TANF ($155 million) and social welfare initiatives authorized under TANF ($296 million). Projected Federal increases in spending in Medicaid, including administration ($791 million), health care programs including Child Health Plus ($217 million), and mental hygiene programs ($279 million) offset these decreases.

All Governmental Funds receipts are projected to be $90.22 billion in 2003-04, a decrease of $401 million from 2002-03. Tax receipts are projected to decrease by $310 million to total $40.93 billion, while miscellaneous receipts are projected to increase by $288 million to total $17.23 billion over 2002-03. Federal Grants are projected to total $32.06 billion, a decrease of $379 million from 2002-03. Federal grants represent reimbursement from the Federal government for programs financed by the State in the first instance. The net decrease in All Governmental Funds receipts is primarily due to the changes in State Funds and Federal Funds described above and the one-time receipt of Federal funds certain World Trade Center-related costs in 2002-03.

On an All Governmental Funds basis, the State Financial Plan budgets spending for World Trade Center costs of $2.06 billion in 2002-03 and $946 million in 2003-04 which represents both pass-through aid and disbursements financed by the State. Most of the spending is supported by Federal funds ($2 billion in 2002-03 and $946 million in 2003-04). In addition to disaster cleanup and recovery spending, Federal money will finance, among other things, expanded counseling and trauma services ($99 million). In 2001-02, the State spent $654 million for World Trade Center costs ($532 million of which was pass-through aid). Actual spending has been allocated to the agencies where it occurred.

It should be noted that, consistent with the Comptroller's treatment of actual results, the Financial Plans presented here reflect pass-through aid related to reimbursement for September 11 costs within the amounts shown for total disbursement. For 2002-03, pass-through aid is projected to total $1.7 billion, of which $1 billion relates to expected reimbursement for liability insurance. Aid amounts decline in 2003-04 to $861 million, as reimbursement for initial response efforts — debris removal and crisis counseling — nears completion. Nearly all of the Federal disaster aid is expected to flow from the Federal Emergency Management Agency through the State Emergency Management Office (SEMO) to New York City and other localities affected by the disaster.

For further discussions of State Funds and All Governmental Funds receipts, please refer to the "Explanation of Receipts Estimates" in Part II of this Appendix.

SPECIAL REVENUE FUNDS

Special Revenue Funds (SRFs) receive dedicated sources of State and Federal revenues and disburse funds for specified purposes. Spending from SRFs is projected to total $45.58 billion in 2003-04, accounting for 50 percent of All Governmental Funds disbursements. Of this amount, $15.18 billion in spending is from funds supported by State revenues, and $30.40 billion from funds supported by Federal grants, primarily for health and welfare programs.

State Special Revenue Funds

Total State SRF receipts are projected to be $14.39 billion, an increase of $600 million from 2002-03 (4.4 percent), comprising of taxes ($4.31 billion) and miscellaneous receipts ($10.08 billion). Miscellaneous receipts are projected to increase $469 million over 2002-03 while taxes are projected to increase $131 million over 2002-03. Changes in State SRF receipts roughly mirror the changes in spending in all major program areas with the exception of transportation, where decreased spending resulting from a one-time use of fund balances in 2002-03 does not have a corresponding change in receipts. Disbursements from State SRFs are projected at $15.18 billion, an increase of $373 million or 2.5 percent from 2002-03. Major components of State SRFs include:

- **Medicaid**: The State's total Medicaid program (excluding costs financed by the counties and New York City) is projected to total $24.77 billion in 2003-04, an increase of $515 million (2.1 percent) for 2002-03 levels. Of this total, the State SRFs will finance $2.51 billion, an increase of $358 million over 2002-03 levels. The Medicaid SRFs access alternative sources of financing to make Medical Assistance payments that would otherwise be paid from the General Fund. Activities of these SRFs are detailed below:
    - **Indigent Care**: The Indigent Care Fund receives revenue through transfers from the Health Care Initiatives Pool, Bad Debt and Charity Care Pools, and the Tobacco Control and Insurance Initiatives ("Public Goods") Pool. These off-budget pools are financed with various taxes, assessments and surcharges on

hospital revenues and third-party payers. The Indigent Care Fund makes Medicaid payments to providers and municipalities for the cost of providing care to the uninsured. Total disbursements from the Indigent Care Fund are estimated at $911 million in 2003-04, a decrease of $109 million from 2002-03, reflecting distribution of available pool balances in 2002-03 ($144 million). The decrease is offset by the proposed use of additional balances in 2003-04 ($35 million).

- **Provider Assessments**: This account, created in 2002-03, is financed by a reimbursable assessment of 6 percent on nursing home revenues. The 2003-04 Executive Budget proposes additional financing via the reestablishment of a nonreimbursable 0.7 percent assessment on hospital revenues and 0.6 percent assessment on home care revenues ($207 million). These assessments are projected to generate a total of $652 million in 2003-04 and will be used to finance Medicaid costs.
- **Health Care Reform Act Transfer**: This fund is supported by transfers from the Tobacco Control and Insurance Initiatives Pool and is used primarily to finance a portion of the State's Medicaid program, including expansion of programs such as the Family Health Plus program. Spending from this fund in 2003-04 is projected to total $1.30 billion, an increase of $347 million over 2002-03. This increase is primarily the result of enrollment growth in the Family Health Plus program and annualized spending for workforce recruitment and retention initiatives.
- **Tobacco Transfer**: The Tobacco Transfer Fund was created in 2000-01 to receive a portion of the initial payments received by the Tobacco Settlement Fund pursuant to the Master Settlement Agreement between the tobacco companies and the states. Spending from this fund reimburses medical care providers for services rendered to Medicaid patients. The final initial payment occurred in 2002-03 ($91 million), and therefore the 2003-04 Executive Budget assumes no revenue or spending in the Tobacco Transfer Fund.

- **STAR**: This fund receives personal income tax receipts dedicated to support the STAR property tax relief program. Spending for STAR is estimated at $2.71 billion in 2003-04, an increase of $40 million from 2002-03. STAR will provide $2.17 billion in local property tax relief for eligible homeowners statewide. In addition, residents of New York City, who pay property, income and other taxes to fund City education services, will receive $540 million in City personal income tax reductions. Increased participation by taxpayers and the new cost-of-living adjustment to the senior income eligibility ceiling account for the higher projected spending in 2003-04. For the 2003-04 school year only, individual homeowner STAR benefits will be capped at the maximum 2002-03 savings levels for their school district and assessing unit.
- **Lottery**: The Lottery Fund supports public elementary and secondary school education through proceeds received from the sale of lottery tickets. The 2003-04 Executive Budget projects roughly $2 billion in lottery proceeds will be available to fund school aid ($1.84 billion) and the remainder to support administrative costs of operating lottery games.
- **State University of New York**: The State University (SUNY) receives revenues from tuition, third-party payers, room rents, and user fees. SUNY revenues support the costs of operating hospitals, dormitories, and regular campus services. The University's spending from State SRFs is projected to total $2.56 billion in 2003-04, an increase of $259 million from the current year.
- **Transportation**: The Mass Transportation Operating Assistance (MTOA) Fund and the Dedicated Mass Transportation Trust Fund receive taxes earmarked for mass transportation programs throughout the State. Total disbursements from these two funds in 2003-04 are projected at $1.60 billion, $83 million below 2002-03 levels. This decrease reflects a one-time MTOA fund balance release used to support payments in 2002-03.
- **Child Health Plus**: Child Health Plus (CHP) subsidizes health insurance coverage for children of low-income families. The State-share cost for this program is funded with revenues transferred from the Health Care Initiatives Pool as authorized in the Health

Care Reform Act. The 2003-04 Executive Budget projects State-share spending for this program to be $417 million, an increase of $20 million over 2002-03. This increase is attributable primarily to the proposed reversal of an initiative that allowed certain children to enroll in Medicaid rather than CHP, as well as enrollment growth and increased immigrant health care costs that are entirely funded by the State.

- **All Other**: Fees, licenses, and assessments collected by State agencies support the costs of providing specific services. Spending for these SRFs is projected to total $3.20 billion for 2003-04 and includes spending for the EPIC prescription drug program ($593 million), various health care programs ($397 million), the Judiciary ($156 million), environmental conservation programs ($148 million), Workers Compensation Board ($137 million), the insurance industry ($133 million) and State Police ($125 million).

Federal Special Revenue Funds

Federal SRFs account for grants and other aid received from the Federal government. The State must follow specific guidelines regarding the use of these grants. In most cases, the State finances programs in the first instance, then receives reimbursement from the Federal government. Reimbursement is assumed to be received in the State fiscal year in which the spending occurs, but timing-related variances can produce temporary budget balances in these funds. In addition, the State is subject to the Federal Cash Management Improvement Act, which imposes interest penalties on the State and Federal governments relating to the cash management of Federal funds.

Total disbursements for programs supported by Federal grants account for approximately three-quarters of all special revenue spending. Federal SRF receipts and disbursements are estimated at $30.40 billion in 2003-04, a decrease of $117 million or 0.4 percent from 2002-03. The projections for both fiscal years include the flow-through of Federal aid to localities for World Trade Center costs described above. The largest components of change in Federal spending are decreased spending for World Trade Center costs ($1.12 billion) offset by increased spending in Medicaid ($791 million) and CHP ($205 million). Major components of Federal SRFs include:

- **Medicaid**: The single largest program funded in part with Federal moneys is the Medicaid program, which represents 54 percent of total Federal Special Revenue Fund spending. Disbursements from this fund correspond to the Federal government's share of direct payments made to health care providers and reimbursement to local governments for the administrative costs of the program. The 2003-04 Executive Budget estimates $16.45 billion in total Federal Medicaid spending, an increase of $638 billion from 2002-03. This growth is attributable to underlying growth in the Medicaid program of approximately 7.5 percent ($958 million) and is partially offset by cost containment initiatives for hospitals, nursing homes, home care, and pharmacies, which lower both Federal and State costs.
- **Welfare**: The State receives Federal welfare funding through the TANF block grant. The difference between the block grant and current spending requirements (the "TANF surplus") allows the State and localities to provide services that help welfare recipients and at-risk families secure and retain employment. In 2003-04, Federal welfare spending financed by TANF will total $1.96 billion, a decrease of $296 million from fiscal year 2002-03. TANF supports a wide range of services, including child welfare services, tax credits for the working poor, and other welfare reform initiatives. The decrease in TANF spending in 2003-04 is due to the loss of one-time credits ($615 million) which were used to support 2002-03 spending. This decrease is partially offset by program growth ($201 million), increases in the earned income and dependent care tax credit offsets ($57 million) and additional one-time credits taken in 2003-04 ($61 million).
- **Education**: Education spending is projected at $2.18 billion in 2003-04, an increase of $54 million from 2002-03. Increased Federal funding for elementary and secondary education programs supports this growth in spending.

- **Higher Education Services Corporation**: Spending for Higher Education Services Corporation decreased by $155 million from 2002-03 as a result of the reduced financing of TAP by the TANF block grant.
- **Children and Family Services**: Funding for Children and Family Services is projected at $1.71 billion in 2003-04, an increase of $31 million from 2002-03. The increase results from projected higher spending levels in child care and Title IV-E programs such as adoption and foster care.
- **Labor**: Labor spending is estimated at $715 million in 2003-04, an increase of $47 million from 2002-03. This increase is attributable primarily to the transfer to the Department of Vocational Rehabilitation programs presently operated by the Office of Children and Family Services and the State Education Department.
- **Child Health Plus**: Child Health Plus is largely supported with Federal moneys in addition to State funding and facilitates access to comprehensive health care coverage for every eligible child in New York up to the age of 18. The Federal share of spending for this program is estimated to be $608 million in 2003-04, an increase of $205 million from 2002-03. This increase reflects rising expansion and outreach efforts to enroll all eligible children in New York State.
- **All Other**: All other Federal spending is projected at $5.66 billion for 2003-04 and includes support for health care, public protection and general government programs. The increase of $474 million results primarily from an increase in Medicaid payments to State-operated mental health and retardation facilities ($271 million), which total $2.39 billion in 2003-04, and from increased Medicaid administration costs ($153 million).

CAPITAL PROJECTS FUNDS

The Capital Projects Funds group includes the Capital Projects Fund that is supported with tax receipts from the General Fund. Other funds in this fund type exist for specific capital purposes and are financed by sources other than the General Fund. Spending for capital projects is financed with cash or bond proceeds. Cash resources include pay-as-you-go State resources and Federal grants. Bond resources are proceeds from the sale of bonds, including voter-approved general obligation bonds or public authority bonds. Many of these funds are supported by dedicated State taxes or receipts, such as highway-related taxes in the Dedicated Highway and Bridge Trust Fund, the real estate transfer tax and environmental fees in the Environmental Protection Fund, and park fees in the State Parks Infrastructure Fund. Other funds may receive only bond reimbursements, such as those that support capital programs for correctional services and housing.

Capital Projects Funds spending in 2003-04 is projected at $5.64 billion, or $581 million higher than the revised projection for 2002-03. The increase is attributable to spending associated with prior-year commitments in the areas of economic development ($181 million), transportation ($165 million) and the environment ($127 million). In addition, Federal resources devoted to support efforts to reconstruct Route 9-A in the wake of the World Trade Center disaster will increase by $67 million.

Highlights of the 2003-04 capital spending plan include:

- Transportation spending of $3.1 billion, an increase of $165 million or 6 percent over the prior year. Construction levels for DOT's Highway and Bridge Construction Program will be financed through a $1.65 billion contract letting level in 2003-04. While this is a decline from last year's letting level of $1.75 billion, spending continues to increase from the higher level of commitments made in previous years. The Executive Budget continues support for local transportation capital programs including the Consolidated Highway Improvement Program (CHIPS) and the Marchiselli Program. Transportation programs account for 55 percent of total capital spending.
- Projected spending for the environment of $826 million will increase by $127 million or 18 percent over 2002-03. The major components of this spending increase include $105 million from the new Hazardous Waste Remedial Fund to support the

Superfund Program and $12 million from Environmental Protection Fund. Total disbursements for the environment include $172 million in Clean Water/Clean Air Bond Act spending and $127 million in spending from the Environmental Protection Fund. Spending for the environment will account for 15 percent of 2003-04 capital disbursements.

- Spending for housing, economic development and other capital projects of $796 million reflect a 52 percent ($274 million) increase. This increase in spending represents the State's continued commitment to critical economic development and job creation initiatives designed as part of an effort to reverse the protracted national economic downturn. These projects are administered under a variety of programs, including the Regional Development Program and the Strategic Investment Program. These programs will focus on important projects that create or retain technology-related jobs through the construction and development of research facilities, business incubators and business parks. Other spending recommendations for 2003-04 will continue funding for the rehabilitation or construction of various State facilities, including the State Capitol, the Alfred E. Smith State Office Building, and the construction of the new Elk Street parking garage in Albany. Disbursements for housing, economic development, and other initiatives will account for approximately 14 percent of 2003-04 capital spending.
- Public protection spending of $258 million is projected to increase by $14 million or 6 percent from 2002-03. Public protection spending, which finances capital projects to preserve and maintain existing correctional facilities, will account for 5 percent of total 2003-04 capital disbursements.
- Spending for the Department of Mental Hygiene of $203 million reflects an increase of $31 million or 18 percent from the revised 2002-03 estimate. This change reflects the impact of bringing new community beds on-line across 2002-03 and 2003-04. Departmental spending will continue to support essential health and safety, rehabilitation and maintenance projects to preserve both State and community-based facilities operated and licensed by the Department's agencies. Department of Mental Hygiene spending will account for 3 percent of 2003-04 capital disbursements.
- Capital spending for education and higher education of $471 million reflects a modest decrease of $30 million from 2002-03. This reflects the completion of disbursements for the School District Capital Outlay Grant Program in 2002-03. Absent this one-time spending, support for education and higher education programs increases by $70 million, reflecting commitments made in the capital program to the University systems. Disbursements to support education will account for 8 percent of 2003-04 capital spending.

DEBT SERVICE FUNDS

Debt Service Funds are the conduits through which the State pays debt service on State general obligation bonds, and satisfies its lease-purchase and contractual obligation commitments on bonds issued by the State and public authorities. Debt Service Funds receive moneys either from a dedicated revenue stream, such as sales tax receipts or State personal income tax receipts, or as a transfer from the General Fund or other funds.

Estimated debt service disbursements from the debt service funds type are projected at $3.10 billion for 2002-03 and $3.37 billion for 2003-04. The $271 million increase is due to a combination of ongoing debt management actions that lower the State's cost of borrowing in 2002-03 to provide recurring savings. This includes: the refunding of State-supported bonds; using variable rate bonds and interest rate exchange agreements authorized by 2002 legislation; modernizing the financing structure of State-supported bonds; and issuing lower-cost personal income tax revenue bonds. Estimated disbursements reflect the refunding of State-supported bonds to generate significant present value savings. Debt service costs for the current year and over the five-year Capital Program and Financing Plan are projected to remain within the caps imposed by the Debt Reform Act.

The General Debt Service Fund pays debt service on general obligation bonds, as well as payments for lease-purchase and contractual obligation bonds. Transfers from the General Fund are the primary source of funds for these payments, and are made in the amount necessary to meet required disbursements. In addition, the Revenue Bond Tax Fund, an account within the General Debt Service Fund, will pay the debt service on personal income tax revenue bonds that are supported by the pledge of a portion of State personal income tax receipts.

In 2003-04, the transfer from the General Fund is projected at $1.58 billion, an increase of $109 million from 2002-03. This primarily reflects increases associated with prior-year financings for CUNY, SUNY, correctional facilities and other programs offset by the impact of refundings and other efforts to reduce borrowing costs. Additional transfers consist of $161 million from the Dedicated Highway and Bridge Trust Fund, $91 million from the Clean Water/Clean Air Fund, $26 million from the Income Fund for SUNY Hospitals, $1.5 million from the State Parks Infrastructure Fund, and $1 million from the Centralized Services Fund. Those additional transfers pay the debt service on bonds issued for CHIPS, environmental projects under the Clean Water/Clean Air Bond Act, the hospital's share of SUNY educational facilities debt service, State parks, and equipment financing purposes, respectively. Along with $233 million in revenue bond debt service financed with State personal income tax receipts, 2003-04 total disbursements from the General Debt Service Fund total $2.1 billion. Personal income taxes in excess of debt service requirements are transferred back to the General Fund.

The Local Government Assistance Tax Fund is projected to receive $2.3 billion in 2003-04 receipts from the dedicated one-cent statewide sales tax. Debt service and associated costs on the completed $4.7 billion Local Government Assistance Corporation (LGAC) program are projected at $256 million in 2003-04. Sales tax receipts in excess of LGAC's debt service requirements, $2.0 billion, will be transferred to the General Fund.

Patient revenues of $2.6 billion deposited to the Mental Health Services Fund will satisfy debt service obligations of $158 million in 2003-04. The remaining balance will be transferred SRFs to support operating costs for various mental hygiene agencies. The Health Income Fund also receives patient revenue deposits and transfers from certain Health Department facilities, including the Roswell Park Cancer Institute (whose operations were transferred to a public corporation in 1997). Revenues of the Corporation continue to support the debt service on bonds for Roswell facilities through their maturity, and the balance is periodically transferred back to the Institute. As a result, the State's Financial Plan reflects only the portion of the Corporation's receipts that are needed for debt service. Approximately $128 million in deposits to the Health Income Fund are expected to support debt service obligations of $30 million in 2003-04. The balance of those deposits will be transferred to SRFs to support State Operations costs of the Health Department.

The Clean Water/Clean Air Fund, which was created in 1998-99 to implement the Clean Water/Clean Air Bond Act, is expected to receive $292 million from the real estate transfer tax. Approximately $91 million of these receipts will be transferred to the General Debt Service Fund in 2003-04 to support the debt service on Clean Water/Clean Air general obligation bonds and the $201 million balance will be transferred to the General Fund. Other debt service funds are used to finance payments on bonds issued to finance housing, SUNY dormitory and State highway projects.

GAAP-BASIS FINANCIAL PLANS

The General Fund and All Governmental Funds Financial Plans are also prepared in accordance with Generally Accepted Accounting Principles (GAAP). Additional schedules are provided which detail the differences between the General Fund Financial Plan prepared on a cash basis versus that prepared in accordance with GAAP. The GAAP projections for both years are based on the accounting principles applied by the State Comptroller in the financial statements issued for the 2001-2002 State fiscal year. They do not reflect any pending proposals of the Governmental Accounting Standards Board, including GASB 34, which will significantly change the presentation of GAAP financial information for state and local governments in 2002-03.

The State is required to report its financial results in accordance with GASB 34 beginning with the 2002-03 fiscal year. As a result, DOB expects to prepare its GAAP basis financial projections for future years to reflect the changes required under GASB 34 in the first publication following the issuance of the 2002-03 Comprehensive Annual Financial Report by the State Comptroller in July 2003. The new financial reporting model will redefine the current financial reporting structure by changing its focus to major funds, rather than fund types, require a new section called management discussion and analysis (the "MD & A"), and contain new government-wide financial statements which will include all revenues and all costs of providing services each year. The new statements will report on both current assets and liabilities and long-term assets and liabilities, such as capital assets, including infrastructure (e.g., roads and bridges). Based on a preliminary analysis, DOB believes the State will be in an overall net positive asset position at the end of 2002-03.

In 2002-03, the General Fund GAAP Financial Plan shows total revenues of $33.00 billion, total expenditures of $41.76 billion, and net other financing sources of $6.21 billion, resulting in an operating imbalance of $2.55 billion. This operating results reflect the use of reserves in response to the World Trade Center disaster while the State restrains overall spending over the next few years, as well as the negative impact of the economy on revenues. As a result, the accumulated surplus declines from $492 million at the end of 2001-02 to an accumulated deficit of $2.06 billion at the end of 2002-03.

In 2003-04, the General Fund GAAP Financial Plan shows total revenues of $33.47 billion, total expenditures of $40.10 billion, and net other financing sources of $6.49 billion, resulting in an operating deficit of $138 million. The accumulated deficit is projected at $2.20 billion at the end of 2003-04.

CASH FLOW

Cash flow reforms enacted in the 1990s prohibit the State from issuing short-term debt to meet its cash flow needs throughout the year unless the Governor, Senate Majority Leader, and Assembly Speaker jointly declare a fiscal emergency.

The 2002-03 cash flow assumes the Governor's proposal to receive tobacco securitization proceeds of $1.9 billion in March 2003, or $378 million more than needed for budget balance in March 2003.

The 2003-04 General Fund cash flow estimates assume the budget is enacted on time, and various management actions in the first quarter to maximize the use of other funding sources to offset General Fund spending. After these actions, the General Fund is projected to have quarterly balances of $780 million in June, $1.10 billion in September, $1.40 billion by the end of December, and $730 million at the end of March. The lowest projected month-end cash flow balances are $375 million at the end of May and $501 million in August.

GENERAL FUND FINANCIAL PLAN OUTYEAR PROJECTIONS

PROJECTED BUDGET GAPS FOR SFYs 2004-05 AND 2005-06 (millions of dollars)	2004-05	2005-06
Current Law Projected Receipts	36,596	38,692
Current Law Projected Disbursements	46,767	49,772
Gap (before 2003-04 Recommendations)	**(10,171)**	**(11,080)**
Value of 2003-04 Recommendations	**7,272**	**6,844**
– Spending Restraint	*5,660*	*5,696*
– Revenue Proposals	*1,212*	*1,148*
– Tobacco Proceeds	*400*	*0*
Remaining Gap (after Recommendations)	**(2,899)**	**(4,236)**
2005-06 Gap if 2004-05 Gap is Closed with Recurring Actions		**(1,337)**

The State faced potential budget gaps of $10.2 billion in 2004-05 and $11.1 billion in 2005-06 before any 2003-04 Executive Budget recommendations. The Governor's budget proposes $6.8 billion in recurring savings in 2004-05 and 2005-06, and preserves $400 million in tobacco securitization receipts in 2004-05 to help reduce these gaps. The remaining gaps are projected at $2.9 billion in 2004-05 and $4.2 billion in 2005-06. These gaps assume the Legislature will enact the 2003-04 Executive Budget and accompanying legislation in its entirety. These budget gaps do not assume any possible collective bargaining salary increases, or additional spending efficiencies.

If the projected budget gap for 2004-05 is closed with recurring actions, the 2005-06 budget gap would be reduced to $1.3 billion. A more detailed explanation of the outyear receipts and disbursement estimates follows.

OUTYEAR RECEIPTS

GENERAL FUND RECEIPTS (millions of dollars)		
SFY:	**2004-05**	**2005-06**
Total Receipts	38,010	39,679

General Fund receipts are estimated at $38.01 billion in 2004-05. After adjusting for atypical transactions, there is an increase of $1.3 billion which reflects a forecast that both the national and New York economies will have recovered from recession and will be growing at close to historical average rates through 2005. The forecast also assumes the incremental impact of enacted tax reductions, the impact of prior Refund Reserve transactions and the continued earmarking of receipts for Dedicated Highway Fund purposes. Receipts are projected to grow modestly to $39.68 billion in 2005-06, again reflecting a return to economic growth consistent with average growth in the receipts base and the impact of enacted tax cuts on normal receipts growth. The Economic Backdrop section contains a detailed listing of outyear economic projections.

PERSONAL INCOME TAX (millions of dollars)		
SFY:	**2004-05**	**2005-06**
Personal Income Tax	16,134	17,392

In general, income tax growth for 2004-05 and 2005-06 is governed by projections of growth in taxable personal income and its major components, including wages, interest and dividend earnings, realized taxable capital gains, and business net income and income derived from partnerships and S Corporations.

It should be noted that the estimated poor growth performance in income tax receipts in 2002-03 and 2003-04 is expected to be heavily influenced by the continuing impact of the World Trade Center disaster. The outyear projections anticipate a gradual recovery in income tax receipts growth from this period and the return to average liability growth rates in 2004 and 2005.

Personal income tax receipts are projected to increase to $16.13 billion in 2004-05. The increase from 2003-04 largely reflects growth in underlying liability. In addition, receipts are reduced by the incremental value of the STAR tax reduction program.

Personal income tax receipts for 2005-06 are projected to increase to $17.39 billion. The modest increase results from a return to increases in liability consistent with underlying adjusted gross income growth of more than 5 percent in both 2004 and 2005.

Wages are estimated to continue to improve in 2004-05 and 2005-06, reflecting stronger employment growth as well as a return to moderate growth in bonuses over the period.

Growth in realized capital gains is projected to rebound from the large decreases estimated for 2002 and 2003. The 2004-05 and 2005-06 receipts projections assume continued recovery in equity markets and growth in associated capital gains.

The 2004-05 and 2005-06 projections also assume increases in the other major components of income, consistent with continued growth in the overall economy. In particular, interest and business incomes are expected to grow at rates consistent with the average growth in these components in the years before the World Trade Center attacks. The Economic Backdrop section contains a more detailed discussion of these estimates.

There is significant uncertainty associated with the forecast of the outyear income components. In many cases, a reasonable range of uncertainty around the predicted income components would include significant reductions in receipts. As a result, the projections for 2004-05 and 2005-06 are relatively conservative given the substantial uncertainty in predicting income tax receipts.

USER TAXES AND FEES (millions of dollars)		
SFY:	**2004-05**	**2005-06**
User Taxes and Fees	7,788	8,034

Receipts from user taxes and fees are estimated to total $7.79 billion in 2004-05, an increase of $280 million from 2003-04. This increase is due almost exclusively to growth in the sales tax, which is partly offset by increased earmarking of motor vehicle fees to the dedicated transportation funds.

User taxes and fees receipts are expected to grow to $8.03 billion in 2005-06. The economy is expected to have recovered from the recession and be growing at trend rates over this period, resulting in sales tax growth more in line with historical averages. This is expected to result in underlying growth in the sales tax base of 4 percent to 5 percent.

BUSINESS TAXES (millions of dollars)		
SFY:	**2004-05**	**2005-06**
Business Taxes	3,787	3,922

Business tax receipts are estimated to increase to $3.79 billion in 2004-05. This estimate reflects the effect of proposed tax law changes in the insurance tax. Receipts are projected to increase to $3.92 billion in 2005-06, reflecting modest increases in underlying liability, offset by enacted business tax reductions.

OTHER TAXES (millions of dollars)		
SFY:	**2004-05**	**2005-06**
Other Taxes	790	850

The yield from other taxes is expected to increase from 2003-04 to $790 million, which reflects the expected moderate growth in the stock market on the value of taxable estates, and the impact of the acceleration of the unified credit/exemption. In 2005-06, receipts climb to $850 million, reflecting a return to normal growth in stock market values.

MISCELLANEOUS RECEIPTS (millions of dollars)		
SFY:	**2004-05**	**2005-06**
Miscellaneous Receipts	2,068	1,624

Miscellaneous receipts for 2004-05 are estimated at $2.07 billion, including $400 million in tobacco proceeds. Receipts in this category are projected to be $1.62 billion in 2005-06. There are no tobacco proceeds in 2005-06.

TRANSFERS FROM OTHER FUNDS (millions of dollars)		
SFY:	**2004-05**	**2005-06**
PIT in Excess of Revenue Bond Debt Service	5,009	5,330
Sales Tax in Excess of LGAC Debt Service	2,060	2,151
Real Estate Taxes in Excess of CW/CA Debt Service	198	208
All Other Transfers	176	168
Total Transfers from Other Funds	**7,443**	**7,857**

Transfers from other funds are estimated to remain unchanged at $7.44 billion in 2004-05 growing to $7.86 billion in 2005-06. Both 2004-05 and 2005-06 reflect growth in the dedicated portions of personal income tax, sales tax and the real estate transfer tax, which comprise a significant portion of transfers from other funds each year. The growth in 2004-05 is offset by a decrease in the expected transfer from the Environmental Protection Fund ($53 million), one-time transfers from the Dedicated Highway and Bridge Fund ($118 million) and various SRFs in 2003-04 ($10 million)

OUTYEAR DISBURSEMENTS

GENERAL FUND DISBURSEMENTS (millions of dollars)		
SFY:	2004-05	2005-06
Total Disbursements	40,909	43,915

DOB currently projects spending to grow by $2.27 billion (5.9 percent) in 2004-05 and $3.01 billion (7.4 percent) in 2005-06. Spending estimates for 2004-05 and 2005-06 are described in more detail below.

GRANTS TO LOCAL GOVERNMENTS (millions of dollars)		
SFY:	2004-05	2005-06
Grants to Local Governments	26,866	29,064

Local assistance spending is projected to increase by $953 million (3.7 percent) in 2004-05 and another $2.2 billion (8.2 percent) in 2005-06. The cumulative growth in both outyears of $3.2 billion is attributable primarily to school aid growth ($800 million), underlying growth in Medicaid ($1.4 billion), declines in alternative revenue sources including Federal TANF funds ($548 million), and the end of a two-year Medicaid distressed hospital payment increase ($324 million).

Projected growth in school aid on a school year basis is approximately $650 million in both 2004-05 and 2005-06. This reflects projected increases in consolidated operating aid and other major formula-based aids, as well as in certain expense-based aids, such as building aid and transportation aid. On a fiscal year basis, school aid spending is projected to grow by approximately $135 million (1.1 percent) in 2004-05 and $665 million (5.6 percent) in 2005-06. The increases reflect projected growth in program expenses combined with a smaller “tail” in the 2004-05 fiscal year due to the 2003-04 school year reductions.

General Fund spending for Medicaid is expected to grow by $219 million in 2004-05 and another $1.2 billion in 2005-06. This increase is largely attributable to $1.3 billion in spending growth for the program, which represents underlying growth of approximately 7.5 percent in 2004-05 and 10 percent in 2005-06, generally consistent with the projections developed with the Health Care Reform Act and the Congressional Budget Office. The remaining growth is attributable to the loss of other financing sources of $324 million in 2005-06 resulting from the end of the two-year increase of distressed hospital payments.

Welfare spending is projected to increase by $175 million (17.8 percent) in 2004-05, largely due to the loss of one-time Federal TANF funds. Programmatic commitments are expected to decline by 8.4 percent in 2004-05 as a result of the full annual impact of the recommendations contained in this budget, and then remain essentially flat in 2005-06.

Higher Education Services Corporation (HESC) spending is projected to grow by $230 million (56.6 percent) in 2004-05 and by $20 million in 2005-06. The increase in 2004-05 is the result of the loss of one-time Federal TANF funds used to support TAP in 2003-04.

Mental hygiene programs are projected to increase by $179 million (11.5 percent) in 2004-05 and will remain basically flat in 2005-06 with a small increase of $18 million (1.0 percent). Growth in 2004-05 is attributable primarily to projected expansion of programs for the mentally and developmentally disabled.

All other local assistance programs increase by $6 million (0.1 percent) in 2004-05 and by $254 million (4.4 percent) in 2005-06. The two-year growth of $260 million is due to programmatic growth in various local assistance programs which include increases in child welfare programs ($85 million), various public health programs ($65 million), and handicapped education ($63 million).

STATE OPERATIONS (millions of dollars)		
SFY:	2004-05	2005-06
State Operations	7,511	7,740

State Operations spending is expected to increase by $358 million, or 5.0 percent, in 2004-05 and another $229 million or 3.1 percent in 2005-06. The growth in State Operations spending is due to costs associated with normal salary step increases and increases for non-personal service costs, valued at roughly $125 million in 2004-05 and 2005-06. The State Operations growth is also attributable to the value of an additional institutional payroll cycle ($130 million) in 2004-05 and the decline in Federal mental hygiene revenues. No additional general salary increases are assumed in either 2004-05 or 2005-06.

GENERAL STATE CHARGES (millions of dollars)		
SFY:	2004-05	2005-06
General State Charges	3,654	4,304

General State Charges are expected to increase by $490 million (15.5 percent) in 2004-05 and $650 million (17.8 percent) in 2005-06. This growth is attributable to anticipated cost increases in providing pension and health insurance benefits to State employees and retirees. Recent pension fund investment losses are expected to increase the New York State and Local Retirement Systems' employer contribution rate to 7 percent of employee salaries in 2004-05 and 11 percent in 2005-06. These rates will require additional spending of $272 million in 2004-05 and another $352 million in 2005-06. Spending for employee health care costs is expected to increase by $217 million in 2004-05 and another $289 million in 2005-06. This funding level assumes a 15 percent annual premium trend increases offset by over $200 million in annual savings from health benefit changes and workforce reductions proposed in the 2003-04 Executive Budget.

TRANSFERS TO OTHER FUNDS (millions of dollars)		
SFY:	2004-05	2005-06
Debt Service	1,879	1,867
Capital Projects	303	313
State University	115	122
All Other	581	505
Total Transfers to Other Funds	**2,878**	**2,807**

Transfers to the Debt Service Funds increase by $296 million in 2004-05 and decrease $12 million 2005-06. The change in debt service in the outyears is due primarily to additional costs to support higher education, economic development, and public protection capital projects, offset by savings generated from efforts to reduce borrowing costs and the continued impact of the accounting treatment by the State Comptroller of the personal income tax revenue bond program, which artificially lowers future General Fund debt service costs.

Capital projects transfers are projected to increase by $97 million in 2004-05 and $10 million in 2005-06. The $97 million increase reflects a return to pay-as-you-go financing for various ongoing environmental and State programs which are bond financed in 2003-04, including environmental projects financed in the Capital Projects Fund ($21 million), the new

State Superfund ($64 million), and various State facilities managed by the Office of General Services. The increase in General Fund support from 2004-05 to 2005-06 is due to additional costs in a variety of areas, including State facilities and mental hygiene.

Transfers to the State University reflect the State subsidy for SUNY hospitals and the State's share of the repayment of an outstanding SUNY loan.

All other transfers are projected to increase by approximately $102 million in 2004-05 and decrease $76 million in 2005-06, including a one-time legislatively mandated transfer of funds for medical malpractice in 2004-05 ($45 million).

Part I. 2. A discussion of special considerations related to the State Financial Plan.

Special Considerations

The State Constitution permits the Governor to submit amendments to the Executive Budget within 30 days of submission. DOB anticipates that several amendments may be introduced to the 2003-04 Executive Budget. At this time, DOB does not expect that any such amendments will have a material impact on the Financial Plan projections described herein. However, given the uncertainties surrounding the receipts forecast, more substantial revisions to the projections are possible.

The most significant short-term risk to the Financial Plan is that the Legislature will fail to enact legislation authorizing the State to securitize its tobacco settlement payments as recommended in the Governor's Executive Budget. To securitize its tobacco payments, the Executive Budget recommends the sale of the tobacco payment stream to a statutorily created, bankruptcy-remote corporation that is a subsidiary of the Municipal Bond Bank Agency. In exchange for the sale of the tobacco payment stream asset, the State will receive one or more upfront payments from the proceeds generated from the issuance of bonds by the corporation. If the Legislature does not act on this legislation promptly, the State will need to take other actions to increase receipts or decrease disbursements (e.g., delay certain payments to end the 2002-03 fiscal year in balance). Any payment delay would both add to 2003-04 costs and create additional constraints on an already tight 2003-04 cashflow projection. There can be no assurance that the budget finally enacted by the Legislature will not differ materially and adversely from the projections described in this update to the AIS.

In every year, many uncertainties exist in the forecast of` the national and State economies. Two variables which stand out as being particularly vulnerable to financial market volatility, and which are closely associated with State personal income tax receipts, are finance sector bonus income and capital gains realizations. Historically, financial sector bonus income has been closely tied to security firm profits. Both bonus income and capital gains realizations have historically been subject to a high degree of variation and may produce results below the current receipts forecast. Also, the United States Congress is expected to consider several economic stimulus packages during the winter of 2003. Several proposals could have a detrimental impact on New York State income receipts.

There are several significant risks that could adversely affect the U.S. economic recovery or perhaps even derail it and put the nation back into recession. By far the greatest is the risk of another terrorist attack, or series of attacks, that could lead to a steep decline in consumer confidence and spending, as well as a postponement of investment plans by businesses. Similarly, a conflict in Iraq carries the potential for a large spike of some duration in oil prices as well as a sharp drop in consumer sentiment and business confidence.

Consumer spending remained relatively strong during the recession, resulting in little pent-up demand. If job growth is inadequate, or if declines in the value of homes or financial assets too pronounced, or if consumer sentiment should deteriorate, then consumer spending growth could quickly fall. Businesses may be reluctant to increase investment spending if demand for their products and services remains weak or if geopolitical risks seem too large. Although the Federal government has adopted an expansionary policy stance, state and local governments are raising taxes and cutting back on spending. On balance, total government spending could be weaker than projected, reducing overall growth.

Financial market performance also impacts the level of contributions required for the pension funds. The Executive Budget Financial Plan assumes that the State's 2003-04 pension contribution will be toward the lower end of the range of contributions provided by the Comptroller. To the extent that the required contribution is greater than such amount, the State will be required by law to pay the deficiency, with interest, by the second fiscal year following such underpayment.

An ongoing risk to the State Financial Plan arises from the potential impact of certain litigation and Federal disallowances now pending against the State, which could produce adverse effects on the State's projections of receipts and disbursements. The Financial Plan assumes no significant Federal disallowances or other Federal actions that could adversely affect State finances. For more information on certain litigation pending against the State, see the section entitled "Litigation" in this Update to the AIS and in the AIS dated June 3, 2002.

Part II: This part contains information on the Metropolitan Transportation Authority and New York City. The GAAP-basis results and retirement information, which contain no revisions, are also reprinted from the November 14, 2002 Update.

PART II

Authorities and Localities

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 initiated a five-year State transportation plan that included nearly $2.2 billion in dedicated revenue support for the MTA's 2000-2004 Capital Program. This capital commitment includes approximately $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 Budget increased the aggregate bond cap for the MTA, TBTA and TA to $16.5 billion in order to finance a portion of the 2000-04 Capital Program. On May 4, 2000, the Capital Program Review Board approved the MTA's $17.1 billion capital program for 2000 through 2004. Minor amendments were subsequently approved. The 2000-04 Capital Program is the fifth approved 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 2000-04 Capital Program approved by the Capital Program Review Board assumes the issuance of an estimated $10.6 billion in new money MTA bonds. The remainder of the plan is projected to be financed with assistance from the Federal government, the State, The City of New York, and from various other revenues generated from actions taken by the MTA.

There can be no assurance that all the necessary governmental actions for the current or future capital programs will be taken or that funding sources currently identified will not be decreased or eliminated. As appropriate, the MTA and the Capital Plan Review Board may amend the 2000-2004 Capital Program from time to time to reflect the level of funding available to pay for the capital projects anticipated to be undertaken during the time period covered by the approved programs. If the 2000-04 Capital Plan is delayed or reduced, ridership and fare revenue may decline, which could impair the MTA's ability to meet its operating expenses without additional State assistance.

The MTA Board has approved an interim financial plan for the years 2003 and 2004 for itself and the other Related Entities (the "2003-2004 Financial Plan"). Fare and toll increases are currently being considered. Section 1269-d of the Public Authorities Law requires the MTA to prepare a startegic operations plan each July for the five-year period commencing January 1 of the following year that includes estimates of operating costs and resources, estimates of capital costs and resources, the level and structure of fares for each year of the period covered by the plan. The last time the MTA prepare such a five-year plan was in September 1999.

The MTA also approved separate five-year capital programs for (1) the commuter railroad operations conducted by LIRR and MNCRC (the "2003-2004 Commuter Capital Program"), (2) the transit system operated by the Transit Authority and its subsidiary, MaBSTOA, and the rail system operated by SIRTOA (the "2003-2004 Transit Capital Program"), and (3) the toll bridges and tunnels operated by TBTA (the "2000-2004 TBTA Capital Program"). All such Capital Programs, as amended to date, are effective.

The financial plan, as originally formulated in September 1999 for the period 2000-2004 (the "Original 2000-2004 Financial Plan"), was designed to maintain fiscal stability for the Related Entities and enable all such entities to maintain their respective operations on a self-sustaining basis for 2004. The Original 2000-2004 Financial Plan was also designed to continue a program of capital expenditures that would support the ongoing maintenance of MTA's transportation network and provide needed improvements to enhance services to its customers, as well as expand service through a number of new initiatives. The principles established to guide the Original 2000-2004 Financial Plan were as follows: improve customer satisfaction by expanding and improving service; increase safety, and continue cost reductions and increase efficiencies.

The Related Entities were able to maintain their respective operations on a self-sustaining basis during 2001 and 2002. The State advanced the payment of approximately $230 million of MTOA receipts scheduled for the first quarter of 2003 into the fourth quarter of 2002, thereby permitting the Related Entities to operate on a self-sustaining basis for 2002. However, by November 2002, in developing the 2003 and 2004 budgets, it became clear that additional moneys would be needed during the next two years.

While operating revenues are generally stable, non-operating revenues, including State subsidies and mortgage recording taxes, have been impacted by the recession and the terrorist attack. While real estate activity has generally been active, commercial activity is showing additional signs of weakening and home sales to date have been assisted by low mortgage rates.

After taking into account internal actions and an additional $12 million in State aid in 2004, the 2003-2004 Financial Plan projects a budget gap of $951 million for calendar years 2003 and 2004. Among the potential gap closing measures are service cuts, securing additional inter-governmental assistance, and increasing fares and tolls.

The City of New York

As required by law, the City prepares a four-year annual financial plan, which is reviewed and revised on a quarterly basis and includes the City's capital, revenue, and expense projections, and outlines proposed gap-closing programs for years with projected budget gaps.

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 fund seasonal needs and recovery costs related to the attacks on the World Trade Center.

In recent years, the State constitutional debt limit would have prevented the City from entering into new capital contracts, except for the creation of the TFA in 1997 and TSASC Inc., in 1999 (a local development corporation empowered to issue debt backed by tobacco settlement revenues). The City expects that these actions, combined with the City's remaining capacity, will provide sufficient financing capacity to continue its capital program at least through fiscal year 2011.

For its normal operations, the City depends on aid from the State both to enable the City to balance its budget and to meet its cash requirements. There can be no assurance that there will not be reductions in State aid to the City from amounts currently projected; that State budgets will be adopted by the April 1 statutory deadline, or interim appropriations will be enacted; or that any such delays will not have adverse impacts on the City's cash flow or expenditures.

For the 2000-2001 and 2001-2002 fiscal years (ending June 30), the City's General Fund had operating surpluses of $2.9 billion and $682 million, respectively, before discretionary and other transfers, and achieved balanced operating results in accordance with GAAP, after discretionary and other transfers.

The June 2002 financial plan included gap-closing actions of $4.8 billion that balance the 2002-2003 budget. The 2002-2003 gap-closing program included resources from agency actions and actions to be taken by the federal and State governments and the municipal unions. The 2002-2003 budget also includes $1.5 billion in bond proceeds from the TFA to mitigate a portion of the lost tax revenues related to the attack on the World Trade Center on September 11, 2001.

On January 28, 2003, the City released a modification to its four-year financial plan, which incorporates changes since the June 2002 financial plan. Compared to the June Plan, the January modification projects significantly lower tax revenues due to the continuing decline in financial services sector profits, and reflect other revised forecasts, such as significantly higher pension costs. The modification also reflects the implementation of an 18.49 percent property tax increase, effective January 1, 2003, as well as agency actions to reduce planned spending and increase revenues that were included in the November modification.

The January modification assumes the successful implementation of a program to close projected gaps of approximately $486 million in fiscal year 2002-2003 and $3.4 billion in fiscal year 2003-2004. The modification includes further reductions in planned agency spending, revenue increases, and City proposals that require approval by the State ($1.7 billion) and federal governments ($850 million) and the municipal unions ($600 million). The gap-closing program also assumes a $600 million retroactive payment and an ongoing $92 million payment from the Port Authority of New York and New Jersey for airport leases. The financial plan does not include wage increases for any City employees beyond the current round of collective bargaining and assumes that the Governor's Executive Budget will not reduce the level of State aid assumed in the financial plan.

Other Localities

To help resolve persistent fiscal difficulties in Nassau County, the State enacted legislation in 2000 that created the Nassau County Interim Finance Authority. The Authority is 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. The Authority has $662 million in bonds and $202 million in BANs outstanding as of the date of this Update. The Authority may also impose financial plan requirements on Nassau County. The State expects to make a total of $100 million in transitional aid payments to the County over a five-year period. To date, the State has provided $70 million in transitional assistance: $25 million in both 2000-01 and 2001-02, and $20 million in 2002-03. Future transitional aid payments ($15 million annually in 2003-04 and 2004-05) must be appropriated by the State and are contingent upon the Authority's annual approval of Nassau County's financial plan.

GAAP-Basis Results for Prior Fiscal Years

The Comptroller has prepared general purpose financial statements on a GAAP basis for governments as promulgated by the Governmental Accounting Standards Board. The statements, released in July each year, contain a Combined Balance Sheet and Combined Statement of Revenues, Expenditures and Changes in Fund Balances. These statements are audited by independent certified public accountants. The Comptroller also prepares and issues a Comprehensive Annual Financial Report, which includes a financial overview, the general purpose financial statements, individual fund combining statements, and a statistical section. For information regarding the State's accounting and financial reporting requirements, see the section entitled "State Organization—Accounting, Financial Reporting and Budgeting."

Both the General Purpose Financial Statements and Comprehensive Annual Financial Report for the 2001-02 fiscal year can be obtained from the Office of the State Comptroller, 110 State Street, Albany, NY 12236. The following table summarizes recent governmental funds results on a GAAP basis.

Comparison of Actual GAAP-Basis Operating Results
Surplus/(Deficit)
(millions of dollars)

Fiscal Year Ended	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	All Governmental Funds	Accum. General Fund Surplus/(Deficit)
March 31, 2002	(3,418)	(970)	76	(134)	(4,446)	493
March 31, 2001	245	1,252	(20)	109	1,586	3,910 **
March 31, 2000	2,229	665	38	99	3,031	3,925
March 31, 1999	1,078	(117)	209	154	1,324	1,696*

* As restated in 2000.
** As restated in 2002.

New Financial Reporting Model

In 1999, GASB issued a new standard known as GASB 34, "Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments." GASB 34 will significantly affect the accounting and financial reporting for all state and local governments. For the State the standard will be effective for its fiscal year ending March 31, 2003. The new financial reporting model will redefine the current financial reporting model by changing its focus to major funds, rather than fund types, require a new section called management discussion and analysis (the "MD&A"), and contain new government-wide financial statements which will include all revenues and all costs of providing services each year. The new Basic Financial Statements and the MD&A will be issued in place of the general purpose financial statements. The new statements will report on all current assets and liabilities and also long-term assets and liabilities, such as capital assets, including infrastructure (e.g., roads and bridges).

2001-02 Fiscal Year

The State completed its 2001-02 fiscal year with a combined governmental funds operating deficit of $4.45 billion on a GAAP basis, which included operating deficits in the General Fund ($3.42 billion), in Special Revenue Funds ($970 million) and in Capital Projects Funds ($134 million) offset by an operating surplus in the Debt Service Funds ($76 million). The accumulated General Fund surplus as of March 31, 2001 has been restated to reflect the adoption of new accounting standards and the reclassification of individual funds/accounts included within the General Fund to reflect OSC's determination that the purposes and uses of such funds/accounts had changed. Adoption of two new accounting standards affected the prior year fund balances, including GASB 33, "Accounting and Financial Reporting for Nonexchange Transactions," and GASB 36, "Recipient Reporting for Certain Shared Nonexchange Revenues." GASB 33 provides guidance on the timing of recognition for nonexchange transactions involving financial and/or capital resources including taxes and local assistance grants. GASB 36 requires symmetrical accounting treatment for certain revenues shared by both provider and recipient governments.

General Fund

The State reported a General Fund operating deficit of $3.42 billion for the 2001-02 fiscal year on a GAAP basis, as compared to an operating surplus of $245 million for the 2000-01 fiscal year. This operating deficit was financed by reducing the State's accumulated General Fund surplus from $3.91 billion to $.49 billion. The operating deficit for the 2001-02 fiscal year resulted in part from a $2.0 billion decline (5.2 percent) in tax revenues, including a $1.4 billion decline in personal income tax revenues caused primarily by the World Trade Center disaster and the economic slowdown. Also contributing to the operating deficit was a $985 million increase in expenditures, which included increases in expenditures for education ($436 million), social services ($398 million), health and environment ($395 million), personal service ($129 million) and pension contributions ($48 million). The increases in the above expenditure categories were partially offset by declines in expenditures for general purpose aid ($428 million), criminal justice ($78 million), and other fringe benefits ($51 million). The State reported an accumulated fund balance of $493 million in the General Fund for its 2001-02 fiscal year.

Personal income taxes, business taxes, consumption and use taxes, and miscellaneous revenues fell from the prior fiscal year with only other taxes reporting an increase. The decline in personal income taxes of $1.4 billion (5.9 percent) was caused by the World Trade Center disaster and the economic slowdown, a decline in the rate of growth for wage and salary income, a decline in year-end bonus payments, and an increase in realized capital losses. Business taxes declined by $650 million (16 percent) primarily due to the World Trade Center disaster, which caused several large taxpayers with office space in the World Trade Center to incur significant losses in property and business resulting in lower tax liabilities for those business tax payers. Consumption and use taxes decreased $336 million (4.5 percent), primarily as a result of an increase in the portion of motor vehicle fees distributed to the Dedicated Highway and Bridge Trust Fund (a Capital Projects Fund) and the Dedicated Mass Transportation Trust Fund (a Special Revenue Fund) and a decline in sales tax revenues. Other taxes, primarily estate and gift taxes, increased $400 million (54.8 percent), mainly due to several large estates that filed their final returns. Miscellaneous revenues decreased $8 million (0.3 percent).

As previously noted, the General Fund expenditures increased $985 million (2.5 percent) from the 2000-01 fiscal year. The largest increases occurred in the areas of education, social services, and health and environment. Education expenditures grew $436 million (3.1 percent) due mainly to an increase in spending for support for public schools. Social services expenditures increased $398 million (4.3 percent) due primarily to increased spending for the Medicaid program. Health and environment expenditures increased over $395 million (39.4 percent) primarily reflecting increased spending for the Elderly Pharmaceutical Insurance Coverage and Child Health Plus programs. General purpose expenditures declined by $428 million (30.8 percent) primarily due to the required adoption of a new accounting standard (GASB Statement No. 33) which resulted in the restatement of 2001 expenditures to include an additional $369 million in expenditures. Personal service costs increased $129 million (1.9 percent) principally as a result of increases in wages as required by previously approved collective bargaining agreements.

Net other financing sources in the General Fund decreased $441 million (90.0 percent). This net decrease resulted from a decline in proceeds from bonds issued to fund aid payments for local government transportation capital projects and increased transfers to other funds of $244 million, both of which were partially offset by an increase of more than $100 million in transfers from the Abandoned Property Fund. The increase in transfers to other funds was primarily caused by increased subsidies for higher education (SUNY and CUNY).

Special Revenue, Debt Service and Capital Projects Fund Types

An operating deficit of $970 million was reported for the Special Revenue Funds for the 2001-02 fiscal year on a GAAP basis, which resulted in the decline of the accumulated fund balance in this fund type to $2.4 billion. Revenues increased $1.4 billion over the prior fiscal year (3.7 percent) as a result of increases in Federal grants of $3.3 billion and increased lottery revenues of $568 million, offset by declines in personal income tax revenue of $1.77 billion and decline in miscellaneous revenues of $554 million. The increase in Federal grants is primarily related to increased Medicaid claims and disaster aid payments related to the World Trade Center disaster. The decline in personal income tax revenue is primarily due to the reciprocal effect of the increased transfers in March 2001 of surplus funds ($1.2 billion) from the General Fund for School Tax Relief (STAR) program payments occurring in 2002. Expenditures increased $3.85 billion (11.9 percent) as a result of increased costs for local assistance grants of $2.4 billion, World Trade Center disaster assistance payments of $983 million and an increase in the cost of lottery games of $287 million. Net other financing uses decreased $207 million (4.8 percent).

Debt Service Funds ended the 2001-02 fiscal year with an operating surplus of $76 million and, as a result, the accumulated fund balance in this fund type increased to $2.4 billion. Revenues declined by $120 million (3.6 percent) primarily because of decreases in dedicated tax revenues while debt service expenditures also decreased by $300 million (8.2 percent) primarily due to a decline in the amount of reserve funds used to repay outstanding debt in advance. Net other financing sources decreased $84 million (24.0 percent).

An operating deficit of $134 million was reported in the Capital Projects Funds for the State's 2001-02 fiscal year end, as a result, the accumulated fund balance deficit increased to $154 million. Revenues increased $208 million (7.3 percent) primarily because of an increase in the allocation of motor fuel taxes and motor vehicle fees. Revenue increases were partially offset by a decline in Federal grant revenue attributable to decreased spending for highways and bridges. Expenditures declined $12 million (0.3 percent). Net other financing sources decreased by $463 million (35.2 percent) primarily due to a decline in proceeds from the issuance of financing arrangements and increased transfers from the Dedicated Highway and Bridge Trust fund in support of expenditures for debt service.

State Organization

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 35 percent of the membership during the 2001-02 fiscal year. There were 2,859 other public employers participating in the Systems, including all cities and counties (except New York City), most towns, villages and school districts (with respect to non-teaching employees) and a large number of local authorities of the State.

As of March 31, 2002, 637,896 persons were members and 306,604 pensioners or 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 signed new legislation that eliminates such member contributions after employees have completed 10 years of retirement system service or membership. For State employees, the Governor is granted the discretion to confer this benefit by negotiating unit.

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.

OSC expects that, due in large part to the poor equity market performance for the past two years and in the current year and the fact that employer contributions are based upon a five-year smoothing of equity investments, contributions to the Systems by all employers will increase significantly in 2003-04. As required by State statute, OSC issued an October 15, 2002 State billing estimate with three possible scenarios, ranging from $399 million to $986 million, for fiscal year 2003-04 State employer contributions. The actual billed amount will not be known until June, 2003 after the close of the State's 2002-03 Fiscal Year on March 31, 2003.

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. OSC reports the net assets available for benefits as of March 31, 2002 were $112.7 billion (including $2.1 billion in receivables), a decline of $1.3 billion or 1.2 percent from the 2000-01 level of $114 billion, reflecting, in large part, equity market performance. OSC reports that the present value of anticipated benefits for current members, retirees, and beneficiaries as of March 31, 2002 was $127 billion (including $42.7 billion for current retirees and beneficiaries), an increase of $6.8 billion or 5.7 percent from the 2000-01 level of $120.2 billion. The funding method used by the Systems anticipates that the net assets, plus future actuarially determined contributions, will be sufficient to pay for the anticipated benefits of current members, retirees and beneficiaries. Actuarially determined contributions are calculated using actuarial assets and the present value of anticipated benefits. Actuarial assets differ from net assets in that they are calculated using a five-year smoothing method for valuing equity investments and using amortized cost instead of market value for bonds and mortgages. Actuarial assets increased from $119.5 billion in 2001 to $125.2 billion on March 31, 2002. The table below shows the actuarially determined contributions that have been made over the last six years. See also "Contributions" above.

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)	Increase/ (Decrease) From Prior Year
1997	83,947	8.4
1998	106,319	26.7
1999	112,723	6.0
2000	128,889	14.3
2001	114,044	(11.5)
2002	112,725	(1.2)

(1) Includes relatively small amounts held under Group Life Insurance Plan. Includes some employer contribution receivables. Fiscal year ending March 31, 2002 includes approximately $2.1 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.

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	
1997	904	497	407	348	3,204
1998	463	358	105	369	3,395
1999	292	156	136	400	3,570
2000	165	11	154	423	3,787
2001	215	112	103	319	4,267
2002	264	199	65	210	4,576

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

Part III: Updated information related to litigation against the State.

PART III

Litigation

The State is party to other claims and litigation, which either its legal counsel has advised that it is not probable that the State will suffer adverse court decisions or the State has determined do not meet the materiality threshold described in the first paragraph of this section of the AIS. Although the amounts of potential losses, if any, resulting from this litigation are not presently determinable, it is the State's opinion that its ultimate liability in any of these cases is not expected to have a material and adverse effect on the State's financial position in the 2002-03 fiscal year or thereafter.

The General Purpose Financial Statements for the 2001-02 fiscal year reported awarded and anticipated unfavorable judgments of $698 million, of which $91 million is expected to be paid during the 2002-03 fiscal year (for more information on the State's estimated liability, see footnote 13 in the General Purpose Financial Statements for the 2001-02 fiscal year).

Adverse developments in these proceedings could affect the ability of the State to maintain a balanced 2002-03 Financial Plan. The State believes that the proposed 2002-03 Financial Plan includes sufficient reserves to offset the costs associated with the payment of judgments that may be required during the 2002-03 fiscal year, but there can be no assurance that adverse decisions in legal proceedings against the State would not exceed the amount of all potential 2002-03 Financial Plan resources available for the payment of judgments.

State Finance Policies

In *Consumers Union of U.S., Inc. v. State*, plaintiffs challenge the constitutionality of those portions of Chapter 1 of the Laws of 2002 which relate to the authorization of the conversion of Empire Health Choice, d/b/a Empire Blue Cross and Blue Shield from a not-for-profit corporation to a for-profit corporation. Chapter 1 requires, in part, that upon such conversion, assets representing 95 percent of the fair market value of the not-for-profit corporation be transferred to a fund designated as the "public asset fund" to be used for the purpose set forth in § 7317 of the Insurance Law. The State and private defendants have separately moved to dismiss the complaint. On November 6, 2002, the Supreme Court, New York County, granted a temporary restraining order, directing that the proceeds from the initial public offering of the for-profit corporation be deposited with the State Comptroller in an interest-bearing account, pending the hearing of a motion for a preliminary injunction, which is returnable simultaneously with the motions to dismiss, on November 26, 2002.

Line Item Veto

In *Silver v. Pataki*, the Speaker of the Assembly of the State of New York challenges the Governor's application of his constitutional line item veto to certain portions of budget bills adopted by the State Legislature contained in Chapters 56, 57 and 58 of the Laws of 1998. By decision dated July 20, 2000, the Appellate Division reversed the January 7, 1999 order of the Supreme Court, New York County, and dismissed the petition. By opinion dated July 10, 2001, the Court of Appeals reversed the decision of the Appellate Division, holding that plaintiff has the capacity and standing to sue as a member of the Assembly. By order dated June 17, 2002, the Supreme Court, New York County, granted defendant's motion for summary judgment, dismissing the complaint. Plaintiff has appealed to the Appellate Division, First Department. On July 22, 2002, the Senate of the State of New York moved in Supreme Court to intervene and for reargument.

Budget Process

In *Pataki v. McCall, et al.*, the Governor seeks a judgment declaring that the actions of the Senate and the Assembly in voting and passing 46 budget bills on August 2, 2001 and August 3, 2001 violated Article 7, sections 4 and 5 of the State Constitution, because they deleted provisions of appropriations proposed by the Governor, substituted other appropriations, and considered other appropriation bills prior to taking action on the appropriation bills submitted by the Governor. The action also seeks to enjoin the approval of vouchers submitted pursuant to the budget bills enacted by the Senate and Assembly. This action would not affect appropriations enacted to pay debt service obligations for the 2001-02 fiscal year.

By decision and order dated November 7, 2001, the Supreme Court, Albany County, granted the State Comptroller's motion to dismiss this action as against the Comptroller. The plaintiff has appealed from that order. By decision and order dated January 17, 2002, the Supreme Court, Albany County, granted summary judgment dismissing certain affirmative defenses and declaring the actions of the Legislature in enacting the budget bills as modified or proposed by the Legislature other than the Legislative and Judiciary budget bills an unconstitutional violation of article VII of the State Constitution and denied defendants' cross-motions for summary judgment. Defendants have appealed from the January 17, 2002 order to the Appellate Division, Third Department.

Real Property Claims

Indian land claims include *Cayuga Indian Nation of New York v. Cuomo, et al.*, and *Canadian St. Regis Band of Mohawk Indians, et al., v. State of New York, et al.*, both in the United States District Court for the Northern District of New York and *Seneca Nation of Indians, et al*. v. State, et al., in the United States District Court for the Western District of New York.

In the Cayuga Indian Nation of New York case, plaintiffs seek monetary damages for their claim that approximately 64,000 acres in Seneca and Cayuga Counties were illegally purchased by the State in 1795. Prior to trial, the court held that plaintiffs were not entitled to seek the remedy of ejectment. In October 1999, the District Court granted the Federal government's motion to have the State held liable for any damages owed to the plaintiffs. In February 2000, 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 tract at issue was rendered against the defendants. By decision and judgment dated October 2, 2001, the District Court also granted plaintiffs $211 million in prejudgment interest. The State has appealed from the judgment to the United States Court of Appeals for the Second Circuit.

School Aid

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

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

By decision dated January 9, 2001, following trial, the trial court held that the State's education funding mechanism does not provide New York City students with a "sound basic education" as required by the State Constitution, and that it has a disparate impact on plaintiffs in violation of regulations enacted by the U.S. Department of Education pursuant to Title VI of the Civil Rights Act of 1964. The court ordered that defendants put in place reforms of school financing and governance designed to redress those constitutional and regulatory violations, but did not specify the manner in which defendants were to implement these reforms. The State appealed, and the trial court's decision was stayed pending resolution of the appeal. By decision and order entered June 25, 2002, the Appellate Division, First Department, reversed the January 9, 2001 decision and dismissed the claim in its entirety. On July 22, 2002, the plaintiffs filed a notice of appeal to the decision and order to the Court of Appeals.

State Programs

Medicaid

There are two separate cases or lines of cases reported in this section.

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 related case, *Charles T. Sitrin Health Care Center, Inc., et al. v. SONY, et al.,* plaintiffs seek a judgment declaring as unconstitutional, under provisions of the Constitutions of the United States and the State, amendments to Public Health Law § 2907-d, enacted as part of Chapter 1 of the Laws of 2002, also known as the Health Care Workforce Recruitment & Retention Act of 2002, or "HCRA 2002," which impose a 6 percent assessment on nursing home gross receipts from patient care services and operating income.

In a consolidated action commenced in 1992 (*Dowd, et al. v. Bane*, Supreme Court, New York County), Medicaid recipients and home health care providers and organizations challenge (1) the 1992 promulgation by the State Department of Social Services (DSS) of a home assessment resource review instrument (HARRI), to be used by DSS to determine eligibility for and the nature of home health care services for Medicaid recipients, and (2) the DSS policy of limiting reimbursable hours of service until a patient is assessed using the HARRI. 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 ground that such use would violate Federal Medicaid law and the Americans with Disabilities Act. By order dated October 6, 1999, the Second Circuit reversed the April 19, 1999 order and vacated the injunction.

On January 9, 2003, a settlement was entered into in *Rodriguez*, pursuant to which the Department of Health will provide plaintiffs with certain fair hearing rights during a one-year monitoring period. As part of that settlement, the plaintiffs also agreed to discontinue *Dowd*.