

# ***PART II***

## ***STATE DEBT SERVICE***



# **STATE DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS**

## **DEBT REFORM INITIATIVES ENSURE THAT COSTS REMAIN AFFORDABLE**

Debt service appropriations for 2002-03 reflect numerous statutory initiatives that have been advanced by Governor Pataki to ensure that debt levels and costs continue to remain affordable. Those initiatives include the following:

- Enactment of the Debt Reform Act of 2000 that imposes phased-in caps on new debt outstanding and debt service costs on obligations issued on and after April 1, 2000;
- Establishment of the Debt Reduction Reserve Fund to provide a mechanism to set aside one-time, available surplus resources to pay down high cost debt and increase pay-as-you-go spending; and
- Use of lower cost revenue bonds to further improve the marketability of State-supported bonds, expand the investor base, and reduce borrowing costs.

Debt service costs for 2002-03 and over the Five Year Capital Plan reflect the prudent use of a responsible mix of pay-as-you-go resources and bond resources to finance strategic investments and ensure that outstanding debt and debt service costs remain within the caps and limitations imposed by the Debt Reform Act of 2000.

## **THE EXECUTIVE BUDGET CONTINUES DEBT REFORM ACHIEVEMENTS**

To ensure that the statutory caps and other debt limitations imposed by the Debt Reform Act of 2000 are made permanent, the Governor will again propose a Constitutional Debt Reform bill. The bill would:

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

To provide the State and its issuing authorities with the debt management tools needed to cost effectively diversify the State-supported bond portfolio, the Executive Budget includes comprehensive legislation that will permit all issuers of State-supported bonds to prudently use a limited amount of variable rate obligations and interest rate exchange agreements. The legislation would:

- Permit issuance of variable rate bonds;
- Permit use of interest rate exchange agreements;
- Require the governing boards of authorized issuers to adopt guidelines for interest rate exchange agreements and to issue annual reports on the status of such agreements;
- Ensure that the State and issuing authorities monitor and hedge against interest rate and other risks; and
- Ensure that State-supported issuers can respond to rapidly changing market conditions to take advantage of opportunities to refund high cost bonds by no longer requiring a second Public Authorities Control Board (PACB) approval to proceed with refundings for projects initially approved by PACB.

## **DEBT SERVICE APPROPRIATIONS FOR 2002-03**

The recommended debt service appropriations reflect the maximum estimated debt service payments for outstanding bonds and new State-supported bond issuances to meet

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the State's obligations to bondholders. Pursuant to Chapter 383 of the Laws of 2001, in the event that appropriations for outstanding revenue bonds (which are secured by State personal income tax receipts) are not enacted on time or if revenue bond debt service payments are not made timely, no less than \$6 billion in State personal income tax receipts will become "locked" in the Revenue Bond Tax Fund. The following discussion provides a review of the recommended debt service appropriations grouped by fund.

### ***GENERAL DEBT SERVICE FUND***

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

Appropriations from the General Debt Service Fund for general obligation bonds are recommended at \$580 million and reflect payments on outstanding fixed rate and variable rate general obligation bonds, and estimated payments on bonds anticipated to be issued in March and June of 2002.

Appropriations of \$2.5 billion are recommended from the General Debt Service Fund for lease purchase and other financing agreement payments due on State appropriation-backed bonds, and on revenue bonds which were authorized by Chapter 383 of the Laws of 2001. Revenue bonds may be issued in lieu of State appropriation-backed bonds for the same authorized purposes. The 2002-03 Debt Service Bill recommends appropriations for lease purchase and other financing obligations to the following authorities:

- Thruway Authority, for Local Highway and Bridge service contract bonds for local transportation purposes. Spending from this appropriation (\$265 million) is financed by transfers from the Dedicated Highway and Bridge Trust Fund;
- Environmental Facilities Corporation, for State Revolving Loan Fund service contract bonds, the Jobs 2000 Pipeline for Jobs program, and the financing of parks and other environmental programs (\$60 million);
- Urban Development Corporation (UDC), for financing the construction and rehabilitation of correctional facilities, State facilities, youth facilities, stadium facilities, the pine barrens land acquisition, economic development and natural resources preservation, high technology research facilities and business incubators, projects at various university technology centers, the Higher Education Applied Technology (HEAT) program, and the Onondaga Convention Center (\$440 million);
- Dormitory Authority (DA), for SUNY educational, athletic facilities and upstate community colleges, State Education Department facilities, CUNY senior and community colleges, the Jobs 2000 University Facilities program, RESCUE for school construction, child care facilities, the Department of Health's Axelrod Laboratory, Albany Airport, the Library for the Blind, pension obligation bonds, and the Judicial Training Institute (\$1.01 billion);
- Dormitory Authority and Urban Development Corporation for financing the construction and reconstruction of the Department of Audit and Control building, the Alfred E. Smith office building, the Empire State Plaza East Garage, and the Elk Street Parking Garage in Albany (\$10 million);
- Housing Finance Agency, pursuant to agreements to finance the State's housing programs (\$112 million). This includes estimated payments for outstanding variable rate housing bonds;
- Triborough Bridge and Tunnel Authority (TBTA), for the financing of the Javits Convention Center in New York City (\$43 million);
- Bonds authorized to be issued by various authorities, including the UDC and the DA to finance the Community Enhancement Facilities Assistance Program (\$100 million), the Strategic Investment Program (\$70 million), and real and personal property (i.e., equipment) acquisitions by State agencies (\$95 million);

- Lease-purchase payments for various State facilities (\$21 million), including the 50 Wolf Road building in Albany, the Department of Environmental Conservation building at 625 Broadway in Albany, and the Department of Transportation Region One headquarters building in Schenectady;
- Metropolitan Transportation Authority (MTA), for service contracts payments (\$165 million) on bonds issued to finance transit and commuter rail projects;
- Energy Research Development Authority, for service contract payments (\$16 million) on bonds issued to finance the West Valley Project; and
- Dormitory Authority, for contingent contractual obligations related to distressed hospitals (\$95 million) that are available in the event that hospital repayments and other available funds are inadequate to meet debt service. The recommended appropriation reflects the State's potential liability on debt service payable on DA bonds. Legislative authorization for this program expired in March 1998, and State payments are not expected to be required for this program in 2002-03.

### ***HOUSING DEBT FUND***

Payments from local governments and housing companies which benefit from housing and urban renewal projects funded with State general obligation bonds are deposited in the Housing Debt Fund, and are used to pay debt service on such bonds. A \$28 million appropriation is recommended for 2002-03.

### ***STATE UNIVERSITY DORMITORY INCOME FUND***

This Fund receives payments for dormitory rentals and other fees at dormitories operated by SUNY. Debt service on bonds issued by the DA for the construction and rehabilitation of SUNY dormitories has first claim on all dormitory revenues deposited in the Fund. An appropriation of \$70 million is recommended for lease-purchase payments to the DA.

### ***MENTAL HEALTH SERVICES FUND***

The Dormitory Authority is authorized to issue bonds to finance capital programs for the Department of Mental Hygiene. Revenues received for the care and treatment of patients at State mental health facilities are deposited in this Fund, and are used to make lease-purchase payments to the DA for debt service on mental health services bonds. These rental payments have the first claim on moneys in the Fund. The DA also makes loans to eligible not-for-profit agencies providing mental health services. In return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects. Such payments are also deposited in the Mental Health Services Fund. The recommended appropriation from this Fund is \$370 million.

### ***HEALTH INCOME FUND***

The Department of Health (DOH) has entered into contractual agreements with the DA to finance the construction and rehabilitation of State hospitals and veterans' homes. These agreements require DOH to make lease-purchase rental payments to the DA. Such payments have first claim on revenues received in this Fund from patient care at DOH facilities. Consistent with existing bonding pledges and statutory requirements, the Roswell Park Cancer Institute Corporation's moneys continue to flow into the Fund as security for and payment to bondholders. As a result, the State's Financial Plan reflects the portion of the Corporation's receipts that are attributable to debt service. Lease-purchase obligations during 2002-03, which also include obligations for the New York City Veterans' Home, require appropriations of \$37 million.

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### ***CENTRALIZED SERVICES FUND***

Certificates of Participation (COPs) have been issued to finance the purchase of equipment on an installment or lease-purchase basis for State departments, agencies, and public authorities. Moneys from the operating budgets of participating agencies are deposited to the Centralized Services Fund for payment to the trustees of COPs issuances. Such obligations' maturities are predominantly short-term in nature, reflecting the useful life of the equipment financed. An appropriation of \$110 million is recommended to pay debt service on outstanding COPs.

### ***LOCAL GOVERNMENT ASSISTANCE TAX FUND***

To eliminate the State's annual spring cash flow borrowing, 1990 legislation authorized LGAC to issue bonds to finance payments to local governments previously funded by the State. LGAC has issued its entire \$4.7 billion net authorization. Revenues equal to one-quarter of the four cent State sales and use tax are deposited into the Local Government Assistance Tax Fund and used to pay debt service on LGAC obligations. The recommended appropriation of \$325 million represents anticipated debt service on all outstanding fixed and variable rate bonds, and related expenses. Moneys not needed for debt service are transferred to the State's General Fund.

### ***SCHOOL CAPITAL FACILITIES FINANCING RESERVE FUND***

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

### ***DEDICATED HIGHWAY AND BRIDGE TRUST FUND***

An appropriation of \$625 million is recommended for 2002-03 debt service payments to the Thruway Authority for Dedicated Highway and Bridge Trust Fund bonds, which will support the Department of Transportation capital plan. Debt service payments for the highway program are supported by the statutory dedication of revenues to the Fund. However, after debt service payments are made, they and a commensurate amount of Fund revenues are reclassified from the capital projects to the debt service fund group. Therefore, the debt service appropriation is included in the Debt Service Budget Bill.

### ***GENERAL FUND - STATE PURPOSES ACCOUNT***

An appropriation of \$20 million is recommended for the State's potential liability to rebate arbitrage earnings on general obligation bonds to the Federal government. A \$225 million appropriation is recommended for the redemption of general obligation serial bonds, should this become necessary to maintain the exemption from Federal taxation of the interest paid to bondholders. This appropriation would only be used if the State received payments from any party found to be responsible for site contamination for which 1986 Hazardous Waste and 1996 Clean Water/Clean Air bonds were sold and disbursed to finance site clean-up. Since every effort is made to find the responsible party prior to the issuance of bonds, the potential use of this appropriation is unlikely and no disbursements from it are anticipated.

### ***ALL FUNDS***

An All Funds appropriation of \$1.09 billion provides appropriation authority sufficient to satisfy a maximum rate of 18 percent on outstanding variable rate general obligation bonds,

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LGAC bonds, HFA service contract bonds and variable rate lease purchase payments for the Department of Transportation Region One Headquarters in Schenectady. In addition, appropriation authority at the maximum rate of 18 percent is provided to ensure the State is able to take advantage of favorable market conditions to issue new variable rate debt and execute interest rate exchange agreements. This appropriation authority will facilitate the implementation of legislation to reduce costs by using variable rate and interest rate exchange financing instruments to prudently diversify the State-supported bond portfolio and lower taxpayers costs.

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

<b>Fund</b>	<b>Available 2001-02</b>	<b>Recommended 2002-03</b>	<b>Change</b>
General Fund			
State Purposes Account			
Rebates to Federal Government	15,000,000	20,000,000	5,000,000
Redemption of General Obligation Bonds	225,000,000	225,000,000	0
Subtotal	240,000,000	245,000,000	5,000,000
Internal Service Funds			
Centralized Services Fund			
Financing Agreements	210,000,000	110,000,000	(100,000,000)
Subtotal	210,000,000	110,000,000	(100,000,000)
Fiduciary Funds			
School Capital Facilities Financing Reserve Fund			
Trust and Agency Financing	40,000,000	40,000,000	0
Subtotal	40,000,000	40,000,000	0
Debt Service Funds			
Debt Reduction Reserve Fund			
Debt Reduction	500,000,000	0	(500,000,000)
Mental Health Services Fund			
Financing Agreements	355,000,000	370,000,000	15,000,000
General Debt Service Fund			
General Obligation Bonds	715,000,000	580,000,000	(135,000,000)
Financing Agreements	2,457,600,000	2,444,650,000	(12,950,000)
Lease Purchase Payments	62,100,000	61,525,000	(575,000)
Housing Debt Fund			
General Obligation Bonds	29,000,000	28,000,000	(1,000,000)
Health Income Fund			
Financing Agreements	37,250,000	35,000,000	(2,250,000)
Financing Agreements	2,000,000	2,000,000	0
Emergency Highway Reconditioning and Preservation Fund			
Financing Agreements	32,000,000	0	(32,000,000)
State University Dormitory Income Fund			
Financing Agreements	55,000,000	70,000,000	15,000,000
Emergency Highway Construction and Reconstruction Fund			
Financing Agreements	32,000,000	0	(32,000,000)
Local Government Assistance Tax Fund			
Financing Agreements	463,000,000	325,000,000	(138,000,000)
Subtotal	4,739,950,000	3,916,175,000	(823,775,000)
Capital Projects Funds - Other			
Dedicated Highway and Bridge Trust Fund			
Financing Agreements	525,000,000	625,000,000	100,000,000
Subtotal	525,000,000	625,000,000	100,000,000
All Funds			
Contingent Appropriation	0	1,086,000,000	1,086,000,000
Subtotal	0	1,086,000,000	1,086,000,000
Total Fiscal Year	5,754,950,000	6,022,175,000	267,225,000
Appropriated 2001-02	5,754,950,000		