Update to Annual Information Statement (AIS)
State of New York
January 26, 2004

This quarterly update (the "Update") to the AIS of the State of New York is dated January 26, 2004 and contains information only through that date. It is the third quarterly update to the AIS of the State of New York dated May 30, 2003. The first update to the AIS was issued on August 7, 2003; the second update on October 30, 2003. This Update is organized into three parts.

Part I contains information on the State's Financial Plan projections, including:

1. Extracts from the Financial Plan Overview contained in the Financial Plan (Appendix II) of the Governor's Executive Budget for 2004-05 presented to the Legislature on January 20, 2004. The Financial Plan Overview includes updated Financial Plan projections for State fiscal years 2003-04 through 2006-07 and detailed narrative descriptions of the receipts and disbursements estimates for the State's governmental funds.

2. A discussion of special considerations affecting the State Financial Plan.

3. Information on the proposed Five-Year Capital Program and Financing Plan, which is also contained in the Financial Plan (Appendix II) of the Governor's Executive Budget for 2004-05.

   The entire 2004-05 Financial Plan, including the economic forecast for calendar years 2003 and 2004, detailed forecasts for State receipts, and the proposed Capital Program and Financing Plan for the 2003-04 through 2007-08 fiscal years, is available on the Division of the Budget's website, www.budget.state.ny.us.

Part II contains updated disclosure for the Metropolitan Transportation Authority (MTA) and the City of New York. As a convenience to readers, Part II also reprints information from earlier updates regarding the State's audited basic Financial Statements for the 2002-03 fiscal year and the State Retirement System.

Part III updates information concerning certain litigation against the State.

This Update has been supplied to provide information about the financial condition of the State in connection with financings by certain issuers (including public authorities of the State) that may depend in whole or in part on State appropriations as sources of payment of their respective bonds, notes or other obligations, and for which the State has contractually obligated itself to provide such information pursuant to an applicable continuing disclosure agreement (a "CDA").

An official copy of this Update has been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) and may be obtained by contacting a NRMSIR or the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705.

An informational copy of this Update is available on the DOB website (www.budget.state.ny.us). The availability of this Update in electronic form is being provided solely as a matter of convenience to readers and does not imply that there have been no changes in the financial condition of the State at any time subsequent to its release date. Maintenance of this Update on such website is not intended as a republication of the information therein on any date subsequent to its release date.

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PART I

Note on the 2004-05 Financial Plan Overview

DOB released the Financial Plan Overview set forth below on January 20, 2004. It contains estimates and projections of future results that should not be construed as statements of fact. These estimates and projections are based upon various assumptions that may be affected by numerous factors, including future economic conditions in the State and nation and potential litigation. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained therein.

The State accounts for all of its spending and revenues by the fund in which the activity takes place (such as the General Fund), and the broad category or purpose of that activity (such as State Operations). 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 on a cash basis in the General Fund — the Fund that receives the majority of State taxes, and all income not earmarked for a particular program or activity. Since this is the fund that is required to be balanced, the focus of the State's budget discussion is often weighted toward the General Fund.

The State also reports spending and revenue activity by two other broad measures: State Funds, which includes the General Fund and funds specified for dedicated purposes, but excludes Federal Funds; and All Governmental Funds, which includes both State and Federal Funds and provides the most comprehensive view of the financial operations of the State.

Fund types of the State include: the General Fund; State special revenue funds (SRFs), which receive certain dedicated taxes, fees and other revenues that are used for a specified purpose; Federal SRFs, which receive Federal grants; State and Federal 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.

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EXECUTIVE SUMMARY

Consistent with the Division of the Budget (DOB) projections since last year's Enacted Budget, the 2003-04 Budget is soundly balanced while the baseline budget gap for 2004-05 is projected at $5.1 billion and the outyear gaps at roughly $7 billion to $8 billion. The Executive Budget recommendations will close the entire 2004-05 gap, and significantly reduce the outyear gaps.

Like most states, New York continues to face significant fiscal challenges. The national recession, in conjunction with the economic dislocation caused by the September 11th attacks, produced consecutive year-to-year declines in total tax receipts. Costs for employee pensions have increased dramatically, while Medicaid, welfare and other entitlement programs have also risen, reflecting the impact of the national recession and the jobless recovery that has followed. New York's fiscal difficulties were also compounded by last year's Enacted Budget process that resulted in spending growth in excess of recurring revenues. Flexible reserves, significantly increased when times were good, have now been depleted.

The 2004-05 Executive Budget projects that a strengthening economic recovery will produce a return to above-average rates of growth in tax revenues. The Financial Plan reflects overall tax receipt growth of 7.8 percent. Real Gross Domestic Product (GDP) growth for the United States is forecast at 4.7 percent, with employment growth expected to accelerate in 2004. The equity market rebound is expected to produce renewed growth in financial sector compensation and in taxable income gains for the owners of corporate equities. A detailed analysis of the economic and receipt forecast is contained later in this Overview.

Economic growth alone will not solve the State's fiscal problems. Thus, the Executive Budget moves toward structural budget balance with a prudent mix of recurring cuts, revenue actions and transitional financing. No new broad-based tax increases are proposed in the Budget.

Reforms are proposed to hold spending in line with available resources, particularly in Medicaid and pensions. State agency operations will continue to be made more efficient, in part through the expansion of operational "hosting" by one agency of administrative functions for multiple agencies. The State workforce is expected to remain level at roughly 187,900. Revenue proposals focus on maximization of Federal resources, closing tax loopholes and ensuring that fees adequately fund the activities they support. Rainy day reserves are increased, and modest but important targeted investments are recommended in economic development, including tax cuts. A detailed discussion of the proposed gap-closing plan follows this section.

The Executive Budget also includes funding in response to the State Court of Appeals ruling requiring the State to implement reforms that ensure all children have the opportunity for a sound basic education (SBE). This Budget takes the first step in a multi year effort to fund SBE costs by reserving all proceeds from video lottery terminals (VLTs) and providing additional General Fund support of $100 million to New York City for this purpose. VLT proceeds from facilities now being developed and new ones proposed with the Executive Budget are projected at $325 million in the 2004-05 school year growing to $2 billion annually over the next five years.

The 2004-05 Executive Budget is expected to have a positive $1.4 billion impact on local governments, and furthers the process of lowering the local property tax burden over a multi year period. The $3 billion STAR program significantly reduced the school tax burden for New Yorkers. Recommendations this year would contain the growth in local property taxes through a proposed multi year takeover of Medicaid long-term care costs, reforms in pensions and health care that lower costs for both the State and its localities, and a cap on school district spending increases. In addition, a comprehensive mandate relief package is proposed to assist local governments.

Finally, this Budget begins rebuilding State reserves by making a maximum $84 million deposit to the rainy day fund in 2003-04, the eighth such deposit made in the last nine years. The last several years have clearly demonstrated that adequate reserve levels are critical if the State is to withstand economic downturns without draconian local assistance budget cuts or massive layoffs.

SIZE OF 2004-05 EXECUTIVE BUDGET (millions of dollars)						
			Actual		Adjusted	
	2003-04 Revised	2004-05 Proposed	Annual Change	Percent Change	Annual Change	Percent Change
General Fund	42,060	41,885	(175)	(0.4)	1,725	4.3%
State Funds	62,112	63,498	1,386	2.2	3,286	5.5%
All Governmental Funds	98,293	99,806	1,513	1.5	3,413	3.5%

The 2003-04 projections and associated annual dollar and percentage changes described throughout this Overview continue to include $1.9 billion of spending in 2003-04 deferred from 2002-03 due to a delay in enacting tobacco securitization legislation (hereafter "the 2002-03 payment deferrals"). The 2003-04 Enacted Budget Report (dated May 28, 2003) summarized the 2002-03 payment deferrals and a detailed chart is provided later in this section. That spending will be reported by the Office of the State Comptroller (OSC) in final results for 2003-04, and thus is counted as spending in the 2003-04 Financial Plan. The adjusted percentage change excludes this $1.9 billion in spending from 2003-04 projections in order to provide a comparable basis for calculating the annual change.

The major components of the annual spending change are summarized in the following table, and are explained in more detail later in this report. The spending totals assume enactment of all cost containment proposals recommended in the Executive Budget.

SPENDING PROJECTIONS — AFTER RECOMMENDED SAVINGS MAJOR SOURCES OF ANNUAL CHANGE (millions of dollars)			
	General Fund	State Funds	All Governmental Funds
2003-04 Revised Estimate	***42,060***	***62,112***	***98,293***
Medicaid	373	672	738
Mental Hygiene	299	342	233
Debt Service	285	566	566
Employee Health Insurance	255	255	255
Higher Education	206	304	58
Pensions	184	184	184
School Aid	169	278	278
All Other	(46)	685	1,101
2002-03 Payment Deferrals	(1,900)	(1,900)	(1,900)
2004-05 Executive Budget	***41,885***	***63,498***	***99,806***
Annual $ Change	***(175)***	***1,386***	***1,513***
Annual % Change	***(0.4%)***	***2.2%***	***1.5%***

CLOSING THE 2004-05 GENERAL FUND BUDGET GAP

SOURCES OF THE 2004-05 GAP

Prior to the Governor's recommended budget actions, the State faced potential General Fund budget gaps of $5.1 billion in 2004-05, $6.7 billion in 2005-06, and $7.8 billion in 2006-07. The $5.1 billion gap is consistent with estimates provided by DOB at the time of the 2003-04 Enacted Budget. Those projections indicated that the original 2004-05 Executive Budget gap of $2.8 billion would increase to between $5 billion and $6 billion primarily as a result of additional recurring spending adds in the Enacted Budget. The current $5.1 billion gap is at the lower end of the projected range due to modestly improved economic conditions and the expectation of continued increases in financial services incomes.

A summary explanation of the sources of the gap is provided below, and a more detailed analysis is provided later in this Overview.

CAUSES OF 2004-05 BUDGET GAP -- BEFORE RECOMMENDED SAVINGS ANNUAL RESOURCES/(COSTS) FROM 2003-04 (millions of dollars)		
Total Annual Revenue Changes		**(2,008)**
Revenue Growth (7%)	2,800	
Current Tax Law Changes	(265)	
Loss of One-time Tobacco Securitization Receipts	(3,400)	
Loss of One-time Federal Revenue Sharing	(645)	
Debt Service Impact on Receipts	(268)	
Loss of Other One-Time Revenues	(230)	
Total Annual Spending Changes		**(3,063)**
Loss of One-time Payment Deferrals	1,900	
Medicaid - includes Cycle Shift ($170m); Loss of Temporary FMAP Increase ($390m)	(1,268)	
Pension Costs (137% Annual Increase)	(664)	
Mental Hygiene - includes Loss of PIA ($220m) and Extra Payroll ($72m)	(596)	
Welfare - includes Loss of TANF/Offsets ($322 m)	(521)	
Higher Education - includes TAP Spending Roll ($104m); Loss of TANF ($246m)	(489)	
School Aid - includes Tail of 03-04 ($183m)	(444)	
Debt Service	(330)	
State Employee Health Insurance Costs	(255)	
All Other Spending/Fund Balance Changes	(396)	
Total Projected 2004-05 Budget Gap		**(5,071)**

Underlying receipts growth in 2004-05, adjusted to exclude the impact of tax law changes, is projected to increase by roughly $2.8 billion (7 percent) over 2003-04. The incremental value of existing tax law changes results in a net decrease of $265 million in receipts, including the Sales Tax exemption on clothing ($330 million), the college tuition deduction ($50 million), Earned Income Tax Credit ($44 million) and the marriage penalty ($35 million), partially offset by net annual increases for the 2003 PIT and Sales tax increases. The underlying receipts growth is also offset by the loss of tobacco securitization proceeds which were used, as planned, to provide $3.8 billion of resources in 2003-04 and $400 million in 2004-05, resulting in a net decrease of $3.4 billion. A one-time Federal revenue sharing grant of $645 million provided by the Federal economic stimulus package is not available in 2004-05. In addition, increasing debt service costs reduce the amount of available

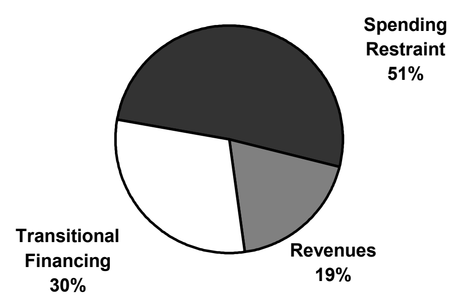
General Fund taxes, including costs for the State Personal Income Tax (PIT) Revenue Bond Program and the Local Government Assistance Corporation (LGAC).

Annual spending (before Executive Budget recommendations) is projected to grow by $3.1 billion, driven mainly by higher costs for employee pensions (up 137 percent); Medicaid, primarily to support current service levels and the inability to achieve proposed cost containment actions in the 2003-04 Enacted Budget; as well as for mental hygiene, higher education and welfare.

Also, one-time actions that reduced General Fund spending in the 2003-04 budget are not available in 2004-05, including a temporary increase in the Federal match rate for Medicaid, the use of Federal Temporary Assistance for Needy Families (TANF) for welfare-related spending, and Medicaid and Tuition Assistance Program (TAP) payment rolls that drive higher 2004-05 costs.

Spending for debt service and employee health insurance is also projected to increase as a result of programmatic and inflationary pressures. These cost increases are partially offset by the 2002-03 payment deferrals.

Recommended Solutions to $5.1B Gap



2004-05 GAP-CLOSING PLAN

The Governor's Executive Budget fully closes the $5.1 billion General Fund budget gap in 2004-05 with a mix of spending restraint, revenue actions and transitional financing. Actions of nearly $3.9 billion in 2005-06 and $3.5 billion in 2006-07 reduce the outyear gaps to more manageable levels of $2.9 billion in 2005-06 and $4.3 billion in 2006-07. In addition, $240 million in 2004-05 ($325 million on a school year basis), growing to $2 billion annually over the next five years is reserved from new VLT resources to fund the SBE requirements.

The major sources of these gap-closing actions are summarized below, and more detail on these specific actions is provided later in this Overview.

SOURCES OF PROPOSED GENERAL FUND GAP-CLOSING ACTIONS SAVINGS/(COSTS) (millions of dollars)			
	2004-05	2005-06	2006-07
2004-05 Initial Budget Gaps	**(5,071)**	**(6,727)**	**(7,805)**
Total Spending Actions:	**2,589**	**2,495**	**2,199**
Medicaid/Health Care Cost Containment	425	539	555
Pension Reform	440	301	150
Restructure Welfare Programs/Maximize TANF	362	382	396
Mental Hygiene Cost Containment/PIA	298	285	214
Restructure TAP to Encourage Timely Degree Completion	227	268	234
Restrain Growth in BOCES/Bldg. Aid/Transp. Aid	186	244	268
Debt Management	150	150	174
NYC School Aid for SBE (Supplement to VLT Reserves)	(70)	(100)	(100)
Medicaid Long-Term Care Takeover	(24)	(132)	(258)
All Other Spending	595	558	566
Total Revenue Actions:	**972**	**1,163**	**1,118**
Provide Four Weekly Sales Tax Exemptions	400	429	451
Health Care Provider Assessments	323	475	475
Criminal Justice Fees	58	113	113
Quick Draw Enhancements	43	68	68
Abandoned Property	42	3	
Fixed Dollar Minimum	40	40	40
Pistol Permit Fee	31	11	11
STAR Tax Credit	(11)	(57)	(113)
All Other Revenue	46	81	73
Total Nonrecurring Actions:	**1,510**	**219**	**139**
Capital Projects Bond Financing	283	192	139
Use of 2003-04 Surplus	261		
Continued Delay of Medicaid Cycle	190	(190)	
Additional Tobacco Benefit	181		
LGAC Payment Restructuring	170		
Federal Welfare Funds	115		
Reverse Meyers Tax Decision	50		
Use Available HFA Reserves in 2005-06		225	
All Other	260	(8)	
Total Savings Actions	**5,071**	**3,877**	**3,456**
2004-05 Executive Budget Gaps	**0**	**(2,850)**	**(4,349)**

Recommendations to restrain spending in the General Fund total $2.59 billion and include a combination of program restructuring and the use of alternate funding sources. Significant savings proposals include:

- Medicaid/health care cost containment to restrain prescription drug costs, lower the cost of optional services, enhance case management and reduce the need for General Fund payments to finance Health Care Reform Act (HCRA) spending ($425 million);
- Pension reforms, including a cap in the annual increases in employer contribution rates, to reduce the annual rate of increase in employer pension costs from 137 percent to 38 percent ($440 million);
- Restructure welfare-related programs including enhanced mandated employment requirements ($88 million) and use of Federal resources to support spending ($274 million);
- Cost containment in mental hygiene programs ($133 million) and initiatives to increase Patient Income Account (PIA) and other revenues ($165 million);
- Lower debt service costs through debt management actions including refundings and, expanded use of variable rate debt ($150 million);

- All other spending actions totaling $595 million include recommended efficiencies in State agency operations and restraint in local assistance spending and transportation costs; offset by
- General Fund spending increases totaling $94 million composed of $70 million additional General Fund school aid support to New York City ($100 million on a school year basis) that will supplement VLT reserves for SBE and initial costs for the proposed multi-year State takeover of local Medicaid costs for long-term care services ($24 million).

Revenue proposals are expected to raise $972 million in 2004-05 and include:

- Provision of four sales tax free weeks instead of a permanent exemption on clothing and footwear ($400 million); and
- Reimposition of an assessment on hospital and home care revenues and an increase to the existing reimbursable nursing home revenue assessment to support health care programs ($323 million).

The 2004-05 Financial Plan includes a total of $1.51 billion in nonrecurring actions including:

- The shift of various pay-as-you-go capital projects to bond financing ($283 million);
- A continuation of the legislative delay of the last Medicaid cycle payable at the end of the 2004-05 fiscal year ($190 million);
- Additional revenues produced by the 2003-04 tobacco bond sale transaction ($181 million);
- Implementation of an alternative proposal to provide support for New York City which eliminates legal uncertainty and protects LGAC bondholders while preserving expected City resources ($170 million);
- Legislation to reverse the effect of the recent "Meyers" decision to eliminate delays in collecting tax payments ($50 million); and,
- All other proposals include using available resources of the Power Authority of the State of New York (PASNY) to help finance the "Power-for-Jobs" program ($100 million), sweeps of available fund balances ($72 million) and continuation of bond issuance charges ($50 million).

In addition, surplus reserves from the Housing Finance Agency (HFA) will be available in 2004-05 and used to lower the projected 2005-06 outyear gap.

THE 2003-04 FINANCIAL PLAN UPDATE

SUMMARY OF MAJOR 2003-04 CHANGES SINCE THE ENACTED BUDGET

In the Enacted Budget, DOB projected a potential imbalance in the General Fund of roughly $900 million in 2003-04 prior to the anticipated receipt of Federal Funds from the Federal economic stimulus legislation. The stimulus package provided $1.07 billion of fiscal relief to the State, including $645 million in one-time Federal revenue sharing payments and $422 million from a 15-month increase in the Federal matching rate on Medicaid costs (FMAP). An additional $170 million of fiscal savings occurred from the delay in providing payments to New York City associated with the LGAC/Municipal Assistance Corporation (MAC) transaction for a total benefit of $1.24 billion. All other revisions since the Enacted Budget resulted in no significant change to budget balance, and incorporate a slightly improved receipts forecast, higher spending in Medicaid, welfare and TAP, and lower spending in State Operations and debt service. DOB's current receipts projection assumes significant growth in tax receipts for the remainder of the year.

Thus, the net positive impact of $1.24 billion, mostly from the Federal stimulus package, eliminated the potential $912 million General Fund Enacted Budget imbalance, allowed a maximum deposit of $84 million to the rainy day fund and generated a $261 million surplus to help lower the 2004-05 budget gap.

RECAP OF 2003-04 GENERAL FUND SAVINGS/(COSTS) (millions of dollars)	
Enacted Budget Potential Imbalance	**(912)**
Federal Revenue Sharing	645
Federal FMAP	422
Sub-Total After Federal Aid	**155**
LGAC/MAC Payment Delay	170
All Spending Changes	(17)
All Receipts Changes	37
Deposit to Rainy Day Fund	(84)
Total to Help Balance 2004-05	**261**

At the time of the Enacted Budget, DOB projected 2003-04 All Governmental Funds spending at $96.4 billion after reflecting legislative spending additions and the 2002-03 payment deferrals versus the legislative projection of $92.8 billion. Based on actual results to date, All Funds spending is currently projected at $98.3 billion, an increase of $1.9 billion since the initial projections. This increase is primarily attributable to higher projected spending in Medicaid for direct program needs, upward re-estimates to Federal grant levels, and higher Federal matching aid related to the one-time FMAP increase ($1.20 billion); an increase of Federal pass-through aid for the World Trade Center attacks ($556 million); and growth in Federal aid for education ($515 million) and child care spending ($126 million). These increases are partially offset by lower projected disbursements from the Community Projects Fund (CPF) ($300 million). All other spending increases and decreases result in no material change to total spending.

Revenue proposals added by the Legislature that DOB considered to be speculative and did not value in 2003-04, including Indian reservation taxes ($164 million), VLTs ($150 million) and intangible holding companies ($115 million), have not yet generated any material revenues in 2003-04 consistent with initial DOB projections as detailed below.

ESTIMATED IMPACT OF ENACTED BUDGET REVENUE PACKAGE ALL FUNDS TAX RECEIPTS - SFY 2003-04 (millions of dollars)		
	2003-04 Enacted	**2003-04 Revised**
Temporary PIT Increase	1,400	1,115
Sales Tax 0.25 Percent	451	445
Clothing	449	441
VLTs (Tracks Only)	0	0
Insurance Premiums Tax	158	158
Recapture of Bonus Depreciation	58	58
Intangible Holding Companies	0	0
Indians - Cigarettes and Gas	0	0
LLC's Filing Fees and Single Member	26	26
Non-Resident Partnership Withholding	15	15
Non-Resident Sales of Real Property	0	7
City Portion of Excise Tax	7	7
Reduced Refund for Late Refunds	5	5
Use Tax Line on PIT Return	0	0
SUV Decoupling	1	1
Regulatory Fees (Racing)	2	2
Six-Day Liquor Sales	0	1
Streamlined Sales Tax	0	0
Grand Total	**2,572**	**2,281**

The detail on all spending and revenue changes since the Enacted Budget are reflected in the Quarterly Financial Plans released in July, October and in this Overview. The following table provides a summary recap of all General Fund changes since the Enacted Budget, as reflected in each Quarterly Financial Plan Update published by DOB.

RECAP OF 2003-04 YEAR CHANGES SINCE ENACTED BUDGET GENERAL FUND (millions of dollars)				
	July	**October**	**January**	**Total**
Potential Enacted Budget Imbalance	(912)	0	0	**(912)**
Federal Revenue Sharing	645	0	0	**645**
Federal FMAP	371	51	0	**422**
LGAC Payment Delay	170	0	0	**170**
Member Items	100	0	0	**100**
Revenue Forecast	(193)	30	200	**37**
Medicaid	(100)	(54)	0	**(154)**
Welfare	(40)	(31)	0	**(71)**
Health Insurance	(26)	0	0	**(26)**
Lottery	(15)	15	0	**0**
TAP	0	(31)	0	**(31)**
State Operations	0	0	87	**87**
Debt Service **	0	0	26	**26**
All Other	0	20	32	**52**
Total	**0**	**0**	**345**	**345**
Deposit to TSRF				***(84)***
Net Surplus (used in 2004-05)				**261**

***$47 million of debt service costs appear as lower receipts transfers in the January estimate.*

SUMMARY OF CHANGES SINCE OCTOBER UPDATE

DOB has revised the 2003-04 Financial Plan (the "January Update") based on a review of actual operating results through mid-January 2004, and an updated analysis of underlying economic, revenue and spending trends. DOB projects the State will end the 2003-04 fiscal year with General Fund cash resources of $345 million above the levels projected in the Mid-Year Financial Plan Update issued October 28, 2003 (the "October Update"). Of this amount $261 million will reduce the 2004-05 budget gap and the remaining $84 million will be deposited to the Tax Stabilization Reserve Fund (the State's "rainy day reserve").

Total 2003-04 spending is projected at $42.06 billion in the General Fund and $62.11 billion in State Funds. Since the October Update, projected spending has been adjusted downward by $392 million in the General Fund and $752 million in State Funds. All Governmental Funds spending, projected to total $98.29 billion in 2003-04, has been revised upward by $314 million. These changes, as detailed below, consist primarily of higher Federal spending in education and Medicaid, offset by lower State-supported spending for the Community Projects Fund, State Operations, and debt service.

The projected General Fund closing balance of $1.01 billion consists of $794 million in the Tax Stabilization Reserve Fund (the Rainy Day Fund), $200 million in the CPF, and $20 million in the Contingency Reserve Fund for litigation (CRF). The projected increase of $284 million from the October Update reflects an additional $200 million balance in the CPF resulting from spending delays and a planned deposit of $84 million to the Rainy Day Fund (the eighth deposit in the last nine years). In addition, an additional deposit of $661 million to the Tax Refund Reserve Account will be made at year-end to account for the movement of $400 million in tobacco securitization proceeds planned for use in 2004-05 and the 2003-04 cash surplus of $261 million to help balance the 2004-05 fiscal year.

DETAIL OF 2003-04 CHANGES SINCE THE OCTOBER UPDATE

Current revenue and spending estimates for the General Fund, State Funds and All Governmental Funds are detailed below.

2003-04 REVENUE ESTIMATES
(millions of dollars)

	October Update	January Update	Change from October Update
General Fund	42,367	42,259	(108)
State Funds	62,647	62,394	(253)
All Governmental Funds	98,322	99,053	731

General Fund revenues are projected to total $42.26 billion in 2003-04 and have been revised downward by $108 million from the October Update. The net decrease reflects an increase in PIT receipts ($235 million) before a $661 million deposit to the Refund Reserve Account, Estate Taxes ($60 million) and higher transfers to the General Fund related to the Real Estate Transfer Tax ($35 million). These increases are offset by reductions in User Taxes ($90 million) and Business Taxes ($41 million). Adjusting for the impact of the Refund Reserve transaction and transfers to other funds, tax receipts have increased by roughly $200 million from the October Update.

Excluding the impact of the Refund Reserve transactions, All Funds tax receipts are expected to increase by $3.06 billion, or 7.7 percent in 2003-04. Over $2.16 billion or 70 percent of this increase is the result of tax actions adopted in the 2003-04 Enacted Budget.

Total State Funds receipts are now projected to be $62.39 billion, a decrease of $253 million from the October Update. This revision reflects State Funds receipts growth resulting from higher than anticipated revenues for CUNY ($141 million), additional State University of New York (SUNY) receipts primarily due to the use of bond funds to support SUNY capital equipment spending ($66 million), and higher than anticipated deposits from HCRA pools to a dedicated Special Revenue Fund (SRF) that supports spending for the Family Health Plus (FHP) health care program for low income families ($80 million). These increases are offset by a decline in Capital Projects Fund receipts resulting from the exclusion of capital projects receipts and disbursements in a manner consistent with the practice by OSC for reporting actual results, a reduction in miscellaneous receipts to HCRA where a nonrecurring transfer from the General Fund financed legislative restorations for health care ($128 million), and the General Fund decrease described above.

All Governmental Funds receipts are projected to total $99.05 billion, an increase of $731 million from the October Update, consisting mainly of upward revisions to the estimates of Federal aid for education ($518 million), Medicaid ($379 million), and children and families services ($142 million). Federal receipts are generally assumed to be received in the state fiscal year in which spending is projected to occur; therefore, the revisions to Federal receipts correspond to the federally-reimbursed spending adjustments described below.

2003-04 SPENDING ESTIMATES (millions of dollars)			
	October Update	January Update	Change from October Update
General Fund	42,452	42,060	(392)
State Funds	62,864	62,112	(752)
All Governmental Funds	97,979	98,293	314

Spending in the General Fund is projected to total $42.06 billion in 2003-04, a decrease of $392 million from the October Update. The revisions include lower estimated spending from the CPF ($200 million) now projected to occur in 2004-05, which does not affect budget balance since the resources required to pay this spending have already been set aside in a separate account. The remaining decrease of $192 million primarily reflects: a net reduction in State Operations spending ($87 million) including increased mental hygiene offsets, lower spending for the Judiciary, and a net reduction in costs across several agencies from the ongoing statewide austerity measures; lower debt service costs provided from debt management actions ($73 million); and downward reestimates to all other transfers ($41 million), offset by a projected deficiency in nonpublic school aid ($16 million).

State Funds spending is projected to total $62.11 billion in 2003-04, a decrease of $752 million from the October Update. This downward revision includes lower capital projects spending estimates to conform with OSC's accounting methods and the decrease in General Fund spending described earlier.

All Governmental Funds spending in 2003-04 is projected at $98.29 billion. The increase of $314 million from the October Update for federally-funded programs consists of: higher than anticipated disbursements for education ($518 million); Medicaid costs relating to the 15-month increase in the

Federal matching rate ($379 million), and child care spending ($142 million). These Federal increases are partially offset by the State Funds decline described above.

2002-03 GENERAL FUND PAYMENT DEFERRALS

While total spending projections include the 2002-03 payment deferrals, the 2003-04 spending estimates within various programmatic areas have been adjusted to exclude the spending associated with this deferral which resulted from the delay in securing authorization to issue tobacco bonds. The adjustment, as detailed below, avoids distorting annual growth trends in a particular program area.

2002-03 GENERAL FUND PAYMENT DEFERRALS (millions of dollars)	
School Aid	1,312
CUNY Senior Colleges	219
Medicaid - Mentally Disabled Payments	82
Welfare - Administration	38
Empire State Development Corporation	35
Education - All Other	30
Education - Preschool Special Education	24
HESC	10
Division of Military and Naval Affairs	10
Welfare	8
All Other Local Assistance	58
Total Local Assistance	**1,826**
State Police	26
World Trade Center	9
All Other State Operations	2
Total State Operations	**37**
General State Charges	**33**
Capital Projects	**4**
Total 2002-03 Payment Deferrals	**1,900**

ECONOMIC OUTLOOK

U.S. ECONOMY

Following an unusually sluggish recovery period, the U.S. economy finally appears to be on a sustainable expansionary path. Since the simultaneous collapse of equities and the high-tech sector in 2000, the national economy absorbed three additional but distinct shocks: the September 11th terrorist attacks, a string of corporate governance scandals, and the war in Iraq and its aftermath. These events created an environment of uncertainty that lengthened the period of adjustment for the business sector from the unrealistic expectations of the late 1990s. However, the climate of uncertainty appears to have subsided and business confidence appears to be improving. Equity prices are rising in response to brisk profit growth and monetary policy is expected to remain accommodative. Household spending is expected to rise, supported by rising employment and incomes, and the continued impact of the 2003 tax cuts. Finally, the combined impact of a moderately falling dollar and accelerating growth in the world economy is expected to increase the demand for U.S. exports in 2004, although on balance, the trade deficit is projected to widen.

Strong real GDP growth of 4.7 percent is projected for 2004, following growth of 3.1 percent for 2003. Total nonagricultural employment is projected to rise 1.1 percent in 2004, following a decline of 0.2 percent in 2003. The U.S. unemployment rate is expected to decline to 5.7 percent in 2004, from 6.0 percent in 2003. Persistent slack in the economy and declining oil prices are expected to lower the inflation rate, as measured by growth in the Consumer Price Index (CPI), to 1.8 percent in 2004 from 2.3 percent in 2003. Personal income is expected to increase 4.7 percent in 2004 following an increase of 3.3 percent in 2003.

THE NEW YORK STATE ECONOMY

The New York State economy is slowly emerging from recession. The long recovery from September 11th and the loss of momentum in the national recovery due to corporate governance scandals and international tensions resulted in a lengthening of the State's recession. However, employment losses have stabilized and growth is evident in several sectors. State nonagricultural employment is projected to rise 0.8 percent in 2004, the first increase in four years. Moreover, with the first sustained rise in equity prices in three years and interest rates remaining low, the outlook for the finance industry has brightened, improving prospects for bonuses and wages. Bonuses in the finance and insurance sector are projected to rise 11.7 percent in 2004-05, following growth of 23.2 percent for 2003-04. Total New York wages are expected to grow 5.1 percent in 2004, the best performance in four years. Personal income is also expected to increase by 5.1 percent in 2004, primarily reflecting the strength in wage growth. Consistent with national trends, inflation in New York is projected to fall from 2.8 percent in 2003 to 2.1 percent in 2004.

THE 2004-05 FINANCIAL PLAN

This section provides a comprehensive explanation of the Financial Plan activity within key functional areas (e.g. Medicaid) across all governmental fund types. The State accounts for all budgeted receipts and disbursements that support programs and other administrative costs of running State government within the All Governmental Funds type. The All Governmental Funds, comprised of funding supported by State Funds and Federal Funds, provides the most comprehensive view of the financial operations of the State. State Funds includes the General Fund, which is the principal operating fund of the State, and other State-supported funds including State SRFs, Capital Projects Funds and Debt Service Funds.

RECEIPTS OUTLOOK

TOTAL RECEIPTS (millions of dollars)				
	2003-04	**2004-05**	**Annual Change**	**% Change**
General Fund	42,259	41,835	(424)	(1.0)
State Fund	62,394	63,137	743	1.2
All Governmental Funds	99,053	99,516	463	0.5

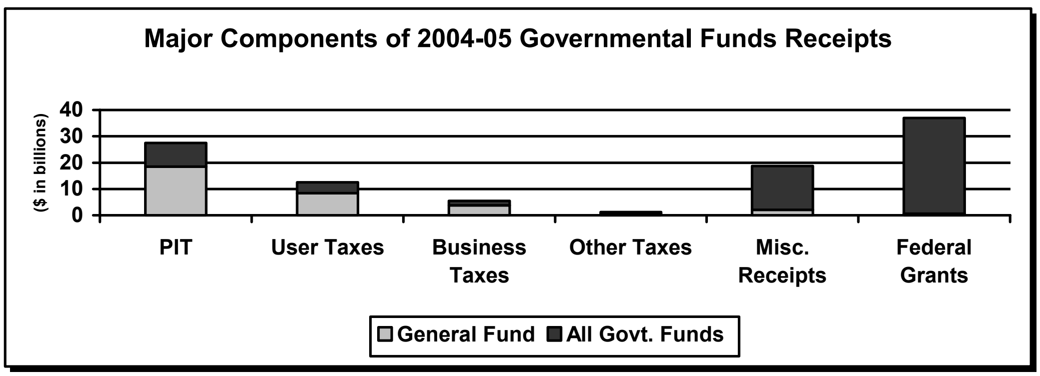
All Governmental Funds receipts are estimated to reach $99.05 billion in 2003-04, an increase of $10.98 billion (12.5 percent) from 2002-03. The increase reflects both gradually improving economic conditions and significant policy actions taken with the 2003-04 Enacted Budget. These actions included $4.20 billion in tobacco securitization proceeds as well as temporary increases in PIT rates and in the base and rate of the sales tax. The estimate is $731 million above the October estimate as discussed previously.

General Fund receipts are estimated to reach $42.26 billion in 2003-04, an increase of $4.86 billion (13.0 percent) from 2002-03. The increase is largely the result of the collection of $4.2 billion in tobacco securitization proceeds and $645 million in Federal revenue sharing grants. This estimate is

$108 million below the October estimate. Adjusting for the Refund Reserve transaction and transfers out of the General Fund, tax receipts are expected to exceed October estimates by $200 million.

All Governmental Funds receipts are projected to reach $99.52 billion in 2004-05, an increase of $463 million (0.5 percent) from 2003-04. The small net increase is due to the one-time nature of tobacco securitization and federal revenue sharing received in 2003-04 offset by expected improvements in economic conditions that will increase tax receipts significantly, and by revenue actions taken with the 2003-04 budget.

General Fund receipts are projected to reach $41.83 billion in 2004-05, a decrease of $424 million (1.0 percent) from 2003-04. The major source of the annual change in the General Fund is the impact of the $4.2 billion in tobacco securitization proceeds and $645 million from Federal revenue sharing grants, which were received in 2003-04, but will not recur in 2004-05. This loss is offset, in part, by increased receipts from both the PIT and Sales Tax, as a result of temporary tax increases adopted as part of the 2003-04 Enacted Budget. Overall, improved economic performance and a resurgence in financial service sector compensation are also expected to increase 2004-05 receipts.



Total Governmental Receipts comprise revenues from the PIT ($27.46 billion), user taxes and fees ($12.48 billion), business taxes ($5.44 billion), other taxes ($1.22 billion), miscellaneous receipts ($16.64 billion), and Federal Grants ($36.26 billion). As can be seen in the chart, a significant share of receipts are deposited into non-General Fund accounts.

ALL GOVERNMENTAL FUNDS 2003-04 TAX RECEIPTS ESTIMATES (millions of dollars)								
	All Governmental Funds				General Fund			
	2002-03 Actual	2003-04 Revised	Annual Change	Percent Change	2002-03 Actual	2003-04 Revised	Annual Change	Percent Change
Personal Income Tax (PIT)	23,698	24,083	385	1.6%	16,791	15,791	(1,000)	(6.0)%
PIT (Excluding Refund Reserve)	22,648	24,660	2,012	8.9%	15,741	16,368	627	4.0%
User Taxes and Fees	10,804	11,816	1,012	9.4%	7,063	7,897	834	11.8%
Business Taxes	4,983	4,983	0	0.0%	3,380	3,395	15	0.4%
Other Taxes	1,191	1,234	43	3.7%	743	784	41	5.5%
Total Taxes	40,676	42,116	1,440	3.5%	27,977	27,867	(110)	(0.4)%
Total Taxes (Excluding Refund Reserve)	39,626	42,692	3,066	7.7%	26,927	28,444	1,517	5.6%

ALL GOVERNMENTAL FUNDS 2004-05 TAX RECEIPTS ESTIMATES (millions of dollars)								
	All Governmental Funds				General Fund			
	2003-04 Revised	2004-05	Annual Change	Percent Change	2003-04 Revised	2004-05	Annual Change	Percent Change
Personal Income Tax (PIT)	24,083	27,462	3,379	14.0%	15,791	18,520	2,729	17.3%
PIT (Excluding Refund Reserve)	24,660	26,769	2,109	8.6%	16,368	17,827	1,459	8.9%
User Taxes and Fees	11,816	12,483	667	5.7%	7,897	8,340	443	5.6%
Business Taxes	4,983	5,440	457	9.2%	3,395	3,739	344	10.1%
Other Taxes	1,234	1,223	(11)	(0.9)%	784	762	(22)	(2.8)%
Total Taxes	42,116	46,608	4,492	10.7%	27,867	31,361	3,494	12.5%
Total Taxes (Excluding Refund Reserve)	42,692	45,913	3,221	7.5%	28,444	30,668	2,224	7.8%

Personal Income Tax

PIT net receipts for 2003-04 are estimated to reach $24.08 billion, an increase of $385 million (1.6 percent) from 2002-03 due largely to a modestly improved economic environment and the first-year impact of the temporary three-year PIT increase enacted in 2003. The increase is partially offset by a $1.63 billion lower contribution from the Refund Reserve account. Net of Refund Reserve transactions, All Funds income tax receipts are expected to grow 8.9 percent over 2002-03 results. The estimate is $235 million above the October Update forecast (adjusting for Refund Reserve transactions).

PIT General Fund receipts for 2003-04 are estimated to reach $15.79 billion, a decrease of $1 billion (5.9 percent) from 2002-03, due to the positive factors affecting All Funds receipts, more than offset by increased Revenue Bond Tax Fund (RBTF) and STAR deposits of $1.2 billion and $171 million, respectively.

PIT net receipts for 2004-05 are projected to reach $27.46 billion, an increase of $3.38 billion (14.0 percent) from 2003-04 due largely to three factors: an increase in underlying liability growth associated with improved economic conditions; the temporary three-year tax increase enacted in 2003; and a $1.27 billion higher contribution from the Refund Reserve account. Net of the Refund Reserve transaction, All Funds income tax receipts are projected to increase by 8.6 percent over 2003-04.

PIT General Fund receipts for 2004-05 (net of the Refund Reserve transaction) are projected to reach $17.83 billion, an increase of $1.46 billion (8.9 percent) from 2003-04, due to the factors affecting All Funds receipts, somewhat offset by increased RBTF and STAR deposits of $487 million and $163 million, respectively.

User Taxes and Fees

All Governmental Funds user taxes and fees receipts are estimated to reach $11.82 billion, an increase of $1.01 billion (9.4 percent) from 2002-03. The sales and use tax increased an estimated $1.03 billion (11.7 percent) from 2002-03, due mainly to modest improvement in the economy, the impact of the 0.25 percent surcharge imposed in 2003 (raising the State sales tax rate to 4.25 percent), and the substitution of tax-free weeks for clothing and footwear items costing less than $110 for the permanent exemption of clothing and footwear costing less than $110. The remainder of this category declined by an estimated $15 million (0.7 percent), due mainly to declines in taxable cigarette consumption. The estimate is $91 million below the October Update estimate.

General Fund user taxes and fees net receipts are estimated to reach $7.9 billion, an increase of $834 million (11.8 percent) from 2002-03. The sales and use tax increased an estimated $850 million (13.4 percent) from 2002-03, due mainly to the 0.25 percent surcharge and the changes to the clothing and footwear exemption. The other user taxes and fees declined by an estimated $16 million (2.2 percent), due mainly to declines in taxable cigarette consumption.

All Funds user taxes and fees net receipts for 2004-05 are projected to reach $12.48 billion, an increase of $667 million (5.7 percent) from 2003-04. The sales and use tax is projected to increase $662 million (6.8 percent) from 2003-04 due largely to increases in employment, income and overall consumption, which expanded the estimated taxable base. The 2004-05 projections include the proposed impact of retaining the clothing exemption for specified tax-free weeks at a higher threshold of $500 per item. The other user taxes and fees are projected to increase $5 million (0.2 percent) from 2003-04.

General Fund user taxes and fees net receipts for 2004-05 are projected to reach $8.34 billion, an increase of $443 million (5.6 percent) from 2003-04. The sales and use tax is projected to increase $488 million (6.8 percent) from 2003-04 due to increased economic growth and the recommended changes to the clothing and footwear exemption. The other user taxes and fees are projected to decrease $44 million (6.2 percent) from 2003-04, due mainly to the increased dedication of motor vehicle fee receipts to transportation funds.

Business Taxes

All Governmental Funds business tax receipts are expected to reach $5.0 billion in 2003-04, which is unchanged from 2002-03. Receipts are estimated to have remained roughly flat due to the offsetting impacts of weak profit performance in the corporate and banking sector in 2002 and 2003 with increased insurance tax collections associated with policy actions adopted in 2003. The estimate is $38 million below the October Update forecast as actual results continue to lag expectations.

General Fund business tax receipts in 2003-04 are estimated to be $3.39 billion, or $15 million (0.43 percent) over 2002-03. Receipts are slightly higher, due primarily to an increase in insurance tax collections as a result of tax restructuring.

All Governmental Funds business tax receipts in 2004-05 are expected to be $5.39 billion, or $411 million (8.3 percent) above 2003-04. This is primarily because of the anticipated increase in insurance tax receipts associated with continued premium growth and the expectation of strengthening corporate and bank profitability.

General Fund business tax receipts in 2004-05 are projected to be $3.74 billion, or $344 million (10.1 percent) over 2003-04. This is due primarily to tax law changes enacted in 2003-04 relating to intangible income and the de-coupling from certain Federal tax provisions, and the expectation of strengthening corporate and bank profits.

Other Taxes

All Funds other taxes, which include estate, pari-mutuel, gift, real property gains, real estate transfer, and racing admissions/boxing and wrestling exhibition taxes, are estimated at $1.23 billion in

2003-04, an increase of $43 million (3.7 percent) over 2002-03. The increase is primarily caused by an increase in the collections of the estate tax, which reflects an increase of equity values that improves the value of estates. The estimate is $93 million above the October Update forecast.

General Fund other taxes, which include estate, pari-mutuel, gift, real property gains, and racing admissions/boxing and wrestling exhibition taxes, are estimated at $784 million in 2003-04, an increase of $41 million (5.5 percent) over 2002-03. The increase is principally caused by a boost in the collections of the estate tax, which reflects an increase of market equity values from the recent improvement of the economy.

The estimate for All Funds other taxes in 2004-05 is $1.22 billion, which is $11 million (0.9 percent) below 2003-04. The decline is the result of a projected decrease in estate tax collections of $22 million partially offset by a projected increase in real estate transfer tax receipts of $11 million. This estimate reflects an anticipated leveling off of market equity values in the second half of 2004-05.

The estimate for General Fund other taxes in 2004-05 is $762 million, which is $22 million (2.8 percent) below 2003-04. This estimate also reflects an anticipated leveling off of market equity values in the second half of 2004-05.

MISCELLANEOUS RECEIPTS (millions of dollars)				
	2003-04	**2004-05**	**Annual Change**	**% Change**
General Fund	5,970	2,087	(3,883)	(65.0)
State Funds	19,621	16,517	(3,104)	(15.8)
All Governmental Funds	19,750	16,643	(3,107)	(15.7)

All Governmental Funds miscellaneous receipts for 2003-04 are projected to reach $19.75 billion, an increase of $5.60 billion (39.6 percent) from 2002-03. This increase primarily reflects the one-time receipt of tobacco securitization proceeds in the General Fund totaling $4.2 billion and projected growth of $1.40 billion in other State Funds. The revision reflects an increase of $195 million (1.0 percent) from the October Update, composed of the General Fund increase of $400 million from the acceleration of tobacco securitization proceeds offset by the projected decline of $205 million in other State funds.

Miscellaneous receipts in State Funds are projected at $19.62 billion, an increase of $5.62 billion (40.1 percent) from 2002-03. This increase is comprised of the net increase in the General Fund described below augmented by the projected growth of $1.74 billion in other State funds. Growth in other State funds includes higher receipts in transportation ($870 million), SUNY ($435 million), school aid ($113 million), CUNY ($87 million), and modest increases in numerous other programs. The estimate represents an increase of $197 million (1.0 percent) from the October Update. This increase from October is comprised of the General Fund changes described above, offset by the $225 million decrease in State Funds. This downward revision includes lower capital receipts estimates to conform with OSC's accounting methods ($325 million), partially offset by higher than anticipated revenues for CUNY ($141 million) and use of bond funds to support SUNY capital equipment spending ($66 million).

General Fund miscellaneous receipts for 2003-04 are estimated to reach $5.97 billion, including $4.2 billion in tobacco securitization proceeds, an increase of $3.88 billion (65.0 percent) from 2002-03. With tobacco securitization proceeds excluded, miscellaneous receipts are estimated to decrease by $321 million (15.4 percent) from 2002-03, largely due to lower collections in unclaimed and abandoned property. This estimate is $423 million above the October estimate, primarily the result of $400 million in tobacco securitization proceeds which were originally deposited in 2003-04 and will be used as anticipated in 2004-05.

All Governmental Funds miscellaneous receipts for 2004-05 are projected to reach $16.64 billion, a decrease of $3.10 billion (15.7 percent) from 2003-04. This decrease is primarily due to the one-time receipt of tobacco bond proceeds in 2003-04 of $4.2 billion, offset by projected growth of $779 million in other State funds.

Miscellaneous receipts in State Funds are projected at $16.52 billion in 2004-05, a decline of $3.10 billion (15.8 percent) from the current year. This net decrease is comprised of the decrease in the General Fund described above, offset by $779 million in State funds growth. Growth in other State funds includes higher receipts in lottery for anticipated VLT proceeds ($240 million), increased provider assessments reflecting the proposed assessments on nursing home, hospital and home care revenues ($258 million), and additional HCRA financing of health care costs ($279 million).

General Fund miscellaneous receipts are projected to total $2.09 billion in 2004-05, a decrease of $3.88 billion (65.0 percent) from the current fiscal year. This decrease is due largely to the tobacco securitization proceeds described above. Excluding these proceeds, General Fund miscellaneous receipts would increase by $317 million. This increase is due primarily to increased collections of Licenses and Fees, and an additional payment of $100 million from PASNY to offset the remaining cost of the "Power for Jobs" program.

TRANSFERS FROM OTHER FUNDS (millions of dollars)				
	2003-04	2004-05	Annual Change	Percent Change
PIT in Excess of Revenue Bond Debt Service	5,242	5,628	386	7.4
Sales Tax in Excess of LGAC Debt Service	1,944	2,047	103	5.3
Real Estate Taxes in Excess of CW/CA Debt Service	247	240	(7)	2.8
All Other Transfers	344	472	128	37.2
Total Transfers from Other Funds	**7,777**	**8,387**	**610**	**7.8**

Transfers to the General Fund from PIT receipts deposited to the RBTF in excess of debt service payable on State PIT Bonds is projected at $5.63 billion, an increase of $386 million from 2003-04. This increase is attributable to overall growth in personal income taxes, partially offset by a $102 million increase in debt service costs on those bonds.

The $103 million annual increase in transfers to the General Fund of sales tax receipts deposited to the Local Government Assistance Tax Fund in excess of debt service due on LGAC bonds is attributable to overall growth in sales tax receipts partially offset by a $16 million increase in debt service costs on LGAC bonds. These transfers are projected to total $2.0 billion in 2004-05.

Transfers to the General Fund of receipts from the real estate transfer tax deposited to the Clean Water/Clean Air (CW/CA) Debt Service Fund in excess of debt service due on those general obligation bonds is projected to total $240 million, a decrease of $7 million from 2003-04. This decrease reflects overall growth in real estate transfer taxes, partially offset by a $18 million increase in debt service costs.

All other transfers are projected to total $472 million in 2004-05, an increase of $127 million. This is due primarily to one-time fund sweeps ($91 million), a transfer from SUNY to reimburse the

General Fund for equipment costs ($90 million) and increased transfers from the Waste Tire Management and Recycling program ($20 million), partially offset by a $59 million decrease in the transfer from the Environmental Protection Fund (EPF).

FEDERAL GRANTS (millions of dollars)				
	2003-04	2004-05	Annual Change	Percent Change
General Fund	645	0	(645)	(100.0)
State Funds	657	12	(645)	(98.2)
All Governmental Funds	37,187	36,265	(922)	(2.5)

All Governmental Funds Federal grants for 2003-04 are projected to reach $37.19 billion, an increase of $3.94 billion (11.8 percent) from 2002-03. This increase primarily reflects growth in federal spending in the following program areas: Medicaid ($2.44 billion), World Trade Center pass-through costs ($885 million), and the increase in the General Fund described below. The estimate represents an increase of $997 million (2.8 percent) from the October Update consisting mainly of upward revisions to the estimates of Federal aid for education ($518 million), Medicaid ($379 million), and children and family services ($142 million).

Federal Grants reported in State Funds are projected at $657 million in 2003-04, an increase of $657 million from 2002-03. This increase reflects primarily the one-time Federal revenue sharing payments received in 2003-04. This estimate has been revised modestly from the October Update ($12 million).

Federal Grants in the General Fund are projected at $645 million in 2003-04, an increase of $645 million from 2002-03. This increase reflects the one-time Federal revenue sharing payments received in 2003-04. The estimate remains unchanged from the October Update.

All Governmental Funds Federal grants for 2004-05 are projected to reach $36.27 billion, a decrease of $922 million (2.5 percent) from 2003-04. This decrease reflects primarily the General Fund decrease of $645 million from the current fiscal year, augmented by the decrease in World Trade Center pass-through costs ($200 million).

Federal Grants in State Funds are projected at $12 million, a decline of $633 million (96.3 percent) from the current year. This net decrease is comprised primarily of the decrease in the General Fund described above.

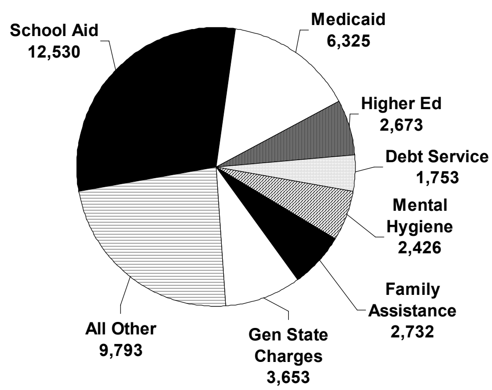
There are no projected Federal Grants in 2004-05 in the General Fund, a decrease of $645 million from the current fiscal year. This decrease reflects the loss of the one-time Federal revenue sharing payments received in 2003-04.

DISBURSEMENTS OUTLOOK

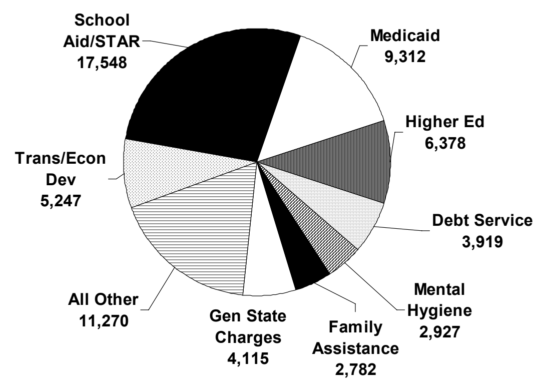
TOTAL DISBURSEMENTS (millions of dollars)				
	2003-04 Revised	**2004-05 Proposed**	**Actual Annual Change**	**Actual Percent Change**
General Fund	42,060	41,885	(175)	(0.4)
State Funds	62,112	63,498	1,386	2.2
All Governmental Funds	98,293	99,806	1,513	1.5

The Financial Plan projections assume that the 2004-05 Executive Budget and all accompanying proposals are enacted in their entirety. Absent the Executive Budget recommendations designed to reduce the growth in annual spending, General Fund spending would increase by more than $3 billion over 2003-04. (See "Sources of the 2004-05 Budget Gap" earlier in this Overview.) The following charts show the budget spending levels for 2004-05 by major function.

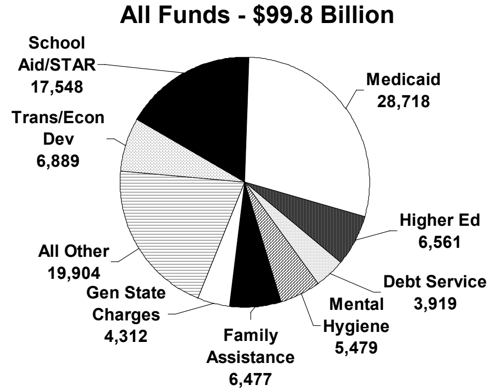
General Fund - $41.9 Billion



State Funds - $63.5 Billion



All Funds - $99.8 Billion



The major sources of annual spending changes between 2003-04 and 2004-05 (after reflecting all Executive Budget recommendations) are summarized in the table below. The 2003-04 projected spending totals are consistent with the reporting of actuals by OSC. Results within program areas (e.g. school aid, CUNY, Medicaid) are adjusted to eliminate the impact of the 2002-03 payment deferrals described earlier and provide a comparable basis of the annual change in each program area.

SPENDING PROJECTIONS -- AFTER RECOMMENDED SAVINGS MAJOR SOURCES OF ANNUAL CHANGE (millions of dollars)			
	General Fund	**State Funds**	**All Governmental Funds**
2003-04 Revised Estimate	***42,060***	***62,112***	***98,293***
Medicaid	373	672	738
Mental Hygiene	299	342	233
Debt Service	285	566	566
Employee Health Insurance	255	255	255
Higher Education	206	304	58
Pensions	184	184	184
School Aid	169	278	278
All Other	(46)	685	1,101
2002-03 Payment Deferrals	(1,900)	(1,900)	(1,900)
2004-05 Executive Budget	***41,885***	***63,498***	***99,806***
Annual $ Change	***(175)***	***1,386***	***1,513***
Annual % Change	***(0.4%)***	***2.2%***	***1.5%***

Primary sources of the annual change in projected disbursements are concentrated in the major areas of spending as detailed below.

Medicaid

DEPARTMENT OF HEALTH MEDICAID SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	**2004-05**	**Annual Change**	**Percent Change**
General Fund	**5,952**	**6,325**	**373**	**6.3**
Other State Support	2,688	2,987	299	11.1
State Funds	**8,640**	**9,312**	**672**	**7.8**
Federal Funds	19,340	19,406	66	0.3
All Governmental Funds	**27,980**	**28,718**	**738**	**2.6**

Medicaid, the single most expensive program budgeted in New York State, finances health care for low-income individuals, long-term care for the elderly, and services for disabled individuals, primarily through payments to health care providers.

New York's Medicaid program is financed jointly by the Federal government, the State, and counties (including New York City). Total Medicaid financing (including administrative costs) from all sources is projected to reach $42.7 billion in 2004-05, consisting of $21.9 billion in Federal support, $13.8 billion in State funding, and $7.0 billion in local government financing. The Financial Plan does not include the local government share of Medicaid funding, but does include the entire Federal share of the program.

Medicaid spending is budgeted principally in the Department of Health (DOH), but also appears in the Office of Mental Health (OMH), the Office of Mental Retardation and Developmental Disabilities (OMRDD), Office of Alcohol and Substance Abuse Services (OASAS) and the State Education Department (SED). Projected Medicaid spending of $28.72 billion in DOH consists of $19.4 billion in

Federal Funds and $9.3 billion in State Funds. Medicaid spending by other State agencies and administrative costs account for the remaining $2.5 billion in Federal and $4.5 billion in State support.

SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) IN DOH MEDICAID (millions of dollars)			
	General Fund	**Other State Supported Funds**	**Federal Funds**
Inflationary/Utilization/All Other	619	(175)	1,050
Loss of Federal Matching Rate (FMAP)	390		(584)
Nursing Home IGT Phase Out	90		(112)
2003-04 Medicaid Cycle Delay	170		340
2004-05 Medicaid Cycle Delay	(190)		(270)
Assessments	(323)	429	
Additional Support by HCRA	(163)	45	
Pharmacy Cost Containment	(93)		(191)
All Other Cost Containment	(170)		(256)
State Takeover/Increased Support	43		89
Total Annual Change	**373**	**299**	**66**

Inflation/Utilization Growth/All Other: Projected growth of approximately 7.4 percent reflects growth in medical cost inflation and utilization increases for hospitals, nursing homes, managed care programs and prescription drugs. The total Medicaid caseload is projected at 3.7 million in 2004-05, an increase of 5 percent from the current fiscal year. Other changes primarily include a "tobacco guarantee" payment to HCRA to replace the loss of revenue from the securitization of tobacco proceeds ($118 million).

Loss of Federal Matching Rate (FMAP): Expiration in June 2004 of the temporary 15-month increase in FMAP for Medicaid costs results in higher General Fund costs ($390 million) and lower spending from Federal Funds ($584 million). Total projected DOH General Fund savings from FMAP is $610 million in 2003-04 (another $80 million offsets in Mental Hygiene Medicaid costs) decreasing to $220 million in 2004-05. The additional FMAP support lowered Medicaid costs for the State and local governments by $1.01 billion in 2003-04 and provided $268 in resources to HCRA in 2003-04.

Nursing Home Intergovernmental Transfer (IGT) Phase Out: The planned phase-out of nursing home intergovernmental transfers implemented in 2001-02 increases General Fund costs by $90 million and reduces Federal Funds spending by $112 million (the remaining $22 million in costs accrue to local governments).

Cycle Payment Delays: The 2003-04 Enacted Budget deferred the last Medicaid cycle from March 31, 2004 into the 2004-05 fiscal year, producing an annual increase of $170 million. The 2004-05 Executive Budget continues this legislative action by delaying payment of the March 30, 2005 Medicaid cycle until April 1, 2005 ($190 million).

Assessments: The Executive Budget proposes a restoration of a 0.7 percent assessment on hospital and home care revenues and restoring the nursing home reimbursable assessment from 5.0 percent to 6.0 percent of revenues in order to finance State Medicaid spending. This recommendation lowers General Fund spending by $323 million and increases costs in the Provider Assessment Special Revenue Fund by $429 million, which is supported by the assessment revenues.

Additional Support by HCRA: Cost containment initiatives in FHP and the Child Health Plus (CHP) program produce HCRA savings that will support additional General Fund offloads related to pharmacy costs ($45 million). In addition, other proposed actions to reduce costs of programs supported by HCRA and the receipt of FMAP moneys have reduced the need for General Fund support for HCRA ($118 million).

Pharmacy Cost Containment: Several proposals to control the rising costs of prescription drugs would reduce spending growth in the General Fund ($93 million) and Federal Funds ($191 million). These proposals include establishing a preferred drug program that requires manufacturers to provide higher rebates to the State to secure placement of drugs on a preferred drug list; requiring prior authorization for certain high cost drugs; reducing pharmacy reimbursement; and increasing pharmacy co-payments for Medicaid recipients.

All Other Cost Containment: Recommended actions reduce General Fund costs by $170 million and Federal Funds spending by $256 million. These actions include General Fund reductions resulting from the elimination of various optional services provided to Medicaid recipients ($32 million), the payment of Federal Medicare premiums by, and implementation of a managed care program for, individuals who are dually eligible under both the Medicaid and Medicare programs ($46 million), elimination of long-term care eligibility loopholes ($25 million), nursing home cost containment initiatives including the elimination of payment "add-ons" for facilities with more than 300 beds and hospital-based facilities ($22 million), continuing the reduced payment levels to counties for services provided to mentally disabled individuals ($20 million), implementation of a case management program in partnership with counties for certain high cost individuals ($8 million), and other cost containment initiatives.

State Takeover/Increased Support: The 2004-05 Executive Budget includes higher General Fund costs for the proposed multi year State takeover of local Medicaid costs of long-term care services ($24 million) and a revision to the 1993 wage equalization factor used in the calculation of nursing home reimbursement rates ($19 million).

School Aid

SCHOOL AID SPENDING PROJECTIONS (millions of dollars)

	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	**12,361**	**12,530**	**169**	**1.4**
Other State Support	1,911	2,020	109	5.7
State Funds	**14,272**	**14,550**	**278**	**1.9**
All Governmental Funds	**14,272**	**14,550**	**278**	**1.9**

School aid, the single largest program financed by the General Fund and State Funds, helps support elementary and secondary education provided to New York pupils enrolled in 680 school districts throughout the State. State funding is provided to districts based on aid formulas governed by statute and through reimbursement for various categorical programs.

On a school year basis (July 1 through June 30), support for general school aid is recommended at $14.6 billion, an increase of $147 million (1.0 percent) over the current school year. In addition to $14.6 billion for general school aid, the budget sets aside all revenues from VLTs to support SBE requirements. Based upon VLT facilities now being developed and new ones proposed with the Executive Budget, receipts are projected at $325 million in the 2004-05 school year, growing to $2 billion annually over the next five years. To supplement the VLT revenues, New York City will also receive a separate $100 million SBE matching grant ($70 million on a State fiscal year basis) as part of its general school aid. General Fund spending in 2004-05 is projected at $12.53 billion on a State fiscal year basis.

The school aid recommendations to restrain spending growth include targeted reforms in building aid, transportation aid and BOCES to generate savings of $186 million. Proposed reforms would restrain cost increases for building aid ($62 million) and transportation aid ($52 million). Other building aid reforms include establishment of priority-based project selection; a simplified State aid calculation; and a State clearinghouse for more efficient construction practices. Transportation aid reforms build on recent reforms for State reimbursement of school construction to reimburse costs consistent with the useful life of the assets. Other actions in school aid that reduce General Fund costs include recovery of overpayments and one-time State-supported bond financing of transportation capital costs as part of the transition to the new reimbursement program.

In addition, these recommendations include a Flex Aid program to provide school districts with needed flexibility by consolidating seven separate categories of aid totaling nearly $10 billion into a single aid program.

The State Lottery Fund contribution is projected at $1.95 billion, an increase of $110 million in additional lottery revenues, including $43 million associated with proposed enhancements to the Quick Draw program. In addition, $240 million is reserved from VLT revenues ($325 million on a school year basis) to support SBE reforms.

In addition to the school year totals referenced above, Federal Funds also provide $2.89 billion in education funding to school districts in 2004-05. This spending includes support for various programs such as: free and reduced price meals to low income children; supplemental funding for educational services to low achieving students; special education services to students with disabilities; professional development activities for teachers; and programs that prevent school violence.

Welfare

WELFARE SPENDING PROJECTIONS
(millions of dollars)

	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	**1,379**	**1,423**	**44**	**3.2**
State Funds	**1,379**	**1,423**	**44**	**3.2**
Federal Funds	2,049	1,979	(70)	(3.4)
All Governmental Funds	**3,428**	**3,402**	**(26)**	**(0.8)**

Welfare programs provide a wide range of benefits to poor families including cash assistance grants, child welfare services, tax credits for eligible low-income workers, and services that assist welfare recipients in securing and retaining employment. Funding is also provided for local administration of welfare programs. Total welfare caseload is estimated at 653,041 in 2004-05, an increase of 36,201 from the current fiscal year. Federal assistance consists of funds provided through the TANF block grant.

SOURCES OF ANNUAL SPENDING CHANGES IN WELFARE (millions of dollars)		
	General Fund	**Federal Funds**
Caseload/Expenditure Growth	125	
Loss of Offsets/TANF	322	(70)
Local Administration	74	
TANF Reprogramming	(372)	
Welfare Eligibility/Benefit Changes	(77)	
All Other	(28)	
Total Annual Change	**44**	**(70)**

Caseload/Expenditure Growth: Additional General Fund costs from caseload and expenditure growth reflect a projected 4.7 percent increase in the family caseload, a 10 percent increase in the single adult/childless couples caseload, and 3 percent growth in expenditures per person. Federal funding for welfare is a fixed amount provided through a TANF block grant and does not increase or decrease based on changes in caseload or State expenditures.

Loss of Offsets/TANF: 2004-05 General Fund increases resulting from the loss of TANF in 2003-04 ($322 million), include the one-time delay in the transfer of TANF funds to the Child Care Block Grant and the availability of one-time unprogrammed TANF initiative funding. The $70 million decrease in Federal Funds primarily reflects this reduced Federal funding available to support TANF-funded initiatives.

Local Administration Funding: Additional General Fund costs reflect increased funding for welfare employment and other initiatives ($63 million) and the use of one-time administration credits in 2003-04 ($56 million), which are partially offset by the annualization of the reduction in local administrative reimbursement enacted in 2003-04 ($45 million).

TANF Reprogramming: Actions proposed in the Budget will reprogram the remaining TANF funds to reduce General Fund costs by reducing the TANF to Title XX transfer from 10 percent to 5 percent ($122 million); reprogramming unspent prior-year TANF initiative funding ($104 million); utilizing prior-year child care funding ($83 million); budgeting the minimum TANF maintenance-of-effort level ($45 million); and reducing TANF for systems and other program initiatives ($18 million).

Proposed Welfare Eligibility/Benefit Changes: The 2004-05 Executive Budget reduces General Fund costs by $77 million through recommendations that would restructure welfare eligibility requirements, require full family sanctions that eliminate benefits if adults do not comply with mandated employment requirements, and impose a 10 percent reduction in welfare benefits to longer term participants.

All Other: The remaining annual decrease in General Fund costs relates primarily to a one-time prior year Federal settlement ($16 million), requiring a two-year limit on claiming local administrative reimbursement and rescinding unspent prior year contract funding ($12 million).

Office of Children and Family Services

CHILDREN AND FAMILY SERVICES SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	**Projected 2004-05**	**Annual Change**	**Percent Change**
General Fund	**1,261**	**1,309**	**48**	**3.8**
Other State Support	36	50	14	38.9
State Funds	**1,297**	**1,359**	**62**	**4.8**
Federal Funds	1,865	1,716	(149)	(8.0)
All Governmental Funds	**3,162**	**3,075**	**(87)**	**(2.8)**

The Office of Children and Family Services (OCFS) provides child welfare services including foster care, adoption, child protective services and childcare. The net decrease in All Funds spending is attributable primarily to a reduction of the Federal TANF for Child Care and Title XX program support ($150 million), partially offset by growth in State child welfare costs for preventive services, child protective services, and adoption subsidies supported by the General Fund ($48 million) and other State support ($14 million). In the General Fund, the impact of the reduced TANF to Title XX transfer produces increased child welfare spending by $58 million.

Mental Hygiene

MENTAL HYGIENE SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	**Projected 2004-05**	**Annual Change**	**Percent Change**
General Fund	**2,127**	**2,426**	**299**	**14.1**
Other State Support	458	501	43	9.4
State Funds	**2,585**	**2,927**	**342**	**13.2**
Federal Funds	2,661	2,552	(109)	4.1
All Governmental Funds	**5,246**	**5,479**	**233**	**4.4**

OMH, OMRDD and OASAS collectively provide a wide array of services to special needs populations. Services are administered to individuals with mental illnesses, developmental disabilities and/or chemical dependencies through institutional and community-based settings. Many of these services are partially financed with State and Federal Medicaid dollars.

Annual General Fund growth of $299 million is attributable primarily to increased State Operations costs including payment of an "extra" institutional facilities payroll ($95 million), local services and program enhancements including the OMRDD New York State - Creating Alternatives in Residential Environments and Services (NYS-CARES) program and OMH community-based housing initiatives ($85 million), and a reduction in available patient care revenues, primarily as a result of nonrecurring debt management actions ($69 million) and the expiration of the temporary 15-month increase in the Federal Medicaid matching rate ($40 million) used to support State Operations costs in the General Fund.

Absent proposed budget actions, mental hygiene agencies would have otherwise experienced roughly double the projected General Fund growth of $299 million in 2004-05, due mainly to the loss of nonrecurring offsets provided in 2003-04 by the temporary Medicaid matching rate increase and debt service savings that permitted more patient income revenues to be used for operations, and the extra institutional payroll due in 2004-05. Recommended cost containment actions to restrict this growth include Federal, local and third-party revenue maximization efforts primarily in the patient income account ($165 million), 5 percent reductions in various local assistance programs ($32 million) and a variety of State operations efficiencies ($56 million).

Higher spending of $43 million in other State-supported funds is attributable to growth in OMRDD's Provider of Services SRF that supports development under the NYS-OPTS (New York State - Options for People Through Services) program.

The Federal Funds decline of $109 million primarily reflects an annual decrease in available patient care revenues due to nonrecurring actions implemented in the current year, including the Federal Medicaid matching rate ($40 million). This Federal Funds decline results in higher General Fund costs as these resources are no longer available to reduce the State's cost of providing mental hygiene services in 2004-05.

Higher Education

HIGHER EDUCATION SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	**2,467**	**2,673**	**206**	**8.4**
Other State Support	3,637	3,735	98	2.7
State Funds	**6,104**	**6,408**	**304**	**5.0**
Federal Funds	428	182	(246)	(57.5)
All Governmental Funds	**6,532**	**6,590**	**58**	**0.9**

Higher education includes operational and administrative costs for SUNY, CUNY and the Higher Education Services Corporation (HESC) which is responsible for administering TAP grant awards to income eligible students.

SOURCES OF ANNUAL SPENDING CHANGE IN HIGHER EDUCATION (millions of dollars)			
	General Fund	Other State Supported Funds	Federal Funds
HESC Impact of TAP Roll	104		
HESC Nonrecurring TANF Funds	246		(246)
SUNY/CUNY/HESC Support	139	25	0
SUNY/CUNY CC Base Aid	(19)		
SUNY/CUNY Equipment Bonding	(37)	43	
HESC/TAP Restructuring	(227)		
Capital Matching Grants	0	30	0
Total Annual Change	**206**	**98**	**(246)**

HESC Impact of TAP Roll: General Fund costs increase by $104 million in 2004-05 as a result of legislative actions in the 2003-04 Enacted Budget that deferred TAP costs into 2004-05.

HESC Nonrecurring TANF Funds: TANF funding used in 2003-04 to finance the TAP program is no longer available in 2004-05 and thus General Fund spending increases ($246 million) and Federal spending decreases ($246 million).

SUNY/CUNY/HESC Support: The 2004-05 Executive Budget provides funding for higher costs at SUNY and CUNY for salaries and fringe benefits, community college enrollment growth, inflationary increases and growth in the number of TAP recipients.

SUNY/CUNY Community College Base Aid: Base aid decreases by 5 percent or $115 per student ($19 million).

SUNY/CUNY Equipment Bonding: The use of bond proceeds to support SUNY/CUNY capital equipment purchases will reduce General Fund spending ($37 million) and increase capital expenditures in the SRFs.

HESC/TAP Restructuring: Changes at HESC include the proposed restructuring of the TAP program, which would defer one-third of each student's award until graduation as an incentive for timely degree completion ($227 million).

Capital Matching Grants: The other funds increase reflects the first year of capital spending under the new $350 million Capital Matching Grants Program for public and private colleges and universities ($30 million).

Debt Service

DEBT SERVICE SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	**Projected 2004-05**	**Annual Change**	**Percent Change**
General Fund	**1,468**	**1,753**	**285**	**19.4**
Other State Support	1,885	2,166	281	14.9
State Funds	**3,353**	**3,919**	**566**	**16.9**
All Governmental Funds	**3,353**	**3,919**	**566**	**16.9**

Debt Service Funds are the conduits through which the State pays debt service on all State-supported bonds, including General Obligation bonds for which the State is constitutionally obligated to pay debt service and bonds issued by State public authorities (e.g., Empire State Development Corporation, Dormitory Authority, Thruway Authority, Local Government Assistance Corporation) for which the State is contractually obligated to pay debt service subject to an appropriation. Debt service is paid by transfers from the General Fund, dedicated taxes and fees, and other resources such as patient income revenues.

The growth in the General Fund is the result of increases in net debt service payments to support capital projects for Corrections ($86 million), SUNY Educational Facilities ($71 million), CUNY ($68 million), the Metropolitan Transportation Authority (MTA) ($41 million) and the Housing Finance Agency ($26 million), offset by modest reductions in other programs. The increase in net debt service costs related to other State-supported funds is also attributable to SUNY dormitory facilities ($32 million), Mental Hygiene facilities ($93 million), transportation ($70 million), economic development ($58 million) and educational capital programs ($38 million).

Recommendations to generate savings include expanded use of variable rate debt, increased use of swaps and other new refundings opportunities, streamlined approvals for refundings, and generating lower costs through the flexible use of issuers in the PIT program. Savings from these initiatives impact both spending and revenue in the General Fund by lowering debt service costs and/or increasing transfers of dedicated taxes from debt service funds.

General State Charges

GENERAL STATE CHARGES SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	**Projected 2004-05**	**Annual Change**	**Percent Change**
General Fund	3,257	3,652	395	12.1
State Funds	3,670	4,114	444	12.1
All Governmental Funds	3,842	4,312	470	12.2

General State Charges (GSCs) account for the costs of fringe benefits to State employees and retirees of the Executive, Legislative and Judicial branches, as well as for taxes on public lands and litigation. The General Fund supports approximately 85 percent of GSCs spending. 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.

Higher projected contributions to the New York State and Local Retirement Systems for fiscal year 2004-05 are associated with prior year pension investment losses and the expansion of retiree benefits. Baseline projections from OSC show an employer pension contribution rate of 12.3 percent of payroll in 2004-05 that would produce an annual State pension cost increase of $664 million (136.8 percent) in 2004-05. The Executive Budget proposes a series of pension reforms that will moderate these costs and produce a total employer pension contribution of $669 million, an annual increase of $184 million (37.9 percent).

Providing health insurance to State employees and retirees is projected to total $2.05 billion in 2004-05, an increase of $255 million. This is attributable primarily to underlying growth of 13 percent in premium costs to cover the rising expense and utilization of employee health care, including escalating prescription drug costs.

All Other

In addition to the programs described above, the Executive Budget includes funding for Economic Development, Parks, the Environment, Public Health, Education, Public Protection, General Government, the Judiciary, and various other programs.

Other significant savings actions contained in this Budget, include:

- $150 million in recurring State operations efficiencies (across the remaining agencies not discussed earlier) through continued application of a strict hiring freeze, savings from contract reviews, elimination of inflationary increases, and maximization of non-General Fund resources;
- Over $56 million in savings due to reductions in local public health programs and maximization of HCRA. In addition, significant reforms are proposed in the Early Intervention program that contribute savings in the outyears of the Financial Plan;
- $117 million in transportation savings by eliminating one-time legislative adds and maximizing non-General Fund resources; and
- Savings from modest five percent reductions to a variety of local assistance programs.

All other State Funds spending is projected to increase $685 million over the current fiscal year. Growth in other State-supported spending includes economic development capital projects ($320 million), capital projects related to the E-911 program ($100 million), increased taxpayer participation and tax levy growth in STAR ($163 million), spending from the Indigent Legal Services Fund ($31 million), and inflationary increases and higher enrollment in the Elderly Pharmaceutical Insurance Coverage (EPIC) program ($73 million).

All Governmental Funds spending for these programs is projected to increase by $1.10 billion from the current fiscal year. This increase includes State Funds spending growth of $685 million and higher Federal spending of $416 million for, among other things, transportation-related capital projects ($172 million), implementation of the Help America Vote Act of 2002 ($142 million), and reimbursement for World Trade Center costs ($200 million).

THE 2004-05 GOVERNMENTAL FUNDS FINANCIAL PLAN

The following sections summarize activity within the four major fund types that comprise the All Governmental Fund type: General Fund, SRFs, Capital Projects Funds and Debt Service Funds.

GENERAL FUND

The Financial Plan presentation of receipts and disbursement activity within each fund type is detailed below.

Receipts Outlook

GENERAL FUND RECEIPTS (millions of dollars)				
	2003-04	**2004-05**	**Annual Change**	**Percent Change**
Personal Income Tax	15,791	18,520	2,729	17.3
User Taxes and Fees	7,897	8,340	443	5.6
Business Taxes	3,395	3,739	344	10.1
Other Taxes	784	762	(22)	(2.8)
Miscellaneous Receipts	5,970	2,087	(3,883)	(65.0)
Federal Grants	645	0	(645)	(100.0)
Transfers From Other Funds	7,777	8,387	610	7.8
Total Receipts	**42,259**	**41,835**	**(424)**	**(1.0)**

The State projects General Fund receipts of $41.83 billion in 2004-05, a decrease of $424 million (1.0 percent) from the current year. The decline in General Fund receipts is the result of one-time revenues from tobacco securitization ($4.20 billion) and Federal revenue sharing grants ($645 million) received in 2003-04 which will not recur in 2004-05. This is partially offset by increased collections from PIT and sales and use taxes resulting from temporary tax actions taken in the 2003-04 Enacted Budget as well as underlying growth resulting from the improving economic climate and the Refund Reserve transaction that moves $661 million in PIT resources from 2003-04 to 2004-05.

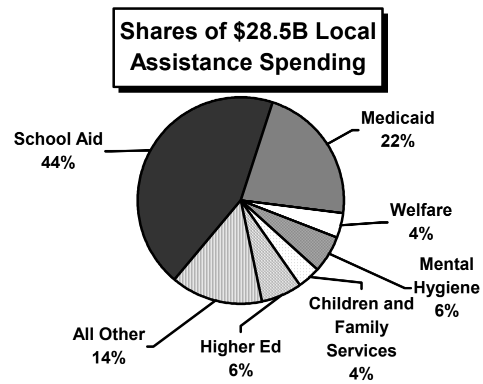
Disbursements Outlook

The State projects General Fund disbursements of $41.89 billion in 2004-05, a decrease of $175 million (0.4 percent) from the current year. The change in General Fund disbursements reflects higher spending in Grants to Local Governments, State Operations, GSCs and Debt Service, partially offset by lower spending in Capital Projects and Transfers to Other Funds (for a detailed discussion on annual changes in major spending areas please see the 2004-05 Financial Plan section earlier in this Overview).

GENERAL FUND DISBURSEMENTS (millions of dollars)				
	2003-04	**Projected 2004-05**	**Annual Change**	**Percent Change**
Grants to Local Governments	29,311	28,455	(856)	(2.9)
State Operations	7,055	7,251	196	2.8
General State Charges	3,257	3,652	395	12.1
Debt Service	1,468	1,753	285	19.4
Capital Projects	227	187	(40)	(17.6)
Transfers to Other Funds	742	587	(155)	(20.9)
Total Disbursements	**42,060**	**41,885**	**(175)**	**(0.4)**

Grants to Local Governments

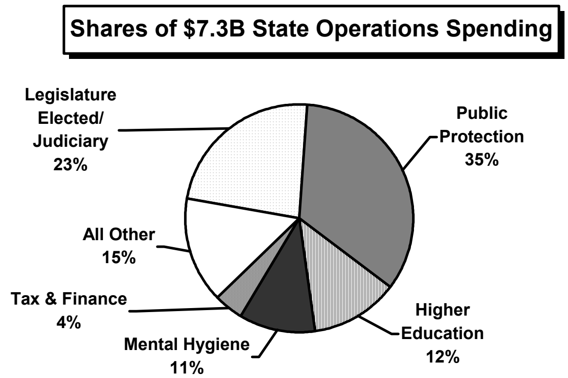
Grants to Local Governments include financial aid to local governments and non-profit organizations, as well as entitlement payments to individuals. The most significant areas of spending in local assistance are for aid to public schools (44 percent) and for Medicaid (22 percent). Other large areas of spending include mental hygiene (6 percent), higher education (6 percent), children and family services (4 percent), welfare assistance (4 percent), general purpose aid to counties and municipalities (3 percent), preschool special education (3 percent), and public health (2 percent).



Local assistance spending is projected to be $28.46 billion in 2004-05, a decrease of $856 million (2.9 percent) from 2003-04. Spending growth of roughly $3.4 billion is offset by the local assistance share of the 2002-03 payment deferrals ($1.8 billion) plus a combination of recommended cost containment initiatives and the use of alternative financing sources totaling nearly $2.5 billion, as described earlier. Reforms are proposed to continue to provide planned fiscal relief to New York City while eliminating legal concerns associated with the current linkage to LGAC. The recommendations would eliminate all impacts on LGAC, and reduce total taxpayer costs (financed by both State and City taxpayers) by $1.9 billion, through legislation authorizing a refunding of MAC debt for a period of 10 years rather than 30 years. The State would provide additional resources of $170 million annually to New York City to help them finance this refunding by directing certain State sales tax receipts previously received by the State to New York City. In addition, the recommendations would generate recurring savings to New York City of another $80 million through a variety of proposals.

Excluding payment deferrals, the annual increase in local assistance spending would be $970 million and is primarily attributable to higher spending in Medicaid ($373 million), HESC ($176 million), school aid ($169 million), preschool special education programs ($89 million), OCFS ($57 million) and mental hygiene ($55 million). These annual changes are discussed in more detail earlier in this Overview under "The 2004-05 Financial Plan."

State Operations



State Operations accounts for the cost of running the Executive, Legislative, and Judicial branches of government and is projected to total $7.25 billion in 2004-05, an increase of $196 million (2.8 percent) from the current year. Personal service costs (e.g., State employee payroll) comprise 73 percent of State Operations spending and the remaining 27 percent represents non-personal service costs for contracts, rent, supplies, and other operating expenses.

The projected $196 million annual increase in State Operations costs includes higher spending of $130 million for an extra institutional payroll occurring in 2004-05. Spending for the Legislature and Judiciary is projected to remain unchanged.

Proposed savings initiatives designed to reduce annual spending growth associated with performance advances and inflation include various revenue maximization initiatives ($171 million), and the continuation of the strict statewide hiring freeze and other actions to restrain spending in agency operations ($142 million).

The revenue maximization efforts to finance State Operations spending include Federal revenue initiatives in mental hygiene programs ($70 million) and extending current provisions of the Motor Vehicle Insurance Fee to support State Police activities ($51 million). No general salary increases are budgeted in either 2003-04 or 2004-05.

The State's Executive agency All Funds workforce is projected to total 187,900 by the end 2004-05, level with the current year. Since 1994-95, the State workforce has declined by approximately 23,300.

General State Charges

General State Charges 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.

Spending for GSCs is projected to be $3.65 billion in 2004-05, an increase of $395 million (12.1 percent) over the current year. This annual increase is due mostly to rising costs of employee health benefits to $2.05 billion (an increase of $255 million) and higher costs related to employer pension contributions to a level of $669 million (an increase of $184 million) after reflecting savings for proposed pension reforms. A more detailed discussion is provided earlier in this Overview under "The 2004-05 Financial Plan."

Transfers to Other Funds

Transfers to Other Funds is projected to total $2.53 billion in 2004-05, an increase of $90 million (3.7 percent) from the current year and include General Fund transfers to support debt service ($1.75 billion), capital projects ($187 million), and other funds ($587 million), including SUNY, banking services, and the Judiciary.

General Fund support for debt service is estimated to increase by $285 million (19.4 percent) to pay primarily for prior-year financings for CUNY, SUNY and correctional facilities partially offset by savings from the use of variable rate and interest rate exchange agreements to refund outstanding bonds and reduce borrowing costs.

The $40 million (17.6 percent) reduction in capital projects spending financed by the General Fund primarily reflects the use of bond proceeds to finance SUNY capital costs previously supported by the General Fund, as well as minor reestimates to other areas of capital projects spending.

All other transfers are projected to decline by $155 million in 2004-05 due to a nonrecurring transfer to the HCRA SRF that financed 2003-04 legislative restorations ($128 million) and the "doubling up" of 2002-03 and 2003-04 State subsidy payments to SUNY hospitals in 2003-04.

SPECIAL REVENUE FUNDS

Special Revenue Funds receive State and Federal revenues dedicated to finance specific activities. SRFs are intended to be self-supporting with receipts equaling or exceeding disbursements. When statutorily authorized, certain funds and accounts may borrow from the State's Short-Term Investment Pool (STIP) to cover temporary cash shortfalls resulting from the timing of receipts and disbursements (i.e., disbursements occurring prior to receipts being received).

SRF spending accounts for 51 percent of projected All Governmental Funds disbursements in 2004-05. The SRFs have grown steadily as a percentage of All Governmental Funds in recent years as the State continues to identify alternate funding sources to support costs otherwise financed by the General Fund, and to maximize Federal revenues where available.

Receipts

SPECIAL REVENUE FUNDS RECEIPTS (millions of dollars)			
	2003-04	**2004-05**	**Annual Change**
Taxes	**4,458**	**4,784**	**326**
Miscellaneous Receipts:			
SUNY	2,240	2,303	63
Lottery	2,030	2,318	288
Indigent Care	901	876	(25)
HCRA	2,477	2,756	279
Provider Assessments	371	629	258
All Other	2,377	2,596	219
Total Miscellaneous Receipts	**10,396**	**11,478**	**1,082**
Federal Grants	**34,921**	**34,425**	**(496)**
Total Receipts	**49,775**	**50,687**	**912**

Total SRF receipts are projected to be $50.69 billion, an increase of $912 million (1.8 percent) from 2003-04. This growth is due primarily to increases in taxes ($326 million) and miscellaneous receipts ($1.08 billion), partially offset by a decrease in Federal grants ($496 million), as detailed below.

Taxes

Taxes dedicated to support programs funded in the SRFs total $4.78 billion in 2004-05, an increase of $326 million (7.3 percent) over 2003-04, and primarily include STAR and mass transportation programs. Taxes comprise 9 percent of total SRF receipts. The increase in taxes is due to increased deposits into the STAR fund ($163 million), increased collections from surcharges earmarked for the mass transportation funds ($118 million), and the imposition of a new surcharge on sales tax, which will be deposited into the New York State Wireless Telephone Emergency Service Account ($39 million).

Miscellaneous Receipts

Miscellaneous receipts comprise 23 percent of total SRF receipts and are projected to total $11.48 billion in 2004-05, an increase of $1.08 billion (10.4 percent) from the current fiscal year. These receipts include SUNY tuition, lottery receipts, transfers from the "off-budget" HCRA pools, assessments on regulated industries, and a variety of fees and licenses. Changes in miscellaneous receipts are generally consistent with the spending changes in the major program areas described below with the exception of Medicaid, where a nonrecurring General Fund transfer of $128 million in 2003-04 (rather than miscellaneous receipts) supports legislative restorations.

Federal Grants

Federal grants are projected to total $34.43 billion, a decrease of $496 million (1.4 percent) from 2003-04. Federal grants comprise 68 percent of total receipts in the SRFs primarily for health and welfare programs. The State is required to adhere to specific Federal guidelines governing use of grant moneys. In most cases, the State finances programs in the first instance, then receives reimbursement from the Federal government. In addition, the State is subject to the Federal Cash Management Improvement Act, which imposes interest penalties on the State if Federal Funds are not spent expeditiously. Federal reimbursement is assumed to be received in the State fiscal year in which the spending occurs; however, timing-related variances can produce temporary negative balances in these funds.

Changes to Federal grants correspond to changes in federally-reimbursed spending as described below with the exception of the nonrecurring deposit of $289 million in Federal Funds to support HCRA health care costs.

Disbursements

SPECIAL REVENUE FUNDS DISBURSEMENTS (millions of dollars)				
	2003-04	**2004-05**	**Annual State Change**	*Annual Federal Change*
STAR	2,835	2,998	163	0
Medicaid	22,028	22,393	299	66
SUNY	2,894	2,940	46	0
Education	2,823	2,889	(7)	73
Lottery	1,990	2,105	115	0
Welfare/OCFS	3,932	3,717	5	(220)
Transportation	1,650	1,750	100	0
World Trade Center	1,484	1,640	0	156
Labor	714	711	2	(5)
HESC	319	76	3	(246)
Child Health Plus (CHP)	745	809	25	39
EPIC	646	719	73	0
All Other	8,200	8,373	122	51
Total Disbursements	***50,260***	***51,120***	***946***	***(86)***
Annual % change		***1.7%***		

Disbursements from SRFs are projected to be $51.12 billion, an increase of $860 million (1.7 percent) from 2003-04. Of this amount, $16.64 billion is supported by State revenues and $34.48 billion is supported by Federal grants. Additional Federal grants support capital spending for a grand total in Federal grants of $36.27 billion. The growth in SRF is attributable primarily to projected spending increases in Medicaid, STAR, SUNY, education and transportation programs, partially offset by the loss of TANF block grant funds that support OCFS programs and TAP in 2003-04.

The following describes projected activity in the major SRFs in 2004-05, including sources of funding, programs supported, and an explanation of annual growth or decline.

Medicaid: The SRF structure of Medicaid is detailed below. For a detailed discussion of the annual changes in Medicaid, please refer to "the 2004-05 Financial Plan" section earlier in this Overview.

- **Federal Medicaid**: The Federal Medicaid Fund accounts for the receipt and disbursement of 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. Federal support for the Medicaid program is projected to total $19.41 billion in 2004-05, which represents roughly 40 percent of total Federal SRF spending.
- **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 Pool. These HCRA pools are financed with 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 $906 million in 2004-05, a decrease of $30 million from the current year.

- **Provider Assessments**: This account, created in 2002-03, is currently financed by a reimbursable assessment on nursing home revenues. The 2004-05 Executive Budget proposes an increase in the Medicaid reimbursable assessment on nursing home revenues from 5 percent to 6 percent and the restoration of a nonreimbursable 0.7 percent assessment on hospital and home care revenues. These assessments are expected to generate $629 million to finance Medicaid.
- **Health Care Reform Act Transfer**: This fund is supported by transfers from the Tobacco Control and Insurance Initiatives Pool and is used to finance a portion of the State's Medicaid program, including expansion of programs such as the FHP program and the workforce recruitment and retention program. Spending from this fund is projected to total $1.45 billion in 2004-05, an increase of $71 million over the current year.

STAR: This fund receives PIT receipts dedicated to the STAR property tax relief program. Spending for STAR is estimated at $3.0 billion in 2004-05, an increase of $163 million from 2003-04. STAR will provide $2.4 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 $560 million in City PIT reductions. Increased participation by taxpayers and local tax levy growth are largely responsible for the higher projected spending in 2004-05. The estimates include $20 million in savings from proposed legislation that would cap school district spending.

Lottery: The Lottery Fund supports public elementary and secondary school education through proceeds received from the sale of lottery tickets and the expected implementation of VLTs at racetracks. The 2004-05 Executive Budget projects roughly $2.32 billion in total lottery proceeds will be available to fund $2.19 billion of school aid costs and a reserve of $240 million ($325 million on a school year basis) from VLT proceeds to finance SBE. The remaining $160 million supports administrative costs of operating lottery games. Lottery prize money is held in a separate fiduciary account.

SUNY: SUNY receives revenues from tuition, third-party payers, room rents, user fees and the Federal government which support the costs of operating hospitals, dormitories and regular campus services. The University's spending from SRFs is projected to total $2.94 billion in 2004-05, comprising of $2.77 billion in State funds and $172 million in Federal Funds. Federal spending remains unchanged from 2003-04, but State spending is projected to increase by $163 million.

Transportation: State funding for transit systems comprises the majority of transportation SRF spending. Over $1.67 billion of 2004-05 transit aid is supported by taxes dedicated to the Mass Transportation Operating Assistance (MTOA) Fund and the Dedicated Mass Transportation Trust Fund. Total disbursements from transportation SRFs are projected to be $1.75 billion in 2004-05, $100 million above the current year. This increase reflects the shift of $50 million in transit local aid from the General Fund to the SRFs, and a scheduled $46 million increase in capital support for the MTA from the Dedicated Mass Transportation Trust Fund.

CHP: The CHP program finances health insurance coverage for children of low-income families up to the age of 18. The 2004-05 Executive Budget projects total spending of $809 million, an increase of $64 million over 2003-04. Funding for this program comes from the State ($375 million financed by transfers from the Tobacco Control and Insurance Initiatives Pool) and Federal government ($434 million). The annual increase reflects shifting eligible children currently covered under Medicaid into CHP.

EPIC: EPIC provides prescription drug insurance to low-income senior citizens. This program is projected to cost $719 million in 2004-05, an increase of $73 million from 2003-04. Projected EPIC spending in 2004-05 is supported by $494 million in State transfers from the Tobacco Control and Insurance Initiatives Pool, $23 million in premiums/fees, and $202 million from manufacturer rebates.

Welfare: The State receives Federal welfare funding through the TANF block grant. In 2004-05, Federal welfare spending will total $1.98 billion, a decrease of $70 million from 2003-04, resulting primarily from the use of one-time available Federal funding to support TANF-funded initiatives.

Education: Education spending in SRFs, including educational programs for disabled children and disadvantaged pupils, is projected to total $2.89 billion in 2004-05. Increased Federal funding of $73 million will provide additional resources to school districts for programs that serve these students.

HESC: Federally-supported spending for HESC is projected to decrease by $246 million as a result of the elimination of TAP financing with TANF block grant funds. The remaining spending on student financial aid programs is supported by State and Federal sources ($66 million and $10 million, respectively).

OCFS: The State receives $1.72 billion in Federal funding for children and family services from several sources including the TANF block grant, Title IV-E Foster Care and Adoption Assistance Federal Payments, and the Title XX Social Services Block Grant. In 2004-05, State and Federal spending for children and family services is projected to total $1.74 billion, a decrease of $145 million from the current fiscal year. This decrease is attributable primarily to a reduction in TANF block grant moneys available to support child care and locally provided services to children and families.

Labor: Labor programs are supported primarily by Federal grants and include job training and re-employment services. Labor spending is estimated at $711 million in 2004-05 and remains virtually unchanged from 2003-04 levels.

All Other: Spending for all other SRFs is projected to total $8.37 billion in 2004-05, an increase of $173 million (2.1 percent) and primarily includes support for health care, public protection and general government programs.

CAPITAL PROJECTS FUNDS

The Capital Projects Fund group accounts for spending from the Capital Projects Fund, which is supported by a transfer from the General Fund, and spending from other funds for specific capital purposes, including transportation, mental health, housing, public protection, education and the environment. Those other funds include the Dedicated Highway and Bridge Trust Fund, Mental Hygiene Capital Facilities Improvement Fund, Housing Assistance and Housing Program Funds, the Correctional Facilities Capital Improvement Fund, the SUNY Residence Hall Rehabilitation Fund, the Hazardous Waste Remedial Fund, and EPF. Receipts from dedicated State taxes, miscellaneous receipts (which include proceeds from State-supported bonds issued by certain State public authorities), and Federal grants finance disbursements in the Capital Projects Fund group.

The following tables for Capital Projects Funds reflect an accounting adjustment for capital projects activity because certain capital spending is not reported by OSC in actual cash spending results, although it is reflected in the Generally Accepted Accounting Principles (GAAP) Financial Statements. This spending is related to programs which are financed in the first instance by bond proceeds, rather than with a short-term loan from the General Fund. This includes capital spending for local transportation projects for the CHIPS Program ($340 million), education projects for CUNY higher education facilities ($215 million), SUNY Community Colleges and Dormitory Facilities ($125 million), the Department of Mental Hygiene projects ($90 million) and a variety of economic development projects including the Community Enhancement Facilities Assistance Program ($540 million). These receipts and disbursements are included in this section in order to present a comprehensive picture of State capital projects spending.

CAPITAL PROJECTS FUNDS RECEIPTS **(millions of dollars)**				
	2003-04	**2004-05**	*Annual* **Change**	**Percent Change**
Taxes	1,752	1,806	54	3.1
Miscellaneous Receipts	3,685	3,741	56	1.5
Federal Grants	1,621	1,840	219	13.5
Total Receipts	**7,058**	**7,387**	**329**	**4.7**
Accounting Adjustment	(995)	(1,310)	(315)	(31.7)
Financial Plan Total	**6,063**	**6,077**	**14**	**0.2**

Taxes deposited to the Capital Projects Funds are projected to be $1.81 billion, an increase of $54 million (3.1 percent) from 2003-04. This includes highway-related taxes earmarked for the Dedicated Highway and Bridge Trust Fund and real estate transfer taxes that are designated for the EPF. The $54 million increase is due solely to projected growth in highway related taxes, as the EPF receives a statutory dedication of $112 million annually from the Real Estate Transfer Tax.

Miscellaneous receipts include bond proceeds that finance capital projects across all major functional areas, as well as other miscellaneous fees such as State park fees, industry-specific environmental fees and receipts from the sale of surplus State land. Miscellaneous receipts are projected to total $3.7 billion, an increase of $56 million (1.5 percent) from 2003-04. The estimated growth reflects a $34 million increase in authority bond proceeds and a projected increase of $22 million in other miscellaneous receipts.

Federal grants primarily support capital projects for transportation and the environment and are estimated at $1.84 billion, an increase of $219 million (13.5 percent) over 2003-04. Environmental grants are projected to remain unchanged, while grants for transportation and the World Trade Center highway reconstruction increase by $219 million.

CAPITAL PROJECTS FUNDS DISBURSEMENTS (millions of dollars)				
	2003-04	2004-05	Annual Change	Percent Change
Transportation	3,461	3,538	77	2.2
Parks and Environment	688	649	(39)	(5.7)
Economic Development & Government Oversight	361	802	441	122.2
Health and Social Welfare	143	128	(15)	(10.5)
Education	748	807	59	7.9
Public Protection	206	215	9	4.4
Mental Health	299	298	(1)	(0.3)
General Government	80	185	105	131.3
Other	57	75	18	31.6
Total Disbursements	**6,043**	**6,697**	**654**	**10.8**
Accounting Adjustment	(995)	(1,310)	(315)	(31.7)
Financial Plan Total	**5,048**	**5,387**	**339**	**6.7**

The increase is attributable primarily to prior-year commitments in the areas of economic development ($441 million) and general government for financing of local public safety answering point equipment upgrades for wireless E-911 service ($100 million).

DEBT SERVICE FUNDS

DEBT SERVICE FUNDS RECEIPTS (millions of dollars)				
	2003-04	2004-05	Annual Change	Percent Change
Taxes	8,039	8,657	618	7.7
Miscellaneous Receipts	694	647	(47)	(6.8)
Total Receipts	**8,733**	**9,304**	**571**	**6.5**

This increase is attributable primarily to growth in dedicated State PIT receipts deposited to the RBTF ($487 million). Similar increases are projected for sales and use taxes deposited to the Local Government Assistance Tax Fund to support debt service on LGAC bonds ($120 million) and real estate transfer taxes deposited in the CW/CA Bond Debt Service Fund ($11 million). Receipts in excess of those required to satisfy the State's debt service obligations are transferred back to the General Fund. The projected decrease in miscellaneous receipts of $47 million is attributable to reduced funding of the Debt Reduction Reserve Fund, offset by a modest increase in receipts for health-related programs.

DEBT SERVICE FUNDS DISBURSEMENTS (millions of dollars)				
	2003-04	2004-05	Annual Change	Percent Change
General Debt Service Fund	2,742	3,229	487	17.8
LGAC	296	312	16	5.4
Mental Health	166	259	93	56.0
All Other	149	119	(30)	(20.1)
Total Disbursements	**3,353**	**3,919**	**566**	**16.9**

This increase, which is explained in more detail earlier in this Overview, reflects the growth in debt service costs after implementation of policy and statutory initiatives that have resulted in debt service savings over the last several years. Projected debt service costs and corresponding levels of State-supported debt outstanding are projected to remain within the caps and limitations imposed by the Debt Reform Act of 2000.

FINANCIAL PLAN RESERVES AND RISKS [1]

The State projects that balances in its principal reserves to guard against unbudgeted risks will total $815 million at the close of 2003-04 will remain unchanged through 2004-05. The reserves include $794 million in the TSRF (the State's rainy day fund) and $21 million in the CRF for litigation. To permanently improve the State's reserve levels, the Executive Budget includes legislation to gradually increase both the maximum size of the State's rainy day fund from 2 percent to 5 percent of General Fund spending, and the maximum annual deposits from two-tenths of one percent to five-tenths of one percent of spending. Absent this legislation, the State will reach its statutory maximum balance in the fund of 2 percent or $840 million with the next annual deposit.

The 2004-05 Financial Plan does not set aside specific reserves to cover potential costs that could materialize as a result of adverse rulings in pending litigation, future collective bargaining agreements with State employee unions, Federal disallowances, or other Federal actions that could adversely affect the State's projections of receipts and disbursements.

The State is a defendant in several court cases that could ultimately result in costs to the State Financial Plan. The most significant litigation is the State Court of Appeals ruling that the State's financing system for New York City public schools is unconstitutional. This ruling directs the State to submit a remedy to the Court by July 30, 2004. The 2004-05 Executive Budget provides $100 million in General Fund support and reserves all VLT revenues to provide SBE funding while the Governor's Commission on Educational Reform outlines a series of options for the State to consider. The VLT revenues are projected to increase from $240 million in 2004-05 to $950 million in 2005-06 and $1.3 billion in 2006-07.

Other litigation includes ongoing claims by several Indian Nations alleging wrongful possession of lands by the State and several counties, as well as claims involving the adequacy of shelter allowances for families on public assistance. The State has implemented a court-ordered increase in the shelter allowance schedule for public assistance families that became effective on November 1, 2003. The Court has also directed the parties to return on March 30, 2004 for further proceedings. For a complete summary of significant litigation affecting the State, please refer to the State's Annual Information Statement, as updated.

The State is negotiating new labor contracts with several State employee unions. The recently expired four-year agreements included a $500 nonrecurring lump sum payment and salary increases of 3.0 percent in 1999-2000 (effective mid-year), 3.0 percent in 2000-01 and 3.5 percent in 2001-02 and 2002-03, at a cost to the General Fund of approximately $2.5 billion over the life of the agreement. Each future one percent salary increase would cost the General Fund roughly $75 million annually.

The Federal government is currently auditing Medicaid claims submitted since 1993 under the school supportive health services program. At this point, these audits have not been finalized, and, as a result, the liability of the State and school districts for any disallowances cannot be determined.

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[1] For a discussion of other potential risks to the Financial Plan, please see the section entitled "Special Considerations" in this AIS Update.

Federal regulations include an appeals process that could postpone repayment of any disallowances. The Financial Plan assumes the Federal government will fully reimburse these costs.

In addition, through December 2003, a portion of Federal Medicaid payments related to school supportive health services have been deferred by the Federal Centers for Medicare and Medicaid Services pending finalization of audits. Since the State has continued to reimburse school districts for these costs, these Federal deferrals, if not resolved, could negatively impact future health care spending.

In December 2003, the State received partial Federal approval of the Medicaid State Plan Amendment necessary to make disproportionate share hospital (DSH) payments over two years to public hospitals throughout the State, including the New York City Health and Hospital Corporation (HHC), SUNY and other State and county operated hospitals. Although full payment for SUNY and State-operated hospitals was secured with the initial approval, the State continues to seek Federal approval of the balance of anticipated payments totaling roughly $1.3 billion for HHC and other county hospitals. Failure of the Federal government to approve these remaining payments could have an adverse impact on the State's health care financing system.

CASH FLOW

In 2004-05, the General Fund is projected to have quarterly balances of $2.0 billion in June, $2.20 billion in September, $1.22 billion by the end of December, and $964 million at the end of March. The lowest projected month-end cash flow balance other than March is $1.2 billion in December. The 2004-05 General Fund cash flow estimates assume the Executive Budget is enacted on time and in its entirety.

OSC invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments through STIP, which is comprised of joint custody funds (Governmental Funds, Internal Service Funds, Enterprise Funds and Private Purpose Trust Funds), as well as several sole custody funds including the Tobacco Settlement Fund.

OSC is authorized to make temporary loans from STIP to cover temporary cash shortfalls in certain funds and accounts resulting from the timing of receipts and disbursements. The Legislature authorizes the funds and accounts that may receive loans each year, based on legislation submitted with the Executive Budget. Loans may be granted only for amounts that the Director of the Budget certifies are "receivable on account" or can be repaid from the current operating receipts of the fund (i.e., loans cannot be granted in expectation of future revenue enhancements). In addition, the 2003-04 Enacted Budget included legislation that expires on March 31, 2004 permitting OSC to temporarily loan balances in other funds to the General Fund within any month. This authorization was utilized on September 12 and 15, 2003 to support intra-month cash flow needs; however, as required under the legislation, the General Fund ended September 2003 with a positive cash balance of $2.6 billion. The 2004-05 Executive Budget includes legislation to permanently extend this authorization.

OSC makes repayment of such loans from the first cash receipts into the fund. Fund balances outside the General Fund are presented on a net basis, i.e., they are reduced by the amount of outstanding temporary loans from the State's STIP. The total outstanding loan balance at March 31, 2003 was $1.68 billion. The sources of this outstanding loan balance include timing-related delays in the receipt from Federal Funds and the sale of bonds used to finance capital projects, a delinquent

SUNY hospital loan, and unreimbursed costs related to the Office for Technology Internal Service funds.

GAAP-BASIS FINANCIAL PLANS

In addition to the cash-basis Financial Plans, the General Fund and All Governmental Funds Financial Plans are prepared on a Generally Accepted Accounting Principles basis (GAAP) in accordance with Governmental Accounting Standards Board (GASB) regulations. Tables comparing the cash basis and GAAP basis General Fund Financial Plans are provided at the end of this Overview. The GAAP projections for both years are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2002-03. They reflect the impact of GASB Statement 34 which has significantly changed the presentation of GAAP financial information for State and local governments. The changes are intended to portray the State's net overall financial condition, including activities that affect State assets and liabilities during the fiscal year. The GASB 34 results for 2002-03 show the State in a net positive overall financing condition of $42.40 billion.

In 2003-04, the General Fund GAAP Financial Plan shows total revenues of $37.31 billion, total expenditures of $43.41 billion, and net other financing sources of $7.43 billion, resulting in an operating surplus of $1.33 billion. This operating result reflects the receipt of the tobacco bond proceeds originally anticipated in 2002-03 but received in 2003-04, and the cash surplus in 2003-04. As a result, the accumulated deficit is expected to improve from $3.32 billion at the end of 2002-03 to an accumulated deficit of $1.99 billion at the end of 2003-04.

In 2004-05, the General Fund GAAP Financial Plan shows total revenues of $35.65 billion, total expenditures of $43.97 billion, and net other financing sources of $7.63 billion, resulting in an operating deficit of $691 million due to the use of 2003-04 cash reserves in 2004-05. The accumulated deficit is projected at $2.68 billion at the end of 2004-05, an improvement of $641 million from the 2002-03 actual results.

GENERAL FUND FINANCIAL PLAN OUTYEAR PROJECTIONS

At the beginning of the 2004-05 budget cycle, the State faced potential budget gaps of $6.7 billion in 2005-06 and $7.8 billion in 2006-07. The 2004-05 Executive Budget recommendations reduce the gaps by proposing roughly $3.5 billion in recurring savings. The gaps assume the Legislature will enact the 2004-05 Executive Budget and accompanying legislation in its entirety, and do not include any funding for possible collective bargaining salary increases or productivity savings.

OUTYEAR SAVINGS FROM 2004-05 EXECUTIVE BUDGET RECOMMENDATIONS (millions of dollars)

	2005-06	2006-07
Projected Base Level Gaps	**(6,727)**	**(7,805)**
Spending Actions	2,495	2,199
Revenue Proposals	1,163	1,118
Nonrecurring Actions	219	139
Remaining Gaps	**(2,850)**	**(4,349)**

The statewide austerity measures limiting discretionary spending, travel, and low-priority capital spending will remain in force, and all State agencies will continue to operate under a hiring freeze, consistent with existing guidelines. State agencies will continue to identify opportunities where agencies, through increased administrative flexibility, statutory changes or other means, can achieve greater productivity, improve services, and reduce costs to help lower the outyear budget gaps.

OUTYEAR RECEIPTS

GENERAL FUND RECEIPTS (millions of dollars)				
	2005-06	**Percent Change**	**2006-07**	**Percent Change**
Personal Income Tax (PIT)	18,864	1.9	19,685	4.4
PIT Adjusted for Refund Reserve	18,899	6.0	19,727	4.4
User Taxes and Fees	7,963	(4.5)	8,176	2.7
Business Taxes	3,890	4.0	3,967	2.0
Other Taxes	820	7.6	878	7.1
Total Taxes	31,537	0.6	32,706	3.7
Total Taxes Adjusted for Refund Reserve	**31,572**	**2.9**	**32,748**	**3.7**
Miscellaneous Receipts	1,989	(4.7)	1,821	(8.4)
Total Transfers from Other Funds	8,461	0.9	8,699	2.8
Total Receipts	41,987	0.4	43,226	3.0
Total Receipts Adjusted for Refund Reserve	**42,022**	**2.1**	**43,268**	**3.0**

General Fund receipts are estimated at $41.98 billion in 2005-06 and $43.27 billion in 2006-07. Receipts growth is expected to exceed historical averages as is typical of an economy in its expansionary stages. Tax receipts adjusted for Refund Reserve transactions, are expected to increase by 2.9 percent in 2005-06 and 3.7 percent in 2006-07. The reduced increases in both years reflect the phase-out of temporary tax increases in PIT and sales tax. Adjusting for the impact of law changes, tax receipt growth is expected to average 5 percent. The growth in tax receipts is consistent with a forecast of US and New York economic recovery extending into 2005 and 2006 and continued profitability in the financial services sector of the economy.

Personal Income Tax

In general, income tax growth for 2005-06 and 2006-07 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.

PIT receipts are projected to increase to $18.86 billion in 2005-06. The modest increase from 2004-05 largely reflects growth in underlying liability, offset by the phase out of the 2003 surcharge in tax year 2006. In addition, receipts are reduced by the incremental value of the STAR tax reduction program.

PIT receipts for 2006-07 are projected to increase by more than $800 million to $19.69 billion.

Wages are estimated to continue to improve steadily in 2005-06 and 2006-07, reflecting stronger employment growth, increases in bonuses paid, and the continuing return to normalcy after the 2001 World Trade Center attack.

Realized capital gains are expected to return to a robust level of growth in 2005 and 2006. This growth represents the continuation of the recovery of the stock market from the anemic period of 2001 through 2003.

The 2005-06 and 2006-07 projections also assume increases in the other major components of income, consistent with continued growth in the overall economy.

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 a significant range around outyear income tax estimates.

User Taxes and Fees

Receipts from user taxes and fees are estimated to total $7.96 billion in 2005-06, a decrease of $377 million from 2004-05. The decrease is due to the scheduled decline in the State sales tax rate from 4.25 percent to 4 percent on June 1, 2005, and the loss of $170 million in receipts due to changes in the State sales tax base in New York City associated with the proposed MAC refinancing, offset in part by expected growth in the sales tax base.

User taxes and fees receipts are expected to grow to $8.18 billion in 2006-07. The economy is expected to 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

Business tax receipts are expected to increase to $3.89 billion in 2005-06. This is primarily due to the anticipated growth in corporate and bank profits, as well as the continued growth in insurance premiums. Receipts are projected to increase to $3.97 billion in 2006-07 reflecting continued modest increases in underlying liability.

Other Taxes

The receipts from other taxes are expected to increase to $820 million in 2005-06, which reflects the expected growth in stock market prices on the value of taxable estates. In 2006-07, receipts rise to $878 million, reflecting the expectation of continued growth in estate tax liability.

Miscellaneous Receipts

Miscellaneous Receipts for 2005-06 are estimated to be $1.99 billion. Receipts in this category are projected to be $1.82 billion in 2006-07.

TRANSFERS FROM OTHER FUNDS (millions of dollars)		
	2005-06	**2006-07**
PIT in Excess of Revenue Bond Debt Service	5,820	5,985
Sales Tax in Excess of LGAC Debt Service	2,085	2,152
Real Estate Taxes in Excess of CW/CA Debt Service	245	255
All Other Transfers	311	307
Total Transfers from Other Funds	**8,461**	**8,699**

Transfers from other funds are estimated to grow to $8.46 billion in 2005-06 and $8.70 billion in 2006-07. Both the 2005-06 and 2006-07 projections reflect growth in the dedicated portions of PIT, sales tax and the real estate transfer tax, which comprise a significant portion of transfers from other funds each year. The growth of $74 million in 2005-06 is due to projected growth in income, sales and real estate taxes, offset by net increases in debt service related to PIT Revenue Bonds, LGAC Bonds and CW/CA General Obligation debt service of $180 million. The growth of $238 million in 2006-07 is due to growth in income, sales and real estate taxes, offset by net increases in debt service related PIT Revenue Bonds, LGAC Bonds and CW/CA General Obligation debt service of $164 million.

OUTYEAR DISBURSEMENTS

GENERAL FUND DISBURSEMENTS (millions of dollars)		
	2005-06	2006-07
Total Disbursements	44,987	47,575

Absent additional spending controls greater than those proposed in the 2004-05 Executive Budget, DOB currently projects that General Fund spending would grow by $3.10 billion (7.4 percent) in 2005-06 and $2.59 billion (5.8 percent) in 2006-07. The primary sources of this growth are itemized in the table below, and are described in further detail following the table.

PROJECTED ANNUAL SPENDING GROWTH (millions of dollars)		
	2005-06	2006-07
Medicaid (including tobacco guarantee)	1,411	1,249
Welfare	366	225
School Aid (excluding SBE reserve)	214	285
Mental Hygiene	100	53
All Other Local Assistance	252	50
Employee Health Insurance	335	309
Pensions	237	174
State Operations	191	234
Debt Service	97	(24)
All Other	(101)	33
Total Annual $ Growth	**3,102**	**2,588**
Total Annual % Growth	**7.4**	**5.8**

GRANTS TO LOCAL GOVERNMENTS (millions of dollars)		
	2005-06	2006-07
Grants to Local Governments	30,798	32,660

Local assistance spending is projected to increase by $2.34 billion (8.2 percent) in 2005-06 and another $1.86 billion (6.0 percent) in 2006-07, primarily attributable to growth in the areas of Medicaid, welfare, and school aid.

General Fund spending for Medicaid is expected to grow by $1.41 billion in 2005-06 and another $1.25 billion in 2006-07. This increase is attributable largely to inflationary and utilization growth of $721 million in 2005-06 and $837 million in 2006-07 on the State's gross share of Medicaid costs totaling roughly $10 billion, which represent projected underlying growth of approximately 7.5 percent. These estimates are based on programmatic trends experienced in New York State's Medicaid program and the Congressional Budget Office national average projections. The remaining growth is attributable primarily to the loss of nonrecurring financing sources in 2004-05 including Federal FMAP ($220 million), payment of the March 30, 2005 cycle payment in 2005-06 ($190 million), and increased General Fund support over the two years for HCRA including the repayment of a 2002-03 loan ($200 million) and planned "tobacco guarantee" payments in 2006-07 ($435 million).

Welfare spending is projected to increase by $366 million (34 percent) in 2005-06 and by another $255 million (16 percent) in 2006-07 due to projected increases in family caseload (4.7 percent), the single adult/childless couples caseload (10 percent), and growth in expenditures per person (3 percent).

General school aid on a school year basis is projected to grow approximately $350 million (2.4 percent) in 2005-06 and $235 million (1.6 percent) in 2006-07. The general school aid projections assume growth in expense-based programs, and reflect the impact of recommended reforms to building aid, ongoing limits in transportation aid and maintenance of current levels for most other aid categories. On a state fiscal year basis, school aid spending is projected to grow by approximately $214 million (1.7 percent) in 2005-06 and $285 million (2.2 percent) in 2006-07. However, the SBE reserves (financed with VLT revenues), are not yet included in these spending totals, and would add an estimated $950 million in fiscal year 2005-06 and $1.30 billion in 2006-07.

Mental hygiene programs are projected to increase by $100 million (6.2 percent) in 2005-06 and an additional $53 million (3.1 percent) in 2006-07. This growth is primarily attributable to bed development for community mental health services and OMRDD NYSCARES programs that provide services to the mentally ill and mentally retarded and developmentally disabled populations.

All other local assistance programs increase by $252 million (3.6 percent) in 2005-06 and by $50 million (0.7 percent) in 2006-07. This two-year increase is largely due to programmatic growth in higher education costs primarily for payments to CUNY ($150 million), funding for ESDC economic development programs ($75 million), children and family services ($74 million), and preschool special education ($96 million) and various other programmatic growth across all other agencies. These increases are partially offset by reduced funding for community projects ($150 million) and the phase of the final payments to the City of Yonkers relating to a court ordered settlement ($35 million).

STATE OPERATIONS (millions of dollars)		
	2005-06	**2006-07**
State Operations	7,442	7,676

State Operations spending is expected to increase by $191 million, or 2.6 percent, in 2005-06 and $236 million (3.2 percent) in 2006-07. The growth in State Operations spending is due to normal salary step increases and increases for non-personal service costs (valued at roughly $125 million) and the decline in resources used to offset spending in the General Fund valued at roughly $175 million in 2005-06 and $100 million in 2006-07. The annual growth in 2005-06 is reduced by the loss of the extra institutional payroll in 2004-05. No general salary increases or productivity savings are budgeted in either 2005-06 or 2006-07.

GENERAL STATE CHARGES (millions of dollars)		
	2005-06	**2006-07**
General State Charges	4,109	4,612

GSCs are expected to increase by $457 million (12.5 percent) in 2005-06 and another $503 million (12.2 percent) in 2006-07 to finance anticipated cost increases in pension and health insurance benefits for State employees and retirees. Prior year pension fund investment losses are expected to increase the employer contribution rate to the New York State and Local Retirement Systems from 6.5 percent in 2004-05 to 8.6 percent of employee salaries in 2005-06 and 10.6

percent in 2006-07. These rates, which assume the 2004-05 Executive Budget pension reform recommendation are enacted, will still require additional State spending of $237 million in 2005-06 and another $174 million in 2006-07, for a total of $1.08 billion by 2006-07. Spending for employee health care costs is expected to increase by $335 million in 2005-06 and another $309 million in 2006-07 for a total of $2.70 billion in 2006-07. This funding level assumes 15 percent annual premium trend increases, and does not incorporate any potential productivity savings or other changes to existing labor contracts.

TRANSFERS TO OTHER FUNDS (millions of dollars)		
	2005-06	**2006-07**
Debt Service	1,850	1,826
Capital Projects	201	204
All Other	587	597
Total Transfers to Other Funds	**2,638**	**2,627**

Transfers to the Debt Service Funds increase by $97 million in 2005-06 and decrease by $24 million 2006-07. The change in debt service in the outyears is due primarily to the loss of refunding savings that occurred in the prior years and the use of PIT revenue bonds to finance the debt service costs for capital projects previously financed by the General Fund transfer.

Capital projects transfers are projected to increase by $14 million in 2005-06 and $3 million in 2006-07. These increases reflect routine reestimates based upon projected program activity.

All other transfers are projected to remain virtually unchanged through 2006-07.

CASH FINANCIAL PLAN
GENERAL FUND
2003-2004
(millions of dollars)

	October	Change	January
Opening fund balance	815	0	815
Receipts:			
Taxes:			
Personal income tax	16,276	(485)	15,791
User taxes and fees	7,964	(67)	7,897
Business taxes	3,436	(41)	3,395
Other taxes	726	58	784
Miscellaneous receipts	5,547	423	5,970
Federal grants	645	0	645
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,173	69	5,242
Sales tax in excess of LGAC debt service	1,960	(16)	1,944
Real estate taxes in excess of CW/CA debt service	210	37	247
All other transfers	430	(86)	344
Total receipts	42,367	(108)	42,259
Disbursements:			
Grants to local governments	29,629	(318)	29,311
State operations	7,142	(87)	7,055
General State charges	3,258	(1)	3,257
Transfers to other funds:			
Debt service	1,541	(73)	1,468
Capital projects	255	(28)	227
Other purposes	627	115	742
Total disbursements	42,452	(392)	42,060
Change in fund balance	(85)	284	199
Closing fund balance	730	284	1,014
Tax Stabilization Reserve Fund	710	84	794
Contingency Reserve Fund	20	0	20
Community Project Fund	0	200	200

Note: Changes reflect the reclassification of $128 million in certain Medicaid disbursements from grants to local governments to transfers to other funds, pursuant to legislation enacted in 2003.

CASH FINANCIAL PLAN
GENERAL FUND
2003-2004
(millions of dollars)

	Enacted	Change	January
Opening fund balance	815	0	815
Receipts:			
Taxes:			
Personal income tax	16,285	(494)	15,791
User taxes and fees	8,007	(110)	7,897
Business taxes	3,498	(103)	3,395
Other taxes	771	13	784
Miscellaneous receipts	5,569	401	5,970
Federal grants	0	645	645
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,125	117	5,242
Sales tax in excess of LGAC debt service	1,853	91	1,944
Real estate taxes in excess of CW/CA debt service	202	45	247
All other	430	(86)	344
Total receipts	41,740	519	42,259
Disbursements:			
Grants to local governments	29,835	(524)	29,311
State operations	7,205	(150)	7,055
General State charges	3,232	25	3,257
Transfers to other funds:			
Debt service	1,583	(115)	1,468
Capital projects	255	(28)	227
Other purposes	627	115	742
Total disbursements	42,737	(677)	42,060
Fiscal Management Plan/Federal Aid	912	(912)	0
Change in fund balance	(85)	284	199
Closing fund balance	730	284	1,014
Tax Stabilization Reserve Fund	710	84	794
Contingency Reserve Fund	20	0	20
Community Project Fund	0	200	200

Note: Changes reflect the reclassification of $128 million in certain Medicaid disbursements from grants to local governments to transfers to other funds, pursuant to legislation enacted in 2003.

CASH FINANCIAL PLAN
GENERAL FUND
2003-2004 AND 2004-2005
(millions of dollars)

	2003-2004 January	2004-2005 Recommended	Change
Opening fund balance	815	1,014	199
Receipts:			
Taxes:			
Personal income tax	15,791	18,520	2,729
User taxes and fees	7,897	8,340	443
Business taxes	3,395	3,739	344
Other taxes	784	762	(22)
Miscellaneous receipts	5,970	2,087	(3,883)
Federal grants	645	0	(645)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,242	5,628	386
Sales tax in excess of LGAC debt service	1,944	2,047	103
Real estate taxes in excess of CW/CA debt service	247	240	(7)
All other	344	472	128
Total receipts	42,259	41,835	(424)
Disbursements:			
Grants to local governments	29,311	28,455	(856)
State operations	7,055	7,251	196
General State charges	3,257	3,652	395
Transfers to other funds:			
Debt service	1,468	1,753	285
Capital projects	227	187	(40)
Other purposes	742	587	(155)
Total disbursements	42,060	41,885	(175)
Change in fund balance	199	(50)	(249)
Closing fund balance	1,014	964	(50)
Tax Stabilization Reserve Fund	794	794	0
Contingency Reserve Fund	20	20	0
Community Project Fund	200	150	(50)

CASH FINANCIAL PLAN
GENERAL FUND
2004-2005 THROUGH 2006-2007
(millions of dollars)

	2004-2005 Recommended	2005-2006 Projected	2006-2007 Projected
Receipts:			
Taxes:			
Personal income tax	18,520	18,864	19,685
User taxes and fees	8,340	7,963	8,176
Business taxes	3,739	3,890	3,967
Other taxes	762	820	878
Miscellaneous receipts	2,087	1,989	1,821
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,628	5,820	5,985
Sales tax in excess of LGAC debt service	2,047	2,085	2,152
Real estate taxes in excess of CW/CA debt service	240	245	255
All other	472	311	307
Total receipts	41,835	41,987	43,226
Disbursements:			
Grants to local governments	28,455	30,798	32,660
State operations	7,251	7,442	7,676
General State charges	3,652	4,109	4,612
Transfers to other funds:			
Debt service	1,753	1,850	1,826
Capital projects	187	201	204
Other purposes	587	587	597
Total disbursements	41,885	44,987	47,575
Deposit to/(use of) Community Projects Fund	(50)	(150)	0
Margin	0	(2,850)	(4,349)

GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2002-2003 THROUGH 2004-2005
(millions of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended
Withholdings	19,959	22,085	23,104
Estimated Payments	4,855	5,130	5,785
Final Payments	1,334	1,275	1,645
Delinquencies	796	595	660
Gross Collections	26,944	29,085	31,194
State/City Offset	(288)	(270)	(250)
Refund Reserve	1,050	(577)	693
Refunds	(4,008) (1)	(4,155) (2)	(4,175) (3)
Reported Tax Collections	23,698	24,083	27,462
STAR	(2,664)	(2,835)	(2,998)
RBTF	(4,243)	(5,457)	(5,944)
General Fund	16,791	15,791	18,520

Net personal income tax collections are affected by transactions in the tax refund reserve account. The tax refund reserve account is used to hold moneys designated to pay tax refunds. The Comptroller deposits receipts into this account at the discretion of the Commissioner of Taxation and Finance. The deposit of moneys into the account during a fiscal year has the effect of reducing receipts for the fiscal year, and the withdrawal of moneys from the account has the effect of increasing receipts in the fiscal year of withdrawal. The tax refund reserve account also includes amounts made available as a result of the LGAC financing program. Beginning in 1998-99, a portion of personal income tax collections is deposited directly in the School Tax Reduction (STAR) fund and used to make payments to reimburse local governments for their revenue decreases due to the STAR program.

Note 1: Reflects the payment of the balance of refunds on 2001 liability and payment of $960 million of calendar year 2002 refunds in the last quarter of the State's 2002-03 fiscal year and a balance in the Tax Refund Reserve Account of $627 million.

Note 2: Reflects the payment of the balance of refunds on 2002 liability and the projected payment of $960 million of calendar year 2003 refunds in the last quarter of the State's 2003-04 fiscal year and a projected balance in the Tax Refund Reserve Account of $1.20 billion.

Note 3: Reflects the payment of the balance of refunds on 2003 liability and the projected payment of $960 million of calendar year 2004 refunds in the last quarter of the State's 2004-05 fiscal year and a projected balance in the Tax Refund Reserve Account of $511 million.

CASH FINANCIAL PLAN
STATE FUNDS
2003-2004
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	1,230	(558)	158	1,645
Receipts:					
Taxes	27,867	4,458	1,752	8,039	42,116
Miscellaneous receipts	5,970	10,267	2,690	694	19,621
Federal grants	645	12	0	0	657
Total receipts	34,482	14,737	4,442	8,733	62,394
Disbursements:					
Grants to local governments	29,311	10,596	1,221	0	41,128
State operations	7,055	4,680	0	9	11,744
General State charges	3,257	413	0	0	3,670
Debt service	0	0	0	3,353	3,353
Capital projects	0	5	2,212	0	2,217
Total disbursements	39,623	15,694	3,433	3,362	62,112
Other financing sources (uses):					
Transfers from other funds	7,777	935	266	4,881	13,859
Transfers to other funds	(2,437)	(215)	(1,081)	(10,240)	(13,973)
Bond and note proceeds	0	0	248	0	248
Net other financing sources (uses)	5,340	720	(567)	(5,359)	134
Change in fund balance	199	(237)	442	12	416
Closing fund balance	1,014	993	(116)	170	2,061

The Special Revenue Funds opening fund balance has been increased by $54 million to reflect the reclassification of the Expendable and Non-expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type pursuant to GASB34.

CASH FINANCIAL PLAN
STATE FUNDS
2004-2005
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,014	993	(116)	170	2,061
Receipts:					
Taxes	31,361	4,784	1,806	8,657	46,608
Miscellaneous receipts	2,087	11,352	2,431	647	16,517
Federal grants	0	12	0	0	12
Total receipts	33,448	16,148	4,237	9,304	63,137
Disbursements:					
Grants to local governments	28,455	11,336	1,609	0	41,400
State operations	7,251	4,843	0	22	12,116
General State charges	3,652	462	0	0	4,114
Debt service	0	0	0	3,919	3,919
Capital projects	0	2	1,947	0	1,949
Total disbursements	39,358	16,643	3,556	3,941	63,498
Other financing sources (uses):					
Transfers from other funds	8,387	815	225	5,241	14,668
Transfers to other funds	(2,527)	(333)	(1,099)	(10,616)	(14,575)
Bond and note proceeds	0	0	131	0	131
Net other financing sources (uses)	5,860	482	(743)	(5,375)	224
Change in fund balance	(50)	(13)	(62)	(12)	(137)
Closing fund balance	964	980	(178)	158	1,924

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2003-2004
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	1,039	(790)	158	1,222
Receipts:					
Taxes	27,867	4,458	1,752	8,039	42,116
Miscellaneous receipts	5,970	10,396	2,690	694	19,750
Federal grants	645	34,921	1,621	0	37,187
Total receipts	34,482	49,775	6,063	8,733	99,053
Disbursements:					
Grants to local governments	29,311	41,684	1,438	0	72,433
State operations	7,055	7,986	0	9	15,050
General State charges	3,257	585	0	0	3,842
Debt service	0	0	0	3,353	3,353
Capital projects	0	5	3,610	0	3,615
Total disbursements	39,623	50,260	5,048	3,362	98,293
Other financing sources (uses):					
Transfers from other funds	7,777	3,412	266	4,881	16,336
Transfers to other funds	(2,437)	(2,654)	(1,087)	(10,240)	(16,418)
Bond and note proceeds	0	0	248	0	248
Net other financing sources (uses)	5,340	758	(573)	(5,359)	166
Change in fund balance	199	273	442	12	926
Closing fund balance	1,014	1,312	(348)	170	2,148

The Special Revenue Funds opening fund balance has been increased by $54 million to reflect the reclassification of the Expendable and Non-expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type pursuant to GASB 34.

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2004-2005
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,014	1,312	(348)	170	2,148
Receipts:					
Taxes	31,361	4,784	1,806	8,657	46,608
Miscellaneous receipts	2,087	11,478	2,431	647	16,643
Federal grants	0	34,425	1,840	0	36,265
Total receipts	33,448	50,687	6,077	9,304	99,516
Disbursements:					
Grants to local governments	28,455	42,431	1,827	0	72,713
State operations	7,251	8,027	0	22	15,300
General State charges	3,652	660	0	0	4,312
Debt service	0	0	0	3,919	3,919
Capital projects	0	2	3,560	0	3,562
Total disbursements	39,358	51,120	5,387	3,941	99,806
Other financing sources (uses):					
Transfers from other funds	8,387	3,170	225	5,241	17,023
Transfers to other funds	(2,527)	(2,815)	(1,108)	(10,616)	(17,066)
Bond and note proceeds	0	0	131	0	131
Net other financing sources (uses)	5,860	355	(752)	(5,375)	88
Change in fund balance	(50)	(78)	(62)	(12)	(202)
Closing fund balance	964	1,234	(410)	158	1,946

GAAP FINANCIAL PLAN
GENERAL FUND
2003-2004 and 2004-2005
(millions of dollars)

	2003-2004 Estimate	2004-2005 Recommended	Change
Revenues:			
Taxes:			
Personal income tax	16,547	17,781	1,234
User taxes and fees	7,934	8,436	502
Business taxes	3,194	3,719	525
Other taxes	766	776	10
Miscellaneous revenues	8,224	4,940	(3,284)
Federal grants	645	0	(645)
Total revenues	37,310	35,652	(1,658)
Expenditures:			
Grants to local governments	30,807	31,099	292
State operations	9,796	9,851	55
General State charges	2,785	2,998	213
Debt service	24	25	1
Capital projects	0	0	0
Total expenditures	43,412	43,973	561
Other financing sources (uses):			
Transfers from other funds	11,609	11,883	274
Transfers to other funds	(4,535)	(4,593)	(58)
Proceeds from financing arrangements/ advance refundings	360	340	(20)
Net other financing sources (uses)	7,434	7,630	196
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	1,332	(691)	(2,023)
Accumulated Deficit	(1,988)	(2,679)	

GAAP FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2003-2004
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Revenues:					
Taxes	28,441	4,437	1,770	8,038	42,686
Patient fees	0	0	0	325	325
Miscellaneous revenues	8,224	2,063	149	87	10,523
Federal grants	645	36,980	1,621	0	39,246
Total revenues	37,310	43,480	3,540	8,450	92,780
Expenditures:					
Grants to local governments	30,807	38,396	1,429	0	70,632
State operations	9,796	1,528	0	9	11,333
General State charges	2,785	199	0	0	2,984
Debt service	24	0	0	2,898	2,922
Capital projects	0	5	3,283	0	3,288
Total expenditures	43,412	40,128	4,712	2,907	91,159
Other financing sources (uses):					
Transfers from other funds	11,609	1,181	245	4,957	17,992
Transfers to other funds	(4,535)	(4,242)	(1,096)	(10,504)	(20,377)
Proceeds of general obligation bonds	0	0	248	0	248
Proceeds from financing arrangements/ advance refundings	360	0	2,222	0	2,582
Net other financing sources (uses)	7,434	(3,061)	1,619	(5,547)	445
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	1,332	291	447	(4)	2,066

GAAP FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2004-2005
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Revenues:					
Taxes	30,712	4,711	1,790	8,692	45,905
Patient fees	0	0		326	326
Miscellaneous revenues	4,940	2,317	257	23	7,537
Federal grants	0	36,552	1,840	0	38,392
Total revenues	35,652	43,580	3,887	9,041	92,160
Expenditures:					
Grants to local governments	31,099	38,951	1,817	0	71,867
State operations	9,851	1,610	0	22	11,483
General State charges	2,998	236	0	0	3,234
Debt service	25	0	0	3,236	3,261
Capital projects	0	2	3,248	0	3,250
Total expenditures	43,973	40,799	5,065	3,258	93,095
Other financing sources (uses):					
Transfers from other funds	11,883	1,084	201	5,270	18,438
Transfers to other funds	(4,593)	(4,138)	(1,126)	(11,022)	(20,879)
Proceeds of general obligation bonds	0	0	131	0	131
Proceeds from financing arrangements/ advance refundings	340	0	1,939	0	2,279
Net other financing sources (uses)	7,630	(3,054)	1,145	(5,752)	(31)
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	(691)	(273)	(33)	31	(966)

CASHFLOW
GENERAL FUND
2003-2004
(millions of dollars)

	April through December 2003 (Actual)	January 2004 (Projected)	February 2004 (Projected)	March 2004 (Projected)	Total
Opening fund balance	815	2,947	6,226	6,499	815
Receipts:					
Taxes:					
Personal income tax	11,281	3,188	1,450	(128)	15,791
User taxes and fees	5,984	614	533	766	7,897
Business taxes	2,296	44	29	1,026	3,395
Other taxes	622	55	55	52	784
Tobacco bond proceeds	4,200	0	0	0	4,200
Miscellaneous receipts	1,199	169	104	298	1,770
Federal Grants	645	0	0	0	645
Transfers from other funds	5,382	1,277	363	755	7,777
Total receipts	31,609	5,347	2,534	2,769	42,259
Disbursements:					
Grants to local governments	19,182	1,138	1,747	7,245	29,311
State operations	6,077	500	267	211	7,055
General State charges	2,515	237	184	320	3,257
Transfers to other funds	1,703	193	63	478	2,437
Total disbursements	29,477	2,068	2,261	8,254	42,060
Excess (deficiency) of receipts over disbursements	2,132	3,279	273	(5,485)	199
Closing fund balance	2,947	6,226	6,499	1,014	1,014

CASHFLOW
GENERAL FUND
2004-2005
(millions of dollars)

	First Quarter (Projected)	Second Quarter (Projected)	Third Quarter (Projected)	Fourth Quarter (Projected)	Total (Projected)
Opening fund balance	1,014	2,001	2,200	1,222	1,014
Receipts:					
Taxes:					
Personal income tax	6,243	4,264	2,454	5,559	18,520
User taxes and fees	2,054	2,162	2,122	2,002	8,340
Business taxes	889	894	851	1,105	3,739
Other taxes	199	179	191	193	762
Miscellaneous receipts	547	406	669	465	2,087
Transfers from other funds	2,521	1,996	1,423	2,447	8,387
Total receipts	12,453	9,901	7,710	11,771	41,835
Disbursements:					
Grants to local governments	7,354	5,214	5,504	10,383	28,455
State operations	2,535	2,284	1,790	642	7,251
General State charges	781	1,495	671	705	3,652
Transfers to other funds	796	709	723	299	2,527
Total disbursements	11,466	9,702	8,688	12,029	41,885
Excess (deficiency) of receipts over disbursements	987	199	(978)	(258)	(50)
Closing fund balance	2,001	2,200	1,222	964	964

Special Considerations

The Financial Plan is necessarily based upon on forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies. DOB believes that its current receipts and spending estimates related to the performance of the State and national economies are reasonable. However, there can be no assurance that actual results will not differ materially and adversely from the current forecast. **Certain risks that may affect the Financial Plan are also described in Part I of this Update in the section entitled "Risks and Reserves." Both "Special Considerations" and "Risks and Reserves" should be read in their entirety.**

Risks to the U.S. Forecast

Although DOB believes that the U.S. is on a sustainable growth path, that belief is contingent upon the absence of any further shocks to the economy. Unpredictable events such as a terrorist attack remain the biggest risk to the economic expansion. Such a shock could induce firms to postpone their spending and hiring plans again, reducing future investment and employment, which in turn could result in lower consumption growth. Moreover, a destructive attack on oil facilities abroad or a policy shift on the part of oil-producing nations could result in higher oil prices than anticipated, having adverse economic repercussions. Similarly, a corporate governance scandal of Enron proportions could dishearten investors, weakening equity prices and business and consumer spending.

If the Federal Reserve Board should initiate a policy of monetary tightening sooner than anticipated, growth could also be more restrained than expected. A significant risk of deflation has now receded, and the Federal Reserve has demonstrated in the past that it can swiftly shift course when it deems necessary. If households demonstrate a weaker response than expected to the fiscal stimulus provided by the tax cut, growth could be weaker than what is reflected in the forecast. In addition, with the personal savings rate now at a relatively low level, there is a risk of a "virtuous reform" by consumers to increase savings in order to readjust their balance sheets. The resulting decline in consumption growth could weaken corporate profits, which could in turn result in lower employment and investment growth. The dollar is at some risk of a sharp adverse reaction by foreign investors. A dollar collapse would impart a substantial inflationary impulse to the economy. This could well lead to higher interest rates and lower stock prices, both of which would constrict economic activity. This problem could be exacerbated by weaker-than-expected growth among the nation's trading partners, producing weaker export growth than projected.

On the other hand, an economic resurgence that moderately exceeds DOB's expectations is also possible. A more rapid increase in export growth due to either a weakened dollar or faster global growth could generate a somewhat stronger increase in total output than expected. Similarly, lower inflation than expected, perhaps as a result of a substantial drop in the price of oil or stronger productivity growth than expected, could induce the Federal Reserve to postpone interest rate increases, resulting in stronger consumption and investment growth than projected. Moreover, strong productivity growth could result in higher real wages, supporting faster growth in consumer spending than expected.

Risks to the New York Forecast

In addition to the risks described above for the national forecast, there are risks specific to the New York. Another attack targeted at New York City would once again disproportionately affect the State economy. Any other such shock that had a strong and prolonged impact on the financial markets would also disproportionately affect New York State, resulting in lower income and employment growth than reflected in the current forecast. In addition, if the national and world economies grow more slowly than expected, demand for New York State goods and services would also be lower than projected, dampening employment and income growth relative to the forecast. In contrast, should the national and world economies grow faster than expected, a stronger upturn in stock prices, along with increased activity in mergers and acquisitions and IPOs is possible, resulting in higher wage growth than projected.

The State's economic expansion is just starting to gain momentum, and forecasting at or near a business cycle turning point is fraught with risk. Moreover, the financial markets, which are so pivotal to the direction of the downstate economy, are currently in a state of extreme flux. In the wake of several high-profile scandals, the pace of both technological and regulatory change is as rapid as it has ever been. These circumstances compound even further the difficulty in projecting industry revenues and profits.

Other Risks

On August 6, 2003, the LGAC board of directors, which is comprised of the LGAC chairperson, the State Comptroller, and the Director of DOB, unanimously approved a resolution objecting to the annual payments of $170 million to the City of New York and the refinancing of MAC bonds. The resolution directed LGAC to not participate in the New York City transaction, authorized the co-executive directors of LGAC to engage the services of litigation counsel, and declared that LGAC has no intention to pay such $170 million payments unless legal issues with the transaction (including but not limited to potential LGAC bond covenant violations) are resolved either by litigation or action by the Legislature. The 2004-05 Executive Budget has proposed an alternative approach to provide NYC the fiscal relief it sought, but without the legal uncertainty associated with the current legislation. For the status of this litigation, see the section entitled "Litigation" in Part III of this Update.

The State Comptroller is the Administrative Head of the State Retirement Systems, and Trustee of the assets of those Systems. The proposed 2004-05 Financial Plan assumes pensions reforms will be enacted that reduce the annual increase in employer contribution rates from 137 percent to 38 percent of employee salary base. If these pension reform changes (described in Part I) are authorized by the State Legislature, any proposed changes to the method of computing employer contributions would have to be reviewed and approved by the State Comptroller to ensure that such changes (i) do not violate the State Constitution and (ii) are consistent with his fiduciary responsibilities to System members and beneficiaries. The State Comptroller has advised the Division of the Budget that, in his opinion, a number of these changes that would produce the most significant savings could not be implemented without violating the State Constitution, his fiduciary duty or both.

The current State Financial Plan assumes no significant Federal disallowances or other Federal actions that could adversely affect State finances. For a discussion of certain Federal disallowance risks, see the section entitled "Risks and Reserves" in Part I of this Update.

Five-Year Capital Program and Financing Plan

Section 22-c of the State Finance Law requires the Governor to submit a five-year Capital Program and Financing Plan (the Plan) with the Executive Budget, and update the Plan by the later of July 30 or 90 days after the enactment of the State Budget. The proposed 2004-05 through 2008-09 Capital Program and Financing Plan is contained in the Financial Plan (Appendix II) of the 2004-05 Executive Budget and can be obtained by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705, or by visiting its website at www.budget.state.ny.us.

Total capital spending is projected to be $29.6 billion across the five years of the Plan, an average of $5.9 billion annually. Transportation continues to be largest area of spending, which is projected at $17.1 billion or 58 percent of total capital spending over the five-year Plan. Spending for education ($4.1 billion), the environment ($3 billion), economic development ($1.7 billion), mental health ($1.4 billion), public protection ($1.1 billion), and health, welfare, and other programs ($1.2 billion) constitutes the remainder of the five-year Plan.

For the five-year period 2004-05 through 2008-09, the Plan projects total issuances of: $686 million in general obligation bonds; $4.9 billion in Dedicated Highway and Bridge Trust Fund Bonds issued by the Thruway Authority to finance capital projects for transportation; $964 million in Mental Health Facilities Improvement Revenue Bonds issued by DASNY to finance capital projects at mental health facilities; $383 million in SUNY Dormitory Facilities Revenue Bonds to finance capital projects related to student dormitories; $23 million in Department of Health Revenue Bonds to finance the construction of a new veteran's nursing home at Oxford; and $8.8 billion in State Personal Income Tax Revenue Bonds to finance various capital programs including school construction, university facilities, SUNY community colleges, State court facilities, local highway improvements, prisons, housing, economic development and environmental programs, homeland security, and State facilities. Total debt outstanding is projected to rise from $41.7 billion in 2004-05 to $44.2 billion in 2008-09, or by an annual average of 1.5 percent. The projections of State borrowings are subject to change as market conditions, interest rates and other factors vary throughout the fiscal year.

The Debt Reform Act of 2000 imposed phased-in caps on new debt outstanding and new debt service costs, limited the use of debt to capital works and purposes only, and established a maximum term of 30 years on such debt. The Debt Reform Act applies to all new State-supported debt issued on and after April 1, 2000. The debt reform projections accompanying the Plan estimate that the State will remain in compliance with both debt caps throughout the projection period, with debt outstanding projected to be 2.46 percent of personal income and debt service to be 2.18 percent of total governmental receipts. The projected statutory caps for each measure would be 3.65 percent by 2008-09.

The State has also enacted statutory limits on the amount of variable rate obligations and interest rate exchange agreements that authorized issuers of State-supported debt may enter into. The statute limits the use of debt instruments which result in a variable rate exposure (e.g., variable rate obligations and interest rate exchange agreements) to no more than 15 percent of total outstanding State-supported debt, and limits the use of interest rate exchange agreements to a total notional amount of no more than 15 percent of total outstanding State-supported debt (exclusive of agreements that minimize State exposure risk). All interest rate exchange agreements are subject to various statutory restrictions such as minimum counterparty ratings, monthly reporting requirements, and the adoption of interest rate exchange agreement guidelines. All the authorized issuers have adopted uniform guidelines as required by statute. As of March 31, 2004, the State expects to have approximately \$3.7 billion in net variable rate exposure, including amounts reserved for LIBOR swaps, (or about 9 percent of total State-supported debt outstanding), and have entered into a total notional amount of \$5.2 billion in interest rate exchange agreements (or about 13 percent of total State-supported debt outstanding). These ratios are expected to increase over the five-year projections but remain below the 15 percent limitations.

PART II

Part II of this Update contains updated disclosure for the Metropolitan Transportation Authority and the City of New York. It also reprints information on GAAP-basis results for fiscal year 2002-03 and on the State Retirement System that appeared in prior updates to the AIS.

Authorities and Localities

Correction: Under the section entitled "Public Authorities" in the AIS, the table entitled "Outstanding Debt of Certain Authorities" displays the amounts outstanding in actual dollars, not in millions of dollars as the heading of the table indicates.

Metropolitan Transportation Authority

The following information was prepared from information furnished by the Metropolitan Transportation Authority (MTA) and is provided for informational purposes only. This section is intended to provide readers with a brief summary of State oversight and financial assistance to the MTA. The official financial disclosure of the MTA and its subsidiaries is available by contacting the Metropolitan Transportation Authority, Finance Department, 347 Madison Avenue, 6th Floor, New York, New York 10017 or by visiting the MTA website at www.mta.info/mta/investor.htm. The State assumes no liability or responsibility for any financial information reported by the MTA or for any errors or omissions that may be contained at the MTA website.

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 MTA may be required to seek additional State assistance, raise fares or take other actions.

On October 28, 2003, the MTA released a revised 2003 budget and a four-year Financial Plan for itself and its affiliates and subsidiaries for 2004 – 2007 (the 2004-2007 Financial Plan. The 2004-2007 Financial Plan included the fares on the transit and commuter systems and tolls on TBTA's bridges and tunnels that were increased in May 2003. The 2004-2007 Financial Plan expected that all such entities would be able to maintain their respective operations on a self-sustaining basis through 2004 and anticipated budget gaps of $840 million in 2005, $1.34 billion in

2006 and $1.45 billion in 2007. The 2004-07 Financial Plan tracks the final year of the 2000-2004 Capital Programs of the transit and commuter systems (the 2000-2004 Capital Programs) that were approved by the Capital Program Review Board.

On December 18, 2003, the MTA adopted a 2003 final budget estimate that showed an improvement of $152 million in the expected year-end cash balance, as well as an updated 2004 budget. The MTA decided to apply the additional 2003 cash balance to the prepayment of 2005 expenses, thereby lowering the anticipated budget gap in 2005 to $688 million.

On May 4, 2000, the Capital Program Review Board approved the MTA's $17.1 billion 2000-2004 Capital Programs. Other amendments were subsequently approved raising the total of the programs to $17.9 billion. The 2000-2004 Capital Programs are 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 2000-2004 Capital Programs approved by the Capital Program Review Board assume the issuance of an estimated $11.0 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.

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 one 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 Programs. 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 2000-2004 Capital Programs.

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 Program Review Board may amend the 2000-2004 Capital Programs 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 2000-2004 Capital Programs are 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 City of New York

The following information was prepared from information furnished by the City of New York and is provided for informational purposes only. This section is intended to provide readers with a brief summary of the financial condition of the City of New York, which is the largest municipal recipient of State assistance to local governments. The fiscal demands on the State may be affected by the fiscal condition of the City, which relies in part on State aid to balance its budget and meet its cash requirements. It is also possible that the State's finances may be affected by the ability of the City, and certain entities issuing debt for the benefit of the City, to market securities successfully in the public credit markets. The official financial disclosure of the City of New York and financing entities issuing debt on its behalf is available by contacting Raymond J. Orlando, Director of Investor Relations, (212) 788-5875 or contacting the Office of Management and Budget, 75 Park Place, 6th Floor, New York, NY 10007. The State assumes no liability or responsibility for any financial information reported by the City of New York.

On June 30, 2003, the City submitted to the State Financial Control Board (the "Control Board") the June Financial Plan for the 2003 through 2007 fiscal years, which relates to the City and certain entities which receive funds from the City, and which reflects changes as a result of the City's expense and capital budgets for the 2004 fiscal year which were adopted on June 27, 2003. The Financial Plan projected revenues and expenditures for the 2003 and 2004 fiscal years balanced in accordance with GAAP, and projected gaps of $2.0 billion, $3.2 billion, and $3.3 billion for fiscal years 2005, 2006, and 2007, respectively.

On January 15, 2004, the City issued the January Financial Plan for the 2004 through 2008 fiscal years, which is a modification to the June Financial Plan. The January Plan reflects the Preliminary Budget for fiscal year 2005 and changes since the June Financial Plan.

The January Financial Plan projects revenues and expenditures balanced in accordance with GAAP for both the 2004 and 2005 fiscal years, and projects gaps of $2.0 billion, $2.9 billion and $2.2 billion in fiscal years 2006, 2007 and 2008, respectively. The January Financial Plan includes proposed discretionary transfers and prepayments in fiscal year 2004 of $1.39 billion, reflecting prepayments of debt service of $695 million due in each of fiscal years 2005 and 2006.

Potential risks to the January Financial Plan include the loss of City savings due to the legal challenge concerning the payment of MAC debt with funds provided by the State, the potential for higher uniform overtime costs, and the failure of the MTA to assume operation of private bus services funded by the City, which total $531 million in fiscal year 2004 and $800 million annually in the 2005 through 2008 fiscal years, as well as assumed State and federal assistance.

In addition, the January Financial Plan does not make any provision for wage increases, other than the pay increases for the 2000-2002 round of bargaining and pay increases to be funded by productivity initiatives. It is estimated that each one percent wage increase for all City employees for subsequent contract periods would cost approximately $212 million annually (including benefits).

The City Comptroller and others have issued reports identifying various risks. In addition, the economic and financial condition of the City may be affected by various financial, social, economic, geo-political and other factors that could have a material effect on the City.

The City expects to update its disclosure in the next several weeks. Readers may obtain this disclosure (when available) using the contact information provided above.

Monitoring Agencies

On December 16, 2003, the Office of the State Deputy Comptroller issued a report on the City's November 2003 Financial Plan that identified net risks of $514 million, $591 million, $723 million, and $731 million for City fiscal years 2004 through 2007, respectively. In addition to the risks identified in the report, the report noted that wage increases at the projected inflation rate, without productivity savings, would increase the projected gaps by $770 million, $1.2 billion, $1.6 billion, and $2.1 billion in City fiscal years 2004 through 2007, respectively, and that actions taken by the State to balance its budget next year could adversely affect the City's budget.

The staffs of the FCB, OSDC, the City Comptroller and the Independent Budget Office, issue periodic reports on the City's financial plans. Copies of the most recent reports are available by contacting: FCB, 123 William Street, 23rd Floor, New York, NY 10038, Attention: Executive Director; Independent Budget Officer, OSDC, 59 Maiden Lane, 29th Floor, New York, NY 10038, Attention: Deputy Comptroller; City Comptroller, Municipal Building, 6th Floor, One Centre Street, New York, NY 10007-2341, Attention: Deputy Comptroller for Budget; and IBO, 110 William Street, 14th Floor, New York, NY 10038, Attention: Director.

GAAP-Basis Results for Prior Fiscal Years

(Reprinted from August 7, 2003 Update to the AIS)

On July 29, 2003, the State Comptroller issued the Basic Financial Statements and Other Supplementary Information (the 2002-03 Basic Financial Statements) for the 2002-03 fiscal year. The 2002-03 Basic Financial Statements were prepared in accordance with GASB 34 and other applicable GASB statements. The 2002-03 Basic Financial Statements can be obtained by visiting the Office of the State Comptroller's website, www.osc.state.ny.us, or by contacting the Office of the State Comptroller, 110 State Street, Albany, NY 12236.

For a brief summary of the 2002-03 GAAP-basis results, see the section entitled "GAAP-basis Financial Plans" in Part I of this Update.

State Organization

State Retirement Systems

(Reprinted from October 30, 2003 Update to the AIS)

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 34 percent of the membership during the 2002-03 fiscal year. There were 2,818 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, 2003, 650,543 persons were members and 313,597 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, are required to contribute 3 percent of their salaries for their first 10 years of membership.

Legislation enacted in May, 2003 realigns the Retirement Systems billing cycle to match governments' budget cycles and the legislation also institutes a minimum annual payment. The employer contribution for a given fiscal year will be based on the value of the pension fund and its liabilities on the prior April 1. In addition, employers will be required to make a minimum contribution of at least 4.5 percent of payroll every year. The legislation also eliminates the State's ability to delay payments when the amounts owed are greater than the amount budgeted, effective in fiscal year 2004-2005. Also, a portion of the 2004-2005 bill may be amortized over a five-year period at 8 percent interest with the first payment due in 2004-05.

Due to the enactment of this legislation, the State bill due in the fiscal year ending March 31, 2004, payable September 1, 2003, was $481.5 million, of which $396.3 million was paid. The difference with 8 percent interest will be due on or before March 1, 2006. Employer contributions due from the State for the fiscal year ending March 31, 2005, payable September 1, 2004, are estimated at $1.15 billion or $797 million if the maximum amount is amortized.

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, 2003 were $97.4 billion (including $2.3 billion in receivables), a decline of $15.3 billion or 13.6 percent from the 2001-02 level of $112.7 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, 2003 was $130.5 billion (including $46.1 billion for current retirees and beneficiaries), an increase of $3.5 billion or 2.8 percent from the 2001-02 level of $127 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 decreased from $125.2 billion in 2002 to $106.7 billion on March 31, 2003. 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
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)
2003	97,373	(13.6)

(1) Includes relatively small amounts held under Group Life Insurance Plan. Includes some employer contribution receivables. Fiscal year ending March 31, 2003 includes approximately $2.3 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)

Ended March 31	All Participating Employers(1)	Local Employers(1)	State(1)	Employees	Benefits Paid(2)
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
2003	652	378	274	219	5,030

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

Litigation

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. By decision entered December 11, 2003, the Appellate Division, First Department, affirmed the decision of the Supreme Court, New York County, dismissing the complaint.

Local Government Assistance Corporation

In *Local Government Assistance Corporation et al. v. Sales Tax Asset Receivable Corporation and The City of New York* (Supreme Court, Albany County), the petitioners challenge, inter alia, the constitutionality of Public Authorities Law section 3238-a, which requires LGAC to annually transfer $170 million to The City of New York. Section 3238-a was enacted in 2003 as part of legislation (Part A4 of Chapter 62 and Part V of Chapter 63 of the Laws of 2003) authorizing the refinancing of debt incurred by the Municipal Assistance Corporation (the MAC Refinancing Act). By decision and order dated September 17, 2003, the court held that the MAC Refinancing Act was constitutional. Petitioners have appealed from the decision and order to the Appellate Division, Third Department. By decision and order entered August 27, 2003, the Appellate Division, Third Department granted a preliminary injunction restraining defendants, inter alia, from issuing any bonds pursuant to the MAC Refinancing Act pending appeal.

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.

By decision dated June 26, 2003, the Court of Appeals reversed that portion of the June 25, 2002 decision and order of the Appellate Division, First Department relating to the claims arising under the State Constitution. The Court held that the weight of the credible evidence supported the trial court's conclusion that New York City schoolchildren were not receiving the constitutionally mandated opportunity for a sound basic education and further held that the plaintiffs had established a causal link between the present education funding system and the failure to provide said sound basic education. The Court remitted the case to the trial court for further proceedings in accordance with its decision.

Medicaid

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

In a decision dated June 3, 2003, involving seven consolidated cases (*Matter of St. James Nursing Home v. DeBuono*), the Supreme Court, Albany County, partially granted petitioners claims that the State violated the procedural requirements of the Boren Amendment and directed the State to recalculate the Medicaid rates associated with State Plan Amendment 95-23. The court dismissed petitioners' claims as to the Medicaid rates associated with State Plan Amendments 95-24 and 96-24. The State has appealed from this decision.

In related cases, *New York Association of Homes and Services for the Aging, Inc. v. Novello, et al., Valley Health Services v. State and Charles T. Sitrin Health Care Center, Inc., et al. v. SONY, et al.,* plaintiffs seek judgments 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 decision dated April 24, 2003, the Court granted summary judgment to defendants dismissing the *Sitrin* case. Plaintiffs have appealed from this decision.

Empire Conversion

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 <u>was</u> returnable simultaneously with the motions to dismiss, on November 26, 2002.

By decision dated February 28, 2003, the Supreme Court, New York County, granted the defendants' motions to dismiss. In its decision, the court also granted plaintiffs leave to amend their complaint to assert a new cause of action and deferred decision on plaintiffs' motion for a preliminary injunction. The plaintiffs and defendants have appealed from the February 28, 2003 decision. Plaintiffs served an amended complaint on April 1, 2003. On April 15, 2003, the defendants moved to dismiss the amended complaint. By decision dated October 1, 2003, the court denied defendants' motions to dismiss, except for the motions to dismiss brought by the individually named members of the board of directors of Empire Healthchoice, Inc. The court also declined to vacate the 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. Defendants intend to appeal this decision.

Real Property Claims

In the *Canadian St. Regis Band of Mohawk Indians* case, plaintiffs seek ejectment and monetary damages with respect to their claim that approximately 15,000 acres in Franklin and St. Lawrence Counties were illegally transferred from their predecessors-in-interest. By decision dated July 28, 2003, the District Court granted, in most respects, a motion by plaintiffs to strike defenses and dismiss counterclaims contained in defendants' answers. By decision dated October 20, 2003, the District Court denied the States motion for reconsideration of that portion of the July 28, 2003 decision which struck a counterclaim against the United States for contribution.

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. On October 1, 2003, the State served the United States Department of the Interior and the United States Department of Justice with a statement of claim asserting that the United States is jointly and severally liable with the State for the $248 million judgment and post-judgment interest. A statement of claim is a precursor to filing a proceeding in the United States Court of Claims.