

PART II

STATE DEBT SERVICE

STATE DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS

DEBT SERVICE APPROPRIATIONS CONTINUE TO REFLECT DEBT MANAGEMENT INITIATIVES THAT ENSURE COSTS REMAIN AFFORDABLE

Debt service appropriations for 2003-04 reflect the enactment and implementation of numerous statutory and administrative initiatives that have been advanced by Governor Pataki to ensure that debt is prudently managed and costs continue to remain affordable. Those initiatives include the following:

- Enactment of legislation to authorize the State and its issuing authorities to prudently use a limited amount of variable rate obligations and interest rate exchange and similar agreements to reduce costs and effectively diversify the State-supported debt portfolio;
- Issuance of lower cost State Personal Income Tax Revenue Bonds by the State's authorized issuers to improve the marketability of State-supported bonds, expand the investor base and reduce borrowing costs;
- The refunding of State-supported bonds (including the use of variable rate bonds and interest rate exchange agreements) to generate significant net present value savings;
- Use of \$1 billion in deposits to the Debt Reduction Reserve Fund in 2000-01 and 2001-02 to eliminate high cost debt and increase pay-as-you-go spending to reduce taxpayer costs by over \$1.5 billion; and
- Implementation of the Debt Reform Act of 2000 to ensure that debt outstanding levels and debt service costs remain affordable. To ensure that the statutory caps and other debt limitations imposed by the Debt Reform Act are made permanent, the Governor will propose a Constitutional Debt Reform bill. The bill would:
 - Constitutionally mandate the State-supported debt outstanding and debt service caps now imposed by the Debt Reform Act;
 - Ban "back door" borrowing;
 - Constitutionally authorize a limited amount of revenue-backed debt and require that at least one-half of all new debt be approved by the voters; and
 - Authorize multiple general obligation bond act proposals.

DEBT SERVICE APPROPRIATIONS FOR 2003-04

The recommended debt service appropriations reflect the maximum estimated debt service payments for outstanding bonds, including payments due on outstanding variable rate, interest rate exchange agreements, and new State-supported bond issuances to meet all of the State's obligations to bondholders. Collectively, the recommended appropriations for variable rate instruments (i.e., variable rate bonds and interest rate exchange agreements) reflect the maximum amounts which may be payable pursuant to the limitations imposed on the use of variable rate instruments by Article 5-D of the State Finance Law.

GENERAL DEBT SERVICE FUND

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

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Total appropriations of \$2.8 billion are recommended from the General Debt Service Fund. Appropriations from the General Debt Service Fund for general obligation bonds are recommended at \$505 million and reflect payments on outstanding fixed rate and variable rate general obligation bonds, and estimated payments on bonds anticipated to be issued in 2003-04.

Appropriations of \$2 billion to the following public authorities are recommended from the General Debt Service Fund for lease purchase and other financing agreement payments due on outstanding State appropriation-backed bonds:

- Thruway Authority, for Local Highway and Bridge service contract bonds for local transportation purposes. Spending from this appropriation (\$250 million) is financed by transfers from the Dedicated Highway and Bridge Trust Fund;
- Environmental Facilities Corporation, for State Revolving Loan Fund service contract bonds, the Jobs 2000 Pipeline for Jobs program, and the financing of parks and other environmental programs (\$58 million);
- Urban Development Corporation (UDC), for financing the construction and rehabilitation of correctional facilities, State facilities, youth facilities, stadium facilities, the pine barrens land acquisition, economic development and natural resources preservation, projects at various university technology centers, the Higher Education Applied Technology program, and the Onondaga Convention Center (\$333 million);
- Dormitory Authority (DA), for the State University of New York (SUNY) educational and athletic facilities and upstate community colleges, State Education Department facilities, City University of New York senior and community colleges, RESCUE for school construction, child care facilities, the Department of Health's Axelrod Laboratory, Albany Airport, the Library for the Blind, and the Judicial Training Institute (\$800 million);
- DA and UDC, for financing the construction of the Department of Audit and Control building, and the Empire State Plaza East Garage; (\$7 million);
- Housing Finance Agency, pursuant to agreements to finance the State's housing programs (\$90 million), including estimated payments for outstanding variable rate bonds;
- Triborough Bridge and Tunnel Authority, for the financing of the Javits Convention Center in New York City (\$43 million);
- Bonds authorized to be issued by various authorities, including UDC and the DA, to finance the Community Enhancement Facilities Assistance Program (\$100 million);
- Lease-purchase payments for various State facilities (\$21 million), including the 50 Wolf Road building in Albany, the Department of Environmental Conservation building at 625 Broadway in Albany, and the Department of Transportation Region One headquarters building in Schenectady;
- Metropolitan Transportation Authority, for service contracts payments (\$170 million) on bonds issued to finance transit and commuter rail projects;
- Energy Research Development Authority, for service contract payments (\$16 million) on bonds issued to finance the West Valley Project; and
- DA, for contingent contractual obligations related to distressed hospitals (\$95 million) that are available in the event that hospital repayments and other available funds are inadequate to meet debt service. The recommended appropriation reflects the State's potential liability on debt service payable on DA bonds. Legislative authorization for new projects in this program expired in March 1998, and State payments are not expected to be required for this program in 2003-04.

REVENUE BOND TAX FUND

Appropriations of \$405 million from the Revenue Bond Tax Fund, an account within the General Debt Service Fund, for State Personal Income Tax (PIT) Revenue Bonds. PIT Bonds are secured by the pledge of payments from the Revenue Bond Tax Fund, which receives 25 percent of State personal income tax receipts. Personal income tax receipts in excess of debt service requirements are transferred back to the General Fund. However,

pursuant to the Enabling Act authorizing the issuance of PIT Revenue Bonds, in the event that appropriations for outstanding PIT Bonds are not enacted or if debt service payments on the PIT Bonds are not made on a timely basis, no less than \$6 billion in State personal income tax receipts will become “locked up” in the Revenue Bond Tax Fund.

The following appropriations, which may be made to each of the authorized issuers of State Personal Income Tax Revenue Bonds (the Urban Development Corporation, Thruway Authority, Environmental Facilities Corporation, Housing Finance Agency, and the Dormitory Authority), are provided:

- Economic Development and Housing (\$210 million);
- Education (\$70 million);
- Environment (\$20 million);
- State Facilities and Equipment (\$50 million);
- Transportation (\$50 million); and
- Related expenses (\$5 million).

HOUSING DEBT FUND

Payments from local governments and housing companies that benefit from housing and urban renewal projects funded with State general obligation bonds are deposited in the Housing Debt Fund, and are used to pay debt service on such bonds. A \$32 million appropriation is recommended for 2003-04.

STATE UNIVERSITY DORMITORY INCOME FUND

This Fund receives payments for dormitory rentals and other fees at dormitories operated by SUNY. Debt service on bonds issued by the DA for the construction and rehabilitation of SUNY dormitories has first claim on all dormitory revenues deposited in the Fund. An appropriation of \$55 million is recommended for lease-purchase payments to the DA.

MENTAL HEALTH SERVICES FUND

The DA is authorized to issue bonds to finance capital programs for the Department of Mental Hygiene. Revenues received for the care and treatment of patients at State mental health facilities are deposited in this Fund, and are used to make lease-purchase payments to the DA for debt service on mental health services bonds. These rental payments have the first claim on moneys in the Fund. The DA also makes loans to eligible not-for-profit agencies providing mental health services. In return, these voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects. These payments are also deposited in the Mental Health Services Fund. The recommended appropriation from this Fund is \$270 million.

HEALTH INCOME FUND

The Department of Health (DOH) has entered into contractual agreements with the DA to finance the construction and rehabilitation of State hospitals and veterans’ homes. These agreements require DOH to make lease-purchase rental payments to the DA. Such payments have first claim on revenues received in this Fund from patient care at DOH facilities. Consistent with existing bonding pledges and statutory requirements, the Roswell Park Cancer Institute Corporation’s moneys continue to flow into the Fund as security for and payment to bondholders. As a result, the State’s Financial Plan reflects the portion of the Corporation’s receipts that are attributable to debt service. Lease-purchase obligations during 2003-04, which also include obligations for the New York City Veterans’ Home, require appropriations of \$37 million.

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CENTRALIZED SERVICES FUND

Certificates of Participation (COPs) have been issued to finance the purchase of equipment on an installment or lease-purchase basis for State departments, agencies, and public authorities. Moneys from the operating budgets of participating agencies are deposited to the Centralized Services Fund for payment to the trustees of COPs issuances. Such obligations' maturities are predominantly short-term in nature, reflecting the useful life of the equipment financed. An appropriation of \$60 million is recommended to pay debt service on outstanding COPs. The Capital Program and Financing Plan anticipates that the more cost effective State Personal Income Tax Revenue Bonds will be used to finance equipment acquisitions which are essential to the mission of various State agencies.

LOCAL GOVERNMENT ASSISTANCE TAX FUND

To eliminate the State's annual spring cash flow borrowing, 1990 legislation authorized LGAC to issue bonds to finance payments to local governments previously funded by the State. LGAC has issued its entire \$4.7 billion net authorization. Revenues equal to one-quarter of the four cent State sales and use tax are deposited into the Local Government Assistance Tax Fund and used to pay debt service on LGAC obligations. The recommended appropriation of \$335 million represents anticipated debt service on all outstanding fixed and variable rate bonds, and related expenses. Moneys not needed for debt service are transferred to the State's General Fund.

SCHOOL CAPITAL FACILITIES FINANCING RESERVE FUND

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

DEDICATED HIGHWAY AND BRIDGE TRUST FUND

An appropriation of \$700 million is recommended for 2003-04 debt service payments to the Thruway Authority for Dedicated Highway and Bridge Trust Fund bonds, which support the Department of Transportation capital plan. Debt service payments for the highway program are supported by the statutory dedication of revenues to the Fund. However, after debt service payments are made, they and a commensurate amount of Fund revenues are reclassified from the capital projects to the debt service fund group.

GENERAL FUND – STATE PURPOSES ACCOUNT

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

ALL FUNDS

An All Funds appropriation of \$2.26 billion provides appropriation authority for a maximum interest rate of 18 percent on both the maximum amount of variable rate bonds and the notional amount of interest rate exchange agreements which may be entered into under the authorization provided by Chapter 81 of the Laws of 2002. This appropriation provides assurances to bondholders and counterparties of interest rate exchange agreements that sufficient authorization is available to pay the maximum amounts which may become due on such variable rate instruments. In addition, it provides the State the flexibility needed to manage such instruments, including the ability to terminate agreements and effectively manage risk.

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

Fund	Available 2002-03	Recommended 2003-04	Change
General Fund			
State Purposes Account			
Rebates to Federal Government	20,000,000	20,000,000	0
Redemption of General Obligation Bonds	225,000,000	225,000,000	0
Subtotal	245,000,000	245,000,000	0
Internal Service Funds			
Centralized Services Fund			
Financing Agreements	110,000,000	60,000,000	(50,000,000)
Subtotal	110,000,000	60,000,000	(50,000,000)
Fiduciary Funds			
School Capital Facilities Financing Reserve Fund			
Trust and Agency Financing	40,000,000	40,000,000	0
Subtotal	40,000,000	40,000,000	0
Debt Service Funds			
Debt Reduction Reserve Fund			
Debt Reduction	0	55,000,000	55,000,000
Mental Health Services Fund			
Financing Agreements	370,000,000	270,000,000	(100,000,000)
General Debt Service Fund			
General Obligation Bonds	580,000,000	505,000,000	(75,000,000)
Financing Agreements	2,529,150,000	1,921,550,000	(607,600,000)
Revenue Bond Payments	0	405,000,000	405,000,000
Lease Purchase Payments	61,525,000	61,750,000	225,000
Housing Debt Fund			
General Obligation Bonds	28,000,000	32,000,000	4,000,000
Health Income Fund			
Financing Agreements	35,000,000	35,000,000	0
Financing Agreements	2,000,000	2,000,000	0
State University Dormitory Income Fund			
Financing Agreements	70,000,000	55,000,000	(15,000,000)
Local Government Assistance Tax Fund			
Financing Agreements	325,000,000	335,000,000	10,000,000
Subtotal	4,000,675,000	3,677,300,000	(323,375,000)
Capital Projects Funds - Other			
Dedicated Highway and Bridge Trust Fund			
Financing Agreements	625,000,000	700,000,000	75,000,000
Subtotal	625,000,000	700,000,000	75,000,000
All Funds			
Contingent Appropriation	1,272,000,000	2,260,000,000	988,000,000
Subtotal	1,272,000,000	2,260,000,000	988,000,000
Total Fiscal Year	6,292,675,000	6,982,300,000	689,625,000
Appropriated 2002-03	6,292,675,000		