

PART II

STATE DEBT SERVICE

STATE DEBT SERVICE AND FINANCING AGREEMENT PAYMENTS

DEBT SERVICE APPROPRIATIONS CONTINUE TO REFLECT DEBT MANAGEMENT INITIATIVES THAT HAVE REDUCED COSTS

Debt service appropriations for 2004-05 reflect ongoing efforts to reduce taxpayer costs by effectively managing bond financed capital programs, modernizing the financing structure of State-supported bonds, and implementing recently enacted legislation to diversify the State's debt portfolio. As part of those efforts, the State and its Authorized Issuers have refunded over \$13 billion (30 percent) of outstanding State-supported bonds to generate present value savings of approximately \$818 million. Those extraordinary savings were achieved by:

- Using variable rate bonds and interest rate exchange agreements within the limitations and guidelines imposed by legislation enacted in 2002 to reduce costs and broaden the investor base;
- Modernizing bond resolutions to eliminate unnecessary debt service reserve funds and debt levels; and
- Issuing traditional fixed rate, convertible refunding bonds, swaps and variable rate bonds to maximize savings opportunities in a low interest rate environment.

Recommended appropriations also reflect the use of lower-cost State Personal Income Tax (PIT) Revenue Bonds to finance capital projects.

Total State-supported debt service costs remain within the caps imposed by the Debt Reform Act of 2000. The Governor will resubmit his Constitutional Debt Reform bill to make the statutory caps and other debt limitations imposed by the Debt Reform Act permanent:

- 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 2004-05

The recommended debt service appropriations reflect the maximum estimated debt service payments for outstanding bonds, including payments due on outstanding variable rate debt and interest rate exchange agreements, as required by various bond documents, as well as new State-supported bond issuances, in order to satisfy all of the State's potential obligations to bondholders.

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, 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.

Total appropriations of \$2.7 billion are recommended from the General Debt Service Fund, of which \$480 million are recommended for the Revenue Bond Tax Fund. Appropriations from the General Debt Service Fund for general obligation bonds are

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recommended at \$485 million and reflect payments on outstanding fixed rate and variable rate general obligation bonds, and estimated payments on new bonds anticipated to be issued in 2004-05.

Appropriations of \$2.2 billion to the following public authorities are recommended from the General Debt Service Fund for lease purchase and other financing agreement payments, including variable rate and interest rate exchange agreement payments, due on outstanding State appropriation-backed bonds:

- Thruway Authority, for Local Highway and Bridge service contract bonds for local transportation purposes (\$208 million). Spending from this appropriation is financed by transfers from the Dedicated Highway and Bridge Trust Fund;
- Environmental Facilities Corporation, for State Revolving Loan Fund service contract bonds, the Jobs 2000 Pipeline for Jobs program, and the financing of parks and other environmental programs (\$60 million);
- Urban Development Corporation (UDC), for financing the construction and rehabilitation of correctional facilities, State facilities, youth facilities, stadium facilities, the pine barrens land acquisition, economic development and natural resources preservation, projects at various university technology centers, the Higher Education Applied Technology program, and the Onondaga Convention Center (\$378 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 school construction, child care facilities, the Department of Health's Axelrod Laboratory, Albany Airport, the Library for the Blind and the Judicial Training Institute (\$735 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 (\$85 million);
- 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 (\$35 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 on bonds issued to finance transit and commuter rail projects (\$165 million);
- Energy Research Development Authority, for service contract payments on bonds issued to finance the West Valley Project (\$17 million);
- DA, for contingent contractual obligations related to distressed hospitals that are available in the event that hospital repayments and other available funds are inadequate to meet debt service (\$95 million). 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 2004-05; and
- Tobacco Settlement Financing Corporation (TSFC), for contingent contractual obligations related to TSFC Asset-Backed Revenue Bonds (i.e., Tobacco Bonds) that are available to pay principal and interest on Tobacco Bonds only in the event that the tobacco receipts sold to TSFC are insufficient to make such payments. As required by the contingent contract, the debt service bill includes a recommended appropriation that is equal to the debt service payable by TSFC on the Bonds in 2004-05 of \$343 million. The State expects that tobacco receipts will be sufficient to meet all of the obligations of TSFC and, thus, does not expect to make any contingent contractual payments in 2004-05.

New State-supported issuances are anticipated to be financed under the State's revenue credits, including the State PIT Revenue Bond program, Dedicated Highway and Bridge Trust Fund program, the Mental Hygiene program, Department of Health and the SUNY Dormitory Facilities program.

REVENUE BOND TAX FUND

Appropriations of \$480 million from the Revenue Bond Tax Fund, an account within the General Debt Service Fund, are provided for State PIT Revenue Bonds. PIT Revenue 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.

The following appropriations, which may be made to each of the authorized issuers of State PIT Revenue Bonds (UDC, Thruway Authority, EFC, Housing Finance Agency and the DA), are provided:

- Economic Development and Housing (\$200 million);
- Education (\$100 million);
- Environment (\$20 million);
- State Facilities and Equipment (\$85 million);
- Transportation (\$70 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 \$25 million appropriation is recommended for 2004-05.

STATE UNIVERSITY DORMITORY INCOME FUND

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

MENTAL HEALTH SERVICES FUND

The 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, which includes variable rate and interest rate exchange agreement payments, is \$276 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

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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 2004-05 require appropriations of \$37 million.

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 \$35 million is recommended to pay debt service on outstanding COPs. The Capital Program and Financing Plan anticipates that the more cost effective State PIT Revenue Bond Program 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 the Local Governments Assistance Corporation (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 the first cent of the four and one-quarter 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 \$323 million represents anticipated debt service on all outstanding fixed and variable rate bonds, interest rate exchange agreement payments 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 \$750 million is recommended for 2004-05 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.

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 \$2.31 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 is available to all Authorized Issuers of State-supported debt, and 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.

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

Fund	Available 2003-04	Recommended 2004-05	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	<u>245,000,000</u>	<u>245,000,000</u>	<u>0</u>
Internal Service Funds			
Centralized Services Fund			
Financing Agreements	60,000,000	35,000,000	(25,000,000)
Subtotal	<u>60,000,000</u>	<u>35,000,000</u>	<u>(25,000,000)</u>
Fiduciary Funds			
School Capital Facilities Financing Reserve Fund			
Trust and Agency Financing	40,000,000	40,000,000	0
Subtotal	<u>40,000,000</u>	<u>40,000,000</u>	<u>0</u>
Debt Service Funds			
Debt Reduction Reserve Fund			
Debt Reduction	55,000,000	0	(55,000,000)
Mental Health Services Fund			
Financing Agreements	270,000,000	276,000,000	6,000,000
General Debt Service Fund			
General Obligation Bonds	505,000,000	485,000,000	(20,000,000)
Financing Agreements	1,928,550,000	2,130,100,000	201,550,000
Revenue Bond Payments	405,000,000	480,000,000	75,000,000
Lease Purchase Payments	61,750,000	61,700,000	(50,000)
Housing Debt Fund			
General Obligation Bonds	32,000,000	25,000,000	(7,000,000)
Health Income Fund			
Financing Agreements	35,000,000	34,500,000	(500,000)
Financing Agreements	2,000,000	2,500,000	500,000
State University Dormitory Income Fund			
Financing Agreements	55,000,000	70,000,000	15,000,000
Local Government Assistance Tax Fund			
Financing Agreements	335,000,000	323,000,000	(12,000,000)
Subtotal	<u>3,684,300,000</u>	<u>3,887,800,000</u>	<u>203,500,000</u>
Capital Projects Funds - Other			
Dedicated Highway and Bridge Trust Fund			
Financing Agreements	700,000,000	750,000,000	50,000,000
Subtotal	<u>700,000,000</u>	<u>750,000,000</u>	<u>50,000,000</u>
Unspecified Funds			
All Funds			
Contingent Appropriation	2,260,000,000	2,310,000,000	50,000,000
Subtotal	<u>2,260,000,000</u>	<u>2,310,000,000</u>	<u>50,000,000</u>
Total Fiscal Year	<u>6,989,300,000</u>	<u>7,267,800,000</u>	<u>278,500,000</u>
Appropriated 2003-04	<u>6,989,300,000</u>		