Annual Information Statement

State of New York

May 4, 2005

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Dated: May 4, 2005

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Annual Information Statement of the State of New York

Introduction

This Annual Information Statement ("AIS") is dated May 4, 2005 and contains information only through that date. This AIS constitutes the official disclosure information regarding the financial condition of the State of New York (the "State"). This AIS, including the Exhibits attached hereto, should be read in its entirety, together with any update or supplement issued during the fiscal year.

In this AIS, readers will find:

1. A section entitled the "Current Fiscal Year" that contains (a) extracts from the 2005-06 Enacted Budget Financial Plan prepared by the Division of the Budget ("DOB"), including the State's official Financial Plan projections and (b) a discussion of potential risks that may affect the State's Financial Plan during the current fiscal year under the heading "Special Considerations." The first part of the Enacted Budget Financial Plan summarizes the major changes to the 2005-06 Executive Budget and the projected impact on operating results, annual spending growth, and the magnitude of future potential budget gaps; the second part provides detailed information on total receipts and disbursements projected in the State's governmental funds in 2005-06.

2. Information on other subjects relevant to the State's fiscal condition, including: (a) operating results for the three prior fiscal years, (b) the State's revised economic forecast and a profile of the State economy, (c) debt and other financing activities, (d) governmental organization, and (e) activities of public authorities and localities.

3. The status of significant litigation that has the potential to adversely affect the State's finances.

DOB is responsible for organizing and presenting the information that appears in this AIS on behalf of the State. In preparing the AIS, DOB relies on information drawn from several sources, including the Office of the State Comptroller ("OSC"), public authorities, and other sources believed to be reliable. Information relating to matters described in the section entitled "Litigation" is furnished by the State Office of the Attorney General.

During the fiscal year, the Governor, the State Comptroller, State legislators, and others may issue statements or reports that contain predictions, projections or other information relating to the State's financial condition, including potential operating results for the current fiscal year and projected baseline gaps for future fiscal years, that may vary materially from the information provided in this AIS. Investors and other market participants should, however, refer to this AIS, as revised, updated, or supplemented, for official information regarding the financial condition of the State.

The State plans to issue updates to this AIS on a quarterly basis and may issue supplements or other disclosure notices as events warrant. The State intends to announce publicly whenever an update or a supplement is issued. The State may choose to incorporate by reference all or a portion of this AIS in Official Statements or related disclosure documents for State or State-supported debt issuance. Readers may obtain informational copies of the AIS, updates, and supplements by contacting Mr. Louis Raffaele, Chief Budget Examiner, New York State Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705. The State has filed this AIS with the Central Post Office, Disclosure USA. The Municipal Advisory Council of Texas (Texas MAC), has established this internet-based disclosure filing system approved by the Securities and Exchange Commission to facilitate the transmission of disclosure-related information to the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs). An official copy of this AIS may be obtained from the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705 or from any NRMSIR. OSC expects to issue the Basic Financial Statements for the 2004-05 fiscal year in July 2005. Copies may be obtained by contacting the Office of the State Comptroller, 110 State Street, Albany, NY 12236 and will be available on its website at www.osc.state.ny.us.

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Current Fiscal Year

The State's current fiscal year began on April 1, 2005 and ends on March 31, 2006. On March 8, 2005, the State Legislature enacted appropriations for all State-supported, contingent contractual, and certain other debt service obligations for the entire 2005-06 fiscal year. On March 31, 2005, the Legislature completed action on the remaining appropriations and accompanying legislation constituting the budget for the 2005-06 fiscal year. Subsequently, on April 12, 2005, the Legislature enacted certain amendments to the 2005-06 Enacted Budget. The 2005-06 Enacted Budget Financial Plan, extracts of which are set forth below, was prepared by the DOB and reflects the actions of the Legislature and Governor through April 12, 2005.

The 2005-06 Enacted Budget Financial Plan 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, Federal law changes, and adverse judgments against the State. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained in the 2005-06 Enacted Budget Financial Plan set forth herein.

2005-06 Enacted Budget Financial Plan

The Legislature completed action on the Executive Budget appropriation and Article VII bills for the 2005-06 fiscal year by March 31, 2005 (passing the debt service appropriation bill on March 8 and the remaining bills by the end of the month). On April 12, 2005, several amendments ("chapter amendments") to the 2005-06 budget were enacted that authorized, among other things, funding for the Temporary Assistance for Needy Families program (TANF), the Environmental Protection Fund (EPF), and the Help America Vote Act. The State's official Enacted Budget Financial Plan projections set forth here are based on the budget bills and chapter amendments enacted through April 12, 2005.

The Executive Budget for 2005-06 presented a balanced General Fund Financial Plan that eliminated a projected budget gap of $4.2 billion. The Enacted Budget Financial Plan for 2005-06 is also balanced, the result of both new resources and the approval of roughly $3.3 billion of the $4.1 billion in Executive Budget gap-closing recommendations. Reserves have been increased to $1.5 billion.

The following table summarizes the net additions to the Executive Budget, the net available resources to finance them, and the impact on the State's General Fund operating forecast.

General Fund Status
(millions of dollars)

	2005-06	2006-07	2007-08
Executive Budget 30-Day Budget Gaps	**0**	**(2,544)**	**(2,541)**
Net Available Resources (including reserves)	1,388	1,544	1,753
Net Additions	(1,388)	(2,167)	(3,338)
Enacted Budget Budget Gaps	**0**	**(3,167)**	**(4,126)**

As the table indicates, since the Executive Budget, $1.4 billion in new resources have been identified to finance $1.4 billion in net additions. The budget gaps total $3.2 billion in 2006-07, an increase of $623 million from the Executive Budget, and $4.1 billion in 2007-08, an increase of $1.6 billion. Detailed information on these changes is provided later.

In summary, the Enacted Budget authorized approximately $1.8 billion of the $2.8 billion in spending restraint proposed with the Executive Budget, including (a) roughly one-half of the $1.1 billion in proposed Medicaid provider and recipient cost containment and all $800 million in savings from financing certain Medicaid spending outside of the General Fund, (b) debt management initiatives to help reduce the growth in debt service costs ($150 million), and (c) mental hygiene savings ($250 million). Revenue actions net of tax cuts total $605 million, or $72 million above the $533 million proposed with the Executive Budget. Finally, $889 million in one-time actions are authorized in the budget, an increase of $33 million above the Executive proposal.

The Enacted Budget provides an $850 million school year increase in school aid, $324 million above the level recommended in the Executive Budget. The school aid program includes a new "sound basic education" (SBE) aid program, financed with Video Lottery Terminal (VLT) revenues, that will distribute aid through a formula that benefits high-need districts. The SBE program is part of the State's efforts to comply with a State Court of Appeals' ruling that found the school finance system failed to provide students in New York City with an adequate education in violation of the State Constitution.[1] The compliance plan also includes traditional school aid and Federal aid.

The Enacted Budget includes funding, consistent with the Executive Budget, to permit the State to pay for the local share of Medicaid costs in excess of 2005 spending levels plus 3.5 percent ($121 million), to accelerate the full State takeover of the Family Health Plus (FHP) program ($25 million), and to provide enhanced aid for local governments ($61 million).

The Enacted Budget Financial Plan projects General Fund spending, including transfers to other funds, will total $46.2 billion, an increase of $2.1 billion (4.7 percent) from 2004-05. State Funds spending, which includes spending financed from other State revenue sources as well as the General Fund, is projected at $70.3 billion, an annual increase of $4.9 billion (7.4 percent). All Governmental Funds spending (hereafter "All Funds"), which includes Federal grants, is estimated to increase by $4.4 billion (4.3 percent) for a total of $106.5 billion.

Size of the Budget
(millions of dollars)

	General Fund	State Funds	All Funds
2004-05 Preliminary Adjusted Actuals*	44,127	65,404	102,101
2005-06 30-Day Estimate	**45,070**	**69,057**	**105,162**
Net Spending Additions	1,536	1,746	2,313
Net Spending Reductions/Reestimates	(399)	(530)	(972)
2005-06 Enacted Budget Estimate	46,207	70,273	106,503
Annual $ Change	***2,080***	***4,869***	***4,402***
Annual % Change	***4.7%***	***7.4%***	***4.3%***
Increase Above Executive Budget	**1,137**	**1,216**	**1,341**

Note: To provide a comparable basis for calculating annual change, the 2004-05 preliminary results have been increased to reflect the inclusion of all HCRA funded programs on-budget and additional Mediciaid spending to comply with Federal policy changes related to certain county shares adjustments---consistent with the 2005-06 budget projections. The 2004-05 adjustment for HCRA is $925 million in State Funds and All Funds; the Medicaid county shares adjustment is $508 million in the General Fund, State Funds, and All Funds.

1. See the section entitled "Litigation" in this AIS for more information.

The 2005-06 Financial Plan includes a fiscal stability reserve of $601 million. The State's general reserves are projected to total $1.5 billion in 2005-06, equivalent to roughly 3.2 percent of General Fund spending. As in any fiscal year, the Enacted Budget Financial Plan is subject to a variety of risks and uncertainties that could cause actual results to differ materially from current projections. For example, the State is involved in litigation challenging the use of proceeds from the conversion of Empire Blue Cross/Blue Shield[2] from a not-for-profit corporation to a for-profit corporation. The State is counting on $2.2 billion in conversion proceeds from Empire and other sources to finance the Health Care Reform Act (HCRA) programs in 2005-06. In order to insure General Fund balance, the Enacted Budget provides that no spending for certain HCRA programs may occur after June 30, 2005 unless conversion proceeds become available. The Financial Plan assumes that this issue will be resolved to allow full year spending for all HCRA programs. Other risks inherent in the current projections include the performance of the State and national economies, adverse judgments against the State, and changes in the level of Federal aid.

Summary of Annual Disbursement Growth

DOB projects General Fund disbursements will total $46.2 billion in 2005-06, an increase of $2.1 billion (4.7 percent) over 2004-05 actual results. State Funds and All Funds disbursements are projected to reach $70.3 billion and $106.5 billion in 2005-06, an increase of $4.9 billion (7.4 percent) and $4.4 billion (4.3 percent) over the prior year.

The largest All Funds spending increases are for Medicaid ($1.7 billion), school aid ($953 million), and higher education ($832 million), as summarized in the following table.

Summary of Annual Disbursements Growth (millions of dollars)

	General Fund	State Funds	All Funds
2004-05 30-Day Estimate	**43,920**	**65,458**	**102,615**
Closeout Changes	207	(54)	(514)
2004-05 Preliminary Adjusted Actuals	**44,127**	**65,404**	**102,101**
Medicaid	(15)	1,641	1,729
School Aid	864	780	953
Other Education	178	194	316
Higher Education	222	824	832
Fringe Benefits (includes pensions & health insurance)	396	424	456
Transportation	(5)	563	517
Welfare/Children & Family Services	52	109	288
Environmental Conservation	5	221	216
STAR	0	163	163
World Trade Center	0	0	(1,194)
All Other	383	(50)	126
2005-06 Enacted Budget Estimate	**46,207**	**70,273**	**106,503**
Annual $ Change	***2,080***	***4,869***	***4,402***
Annual % Change	***4.7%***	***7.4%***	***4.3%***

All Funds Medicaid spending in 2005-06 is projected to increase by $1.7 billion over the prior year primarily due to the increasing cost of providing health care services, as well as the rising number of recipients and corresponding increases in medical service utilization. These trends account for over half of the annual growth. DOB's estimate is based on current experience in the State's Medicaid program and

2. Referred to as "Empire" elsewhere in this AIS.

the Congressional Budget Office's national projections. In addition, the expiration in June 2004 of a temporary 2.95 percent Federal share increase will result in $109 million in higher State share spending in 2005-06. The remaining sources of growth include the continued phase-in of the State takeover of local government FHP costs ($60 million in 2004-05 growing to $252 million in 2005-06), the commencement of the State takeover of all local Medicaid costs in excess of 2005 spending levels plus 3.5 percent ($121 million) and various other changes, including the discontinuation of certain county shares adjustments.

School aid spending in State fiscal year 2005-06 is projected to total $18.5 billion on an All Funds basis, an increase of $953 million above fiscal year 2004-05. The increase primarily reflects the balance of aid payable for the 2004-05 school year ($248 million), the fiscal year costs of the 2005-06 school year increase ($593 million), and higher Federal spending ($173 million). A decrease in capital projects spending partially offsets the annual growth ($39 million).

Other education aid, including special education services and other targeted programs, is projected at $2.6 billion, an increase of $316 million from 2004-05. The annual growth consists of higher Federal funding under the Individuals with Disabilities Education Act program ($93 million), costs related to enrollment growth in the Preschool Special Education Program ($73 million), and funding for legislatively-directed education spending originally planned for 2004-05 but now expected to occur in 2005-06 (net change of $120 million over the two years).

All Funds spending for higher education is projected at $7.6 billion, an increase of $832 million over 2004-05 primarily due to higher salaries, inflationary increases, and program growth at the State University of New York (SUNY), the City University of New York (CUNY), and Higher Education Services Corporation (HESC) ($371 million), as well as higher capital spending for the public universities ($461 million).

Spending for General State Charges in 2005-06 is expected to total $4.8 billion on an All Funds basis, an annual increase of $456 million. Higher costs for pensions ($262 million) and health insurance to State employees and retirees ($189 million) are responsible for most of the increase.

All Funds spending for transportation is estimated at $5.7 billion in 2005-06, an increase of $517 million over 2004-05. Growth in capital spending financed from the Dedicated Highway and Bridge Trust Fund and a proposed "Rebuild and Renew New York" General Obligation Bond Act, as well as higher operating support for the Metropolitan Transportation Authority (MTA) and other transit systems, account for the annual change. The Bond Act is subject to the approval of the voters in November 2005.

Federal aid to New York City in 2004-05 for the creation of a captive insurance company to address claims related to recovery efforts at the World Trade Center will not recur in 2005-06 ($1.2 billion)[3]. The aid "passes through" the State's All Funds Financial Plan and is counted as spending.

Annual growth in welfare, children and family services, environmental conservation, and the School Tax Relief (STAR) program contribute to the remaining increases in spending from 2004-05.

EXECUTIVE BUDGET VS. ENACTED BUDGET GAP-CLOSING ACTIONS

The Enacted Budget included nearly eighty percent of the $4.2 billion in gap-closing actions proposed in the 2005-06 Executive Budget. The Legislature also increased spending for several programs, including school aid. The additional costs were financed with additional resources identified since the time of the Executive Budget. The following table compares the gap-closing actions approved in the Enacted Budget against those proposed with the Executive Budget.

3. Includes $1 billion for captive insurance and $200 million in other Federal aid.

Executive vs. Enacted General Fund Gap-Closing Actions (millions of dollars)			
	Executive	**Enacted**	**Change**
TOTAL BUDGET ACTIONS	**4,152**	**3,278**	**(874)**
Spending Cuts	**1,820**	**844**	**(976)**
Medicaid:	1,103	546	(557)
Family Health Plus Cost Containment	*227*	*74*	(153)
Health Care Provider Assessments	*234*	*146*	(88)
Nursing Home Cost Containment	*182*	*1*	(181)
Hospital Cost Containment	*201*	*75*	(126)
Pharmacy Cost Containment	*80*	*65*	(15)
Restructure dental/other optional benefits	*66*	*0*	(66)
Reestimates	*0*	*105*	105
All Other	*113*	*80*	(33)
Debt Management	150	150	0
Restructure TAP/Enhanced Loan Program	135	5	(130)
SUNY/CUNY	137	0	(137)
All Other	295	143	(152)
Recommended Spending Initiatives	**(313)**	**(284)**	*29*
Cap Local MA Costs (State Costs/Local Savings)	(121)	(121)	*0*
Local MA relief (grant payment/FHP Takeover Acceleration)	(45)	(25)	*20*
Aid and Incentives for Municipalities	(55)	(61)	*(6)*
All Other Adds	(92)	(77)	*15*
Offsets/Fund Shifts/Federal	**1,256**	**1,224**	*(32)*
Medicaid	795	795	*0*
Mental Hygiene (PIA/Federal Initiatives)	196	196	*0*
Transportation/Motor Vehicles	163	163	*0*
All Other Offsets/Fund Shifts/Federal Actions	102	70	*(32)*
Revenue Actions	**779**	**605**	*(174)*
Two Week Clothing Exemption at $250 (Local Share)	456	476	*20*
Power Authority PILOT Payments	75	75	*0*
Corporation Franchise Taxes	51	51	*0*
Close "Thrift" Loophole on REIT	50	0	*(50)*
Eliminate Quick Draw Restrictions	39	0	*(39)*
Increase Wine Tax	38	0	*(38)*
All Other Revenue	70	3	*(67)*
Tax Cuts	**(246)**	**0**	*246*
PIT Top Tax Rate Decrease	(190)	0	*190*
Corp Franchise Tax Cuts (SPUR)	(30)	0	*30*
STAR Plus	(12)	0	*12*
All Other Tax Cuts	(14)	0	*14*
Nonrecurring Resources	**856**	**889**	*33*
Pensions	321	152	*(169)*
Use 2004-05 Surplus	170	170	*0*
TANF	61	61	*0*
Asset Sales	54	54	*0*
Mortgage Insurance Fund (Excess Balances)	50	50	*0*
Federal Medicaid for Non-Citizens	42	42	*0*
Abandoned Property	0	90	*90*
Fund Balances	0	112	*112*
All Other One-Timers	158	158	*0*

Note on abbreviations used in table: "MA" means Medicaid; "PIA" means the Patient Income Account; "REIT" means real estate investment tax; "PIT" means personal income tax; "STAR" means the School Property Tax Relief program; and "TANF means the Temporary Assistance for Needy Families Program.

GENERAL FUND -- NET AVAILABLE RESOURCES ABOVE THE EXECUTIVE BUDGET

DOB estimates that $1.4 billion in new resources above the Executive Budget forecast have become available for 2005-06, including $1.1 billion from projected higher tax collections in 2004-05 and 2005-06 (approximately $600 million has already been received through the end of the 2004-05 fiscal year), as summarized below.

Summary of Net Available Resources Above the 30-Day Estimate (millions of dollars)			
	2005-06	2006-07	2007-08
Recurring Resources	**1,215**	**1,243**	**1,453**
Additional Revenues	1,061	1,105	1,305
Welfare Caseload Recast	115	115	115
All Other Spending Cuts/Reestimates	39	23	33
Nonrecurring Resources	**173**	**301**	**300**
Fund Balances	112	0	0
Abandoned Property	90	0	0
(Increase)/Use of Fiscal Stability Reserve	(29)	301	300
Net Available Resources	**1,388**	**1,544**	**1,753**

Additional Revenues: The Executive and Legislature reached consensus on the 2004-05 and 2005-06 revenue forecast on March 1, 2005. The consensus agreement projected higher revenues of $350 million in 2004-05 and $250 million in 2005-06 compared to the 30-day forecast. In addition, DOB now projects that annual revenues for 2004-05 and 2005-06 will exceed the consensus forecast by $461 million, based on the latest collections information, bringing the total revisions to $1.1 billion.

Welfare Caseload Recast: Welfare caseload projections have been revised downward based on recent trends. In 2004-05, the total caseload is now expected to average 627,000 recipients, a decrease of 5,000 from the Executive Budget forecast. In 2005-06, it is projected at 620,000, a decrease of 29,000 recipients from the Executive forecast. The lower caseload levels are projected to reduce costs from previous estimates by $115 million annually.

All Other Spending Cuts/Reestimates: Funding has been reduced or eliminated in the Enacted Budget for, among other things, the operating budgets of several agencies and shared-service grants to local governments.

Fund Balances: Legislation was enacted to sweep $112 million in additional balances to the General Fund. Significant balances will be transferred from a Higher Education Services Corporation sole custody account ($51 million) and various special revenue funds ($57 million). The balances are summarized in more detail in the section entitled "Nonrecurring Resources" later in this Report.

Abandoned Property: The State Comptroller has indicated that an additional $90 million in abandoned property resources will be available in 2005-06.

Fiscal Stability Reserve: The 2005-06 budget includes a fiscal stability reserve of $601 million. It is currently projected that this reserve will guard against risks in 2005-06 and be used in equal installments to help close the outyear budget gaps.

GENERAL FUND -- NET ADDITIONS ABOVE THE EXECUTIVE BUDGET

DOB estimates that additions to the 2005-06 Executive Budget total $1.4 billion, and grow to $2.2 billion in 2006-07 and $3.3 billion in 2007-08. In contrast to the new resources included in the Enacted

Budget, which remain relatively flat after 2005-06, the additions, especially for Medicaid, higher education, and tax cuts, grow substantially. The following table summarizes DOB's estimate of the additions to the Executive Budget.

Summary of Net General Fund Additions Above the 30-Day Estimate (millions of dollars)			
	2005-06	2006-07	2007-08
Health	557	1,184	1,453
Education	292	370	370
Higher Education	267	431	510
General Government/Local Assistance	170	(116)	(45)
Human Services/Labor	61	73	81
Agriculture/Environmental Conservation/Housing	37	58	59
Public Protection	45	48	49
Mental Hygiene	12	12	12
Economic Development	8	10	(13)
Transportation	5	9	44
General Conference	(66)	88	818
-- Member Item Funding	0	100	100
-- Reject Autospeed Enforcement	15	33	33
-- Net Tax/Revenue Changes	(81)	(45)	685
Net Additions	**1,388**	**2,167**	**3,338**

DETAILED SUMMARY OF LEGISLATIVE GENERAL FUND ADDITIONS BY CONFERENCE SUB COMMITTEE

This section provides more information on the specific additions approved by the Legislature, as compared to the Executive Budget Financial Plan. The information is organized by the legislative conference subcommittee responsible for recommending the additions.

Health and Medicaid

	Costs/(Savings) vs. Executive Budget		
	2005-06	2006-07	2007-08
Health and Medicaid	**557**	**1,184**	**1,453**
Recipient Actions	246	472	495
Modified FHP Cost Containment/Copay	153	246	258
No Adult Dental/Other Practioner Benefit Changes	66	123	123
No LTC Loophole Closures	27	103	114
Hospital Actions	214	335	405
Partially Restore Hospital Assessment	88	142	212
No Hospital Inpatient Detox Rate Reduction	45	73	73
Trend Factor Rate Increase	41	74	74
All Other Hospital Cost Containment	40	46	46
Nursing Home Actions	181	232	490
No Regional Pricing Methodology	68	90	90
No Revisions to Medicaid Case Mix Calculation	58	77	77
Trend Factor Rate Increase	49	65	65
Supplemental Qualitly Improvement Demo	6	0	0
Nursing Home Assessment at 6 percent for 2 years only	0	0	258
Pharmacy Actions	(15)	9	15
Modify Preferred Drug Program	8	28	31
Prior Authorization Program	7	14	17
Savings Associated with 340-B Medicare/pharmacy rebates	(30)	(33)	(33)
All Other Medicaid Changes	(73)	(44)	(44)
No Local Takeover Transition Aid	(20)	(10)	0
HCRA Tobacco Guarantee Payment	0	119	0
Denied GPHW Funding Structure Change	10	22	34
Add Funding for Public Health Initiatives	12	47	56
Add Funding for Aging	2	2	2

The Enacted Budget authorized more than $500 million of the $1.1 billion in Medicaid cost containment actions advanced in the Executive Budget and all $800 million in proposals to finance certain Medicaid costs outside the General Fund. It also extended cost containment approved in prior years which was already assumed in the Executive Budget projections. In addition to continuing prior year cost containment, the most significant actions incorporated in the Enacted Budget include:

- A preferred drug program, similar to programs underway in 37 other states, that will require prior authorization for certain drugs for which no price concession has been provided. In addition, the program will enhance patient safeguards and reduce inappropriate utilization of drugs, while allowing the physician the final determination of what drug is prescribed.

- Modifications to the FHP benefit package that align vision benefits with the State employee package and increase co-payments for certain services, including primary care, dental care and pharmacy services.

- A temporary increase in the reimbursable assessment on nursing home revenues to 6.0 percent from 5.0 percent in 2005-06 and 2006-07.

- Nearly all the proposals that would finance certain Medicaid spending from HCRA instead of the General Fund, with no impact on services.

- A reestimate of savings related to certain actions, including estimated lower pricing for certain drugs covered under the 340-B drug discount program, collection of "past due" pharmacy rebates from manufacturers, anti-fraud initiatives, and enrollment of Supplemental Security Income (SSI) eligible individuals in managed care.

The Enacted Budget did not incorporate some of the cost containment proposals that would have further restrained growth in Medicaid spending, including:

- Closing certain long-term care eligibility loopholes, further reductions to the FHP benefit package, and elimination of coverage for adult dental care and other services, including private duty nursing, audiology, podiatry, and clinical psychology.

- Hospital cost containment initiatives including a proposed reduction to the reimbursement rate for inpatient detoxification services, and the elimination of the inflationary rate adjustments; and a 0.35 percent assessment on hospital revenues instead of the 0.7 percent assessment proposed in the Executive Budget.

- Nursing home cost containment including revisions to the regional reimbursement methodology and the Medicaid-only case-mix calculation, and the elimination of the inflationary rate adjustment.

While the Enacted Budget approved the Governor's plan to cap local Medicaid costs and accelerate the State takeover of FHP local costs in all counties outside of New York City, it did not authorize proposed direct local aid to offset Medicaid costs in the current year. It also added funding to maintain the General Public Health Works program under current reimbursement rules, and to support various public health and aging initiatives.

Finally, as noted earlier, the Enacted Budget did not address ongoing litigation challenging the use of proceeds from the conversion of Empire Blue Cross/Blue Shield from a not-for-profit corporation to a for-profit corporation that may result in a loss of $1.8 billion in resources in both the General Fund and HCRA in 2005-06. Pursuant to court order the State Comptroller is currently holding all proceeds in escrow until a judgment is rendered. HCRA is counting on a total of $2.2 billion in Empire proceeds through June 30, 2007, the availability of which depends on successful resolution of the litigation and release of the moneys currently held in escrow. The Enacted Budget includes authorization that would halt nearly all spending for programs financed by HCRA effective July 1, 2005 until such Empire proceeds are received. Furthermore, the Enacted Budget did not authorize any additional insurance conversions.[4] The current HCRA plan assumes the availability of a total of $1.2 billion in additional insurance conversion proceeds through June 30, 2007. The current forecast assumes successful resolution of these issues and projects full year spending for all HCRA programs.

Education

	Costs/(Savings) vs. Executive Budget		
	2005-06	2006-07	2007-08
Education	**292**	**370**	**370**
School Aid (above Executive Budget)	221	354	354
School Aid Database Update	30	0	0
Legislative Directed Initiatives	27	0	0
Funding for Other SED Programs	14	16	16

The Enacted Budget authorized an $850 million increase in school aid on a school year basis, $324 million above the Executive Budget school year recommendation ($221 million on a State fiscal year basis). The budget provided funding for both Flex Aid and the SBE program (funded with VLT revenues) at the level recommended in the Executive Budget, as well as funding for BOCES, private excess cost aid, and categorical programs.

In addition, the Budget included funding for additional 2004-05 school year costs payable in the 2005-06 fiscal year associated with the February 15, 2005 database update, legislatively-directed education-related programs ($27 million), and increased funding for State Education Department (SED) programs including public libraries, public broadcasting, and agency operations that was not recommended in the Executive Budget.

Higher Education

	Costs/(Savings) vs. Executive Budget		
	2005-06	2006-07	2007-08
Higher Education	**267**	**431**	**510**
No TAP Reform Initiatives	130	265	338
Increased Funding for SUNY/CUNY Operating Aid	83	92	92
Increased Funding for Community College Base Aid	20	26	26
Increased Funding for HEOP/EOP/SEEK/CD	19	27	27
Increased Funding for NYSTAR Programs	4	4	4
Funding for New Loan Forgiveness Programs	3	3	3
Debt Service for New SUNY/CUNY Capital Bonding	4	12	23
Reduced Higher Education Capital Matching Grant Program	(1)	(4)	(10)
All Other	5	6	7

The Enacted Budget provides a $115 per full-time student increase in SUNY and CUNY community college base aid, bringing total aid to $2,350 a year. In addition, $3 million is added to fund new student loan forgiveness programs for nursing faculty and social workers.

4. Conversion of other non-profit insurers to for-profit companies.

It also added spending in several programs above Executive Budget levels, including supplemental financial aid provided through the Higher Education Opportunity Program, Educational Opportunity Program, Search for Education, Elevation and Knowledge, and College Discovery programs, as well as for the Office of New York Science, Technology and Academic Research for the CAT Development, Faculty Development, and Watson Investigator programs.

An additional $810 million is provided for new capital appropriations of $550 million for SUNY and $260 million for CUNY. When coupled with the $323 million increase provided in the Executive Budget, new capital appropriations for SUNY and CUNY will total over $1.1 billion. In addition, the budget reflects a reduction in bonding authorization and spending recommendations for the Higher Education Facilities Capital Matching Grants program from $250 million for public and private colleges to $150 million for private colleges only.

The Enacted Budget did not authorize either a tuition increase for SUNY and CUNY or reforms to the Tuition Assistance Program (TAP) that would have deferred one-half of the awards for first-time recipients to encourage timely graduation strengthened academic standards and eligibility criteria.

General Government/Local Assistance

	Costs/(Savings) vs. Executive Budget		
	2005-06	2006-07	2007-08
General Government/Local Assistance	**170**	**(116)**	**(45)**
No Pension Reform Proposal/Permit Amortization	169	(87)	(16)
Amortize Judiciary Pension Contribution	(15)	2	2
No Court of Claims Interest Savings	7	7	7
Reduce Performance-Based Unrestricted Aid	0	(49)	(49)
Add Funding for Unrestricted Aid	8	8	8
Add Funding for Department of State	6	6	6
Add Funding for OGS Green Power	4	4	4
Add Funding for OSC School District Audits	1	3	3
Judiciary Lump Sum Cut	(10)	(10)	(10)

In the areas of pensions and local aid, the Executive Budget advanced several reforms that were not approved in the Enacted Budget, including:

- Calculating the interest rate paid by the State for Court of Claims judgments at current market rates, rather than the current fixed rate of 9.0 percent.

- Requiring the State Comptroller to delay discretionary actuarial revisions to pension estimates, and implement such changes only after independent review and public comment. Instead the Legislature permitted the State to defer its 2005-06 pension contribution in excess of 9.5 percent of payroll (compared to a 7.0 percent contribution rate from the Executive's proposal), and pay such costs with interest over a ten year period.

In addition, the Enacted Budget limited performance-based increases in unrestricted aid to one year (lowering costs by $49 million in the outyears) and cut funding for the Judiciary ($10 million).

Human Services and Labor

	Costs/(Savings) vs. Executive Budget		
	2005-06	2006-07	2007-08
Human Services/Labor	**61**	**73**	**81**
No Full Family Sanctions	9	26	26
No Work Participation Rate Penalities	4	25	25
No Strengthening Families Through Stronger Fathers	(7)	(20)	(25)
Increased Spending of TANF Funds	30	0	0
Increase State Supplement for SSI Recipients	4	20	34
Add Funding for Labor	11	11	11
Add Funding for Children & Family Services	8	8	6
All Other	2	3	4

The Enacted Budget added funding for the following items:

- An additional $30 million of TANF funding by accelerating TANF resources planned for use in future years in order to fund legislative initiatives, thereby reducing the amount available for the Earned Income Tax Credit program.

- An increase to the State supplement for SSI recipients in adult care facilities. Cost projections assume that required technical amendments to legislation relating to SSI recipients in such facilities will be made prior to implementation.

- Department of Labor programs for displaced homemakers, dislocated worker assistance, on the job training, workforce development institutes, and other programs.

- Office of Children and Family Services (OCFS) programs for day care center workers, delinquency prevention, foster care providers, runaway and homeless youth, child advocacy centers, family preservation centers, domestic violence training, and maternity and early childhood services.

The Executive Budget recommended several reform proposals, none of which were enacted, including:

- Imposing full family sanctions and fiscal penalties on districts that fail to meet Family Assistance and Safety Net work participation rates.

- Funding for a new "Strengthening Families Through Stronger Fathers" program that would have assisted unemployed and under-employed non-custodial parents in obtaining and retaining employment.

- Mergers involving the Workers' Compensation Board, the Public Employment Relations Board/State Employment Relations Board, and the Vocational and Educational Services for Individuals with Disabilities Program with the Department of Labor.

Agriculture/Environmental Conservation/Housing

	Costs/(Savings) vs. Executive Budget		
	2005-06	2006-07	2007-08
Agriculture/Environmental Conservation/Housing	**37**	**58**	**59**
No DEC Hard-Dollar Capital Shift to EPF	0	10	10
No Sweep from SPIF to General Fund	0	10	10
Restore/Add Funding for Agriculture & Markets	11	11	11
Restore/Add Funding for Environmental Conservation	8	8	8
Reduce All Terrain Vehicle Fee Increase	6	8	8
Add for Neighborhood Preservation Program	5	5	5
Add for Rural Preservation Program	2	2	2
Add for Parks Programs	5	2	2
Debt Service for New Housing Capital Bonding	0	2	3

The Enacted Budget contained the following:

- Financing $10 million in Environmental Conservation capital spending from the General Fund rather than the EPF in 2005-06 only.
- Adding funding for various programs in the Department of Agriculture and Markets including grants to Cornell University and other entities, and rejecting Article VII proposals related to inspections for pet dealers and food safety.
- Adding funding for Environmental Conservation programs including Jamaica Bay and Whitney Point water quality projects, and a new Invasive Species Eradication program.
- Reducing the proposed All Terrain Vehicle registration fee from $45 to $25.
- Adding spending in Housing for the Neighborhood Preservation Program, the Rural Preservation Program, and in Parks for the Historic and Independence Trails.
- Authorizing for one year a planned transfer from the State Park Infrastructure Fund (SPIF) to the General Fund.

The Enacted Budged added capital spending of $10 million for the Affordable Housing Corporation, $10 million for the Housing Trust Fund, and $5 million for other housing programs that is expected to add $2 million in annual debt service costs beginning in 2006-07.

Public Protection

	Costs/(Savings) vs. Executive Budget		
	2005-06	2006-07	2007-08
Public Protection	**45**	**48**	**49**
No Correctional Facilities Closures	22	25	26
Funding for Westchester Policing Program	3	3	3
Increased Parole Field Staff	2	3	3
Increased Funding for State Police	2	2	2
Funding for Attorney General/Department of Law	9	9	9
General Fund Support to Replace Federal Byrne Grant	3	3	3
All Other	4	3	3

The Enacted Budget added funding for the following:

- Continued operation of correctional facilities at Camp Pharsalia, Camp McGregor, Fulton Work Release Facility, Groveland Annex, and Greene and Watertown Special Housing Units, all of which were slated to be closed under the Executive Budget because of underutilization.

- Westchester County for policing of the Parkways.

- Parole field staff that the Executive Budget recommended reducing due to a decline in the parolee population.

- 16 State Police troopers assigned to security at the Empire State Plaza and Capitol, and denial of the Executive proposal to establish a new aggregate weight standard for laboratory analysis of illegal drug evidence.

- General Fund support to offset a reduction in Federal Byrne Grant Funding for anti-drug, anti-violence, crime control, prevention and treatment programs; and in the Department of Law for personal service costs, a document management and anti-crime and anti-fraud initiative.

The Enacted Budget did not include the proposed merger of the Division of Probation and Correctional Alternatives into the Division of Criminal Justice Services.

Mental Hygiene

	Costs/(Savings) vs. Executive Budget		
	2005-06	**2006-07**	**2007-08**
Mental Hygiene	**12**	**12**	**12**
OMH Local Restorations and Program Adds	6	6	6
OASAS Local Restorations and Program Adds	5	5	5
OMRDD Program Adds	1	1	1

The Enacted Budget authorized the use of $196 million in additional patient income account revenues resulting from enhanced trend factors, Medicaid rate adjustments, additional revenue for inpatient billings, and Medicare cost settlements, as proposed in the Executive Budget. It also approved the closure of the Middletown Psychiatric Center on April 1, 2006, the merger of the Office of Advocate for Persons with Disabilities and Commission on Quality of Care for the Mentally Disabled to strengthen advocacy for all persons with disabilities and the transfer of the State's Compulsive Gambling program from the Office of Mental Health (OMH) to and the Office of Alcoholism and Substance Abuse Services (OASAS).

The Enacted Budget restored partial funding for certain local services cuts in OMH and OASAS, and added funding for programs in all three mental hygiene agencies. In OMH, additions included partial restoration of funding for adult and children consumer oriented services and the alternative rate methodology, funding for Nathan Kline Institute research positions and rate increases for children's day treatment programs and other legislative member initiatives. OASAS additions included partial restoration of funding for statewide community treatment and chemical dependence prevention in NYC schools and other legislative member initiatives.

Economic Development

	Costs/(Savings) vs. Executive Budget		
	2005-06	2006-07	2007-08
Economic Development	**8**	**10**	**(13)**
No Funding for NY Sports/Convention Center	0	0	(23)
Add Funding for Economic Development Programs	8	10	10

The Enacted Budget revised the Empire Zones program to add twelve new zones, modify zone boundary requirements and enhance zone benefits in distressed areas. It also added funding for various Economic Development programs including the Metropolitan Development Association Essential New York initiative, and American-Axle Tonawanda Forge.

In addition, the Budget included a $90 million Capital Projects Fund appropriation that was originally proposed in the Executive Budget for Operation Strategic Partnership for Upstate Resurgence, as well as a $250 million capital appropriation for Technology and Development Program. Funds can be used to advance high technology and emerging technology projects, as well as projects that enhance the competitiveness of traditional industries. A newly created New York State Foundation for Science, Technology and Innovation will administer programs that could be supported from these sources.

The Enacted Budget did not authorize $300 million for the New York Sports and Convention Center proposed with the Executive Budget, resulting in lower debt service costs beginning in 2007-08.

Transportation

	Costs/(Savings) vs. Executive Budget		
	2005-06	2006-07	2007-08
Transportation	**5**	**9**	**44**
Debt Service for New Transportation Bond Act	0	9	30
Hold Sales Tax to MTOA Harmless	0	0	14
Add Funding for High Speed Rail Study	5	0	0

Both the State's five-year transportation and transit plans are being renewed in 2005. The new plan authorizes $35.8 billion in total commitments over five years to be divided equally between MTA and the Department of Transportation (DOT) programs ($17.9 billion each) and proposed a $2.9 billion bond act with resources to be divided equally between MTA and DOT programs ($1.45 billion each). Effectively, this adds $455 million above the Executive Budget DOT proposal and $1.9 billion above the Executive Budget MTA proposal. The proposed bond act is expected to add $4.5 billion in total debt service costs, with annual costs beginning in 2006-07.

To partially finance the new plans, the Enacted Budget authorized certain tax and fee actions including a 1/8 cent increase in the MTA region sales tax, a Mortgage Recording Tax increase of 5 cents per $100 of recorded mortgage in the MTA region, and increases in various Motor Vehicles fees.

A comprehensive five-year transportation program and financial plan with detail on programs, projects or commitment schedules is expected to be finalized later this year. Additional resources still need to be developed in the outyears of the plan to support the MTA, DOT, and DMV. The Executive Budget proposed a public/private partnership initiative to provide additional resources which has not yet been enacted.

Finally, the Enacted Budget added funding for a study on the implementation and operation of high speed rail routes in New York State.

General Conference Committee

	Costs/(Savings) vs. Executive Budget		
	2005-06	2006-07	2007-08
General Conference Committee	**(66)**	**88**	**818**
Funding for Member Items	0	100	100
No Automated Speed Enforcement	15	33	33
Denied/Modified Revenue Actions	(86)	(82)	566
Two Week Clothing Exemption	*(20)*	*(20)*	*605*
Eliminate Quick Draw Restrictions	*39*	*57*	*57*
Close "Thrift" Loophole on REIT	*50*	*50*	*50*
Increase Wine Tax	*38*	*44*	*45*
Empire Zone Reforms	*0*	*25*	*25*
Premium Tax Exclusion for Mutual Insurance Companies	*18*	*18*	*18*
PIT Top Tax Rate Decrease	*(190)*	*(130)*	*0*
SPUR	*(35)*	*(50)*	*(50)*
STAR Plus	*8*	*(42)*	*(99)*
Co-STAR Initiative	*0*	*(67)*	*(146)*
All Other	*6*	*33*	*61*
New Revenue Actions	5	37	119
Empire Zones	*0*	*22*	*44*
Single Sales Factor	*0*	*26*	*80*
Native American Regulations	*0*	*(16)*	*(16)*
All Other	*5*	*5*	*11*

The Enacted Budget added a $200 million lump sum appropriation from the Community Projects Fund for legislative initiatives, commonly referred to as "member items," which will be financed in two $100 million installments from the General Fund in 2006-07 and 2007-08. It is expected that the member item fund, which had a balance of $325 million at the close of 2004-05, will have sufficient existing resources to finance member item spending in 2005-06.

The budget did not authorize the use of cameras to monitor speeding in work-zones or the expansion of a program to use cameras to identify violators who disobey traffic signals.

The Enacted Budget rejected, modified, and proposed a series of revenue actions resulting in a net savings of $81 million in 2005-06 and $45 million in 2006-07, and a net cost of $685 million in 2007-08. Significant net revenue actions include:

- Approval of two sales-tax free weeks on clothing and footwear purchases under $110 through March 31, 2007 (versus the permanent change of $250 proposed in the Executive Budget).

- Not accelerating the phase-out of the temporary PIT surcharge.

- The denial of the inflation adjustment to STAR benefits for the residents of school districts that comply with the proposed cap on spending growth (i.e., the lesser of 4 percent or 120 percent of the increase in the current year Consumer Price Index).

- The denial of the Co-STAR initiative which was intended to provide tax relief to residents of counties and NYC that kept their annual General Fund spending growth at or below the proposed Medicaid spending cap.

Debt/Capital

The Enacted Budget added capital spending which will be financed with new debt, including:

- $2.9 billion in proposed General Obligation Debt;
- $810 million for SUNY and CUNY projects; and
- $25 million for a variety of housing programs.

The Enacted Budget did not authorize the Executive Budget recommended $300 million in bond financing to support a sports and convention center in New York City. In addition, the Enacted Budget reduced the proposed $250 million Higher Education Facilities Capital Matching Grants program for public and private colleges to $150 million for private colleges only.

The net impact of all of these changes will increase State debt levels and outyear debt service costs. A separate report, "The Enacted Budget Capital Program and Financing Plan," provides updated five-year forecasts on the capital spending and debt levels based on the Enacted Budget.

GENERAL FUND -- NONRECURRING RESOURCES

The Enacted Budget included a total of $889 million in nonrecurring actions, an increase of $33 million above the level proposed in the Executive Budget. The net increase consists of additional abandoned property revenues ($90 million) and additional sweeps of available fund balances ($112 million); offset by a reduction in the pension savings initiative proposed in the Executive Budget ($169 million).

2005-06 Nonrecurring Resources (millions of dollars)	
Fund Balances	236
Use 2004-05 Surplus	170
Pension Amortization	152
Abandoned Property	90
TANF Reprogramming	61
Proceeds from Sale of Property	54
Mortgage Insurance Fund (Excess Balance)	50
Federal Medicaid Participation for Aliens	42
All Other	34
Total Nonrecurring Resources	**889**

Fund balances of $236 million include available balances in the Revenue Arrearage Account ($45 million), various Special Revenue Accounts in Health ($29 million), Welfare ($24 million), and Motor Vehicles ($21 million). One-time available fund balances used to offset spending include the HESC sole custody account ($51 million) and the Department of Health (DOH) Quality of Care account ($15 million).

All Funds Summary

SUMMARY OF RECEIPTS CHANGE FROM EXECUTIVE BUDGET TO ENACTED BUDGET

Total receipts in 2005-06 are projected to be $46.8 billion in the General Fund, $70.1 billion in State Funds, and $106.5 billion in All Funds, an annual increase of $2.5 billion (5.7 percent), $4.4 billion (6.8 percent) and $4.5 billion (4.4 percent).

Summary of Annual Receipts Growth (millions of dollars)			
	General Fund	State Funds	All Funds
2004-05 30-Day Estimate	**44,374**	**65,334**	**102,555**
Closeout Changes	(106)	314	(546)
2004-05 Preliminary Actuals	**44,268**	**65,648**	**102,009**
Taxes	2,377	3,477	3,477
Miscellaneous Receipts	(377)	961	820
Federal Grants	(5)	(5)	203
Transfers From Other Funds	536	0	0
2005-06 Enacted Budget Estimate	**46,799**	**70,081**	**106,509**
Annual $ Change	***2,531***	***4,433***	***4,500***
Annual % Change	***5.7%***	***6.8%***	***4.4%***

Receipts in the 2005-06 Enacted Budget exceed the level recommended in the Governor's Executive Budget by $1.5 billion in the General Fund, $959 million in State Funds, and $1.1 billion in All Funds.

SUMMARY OF DISBURSEMENTS CHANGE FROM THE EXECUTIVE BUDGET TO ENACTED BUDGET

Estimated disbursements in the 2005-06 Enacted Budget exceed the level recommended in the Governor's Executive Budget by $1.1 billion in the General Fund, $1.2 billion in State Funds and $1.3 billion in All Funds. The major components of these disbursement changes are summarized in the following table, and are explained in more detail below.

Summary of 2005-06 Disbursements Executive Budget (w/30-Day Changes) to Enacted Budget (millions of dollars)			
	General Fund	**State Funds**	**All Funds**
2005-06 30-Day Estimate	**45,070**	**69,057**	**105,162**
Spending Additions	**1,536**	**1,746**	**2,313**
Health and Medicaid	598	684	1,241
Education	292	289	289
Higher Education	264	231	231
General Government/Local Assistance	170	190	190
Human Services/Labor	64	64	74
Agriculture/Environmental Conservation/Housing	43	83	83
Public Protection	44	44	44
Mental Hygiene	12	12	12
Economic Development	8	8	8
Transportation	5	252	252
General Conference	36	(111)	(111)
Spending Avails	**(208)**	**(161)**	**(192)**
Welfare Reestimates	(115)	(115)	(165)
Fund Balances	(70)	(19)	0
Spending Cuts/Reestimates	(23)	(27)	(27)
Timing-Related Changes from 2004-05/Reestimates	**(191)**	**(369)**	**(780)**
2005-06 Enacted Budget Estimate	**46,207**	**70,273**	**106,503**
Increase Above Executive Budget	**1,137**	**1,216**	**1,341**

The Legislature's additions and available resources beyond the Executive Budget affect both revenues and spending. The Enacted Budget provided significant spending additions for Medicaid, education, higher education, and transportation. Available resources that lower spending include the expected decline in the welfare caseload, the use of fund balances to offset disbursements, spending cuts, and 2004-05 closeout savings.

Timing-related changes include $390 million in lower spending in 2005-06 from the pre-payment of Medicaid and HCRA liabilities in 2004-05, offset by $126 million in projected higher spending for legislatively-directed education spending, settlement of certain collective bargaining agreements, and member items spending from the Community Projects Fund. General Fund reestimates include $78 million in higher school aid spending primarily due to a lower VLT revenues use to offset spending. The estimate for VLT revenues has been reduced due to the delay in VLT operations at the Yonkers Racetrack from February 2005 to April 2005.

DOB has lowered its State Funds and All Funds spending projections on the basis of historical spending trends and 2004-05 year-end results in the Special Revenue Funds and Capital Projects Funds.

General Fund Outyear Projections

At the beginning of the 2005-06 budget cycle, the State faced potential General Fund budget gaps of $5.8 billion in 2006-07 and $5.6 billion in 2007-08. The recurring savings proposed in the 2005-06 Executive Budget reduced the gaps to $2.5 billion in both years.

Compared to Executive Budget projections, the General Fund budget gaps for the 2006-07 and 2007-08 fiscal years have increased in the Enacted Budget, and now are estimated at roughly $3.2 billion in 2006-07 and $4.1 billion in 2007-08. For planning purposes, the current budget gap estimates reflect the use of the Fiscal Stability Reserve to reduce the outyear gaps in equal amounts.

Projected General Fund Outyear Gaps (millions of dollars)		
	2006-07	2007-08
2005-06 Baselevel Budget Gaps	**(5,844)**	**(5,571)**
Proposed Executive Budget Actions	3,300	3,030
2005-06 Executive Budget Gaps	**(2,544)**	**(2,541)**
Net Additions	(2,167)	(3,338)
Available Resources	1,243	1,453
Use Fiscal Stability Reserve	301	300
2005-06 Enacted Budget Gaps	**(3,167)**	**(4,126)**

It should be noted that the current gap projections are subject to revision as additional information becomes available about, among other things, the national and State economies, financial sector activity, entitlement spending and social service caseloads, Federal budget changes and State reimbursement obligations that are driven by local government activity. Key factors include: end-of-year business tax collections; calendar year economic results; year-end financial sector bonus income data; the school aid database update in November; and quarterly Medicaid and welfare cycle trend analyses. Historically, these factors have been subject to a high degree of fluctuation across the forecast period, and could produce results above or below the current projections.

SOURCES OF PROJECTED GENERAL FUND OUTYEAR GAPS

The projected gaps are primarily the result of anticipated spending increases that exceed the growth in revenue collections, as well as the loss of nonrecurring resources used to help balance the budget in 2005-06. The largest spending increases are in the areas of Medicaid and school aid, as described below and in the Executive Budget outyear forecast. The school year projections assume annual increases of roughly $500 million in traditional school aid in 2006-07 and 2007-08 and increased funding for SBE equal to the level of VLT revenues.

The major sources of the 2006-07 budget gap are described in more detail below.

Sources of 2006-07 General Fund Budget Gap Savings/(Costs) (billions of dollars)	
	2006-07
Revenue Growth	3,125
Loss of Nonrecurring Actions	(889)
PIT/Sales Tax Temporary Surcharge Phase-out	(1,026)
All Other Revenue Changes	(35)
Medicaid Growth (including Takeover)	(2,670)
School Aid	(461)
State Operations	(592)
Fringe Benefits	(375)
All Other Spending Growth	(244)
2006-07 Projected Budget Gap	**(3,167)**

OUTYEAR RECEIPTS

General Fund receipts in 2006-07 are projected to increase by $1.5 billion from the current year. Underlying revenue growth of $3.1 billion (6.1 percent) in 2006-07 is offset by the loss of several one-time revenues ($531 million), the phase-out of the personal income tax (PIT) surcharge and a one-quarter percent increase in sales tax ($1.0 billion), lower transfers from the Revenue Bond Tax Fund (RBTF) due to increasing debt service costs ($180 million), and higher transfers to finance the STAR program ($188 million).

OUTYEAR DISBURSEMENTS

Spending is projected to increase by $4.7 billion in 2006-07. Medicaid growth of $2.7 billion in 2006-07 is primarily attributable to the increasing cost of providing health care services, as well as the rising number of recipients and corresponding increases in medical service utilization. In addition, growth related to the State takeover of local FHP costs are estimated to rise by $235 million, and the loss of resources from Empire proceeds to support Medicaid costs ($200 million) and HCRA ($500 million) that are expected to help finance 2005-06 General Fund costs are no longer available in 2006-07. The proposed cap on local Medicaid costs is expected to increase General Fund spending by $510 million in 2006-07 (from a total of $121 million in 2005-06 to $631 million in 2006-07).

On a State fiscal year basis, school aid spending is projected to grow by $461 million in 2006-07. The projections assume growth in expense-based programs and other selected aid categories. The Financial Plan projections assume that VLT revenues will be used to continue to finance the State's SBE program. The SBE program is part of the State's efforts to comply with a State Court of Appeals ruling that found that the school finance system failed to provide students in New York City with an adequate education in violation of the State Constitution. The compliance plan also includes traditional school aid and Federal aid.

State Operations spending is projected to increase by $592 million in 2006-07. This growth is primarily due to the cost of collective bargaining agreements with many of the State’s employee unions and the anticipated settlements with the remaining unions (approximately $250 million), normal salary step increases and non-personal service increases (roughly $120 million), and the decline in patient income revenues available to finance General Fund spending ($200 million).

General State Charges is expected to increase by $375 million in 2006-07 (excluding the pension amortization savings in 2005-06) and is primarily due to higher costs for pensions ($98 million) and health insurance for State employees and retirees ($259 million).

All other spending growth is comprised of inflationary spending increases across numerous local assistance programs and is consistent with 2004-05 and 2005-06 growth trends.

Cash Flow

In 2005-06, the General Fund is projected to have quarterly-ending balances of $4.5 billion in June 2005, $4.6 billion in September 2005, $2.7 billion by the end of December 2005, and $1.8 billion at the end of March 2006. The lowest projected month-end cash flow balance is $1.8 billion in November 2005. DOB’s monthly cash flow projections for 2005-06 are set forth in the section “Financial Plan Tables” later.

The Comptroller invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments through the State's Short-Term Investment Pool (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.

The Comptroller 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).

GAAP Financial Plans

DOB also prepares the General Fund and All Funds Financial Plans on a GAAP basis 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 Report. The GAAP projections for both years are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2003-04. The GAAP projections comply with 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 2003-04 show the State in a net positive overall financing condition of $39.1 billion.

In 2004-05, the General Fund GAAP Financial Plan shows total revenues of $38.4 billion, total expenditures of $45.7 billion, and net other financing sources of $8.2 billion, resulting in an operating surplus of $970 million and a projected accumulated surplus of $689 million. This operating result reflects higher revenues offset by the use of the 2003-04 surplus and the remaining tobacco resources in 2004-05.

In 2005-06, the General Fund GAAP Financial Plan shows total revenues of $38.4 billion, total expenditures of $48.1 billion, and net other financing sources of $9.4 billion, resulting in an operating deficit of $394 million and a projected accumulated surplus of $295 million. These changes are due primarily to the use of 2004-05 resources in 2005-06 partially offset by $601 million in the Fiscal Stability Reserve.

The accumulated surplus of $295 million at the end of 2005-06 is an improvement of $576 million from the 2003-04 actual results, primarily reflecting the multi-year increase in reserves.

2005-06 Governmental Funds Financial Plan

(FUND TYPE)

This section summarizes the 2005-06 Financial Plan from the perspective of each of the four major fund types that comprise the All Funds budget: the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

GENERAL FUND

In 2005-06, the General Fund is projected to end the fiscal year with a $1.8 billion fund balance, consisting of $872 million in the Tax Stabilization Reserve Fund (TSRF), $601 million in the Fiscal Stability Reserve, $316 million in the Community Projects Fund, and $21 million in the Contingency Reserve Fund.

The State projects General Fund receipts, including transfers from other funds, to total $46.8 billion in 2005-06, an increase of $3.0 billion (6.9 percent) from the current year. Projected growth in personal income and sales taxes, resulting from temporary tax actions taken in the 2004-05 Enacted Budget and the economic recovery, are primarily responsible for the growth.

General Fund Receipts (millions of dollars)	2004-05 Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Personal Income Tax (1)	18,677	21,118	2,441	13.1%	1,087
User Taxes and Fees	8,731	8,601	(130)	-1.5%	(21)
Business Taxes	4,069	4,283	214	5.3%	167
Other Taxes	926	778	(148)	-16.0%	0
Miscellaneous Receipts	2,217	2,348	131	5.9%	(3)
Federal Grants	9	4	(5)	-55.6%	0
Transfers From Other Funds					
Revenue Bond Fund	5,981	6,338	357	6.0%	145
LGAC Fund	2,182	2,306	124	5.7%	6
Clean Water/Clean Air Fund	516	510	(6)	-1.2%	0
All Other	452	513	61	13.5%	105
Total Receipts	**43,760**	**46,799**	**3,039**	**6.9%**	**1,486**

(1) The personal income tax amounts are after the refund reserve transactions.

The significant revenue increase experienced in fiscal year 2004-05 (almost 12 percent in base growth) was supported by a number of positive economic and tax policy related factors acting in concert. These factors supported higher than expected receipts growth throughout the fiscal year and included:

- a better than anticipated growth in incomes, particularly from high income taxpayers;
- an associated increase in PIT from taxpayers subject to the temporary tax surcharge on incomes about $150,000;
- a rapid appreciation in real estate values, especially in downstate New York which supported higher real estate transfer and PIT collections;
- an unusually large number of significant estate tax payments over the fiscal year; and
- a large increase in corporate tax payments reflecting both improved business profitability and a reduction in refunds requested from overpayments of prior year liability.

The Enacted Budget receipt estimates detailed below assume continued strong growth in the underlying base, but a return to growth rates more consistent with historical averages during an economic expansion. Overall, base revenue growth is expected to increase by 7 percent for the 2005-06 fiscal year.

Personal Income Tax

General Fund PIT receipts are projected to increase by $2.4 billion (13.1 percent) from 2004-05. The increase is due to continued economic improvement in 2005 (stronger withholding and estimated tax payments), strong payments on 2004 tax liability (higher final returns and extensions offset slightly by an increase in refunds) and a smaller deposit into the PIT refund reserve account. This amount is offset by a larger deposit to the RBTF.

General Fund PIT receipts, including refund reserve transactions, are revised upward by $1.1 billion from the Executive Budget estimate. This reflects the combination of an increase to base collection estimates due to stronger 2004-05 actuals, changes to tax actions proposed with the Budget, and additional resources from the refund reserve account deposited at the start of 2005-06 fiscal year largely reflecting higher than expected 2004-05 results.

User Taxes and Fees

User taxes and fees include receipts from the State sales tax, cigarette and tobacco products taxes, alcoholic beverage taxes and fees, motor fuel taxes, and motor vehicle license and registration fees. Receipts for user taxes and fees for 2005-06 are projected to total $8.6 billion, a decrease of $130 million (1.5 percent) from reported 2004-05 collections.

The projected decline in sales tax cash receipts of $125 million (15 percent) is largely attributable to the sunset of the temporary increase in the overall tax rate from 4.25 percent to 4 percent effective June 1, 2005. The Enacted Budget postponed the exemption on items of clothing and footwear for two years, until May 31, 2007, and replaced it with two temporary one-week exemptions with the same $110 thresholds. Growth in the sales tax base, after adjusting for tax law changes and other factors, is projected at 6.0 percent.

The decline in General Fund cigarette tax receipts of $5 million from the prior year is the result of a continuation of the long-term consumption decline in cigarettes.

User taxes and fees are revised downward by $21 million from the Executive Budget estimates. This decline mainly reflects proposed tax actions that differ from those contained in the Enacted Budget.

Business Taxes

Business taxes include the corporate franchise tax, corporation and utilities taxes, the insurance franchise tax, and the bank franchise tax. Receipts for business taxes for 2005-06 are projected to total $4.3 billion, an increase of $214 million (5.3 percent) from 2004-05 collections. This increase is primarily due to an expectation of continued strength in the corporate franchise tax.

Business tax receipts for 2005-06 have been revised up by $167 million from the Executive Budget, to reflect anticipated increases in audit collections, as well as continued strength in corporate franchise tax and the insurance premiums tax payments.

Other Taxes

Other tax receipts are now projected to total $778 million, which is $148 million below last year’s amount, but unchanged from the Executive Budget estimate. This category includes the estate and gift tax, real property gains tax, and pari-mutuel taxes. Previously enacted legislation to repeal both the real property gains tax and the gift tax, and to reduce the estate and pari-mutuel taxes, has significantly reduced collections from these sources.

Miscellaneous Receipts

Miscellaneous receipts are expected to reach nearly $2.3 billion, an increase of $131 million from the 2004-05 results. This increase is primarily due to the receipt of $523 million from the local government revenue and disbursement program partially offset by the loss of several one-time receipts received in 2004-05.

Miscellaneous receipts from the Executive Budget is a negative $3 million resulting largely from the net impact of reestimates and the legislative rejection of several proposed increases in licenses and fees.

Transfers From Other Funds

Transfers from other funds are expected to total $9.7 billion, an increase of $536 million from 2004-05. This annual increase comprises primarily higher transfers from the RBTF ($357 million), the Local Government Assistance Corporation (LGAC) Fund ($124 million), and all other funds ($61 million) offset by lower transfers from the Clean Water/Clean Air (CW/CA) Fund ($6 million)

Transfers to the General Fund from PIT receipts deposited to the RBTF in excess of debt service payable on State PIT Bonds are projected to total $6.3 billion in 2005-06, an increase of $357 million from 2004-05. The annual increase is attributable to overall growth in PIT ($519 million), partially offset by an increase in debt service costs on PIT bonds ($162 million).

Transfers to the General Fund of sales tax receipts deposited to the LGAC fund in excess of debt service due on LGAC bonds are projected to total $2.3 billion in 2005-06, an increase of $124 million from the prior year. This growth is due to overall growth in sales tax receipts ($149 million), partially offset by a modest increase in debt service costs ($25 million).

Transfers to the General Fund from the real estate transfer tax deposited to the CW/CA Debt Service Fund in excess of debt service due on those general obligation bonds are projected to total $510 million in 2005-06. The decrease of $6 million is due to growth in real estate transfer taxes ($9 million) more than offset by an increase in debt service costs ($15 million).

All other transfers are projected to total $513 million in 2005-06, an annual increase of $61 million primarily due to the timing of deposits to Tribal State Compact Revenue account ($103 million) and a net increase in fund sweeps ($109 million), offset by nonrecurring transfers from SUNY and CUNY to reimburse the General Fund for equipment costs ($151 million).

Revenue Actions

The 2005-06 Enacted Budget contains nearly $825 million in All Funds net revenue actions in the 2005-06 State fiscal year, including:

Revenue Enhancements:

- Additional abandoned property collections ($90 million);
- Extended the higher Limited Liability Corporation fees under the PIT for two years ($22 million in 2005-06 and 2006-07, $0 thereafter);
- Replaced the permanent clothing exemption with two $110 weeks ($476 million in 2005-06 and $605 million in 2006-07);
- Increased the fee when a dealer issues a temporary motor vehicle registration ($1 million in 2005-06, $2 million annually thereafter);
- Increased the Dealer/Transporter registration fee ($600,000 in 2005-06, $1 million annually thereafter);

- Increased the Salvage Vehicle Inspection fee ($800,000 in 2005-06, $2 million annually thereafter);
- Increased motor vehicle title fees ($63 million in 2005-06, $125 million annually thereafter);
- Expanded the motor vehicle fee Insurance Buyback program ($4 million in 2005-06, $7.9 million annually thereafter);
- Increased the MTA sales and compensating use tax ($157 million in 2005-06, $267 million fully effective);
- Increased the capital base under the corporate franchise tax ($26 million annually beginning in 2005-06); and
- Adopted tax shelter provisions ($25 million in 2005-06, $50 million in 2006-07).

In addition, several revenue actions with outyear implications were included in the 2005-06 Enacted Budget, including:

- Allowed the Tax Department to enter into reciprocal offset agreements with other states ($1 million in 2006-07, $2 million in 2007-08, and $3 million annually thereafter);
- Changed the way non-residents and part year residents compute the PIT long-term care insurance credit ($2 million in 2006-07 and $7 million fully effective); and
- Enacted the Native American cigarette and motor fuel regulations ($60 million annually beginning in 2006-07);

Tax Reductions:

- Created a refundable PIT credit for individual payers of the Nursing Home assessment ($10 million in 2005-06, $40 million annually thereafter);
- Expanded the corporate franchise tax Qualified Emerging Technology Credit ($5 million in 2005-06, $10 million annually thereafter);
- Reduced the corporate franchise tax rate for small businesses ($5 million annually beginning in 2005-06);
- Extended the Power For Jobs program for one year ($35 million in 2006-07 only);
- Expanded the green buildings corporate franchise tax credit ($1 million in 2006-07, $2 million in 2007-08);
- Created a single sales factor for all taxpayers under the corporate franchise tax ($26 million in 2006-07, $130 million fully effective);
- Expanded and reforms the Empire Zones program ($22 million in 2006-07, $88 million fully effective);

- Extended the low income housing credit ($2 million annually beginning in 2006-07); and

- Established a fourth phase of the CAPCO program ($6 million annually for ten years beginning in 2007-08).

Disbursements

The State projects General Fund disbursements, including transfers to other funds, of $46.2 billion in 2005-06, an increase of $2.1 billion (4.7 percent) from the current year. Increases in Grants to Local Governments ($1.4 billion), State Operations ($502 million), and General State Charges ($396 million), offset by a decrease in transfers to other funds ($265 million) account for the change. The major reasons for the disbursement changes are summarized below. For more information on the changes to the General Fund, see the section entitled "Detailed Summary of Legislative Addition by Conference Committee."

General Fund Disbursements
(millions of dollars)

	2004-05 Adjusted Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Grants to Local Governments	30,001	31,448	1,447	4.8%	860
State Operations	7,565	8,067	502	6.6%	13
General State Charges	3,653	4,049	396	10.8%	154
Transfers to Other Funds					
Debt Service	1,731	1,667	(64)	-3.7%	0
Capital Projects	197	229	32	16.2%	8
All Other	980	747	(233)	-23.8%	102
Total Disbursements	**44,127**	**46,207**	**2,080**	**4.7%**	**1,137**

Grants to Local Governments

Grants to Local Governments include financial aid to local governments and nonprofit organizations, as well as entitlement payments to individuals. Local assistance spending is projected at $31.4 billion in 2005-06, an increase of $1.4 billion (4.8 percent) from the current year. Growth in school aid ($864 million) and CUNY operating costs (mainly for salary growth and increases in fixed costs) and CUNY/SUNY community college enrollment growth ($179 million) are partially offset by savings from Medicaid cost containment and a patient income revenue reclassification described below.

State Operations

State Operations accounts for the cost of running the Executive, Legislative, and Judicial branches of government and is projected to total $8.1 billion in 2005-06, an increase of $502 million (6.6 percent) from the prior year. Personal service costs (e.g., State employee payroll) comprise 72 percent of State Operations spending. The remaining 28 percent represents non-personal service costs for contracts, rent, supplies, and other operating expenses.

The projected annual increase in State Operations is affected by the use of $400 million in patient income revenues in 2005-06 to offset local assistance spending, instead of offsetting State Operations spending as was done in 2004-05. The change results in a $400 million annual increase in State operations costs financed by the General Fund and a comparable decrease in local assistance spending. Adjusting for this reclassification, State Operations is projected to increase by $102 million from 2004-05. The growth is comprised of scheduled wage increases under current labor contracts, normal salary creep, and salary grade changes (roughly $350 million) offset by savings in agency operations ($158 million), the use of alternate sources of revenue to fund operations and the removal of the 27th institutional payroll.

DOB projects the Executive branch workforce will total 191,891 in 2005-06, an increase of 2,245 over 2004-05. Of the 79 agencies that comprise the Executive Branch workforce, 68 project an annual increase in their workforce and 11 agencies project a reduction in their workforce in 2005-06.

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.

General Fund spending for General State Charges is projected to be $4.0 billion in 2005-06, an increase of $396 million (10.8 percent) over the prior year. The annual increase is due mostly to rising costs of employee health benefits ($189 million), higher costs related to employer pension contributions ($247 million) and fringe benefit increases for unsettled collective bargaining agreements (roughly $40 million). Higher fringe benefit cost reimbursements to the General Fund which are payable from other funds, thus reducing General Fund costs, partially offset the growth ($105 million).

Transfers to Other Funds

Transfers to other funds are projected to total $2.6 billion in 2005-06 and include General Fund transfers to support debt service ($1.7 billion), capital projects ($229 million), and other funds ($747 million).

General Fund transfers for debt service decline by $64 million (3.7 percent) from 2004-05 primarily due to $150 million in projected savings from debt management actions, offset by higher debt service on existing bonds for corrections and CUNY, and the accounting treatment of the PIT Revenue Bond program which reduces General Fund costs and increases costs in State Funds. Transfers to support capital projects increase by $32 million mainly from a reestimate of the timing of capital spending based on 2004-05 actuals. All other transfers are projected to decrease by $233 million in 2005-06 due primarily to a nonrecurring transfer to the HCRA Special Revenue Fund to reflect a prepayment of General Fund support originally planned in 2005-06 but paid in 2004-05 ($200 million).

SPECIAL REVENUE FUNDS

Special Revenue Funds receive State and Federal revenues dedicated to finance specific activities. Special Revenue Funds 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 STIP to cover temporary cash shortfalls resulting from the timing of receipts and disbursements (i.e., disbursements occurring prior to receipts being received).

In 2005-06 the Special Revenue Funds Financial Plan projects total receipts of $53.4 billion, total disbursements of $54.1 billion, and net other financing sources of $413 million, resulting in an operating deficit of $288 million.

Receipts

Special Revenue Funds Receipts (millions of dollars)	2004-05 Adjusted Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Taxes	5,420	5,843	423	7.8%	178
Miscellaneous Receipts	11,480	12,974	1,494	13.0%	(450)
Federal Grants	34,491	34,570	79	0.2%	167
Total Receipts	**51,391**	**53,387**	**1,996**	**3.9%**	**(105)**

Total Special Revenue Fund receipts are projected to total $53.4 billion in 2005-06, an increase of $2.0 billion (3.9 percent) over 2004-05. The major components of these receipt changes are summarized below.

Taxes

Tax receipts in Special Revenue Funds are projected to total $5.8 billion, an increase of $423 million (7.8 percent) over 2004-05. The annual growth is driven primarily by taxes dedicated to support the STAR program resulting from increased participation by taxpayers and local tax levy growth ($163 million), and higher tax receipts dedicated to support the MTOA[5] Fund ($217 million) and the Dedicated Mass Transportation Trust Fund ($44 million).

Miscellaneous Receipts

Miscellaneous receipts are projected to be $13.0 billion, an annual increase of $1.5 billion (13.0 percent) over 2004-05. The annual growth is primarily due to the additional transfers from HCRA, including projected Empire conversion proceeds, to support State Medicaid and other public health costs ($1.7 billion), increased receipts from assessments on hospital, home care and nursing home revenues ($180 million), and higher receipts under the Tribal State Compact agreement due to the timing of deposits ($132 million). DOB has lowered its receipts projections on the basis of historical trends and 2004-05 preliminary results which offset the increases described above ($600 million).

Federal Grants

Federal grants are projected to total $34.6 billion in 2005-06, a modest increase of $79 million (0.2 percent) from 2004-05. Changes to Federal grants generally correspond to changes in federally-reimbursed spending. However, since Federal reimbursement is assumed to be received in the State fiscal year in which spending occurs, additional timing-related variances result. Spending for World Trade Center activities ($1.2 billion)[6] and Children and Families ($170 million) are expected to decline from 2004-05 levels. These declines are partially offset by growth in welfare ($314 million), federally supported education costs ($304 million), elections ($148 million), mental hygiene ($131 million), homeland security ($96 million) and Medicaid ($88 million).

5. Mass Transportation Operating Assistance.
6. Includes $1 billion for captive insurance and $200 million in other Federal aid.

Disbursements

Special Revenue Funds Disbursements (millions of dollars)					
	2004-05 Adjusted Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Grants to Local Governments	43,569	45,076	1,507	3.5%	515
State Operations	8,095	8,238	143	1.8%	(267)
General State Charges	712	772	60	8.4%	(6)
Capital Projects	11	2	(9)	-81.8%	(1)
Total Disbursements	**52,387**	**54,088**	**1,701**	**3.2%**	**241**

Total Special Revenue Fund disbursements are projected to be $54.1 billion, an increase of $1.7 billion (3.2 percent) from 2004-05. The major changes in disbursements are summarized below.

Grants to Local Governments

Grants to local government are projected at $45.1 billion, an annual increase of $1.5 billion (3.5 percent) from 2004-05. Sources of growth include higher spending for State Medicaid financed by HCRA and health care provider assessments ($1.8 billion); the reclassification of "offset" spending from State Operations to local assistance ($400 million); grants for transit systems ($351 million), Federal aid for education for instructional support, IDEA and the School Lunch programs ($229 million); STAR due to increased participation by taxpayers and local tax levy growth ($163 million); and implementation of the Help America Vote Act ($118 million). The expected decline in World Trade Center spending ($1.2 billion) and DOB downward adjustments to reflect historical spending trends and 2004-05 year end results ($700 million) partially offsets the growth in other areas.

State Operations

State Operations disbursements are projected to be $8.2 billion, an increase of $143 million (1.8 percent) from 2004-05. Spending increases primarily result from collective bargaining agreements, performance advances, and inflation (roughly $200 million), as well as an increase in revenues available to finance State Operations in the mental hygiene programs attributable to Federal revenue initiatives ($234 million). The reclassification of the Patient Income Account "offset" spending from State Operations to local assistance partially offsets the growth in these areas ($400 million).

General State Charges

Disbursements for General State Charges are projected to be $772 million, an increase of $60 million (8.4 percent) from the prior year. Growing pension and health insurance costs account for most of the annual growth in General State Charges.

Other Financing Sources/(Uses)

Special Revenue Funds Other Financing Sources (Uses) (millions of dollars)	2004-05 Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Transfers From Other Funds	3,613	3,537	(76)	-2.1%	102
Transfers To Other Funds	(2,796)	(3,124)	(328)	11.7%	(98)
Net Other Financing Sources (Uses)	**817**	**413**	**(404)**	**-49.4%**	**4**

Transfers from other funds are projected to total $3.5 billion in 2005-06, a decrease of $76 million (2.1 percent) from 2004-05. The decrease is primarily due to nonrecurring transfers in 2004-05 to support HCRA ($200 million) offset by increases in patient care revenues, net of debt service on outstanding Mental Hygiene bonds ($143 million), and a nonrecurring General Fund transfer to the HCRA Fund to finance a prior year excess medical malpractice loan ($45 million).

Transfers to other funds are estimated to be $3.1 billion, an increase of $328 million (11.7 percent) from 2004-05. The annual growth is due to an increase in Federal Medicaid reimbursement for Mental Hygiene services before payment of debt service ($292 million), transfers under the Tribal State Compact ($102 million), and a net increase in fund sweeps ($85 million) partially offset by nonrecurring transfers from SUNY and CUNY to reimburse the General Fund for equipment costs ($151 million).

CAPITAL PROJECTS FUNDS

The receipt and disbursement tables for capital projects reflect accounting adjustments for capital projects activity for anticipated spending delays and certain capital spending that is not reported by the State Comptroller in actual cash spending results, although it is reflected in the State's GAAP Financial Statements. The spending is related to programs which are financed in the first instance by bond proceeds, rather than with a short-term loan from STIP or cash from the General Fund. Such capital spending is projected at $937 million in 2004-05 and over $1.2 billion in 2005-06.

Receipts

Capital Projects Fund receipts include dedicated tax receipts from highway-related taxes deposited to the Dedicated Highway and Bridge Trust Fund, and real estate transfer taxes deposited to the EPF. Miscellaneous receipts include bond proceeds that finance capital projects across all functional areas, as well as other fees, including State park fees, industry-specific environmental fees and receipts from the sale of surplus land.

Capital Projects Funds Receipts (millions of dollars)					
	2004-05 Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Taxes	1,862	1,860	(2)	-0.1%	2
Miscellaneous Receipts	2,696	3,567	871	32.3%	94
Federal Grants	1,721	1,850	129	7.5%	18
Total Receipts	**6,279**	**7,277**	**998**	**15.9%**	**114**
GAAP Adjustment	(937)	(1,234)	(297)	31.7%	(74)
Spending Delays	0	(759)	(759)	-	(259)
Financial Plan Receipts	**5,342**	**5,284**	**(58)**	**-1.1%**	**(219)**

Total Capital Project Fund receipts (prior to adjustments) are projected at $7.3 billion, an increase of $998 million from 2004-05. The increase is primarily attributable to projected increases in economic development ($257 million) and education ($440 million) programs financed with authority bond proceeds. The table below summarized the main categories of receipts.

Disbursements

Spending for the Capital Project Fund (prior to adjustments) is projected to total almost $7 billion in 2005-06, an increase of $1.3 billion. The majority of the projected increase is for education ($438 million), parks and environment ($242 million), transportation ($232 million), and economic development ($221 million).

Capital Projects Funds Disbursements (millions of dollars)					
	2004-05 Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Transportation	3,468	3,700	232	6.7%	98
Education	581	1,019	438	75.4%	101
Parks and Environment	480	722	242	50.4%	130
Economic Development	381	602	221	58.0%	8
Mental Health	281	286	5	1.8%	0
Public Protection	204	244	40	19.6%	3
Health and Social Welfare	103	175	72	69.9%	26
General Government/Other	135	227	92	68.1%	39
Total Disbursements	**5,633**	**6,975**	**1,342**	**23.8%**	**405**
GAAP Adjustment	(937)	(1,234)	(297)	100.0%	(74)
Spending Delays	0	(759)	(759)	-	(259)
Financial Plan Disbursements	**4,696**	**4,982**	**286**	**6.1%**	**72**

Other Financing Sources/(Uses)

Capital Projects Funds Other Financing Sources (Uses) (millions of dollars)					
	2004-05 Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Transfers From Other Funds	217	266	49	22.6%	7
Transfers To Other Funds	(1,006)	(945)	61	-6.1%	(8)
Bond Proceeds	178	279	101	56.7%	134
Net Other Financing Sources (Uses)	**(611)**	**(400)**	**211**	**-34.5%**	**133**

Transfers from other funds to the Capital Projects Fund are estimated at $266 million in 2005-06, an increase of $49 million from 2004-05. The change is primarily attributable to an increase in the transfer from the General Fund to the Capital Project Fund to pay-as-go capital spending in a variety of agencies.

Transfers to other funds from the Capital Project Fund decrease by $61 million. A decrease in the transfer of receipts from the Dedicated Highway and Bridge Trust Fund to reimburse the General Debt Service Fund for debt service on Dedicated Highway and Bridge Trust Fund and Consolidated Highway Improvement Program bonds ($172 million) and $32 million for the reclassification of the Hazardous Waste Remedial Fund to a Special Revenue Fund, offset by increases in the transfer to the General Fund from the EPF and SPIF ($40 million) and a new transfer from the Suburban Transportation Fund to the Mass Transportation Assistance Account ($39 million) for projected mortgage recording taxes deposited in that fund account for the change.

Bond proceeds increased by $101 million in 2005-06 primarily due to the proposed General Obligation Bond Act.

DEBT SERVICE FUNDS

The following section briefly summarizes activity in the Debt Service Funds type. All tax-financed State debt service on long-term debt and payments on certain lease-purchase and other contractual obligations are paid from Debt Service Funds.

Receipts

Debt Service Funds Receipts (millions of dollars)					
	2004-05 Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Taxes	9,371	10,049	678	7.2%	153
Miscellaneous Receipts	768	656	(112)	-14.6%	0
Total Receipts	**10,139**	**10,705**	**566**	**5.6%**	**153**

Total Debt Service Fund receipts are projected to be $10.7 billion, an increase of $566 million (5.6 percent) from 2004-05. The annual growth is due to increases in dedicated taxes ($678 million) offset by a reduction in miscellaneous receipts ($112 million).

Disbursements

Debt Service Funds Disbursements (millions of dollars)					
	2004-05 Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
General Debt Service Fund	3,122	3,106	(16)	-0.5%	13
LGAC	312	337	25	8.0%	9
Mental Health	256	307	51	19.9%	5
All Other	109	119	10	9.2%	(26)
Total Disbursements	**3,799**	**3,869**	**70**	**1.8%**	**1**

Total disbursements from the Debt Service Fund are projected to increase from $3.8 billion in 2004-05 to $3.9 billion in 2005-06. The $70 million increase (1.8 percent) is due to growth in debt service costs from previous and planned bond sales, offset by $150 million in projected savings from debt management efforts. In addition, the restructuring of the Dedicated Highway and Bridge Trust Fund bonds will more closely align the schedule for principal amortization to the useful lives of the financed projects.

Other Financing Sources/(Uses)

Debt Service Funds Other Financing Sources (Uses) (millions of dollars)	2004-05 Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Transfers From Other Funds	5,134	5,221	87	1.7%	9
Transfers To Other Funds	(11,464)	(12,046)	(582)	5.1%	(150)
Net Other Financing Sources (Uses)	**(6,330)**	**(6,825)**	**(495)**	**7.8%**	**(141)**

The $87 million increase in transfers from other funds compared to 2004-05 reflects reduced transfers from the General Fund and various other dedicated funds, including the Dedicated Highway and Bridge Trust Fund and the Centralized Services Fund, to the General Debt Service Fund ($75 million) offset by increased transfers from the Federal Health and Human Services Special Revenue Funds and the General Fund to the Mental Health Debt Service Fund ($275 million), and a net decrease in all other transfers of $114 million.

The $582 million increase in transfers to other funds from 2004-05 reflects primarily the excess beyond the debt service due on State PIT Revenue Bonds from the RBTF ($357 million) and the Local Government Assistance Tax Fund ($124 million), as well as increased transfers in excess of Special Revenue Funds from the Mental Health and the Health Debt Service Funds ($130 million), offset by lower transfers to the General Fund from the Clean Water Debt Service Fund ($6 million), and modest decreases in all other transfers ($22 million).

Health Care Reform Act Financial Plan

The following provides a summary of the HCRA 2005-06 Financial Plan. The estimates of receipts and disbursements are detailed on a quarterly basis in the Financial Plan tables.

The 2005-06 Financial Plan adds roughly 25 percent of spending ($912 million) financed through HCRA that in 2004-05 was "off budget" (i.e., outside the All Funds Financial Plan). Thus, all HCRA spending is included in the State Financial Plan and can be found in the following areas of the budget: Medicaid; Health; the State Office for the Aging; and OMH.

OVERVIEW

HCRA was established in 1996 to improve the fiscal health of hospitals and ensure that affordable and quality health care coverage was available to all New Yorkers. Subsequent extensions and modifications of the legislation have initiated new health care programs including FHP, Healthy New York, and workforce recruitment and retention rate enhancements, and provided additional funding for the expansion of existing programs such as Child Health Plus (CHP). HCRA has been extended through June 30, 2007.

Historically, HCRA cash balances have been significant as revenues have generally accumulated more rapidly than expenditures for new programs that often take time to implement and reach projected full annual expenditure levels. Recently, spending levels in many major programs, such as FHP and

Elderly Pharmaceutical Insurance Coverage (EPIC), have significantly increased, outpacing the growth in recurring revenues, thereby reducing the historically high HCRA balances. The HCRA cash balance on March 31, 2005 was $164 million.

Prior to the actions included in the 2005-06 Enacted Budget, DOB projected a cash deficit in HCRA of roughly $500 million by June 30, 2005. Absent any actions this deficit would have required General Fund support through the Tobacco Revenue Guarantee Fund pursuant to Chapters 62 and 686 of the Laws of 2003, which provides for the replenishment of HCRA up to the level of tobacco settlement dollars otherwise available to HCRA had these revenues not been securitized.

To mitigate HCRA's reliance on the General Fund and to improve the fiscal viability of HCRA in the outyears, the Enacted Budget includes a series of actions that produce a State Financial Plan benefit of roughly $750 million in 2005-06. These actions include changes to the FHP program to modify benefits and require higher co-payments, proceeds from other insurance conversions from a non-profit to a for-profit organization similar to the Empire conversion; an increase in hospital and clinic surcharges on net patient service revenues from 8.85 percent to 8.95 percent and a $50 million increase in the covered lives assessment (effective January 2006).

HCRA Receipts

HCRA Receipts
(millions of dollars)

	2004-05 Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Empire Conversion Proceeds	0	1,842	1,842	0.0%	0
Surcharges	1,601	1,591	(10)	-0.6%	(3)
Covered Lives Assessment	724	737	13	1.8%	0
Cigarette Tax [1]	683	670	(13)	-1.9%	0
New Insurance Conversion Proceeds	0	400	400	0.0%	0
Other	606	323	(283)	-46.7%	71
Hospital Assessment (1 percent)	232	192	(40)	-17.2%	0
Total Receipts	**3,846**	**5,755**	**1,909**	**49.6%**	**68**

[1] Includes a transfer of cigarette tax revenue from New York City, which appears under miscellaneous receipts in the Financial Plan Tables.

DOB projects total HCRA receipts at $5.8 billion in 2005-06, an increase of $1.9 billion (49.6 percent) over the current year forecast and $68 million from the 30-Day projections. Total 2005-06 receipts are comprised primarily of surcharges, Empire conversion proceeds, covered lives assessment, cigarette taxes, additional insurance conversion proceeds, Federal funds, and hospital assessments of 1 percent.

As described earlier in this Report, the receipt of $1.8 billion in Empire conversion proceeds planned in 2004-05 (including $200 million that will support General Fund Medicaid spending) have been delayed pending the resolution of ongoing litigation that is currently expected to occur in 2005-06. The availability of these funds depends on successful resolution of ongoing litigation and the release of proceeds currently held in escrow. The Enacted Budget includes authorization that would halt nearly all spending for programs financed by HCRA effective July 1, 2005 unless such Empire proceeds are received. In addition, another $400 million in proceeds from other insurance company conversions from not-for-profit to for-profit is expected in 2005-06, although legislation authorizing such conversions has not yet been enacted.

The annual decline other resources is primarily attributable to nonrecurring Federal reimbursement for State only expenses used to support HCRA ($308 million) and the Community Health Care Conversion Demonstration Project waiver renewal ($218 million).

HCRA Disbursements

HCRA Disbursements (millions of dollars)	2004-05 Actuals	2005-06 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Medicaid/Public Health Support	932	2,024	1,092	117.2%	119
Hospital Indigent Care	831	853	22	2.6%	0
Elderly Pharmaceutical Insurance Coverage	462	570	108	23.4%	0
Graduate Medical Education	452	353	(99)	-21.9%	(27)
Family Health Plus	302	426	124	41.1%	112
Child Health Plus	301	349	48	15.9%	0
Workforce Recruitment and Retention	306	416	110	35.9%	64
All Other	526	574	48	9.1%	(41)
Total Disbursements	**4,112**	**5,565**	**1,453**	**35.3%**	**227**

Total disbursements of $5.7 billion are projected in 2005-06, an increase of $1.4 billion (35.3 percent) over the current year estimates and $227 million from the 30-Day projections. The 2005-06 Enacted Budget and Financial Plan includes all HCRA spending, including roughly $912 million that was previously "off-budget."

HCRA financed programs primarily include support for various Medicaid and public health costs, hospital indigent care, EPIC, FHP, CHP, provider workforce recruitment and retention funds paid through Medicaid rates, and mental health programs. The remaining spending previously excluded from the State Budget is comprised of Graduate Medical Education, excess medical malpractice, Healthy New York, subsidy payments to the Roswell Park Cancer Institute, as well as various programs including anti-tobacco and cancer related programs.

The annual growth in HCRA spending is primarily attributable to additional Medicaid support in 2005-06 resulting from the series of actions described earlier, and program spending growth for FHP, workforce recruitment and retention, EPIC, CHP, and various other programs.

Based on DOB projections of receipts and disbursements the cash balance at the end of 2005-06 is expected to be $354 million, declining to approximately $170 million on June 30, 2007, when the HCRA statute expires.

Additional detail on quarterly receipts and disbursements is contained in the Financial Plan tables.

IMPACT OF 2005-06 ENACTED BUDGET ON STATE WORKFORCE

The All Funds State employee workforce level was 189,600 at the end of the 2004-05 fiscal year, approximately 1,300 positions below our initial 2004-05 estimate. The workforce is projected to total 191,900 by the end of fiscal year 2005-06. This estimate includes an additional 475 positions associated with Legislative increases to the 2005-06 Executive Budget, and the anticipated filling of some positions that were vacant at year end.

The projected 2005-06 workforce level represents a decrease of 19,300 positions, or more than 9 percent since January 1995. In recent years, the State workforce has remained relatively stable through the use of a hiring freeze which allows the State to maintain staffing of critical positions.

IMPACT OF 2005-06 ENACTED BUDGET ON LOCAL GOVERNMENTS

The 2005-06 Enacted State Budget will provide nearly $1.4 billion in savings and new assistance to local governments statewide.

2005-06 Local Impact (millions of dollars)

	Total	Counties	NYC	Other Locals	School Districts
Medicaid Cap/Other	409	143	266	0	0
AIM Program	57	0	0	57	0
School Aid	593	0	227	0	366
Revenues	273	85	188		0
All Other Impacts	59	30	12	14	3
Total	**1,391**	**258**	**693**	**71**	**369**

Major initiatives include:

- **Medicaid Cap and Cost Containment:** To address the rising costs of Medicaid, the Enacted Budget will cap local Medicaid expenditures for New York City and county governments as of January 2006, using an annual inflator of 3.5 percent, 3.25 percent and 3 percent thereafter. This cap, along with cost containment and other actions, will save counties and New York City more than $409.2 million in SFY 2005-06, and $679.0 million in SFY 2006-07.

- **Aid and Incentives for Municipalities:** The 2005-06 Enacted Budget increases State support for local governments by $57 million under the new Aid and Incentives for Municipalities (AIM) Program. AIM will provide State aid increases of 3.75 percent for all towns and villages, and 12.75 percent for all upstate cities. As a condition of receiving this increase, cities will agree to minimize property tax growth, develop three-year financial plans and seek operational efficiencies through various initiatives like shared services agreements.

- **Shared Municipal Services Incentive (SMSI) Program:** Along with the AIM initiative, this Budget introduces the SMSI Program which will provide competitive grants of up to $100,000 to cities, towns, villages, counties and school districts to help fund cooperative cost saving efforts such as shared services (e.g. transportation, snowplowing, or payroll) undertaken by two or more municipalities. This program is funded at $2.75 million in SFY 2005-06.

- **Education:** The Enacted Budget provides an $850 million increase in the State's school aid programs.

- **Revenues:** Reinstituting a permanent sales tax on clothing and footwear, while allowing two sales-tax free weeks on items costing less than $110, will generate a net revenue benefit of over $272 million statewide in SFY 2005-06, and over $329 million in SFY 2006-07.

- **Local Transit Assistance:** The Enacted Budget also includes over $25 million in increased operating assistance for Downstate and New York City local transportation operations.

The State's Fund Structure

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

The General Fund receives the majority of State taxes. State Funds include the General Fund and funds specified for dedicated purposes, with the exception of Federal Funds. All Funds, which includes State Funds and Federal Funds, comprises four major fund types, and provides the most comprehensive view of the financial operations of the State. It includes:

The General Fund, which receives most of the State's tax revenue and accounts for spending on programs that are not supported directly by dedicated fees and revenues;

Special Revenue Funds, which receive Federal grants, certain dedicated taxes, fees and other revenues that are used for a specified purpose;

Capital Project 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.

CASH FINANCIAL PLAN
GENERAL FUND
2005-2006 through 2007-2008
(millions of dollars)

	2005-2006 Enacted	2006-2007 Projected	2007-2008 Projected
Receipts:			
Taxes:			
Personal income tax	21,118	21,289	22,821
User taxes and fees	8,601	8,891	8,759
Business taxes	4,283	4,445	4,512
Other taxes	778	872	920
Miscellaneous receipts	2,348	2,291	4,346
Federal Grants	4	4	4
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,338	6,483	6,833
Sales tax in excess of LGAC debt service	2,306	2,407	2,348
Real estate taxes in excess of CW/CA debt service	510	521	528
All other	513	228	241
Total receipts	46,799	47,431	51,312
Disbursements:			
Grants to local governments	31,448	34,992	39,423
State operations	8,067	8,659	8,946
General State charges	4,049	4,576	4,838
Transfers to other funds:			
Debt service	1,667	1,691	1,681
Capital projects	229	244	241
Other purposes	747	787	659
Total disbursements	46,207	50,949	55,788
Deposit to/(use of) Fiscal Stability Reserve Fund	601	(301)	(300)
Deposit to/(use of) Community Projects Fund	(9)	(50)	(50)
Margin	0	(3,167)	(4,126)

Source: NYS DOB

CURRENT STATE RECEIPTS
GENERAL FUND
2004-2005 and 2005-2006
(millions of dollars)

	2004-2005 Actual	2005-2006 Enacted	Annual Change
Personal income tax	18,677	21,118	2,441
User taxes and fees:	8,731	8,601	(130)
Sales and use tax	8,094	7,969	(125)
Cigarette and tobacco taxes	406	401	(5)
Motor vehicle fees	4	0	(4)
Alcoholic beverages taxes	185	186	1
Alcoholic beverage control license fees	42	45	3
Business taxes:	4,069	4,283	214
Corporation franchise tax	1,858	2,024	166
Corporation and utilities tax	617	643	26
Insurance taxes	1,007	1,031	24
Bank tax	587	585	(2)
Other taxes:	926	778	(148)
Estate tax	895	752	(143)
Gift tax	3	0	(3)
Real property gains tax	1	0	(1)
Pari-mutuel taxes	26	25	(1)
Other taxes	1	1	0
Total Taxes	32,403	34,780	2,377
Miscellaneous receipts	2,217	2,348	131
Federal grants	9	4	(5)
Total	34,629	37,132	2,503

Source: NYS DOB

CASHFLOW
GENERAL FUND
2005-2006
(dollars in millions)

	2005 April	May	June	July	August	September	October	November	December	2006 January	February	March	Total
Opening fund balance	1,218	5,623	3,873	4,543	4,597	4,372	4,582	3,300	2,116	2,746	6,431	7,179	1,218
Receipts:													
Taxes													
Personal income tax	4,852	681	2,104	1,255	1,355	1,970	595	561	1,757	3,377	2,020	591	21,118
User taxes and fees	657	662	931	663	633	866	625	625	897	693	533	816	8,601
Business taxes	149	149	927	72	39	892	45	5	849	54	21	1,081	4,283
Other taxes	63	69	71	56	65	58	69	67	68	64	66	62	778
Miscellaneous receipts	142	77	148	90	86	149	170	383	212	178	176	537	2,348
Federal Grants	0	0	0	0	0	0	0	0	0	0	0	4	4
Transfers from other funds													
PIT in excess of Revenue Bond debt service	1,173	200	701	417	369	678	166	12	617	1,124	382	499	6,338
Sales tax in excess of LGAC debt service	178	185	292	198	191	193	188	189	280	209	2	201	2,306
Real estate taxes in excess of CW/CA debt service	50	49	49	50	39	53	52	46	39	34	29	20	510
All Other	0	135	21	46	25	10	0	0	20	57	0	199	513
Total receipts	7,264	2,207	5,244	2,847	2,802	4,869	1,910	1,888	4,739	5,790	3,229	4,010	46,799
Disbursements:													
Grants to local governments													
School Aid	75	1,854	1,379	145	320	922	475	467	1,140	318	589	5,939	13,623
Medicaid	781	582	1,043	424	778	635	619	550	566	314	524	945	7,761
Welfare	142	142	83	142	142	74	142	142	74	142	111	38	1,374
All Other	408	303	724	992	601	636	977	534	1,063	466	627	1,359	8,690
State operations													
Personal Service	577	566	719	563	570	596	431	689	365	381	210	148	5,815
Non-Personal Service	120	125	176	206	200	158	186	179	179	184	196	343	2,252
General State charges	404	191	171	250	340	1,173	264	275	247	271	134	329	4,049
Transfers to other funds													
Debt service	230	145	213	23	28	300	49	183	379	17	26	74	1,667
Capital projects	21	19	26	26	27	81	2	30	69	(10)	43	(105)	229
Other purposes	101	30	40	22	21	84	47	23	27	22	21	309	747
Total disbursements	2,859	3,957	4,574	2,793	3,027	4,659	3,192	3,072	4,109	2,105	2,481	9,379	46,207
Change in fund balance	4,405	(1,750)	670	54	(225)	210	(1,282)	(1,184)	630	3,685	748	(5,369)	592
Closing fund balance	5,623	3,873	4,543	4,597	4,372	4,582	3,300	2,116	2,746	6,431	7,179	1,810	1,810

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2005-2006
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,218	2,006	(206)	184	3,202
Receipts:					
Taxes	34,780	5,843	1,860	10,049	52,532
Miscellaneous receipts	2,348	12,965	1,574	656	17,543
Federal grants	4	1	0	0	5
Total receipts	37,132	18,809	3,434	10,705	70,080
Disbursements:					
Grants to local governments	31,448	13,990	1,053	0	46,491
State operations	8,067	5,155	0	26	13,248
General State charges	4,049	552	0	0	4,601
Debt service	0	0	0	3,843	3,843
Capital projects	0	2	2,088	0	2,090
Total disbursements	43,564	19,699	3,141	3,869	70,273
Other financing sources (uses):					
Transfers from other funds	9,667	1,136	266	5,221	16,290
Transfers to other funds	(2,643)	(417)	(936)	(12,046)	(16,042)
Bond and note proceeds	0	0	279	0	279
Net other financing sources (uses)	7,024	719	(391)	(6,825)	527
Change in fund balance	592	(171)	(98)	11	334
Closing fund balance	1,810	1,835	(304)	195	3,536

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2005-2006
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,218	2,005	(454)	184	2,953
Receipts:					
Taxes	34,780	5,843	1,860	10,049	52,532
Miscellaneous receipts	2,348	12,974	1,574	656	17,552
Federal grants	4	34,570	1,850	0	36,424
Total receipts	37,132	53,387	5,284	10,705	106,508
Disbursements:					
Grants to local governments	31,448	45,076	1,282	0	77,806
State operations	8,067	8,238	0	26	16,331
General State charges	4,049	772	0	0	4,821
Debt service	0	0	0	3,843	3,843
Capital projects	0	2	3,700	0	3,702
Total disbursements	43,564	54,088	4,982	3,869	106,503
Other financing sources (uses):					
Transfers from other funds	9,667	3,537	266	5,221	18,691
Transfers to other funds	(2,643)	(3,124)	(945)	(12,046)	(18,758)
Bond and note proceeds	0	0	279	0	279
Net other financing sources (uses)	7,024	413	(400)	(6,825)	212
Change in fund balance	592	(288)	(98)	11	217
Closing fund balance	1,810	1,717	(552)	195	3,170

Source: NYS DOB

CURRENT STATE RECEIPTS
ALL GOVERNMENTAL FUNDS
2004-2005 and 2005-2006
(millions of dollars)

	2004-2005 Actual	2005-2006 Enacted	Annual Change
Personal income tax	27,997	31,121	3,124
User taxes and fees	13,036	13,785	749
Sales and use taxes	11,016	11,219	203
Cigarette and tobacco taxes	406	962	556
Motor fuel tax	530	533	3
Motor vehicle fees	666	635	(31)
Highway use tax	151	163	12
Alcoholic beverage taxes	185	186	1
Alcoholic beverage control license fees	42	46	4
Auto rental tax	40	41	1
Business taxes	5,806	6,109	303
Corporation franchise tax	2,110	2,280	170
Corporation and utilities taxes	827	844	17
Insurance taxes	1,108	1,147	39
Bank tax	676	693	17
Petroleum business taxes	1,085	1,145	60
Other taxes	1,656	1,517	(139)
Estate tax	895	752	(143)
Gift tax	3	0	(3)
Real property gains tax	1	0	(1)
Real estate transfer tax	730	739	9
Pari-mutuel taxes	26	25	(1)
Other taxes	1	1	0
Total taxes	48,495	52,532	4,037
Miscellaneous receipts	15,860	17,552	1,692
Federal grants	36,221	36,424	203
Total	100,576	106,508	5,932

Source: NYS DOB

GAAP FINANCIAL PLAN
GENERAL FUND
2004-2005 and 2005-2006
(millions of dollars)

	2004-2005 Preliminary Actuals	2005-2006 Enacted	Change
Revenues:			
Taxes:			
Personal income tax	20,001	20,594	593
User taxes and fees	8,900	8,625	(275)
Business taxes	4,174	4,300	126
Other taxes	874	798	(76)
Miscellaneous revenues	4,445	4,042	(403)
Federal grants	11	4	(7)
Total revenues	38,405	38,363	(42)
Expenditures:			
Grants to local governments	32,255	34,033	1,778
State operations	10,248	10,603	355
General State charges	3,156	3,447	291
Debt service	24	25	1
Capital projects	0	0	0
Total expenditures	45,683	48,108	2,425
Other financing sources (uses):			
Transfers from other funds	12,597	13,421	824
Transfers to other funds	(4,983)	(5,041)	(58)
Proceeds from financing arrangements/ advance refundings	634	971	337
Net other financing sources (uses)	8,248	9,351	1,103
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	970	(394)	(1,364)
Accumulated Surplus	689	295	

Source: NYS DOB

GAAP FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2005-2006
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Revenues:					
Taxes	34,317	5,840	1,859	10,058	52,074
Patient fees	0	0	0	326	326
Miscellaneous revenues	4,042	5,876	312	23	10,253
Federal grants	4	36,382	1,850	0	38,236
Total revenues	38,363	48,098	4,021	10,407	100,889
Expenditures:					
Grants to local governments	34,033	42,745	1,269	0	78,047
State operations	10,603	1,714	0	26	12,343
General State charges	3,447	299	0	0	3,746
Debt service	25	0	0	3,038	3,063
Capital projects	0	2	3,336	0	3,338
Total expenditures	48,108	44,760	4,605	3,064	100,537
Other financing sources (uses):					
Transfers from other funds	13,421	289	242	5,241	19,193
Transfers to other funds	(5,041)	(3,712)	(981)	(12,565)	(22,299)
Proceeds of general obligation bonds	0	0	279	0	279
Proceeds from financing arrangements/ advance refundings	971	0	934	0	1,905
Net other financing sources (uses)	9,351	(3,423)	474	(7,324)	(922)
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	(394)	(85)	(110)	19	(570)

Source: NYS DOB

CASH FINANCIAL PLAN
HEALTH CARE REFORM ACT RESOURCES FUND
2004-2005 AND 2005-2006
(millions of dollars)

	2004-2005 Actual	2005-2006 Enacted	Annual Change
Opening fund balance	430	164	(266)
Receipts:			
Cigarette taxes	573	561	(12)
Miscellaneous receipts	3,273	5,194	1,921
Total receipts	3,846	5,755	1,909
Disbursements:			
Hospital Indigent Care Fund	831	853	22
Professional Education/Graduate Medical Education	452	353	(99)
Elderly Pharmaceutical Insurance Coverage (EPIC)	462	570	108
Child Health Plus (CHP)	301	349	48
Family Health Plus (FHP)	302	455	153
Workforce Recruitment and Retention	306	416	110
Public Health	101	142	41
Mental Health	91	88	(3)
Roswell Park Cancer Institute	78	78	0
Physician Excess Medical Malpractice	55	49	(6)
Transfer To Medicaid:			
Pharmacy Costs	396	1,232	836
Physician Costs	85	85	0
Health Insurance Demonstration Project	39	69	30
Supplemental Medical Insurance	68	68	0
All Other Medicaid	243	399	156
All Other	302	359	57
Total disbursements	4,112	5,565	1,453
Change in fund balance	(266)	190	456
Closing fund balance	164	354	190

Source: NYS DOB

CASH FINANCIAL PLAN
HEALTH CARE REFORM ACT RESOURCES FUND
2005-2006 THROUGH JUNE 30, 2007
(millions of dollars)

	2005-2006 Enacted	2006-2007 Projected	2007-2008 April Through June Projected
Opening fund balance	164	354	30
Receipts:			
Cigarette taxes	561	579	158
Miscellaneous receipts	5,194	3,639	656
Total receipts	5,755	4,218	814
Disbursements:			
Hospital Indigent Care Fund	853	853	276
Professional Education/Graduate Medical Education	353	390	135
Elderly Pharmaceutical Insurance Coverage (EPIC)	570	654	0
Child Health Plus (CHP)	349	369	97
Family Health Plus (FHP)	426	517	0
Workforce Recruitment and Retention	416	416	0
Public Health	142	141	36
Mental Health	88	87	22
Roswell Park Cancer Institute	78	78	20
Physician Excess Medical Malpractice	49	65	16
Transfer To Medicaid:			
Pharmacy Costs	1,261	79	0
Physician Costs	85	85	0
Health Insurance Demonstration Project	69	69	0
Supplemental Medical Insurance	68	68	0
All Other Medicaid	399	260	0
All Other	359	411	72
Total disbursements	5,565	4,542	674
Change in fund balance	190	(324)	140
Closing fund balance	354	30	170

Source: NYS DOB

CASH FLOW
HEALTH CARE REFORM ACT RESOURCES FUND
2005-2006
(millions of dollars)

	First Quarter (Projected)	Second Quarter (Projected)	Third Quarter (Projected)	Fourth Quarter (Projected)	Total (Projected)
Opening fund balance	164	132	153	938	164
Receipts:					
Cigarette Taxes	147	141	141	132	561
Miscellaneous Receipts	538	702	2,569	1,385	5,194
Total receipts	685	843	2,710	1,517	5,755
Disbursements:					
Hospital Indigent Care Fund	285	212	214	142	853
Professional Education/Graduate Medical Education	129	72	75	77	353
Elderly Pharmaceutical Insurance Coverage (EPIC)	0	0	229	341	570
Child Health Plus (CHP)	116	44	110	79	349
Family Health Plus (FHP)	0	88	178	160	426
Workforce Recruitment and Retention	24	120	152	120	416
Public Health	38	13	44	47	142
Mental Health	29	0	29	30	88
Roswell Park Cancer Institute	26	0	24	28	78
Physician Excess Medical Malpractice	0	0	49	0	49
Transfer To Medicaid:					
Pharmacy Costs	0	148	402	711	1,261
Physician Costs	0	27	53	5	85
Health Insurance Demonstration Project	0	17	35	17	69
Supplemental Medical Insurance	0	0	34	34	68
All Other Medicaid	0	27	144	228	399
All Other	70	54	153	82	359
Total disbursements	717	822	1,925	2,101	5,565
Change in fund balance	(32)	21	785	(584)	190
Closing fund balance	132	153	938	354	354

Source: NYS DOB

CASH DISBURSEMENTS BY FUNCTION
GENERAL FUND
(thousands of dollars)

	2004-2005 Adjusted Actuals	2005-2006 Enacted	Annual Change
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	42,384	48,103	5,719
Alcoholic Beverage Control	0	0	0
Banking Department	0	250	250
Consumer Protection Board	315	0	(315)
Economic Development, Department of	38,683	37,199	(1,484)
Empire State Development Corporation	3,682	80,598	76,916
Energy Research and Development Authority	0	0	0
Housing Finance Agency	0	74,010	74,010
Housing and Community Renewal, Division of	67,895	0	(67,895)
Insurance Department	0	0	0
Olympic Regional Development Authority	9,050	50,834	41,784
Public Service, Department of	0	7,350	7,350
Science, Technology and Academic Research, Office of	44,950	0	(44,950)
Functional Total	206,959	298,344	91,385
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,271	4,408	137
Environmental Conservation, Department of	111,359	115,872	4,513
Environmental Facilities Corporation	0	0	0
Parks, Recreation and Historic Preservation, Office of	106,659	109,348	2,689
Functional Total	222,289	229,628	7,339
TRANSPORTATION			
Motor Vehicles, Department of	4,244	0	(4,244)
Thruway Authority	0	0	0
Transportation, Department of	113,408	108,140	(5,268)
Functional Total	117,652	108,140	(9,512)
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	717	0	(717)
Aging, Office for the	66,237	79,013	12,776
Children and Family Services, Office of	1,319,397	1,436,930	117,533
Health, Department of	8,264,088	8,316,976	52,888
Medical Assistance	7,461,096	7,445,597	(15,499)
Medicaid Administration	115,975	119,950	3,975
All Other	687,017	751,429	64,412
Human Rights, Division of	13,492	13,142	(350)
Labor, Department of	9,182	16,176	6,994
Prevention of Domestic Violence, Office of	2,697	2,415	(282)

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been increased for Medicaid spending to comply with Federal policy changes related to certain county shares adjustments ($508 million).

CASH DISBURSEMENTS BY FUNCTION
GENERAL FUND
(thousands of dollars)

	2004-2005 Adjusted Actuals	2005-2006 Enacted	Annual Change
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	1,516,787	1,451,257	(65,530)
Welfare Assistance	1,135,568	1,000,969	(134,599)
Welfare Administration	304,281	371,550	67,269
All Other	76,938	78,738	1,800
Welfare Inspector General, Office of	674	754	80
Workers' Compensation Board	0	0	0
Functional Total	11,193,271	11,316,663	123,392
MENTAL HEALTH			
Mental Health, Office of	1,334,032	1,337,781	3,749
Mental Hygiene, Department of	0	0	0
Mental Retardation and Developmental Disabilities, Office of	860,922	831,992	(28,930)
Alcohol and Substance Abuse Services, Office of	298,961	298,127	(834)
Developmental Disabilities Planning Council	0	0	0
Quality of Care for the Mentally Disabled, Commission on	2,861	4,263	1,402
Functional Total	2,496,776	2,472,163	(24,613)
PUBLIC PROTECTION			
Capital Defenders Office	11,335	10,916	(419)
Correction, Commission of	2,511	2,510	(1)
Correctional Services, Department of	2,057,270	1,995,345	(61,925)
Crime Victims Board	2,794	3,314	520
Criminal Justice Services, Division of	88,398	106,592	18,194
Homeland Security	6,968	5,219	(1,749)
Investigation, Temporary State Commission of	3,151	3,463	312
Judicial Commissions	2,647	2,703	56
Military and Naval Affairs, Division of	28,892	26,167	(2,725)
Parole, Division of	175,770	183,489	7,719
Probation and Correctional Alternatives, Division of	68,903	78,596	9,693
Public Security, Office of	0	0	0
State Police, Division of	331,811	352,235	20,424
Functional Total	2,780,450	2,770,549	(9,901)
EDUCATION			
Arts, Council on the	44,758	42,705	(2,053)
City University of New York	753,615	928,826	175,211
Education, Department of	14,170,210	15,212,855	1,042,645
School Aid	12,759,113	13,623,270	864,157
STAR Property Tax Relief	0	0	0
Handicapped	835,884	908,473	72,589
All Other	575,213	681,112	105,899
Higher Education Services Corporation	928,159	889,478	(38,681)
State University Construction Fund	0	0	0
State University of New York	1,273,698	1,359,162	85,464
Functional Total	17,170,440	18,433,026	1,262,586

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been increased for Medicaid spending to comply with Federal policy changes related to certain county shares adjustments ($508 million).

CASH DISBURSEMENTS BY FUNCTION
GENERAL FUND
(thousands of dollars)

	2004-2005 Adjusted Actuals	2005-2006 Enacted	Annual Change
GENERAL GOVERNMENT			
Audit and Control, Department of	156,540	167,367	10,827
Budget, Division of the	24,689	28,185	3,496
Civil Service, Department of	21,658	24,199	2,541
Elections, State Board of	3,374	3,594	220
Employee Relations, Office of	3,215	3,580	365
Executive Chamber	13,521	15,480	1,959
General Services, Office of	121,141	148,686	27,545
Inspector General, Office of	4,136	4,579	443
Law, Department of	114,458	125,637	11,179
Lieutenant Governor, Office of the	378	485	107
Lottery, Division of	0	0	0
Racing and Wagering Board, State	0	0	0
Real Property Services, Office of	20,837	21,197	360
Regulatory Reform, Governor's Office of	3,458	3,554	96
State Labor Relations Board	3,394	3,357	(37)
State, Department of	16,375	20,523	4,148
Tax Appeals, Division of	2,781	306,876	304,095
Taxation and Finance, Department of	309,622	2,994	(306,628)
Technology, Office for	20,212	20,076	(136)
TSC Lobbying	1,034	909	(125)
Veterans Affairs, Division of	10,235	12,089	1,854
Functional Total	851,058	913,367	62,309
ALL OTHER CATEGORIES			
Legislature	206,711	206,672	(39)
Judiciary (excluding fringe benefits)	1,356,498	1,392,500	36,002
World Trade Center	0	0	0
Local Government Assistance	969,352	1,028,900	59,548
Long-Term Debt Service	1,730,861	1,666,548	(64,313)
Capital Projects	197,293	228,597	31,304
General State Charges/Miscellaneous	4,627,469	5,142,286	514,817
Functional Total	9,088,184	9,665,503	577,319
TOTAL GENERAL FUND SPENDING	44,127,079	46,207,383	2,080,304

Source: NYS DOB

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been increased for Medicaid spending to comply with Federal policy changes related to certain county shares adjustments ($508 million).

CASH DISBURSEMENTS BY FUNCTION
STATE FUNDS
(thousands of dollars)

	2004-2005 Adjusted Actual	2005-2006 Enacted	Annual Change
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	67,055	77,099	10,044
Alcoholic Beverage Control	9,992	11,471	1,479
Banking Department	57,375	80,566	23,191
Consumer Protection Board	2,193	2,575	382
Economic Development, Department of	294,773	329,144	34,371
Empire State Development Corporation	32,970	270,798	237,828
Energy Research and Development Authority	26,135	26,006	(129)
Housing Finance Agency	0	0	0
Housing and Community Renewal, Division of	183,935	201,325	17,390
Insurance Department	121,655	149,444	27,789
Olympic Regional Development Authority	9,282	7,750	(1,532)
Public Service, Department of	49,268	55,395	6,127
Science, Technology and Academic Research, Office of	50,547	67,834	17,287
Functional Total	905,180	1,279,407	374,227
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,271	4,408	137
Environmental Conservation, Department of	564,405	785,269	220,864
Environmental Facilities Corporation	14,653	12,664	(1,989)
Parks, Recreation and Historic Preservation, Office of	201,134	244,728	43,594
Functional Total	784,463	1,047,069	262,606
TRANSPORTATION			
Motor Vehicles, Department of	199,227	255,630	56,403
Thruway Authority	1,473	4,000	2,527
Transportation, Department of	3,610,370	4,173,113	562,743
Functional Total	3,811,070	4,432,743	621,673
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	859	0	(859)
Aging, Office for the	66,238	82,074	15,836
Children and Family Services, Office of	1,335,412	1,474,668	139,256
Health, Department of	13,304,458	15,075,307	1,770,849
Medical Assistance	10,085,068	11,725,847	1,640,779
Medicaid Administration	115,975	119,950	3,975
All Other	3,103,415	3,229,510	126,095
Human Rights, Division of	13,492	13,148	(344)
Labor, Department of	91,510	98,499	6,989
Prevention of Domestic Violence, Office of	2,697	2,445	(252)

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted for the inclusion of all HCRA funded programs on-budget and additional Medicaid spending to comply with Federal policy changes related to certain county shares adjustments. The 2004-05 adjustment for HCRA is $925 million and Medicaid is $508 million.

CASH DISBURSEMENTS BY FUNCTION
STATE FUNDS
(thousands of dollars)

	2004-2005 Adjusted Actual	2005-2006 Enacted	Annual Change
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	1,577,445	1,547,289	(30,156)
Welfare Assistance	1,135,568	1,000,969	(134,599)
Welfare Administration	304,281	371,550	67,269
All Other	137,596	174,770	37,174
Welfare Inspector General, Office of	674	754	80
Workers' Compensation Board	129,676	144,188	14,512
Functional Total	16,522,461	18,438,372	1,915,911
MENTAL HEALTH			
Mental Health, Office of	1,606,697	1,628,638	21,941
Mental Hygiene, Department of	0	4,800	4,800
Mental Retardation and Developmental Disabilities, Office of	951,343	936,748	(14,595)
Alcohol and Substance Abuse Services, Office of	340,301	336,347	(3,954)
Developmental Disabilities Planning Council	0	0	0
Quality of Care for the Mentally Disabled, Commission on	2,861	4,565	1,704
Functional Total	2,901,202	2,911,098	9,896
PUBLIC PROTECTION			
Capital Defenders Office	11,335	10,916	(419)
Correction, Commission of	2,511	2,510	(1)
Correctional Services, Department of	2,237,651	2,184,850	(52,801)
Crime Victims Board	23,718	30,890	7,172
Criminal Justice Services, Division of	97,934	130,803	32,869
Homeland Security	17,880	20,143	2,263
Investigation, Temporary State Commission of	3,288	3,652	364
Judicial Commissions	2,647	2,703	56
Military and Naval Affairs, Division of	44,016	45,611	1,595
Parole, Division of	175,773	183,589	7,816
Probation and Correctional Alternatives, Division of	68,903	78,596	9,693
Public Security, Office of	0	0	0
State Police, Division of	472,177	511,980	39,803
Functional Total	3,157,833	3,206,243	48,410
EDUCATION			
Arts, Council on the	44,758	43,405	(1,353)
City University of New York	978,988	1,451,318	472,330
Education, Department of	19,605,955	20,743,413	1,137,458
School Aid	15,049,065	15,829,014	779,949
STAR Property Tax Relief	3,058,940	3,222,000	163,060
Handicapped	835,884	908,473	72,589
All Other	662,066	783,926	121,860
Higher Education Services Corporation	998,350	1,029,192	30,842
State University Construction Fund	9,139	10,480	1,341
State University of New York	4,558,232	4,878,832	320,600
Functional Total	26,195,422	28,156,640	1,961,218

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted for the inclusion of all HCRA funded programs on-budget and additional Medicaid spending to comply with Federal policy changes related to certain county shares adjustments. The 2004-05 adjustment for HCRA is $925 million and Medicaid is $508 million.

CASH DISBURSEMENTS BY FUNCTION
STATE FUNDS
(thousands of dollars)

	2004-2005 Adjusted Actual	2005-2006 Enacted	Annual Change
GENERAL GOVERNMENT			
Audit and Control, Department of	211,261	247,988	36,727
Budget, Division of the	32,214	43,399	11,185
Civil Service, Department of	22,408	25,199	2,791
Elections, State Board of	3,374	3,594	220
Employee Relations, Office of	3,231	3,768	537
Executive Chamber	13,521	15,580	2,059
General Services, Office of	211,609	242,312	30,703
Inspector General, Office of	5,082	6,017	935
Law, Department of	153,069	164,656	11,587
Lieutenant Governor, Office of the	378	485	107
Lottery, Division of	175,823	177,264	1,441
Racing and Wagering Board, State	14,656	17,902	3,246
Real Property Services, Office of	47,492	51,299	3,807
Regulatory Reform, Governor's Office of	3,458	3,554	96
State Labor Relations Board	3,394	3,943	549
State, Department of	61,523	156,188	94,665
Tax Appeals, Division of	2,781	2,994	213
Taxation and Finance, Department of	343,692	343,506	(186)
Technology, Office for	20,212	20,076	(136)
TSC Lobbying	1,273	1,376	103
Veterans Affairs, Division of	10,235	12,089	1,854
Functional Total	1,340,686	1,543,189	202,503
ALL OTHER CATEGORIES			
Legislature	206,711	207,622	911
Judiciary (excluding fringe benefits)	1,503,555	1,618,566	115,011
World Trade Center	0	0	0
Local Government Assistance	969,352	1,028,900	59,548
Long-Term Debt Service	3,788,884	3,842,725	53,841
General State Charges/Miscellaneous	4,254,797	5,094,826	840,029
GAAP/Other Adjustments	(937,000)	(2,534,000)	(1,597,000)
Functional Total	9,786,299	9,258,639	(527,660)
TOTAL STATE FUNDS SPENDING	65,404,616	70,273,400	4,868,784

Source: NYS DOB

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted for the inclusion of all HCRA funded programs on-budget and additional Medicaid spending to comply with Federal policy changes related to certain county shares adjustments. The 2004-05 adjustment for HCRA is $925 million and Medicaid is $508 million.

CASH DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
(thousands of dollars)

	2004-2005 Adjusted Actual	2005-2006 Enacted	Annual Change
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	77,489	92,639	15,150
Alcoholic Beverage Control	10,016	11,471	1,455
Banking Department	57,375	80,566	23,191
Consumer Protection Board	2,193	2,575	382
Economic Development, Department of	294,849	329,489	34,640
Empire State Development Corporation	32,970	270,798	237,828
Energy Research and Development Authority	26,135	26,006	(129)
Housing Finance Agency	0	0	0
Housing and Community Renewal, Division of	246,400	237,600	(8,800)
Insurance Department	121,655	149,444	27,789
Olympic Regional Development Authority	9,282	7,750	(1,532)
Public Service, Department of	50,374	56,800	6,426
Science, Technology and Academic Research, Office of	54,675	73,459	18,784
Functional Total	983,413	1,338,597	355,184
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,847	4,758	(89)
Environmental Conservation, Department of	752,331	968,063	215,732
Environmental Facilities Corporation	14,653	12,664	(1,989)
Parks, Recreation and Historic Preservation, Office of	207,308	250,000	42,692
Functional Total	979,139	1,235,485	256,346
TRANSPORTATION			
Motor Vehicles, Department of	213,422	281,335	67,913
Thruway Authority	1,473	4,000	2,527
Transportation, Department of	5,219,130	5,735,736	516,606
Functional Total	5,434,025	6,021,071	587,046
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	1,124	0	(1,124)
Aging, Office for the	174,414	185,763	11,349
Children and Family Services, Office of	3,126,575	3,095,010	(31,565)
Health, Department of	34,739,253	36,630,384	1,891,131
Medical Assistance	29,862,681	31,592,054	1,729,373
Medicaid Administration	565,309	589,500	24,191
All Other	4,311,263	4,448,830	137,567
Human Rights, Division of	14,692	15,119	427
Labor, Department of	621,191	676,736	55,545
Prevention of Domestic Violence, Office of	2,805	2,445	(360)

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted for the inclusion of all HCRA funded programs on-budget and additional Medicaid spending to comply with Federal policy changes related to certain county shares adjustments. The 2004-05 adjustment for HCRA is $925 million and Medicaid is $508 million.

CASH DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
(thousands of dollars)

	2004-2005 Adjusted Actual	2005-2006 Enacted	Annual Change
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	4,359,329	4,678,874	319,545
Welfare Assistance	3,133,225	3,312,576	179,351
Welfare Administration	304,281	371,550	67,269
All Other	921,823	994,748	72,925
Welfare Inspector General, Office of	1,031	1,184	153
Workers' Compensation Board	132,004	144,954	12,950
Functional Total	43,172,418	45,430,469	2,258,051
MENTAL HEALTH			
Mental Health, Office of	2,191,230	2,240,056	48,826
Mental Hygiene, Department of	1,739	4,800	3,061
Mental Retardation and Developmental Disabilities, Office of	2,820,474	2,906,993	86,519
Alcohol and Substance Abuse Services, Office of	489,746	486,682	(3,064)
Developmental Disabilities Planning Council	3,444	3,679	235
Quality of Care for the Mentally Disabled, Commission on	10,628	13,492	2,864
Functional Total	5,517,261	5,655,702	138,441
PUBLIC PROTECTION			
Capital Defenders Office	11,335	10,916	(419)
Correction, Commission of	2,527	2,510	(17)
Correctional Services, Department of	2,252,305	2,244,388	(7,917)
Crime Victims Board	61,521	62,478	957
Criminal Justice Services, Division of	345,932	468,964	123,032
Homeland Security	17,880	21,743	3,863
Investigation, Temporary State Commission of	3,288	3,652	364
Judicial Commissions	2,647	2,703	56
Military and Naval Affairs, Division of	108,240	144,950	36,710
Parole, Division of	180,063	184,789	4,726
Probation and Correctional Alternatives, Division of	68,908	78,596	9,688
Public Security, Office of	0	0	0
State Police, Division of	485,987	515,866	29,879
Functional Total	3,540,633	3,741,555	200,922
EDUCATION			
Arts, Council on the	45,466	44,134	(1,332)
City University of New York	978,988	1,451,318	472,330
Education, Department of	22,898,301	24,330,682	1,432,381
School Aid	17,580,504	18,533,881	953,377
STAR Property Tax Relief	3,058,940	3,222,000	163,060
Handicapped	1,413,453	1,579,373	165,920
All Other	845,404	995,428	150,024
Higher Education Services Corporation	1,016,771	1,039,686	22,915
State University Construction Fund	9,139	10,480	1,341
State University of New York	4,724,776	5,061,032	336,256
Functional Total	29,673,441	31,937,332	2,263,891

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted for the inclusion of all HCRA funded programs on-budget and additional Medicaid spending to comply with Federal policy changes related to certain county shares adjustments. The 2004-05 adjustment for HCRA is $925 million and Medicaid is $508 million.

CASH DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
(thousands of dollars)

	2004-2005 Adjusted Actual	2005-2006 Enacted	Annual Change
GENERAL GOVERNMENT			
Audit and Control, Department of	211,261	247,988	36,727
Budget, Division of the	32,214	43,399	11,185
Civil Service, Department of	22,408	25,199	2,791
Elections, State Board of	3,374	151,525	148,151
Employee Relations, Office of	3,231	3,768	537
Executive Chamber	13,521	15,580	2,059
General Services, Office of	218,939	246,778	27,839
Inspector General, Office of	5,082	6,017	935
Law, Department of	174,635	186,945	12,310
Lieutenant Governor, Office of the	378	485	107
Lottery, Division of	175,823	177,264	1,441
Racing and Wagering Board, State	14,656	17,902	3,246
Real Property Services, Office of	47,492	51,299	3,807
Regulatory Reform, Governor's Office of	3,458	3,554	96
State Labor Relations Board	3,394	3,943	549
State, Department of	116,456	236,223	119,767
Tax Appeals, Division of	2,781	2,994	213
Taxation and Finance, Department of	343,791	343,784	(7)
Technology, Office for	20,212	20,076	(136)
TSC Lobbying	1,273	1,376	103
Veterans Affairs, Division of	11,198	13,520	2,322
Functional Total	1,425,577	1,799,619	374,042
ALL OTHER CATEGORIES			
Legislature	206,711	207,622	911
Judiciary (excluding fringe benefits)	1,507,117	1,626,166	119,049
World Trade Center	1,380,430	149,000	(1,231,430)
Local Government Assistance	969,352	1,028,900	59,548
Long-Term Debt Service	3,788,884	3,842,725	53,841
General State Charges/Miscellaneous	4,459,120	5,322,679	863,559
GAAP/Other Adjustments	(937,000)	(2,834,000)	(1,897,000)
Functional Total	11,374,614	9,343,092	(2,031,522)
TOTAL ALL GOVERNMENTAL FUNDS SPENDING	102,100,521	106,502,922	4,402,401

Source: NYS DOB

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted for the inclusion of all HCRA funded programs on-budget and additional Medicaid spending to comply with Federal policy changes related to certain county shares adjustments. The 2004-05 adjustment for HCRA is $925 million and Medicaid is $508 million.

WORKFORCE IMPACT SUMMARY REPORT
ALL FUNDS
2003-2004 THROUGH 2005-2006

Major Agencies	2003-04 Actual (03/31/04)	2004-05 Actual (03/31/05)	2005-06 Estimate (03/31/06)
Audit and Control	2,184	2,214	2,325
Children and Family Services	3,834	3,730	3,754
Correctional Services	30,599	31,101	31,383
Education	2,995	2,988	3,034
Environmental Conservation	3,256	3,261	3,352
General Services	1,646	1,634	1,709
Health	5,802	5,854	5,962
Labor	4,075	4,065	3,953
Law	1,697	1,739	1,735
Mental Health	16,297	16,100	16,135
Mental Health Memo (1)	16,297	16,100	16,735
Mental Retardation	21,364	21,537	21,659
Mental Retardation Memo (1)	21,364	21,537	22,859
Motor Vehicles	2,812	2,694	2,762
Parks, Recreation and Historic Preservation	1,578	1,612	1,566
Parole	2,072	2,011	2,069
State Police	5,448	5,642	5,713
Temporary and Disability Assistance	2,229	2,192	2,532
Taxation and Finance	4,875	4,757	4,766
Transportation	9,631	9,597	9,475
Workers' Compensation Board	1,518	1,523	1,539
SUBTOTAL - Major Agencies	123,912	124,251	125,423
All Other Agencies (Minor)	11,437	11,429	12,041
SUBTOTAL	**135,349**	**135,680**	**137,464**
TOTAL	**135,349**	**135,680**	**137,464**
Universities and Off-Budget Agencies			
City University	10,409	10,642	11,211
Industrial Exhibit Authority	43	43	46
Roswell Park Cancer Institute	1,996	2,280	2,280
State University Construction Fund	106	98	125
State Insurance Fund	2,637	2,656	2,665
State University	37,362	38,247	38,100
GRAND TOTAL	**187,902**	**189,646**	**191,891**

(1) Memo #'s are used to represent each agency's authorized fill, but are not counted in the total lines.

Source: NYS DOB

WORKFORCE IMPACT SUMMARY REPORT
ALL FUNDS
2003-2004 THROUGH 2005-2006

Minor Agencies	**2003-04 Actual (03/31/04)**	**2004-05 Actual (03/31/05)**	**2005-06 Estimate (03/31/06)**
Adirondack Park	62	63	59
Advocate for Disabled	15	13	0
Aging	126	119	135
Agriculture and Markets	508	546	558
Alcoholism and Substance Abuse	916	916	956
Alcoholic Beverage Control	146	145	156
Arts Council	52	49	55
Banking	546	550	587
Budget	326	336	330
Capital Defender	59	57	59
Civil Service	571	563	575
Consumer Protection	26	30	29
Correction Commission	33	32	35
Quality of Care and Advocacy for Disabled	84	84	105
Criminal Justice Service	706	686	692
Crime Victims	98	95	103
Deferred Compensation	4	4	4
Economic Development	215	212	215
Elections	42	38	47
Employee Relations	70	73	72
Environmental Facilities Corporation	101	98	92
Executive Chamber	143	145	153
Financial Control Board	17	16	17
Higher Education Service	715	678	725
Homeland Security	54	60	86
Housing and Community Renewal	913	915	935
Hudson River Park Trust	4	4	5
Human Rights	180	179	203
Inspector General	66	60	68
Insurance	882	903	918
Interest on Lawyer Account	8	8	9
Judicial Commissions	27	28	28
Labor Management Committees	51	52	53
Lieutenant Governor	4	4	5
Lottery	316	323	341
Military and Naval Affairs	542	526	584
Northeastern Queens Nature and Historical	2	2	2
NYSTAR	29	29	30
Prevention Domestic Violence	30	28	33
Probation and Correctional Alternatives	31	32	28
Public Service	530	530	545
Racing and Wagering	110	123	135
Real Property Services	398	386	401
Regulatory Reform	35	36	36
State Labor Relations Board	38	32	37
State	779	810	853
Tax Appeals	29	30	31
Technology	623	598	699
TSC Investigation	27	30	31
TSC Lobbying	18	18	18
Veteran Affairs	111	104	113
Welfare Inspector General	10	10	10
Wireless Network	9	21	45
SUBTOTAL - Minor Agencies	**11,437**	**11,429**	**12,041**

Source: NYS DOB

WORKFORCE IMPACT SUMMARY REPORT
GENERAL FUND
2003-2004 THROUGH 2005-2006

Major Agencies	2003-04 Actual (03/31/04)	2004-05 Actual (03/31/05)	2005-06 Estimate (03/31/06)
Audit and Control	1,342	1,388	1,434
Children and Family Services	3,254	3,139	3,110
Correctional Services	29,917	30,428	30,079
Education	408	385	382
Environmental Conservation	1,151	1,154	1,144
General Services	1,049	1,044	1,062
Health	2,086	2,099	2,073
Labor	11	11	16
Law	1,136	1,171	1,123
Mental Health	16,206	16,038	16,036
Mental Health Memo (1)	16,206	16,038	16,212
Mental Retardation	21,346	21,520	21,641
Mental Retardation Memo (1)	21,346	21,520	22,841
Motor Vehicles	11	0	0
Parks, Recreation and Historic Preservation	1,324	1,341	1,282
Parole	2,072	2,011	2,069
State Police	4,940	5,088	5,113
Temporary and Disability Assistance	482	463	463
Taxation and Finance	4,840	4,720	4,342
SUBTOTAL - Major Agencies	**91,575**	**92,000**	**91,369**
All Other Agencies (Minor)	4,902	4,708	4,813
SUBTOTAL	**96,477**	**96,708**	**96,182**
TOTAL	**96,477**	**96,708**	**96,182**
Universities and Off-Budget Agencies			
State University	22,241	22,650	22,600
GRAND TOTAL	**118,718**	**119,358**	**118,782**

(1) Memo #'s are used to represent each agency's authorized fill, but are not counted in the total lines.

Source: NYS DOB

WORKFORCE IMPACT SUMMARY REPORT
GENERAL FUND
2003-2004 THROUGH 2005-2006

Minor Agencies	2003-04 Actual (03/31/04)	2004-05 Actual (03/31/05)	2005-06 Estimate (03/31/06)
Adirondack Park	62	63	59
Advocate for Disabled	12	9	0
Aging	28	27	28
Agriculture and Markets	367	366	387
Alcoholism and Substance Abuse	823	821	850
Arts Council	45	41	47
Budget	305	317	297
Capital Defender	59	57	59
Civil Service	338	333	344
Consumer Protection	8	8	0
Correction Commission	33	32	35
Quality of Care and Advocacy for Disabled	34	32	46
Criminal Justice Service	592	556	539
Crime Victims	62	61	64
Economic Development	207	202	201
Elections	42	38	39
Employee Relations	41	40	39
Executive Chamber	143	145	153
Higher Education Service	0	0	3
Homeland Security	23	26	42
Housing and Community Renewal	349	377	333
Hudson River Park Trust	4	4	5
Human Rights	180	179	203
Inspector General	54	50	51
Judicial Commissions	27	28	28
Labor Management Committees	51	52	53
Lieutenant Governor	4	4	5
Military and Naval Affairs	233	230	247
Northeastern Queens Nature and Historical	2	2	2
NYSTAR	29	29	30
Prevention of Domestic Violence	30	28	33
Probation and Correctional Alternatives	26	26	24
Real Property Services	147	14	0
Regulatory Reform	35	36	36
State Labor Relations Board	38	32	37
State	188	170	201
Tax Appeals	29	30	31
Technology	98	92	105
TSC Investigation	27	30	31
TSC Lobbying	18	18	15
Veteran Affairs	99	93	101
Welfare Inspector General	10	10	10
SUBTOTAL - Minor Agencies	**4,902**	**4,708**	**4,813**

Source: NYS DOB

Special Considerations

Many complex political, social, and economic forces influence the State's economy and finances, which may in turn affect the State's Financial Plan. These forces may affect the State from fiscal year to fiscal year and are influenced by governments, institutions, and events that are not subject to the State's control. The Financial Plan is also necessarily based upon 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 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. For a discussion of the DOB economic forecast, see the section entitled "Economics and Demographics," in this AIS.

The State is involved in litigation challenging the use of proceeds from the conversion of Empire Blue Cross/Blue Shield from a not-for-profit corporation to a for-profit corporation. The State is counting on $2.2 billion in conversion proceeds from Empire and other sources to finance HCRA programs in 2005-06. In order to insure General Fund balance, the Enacted Budget provides that no spending for certain HCRA programs may occur after June 30, 2005 unless conversion proceeds become available. The Financial Plan assumes that this issue will be resolved to allow full year spending for all HCRA programs. Other risks inherent in the current projections include the performance of the State and national economies, adverse judgments against the State, and changes in the level of Federal aid.

The Financial Plan projections assume that VLT revenues will be used to continue to finance the State's SBE program. The SBE program is part of the State's efforts to comply with a State Court of Appeals ruling that found that the school finance system failed to provide students in New York City with an adequate education in violation of the State Constitution. The compliance plan also includes traditional school aid and Federal aid. The State Court of Appeals has upheld the constitutionality of VLTs as a lottery game for education funding.

As of the close of 2004-05, DOB projects balances in the State's general reserves to guard against unbudgeted risks will total $1.5 billion. The reserves include $872 million in the TSRF, $601 million in a new fiscal stability reserve fund, and $21 million in the Contingency Reserve Fund for litigation. To permanently improve the State's reserve levels, the Governor has proposed legislation to 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 1 percent to five-tenths of 1 percent of spending. The Fund is at its statutory maximum balance of 2 percent and can only increase as the size of the budget increases.

Aside from the $21 million in the Contingency Reserve Fund, the current Financial Plan does not set aside specific reserves to cover potential costs that could materialize as a result of adverse rulings in pending litigation, Federal disallowances, or other Federal actions that could adversely affect the State's projections of receipts and disbursements.

Federal Issues

An ongoing risk to the Financial Plan arises from the potential impact of certain litigation and Federal disallowances now pending against the State, which could produce adverse effects on the State's projections of receipts and disbursements. For example, 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. Federal regulations include an appeals process that could postpone repayment of any disallowances. The current Financial Plan assumes the Federal government will fully reimburse these costs.

In addition, 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 local school districts for these costs, these Federal deferrals, if not resolved, could negatively impact the Financial Plan. Alternatively, if the State suspends reimbursement, local governments could be adversely affected.

It is unclear at this time what impact, if any, Federal actions may have on the State Financial Plan in the current year or in the future. The Financial Plan assumes no significant Federal disallowances or other Federal actions that could adversely affect State finances. For more information on certain litigation pending against the State, see the section entitled "Litigation" in this AIS.

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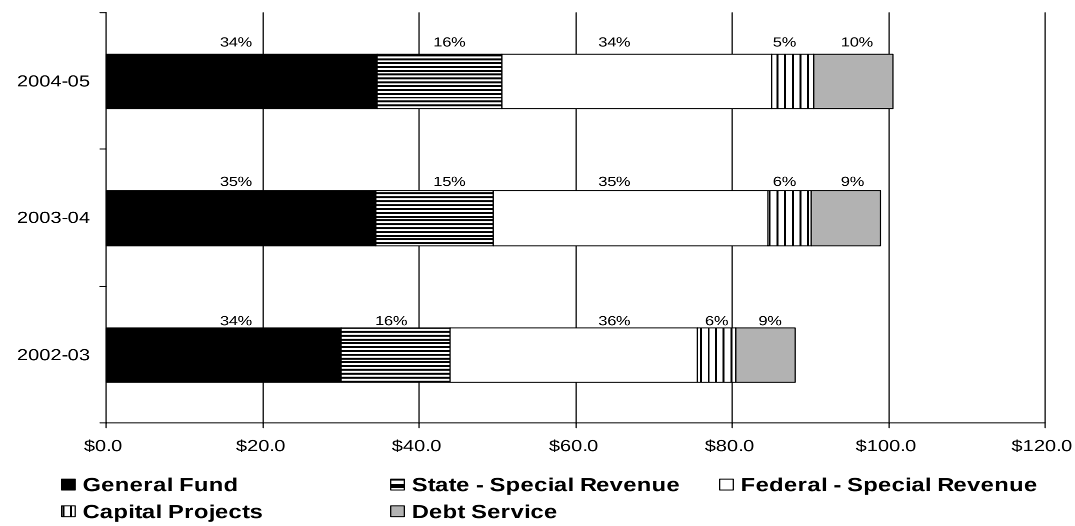
Prior Fiscal Years

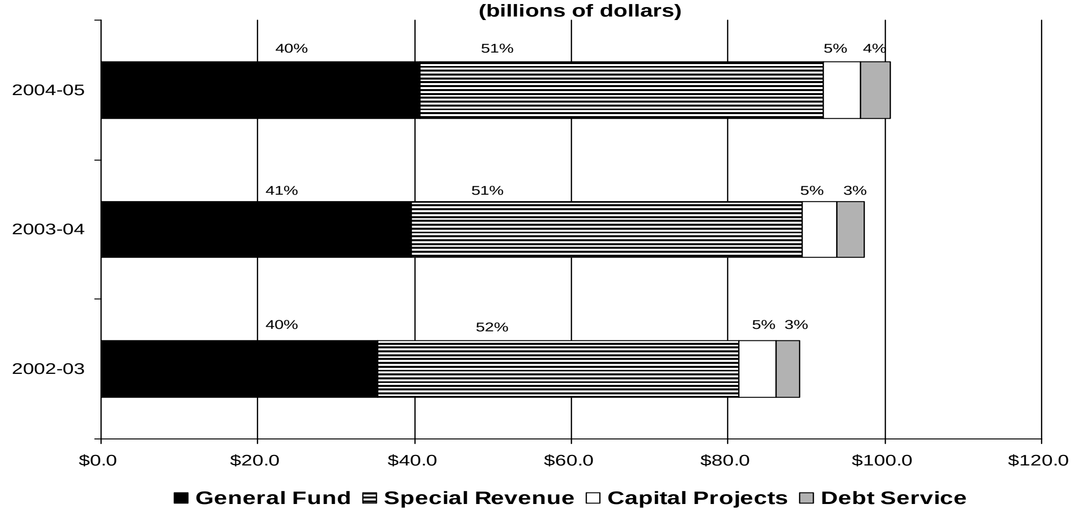
The following four tables show the composition of the State's governmental funds and its General Fund. Following the tables is a summary of the cash-basis results for the State's three most recent fiscal years.

Governmental Funds Receipts
State Fiscal Years 2002-03, 2003-04, and 2004-05
(billions of dollars)



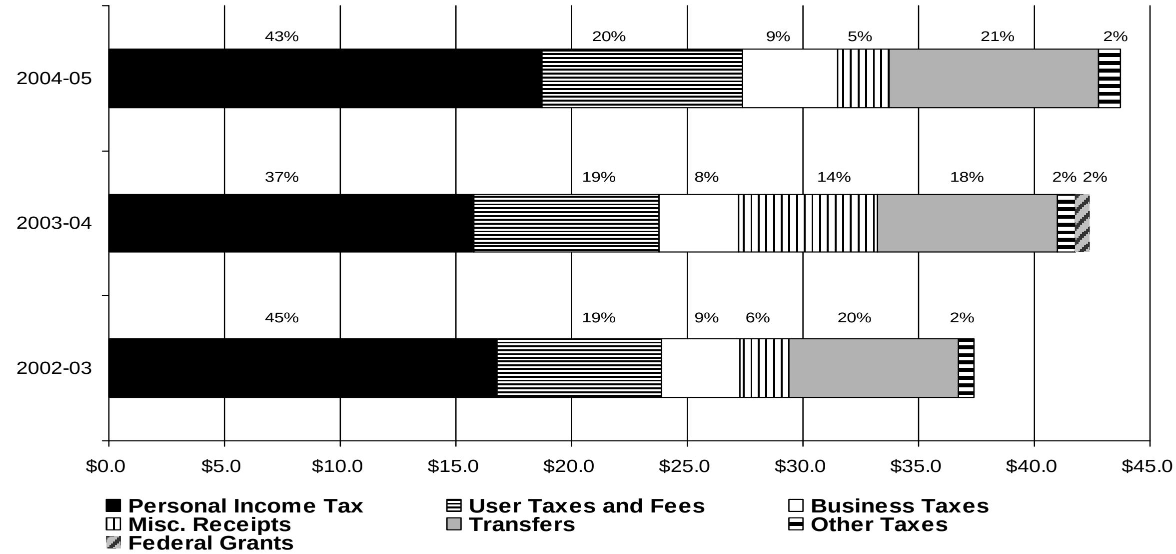
Note: Percentage total may not add due to rounding.

Governmental Funds Disbursements
State Fiscal Years 2002-03, 2003-04, and 2004-05
(billions of dollars)



Note: Percentage total may not add due to rounding.

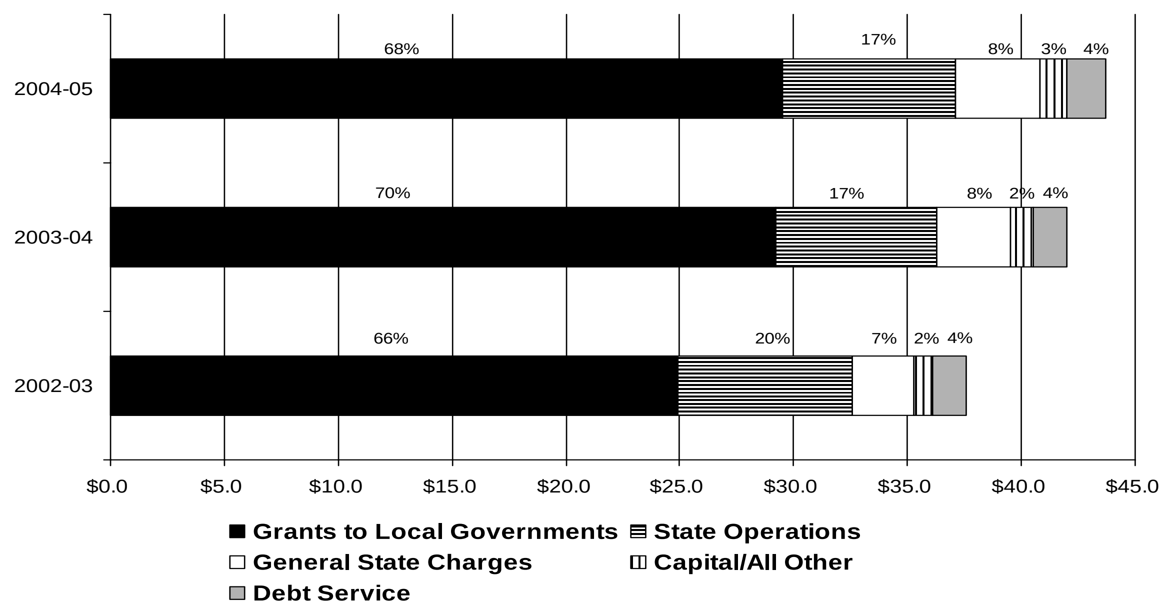
General Fund Receipts and Transfers by Source
State Fiscal Years 2002-03, 2003-04, and 2004-05
(billions of dollars)



Notes: Miscellaneous receipts are affected by tobacco securitization in 2003-04 (miscellaneous receipts for 2003-04 include $4.2 billion in tobacco securitization proceeds).

Percentage total may not add due to rounding.

General Fund Disbursements and Transfers by Type
State Fiscal Years 2002-03, 2003-04, and 2004-05
(billions of dollars)



Note: Percentage total may not add due to rounding.

Cash-Basis Results for Prior Fiscal Years

The State reports its financial results on two bases of accounting: the cash basis, showing receipts and disbursements; and the modified accrual basis, prescribed by GAAP, showing revenues and expenditures. Unless specifically noted, the Financial Plan results reported in this section have been audited.

General Fund 2002-03 through 2004-05

The General Fund is the principal operating fund of the State and is used to account for all financial transactions, except those required to be accounted for in another fund. It is the State's largest single fund and receives most State taxes and other resources not dedicated to particular purposes. General Fund moneys are also transferred to other funds, primarily to support certain capital projects and debt service payments in other fund types.

Recent Trends

Over the last three years, State finances have been affected by a number of factors, including the lingering effects of the September 11th terrorist attacks on New York City and the national recession, weakness in the financial services sector, and the use of non-recurring resources and reserves to support spending. However, there is ample evidence that the State economy has fully emerged from recession and that the State's current economic expansion, estimated to have begun in August 2003, will be sustainable. The State ended each of the last three fiscal years in balance on a cash basis in the General Fund.

2004-05 Fiscal Year

DOB reported a 2004-05 General Fund surplus of $1.2 billion. Total receipts, including transfers from other funds, were $43.8 billion. Disbursements, including transfers to other funds, totaled $43.6 billion.

The General Fund ended the 2004-05 fiscal year with a balance of $1.2 billion, which included dedicated balances of $872 million in the TSRF (the State's "rainy day fund") (after a $78 million deposit at the close of 2004-05), the Contingency Reserve Fund ($21 million), and the Community Projects Fund ($325 million). The closing fund balance excludes $1.3 billion on deposit in the refund reserve account at the end of the 2004-05 fiscal year, including $601 million in the new fiscal stability reserve fund.

General Fund receipts, including transfers from other funds, totaled $43.8 billion in 2004-05, an increase of $1.4 billion from 2003-04 results. Tax receipts, excluding the impact of the tax refund reserve transaction, increased by nearly $4 billion on an annual basis. The growth was offset by an annual decline of $3.5 billion in miscellaneous receipts, due mainly to the State's securitization of tobacco settlement payments in 2003-04.

General Fund spending, including transfers to other funds, totaled $43.6 billion in 2004-05, an increase of $1.6 billion from 2003-04. Medicaid, school aid, fringe benefits, and debt service were the main sources on annual growth.

2003-04 Fiscal Year

DOB reported a 2003-04 General Fund surplus of $308 million. Total receipts, including transfers from other funds, were $42.3 billion. Disbursements, including transfers to other funds, totaled $42.1 billion.

The General Fund ended the 2003-04 fiscal year with a balance of $1.1 billion, which included dedicated balances of $794 million in the TSRF (the State's "rainy day fund") (after an $84 million deposit at the close of 2003-04), $21 million in the Contingency Reserve Fund, and $262 million in the

Community Projects Fund. The closing fund balance excludes $1.2 billion on deposit in the refund reserve account at the end of the 2003-04 fiscal year.

Aside from the extraordinary Federal aid, the net General Fund operating variance was $69 million, although 2003-04 year-end results for a number of programs varied from the initial projections. In particular, even though the State economy rebounded modestly in 2003-04, the persistent effects of the national recession and a weak recovery continued to put pressure on the State's social services programs to a greater extent than anticipated in the Enacted Budget Financial Plan. The actual number of people receiving Medicaid and welfare benefits during the year exceeded initial projections, driving additional Financial Plan costs. However, the positive impact of Federal aid, modestly higher tax receipts, and spending that came in below projections in other programs, were more than sufficient to offset the growth in social services costs.

2002-03 Fiscal Year

After deferring $1.9 billion in planned spending to 2003-04, the State ended the 2002-03 fiscal year on March 31, 2003 with available General Fund cash resources of $1.01 billion. The General Fund cash balance at year-end totaled $815 million and the refund reserve account had $200 million in resources not budgeted for other purposes. The General Fund balance was comprised of $710 million in the TSRF, $20 million in the Contingency Reserve Fund (CRF), and $85 million in the Community Projects Fund. The closing fund balance excludes $627 million on deposit in the refund reserve account at the end of the 2002-03 fiscal year.

General Fund receipts and transfers from other funds totaled $37.4 billion in 2002-03, a decrease of $2.3 billion (6 percent) from the February Financial Plan forecast. The February Financial Plan had counted on $1.9 billion in revenues from the tobacco settlement sale. General Fund disbursements and transfers to other funds totaled $37.6 billion, a decrease of $2.2 billion (5 percent) from the February Financial Plan. The substantial decline resulted from the deferral of $1.9 billion in payments originally scheduled for 2002-03 and $253 million in one-time savings. After adjusting for the payment deferrals, General Fund disbursements would have totaled $39.5 billion in 2002-03 (a decrease of $1.7 billion or 4 percent from 2001-02 results).

State Funds 2002-03 through 2004-05

The State Funds Financial Plan comprises that portion of the All Funds Plan supported exclusively by State taxes, fees, and other resources. It includes the General Fund and State-financed special revenue, capital, and debt service funds, but excludes Federal aid.

Recent Trends

State Funds spending increased from $61.3 billion in 2003-04 to $64.0 billion in 2004-05, an increase of $2.6 billion or 4.3 percent. The General Fund portion of State Funds increased by $1.1 billion. The remaining growth consisted of higher spending for programs supported by special revenue ($1.3 billion), and debt service funds ($439 million), partially offset by lower spending for programs supported by capital projects ($185 million). Spending in State-supported special revenue funds for lottery offsets to school aid increased by $384 million, largely reflecting growth in lottery revenue and the implementation of VLTs at four racetracks across the State. Spending in State-supported special revenue funds for the STAR program increased by $240 million, reflecting in large part the growth in the basic property tax exemption. Spending in State-supported special revenue funds for SUNY increased by $194 million, largely attributable to the three SUNY hospitals and programs supported by user fees. Sources of annual growth in State debt service included planned increases in debt service costs to support capital needs, as well as reduced refunding savings as compared to 2003-04 levels. Sources of reduced spending in State capital projects reflect project delays.

Over the three-year period beginning in 2002-03, State Funds spending has grown by an average 7.1 percent annually. When disbursement totals are adjusted for $1.9 billion in payment deferrals from 2002-03 to 2003-04 due to a delay in tobacco settlement authorization, the three-year average growth is reduced to 5.3 percent annually. In recent years, the State has financed 35-37 percent of its operations outside of the General Fund. Historically, the State has financed an increasing share of its operations outside of the General Fund.

Major programmatic changes that have increased activity outside the General Fund include the financing of certain Medicaid and other health care costs under HCRA and the creation of the STAR program that is funded by directing PIT receipts to a special revenue fund. The State has also seen growth in the portion of transportation-related revenues transferred from the General Fund to two dedicated funds in the special revenue and capital projects fund types to support the capital programs of DOT, MTA and other transit entities.

2004-05 Fiscal Year

The State ended the 2004-05 fiscal year with a State Funds cash balance of $3.2 billion. In addition to the $1.2 billion General Fund balance described above, the State's special revenue funds had a closing balance of $2.0 billion and the debt service funds had a closing balance of $184 million, partially offset by a negative balance in the capital projects funds of $206 million. The fund balance in the special revenue funds largely reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). The fund balance was held in numerous funds/accounts that support a variety of programs including operations and activities of SUNY campuses, industry regulation, public health, public safety, and transportation. The fund balance in the debt service funds reflects the timing of bond sales. The negative balance in the capital projects fund results from outstanding loans from STIP used to finance capital projects costs prior to the receipt of bond proceeds.

State Funds receipts totaled $64.2 billion in 2004-05, an increase of $314 million from the February Financial Plan. The variance was the result of higher-than-expected collections from miscellaneous receipts and taxes. Actual State Funds disbursements totaled $64.0 billion in 2004-05, a decrease of $54 million (less than 1 percent) from the February Financial Plan projections. The variance was largely related to lower General Fund spending and lower debt service costs, partially offset by greater disbursements in special revenue funds and capital projects funds.

2003-04 Fiscal Year

The State ended the 2003-04 fiscal year with a State Funds cash balance of $2.6 billion. In addition to the $1.1 billion General Fund balance described above, the State's special revenue funds had a closing balance of $1.7 billion and the debt service funds had a closing balance of $175 million, partially offset by a negative balance in the capital projects funds of $336 million. The fund balance in the special revenue funds partly reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). The largest special revenue fund balance was dedicated to finance the operations and activities of SUNY campuses and central administration ($442 million). The remaining fund balances were held in numerous funds/accounts that support a variety of programs including industry regulation, public health, and public safety. The negative balance in the capital projects fund results from outstanding loans from STIP used to finance capital projects costs prior to the receipt of bond proceeds.

State Funds receipts totaled $62.2 billion in 2003-04, a decrease of $235 million from the February Financial Plan. The variance was primarily the result of lower-than-expected collections from miscellaneous receipts partially offset by higher-than-expected receipts from taxes. Actual State Funds disbursements totaled $61.3 billion in 2003-04, a decrease of $791 million (1 percent) from the February Financial Plan projections. The variance was largely related to lower capital spending when projects were impacted by inclement weather and a delay in the start of the 2003 construction season.

2002-03 Fiscal Year

The State ended the 2002-03 fiscal year with a State Funds cash balance of $1.6 billion. In addition to the $815 million General Fund balance described above, the State's special revenue funds had a closing balance of $1.2 billion and the debt service funds had a closing balance of $158 million, partially offset by a negative balance in the capital projects funds of $558 million. The largest fund balance in the special revenue funds was dedicated to finance the operations and activities of SUNY campuses and central administration ($218 million).

State Funds receipts totaled $54.7 billion for the 2002-03 fiscal year, a decrease of $3.1 billion (5 percent) from the February Financial Plan. The revenue shortfall in the General Fund related to the delay in tobacco securitization accounted for $2.3 billion of the variance. Miscellaneous receipts outside the General Fund were down by $777 million from projections ($778 million in capital projects funds, $180 million in the special revenue funds and offset by an increase of $181 million in the debt service funds). The variance in the capital projects funds resulted from a delay (from March 2003 until May 2003) in a bond sale for the Dedicated Highway program. In the special revenue funds, spending below projections for various health programs, including Medicaid and EPIC, produced a corresponding reduction in the level of receipts that needed to be transferred from the Tobacco Control and Insurance Initiative Pool.

State Funds disbursements totaled $55.8 billion for the 2002-03 fiscal year, a decrease of $3.2 billion (5 percent) from the February Financial Plan projections. The General Fund accounted for $2.2 billion of the spending reduction, primarily related to the deferral of payments caused by the delay in tobacco securitization, followed by capital projects ($581 million), special revenue ($344 million), and debt service ($53 million). Actual spending for capital projects came in below the February Financial Plan primarily as a result of delays in spending across programs financed with authority bonds. In the special revenue funds, spending below projections in several health care accounts (CHP, HCRA, EPIC and Provider Assessments) and across accounts in the miscellaneous special revenue fund accounted for the $344 million variance.

All Funds 2002-03 through 2004-05

The All Funds Financial Plan includes Federal aid received by the State, making it the broadest measure of the State budget. The All Funds Financial Plan records the operations of the four governmental fund types: the General Fund, Special Revenue Funds, Capital Project Funds, and Debt Service Funds.

Recent Trends

All Funds spending totaled $100.7 billion in 2004-05, $3.3 billion (3.4 percent) higher than in 2003-04. The Federal component of All Funds spending grew by $703 million (2 percent) from 2003-04 levels.

Significant areas of Federal growth included Medicaid and transportation, partially offset by lower spending in higher education and children and family services. Medicaid spending supported by Federal funds increased by $1 billion, primarily reflecting underlying program growth (inflation, caseload, etc.). Federal aid for transportation increased by $323 million, reflecting accelerated spending in transportation programs supported by Federal grants. Higher education spending decreased by $217 million, largely the result of TANF funding, used to finance the TAP program in 2003-04, no longer available in 2004-05. Federal spending for children and family services decreased by $195 million, largely attributable to an unusually high claiming pattern in 2003-04 for several of its programs. All other Federal spending decreases totaled $257 million.

2004-05 Fiscal Year

The State ended the 2004-05 fiscal year with an All Funds cash balance of $3.0 billion. Partially offsetting the $3.2 billion State Funds balance described above, the Federal Funds had a negative closing balance of $249 million, including $248 million in Federal capital projects funds and $1 million in

Federal special revenue funds. The negative balance in the capital projects fund results from outstanding loans from STIP used to finance capital projects costs prior to the receipt of bond proceeds.

All Funds receipts for 2004-05 totaled $100.6 billion, a decrease of $546 million from the February Financial Plan projections. The variance was primarily the result of lower-than-expected collections from Federal grants, partially offset by higher-than-expected receipts from miscellaneous receipts and taxes. All Funds disbursements for 2004-05 totaled $100.7 billion, a decrease of $514 million from the February Financial Plan projections. The decline in State Funds spending of $54 million, combined with a decline in Federal Funds spending of $460 million, account for the variance. In addition to the State Funds variance described above, Federal funds for education programs and World Trade Center reimbursement were revised downward.

2003-04 Fiscal Year

The State ended the 2003-04 fiscal year with an All Funds cash balance of $2.9 billion. In addition to the $2.6 billion State Funds balance described above, the Federal Funds had a closing balance of $321 million, including $480 million in Federal special revenue funds, partially offset by a negative balance in the Federal capital projects funds of $159 million. The fund balance in the special revenue funds partly reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). The negative balance in the capital projects fund results from outstanding loans from STIP used to finance capital projects costs prior to the receipt of bond proceeds.

All Funds receipts for 2003-04 totaled $99 billion, a decrease of $75 million from the February Financial Plan projections. The variance was primarily the result of lower-than-expected collections from miscellaneous receipts partially offset by higher-than-expected receipts from taxes and Federal grants. All Funds disbursements for 2003-04 totaled $97.3 billion, a decrease of $977 million (1 percent) from the February Financial Plan projections. The decline in State Funds spending of $791 million, combined with a decline in Federal Funds spending of $186 million, account for the variance. In addition to the State Funds variance described above, Federal funds for welfare and Medicaid experienced transaction delays.

2002-03 Fiscal Year

The State ended the 2002-03 fiscal year with an All Funds cash balance of $1.2 billion. Offsetting the $1.3 billion State Funds balance described above, the Federal Funds had a negative closing balance of $139 million, including $92 million in Federal special revenue funds and a negative balance in the Federal capital projects funds of $231 million.

All Funds receipts for 2002-03 totaled $88.1 billion, a decrease of $2.3 billion (3 percent) from the February Financial Plan projections. Federal aid exceeded projections by $805 million but was more than offset by the $3.1 billion decline in State Funds revenues.

All Funds disbursements for 2002-03 totaled $89.1 billion, a decrease of $1.8 billion (2 percent) from the February Financial Plan projections. The decline in State Funds spending of $3.2 billion, offset by an increase in Federal spending of $1.4 billion, accounted for the change. Federal Medicaid spending exceeded planned levels by $1.2 billion due mainly to the realization of one-time payments under the disaster assistance program implemented following the September 11th terrorist attacks. Disbursements supported by Federal aid also increased for Children and Family Services ($377 million) and education ($264 million). Federal spending for cleanup and reconstruction activities at the World Trade Center site ($1.1 billion) was $684 million below projections.

COMPARISON OF ACTUAL GENERAL FUND RECEIPTS AND DISBURSEMENTS
2002-03 THROUGH 2004-05
(millions of dollars)

	2002-03	2003-04	2004-05
OPENING FUND BALANCE	1,032	815	1,077
Personal Income Tax (1)	16,791	15,774	18,677
User Taxes and Fees:			
Sales and Use Tax (2)	6,328	7,241	8,094
Cigarette and Tobacco Tax	446	419	406
Motor Fuel Tax	0	0	0
Motor Vehicle Fees	67	82	4
Alcoholic Beverage Taxes and Fees	222	237	227
Container Tax	0	0	0
Auto Rental Tax	0	0	0
Subtotal	7,063	7,979	8,731
Business Taxes:			
Corporation Franchise Tax	1,407	1,482	1,858
Corporation and Utilities Taxes	860	715	617
Insurance Taxes	704	930	1,007
Bank Tax	409	286	587
Petroleum Business Tax	0	0	0
Subtotal	3,380	3,413	4,069
Other Taxes:			
Estate and Gift Taxes	708	736	898
Real Property Gains Tax	5	4	1
Pari-mutuel Tax	29	27	26
Other Taxes	1	1	1
Subtotal	743	768	926
Miscellaneous Receipts & Federal Grants	2,091	6,571	2,226
Transfers from Other Funds:			
PIT in excess of Revenue Bond debt service	4,215	5,244	5,981
Sales Tax in Excess of LGAC Debt Service	1,919	1,971	2,182
All Other Transfers	1,194	607	968
Subtotal	7,328	7,822	9,131
TOTAL RECEIPTS	37,396	42,327	43,760
Grants to Local Governments	24,887	29,246	29,493
State Operations	7,678	7,093	7,565
General State Charges	2,699	3,247	3,653
Debt Service	0	0	0
Transfers to Other Funds:			
In Support of Debt Service	1,496	1,474	1,731
In Support of Capital Projects	166	229	197
All Other Transfers	687	776	980
Subtotal	2,349	2,479	2,908
TOTAL DISBURSEMENTS (3)	37,613	42,065	43,619
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	(217)	262	141
CLOSING FUND BALANCE	815	1,077	1,218

Source: NYS Office of State Comptroller.

(1) Excludes personal income tax receipts that flow into the Revenue Bond Tax Fund in the first instance and are then transferred to the General Fund after debt service obligations are satisfied.

(2) Excludes sales tax in excess of LGAC Debt Service.

(3) Disbursement totals are not adjusted for $1.9 billion in payment deferrals from 2002-03 to 2003-04 when tobacco settlement authorization was delayed.

CASH FINANCIAL PLAN
STATE FUNDS
2002-2003 (1)
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,032	1,090	(153)	169	2,138
Receipts:					
Taxes	27,977	4,205	1,690	6,804	40,676
Miscellaneous receipts	2,091	9,427	1,677	807	14,002
Federal grants	0	0	0	0	0
Total receipts	30,068	13,632	3,367	7,611	54,678
Disbursements:					
Grants to local governments	24,887	10,036	399	0	35,322
State operations	7,678	4,069	0	7	11,754
General State charges	2,699	356	0	0	3,055
Debt service	0	0	0	3,038	3,038
Capital projects	0	4	2,578	0	2,582
Total disbursements	35,264	14,465	2,977	3,045	55,751
Other financing sources (uses):					
Transfers from other funds	7,328	1,131	183	4,383	13,025
Transfers to other funds	(2,349)	(212)	(1,223)	(8,960)	(12,744)
Bond and note proceeds	0	0	245	0	245
Net other financing sources (uses)	4,979	919	(795)	(4,577)	526
Change in fund balance	(217)	86	(405)	(11)	(547)
Closing fund balance	815	1,176	(558)	158	1,591

Source: NYS DOB

(1) DOB calculation of State Funds excludes activity in certain miscellaneous special revenue funds that are financed primarily with Federal funds. The activity in these funds is reflected in the All Governmental Funds Financial Plan.

CASH FINANCIAL PLAN
STATE FUNDS (1)
2003-2004
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance (2)	815	1,230	(558)	158	1,645
Receipts:					
Taxes	27,934	4,442	1,756	8,122	42,254
Miscellaneous receipts	5,917	10,372	2,162	811	19,262
Federal grants	654	0	0	0	654
Total receipts	34,505	14,814	3,918	8,933	62,170
Disbursements:					
Grants to local governments	29,246	10,399	290	0	39,935
State operations	7,093	4,497	0	9	11,599
General State charges	3,247	424	0	0	3,671
Debt service	0	0	0	3,351	3,351
Capital projects	0	3	2,773	0	2,776
Total disbursements	39,586	15,323	3,063	3,360	61,332
Other financing sources (uses):					
Transfers from other funds	7,822	994	177	4,794	13,787
Transfers to other funds	(2,479)	(12)	(949)	(10,350)	(13,790)
Bond and note proceeds	0	0	139	0	139
Net other financing sources (uses)	5,343	982	(633)	(5,556)	136
Change in fund balance	262	473	222	17	974
Closing fund balance	1,077	1,703	(336)	175	2,619

Source: NYS DOB

(1) DOB calculation of State Funds excludes activity in certain miscellaneous special revenue funds that are financed primarily with Federal funds. The activity in these funds is reflected in the All Governmental Funds Financial Plan.

(2) The Special Revenue Funds opening fund balance has been increased by $54 million to reflect the State Comptroller's 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
STATE FUNDS (1)
2004-2005
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,077	1,703	(336)	174	2,618
Receipts:					
Taxes	32,403	4,859	1,862	9,371	48,495
Miscellaneous receipts	2,217	10,972	1,753	768	15,710
Federal grants	9	1	0	0	10
Total receipts	34,629	15,832	3,615	10,139	64,215
Disbursements:					
Grants to local governments	29,493	11,131	340	0	40,964
State operations	7,565	4,917	0	10	12,492
General State charges	3,653	524	0	0	4,177
Debt service	0	0	0	3,789	3,789
Capital projects	0	11	2,538	0	2,549
Total disbursements	40,711	16,583	2,878	3,799	63,971
Other financing sources (uses):					
Transfers from other funds	9,131	1,221	217	5,134	15,703
Transfers to other funds	(2,908)	(167)	(1,002)	(11,464)	(15,541)
Bond and note proceeds	0	0	178	0	178
Net other financing sources (uses)	6,223	1,054	(607)	(6,330)	340
Change in fund balance	141	303	130	10	584
Closing fund balance	1,218	2,006	(206)	184	3,202

Source: NYS DOB

(1) DOB calculation of State Funds excludes activity in certain miscellaneous special revenue funds that are financed primarily with Federal funds. The activity in these funds is reflected in the All Governmental Funds Financial Plan.

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2002-2003
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,032	1,047	(268)	169	1,980
Receipts:					
Taxes	27,977	4,205	1,690	6,804	40,676
Miscellaneous receipts	2,086	9,570	1,678	807	14,141
Federal grants	5	31,684	1,567	0	33,256
Total receipts	30,068	45,459	4,935	7,611	88,073
Disbursements:					
Grants to local governments	24,887	38,249	855	0	63,991
State operations	7,678	7,302	0	7	14,988
General State charges	2,699	540	0	0	3,239
Debt service	0	0	0	3,038	3,038
Capital projects	0	4	3,795	0	3,799
Total disbursements	35,264	46,096	4,650	3,045	89,055
Other financing sources (uses):					
Transfers from other funds	7,328	3,035	183	4,383	14,929
Transfers to other funds	(2,349)	(2,460)	(1,235)	(8,960)	(15,004)
Bond and note proceeds	0	0	245	0	245
Net other financing sources (uses)	4,979	575	(807)	(4,577)	170
Change in fund balance	(217)	(62)	(522)	(11)	(812)
Closing fund balance	815	985	(790)	158	1,168

Source: NYS OSC (reflecting amounts published in the Cash Basis Report for 2002-03)

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 (1)	815	1,039	(790)	158	1,222
Receipts:					
Taxes	27,934	4,442	1,756	8,122	42,254
Miscellaneous receipts	5,917	10,517	2,168	811	19,413
Federal grants	654	35,121	1,548	0	37,323
Total receipts	34,505	50,080	5,472	8,933	98,990
Disbursements:					
Grants to local governments	29,246	41,368	781	0	71,395
State operations	7,093	7,866	0	9	14,968
General State charges	3,247	601	0	0	3,848
Debt service	0	0	0	3,351	3,351
Capital projects	0	9	3,755	0	3,764
Total disbursements	39,586	49,844	4,536	3,360	97,326
Other financing sources (uses):					
Transfers from other funds	7,822	3,447	254	4,794	16,317
Transfers to other funds	(2,479)	(2,539)	(1,028)	(10,350)	(16,396)
Bond and note proceeds	0	0	139	0	139
Net other financing sources (uses)	5,343	908	(635)	(5,556)	60
Change in fund balance	262	1,144	301	17	1,724
Closing fund balance	1,077	2,183	(489)	175	2,946

Source: NYS OSC (reflecting amounts published in the Cash Basis Report for 2003-04)

(1) The Special Revenue Funds opening fund balance has been increased by $54 million to reflect the State Comptroller's 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	1,077	2,183	(489)	175	2,946
Receipts:					
Taxes	32,403	4,859	1,862	9,371	48,495
Miscellaneous receipts	2,217	11,116	1,759	768	15,860
Federal grants	9	34,491	1,721	0	36,221
Total receipts	34,629	50,466	5,342	10,139	100,576
Disbursements:					
Grants to local governments	29,493	42,644	852	0	72,989
State operations	7,565	8,095	0	10	15,670
General State charges	3,653	712	0	0	4,365
Debt service	0	0	0	3,789	3,789
Capital projects	0	11	3,844	0	3,855
Total disbursements	40,711	51,462	4,696	3,799	100,668
Other financing sources (uses):					
Transfers from other funds	9,131	3,613	217	5,134	18,095
Transfers to other funds	(2,908)	(2,796)	(1,006)	(11,464)	(18,174)
Bond and note proceeds	0	0	178	0	178
Net other financing sources (uses)	6,223	817	(611)	(6,330)	99
Change in fund balance	141	(179)	35	10	7
Closing fund balance	1,218	2,004	(454)	185	2,953

Source: NYS OSC (reflecting amounts published in the Cash Basis Report).

GAAP-Basis Results for Prior Fiscal Years

The Comptroller prepares Basic Financial Statements on a GAAP basis for governments as promulgated by GASB. The Basic Financial Statements, released in July each year, include the Statement of Net Assets and Activities, the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds, the Statements of Net Assets, Revenues, Expenses and Changes in Fund Net Assets and Cash Flows for the Enterprise Funds, the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets and the Combining Statements of Net Assets and Activities for Discretely Presented Component Units. These statements are audited by independent certified public accountants. The Comptroller also prepares and issues a Comprehensive Annual Financial Report, which includes a financial overview, the Basic Financial Statements, other supplementary information which includes individual fund combining statements, and a statistical section. For information regarding the State's accounting and financial reporting requirements, see the section entitled "State Organization—Accounting, Financial Reporting and Budgeting."

Both the Basic Financial Statements and Comprehensive Annual Financial Reports for prior fiscal years can be obtained from the Office of the State Comptroller, 110 State Street, Albany, NY 12236 or at the OSC website at www.osc.state.ny.us. The following table summarizes recent governmental funds results on a GAAP basis.

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

Fiscal Year Ended	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	All Governmental Funds	Accum. General Fund Surplus/(Deficit)
March 31, 2004	3,039	(578)	173	603	3,237	(281)
March 31, 2003	(4,221)	(231)	(243)	391	(4,304)	(3,320)
March 31, 2002 (1)	(3,418)	(970)	76	(134)	(4,446)	493

(1) Prior to implementation of GASB 34.

Beginning in 2002-03, statements have been prepared in accordance with GASB 34. GASB 34 has significantly affected the accounting and financial reporting for all state and local governments. The new financial reporting model redefined the financial reporting model by changing its focus to major funds, rather than fund types, requiring a new section called management discussion and analysis (the "MD&A"), and containing new government-wide financial statements which includes all revenues and all costs of providing services each year. The new Basic Financial Statements and the MD&A are issued in place of the general purpose financial statements. The new statements also report on all current assets and liabilities and also long-term assets and liabilities, such as capital assets, including infrastructure (e.g., roads and bridges).

Summary of Net Assets
(millions of dollars)

Fiscal Year Ended	Governmental Activities	Business-Type Activities	Total Primary Government
March 31, 2004	39,086	2,088	41,174
March 31, 2003	42,396	2,500	44,896
March 31, 2002 (1)	47,679	2,687	50,366

(1) Prior to implementation of GASB 34.

Economics and Demographics

The following section presents economic information that may be relevant in evaluating the future prospects of the State economy. Additional information on the economic forecast that supports the current financial plan projections appears in this AIS in the section entitled "Current Fiscal Year."

The demographic and statistical data in this section, which have been obtained from the sources indicated, do not represent all of the factors which may have a bearing on the State's fiscal and economic affairs. Further, such information requires economic and demographic analysis in order to assess its significance, and may be interpreted differently by individual experts.

The U.S. Economy

The U.S. economy continued to exhibit underlying strength during the fourth quarter of 2004 and is on track to grow as projected in the 2005-06 Executive Budget with 30-day amendments. Consumption growth remains robust; the labor market continues to expand; and investment growth remains steady. Rising employment and incomes are expected to sustain household demand during 2005, countering both rising interest rates and the withdrawal of fiscal stimulus. DOB projects real U.S. GDP growth for 2005 of 3.6 percent, following growth of 4.4 percent for 2004. Total nonfarm employment is expected to grow 1.7 percent in 2005, a pace that represents a significant improvement over 2004 and is more typical of a maturing expansion. Personal income is projected to grow 5.7 percent for 2005, with its largest component, wages and salaries, growing 5.6 percent.

Energy prices, at both the wholesale and retail levels, have achieved new highs after receding earlier in the year. These events have reinforced the belief that producers will possess a degree of pricing power unseen in recent years. Correspondingly, consumer price inflation of 2.8 percent, as measured by growth in the CPI, is projected for 2005. The heightened risk to price stability is expected to induce the Federal Reserve to continue on its path toward a policy neutral interest rate target. The federal funds rate is now expected to reach 4.25 percent by the end of 2005. Renewed pricing power, combined with a labor market that is healthy but not tight, will have a positive impact on corporate profits. U.S. corporate profits from current production, including the inventory valuation and capital consumption adjustments, are expected to grow 11.9 percent in 2005.

Energy prices remain a chief risk to the U.S. forecast. Continued high world demand, risks to production facilities in the Middle East and elsewhere, and speculative activity have all contributed significantly to a sharp run-up in price. High energy prices not only present a risk to the DOB inflation forecast but to domestic and global economic growth as well. Lower global growth could result in lower than anticipated exports. Although the dollar has stabilized recently, another substantial slide could also contribute to accelerating inflation. Higher inflation could induce the Federal Reserve to raise its interest rate target more quickly than anticipated, which would negatively affect the housing market, business investment, and the financial markets. In contrast, better than expected economic conditions may encourage firms to invest more and hire more workers than expected, resulting in higher wages and higher consumption spending as well. Finally, a lower dollar could lead to higher exports, and therefore, higher output growth than projected.

Economic Indicators for the United States

	2001	2002	2003	2004	2005(1)
Gross Domestic Product					
Nominal (billions $)	10,128.0	10,487.0	11,004.0	11,735.0	12,414.1
Percent Change	3.2	3.5	4.9	6.6	5.8
Real (billions $)	9,890.6	10,074.8	10,381.3	10,841.9	11,230.1
Percent Change	0.8	1.9	3.0	4.4	3.6
Personal Income					
(billions $)	8,724.1	8,878.9	9,161.8	9,673.0	10,225.1
Percent Change	3.5	1.8	3.2	5.6	5.7
Nonagricultural Employment					
(millions)	131.8	130.3	130.0	131.5	133.6
Percent Change	0.0	(1.1)	(0.3)	1.1	1.7
Unemployment Rate (%)	4.7	5.8	6.0	5.5	5.2
Consumer Price Index					
(1982-84=100)	177.1	179.9	184.0	188.9	194.1
Percent Change	2.8	1.6	2.3	2.7	2.8

Sources: US Department of Commerce, Bureau of Economic Analysis; US Department of Labor, Bureau of Labor Statistics. Table reflects adjustments by source agencies to figures for prior years.

(1) As projected by the NYS DOB, based on National Income and Product Account data through March 2005.

The New York Economy

The New York economy continues to expand. Recent above-trend national growth rates have helped to buttress the New York State economy, putting the State well on its way to a full recovery from the impact of the September 11 attack, and reversing several years where the State's job base was in decline. Total New York nonfarm employment is projected to grow 1.0 percent for 2005, with private sector job growth of 1.3 percent projected for the current year. The continued strengthening of the State economy will help to support the housing market in 2005, though the torrid pace of growth observed in 2004 is not expected to be sustained. With the pickup in equity market activity toward the end of 2004, the securities industry saw solid profit levels, though below those earned in 2003. Consequently, bonus growth for 2005 will fall short of the extraordinary growth experienced in 2004, offsetting the impact of higher employment growth on personal income and wages. Both New York personal income and its largest component, wages and salaries, are expected to grow 4.9 percent for 2005.

In addition to the risks associated with the national economic forecast, there exist specific risks to the State economy. Chief among them is a weaker performance within the financial sector than is currently projected. Rising interest rates tend to have a more negative impact on the New York economy than on the nation as a whole. Higher energy prices and global instability also loom large as risks to equity market performance. A weaker financial market performance than expected could result in lower bonus payment growth than projected, though this impact would be largely felt during the first quarter of 2006. In contrast, a stronger national economy than expected could result in stronger equity market growth and, in turn, greater demand for financial market services and even stronger income growth in that sector than expected.

Economic Indicators for New York State

	2001	2002	2003	2004	2005(1)
Personal Income					
(billions $)	679.9	676.6	693.8	735.0	771.4
Percent Change	2.5	(0.48)	2.5	5.9	4.9
Nonagricultural Employment					
(thousands)	8,591.7	8,459.0	8,407.0	8,446.6	8532.2
Percent Change	(0.5)	(1.5)	(0.6)	0.5	1.0
Unemployment Rate (%)	4.9	6.2	6.4	5.8	5.2

Sources: US Department of Commerce, Bureau of Economic Analysis; NYS Department of Labor. Table reflects adjustments by source agencies to figures for prior years.

(1) As projected by Division of the Budget, based on National Income and Product Account and employment data through March 2005.

New York is the third most populous state in the nation and has a relatively high level of personal wealth. The State's economy is diverse, with a comparatively large share of the nation's financial activities, information, education, and health services employment, and a very small share of the nation's farming and mining activity. The State's location and its air transport facilities and natural harbors have made it an important link in international commerce. Travel and tourism constitute an important part of the economy. Like the rest of the nation, New York has a declining proportion of its workforce engaged in manufacturing, and an increasing proportion engaged in service industries. Beginning in 2003, Federal and state government employment and wage statistics are being reported in accordance with the new (NAICS) industrial classification system.

Services: Under NAICS, the services industries includes professional and business services, education and healthcare, leisure and hospitality services, and other services. These industries account for more than four of every ten nonagricultural jobs in New York, and account for a higher proportion of total jobs than the rest of the nation.

Manufacturing: Manufacturing employment continues to decline in New York, as in most other states, and New York's economy is less reliant on this sector than in the past. However, it remains an important sector of the State economy, particularly for the upstate region, as high concentrations of manufacturing industries for transportation equipment, optics and imaging, materials processing, and refrigeration, heating, and electrical equipment products are located in the upstate region.

Trade, Transportation & Utilities: As defined under NAICS, the trade, transportation, and utilities sector accounts for the largest component of State nonagricultural employment, but only the fourth largest when measured by income share. This sector accounts for slightly less employment and wages for the State than for the nation.

Financial Activities: New York City is the nation's leading center of banking and finance and, as a result, this is a far more important sector in the State than in the nation as a whole. Although this sector accounts for under one-tenth of all nonagricultural jobs in the State, it contributes nearly one-fifth of total wages.

Agriculture: Farming is an important part of the economy in rural areas, although it constitutes a very minor part of total State output. Principal agricultural products of the State include milk and dairy products, greenhouse and nursery products, fruits, and vegetables. New York ranks among the nation's leaders in the production of these commodities.

Government: Federal, State and local governments together comprise the second largest sector in terms of nonagricultural jobs, with the bulk of the employment accounted for by local governments. Public education is the source of nearly one-half of total State and local government employment.

The importance of the different sectors of the State's economy relative to the national economy is shown in the following table, which compares nonagricultural employment and wages by sector for the State and the nation as a whole. Relative to the nation, the State has a smaller share of manufacturing and construction and a larger share of service industries. The financial activities sector share of total wages is particularly large for the State relative to the nation. The State is likely to be less affected than the nation as a whole during an economic recession that is concentrated in manufacturing and construction, but likely to be more affected by any economic downturn that is concentrated in the services sector.

Composition of Nonagricultural Employment and Wages by Major NAICS Sector for 2004
(Percent)

	Employment		Wages	
	State	United States	State	United States
Natural Resources and Mining	0.1	0.4	0.1	0.6
Construction	3.8	5.3	3.8	5.4
Manufacturing	7.1	10.9	7.0	12.8
Trade, Transportation & Utilities	17.6	19.4	13.4	16.7
Information	3.2	2.4	4.7	3.6
Financial Activities	8.3	6.1	19.7	9.5
Professional and Business Services	12.5	12.5	15.9	14.9
Educational and Health Services	18.0	12.9	13.0	11.4
Leisure and Hospitality	7.8	9.5	3.7	4.2
Other Services	4.2	4.1	2.8	3.2
Government	17.6	16.4	15.5	17.0

Source: NYS Department of Labor; US Department of Labor, Bureau of Labor Statistics; US Department of Commerce, Bureau of Economic Analysis.

Economic and Demographic Trends

In the calendar years 1990 through 1998, the State's rate of economic growth was somewhat slower than that of the nation. In particular, during the 1990-91 recession and post-recession period, the economy of the State, and that of the rest of the Northeast, was more heavily damaged than that of the nation as a whole and had been slower to recover. However, the situation subsequently improved. In 1999, for the first time in 13 years, the employment growth rate of the State surpassed the national growth rate, and, in 2000, the rates were essentially the same. In 2001, the September 11th attack resulted in a slowdown in New York that was more severe than in the nation as a whole. Although the State unemployment rate was higher than the national rate from 1991 to 2000, the gap between them has since closed.

The following table compares population change in the State and in the United States since 1960.

Comparative Population Figures

	State			US	
	Total Population (000s)	% Change from Preceding Period	Percentage of U.S. Population	Total Population (000s)	% Change from Preceding Period
1960	16,782	13.2	9.4	179,323	18.5
1970	18,241	8.7	9.0	203,302	13.4
1980	17,558	(3.7)	7.8	226,542	11.4
1990	17,990	2.5	7.2	248,710	9.8
2000	18,976	5.5	6.7	281,422	13.2
2004 (prelim.)	19,227	1.3	6.5	293,655	4.3

Source: US Department of Commerce, Census Bureau.

Total State nonagricultural employment has declined as a share of national nonagricultural employment. The following historical table compares these levels and the rate of unemployment for the State and the nation.

Nonagricultural Employment and Unemployment Rate For New York and the United States

	Employment (000s)		State Percentage of US Employment	Unemployment Rate (%)	
	State	US		State	US
1960	6,182	54,296	11.4	N/A	5.5
1970	7,156	71,006	10.1	4.5	4.9
1980	7,207	90,528	8.0	7.5	7.1
1990	8,212	109,487	7.5	5.3	5.6
2000	8,635	131,785	6.6	4.5	4.0
2004 (prelim.)	8,447	131,480	6.4	5.8	5.5

Source: US and NYS Departments of Labor.
Note: Nonagricultural employment and unemployment rates are generated from separate surveys.

State per capita personal income has historically been significantly higher than the national average, although the ratio has varied substantially. Because New York City is an employment center for a multi-state region, State personal income measured on a residence basis understates the relative importance of the State to the national economy and the size of the base to which State taxation applies. The following table compares per capita personal income for the State and the nation.

Per Capita Personal Income
(Dollars)

	State	US	State/US
1960	2,788	2,276	1.22
1970	4,874	4,085	1.19
1980	11,015	10,114	1.09
1990	23,523	19,477	1.21
2000	34,897	29,845	1.17
2004 (prelim.)	38,228	32,937	1.16

Source: US Department of Commerce, Bureau of Economic Analysis.

Debt and Other Financing Activities

Section 22-c of the State Finance Law requires the Governor to submit the five-year Capital Program and Financing Plan (the Plan) with the Executive Budget and to submit an update to the Plan by the later of July 30 or 90 days after the enactment of the State Budget. The proposed 2005-06 through 2009-10 Capital Program and Financing Plan was released with the 2005-06 Executive Budget on January 18, 2005 and updated to reflect the 30-Day Amendments on February 8, 2005. The Enacted Budget Capital Program and Financing Plan (the "Enacted Capital Plan") was released on April 26, 2005 and reflects enactment of the debt service appropriations bill passed by the Legislature on March 8, 2005, action on the Budget adopted by the State Legislature on March 31, 2005 and budget amendments passed on April 12, 2005. A copy of the Enacted Budget Capital Program and Financing Plan can be obtained by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705, or at www.budget.state.ny.us.

Legal Categories of State Debt and Other Financings

For purposes of analyzing the financial condition of the State, debt may be classified as *State-supported debt* and *State-related debt*. *State-supported debt* includes general obligation debt, to which the full faith and credit of the State has been pledged, and lease-purchase and contractual obligations of public authorities and municipalities, where the State's legal obligation to make payments to those public authorities and municipalities is subject to and paid from annual appropriations made by the Legislature (see "State-supported Debt"). *State-related debt* includes State-supported debt referenced above, as well as State-guaranteed debt (to which the full faith and credit of the State has been pledged), moral obligation financings and certain contingent-contractual obligation financings, where debt service is expected to be paid from other sources and State appropriations are contingent in that they may be made and used only under certain circumstances (see "State-related Debt Outstanding"). Both of these categories of financings are described in more detail below.

The State has never defaulted on any of its general obligation indebtedness or its obligations under lease-purchase or contractual obligation financing arrangements and has never been called upon to make any direct payments pursuant to its guarantees.

State-supported Debt

State-supported debt includes general obligation debt, to which the full faith and credit of the State has been pledged, and lease-purchase and contractual obligations of public authorities and municipalities, where the State's legal obligation to make payments to those public authorities and municipalities is subject to and paid from annual appropriations made by the Legislature. The 2005-06 Enacted Capital Plan released on April 26, 2005 (see "2005-06 State-supported Borrowing Plan") provides five-year detailed information on State-supported debt. The Plan reflects the financing of capital projects and programs in a variety of areas, including transportation, the environment, health and mental hygiene, public protection, economic development, housing, and State buildings and equipment acquisitions (see "General Obligation Financings" and "State-supported Lease-Purchase and Contractual-Obligation Financings" below).

General Obligation Financings

Under the State Constitution, the State may not, with limited exceptions for emergencies, undertake a long-term general obligation borrowing (i.e., borrowing for more than one year) unless the borrowing is authorized in a specific amount for a single work or purpose by the Legislature and approved by the voters. There is no constitutional limitation on the amount of long-term general obligation debt that may be so authorized and subsequently incurred by the State. However, the Debt Reform Act of 2000 (Debt Reform Act) imposed statutory limitations on new State-supported debt issued on and after April 1, 2000.

Except as noted in the next sentence, the State Constitution also provides that general obligation bonds must be paid in equal annual principal installments or installments that result in substantially level or declining debt service payments, mature within 40 years after issuance, and begin to amortize not more than one year after the issuance of such bonds. General obligation housing bonds must be paid within 50 years after issuance, with principal commencing no more than three years after issuance. However, the Debt Reform Act limits the maximum term of State-supported bonds, including general obligation bonds, to thirty years (see “Limitations on State-supported Debt – Debt Reform Act of 2000” below).

Under the State Constitution, the State may undertake short-term borrowings without voter approval (i) in anticipation of the receipt of taxes and revenues, by issuing tax and revenue anticipation notes (TRANs), and (ii) in anticipation of the receipt of proceeds from the sale of duly authorized but unissued general obligation bonds, by issuing bond anticipation notes (BANs). TRANs must mature within one year from their date of issuance and cannot be refunded or refinanced beyond such period. However, since 1990, the State's ability to issue TRANs has been limited due to the enactment of the fiscal reform program which created LGAC (see "Local Government Assistance Corporation" below). BANs may only be issued for the purposes and within the amounts for which bonds may be issued pursuant to voter authorizations, and must be paid from the proceeds of the sale of bonds in anticipation of which they were issued or from other sources within two years of the date of issuance or, in the case of BANs for housing purposes, within five years of the date of issuance. In order to provide flexibility within these maximum term limits, the State had previously utilized the BANs authorization to conduct a commercial paper program to fund disbursements eligible for general obligation bond financing. The State does not anticipate issuing BANs during the 2005-06 fiscal year.

General Obligation Bonds Outstanding

General obligation debt is currently authorized for transportation, environment and housing purposes. Transportation-related bonds are issued for State and local highway and bridge improvements, aviation, mass transportation, rail, canal, port and waterway programs and projects. Environmental bonds are issued to fund environmentally-sensitive land acquisitions, air and water quality improvements, municipal non-hazardous waste landfill closures and hazardous waste site cleanup projects. The amount of general obligation bonds issued in the 2004-05 fiscal year (excluding refunding bonds) was $177 million, and as of March 31, 2005, the total amount of general obligation debt outstanding was $3.7 billion. The following table sets forth information regarding the levels of authorized, unissued and outstanding State general obligation debt by purpose as of March 31, 2005.

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State General Obligation Debt
As of March 31, 2005
(millions of dollars)

Purpose/Year Authorized	**Total Authorized**	**Authorized but Unissued**	**Total Debt Outstanding**
Transportation Bonds:			
Transportation Capital Facilities (1967)			
Highways	1,250.0	0.0	0.0
Mass Transportation	1,000.0	0.0	78.2
Aviation	250.0	0.0	49.0
Rail Preservation (1974)	250.0	0.0	41.6
Energy Conservation Through Improved Transportation (1979)			
Local Streets and Highways	100.0	0.0	0.0
Rapid Transit and Rail Freight	400.0	0.9	41.7
Rebuild New York Through Transportation Infrastructure Renewal (1983)			
Highway Related Projects	1,064.0	24.5	9.7
Rapid Transit, Rail and Aviation Projects	136.6	0.0	47.0
Ports, Canals, and Waterways	49.4	0.0	2.0
Accelerated Capacity and Transportation Improvements of the Nineties (1988)	3,000.0	42.8	1,001.4
Total Transportation Bonds	7,500.0	68.2	1,270.6
Environmental Bonds:			
Park and Recreation Land Acquisition (1960)	100.0	0.8	0.1
Pure Waters (1965)	1,000.0	31.3	145.1
Outdoor Recreation Development (1966)	200.0	0.2	0.4
Environmental Quality (1972)			
Water	650.0	6.7	193.6
Air	150.0	9.1	40.3
Land and Wetlands	350.0	13.7	83.3
Environmental Quality (1986)			
Solid Waste Management	1,200.0	145.5	686.2
Land and Forests	250.0	4.5	107.4
Clean Water/Clean Air (1996)			
Safe Drinking Water	355.0	0.0	221.6
Clean Water	790.0	304.4	446.6
Solid Waste	175.0	18.5	134.7
Environmental Restoration	200.0	169.0	24.7
Air Quality	230.0	51.7	127.4
Total Environmental Bonds	5,650.0	755.4	2,211.4
Housing Bonds:			
Low-Income Housing (through 1958)	960.0	7.9	105.5
Middle-Income Housing (through 1958)	150.0	0.5	63.8
Urban Renewal (1958)	25.0	1.6	0.1
Total Housing Bonds	1,135.0	10.0	169.4
Education Bonds:			
Higher Education Facilities (1957)	250.0	0.0	0.6
TOTAL GENERAL OBLIGATION DEBT	14,535.0	833.6	3,652.0

Source: Office of the State Comptroller

The 2005-06 Enacted Budget authorized a $2.9 billion Rebuild and Renew New York Transportation General Obligation Bond Act to be submitted to the voters in November 2005. Proceeds from the Bond Act, if approved by the voters, will be divided equally between DOT and the MTA capital programs ($1.45 billion for each program) as reflected in the 2005-06 Enacted Budget, and will be used to partially finance the new DOT and MTA five-year capital plans of $17.9 billion for each plan, respectively. The Enacted Capital Plan projects that about $279 million in General Obligation Bonds will be issued in 2005-06, including $94 million of Rebuild and Renew New York Transportation Bonds that could be issued if the proposed Bond Act is approved by the voters.

State-supported Lease-Purchase and Contractual-Obligation Financings

The State utilizes certain long-term financing mechanisms, lease-purchase and contractual-obligation financings which involve obligations of public authorities or municipalities where debt service is payable by the State, but which are not general obligations of the State. Under these financing arrangements, certain public authorities and municipalities have issued obligations to finance certain payments to local governments (see “Local Government Assistance Corporation” below), various capital programs, including those which finance the State's highway and bridge program, SUNY and CUNY educational facilities, health and mental hygiene facilities, prison construction and rehabilitation, economic development projects, State buildings and housing programs, and equipment acquisitions, and expect to meet their debt service requirements through the receipt of rental or other contractual payments made by the State.

Debt service payable to certain public authorities from State appropriations for such lease-purchase and contractual obligation financings may be paid from general resources of the State or from dedicated tax and other sources (e.g., State personal income taxes, motor vehicle and motor fuel related-taxes, dormitory facility rentals, and patient charges). Although these financing arrangements involve a contractual agreement by the State to make payments to a public authority, municipality or other entity, the State's obligation to make such payments is generally expressly made subject to appropriation by the Legislature and the actual availability of money to the State for making the payments.

The State expects to continue to use lease-purchase and contractual-obligation financing arrangements to finance its capital programs, and expects to finance many of these capital programs with State PIT Revenue Bonds (see “State Personal Income Tax Revenue Bond Financing” below). The Enacted Capital Plan projects that $2.8 billion of State PIT Revenue Bonds, $163 million of SUNY Dormitory Facilities Revenue Bonds, $203 million of Mental Health Facilities Improvement Revenue Bonds and $21 million of DOH Revenue Bonds will be issued in 2005-06. The Enacted Capital Plan also reflects the issuance of $3.7 billion of Dedicated Highway and Bridge Trust Fund Bonds, including the anticipated issuance of about $3 billion of bonds to restructure outstanding Bonds to more closely align the principal amortization schedule with the underlying useful lives of the projects financed (See “2005-06 State-supported Borrowing Plan” and “Transportation” below).

Some of the major capital programs financed by lease-purchase and contractual-obligation agreements are highlighted below.

Transportation. The State DOT is primarily responsible for maintaining and rehabilitating the State’s system of highways and bridges, which includes 40,000 State highway lane miles and 7,500 State bridges. The Department also oversees and funds programs for rail, port, transit and aviation projects and programs that help defray local capital expenses associated with road and bridge projects.

The Enacted Capital Plan reflects a new five-year DOT capital plan and a new five-year MTA capital plan of $17.9 billion each. The Enacted Capital Plan includes the entire DOT plan, but only reflects the portion of the MTA capital plan that is financed by State-supported bonds. The balance of the MTA capital plan is financed by a combination of other State, City and MTA resources (see below). To partially fund the new DOT and MTA plans, the Enacted Budget authorized a $2.9 billion Rebuild and Renew New York Transportation General Obligation Bond Act that will be submitted to the voters in November 2005. Proceeds from the Bond Act, if approved by the voters, will be divided equally between the DOT and the MTA capital programs ($1.45 billion for each program). Additional resources still need to be identified in the outyears of the plan to support the DOT and MTA capital plans.

DOT's programs are financed by a combination of Federal grants, pay-as-you-go capital and bond proceeds supported by the Dedicated Highway and Bridge Trust Fund, and revenues from the Dedicated Mass Transportation Trust Fund. Legislation has been periodically adopted to increase the deposit of revenues into the Dedicated Highway and Bridge Trust Fund and the Dedicated Mass Transportation Trust Fund to meet program needs. In addition, General Obligation Bond Acts have been used to support capital transportation spending.

The State has supported the capital plans of the MTA in part by entering into service contracts relating to certain State-supported bonds issued by the MTA. Legislation adopted in 1992 and 1993 also authorized payments, subject to appropriation, of a portion of the petroleum business tax from the State's Dedicated Mass Transportation Trust Fund to the MTA and authorized it to be used as a source of payment for non-State-supported bonds to be sold by the MTA to support its capital program. Legislation adopted in 2000 provided for increases in amounts dedicated to the MTA through the Dedicated Mass Transportation Trust Fund by increasing the portion of the petroleum business tax and other transportation-related taxes and fees that would flow to that Fund between 2000-01 and 2004-05. In 2002, the MTA implemented an overall debt restructuring program that included the State-supported service contract bonds and the non-State-supported Dedicated Mass Transportation Trust Fund bonds. The restructuring simplified and restructured MTA credits, modernized resolutions and restructured existing debt to create new capital capacity and better match the bond maturities with the useful lives of the projects financed. See the section entitled "Authorities and Localities" for additional information about MTA.

Education. The State finances the physical infrastructure of SUNY and CUNY and their respective community colleges and SED through direct State capital spending and through financing arrangements with the Dormitory Authority of the State of New York (DASNY), paying all capital costs of the senior colleges and sharing equally with local governments for the community colleges, except that SUNY dormitories are financed through dormitory fees. The Enacted Capital Plan also includes a new Higher Education Capital Matching Grants Program to finance capital projects at private colleges.

The 34 SUNY campuses include approximately 2,600 buildings, including classrooms, dormitories, libraries, athletic and student facilities and other buildings. Nearly 85 percent exceed 20 years of age. Together with the 30 SUNY community colleges, the SUNY system serves more than 413,000 students. The CUNY system is comprised of 11 senior colleges and 6 community colleges that serve approximately 219,000 students.

Mental Hygiene/Health. The State provides care for its citizens with mental illness, mental retardation and developmental disabilities, and for those with chemical dependencies, through OMH, the Office of Mental Retardation and Developmental Disabilities (OMRDD) and OASAS. Capital investments for these programs are primarily supported by patient revenues through financing arrangements with DASNY. Historically, this care has been provided at large State institutions. Beginning in the 1980s the State adopted policies to provide institutional care to those most in need and to expand care in community residences.

OMRDD's capital program supports a State institutional infrastructure comprising 14 service districts with approximately 350 buildings, and a State- and non-profit operated community network of approximately 32,000 beds. The program continues the recent shift in emphasis from the development of new facilities (primarily in the community) to the improvement and maintenance of existing State and non-profit infrastructure.

OMH's capital program supports an institutional physical plant consisting of 23 campuses with over 1,000 buildings as well as a State and non-profit operated community network of approximately 27,700 beds. The overall policy direction of this program has limited institutional capital projects to those that are necessary to ensure the health and safety of clients and staff, retain program accreditation, and maintain the condition of existing facilities. In addition, the program supports the preservation of existing State and community beds and the development of new non-profit operated community beds.

As the need for institutional beds has declined over recent years, both OMRDD and OMH have consolidated, reconfigured or closed many of their campuses, permitting the planned development of alternate uses for the surplus facilities.

Various capital programs for DOH facilities have also been financed by DASNY using patient revenues and contractual-obligation financing arrangements.

Public Protection. The State prison system houses approximately 64,900 inmates in 70 facilities with 3,800 buildings. With the completion of the Five Points Correctional Facility in 2000 marking the end of the most recent capacity expansion effort, the capital program has shifted its focus to critical physical plant maintenance and rehabilitation projects.

Equipment Acquisitions. Subject to legislative authorization, the State may also participate in the issuance of certificates of participation (COPs) in a pool of leases entered into by the State's OGS on behalf of several State departments and agencies to acquire equipment, or in certain cases, real property, to facilitate the delivery of services that achieve the mission of agencies. Legislation enacted in 1986 established restrictions upon the issuance of COPs and centralized State control of this equipment acquisition program. COPs represent the State's contractual obligation, subject to annual appropriation by the Legislature and availability of funds, to make installment or lease-purchase payments for the State's acquisition of such equipment or real property. The State has not issued COPs since 2001 and expects that State PIT Revenue Bonds will be used to finance the acquisition of equipment under this program in 2005-06.

Other Programs. The State also uses lease-purchase and contractual-obligation financing arrangements for the institutional facilities of OCFS (formerly known as the Division for Youth), the State's housing programs, and various environmental, economic development, and State building programs.

Local Government Assistance Corporation

In 1990, as part of a State fiscal reform program, legislation was enacted creating LGAC, a public benefit corporation empowered to issue long-term obligations to fund certain payments to local governments that had been traditionally funded through the State's annual seasonal borrowing. The legislation also dedicated revenues equal to the first 1 percent of the State sales and use tax to pay debt service on these bonds. As of June 1995, LGAC had issued State-supported bonds and notes to provide net proceeds of $4.7 billion, completing the program. The issuance of these long-term obligations, which are to be amortized over no more than 30 years, was expected to eliminate the need for continued short-term seasonal borrowing.

The legislation also eliminated annual seasonal borrowing of the State except in cases where the Governor and the legislative leaders have certified the need for additional seasonal borrowing, based on emergency or extraordinary factors or factors unanticipated at the time of adoption of the budget, and provided a schedule for eliminating it over time. Any seasonal borrowing is required by law to be eliminated by the fourth fiscal year after the limit was first exceeded (i.e., no TRANs seasonal borrowing in the fifth year). This provision limiting the State's seasonal borrowing practices was included as a covenant with LGAC's bondholders in the General Bond Resolution and General Subordinate Lien Bond Resolution authorizing such bonds. No restrictions were placed upon the State's ability to issue deficit notes.

The impact of the LGAC reforms, as well as other changes in revenue and spending patterns, is that the State has been able to meet its cash flow needs throughout the fiscal year without relying on short-term seasonal borrowings.

Legislation enacted in 2003 currently requires LGAC to certify, in addition to its own cash needs, $170 million annually to provide an incentive for the State to seek an annual appropriation to provide local assistance payments to New York City or its assignee. In May 2004, LGAC amended its General Bond Resolution and General Subordinate Lien Bond Resolution to make clear that any failure to certify or make payments to the City or its assignee has no impact on LGAC's own bondholders; and that if any such act or omission were to occur with respect to any possible bonds issued by NYC or its assignee, that act or omission would not constitute an Event of Default with respect to LGAC bonds. The 2005-06 Enacted Budget includes a local assistance appropriation of $170 million from the Local Government Assistance Tax Fund to New York City.

State-supported Debt Outstanding

The following table shows the total amount of authorized and outstanding State-supported debt as of March 31, 2005. The table reflects the amount of bonds authorized to be issued and the amounts authorized but unissued by program and by issuer as of April 12, 2005 for general obligation, LGAC, lease-purchase and contractual-obligation bonds, and thus includes all authorization actions contained in the Enacted Budget. The table also reflects debt outstanding for general obligation, LGAC, lease-purchase and contractual-obligation bonds by issuer and by program as of March 31, 2005. The information provided in the table for lease-purchase and contractual-obligation debt includes outstanding State PIT Revenue Bonds that have been issued to finance many of the capital programs included therein (see "State Personal Income Tax Revenue Bond Financing"). Debt authorizations for capital programs are either approved or enacted all at one time and are expected to be fully issued over time, or are enacted annually by the Legislature and are usually consistent with bondable capital projects appropriations. Authorization does not, however, indicate an intent to sell bonds for the entire amount of those authorizations, because capital appropriations often include projects that do not materialize or are financed from other sources.

Outstanding State-supported Debt (1)
As of March 31, 2005
(millions of dollars)

	Authorized As of 4/12/05	Authorized but Unissued As of 4/12/05 (3)	Outstanding As of 3/31/05 (4)
GENERAL OBLIGATION (2)	14,535	834	3,652
LOCAL GOVERNMENT ASSISTANCE CORP.	4,700	0	4,449
OTHER LEASE-PURCHASE AND CONTRACTUAL OBLIGATION FINANCING ARRANGEMENTS			
Transportation:			
MTA:			
Service Contract Bonds	Note (5)	Note (5)	2,354
Thruway Authority:			
Consolidated Highway Improvement Program	5,710	2,060	2,935
Dedicated Highway & Bridge Trust	16,500	8,688	5,960
DASNY:			
Albany County Airport	40	1	32
Education:			
DASNY:			
SUNY Educational Facilities (6)	6,000	3,040	4,132
SUNY Dormitory Facilities (7)	420	143	634
SUNY Upstate Community Colleges	210	149	477
CUNY Educational Facilities (8)	4,975	1,890	3,109
State Education Department Facilities (9)	0	0	67
Library for the Blind	16	0	15
SUNY Athletic Facilities	22	0	24
RESCUE	195	36	133
University Facilities (Jobs 2000)	48	12	30
School District Capital Outlay Grants	140	48	76
Judicial Training Institute	17	1	14
Transportation Transition Grants	80	12	66
Public Broadcasting Facilities	15	15	0
Higher Education Capital Matching Grants	150	150	0
Health/Mental Hygiene:			
DASNY/MCFFA:			
Department of Health Facilities	495	24	407
Mental Health Facilities (10)	5,050	450	3,610
HEAL NY Capital Program	750	750	0
Public Protection			
UDC\ESDC:			
Prison Facilities	4,781	313	4,046
Homeland Security	25	1	22
Youth Facilities	329	80	198
E-911 Program	100	90	10
Environment:			
EFC:			
Environmental Infrastructure Projects (11)	421	160	241
Hazardous Waste Remediation	1,200	1,082	110
Riverbank State Park	78	18	56
Water Pollution Control	482	72	161
Pilgrim Sewage Treatment (9)	0	0	8
State Park Infrastructure	16	0	9
Fuel Tanks	23	0	5
Pipeline for Jobs (Jobs 2000)	29	9	18
ERDA:			
Western New York Nuclear Service Center	104	0	30
UDC\ESDC:			
Long Island Pine Barrens	15	0	12
State Building/Equipment:			
UDC\ESDC:			
Empire State Plaza	133	10	45
State Capital Projects (1995 Refunding)	200	0	213
State Facilities	Note (12)	Note (12)	257
Equipment Acquisition (13)	233	139	168

(Continued on next page)

Outstanding State-supported Debt (1)
As of March 31, 2005
(millions of dollars)

	Authorized As of 4/12/05	Authorized but Unissued As of 4/12/05 (3)		Outstanding As of 3/31/05 (4)
Housing:				
HFA:				
Capital Programs	1,791	193		1,317
Economic Development:				
CEFAP	425	53	(14)	154
Triborough Bridge and Tunnel Authority:				
Convention Center Project	375	0		242
UDC\ESDC\DASNY:				
University Technology Centers (incl. HEAT)	288	13		146
Onondaga Convention Center	40	0		39
Sports Facilities	145	0		128
Natural Resources Preservation	25	0		10
Child Care Facilities	30	1		27
Bio-Tech Facilities	10	10		0
Strategic Investment Program	225	76		88
Regional Economic Development (15)	1,200	656		750
Community Capital Assistance Program (RESTORE)	250	0		0
High Technology and Development	250	250		0
Regional Economic Development	90	0		0
Buffalo Inner Harbor	50	50		0
Jobs Now	14	1		9
Total Other Financing Arrangements				32,597
TOTAL STATE SUPPORTED DEBT (16)				40,698

Source: NYS DOB

(1) Includes only authorized programs that are active at March 31, 2005 or have outstanding balances or both.

(2) Does not include the authorized $2.9 billion Rebuild and Renew New York Transportation General Obligation Bond Act, to be submitted to the voters in November 2005.

(3) Amounts issued may exceed the stated amount authorized by premiums, by providing for the cost of issuance, reserve fund requirements and, in certain circumstances, refunding bonds.

(4) Amounts outstanding reflect original par amounts or original net proceeds in the case of capital appreciation bonds.

(5) Authorization is limited to $165 million in annual debt service maturing no later than July 1, 2031.

(6) Authorization also includes any amount necessary to refund outstanding Housing Finance Agency (HFA) State University Construction Bonds, all of which have been refunded.

(7) Authorization applies to bonds issued after March 31, 2002, prior to that date there was no limit.

(8) The amount outstanding includes one half of $560.7 million for CUNY Community Colleges for which the State pays 50 percent of the debt service and New York City pays 50 percent of the debt service. The total amount authorized for CUNY Senior Colleges was unlimited for resolutions adopted prior to 7/1/85 and limited to $4.568 billion for both CUNY Senior and CUNY Community Colleges for resolutions adopted after 7/1/85.

(9) Legislation enacted in May 2002 prohibits further issuance of bonds for this purpose, except for refunding purposes.

(10) Authorization also includes any amount necessary to refund outstanding HFA Mental Hygiene bonds, all of which have been refunded.

(11) Includes bonds issued for West Valley, DEC Environmental Infrastructure Projects, Environmental Protection Fund, Onondaga Lake, Office of Parks and Recreation and Historic Preservation.

(12) Includes bonds issued for the OSC Buildings, East Parking Garage, Ten Eyck Building, OGS Capital Projects, Elk Street Parking Garage, the Alfred E. Smith Office Building, Judiciary Court buildings, the Division of Military and Naval Affairs and New York State Police Troop G. There is no limit for the amount of bonds that may be issued for the OSC building, East Parking Garage, and the Ten Eyck office building.

(13) Includes Certificates of Participation and State Personal Income Tax Revenue Bonds.

(14) Amounts authorized but unissued are reduced by $28.2 million, reflecting the use of $28.2 in Debt Reduction Reserve Fund (DRRF) moneys to pay-as-you-go finance of a portion of the total $425 million CEFAP program.

(15) Includes bonds issued for Community Capital Assistance Program (CCAP), Rebuilding the Empire State Through Opportunities in Regional Economies Program (RESTORE), Empire Opportunity Fund (EOF), Generating Employment Through New York Science Program (Gen*NY*sis), Multi-Modal Transportation Program, and Center of Excellence Program.

(16) Reflects State-supported debt as defined by section 67-a of the State Finance Law.

State Personal Income Tax Revenue Bond Financing

Legislation enacted in 2001 provided for the issuance of State PIT Revenue Bonds by the Urban Development Corporation (UDC), Housing Finance Agency (HFA), the New York State Thruway Authority (Thruway Authority), DASNY, and the New York State Environmental Facilities Corporation (EFC) (collectively, the "Authorized Issuers").

The legislation provided that 25 percent of State PIT receipts (excluding refunds owed to taxpayers and deposits to the STAR Fund) be deposited to the RBTF for purposes of making debt service payments on these bonds, with excess amounts returned to the General Fund. In the event that (i) the State Legislature fails to appropriate amounts required to make all debt service payments on the State PIT Revenue Bonds or (ii) having been appropriated and set aside pursuant to a certificate of the Director of the Budget, financing agreement payments have not been made when due on the State PIT Revenue Bonds, the legislation requires that PIT receipts continue to be deposited to the RBTF until amounts on deposit in the Fund equal the greater of (i) 25 percent of annual PIT receipts or (ii) $6 billion.

The first State PIT Revenue Bonds were issued on May 9, 2002, and since that time, all of the Authorized Issuers have issued State PIT Revenue Bonds. To date, State PIT Revenue Bonds have been issued to support programs related to five general purposes: Education, Economic Development and Housing, Environment, State Facilities and Equipment and Transportation. The Enacted Capital Plan anticipates that State PIT Revenue Bonds will be issued for a sixth general purpose – Health Care, to support the Health Care Efficiency and Affordability Law for New Yorkers (Heal NY) Capital Grant Program. State PIT Revenue Bonds are expected to continue to be the primary financing vehicle for a broad range of existing or new State-supported debt programs authorized to be secured by service contract or lease-purchase payments. The following table shows the amount of State PIT Revenue Bonds outstanding by general purpose. As of March 31, 2005, approximately $4.5 billion of State PIT Revenue Bonds were outstanding. Those outstanding State PIT Revenue Bonds are also included in the respective capital programs in the Outstanding State-supported Debt table shown above. The 2005-06 Enacted Budget projects that $2.8 billion of State PIT Revenue Bonds will be issued in 2005-06 (see "2005-06 State-supported Borrowing Plan" below).

Outstanding State Personal Income Tax Revenue Bonds
(millions of dollars)

	As of 3/31/04	As of 3/31/05
State Personal Income Tax Revenue Bonds		
Education	702	784
Economic Development & Housing	1,037	1,299
Environment	156	317
State Facilities & Equipment	864	1,159
Transportation	577	902
Total State Personal Income Tax Revenue Bonds	3,336	4,461

Source: NYS DOB

Limitations on State-supported Debt

Debt Reform Act of 2000

Chapter 59 of the Laws of 2000 enacted the Debt Reform Act, which is intended to improve the State's borrowing practices and applies to all new State-supported debt issued on and after April 1, 2000. The Debt Reform Act imposes phased-in caps on new debt outstanding and new debt service costs, limits the use of debt to capital works and purposes only, and establishes a maximum term of 30 years on such debt.

The cap on new State-supported debt outstanding began at 0.75 percent of personal income in 2000-01 and will gradually increase until it is fully phased-in at 4 percent of personal income in 2010-11. Similarly, the cap on new State-supported debt service costs began at 0.75 percent of total governmental funds receipts in 2000-01 and will gradually increase until it is fully phased in at 5 percent in 2013-14.

The Debt Reform Act requires that the limitations on the issuance of State-supported debt and debt service costs be calculated by October 31 of each year and reported in the quarterly Financial Plan Update most proximate to such date. If the calculations for new State-supported debt outstanding and debt service costs are less than the State-supported debt outstanding and debt service costs permitted under the Debt Reform Act, new State-supported debt may continue to be issued. However, if either the debt outstanding or the debt service cap is met or exceeded, the State would be precluded from contracting new State-supported debt until the next annual cap calculation is made and State-supported debt is found to be within the appropriate limitations. The prohibition on issuing new State-supported debt if the caps are met or exceeded provides a significant incentive to treat the debt caps as absolute limits that should not be reached, and therefore DOB intends to manage subsequent capital plans and issuance schedules under these limits.

Pursuant to the provisions of the Debt Reform Act, the most recent annual calculation of the limitations imposed by the Debt Reform Act was reported in the Financial Plan Update most proximate to October 31, 2004. On October 30, 2004, the State reported that it was in compliance with both debt caps, with debt issued after March 31, 2000 and outstanding at March 31, 2004 at 1.55 percent of personal income and debt service on such debt at 0.84 percent of total governmental receipts, compared to the caps of 1.98 percent for each. DOB projects that debt outstanding and debt service costs for 2004-05 and the entire five-year forecast period through 2009-10 will also be within the statutory caps.

Interest Rate Exchange Agreements and Variable Rate Obligations

Chapter 81 of the Laws of 2002 authorized issuers of State-supported debt to issue a limited amount of variable rate obligations and to enter into a limited amount of interest rate exchange agreements. 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. As of March 31, 2005, State-supported debt in the amount of $40.7 billion was outstanding, resulting in a variable rate exposure cap and an interest rate exchange agreement cap of about $6.1 billion each. As discussed below, as of March 31, 2005, both the amount of outstanding variable rate instruments resulting in a variable rate exposure and interest rate exchange agreements are less than the authorized totals of 15 percent of total outstanding State-supported debt, and are projected to be below the caps for the entire forecast period through 2009-10 (see "Variable Rate Obligations", later in this section, for further discussion on the cap).

Interest Rate Exchange Agreements

As shown in the following table, as of March 31, 2005 five issuers, DASNY, UDC, HFA, LGAC and the Thruway Authority have entered into $5.97 billion, or 14.7 percent of total debt outstanding, notional amount of interest rate exchange agreements that are subject to the interest rate exchange agreement cap.

The interest rate exchange agreements outstanding at March 31, 2005 involve nine different counterparties. All of the interest rate exchange agreements were part of refunding transactions that resulted in fixed rates (i.e., synthetic fixed rate interest rate exchange agreements) that range between 2.86 percent and 3.66 percent – rates that were significantly lower than the fixed bond rates at the time the refunding bonds were issued. In these transactions, the State issued variable rate bonds and entered into swaps in which it receives a variable rate payment expected to approximate the costs of the variable rate bonds, and pays a fixed rate. As of March, 2005, the net mark-to-market value of all the outstanding swaps (the aggregate termination amount) was approximately $54 million – the total amount the State would be required to pay to the collective authorized issuers for payments to the counterparties should all the swaps be terminated. The mark-to-market value of the outstanding interest rate exchange agreements fluctuates with interest rates and other market conditions. Generally, as interest rates rise from levels that existed in March 2005, it is expected that the counterparties would owe the State termination payments. The State plans to continue to monitor and manage counterparty risk on a monthly basis.

At the close of the 2004-05 fiscal year, the State also entered into approximately $850 million in swaps to create synthetic variable rate exposure, including $157 million of synthetic variable rate obligations and $693 million of forward starting synthetic variable rate obligations. In these transactions, the State issued fixed rate bonds and entered into swaps in which it receives a fixed rate comparable to the rate it pays on the bonds and pays the Bond Market Association (BMA) variable rate, resulting in the State paying net variable rates. The net variable rate costs the State incurred with the synthetic variable rate bonds are lower than the net costs of issuing traditional variable rate bonds because they do not require additional support costs (liquidity, insurance, broker-dealer fees, and remarketing fees). Thus, this approach can be the least costly way to achieve additional variable rate exposure. The synthetic variable rate bonds also provide the additional benefit of reducing the State's counterparty exposure under the synthetic fixed rate bonds discussed above (as determined by an independent financial advisor), and thus are excluded agreements under the legislation and are not counted under the swaps cap.

The interest rate exchange agreements authorized by the legislation are subject to various statutory restrictions, including minimum counterparty ratings that are at least in the two highest investment grade categories from a national rating agency, monthly reporting requirements, the adoption of guidelines by the governing boards of the authorized issuers, collateral requirements, an independent finding that swaps reflect a fair market value, and the use of standardized International Swaps and Derivatives Association (ISDA) documents. All of the payments made to counterparties on outstanding State-supported interest rate exchange agreements described above are subordinated to bondholder debt service payments, and the State expects that all such payments on any interest rate exchange agreements the Authorized Issuers may enter into in the future will be similarly subordinated to bondholder debt service payments.

Variable Rate Obligations

As of March 31, 2005 the State had about $2.1 billion of outstanding variable rate instruments, or 5.1 percent of total debt outstanding, that are subject to the net variable rate exposure cap. That amount includes $1.9 billion of unhedged variable rate obligations and $157 million of in synthetic variable rate obligations described above (see "Interest Rate Exchange Agreements").

The State's current policy is to count 35 percent of the notional amount of outstanding 65 percent of LIBOR fixed rate swaps in its variable rate exposure. This policy reserve accounts for the potential that tax policy or market conditions could result in significant differences between payments owed on the underlying variable rate bonds and the amount received by the State under their 65 percent of LIBOR swaps, and that the factors affecting such payments can be consistent with variable rate exposure.

Variable Rate Obligations	**As of March 31, 2005 (millions $)**
Variable Rate Exposure Cap	$6,105
Current Unhedged Variable Rate Obligations	$1,905
Convertible Bonds	$0
Synthetic Variable Rate Swaps	$157
Additional Planned Variable Rate Exposure	$0
Total Net Variable Rate Exposure	**$2,062**
Percent of Net Variable Rate Exposure to Debt Outstanding	**5.1%**
Policy Reserve for LIBOR Swaps	$2,090
Total Variable Rate Exposure (with Policy Reserve)	**$4,151**
Percent of Variable Rate Exposure to Debt Outstanding	**10.2%**

In addition to the variable rate obligations described above, as of March 31, 2005, about $2.4 billion in State-supported convertible rate bonds are currently outstanding. These bonds bear a fixed rate until future mandatory tender dates in 2005, 2009, 2011, 2012 and 2013 at which time they can convert to either a fixed or variable rate. Similar to these convertible bonds, the $693 million in forward starting synthetic variable rate obligations described above (see "Interest Rate Exchange Agreements") result in the State paying a fixed rate through 2014, and a variable rate between 2014 and 2030. The Enacted Budget reflects amendments to the State Finance Law in 2005 that clarify that convertible bonds, synthetic variable obligations and similar obligations that were issued on or before July 1, 2005 and which result in the State paying a fixed rate in a fiscal year do not count under the variable rate cap until the fiscal year in which the State may pay a variable rate.

Debt Service Requirements

The table below presents the current and future debt service (principal and interest) requirements on State-supported debt outstanding as of March 31, 2005. The requirements of LGAC and other financing obligations of public authorities are the gross amounts due from the authorities to bondholders within the fiscal year when such authorities make the payments. The amounts shown do not reflect other associated costs or revenues anticipated to be available, such as interest earnings or capitalized interest. Thus, the requirements shown are generally in excess of the amounts expected to be actually paid by the State during its fiscal year.

Estimated Debt Service Requirements on State-supported Debt (1)
As of March 31, 2005
(millions of dollars)

Fiscal Years Ending March 31	General Obligation	Local Government Assistance Corporation	State Personal Income Tax Financing Obligations	Other Financing Obligations	Total
2006	494	322	476	2,797	4,089
2007	482	321	466	2,745	4,014
2008	460	355	459	2,790	4,064
2009	427	367	401	2,651	3,846
2010	407	369	404	2,662	3,842
2011 through 2015	1,501	1,843	1,668	11,976	16,988
2016 through 2020	642	1,881	1,156	8,915	12,594
2021 through 2025	211	1,012	945	5,045	7,213
2026 through 2030	95	41	538	2,478	3,152
2031 through 2035	31	0	314	462	807
Total	**4,750**	**6,511**	**6,827**	**42,521**	**60,609**

Source: NYS DOB

(1) Estimated debt service requirements are calculated on swap rates in effect at March 31, 2005 for all bonds that were synthetically fixed under an interest rate exchange agreement. Debt service requirements for variable rate bonds were calculated at rates ranging from 3.50 percent to 5.38 percent.

Long-Term Trends

The following discussion provides an overview of State-supported trends during the last ten years and an estimate for the current year. It compares: (1) the growth in State-supported debt service requirements with the growth in total governmental funds receipts; (2) the growth in State-supported debt with the growth in personal income in the State; and (3) the growth in State-supported debt with the number of State residents.

The following table compares the total amount of State-supported debt service with total governmental funds receipts. During the prior ten years, State-supported long-term debt service increased on an average annual basis by 3.65 percent to $3.8 billion in 2004-05, while adjusted Total Governmental Funds Receipts increased on an average annual basis by 5.43 percent. Thus, State-supported debt service grew at a slower rate than total receipts. During the first five years of this ten-year period, debt service increased by an annual average of 7.50 percent and over the remaining five years of the period debt service has decreased by an annual average of 2.46 percent. The relative growth in receipts and debt service resulted in a general trend of increases in the ratio of debt service to receipts from fiscal years 1995-96 to 1999-2000. The period from 2000-01 to 2004-05 has seen a general trend of decreases in the ratio of debt service to receipts. The ratio increased to 3.75 percent last year, 2004-05, but is estimated to decrease to 3.60 percent for the 2005-06 year.

Debt Service Requirements on State-supported Debt
As of March 31, 2005
(millions of dollars)

Fiscal Year	Total State-Supported Debt Service (dollars in millions)	Total Governmental Funds Receipts (dollars in millions)	State-supported Debt Service as a % of Total Governmental Funds Receipts (includes DRRF)	State-supported Debt Service as a % of Total Governmental Funds Receipts (excludes DRRF)
1995-96	2,749	62,969	4.37%	4.37%
1996-97	2,827	62,886	4.50%	4.50%
1997-98	3,195	66,246	4.82%	4.82%
1998-99	3,387	72,551	4.67%	4.67%
1999-2000	3,672	76,804	4.78%	4.78%
2000-01	4,194 (1)	83,527	5.02%	4.65%
2001-02	4,262 (2)	84,312	5.05%	4.52%
2002-03	3,133	88,274	3.55%	3.55%
2003-04	3,403	99,698 (3)	3.41%	3.41%
2004-05	3,797	101,381	3.75%	3.75%
2005-06 (estimated)	3,855	107,109	3.60%	3.60%

Source: NYS DOB
(1) Reflects the disbursement of $422 million in Debt Reduction Reserve Fund (DRRF) moneys used to defease high-cost debt.
(2) Reflects the disbursement of $500 million in Debt Reduction Reserve Fund (DRRF) moneys used to defease or provide for the payment of high-cost debt.
(3) 2003-04 receipts have been adjusted by $400 million, relating to receipts from the tobacco securitization transaction.

Included in the table above are principal and interest payments on general obligation bonds which were $484 million for the 2004-05 fiscal year, and are estimated to be $490 million for 2005-06. State payments for debt service on bonds issued and interest rate exchange agreements entered into by LGAC which were $306 million for the 2004-05 fiscal year, and are estimated to be $328 million for 2005-06. State lease-purchase and contractual-obligation payments (including State PIT Revenue Bonds and State installment payments relating to COPs), classified as "Other Financing Obligations", which were $3.0 billion in fiscal year 2004-05, and are estimated to be $3.0 billion for 2005-06.

The following table compares total State-supported debt outstanding to New York State personal income and population. State-supported debt increased from $31.0 billion at the end of the 1995-96 fiscal year to $40.7 billion at the end of the 2004-05 fiscal year, an average annual increase of 3.1 percent. During the first five years of this ten-year period, State-supported debt outstanding grew by an annual average of 4.37 percent and over the remaining five years of the period the annual growth in State supported debt outstanding has slowed to 2.44 percent. During the ten-year period, annual personal income in the State rose from $503.2 billion to $735.0 billion, an average annual increase of 4.30 percent. Thus, State-supported debt grew at a slower rate than personal income. Expressed in other terms, the total amount of State-supported debt outstanding declined from 6.16 percent of personal income in the 1995-96 fiscal year to 5.54 percent in the 2004-05 fiscal year. State-supported debt outstanding is expected to decrease modestly in 2005-06 to 5.52 percent of personal income. State-supported debt relative to the State’s population has increased during the last ten years, primarily because population has not increased significantly.

State-supported Debt Compared with Personal Income and Population
As of March 31, 2005
(Millions of Dollars)

Fiscal Year	NYS Personal Income ($billions)(1)	Total State Population (millions)(1)	State-supported Debt Outstanding ($millions)	State-supported Debt As % of Personal Income	State-supported Debt/$Capita
1995-96	503.2	18.5	31,009	6.16%	1,674
1996-97	530.9	18.6	33,130	6.24%	1,782
1997-98	553.5	18.7	34,247	6.19%	1,836
1998-99	590.4	18.8	35,842	6.07%	1,911
1999-2000	616.3	18.9	36,796	5.97%	1,949
2000-01	665.8	19.0	36,958	5.55%	1,948
2001-02	684.7	19.1	36,620 (2)	5.35%	1,919
2002-03	690.5	19.2	38,843 (2)	5.63%	2,028
2003-04	701.9	19.2	40,314	5.74%	2,098
2004-05	735.0	19.2	40,698	5.54%	2,117
2005-06 (estimated)	771.4	19.3	42,576	5.52%	2,210

Source: NYS DOB
(1) For calendar year ending in State's fiscal year. Based on US Department of Commerce, Bureau of Economic Analysis (BEA) data through January, 2005.
(2) During fiscal year 2001-02, the State transferred $350 million to several State authorities for the purpose of providing for the payment of $355 million of State-supported debt. As of March 31, 2002 and 2003, a portion of these funds continued to be held in the form of cash and investments for this purpose. However, under the terms of the financing resolutions under which such bonds were issued, those bonds were still considered legally outstanding.

2005-06 State-supported Borrowing Plan

Section 22-c of the State Finance Law requires the Governor to submit the five-year Capital Program and Financing Plan (the Plan) with the Executive Budget and to submit an update to the Plan (the Update) by the later of July 30 or 90 days after the enactment of the State Budget. The proposed 2005-06 through 2009-10 Capital Program and Financing Plan was released with the Executive Budget on January 18, 2005 and updated to reflect the 30-Day Amendments on February 8, 2005. The Update to the Plan was released on April 26, 2005, and reflects final action on the Budget. A copy of the Update can be obtained by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705, or at www.budget.state.ny.us.

The Update to the Plan for 2005-06 and the remaining years of the Capital Plan reflects the expectation that State PIT Revenue Bonds will continue to be issued to finance certain new programs and programs previously authorized to be secured by service contract or lease-purchase payments. (see "State Personal Income Tax Revenue Bond Financing" above).

The State's borrowing plan projects new issuance of $279 million in General Obligation Bonds in 2005-06 including $94 million of Rebuild and Renew New York Transportation Bonds that could be issued if the proposed Bond Act is approved by the voters in November 2005; $728 million in Dedicated Highway and Bridge Trust Fund Bonds issued by the Thruway Authority to finance capital projects for transportation and the anticipated issuance of about $3 billion of bonds to restructure outstanding Bonds; $203 million in Mental Health Facilities

Improvement Revenue Bonds issued by DASNY to finance capital projects at mental health facilities; $163 million in SUNY Dormitory Facilities Revenue Bonds to finance capital projects related to student dormitories; $21 million in DOH Revenue Bonds to support a portion of the costs to construct a new veteran's nursing home; and $2.8 billion in State PIT Revenue Bonds to finance various capital programs, as described below.

State PIT Revenue Bond borrowings include issuances by: (i) DASNY for university facilities (Jobs 2000), SUNY higher education facilities and community colleges, CUNY senior and community colleges, Higher Education Capital Matching Grants for private colleges, and for local public safety answering point equipment and technology upgrades associated with wireless E-911 service; (ii) the Thruway Authority for CHIPs; (iii) UDC (doing business as the Empire State Development Corporation) for correctional and youth facilities, State facilities and equipment acquisitions; (iv) EFC for State Environmental Infrastructure Projects, including Water Pollution Control and Pipeline for Jobs (Jobs 2000); and Hazardous Waste Remediation; (v) HFA for housing programs. State PIT Revenue Bonds for 2005-06 also include the Community Enhancement Facilities Assistance Program (CEFAP) for economic development purposes which may be issued by the Thruway Authority, DASNY, UDC and HFA; the Strategic Investment Program (SIP) for environmental, historic preservation, economic development, arts, and cultural purposes, which may be issued by DASNY, UDC and EFC; and Regional Economic Development Program, Higher Technology and Development Program and the Regional Economic Growth Program which includes EOF, Gen*NY*sis, CCAP, RESTORE, Multi-Modal Transportation Program and the Center of Excellence Program, which may be issued by DASNY and UDC.

The projections of State borrowings for the 2005-06 fiscal year are subject to change as market conditions, interest rates and other factors vary throughout the fiscal year.

State-related Debt Outstanding

The category of State-related debt includes the State-supported debt described above, contingent contractual-obligation financings, moral obligation financings and State-guaranteed debt.

Contingent Contractual-Obligation Financing

The State may also enter into statutorily authorized contingent contractual-obligation financings under which the State may enter into service contracts obligating it to pay debt service on bonds, subject to annual appropriation, in the event there are shortfalls in revenues from other non-State resources pledged, or otherwise available, to pay the debt service on the bonds. The State has never been required to make any payments, and does not expect to make payments, under this financing arrangement in the 2005-06 fiscal year.

Secured Hospital Program

Pursuant to legislation enacted in 1985, the State entered into service contracts establishing a contingent contractual-obligation under financings related to the Secured Hospital Program for the purpose of enabling certain financially distressed not-for-profit hospitals to gain access to the capital markets. The State service contracts obligate the State to pay debt service, subject to annual appropriations, on bonds issued by the New York State Medical Care Facilities Finance Agency (MCFFA) and now included as debt of DASNY and bonds issued by DASNY, in the event there are shortfalls of revenues from other sources, which include hospital payments made under loan agreements between DASNY and the hospitals, and certain reserve funds held by the applicable trustees for the bonds. As of March 31, 2005, there were nine secured hospital borrowers and a total of $871.3 million in bonds outstanding with annual debt service payments of $79.2 million due during State fiscal year 2005-06. The State has never been required to make any payments pursuant to this financing arrangement.

The statutory authorization to issue bonds under the Secured Hospital Program expired on March 1, 1998. However, legislation enacted in 2002 allowed certain eligible secured hospital borrowers with outstanding secured hospital debt to refinance and extend the maturity of their debt. Under this authorization, two eligible borrowers, North General Hospital and Catskill Regional Medical Center, the successor to Community General Hospital of Sullivan County, refinanced its outstanding debt. As of March 31, 2005, there were $138.1 million in outstanding secured hospital bonds attributable to North General, with annual debt service payments of $6.7 million due during State fiscal year 2005-06 and $51.4 million in outstanding secured hospital bonds attributable to Catskill Regional Medical Center, with annual debt service payments of $2.8 million due during State fiscal year 2005-06. The legislative authorization for such refinancings expired on December 31, 2004.

In regard to St. Agnes Hospital, DASNY obtained a Judgment of Foreclosure and Sale against St. Agnes on October 22, 2004 and sold the property subject to DASNY's mortgage at a sale of foreclosure on December 14, 2004. The net proceeds of the foreclosure sale, along with reserve funds established for the bonds and other resources, were applied in February 15, 2005 to the redemption of all outstanding bonds. Thus, the State no longer has a contingent contractual obligation related to St. Agnes Hospital.

The State anticipates that the annual debt service payments due during the State's 2005-06 fiscal year on all outstanding Secured Hospital Program bonds will be paid pursuant to the loan agreements between the hospitals and DASNY or from other revenue sources, which may include the reserve funds for the bonds. Thus, the State does not anticipate being required to make any payments under the Secured Hospital Program during the 2005-06 fiscal year.

Tobacco Settlement Financing Corporation

Legislation enacted in 2003 authorized the State to securitize all of its tobacco settlement payments to the Tobacco Settlement Financing Corporation (TSFC) (a corporation created under the legislation that is a subsidiary of the Municipal Bond Bank Agency) through an asset-backed securitization transaction. To lower costs, the legislation authorized the State to enter into contingency contracts obligating the State to pay debt service, subject to annual appropriations, on the TSFC bonds in the event that tobacco receipts and bond reserves are insufficient. To ensure that State contractual payments will not be required and that tobacco receipts and bond reserves are sufficient to pay debt service, the TSFC bonds were structured to meet or exceed all rating agency tobacco bonds stress tests. The bonds carry a final nominal maturity of 20 years and an expected final maturity of 13 years. The $4.2 billion of upfront payments received by the State from the securitization were used to help restore State budget balance in 2003-04 ($3.8 billion) and 2004-05 ($400 million). As of March 31, 2005, approximately $4.495 billion in TSFC bonds were outstanding.

Moral Obligation Financings

Moral obligation financing generally involves the issuance of debt by a public authority to finance a revenue-producing project or other activity. The debt is secured by project revenues and includes statutory provisions requiring the State, subject to appropriation by the Legislature, to make up any deficiencies which may occur in the issuer's debt service reserve fund. There has never been a payment default on any moral obligation debt of any public authority. The State does not intend to increase statutory authorizations for moral obligation bond programs. From 1976 through 1987, the State was called upon to appropriate and make payments totaling $162.8 million to make up deficiencies in the debt service reserve funds of HFA pursuant to moral obligation provisions. In the same period, the State also expended additional funds to assist the Project Finance Agency, UDC and other public authorities which had moral obligation debt outstanding. The State has not been called upon to make any payments pursuant to any moral obligations since the 1986-87 fiscal year and no such requirements are anticipated during the 2005-06 fiscal year.

State-guaranteed Financings

Pursuant to specific constitutional authorization, the State may also directly guarantee certain public authority obligations. The only current authorization provides for the State guarantee of the repayment of certain borrowings for designated projects of the New York State Job Development Authority (JDA). The State has never been called upon to make any direct payments pursuant to any such guarantees.

Due to concerns regarding the economic viability of its programs, JDA's loan and loan guarantee activities were suspended in 1995. JDA resumed its lending activities in 1997 under a revised set of lending programs and underwriting guidelines. In February of 2003, JDA issued $30 million of State Guaranteed Commercial Paper Notes of which $15 million is outstanding as of March 31, 2005. In April 2004, JDA issued approximately $42.4 million of State-guaranteed bonds to refinance certain of its outstanding bonds and notes in order to restructure and improve JDA’s capital finances. As of March 31, 2005, JDA had approximately $49.1 million of bonds outstanding. It is anticipated that the audit report as of March 31, 2005 will indicate that JDA will have a positive fund (net worth) balance. The State does not anticipate that it will be called upon to make any payments pursuant to the State guarantee in the 2005-06 fiscal year.

Payments of debt service on State-guaranteed bonds and notes are legally enforceable obligations of the State. The following table contains information on the amounts of State-related debt at the close of the three most recent fiscal years, including the levels of State-supported debt, contingent contractual-obligation financing, moral obligation financing and State-guaranteed debt. There are no notes outstanding under any of the moral obligation programs listed below.

Outstanding State-related Debt (1)
(Millions of Dollars)

	As of 3/31/03(2)	As of 3/31/04	As of 3/31/05
State-Supported Debt			
General Obligation	3,996	3,804	3,652
Local Government Assistance Corporation	4,575	4,569	4,449
Other Lease-Purchase and Contractual-Obligation Financing Arrangements	28,111	28,607	28,136
State Personal Income Tax Revenue Bond Financing	2,355	3,336	4,461
Total State-Supported Debt	39,037	40,316	40,698
Contingent Contractual-Obligation Financing *(3)*			
DASNY/MCFFA - Secured Hospital Program	975	941	871
Tobacco Settlement Financing Corporation	0	4,551	4,495
	975	5,492	5,366
Moral Obligation Financing			
Housing Finance Agency (4)	397	345	95
MCFFA-Hospitals and Nursing Homes	41	32	16
Total Moral Obligation Financing	438	377	111
State-Guaranteed Debt			
Job Development Authority	81	79	64
Total State-Guaranteed Debt	81	79	64
TOTAL STATE-RELATED DEBT	40,531	46,264	46,239

Source: Office of the State Comptroller
(1) Amounts outstanding reflect original par amounts or original net proceeds in the case of capital appreciation bonds. Amounts outstanding do not reflect accretion of capital appreciation bonds or premiums received.
(2) During fiscal year 2001-02, the State transferred $350 million to several State authorities for the purpose of economically defeasing $355 million of State-supported debt. As of March 31, 2003 a portion of these funds remained held in the form of cash and investments for this purpose. However, under the terms of the financing resolutions under which such bonds were issued, these bonds were still considered legally outstanding.
(3) Includes bonds issued for the Secured Hospital Program and bonds issued by the Tobacco Settllement Financing Corporation, for which the State's contingent obligation, subject to annual appropriation, is to provide funds for debt service in the event there is a shortfall of revenues from other specified sources.
(4) Includes bonds issued for Co-Op City which had outstanding debt as follows:
3/31/03 $207 million and 3/31/04 $193 million and 3/31/05 $0.

The following table provides an overview of State-related debt trends during the last ten years and an estimate for the current year. The table compares (1) the growth in State-related debt with the growth in personal income in the State and (2) the growth in State-related debt with the number of State residents. Total outstanding State-related debt increased from $38.6 billion at the end of the 1995-96 fiscal year to $46.2 billion at the end of the 2004-05 fiscal year, an average annual increase of 2.03 percent. During the first five years of this ten-year period, State-related debt outstanding decreased by an annual average rate of .01 percent and over the remaining five years of the period the annual average growth in State-related debt outstanding has increased to 4.57 percent. During the ten-year period, annual personal income in the State rose from $503.2 billion to $735.0 billion, an average annual increase of 4.30 percent. Thus, State-related obligations grew at a slower rate than personal income. Expressed in other terms, the total amount of State-related debt outstanding declined from 7.67 percent to 6.29 percent of personal income for the same period. State-related debt is expected to decrease slightly in 2005-06 to 6.22 percent of personal income.

State-related Debt Compared with Personal Income and Population
As of March 31, 2005
(millions of dollars)

Fiscal Year	NYS Personal Income ($billions)(1)	Total State Population (millions)(1)	State-related Debt Outstanding ($millions)	State-related Debt As % of Personal Income	State-related Debt/$Capita
1995-96	503.2	18.5	38,593	7.67%	2,086
1996-97	530.9	18.6	37,478	7.06%	2,015
1997-98	553.5	18.7	36,999	6.68%	1,979
1998-99	590.4	18.8	37,740	6.39%	2,007
1999-2000	616.3	18.9	38,584	6.26%	2,041
2000-01	665.8	19.0	38,663	5.81%	2,037
2001-02	684.7	19.1	38,603	5.64%	2,023
2002-03	690.5	19.2	40,531	5.87%	2,116
2003-04	701.9	19.2	46,264 (2)	6.59%	2,408
2004-05	735.0	19.2	46,239 (2)	6.29%	2,408
2005-06 (estimated)	771.4	19.3	47,985 (2)	6.22%	2,486

Source: NYS DOB

(1) For calendar year ending in State's fiscal year. Based on US Department of Commerce, Bureau of Economic Analysis (BEA) data through March, 2005. Personal income for 2004 estimated by the BEA and 2005 estimated by the Division of the Budget.

(2) Includes the issuance of tobacco bonds, which are primarily secured by the assignment of future revenues under the 1998 Master Settlement Agreement with participating cigarette manufacturers, and secondarily secured by a State contingent-contractual obligation

State Organization

State Government

The State has a centralized administrative system with most executive powers vested in the Governor. The State has four officials elected in statewide elections, the Governor, Lieutenant Governor, Comptroller and Attorney General. These officials serve four-year terms that next expire on December 31, 2006.

Name	Office	Party Affiliation	First Elected
George E. Pataki	Governor	Republican	1994
Mary Donohue	Lieutenant Governor	Republican	1998
Alan G. Hevesi	Comptroller	Democrat	2002
Eliot Spitzer	Attorney General	Democrat	1998

The Governor is elected on a single ticket with the Lieutenant Governor; the Comptroller and Attorney General are elected on separate tickets. The Governor appoints the heads of most State departments, including the Director of the Budget (the current Director is John F. Cape). DOB is responsible for preparing the Governor's Executive Budget, negotiating that budget with the State Legislature, and implementing the budget once it is adopted, which includes updating the State's fiscal projections quarterly. DOB is also responsible for coordinating the State's capital program and debt financing activities. The Comptroller is responsible for auditing the disbursements, receipts and accounts of the State, as well as for auditing State departments, agencies, public authorities and municipalities. The Comptroller is also charged with managing the State's general obligation debt and most of its investments (see "Fiscal Controls" and "Investment of State Moneys" below). The Attorney General is the legal advisor to State departments, represents the State and certain public authorities in legal proceedings and opines upon the validity of all State general obligations.

The State Legislature is composed of a 62-member Senate and a 150-member Assembly, all elected from geographical districts for two-year terms, expiring December 31, 2006. Both the Senate and the Assembly operate on a committee system. The Legislature meets annually, generally for about six months, and remains formally in session the entire year. In recent years there have been special sessions, as well. The current majority leaders of the Legislature are Joseph Bruno (Republican), Temporary President of the Senate, and Sheldon Silver (Democrat), Speaker of the Assembly. The minority leaders are David Patterson (Democrat) in the Senate and Charles Nesbitt (Republican) in the Assembly.

State Financial Procedures

The State Budget Process

The requirements of the State budget process are set forth in Article VII of the State Constitution and the State Finance Law. The process begins with the Governor's submission of the Executive Budget to the Legislature each January, in preparation for the start of the fiscal year on April 1. (The submission date is February 1 in years following a gubernatorial election.) The Executive Budget must contain a complete plan of estimated available receipts and projected disbursements for the ensuing fiscal year ("State Financial Plan"). The proposed State Financial Plan must be balanced on a cash basis and must be accompanied by bills that: (i) set forth all proposed appropriations and reappropriations, (ii) provide for any new or modified revenue measures, and (iii) make any other changes to existing law necessary to implement the budget recommended by the Governor.

In acting on the bills submitted by the Governor, the Legislature has certain powers to alter the recommended appropriations and proposed changes to existing law. The Legislature may strike out or reduce an item of appropriation recommended by the Governor. The Legislature may add items of appropriation, provided such additions are stated separately. These additional items are then subject to line-item veto by the Governor. If the Governor vetoes an appropriation or a bill (or a portion thereof) related to the budget, these items can be reconsidered in accordance with the rules of each house of the Legislature. If approved by two-thirds of the members of each house, such items will become law notwithstanding the Governor's veto.

Once the appropriation bills and other bills become law, DOB revises the State Financial Plan to reflect the Legislature's actions, and begins the process of implementing the budget. Throughout the fiscal year, DOB monitors actual receipts and disbursements, and may adjust the estimates in the State Financial Plan. Adjustments may also be made to the State Financial Plan to reflect changes in the economy, as well as new actions taken by the Governor or the Legislature. As required by the State Finance Law, the Governor updates the State Financial Plan within 30 days of the close of each quarter of the fiscal year, generally issuing reports by July 30, October 30, and in January as part of the Executive Budget. The Governor is required to submit these updates to the Legislature and explain any changes from the previous State Financial Plan.

Subject to approval by the Governor, the Legislature may enact additional appropriation bills or revenue measures (including tax reductions) during any regular session or, if called into session for that purpose, any special session. In the event additional appropriation bills or revenue measures are disapproved by the Governor, the Legislature has authority to override the Governor's veto upon the vote of two-thirds of the members of each house of the Legislature. The Governor may present deficiency appropriations to the Legislature near the end of any fiscal year to supplement inadequate appropriations or to provide new appropriations for purposes not covered by the regular and supplemental appropriations.

Fiscal Controls

The State Constitution requires the Comptroller to audit the accrual and collection of State receipts. In addition, the Comptroller is required to audit all official State accounts and all claims against the State before payment. No such payment may be made unless the Comptroller has approved it.

Disbursements from State funds are limited to the lowest of (i) appropriations, (ii) available cash or (iii) the amounts allocated by the Director of the Budget. Disbursements from Federal funds must be appropriated in accordance with appropriate legal authority, are limited to the amounts anticipated from Federal programs and may not be made in the absence of appropriate certifications from the Director of the Budget. Contracts for disbursements in excess of $15,000 require the Comptroller's approval and depend in most cases upon the existence of an appropriation and the issuance of a certificate of availability by the Director of the Budget. The Budget Director must review all applications for State participation in continuing grant- or contract-supported programs, with specified exceptions. Certain legislative leaders have the opportunity to make recommendations on the applications.

No appropriation may be increased or decreased by transfer or otherwise, except by (i) the interchange within a fund, among items of a particular program or purpose, of moneys appropriated for such program or purpose in such fund, with limited exceptions, or (ii) the enactment of certain emergency appropriations. Moneys or other financial resources from one fund may also be loaned to another fund, but only if such loan is repaid in full prior to the end of the month in which the loan was made, except as provided by law.

In addition, the Governor has traditionally exercised substantial authority in administering the State Financial Plan by limiting disbursements after the Legislature has enacted appropriation bills and revenue measures. The Governor may, primarily through DOB, limit spending by State departments, or delay construction projects to control disbursements. An important limitation of the Governor's ability to restrict disbursements is that local assistance payments, which typically make up close to 70 percent of General Fund disbursements (including operating transfers to other funds), are generally mandated by statute. The State Court of Appeals has held that, even in an effort to maintain a balanced Financial Plan, neither the Governor nor the Director of the Budget has the authority to refuse to make a local assistance disbursement mandated by law.

In May 2000, the State enacted several statutory provisions designed to restrict the amount of new debt that can be issued in the future. These debt reform provisions are discussed in the section entitled "Debt and Other Financing Activities" in this AIS.

Investment of State Moneys

The Comptroller is responsible for the investment of substantially all State moneys. By law, such moneys may be invested only in obligations issued or guaranteed by the Federal government or the State, obligations of certain Federal agencies that are not guaranteed by the Federal government, certain general obligations of other states, direct obligations of the State's municipalities and obligations of certain public authorities, certain short-term corporate obligations, certain bankers' acceptances, and certificates of deposit secured by legally qualified governmental securities. All securities in which the State invests moneys held by funds administered within the State Treasury must mature within twelve years of the date they are purchased. Money impounded by the Comptroller for payment of TRANs may only be invested, subject to the provisions of the State Finance Law, in (i) obligations of the Federal government, (ii) certificates of deposit secured by such obligations, or (iii) obligations of or obligations guaranteed by agencies of the Federal government as to which the payment of principal and interest is guaranteed by the Federal government.

The Comptroller 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. The interest earnings accrued are allocated and deposited to the credit of those funds with positive balances that contribute to the overall invested STIP pool.

The Comptroller 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).

The State Comptroller repays loans from the first cash receipts into the borrowing fund or account. 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 STIP. The primary 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.

The total outstanding loan balance at March 31, 2005 was $1.29 billion, an increase of $14 million from the outstanding loan balance of 1.27 billion at March 31, 2004. The increase in the outstanding loan balance is primarily attributable to the receipt of planned bond proceeds that reimburse capital projects spending.

The 2004-05 Enacted Budget included legislation that permitted the Comptroller to temporarily loan balances in other funds to the General Fund within any month. The State relied on this authorization several times in 2003-04 and 2004-05 to support intra-month cash flow needs. This authorization was extended permanently in the 2005-06 Enacted Budget.

Accounting, Financial Reporting and Budgeting

Historically, the State has accounted for, reported and budgeted its operations on a cash basis. Under this form of accounting, receipts are recorded only at the time money or checks are deposited in the State Treasury, and disbursements are recorded only at the time a check is drawn. As a result, actions and circumstances, including discretionary decisions by certain governmental officials, can affect the timing of payments and deposits and therefore can significantly affect the cash amounts reported in a fiscal year. Under cash-basis accounting, all estimates and projections of State receipts and disbursements relating to a particular fiscal year are of amounts to be deposited in or disbursed from the State Treasury during that fiscal year, regardless of the fiscal period to which particular receipts or disbursements may otherwise be attributable.

The State also has an accounting and financial reporting system based on GAAP and currently formulates a GAAP financial plan. GAAP for governmental entities requires use of the accrual basis of accounting for the government-wide financial statements which includes governmental and business-type activities and component units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are prepared using the modified accrual basis of accounting. Under modified accrual procedures, revenues are recorded when they become both measurable and available within 12 months of the end of the current fiscal period to finance expenditures; expenditures are recorded in the accounting period the liability is incurred to the extent it is expected to be paid within the next 12 months with the exception of expenditures such as debt service, compensated absences, and claims and judgments. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Nonexchange grants and subsidies such as local assistance grants and public benefit corporation subsidies are recognized as expenditures when all requirements of the grant and or subsidy have been satisfied.

State Government Employment

As of March 31, 2005, the State had approximately 189,600 full-time equivalent annual salaried employees funded from all funds including some part-time and temporary employees but excluding seasonal, legislative and judicial employees. The workforce is now 17.8 percent smaller than it was fifteen years ago, when it peaked at 230,600 positions.

In January 1995, the State implemented concerted initiatives designed to reduce the size of the workforce and now has 21,600 fewer full-time employees than it had at that time. State workforce levels had been generally stable in the late 1990s. The State ended the 2004-05 fiscal year with 189,600 positions and, with the Enacted Budget, expects to end the 2005-06 fiscal year with a total 191,900 filled positions.

The State Public Employment Relations Board defines negotiating units for State employees. The Governor's Office of Employee Relations conducts collective bargaining negotiations with the State's unions, with the exception of employees of the Judiciary, public authorities and the Legislature. Such negotiations include terms and conditions of employment, except pension benefits. In 2004-05, the State negotiated new collective bargaining agreements with the Civil Service Employees Association, the United University Professions, the Public Employees Federation, District Council 37, the Graduate Student Employees Union and certain employee unions which cover most of the employees in the Judiciary. These agreements will govern employee compensation and benefit policies through early 2007. Investigators of the Bureau of Criminal Investigation in the Division of State Police were recently provided a two-year arbitration award for the period 2003 through early 2005, and are in the midst of interest arbitration for the period through 2007. The State continues to negotiate in good faith with the remaining police and security service unions, all of which are authorized to utilize binding arbitration at impasse.

While approximately 93 percent of the State workforce is unionized, the remainder of the workforce (about 12,500) is designated as "managerial" or "confidential" and is excluded from collective bargaining. In practice, however, the results of collective bargaining negotiations are generally applied to all State employees within the Executive Branch. Under the State's Taylor Law, the general statute governing public employee-employer relations in the State, employees are prohibited from striking. A strike against the State last occurred in 1979 by employees of the Department of Correctional Services.

State Retirement Systems

General

The New York State and Local Retirement Systems (the "Systems") provide coverage for public employees of the State and its localities (except employees of New York City and teachers, who are covered by separate plans). The Systems comprise the New York State and Local Employees Retirement System and the New York State and Local Police and Fire Retirement System. The Comptroller is the administrative head of the Systems. State employees made up about 33 percent of the membership during the 2003-04 fiscal year. There were 2,835 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, 2004, 641,721 persons were members and 328,355 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 realigned the Retirement Systems billing cycle to match governments' budget cycles and also instituted 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. Recent 2005 legislation allows the State to amortize certain 2005-06 amounts in excess of 9.5 percent of payroll.

The State bill due in the fiscal year ending March 31, 2005, payable September 1, 2004, utilizing the amortization feature, was $653.7 million and has been fully paid. In addition, the State paid $55 million in March 2005 to reduce their remaining retirement incentive costs. Employer contributions due from the State for the fiscal year ending March 31, 2006, payable September 1, 2005 are estimated at $1.12 billion, which includes the first amortization payment from the 2005 bill of $65 million. If the State decides to utilize the amortization option for this payment, the State will amortize $155 million over 10 years and the required payment will decrease from $1.12 billion to $963 million. The 2005-06 Enacted Budget Financial Plan assumes the amortization option will be used.

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, 2004 were $120.8 billion (including $1.4 billion in receivables), an increase of $23.4 billion or 24.1 percent from the 2002-03 level of $97.4 billion, reflecting, in large part, equity market performance. OSC reports that the present value of anticipated benefits for current members, retirees, and beneficiaries increased from $130.5 billion on April 1, 2003 to $140.2 billion (including $52.8 billion for current retirees and beneficiaries) on April 1, 2004. 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 differed from net assets on April 1, 2004 in that amortized cost was used instead of market value for bonds and mortgages. Actuarial assets increased from $106.7 billion on April 1, 2003 to $117.5 billion on April 1, 2004. 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
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)
2004	120,829	24.1

Sources: State and Local Retirement Systems.
(1) Includes relatively small amounts held under Group Life Insurance Plan. Includes some employer contribution receivables. Fiscal year ending March 31, 2004 includes approximately $1.4 billion of receivables.
(2) Includes certain accrued employer contributions to be paid with respect to service rendered during fiscal years other than the year shown.

Contributions and Benefits
New York State and Local Retirement Systems
(millions of dollars)

Fiscal Year Ended March 31	Contributions Recorded				Total Benefits Paid(2)
	All Participating Employers(1)	Local Employers(1)	State(1)	Employees	
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
2004	1,287	832	455	222	5,424

(1) Includes employer premiums to Group Life Insurance Plan.
(2) Includes payments from Group Life Insurance Plan.

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Authorities and Localities

Public Authorities

The fiscal stability of the State is related in part to the fiscal stability of its public authorities. For the purposes of this disclosure, public authorities refer to public benefit corporations, created pursuant to State law, other than local authorities. Public authorities are not subject to the constitutional restrictions on the incurrence of debt that apply to the State itself and may issue bonds and notes within the amounts and restrictions set forth in legislative authorization. The State's access to the public credit markets could be impaired and the market price of its outstanding debt may be materially and adversely affected if any of its public authorities were to default on their respective obligations, particularly those using the financing techniques referred to as State-supported or State-related debt under the section entitled "Debt and Other Financing Activities" in this statement. As of December 31, 2004, there were 18 public authorities that had outstanding debt of $100 million or more, and the aggregate outstanding debt, including refunding bonds, of these State public authorities was $120.4 billion, only a portion of which constitutes State-supported or State-related debt. The table below summarizes the outstanding debt of these State public authorities.

Outstanding Debt of Certain Authorities (1)
As of December 31, 2004
(millions of dollars)

Authority	Amount(2)(3)
Dormitory Authority (4)	31,529
Metropolitan Transportation Authority	13,422
Port Authority of NY & NJ	10,961
Thruway Authority	10,479
Long Island Power Authority (5)	7,184
Triborough Bridge and Tunnel Authority	7,070
Environmental Facilities Corporation	7,023
UDC/ESDC	6,515
Housing Finance Agency	6,334
Tobacco Settlement Financing Corporation	4,495
Local Government Assistance Corporation	4,449
Energy Research and Development Authority	3,687
State of New York Mortgage Agency	2,893
Power Authority	2,283
Battery Park City Authority	1,133
Municipal Bond Bank Agency	572
Niagara Frontier Transportation Authority	194
United Nations Development Corporation	128
TOTAL OUTSTANDING	120,351

Source: Office of the State Comptroller.
(1) Includes only public authorities that are not reported as part of a local government, some of which do have more than $100 million in bonds outstanding.
(2) Amounts outstanding reflect original par amounts for bonds and financing arrangements or original net proceeds in the case of capital appreciation bonds. Amounts outstanding do not reflect accretion of capital appreciation bonds or premiums received .
(3) Includes short-term and long-term debt.
(4) Includes debt previously issued by New York State Medical Care Facilities Finance Agency, which was consolidated with the Dormitory Authority on September 1, 1995.
(5) Includes $155 million in bonds issued by the Energy Research and Development Authority and included in amounts reported for both ERDA and LIPA.

The State has numerous public authorities with various responsibilities, including those which finance, construct and/or operate revenue-producing public facilities. Public authorities generally pay their operating expenses and debt service costs from revenues generated by the projects they finance or operate, such as tolls charged for the use of highways, bridges or tunnels, charges for public power, electric and gas utility services, rentals charged for housing units, and charges for occupancy at medical care facilities. In addition, State legislation authorizes several financing techniques for public authorities that are described under the section entitled "Debt and Other Financing Activities" above.

Also, there are statutory arrangements providing for State local assistance payments otherwise payable to localities to be made under certain circumstances to public authorities. Although the State has no obligation to provide additional assistance to localities whose local assistance payments have been paid to public authorities under these arrangements, the affected localities may seek additional State assistance if local assistance payments are diverted. Some authorities also receive moneys from State appropriations to pay for the operating costs of certain of their programs.

Metropolitan Transportation Authority

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. 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 City of New York

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 the 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.

Fiscal Oversight for New York City

In response to the City's fiscal crisis in 1975, the State took action to help the City return to fiscal stability. These actions included the establishment of the Municipal Assistance Corporation for the City of New York (NYC MAC), to provide the City with financing assistance; the New York State Financial Control Board (FCB), to oversee the City's financial affairs; and the Office of the State Deputy Comptroller for the City of New York (OSDC), to assist the Control Board in exercising its powers and responsibilities. A "control period" existed from 1975 to 1986, during which the City was subject to certain statutorily prescribed fiscal controls. The FCB terminated the control period in 1986 when certain statutory conditions were met. State law requires the FCB to reimpose a control period upon the occurrence or "substantial likelihood and imminence" of the occurrence, of certain events, including (but not limited to) a City operating budget deficit of more than $100 million or impaired access to the public credit markets.

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; 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.

Other Localities

Certain localities outside New York City have experienced financial problems and have requested and received additional State assistance during the last several State fiscal years. The potential impact on the State of any future requests by localities for additional oversight or financial assistance is not included in the projections of the State's receipts and disbursements for the State's 2005-06 fiscal year or thereafter.

Like the State, local governments must respond to changing political, economic and financial influences over which they have little or no control. Such changes may adversely affect the financial condition of certain local governments. For example, the Federal government may reduce (or in some cases eliminate) Federal funding of some local programs or disallow certain claims which, in turn, may require local governments to fund these expenditures from their own resources. It is also possible that localities, or any of their respective public authorities may suffer serious financial difficulties that could jeopardize local access to the public credit markets, which may adversely affect the marketability of notes and bonds issued by localities within the State. Localities may also face unanticipated problems resulting from certain pending litigation, judicial decisions and long-range economic trends. Other large-scale potential problems, such as declining urban populations, increasing expenditures, and the loss of skilled manufacturing jobs, may also adversely affect localities and necessitate State assistance.

The following tables summarize the debt of (i) all localities in the State outside of New York City and (ii) New York City.

Debt of New York Localities(1)
(millions of dollars)

Locality Fiscal Year Ending	Combined New York City Debt (2)(3)		Other Localities Debt(4)		Total Locality Debt(4)	
	Bonds	Notes	Bonds(5)	Notes(5)	Bonds(4)(5)	Notes(5)
1980	12,995	---	6,835	1,793	19,830	1,793
1990	20,027	---	10,253	3,082	30,280	3,082
1995	29,930	---	15,829	3,219	45,759	3,219
1996	31,623	---	16,414	3,590	48,037	3,590
1997	33,046	---	17,526	3,208	50,572	3,208
1998	34,690	---	17,100	3,203	51,790	3,203
1999	37,352	---	18,448	3,420	55,800	3,420
2000	39,244	515	19,079	4,005	58,323	4,520
2001	40,305	---	20,199	4,278	60,504	4,278
2002	42,721	2,200	21,689	4,730	64,410	6,930
2003	47,376	1,110	23,817	5,923	71,193	7,033
2004	50,265	---	N/A	N/A	N/A	N/A

N/A: Not Available

Source: Office of the State Comptroller.

NOTE: For localities other than New York City, the amounts shown for fiscal years ending in 1990 through 1997 may include debt that has been defeased through the issuance of refunding bonds.

(1) Because the State calculates locality debt differently for certain localities (including New York City), the figures above may vary from those reported by such localities. In addition, this table excludes indebtedness of certain local authorities and obligations issued in relation to State lease-purchase arrangements.

(2) New York City's debt outstanding has been revised as presented in the FY 2004 City Comptroller's Comprehensive Annual Financial Report.

(3) Includes New York City capital leases obligations which were not reflected in previous years. Includes bonds issued by the Dormitory Authority of the State of New York for education, health and courts capital projects, the Samurai Funding Corporation and other long-term financing leases which will be repaid from revenues of the City or revenues that would otherwise be available to the City if not needed for debt service.

(4) Outstanding bonded debt shown includes bonds issued by the localities and certain debt guaranteed by the localities and excludes capital lease obligations, assets held in sinking funds and certain amounts available at the start of a fiscal year for redemption of debt.

(5) Does not include the indebtedness of certain localities that did not file annual financial reports with the Comptroller.

Debt of New York City (1)
as of June 30 of each year
(millions of dollars)

Year	General Obligation Bonds	Obligations of MAC	Obligations of TFA	Obligations of TSASC, Inc.	Other(2) Obligations	Treasury Obligations	Total
1980	6,179	6,116	---	---	995	(295)	12,995
1990	13,499	7,122	---	---	1,077	(1,671)	20,027
1995	24,992	4,882	---	---	1,299	(1,243)	29,930
1996	26,627	4,724	---	---	1,394	(1,122)	31,623
1997	27,549	4,424	---	---	1,464	(391)	33,046
1998	27,310	4,066	2,150	---	1,529	(365)	34,690
1999	27,834	3,832	4,150	---	1,835	(299)	37,352
2000	27,245	3,532	6,438 (3)	709	2,065	(230)	39,759
2001	27,147	3,217	7,386	704	2,019	(168)	40,305
2002	28,465	2,880	10,489 (4)	740	2,463	(116)	44,921
2003	29,679	2,151	13,134 (5)	1,258	2,328	(64)	48,486
2004	31,378	1,758	13,364	1,256	2,561	(52)	50,265

Source: Office of the State Comptroller.

(1) New York City's debt outstanding has been revised as presented in the FY 2004 City Comptroller's Comprehensive Annual Financial Report.

(2) Includes New York City capital leases obligations which were not reflected in previous years. Includes bonds issued by the Dormitory Authority of the State of New York for education, health and courts capital projects, the Samurai Funding Corporation and other long-term financing leases which will be repaid from revenues of the City or revenues that would otherwise be available to the City if not needed for debt service.

(3) Includes $515 million of bond anticipation notes issued to finance the City's capital expenditures.

(4) Includes $2.2 billion of bond anticipation notes used to finance the City's capital expenditures in the amount of $1.2 billion and Recovery notes for costs related to and arising from events on September 11, 2001 at the World Trade Center in the amount of $1 billion.

(5) Includes $1.11 billion of bond anticipation notes issued to finance the City's capital expenditures.

Litigation

General

The legal proceedings listed below involve State finances and programs and miscellaneous civil rights, real property, contract and other tort claims in which the State is a defendant and the potential monetary claims against the State are deemed to be material, generally in excess of $100 million. As explained below, these proceedings could adversely affect the State's finances in the 2005-06 fiscal year or thereafter. The State intends to describe newly initiated proceedings which the State deems to be material, as well as any material and adverse developments in the listed proceedings, in quarterly updates and/or supplements to this AIS.

For the purpose of this Litigation section of the AIS, the State defines "material and adverse developments" as rulings or decisions on or directly affecting the merits of a proceeding that have a significant adverse impact upon the State's ultimate legal position, and reversals of rulings or decisions on or directly affecting the merits of a proceeding in a significant manner, whether in favor of or adverse to the State's ultimate legal position. The State intends to discontinue disclosure with respect to any individual case after a final determination on the merits or upon a determination by the State that the case does not meet the materiality threshold described above.

As of the date of this AIS, except as described below, there is no current material litigation involving the State's constitutional or statutory authority to contract indebtedness, issue its obligations, or pay such indebtedness when due, or affects the State's power or ability, as a matter of law, to impose or collect significant amounts of taxes and revenues.

The State is party to other claims and litigation, which either its legal counsel has advised that it is not probable that the State will suffer adverse court decisions or the State has determined do not meet the materiality threshold described in the first paragraph of this section. Although the amounts of potential losses, if any, resulting from this litigation are not presently determinable, it is the State's opinion that its ultimate liability in any of these cases is not expected to have a material and adverse effect on the State's financial position in the 2005-06 fiscal year or thereafter. The Basic Financial Statements for fiscal year 2004-05, which OSC expects to issue in July 2005, will report possible and probable awarded and anticipated unfavorable judgments against the State.

Adverse developments in the proceedings described below, other proceedings for which there are unanticipated, unfavorable and material judgments, or the initiation of new proceedings could affect the ability of the State to maintain a balanced 2005-06 Financial Plan. The State believes that the proposed 2005-06 Financial Plan includes sufficient reserves to offset the costs associated with the payment of judgments that may be required during the 2005-06 fiscal year. These reserves include (but are not limited to) amounts appropriated for Court of Claims payments and projected fund balances in the General Fund. In addition, any amounts ultimately required to be paid by the State may be subject to settlement or may be paid over a multi-year period. There can be no assurance, however, that adverse decisions in legal proceedings against the State would not exceed the amount of all potential 2005-06 Financial Plan resources available for the payment of judgments, and could therefore adversely affect the ability of the State to maintain a balanced 2005-06 Financial Plan.

State Finance Policies

In *Consumers Union of U.S., Inc. v. State*, plaintiffs challenge the constitutionality of those portions of Chapter 1 of the Laws of 2002 which relate to the authorization of the conversion of Empire Health Choice, d/b/a Empire Blue Cross and Blue Shield from a not-for-profit corporation to a for-profit corporation. Chapter 1 requires, in part, that upon such conversion, assets representing 95 percent of the fair market value of the not-for-profit corporation be transferred to a fund designated as the "public asset fund" to be used for the purpose set forth in § 7317 of the Insurance Law. The State and private defendants have separately moved to dismiss the complaint. On November 6, 2002, the Supreme Court, New York County, granted a temporary restraining order, directing that the proceeds from the initial public offering of the for-profit corporation be deposited with the State Comptroller in an interest-bearing account, pending the hearing of a motion for a preliminary injunction, which was 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. The defendants appealed from the October 1, 2003 decision.

By decision and order dated May 20, 2004, the Appellate Division, First Department affirmed the dismissal of plaintiff's original complaint but also affirmed the denial of defendants' motion to dismiss the amended claim. The State, the other defendants and the plaintiffs moved in the Appellate Division, First Department, for leave to appeal to the Court of Appeals. On October 12 2004, the First Department granted leave to appeal.

Gaming

In *Dalton, et al. v. Pataki, et al.* and *Karr v. Pataki, et al.,* plaintiffs seek a judgment declaring as unconstitutional, under provisions of the Constitutions of the United States and the State, parts B, C and D of Chapter 383 of the Laws of 2001, which respectively authorize (1) the governor to enter into tribal-state compacts for the operation by Indian tribes of gambling casinos in certain areas of the State, (2) the Division of the Lottery to license the operation of VLTs at certain race tracks in the State and (3) the Division of the Lottery to enter into a joint, multi-jurisdiction and out-of-state lottery. Plaintiffs also seek to enjoin defendants from taking any action to implement the provisions of Chapter 383.

By opinion and order entered July 7, 2004, the Appellate Division, Third Department, upheld the constitutionality of tribal-state compacts and the joint, multi-jurisdiction and out of State lottery. The Appellate Division held that the statute authorizing the Division of the Lottery to license the operation of VLTs at certain racetracks in the State violated the provisions of the State Constitution that require the net proceeds of State-operated lotteries be applied exclusively to or in aid or support of education in this State as the Legislature may prescribe. The State, certain other defendants, and the plaintiffs in both *Dalton, et al. v. Pataki, et al* and *Karr v. Pataki, et al*. have appealed to the Court of Appeals from this order. In an opinion dated May 3, 2005, the Court of Appeals modified the July 7, 2004 opinion and order and declared parts B, C and D of Chapter 383 of the Laws of 2001 constitutional.

Real Property Claims

On March 4, 1985 in *Oneida Indian Nation of New York, et al. v. County of Oneida*, the United States Supreme Court affirmed a judgment of the United States Court of Appeals for the Second Circuit holding that the Oneida Indians have a common-law right of action against Madison and Oneida counties for wrongful possession of 872 acres of land illegally sold to the State in 1795. At the same time, however, the Court reversed the Second Circuit by holding that a third-party claim by the counties against the State for indemnification was not properly before the Federal courts. The case was remanded to the District Court for an assessment of damages, which action is still pending. The counties may still seek indemnification in the State courts.

In 1998, the United States filed a complaint in intervention in *Oneida Indian Nation of New York*. In December 1998, both the United States and the tribal plaintiffs moved for leave to amend their complaints to assert claims for 250,000 acres, including both monetary damages and ejectment, to add the State as a defendant, and to certify a class made up of all individuals who currently purport to hold title within the affected 250,000 acre area. On September 25, 2000, the District Court granted the motion to amend the complaint to the extent that it sought to add the State as a defendant and to assert money damages with respect to the 250,000 acres and denied the motion to certify a class of individual landowners and to seek the remedy of ejectment.

In a decision dated March 29, 2002, the District Court granted, in part, plaintiffs' motion to strike the State's defenses and counterclaims. The defenses that were dismissed may not be asserted as to liability, but may still be asserted with respect to damages. The District Court also denied the State's motion to dismiss for failure to join indispensable parties.

On December 7, 2004, settlement agreements were signed between the State, the Oneidas of Wisconsin and the Stockbridge-Munsee Tribe, which would in part require the passage of State and Federal legislation to become effective. Such legislation must be enacted by September 1, 2005 unless the parties agree to an extension of time. The agreements contemplate the extinguishment of all Oneida and other Indian claims in the tract at issue in this litigation. Although the agreements provide for monetary payment, transfers of lands and other consideration to non-signatory tribal plaintiffs, these agreements have not been signed by the United States, the Oneidas of New York, the Oneidas of the Thames Band or the New York Brothertown. On April 15, 2005, the Governor withdrew legislation that he had proposed to approve this and other Indian land claim and settlement agreements.

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

In the *Seneca Nation of Indians* case, plaintiffs seek monetary damages and ejectment with regard to their claim of ownership of certain islands in the Niagara River and the New York State Thruway right of way where the Thruway crosses the Cattaraugus reservation in Erie and

Chautauqua Counties. By order dated November 17, 1999, the District Court confirmed the July 12, 1999 magistrate's report, which recommended granting the State's motion to dismiss that portion of the action relating to the Thruway right of way and denying the State's motion to dismiss the Federal government's damage claims. By decision and order dated June 21, 2002, the District Court granted summary judgment to defendants dismissing that portion of the action relating to the islands in the Niagara River. A judgment entered June 21, 2002 dismissed all aspects of this action. Plaintiffs appealed from the judgment to the U.S. Court of Appeals for the Second Circuit. By decision dated September 9, 2004, the Second Circuit affirmed the judgment of the District Court. Plaintiffs have petitioned the Second Circuit for rehearing *en banc*.

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. On November 29, 2004, the plaintiff tribal entities, with on exception, approved a settlement proposed by the State, which would require enactment of State and Federal legislation to become effective. The plaintiff tribal entity that did not approve the proposed settlement on November 29, 2004, subsequently expressed its approval. On April 15, 2005, the Governor withdrew legislation that he had proposed to approve this and other Indian land claim and settlement agreements. However, the Council to the Governor has stated that the Governor intends to submit to the State Legislature a new bill that would implement the terms of the Haudenosaunee-Mohawk settlement agreement.

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. Following argument of the appeal, the Second Circuit requested that the parties brief the Court on the impact of the decision of the United States Supreme Court in *City of Sherrill v. Oneida Indian nation of New York, et al.*, a case to which the State is not a named party, in which the Unites States Supreme Court has held that parcels of land recently acquired by the Oneida Indian Nation of New York within the 1788 reservation boundaries are subject to local property taxation. On October 1, 2004, the State filed an action in the District Court for the Northern District Court under the Federal Tort Claims Act, seeking contribution from the United States toward the $248 million judgment and post-judgment interest.

Settlements were signed on by the Governor of the State with the Chief of the Seneca-Cayuga Tribe of Oklahoma on November 12, 2004 and with the Cayuga Indian nation of New York on November 17, 2004 which would, in part, require enactment of State and Federal legislation to become effective. Such legislation must be enacted by September 1, 2005 unless the parties agree to an extension of time. These agreements provide for differential payments to be made to the plaintiff tribes, based upon the outcome of the appeal now pending in the Second

Circuit. On April 15, 2005, the Governor withdrew legislation that he had proposed to approve this and other Indian land claim and settlement agreements.

In *The Onondaga Nation v. The State of New York*, et al., plaintiff seeks a judgment declaring that certain lands allegedly constituting the aboriginal territory of the Onondaga Nation within the State are the property of the Onondaga Nation and the Haudenosaunee, or "Six Nations Iroquois Confederacy," and that conveyances of portions of that land pursuant to treaties during the period 1788 to 1822 are null and void. The "aboriginal territory" described in the complaint consists of an area or strip of land running generally north and south from the St. Lawrence River in the north, along the east side of Lake Ontario, and south as far as the Pennsylvania border, varying in width from about 10 miles to more than 40 miles, including the area constituting the City of Syracuse.

Tobacco Master Settlement Agreement

In *Freedom Holdings Inc. et al. v. Spitzer et ano.*, two cigarette importers brought an action in 2002 challenging portions of laws enacted by the State under the 1998 Tobacco Master Settlement Agreement ("MSA") that New York and many other states entered into with the major tobacco manufacturers. The initial complaint alleged: (1) violations of the Commerce Clause of the United States Constitution; (2) the establishment of an "output cartel" in conflict with the Sherman Act; and (3) selective nonenforcement of the laws on Native American reservations in violation of the Equal Protection Clause of the United States Constitution. The United States District Court for the Southern District of New York granted defendants' motion to dismiss the complaint for failure to state a cause of action. Plaintiffs appealed from this dismissal. In an opinion decided January 6, 2004, the United States Court of Appeals for the Second Circuit (1) affirmed the dismissal of the Commerce Clause claim; (2) reversed the dismissal of the Sherman Act claim; and (3) remanded the selective enforcement claim to the District Court for further proceedings. Plaintiffs have filed an amended complaint that also challenges the MSA itself (as well as other related State statutes) primarily on preemption grounds. On September 14, 2004, the District Court denied all aspects of plaintiffs' motion for a preliminary injunction, except that portion of the ability of tobacco manufacturers to obtain the release of certain funds from escrow. Plaintiffs have appealed from the denial of the remainder of the motion to the United States Court of Appeals for the Second Circuit.

State Programs

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 SBE 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 SBE and further held that the plaintiffs had established a causal link between the present education funding system and the failure to provide said SBE. The Court remitted the case to the trial court for further proceedings in accordance with its decision.

On August 3, 2004, the Supreme Court, New York County, referred this case to a panel of three referees. The panel was to make recommendations to the court as to how the State should fulfill the Court of Appeals mandate to provide New York City school children with a SBE. On November 30, 2004, the panel issued its report and recommendations. It recommended that the Supreme Court direct the State to pay to New York City schools a total of $14.08 billion over the next four years in additional funding and $9.179 billion over the next five years for capital improvements. On March 15, 2005, the Supreme Court, New York County, issued an order confirming the panel's report and recommendations and directing the State to take all steps necessary to provide additional funding for New York City schools in the amounts of $1.41 billion in 2005-06, $2.82 billion in 2006-07, $4.22 billion in 2007-08 and $5.63 billion in 2008-09, totaling $14.08 billion over the next four years. The Court also directed the State to take all steps necessary to provide additional capital funding in the amount of $1.836 billion annually totaling $9.179 billion over the next five years. The State has appealed from the March 15, 2005 order to the Appellate Division, First Department and the trial court's decision was stayed pending resolution of the appeal. On May 3, 2005, the First Department denied the plaintiffs' motion to lift the automatic stay.

Medicaid

There are numerous cases in which nursing homes have challenged the statutory provisions setting the reimbursement methodology pursuant to which they receive Medicaid payments, including, but not limited to, *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. (six cases), Healthcare Association of New York State v. DeBuono; Bayberry Nursing Home et al. v. Pataki, et al.*, and *Matter of Nazareth Home of the Franciscan Sisters, et al. v. Novello.* Plaintiffs allege that the changes in methodology have been adopted in violation of procedural and substantive requirements of State and Federal law.

In *New York Association of Homes and Services for the Aging v. DeBuono, et al.*, the United States District Court for the Northern District of New York dismissed plaintiffs' complaint by order dated May 19, 2004. Plaintiffs have appealed to the Second Circuit Court of Appeals. Several related State Court cases involving the same parties and issues have been held in abeyance pending the result of the litigation in Federal Court.

In *Matter of Nazareth Home of the Franciscan Sisters, et al. v. Novello*, the Supreme Court, Erie County, dismissed the petition by decision, order and judgment dated December 22, 2004. Petitioners have appealed to the Supreme Court, Appellate Division, Fourth Department.

Exhibit A to Annual Information Statement
Glossary of Financial Terms

The following glossary, which is an integral part of this AIS, includes certain terms that are used herein and are intended for use only in connection with the entire AIS.

Appropriation: An appropriation is a statutory authorization against which liabilities may be incurred during a specific year, and from which disbursements may be made, up to a stated amount, for the purposes designated. Appropriations generally are authorizations, rather than mandates, to spend, and disbursements from an appropriation need not, and generally do not, equal the amount of the appropriation. An appropriation represents maximum spending authority. Appropriations may be adopted at any time during the fiscal year.

Bond Anticipation Note or BANs: A bond anticipation note is a short-term obligation, the principal of which is paid from the proceeds of the bonds in anticipation of which such note is issued.

Business-type Activities: Business-type activities describes those operations that are financed in whole or in part by fees charged to external parties for goods or services. These activities are usually reported in enterprise funds and include the Lottery, Unemployment Insurance Benefit, SUNY and CUNY - senior colleges.

Capital Projects Funds: Capital Projects Funds, one of the four GAAP-defined governmental fund types, account for financial resources of the State to be used for the acquisition or construction of major capital facilities (other than those financed by SRFs, Proprietary Funds and Fiduciary Funds).

Cash Basis Accounting: Accounting, budgeting and reporting of financial activity on a cash basis results in the recording of receipts at the time money or checks are deposited in the State Treasury and the recording of disbursements at the time a check is drawn, regardless of the fiscal period to which the receipts or disbursements relate.

College and University Funds: College and University Funds account for the operations of both SUNY and the senior colleges of CUNY, including the research foundations, endowment loan fund and capital and debt related activity.

Community Projects Fund: The State created this fund within the General Fund in 1996 to finance certain community projects for the Legislature and the Governor. The State transfers moneys from other General Fund accounts into the Community Projects Fund, as provided by law. Spending out of the Community Projects Fund is governed by specific appropriations for each account in the Fund, but cannot exceed the cash balance for that account.

Contingency Reserve Fund or CRF: This fund was established in 1993 to assist the State in financing the costs of any extraordinary known or anticipated litigation. Deposits to this fund are made from the General Fund.

Contractual-Obligation Financing: Contractual-obligation financing is an arrangement pursuant to which the State makes periodic payments to a public benefit corporation under a contract having a term not less than the amortization period of debt obligations issued by the public benefit corporation in connection with such contract. Payments made by the State are used to pay debt service on such obligations and are subject to annual appropriation by the Legislature and the availability of moneys to the State for the purposes of making contractual payments.

Debt Reduction Reserve Fund or DRRF: The State created DRRF in 1998 to accumulate surplus revenues to pay debt service costs on State-supported bonds, retire or defease such bonds, and to finance capital projects. Use of DRRF funds requires an appropriation.

Debt Service: Debt service refers to the payment of principal and interest on bonds, and interest on bond anticipation notes and TRANs, in accordance with the respective terms thereof.

Debt Service Funds: DSFs, one of the four GAAP-defined governmental fund types, account for the accumulation of resources (including receipts from certain taxes, transfers from other funds and miscellaneous revenues, such as dormitory room rental fees, which are dedicated by statute for payment of lease-purchase rentals) for the payment of general long-term debt service and related costs and payments under lease-purchase and contractual-obligation financing arrangements.

Disbursement: A disbursement is a cash outlay and in the General Fund includes transfers to other funds.

Executive Budget: The Executive Budget is the Governor's constitutionally mandated annual submission to the Legislature which contains his recommended program for the forthcoming fiscal year. The Executive Budget is an overall plan of recommended appropriations. It projects disbursements and expenditures needed to carry out the Governor's recommended program and receipts and revenues expected to be available for such purpose. The recommendations contained in the Executive Budget serve as the basis for the State Financial Plan (defined below) which is adjusted after the Legislature acts on the Governor's submission. Under the State Constitution, the Governor is required each year to propose an Executive Budget that is balanced on a cash basis.

Expenditure: An expenditure, in GAAP terminology, is a decrease in net financial resources as measured under the modified accrual basis of accounting. In contexts other than GAAP, the State uses the term expenditure to refer to a cash outlay or disbursement.

Expenses: Expenses, in GAAP terminology, are a decrease in net financial resources as measured in the government-wide financial statements under the accrual basis of accounting.

Fiduciary Funds: Fiduciary Funds refers to a GAAP-defined fund type which accounts for assets held by the State in a trustee capacity or as agent for individuals, private organizations and other governmental units and/or other funds. These funds are custodial in nature and do not involve the measurement of operations. Although the Executive Budget for a fiscal year generally contains operating plans for Fiduciary Funds, and their results are included in the Comptroller's GAAP-based financial statements, they are not included in the State Financial Plan.

Financial Plan: see State Financial Plan.

Fiscal Year: The State's fiscal year commences on April 1 and ends on March 31. The term fiscal year refers to the fiscal year of the State unless the context clearly indicates otherwise.

Fund Accounting: The accounts of the State are presented on the basis of GAAP funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise the fund's assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

GAAP: GAAP refers to generally accepted accounting principles for state and local governments, which are the uniform minimum standards of and guidelines for financial accounting and reporting prescribed by GASB. GAAP requires that the government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the Enterprise Funds, Component Units and the Fiduciary Funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The modified accrual basis of accounting recognizes revenues when they become both measurable and available to finance expenditures. Expenditures and related liabilities are recognized in the accounting period they are incurred to the extent they are expected to be paid within the next 12 months, under the modified accrual basis of accounting.

General Fund: The General Fund, one of the four GAAP-defined governmental fund types, is the major operating fund of the State and receives all receipts that are not required by law to be deposited in another fund, including most State tax receipts and certain fees, transfers from other funds and miscellaneous receipts from other sources.

General obligation bonds: Long-term obligations of the State, used to finance capital projects. These obligations must be authorized by the voters in a general election, are issued by the Comptroller, and are backed by the full faith and credit of the State. Under current provisions of the Constitution, only one bond issue may be put before the voters at each general election, and it must be for a single work or purpose. Debt service must be paid from the first available taxes whether or not the Legislature has enacted the required appropriations for such payments.

General State Charges: Costs mandated by statute or court decree or by agreements negotiated with employee unions for which the State is liable, including: pensions; health, dental and optical benefits; payments on behalf of State employees for Social Security; unemployment insurance benefits; employee benefit programs; court judgments and settlements; assessments for local improvements; and taxes on public lands.

Governmental Activities: Governmental activities describes those operations that are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues and are reported in the governmental funds.

Governmental Funds: Governmental funds refers to a category of GAAP-defined funds which account for most governmental functions and which, for the State, include four GAAP-defined governmental fund types: the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. The State's projections of receipts and disbursements in the governmental funds comprise the State Financial Plan.

Interfund Transfers: Under GAAP fund accounting principles, each fund is treated as a separate fiscal and accounting unit with limitations on the kinds of disbursements to be made. To comply with these limitations, moneys are moved from one fund to another to make them available for use in the proper fund, and are accounted for as "interfund transfers."

Lease-Purchase Financing: Lease-purchase financing is an arrangement pursuant to which the State leases facilities from a public benefit corporation or municipality for a term not less than the amortization period of the debt obligations issued by the public benefit corporation or municipality to finance acquisition and construction, and pays rent which is used to pay debt service on the obligations. At the expiration of the lease, title to the facility vests in the State in most cases. Generally, the State's rental payments are expressly subject to annual appropriation by the Legislature and availability of moneys to the State for the purposes thereof.

Local Assistance: Disbursements of State grants to counties, cities, towns, villages, school districts and other local entities, certain contractual payments to localities, and financial assistance to, or on behalf of, individuals and not-for-profit organizations.

Moral obligation debt: Long-term bonds issued by certain State public benefit corporations which are essentially supported by their own revenues. Moral obligation debt is not incurred pursuant to a referendum, is not considered State debt, and is not backed by the full faith and credit of the State. However, the authorities selling such obligations have been allowed to establish procedures where, under certain conditions, the State may be requested to meet deficiencies in debt service reserve funds supporting such bonds. An appropriation must be enacted by the Legislature to meet any such request.

Official Statement: A disclosure document prepared to accompany an issuance of bonds, notes and certificates of participation offered for sale by the State or its public authorities. Its primary purpose is to provide prospective bond or note purchasers sufficient information to make informed investment decisions. It describes, among other things, the issuer, the project or program being financed and the security behind the bond issue.

Pay-as-you-go financing: The use of current State resources (as opposed to bonds) to finance capital projects. Also referred to as "hard dollar" financing.

Receipts: Receipts consist of cash actually received during the fiscal year and in the General Fund include transfers from other funds.

Revenue Accumulation Fund: This fund holds certain tax receipts temporarily before their deposit into other funds.

Revenues: Revenues, in GAAP terminology, are an increase in net financial resources, as measured for the government-wide financial statements under the accrual basis of accounting and for the governmental funds under the modified accrual basis of accounting. In contexts other than GAAP, the State uses the term revenues to refer to income or receipts.

Short-Term Investment Pool or STIP: The combination of available cash balances in funds within the State Treasury on a daily basis for investment purposes.

Special Revenue Funds: SRFs, one of the four GAAP-defined governmental fund types, account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects), such as Federal grants, that are legally restricted to specified purposes.

State Financial Plan: The State Financial Plan sets forth projections of State receipts and disbursements in the governmental fund types for each fiscal year and is prepared by the Director of the Division of Budget, based initially upon the recommendations contained in the Executive Budget. After the budget is enacted, the State Financial Plan is adjusted to reflect revenue measures, appropriation bills and certain related bills enacted by the Legislature. It serves as the basis for the administration of the State's finances by the Director of the Budget, and is updated quarterly, or more frequently as necessary, during the fiscal year.

State Funds: State funds refers to a category of funds which includes the General Fund and all other State-controlled moneys, excluding Federal grants. This category captures all governmental disbursements except spending financed with Federal grants.

State-guaranteed debt: Debt authorized by the voters to be sold by three public authorities: the Job Development Authority, the New York State Thruway Authority, and the Port Authority of New York and New Jersey. State-guaranteed bonds issued for the Thruway Authority and the Port Authority were fully retired on July 1, 1995 and December 31, 1996, respectively. Such debt is backed by the full faith and credit of the State.

State Operations: Operating costs of State departments and agencies, the Legislature and the Judiciary, including salaries and other compensation for most State employees.

State-related debt: This broad category combines all forms of debt for which the State is liable, either directly or on a contingent basis, including all State-supported debt and State guaranteed and moral obligation debt.

State-supported debt: This category includes all obligations for which the State appropriates money that is used to pay debt service, including general obligation debt, PIT revenue bonds, lease-purchase and contractual-obligation debt, and certificates of participation. While tax supported debt (obligations supported by State taxes) represents the majority of obligations in this category, obligations supported by other State revenues (such as dormitory fees or patient revenues) are also included.

Tax and Revenue Anticipation Notes or TRANs: Notes issued in anticipation of the receipt of taxes and revenues, direct or indirect, for the purposes and within the amounts of appropriations theretofore made.

Tax Refund Reserve Account: The tax refund reserve account is used to hold moneys available to pay tax refunds. During a given fiscal year, the deposit of moneys in the account reduces receipts and the withdrawal of moneys from the account increases receipts. There is no requirement that moneys withdrawn from this account be replaced.

Tax Stabilization Reserve Fund: This fund was created to hold surplus revenue that can be used in the event of any unanticipated General Fund deficit. Amounts within this fund can be borrowed to cover any year-end deficit and must be repaid within six years in no less than three equal annual installments. The fund balance cannot exceed two percent of General Fund disbursements for the fiscal year; contributions are limited to two-tenths of one percent of General Fund disbursements in that year.

Exhibit B to Annual Information Statement

Principal State Taxes and Fees

Personal income taxes are imposed on the New York income of individuals, estates and trusts. Personal income taxes are projected to account for roughly 58 percent of estimated All Government Funds tax receipts during the State's 2005-06 fiscal year. The State tax adheres closely to the definitions of adjusted gross income and itemized deductions used for Federal personal income tax purposes, with certain modifications. Receipts from this tax are sensitive to changes in economic conditions in the State. New York allows a standard deduction of $14,600 for married couples filing jointly, with lower deductions for the other types of filers. New York also allows a $1,000 exemption for dependents. The tax rate schedule has five tax brackets which, for married couples filing jointly, start at 4 percent for taxable income below $16,000 and increase to 6.85 percent on taxable income over $40,000. Legislation enacted in 2003 temporarily added two higher tax rates and brackets for the 2003 through 2005 tax years. For the 2005 year, rates of 7.25 percent and 7.7 percent were added for married couples with taxable incomes exceeding $150,000 or $500,000, respectively. There are comparable tax rate schedules for heads of households and single and married couples filing separately. New York also allows several credits against the tax. The most significant are the: household credit, credit for taxes paid to other states, the investment tax credit, various Empire Zone credits, child and dependent care credit, real property tax circuit breaker credit, earned income tax credit, and college tuition credit.

In 2001, legislation was enacted to provide for the issuance of State PIT Revenue Bonds, which has become the primary financing vehicle for a broad range of existing State-supported debt programs previously secured by service contract or lease-purchase payments. The first bonds were issued in May 2002. The legislation provides that 25 percent of PIT receipts (excluding refunds owed to taxpayers and deposits to the STAR Fund) be deposited to the RBTF for purposes of making debt service payments on the bonds, with excess amounts transferred to the General Fund.

In the event that (i) the State Legislature fails to appropriate amounts required to make all debt service payments on the State PIT Revenue Bonds or (ii) having been appropriated and set aside pursuant to a certificate of the Director of the Budget, financing agreement payments have not been made when due on the bonds, the legislation requires that PIT receipts continue to be deposited to the RBTF until amounts on deposit in the Fund equal the greater of 25 percent of annual PIT receipts or $6 billion.

User taxes and fees consist of several taxes on consumption, the largest of which is the State sales and compensating use tax. The following discussion describes these taxes and summarizes significant revenue actions taken since 2000. The *sales and use tax* is imposed, in general, on the receipts from the sale of all tangible personal property unless exempted, and all services are exempt unless specifically enumerated. Certain charges for meals, admissions, hotel and motel occupancy and dues are also subject to the tax. The current State sales tax rate is 4.25 percent, of which 3.25 percent is deposited in the General Fund and 1 percent is deposited in the Local Government Assistance Tax Fund to meet debt service obligations. Receipts in excess of debt service requirements are transferred to the General Fund. Although there are numerous exemptions, the most significant are: food; clothing and footwear costing less than $110; drugs; medicine and medical supplies; residential energy; capital improvements and installation charges; machinery and equipment used in manufacturing; trade-in allowances; and goods sold to Federal, state or local governments. Legislation enacted in 2000 totally or partially exempted receipts from most purchases made by qualifying businesses located in Empire Zones. Legislation enacted in 2003 increased the sales tax rate from 4 percent to 4.25 percent beginning on June 1, 2003, and expiring on May 31, 2005. In addition, the legislation limited the exemption for clothing and footwear costing less than $110 to two one-week periods in the State's 2003-04 and 2004-05 fiscal years. In 2005, legislation was enacted to continue the two one-week exemptions for clothing and footwear costing less than $110 per item until March 31, 2007.

The State imposes a *tax on cigarettes* at the rate of $1.50 per package of 20 cigarettes and imposes a *tax on other tobacco products* equal to 37 percent of the wholesale price. The tax rate on cigarettes was raised from 39 cents to 56 cents, and the tax rate on tobacco products other than cigarettes was increased from 15 percent to 20 percent in 1993 and from 20 percent to 37 percent on July 3, 2002. The tax on cigarettes was raised from 56 cents to $1.11 per pack on March 1, 2000 and to $1.50 per pack on April 3, 2002. The revenue derived from the tax is split, with 38.78 percent of receipts deposited in the General Fund and the balance deposited in the Tobacco Control and Insurance Initiatives Pool established by HCRA of 2000.

Motor fuel and *diesel motor fuel taxes* are levied at 8 cents per gallon upon the sale, generally for highway use, of gasoline and diesel fuel. The diesel fuel tax was reduced from 10 cents per gallon to 8 cents per gallon on January 1, 1996. The 2000-01 Enacted Budget contained legislation which provided that all motor fuel taxes be deposited in the dedicated transportation funds effective April 1, 2001.

Motor vehicle fees are derived from a variety of sources, including motor vehicle registration fees and driver licensing fees, which together account for most motor vehicle fee revenue. Legislation enacted in 1997 provided for five-year licenses instead of four-year licenses, and for the retention of refunds. Legislation enacted in 1998 reduced motor vehicle registration fees by 25 percent and re-instituted the prior refund policy and increased the percent of such fees earmarked to the Dedicated Highway and Bridge Trust Fund to 28 percent on April 1, 1998, 34 percent on July 1, 1998, and to 45.5 percent on February 1, 1999. Legislation enacted with the 2000-01 Budget directs the remaining 54.5 percent of registration fees to the dedicated transportation funds pool, of which 63 percent goes to the Dedicated Highway and Bridge Trust Fund. Legislation enacted in 2001 directed the deposit of $169 million in non-registration fees to the Trust Fund in State fiscal year 2001-02. Legislation enacted in 2002 redirected $171.6 million in non-registration fees to the Trust Fund in State fiscal year 2002-03 and $152.7 million in State fiscal year 2003-04. Legislation enacted in 2003 directed $59.9 million in existing non-registration motor vehicle fee revenues, to the Trust Fund effective April 1, 2004.

The State imposes *alcoholic beverage excise taxes* at various rates on liquor, beer, wine and specialty beverages. Legislation enacted in 1999 reduced the excise tax on beer from 13.5 cents per gallon to 12.5 cents per gallon, and expanded an exemption for small brewers. Legislation enacted with the 2000-01 Budget reduced the tax on a gallon of beer from 12.5 cents to 11 cents on September 1, 2003, and accelerated the current exemption for small brewers to January 1, 2000. In addition, separate *licensing fees* are imposed on those who sell alcoholic beverages in New York. The fees vary depending on the type and location of the establishment or premises operated by the licensee, as well as the class of beverage for which the license is issued. Legislation enacted in 2002, raised fees on the majority of licenses by 28 percent. Legislation was adopted in 2003, which allowed for the option to sell liquor or wine on Sundays provided the establishment closed on one other day. In 2004, legislation was enacted to allow seven day liquor sales.

The *highway use tax* revenue is derived from three sources: the truck mileage tax, related highway use permit fees and the fuel use tax. The truck mileage tax is levied on commercial vehicles, at rates graduated by vehicle weight, based on miles traveled on State highways. Legislation enacted in 1998 cut the truck mileage tax by 25 percent beginning in January 1999. Highway use permits are issued triennially at $15 for an initial permit and $4 for a permit renewal. The fuel use tax is an equitable complement to the State's motor fuel tax and sales tax paid by those who purchase fuel in New York. It is levied on commercial vehicles having three or more axles or a gross vehicle weight of more than 26,000 pounds. Currently all collections from the highway use tax are deposited in the Dedicated Highway and Bridge Trust Fund. Legislation enacted with the 2000-01 Budget reduced the Supplemental Truck Mileage Tax from 50 percent of the base tax to 40 percent of the base tax and increased the flow of motor vehicle fee receipts to the Dedicated Highway and Bridge Trust Fund to compensate for the revenue loss.

The State imposes a 5 percent *auto rental tax* on charges for any rental of passenger cars rented or used in the State, subject to certain exceptions including leases covering a period of one year or more. Legislation enacted in 2002 provided that effective April 1, 2002, all auto rental tax receipts be deposited in the dedicated transportation funds.

Business taxes include a general business corporation franchise tax as well as specialized franchise taxes on banks, insurance companies, certain transportation and transmission companies, and a cents-per-gallon-based levy on businesses engaged in the sale or importation for sale of various petroleum products. The franchise tax on utilities was eliminated as of January 1, 2000. Utilities now are taxed under the general business tax.

The *corporation franchise tax* is the largest of the business taxes, and the State's third largest source of revenue. It is imposed on all domestic general business corporations and foreign general business corporations which do business or conduct certain other activities in the State. The tax is imposed, generally, at a rate of 7.5 percent of taxable income allocated to New York. Taxable income is defined as Federal taxable income with certain modifications.

Legislation enacted in 1998 reduced the general business tax rate from 9 percent to 7.5 percent in three steps beginning in 1999; reduced the corporate alternative minimum tax rate from 3.5 percent to 3 percent in two steps beginning in 1998; reduced the fixed-dollar minimum corporate tax for most small businesses from $325 to $100 beginning in 1998; reduced the tax rate applied to subchapter S-corporations by 40 percent or more beginning in 1998; and adopted an investment tax credit for investment in securities trading infrastructure and institutes tax benefits for investments and employment in emerging technology companies. Significant statutory changes enacted in 1999 included: reforms to the subsidiary capital tax; a further reduction on the alternative minimum tax rate from 3 percent to 2.5 percent; doubling the Empire Zone and zone equivalent area wage tax credits; and reforms to the apportionment of income for the airline industry. In 2000, legislation was enacted to: shift the taxation of public utilities from taxation under a gross earnings tax to taxation as general business corporations; reduce taxes for small businesses; change the allocation formula for financial services companies; add new credits for "green buildings," low-income housing, alternative fuel vehicles, and certain transportation projects; and eliminate energy taxes paid by industrial and manufacturing businesses. Empire Zones were created which provide various credits and exemptions to qualified companies meeting certain employment criteria. In 2002, legislation was enacted authorizing six new Empire Zones, and increasing the mandatory first installment of estimated business tax payments from 25 percent to 30 percent for businesses. In 2003, legislation was enacted that decoupled New York from the Federal bonus depreciation provisions. This applies to property placed in service on or after June 1, 2003, except for qualified Resurgence Zone and New York Liberty Zone property.

The legislation also required the addback of certain expenses and payments related to intangible holding companies. In 2004, legislation was enacted that temporarily created two new fixed dollar minimum tax amounts under the corporate franchise tax; increased the Statewide annual aggregate limit for the low-income housing credit from $4 million to $6 million; extended the Qualified Emerging Technology Company (QETC) credit to biotechnology; and extended the Empire Zones program to March 31, 2005. Legislation enacted in 2005: extended the Empire Zones program until June 30, 2011 and expanded the program to include 12 new zones; adopted a single sales factor formula for corporate franchise taxpayers and banks that provide certain services; adopted tax shelter provisions; reduced the small business tax rate; increased the low income housing tax credit from $6 million to $8 million; expanded and extended the green buildings tax credit program; increased the capital base cap under the corporate franchise tax; and created new tax credits for emerging technology companies.

The excise tax on telecommunications companies and the gross receipts tax on utilities are the second largest source of receipts among the business taxes.

Legislation enacted in 1996 provided that as of January 1, 1997 the franchise tax rate imposed on truckers and railroads was reduced from 0.75 percent to 0.6 percent of gross earnings. As of January 1, 1998 truckers and railroads were allowed to choose between taxation under this tax or taxation under the general business corporation tax.

Legislation enacted in 1997 reduced the 3.5 percent gross receipts tax imposed upon gas, electric, and telephone service to 3.25 percent on October 1, 1998, and then to 2.5 percent on January 1, 2000. Local telephone companies and other franchise taxpayers realized an additional rate cut of 0.375 percent in their franchise tax on July 1, 2000. Also, the franchise tax on trucking and railroads was reduced on July 1, 2000, from 0.6 percent to 0.375 percent. Additional 1997 legislation established the Power for Jobs program which made 400 megawatts of low-cost power available for job creation and expansion with the utilities recouping their losses through a tax credit. Legislation enacted in 1998 expanded the low-cost power available to 450 megawatts and accelerated the phase-in of the Power for Jobs program.

In 2000, legislation was enacted which altered the way traditional gas and electric utilities are taxed. The changes included: the shift from a franchise tax imposed on gross earnings to taxation based on net income or the alternative bases under Article 9-A of the Tax Law, phase out of the gas import tax, phase out of the gross receipts tax on gas and electricity for business consumers, and overall reductions in remaining gross receipts taxes. The legislation also provided for an expansion of the Power for Jobs program which allows credits against the gross receipts taxes paid by utilities furnishing low-cost power. In 2002, legislation was enacted increasing the mandatory first installment of estimated business tax payments from 25 percent to 30 percent. In 2003, legislation was enacted that dedicated the remaining 20 percent of section 183 and section 184 revenues to the Dedicated Highway and Bridge Trust Fund. In 2004 and 2005, legislation was enacted that extended and modified the Power for Jobs Program under Article 9.

Insurance taxes are imposed on insurance corporations, brokers and certain insurers at a basic rate of 7.5 percent (as of July 1, 2002) of entire net income allocable to New York, based on the level of activity of an insurance company in the State during the taxable year. In addition, there is a franchise tax on net premiums written or received by insurance corporations on risks resident or located within the State, at rates between 0.8 percent and 1.3 percent, depending on policy type, as well as certain taxes imposed under the Insurance Law. Legislation enacted in 1997 provided that on or after January 1, 1998 the overall limit on the combined taxes of 2.6

percent of premiums for life insurance companies is reduced to 2.0 percent and the gross premiums tax on such components is decreased from 0.8 percent to 0.7 percent. Also, the legislation provides preferential premium tax rates to captive insurance companies that insure the primary risks of their parent and affiliated companies. In addition, provisions enacted in 1999 reduced the limitation on tax liability for non-life insurers over a three-year period. Legislation enacted in 2000 extended the investment tax credit for equipment used in the trading of securities by insurance companies and expanded the existing certified capital company program. In 2002, legislation was enacted increasing the mandatory first installment payment from 25 percent to 30 percent. Legislation enacted in 2003 amended the insurance tax to place property and casualty insurance companies solely on a premiums tax base and imposed a minimum tax for life insurance companies. In 2004, legislation was enacted that established a fourth certified capital company program. In 2005, legislation was enacted that established a fifth certified capital company program.

The State imposes a *franchise tax on banking corporations* at a basic tax rate of 7.5 percent (as of July 1, 2002) of entire net income with certain exclusions, and subject to special rates for institutions with low net worth. The 7.5 percent rate represents a reduction from the rate of 12 percent that was in effect until 1985, when the bank tax was restructured. The 1985 changes were extended through taxable years beginning before January 1, 2001. This was extended in 2001 for two more years. Legislation enacted in 1997 allowed banks a net operating loss deduction which can be carried forward against the bank franchise tax. This applied to net operating losses sustained on or after January 1, 2001. The legislation also allowed banks to form subchapter S-corporations which will exempt them from taxation under the bank tax and allow the same tax treatment as other subchapter S-subsidiaries. Legislation enacted in 1998 authorized an investment tax credit for the purchase of tangible personal property used in a bank's normal course of business as a broker or dealer in connection with the purchase or sale of stocks or bonds. In 2002, legislation was enacted increasing the mandatory first installment payment from 25 percent to 30 percent. In 2003, legislation was enacted extending the bank tax provisions concerning the taxation of commercial banks for two years, until December 31, 2004. In 2004, legislation was enacted that extended the bank tax and the Federal Gramm-Leach-Bliley Act transition provisions until 2006.

The State imposes a *petroleum business tax* on the privilege of operating a petroleum business in the State. This tax is measured by the quantity of various petroleum products imported into the State for sale or use. The tax is imposed at various cents-per-gallon rates depending on the type of petroleum product. The cents-per-gallon tax rates are indexed to reflect petroleum price changes but are limited to changes of no more than 5 percent of the tax rate in any one year. Legislation enacted in 1996, which was fully phased in on April 1, 1999, provided for reductions in the petroleum business taxes on residual petroleum, non-automotive diesel and diesel fuel used by motor vehicles and railroads, utilities, and commercial enterprises, and the elimination of the petroleum business taxes imposed on fuel used in manufacturing. In addition, the legislation also provided reimbursements of the tax paid for aviation gasoline when the fuel is consumed outside New York. Legislation enacted in 1999 cut the tax rate on fuel used for commercial heating, eliminated the tax on fuel used for mining and adjusted the proportions of the tax going to dedicated funds to save-harmless the revenue flowing to those funds.

Other tax revenues include taxes on pari-mutuel wagering, the estate tax, taxes on real estate transfers, certain other minor taxes, and residual receipts following the repeal of the real property gains tax and the gift tax.

The State imposes *estate taxes* on the estates of deceased New York residents, and on that part of a nonresident's net estate made up of real and tangible personal property located within New York State. Estate tax liability is computed on the basis of the Federal definition of "gross estate" and is set equal to the Federal credit for Federal estate tax liability allowable for State estate taxes paid. Reflecting the composition of many decedents' estates in New York, collections of this tax are heavily influenced by fluctuations in the value of common stock. New York has not conformed to the most recent changes in Federal law and thus the base of the tax is, in general, unaffected by such changes.

The *real estate transfer tax* applies to each real property conveyance, subject to certain exceptions, at a rate of $2 for each $500 of consideration or fraction thereof. Pursuant to statute, $112 million of real estate transfer tax receipts are deposited in the EPF and the remaining receipts are deposited in the CW/CA Debt Service Fund. Receipts in excess of the debt service requirements are transferred back to the General Fund.

The *real property gains tax* had been levied at the rate of 10 percent on gains derived from certain real property transactions where the consideration is $1 million or more. Legislation adopted in 1996 repealed the real property gains tax on transfers occurring on or after June 15, 1996; however, some receipts continue to flow to the General Fund based on transactions occurring prior to such date.

The State levies *pari-mutuel taxes* on wagering activity conducted at horse racetracks, simulcast theaters and off-track betting parlors throughout the State. In previous years the State temporarily reduced its tax rates and expanded simulcast opportunities and increased purses. Legislation enacted in 1999 and 2000 reduced taxes on races run at non-profit racing association tracks and dedicates the reduction to increasing purses at those tracks and to operate the Breeders Cup races. Legislation enacted in 2003 provided for unlimited simulcasting, imposed a regulatory fee of 0.39 percent, allows racetracks to set the takeout rate, and eliminated minimum balances on telephone betting accounts. Legislation enacted in 2005 revises the fee to 0.5 percent. These actions are expected to increase revenue to the General Fund and to fund the expenses of regulating the industry. In addition to pari-mutuel taxes, a 4 percent tax is levied on the charge for admissions to racetracks and simulcast theaters, and a 3 percent tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights.

Miscellaneous receipts and other revenues include various fees, fines, tuition, license revenues, lottery revenues, investment income, assessments on various businesses (including healthcare providers), and abandoned property. Miscellaneous receipts also include minor amounts received from the Federal government and deposited directly in the General Fund. Legislation enacted in 1997 provided for a phase-out of most of the assessments on health care providers by April 1, 2001. Legislation enacted in 1998 and 1999 accelerated the phase-out of the health care provider assessments; they were eliminated in January 2000. Legislation enacted in 2001, authorized the Division of the Lottery to license up to eight racetracks to operate VLTs. The first license began operations in January of 2003 and currently there are four racetracks operating VLTs. Legislation enacted in 2002 re-imposed assessments on nursing home care providers and imposed a surcharge on State wireless communication services and increased bond issuance charges. Legislation enacted in 2003 reduced the time period for collecting abandoned property related to the demutualization or similar reorganization of an insurance company from five years to two years. In 2004, $4.2 billion in proceeds from the sale of the State's tobacco payments under the national Master Settlement Agreement was collected. Legislation enacted in 2005 increased the photo image fee and authorized New York Power Authority pilot payments.