

Update to Annual Information Statement (AIS)

State of New York

November 2, 2005

This quarterly update to the AIS of the State of New York is dated November 2, 2005 (the "AIS Update"), and contains information only through that date. It is the second quarterly update to the AIS of the State of New York, dated May 4, 2005. The first update to the AIS was issued on August 8, 2005. This AIS Update should be read in its entirety, together with the AIS issued in May.

In this AIS Update, readers will find:

1. Extracts from the Mid-Year Update to the 2005-06 Financial Plan (the "Updated Financial Plan"), which the Division of the Budget ("DOB") issued on October 30, 2005. The Updated Financial Plan includes (a) revised Financial Plan projections for fiscal years 2005-06, 2006-07, and 2007-08, (b) operating results for the first half of fiscal year 2005-06, (c) an updated economic forecast, (d) the Generally Accepted Accounting Principles (GAAP)-basis Financial Plan projections for 2005-06, and (e) a summary on debt and capital management. The Mid-Year Update is available on the DOB website, www.budget.state.ny.us.
2. A discussion of special considerations related to the State Financial Plan for fiscal year 2005-06.
3. A summary of GAAP-basis results for the 2004-05 fiscal year as reprinted from the August 8, 2005 Update to the AIS for reader convenience (the full statements are available on the State Comptroller's website, www.osc.state.ny.us).
4. Updated information regarding the State Retirement Systems.
5. 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 Update on behalf of the State. In preparing the AIS Update, DOB relies on information drawn from other sources, such as the Office of the State Comptroller ("OSC"). 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 the AIS. Investors and other market participants should, however, refer to the AIS, as revised, updated, or supplemented, for the most current official information regarding the financial condition of the State.

The State plans to issue updates to the AIS on a quarterly basis and may issue AIS supplements or other disclosure notices as events warrant. The State intends to announce publicly whenever an AIS update or a supplement is issued. The State may choose to incorporate by reference all or a portion of this AIS Update in Official Statements or related disclosure documents for State or State-supported debt issuance. Readers may obtain informational copies of the AIS, AIS updates and AIS supplements by contacting Mr. Louis A.

Annual Information Statement Update, November 2, 2005

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 Update with the Central Post Office, Disclosure USA, The internet-based disclosure filing system established by the Municipal Advisory Council of Texas (Texas MAC), and 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 Update may be obtained from the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705 or from any NRMSIR.

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Update to the 2005-06 Financial Plan ---

The Updated 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 and potential litigation. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained therein.

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

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

Fund types of the State include: the General Fund; State Special Revenue Funds (SRFs), which receive certain dedicated taxes, fees and other revenues that are used for a specified purpose; Federal SRFs, which receive Federal grants; State and Federal Capital Projects Funds, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and Debt Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

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INTRODUCTION

DOB has revised the 2005-06 Financial Plan based on (a) actual operating results through the first six months of the 2005-06 fiscal year, (b) an updated economic forecast, and (c) a review of program trends. Except where noted, the Financial Plan information herein is presented on a cash basis of accounting, in accordance with the State Constitution and State Finance Law.

In this AIS Update readers will find:

- An explanation of the revisions to the 2005-06 Financial Plan and updated gap projections for 2006-07 and 2007-08;
- A revised economic forecast for the nation and State;
- A discussion of Financial Plan reserves and risks;
- A review of revenue and spending results through the first half of 2005-06;
- Revised GAAP projections;
- Updated 2005-06 receipts and disbursements estimates for programs budgeted as part of the Health Care Reform Act (HCRA); and,
- Updated information on the State's debt measures.

Financial Plan tables appear at the end of this Updated Financial Plan that summarize (a) the General Fund, State Funds, and All Governmental Funds ("All Funds") Cash-basis Financial Plans, (b) the monthly General Fund cash flow projections, (c) GAAP Financial Plans, (d) the HCRA cash flow projections, (e) and General Fund spending by agency and major program.

The current Financial Plan 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, and State reimbursement obligations that are driven by local government activity. Key factors include: business tax collections; calendar year economic results; year-end financial sector bonus income; periodic school aid database updates that affect the distribution of certain aid; and Medicaid and welfare trends. Historically, many of these factors have been subject to a high degree of fluctuation across the forecast period, and could produce results that differ from the current projections.

The First Quarterly Update to the 2005-06 Financial Plan estimates cited in the Updated Financial Plan were originally published in the "2005-06 First Quarterly Update Report," issued by DOB on August 1, 2005.

The Updated Financial Plan, the First Quarterly Update to the Financial Plan, and the Enacted Budget Report are all available on-line at www.budget.state.ny.us or by contacting the Division of the Budget, State Capitol, Albany, NY 12224, 518-473-8705.

EXECUTIVE SUMMARY

The updated General Fund Financial Plan for 2005-06 projects balanced operations in the current fiscal year and outyear budget gaps of \$2.5 billion in 2006-07 and \$4.4 billion in 2007-08. DOB has revised its revenue forecast upward for each of the three years of the Financial Plan, based on experience to date and a revised economic forecast. Increases in projected General Fund spending across the Plan period partially offset the revenue gains. The revenue and spending revisions are described in detail later in the Updated Financial Plan.

DOB's employment, wage, and total personal income growth projections for 2005 and 2006 continue to reflect the belief that the State economy is on a solid expansionary path. DOB's New York State Index of Coincident Economic Indicators shows that the State economy has been in recovery for two years, adding about 80,000 private sector jobs since September 2004. The outlook for the State labor market is slightly weaker than projected in the First Quarterly Update to the 2005-06 Financial Plan "First Quarterly Update", but represents a significant improvement from the 0.6 percent increase observed in 2004. Wage income is now projected to rise 4.6 percent in 2005, followed by growth of 5.2 percent for 2006, slightly below the First Quarterly Update. However, the changes are largely due to revisions to the underlying data. For example, both the wage and non-wage components of New York personal income were revised up significantly for 2004.

As a result of the mid-year economic, revenue, and spending revisions, DOB now projects the State will have \$1 billion available in its fiscal stability reserve at the end of 2005-06, an increase of \$359 million from the level projected in the First Quarterly Update. The Financial Plan assumes the reserve will be used in equal installments to help reduce the budget gaps in 2006-07 and 2007-08.

The table below summarizes the mid-year revisions to the State's General Fund Financial Plan and the impact on net operating projections.

Net General Fund Operating Projections (Surplus/Gap)			
Savings/(Costs)			
(millions of dollars)			
	2005-06	2006-07	2007-08
First Quarterly Update	0	(2,904)	(3,924)
Tax Forecast	752	750	750
Medicare Part D	(72)	(392)	(496)
Medicaid: Timing of HCRA Costs	(250)	250	0
Other Medicaid Costs	(117)	(161)	(150)
Energy Costs	(86)	(121)	(123)
Public Assistance	118	88	112
Additional Support for HCRA	0	0	(391)
All Other Revisions	14	(236)	(365)
(Increase)/Use of Reserves in Outyears	(359)	180	179
Mid-Year Quarterly Update	0	(2,546)	(4,408)

The expected merger of WellChoice, Inc. and WellPoint, Inc. would eliminate the most significant known risk to the State's 2005-06 Financial Plan¹. In the current year, the State had been planning on an additional \$1.1 billion in revenues for HCRA through stock sales related to the conversion of WellChoice into a for profit entity. The merger, if completed as planned, is expected to generate approximately \$2 billion in cash in the current year for HCRA, as well as additional resources in future years. A fuller discussion appears later in this Updated Financial Plan.

DOB now projects General Fund receipts, including transfers from other funds, of \$47.1 billion and General Fund disbursements, including transfers to other funds, of \$46.9 billion. The General Fund is projected to end the current fiscal year with a balance of \$2.8 billion. The balance includes \$1 billion in the fiscal stability reserve which is planned to be used in equal installments to lower the outyear gaps, \$872 million in the Tax Stabilization Reserve Fund (the "rainy day reserve"), \$552 million in the Personal Income Tax (PIT) Reserve Fund set aside to pay refunds on calendar year 2005 tax liabilities, \$286 million in the Community Projects Fund that finances existing legislative and gubernatorial initiatives, and \$21 million in the Contingency Reserve Fund for litigation.

The most significant revisions to the three-year General Fund forecast include an increase in projected revenues driven by continued favorable economic conditions, partially offset by higher spending for energy in the wake of the gulf coast hurricanes, Medicaid due mainly to implementation of the Federal Medicare Part D Prescription Drug Benefit Program, and an additional General Fund subsidy to HCRA in 2007-08. Significant revisions to the General Fund Financial Plan are explained in more detail below.

Revenue Forecast: Continued positive economic results through September 2005 generated a significant upward revision to the revenue forecast. The PIT and corporate franchise tax have been increased to reflect positive results to date.

Medicare Part D: The new Medicare prescription drug program is available to all Medicare beneficiaries beginning January 1, 2006. The Federal government now requires the states to finance a portion of this program. Each state's payment will correspond closely to the spending it would have made on prescription drugs through Medicaid for those recipients who are eligible for both Medicaid and Medicare ("dually eligible"). For New York, the Medicare Part D program is particularly complicated because certain drugs now available to dually eligible individuals through Medicaid will not be covered under Part D, and must be fully financed by the State under Medicaid. The State estimates that Part D implementation could cost \$72 million in the current year growing to roughly \$400 million in 2006-07 and \$500 million in 2007-08.

Medicaid/Timing of HCRA Costs: In 2005-06, the General Fund will finance certain health-care costs that were originally expected to be a part of the 2005-06 HCRA program. HCRA will finance these costs in 2006-07. This timing change will temporarily improve HCRA's cash flow position until the WellChoice merger is completed, and has no net impact on either HCRA or the General Fund over the two-year period.

Other Medicaid Costs: Costs for other Medicaid activities have also been revised upward. Payments to counties for the reimbursement of costs for providing services to the mentally disabled have been increased by \$61 million in 2005-06, reflecting the reconciliation of prior years claims. Federal reimbursement for spending under the State's School Supported Health Services programs continues to be partially deferred as part of ongoing audits (resulting in higher costs of \$61 million in 2006-07 and \$50 million in 2007-08). Finally, increased utilization, medical price increases, and refinements to the Enacted Budget forecast account

¹ See also the sections entitled "Financial Plan Reserves and Risks" and "2005-06 HCRA Receipts" later in this AIS Update.

for the remaining upward revisions (\$50 million in 2005-06 growing to \$100 million in both 2006-07 and 2007-08).

Energy Costs: As a result of Hurricanes Katrina and Rita and the related surge in energy prices, the State is expecting to pay more to supply heat and electricity to its buildings, including the Department of Corrections and Mental Hygiene facilities and the State University of New York (SUNY) campus, and to fuel its fleet of cars, including State Police and Transportation vehicles. The Governor has proposed a legislative package to promote greater energy efficiency and to mitigate the impact of higher energy costs. Similarly, the Legislature is evaluating a range of policy options to mitigate the impact of higher energy prices on businesses and households. The potential fiscal impact of these proposals is not reflected in the current Financial Plan.

Public Assistance: Both the Family Assistance and Safety Net programs are experiencing a sharper reduction in caseloads than previously projected.

Additional Support for HCRA: Under current law, if HCRA experiences an operating imbalance, the General Fund is required to provide a subsidy up to the amount that otherwise would have been received by HCRA through the national Master Settlement Agreement (roughly \$425 million annually). At the time of the First Quarterly Update, the Financial Plan projected a \$152 million subsidy to HCRA in 2006-07 through the Tobacco Guarantee Fund. The updated Financial Plan now includes a potential subsidy in 2007-08, as well, based on current operating assumptions and the expected continuation of the statute authorizing the Tobacco Guarantee.

Other Revisions: The main revisions include higher projected spending in several areas, including preschool and summer school special education programs (\$60 million in 2006-07 and \$70 million in 2007-08); debt service, due to faster than anticipated SUNY and economic development capital spending (\$31 million in 2006-07 and \$19 million in 2007-08); school aid, reflecting the latest school aid database update (\$42 million in 2006-07 and 2007-08); certain State operating costs (roughly \$65 million in both 2006-07 and 2007-08); and the Judiciary based on a reestimate of contractual costs and inflation (\$73 million in 2007-08).

Through the first six months of the 2005-06 fiscal year, General Fund revenues, including transfers from other funds, exceeded planned levels by \$711 million. General Fund spending, including transfers from other funds, were \$81 million higher than projected. The operating results are described in detail later in this report, and have been reflected in the Financial Plan forecast.

2005-06 DISBURSEMENT REVISIONS

DOB projects General Fund disbursements, including transfers to other funds, will total \$46.9 billion in 2005-06, an increase of \$447 million over the First Quarterly Update. State Funds disbursements, which include spending financed from other state revenue sources as well as the General Fund, are projected to total \$70.5 million in 2005-06, an increase of \$16 million from the First Quarterly Update. All Funds spending, which includes Federal grants and is the broadest measure of the State budget, is projected to total \$106.7 billion in 2005-06, an increase of \$24 million from the First Quarterly Update. The table following summarizes revisions to the 2005-06 All Funds spending plan.

Summary of 2005-06 Disbursement Revisions Higher Spending/(Lower Spending) (millions of dollars)			
	General Fund	State Funds	All Funds
2004-05 Actual Results	43,619	63,971	100,668
2005-06 Enacted Budget	46,207	70,273	106,503
First Quarter Spending Revisions	242	179	148
2005-06 First Quarterly Update	46,449	70,452	106,651
Energy Costs	86	103	103
State University of New York	1	134	131
Welfare	(118)	(118)	71
Hurricane Relief	35	35	35
Medicaid	439	(73)	(178)
All Other Changes	4	(65)	(138)
Net Costs/(Savings)	447	16	24
2005-06 Mid-Year Quarterly Update	46,896	70,468	106,675

Energy Costs: As a result of the surge in energy prices following the gulf coast hurricanes, the State is expecting to pay more for heating, electricity, and gasoline. Energy costs for State agencies have been increased by \$86 million in the General Fund and \$103 million in All Funds in 2005-06. The State agencies with the largest expected increases in All Funds energy costs include the Department of Corrections and SUNY (\$21 million each), the Department of Transportation (\$16 million), the Mental Hygiene agencies and the Office of General Services (\$12 million each), the City University of New York (\$8 million), and State Police (\$6 million).

SUNY: Projected All Funds spending has been increased over the First Quarterly Update estimate primarily based upon year-to-date operating results, and faster than expected spending in capital projects.

Welfare: On an All Funds basis, Welfare spending is projected to increase by \$71 million over the First Quarterly Update. Higher than anticipated Federal spending on child care, education, health and preventive services (\$188 million) through the Temporary Assistance for Needy Families program is offset by General Fund savings resulting from a greater reduction in estimated caseload expenditures than previously projected (\$118 million).

Hurricane Relief: State and local disaster assistance to Louisiana, Mississippi, Texas, and Alabama in the wake of Hurricane Katrina totaled \$35 million. The full cost, which is reflected in the Division of Military and Naval Affairs budget, is expected to be reimbursed through the Emergency Management Assistance Compact process in 2007-08.

Medicaid: The forecast for All Funds Medicaid spending has been lowered by \$178 million from the First Quarterly Update. As described earlier, projected General Fund spending has been increased for Medicare Part D and other costs. Spending from State Special Revenue Funds declines due mainly to a technical adjustment to HCRA receipts and payments. Lower Federal funding is primarily driven by the implementation of Medicare Part D (\$155 million).

All Other: The 2005-06 General Fund Financial Plan includes State Operations savings of \$108 million, an increase of \$33 million from the Enacted Budget estimates. These savings include continuation of the hiring freeze, strict spending controls on non-personal service spending, implementation of administrative efficiencies, and centralized purchasing of certain commodities and services, such as information technology equipment and services. In addition, consistent with overall capital spending assumptions on the First Quarterly Update, actual results reflect a slower pace of capital spending for transportation and economic development projects.

2005-06 RECEIPT REVISIONS

General Fund receipts, including transfers from other funds, are now projected to total \$47.1 billion in 2005-06, an increase of \$777 million from the First Quarterly Update. The positive revisions are due to better than anticipated results in PIT and corporate franchise tax.

All Funds tax receipts are projected to total nearly \$53 billion in the current year, an increase of \$804 million from the First Quarterly Update. The revision reflects the better than expected results for PIT and corporate franchise tax.

DOB believes the revisions to the receipts forecast are conservative given positive results to date and, as a result, the potential exists for future positive changes to the revenue forecast. However, much of the increase in collections through September 2005 was concentrated in taxes that historically have been highly volatile, especially the real estate transfer tax, estate tax, and the corporate franchise tax. Should the upward trend in these taxes continue to be positive, DOB expects to revise the receipts forecast upward with the 2006-07 Executive Budget presentation.

Summary of 2005-06 Receipt Revisions			
Increase/(Decrease)			
(millions of dollars)			
	General Fund	State Funds	All Funds
2004-05 Actual Results	43,760	64,215	100,576
2005-06 Enacted Budget	46,023	69,304	105,732
First Quarter Receipt Revisions	321	2	(18)
2005-06 First Quarterly Update	46,344	69,306	105,714
Tax Revisions	752	750	750
HCRA Receipts	0	846	846
All Other Changes	25	(37)	29
Subtotal	777	1,559	1,625
2005-06 Mid-Year Quarterly Update	47,121	70,865	107,339

PIT/Revenue Bond Tax Fund

Personal Income Tax Components			
2005-06			
(millions of dollars)			
	First Quarterly Update	Mid-Year Update	Change
Withholding	24,419	24,419	0
Estimated Payments	9,022	9,357	335
Final Returns	1,748	1,808	60
Delinquencies	705	740	35
Gross Collections	35,894	36,324	430
State/City Offset	(400)	(400)	0
Refunds	(4,761)	(4,701)	60
Net Tax Collections	30,733	31,223	490
STAR ⁽¹⁾	(3,222)	(3,222)	0
RBTF ⁽²⁾	(6,878)	(7,001)	(123)
General Fund	20,633	21,000	367
<p>⁽¹⁾ Beginning in 1998-99, a portion of personal income tax collections are deposited directly into the School Tax Reduction (STAR) Fund and used to make payments to reimburse local governments for their revenue decreases due to the STAR program.</p> <p>⁽²⁾ Beginning in 2002-03, 25 percent of personal income tax collections after the STAR transfer are deposited directly in the Revenue Bond Tax Fund (RBTF) and used for debt service payments.</p>			

Compared to the First Quarterly Update, All Funds PIT receipts are projected to increase by \$490 million, or 1.6 percent. The increase is primarily attributable to stronger-than-anticipated growth in current estimated payments (\$335 million).

Stronger growth is also expected for final returns (\$60 million) on 2004 liability and delinquencies (\$35 million). In addition, it is expected that State payments for refunds will be \$60 million lower than projected. Compared to 2004-05, All Funds PIT receipts are projected to increase by about \$3.1 billion, or 11.1 percent, principally reflecting growth in current and prior year estimated taxes of \$2.3 billion (32.5 percent), and increased withholding of \$1 billion (4.5 percent)

As a result of the increase in net collections, transfers to the Revenue Bond Tax Fund are projected to increase by \$123 million compared to the First Quarterly Update.

Business Taxes

Compared to the First Quarterly Update, General Fund corporate franchise taxes are expected to increase by \$260 million. Actual General Fund receipts through September are approximately \$515 million or 64 percent higher than collections in the first six months of 2004-05 and exceed First Quarterly Update projections by about \$250 million. Although approximately \$150 million of the variance between 2005-06 actual and projected receipts reflects stronger than expected growth in audit and compliance receipts, it is

unclear whether the balance is attributable to underlying growth in liability or volatility in quarterly estimated payments. To the extent that the higher trends in corporate tax receipts are the result of actual and continued growth in liability for the remaining year, corporate tax receipts for 2005-06 could exceed the Mid-Year Update projections by a substantial amount.

Estimated 2005-06 General Fund tax receipts for the bank, corporation and utilities, and insurance taxes remain unchanged from the First Quarterly Update. Estimated receipts for the bank and corporation and utilities taxes reflect actual collections through September. Higher than expected receipts from the premiums tax imposed on excess lines brokers under the Insurance Law is expected to compensate for the \$29 million shortfall in receipts through September.

User Taxes and Fees

The General Fund and All Funds receipts estimates for consumption and use taxes category are \$8.5 billion and \$13.7 billion respectively and are unchanged from the First Quarterly Update. The economic backdrop has changed little and the year to date cash flow supports the current forecast.

Other Taxes

The General Fund estimate for the other taxes category is \$779 million which is essentially unchanged from the First Quarterly Update. The estate tax, which makes up over 96 percent of this category, has experienced significant growth in the first half of the fiscal year but due to the significant volatility of this tax source more experience is needed before making upward revisions. We expect the remainder of the year to return to more normal receipt levels.

The All Funds estimate for the other taxes category is \$1.5 billion which is unchanged from the First Quarterly Update. The real estate transfer tax has shown exceptional growth during the first half of the fiscal year but in the face of the increasing speculation concerning a “real estate bubble”, rising interest rates and the volatility of the tax the estimates remain unchanged.

Miscellaneous Receipts

General Fund miscellaneous receipts estimates have been increased by \$15 million in 2005-06 compared to the First Quarterly Update estimate. The revision is attributable to an increase in the receipts estimates for licenses and fees based on collections experience to date.

ECONOMIC OUTLOOK

National Economy

Since the release of the First Quarterly Update, the U.S. economy has been hit by two major hurricanes, Katrina in late August and Rita in late September. In addition to the storms’ extraordinary human cost, significant damage occurred to the nation’s energy production and refining capacity. With global demand for energy at peak levels, the hurricanes not only disrupted current supply lines but also generated substantial uncertainty about future market conditions, resulting in higher energy prices. Since then, crude oil prices have receded beneath pre-hurricane levels, but gasoline and natural gas prices have not. In addition, higher energy prices have begun to filter through the rest of the economy. Consequently, DOB has increased its forecast for inflation since the First Quarterly Update. Inflation, as measured by growth in the Consumer Price Index is now projected at 3.4 percent for 2005, followed by price growth of 3.2 percent for 2006. With higher energy prices effectively behaving as a “tax” on household spending, DOB now expects slightly slower growth during the second half of the year than in the First Quarterly Update forecast. The national

economy, as measured by real U.S. Gross Domestic Product, is now expected to grow 3.5 percent in 2005, followed by growth of 3.3 percent for 2006.

The Federal Reserve continued to increase its Federal Funds rate target in September, from 3.50 percent to 3.75 percent, the eleventh consecutive increase since June of 2004. The Federal Reserve is expected to continue to raise rates at a "measured pace" through the first half of 2006 at a slightly accelerated pace than was assumed previously. Higher oil prices and rising interest rates are expected to contribute to lower real consumption growth of 3.1 percent for 2006, following estimated growth of 3.6 percent for 2005. The extensive destruction of both household and business assets by the hurricanes is expected to have taken a significant toll on personal income for the third quarter of 2005. That impact, combined with downward revisions to first and second quarter data, has led DOB to revise personal income growth down for 2005. Personal income is now expected to grow 5.7 percent for 2005, followed by 6.0 percent for 2006.

Major Economic Indicators			
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Gross Domestic Product (real)	4.2	3.5	3.3
Personal Income	5.9	5.7	6.0
Nonfarm Employment	1.1	1.7	1.6
Consumer Price Index	2.7	3.4	3.2

Note: Numbers above are percent change/calendar year. Budget Division estimates are based on National Income and Product Account data through September 2005.

Source: U.S. Bureau of Economic Analysis, DOB staff estimates.

In the current environment of accelerating inflation and rising interest rates, there is substantial risk surrounding DOB's forecast. If oil prices remain well above \$60 per barrel throughout 2006², both inflation and interest rates could be higher and real output growth lower than expected. Persistent geopolitical uncertainty and slower global growth could combine with higher energy prices to produce slower growth in profits, employment, and investment than expected. In turn, continued weakness in the labor market could further depress consumption spending. In contrast, if oil prices decline faster than expected, real consumption and output could be stronger, while inflation could be weaker than predicted.

New York State Economy

DOB's New York State Index of Coincident Economic Indicators shows that the State economy has been in recovery for two years. The State economy has added about 80,000 private sector jobs since September of last year. DOB's outlook for the State labor market is slightly weaker than projected in the First Quarterly Update, but represents a significant improvement from the 0.6 percent increase observed in 2004. Total State employment is projected to rise 1.1 percent in 2005, followed by growth of 0.9 percent in 2006. Wage income is now projected to rise 4.6 percent in 2005, followed by growth of 5.2 percent for 2006, slightly below the First Quarterly Update forecast. However, these changes are largely due to revisions to the underlying data. For example, both the wage and non-wage components of New York personal income were revised up significantly for 2004. Employment, wage, and total personal income growth projected for 2005 and 2006 continue to reflect the belief that the State economy is on a solid expansionary path.

² As of the date of this AIS Update, the price per barrel for oil had fallen below \$60.

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. An accelerated pace of interest rate hikes, as well as lower corporate earnings could adversely affect equity markets, possibly resulting in lower bonus payment growth than projected, with the impact largely felt during the first quarter of 2006. A larger increase in mortgage rates than expected could also have a negative impact on the State's housing market. In contrast, a stronger national economy than anticipated could result in greater equity market growth and, in turn, stronger finance sector income growth than expected.

Major Economic Indicators			
	2004	2005	2006
Personal Income	7.0	4.9	5.5
Nonagricultural Employment	0.6	1.0	0.8
Unemployment Rate	5.8	4.9	5.0

*Note: Numbers above are percent change/calendar year. DOB estimates are based on National Income and Product Account data through September 2005.
Source: U.S. Bureau of Economic Analysis, DOB staff estimates.*

GENERAL FUND OUTYEAR PROJECTIONS

As noted in the Enacted Budget Report and First Quarterly Update, the projected outyear budget gaps are primarily the result of anticipated spending increases that exceed the growth in revenues, and the loss of non-recurring resources used to help balance the budget in 2005-06. The Governor is required to submit a balanced 2006-07 budget with the Executive Budget submission in mid-January 2006. The table below provides a "zero-based" look at the 2006-07 gap³.

General Fund Outyear Projections (billions of dollars)		
	2006-07	2007-08
Receipts (includes Fund Balances)	48.8	50.7
Disbursements (excludes takeover of MA/FHP)	(50.6)	(53.8)
Use of Fiscal Stability Reserve	0.5	0.5
Preliminary Surplus/(Gaps)	(1.3)	(2.6)
Takeover of MA/FHP	(1.2)	(1.8)
Projected Gaps	(2.5)	(4.4)

General Fund receipts in 2006-07 are projected to increase by \$1.8 billion from the current year. Underlying revenue growth of \$3.2 billion (6.2 percent) in 2006-07 is offset by the loss of several one-time revenues (roughly \$500 million), the phase-out of PIT surcharge and a one-quarter percent increase in sales tax (\$1 billion) and higher debt service costs which reduce the amount of transfers from the Revenue Bond Tax Fund to the General Fund (\$185 million).

³ "MA/FHP refers to State takeover of local costs associated with Medicaid (MA) and Family Health Plus (FHP).

General Fund disbursements in 2006-07 increase due to a number of factors. Medicaid growth of \$1.8 billion is primarily attributable to the increasing cost of providing health care services and rising utilization of medical services and costs associated with Medicare Part D. In addition, State Medicaid costs increase due to significant growth in the state takeover of local government Medicaid costs (from \$410 million in 2005-06 to \$1.2 billion in 2006-07) which includes the cap on local Medicaid costs (+\$510 million to a total of \$631 million) and the complete State takeover of local government Family Health Plus costs (+\$239 million to a total of \$528 million). In addition, spending growth occurs in state operations (\$787 million), driven primarily by projected spending increases in Correctional Services, the Judiciary, the Mental Hygiene agencies and the State University; school aid (\$658 million), resulting from increases to spending in expense-based programs and selected aid categories; and fringe benefits, primarily due to rising pension (\$227 million) and health insurance costs (\$247 million).

FINANCIAL PLAN RESERVES AND RISKS

Reserves

The State projects balances in its general reserves to guard against unbudgeted risks will total \$893 million, including \$872 million in the rainy day reserve (the “tax stabilization reserve”) and \$21 million in the Contingency Reserve Fund for litigation risks. In addition, another \$1.0 billion is set aside in a fiscal stability reserve which is currently planned for use in equal installments in 2006-07 and 2007-08 to help lower the projected budget gaps in those years. Finally, the State has \$839 million in restricted fund balances that are set aside for the payment of 2005 tax refunds (\$552 million) and existing liabilities for the Community Projects Fund (\$287 million).

Risks

The following provides an update to some of the risks the State is continuing to monitor. The risks presented herein are not comprehensive, reflecting only those items that have had substantial changes since the First Quarterly Update. Accordingly, readers should refer to State's AIS dated May 4, 2005 and the sections entitled “Special Considerations” and “Litigation” in this AIS Update for a more complete review of present risks, including the status of school finance litigation, Native American land claims, and other actions affecting the State.

Merger of WellChoice and WellPoint

On September 27, 2005, WellPoint and WellChoice⁴ announced that the two companies had agreed to merge. Under the merger, WellPoint will provide WellChoice stockholders a blend of cash and stock. As a result of this transaction, the New York Public Asset Fund, which owns about 52 million shares of WellChoice stock and is the State's agent in the transaction, is expected to receive approximately \$2 billion in cash in 2005-06, plus about 27 million shares of WellPoint common stock.

If the transaction closes during the first quarter of calendar 2006, HCRA would receive \$2 billion in cash in 2005-06, or approximately \$850 million more than originally planned.

Proposed Constitutional Amendment to Alter the Executive Budget Process

The State Legislature has approved a concurrent resolution to amend the State's budget process that will be submitted to voters on November 8, 2005. If approved, the amendment to the State Constitution and its companion statute, would take effect on January 1, 2006.

⁴ Commonly known as “Empire” or “Empire Blue Cross.”

DOB believes the amendment and the companion statutory changes, if enacted, could present a number of substantive and technical problems that have the potential to disrupt State finances. For example, moving the start of the State's fiscal year from April 1 to May 1 results in the State ending the fiscal year on a volatile revenue month, increasing the risk of year-end shortfalls. In addition, starting the fiscal year on May 1 may potentially require the State to issue short-term notes ("seasonal borrowing") to support General Fund cash disbursements in the first quarter of the fiscal year, since May disbursements typically exceed May receipts by \$2 billion to \$3 billion, while the statutory cash flow reserve established to deal with this concern will total only \$150 million in the first year. The State eliminated the practice of seasonal borrowing in the early 1990s through the Local Government Assistance Corporation and is limited by existing law and bond covenants from returning to similar borrowing in the future.

OPERATING RESULTS THROUGH SEPTEMBER 2005

DOB has summarized actual cash results for the period from April 1, 2005 through September 30, 2005 against (i) the estimates in the 2005-06 First Quarterly Update, (ii) the 2005-06 Enacted Budget, and (iii) actual results for the same six-month period in 2004.

General Fund (April 1, 2005 through September 30, 2005)					
Actual Results vs. Projections					
(millions of dollars)					
	Enacted Budget*	First Quarter	Actual Results	Favorable/(Unfavorable) Variance vs. Actuals	
				Enacted	First Quarter
Total Receipts	23,905	23,701	24,412	507	711
Total Disbursements	21,869	21,954	22,035	(166)	(81)
Closing Fund Balance	4,582	4,293	4,923	341	630

*The Enacted Budget receipts have been adjusted to reflect the inclusion of the Personal Income Tax Refund Reserve in the General Fund.

Variance vs. First Quarterly Update

Through September 2005, General Fund receipts, including transfers from other funds, totaled \$24.4 billion, which was \$711 million above the First Quarterly Update. This variance is attributable to greater than expected PIT payments on 2005 liabilities through the first six months of the fiscal year (\$220 million), and by higher than expected receipts from business and real estate transfer taxes (\$224 million and \$108 million, respectively).

General Fund disbursements, including transfers to other funds, totaled \$22.0 billion through September 2005, approximately \$81 million higher than the First Quarterly Update. The largest variance occurred in State Operations (\$60 million) and reflects retroactive salary payments made to State Troopers earlier than projected.

The General Fund ended the first six months of fiscal year 2005-06 with a balance of \$4.9 billion, \$630 million above the estimate in the First Quarterly Update. A combination of \$711 million in higher receipts partially offset by \$81 million in higher spending produced the favorable results.

Variance vs. Enacted Budget Estimate

General Fund receipts from April 1 through September 30, 2005 were \$507 million higher than the Enacted Budget projections. This variance is primarily attributable to greater than expected PIT (\$120 million), business taxes (\$149 million) and real estate transfer tax (\$126 million) collections.

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Total General Fund disbursements through September 2005 were \$166 million higher than the Enacted Budget. This variance is comprised of higher spending for State Operations primarily due to the retroactive salary payments made to State Troopers earlier than projected (\$73 million), and General State Charges reflecting higher than anticipated health insurance payments and later than expected payments by non-General Fund agencies which are used to support General Fund fringe benefit costs (\$136 million). These increases are partially offset by lower debt service spending due to the State achieving savings from debt management initiatives earlier than expected in the fiscal year (\$48 million).

The closing balance on September 30, 2005 is \$4.9 billion an increase of \$341 million from the projection published in the Enacted Budget. This increase results from higher receipts of \$507 million partially offset by higher spending of \$166 million.

Annual Change

General Fund Actual Results (April 1 through September 30)			
2004 vs. 2005			
(millions of dollars)			
	2004*	2005	Increase (Decrease)
Total Receipts	21,913	24,412	2,499
Total Disbursements	21,802	22,035	233
Closing Fund Balance	2,413	4,923	2,510
<i>*Total receipts through September 30, 2004 have been adjusted to reflect the inclusion of the Personal Income Tax Refund Reserve in the General Fund.</i>			

General Fund receipts from April 1, 2005 through September 30, 2005 totaled \$24.4 billion, an increase of \$2.5 billion from the same period in 2004. Total taxes, before the deposits to the Debt Service Funds, the Tax Refund Reserve account, and the School Tax Relief Fund, increased by \$2.8 billion or over 13 percent from 2004-05. This increase is largely attributable to continued economic improvement in 2005, strong payments on 2004 and 2005 PIT liability and the continued strength in the real estate market.

General Fund spending through September is \$233 million or 1 percent higher than the prior year. This higher spending is comprised of growth in local aid payments to public schools (\$293 million) and pension and employee health insurance costs (\$377 million), partially offset by lower Medicaid spending resulting from the earlier use of Federal moneys to offset General Fund spending (\$480 million).

The closing balance on September 30, 2005 was \$4.9 billion, an increase of \$2.5 billion from September 30, 2004.

2005-06 Cash Flow

DOB projects healthy cash flow balances of \$3.4 billion at the end of December 2005 (the close of the third quarter of the fiscal year), and \$2.8 billion at the end of the 2005-06 fiscal year (March 31, 2006). The lowest projected month-end balance is expected in November 2005 (\$2.5 billion). Detailed monthly cash flow projections for the current year are included in the Financial Plan tables herein.

GAAP FINANCIAL PLANS ⁵

DOB also prepares the General Fund and All Funds Financial Plans on a GAAP basis in accordance with Governmental Accounting Standards Board regulations. The GAAP projections for both years are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2004-05. The

GAAP basis results for 2004-05 show the State in a net positive overall financing condition of \$43.8 billion, and with an accumulated General Fund GAAP surplus of \$546 million.

In 2005-06, the General Fund GAAP Financial Plan shows total revenues of \$39.5 billion, total expenditures of \$48.9 billion, and net other financing sources of \$9.4 billion, resulting in an operating surplus of \$46 million and a projected accumulated surplus of \$592 million. The operating results primarily reflect the moneys set aside in the Fiscal Stability Reserve.

HCRA FINANCIAL PLAN

The following provides a summary of changes to the HCRA 2005-06 Financial Plan that was presented in the 2005-06 First Quarterly Update. The revised estimates of receipts and disbursements are detailed on a quarterly basis in the Financial Plan tables herein.

HCRA Financial Plan Summary (millions of dollars)			
	2005-06	2006-07	2007-08
Opening Balance	412	1,139	85
Total Receipts	6,050	3,817	4,957
Empire Conversion Proceeds	2,694	400	500
New Health Insurance Conversion Proceeds	0	0	800
Surcharges	1,641	1,607	1,613
Covered Lives Assessment	737	775	775
Cigarette Tax	664	691	686
Hospital Assessments	192	192	192
General Fund "Tobacco" Resources	0	152	391
All Other	122	0	0
Total Disbursements	5,323	4,871	4,957
Medicaid/Public Health Support	1,660	942	940
Hospital Indigent Care	853	853	853
Elderly Pharmaceutical Insurance Coverage	539	654	771
Graduate Medical Education	372	390	390
Family Health Plus (FHP)	439	526	572
Child Health Plus	344	365	384
Workforce Recruitment and Retention	416	416	355
Insurance Programs	150	179	121
Mental Health Programs	87	87	87
Worker Retraining	63	63	63
All Other	400	396	421
Excess/(deficiency) receipts over disbursements	727	(1,054)	0
Closing Balance	1,139	85	85

⁵ See also the section entitled "GAAP-Basis Results for Prior Years" later in this AIS Update.

The 2005-06 Enacted Budget extended HCRA authorization through June 30, 2007 and created a new HCRA Resources Fund that added the remaining roughly 25 percent of spending that was previously financed outside of the All Funds Financial Plan so that all of HCRA is now “on budget.” HCRA spending can be found in the following areas of the budget: Medicaid, Health, Mental Hygiene, and the State Office for the Aging. Increases in receipts coupled with a decrease in disbursements will leave an estimated HCRA closing balance of approximately \$1.14 billion at the end of 2005-06.

The Empire Conversion proceeds in 2005-06 reflects \$754 million already received plus another \$1.94 billion expected to be received after finalization of the merger of WellChoice and WellPoint. The outyear proceeds reflect the disposition of some of the 27 million shares of WellPoint common stock, with sales valued at \$400 million in 2006-07 and \$500 million in 2007-08.

The outyears of the HCRA plan currently show modest positive balances in 2006-07 and 2007-08. The balances assume that new health care conversions⁶ valued at \$800 million will be authorized by the Legislature and completed by 2007-08 and that the General Fund will provide subsidies to HCRA of \$152 million in 2006-07 growing to \$391 million in 2007-08. It is expected that the 2006-07 Executive Budget will include proposals that may alter the current projections.

2005-06 HCRA Receipts

HCRA 2005-06 Projected Receipts (millions of dollars)			
	First Quarterly Update	Mid-Year Update	Increase (Decrease)
Empire Conversion Proceeds	1,842	2,694	852
Surcharges	1,641	1,641	0
Covered Lives Assessment	737	737	0
Cigarette Tax	670	664	(6)
Hospital Assessment (1 percent)	192	192	0
Other	122	122	0
Total Receipts	5,204	6,050	846

DOB projects total HCRA receipts at \$6.1 billion in 2005-06, an increase of \$846 million from the First Quarterly Update. This increase primarily reflects the additional proceeds attributed to the merger of Wellchoice/Empire and Wellpoint.

Under the terms of the merger, it is estimated that New York State will receive approximately \$2 billion in cash in 2005-06 and approximately 27 million shares of WellPoint stock. In 2005-06, the merger will increase the amount of total Empire Conversion proceeds collected to \$2.7 billion – an increase of \$852 million.

⁶ i.e., the conversion of non-profit health insurance plans into for-profit entities.

2005-06 HCRA Disbursements

HCRA 2005-06 Projected Disbursements (millions of dollars)			
	First Quarterly Update	Mid-Year Update	Increase (Decrease)
Medicaid/Public Health Support	1,910	1,660	(250)
Hospital Indigent Care	853	853	0
Elderly Pharmaceutical Insurance Coverage	540	539	(1)
Graduate Medical Education	372	372	0
Family Health Plus (FHP)	426	439	13
Child Health Plus	352	344	(8)
Workforce recruitment and Retention	416	416	0
All Other	719	700	(19)
Total Disbursements	5,588	5,323	(265)

Total disbursements in 2005-06 are projected at \$5.3 billion, a decrease of \$265 million from the First Quarterly Update. This decrease is primarily associated with the timing of Medicaid payments, with the General Fund financing costs in 2005-06 that were originally budgeted in HCRA, and HCRA financing an equal amount of costs in 2006-07. This timing change has no net impact on HCRA resources over the two fiscal years, but does require a General Fund deficiency appropriation in 2005-06. In addition Family Health Plus costs are expected to increase due to a delay in receiving Federal approval to increase existing co-pays and impose new co-pays. This increase is offset by spending decreases in other HCRA financed programs (i.e., Child Health Plus, Elderly Pharmaceutical Insurance Coverage, and the AIDS Drugs Assistance Program).

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

STATE WORKFORCE UPDATE

DOB projects the overall State Executive Branch workforce (All Funds) will reach 191,500 positions at the end of 2005-06, which is attributable primarily to growth in SUNY. The aggregate workforce estimate for all agencies has been reduced by approximately 2,200 positions to reflect the anticipated effect of the existing hiring freeze and position controls utilized by various agencies. In related matters, the updated Financial Plan also includes funds to accommodate a recent settlement of the court case regarding the withholding of Management Confidential employees' performance advances in 2003. Also, consistent with the Governor's recent directive, DOB is developing additional information on the State's use of contracts for consulting services which is planned for inclusion in the Executive Budget.

DEBT UPDATE ⁷

Improving the Transparency of New York State's Debt Portfolio

To increase the transparency of the State's debt portfolio and practices, DOB has recently expanded the information available on its public website (<http://www.budget.state.ny.us>). The Investor's Guide section of the site now contains detailed information on New York State bonds including: swap and variable rate capacity reports, variable rate trading activity, PIT revenue bond debt service and debt outstanding, and

⁷ See also the section entitled "Debt and Other Financing Activities" in the AIS dated May 4, 2005 for more information on the State's debt portfolio and management.

monthly swaps reports. It is expected that the information available on the site will continue to be expanded on a regular basis in an effort to provide the public with greater access to the composition and performance of the State's debt portfolio.

Classification of NYS Debt – State-supported versus State-related Debt

For purposes of analyzing the financial condition of the State, debt may be classified as “State-supported” or “State-related”. 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, where the State's legal obligation to make payments to those entities is subject to, and paid from, annual appropriations made by the Legislature.

State-related debt includes State-supported debt noted 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 paid from other non-State sources and State appropriations are available, but not expected to be needed, to make payments.

The State debt levels do not include debt that is issued by or on behalf of local governments that may be funded in part by local assistance State aid payments. For example, State aid programs such as school aid or local assistance aid to New York City may in turn be used by those local entities to help support debt service for locally-sponsored and locally-determined financings. Since this debt was not issued by the State (or on behalf of the State), and does not result in a State obligation to pay debt service, it is not included in the State debt totals. However, such debt is reflected in the respective financial statements of the local governments.

Debt Reform Limitations

As a result of the Debt Reform Act of 2000 (the “Debt Reform Act”), the State operates under statutory limitations which restrict the issuance of State-supported debt to capital purposes only and establish a maximum term of 30 years for such debt. The Debt Reform Act also imposes caps that limit the amount of new State-supported debt to 4 percent of personal income and new State-supported debt service costs to 5 percent of the All Funds budget. The restrictions apply to all new State-supported debt issued on and after April 1, 2000.

The Debt Reform Act requires that the limitations on the amount of State-supported debt and debt service costs be calculated by October 31 of each year and reported in the Updated Financial Plan. If the actual new State-supported debt outstanding and debt service costs are below the caps at this time, new State-supported debt may continue to be issued for another year. However, if either the debt outstanding or the debt service cap is met or exceeded, the State would be precluded from issuing new State-supported debt until the next annual cap calculation is made and State-supported debt is found to be within the appropriate limitations.

For the 2004-05 fiscal year, the cumulative debt outstanding and debt service caps are 2.32 percent each. As shown in the table that follows, the actual level of debt outstanding and debt service costs continue to remain below the statutory limits.

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Debt Outstanding Cap (million of dollars)		Debt Service Cap (millions of dollars)	
New Debt Outstanding	\$12,725	New Debt Service	\$1,083
Personal Income (CY 2004)	\$737,039	Governmental Funds Receipts	\$101,381
Debt Outstanding (Percent of PI)	1.73%	Debt Service (Percent of Gov't'l Fund Receipts)	1.07%
Cap Imposed by Debt Reform Act	2.32%	Cap Imposed by Debt Reform Act	2.32%

From April 1, 2000 through March 31, 2005 the State has issued \$13.9 billion of new debt, of which \$1.2 billion was retired - resulting in \$12.7 billion of net new debt. This is \$4.4 billion below the statutory cap. The debt service costs on this new debt totaled \$1.1 billion in 2004-05 – or roughly \$1.3 billion below the statutory limit.

Debt Affordability

The State's debt affordability measures through the first half of the 2005-06 fiscal year are consistent with the forecasts contained in the Enacted Capital Program and Financing Plan. The table below shows that State debt service costs remain below 5 percent of the budget.

State Supported & State Related Debt (millions of dollars)			
<u>Bond Type/Program</u>	<u>Debt Outstanding</u> <u>March 31, 2005</u>	<u>Actual Debt Service</u> <u>2004-05</u>	<u>Debt Service as % of</u> <u>2004-05 All Funds Budget</u>
General Obligation Debt	3,590	484	0.48%
Local Government Assistance Corporation	4,317	306	0.30%
PIT Revenue Bonds	6,961	348	0.34%
Dedicated Highway	6,024	708	0.70%
All Other Lease-Purchase & Contractual- Obligation Financing Arrangements	21,684	1,951	1.92%
Total State-Supported Debt	42,576	3,797	3.74%
State-Guaranteed Debt:			
Job Development Authority	64	16	0.02%
Moral Obligation Financings:			
Housing Finance Agency	102	269	0.26%
MCFFA Hospitals & Nursing Homes	16	3	0.00%
Contingent-Contractual Obligations:			
Secured Hospital Program	905	81	0.08%
Tobacco Bonds	4,495	324	0.44%
Total State-Related Debt	5,582	693	0.70%
Total State-supported and Related Debt	48,158	4,490	4.40%

Note: HFA moral obligation debt outstanding was reduced by \$207 million on November 1, 2004. The 2004-05 Debt Service costs shown in the chart include this principal pre-payment.

EXPLANATION OF THE FINANCIAL PLAN TABLES

The State's Financial Plan forecasts receipts and disbursements for each fiscal year. The economic forecast of DOB and the State's tax and fee structure serve as the basis for projecting receipts. After consulting with public and private sector experts, DOB prepares a detailed economic forecast for both the nation and New York, showing Gross Domestic Product, employment levels, inflation, wages, consumer spending, and other relevant economic indicators. Then DOB projects the yield of the State's revenue structure against the backdrop of these forecasts.

Projected disbursements are based on agency staffing levels, program caseloads, levels of service needs, formulas contained in State and Federal law, inflation and other factors. The factors that affect spending estimates vary by program. For example, welfare spending is based primarily on anticipated caseloads that are estimated by analyzing historical trends, projected economic conditions and changes in Federal law. In criminal justice, spending estimates are based on recent trends and data from the criminal justice system, as well as on estimates of the State's prison population. All projections account for the timing of payments, since not all the amounts appropriated in the budget are disbursed in the same fiscal year.

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 Governmental 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 Projects Funds, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and,
- Debt Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

Within each of these fund types, revenues and spending are classified by major categories of the Financial Plan (e.g., taxes, miscellaneous receipts, Grants to Local Governments, State Operations). The following tables summarize projected General Fund, State Funds and All Governmental Funds receipts and disbursements for the 2005-06 fiscal year.

**CASH FINANCIAL PLAN
GENERAL FUND
2005-2006
(millions of dollars)**

	<u>First Quarterly Update</u>	<u>Change</u>	<u>Mid-Year Update</u>
Opening fund balance	<u>2,546</u>	<u>0</u>	<u>2,546</u>
Receipts:			
Taxes:			
Personal income tax	20,633	367	21,000
User taxes and fees	8,533	0	8,533
Business taxes	4,223	260	4,483
Other taxes	777	2	779
Miscellaneous receipts	2,431	16	2,447
Federal grants	9	0	9
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,461	114	6,575
Sales tax in excess of LGAC debt service	2,251	8	2,259
Real estate taxes in excess of CW/CA debt service	514	0	514
All other	512	10	522
Total receipts	<u>46,344</u>	<u>777</u>	<u>47,121</u>
Disbursements:			
Grants to local governments	31,383	318	31,701
State operations	8,238	123	8,361
General State charges	4,060	(15)	4,045
Transfers to other funds:			
Debt service	1,700	13	1,713
Capital projects	214	0	214
Other purposes	854	8	862
Total disbursements	<u>46,449</u>	<u>447</u>	<u>46,896</u>
Change in fund balance	<u>(105)</u>	<u>330</u>	<u>225</u>
Closing fund balance	<u>2,441</u>	<u>330</u>	<u>2,771</u>
General Reserves			
Statutory Rainy Day Reserve	872	0	872
Fiscal stability reserve	680	359	1,039
Contingency Reserve Fund	21	0	21
Restricted Balances			
Community Projects Fund	316	(29)	287
Payment of Tax Refunds	552	0	552

Source: NYS DOB

**CASH FINANCIAL PLAN
GENERAL FUND
2006-2007
(millions of dollars)**

	<u>First Quarterly Update</u>	<u>Change</u>	<u>Mid-Year Update</u>
Receipts:			
Taxes:			
Personal income tax	21,762	422	22,184
User taxes and fees	8,725	0	8,725
Business taxes	4,596	187	4,783
Other taxes	814	1	815
Miscellaneous receipts	2,353	15	2,368
Federal grants	9	0	9
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,643	141	6,784
Sales tax in excess of LGAC debt service	2,332	4	2,336
Real estate taxes in excess of CW/CA debt service	505	0	505
All other	231	31	262
Total receipts	<u>47,970</u>	<u>801</u>	<u>48,771</u>
Disbursements:			
Grants to local governments	35,126	315	35,441
State operations	8,799	349	9,148
General State charges	4,568	(90)	4,478
Transfers to other funds:			
Debt service	1,712	34	1,746
Capital projects	245	(7)	238
Other purposes	786	22	808
Total disbursements	<u>51,236</u>	<u>623</u>	<u>51,859</u>
Deposit to/(use of) fiscal stability reserve	<u>(340)</u>	<u>(180)</u>	<u>(520)</u>
Deposit to/(use of) Community Projects Fund	<u>(50)</u>	<u>0</u>	<u>(50)</u>
Deposit to/(use of) PIT Refund Reserve	<u>28</u>	<u>0</u>	<u>28</u>
Surplus/(Gap)	<u>(2,904)</u>	<u>358</u>	<u>(2,546)</u>

Source: NYS DOB

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

	<u>2005-2006 Mid-Year Update</u>	<u>2006-2007 Projected</u>	<u>2007-2008 Projected</u>
Receipts:			
Taxes:			
Personal income tax	21,000	22,184	23,417
User taxes and fees	8,533	8,725	8,586
Business taxes	4,483	4,783	5,309
Other taxes	779	815	842
Miscellaneous receipts	2,447	2,368	2,426
Federal Grants	9	9	9
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,575	6,784	7,002
Sales tax in excess of LGAC debt service	2,259	2,336	2,274
Real estate taxes in excess of CW/CA debt service	514	505	520
All other	522	262	272
Total receipts	<u>47,121</u>	<u>48,771</u>	<u>50,657</u>
Disbursements:			
Grants to local governments	31,701	35,441	38,199
State operations	8,361	9,148	9,561
General State charges	4,045	4,478	4,781
Transfers to other funds:			
Debt service	1,713	1,746	1,738
Capital projects	214	238	251
Other purposes	862	808	1,078
Total disbursements	<u>46,896</u>	<u>51,859</u>	<u>55,608</u>
Deposit to/(use of) fiscal stability reserve	<u>0</u>	<u>(520)</u>	<u>(519)</u>
Deposit to/(use of) Community Projects Fund	<u>(38)</u>	<u>(50)</u>	<u>(50)</u>
Deposit to/(use of) PIT Refund Reserve	<u>(776)</u>	<u>28</u>	<u>26</u>
Surplus/(Gap)	<u>1,039</u>	<u>(2,546)</u>	<u>(4,408)</u>

Source: NYS DOB

**GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2005-2006
(millions of dollars)**

	<u>First Quarterly Update</u>	<u>Mid-Year Update</u>	<u>Change</u>
Withholdings	24,419	24,419	0
Estimated Payments	9,022	9,357	335
Final Payments	1,748	1,808	60
Delinquencies	<u>705</u>	<u>740</u>	<u>35</u>
Gross Collections	35,894	36,324	430
State/City Offset	(400)	(400)	0
Refunds	<u>(4,761)</u>	<u>(4,701)</u>	<u>60</u>
Reported Tax Collections	30,733	31,223	490
STAR (1)	(3,222)	(3,222)	0
RBTF (2)	<u>(6,878)</u>	<u>(7,001)</u>	<u>(123)</u>
General Fund	<u><u>20,633</u></u>	<u><u>21,000</u></u>	<u><u>367</u></u>

(1) Beginning in 1998-99, a portion of personal income tax collections are deposited directly into the School Tax Reduction (STAR) Fund and used to make payments to reimburse local governments for their revenue decreases due to the STAR program.

(2) Beginning in 2002-03, 25 percent of personal income tax collections after the STAR transfer is deposited directly in the Revenue Bond Tax Fund (RBTF) and used for debt service payments.

Source: NYS DOB

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

	First Quarterly Update	Mid-Year Update	Change
Personal income tax	20,633	21,000	367
User taxes and fees:	8,533	8,533	0
Sales and use tax	7,902	7,902	0
Cigarette and tobacco taxes	394	394	0
Motor vehicle fees	0	0	0
Alcoholic beverages taxes	189	189	0
Alcoholic beverage control license fees	48	48	0
Business taxes:	4,223	4,483	260
Corporation franchise tax	2,024	2,284	260
Corporation and utilities tax	583	583	0
Insurance taxes	1,031	1,031	0
Bank tax	585	585	0
Other taxes:	777	779	2
Estate tax	752	752	0
Gift tax	0	2	2
Real property gains tax	0	0	0
Pari-mutuel taxes	24	24	0
Other taxes	1	1	0
Total taxes	34,166	34,795	629
Miscellaneous receipts	2,431	2,447	16
Federal grants	9	9	0
Total receipts*	36,606	37,251	645

* Excludes transfers

Source: NYS DOB

Annual Information Statement Update, November 2, 2005

**CASHFLOW
GENERAL FUND
2005-2006
(dollars in millions)**

	2005	2005	2005	2005	2005	2005	2005	2005	2005	2006	2006	2006	Total
	April	May	June	July	August	September	October	November	December	January	February	March	
	Actual	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected	
Opening fund balance	<u>2,546</u>	<u>5,584</u>	<u>3,188</u>	<u>4,007</u>	<u>3,603</u>	<u>3,670</u>	<u>4,923</u>	<u>4,203</u>	<u>2,490</u>	<u>3,383</u>	<u>6,885</u>	<u>7,433</u>	<u>2,546</u>
Receipts:													
Taxes													
Personal income tax	3,347	553	2,213	1,254	1,537	2,105	707	536	1,858	3,638	2,084	1,168	21,000
User taxes and fees	662	667	894	680	628	898	615	615	891	666	520	797	8,533
Business taxes	217	177	891	90	83	919	91	8	881	41	21	1,064	4,483
Other taxes	49	64	131	118	63	68	62	45	45	45	45	44	779
Miscellaneous receipts	160	81	175	95	107	108	173	387	250	189	177	545	2,447
Federal Grants	1	0	1	0	2	0	1	1	1	1	1	0	9
Transfers from other funds													
PIT in excess of Revenue Bond debt service	1,114	160	737	417	431	718	200	8	654	1,213	428	495	6,575
Sales tax in excess of LGAC debt service	174	57	392	201	113	281	186	187	275	203	2	188	2,259
Real estate taxes in excess of CW/CA debt service	108	60	15	66	99	66	31	26	21	16	5	1	514
All Other	0	76	63	7	6	12	0	0	20	57	0	281	522
Total receipts	<u>5,832</u>	<u>1,895</u>	<u>5,512</u>	<u>2,928</u>	<u>3,069</u>	<u>5,175</u>	<u>2,066</u>	<u>1,813</u>	<u>4,896</u>	<u>6,069</u>	<u>3,283</u>	<u>4,583</u>	<u>47,121</u>
Disbursements:													
Grants to local governments													
School Aid	168	1,917	1,253	53	351	1,205	445	567	1,133	230	499	5,674	13,495
Medicaid	798	633	1,155	466	864	426	444	901	326	663	805	806	8,287
Welfare	114	134	74	80	150	10	149	149	32	149	118	97	1,256
All Other	242	511	798	724	635	632	761	507	1,107	585	647	1,514	8,663
State operations													
Personal Service	562	520	687	556	476	690	433	659	371	398	229	358	5,939
Non-Personal Service	174	223	180	160	214	174	184	188	206	200	203	316	2,422
General State charges	405	186	269	1,212	213	379	271	270	250	279	140	171	4,045
Transfers to other funds													
Debt service	207	105	197	39	30	313	50	184	437	18	27	106	1,713
Capital projects	15	30	44	16	42	28	29	39	59	26	48	(167)	209
Other purposes	109	32	36	26	27	65	20	62	82	19	19	370	867
Total disbursements	<u>2,794</u>	<u>4,291</u>	<u>4,693</u>	<u>3,332</u>	<u>3,002</u>	<u>3,922</u>	<u>2,786</u>	<u>3,526</u>	<u>4,003</u>	<u>2,567</u>	<u>2,735</u>	<u>9,245</u>	<u>46,896</u>
Change in fund balance	<u>3,038</u>	<u>(2,396)</u>	<u>819</u>	<u>(404)</u>	<u>67</u>	<u>1,253</u>	<u>(720)</u>	<u>(1,713)</u>	<u>893</u>	<u>3,502</u>	<u>548</u>	<u>(4,662)</u>	<u>225</u>
Closing fund balance	<u>5,584</u>	<u>3,188</u>	<u>4,007</u>	<u>3,603</u>	<u>3,670</u>	<u>4,923</u>	<u>4,203</u>	<u>2,490</u>	<u>3,383</u>	<u>6,885</u>	<u>7,433</u>	<u>2,771</u>	<u>2,771</u>

Source: OSC for actuals; NYS DOB for projections.

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	<u>2,546</u>	<u>2,006</u>	<u>(206)</u>	<u>184</u>	<u>4,530</u>
Receipts:					
Taxes	34,795	5,881	1,862	10,216	52,754
Miscellaneous receipts	2,447	13,278	1,721	655	18,101
Federal grants	9	1	0	0	10
Total receipts	<u>37,251</u>	<u>19,160</u>	<u>3,583</u>	<u>10,871</u>	<u>70,865</u>
Disbursements:					
Grants to local governments	31,701	13,636	918	0	46,255
State operations	8,361	5,072	0	23	13,456
General State charges	4,045	587	0	0	4,632
Debt service	0	0	0	3,808	3,808
Capital projects	0	1	2,316	0	2,317
Total disbursements	<u>44,107</u>	<u>19,296</u>	<u>3,234</u>	<u>3,831</u>	<u>70,468</u>
Other financing sources (uses):					
Transfers from other funds	9,870	1,257	252	5,227	16,606
Transfers to other funds	(2,789)	(407)	(906)	(12,248)	(16,350)
Bond and note proceeds	0	0	167	0	167
Net other financing sources (uses)	<u>7,081</u>	<u>850</u>	<u>(487)</u>	<u>(7,021)</u>	<u>423</u>
Change in fund balance	<u>225</u>	<u>714</u>	<u>(138)</u>	<u>19</u>	<u>820</u>
Closing fund balance	<u>2,771</u>	<u>2,720</u>	<u>(344)</u>	<u>203</u>	<u>5,350</u>

Source: NYS DOB

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

	<u>First Quarter</u>	<u>Change</u>	<u>Mid-Year Update</u>
Opening fund balance	<u>4,530</u>	<u>0</u>	<u>4,530</u>
Receipts:			
Taxes	51,950	804	52,754
Miscellaneous receipts	17,346	755	18,101
Federal grants	10	0	10
Total receipts	<u>69,306</u>	<u>1,559</u>	<u>70,865</u>
Disbursements:			
Grants to local governments	46,499	(244)	46,255
State operations	13,326	130	13,456
General State charges	4,615	17	4,632
Debt service	3,829	(21)	3,808
Capital projects	2,183	134	2,317
Total disbursements	<u>70,452</u>	<u>16</u>	<u>70,468</u>
Other financing sources (uses):			
Transfers from other funds	16,481	125	16,606
Transfers to other funds	(16,230)	(120)	(16,350)
Bond and note proceeds	232	(65)	167
Net other financing sources (uses)	<u>483</u>	<u>(60)</u>	<u>423</u>
Change in fund balance	<u>(663)</u>	<u>1,483</u>	<u>820</u>
Closing fund balance	<u>3,867</u>	<u>1,483</u>	<u>5,350</u>

Source: NYS DOB

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	<u>2,546</u>	<u>2,005</u>	<u>(454)</u>	<u>184</u>	<u>4,281</u>
Receipts:					
Taxes	34,795	5,881	1,862	10,216	52,754
Miscellaneous receipts	2,447	13,287	1,721	655	18,110
Federal grants	9	34,706	1,760	0	36,475
Total receipts	<u>37,251</u>	<u>53,874</u>	<u>5,343</u>	<u>10,871</u>	<u>107,339</u>
Disbursements:					
Grants to local governments	31,701	44,805	1,124	0	77,630
State operations	8,361	8,143	0	23	16,527
General State charges	4,045	805	0	0	4,850
Debt service	0	0	0	3,808	3,808
Capital projects	0	2	3,858	0	3,860
Total disbursements	<u>44,107</u>	<u>53,755</u>	<u>4,982</u>	<u>3,831</u>	<u>106,675</u>
Other financing sources (uses):					
Transfers from other funds	9,870	3,826	252	5,227	19,175
Transfers to other funds	(2,789)	(3,278)	(918)	(12,248)	(19,233)
Bond and note proceeds	0	0	167	0	167
Net other financing sources (uses)	<u>7,081</u>	<u>548</u>	<u>(499)</u>	<u>(7,021)</u>	<u>109</u>
Change in fund balance	<u>225</u>	<u>667</u>	<u>(138)</u>	<u>19</u>	<u>773</u>
Closing fund balance	<u>2,771</u>	<u>2,672</u>	<u>(592)</u>	<u>203</u>	<u>5,054</u>

Source: NYS DOB

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

	<u>First Quarter</u>	<u>Change</u>	<u>Mid-Year Update</u>
Opening fund balance	<u>4,281</u>	<u>0</u>	<u>4,281</u>
Receipts:			
Taxes	51,950	804	52,754
Miscellaneous receipts	17,356	754	18,110
Federal grants	<u>36,408</u>	<u>67</u>	<u>36,475</u>
Total receipts	<u>105,714</u>	<u>1,625</u>	<u>107,339</u>
Disbursements:			
Grants to local governments	77,839	(209)	77,630
State operations	16,389	138	16,527
General State charges	4,834	16	4,850
Debt service	3,829	(21)	3,808
Capital projects	<u>3,760</u>	<u>100</u>	<u>3,860</u>
Total disbursements	<u>106,651</u>	<u>24</u>	<u>106,675</u>
Other financing sources (uses):			
Transfers from other funds	18,885	290	19,175
Transfers to other funds	(18,943)	(290)	(19,233)
Bond and note proceeds	<u>232</u>	<u>(65)</u>	<u>167</u>
Net other financing sources (uses)	<u>174</u>	<u>(65)</u>	<u>109</u>
Change in fund balance	<u>(763)</u>	<u>1,536</u>	<u>773</u>
Closing fund balance	<u>3,518</u>	<u>1,536</u>	<u>5,054</u>

Source: NYS DOB

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

	<u>First Quarterly Update</u>	<u>Mid-Year Update</u>	<u>Change</u>
Personal income tax	30,734	31,223	489
User taxes and fees	13,654	13,654	0
Sales and use taxes	11,096	11,096	0
Cigarette and tobacco taxes	949	949	0
Motor fuel tax	533	533	0
Motor vehicle fees	635	635	0
Highway use tax	163	163	0
Alcoholic beverage taxes	189	189	0
Alcoholic beverage control license fees	48	48	0
Auto rental tax	41	41	0
Business taxes	6,046	6,359	313
Corporation franchise tax	2,279	2,592	313
Corporation and utilities taxes	782	782	0
Insurance taxes	1,147	1,147	0
Bank tax	693	693	0
Petroleum business taxes	1,145	1,145	0
Other taxes	1,516	1,518	2
Estate tax	752	752	0
Gift tax	0	2	2
Real property gains tax	0	0	0
Real estate transfer tax	739	739	0
Pari-mutuel taxes	24	24	0
Other taxes	1	1	0
Total taxes	<u>51,950</u>	<u>52,754</u>	<u>804</u>
Miscellaneous receipts	<u>17,356</u>	<u>18,110</u>	<u>754</u>
Federal grants	<u>36,408</u>	<u>36,475</u>	<u>67</u>
Total receipts	<u><u>105,714</u></u>	<u><u>107,339</u></u>	<u><u>1,625</u></u>

Source: NYS DOB

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

	<u>First Quarterly Update</u>	<u>Change</u>	<u>Mid-Year Update</u>
Revenues:			
Taxes:			
Personal income tax	21,333	437	21,770
User taxes and fees	8,556	3	8,559
Business taxes	4,326	240	4,566
Other taxes	640	(2)	638
Miscellaneous revenues	3,945	35	3,980
Federal grants	9	0	9
Total revenues	<u>38,809</u>	<u>713</u>	<u>39,522</u>
Expenditures:			
Grants to local governments	34,332	341	34,673
State operations	10,685	62	10,747
General State charges	3,472	(18)	3,454
Debt service	25	0	25
Capital projects	0	0	0
Total expenditures	<u>48,514</u>	<u>385</u>	<u>48,899</u>
Other financing sources (uses):			
Transfers from other funds	13,500	132	13,632
Transfers to other funds	(4,972)	(88)	(5,060)
Proceeds from financing arrangements/ advance refundings	951	(100)	851
Net other financing sources (uses)	<u>9,479</u>	<u>(56)</u>	<u>9,423</u>
Excess/(deficiency) of revenues and other financing sources over expenditures and other financing uses			
	<u>(226)</u>	<u>272</u>	<u>46</u>
Accumulated (Deficit)/Surplus	<u>320</u>	<u>272</u>	<u>592</u>

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	35,533	5,878	1,861	10,174	53,446
Patient fees	0	0	0	326	326
Miscellaneous revenues	3,980	6,221	266	23	10,490
Federal grants	9	35,681	1,760	0	37,450
Total revenues	<u>39,522</u>	<u>47,780</u>	<u>3,887</u>	<u>10,523</u>	<u>101,712</u>
Expenditures:					
Grants to local governments	34,673	41,526	1,114	0	77,313
State operations	10,747	1,731	0	23	12,501
General State charges	3,454	280	0	0	3,734
Debt service	25	0	0	3,067	3,092
Capital projects	0	2	3,498	0	3,500
Total expenditures	<u>48,899</u>	<u>43,539</u>	<u>4,612</u>	<u>3,090</u>	<u>100,140</u>
Other financing sources (uses):					
Transfers from other funds	13,632	302	228	5,250	19,412
Transfers to other funds	(5,060)	(3,708)	(941)	(12,710)	(22,419)
Proceeds of general obligation bonds	0	0	167	0	167
Proceeds from financing arrangements/ advance refundings	851	0	1,158	0	2,009
Net other financing sources (uses)	<u>9,423</u>	<u>(3,406)</u>	<u>612</u>	<u>(7,460)</u>	<u>(831)</u>
Excess/(deficiency) of revenues and other financing sources over expenditures and other financing uses					
	<u>46</u>	<u>835</u>	<u>(113)</u>	<u>(27)</u>	<u>741</u>

Source: NYS DOB

Annual Information Statement Update, November 2, 2005

CASH DISBURSEMENTS BY FUNCTION
2005-2006 GENERAL FUND
(thousands of dollars)

	First Quarterly Update	Mid-Year Update	Change
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	48,103	48,835	732
Alcoholic Beverage Control	0	0	0
Banking Department	250	250	0
Consumer Protection Board	0	0	0
Economic Development, Department of	43,199	43,199	0
Empire State Development Corporation	64,598	64,598	0
Energy Research and Development Authority	0	0	0
Housing Finance Agency	0	0	0
Housing and Community Renewal, Division of	75,710	76,276	566
Insurance Department	0	0	0
Olympic Regional Development Authority	7,350	7,350	0
Public Service, Department of	0	0	0
Science, Technology and Academic Research, Office of	50,834	50,834	0
Functional Total	290,044	291,342	1,298
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,408	4,408	0
Environmental Conservation, Department of	115,872	113,191	(2,681)
Environmental Facilities Corporation	0	0	0
Parks, Recreation and Historic Preservation, Office of	109,348	110,448	1,100
Functional Total	229,628	228,047	(1,581)
TRANSPORTATION			
Motor Vehicles, Department of	0	0	0
Thruway Authority	0	0	0
Transportation, Department of	105,640	105,640	0
Functional Total	105,640	105,640	0
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	0	0	0
Aging, Office for the	79,013	73,949	(5,064)
Children and Family Services, Office of	1,436,930	1,433,107	(3,823)
Health, Department of	8,389,276	8,805,317	416,041
<i>Medical Assistance</i>	7,513,997	7,952,997	439,000
<i>Medicaid Administration</i>	119,950	119,950	0
<i>All Other</i>	755,329	732,370	(22,959)
Human Rights, Division of	13,142	12,813	(329)
Labor, Department of	16,176	16,072	(104)
Prevention of Domestic Violence, Office of	2,415	2,415	0

Annual Information Statement Update, November 2, 2005

CASH DISBURSEMENTS BY FUNCTION
2005-2006 GENERAL FUND
(thousands of dollars)

	<u>First Quarterly Update</u>	<u>Mid-Year Update</u>	<u>Change</u>
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	1,451,257	1,334,954	(116,303)
<i>Welfare Assistance</i>	1,000,969	883,166	(117,803)
<i>Welfare Administration</i>	371,550	371,550	0
<i>All Other</i>	78,738	80,238	1,500
Welfare Inspector General, Office of	754	714	(40)
Workers' Compensation Board	0	0	0
Functional Total	<u>11,388,963</u>	<u>11,679,341</u>	<u>290,378</u>
MENTAL HEALTH			
Mental Health, Office of	1,344,801	1,359,137	14,336
Mental Hygiene, Department of	0	0	0
Mental Retardation and Developmental Disabilities, Office of	834,647	853,441	18,794
Alcohol and Substance Abuse Services, Office of	298,292	299,084	792
Developmental Disabilities Planning Council	0	0	0
Quality of Care for the Mentally Disabled, Commission on	4,363	4,363	0
Functional Total	<u>2,482,103</u>	<u>2,516,025</u>	<u>33,922</u>
PUBLIC PROTECTION			
Capital Defenders Office	10,916	4,500	(6,416)
Correction, Commission of	2,510	2,510	0
Correctional Services, Department of	1,997,345	2,005,562	8,217
Crime Victims Board	3,314	3,314	0
Criminal Justice Services, Division of	106,356	105,131	(1,225)
Homeland Security	64,219	81,883	17,664
Investigation, Temporary State Commission of	3,463	3,376	(87)
Judicial Commissions	2,703	2,703	0
Military and Naval Affairs, Division of	27,434	62,897	35,463
Parole, Division of	183,489	181,840	(1,649)
Probation and Correctional Alternatives, Division of	78,832	74,832	(4,000)
Public Security, Office of	0	0	0
State Police, Division of	446,935	445,713	(1,222)
Functional Total	<u>2,927,516</u>	<u>2,974,261</u>	<u>46,745</u>
EDUCATION			
Arts, Council on the	42,705	42,700	(5)
City University of New York	932,222	939,722	7,500
Education, Department of	15,083,613	15,083,775	162
<i>School Aid</i>	13,494,028	13,494,028	0
<i>STAR Property Tax Relief</i>	0	0	0
<i>Handicapped</i>	908,473	925,173	16,700
<i>All Other</i>	681,112	664,574	(16,538)
Higher Education Services Corporation	889,478	889,478	0
State University Construction Fund	0	0	0
State University of New York	1,362,297	1,420,377	58,080
Functional Total	<u>18,310,315</u>	<u>18,376,052</u>	<u>65,737</u>

CASH DISBURSEMENTS BY FUNCTION
2005-2006 GENERAL FUND
(thousands of dollars)

	<u>First Quarterly Update</u>	<u>Mid-Year Update</u>	<u>Change</u>
GENERAL GOVERNMENT			
Audit and Control, Department of	167,367	164,914	(2,453)
Budget, Division of the	28,185	31,630	3,445
Civil Service, Department of	24,199	23,599	(600)
Elections, State Board of	4,094	4,094	0
Employee Relations, Office of	3,580	3,580	0
Executive Chamber	15,480	15,480	0
General Services, Office of	148,686	160,312	11,626
Inspector General, Office of	4,579	4,465	(114)
Law, Department of	125,637	123,321	(2,316)
Lieutenant Governor, Office of the	485	485	0
Lottery, Division of	0	0	0
Racing and Wagering Board, State	0	0	0
Real Property Services, Office of	21,197	21,197	0
Regulatory Reform, Governor's Office of	3,554	3,554	0
State Labor Relations Board	3,357	3,357	0
State, Department of	20,523	20,955	432
Tax Appeals, Division of	2,994	2,994	0
Taxation and Finance, Department of	306,876	304,876	(2,000)
Technology, Office for	20,076	20,699	623
TSC Lobbying	1,409	1,409	0
Veterans Affairs, Division of	12,089	11,879	(210)
Functional Total	<u>914,367</u>	<u>922,800</u>	<u>8,433</u>
ALL OTHER CATEGORIES			
Legislature	206,730	206,730	0
Judiciary (excluding fringe benefits)	1,392,500	1,392,500	0
World Trade Center	0	0	0
Local Government Assistance	1,028,900	1,028,900	0
Long-Term Debt Service	1,699,633	1,712,542	12,909
Capital Projects	214,395	214,395	0
General State Charges/Miscellaneous	5,258,286	5,247,678	(10,608)
Functional Total	<u>9,800,444</u>	<u>9,802,745</u>	<u>2,301</u>
TOTAL GENERAL FUND SPENDING	<u><u>46,449,020</u></u>	<u><u>46,896,253</u></u>	<u><u>447,233</u></u>

Source: NYS DOB

Annual Information Statement Update, November 2, 2005

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

	First Quarter (Actual)	Second Quarter (Actual)	Third Quarter (Projected)	Fourth Quarter (Projected)	Total (Projected)
Opening fund balance (1)	412	735	877	98	412
Receipts:					
Cigarette Taxes (2)	178	180	154	152	664
Miscellaneous Receipts	489	1,445	758	2,694	5,386
Total receipts	667	1,625	912	2,846	6,050
Disbursements:					
Hospital Indigent Care Fund	105	244	271	233	853
Professional Education/Graduate Medical Education	69	117	86	100	372
Elderly Pharmaceutical Insurance Coverage (EPIC)	0	268	136	135	539
Child Health Plus (CHP)	59	94	90	101	344
Family Health Plus (FHP)	0	140	146	153	439
Workforce Recruitment and Retention	11	17	166	222	416
Public Health	20	37	44	41	142
Mental Health	7	28	32	20	87
Roswell Park Cancer Institute	20	19	7	32	78
Physician Excess Medical Malpractice	0	0	0	65	65
Transfer To Medicaid:					
Pharmacy Costs	0	183	309	256	748
Physician Costs	0	27	53	6	86
Health Insurance Demonstration Project	0	17	35	17	69
Supplemental Medical Insurance	0	0	34	34	68
All Other Medicaid	0	221	127	201	549
All Other	53	71	155	189	468
Total disbursements	344	1,483	1,691	1,805	5,323
Change in fund balance	323	142	(779)	1,041	727
Closing fund balance	735	877	98	1,139	1,139

(1) The 2005-06 HCRA opening balance is increased by \$248 million to reflect balances in existing HCRA special revenue funds that were previously reported elsewhere in the State Financial Plan.

(2) Includes a transfer of cigarette tax revenue from NYC, pursuant to statute.

Source: NYS DOB

Special Considerations

The Financial Plan is 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 receipts and spending estimates related to the performance of the State and national economies are reasonable. However, there can be no assurance that actual results will not differ materially and adversely from the current forecast. For a discussion of additional risks to the Financial Plan, see the sections entitled "Financial Plan Reserves and Risks" and "Litigation" in this AIS Update.

GAAP-Basis Results for Prior Fiscal Years

(Reprinted from August 8, 2005 Update to the AIS)

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 in the AIS dated May 4, 2005 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)**

<u>Fiscal Year Ended</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>All Governmental Funds</u>	<u>Accum. General Fund Surplus/(Deficit)</u>
March 31, 2005	827	833	361	89	2,110	546
March 31, 2004	3,039	(578)	173	603	3,237	(281)
March 31, 2003	(4,221)	(231)	(243)	391	(4,304)	(3,320)

Beginning with the fiscal year ended March 31, 2003, 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)

<u>Fiscal Year Ended</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
March 31, 2005	41,190	2,645	43,835
March 31, 2004	39,086	2,088	41,174
March 31, 2003	42,396	2,500	44,896

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 2004-05 fiscal year. There were 2,992 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, 2005, 647,758 persons were members and 334,251 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 are 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.

Employer contributions due from the State for the fiscal year ending March 31, 2006, payable on July 1, 2005, totaled \$945.8 million which included the first amortization payment from the 2005 bill of \$64 million

and was calculated assuming that the State will amortize \$155 million of the 2006 bill over 10 years. The State paid this bill on July 1, 2005 with the exception of a portion of the payment for Judiciary personnel of \$4.6 million which is due on March 1, 2006. Also on July 1, 2005, the State made an additional payment of \$19.5 million to reduce its remaining retirement incentive costs and several other small costs. Estimated employer contributions due from the State for the fiscal year ending March 31, 2007, payable on September 1, 2006, total \$1,087.3 million which includes the Judiciary bill.

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 that the net assets available for benefits as of March 31, 2005 were \$128.0 billion (including \$2.6 billion in receivables), an increase of \$7.2 billion or 6.0 percent from the 2003-04 level of \$120.8 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 \$140.2 billion on April 1, 2004 to \$146.5 billion (including \$55.2 billion for current retirees and beneficiaries) on April 1, 2005. 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, 2005 in that amortized cost was used instead of market value for bonds and mortgages and the non-fixed investments utilized a smoothing method which recognized 20% of unexpected gain for the 2005 fiscal year. Actuarial assets increased from \$117.5 billion on April 1, 2004 to \$123.8 billion on April 1, 2005. The table that follows shows the actuarially determined contributions that have been made over the last seven 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	Total Assets(2)	Increase/ (Decrease) From Prior Year
March 31		
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	120,799	24.1
2005	128,038	6.0

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, 2005 includes approximately \$2.6 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
2005	2,965	1,877	1,088	227	5,691

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

(2) Includes payments from Group Life Insurance Plan.

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Litigation

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. By decision dated June 20, 2005, the Court of Appeals dismissed all of plaintiff’s claims. On July 7, 2005, a judgment was entered in favor of defendants in Supreme Court, New York County. Prior to November 2, 2005, the time in which plaintiffs may seek any further appeals expired.

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. On July 6, 2005, the Court of Appeals denied the plaintiffs' motions for reargument in both cases. On September 15, 2005, Plaintiffs filed for *certiorari* before the United States Supreme Court on that portion of the Court of Appeals decision relating to tribal-State compacts.

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 contemplated the extinguishment of all Oneida and other Indian claims in the tract at issue in this litigation. Although the agreements provided for monetary payment, transfers of lands and other consideration to non-signatory tribal plaintiffs, these agreements were not signed by the United States, the Oneidas of New York, the Oneidas of the Thames Band or the New York Brothertown. The settlement agreements required the passage of State and Federal legislation by September 1, 2005 in order to become effective, unless the parties agreed to an extension of time. No such legislation was enacted and no extension of time was agreed upon. On August 18, 2005, the District Court stayed all further proceedings in this case until it is known whether the plaintiffs in the *Cayuga Indian Nation of New York* case will ask the United States Supreme Court to review the Second Circuit's June 28, 2005 decision. Proceedings in this case will be stayed until the Supreme Court either declines to review the Second Circuit's decision or issues an opinion in that case.

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*. On July 8, 2005, the Second Circuit denied the United States' motion 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. A bill that would implement the terms of the Haudenosaunee-Mohawk settlement agreement has been passed by the New York State Assembly and awaits action by the New York State Senate. On August 12, 2005, the District Court stayed all further proceedings in this case until February 15, 2006 subject to possible extension.

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 United 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. On June 28, 2005, the Second Circuit held that plaintiffs' possessory land claim is

subject to the defense of laches and is barred on that basis. The Court reversed the judgment of the District Court and entered judgment for defendants. On September 8, 2005 the Second Circuit denied plaintiff's motion for reconsideration and *en banc* review.

Settlements were signed 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 required, in part, require enactment of State and Federal legislation by September 1, 2005 in order to become effective, unless the parties agreed to an extension of time. These agreements provided for differential payments to be made to the plaintiff tribes, based upon the outcome of the appeal then pending in the Second Circuit. No legislation was enacted by September 1, 2005 and no extension of time was agreed upon.

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. On October 28, 2005, the District Court stayed all further proceedings in this case until it is known whether the plaintiffs in the *Cayuga Indian Nation of New York* case will ask the United States Supreme Court to review the Second Circuit's June 28, 2005 decision. Proceedings in this case will be stayed until the Supreme Court either declines to review the Second Circuit's decision or issues an opinion in that case.

State Programs

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 *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)*; and *Matter of Nazareth Home of the Franciscan Sisters, et al. v. Novello*. Plaintiffs allege that the changes in methodologies 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. By order entered September 30, 2005, the Supreme Court, Appellate Division, Fourth Department affirmed the decision of the lower court.