

# **Update to Annual Information Statement (AIS)**

## **State of New York**

*August 4, 2006*

This quarterly update (the "Update") to the AIS of the State of New York is dated August 4, 2006 and contains information only through that date. It is the first quarterly update to the AIS of the State of New York, dated June 12, 2006. This AIS Update should be read in its entirety, together with the AIS issued in June.

In this AIS Update, readers will find:

1. Extracts from the First Quarterly Update to the 2006-07 Financial Plan (the "Updated Financial Plan"), which the Division of the Budget ("DOB") issued on July 31, 2006. The Updated Financial Plan includes (a) a summary of changes to the Enacted Budget Financial Plan made through the end of the regular 2006 legislative session (b) revised Financial Plan projections for fiscal years 2006-07, 2007-08, and 2008-09, (c) operating results for the first quarter of fiscal year 2006-07, (d) an updated economic forecast, (e), the Generally Accepted Accounting Principles (GAAP)-basis Financial Plan projections for 2006-07, and (f) a summary on debt and capital management. It is available on the DOB website, [www.budget.state.ny.us](http://www.budget.state.ny.us).
2. A discussion of special considerations related to the State Financial Plan for fiscal year 2006-07.
3. A summary of GAAP-basis results for the 2005-06 fiscal year (the full statements are available on the State Comptroller's website, [www.osc.state.ny.us](http://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 current 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 future updates to this AIS on a quarterly basis (in November 2006 and February 2007) and may issue AIS supplements or other disclosure notices as events warrant. The State intends to announce publicly whenever an update or a supplement is issued. The State may choose to incorporate by reference all or a portion of this AIS Update in Official Statements or related disclosure documents for State or State-supported debt issuance. Readers may obtain informational copies of the AIS, updates and

supplements by contacting Mr. Louis A. 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 Municipal Advisory Council of Texas (Texas MAC), has established this internet-based disclosure filing system approved by the Securities and Exchange Commission to facilitate the transmission of disclosure-related information to the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs). An official copy of this AIS 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 2006-07 Financial Plan

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*The AIS is updated quarterly in conjunction with the State's quarterly revisions to the Financial Plan that are required under State Finance Law. Each update to the AIS includes extracts from the most recently revised Financial Plan. DOB issued the Updated Financial Plan on July 31, 2006, extracts of which are set forth below.*

*The Updated Financial Plan is based on (a) changes to the Enacted Budget Financial Plan during legislative session, (b) actual operating results through the first quarter of the 2006-07 fiscal year, (c) an updated economic forecast, and (d) a review of program trends. Except where noted, the Financial Plan extracts herein present information on a budgetary (cash) basis of accounting, in accordance with the State Constitution and State Finance Law.*

*In the extracts from the Updated Financial Plan, readers will find:*

- *A summary of changes to the Enacted Budget Financial Plan approved through the end of the regular 2006 legislative session,*
- *An explanation of the first quarterly revisions to the 2006-07 Enacted Budget Financial Plan and updated projections for 2007-08 and 2008-09;*
- *A review of first quarter revenue and spending results;*
- *A revised economic forecast for the nation and State;*
- *A discussion of Financial Plan risks and reserves;*
- *Updated monthly General Fund cash flow projections for 2006-07;*
- *Revised GAAP projections;*
- *Updated 2006-07 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 that summarize (a) the General Fund, State Funds, and All Funds Cash-basis Financial Plans, (b) the monthly General Fund cash flow projections, (c) All Funds spending by agency and major program, (d) the quarterly HCRA cash flow projections, and (e) GAAP Financial Plans.*

*The Updated 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 quarterly Medicaid and welfare cycle trend analyses. 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 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.*

*The Updated Financial Plan is available on-line at [www.budget.state.ny.us](http://www.budget.state.ny.us) or by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705.*

## 2006-07 UPDATED FINANCIAL PLAN EXTRACTS

### UPDATED FINANCIAL PLAN AT-A-GLANCE

2006-07 Budget At-a-Glance: Impact on Key Measures (billions of dollars)					
	2005-06 Actual Results	2006-07 Projections			Change vs. Enacted
		Executive	Enacted	Current	
<b>Receipts</b>					
Taxes	53.6	57.0	56.9	57.1	0.2
Miscellaneous Receipts	18.3	16.9	18.7	18.3	(0.4)
Federal Grants	35.1	35.8	35.6	35.9	0.3
<b>Disbursements</b>					
General Fund	46.5	49.7	50.8	51.0	0.2
State Funds	69.7	75.0	77.1	78.1	1.0
All Funds	104.3	110.6	112.5	113.6	1.1
<b>Outyear Gap Forecast</b>					
2007-08	n/ap	1.9	3.7	3.2	(0.5)
2008-09	n/ap	3.9	4.3	5.4	1.1
<b>Key Reserves</b>					
Spending Stabilization Reserve	2.0	2.1	1.8	0.8	(1.0)
Rainy Day Reserve	0.9	0.9	0.9	0.9	-
<b>Debt</b>					
Debt Service as % All Funds	4.0%	4.2%	4.2%	4.2%	0.0%
State-Related Debt Outstanding	46.9	49.1	50.7	51.0	0.3

The General Fund for 2006-07 continues to be balanced on a budgetary (cash) basis of accounting.

- Projected year-end General Fund reserves to cover unforeseen needs total \$1.7 billion, a decline of \$1 billion from the levels anticipated at budget enactment, with resources used primarily to finance new local property tax reductions authorized at the end of the 2006 legislative session. These reserves consist of \$787 million available in a flexible stabilization reserve, and \$944 million in the “rainy day” reserve which is available only for unforeseen shortfalls after the beginning of the fiscal year.
- Base tax receipts (adjusted for changes in law) are expected to return to a more typical growth rate of roughly 6 percent over 2005-06 levels, following two consecutive years in which base growth exceeded 10 percent.

- All Governmental Funds<sup>1</sup> spending, which includes Federal aid, is estimated at \$113.6 billion, an increase of nearly \$9.3 billion (8 percent) from 2005-06. The largest drivers of annual spending growth continue to be Medicaid (up \$1.8 billion); School Aid (up \$1.4 billion excluding \$1.8 billion for the new EXCEL school construction program); School Tax Relief (STAR)/Local Property Tax Relief (\$828 million); Public Health (up \$552 million); General State Charges (up nearly \$500 million mainly for employee health insurance and pensions); State University (\$490 million); Correctional Services (up \$486 million primarily for retroactive labor settlements); Mental Hygiene (\$388 million); Debt Service (up \$384 million); and Transportation (\$346 million).
- State debt outstanding is projected to total \$58.3 billion at the end of the current Five-Year Capital Program and Financing Plan in 2010-11, with debt service equal to roughly 5.2 percent of All Funds receipts.
- The Division of the Budget's (DOB's) economic forecast is relatively unchanged from the Enacted Budget. Real U.S. Gross Domestic Product (GDP) of 3.5 percent is now forecast for 2006, with the economy expected to lose considerable momentum over the course of the year. Growth of 2.7 percent is projected for 2007, with rates of economic expansion that are slightly below the nation's long-term trend rate projected for much of the forecast horizon.
- On a Generally Accepted Accounting Principles (GAAP) basis, the State expects to end 2006-07 with an accumulated General Fund surplus of roughly \$550 million. The State's long-term net asset condition was \$49.1 billion at the end of 2005-06, before recognizing liabilities for retiree health care costs that will be reported starting with 2007-08 results under new accounting rules (GASB 45). See "Special Considerations" for a discussion of the potential impact of GASB 45 on the State's financial status.
- The State's risk profile remains similar to what was described in the Enacted Budget Financial Plan, with school finance litigation, economic uncertainties, adverse Federal actions, and future labor settlements posing the greatest potential fiscal risks. Litigation over certain gubernatorial vetoes has been discontinued following a negotiated agreement between the Governor and Legislature on a Medicaid cost containment package.

### **SUMMARY OF CHANGES TO THE ENACTED BUDGET FINANCIAL PLAN (GENERAL FUND)**

The State finalized the Enacted Budget for 2006-07 on April 26, 2006.<sup>2</sup> Since that time, the Legislature enacted and the Governor approved several actions that have substantive fiscal implications for 2006-07 and future years. These include expanding local property tax relief initiatives, capping the State's sales tax on gasoline, authorizing new State debt for economic development projects, and altering the scope of Medicaid cost containment. In addition, DOB has revised its revenue and spending estimates. The table below summarizes the impact of these changes on the three-year operating forecast for the General Fund.

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<sup>1</sup> Hereafter "All Funds." Comprises the General Fund, State and Federal Special Revenue Funds, State and Federal Capital Projects Funds, and Debt Service Funds.

<sup>2</sup> See DOB's 2006-07 Enacted Budget Financial Plan available at [www.budget.state.ny.us](http://www.budget.state.ny.us).

<b>Changes to General Fund Operating Forecast for 2006-07 Through 2008-09</b>			
<b>Savings/(Costs)</b>			
<b>(millions of dollars)</b>			
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
<b>Enacted Budget Surplus/(Gap) Estimate</b>	<u>0</u>	<u>(3,677)</u>	<u>(4,298)</u>
<b>Legislative Session Changes:</b>			
<b>Tax Changes</b>	<b>(789)</b>	<b>(450)</b>	<b>(1,125)</b>
<i>Property Tax Rebate/Credit</i>	(673)	(293)	(968)
<i>Gasoline Tax Cap</i>	(108)	(127)	(127)
<i>All Other Tax Changes</i>	(8)	(30)	(30)
<b>Medicaid</b>	<b>(501)</b>	<b>1,114</b>	<b>955</b>
<i>Nursing Home Assessment Continuation</i>	0	258	258
<i>Cost Containment</i>	(501)	229	211
<i>HCRA "Guarantee" Removal</i>	0	627	486
<b>All Other Changes</b>	<b>(17)</b>	<b>(156)</b>	<b>(194)</b>
<i>Debt Service (Advanced Micro Devices/Other)</i>	0	(125)	(155)
<i>Environmental Protection Fund Increase</i>	0	(25)	(25)
<i>All Other Session Changes</i>	(17)	(6)	(14)
<b>Total Legislative Session Changes</b>	<b>(1,307)</b>	<b>508</b>	<b>(364)</b>
<b>Revenue and Spending Revisions</b>	<b>311</b>	<b>108</b>	<b>148</b>
<b>Stabilization Reserve Use/(Loss) (leaves \$787 million in 2006-07)</b>	<b>996</b>	<b>(105)</b>	<b>(891)</b>
<b>CURRENT BUDGET SURPLUS/(GAP) ESTIMATE</b>	<u>0</u>	<u>(3,166)</u>	<u>(5,405)</u>

The Updated Financial Plan projects that General Fund disbursements will exceed receipts by nearly \$1.0 billion in 2006-07, with the difference financed with a portion of the stabilization reserve that had been set aside from the 2005-06 surplus. The budget gap projected for 2007-08 is roughly \$500 million below the level projected in the Enacted Budget Financial Plan, mainly due to savings from Medicaid cost containment, the elimination of a planned subsidy payment to the Health Care Reform Act (HCRA), and the use of the entire stabilization reserve in 2007-08. The gap for 2008-09 has increased by over \$1.1 billion, as the full cost of local property tax relief is realized in that year and the use of reserves is accelerated. Below is a description of the substantive fiscal policy actions that were approved since the publication of the Enacted Budget Financial Plan.

**Tax Changes**

- **Local Property Tax Rebate/Credit:** Property taxpayers and residents of New York City will receive a State rebate in 2006-07 on their local taxes. Rebates per taxpayer are expected to average about \$200 statewide. Based on statutory provisions, the projections assume that in future years taxpayers will receive a credit on their State income taxes instead of a rebate check.

- **Gasoline Tax Cap:** In response to rising gasoline prices, the State enacted a “cap” on the State sales tax for gasoline. The law caps the State sales tax at 8 cents per gallon. Based on current prices and energy price projections, DOB estimates that the cap, which took effect on June 1, 2006, will result in a revenue loss of roughly \$110 million in the current fiscal year and \$125 million annually thereafter.
- **Other Tax Changes:** A number of other tax initiatives were approved, with relatively minor current year fiscal impacts, including changes to the Empire Zone tax preference program.

### Medicaid

- **Nursing Home Assessment Continuation:** Legislation was approved to continue the partially reimbursable assessment on nursing home revenues at 6 percent for the period April 1, 2007 through March 31, 2009. This money will be used to support Medicaid spending that would otherwise be financed from the General Fund.
- **Medicaid Cost Containment:** The Enacted Budget Financial Plan projected over \$600 million in General Fund Medicaid savings in 2006-07 from items that the Governor vetoed on constitutional grounds. At the time, savings from these measures were not included in the outyear forecast because there was no statutory authority to continue the measures without concurrence of the Legislature. The Governor and Legislature subsequently reached agreement on a cost containment package, which includes several actions that will take effect starting in the 2007-08 fiscal year. The impact is that, in some instances, savings that had been counted on in 2006-07 in the Enacted Budget Financial Plan have been lost, but costs that had been anticipated in the outyears have been reduced or eliminated. Significant actions include:
  - Hospitals: The automatic increase in 2006-07 reimbursement rates that was vetoed by the Governor has been restored, but at a lower level (\$73 million cost in 2006-07; \$9 million savings in 2007-08 and 2008-09); funding levels for graduate medical education grants (\$36 million), volume adjustment rates (\$23 million), and inpatient detoxification (\$23 million) have been returned to “pre-veto” levels; and rate increases were approved for emergency services (\$7 million growing to \$26 million in 2007-08 and \$36 million in 2008-09) and displaced workers (\$5 million in 2007-08 growing to \$10 million in 2008-09).
  - Pharmacies: Changes in pharmacy costs include elimination of certain modifications to the Preferred Drug Program that were counted on in the Enacted Budget Financial Plan, including physician override provisions (\$56 million) and an upward adjustment to pharmacy reimbursement rates in Medicaid and the Elderly Pharmaceutical Insurance Coverage program, based on a percentage reduction to the average wholesale price (\$36 million cost in 2006-07; \$19 million savings in 2007-08).
  - Medicare Part D: Comprehensive Medicaid coverage for all drugs not covered by Part D will be extended another six months through December 31, 2006 at a cost of \$121 million in 2006-07. Savings in the outyears will be realized as the wrap-around coverage will be limited to certain medications for HIV/AIDS, mental illness, and organ transplants beginning in January 2007 (\$258 million in 2007-08 and \$289 million in 2008-09).
  - Nursing Homes: The automatic increase in 2006-07 reimbursement rates that was vetoed by the Governor has been restored, but at a lower level (\$65 million cost in 2006-07; \$8 million savings



in 2007-08); certain rate “add-ons” were added or restored to “pre-veto” levels (\$40 million growing to \$65 million in 2007-08 and \$90 million in 2008-09); a cost-basis adjustment to adult-care providers' reimbursement rates that would have saved money has been delayed one year (\$13 million cost in 2006-07; \$13 million recurring savings beginning in 2007-08), and various other grants were added. The costs of these changes are expected to be partially offset by additional savings attributable to ongoing efforts to recoup delinquent nursing home assessments (\$33 million).

- All Other: New costs include elimination of a requirement that spouses contribute assets to pay for the cost of long-term care services (\$34 million), increased emergency transportation funding (\$7 million), and additional clinic rate “add-ons” (\$5 million). Savings are expected from the implementation of Federal mandates to close certain long-term care eligibility loopholes (\$7 million growing to \$26 million in 2007-08 and \$34 million in 2008-09).
- **HCRA “Guarantee”:** HCRA is scheduled to expire on June 30, 2007<sup>3</sup>. Following enactment of the 2006-07 budget, the Legislature eliminated mandatory subsidies that the General Fund would have to pay in 2007-08 and 2008-09 to finance HCRA programs. The removal of the planned subsidies results in a projected HCRA current services deficit of roughly \$900 million in 2007-08 growing to \$2.2 billion in 2008-09. However, under the current HCRA appropriation structure, automatic spending reductions will occur if HCRA has insufficient resources to pay for them. It should be noted that the reauthorization of HCRA in earlier years generated new resources or saving actions to restore HCRA solvency without the need for automatic spending reductions.

In addition, legislation was enacted to enhance Medicaid anti-fraud efforts, including the creation of an Office of the Medicaid Inspector General to consolidate enforcement activities; authorization for the Department of Health to upgrade its fraud-detection information technology; the creation of a provider compliance program; and the establishment of criminal penalties for fraudulent health care practices. These efforts are intended to help support audit plan savings and fraud recoveries already budgeted in the 2006-07 Financial Plan. This legislation, however, did not include a fixed term for the Inspector General which could have provided continuity and reduced the likelihood of future disruptions in anti-fraud efforts.

### All Other Session Changes

- **Debt Service for Advanced Micro Devices (AMD)/Other Purposes:** As part of a wide-ranging package of incentives to encourage AMD to build a computer-chip manufacturing plant in New York, the State agreed to bond-finance certain capital construction and related improvements totaling \$650 million. The debt service on the bonds is expected to begin in 2007-08. In addition, the Legislature approved additional capital spending that will be financed with State debt, including economic development grants for cities (\$300 million), a new arena for the New York Nets (\$34 million), redevelopment of the Atlantic Yards in Brooklyn (\$33 million), a new veterinary lab at Cornell University (\$50 million), and Lower Manhattan redevelopment projects (\$25 million).
- **Environmental Protection Fund Increase:** Beginning in 2007-08, the General Fund will make an additional \$25 million annual deposit to the Environmental Protection Fund to support additional capital projects on a pay-as-you-go basis.

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<sup>3</sup> While the current statutory authorization for HCRA expires on June 30, 2007, DOB has prepared a HCRA current services forecast for the period 2006-07 through 2008-09, consistent with the three-year Financial Plan forecast period.

- **All Other:** Includes accelerated aid for Buffalo and Erie County; continuation of funding for Camp Pharsalia; and funding for pilot programs to provide employment services to non-custodial parents.

**Revenue and Spending Revisions**

In addition to legislative session changes, DOB has adjusted its operating projections based on results through the first quarter of the fiscal year and an updated review of program trends<sup>4</sup>. The following table summarizes the revisions.

<b>Summary of General Fund Financial Plan Reestimates - General Fund</b>			
<b>Savings/(Costs)</b>			
<b>(millions of dollars)</b>			
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Receipts	242	(81)	18
Medicaid	156	195	195
Flood Relief (State Share)	(35)	(13)	0
Prisoner Health Care	(18)	(19)	(20)
Public Health	2	30	11
Judiciary Arbitration Award	(14)	(14)	(14)
Substance Abuse Services	(1)	(22)	(27)
Children and Family Services	24	(2)	(26)
All Other	(45)	34	11
<b>TOTAL</b>	<b>311</b>	<b>108</b>	<b>148</b>

Substantive re-estimates since the Enacted Budget Financial Plan include:

- **Receipts:** The revised estimates are based on year-to-date results and DOB’s latest economic forecast. The outyear estimates also reflect lower abandoned property receipts consistent with information provided by OSC.
- **Medicaid:** Spending estimates have been revised based on overall program trends and implementation delays in the Preferred Drug Program.
- **Flood Relief:** The State is providing financial assistance to individuals, businesses, and local governments recently affected by widespread flooding in upstate New York.
- **Prisoner Health Care:** Costs for treating inmates in settings outside of correctional facilities are exceeding projected levels.
- **Public Health:** Savings are mainly related to personal service reestimates and improvements in agency operations.
- **Judiciary Arbitration Award:** An award was granted concerning location pay for court officers.

<sup>4</sup> Operating results through the first quarter are discussed in the section entitled “First Quarter Operating Results.”

- **Substance Abuse Services:** Costs for bed development, cost-of-living adjustments, reductions in Federal aid, and information technology enhancements account for most of the change.
- **Children and Family Services:** Lower projected costs related to the placement of children with handicapping conditions are offset in future years by cost-of-living adjustments and changes in Federal aid.
- **All Other:** Primarily reflects revisions to anticipated Shared Municipal Services grants, an increase in the Lottery aid guarantee related to video lottery terminals (VLTs), greater than anticipated surcharge receipts for the statewide wireless network and lower than planned debt service costs.

**Stabilization Reserve**

- The Enacted Budget Financial Plan projected a balance of \$1.78 billion in the spending stabilization reserve at the end of the 2006-07 fiscal year, with the amount planned to lower the 2007-08 and 2008-09 budget gaps in equal amounts. The additions to the 2006-07 Financial Plan since that time have reduced the projected year-end balance by \$996 million to a total of \$787 million. The entire amount is now shown as lowering the 2007-08 gap.

**2006-07 SPENDING UNDER THE UPDATED FINANCIAL PLAN**

In 2006-07, General Fund spending, including transfers to other funds, is projected to total \$51 billion. State Funds spending, which includes spending from both the General Fund and other funds supported by dedicated taxes, assessments, tuition revenues, HCRA resources and other non-Federal revenues, is projected to total \$78.1 billion in 2006-07. All Funds spending, the broadest measure of the State Budget that includes Federal aid is projected to total \$113.6 billion in 2006-07.

Annual Growth in Spending, 2005-06 Results to 2006-07 Current Forecast (millions of dollars)				
	2005-06	2006-07	Annual Change	
	Results	Current	Dollar	Percent
General Fund	46,495	50,984	4,489	9.7%
State Funds	69,723	78,081	8,358	12.0%
All Funds	104,341	113,607	9,266	8.9%

The updated Financial Plan projects General Fund spending in 2006-07 that is roughly \$140 million higher than forecast at the time of budget enactment. State Funds is up by over \$900 million, mainly due to significant increases in local property tax relief. All Funds spending is now estimated at \$113.6 billion in 2006-07, an increase of \$1.1 billion over the enacted estimate. The main revisions to 2006-07 spending estimates since enactment are summarized in the following table.

<b>Revisions to 2006-07 Spending Forecast</b>			
<b>Enacted Budget to First Quarterly Estimate -- Increases/(Decreases)</b>			
<b>(millions of dollars)</b>			
	<b>General Fund</b>	<b>State Funds</b>	<b>All Funds</b>
<b>2006-07 Enacted Estimate</b>	<b>50,843</b>	<b>77,100</b>	<b>112,463</b>
<b>Session Changes</b>	<b>521</b>	<b>1,425</b>	<b>1,876</b>
Local Property Tax Relief	0	673	673
Medicaid	501	546	967
Other Capital Additions	0	168	168
Erie County/Buffalo Aid	16	16	16
All Other	4	22	52
<b>Reestimates</b>	<b>(380)</b>	<b>(444)</b>	<b>(732)</b>
Medicaid	(156)	(120)	(380)
Medicare Part D (No Financial Plan Impact)	120	120	120
Federal Help America Vote Act	0	0	(100)
Shared Municipal Services Grants	(10)	(10)	(10)
CUNY Aid Consistent with 2005-06	(428)	(428)	(428)
Tribal-State Compact	0	48	48
Flood Relief	35	35	69
Children and Family Services	(24)	(27)	(36)
Prisoner Health Care	18	18	18
Judiciary Arbitration Award	(14)	(14)	(14)
All Other	79	(66)	(19)
<b>2006-07 Spending Estimate</b>	<b>50,984</b>	<b>78,081</b>	<b>113,607</b>
<b>\$ Change</b>	<b>141</b>	<b>981</b>	<b>1,144</b>
<b>% Change</b>	<b>0.3%</b>	<b>1.3%</b>	<b>1.0%</b>

Medicaid revisions, and a reestimate of local aid payments consistent with 2005-06 actual results, are responsible for most of the General Fund spending change since enactment. In addition, the State's emergency Medicare Part D spending, which occurred in the General Fund to cover disruptions caused by Federal implementation problems, has been reimbursed by the Federal government. However, the reimbursement has been reflected in General Fund miscellaneous receipts, thus, spending is higher but there is no Financial Plan impact. Other revisions reflect acceleration of certain aid to Erie County and the City of Buffalo; increased costs from an arbitration award for court officers over location pay differentials; spending for upstate flood relief; higher costs to treat State inmates in outside health facilities; lower costs in Children and Family Services; and slower than expected disbursements for the Shared Municipal Services program. Also, the payment of the City University of New York (CUNY) aid is now assumed to be consistent with its treatment in 2005-06, and 2006-07 miscellaneous receipts are reduced by a like amount.

The State Funds changes are consistent with the General Fund revisions described above, and include a downward reestimate for CUNY capital spending based on historical experience and an expected increase in spending for local enforcement activities funded from Tribal-State compact revenues.

Consistent with current accounting treatment, capital spending for AMD is reflected only in the State's GAAP accounting results, not in budgetary basis reports of actual results. However, to aid transparency, the Updated Financial Plan reflects this and other capital spending for programs financed in the first instance by bond proceeds in the specific programmatic area of responsibility. To conform with reported results, the overall Financial Plan spending total subtracts this spending.

In All Funds, a cut in Federal aid to New York State to protect against terror threats, along with slower spending under the Help America Vote Act and other federally-supported programs, account for the changes.

<b>Size of the Budget</b>			
<b>2006-07 Budget Spending Estimates - Annual Increases/(Decreases)</b>			
<b>(millions of dollars)</b>			
	<b>General Fund</b>	<b>State Funds</b>	<b>All Funds</b>
<b>2005-06 Spending Results</b>	<b>46,495</b>	<b>69,723</b>	<b>104,341</b>
Medicaid	968	1,523	1,803
Other Public Health (including HCRA)	84	616	552
School Aid (Excludes EXCEL)	1,035	1,418	1,434
Other Education Aid	302	275	326
Local Property Tax Relief/STAR	0	828	828
Higher Education	289	608	641
Social Services	119	129	191
Mental Hygiene	349	421	388
Transportation	(89)	213	382
Municipal Aid	164	164	164
Judiciary	204	239	242
General State Charges	426	467	494
Debt Service	50	384	384
All Other	588	1,073	1,437
<b>2006-07 Spending Estimate</b>	<b>50,984</b>	<b>78,081</b>	<b>113,607</b>
<b>Annual \$ Change</b>	<b>4,489</b>	<b>8,358</b>	<b>9,266</b>
<b>Annual % Change</b>	<b>9.7%</b>	<b>12.0%</b>	<b>8.9%</b>

**Medicaid:** Higher costs are driven by the State cap on local Medicaid expenditures (\$525 million), the State takeover of Family Health Plus (\$239 million), and steady increases in utilization including the total number of recipients, medical inflation including drug price increases (roughly \$720 million), as well as delayed Federal aid and other program changes (roughly \$375 million). The updated Financial Plan includes roughly \$1.0 billion in enacted Medicaid savings and cost avoidance, including limiting the "wrap-around" prescription drug benefit for people eligible for both Medicare Part D and Medicaid and adjustments to hospital, nursing home and pharmacy payment rates; stepped-up anti-fraud activities; efforts to recoup delinquent nursing home assessments; and a range of other cost-saving measures.

**Other Public Health (HCRA):** Increases are primarily the result of higher spending for Graduate Medical Education, Healthy New York, AIDS Drug Assistance Program and cancer services, as well as Enacted Budget targeted investments for anti-tobacco programs, Physicians Excess Medical Malpractice, and

stockpiling medications and supplies for Avian Flu. Other increases are due to accelerated HEAL NY capital spending and growth in the Elderly Pharmaceutical Insurance Coverage as a result of the rising cost of prescription drugs and increasing enrollment.

**School Aid:** An increase of nearly \$1.3 billion in school aid on a school year basis was enacted. Annual increases are provided for most categories of aid, including Sound Basic Education (SBE) Aid (\$375 million), Supplemental Extraordinary Needs Aid (\$136 million), Excess Cost Aid (\$125 million), Transportation Aid (\$99 million), Building Aid (\$92 million), Flex Aid (\$85 million), Tax Limitation Aid (\$77 million), BOCES (\$58 million), and additional Pre-K (\$50 million), as well as other categorical and formula-based programs. Roughly 70 percent of the school year increase is paid in the State's fiscal year.

**School Construction (EXCEL):** During fiscal year 2006-07, the State expects to finance \$1.8 billion of the \$2.6 billion EXCEL program. The program provides \$1.8 billion for school construction financing to New York City, \$400 million to other "high needs" school districts, and \$400 million to all other school districts based on a per-pupil formula. As noted above, based on current accounting treatment, spending for EXCEL is not reflected in actual cash-basis results since spending will occur directly from bond proceeds.

**Other Education Programs:** Spending is driven by enrollment and cost increases in special education programs; additional funding for legislatively-directed education-related programs; aid enhancements for libraries; public broadcasting; vocational rehabilitation services; math and science high schools; and increases for agency operations.

**Local Property Tax Relief/STAR:** Reflects the new local property tax rebate/credit program (\$673 million) and growth in the existing STAR program associated with changes in property valuations, school tax rates, increased number of STAR exemptions, and an enhancement in the benefit for senior citizens.

**Higher Education:** The Budget authorizes an expansion of the State University of New York (SUNY) and the City University of New York (CUNY) capital programs, and operating increases for senior and community colleges. Eligibility limits on TAP partially offset the growth in aid to public universities.

**Social Services:** Public Assistance caseloads continue to decline, but cost-of-living adjustments for foster care workers and the loss of one-time offsets drive spending growth.

**Mental Hygiene:** Additional funding is provided for community-based initiatives, as well as capital improvements and operating inflationary costs at State facilities and programs. Savings are generated by maximizing Federal aid, audit recoveries, overtime controls, and efficiency savings for certain local programs.

**Transportation:** Reflects the acceleration of \$245 million in State Funds transit aid from 2005-06 to 2006-07, and additional capital spending pursuant to the second year of the Department of Transportation (DOT) five-year Capital Plan.

**Municipal Aid:** Reflects second year increases in funding for local governments under the Aid and Incentives for Municipalities program, as well as additional unrestricted aid.

**Judiciary:** Growth is primarily due to increased operational costs including proposed salary increases, consistent with the Judiciary's budget request.

**General State Charges:** Premiums for the State employee health plan are projected to increase by 8.5 percent in 2006-07. Spending growth is also attributable to increases in the State's pension contribution rate applied to higher salary costs.

**Debt Service:** Increases in bond-financed capital spending drive most of the growth in debt service.

Based on current accounting treatment, roughly \$3.6 billion of capital spending for projects spent directly from bond proceeds is not reflected in the State's budgetary basis results. A table at the end of this Updated Financial Plan details the \$3.6 billion in 2006-07 "off-budget" capital spending, which is roughly \$2.6 billion more than 2005-06 (mostly for EXCEL and AMD).

**2006-07 RECEIPTS UNDER THE UPDATED FINANCIAL PLAN**

<b>Total Receipts (millions of dollars)</b>				
	<b>2005-06 Results</b>	<b>2006-07 First Quarterly Update</b>	<b>Annual Change</b>	<b>Percent Change</b>
General Fund	47,206	50,005	2,799	5.9%
State Funds	71,728	75,396	3,668	5.1%
All Funds	107,027	111,214	4,187	3.9%

<b>Summary of Tax Reduction</b>			
	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
<b>Enacted Budget Tax Reductions</b>	<b>(866)</b>	<b>(863)</b>	<b>(892)</b>
<b>End of Session Tax Reductions</b>	<b>(789)</b>	<b>(450)</b>	<b>(1,123)</b>
Sales Tax on Gasoline & Diesel	(108)	(127)	(127)
Property Tax Rebate/Credit	(675)	0	(675)
NYC STAR	2	(213)	(213)
STAR Additional Participation	0	(80)	(80)
All Other	(8)	(30)	(28)
<b>Total Tax Reductions</b>	<b>(1,655)</b>	<b>(1,313)</b>	<b>(2,015)</b>

<b>Annual Receipts</b>			
<b>2006-07 Budget Receipts Estimates - Annual Increases/(Decreases)</b>			
<b>(millions of dollars)</b>			
	<b>General Fund</b>	<b>State Funds</b>	<b>All Funds</b>
<b>2005-06 Receipts Results</b>	<b>47,206</b>	<b>71,728</b>	<b>107,027</b>
Personal Income Tax	1,911	3,377	3,377
User Taxes and Fees	(392)	(299)	(299)
Business Taxes	395	389	389
Other Taxes	43	(46)	(46)
Miscellaneous Receipts	406	79	51
Federal Grants	180	168	715
Transfers	256	n/ap	n/ap
<b>2006-07 Receipts Estimate</b>	<b>50,005</b>	<b>75,396</b>	<b>111,214</b>
<b>Annual \$ Change</b>	<b>2,799</b>	<b>3,668</b>	<b>4,187</b>
<b>Annual % Change</b>	<b>5.9%</b>	<b>5.1%</b>	<b>3.9%</b>

## **2006-07 REVENUES UNDER THE UPDATED FINANCIAL PLAN**

General Fund receipts, including transfers from other funds, are now projected to total \$50.0 billion in 2006-07, a downward revision of \$855 million from the Enacted Budget estimate. The revised estimate is primarily the result of two factors: one, legislative changes enacted at the end of the 2006-07 session valued at \$789 million; and two, a reduction in the miscellaneous receipts estimate of \$428 million resulting from a change in the form of an intergovernmental transaction. Upward revisions to the estimates for the corporate franchise tax and the real estate transfer tax, based on collections to date, partially offset these changes. All Funds tax receipts are projected to total \$57.1 billion in the current year, an upward revision of nearly \$160 million from Enacted Budget estimates.

### **Personal Income Tax (PIT)/Revenue Bond Tax Fund**

Compared to the Enacted Budget estimate, All Funds PIT receipts for 2006-07 are revised down by \$28 million. The small change in the estimate results from including a portion of the cost of the Empire State Film Production credit under the income tax. A \$50 million increase in estimated delinquency collections is offset by a \$50 million increase in refund payments related to the 2005 tax year. There are no other changes to the PIT component estimates for 2006-07.

All Funds 2006-07 PIT receipts are projected to increase by \$3.4 billion or 11.0 percent over the prior year, principally reflecting growth in withholding of \$1.6 billion (6.7 percent), estimated taxes of \$1.0 billion (10.9 percent) and lower refunds of \$435 million (7.6 percent). The decline in 2006-07 refunds is primarily attributable to the \$552 million increase in 2005 tax year refunds paid in last quarter of 2005-06.



General Fund PIT receipts are revised down by \$526 million in 2006-07 from Enacted Budget estimates. This primarily reflects the impact of the real property STAR tax rebates that will increase the amount of PIT receipts transferred to the STAR Fund by \$675 million, offset by a reduction in the amount of receipts transferred to the Revenue Bond Tax Fund (RBTF) of \$175 million.

Compared to the Enacted Budget estimate, General Fund PIT receipts for 2007-08 are revised down by \$367 million (1.5 percent). The reduction is attributable to a slight decrease in forecasted wages that is anticipated to reduce receipts from withholding by \$200 million from Enacted Budget estimates. The decrease also reflects transfers to the STAR Fund of \$212 million reflecting the increase in the STAR credit for New York City enacted with the STAR rebate program. The STAR transfer is also increased by \$80 million to reflect an increase in anticipated participation in the basic STAR program. The total \$292 million increase in the transfer to STAR is offset by an expected reduction in the transfer to the RBTF (\$122 million). PIT receipts for 2007-08 anticipate that the school tax PIT credit authorized in the legislation enacted in June, will replace the 2006 STAR rebate program. In addition, estimates reflect the impact of new credits provided for the replacement of home heating systems and the use of bio-fuel for heating purposes.

Compared to the Enacted Budget estimate, General Fund PIT receipts for 2008-09 are projected to decrease by \$807 million (3.1 percent). The projections anticipate that the school tax PIT credit for tax year 2007 will increase refunds by approximately \$675 million.

### **Business Taxes**

Compared to the Enacted Budget estimate, All Funds business tax receipts for 2006-07 are revised upward by \$168 million or 2.3 percent. The change is attributable to stronger-than-anticipated growth in corporate profits that is estimated to increase corporate franchise tax receipts by about \$278 million from Enacted Budget estimates, offset by downward revisions to estimated receipts from the bank tax (\$85 million) and the petroleum business tax (\$25 million). Estimated All Funds receipts for insurance taxes and corporate and utilities taxes remain unchanged from the Enacted Budget.

All Funds 2006-07 business tax receipts are projected to increase by \$389 million or 5.5 percent over the prior year. The overall increase in the business tax category is due primarily to growth in the corporate franchise tax (13.2 percent), insurance tax (9.5 percent) and petroleum business tax (1.9 percent), offset by declines in corporate and utility taxes (4.9 percent) and the bank tax (10.1 percent).

Compared to the Enacted Budget estimate, General Fund business tax receipts are revised up by \$176 million in 2006-07, reflecting stronger-than-expected growth in corporate franchise tax receipts (\$251 million), offset by a reduction in estimated bank tax receipts (\$75 million). Estimated General Fund receipts from the insurance taxes and corporate and utilities taxes remain unchanged from the Enacted Budget.

Compared to the Enacted Budget, the General Fund corporate franchise tax estimate is increased by \$565 million over the 2007-08 and 2008-09 period, while the General Fund bank tax forecast is reduced by \$150 million over the two years. Projected General Fund receipts from the insurance taxes and corporate and utilities taxes for 2007-08 and 2008-09 remain unchanged from the Enacted Budget.

### **User Taxes and Fees**

Compared to the Enacted Budget estimate, All Funds user taxes and fees for 2006-07 are reduced by \$58 million or 0.4 percent. The decrease primarily reflects the tax law change of capping sales and compensating

use taxes on motor fuel and diesel motor fuel at 8 cents per gallon offset by a reclassification of motor vehicle fees.

All Funds 2006-07 user taxes and fees are projected to decrease by \$298 million or 2.1 percent from 2005-06. The decline in 2006-07 is attributable to a decrease in sales and use tax collections from the enactment of the permanent exemption on clothing and footwear priced under \$110 and the tax law change of capping sales and compensating use taxes on motor fuel and diesel motor fuel at 8 cents per gallon.

Compared to the Enacted Budget estimate, General Fund user taxes and fees for 2006-07 are projected to decrease by \$76 million or 0.1 percent. This decrease reflects the tax law change of capping sales and compensating use taxes on motor fuel and diesel motor fuel at 8 cents per gallon.

Compared to the Enacted Budget estimate, General Fund user taxes and fees for 2007-08 and 2008-09 are projected to decrease by \$92 million or 0.1 percent. The decrease is primarily due to the tax law change of capping the State sales and compensating use taxes on motor fuel and diesel motor fuel at 8 cents per gallon.

### **Other Taxes**

Compared to the Enacted Budget estimate, All Funds receipts estimates for other taxes are increased \$78 million or 4.6 percent for 2006-07 due primarily to growth in estate tax and real estate transfer tax collections. The estate tax estimate has been revised up by \$26 million from the Enacted Budget estimate. This increase is due to the high volume of large estate tax payments received during the first quarter of the year and the continued strong growth in small estate tax collections. The real estate transfer tax estimate has increased by \$50 million as this source continues to show positive performance through the first quarter of the fiscal year. The balance of the revised estimate is the result of collections from audits of the gift tax and real property gains tax.

All Funds 2006-07 other tax receipts are projected to be \$46 million or 2.5 percent less than the prior year. The year over year decline is attributable to the expected weakness in real estate transfer tax collections compared to last year.

Projected All Funds receipts are revised upward by \$77 million for 2007-08 and \$74 million for 2008-09 from the Enacted Budget estimates to reflect base changes to the 2006-07 estimate.

Compared to the Enacted Budget estimate, the 2006-07 General Fund other taxes estimate is increased by \$28 million or 3.1 percent. The increase is primarily due to greater-than-expected estate tax collections to date. Projected General Fund receipts from the estate tax are increased \$27 million for 2007-08 and \$24 million for 2008-09. Estimates for the remaining taxes are unchanged.

### **Miscellaneous Receipts**

General Fund miscellaneous receipts estimates have been decreased by \$522 million in 2006-07 compared to the Enacted Budget estimate. The revision is mainly attributable to savings actions that are now expected to occur as lower spending rather than as higher receipts, and the reclassification of certain Federal grants.

## PROJECTED 2006-07 YEAR-END BALANCES

DOB projects the State will end the 2006-07 fiscal year with a General Fund balance of \$2.3 billion. This balance is not a surplus from 2006-07 operations, but reflects \$1.0 billion in long-term undesignated reserves and \$1.3 billion previously set aside to finance existing or planned commitments.

General Fund Estimated Closing Balance 2006-07					
(millions of dollars)					
			2006-07		Current
	Executive	Change	Enacted	Change	
<b>Closing Fund Balance</b>	<b>3,833</b>	<b>(559)</b>	<b>3,274</b>	<b>(996)</b>	<b>2,278</b>
<b>General Reserves</b>					
Statutory Rainy Day Reserve Fund	945	(1)	944	0	944
Contingency Reserve Fund	21	0	21	0	21
<b>Designated Reserves</b>					
Spending Stabilization Reserve	2,106	(323)	1,783	(996)	787
Collective Bargaining Reserve	275	(275)	0	0	0
Debt Reduction Reserve	250	0	250	0	250
Community Projects Fund	236	40	276	0	276

The long-term reserves consist of \$944 million in the State's Rainy Day Reserve, which has a balance that is at the statutory maximum of 2 percent of spending, and \$21 million in the Contingency Reserve for litigation risks. The reserves previously set aside for planned commitments include \$276 million in the Community Projects Fund to finance existing legislative and gubernatorial initiatives, \$787 million in a spending stabilization reserve (the amount of the 2005-06 surplus remaining after balancing the 2006-07 budget) that is planned to lower the projected 2007-08 budget gap, and \$250 million for debt reduction.

It is expected that the money for debt reduction will be used by the end of the fiscal year to reduce high cost debt and future debt service costs. If that happens, the General Fund closing balance in 2006-07 would be \$2.0 billion.

## FIRST QUARTER OPERATING RESULTS

### GENERAL FUND

The General Fund ended the first quarter of the 2006-07 fiscal year with a cash balance of \$4.5 billion, \$25 million lower than the Enacted Budget projection. Spending was \$139 million below planned levels, while receipts were \$164 million lower-than-expected. The spending variance reflects in large part the timing of payments related to retroactive labor settlements, which were forecasted to occur in June, but are now expected in August.

2006-07 Fiscal Year				
Year-to-Date (First Quarter) Results through June 2006				
General Fund Results vs. Enacted Budget Forecast				
(millions of dollars)				
	Enacted Forecast	Actual Results	Favorable/ (Unfavorable) vs. Plan	Increase/ (Decrease) from Prior Year
<b>Opening Balance (April 1, 2006)</b>	<b>3,257</b>	<b>3,257</b>	<b>n/a</b>	<b>711</b>
<b>Receipts</b>	<b>15,117</b>	<b>14,953</b>	<b>(164)</b>	<b>2,131</b>
Personal Income Tax	7,308	7,252	(56)	1,138
User Taxes and Fees	2,101	2,040	(61)	(182)
Business Taxes	1,484	1,410	(74)	125
All Other Taxes, Receipts & Grants	878	975	97	731
Transfers From Other Funds	3,346	3,276	(70)	320
<b>Disbursements</b>	<b>13,863</b>	<b>13,724</b>	<b>139</b>	<b>1,944</b>
Local Assistance	8,472	8,459	13	663
State Operations				
Personal Service	2,252	1,892	360	123
Non-Personal Service	595	650	(55)	73
General State Charges	1,749	1,932	(183)	1,071
Transfers To Other Funds	795	791	4	16
<b>Change in Operations</b>	<b>1,254</b>	<b>1,229</b>	<b>(25)</b>	<b>187</b>
<b>Closing Balance (June 30, 2006)</b>	<b>4,511</b>	<b>4,486</b>	<b>(25)</b>	<b>479</b>

### General Fund Year-to-Date Results vs. Enacted Budget Projections

Through June 2006, General Fund receipts, including transfers from other funds, totaled nearly \$15.0 billion, which was \$164 million lower than the Enacted forecast. Collections for several taxes fell below expectations, including PIT (\$53 million, primarily due to refunds), user taxes (\$61 million) and business taxes (\$75 million). Results for the estate tax (\$46 million), real estate transfer tax (\$56 million), and miscellaneous receipts and Federal grants (\$50 million) exceeded planned levels.

General Fund disbursements, including transfers to other funds, totaled \$13.7 billion, \$139 million below the Enacted Budget estimate. In State Operations, spending came in \$306 million below expectations, primarily due to retroactive contract payments to public safety unions not occurring as quickly as planned. In General State Charges, accelerated payments in May and June 2006 of pension obligations originally planned for July (\$172 million) accounted for most of the \$183 million in over-spending. Local assistance spending for the quarter was \$13 million below projections. Higher local claiming in the first quarter for the preschool special education program, payments for adult shelter services, and an acceleration of a planned payment to Yonkers were offset by lower-than-expected disbursements for Medicaid, Children and Families, Medicaid administration, and a range of other programs. Transfers to other funds were slightly above planned levels.

**General Fund Annual Disbursements Change (First Quarter)**

Through June 2006, total taxes, before the deposits to the debt service funds and the School Tax Relief Fund, increased by \$1.1 billion, or 12 percent, compared to the same period in 2005-06. This increase is largely attributable to continued economic improvement in 2005, strong payments on personal income tax liability and the continued strength in the real estate market.

General Fund spending through June 2006 was \$1.9 billion, or 14 percent, higher than actual results through the same period for fiscal year 2005-06. The increase in year-to-year spending is concentrated in Medicaid (up \$345 million) due to an extra weekly cycle in May 2006, Medicare Part D implementation, and the State takeover initiatives, and in School Aid (\$312 million). Other sources of growth include higher personal service costs (\$123 million) due to contractual salary increases and regular movement through grade levels, and higher pension costs due primarily to earlier payment of obligations to lower interest costs (\$1.1 billion).

**ALL FUNDS**

2006-07 Fiscal Year				
Year-to-Date (First Quarter) Results through June 2006				
All Governmental Funds Results vs. Enacted Budget Forecast				
(millions of dollars)				
	Enacted Forecast	Actual Results	Favorable/ (Unfavorable) vs. Plan	Increase/ (Decrease) from Prior Year
<b>Total Disbursements</b>	<b>25,746</b>	<b>25,491</b>	<b>255</b>	<b>2,435</b>
General Fund*	13,068	12,933	135	1,930
Special Revenue Funds	10,587	10,602	(15)	585
Capital Projects Funds	1,273	1,175	98	(10)
Debt Service Funds	818	781	37	(70)

\* Excludes Transfers

**All Funds Year-to-Date Results vs. Enacted Budget Projections**

Through June 2006, All Funds disbursements totaled nearly \$25.5 billion, \$255 million under Enacted Budget projections. In addition to the General Fund variance, described earlier, Capital Projects and Debt Service funds spending were also below Enacted forecasts by \$98 million and \$37 million, respectively.

Lower Capital spending was primarily due to the timing of transportation projects financed from the Dedicated Highway and Bridge Trust Fund (\$58 million) and various Housing programs financed from the Housing Program Fund (\$20 million). Debt Service reflected payments disbursed in early July rather than June, as projected.

### **All Funds Annual Change (First Quarter)**

Compared to the same period in 2005-06, All Funds spending was up \$2.4 billion. Special Revenue Funds disbursements were \$585 million higher, due primarily to an increase in Federal Medicaid spending. The Capital Projects Funds decrease from the prior year is due to the timing of accounting reclassifications within the Dedicated Highway and Bridge Trust Fund. Lower Debt Service Funds spending versus the prior year largely reflects the continued implementation of the PIT Revenue Bond program, which is gradually replacing more expensive financing programs.

## **ECONOMIC FORECAST**

### **THE NATIONAL ECONOMY**

The U.S. economy entered the year with significantly more strength than originally estimated by the U.S. Bureau of Economic Analysis (BEA), exhibiting first quarter growth of 5.6 percent. However, as anticipated in the Enacted Budget forecast, all indicators point to a significant slowdown from the economy's first quarter growth. Persistently high energy prices, rising interest rates, and a cooling housing market, all appear to be generating a drag on economic growth. These developments leave DOB's economic outlook relatively unchanged from the Enacted Budget forecast. Based on revised first quarter data, DOB now projects growth in real U.S. GDP of 3.5 percent for 2006, with the economy expected to lose considerable momentum over the course of the year. Growth of 2.7 percent is projected for 2007, a rate of economic expansion slightly below the nation's long-term trend rate projected for much of the forecast horizon.

Strong corporate earnings, boosted by high energy sector profits, raised corporate profits from current production well beyond expectations for the first quarter. Consequently, DOB now projects corporate profits to rise by almost 25 percent for 2006. However, profit growth is expected to decelerate significantly from its first quarter peak and fall to 3.8 percent for 2007. Consistent with the overall slowing of the economy, employment growth slowed significantly in the second quarter, but only slightly more than anticipated in the Enacted Budget. DOB's forecast for employment growth for this year is virtually unchanged at 1.5 percent. Consistent with moderate employment growth, wages and salaries are now expected to grow 4.9 percent for 2006, following growth of 6.0 percent in 2005. Total personal income is expected to grow 5.6 percent for this year, following growth of 5.4 percent for 2005. The change in DOB's forecast for personal income and wages for 2006 largely reflect BEA revisions to the underlying fourth quarter 2005 data.

Perhaps the most significant shift in DOB's outlook going forward is in energy prices and their impact on the overall price level. Mounting geopolitical concerns have sent energy prices higher since the Enacted Budget forecast and DOB has altered its outlook for oil prices accordingly. Despite a slowing economy, persistently higher energy prices are expected to result in a higher rate of overall inflation than was reflected in the Enacted Budget forecast. Consumer prices rose at a seasonally adjusted annualized rate of 5 percent in the second quarter, prompting yet another 25 basis point increase in the Federal Reserve's short-term interest rate target at the end of June. DOB currently projects consumer price inflation of 3.5 percent for 2006, following growth of 3.4 percent for 2005. One additional increase in the Federal funds target rate is expected by the end of the third quarter. Moreover, it now appears that expectations for a slowing economy have

augmented the decline in the term premium, bringing long-term interest rates down from their June highs. DOB now expects the ten-year Treasury yield to average 5.1 percent for 2006.

The risks outlined in the Enacted Budget forecast still pertain. A direct attack on the homeland remains the greatest risk to the U.S. forecast, but geopolitical concerns originating elsewhere also pose a risk to the national economy, particularly through higher energy prices. Without the buffer of a strong housing market, the risks to household spending from rising energy prices and interest rates are even greater. In addition, if the economy slows more rapidly than DOB now expects, the resulting pace of employment and income growth may not be enough to compensate for the negative impact on spending of rising prices and a weaker housing market. Should the Federal Reserve raise interest rates by more than is necessary to reduce inflationary pressures, these risks are heightened even further. Excessive volatility in equity prices represents an additional source of uncertainty going forward. In contrast, slower growth in long-term interest rates may lead to stronger corporate profits and equity market growth than projected for 2006. Stronger job growth or lower than anticipated energy prices could similarly result in a stronger national economy than projected.

<b>Major U.S. Economic Indicators</b>			
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Gross Domestic Product (real)	3.5	3.5	2.7
Personal Income	5.4	5.6	5.9
Corporate Profits	16.4	23.5	3.8
Consumer Price Index	3.4	3.5	2.6

Note: Projected growth rates are percent changes, calendar year basis.  
 DOB estimates are based on National Income and Product Account data through June 2006.  
 Source: Moody's Economy.com, DOB staff estimates.

## **THE NEW YORK STATE ECONOMY**

Consistent with the Enacted Budget forecast, the New York State economy will begin a fourth year of expansion at the end of the summer, but at a slower pace of growth than observed last year. The most recent data continue to indicate that the State's economic momentum peaked during the first half of 2005, presaging the national slowdown that is only currently becoming visible in the data. Because of the State's position as a financial market capital, the State economy was expected to be more sensitive to the Federal Reserve's ongoing policy of monetary tightening than the economies of other states. While the health, education, professional and business services, and tourism sectors are expected to continue to lead State economic growth, the overall pace of growth is expected to slow going forward. Total State employment growth of 0.7 percent is now projected for 2006, following growth of 0.9 percent in 2005. Private sector employment growth is now projected to slow to 0.8 percent for this year, following growth of 1.0 percent in 2005. The employment outlook for 2007 remains unchanged from the Enacted Budget forecast.

Based on the most recent New York State Department of Labor data, DOB now projects growth in State wages of 5.1 percent for 2005 and 5.4 percent for 2006. Based largely on the revision to the base year wage forecast, total State personal income is now projected to have grown 5.3 percent for 2005, while projected

growth for 2006 remains at 5.9 percent. For 2007, personal income growth has been revised down slightly to 5.2 percent, while wage growth remains unchanged at 5.2 percent.

All of the risks to the U.S. forecast apply to the State forecast as well, although interest rate risk and equity market volatility pose a particularly large degree of uncertainty for New York. The risk to the national expansion should the central bank tighten more than is necessary to keep inflation in check is amplified for New York. The impact of rising rates on the State's housing sector also continues to pose a risk. Should the State's real estate market cool more rapidly than anticipated, household consumption and taxable capital gains realizations could be negatively affected. Rising energy prices pose a particular risk to the State's tourism sector. In contrast, should the national and world economies grow faster than expected, an upturn in equity markets and other financial market activity could result in higher wage and bonus growth than projected. In addition, stronger growth in U.S. corporate profits could boost State employment growth beyond current expectations.

<b>Major New York Economic Indicators</b>			
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Personal Income	5.3	5.9	5.2
Nonagricultural Employment	0.9	0.7	0.7
Unemployment Rate	5.0	4.7	4.5

Note: Numbers above are percent changes for personal income and nonagricultural employment and percents for the unemployment rate, calendar year basis. Data for 2006 and 2007 are projected by DOB.

Source: Moody's Economy.com, NYS Department of Labor, DOB staff estimates.



## **RISKS TO THE FINANCIAL PLAN**

In any year, the Financial Plan is subject to risks that, if they were to materialize, could affect operating results. Notable risks include the following:

**School Finance Litigation:** In 2003, the State Court of Appeals found that the State's school financing system failed to provide students in New York City with an opportunity for a SBE, in violation of the State Constitution. The State's SBE aid program that began in 2005-06 is part of an effort to comply with the State Court of Appeals ruling. On May 8, 2006, the Court of Appeals authorized an expedited briefing schedule to hear arguments related to the State's compliance with the Court's order. Oral arguments may occur as early as September 2006.

The 2006-07 Budget includes \$700 million in SBE Aid in the 2006-07 school year, of which approximately 60 percent is for New York City (an increase of roughly \$225 million in 2006-07). Approximately 40 percent of "traditional" school aid (which increased \$1.3 billion statewide in the 2006-07 school year) is provided to New York City. The State's Financial Plan projects traditional school aid increases of roughly \$500 million annually. In addition, VLT revenues are forecast to total \$328 million in State fiscal year 2006-07, \$820 million in State Fiscal Year 2007-08 and \$1.3 billion in State fiscal year 2008-09, with the entire amount earmarked to finance SBE Aid. Delays in the opening of currently authorized VLT facilities or the failure to approve proposed expansion of the number of authorized facilities would adversely affect the level of VLT revenues available to finance SBE Aid. Specifically, the VLT estimate for 2007-08 is dependent on an October 2007 opening of the Aqueduct VLT facility. However, the contract for development of the VLT facility at Aqueduct has not been finalized. If the contract is executed and construction commences in the near future it is possible for Aqueduct to begin operations by this date. However, if delays in facility development persist, at the mid-year update it may be necessary to revise the assumed start date and lower the estimated receipts from the Aqueduct facility in 2007-08. In addition, VLT estimates beginning in 2008-09 depend upon the passage of legislation authorizing an expansion in the number of VLT facilities. Without the timely adoption of an expansion by the Legislature it is unlikely that the state would receive any additional revenue from expansion prior to the 2009-10 fiscal year. It should be noted that the Legislature has failed to adopt expansion legislation for the past three years. It should become clear by early 2007 whether the expansion necessary to support the VLT receipt assumptions is viable.

To directly address the New York City school construction funding directed by the Court, the Budget further authorizes (1) \$1.8 billion in capital grants for New York City school construction, and (2) the City's Transitional Finance Authority to issue \$9.4 billion in bonds for school construction, which will be financed in part with State building aid payments.

Litigation is ongoing and there is no assurance that these remedies will be sufficient to meet the Court's standards, or that other litigation will not arise related to the adequacy of the State's school financing system.

**Federal Actions:** At the request of the Federal government, the State discontinued intergovernmental transfer payments in 2005-06 pending Federal approval of a State Plan Amendment (SPA). The SPA was approved late in the 2005-06 fiscal year for a one-year term only and must be resubmitted annually. These payments are related to disproportionate share hospital payments to public hospitals throughout the State, including those operated by the New York City Health and Hospital Corporation, SUNY and the counties. If these payments are not approved in 2006-07 and beyond, the State's health care financing system could be adversely affected.

**Labor Contracts:** Existing labor contracts with all the State's major employee unions are set to expire at the end of 2006-07. The Updated Financial Plan does not set aside any reserves for future collective bargaining agreements in 2007-08 or beyond. Each future 1 percent salary increase would cost roughly \$83 million annually in the General Fund and \$129 million in All Funds.

**Miscellaneous Receipts:** The State Financial Plan projections for 2007-08 and beyond assume approximately \$500 million annually in receipts that are the subject of ongoing negotiations between the State and counties and New York City. Actual receipts in 2005-06 were \$450 million below planned levels, which was offset by a reduction in spending for State aid to localities. The State now expects to take comparable action in 2006-07.

**School Supportive Health Services:** The Office of the Inspector General of the United States Department of Health and Human Services (OIG) is conducting six audits of aspects of New York State's School Supportive Health Services program with regard to Medicaid reimbursement that cover \$1.4 billion in claims submitted between 1990 and 2001. To date, OIG has issued four final audit reports, which cover claims submitted by upstate and New York City school districts for speech pathology and transportation services. The final audits recommend that the Centers for Medicare and Medicaid Services (CMS) disallow \$173 million of the \$362 million in claims for upstate speech pathology services, \$17 million of \$72 million for upstate transportation services, \$436 million of the \$551 million in claims submitted for New York City speech pathology services, and \$96 million of the \$123 million for New York City transportation services. New York State disagrees with the audit findings on several grounds and has requested that these be withdrawn. If these recommended disallowances are not withdrawn Federal regulations do include an appeals process that could postpone repayment of any disallowances.

While CMS has not taken any action with regard to the disallowances recommended by OIG, CMS is deferring 25 percent of New York City claims and 9.7 percent of claims submitted by the rest of the State, pending completion of the audits. Since the State has continued to reimburse school districts for certain costs, these Federal deferrals are projected to drive additional spending of \$161 million over the next three years, which has been reflected in the State's Financial Plan.

## **GENERAL FUND FINANCIAL PLAN PROJECTIONS FOR 2007-08 AND 2008-09**

Absent policy changes, growth in spending is expected to outpace revenues over the next two years, based on DOB's economic forecast and current services projections for the State's major programs.

General Fund receipts are expected to result in roughly 5 percent annual base-level growth over the outyears. The small annual change in expected 2007-08 receipts reflects the impact of the tax law changes that will lower receipts. Spending is projected to grow about 7 percent on average through 2008-09, based on the current services forecast.

DOB currently projects General Fund budget gaps of \$3.2 billion in 2007-08 and \$5.4 billion in 2008-09. For a discussion of the revisions to the gap forecast since budget enactment, see the section entitled "Summary of Changes to the Enacted Budget Financial Plan" earlier in the Updated Financial Plan.

The following chart provides a "zero-based" look at the causes of the 2007-08 budget gap. It is followed by a brief summary of the assumptions behind the projections. For a detailed explanation of the specific

assumptions supporting the revenue and spending projections, see the section entitled "General Fund Financial Plan Financial Plan Projections for 2007-08 and 2008-09."

<b>General Fund Gap Estimate for 2007-08: "Zero-Based" Estimate</b>	
<b>Savings/(Costs)</b>	
<b>(millions of dollars)</b>	
	<u><b>2007-08</b></u>
<b>Receipts</b>	<b>737</b>
Constant Law Growth	3,080
Tax Reductions	(1,590)
Phaseout of Temporary PIT Actions	(425)
Change in RBTF, STAR, LGAC	(765)
All Other	437
<b>Disbursements</b>	<b>(3,636)</b>
Medicaid	(1,044)
Medicaid Cap/Family Health Plus Takeover	(593)
School Aid	(558)
Higher Education	(536)
Welfare/Children and Families	(313)
General State Charges	(316)
Mental Hygiene	(200)
State Operations	(160)
All Other Spending	84
<b>Change in Stabilization Reserve/Other Fund Balances</b>	<b>(267)</b>
<b>BUDGET GAP FOR 2007-08</b>	<b>(3,166)</b>

The gap for 2007-08 is a forecast based on assumptions related to economic performance, revenue collections, spending patterns, and projections for the current services costs of program activities. DOB believes the gap forecast and the assumptions from which it is derived are reasonable. However, as with any forecast, the gap estimate is subject to estimation risks that can lead to significant variations. The most significant assumptions affecting the 2007-08 gap include the following:

1. **Economic growth will continue at a steady pace over the forecast period.** DOB's forecast expects personal income in New York to grow at 5.9 percent in 2006 and 5.2 percent in 2007, bolstered by slow but consistent employment growth and moderate growth in the financial services sector. A significant shock to the economy, such as another terrorist attack, spiraling energy prices, or a steep decline in the housing market, pose the most significant risks to the State economy in the short-run.
2. **Revenues, adjusting for tax law changes, will grow at roughly 5.4 percent in 2007-08.** The growth rate is consistent with DOB's forecast for the economy, but, as in any year, is subject to

significant volatility. Changes in the economic growth rate, Federal law, and taxpayer behavior all have a significant influence on receipts collections.

3. **The majority of the Medicaid cost containment approved annually since 1995 will continue,** providing roughly \$500 million in savings annually over the Financial Plan.
4. **Any shortfall in the HCRA will be closed without the need for additional General Fund resources.** HCRA expires on July 1, 2007. In the past, reauthorization of HCRA has produced new savings actions or revenues that resulted in fully solvent plans that did not require direct General Fund support.
5. **School Aid is projected to increase by roughly \$900 million annually (Including SBE Aid outside the General Fund).** Recent enacted budgets have authorized higher increases. The projections assume that this total level of spending increase will be sufficient to satisfy court directives. SBE Aid is funded by VLT receipts and, in 2006-07, with a subsidy from the General Fund. On a State fiscal year basis, VLT receipts are projected to total \$820 million in 2007-08 and \$1.3 billion in 2008-09. The VLT estimates depend on the opening of Yonkers (expected in September 2006) and Aqueduct (expected in October 2007), and legislative approval of an expansion of VLT gaming. Lack of legislative approval for VLT expansion in recent years and the status of development at the Aqueduct facility constitute a risk to these assumptions. Delays in opening planned facilities or failure to approve expansion would have an adverse impact on VLT receipts. For example, the opening of Aqueduct is valued at \$300 million in 2007-08 and VLT expansion is valued at an additional \$300 million in 2008-09.
6. **Receipts of roughly \$500 million are budgeted in 2007-08 and 2008-09 that are the subject of ongoing negotiations between the State and counties and New York City.** Actual miscellaneous receipts in 2005-06 were \$450 million less than planned but offsetting savings were achieved through a reduction in State aid. A comparable action is expected again in 2006-07.
7. **The entire \$787 million currently being held in the stabilization reserve is projected to be used to lower the 2007-08 gap to \$3.2 billion.**
8. **The Federal government will not make substantive funding changes** to major aid programs, including the Temporary Assistance for Needy Families (TANF), Medicaid, and transportation aid.
9. **The projections for 2007-08 and 2008-09 do not include any extra costs for new labor settlements** once the current contracts expire on April 1, 2007. Thus, the projections assume that any future collective bargaining cost increases will be offset by productivity improvements. Each 1 percent increase is valued at \$83 million in the General Fund and \$129 million in All Funds.
10. **Spending for employee and retiree health care costs assumes an average annual premium increase of 11 percent.** Escalating health care costs, including prescription drugs, will significantly influence future health care premiums. In addition, projections do not include any changes in health care costs driven by new labor settlements once the current contracts expire.

Significant changes to any of these assumptions have the potential to materially alter the size of the budget gap for 2007-08. A detailed discussion of the receipts and disbursement estimates for 2007-08 and 2008-09 follows.

## OUTYEAR GENERAL FUND RECEIPT PROJECTIONS

General Fund receipts, including transfers from other funds, are projected to total \$50.7 billion in 2007-08, an increase of \$737 million from 2006-07 estimates. Receipts are projected to grow by nearly \$1.9 billion in 2008-09 to total \$52.6 billion. The growth in underlying tax receipts for 2006 through 2008 is consistent with average historical growth during the mature stages of an economic expansion. In general, there is significant uncertainty associated with forecasts of receipts more than 18 months into the future. Overall, the tax receipt projections for the outyears follow the path dictated by DOB's forecast of economic growth. History suggests a wide range of potential outcomes around these estimates.

General Fund Receipts Forecast (millions of dollars)					
	2006-07	2007-08	Annual Change	2008-09	Annual Change
Personal Income Tax	22,611	23,547	936	24,884	1,337
User Taxes and Fees	8,247	8,573	326	8,877	304
Business Taxes	5,479	5,591	112	5,714	123
Other Taxes	924	994	70	1,054	60
Miscellaneous Receipts	2,435	2,182	(253)	1,971	(211)
Federal Grants	180	60	(120)	60	0
Transfers from Other Funds					
Revenue Bond Fund	6,971	6,822	(149)	6,966	144
LGAC Fund	2,179	2,276	97	2,375	99
CW/CA Fund	583	510	(73)	512	2
All Other	396	187	(209)	191	4
<b>Total Receipts</b>	<b>50,005</b>	<b>50,742</b>	<b>737</b>	<b>52,604</b>	<b>1,862</b>
<i>Annual Percent Change</i>			1.5%		3.7%

### Taxes

In general, income tax growth for 2007-08 and 2008-09 is governed by projections of growth in taxable personal income and its major components, including wages, interest and dividend earnings, realized taxable capital gains, and business net income and income derived from partnerships and S corporations. In addition, recent past and current tax law changes affect year-over-year comparisons.

General Fund Personal Income Tax (PIT) receipts are projected to increase by \$936 million to just over \$23.5 billion in 2007-08. The change from 2006-07 reflects the impact of the elimination of the temporary surcharge on the growth in base liabilities, and the full-year impact of the Enacted Budget tax reductions discussed above. General Fund PIT receipts for 2008-09 are projected to increase by \$1.3 billion to \$24.9 billion, reflecting growth in liability that is consistent with an expanding personal income base during a period of expected economic growth.

The 2007-08 and 2008-09 projections also assume increases in the other major components of income, consistent with continued growth in the overall economy.

General Fund user taxes and fees receipts for 2007-08 are projected to reach \$8.6 billion, an increase of \$326 million, or 4.0 percent, from 2006-07. Sales tax receipts are projected to increase \$311 million, or 4.1

percent due to a modest growth in the base of the sales tax. Other user taxes and fees in the General Fund are projected to be virtually unchanged from 2006-07.

General Fund user taxes and fees are expected to grow to \$8.9 billion in 2008-09. The economy is expected to continue to grow at trend rates over this period, resulting in sales tax growth consistent with historical averages.

General Fund business tax receipts are expected to increase to \$5.6 billion in 2007-08 and to \$5.7 billion in 2008-09 reflecting trend growth in business tax receipts and the continued impact of the 2006-07 tax reductions described above.

General Fund receipts from other taxes are expected to increase to \$994 million in 2007-08 and \$1.1 billion in 2008-09, primarily reflecting continued growth in estate tax receipts.

### ***Miscellaneous Receipts***

General Fund miscellaneous receipts in 2007-08 are projected to be nearly \$2.2 billion, down \$253 million from the current year. This decrease is primarily the result of revised estimates of abandoned property receipts. In 2008-09, General Fund miscellaneous receipts collections are projected to be nearly \$2.0 billion, down \$211 million from 2007-08. This decrease results from expected declines in licenses and fees, and a decrease in the value of the local government revenue and disbursement program.

### ***Transfer from Other Funds***

Transfers from other funds are estimated to decline \$300 million to \$10.0 billion in 2007-08, and grow to \$10.5 billion in 2008-09. In 2007-08, the projected decline is due to increases in debt service related to PIT Revenue Bonds, the Local Government Assistance Corporation (LGAC) Bonds and Clean Water/Clean Air general obligation debt service (\$481 million), the decline in real estate tax receipts (\$65 million) and the decline in all other transfers (\$225 million) due in part to the loss of non-recurring fund sweeps. These variances are partially offset by projected increases in PIT and sales tax receipts (\$421 million). In 2008-09, transfers are projected to grow due primarily to the net increase of tax receipts (\$548 million) in excess of debt service payments on revenue bonds (\$303 million).

**OUTYEAR GENERAL FUND DISBURSEMENT PROJECTIONS**

<b>General Fund Disbursement Projections</b> (millions of dollars)					
	<b>2006-07</b>	<b>2007-08</b>	<b>Annual Change</b>	<b>2008-09</b>	<b>Annual Change</b>
<b>Grants to Local Governments:</b>	<b>34,278</b>	<b>37,527</b>	<b>3,249</b>	<b>40,491</b>	<b>2,964</b>
School Aid	14,535	15,093	558	15,626	533
Medicaid	9,259	10,896	1,637	12,914	2,018
Higher Education	1,833	2,369	536	2,441	72
Education Aid - All Other	1,700	1,593	(107)	1,646	53
Mental Hygiene	1,587	1,787	200	1,922	135
Children and Family Services	1,318	1,458	140	1,557	99
Welfare	1,250	1,423	173	1,420	(3)
Local Government Assistance	1,183	1,211	28	1,214	3
Public Health	602	694	92	737	43
All Other	1,011	1,003	(8)	1,014	11
<b>State Operations:</b>	<b>9,503</b>	<b>9,663</b>	<b>160</b>	<b>9,923</b>	<b>260</b>
Personal Service	6,800	6,826	26	6,923	97
Non-Personal Service	2,703	2,837	134	3,000	163
<b>General State Charges:</b>	<b>4,401</b>	<b>4,717</b>	<b>316</b>	<b>4,999</b>	<b>282</b>
Pensions	1,222	1,236	14	1,214	(22)
Health Insurance	2,389	2,682	293	2,963	281
All Other	790	799	9	822	23
<b>Transfers to Other Funds:</b>	<b>2,802</b>	<b>2,713</b>	<b>(89)</b>	<b>2,746</b>	<b>33</b>
Debt Service	1,760	1,768	8	1,749	(19)
Capital Projects	225	248	23	284	36
All Other	817	697	(120)	713	16
<b>Total Disbursements</b>	<b>50,984</b>	<b>54,620</b>	<b>3,636</b>	<b>58,159</b>	<b>3,539</b>
<i>Annual Percent Change</i>			<i>7.1%</i>		<i>6.5%</i>

DOB forecasts General Fund current services spending of \$54.6 billion in 2007-08, an increase of \$3.6 billion (7.1 percent) over 2006-07 projections. Growth in 2008-09 growth is projected at \$3.5 billion (6.5 percent). The growth levels are derived from current services projections based on the 2006-07 Updated Financial Plan. The main sources of annual spending growth for 2007-08 and 2008-09 are itemized in the above table.

## GRANTS TO LOCAL GOVERNMENTS

Annual growth in local assistance is driven primarily by Medicaid and school aid. The following table summarizes some of the factors that affect the local assistance projections over the Financial Plan period.

Forecast for Selected Program Measures Affecting Local Assistance					
	Actual		Forecast		
	2004-05	2005-06	2006-07	2007-08	2008-09
<b>Medicaid</b>					
Medicaid Coverage (excl. FHP)	3,531,938	3,744,808	3,893,762	4,013,762	4,137,460
Medicaid Inflation	4.1%	3.9%	3.8%	3.7%	3.7%
Medicaid Utilization	3.2%	3.7%	3.8%	3.9%	4.0%
State Takeover of County/NYC Costs					
- Family Health Plus (in millions)	\$60	\$289	\$528	\$573	\$573
- Medicaid	N/A	\$113	\$638	\$1,186	\$1,844
<b>Education</b>					
School Aid (School Year - in millions)	\$15,400	\$16,400	\$17,600	\$18,400	\$19,400
K-12 Enrollment	2,850,124	2,826,981	2,810,128	2,810,128	2,810,128
Public Higher Education Enrollment (FTEs)	490,916	496,189	500,070	500,070	500,070
TAP Recipients	336,700	343,881	334,124	334,124	334,124
<b>Welfare</b>					
Family Assistance Caseload	485,500	453,200	441,400	419,200	414,800
Single Adult/No Children Caseload	140,200	146,000	141,700	133,100	132,800
<b>Mental Hygiene</b>					
Mental Hygiene Community Beds	81,446	82,948	84,445	86,105	86,943

### School Aid

On a school year basis, school aid (including funding for SBE Aid) is now projected at \$18.4 billion in 2007-08 and \$19.4 billion in 2008-09. Growth of \$800 million in 2007-08 and \$1.0 billion in 2008-09 reflects traditional school aid increases (\$500 million in each of 2007-08 and 2008-09), and growth in SBE aid. SBE aid is projected at \$700 million in 2006-07 growing to \$1 billion in 2007-08 and \$1.5 billion in 2008-09. The 2006-07 amount includes a \$230 million subsidy from the General Fund.

On a State fiscal year basis, General Fund school aid spending is projected to grow by approximately \$558 million in 2007-08 and \$533 million in 2008-09. This growth is attributable to Building Aid (roughly \$100 million in 2007-08 and 2008-09); special education cost increases (approximately \$125 million in 2007-08 and 2008-09); Transportation Aid (roughly \$125 million in 2007-08 and 2008-09) and growth in other aid categories. Outside of the General Fund, revenues from the general lottery are projected to increase slightly (by \$36 million in 2007-08 and \$65 million in 2008-09) and VLT revenues are projected to increase by roughly \$492 million in 2007-08 and another \$530 million in 2008-09. Outyear VLT estimates assume the start of new operations at two racetracks, Yonkers (in September 2006) and Aqueduct (in October 2007), and the approval of an expansion plan in 2007-08.



The recently enacted \$2.6 billion EXCEL school construction program, which authorizes State bonding for school construction throughout the State, is projected to total \$1.8 billion in 2006-07 and \$400 million each year in 2007-08 and 2008-09. Of the \$2.6 billion, \$1.8 billion is for New York City, \$400 million will go to “high-needs” school districts, while the remaining \$400 million will go to all other school districts based on a per-pupil formula. These districts will be able to use the EXCEL aid to help cover the local taxpayer share of costs for new school building projects.

School districts will be able to use EXCEL funds either in lieu of building aid (provided as part of school aid) or as a supplement to building aid. To the extent that New York City and other school districts use EXCEL funds in lieu of building aid, projected building aid growth could be somewhat dampened as a result of the new EXCEL program. To the extent that EXCEL funds are used in conjunction with building aid to fully fund local school construction costs, there could be an acceleration in school construction that may produce an eventual increase in projected building aid growth. However, any such potential increase in State building aid over the next two to five years should be relatively modest due to: school districts using EXCEL funds to offset the recent construction materials cost increases that may exceed maximum cost allowances; the lead time needed to plan and implement school construction programs; the finite capacity of local school districts to undertake school construction programs; the payment of building aid on an assumed amortization basis; and the lag in initial building aid payments until at least 18 months after construction plans have been approved by the State Education Department (for school districts other than New York City).

### **Medicaid**

General Fund spending for Medicaid, after the impact of 2006-07 actions, is expected to grow by roughly \$1.7 billion in 2007-08 and another \$2.1 billion in 2008-09. This growth results, in part, from the combination of more recipients, higher service utilization, and medical-care cost inflation, including prescription drug prices. These factors are projected to add about \$1.1 billion in 2007-08 and \$1.4 billion in 2008-09. The remaining growth is primarily attributed to the State cap on local Medicaid costs and takeover of local Family Health Plus (FHP) costs growing from \$1.1 billion in 2006-07 to \$1.7 billion in 2007-08 and to \$2.4 billion in 2008-09.

DOB projects the average number of Medicaid recipients will grow to 4 million in 2007-08, an increase of 2.6 percent over the estimated 2006-07 caseload of almost 3.9 million. FHP enrollment is estimated to grow to approximately 748,000 in 2007-08, an increase of 14 percent over projected 2006-07 enrollment of 658,000.

### **Welfare**

Welfare spending, including administration, is projected at \$1.4 billion in 2007-08, an increase of \$173 million (13.9 percent) from 2006-07, and to remain at the same level in 2008-09. Although the caseloads for family assistance and single adult/childless couples are projected to decline (by 5 percent and 6.1 percent, respectively), the loss of offsets to General Fund Public Assistance costs will drive spending growth.

### **Other Local**

All other local assistance programs total \$10.1 billion in 2007-08, an increase of nearly \$900 million over 2006-07 revised levels. This increase consists primarily of growth in mental health and mental retardation programs (\$200 million), children and families services (\$140 million), public health (\$92

million), and local government assistance (\$28 million). In addition, it is expected that local aid payments to New York City will return to prior levels.

### STATE OPERATIONS

Forecast of Selected Program Measures Affecting State Operations					
	Actual		Forecast		
	2004-05	2005-06	2006-07	2007-08	2008-09
<b>State Operations</b>					
Prison Population (Corrections)	63,307	62,890	63,100	63,100	63,100
Negotiated Salary Increases <sup>(1)</sup>	2.5%	2.75%	3.00%	0.0%	0.0%
Personal Service Inflation	0.8%	0.8%	0.8%	0.8%	0.8%
State Workforce	188,925	191,400	191,275	191,675	191,675

(1) Negotiated salary increases include a recurring \$800 base salary adjustment effective April 1, 2007.

State Operations spending in the General Fund is expected to total \$9.7 billion in 2007-08, an annual increase of \$160 million (1.7 percent). In 2008-09, spending is projected to grow by another \$260 million to a total of \$9.9 billion (2.7 percent). In 2007-08, personal service costs increase with an \$800 base salary adjustment effective April 1, 2007, and both years reflect longevity increases. Offsetting the personal service growth from 2006-07 to 2007-08 is the retroactive component associated with the NYSCOPBA<sup>5</sup> award, which does not recur in 2007-08. As noted, there is no provision for additional collective bargaining costs in 2007-08 or 2008-09. Non-personal service spending is projected to grow by roughly 5 percent annually.

### GENERAL STATE CHARGES (GSCS)

Forecast of Selected Program Measures Affecting General State Charges					
	Actual		Forecast		
	2004-05	2005-06	2006-07	2007-08	2008-09
<b>General State Charges</b>					
Pension Contribution Rate	7.0%	8.8%	10.2%	10.2%	10.0%
Employee/Retiree Health Insurance Rate	13.5%	8.2%	8.5%	11.4%	11.1%

GSCs are projected to total \$4.7 billion in 2007-08 and \$5 billion in 2008-09. The annual increases are due mainly to anticipated cost increases in health insurance for State employees and retirees.

The State's pension contribution rate to the New York State and Local Retirement Systems is expected to remain at 10.2 percent in both 2006-07 and 2007-08 with a decline to 10.0 percent in 2008-09. Spending for employee and retiree health care costs is expected to increase by \$293 million in 2007-08 and another \$281 million in 2008-09, and assumes average annual premium increases of 11 percent. Health insurance is projected at \$2.7 billion in 2007-08 (\$1.6 billion for active employees and \$1.0 billion for retired employees) and \$3.0 billion in 2008-09 (\$1.8 billion for active employees and \$1.2 billion for retired employees).

<sup>5</sup> New York State Correctional Officers and Police Benevolent Association.

**TRANSFERS TO OTHER FUNDS**

Forecast of Selected Program Measures Affecting Debt Service					
	Actual		Forecast		
	2004-05	2005-06	2006-07	2007-08	2008-09
<b>State Debt</b>					
Interest on Variable Rate Debt	1.44%	2.65%	3.25%	3.25%	3.30%
Interest on Fixed Rate 30-Year Bonds	5.09%	5.00%	5.65%	6.00%	6.15%

Transfers to other funds are estimated to total \$2.7 billion in 2007-08, essentially the same level as 2006-07. Debt service transfers from the General Fund are projected to remain stable primarily because increases in debt service costs are reflected in State Funds due to the accounting treatment of the personal income tax revenue bond program. All other transfers decline by \$100 million, reflecting a non-recurring General Fund subsidy to support SBE grants financed by VLTs.

**CASH FLOW FORECAST**

In 2006-07, the General Fund is projected to have quarterly-ending balances of \$4.9 billion in September 2006, \$2.5 billion by the end of December 2006, and \$2.3 billion at the end of March 2007. March has the lowest projected month-end cash flow balance. The 2006-07 General Fund cash flow estimates by month appear in the Financial Plan Tables.

**GAAP-BASIS FINANCIAL PLANS/GASB 45**

In addition to the cash-basis Financial Plans, the General Fund and All Funds Financial Plans are prepared on a basis of GAAP in accordance with Governmental Accounting Standards Board (GASB) regulations. Tables comparing the cash basis and GAAP basis General Fund Financial Plans are provided at the end of this Updated Financial Plan. 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.

In 2006-07, the General Fund GAAP Financial Plan shows total revenues of \$42.3 billion, total expenditures of \$52.1 billion, and net other financing sources of \$8.2 billion, resulting in an operating deficit of \$1.6 billion and a projected accumulated surplus of \$562 million. These changes are due primarily to the impact of enacted tax reductions on revenue accruals and a partial use of the 2005-06 surplus to support 2006-07 operations. The GAAP basis results for 2005-06 showed the State in a net positive overall asset condition of \$49.1 billion. The net positive asset condition is before the State reflects the impact of GASB 45 “Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions”. GASB 45 requires State and local governments to reflect the value of post-employment benefits, predominantly health care, for current employees and retirees beginning in 2007-08.

The State has hired an independent actuarial consulting firm to complete the analysis of retiree health care liabilities. A preliminary analysis has been completed by the firm and is currently under review by the State. Assuming there is no pre-funding of this liability, the preliminary analysis, which does not account for City University Senior Colleges, indicates that the present value of the actuarial accrued liability for benefits to date would be roughly \$47 billion under two actuarial methods and \$54 billion under another method. This is based on a 4.1 percent annual discount rate. Any determination to pre-fund this liability via a Trust Fund or

comparable structure would result in a higher discount rate, with a corresponding reduction in the estimated actuarial liabilities.

This liability, which can be amortized over a thirty year period, will be reflected in the 2007-08 fiscal year GAAP-basis financial statements. See “Special Considerations” for more information.

There is no requirement, however, for any additional costs to be funded on the State’s budgetary basis and no funding is assumed for this purpose in the Financial Plan. On a budgetary (cash) basis, the State continues to finance these costs, along with all other employee health care expenses, on a pay-as-you-go basis. Anticipated increases in these costs are reflected in the State’s multi-year Financial Plan.

DOB’s detailed GAAP Financial Plans for 2005-06 through 2008-09 appear in the Financial Plan tables at the end of this Updated Financial Plan.

**2006-07 UPDATED HCRA FINANCIAL PLAN**

<b>HCRA Financial Plan 2006-07 through 2008-09 (millions of dollars)</b>			
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
<b>Opening Balance</b>	<b>1,600</b>	<b>514</b>	<b>(854)</b>
Total Receipts	<u>4,430</u>	<u>3,942</u>	<u>3,963</u>
Conversion Proceeds	1,000	500	550
Surcharges	1,699	1,740	1,722
Covered Lives Assessment	775	775	775
Hospital Assessment (1 percent)	241	242	242
Cigarette Tax Revenue	563	578	569
All Other	152	107	105
Total Disbursements	<u>5,516</u>	<u>5,310</u>	<u>5,344</u>
Medicaid Assistance Account	2,192	1,917	1,900
<i>Pharmacy Costs</i>	625	418	407
<i>Family Health Plus</i>	526	572	566
<i>Workforce Recruitment &amp; Retention</i>	485	370	370
<i>All Other</i>	556	557	557
HCRA Program Account (incl. GME)	1,162	1,086	1,101
Hospital Indigent Care	841	841	841
EPIC	582	626	626
Child Health Plus	365	384	384
Public Health Programs	160	133	133
Mental Health Programs	92	92	92
All Other	122	231	267
<b>Excess/(Deficiency) of Receipts over Disbursements</b>	<u><b>(1,086)</b></u>	<u><b>(1,368)</b></u>	<u><b>(1,381)</b></u>
<b>Closing Balance <sup>(1)</sup></b>	<u><b>514</b></u>	<u><b>(854)</b></u>	<u><b>(2,235)</b></u>

<sup>(1)</sup> Prior to required spending reductions.

- The HCRA Fund for 2006-07 is balanced on a budgetary (cash) basis of accounting, with roughly \$500 million projected to be available at year end for use in 2007-08. The current statutory authorization for HCRA expires on June 30, 2007.
- Since the Enacted Budget, there has been no change to the 2006-07 estimate for receipts, and spending has been modestly increased.

- Outyear operating gaps have been increased to roughly \$900 million in 2007-08 and \$2.2 billion in 2008-09. These increases are primarily due to end-of-session changes that removed the planned General Fund subsidies in each of the outyears.
- However, under the current HCRA appropriation structure automatic spending reductions will occur if HCRA has insufficient resources. These spending reductions could potentially impact core HCRA programs, including the nearly 50 percent of HCRA spending that may affect the General Fund. The reauthorization of HCRA in prior years restored HCRA's solvency without the need for automatic spending reductions.

The table below summarizes the impact of changes since the Enacted Budget on the three-year operating forecast for the HCRA Financial Plan.

<b>Changes to HCRA Operating Forecast for 2006-07 Through 2008-09</b>			
<b>Savings/(Costs)</b>			
<b>(millions of dollars)</b>			
	<u><b>2006-07</b></u>	<u><b>2007-08</b></u>	<u><b>2008-09</b></u>
<b>Opening Fund Balance</b>	<b>1,600</b>	<b>514</b>	<b>(854)</b>
<b>Enacted Budget Operational Surplus/(Gap)</b>	<u><b>(1,000)</b></u>	<u><b>(723)</b></u>	<u><b>(881)</b></u>
<b>Legislative Session Changes:</b>	<u>(12)</u>	<u>(627)</u>	<u>(486)</u>
Remove General Fund "Guarantee"	0	(627)	(486)
All Other Spending Changes	(12)	0	0
<b>Reestimates:</b>	<u>(74)</u>	<u>(18)</u>	<u>(14)</u>
Bad Debt Charity Care Clinic Payments	(36)	(36)	(36)
Workforce Recruitment and Retention Grants	(39)	(1)	(1)
Health Care Stabilization Grants	(10)	0	0
Anti-Tobacco Savings	10	10	0
Workforce Retraining	0	7	7
All Other	1	2	16
<b>Additional Use of Fund Balance</b>	<u><b>(86)</b></u>	<u><b>(645)</b></u>	<u><b>(500)</b></u>
<b>Current Budget Operational Surplus/(Gap)</b>	<u><u><b>(1,086)</b></u></u>	<u><u><b>(1,368)</b></u></u>	<u><u><b>(1,381)</b></u></u>
<b>Closing Balance <sup>(1)</sup></b>	<b>514</b>	<b>(854)</b>	<b>(2,235)</b>

<sup>(1)</sup> Prior to required spending reductions.

The updated HCRA Financial Plan projects disbursements will exceed receipts by nearly \$1.1 billion in 2006-07, which will be financed by the significant fund balance available at the beginning of the fiscal year as a result of the receipt of \$2.7 billion in health care conversion proceeds in 2005-06. The outyear operating gaps have increased since the Enacted Budget primarily due to a reduction in planned General Fund support.

*Annual Information Statement Update, August 4, 2006*

Revenues have been reduced in the outyears due to the removal of planned General Fund support in both 2007-08 and 2008-09 through the tobacco guarantee legislation (\$627 million in 2007-08 and \$486 million in 2008-09) and the elimination of a \$200 million loan repayment to HCRA from the General Fund.

Spending increases over the Enacted Budget total \$86 million in 2006-07, \$18 million in 2007-08, and \$14 million in 2008-09, respectively. Most of the growth is for reestimates in various programs including the hospital and nursing home workforce recruitment and retention program (\$39 million) and the healthcare stabilization grant program (\$10 million); statutorily increased HCRA funding for the clinic Bad Debt and Charity Care Program due to Federal disapproval of the State Plan Amendment (\$36 million), as well as revisions to spending estimates for the home care workforce recruitment and retention program, as enacted in the Budget (\$12 million).

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

## **DEBT/CAPITAL UPDATE**

### **CAPITAL AND DEBT SUMMARY**

The Updated Financial Plan reflects new or increased bond-financed capital authorizations, totaling over \$1.8 billion, enacted at the close of the 2006 legislative session and anticipated to be committed over the five-year plan period. These include \$650 million for an AMD microchip fabrication plant, \$800 million for economic development efforts statewide including \$300 million for grants for improvements to inner cities, \$80 million for multi-modal and industrial access program restorations and high speed rail, and \$140 million for a new centralized data processing center and a new food testing laboratory.

These additions are offset partially by reestimates to spending across many existing programs based on year-to-date results.

<b>All Funds Projected Capital Projects Spending (millions of dollars)</b>					
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
<b>Projected Capital Projects Funds Spending Enacted Budget</b>	<b>\$9,050</b>	<b>\$9,417</b>	<b>\$8,323</b>	<b>\$7,583</b>	<b>\$7,489</b>
<b>Total Spending Changes</b>	<b>\$600</b>	<b>\$172</b>	<b>\$346</b>	<b>\$466</b>	<b>\$238</b>
Economic Development (AMD; RESTORE)	\$691	\$127	\$141	\$131	\$53
Transportation	\$4	\$4	(\$29)	(\$51)	(\$99)
State Facilities	\$7	\$25	\$50	\$58	\$0
CUNY	(\$148)	(\$103)	\$20	\$79	\$91
All Other	\$46	\$119	\$164	\$249	\$193
<b>Projected Capital Projects Funds Spending First Quarter</b>	<b>\$9,650</b>	<b>\$9,589</b>	<b>\$8,669</b>	<b>\$8,049</b>	<b>\$7,727</b>

The following tables summarize the net impact of these changes on State debt levels and debt service spending.



Annual Information Statement Update, August 4, 2006

The increases in debt outstanding, debt issuances and debt service costs detailed below are consistent with the capital spending changes noted in the previous chart. In addition, the changes in debt for transportation and in the all other category reflect revisions based on more recent information regarding the timing of bond sales and the amount of new bond proceeds needed to support the capital spending plan.

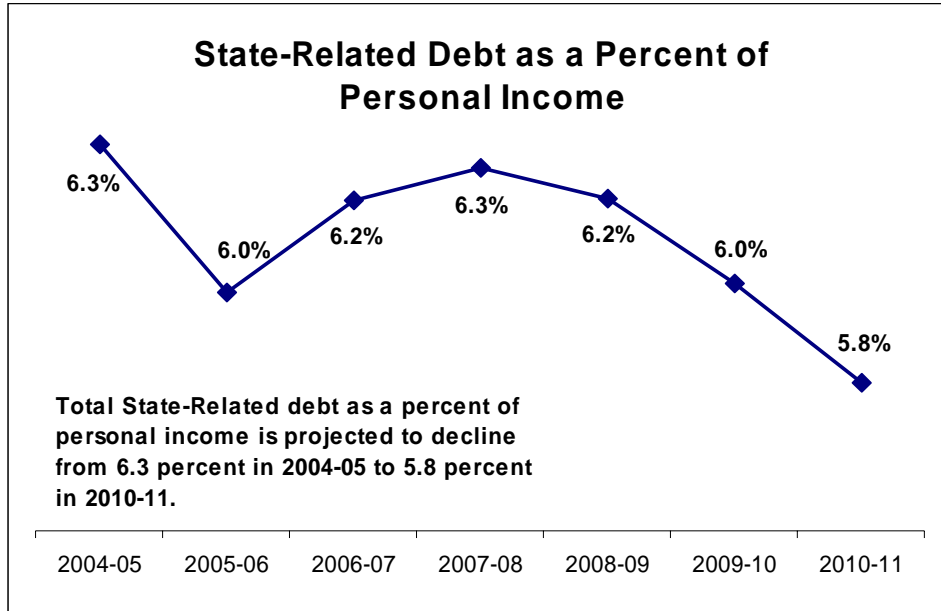
<b>Projected Debt Outstanding</b>					
<b>(millions of dollars)</b>					
	2006-07	2007-08	2008-09	2009-10	2010-11
Enacted Budget State-Related Debt Outstanding	50,683	53,813	55,884	57,057	57,967
AMD	663	613	560	503	443
Other Economic Development Adds	42	185	355	550	695
State Facilities	10	66	140	136	132
Transportation	(37)	(56)	(100)	(205)	(296)
SUNY/CUNY	(149)	(251)	(227)	(144)	(53)
All Other Reestimates	(258)	(199)	(304)	(486)	(637)
Subtotal	271	358	424	354	284
1st Quarter Update State-Related Debt Outstanding	\$ 50,954	\$ 54,171	\$ 56,308	\$ 57,411	\$ 58,251

<b>Projected Debt Issuances</b>					
<b>(millions of dollars)</b>					
	2006-07	2007-08	2008-09	2009-10	2010-11
Enacted Budget State-Related Debt Issuances	6,149	5,791	4,872	4,336	4,180
AMD	663	0	0	0	0
Other Economic Development Adds	42	145	180	215	176
State Facilities	10	56	76	0	0
Transportation	(37)	(13)	(44)	(107)	(95)
SUNY/CUNY	(151)	(105)	20	80	93
All Other Reestimates	(259)	51	(115)	(199)	(179)
Subtotal	268	134	117	(11)	(5)
1st Quarter Update State-Related Debt Issuances	\$ 6,417	\$ 5,925	\$ 4,989	\$ 4,325	\$ 4,175

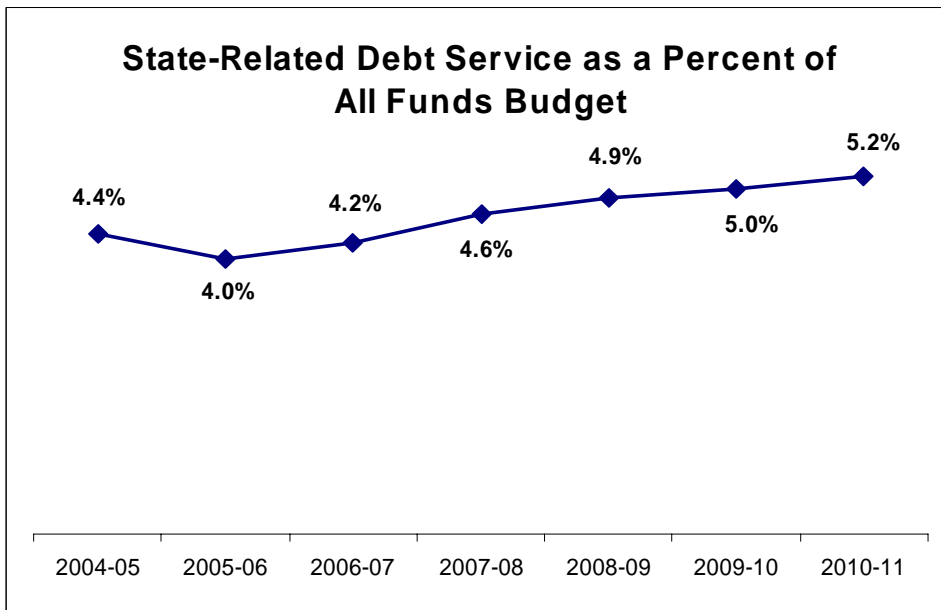
<b>Projected Debt Service</b>					
<b>(millions of dollars)</b>					
	2006-07	2007-08	2008-09	2009-10	2010-11
Enacted Budget State-Related Debt Service	4,699	5,277	5,758	6,172	6,682
AMD	0	94	90	90	90
Other Economic Development Adds	0	5	22	42	67
State Facilities	0	2	7	12	12
Transportation	1	(5)	(8)	(14)	(23)
SUNY/CUNY	(6)	(14)	(17)	(14)	(7)
All Other Reestimates	6	(21)	(22)	(34)	(60)
Subtotal	1	61	72	82	79
1st Quarter Update State-Related Debt Service	\$ 4,700	\$ 5,338	\$ 5,830	\$ 6,254	\$ 6,761

**DEBT AFFORDABILITY**

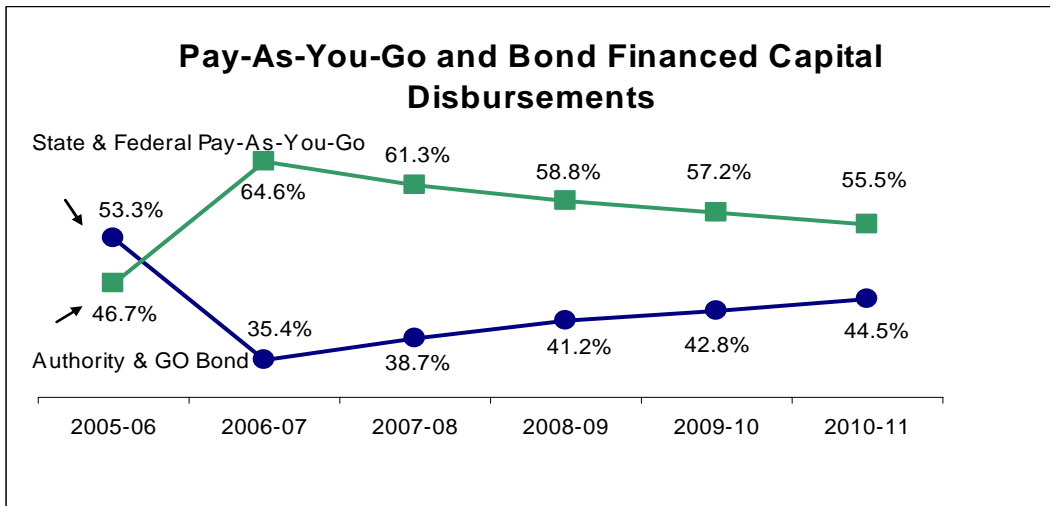
State debt levels and costs continue to remain affordable, based on a variety of debt measures commonly used by the financial community. Some key measures are summarized below. All measures reflect the total level of State-related debt issued for all State-related entities as reported in the State's Comprehensive Financial Report.



The projections from 2005-06 to 2010-11 reflect a roughly 4 percent average annual increase in debt levels and a roughly 5 percent annual average increase in statewide personal income.



Beginning in 2006-07, debt service costs are projected to increase by an average of 9.5 percent annually, while All Funds receipts are projected to grow by 4.0 percent annually. The greater debt service costs primarily reflect the increased costs for the Dedicated Highway and Bridge Trust Fund after the recent restructuring, the new EXCEL school construction initiative, the expanding SUNY and CUNY capital programs, along with the AMD chip fab plant and other end-of-session adds.



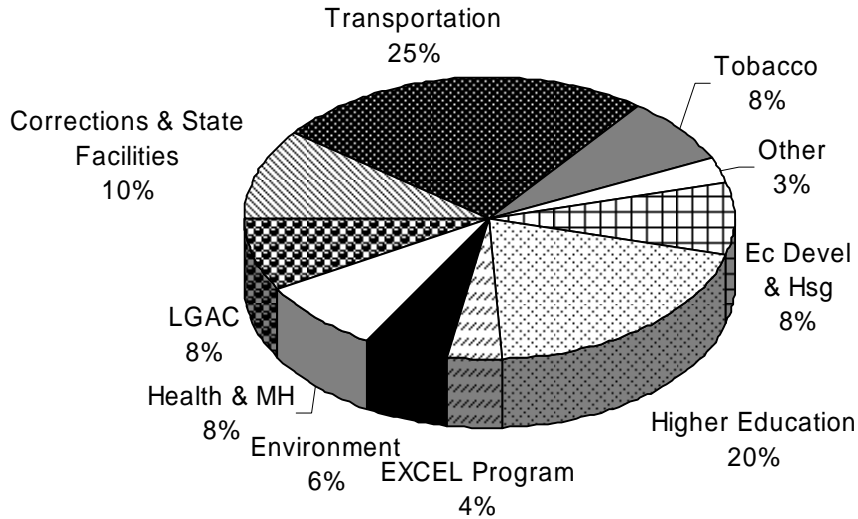
The level of projects financed with cash from both State and Federal sources (i.e., PAYGO) is expected to average roughly 40 percent if the total amount of capital disbursements for the five years.

**DEBT OUTSTANDING**

The State’s debt levels are the result of three factors: (i) the amount of debt issued in prior years, (ii) the amount of capital spending that will be financed with new debt during the forecast period, and (iii) the amount of debt that is planned to be retired (paid off) during the forecast period.

The \$51 billion of State-related debt in 2006-07 consists of debt issued for each of the major programmatic areas as summarized below. The debt of the Local Government Assistance Corporation (LGAC), issued to eliminate seasonal borrowing) and Tobacco bonds (issued to stabilize finances after September 11<sup>th</sup>) are not allocable to any specific functional area since they served a statewide purpose.

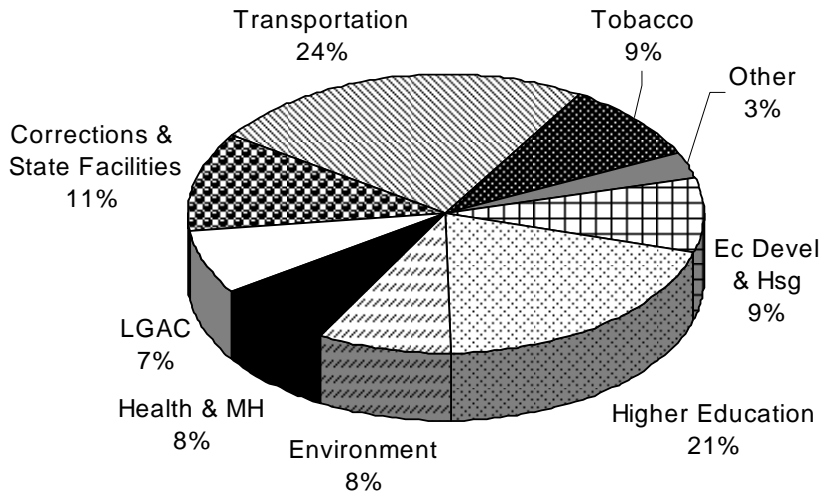
**Debt Outstanding by Function  
\$51 Billion Projected at March 31, 2007**



**DEBT SERVICE**

The following chart provides a summary of the major debt service costs by function. Significant bond-financed capital investments, primarily for transportation, education, corrections, economic development, mental hygiene facilities, and the environment, drive more than 80 percent of the State’s debt service costs.

**2006-07 Debt Service by Function  
\$4.7 Billion**



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

	<u>2005-2006</u> <u>Actuals</u>	<u>2006-2007</u> <u>First Quarter</u>	<u>Annual</u> <u>Change</u>
<b>Opening fund balance</b>	<u>2,546</u>	<u>3,257</u>	<u>711</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	20,700	22,611	1,911
User taxes and fees	8,639	8,247	(392)
Business taxes	5,084	5,479	395
Other taxes	882	924	42
Miscellaneous receipts	2,028	2,435	407
Federal Grants	0	180	180
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,500	6,971	471
Sales tax in excess of LGAC debt service	2,295	2,179	(116)
Real estate taxes in excess of CW/CA debt service	715	583	(132)
All other	363	396	33
<b>Total receipts</b>	<u>47,206</u>	<u>50,005</u>	<u>2,799</u>
<b>Disbursements:</b>			
Grants to local governments	31,287	34,278	2,991
State operations	8,160	9,503	1,343
General State charges	3,975	4,401	426
Transfers to other funds:			
Debt service	1,710	1,760	50
Capital projects	286	225	(61)
Other purposes	1,077	817	(260)
<b>Total disbursements</b>	<u>46,495</u>	<u>50,984</u>	<u>4,489</u>
<b>Change in fund balance</b>	<u>711</u>	<u>(979)</u>	<u>(1,690)</u>
<b>Closing fund balance</b>	<u>3,257</u>	<u>2,278</u>	<u>(979)</u>
<b>General Reserves</b>			
Statutory Rainy Day Reserve Fund	944	944	0
Contingency Reserve Fund	21	21	0
<b>Designated Reserves</b>			
Spending Stabilization Reserve	2,041	787	(1,254)
Community Projects Fund	251	276	25
Debt Reduction Reserve	0	250	250

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Source: NYS DOB

**CURRENT STATE RECEIPTS  
GENERAL FUND  
2005-2006 and 2006-2007  
(millions of dollars)**

	<u>2005-2006 Actuals</u>	<u>2006-2007 First Quarter</u>	<u>Annual Change</u>
<b>Personal income tax</b>	20,700	22,611	1,911
<b>User taxes and fees:</b>	8,639	8,247	(392)
Sales and use tax	7,978	7,610	(368)
Cigarette and tobacco taxes	403	402	(1)
Motor vehicle fees	24	0	(24)
Alcoholic beverages taxes	192	191	(1)
Alcoholic beverage control license fees	42	44	2
<b>Business taxes:</b>	5,084	5,479	395
Corporation franchise tax	2,665	3,057	392
Corporation and utilities tax	591	593	2
Insurance taxes	987	1,083	96
Bank tax	841	746	(95)
<b>Other taxes:</b>	882	924	42
Estate tax	855	900	45
Gift tax	2	1	(1)
Real property gains tax	1	1	0
Pari-mutuel taxes	23	21	(2)
Other taxes	1	1	0
<b>Total Taxes</b>	<u>35,305</u>	<u>37,261</u>	<u>1,956</u>
<b>Miscellaneous receipts</b>	<u>2,028</u>	<u>2,435</u>	<u>407</u>
<b>Federal grants</b>	<u>0</u>	<u>180</u>	<u>180</u>
<b>Total</b>	<u>37,333</u>	<u>39,876</u>	<u>2,543</u>

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Source: NYS DOB

**GENERAL FUND  
PERSONAL INCOME TAX COMPONENTS  
2005-2006 and 2006-2007  
(millions of dollars)**

	<u>2005-2006 Actuals</u>	<u>2006-2007 First Quarter</u>	<u>Annual Change</u>
Withholdings	24,761	26,410	1,649
Estimated Payments	9,158	10,152	994
Final Payments	1,849	2,100	251
Delinquencies	<u>776</u>	<u>824</u>	<u>48</u>
<b>Gross Collections</b>	<b>36,544</b>	<b>39,486</b>	<b>2,942</b>
State/City Offset	(466)	(440)	26
Refunds	<u>(5,265)</u>	<u>(4,856)</u>	<u>409</u>
<b>Reported Tax Collections</b>	<b>30,813</b>	<b>34,190</b>	<b>3,377</b>
STAR	(3,213)	(4,041)	(828)
RBTF	<u>(6,900)</u>	<u>(7,538)</u>	<u>(638)</u>
<b>General Fund</b>	<b><u><u>20,700</u></u></b>	<b><u><u>22,611</u></u></b>	<b><u><u>1,911</u></u></b>

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Source: NYS DOB

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

	<u>Enacted</u>	<u>Change</u>	<u>First Quarter</u>
<b>Opening fund balance</b>	<u>3,257</u>	<u>0</u>	<u>3,257</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	23,137	(526)	22,611
User taxes and fees	8,323	(76)	8,247
Business taxes	5,303	176	5,479
Other taxes	896	28	924
Miscellaneous receipts	2,846	(411)	2,435
Federal Grants	9	171	180
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	7,135	(164)	6,971
Sales tax in excess of LGAC debt service	2,208	(29)	2,179
Real estate taxes in excess of CW/CA debt service	533	50	583
All other	470	(74)	396
<b>Total receipts</b>	<u>50,860</u>	<u>(855)</u>	<u>50,005</u>
<b>Disbursements:</b>			
Grants to local governments	34,210	68	34,278
State operations	9,455	48	9,503
General State charges	4,413	(12)	4,401
Transfers to other funds:			
Debt service	1,749	11	1,760
Capital projects	219	6	225
Other purposes	797	20	817
<b>Total disbursements</b>	<u>50,843</u>	<u>141</u>	<u>50,984</u>
<b>Change in fund balance</b>	<u>17</u>	<u>(996)</u>	<u>(979)</u>
<b>Closing fund balance</b>	<u>3,274</u>	<u>(996)</u>	<u>2,278</u>
<b>General Reserves</b>			
Statutory Rainy Day Reserve Fund	944	0	944
Contingency Reserve Fund	21	0	21
<b>Designated Reserves</b>			
Spending Stabilization Reserve	1,783	(996)	787
Community Projects Fund	276	0	276
Debt Reduction Reserve	250	0	250

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Source: NYS DOB



**CURRENT STATE RECEIPTS  
GENERAL FUND  
2006-2007  
(millions of dollars)**

	<u>Enacted</u>	<u>Change</u>	<u>First Quarter</u>
<b>Personal income tax</b>	23,137	(526)	22,611
<b>User taxes and fees:</b>	8,323	(76)	8,247
Sales and use tax	7,686	(76)	7,610
Cigarette and tobacco taxes	402	0	402
Motor vehicle fees	0	0	0
Alcoholic beverages taxes	191	0	191
Alcoholic beverage control license fees	44	0	44
<b>Business taxes:</b>	5,303	176	5,479
Corporation franchise tax	2,806	251	3,057
Corporation and utilities tax	593	0	593
Insurance taxes	1,083	0	1,083
Bank tax	821	(75)	746
<b>Other taxes:</b>	896	28	924
Estate tax	874	26	900
Gift tax	0	1	1
Real property gains tax	0	1	1
Pari-mutuel taxes	21	0	21
Other taxes	1	0	1
<b>Total Taxes</b>	<u>37,659</u>	<u>(398)</u>	<u>37,261</u>
<b>Miscellaneous receipts</b>	<u>2,846</u>	<u>(411)</u>	<u>2,435</u>
<b>Federal grants</b>	<u>9</u>	<u>171</u>	<u>180</u>
<b>Total</b>	<u><u>40,514</u></u>	<u><u>(638)</u></u>	<u><u>39,876</u></u>

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Source: NYS DOB

**GENERAL FUND  
PERSONAL INCOME TAX COMPONENTS  
2006-2007  
(millions of dollars)**

	<u>Enacted</u>	<u>Change</u>	<u>First Quarter</u>
Withholdings	26,410	0	26,410
Estimated Payments	10,180	(28)	10,152
Final Payments	2,100	0	2,100
Delinquencies	<u>774</u>	<u>50</u>	<u>824</u>
<b>Gross Collections</b>	39,464	22	39,486
State/City Offset	(440)	0	(440)
Refunds	<u>(4,806)</u>	<u>(50)</u>	<u>(4,856)</u>
<b>Reported Tax Collections</b>	34,218	(28)	34,190
STAR	(3,368)	(673)	(4,041)
RBTF	<u>(7,713)</u>	<u>175</u>	<u>(7,538)</u>
<b>General Fund</b>	<u><u>23,137</u></u>	<u><u>(526)</u></u>	<u><u>22,611</u></u>

---

Source: NYS DOB

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

	<u>Enacted</u>	<u>Change</u>	<u>First Quarter</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	23,914	(367)	23,547
User taxes and fees	8,665	(92)	8,573
Business taxes	5,385	206	5,591
Other taxes	967	27	994
Miscellaneous receipts	2,368	(186)	2,182
Federal Grants	9	51	60
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	7,010	(188)	6,822
Sales tax in excess of LGAC debt service	2,305	(29)	2,276
Real estate taxes in excess of CW/CA debt service	485	25	510
All other	247	(60)	187
<b>Total receipts</b>	<u><u>51,355</u></u>	<u><u>(613)</u></u>	<u><u>50,742</u></u>
<b>Disbursements:</b>			
Grants to local governments	38,158	(631)	37,527
State operations	9,616	47	9,663
General State charges	4,742	(25)	4,717
Transfers to other funds:			
Debt service	1,768	0	1,768
Capital projects	242	6	248
Other purposes	1,323	(626)	697
<b>Total disbursements</b>	<u><u>55,849</u></u>	<u><u>(1,229)</u></u>	<u><u>54,620</u></u>
<b>Deposit to/(use of) Community Projects Fund</b>	<u><u>75</u></u>	<u><u>0</u></u>	<u><u>75</u></u>
<b>Deposit to/(use of) Spending Stabilization Reserve Fund</b>	<u><u>(892)</u></u>	<u><u>105</u></u>	<u><u>(787)</u></u>
<b>Margin</b>	<u><u>(3,677)</u></u>	<u><u>511</u></u>	<u><u>(3,166)</u></u>

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Source: NYS DOB

**CASH FINANCIAL PLAN  
GENERAL FUND  
2008-2009  
(millions of dollars)**

	<u>Enacted</u>	<u>Change</u>	<u>First Quarter</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	25,691	(807)	24,884
User taxes and fees	8,969	(92)	8,877
Business taxes	5,504	210	5,714
Other taxes	1,030	24	1,054
Miscellaneous receipts	2,146	(175)	1,971
Federal Grants	9	51	60
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	7,314	(348)	6,966
Sales tax in excess of LGAC debt service	2,404	(29)	2,375
Real estate taxes in excess of CW/CA debt service	488	24	512
All other	251	(60)	191
<b>Total receipts</b>	<u>53,806</u>	<u>(1,202)</u>	<u>52,604</u>
<b>Disbursements:</b>			
Grants to local governments	41,051	(560)	40,491
State operations	9,883	40	9,923
General State charges	5,024	(25)	4,999
Transfers to other funds:			
Debt service	1,750	(1)	1,749
Capital projects	239	45	284
Other purposes	1,198	(485)	713
<b>Total disbursements</b>	<u>59,145</u>	<u>(986)</u>	<u>58,159</u>
<b>Deposit to/(use of) Community Projects Fund</b>	<u>(150)</u>	<u>0</u>	<u>(150)</u>
<b>Deposit to/(use of) Spending Stabilization Reserve Fund</b>	<u>(891)</u>	<u>891</u>	<u>0</u>
<b>Margin</b>	<u>(4,298)</u>	<u>(1,107)</u>	<u>(5,405)</u>

Source: NYS DOB

**CASH FINANCIAL PLAN  
GENERAL FUND  
2006-2007 through 2008-2009  
(millions of dollars)**

	<u>2006-2007</u> <u>First Quarter</u>	<u>2007-2008</u> <u>Estimated</u>	<u>2008-2009</u> <u>Estimated</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	22,611	23,547	24,884
User taxes and fees	8,247	8,573	8,877
Business taxes	5,479	5,591	5,714
Other taxes	924	994	1,054
Miscellaneous receipts	2,435	2,182	1,971
Federal Grants	180	60	60
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,971	6,822	6,966
Sales tax in excess of LGAC debt service	2,179	2,276	2,375
Real estate taxes in excess of CW/CA debt service	583	510	512
All other	396	187	191
<b>Total receipts</b>	<u>50,005</u>	<u>50,742</u>	<u>52,604</u>
<b>Disbursements:</b>			
Grants to local governments	34,278	37,527	40,491
State operations	9,503	9,663	9,923
General State charges	4,401	4,717	4,999
Transfers to other funds:			
Debt service	1,760	1,768	1,749
Capital projects	225	248	284
Other purposes	817	697	713
<b>Total disbursements</b>	<u>50,984</u>	<u>54,620</u>	<u>58,159</u>
<b>Deposit to/(use of) Community Projects Fund</b>	<u>25</u>	<u>75</u>	<u>(150)</u>
<b>Deposit to/(use of) Debt Reduction Reserve</b>	<u>250</u>	<u>0</u>	<u>0</u>
<b>Deposit to/(use of) Spending Stabilization Reserve Fund</b>	<u>(1,254)</u>	<u>(787)</u>	<u>0</u>
<b>Margin</b>	<u>0</u>	<u>(3,166)</u>	<u>(5,405)</u>

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Source: NYS DOB

**CASH FINANCIAL PLAN  
STATE FUNDS  
2006-2007  
(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>
<b>Opening fund balance</b>	<u>3,257</u>	<u>3,747</u>	<u>(406)</u>	<u>221</u>	<u>6,819</u>
<b>Receipts:</b>					
Taxes	37,261	6,980	2,046	10,778	57,065
Miscellaneous receipts	2,435	12,446	2,605	665	18,151
Federal grants	180	0	0	0	180
<b>Total receipts</b>	<u>39,876</u>	<u>19,426</u>	<u>4,651</u>	<u>11,443</u>	<u>75,396</u>
<b>Disbursements:</b>					
Grants to local governments	34,278	15,603	940	0	50,821
State operations	9,503	5,315	0	65	14,883
General State charges	4,401	587	0	0	4,988
Debt service	0	0	0	4,087	4,087
Capital projects	0	1	3,301	0	3,302
<b>Total disbursements</b>	<u>48,182</u>	<u>21,506</u>	<u>4,241</u>	<u>4,152</u>	<u>78,081</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	10,129	1,249	347	5,398	17,123
Transfers to other funds	(2,802)	(543)	(831)	(12,671)	(16,847)
Bond and note proceeds	0	0	236	0	236
<b>Net other financing sources (uses)</b>	<u>7,327</u>	<u>706</u>	<u>(248)</u>	<u>(7,273)</u>	<u>512</u>
<b>Change in fund balance</b>	<u>(979)</u>	<u>(1,374)</u>	<u>162</u>	<u>18</u>	<u>(2,173)</u>
<b>Closing fund balance</b>	<u>2,278</u>	<u>2,373</u>	<u>(244)</u>	<u>239</u>	<u>4,646</u>

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Source: NYS DOB

**CASH FINANCIAL PLAN  
STATE FUNDS  
2005-2006 and 2006-2007  
(millions of dollars)**

	<u>2005-2006</u> <u>Actuals</u>	<u>2006-2007</u> <u>Enacted</u>	<u>2006-2007</u> <u>First</u> <u>Quarter</u>	<u>First Quarter</u> <u>vs.</u> <u>Actuals</u>	<u>First Quarter</u> <u>vs.</u> <u>Enacted</u>
<b>Opening fund balance</b>	4,530	6,819	6,819	2,289	0
<b>Receipts:</b>					
Taxes	53,578	56,906	57,065	3,487	159
Miscellaneous receipts	18,148	18,524	18,151	3	(373)
Federal grants	2	10	180	178	170
<b>Total receipts</b>	<u>71,728</u>	<u>75,440</u>	<u>75,396</u>	<u>3,668</u>	<u>(44)</u>
<b>Disbursements:</b>					
Grants to local governments	44,971	49,963	50,821	5,850	858
State operations	13,344	14,782	14,883	1,539	101
General State charges	4,521	5,026	4,988	467	(38)
Debt service	3,701	4,086	4,087	386	1
Capital projects	3,186	3,243	3,302	116	59
<b>Total disbursements</b>	<u>69,723</u>	<u>77,100</u>	<u>78,081</u>	<u>8,358</u>	<u>981</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	16,774	17,296	17,123	349	(173)
Transfers to other funds	(16,649)	(16,907)	(16,847)	(198)	60
Bond and note proceeds	159	236	236	77	0
<b>Net other financing sources (uses)</b>	<u>284</u>	<u>625</u>	<u>512</u>	<u>228</u>	<u>(113)</u>
<b>Change in fund balance</b>	<u>2,289</u>	<u>(1,035)</u>	<u>(2,173)</u>	<u>(4,462)</u>	<u>(1,138)</u>
<b>Closing fund balance</b>	<u>6,819</u>	<u>5,784</u>	<u>4,646</u>	<u>(2,173)</u>	<u>(1,138)</u>

Source: NYS DOB

**CASH FINANCIAL PLAN  
STATE FUNDS  
2007-2008  
(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>
<b>Opening fund balance</b>	<u>0</u>	<u>2,373</u>	<u>(244)</u>	<u>239</u>	<u>2,368</u>
<b>Receipts:</b>					
Taxes	38,705	6,755	2,152	11,134	58,746
Miscellaneous receipts	2,182	12,521	3,358	671	18,732
Federal grants	60	0	0	0	60
<b>Total receipts</b>	<u>40,947</u>	<u>19,276</u>	<u>5,510</u>	<u>11,805</u>	<u>77,538</u>
<b>Disbursements:</b>					
Grants to local governments	37,527	15,090	834	0	53,451
State operations	9,663	5,366	0	66	15,095
General State charges	4,717	597	0	0	5,314
Debt service	0	0	0	4,721	4,721
Capital projects	0	2	4,592	0	4,594
<b>Total disbursements</b>	<u>51,907</u>	<u>21,055</u>	<u>5,426</u>	<u>4,787</u>	<u>83,175</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	9,795	1,115	459	5,566	16,935
Transfers to other funds	(2,713)	(405)	(914)	(12,555)	(16,587)
Bond and note proceeds	0	0	404	0	404
<b>Net other financing sources (uses)</b>	<u>7,082</u>	<u>710</u>	<u>(51)</u>	<u>(6,989)</u>	<u>752</u>
<b>Deposit to/(use of) Community Projects Fund</b>	<u>75</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>75</u>
<b>Deposit to/(use of) Spending Stabilization Reserve Fund</b>	<u>(787)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(787)</u>
<b>Change in fund balance</b>	<u>(3,166)</u>	<u>(1,069)</u>	<u>33</u>	<u>29</u>	<u>(4,173)</u>
<b>Closing fund balance</b>	<u>(3,166)</u>	<u>1,304</u>	<u>(211)</u>	<u>268</u>	<u>(1,805)</u>

Source: NYS DOB



**CASH FINANCIAL PLAN  
STATE FUNDS  
2008-2009  
(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>
<b>Opening fund balance</b>	<u>0</u>	<u>1,304</u>	<u>(211)</u>	<u>268</u>	<u>1,361</u>
<b>Receipts:</b>					
Taxes	40,529	6,957	2,169	11,682	61,337
Miscellaneous receipts	1,971	13,145	3,265	680	19,061
Federal grants	60	0	0	0	60
<b>Total receipts</b>	<u>42,560</u>	<u>20,102</u>	<u>5,434</u>	<u>12,362</u>	<u>80,458</u>
<b>Disbursements:</b>					
Grants to local governments	40,491	15,663	767	0	56,921
State operations	9,923	5,377	0	66	15,366
General State charges	4,999	608	0	0	5,607
Debt service	0	0	0	5,155	5,155
Capital projects	0	2	4,687	0	4,689
<b>Total disbursements</b>	<u>55,413</u>	<u>21,650</u>	<u>5,454</u>	<u>5,221</u>	<u>87,738</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	10,044	1,135	525	5,734	17,438
Transfers to other funds	(2,746)	(448)	(1,026)	(12,850)	(17,070)
Bond and note proceeds	0	0	531	0	531
<b>Net other financing sources (uses)</b>	<u>7,298</u>	<u>687</u>	<u>30</u>	<u>(7,116)</u>	<u>899</u>
<b>Deposit to/(use of) Community Projects Fund</b>	<u>(150)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(150)</u>
<b>Deposit to/(use of) Spending Stabilization Reserve Fund</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Change in fund balance</b>	<u>(5,405)</u>	<u>(861)</u>	<u>10</u>	<u>25</u>	<u>(6,231)</u>
<b>Closing fund balance</b>	<u>(5,405)</u>	<u>443</u>	<u>(201)</u>	<u>293</u>	<u>(4,870)</u>

Source: NYS DOB

**CASH FINANCIAL PLAN  
ALL GOVERNMENTAL FUNDS  
2006-2007  
(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>
<b>Opening fund balance</b>	<u>3,257</u>	<u>4,194</u>	<u>(604)</u>	<u>221</u>	<u>7,068</u>
<b>Receipts:</b>					
Taxes	37,261	6,980	2,046	10,778	57,065
Miscellaneous receipts	2,435	12,590	2,605	665	18,295
Federal grants	180	33,910	1,764	0	35,854
<b>Total receipts</b>	<u>39,876</u>	<u>53,480</u>	<u>6,415</u>	<u>11,443</u>	<u>111,214</u>
<b>Disbursements:</b>					
Grants to local governments	34,278	45,937	1,106	0	81,321
State operations	9,503	8,461	0	65	18,029
General State charges	4,401	828	0	0	5,229
Debt service	0	0	0	4,087	4,087
Capital projects	0	2	4,939	0	4,941
<b>Total disbursements</b>	<u>48,182</u>	<u>55,228</u>	<u>6,045</u>	<u>4,152</u>	<u>113,607</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	10,129	3,626	347	5,398	19,500
Transfers to other funds	(2,802)	(3,264)	(844)	(12,671)	(19,581)
Bond and note proceeds	0	0	236	0	236
<b>Net other financing sources (uses)</b>	<u>7,327</u>	<u>362</u>	<u>(261)</u>	<u>(7,273)</u>	<u>155</u>
<b>Change in fund balance</b>	<u>(979)</u>	<u>(1,386)</u>	<u>109</u>	<u>18</u>	<u>(2,238)</u>
<b>Closing fund balance</b>	<u>2,278</u>	<u>2,808</u>	<u>(495)</u>	<u>239</u>	<u>4,830</u>

Source: NYS DOB

**CASH FINANCIAL PLAN  
ALL GOVERNMENTAL FUNDS  
2005-2006 and 2006-2007  
(millions of dollars)**

	<b>2005-2006 Actuals</b>	<b>2006-2007 Enacted</b>	<b>2006-2007 First Quarter</b>	<b>First Quarter vs. Actuals</b>	<b>First Quarter vs. Enacted</b>
<b>Opening fund balance</b>	4,281	7,068	7,068	2,787	0
<b>Receipts:</b>					
Taxes	53,578	56,906	57,065	3,487	159
Miscellaneous receipts	18,320	18,666	18,295	(25)	(371)
Federal grants	35,129	35,607	35,854	725	247
<b>Total receipts</b>	<u>107,027</u>	<u>111,179</u>	<u>111,214</u>	<u>4,187</u>	<u>35</u>
<b>Disbursements:</b>					
Grants to local governments	75,036	80,370	81,321	6,285	951
State operations	16,435	17,886	18,029	1,594	143
General State charges	4,735	5,277	5,229	494	(48)
Debt service	3,701	4,086	4,087	386	1
Capital projects	4,434	4,844	4,941	507	97
<b>Total disbursements</b>	<u>104,341</u>	<u>112,463</u>	<u>113,607</u>	<u>9,266</u>	<u>1,144</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	19,176	19,673	19,500	324	(173)
Transfers to other funds	(19,234)	(19,704)	(19,581)	(347)	123
Bond and note proceeds	159	236	236	77	0
<b>Net other financing sources (uses)</b>	<u>101</u>	<u>205</u>	<u>155</u>	<u>54</u>	<u>(50)</u>
<b>Change in fund balance</b>	<u>2,787</u>	<u>(1,079)</u>	<u>(2,238)</u>	<u>(5,025)</u>	<u>(1,159)</u>
<b>Closing fund balance</b>	<u>7,068</u>	<u>5,989</u>	<u>4,830</u>	<u>(2,238)</u>	<u>(1,159)</u>

Source: NYS DOB

**CURRENT STATE RECEIPTS  
ALL GOVERNMENTAL FUNDS  
2005-2006 and 2006-2007  
(millions of dollars)**

	<u>2005-2006</u> <u>Actuals</u>	<u>2006-2007</u> <u>Enacted</u>	<u>2006-2007</u> <u>First Quarter</u>	<u>First Quarter</u> <u>vs.</u> <u>Actuals</u>	<u>First Quarter</u> <u>vs.</u> <u>Enacted</u>
<b>Personal income tax</b>	30,813	34,218	34,190	3,377	(28)
<b>User taxes and fees</b>	13,857	13,683	13,624	(233)	(59)
Sales and use taxes	11,196	10,939	10,847	(349)	(92)
Cigarette and tobacco taxes	974	965	964	(10)	(1)
Motor fuel tax	531	525	520	(11)	(5)
Motor vehicle fees	720	813	854	134	41
Highway use tax	160	191	159	(1)	(32)
Alcoholic beverage taxes	192	161	191	(1)	30
Alcoholic beverage control license fees	42	44	44	2	0
Auto rental tax	42	45	45	3	0
<b>Business taxes</b>	7,088	7,309	7,477	389	168
Corporation franchise tax	3,053	3,179	3,457	404	278
Corporation and utilities taxes	832	791	791	(41)	0
Insurance taxes	1,083	1,186	1,186	103	0
Bank tax	974	961	876	(98)	(85)
Petroleum business taxes	1,146	1,192	1,167	21	(25)
<b>Other taxes</b>	1,820	1,696	1,774	(46)	78
Estate tax	855	874	900	45	26
Gift tax	2	0	1	(1)	1
Real property gains tax	1	0	1	0	1
Real estate transfer tax	938	800	850	(88)	50
Pari-mutuel taxes	23	21	21	(2)	0
Other taxes	1	1	1	0	0
<b>Total taxes</b>	53,578	56,906	57,065	3,487	159
<b>Miscellaneous receipts</b>	18,320	18,666	18,295	(25)	(371)
<b>Federal grants</b>	35,129	35,607	35,854	725	247
<b>Total</b>	107,027	111,179	111,214	4,187	35

Source: NYS DOB

**CASH FINANCIAL PLAN  
ALL GOVERNMENTAL FUNDS  
2007-2008  
(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>
<b>Opening fund balance</b>	0	2,808	(495)	239	2,552
<b>Receipts:</b>					
Taxes	38,705	6,755	2,152	11,134	58,746
Miscellaneous receipts	2,182	12,660	3,358	671	18,871
Federal grants	60	35,197	1,919	0	37,176
<b>Total receipts</b>	<u>40,947</u>	<u>54,612</u>	<u>7,429</u>	<u>11,805</u>	<u>114,793</u>
<b>Disbursements:</b>					
Grants to local governments	37,527	46,575	1,000	0	85,102
State operations	9,663	8,536	0	66	18,265
General State charges	4,717	842	0	0	5,559
Debt service	0	0	0	4,721	4,721
Capital projects	0	3	6,325	0	6,328
<b>Total disbursements</b>	<u>51,907</u>	<u>55,956</u>	<u>7,325</u>	<u>4,787</u>	<u>119,975</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	9,795	3,487	459	5,566	19,307
Transfers to other funds	(2,713)	(3,125)	(927)	(12,555)	(19,320)
Bond and note proceeds	0	0	404	0	404
<b>Net other financing sources (uses)</b>	<u>7,082</u>	<u>362</u>	<u>(64)</u>	<u>(6,989)</u>	<u>391</u>
<b>Deposit to/(use of) Community Projects Fund</b>	<u>75</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>75</u>
<b>Deposit to/(use of) Spending Stabilization Reserve Fund</b>	<u>(787)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(787)</u>
<b>Change in fund balance</b>	<u>(3,166)</u>	<u>(982)</u>	<u>40</u>	<u>29</u>	<u>(4,079)</u>
<b>Closing fund balance</b>	<u>(3,166)</u>	<u>1,826</u>	<u>(455)</u>	<u>268</u>	<u>(1,527)</u>

Source: NYS DOB

**CASH FINANCIAL PLAN  
ALL GOVERNMENTAL FUNDS  
2008-2009  
(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>
<b>Opening fund balance</b>	<u>0</u>	<u>1,826</u>	<u>(455)</u>	<u>268</u>	<u>1,639</u>
<b>Receipts:</b>					
Taxes	40,529	6,957	2,169	11,682	61,337
Miscellaneous receipts	1,971	13,284	3,265	680	19,200
Federal grants	60	36,979	1,792	0	38,831
<b>Total receipts</b>	<u>42,560</u>	<u>57,220</u>	<u>7,226</u>	<u>12,362</u>	<u>119,368</u>
<b>Disbursements:</b>					
Grants to local governments	40,491	48,693	933	0	90,117
State operations	9,923	8,630	0	66	18,619
General State charges	4,999	859	0	0	5,858
Debt service	0	0	0	5,155	5,155
Capital projects	0	3	6,292	0	6,295
<b>Total disbursements</b>	<u>55,413</u>	<u>58,185</u>	<u>7,225</u>	<u>5,221</u>	<u>126,044</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	10,044	3,551	525	5,734	19,854
Transfers to other funds	(2,746)	(3,252)	(1,039)	(12,850)	(19,887)
Bond and note proceeds	0	0	531	0	531
<b>Net other financing sources (uses)</b>	<u>7,298</u>	<u>299</u>	<u>17</u>	<u>(7,116)</u>	<u>498</u>
<b>Deposit to/(use of) Community Projects Fund</b>	<u>(150)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(150)</u>
<b>Deposit to/(use of) Spending Stabilization Reserve Fund</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Change in fund balance</b>	<u>(5,405)</u>	<u>(666)</u>	<u>18</u>	<u>25</u>	<u>(6,028)</u>
<b>Closing fund balance</b>	<u>(5,405)</u>	<u>1,160</u>	<u>(437)</u>	<u>293</u>	<u>(4,389)</u>

Source: NYS DOB



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

	<u>2005-2006</u> <u>Actuals</u>	<u>2006-2007</u> <u>First Quarter</u>	<u>Annual</u> <u>Change</u>
<b>ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT</b>			
Agriculture and Markets, Department of	84,036	111,845	27,809
Alcoholic Beverage Control	10,286	12,076	1,790
Banking Department	56,278	59,783	3,505
Consumer Protection Board	2,622	3,003	381
Economic Development, Department of	435,010	360,676	(74,334)
Empire State Development Corporation	31,628	815,398	783,770
Energy Research and Development Authority	26,151	33,356	7,205
Housing and Community Renewal, Division of	256,949	307,563	50,614
Insurance Department	124,142	152,644	28,502
Olympic Regional Development Authority	8,550	13,886	5,336
Public Service, Department of	50,453	53,402	2,949
Science, Technology and Academic Research, Office of	59,411	70,078	10,667
<b>Functional Total</b>	<u>1,145,516</u>	<u>1,993,710</u>	<u>848,194</u>
<b>PARKS AND THE ENVIRONMENT</b>			
Adirondack Park Agency	4,398	4,905	507
Environmental Conservation, Department of	814,171	884,793	70,622
Environmental Facilities Corporation	8,034	14,258	6,224
Parks, Recreation and Historic Preservation, Office of	231,390	272,759	41,369
<b>Functional Total</b>	<u>1,057,993</u>	<u>1,176,715</u>	<u>118,722</u>
<b>TRANSPORTATION</b>			
Motor Vehicles, Department of	238,186	274,445	36,259
Thruway Authority	1,671	2,000	329
Metropolitan Transportation Authority	38,078	38,050	(28)
Transportation, Department of	5,638,018	5,983,714	345,696
<b>Functional Total</b>	<u>5,915,953</u>	<u>6,298,209</u>	<u>382,256</u>
<b>HEALTH AND SOCIAL WELFARE</b>			
Advocate for Persons with Disabilities, Office of	18	0	(18)
Aging, Office for the	178,683	207,334	28,651
Children and Family Services, Office of	3,174,373	2,886,563	(287,810)
Health, Department of	35,186,395	37,448,500	2,262,105
<i>Medical Assistance</i>	30,209,572	32,012,331	1,802,759
<i>Medicaid Administration</i>	575,158	482,600	(92,558)
<i>All Other</i>	4,401,665	4,953,569	551,904
Human Rights, Division of	14,942	15,127	185
Labor, Department of	569,032	559,605	(9,427)
Medicaid Inspector General, Office of	1,049	73,901	72,852
Prevention of Domestic Violence, Office of	1,969	2,539	570



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

	<u>2005-2006</u> <u>Actuals</u>	<u>2006-2007</u> <u>First Quarter</u>	<u>Annual</u> <u>Change</u>
<b>HEALTH AND SOCIAL WELFARE (Continued)</b>			
Temporary and Disability Assistance, Office of	4,389,984	4,853,210	463,226
<i>Welfare Assistance</i>	2,979,052	3,443,268	464,216
<i>Welfare Administration</i>	368,537	382,897	14,360
<i>All Other</i>	1,042,395	1,027,045	(15,350)
Welfare Inspector General, Office of	1,004	1,178	174
Workers' Compensation Board	140,892	144,670	3,778
<b>Functional Total</b>	<u>43,658,341</u>	<u>46,192,627</u>	<u>2,534,286</u>
<b>MENTAL HEALTH</b>			
Mental Health, Office of	2,318,666	2,442,427	123,761
Mental Hygiene, Department of	9,370	8,645	(725)
Mental Retardation and Developmental Disabilities, Office of	2,949,259	3,159,040	209,781
Alcohol and Substance Abuse Services, Office of	483,212	536,293	53,081
Developmental Disabilities Planning Council	4,081	3,648	(433)
Quality of Care for the Mentally Disabled, Commission on	12,650	14,691	2,041
<b>Functional Total</b>	<u>5,777,238</u>	<u>6,164,744</u>	<u>387,506</u>
<b>PUBLIC PROTECTION</b>			
Capital Defenders Office	4,572	1,600	(2,972)
Correction, Commission of	2,515	2,607	92
Correctional Services, Department of	2,315,295	2,801,457	486,162
Crime Victims Board	55,565	62,016	6,451
Criminal Justice Services, Division of	183,873	327,977	144,104
Homeland Security	19,586	257,278	237,692
Investigation, Temporary State Commission of	3,586	3,934	348
Judicial Commissions	2,714	2,888	174
Military and Naval Affairs, Division of	165,839	257,852	92,013
Parole, Division of	193,231	201,355	8,124
Probation and Correctional Alternatives, Division of	69,397	77,658	8,261
State Police, Division of	598,904	638,848	39,944
<b>Functional Total</b>	<u>3,615,077</u>	<u>4,635,470</u>	<u>1,020,393</u>
<b>EDUCATION</b>			
Arts, Council on the	42,825	52,125	9,300
City University of New York	796,137	977,127	180,990
Education, Department of	24,238,340	28,626,849	4,388,509
<i>School Aid</i>	18,549,645	21,784,037	3,234,392
<i>STAR Property Tax Relief</i>	3,213,204	4,041,000	827,796
<i>Handicapped</i>	1,560,076	1,671,058	110,982
<i>All Other</i>	915,415	1,130,754	215,339
Higher Education Services Corporation	1,018,291	987,835	(30,456)
State University Construction Fund	10,013	12,077	2,064
State University of New York	5,066,096	5,556,286	490,190
<b>Functional Total</b>	<u>31,171,702</u>	<u>36,212,299</u>	<u>5,040,597</u>

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

	<u>2005-2006 Actuals</u>	<u>2006-2007 First Quarter</u>	<u>Annual Change</u>
<b>GENERAL GOVERNMENT</b>			
Audit and Control, Department of	225,148	232,399	7,251
Budget, Division of the	37,423	52,215	14,792
Civil Service, Department of	26,391	23,958	(2,433)
Elections, State Board of	4,206	121,119	116,913
Employee Relations, Office of	3,579	3,956	377
Executive Chamber	13,937	15,480	1,543
General Services, Office of	260,291	269,847	9,556
Inspector General, Office of	5,336	6,369	1,033
Law, Department of	182,175	198,656	16,481
Lieutenant Governor, Office of the	348	485	137
Lottery, Division of	176,524	201,365	24,841
Racing and Wagering Board, State	13,093	19,133	6,040
Real Property Services, Office of	43,830	56,112	12,282
Regulatory Reform, Governor's Office of	3,661	3,744	83
State Labor Relations Board	3,508	3,776	268
State, Department of	132,559	190,063	57,504
Tax Appeals, Division of	2,958	3,423	465
Taxation and Finance, Department of	341,429	358,381	16,952
Technology, Office for	21,018	24,818	3,800
TSC Lobbying	1,572	3,028	1,456
Veterans Affairs, Division of	11,812	12,697	885
<b>Functional Total</b>	<u>1,510,798</u>	<u>1,801,024</u>	<u>290,226</u>
<b>ALL OTHER CATEGORIES</b>			
Legislature	210,051	213,863	3,812
Judiciary (excluding fringe benefits)	1,618,170	1,860,398	242,228
World Trade Center	81,607	32,550	(49,057)
Local Government Assistance	1,018,896	1,182,592	163,696
Long-Term Debt Service	3,702,254	4,086,708	384,454
General State Charges/Miscellaneous	4,875,058	5,360,060	485,002
Capital GAAP Adjustments <sup>(1)</sup>	(1,017,218)	(3,604,133)	(2,586,915)
<b>Functional Total</b>	<u>10,488,818</u>	<u>9,132,038</u>	<u>(1,356,780)</u>
<b>TOTAL ALL GOVERNMENTAL FUNDS SPENDING</b>	<u>104,341,436</u>	<u>113,606,836</u>	<u>9,265,400</u>

<sup>(1)</sup> Reflects an accounting adjustment for certain capital spending that is not reported in actual cash spending results, but is reported in the State's GAAP Financial Statements. This spending is related to programs which are financed directly from bond proceeds that are on deposit at various public authorities rather than from a short-term loan from Short-Term Investment Pool or cash from the General Fund, and has been included in the above agency totals and removed from net spending totals. The detailed amounts by agency are presented on the table entitled "Capital Off-Budget Spending".

Source: NYS DOB

**GAAP FINANCIAL PLAN  
GENERAL FUND  
2005-2006 and 2006-2007  
(millions of dollars)**

	<u>2005-2006</u> <u>Actuals</u>	<u>2006-2007</u> <u>First Quarter</u>	<u>Change</u>
<b>Revenues:</b>			
Taxes:			
Personal income tax	21,060	21,928	868
User taxes and fees	8,454	8,106	(348)
Business taxes	4,970	5,663	693
Other taxes	1,028	902	(126)
Miscellaneous revenues	5,579	5,500	(79)
Federal grants	0	180	180
<b>Total revenues</b>	<u>41,091</u>	<u>42,279</u>	<u>1,188</u>
<b>Expenditures:</b>			
Grants to local governments	33,678	36,868	3,190
State operations	10,681	11,544	863
General State charges	3,962	3,688	(274)
Debt service	0	26	26
Capital projects	0	1	1
<b>Total expenditures</b>	<u>48,321</u>	<u>52,127</u>	<u>3,806</u>
<b>Other financing sources (uses):</b>			
Transfers from other funds	13,993	12,830	(1,163)
Transfers to other funds	(5,381)	(4,949)	432
Proceeds from financing arrangements/ advance refundings	254	347	93
<b>Net other financing sources (uses)</b>	<u>8,866</u>	<u>8,228</u>	<u>(638)</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<u>1,636</u>	<u>(1,620)</u>	<u>(3,256)</u>
<b>Accumulated Surplus/(Deficit)</b>	<u>2,182</u>	<u>562</u>	<u>(1,620)</u>

Source: NYS DOB

**GAAP FINANCIAL PLAN  
ALL GOVERNMENTAL FUNDS  
2006-2007  
(millions of dollars)**

	<b>General Fund</b>	<b>Special Revenue Funds</b>	<b>Capital Projects Funds</b>	<b>Debt Service Funds</b>	<b>(MEMO) Total</b>
<b>Revenues:</b>					
Taxes	36,599	6,946	2,047	10,799	56,391
Patient fees	0	0	0	326	326
Miscellaneous revenues	5,500	4,570	291	23	10,384
Federal grants	180	35,589	1,764	0	37,533
<b>Total revenues</b>	<b>42,279</b>	<b>47,105</b>	<b>4,102</b>	<b>11,148</b>	<b>104,634</b>
<b>Expenditures:</b>					
Grants to local governments	36,868	43,099	1,105	0	81,072
State operations	11,544	1,738	0	65	13,347
General State charges	3,688	332	0	0	4,020
Debt service	26	0	0	3,249	3,275
Capital projects	1	2	4,574	0	4,577
<b>Total expenditures</b>	<b>52,127</b>	<b>45,171</b>	<b>5,679</b>	<b>3,314</b>	<b>106,291</b>
<b>Other financing sources (uses):</b>					
Transfers from other funds	12,830	276	323	5,419	18,848
Transfers to other funds	(4,949)	(3,272)	(866)	(13,223)	(22,310)
Proceeds of general obligation bonds	0	0	236	0	236
Proceeds from financing arrangements/ advance refundings	347	0	1,983	0	2,330
<b>Net other financing sources (uses)</b>	<b>8,228</b>	<b>(2,996)</b>	<b>1,676</b>	<b>(7,804)</b>	<b>(896)</b>
<b>(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses</b>	<b>(1,620)</b>	<b>(1,062)</b>	<b>99</b>	<b>30</b>	<b>(2,553)</b>

Source: NYS DOB

**CASH FLOW**  
**HEALTH CARE REFORM ACT RESOURCES FUND**  
**2006-2007**  
(millions of dollars)

	<b>First Quarter (Actual)</b>	<b>Second Quarter (Projected)</b>	<b>Third Quarter (Projected)</b>	<b>Fourth Quarter (Projected)</b>	<b>Total (Projected)</b>
<b>Opening fund balance</b>	1,600	2,041	1,471	583	1,600
<b>Receipts:</b>					
Cigarette Taxes	148	138	135	142	563
Miscellaneous Receipts	773	723	712	1,659	3,867
<b>Total receipts</b>	<b>921</b>	<b>861</b>	<b>847</b>	<b>1,801</b>	<b>4,430</b>
<b>Disbursements:</b>					
Medical Assistance Account	2	516	922	752	2,192
HCRA Program Account	169	258	260	475	1,162
Hospital Indigent Care Fund	110	230	285	216	841
Elderly Pharmaceutical Insurance Coverage (EPIC)	80	241	100	161	582
Child Health Plus (CHP)	70	105	91	99	365
Public Health	29	39	46	46	160
Mental Health	6	29	20	37	92
All Other	14	13	11	84	122
<b>Total disbursements</b>	<b>480</b>	<b>1,431</b>	<b>1,735</b>	<b>1,870</b>	<b>5,516</b>
<b>Change in fund balance</b>	<b>441</b>	<b>(570)</b>	<b>(888)</b>	<b>(69)</b>	<b>(1,086)</b>
<b>Closing fund balance</b>	<b>2,041</b>	<b>1,471</b>	<b>583</b>	<b>514</b>	<b>514</b>

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Source: NYS DOB

## **Special Considerations**

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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 "Risks to the Financial Plan" and "Litigation" in this AIS Update.

The State's total net assets reported for the Primary Government were \$49.1 billion at March 31, 2006, prior to recognizing retiree health and other related costs consistent with GASB 45. In accordance with GASB 45, retiree healthcare costs will be reported beginning with the March 31, 2008 Basic Financial Statements. A preliminary report by the State's consultants, which does not include a valuation of retiree healthcare costs for the City University Senior Colleges and is currently under review by the State, indicates that the State's total liability could be roughly \$47 billion as of April 1, 2006. This liability may be amortized over a period of up to 30 years which means that only the amortized portion of this amount may be reported in the financial statements beginning with the fiscal year ended March 31, 2008 and each year thereafter.

## **GAAP-Basis Results for Prior Fiscal Years**

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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 June 12, 2006 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](http://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, 2006	1,636	3,128	(664)	(251)	3,849	2,182
March 31, 2005	827	833	361	89	2,110	546
March 31, 2004	3,039	(578)	173	603	3,237	(281)

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 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, 2006	45,997	3,136	49,133
March 31, 2005	41,190	2,645	43,835
March 31, 2004	39,086	2,088	41,174

## State Organization

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### State Retirement Systems

#### 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.

Employer contributions due from the State for the fiscal year ending March 31, 2006, payable on July 1, 2005, totaled \$965.2 million which included the first amortization payment from the 2005 bill of \$64 million

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and assumed that the State would amortize \$155 million of the 2006 bill over 10 years. The State paid the fiscal year ending March 31, 2006 bill as described above and also made an additional payment of \$19.5 million to reduce its remaining retirement incentive costs and several other small costs. The State paid its employer contributions for the fiscal year ending March 31, 2007 which totaled \$1,067.2 million as of June 1, 2006. This amount included the Judiciary bill and the amortization payments for the 2005 and 2006 bills. Also, an additional payment of \$21 million was made on June 1, 2006 to reduce the State's remaining retirement incentive costs.



## Litigation

### Real Property Claims

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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. The District Court has granted defendants permission to move to dismiss the complaints or for summary judgment on the issue of laches. As of the date of this Update, the filing of such motion papers is scheduled for August 11, 2006.

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. On July 8, 2005, the Second Circuit denied the United States' motion for rehearing *en banc*. On September 2, 2005, the Second Circuit also denied the other plaintiffs' petitions for rehearing *en banc*. On January 17, 2006, plaintiffs filed for a petition for a writ of certiorari before the United States Supreme Court, seeking review of the September 9, 2004 decision. On June 5, 2006, the Supreme Court denied plaintiffs' petition for certiorari. This case is now concluded.

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 State's 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 one 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 February 10, 2006, the District Court stayed all further proceedings in this case until 45 days after the United States Supreme Court issued a final decision in the *Cayuga Indian Nation of the New York Case*.

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. On February 3, 2006, the United States and the tribal plaintiffs filed petitions for a writ of certiorari. On May 15, 2006, the Supreme Court denied plaintiffs' petitions for certiorari. The case is now concluded.

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. The District Court has granted defendants permission to move to dismiss the complaints or for summary judgment on the issue of laches. As of the date of this Update, the filing of such motion papers is scheduled for August 15, 2006.

## State Finance Policies ---

### Budget Process

In *Greater New York Hospital Ass'n., et al. v. Pataki, et al.* (Sup. Ct., New York County), the plaintiffs seek a declaratory judgment that certain Medicaid appropriations for the State's 2006-2007 fiscal year enacted by the Legislature over the Governor's veto are constitutional and that the Governor and his co-defendants are constitutionally obligated to implement those appropriations and to take no action to prevent their implementation. On June 8, 2006, the Supreme Court, New York County denied plaintiffs' request for a temporary restraining order. In *Healthcare Association of New York State, et al. v. Pataki, et al.* (Sup. Ct., Albany County), the petitioners also challenge the Governor's refusal to authorize spending on Medicaid, mental health and other health appropriations for the State's 2006-07 fiscal year enacted by the Legislature over the Governor's veto. Both of these cases have been discontinued by agreement of the parties.

## 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. On April 6, 2006, the Second Circuit Court of Appeals affirmed the order of the District Court. This

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case is now concluded. Several related State Court cases involving the same parties and issues had 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. On December 22, 2005, the Appellate Division, Fourth Department, granted petitioners' motion for leave to appeal to the Court of Appeals.