

Supplement to the Third Quarterly Update to the 2008-09 Annual Information Statement (AIS) of the State of New York

February 24, 2009

Recent Financial Plan Developments

This Supplement summarizes several developments concerning the State Financial Plan that have occurred since the release of the Third Quarterly Update to the AIS on January 28, 2009.

The Executive Budget, as amended, projected a General Fund budget gap of \$1.6 billion in the current fiscal year and \$13.8 billion in fiscal year 2009-10. The Governor and Legislature approved a deficit reduction plan ("DRP") for the current fiscal year on February 6, 2009. The DRP is expected to provide \$1.6 billion in savings in fiscal year 2008-09 and approximately \$800 million in savings in fiscal year 2009-10. The DRP included, among other things, an increased assessment on the insurance industry, a tuition increase for the State University, spending reductions in a range of programs, the transfer of certain assets from the New York Power Authority, strict controls on State-wide spending for agency operations, and the use of existing fund balances. The Legislature continues to deliberate on the 2009-10 Executive Budget proposal submitted by the Governor.

President Obama signed into law the American Recovery and Reinvestment Act of 2009 (the "ARRA") on February 17, 2009. Based on the Division of the Budget's ("DOB") preliminary analysis, New York State and localities will receive approximately \$24.6 billion under ARRA during the current fiscal year and over the course of the next two fiscal years (2009-10 and 2010-11). In the current fiscal year and fiscal year 2009-10, the State itself (as distinct from local governments and school districts) is expected to receive approximately \$6.5 billion in direct federal aid, of which approximately \$5.3 billion is unrestricted aid to the State and approximately \$1.2 billion (on a school year basis) is, based on DOB's review of the ARRA, restricted to financing education and higher education programs that would have otherwise been reduced based upon recommendations in the Executive Budget.

On February 24, 2009, the Governor and Legislature reached a consensus that, based on updated economic information and operating results through mid-February 2009, General Fund tax receipts over the two-year period from fiscal year 2008-09 to fiscal year 2009-10 are likely to be \$1 billion lower than the levels forecast in the Executive Budget, as amended by the Governor on January 15, 2009. The consensus forecast notes that, "all parties agreed that the greatest risk to the consensus forecast is the current state of financial markets . . . [and] find virtually no upside potential to the consensus forecast." The DOB also estimates that a delay in budget enactment from March 1, 2009 to April 1, 2009 (the start of the State fiscal year) would result in approximately \$250 million to \$300 million in potential lost savings in fiscal year 2009-10, mainly due to later implementation of proposed health care cost containment. The DOB further notes that the State Financial Plan projections are subject to a number of risks, including risks related to (a) the economic forecast, (b) the execution of certain transactions counted on in the Financial Plan, and (c) legislative action on the Executive Budget, as proposed (please see the Third Quarterly Update to the AIS for a discussion of such risks).

On balance, DOB believes that the developments described above will permit the State to end the current fiscal year in balance without the use of existing reserves.