

**SUPPLEMENT TO THE  
SECOND QUARTERLY UPDATE TO THE  
ANNUAL INFORMATION STATEMENT DATED NOVEMBER 3, 2009  
February 3, 2010 (the "Supplement")**

On January 19, 2010, Governor Paterson presented his Executive Budget for 2010-11 to the Legislature. The Executive Budget included recommendations to eliminate a General Fund projected budget gap in 2010-11 that was then estimated at approximately \$7.4 billion. The budget gap included an estimated budget shortfall of \$500 million in 2009-10 (the current fiscal year) that was expected to be carried forward into 2010-11.

The State Constitution permits the Governor to amend his Executive Budget within 30 days of its submission to the Legislature (the "amendment period"). Legislation enacted in 2007 provides that, to the extent practicable, such amendments now be made within 21 days (by February 9, 2010). In recognition of the challenging financing environment that exists and in light of information that has become available since the submission of the Executive Budget (discussed below), DOB now anticipates that there will be significant changes to the Executive Budget by the end of the amendment period. Accordingly, DOB has determined to issue this Supplement now and expects to issue the third quarterly update to the Annual Information Statement, dated May 15, 2009, during the week of February 15, 2010 in order to fully reflect the anticipated revisions to the Executive Budget.

Preliminary, unofficial operating results for January 2010 indicate that General Fund tax receipts were substantially below the estimates contained in the Executive Budget. Based on preliminary data, personal income tax collections were approximately \$1 billion below expectations for the month of January 2010. DOB attributes a portion of the shortfall in personal income tax collections to the timing of payments related to financial services sector bonuses and estimated tax payments and this portion of the shortfall in tax collections will ultimately be eliminated in the coming months. However, continuing uncertainties over the timing and structure of financial sector compensation, among other things, make it likely that DOB will revise the forecast for General Fund tax receipts through 2010-11 downward by approximately \$550 million compared to the Executive Budget.

In addition, General Fund disbursements for Medicaid continued to exceed planned levels. Based on updated caseload, utilization, and payment patterns,

DOB expects to revise spending for Medicaid upward by \$400 million through the end of 2010-11. The revisions to General Fund tax receipts and Medicaid spending, as compared to the Executive Budget, are likely to be offset in part by other expected changes that would lower spending across a range of programs and activities (approximately \$200 million).

Accordingly, to maintain a balanced budget proposal as required by law, it is expected that the Governor will identify additional gap-closing resources of approximately \$750 million in the Executive Budget, as amended, which is expected to be issued on February 9, 2010. DOB is developing a range of options for addressing the additional imbalance. In total, the Executive Budget, as amended, will include recommendations to eliminate a budget gap of approximately \$8.2 billion. A complete summary of the Executive Budget, as amended, will be contained in the third quarterly update to the AIS.