

Update to Annual Information Statement (AIS)

State of New York

January 25, 2005

This quarterly update (the "Update") to the AIS of the State of New York is dated January 25, 2005 and contains information only through that date. It is the second quarterly update to the AIS of the State of New York dated September 19, 2004. The first update to the AIS was issued on November 16, 2004. This Update is organized in three parts.

Part I contains information on the State's Financial Plan projections, including:

1. Extracts from the Financial Plan Overview contained in the Financial Plan of the Governor's Executive Budget for 2005-06 presented to the Legislature on January 18, 2005. The Financial Plan Overview includes updated Financial Plan projections for State fiscal years 2004-05 through 2007-08 and detailed narrative descriptions of the receipts and disbursements estimates for the State's governmental funds.
2. A discussion of special considerations affecting the State Financial Plan.
3. Information on the proposed Five-Year Capital Program and Financing Plan, which is also contained in the Financial Plan of the Governor's Executive Budget for 2005-06.

The entire 2005-06 Financial Plan, including the economic forecast for calendar years 2004 and 2005, detailed forecasts for State receipts, and the proposed Capital Program and Financing Plan for the 2004-05 through 2008-09 fiscal years, is available on the Division of the Budget's website, www.budget.state.ny.us.

Part II updates information regarding the State Retirement System.

Part III updates the status of certain litigation against the State. Information relating to litigation in this part is furnished by the State Office of the Attorney General.

The State has filed this 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 Update may be obtained from the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705 or from any NRMSIR. The State's Basic Financial Statements for the 2003-04 fiscal year were issued in July 2004 may be obtained from the Office of the State Comptroller, 110 State Street, Albany, NY 12236.

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PART I

2005-06 Financial Plan Overview ---

Note: DOB issued the Financial Plan Overview set forth below on January 18, 2005. It 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, 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

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Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

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EXECUTIVE SUMMARY

OVERVIEW

New York emerged from the national recession in September 2003, marking an important milestone in the State's recovery from the impact of September 11th. The State economy is experiencing sustained growth, and generating tax collections above the levels forecast by DOB in its most recent update to the 2004-05 Financial Plan issued November 1, 2004 (the "Mid-Year Update"). DOB now projects underlying annual receipts growth of 10.2 percent in 2004-05 and 6.5 percent in 2005-06, based on actual results to date and a revised economic forecast.

The improvement in tax collections, in combination with savings from the statewide Fiscal Management Plan (FMP), is expected to permit the State to end the 2004-05 fiscal year with a \$170 million cash surplus in the General Fund and make the maximum possible contribution (\$70 million) to the Rainy Day Fund¹, bringing the balance to \$864 million, equal to its statutory cap of 2 percent of General Fund spending.

The revised revenue and spending projections also reduce the projected budget gaps to \$4.2 billion in 2005-06 and \$5.8 billion in 2006-07, at the lower end of the forecast range in the Mid-Year Update, as described in detail later in this overview.

Revisions to Mid-Year Budget Gap Projections (millions of dollars)		
	2005-06	2006-07
Mid-Year Budget Gaps	(5,995)	(7,708)
Revenue Revisions	1,456	1,177
Spending Revisions	387	687
Revised Budget Gaps	(4,152)	(5,844)

The 2005-06 Executive Budget recommends closing the \$4.2 billion gap primarily through permanent spending restraint, supplemented with limited levels of revenue enhancements and nonrecurring resources. DOB projects that the recommendations would produce net recurring savings of roughly \$3 billion annually, reducing the 2006-07 and 2007-08 budget gaps to about \$2.7 billion.

2005-06 Executive Budget Recommended Actions (millions of dollars)			
	2005-06	2006-07	2007-08
Revised Budget Gaps	(4,152)	(5,844)	(5,571)
Total Recommendations	4,152	3,143	2,786
Spending Actions (net of adds)	2,763	2,513	2,025
Revenue Actions (net of tax cuts)	533	724	791
Nonrecurring Resources	856	(94)	(30)
Remaining Budget Gaps	0	(2,701)	(2,785)

¹ Also known as the Tax Stabilization Reserve Fund.

The most significant recommendations include:

- \$2.8 billion in net initiatives to restrain spending. This reflects \$3.1 billion in cost containment in high-growth programs, especially Medicaid, pensions, and debt service, and maximizes Federal aid and efficiencies in State Operations spending. These savings initiatives allow targeted new investments of \$313 million, including increased State funding to cap the growth in local Medicaid costs and increased aid and incentives for municipalities.
- \$533 million in net revenue actions. This reflects \$779 million of increased resources including a sales tax exemption on clothing purchases under \$250 that will run for two weeks (rather than reverting to a permanent exemption for purchases under \$110), and elimination of tax loopholes to promote tax equity. The recommendations include new tax cuts of \$246 million to accelerate the phase-out of the temporary 2003 personal income tax (PIT) surcharge, and provide targeted tax cuts intended to promote economic growth.
- \$856 million of nonrecurring actions, including commencing the recent discretionary funding changes for the State and Local Retirement System only after independent review and public comment (\$321 million)², use of the 2004-05 surplus (\$170 million), asset sales (\$54 million), and fund sweeps.

The Executive Budget recommendations hold annual spending growth in the General Fund and All Governmental Funds (hereafter “All Funds”) to below the rate of inflation.

	Total Disbursements (millions of dollars)						
	2004-05 Revised	2004-05 Adjusted	2005-06 Proposed	Unadjusted		Adjusted ⁽¹⁾	
				Annual Change	Percent Change	Annual Change	Percent Change
General Fund	43,407	43,915	45,075	1,668	3.8%	1,160	2.6%
State Funds	64,137	65,570	69,088	4,951	7.7%	3,518	5.4%
All Funds	101,607	103,040	105,527	3,920	3.9%	2,487	2.4%

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

In response to the Campaign for Fiscal Equity (CFE) litigation concerning the State’s system for financing public schools, the 2005-06 Budget recommends a \$526 million school aid increase for the 2005-06 school year comprised of \$201 million in traditional school aid and \$325 million in a new Sound Basic Education (SBE) Aid Program. Funding for statewide SBE grants to school districts is projected to grow to over \$2 billion annually by 2009-10, financed with revenues generated from existing and future video lottery terminals (VLTs). New York City would receive approximately 60 percent of the annual SBE aid.

The 2005-06 budget advances several new initiatives intended to help localities reduce local property taxes, including:

- Capping annual growth in local Medicaid costs up to 2005 spending levels, adjusted by 3.5 percent in 2005-06, 3.25 percent in 2006-07, and 3 percent in 2007-08, with the State paying for all costs above this level. The local cap will convert to a full takeover of local costs effective January 1, 2008. The plan is projected to generate over \$2 billion in local government savings over the next three years and will provide greater predictability to local government budgets.

² See “Special Considerations” later in this AIS Update for a discussion of the Comptroller’s role in approving this proposal.

- Accelerating the State takeover of Family Health Plus (FHP) costs from local governments, bringing the value of the takeover to \$312 million in 2005-06, growing to \$576 million in 2006-07.
- Providing increased aid and incentives to municipalities of \$55 million in 2005-06, growing to \$109 million in 2006-07, bringing annual funding to \$671 million.
- New funding structures for family services in welfare and for the General Public Health Works program that are intended to enhance local discretion in efficiently targeting resources by eliminating State-level spending mandates.

DOB projects that the State will end 2005-06 in balance on a cash basis in the General Fund if the 2005-06 Executive Budget recommendations are enacted in their entirety. However, in any year, the Financial Plan is subject to risks that, if they were to materialize, could adversely or positively affect operating results. A full discussion of risks to the State Financial Plan appears in the section entitled "Reserves and Risks" later in this Overview.

SIZE OF THE 2005-06 BUDGET

General Fund spending is projected to total \$45.1 billion in 2005-06, an increase of \$1.2 billion (2.6 percent) over the adjusted current year forecast. State Funds spending, which includes both the General Fund and spending from other funds supported by State revenues, is projected to increase by \$3.5 billion (5.4 percent) and total \$69.1 billion in 2005-06. All Funds spending, the broadest measure of State spending, is projected to total \$105.5 billion in 2005-06, an increase of \$2.5 billion (2.4 percent).

The 2005-06 Financial Plan includes the roughly 25 percent of spending financed through the Health Care Reform Act (HCRA) that is currently "off budget" (i.e., outside the Financial Plan). The change does not affect the General Fund, since all HCRA spending is budgeted in State Special Revenue Funds (SRFs), but does increase both State Funds and All Funds totals in 2005-06. In addition, new General Fund Medicaid spending to comply with Federal policy changes related to county shares adjustments is reflected in 2005-06 projections but not in 2004-05 results. To provide a comparable basis for calculating annual growth, the 2004-05 estimates in this Overview are presented on both an "adjusted" (i.e., including the additional HCRA and Medicaid spending in 2004-05 to provide a comparable basis of comparison) and an "unadjusted" basis. The 2004-05 adjustment for HCRA is \$925 million; the Medicaid adjustment is \$508 million.

The major sources of annual spending from 2004-05 to 2005-06 are presented in the table below, and are explained in more detail later in this Overview. The estimates assume the Executive Budget recommendations are approved in their entirety.

Disbursement Projections -- After Recommended Savings			
Major Sources of Annual Change			
(millions of dollars)			
	General Fund	State Funds	All Funds
2004-05 Revised Estimate	43,407	64,137	101,607
All HCRA On-budget	0	925	925
Discontinue County Shares Adjustment	508	508	508
2004-05 Adjusted Estimate	43,915	65,570	103,040
Local Assistance:			
Medicaid	(6)	1,278	1,034
School Aid	321	458	668
Social Services	97	88	263
Public Health	53	68	104
Transportation	(10)	188	188
STAR	0	130	130
Elections	0	0	118
Homeland Security	0	0	96
Higher Education	65	75	75
All Other Education Aid	(6)	(6)	64
Empire State Development Corp.	52	52	52
World Trade Center	0	0	(1,557)
Community Projects Fund/CSPAP	(77)	(102)	(102)
All Other Local Aid	(35)	(58)	123
State Operations	448	756	569
General State Charges	224	298	320
Debt Service	(66)	34	34
Capital Projects	21	259	308
All Other	79	0	0
2005-06 Executive Budget Estimate	45,075	69,088	105,527
<i>Dollar Change</i>	<i>1,160</i>	<i>3,518</i>	<i>2,487</i>
<i>Percent Change</i>	<i>2.6%</i>	<i>5.4%</i>	<i>2.4%</i>

2005-06 GAP-CLOSING SUMMARY

Sources of the 2005-06 gap

DOB projects General Fund budget gaps of \$4.2 billion in 2005-06 and \$5 billion to \$6 billion in 2006-07 and 2007-08, before the savings that are projected to be achieved by the 2005-06 Executive Budget recommendations. In summary, the 2005-06 gap results from anticipated spending increases to support current service levels and the loss of nonrecurring resources used to help balance the budget in 2004-05, which together exceed annual growth in underlying revenues of \$3.1 billion (6.5 percent). The following chart provides a "zero-based" look at the sources of the 2005-06 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 sections entitled "2005-06 Financial Plan" and "General Fund Financial Plan Outyear Projections" later in this Overview, and "Explanation of Receipt Estimates" contained in the volume entitled "2005-06 New York State Executive Budget Financial Plan" available on the DOB website or by contacting DOB.

2005-06 Causes of Budget Gaps -- Before 2005-06 Recommended Savings (millions of dollars)		
Total Annual Revenue Growth		197
Underlying Growth (6.5 Percent)	3,127	
Loss of One-time Actions	(1,182)	
PIT/Sales Tax Temporary Surcharge Phase-out/Clothing Exemption	(1,080)	
Final Use of Tobacco Proceeds	(400)	
STAR Fund Transfer	(150)	
Transfer for Higher Debt Service Costs (RBTF)	(138)	
All Other Revenue Changes	20	
Total Annual Spending Growth		(4,349)
Loss of One-time Actions	(683)	
Medicaid	(1,069)	
State Takeover of FHP	(282)	
Loss of Enhanced Federal Medicaid Match Rate (Reverts to 50%)	(220)	
School Aid	(360)	
Welfare	(251)	
Pension/Health Insurance Costs	(650)	
Collective Bargaining Costs (including fringe benefits)	(387)	
All Other Spending Growth	(447)	
Total Projected 2005-06 Budget Gap		(4,152)

Based on the revised DOB forecast that predicts a sustained economic recovery in 2005 (described later in this Overview), underlying revenues are expected to grow by \$3.1 billion in 2005-06, or 6.5 percent, following projected growth of 10.2 percent in 2004-05. However, this growth is nearly entirely absorbed by the loss of one-time and nonrecurring revenues (\$1.6 billion, including tobacco securitization proceeds), the phase-out of both the personal income tax (PIT) surcharge (\$149 million) and one-quarter percent increase in sales tax enacted in 2003 (\$452 million), the reversion to a permanent sales tax exemption on clothing purchases under \$110 (\$479 million), and increasing costs for debt service and the School Tax Relief (STAR) Program (\$288 million).

Prior to any Executive Budget proposals, General Fund disbursements are projected to increase by \$4.3 billion in 2005-06. The main factors driving growth include (a) the loss of one-time and nonrecurring resources (\$903 million, including FMAP³), and (b) higher spending to maintain current service levels in Medicaid, school aid, and other programs (\$2.1 billion), finance collective bargaining, pensions, and health insurance costs (\$1.0 billion), and pay for the continued State takeover of local Family Health Plus costs (\$282 million).

A full description of the one-time actions budgeted in 2004-05 appears in both the 2004-05 Enacted Budget Report for the State of New York and the 2004-05 Annual Information Statement of the State of New York.

2005-06 Gap-Closing Plan

The 2005-06 Financial Plan is balanced on a cash basis in the General Fund, with recommendations projected to close a \$4.2 billion General Fund budget gap. Recurring actions are valued at roughly \$3.1 billion in 2006-07 and \$2.8 billion in 2007-08, leaving projected gaps of \$2.7 billion in 2006-07 and \$2.8 billion in 2007-08. The table below summarizes the 2005-06 gap-closing plan.

³ Federal Medical Assistance Percentage. It refers to the matching rate the Federal government pays for eligible State Medicaid expenditures. New York's FMAP is 50 percent.

2005-06 Executive Budget General Fund Gap Closing Actions (millions of dollars)			
	2005-06	2006-07	2007-08
Initial Budget Gaps	(4,152)	(5,844)	(5,571)
Spending Actions	3,076	3,483	3,761
Medicaid - Cost Containment	869	1,461	1,521
Medicaid - Provider Assessments	234	470	470
Medicaid - Other Financing Sources	795	203	351
Mental Hygiene	250	164	135
Transportation/Motor Vehicles	163	171	178
Debt Management	150	100	100
SUNY and CUNY	137	159	159
Restructure Tuition Assistance Program	135	265	337
State Operations Efficiencies (other than listed separately)	130	136	132
Social Services	104	153	156
All Other Spending Actions	109	201	222
Recommended Adds	(313)	(970)	(1,736)
Cap/Takeover Local MA Costs (State Costs/Local Savings)	(121)	(631)	(1,257)
Other Local Medicaid Relief	(45)	(10)	0
Aid and Incentives for Municipalities	(55)	(109)	(109)
County STAR	0	(67)	(146)
All Other Adds	(92)	(153)	(224)
Revenue Actions	779	1,027	995
Two Week Clothing Exemption at \$250	456	584	605
Power Authority PILOT Payments	75	100	100
Corporation Franchise Taxes	51	101	51
Close "Thrift" Loophole on REIT (Same as Feds/NYC)	50	50	50
Eliminate Quick Draw Restrictions	39	57	57
Increase Wine Tax	38	44	45
All Other Revenue	70	91	87
Tax Cuts	(246)	(303)	(204)
PIT Top Tax Rate Decrease	(190)	(130)	0
Corp Franchise Tax Cuts (SPUR; Green buildings)	(30)	(48)	(49)
STAR Plus	(12)	(62)	(119)
Extend Power for Jobs credit	0	(25)	0
All Other Tax Cuts	(14)	(38)	(36)
One-Time Resources	856	(94)	(30)
Pensions (Delay Actuarial Funding Changes)	321	(96)	(25)
Use 2004-05 Surplus	170	0	0
Fund Sweeps	124	0	0
TANF Reprogramming	61	0	0
Proceeds from Sale of Property	54	(8)	(8)
Mortgage Insurance Fund (Excess Balances)	50	0	0
Federal Medicaid Participation for Aliens	42	0	0
All Other One-Timers	34	10	3
Total Recommendations	4,152	3,143	2,786
Proposed Budget Gaps	0	(2,701)	(2,785)

Spending Actions

Recommendations to restrain spending in the General Fund total \$3.1 billion. They include a combination of cost containment, program restructuring, and the use of alternate funding sources. Highlights are summarized below, with specific details provided later in this Overview:

- Medicaid: Includes actions to restrain growth for nursing homes (\$182 million), Family Health Plus (\$227 million), hospitals (\$201 million), prescription drug prices (\$80 million), and managed care programs (\$48 million); lower the cost of optional services; reimpose an assessment on hospital revenues; and increase an existing reimbursable nursing home revenue assessment to support health care programs.
- Mental Hygiene: Includes initiatives to increase Patient Income Account (PIA) and other revenues (\$196 million) and cost containment actions, including audit recoveries, overtime controls, and local program reductions (\$54 million);
- Transportation/Motor Vehicle Operations: Expands the use of non-General Fund resources to help support ongoing operations (\$163 million);
- Debt Management: Continued use of swaps, refundings, and variable rate debt is projected to reduce the growth in debt service (\$150 million);
- State University of New York (SUNY)/City University of New York (CUNY): Reduced State support for operations (\$137 million) is coupled with flexibility for the universities to increase tuition revenues;
- Tuition Assistance Program (TAP): Award restructuring would provide prospective students with incentives for timely completion of studies (\$135 million);
- State Operations: Reductions are projected to total roughly \$230 million, of which \$100 million is accounted for in the itemized listing of agencies that appears on the table above. The remaining \$130 million of savings are spread across multiple agencies and are achieved through the continuation of the hiring freeze, expansion of operational hosting (in which one agency provides administrative functions for multiple agencies to improve efficiency), controls in non-personal service spending and centralized purchasing of certain commodities and services;
- Social Services: Maximizes the use of Federal resources (\$49 million), imposes benefit and reimbursement penalties for non-compliance with work requirements (\$24 million), TANF welfare spending realignment (net of OCFS) (\$24 million), and redirection of funding for institutional-based programs (\$7 million); and
- All other spending actions include lower funding for certain programs operated by the Empire State Development Corporation, reduced interest payments for Court of Claims settlements, elimination of supplemental financial aid under the opportunity program (in education), and alternate financing for certain environmental protection capital projects.

Revenue Actions

General Fund Revenue enhancements are expected to raise \$779 million in 2005-06. Significant proposals include:

- Authorizing two sales-tax free weeks on clothing and footwear purchases under \$250, instead of reverting to a permanent \$110 exemption (\$456 million);
- Eliminating double benefits for certain taxpayers, changing outdated provisions to promote fairness and updating caps on corporate taxes to reflect changes in inflation (\$51 million); and
- Increasing the excise tax on wine from 5 cents per liter to 28 cents per liter, a level comparable with other states (\$38 million).

Other tax and fee increases include new penalties for vehicle owners caught speeding, by automated cameras, in work zones and on dangerous stretches of highway; higher filing fees for limited liability partnerships; modification of certain operating restrictions for the Quick Draw lottery game; and higher fees to register all terrain vehicles.

One-Time Resources

The 2005-06 Financial Plan includes \$856 million in one-time actions to support General Fund spending. The proposals, the majority of which do not result in new costs in later fiscal years, include:

- Seeking the Comptroller's approval to make discretionary funding revisions only after independent review and public comment, which would reduce annual pension costs for State and local governments in 2005-06 (\$321 million);
- Using the 2004-05 surplus (\$170 million);
- Using available resources from Federal Temporary Assistance for Needy Families (TANF) block grants to finance a portion of the Earned Income Tax Credit (EITC) and other programs that would otherwise be paid for in the General Fund (\$61 million); and
- Routine sweeps of fund balances, increasing Federal aid, and projected asset sales account for the balance of the nonrecurring actions.

Recommended Adds

The combined total of spending, revenue, and nonrecurring actions described above is expected to be sufficient to provide funding for new investments, including tax reductions intended to improve the State's economic competitiveness, and enhanced State aid for local governments to help control the growth in local property taxes. Significant proposals include:

Spending Initiatives

The recommendations include over \$300 million in new General Fund spending initiatives in 2005-06, including:

- A State cap on the growth in local Medicaid costs effective January 1, 2006 leading to a full takeover of local Medicaid costs beginning January 1, 2008 (\$121 million in 2005-06 growing to \$1.3 billion by 2007-08);
- Acceleration of the full State takeover of the Family Health Plus program, the cost of which is currently shared with counties (\$25 million), with a full annual value for takeover of \$576 million in 2006-07;
- Additional local aid related to Medicaid costs (\$20 million in 2005-06 and \$10 million in 2006-07);
- Enhanced aid for distressed municipalities and planning grants to improve local management (\$55 million in 2005-06, growing to \$109 million by 2006-07);
- A county tax rebate program for taxpayers who live in counties that hold the growth in their general fund budgets at or below the proposed Medicaid spending cap (\$67 million - begins in 2006-07);
- A \$10 million expansion of the Expanded In-Home Services for the Elderly Program (EISEP) in 2005-06, growing to \$25 million in 2006-07, which will double the size of the current program funding;
- New spending for mental health clinics and programs (\$8 million);
- More resources for Operation IMPACT, which directs State Police manpower and other State criminal justice resources to high-crime areas around the State (\$5 million); and

- Other spending initiatives, including new capital spending for health care facilities under the Health Care System Improvement Capital Grant Program, debt service costs related to new capital projects primarily to promote economic development, and a new program to provide employment services to unemployed and under-employed non-custodial parents.

Tax Cuts

The recommendations include nearly \$250 million in new, targeted tax cuts, including:

- Acceleration of the phase-out of the 2003 temporary tax increases (\$190 million) by dropping temporary rates more rapidly in 2005;
- Tax credits to encourage economic development, including a targeted wage credit (\$30 million);
- STAR Plus, which provides an income tax credit that increases the annual STAR benefit by the rate of inflation in school districts that comply with the school spending cap (\$12 million growing to \$119 million in 2007-08); and
- Expansion of the Earned Income Tax Credit (EITC) to encourage non-custodial parents to provide financial assistance to their children (\$4 million growing to \$22 million in 2007-08).

ECONOMIC FORECAST SUMMARY

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

DOB's economic forecast is described at length in "Explanation of Receipts Estimates — Economic Backdrop," in the volume entitled "2005-06 New York State Executive Budget Financial Plan" available on the DOB website or by contacting DOB. The following is a brief summary of the major points.

U.S. ECONOMY

Following almost two years of growth well above the economy's long-term trend rate, the nation is entering the fourth year of economic expansion. The economy added an average of 185,000 jobs per month in 2004, almost returning total payroll employment to its pre-recession level. Despite lackluster growth in both employment and wages, the bedrock of the nation's economic recovery has to this point been household spending, fueled by two rounds of tax cuts and very low interest rates. However, those supports will begin to diminish as we enter 2005, bringing economic growth closer to its estimated long-term trend rate. DOB is projecting growth in real U.S. GDP to decelerate from 4.4 percent for 2004 to 3.4 percent for the current year.

DOB projects steady trend growth throughout the forecast period, permitting the Federal Reserve to maintain its "measured" course of interest rate increases. Recent data indicates that employment growth may finally be rebounding to rates that are more typical of a maturing expansion. Total nonagricultural employment is projected to grow 1.8 percent in 2005, following an increase of 1.0 percent in 2004. The U.S. unemployment rate is expected to decline to 5.3 percent in 2005, from 5.5 percent in 2004. The inflation rate, measured by the Consumer Price Index (CPI), is forecast to be 2.5 percent in 2005, following a similar rate in 2004.

THE NEW YORK STATE ECONOMY

Recent above-trend national growth rates have helped to buttress the New York State economy as well. The State is estimated to have emerged from recession in the summer of 2003. The New York City economy is well on its way to a full recovery from the impact of the September 11th attack, reversing several years where the City's job base was in decline. The continued strengthening of the State economy will help to sustain the housing market, although not at the torrid pace of growth observed in 2004. Moreover, with the pickup in equity market activity toward the end of 2004, the profit outlook for the finance industry is brightening, though the level of profits for the year is not expected to match that of 2003. Bonus growth is expected to slow to 15 percent resulting in total New York wage growth of 4.9 percent for 2005, reduced modestly from 5.7 percent in 2004. State nonagricultural employment is projected to rise 1.1 percent in 2005, a significant improvement compared with 0.4 percent growth for 2004, but below projected growth of 1.8 percent for the nation.

2004-05 FINANCIAL PLAN UPDATE

DOB projects the State will end the 2004-05 fiscal year with a cash-basis surplus of \$170 million in the General Fund, after making the maximum annual contribution of \$70 million to the State's Rainy Day Fund. As described below, the projected surplus results primarily from recent positive revenue experience, which is driving projected underlying revenue growth of 10.2 percent in 2004-05.

General Fund receipts, including transfers from other funds, are now projected at \$43.5 billion. DOB has revised the revenue estimate upward based on revenue collections to date and the strength of key economic indicators, both of which have exceeded expectations. Consistent with the experience in prior State economic expansions, personal income tax collections have shown robust growth, which DOB believes is due mainly to increases in non-wage income. Real estate related tax collections have also exceeded planned levels, reflecting strength in home sales and mortgage refinancings.

General Fund spending is expected to total \$43.4 billion in 2004-05. A delay in the expected receipt of \$200 million in Empire conversion proceeds⁴ that was budgeted to reduce General Fund Medicaid spending and cost overruns in correctional services account for most of the increase. Financial Management Plan savings and lower than expected claims from counties under the General Public Health Works program partially offset these costs. The revisions are based on a review of actual operating results through December 2005, and an updated analysis of economic, revenue, and spending trends.

⁴ See "Reserves and Risks" later in this Financial Plan Overview for a discussion of the conversion of not-for-profit health care entities to for-profit companies.

2004-05 General Fund Changes from Enacted Budget (millions of dollars)			
	Mid-Year Revisions	January Revisions	Total
Enacted Budget (Before FMP)	(434)		(434)
Revenues	359	671	1,030
New Costs	(215)	(302)	(517)
Delayed Empire Conversion Proceeds	0	(200)	(200)
Medicaid	(90)	(16)	(106)
DOCS	(75)	(45)	(120)
Lottery	(55)	(13)	(68)
General State Charges	0	(45)	(45)
Collective Bargaining	(43)		(43)
Health	0	55	55
All Other Changes	48	(38)	10
Fiscal Management Plan Savings	290	(129)	161
Use 2004-05 Surplus in 2005-06	0	(170)	(170)
Deposit to Rainy Day Fund	0	(70)	(70)
Revised Estimate	0	0	0

Based on actual results to date, State Funds spending is now projected to total \$64.1 billion in the current year, a decrease of \$136 million from the Mid-Year Update. Lower spending for the “wireless” emergency 911 capital project (\$50 million), maximization of Patient Income Account revenues (\$50 million), and the timing of other capital projects (\$46 million) account for the majority of the decrease.

All Funds spending in 2004-05 is now projected to total \$101.6 billion, an increase of \$316 million from the Mid-Year Update. Federal aid for K-12 education programs, including special education, is expected to exceed the Mid-Year estimate (\$600 million), but is partially offset by the State Funds spending reductions described above.

DOB projects the State will end the 2004-05 fiscal year with a balance of \$1.2 billion in the General Fund. The balance consists of \$864 million in the Rainy Day Fund, \$301 million in the Community Projects Fund, and \$21 million in the CRF.

The closing balance excludes \$693 million projected to be on deposit in the tax refund reserve account at the end of 2004-05. The tax refund reserve account is used to reserve money for the payment of tax refunds that are owed as part of the 2004 tax year, but are not processed until early in the subsequent fiscal year, as well as to accomplish other Financial Plan objectives. The projected balance includes amounts for the payment of tax refunds and \$170 million from the 2004-05 estimated surplus, which the Governor recommends using to help balance the 2005-06 Financial Plan, as described earlier in this Overview.

2005-06 FINANCIAL PLAN

INTRODUCTION

The State’s Financial Plan projections consist of separate receipts and spending forecasts. The receipts forecast for the State’s principal taxes, miscellaneous receipts, and transfers from other funds is described first, followed by the spending projections that summarize the annual growth in current services spending and impact of recommended actions for the State’s major functions (e.g., Medicaid, school aid).

The 2005-06 Financial Plan projections are presented on an All Funds basis, which encompasses activity in both State Funds and Federal Funds, thus providing the most comprehensive view of the financial operations of the State. [State Funds includes the General Fund, which is the principal operating fund of the State, and other State-supported funds including State SRFs, Capital Projects Funds (CPF) and Debt Service Funds (DSFs)].

2005-06 RECEIPTS FORECAST

Total Receipts (millions of dollars)				
	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	43,516	45,091	1,575	3.6%
State Funds	63,593	68,871	5,278	8.3%
All Funds	101,129	105,520	4,391	4.3%

All Funds receipts are projected to total \$105.5 billion, an increase of \$4.4 billion (4.3 percent) over 2004-05 projections. The total comprises tax receipts (\$50.7 billion), Federal grants (\$36.6 billion) and miscellaneous receipts (\$18.3 billion). The following table summarizes the receipts projections for 2004-05 and 2005-06.

2005-06 Executive Budget Receipts Projections					
(millions of dollars)					
	2004-05	Percent	2005-06	Percent	Percent
	Revised	Share	Projected	Share	Change
ALL FUNDS RECEIPTS					
Taxes	48,078	47.5%	50,657	48.0%	5.4%
Federal Grants	37,420	37.0%	36,560	34.6%	-2.3%
Miscellaneous Receipts	15,631	15.5%	18,303	17.3%	17.1%
Total All Funds Receipts	101,129		105,520		4.3%
STATE FUNDS RECEIPTS					
Personal Income Tax	28,138	44.2%	29,616	43.0%	5.3%
Net Change in Refund Reserve	531	0.8%	134	0.2%	-74.8%
User Taxes and Fees	13,003	20.4%	13,638	19.8%	4.9%
Business Taxes	5,473	8.6%	5,886	8.5%	7.5%
Other Taxes	1,464	2.3%	1,517	2.2%	3.6%
Total Taxes	48,078	75.6%	50,657	73.6%	5.4%
Total Taxes Adjusted (1)	47,547	74.8%	50,523	73.4%	6.3%
Miscellaneous Receipts & Federal Grants	15,515	24.4%	18,214	26.4%	17.4%
Lottery	2,074	3.3%	2,321	3.4%	11.9%
Other	13,441	21.1%	15,893	23.1%	18.2%
Total State Funds Receipts	63,593		68,871		8.3%
GENERAL FUND RECEIPTS					
Personal Income Tax	18,932	43.5%	19,844	44.0%	4.8%
User Taxes and Fees	8,752	20.1%	8,622	19.1%	-1.5%
Business Taxes	3,764	8.6%	4,066	9.0%	8.0%
Other Taxes	730	1.7%	778	1.7%	6.6%
Total Taxes	32,178	73.9%	33,310	73.9%	3.5%
Miscellaneous Receipts & Federal Grants	2,301	5.3%	2,455	5.4%	6.7%
Transfers	9,037	20.8%	9,326	20.7%	3.2%
Total General Fund Receipts	43,516		45,091		3.6%
GENERAL FUND TAXES					
Personal Income Tax	18,932	58.8%	19,844	59.6%	4.8%
Gross - Refunds	27,607	85.8%	29,482	-	6.8%
Net Change in Refund Reserve	531	1.7%	134	-	-74.8%
STAR	(3,072)	-9.5%	(3,202)	-	4.2%
RBTF	(6,134)	-19.1%	(6,570)	-	7.1%
User taxes and fees	8,752	27.2%	8,622	25.9%	-1.5%
Sales Tax	8,097	25.2%	7,951	23.9%	-1.8%
Other User Taxes and Fees	655	2.0%	671	2.0%	2.4%
Business Taxes	3,764	11.7%	4,066	12.2%	8.0%
Other Taxes	730	2.3%	778	2.3%	6.6%
Total General Fund Taxes	32,178	100.0%	33,310	100.0%	3.5%
Total General Fund Taxes Adjusted (2)	31,647		33,176		4.8%

1 Nets out impact of refund reserve.

2 Nets out impact of refund reserve, STAR and the RBTF on the personal income tax.

Tax Receipts

All Funds tax receipts are projected to be almost \$51 billion in 2005-06, an increase of \$2.6 billion (5.4 percent) from 2004-05. The increase is attributable to continued economic growth combined with the net impact of tax and other revenue actions proposed with this Budget. For an in-depth description of the sources and the factors affecting receipts growth for each tax and other revenue sources, see "Explanation of Receipt Estimates" in the volume entitled "2005-06 New York State Executive Budget Financial Plan" available on the DOB website or by contacting DOB.

Personal Income Tax

All Funds PIT net receipts for 2005-06 are projected to reach \$29.6 billion, an increase of \$1.5 billion (5.3 percent) from 2004-05 due largely to an increase in underlying liability growth associated with improved economic conditions and the temporary three-year tax increase enacted in 2003. Excluding the Refund Reserve transaction, All Funds income tax receipts are projected to increase by 6.8 percent over 2004-05.

PIT General Fund receipts for 2005-06 (excluding the Refund Reserve transaction) are projected to reach \$19.7 billion, an increase of \$1.3 billion from 2004-05 offset by increased STAR deposits of \$130 million. The 2005-06 estimate reflects the accelerated phase-out of the temporary tax surcharge and other tax actions.

User Taxes and Fees

All Funds user taxes and fees net receipts for 2005-06 are projected to reach \$13.6 billion, an increase of \$636 million (4.9 percent) from 2004-05. The sales and use tax is projected to reach \$11.0 billion, an increase \$27 million or 0.2 percent from 2004-05. The sales tax base is expected to increase by 5.8 percent due largely to increases in employment, income and overall consumption. The increased revenue from the expanding base will be augmented by the gain from eliminating the exemption for clothing and footwear costing less than \$110 and replacing it with an exemption for two specified tax-free weeks for clothing and footwear costing less than \$250 and a minor increase from the proposal to allow direct shipments of wine into New York. These gains will be largely offset by the loss of the temporary one-quarter percent sales tax surcharge and by providing a new exemption for specified "Energy Star" products.

The other user taxes and fees in this category are projected to increase \$609 million (30.6 percent) from 2004-05. This change is also comprised of offsetting factors. First, the cigarette tax that is dedicated to HCRA and was formerly deposited directly into health related off budget accounts has been included as a special revenue fund and accounts for \$561 million of the increase. This amount is offset by the normal decline in revenue due to the average annual decline in consumption. Second, motor vehicle fees would have declined due to the loss of revenue from the move to eight-year licenses in 2000. However, the Executive Budget recommends significant increases in several categories of fees which, while only effective for part of the 2005-06 fiscal year, will keep motor vehicle receipts roughly constant. Finally, revenue in this category is enhanced by the proposals to increase the excise tax on wine and to allow the direct shipment of wine to New York customers.

General Fund user taxes and fees receipts for 2005-06 are projected to reach \$8.6 billion, a decrease of \$130 million (1.5 percent) from 2004-05. The sales and use tax is projected to decrease by \$146 million (1.8 percent) from 2004-05 due to the loss of the temporary one-quarter percent sales tax surcharge which is partially offset by growth in the sales tax base. The other user taxes and fees are projected to increase by \$16 million (2.4 percent) from 2004-05, due mainly to the proposed increase in alcoholic beverage taxes partially offset by the increased dedication of motor vehicle fees to transportation funds.

Business Taxes

All Funds business tax receipts in 2005-06 are expected to be \$5.9 billion, or \$413 million (7.5 percent) above 2004-05. This is due primarily to strong growth in corporate and bank tax collections

in the current fiscal year and estimated increases in profitability, accompanied by increases in petroleum business tax rates effective January 1, 2005, and projected increases in 2006.

General Fund business tax receipts in 2005-06 are projected to be \$4.1 billion or \$302 million (8.0 percent) over 2004-05. This reflects the continued strength of corporate and bank profitability.

Other Taxes

All Funds other taxes in 2005-06 are expected to be \$1.5 billion, which is \$52 million (3.6 percent) above 2004-05 estimates. The increase is the result of a projected increase in estate tax collections of \$52 million and an increase in real estate transfer tax of \$5 million slightly offset by projected decreases in the other revenue sources in this category.

The estimate for General Fund other taxes in 2005-06 is \$778 million, which is \$48 million (6.6 percent) above 2004-05. This estimate reflects an increase in estimated receipts from the estate tax, offset by minor losses in the other sources of revenue in this category.

Miscellaneous Receipts

General Fund miscellaneous receipts are projected to total \$2.5 billion in 2005-06, an increase of \$158 million (6.9 percent) from the current fiscal year. Recommended increases in various fines and penalties, property sales, local government reimbursements, the proposal to increase the Part D Medicare subsidy, the increased payments from the New York Power Authority, and the expected modest increase in abandoned property receipts. These are offset by losses of tobacco bond proceeds, the loss of the deposit of the wireless surcharge in the General Fund and the loss of the Local Government Assistance Corporation sales tax deposit.

Miscellaneous receipts in State Funds are projected at \$18.2 billion in 2005-06, an increase of \$2.7 billion (17.4 percent) over 2004-05. This increase is comprised of the increase in the General Fund of \$158 million described above, augmented by an additional \$2.5 billion in other State funds growth. The annual growth is primarily due to the additional HCRA financing, including Empire Conversion proceeds, to support State Medicaid costs and various public health programs (\$1.6 billion), receipts that were formerly deposited directly into health related off budget accounts are now included in the special revenue fund (\$364 million), increased receipts to the Provider Assessment SRF resulting from restoration of assessments on hospital, home care and nursing home revenues (\$292 million), and higher lottery receipts, including VLT revenues.

All Governmental Funds miscellaneous receipts for 2005-06 are projected to reach \$18.3 billion, an increase of \$2.7 billion (17.1 percent) over the adjusted current year forecast. The adjusted annual growth is to growth of \$2.7 billion in other State funds described above.

Federal Grants

Federal grants are projected to total \$36.6 billion in 2005-06, a decrease of \$860 million from the prior year. Changes to Federal grants generally correspond to changes in federally-reimbursed spending as described in the disbursements outlook section above. However, since Federal reimbursement was assumed to be received in the State fiscal year in which spending occurs, additional timing-related variances result. Major program areas projected to decline significantly from 2004-05 levels include World Trade Center (\$1.6 billion), Children and Families (\$195 million) and

Medicaid (\$145 million). These declines are partially offset by growth in welfare (\$374 million), federally supported school aid costs (\$210 million), elections (\$148 million), homeland security (\$96 million), and grants primarily to support capital projects for transportation and the environment (\$50 million).

2005-06 DISBURSEMENTS FORECAST

Total Disbursements (millions of dollars)							
	2004-05 Revised	2004-05 Adjusted	2005-06 Proposed	Unadjusted		Adjusted ⁽¹⁾	
				Annual Change	Percent Change	Annual Change	Percent Change
General Fund	43,407	43,915	45,075	1,668	3.8%	1,160	2.6%
State Funds	64,137	65,570	69,088	4,951	7.7%	3,518	5.4%
All Funds	101,607	103,040	105,527	3,920	3.9%	2,487	2.4%

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

General Fund spending is projected to total \$45.1 billion in 2005-06, an increase of \$1.2 billion (2.6 percent) over the adjusted current year forecast. State Funds spending, which includes both the General Fund and spending from other funds supported by State revenues, is projected to increase by \$3.5 billion (5.4 percent) and total \$69.1 billion in 2005-06. All Funds spending, the broadest measure of State spending, is projected to total \$105.5 billion in 2005-06, an increase of \$2.5 billion (2.4 percent). The Financial Plan projections assume that the 2005-06 Executive Budget recommendations are enacted in their entirety.

The major sources of annual spending change between 2004-05 and 2005-06 (after Executive Budget recommendations) are summarized in the table below.

Spending Projections -- After Recommended Savings					
Major Sources of Annual Change					
(millions of dollars)					
	General Fund	Other State Funds	State Funds	Federal Funds	All Funds
2004-05 Revised Estimate	43,407	20,730	64,137	37,470	101,607
All HCRA On-Budget	0	925	925	0	925
Discontinue County Shares Adjustment	508	0	508	0	508
2004-05 Adjusted Estimate	43,915	21,655	65,570	37,470	103,040
Major Functions					
<i>Public Health:</i>					
Medicaid	(6)	1,284	1,278	(244)	1,034
Public Health	54	43	97	31	128
<i>K-12 Education:</i>					
School Aid	321	137	458	210	668
All Other Education Aid	(11)	44	33	76	109
STAR	0	130	130	0	130
Higher Education	26	369	395	6	401
<i>Social Services:</i>					
Welfare	(72)	0	(72)	374	302
Children and Family Services	147	(1)	146	(165)	(19)
Mental Hygiene	16	14	30	138	168
General State Charges	224	74	298	22	320
Debt Service	(66)	104	38	0	38
Transportation	(10)	237	227	19	246
All Other Changes					
Empire State Development Corp	52	175	227	0	227
Judiciary	53	5	58	2	60
Local Government Aid	50	0	50	0	50
World Trade Center	0	(1)	(1)	(1,538)	(1,539)
All Other	382	(256)	126	38	164
2005-06 Executive Budget Estimate	45,075	24,013	69,088	36,439	105,527
<i>Dollar Change</i>	<i>1,160</i>	<i>2,358</i>	<i>3,518</i>	<i>(1,031)</i>	<i>2,487</i>
<i>Percent Change</i>	<i>2.6%</i>	<i>10.9%</i>	<i>5.4%</i>	<i>-2.8%</i>	<i>2.4%</i>

The spending forecast for each of the State's major functions follows. In general, the forecasts are described in two parts: the first describes the current services estimate for each functional area; the second summarizes the impact of the Executive Budget recommendations.

Projected disbursements are based on agency staffing levels, program caseloads, formulas contained in State and Federal law, inflation and other factors. The factors that affect spending estimates vary by program. For example, welfare spending is based primarily on anticipated caseloads that are estimated by analyzing historical trends, projected economic conditions and changes in Federal law. In criminal justice, spending estimates are based on recent trends and data from the criminal justice system, as well as on estimates of the State's prison population. All projections account for the timing of payments, since not all the amounts appropriated in the budget are disbursed in the same fiscal year. Major assumptions used in preparing the spending projections for the State's major programs and activities are summarized in the table below. For a discussion of the spending forecast by Financial Plan fund type (e.g., General Fund, SRFs), see the section entitled "2005-06 Governmental Funds Financial Plan (Fund Type)" later in this Overview.

Selected Program Measures				
	2004-05	2005-06	2006-07	2007-08
Economic Indicators				
Base Revenue Growth	10.2%	6.5%	6.6%	6.2%
Inflation Rate	3.1%	2.5%	2.3%	2.8%
Education				
K-12 Enrollment	2,864,037	2,848,713	n/a	n/a
Public Higher Education Enrollment (FTEs)	489,936	495,900	n/a	n/a
TAP-Annual Average TAP Recipients	345,000	345,000	n/a	n/a
Health				
Medicaid Coverage	3,622,184	3,748,627	3,868,627	3,988,627
Medicaid Inflation	4.1%	3.9%	3.8%	3.7%
Medicaid Utilization	2.3%	2.5%	2.6%	2.7%
State Takeover of FHP Costs (\$ millions)	\$49	\$312	\$576	\$625
State Takeover of All Other Local Medicaid Costs (Net State Costs - \$ millions)	n/a	\$121	\$631	\$1,257
Social Services				
Family Assistance Caseload	499,400	503,100	519,500	537,700
Single Adult/No Children Caseload	142,300	152,800	165,300	179,000
Mental Hygiene Community Beds	81,388	83,032	84,373	86,650
Prison Population	63,800	63,100	n/a	n/a
State Operations				
Negotiated Salary Increases ⁽¹⁾	2.5%	2.75%	3.0%	0.0%
Personal Service Inflation	0.8%	0.8%	0.8%	0.8%
State Workforce	190,933	191,424	191,852	191,852
General State Charges				
Pension Contribution Rate	7.0%	7.0%	12.4%	11.5%
Employee Health Insurance Rate	14.0%	9.2%	11.6%	10.9%
State Debt				
Interest on Variable Rate Debt	1.5%	2.8%	3.0%	3.3%
Interest on 30-Year Bonds	5.0%	5.3%	5.8%	6.2%

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

PUBLIC HEALTH

The Department of Health (DOH) is responsible for ensuring access to high quality health services for all New York residents. In fulfilling this responsibility DOH works closely with county health departments to promote and monitor statewide health activities, and reduce infectious diseases. In addition to the oversight and administration of various public health programs and services, including Medicaid, DOH operates one hospital, four nursing homes for veterans and three laboratory facilities.

Medicaid

Medicaid, the largest program budgeted in New York State, finances health care services for low-income individuals, long-term care for the elderly, and services for disabled individuals, primarily through payments to health care providers. New York's per capita Medicaid spending of over \$2,300 is the highest in the nation.

The State share of Medicaid spending is budgeted principally in DOH (\$11.3 billion), but also appears in the Office of Mental Health (OMH) (\$290 million), the Office of Mental Retardation and Developmental Disabilities (OMRDD) (\$1.1 billion), the Office of Alcoholism and Substance Abuse Services (OASAS) (\$37 million), the Office of Children and Family Services (OCFS) (\$33 million) and the State Education Department (SED) (\$180 million). The major areas of DOH Medicaid spending

in 2005-06 include long-term care, inpatient hospital care, prescription drugs, managed care, outpatient hospital and clinics, and Family Health Plus.

New York's Medicaid program is financed jointly by the Federal government, the State, and counties (including New York City). The Federal government matching rate on eligible Medicaid expenditures is 50 percent, the lowest matching rate possible. The county share is projected at \$7.8 billion, or rough 17 percent of program spending, before Executive Budget recommendations. The Executive Budget proposes capping local government Medicaid costs at 2005 spending levels, adjusted by 3.5 percent in 2005-06, 3.25 percent in 2006-07 and 3.0 percent in 2007-08. Thus, effective January 1, 2006, the State will pay for any local costs above the cap. The projected local government share of Medicaid costs that the State will finance is \$121 million in 2005-06, growing to \$631 million in 2006-07, and \$1.3 billion in 2007-08. In addition, the State will provide local governments with \$20 million in new aid in 2005-06 related to growing Medicaid costs and \$25 million by accelerating of the State takeover of FHP costs planned for January 1, 2006 up to October 1, 2005 for all local governments except New York City.

DEPARTMENT OF HEALTH -- MEDICAID SPENDING PROJECTIONS (millions of dollars)							
	2004-05		2005-06 Proposed	Unadjusted		Adjusted ⁽¹⁾	
	Revised	Adjusted		Annual Change	Percent Change	Annual Change	Percent Change
General Fund	6,811	7,319	7,313	502	7.4%	(6)	-0.1%
Other State Support	2,677	2,677	3,961	1,284	48.0%	1,284	48.0%
State Funds	9,488	9,996	11,274	1,786	18.8%	1,278	12.8%
Federal Funds	19,959	19,959	19,715	(244)	-1.2%	(244)	-1.2%
All Funds	29,447	29,955	30,989	1,542	5.2%	1,034	3.5%

(1) To provide a comparable basis for calculating the annual change, the 2004-05 amounts have been adjusted for additional Medicaid spending to comply with Federal policy changes related to certain county shares adjustments (\$508 million in General Fund, State Funds and All Funds).

DOH General Fund Medicaid will decrease by \$6 million on an adjusted year-to-year basis. Total DOH Medicaid spending in 2005-06 is projected to increase by \$1.0 billion (3.5 percent) over the adjusted prior year, consisting of an increase in other State support of \$1.3 billion offset by a decline in Federal funding of \$244 million. The higher State spending is attributable primarily to projected growth in the cost of services and prescription drugs, the rising number of Medicaid recipients, increases in utilization, Federal law changes, and the State cost of the local Medicaid cap, offset by the 2005-06 Executive Budget recommendations to reduce costs. These changes are described in more detail below. The number of Medicaid recipients is projected to average 3.7 million (excluding Family Health Plus) in 2005-06, an increase of 3.5 percent over the current fiscal year.

State Funds DOH spending is projected to total \$11.3 billion in 2005-06. The General Fund will support \$7.3 billion of spending, with the balance of \$4.0 billion financed through various SRFs. These SRFs include: (1) the HCRA Transfer account supported by HCRA pool resources and used to finance Medicaid pharmacy costs, a portion of the Family Health Plus Program, and various Medicaid related programs including the Workforce Recruitment and Retention Program; (2) the Provider Assessments Fund currently supported by a partially reimbursable 5 percent assessment on nursing home revenues; and (3) the Indigent Care account supported by taxes, assessments and surcharges on hospital revenues and third-party payers and used to finance payments to providers and municipalities for the cost of providing services to uninsured people.

DEPARTMENT OF HEALTH -- MEDICAID				
SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) FROM 2004-05 TO 2005-06				
(millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Program Growth	619	7	914	1,540
Family Health Plus Takeover/Growth	282	146	270	698
2004-05 Medicaid Cycle Delay	190		270	460
HCRA Financing	302	56		358
Empire Conversion Proceeds	(200)	200		0
Federal Changes	568		(619)	(51)
Executive Budget Recommendations:				
Local Cap	121			121
Accelerate FHP Takeover	25			25
Local Medicaid Relief	20			20
Other Financing	(795)	642	18	(171)
Provider Assessments	(234)	264		30
Family Health Plus Cost Containment	(227)	(30)	(295)	(552)
Hospital Cost Containment	(201)		(312)	(513)
Nursing Home Cost Containment	(182)		(211)	(393)
Pharmacy Cost Containment	(80)		(127)	(207)
Restructure Dental/Other Benefits	(66)		(102)	(168)
Managed Care Cost Containment	(48)		(74)	(122)
All Other Cost Containment (Net)	(100)	(1)	24	(41)
Total Annual Change	(6)	1,284	(244)	1,034

Current Services

Program Growth: General Fund growth is attributable to the increasing cost of providing health care services (\$398 million), the rising number of recipients and corresponding increases in medical service utilization of services in hospitals, nursing homes, managed care programs, and growth in prescription drug costs (\$221 million). Other changes in the State share of costs include reductions in available funds collected in the existing Indigent Care Fund and modest growth in provider assessments used to finance a portion of Medicaid costs. The Federal share of underlying growth is projected at \$914 million.

Family Health Plus (FHP) Takeover/Growth: The State pays for its share of FHP from the General Fund and the HCRA Transfer account. The 2004-05 Enacted Budget authorized a full State takeover of local FHP costs over two years. The State began paying 50 percent of the local share of FHP in January 2005, and was scheduled to pay for 100 percent in January 2006. Absent the 2005-06 budget recommendations to accelerate the takeover, the takeover is expected to cost \$49 million in 2004-05, growing to \$331 million in 2005-06 (up \$282 million), and to \$612 million in 2006-07. Growth in other State Funds and Federal Funds for FHP reflects rising enrollment and utilization.

Cycle Payment Delay: Medicaid payments to providers are made on a weekly basis. The 2004-05 Enacted Budget deferred the last weekly 2004-05 Medicaid cycle from March 31, 2004 into the 2005-06 fiscal year, producing an annual increase of \$190 million in the General Fund and \$270 million in Federal Funds for the payment of that extra cycle in 2005-06.

HCRA Financing: General Fund support for HCRA is projected to grow by \$302 million including a partial repayment of a 2002-03 loan from HCRA (\$143 million) and a "tobacco guarantee" payment

pursuant to the tobacco guarantee legislation that requires the General Fund to finance any projected shortfall in HCRA up to the payment that would have been received by HCRA absent the securitization of tobacco proceeds (\$120 million), and a decline in HCRA support of Medicaid pharmacy costs. Spending from the existing HCRA Transfer Fund increases are primarily for the Workforce Recruitment and Retention Program.

Empire Conversion Proceeds: The 2004-05 Budget planned on \$200 million in Empire conversion proceeds that would pay for Medicaid spending that would otherwise occur in the General Fund. Ongoing litigation has resulted in the proceeds from a completed sale being held in escrow until a decision is reached. DOB expects a favorable ruling and budgets the funds in 2005-06. Thus, 2004-05 General Fund costs have been adjusted upward, while 2005-06 costs have been lowered.

Federal Changes: Federal policy changes impacting county shares adjustments are expected to result in an increase in General Fund costs. In addition, the Federal government authorized a temporary 15-month increase of 2.95 percent in Federal Medical Assistance Percentage (FMAP) for Medicaid (from 50 percent to 52.95 percent) in May 2003. The temporary FMAP increase, which expired in June 2004, reduced total General Fund costs in 2004-05 by \$260 million (\$220 million in DOH Medicaid spending and \$40 million in mental hygiene spending) and \$128 million for localities. Thus, with the expiration of the FMAP increase, the General Fund will incur higher DOH Medicaid costs in 2005-06 (\$220 million) and Federal Funds spending will decline (\$388 million).

Executive Budget Recommendations

Local Cap: The Budget proposes a cap on local Medicaid costs up to 2005 spending levels, adjusted by 3.5 percent in 2005-06, 3.25 percent in 2006-07 and 3.0 percent in 2007-08. Effective January 1, 2008, the Budget recommends a full takeover of local government Medicaid costs to be partially financed with local sales tax revenues and other local resources. Capping local Medicaid costs is expected to result in higher General Fund costs beginning on January 1, 2006. DOB estimates the State cost of this phased in takeover of local costs initiative at \$121 million in 2005-06, growing to \$631 million in 2006-07, and \$1.3 billion in 2007-08.

FHP Takeover: The State will provide local governments with \$25 million in additional aid in 2005-06 related to a proposed acceleration of the State takeover of FHP costs from January 1, 2006 to October 1, 2005 for all local governments except New York City. This will bring the total value of the takeover to \$312 million in 2005-06 and \$576 million in 2006-07 after revising prior enrollment projections downward. Average annual FHP enrollment is expected to grow to 553,044 in 2005-06, an increase of 24 percent over the current fiscal year.

Local Medicaid Relief: In addition to the local benefit provided by the cap and the FHP takeover acceleration, the State will provide local governments with \$20 million in new aid in 2005-06 related to growing Medicaid costs.

Other Financing: Several cost containment initiatives to restrain spending on programs financed by HCRA, including Child Health Plus, FHP spending revisions, and other revisions to HCRA revenues will be used to partially finance General Fund health care costs and avoid the need for a "tobacco guarantee" payment. A detailed explanation of the HCRA revisions is presented later in this Overview. In addition, increased recoveries from audit activities (\$25 million) and Federal reimbursement to support audit contracts (\$18 million) are expected to generate additional Federal aid that will be used to support General Fund spending for these services.

Provider Assessments: The Executive Budget proposes an imposition of a 0.7 percent assessment on hospital revenues and an increase in the nursing home reimbursable assessment to 6.0 percent of revenues from 5.0 percent, which currently sunsets on March 31, 2006. This recommendation provides \$234 million in funding for what otherwise would be General Fund health care costs, after accounting for \$30 million in costs related to the reimbursable portion of the nursing home assessment.

FHP Cost Containment: Proposed FHP reforms are projected to reduce spending by \$227 million in the General Fund and \$30 million in the HCRA Transfer account. The proposals include conforming FHP benefits to those programs that provide less extensive coverage, higher co-payments, and closing eligibility loopholes.

Hospital Cost Containment: Proposals to reduce hospital costs include reducing reimbursement for inpatient detoxification services and Graduate Medical Education (GME) payments to certain facilities, continued management of high-cost specialty populations receiving mental health and substance abuse services through mental hygiene facilities, authorizing DOH to negotiate reimbursement rates for certain high-cost procedures, and the elimination of inflationary rate adjustments and the reconciliation of GME grant overpayments made in prior years. These actions are projected to save \$201 million in the General Fund.

Nursing Home Cost Containment: Several proposals to control the rising costs of reimbursement to nursing homes are estimated to reduce 2005-06 spending growth in the General Fund (\$182 million). They include an updated regional reimbursement methodology based on 2003 costs, revisions to the Medicaid case mix calculation that limits the use of Medicaid payments to subsidize other costs, and the elimination of inflationary rate adjustments.

Pharmacy Cost Containment: Several proposals to control the rising costs of prescription drugs would reduce spending growth in the General Fund (\$80 million). These proposals include establishing a preferred drug program requiring prior authorization for certain high cost drugs and increasing pharmacy co-payments for both generic and brand-name prescription drugs.

Restructure Dental/Optional Benefits: Proposals include restricting adult dental benefits to clinical settings (\$53 million) and eliminating various optional services provided to adult Medicaid recipients including private duty nursing, audiology, podiatry, and clinical psychology services (\$13 million).

Managed Care Cost Containment: Projected savings include freezing managed care premium payments at current year levels, capping marketing expenses, and taking steps to ensure appropriate enrollment safeguards are in place.

All Other: All other recommended actions include General Fund reductions resulting from the application of recently approved one-time Federal credits for past emergency medical services provided to illegal immigrants (\$42 million), the elimination of long-term care eligibility loopholes, realigning home care administrative reimbursement at more appropriate levels, and various other cost containment initiatives. These decreases are offset by new spending for enhanced home care rates for certain complex cases, for additional funds for long-term care reforms, and criminal background checks for staff employed by long-term care facilities.

Other Public Health Programs

In general, public health spending in New York is shared by the Federal government, the State, and local governments. Several public health programs, such as the Early Intervention program and General Public Health Works, are administered by county health departments for which the State reimburses counties for a share of program costs. The Financial Plan does not include the local government share of public health funding, but does include the entire Federal share.

Consistent with the Governor's proposed budget reform bill, the 2005-06 Executive Budget includes the HCRA financed programs that are not currently included in the State Financial Plan, adding \$929 million in 2005-06 to public health spending above the \$4.4 billion already included throughout the State Financial Plan for HCRA. For more information on HCRA projections, see the section entitled "HCRA Financial Plan" in the volume entitled "2005-06 New York State Executive Budget Financial Plan" available on the DOB website or by contacting DOB.

The largest public health programs include the Elderly Pharmaceutical Insurance Coverage (EPIC) Program providing prescription drug insurance to low-income seniors (\$834 million), the Child Health Plus program that finances health insurance coverage for children of low-income families up to the age of 19 (\$674 million), the General Public Health Works (GPHW) program that reimburses local health departments for the cost of providing certain public health services (\$222 million), the Early Childhood Intervention (EI) Program providing services to infants and toddlers under the age of three with disabilities or developmental delays (\$253 million), and health and support programs for people suffering from AIDS/HIV (\$366 million).

PUBLIC HEALTH SPENDING PROJECTIONS (millions of dollars)							
	2004-05		2005-06 Proposed	Unadjusted		Adjusted ⁽¹⁾	
	2004-05 Revised	2004-05 Adjusted		Annual Change	Percent Change	Annual Change	Percent Change
General Fund	705	705	759	54	7.7%	54	7.7%
Other State Support	1,479	2,404	2,447	968	65.4%	43	1.8%
State Funds	2,184	3,109	3,206	1,022	46.8%	97	3.1%
Federal Funds	1,241	1,241	1,272	31	2.5%	31	2.5%
All Funds	3,425	4,350	4,478	1,053	30.7%	128	2.9%

(1) To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted for the inclusion of all HCRA funded programs on-budget (\$925 million in State Funds and All Funds).

All Funds spending in 2005-06 for public health is projected to increase by \$128 million (2.9 percent) over the adjusted prior year, consisting of an increase in State share costs of \$97 million and higher Federal aid of \$31 million. The higher State share spending is primarily attributable to the projected growth in various public health programs, including EPIC.

State Funds public health spending is projected to total \$3.2 billion in 2005-06. Activities include reimbursement to localities for the costs of operating public health programs (\$2.7 billion), personal service costs and fringe benefit costs for nearly 6,000 employees of DOH (\$213 million), non-personal service costs including operational expenses (\$261 million), and financing for capital projects to maintain DOH facilities (\$13 million). In addition to General Fund support, a portion of DOH's costs are financed by patient care revenues, and fees related to regulations, registration, testing, and certification. Several local aid programs are financed by dedicated revenues, including transfers from HCRA and certain fees. Finally, Federal aid helps support various programs, including

Federal nutrition assistance for Women, Infants, and Children (WIC), and is projected to total \$1.3 billion in 2005-06.

PUBLIC HEALTH				
SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE)				
(millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
EPIC		110		110
Child Health Plus		16	27	43
Early Intervention	17			17
Local Public Health	12			12
All Other	14	(81)	10	(57)
Executive Budget Recommendations:				
Child Health Plus		(13)	(13)	(26)
EPIC		(13)		(13)
Capital Improvement Grants		7		7
TANF Program/Funding Realignment	20			20
All Other	(9)	17	7	15
Total Annual Change	54	43	31	128

Current Services

EPIC: Higher projected EPIC spending in 2005-06 is due primarily to the rising cost of prescription drugs and enrollment, which is projected to reach 358,000, an increase of 2.3 percent over current year projections.

Child Health Plus: Growth in the CHP program is attributable to projected increases in enrollment. CHP enrollment is expected to reach approximately 450,000 in 2005-06.

Early Intervention: Spending is expected to grow as a result of increases in the number of children enrolled in the program. DOB projects enrollment at 75,825 in 2005-06, an increase of 1,849 (or 2.4 percent) over 2004-05 estimated levels.

General Public Health Works: DOB projects that State funding for local public health services will total \$222 million in 2005-06, an annual increase of \$12 million.

All Other: The remaining All Funds spending decrease includes primarily revisions to other State support partially offset by the repayment of a HCRA loan from the Physicians Excess Medical Malpractice program (\$45 million) and higher costs for personal services due to collective bargaining increases and staffing (\$11 million).

Executive Budget Recommendations

Early Childhood Intervention: Proposals include instituting service fees based on parental income levels, allowing counties to negotiate rates with providers, eliminating reimbursement for extended home visits, requiring independent evaluations for children receiving a single service, and requiring health insurance coverage in the first instance. These proposals will result in savings beginning in 2006-07, as the reimbursement schedule for the EI program is on a lag.

CHP: The Executive Budget recommends a temporary freeze on payments to providers that will reduce the growth in CHP spending.

EPIC: Projected savings in the EPIC program include automatic enrollment of low income EPIC enrollees in the Medicare Part D prescription drug program, and verification of applicants' reported income with Department of Tax and Finance income tax information.

Health Care Capital Improvement Grants: The Executive Budget includes additional capital financing that will provide grants to hospitals to increase operational efficiency. The program is expected to eventually total \$1 billion.

Program/Funding Realignment: Spending for certain health care programs previously financed by the TANF program have been shifted to the agencies directly responsible for their oversight.

All Other: Other Executive Budget proposals include the elimination of certain non-essential programs including Endoscopy Study, Reflex Sympathetic Dystrophy Syndrome, and Tattooing, Body Piercing Regulation, and certification of home medical equipment personnel. Higher use of non-General Fund resources to fund certain program costs and operational efficiencies achieved through information technology advancements are also expected to produce savings. The Executive Budget also recommends funding for criminal background checks for health care workers, and for disease management. In addition, the General Public Health Works program is recommended to be converted from a reimbursement-based entitlement program to a grant-based program in 2005-06 to enhance local discretion in efficiently targeting resources by eliminating State-level spending mandates. In addition to increasing local flexibility, this change is projected to result in a \$12 million annual increase in funding above 2004-05 levels.

K-12 EDUCATION

School Aid

School aid, the single largest program financed by the General Fund, helps finance elementary and secondary education provided to New York pupils enrolled in nearly 680 school districts throughout the State. State funding is provided to districts based on statutory aid formulas and through reimbursement for various categorical programs. In New York, approximately 45 percent of spending on education by local school districts is funded by the State. School aid is distributed in a manner intended to allow districts to meet locally defined needs, to receive aid for the construction of school facilities, and to transport 2.5 million students statewide. The State Court of Appeals has found that the school financing system failed to provide students in New York City with an opportunity for a sound basic education, in violation of the State Constitution. The litigation is described in more detail in the section entitled "Reserves and Risks" in this Overview.

Federal funding supplements school aid, representing approximately 15 percent of projected cash disbursements. Federal education aid supports a range of services including educational programs and services targeted to disadvantaged children, and free and reduced price meals.

SCHOOL AID SPENDING PROJECTIONS				
(millions of dollars)				
	2004-05	2005-06	Annual	Percent
	Revised	Proposed	Change	Change
General Fund	12,907	13,228	321	2.5%
Other State Support	2,184	2,321	137	6.3%
State Funds	15,091	15,549	458	3.0%
Federal Funds	2,545	2,755	210	8.3%
All Funds	17,636	18,304	668	3.8%

All Funds spending for school aid is projected to total \$18.3 billion in State fiscal year 2005-06. General Fund spending is projected at \$13.2 billion, with the remaining aid paid from other State funds, primarily the Lottery Fund (\$2.3 billion), and the Federal government (\$2.8 billion).

On a school year basis (July 1 through June 30), State support for school aid is recommended at nearly \$15.9 billion in 2005-06 (excluding Federal aid), an increase of \$526 million (3.4 percent) over the current school year. This \$526 million increase comprises \$201 million in traditional school aid and \$325 million in a new Sound Basic Education aid program funded by VLT revenues. Major components of the \$15.9 billion school year recommendation include Flex Aid (\$8.4 billion), Public Excess Cost Aid (\$2.3 billion), Building Aid (\$1.4 billion), Transportation Aid (\$1.2 billion), as well as the \$325 million for SBE aid.

SCHOOL AID				
SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE)				
(millions of dollars)				
	General	Other	Federal	All
	Fund	State	Funds	Funds
		Funds		
Current Services:				
Federal Fund Reestimates			210	210
Balance of 2004-05 School Year	212			212
2005-06 Traditional School Aid (\$201M SY)	161	(20)		141
RESCUE/Transportation Grants/ All Other	(13)	(110)		(123)
Executive Budget Recommendations:				
Eliminate Quick Draw Restrictions	(39)	39		0
2005-06 Sound Basic Education Aid (\$325M SY)		228		228
Total Annual Change	321	137	210	668

On a State fiscal year basis, All Funds spending for school aid in 2005-06 is estimated to be \$18.3 billion, an increase of \$668 million from 2004-05. The increase includes \$212 million for the balance of the prior school year increase, \$369 million to cover the costs associated with the new school year recommendations, and \$210 in increased Federal funds, partially offset by a decrease of \$123 million primarily in projected spending from capital funds. These changes are explained in more detail below.

Current Services

Federal Funds Reestimates: Federal aid is projected to grow by \$210 million over the revised 2004-05 estimate, reflecting increased grants to high-poverty school districts around the State (\$191 million) and for the School Lunch and Breakfast Program (\$19 million).

Balance of 2004-05 School Year Increase: The General Fund increases by \$212 million to cover the remaining “tail” payments related to the 2004-05 school year increase of over \$750 million.

2005-06 Traditional School Aid: The General Fund will finance \$201 million of the \$526 million school year increase. That translates into a State fiscal year increase of \$141 million in the General Fund in 2005-06, as explained in more detail below. In addition, the General Fund will increase by another \$20 million to cover the decrease in the State Lottery Fund contribution. The remaining \$325 million of the school year increase is paid for from the Lottery Fund, as described below.

RESCUE and Transportation Grants/All Other: The majority of changes are in capital spending, which decreases by \$109 million reflecting the final spend-out in 2004-05 of the Rebuilding Schools to Uphold Education (RESCUE) program (\$34 million) and one-time grants for school bus purchases (\$75 million).

Executive Budget Recommendations

Eliminate Quick Draw Restrictions: The Budget recommends lifting restrictions imposed on Quick Draw in its enabling statute, including limits on the hours of operation and food sales and restrictions on the minimum size of premises that can operate Quick Draw games. The changes are expected to generate \$39 million in additional lottery revenues.

SY 2005-06 Sound Basic Education Aid: The school year increase of \$526 million includes \$325 million for a new Sound Basic Education Aid Program. The State fiscal year increase of \$228 million for Sound Basic Education Aid will be fully supported with VLT revenues. New York City will receive approximately 60 percent of the aid to be distributed from this program under a formula that will include weightings for concentrations of children from economically disadvantaged backgrounds, children with limited English proficiency, and regional cost differences.

2005-06 Traditional School Aid: The traditional school aid recommendation of a \$201 million increase includes higher funding of \$122 million in Flex Aid and \$77 million in expense-based aids. A new \$15 million Fund for Innovation Program is also proposed for the State’s Big Five City school districts that is intended to promote public/private partnerships that integrate technology in the classroom.

Finally, the school aid recommendations include a number of reforms in building aid and special education aid. Building aid reforms include targeted initiatives to address NYC school facility needs, creation of a simplified building aid formula to provide realistic student-based allowances, and a statewide Wicks Law exemption. Special education reforms are advanced to eliminate the existing fiscal incentives for placing children in restrictive private placements by conforming the aid formula to that used to provide these same services in the public schools. With these reforms, Building aid increases by \$27 million and Private Excess Cost aid decreases by \$96 million on a school year basis.

School Tax Relief (STAR) Program

STAR provides New York’s taxpayers with school property tax relief. The three components of STAR, and their approximate share, include the enhanced school property tax exemption to eligible senior citizen homeowners (22 percent), the basic school property tax exemption to all other eligible

homeowners (59 percent), and a flat refundable credit and rate reduction for New York City resident personal income taxpayers (19 percent).

STAR SPENDING PROJECTIONS (millions of dollars)				
	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	0	0	0	0.0%
Other State Support	3,072	3,202	130	4.2%
State Funds	3,072	3,202	130	4.2%
Federal Funds	0	0	0	0.0%
All Funds	3,072	3,202	130	4.2%

STAR spending is expected to total \$3.2 billion in 2005-06, and is comprised of \$1.9 billion for the basic property tax exemption, \$707 million for the enhanced property tax exemption, and \$595 million for the New York City PIT reduction. The annual changes are described in more detail below.

STAR SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Growth in STAR Program		150		150
Executive Budget Recommendations:				
STAR School District Spending Cap		(20)		(20)
Total Annual Change	0	130	0	130

STAR spending in 2005-06, prior to the Executive Budget recommendations to restrain school district spending, is projected to grow by \$150 million over the current fiscal year. The increase includes 9 percent annual growth in the basic STAR exemption to homeowners and growth in the enhanced STAR exemption.

The 2005-06 Executive Budget proposes instituting a school spending cap that would limit annual growth in local school district budgets to the lesser of 4 percent or 120 percent of the growth in Consumer Price Index. Slowing the growth in local tax increases is expected to reduce the growth in STAR payments by \$20 million. The savings are reinvested in a recommended STAR Plus tax credit program that would provide increased tax cuts (described as a tax cut on the revenue side of the Financial Plan) for STAR recipients in school districts that keep their spending growth within the proposed spending cap.

Other Education Aid

In addition to school aid, other education aid is provided for special education services and other targeted programs. Other education categories include Elementary, Middle, Secondary and Continuing Education (EMSC); cultural education, and higher education programs. Major programs under EMSC address specialized student needs or reimburse school districts for education-related services and include the School Lunch and Breakfast Program, the Pre-School Special Education Program, and non-public school aid. In special education, New York provides a full spectrum of

services to over 400,000 students from ages 4 to 21. Higher and professional education programs ensure the quality and availability of post-secondary education programs and regulate the licensing and oversight for 44 State professions.

OTHER EDUCATION AID SPENDING PROJECTIONS (millions of dollars)				
	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	1,488	1,477	(11)	-0.7%
Other State Support	84	128	44	52.4%
State Funds	1,572	1,605	33	2.1%
Federal Funds	888	964	76	8.6%
All Funds	2,460	2,569	109	4.4%

All Funds spending is expected to total \$2.6 billion in 2005-06, comprised of \$1.5 billion in General Fund spending, \$128 million in other State support and \$964 million in Federal funding. All Funds includes handicapped programs (\$1.7 billion), State Operations (\$286 million) and various other education programs (\$583 million). The annual changes are described in more detail below.

OTHER EDUCATION AID SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Federal Fund Reestimates			76	76
Special Education Program Costs	50			50
Other Base Changes	(42)	2	0	(40)
Executive Budget Recommendations:				
Higher Education Capital Matching Grant		20		20
Program Reductions and Other Actions	(19)	22		3
Total Annual Change	(11)	44	76	109

Current Services

Federal Fund Reestimates: Growth of \$76 million is due primarily to higher expected funding for the Individuals with Disabilities Education Act program that supports special education programs.

Special Education Program Costs: The \$50 million projected increase in special education programs reflects enrollment growth in the Preschool Special Education Program and higher claiming (\$40 million), summer school special education (\$8 million) and private schools which serve the blind and deaf (\$2 million).

Other Changes: The changes are attributable primarily to declining spending associated with one-time legislative member items.

Executive Budget Recommendations

Higher Education Capital Matching Grant: Includes \$20 million in first-year costs for a new higher education capital matching grants program to finance critical programs for both public and private colleges and universities.

Program Reductions and Other Actions: Includes reductions and consolidations to reduce the spending growth in Elementary, Middle, Secondary and Continuing Education and higher education programs (\$9 million). Other State support increases by \$22 million, and includes \$5 million first-year spending under a new \$15 million capital program to finance matching grants for improvements at public broadcasting facilities.

HIGHER EDUCATION

Higher education includes operational and administrative costs for the SUNY, CUNY, and the Higher Education Services Corporation (HESC). Nearly the entire higher education budget is supported by State funds, including General Fund support, tuition revenues and various fees.

The SUNY system is the largest public university system in the nation with 64 campuses offering a range of academic, professional and vocational programs. The SUNY hospitals work together with medical schools in academics and research and provide students with a wide variety of residency programs. The SUNY system also includes 30 community colleges. Currently, there are over 413,000 SUNY students pursuing studies ranging from one-year certificate programs to doctorates.

The CUNY system is the third largest public university system in the nation and provides higher education to the urban community of New York City. The State has full financial responsibility for CUNY's senior college operations and works in conjunction with the City of New York to support CUNY's community colleges. There are approximately 219,000 CUNY students currently enrolled in degree programs.

HESC is responsible for administering TAP grant awards to income-eligible students and for providing centralized processing of other student financial aid programs. The Corporation also helps students as they plan for college by providing information and guidance on how to finance a college education. The financial aid programs that the Corporation administers are funded by the State and the Federal government.

HIGHER EDUCATION SPENDING PROJECTIONS				
(millions of dollars)				
	2004-05	2005-06	Annual	Percent
	Revised	Proposed	Change	Change
General Fund	2,965	2,991	26	0.9%
Other State Support	3,726	4,095	369	9.9%
State Funds	6,691	7,086	395	5.9%
Federal Funds	187	193	6	3.2%
All Funds	6,878	7,279	401	5.8%

All Funds spending is expected to total \$7.3 billion in 2005-06, and is comprised of \$3.0 billion in General Fund spending, \$4.1 billion in other State support, and \$193 million in Federal funding. By agency, All Funds spending is projected to total \$5.0 billion in SUNY, \$1.4 billion in CUNY, and \$817 million in HESC. Another \$632 million in State support for CUNY is paid from a State fiduciary fund

(outside the All Governmental Funds Financial Plan) that consists primarily of senior college tuition revenues. The annual changes are described in more detail below.

HIGHER EDUCATION				
SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE)				
(millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
SUNY/CUNY/HESC Inflation and Salaries	223	63		286
SUNY/CUNY Capital		187		187
HESC TAP	20			20
SUNY/CUNY Community Colleges Aid	10			10
SUNY/CUNY/HESC All Other Services	47	(43)	6	10
Executive Budget Recommendations:				
SUNY/CUNY Savings	(137)	76		(61)
Restructure TAP for Graduation Incentive	(135)			(135)
SUNY/CUNY Capital		69		69
SUNY/CUNY PACT	4			4
All Other Budget Actions	(6)	17		11
Total Annual Change	26	369	6	401

Current Services

SUNY/CUNY/HESC Inflation and Salaries: The Executive Budget provides \$223 million in General Fund support and \$63 million in Other State Funds support for salaries and inflationary increases at SUNY, CUNY, and HESC.

SUNY/CUNY Capital: Annual growth in capital spending reflects changes in the needs and priorities of the public universities as well as changes in the timing of capital projects (\$187 million).

HESC TAP: Spending adjustments reflect annualization of the 2004-05 TAP Program (\$20 million).

SUNY/CUNY Community Colleges Aid: The increase of \$10 million is attributable primarily to enrollment growth.

SUNY/CUNY/HESC All Other Services: The increase reflects cash adjustments, annualizations, and nonrecurring special revenue funding for SUNY and CUNY financial aid activity.

Executive Budget Recommendations

SUNY/CUNY Savings: General Fund savings are achieved through a mix of administrative efficiencies and authorization for increased tuition revenues resulting in savings of \$61 million on an All Funds basis.

HESC/TAP Restructuring: Changes at HESC include the proposed restructuring of the TAP program, which would defer one-half of each first-time student's award until graduation as an incentive for timely degree completion, and additional reforms including more rigorous academic eligibility standards (\$135 million).

SUNY/CUNY Capital: The Executive Budget enhances the current multi-year capital investment programs for SUNY and CUNY with an additional \$323 million over the next five years. Spending of \$69 million reflects the first year of capital spending from these supplemental funds.

SUNY/CUNY PACT: The Executive Budget recommends \$4 million in funding to finance the implementation of a new Partnership to Accelerate Completion Time (PACT) program to improve college graduation rates at all SUNY and CUNY campuses and participating private colleges.

All Other Budget Actions: Reflects reductions in the General Fund for the Aid for Part-Time Study program, which will be financed from other available revenues in 2005-06.

SOCIAL SERVICES

Welfare

Welfare programs provide benefits to poor families in the form of cash grants, child welfare services, tax credits for eligible low-income workers, and employment services. The State's three main programs include Family Assistance, Supplemental Security Income (SSI) and Safety Net. The Family Assistance program, which is financed jointly by the Federal government, the State, and local districts, provides employment assessments, support services and time-limited cash assistance to eligible families and children. The State adds a supplement to the Federal SSI benefit for the elderly, visually handicapped, and disabled. The Safety Net Assistance program provides cash assistance and employment services for single adults, childless couples, and families that have exhausted their five-year limit on Family Assistance imposed by Federal law and is financed jointly by the State and local districts. Funding is also provided for local administration of welfare programs.

Federal funding for welfare programs is provided through the Temporary Assistance for Needy Families (TANF) block grant. TANF funding also helps finance the State's EITC for low-income workers and child care services, including child care subsidies for low-income working families. In addition, the State directs the "difference" between the block grant and current spending requirements (the "TANF surplus") to fund additional eligible programs including employment and education.

WELFARE/WELFARE ADMINISTRATION SPENDING PROJECTIONS (millions of dollars)				
	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	1,465	1,393	(72)	-4.9%
State Funds	1,465	1,393	(72)	-4.9%
Federal Funds	1,979	2,353	374	18.9%
All Funds	3,444	3,746	302	8.8%

All Funds spending for welfare is projected to total \$3.7 billion in 2005-06, consisting of \$1.4 billion in General Fund support and \$2.3 billion in Federal support. Major programs include Family Assistance benefits (\$1.3 billion), including the State's EITC (\$746 million); Safety Net (\$728 million); SSI (\$633 million); and administration (\$360 million).

Welfare caseload is projected to total approximately 655,900 recipients in 2005-06, an increase of 14,200 from 2004-05. The family assistance caseload consists of approximately 327,200 families supported through the Family Assistance program, a decrease of 2,100 from the current year, and 175,900 families receiving benefits through the Safety Net program, an increase of 5,800. The

caseload for single adults/couples supported through the Safety Net program is projected at 152,800, an annual increase of 10,500.

WELFARE/WELFARE ADMINISTRATION			
SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE)			
(millions of dollars)			
	General Fund	Federal Funds	All Funds
Current Services:			
Loss of One-Time TANF	141	0	141
Caseload Growth	81	(24)	57
Funding for Administration	29	0	29
Executive Budget Recommendations:			
TANF Welfare Consolidation	0	279	279
Program/Funding Realignment	(191)	0	(191)
TANF Reprogramming	(85)	85	0
Out-of-Wedlock Bonus	(25)	25	0
Safety Net Work Rate Penalties	(15)	0	(15)
Eligibility/Benefit Restrictions	(10)	9	(1)
Strengthening Families through Stronger Fathers	3	0	3
Total Annual Change	(72)	374	302

Current Services

Loss of One-Time TANF: TANF funding of \$141 million used in 2004-05 for public assistance is not available in 2005-06.

Caseload Growth: In the General Fund, the combined family caseload (i.e., Family Assistance and Safety Net families) is expected to grow by 1 percent, adding \$43 million in General Fund spending. The “non-family” Safety Net caseload is projected to increase by 7 percent, adding another \$38 million. A projected decrease in the family caseload supported exclusively by the TANF block grant results in a reduction in Federal spending (\$24 million).

Funding for Administration: Funding for administrative services associated with the public assistance program is projected to increase by \$29 million.

Executive Budget Recommendations

TANF Welfare Consolidation: To improve accountability and streamline operations, the Budget recommends consolidating all TANF spending in the Office of Temporary and Disability Assistance (OTDA). Thus, TANF spending authority for both the Child Care and the Title XX Social Services Block Grants will now be appropriated in OTDA (\$279 million).

Program/Funding Realignment: To streamline spending and focus on the core mission of the welfare program, spending that has limited or no local district involvement will be supported by the General Fund, not TANF, and budgeted in the agencies directly responsible for their oversight. These programs include advantage schools (OCFS, \$20 million), home visiting (OCFS, \$16 million), food pantries (DOH, \$12 million), Women, Infants and Children program (DOH, \$5 million), alternatives to incarceration (DPCA, \$4 million), and school-based health centers (DOH, \$3 million).

In addition, certain child welfare and child care services formerly funded by TANF will now be funded through the child care and foster care block grants administered by OCFS (\$131 million).

TANF Reprogramming: Recommendations would reduce General Fund costs and increase Federal funding by reprogramming the unspent prior-year TANF surplus earmarked for certain initiatives, and using funds in excess of the TANF maintenance-of-effort levels (\$60 million and \$25 million, respectively) to support EITC.

Reduction in “Out-of-Wedlock” Rate: The State received a TANF bonus from the Federal government for decreasing the rate of teenage out-of-wedlock pregnancies, which the Budget recommends using to support State welfare costs (\$25 million).

Safety Net Work Rate Penalty: State reimbursement for administrative costs would be reduced for local districts that fail to achieve State-mandated work participation rates for their Safety Net population (\$15 million).

Eligibility/Benefit Restrictions: Proposed benefit changes include decreasing the amount of earned income that is disregarded when determining benefit eligibility and eliminating benefits for families in which an adult fails to comply with mandated employment obligations. These proposed changes reduce General Fund costs by \$10 million and increase Federal spending by \$9 million.

Strengthening Families through Stronger Fathers: A portion of the savings noted above is proposed to be reinvested in a five-county demonstration program to assist unemployed and under-employed non-custodial parents in obtaining and retaining employment (\$3 million).

OFFICE OF CHILDREN AND FAMILY SERVICES

The Office of Children and Family Services (OCFS) provides child welfare services including foster care, adoption, child protective services, delinquency prevention, and child care. OCFS oversees the State’s system of family support and child welfare services that are administered by local departments of social services and community-based organizations. Specifically, child welfare services programs, which are financed jointly by the Federal government, the State and local districts, are structured to encourage local governments to invest in preventive services necessary to reduce out-of-home placement of children. In addition, the State Child Care block grant, which is also financed by a combination of Federal, State and local sources, supports child care subsidies for public assistance and low-income families. The youth facilities program serves youth directed by family or criminal courts to be placed in residential facilities. Federal funding for OCFS programs is provided through the Flexible Fund for Family Services, Federal Title IV-E Foster Care and Adoption Assistance Payments, the Federal Child Care and Development Fund, and the Title XX Social Services block grant.

CHILDREN AND FAMILY SERVICES SPENDING PROJECTIONS				
(millions of dollars)				
	2004-05	2005-06	Annual	Percent
	Revised	Proposed	Change	Change
General Fund	1,318	1,465	147	11.2%
Other State Support	30	29	(1)	-3.3%
State Funds	1,348	1,494	146	10.8%
Federal Funds	1,785	1,620	(165)	-9.2%
All Funds	3,133	3,114	(19)	-0.6%

All Funds spending for OCFS is expected to total \$3.1 billion in 2005-06, consisting of \$1.5 billion in General Fund spending, \$29 million in other State spending and \$1.6 billion in Federal spending. Spending supports child welfare (\$1.8 billion), child care (\$727 million) and juvenile justice services including delinquency prevention, youth facilities and local detention facilities (\$272 million). The annual changes are described in more detail below.

CHILDREN AND FAMILY SERVICES				
SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE)				
(millions of dollars)				
	General	Other	Federal	All
	Fund	State	Funds	Funds
		Funds		
Current Services:				
Underlying Base Changes	(14)	(2)	114	98
Executive Budget Recommendations:				
TANF Welfare Consolidation	0	0	(279)	(279)
Program/Funding Realignment	167	0	0	167
Priority Programming	(1)	0	0	(1)
All other Budget Actions	(5)	1	0	(4)
Total Annual Change	147	(1)	(165)	(19)

Current Services

Underlying Base Changes: Spending decreases by \$14 million in the General Fund due primarily to downward revisions in expected State reimbursements to local districts for child welfare spending. Additionally, increased use of Federal funds for programs such as foster care and adoption results in growth in Federal fund spending.

Executive Budget Recommendations

TANF Welfare Consolidation: To improve accountability and streamline operations, the Budget recommends consolidating all TANF spending in OTDA. Thus, TANF spending authority for Child Care and the Title XX Social Services Block Grant will now be appropriated in OTDA (\$279 million).

Program/Funding Realignment: As noted above in the section on welfare, certain child welfare, child care and juvenile justice services currently funded by TANF are proposed to be financed with State funding in OCFS (\$167 million).

Priority Programming: Funding for institutional-based programs is redirected to community-based programs for youth, including Persons in Need of Supervision (PINS) and preventive mental health services.

All Other Budget Actions: Decreases reflect primarily program reforms and use of Federal and other funds in the area of juvenile justice.

MENTAL HYGIENE

The Department of Mental Hygiene comprises three independent agencies — OMH, OMRDD, and OASAS. The agencies provide a wide array of services to special needs populations. Services are administered to individuals with mental illnesses, developmental disabilities, and chemical dependencies through institutional or community-based settings. Specifically, OMH plans and operates an integrated system of mental health care that serves adults with serious and persistent mental illness and children with serious emotional disturbances. OMRDD serves and supports individuals and families of individuals with developmental disabilities. OASAS licenses and evaluates service providers and implements programs for the prevention, early intervention, and treatment of chemical dependence.

All three agencies provide services directly to their clients through State-operated facilities and receive reimbursement for these services from Medicaid, Medicare and third-party insurance. Patient revenues are pledged first to the payment of debt service on outstanding Mental Hygiene bonds, with the remaining revenue deposited to the PIA to help support General Fund costs of providing services.

MENTAL HYGIENE SPENDING PROJECTIONS				
(millions of dollars)				
	2004-05	2005-06	Annual	Percent
	Revised	Proposed	Change	Change
General Fund	2,446	2,462	16	0.7%
Other State Support	437	451	14	3.2%
State Funds	2,883	2,913	30	1.0%
Federal Funds	2,596	2,734	138	5.3%
All Funds	5,479	5,647	168	3.1%

All Funds spending is expected to total \$5.6 billion in 2005-06, with \$2.5 billion in General Fund spending, \$451 million in other State funding and \$2.7 billion in Federal funding. By agency, All Funds spending is projected to total \$2.9 billion in OMRDD, \$2.2 billion in OMH and \$482 million in OASAS. The State share of Medicaid spending budgeted in the Department of Mental Hygiene is projected to total \$1.4 billion in 2005-06. The annual increase of \$168 million in mental hygiene programs is described in more detail below.

MENTAL HYGIENE				
SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE)				
(millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Local Services	125	0	0	125
Underlying Program Growth	156	8	(106)	58
Executive Budget Recommendations:				
Patient Income Account Actions	(174)	0	242	68
Local Assistance Efficiencies	(63)	0	0	(63)
State Operations Efficiencies	(33)	0	0	(33)
Local Program Redirection	5	0	0	5
All Other Budget Actions	0	6	2	8
Total Annual Change	16	14	138	168

Current Services

Local Services: Funding increases support existing program commitments and mandates including OMRDD's NYS-CARES and NYS-OPTS programs and OMH's community bed pipeline.

Underlying Program Growth: Includes funding for collective bargaining agreements, inflation and staffing adjustments (\$151 million); and a decline in PIA revenues used to offset General Fund spending (\$107 million). Other factors include the "tail" of 2004-05 savings actions (\$32 million) and removal of funding for the 27th institutional payroll (\$70 million).

Executive Budget Recommendations

PIA Actions: Higher Federal aid is driven primarily by enhanced trend factors, Medicaid rate adjustments, additional revenues for inpatient billings, and Medicare cost settlements. These actions are expected to increase the amount of patient care revenues available to support what would otherwise be General Fund costs in 2005-06, resulting in net General Fund savings of \$174 million.

Local Assistance Efficiencies: Includes conversion of 100 percent State funded programs to Medicaid (\$18 million), aggressive pursuit of provider audit and under-spending recoveries and program development slippage (\$26 million) and other local program cash management actions (\$19 million).

State Operations Efficiencies: State Operations savings will be achieved through continued vacancy and staffing controls aimed at reducing excessive overtime and managing future hiring, as well as management of non-personal service spending (\$33 million).

Local Program Redirection: Savings from reducing or eliminating funding for under-performing or less effective programs (\$16 million) is redirected to enhance existing priority OMH and OASAS not-for-profit operated programs to improve recruitment and retention of direct care staff and maintain chemical dependence treatment services for the working poor (\$21 million).

All Other Budget Actions: Other State Funds increased by more than \$5 million as a result of increased funding for case management in adult homes.

TRANSPORTATION

The Department of Transportation (DOT) directly maintains and improves the State's more than 40,000 highway lane miles and 7,500 bridges. Overall, the State's transportation network includes 239,000 lane miles of roads, 19,500 bridges, 4,000 railroad miles, 147 public use airports, 12 major ports and over 70 mass transit systems. The State maintains and improves this extensive collection of assets through taxes, Federal grants, voter-approved general obligation bonds, and bonds issued by public authorities pursuant to contractual agreements with the State. In addition to State-owned transportation assets, the DOT assists in funding projects for highways, bridges, transit systems and other transportation facilities which are owned by local governments.

TRANSPORTATION SPENDING PROJECTIONS				
(millions of dollars)				
	2004-05	2005-06	Annual	Percent
	Revised	Proposed	Change	Change
General Fund	113	103	(10)	-8.8%
Other State Support	3,568	3,805	237	6.6%
State Funds	3,681	3,908	227	6.2%
Federal Funds	1,543	1,562	19	1.2%
All Funds	5,224	5,470	246	4.7%

All Funds spending in 2005-06 for transportation is projected to increase by \$246 million (4.7 percent) over the prior year, consisting of an increase in State funding (\$227 million) and Federal disbursements (\$19 million).

General Fund spending for transportation is projected to decrease by \$10 million (8.8 percent) and reflects primarily the use of roughly \$155 million of other funds to support what otherwise would be General Fund costs (including fringe benefits).

Spending from other State Funds is projected to increase by \$237 million, reflecting primarily the new five-year capital DOT Plan totaling \$17.4 billion to improve transportation and transit facilities across the State. For a more detailed discussion of the new five-year capital DOT Plan, see the "Capital Program and Financing Plan" in this volume.

In addition to funding the first year of the five-year DOT Capital Plan, the 2005-06 Executive Budget includes funding for the first year of the new Metropolitan Transportation Authority (MTA) five-Year Capital Program. Although not part of the State's capital plan, the MTA program reflects continuation of their core "State-of-Good-Repair and Normal Replacement" program at levels established in their 2000-2004 capital plan. The program also includes essential security projects, interagency policing facilities, and the City-funded extension of the #7 Line.

State funding for transit systems comprises the majority of transportation SRF spending. Over \$1.67 billion of 2005-06 transit aid is derived from taxes dedicated to the Mass Transportation Operating Assistance (MTOA) Fund and the Dedicated Mass Transportation Trust Fund. Total disbursements from transportation SRFs are projected to be \$1.84 billion in 2005-06, \$162 million above the current year. This increase reflects an increase of \$57.3 million in capital support for the MTA from the Dedicated Mass Transportation Trust Fund.

GENERAL STATE CHARGES

General State Charges (GSCs) account for the costs of fringe benefits to State employees and retirees of the Executive, Legislative and Judicial branches, as well as for tax payments related to public lands and litigation. Fringe benefit payments, many of which are mandated by statute or collective bargaining agreements, include employer contributions for pensions, social security, health insurance, workers' compensation and unemployment insurance. Other costs include State payments-in-lieu-of-taxes to local governments for certain State-owned lands, and payments related to lawsuits against the State and its public officers.

Employee fringe benefits paid from the General Fund are financed primarily by General Fund revenues (78 percent) and supplemented with revenue from fringe benefit assessments on Federal and other dedicated revenue programs (22 percent). Other General State Charges costs are paid in full by General Fund revenues.

GENERAL STATE CHARGES SPENDING PROJECTIONS (millions of dollars)				
	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	3,665	3,889	224	6.1%
Other State Support	484	558	74	15.3%
State Funds	4,149	4,447	298	7.2%
Federal Funds	204	226	22	10.8%
All Funds	4,353	4,673	320	7.4%

All Funds spending on GSCs is expected to total \$4.7 billion in 2005-06, and comprises \$3.9 billion in General Fund spending, \$558 million other State funding and \$226 million Federal funding. Major components of All Funds spending include health insurance (\$2.2 billion), pensions (\$935 million), and social security (\$804 million). The annual changes are described in more detail below.

GENERAL STATE CHARGES SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Pension Rate Increase	455	0	0	455
Employee Health Care	195	0	0	195
All Other Changes	(34)	73	22	61
Executive Budget Recommendations:				
Pension Rate Relief	(321)	0	0	(321)
Increased Non-General Fund Payments	(57)	0	0	(57)
Other Budget Actions	(14)	1	0	(13)
Total Annual Change	224	74	22	320

Current Services

Pension Rate Increase: Higher projected contributions to the New York State and Local Retirement Systems for fiscal year 2005-06 are associated with discretionary actuarial funding changes developed by the State Comptroller in calculating the 2005-06 pension contribution rates. Baseline

projections from the Comptroller show an employer pension contribution rate of 11 percent of payroll in 2005-06 compared to 7 percent paid in 2004-05, resulting in an annual State pension cost of \$1.3 billion, an increase of \$455 million (56.7 percent) in 2005-06.

Employee Health Care: The cost of providing health insurance to State employees and retirees is projected to total \$2.2 billion in 2005-06, an increase of \$195 million (9.5 percent). The major program assumptions include underlying premium growth of 7.8 percent in 2005 and 11 percent in 2006 for the State employee health plan.

Executive Budget Recommendations

Pension Rate Relief: The Executive Budget proposes legislation that would require the State Comptroller to seek independent professional review and receive public comment prior to making changes in pension funding assumptions. It is anticipated that through this process the 2005-06 pension contribution rate will be reduced from 11 percent to 7 percent, resulting in a total employer pension contribution of \$935 million, an annual increase of \$133 million (16.6 percent) compared to the \$455 million increase that would otherwise occur.

Increased Non-General Fund Payments: The 2005-06 Executive Budget recommends increased funding for certain DOT personnel costs from the Dedicated Transportation Fund. This assumes that the full cost of Dedicated Highway personnel will be payable from the Dedicated Highway and Bridge Trust Fund, thus reducing what otherwise would be General Fund costs (\$57 million).

Other Budget Actions: The most significant recommendation reflects revising statutory interest rates payable on court judgments from a current fixed rate of 9 percent to prevailing market rates (\$7 million).

DEBT SERVICE

The State pays debt service on all outstanding State-supported bonds. These include general obligation bonds, for which the State is constitutionally obligated to pay debt service, as well as bonds issued by State public authorities [e.g., Empire State Development Corporation (ESDC), Dormitory Authority of the State of New York (DASNY), Thruway Authority, Local Government Assistance Corporation (LGAC)] for which the State is contractually obligated to pay debt service, subject to an appropriation. Debt service is paid for through transfers from the General Fund, dedicated taxes and fees, and other resources, such as patient income revenues.

DEBT SERVICE SPENDING PROJECTIONS				
(millions of dollars)				
	2004-05	2005-06	Annual	Percent
	Revised	Proposed	Change	Change
General Fund	1,732	1,666	(66)	-3.8%
Other State Support	2,098	2,202	104	5.0%
State Funds	3,830	3,868	38	1.0%
Federal Funds	0	0	0	0.0%
All Funds	3,830	3,868	38	1.0%

All Funds spending on debt service is projected to total \$3.9 billion in 2005-06, of which \$1.7 billion is paid from the General Fund spending and \$2.2 billion in other State funding. Spending reflects debt service due on revenue credits supported by dedicated taxes and fees and patient

income, including PIT Revenue Bonds, Dedicated Highway and Bridge Trust Fund bonds and Mental Health facilities bonds, and service contract bonds that are supported primarily by the General Fund.

DEBT SERVICE				
SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE)				
(millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Underlying Growth	84	293	0	377
Executive Budget Recommendations:				
Transportation Restructuring	0	(209)	0	(209)
Debt Management Actions	(150)	0	0	(150)
Javits Expansion	0	20	0	20
Total Annual Change	(66)	104	0	38

Current Services

Underlying Growth: The \$377 million in current underlying growth includes increased costs from the bond-financing of prior year capital projects. It reflects the use of PIT revenue bonds (in lieu of more costly service contract bonds) to finance a variety of capital programs, and increases in debt service costs on other revenue credits, including Mental Health (\$52 million), SUNY dormitory facilities (\$10 million), and LGAC bonds (\$21 million).

Executive Budget Recommendations

Transportation Restructuring: To generate short-term savings (\$209 million), the proposal would restructure outstanding Dedicated Highway and Bridge Trust Fund bonds to more closely align the schedule for which principal amortizes to the underlying useful lives of the projects financed.

Debt Management Actions: Maximizing refunding savings, and diversifying the State's debt portfolio with variable rate obligations and interest rate exchange agreements, are projected to reduce the growth in costs (\$150 million).

Javits Center: Reflects debt service for the State's share of the expansion of the Javits Center (\$350 million).

ALL OTHER

In addition to the programs described above, the Executive Budget includes funding for economic development, environmental protection, public protection, general government, the Judiciary, and various other programs. Significant sources of annual change in these areas include:

ESDC: Additional economic development initiatives, primarily for high technology projects, account for most of the \$227 million All Funds increase.

Judiciary: Annual All Funds growth of \$60 million is attributable primarily to personal service cost increases for collective bargaining (\$20 million), as well as performance advances and inflation.

Local Government Aid: The recommended increase of \$50 million for aid and incentives for municipalities preserves existing funding for local governments while providing for additional aid to cities, ranging from 5 to 25 percent over two years, and will be tied to performance agreements intended to encourage local efficiencies and improve financial management. The recommended funding of \$5 million for the Shared Municipal Services Incentive Awards will provide additional funding for collaborative shared service initiatives undertaken by two or more municipalities. Growth in local government aid reflects payments to Madison and Oneida counties related to Indian land claims settlements (\$4 million), which are partially offset by the deferral of the final payment to the Nassau Interim Finance Authority from 2005-06 to 2006-07 (\$8 million). The budget recommends continuation of the \$170 million of aid to New York City that was used by the City to restructure MAC bonds.

World Trade Center: Immediate Federal aid directly related to the September 11th attacks is projected to be completed in 2004-05. Funds in 2004-05 were used to create a new captive insurance company to support the debris removal and recovery efforts (\$1.0 billion) and to apply reimbursement for State-only expenses to support HCRA (\$300 million). It also included hazard mitigation measures to reduce or eliminate the threat of future damage, and emergency protective measures to protect the public health and prevent damage to property (\$300 million).

GENERAL FUND FINANCIAL PLAN OUTYEAR PROJECTIONS

Before accounting for the impact of the 2005-06 Executive Budget recommendations, DOB projects potential budget gaps of \$5.8 billion in 2006-07 and \$5.6 billion in 2007-08. The 2005-06 recommendations are estimated to reduce the 2006-07 and 2007-08 gaps to roughly \$2.7 billion each year. Detailed projections for both receipts and disbursements outyear gap estimates are described below. The gaps assume the Legislature will enact the 2005-06 Executive Budget recommendations in their entirety.

The following table summarizes the impact of the 2005-06 Budget recommendations on the 2006-07 and 2007-08 budget gaps.

Outyear Savings From 2005-06 Executive Budget Recommendations (millions of dollars)			
	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Revised Gaps	(4,152)	(5,844)	(5,571)
Total Recommendations	4,152	3,143	2,786
Spending Actions (net of adds):	2,763	2,513	2,025
Spending Actions	3,076	3,483	3,761
Spending Initiatives	(313)	(970)	(1,736)
Revenue Actions (net of tax cuts):	533	724	791
Revenue Actions	779	1,027	995
Tax Cuts	(246)	(303)	(204)
Non-Recurring Resources	856	(94)	(30)
Remaining Budget Gaps	0	(2,701)	(2,785)

RECEIPTS PROJECTIONS FOR 2006-07 AND 2007-08

General Fund Receipts (millions of dollars)					
	2005-06	2006-07	Annual Change	2007-08	Annual Change
Personal Income Tax	19,844	20,419	575	21,865	1,446
User Taxes and Fees	8,622	8,829	207	9,166	337
Business Taxes	4,066	4,176	110	4,315	139
Other Taxes	778	872	94	920	48
Miscellaneous Receipts	2,451	2,504	53	4,560	2,056
Federal Grants	4	4	0	4	0
Transfers from Other Funds					
Revenue Bond Fund	6,129	6,208	79	6,515	307
LGAC Fund	2,300	2,377	77	2,473	96
CW/CA Fund	510	517	7	525	8
All Other	387	223	(164)	217	(6)
Total Receipts	45,091	46,129	1,038	50,560	4,431
<i>Annual Percent Change</i>			2.3%		9.6%

General Fund tax receipts, including transfers from other funds, are projected to total \$46.1 billion in 2006-07, an increase of \$1 billion over 2005-06 projections. Base growth in tax receipts is expected to exceed historical averages, which is typical of an economy in the early stages of an expansion. Tax receipts are expected to increase by 2.3 percent in 2006-07, reflecting the loss of receipts from the temporary income tax surcharge. Growth jumps to 9.6 percent in 2007-08 due to the \$2 billion increase in miscellaneous receipts associated with the Medicaid takeover plan. Adjusting for the impact of law changes, tax receipt growth is expected to average over 6 percent for the forecast period. The growth in tax receipts is consistent with DOB's forecast for the U.S. and New York economies, which projects the recovery extending into 2006 and 2007 and continued profitability in the financial services sector. A more detailed comparison of historical and projected growth rates for tax receipts is contained in "Explanation of Receipt Estimates" later in this volume.

Personal Income Tax

In general, income tax growth for 2006-07 and 2007-08 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.

General Fund PIT receipts, before the impact of the refund reserve, are projected to increase by \$752 million to \$20.4 billion in 2006-07. The increase from 2005-06 reflects largely growth in underlying liability, offset by the elimination of the 2003 surcharge in tax year 2006. PIT receipts for 2007-08 are projected to increase by \$1.4 billion to \$21.9 billion. Again, the increase reflects growth in liability consistent with an expanding personal income base during economic expansion. Wages are expected to continue to improve steadily in 2006-07 and 2007-08, reflecting stronger employment growth and increases in bonuses paid. Realized capital gains are expected to continue growing significantly in 2006 and 2007. This growth represents the continuation of the recovery of the stock market from the anemic period of 2001 through 2003.

The 2006-07 and 2007-08 projections also assume increases in the other major components of income, consistent with continued growth in the overall economy. See "Explanation of Estimated Receipts, Economic Backdrop" for a more detailed discussion of these estimates.

There is significant uncertainty associated with the forecast of the outyear income components. In many cases, a reasonable range of uncertainty around the predicted income components would include a significant range around outyear income tax estimates.

User Taxes and Fees

General Fund receipts from user taxes and fees are estimated to total \$8.8 billion in 2006-07, an increase of \$207 million from 2005-06. The increase is due almost exclusively to the projected growth in the sales tax base, which changes in the overall New York economy. The expected growth in the sales tax base in 2006-07 is expected to be 4 percent.

General Fund user taxes and fees receipts are expected to grow to \$9.2 billion in 2007-08. The economy is expected to continue to grow at trend rates over this period, resulting in sales tax growth more in line with historical averages. This is expected to result in underlying growth in the sales tax base of 4.2 percent.

Business Taxes

General Fund business tax receipts are expected to increase to \$4.2 billion in 2006-07. This is due primarily to the anticipated continued growth in corporate and bank profits, as well as the continued growth in insurance premiums. Business tax receipts are projected to increase to \$4.3 billion in 2007-08 reflecting continued modest increases in underlying liability.

Other Taxes

General Fund receipts from other taxes are expected to increase to \$872 million in 2006-07, reflecting the impact of the expected growth in household net worth on the value of taxable estates. In 2007-08, receipts are projected to rise to \$920 million, reflecting the expectation of continued growth in estate tax liability.

Miscellaneous Receipts

General Fund miscellaneous receipts are estimated at \$2.5 billion in 2006-07 and \$4.6 billion in 2007-08. The 2007-08 increase includes the proposed full State takeover of Medicaid costs beginning in 2008 and accounts for \$2 billion of this increase.

Transfer from Other Funds

Transfers from other funds are estimated to grow to \$9.3 billion in 2006-07 and \$9.7 billion in 2007-08. The projections anticipate growth in the dedicated portions of the PIT, sales tax and the real estate transfer tax, which comprise a significant portion of transfers from other funds each year. The projected growth in PIT, sales and real estate taxes (\$371 million) in 2006-07 is more than offset by net increases in debt service related to PIT Revenue Bonds, LGAC Bonds and Clean Water/Clean Air General Obligation debt service (\$208 million) and fund balances (\$164 million).

DISBURSEMENT PROJECTIONS FOR 2006-07 AND 2007-08

DOB forecasts General Fund spending of \$49 billion in 2006-07, an increase of \$3.9 billion (8.7 percent) over recommended 2005-06 levels. The growth rate assumes that the Executive Budget

recommendations are enacted in their entirety, but does not reflect additional actions to control spending beyond those proposed in the 2005-06 Executive Budget. Annual growth from 2006-07 to 2007-08 is projected at \$2.2 billion (4.5 percent), adjusted for full State takeover of local Medicaid costs, or \$4.5 billion (9.2 percent) with full takeover. The forecast for 2007-08 is necessarily more speculative than the forecast for 2006-07, since two budgets must be enacted between now and the development of the 2007-08 Executive Budget.

The primary sources of annual spending growth for 2006-07 and 2007-08 are itemized in the table below. A detailed table of the key trend factors used in the outyear projections and the multi-year impact of all major budget recommendations was provided earlier in this overview, and should be read in conjunction with the following data.

General Fund Disbursements (millions of dollars)					
	2005-06	2006-07	Annual Change	2007-08	Annual Change
Grants to Local Governments:	30,619	32,995	2,376	36,921	3,926
School Aid	13,228	13,394	166	13,732	338
Medicaid	7,313	9,122	1,809	12,358	3,236
Welfare	1,393	1,552	159	1,714	162
All Other	8,685	8,927	242	9,117	190
State Operations:	8,055	8,809	754	9,250	441
Personal Service	5,861	6,350	489	6,539	189
Non-Personal Service	2,194	2,459	265	2,711	252
General State Charges	3,889	4,654	765	4,845	191
Transfers to Other Funds:					
Debt Service	1,666	1,679	13	1,648	(31)
Capital Projects	219	234	15	231	(3)
All Other	627	609	(18)	617	8
Total Disbursements	45,075	48,980	3,905	53,512	4,532
<i>Annual Percent Change</i>			<i>8.7%</i>		<i>9.3%</i>

Grants to Local Governments

Local assistance spending is projected to total \$33 billion in 2006-07 and \$36.9 billion in 2007-08. Medicaid, welfare, and school aid are primarily responsible for the annual growth. The following table summarizes some of the factors that affect the local assistance projections over the Financial Plan period.

Local Assistance -- Selected Program Measures				
	2004-05	2005-06	2006-07	2007-08
Medicaid				
Medicaid Coverage	3,622,184	3,748,627	3,868,627	3,988,627
Medicaid Inflation	4.1%	3.9%	3.8%	3.7%
Medicaid Utilization	2.3%	2.5%	2.6%	2.7%
State Takeover of FHP Costs (\$ millions)	\$49	\$312	\$576	\$625
State Takeover of All Other Local Medicaid Costs (Net State Costs - \$ millions)	n/a	\$121	\$631	\$1,257
Education				
K-12 Enrollment	2,864,037	2,848,713	n/a	n/a
Public Higher Education Enrollment (FTEs)	489,936	495,900	n/a	n/a
TAP-Annual Average TAP Recipients	345,000	345,000	n/a	n/a
Welfare				
Family Assistance Caseload	499,400	503,100	519,500	537,700
Single Adult/No Children Caseload	142,300	152,800	165,300	179,000
Mental Hygiene				
Mental Hygiene Community Beds	81,388	83,032	84,373	86,650

General Fund spending for Medicaid is expected to grow by \$1.8 billion to \$9.1 billion in 2006-07 and another \$3.2 billion to \$12.4 billion in 2007-08. These projections reflect the estimated impact of the 2005-06 budget recommendations. The factors affecting growth include: more recipients, higher service utilization, and growth in prescription drug prices, which are projected to add approximately \$840 million in spending in both 2006-07 and 2007-08; growth related to the State takeover of local FHP costs that are estimated to rise by \$264 million in 2006-07 and \$49 million in 2007-08; and the loss of resources from Empire conversion proceeds (\$200 million) and HCRA (\$500 million) that are expected to help lower 2005-06 spending, but will not be available again in 2006-07. The payment of an extra Medicaid cycle in 2005-06 partially offsets the increase in spending in 2006-07. In addition, the proposed cap on local Medicaid costs that phases into a full takeover of local Medicaid costs effective January 1, 2008 is expected to increase General Fund costs by \$510 million in 2006-07 and \$2.7 billion in 2007-08, which will be offset by \$2.0 billion in additional receipts from local sales tax and other local resources currently used to pay local Medicaid costs.

DOB projects the average number of Medicaid recipients to grow to 3.9 million in 2006-07, an increase of 3.1 percent over the estimated 2005-06 caseload of 3.7 million. FHP enrollment is estimated to grow to approximately 661,044 in 2006-07, an increase of 19.5 percent over projected 2005-06 enrollment of 553,044.

Traditional school aid on a school year basis is projected at \$16 billion in 2006-07 and \$16.5 billion in 2007-08, an increase of \$500 million. The traditional school aid projections assume growth in the Flex Aid program advanced with the 2005-06 Budget, the impact of recommended reforms to building and special education aid, and maintenance of current levels for most other aid categories. On a State fiscal year basis, school aid spending is projected to grow by approximately \$166 million (1.3 percent) in 2006-07 and \$338 million (2.5 percent) in 2007-08. In addition, revenues from VLTs are projected to finance additional sound basic education grants in Special Revenue Funds.

Welfare spending, including administration, is projected at \$1.6 billion in 2006-07, an increase of \$159 million (11.4 percent) from 2005-06. Projected growth in family caseload (\$72 million or 3 percent), and the single adult/childless couples caseload (\$47 million or 8 percent) are responsible for the upward trend in spending.

All other local assistance programs total \$8.9 billion in 2006-07, an increase of \$242 million over 2005-06 recommended levels (2.8 percent). Growth in handicapped programs (\$31 million), mental hygiene (\$67 million), children and families services (\$48 million), K-12 education programs excluding school aid (\$46 million), and, to a lesser extent, other agencies are the main factors affecting spending.

State Operations

State Operations -- Selected Program Measures				
	2004-05	2005-06	2006-07	2007-08
State Operations				
Prison Population (Corrections)	63,800	63,100	n/a	n/a
Negotiated Salary Increases ⁽¹⁾	2.5%	2.75%	3.0%	0.0%
Personal Service Inflation	0.8%	0.8%	0.8%	0.8%
State Workforce	190,933	191,424	191,852	191,852

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

State Operations spending is expected to total \$8.8 billion in 2006-07, comprised of \$6.4 billion for personal service and \$2.4 billion for non-personal service. This reflects an annual increase of \$754

million (9.4 percent) mainly due to collective bargaining costs, normal “salary creep” increases, and inflationary increases for non-personal service costs (\$563 million) and the decline in patient income revenues available to offset spending in the General Fund (\$191 million).

General State Charges

General State Charges -- Selected Program Measures				
	2004-05	2005-06	2006-07	2007-08
General State Charges				
Pension Contribution Rate	7.0%	7.0%	12.4%	11.5%
Employee Health Insurance	14.0%	9.2%	11.6%	10.9%

GSCs are projected to total \$4.7 billion in 2006-07 and \$4.8 billion in 2007-08. The annual increases of \$765 million (19.7 percent) in 2006-07 and \$191 million (4.1 percent) in 2007-08 are due mainly to anticipated cost increases in pension and health insurance benefits for State employees and retirees. The estimates include projected costs of \$1.4 billion in 2006-07 and 2007-08 for pensions, and \$2.5 billion in 2006-07 and \$2.8 billion in 2007-08 for health insurance. The employer pension contribution rate to the New York State and Local Retirement Systems is expected to increase from 7.0 percent of employee salaries in 2005-06 to 12.4 percent in 2006-07, and then decline to 11.5 percent in 2007-08. These rates, which assume the 2005-06 Executive Budget pension recommendation is implemented, require additional State spending of \$506 million in 2006-07, and a decline in spending of \$60 million in 2007-08. Spending for employee health care costs is expected to increase by \$259 million in 2006-07 and another \$273 million in 2007-08, and assumes average annual premium trend increases of 11 percent.

Transfers to Other Funds

Transfers -- Selected Program Measures				
	2004-05	2005-06	2006-07	2007-08
State Debt				
Interest on Variable Rate Debt	1.5%	2.8%	3.0%	3.3%
Interest on 30-Year Bonds	5.0%	5.3%	5.8%	6.2%

Transfers to other funds are estimated to total \$2.5 billion in 2006-07 and 2007-08. Over the period of the Financial Plan, total transfers are projected to remain virtually unchanged. However, it should be noted that 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.

2005-06 GOVERNMENTAL FUNDS FINANCIAL PLAN (FUND TYPE)

This section summarizes the 2005-06 Financial Plan from the perspective of each of the four major fund types that comprise the All Funds budget: the General Fund, SRFs, CPFs, and DSFs.

GENERAL FUND

The State projects General Fund receipts of \$45.1 billion in 2005-06, an increase of \$1.6 billion (3.6 percent) from the current year. The increase in General Fund receipts is the result of increased collections from the personal income tax and sales tax, resulting from temporary tax actions taken in

the 2003-04 Enacted Budget as well as continued growth resulting from the improving economic climate. More detail on the receipts outlook is provided earlier in this Overview.

General Fund Receipts (millions of dollars)				
	2004-05 Adjusted	2005-06 Proposed	Annual Change	Percent Change
Personal Income Tax	18,932	19,844	912	4.8%
User Taxes and Fees	8,752	8,622	(130)	-1.5%
Business Taxes	3,764	4,066	302	8.0%
Other Taxes	730	778	48	6.6%
Miscellaneous Receipts	2,801	2,451	(350)	-12.5%
Federal Grants	8	4	(4)	-50.0%
Transfers From Other Funds:				
Revenue Bond Fund	5,842	6,129	287	4.9%
LGAC Fund	2,171	2,300	129	5.9%
CW/CA Fund	520	510	(10)	-1.9%
All Other	504	387	(117)	-23.2%
Total Receipts	44,024	45,091	1,067	2.4%

Transfers From Other Funds

Transfers from other funds are expected to total \$9.3 billion, an increase of \$289 million from 2004-05. This annual increase comprises primarily higher transfers from the Revenue Bond Tax Fund (RBTF) (\$287 million), the LGAC Fund (\$129 million), offset by lower transfers from the CW/CA Fund (\$10 million) and all other funds (\$117 million).

Transfers to the General Fund from PIT receipts deposited to the RBTF in excess of debt service payable on State PIT Bonds is projected to total \$6.1 billion in 2005-06, an increase of \$287 million from 2004-05. The annual increase is attributable to overall growth in PIT (\$436 million), partially offset by an increase in debt service costs on those bonds (\$149 million).

Transfers to the General Fund of sales tax receipts deposited to the LGAC fund in excess of debt service due on LGAC bonds is projected to total \$2.3 billion in 2005-06, an increase of \$129 million from the prior year. This growth is due to overall growth in sales tax receipts (\$150 million), partially offset by a modest increase in debt service costs (\$21 million).

Transfers to the General Fund from the real estate transfer tax deposited to the CW/CA DSF in excess of debt service due on those general obligation bonds is projected to total \$510 million in 2005-06. The modest change is due to overall growth in real estate transfer taxes (\$5 million), more than offset by an increase in debt service costs (\$15 million).

All other transfers are projected to total \$387 million in 2005-06, an annual decrease of \$117 million primarily due to nonrecurring transfers from SUNY and CUNY to reimburse the General Fund for equipment costs (\$163 million).

Disbursements

The State projects adjusted General Fund disbursements, including transfers to other funds, of \$45.1 billion in 2005-06, an increase of \$1.2 billion (2.6 percent) from the current year. Increases in Grants to Local Governments (\$454 million), State Operations (\$448 million), GSCs (\$224 million), and transfers (\$34 million) account for the change. The major components of these disbursement changes are summarized below and are explained in more detail in the “2005-06 Financial Plan — 2005-06 Disbursements Forecast” above.

General Fund Disbursements				
(millions of dollars)				
	2004-05 Adjusted	2005-06 Proposed	Annual Change	Percent Change
Grants to Local Governments	30,165	30,619	454	1.5%
State Operations	7,607	8,055	448	5.9%
General State Charges	3,665	3,889	224	6.1%
Transfers to Other Funds				
Debt Service	1,732	1,666	(66)	-3.8%
Capital Projects	198	219	21	10.6%
All Other	548	627	79	14.4%
Total Disbursements	43,915	45,075	1,160	2.6%

Grants to Local Governments

Grants to Local Governments include financial aid to local governments and nonprofit organizations, as well as entitlement payments to individuals. Local assistance spending is projected at \$30.6 billion in 2005-06, an increase of \$454 million from the current year. Growth in school aid (\$321 million), CUNY operating costs (mainly for salary growth and increases in fixed costs) and CUNY/SUNY community college enrollment growth (\$163 million), and welfare (due mainly to caseload increases) (\$89 million) are partially offset by savings from Medicaid cost containment, TAP reforms, a patient income revenue reclassification described below, and other actions summarized in “2005-06 Gap-Closing Plan” earlier in this Overview.

State Operations

State Operations accounts for the cost of running the Executive, Legislative, and Judicial branches of government and is projected to total \$8.1 billion in 2005-06 an increase of \$448 million (5.9 percent) from the prior year. Personal service costs (e.g., State employee payroll) comprise 73 percent of State Operations spending. The remaining 27 percent represents non-personal service costs for contracts, rent, supplies, and other operating expenses.

The projected annual increase in State Operations is affected by the use of \$400 million in patient income revenues in 2005-06 to offset local assistance spending, instead of offsetting State Operations spending as was done in 2004-05. The change results in a \$400 million annual increase in State operations costs financed by the General Fund and a comparable decrease in local assistance spending. Adjusting for this reclassification, State Operations is projected to increase by \$48 million from 2004-05. The growth, before any budget actions, is comprised of scheduled wage increases under current labor contracts, normal salary creep, and salary grade changes (\$338 million), costs associated with the gaming and racing program (\$108 million) and other program growth (\$84 million). This underlying growth is offset by savings in agency operations (\$161 million),

the use of alternate sources of revenue to fund operations, and the removal of the 27th institutional payroll.

Personal service spending, after Executive Budget actions, totals \$5.9 billion in 2005-06, an increase of \$246 million or 4.4 percent. The annual growth is driven primarily by the patient income revenue reclassification (\$400 million) and underlying growth (\$221 million) partially offset by savings resulting from budget actions, including revenue maximization (\$375 million).

Non-personal service spending totals \$2.2 billion, an increase of \$203 million or 10.2 percent. Underlying growth (\$201 million) and the costs of the gaming and racing program (\$108 million) partially offset by savings actions (\$106 million) account for this increase.

DOB projects the Executive branch workforce will total 191,424 in 2005-06, an increase of 491 over the current-year estimate. Of the 79 agencies that comprise the Executive Branch workforce, 25 project an annual increase in their workforce. Ten agencies project a reduction in their workforce in 2005-06. Tables that summarize of historical, current, and projected workforce levels by fund type and fund group appear in the "Financial Plan Tables" later in this Overview.

General State Charges

GSCs account for the costs of providing fringe benefits to State employees and retirees of the Executive, Legislative and Judicial branches, as well as fixed costs for taxes on public lands and litigation costs.

General Fund spending for GSCs is projected to be \$3.9 billion in 2005-06, an increase of \$224 million (6.1 percent) over the prior year. This annual increase is due mostly to rising costs of employee health benefits (an increase of \$189 million to \$2.2 billion), higher costs related to employer pension contributions (an increase of \$133 million to \$935 million) and fringe benefit increases for unsettled collective bargaining agreements (\$31 million). These increases are partially offset by higher fringe benefit cost reimbursements to the General Fund which are payable from other funds, thus reducing General Fund costs (\$129 million). GSCs are explained in more detail earlier in this Overview.

Transfers to Other Funds

Transfers to Other Funds are projected to total \$2.5 billion in 2005-06 and include General Fund transfers to support debt service (\$1.7 billion), capital projects (\$219 million), and other funds (\$627 million).

General Fund transfers for debt service decline by \$66 million (3.8 percent) from 2004-05 primarily due to \$150 million in projected savings from debt management actions, offset by higher debt service on existing bonds for corrections and CUNY, and the accounting treatment of the PIT Revenue Bond program which reduces General Fund costs and increases costs State Funds. Transfers to support capital projects increase by \$21 million mainly from a recast of the timing of capital spending based on experience to date. All other transfers are projected to increase by \$79 million (14.4 percent) in 2005-06 due primarily to a nonrecurring transfer to the HCRA SRF to pay a prior year loan from the Physicians Excess Medical Malpractice Program (\$45 million), and an increase in the State subsidy payments to SUNY hospitals (\$27 million).

SPECIAL REVENUE FUNDS

SRFs receive State and Federal revenues dedicated to finance specific activities. SRFs are intended to be self-supporting, with receipts equaling or exceeding disbursements. When statutorily authorized, certain funds and accounts may borrow from the State's Short-Term Investment Pool (STIP) to cover temporary cash shortfalls resulting from the timing of receipts and disbursements (i.e., disbursements occurring prior to receipts being received).

In 2005-06 the SRFs Cash Financial Plan projects total receipts of \$53.8 billion, total disbursements of \$54.2 billion, and net other financing sources of \$429 million, resulting in an operating surplus of \$82 million.

Receipts

Special Revenue Funds Receipts (millions of dollars)				
	2004-05 Adjusted	2005-06 Proposed	Annual Change	Percent Change
Taxes	5,396	5,659	263	4.9%
Miscellaneous Receipts	11,378	13,420	2,042	17.9%
Federal Grants	35,634	34,728	(906)	-2.5%
Total Receipts	52,408	53,807	1,399	2.7%

Total SRF receipts are projected to be \$53.8 billion in 2005-06, an increase of \$1.4 billion (2.7 percent) over the current year adjusted forecast. Increases in miscellaneous receipts (\$2.0 billion) and taxes (\$263 million) offset by a decrease in Federal grants (\$906 million). The major components of these receipt changes are summarized below and are explained in more detail in the "2005-06 Financial Plan - 2005-06 Receipts Forecast" earlier in this Overview.

Taxes

Tax receipts in the SRF are projected to be \$5.7 billion, an increase of \$263 million (4.9 percent) over the adjusted current year forecast. The annual growth is driven primarily by taxes dedicated to support the STAR program resulting from increased participation by taxpayers and local tax levy growth (\$130 million), and higher tax receipts dedicated to support the MTOA Fund (\$90 million) and the Dedicated Mass Transportation Trust Fund (\$43 million).

Miscellaneous Receipts

Miscellaneous receipts are projected to be \$13.4 billion, an annual increase of \$2.0 billion (17.9 percent) over the current adjusted forecast. The annual growth is primarily due to the additional transfers from HCRA, including projected Empire conversion proceeds, to support State Medicaid and other public health costs (\$1.0 billion), increased receipts from restoration of assessments on hospital, home care and nursing home revenues (\$292 million), higher lottery receipts, including VLT revenues, due to expected development of new VLT facilities and higher SUNY receipts.

Federal Grants

Federal grants are projected to be \$34.7 billion, a decrease of \$906 million (2.5 percent) from the prior year. Changes to Federal grants generally correspond to changes in federally-reimbursed

spending as described in the “Disbursements Outlook” section above. However, since Federal reimbursement was assumed to be received in the State fiscal year in which spending occurs, additional timing-related variances result. Spending for World Trade Center activities (\$1.6 billion), Children and Families (\$195 million) and Medicaid (\$145 million) are expected to decline significantly from 2004-05 levels. These declines are partially offset by growth in welfare (\$374 million), federally supported school aid costs (\$210 million), elections (\$148 million), and homeland security (\$96 million).

Disbursements

Special Revenue Funds Disbursements				
(millions of dollars)				
	2004-05	2005-06	Annual	Percent
	Adjusted	Proposed	Change	Change
Grants to Local Governments	44,013	44,855	842	1.9%
State Operations	8,396	8,513	117	1.4%
General State Charges	688	784	96	14.0%
Debt Service	0	0	0	0.0%
Capital Projects	2	2	0	0.0%
Total Disbursements	53,099	54,154	1,055	2.0%

Total SRF disbursements are projected to be \$54.2 billion, an increase of \$1.1 billion (2.0 percent) from the current adjusted forecast. The annual growth is due primarily to increases in Grants to Local Governments (\$842 million), State Operations (\$117 million) and GSCs (\$96 million). The major changes in disbursements are summarized below and are explained in more detail in the “2005-06 Financial Plan - 2005-06 Disbursements Forecast” earlier in this Overview.

Grants to Local Governments

Grants to local government are projected at \$44.9 billion, an annual increase of \$842 million (1.9 percent) from the adjusted 2004-05 projection. Sources of growth include higher spending from SRFs financed by transfers from HCRA and assessments on hospital, home care and nursing home revenues to support State Medicaid costs (\$1.0 billion); Federal aid for education for instructional support, IDEA and the School Lunch programs (\$522 million), the reclassification of “offset” spending from State Operations to local assistance (\$400 million); grants for transit systems (\$198 million), a net increase in social services spending driven by TANF reprogramming and growth in OCFS Federal Funds spending (\$175 million), STAR due to increased participation by taxpayers and local tax levy growth (\$130 million); implementation of the Help America Vote Act (\$118 million) and Federal grants for Urban Area Security Initiatives (\$96 million). The expected decline in World Trade Center spending (\$1.6 billion) partially offsets the growth in other areas.

State Operations

State Operations disbursements are projected to be \$8.5 billion, an increase of \$117 million (1.4 percent) from 2004-05. Spending increases as a result of collective bargaining agreements (\$68 million), performance advances, and inflation (\$79 million). An increase in revenues available to finance State Operations in the mental hygiene programs attributable to Federal revenue initiatives (\$244 million) and an increase in SUNY revenues available to support SUNY operations (\$76 million) account for the remaining increase. The reclassification of PIA “offset” spending from State Operations to local assistance partially offsets the growth in these areas (\$400 million).

General State Charges

Disbursements for GSCs are projected to be \$784 million, an increase of \$96 million (14.0 percent) from the prior year. Growing employer pension contributions and higher employee health insurance costs account for most of the annual growth in GSCs.

Other Financing Sources/(Uses)

Special Revenue Funds Other Financing Sources/(Uses) (millions of dollars)				
	2004-05	2005-06	Annual Change	Percent Change
Transfers From Other Funds	3,182	3,433	251	7.9%
Transfers To Other Funds	(2,923)	(3,004)	(81)	2.8%
Net Other Financing Sources (Uses)	259	429	170	65.6%

Transfers from other funds are projected to total \$3.4 billion, an increase of \$251 million (7.9 percent) from the current year. Patient care revenues, net of debt service on outstanding Mental Hygiene bonds (\$136 million), a nonrecurring General Fund transfer to the HCRA Fund to finance a prior year excess medical malpractice loan (\$45 million), a nonrecurring transfer from the Suburban Transportation Fund to the MTOA Fund for the MTA Commuter Railroad (\$39 million), and an increase in the State subsidy payments to SUNY hospitals (\$27 million) account for the change.

Transfers to other funds are estimated to be \$3.0 billion, an increase of \$81 million (2.7 percent) from 2004-05. The annual growth is due to an increase in Federal Medicaid reimbursement for Mental Hygiene services before payment of debt service (\$199 million), and a net increase in fund sweeps (\$46 million) partially offset by nonrecurring transfers from SUNY and CUNY to reimburse the General Fund for equipment costs (\$163 million).

CAPITAL PROJECTS FUNDS

The following section briefly summarizes activity in the capital projects fund type. For a complete explanation of the State's capital and debt programs, see the summary of the "Capital Program and Financing Plan" later in this AIS Update. The full Capital Program and Financing Plan for 2004-05 through 2009-10 is contained in the "2005-06 New York State Executive Budget Financial Plan" and is available on the DOB website or by contacting DOB.

The CPF group accounts for spending from the CPF, which is supported by a transfer from the General Fund, and spending from other funds for specific purposes, including transportation, mental health, housing, public protection, education and the environment.

The following tables for capital projects reflect accounting adjustments for capital projects activity for anticipated spending delays and certain capital spending that is not reported by the State Comptroller in actual cash spending results, although it is reflected in the State's Generally Accepted Accounting Principles (GAAP) Financial Statements. The spending is related to programs which are financed in the first instance by bond proceeds, rather than with a short-term loan from STIP or cash from the General Fund. Such capital spending is projected at \$903 million in 2004-05 and almost \$1.2 billion in 2005-06.

Receipts

Capital Projects Funds Receipts (millions of dollars)				
	2004-05	2005-06	Annual Change	Percent Change
Taxes	1,823	1,855	32	1.8%
Miscellaneous Receipts	2,980	3,444	464	15.6%
Federal Grants	1,778	1,828	50	2.8%
Total Receipts	6,581	7,127	546	8.3%
GAAP Adjustment	(903)	(1,168)	(265)	29.3%
Spending Delays	(400)	(500)	(100)	25.0%
Financial Plan Total	5,278	5,459	181	3.4%

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

Taxes

Taxes deposited to the CPFs are projected to be \$1.9 billion in 2005-06, an increase of \$32 million (1.8 percent) from 2004-05. The projected growth includes increases in highway-related taxes deposited to the Dedicated Highway and Bridge Trust Fund and a statutory dedication of \$112 million in 2005-06 from the Real Estate Transfer Tax to the EPF.

Miscellaneous Receipts

Miscellaneous receipts are projected to total \$3.4 billion in 2005-06, an increase of \$464 million from the current year. The increase is attributable primarily to projected increases in economic development (\$295 million) and education (\$173 million) programs financed with authority bond proceeds.

Federal Grants

Federal grants are estimated at \$1.8 billion in 2005-06, an increase of \$50 million (2.8 percent) over 2004-05. Environmental grants are projected to remain level, while grants are projected to increase by \$50 million to finance projects for the Division of Military and Naval Affairs (\$10 million), transportation (\$20 million) and World Trade Center capital reconstruction projects (\$20 million).

Disbursements

Capital Projects Funds Disbursements (millions of dollars)				
	2004-05	2005-06	Annual Change	Percent Change
Transportation	3,495	3,602	107	3.1%
Parks and Environment	670	661	(9)	-1.3%
Economic Development and Gov't Oversight	301	595	294	97.7%
Health and Social Welfare	128	149	21	16.4%
Education	715	887	172	24.1%
Public Protection	213	235	22	10.3%
Mental Health	286	286	0	0.0%
General Government	137	137	0	0.0%
Other	32	58	26	81.3%
Total Disbursements	5,977	6,610	633	10.6%
GAAP Adjustment	(903)	(1,168)	(265)	29.3%
Spending Delays	(400)	(500)	(100)	25.0%
Financial Plan Total	4,674	4,942	268	5.7%

Spending for CPFs (prior to adjustments) is projected to total \$6.6 billion in 2005-06, an increase of \$633 million. The majority of the projected increase is for economic development programs (\$294 million) and education (\$172 million). The balance of the increase is spread across transportation (\$107 million), public protection (\$22 million), health and social welfare (\$21 million), and other areas (\$15 million).

Other Financing Sources/(Uses)

Capital Projects Funds Other Financing Sources (Uses) (millions of dollars)				
	2004-05	2005-06	Annual Change	Percent Change
Transfers From Other Funds	233	257	24	10.3%
Transfers To Other Funds	(1,047)	(937)	110	-10.5%
Bond Proceeds	193	185	(8)	-4.1%
Net Other Financing Sources (Uses)	(621)	(495)	126	-20.3%

Transfers from other funds are estimated at \$257 million in 2005-06, an increase of \$24 million from 2004-05. The change is attributable to an increase in the transfer from the General Fund to the CPFs (\$21 million), which supports pay-as-go capital spending in a variety of agencies. Of this increase, \$6 million is attributable to the beginning of anticipated spending for the non-bonded portion of the Health Care Efficiency and Affordability Law with the balance representing the impacts of reestimates based on anticipated program activity.

The \$110 million decrease in CPF transfers to other funds primarily reflects a decrease in the transfer of receipts from the Dedicated Highway and Bridge Trust Fund to reimburse the General DSF for debt service on Dedicated Highway and Bridge Trust Fund and CHIPs bonds (\$173 million), offset by increases in the transfer to the General Fund from the EPF (\$21 million) and a new transfer from the Suburban Transportation Fund to the Mass Transportation Assistance Account (\$39 million) for projected mortgage recording taxes deposited in that fund.

DEBT SERVICE FUNDS

The following section briefly summarizes activity in the Debt Service Funds type. For a complete explanation of the State's debt perspective, see the "Capital Program and Financing Plan" in the "2005-06 New York State Executive Budget Financial Plan" available on the DOB website or by contacting DOB.

All tax-financed State debt service on long-term debt and payments on certain lease-purchase or other contractual obligations are paid from DSFs. These account for the accumulation of moneys set aside for, and the payment of principal and interest on, general long-term debt and certificates of participation. Debt service payments for SUNY Dormitories and Health and Mental Hygiene facilities made through contractual obligations with public authorities are also paid from funds classified as DSFs. Debt service on highway bonds supported by dedicated highway revenues is also reflected in this fund type, as such spending is reclassified to DSFs. DSF revenue sources include transfers from the General Fund, dedicated taxes and fees, patient receipts, and other revenues.

Total receipts in the debt service funds are projected at \$10.5 billion in 2005-06. Total debt service disbursements are expected to total \$3.9 billion. Receipts in excess of those required to satisfy the State's debt service obligations are transferred to the General Fund or to other funds to support capital or operating disbursements.

Receipts

Debt Service Fund Receipts (millions of dollars)				
	2004-05	2005-06	Annual Change	Percent Change
Taxes	9,242	9,833	591	6.4%
Miscellaneous Receipts	647	656	9	1.4%
Total Receipts	9,889	10,489	600	6.1%

Total DSF receipts are projected to be \$10.5 billion, an increase of \$600 million (6.1 percent) from 2004-05. The annual growth is due to increases in dedicated taxes (\$591 million) as well as a modest increase in miscellaneous receipts (\$9 million). These changes are described in more detail below.

Taxes

The \$591 million (6.4 percent) increase in taxes deposited to the DSFs is primarily attributable to growth in dedicated PIT receipts deposited to the RBTF (\$436 million), growth in sales and use taxes deposited to the Local Government Assistance Tax Fund (\$150 million), and increases in real estate transfer taxes deposited to the CW/CA Fund (\$5 million). Starting in 2006-07, a portion of the real estate tax deposits (up to \$25 million) is projected to be redirected to the EPF to further support environmental programs.

Miscellaneous Receipts

The modest projected increase in miscellaneous receipts of \$9 million (1.4 percent) from 2004-05 is attributable primarily to receipts from SUNY dormitory fees (\$9 million). Patient income for health

and mental hygiene facilities as well as receipts supporting General Obligation housing bonds, are essentially unchanged.

Disbursements

Debt Service Fund Disbursements				
(millions of dollars)				
	2004-05	2005-06	Annual Change	Percent Change
General Debt Service Fund	3,150	3,105	(45)	-1.4%
LGAC	316	337	21	6.6%
Mental Health	255	307	52	20.4%
All Other	109	119	10	9.2%
Total Disbursements	3,830	3,868	38	1.0%

Total disbursements from the DSF are projected to increase from \$3.8 billion in 2004-05 to \$3.9 billion in 2005-06. The \$38 million increase (1 percent) is due to growth in debt service costs from previous and planned bond sales, offset by \$150 million in projected savings from debt management efforts, including the increased use of variable rate obligations and interest rate exchange agreements, as well as the restructuring of the Dedicated Highway and Bridge Trust Fund bonds to more closely align the schedule for principal amortization to the useful lives of the financed projects.

General DSF

Spending from the General DSF is projected to decrease by \$45 million (1.4 percent) from 2004-05 and reflects \$150 million in projected savings from debt management actions and the restructuring of Dedicated Highway and Bridge Trust Fund Bonds (\$209 million). These decreases are offset by increases in spending from the RBTF to support debt service on State PIT Revenue Bonds (\$219 million).

LGAC

The Local Government Assistance Tax Fund is projected to receive \$2.6 billion in 2005-06 from the dedicated one-cent statewide sales tax. Debt service and related costs on LGAC bonds are projected at \$337 million in 2005-06, an increase of \$21 million (6.6 percent) from the prior year. Local aid payments due to the State Tax Asset Receivable Corporation (STARC) are paid from the Local Government Assistance Tax Fund after all LGAC debt and related obligations are met, and are reflected in the local assistance portion of the Financial Plan.

Mental Health

Patient income revenues of \$2.9 billion deposited and transferred to the Mental Health Services Fund will satisfy debt service obligations of \$307 million in 2005-06. Debt service and related costs for this program are projected to increase by \$52 million (20.4 percent) from 2004-05 levels. This increase is due primarily to savings achieved from refundings effectuated in prior fiscal years.

All Other

This category includes debt service spending from the Health Income Fund, Housing Debt Fund, and the SUNY Dormitory Income Fund. The \$10 million increase in spending from 2004-05 is attributable primarily to increased debt service for SUNY dormitory bonds (\$10 million).

Debt Service Funds Other Financing Sources (Uses)				
(millions of dollars)				
	2004-05	2005-06	Annual Change	Percent Change
Transfers From Other Funds	5,221	5,212	(9)	-0.2%
Transfers To Other Funds	(11,286)	(11,833)	(547)	4.8%
Net Other Financing Sources (Uses)	(6,065)	(6,621)	(556)	9.2%

Other Financing Sources/(Uses)

The decrease in transfers from other funds compared to 2004-05 (\$9 million) reflects reduced transfers from the General Fund and various other dedicated funds, including the Dedicated Highway and Bridge Trust Fund and the Centralized Services Fund, to the General DSF (\$194 million) offset by increased transfers from the Federal Health and Human Services SRFs to the Mental Health DSF (\$200 million), and a net reduction in all other transfers of \$15 million.

The \$547 million (4.8 percent) increase in Transfers to other funds from 2004-05 reflects primarily the excess beyond the debt service due on State PIT Revenue Bonds from the RBTF (\$287 million) and the Local Government Assistance Tax Fund (\$129 million), as well as increased transfers in excess of SRFs from the Mental Health and the Health DSFs (\$135 million), offset by lower transfers to the General Fund from the CW DSF (\$10 million), and modest increases in other transfers (\$6 million).

FINANCIAL PLAN RESERVES AND RISKS⁵

RESERVES

The State projects that balances in its principal reserves to guard against unbudgeted risks will total \$885 million in 2005-06. The reserves include \$864 million in the Rainy Day Reserve Fund after a maximum deposit of \$70 million in 2004-05, and \$21 million in the Contingency Reserve Fund for litigation risks. To permanently improve the State's reserve levels, the Executive again will submit legislation in 2005-06 to increase the maximum size of the State's Rainy Day Fund from 2 percent to 5 percent of General Fund spending. Absent enactment of legislation to increase the Rainy Day Fund, the State has reached its statutory maximum balance of 2 percent with the 2004-05 annual deposit.

The 2005-06 Financial Plan does not set aside specific reserves to cover potential costs that could materialize as a result of adverse rulings in pending litigation, Federal disallowances, or other Federal actions that could adversely affect the State's projections of receipts and disbursements.

⁵ For additional discussion of risks, see the section entitled "Special Considerations" in this AIS Update and the AIS dated September 19, 2004.

RISKS

Many complex political, social, and economic forces influence the State's economy and finances. Such forces may affect the State Financial Plan unpredictably from fiscal year to fiscal year. For example, the Financial Plan is necessarily based on forecasts of national and State economic activity. Economic forecasts have frequently failed to accurately predict the timing and magnitude of specific and cyclical changes to the national and State economies. The Financial Plan also relies on estimates and assumptions concerning Federal aid, law changes, and audit activity.

Economic Forecast

DOB believes that the U.S. economy will grow at approximately its long-term trend growth rate through the end of the forecast horizon, but risks attend this forecast. The forecast is contingent upon the absence of any further severe shocks to the economy. Unpredictable events such as a terrorist attack remain the biggest risk to the economic expansion. Such a shock could induce firms to postpone their spending and hiring plans yet again, reducing future investment and employment, which in turn could result in lower consumption growth. Moreover, successful attacks on oil facilities abroad could send oil prices back up to their Fall 2004 highs, having adverse economic repercussions. A major setback in the Iraqi conflict could have a similar impact.

On the other hand, a more rapid increase in export growth due to either a weakened dollar or faster global growth could generate a somewhat stronger increase in total output than expected. Similarly, lower inflation than expected, perhaps as a result of an even greater drop in the price of oil or stronger productivity growth than expected, could induce the Federal Reserve to be even more measured in its interest rate increases, resulting in stronger consumption and investment growth than projected. Moreover, stronger employment growth could result in higher real wages, supporting faster growth in consumer spending than expected.

In addition to the risks described above for the national forecast, there are risks specific to New York. Another attack targeted at New York City would once again disproportionately affect the State economy. Any other such shock that had a strong and prolonged impact on the financial markets would also disproportionately affect New York State, resulting in lower income and employment growth than reflected in the current forecast. In addition, if the national and world economies grow more slowly than expected, demand for New York State goods and services would also be lower than projected, dampening employment and income growth relative to the forecast. In contrast, should the national and world economies grow faster than expected, a stronger upturn in stock prices, along with even stronger activity in mergers and acquisitions and IPOs is possible, resulting in higher wage growth than projected. It is important to recall that the financial markets, which are so pivotal to the direction of the downstate economy, are notoriously difficult to forecast. In an environment of global uncertainty, the pace of both technological and regulatory change is as rapid as it has ever been, compounding even further the difficulty in projecting industry revenues and profits.

Litigation⁶

⁶ See the section entitled "Litigation" later in this AIS Update and in the AIS dated September 19, 2004 for a complete summary of litigation affecting the State.

The State is a defendant in several court cases that could ultimately result in costs to the State Financial Plan. The most significant is the *Campaign for Fiscal Equity v. State of New York*, in which the State Court of Appeals directed the State to implement a remedy by July 30, 2004 that ensures all children in New York City have the opportunity to receive a sound basic education (SBE). In August 2004, the State Supreme Court directed a panel of three Special Masters to report and make recommendations on the measures the State has taken to bring its school financing system into constitutional compliance with respect to New York City schools. The Special Masters submitted their report to the Court on November 30, 2004. The report recommended (a) an annual increase of \$5.6 billion in education aid to New York City to be phased in over four years and (b) \$9.2 billion for school construction and renovation to be phased in over five years. The Court is scheduled to hear oral arguments and is expected to issue a ruling in January 2005.

The 2005-06 Executive Budget proposes a combination of traditional school aid and a new SBE aid program as part of a comprehensive five-year plan to comply with the Court's order. Under an expansion plan proposed by the Governor in the 2005-06 Executive Budget, revenues from VLTs that will be used for SBE Aid are expected to total \$325 million in 2005-06 growing to \$700 million in school year 2006-07 and \$1 billion in 2007-08. Eight VLT facilities are authorized under the current law, but two major facilities located at Yonkers and Aqueduct Raceways have not yet begun operations. These two facilities are expected to produce the majority of the growth of VLT receipts under current law. In July 2004, the Appellate Division of the Court of Appeals upheld the constitutionality of VLTs as a lottery providing education funding. However, the decision stated that certain allocation provisions within the statute allowing VLTs were unconstitutional. While the order of the Court allows current VLT facilities to continue operations, development of the Yonkers and Aqueduct projects has been deferred pending the outcome of litigation at the Court of Appeals.

Ongoing litigation challenging the use of proceeds from the conversion of Empire Blue Cross/Blue Shield from a not-for-profit corporation to a for-profit corporation may result in a loss of resources in both the General Fund and HCRA. Pursuant to court order the State Comptroller is currently holding all proceeds in escrow until a judgment is rendered. The current and proposed HCRA Plans count on a total of \$2 billion in Empire proceeds through June 30, 2007. Another \$200 million in conversion proceeds is expected to finance Medicaid costs in the General Fund in 2005-06. The availability of the \$2.2 billion in resources depends on successful resolution of the litigation or release of the moneys currently held in escrow. Under current law, the General Fund is required to finance any shortfall in HCRA up to the payment that would have been received by HCRA absent the securitization of tobacco proceeds (roughly \$450 million annually). In addition, a statutory loan repayment provision requires the General Fund to provide up to \$200 million to cover any additional HCRA shortfall.

Other litigation includes ongoing claims by several Indian Nations alleging wrongful possession of lands by the State and several counties, as well as claims involving the adequacy of shelter allowances for families on public assistance. The State has implemented a court-ordered increase in the shelter allowance schedule for public assistance families that became effective on November 1, 2003. However, the plaintiffs are challenging the adequacy of the increase and thus further Court proceedings are pending.

Federal

The Federal government is currently auditing Medicaid claims submitted since 1993 under the school supportive health services program. At this point, the Federal government has not finalized

audits, and, as a result, the liability of the State and school districts for any disallowances cannot be determined. Federal regulations include an appeals process that could postpone repayment of any disallowances. The Financial Plan assumes the Federal government will fully reimburse these claims.

In addition, through June 2004, a portion of Federal Medicaid payments related to school supportive health services has been deferred by the Federal Centers for Medicare and Medicaid Services pending finalization of audits. Since the State has continued to reimburse school districts for these costs, these Federal deferrals, if not resolved, could negatively impact future health care spending.

The State continues to await Federal approval of the State Plan Amendment (SPA) for both GME payments and a retroactive HCRA surcharge, which is needed to achieve roughly \$150 million in resources counted on in the HCRA Financial Plan. In addition, the State has complied with a request from the CMS to discontinue intergovernmental transfers (IGT) payments on March 31, 2005 pending the submission and approval of a SPA. These payments are related to disproportionate share hospital (DSH) payments to public hospitals throughout the State, including the New York City Health and Hospital Corporation (HHC), SUNY and other State and county operated hospitals. Failure of the Federal government to approve a SPA to reestablish these payments in 2005-06 could have an adverse impact on the State's health care financing system.

CASH FLOW⁷

In 2005-06, the General Fund is projected to have quarterly-ending balances of \$2.0 billion in June 2005, \$2.8 billion in September 2005, \$2 billion by the end of December 2005, and \$1.2 billion at the end of March 2006. The lowest projected month-end cash flow balance is \$1.3 billion in November. The 2005-06 General Fund cash flow estimates assume enactment of all Executive Budget recommendations, and that the budget is enacted on time. DOB's monthly cash flow projections for 2005-06 are set forth in the section "Financial Plan Tables" later in this Overview.

OSC invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments through STIP, which is comprised of joint custody funds (Governmental Funds, Internal Service Funds, Enterprise Funds and Private Purpose Trust Funds), as well as several sole custody funds including the Tobacco Settlement Fund.

OSC is authorized to make temporary loans from STIP to cover temporary cash shortfalls in certain funds and accounts resulting from the timing of receipts and disbursements. The Legislature authorizes the funds and accounts that may receive loans each year, based on legislation submitted with the Executive Budget. Loans may be granted only for amounts that the Director of the Budget certifies are "receivable on account" or can be repaid from the current operating receipts of the fund (i.e., loans cannot be granted in expectation of future revenue enhancements).

Consistent with the Governor's budget reform proposal, the DOB has summarized actual cash flow expenses for the period from April 1, 2004 through December 31, 2004 against the estimates in the 2004-05 Enacted Budget, the 2004-05 Mid-Year Update, and actual results for the same nine-month period in 2003.

⁷ Unaudited cashflow results as prepared and reported by DOB.

Actual Results through December (Comparison of 2003 to 2004)

Cash Flow			
April 1 through December 31 (Actuals)			
(millions of dollars)			
	2003	2004	Variance
Receipts	31,647	31,599	(48)
Disbursements	29,450	30,140	(690)
Closing Fund Balance	3,012	2,536	(476)

General Fund receipts from April 1, 2004 through December 31, 2004 totaled \$31.6 billion, a decrease of \$48 million from the same period in 2003. This decrease is comprised of the loss on nonrecurring resources related to tobacco securitization proceeds (\$3.2 billion) and Federal revenue sharing grants (\$645 million) offset by sales and personal income tax temporary rate increases implemented as part of the 2003-04 Enacted Budget. Taxes grew by nearly 14 percent over this period, recovering most of the loss of one-time resources.

General Fund disbursements through December 31, 2004 were \$30.1 billion, an increase of \$690 million from the same period in 2003. After adjusting for the deferral of \$1.9 million in payments that were scheduled in 2002-03 but made in 2003-04 related to the State's tobacco securitization, total disbursements increased by \$2.6 billion. This increase is attributable primarily to higher costs for Medicaid (\$711 million), pensions and employee health insurance (\$420 million), debt service (\$265 million), State operations including salary increases and inflation (\$232 million), school aid (\$158 million), and welfare (\$137 million), as well as delayed reimbursement for capital projects spending from General Obligation bond proceeds (\$127 million).

The closing balance on December 31, 2004 was \$2.5 billion, a decrease of \$476 million from December 31, 2003. This decrease is primarily due to lower receipts of \$48 million and higher disbursements of \$690 million, offset by an increase in the opening fund balance of \$262 million comprised of \$177 million in the Community Projects Fund, \$84 million in the Tax Stabilization Reserve Fund, and \$1 million in the Contingency Reserve Fund. The receipts and disbursements variances are described in more detail below.

Actual Results vs. Mid-Year Projections (April through December)

Cash Flow			
April 1 through December 31 (Mid-Year vs. Actuals)			
(millions of dollars)			
	Mid-Year	Actuals	Variance
Receipts	31,005	31,599	594
Disbursements	30,288	30,140	148
Closing Fund Balance	1,834	2,536	702

Actual General Fund receipts through December 2004 were \$594 million higher than the Mid-Year Update projections, due primarily to better than anticipated tax collections as a result of a rapidly improving economy. Most of the change was concentrated in the personal income tax and the real estate transfer tax reflecting a robust real estate market and significant growth in non-wage income.

Total General Fund disbursements from April 1 through December 31, 2004 were \$148 million lower than the Mid-Year Update primarily due to slower-than-projected payments of school aid categorical and LADDER programs (\$128 million).

The closing balance on December 31, 2004 was \$2.5 billion, an increase of \$702 million from the the Mid-Year projection. This increase results from higher receipts of \$594 million and lower spending of \$148 million, offset by other fund balance changes.

Actual Results vs. Enacted Budget Projections (April through December)

Cash Flow			
April 1 through December 31 (Enacted vs. Actuals)			
(millions of dollars)			
	Enacted	Actuals	Variance
Receipts	30,739	31,599	860
Disbursements	30,651	30,140	511
Closing Fund Balance	1,325	2,536	1,211

General Fund receipts from April 1 through December 31, 2004 were \$860 million higher than the Enacted Budget projections due primarily to the better than expected results described above in the Mid-Year Update Comparison section.

Total General Fund disbursements through December 2004 were \$511 million lower than the Enacted Budget due primarily to slower-than-projected payments of school aid categorical and LADDER programs, as well as higher education and all other education programs (\$180 million), slower than anticipated capital projects spending for education (\$110 million) and wireless E-911 projects (\$50 million), and lower State Operations spending due to earlier than projected receipt of Mental Hygiene revenues used to offset spending (\$190 million).

The closing balance on December 31, 2004 is \$2.5 billion, an increase of \$1.2 billion from the projection published in the Enacted Budget. This increase results from higher receipts of \$860 million and lower spending of \$511 million, offset by other fund balance changes.

GAAP-BASIS FINANCIAL PLANS

In addition to the cash-basis Financial Plans, the General Fund and All Funds Financial Plans are prepared on a GAAP basis in accordance with Governmental Accounting Standards Board (GASB) regulations. Tables comparing the cash basis and GAAP basis General Fund Financial Plans are provided at the end of this Overview. The GAAP projections for both years are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2003-04. The GAAP projections reflect the impact of GASB Statement 34, which has significantly changed the presentation of GAAP financial information for State and local governments. The changes are intended to portray the State's net overall financial condition, including activities that affect State assets and liabilities during the fiscal year. The GASB 34 results for 2003-04 show the State in a net positive overall financing condition of \$39.1 billion.

In 2004-05, the General Fund GAAP Financial Plan shows total revenues of \$36.6 billion, total expenditures of \$45.9 billion, and net other financing sources of \$8.5 billion, resulting in an operating deficit of \$786 million and a projected accumulated deficit of \$1.1 billion. This operating result reflects the use of the 2003-04 surplus and the remaining tobacco resources in 2004-05.

In 2005-06, the General Fund GAAP Financial Plan shows total revenues of \$37.9 billion, total expenditures of \$46.8 billion, and net other financing sources of \$8.8 billion, resulting in an operating deficit of \$123 million and a projected accumulated deficit of \$1.2 billion. These changes are due primarily to the use of the 2004-05 cash surplus in 2005-06.

The accumulated deficit of \$1.2 billion at the end of 2005-06 is an improvement of \$189 million from the 2003-04 actual results.

**CASH FINANCIAL PLAN
GENERAL FUND
2004-2005
(millions of dollars)**

	<u>Mid-Year</u>	<u>Change</u>	<u>January</u>
Opening fund balance	<u>1,077</u>	<u>0</u>	<u>1,077</u>
Receipts:			
Taxes:			
Personal income tax	18,716	216	18,932
User taxes and fees	8,679	73	8,752
Business taxes	3,714	50	3,764
Other taxes	764	(34)	730
Miscellaneous receipts	2,347	(54)	2,293
Federal grants	6	2	8
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,713	129	5,842
Sales tax in excess of LGAC debt service	2,158	13	2,171
Real estate taxes in excess of CW/CA debt service	411	109	520
All other transfers	506	(2)	504
Total receipts	<u>43,014</u>	<u>502</u>	<u>43,516</u>
Disbursements:			
Grants to local governments	29,482	175	29,657
State operations	7,625	(18)	7,607
General State charges	3,615	50	3,665
Transfers to other funds:			
Debt service	1,733	(1)	1,732
Capital projects	194	4	198
Other purposes	539	9	548
Total disbursements	<u>43,188</u>	<u>219</u>	<u>43,407</u>
Fiscal Management Plan (1)	<u>224</u>	<u>(224)</u>	<u>0</u>
Change in fund balance	<u>50</u>	<u>59</u>	<u>109</u>
Closing fund balance	<u>1,127</u>	<u>59</u>	<u>1,186</u>
Tax Stabilization Reserve Fund	794	70	864
Contingency Reserve Fund	21	0	21
Community Project Fund	312	(11)	301

(1) A total of \$161 million in Fiscal Management Plan savings was achieved, and is reflected in the revised January spending estimates.

Source: NYS DOB

**CASH FINANCIAL PLAN
GENERAL FUND ADJUSTED
2004-2005
(millions of dollars)**

	<u>January</u>	<u>Adjusted</u>	<u>January Adjusted</u>
Opening fund balance	<u>1,077</u>	<u>0</u>	<u>1,077</u>
Receipts:			
Taxes:			
Personal income tax	18,932	0	18,932
User taxes and fees	8,752	0	8,752
Business taxes	3,764	0	3,764
Other taxes	730	0	730
Miscellaneous receipts	2,293	508	2,801
Federal grants	8	0	8
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,842	0	5,842
Sales tax in excess of LGAC debt service	2,171	0	2,171
Real estate taxes in excess of CW/CA debt service	520	0	520
All other	504	0	504
Total receipts	<u>43,516</u>	<u>508</u>	<u>44,024</u>
Disbursements:			
Grants to local governments	29,657	508	30,165
State operations	7,607	0	7,607
General State charges	3,665	0	3,665
Transfers to other funds:			
Debt service	1,732	0	1,732
Capital projects	198	0	198
Other purposes	548	0	548
Total disbursements	<u>43,407</u>	<u>508</u>	<u>43,915</u>
Fiscal Management Plan	<u>0</u>	<u>0</u>	<u>0</u>
Change in fund balance	<u>109</u>	<u>0</u>	<u>109</u>
Closing fund balance	<u>1,186</u>	<u>0</u>	<u>1,186</u>
Tax Stabilization Reserve Fund	864	0	864
Contingency Reserve Fund	21	0	21
Community Project Fund	301	0	301

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

Source: NYS DOB

**CASH FINANCIAL PLAN
GENERAL FUND
2004-2005 ADJUSTED AND 2005-2006
(millions of dollars)**

	<u>2004-2005 January Adjusted</u>	<u>2005-2006 Recommended</u>	<u>Annual Adjusted Change</u>
Opening fund balance	<u>1,077</u>	<u>1,186</u>	<u>109</u>
Receipts:			
Taxes:			
Personal income tax	18,932	19,844	912
User taxes and fees	8,752	8,622	(130)
Business taxes	3,764	4,066	302
Other taxes	730	778	48
Miscellaneous receipts	2,801	2,451	(350)
Federal grants	8	4	(4)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,842	6,129	287
Sales tax in excess of LGAC debt service	2,171	2,300	129
Real estate taxes in excess of CW/CA debt service	520	510	(10)
All other	504	387	(117)
Total receipts	<u>44,024</u>	<u>45,091</u>	<u>1,067</u>
Disbursements:			
Grants to local governments	30,165	30,619	454
State operations	7,607	8,055	448
General State charges	3,665	3,889	224
Transfers to other funds:			
Debt service	1,732	1,666	(66)
Capital projects	198	219	21
Other purposes	548	627	79
Total disbursements	<u>43,915</u>	<u>45,075</u>	<u>1,160</u>
Change in fund balance	<u>109</u>	<u>16</u>	<u>(93)</u>
Closing fund balance	<u>1,186</u>	<u>1,202</u>	<u>16</u>
Tax Stabilization Reserve Fund	864	864	0
Contingency Reserve Fund	21	21	0
Community Project Fund	301	317	16

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

Source: NYS DOB

GENERAL FUND
2004-2005 AND 2005-2006
(millions of dollars)

	<u>2004-2005</u> <u>January</u>	<u>2005-2006</u> <u>Recommended</u>	<u>Annual</u> <u>Change</u>
Opening fund balance	<u>1,077</u>	<u>1,186</u>	<u>109</u>
Receipts:			
Taxes:			
Personal income tax	18,932	19,844	912
User taxes and fees	8,752	8,622	(130)
Business taxes	3,764	4,066	302
Other taxes	730	778	48
Miscellaneous receipts	2,293	2,451	158
Federal grants	8	4	(4)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,842	6,129	287
Sales tax in excess of LGAC debt service	2,171	2,300	129
Real estate taxes in excess of CW/CA debt service	520	510	(10)
All other	504	387	(117)
Total receipts	<u>43,516</u>	<u>45,091</u>	<u>1,575</u>
Disbursements:			
Grants to local governments	29,657	30,619	962
State operations	7,607	8,055	448
General State charges	3,665	3,889	224
Transfers to other funds:			
Debt service	1,732	1,666	(66)
Capital projects	198	219	21
Other purposes	548	627	79
Total disbursements	<u>43,407</u>	<u>45,075</u>	<u>1,668</u>
Change in fund balance	<u>109</u>	<u>16</u>	<u>(93)</u>
Closing fund balance	<u>1,186</u>	<u>1,202</u>	<u>16</u>
Tax Stabilization Reserve Fund	864	864	0
Contingency Reserve Fund	21	21	0
Community Project Fund	301	317	16

Source: NYS DOB

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

	<u>2005-2006 Recommended</u>	<u>2006-2007 Projected</u>	<u>2007-2008 Projected</u>
Receipts:			
Taxes:			
Personal income tax	19,844	20,419	21,865
User taxes and fees	8,622	8,829	9,166
Business taxes	4,066	4,176	4,315
Other taxes	778	872	920
Miscellaneous receipts	2,451	2,504	4,560
Federal grants	4	4	4
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,129	6,208	6,515
Sales tax in excess of LGAC debt service	2,300	2,377	2,473
Real estate taxes in excess of CW/CA debt service	510	517	525
All other	387	223	217
Total receipts	<u>45,091</u>	<u>46,129</u>	<u>50,560</u>
Disbursements:			
Grants to local governments	30,619	32,995	36,921
State operations	8,055	8,809	9,250
General State charges	3,889	4,654	4,845
Transfers to other funds:			
Debt service	1,666	1,679	1,648
Capital projects	219	234	231
Other purposes	627	609	617
Total disbursements	<u>45,075</u>	<u>48,980</u>	<u>53,512</u>
Deposit to/(use of) Community Projects Fund	<u>16</u>	<u>(150)</u>	<u>(167)</u>
Margin	<u>0</u>	<u>(2,701)</u>	<u>(2,785)</u>

Source: NYS DOB

**GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2003-2004 THROUGH 2005-2006
(millions of dollars)**

	<u>2003-2004 Actual</u>	<u>2004-2005 Estimated</u>	<u>2005-2006 Recommended</u>
Withholdings	21,986	23,032	24,174
Estimated Payments	5,159	7,008	7,511
Final Payments	1,313	1,610	1,947
Delinquencies	<u>631</u>	<u>600</u>	<u>675</u>
Gross Collections	29,089	32,250	34,307
State/City Offset	(261)	(343)	(300)
Refund Reserve	(597)	531	134
Refunds	<u>(4,181) (1)</u>	<u>(4,300) (2)</u>	<u>(4,525) (3)</u>
Reported Tax Collections	24,050	28,138	29,616
STAR	(2,819)	(3,072)	(3,202)
RBTF	<u>(5,457)</u>	<u>(6,134)</u>	<u>(6,570)</u>
General Fund	<u><u>15,774</u></u>	<u><u>18,932</u></u>	<u><u>19,844</u></u>

Net personal income tax collections are affected by transactions in the tax refund reserve account. The tax refund reserve account is used to hold moneys designated to pay tax refunds. The Comptroller deposits receipts into this account at the discretion of the Commissioner of Taxation and Finance. The deposit of moneys into the account during a fiscal year has the effect of reducing receipts for the fiscal year, and the withdrawal of moneys from the account has the effect of increasing receipts in the fiscal year of withdrawal. The tax refund reserve account also includes amounts made available as a result of the LGAC financing program. Beginning in 1998-99, a portion of personal income tax collections is deposited directly in the School Tax Reduction (STAR) fund and used to make payments to reimburse local governments for their revenue decreases due to the STAR program.

Note 1: Reflects the payment of the balance of refunds on 2002 liability and payment of \$960 million of calendar year 2003 refunds in the last quarter of the State's 2003-04 fiscal year and a balance in the Tax Refund Reserve Account of \$1,225 million.

Note 2: Reflects the payment of the balance of refunds on 2003 liability and the projected payment of \$960 million of calendar year 2004 refunds in the last quarter of the State's 2004-05 fiscal year and a projected balance in the Tax Refund Reserve Account of \$693 million.

Note 3: Reflects the payment of the balance of refunds on 2004 liability and the projected payment of \$960 million of calendar year 2005 refunds in the last quarter of the State's 2005-06 fiscal year and a projected balance in the Tax Refund Reserve Account of \$559 million.

Sources: NYS DOB.

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	815	1,230	(558)	158	1,645
Receipts:					
Taxes	27,934	4,442	1,756	8,122	42,254
Miscellaneous receipts	5,917	10,372	2,162	810	19,261
Federal grants	654	0	0	0	654
Total receipts	<u>34,505</u>	<u>14,814</u>	<u>3,918</u>	<u>8,932</u>	<u>62,169</u>
Disbursements:					
Grants to local governments	29,246	10,399	290	0	39,935
State operations	7,093	4,497	0	9	11,599
General State charges	3,247	424	0	0	3,671
Debt service	0	0	0	3,351	3,351
Capital projects	0	3	2,774	0	2,777
Total disbursements	<u>39,586</u>	<u>15,323</u>	<u>3,064</u>	<u>3,360</u>	<u>61,333</u>
Other financing sources (uses):					
Transfers from other funds	7,822	994	254	4,794	13,864
Transfers to other funds	(2,479)	(12)	(1,026)	(10,350)	(13,867)
Bond and note proceeds	0	0	140	0	140
Net other financing sources (uses)	<u>5,343</u>	<u>982</u>	<u>(632)</u>	<u>(5,556)</u>	<u>137</u>
Change in fund balance	<u>262</u>	<u>473</u>	<u>222</u>	<u>16</u>	<u>973</u>
Closing fund balance	<u>1,077</u>	<u>1,703</u>	<u>(336)</u>	<u>174</u>	<u>2,618</u>

Source: NYS DOB

**CASH FINANCIAL PLAN
STATE FUNDS
2004-2005 ADJUSTED
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	<u>1,077</u>	<u>1,703</u>	<u>(336)</u>	<u>174</u>	<u>2,618</u>
Receipts:					
Taxes	32,178	5,396	1,823	9,242	48,639
Miscellaneous receipts	2,801	11,253	1,677	647	16,378
Federal grants	8	1	0	0	9
Total receipts	<u>34,987</u>	<u>16,650</u>	<u>3,500</u>	<u>9,889</u>	<u>65,026</u>
Disbursements:					
Grants to local governments	30,165	11,882	988	0	43,035
State operations	7,607	5,032	0	22	12,661
General State charges	3,665	484	0	0	4,149
Debt service	0	0	0	3,808	3,808
Capital projects	0	1	1,916	0	1,917
Total disbursements	<u>41,437</u>	<u>17,399</u>	<u>2,904</u>	<u>3,830</u>	<u>65,570</u>
Other financing sources (uses):					
Transfers from other funds	9,037	762	233	5,221	15,253
Transfers to other funds	(2,478)	(400)	(1,038)	(11,286)	(15,202)
Bond and note proceeds	0	0	193	0	193
Net other financing sources (uses)	<u>6,559</u>	<u>362</u>	<u>(612)</u>	<u>(6,065)</u>	<u>244</u>
Change in fund balance	<u>109</u>	<u>(387)</u>	<u>(16)</u>	<u>(6)</u>	<u>(300)</u>
Closing fund balance	<u>1,186</u>	<u>1,316</u>	<u>(352)</u>	<u>168</u>	<u>2,318</u>

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

Source: NYS DOB

**CASH FINANCIAL PLAN
STATE FUNDS
2004-2005
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	<u>1,077</u>	<u>1,703</u>	<u>(336)</u>	<u>174</u>	<u>2,618</u>
Receipts:					
Taxes	32,178	4,835	1,823	9,242	48,078
Miscellaneous receipts	2,293	10,889	1,677	647	15,506
Federal grants	8	1	0	0	9
Total receipts	<u>34,479</u>	<u>15,725</u>	<u>3,500</u>	<u>9,889</u>	<u>63,593</u>
Disbursements:					
Grants to local governments	29,657	10,957	988	0	41,602
State operations	7,607	5,032	0	22	12,661
General State charges	3,665	484	0	0	4,149
Debt service	0	0	0	3,808	3,808
Capital projects	0	1	1,916	0	1,917
Total disbursements	<u>40,929</u>	<u>16,474</u>	<u>2,904</u>	<u>3,830</u>	<u>64,137</u>
Other financing sources (uses):					
Transfers from other funds	9,037	762	233	5,221	15,253
Transfers to other funds	(2,478)	(400)	(1,038)	(11,286)	(15,202)
Bond and note proceeds	0	0	193	0	193
Net other financing sources (uses)	<u>6,559</u>	<u>362</u>	<u>(612)</u>	<u>(6,065)</u>	<u>244</u>
Change in fund balance	<u>109</u>	<u>(387)</u>	<u>(16)</u>	<u>(6)</u>	<u>(300)</u>
Closing fund balance	<u>1,186</u>	<u>1,316</u>	<u>(352)</u>	<u>168</u>	<u>2,318</u>

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,186	1,316	(352)	168	2,318
Receipts:					
Taxes	33,310	5,659	1,855	9,833	50,657
Miscellaneous receipts	2,451	13,326	1,776	656	18,209
Federal grants	4	1	0	0	5
Total receipts	<u>35,765</u>	<u>18,986</u>	<u>3,631</u>	<u>10,489</u>	<u>68,871</u>
Disbursements:					
Grants to local governments	30,619	13,638	949	0	45,206
State operations	8,055	5,336	0	26	13,417
General State charges	3,889	558	0	0	4,447
Debt service	0	0	0	3,842	3,842
Capital projects	0	2	2,174	0	2,176
Total disbursements	<u>42,563</u>	<u>19,534</u>	<u>3,123</u>	<u>3,868</u>	<u>69,088</u>
Other financing sources (uses):					
Transfers from other funds	9,326	880	257	5,212	15,675
Transfers to other funds	(2,512)	(304)	(928)	(11,833)	(15,577)
Bond and note proceeds	0	0	185	0	185
Net other financing sources (uses)	<u>6,814</u>	<u>576</u>	<u>(486)</u>	<u>(6,621)</u>	<u>283</u>
Change in fund balance	<u>16</u>	<u>28</u>	<u>22</u>	<u>0</u>	<u>66</u>
Closing fund balance	<u>1,202</u>	<u>1,344</u>	<u>(330)</u>	<u>168</u>	<u>2,384</u>

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>
Opening fund balance	0	1,344	(330)	168	1,182
Receipts:					
Taxes	34,296	5,971	2,008	10,203	52,478
Miscellaneous receipts	2,504	12,586	2,149	665	17,904
Federal grants	4	1	0	0	5
Total receipts	<u>36,804</u>	<u>18,558</u>	<u>4,157</u>	<u>10,868</u>	<u>70,387</u>
Disbursements:					
Grants to local governments	32,995	13,912	811	0	47,718
State operations	8,809	5,408	0	23	14,240
General State charges	4,654	596	0	0	5,250
Debt service	0	0	0	4,156	4,156
Capital projects	0	1	2,914	0	2,915
Total disbursements	<u>46,458</u>	<u>19,917</u>	<u>3,725</u>	<u>4,179</u>	<u>74,279</u>
Other financing sources (uses):					
Transfers from other funds	9,325	817	274	5,098	15,514
Transfers to other funds	(2,522)	(202)	(901)	(11,792)	(15,417)
Bond and note proceeds	0	0	161	0	161
Net other financing sources (uses)	<u>6,803</u>	<u>615</u>	<u>(466)</u>	<u>(6,694)</u>	<u>258</u>
Deposit to/(use of) Community Projects Fund	<u>(150)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(150)</u>
Change in fund balance	<u>(2,701)</u>	<u>(744)</u>	<u>(34)</u>	<u>(5)</u>	<u>(3,484)</u>
Closing fund balance	<u>(2,701)</u>	<u>600</u>	<u>(364)</u>	<u>163</u>	<u>(2,302)</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>
Opening fund balance	0	600	(364)	163	399
Receipts:					
Taxes	36,266	6,235	2,033	10,814	55,348
Miscellaneous receipts	4,560	13,279	2,584	671	21,094
Federal grants	4	1	0	0	5
Total receipts	<u>40,830</u>	<u>19,515</u>	<u>4,617</u>	<u>11,485</u>	<u>76,447</u>
Disbursements:					
Grants to local governments	36,921	15,025	743	0	52,689
State operations	9,250	5,478	0	23	14,751
General State charges	4,845	629	0	0	5,474
Debt service	0	0	0	4,443	4,443
Capital projects	0	1	3,335	0	3,336
Total disbursements	<u>51,016</u>	<u>21,133</u>	<u>4,078</u>	<u>4,466</u>	<u>80,693</u>
Other financing sources (uses):					
Transfers from other funds	9,730	829	273	5,167	15,999
Transfers to other funds	(2,496)	(203)	(1,007)	(12,185)	(15,891)
Bond and note proceeds	0	0	157	0	157
Net other financing sources (uses)	<u>7,234</u>	<u>626</u>	<u>(577)</u>	<u>(7,018)</u>	<u>265</u>
Deposit to/(use of) Community Projects Fund	<u>(167)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(167)</u>
Change in fund balance	<u>(2,785)</u>	<u>(992)</u>	<u>(38)</u>	<u>1</u>	<u>(3,814)</u>
Closing fund balance	<u>(2,785)</u>	<u>(392)</u>	<u>(402)</u>	<u>164</u>	<u>(3,415)</u>

Source: NYS DOB

**CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2003-2004
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	815	1,039	(790)	158	1,222
Receipts:					
Taxes	27,934	4,442	1,756	8,122	42,254
Miscellaneous receipts	5,917	10,517	2,168	810	19,412
Federal grants	654	35,121	1,548	0	37,323
Total receipts	<u>34,505</u>	<u>50,080</u>	<u>5,472</u>	<u>8,932</u>	<u>98,989</u>
Disbursements:					
Grants to local governments	29,246	41,368	781	0	71,395
State operations	7,093	7,866	0	9	14,968
General State charges	3,247	601	0	0	3,848
Debt service	0	0	0	3,351	3,351
Capital projects	0	8	3,756	0	3,764
Total disbursements	<u>39,586</u>	<u>49,843</u>	<u>4,537</u>	<u>3,360</u>	<u>97,326</u>
Other financing sources (uses):					
Transfers from other funds	7,822	3,447	254	4,794	16,317
Transfers to other funds	(2,479)	(2,539)	(1,028)	(10,350)	(16,396)
Bond and note proceeds	0	0	140	0	140
Net other financing sources (uses)	<u>5,343</u>	<u>908</u>	<u>(634)</u>	<u>(5,556)</u>	<u>61</u>
Change in fund balance	<u>262</u>	<u>1,145</u>	<u>301</u>	<u>16</u>	<u>1,724</u>
Closing fund balance	<u>1,077</u>	<u>2,184</u>	<u>(489)</u>	<u>174</u>	<u>2,946</u>

Source: NYS DOB.

**CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2004-2005 ADJUSTED
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	1,077	2,184	(489)	174	2,946
Receipts:					
Taxes	32,178	5,396	1,823	9,242	48,639
Miscellaneous receipts	2,801	11,378	1,677	647	16,503
Federal grants	8	35,634	1,778	0	37,420
Total receipts	<u>34,987</u>	<u>52,408</u>	<u>5,278</u>	<u>9,889</u>	<u>102,562</u>
Disbursements:					
Grants to local governments	30,165	44,013	1,200	0	75,378
State operations	7,607	8,396	0	22	16,025
General State charges	3,665	688	0	0	4,353
Debt service	0	0	0	3,808	3,808
Capital projects	0	2	3,474	0	3,476
Total disbursements	<u>41,437</u>	<u>53,099</u>	<u>4,674</u>	<u>3,830</u>	<u>103,040</u>
Other financing sources (uses):					
Transfers from other funds	9,037	3,182	233	5,221	17,673
Transfers to other funds	(2,478)	(2,923)	(1,047)	(11,286)	(17,734)
Bond and note proceeds	0	0	193	0	193
Net other financing sources (uses)	<u>6,559</u>	<u>259</u>	<u>(621)</u>	<u>(6,065)</u>	<u>132</u>
Change in fund balance	<u>109</u>	<u>(432)</u>	<u>(17)</u>	<u>(6)</u>	<u>(346)</u>
Closing fund balance	<u>1,186</u>	<u>1,752</u>	<u>(506)</u>	<u>168</u>	<u>2,600</u>

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

Source: NYS DOB

**CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2004-2005
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	1,077	2,184	(489)	174	2,946
Receipts:					
Taxes	32,178	4,835	1,823	9,242	48,078
Miscellaneous receipts	2,293	11,014	1,677	647	15,631
Federal grants	8	35,634	1,778	0	37,420
Total receipts	<u>34,479</u>	<u>51,483</u>	<u>5,278</u>	<u>9,889</u>	<u>101,129</u>
Disbursements:					
Grants to local governments	29,657	43,088	1,200	0	73,945
State operations	7,607	8,396	0	22	16,025
General State charges	3,665	688	0	0	4,353
Debt service	0	0	0	3,808	3,808
Capital projects	0	2	3,474	0	3,476
Total disbursements	<u>40,929</u>	<u>52,174</u>	<u>4,674</u>	<u>3,830</u>	<u>101,607</u>
Other financing sources (uses):					
Transfers from other funds	9,037	3,182	233	5,221	17,673
Transfers to other funds	(2,478)	(2,923)	(1,047)	(11,286)	(17,734)
Bond and note proceeds	0	0	193	0	193
Net other financing sources (uses)	<u>6,559</u>	<u>259</u>	<u>(621)</u>	<u>(6,065)</u>	<u>132</u>
Change in fund balance	<u>109</u>	<u>(432)</u>	<u>(17)</u>	<u>(6)</u>	<u>(346)</u>
Closing fund balance	<u>1,186</u>	<u>1,752</u>	<u>(506)</u>	<u>168</u>	<u>2,600</u>

Source: NYS DOB

**CASH DISBURSEMENTS BY FUNCTION
GENERAL FUND
(thousands of dollars)**

	<u>2003-2004 Actual</u>	<u>2004-2005 Estimated</u>	<u>2005-2006 Recommended</u>
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	39,806	41,967	37,426
Alcoholic Beverage Control	0	0	0
Banking Department	0	0	0
Consumer Protection Board	457	385	0
Economic Development, Department of	30,273	38,866	36,449
Empire State Development Corporation	31,810	14,975	67,000
Energy Research and Development Authority	0	0	0
Housing Finance Agency	0	0	0
Housing and Community Renewal, Division of	75,067	67,915	66,599
Insurance Department	0	0	0
Olympic Regional Development Authority	7,400	7,350	7,350
Public Service, Department of	0	0	0
Science, Technology and Academic Research, Office of	31,491	49,132	41,314
Functional Total	<u>216,304</u>	<u>220,590</u>	<u>256,138</u>
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	3,889	4,314	4,408
Environmental Conservation, Department of	97,757	114,805	107,394
Environmental Facilities Corporation	0	0	0
Parks, Recreation and Historic Preservation, Office of	102,502	106,711	107,898
Functional Total	<u>204,148</u>	<u>225,830</u>	<u>219,700</u>
TRANSPORTATION			
Motor Vehicles, Department of	1,025	4,660	0
Thruway Authority	0	0	0
Transportation, Department of	162,507	112,866	103,140
Functional Total	<u>163,532</u>	<u>117,526</u>	<u>103,140</u>
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	828	831	0
Aging, Office for the	68,334	66,040	76,263
Children and Family Services, Office of	1,293,612	1,317,612	1,465,007
Health, Department of	6,980,194	7,635,886	8,191,280
<i>Medical Assistance</i>	6,143,547	6,810,759	7,312,601
<i>Medicaid Administration</i>	124,311	120,150	119,950
<i>All Other</i>	712,336	704,977	758,729
Human Rights, Division of	13,540	13,706	13,142
Labor, Department of	50,219	10,913	4,278
Prevention of Domestic Violence, Office of	1,677	2,134	2,205

CASH DISBURSEMENTS BY FUNCTION
GENERAL FUND
(thousands of dollars)

	2003-2004	2004-2005	2005-2006
	Actual	Estimated	Recommended
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	1,557,967	1,539,754	1,471,219
<i>Welfare Assistance</i>	1,088,966	1,121,796	1,032,908
<i>Welfare Administration</i>	378,024	342,533	359,550
<i>All Other</i>	90,977	75,425	78,761
Welfare Inspector General, Office of	572	736	754
Workers' Compensation Board	0	0	0
Functional Total	9,966,943	10,587,612	11,224,148
MENTAL HEALTH			
Mental Health, Office of	1,150,498	1,324,061	1,332,641
Mental Hygiene, Department of	0	0	0
Mental Retardation and Developmental Disabilities, Office of	688,051	841,810	835,907
Alcohol and Substance Abuse Services, Office of	293,532	279,620	292,952
Developmental Disabilities Planning Council	0	0	0
Quality of Care for the Mentally Disabled, Commission on	2,800	3,019	4,263
Functional Total	2,134,881	2,448,510	2,465,763
PUBLIC PROTECTION			
Capital Defenders Office	12,519	12,694	10,916
Correction, Commission of	2,472	2,511	2,510
Correctional Services, Department of	1,911,860	2,058,339	1,972,922
Crime Victims Board	8,276	2,908	3,314
Criminal Justice Services, Division of	91,636	91,991	175,148
Homeland Security	4,717	10,300	5,219
Investigation, Temporary State Commission of	2,953	3,326	3,463
Judicial Commissions	2,298	2,604	2,703
Military and Naval Affairs, Division of	53,791	26,083	23,817
Parole, Division of	185,480	178,855	181,052
Probation and Correctional Alternatives, Division of	77,218	75,546	0
Public Security, Office of	0	0	0
State Police, Division of	367,771	331,786	350,035
Functional Total	2,720,991	2,796,943	2,731,099
EDUCATION			
Arts, Council on the	45,255	44,672	42,705
City University of New York	952,406	744,515	899,649
Education, Department of	15,042,113	14,395,289	14,705,411
<i>School Aid</i>	13,685,258	12,907,149	13,227,650
<i>STAR Property Tax Relief</i>	0	0	0
<i>Handicapped</i>	750,298	858,359	907,473
<i>All Other</i>	606,557	629,781	570,288
Higher Education Services Corporation	584,591	926,532	828,937
State University Construction Fund	0	0	0
State University of New York	1,232,735	1,293,028	1,261,673
Functional Total	17,857,100	17,404,036	17,738,375

**CASH DISBURSEMENTS BY FUNCTION
GENERAL FUND
(thousands of dollars)**

	<u>2003-2004 Actual</u>	<u>2004-2005 Estimated</u>	<u>2005-2006 Recommended</u>
GENERAL GOVERNMENT			
Audit and Control, Department of	146,318	166,966	164,467
Budget, Division of the	23,011	28,500	28,185
Civil Service, Department of	19,399	21,241	24,199
Elections, State Board of	3,356	3,711	3,594
Employee Relations, Office of	3,276	3,564	3,580
Executive Chamber	12,451	15,629	15,480
General Services, Office of	114,351	119,891	144,686
Inspector General, Office of	4,404	4,303	4,579
Law, Department of	110,553	115,511	116,937
Lieutenant Governor, Office of the	358	487	485
Lottery, Division of	0	0	0
Racing and Wagering Board, State	0	0	108,000
Real Property Services, Office of	27,612	25,716	21,197
Regulatory Reform, Governor's Office of	3,227	3,472	3,554
State Labor Relations Board	3,229	3,412	4,019
State, Department of	19,418	19,120	14,922
Tax Appeals, Division of	2,676	2,812	2,994
Taxation and Finance, Department of	308,508	309,599	306,876
Technology, Office for	32,737	20,197	20,076
TSC Lobbying	929	1,036	909
Veterans Affairs, Division of	10,019	10,973	11,404
Functional Total	<u>845,832</u>	<u>876,140</u>	<u>1,000,143</u>
ALL OTHER CATEGORIES			
Legislature	200,752	200,679	206,672
Judiciary (excluding fringe benefits)	1,282,759	1,349,800	1,402,500
World Trade Center	0	0	0
Local Government Assistance	824,372	972,661	1,023,650
Long-Term Debt Service	1,473,720	1,731,820	1,665,731
Capital Projects	228,582	197,885	219,157
General State Charges/Miscellaneous	3,945,815	4,276,943	4,818,934
Functional Total	<u>7,956,000</u>	<u>8,729,788</u>	<u>9,336,644</u>
TOTAL GENERAL FUND SPENDING	<u>42,065,731</u>	<u>43,406,975</u>	<u>45,075,150</u>

Source: NYS DOB

CASH DISBURSEMENTS BY FUNCTION
STATE FUNDS
(thousands of dollars)

	<u>2003-2004</u> Actual	<u>2004-2005</u> Estimated	<u>2005-2006</u> Recommended
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	58,397	70,761	66,422
Alcoholic Beverage Control	10,501	10,446	11,471
Banking Department	55,390	59,923	80,331
Consumer Protection Board	3,113	2,438	2,575
Economic Development, Department of	131,873	207,639	328,769
Empire State Development Corporation	52,074	36,975	264,200
Energy Research and Development Authority	29,557	26,123	26,006
Housing Finance Agency	0	0	0
Housing and Community Renewal, Division of	183,013	188,857	178,914
Insurance Department	105,913	137,349	151,444
Olympic Regional Development Authority	7,575	7,750	7,750
Public Service, Department of	46,086	54,719	55,395
Science, Technology and Academic Research, Office of	34,003	66,620	59,014
Functional Total	<u>717,495</u>	<u>869,600</u>	<u>1,232,291</u>
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	3,889	4,314	4,408
Environmental Conservation, Department of	602,399	727,817	740,791
Environmental Facilities Corporation	6,788	13,744	6,414
Parks, Recreation and Historic Preservation, Office of	191,295	225,026	223,903
Functional Total	<u>804,371</u>	<u>970,901</u>	<u>975,516</u>
TRANSPORTATION			
Motor Vehicles, Department of	188,994	210,963	256,380
Thruway Authority	2,865	4,000	4,000
Transportation, Department of	3,636,705	3,681,077	3,907,598
Functional Total	<u>3,828,564</u>	<u>3,896,040</u>	<u>4,167,978</u>
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	977	1,045	0
Aging, Office for the	68,338	66,051	76,274
Children and Family Services, Office of	1,317,515	1,348,165	1,494,064
Health, Department of	11,165,208	11,792,054	14,599,819
<i>Medical Assistance</i>	8,915,218	9,487,659	11,273,801
<i>Medicaid Administration</i>	124,311	120,150	119,950
<i>All Other</i>	2,125,679	2,184,245	3,206,068
Human Rights, Division of	13,540	13,712	13,148
Labor, Department of	80,675	245,774	255,544
Prevention of Domestic Violence, Office of	1,679	2,164	2,235

**CASH DISBURSEMENTS BY FUNCTION
STATE FUNDS
(thousands of dollars)**

	<u>2003-2004 Actual</u>	<u>2004-2005 Estimated</u>	<u>2005-2006 Recommended</u>
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	1,602,085	1,629,717	1,584,251
<i>Welfare Assistance</i>	1,088,966	1,121,796	1,032,908
<i>Welfare Administration</i>	378,024	342,533	359,550
<i>All Other</i>	135,095	165,388	191,793
Welfare Inspector General, Office of	572	736	754
Workers' Compensation Board	126,458	0	0
Functional Total	<u>14,377,047</u>	<u>15,099,418</u>	<u>18,026,089</u>
MENTAL HEALTH			
Mental Health, Office of	1,463,580	1,620,667	1,625,249
Mental Hygiene, Department of	0	4,750	4,800
Mental Retardation and Developmental Disabilities, Office of	767,467	939,490	951,637
Alcohol and Substance Abuse Services, Office of	315,877	318,303	331,172
Developmental Disabilities Planning Council	0	0	0
Quality of Care for the Mentally Disabled, Commission on	2,800	3,091	4,565
Functional Total	<u>2,549,724</u>	<u>2,886,301</u>	<u>2,917,423</u>
PUBLIC PROTECTION			
Capital Defenders Office	12,519	12,694	10,916
Correction, Commission of	2,472	2,511	2,510
Correctional Services, Department of	2,096,719	2,233,344	2,162,427
Crime Victims Board	28,677	30,480	30,890
Criminal Justice Services, Division of	97,473	112,399	197,109
Homeland Security	25,769	26,104	16,233
Investigation, Temporary State Commission of	3,071	3,513	3,652
Judicial Commissions	2,298	2,604	2,703
Military and Naval Affairs, Division of	69,721	43,143	40,383
Parole, Division of	185,510	178,955	181,152
Probation and Correctional Alternatives, Division of	77,218	75,546	0
Public Security, Office of	0	0	0
State Police, Division of	491,422	475,549	507,587
Functional Total	<u>3,092,869</u>	<u>3,196,842</u>	<u>3,155,562</u>
EDUCATION			
Arts, Council on the	45,355	45,372	43,405
City University of New York	1,220,761	1,027,315	1,361,579
Education, Department of	19,820,369	19,735,281	20,355,999
<i>School Aid</i>	15,561,534	15,090,841	15,548,650
<i>STAR Property Tax Relief</i>	2,819,455	3,072,000	3,202,000
<i>Handicapped</i>	750,298	858,359	907,473
<i>All Other</i>	689,082	714,081	697,876
Higher Education Services Corporation	653,797	1,006,240	917,351
State University Construction Fund	8,184	9,256	10,480
State University of New York	4,324,144	4,657,656	4,807,213
Functional Total	<u>26,072,610</u>	<u>26,481,120</u>	<u>27,496,027</u>

**CASH DISBURSEMENTS BY FUNCTION
STATE FUNDS
(thousands of dollars)**

	<u>2003-2004 Actual</u>	<u>2004-2005 Estimated</u>	<u>2005-2006 Recommended</u>
GENERAL GOVERNMENT			
Audit and Control, Department of	148,963	182,508	240,088
Budget, Division of the	28,955	43,714	43,399
Civil Service, Department of	20,120	22,241	25,199
Elections, State Board of	3,356	3,711	3,594
Employee Relations, Office of	3,298	3,752	3,768
Executive Chamber	12,458	15,729	15,580
General Services, Office of	195,645	213,960	238,013
Inspector General, Office of	5,194	5,605	6,017
Law, Department of	131,137	153,227	155,956
Lieutenant Governor, Office of the	358	487	485
Lottery, Division of	159,224	174,220	177,264
Racing and Wagering Board, State	13,734	16,770	125,902
Real Property Services, Office of	46,108	52,790	51,299
Regulatory Reform, Governor's Office of	3,227	3,472	3,554
State Labor Relations Board	3,262	3,669	4,605
State, Department of	58,716	111,748	110,587
Tax Appeals, Division of	2,676	2,812	2,994
Taxation and Finance, Department of	343,892	345,645	343,506
Technology, Office for	32,737	20,197	20,076
TSC Lobbying	1,044	1,336	1,376
Veterans Affairs, Division of	10,019	10,973	11,404
Functional Total	<u>1,224,123</u>	<u>1,388,566</u>	<u>1,584,666</u>
ALL OTHER CATEGORIES			
Legislature	202,252	201,629	207,622
Judiciary (excluding fringe benefits)	1,426,526	1,538,884	1,596,566
World Trade Center	0	1,375	0
Local Government Assistance	824,372	972,661	1,023,650
Long-Term Debt Service	3,351,303	3,807,373	3,841,998
General State Charges/Miscellaneous	2,861,297	2,826,589	2,863,106
Functional Total	<u>8,665,750</u>	<u>9,348,511</u>	<u>9,532,942</u>
TOTAL STATE FUNDS SPENDING	<u>61,332,553</u>	<u>64,137,299</u>	<u>69,088,494</u>

Source: NYS DOB

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

	<u>2003-2004</u> Actual	<u>2004-2005</u> Estimated	<u>2005-2006</u> Recommended
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	68,780	86,302	81,962
Alcoholic Beverage Control	10,558	10,446	11,471
Banking Department	55,868	59,923	80,331
Consumer Protection Board	3,113	2,438	2,575
Economic Development, Department of	131,877	207,978	329,114
Empire State Development Corporation	52,074	36,975	264,200
Energy Research and Development Authority	29,557	26,123	26,006
Housing Finance Agency	0	0	0
Housing and Community Renewal, Division of	250,348	218,008	208,106
Insurance Department	105,913	137,349	151,444
Olympic Regional Development Authority	7,575	7,750	7,750
Public Service, Department of	47,080	56,259	56,800
Science, Technology and Academic Research, Office of	39,304	72,245	64,639
Functional Total	<u>802,047</u>	<u>921,796</u>	<u>1,284,398</u>
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,207	4,664	4,758
Environmental Conservation, Department of	795,259	910,179	923,971
Environmental Facilities Corporation	6,788	13,744	6,414
Parks, Recreation and Historic Preservation, Office of	196,921	230,253	229,175
Functional Total	<u>1,003,175</u>	<u>1,158,840</u>	<u>1,164,318</u>
TRANSPORTATION			
Motor Vehicles, Department of	203,748	225,512	282,085
Thruway Authority	2,865	4,000	4,000
Transportation, Department of	4,923,094	5,223,558	5,470,221
Functional Total	<u>5,129,707</u>	<u>5,453,070</u>	<u>5,756,306</u>
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	1,213	4,075	0
Aging, Office for the	177,333	175,592	179,963
Children and Family Services, Office of	3,365,235	3,133,154	3,114,406
Health, Department of	31,567,174	33,449,683	36,056,490
<i>Medical Assistance</i>	27,643,723	29,447,466	30,989,058
<i>Medicaid Administration</i>	578,628	577,400	589,500
<i>All Other</i>	3,344,823	3,424,817	4,477,932
Human Rights, Division of	14,067	15,328	15,119
Labor, Department of	882,065	1,017,503	894,781
Prevention of Domestic Violence, Office of	2,063	2,164	2,235

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

	<u>2003-2004</u> <u>Actual</u>	<u>2004-2005</u> <u>Estimated</u>	<u>2005-2006</u> <u>Recommended</u>
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	4,224,108	4,455,430	4,756,977
<i>Welfare Assistance</i>	2,876,620	3,100,802	3,385,656
<i>Welfare Administration</i>	378,024	342,533	359,550
<i>All Other</i>	969,464	1,012,095	1,011,771
Welfare Inspector General, Office of	892	1,106	1,124
Workers' Compensation Board	130,832	755	766
Functional Total	<u>40,364,982</u>	<u>42,254,790</u>	<u>45,021,861</u>
MENTAL HEALTH			
Mental Health, Office of	2,138,308	2,191,254	2,236,667
Mental Hygiene, Department of	1,654	4,750	4,800
Mental Retardation and Developmental Disabilities, Office of	2,623,994	2,816,190	2,922,882
Alcohol and Substance Abuse Services, Office of	474,930	467,249	481,507
Developmental Disabilities Planning Council	3,270	3,739	3,679
Quality of Care for the Mentally Disabled, Commission on	9,722	11,376	13,492
Functional Total	<u>5,251,878</u>	<u>5,494,558</u>	<u>5,663,027</u>
PUBLIC PROTECTION			
Capital Defenders Office	12,519	12,694	10,916
Correction, Commission of	2,503	2,511	2,510
Correctional Services, Department of	2,131,272	2,272,941	2,198,965
Crime Victims Board	63,192	62,059	62,478
Criminal Justice Services, Division of	309,208	302,479	314,199
Homeland Security	25,769	152,804	238,516
Investigation, Temporary State Commission of	3,071	3,513	3,652
Judicial Commissions	2,298	2,604	2,703
Military and Naval Affairs, Division of	1,639,924	127,199	135,722
Parole, Division of	188,005	181,667	182,352
Probation and Correctional Alternatives, Division of	80,814	75,557	0
Public Security, Office of	0	0	0
State Police, Division of	512,740	492,591	511,473
Functional Total	<u>4,971,315</u>	<u>3,688,619</u>	<u>3,663,486</u>
EDUCATION			
Arts, Council on the	45,949	46,003	44,134
City University of New York	1,220,761	1,027,315	1,361,579
Education, Department of	22,969,248	23,167,976	24,075,147
<i>School Aid</i>	15,561,534	17,636,096	18,303,517
<i>STAR Property Tax Relief</i>	2,819,455	3,072,000	3,202,000
<i>Handicapped</i>	1,344,140	1,538,359	1,653,373
<i>All Other</i>	3,244,119	921,521	916,257
Higher Education Services Corporation	881,988	1,016,445	927,845
State University Construction Fund	8,184	9,256	10,480
State University of New York	4,497,866	4,834,556	4,989,413
Functional Total	<u>29,623,996</u>	<u>30,101,551</u>	<u>31,408,598</u>

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

	<u>2003-2004</u> Actual	<u>2004-2005</u> Estimated	<u>2005-2006</u> Recommended
GENERAL GOVERNMENT			
Audit and Control, Department of	148,963	182,508	240,088
Budget, Division of the	28,955	43,714	43,399
Civil Service, Department of	20,148	22,241	25,199
Elections, State Board of	3,356	3,711	151,525
Employee Relations, Office of	3,298	3,752	3,768
Executive Chamber	12,458	15,729	15,580
General Services, Office of	200,233	218,353	242,479
Inspector General, Office of	5,194	5,605	6,017
Law, Department of	149,095	174,910	178,245
Lieutenant Governor, Office of the	358	487	485
Lottery, Division of	159,224	174,220	177,264
Racing and Wagering Board, State	13,734	16,770	125,902
Real Property Services, Office of	46,108	52,790	51,299
Regulatory Reform, Governor's Office of	3,227	3,472	3,554
State Labor Relations Board	3,262	3,669	4,605
State, Department of	125,628	185,816	190,622
Tax Appeals, Division of	2,676	2,812	2,994
Taxation and Finance, Department of	344,957	345,923	343,784
Technology, Office for	32,737	20,197	20,076
TSC Lobbying	1,044	1,336	1,376
Veterans Affairs, Division of	10,953	12,293	12,835
Functional Total	<u>1,315,608</u>	<u>1,490,308</u>	<u>1,841,096</u>
ALL OTHER CATEGORIES			
Legislature	202,252	201,629	207,622
Judiciary (excluding fringe benefits)	1,431,275	1,543,984	1,604,166
World Trade Center	0	1,688,125	149,000
Local Government Assistance	824,372	972,661	1,023,650
Long-Term Debt Service	3,351,303	3,807,373	3,841,998
General State Charges/Miscellaneous	3,054,632	2,829,997	2,897,621
Functional Total	<u>8,863,834</u>	<u>11,043,769</u>	<u>9,724,057</u>
TOTAL ALL GOVERNMENTAL FUNDS SPENDING	<u><u>97,326,542</u></u>	<u><u>101,607,301</u></u>	<u><u>105,527,147</u></u>

Source: NYS DOB

**CASHFLOW
GENERAL FUND
2003-2004
(millions of dollars)**

	First Quarter (Actual)	Second Quarter (Actual)	Third Quarter (Actual)	Fourth Quarter (Actual)	Total (Actual)
Opening fund balance	<u>815</u>	<u>1,989</u>	<u>2,559</u>	<u>3,012</u>	<u>815</u>
Receipts:					
Taxes:					
Personal income tax	4,600	4,131	2,550	4,493	15,774
User taxes and fees	1,820	2,108	2,074	1,977	7,979
Business taxes	650	887	754	1,122	3,413
Other taxes	176	223	223	146	768
Miscellaneous receipts	2,440	360	2,605	512	5,917
Federal grants	325	2	325	2	654
Transfers from other funds					
PIT in excess of Revenue Bond debt service	1,314	1,333	782	1,815	5,244
Sales tax in excess of LGAC debt service	514	507	587	363	1,971
Real estate taxes in excess of CW/CA debt service	77	71	84	75	307
All Other	60	51	14	175	300
Total receipts	<u>11,976</u>	<u>9,673</u>	<u>9,998</u>	<u>10,680</u>	<u>42,327</u>
Disbursements:					
Grants to local governments					
School Aid	4,238	1,405	1,753	6,289	13,685
Medicaid	2,071	1,149	2,068	1,405	6,693
Welfare	(4)	548	426	497	1,467
All Other	1,187	2,157	2,143	1,914	7,401
State operations					
Personal Service	1,709	1,599	1,393	436	5,137
Non-Personal Service	481	486	409	580	1,956
General State charges	546	1,242	729	730	3,247
Transfers to other funds					
Debt service	377	360	447	290	1,474
Capital projects	5	53	104	66	228
Other purposes	192	104	73	408	777
Total disbursements	<u>10,802</u>	<u>9,103</u>	<u>9,545</u>	<u>12,615</u>	<u>42,065</u>
Change in fund balance	<u>1,174</u>	<u>570</u>	<u>453</u>	<u>(1,935)</u>	<u>262</u>
Closing fund balance	<u>1,989</u>	<u>2,559</u>	<u>3,012</u>	<u>1,077</u>	<u>1,077</u>

Source: NYS DOB

Annual Information Statement Update, January 25, 2005

**CASHFLOW
GENERAL FUND
2004-2005
(millions of dollars)**

	April through December 2004 (Actual)	January 2005 (Projected)	February 2005 (Projected)	March 2005 (Projected)	Total
Opening fund balance	1,077	2,536	5,864	6,561	1,077
Receipts:					
Taxes:					
Personal income tax	13,593	3,220	1,767	352	18,932
User taxes and fees	6,637	684	542	889	8,752
Business taxes	2,699	37	43	985	3,764
Other taxes	550	58	61	61	730
Miscellaneous receipts	1,686	172	168	267	2,293
Federal Grants	6	0	0	2	8
Transfers from other funds					
PIT in excess of Revenue Bond debt service	3,943	1,074	589	236	5,842
Sales tax in excess of LGAC debt service	1,789	186	3	193	2,171
Real estate taxes in excess of CW/CA debt service	425	31	26	38	520
All Other	271	46	1	186	504
Total receipts	31,599	5,508	3,200	3,209	43,516
Disbursements:					
Grants to local governments					
School Aid	6,242	297	544	5,824	12,907
Medicaid	5,917	359	640	518	7,434
Welfare	1,061	136	159	108	1,464
All Other	5,511	462	548	1,331	7,852
State operations					
Personal Service	4,836	481	219	79	5,615
Non-Personal Service	1,436	141	167	248	1,992
General State charges	2,951	266	145	303	3,665
Transfers to other funds					
Debt service	1,449	14	28	241	1,732
Capital projects	305	12	41	(160)	198
Other purposes	432	12	12	75	548
Total disbursements	30,140	2,180	2,503	8,567	43,407
Change in fund balance	1,459	3,328	697	(5,358)	109
Closing fund balance	2,536	5,864	6,561	1,203	1,186

Source: NYS DOB

Special Considerations

The Financial Plan is necessarily based upon forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies. DOB believes that its current receipts and spending estimates related to the performance of the State and national economies are reasonable. However, there can be no assurance that actual results will not differ materially and adversely from the current forecast. For a discussion of additional risks to the Financial Plan, see the section entitled “Financial Plan Reserves and Risks” in the extracts from the Financial Plan Overview provided in this AIS Update.

DOB can provide no assurance that the Legislature will adopt a budget for 2005-06, before the fiscal year begins on April 1, 2005. Furthermore, DOB can provide no assurance that, when the Legislature does enact a budget, it will not differ materially and adversely from the 2005-06 Executive Budget Financial Plan projections set forth by the Governor on January 18, 2005 which are contained in this update.

The State Comptroller is the Administrative Head of the New York State and Local Retirement Systems (the “Systems”), and Trustee of the assets of those Systems. If the proposed pension legislation to authorize the Comptroller to delay the impact of the actuarial funding changes described in the Financial Plan Overview earlier in this AIS Update (which the Executive Budget counts on to provide \$321 million in savings in the 2005-06 fiscal year) are authorized by the State Legislature, the changes would have to be reviewed and approved by the State Comptroller to ensure that such changes (i) do not violate the State Constitution and (ii) are consistent with his fiduciary responsibilities to System members and beneficiaries. If the Comptroller does not implement the changes, the proposed appropriation for the State’s pension contribution would be insufficient to cover its pension obligation for the 2005-06 fiscal year.

Capital Program and Financing Plan

Section 22-c of the State Finance Law requires the Governor to submit a Five-Year Capital Program and Financing Plan (the Plan) with the Executive Budget and update the Plan by the later of July 30 or 90 days after the enactment of the State Budget. The proposed 2005-06 through 2009-10 Capital Program and Financing Plan is contained in the Financial Plan (Part III) of the 2005-06 Executive Budget, released on January 18, 2005, and can be obtained by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705, or by visiting its website at www.budget.state.ny.us.

The State-supported issuance plan for the five-year period 2005-06 through 2009-10 reflects the expectation that State personal income tax revenue bonds will continue to be issued to finance certain new programs and programs previously authorized to be secured by service contract or lease purchase payments.

For the five-year period 2005-06 through 2009-10, the Plan projects total issuances of: \$676 million in general obligation bonds; \$7.8 billion in bonds issued by the Thruway Authority to finance capital projects for transportation including the anticipated issuance of approximately \$3 billion of Dedicated Highway and Bridge Trust Funds refunding bonds in 2005-06 to restructure outstanding debt to more closely align the schedule for which principal amounts to the underlying useful lives of the projects financed; \$1 billion in Mental Health Facilities Improvement Revenue Bonds issued by DASNY to finance capital projects at mental health facilities; \$459 million in SUNY Dormitory Facilities Revenue Bonds to finance capital projects related to student dormitories; \$21 million in Department of Health Revenue Bonds to finance the construction of a new veteran’s nursing home at Oxford; and \$11 billion in State Personal Income Tax Revenue Bonds to finance existing and recommended capital programs for education, local highway

improvements, prisons, housing, economic development, the environment, mental health facilities, equipment, and State facilities. Total debt outstanding is projected to rise from \$42.5 billion in 2005-06 to \$47.8 billion in 2009-10, or by an annual average of 3 percent. The projections of State borrowings are subject to change as market conditions, interest rates and other factors vary throughout the fiscal year.

Chapter 59 of the Laws of 2000 enacted the Debt Reform Act which restricted new State-supported debt to capital purposes only and limited new debt outstanding to 4 percent of personal income and new debt service costs to 5 percent of total governmental funds receipts. The debt restrictions apply to all new State-supported debt issued on and after April 1, 2000. The cap on debt outstanding will be fully phased-in during 2010-11, while the cap of debt service costs will be fully phased-in during 2013-14. Chapter 81 of the Laws of 2002 authorized issuers of State-supported debt to issue a limited amount of variable rate obligations and to enter into a limited amount of interest rate exchange agreements. The statute limits the use of debt instruments which result in a variable rate exposure (e.g. variable rate obligations and interest rate exchange agreements) to no more than 15 percent of total outstanding State-supported debt, and limits the use of interest rate exchange agreements to a total notional amount of no more than 15 percent of total outstanding State-supported debt. DOB expects that, over the plan, debt outstanding and debt service costs, the use of variable rate debt instruments, and interest rate exchange agreements will be within all of these statutory limitations.

Contingent Contractual-Obligation Financing

An eligible secured hospital borrower, Catskill Regional Medical Center, the successor to Community General Hospital of Sullivan County (“Community General”), refinanced bonds issued in 1994 for the benefit of Community General under the Secured Hospital Program. The refunding bonds were issued on December 16, 2004, with a final maturity of 2023.

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

Moral Obligation Financings

On September 30, 2004, Riverbay Corporation, the tenant-owned corporation that owns Co-Op City, closed on a third party financing that provided the Housing Finance Agency with a mortgage prepayment sufficient to redeem on November 1, 2004 all of the Agency’s outstanding Non-Profit Housing Project Bonds relating to Co-Op City (\$207,065,000), which redemption occurred on November 1, 2004. Riverbay provided a release to the Agency releasing it from damages or liabilities of any kind, including but not limited to, suits, judgments, debts and causes of action of any kind, in connection with the Co-Op City project.

PART II

State Organization

State Retirement Systems

General

The New York State and Local Retirement Systems (the "Systems") provide coverage for public employees of the State and its localities (except employees of New York City and teachers, who are covered by separate plans). The Systems comprise the New York State and Local Employees Retirement System and the New York State and Local Police and Fire Retirement System. The Comptroller is the administrative head of the Systems. State employees made up about 33 percent of the membership during the 2003-04 fiscal year. There were 2,835 other public employers participating in the Systems, including all cities and counties (except New York City), most towns, villages and school districts (with respect to non-teaching employees) and a large number of local authorities of the State.

As of March 31, 2004, 641,721 persons were members and 328,355 pensioners or beneficiaries were receiving benefits. The State Constitution considers membership in any State pension or retirement system to be a contractual relationship, the benefits of which shall not be diminished or impaired. Members cannot be required to begin making contributions or make increased contributions beyond what was required when membership began.

Contributions

Funding is provided in large part by employer and employee contributions. Employers contribute on the basis of the plan or plans they provide for members. Members joining since mid-1976, other than police and fire members, are required to contribute 3 percent of their salaries for their first 10 years of membership.

Legislation enacted in May 2003 realigned the Retirement Systems billing cycle to match governments' budget cycles and also instituted a minimum annual payment. The employer contribution for a given fiscal year will be based on the value of the pension fund and its liabilities on the prior April 1. In addition, employers will be required to make a minimum contribution of at least 4.5 percent of payroll every year. Recent 2004 legislation modified the amortization schedule of the 2004-05 bill by changing it to a ten-year schedule at 5 percent interest with the first payment due in 2005-06.

The State bill due in the fiscal year ending March 31, 2005, payable September 1, 2004, utilizing the amortization feature, was \$653.7 million and has been fully paid. Employer contributions due from the State for the fiscal year ending March 31, 2006, payable September 1, 2005, are estimated at \$1.14 billion, which includes the first amortization payment from the 2005 bill of \$65 million.

Assets and Liabilities

Assets are held exclusively for the benefit of members, pensioners and beneficiaries. Investments for the Systems are made by the Comptroller as trustee of the Common Retirement Fund, a pooled investment vehicle. OSC reports the net assets available for benefits as of March 31, 2004 were \$120.8 billion (including \$1.4 billion in receivables), an increase of \$23.4 billion or 24.1 percent from the 2002-03 level of \$97.4

billion, reflecting, in large part, equity market performance. OSC reports that the present value of anticipated benefits for current members, retirees, and beneficiaries as of April 1, 2003 was \$130.5 billion (including \$46.1 billion for current retirees and beneficiaries), an increase of \$3.5 billion or 2.8 percent from the April 1, 2002 level of \$127 billion. The funding method used by the Systems anticipates that the net assets, plus future actuarially determined contributions, will be sufficient to pay for the anticipated benefits of current members, retirees and beneficiaries. Actuarially determined contributions are calculated using actuarial assets and the present value of anticipated benefits. Actuarial assets differ from net assets in that they are calculated using a five-year smoothing method for valuing equity investments and using amortized cost instead of market value for bonds and mortgages. Actuarial assets decreased from \$125.2 billion on April 1, 2002 to \$106.7 billion on April 1, 2003. The table below shows the actuarially determined contributions that have been made over the last six years. See also "Contributions" above.

**Net Assets Available for Benefits of the
New York State and Local Retirement Systems(1)**
(millions of dollars)

Fiscal Year Ended	Total Assets(2)	Increase/ (Decrease) From Prior Year
March 31		
1999	112,723	6.0
2000	128,889	14.3
2001	114,044	(11.5)
2002	112,725	(1.2)
2003	97,373	(13.6)
2004	120,829	24.1

Sources: State and Local Retirement Systems.

(1) Includes relatively small amounts held under Group Life Insurance Plan. Includes some employer contribution receivables. Fiscal year ending March 31, 2004 includes approximately \$1.4 billion of receivables.

(2) Includes certain accrued employer contributions to be paid with respect to service rendered during fiscal years other than the year shown.

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

Fiscal Year Ended March 31	Contributions Recorded				Total Benefits Paid(2)
	All Participating Employers(1)	Local Employers(1)	State(1)	Employees	
1999	292	156	136	400	3,570
2000	165	11	154	423	3,787
2001	215	112	103	319	4,267
2002	264	199	65	210	4,576
2003	652	378	274	219	5,030
2004	1,287	832	455	222	5,424

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

(2) Includes payments from Group Life Insurance Plan.

PART III

Litigation

State Finance Policies

In *Consumers Union of U.S., Inc. v. State*, plaintiffs challenge the constitutionality of those portions of Chapter 1 of the Laws of 2002 which relate to the authorization of the conversion of Empire Health Choice, d/b/a Empire Blue Cross and Blue Shield from a not-for-profit corporation to a for-profit corporation. Chapter 1 requires, in part, that upon such conversion, assets representing 95 percent of the fair market value of the not-for-profit corporation be transferred to a fund designated as the “public asset fund” to be used for the purpose set forth in § 7317 of the Insurance Law. The State and private defendants have separately moved to dismiss the complaint. On November 6, 2002, the Supreme Court, New York County, granted a temporary restraining order, directing that the proceeds from the initial public offering of the for-profit corporation be deposited with the State Comptroller in an interest-bearing account, pending the hearing of a motion for a preliminary injunction, which was returnable simultaneously with the motions to dismiss, on November 26, 2002.

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

Line Item Veto

In *Silver v. Pataki*, the Speaker of the Assembly of the State of New York challenges the Governor's application of his constitutional line item veto to certain portions of budget bills adopted by the State Legislature contained in Chapters 56, 57 and 58 of the Laws of 1998. By decision dated July 20, 2000, the Appellate Division reversed the January 7, 1999 order of the Supreme Court, New York County, and dismissed the petition. By opinion dated July 10, 2001, the Court of Appeals reversed the decision of the Appellate Division, holding that plaintiff has the capacity and standing to sue as a member of the Assembly. By order dated June 17, 2002, the Supreme Court, New York County, granted defendant's motion for summary judgment, dismissing the complaint. Plaintiff appealed to the Appellate Division, First Department. On July 22, 2002, the Senate of the State of New York moved in Supreme Court to intervene and for re-argument.

By decision entered December 11, 2003, the Appellate Division, First Department, affirmed the decision of the Supreme Court, New York County, dismissing the complaint. Plaintiff appealed this decision to the Court of Appeals. By decision dated December 16, 2004, the Court of Appeals affirmed the decision of the Appellate Division, First Department.

Budget Process

In *Pataki v. New York State Assembly, et al.*, the Governor seeks a judgment declaring that the actions of the Senate and the Assembly in voting and passing 46 budget bills on August 2, 2001 and August 3, 2001 violated Article 7, sections 4 and 5 of the State Constitution, because they deleted provisions of appropriations proposed by the Governor, substituted other appropriations, and considered other appropriation

bills prior to taking action on the appropriation bills submitted by the Governor. The action also seeks to enjoin the approval of vouchers submitted pursuant to the budget bills enacted by the Senate and Assembly.

By decision and order dated November 7, 2001, the Supreme Court, Albany County, granted the State Comptroller's motion to dismiss this action as against the Comptroller. The plaintiff has appealed from that order. By decision and order dated January 17, 2002, the Supreme Court, Albany County, granted summary judgment dismissing certain affirmative defenses and declaring the actions of the Legislature in enacting the budget bills as modified or proposed by the Legislature other than the Legislative and Judiciary budget bills an unconstitutional violation of article VII of the State Constitution and denied defendants cross-motions for summary judgment. Defendants appealed from the January 17, 2002 order to the Appellate Division, Third Department. By opinion and order dated April 22, 2004, the Appellate Division, Third Department, affirmed the decision and order of the Supreme Court, Albany County. Defendants appealed from this opinion and order to the Court of Appeals. By decision dated December 16, 2004, the Court of Appeals affirmed the opinion and order of the Appellate Division, Third Department.

Real Property Claims

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

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

In the *Canadian St. Regis Band of Mohawk Indians* case, plaintiffs seek ejectment and monetary damages with respect to their claim that approximately 15,000 acres in Franklin and St. Lawrence Counties were illegally transferred from their predecessors-in-interest. By decision dated July 28, 2003, the District Court granted, in most respects, a motion by plaintiffs to strike defenses and dismiss counterclaims contained in defendants' answers. By decision dated October 20, 2003, the District Court denied the States motion for reconsideration of that portion of the July 28, 2003 decision which struck a counterclaim against the United States for contribution. On November 29, 2004, the plaintiff tribal entities, with one exception, approved a settlement proposed by the State, which would require enactment of State and Federal legislation to become effective.

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 any eventual decision by 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, involving the issue of whether 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. The State and the United States have agreed to stay this litigation pending a decision in the *Sherrill* case.

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

State Programs

School Aid

In *Campaign for Fiscal Equity, Inc. et al. v. State, et al.* (Supreme Court, New York County), plaintiffs challenge the State's method of providing funding for New York City public schools. Plaintiffs seek a declaratory judgment that the State's public school financing system violates article 11, section 1 of the State Constitution and Title VI of the Federal Civil Rights Act of 1964 and injunctive relief that would require the State to satisfy State Constitutional standards.

This action was commenced in 1993. In 1995, the Court of Appeals affirmed the dismissal of claims under the equal protection clauses of the Federal and State constitutions and Title VI of the Federal Civil Rights Act of 1964. It reversed dismissal of the claims under article 11, section 1 of the State Constitution and implementing regulations of Title VI, and remanded these claims for trial.

By decision dated January 9, 2001, following trial, the trial court held that the State's education funding mechanism does not provide New York City students with a "sound basic education" as required by the State Constitution, and that it has a disparate impact on plaintiffs in violation of regulations enacted by the U.S. Department of Education pursuant to Title VI of the Civil Rights Act of 1964. The court ordered that defendants put in place reforms of school financing and governance designed to redress those constitutional and regulatory violations, but did not specify the manner in which defendants were to implement these reforms. The State appealed, and the trial court's decision was stayed pending resolution of the appeal. By decision and order entered June 25, 2002, the Appellate Division, First Department, reversed the January 9, 2001 decision and dismissed the claim in its entirety. On July 22, 2002, the plaintiffs filed a notice of appeal to the decision and order to the Court of Appeals.

By decision dated June 26, 2003, the Court of Appeals reversed that portion of the June 25, 2002 decision and order of the Appellate Division, First Department relating to the claims arising under the State Constitution. The Court held that the weight of the credible evidence supported the trial court's conclusion that New York City schoolchildren were not receiving the constitutionally mandated opportunity for a sound basic education and further held that the plaintiffs had established a causal link between the present education funding system and the failure to provide said sound basic education. The Court remitted the case to the trial court for further proceedings in accordance with its decision.

On August 3, 2004, the Supreme Court, New York County, referred this case to a panel of three referees. The panel is to make recommendations to the court as to how the State should fulfill the Court of Appeals mandate to provide New York City school children with a sound basic education.

On November 30, 2004, the panel issued its report and recommendations. It recommended that the District Court direct the State to pay to New York City schools a total of \$14.08 billion over the next four years in additional operations funding and \$9.179 billion over the next five years for capital improvements.

Medicaid

In a decision dated June 3, 2003, involving seven consolidated cases (*Matter of St. James Nursing Home v. DeBuono*), the Supreme Court, Albany County, partially granted petitioners claims that the State violated the procedural requirements of the Boren Amendment and directed the State to recalculate the Medicaid rates associated with State Plan Amendment 95-23. The court dismissed petitioners' claims as to the Medicaid rates associated with State Plan Amendments 95-24 and 96-24. The parties appealed from this decision. In a decision and order dated November 18, 2004, the Appellate Division, Third Department, affirmed the judgement of the Supreme Court, Albany County.