

# Update to Annual Information Statement (AIS)

## State of New York

*January 26, 2006*

This quarterly update (the "Update") to the AIS of the State of New York is dated January 26, 2006 and contains information only through that date. It is the third quarterly update to the AIS of the State of New York dated May 4, 2005. The first update to the AIS was issued on August 8, 2005; the second update on November 2, 2005. This Update is organized in two parts.

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

Extracts from the Governor's Executive Budget Financial Plan for 2006-07 presented to the Legislature on January 17, 2006. The Financial Plan includes updated projections for State fiscal years 2005-06 through 2008-09 and an assessment of risks affecting the Financial Plan.

The entire 2006-07 Executive Budget, including the Financial Plan, a detailed forecast of the State's economy and revenues, and the proposed Capital Program and Financing Plan for the 2005-06 through 2010-11 fiscal years, is available on the Division of the Budget's website, [www.budget.state.ny.us](http://www.budget.state.ny.us).

**Part II** updates the status of certain litigation against the State.

DOB is responsible for organizing and presenting the information that appears in this AIS Update on behalf of the State. In preparing the AIS Update, DOB relies on information drawn from other sources, such as the Office of the State Comptroller ("OSC"). Information relating to matters described in the section entitled "Litigation" is furnished by the State Office of the Attorney General.

During the fiscal year, the Governor, the State Comptroller, State legislators, and others may issue statements or reports that contain predictions, projections or other information relating to the State's financial condition, including potential operating results for the current fiscal year and projected baseline gaps for future fiscal years, that may vary materially from the information provided in the AIS. Investors and other market participants should, however, refer to the AIS, as revised, updated, or supplemented, for the most current official information regarding the financial condition of the State.

The State plans to issue updates to the AIS on a quarterly basis and may issue AIS supplements or other disclosure notices as events warrant. The State intends to announce publicly whenever an AIS update or a supplement is issued. The State may choose to incorporate by reference all or a portion of this AIS Update in Official Statements or related disclosure documents for State or State-supported debt issuance. Readers may obtain informational copies of the AIS, AIS updates and AIS supplements by contacting Mr. Louis A. Raffaele, Chief Budget Examiner, New York State Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705. The State has filed this AIS Update with the Central Post Office, Disclosure USA, the internet-based disclosure filing system established by the Municipal Advisory Council of Texas (Texas MAC) and approved by the Securities and Exchange Commission to facilitate the transmission of disclosure-related information to the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs). An official copy of this AIS Update may be obtained from the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705 or from any NRMSIR.

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## PART I

### Financial Plan

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*Note: DOB issued the revised Financial Plan, extracts of which are set forth below, on January 17, 2006. 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 in the Financial Plan.*

*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 statutorily 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 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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# Extracts from 2006-07 Executive Budget Four-Year Financial Plan

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## **EXECUTIVE SUMMARY**

### **BUDGET ENVIRONMENT HAS IMPROVED**

New York's economy has been growing since September 2003, a trend DOB expects will continue, albeit more modestly, over the four-year period of the State's Financial Plan (2005-06 through 2008-09). DOB now estimates underlying revenue growth of 11 percent in the current year (the second year in a row in which revenues have grown at this rate), and still-strong 8 percent growth in 2006-07. The State's multi-year budget outlook has shown a commensurate improvement. DOB projects a net General Fund operating surplus of \$2.0 billion in 2005-06 (the third consecutive year in which a surplus will have been recorded on both a budgetary and GAAP-basis of accounting) and has lowered its estimate of the budget gaps for the 2006-07 through 2008-09 period.

The Executive Budget recommendations fully balance the budget for the 2006-07 fiscal year, increase the level of fiscal reserves, and further reduce the out-year gaps. DOB believes the overall Financial Plan estimates are reasonable, but subject to a number of risks, including the performance of the State economy in general and the financial services sector in particular.

### **2005-06 NET SURPLUS IS EXPECTED TO BE HIGHER**

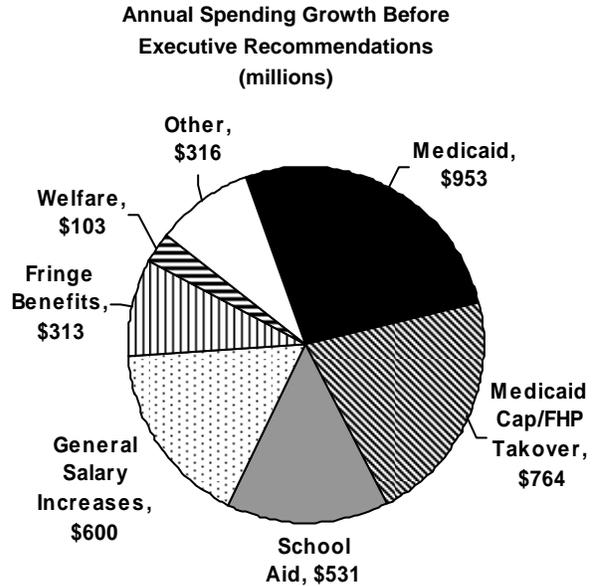
The net General Fund surplus estimate of \$2.0 billion is approximately \$1.0 billion higher than projected in the Mid-Year Update to the Financial Plan. Strong growth in tax collections, particularly in business taxes and the personal income tax (PIT), has led DOB to raise its General Fund receipts forecast for the current year by \$1.4 billion. At the same time, projected General Fund disbursements have been revised upward by over \$300 million, mainly for Medicaid and transit aid payments now planned for 2005-06 rather than 2006-07. Aside from these transactions, spending trends for the State's major programs remain generally consistent with the Mid-Year forecast. More detailed information is provided in the section entitled "2005-06 Financial Plan Update" later in the extracts from the Financial Plan provided in this AIS Update.

<b>General Fund Operating Forecast For 2005-06 Has Improved Since Mid-Year Update (millions of dollars)</b>	
<b>Mid-Year Surplus Estimate</b>	<b>1,039</b>
<b>Increase/(Decrease) Since Mid-Year</b>	<b>952</b>
Increased Revenue Estimate	1,362
Increased Spending Estimate	(337)
Deposit to Rainy Day Reserve	(73)
<b>Current Surplus Estimate (Net)</b>	<b>1,991</b>

The Financial Plan includes a \$73 million deposit to the Tax Stabilization Reserve Fund (the "Rainy Day Reserve"), maintaining the balance at the statutory maximum level of 2 percent of spending (\$945 million). DOB projects the State will end the 2005-06 fiscal year with \$3.2 billion in General Fund reserves, consisting of \$945 million in the Rainy Day Reserve, \$21 million in the Contingency Reserve for litigation, \$2.0 billion in a spending stabilization reserve that will be funded with the 2005-06 surplus, and \$286 million set aside primarily for existing legislative initiatives. The spending stabilization reserve is recommended to be kept in reserve in 2006-07 and used in equal installments to help balance the 2007-08 and 2008-09 budgets.

**BUDGET GAPS STILL REMAIN FOR 2006-07 THROUGH 2008-09 BUT AT LOWER LEVELS (PRIOR TO EXECUTIVE BUDGET RECOMMENDATIONS)**

Prior to the Executive Budget recommendations, DOB projected a potential imbalance of \$751 million in 2006-07 and gaps in the range of \$3 billion to \$4 billion in future years. While current-year results are favorable, the State's structural imbalance persists, although at levels greatly reduced from recent years. Left unchecked, spending would grow by \$3.6 billion in 2006-07, driven in part by the State cap on local Medicaid costs and the takeover of the local share of the Family Health Plus (FHP) program, both of which help relieve pressure on local property taxes. Health care inflation, school aid increases, State employee salaries and benefits, and the loss of one-time resources used to balance the 2005-06 budget also contribute to spending growth in 2006-07. Strong revenue growth is expected to more than compensate for the phase-out, effective January 1, 2006, of the temporary PIT surcharge imposed in the aftermath of September 11<sup>th</sup>, but is not enough to eliminate the gap.



State Pick-up of Local Health Care Costs and Expiration of Tax Surcharge Contribute to Initial Budget Gaps*			
	GENERAL FUND (\$ Millions)		
	2006-07	2007-08	2008-09
<b>Initial Receipts</b>	<b>51,081</b>	<b>51,521</b>	<b>54,119</b>
<b>Initial Disbursements</b>	<b>49,647</b>	<b>52,917</b>	<b>55,597</b>
<b>Initial Budget Surplus/(Gaps)</b>	<b>1,434</b>	<b>(1,396)</b>	<b>(1,478)</b>
Medicaid Cap/Family Health Plus Takeover	(1,166)	(1,759)	(2,417)
Phase-out of PIT Surcharge	(1,019)	-	-
<b>Budget Gaps (Before Recommendations)</b>	<b>(751)</b>	<b>(3,155)</b>	<b>(3,895)</b>

\* Prior to Executive Budget recommendations. Initial receipts exclude the loss of PIT surcharge, and initial disbursements exclude cost of Medicaid cap/FHP takeover.

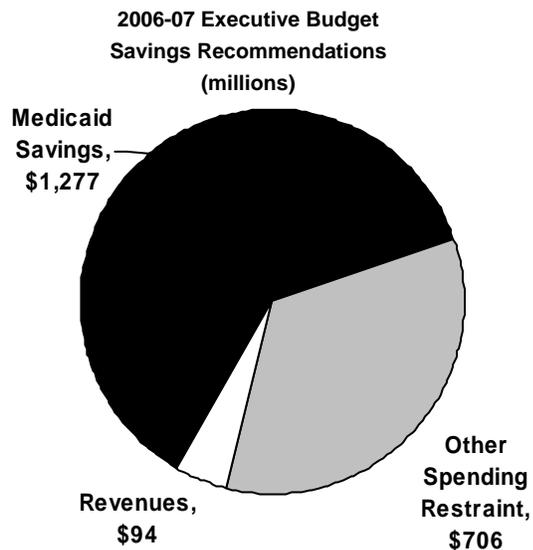
As illustrated above, the Financial Plan estimates include the Medicaid cap and the takeover of FHP by the State, which provide \$1.2 billion in savings for local governments in 2006-07, and the PIT surcharge expiration, which will save taxpayers an estimated \$1.0 billion.

**2006-07 GAP-CLOSING PLAN STRESSES SPENDING RESTRAINT**

The Executive Budget eliminates the entire potential imbalance in 2006-07 and reduces the budget gap projected for 2007-08 to less than \$1.9 billion. The Budget proposals address the structural imbalance by (a) restraining spending in the fastest-growing programs in the State Budget, particularly Medicaid, (b) setting aside the entire \$2.0 billion from the expected 2005-06 surplus to help reduce the potential gaps in 2007-08 and 2008-09, and (c) financing \$250 million in reserves that will be used in the future to lower State debt. The proposals also include significant new tax reductions and spending initiatives. The table below summarizes the multi-year fiscal impact of the 2006-07 Executive Budget recommendations.

<b>General Fund Budget-Balancing Plan</b>				
<b>(millions of dollars)</b>				
	<b>GENERAL FUND (\$ Millions)</b>			
	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
<b>Revised Surplus/(Gaps)</b>	<b>1,991</b>	<b>(751)</b>	<b>(3,155)</b>	<b>(3,895)</b>
Spending Restraint		1,983	3,136	3,338
Fines/Fees/Other		94	155	154
Spending Additions		(406)	(834)	(1,194)
Tax Policy Changes		(844)	(2,210)	(3,268)
Debt Reduction Reserve Deposit (One-Time)		(250)	0	0
Finance Debt Reduction Deposit (One-Time)		227	0	0
Spending Stabilization (Deposit)/Use	(1,991)	(53)	1,022	1,022
<b>Executive Budget Surplus/(Gaps)</b>	<b>0</b>	<b>0</b>	<b>(1,886)</b>	<b>(3,843)</b>

Spending restraint constitutes the vast majority of the gap-closing plan of \$2.1 billion, before recommended spending additions, tax policy changes, and new reserves for debt reduction. Proposals to slow Medicaid growth account for over 60 percent of the total savings. Other initiatives to restrain spending include performance incentives for tuition assistance grants, flexibility for the State’s public universities to raise tuition absent sufficient administrative cost-savings, and the imposition of stricter benefit limits for public assistance families that fail to meet work participation requirements. The budget also includes proposals to maximize Federal aid and achieve savings in State agency operations.



The Budget dedicates more than \$227 million in one-time resources (the entire amount of one-time actions proposed), consisting mainly of routine transfers of available cash balances from other funds, to help finance \$250 million to reduce debt. Fee increases are minimal. Absent the recommended tax reductions and spending initiatives described below, the gap-closing plan would produce a surplus in 2006-07 and a structurally-balanced budgets in 2007-08 and 2008-09 without the use of reserves.

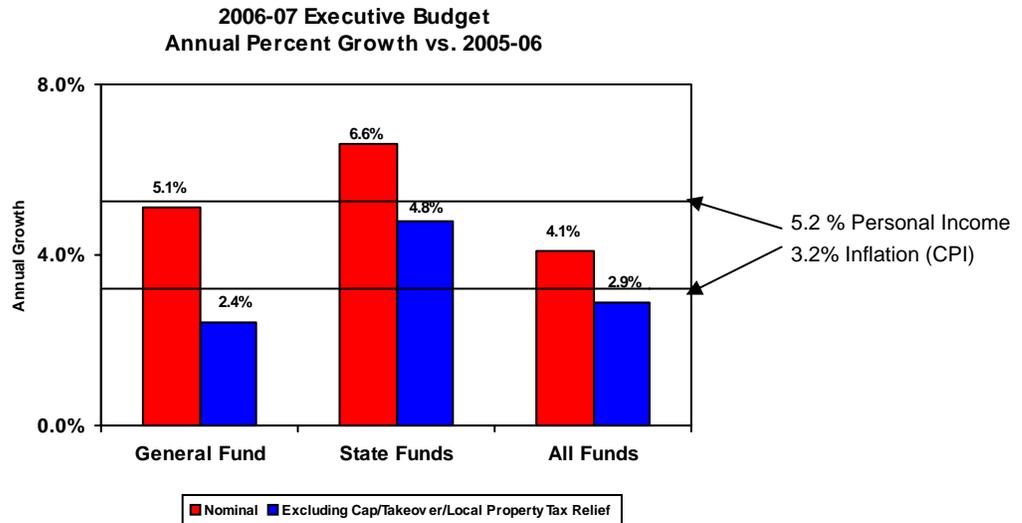
**PROPOSED TAX REDUCTIONS AND SPENDING INITIATIVES**

To help address the combined State and local tax burden, the Executive Budget proposes a tax reduction program valued at over \$3.6 billion when it becomes fully effective. The package includes eliminating the “marriage penalty” for personal income taxpayers, increasing the tax relief provided to seniors through the School Tax Relief (STAR) program, a new STAR Plus program, reducing the top PIT rate to 6.75 percent, eliminating the estate and gift tax, authorizing an education tax credit for families with students enrolled in under-performing schools, and establishing an energy tax credit for senior citizens. The Executive Budget also recommends two sales-tax-free weeks on clothing purchases of up to \$250, rather than reverting to a full-year \$110 exemption as scheduled.

The Budget recommends increased spending for several programmatic initiatives. These include cost-of-living increases for mental hygiene service providers, funding to expand crime-fighting programs, incentive-based aid increases for local governments, and increased funding for the Environmental Protection Fund.

**IMPACT OF EXECUTIVE BUDGET RECOMMENDATIONS ON SPENDING**

The Executive Budget recommendations hold annual spending growth in the General Fund and All Governmental Funds (hereafter “All Funds”) to below the projected rate of inflation, after excluding the incremental cost of the State Medicaid cap, FHP takeover, and the new STAR Plus program, all of which provide local property tax and mandate relief. Total spending also grows more slowly than projected growth in personal income.



<b>Total Disbursements (millions of dollars)</b>					
	<b>2005-06 Revised</b>	<b>2006-07 Proposed</b>	<b>Annual \$ Change</b>	<b>Annual % Change</b>	<b>Adjusted % Change*</b>
General Fund	47,233	49,638	2,405	5.1%	2.4%
State Funds	70,353	74,998	4,645	6.6%	4.8%
All Funds	106,374	110,744	4,370	4.1%	2.9%

\* Excludes \$764 million for the MA Cap/FHP Takeover and \$530 million for the STAR Plus program.

### **PROJECTED 2006-07 YEAR-END BALANCES**

DOB projects the State would end the 2006-07 fiscal year with a General Fund balance of \$3.8 billion (7.6 percent of spending) if the Legislature enacts the Executive Budget recommendations in their entirety. The balance consists of \$1.0 billion in undesignated reserves and \$2.8 billion in reserves designated to finance existing or planned commitments. The projected closing balance is \$528 million above the level estimated for 2005-06.

The undesignated reserves consist of \$945 million in the State's Rainy Day Reserve, which has a balance that is at the statutory maximum of 2 percent, and \$21 million in the Contingency Reserve for litigation risks. The designated reserves include \$275 million for potential labor settlements with unions that have not yet reached agreements in the current round of contracts, \$236 million in the Community Projects Fund to finance existing legislative and gubernatorial initiatives, \$2.0 billion from the 2005-06 surplus that is planned to be used in equal amounts to lower the projected 2007-08 and 2008-09 budget gaps, and \$250 million for debt reduction.

### **RISKS TO THE FINANCIAL PLAN**

In any year, the Financial Plan is subject to risks that, if they were to materialize, could affect operating results. A full discussion of risks to the State budget appears in the section entitled "Reserves and Risks," later in the extracts from the Financial Plan provided in this AIS Update.

In response to the Campaign for Fiscal Equity (CFE) litigation concerning the State's system for financing public schools, the Executive Budget recommends a \$634 million school aid increase for the 2006-07 school year. Of this amount, \$375 million will be allocated pursuant to a plan to promote the provision of sound basic education (SBE) statewide, bringing total SBE aid to \$700 million in 2006-07. In 2006-07, the Governor is again proposing a plan that would provide SBE grants to school districts statewide that would be financed primarily with revenues generated from existing and future video lottery terminals (VLTs). Under the Governor's plan, New York City would receive approximately 60 percent of the annual SBE aid. A ruling from the State Appellate Court is expected by June 2006 concerning the State's appeal of the Trial Court's order that directed the State to increase operating aid to New York City schools by \$5.6 billion over four years and provide \$9.2 billion in capital improvements.

The State is waiting for Federal approval to reestablish certain payments to public hospitals throughout the State, including those operated by the New York City Health and Hospital Corporation, the State University of New York (SUNY), and the counties. If these payments are not approved in 2005-06 and future years, the State's health care financing system could be adversely affected.

## **ECONOMIC OUTLOOK**

The national economic expansion is expected to continue through the forecast horizon, but with growth slowing modestly in 2006 and further still in the out years. DOB's forecast expects the successful engineering of a "soft landing" by the Federal Reserve. Consistent with more moderate growth at the national level, the New York State economy is also expected to see continued, albeit slightly slower, growth in 2006 and beyond.

Although crude oil, gasoline, and natural gas prices have receded from their peak levels in the fall of 2005, higher energy prices have begun to filter through the rest of the economy, effectively behaving as a "tax" on household spending, and are thus expected to put downward pressure on growth during the fourth quarter of 2005 and beyond.

The nation's housing sector, which has accounted for a substantial portion of economic growth in recent years, is finally revealing signs of a slowdown. The most recent data indicate slowing price growth, stalling new home sales, and a growing inventory of unsold homes. Nevertheless, underlying national economic activity remains sound, and the rebuilding of the areas most affected by the storms is likely to have a net positive effect on growth going forward. In addition, solid growth is projected for the global economy, and following several years of strong profit growth, business sector conditions are favorable for continued expansion. Thus, the risks to consumption spending and the broader housing market are expected to be partially offset by export and business investment growth, as well as private and Federal government spending to rebuild the areas that were devastated by the summer's storms.

Given the recent increases in capacity utilization and a strengthening labor market — both signs of the economy's underlying strength — the extent to which inflationary expectations may be ratcheting upward remains a source of uncertainty going forward. Although consumer prices outside of the energy and food sectors have thus far shown only a modest boost from higher energy costs, there is evidence that some firms have begun to successfully pass higher costs on to their customers. As labor markets tighten, this pricing power could translate into added wage pressure, which in turn could motivate the Federal Reserve to raise interest rates higher than currently anticipated. At the same time, more subdued household sector spending will be a much weaker contributor to economic growth than it has been in recent years. Thus, we expect to be entering a regime of slower growth than experienced in 2004 and 2005. DOB projects real Gross Domestic Product growth of 3.3 percent in 2006, following growth of 3.6 percent in 2005.

Rising interest rates and a weakening housing market are expected to have strong implications for the New York State economy as well. A strong housing market and solid securities industry performance have been key drivers of economic activity in New York. The New York City tourism industry is operating at full capacity. In addition, strong corporate profits growth nationwide has not only fueled demand within the State's business services industries, but also spawned a build-up of cash reserves contributing to a wave of merger and acquisition activity that has spurred demand for finance industry services. Consequently, the State is estimated to have had above-average growth in private sector employment of 1.1 percent for 2005.

Much of the recent strength in the drivers of the New York State economy has stemmed from an extended period of low long-term interest rates, both here and abroad. All things being equal, rising interest rates imply both a reduction in the affordability of housing and lower future corporate earnings. There is already anecdotal evidence that the extraordinary growth in home prices seen in recent years, particularly in the downstate regions, is coming to an end. These developments portend lower rates of State job growth for the coming year. For 2006, DOB projects total employment growth of 0.8 percent and private sector growth of 0.9 percent.

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## **2005-06 FINANCIAL PLAN UPDATE**

The Executive Budget Financial Plan is the third quarterly update to the Enacted Budget Financial Plan. The following describes the substantive revisions to Financial Plan estimates for the current year since the issuance of the last update to the Financial Plan in October 2005.

DOB projects the State will end the 2005-06 fiscal year with a net \$2 billion surplus in the General Fund, after paying certain Medicaid (\$500 million) and mass transit (\$45 million) expenses in 2005-06 rather than 2006-07, and making the maximum annual contribution of \$73 million to the State's Rainy Day Reserve. As described below, the continued strength in revenues from 2004-05 levels is mainly responsible for the net surplus.

General Fund receipts, including transfers from other funds, are now projected at \$47.9 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. Both personal income taxes and business taxes have shown robust growth, similar to the experience in prior economic expansions. Real estate-related tax collections have also exceeded projected levels, reflecting strength in home sales and mortgage refinancings.

General Fund disbursements, including transfers to other funds, are expected to total \$47.2 billion in 2005-06, an increase of \$337 million above the Mid-Year forecast. The most substantive revisions are due to timing, with the higher spending from the acceleration of Medicaid and mass transit payments noted above, offset in part by lower spending for labor settlements that were expected to occur in 2005-06 but are now budgeted for 2006-07.

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**CURRENT-YEAR REVISIONS**

The following provides a summary of the substantive revisions to the current-year forecast since the Mid-Year Financial Plan.

<b>2005-06 General Fund</b>				
<b>Quarterly Financial Plan Revisions From Enacted Budget</b>				
<b>(millions of dollars)</b>				
	<u>First</u>	<u>Mid-Year</u>	<u>Executive</u>	<u>Total</u>
<b>Revenue Revisions</b>	<b>375</b>	<b>752</b>	<b>1,362</b>	<b>2,489</b>
<b>New Costs</b>	<b>(296)</b>	<b>(393)</b>	<b>(337)</b>	<b>(1,026)</b>
Medicaid Prepayment of 2006-07 Costs		(250)	(250)	(500)
Medicaid	(68)	(189)	(88)	(345)
Debt Service	(33)	(13)	16	(30)
Timing of Collective Bargaining			197	197
Welfare		118		118
MTA Prepayment of 2006-07 costs			(45)	(45)
Energy Costs		(86)		(86)
State Police Collective Bargaining	(95)			(95)
All Other Changes	(100)	27	(167)	(240)
<b>Deposit to Rainy Day Reserve</b>			<b>(73)</b>	<b>(73)</b>
<b>Net Change: Favorable/(Unfavorable)</b>	<b>79</b>	<b>359</b>	<b>952</b>	<b>1,390</b>
<b>Spending Stabilization Reserve *</b>	<b>680</b>	<b>1,039</b>	<b>1,991</b>	<b>1,991</b>

\* Includes \$601 million on deposit at the time of the Enacted Budget.

**Revenue Revisions:** The gross upward revision to General Fund receipts is \$1.4 billion, a combination of \$1.1 billion in tax receipts, \$144 million in miscellaneous receipts including \$130 million in unclaimed funds, offset by the payment of \$552 million in additional tax refunds from a reserve set aside for that purpose. Business tax estimates have been revised upward by nearly \$500 million, and the PIT by nearly \$400 million.

Base growth, adjusted for law changes, in tax receipts for fiscal year 2005-06 is estimated at 11 percent, the second consecutive year of double-digit growth in base receipts. Growth in the tax receipts base has benefited from several factors including: improvements in overall economic activity; the continued profitability and compensation gains of financial services companies; the continued rapid escalation in real estate market values; and the residual impact of temporary tax actions taken in 2003, especially with respect to high income taxpayers.

**Medicaid Prepayment of 2006-07 Costs:** In 2005-06, the General Fund will finance \$500 million in health-care costs (an increase of \$250 million since mid-year) that were originally expected to be paid from resources in the HCRA Financial Plan. In 2006-07, the HCRA Financial Plan will finance an equal amount of costs that would otherwise have been paid from the General Fund. The transaction has no net impact on HCRA or the General Fund over the two-year period.

**Medicaid:** Hospital assessment revenues (\$106 million) that were budgeted to lower General Fund spending in 2005-06 are now expected in 2006-07. In addition, DOB has lowered the estimated cost of the Medicare Part D "clawback" payment in the current year based on updated information from the Federal government (\$23 million), and added \$5 million to the Department of Health estimate for education and benefits coordination related to Part D. These combined changes result in a net increase of \$88 million.

**Debt Service:** A revised interest rate forecast and modest adjustments in the bond sale schedule account for the updated savings estimate.

**Metropolitan Transportation Authority (MTA) Prepayment of 2006-07 Costs:** The State's school fare subsidy (\$45 million) to the MTA is expected to be made in March rather than June 2006. The timing adjustment has no impact on aid levels to the MTA since it will still occur in the Authority's calendar 2006 fiscal year.

**Timing of Collective Bargaining:** Money set aside in 2005-06 for potential labor settlements with unions that have not yet reached agreements has been reallocated to 2006-07 as a reserve.

**All Other Changes:** The main revisions include a transfer of one-time resources to the VLT education account (\$130 million) to help finance the 2006-07 school-year SBE reserves and additional funding for the Low Income Home Energy Assistance Program (\$25 million).

**Fund Balances:** DOB projects the State will end the 2005-06 fiscal year with a General Fund balance of \$3.2 billion. The balance consists of \$1.0 billion in undesignated reserves and \$2.2 billion in designated reserves. The undesignated reserves consist of \$945 million in the Rainy Day Fund, after a maximum deposit of \$73 million in 2005-06, and \$21 million in the Contingency Reserve Fund. The designated reserves consist of \$2.0 billion in a spending stabilization reserve, which is planned for use in equal installments to help reduce the 2007-08 and 2008-09 budget gaps, and \$286 million in the Community Projects Fund that finances discretionary spending initiatives by the Legislature and Governor. The projected year-end balance is affected by the planned payment of an additional \$552 million in tax refunds before the end of the 2005-06 fiscal year, from a reserve established for that purpose, based on enhancements in tax processing.

**State Funds and All Funds Changes:** All Funds receipts estimates have been revised upward by \$634 million for fiscal year 2005-06. Tax receipts growth for fiscal year 2005-06 has significantly exceeded expectations and, as a result, All Funds tax estimates for fiscal year 2005-06 have been increased by \$759 million from the Mid-Year Update to the Financial Plan. The growth in tax receipts is offset by a downward revision in Federal grants of \$256 million.

State Funds spending is now projected to total \$70.4 billion in the current year, a decrease of \$115 million from the Mid-Year Financial Plan. Besides the timing adjustments for collective bargaining and the school fare payment described above, State Funds spending has been revised for the payment of \$200 million in transit aid in 2005-06 instead of 2006-07 for downstate systems, and downward revisions in other programs based on experience to date.

All Funds spending in 2005-06 is now projected to total \$106.4 billion, a decrease of \$301 million from the Mid-Year Financial Plan. In addition to the State Funds revisions described above, DOB has lowered its estimate of Federal aid for education (\$185 million) based on claiming experience to date.

**2005-06 CASH OPERATING RESULTS THROUGH DECEMBER 2005**

The following table summarizes actual results for the period from April 1, 2005 through December 31, 2005 compared to the estimates in the 2005-06 Enacted Budget, the 2005-06 Mid-Year Update to the Financial Plan, and actual results for the same nine-month period in 2004.

<b>General Fund (April 1, 2005 Through December 31, 2005)</b>					
<b>Actual Results vs. Projections</b>					
<b>(millions of dollars)</b>					
	<b>Enacted Budget*</b>	<b>Mid-Year</b>	<b>Actual Results</b>	<b>Actuals vs. Projections</b>	
				<b>Enacted</b>	<b>Mid-Year</b>
Receipts	32,442	33,186	32,778	336	(408)
Disbursements	32,242	32,349	31,777	465	572
Closing Fund Balance	2,746	3,383	3,547	801	164

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

**Variance vs. Mid-Year Projections**

Actual General Fund receipts through December 2005 were \$408 million below Mid-Year projections, due primarily to the timing of personal income tax estimated payments.

Total General Fund disbursements through December 31, 2005 were \$572 million below the Mid-Year forecast due primarily to changes in timing for certain payments within the fiscal year. Lower spending for Grants to Local Governments (\$408 million) and General State Charges (\$115 million) comprise the majority of the variance. In local assistance, slower-than-anticipated payments for categorical grants to schools and other education programs (\$200 million), public health (\$50 million) and the tuition assistance program (\$39 million) account for a majority of the variance. The remaining variance is comprised of lower than expected spending in various agencies and programs. In General State Charges, earlier than expected payments by non-General Fund agencies which are used to offset General Fund fringe benefit costs resulted in lower General Fund costs.

The closing balance on December 31, 2005 was \$3.5 billion, an increase of \$164 million from the Mid-Year projection.

**Variance vs. Enacted Budget Projections**

General Fund receipts through December 31, 2005 were \$336 million higher than the Enacted Budget projections due primarily to better than expected income tax results, unanticipated audit and compliance collections under the corporate franchise tax, and unanticipated increases in estate tax and real estate transfer tax collections.

Total General Fund disbursements through December 2005 were \$465 million below the Enacted Budget forecast, which is primarily attributable to lower spending for Grants to Local Governments (\$570 million) offset by higher transfers to other funds (\$117 million). Lower local assistance spending is largely due to a sharper-than-expected decline in welfare caseload (\$220 million), as well as slower-than-projected payments

in various agencies and programs including public health (\$202 million) and the tuition assistance program (\$82 million). General Fund cash transfers to support the Court Facilities Incentive Aid Fund (\$46 million) and SUNY operations (\$32 million) occurred earlier than projected, accounting for the majority of the increase.

The closing balance on December 31, 2005 was \$3.5 billion, an increase of \$801 million from the projection published in the Enacted Budget.

### 2005-06 Annual Change

<b>Actual Results</b>			
<b>April 1 Through December 31</b>			
<b>(millions of dollars)</b>			
	<u>2004*</u>	<u>2005</u>	<u>Increase</u>
Receipts	30,342	32,778	2,436
Disbursements	30,127	31,777	1,650

*\*Receipts through December 31, 2004 have been adjusted to reflect the inclusion of the Personal Income Tax Refund Reserve in the General Fund.*

General Fund receipts from April 1, 2005 through December 31, 2005 totaled nearly \$33 billion, an increase of \$2.4 billion from the same period in 2004. This increase is largely attributable to continued economic improvement in 2005, strong payments on 2004 and 2005 PIT liability and the continued strength in the real estate market. Taxes grew by nearly 10.2 percent over this period, recovering most of the loss of one-time resources discussed earlier.

General Fund disbursements through December 31, 2005 were \$31.8 billion, an increase of \$1.7 billion from the same period in 2004. Increases in aid payments for schools (\$703 million); fringe benefits, including health benefits and pensions (\$389 million); and operating expenses for State agencies, including energy (\$362 million) are responsible for the year-to-year growth in spending over the first nine months of 2005-06.

## 2006-07 EXECUTIVE BUDGET FINANCIAL PLAN

### REVISIONS FROM THE MID-YEAR FORECAST REDUCE THE GAPS

Since the Mid-Year Update, DOB has revised its receipts and disbursements forecasts for 2006-07 and 2007-08 and calculated an estimate of the 2008-09 gap. The change in the gaps reflect stronger revenue performance, updates to current services estimates, and timing-related adjustments.

<b>Revisions to Operating Gaps Since the Mid-Year Update (Prior to Executive Budget Recommendations)</b>			
	<b>GENERAL FUND (\$ Millions)</b>		
	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09 *</b>
<b>Mid-Year Receipts</b>	<b>48,771</b>	<b>50,657</b>	
<b>Mid-Year Disbursements</b>	<b>51,859</b>	<b>55,608</b>	
<b>Use of Fund Balances</b>	<b>542</b>	<b>543</b>	
<b>Mid-Year Budget Gaps</b>	<b>(2,546)</b>	<b>(4,408)</b>	
Revenue Increases	1,544	1,000	
Spending Decreases	771	772	
Exclusion of Spending Stabilization Reserve **	(520)	(519)	
<b>Budget Gaps (Before Recommendations)</b>	<b>(751)</b>	<b>(3,155)</b>	<b>(3,895)</b>

\* 2008-09 gap estimate is published for the first time in this Financial Plan.

\*\* The Mid-Year Update assumed the 2005-06 surplus would be used to lower the 2006-07 and 2007-08 gaps. To more clearly reflect the use of these resources, such amounts have been excluded for purposes of calculating the gaps prior to Executive Budget recommendations.

In the Mid-Year Financial Plan, DOB noted that there was a strong likelihood that revenues would exceed the levels forecasted at that time. With an additional two-and-one-half months of collections experience, DOB has increased its estimate of General Fund revenues for both 2006-07 and 2007-08, based on actual results to date and the strong underlying economy, the boost from financial services sector activity, and the strength in the real estate market.

The revised receipts projection assumes continued rapid growth in base receipts of 8 percent. The upward revision to General Fund receipts (including changes in fund balances) is \$1.4 billion. Tax revisions account for most of this revision, with the remainder of the growth split between miscellaneous receipts and Federal grants. A portion of this expected gain in receipts is due to events that have already occurred. The strong economy in 2005 will continue to drive large gains in receipts in early fiscal year 2006-07 as personal income taxpayers finalize payments on their 2005 liability. Receipts growth for the second half of 2006-07 is expected to slow reflecting the sunset of the temporary income tax surcharge, a modest cooling off of the economy, and a moderate decline in tax receipts associated with the large gains in real estate prices in 2004 and 2005, as the housing market hits a plateau. Out-year growth in tax receipts, before the impact of recommended tax actions, is expected to grow at rates consistent with the mature stage of economic expansion, in the range of 5 percent to 6 percent.

General Fund spending has been lowered from the Mid-Year estimate by roughly \$770 million in each year. In both years, DOB has lowered its spending forecast for public assistance based on caseload activity (\$94 million growing to \$110 million), pension costs due in part to updated information from the Retirement Systems (\$80 million growing to \$93 million), public health spending based on experience to date (\$102 million to \$85 million), and the impact of the Federal "clawback" under the Medicare Part D prescription drug program, after discussions with Federal officials (\$140 million growing to \$167 million). It has also raised the estimate of lottery receipts expected to be available to finance general school aid (\$97 million in 2006-07 and \$74 million in 2007-08) and adjusted the school aid forecast (\$30 million growing to \$172 million). Higher spending for the Judiciary based on its budget request, including judicial pay raises, partially offsets the reductions (roughly \$135 million annually). In addition, 2006-07 costs are reduced from earlier projections for the payment of certain Medicaid and transit expenses in 2005-06 rather than 2006-07 (\$295 million), and a one-year delay in the receipt of hospital assessment revenues available to support General Fund spending (\$106 million).

**CAUSES OF THE 2006-07 GAP ("ZERO-BASED" PERSPECTIVE)**

The 2006-07 gap results mainly from anticipated spending increases to support current service levels and the loss of non-recurring resources used to help balance the budget in 2005-06, which together exceed annual growth in underlying revenues. The following chart provides a "zero-based" look at the sources of the 2006-07 gap. It is followed by a brief summary of the assumptions behind the projections.

<b>2006-07 Causes of Budget Gaps -- Before 2006-07 Recommended Savings</b>		
<b>(millions of dollars)</b>		
<b>Current Services Revenue Growth</b>		<b>2,357</b>
Revenue Growth	4,462	
PIT Surcharge Phase-out	(1,019)	
Loss of One-time Actions	(531)	
Transfer for Higher Debt Service Costs	(263)	
STAR Fund Transfer	(163)	
Temporary Sales Tax	(129)	
<b>Current Services Spending Growth</b>		<b>(3,580)</b>
Medicaid	(953)	
State Takeover of Local Medicaid and FHP	(764)	
School Aid	(531)	
General Salary Increases	(600)	
Loss of One-time Actions	(358)	
Pensions	(116)	
Employee/Retiree Health Insurance	(197)	
All Other Spending Growth	(61)	
<b>Change in Fund Balances</b>		<b>472</b>
<b>2006-07 Budget Gap Before Recommendations</b>		<b>(751)</b>

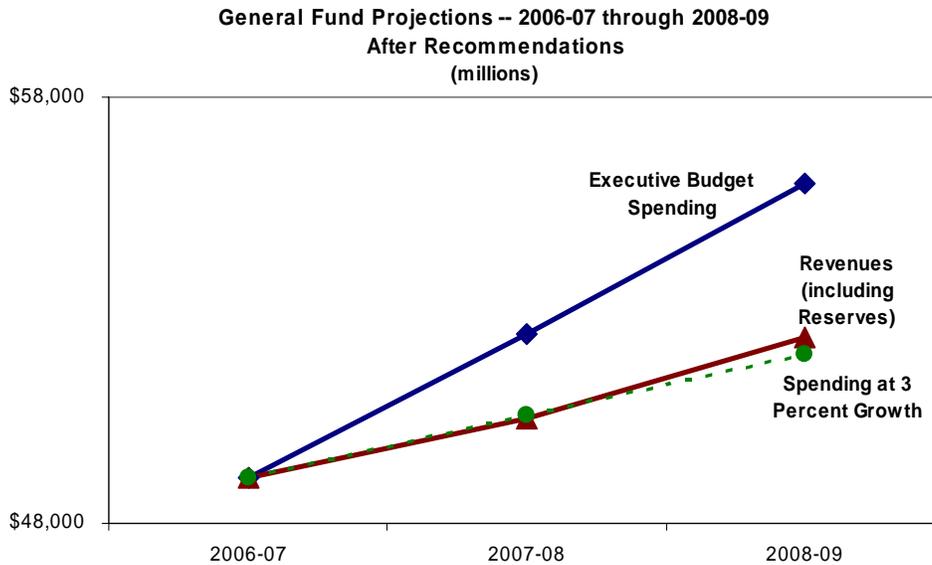
Based on the revised DOB forecast that predicts a sustained economic recovery (described in more detail in the volume of the 2006-07 Executive Budget entitled “Economic and Revenue Outlook” available on the DOB website or by contacting DOB), underlying revenues are expected to grow by over \$4.4 billion in 2006-07, or 8 percent, following projected base growth of 11 percent in 2005-06. However, this growth is offset by the phase-out of the PIT surcharge (\$1.0 billion), the loss of non-recurring revenues (\$531 million), and increasing costs for debt service and the STAR Program.

Prior to the Executive Budget recommendations, General Fund disbursements are projected to increase by \$3.6 billion in 2006-07. The main factors driving growth include higher spending to maintain current service levels in Medicaid, school aid, and other programs (\$1.6 billion); finance salary, pensions, and health insurance costs (\$913 million); the increased cost of the local Medicaid cap and State takeover of FHP costs (\$764 million); and the loss of non-recurring resources (\$358 million).

A full description of the one-time actions budgeted in 2005-06 appears in both the “2005-06 Enacted Budget Report for the State of New York” and the “2005-06 Annual Information Statement of the State of New York”.

**2006-07 GAP-CLOSING PLAN (DETAILED SUMMARY)**

The 2006-07 Executive Budget Financial Plan is balanced on a cash basis in the General Fund. In 2007-08, the recommendations, including the use of reserves, generate \$1.3 billion in net savings, leaving a gap of \$1.9 billion. In 2008-09, the annualized growth of proposed tax reductions and spending additions increases substantially, resulting in a net savings of less than \$100 million and a gap of \$3.8 billion.



Before the Executive Budget recommendations, spending is projected to grow in the range of 7 percent to 8 percent annually over the next three fiscal years. The 2006-07 budget recommendations moderate the nominal rate of growth to 5 percent in 2006-07, and under 7 percent in 2007-08 and beyond from that lower base. If future budgets were to hold spending growth to roughly 3 percent, the structural budget gaps would be essentially eliminated.

<b>General Fund Budget-Balancing Plan</b>				
(millions of dollars)				
	<b>GENERAL FUND (\$ Millions)</b>			
	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
<b>Revised Surplus/(Gaps)</b>	<b>1,991</b>	<b>(751)</b>	<b>(3,155)</b>	<b>(3,895)</b>
Spending Restraint		1,983	3,136	3,338
Fines/Fees/Other		94	155	154
Spending Additions		(406)	(834)	(1,194)
Tax Policy Changes		(844)	(2,210)	(3,268)
Debt Reduction Reserve Deposit (One-Time)		(250)	0	0
Finance Debt Reduction Deposit (One-Time)		227	0	0
Spending Stabilization (Deposit)/Use	(1,991)	(53)	1,022	1,022
<b>Executive Budget Surplus/(Gaps)</b>	<b>0</b>	<b>0</b>	<b>(1,886)</b>	<b>(3,843)</b>

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**Recommended Spending Restraint**

Recommendations to restrain spending focus heavily on the State’s Medicaid program, but also address a range of other programs and activities.

<b>General Fund Spending Restraint</b>			
<b>(millions of dollars)</b>			
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Medicaid	1,277	2,322	2,365
Medicare Part D	246	405	442
Other Financing	176	403	322
Hospital Cost Containment	163	217	210
Nursing Home Cost Containment	233	340	278
Nursing Home Assessments at 6%	0	258	258
Pharmacy Cost Containment	172	213	227
Anti-Fraud Initiatives	151	240	370
Long-Term Care Cost Containment	41	105	114
Managed Care Cost Containment	29	52	55
All Other Medicaid Savings	66	89	89
Public Universities: Flexible Cost Reductions	111	131	131
Tuition Assistance: Performance/Eligibility Incentives	136	201	207
Mental Hygiene: Patient Income Account; Audit Recoveries	180	196	204
Welfare: "Full-family" Sanctions; Work Participation Incentives	39	102	102
Public Safety: Facility closure; State Operations Savings; Fund Shifts	75	54	55
Economic Development Reductions	22	22	22
Public Health	15	18	24
GSCs: Market Rate on Judgments; Taxes on Public Lands/Interest	21	24	24
DOT (Increase Dedicated Highway Fund Bonding)	0	0	140
All Other Spending Restraint (Including Federal Maximization)	107	66	64
<b>Spending Restraint</b>	<b>1,983</b>	<b>3,136</b>	<b>3,338</b>

*Medicaid:*

- Medicare Part D: The State’s “wrap-around” prescription drug coverage for people eligible for both Medicaid and Medicare would be continued until June 30, 2006. After July 1, 2006, “wrap around” coverage would be provided only for certain critical categories of drugs, including anti-retrovirals, anti-psychotics, and drugs for organ transplants.

- **Other Financing:** Savings from cost containment, a cigarette-tax increase that permits HCRA to finance costs that would otherwise be paid from the General Fund, and program reestimates help eliminate the need for a General Fund subsidy in 2006-07 and in future years.
- **Hospitals:** Rates would not be trended for inflation, payments for Graduate Medical Education would be calculated on actual cost experience, uncomplicated detoxification services would be reimbursed more appropriately, and special rates that encourage unnecessarily long stays would be eliminated.
- **Nursing Homes:** Rates would not be adjusted or include special increases for large facilities, and would be based on an actual Medicaid-only case mix, not a blended rate that includes higher-cost Medicare cases. The Budget also extends the reimbursable 6 percent assessment on nursing home revenues and imposes a number of smaller, technical adjustments to rates.
- **Pharmacy:** The reimbursement rate for pharmacies would be based on average wholesale prices less 30 percent for generic drugs and less 15 percent for brand name drugs, consistent with private sector plans; a panel of physicians and clinicians in the Department of Health (DOH) would be granted the right of final determination in cases where a physician prescribes a non-preferred drug for a patient that does not meet appropriate clinical criteria, consistent with the practice in other states with preferred drug programs. In addition, the drug review process for the Preferred Drug program would be strengthened, prior authorization would be required for early refills of most prescriptions, and payments eliminated for erectile-dysfunction drugs.
- **Anti-Fraud:** Stepped-up reviews of claims, clinical reviews, and credentials verification would be coupled with improved computerized detection.
- **Long-Term Care:** Tougher rules would be imposed on asset transfers, and a spouse with adequate assets would no longer be able to refuse to pay for care.
- **Managed Care:** Supplemental Security Income recipients would be enrolled in managed care and the guaranteed six-month eligibility for managed care and FHP would be eliminated.
- **All Other:** Savings are generated by, among other things, rate revisions and anti-fraud initiatives by mental hygiene agencies that draw on Medicaid funding and eliminating payment for certain services provided to “unqualified aliens.”

**Public Universities:** The State’s public universities would be authorized to increase tuition if administrative savings are insufficient to finance increased operating expenses.

**Tuition Assistance Program (TAP):** Full TAP awards would be provided to students carrying a course load of 15 credits or more, and first-time TAP recipients would be expected to meet more rigorous academic standards. In addition, academic standards would be strengthened to ensure TAP funds are invested in students who demonstrate the ability to complete college-level courses.

**Mental Hygiene:** Steps would be taken to increase Patient Income Account revenues that can be used to finance General Fund spending (\$126 million). Cost containment, including audit recoveries, overtime controls, and local program reductions, also generates savings (\$54 million).

**Welfare:** If a head of household repeatedly refuses to meet mandatory work requirements, his or her family’s entire public assistance benefit would be reduced. Also, it is proposed that Supplemental Security Income benefits be factored into the calculation of public assistance benefits.

**Public Safety:** The closure of Camp Pharsalia and its transfer to the Office of Mental Health to develop a facility for sexually violent predators, as well as continued workforce management actions, generate savings.

**Economic Development Reductions:** Estimated disbursements for programs would be reduced, certain legislative additions to the 2005-06 budget would be eliminated, and money available for the redevelopment and retention of military bases would be decreased.

**Public Health:** Certain non-essential programs would be modified or eliminated and spending controls on overtime and temporary services would be put in place.

**General State Charges (GSCs):** The interest rate on judgments against the State would be calculated using market rates, not a pre-defined, above-market rate of 9 percent (\$7 million). In addition, use of interest earnings to lower health insurance costs (\$8 million) and adjustments to the calculation of taxes on public lands (\$3 million) generate savings.

**All other spending actions:** Local assistance programs for criminal justice services would be financed from a Special Revenue Fund (\$49 million), funding for teacher centers would be reduced (\$20 million), State Operations savings would be expanded including enhanced “shared services” and a range of legislative additions from the 2005-06 budget would not be continued (\$30 million).

**Recommended Fees/Fines/Other**

<b>General Fund Fines/Fees/Other (millions of dollars)</b>			
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Automated Speed Enforcement Enhancement	42	84	84
Quick Draw	38	57	57
All Other Revenue	14	14	13
<b>Fines/Fees/Other</b>	<b>94</b>	<b>155</b>	<b>154</b>

The Budget includes measures that would raise an additional \$94 million in General Fund revenues from fines and fees. Measures include new speed enforcement fees from the cameras in work zones and dangerous stretches of highway across the State, and loosening certain restrictions concerning the Quick Draw lottery game. The revenue total excludes certain actions, such as the proposed cigarette tax increase and continued assessments on nursing homes, that benefit the General Fund Financial Plan by reducing spending (these are counted in the “spending restraint” total).

**RECOMMENDED ONE-TIME RESOURCES TO FINANCE DEBT REDUCTION**

<b>General Fund Non-Recurring Resources</b> (millions of dollars)			
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
<b>Non-Recurring Resources</b>	<b>227</b>	<b>0</b>	<b>0</b>
Medicaid: Drug Rebate Revenue	72	0	0
Welfare: TANF Surplus; TANF Performance Bonus	69	0	0
Public Health: Maximize Federal Reimbursement	30	0	0
Federal World Trade Center Reimbursement	12	0	0
Higher Education Services: Fund Balance	20	0	0
Sale of Surplus Property	20	0	0
All Other Non-Recurring Resources	4	0	0
<b>Debt Reduction</b>	<b>(250)</b>	<b>0</b>	<b>0</b>
<b>Net Non-Recurring Actions</b>	<b>(23)</b>	<b>0</b>	<b>0</b>

The State typically uses some non-recurring resources each year to support its operations. In 2006-07, the Budget recommends using all the non-recurring resources to finance a \$250 million deposit into the Debt Reduction Reserve Fund to reduce debt levels. The one-time resources consist mostly of fund balances and unanticipated receipts, including:

- Available drug rebate revenues to offset Medicaid costs that would otherwise be paid by the General Fund;
- Available resources from Federal Temporary Assistance for Needy Families (TANF) block grants to finance a portion of the Earned Income Tax Credit that would otherwise be paid by the General Fund;
- Federal reimbursement for various Medicaid-related activities including anti-fraud activities and monitoring care in hospitals and nursing homes (\$30 million); and
- Routine sweeps of fund balances, increasing Federal aid, and projected asset sales account for the balance of the non-recurring actions.

**Recommended Spending Stabilization Reserve**

The Executive Budget recommends reserving the entire \$2.0 billion 2005-06 surplus and the planned \$53 million operating surplus from 2006-07. The Budget recommends that the reserve be set aside through the end of 2006-07, and then used in equal installments to help balance the 2007-08 and 2008-09 budgets.

<b>Spending Stabilization Reserve</b> (millions of dollars)				
	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Spending Stabilization Reserve (Deposit)/Use	(1,991)	(53)	1,022	1,022

**Recommended Spending Additions**

<b>General Fund Spending Additions</b>			
(millions of dollars)			
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Local Government Assistance: AIM; SMSI; Erie County Authority	72	122	167
Public Health: Grants; Special Projects	46	79	93
Mental Hygiene: "NY-NY III"; Suicide Prevention; Autism; COLA	60	148	206
Public Universities: Community College Aid; PACT	26	50	69
Medicaid: Community-based initiative; Rebase NH rates; Staffing	30	111	192
Public Safety: New Troopers; DNA testing; Operation IMPACT	47	43	60
Increase Environmental Protection Fund	30	30	30
Welfare: Increase Local Administration Fund; Strengthen Families/Fathers	17	56	60
Foster Care and Adoption COLA; Program Enhancements	14	35	48
Education: STEP/CSTEP; Capital	10	13	10
School Aid: Flex Aid 2 Percent Bonus	0	56	136
Debt Service on New Capital Spending	2	16	36
All Other Spending Additions	52	75	87
<b>Spending Additions</b>	<b>406</b>	<b>834</b>	<b>1,194</b>

The Executive Budget proposes new spending initiatives, the largest of which would increase aid to local governments and finance a cost-of-living increase for several classes of social service providers. Specific proposals include:

- Enhanced aid for municipalities and planning grants to improve local management (\$62 million in 2006-07 growing to \$167 million by 2008-09) and accelerated aid for the Erie and Buffalo control boards (an additional \$10 million in both 2006-07 and 2007-08).
- Funding for childhood obesity prevention, health laboratories, a regional perinatal monitoring data system, and higher local public health reimbursement.
- New spending for mental hygiene programs include bed development for the homeless under NY/NY III, suicide prevention/awareness, children's mental health, geriatrics, and autism. In addition, spending is recommended for increased staffing and a cost-of-living increase based on the Consumer Price Index, estimated at 2.5 percent, for not-for-profit providers.
- Increased aid for community colleges and new funding for the Empire Innovation Program.
- Community-based initiatives to promote cost-effective and quality long-term care services, updating nursing home rates based on 2003 experience, and additional staffing to implement cost containment recommendations.
- School aid recommendations provide a 2 percent State flex-aid bonus to schools that control increases in spending growth.
- More resources to fight crime through the use of DNA technology and new investigators to combat gun trafficking.

Other spending additions include cost-of-living adjustments for not-for-profit human service providers, an increase in state reimbursement for local welfare administrative costs, spending for Empire State Plaza reconstruction and repair, funding for education-related programs, and debt service costs from new bond-financed capital projects.

**Proposed Tax Reductions**

<b>Recommended Tax Policy Changes - General Fund</b> (millions of dollars)			
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
STAR Plus \$400 Rebate	(530)	(580)	(625)
STAR Seniors	(72)	(91)	(112)
Eliminate Marriage Penalty	(125)	(475)	(400)
Reduce Top PIT Rate from 6.85 % to 6.75%	0	(325)	(475)
Stretch PIT Tax Brackets and Rate Recapture	0	(325)	(475)
Primary and Secondary Education Credit	0	(400)	(400)
Eliminate Estate and Gift Tax	0	(152)	(329)
Business Taxes	(86)	(247)	(786)
Energy Assistance	0	(185)	(60)
All Other	(10)	(35)	(211)
Sales Tax on Clothing (2 weeks at \$250 vs. Permanent \$110)	(21)	605	605
<b>Total Tax Policy Changes</b>	<b>(844)</b>	<b>(2,210)</b>	<b>(3,268)</b>

The 2006-07 Budget recommends a comprehensive program to reduce State and local tax burdens. The major components of the program include:

**Local Property Tax**

- Providing STAR Plus rebates of \$400 for qualified taxpayers in school districts that control increases in school budgets; and,
- Providing a cost of living adjustment to the enhanced STAR exemption for seniors.

**Personal Income Tax**

- Eliminating the remaining marriage penalty by increasing the standard deduction for married taxpayers and doubling the threshold where the rate table recapture applies;
- Reducing the top tax rate to 6.75 percent from 6.85 percent;
- Increasing the income threshold where the top income tax rate applies from \$40,000 to \$60,000 for married taxpayers and from \$20,000 to \$30,000 for single taxpayers;
- Providing a primary and secondary education credit for qualified expenses for students residing in under-performing school districts;
- Providing a refundable credit to seniors for increased energy bills;
- Allowing a credit for the purchase or upgrade to a more energy-efficient home heating system; and,
- Providing a credit for the rehabilitation of historic homes.

**Business Taxes**

- Simplifying and reforming the corporate and bank tax by eliminating the alternative minimum and capital bases;
- Reducing the top corporate tax rate to 6.75 percent (consistent with the proposed top income tax rate);
- Allowing the immediate expensing of capital investments in New York;

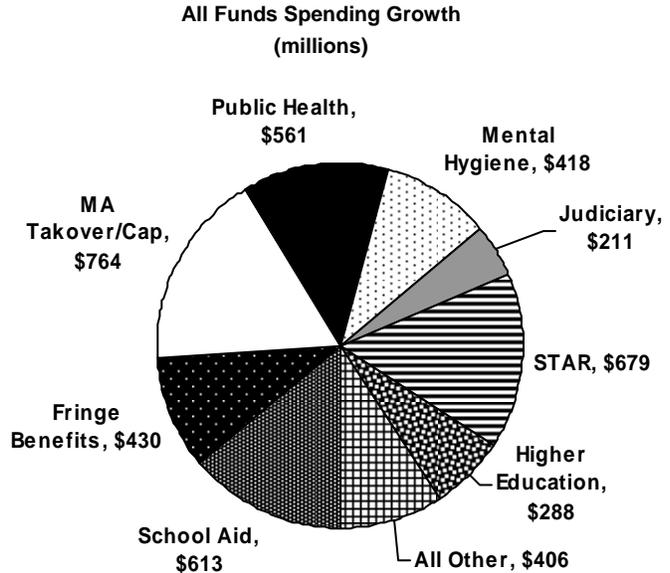
- Eliminating the S-corporation differential tax rate;
- Authorizing new economic development zones tied to the Centers for Excellence;
- Making permanent and increasing the annual allocation for the film credit program; and,
- Reducing taxes imposed on certain life insurance companies.

**Other Actions**

- Eliminating the estate tax by gradually increasing the exemption threshold and then eliminating the tax;
- Providing an increased vendor allowance for businesses remitting the sales tax to compensate them for the cost of compliance; and,
- Providing a two-week sales tax exemption for clothing purchases up to \$250 instead of reverting to a permanent \$110 exemption.

**BUDGET IMPACT ON SPENDING GROWTH FOR MAJOR PROGRAMS**

General Fund spending, including transfers to other funds, is projected to total \$49.6 billion in 2006-07, an increase of \$2.4 billion over the current year forecast (5.1 percent; 2.4 percent excluding Medicaid takeover and the STAR Plus program). State Funds spending, which includes both the General Fund and spending from other funds supported by State revenues, is projected to increase by \$4.6 billion (6.6 percent; 4.8 percent without MA takeover and STAR Plus) and total \$75 billion in 2006-07. All Funds spending, the broadest measure of spending, is projected to total \$110.7 billion in 2006-07, an increase of \$4.4 billion (4.1 percent; 2.9 percent without Medicaid takeover and STAR-Plus).



The 2006-07 Financial Plan includes \$764 million in spending growth related to the State cap on local Medicaid costs and the takeover of the entire FHP program, and \$530 million for a recommended \$400 STAR Plus rebate. To provide a comparable basis for calculating annual growth, the 2006-07 estimates in the extracts to the Financial Plan are presented on both an “adjusted” (i.e., excluding the incremental growth in State spending for these items) and an unadjusted basis.

<b>Total Disbursements (millions of dollars)</b>					
	<b>2005-06 Revised</b>	<b>2006-07 Proposed</b>	<b>Annual \$ Change</b>	<b>Annual % Change</b>	<b>Adjusted % Change*</b>
General Fund	47,233	49,638	2,405	5.1%	2.4%
State Funds	70,353	74,998	4,645	6.6%	4.8%
All Funds	106,374	110,744	4,370	4.1%	2.9%

\* Excludes \$764 million for the MA Cap/FHP Takeover and \$530 million for the STAR Plus program.

The major sources of annual spending from 2005-06 to 2006-07 are presented in the table below. The estimates assume the Executive Budget recommendations are approved in their entirety.

<b>Disbursement Projections -- After Recommended Savings Major Sources of Annual Change (millions of dollars)</b>			
	<b>General</b>	<b>State</b>	<b>All</b>
<b>2005-06 Revised Estimate</b>	<b>47,233</b>	<b>70,353</b>	<b>106,374</b>
Medicaid Takeover	764	764	764
STAR/STAR Plus	530	679	679
School Aid	494	577	613
General State Charges	341	405	430
Mental Hygiene	319	445	418
Judiciary	206	211	211
Corrections	105	116	90
Public Health	31	513	561
Debt Service	4	395	395
Transportation	(90)	210	185
Higher Education	(109)	281	288
All Other	(190)	49	(264)
<b>2006-07 Executive Budget Estimate</b>	<b>49,638</b>	<b>74,998</b>	<b>110,744</b>
<i>Dollar Change</i>	<i>2,405</i>	<i>4,645</i>	<i>4,370</i>
<i>Percent Change</i>	<i>5.1%</i>	<i>6.6%</i>	<i>4.1%</i>
<i>Percent Change Excluding Cap/Takeover/STAR Plus</i>	<i>2.4%</i>	<i>4.8%</i>	<i>2.9%</i>

## 2006-07 GOVERNMENTAL FUNDS FINANCIAL PLAN (FUND TYPE)

This section summarizes the 2006-07 Financial Plan from the perspective of each of the four major fund types that comprise the All Funds budget: the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

### GENERAL FUND

DOB projects General Fund receipts, including transfers from other funds, to total \$50.2 billion in 2006-07, an increase of \$2.2 billion (4.7 percent) from the current year. The increase in General Fund receipts is the result of increased collections from PIT and sales taxes, and miscellaneous receipts. General Fund tax receipt growth is projected at 5.8 percent. General Fund miscellaneous receipts are projected to increase by 4.5 percent.

<b>General Fund Receipts</b> (millions of dollars)				
	<b>2005-06</b> <b>Revised</b>	<b>2006-07</b> <b>Proposed</b>	<b>Annual</b> <b>Change</b>	<b>Percent</b> <b>Change</b>
Personal Income Tax	20,827	22,654	1,827	8.8%
User Taxes and Fees	8,637	8,810	173	2.0%
Business Taxes	4,973	4,999	26	0.5%
Other Taxes	894	900	6	0.7%
Miscellaneous Receipts	2,591	2,708	117	4.5%
Federal Grants	9	9	0	0.0%
Transfers From Other Funds:				
Revenue Bond Tax Fund (PIT)	6,541	6,932	391	6.0%
LGAC Fund (Sales Tax)	2,285	2,356	71	3.1%
CW/CA Fund (Real Estate Transfer Tax)	705	532	(173)	-24.5%
All Other	468	266	(202)	-43.2%
<b>Total Receipts</b>	<b>47,930</b>	<b>50,166</b>	<b>2,236</b>	<b>4.7%</b>

Personal income tax receipts directly deposited to the General Fund are projected to reach \$22.7 billion in 2006-07, a percentage increase of 8.8 percent. User taxes and fees receipts for 2006-07 are projected to reach \$8.8 billion, an increase of \$173 million, or 2 percent from 2005-06. The sales tax, the largest tax within user taxes, is projected to increase \$170 million, or 2.1 percent. The low growth in sales tax receipts is due in part to the expiration of the one-quarter percent sales tax surcharge offset by modest base growth. Business tax receipts are projected to total \$5 billion, following extraordinary growth in 2005-06 are projected to remain virtually unchanged in 2006-07, reflecting the factors described above.

Miscellaneous receipts are projected to total \$2.7 billion in 2006-07, up \$117 million or 4.5 percent from 2005-06. Proposed fee and fine legislation, as well as revised assumptions with respect to investment income receipts, account for the change.

**Transfers From Other Funds**

Transfers from other funds are expected to total \$10.1 billion in 2006-07, an increase of \$87 million from 2005-06. Portions of PIT, sales tax, and the real estate transfer tax support debt service due on State PIT bonds, LGAC bonds, and General Obligation bonds. The excess of tax receipts over debt service is transferred back to the General Fund. Annual growth in these dedicated tax receipts (\$551 million) is partially offset by an increase in debt service costs (\$262 million).

All other transfers are projected to total \$266 million in 2006-07, a decrease of \$202 million. The change is a result of lower fund sweeps (\$87 million) and in transfers expected from the Tribal State Compact Account (\$49 million).

**Disbursements**

The State projects General Fund disbursements, including transfers to other funds, of \$49.6 billion in 2006-07, an increase of \$2.4 billion (5.1 percent) from the current year. Increases in Grants to Local Governments (\$1.6 billion), State Operations (\$642 million), and General State Charges (\$341 million) are partially offset by a decrease in transfers to other funds (\$148 million).

<b>General Fund Disbursements (millions of dollars)</b>				
	<b>2005-06 Revised</b>	<b>2006-07 Proposed</b>	<b>Annual Change</b>	<b>Percent Change</b>
<b>Grants to Local Governments</b>	<b>32,085</b>	<b>33,655</b>	<b>1,570</b>	<b>4.9%</b>
School Aid	13,494	13,988	494	3.7%
Medicaid	8,291	8,841	550	6.6%
Higher Education	2,220	2,105	(115)	-5.2%
All Other Education	1,534	1,527	(7)	-0.5%
Mental Hygiene	1,405	1,539	134	9.5%
OCFS	1,249	1,302	53	4.2%
Welfare	1,265	1,277	12	0.9%
All Other	2,627	3,076	449	17.1%
<b>State Operations</b>	<b>8,246</b>	<b>8,888</b>	<b>642</b>	<b>7.8%</b>
Personal Service	5,789	6,413	624	10.8%
Non-Personal Service	2,457	2,475	18	0.7%
<b>General State Charges</b>	<b>4,003</b>	<b>4,344</b>	<b>341</b>	<b>8.5%</b>
Health Insurance	2,204	2,399	195	8.8%
Pensions	1,101	1,221	120	10.9%
All Other	698	724	26	3.7%
<b>Transfers to Other Funds</b>	<b>2,899</b>	<b>2,751</b>	<b>(148)</b>	<b>-5.1%</b>
Debt Service	1,727	1,731	4	0.2%
Capital Projects	210	255	45	21.4%
All Other	962	765	(197)	-20.5%
<b>Total Disbursements</b>	<b>47,233</b>	<b>49,638</b>	<b>2,405</b>	<b>5.1%</b>

### ***Grants to Local Governments***

Grants to local Governments include financial aid to local governments and non-profit organizations, as well as entitlement payments to individuals. After the impact of Executive Budget recommendations, local assistance spending is projected at \$33.7 billion in 2006-07, an increase of \$1.6 billion from the current year. The largest increases are for the Medicaid cap and FHP takeover (\$764 million), the new STAR Plus rebate program (\$530 million), and school aid (\$494 million).

### ***State Operations***

State Operations accounts for the cost of running the Executive, Legislative, and Judicial branches of government and is projected to total \$8.9 billion in 2006-07, an increase of \$642 million (7.8 percent) from the current year. Personal service costs (e.g., State employee payroll) comprise 72 percent of State Operations spending. The remaining 28 percent represents non-personal service costs for contracts, rent, supplies, and other operating expenses.

Personal service spending, after Executive Budget actions, totals \$6.4 billion in 2006-07, an increase of \$624 million or 10.8 percent. Growth is affected by the use of \$150 million in patient income revenues in 2006-07 to offset General Fund non-personal service spending instead of personal service spending, as was done in 2005-06. The change results in a \$150 million annual increase in personal service spending and a comparable decrease in non-personal spending. Adjusting for this reclassification, personal service is projected to increase by \$474 million from 2005-06. The growth is primarily due to salary increases (\$309 million) and pay raises for judges proposed by the Judiciary (\$70 million). Non-personal service spending totals \$2.4 billion, an increase of \$18 million from the current year. Adjusting for the \$150 million patient income revenue reclassification, growth is \$168 million (6.8 percent). Growth in inflation (\$88 million) and energy costs (\$35 million) account for the change.

The amounts above reflect \$385 million of savings from budget actions, including the sharing or consolidation of services, maximizing patient income revenues, and utilizing other revenue sources to support costs.

DOB projects the Executive branch workforce will total 191,100 in 2006-07, a decrease of 400 from the current-year estimate.

### ***General State Charges***

General State Charges 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 General State Charges is projected to be \$4.3 billion in 2006-07, an increase of \$341 million (8.5 percent) over the current year. This annual increase is due mostly to rising costs of employee health benefits (an increase of \$195 million to \$2.4 billion) and higher costs related to employer pension contributions (an increase of \$109 million to \$1.1 billion).

### Transfers to Other Funds

Transfers to Other Funds are projected to total \$2.8 billion in 2006-07 and include General Fund transfers for debt service (\$1.7 billion), capital projects (\$255 million), and other funds (\$765 million).

General Fund transfers for debt service increased by \$4 million (0.2 percent) from 2005-06. Transfers to support capital projects increase by \$45 million, mainly for recommended maintenance (\$10 million) and revisions across all programs based on updated information. The decline in other funds transfers is largely due to a non-recurring transfer from the General Fund to the Lottery Fund to support a shortfall in receipts (\$183 million). In addition, all other transfers reflect \$130 million to the VLT account in 2005-06 and another \$100 million in 2006-07 to supplement receipts until VLTs become fully operational at Yonkers and Aqueduct racetracks. Those amounts are held in reserve for SBE.

### SPECIAL REVENUE FUNDS

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

In 2006-07, the Special Revenue Funds Cash Financial Plan projects total receipts of \$52.5 billion, total disbursements of \$54.2 billion, net other financing sources of \$379 million, and use of fund balances of \$1.4 billion, resulting in a closing fund balance of \$1.8 billion. The use of fund balances consists primarily of health care conversion proceeds available in 2005-06 that will be used to support HCRA programs in 2006-07.

### Receipts

Total 2006-07 Special Revenue Fund receipts are projected to decrease by \$1.2 billion (2.2 percent) from the current year forecast. This change is comprised of a decline in miscellaneous receipts (\$1.7 billion) and Federal grants (\$90 million) offset by an increase in taxes (\$646 million). The major components of these receipt changes are summarized below.

<b>Special Revenue Funds Receipts</b>				
<b>(millions of dollars)</b>				
	<b>2005-06</b>	<b>2006-07</b>	<b>Annual</b>	<b>Percent</b>
	<b>Revised</b>	<b>Proposed</b>	<b>Change</b>	<b>Change</b>
Taxes	5,963	6,609	646	10.8%
Miscellaneous Receipts	13,249	11,509	(1,740)	-13.1%
Federal Grants	34,428	34,338	(90)	-0.3%
<b>Total Receipts</b>	<b>53,640</b>	<b>52,456</b>	<b>(1,184)</b>	<b>-2.2%</b>

## ***Taxes***

Tax receipts in the Special Revenue Fund are projected to be \$6.6 billion in 2006-07, an increase of \$646 million (10.8 percent) over the current year forecast. This growth primarily includes the proposed per-pack cigarette tax increase from \$1.50 to \$2.50 (\$413 million), growth in tax receipts dedicated to Mass Transit (\$54 million) and the Dedicated Mass Transportation Trust Fund (\$29 million), and additional taxes dedicated to support the STAR program resulting from a proposed cost of living adjustment for seniors, and increased participation by taxpayers and local tax levy growth (\$149 million).

## ***Miscellaneous Receipts***

Miscellaneous receipts are projected to be \$11.5 billion, an annual decrease of \$1.7 billion (13.1 percent) from the current year forecast. The annual decline is primarily due to the receipt of \$2.7 billion health care conversion proceeds in 2005-06 that will be used to support State Medicaid and other public health care costs, partially offset by higher lottery receipts, including VLT revenues, due to expected development of new VLT facilities (\$324 million) and higher SUNY receipts (\$129 million).

## ***Federal Grants***

Federal grants are projected to be \$34.3 billion, a decrease of \$90 million (0.3 percent) from the current year. Changes to Federal grants generally correspond to changes in federally-reimbursed spending. However, since Federal reimbursement is assumed to be received in the State fiscal year in which spending occurs, timing-related variances may result. Spending for homeland security (\$289 million), elections (\$208 million), welfare (\$200 million), Mental Hygiene (\$97 million), and Public Health (\$84 million) are expected to increase from 2005-06 levels. These increases are more than offset by declines in Medicaid (\$551 million), Children and Families (\$293 million), and Criminal Justice Services (\$183 million).

## Disbursements

<b>Special Revenue Funds Disbursements</b> (millions of dollars)				
	<b>2005-06 Revised</b>	<b>2006-07 Proposed</b>	<b>Annual Change</b>	<b>Percent Change</b>
<b>Grants to Local Governments</b>	<b>44,392</b>	<b>44,926</b>	<b>534</b>	<b>1.2%</b>
Medicaid	23,769	23,427	(342)	-1.4%
School Aid	4,826	4,978	152	3.1%
STAR	3,219	3,368	149	4.6%
Transportation	2,287	2,275	(12)	-0.5%
Social Services	4,540	4,445	(96)	-2.1%
Public Health	3,154	3,482	329	10.4%
Mental Hygiene	1,369	1,425	56	4.1%
All Other	1,228	1,526	298	24.2%
<b>State Operations</b>	<b>8,100</b>	<b>8,398</b>	<b>298</b>	<b>3.7%</b>
Personal Service	4,901	4,926	25	0.5%
Non-Personal Service	3,199	3,472	273	8.5%
<b>General State Charges</b>	<b>771</b>	<b>860</b>	<b>89</b>	<b>11.5%</b>
<b>Capital Projects</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>50.0%</b>
<b>Total Disbursements</b>	<b>53,265</b>	<b>54,187</b>	<b>922</b>	<b>1.7%</b>

Total Special Revenue Fund disbursements are projected to be \$54.1 billion, an increase of \$922 million (1.7 percent) from the current forecast. The annual growth is due primarily to increases in Grants to Local Governments (\$534 million) and State Operations (\$298 million).

### Grants to Local Governments

Grants to Local Governments are projected at \$44.9 billion, an annual increase of \$534 million (1.2 percent) from the 2005-06 projection. Sources of growth in major programs include higher spending in public health primarily from Special Revenue Funds financed by HCRA resources (\$257 million) and Federal Funds (\$59 million); aid for education for instructional support (\$152 million), and STAR due to a proposed cost of living adjusted for seniors, and increased participation by taxpayers and local tax levy growth (\$149 million). All other changes consist of growth in Federal spending for implementation of the Help America Vote Act (\$190 million). An expected decline in Federal Medicaid reimbursement due to State cost containment (\$342 million), a decrease in spending financed by TANF, and a declining public assistance caseload partially offset this growth (\$96 million).

### State Operations

State Operations disbursements are projected to be \$8.4 billion, an increase of \$298 million (3.7 percent) from 2005-06. Annual growth in personal service and non-personal service amount to \$174 million and \$124 million, respectively, after adjusting for the reclassification of spending from personal service to non-personal service. Spending increases are the result of collective bargaining agreements and performance advances (\$184 million) and inflation (\$101 million).

**General State Charges**

Disbursements for General State Charges are projected to be \$860 million in 2006-07, an increase of \$89 million (11.5 percent) from the current year. Growing employer pension contributions and higher health insurance costs account for most of the annual growth in General State Charges.

**OTHER FINANCING SOURCES/(USES)**

<b>Special Revenue Funds Other Financing Sources/(Uses)</b>				
<b>(millions of dollars)</b>				
	<b>2005-06 Revised</b>	<b>2006-07 Proposed</b>	<b>Annual Change</b>	<b>Percent Change</b>
Transfers From Other Funds	3,780	3,575	(205)	-5.4%
Transfers To Other Funds	(3,005)	(3,196)	(191)	6.4%
<b>Net Other Financing Sources (Uses)</b>	<b>775</b>	<b>379</b>	<b>(396)</b>	<b>-51.1%</b>

Transfers from other funds are projected to total \$3.6 billion, a decrease of \$205 million (5.4 percent) from the current year. Non-recurring transfers, from the General Fund to the Lottery Fund to support a shortfall in receipts (\$183 million) and to HCRA to finance a prior year excess medical malpractice loan (\$45 million), accounts for the majority of the change.

Transfers to other funds are estimated to be \$3.2 billion, an increase of \$191 million (6.4 percent) from 2005-06. The annual growth is due to increased capital spending for HEAL-NY supported by HCRA (\$139 million), an increase in Federal Medicaid reimbursement for Mental Hygiene services before payment of debt service (\$97 million), and a transfer from the Revenue Arrearage Account to support costs associated with the Financial Management System (\$55 million), partially offset by a net decrease in fund sweeps (\$60 million) and decline in transfers expected from the Tribal State Compact Account (\$49 million).

**CAPITAL PROJECTS FUNDS**

The following section summarizes activity in the Capital Projects Fund type. For a complete explanation of the State’s capital and debt programs, see the 2006-07 Executive Budget volume entitled “Capital Program and Financing Plan” with the Executive Budget.

The Capital Projects Fund group accounts for spending from the Capital Projects Fund (Fund 002), 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, but is reported in the State’s GAAP Financial Statements. The unreported spending is related to programs which are financed directly from bond proceeds which are on deposit at various public authorities, rather than from a short-term loan from Short-Term Investment Pool or cash from the General Fund. Such capital spending is projected at \$1.2 billion in 2005-06 and \$1.4 billion in 2006-07.

## Receipts

<b>Capital Projects Fund Receipts</b> (millions of dollars)				
	<b>2005-06</b> <b>Revised</b>	<b>2006-07</b> <b>Proposed</b>	<b>Annual</b> <b>Change</b>	<b>Percent</b> <b>Change</b>
Taxes	1,851	1,960	109	5.9%
Miscellaneous Receipts	3,311	4,054	743	22.4%
Federal Grants	1,782	1,754	(28)	-1.6%
<b>Total Receipts</b>	<b>6,944</b>	<b>7,768</b>	<b>824</b>	<b>11.9%</b>
GAAP Adjustment	(1,166)	(1,414)	(248)	21.3%
Spending Delays	(430)	(750)	(320)	74.4%
<b>Financial Plan Total</b>	<b>5,348</b>	<b>5,604</b>	<b>256</b>	<b>4.8%</b>

Total Capital Projects Fund receipts include dedicated tax receipts from highway-related taxes deposited into the Dedicated Highway and Bridge Trust Fund, and real estate transfer taxes deposited into the Environmental Protection Fund. 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. Federal grants reflect reimbursements for State spending advanced pursuant to agreements with various Federal agencies.

### *Taxes*

Taxes deposited to the Capital Projects Fund are projected to be almost \$2.0 billion in 2006-07, an increase of \$109 million (5.9 percent) from 2005-06. The projected growth reflects increases in highway-related taxes deposited to the Dedicated Highway and Bridge Trust Fund and a statutory dedication of \$147 million in 2006-07 from the real estate transfer tax to the Environmental Protection Fund.

### *Miscellaneous Receipts*

Miscellaneous receipts are projected to total over \$4.0 billion in 2006-07, an increase of \$743 million from the current year. The projected increases in education (\$287 million), economic development and government oversight (\$162 million), transportation (\$108 million), and mental hygiene (\$66 million) programs financed with public authority bond proceeds are responsible for the growth.

### *Federal Grants*

Federal grants are estimated at \$1.8 billion in 2006-07, virtually unchanged from 2005-06. While total grants are projected to decrease slightly by \$28 million, grants to finance projects for the Division of Military and Naval Affairs and World Trade Center are projected to increase by \$18 million. These increases are offset by decreases in transportation (\$42 million) and for grants to reimburse spending levels for various environmental protection programs (\$5 million).

**Disbursements**

<b>Capital Projects Fund Disbursements</b> (millions of dollars)				
	<b>2005-06</b>	<b>2006-07</b>	<b>Annual</b>	<b>Percent</b>
	<b>Revised</b>	<b>Proposed</b>	<b>Change</b>	<b>Change</b>
Transportation	3,518	3,827	309	8.8%
Parks and Environment	677	656	(21)	-3.1%
Economic Development and Gov't Oversight	524	686	162	30.9%
Health and Social Welfare	141	274	133	94.3%
Education	906	1,213	307	33.9%
Public Protection	265	301	36	13.6%
Mental Health	297	365	68	22.9%
General Government	119	163	44	37.0%
Other	94	166	72	76.6%
<b>Total Disbursements</b>	<b>6,541</b>	<b>7,651</b>	<b>1,110</b>	<b>17.0%</b>
GAAP Adjustment	(1,166)	(1,414)	(248)	21.3%
Spending Delays	(393)	(750)	(357)	90.8%
<b>Financial Plan Total</b>	<b>4,982</b>	<b>5,487</b>	<b>505</b>	<b>10.1%</b>

Spending from the Capital Projects Fund (prior to adjustments) is projected to total over \$7.7 billion in 2006-07, an increase of \$1.1 billion. The majority of the increase is for programs in transportation (\$309 million) and education (\$307 million). The balance of the increase is distributed among economic development programs (\$162 million), health and social welfare (\$133 million), public protection and general government (\$80 million), mental hygiene (\$68 million), and all other areas (\$50 million).

**Other Financing Sources/(Uses)**

<b>Capital Projects Funds Other Financing Sources (Uses)</b> (millions of dollars)				
	<b>2005-06</b>	<b>2006-07</b>	<b>Annual</b>	<b>Percent</b>
	<b>Revised</b>	<b>Proposed</b>	<b>Change</b>	<b>Change</b>
Transfers From Other Funds	239	453	214	89.5%
Transfers To Other Funds	(916)	(860)	56	-6.1%
Bond Proceeds	167	351	184	110.2%
<b>Net Other Financing Sources (Uses)</b>	<b>(510)</b>	<b>(56)</b>	<b>454</b>	<b>-89.0%</b>

Transfers from other funds are estimated at \$453 million in 2006-07, an increase of \$214 million from 2005-06. The change is attributable to an increase in the transfer from the General Fund to the Capital Projects Fund (\$45 million), which supports pay-as-you-go capital spending in a variety of agencies. Also included is the transfer of \$139 million from HCRA directly to the Capital Projects Fund to finance anticipated spending for HEAL New York. In 2005-06 the transfer from HCRA for HEAL New York was made to the General Fund, which then financed the spending from the Capital Projects Fund.

Capital Projects Fund transfers to other funds declines from 2005-06 (\$916 million) to 2006-07 (\$860 million) and reflects primarily the elimination of the major portion of cash transfers from the Environmental Protection Fund to the General Fund.

On this table, bond proceeds reflect General Obligation bonds which are issued pursuant to voter approval as opposed to bonds issued for the State by public authorities pursuant to contractual agreements. The \$351 million estimate for 2006-07 is \$184 million higher than the estimate for 2005-06 and primarily reflects the first full year of spending activity for the recently approved Rebuild and Renew New York 2005 General Obligation bonds.

### **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 2006-07 Executive Budget volume entitled "Capital Program and Financing Plan".

Debt Service Funds are used to account for all receipts, transfers and debt service payments made on State-supported bonds. State-supported bonds 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, Dormitory Authority of the State of New York, Thruway Authority, LGAC) for which the State is contractually obligated to pay debt service, subject to an appropriation. Debt service is paid through transfers from the General Fund, dedicated taxes and fees, and other resources, such as patient income revenues.

Total receipts in the debt service funds are projected at \$11.6 billion in 2006-07. Total debt service disbursements are expected to total \$4.2 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**

<b>Debt Service Funds Receipts</b>				
<b>(millions of dollars)</b>				
	<b>2005-06</b>	<b>2006-07</b>	<b>Annual</b>	<b>Percent</b>
	<b>Revised</b>	<b>Proposed</b>	<b>Change</b>	<b>Change</b>
Taxes	10,368	10,919	551	5.3%
Miscellaneous Receipts	686	665	(21)	-3.1%
<b>Total Receipts</b>	<b>11,054</b>	<b>11,584</b>	<b>530</b>	<b>4.8%</b>

Total Debt Service Funds receipts are projected to be \$11.6 billion, an increase of \$530 million (4.8 percent) from 2005-06. The annual growth is due to increases in dedicated taxes (\$551 million) as well as a modest decrease in miscellaneous receipts (\$21 million). These changes are described in more detail below.

### **Taxes**

The \$551 million (5.3 percent) increase in taxes deposited to the Debt Service Funds is attributable to growth in dedicated personal income tax receipts deposited to the Revenue Bond Tax Fund (\$610 million), growth in sales and use taxes deposited to the Local Government Assistance Tax Fund (\$106 million), and reduced real estate transfer taxes deposited to the Clean Water/Clean Air Fund (\$165 million). Starting in 2006-07, an additional portion of the real estate transfer tax deposits will be redirected to the Environmental Protection Fund to further support environmental programs.

**Miscellaneous Receipts**

The projected \$21 million decrease from 2005-06 is due to higher receipts from SUNY dormitory fees (\$9 million) offset by less patient income for mental hygiene facilities (\$31 million). Patient income for health facilities, as well as receipts supporting general obligation housing bonds, are essentially unchanged.

**Disbursements**

<b>Debt Service Funds Disbursements (millions of dollars)</b>				
	<b>2005-06 Revised</b>	<b>2006-07 Proposed</b>	<b>Annual Change</b>	<b>Percent Change</b>
General Debt Service Fund	3,076	3,375	299	9.7%
LGAC	324	358	34	10.5%
Mental Health	290	333	43	14.8%
All Other	103	117	14	13.6%
<b>Total Disbursements</b>	<b>3,793</b>	<b>4,183</b>	<b>390</b>	<b>10.3%</b>

Total disbursements from the Debt Service Funds are projected to increase from \$3.8 billion in 2005-06 to \$4.2 billion in 2006-07. The increase primarily reflects planned increases in debt service costs to support ongoing bonded capital needs. Offsetting these increases are several savings initiatives being implemented with the 2006-07 Executive Budget. Specifically, the State will continue to use highly rated PIT revenue bonds (in lieu of more costly service contract bonds) to finance a variety of capital programs; maximize savings opportunities using available swaps capacity; employ less costly variable rate debt if market conditions are favorable; and optimize interest earnings on debt service funds, which are deposited in advance of bondholder payments. Together, these management initiatives are expected to save the State \$50 million in 2006-07.

**General Debt Service Fund**

Spending from the General Debt Service Fund is projected to increase by \$299 million (9.7 percent). As the State continues to transition from State appropriation backed bonds to PIT revenue bonds to finance its capital needs, spending in the General Debt Service Fund will decline, while spending in the Revenue Bond Tax Fund will increase proportionally.

**LGAC**

The LGAC Tax Fund is projected to receive \$2.7 billion in 2006-07 from the dedicated one-cent statewide sales tax. Debt service and related costs on LGAC bonds are projected at \$358 million in 2006-07, an increase of \$34 million (10.5 percent) from the current year. Local aid payments due to the State Tax Asset Receivable Corporation 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 \$333 million in 2006-07. Debt service and related costs for this program are projected to increase by \$43 million (14.8 percent) from 2005-06 levels. This increase is driven by new issuances to support the Mental Health program coupled with lower recurring refunding savings.

**All Other**

This category includes debt service spending from the Health Income Fund, Housing Debt Fund, and the SUNY Dormitory Income Fund. The \$14 million increase in spending from 2005-06 is largely attributable to increased debt service for SUNY dormitory bonds (\$18 million).

**Other Financing Sources/(Uses)**

<b>Debt Service Funds Other Financing Sources (Uses)</b>				
<b>(millions of dollars)</b>				
	<b>2005-06</b>	<b>2006-07</b>	<b>Annual</b>	<b>Percent</b>
	<b>Revised</b>	<b>Proposed</b>	<b>Change</b>	<b>Change</b>
Transfers From Other Funds	5,182	5,350	168	3.2%
Transfers To Other Funds	(12,437)	(12,744)	(307)	2.5%
<b>Net Other Financing Sources (Uses)</b>	<b>(7,255)</b>	<b>(7,394)</b>	<b>(139)</b>	<b>1.9%</b>

The increase in transfers from other funds compared to 2005-06 (\$168 million) reflects increased transfers from the Federal Health and Human Services Special Revenue Funds to the Mental Health Services Fund (\$97 million) and the Dedicated Highway and Bridge Trust Fund (\$19 million), along with higher transfers from the General Fund (\$4 million) and SUNY Operations (\$11 million) to the General Debt Service Fund, the Centralized Service Fund (\$17 million) to the Revenue Bond Tax Fund, and modest increases in other transfers (\$20 million).

The \$307 million (2.5 percent) increase in Transfers to other funds from 2005-06 reflects the excess beyond the debt service due on State PIT Revenue Bonds from the Revenue Bond Tax Fund (\$390 million) and the Local Government Assistance Tax Fund (\$72 million), offset by reduced transfers to the General Fund from the Clean Water Debt Service Fund (\$173 million), and modest increases in other transfers (\$18 million).

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

### REVISIONS TO THE GAP FORECAST

The following tables summarize the impact of the 2006-07 Budget recommendations on the 2007-08 and 2008-09 budget gaps, as well as the annual changes in projected receipts, disbursements, and the use of reserves.

2006-07 Executive Budget Recommendations Impact on General Fund Operating Balance (millions of dollars)			
	2006-07	2007-08	2008-09
"Current Services" Surplus/(Gaps)	(751)	(3,155)	(3,895)
Spending Reductions	1,983	3,136	3,338
Fines/Fees/Other	94	155	154
Spending Additions	(406)	(834)	(1,194)
Tax Policy Changes	(844)	(2,210)	(3,268)
Debt Reduction Reserve Deposit (One-Time)	(250)	0	0
Finance Debt Reduction Deposit (One-Time)	227	0	0
Spending Stabilization (Deposit)/Use	(53)	1,022	1,022
<b>Executive Budget Gaps</b>	<b>0</b>	<b>(1,886)</b>	<b>(3,843)</b>

General Fund Financial Plan Projections, 2006-07 through 2008-09 (millions of dollars)					
	2006-07	2007-08	Annual Change	2008-09	Annual Change
Receipts	50,166	50,011	(155)	51,465	1,454
Disbursements	49,638	52,809	3,171	56,320	3,511
Balances/Reserves (Deposit)/Use	(528)	912	1,440	1,012	100
<b>Executive Budget Gaps</b>	<b>0</b>	<b>(1,886)</b>	<b>(1,886)</b>	<b>(3,843)</b>	<b>(1,957)</b>

## OUT-YEAR RECEIPT PROJECTIONS

General Fund receipts, including transfers from other funds, are projected to total \$50.2 billion in 2007-08, a decrease of \$155 million from 2006-07 projections. Receipts decline as recommended tax reductions are phased in. Receipts are projected to grow by \$1.4 billion in 2008-09 to total \$51.5 billion. The growth in underlying tax receipts for 2006 through 2008 is consistent with average growth during the mature stages of an economic expansion. A more detailed comparison of historical and projected growth rates for tax receipts is contained in the Executive Budget volume entitled "Economic and Revenue Outlook: Analysis and Methodology," available on the DOB website or by contacting DOB. In general, there is significant uncertainty associated with forecasts of receipts more than 18 months into the future. Overall, the tax receipt projections for the out-years follow the path dictated by our forecast of economic growth. History suggests a large range of potential outcomes around these estimates.

<b>General Fund Receipts Forecast</b> (millions of dollars)					
	<b>2006-07</b>	<b>2007-08</b>	<b>Annual Change</b>	<b>2008-09</b>	<b>Annual Change</b>
Personal Income Tax	22,654	22,519	(135)	24,014	1,495
User Taxes and Fees	8,810	9,131	321	9,416	285
Business Taxes	4,999	5,083	84	4,696	(387)
Other Taxes	900	817	(83)	703	(114)
Miscellaneous Receipts	2,708	2,573	(135)	2,342	(231)
Federal Grants	9	9	0	9	0
Transfers from Other Funds					
Revenue Bond Fund	6,932	6,695	(237)	7,013	318
LGAC Fund	2,356	2,455	99	2,548	93
CW/CA Fund	532	515	(17)	507	(8)
All Other	266	214	(52)	217	3
<b>Total Receipts</b>	<b>50,166</b>	<b>50,011</b>	<b>(155)</b>	<b>51,465</b>	<b>1,454</b>
<i>Annual Percent Change</i>			-0.3%		2.9%

### Taxes

In general, income tax growth for 2007-08 and 2008-09 is governed by projections of growth in taxable personal income and its major components, including wages, interest and dividend earnings, realized taxable capital gains, and business net income and income derived from partnerships and S Corporations.

General Fund income tax receipts are projected to decrease by \$135 million to \$22.5 billion in 2007-08. The change from 2006-07 reflects growth in underlying liability, offset by the phase-in of proposed tax reductions. PIT receipts for 2008-09 are projected to increase by \$1.5 billion to \$24 billion. Again, the increase reflects growth in liability consistent with an expanding personal income base during economic expansion offset by the final phase of proposed tax actions.

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

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

General Fund receipts from user taxes and fees are estimated to total \$9.1 billion in 2007-08, an increase of \$321 million from 2006-07. The increase is due almost exclusively to the projected growth in the sales tax base. The underlying growth in the sales tax base in 2007-08 is expected to remain in the range of 3 percent to 4 percent.

General Fund user taxes and fees are expected to grow to \$9.4 billion in 2008-09. The economy is expected to continue to grow at trend rates over this period, resulting in sales tax growth consistent with historical averages.

General Fund business tax receipts are expected to increase to \$5.1 billion in 2007-08 reflecting trend growth in business tax receipts, offset by the continued phase-in of the recommended tax reductions. Business tax receipts are projected to decline to \$4.7 billion in 2008-09 reflecting the full implementation of the tax reductions proposed with this Budget.

General Fund receipts from other taxes are expected to decline to \$817 million in 2007-08 and \$703 million in 2008-09, primarily reflecting the phase-in of the proposed elimination of the estate tax.

### ***Miscellaneous Receipts***

General Fund miscellaneous receipts in 2007-08 are projected to be nearly \$2.6 billion, down \$135 million from the current year. This decrease is primarily the result of the loss of certain receipts from the Power Authority. In 2008-09, General Fund miscellaneous receipts collections are projected to be nearly \$2.4 billion, down \$231 million from 2007-08. This decrease results from expected declines in licenses and fees, the loss of bond issuance charges from the base and a decrease in the value of the local government revenue and disbursement program.

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

Transfers from other funds are estimated to decline to \$9.9 billion in 2007-08 and grow to \$10.3 billion in 2008-09. In 2007-08, the projected decline is due to increases in debt service related to PIT Revenue Bonds, LGAC Bonds and Clean Water/Clean Air General Obligation debt service (\$211 million), the decline in PIT and real estate tax receipts (\$56 million) and the loss of non-recurring fund sweeps (\$43 million) partially offset by projected increase in sales tax receipts (\$111 million). In 2008-09, transfers are projected to grow due primarily to the net increase of tax receipts (\$586 million) in excess of debt service payments on revenue bonds (\$181 million).

<b>General Fund Disbursement Projections</b> (millions of dollars)					
	<u>2006-07</u>	<u>2007-08</u>	<u>Annual Change</u>	<u>2008-09</u>	<u>Annual Change</u>
<b>Grants to Local Governments:</b>	<b>33,655</b>	<b>36,293</b>	<b>2,638</b>	<b>39,255</b>	<b>2,962</b>
School Aid	13,988	14,378	390	14,911	533
Medicaid	8,841	10,487	1,646	12,534	2,047
Welfare	1,277	1,419	142	1,413	(6)
Special Education	986	1,017	31	1,074	57
Mental Hygiene (OMR/OMH)	1,257	1,406	149	1,517	111
Children and Families Services	1,302	1,389	87	1,455	66
Local Government Assistance	1,111	1,157	46	1,202	45
All Other	4,893	5,040	147	5,149	109
<b>State Operations:</b>	<b>8,888</b>	<b>9,205</b>	<b>317</b>	<b>9,472</b>	<b>267</b>
Personal Service	6,413	6,569	156	6,668	99
Non-Personal Service	2,475	2,636	161	2,804	168
<b>General State Charges</b>	<b>4,344</b>	<b>4,634</b>	<b>290</b>	<b>4,916</b>	<b>282</b>
Pensions	1,221	1,192	(29)	1,167	(25)
Health Insurance	2,399	2,713	314	2,996	283
All Other	724	729	5	753	24
<b>Transfers to Other Funds:</b>	<b>2,751</b>	<b>2,677</b>	<b>(74)</b>	<b>2,677</b>	<b>0</b>
Debt Service	1,731	1,780	49	1,766	(14)
Capital Projects	255	242	(13)	240	(2)
All Other	765	655	(110)	671	16
<b>Total Disbursements</b>	<b>49,638</b>	<b>52,809</b>	<b>3,171</b>	<b>56,320</b>	<b>3,511</b>
<i>Annual Percent Change</i>			6.4%		6.6%

### **2007-08 AND 2008-09 DISBURSEMENT PROJECTIONS**

DOB forecasts General Fund spending of \$52.8 billion in 2007-08, an increase of \$3.2 billion (6.4 percent) over recommended 2006-07 levels. 2008-09 growth is projected at \$3.5 billion (6.6 percent). The growth levels are based on current services projections, and do not incorporate any estimate of potential actions to control spending that may result from the constitutional requirement for the Governor to submit balanced budgets annually. The amounts do assume that the 2006-07 Executive Budget is enacted in its entirety. The main sources of annual spending growth for 2007-08 and 2008-09 are itemized in the above table.

### **GRANTS TO LOCAL GOVERNMENTS**

Annual growth in local assistance is driven primarily by Medicaid, school aid and welfare. On a school year basis, school aid (including funding for SBE aid) is projected at \$17.8 billion in 2007-08 and \$18.9 billion in 2008-09. Growth of \$880 million in 2007-08 and \$1.1 billion in 2008-09 reflects general aid increases (\$500 million in both years), growth in SBE aid (\$300 million in 2007-08 and \$500 million in 2008-09), and additional funds to school districts that maintain a spending cap (\$80 million in both years). The

school aid projections assume growth in the Flex Aid program, savings from recommended reforms to building aid, special education, and BOCES aid, and maintenance of current aid levels for most other purposes. On a State fiscal year basis, General Fund school aid spending is projected to grow by approximately \$390 million in 2007-08 and \$533 million in 2008-09. Outside of the General Fund, revenues from the general lottery are projected to increase slightly (\$27 million in 2007-08 and \$4 million in 2008-09). In addition, VLT revenues are projected to increase by \$462 million in 2007-08 and another \$484 million in 2008-09. The VLT estimates assume the start of operations at two racetracks, Yonkers (in October 2006) and Aqueduct (in October 2007), as well as the expansion of VLT gaming starting in 2008-09. SBE aid is projected to total \$1.0 billion in 2007-08 and \$1.5 billion in 2008-09.

General Fund spending for Medicaid, after the impact of 2006-07 Executive recommendations, is expected to grow by roughly \$1.6 billion in 2007-08 and another \$2 billion in 2008-09. This growth results, in part, from the combination of more recipients, higher service utilization, and medical-care cost inflation, including prescription drug prices. These factors are projected to add approximately \$900 million in 2007-08 and \$1.2 billion in 2008-09. In addition, the State cap on local Medicaid costs and takeover of local FHP costs are estimated to rise by a combined \$593 million in 2007-08 and \$658 million in 2008-09.

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

Welfare spending, including administration, is projected at \$1.4 billion in 2007-08, an increase of \$142 million (11 percent) from 2006-07. Although the caseloads for family assistance and single adult/childless couples are projected to decline (5 percent and 6.1 percent, respectively), growing costs reflect the loss of TANF funding from the closing of unspent prior year contracts in 2006-07.

All other local assistance programs total \$10 billion in 2007-08, an increase of \$460 million (4.8 percent) over 2006-07 recommended levels. This increase consists primarily of growth in pre-school special education programs (\$31 million), mental hygiene and mental retardation programs (\$149 million), children and families services (\$87 million), municipal assistance through the AIM program (\$50 million), and the STAR Plus program (\$50 million).

### **State Operations**

State Operations spending is expected to total \$9.2 billion in 2007-08, an annual increase of \$317 million (3.6 percent). In 2008-09, spending is projected to grow by another \$267 million to a total of \$9.5 billion (2.9 percent). In 2007-08, personal service costs increase for a \$800 base salary adjustment effective April 1, 2007. In both years, normal "salary creep" increases and inflationary increases for non-personal service costs result in higher spending. The projections for 2007-08 and 2008-09 do not include any reserve for labor settlements once the current round of contracts expire on April 1, 2007, and assume that any future collective bargaining increases will be financed with productivity improvements.

**General State Charges (GSCs)**

GSCs are projected to total \$4.6 billion in 2007-08 and \$4.9 billion in 2008-09. The annual increases are due mainly to anticipated cost increases in pensions and health insurance for State employees and retirees.

The State's pension contribution rate to the New York State and Local Retirement Systems is expected to decline from 10.2 percent of salary in 2006-07 to 9.3 percent in 2007-08 and 2008-09. Pension spending in 2008-09 (\$1.1 billion) declines by \$23 million from 2007-08 levels as the 2002 retirement incentive program (that was paid over five years) is completed. Spending for employee and retiree health care costs is expected to increase by \$314 million in 2007-08 and another \$283 million in 2008-09, and assumes average annual premium increases of 11 percent. Health insurance is projected at \$2.7 billion in 2007-08 (\$1.6 billion for active employees and \$1.1 billion for retired employees) and \$3.0 billion in 2008-09 (\$1.8 billion for active employees and \$1.2 billion for retired employees).

**Transfers to Other Funds**

Transfers to other funds are estimated to total \$2.7 billion in both 2007-08 and 2008-09. 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.

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## **FINANCIAL PLAN RESERVES AND RISKS**

### **RESERVES**

The State projects that General Fund reserves will total \$3.8 billion at the end of 2006-07 with \$1 billion in undesignated reserves available to deal with unforeseen contingencies and \$2.8 billion designated for subsequent use.

The \$1 billion of undesignated reserves includes \$945 million in the Rainy Day Reserve, after a maximum deposit of \$73 million in 2005-06, 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 2006-07 to increase the maximum size of the State's Rainy Day Reserve from 2 percent to a minimum of 5 percent of General Fund spending. The Rainy Day Reserve is at its statutory maximum balance of 2 percent.

The Executive Budget reserves another \$2.8 billion designated for future use, including \$2 billion in a spending stabilization reserve (the Financial Plan projects that the reserve will be used in equal installments in 2007-08 and 2008-09). In addition, \$275 million is set aside for potential collective bargaining settlements that are expected to be resolved in 2006-07, and \$250 million for debt reduction. In addition to the General Fund reserves, \$375 million is reserved on a school year basis (\$263 million in fiscal year 2006-07) for additional SBE aid in the VLT education account.

Aside from the amounts noted above, the 2006-07 Financial Plan does not set aside specific reserves to cover potential costs that could materialize as a result of Federal disallowances or other Federal actions that could adversely affect the State's projections of receipts and disbursements.

### **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.

#### ***Risks to the U.S. Forecast***

Although DOB believes that the U.S. economy will grow at approximately its long-term trend growth rate through the end of the forecast horizon, many risks attend this forecast. In general, the forecast is contingent upon the absence of severe shocks to the economy. Unpredictable events such as a terrorist attack remain the biggest risk to continued economic expansion. Such a shock could impair economic growth in many ways, such as causing a plunge in consumer confidence, the stock market, investment spending by firms, or impairing the transportation of economic goods and services, or causing a large spike in oil prices. A severe and extended downturn could easily materialize from such shocks.

There are other significant factors that could lead to noticeably lower economic growth. An extended period of energy prices that are higher than projected could well reduce the ability of consumers and businesses to spend on non-energy related items. Colder weather than normal in the Northeast could raise natural gas prices even further, and consumers might respond by reducing spending by more than is currently anticipated over the coming months. Such cutbacks could make firms behave even more cautiously and reduce business capital spending. Persistently high energy prices also raise the possibility that inflation expectations could ratchet higher, causing the Federal Reserve Board to tighten more than anticipated, and raising the likelihood of a major economic slowdown or even a recession.

A sharp reduction in the inflow of foreign funds might also add to inflationary pressures by weakening the U.S. dollar, which might also cause the Federal Reserve to increase rates more than currently anticipated. Such a development might also produce an imbalance in the market for U.S. Treasury securities, causing long-term rates to rise in order to fund the Federal budget deficit. Higher interest rates could, in turn, induce households to increase the personal saving rate, resulting in even further cutbacks in consumer spending. This risk would only be exacerbated by lower than expected equity or housing prices, particularly if the anticipated easing of home prices happens suddenly rather than gradually as expected. Again, lower consumption growth could weaken expected future corporate profits and, in turn, lower employment and investment growth.

On the other hand, lower inflation than expected, perhaps as a result of an even greater drop in the price of oil or more modest growth in unit labor costs, possibly due to slower growth in wages or stronger productivity growth, could induce the Federal Reserve to keep monetary policy much less restrictive than expected, resulting in stronger consumption and investment growth than projected. 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. Moreover, stronger employment growth could result in higher real wages, supporting faster growth in consumer spending than currently anticipated.

### ***Risks to the New York Forecast***

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, resulting in lower income and employment growth than reflected in the current forecast. Higher energy prices and the potential for greater pass-through to core inflation, combined with a growing rate of capacity utilization and a tightening labor market, raise the probability that the Federal Reserve will over-tighten. Such an outcome could negatively affect the financial markets, which would also disproportionately affect the New York State economy. In addition, the State's real estate market could decline more than anticipated, which would negatively affect household consumption and taxable capital gains realizations. These effects could ripple through the economy, affecting both employment and wages.

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 other Wall Street activities is possible, resulting in higher wage and bonuses 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. With the economy becoming increasingly globalized, and the pace of both technological and regulatory change accelerating, projecting finance industry revenues and profits has never been more challenging.

## **Litigation<sup>1</sup>**

The State is a defendant in several court cases that could ultimately result in costs to the State Financial Plan. The most significant is 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 would guarantee that 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 had 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. In February 2005, the State Supreme Court adopted the recommendations of the Special Masters, requiring the State to comply with those recommendations within 90 days. The State filed an appeal in April 2005 and the Appellate Court is expected to issue a ruling by June 2006.

The 2006-07 Executive Budget proposes a combination of traditional school aid and continued funding for the SBE aid program as part of a comprehensive plan to comply with the Court's order. Under a plan proposed by the Governor, revenues from VLTs will be used for SBE. So far, VLTs have been implemented at five of the State's racetracks. Four other racetracks have received authorization to operate VLTs, and are in various stages of implementation. Two major facilities located at Yonkers and Aqueduct Raceways are expected to begin operations in October 2006 and October 2007, respectively. These two facilities are expected to produce the majority of the growth of VLT receipts under current law. The 2006-07 Executive Budget recommends \$700 million of funding for SBE, growing to \$1.5 billion by school year 2008-09.

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, effective November 1, 2003. However, the plaintiffs are challenging the adequacy of the increase and thus further Court proceedings are pending.

## **Federal**

The Office of the Inspector General (OIG) of the United States Department of Health and Human Services is conducting six audits of aspects of New York State's School Supportive Health Services program with regard to Medicaid reimbursement that cover \$1.5 billion in claims submitted between 1990 and 2001. To date, OIG has issued three final audit reports, which cover claims submitted by upstate and New York City school districts for speech pathology and transportation services. The final audits recommend that the Centers for Medicare and Medicaid Services (CMS) disallow \$173 million of the \$362 million in claims for upstate speech pathology services, \$17 million of \$72 million for upstate transportation services, and \$436 million of the \$551 million in claims submitted for New York City speech pathology services. New York State disagrees with the audit findings on several grounds and has requested that these be withdrawn. Federal regulations include an appeals process that could postpone repayment of any disallowances.

While CMS has not taken any action with regard to the disallowances recommended by OIG, CMS is deferring 25 percent of New York City claims and 9.7 percent of claims submitted by the rest of the State,

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<sup>1</sup> See the section entitled "Litigation" later in this AIS Update for a complete summary of litigation affecting the State.

pending completion of the audits. Since the State has continued to reimburse school districts for these costs, these Federal deferrals have resulted in higher costs, as reflected in the State's latest Financial Plan.

At the request of CMS, the State has discontinued intergovernmental transfers payments as of March 31, 2005 pending the approval of a State Plan Amendment. These payments are related to disproportionate share hospital payments to public hospitals throughout the State, including those operated by the New York City Health and Hospital Corporation, SUNY and the counties. If these payments are not approved in 2005-06 and beyond, the State's health care financing system could be adversely affected.

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## **CASH FLOW FORECAST**

In 2006-07, the General Fund is projected to have quarterly-ending balances of \$4.7 billion in June 2006, \$5.0 billion in September 2006, \$3.4 billion by the end of December 2006, and \$3.8 billion at the end of March 2007. The lowest projected month-end cash flow balance is \$2.6 billion in November. The 2006-07 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 2006-07 are set forth in the section entitled "Financial Plan Tables".

The Office of the State Comptroller (OSC) invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments through the Short-Term Investment Pool (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 short-term 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).

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## **GAAP-BASIS FINANCIAL PLANS**

In addition to the cash-basis Financial Plans, the General Fund and All Funds Financial Plans are prepared on a basis of GAAP in accordance with Governmental Accounting Standards Board (GASB) regulations. Tables comparing the cash basis and GAAP basis General Fund Financial Plans are provided at the end of the Financial Plan section of the 2006-07 Executive Budget. The GAAP projections for both years are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2004-05.

In 2005-06, the General Fund GAAP Financial Plan shows total revenues of \$40.9 billion, total expenditures of \$49.4 billion, and net other financing sources of \$9.9 billion, resulting in an operating surplus of \$1.4 billion and a projected accumulated surplus of \$1.9 billion. The operating results primarily reflect the moneys set aside in a spending stabilization reserve, and reflect an increase of \$1.4 billion from the 2004-05 accumulated surplus of \$546 million.

In 2006-07, the General Fund GAAP Financial Plan shows total revenues of \$40.5 billion, total expenditures of \$51.2 billion, and net other financing sources of \$9.6 billion, resulting in an operating deficit of \$1.2 billion and a projected accumulated surplus of \$764 million. These changes are due primarily to the impact of proposed tax reductions on revenue accruals. The projected accumulated surplus of \$764 million is roughly \$200 million higher than 2004-05 actuals.

The GAAP basis results for 2004-05 showed the State in a net positive overall financing condition of \$43.8 billion. The net positive financial condition of \$43.8 billion is before the State reflects the liability associated with retiree health care that will be recognized in the 2007-08 fiscal year. The State has hired an independent actuarial consulting firm to complete the analysis of retiree health care liabilities, and expects to have results available by next year.

DOB's detailed GAAP Financial Plans for 2005-06 through 2008-09 are provided in the 2006-07 New York State Executive Budget Four Year Financial Plan sections entitled "Financial Plan Tables" and "Supplemental Financial Plan Information".

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

	<u>Mid-Year</u>	<u>Change</u>	<u>January</u>
<b>Opening fund balance</b>	<u>2,546</u>	<u>0</u>	<u>2,546</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	21,000	(173)	20,827
User taxes and fees	8,533	104	8,637
Business taxes	4,483	490	4,973
Other taxes	779	115	894
Miscellaneous receipts	2,447	144	2,591
Federal grants	9	0	9
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,575	(34)	6,541
Sales tax in excess of LGAC debt service	2,259	26	2,285
Real estate taxes in excess of CW/CA debt service	514	191	705
All other transfers	522	(54)	468
<b>Total receipts</b>	<u>47,121</u>	<u>809</u>	<u>47,930</u>
<b>Disbursements:</b>			
Grants to local governments	31,701	384	32,085
State operations	8,361	(115)	8,246
General State charges	4,045	(42)	4,003
Transfers to other funds:			
Debt service	1,713	14	1,727
Capital projects	214	(4)	210
Other purposes	862	100	962
<b>Total disbursements</b>	<u>46,896</u>	<u>337</u>	<u>47,233</u>
<b>Change in fund balance</b>	<u>225</u>	<u>472</u>	<u>697</u>
<b>Closing fund balance</b>	<u>2,771</u>	<u>472</u>	<u>3,243</u>
<b>General Reserves</b>			
Statutory Rainy Day Reserve	872	73	945
Contingency Reserve Fund	21	0	21
<b>Designated Reserves</b>			
Spending Stabilization Reserve	1,039	952	1,991
Community Projects Fund	287	(1)	286
Payment of Tax Refunds <sup>(1)</sup>	552	(552)	0

<sup>(1)</sup> Utilized in 2005-2006 to increase the amount of refunds paid prior to the end of the fiscal year.

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Source: NYS DOB

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

	<u>2005-2006</u> <u>January</u>	<u>2006-2007</u> <u>Recommended</u>	<u>Annual</u> <u>Change</u>
<b>Opening fund balance</b>	<u>2,546</u>	<u>3,243</u>	<u>697</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	20,827	22,654	1,827
User taxes and fees	8,637	8,810	173
Business taxes	4,973	4,999	26
Other taxes	894	900	6
Miscellaneous receipts	2,591	2,708	117
Federal grants	9	9	0
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,541	6,932	391
Sales tax in excess of LGAC debt service	2,285	2,356	71
Real estate taxes in excess of CW/CA debt service	705	532	(173)
All other	468	266	(202)
<b>Total receipts</b>	<u>47,930</u>	<u>50,166</u>	<u>2,236</u>
<b>Disbursements:</b>			
Grants to local governments	32,085	33,655	1,570
State operations	8,246	8,888	642
General State charges	4,003	4,344	341
Transfers to other funds:			
Debt service	1,727	1,731	4
Capital projects	210	255	45
Other purposes	962	765	(197)
<b>Total disbursements</b>	<u>47,233</u>	<u>49,638</u>	<u>2,405</u>
<b>Change in fund balance</b>	<u>697</u>	<u>528</u>	<u>(169)</u>
<b>Closing fund balance</b>	<u>3,243</u>	<u>3,771</u>	<u>528</u>
<b>General Reserves</b>			
Statutory Rainy Day Reserve	945	945	0
Contingency Reserve Fund	21	21	0
<b>Designated Reserves</b>			
Spending Stabilization Reserve	1,991	2,044	53
Community Project Fund	286	236	(50)
Collective Bargaining Reserve	0	275	275
Debt Reduction Reserve	0	250	250

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Source: NYS DOB

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

	<u>2006-2007 Recommended</u>	<u>2007-2008 Projected</u>	<u>2008-2009 Projected</u>
<b>Receipts:</b>			
Taxes:			
Personal income tax	22,654	22,519	24,014
User taxes and fees	8,810	9,131	9,416
Business taxes	4,999	5,083	4,696
Other taxes	900	817	703
Miscellaneous receipts	2,708	2,573	2,342
Federal grants	9	9	9
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,932	6,695	7,013
Sales tax in excess of LGAC debt service	2,356	2,455	2,548
Real estate taxes in excess of CW/CA debt service	532	515	507
All other	266	214	217
<b>Total receipts</b>	<u>50,166</u>	<u>50,011</u>	<u>51,465</u>
<b>Disbursements:</b>			
Grants to local governments	33,655	36,293	39,255
State operations	8,888	9,205	9,472
General State charges	4,344	4,634	4,916
Transfers to other funds:			
Debt service	1,731	1,780	1,766
Capital projects	255	242	240
Other purposes	765	655	671
<b>Total disbursements</b>	<u>49,638</u>	<u>52,809</u>	<u>56,320</u>
<b>Deposit to/(use of) Community Projects Fund</b>	<u>(50)</u>	<u>(50)</u>	<u>(150)</u>
<b>Deposit to/(use of) Collective Bargaining Reserve</b>	<u>275</u>	<u>160</u>	<u>160</u>
<b>Deposit to/(use of) Debt Reduction Reserve</b>	<u>250</u>	<u>0</u>	<u>0</u>
<b>Deposit to/(use of) Spending Stabilization Reserve</b>	<u>53</u>	<u>(1,022)</u>	<u>(1,022)</u>
<b>Margin</b>	<u>0</u>	<u>(1,886)</u>	<u>(3,843)</u>

Source: NYS DOB

Annual Information Statement Update, January 26, 2006

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

	<b>General Fund</b>	<b>Special Revenue Funds</b>	<b>Capital Projects Funds</b>	<b>Debt Service Funds</b>	<b>(MEMO) Total</b>
<b>Opening fund balance</b>	<u>2,302</u>	<u>1,703</u>	<u>(336)</u>	<u>175</u>	<u>3,844</u>
<b>Receipts:</b>					
Taxes	32,507	4,858	1,862	9,371	48,598
Miscellaneous receipts	2,217	10,972	1,753	768	15,710
Federal grants	9	0	0	0	9
<b>Total receipts</b>	<u>34,733</u>	<u>15,830</u>	<u>3,615</u>	<u>10,139</u>	<u>64,317</u>
<b>Disbursements:</b>					
Grants to local governments	29,493	11,131	337	0	40,961
State operations	7,565	4,917	0	12	12,494
General State charges	3,653	524	0	0	4,177
Debt service	0	0	0	3,788	3,788
Capital projects	0	11	2,541	0	2,552
<b>Total disbursements</b>	<u>40,711</u>	<u>16,583</u>	<u>2,878</u>	<u>3,800</u>	<u>63,972</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	9,130	1,174	217	5,134	15,655
Transfers to other funds	(2,908)	(120)	(1,002)	(11,464)	(15,494)
Bond and note proceeds	0	0	178	0	178
<b>Net other financing sources (uses)</b>	<u>6,222</u>	<u>1,054</u>	<u>(607)</u>	<u>(6,330)</u>	<u>339</u>
<b>Change in fund balance</b>	<u>244</u>	<u>301</u>	<u>130</u>	<u>9</u>	<u>684</u>
<b>Closing fund balance</b>	<u>2,546</u>	<u>2,004</u>	<u>(206)</u>	<u>184</u>	<u>4,528</u>

Source: NYS DOB

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

	<b>General Fund</b>	<b>Special Revenue Funds</b>	<b>Capital Projects Funds</b>	<b>Debt Service Funds</b>	<b>(MEMO) Total</b>
<b>Opening fund balance</b>	2,546	2,001	(201)	184	4,530
<b>Receipts:</b>					
Taxes	35,331	5,963	1,851	10,368	53,513
Miscellaneous receipts	2,591	13,233	1,715	686	18,225
Federal grants	9	1	0	0	10
<b>Total receipts</b>	<u>37,931</u>	<u>19,197</u>	<u>3,566</u>	<u>11,054</u>	<u>71,748</u>
<b>Disbursements:</b>					
Grants to local governments	32,085	13,449	885	0	46,419
State operations	8,246	5,035	0	70	13,351
General State charges	4,003	554	0	0	4,557
Debt service	0	0	0	3,723	3,723
Capital projects	0	1	2,302	0	2,303
<b>Total disbursements</b>	<u>44,334</u>	<u>19,039</u>	<u>3,187</u>	<u>3,793</u>	<u>70,353</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	9,999	1,389	239	5,182	16,809
Transfers to other funds	(2,899)	(335)	(904)	(12,437)	(16,575)
Bond and note proceeds	0	0	167	0	167
<b>Net other financing sources (uses)</b>	<u>7,100</u>	<u>1,054</u>	<u>(498)</u>	<u>(7,255)</u>	<u>401</u>
<b>Change in fund balance</b>	<u>697</u>	<u>1,212</u>	<u>(119)</u>	<u>6</u>	<u>1,796</u>
<b>Closing fund balance</b>	<u>3,243</u>	<u>3,213</u>	<u>(320)</u>	<u>190</u>	<u>6,326</u>

*The opening fund balance has been changed to reflect the reclassification of the Hazardous Waste Remedial Fund from the Special Revenue Funds to the Capital Projects Funds.*

Source: NYS DOB

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	3,243	3,213	(320)	190	6,326
<b>Receipts:</b>					
Taxes	37,363	6,609	1,960	10,919	56,851
Miscellaneous receipts	2,708	11,494	1,890	665	16,757
Federal grants	9	1	0	0	10
<b>Total receipts</b>	<u>40,080</u>	<u>18,104</u>	<u>3,850</u>	<u>11,584</u>	<u>73,618</u>
<b>Disbursements:</b>					
Grants to local governments	33,655	14,247	906	0	48,808
State operations	8,888	5,311	0	65	14,264
General State charges	4,344	618	0	0	4,962
Debt service	0	0	0	4,118	4,118
Capital projects	0	2	2,844	0	2,846
<b>Total disbursements</b>	<u>46,887</u>	<u>20,178</u>	<u>3,750</u>	<u>4,183</u>	<u>74,998</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	10,086	1,207	453	5,350	17,096
Transfers to other funds	(2,751)	(480)	(847)	(12,744)	(16,822)
Bond and note proceeds	0	0	351	0	351
<b>Net other financing sources (uses)</b>	<u>7,335</u>	<u>727</u>	<u>(43)</u>	<u>(7,394)</u>	<u>625</u>
<b>Change in fund balance</b>	<u>528</u>	<u>(1,347)</u>	<u>57</u>	<u>7</u>	<u>(755)</u>
<b>Closing fund balance</b>	<u>3,771</u>	<u>1,866</u>	<u>(263)</u>	<u>197</u>	<u>5,571</u>

Source: NYS DOB

Annual Information Statement Update, January 26, 2006

**CASH FINANCIAL PLAN  
STATE FUNDS  
2007-2008  
(millions of dollars)**

	<b>General Fund</b>	<b>Special Revenue Funds</b>	<b>Capital Projects Funds</b>	<b>Debt Service Funds</b>	<b>(MEMO) Total</b>
<b>Opening fund balance</b>	<u>0</u>	<u>1,866</u>	<u>(263)</u>	<u>197</u>	<u>1,800</u>
<b>Receipts:</b>					
Taxes	37,550	6,868	2,003	10,975	57,396
Miscellaneous receipts	2,573	12,695	2,243	671	18,182
Federal grants	9	1	0	0	10
<b>Total receipts</b>	<u>40,132</u>	<u>19,564</u>	<u>4,246</u>	<u>11,646</u>	<u>75,588</u>
<b>Disbursements:</b>					
Grants to local governments	36,293	14,964	818	0	52,075
State operations	9,205	5,390	0	66	14,661
General State charges	4,634	652	0	0	5,286
Debt service	0	0	0	4,539	4,539
Capital projects	0	2	3,438	0	3,440
<b>Total disbursements</b>	<u>50,132</u>	<u>21,008</u>	<u>4,256</u>	<u>4,605</u>	<u>80,001</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	9,879	1,086	455	5,582	17,002
Transfers to other funds	(2,677)	(452)	(931)	(12,610)	(16,670)
Bond and note proceeds	0	0	477	0	477
<b>Net other financing sources (uses)</b>	<u>7,202</u>	<u>634</u>	<u>1</u>	<u>(7,028)</u>	<u>809</u>
<b>Deposit to/(use of) Community Projects Fund</b>	<u>(50)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(50)</u>
<b>Deposit to/(use of) Collective Bargaining Reserve</b>	<u>160</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>160</u>
<b>Deposit to/(use of) Spending Stabilization Reserve</b>	<u>(1,022)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,022)</u>
<b>Change in fund balance</b>	<u>(1,886)</u>	<u>(810)</u>	<u>(9)</u>	<u>13</u>	<u>(2,692)</u>
<b>Closing fund balance</b>	<u>(1,886)</u>	<u>1,056</u>	<u>(272)</u>	<u>210</u>	<u>(892)</u>

Source: NYS DOB

Annual Information Statement Update, January 26, 2006

**CASH FINANCIAL PLAN  
STATE FUNDS  
2008-2009  
(millions of dollars)**

	<b>General Fund</b>	<b>Special Revenue Funds</b>	<b>Capital Projects Funds</b>	<b>Debt Service Funds</b>	<b>(MEMO) Total</b>
<b>Opening fund balance</b>	<u>0</u>	<u>1,056</u>	<u>(272)</u>	<u>210</u>	<u>994</u>
<b>Receipts:</b>					
Taxes	38,829	7,095	2,030	11,561	59,515
Miscellaneous receipts	2,342	13,353	2,239	679	18,613
Federal grants	9	1	0	0	10
<b>Total receipts</b>	<u>41,180</u>	<u>20,449</u>	<u>4,269</u>	<u>12,240</u>	<u>78,138</u>
<b>Disbursements:</b>					
Grants to local governments	39,255	15,302	776	0	55,333
State operations	9,472	5,430	0	66	14,968
General State charges	4,916	668	0	0	5,584
Debt service	0	0	0	4,858	4,858
Capital projects	0	2	3,471	0	3,473
<b>Total disbursements</b>	<u>53,643</u>	<u>21,402</u>	<u>4,247</u>	<u>4,924</u>	<u>84,216</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	10,285	1,106	478	5,760	17,629
Transfers to other funds	(2,677)	(457)	(1,047)	(13,065)	(17,246)
Bond and note proceeds	0	0	540	0	540
<b>Net other financing sources (uses)</b>	<u>7,608</u>	<u>649</u>	<u>(29)</u>	<u>(7,305)</u>	<u>923</u>
<b>Deposit to/(use of) Community Projects Fund</b>	<u>(150)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(150)</u>
<b>Deposit to/(use of) Collective Bargaining Reserve</b>	<u>160</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>160</u>
<b>Deposit to/(use of) Spending Stabilization Reserve</b>	<u>(1,022)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,022)</u>
<b>Change in fund balance</b>	<u>(3,843)</u>	<u>(304)</u>	<u>(7)</u>	<u>11</u>	<u>(4,143)</u>
<b>Closing fund balance</b>	<u>(3,843)</u>	<u>752</u>	<u>(279)</u>	<u>221</u>	<u>(3,149)</u>

Source: NYS DOB

Annual Information Statement Update, January 26, 2006

**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>
<b>Opening fund balance</b>	2,302	2,183	(489)	175	4,171
<b>Receipts:</b>					
Taxes	32,507	4,858	1,862	9,371	48,598
Miscellaneous receipts	2,217	11,115	1,759	768	15,859
Federal grants	9	34,492	1,721	0	36,222
<b>Total receipts</b>	<u>34,733</u>	<u>50,465</u>	<u>5,342</u>	<u>10,139</u>	<u>100,679</u>
<b>Disbursements:</b>					
Grants to local governments	29,493	42,643	852	0	72,988
State operations	7,565	8,095	0	12	15,672
General State charges	3,653	712	0	0	4,365
Debt service	0	0	0	3,788	3,788
Capital projects	0	11	3,844	0	3,855
<b>Total disbursements</b>	<u>40,711</u>	<u>51,461</u>	<u>4,696</u>	<u>3,800</u>	<u>100,668</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	9,130	3,614	217	5,134	18,095
Transfers to other funds	(2,908)	(2,796)	(1,006)	(11,464)	(18,174)
Bond and note proceeds	0	0	178	0	178
<b>Net other financing sources (uses)</b>	<u>6,222</u>	<u>818</u>	<u>(611)</u>	<u>(6,330)</u>	<u>99</u>
<b>Change in fund balance</b>	<u>244</u>	<u>(178)</u>	<u>35</u>	<u>9</u>	<u>110</u>
<b>Closing fund balance</b>	<u>2,546</u>	<u>2,005</u>	<u>(454)</u>	<u>184</u>	<u>4,281</u>

Source: NYS DOB

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

	<b>General Fund</b>	<b>Special Revenue Funds</b>	<b>Capital Projects Funds</b>	<b>Debt Service Funds</b>	<b>(MEMO) Total</b>
<b>Opening fund balance</b>	2,546	2,000	(449)	184	4,281
<b>Receipts:</b>					
Taxes	35,331	5,963	1,851	10,368	53,513
Miscellaneous receipts	2,591	13,249	1,715	686	18,241
Federal grants	9	34,428	1,782	0	36,219
<b>Total receipts</b>	<u>37,931</u>	<u>53,640</u>	<u>5,348</u>	<u>11,054</u>	<u>107,973</u>
<b>Disbursements:</b>					
Grants to local governments	32,085	44,392	1,096	0	77,573
State operations	8,246	8,100	0	70	16,416
General State charges	4,003	771	0	0	4,774
Debt service	0	0	0	3,723	3,723
Capital projects	0	2	3,886	0	3,888
<b>Total disbursements</b>	<u>44,334</u>	<u>53,265</u>	<u>4,982</u>	<u>3,793</u>	<u>106,374</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	9,999	3,780	239	5,182	19,200
Transfers to other funds	(2,899)	(3,005)	(916)	(12,437)	(19,257)
Bond and note proceeds	0	0	167	0	167
<b>Net other financing sources (uses)</b>	<u>7,100</u>	<u>775</u>	<u>(510)</u>	<u>(7,255)</u>	<u>110</u>
<b>Change in fund balance</b>	<u>697</u>	<u>1,150</u>	<u>(144)</u>	<u>6</u>	<u>1,709</u>
<b>Closing fund balance</b>	<u>3,243</u>	<u>3,150</u>	<u>(593)</u>	<u>190</u>	<u>5,990</u>

*The opening fund balance has been changed to reflect the reclassification of the Hazardous Waste Remedial Fund from the Special Revenue Funds to the Capital Projects Funds.*

Source: NYS DOB

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	3,243	3,150	(593)	190	5,990
<b>Receipts:</b>					
Taxes	37,363	6,609	1,960	10,919	56,851
Miscellaneous receipts	2,708	11,509	1,890	665	16,772
Federal grants	9	34,338	1,754	0	36,101
<b>Total receipts</b>	<u>40,080</u>	<u>52,456</u>	<u>5,604</u>	<u>11,584</u>	<u>109,724</u>
<b>Disbursements:</b>					
Grants to local governments	33,655	44,926	1,112	0	79,693
State operations	8,888	8,398	0	65	17,351
General State charges	4,344	860	0	0	5,204
Debt service	0	0	0	4,118	4,118
Capital projects	0	3	4,375	0	4,378
<b>Total disbursements</b>	<u>46,887</u>	<u>54,187</u>	<u>5,487</u>	<u>4,183</u>	<u>110,744</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	10,086	3,575	453	5,350	19,464
Transfers to other funds	(2,751)	(3,196)	(860)	(12,744)	(19,551)
Bond and note proceeds	0	0	351	0	351
<b>Net other financing sources (uses)</b>	<u>7,335</u>	<u>379</u>	<u>(56)</u>	<u>(7,394)</u>	<u>264</u>
<b>Change in fund balance</b>	<u>528</u>	<u>(1,352)</u>	<u>61</u>	<u>7</u>	<u>(756)</u>
<b>Closing fund balance</b>	<u>3,771</u>	<u>1,798</u>	<u>(532)</u>	<u>197</u>	<u>5,234</u>

Source: NYS DOB

Annual Information Statement Update, January 26, 2006

**CASH FINANCIAL PLAN  
ALL GOVERNMENTAL FUNDS  
2007-2008  
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
<b>Opening fund balance</b>	0	1,798	(532)	197	1,463
<b>Receipts:</b>					
Taxes	37,550	6,868	2,003	10,975	57,396
Miscellaneous receipts	2,573	12,753	2,243	671	18,240
Federal grants	9	35,322	1,879	0	37,210
<b>Total receipts</b>	<u>40,132</u>	<u>54,943</u>	<u>6,125</u>	<u>11,646</u>	<u>112,846</u>
<b>Disbursements:</b>					
Grants to local governments	36,293	46,576	1,024	0	83,893
State operations	9,205	8,568	0	66	17,839
General State charges	4,634	899	0	0	5,533
Debt service	0	0	0	4,539	4,539
Capital projects	0	3	5,089	0	5,092
<b>Total disbursements</b>	<u>50,132</u>	<u>56,046</u>	<u>6,113</u>	<u>4,605</u>	<u>116,896</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	9,879	3,459	455	5,582	19,375
Transfers to other funds	(2,677)	(3,179)	(945)	(12,610)	(19,411)
Bond and note proceeds	0	0	477	0	477
<b>Net other financing sources (uses)</b>	<u>7,202</u>	<u>280</u>	<u>(13)</u>	<u>(7,028)</u>	<u>441</u>
<b>Deposit to/(use of) Community Projects Fund</b>	<u>(50)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(50)</u>
<b>Deposit to/(use of) Collective Bargaining Reserve</b>	<u>160</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>160</u>
<b>Deposit to/(use of) Spending Stabilization Reserve</b>	<u>(1,022)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,022)</u>
<b>Change in fund balance</b>	<u>(1,886)</u>	<u>(823)</u>	<u>(1)</u>	<u>13</u>	<u>(2,697)</u>
<b>Closing fund balance</b>	<u>(1,886)</u>	<u>975</u>	<u>(533)</u>	<u>210</u>	<u>(1,234)</u>

Source: NYS DOB

Annual Information Statement Update, January 26, 2006

**CASH FINANCIAL PLAN  
ALL GOVERNMENTAL FUNDS  
2008-2009  
(millions of dollars)**

	<b>General Fund</b>	<b>Special Revenue Funds</b>	<b>Capital Projects Funds</b>	<b>Debt Service Funds</b>	<b>(MEMO) Total</b>
<b>Opening fund balance</b>	0	975	(533)	210	652
<b>Receipts:</b>					
Taxes	38,829	7,095	2,030	11,561	59,515
Miscellaneous receipts	2,342	13,411	2,239	679	18,671
Federal grants	9	37,278	1,792	0	39,079
<b>Total receipts</b>	<u>41,180</u>	<u>57,784</u>	<u>6,061</u>	<u>12,240</u>	<u>117,265</u>
<b>Disbursements:</b>					
Grants to local governments	39,255	48,758	982	0	88,995
State operations	9,472	8,689	0	66	18,227
General State charges	4,916	920	0	0	5,836
Debt service	0	0	0	4,858	4,858
Capital projects	0	3	5,035	0	5,038
<b>Total disbursements</b>	<u>53,643</u>	<u>58,370</u>	<u>6,017</u>	<u>4,924</u>	<u>122,954</u>
<b>Other financing sources (uses):</b>					
Transfers from other funds	10,285	3,529	478	5,760	20,052
Transfers to other funds	(2,677)	(3,276)	(1,060)	(13,065)	(20,078)
Bond and note proceeds	0	0	540	0	540
<b>Net other financing sources (uses)</b>	<u>7,608</u>	<u>253</u>	<u>(42)</u>	<u>(7,305)</u>	<u>514</u>
<b>Deposit to/(use of) Community Projects Fund</b>	<u>(150)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(150)</u>
<b>Deposit to/(use of) Collective Bargaining Reserve</b>	<u>160</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>160</u>
<b>Deposit to/(use of) Spending Stabilization Reserve</b>	<u>(1,022)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,022)</u>
<b>Change in fund balance</b>	<u>(3,843)</u>	<u>(333)</u>	<u>2</u>	<u>11</u>	<u>(4,163)</u>
<b>Closing fund balance</b>	<u>(3,843)</u>	<u>642</u>	<u>(531)</u>	<u>221</u>	<u>(3,511)</u>

Source: NYS DOB

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

	<u>2004-2005 Actual</u>	<u>2005-2006 Estimated</u>	<u>2006-2007 Recommended</u>
<b>ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT</b>			
Agriculture and Markets, Department of	77,489	93,371	97,799
Alcoholic Beverage Control	10,016	10,870	15,554
Banking Department	57,375	66,774	67,084
Consumer Protection Board	2,193	2,553	3,007
Economic Development, Department of	320,795	433,313	482,556
Empire State Development Corporation	33,820	94,798	164,500
Energy Research and Development Authority	26,135	26,006	28,656
Housing Finance Agency	0	0	0
Housing and Community Renewal, Division of	246,400	223,365	233,756
Insurance Department	121,655	149,329	163,389
Olympic Regional Development Authority	9,282	8,750	8,386
Public Service, Department of	50,374	56,400	56,093
Science, Technology and Academic Research, Office of	54,675	73,459	62,248
<b>Functional Total</b>	<u>1,010,209</u>	<u>1,238,988</u>	<u>1,383,028</u>
<b>PARKS AND THE ENVIRONMENT</b>			
Adirondack Park Agency	4,847	4,758	4,905
Environmental Conservation, Department of	743,115	931,659	907,591
Environmental Facilities Corporation	14,653	7,664	9,258
Parks, Recreation and Historic Preservation, Office of	207,308	228,067	255,428
<b>Functional Total</b>	<u>969,923</u>	<u>1,172,148</u>	<u>1,177,182</u>
<b>TRANSPORTATION</b>			
Metropolitan Transportation Authority	0	11,600	38,050
Motor Vehicles, Department of	213,422	275,347	290,430
Thruway Authority	1,473	4,000	4,000
Transportation, Department of	5,176,638	5,788,883	5,974,210
<b>Functional Total</b>	<u>5,391,533</u>	<u>6,079,830</u>	<u>6,306,690</u>
<b>HEALTH AND SOCIAL WELFARE</b>			
Advocate for Persons with Disabilities, Office of	1,124	0	0
Aging, Office for the	174,414	179,480	203,007
Children and Family Services, Office of	3,126,575	3,081,497	2,864,012
Health, Department of	33,306,253	36,633,770	37,402,985
<i>Medical Assistance</i>	29,354,681	31,590,554	31,785,333
<i>Medicaid Administration</i>	564,226	589,500	602,600
<i>All Other</i>	3,387,346	4,453,716	5,015,052
Human Rights, Division of	14,692	14,790	15,127
Labor, Department of	620,872	625,594	611,537
Medicaid Inspector General, Office of	0	0	30,950
Prevention of Domestic Violence, Office of	2,805	2,445	2,539

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

	<u>2004-2005</u> <u>Actual</u>	<u>2005-2006</u> <u>Estimated</u>	<u>2006-2007</u> <u>Recommended</u>
<b>HEALTH AND SOCIAL WELFARE (Continued)</b>			
Temporary and Disability Assistance, Office of	4,359,329	4,790,783	4,982,697
<i>Welfare Assistance</i>	3,133,225	3,383,166	3,593,882
<i>Welfare Administration</i>	304,281	381,550	382,897
<i>All Other</i>	921,823	1,026,067	1,005,918
Welfare Inspector General, Office of	1,031	1,114	1,178
Workers' Compensation Board	132,521	144,954	149,816
<b>Functional Total</b>	<u>41,739,616</u>	<u>45,474,427</u>	<u>46,263,848</u>
<b>MENTAL HEALTH</b>			
Mental Health, Office of	2,221,924	2,284,228	2,436,432
Mental Hygiene, Department of	1,739	8,600	8,645
Mental Retardation and Developmental Disabilities, Office of	2,809,677	2,914,838	3,133,960
Alcohol and Substance Abuse Services, Office of	486,137	480,459	526,668
Developmental Disabilities Planning Council	3,444	3,679	3,648
Quality of Care for the Mentally Disabled, Commission on	10,628	13,592	14,215
<b>Functional Total</b>	<u>5,533,549</u>	<u>5,705,396</u>	<u>6,123,568</u>
<b>PUBLIC PROTECTION</b>			
Capital Defenders Office	11,335	4,500	700
Correction, Commission of	2,527	2,510	2,607
Correctional Services, Department of	2,252,305	2,288,703	2,378,546
Crime Victims Board	61,521	59,282	98,566
Criminal Justice Services, Division of	345,932	462,314	284,198
Homeland Security	19,123	97,895	342,482
Investigation, Temporary State Commission of	3,288	3,565	3,750
Judicial Commissions	2,647	2,703	2,888
Military and Naval Affairs, Division of	1,449,393	176,330	155,455
Parole, Division of	180,063	183,183	199,205
Probation and Correctional Alternatives, Division of	68,908	74,832	76,412
Public Security, Office of	0	0	0
State Police, Division of	485,987	616,818	619,436
<b>Functional Total</b>	<u>4,883,029</u>	<u>3,972,635</u>	<u>4,164,245</u>
<b>EDUCATION</b>			
Arts, Council on the	45,466	44,669	47,625
City University of New York	1,048,790	1,464,888	1,565,071
Education, Department of	22,898,301	24,106,011	25,432,012
<i>School Aid</i>	17,592,818	18,351,772	18,965,001
<i>STAR Property Tax Relief</i>	3,058,940	3,219,000	3,898,000
<i>Handicapped</i>	1,413,453	1,521,073	1,614,058
<i>All Other</i>	833,090	1,014,166	954,953
Higher Education Services Corporation	1,016,771	1,038,474	904,969
State University Construction Fund	9,139	10,480	12,077
State University of New York	4,740,555	5,062,333	5,382,521
<b>Functional Total</b>	<u>29,759,022</u>	<u>31,726,855</u>	<u>33,344,275</u>

Annual Information Statement Update, January 26, 2006

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

	<u>2004-2005</u> Actual	<u>2005-2006</u> Estimated	<u>2006-2007</u> Recommended
<b>GENERAL GOVERNMENT</b>			
Audit and Control, Department of	211,261	225,005	229,617
Budget, Division of the	32,214	50,605	52,105
Civil Service, Department of	22,408	24,599	24,958
Elections, State Board of	3,374	5,229	214,119
Employee Relations, Office of	3,231	3,768	3,956
Executive Chamber	13,521	15,480	15,480
General Services, Office of	217,696	249,821	268,018
Inspector General, Office of	5,082	5,524	6,369
Law, Department of	174,635	182,445	190,906
Lieutenant Governor, Office of the	378	485	485
Lottery, Division of	175,823	177,264	182,365
State Labor Relations Board	14,656	18,388	18,983
Racing and Wagering Board, State	47,492	52,007	52,200
Real Property Services, Office of	3,458	3,554	3,744
Regulatory Reform, Governor's Office of	3,394	3,614	3,926
State, Department of	116,456	173,163	222,127
Tax Appeals, Division of	2,781	2,994	3,098
Taxation and Finance, Department of	343,791	341,888	358,981
Technology, Office for	20,212	20,699	27,818
TSC Lobbying	1,273	1,876	2,799
Veterans Affairs, Division of	11,198	12,913	12,697
<b>Functional Total</b>	<u>1,424,334</u>	<u>1,571,321</u>	<u>1,894,751</u>
<b>ALL OTHER CATEGORIES</b>			
Legislature	206,711	207,680	213,863
Judiciary (excluding fringe benefits)	1,507,117	1,611,169	1,821,969
World Trade Center	39,677	133,700	94,550
Local Government Assistance	972,652	1,036,400	1,111,150
Long-Term Debt Service	3,787,726	3,722,834	4,118,266
General State Charges/Miscellaneous	4,379,889	4,786,029	5,040,408
GAAP/Other Adjustments	(937,460)	(2,065,895)	(2,313,633)
<b>Functional Total</b>	<u>9,956,312</u>	<u>9,431,917</u>	<u>10,086,573</u>
<b>TOTAL ALL GOVERNMENTAL FUNDS SPENDING</b>	<u>100,667,527</u>	<u>106,373,517</u>	<u>110,744,160</u>

Source: NYS DOB

Annual Information Statement Update, January 26, 2006

CASH FLOW  
GENERAL FUND  
2004-2005  
(dollars in millions)

	2004				2005				Total				
	April	May	June	July	August	September	October	November		December	January	February	March
<b>Opening fund balance</b>	2,302	3,842	1,227	1,865	1,740	2,314	2,412	2,193	1,911	2,517	6,182	6,963	2,302
<b>Receipts:</b>													
Taxes													
Personal income tax	2,626	526	1,945	1,215	1,344	1,895	625	560	1,620	3,287	1,991	1,146	18,780
User taxes and fees	705	617	909	684	651	872	628	650	916	693	546	860	8,731
Business taxes	148	(9)	727	91	56	805	33	10	840	102	30	1,236	4,069
Other taxes	68	50	79	60	52	57	53	65	63	197	133	49	926
Miscellaneous receipts	69	67	318	245	124	141	93	450	172	108	69	361	2,217
Federal Grants	1	1	1	0	2	1	1	1	0	1	0	0	9
Transfers from other funds													
PIT in excess of Revenue Bond debt service	875	158	648	405	381	649	208	68	541	1,093	505	450	5,981
Sales tax in excess of LGAC debt service	181	33	0	0	617	339	179	177	266	197	9	184	2,182
Real estate taxes in excess of CW/CA debt service	52	26	77	23	67	49	51	17	62	38	43	11	516
All Other	4	0	0	6	1	179	60	0	20	4	1	177	452
<b>Total receipts</b>	<b>4,729</b>	<b>1,469</b>	<b>4,704</b>	<b>2,729</b>	<b>3,295</b>	<b>4,987</b>	<b>1,931</b>	<b>1,998</b>	<b>4,500</b>	<b>5,720</b>	<b>3,327</b>	<b>4,474</b>	<b>43,863</b>
<b>Disbursements:</b>													
Grants to local governments													
School Aid	162	1,877	1,054	27	386	1,148	296	335	957	292	595	5,630	12,759
Medicaid	951	784	1,114	705	604	732	293	339	395	410	573	699	7,599
Welfare	133	51	110	159	155	242	120	117	(27)	146	58	177	1,441
All Other	375	377	527	778	532	714	709	478	1,004	336	609	1,255	7,694
State operations													
Personal Service	657	553	605	614	430	632	201	416	727	421	250	47	5,553
Non-Personal Service	180	155	184	181	171	123	134	133	175	170	165	241	2,012
General State Charges	423	179	214	268	306	910	193	200	256	228	129	347	3,653
Transfers to Other Funds													
Debt service	211	45	220	50	35	319	52	172	346	17	41	223	1,731
Capital projects	1	46	23	56	32	34	30	43	29	23	64	(184)	197
Other purposes	96	17	15	16	70	35	122	47	32	12	62	456	980
<b>Total disbursements</b>	<b>3,189</b>	<b>4,084</b>	<b>4,066</b>	<b>2,854</b>	<b>2,721</b>	<b>4,893</b>	<b>2,150</b>	<b>2,280</b>	<b>3,894</b>	<b>2,055</b>	<b>2,546</b>	<b>8,891</b>	<b>43,619</b>
<b>Change in fund balance</b>	1,540	(2,615)	638	(125)	574	98	(219)	(282)	606	3,665	781	(4,417)	244
<b>Closing fund balance</b>	3,842	1,227	1,865	1,740	2,314	2,412	2,193	1,911	2,517	6,182	6,963	2,546	2,546

Personal Income Tax Receipts and fund balances through December 31, 2004 have been adjusted to reflect the inclusion of the Personal Income Tax Refund Reserve in the General Fund.

Source: NYS DOB

Annual Information Statement Update, January 26, 2006

CASHFLOW  
GENERAL FUND  
2005-2006  
(dollars in millions)

	2005					2006					Total		
	April Actual	May Actual	June Actual	July Actual	August Actual	September Actual	October Actual	November Actual	December Actual	January Projected		February Projected	March Projected
<b>Opening fund balance</b>	2,546	5,584	3,188	4,007	3,603	3,670	4,923	4,355	3,011	3,547	8,009	8,312	2,546
<b>Receipts:</b>													
Taxes													
Personal income tax	3,347	553	2,213	1,254	1,537	2,105	719	522	1,494	4,072	1,900	1,111	20,827
User taxes and fees	662	667	894	680	628	898	626	629	907	693	531	822	8,637
Business taxes	217	177	891	90	83	919	91	53	860	107	58	1,427	4,973
Other taxes	49	64	131	118	63	68	71	77	67	62	61	63	894
Miscellaneous receipts	160	81	175	95	107	108	178	223	299	230	266	669	2,591
Federal Grants	1	0	1	0	2	0	1	1	1	0	1	1	9
Transfers from other funds													
PIT in excess of Revenue Bond debt service	1,114	160	737	417	431	718	210	5	497	1,357	382	513	6,541
Sales tax in excess of LGAC debt service	174	57	392	201	113	281	187	188	274	211	2	205	2,285
Real estate taxes in excess of CW/CA debt service	108	60	15	66	96	66	65	50	46	50	44	36	705
All Other	0	76	63	7	6	12	9	5	12	67	0	211	468
<b>Total receipts</b>	<b>5,832</b>	<b>1,895</b>	<b>5,512</b>	<b>2,928</b>	<b>3,069</b>	<b>5,176</b>	<b>2,157</b>	<b>1,753</b>	<b>4,457</b>	<b>6,849</b>	<b>3,245</b>	<b>5,058</b>	<b>47,930</b>
<b>Disbursements:</b>													
Grants to local governments													
School Aid	168	1,917	1,253	53	351	1,205	431	463	1,104	302	511	5,736	13,494
Medicaid	798	633	1,155	466	864	433	439	875	283	696	942	1,059	8,643
Welfare	114	134	74	80	150	10	156	149	(4)	150	134	118	1,265
All Other	242	511	798	724	635	625	688	368	1,161	378	640	1,913	8,683
State operations													
Personal Service	562	520	687	556	476	690	433	621	369	361	231	283	5,789
Non-Personal Service	174	223	180	160	214	174	200	195	200	201	205	331	2,457
General State charges	405	186	269	1,212	213	379	249	189	238	296	186	181	4,003
Transfers to other funds													
Debt service	207	105	197	39	30	313	50	158	389	12	27	200	1,727
Capital projects	15	30	44	16	42	33	46	54	17	(27)	47	(107)	210
Other purposes	109	32	36	26	27	60	33	25	164	18	19	413	962
<b>Total disbursements</b>	<b>2,794</b>	<b>4,291</b>	<b>4,693</b>	<b>3,332</b>	<b>3,002</b>	<b>3,922</b>	<b>2,725</b>	<b>3,097</b>	<b>3,921</b>	<b>2,387</b>	<b>2,942</b>	<b>10,127</b>	<b>47,233</b>
<b>Change in fund balance</b>	<b>3,038</b>	<b>(2,396)</b>	<b>819</b>	<b>(404)</b>	<b>67</b>	<b>1,253</b>	<b>(568)</b>	<b>(1,344)</b>	<b>536</b>	<b>4,462</b>	<b>303</b>	<b>(5,069)</b>	<b>687</b>
<b>Closing fund balance</b>	<b>5,584</b>	<b>3,188</b>	<b>4,007</b>	<b>3,603</b>	<b>3,670</b>	<b>4,923</b>	<b>4,355</b>	<b>3,011</b>	<b>3,547</b>	<b>8,009</b>	<b>8,312</b>	<b>3,243</b>	<b>3,243</b>

Source: NYS DOB

Annual Information Statement Update, January 26, 2006

CASH FLOW  
GENERAL FUND  
2006-2007  
(dollars in millions)

	2006 April Projected	May Projected	June Projected	July Projected	August Projected	September Projected	October Projected	November Projected	December Projected	2007 January Projected	February Projected	March Projected	Total
<b>Opening fund balance</b>	3,243	6,876	3,751	4,674	3,684	3,495	5,034	3,750	2,616	3,402	7,187	7,564	3,243
<b>Receipts:</b>													
Taxes													
Personal income tax	4,281	742	2,335	1,295	1,523	2,138	735	555	1,881	3,904	2,061	1,204	22,654
User taxes and fees	661	663	908	674	623	884	664	668	951	716	548	850	8,810
Business taxes	112	17	1,078	76	54	1,122	61	2	1,075	69	26	1,307	4,999
Other taxes	119	74	75	74	76	76	74	75	75	75	75	75	900
Miscellaneous receipts	0	84	114	99	90	258	196	502	253	205	203	585	2,708
Federal Grants		1	1	1	1	1	1	1	0	0	1	1	9
Transfers from other funds													
PIT in excess of Revenue Bond debt service	1,426	217	777	431	386	740	136	60	626	1,300	279	554	6,932
Sales tax in excess of LGAC debt service	195	31	450	202	187	199	201	202	291	217	2	179	2,356
Real estate taxes in excess of CW/CA debt service	52	51	48	49	46	52	51	45	38	32	28	40	532
All Other		1	34	1	10			1	63			156	266
<b>Total receipts</b>	6,920	1,882	5,821	2,902	2,986	5,480	2,119	2,111	5,253	6,518	3,223	4,951	50,166
<b>Disbursements:</b>													
Grants to local governments													
School Aid	137	1,761	1,687	91	339	1,056	521	487	1,143	322	615	5,829	13,988
Medicaid	1,071	1,138	923	615	880	530	328	818	605	815	752	680	9,155
Welfare	121	121	(24)	121	121	(28)	121	121	(36)	120	120	16	884
All Other	352	352	910	780	588	864	1,383	465	1,216	535	569	1,624	9,618
State operations													
Personal Service	635	955	664	616	738	493	471	625	453	439	297	27	6,413
Non-Personal Service	196	208	226	241	191	198	215	182	200	214	216	188	2,475
General State charges	449	277	231	1,347	216	379	246	267	279	293	150	210	4,344
Transfers to other funds													
Debt service	209	120	220	26	58	331	45	171	393	9	27	122	1,731
Capital projects	20	38	23	29	34	95	2	45	166	(37)	78	(238)	255
Other purposes	97	37	38	26	30	23	71	64	48	23	22	286	765
<b>Total disbursements</b>	3,287	5,007	4,898	3,892	3,175	3,941	3,403	3,245	4,467	2,733	2,846	8,744	49,638
<b>Change in fund balance</b>	3,633	(3,125)	923	(990)	(189)	1,539	(1,284)	(1,134)	786	3,785	377	(3,793)	528
<b>Closing fund balance</b>	6,876	3,751	4,674	3,684	3,495	5,034	3,750	2,616	3,402	7,187	7,564	3,771	3,771

Source: NYS DOB

## PART II: Litigation

### State Finance Policies ---

#### Gaming

In *Dalton, et al. v. Pataki, et al.* and *Karr v. Pataki, et al.*, plaintiffs seek a judgment declaring as unconstitutional, under provisions of the Constitutions of the United States and the State, parts B, C and D of Chapter 383 of the Laws of 2001, which respectively authorize (1) the governor to enter into tribal-state compacts for the operation by Indian tribes of gambling casinos in certain areas of the State, (2) the Division of the Lottery to license the operation of VLTs at certain race tracks in the State and (3) the Division of the Lottery to enter into a joint, multi-jurisdiction and out-of-state lottery. Plaintiffs also seek to enjoin defendants from taking any action to implement the provisions of Chapter 383.

By opinion and order entered July 7, 2004, the Appellate Division, Third Department, upheld the constitutionality of tribal-state compacts and the joint, multi-jurisdiction and out of State lottery. The Appellate Division held that the statute authorizing the Division of the Lottery to license the operation of VLTs at certain racetracks in the State violated the provisions of the State Constitution that require the net proceeds of State-operated lotteries be applied exclusively to or in aid or support of education in this State as the Legislature may prescribe. The State, certain other defendants, and the plaintiffs in both *Dalton, et al. v. Pataki, et al.* and *Karr v. Pataki, et al.* have appealed to the Court of Appeals from this order. In an opinion dated May 3, 2005, the Court of Appeals modified the July 7, 2004 opinion and order and declared parts B, C and D of Chapter 383 of the Laws of 2001 constitutional. On July 6, 2005, the Court of Appeals denied the plaintiffs' motions for reargument in both cases. On September 15, 2005, Plaintiffs filed for *certiorari* before the United States Supreme Court on that portion of the Court of Appeals decision relating to tribal-State compacts. On November 28, 2005, the United States Supreme Court denied petitioner's application for *certiorari*.

### Real Property Claims ---

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

In 1998, the United States filed a complaint in intervention in *Oneida Indian Nation of New York*. In December 1998, both the United States and the tribal plaintiffs moved for leave to amend their complaints to assert claims for 250,000 acres, including both monetary damages and ejectment, to add the State as a defendant, and to certify a class made up of all individuals who currently purport to hold title within the affected 250,000 acre area. On September 25, 2000, the District Court granted the motion to amend the complaint to the extent that it sought to add the State as a defendant and to assert money damages with respect to the 250,000 acres and denied the motion to certify a class of individual landowners and to seek the remedy of ejectment.

In a decision dated March 29, 2002, the District Court granted, in part, plaintiffs' motion to strike the State's defenses and counterclaims. The defenses that were dismissed may not be asserted as to liability, but may still be asserted with respect to damages. The District Court also denied the State's motion to dismiss for failure to join indispensable parties.

On December 7, 2004, settlement agreements were signed between the State, the Oneidas of Wisconsin and the Stockbridge-Munsee Tribe, which contemplated the extinguishment of all Oneida and other Indian claims in the tract at issue in this litigation. Although the agreements provided for monetary payment, transfers of lands and other consideration to non-signatory tribal plaintiffs, these agreements were not signed by the United States, the Oneidas of New York, the Oneidas of the Thames Band or the New York Brothertown. The settlement agreements required the passage of State and Federal legislation by September 1, 2005 in order to become effective, unless the parties agreed to an extension of time. No such legislation was enacted and no extension of time was agreed upon. On August 18, 2005, the District Court stayed all further proceedings in this case until it is known whether the plaintiffs in the *Cayuga Indian Nation of New York* case will ask the United States Supreme Court to review the Second Circuit's June 28, 2005 decision. Proceedings in this case will be stayed until the Supreme Court either declines to review the Second Circuit's decision or issues an opinion in that case.

Other Indian land claims include *Cayuga Indian Nation of New York v. Cuomo, et al.*, and *Canadian St. Regis Band of Mohawk Indians, et al., v. State of New York, et al.*, both in the United States District Court for the Northern District of New York and *Seneca Nation of Indians, et al. v. State, et al.*, in the United States District Court for the Western District of New York and *the Onondaga Nation v. The State of New York, et al.*

In the *Seneca Nation of Indians* case, plaintiffs seek monetary damages and ejectment with regard to their claim of ownership of certain islands in the Niagara River and the New York State Thruway right of way where the Thruway crosses the Cattaraugus reservation in Erie and Chautauqua Counties. By order dated November 17, 1999, the District Court confirmed the July 12, 1999 magistrate's report, which recommended granting the State's motion to dismiss that portion of the action relating to the Thruway right of way and denying the State's motion to dismiss the Federal government's damage claims. By decision and order dated June 21, 2002, the District Court granted summary judgment to defendants dismissing that portion of the action relating to the islands in the Niagara River. A judgment entered June 21, 2002 dismissed all aspects of this action. Plaintiffs appealed from the judgment to the U.S. Court of Appeals for the Second Circuit. By decision dated September 9, 2004, the Second Circuit affirmed the judgment of the District Court. On July 8, 2005, the Second Circuit denied the United States' motion for rehearing *en banc*. On September 2, 2005, the Second Circuit also denied the other plaintiffs' petitions for rehearing *en banc*. On January 17, 2006, plaintiffs filed for a writ of certiorari before the United States Supreme Court, seeking review of the September 9, 2004 decision.

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. The plaintiff tribal entity that did not approve the proposed settlement on November 29, 2004, subsequently expressed its approval. A bill that would implement the terms of the Haudenosaunee-Mohawk

settlement agreement has been passed by the New York State Assembly and awaits action by the New York State Senate. On August 12, 2005, the District Court stayed all further proceedings in this case until February 15, 2006 subject to possible extension.

In the *Cayuga Indian Nation of New York* case, plaintiffs seek monetary damages for their claim that approximately 64,000 acres in Seneca and Cayuga Counties were illegally purchased by the State in 1795. Prior to trial, the court held that plaintiffs were not entitled to seek the remedy of ejectment. In October 1999, the District Court granted the Federal government's motion to have the State held liable for any damages owed to the plaintiffs. In February 2000, at the conclusion of the damages phase of the trial of this case, a jury verdict of \$35 million in damages plus \$1.9 million representing the fair rental value of the tract at issue was rendered against the defendants. By decision and judgment dated October 2, 2001, the District Court also granted plaintiffs \$211 million in prejudgment interest. The State has appealed from the judgment to the United States Court of Appeals for the Second Circuit. Following argument of the appeal, the Second Circuit requested that the parties brief the Court on the impact of the decision of the United States Supreme Court in *City of Sherrill v. Oneida Indian nation of New York, et al.*, a case to which the State is not a named party, in which the United States Supreme Court has held that parcels of land recently acquired by the Oneida Indian Nation of New York within the 1788 reservation boundaries are subject to local property taxation. On October 1, 2004, the State filed an action in the District Court for the Northern District Court under the Federal Tort Claims Act, seeking contribution from the United States toward the \$248 million judgment and post-judgment interest. On June 28, 2005, the Second Circuit held that plaintiffs' possessory land claim is subject to the defense of laches and is barred on that basis. The Court reversed the judgment of the District Court and entered judgment for defendants. On September 8, 2005 the Second Circuit denied plaintiff's motion for reconsideration and *en banc* review. On November 21 and 22, 2005, United States Supreme Court Justice Ginsburg granted applications by the United States and the tribal plaintiffs for extensions of time to petition for certiorari until January 6, 2006. On December 27, 2005, Justice Ginsburg granted the applications of the United States and the tribal plaintiffs to further extend their time to petition for certiorari to dates in the first week of February, 2006.

Settlements were signed by the Governor of the State with the Chief of the Seneca-Cayuga Tribe of Oklahoma on November 12, 2004 and with the Cayuga Indian nation of New York on November 17, 2004 which required, in part, require enactment of State and Federal legislation by September 1, 2005 in order to become effective, unless the parties agreed to an extension of time. These agreements provided for differential payments to be made to the plaintiff tribes, based upon the outcome of the appeal then pending in the Second Circuit. No legislation was enacted by September 1, 2005 and no extension of time was agreed upon.

In *The Onondaga Nation v. The State of New York, et al.*, plaintiff seeks a judgment declaring that certain lands allegedly constituting the aboriginal territory of the Onondaga Nation within the State are the property of the Onondaga Nation and the Haudenosaunee, or "Six Nations Iroquois Confederacy," and that conveyances of portions of that land pursuant to treaties during the period 1788 to 1822 are null and void. The "aboriginal territory" described in the complaint consists of an area or strip of land running generally north and south from the St. Lawrence River in the north, along the east side of Lake Ontario, and south as far as the Pennsylvania border, varying in width from about 10 miles to more than 40 miles, including the area constituting the City of Syracuse. On October 28, 2005, the District Court stayed all further proceedings in this case until it is known whether the plaintiffs in the *Cayuga Indian Nation of New York* case will ask the United States Supreme Court to review the Second Circuit's June 28, 2005 decision. Proceedings in this case will be stayed until the Supreme Court either declines to review the Second Circuit's decision or issues an opinion in that case.

## State Programs

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### Medicaid

There are numerous cases in which nursing homes have challenged the statutory provisions setting the reimbursement methodology pursuant to which they receive Medicaid payments, including *New York State Health Facilities Association, et al., v. DeBuono, et al., St. Luke's Nursing Center, et al. v. DeBuono, et al., New York Association of Homes and Services for the Aging v. DeBuono, et al. (six cases)*; and *Matter of Nazareth Home of the Franciscan Sisters, et al. v. Novello*. Plaintiffs allege that the changes in methodologies have been adopted in violation of procedural and substantive requirements of State and Federal law.

In *New York Association of Homes and Services for the Aging v. DeBuono, et al.*, the United States District Court for the Northern District of New York dismissed plaintiffs' complaint by order dated May 19, 2004. Plaintiffs have appealed to the Second Circuit Court of Appeals. Several related State Court cases involving the same parties and issues have been held in abeyance pending the result of the litigation in Federal Court.

In *Matter of Nazareth Home of the Franciscan Sisters, et al. v. Novello*, the Supreme Court, Erie County, dismissed the petition by decision, order and judgment dated December 22, 2004. By order entered September 30, 2005, the Supreme Court, Appellate Division, Fourth Department affirmed the decision of the lower court. On December 22, 2005, the Appellate Division, Fourth Department, granted petitioners' motion for leave to appeal to the Court of Appeals.