

NEW ISSUE - BOOK-ENTRY ONLY

In the opinion of Bond Counsel to the Corporation, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2010B Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2010B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel to the Corporation, under existing statutes, interest on the Series 2010B Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). See "TAX MATTERS" herein.



\$467,335,000

**NEW YORK STATE URBAN DEVELOPMENT CORPORATION
SERVICE CONTRACT REVENUE REFUNDING BONDS, SERIES 2010B**

Dated: Date of Delivery

Due: As shown on inside cover

The New York State Urban Development Corporation's \$467,335,000 aggregate principal amount of Service Contract Revenue Refunding Bonds, Series 2010B (the "Series 2010B Bonds") are special obligations of the New York State Urban Development Corporation (the "Corporation"), doing business as the Empire State Development Corporation.

Interest on the Series 2010B Bonds is computed semi-annually (payable January 1 and July 1 until maturity, commencing on July 1, 2011) on the basis of a 360-day year and 30-day months. The Series 2010B Bonds are issuable only as fully registered bonds without coupons, in denominations of \$5,000 or any integral multiple thereof. The Series 2010B Bonds will be initially issued under a book-entry only system and will be registered in the name of Cede & Co., as Bondholder and nominee of The Depository Trust Company, New York, New York. See "THE SERIES 2010B BONDS-Book-Entry Only System" herein. Principal and premium, if any, and interest on the Series 2010B Bonds will be payable through Manufacturers & Traders Trust Company, Buffalo, New York, as Trustee and Paying Agent.

The Corporation has no taxing power. The Series 2010B Bonds are payable solely from the revenues, funds and assets pledged as security for the payment thereof, including, but not limited to, certain payments made by the State of New York to the Corporation under the Service Contract (as defined herein). Such payments are to be in amounts sufficient to pay when due all installments of principal of, premium, if any, and interest on all Series 2010B Bonds issued by the Corporation. **THE OBLIGATION OF THE STATE OF NEW YORK TO MAKE PAYMENTS PURSUANT TO THE SERVICE CONTRACT IS SUBJECT TO, AND DEPENDENT UPON, THE MAKING OF ANNUAL APPROPRIATIONS BY THE NEW YORK STATE LEGISLATURE FOR SUCH PURPOSE AND THE AVAILABILITY OF MONEYS TO FUND SUCH PAYMENTS.**

The Series 2010B Bonds are subject to redemption prior to maturity as described herein.

The Series 2010B Bonds are not moral or general obligations or debts of the State of New York, and the State of New York is not liable thereon. Neither the faith and credit nor the taxing power of the State of New York is pledged to the payment of principal of, premium, if any, or interest on the Series 2010B Bonds.

The Series 2010B Bonds are offered when, as and if issued and delivered to the Purchaser, and are subject to approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Corporation, and to certain other conditions. It is expected that the Series 2010B Bonds will be available for delivery in New York, New York, through the facilities of DTC on or about October 5, 2010.

\$467,335,000
NEW YORK STATE URBAN DEVELOPMENT CORPORATION
SERVICE CONTRACT REVENUE REFUNDING BONDS, SERIES 2010B

Due January 1,	Amount	Interest Rate	Yield	CUSIP Number[†]
2012	\$ 75,740,000	5.000%	0.700%	650035UN6
2013	96,125,000	5.000	0.950	650035UP1
2014	103,015,000	5.000	1.150	650035UQ9
2015	106,850,000	5.000	1.420	650035UR7
2016	80,960,000	5.000	1.740	650035US5
2017	4,645,000	4.000	2.000	650035UT3

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers have been assigned by an independent company not affiliated with the Corporation and are included solely for the convenience of the owners of the Series 2010B Bonds. Neither the State nor the Corporation is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2010B Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2010B Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2010B Bonds.

No dealer, broker, salesperson or other person has been authorized by the Corporation or the State of New York (the "State") to give any information or to make any representations, other than as contained in this Official Statement, and if given or made such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2010B Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been provided by the Corporation, the State and other sources which are believed to be reliable by the Corporation and with respect to the information supplied or authorized by the State, is not to be construed as a representation by the Corporation. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or the State since the date hereof. This Official Statement is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

In connection with the offering of the Series 2010B Bonds, the Purchaser may over allot or effect transactions which stabilize or maintain the market price of the Series 2010B Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT CONTAINS STATEMENTS WHICH, TO THE EXTENT THEY ARE NOT RECITATIONS OF HISTORICAL FACT, CONSTITUTE "FORWARD LOOKING STATEMENTS." IN THIS RESPECT, THE WORDS "ESTIMATE", "PROJECT", "ANTICIPATE", "EXPECT", "INTEND", "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. A NUMBER OF IMPORTANT FACTORS AFFECTING THE CORPORATION AND THE STATE'S FINANCIAL RESULTS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE STATED IN THE FORWARD-LOOKING STATEMENTS.

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OFFICIAL STATEMENT

Relating to

EMPIRE STATE DEVELOPMENT CORPORATION

\$467,335,000

**NEW YORK STATE URBAN DEVELOPMENT CORPORATION
SERVICE CONTRACT REVENUE REFUNDING BONDS, SERIES 2010B**

INTRODUCTION

The purpose of this Official Statement, which includes the inside cover page and appendices, is to set forth certain information concerning the New York State Urban Development Corporation (the "Corporation"), doing business as the Empire State Development Corporation ("ESDC"), and the State of New York (the "State"), all in connection with the offering by the Corporation of its proposed \$467,335,000 aggregate principal amount of Service Contract Revenue Refunding Bonds, Series 2010B (the "Series 2010B Bonds").

Interest on the Series 2010B Bonds is computed semi-annually (payable January 1 and July 1, until maturity, commencing on July 1, 2011) on the basis of a 360-day year and 30-day months. The interest rates, maturity dates, prices and yields and CUSIP numbers of the Series 2010B Bonds being offered hereby are set forth on the inside cover page of this Official Statement.

The Corporation is a corporate governmental agency of the State, constituting a political subdivision and a public benefit corporation, originally created to facilitate the development of affordable housing for low, moderate and middle income persons and families. The Corporation has no taxing power. The Corporation and other affiliated economic development entities in the State are now doing business under the name "Empire State Development Corporation;" however, the statutory name and powers of the Corporation have not changed because of this development. See "THE CORPORATION." The Corporation is currently engaged in four principal activities: economic and real estate development, privatization initiatives, residential and non-residential project activities, and State-supported financing activities.

The Series 2010B Bonds are authorized to be issued pursuant to: (i) the New York State Urban Development Corporation Act, Chapter 174 of the Laws of 1968 of the State, as amended (the "UDC Act"); and (ii) Chapter 56 of the Laws of 1983, as amended and supplemented, and Chapter 211 of the Laws of 1990, as amended and supplemented (collectively, the "Project Acts").

The Series 2010B Bonds are additionally authorized under: (i) the Corporation's Service Contract Revenue Refunding Bond Resolution, adopted by the Corporation on May 12, 2005 (as amended and supplemented, the "General Resolution"); (ii) the Corporation's Series Resolution Authorizing Service Contract Revenue Refunding Bonds, Series 2010B, adopted by the Corporation on September 21, 2010 (the "Series Resolution"); and (iii) the Corporation's Bond Financing Committee Resolution Concerning the Sale and Issuance of Service Contract Revenue Refunding Bonds, Series 2010B, adopted on September 21, 2010 (the "Bond Financing Committee Resolution" and, collectively with the General Resolution and the Series Resolution, the "Resolution"). All bonds issued pursuant to the Resolution, including the Series 2010B Bonds, are herein referred to as the "Bonds".

The Series 2010B Bonds will be the ninth series of bonds issued under the General Resolution. The Corporation has previously issued \$2,789,370,000 of its Service Contract Revenue Refunding Bonds, of which \$2,498,190,000 is Outstanding as of September 1, 2010. The General Resolution permits the Corporation to issue additional series of Bonds which will be on a parity with all Bonds heretofore or hereafter issued under the General Resolution ("Additional Bonds").

The Series 2010B Bonds are special obligations of the Corporation, secured by and payable solely from the Pledged Property (as hereinafter defined), which includes amounts payable by the Director of the Budget of the State (the “Director of the Budget”) to the Corporation relating to principal of, redemption premium, if any, and interest on the Series 2010B Bonds in accordance with the terms and provisions of the Service Contract for the Series 2010B Bonds (the “Service Contract”) between the State of New York, acting by and through the Director of the Budget, and the Corporation dated as of the date of delivery of the Series 2010B Bonds, subject to annual appropriation by the New York State Legislature (the “State Legislature”), and the Funds and Accounts (other than the Rebate Fund) established under the General Resolution, subject to the application thereof for the purposes and on the terms and conditions provided in the General Resolution. Pursuant to the Service Contract, the amounts payable by the Director of the Budget, together with certain other funds and investments, are to be sufficient to pay, when due, all installments of principal of, redemption premium, if any, and interest on, the Series 2010B Bonds. The Service Contract provides that the obligation of the Director of the Budget to make the payments thereunder is subject to appropriation by the State Legislature. The Service Contract, together with all service contracts entered into or to be entered into in connection with the issuance and delivery of any Series of outstanding Bonds or any Series of Additional Bonds, are hereinafter referred to collectively as the “Service Contracts.” Payments pursuant to the Service Contracts relating to principal of, redemption premium, if any, and interest on, the Bonds are referred to as the “Contract Payments.” All Bonds issued pursuant to the General Resolution shall be equally and ratably secured by and payable from certain amounts received by the Corporation from the State under the Service Contracts. See “APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION” and “APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACT.”

The Series 2010B Bonds are being issued for the purpose of (A) currently refunding all of the currently outstanding \$469,340,000 aggregate principal amount of the Corporation’s Correctional and Youth Facilities Service Contract Revenue Bonds, Series 2002A, maturing on January 1, 2017, and \$45,085,000 aggregate principal amount of the Corporation’s Correctional and Youth Facilities Service Contract Revenue Bonds, Series 2002C, maturing on January 1, 2020 (collectively, the “Refunded Bonds”); and (B) paying the cost of issuance of the Series 2010B Bonds.

The Project Acts authorize the Corporation to issue bonds and notes, subject to individual bonding limitations contained therein. The authorized principal amounts exclude bonds, notes or other obligations issued to refund or otherwise repay bonds, notes or other obligations theretofore issued for the purposes described in the Project Acts. The bonding limitations under the Project Acts will not be exceeded as a result of the issuance of the Series 2010B Bonds.

The obligation of the State to make payments under the Service Contract shall be subject to and dependent upon annual appropriations being made by the State Legislature for such purposes, shall not constitute a moral or general obligation or a debt of the State within the meaning of any constitutional or statutory provision and shall be deemed executory only to the extent of moneys made available to the State therefor, and no liability on account thereof shall be incurred by the State beyond the moneys available for the purpose thereof. The State Legislature shall not be legally or morally obligated to make appropriations to satisfy the State’s obligation to make payments under the Service Contract and there can be no assurance that the State Legislature will make any such appropriations.

The Corporation has no taxing power. The Series 2010B Bonds will not be obligations or debts of the State and the State will not be liable thereon. Neither the faith and credit nor the taxing power of the State will be pledged to the payment of principal or purchase price of, premium, if any, or interest on the Series 2010B Bonds nor will the Series 2010B Bonds be “moral obligation” bonds secured by a debt service reserve fund to which State funds will be apportionable under the UDC Act.

Capitalized terms used but not defined herein have the same meaning as ascribed to them in the Resolution. See “SOURCES OF PAYMENT FOR THE SERIES 2010B BONDS,” “APPENDIX B—

CERTAIN DEFINITIONS,” and “APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION.”

SOURCES OF PAYMENT FOR THE SERIES 2010B BONDS

Pledge Effected by the General Resolution

The Series 2010B Bonds are special obligations of the Corporation, without recourse to other assets of the Corporation, and are secured by a pledge of and payable from: (i) Contract Payments; (ii) Recoveries and Awards; (iii) the proceeds of the sale of the Series 2010B Bonds; (iv) the moneys and securities held in the Funds (other than the Rebate Fund) and Accounts established under the General Resolution; and (v) all of the Corporation’s right, title and interest in each Security Instrument (collectively, the “Pledged Property”). Under the General Resolution, the Corporation has pledged the Pledged Property to the Trustee for payment of the Bonds. The pledge created by the General Resolution is subject only to the provisions of the General Resolution permitting the application of the Pledged Property for the purposes and conditions set forth therein. The term “Recoveries and Awards” shall mean all amounts arising from or attributable to all amounts realized upon or as a result of the exercise of any right or remedy or enforcement of any security interest under a Security Instrument or the General Resolution, and any proceeds thereof, after deducting from any such amounts, any costs and expenses incurred in the exercise of any such right or remedy or in the enforcement of any such security interest, collecting the proceeds thereof or producing income thereon.

Pursuant to the General Resolution, the Series 2010B Bonds will be equally and ratably secured with any other Bonds heretofore or hereafter issued under the General Resolution.

The Corporation has no power to pledge the credit of the State, nor shall any of the Corporation’s obligations under the General Resolution and the Security Instruments, including the Series 2010B Bonds, be deemed to be a debt or moral obligation of the State, and the State shall not be liable thereon, and the Series 2010B Bonds shall be payable solely from certain payments received by the Corporation under the Service Contracts and certain amounts held under the General Resolution, and the obligation of the State to make such payments shall not constitute a debt or moral obligation of the State within the meaning of any constitutional or statutory provision and shall be deemed executory only to the extent of moneys made available to the State therefor, and no liability on account thereof shall be incurred by the State beyond the moneys available for the purpose thereof. The Corporation has no taxing power.

The Series 2010B Bonds are not secured by any mortgage on any facilities or any part thereof. In the event that the State fails to make the payments payable under the Service Contract, there can be no assurance that there will be moneys available to provide for the payment of the Series 2010B Bonds.

Service Contract Payments

The State will make Contract Payments pursuant to certain Security Instruments. The term “Security Instruments” is defined in the General Resolution to mean, collectively, the Service Contracts and all assignments of all or any part thereof to the Corporation or the Trustee as collateral or otherwise, as from time to time amended or supplemented. In connection with each Series of Bonds issued under and pursuant to the General Resolution, the State and the Corporation will enter into a service contract pursuant to which the State shall agree to pay to the Corporation, subject to annual appropriations by the State Legislature, the amounts necessary to pay principal of, purchase price, if any, and interest on such Series of Bonds in any calendar year. All Bonds issued pursuant to the General Resolution shall be equally and ratably secured by and payable from Contract Payments from the State under the Service Contracts.

In connection with the issuance of the Series 2010B Bonds, the Corporation and the State will enter into a Service Contract, pursuant to which the State will be obligated to make Contract Payments in the

amounts necessary to pay, among other things, the principal of and interest on the Series 2010B Bonds. Pursuant to an Assignment of Contract Payments, from the Corporation to the Trustee, the Corporation will assign to the Trustee as security for the Bonds, including the Series 2010B Bonds, the Contract Payments payable by the State under such Service Contract. The Service Contracts entered into in connection with other Series of Bonds have been similarly assigned to the Trustee. Certain other payments under the Service Contracts (not relating to the payment of principal or purchase price of, redemption premium, if any, and interest on the Bonds) do not constitute Contract Payments as defined therein, are not pledged under the General Resolution and will not be included in the Pledged Property.

The 2010-11 Enacted Budget authorized the State to set aside monies in reserve for debt service on general obligation, lease-purchase, and service contract bonds. Pursuant to a certificate filed by the Director of the Budget with the State Comptroller, the Comptroller is required to transfer from the General Fund such reserved amounts on a quarterly basis in advance of required debt service payment dates. This authorization will expire on June 30, 2012.

The obligation of the State to make Contract Payments under the Service Contracts is subject to and dependent upon the appropriations being made from time to time by the State Legislature for such purposes and shall be deemed executory only to the extent of the moneys made available to the State therefor, and no liability on account thereof shall be incurred by the State beyond the moneys available for the purpose thereof. See “APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACT.” The State Legislature shall not be legally or morally obligated to make appropriations to satisfy the State’s obligation to make payments under the Service Contracts and there can be no assurance that the State Legislature will make any such appropriations.

In the event that the State fails to make the payments payable under the Service Contracts, there can be no assurance that there will be moneys available to provide for the payment of the Bonds. For a discussion of the general economic and financial condition of the State, see “APPENDIX A—INFORMATION CONCERNING THE STATE OF NEW YORK.”

Additional Bonds

The provisions of the Project Acts and the General Resolution permit the Corporation to issue additional series of Bonds on a parity with the Series 2010B Bonds and any other Bonds then Outstanding under the General Resolution, subject to individual bond limitations authorized within the Project Acts. See “APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION.”

THE SERIES 2010B BONDS

Description of the Series 2010B Bonds

General

Interest on the Series 2010B Bonds is computed semi-annually (payable January 1 and July 1, until maturity, commencing on July 1, 2011) on the basis of a 360-day year and 30-day months. The Series 2010B Bonds are issued in denominations of \$5,000 or any integral multiple thereof.

Redemption

Optional Redemption

The Series 2010B Bonds are not subject to redemption prior to maturity except as provided in the next paragraph.

Extraordinary Mandatory Redemption

The Series 2010B Bonds are subject to extraordinary mandatory redemption as may be required by the provisions of the Resolution described in “APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Mandatory Redemption Upon Deposit of Certain Funds.”

Selection of Bonds to be Redeemed; Notice of Redemption

In the case of redemptions of Series 2010B Bonds, the Corporation will select the maturities of the Series 2010B Bonds to be redeemed. If less than all of the Series 2010B Bonds of a maturity are to be redeemed, the Trustee shall assign to each Outstanding Bond to be redeemed a distinctive number for each amount representing the lowest denomination in which the Series 2010B Bonds are authorized to be issued and shall select by lot, using such method of selection as it shall deem proper in its discretion, from the numbers assigned to such Bonds, as many numbers as, at the amount representing the lowest denomination in which the Series 2010B Bonds are authorized to be issued for each number, shall equal the principal amount of such Series 2010B Bonds to be redeemed.

When the Trustee shall have received notice from the Corporation that Series 2010B Bonds are to be redeemed, the Trustee shall give notice, in the name of the Corporation, of the redemption of such Series 2010B Bonds. Notice of any redemption shall be mailed by the Trustee, postage prepaid, no less than 30 days before the redemption date, to the Owners of any Series 2010B Bonds or portions of Series 2010B Bonds which are to be redeemed, at their last address, if any appearing upon the registry books.

For a more complete description of the redemption and other provisions relating to the Series 2010B Bonds, see “APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION.”

Book-Entry Only System

The information contained in this Official Statement concerning DTC and DTC’s book-entry system has been obtained from sources that the Corporation believes to be reliable, but the Corporation takes no responsibility for the accuracy thereof.

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Series 2010B Bonds. The Series 2010B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2010B Bond certificate will be issued for each stated maturity of the Series 2010B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of

which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 2010B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010B Bonds on DTC’s records. The ownership interest of each actual purchaser of the Series 2010B Bonds (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2010B Bonds, except in the event that use of the book-entry system for the Series 2010B Bonds is discontinued.

To facilitate subsequent transfers, the Series 2010B Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2010B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010B Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2010B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Series 2010B Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC would mail an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts each of the Series 2010B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2010B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Paying Agent or the Corporation, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Paying Agent or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent or the Corporation, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2010B Bonds at any time by giving reasonable notice to the Corporation or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2010B Bond certificates for the Series 2010B Bonds are required to be printed and delivered.

The Corporation may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository) for the Series 2010B Bonds, subject to DTC procedures or those of its successor. In that event, Series 2010B Bond certificates for the Series 2010B Bonds will be printed and delivered.

So long as Cede & Co. is the registered owner of the Series 2010B Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2010B Bonds (other than under the captions "Tax Matters" and "Continuing Disclosure" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2010B Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

NEITHER THE CORPORATION NOR THE TRUSTEE OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT OR INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2010B BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO SERIES 2010B BONDHOLDERS; (IV) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS A SERIES 2010B BONDHOLDER; OR (V) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2010B BONDS.

For every transfer and exchange of beneficial ownership of the Series 2010B Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

THE REFUNDING PLAN

The net proceeds of the Series 2010B Bonds will be used to pay the principal amount of the Refunded Bonds upon the redemption of such Refunded Bonds on January 1, 2011, at a redemption price of par. Interest on the Refunded Bonds due upon such redemption will be supplied from other available funds. The net proceeds of the Series 2010B Bonds for the payment of principal and such other amounts for the payment of interest will be deposited in an escrow account held by the trustee of the Refunded Bonds until so applied.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are expected to be as follows:

Sources of Funds

Principal Amount of the Series 2010B Bonds	\$467,335,000
Net Original Issuance Premium.....	54,562,904
Other Available Funds.....	13,433,550
Total Sources	<u>\$535,331,454</u>

Uses of Funds

Deposit to Refunding Escrow Account	\$527,702,418
Costs of Issuance	231,110
State Bond Issuance Charge	3,892,913
Corporation Fee	2,336,675
Purchaser's Discount	1,168,338
Total Uses.....	<u>\$535,331,454</u>

THE CORPORATION

General

The Corporation is a corporate governmental agency of the State constituting a political subdivision and a public benefit corporation. The Corporation's principal office is located at 633 Third Avenue, New York, New York 10017.

The UDC Act provides that the Corporation's existence shall continue until terminated by law, but that no such law may take effect so long as the Corporation has bonds, notes or other obligations outstanding unless adequate provision is made for the payment thereof in the documents securing the same.

The Corporation was originally created to facilitate the development of affordable housing for low, moderate and middle income persons and families. Corporation residential projects are located throughout the State, concentrated in central city areas. All Corporation residential projects are subject to and governed by the State's Private Housing Finance Law.

During 1974, the Corporation experienced difficulty in meeting its commitments for financing the completion of certain primarily residential projects for which the Corporation would receive, upon completion, substantial federal mortgage subsidy payments. In February 1975 the State, in response, created the New York State Project Finance Agency ("PFA") to assist in the completion of such projects. PFA received funds from State appropriations, issued bonds and notes and made the proceeds thereof, together with revenues in excess of debt service requirements, available to the Corporation. Supervisory jurisdiction over the Corporation's residential projects being financed with PFA's assistance was transferred to the Division of Housing and Community Renewal of the State of New York. In 1979, the New York State Mortgage Loan Enforcement and Administration Corporation ("MLC") was organized as a Corporation subsidiary to service, administer and enforce the rights of the Corporation and PFA related to residential interest subsidies and certain other real estate investments. MLC is currently inactive, all PFA bonds have been paid and on February 27, 2005 PFA's corporate existence was terminated by operation of law. The Corporation does not presently contemplate financing any new residential projects.

Economic Development Programs

The Corporation has redirected its efforts to promote economic development on the local and Statewide levels. The Corporation's goal is to create and retain jobs, particularly in economically distressed areas throughout the State from the largest urban centers to the smallest rural communities.

The Corporation, on behalf of the State, undertakes projects which would not be financially or organizationally feasible for the private sector alone. The State Legislature has provided the Corporation with various statutory powers, including the powers to condemn real property, invest in property at below-market interest rates, issue tax-exempt bonds, offer tax benefits to developers, and waive compliance, where appropriate, with local codes and laws.

In addition to the use of these extraordinary powers, the Corporation provides financial assistance through grants, low cost project financing, including loans and interest subsidy grants; and technical assistance in management, finance and project design.

In the past 30 years, the Corporation has undertaken, developed and constructed many significant projects, including the Jacob K. Javits Convention Center, South Street Seaport and other numerous large scale development projects. Today, the Corporation's large ongoing projects include the Barclay's Arena, Jacob K. Javits Convention Center expansion, Queens West and Moynihan Station redevelopment projects in New York City.

The Corporation has also formed the Lower Manhattan Development Corporation, a subsidiary responsible for the distribution of available relief and other funds and the rebuilding of lower Manhattan.

The Corporation also administers an array of less prominent, but significant economic development programs throughout the State, including the Centers of Excellence program, which is establishing Centers of Excellence in Nanoelectronics in Albany, Wireless and Information Technology in Stony Brook, Photonics and Optoelectronics in Rochester, Bioinformatics in Buffalo and Environmental and Energy Systems in Syracuse. Since January 1, 1997 over 7,660 projects have been approved, totaling more than \$6.364 billion in grants and \$245.3 million in loans. Thousands of jobs have been created and retained by these projects.

Through its Finance Division, the Corporation has issued approximately \$11.0 billion in State-supported bonds to help finance economic development and special State purpose projects. These include correctional facilities, youth centers, State facilities, sports facilities, university-based technology centers and community enhancement facilities.

Consolidation

In order to increase efficiency, reduce administrative overhead and enhance the delivery of New York State's economic development initiatives, various economic development functions and staff have been consolidated. The staff and functions of the Corporation, MLC and the Job Development Authority ("JDA") have been combined. While each of these entities retains a separate corporate existence, they operate in a consolidated manner as ESDC. ESDC and the Department of Economic Development are responsible for providing and coordinating all of the State's economic development initiatives.

The legal corporate entities of the Corporation and JDA will remain intact for the purpose of issuing bonds and/or notes pursuant to legislative powers. The consolidation will have no legal impact on any of the outstanding Corporation or JDA bonds.

Directors; Corporate Management

The membership of the Corporation as constituted under the UDC Act consists of eight directors, as follows: one ex-officio director and seven directors appointed by the Governor with the advice and consent of the Senate. From the seven directors appointed by him, the Governor designates a Chairman and two other directors who serve at the pleasure of the Governor. The four remaining directors appointed by the Governor serve for four-year terms which expire in successive years. Directors continue to serve in office until their successors have been appointed and qualified. As indicated below, there is one vacancy on the Board of Directors.

The Corporation's present directors and senior officers include the following:

Directors

Dennis M. Mullen, Chairman

Robert Dyson, Chairman and Chief Executive Officer, The Dyson-Kissner-Moran Corporation

Derrick D. Cephas, President and Chief Executive Officer, Amalgamated Bank

Kevin S. Corbett, Vice President, DMJM and Harris

Richard H. Neiman, Superintendent, New York State Banking Department

Paul F. Ciminelli, Chief Executive Officer and President, Ciminelli Development Corporation, Inc.

Joyce L. Miller, Chief Executive Officer, Tier One Public Strategies

Senior Officers

Dennis M. Mullen, Chief Executive Officer

Frances A. Walton, Chief Financial and Administrative Officer

Anita W. Laremont, Senior Vice President — Legal and General Counsel

Eileen McEvoy, Corporate Secretary

Kathleen Mize, Controller

Robert M. Godley, Treasurer

Peter Davidson, Executive Director

The Corporation's staff includes experienced business executives, financial analysts, accountants, lawyers, urban planners, project managers, architects, engineers, construction supervisors, and specialists in industrial and commercial development. The Corporation consults with local governments, local private organizations and community groups. The Corporation also utilizes the professional services of architects, engineers, planners, lawyers, accountants and specialists in real estate finance, development and marketing, construction technology, urban research and other relevant technical fields. In addition to the Corporation's principal office in New York City, the Corporation has established regional offices in principal development centers throughout the State.

AGREEMENT OF THE STATE

In accordance with the authority granted to the Corporation pursuant to the provisions of Section 24 of the UDC Act, the Corporation, on behalf of the State, has pledged and agreed with the Owners of the Bonds that the State will not limit or alter the rights vested by the UDC Act in the Corporation to fulfill the terms of any agreements made with Owners of Bonds, or in any way impair the rights and remedies of such Owners, until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Owners, are fully met and discharged.

TAX MATTERS

Opinion of Bond Counsel to the Corporation

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Corporation, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2010B Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2010B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel to the Corporation has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Corporation and others in connection with the Series 2010B Bonds, and Bond Counsel to the Corporation has assumed compliance by the Corporation and others with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2010B Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Corporation, under existing statutes, interest on the Series 2010B Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Bond Counsel to the Corporation expresses no opinion regarding any other federal or state tax consequences with respect to the Series 2010B Bonds. Bond Counsel to the Corporation renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel to the Corporation expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2010B Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2010B Bonds in order that interest on the Series 2010B Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2010B Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2010B Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Corporation and others have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2010B Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2010B Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Series 2010B Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2010B Bonds.

Prospective owners of the Series 2010B Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations

(including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Series 2010B Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2010B Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the “issue price” of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Series 2010B Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of the Series 2010B Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel to the Corporation further is of the opinion that, for any Series 2010B Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Series 2010B Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2010B Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2010B Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2010B Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. If the bond premium on a Premium Bond allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in

connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2010B Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2010B Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2010B Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2010B Bonds under federal or state law and could affect the market price or marketability of the Series 2010B Bonds.

Prospective purchasers of the Series 2010B Bonds should consult their own tax advisors regarding the foregoing matters.

LITIGATION

There is no litigation or other proceeding pending or, to the knowledge of the Corporation, threatened in any court, agency or other administrative body (either State or federal) restraining or enjoining the issuance, sale or delivery of the Series 2010B Bonds, or in any way questioning or affecting (i) the proceedings under which the Series 2010B Bonds are to be issued, (ii) the pledge effected under the Resolution, or (iii) the validity of any provision of the Series 2010B Bonds, the Resolution or the Service Contracts.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance, sale and delivery of the Series 2010B Bonds are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Corporation, and to certain other conditions. The approving opinion of Bond Counsel will be delivered with the Series 2010B Bonds. The proposed form of such opinion is included in this Official Statement as Appendix E.

RATINGS

The Series 2010B Bonds are rated "AA-" by Standard & Poor's and "AA-" by Fitch. Such credit ratings reflect only the view of such credit rating agencies and an explanation of the significance of such credit ratings may be obtained from the rating agency furnishing the same. There is no assurance that such credit

ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any such credit rating agencies, if, in their respective judgments, circumstances so warrant. Any downward revision or withdrawal of any such credit rating may have an adverse effect on the market price of the Series 2010B Bonds.

COMPETITIVE BID

The Series 2010B Bonds have been awarded, pursuant to a competitive bidding process, on September 28, 2010, to Citigroup Global Markets Inc. The successful bidder for the Series 2010B Bonds is referred to herein as the “Purchaser”. The Series 2010B Bonds will be purchased at a price of \$520,729,566.20, which reflects original issue premium of \$54,562,903.70 and Purchaser’s discount of \$1,168,337.50.

LEGALITY FOR INVESTMENT

The UDC Act provides that the Series 2010B Bonds constitute securities in which all public officers and bodies of the State and all its municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees, and other fiduciaries, and all other persons whatsoever, who are now or may hereafter be authorized to invest in bonds or other obligations of the State, to the extent that the legality of their investments is governed by the laws of the State, may properly and legally invest funds, including capital, in their control or belonging to them.

CONTINUING DISCLOSURE

In order to assist the Purchaser of the Series 2010B Bonds to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Corporation, the State and the Trustee will enter into a written agreement for the benefit of the holders of the Series 2010B Bonds to provide continuing disclosure (the “Continuing Disclosure Agreement”). The State will undertake for the benefit of the holders of the Series 2010B Bonds to file in electronic form with the Electronic Municipal Market Access system (“EMMA”) maintained by the Municipal Securities Rulemaking Board (“MSRB”), as the sole repository for the central filing of electronic disclosure pursuant to Rule 15c2-12, on an annual basis on or before 120 days after the end of each fiscal year of the State, commencing with the fiscal year ending March 31, 2011, financial information and operating data concerning the State of the type included in this Official Statement, referred to herein as the “Annual Information” and described in more detail below. The State Comptroller is required by existing law to issue audited annual financial statements of the State prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) 120 days after the close of the State fiscal year. The State will undertake in the Continuing Disclosure Agreement to file with the MSRB in the electronic format prescribed by the MSRB, no later than 120 days after the close of the State fiscal year, the State’s annual financial statements prepared in accordance with GAAP and audited by an independent firm of certified public accountants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, except that if audited financial statements are not then available, the State will electronically file with the MSRB unaudited financial statements at that time and such audited financial statements if and when they become available. In addition, the Corporation will undertake for the benefit of the holders of the Series 2010B Bonds to file with the MSRB in the electronic format prescribed by the MSRB, in a timely manner, the notices described below (the “Notices”).

The Annual Information shall consist of: (a) financial information and operating data of the type included in the Annual Information Statement of the State set forth or referred to in Appendix A hereto, under the headings or subheadings “Prior Fiscal Years”, “Debt and Other Financing Activities”, “State Government Employment”, “State Retirement Systems”, and “Authorities and Localities”, including, more specifically, information consisting of (1) for prior fiscal years, an analysis of cash-basis results for the State’s three most recent fiscal years, and a presentation of the State’s results in accordance with GAAP for at least the two most recent fiscal years for which that information is then currently available; (2) for debt and other financing activities, a description of the types of financings the State is authorized to undertake, a presentation of the outstanding debt issued by the State and certain public authorities, as well as information concerning debt service requirements on that debt; (3) for authorities and localities, information on certain public authorities and local entities whose financial status may have a material impact on the financial status of the State; and (4) material information regarding State government employment and retirement systems, together with (b) such narrative explanation as may be necessary to avoid misunderstanding and to assist the reader in understanding the presentation of financial information and operating data relating to the State and in judging the financial condition of the State.

The Notices to be provided by the Corporation include notices of any of the following events with respect to the Series 2010B Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the securities; (7) modifications to the rights of the security holders; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the securities; and (11) rating changes. In addition, the Corporation will undertake, for the benefit of the holders of the Series 2010B Bonds, to file with the MSRB in the electronic format prescribed by the MSRB, in a timely manner, notice of any failure by the State to electronically file the Annual Information and annual financial statements by the date required in the State’s undertaking described above.

If any party to the Continuing Disclosure Agreement fails to comply with any provisions thereof, then each of the other parties to such Agreement and, as a direct or third party beneficiary, as the case may be, any holder of the Series 2010B Bonds may enforce, for the equal benefit and protection of all holders similarly situated, by mandamus or other suit or proceeding at law or in equity, such Agreement against such party and any of its officers, agents and employees, and may compel such party or any such officers, agents or employees to perform and carry out their duties thereunder; provided that the sole and exclusive remedy for breach or default under the Continuing Disclosure Agreement to provide the continuing disclosure described above is an action to compel specific performance of the undertakings of the State contained therein, and no person or other entity may recover monetary damages thereunder under any circumstances. A breach or default under the Continuing Disclosure Agreement shall not constitute an Event of Default under the Resolution. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the provision of such information, shall no longer be required to be provided. Beneficial Owners of the Series 2010B Bonds are third party beneficiaries of the Continuing Disclosure Agreement and, as such, are deemed to be the holders of the Series 2010B Bonds for the purpose of exercising remedies. The obligations of the State under the Continuing Disclosure Agreement may be terminated if the State ceases to be an obligated person as defined in Rule 15c2-12.

The State has not in the previous five years failed to comply, in any material respect, with any of its previous undertakings pursuant to Rule 15c-12.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated because the operations to which it is related have been materially changed or

discontinued, a statement to that effect will be provided. As a result, the parties to the Continuing Disclosure Agreement do not anticipate that it often will be necessary to amend the informational undertakings. The Continuing Disclosure Agreement, however, may be amended or modified under certain circumstances set forth therein.

Copies of the Continuing Disclosure Agreement when executed by the parties thereto on the date of delivery of the Series 2010B Bonds will be on file at the office of the Corporation.

MISCELLANEOUS

Certain information concerning the State (which is either included in or appended to this Official Statement) has been furnished or reviewed and authorized for use by the Corporation by such sources as described in this Official Statement. While the Corporation believes that these sources are reliable, the Corporation has not independently verified this information and does not guarantee the accuracy or completeness of the information furnished by the respective sources.

The State provided the information relating to the State in “APPENDIX A—INFORMATION CONCERNING THE STATE OF NEW YORK.”

Public Resources Advisory Group, New York, New York, is acting as financial advisor to the State in connection with the issuance of the Series 2010B Bonds.

The Director of the Budget is to certify that the information contained in the “Annual Information Statement of the State of New York” in Appendix A, including any updates or supplements, included in this Official Statement, is true, correct and complete in all material respects, and that no facts have come to his attention that would lead him to believe that such statements and information contain any untrue statement of a material fact or omit to state any material fact necessary in order to make such statements and information, in light of the circumstances under which they were made, not misleading; provided, however, that while the statements and information contained in Appendix A which were obtained from sources other than the State are not certified as to truth, correctness or completeness, such statements and information have been obtained from sources that he believes to be reliable and he has no reason to believe that such statements and information contain any untrue statement of a material fact or omit to state any material fact necessary in order to make such statements and information, in light of the circumstances under which they were made, not misleading; provided, further, however, that with regard to the information and statements in Appendix A hereto under the caption “Litigation,” such statements and information as to legal matters are given to the best of his information and belief, having made such inquiries as he deemed appropriate at the offices of the Department of Law of the State, without any further independent investigation. The certification is to apply both as of the date of this Official Statement and as of the date of delivery of the Series 2010B Bonds.

The references herein to the Project Acts, the UDC Act, other laws of the State, the Resolution, the Service Contracts and the Assignment of Contract Payments are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference should be made to each for a full and complete statement of its provisions. The agreements of the Corporation with the registered Owners of the Series 2010B Bonds are fully set forth in the Resolution (including any supplemental resolutions thereto), and neither any advertisement of the Series 2010B Bonds nor this Official Statement is to be construed as a contract with the purchasers of the Series 2010B Bonds. So far as any statements are made in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are available for review at the corporate headquarters of the Corporation located at 633 Third Avenue, New York, New York 10017. The Corporation’s telephone number at such address is (212) 803-3100.

The execution and delivery of this Official Statement by an Authorized Officer have been duly authorized by the Corporation.

**NEW YORK STATE URBAN DEVELOPMENT
CORPORATION d/b/a EMPIRE STATE
DEVELOPMENT CORPORATION**

By: /s/ Frances A. Walton
Chief Financial and Administrative Officer

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APPENDIX A

INFORMATION CONCERNING THE STATE OF NEW YORK

The State Legislature is not legally obligated to appropriate amounts for the payment of principal of, sinking fund installments, if any, or interest on the obligations to which this Official Statement relates. For information about the sources of payment of such obligations, the foregoing Official Statement to which this Appendix A is attached should be read in its entirety. The continued willingness and ability of the State, however, to make the appropriations and otherwise provide for the payments contemplated in the foregoing Official Statement, and the market for and market prices of the obligations, may depend in part upon the financial condition of the State.

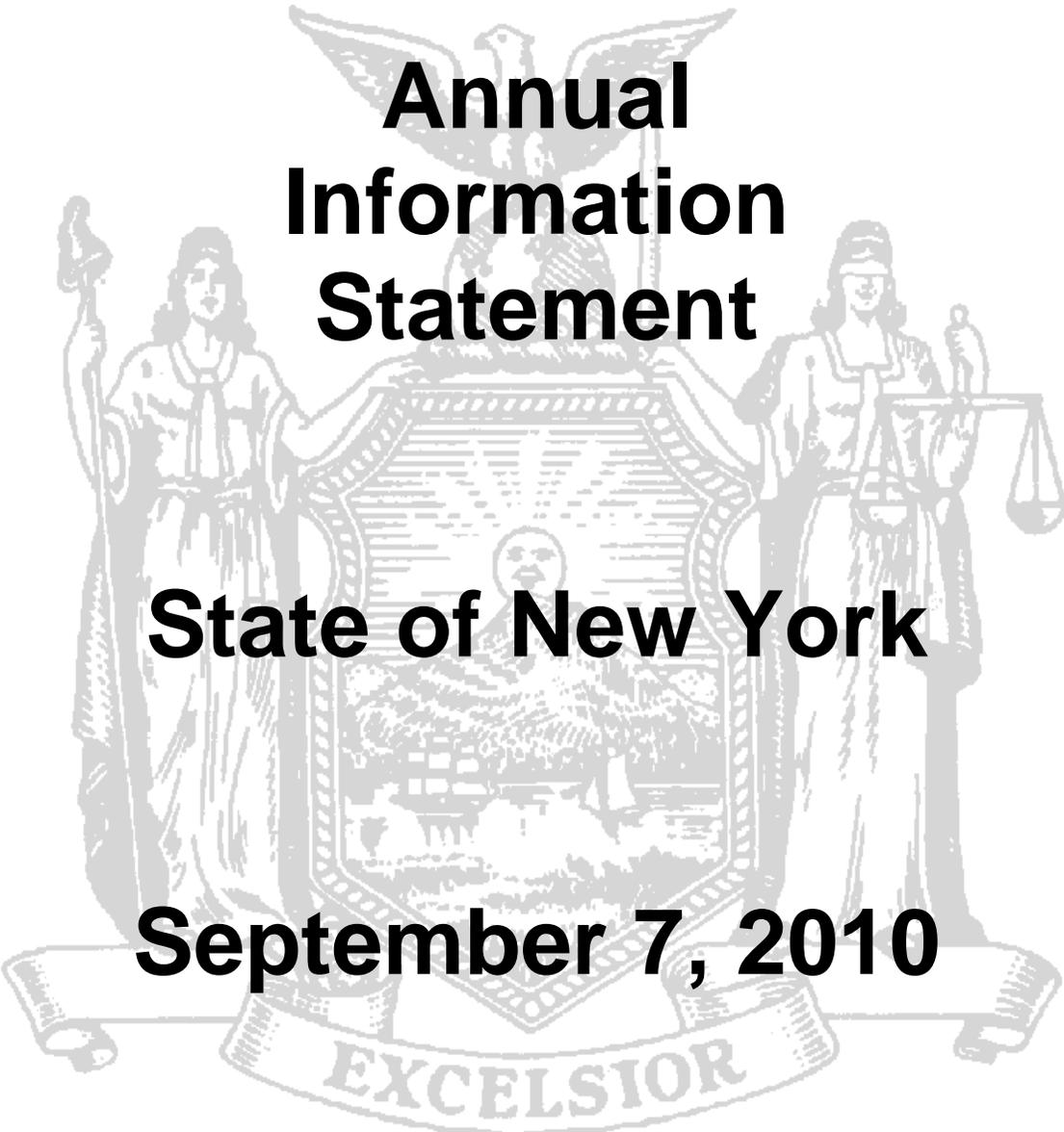
Appendix A contains the Annual Information Statement of the State of New York ("Annual Information Statement" or "AIS"), as updated or supplemented to the date specified therein. The State intends to update and supplement that Annual Information Statement as described therein. It has been supplied by the State to provide information about the financial condition of the State in the Official Statements of all issuers, including public authorities of the State, that may depend in whole or in part on State appropriations as sources of payment of their respective bonds, notes or other obligations.

The AIS set forth in this Appendix A is dated September 7, 2010. The AIS was filed with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system. An electronic copy of this AIS can be accessed through the EMMA system at www.emma.msrb.org. An official copy of the AIS may be obtained by contacting the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705. An informational copy of the AIS is available on the Internet at <http://www.budget.state.ny.us>.

The Basic Financial Statements and Other Supplementary Information for the State fiscal year ended March 31, 2010 were prepared by the State Comptroller in accordance with accounting principles generally accepted in the United States of America and independently audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Basic Financial Statements and Other Supplementary Information were issued on July 29, 2010 and have been referred to or set forth thereafter in appendices of information concerning the State in Preliminary Official Statements and Official Statements of the State and certain of its public authorities. The Basic Financial Statements and Other Supplementary Information, which are included in the Comprehensive Annual Financial Report, may be obtained by contacting the Office of the State Comptroller, 110 State Street, Albany, NY 12236 Tel: (518) 474-4015.

The Annual Information Statement of the State of New York (including any and all updates and supplements thereto) may not be included in an Official Statement or included by reference in an Official Statement without the express written authorization of the State of New York, Division of the Budget, State Capitol, Albany, NY 12224.

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The seal of the State of New York is centered in the background. It features a shield with a landscape scene, flanked by two female figures: Liberty on the left holding a torch and a scroll, and Justice on the right holding scales. Above the shield is an eagle with wings spread. A banner at the bottom of the shield contains the word "EXCELSIOR".

**Annual
Information
Statement**

State of New York

September 7, 2010

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Annual Information Statement

State of New York

Dated: September 7, 2010

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Annual Information Statement of the State of New York

Introduction

This Annual Information Statement (“AIS”) is dated September 7, 2010 and contains information only through that date. This AIS constitutes the official disclosure information regarding the financial condition of the State of New York (the “State”) and replaces the Annual Information Statement dated May 15, 2009 and all updates and supplements thereto. This AIS is scheduled to be updated on a quarterly basis (in November 2010 and February 2011) and may be supplemented from time to time as developments may warrant. This AIS, including the Exhibits attached hereto, should be read in its entirety, together with any current updates and supplements that may be issued during the fiscal year.

In this AIS, readers will find:

1. A section entitled the “Current Fiscal Year” that contains (a) extracts from the 2010-11 Enacted Budget Financial Plan, dated August 20, 2010 (the “Updated Financial Plan”), prepared by the Division of the Budget (“DOB”), including the State’s official Financial Plan projections, and (b) a discussion of potential risks that may affect the Financial Plan during the State’s current fiscal year under the heading “Special Considerations.” The first part of the section entitled “Current Fiscal Year” summarizes the major components of the 2010-11 Enacted Budget and the projected impact on operations, annual spending growth, and the magnitude of future potential budget gaps; the second part provides detailed information on projected total receipts and disbursements in the State’s governmental funds in 2010-11.
2. Information on other subjects relevant to the State’s fiscal condition, including: (a) operating results for the three prior fiscal years, (b) the State’s revised economic forecast and a profile of the State economy, (c) debt and other financing activities, (d) selected State government summary, and (e) activities of public authorities and localities.
3. The status of significant litigation and arbitration that has the potential to adversely affect the State’s finances.

DOB is responsible for preparing the State’s Financial Plan and presenting the information that appears in this AIS on behalf of the State. In preparing this AIS, DOB has utilized significant portions of the Updated Financial Plan, but has also relied on information drawn from other sources, including the Office of the State Comptroller (“OSC”), that DOB believes to be reliable. Information contained in the section entitled “State Retirement Systems” is furnished by the Office of the State Comptroller. Information relating to matters described in the section entitled “Litigation and Arbitration” 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 this AIS, as updated or supplemented. Investors and other market participants should, however, refer to this AIS, as updated or supplemented, for the most current official information regarding the financial condition of the State.

The economic and financial condition of the State may be affected by various financial, social, economic, environmental, and political factors. These factors can be very complex, may vary from fiscal year to fiscal year, and are frequently the result of actions taken or not taken, not only by the State and its agencies and instrumentalities, but also by entities, such as the federal government or other nations, that are not under the control of the State. Because of the uncertainty and unpredictability of these factors, their impact cannot, as a practical matter, be quantified or incorporated into the assumptions underlying the State's projections.

This Annual Information Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe," and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the State's financial results could cause actual results to differ materially from those stated in the forward-looking statements.

The State may issue AIS supplements or other disclosure notices to this AIS as events warrant. The State intends to announce publicly whenever an update or a supplement is issued. The State may choose to incorporate by reference all or a portion of this AIS in Official Statements or related disclosure documents for State or State-supported debt issuance. The State has filed this AIS with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system. An electronic copy of this AIS can be accessed through the EMMA at www.emma.msrb.org. An official copy of this AIS may be obtained by contacting the New York State Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 474-7705. OSC issued the Basic Financial Statements for the 2009-10 fiscal year in July 2010. Copies may be obtained by contacting the Office of the State Comptroller, 110 State Street, Albany, NY 12236 and are available on its website at www.osc.state.ny.us.

Usage Notice

The AIS has been supplied by the State pursuant to its contractual obligations under various continuing disclosure agreements (each, a "CDA") entered into by the State in connection with financings of certain issuers, including public authorities of the State, that may depend in whole or in part on State appropriations as sources of payments of their respective bonds, notes or other obligations.

The AIS is available in electronic form on the DOB website (www.budget.state.ny.us) and is being provided solely as a matter of convenience to readers and does not create any implication that there have been no changes in the financial condition of the State at any time subsequent to its release date. Maintenance of this AIS on the DOB website, or on the EMMA website, is not intended as a republication of the information therein on any date subsequent to its release date.

Neither this AIS nor any portion thereof may be (i) included in a Preliminary Official Statement, Official Statement, or other offering document, or incorporated by reference therein, unless DOB has expressly consented thereto following a written request to the State of New York, Division of the Budget, State Capitol, Albany, NY 12224 or (ii) considered to be continuing disclosure in connection with any offering unless a CDA relating to the series of bonds or notes has been executed by DOB. Any such use, or incorporation by reference, of this AIS or any portion thereof in a Preliminary Official Statement, Official Statement, or other offering document or continuing disclosure filing without such consent and agreement by DOB is unauthorized and the State expressly disclaims any responsibility with respect to the inclusion, intended use, and updating of this AIS if so misused.

Overview

The State Budget Process

The requirements of the State budget process are set forth in Article VII of the State Constitution and the State Finance Law. The process begins with the Governor's submission of the Executive Budget to the Legislature each January, in preparation for the start of the fiscal year on April 1. (The submission date is February 1 in years following a gubernatorial election.) The Executive Budget must contain a complete plan of estimated available receipts and projected disbursements for the ensuing fiscal year ("State Financial Plan"). The proposed State Financial Plan must be balanced on a cash basis and must be accompanied by bills that: (i) set forth all proposed appropriations and reappropriations, (ii) provide for any new or modified revenue measures, and (iii) make any other changes to existing law necessary to implement the budget recommended by the Governor.

In acting on the bills submitted by the Governor, the Legislature has certain powers to alter the recommended appropriations and proposed changes to existing law. The Legislature may strike out or reduce an item of appropriation recommended by the Governor. The Legislature may add items of appropriation, provided such additions are stated separately. These additional items are then subject to line-item veto by the Governor. If the Governor vetoes an appropriation or a bill (or a portion thereof) related to the budget, these items can be reconsidered in accordance with the rules of each house of the Legislature. If approved by two-thirds of the members of each house, such items will become law notwithstanding the Governor's veto.

Once the appropriation bills and other bills become law, DOB revises the State Financial Plan to reflect the Legislature's actions, and begins the process of implementing the budget. Throughout the fiscal year, DOB monitors actual receipts and disbursements, and may adjust the estimates in the State Financial Plan. Adjustments may also be made to the State Financial Plan to reflect changes in the economy, as well as new actions taken by the Governor or the Legislature. As required by the State Finance Law, the Governor updates the State Financial Plan within 30 days of the close of each quarter of the fiscal year, generally issuing reports by July 30, October 30, and in January as part of the Executive Budget. The Governor is required to submit these updates to the Legislature and explain any changes from the previous State Financial Plan.

Subject to approval by the Governor, the Legislature may enact additional appropriation bills or revenue measures (including tax reductions) during any regular session or, if called into session for that purpose, any special session. In the event additional appropriation bills or revenue measures are disapproved by the Governor, the Legislature has authority to override the Governor's veto upon the vote of two-thirds of the members of each house of the Legislature. The Governor may present deficiency appropriations to the Legislature near the end of any fiscal year to supplement inadequate appropriations or to provide new appropriations for purposes not covered by the regular and supplemental appropriations.

Recent budget process reforms passed by the Legislature accelerate consensus revenue forecasting, provide for the State Comptroller to issue binding revenue forecasts when the Executive and the Legislature cannot agree, require the use of budget conference committees, and require the adoption of a balanced budget by the Legislature.

During the 2010-11 budget process, the Governor introduced an Executive Budget Financial Plan to eliminate a budget gap for 2010-11 estimated at \$7.4 billion, and in February 2010, revised the estimated budget gap upward to \$8.2 billion based on an updated forecast of tax receipts and proposed additional gap-closing actions accordingly. In March 2010, the estimated budget gap for 2010-11 had increased to

\$9.2 billion (requiring additional gap-closing actions) due to further downward revisions to tax receipts, combined with an expected budget shortfall from 2009-10 that would be carried into 2010-11. As the new fiscal year started on April 1, 2010, the State began enacting a series of interim appropriation bills to fund government operations on a short-term basis. While the State Legislature enacted the annual debt service appropriation bill for 2010-11 in March 2010, the Legislature did not complete action on all annual appropriation bills until late June 2010, and did not pass a revenue bill to complete the budget until August 3, 2010.

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The 2010-11 Enacted Budget Overview

The following table provides indicators and measures of the 2010-11 Enacted Budget Financial Plan relative to the prior year and relative to the base budget for 2010-11 (before enacted budget actions).

ENACTED BUDGET FINANCIAL PLAN AT-A-GLANCE: KEY MEASURES (millions of dollars)			
	2009-10 Adjusted ^{1,2,3}	2010-11 Adjusted ^{1,3}	
		Before Actions	Enacted Budget
State Operating Funds Budget			
Size of Budget	\$78,934	\$85,413	\$78,998
Annual Growth	1.0%	8.2%	0.1%
Other Budget Measures (Annual Change)			
General Fund (with transfers)	\$54,262 -0.6%	\$60,152 10.9%	\$53,533 -1.3%
State Funds (Including Capital)	\$84,094 1.1%	\$91,617 8.9%	\$85,073 1.2%
Capital Budget (Federal and State)	\$7,112 4.1%	\$8,568 20.5%	\$8,454 18.9%
Federal Operating	\$44,891 22.7%	\$45,739 1.9%	\$46,375 3.3%
All Funds	\$130,937 7.7%	\$139,720 6.7%	\$133,827 2.2%
All Funds (Including "Off-Budget" Capital)	\$132,614 7.1%	\$141,371 6.6%	\$135,478 2.2%
Inflation (CPI) (Annual Change)	0.3%	1.1%	1.1%
Personal Income (Annual Change)	-0.4%	4.3%	4.3%
All Funds Receipts (Annual Change)			
Taxes	\$57,668 -4.4%	\$61,509 6.7%	\$61,796 7.2%
Miscellaneous Receipts	\$23,557 17.4%	\$22,428 -4.8%	\$23,014 -2.3%
Federal Grants	\$47,523 22.4%	\$48,291 1.6%	\$49,486 4.1%
Total Receipts	\$128,748 8.0%	\$132,228 2.7%	\$134,296 4.3%
Base Tax Growth/(Decline)⁴	-12.3%	2.2%	2.2%
General Fund/HCRA Outyear Gap Forecast			
2009-10 ⁵	(\$1,654)	N/A	N/A
2010-11 ⁵	N/A	(\$9,188)	\$0
2011-12	N/A	(\$15,851)	(\$8,177)
2012-13	N/A	(\$19,650)	(\$13,461)
2013-14	N/A	(\$21,584)	(\$15,563)
Total General Fund Reserves	\$2,302	N/A	\$1,385
Rainy Day Reserves	\$1,206	N/A	\$1,206
Reserved for Deferred Payments ⁶	\$906	N/A	\$0
All Other Reserves	\$190	N/A	\$179
State Workforce (Subject to Executive Control)	131,741	131,906	128,165
Debt			
State Related Debt Service as % of All Funds Receipts	4.4%	4.7%	4.5%
State Related Debt Outstanding	\$54,694	\$56,997	\$56,877

¹ Spending is adjusted to exclude the impact of paying the end-of-year school aid payment (\$2.06 billion) scheduled for the last quarter of 2009-10 in the first quarter of 2010-11, as authorized in statute. This was done to carry forward the 2009-10 budget shortfall into 2010-11. See Financial Plan tables for 2009-10 actual results and 2010-11 unadjusted estimates.

² 2009-10 Federal and All Funds disbursements and receipts have been adjusted to include \$2.0 billion in Federal aid that passes through the State's All Funds Financial Plan under the American Recovery and Reinvestment Act ("ARRA"). This "pass-through" money, which provides no gap-closing benefit and is subject to a range of factors that make the timing of disbursements highly uncertain, was expected to total approximately \$4.4 billion in 2009-10. Actual disbursements, however, totaled only \$2.4 billion. Thus, 2009-10 results have been adjusted for the difference. See Financial Plan tables for 2009-10 actual results.

³ Beginning in 2009-10 the State began collecting the new Metropolitan Commuter Transportation taxes and fees on behalf of the MTA, which it then appropriates in its entirety to the MTA. This has added approximately \$1.6 billion to special revenue fund receipts and disbursements.

⁴ Reflects the estimated change in tax receipts excluding the impact of Tax Law changes since fiscal year 1986-87.

⁵ The 2009-10 budget shortfall was carried forward into 2010-11 through the management of payments, including school aid and tax refunds, and addressed as part of the 2010-11 Enacted Budget.

⁶ The State deferred more payments than were needed to carry forward the 2009-10 budget shortfall. This created a temporary increase in the year-end balance in 2009-10. The balance was used when the deferred payments were made in the first quarter of 2010-11.

2010-11 Enacted Budget Gap-Closing Plan

The following table provides information on how the State closed a \$9.2 billion budget gap in 2010-11, and the impact these gap-closing actions are projected to have on the funding shortfall in upcoming fiscal years.

COMBINED GENERAL FUND AND HCRA GAP-CLOSING PLAN FOR 2010-11 (millions of dollars)				
	2010-11	2011-12	2012-13	2013-14
CURRENT-SERVICES GAP ESTIMATES (BEFORE ANY ACTIONS)¹	(9,188)	(15,851)	(19,650)	(21,584)
December 2009 Deficit Reduction Actions²	692	811	876	854
Total Enacted Budget Gap-Closing Actions	8,496	6,863	5,313	5,167
Spending Control	5,627	3,972	3,432	3,542
Local Assistance (After Vetoes)	3,716	2,380	1,760	1,748
School Aid/Lottery Aid	1,677	680	129	122
Health Care	779	925	893	893
School Tax Relief Program	121	200	210	223
Human Services/Labor/Housing	214	165	175	176
Higher Education	224	174	152	152
Mental Hygiene	61	74	47	38
Education/Special Education/Arts	142	13	13	11
Local Government Aid	325	30	29	19
All Other	173	119	112	114
State Agency Operations/Fringe Benefits/Other	1,630	1,592	1,672	1,794
Statewide Agency Operational Reductions	1,233	1,061	838	815
Fringe Benefits/Pension Amortization	287	472	728	853
Debt Management/Bonded Capital Savings	110	59	106	126
FMAP Local Assistance Contingency Reductions³	281	0	0	0
Revenue Actions	1,034	1,867	1,460	1,204
Tax Actions	893	1,736	1,364	1,133
Eliminate Clothing Exemption	330	210	0	0
Cigarette/Tobacco Products Tax	290	318	312	307
Temporarily Cap Business Related Tax Credit Claims	100	970	970	870
Charitable Contributions	100	135	160	160
Film Credit	0	0	(168)	(292)
Empire Zone Replacement Program	0	0	(50)	(100)
Other Tax Actions	73	103	140	188
Abandoned Property	100	95	60	50
Civil Court Filing Fees	19	34	34	34
All Other Revenue Actions	22	2	2	(13)
Tax Audits/Recoveries/Enforcement	371	421	421	421
Non-Recurring Resources	660	0	0	0
Federal TANF Resources	261	0	0	0
Physician Excess Medical Malpractice Payment Timing	127	0	0	0
Available Fund Balances/Resources	121	0	0	0
Additional New York City District Attorney Recoveries	50	0	0	0
Additional Department of Law Recoveries	35	0	0	0
School Aid Overpayment Recoveries	32	0	0	0
All Other	34	0	0	0
Extension of Federal Aid	804	603	0	0
Enhanced Federal FMAP ⁴	785	603	0	0
Medicare Part D Federal Relief	19	0	0	0
2010-11 ENACTED BUDGET SURPLUS/(GAP) ESTIMATE	0	(8,177)	(13,461)	(15,563)

¹ Includes the carry-forward of the 2009-10 budget shortfall of \$1.6 billion into 2010-11.
² Recurring value of administrative and legislative actions approved in December 2009.
³ State law provides for the uniform reduction of local assistance payments to cover the difference between the \$1.085 billion in savings assumed in the gap-closing plan from the extension of enhanced FMAP and the \$804 million in savings now expected under the legislation approved by the Federal Government.
⁴ Estimate of State Financial Plan benefit of the six-month extension of FMAP (January 1, 2011 through June 30, 2011) approved by Congress and signed by the President in August 2010.

Current Fiscal Year

The 2010-11 Enacted Budget Financial Plan, extracts of which are set forth below, was prepared by the DOB and reflects the actions of the Legislature and Governor. The Updated Financial Plan contains estimates for the 2010-11 fiscal year and projections for the 2011-12 through 2013-14 fiscal years. As such, it contains estimates and projections of future results that should be construed as forward-looking statements and expectations, not statements of fact. These estimates and projections are based upon assumptions that may be affected by numerous factors, including future economic conditions in the State and the 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 Updated Financial Plan.

The State Constitution requires the Governor to submit an Executive Budget that is balanced on a cash basis in the General Fund — the fund that receives the majority of State taxes, and all income not earmarked for a particular program or activity. Since this is the fund that is required to be balanced, the focus of the State's budget discussion is often weighted toward the General Fund.

The State 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 Grants to Local Governments). The Financial Plan tables sort all State projections and results by fund and category. The State also reports disbursements and receipts activity by other broad measures: State Operating Funds, which includes the General Fund and funds specified for dedicated purposes, but excludes capital project funds and Federal Funds; and All Governmental Funds ("All Funds"), which includes both State and Federal Funds and provides the most comprehensive view of the financial operations of the State.

Fund types of the State include: the General Fund; State special revenue funds (SRFs), which receive certain dedicated taxes, fees and other revenues that are used for a specified purpose; Federal SRFs, which receive Federal grants; State and Federal Capital Projects Funds, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and Debt Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

Please refer to the Glossary of Acronyms of this AIS for the definitions of acronyms, defined terms, and abbreviations that are used in this AIS.

Updated Financial Plan

Before enactment of the 2010-11 budget, the State faced a projected current-services budget gap of \$9.2 billion for fiscal year 2010-11.¹ The gap included a budget shortfall of \$1.65 billion from 2009-10 that was carried forward into 2010-11.² Over the course of the budget process, the estimated gap for 2010-11 increased from the level estimated in the Executive Budget Financial Plan, mainly due to downward revisions to projected tax receipts.³ Over the four-year Financial Plan period (2010-11 through 2013-14), the current-service budget gaps totaled an estimated \$66 billion.

DOB estimates that the Updated Financial Plan for 2010-11 is balanced on a budgetary (cash) basis of accounting. The budget gap for 2011-12 is projected at \$8.2 billion, a decrease of \$7.7 billion from the projected gap before enactment of the budget. The gaps for future years total \$13.5 billion in 2012-13 and \$15.6 billion in 2013-14. The total four-year gap has been reduced by \$29 billion, reflecting recurring savings approved in the 2010-11 Enacted Budget. The table below summarizes the gap-closing plan for 2010-11 and the impact on future budget gaps.⁴

GENERAL FUND BUDGETARY BASIS SURPLUS/(GAP) PROJECTIONS				
SUMMARY OF CHANGES FROM REVISED CURRENT-SERVICES THROUGH ENACTED BUDGET RECOMMENDATION				
(millions of dollars)				
	<u>2010-11¹</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Current Services Surplus/(Gap) Estimates	<u>(9,188)</u>	<u>(15,851)</u>	<u>(19,650)</u>	<u>(21,584)</u>
2010-11 Enacted Budget Actions	<u>9,188</u>	<u>7,674</u>	<u>6,189</u>	<u>6,021</u>
Spending Control	<u>6,319</u>	<u>4,783</u>	<u>4,308</u>	<u>4,396</u>
December 2009 Deficit Reduction Actions	692	811	876	854
Enacted Budget	4,813	4,526	4,192	4,095
Veto Benefit	533	(554)	(760)	(553)
FMAP Local Assistance Contingency	281	0	0	0
Revenue Actions	1,034	1,867	1,460	1,204
Tax Audits; Recoveries; Enforcement	371	421	421	421
Non-Recurring Actions	660	0	0	0
Extension of Enhanced FMAP	804	603	0	0
ENACTED BUDGET SURPLUS/(GAP) ESTIMATES	<u>0</u>	<u>(8,177)</u>	<u>(13,461)</u>	<u>(15,563)</u>
Four-Year Total Gap (2010-11 through 2013-14)				(37,201)
¹ Includes the carry-forward of the \$1.65 billion budget shortfall from 2009-10.				

¹ The current-services gap – the gap before reflecting the impact of the Enacted Budget gap-closing plan – represents (a) the difference between the projected level of General Fund disbursements, including transfers to other funds, needed to fund existing and scheduled commitments, adjusted for demand, and the level of resources available to pay for them, plus (b) the projected operating surplus or deficit in HCRA, which helps finance a number of State health care programs, including a share of the Medicaid program.

² In practice, the State carried forward the budget shortfall from 2009-10 by not making certain payments that were scheduled in 2009-10 but not due by law until 2010-11. The State did not make payments for school aid and tax refunds planned for the final quarter of 2009-10 until the first quarter of 2010-11.

³ See “Summary of Changes to the Current-Services Gap” herein.

⁴ The gap-closing plan includes the recurring value of the DRP approved in December 2009. For a summary of the DRP, see the Executive Budget Financial Plan dated February 9, 2010.

The Updated Financial Plan:

- Reduces spending from the current-services forecast by over \$6.4 billion in 2010-11, in both the General Fund and in State Operating Funds;⁵
- Holds annual spending, as adjusted, at below the rate of inflation in both the General Fund (-1.3 percent) and State Operating Funds (0.1 percent)⁶. Annual spending, as adjusted, for local assistance and agency operations⁷ — the portion of the budget that can be controlled most effectively in the short-term — is reduced by a combined total of \$1.1 billion;
- Mandates uniform reductions to remaining local assistance payments, with certain limited exceptions, to cover the estimated \$280 million shortfall from the \$1.1 billion in savings assumed in the gap-closing plan from enhanced FMAP; and
- Maintains the State’s rainy day reserves at \$1.2 billion.

The Updated Financial Plan does not include education aid authorized by the Federal government in August 2010, when the State was selected to receive approximately \$700 million through Race to the Top grant awards and approximately \$600 million from the Education Jobs Fund. The impact of this aid, which will pass through the State’s budget, is expected to be reflected in the Mid-Year Update to the AIS. On September 2, 2010, OSC announced increases to the 2011-12 employer contribution rates for the New York State and Local Retirement System, and revised actuarial assumptions to be used in calculating employer contribution rates. The average contribution rate for the Employees’ Retirement System will increase from 11.9 percent of salaries in 2010-11 to 16.3 percent in 2011-12, and the average contribution rate for the Police and Fire Retirement System will increase from 18.2 percent of salaries to 21.6 percent. The impact on official employer 2011-12 contribution rates will be reflected in the Mid-Year Update to the AIS.

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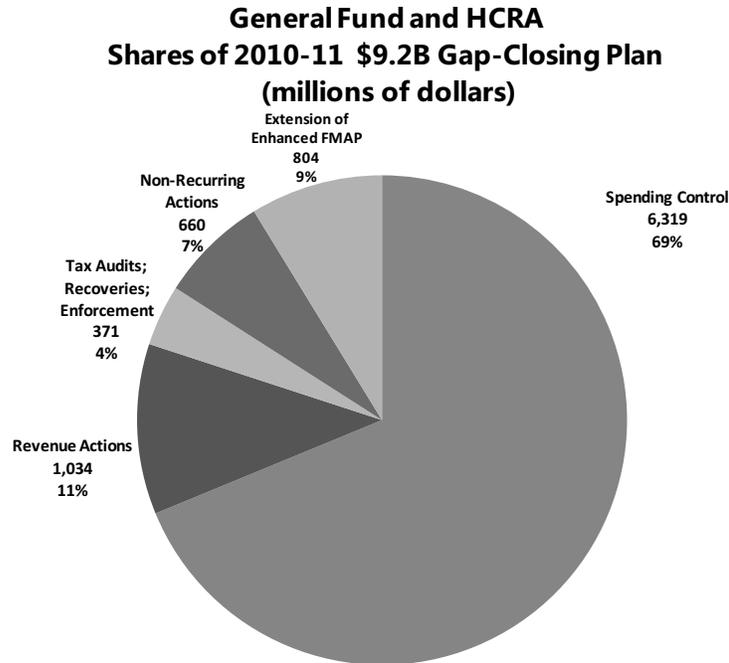
⁵ State Operating Funds combines activity in the General Fund, State-financed special revenue funds, and debt service funds and is intended to measure the portion of the State budget that supports operations (as distinct from capital) and that is financed by State resources (as distinct from Federal aid).

⁶ Unless otherwise noted, and except for the tables which appear on pages 61-76, all annual spending estimates have been adjusted to account for the impact of 2009-10 payment deferrals and, in the case of Federal Funds and All Funds, for the timing of ARRA pass-through funding. See “Impact on Spending” herein for a complete summary of the adjustments.

⁷ Agency operations include fixed costs.

Composition of the Gap-Closing Plan

Under the approved plan, the combined four-year gap (2010-11 through 2013-14) is cut almost in half, declining from \$66 billion to \$37 billion. The chart below summarizes the shares of the gap-closing plan by broad category.



Reductions to current-services spending total over \$6.4 billion⁸ in State Operating Funds and \$6.6 billion in the General Fund, constituting nearly 70 percent of the gap-closing plan. The proposed reductions in spending affect nearly every activity financed by State government, ranging from aid to public schools to agency operations to capital expenditures.

The gap-closing plan includes \$1.0 billion in new revenue, including \$925 million from tax and fee increases. These tax and fee increases include the temporary suspension of the State sales tax exemption on clothing and footwear priced at less than \$110 (\$330 million), a \$1.60 per pack increase in the cigarette tax, the revenues of which are earmarked to help pay for existing health care expenses (\$290 million), a temporary cap on the aggregate tax credit claims for business-related tax credits at \$2.0 million per taxpayer annually (\$100 million), and a decrease in the percentage of allowable remaining itemized deductions from 50 percent to 25 percent for taxpayers with New York adjusted gross income above \$10 million (\$100 million). In addition, audit, compliance, and enforcement activities are expected to increase the tax base by approximately \$371 million annually. This includes \$150 million in cigarette enforcement activities on Native American Reservations, which is subject to litigation. See the section entitled "Litigation and Arbitration" herein.

Non-recurring resources, which comprise 7 percent of the gap-closing actions approved in the Updated Financial Plan, total \$660 million. (See "2010-11 Gap-Closing Plan - Non-Recurring Resources" herein.)

⁸ Includes value of the DRP. See "Explanation of the Deficit Reduction Plan" herein.

Impact on Spending

The projections for annual spending growth are affected by both the management of payments at the end of 2009-10 and, in the case of Federal Funds and All Funds spending, by the uncertainties concerning the timing of Federal pass-through aid. The latter consists of ARRA stimulus money for a wide range of purposes that provides no gap-closing benefit, but by law must pass through the State's Financial Plan before it reaches its beneficiary. To avoid the distorting effect of these factors, DOB has adjusted spending to (a) exclude the impact of the deferral of the \$2.06 billion end-of-year school aid payment from 2009-10 into 2010-11 and (b) include \$2.0 billion in Federal ARRA pass-through spending that was initially expected in 2009-10, but is now expected to occur in future years. The table below displays these adjustments. See the Financial Plan tables herein for 2009-10 actual results and 2010-11 unadjusted estimates.

TOTAL DISBURSEMENTS -- SUMMARY OF ADJUSTMENTS ¹						
(millions of dollars)						
	2009-10			2010-11		
	Actual Results	Adjustment	Results Adjusted	2010-11 Enacted	Adjustment	Enacted Adjusted
State Operating Funds	76,874	2,060	78,934	81,058	(2,060)	78,998
General Fund (Excludes Transfers)	46,415	2,060	48,475	49,661	(2,060)	47,601
Other State Funds	25,447	0	25,447	25,789	0	25,789
Debt Service Funds	5,012	0	5,012	5,608	0	5,608
All Funds	126,877	4,060	130,937	135,887	(2,060)	133,827
State Operating Funds	76,874	2,060	78,934	81,058	(2,060)	78,998
Capital Projects Funds	7,112	0	7,112	8,454	0	8,454
Federal Operating Funds	42,891	2,000	44,891	46,375	0	46,375
General Fund, including Transfers	52,202	2,060	54,262	55,593	(2,060)	53,533
State Funds	82,034	2,060	84,094	87,133	(2,060)	85,073

¹ Adjusted to (a) exclude the impact of paying the \$2.06 billion end-of-year school aid payment, scheduled for the last quarter of 2009-10, in the first quarter of 2010-11, as authorized in statute; and (b) include \$2.0 billion in Federal ARRA pass-through aid in 2009-10. See Financial Plan tables for 2009-10 actual results and 2010-11 estimates.

Adjusted State Operating Funds spending is projected to total \$79 billion in 2010-11, an increase of \$64 million (0.1 percent) over 2009-10 results. This increase in spending is approximately \$1.6 billion below the level that would be permitted under the Governor's proposed spending cap. Compared to the current-services forecast, adjusted State Operating Funds spending is reduced by \$6.4 billion.

TOTAL DISBURSEMENTS — ADJUSTED FOR PAYMENT DEFERRALS AND ARRA PASS-THROUGH							
(millions of dollars)							
	2009-10 Adjusted	2010-11 Base	Before Actions		2010-11 Adjusted	After Actions	
			Annual \$ Change	Annual % Change		Annual \$ Change	Annual % Change
State Operating Funds	78,934	85,413	6,479	8.2%	78,998	64	0.1%
General Fund (Excludes Transfers)	48,475	54,094	5,619	11.6%	47,601	(874)	-1.8%
Other State Funds	25,447	25,612	165	0.6%	25,789	342	1.3%
Debt Service Funds	5,012	5,707	695	13.9%	5,608	596	11.9%
All Funds	130,937	139,720	8,783	6.7%	133,827	2,890	2.2%
State Operating Funds	78,934	85,413	6,479	8.2%	78,998	64	0.1%
Capital Projects Funds	7,112	8,568	1,456	20.5%	8,454	1,342	18.9%
Federal Operating Funds	44,891	45,739	848	1.9%	46,375	1,484	3.3%
General Fund, including Transfers	54,262	60,152	5,890	10.9%	53,533	(729)	-1.3%
State Funds	84,094	91,617	7,523	8.9%	85,073	979	1.2%

The annual spending growth in State Operating Funds is affected by the rapid annual increase in debt service and fringe benefits, which are difficult to control in the short-term due to existing constitutional, statutory, and contractual obligations. Together, these costs are projected to increase by a total of \$1.2 billion in 2010-11.

Debt service on State-supported debt is projected to increase by \$555 million (11.2 percent) in 2010-11, with approximately 35 percent of the growth due to the restructuring of certain transportation-related debt in 2005 that deferred substantial debt service costs until 2010-11. Overall spending from debt service funds, which includes certain non-personal service spending appropriated in the debt service budget is projected by DOB to increase by nearly \$600 million.

Spending on fringe benefits is projected to increase by \$603 million, an increase of 14.1 percent. Growth in fringe benefits is due principally to increases in the State's annual contribution to the New York State and Local Retirement System and the cost of providing health insurance for active and retired State employees. Pension costs are expected to increase by \$312 million (27 percent) in 2010-11. This increase is net of \$242 million in amortization savings scheduled for 2010-11. The following table summarizes the growth in these spending categories.

CAUSES OF ADJUSTED STATE OPERATING FUNDS SPENDING CHANGE ¹				
(millions of dollars)				
	2009-10	2010-11	Annual \$ Change	Annual % Change
Total	78,934	78,998	64	0.1%
Debt Service	4,961	5,516	555	11.2%
Fringe Benefits	4,276	4,879	603	14.1%
Personal Service	10,874	10,307	(567)	-5.2%
Non-Personal Service/Fixed Costs	4,885	4,663	(222)	-4.5%
Local Assistance	53,938	53,633	(305)	-0.6%

¹ Adjusted to exclude the impact of paying the \$2.06 billion end-of-year school aid payment, scheduled for the last quarter of 2009-10, in the first quarter of 2010-11, as authorized in statute.

In contrast, spending for local assistance and agency operations, two areas of the budget that are responsive to immediate cost reduction efforts, decline by \$1.1 billion (-1.6 percent) from 2009-10 levels. Annual spending declines for personal service by \$567 million (-5.2 percent), non-personal service by \$222 million (-4.5 percent) and for local assistance by \$305 million (-0.6 percent).

The following table summarizes the major sources of annual change.

ADJUSTED STATE SPENDING MEASURES: BEFORE AND AFTER BUDGET ACTIONS ¹							
(millions of dollars)							
	2009-10 Adjusted	2010-11 Current- Services ²	Before Actions		2010-11 Adjusted	After Actions	
			Annual \$ Change	Annual % Change		Annual \$ Change	Annual % Change
Local Assistance:	53,938	58,580	4,642	8.6%	53,633	(305)	-0.6%
School Aid ^{1,3}	20,373	21,471	1,098	5.4%	19,942	(431)	-2.1%
STAR	3,414	3,421	7	0.2%	3,300	(114)	-3.3%
Other Education Aid	1,534	1,646	112	7.3%	1,511	(23)	-1.5%
Medicaid (incl. administration) ⁴	11,458	13,102	1,644	14.3%	11,629	171	1.5%
Public Health/Aging/Insurance	2,431	2,635	204	8.4%	2,314	(117)	-4.8%
Higher Education ⁵	2,817	2,755	(62)	-2.2%	2,517	(300)	-10.6%
Mental Hygiene	3,199	3,537	338	10.6%	3,476	277	8.7%
Social Services	3,054	3,419	365	12.0%	3,018	(36)	-1.2%
Local Government Assistance	1,080	1,116	36	3.3%	791	(289)	-26.8%
Transportation	3,823	4,354	531	13.9%	4,304	481	12.6%
All Other	755	1,124	369	48.9%	831	76	10.1%
State Operations:	20,035	21,218	1,183	5.9%	19,849	(186)	-0.9%
Wages/Fringe Benefits	15,150	15,959	809	5.3%	15,186	36	0.2%
Personal Service:	<u>10,874</u>	<u>10,733</u>	<u>(141)</u>	<u>-1.3%</u>	<u>10,307</u>	<u>(567)</u>	<u>-5.2%</u>
Executive Agencies	5,357	5,276	(81)	-1.5%	4,997	(360)	-6.7%
Exec. Agencies - Retroactive Settlements ⁶	320	22	(298)	-93.1%	22	(298)	-93.1%
SUNY	3,243	3,256	13	0.4%	3,124	(119)	-3.7%
Judiciary	1,537	1,547	10	0.7%	1,537	0	0.0%
Legislature	178	165	(13)	-7.3%	165	(13)	-7.3%
Department of Law	124	120	(4)	-3.2%	117	(7)	-5.6%
Audit & Control	115	118	3	2.6%	116	1	0.9%
Potential Labor Settlements (Pattern)	0	229	229	100.0%	229	229	100.0%
Fringe Benefits:	<u>4,276</u>	<u>5,226</u>	<u>950</u>	<u>22.2%</u>	<u>4,879</u>	<u>603</u>	<u>14.1%</u>
Pensions	1,155	1,707	552	47.8%	1,467	312	27.0%
Health Insurance	2,681	3,066	385	14.4%	3,021	340	12.7%
All Other Fringe Benefits	440	453	13	3.0%	391	(49)	-11.1%
Non-Personal Service/Fixed Costs	4,885	5,259	374	7.7%	4,663	(222)	-4.5%
Debt Service	4,961	5,615	654	13.2%	5,516	555	11.2%
TOTAL STATE OPERATING FUNDS	78,934	85,413	6,479	8.2%	78,998	64	0.1%
Capital Projects (State Funded)	5,160	6,203	1,043	20.2%	6,075	915	17.7%
TOTAL STATE FUNDS	84,094	91,616	7,522	8.9%	85,073	979	1.2%
Federal Aid (Including Capital Grants) ⁷	46,843	48,104	1,261	2.7%	48,754	1,911	4.1%
TOTAL ALL FUNDS	130,937	139,720	8,783	6.7%	133,827	2,890	2.2%

¹ Spending is adjusted to exclude the impact of paying the end-of-year school aid payment (\$2.06 billion), scheduled for the last quarter of 2009-10, in the first quarter of 2010-11, which was done to carry forward the 2009-10 budget shortfall into 2010-11. See Financial Plan tables for 2009-10 actual results and 2010-11 estimates.

² Includes the value of recurring savings from the December 2009 Deficit Reduction Plan.

³ State fiscal year basis. ARRA funding temporarily reduces spending from State Operating Funds.

⁴ Department of Health Medicaid spending only, excludes other State agency spending. ARRA funding temporarily reduces spending from State Operating Funds.

⁵ 2009-10 affected by \$300 million payment deferral from 2008-09.

⁶ Retroactive payments for NYSCOPBA, PBA and BCI labor settlements (\$258 million, \$42 million and \$20 million, respectively) for contract years 2007-08 and 2008-09, reflected in 2009-10 and retroactive payments for NYSCOBPA (Non-Arbitration) and Council 82 (\$11 million each) for contract years 2007-08 and 2008-09.

⁷ 2009-10 Federal and All Funds disbursements and receipts have been adjusted to include \$2.0 billion in Federal aid that passes through the State's All Funds Financial Plan under ARRA. This "pass-through" money, which provides no gap-closing benefit and is subject to a range of factors that make the timing of disbursements highly uncertain, was expected to total approximately \$4.4 billion in 2009-10. Actual disbursements, however, totaled only \$2.4 billion. Thus, 2009-10 results have been adjusted for the difference. See Financial Plan tables for 2009-10 actual results.

EXPLANATION OF GAP-CLOSING PLAN

The gap-closing plan consists of two parts, the Enacted Budget actions and the recurring impact of the DRP. This section describes the Enacted Budget gap-closing actions.

2010-11 Enacted Budget Actions

The 2010-11 gap-closing actions are organized into three general categories: (a) actions that reduce current-services spending in the General Fund on a recurring basis (“Spending Control”); (b) actions that increase revenues on a recurring basis (“Revenue Actions”); and (c) transactions that increase revenues or lower spending in 2010-11, but that cannot be relied on in the future (“Non-Recurring Resources”).

Spending Control

The Enacted Budget gap-closing plan for 2010-11 focuses foremost on actions that reduce the growth in State spending on a recurring basis. Actions to control spending account for nearly 70 percent of the gap-closing plan and will affect most activities funded by the State. The 2010-11 appropriation and Article VII "language" bills⁹ passed by the Legislature, as well as the agency operating reductions, reduced spending by roughly \$4.8 billion from current services levels. The Governor’s vetoes further reduced General Fund spending in 2010-11 by \$533 million.

In addition, the FMAP contingency bill is expected to reduce local assistance spending by approximately \$280 million. This is equal to the difference between the benefit of enhanced FMAP assumed in the amended Executive Budget Financial Plan and the amount ultimately approved by Congress in August 2010. The following table summarizes the recurring spending actions in the General Fund by major function or activity.

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⁹ Legislation, other than appropriation bills, submitted as part of the budget.

COMBINED GENERAL FUND/HCRA GAP-CLOSING PLAN FOR 2010-11				
SPENDING CONTROL (AFTER VETO BENEFIT)				
SAVINGS/(COSTS)				
(millions of dollars)				
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Spending Control¹	<u>5,627</u>	<u>3,972</u>	<u>3,432</u>	<u>3,542</u>
Local Assistance	<u>3,716</u>	<u>2,380</u>	<u>1,760</u>	<u>1,748</u>
School Aid/Lottery Aid	<u>1,677</u>	<u>680</u>	<u>129</u>	<u>122</u>
Gap Elimination Adjustment	1,497	642	0	0
Lottery Aid	180	136	136	136
Other	0	(98)	(7)	(14)
Health Care	<u>779</u>	<u>925</u>	<u>893</u>	<u>893</u>
Medicaid Fraud/Audit Recoveries	300	300	300	300
Eliminate Automatic Medicaid Rate Increases	99	120	120	120
Reduce Managed Care Premiums	61	75	75	75
Indigent Care Reduction	72	57	47	47
HCRA Financing	103	131	131	131
Public Health/Aging	29	54	55	55
Other	115	188	165	165
Higher Education	<u>224</u>	<u>174</u>	<u>152</u>	<u>152</u>
SUNY/CUNY Community College Base Aid	106	76	76	76
CUNY Senior College Operations	48	64	64	64
HESC (primarily TAP)	70	34	12	12
Local Government Aid	325	30	29	19
School Tax Relief Program	121	200	210	223
Human Services/Labor/Housing	214	165	175	176
Education/Special Education	142	13	13	11
Mental Hygiene	61	74	47	38
All Other Local Assistance	173	119	112	114
FMAP Contingency Spending Reductions	<u>281</u>	<u>0</u>	<u>0</u>	<u>0</u>
State Operations/Other	<u>1,520</u>	<u>1,533</u>	<u>1,566</u>	<u>1,668</u>
Statewide Agency Operational Reductions	1,233	1,061	838	815
Fringe Benefits/Pension Amortization	287	472	728	853
	<u>110</u>	<u>59</u>	<u>106</u>	<u>126</u>
Debt Management	100	25	34	36
Bonded Capital Spending Reductions²	10	34	72	90

¹ Excludes savings from December 2009 DRP. Net of new funding initiatives. Includes the impact of Governor's vetoes.

² Estimated debt service savings from reducing planned capital spending financed with debt.

Local Assistance

Local assistance spending includes financial aid to local governments and nonprofit organizations, as well as entitlement payments to individuals. State Operating Funds spending for local assistance is estimated at \$53.6 billion in 2010-11, a decrease of \$305 million (-0.6 percent) from the prior year. The most significant gap-closing actions in local assistance include the following (reductions from the current-services estimate are in parentheses):

- **School aid/lottery aid (\$1.7 billion on a State fiscal year basis)** by imposing a one-time adjustment to formula-based school aid on a wealth-equalized basis (\$1.5 billion); enhancing the operation of the State's lottery games and VLT facilities (including increased advertising, the extension of operating hours at VLT facilities and the enhancement of the Quick Draw game) to increase lottery revenues for financing school aid, and recognizing an additional \$80 million franchise payment for VLT development rights at Aqueduct for a total of \$380 million (\$180 million).
- **Health Care (\$779 million)** through cost-containment measures in Medicaid, including eliminating inflation-based adjustments to rates; decreasing managed care premiums; heightening anti-fraud and audit efforts; implementing prior-approval for insurance rate changes; and financing a greater share of Medicaid spending through HCRA.

In other public health activities, savings result from modifying the payment rates, eligibility standards, and operation of the EI program; eliminating reimbursement for certain optional services provided through the GPHW, and eliminating or reducing General Fund support for programs that are not related to DOH's core mission.

- **Higher Education (\$224 million)** by reducing State support for SUNY and CUNY senior and community colleges (which will be partially mitigated by the use of ARRA funding) and reducing TAP program spending by changing eligibility standards and reducing overall grant awards.
- **Local Government Aid (\$325 million)** by eliminating AIM funding for New York City (2010-11 only) and Erie County, and by reducing AIM funding to other municipalities by 2 or 5 percent, depending on local reliance on this revenue.
- **STAR (\$121 million)** by reducing the benefit for New York City taxpayers with incomes above \$500,000.
- **Human Services (\$214 million)** by reducing State reimbursement to counties from 63.7 percent to 62 percent for Child Welfare services; reducing or eliminating spending in non-core mission programs; and rightsizing youth facilities.
- **Education/Special Education/Arts (\$142 million)** by managing payments for summer school special education costs; using available ARRA funding to help support preschool special education; reducing funding for grants provided by the Council on the Arts; and other measures.
- **Mental Hygiene (\$61 million)** by reducing Medicaid rates; improving audit and recovery efforts; restructuring service coordination; and delaying community bed development for certain programs.
- **All Other Local Assistance (\$173 million)** by eliminating subsidies to businesses that provide mental health coverage under Timothy's Law (\$69 million); reducing a planned deposit to the member items fund (\$60 million); and a wide range of program reductions in other areas, including criminal justice and economic development.

Impact of Vetoes

DOB estimates the Governor's vetoes will save \$533 million in 2010-11. The Governor's ability to veto changes in Article VII language bills is arguably limited, in most instances, to either approving or disapproving the entire bills. As a result, the veto of the entire Article VII language bill extended to provisions amending school aid funding formulas, school aid database updates, and higher education tuition assistance, which results in current-year savings, but additional potential costs in future years.

Specifically, the veto prevented the implementation of a 2010-11 Executive Budget recommendation to extend the foundation aid phase-in schedule from seven years to ten years. The Governor has submitted a bill to the Legislature that would restore the outyear savings in the original proposal. The following table summarizes the vetoes.

SUMMARY OF 2010-11 BUDGET VETOES				
SAVINGS/(COSTS)				
(millions of dollars)				
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Savings/(Costs) from Vetoes	533	(554)	(760)	(553)
School Aid	<u>419</u>	<u>(652)</u>	<u>(833)</u>	<u>(625)</u>
Legislative Restoration	419	170	0	0
Foundation Aid Phase-In Delay	0	(688)	(774)	(592)
All Other	0	(134)	(59)	(33)
Higher Education	<u>107</u>	<u>89</u>	<u>64</u>	<u>63</u>
SUNY/CUNY Community College Base Aid	56	76	76	76
HESC TAP Awards for Two-year Degree Programs	10	(5)	(13)	(13)
HESC TAP \$75 Award Reduction	17	7	0	0
HESC TAP Academic Standards	6	2	0	0
HESC TAP for Non-SED Programs	13	18	18	18
HESC Scholarships and Loan Forgiveness	0	(5)	(8)	(9)
HESC TAP Award Schedules	5	(1)	(5)	(5)
HESC TAP Default Parity	0	(3)	(4)	(4)
Health Care	4	5	5	5
Arts	2	2	2	2
Housing	1	1	1	1
Capital Projects/Debt Service	0	1	1	1

FMAP Contingency Spending Reductions

The 2010-11 Enacted Budget mandates a uniform reduction to local assistance payments beginning September 16, 2010 in an amount up to the level of the shortfall between the actual amount of the six-month enhanced FMAP extension and the amount assumed in the Updated Financial Plan. Payments for public assistance, debt service, court judgments, and certain other purposes are exempt from the uniform reductions. The following table summarizes the change from the initial Financial Plan estimates of a six-month extension and the current estimate following the extension approved by Congress in August 2010.

FEDERAL ENHANCED FMAP 6-MONTH EXTENSION (STATE SHARE)			
SUMMARY OF ESTIMATED FINANCIAL PLAN IMPACT -- SAVINGS/(COSTS)			
(millions of dollars)			
	2010-11	2011-12	Two-Year
	Jan - Mar	Apr - Jun	Total
Estimated FMAP Extension (Apr 2010)	1,085	1,060	2,145
Approved Federal Extension (Aug 2010)	804	603	1,407
Difference	(281)	(457)	(738)
FMAP Local Assistance Contingency Reductions	281	0	281
IMPACT ON BUDGET SURPLUS/(GAPS)	0	(457)	(457)

The State continues to receive ARRA funds. This aid can be classified into two categories: (1) direct aid that provides a Financial Plan benefit by paying for costs that must otherwise be paid with State resources and (2) pass-through aid that funds specific initiatives and by law must pass through the State's Financial Plan. The following table summarizes total ARRA spending in the State Financial Plan from 2008-09 through 2011-12, the last fiscal year in which substantial ARRA funding is expected.

SUMMARY OF ESTIMATED FEDERAL ARRA SPENDING BY FISCAL YEAR				
(millions of dollars)				
	2008-09*	2009-10*	2010-11	2011-12
TOTAL DIRECT STATE AID	1,299	4,227	5,908	712
Enhanced Federal FMAP (State Benefit)	1,299	3,572	4,054	203
DOH Medicaid	1,092	3,040	3,425	107
Mental Hygiene Medicaid	207	532	629	96
State Fiscal Stabilization Relief		655	1,854	509
School Aid		546	1,331	509
Higher Education		103	166	0
Special/Other Education		6	335	0
All Other		0	22	0
TOTAL PASS-THROUGH AID	440	2,291	4,647	2,332
Enhanced FMAP (Local Share - Subject to reconcil.)	440	1,122	1,738	793
Education		334	860	879
Human Services		237	768	0
Transportation		205	450	320
Housing		61	131	120
Labor		121	111	0
Higher Education		91	102	0
Environment		39	209	200
Health Care		41	144	0
Criminal Justice/Public Safety		8	55	20
General Government/Other		32	79	0

*Estimated year-end results.

In 2010-11, DOB estimates that ARRA provides a direct benefit of approximately \$4 billion through enhanced FMAP and \$1.9 billion in aid for elementary and secondary, higher education and housing through SFSF, some of which applies to the 2009-10 school year, for expenses that would otherwise need to be paid for with State resources or eliminated.¹⁰

State Operations

The cost of operating State government includes (a) salaries, (b) pensions and other fringe benefits, and (c) non-personal service expenses, including utilities, rents, medical supplies, and other expenses.¹¹ State Operating Funds spending for these purposes is expected to total approximately \$19.8 billion, a decrease of \$186 million from 2009-10. After actions, personal service and non-personal service expenses are projected to decline by nearly \$800 million. This is partially offset by growth in fringe benefit costs of \$603 million.

The Enacted Budget includes \$1.5 billion in savings from efficiency measures in State agencies, targeted workforce savings, and controls to slow the growth in fringe benefit costs.

- **Statewide Agency Operating Reductions (\$1.2 billion):** Actions include across-the-board reductions in agency operating budgets, targeted personnel management initiatives, and statewide programs to leverage the State's purchasing power in energy, supplies, and materials. Personal service savings are expected from a combination of ERI savings, attrition and other measures. The Governor has rescinded, for the second consecutive year, the general salary increase for the State's non-unionized "management/confidential" employees (\$28 million in 2010-11).
- **Pension Amortization/Fringe Benefits (\$287 million):** Local governments and the State face substantial pension contribution increases over the next six years due to investment losses experienced by the Common Retirement Fund. The budget affords local governments and the State the option to amortize a portion of their pension costs beginning in 2010-11. Specifically, pension contribution costs in excess of the amortization thresholds, which are 9.5 percent for ERS and 17.5 percent for PFRS, may be amortized. The authorizing legislation also permits amortization in all future years if the actuarial contribution rate is greater than the amortization threshold, which may increase or decrease by no more than one percentage point for each year. Repayment of any amortized amounts will be made over a ten-year period at an interest rate to be determined by the State Comptroller. The assumed interest rate is 5 percent. For planning purposes, the Financial Plan assumes that the State will amortize pension costs, consistent with the provisions of the authorizing legislation. The amounts assumed to be amortized over the Financial Plan period total \$242 million in 2010-11, \$504 million in 2011-12, \$825 million in 2012-13, \$1.1 billion in 2013-14, and \$1.2 billion in 2014-15. This amortization is expected to result in savings (compared to the unamortized costs), then result in substantially higher costs over the following 10 years as the amortized amounts are repaid. In addition, employees and retirees are now required to pay a portion of Medicare Part B health premiums and the State is authorized to self-insure all or parts of the New York State Health Insurance Plan.

As of March 31, 2010, the State had approximately 195,792 full-time equivalent annual salaried employees funded from all funds including some part-time and temporary employees but excluding seasonal, legislative and judicial employees. The workforce is now 15 percent smaller than it was 20 years ago, when it peaked at 230,600 positions. The State expects to end the 2010-11 fiscal year with a total 191,997 filled positions, after implementation of workforce savings initiatives, which include

¹⁰ This is separate from, and should not be confused with, Federal pass-through spending under ARRA that provides no gap-closing benefit.

¹¹ The Financial Plan tables presentation includes three separate Financial Plan categories: Personal Service, Non-Personal Service and General State Charges (Fringe Benefits).

workforce changes of certain youth facilities, agency consolidations, early retirement incentives, and the continuation of statewide hiring controls. The State workforce subject to Executive control is expected to total 128,165 full time equivalent positions at the end of 2010-11, a reduction of approximately 3,576 from 2009-10 levels.

The gap-closing plan reduces planned capital projects spending financed with State-supported debt by \$1.6 billion over a five-year period, beginning in 2010-11. The reductions are expected to provide over \$130 million in annual debt service savings when fully implemented. The capital reductions will help the State maintain sufficient debt capacity.¹² The plan also includes \$100 million in debt management savings from refundings and other measures.

Revenue Actions

The Updated Financial Plan includes \$1.0 billion in revenue increases. Tax actions include an increase in the tax on cigarettes and tobacco products, a temporary elimination of the clothing exemption, a temporary cap on the aggregate tax credit claims for business related tax credits at \$2 million per taxpayer per year, and a decrease in the percentage of allowable itemized deductions for taxpayers with income above \$10 million. The following table summarizes the specific actions.

COMBINED GENERAL FUND AND HCRA GAP-CLOSING PLAN FOR 2010-11 - REVENUE ACTIONS				
SAVINGS/(COSTS)				
(millions of dollars)				
	2010-11	2011-12	2012-13	2013-14
Revenue Actions	1,034	1,867	1,460	1,204
Tax Actions	<u>893</u>	<u>1,736</u>	<u>1,364</u>	<u>1,133</u>
Eliminate Clothing Exemption	330	210	0	0
Cigarette/Tobacco Products Tax	290	318	312	307
Temporarily Cap Business Tax Credit Claims	100	970	970	870
Charitable Contributions	100	135	160	160
Sales Tax Vendor Credit	23	23	23	23
Private Label Credit Cards	17	23	23	23
Bank Bad Debt Deductions	15	15	15	15
Clarify Room Remarketers Must Collect Sales Tax	10	20	20	20
Sales Tax Add-back	0	20	20	20
Informational Returns for Credit/Debit Cards	0	0	35	83
Film Credit	0	0	(168)	(292)
Empire Zone Replacement Program	0	0	(50)	(100)
Other Tax Actions	8	2	4	4
Abandoned Property	100	95	60	50
Civil Court Filing Fees	19	34	34	34
All Other Revenue Actions	22	2	2	(13)
Tax Audits/Recoveries/Enforcement	371	421	421	421

Tax credits extended to the film industry and a restructured Empire Zone program result in additional costs to the Updated Financial Plan, beginning in 2012-13.

¹² Under the Debt Reform Act of 2000, State-supported debt outstanding issued after April 1, 2000 is limited to 4 percent of personal income, starting in 2010-11.

Non-Recurring Resources

The Enacted Budget relies on \$660 million in non-recurring resources in 2010-11. The largest item in this category is the use of the TANF Emergency Contingency Fund to pay for expenses that would otherwise be incurred by the General Fund in 2010-11. The Emergency Contingency Fund is a one-time ARRA authorization. Accordingly, it is not expected to be available in future years. The following table itemizes the non-recurring actions.

COMBINED GENERAL FUND/HCRA GAP-CLOSING PLAN FOR 2010-11 NON-RECURRING RESOURCES SAVINGS/(COSTS) (millions of dollars)	
	<u>2010-11</u>
Non-Recurring Resources	660
Federal TANF Resources	261
Physician Excess Medical Malpractice Payment (Timing)	127
Additional New York County District Attorney Recoveries	50
Additional Department of Law Recoveries	35
School Aid Overpayment Recoveries	32
NYSHELPS Program Adjustment	19
Eliminate New Technology Seed Fund	15
Available Fund Balances/Resources	121

Other non-recurring resources include altering the timing of a planned payment under the Physician's Excess Medical Malpractice program; additional recoveries from both the New York County District Attorney and the Department of Law; and recovering excess aid payments made to school districts in prior years.

2009-10 Deficit Reduction Plan

DOB estimates that the DRP approved on December 2, 2009 will generate recurring savings in the range of \$700 million to \$875 million in fiscal years 2010-11 through 2013-14. The following table summarizes the DRP.

2009-10 DEFICIT REDUCTION PLAN SUMMARY SAVINGS/(COSTS) (millions of dollars)				
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Total Deficit Reduction Plan Savings	692	811	876	854
Agency Operational Reductions	360	385	385	385
Legislative Actions ¹	332	426	491	469
Health Care	177	161	201	201
Mental Hygiene	57	55	53	32
Education/Arts	39	42	43	43
Higher Education Aid	36	36	36	36
Local Government Assistance	32	32	32	32
Tier V Pension	6	20	40	60
All Other	(15)	80	86	65

¹ Includes spending reductions in other State Funds that reduce General Fund costs through transfers from the accounts where savings are realized.

Projected Closing Balances

The State ended 2009-10 with a General Fund balance of \$2.3 billion, including \$1.2 billion in the rainy day reserves and \$906 million resulting from the deferral of certain payments from 2009-10 into 2010-11. The latter amount was disbursed when the deferred payments were made in the first quarter of 2010-11.

After gap-closing actions, the year-end balance is expected to total \$1.4 billion in 2010-11, an annual decrease of \$917 million. The State's principal reserve funds are expected to remain unchanged, but the reserve created in 2009-10 would be utilized in its entirety. In addition, the balance in the Community Projects Fund, which finances discretionary ("member item") grants allocated by the Legislature and Governor is expected to decline by \$11 million from 2009-10. This is the result of \$154 million in deposits authorized in prior years and scheduled for 2010-11, offset by \$165 million in projected spending in 2010-11. The estimate for spending from the Community Projects Fund is based on historical patterns and may be lower in 2010-11 as a result of the Governor's vetoes of member-item reappropriations. Lower than planned spending would increase the fund balance in the Community Projects Fund. The following table summarizes the projected balances in the General Fund.

GENERAL FUND CLOSING BALANCE					
(millions of dollars)					
	2009-10 Results	Planned Deposit	Planned Uses	2010-11 Estimated	Change
Projected Year-End Fund Balance	2,302	154	(1,071)	1,385	(917)
Tax Stabilization Reserve Fund	1,031	0	0	1,031	0
Rainy Day Reserve Fund	175	0	0	175	0
Contingency Reserve Fund	21	0	0	21	0
Community Projects Fund	96	154	(165)	85	(11)
Reserved for Debt Reduction	73	0	0	73	0
Reserved for Payment Deferrals	906	0	(906)	0	(906)

2010-11 Disbursements Forecast

The following table displays estimated annual spending growth from 2009-10 to 2010-11, on an adjusted basis. DOB has made adjustments to the actual and planned disbursements to account for the impact of (a) paying the \$2.06 billion end-of-year school aid payment scheduled for the last quarter of 2009-10 in the first quarter of 2010-11, as authorized in statute and (b) the timing of \$2.0 billion in Federal ARRA "pass through" spending expected in 2009-10. The latter has no impact on the State's efforts to balance the budget but instead represents Federal stimulus money that must pass through the State's Financial Plan. Approximately \$2 billion in Federal pass-through funding that was initially expected to be disbursed in 2009-10, is now expected to be disbursed in future years. Examples of pass-through spending include Title 1 education grants to school districts, neighborhood stabilization grants, and transportation aid.

TOTAL DISBURSEMENTS - ADJUSTED FOR PAYMENT DEFERRALS AND ARRA PASS-THROUGH (millions of dollars)							
	2009-10 Adjusted	2010-11 Base	Before Actions		2010-11 Adjusted	After Actions	
			Annual \$ Change	Annual % Change		Annual \$ Change	Annual % Change
State Operating Funds	78,934	85,413	6,479	8.2%	78,998	64	0.1%
General Fund (Excludes Transfers)	48,475	54,094	5,619	11.6%	47,601	(874)	-1.8%
Other State Funds	25,447	25,612	165	0.6%	25,789	342	1.3%
Debt Service Funds	5,012	5,707	695	13.9%	5,608	596	11.9%
All Funds	130,937	139,720	8,783	6.7%	133,827	2,890	2.2%
State Operating Funds	78,934	85,413	6,479	8.2%	78,998	64	0.1%
Capital Projects Funds	7,112	8,568	1,456	20.5%	8,454	1,342	18.9%
Federal Operating Funds	44,891	45,739	848	1.9%	46,375	1,484	3.3%
General Fund, including Transfers	54,262	60,152	5,890	10.9%	53,533	(729)	-1.3%
State Funds	84,094	91,617	7,523	8.9%	85,073	979	1.2%

Adjusted State Operating Funds spending, which includes both the General Fund and spending from other operating funds supported by assessments, tuition, HCRA resources and other non-Federal revenues, is projected to total \$79.0 billion in 2010-11. Adjusted All Funds spending, which includes capital spending and Federal aid in addition to State Operating Funds, is projected to total \$133.8 billion in 2010-11. Consistent with past years, the aggregate spending projections (i.e., the sum of all projected spending by individual agency) in Special Revenue Funds have been adjusted downward in all fiscal years based on typical spending patterns and the observed variance between estimated and actual results.

ADJUSTED STATE OPERATING FUNDS ¹ SPENDING PROJECTIONS MAJOR SOURCES OF ANNUAL CHANGE (millions of dollars)			
	2009-10	2010-11	Change
Major Functions (Annual Change)			
Health Care:			
Medicaid	11,479	11,675	196
Public Health	2,404	2,523	119
K-12 Education:			
School Aid (State Fiscal Year)	20,374	19,942	(432)
All Other Education Aid	1,693	1,663	(30)
STAR	3,414	3,300	(114)
Higher Education	8,447	8,092	(355)
Social Services:			
Temporary and Disability Assistance	1,360	1,222	(138)
Children and Family Services	2,006	2,148	142
Mental Hygiene	4,360	4,537	177
Transportation	3,941	4,433	492
General State Charges ²	3,594	4,128	534
Debt Service	4,961	5,516	555
All Other (Annual Change)			
Local Government Aid	1,080	791	(289)
Department of Insurance	658	463	(195)
Statewide Agency Operating Reductions ³	0	(500)	(500)
All Other	9,163	9,065	(98)
Total Adjusted State Operating Funds Spending	78,934	78,998	64

¹ Includes General Fund, State Special Revenue and Debt Service Funds.
² General Fund only. Fringe benefits are allocated to agency budgets outside of the General Fund.
³ Reductions will be allocated by agency in the Mid-Year Financial Plan, following approval of early retirement and other savings plans.

2010-11 Financial Plan and OutYear Projections

This section presents the State's multi-year projections for receipts and disbursements based on the 2010-11 Enacted Budget. State Law requires the Governor to submit a balanced plan of receipts and disbursements on a cash-basis for the General Fund. However, approximately 40 percent of total State spending for operating purposes is accounted for outside of the General Fund and is primarily concentrated in the areas of health care, school aid, higher education, transportation and mental hygiene. Thus, the multi-year projections and growth rates are presented on both a General Fund and State Operating Funds basis.

The multi-year forecast reflects the impact of the 2010-11 Enacted Budget and updated assumptions concerning economic performance, revenue collections, spending patterns, and projections for the current-services costs of program activities.

In evaluating the State's outyear operating forecast, it should be noted that the reliability of the estimates as a predictor of the State's future fiscal condition is likely to diminish as one moves further from the current year and budget year estimates. Accordingly, in terms of the outyear projections, 2011-12 is the most relevant from a planning perspective, since any gap in that year must be closed with the next budget and the variability of the estimates is likely to be less than in later years. DOB will provide quarterly revisions to its multi-year estimates, as required pursuant to State Finance Law.

Budget Gaps

In the General Fund, the projected budget gaps total approximately \$8.2 billion in 2011-12, \$13.5 billion in 2012-13, and \$15.6 billion in 2013-14. The net operating deficits in State Operating Funds are projected at \$8.2 billion in 2011-12, \$13.1 billion in 2012-13, and \$15.1 billion in 2013-14.

The imbalances projected for the General Fund and State Operating Funds in future years tend to be very similar. This is because the General Fund is typically the financing source of last resort for many State programs, and any imbalance in other funds that cannot be rectified by the use of existing balances is typically paid for by the General Fund.

The growth in the gaps between 2010-11 and 2011-12 is caused in large part by the expiration of Federal stimulus funding for Medicaid and education, which is expected to result in approximately \$5.1 billion in costs reverting to the General Fund, starting in 2011-12. The annual growth in the gap is also affected by the sunset, at the end of calendar year 2011, of the temporary PIT increase enacted in 2009-10, which is expected to reduce 2011-12 receipts by approximately \$1 billion from 2010-11 levels.

Spending

General Fund spending is projected to grow at an average annual rate of 9.0 percent from 2009-10 through 2013-14 (as adjusted). Spending growth in the General Fund is projected to increase sharply in 2011-12, reflecting an expected return to a lower Federal matching rate for Medicaid expenditures after June 30, 2011 which will increase the share of Medicaid costs that must be financed by State resources, and the expected loss of temporary Federal aid for education. Excluding these stimulus-related effects, which temporarily suppress General Fund costs in 2010-11 and the first quarter of 2011-12, General Fund spending grows at approximately 6.8 percent on a compound annual basis.

State Operating Funds spending is projected to grow at an average annual rate of 7.0 percent through 2013-14 (as adjusted). For both the General Fund and State Operating Funds, spending growth is driven by Medicaid, education, pension costs, employee and retiree health benefits, and child welfare programs.

Outyear spending projections do not incorporate any estimate of potential new actions to control spending in future years; any potential continuation of Federal stimulus aid beyond the first quarter of 2011-12; and any costs for future collective bargaining agreements beyond the April 1, 2011 expiration of the current four-year contracts for most unions. In addition, the forecast does not include any additional health care costs or savings that may materialize from the implementation of national health care reform at the Federal level of government.

Receipts

General Fund receipts are projected to grow at an average annual rate of 3.8 percent from 2009-10 through 2013-14. Overall, State tax receipts growth in the three fiscal years following 2010-11 is expected to range from 1.7 percent to 6.2 percent. This is consistent with a projected return to modest economic growth in the New York economy in the second half of 2010. Receipts growth is affected by the tax changes approved in the Enacted Budget, as well as, in prior fiscal years, and tax compliance and anti-fraud efforts. These factors are expected to continue to enhance expected receipt growth through 2013-14. See “2010-11 All Funds Financial Plan” herein for a complete summary.

The following tables summarize the General Fund and State Operating Funds multi-year projections, adjusted for the school aid deferral from 2009-10 to 2010-11.

General Fund

OUTYEAR GENERAL FUND PROJECTIONS (ADJUSTED)										
(millions of dollars)										
	2010-11	2011-12	Annual \$ Change	Annual % Change	2012-13	Annual \$ Change	Annual % Change	2013-14	Annual \$ Change	Annual % Change
Receipts										
Taxes (After Debt Service)	50,329	53,488	3,159	6.3%	54,028	540	1.0%	56,962	2,934	5.4%
Personal Income Tax	32,168	34,492	2,324	7.2%	34,167	(325)	-0.9%	36,085	1,918	5.6%
User Taxes and Fees	11,128	11,318	190	1.7%	11,694	376	3.3%	12,277	583	5.0%
Business Taxes	5,714	6,335	621	10.9%	6,674	339	5.4%	6,977	303	4.5%
Other Taxes	1,319	1,343	24	1.8%	1,493	150	11.2%	1,623	130	8.7%
Miscellaneous Receipts/Federal Grants	2,957	2,919	(38)	-1.3%	2,884	(35)	-1.2%	2,832	(52)	-1.8%
Other Transfers	1,390	1,400	10	0.7%	1,137	(263)	-18.8%	1,146	9	0.8%
Total Receipts	54,676	57,807	3,131	5.7%	58,049	242	0.4%	60,940	2,891	5.0%
Disbursements										
Grants to Local Governments:	35,448	45,557	10,109	28.5%	50,003	4,446	9.8%	53,950	3,947	7.9%
School Aid	16,849	19,838	2,989	17.7%	22,186	2,348	11.8%	24,438	2,252	10.2%
Medicaid (incl. administration)	7,069	12,439	5,370	76.0%	13,805	1,366	11.0%	15,048	1,243	9.0%
Higher Education	2,495	2,760	265	10.6%	2,873	113	4.1%	2,961	88	3.1%
Mental Hygiene	2,233	2,375	142	6.4%	2,519	144	6.1%	2,658	139	5.5%
Children and Family Services	1,864	2,057	193	10.4%	2,262	205	10.0%	2,488	226	10.0%
Other Education Aid	1,496	1,840	344	23.0%	1,925	85	4.6%	1,977	52	2.7%
Temporary and Disability Assistance	1,153	1,505	352	30.5%	1,632	127	8.4%	1,682	50	3.1%
All Other	2,289	2,743	454	19.8%	2,801	58	2.1%	2,698	(103)	-3.7%
State Operations:	8,025	8,601	576	7.2%	8,886	285	3.3%	9,019	133	1.5%
Personal Service	6,285	6,692	407	6.5%	6,891	199	3.0%	6,904	13	0.2%
Non-Personal Service	1,740	1,909	169	9.7%	1,995	86	4.5%	2,115	120	6.0%
General State Charges	4,128	4,482	354	8.6%	4,687	205	4.6%	5,080	393	8.4%
Pensions	1,467	1,620	153	10.4%	1,842	222	13.7%	2,118	276	15.0%
Health Insurance (Active Employees)	1,826	1,992	166	9.1%	2,171	179	9.0%	2,119	(52)	-2.4%
Health Insurance (Retired Employees)	1,195	1,322	127	10.6%	1,422	100	7.6%	1,536	114	8.0%
Fringe Benefit Escrow	(2,319)	(2,534)	(215)	9.3%	(2,731)	(197)	7.8%	(2,817)	(86)	3.1%
All Other	1,959	2,082	123	6.3%	1,983	(99)	-4.8%	2,124	141	7.1%
Transfers to Other Funds:	5,932	7,392	1,460	24.6%	8,005	613	8.3%	8,479	474	5.9%
State Share Medicaid	2,450	3,022	572	23.3%	3,120	98	3.2%	3,083	(37)	-1.2%
Debt Service	1,642	1,766	124	7.6%	1,755	(11)	-0.6%	1,686	(69)	-3.9%
Capital Projects	1,096	1,368	272	24.8%	1,524	156	11.4%	1,687	163	10.7%
All Other	744	1,236	492	66.1%	1,606	370	29.9%	2,023	417	26.0%
Total Disbursements	53,533	66,032	12,499	23.3%	71,581	5,549	8.4%	76,528	4,947	6.9%
Change in Reserves	(917)	(48)			(71)			(25)		
School Aid Deferral	(2,060)	0			0			0		
Budget Surplus/(Gap) Estimate	0	(8,177)			(13,461)			(15,563)		

State Operating Funds

STATE OPERATING FUNDS PROJECTIONS (ADJUSTED)								
(millions of dollars)								
	2010-11	2011-12	Annual \$ Change	Annual % Change	2012-13	Annual % Change	2013-14	Annual % Change
Receipts:								
Taxes	60,484	64,231	3,747	6.2%	65,311	1.7%	68,698	5.2%
Personal Income Tax	36,897	39,579	2,682	7.3%	39,609	0.1%	41,827	5.6%
User Taxes and Fees	13,697	13,965	268	2.0%	14,369	2.9%	14,948	4.0%
Business Taxes	7,090	7,793	703	9.9%	8,209	5.3%	8,590	4.6%
Other Taxes	2,800	2,894	94	3.4%	3,124	7.9%	3,333	6.7%
Miscellaneous Receipts/Federal Grants	18,831	18,822	(9)	0.0%	19,237	2.2%	19,483	1.3%
Total Receipts	79,315	83,053	3,738	4.7%	84,548	1.8%	88,181	4.3%
Disbursements:								
Grants to Local Governments:	53,633	63,889	10,256	19.1%	69,264	8.4%	73,861	6.6%
School Aid	19,942	22,586	2,644	13.3%	25,144	11.3%	27,469	9.2%
Medicaid (incl. administration)	11,628	16,958	5,330	45.8%	18,612	9.8%	20,057	7.8%
STAR	3,300	3,418	118	3.6%	3,584	4.9%	3,772	5.2%
Higher Education	2,517	2,782	265	10.5%	2,895	4.1%	2,983	3.0%
Other Education Aid	1,511	1,854	343	22.7%	1,939	4.6%	1,990	2.6%
Mental Hygiene	3,474	3,757	283	8.1%	3,993	6.3%	4,234	6.0%
Public Health/Insurance/Aging	2,315	2,453	138	6.0%	2,580	5.2%	2,589	0.3%
Social Services	3,018	3,564	546	18.1%	3,895	9.3%	4,172	7.1%
Local Government Assistance	791	1,066	275	34.8%	1,077	1.0%	1,077	0.0%
All Other	5,137	5,451	314	6.1%	5,545	1.7%	5,518	-0.5%
State Operations:	14,642	15,697	1,055	7.2%	16,195	3.2%	16,355	1.0%
Personal Service	10,307	11,197	890	8.6%	11,488	2.6%	11,534	0.4%
Non-Personal Service	4,335	4,500	165	3.8%	4,707	4.6%	4,821	2.4%
General State Charges	5,205	5,759	554	10.6%	6,145	6.7%	6,616	7.7%
Pensions	1,467	1,620	153	10.4%	1,842	13.7%	2,118	15.0%
Health Insurance (Active Employees)	1,826	1,992	166	9.1%	2,171	9.0%	2,119	-2.4%
Health Insurance (Retired Employees)	1,195	1,322	127	10.6%	1,422	7.6%	1,536	8.0%
All Other	717	825	108	15.1%	710	-13.9%	843	18.7%
Debt Service	5,516	6,035	519	9.4%	6,357	5.3%	6,503	2.3%
Capital Projects	2	2	0	0.0%	2	0.0%	2	0.0%
Total Disbursements	78,998	91,382	12,384	15.7%	97,963	7.2%	103,337	5.5%
Net Other Financing Sources/(Uses)	663	175			291		100	
School Aid Deferral	(2,060)	0			0		0	
Net Operating Surplus/(Deficit)¹	(1,080)	(8,154)			(13,124)		(15,056)	

¹ Financed with the use of existing fund balances in 2010-11. See Financial Plan Tables.

The annual spending changes are affected by the expiration of Federal stimulus funding for Medicaid and education, which is expected to result in approximately \$5.2 billion in costs reverting to the State, starting in 2011-12. The 2010-11 disbursements for school aid are further affected by the deferral of \$2.1 billion in planned spending for 2009-10 to 2010-11. The table below displays the impact of the direct Federal aid as it applies to major programs (by adjusting the State spending to show the current service annual change without the benefit of ARRA), which temporarily lowered State costs. All amounts are shown on a State fiscal year basis.

STATE OPERATING FUNDS SPENDING PROJECTIONS				
MAJOR PROGRAM AREAS ADJUSTED FOR IMPACT OF ARRA DIRECT FEDERAL AID				
(millions of dollars)				
	<u>2010-11</u>	<u>2011-12</u>	<u>Annual \$ Change</u>	<u>Annual % Change</u>
State Operating Funds (Adjusted):	84,884	92,094	7,210	8.5%
Reported State Operating Funds With ARRA	78,998	91,382	12,384	15.7%
Plus: Federal ARRA	5,886	712	(5,174)	-87.9%
School Aid (Adjusted)	<u>21,273</u>	<u>23,095</u>	<u>1,822</u>	<u>8.6%</u>
Reported School Aid With ARRA	19,942	22,586	2,644	13.3%
Plus: Federal ARRA (State Fiscal Stabilization)	1,331	509	(822)	-61.8%
DOH Medicaid (Adjusted)	<u>15,053</u>	<u>17,065</u>	<u>2,012</u>	<u>13.4%</u>
Reported Medicaid With ARRA	11,628	16,958	5,330	45.8%
Plus: Federal ARRA (Enhanced FMAP)	3,425	107	(3,318)	-96.9%
Higher Education (Adjusted)	<u>2,683</u>	<u>2,782</u>	<u>99</u>	<u>3.7%</u>
Reported Higher Education With ARRA	2,517	2,782	265	10.5%
Plus: Federal ARRA (State Fiscal Stabilization)	166	0	(166)	-100.0%
Other Education Aid (Adjusted)	<u>1,846</u>	<u>1,854</u>	<u>8</u>	<u>0.4%</u>
Reported Other Education Aid With ARRA	1,511	1,854	343	22.7%
Plus: Federal ARRA (State Fiscal Stabilization)	335	0	(335)	-100.0%
Personal Service (Adjusted)	<u>10,936</u>	<u>11,293</u>	<u>357</u>	<u>3.3%</u>
Personal Service With ARRA	10,307	11,197	890	8.6%
Plus: Federal ARRA (Enhanced FMAP - Mental Hygie	629	96	(533)	-84.7%

Grants to Local Governments

Medicaid (Department of Health)

The State's share of Medicaid is financed with a combination of General Fund and HCRA resources, as well as a share required by local governments. The Federal government is financing an additional share of Medicaid costs for October 2008 through June 30, 2011, which temporarily lowers the State's costs for the program.

MAJOR SOURCES OF ANNUAL CHANGE IN MEDICAID (millions of dollars)								
	2010-11	2011-12	Annual \$ Change	Annual % Change	2012-13	Annual % Change	2013-14	Annual % Change
State Operating Funds (Before FMAP)	15,053	17,065	2,012	13.4%	18,358	7.6%	20,057	9.3%
Enhanced FMAP -- State Share¹	(3,425)	(107)	3,318	-96.9%	254	0.0%	0	0.0%
State Operating Funds (After FMAP)	11,628	16,958	5,330	45.8%	18,612	9.8%	20,057	7.8%
Other State Funds Support	(4,559)	(4,519)	40	-0.9%	(4,807)	6.4%	(5,009)	4.2%
HCRA Financing	(2,938)	(2,981)	(43)	1.5%	(3,269)	9.7%	(3,471)	6.2%
Provider Assessment Revenue	(750)	(750)	0	0.0%	(750)	0.0%	(750)	0.0%
Indigent Care Revenue	(871)	(788)	83	-9.5%	(788)	0.0%	(788)	0.0%
Total General Fund	7,069	12,439	5,370	76.0%	13,805	11.0%	15,048	9.0%

¹ Excludes Medicaid spending in other State agencies, including enhanced FMAP for other state agencies.

Medicaid growth over the plan period is affected by estimates of increasing Medicaid enrollment, rising costs of provider health care services, and higher levels of utilization, as well as the expiration of the temporarily enhanced levels of Federal aid. The average number of Medicaid recipients is expected to grow to 4.54 million in 2010-11, an increase of 10.3 percent from the estimated 2009-10 caseload of 4.12 million.

The expiration of the enhanced FMAP share substantially increases State-funded spending for Medicaid in 2011-12. However, even after adjusting for the impact of enhanced FMAP, State spending for Medicaid is expected to grow significantly over the multi-year Financial Plan, increasing at an average annual rate of 11.1 percent, from \$15.1 billion in 2010-11 to \$20.1 billion in 2013-14. Overall Medicaid growth results, in part, from the combination of projected increases in service utilization, and medical care cost inflation that affects nearly all categories of service (e.g., hospitals, nursing homes), as well as rising enrollment levels.

Other factors contributing to Medicaid spending growth include additional costs of approximately \$331 million annually attributable to the State cap on local government Medicaid cost increases and the takeover of local FHP costs. Also, the payment of an extra weekly cycle to providers adds an estimated \$400 million in 2011-12.

School Aid

School aid spending includes foundation aid; UPK expansion; and expense-based aids such as building aid, transportation aid, and special education. School aid spending is supported by the General Fund and lottery revenues (including VLTs). On a school-year basis, school aid is projected to grow from \$20.6 billion in 2010-11 to \$28.1 billion in 2013-14, an average annual rate of approximately 11 percent.

MULTI-YEAR SCHOOL AID PROJECTIONS - SCHOOL-YEAR BASIS (millions of dollars)								
	2010-11	2011-12	Annual \$ Change	Annual % Change	2012-13	Annual % Change	2013-14	Annual % Change
Foundation Aid/Academic Achievement Grant	14,894	15,889	995	6.7%	17,390	9.4%	19,073	9.7%
Universal Pre-kindergarten	378	378	0	0.0%	462	22.2%	564	22.1%
Expense-Based Aids ¹	5,890	6,390	500	8.5%	6,940	8.6%	7,520	8.4%
Other Aid Categories/Initiatives	807	863	56	6.9%	908	5.2%	953	5.0%
Deficit Reduction Assessment	(1,412)	0	1,412	-100.0%	0	0.0%	0	0.0%
Total School Aid	20,557	23,520	2,963	14.4%	25,700	9.3%	28,110	9.4%

¹ Includes building, transportation, high cost and private special education, and BOCES.

Growth in 2011-12 is primarily due to increases in expense-based aid and the phase-in of foundation aid over a seven-year period. Growth in 2012-13 projected and beyond is primarily due to increases in foundation aid; UPK expansion; and contractual increases in expense-based aids such as building aid and transportation aid.

On a State fiscal-year basis, school aid spending is projected to grow by \$2.6 billion in 2011-12, \$2.6 billion in 2012-13, and \$2.3 billion in 2013-14.

Over the multi-year Financial Plan period, revenues available to finance school aid from core lottery sales are expected to increase nominally. Revenues from VLTs are expected to grow, augmented by the anticipated opening of a VLT facility at Aqueduct by April 2012.

The Financial Plan currently assumes a one-time franchise payment of \$380 million from the sale of VLT development rights at Aqueduct in 2010-11.

Mental Hygiene

Mental hygiene spending is projected to grow on average by \$250 million annually to total \$4.2 billion in 2013-14. Sources of growth include: increases in the projected State share of Medicaid costs; projected expansion of the various mental hygiene service systems, including increases primarily associated with the OPWDD NYS-CARES program; the New York/New York III Supportive Housing agreement and community beds that are currently under development in the OMH pipeline, as well as additional funds for supported housing beds and associated support services pursuant to a Federal district court decision; and several chemical dependence treatment and prevention initiatives in OASAS, including treatment costs associated with recent reforms to Rockefeller drug laws.

Social Services

Children and Family Services spending is expected to grow by approximately \$200 million annually through 2013-14 primarily driven by growth in local claims-based programs, including child welfare. TADA spending is projected to increase by \$529 million from \$1.2 billion in 2010-11 to \$1.7 billion by 2013-14, due to the loss of one-time TANF Emergency Contingency Fund grants that were used to support public assistance costs and the projected increase in the public assistance caseload. Based on the

latest economic forecast and updated program data, the total public assistance caseload has increased in all years from 2010-11 to 2013-14 in the Enacted Budget compared to the Executive Budget.

State Operations

State Operations spending growth over the multi-year Financial Plan is concentrated in agencies with large operational facility-based budgets such as SUNY, Corrections, and the mental hygiene agencies, as well as the Judiciary. The main causes of growth include expiration of the enhanced FMAP that lowers State costs for portions of mental hygiene spending, inflationary increases in operating costs, and ongoing initiatives, including the civil commitment program for sexual offenders, and medical and pharmacy costs in the areas of mental hygiene and corrections.

STATE OPERATING FUNDS - STATE OPERATIONS (millions of dollars)							
	2010-11	2011-12	Annual \$ Change	2012-13	Annual \$ Change	2013-14	Annual \$ Change
Personal Service	10,307	11,197	890	11,488	291	11,534	46
State University	3,124	3,155	31	3,189	34	3,214	25
Correctional Services	1,922	1,939	17	1,957	18	1,951	(6)
Judiciary	1,537	1,838	301	1,846	8	1,847	1
State Police	601	601	0	601	0	601	0
Mental Hygiene	548	993	445	1,062	69	1,072	10
Tax and Finance	349	349	0	350	1	353	3
Public Health	261	264	3	266	2	267	1
Environmental Conservation	189	186	(3)	187	1	187	0
Children and Family Services	179	200	21	219	19	216	(3)
Legislature	165	168	3	172	4	175	3
Statewide Agency Operations Savings	(250)	(125)	125	0	125	0	0
All Other	1,682	1,629	(53)	1,639	10	1,651	12
Non-Personal Service	4,335	4,500	165	4,707	207	4,821	114
State University	1,693	1,687	(6)	1,740	53	1,795	55
Correctional Services	552	589	37	624	35	666	42
Judiciary	366	366	0	373	7	373	0
Public Health	261	260	(1)	257	(3)	259	2
Mental Hygiene	217	243	26	293	50	302	9
Lottery	145	148	3	147	(1)	150	3
Children and Family Services	102	114	12	120	6	124	4
Tax and Finance	96	96	0	96	0	98	2
Debt Service	92	92	0	92	0	92	0
Insurance	82	87	5	87	0	87	0
Statewide Agency Operations Savings	(250)	(250)	0	(250)	0	(250)	0
All Other	979	1,068	89	1,128	60	1,125	(3)

Personal Service

Personal service spending includes wages and compensations for overtime, holiday and temporary services. It does not include fringe benefits that are accounted for under General State Charges. Personal service spending increases reflect the impact of settled labor contracts, salary adjustments for performance advances, longevity payments and promotions. Growth in personal service is affected by the expiration of enhanced FMAP, which temporarily reduced the State-share costs of operating the mental hygiene system.

Non-Personal Service

Non-personal service spending represents the costs of operations other than employee wages and benefits. It includes utilities, rent, equipment, supplies and materials, telecommunications, information technology, travel, training, medical supplies, prescription drugs, and certain contractual obligations. Spending is expected to grow by an average of 4 percent annually through 2013-14, and is concentrated in agencies with large operational facility-based budgets.

Significant cost increases are expected for food, prescription drugs, and energy costs in State facilities (including prisons, youth facilities, and mental hygiene facilities), costs reflected of developing the new Statewide Financial System and targeted initiatives, including increasing staff to youth ratios and improving mental health services for youth residing in State-operated juvenile justice facilities.

General State Charges

GSCs account for the costs of fringe benefits provided to State employee and retirees of the Executive, Legislative and Judicial branches, as well as for certain fixed costs. GSCs are projected to grow at an average annual rate of 8.3 percent from 2010-11 through 2013-14. The growth is mainly due to anticipated cost increases in pensions and health insurance for active and retired State employees.

The State's 2010-11 ERS pension contribution rate as a percentage of salary is expected to grow from 12.1 percent in 2010-11 to 23.5 percent in 2013-14. The Police and Fire Retirement System pension contribution rate is expected to be 18.3 percent in 2010-11, and is projected to grow to 31.4 percent by 2013-14. In addition to savings expected from the new tier of pension benefits enacted in December 2009, the Enacted Budget authorizes the State and local governments to amortize a portion of future costs. After these savings actions, pension costs grow from \$1.6 billion in 2011-12 to \$2.1 billion by 2013-14.

Spending for employee and retiree health insurance costs is expected to grow at a consistently high rate through 2013-14, with annual growth reflecting estimated annual premium increases of roughly 7 percent.

See discussion of the GASB Statement 45 later in this AIS for the valuation of future State health insurance costs for State employees.

Transfers to Other Funds (General Fund Basis)

General Fund transfers help finance certain capital activities, the State's share of Medicaid costs for State-operated mental hygiene facilities, debt service for bonds that do not have dedicated revenues, and a range of other activities.

OUTYEAR DISBURSEMENT PROJECTIONS - GENERAL FUND TRANSFERS TO OTHER FUNDS (millions of dollars)							
	2010-11	2011-12	Annual Change	2012-13	Annual Change	2013-14	Annual Change
Transfers to Other Funds:	5,932	7,392	1,460	8,005	613	8,479	474
Medicaid State Share	2,450	3,022	572	3,120	98	3,083	(37)
Debt Service	1,642	1,766	124	1,755	(11)	1,686	(69)
Capital Projects	1,096	1,368	272	1,524	156	1,687	163
Dedicated Highway and Bridge Trust Fund	699	804	105	910	106	1,001	91
All Other Capital	397	564	167	614	50	686	72
All Other Transfers	744	1,236	492	1,606	370	2,023	417
Mental Hygiene	49	534	485	884	350	1,287	403
Medicaid Payments for State Facility Patients	216	216	0	216	0	216	0
Judiciary Funds	153	156	3	157	1	163	6
Banking Services	66	66	0	66	0	66	0
Indigent Legal Services	40	40	0	40	0	40	0
SUNY- Hospital Operations	33	0	(33)	0	0	0	0
Department of Transportation (MTA Tax)	24	25	1	25	0	25	0
Alcoholic Beverage Control	19	20	1	18	(2)	18	0
Mass Transportation Operating Assistance	19	19	0	19	0	19	0
Public Trans Systems	19	19	0	19	0	19	0
Correctional Industries	14	14	0	14	0	14	0
DCJS - Crimes Against Revenues Account	10	16	6	16	0	16	0
Statewide Financial System	9	45	36	55	10	60	5
All Other	73	66	(7)	77	11	80	3

Increases in all other transfers reflect the need to supplement resources available for the mental hygiene system and fund the development of the State's new financial management system.

Dedicated Highway and Bridge Trust Fund

A significant portion of the capital and operating expenses of DMV are funded from the DHBTF. The Fund receives dedicated tax and fee revenue from the Petroleum Business Tax, the Motor Fuel Tax, the Auto Rental Tax, highway use taxes, transmission taxes and motor vehicle fees administered by DMV. The Financial Plan includes transfers from the General Fund that effectively subsidize the expenses of the DHBTF. The subsidy is required because the cumulative expenses of the fund – capital and operating expenses of DOT and DMV, debt service on DHBTF bonds and transfers for debt service on bonds that fund CHIPs and local transportation programs – exceed current and projected revenue deposits and bond proceeds. The subsidy is projected at \$804 million for 2011-12, \$910 million for 2012-13, and \$1.0 billion in 2013-14, with continued growth thereafter.

2010-11 All Funds Financial Plan Forecast

This section describes the State's Financial Plan projections for receipts and disbursements based on the 2010-11 Enacted Budget. The receipts forecast describes estimates for the State's principal taxes, miscellaneous receipts, and transfers from other funds. The Updated Financial Plan spending projections summarize the annual growth in current-services spending and the impact of the 2010-11 Enacted Budget on the State's major areas of spending. Financial Plan projections are presented on an All Funds basis, which encompasses activity in the General Fund, State Operating Funds, Capital Projects Funds, and Federal Operating Funds, thus providing the most comprehensive view of the financial operations of the State.

2010-11 Receipts Forecast

Financial Plan receipts comprise a variety of taxes, fees, charges for State-provided services, Federal grants, and other miscellaneous receipts. The receipts estimates and projections have been prepared by DOB on a multi-year basis with the assistance of the Department of Taxation and Finance and other agencies responsible for the collection of State receipts.

Overview of the Revenue Situation

- The unsteady recovery of the national and New York State economies is expected to translate into receipts growth for the first time in two years. DOB anticipates that the wage growth that began early in 2010 coupled with positive corporate earnings and a projected rebound in employment later in the year should lead to positive receipts growth in 2010-11.
- After five consecutive years of growth averaging 9.5 percent per year, base receipts slipped by 3 percent in 2008-09 and plunged another 12.3 percent in 2009-10, as the result of the recession which began in 2008.
- The nascent recovery is expected to result in base receipts growth of 2.2 percent in 2010-11 and further improvement in 2011-12 after employment growth returns in earnest. The 2007-08 base receipts All Funds tax receipts peak is not expected to be reached again until 2011-12.
- The return of corporate profits in general, and the financial sector profits so vital to New York's economy in particular, are expected to result in both increases in finance and insurance sector bonuses and stepped up business tax receipts growth in 2010-11 and 2011-12.
- The forecast assumes a shift in taxable capital gains realizations from tax year 2011 into tax year 2010 (resulting in increased 2010-11 receipts) as a result of the expected sunset of preferential Federal tax rates on capital gains on December 31, 2010. If Federal action results in complete or partial continuation of lower rates for all or a portion of taxpayers, these gains will be realized over the long run, not in 2010-11.
- Absent the impact of high income provisions enacted in 2009 and 2010, estimated PIT liability plunged 16.6 percent in 2009 and is projected to increase 11.8 in 2010. The 2009 fall was the result of the continuing overall impact of the recession, and in particular, the impact on the real estate and financial sectors. The high growth rate in 2010 is due, in part, to the expected movement of wages and capital gains realizations from 2011 or later into 2010 to take advantage of expiring lower Federal tax rates. Positive wage and income growth that began in early 2010 and the employment growth anticipated to follow later in the year will also play a role.
- After a vigorous retreat during 2008-09 and 2009-10, consumer spending on taxable goods and services should improve somewhat during 2010-11, driven by increasing disposable income, employment, and a pickup in vehicle sales after a long drought. Despite this improvement, the pre-recession sales tax collections peak will not be reached until 2011-12.
- The bulk of the \$4.1 billion (7.2 percent) increase in All Funds tax receipts from 2009-10 to 2010-11 is the result of the full-year impact of the 2009 and 2010 high income personal income tax provisions (\$2.1 billion) and other actions taken in the 2010-11 Enacted Budget (\$1.3 billion).

All Funds receipts are projected to total \$134.3 billion, an increase of \$7.5 billion over 2009-10 results. The table below summarizes the receipts projections for 2010-11 and 2011-12.

TOTAL RECEIPTS (millions of dollars)							
	2009-10 Results	2010-11 Estimated	Annual \$ Change	Annual % Change	2011-12 Projected	Annual \$ Change	Annual % Change
General Fund	52,556	54,676	2,120	4.0%	57,807	3,131	5.7%
Taxes	36,997	39,931	2,934	7.9%	42,564	2,633	6.6%
Miscellaneous Receipts	3,888	2,897	(991)	-25.5%	2,859	(38)	-1.3%
Federal Grants	71	60	(11)	-15.5%	60	0	0.0%
Transfers	11,600	11,788	188	1.6%	12,324	536	4.5%
State Funds	81,141	84,783	3,642	4.5%	88,784	4,001	4.7%
Taxes	57,668	61,796	4,128	7.2%	65,573	3,777	6.1%
Miscellaneous Receipts	23,389	22,870	(519)	-2.2%	23,091	221	1.0%
Federal Grants	84	117	33	39.3%	120	3	2.6%
All Funds	126,748	134,296	7,548	6.0%	133,706	(590)	-0.4%
Taxes	57,668	61,796	4,128	7.2%	65,573	3,777	6.1%
Miscellaneous Receipts	23,557	23,014	(543)	-2.3%	23,229	215	0.9%
Federal Grants	45,523	49,486	3,963	8.7%	44,904	(4,582)	-9.3%

Base growth in tax receipts of 2.2 percent is estimated for fiscal year 2010-11, after adjusting for law changes, and should improve further in 2011-12. These projected increases in overall base growth in tax receipts are dependent on many factors:

- Anticipated improvements in overall economic activity, especially in New York City and surrounding counties;
- Improving profitability and compensation gains among financial services companies;
- Continued recovery in the overall real estate market, particularly the residential market; and
- Increases in consumer spending as a result of wage and employment gains.

Personal Income Tax

PERSONAL INCOME TAX (millions of dollars)							
	2009-10 Results	2010-11 Enacted	Annual \$ Change	Annual % Change	2011-12 Projected	Annual \$ Change	Annual % Change
General Fund¹	22,654	24,373	1,719	7.6%	26,265	1,892	7.8%
Gross Collections	41,393	45,086	3,693	8.9%	47,329	2,243	5.0%
Refunds/Offsets	(6,642)	(8,189)	(1,547)	23.3%	(7,752)	437	-5.3%
STAR	(3,409)	(3,299)	110	-3.2%	(3,417)	(118)	3.6%
RBTF	(8,688)	(9,225)	(537)	6.2%	(9,895)	(670)	7.3%
State/All Funds	34,751	36,897	2,146	6.2%	39,577	2,680	7.3%
Gross Collections	41,393	45,086	3,693	8.9%	47,329	2,243	5.0%
Refunds	(6,642)	(8,189)	(1,547)	23.3%	(7,752)	437	-5.3%

¹ Excludes Transfers.

All Funds PIT receipts, which reflect gross payments minus refunds, are estimated at \$36.9 billion for 2010-11, a \$2.1 billion or 6.2 percent increase from the prior year. This is primarily attributable to increases in withholding of \$1.9 billion and current estimated payments of \$1.3 billion. These increases are due to the gradual improvement in the economy and full-year compliance with the temporary rate increase enacted in 2009. The growth in the estimated tax is also partly driven by an expected "spin up" in capital gain realizations in 2010 in anticipation of higher Federal capital gains tax rates after tax year 2010. Receipts from delinquencies are projected to increase \$61 million (5.5 percent) over the prior year and final returns are projected to increase by \$151 million (8.3 percent). The increase in gross receipts is partially offset by higher refunds of \$1.5 billion. This increase reflects the shift of \$500 million in tax year 2009 refunds from the first calendar quarter of 2010 to April 2010 for cash management purposes, plus a one-time decline in 2009-10 refunds associated with an accounting adjustment to the State-city offset. Prior year refunds received in 2010-11 for tax year 2009, which increased by \$516 million to \$5,502 million as a result of the recent economic downturn, also contributed to higher refunds. The following table summarizes, by component, actual receipts for 2009-10 and forecast amounts through 2013-14.

User Taxes and Fees

USER TAXES AND FEES (millions of dollars)							
	2009-10 Results	2010-11 Enacted	Annual \$ Change	Annual % Change	2011-12 Projected	Annual \$ Change	Annual % Change
General Fund^{1,2}	8,087	8,810	723	8.9%	8,975	165	1.9%
Sales Tax	7,405	8,083	678	9.2%	8,220	137	1.7%
Cigarette and Tobacco Taxes	456	499	43	9.4%	522	23	4.6%
Alcoholic Beverage Taxes	226	228	2	0.9%	233	5	2.2%
State/All Funds	12,852	14,285	1,433	11.2%	14,567	282	2.0%
Sales Tax	10,529	11,475	946	9.0%	11,685	210	1.8%
Cigarette and Tobacco Taxes	1,364	1,765	401	29.4%	1,821	56	3.2%
Motor Fuel	507	503	(4)	-0.8%	505	2	0.4%
Highway Use Tax	137	134	(3)	-2.2%	140	6	4.5%
Alcoholic Beverage Taxes	226	228	2	0.9%	233	5	2.2%
Taxicab Surcharge	13	85	72	553.8%	85	0	0.0%
Auto Rental Tax	76	95	19	25.0%	98	3	3.2%

¹ Excludes Transfers.

² Receipts from motor vehicle fees and alcohol beverage control license fees are now reflected under miscellaneous receipts.

All Funds user taxes and fees receipts for 2010-11 are estimated to be approximately \$14.3 billion, an increase of \$1.4 billion or 11.2 percent from 2009-10. Sales tax receipts are expected to increase by \$946 million from the prior year due to a base growth increase of 6.7 percent. Due to law changes, sales tax receipts are estimated to increase by \$366 million. The vast majority of the revenue (\$330 million) will come from the elimination of the clothing and footwear tax exemption in 2010-11. Non-sales tax user taxes and fees are estimated to increase by \$487 million from 2009-10, mainly due to an increase in the cigarette tax by \$1.60 and the full enactment of the taxicab surcharge.

General Fund user taxes and fees receipts are expected to total \$8.8 billion in 2010-11, an increase of \$723 million or 8.9 percent from 2009-10. The increase largely reflects an increase in sales tax receipts (\$678 million) and cigarette tax collections (\$43 million).

All Funds user taxes and fees receipts for 2011-12 are projected to be \$14.6 billion, an increase of \$282 million, or 2.0 percent from 2010-11. This increase largely reflects cigarette tax law changes. General Fund user taxes and fees receipts are projected to total \$9.0 billion in 2011-12, an increase of \$165 million, or 1.9 percent from 2010-11.

Business Taxes

BUSINESS TAXES (millions of dollars)							
	2009-10 Results	2010-11 Enacted	Annual \$ Change	Annual % Change	2011-12 Projected	Annual \$ Change	Annual % Change
General Fund	5,371	5,714	343	6.4%	6,335	621	10.9%
Corporate Franchise Tax	2,145	2,886	741	34.5%	3,172	286	9.9%
Corporation & Utilities Tax	722	685	(37)	-5.1%	743	58	8.5%
Insurance Tax	1,331	1,278	(53)	-4.0%	1,335	57	4.5%
Bank Tax	1,173	865	(308)	-26.3%	1,085	220	25.4%
State/All Funds	7,459	7,692	233	3.1%	8,414	722	9.4%
Corporate Franchise Tax	2,511	3,307	796	31.7%	3,624	317	9.6%
Corporation & Utilities Tax	954	902	(52)	-5.5%	966	64	7.1%
Insurance Tax	1,491	1,410	(81)	-5.4%	1,470	60	4.3%
Bank Tax	1,399	1,023	(376)	-26.9%	1,269	246	24.0%
Petroleum Business Tax	1,104	1,050	(54)	-4.9%	1,085	35	3.3%

All Funds business tax receipts for 2010-11 are estimated at \$7.7 billion, an increase of \$233 million, or 3.1 percent from the prior year. The estimates reflect an increase of \$109 million resulting from tax law changes. The deferral of certain tax credits (\$100 million) and conforming the State bank tax's bad debt provisions to the Federal provisions (\$15 million) are the major tax law changes. Absent these provisions, All Funds business tax receipts are expected to increase by \$124 million or 1.7 percent.

The annual increase in the corporate franchise tax of \$796 million is partially offset by year-to-year decreases in the other business taxes. U.S. corporate profits are expected to increase 24.5 percent in calendar year 2010, contributing to growth of 27.9 percent in year-over-year corporate franchise tax receipts, adjusted for tax law changes. Corporation and utilities and insurance tax receipts are expected to decline modestly as trend liability growth rates in these relatively stable taxes do not surpass the acceleration of cash payments on 2010 liability into the 2009-10 fiscal year that resulted from the increase in the mandatory pre-payment from 30 percent to 40 percent.

All Funds business tax receipts for 2011-12 of \$8.4 billion are projected to increase \$722 million, or 9.4 percent over the prior year reflecting rebound-induced growth rates of 9.6 percent and 24.0 percent in corporate franchise tax and bank tax receipts, respectively. Fiscal Year 2011-12 receipts include \$423 million in tax law changes, virtually all attributable to the tax credit deferral provisions included in the Enacted Budget. Growth adjusted for tax law changes is estimated to be 5.4 percent.

General Fund business tax receipts for 2010-11 of \$5.7 billion are estimated to increase by \$343 million, or 6.4 percent above 2009-10 results. Business tax receipts deposited to the General Fund reflect the All Funds trends discussed above.

General Fund business tax receipts for 2011-12 of \$6.3 billion are projected to increase \$621 million, or 10.9 percent from the prior year. Corporate franchise tax and bank tax receipts are projected to increase 9.9 percent and 25.4 percent, respectively, as the income-based taxes continue to recover.

Other Taxes

OTHER TAXES (millions of dollars)							
	2009-10 Results	2010-11 Enacted	Annual \$ Change	Annual % Change	2011-12 Projected	Annual \$ Change	Annual % Change
General Fund¹	885	1,034	149	16.8%	989	(45)	-4.4%
Estate Tax	864	1,015	151	17.5%	970	(45)	-4.4%
Gift Tax	2	0	(2)	-100.0%	0	0	0.0%
Real Property Gains Tax	(1)	0	1	-100.0%	0	0	0.0%
Pari-Mutuel Taxes	19	18	(1)	-5.3%	18	0	0.0%
All Other Taxes	1	1	0	0.0%	1	0	0.0%
State/All Funds	1,378	1,554	176	12.8%	1,570	16	1.0%
Estate Tax	864	1,015	151	17.5%	970	(45)	-4.4%
Gift Tax	2	0	(2)	-100.0%	0	0	0.0%
Real Property Gains Tax	(1)	0	1	-100.0%	0	0	0.0%
Real Estate Transfer Tax	493	520	27	5.5%	581	61	11.7%
Pari-Mutuel Taxes	19	18	(1)	-5.3%	18	0	0.0%
All Other Taxes	1	1	0	0.0%	1	0	0.0%

¹ Excludes Transfers.

All Funds other tax receipts for 2010-11 are estimated to be approximately \$1.6 billion, up \$176 million or 12.8 percent from 2009-10 receipts, reflecting growth of 5.5 percent in the real estate transfer tax receipts and 17.5 percent in the estate tax as a result of improved conditions in the equities, real estate and credit markets, combined with strong year-to-date payments from the settlement of large estates.

General Fund other tax receipts are expected to be slightly over \$1.0 billion in fiscal year 2010-11, an increase of \$149 million or 16.8 percent from 2009-10, due to the growth in the estate tax, partially offset by a 5.3 percent decline in the pari-mutuel tax due to the impact of reduced handle.

All Funds other tax receipts for 2011-12 are projected to be nearly \$1.6 billion, up \$16 million or 1.0 percent from 2010-11, reflecting modest growth in the real estate transfer tax, partially offset by a decline in estate tax receipts. General Fund other tax receipts are expected to total \$989 million in fiscal year 2011-12, the result of a decrease of \$45 million in estate tax receipts as increases in household net worth are more than offset by a return to a more normal level of settlements of large estates.

Miscellaneous Receipts and Federal Grants

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)							
	2009-10 Results	2010-11 Enacted	Annual \$ Change	Annual % Change	2011-12 Projected	Annual \$ Change	Annual % Change
General Fund	3,959	2,957	(1,002)	-25.3%	2,919	(38)	-1.3%
Miscellaneous Receipts ¹	3,888	2,897	(991)	-25.5%	2,859	(38)	-1.3%
Federal Grants	71	60	(11)	-15.5%	60	0	0.0%
State Funds	23,473	22,987	(486)	-2.1%	23,211	224	1.0%
Miscellaneous Receipts ¹	23,389	22,870	(519)	-2.2%	23,091	221	1.0%
Federal Grants	84	117	33	39.3%	120	3	2.6%
All Funds	69,080	72,500	3,420	5.0%	68,133	(4,367)	-6.0%
Miscellaneous Receipts ¹	23,557	23,014	(543)	-2.3%	23,229	215	0.9%
Federal Grants	45,523	49,486	3,963	8.7%	44,904	(4,582)	-9.3%

¹Includes receipts from motor vehicle fees and alcohol beverage control license fees, previously reflected as "user taxes and fees."

All Funds miscellaneous receipts include monies received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, and a variety of fees and licenses. All Funds miscellaneous receipts are projected to total \$23 billion in 2010-11, a decrease of \$543 million from 2009-10 results, largely reflecting the impact of non-recurring and accelerated receipts to the State during 2009-10. Sources of receipts during 2009-10, which will not recur or will recur in lesser amounts, include 18-A public utility assessments (\$653 million), New York Power Authority contributions (\$158 million), Regional Greenhouse Gas Initiative proceeds (\$90 million), and Battery Park City Authority resources (\$68 million). The total annual decline in miscellaneous receipts also reflects lower bond proceeds available for mental hygiene facility capital improvement (\$101 million), lower HCRA receipts (\$123 million) and lower receipts from refunds, credits and reimbursements (\$101 million). These annual declines were partly offset by growth in other areas, primarily to SUNY revenue growth from expansions at the three SUNY teaching hospitals, enrollment growth, and greater bond proceeds available for SUNY capital projects (\$530 million), and increased lottery fund receipts (\$380 million) which reflect the one-time receipt of the franchise fee for rights to develop a VLT facility at Aqueduct.

Federal grants help pay for State spending on Medicaid, temporary and disability assistance, mental hygiene, school aid, public health, and other activities. Annual changes to Federal grants generally correspond to changes in federally-reimbursed spending. Accordingly, DOB typically plans that Federal reimbursement will be received in the State fiscal year in which spending occurs, but timing is often unpredictable. All Funds Federal grants are projected to total \$49.5 billion in 2010-11, an increase of \$4.0 billion from 2009-10 results driven by receipt of Federal ARRA monies.

General Fund miscellaneous receipts collections are estimated to be nearly \$3.0 billion, down just over \$1.0 billion from 2009-10 results. This decrease is primarily due to the loss of a one-time payment from the Power for Jobs Program received in 2009-10 and the timing of an 18-A assessment payment.

All Funds miscellaneous receipts are projected to total \$23.2 billion in 2011-12, an increase of \$215 million from the current year, largely driven by growth in HCRA receipts (\$296 million), growth in bond proceeds generated for mental hygiene facility capital improvements (\$151 million) and growth in SUNY income from tuition, fees, patient revenues and other income (\$88 million). The projected annual growth in these sources of miscellaneous receipts is partly offset by the non-recurrence of revenues received during 2010-11 for the VLT franchise fee payment (\$380 million).

All Funds Federal grants are projected to total \$44.9 billion in 2011-12, a decrease of \$4.6 billion from the current year, reflecting a decrease in Federal ARRA funding.

General Fund miscellaneous receipts for 2011-12 are projected to decline by \$38 million from the current year, and primarily reflect the loss of certain one-time sweeps and payments expected in 2010-11. These reductions are partially offset by an upward revision to abandoned property receipts.

Enacted Budget Revenue Actions

To preserve essential services while closing an \$8.2 billion budget gap for the 2010-11 fiscal year, the Enacted Budget and separately enacted legislation authorize a number of revenue actions.

On a General Fund basis, actions in the Enacted Budget and separately enacted legislation will together increase tax or other revenue by a total of \$937 million (\$1.4 billion All Funds) in 2010-11.

Increased Taxes or Fee Liability

(General Fund: \$562 million, All Funds: \$835.1 million in 2010-11)

- **Tax Actions.** The Enacted Budget contains seven tax actions that will produce \$747 million in 2010-11 All Funds revenue.
- **Loophole Closing Actions.** The Enacted Budget contains five actions that close loopholes and ensure that tax burdens are fairly distributed. These actions are expected to produce \$44.0 million in additional revenue on an All Funds basis in the 2010-11 fiscal year.
- **New or Increased Fees.** The Enacted Budget contains new and increased legal fees as well as waste fees. These fees are expected to produce \$44.1 million in revenue on an All Funds basis in the 2010-11 fiscal year.

Other Actions

(General Fund: \$395 million, All Funds: \$560 million in 2010-11)

- **Tax Enforcement Actions.** The Enacted Budget contains four actions that will improve tax audit and compliance activities. These actions are expected to produce \$372 million in additional tax revenue on an All Funds basis in the 2010-11 fiscal year. A significant portion (\$150 million) of this revenue will be generated by cigarette tax enforcement on sales by Native American tribes to non-tribal members.
- **Other Revenue Actions.** The Enacted Budget contains five other revenue actions, including expanding Quick Draw and video lottery terminal operations, and changing dormancy periods for certain types of abandoned property among other actions. These five actions are

expected to produce \$152 million in revenue on a General Fund basis and \$202 million on an All Funds basis in the 2010-11 fiscal year.

- **New or Expanded Tax Credits/Exemptions.** The Enacted Budget contains five new or expanded tax credits at a cost of \$15 million on an All Funds basis in the 2010-11 fiscal year.
- **Technical Corrections and Extenders.** The Enacted Budget contains two extenders that will maintain both the pari-mutuel tax and major provisions of the bank tax, and temporary GLB provisions and five technical corrections that will amend previously enacted items. These five actions preserve current revenue or tax benefits.
- **New or Expanded Fines.** The Enacted Budget contains two fines that help protect the State’s wetlands and mineral resources. These fines are expected to produce \$1 million in revenue on an All Funds basis during the 2010-11 fiscal year.

Tax Actions

ENACTED BUDGET REVENUE ACTIONS/AGREEMENT				
(millions of dollars)				
	2010-11		2011-12	
	General Fund	All Funds	General Fund	All Funds
TAX ACTIONS				
Temporarily Reduce Sales Tax Clothing Exemption	330.0	330.0	210.0	210.0
Itemized Deduction Limitation	100.0	100.0	135.0	135.0
Other Tobacco Products Increase	30.0	30.0	48.0	48.0
Repeal Vendor Credit for Monthly Filers	17.0	17.0	23.0	23.0
Apply Sales Tax to Hotel Reseller Markup	10.0	10.0	20.0	20.0
Cigarette Tax Increase	-	260.0	-	272.0
Add Back Federal Sales Tax Deduction	-	-	20.0	20.0
TOTAL TAX AND ASSESSMENT ACTIONS	487.0	747.0	456.0	728.0

- **Temporarily Reduce Sales Tax Clothing Exemption.** Eliminates State sales and compensating use tax exemptions for clothing and footwear sold for less than \$110 per item for the period October 1, 2010 through March 31, 2011; exempts clothing and footwear sold for less than \$55 per item for the period April 1, 2011 through March 31, 2012; and restores the original exemption of \$110 on April 1, 2012.
- **Itemized Deduction Limitation.** Decreases the percentage of allowable remaining itemized deductions from 50 percent to 25 percent for taxpayers with New York adjusted gross income of \$10 million or more for tax years 2010 through 2012.
- **Other Tobacco Products Increase.** Increases the tobacco products tax to 75 percent of the wholesale price from 46 percent; increases the tax on snuff to \$2.00 per ounce from \$0.96 per ounce; and creates a new category under the tobacco products tax imposing a tax on "little cigars" at a rate equivalent to the cigarette tax rate.
- **Repeal Vendor Credit for Monthly Filers.** Repeals the vendor credit for monthly sales tax filers. Quarterly and annual filers will continue to receive the credit.
- **Apply Sales Tax to Hotel Reseller Markup.** Clarifies that room remarketers are required to collect sales and New York City occupancy taxes.

- Increase Cigarette Excise Tax by \$1.60 per Pack. Increases the State cigarette excise tax from \$2.75 per pack to \$4.35 per pack.
- Add Back Federal Sales Tax Deduction. Requires itemizing taxpayers who elect to deduct sales tax instead of income tax for Federal purposes to reduce their New York itemized deductions by the amount of sales tax deducted for Federal purposes.

Loophole Closing Actions

LOOPHOLE CLOSING ACTIONS (millions of dollars)				
	2010-11		2011-12	
	General Fund	All Funds	General Fund	All Funds
S Corp Gains and Installment Inc. as Taxable for Non-Res.	29.0	29.0	14.0	14.0
Conform to Federal Bad Debt Provisions	15.0	15.0	15.0	15.0
Define Flow-Through Entities as Taxpayers for Certain Credits	-	-	12.0	12.0
Treat Compensation for Past Service as Taxable for Non-Res.	-	-	25.0	29.0
Make REITs/RICs Loophole Closer Permanent	-	-	-	-
TOTAL LOOPHOLE CLOSING ACTIONS	44.0	44.0	66.0	70.0

- **Treat S Corp Gains and Installment Income as Taxable for Non-Residents.** Eliminates three related tax loopholes that allow non-residents to avoid taxation by converting underlying S Corporation assets to stock or receiving installment income after termination of S Corporation nexus to New York. Previously, gains on stock and such installment income were considered intangible income and were therefore not subject to tax for non-residents.
- **Conform to Federal Bad Debt Provisions.** Conforms the State bank tax deduction for bad debts to the calculations provided for in the Internal Revenue Code for Federal tax purposes.
- **Define Flow-Through Entities as Taxpayers for QETC and Biofuel Credit Claims.** Eliminates the ability of individual shareholders in flow-through entities (i.e. partnerships, LLCs, and S Corporations) to each claim up to the statutory cap for a taxpayer when claiming the Biofuel and QETC facilities, operations and training credits. The cap will apply to the entity, just as it does for C Corporations.
- **Treat Compensation for Past Services as Taxable for Non-Residents.** Eliminates a tax loophole that permitted a non-resident to receive income – without paying New York taxes – for past services (e.g. termination pay) conducted during a period when their employer had a New York nexus. Such income had been nontaxable.
- **Make REITs/RICs Loophole Closer Permanent.** Makes permanent the provisions that address the closely-held Real Estate Investment trusts and Regulated Investment Companies loophole, which would have otherwise expired on December 31, 2010.

New or Increased Fees

NEW OR INCREASED FEES (millions of dollars)				
	2010-11		2011-12	
	General Fund	All Funds	General Fund	All Funds
Increased Legal Fees	31.0	41.0	42.0	56.0
Hazardous Waste Fees	-	2.1	-	2.1
E-Waste Fee	-	1.0	-	0.5
TOTAL NEW OR INCREASED FEES	31.0	44.1	42.0	58.6

- **Legal Fees.** Establishes new and increased fees to fund civil legal services, indigent defense, and costs of court operations. A new \$95 fee will be paid by plaintiffs (banks and credit card companies) in consumer credit cases. A new \$500 “credentialing” fee will be paid by persons who sit for the bar examination and were educated outside the country. A new \$190 fee will be charged at the time the index fee is paid in a foreclosure action. The criminal history search fee, which is paid when the Office of Court Administration performs background checks, will be raised from \$55 to \$65. The biennial bar registration fee will be raised from \$350 to \$375.
- **Hazardous Waste Fees.** Amends Environmental Conservation Law to consolidate two separate sliding-scale fees paid by hazardous waste generators into a single fee of \$130 per ton.
- **E-Waste Fee.** Establishes a statewide electronic equipment reuse and recycling program. It will require manufacturers to accept for recycling or reuse electronic waste for which it is the manufacturer from consumers in the State and accept one piece of electronic waste if offered by a consumer, with the purchase of a piece of equipment of the same type beginning April 1, 2011. It will establish registration requirements for manufacturers of covered electronic equipment sold in the State, and require each manufacturer of covered electronic equipment to register with DEC by January 1, 2011, and pay a \$5,000 registration fee; and require any person who becomes a manufacturer after January 1, 2011, to register with DEC before selling or offering for sale covered electronic equipment in the State.

Tax Enforcement Actions

ENFORCEMENT ACTIONS (millions of dollars)				
	2010-11		2011-12	
	General Fund	All Funds	General Fund	All Funds
Improve Audit and Compliance	221.0	221.0	221.0	221.0
Native American Tax Enforcement	36.0	150.0	48.0	200.0
Require Informational Returns for Credit and Debit Cards	-	-	-	-
False Claims Act	1.0	1.0	2.0	2.0
TOTAL ENFORCEMENT ACTIONS	258.0	372.0	271.0	423.0

- **Improve Audit and Compliance.** The Commissioner of Taxation and Finance will increase compliance staff and re-direct department resources to generate \$221 million in additional annual revenue.
- **Native American Tax Enforcement.** Requires all cigarettes sold to Native American nations or tribes and reservation cigarette sellers to bear a tax stamp and allows the

governing body of a Native American nation or tribe two options for tax-exempt sales to its tribal members.

- **Require Informational Returns for Credit and Debit Cards.** Mirrors Federal requirements by requiring certain financial institutions to also file information returns with the State annually regarding amounts of credit/debit card settlements and third-party network transactions.
- **False Claims Act.** Removes the exemption for tax fraud from the State False Claims Act, allowing citizens to bring legal action against tax cheats and share in the proceeds of the case if the action is successful.

Other Revenue Actions

OTHER REVENUE ACTIONS (millions of dollars)				
	2010-11		2011-12	
	General Fund	All Funds	General Fund	All Funds
Tax Credit Deferral	100.0	100.0	970.0	970.0
Change Abandoned Property Dormancy Periods	35.0	35.0	45.0	45.0
Repeal Private Label Credit Card Law	17.0	17.0	23.0	23.0
VLT Provisions	-	30.0	-	55.0
Quick Draw Provisions	-	20.0	-	31.0
TOTAL OTHER REVENUE ACTIONS	152.0	202.0	1,038.0	1,124.0

- **Tax Credit Deferral.** Allows \$2 million in aggregate credit at the taxpayer level for tax years 2010, 2011, and 2012. The total amount of credits deferred under this proposal will be paid back to taxpayers over tax years 2013, 2014, and 2015. This provision affects personal income and corporate income taxpayers. The credits impacted are business-related credits. Personal income tax credits such as the child credit and EITC are excluded.
- **Change Abandoned Property Dormancy Periods.** Reduces the dormancy period for receipts from unclaimed goods from five to three years and non-bank money orders seven to five years.
- **Repeal Private Label Credit Card Law.** Repeals Tax Law §1132(e-1), which allowed private label credit card lenders, as well as vendors who use private label credit card lenders to finance their credit card sales, to claim a sales tax credit or refund on accounts financed by or assigned to the lender that are written or charged off as uncollectible.
- **Extend VLT Hours of Operation.** Increases the authorized hours of operation of VLTs from sixteen to 20 hours a day but no later than 4 AM, reduces the commission rate paid to vendor tracks by one percent, and eliminates the sunset of the VLT program.
- **Quick Draw Hours and Sunset.** Eliminates the restriction on the number of hours that the Division of the Lottery can operate the Quick Draw lottery game and makes the Lottery's authorization to operate the game permanent.

New or Expanded Tax Credits

NEW OR EXPANDED TAX CREDITS/EXEMPTIONS (millions of dollars)				
	2010-11		2011-12	
	General Fund	All Funds	General Fund	All Funds
Narrow Affiliate Nexus Provisions	(5.0)	(5.0)	(5.0)	(5.0)
Expand the Low-Income Housing Tax Credit Program	(4.0)	(4.0)	(4.0)	(4.0)
Historic Properties Tax Credits	(3.0)	(3.0)	(5.0)	(5.0)
Livery Vehicle Sales Tax Exemption	(3.0)	(3.0)	(3.0)	(3.0)
Extend and Expand Film Tax Credit	-	-	-	-
Excelsior Jobs Program	-	-	-	-
TOTAL NEW OR EXPANDED TAX CREDITS/EXEMPTIONS	(15.0)	(15.0)	(17.0)	(17.0)

- **Narrow Affiliate Nexus Provision.** The affiliate nexus provision contained within the 2009-10 Enacted Budget is amended by narrowing the definition of a sales tax vendor by providing that certain in-State activities of an affiliate do not make the seller a vendor.
- **Expand the Low-Income Housing Tax Credit Program.** The Commissioner of the Division of Housing and Community Renewal is authorized to allocate an additional \$4 million in aggregate credit awards to taxpayers that develop qualifying housing projects for low-income New Yorkers. Credits are given in equal installments for a ten-year period. As such, the total amount of credits that will be awarded from this new authorization will be \$40 million.
- **Historic Properties Tax Credits.** Allows banks and insurance companies to claim the nonresidential tax credit and sunsets the higher residential and non-residential caps enacted in 2009 on December 31, 2014.
- **Livery Vehicle Sales Tax Exemption.** This provision exempts transportation delivered by livery vehicles that both originates and terminates in New York City from the State and New York City sales taxes.
- **Extend and Expand Film Tax Credit.** Provides an additional film tax credit allocation of \$420 million per year for tax years 2010 through 2014, \$7 million of which is dedicated to a new post-production credit. This measure also imposes various reforms to enhance the State's return on investment. They include requirements that the recipient: conduct at least 10 percent of shooting days at a qualified facility; include an end-credit acknowledging financial support from New York State or provide a New York promotional video as part of the film or DVD release in the secondary market; ensure only purchases of taxable property and services from registered sales tax vendors are eligible in the credit calculation; ensure at least 75 percent of post-production costs are incurred in New York in order to be considered a qualified cost.
- **Create Excelsior Jobs Program.** Establishes a new economic development program to provide incentives based on job creation, investment, and research and development expenditures in New York State. The new program maximizes the return on State investment by capping both total program and individual project costs, allowing only targeted industries to participate, and requiring substantial job and investment thresholds to be met and maintained prior to any project claiming benefits.

Technical Corrections and Extenders

These provisions have no fiscal impact over the Financial Plan period.

- **Extend Major Provisions of the Bank Tax and Temporary GLB Provisions.** Extends for one year bank tax reform provisions from 1985 and 1987, as well as provisions that were intended to temporarily address regulatory changes from the Federal Gramm-Leach-Bliley Act.
- **Extend the Pari-Mutuel Tax.** Extends lower Pari-Mutuel tax rates for one year. Also extends by one year the rules governing the simulcasting of out-of-state races and the authorization for account wagering.
- **Make Technical Corrections to the 2009-10 Enacted Budget Empire Zones Program Changes.** Clarifies that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarifies reporting provisions, and allows qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.
- **Make Technical Corrections to the 2009-10 Enforcement Provisions.** Restores nonfiling as a class E felony, changes mail response requirements for taxpayer reconciliation conferences, corrects typographical error (changes "article one" to "one article"), defines contribution of aircraft from a nonresident to new subsidiary as a retail sale (and therefore taxable), and restores requirement that IDAs file a report when they appoint an agent to manage a project.
- **Amend the Tax on Medallion Taxicab Trip.** Amends the tax on medallion taxicab rides in MCTD by requiring the medallion owner to collect and remit the 50 cent per ride tax.
- **Real Estate Investment Trusts Technical Amendments.** Clarifies that certain publicly traded REITs with fractional ownership shares in non-related United States REITs are not subject to provisions relating to "closely-held" REITs that were enacted in 2008-09.
- **Estate Tax Unified Credit Technical Amendment.** Preserves the \$1 million State unified credit for 2010 despite the expiration of the Federal estate tax.

New or Increased Fines

NEW OR INCREASED FINES (millions of dollars)				
	2010-11		2011-12	
	General Fund	All Funds	General Fund	All Funds
Freshwater Wetlands Fines	-	0.7	-	0.7
Mineral Resources Fines	-	0.3	-	0.3
TOTAL NEW OR INCREASED FINES	-	1.0	-	1.0

- **Freshwater Wetlands Fines.** Makes modest increases in fines and penalties, both civil and criminal, for violations of law applicable to wetlands.
- **Mineral Resources Fines.** Makes modest increases in fines and penalties, both civil and criminal, for violations of law applicable to mineral resources.

2010-11 Financial Plan Disbursements Forecast

The table below displays estimated annual spending growth from 2009-10 to 2010-11, on an adjusted basis. DOB has made adjustments to the actual and planned disbursements to account for the impact of (a) paying the \$2.06 billion end-of-year school aid payment scheduled for the last quarter of 2009-10 in the first quarter of 2010-11, as authorized in statute and (b) the timing of \$2.0 billion in Federal ARRA "pass through" spending expected in 2009-10. The latter has no impact on the State's efforts to balance the budget but instead represents Federal stimulus money that must pass through the State's Financial Plan. Approximately \$2 billion in pass-through funding, that was expected to be disbursed in 2009-10, is now expected to be disbursed in future years. See Financial Plan tables for 2009-10 actual results and 2010-11 estimates.

TOTAL DISBURSEMENTS - ADJUSTED FOR PAYMENT DEFERRALS AND ARRA PASS-THROUGH (millions of dollars)							
	2009-10 Adjusted	2010-11 Base	Before Actions		2010-11 Adjusted	After Actions	
			Annual \$ Change	Annual % Change		Annual \$ Change	Annual % Change
State Operating Funds	78,934	85,413	6,479	8.2%	78,998	64	0.1%
General Fund (Excludes Transfers)	48,475	54,094	5,619	11.6%	47,601	(874)	-1.8%
Other State Funds	25,447	25,612	165	0.6%	25,789	342	1.3%
Debt Service Funds	5,012	5,707	695	13.9%	5,608	596	11.9%
All Funds	130,937	139,720	8,783	6.7%	133,827	2,890	2.2%
State Operating Funds	78,934	85,413	6,479	8.2%	78,998	64	0.1%
Capital Projects Funds	7,112	8,568	1,456	20.5%	8,454	1,342	18.9%
Federal Operating Funds	44,891	45,739	848	1.9%	46,375	1,484	3.3%
General Fund, including Transfers	54,262	60,152	5,890	10.9%	53,533	(729)	-1.3%
State Funds	84,094	91,617	7,523	8.9%	85,073	979	1.2%

Adjusted State Operating Funds spending, which includes both the General Fund and spending from other operating funds supported by assessments, tuition, HCRA resources and other non-Federal revenues, is projected to total \$79.0 billion in 2010-11. Adjusted All Funds spending, which includes capital spending and Federal aid in addition to State Operating Funds, is projected to total \$133.8 billion in 2010-11. Consistent with past years, the aggregate spending projections (i.e., the sum of all projected spending by individual agency) in Special Revenue Funds have been adjusted downward in all fiscal years based on typical spending patterns and the observed variance between estimated and actual results.

ADJUSTED STATE OPERATING FUNDS ¹ SPENDING PROJECTIONS			
MAJOR SOURCES OF ANNUAL CHANGE			
(millions of dollars)			
	2009-10	2010-11	Change
Major Functions (Annual Change)			
Health Care:			
Medicaid	11,479	11,675	196
Public Health	2,404	2,523	119
K-12 Education:			
School Aid (State Fiscal Year)	20,374	19,942	(432)
All Other Education Aid	1,693	1,663	(30)
STAR	3,414	3,300	(114)
Higher Education	8,447	8,092	(355)
Social Services:			
Temporary and Disability Assistance	1,360	1,222	(138)
Children and Family Services	2,006	2,148	142
Mental Hygiene	4,360	4,537	177
Transportation	3,941	4,433	492
General State Charges ²	3,594	4,128	534
Debt Service	4,961	5,516	555
All Other (Annual Change)			
Local Government Aid	1,080	791	(289)
Department of Insurance	658	463	(195)
Statewide Agency Operating Reductions ³	0	(500)	(500)
All Other	9,163	9,065	(65)
Total Adjusted State Operating Funds Spending	78,934	78,998	97
¹ Includes General Fund, State Special Revenue and Debt Service Funds.			
² General Fund only. Fringe benefits are allocated to agency budgets outside of the General Fund.			
³ Reductions will be allocated by agency in the Mid-Year Financial Plan, following approval of early retirement and other savings plans.			

Selected Program Measures and Assumptions

Projected current-services disbursements are based on agency staffing levels, program caseloads, formulas contained in State and Federal law, inflation and other factors. The factors that affect spending estimates vary by program. For example, welfare spending is based primarily on anticipated caseloads that are estimated by analyzing historical trends, projected economic conditions, and changes in Federal law. All projections account for the timing of payments, since not all of the amounts appropriated in the Budget are disbursed in the same fiscal year. Selected assumptions used in preparing the spending projections for the State's major programs and activities are summarized in the following tables.

FORECAST FOR SELECTED PROGRAM MEASURES AFFECTING OPERATING ACTIVITIES					
	Results	Forecast			
	2009-10	2010-11	2011-12	2012-13	2013-14
Medicaid					
Medicaid Coverage	4,115,363	4,538,817	4,580,270	4,265,869	3,910,295
Family Health Plus Coverage	386,629	388,643	396,816	404,988	413,161
Child Health Plus Coverage	387,292	397,178	406,778	416,378	425,978
Medicaid Inflation	1.7%	0.9%	3.3%	3.1%	3.2%
Medicaid Utilization	2.5%	1.4%	4.9%	4.5%	4.7%
State Takeover of County/NYC Costs (\$000)	\$1,677	\$2,039	\$2,524	\$3,006	\$3,527
- Family Health Plus	\$374	\$405	\$436	\$467	\$475
- Medicaid	\$1,303	\$1,634	\$2,088	\$2,539	\$3,052
Education					
School Aid (School Year) (\$000)	\$21,687	\$20,557	\$23,520	\$25,700	\$28,110
K-12 Enrollment	2,730,000	2,730,000	2,730,000	2,730,000	2,730,000
Public Higher Education Enrollment (FTEs)	567,725	586,385	591,101	585,068	589,675
Tuition Assistance Program Recipients	318,455	322,632	323,632	324,132	324,132
Welfare					
Family Assistance Caseload	386,603	397,263	409,253	417,387	423,733
Single Adult/No Children Caseload	154,401	159,037	165,182	170,765	177,045
Mental Hygiene					
Total: Mental Hygiene Community Beds	82,629	85,334	87,106	89,295	91,328
- OMH Community Beds	34,262	35,780	36,610	37,889	38,952
- OPWDD Community Beds	35,859	36,840	37,747	38,521	39,357
- OASAS Community Beds	12,508	12,714	12,749	12,885	13,019
Prison Population (Corrections)	58,600	57,600	57,000	56,800	56,800

FORECAST OF SELECTED PROGRAM MEASURES AFFECTING PERSONAL SERVICE AND FRINGE BENEFITS					
	Results	Forecast			
	2009-10	2010-11	2011-12	2012-13	2013-14
Negotiated Salary Increases ¹	3.0%	4.0%	TBD	TBD	TBD
State Workforce ²	131,741	128,165	128,749	TBD	TBD
ERS Pension Contribution Rate: ³					
Before Amortization	7.5%	12.1%	16.1%	20.3%	23.5%
After Amortization	7.5%	9.5%	10.5%	11.5%	12.5%
PFRS Pension Contribution Rate:					
Before Amortization	15.3%	18.3%	23.4%	27.7%	31.4%
After Amortization	15.3%	17.5%	18.5%	19.5%	20.5%
Employee/Retiree Health Insurance Growth Rates	4.8%	4.6%	9.3%	9.2%	9.2%
PS/Fringe as % of Receipts (All Funds Basis)	14.8%	14.2%	15.0%	15.6%	15.4%

¹ Reflects current collective bargaining agreements with settled unions. The Governor withheld Management/Confidential salary increases in 2009-10 and 2010-11. Does not reflect potential impact of negotiated workforce savings.

² Subject to Executive Control.

³ As Percent of Salary.

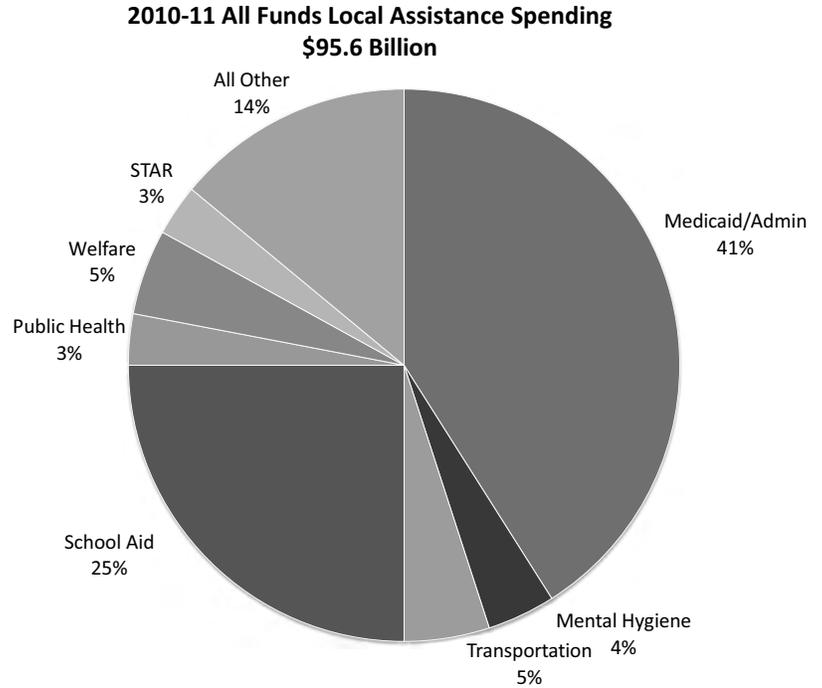
FORECAST OF SELECTED PROGRAM MEASURES AFFECTING DEBT					
	Results	Forecast			
	2009-10	2010-11	2011-12	2012-13	2013-14
State Debt					
Debt Outstanding	\$54,694	\$56,877	\$58,413	\$58,751	\$58,487
Debt Issuances	6,082	5,365	5,368	4,372	3,899
Debt Capacity under Debt Outstanding Cap	6,663	4,547	2,460	2,343	2,769
Debt Service as % of Receipts	4.4%	4.5%	5.0%	5.2%	5.1%
Interest on Variable Rate Debt	2.5%	2.3%	3.3%	3.4%	3.7%
Interest on Fixed Rate 30-Year Bonds	4.9%	5.3%	6.3%	6.3%	6.3%

The spending forecast for each of the State's Financial Plan categories follows.

Grants to Local Governments

Grants to Local Governments (Local Assistance) include payments to local governments, school districts, health care providers, and other local entities, as well as certain financial assistance to, or on behalf of, individuals, families, and nonprofit organizations. Local Assistance comprises 72 percent of All Funds spending.

In 2010-11, adjusted All Funds spending for local assistance is proposed to total \$95.6 billion. Total spending is comprised of State aid to medical assistance providers and public health programs (\$42.4 billion); State aid for education, including school districts, universities, and tuition assistance (\$33.2 billion); temporary and disability assistance (\$4.7 billion); mental hygiene programs (\$4.0 billion); transportation (\$5.1 billion); children and family services (\$3.0 billion); and local government assistance (\$791 million). Other local assistance programs include criminal justice, economic development, housing, parks and recreation, and environmental quality.



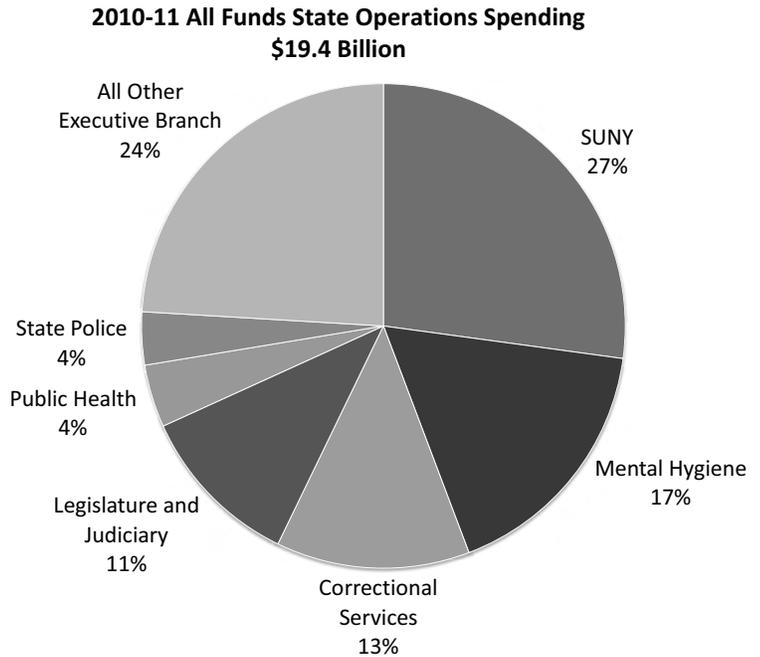
LOCAL ASSISTANCE SPENDING PROJECTIONS (ADJUSTED) (millions of dollars)				
	2009-10 Results	2010-11 Enacted	Annual Change	Percent Change
General Fund	36,294	35,448	(846)	-2.3%
Other State Support	17,644	18,185	541	3.1%
State Operating Funds	53,938	53,633	(305)	-0.6%
Capital Projects Funds	1,440	1,292	(148)	-10.3%
Federal Operating Funds	37,750	40,699	2,949	7.8%
All Funds	93,128	95,624	2,496	2.7%

The table below highlights enacted local assistance annual spending changes from 2009-10 to 2010-11 by major program and/or agency.

LOCAL ASSISTANCE SPENDING PROJECTIONS (ADJUSTED)			
MAJOR SOURCES OF ANNUAL CHANGE			
(millions of dollars)			
	General Fund	State Operating Funds	All Funds
2009-10 Results	36,294	53,938	93,128
School Aid	(699)	(432)	609
Medicaid (including Admin)	280	171	1,204
Transportation	36	480	642
Other Education Aid	(23)	(23)	600
Local Government Assistance	(289)	(289)	(289)
City University	(305)	(305)	(285)
Mental Hygiene	82	277	237
Insurance	(57)	(201)	(201)
Children and Families	116	116	191
Temporary and Disability Assistance	(151)	(151)	(181)
STAR	0	(114)	(114)
Public Health	98	82	(58)
All Other	66	84	141
2010-11 Enacted	35,448	53,633	95,624
Annual Dollar Change	(846)	(305)	2,496
Annual Percent Change	-2.3%	-0.6%	2.7%

State Operations

State Operations spending is for personal service and non-personal service costs. Personal service costs, which account for approximately two-thirds of State Operations spending, include salaries of State employees of the Executive, Legislative, and Judicial branches, as well as overtime payments and costs for temporary employees. The cost of fringe benefits (e.g., pensions, health insurance) for active and retired employees is accounted for separately in GSCs. Non-personal service costs, which account for the remaining one-third of State Operations, represent other operating costs of State agencies, including real estate rental, utilities, contractual payments (i.e., consultants, information technology, and professional business services), supplies and materials, equipment, telephone service and employee travel.



State Operations spending, which is projected to total \$19.4 billion in 2010-11, finances the costs of Executive agencies (\$17.2 billion) and the Legislature and Judiciary (\$2.1 billion). The largest agencies in dollar terms and staffing levels include SUNY (\$5.2 billion; 41,815 FTEs), Mental Hygiene (\$3.3 billion; 39,036 FTEs), Correctional Services (\$2.5 billion; 30,366 FTEs), DOH (\$809 million; 5,476 FTEs), and State Police (\$683 million; 5,530 FTEs).

Approximately 94 percent of the State workforce is unionized. The largest unions include CSEA, which primarily represents office support staff and administrative personnel, machine operators, skilled trade workers, and therapeutic and custodial care staff; PEF, which primarily represents professional and technical personnel (e.g., attorneys, nurses, accountants, engineers, social workers, and institution teachers); UUP, which represents faculty and non-teaching professional staff within the State University system; and NYSCOPBA, which represents security personnel (correction officers, safety and security officers).

The State workforce subject to Executive Control, which excludes the Legislature, Judiciary, Comptroller's Office, Law, SUNY, CUNY, SUNY Construction Fund, Roswell Park, State Insurance Fund, and the Foundation for Science, Technology, and Innovation, is projected to total 128,165 FTEs in 2010-11, a decrease of 3,576 from the actual 2009-10 levels. Statewide decreases are expected due to the retirement incentive program; individual agencies are further reducing workforce as follows: Transportation (353 FTEs) from attritions and reducing maintenance and snow/ice control workforce; State Police (174 FTEs) primarily due to attritions of civilians and troopers; Environmental Conservation as the result of hard hiring freeze and attritions (169 FTEs); and State Education attributable to attritions (61 FTEs). These decreases are offset by the increases in Tax and Finance (359 FTEs) due to the initiative of hiring more auditors to augment the State auditing and fraud reduction efforts and Mental

Hygiene (347 FTEs) primarily from increased staff needs as the result of the Deinstitutionalization Plan and related bed development.

STATE OPERATIONS SPENDING PROJECTIONS				
(millions of dollars)				
	2009-10 Results	2010-11 Enacted	Annual Change	Percent Change
General Fund	5,571	5,868	297	5.3%
Other State Support	9,819	8,774	(1,045)	-10.6%
State Operating Funds	15,390	14,642	(748)	-4.9%
Capital Projects Funds	0	0	0	N/A
Federal Operating Funds	4,042	4,544	502	12.4%
Total All Funds	19,432	19,186	(246)	-1.3%

All Funds State Operations spending by category, based upon historical spending trends, is allocated among employee regular salaries (66 percent), overtime payments (2 percent), contractual services (21 percent), supplies and materials (5 percent), equipment (2 percent), employee travel (1 percent), and other operational costs (3 percent).

STATE OPERATIONS SPENDING PROJECTIONS			
MAJOR SOURCES OF ANNUAL CHANGE - STATE OPERATING FUNDS			
(millions of dollars)			
	Personal Service	Non-Personal Service	State Operations
2009-10 Results	10,874	4,516	15,390
Retroactive Salary Payments	(298)	0	(298)
Statewide Agency State Operations Savings	(250)	(250)	(500)
All Other	(19)	69	50
2010-11 Enacted	10,307	4,335	14,642
Annual Dollar Change	(567)	(181)	(748)
Annual Percent Change	-5.2%	-4.0%	-4.9%

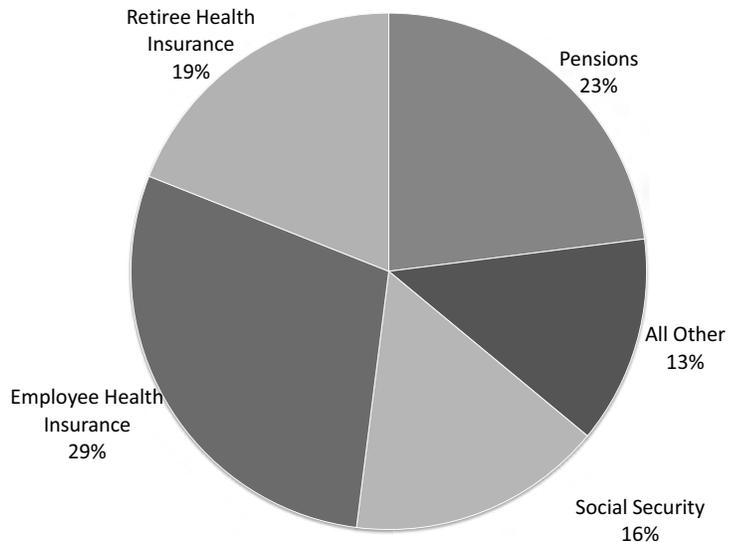
The State Operating Funds spending decrease of \$748 million (4.9 percent) is primarily driven by planned statewide reductions in agency operations through the use of an early retirement incentive, continuing hiring controls, abolition of vacant positions; efficiency from shared service and consolidation arrangements; contingency controls on non-personal spending; one-time retroactive salary payments associated with the NYSCOPBA, PBA, BCI and Council 82 contracts that were paid in 2009-10 (\$320 million); workforce and reductions in mental hygiene (\$114 million); potential spending for potential collective bargaining agreements with unsettled unions (\$229 million) continues to be included in the spending forecast.

General State Charges

GSCs account for the costs of fringe benefits provided to State employees and retirees of the Executive, Legislative and Judicial branches, and certain fixed costs paid by the State. Fringe benefit payments, many of which are mandated by statute or collective bargaining agreements, include employer contributions for pensions, Social Security, health insurance, workers' compensation and unemployment insurance. Fixed costs include State taxes paid to local governments for certain State-owned lands and payments related to lawsuits against the State and its public officers.

For most agencies, employee fringe benefit costs are paid centrally from appropriations made to GSCs. These centrally-paid fringe benefit costs represent the majority of GSCs spending. However, certain agencies, such as the Judiciary and SUNY, directly pay all or a portion of their employees' fringe benefit costs from their respective budgets. Employee fringe benefits paid through GSCs are paid from the General Fund in the first instance and then partially reimbursed by revenue collected from fringe benefit assessments on Federal funds and other special revenue accounts. Fixed costs are paid in full by General Fund revenues from GSCs.

**General State Charges – \$6.3 Billion
2010-11 All Funds Spending**



GENERAL STATE CHARGES SPENDING PROJECTIONS (millions of dollars)				
	2009-10 Results	2010-11 Enacted	Annual Change	Percent Change
General Fund	3,594	4,128	534	14.9%
Other State Support	1,040	1,077	37	3.6%
State Operating Funds	4,634	5,205	571	12.3%
Capital Projects Funds	0	0	0	0.0%
Federal Operating Funds	1,099	1,132	33	3.0%
Total All Funds	5,733	6,337	604	10.5%

All Funds spending on GSCs is expected to total \$6.3 billion in 2010-11, and includes health insurance spending for employees (\$1.8 billion) and retirees (\$1.2 billion), pensions (\$1.5 billion) and Social Security (\$1 billion). The annual changes are described in more detail below.

Current-Services

GENERAL STATE CHARGES						
SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) FROM 2009-10 TO 2010-11						
(millions of dollars)						
	General Fund	Other State Funds	Total State Operating Funds	Capital Projects Funds	Federal Operating Funds	Total All Funds
2009-10 Results	3,594	1,040	4,634	0	1,099	5,733
Current Services:	835	37	872	0	24	896
Employee and Retiree Health Insurance	385	0	385	0	0	385
Pension Contribution	552	0	552	0	0	552
Employer Social Security	29	0	29	0	0	29
Workers' Compensation	16	0	16	0	0	16
Fringe Benefit Escrow Payments	(83)	0	(83)	0	24	(59)
Taxes on State Owned Land	(15)	0	(15)	0	0	(15)
All Other	(49)	37	(12)	0	0	(12)
Enacted Savings:	(301)	0	(301)	0	9	(292)
Amortize Pension Costs	(242)	0	(242)	0	0	(242)
Option to Self Insure NYSHIP	(15)	0	(15)	0	0	(15)
Medicare Part B Cost Sharing	(30)	0	(30)	0	0	(30)
Other	(14)	0	(14)	0	9	(5)
2010-11 Enacted	4,128	1,077	5,205	0	1,132	6,337
Annual Change	534	37	571	0	33	604

Employee and Retiree Health Insurance: Spending for employee and retiree health insurance is projected to increase by \$385 million due to increase in premium charges.

Pension Contribution: As a result of the recent economic downturn and investment losses in 2008-09, pension costs in 2010-11 and beyond are expected to increase significantly. To mitigate long-term pension cost increases, legislation was enacted to create a new pension tier (Tier 5). Among other things, it requires newly hired employees to contribute 3 percent of their salary to the pension system for the duration of their employment. Previously this requirement was only in place for an employee’s first ten years of service. More importantly, it raises the minimum age to retire without penalty to 62. New employees will also be required to work for ten years before becoming eligible to receive pension benefits upon retirement.

Employer Social Security: The employer contribution is expected to increase by \$29 million in 2010-11, largely due to salary increases.

Workers’ Compensation: The increase in expected spending is based on updated workers’ compensation claims and utilization experience.

Fringe Benefit Escrow Payments: This reflects an anticipated increase in collections as a result of an increase in the fringe benefit rate.

Taxes on State Owned Lands: This decrease is caused by timing adjustments that artificially inflated 2009-10 costs.

All Other: Primarily attributable to the Judiciary’s contribution to the Judicial Supplemental Support Fund, along with decreases for litigation, including judgments against the State.

2010-11 Enacted Savings

Amortize State Pension Costs: Local governments and the State face substantial pension contribution increases over the next six years due to investment losses experienced by the Common Retirement Fund. The budget affords local governments and the State the option to amortize a portion of their pension costs beginning in 2010-11. Specifically, pension contribution costs in excess of the amortization thresholds, which are 9.5 percent for ERS and 17.5 percent for PFRS, may be amortized. The authorizing legislation also permits amortization in all future years if the actuarial contribution rate is greater than the amortization threshold, which may increase or decrease by no more than one percentage point for each year. Repayment of the amortized amounts will be made over a ten-year period at an interest rate to be determined by the State Comptroller. For planning purposes, the Financial Plan assumes that the State will authorize pension costs consistent with the provisions of the authorizing legislation. In addition, employees and retirees are now required to pay a portion of Medicare Part B premiums and the State is authorized to self-insure all or parts of the New York State Health Insurance Plan.

Option to Self Insure NYSHIP: Savings generated by the State to self insure all or parts of NYSHIP. The elimination of insurance carrier risk charges, State and local taxes, and insurance assessments would produce savings for NYSHIP.

Medicare Part B Premiums: The state currently pays 100 percent of the Medicare Part B premium for employees and retirees. Savings would be generated by requiring employees and retirees to pay 10 percent of Medicare Part B premiums for individual coverage and 25 percent for dependent coverage. Currently, the monthly Medicare Part B base level premium is \$96.

Debt Service

The State pays debt service on all outstanding State-supported bonds. These include general obligation bonds, for which the State is constitutionally obligated to pay debt service, as well as bonds issued by State public authorities (i.e., ESDC, DASNY, and the TA, subject to an appropriation). Depending on the credit structure, debt service is financed by transfers from the General Fund, dedicated taxes and fees, and other resources, such as patient income revenues.

DEBT SERVICE SPENDING PROJECTIONS				
(millions of dollars)				
	2009-10 Results	2010-11 Enacted	Annual Change	Percent Change
General Fund	1,844	1,642	(202)	-11.0%
Other State Support	3,117	3,874	757	24.3%
State Operating Funds	4,961	5,516	555	11.2%
Total All Funds	4,961	5,516	555	11.2%

All Funds debt service is projected at \$5.5 billion in 2010-11, of which \$1.6 billion is paid from the General Fund through transfers and \$3.9 billion from other State funds. The General Fund transfer primarily finances debt service payments on general obligation and service contract bonds. Debt service is paid directly from other State funds for the State’s revenue bonds, including PIT bonds, DHBTF bonds, and mental health facilities bonds.

DEBT SERVICE					
SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) FROM 2009-10 TO 2010-11					
(millions of dollars)					
	General Fund	Other State Funds	Total State Operating Funds	Capital Projects Funds	Total All Funds
2009-10 Results	1,844	3,117	4,961	0	4,961
Current Services:	(153)	769	616	0	616
Savings:	(49)	(12)	(61)	0	(61)
2010-11 Proposed	1,642	3,874	5,516	0	5,516
Annual Change	(202)	757	555	0	555

Current-Services

Growth in debt service primarily supports ongoing capital spending. The increased spending reflects additional bond issues to support ongoing capital commitments for transportation (\$377 million), economic development and housing (\$196 million), and other program areas (\$139 million). The annual increase for transportation debt service includes the impact of a 2005 restructuring of Dedicated Highway and Bridge bonds, which provided short-term relief for program needs, with higher annual debt service costs thereafter, beginning in 2010-11. In addition, a \$96 million decrease in education-related debt service reflects the prepayment of \$155 million of certain debt service in 2009-10. Variable interest rates are projected at 2.3 percent for 2010-11.

2010-11 Savings

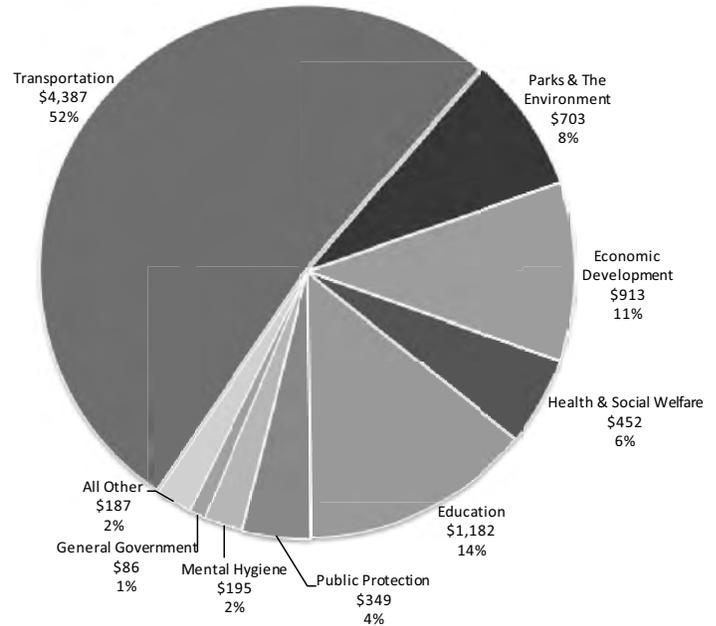
The 2010-11 Enacted Budget includes \$100 million in additional debt service savings, of which approximately \$40 million has been realized to date. Debt management actions may include, but are not limited to: maximizing refunding opportunities, including through consolidated service contract refundings; the continued use of Build America Bonds; further efficiencies from PIT issuer flexibility; and selling a minimum 25 percent of bonds on a competitive basis, market conditions permitting.

Capital Projects

The following section briefly summarizes activity in Capital Projects Funds. A complete explanation of the State’s capital programs is contained in the “Five-Year Capital Program and Financing Plan.”

Capital projects account for spending across all functional areas to finance costs related to the acquisition, construction, repair or renovation of fixed assets. Spending from appropriations made from over 30 capital projects funds is financed from four sources: annual State taxes or dedicated miscellaneous receipts, grants from the Federal government, the proceeds of notes or bonds issued pursuant to general obligation bond acts which are approved by the State voters, and the proceeds of notes or bonds issued by public authorities pursuant to legal authorization for State capital spending.

**2010-11 All Funds Capital Spending by Function
(millions of dollars)**



CAPITAL PROJECTS SPENDING PROJECTIONS (millions of dollars)				
	2009-10 Results	2010-11 Enacted	Annual Change	Percent Change
General Fund	565	1,096	530	93.8%
Other State Support	4,595	4,980	385	8.4%
State Funds	5,160	6,075	915	17.7%
Federal Funds	1,952	2,379	428	21.9%
All Funds	7,112	8,455	1,343	18.9%

All Funds capital spending is projected at \$8.4 billion in 2010-11. Transportation spending, primarily for improvements and maintenance to the State’s highways and bridges, continues to account for the largest share (52 percent) of this total. The balance of projected spending will support capital investments in the areas of education (14 percent), economic development (11 percent), parks and environment (8 percent), and mental hygiene and public protection (6 percent). The remainder of projected capital projects spending is spread across health and social welfare, general government and other areas (8 percent).

2010-11 Recommended Savings

The Capital Reduction Program included in the 2010-11 Enacted Budget will result in savings of \$1.6 billion over five years. This initiative maintains investments in infrastructure while deferring or eliminating lower-priority projects. Savings in 2010-11 are projected to total \$119 million.

Other Financing Sources/(Uses)

Every year, the State authorizes the transfer of resources among funds and accounts.

The most significant General Fund transfers to other funds in 2010-11 are for the State share of Medicaid (\$2.5 billion), general debt service (\$1.6 billion), and capital projects (\$1.1 billion, including \$392 million for PAYGO projects and a \$699 million subsidy to the DHBTF). Judiciary funding includes moneys transferred to the Court Facilities Incentive Aid Fund, New York City County Clerks Fund, and Judiciary Data Processing Fund (\$153 million). General Fund transfers to other funds payments for patients residing in State-operated health, mental hygiene and SUNY facilities (\$216 million), SUNY hospital subsidy payments (\$33 million), and supplemental resources for banking (\$66 million).

In Special Revenue Funds, transfers to other funds are made to the Debt Service Funds representing the Federal share of Medicaid payments for patients residing in State-operated health and mental hygiene facilities and community homes, and patients at SUNY hospitals (\$3.9 billion), a transfer from HCRA to the Capital Projects Fund to finance anticipated non-bondable spending for HEAL NY (\$197 million) and transfer of moneys from several Special Revenue accounts in excess of spending requirements (\$1.5 billion).

Capital Projects funds transfers are also made to the General Debt Service Fund from the DHBTF (\$1.4 billion), and from the Hazardous Waste Remedial Fund (\$27 million) to the General Fund.

Debt Service Fund transfers to the General Fund include tax receipts in excess of debt service requirements for general obligation, LGAC and PIT revenue bonds (\$10.4 billion). Transfers to Special Revenue Funds represent receipts in excess of lease/purchase obligations that are used to finance a portion of the operating expenses for DOH, mental hygiene, and SUNY (\$4.2 billion).

2010-11 Operating Results Through July 2010

GENERAL FUND PRELIMINARY RESULTS: APRIL THROUGH JULY 2010		
(millions of dollars)		
	<u>Preliminary Results</u>	<u>Increase/ (Decrease) from Prior Year</u>
Opening Balance (April 1, 2010)	2,302	354
<u>Receipts</u>	16,110	362
Personal Income Tax*	10,119	230
User Taxes and Fees*	3,615	219
Business Taxes	1,057	(218)
Other Taxes*	571	229
Non-Tax Revenue	748	(98)
<u>Disbursements</u>	17,822	1,138
School Aid	6,973	1,678
Medicaid (including admin)	2,903	783
All Other Education	72	(322)
Children and Family Services	105	(303)
All Other Local	2,065	(638)
Personal Service	2,267	(64)
Non-Personal Service	573	(139)
General State Charges	750	(129)
Transfers To Other Funds	2,114	272
Change in Operations	(1,712)	(776)
Closing Balance (July 31, 2010)	590	(422)
* Includes transfers from other funds after debt service.		
Source: DOB.		

Through July 2010, General Fund receipts, including transfer from other funds, were \$362 million or 2.3 percent higher than the same period in 2009. Net tax collections are higher by \$460 million. Non-tax revenue was lower primarily due to the timing of transfers from other funds as a result of the delay in enacting the 2010-11 budget.

Through July 2010, General Fund disbursements, including transfers to other funds, were \$1.1 billion, or 6.7 percent higher than the 2009 period. The payment in June 2010 of \$2.1 billion in school aid planned for March 2010 accounted for the increase. Excluding the impact of this cash management action, local assistance spending through July 2010 was down by over \$1 billion. Higher Medicaid spending results from a decline in HCRA offsets and an additional weekly cycle for this period in 2010-11. This growth was offset by lower authorized spending in Higher Education, Special Education, Children and Family Services, and non-personal service during the period when interim appropriations were in place.

All Funds

PRELIMINARY SPENDING RESULTS: APRIL THROUGH JULY 2010 (millions of dollars)		
	Preliminary Results	Increase/ (Decrease) from Prior Year
State Operating Funds	22,751	211
General Fund (excl. transfers)	15,708	867
Other State Funds	5,944	(693)
Debt Service Funds	1,099	37
All Governmental Funds	39,415	1,727
State Operating Funds	22,751	211
Capital Projects Funds	2,154	29
Federal Operating Funds	14,510	1,487
Source: DOB.		

State Operating Funds spending was \$22.8 billion, or \$211 million higher than the same period last year. Besides the General Fund spending variances described above, decreased Other State Funds spending is primarily attributable to timing related changes in HCRA programs and lower STAR spending on New York City resident personal income tax relief.

The Federal Operating spending increases over the prior year are concentrated in Medicaid and education driven by Federal ARRA spending.

**CASH FINANCIAL PLAN
GENERAL FUND
2009-2010 and 2010-2011
(millions of dollars)**

	<u>2009-2010 Year-End</u>	<u>2010-2011 Enacted</u>	<u>Annual \$ Change</u>	<u>Annual % Change</u>
Opening fund balance	<u>1,948</u>	<u>2,302</u>	<u>354</u>	<u>18.2%</u>
Receipts:				
Taxes:				
Personal income tax	22,655	24,373	1,718	7.6%
User taxes and fees	8,086	8,810	724	9.0%
Business taxes	5,371	5,714	343	6.4%
Other taxes	885	1,034	149	16.8%
Miscellaneous receipts	3,888	2,897	(991)	-25.5%
Federal grants	71	60	(11)	-15.5%
Transfers from other funds:				
PIT in excess of Revenue Bond debt service	7,641	7,795	154	2.0%
Sales tax in excess of LGAC debt service	2,123	2,318	195	9.2%
Real estate taxes in excess of CW/CA debt service	182	285	103	56.6%
All other transfers	1,654	1,390	(264)	-16.0%
Total receipts	<u>52,556</u>	<u>54,676</u>	<u>2,120</u>	<u>4.0%</u>
Disbursements:				
Grants to local governments	34,234	37,508	3,274	9.6%
State operations:				
Personal service	6,610	6,285	(325)	-4.9%
Non-personal service	1,977	1,740	(237)	-12.0%
General State charges	3,594	4,128	534	14.9%
Transfers to other funds:				
Debt service	1,844	1,642	(202)	-11.0%
Capital projects	565	1,096	531	94.0%
State Share Medicaid	2,401	2,450	49	2.0%
Other purposes	977	744	(233)	-23.8%
Total disbursements	<u>52,202</u>	<u>55,593</u>	<u>3,391</u>	<u>6.5%</u>
Change in fund balance	<u>354</u>	<u>(917)</u>	<u>(1,271)</u>	<u>-359.0%</u>
Closing fund balance	<u>2,302</u>	<u>1,385</u>	<u>(917)</u>	<u>-39.8%</u>
Reserves				
Tax Stabilization Reserve Fund	1,031	1,031	0	
Rainy Day Reserve Fund	175	175	0	
Contingency Reserve Fund	21	21	0	
Community Projects Fund	96	85	(11)	
Reserved for Debt Reduction	73	73	0	
Reserve for Fiscal Uncertainties	906	0	(906)	

Source: NYS DOB

**CASH FINANCIAL PLAN
GENERAL FUND
2010-2011 through 2013-2014
(millions of dollars)**

	<u>2010-2011 Enacted</u>	<u>2011-2012 Projected</u>	<u>2012-2013 Projected</u>	<u>2013-2014 Projected</u>
Receipts:				
Taxes:				
Personal income tax	24,373	26,265	26,106	27,581
User taxes and fees	8,810	8,975	9,255	9,687
Business taxes	5,714	6,335	6,674	6,977
Other taxes	1,034	989	1,029	1,084
Miscellaneous receipts	2,897	2,859	2,824	2,772
Federal grants	60	60	60	60
Transfers from other funds:				
PTT in excess of Revenue Bond debt service	7,795	8,227	8,061	8,504
Sales tax in excess of LGAC debt service	2,318	2,343	2,439	2,590
Real estate taxes in excess of CW/CA debt service	285	354	464	539
All other transfers	1,390	1,400	1,137	1,146
Total receipts	<u>54,676</u>	<u>57,807</u>	<u>58,049</u>	<u>60,940</u>
Disbursements:				
Grants to local governments	37,508	45,557	50,003	53,950
State operations:				
Personal service	6,285	6,692	6,891	6,904
Non-personal service	1,740	1,909	1,995	2,115
General State charges	4,128	4,482	4,687	5,080
Transfers to other funds:				
Debt service	1,642	1,766	1,755	1,686
Capital projects	1,096	1,368	1,524	1,687
State Share Medicaid	2,450	3,022	3,120	3,083
Other purposes	744	1,236	1,606	2,023
Total disbursements	<u>55,593</u>	<u>66,032</u>	<u>71,581</u>	<u>76,528</u>
Deposit to/(use of) Community Projects Fund	<u>(11)</u>	<u>(48)</u>	<u>(71)</u>	<u>(25)</u>
Deposit to/(use of) Reserve for Fiscal Uncertainties	<u>(906)</u>	<u>0</u>	<u>0</u>	<u>0</u>
HCRA Operating Surplus/(Gap)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash Surplus/(Gap)	<u>0</u>	<u>(8,177)</u>	<u>(13,461)</u>	<u>(15,563)</u>

Source: NYS DOB

**CASH RECEIPTS
CURRENT STATE RECEIPTS
GENERAL FUND
2010-2011 THROUGH 2013-2014
(millions of dollars)**

	<u>2010-2011 Enacted</u>	<u>2011-2012 Projected</u>	<u>2012-2013 Projected</u>	<u>2013-2014 Projected</u>
Taxes:				
Withholdings	31,301	32,302	32,756	34,835
Estimated Payments	10,651	11,525	11,478	11,810
Final Payments	1,973	2,303	2,106	2,154
Other Payments	1,161	1,199	1,239	1,316
Gross Collections	<u>45,086</u>	<u>47,329</u>	<u>47,579</u>	<u>50,115</u>
State/City Offset	(298)	(298)	(298)	(298)
Refunds	(7,891)	(7,454)	(7,694)	(8,012)
Reported Tax Collections	<u>36,897</u>	<u>39,577</u>	<u>39,587</u>	<u>41,805</u>
STAR (dedicated deposits)	(3,299)	(3,417)	(3,584)	(3,772)
RBTF (dedicated transfers)	(9,225)	(9,895)	(9,897)	(10,452)
Personal income tax	<u>24,373</u>	<u>26,265</u>	<u>26,106</u>	<u>27,581</u>
Sales and use tax	10,775	10,960	11,336	11,916
Cigarette and tobacco taxes	499	522	515	508
Motor fuel tax	0	0	0	0
Alcoholic beverage control license fees	228	233	238	242
Highway Use tax	0	0	0	0
Auto rental tax	0	0	0	0
Taxicab Surcharge	0	0	0	0
Gross Utility Taxes and fees	<u>11,502</u>	<u>11,715</u>	<u>12,089</u>	<u>12,666</u>
LGAC Sales Tax (dedicated transfers)	(2,692)	(2,740)	(2,834)	(2,979)
User Taxes and fees	<u>8,810</u>	<u>8,975</u>	<u>9,255</u>	<u>9,687</u>
Corporation franchise tax	2,886	3,172	3,334	3,488
Corporation and utilities tax	685	743	766	790
Insurance taxes	1,278	1,335	1,393	1,454
Bank tax	865	1,085	1,181	1,245
Petroleum business tax	0	0	0	0
Business taxes	<u>5,714</u>	<u>6,335</u>	<u>6,674</u>	<u>6,977</u>
Estate tax	1,015	970	1,010	1,065
Real estate transfer tax	520	581	686	754
Gift tax	0	0	0	0
Real property gains tax	0	0	0	0
Pari-mutuel taxes	18	18	18	18
Other taxes	1	1	1	1
Gross Other taxes	<u>1,554</u>	<u>1,570</u>	<u>1,715</u>	<u>1,838</u>
Real estate transfer tax (dedicated)	(520)	(581)	(686)	(754)
Other taxes	<u>1,034</u>	<u>989</u>	<u>1,029</u>	<u>1,084</u>
Payroll tax	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Taxes	<u>39,931</u>	<u>42,564</u>	<u>43,064</u>	<u>45,329</u>
Licenses, fees, etc.	667	587	583	569
Abandoned property	650	645	610	600
Motor vehicle fees	42	54	31	(41)
ABC License Fee	46	49	51	50
Reimbursements	222	222	222	222
Investment income	20	20	40	60
Other transactions	1,250	1,282	1,287	1,312
Miscellaneous receipts	<u>2,897</u>	<u>2,859</u>	<u>2,824</u>	<u>2,772</u>
Federal grants	<u>60</u>	<u>60</u>	<u>60</u>	<u>60</u>
Total	<u>42,888</u>	<u>45,483</u>	<u>45,948</u>	<u>48,161</u>

Source: NYS DOB

**CASH FINANCIAL PLAN
STATE OPERATING FUNDS BUDGET
2010-2011
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	<u>2,302</u>	<u>1,957</u>	<u>410</u>	<u>4,669</u>
Receipts:				
Taxes	39,931	8,233	12,320	60,484
Miscellaneous receipts	2,897	15,033	790	18,720
Federal grants	60	1	50	111
Total receipts	<u>42,888</u>	<u>23,267</u>	<u>13,160</u>	<u>79,315</u>
Disbursements:				
Grants to local governments	37,508	18,185	0	55,693
State operations:				
Personal service	6,285	4,022	0	10,307
Non-personal service	1,740	2,503	92	4,335
General State charges	4,128	1,077	0	5,205
Debt service	0	0	5,516	5,516
Capital projects	0	2	0	2
Total disbursements	<u>49,661</u>	<u>25,789</u>	<u>5,608</u>	<u>81,058</u>
Other financing sources (uses):				
Transfers from other funds	11,788	3,923	7,050	22,761
Transfers to other funds	(5,932)	(1,542)	(14,624)	(22,098)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	<u>5,856</u>	<u>2,381</u>	<u>(7,574)</u>	<u>663</u>
Change in fund balance	<u>(917)</u>	<u>(141)</u>	<u>(22)</u>	<u>(1,080)</u>
Closing fund balance	<u>1,385</u>	<u>1,816</u>	<u>388</u>	<u>3,589</u>

Source: NYS DOB

CASH FINANCIAL PLAN
STATE OPERATING FUNDS BUDGET
2011-2012
(millions of dollars)

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	<u>n/ap</u>	<u>1,816</u>	<u>388</u>	<u>2,204</u>
Receipts:				
Taxes	42,564	8,569	13,098	64,231
Miscellaneous receipts	2,859	15,039	809	18,707
Federal grants	60	1	54	115
Total receipts	<u>45,483</u>	<u>23,609</u>	<u>13,961</u>	<u>83,053</u>
Disbursements:				
Grants to local governments	45,557	18,332	0	63,889
State operations:				
Personal service	6,692	4,505	0	11,197
Non-personal service	1,909	2,499	92	4,500
General State charges	4,482	1,277	0	5,759
Debt service	0	0	6,035	6,035
Capital projects	0	2	0	2
Total disbursements	<u>58,640</u>	<u>26,615</u>	<u>6,127</u>	<u>91,382</u>
Other financing sources (uses):				
Transfers from other funds	12,324	4,633	6,734	23,691
Transfers to other funds	(7,392)	(1,540)	(14,584)	(23,516)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	<u>4,932</u>	<u>3,093</u>	<u>(7,850)</u>	<u>175</u>
Deposit to/(use of) Reserves	<u>(48)</u>	<u>0</u>	<u>0</u>	<u>(48)</u>
Change in fund balance	<u>(8,177)</u>	<u>87</u>	<u>(16)</u>	<u>(8,106)</u>
Closing fund balance	<u>(8,177)</u>	<u>1,903</u>	<u>372</u>	<u>(5,902)</u>

Source: NYS DOB

**CASH FINANCIAL PLAN
STATE OPERATING FUNDS BUDGET
2012-2013
(millions of dollars)**

	General Fund	Special Revenue Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	n/ap	1,903	372	2,275
Receipts:				
Taxes	43,064	8,926	13,321	65,311
Miscellaneous receipts	2,824	15,465	833	19,122
Federal grants	60	1	54	115
Total receipts	<u>45,948</u>	<u>24,392</u>	<u>14,208</u>	<u>84,548</u>
Disbursements:				
Grants to local governments	50,003	19,261	0	69,264
State operations:				
Personal service	6,891	4,597	0	11,488
Non-personal service	1,995	2,620	92	4,707
General State charges	4,687	1,458	0	6,145
Debt service	0	0	6,357	6,357
Capital projects	0	2	0	2
Total disbursements	<u>63,576</u>	<u>27,938</u>	<u>6,449</u>	<u>97,963</u>
Other financing sources (uses):				
Transfers from other funds	12,101	4,987	6,706	23,794
Transfers to other funds	(8,005)	(987)	(14,511)	(23,503)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	<u>4,096</u>	<u>4,000</u>	<u>(7,805)</u>	<u>291</u>
Deposit to/(use of) Reserves	<u>(71)</u>	<u>0</u>	<u>0</u>	<u>(71)</u>
Change in fund balance	<u>(13,461)</u>	<u>454</u>	<u>(46)</u>	<u>(13,053)</u>
Closing fund balance	<u>(13,461)</u>	<u>2,357</u>	<u>326</u>	<u>(10,778)</u>

Source: NYS DOB

**CASH FINANCIAL PLAN
STATE OPERATING FUNDS BUDGET
2013-2014
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	n/ap	2,357	326	2,683
Receipts:				
Taxes	45,329	9,281	14,088	68,698
Miscellaneous receipts	2,772	15,741	855	19,368
Federal grants	60	1	54	115
Total receipts	<u>48,161</u>	<u>25,023</u>	<u>14,997</u>	<u>88,181</u>
Disbursements:				
Grants to local governments	53,950	19,911	0	73,861
State operations:				
Personal service	6,904	4,630	0	11,534
Non-personal service	2,115	2,614	92	4,821
General State charges	5,080	1,536	0	6,616
Debt service	0	0	6,503	6,503
Capital projects	0	2	0	2
Total disbursements	<u>68,049</u>	<u>28,693</u>	<u>6,595</u>	<u>103,337</u>
Other financing sources (uses):				
Transfers from other funds	12,779	5,176	6,634	24,589
Transfers to other funds	(8,479)	(923)	(15,087)	(24,489)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	<u>4,300</u>	<u>4,253</u>	<u>(8,453)</u>	<u>100</u>
Deposit to/(use of) Community Projects Fund	<u>(25)</u>	<u>0</u>	<u>0</u>	<u>(25)</u>
Change in fund balance	<u>(15,563)</u>	<u>583</u>	<u>(51)</u>	<u>(15,031)</u>
Closing fund balance	<u>(15,563)</u>	<u>2,940</u>	<u>275</u>	<u>(12,348)</u>

Source: NYS DOB

**CASH FINANCIAL PLAN
ALL FUNDS
2010-2011
(millions of dollars)**

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	<u>2,302</u>	<u>2,400</u>	<u>(253)</u>	<u>410</u>	<u>4,859</u>
Receipts:					
Taxes	39,931	8,233	1,312	12,320	61,796
Miscellaneous receipts	2,897	15,177	4,150	790	23,014
Federal grants	60	46,925	2,451	50	49,486
Total receipts	<u>42,888</u>	<u>70,335</u>	<u>7,913</u>	<u>13,160</u>	<u>134,296</u>
Disbursements:					
Grants to local governments	37,508	58,884	1,292	0	97,684
State operations:					
Personal service	6,285	6,762	0	0	13,047
Non-personal service	1,740	4,307	0	92	6,139
General State charges	4,128	2,209	0	0	6,337
Debt service	0	0	0	5,516	5,516
Capital projects	0	2	7,162	0	7,164
Total disbursements	<u>49,661</u>	<u>72,164</u>	<u>8,454</u>	<u>5,608</u>	<u>135,887</u>
Other financing sources (uses):					
Transfers from other funds	11,788	7,273	1,361	7,050	27,472
Transfers to other funds	(5,932)	(5,506)	(1,429)	(14,624)	(27,491)
Bond and note proceeds	0	0	578	0	578
Net other financing sources (uses)	<u>5,856</u>	<u>1,767</u>	<u>510</u>	<u>(7,574)</u>	<u>559</u>
Change in fund balance	<u>(917)</u>	<u>(62)</u>	<u>(31)</u>	<u>(22)</u>	<u>(1,032)</u>
Closing fund balance	<u>1,385</u>	<u>2,338</u>	<u>(284)</u>	<u>388</u>	<u>3,827</u>

Source: NYS DOB

**CASH FINANCIAL PLAN
ALL FUNDS
2011-2012
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	n/ap	2,338	(284)	388	2,442
Receipts:					
Taxes	42,564	8,569	1,342	13,098	65,573
Miscellaneous receipts	2,859	15,177	4,384	809	23,229
Federal grants	60	42,483	2,307	54	44,904
Total receipts	<u>45,483</u>	<u>66,229</u>	<u>8,033</u>	<u>13,961</u>	<u>133,706</u>
Disbursements:					
Grants to local governments	45,557	55,293	1,463	0	102,313
State operations:					
Personal service	6,692	6,803	0	0	13,495
Non-personal service	1,909	4,084	0	92	6,085
General State charges	4,482	2,382	0	0	6,864
Debt service	0	0	0	6,035	6,035
Capital projects	0	2	7,452	0	7,454
Total disbursements	<u>58,640</u>	<u>68,564</u>	<u>8,915</u>	<u>6,127</u>	<u>142,246</u>
Other financing sources (uses):					
Transfers from other funds	12,324	7,788	1,823	6,734	28,669
Transfers to other funds	(7,392)	(5,227)	(1,471)	(14,584)	(28,674)
Bond and note proceeds	0	0	488	0	488
Net other financing sources	<u>4,932</u>	<u>2,561</u>	<u>840</u>	<u>(7,850)</u>	<u>483</u>
Deposit to/(use of) Reserves	<u>(48)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(48)</u>
Change in fund balance	<u>(8,177)</u>	<u>226</u>	<u>(42)</u>	<u>(16)</u>	<u>(8,009)</u>
Closing fund balance	<u>(8,177)</u>	<u>2,564</u>	<u>(326)</u>	<u>372</u>	<u>(5,567)</u>

Source: NYS DOB

**CASH FINANCIAL PLAN
ALL FUNDS
2012-2013
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	n/ap	2,564	(326)	372	2,610
Receipts:					
Taxes	43,064	8,926	1,353	13,321	66,664
Miscellaneous receipts	2,824	15,604	3,667	833	22,928
Federal grants	60	41,153	1,881	54	43,148
Total receipts	<u>45,948</u>	<u>65,683</u>	<u>6,901</u>	<u>14,208</u>	<u>132,740</u>
Disbursements:					
Grants to local governments	50,003	55,074	1,252	0	106,329
State operations:					
Personal service	6,891	6,847	0	0	13,738
Non-personal service	1,995	4,162	0	92	6,249
General State charges	4,687	2,658	0	0	7,345
Debt service	0	0	0	6,357	6,357
Capital projects	0	2	6,278	0	6,280
Total disbursements	<u>63,576</u>	<u>68,743</u>	<u>7,530</u>	<u>6,449</u>	<u>146,298</u>
Other financing sources (uses):					
Transfers from other funds	12,101	8,141	1,666	6,706	28,614
Transfers to other funds	(8,005)	(4,564)	(1,507)	(14,511)	(28,587)
Bond and note proceeds	0	0	425	0	425
Net other financing sources (uses)	<u>4,096</u>	<u>3,577</u>	<u>584</u>	<u>(7,805)</u>	<u>452</u>
Deposit to/(use of) Reserves	<u>(71)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(71)</u>
Change in fund balance	<u>(13,461)</u>	<u>517</u>	<u>(45)</u>	<u>(46)</u>	<u>(13,035)</u>
Closing fund balance	<u>(13,461)</u>	<u>3,081</u>	<u>(371)</u>	<u>326</u>	<u>(10,425)</u>

Source: NYS DOB

**CASH FINANCIAL PLAN
ALL FUNDS
2013-2014
(millions of dollars)**

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	n/ap	3,081	(371)	326	3,036
Receipts:					
Taxes	45,329	9,281	1,356	14,088	70,054
Miscellaneous receipts	2,772	15,878	3,450	855	22,955
Federal grants	60	42,827	1,864	54	44,805
Total receipts	<u>48,161</u>	<u>67,986</u>	<u>6,670</u>	<u>14,997</u>	<u>137,814</u>
Disbursements:					
Grants to local governments	53,950	57,467	1,226	0	112,643
State operations:					
Personal service	6,904	6,883	0	0	13,787
Non-personal service	2,115	4,174	0	92	6,381
General State charges	5,080	2,819	0	0	7,899
Debt service	0	0	0	6,503	6,503
Capital projects	0	2	5,981	0	5,983
Total disbursements	<u>68,049</u>	<u>71,345</u>	<u>7,207</u>	<u>6,595</u>	<u>153,196</u>
Other financing sources (uses):					
Transfers from other funds	12,779	8,430	1,741	6,634	29,584
Transfers to other funds	(8,479)	(4,426)	(1,552)	(15,087)	(29,544)
Bond and note proceeds	0	0	341	0	341
Net other financing sources (uses)	<u>4,300</u>	<u>4,004</u>	<u>530</u>	<u>(8,453)</u>	<u>381</u>
Deposit to/(use of) Community Projects Fund	<u>(25)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(25)</u>
Change in fund balance	<u>(15,563)</u>	<u>645</u>	<u>(7)</u>	<u>(51)</u>	<u>(14,976)</u>
Closing fund balance	<u>(15,563)</u>	<u>3,726</u>	<u>(378)</u>	<u>275</u>	<u>(11,940)</u>

Source: NYS DOB

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

	2009-2010 Year-End	2010-2011 Enacted	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT					
Agriculture and Markets, Department of	109,449	109,328	120,189	118,068	106,907
Alcoholic Beverage Control	17,012	19,892	20,776	20,294	20,911
Banking Department	87,166	87,865	87,211	89,047	89,647
Developmental Authority North	36	200	162	162	162
Consumer Protection Board	2,295	2,946	2,926	2,741	2,783
Economic Development Capital Programs	18,306	2,500	2,500	2,500	2,500
Economic Development, Department of	76,889	71,358	66,831	67,702	82,387
Energy Research and Development Authority	29,380	34,935	31,158	29,658	31,178
Insurance Department	657,937	463,437	481,233	486,080	486,080
Empire State Development Corporation	606,568	772,848	860,671	431,301	382,996
Olympic Regional Development Authority	7,966	5,064	5,274	5,274	5,401
Public Service, Department of	77,313	78,738	83,729	88,620	91,901
Racing and Wagering Board, State	22,575	21,833	22,044	23,007	23,453
Science, Technology and Innovation, Foundation for	29,083	31,376	29,181	26,796	23,356
Strategic Investment	8,827	10,000	4,000	5,000	5,000
Functional Total	1,750,802	1,712,320	1,817,885	1,396,250	1,354,662
PARKS AND THE ENVIRONMENT					
Adirondack Park Agency	5,292	5,470	5,019	5,021	5,021
Environmental Conservation, Department of	864,001	1,042,606	1,021,569	817,173	787,873
Environmental Facilities Corporation	10,025	9,370	9,552	9,736	9,736
Hudson River Park Trust	11,977	10,000	0	0	0
Parks, Recreation and Historic Preservation, Office of	305,485	240,442	227,951	229,618	229,594
Functional Total	1,196,780	1,307,888	1,264,091	1,061,548	1,032,224
TRANSPORTATION					
Motor Vehicles, Department of	320,230	336,621	347,882	360,754	367,603
Thruway Authority	1,403	1,800	1,800	1,800	1,800
Metropolitan Transportation Authority	184,681	217,100	194,500	183,600	183,600
Transportation, Department of	7,376,584	8,341,474	8,306,937	8,196,273	8,248,166
Functional Total	7,882,898	8,896,995	8,851,119	8,742,427	8,801,169
HEALTH					
Aging, Office for the	229,966	227,821	224,739	224,739	224,739
Health, Department of	42,156,549	43,728,010	47,352,064	49,027,667	52,109,920
Medical Assistance	37,025,209	38,091,219	41,341,155	43,229,713	46,375,013
Medical Administration	939,296	1,102,500	1,147,500	1,193,500	1,193,500
Public Health	4,192,044	4,534,291	4,863,409	4,604,454	4,541,407
Health - Medicaid Assistance	0	0	0	0	0
Medicaid Inspector General, Office of	64,868	76,563	91,660	93,500	94,430
Stem Cell and Innovation	17,676	52,616	73,071	123,149	63,673
Functional Total	42,469,059	44,085,010	47,741,534	49,469,055	52,492,762
SOCIAL WELFARE					
Children and Family Services, Office of	3,189,020	3,431,576	3,497,590	3,728,859	3,952,980
OCFS	3,139,542	3,298,033	3,364,133	3,591,504	3,811,720
OCFS - Medicaid	49,478	133,543	133,457	137,355	141,260
Human Rights, Division of	20,300	19,690	20,684	20,664	20,949
Labor, Department of	728,721	703,650	606,814	603,128	595,107
Housing and Community Renewal, Division of	417,003	464,833	405,261	275,451	292,533
National Commission Services	16,862	16,016	14,627	14,629	14,715
Prevention of Domestic Violence, Office for	2,167	2,076	2,088	2,109	2,109

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

	2009-2010 Year-End	2010-2011 Enacted	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected
Temporary and Disability Assistance, Office of <i>Welfare Assistance</i>	5,275,993	5,114,199	5,224,158	5,242,687	5,284,441
<i>Welfare Administration</i>	3,857,439	3,702,854	3,820,732	3,821,396	3,859,652
<i>All Other</i>	51,263	0	0	0	0
Welfare Inspector General, Office of	1,367,291	1,411,345	1,403,426	1,421,291	1,424,789
Workers' Compensation Board	727	1,432	1,456	1,472	1,492
Functional Total	190,135	209,333	204,137	212,073	218,844
	9,840,928	9,962,805	9,976,189	10,101,072	10,383,170
MENTAL HYGIENE					
Mental Health, Office of	3,121,486	3,432,824	3,720,387	3,952,381	4,128,403
<i>OM/H</i>	1,423,971	1,582,848	1,736,557	1,859,680	1,958,324
<i>OM/H - Medicaid</i>	1,697,515	1,849,976	1,983,830	2,092,701	2,170,079
Mental Hygiene, Department of	175	0	0	0	0
People with Developmental Disabilities, Office for <i>OPWDD</i>	4,397,581	4,504,769	4,720,747	4,960,595	5,172,871
	522,032	580,445	596,821	620,162	642,162
<i>OPWDD - Medicaid</i>	3,875,549	3,924,324	4,123,926	4,340,433	4,530,709
Alcoholism and Substance Abuse Services, Office of	550,090	595,301	733,836	775,610	790,368
<i>OASAS</i>	456,695	486,237	619,472	657,321	669,322
<i>OASAS - Medicaid</i>	93,395	109,064	114,364	118,289	121,046
Developmental Disabilities Planning Council	3,397	4,200	4,200	4,200	4,200
Quality of Care for the Mentally Disabled, Commission on	15,508	15,784	17,780	18,158	18,631
Functional Total	8,088,237	8,552,878	9,196,950	9,710,944	10,114,473
PUBLIC PROTECTION/CRIMINAL JUSTICE					
Capital Defenders Office	21	0	0	0	0
Correction, Commission of	2,628	2,893	2,932	2,984	3,016
Correctional Services, Department of	2,909,312	2,758,247	2,849,122	2,911,887	2,953,670
Criminal Justice Services, Division of	241,767	356,401	325,892	308,669	309,359
Office of Victim Services	67,342	67,830	65,394	65,749	65,935
Statewide Financial System	0	31,930	41,359	50,943	51,043
Homeland Security and Emergency Services	296,589	325,709	610,532	617,974	580,503
Homeland Security	800	35,298	32,733	30,225	30,227
Office of Indigent Legal Services	0	75,000	80,000	80,000	80,000
Investigation, Temporary State Commission of	395	0	0	0	0
Judicial Commissions	5,145	5,492	5,595	5,669	5,749
Military and Naval Affairs, Division of	276,622	213,125	180,463	181,311	180,068
Parole, Division of	188,383	183,169	185,275	189,268	191,813
Probation and Correctional Alternatives, Division of	74,852	0	0	0	1,468
State Emergency Management Office	0	0	0	0	0
State Police, Division of	776,340	736,584	741,685	718,691	718,523
Wireless Network	6,672	1,586	1,586	1,586	1,586
Functional Total	4,846,868	4,793,264	5,122,568	5,164,956	5,172,960

CASH DISBURSEMENTS BY FUNCTION
ALL FUNDS
(thousands of dollars)

	2009-2010 Year-End	2010-2011 Enacted	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected
HIGHER EDUCATION					
City University of New York	1,655,773	1,397,211	1,470,906	1,564,361	1,654,997
Higher Education Services Corporation	1,022,235	980,520	965,861	993,866	995,691
Higher Education Capital Grants	37,320	28,000	48,000	29,000	0
Higher Education Miscellaneous	378	355	355	355	355
State University Construction Fund	18,595	25,678	26,388	27,830	28,906
State University of New York	6,989,582	7,295,555	7,261,632	7,301,717	7,380,758
Functional Total	9,723,883	9,727,319	9,773,142	9,917,129	10,060,707
LOWER EDUCATION (Pre-K through 12)					
Arts, Council on the	43,436	45,356	40,869	40,925	40,982
Education, Department of	27,725,560	33,001,293	32,969,960	34,559,952	37,184,929
<i>School Aid</i>	21,484,784	26,151,747	26,200,210	27,770,970	30,096,450
<i>School Aid - Medicaid Assistance</i>	63,757	125,820	0	0	0
<i>STAR Property Tax Relief</i>	3,413,542	3,299,570	3,417,620	3,584,167	3,772,475
<i>Special Education Categorical Programs</i>	1,680,004	2,309,388	2,287,745	2,139,936	2,244,916
<i>All Other</i>	1,083,473	1,114,768	1,064,385	1,064,879	1,071,088
Functional Total	27,768,996	33,046,649	33,010,829	34,600,877	37,225,911
GENERAL GOVERNMENT					
Budget, Division of the	40,775	42,502	44,117	45,191	46,121
Civil Service, Department of	21,384	19,164	19,426	19,697	19,989
Deferred Compensation	673	792	820	854	885
Elections, State Board of	50,405	104,148	6,197	36,339	6,464
Employee Relations, Office of	3,204	3,350	3,388	3,427	3,473
Financial Plan Control Board	2,630	3,190	3,392	3,595	3,727
General Services, Office of	197,766	204,400	207,765	221,400	224,166
Inspector General, Office of	6,079	6,178	6,341	6,426	6,513
Labor Management Committee	33,609	59,433	67,826	26,018	26,018
Lottery, Division of	185,777	176,892	180,969	181,459	185,723
Public Employment Relations Board	3,785	4,252	4,020	4,068	4,129
Public Integrity, Commission on	4,209	4,312	4,721	4,901	4,978
Real Property Services, Office of	42,806	0	0	0	0
Regulatory Reform, Governor's Office of	2,449	2,276	2,276	2,276	2,276
State, Department of	176,349	208,567	136,246	138,728	138,703
Tax Appeals, Division of	3,458	3,108	3,108	3,108	3,146
Taxation and Finance, Department of	417,898	477,182	477,991	480,947	487,713
Technology, Office for	23,549	70,166	57,857	85,076	44,599
Lobbying, Temporary State Commission on	0	0	0	0	0
Veterans' Affairs, Division of	16,072	17,487	17,188	17,198	17,331
Functional Total	1,232,877	1,407,399	1,243,648	1,280,708	1,225,954

CASH DISBURSEMENTS BY FUNCTION
ALL FUNDS
(thousands of dollars)

	2009-2010 Year-End	2010-2011 Enacted	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected
ELECTED OFFICIALS					
Legislature	226,089	220,995	225,396	229,885	234,463
Judiciary	2,520,040	2,625,898	2,975,609	2,976,572	2,960,414
Audit and Control, Department of	242,702	182,135	185,420	189,979	192,289
Law, Department of	220,152	213,642	220,407	224,931	228,404
Executive Chamber	17,056	17,328	17,952	18,229	18,487
Lieutenant Governor, Office of the	0	658	1,193	1,208	1,208
Functional Total	3,226,039	3,260,656	3,625,977	3,640,804	3,635,265
LOCAL GOVERNMENT ASSISTANCE					
Aid and Incentives for Municipalities	1,039,488	751,538	1,027,357	1,037,229	1,044,566
Efficiency Incentive Grants Program	3,293	7,450	7,450	7,511	0
Miscellaneous Financial Assistance	8,920	3,920	3,920	3,920	3,920
Municipalities with VLT Facilities	26,489	25,801	25,801	25,801	25,801
Small Government Assistance	2,089	2,088	2,088	2,088	2,088
Functional Total	1,080,279	790,797	1,066,616	1,076,549	1,076,375
ALL OTHER CATEGORIES					
Long-Term Debt Service	5,012,102	5,607,388	6,127,092	6,448,886	6,595,358
Capital Projects	0	0	0	0	0
General State Charges	2,920,603	3,381,165	3,687,552	3,908,098	4,301,333
Miscellaneous	(162,872)	(642,815)	(258,161)	(222,965)	(278,170)
Functional Total	7,769,833	8,345,738	9,556,483	10,134,019	10,618,521
TOTAL ALL FUNDS SPENDING	126,877,479	135,889,718	142,247,031	146,296,338	153,194,153

GSC: Agency disbursements include grants to local governments, state operations and general state charges, which is a departure from prior Financial plan publications. In prior reports, general state charges were excluded from agency spending totals.

Source: NYS DOB

GAAP-Basis Financial Plans/GASB Statement 45

The State Budget is required to be balanced on a cash basis, which is DOB's primary focus in preparing and implementing the State Financial Plan. State Finance Law also requires the Financial Plan be presented for informational purposes on a GAAP basis. The GAAP-basis plans model, to the extent practicable, the accounting principles applied by OSC in preparation of the annual Financial Statements. Tables comparing the cash basis and GAAP basis General Fund Financial Plans are provided at the end of this Financial Plan.

In 2009-10, the General Fund GAAP Financial Plan shows total revenues of \$44.9 billion, total expenditures of \$54.1 billion, and net other financing sources of \$8.7 billion, resulting in an operating deficit of \$594 million and an accumulated deficit of \$3.5 billion. These results are due primarily to the cash deficit and the impact of economic conditions on revenue accruals, primarily PIT.

In 2010-11, the General Fund GAAP Financial Plan shows total revenues of \$46.9 billion, total expenditures of \$55.4 billion, and net other financing sources of \$9.3 billion, resulting in an operating surplus of \$774 million, which reduces the projected accumulated deficit to \$2.8 billion. These results reflect the impact of the Enacted Budget gap-closing actions, and the carry-forward of the cash deficit into 2010-11.

The State has used an independent actuarial consulting firm to calculate retiree health care liabilities. The analysis calculated the present value of the actuarial accrued total liability for benefits as of March 31, 2010 at \$55.9 billion (\$46.3 billion for the State and \$9.6 billion for SUNY), using the level percentage of projected payroll approach under the Frozen Entry Age actuarial cost method.

GASB rules indicate this liability may be amortized over a 30-year period; therefore, only the annual amortized liability above the current PAYGO costs is recognized in the financial statements. The 2009-10 liability totaled \$3.3 billion (\$2.7 billion for the State and \$0.6 billion for SUNY) under the Frozen Entry Age actuarial cost method, amortized based on a level percent of salary. This was \$2.1 billion (\$1.7 billion for the State and \$0.4 billion for SUNY) above the payments for retiree costs made by the State in 2009-10. This difference between the State's PAYGO costs and the actuarially determined required annual contribution under GASBS 45 reduced the State's currently positive net asset condition at the end of 2009-10 by \$2.1 billion.

GASB does not require the additional costs to be funded on the State's budgetary basis, and no funding is assumed for this purpose in the Financial Plan. On a budgetary (cash) basis, the State continues to finance these costs, along with all other employee health care expenses, on a PAYGO basis. The table below summarizes the actual and budgeted payments for health insurance in the Updated Financial Plan.

FORECAST OF NEW YORK STATE EMPLOYEE HEALTH INSURANCE COSTS (millions of dollars)			
Year	Health Insurance		
	Active Employees	Retirees	Total State
2007-08 (Actual)	1,390	1,182	2,572
2008-09 (Actual)	1,639	1,068	2,707
2009-10 (Actual)	1,542	1,139	2,681
2010-11 (Projected)	1,826	1,195	3,021
2011-12 (Projected)	1,992	1,322	3,314
2012-13 (Projected)	2,171	1,422	3,593
2013-14 (Projected)	2,119	1,536	3,655

As noted, there is no provision in the current Financial Plan to pre-fund the GASBS 45 liability. If such liability were pre-funded at this time, the additional cost above the PAYGO amounts would be lowered. The State's Health Insurance Council, which consists of GOER, Civil Service, and DOB, will continue to review this matter and seek input from the State Comptroller, the legislative fiscal committees and other outside parties. However, it is not expected that the State will alter its planned funding practices in light of existing fiscal conditions.

Special Considerations

Complex political, social, environmental and economic forces influence the State's economy and finances, many of which are outside the ability of the State to control. These include, but are not limited to, the performance of the national and State economies; the impact of continuing write-downs and other costs affecting the profitability of the financial services sector, and the concomitant effect on bonus income and capital gains realizations; access to the capital markets in light of the disruption in the municipal bond market; litigation against the State, including challenges to certain tax actions and other actions authorized in the Enacted Budget; and actions taken by the Federal government, including audits, disallowances, and changes in aid levels. Such forces may affect the State Financial Plan unpredictably from fiscal year to fiscal year.

For example, the State Financial Plan is based upon forecasts of national and State economic activity developed through both internal analysis and review of national and State economic forecasts prepared by commercial forecasting services and other public and private forecasters. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and the State economies. Many uncertainties exist in forecasts of both the national and State economies, including consumer attitudes toward spending, the extent of corporate and governmental restructuring, the condition of the financial sector, federal fiscal and monetary policies, the level of interest rates, and the condition of the world economy, which could have an adverse effect on the State. There can be no assurance that the State economy will not experience results in the current fiscal year that are materially worse than predicted, with corresponding material and adverse effects on the State's projections of receipts and disbursements. For more information, see the section entitled "Economics and Demographics" in this AIS.

Projections of total State receipts in the Financial Plan are based on the State tax structure in effect during the fiscal year and on assumptions relating to basic economic factors and their historical relationships to State tax receipts. In preparing projections of State receipts, economic forecasts relating to personal income, wages, consumption, profits and employment have been particularly important. The projections of receipts from most tax or revenue sources is generally made by estimating the change in yield of such tax or revenue source from its estimated tax base.

Projections of total State disbursements are based on assumptions relating to economic and demographic factors, levels of disbursements for various services provided by local governments (where the cost is partially reimbursed by the State), and the results of various administrative and statutory mechanisms in controlling disbursements for State operations. Factors that may affect the level of disbursements in the fiscal year include uncertainties relating to the economy of the nation and the State, the policies of the federal government, and changes in the demand for the use of State services.

An additional risk to the State Financial Plan arises from the potential impact of certain litigation and of federal disallowances now pending against the State, which could adversely affect the State's projections of receipts and disbursements. The State Financial Plan assumes no significant litigation or

Federal disallowances or other federal actions that could affect State finances. For more information on litigation pending against the State, see the section entitled "Litigation and Arbitration" in this AIS.

DOB believes that its projections of receipts and disbursements relating to the Updated Financial Plan, and the assumptions on which they are based, are reasonable. Actual results, however, could differ materially and adversely from the projections set forth in this AIS. In the past, the State has taken management actions to address potential Financial Plan shortfalls, and DOB believes it could take similar actions should variances occur in its projections for the current fiscal year.

Actions affecting the level of receipts and disbursements, the relative strength of the State and regional economy, and actions by the Federal government have helped to create projected structural budget gaps for the State. These gaps result in a significant disparity between recurring revenues and the costs of maintaining or increasing the level of support for State programs. To address a potential imbalance in any given fiscal year, the State would be required to take actions to increase receipts and/or reduce disbursements as it enacts the budget for that year, and, under the State Constitution, the Governor is required to propose a balanced budget each year. There can be no assurance however, that the Legislature will enact the Governor's proposals or that the State's actions will be sufficient to preserve budgetary balance in a given fiscal year or to align recurring receipts and disbursements in future fiscal years.

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

State Cash Flow Projections

State Finance Law authorizes the General Fund to borrow resources temporarily from other available funds in the State's STIP for a period not to exceed four months or to the end of the fiscal year, whichever occurs first. The amount of resources that can be borrowed by the General Fund is limited to the available balances in STIP, as determined by the State Comptroller (available balances include money in the State's governmental funds, as well as certain other money).

Through the first four months of 2010-11, the General Fund used this authorization to meet payment obligations in May, June and July. It is expected that the General Fund will rely on this borrowing authority at times during the remainder of the fiscal year.

To date, the State has taken actions to maintain adequate operating margins, and expects to continue to do so as events warrant. The State continues to reserve money to make the debt service payments scheduled for each upcoming quarter that are financed with General Fund resources. Money to pay debt service on bonds secured by dedicated receipts, including PIT bonds, continues to be set aside as required by law and bond covenants.

With cash management actions, the General Fund ended June 2010 with a negative balance of \$87 million. The funds on hand in All Governmental Funds at the end of the month totaled \$3.6 billion. The actual and projected month-end balances for 2010-11 are shown in the table below. The cash-flow projections for receipts and disbursements take into account statutory payment dates, historical receipts and disbursement patterns, and other information. DOB believes the projections are based on reasonable and prudent assumptions, and the State's current cash position is sufficient to meet current liquidity needs. Cash balances are expected to continue to be relatively low, especially in September, November, and December 2010. It is expected that the General Fund on certain days will continue to borrow from STIP. DOB will continue to closely monitor and manage the General Fund cash flow during the fiscal year in an effort to maintain adequate operating balances.

ACTUAL/PROJECTED MONTHLY CASH FLOW BALANCES			
FISCAL YEAR 2010-11			
(millions of dollars)			
	General Fund	Other Funds	All Funds
April*	4,274	3,048	7,322
May*	1,648	3,767	5,415
June *	(87)	3,719	3,632
July*	590	4,354	4,944
August	(28)	4,949	4,921
September	2,476	2,209	4,685
October	1,888	3,015	4,903
November	1,442	3,359	4,801
December	1,197	1,792	2,989
January	6,220	2,886	9,106
February	6,851	3,352	10,203
March	1,385	2,442	3,827

*Actual

Federal Funding

In enacting the budget, the State faced the risk that the Federal government would not approve an extension of enhanced FMAP funding, as counted on in the Financial Plan. Accordingly, it enacted a statute that provided for automatic reductions to most local assistance payments to cover any difference between the \$1.1 billion in savings counted on in the Financial Plan from enhanced FMAP and the actual amount, if any, approved by the Federal government. After enactment of the statute, the Federal government approved an extension of enhanced FMAP, but at a level less than assumed in the Financial Plan. Accordingly, the payment reductions to local assistance spending will take effect, as provided by law.

The Financial Plan may be adversely affected by actions taken by the Federal government, including audits, disallowances, changes in aid levels, and changes to Medicaid rules. For example, all Medicaid claims are subject to audit and review by the Federal government. Most recently, the Federal CMS requested additional information pertaining to claims for services provided to individuals in developmental centers operated by the Office for People with Developmental Disabilities. Among other information, CMS requested that the State provide a detailed description of how these daily rates are developed as well as the current upper payment limit demonstration. Although no official audit has commenced and the State believes that the rates paid for these services are done in accordance with the approved state plan and all applicable Federal regulations, any adverse action by CMS relative to these claims could jeopardize a significant amount of Federal Medicaid participation in this program.

Labor Settlements

An additional risk is the cost of potential collective bargaining agreements and salary increases for judges (and possibly other elected officials) that may occur in 2010-11 and beyond for the period covering 2007-08 through 2010-11. The Financial Plan includes the costs of a pattern settlement for all unsettled unions, the largest of which represents costs for fiscal years 2009-10 and 2010-11 for NYSCOPBA. There can be no assurance that actual settlements will not exceed the amounts included in the Financial Plan. Furthermore, the current round of collective bargaining agreements expires at the end of 2010-11. The Financial Plan does not include any costs for potential wage increases beyond that point.

Personal Care Audits

The OIG of the United States Department of Health and Human Services released a June 2009 final audit with regard to Medicaid reimbursement for personal care services in New York City, and released a March 2010 draft audit with regard to Medicaid reimbursement for personal care services in upstate New York. The audits reviewed claims for the period of July 1, 2004 through December 31, 2006. Based upon its review, the OIG is calling for the State to repay an estimated \$395 million in Federal Medicaid because payments were not supported with required medical exams and social and nursing assessments. The New York State Department of Health responded to audit findings on October 8, 2009 challenging the audit findings and the appropriateness of recouping Federal funding. The State's 2010-11 Enacted Budget also included a provision to mitigate the potential financial impact on the State by requiring local governments to contribute towards any repayment of such audits.

Other Financial Plan Risks

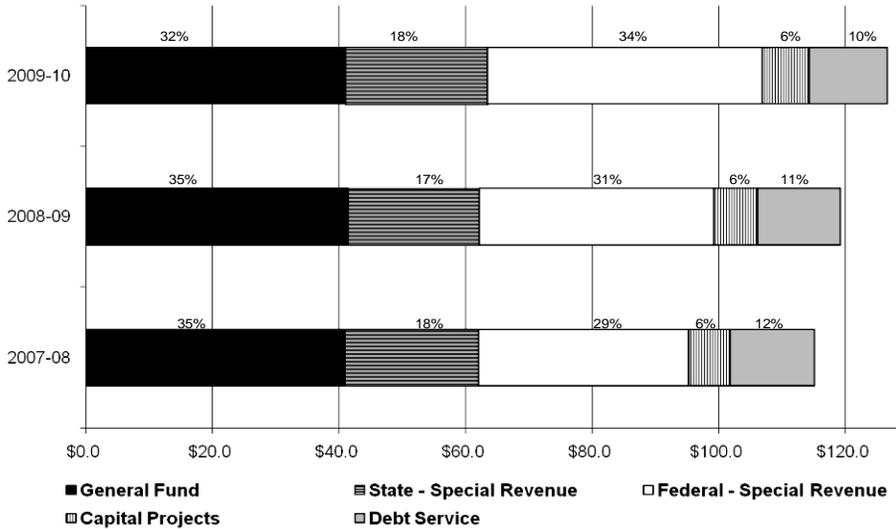
The Updated Financial Plan forecast also contains specific transaction risks and other uncertainties including, but not limited to, the receipt of certain payments from public authorities; the receipt of miscellaneous revenues at the levels expected in the Financial Plan; and the achievement of cost-saving measures including, but not limited to, administrative savings in State agencies, including workforce management initiatives, and the transfer of available fund balances to the General Fund at the levels currently projected. Such risks and uncertainties, if they were to materialize, could have an adverse impact on the Updated Financial Plan.

Finally, there can be no assurance that (1) receipts will not fall below current projections, requiring additional budget-balancing actions in the current year, and (2) the gaps projected for future years will not increase materially from the projections set forth in this AIS.

Prior Fiscal Years

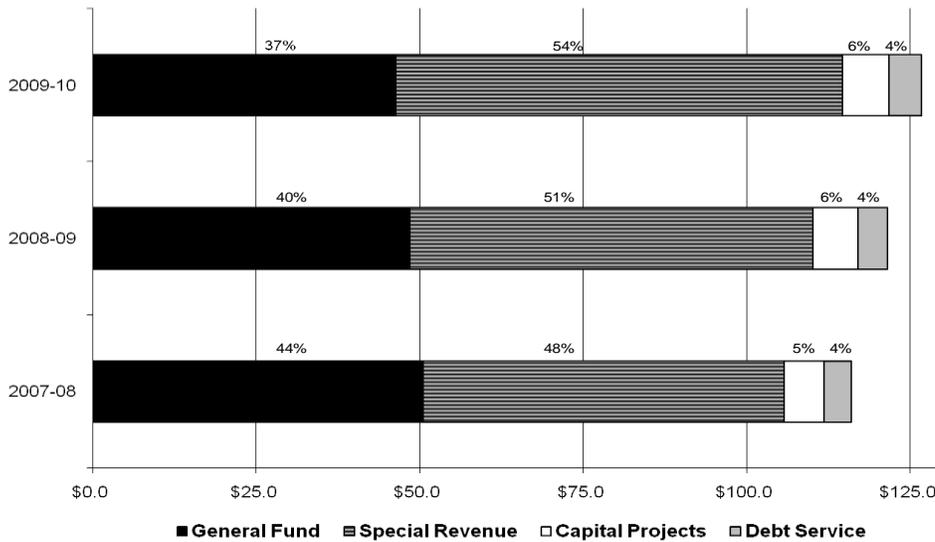
The following four tables show the composition of the State's governmental funds and its General Fund as of March 31, 2010. Following the tables is a summary of the cash-basis results for the State's three most recent fiscal years.

Governmental Funds Receipts
State Fiscal Years 2007-08, 2008-09 and 2009-10
 (billions of dollars)



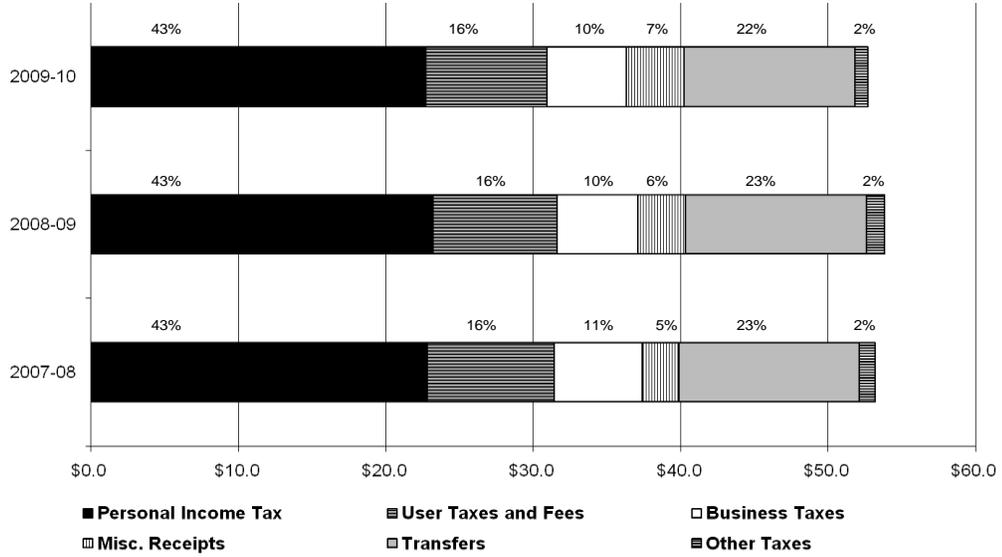
Note: Percentage total may not add due to rounding.

Governmental Funds Disbursements
State Fiscal Years 2007-08, 2008-09 and 2009-10
 (billions of dollars)



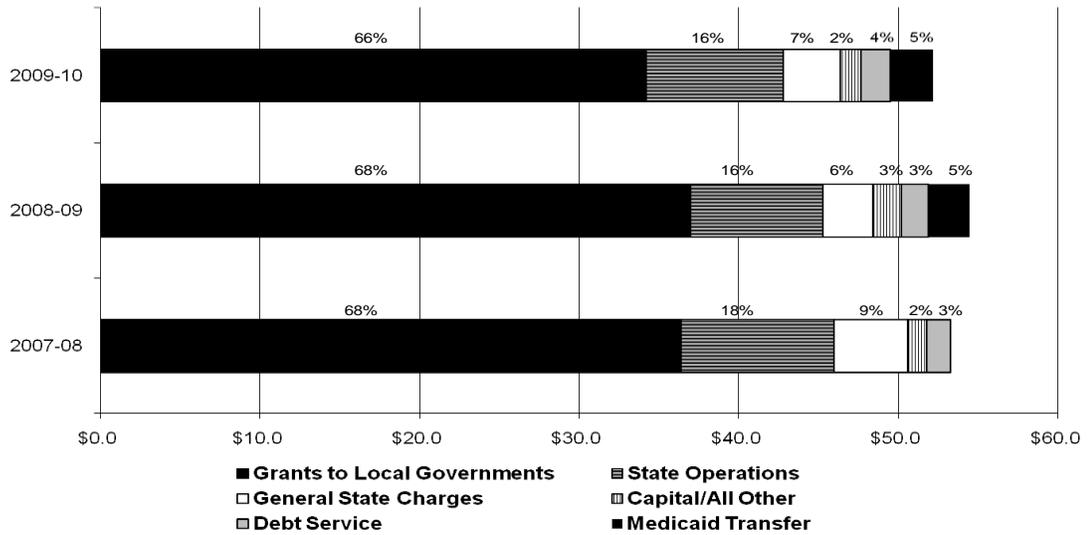
Note: Percentage total may not add due to rounding.

General Fund Receipts and Transfers by Source
State Fiscal Years 2007-08, 2008-09 and 2009-10
 (billions of dollars)



Note: Percentage total may not add due to rounding.

General Fund Disbursements and Transfers by Type
State Fiscal Years 2007-08, 2008-09, and 2009-10
 (billions of dollars)



Note: Percentage total may not add due to rounding.

Cash-Basis Results for Prior Fiscal Years

The State reports its financial results on two bases of accounting: the cash basis, showing receipts and disbursements; and the modified accrual basis, prescribed by the Generally Accepted Accounting Principles ("GAAP"), showing revenues and expenditures. With the exception of 2009-10 results, the State's financial results set forth in this section have been audited.

General Fund 2007-08 through 2009-10

The General Fund is the principal operating fund of the State and is used to account for all financial transactions, except those required by law to be accounted for in another fund. It is the State's largest single fund and receives most State taxes and other resources not dedicated to particular purposes. General Fund moneys are also transferred to other funds, primarily to support certain State share Medicaid payments, capital projects and debt service payments in other fund types. In some cases, the fiscal year results provided below may exclude certain timing-related transactions which have no net impact on operations.

In the cash-basis of accounting, the State defines a balanced budget in the General Fund as (a) the ability to make all planned payments anticipated in the Financial Plan, including tax refunds, without the issuance of deficit bonds or notes or extraordinary cash management actions, (b) the restoration of the balances in the tax stabilization reserve and rainy day reserve (together, the "rainy day reserves") to a level equal to or greater than the level at the start of the fiscal year, and (c) maintenance of other designated balances, as provided by law.

Recent Trends

The economic downturn has had a severe impact on State finances. Actual receipts have fallen consistently below projected levels, fixed costs for debt service and fringe benefits have risen steadily, and demand for State services has grown. Over the last two years, the State has been required to take extraordinary actions to maintain balanced operations and sufficient liquidity, including enacting mid-year reductions to programs, instituting several rounds of agency spending reductions and deferring payments to local aid recipients and taxpayers. To avoid using its rainy day reserves, which are relied on during the fiscal year to provide liquidity, the State has managed the timing of payments across fiscal years, including deferring payments not yet legally due from one fiscal year to the next fiscal year.

2009-10 Fiscal Year

Receipts during the fiscal year fell substantially below projections. General Fund receipts, including transfers from other funds, totaled \$52.6 billion, or \$1.78 billion lower than the State's initial projections for 2009-10. General Fund disbursements, including transfers to other funds, totaled \$52.2 billion, a decrease of \$2.71 billion from initial projections. However, actual disbursements were affected by \$2.1 billion in payment deferrals (described below) taken by the State to end the fiscal year without the use of its rainy day reserves and other designated balances. Without the deferrals, disbursements for the fiscal year would have been approximately \$665 million below initial projections.

In the final quarter of the fiscal year, in order to avoid depleting its reserves, the State deferred a planned payment to school districts (\$2.1 billion), which reduced spending from planned levels, and certain tax refunds, which increased available receipts from planned levels (\$500 million). Both the school aid payment and the tax refunds were scheduled to be paid in 2009-10 but, by statute, were not due until June 1, 2010. The combined value of the deferrals had the effect of increasing the closing balance in the General Fund for 2009-10 to \$2.3 billion, or approximately \$900 million above the level required to

restore the rainy day reserves and other balances to their anticipated levels. The higher closing balance was due exclusively to the cash management actions described above and did not represent an improvement in the State's financial operations. In early April 2010, the State paid the \$500 million in tax refunds that had been deferred from 2009-10 to 2010-11. On June 1, 2010, the State paid the \$2.1 billion in school aid deferred from 2009-10.

General Fund receipts, including transfers from other funds were \$1.2 billion below 2008-09 results. Tax receipts decreased by \$1.2 billion and transfers decreased by \$750 million, partly offset by increased miscellaneous receipts of \$744 million. The \$1.2 billion annual decline in tax receipts included a \$541 million decline in personal income taxes and a \$302 million decline in sales and use tax receipts.

General Fund disbursements, including transfers to other funds, were \$2.4 billion below 2008-09 results. The annual decline reflects the deferral of \$2.1 billion in school aid, the impact of mid-year spending reductions, and the use of Federal American Recovery and Reinvestment Act of 2009 ("ARRA") funds in place of General Fund spending.

The General Fund closing balance consisted of \$1.2 billion in the State's rainy day reserves, \$21 million in the contingency reserve fund (to guard against litigation risks), \$96 million in the Community Projects Fund, and \$978 million in the Refund Reserve Account, of which approximately \$900 million was attributable to the deferrals described above.

2008-09 Fiscal Year

General Fund receipts, including transfers from other funds and the impact of the tax refund reserve transaction, totaled \$53.8 billion in 2008-09, an increase of \$705 million from 2007-08 results. While tax receipts decreased by \$93 million, miscellaneous receipts increased by \$621 million and transfers increased by \$178 million. The decline in tax receipts was primarily attributable to a decline in business taxes. General Fund spending, including transfers to other funds, totaled \$54.6 billion in 2008-09, an increase of \$1.2 billion from 2007-08. The main source of annual growth was School Aid.

Similar to 2009-10, receipts fell substantially below projected levels. General Fund receipts, including transfers from other funds, were \$1.84 billion lower than the State's initial projections for 2008-09. Disbursements for the year, including transfers to other funds, finished at \$1.75 billion lower than initially expected. This resulted in \$83 million less available in cash reserves than was planned when the budget was enacted.

The General Fund ended the 2008-09 fiscal year with a balance of \$1.9 billion, which included the dedicated balance of \$1.2 billion in the State's rainy day reserves, \$21 million in the contingency reserve fund, \$145 million in the Community Projects Fund, and \$577 million in general reserves, part of which the Division of the Budget ("DOB") used for payments initially planned for 2008-09 that were delayed until 2009-10. The year-end balance was substantially improved by the receipt of \$1.3 billion in unplanned General Fund relief from the temporary increase in the Federal matching rate for Medicaid expenditures under ARRA.

2007-08 Fiscal Year

General Fund receipts, including transfers from other funds and the impact of the tax refund reserve transaction, totaled \$53.1 billion in 2007-08, an increase of \$1.7 billion from 2006-07 results. While tax receipts decreased by \$273 million, transfers increased by \$1.9 billion and miscellaneous receipts increased by \$191 million. The decline in tax receipts was primarily attributable to a decline in business

taxes and in personal income taxes. General Fund spending, including transfers to other funds, totaled \$53.4 billion in 2007-08, an increase of \$1.8 billion from 2006-07. The main sources of annual growth were School Aid, Children and Family Services, and public assistance.

Receipts in 2007-08 were \$578 million lower than the State's initial projections while disbursements for the year finished at \$299 million lower than expectations. The result was a \$279 million decrease in cash reserves. The reserves were used to finance the costs of labor settlements (\$138 million), debt management actions, including defeasing certain auction rate bonds (\$128 million), and to finance discretionary grants from the Community Projects Fund (\$13 million).

The General Fund ended the 2007-08 fiscal year with a balance of \$2.8 billion, which included dedicated balances of \$1.2 billion in the State's rainy day reserve funds that can only be used for unforeseen mid-year shortfalls (after a \$175 million deposit to the Rainy Day Reserve Fund at the close of 2007-08), the Contingency Reserve Fund (\$21 million), the Community Projects Fund (\$340 million) and \$1.2 billion in general reserves.

State Operating Funds 2007-08 through 2009-10

State Operating Funds is comprised of the General Fund, State Special Revenue Funds (as defined by DOB), and debt service funds. The State Operating Funds perspective is primarily intended as a measure of State-financed spending.

Recent Trends

Since 2007-08, State Operating Funds spending has been nearly level, declining by approximately \$130 million over the three-year period. The spending levels in State Operating Funds have been substantially affected by Federal ARRA funds and the deferral of payments in 2009-10 (see above). ARRA funding has temporarily reduced the State's share of expenses for Medicaid, education, and other governmental services. This has temporarily lowered State Operating Funds spending in 2008-09 and 2009-10, and resulted in a corresponding increase in spending from Federal funds (see the discussion of All Funds below). In addition, payment deferrals in 2009-10 also resulted in a temporary reduction in State Operating Funds spending. Together, ARRA funding and payment deferrals reduced 2009-10 State Operating Funds spending by approximately \$6.3 billion.

2009-10 Fiscal Year

State Operating Funds receipts totaled \$75.8 billion in 2009-10, an increase of \$611 million over the 2008-09 results. Disbursements totaled \$76.9 billion in 2009-10, a decrease of \$1.3 billion from the 2008-09 results. The State ended the 2009-10 fiscal year with a State Operating Funds cash balance of \$4.7 billion. In addition to the \$2.3 billion General Fund balance described above, the State's special revenue funds had a closing balance of approximately \$2.0 billion and the debt service funds had a closing balance of \$411 million. The fund balance in the special revenue funds largely reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). A large fund balance is dedicated to finance the operations and activities of the State University of New York ("SUNY") campuses and hospitals (\$774 million). The remaining special revenue fund balances are held in numerous funds and accounts that support a variety of programs including industry regulation, public health, and public safety. The fund balance in the debt service funds reflects the timing of bond sales.

2008-09 Fiscal Year

State Operating Funds receipts totaled \$75.2 billion in 2008-09, a decrease of \$371 million from the 2007-08 results. Disbursements totaled \$78.2 billion, an increase of \$1.2 billion from the 2007-08 results. School aid was the largest source of annual program growth.

The State ended 2008-09 with a State Operating Funds cash balance of \$4.7 billion. In addition to the \$1.9 billion General Fund balance described above, the State's special revenue funds had a closing balance of \$2.5 billion and the debt service funds had a closing balance of \$298 million. The fund balance in the special revenue funds largely reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). The largest fund balances are dedicated to finance the operations and activities of SUNY campuses and hospitals (\$742 million) and ongoing Health Care Reform Act ("HCRA") programs (\$240 million). The remaining special revenue fund balances are held in numerous funds and accounts that support a variety of programs including industry regulation, public health, and public safety. The fund balance in the debt service funds reflects the timing of bond sales.

2007-08 Fiscal Year

State Operating Funds receipts totaled \$75.6 billion in 2007-08, an increase of \$3.0 billion from the 2006-07 results. In addition to the growth in General Fund receipts described above, tax receipts to other State Operating Funds also increased. Disbursements totaled \$77.0 billion, an increase of \$3.5 billion from the 2006-07 results. School Aid, School Tax Relief ("STAR"), and transportation aid were the main sources of annual program growth.

The State ended the 2007-08 fiscal year with a State Operating Funds cash balance of \$6.6 billion. In addition to the \$2.8 billion General Fund balance described above, the State's special revenue funds had a closing balance of \$3.5 billion and the debt service funds had a closing balance of \$286 million. The fund balance in the special revenue funds largely reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). The largest fund balances are dedicated to finance the operations and activities of SUNY campuses and hospitals (\$838 million) and ongoing HCRA programs (\$597 million). The remaining special revenue fund balances are held in numerous funds and accounts that support a variety of programs including industry regulation, public health, and public safety. The fund balance in the debt service funds reflects the timing of bond sales.

All Funds 2007-08 through 2009-10

The All Funds Financial Plan records the operations of the four governmental fund types: the General Fund, Special Revenue Funds, Capital Project Funds, and Debt Service Funds. It is the broadest measure of State governmental activity, and includes spending from Federal Funds and Capital Projects Funds.

Recent Trends

The All Funds Financial Plan has grown faster than State Operating funds in recent years. Since 2007-08, All Funds spending has increased by \$10.8 billion. The growth includes nearly \$2.3 billion in ARRA "pass-through" spending, which is Federal stimulus money that is accounted for in the State's fund structure but does not provide a direct fiscal benefit to the State (i.e., resources to help balance the General Fund budget).

2009-10 Fiscal Year

All Funds receipts for 2009-10 totaled \$126.7 billion, an increase of \$7.5 billion over 2008-09 results. Annual growth in Federal grants and miscellaneous receipts was partially offset by a decline in tax receipts. All Funds disbursements for 2009-10 totaled \$126.9 billion, an increase of \$5.3 billion over 2008-09 results. The annual change reflects growth due to ARRA "pass-through" and growth in School Aid, Medicaid, transportation aid, economic development aid and other State programs.

The State ended the 2009-10 fiscal year with an All Funds cash balance of \$4.9 billion. Along with the \$4.7 billion State Operating Funds balance described above, Federal operating funds had a closing balance of \$456 million, partly offset by a negative capital project funds closing balance of roughly \$253 million. The fund balance in the Federal operating funds partly reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). The negative balance in the capital projects fund results from outstanding intra-year loans from the Short-Term Investment Pool ("STIP") used to finance capital projects costs prior to the receipt of bond proceeds.

2008-09 Fiscal Year

All Funds receipts for 2008-09 totaled \$119.2 billion, an increase of \$3.8 billion over 2007-08 results. Annual growth in Federal grants (\$3.9 billion) and miscellaneous receipts (\$421 million) was partially offset by a decline in tax receipts (\$534 million), largely attributable to business tax declines. All Funds disbursements for 2008-09 totaled \$121.6 billion, an increase of \$5.5 billion over 2007-08 results. The annual change reflects growth in School Aid, Medicaid, transportation aid, economic development aid and other State programs.

The State ended the 2008-09 fiscal year with an All Funds cash balance of \$4.6 billion. Along with the \$4.7 billion State Operating Funds balance described above, Federal operating funds had a closing balance of \$376 million, offset by a negative capital project funds closing balance of \$507 million. The fund balance in the Federal operating funds partly reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). The negative balance in the capital projects fund results from outstanding intra-year loans from STIP used to finance capital projects costs prior to the receipt of bond proceeds.

2007-08 Fiscal Year

All Funds receipts for 2007-08 totaled \$115.4 billion, an increase of \$3.0 billion over 2006-07 results. Moderate growth in tax collections and miscellaneous receipts were partially offset by a decline in Federal grants. All Funds disbursements for 2007-08 totaled \$116.1 billion, an increase of \$3.3 billion over 2006-07 results. The annual change reflects growth in School Aid, STAR, transportation aid and other State programs.

The State ended the 2007-08 fiscal year with an All Funds cash balance of \$6.5 billion. Along with the \$6.6 billion State Operating Funds balance described above, Federal operating funds had a closing balance of \$359 million, offset by a negative capital project funds closing balance of \$433 million. The fund balance in the Federal operating funds partly reflects the timing of receipts and disbursements (e.g. dedicated monies received for a specified purpose prior to disbursement). The negative balance in the capital projects fund results from outstanding intra-year loans from STIP used to finance capital projects costs prior to the receipt of bond proceeds.

COMPARISON OF ACTUAL GENERAL FUND RECEIPTS AND DISBURSEMENTS
2007-2008 THROUGH 2009-2010
(millions of dollars)

	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
OPENING FUND BALANCE (1)	3,045	2,754	1,949
Personal Income Tax (1) (2)	22,759	23,196	22,655
User Taxes and Fees: (3)			
Sales and Use Tax (4)	7,945	7,707	7,405
Cigarette and Tobacco Tax	409	446	456
Alcoholic Beverage Taxes (3)	205	206	225
Subtotal	<u>8,559</u>	<u>8,359</u>	<u>8,086</u>
Business Taxes:			
Corporation Franchise Tax	3,446	2,755	2,145
Corporation and Utilities Taxes	603	654	722
Insurance Taxes	1,088	1,086	1,331
Bank Tax	880	1,061	1,173
Subtotal	<u>6,017</u>	<u>5,556</u>	<u>5,371</u>
Other Taxes:			
Estate and Gift Taxes	1,038	1,165	866
Real Property Gains Tax	1	0	0
Pari-mutuel Tax	23	22	19
Other Taxes	1	1	1
Subtotal	<u>1,063</u>	<u>1,188</u>	<u>886</u>
Miscellaneous Receipts & Federal Grants (3)	2,526	3,152	3,958
Transfers from Other Funds:			
PIT in excess of Revenue Bond debt service	8,473	8,404	7,641
Sales Tax in Excess of LGAC Debt Service	2,358	2,195	2,123
All Other Transfers	1,341	1,751	1,836
Subtotal	<u>12,172</u>	<u>12,350</u>	<u>11,600</u>
TOTAL RECEIPTS	<u>53,096</u>	<u>53,801</u>	<u>52,556</u>
Grants to Local Governments	36,414	37,040	34,234
State Operations:			
Personal Service	6,659	6,168	6,611
Non-Personal Service	2,920	2,144	1,977
General State Charges	4,620	3,084	3,594
Debt Service	0	0	0
Transfers to Other Funds:			
In Support of Debt Service	1,548	1,734	1,844
In Support of Capital Projects	123	473	565
State Share Medicaid	0	2,625	2,400
All Other Transfers	1,103	1,338	978
Subtotal	<u>2,774</u>	<u>6,170</u>	<u>5,787</u>
TOTAL DISBURSEMENTS	<u>53,387</u>	<u>54,606</u>	<u>52,203</u>
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	<u>(291)</u>	<u>(805)</u>	<u>353</u>
CLOSING FUND BALANCE	<u>2,754</u>	<u>1,949</u>	<u>2,302</u>

Source: NYS Office of State Comptroller.

(1) The opening balances and personal income tax receipts have been adjusted to reflect the inclusion of the Personal Income Tax Refund Reserve in the General Fund.

(2) Excludes personal income tax receipts that flow into the Revenue Bond Tax Fund in the first instance and are then transferred to the General Fund after debt service obligation is satisfied.

(3) Motor vehicle fees and alcoholic beverage control licenses fees were reclassified from "user taxes and fees" to "miscellaneous receipts" for fiscal year 2009-10. For comparison purposes, prior year user taxes and fees and miscellaneous receipts have been restated.

(4) Excludes sales tax in excess of LGAC Debt Service.

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

	General Fund	Special Revenue Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	3,045	3,671	233	6,949
Receipts:				
Taxes	38,398	7,607	12,595	58,600
Miscellaneous receipts	2,457	13,630	843	16,930
Federal grants	69	0	0	69
Total receipts	40,924	21,237	13,438	75,599
Disbursements:				
Grants to local governments	36,414	16,157	0	52,571
State operations:				
Personal Service	6,659	3,068	0	9,727
Non-Personal Service	2,920	2,379	32	5,331
General State charges	4,620	630	0	5,250
Debt service	0	0	4,104	4,104
Capital projects	0	7	0	7
Total disbursements	50,613	22,241	4,136	76,990
Other financing sources (uses):				
Transfers from other funds	12,172	1,565	5,434	19,171
Transfers to other funds	(2,774)	(712)	(14,683)	(18,169)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	9,398	853	(9,249)	1,002
Change in fund balance	(291)	(151)	53	(389)
Closing fund balance	2,754	3,520	286	6,560

Source: NYS DOB

Note: DOB calculation of State Operating Funds includes the General Fund and funds specified for dedicated purposes, but excludes capital projects and Federal Funds. Activity in certain miscellaneous special revenue funds that is financed primarily with Federal Funds is treated as Federal Funds and captured in the All Governmental Funds Financial Plan.

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

	General Fund	Special Revenue Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	2,754	3,520	286	6,560
Receipts:				
Taxes	38,299	7,562	12,241	58,102
Miscellaneous receipts	3,107	13,128	845	17,080
Federal grants	45	0	0	45
Total receipts	<u>41,451</u>	<u>20,690</u>	<u>13,086</u>	<u>75,227</u>
Disbursements:				
Grants to local governments	37,040	16,944	0	53,984
State operations:				
Personal Service	6,168	4,161	0	10,329
Non-Personal Service	2,144	2,724	56	4,924
General State charges	3,084	1,307	0	4,391
Debt service	0	0	4,530	4,530
Capital projects	0	9	0	9
Total disbursements	<u>48,436</u>	<u>25,145</u>	<u>4,586</u>	<u>78,167</u>
Other financing sources (uses):				
Transfers from other funds	12,350	4,562	5,976	22,888
Transfers to other funds	(6,170)	(1,156)	(14,464)	(21,790)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	<u>6,180</u>	<u>3,406</u>	<u>(8,488)</u>	<u>1,098</u>
Change in fund balance	<u>(805)</u>	<u>(1,049)</u>	<u>12</u>	<u>(1,842)</u>
Closing fund balance	<u>1,949</u>	<u>2,471</u>	<u>298</u>	<u>4,718</u>

Source: NYS DOB

Note: DOB calculation of State Operating Funds includes the General Fund and funds specified for dedicated purposes, but excludes capital projects and Federal Funds. Activity in certain miscellaneous special revenue funds that is financed primarily with Federal Funds is treated as Federal Funds and captured in the All Governmental Funds Financial Plan.

CASH FINANCIAL PLAN
STATE OPERATING FUNDS BUDGET
2009-2010
(millions of dollars)

	General Fund	Special Revenue Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,949	2,471	298	4,718
Receipts:				
Taxes	36,997	7,801	11,448	56,246
Miscellaneous receipts	3,888	14,646	974	19,508
Federal grants	71	0	13	84
Total receipts	40,956	22,447	12,435	75,838
Disbursements:				
Grants to local governments	34,234	17,644	0	51,878
State operations:				
Personal Service	6,611	4,264	0	10,875
Non-Personal Service	1,977	2,488	51	4,516
General State charges	3,594	1,040	0	4,634
Debt service	0	0	4,961	4,961
Capital projects	0	11	0	11
Total disbursements	46,416	25,447	5,012	76,875
Other financing sources (uses):				
Transfers from other funds	11,600	4,172	6,646	22,418
Transfers to other funds	(5,787)	(1,686)	(13,956)	(21,429)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	5,813	2,486	(7,310)	989
Change in fund balance	353	(514)	113	(48)
Closing fund balance	2,302	1,957	411	4,670

Source: NYS DOB

Note: DOB calculation of State Operating Funds includes the General Fund and funds specified for dedicated purposes, but excludes capital projects and Federal Funds. Activity in certain miscellaneous special revenue funds that is financed primarily with Federal Funds is treated as Federal Funds and captured in the All Governmental Funds Financial Plan.

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	3,045	4,007	(433)	233	6,852
Receipts:					
Taxes	38,398	7,605	1,477	12,595	60,075
Miscellaneous receipts	2,457	13,834	3,305	843	20,439
Federal grants	69	33,095	1,745	0	34,909
Total receipts	<u>40,924</u>	<u>54,534</u>	<u>6,527</u>	<u>13,438</u>	<u>115,423</u>
Disbursements:					
Grants to local governments	36,414	45,712	1,078	0	83,204
State operations:					
Personal Service	6,659	5,195	0	0	11,854
Non-Personal Service	2,920	3,408	0	32	6,360
General State charges	4,620	856	0	0	5,476
Debt service	0	0	0	4,104	4,104
Capital projects	0	7	5,053	0	5,060
Total disbursements	<u>50,613</u>	<u>55,178</u>	<u>6,131</u>	<u>4,136</u>	<u>116,058</u>
Other financing sources (uses):					
Transfers from other funds	12,172	4,000	272	5,434	21,878
Transfers to other funds	(2,774)	(3,484)	(938)	(14,683)	(21,879)
Bond and note proceeds	0	0	269	0	269
Net other financing sources (uses)	<u>9,398</u>	<u>516</u>	<u>(397)</u>	<u>(9,249)</u>	<u>268</u>
Change in fund balance	<u>(291)</u>	<u>(128)</u>	<u>(1)</u>	<u>53</u>	<u>(367)</u>
Closing fund balance	<u>2,754</u>	<u>3,879</u>	<u>(434)</u>	<u>286</u>	<u>6,485</u>

Source: NYS OSC (reflecting amounts published in the Cash Basis Report, adjusted for the restatement of motor vehicle fees and alcoholic beverage control licenses fees which were reclassified from "user taxes and fees" to "miscellaneous receipts").

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	2,754	3,879	(434)	286	6,485
Receipts:					
Taxes	38,299	7,562	1,468	12,241	59,570
Miscellaneous receipts	3,107	13,307	3,572	845	20,831
Federal grants	45	36,907	1,882	0	38,834
Total receipts	<u>41,451</u>	<u>57,776</u>	<u>6,922</u>	<u>13,086</u>	<u>119,235</u>
Disbursements:					
Grants to local governments	37,040	48,871	1,356	0	87,267
State operations:					
Personal Service	6,168	6,441	0	0	12,609
Non-Personal Service	2,144	4,157	0	56	6,357
General State charges	3,084	2,242	0	0	5,326
Debt service	0	0	0	4,530	4,530
Capital projects	0	9	5,473	0	5,482
Total disbursements	<u>48,436</u>	<u>61,720</u>	<u>6,829</u>	<u>4,586</u>	<u>121,571</u>
Other financing sources (uses):					
Transfers from other funds	12,350	7,308	679	5,976	26,313
Transfers to other funds	(6,170)	(4,397)	(1,302)	(14,464)	(26,333)
Bond and note proceeds	0	0	457	0	457
Net other financing sources (uses)	<u>6,180</u>	<u>2,911</u>	<u>(166)</u>	<u>(8,488)</u>	<u>437</u>
Change in fund balance	<u>(805)</u>	<u>(1,033)</u>	<u>(73)</u>	<u>12</u>	<u>(1,899)</u>
Closing fund balance	<u>1,949</u>	<u>2,846</u>	<u>(507)</u>	<u>298</u>	<u>4,586</u>

Source: NYS OSC (reflecting amounts published in the Cash Basis Report as restated).

**CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2009-2010
(millions of dollars)**

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,949	2,846	(507)	298	4,586
Receipts:					
Taxes	36,997	7,801	1,422	11,448	57,668
Miscellaneous receipts	3,888	14,812	3,882	974	23,556
Federal grants	71	43,379	2,061	13	45,524
Total receipts	40,956	65,992	7,365	12,435	126,748
Disbursements:					
Grants to local governments	34,234	55,395	1,441	0	91,070
State operations:					
Personal Service	6,611	6,794	0	0	13,405
Non-Personal Service	1,977	3,998	0	51	6,026
General State charges	3,594	2,140	0	0	5,734
Debt service	0	0	0	4,961	4,961
Capital projects	0	11	5,671	0	5,682
Total disbursements	46,416	68,338	7,112	5,012	126,878
Other financing sources (uses):					
Transfers from other funds	11,600	7,218	737	6,646	26,201
Transfers to other funds	(5,787)	(5,317)	(1,185)	(13,956)	(26,245)
Bond and note proceeds	0	0	448	0	448
Net other financing sources (uses)	5,813	1,901	0	(7,310)	404
Change in fund balance	353	(445)	253	113	274
Closing fund balance	2,302	2,401	(254)	411	4,860

Source: NYS OSC (reflecting amounts published in the Cash Basis Report).

GAAP-Basis Results for Prior Fiscal Years

The Comptroller prepares Basic Financial Statements and Other Supplementary Information on a GAAP basis for governments as promulgated by the Governmental Accounting Standards Board ("GASB"). The Basic Financial Statements, released in July each year, include the Statements of Net Assets and Activities, the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds, the Statements of Net Assets, Revenues, Expenses and Changes in Fund Net Assets and Cash Flows for the Enterprise Funds, the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets, and the Combining Statements of Net Assets and Activities for Discretely Presented Component Units. These statements are audited by independent certified public accountants. The Comptroller also prepares and issues a Comprehensive Annual Financial Report ("CAFR"), which includes a management discussion and analysis ("MD&A"), the Basic Financial Statements, required supplementary information, other supplementary information which includes individual fund combining statements, and a statistical section. For information regarding the State's accounting and financial reporting requirements, see the section entitled "State Organization (including State Employment)."

Both the Basic Financial Statements and Other Supplementary Information and CAFR for prior fiscal years can be obtained from the Office of the State Comptroller, 110 State Street, Albany, NY 12236 or at the Office of the State Comptroller's website at www.osc.state.ny.us. The following table summarizes recent governmental funds results on a GAAP basis.

Comparison of Actual GAAP-Basis Operating Results Surplus/(Deficit) (millions of dollars)

<u>Fiscal Year Ended</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>All Governmental Funds</u>	<u>Accum. General Fund Surplus/(Deficit)</u>
March 31, 2010	(594)	(722)	378	1,061	123	(3,538)
March 31, 2009	(6,895)	(1,183)	35	44	(7,999)	(2,944)
March 31, 2008	1,567	(1,328)	(293)	(306)	(360)	3,951

Summary of Net Assets (millions of dollars)

<u>Fiscal Year Ended</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
March 31, 2010	27,976	116	28,092
March 31, 2009	30,894	3,031	33,925
March 31, 2008	43,510	4,217	47,727

Economics and Demographics

The demographic and statistical data in this section, which have been obtained from the sources indicated, do not represent all of the factors which may have a bearing on the State's fiscal and economic affairs. Further, such information requires economic and demographic analysis in order to assess its significance, and may be interpreted differently by individual experts. Note that DOB has chosen to provide economic and demographic analysis updated through the date of this Annual Update, although continuing disclosure requirements for this Annual Update require analysis only through March 31, 2010.

The U.S. Economy

With the nation's recovery from the longest and most severe recession since the 1930s losing momentum, the DOB outlook for the national economy reflects uncertainty. Although the national labor market has added private sector jobs every month through July 2010, the 153,000 jobs added in May, June and July combined were well below the 461,000 jobs added during the prior three months. As private sector job growth began to stall, hundreds of thousands of temporary Census workers were leaving the workforce. The recent period also revealed grave debt problems among a number of euro-zone countries. The specter of default by a sovereign nation appeared to send shock waves through the international financial system, resulting in the benchmark ten-year Treasury yield falling below 3 percent and a 200 point decline in the S&P 500. Increased risk aversion and heightened market volatility add a significant degree of uncertainty to an environment already dominated by a historically weak labor market, tight credit, and ongoing deleveraging. The national economy, as measured by real U.S. gross domestic product ("GDP"), is now projected to grow 2.9 percent in 2010, followed by growth of 3.1 percent in 2011.

Despite fiscal and monetary policy actions of historic proportion, the nation's housing market remains weak. Although home prices are stabilizing and the rate at which homes are entering foreclosure appears to have peaked, the level of foreclosure activity continues to depress new home construction. The extension of the Federal home buyer's credit through April 2010 resulted in a brief spike in real estate activity during the second quarter, but appeared to do little more than spin up future sales, despite record low mortgage interest rates. After two consecutive months of growth, the first since January 2007, construction employment fell again in May, June and July 2010. DOB estimates growth in private residential fixed investment at 1.6 percent for 2010, followed by growth of 9.9 percent for 2011. The housing market represents a critical economic sector due not only to the direct demand for labor and other building supplies, but also to the indirect demand it generates for autos and other consumer durables.

A weakening labor market implies a weaker outlook for income growth as well. DOB projects U.S. personal income growth of 3.4 percent for 2010, followed by growth of 4.1 percent for 2011. This forecast reflects wage growth of 2.3 percent projected for 2010 and 4.0 percent for 2011. Consistent with slow job and income growth, as well as depressed equity and real estate markets, consumer demand appears weakened. Correspondingly, the Consumer Price Index fell during all three months of the second quarter, with some components below their year-ago levels in June. DOB projects inflation for both this year and next to be 1.5 percent. The disinflation that is currently being witnessed, combined with a weaker outlook for the second half of 2010, is likely to induce the Federal Reserve to further delay a shift in its policy stance. The central bank's interest rate policy target is likely to remain between zero and 0.25 percent until the first quarter of 2011.

While the current outlook calls for a further loss of momentum during the second half of 2010, DOB does not foresee the economy falling back into recession. However, there are significant risks to this forecast. Although credit markets have improved substantially since a year ago, households and small businesses continue to have difficulty borrowing and credit continues to contract. Revelations related to the international volume of sovereign debt continues to feed the uncertainty surrounding the global financial system. If the labor market recovery should come to a halt, household spending growth could be even lower. If Federal stimulus spending should proceed more slowly than expected or be reduced or eliminated, already struggling state and local governments would be adversely affected. On the positive side, global growth could be stronger than anticipated, resulting in greater export and earnings growth than anticipated.

ECONOMIC INDICATORS FOR THE UNITED STATES

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010¹</u>
Gross Domestic Product					
Nominal (\$ billions)	13,399.0	14,077.6	14,441.4	14,256.2	14,796.5
Percent Change	6.0	5.1	2.6	(1.3)	3.8
Real (\$ billions)	12,976.3	13,254.1	13,312.2	12,987.4	13,366.7
Percent Change	2.7	2.1	0.4	(2.4)	2.9
Personal Income					
(\$ billions)	11,268.1	11,894.1	12,238.8	12,019.0	12,423.1
Percent Change	7.5	5.6	2.9	(1.8)	3.4
Nonagricultural Employment					
(millions)	136.1	137.6	136.8	130.9	130.3
Percent Change	1.8	1.1	(0.6)	(4.3)	(0.4)
Unemployment Rate (%)	4.6	4.6	5.8	9.3	9.7
Consumer Price Index					
(1982-84=100)	201.5	207.3	215.2	214.5	217.8
Percent Change	3.2	2.9	3.8	(0.3)	1.5

Sources: US Department of Commerce, Bureau of Economic Analysis; US Department of Labor, Bureau of Labor Statistics.

Table reflects revisions by source agencies to figures for prior years.

¹As projected by the NYS DOB, based on National Income and Product Account data through June 2010.

The New York Economy

DOB estimates State wages to have fallen 7.2 percent for 2009. However, there are indications that the State economy picked up substantial momentum during the first quarter of 2010. The State labor market added private sector jobs month-over-month on a seasonally adjusted basis during the first four months of the year. DOB now projects an employment decline of 0.3 percent on an annual average basis for 2010, followed by growth of 1.0 percent for 2011. Private sector jobs are projected to fall 0.5 percent for 2010 and grow 1.2 percent in 2011. Wage growth of 5.1 percent is projected for 2010.

The loss of momentum witnessed nationally, appears to be affecting New York as well. Due to the importance of financial markets to the State economy, the 15 percent equity market correction recently observed is likely to disproportionately affect New York. The most recent data indicate that the State lost over 30,000 private sector jobs in May and June combined. The State's private sector added jobs in July, but did not fully recover the jobs lost during the prior two months.

All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, credit and equity market volatility pose a particularly large degree of uncertainty for New York. The Federal government has recently passed the long-awaited financial reform package. This program's impact on the profitability of the State's finance industry is as yet unknown and consequently represents a major risk to the DOB forecast for bonuses and income going forward. Lower bonuses than projected reduce the level of economic activity generated by the spending of those wages. Similarly, should equity markets fail to recover as anticipated, both financial sector income and taxable capital gains realizations could be negatively affected. These effects would ripple through the State economy, depressing both employment and wage growth. An even weaker labor market than projected could also result in lower wages, which in turn could result in weaker household consumption. In contrast, stronger national and world economic growth, or a stronger upturn in stock prices, along with even stronger activity in mergers and acquisitions and other Wall Street activities, could result in higher wage and bonuses growth than projected.

ECONOMIC INDICATORS FOR NEW YORK STATE

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010 ¹</u>
Personal Income					
(\$ billions)	851.6	925.1	950.2	917.5	959.8
Percent Change	8.3	8.6	2.7	(3.4)	4.6
Nonagricultural Employment					
(thousands)	8,408.1	8,528.2	8,573.7	8,327.2	8,299.7
Percent Change	1.0	1.4	0.5	(2.9)	(0.3)
Unemployment Rate (%)	4.6	4.5	5.3	8.4	8.5

Sources: US Department of Commerce, Bureau of Economic Analysis; NYS Department of Labor. Table reflects revisions by source agencies to data for prior years.

¹As projected by DOB, based on National Income and Product Account data and employment data available through June 2010.

New York is the third most populous state in the nation and has a relatively high level of personal wealth. The State's economy is diverse, with a comparatively large share of the nation's financial activities, information, education, and health services employment, and a very small share of the nation's farming and mining activity. The State's location and its air transport facilities and natural harbors have made it an important link in international commerce. Travel and tourism constitute an important part of the economy. Like the rest of the nation, New York has a declining proportion of its workforce engaged in manufacturing, and an increasing proportion engaged in service industries. In 2003, Federal and state governments began reporting employment and wage statistics in accordance with the North American Industry Classification System ("NAICS").

Manufacturing: Manufacturing employment continues to decline in New York, as in most other states, and New York's economy is less reliant on this sector than in the past. However, it remains an important sector of the State economy, particularly for the upstate region, which hosts high concentrations of manufacturers of transportation and other types of equipment.

Trade, Transportation, and Utilities: As defined under NAICS, the trade, transportation, and utilities supersector accounts for the third largest component of State nonagricultural employment, but only the fifth largest when measured by wage share. This sector accounts for less employment and wages for the State than for the nation.

Financial Activities: New York City is the nation’s leading center of banking and finance and, as a result, this is a far more important sector in the State than in the nation as a whole. Although this sector accounts for under one-tenth of all nonagricultural jobs in the State, it contributes more than one-fifth of total wages.

Other Service Sectors: The remaining service-producing sectors include information, professional and business services, private education and healthcare, leisure and hospitality services, and other services. These industries combined account for more than four of every ten nonagricultural jobs in New York and, except for leisure and hospitality, each accounts for a higher proportion of total State employment than for the nation as a whole.

Agriculture: Farming is an important part of the economy in rural areas, although it constitutes only about 0.2 percent of total State output. Principal agricultural products of the State include milk and dairy products, greenhouse and nursery products, fruits, and vegetables. New York ranks among the nation’s leaders in the production of these commodities.

**COMPOSITION OF NONAGRICULTURAL EMPLOYMENT AND WAGES
(Percent)**

	Employment		Wages	
	State	United States	State	United States
Natural Resources and Mining	0.1	0.5	0.1	1.1
Construction	3.8	4.6	4.1	5.0
Manufacturing	5.6	9.1	5.4	10.5
Trade, Transportation, and Utilities	17.0	19.1	12.4	15.8
Information	3.0	2.1	4.4	3.2
Financial Activities	7.9	5.9	20.4	9.0
Professional and Business Services	12.8	12.7	16.4	15.8
Educational and Health Services	19.5	14.7	14.1	13.1
Leisure and Hospitality	8.3	10.0	4.1	4.5
Other Services	4.3	4.1	2.9	3.2
Government	17.8	17.2	15.8	18.7

Source: NYS Department of Labor; US Department of Labor, Bureau of Labor Statistics; US Department of Commerce, Bureau of Economic Analysis.

Government: Federal, State and local governments together comprise the second largest sector in terms of nonagricultural jobs, with the bulk of the employment accounted for by local governments. Public education is the source of nearly one-half of total State and local government employment.

The importance of the different sectors of the State’s economy relative to the national economy is shown in the above table, which compares nonagricultural employment and wages by sector for the State and the nation as a whole. Manufacturing and construction account for smaller shares of employment for the State than for the nation, while service industries account for a larger share. The financial activities sector share of total wages is particularly large for the State relative to the nation. Thus, the State is likely to be less affected than the nation as a whole during an economic recession that is concentrated in manufacturing and construction, but likely to be more affected by any economic downturn that is concentrated in the services sector.

Economic and Demographic Trends

In calendar years 1990 through 1998, the State's rate of economic growth was somewhat slower than that of the nation. In particular, during the 1990-91 recession and post-recession period, the economies of the State and much of the rest of the Northeast were more heavily damaged than the nation as a whole and were slower to recover. However, the situation subsequently improved. In 1999, for the first time in 13 years, State employment growth surpassed that of the nation, and in 2000 the rates were essentially the same. In 2001, the September 11th attack resulted in a downturn in New York that was more severe than for the nation as a whole. Although the State unemployment rate was higher than the national rate from 1991 to 2000, the gap between them has since closed, with the State rate now below that of the nation.

The following table compares population change in the State and in the United States since 1960.

COMPARITIVE POPULATION FIGURES

	State			US	
	Total Population (000s)	% Change from Preceding Period	Percentage of U.S. Population	Total Population (000s)	% Change from Preceding Period
1960	16,782	13.2	9.4	179,323	18.5
1970	18,241	8.7	9.0	203,302	13.4
1980	17,558	(3.7)	7.8	226,546	11.4
1990	17,990	2.5	7.2	248,710	9.8
2000	18,976	5.5	6.7	281,422	13.2
2009	19,490	3.0	6.3	307,007	9.1

Source: US Department of Commerce, Census Bureau.

Total State nonagricultural employment has declined as a share of national nonagricultural employment. The following historical table compares these levels and the rate of unemployment for the State and the nation.

NONAGRICULTURAL EMPLOYMENT AND UNEMPLOYMENT RATE FOR NEW YORK AND THE UNITED STATES

	Employment (000s)		State as Percent of US Employment	Unemployment Rate (%)	
	State	US		State	US
1960	6,182	54,296	11.4	N/A	5.5
1970	7,156	71,006	10.1	N/A	4.9
1980	7,207	90,528	8.0	7.5	7.1
1990	8,214	109,487	7.5	5.3	5.6
2000	8,638	131,785	6.6	4.5	4.0
2009	8,556	130,920	6.5	8.4	9.3

Source: US Department of Labor and NYS Department of Labor.

Note: Nonagricultural employment and unemployment rates are generated from separate surveys.

State per capita personal income has historically been significantly higher than the national average, although the ratio has varied substantially. Because New York City is an employment center for a multi-state region, State personal income measured on a residence basis understates the relative importance of the State to the national economy and the size of the base to which State taxation applies. The following table compares per capita personal incomes for the State and the nation.

PER CAPITA PERSONAL INCOME			
(Income in Dollars)			
	<u>State</u>	<u>US</u>	<u>State/US</u>
1960	2,821	2,269	1.24
1970	4,868	4,084	1.19
1980	10,985	10,091	1.09
1990	23,710	19,354	1.23
2000	34,630	30,318	1.14
2009	46,957	39,138	1.20

Source: US Department of Commerce, Bureau of Economic

Debt and Other Financing Activities

State Law requires the Governor to submit the Five-Year Capital Program and Financing Plan ("the Plan") with the Executive Budget and to submit an update to the Plan ("the Enacted Plan") within 30 days of the enactment of the State Budget. The Plan outlines the anticipated capital spending over the five-year period, the means by which it will be financed, the impact on debt measures, and the anticipated debt issuances required to support the planned capital spending. A copy of the Executive Budget and, when available, the Enacted Budget Capital Program and Financing Plan can be obtained by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 474-8282, or at www.budget.state.ny.us.

State Debt and Other Financings

New York State is one of the largest issuers of municipal debt, ranking second among the states, behind California, in the amount of debt outstanding. The State ranks fifth in the U.S. in debt per capita, behind Connecticut, Massachusetts, Hawaii, and New Jersey. At the end of the 2009-10 fiscal year, total State-related debt outstanding was \$55 billion. Debt measures continue to remain stable with debt outstanding as a percentage of personal income at about 6.0 percent.

DOB measures its debt burden using two categories: *State-supported debt* and *State-related debt*. **State-supported debt** represents obligations of the State that are paid from traditional State resources (i.e., tax revenue) and have a budgetary impact. It includes general obligation debt, to which the full faith and credit of the State has been pledged, and lease purchase and contractual obligations of public authorities and municipalities, where the State's legal obligation to make payments to those public authorities and municipalities is subject to and paid from annual appropriations made by the Legislature. These include the State Personal Income Tax ("PIT") Revenue Bond program and the New York Local Government Assistance Corporation (LGAC). Since 2002, the State has financed most of its capital program with PIT Revenue Bonds, a revenue bond program that has reduced its cost of borrowing and created efficiencies by permitting the consolidation of bond sales. Prior to 2002, the State had financed its capital spending with lower-rated lease purchase and service contractual obligations of public authorities.

State-related debt is a broader measure of State debt which includes all debt that is reported in the State's GAAP basis financial statements, except for unamortized premiums and accumulated accretion on capital appreciation bonds. These financial statements are audited by external independent auditors and published by the Office of the State Comptroller ("OSC") on an annual basis. The debt reported in the GAAP basis financial statements includes general obligation voter approved debt, other State-supported debt as defined in the State Finance Law, debt issued by the Tobacco Securitization Finance Corporation, certain debt of the Municipal Bond Bank Agency issued to finance prior year school aid claims and capital leases and mortgage loan commitments. In addition, State-related debt reported by DOB includes State-guaranteed debt, moral obligation financings and certain contingent-contractual obligation financings, where debt service is paid from non-State sources in the first instance, but State appropriations are available, to make payments. These numbers are not included in the State's GAAP-basis financial statements.

The State's debt does not encompass, and does not include, debt that is issued by, or on behalf of, local governments and secured (in whole or in part) by State local assistance aid payments. For example, certain State aid to public schools paid to local districts or New York City has been pledged by those local entities to help finance debt service for locally-sponsored and locally-determined financings. This debt, however, is not treated by DOB as either State-supported debt or State-related debt because it (1) is not

issued by the State (nor on behalf of the State), and (2) does not result in a State obligation to pay debt service. Instead, this debt is accounted for in the respective financial statements of the local governments or other entity responsible for the issuance of such debt and is similarly treated.

The issuance of General Obligation debt and debt of the New York Local Government Assistance Corporation is undertaken by OSC. All other State-supported and State-related debt is issued by the State's financing authorities (known as "Authorized Issuers" in connection with the issuance of PIT Bonds) under the direction of DOB. The Authorized Issuers include the New York State Thruway Authority ("NYSTA"), the Dormitory Authority of the State of New York ("DASNY"), the Empire State Development Corporation ("ESDC"), the Environmental Facilities Corporation ("EFC"), and the Housing Finance Agency ("HFA"). Prior to any issuance of State-supported debt and State-related debt, approval is required by DOB, the issuer's board, and in certain instances, the Public Authorities Control Board ("PACB") and OSC.

The State has never defaulted on any of its general obligation indebtedness or its obligations under lease purchase or contractual obligation financing arrangements and has never been called upon to make any direct payments pursuant to its guarantees. The following table summarizes the State's debt obligation for the past three fiscal years.

OUTSTANDING STATE-SUPPORTED AND STATE-RELATED DEBT*
(millions of dollars)

	<u>As of 3/31/08</u>	<u>As of 3/31/09</u>	<u>As of 3/31/10</u>
State-Supported Debt			
General Obligation	\$3,221	\$3,323	\$3,400
Local Government Assistance Corporation	4,021	3,848	3,639
State Personal Income Tax Revenue Bond Financing	10,785	13,738	18,189
Other Service Contract & Lease Purchase	15,056	14,194	13,271
Other Revenue Bonds	<u>11,325</u>	<u>11,875</u>	<u>11,824</u>
Total State-Supported Debt	\$44,408	\$46,978	\$50,323
Contingent Contractual-Obligation Financing			
DASNY/MCFFA - Secured Hospital Program	713	682	637
Tobacco Settlement Financing Corporation	<u>3,870</u>	<u>3,588</u>	<u>3,257</u>
Total Contingent Contractual-Obligation Financing	4,583	4,270	3,894
Moral Obligation Financing			
Housing Finance Agency	47	36	28
MCFFA-Hospitals and Nursing Homes	<u>4</u>	<u>3</u>	<u>3</u>
Total Moral Obligation Financing	51	39	31
State-Guaranteed Debt			
Job Development Authority	37	32	28
Other State Financings			
MBBA Prior Year School Aid Claims	464	442	419
Capital Leases	246	296	266
Mortgage Loan Commitments	<u>96</u>	<u>92</u>	<u>155</u>
Total Other State Financings	806	830	840
TOTAL STATE-RELATED DEBT	<u>\$49,885</u>	<u>\$52,149</u>	<u>\$55,116</u>

Source: Data based on the Comprehensive Annual Financial Report (CAFR), specifically DOB's cash estimate of the GAAP numbers contained therein (CAFR Tables 5 and Note 10) for year ending 3/31/08 and 3/31/09. Data provided by DOB for year ending 3/31/10. Presentation of data and composition of State-Related Debt supplied by DOB. Amounts for DASNY/MCFFA-Secured Hospital Program, Moral Obligation Financing and State-Guaranteed Debt are reported as a contingent liability to the State in Note 10 of the CAFR and not counted as debt outstanding in Table 5 of the CAFR.

*Amounts outstanding reflect original par amounts or original gross proceeds in the case of capital appreciation bonds. Amounts outstanding do not reflect accretion of capital appreciation bonds or premiums received.

State-Supported Debt Outstanding

State-supported debt represents obligations of the State that are paid from traditional State resources and have a budgetary impact. It includes General Obligation debt, State PIT Revenue Bonds, Local Government Assistance Corporation ("LGAC") revenue bonds and lease purchase and service contract obligations of public authorities and municipalities. Payment of all obligations, except for general obligation debt, is subject to annual appropriations by the State Legislature, but the State's credits have different security features, as described in this section.

General Obligation Financings

Under the State Constitution, the State may not, with limited exceptions for emergencies, undertake a long-term general obligation borrowing (i.e., borrowing for more than one year) unless it is authorized in a specific amount for a single work or purpose by the Legislature and approved by the voters. There is no constitutional limitation on the amount of long-term general obligation debt that may be so authorized and subsequently incurred by the State. However, the Debt Reform Act of 2000 (Debt Reform Act) imposed statutory limitations on new State-supported debt issued on and after April 1, 2000. The State Constitution provides that general obligation bonds, which can be paid without an appropriation, must be paid in equal annual principal installments or installments that result in substantially level or declining debt service payments, mature within 40 years after issuance, and begin to amortize not more than one year after the issuance of such bonds. However, general obligation housing bonds must be paid within 50 years after issuance, with principal commencing no more than three years after issuance. The Debt Reform Act limits the maximum term of State-supported bonds, including general obligation bonds, to 30 years, and the State currently has no bonds outstanding with a remaining final maturity that is more than 30 years.

General obligation debt is currently authorized for transportation, environment and housing purposes. Transportation-related bonds are issued for State and local highway and bridge improvements, aviation, mass transportation, rail, canal, port and waterway programs and projects. Environmental bonds are issued to fund environmentally sensitive land acquisitions, air and water quality improvements; municipal non-hazardous waste landfill closures and hazardous waste site cleanup projects.

Most general obligation debt financed spending is authorized under eight previously approved bond acts (three for transportation and five for environmental and recreational programs). The majority of projected general obligation bond financed spending supports authorizations for the 2005 Rebuild and Renew New York Bond Act. The Division of the Budget projects that spending authorizations from the remaining seven bond acts will be virtually depleted by 2013. The following table sets forth information regarding the levels of authorized, unissued and outstanding State general obligation debt by purpose as of March 31, 2010.

Short Term Borrowings - Under the State Constitution, the State may undertake short-term general obligation borrowings without voter approval (i) in anticipation of the receipt of taxes and revenues, by issuing general obligation tax and revenue anticipation notes ("TRANS"), and (ii) in anticipation of the receipt of proceeds from the sale of duly authorized but unissued general obligation bonds, by issuing bond anticipation notes ("BANs"). General obligation TRANS must mature within one year from their date of issuance and cannot be refunded or refinanced beyond such period. However, since 1990, the State's ability to issue general obligation TRANS that mature in the same State fiscal year in which they were issued has been limited due to the enactment of the fiscal reform program which created LGAC. BANs may only be issued for the purposes and within the amounts for which bonds may be issued pursuant to voter authorizations, and must be paid from the proceeds of the sale of bonds in anticipation

of which they were issued or from other sources within two years of the date of issuance or, in the case of BANs for housing purposes, within five years of the date of issuance. In order to provide flexibility within these maximum term limits, the State had previously utilized the BANs authorization to conduct a commercial paper program to fund disbursements eligible for general obligation bond financing.

STATE GENERAL OBLIGATION DEBT
March 31, 2010
(millions of dollars)⁽¹⁾

Purpose/Year Authorized	Total Authorized	Authorized but Unissued	Total Debt Outstanding
Transportation Bonds:			
Rebuild and Renew New York Transportation Bonds (2005)			
Highway Facilities/Other Transportation (Excluding MTA)			
Highway Facilities	Note 2	Note 2	521
Mass Transit - DOT	Note 2	Note 2	11
Rail & Port	Note 2	Note 2	50
Canals & Waterways	Note 2	Note 2	14
Aviation	Note 2	Note 2	33
Subtotal Highway Facilities/Other Transportation (Excluding MTA)	1,450	781	629
Mass Transit - Metropolitan Transportation Authority	1,450	970	459
Accelerated Capacity and Transportation			
Improvements of the Nineties (1988)	3,000	26	552
Rebuild New York Through Transportation			
Infrastructure Renewal (1983)			
Highway Related Projects	1,064	23	4
Ports, Canals, and Waterways	49	-	-
Rapid Transit, Rail and Aviation Projects	137	-	22
Energy Conservation Through Improved Transportation (1979)			
Local Streets and Highways	100	-	-
Rapid Transit and Rail Freight	400	-	21
Rail Preservation (1974)	250	-	12
Transportation Capital Facilities (1967)			
Highways	1,250	-	-
Mass Transportation	1,000	-	17
Aviation	250	-	23
Total Transportation Bonds	10,400	1,800	1,739
Environmental Bonds:			
Clean Water/Clean Air (1996)			
Air Quality	230	32	72
Safe Drinking Water	355	-	49
Clean Water	790	155	496
Solid Waste	175	3	94
Environmental Restoration	200	84	88
Environmental Quality (1986)			
Land and Forests	250	3	46
Solid Waste Management	1,200	79	472
Environmental Quality (1972)			
Air	150	12	18
Land and Wetlands	350	10	40
Water	650	5	113
Outdoor Recreation Development (1966)	200	-	-
Pure Waters (1965)	1,000	25	83
Park and Recreation Land Acquisition (1960)	100	1	-
Total Environmental Bonds	5,650	409	1,571
Housing Bonds:			
Low-Income Housing (through 1958)	960	8	49
Middle-Income Housing (through 1958)	150	1	41
Urban Renewal (1958)	25	1	-
Total Housing Bonds	1,135	10	90
TOTAL GENERAL OBLIGATION DEBT	17,185	2,219	3,400

Source: Office of the State Comptroller

⁽¹⁾ Amounts have been rounded to the nearest million.

⁽²⁾ The Legislature did not provide any limitation on bonds to be issued for specific project categories or programs authorized within the Highway Facilities/Other Transportation (excluding MTA) Purpose.

⁽³⁾ This amount rounds to zero, but there was an outstanding balance of \$111,526.01 at March 31, 2010.

⁽⁴⁾ This amount rounds to zero, but there was an outstanding balance of \$33,056.10 at March 31, 2010.

State Personal Income Tax Revenue Bond Program

Since 2002, the PIT Revenue Bond Program has been the primary financing vehicle used to fund the State's capital program, replacing lower rated service contract bonds. Legislation enacted in 2001 provided for the issuance of State PIT Revenue Bonds by the State's Authorized Issuers. The legislation requires 25 percent of State PIT receipts (excluding refunds owed to taxpayers) to be deposited into the Revenue Bond Tax Fund (RBTF) for purposes of making debt service payments on these bonds, with the excess amounts returned to the General Fund. The first State PIT Revenue Bonds were issued on May 9, 2002, and since that time, all of the Authorized Issuers have issued State PIT Revenue Bonds.

Legislation enacted in 2007 increased the amount of PIT receipts to be deposited into the Revenue Bond Tax Fund by removing an exclusion for PIT amounts deposited to the STAR Fund. In the event that (a) the State Legislature fails to appropriate amounts required to make all debt service payments on the State PIT Revenue Bonds or (b) having been appropriated and set aside pursuant to a certificate of the Director of the Budget, financing agreement payments have not been made when due on the State PIT Revenue Bonds, the legislation requires that PIT receipts continue to be deposited to the Revenue Bond Tax Fund until amounts on deposit in the Fund equal the greater of (i) 25 percent of annual PIT receipts or (ii) \$6 billion. Debt service on State PIT Revenue Bonds is subject to legislative appropriation, as part of the annual debt service bill.

As of March 31, 2010, approximately \$18 billion of State PIT Revenue Bonds were outstanding. State PIT Revenue Bonds have been issued to support programs related to six general purposes: Education, Economic Development and Housing, Environment, State Facilities and Equipment, Transportation and Health and Mental Hygiene. In 2009, pursuant to State law, State PIT Revenue Bonds began to be issued under new General Purpose resolutions that permitted the issuance of bonds on a consolidated basis for all purposes. This enhanced flexibility has improved the marketability of the State PIT Revenue Bonds, particularly in the taxable market where State PIT Revenue Bonds have been issued as Build America Bonds. The State expects to continue to use the General Purpose approach for future issuances of State PIT Revenue Bonds, except for Transportation.

Legislation enacted in fiscal year 2009-10 and extended for fiscal year 2010-11 permits the DASNY and the Urban Development Corporation to issue State PIT Revenue Bonds for any authorized purpose. Prior to this time, State law required that State PIT Revenue Bonds sold for capital purposes had to be sold through specific issuers, creating coordination difficulties in scheduling sales and reimbursing capital disbursements on a timely basis. This has enabled the State to improve the scheduling and sizing of State PIT Revenue Bond sales, produced savings through efficiencies in bond pricing, and lowered overall administrative costs.

In addition, legislation that temporarily authorizes the use of State PIT Revenue Bonds to finance the State's Mental Health Facilities Improvement Revenue bond program has been extended for an additional year through fiscal year 2010-11. This has enabled the State to take advantage of the lower interest rates typically paid on State PIT Revenue Bonds as compared to the State's Mental Health Facilities Improvement Revenue Bonds.

Based on current information and assumptions, DOB anticipates the amount of State PIT Revenue Bonds to be outstanding during fiscal years 2010-11 through 2013-14 will be as follows:

Outstanding State Personal Income Tax Revenue Bonds (millions of dollars)				
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
State Personal Income Tax Revenue Bonds				
Education	\$8,501	\$9,893	\$11,015	\$12,074
Economic Development & Housing	4,510	4,786	4,544	4,168
State Facilities & Equipment	3,242	3,725	3,969	4,129
Transportation	2,568	2,848	3,111	3,356
Environment	1,185	1,281	1,373	1,372
Health & Mental Hygiene	1,227	1,382	1,394	1,399
Total State Personal Income Tax Revenue Bonds ¹	<u>\$21,233</u>	<u>\$23,915</u>	<u>\$25,406</u>	<u>\$26,498</u>

Source: NYS DOB

¹ Includes amounts issued under the General Purpose resolution.

2010-11 Personal Income Tax Revenue Bond Borrowing Plan

The State expects to continue to use State PIT Revenue Bonds as the financing vehicle for the vast majority of new bond-financed spending for non-transportation programs. Authority bond-financed spending across all non-transportation programs decreases from approximately \$4.9 billion in 2010-11 to about \$3.6 billion in 2014-15.

- **State PIT Revenue Bonds** are expected to be issued to support multiple capital program areas, as summarized below:
 - **Education:** supports SUNY and CUNY, EXCEL, NYSTAR, and the Higher Education Capital Matching Grant Program (2010-11 issuances of \$1.9 billion).
 - **Environment:** supports the State Revolving Fund, the State Superfund Program, EPF, State Parks, West Valley and other environmental projects (2010-11 issuance of \$169 million).
 - **Transportation:** supports local transportation projects under the CHIPs program (2010-11 issuances of \$415 million).
 - **Economic Development and Housing:** supports Housing, SIP, economic development projects for the Buffalo area, AMD, CEFAP, the Regional Economic Growth Program, the New York State Economic Development Program, high technology and other business investment programs, and recent economic development initiatives (2010-11 issuances of \$720 million).
 - **Healthcare:** supports the program for capital and equipment grants to healthcare providers (2010-11 issuances of \$127 million).
 - **State Facilities and Equipment:** supports correctional facilities, youth facilities, State office buildings, a new State Police headquarters, capital projects for DMNA and

equipment for State agencies; including software development (2010-11 issuances of \$623 million).

The PIT revenue coverage ratios for upcoming years are based on assumptions of future capital spending contained in the Enacted Budget Capital Plan. Traditionally, these estimates change substantially as new multi-year capital plans are authorized. The projected PIT revenue bond coverage ratios, noted below, are based upon estimates of PIT receipts deposited into the RBTF and include new PIT debt issuances.

PROJECTED PIT REVENUE BOND COVERAGE RATIOS				
2009-10 THROUGH 2014-15				
(thousands of dollars)				
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Projected RBTF Receipts	9,224,800	9,896,200	9,919,275	10,474,000
Existing PIT Bonds Outstanding (as of 07/31/11)	18,110,470	17,238,465	16,382,445	15,549,230
Projected New PIT Bonds Outstanding	3,123,141	6,676,805	9,023,150	10,948,691
Projected Total PIT Bonds Outstanding	21,233,611	23,915,270	25,405,595	26,497,921
Projected Maximum Annual Debt Service	2,094,154	2,442,673	2,633,643	2,779,095
Projected PIT Coverage Ratio	4.4	4.1	3.8	3.8

New York Local Government Assistance Corporation

In 1990, as part of a State fiscal reform program, legislation was enacted creating LGAC, a public benefit corporation empowered to issue long-term obligations to fund certain payments to local governments that had been traditionally funded through the State's annual seasonal borrowing. The legislation also dedicated revenues equal to one cent of the State's four cent sales and use tax to pay debt service on these bonds. As of June 1995, LGAC had issued State-supported bonds and notes to provide net proceeds of \$4.7 billion, completing the program. The issuance of these long-term obligations will be amortized over a period of no more than 30 years from the dates of their original issuance.

The legislation eliminated the annual issuance of general obligation TRANs that mature in the same fiscal year of the State that they are issued ("seasonal borrowing") except in cases where the Governor and the legislative leaders have certified the need for additional seasonal borrowing, based on emergency or extraordinary factors, or factors unanticipated at the time of adoption of the budget, and provided a schedule for eliminating it over time. Any seasonal borrowing is required by law to be eliminated by the fourth fiscal year after the limit was first exceeded (i.e., no general obligation seasonal borrowing in the fifth year). This provision limiting the State's seasonal borrowing practices was included as a covenant with LGAC's bondholders in the General Bond Resolution and General Subordinate Lien Bond Resolution authorizing such bonds. No restrictions were placed upon the State's ability to issue deficit TRANs (issued in one year and maturing in the following year).

The impact of the LGAC changes, as well as other changes in revenue and spending patterns, is that the State has been able to meet its cash flow needs throughout the fiscal year without relying on seasonal borrowings. However, the State has taken extraordinary measures in recent years to manage its cash

flow, including payment deferrals and permitting the State to borrow from other funds of the State (i.e., non-general fund) for a limited period.

Legislation enacted in 2003 requires LGAC to certify, in addition to its own cash needs, \$170 million annually to provide an incentive for the State to seek an annual appropriation to provide local assistance payments to New York City or its assignee. In May 2004, LGAC amended its General Bond Resolution and General Subordinate Lien Bond Resolution to make clear that any failure to certify or make payments to the City or its assignee has no impact on LGAC's own bondholders; and that if any such act or omission were to occur with respect to any bonds issued by The City of New York or its assignee, that act or omission would not constitute an Event of Default with respect to LGAC bonds. The 2010-11 Enacted Budget includes a local assistance appropriation of \$170 million from the Local Government Assistance Tax Fund to the City.

State-Supported Lease-Purchase and Other Contractual-Obligation Financings

Prior to the commencement of State PIT Revenue Bond issuances in 2002, the State routinely issued other long-term, lease-purchase and contractual-obligation debt, that were issued by public authorities or municipalities with the debt service being payable from monies received from the State pursuant to lease-purchase or contractual service contract or financing contract payments to be made by the State, subject to annual state appropriation, and, therefore, not general obligations of the State. Under this financing structure bonds were issued to finance various capital programs, including those which finance certain of the State's highway and bridge projects, SUNY and City University of New York ("CUNY") educational facilities, health and mental hygiene facilities, prison construction and rehabilitation, economic development projects, State buildings and housing programs, and equipment acquisitions.

Debt service payable to certain public authorities from State appropriations for such lease-purchase and contractual obligation financings may be paid from general resources of the State or from dedicated tax and other sources (i.e., personal income taxes, motor vehicle and motor fuel related-taxes, dormitory facility rentals, and patient charges). Although these financing arrangements involve a contractual agreement by the State to make payments to a public authority, municipality or other entity, the State's obligation to make such payments is expressly made subject to appropriation by the Legislature and the actual availability of money to the State for making the payments.

Under legislation enacted for the 2010-11 fiscal year, the State is authorized to set aside monies in reserve for debt service on general obligation, lease-purchase, and service contract bonds. Pursuant to a certificate filed by the Director of the Budget with the State Comptroller, the Comptroller is required to transfer from the General Fund such reserved amounts on a quarterly basis in advance of required debt service payment dates.

Other New York State Revenue Bond Programs

Dedicated Highway and Bridge Trust Fund Bonds

Dedicated Highway and Bridge Trust Fund (DHBTF) bonds are issued by NYSTA for State transportation purposes and are backed by dedicated motor fuel, gas and other transportation taxes and fees. DHBTF Bonds, which are issued by the NYSTA and supported by transportation-related taxes and fees, is expected to total \$495 million in 2010-11.

SUNY Dormitory Facilities Bonds

SUNY Dormitory Facilities Bonds, which are issued by DASNY, are supported by dormitory fees and rents charged to students residing in housing facilities on campus. These bonds support the expansion and renovation of SUNY Dormitory Facilities under the SUNY multi-year capital investment programs enacted in 2009-10. The projected bond issuance of \$78 million in 2010-11 will support the expansion and renovation of SUNY Dormitory Facilities under the SUNY multi-year capital investment programs enacted in 2009-10.

Mental Health Facilities Improvement Bonds

Mental Health Facilities Improvement bonds are issued by DASNY and supported by patient revenues. These support capital projects to preserve and maintain both State and community-based facilities operated and/or licensed by Office of Mental Health ("OMH"), the Office for People With Developmental Disabilities ("OPWDD"), and Office of Alcoholism and Substance Abuse Services ("OASAS"). The projected issuance of \$230 million in 2010-11 will support capital projects to preserve and maintain both State and community-based facilities operated and/or licensed by OMH, OPWDD, and OASAS. Under legislation authorized with the Enacted Budget, these program needs may be financed with PIT bonds in 2010-11.

State-Related Debt Outstanding

State-related debt is a broader measure of debt that includes State-supported debt, as discussed above, and contingent-contractual obligations, moral obligations, State-guaranteed debt and other debt. As of March 31, 2010, the State has never been required to make an unanticipated debt service payment on contingent contractual, moral obligation, or State-guaranteed obligations.

Contingent Contractual Obligation Financing

Contingent contractual debt, included in State-related debt, is debt where the State enters into a statutorily authorized contingent contractual obligation, directly via a service contract to pay debt service in the event there are shortfalls in revenues from other non-State resources pledged or otherwise available, to pay the debt service. As with State-supported debt, except for General Obligation, all payments are subject to annual appropriation. The State has never been required to make any payments under this financing arrangement, but the bankruptcy of certain hospitals in the secured hospitals program (described below) may require the State to make payments in the future.

Secured Hospital Program

Pursuant to legislation enacted in 1985, the State entered into service contracts establishing a contingent-contractual obligation with respect to financings related to the Secured Hospital Program for the purpose of enabling certain financially distressed not-for-profit hospitals to gain access to the capital markets. The State service contracts obligate the State to pay debt service, subject to annual appropriations, on bonds issued by the New York State Medical Care Facilities Finance Agency and by DASNY (all now included as debt of DASNY), in the event there are shortfalls of revenues from other sources, which include hospital payments made under loan agreements between DASNY and the hospitals, and certain reserve funds held by the applicable trustees for the bonds. As of March 31, 2010, there were nine secured hospital borrowers and a total of \$637 million in bonds outstanding with annual debt service payments of \$81.5 million due during State fiscal year 2010-11.

As of March 31, 2010, three of the nine secured hospital borrowers (including North General Hospital) were not current in making the monthly debt service payments required by their loan agreements. The State anticipates that the annual bond debt service payments due during the State's 2010-11 fiscal year on all outstanding Secured Hospital Program bonds will be paid pursuant to the loan agreements between the hospitals and DASNY or from other sources, other than payments by the State pursuant to the service contracts.

In July 2010, North General Hospital, a not-for-profit hospital located in Harlem, ceased operations and filed for bankruptcy. Regarding the indebtedness of the hospital, DASNY expects to retire a portion of the bonds from an asset sale and will continue to pay debt service on the remaining bonds from expected lease rental payments on the facility. These revenues are not expected to be sufficient to meet on-going debt service payments. Consequently, the State expects designated reserve funds to be used for these payments, initially. When the reserve funds are depleted, the State will be responsible for making the debt service payments. As of July 2010, there were approximately \$117 million of outstanding bonds.

Tobacco Settlement Financing Corporation

Legislation enacted in 2003 authorized the State to securitize all of its tobacco settlement payments to the Tobacco Settlement Financing Corporation ("TSFC"), a corporation created under the legislation that is a subsidiary of the Municipal Bond Bank Agency, through an asset-backed securitization transaction. To lower costs, the legislation authorized the State to enter into contingency contracts obligating the State to pay debt service, subject to annual appropriations, on the TSFC bonds in the event that tobacco receipts and bond reserves are insufficient. To reduce the chance that the State's contractual payments will be required in the event that tobacco receipts and bond reserves are not sufficient to pay debt service, the TSFC bonds were structured to meet or exceed all rating agency tobacco bonds stress tests. The \$4.2 billion of upfront payments received by the State from the securitization were used to help restore State budget balance in 2003-04 (\$3.8 billion) and 2004-05 (\$400 million). As of March 31, 2010, approximately \$3.257 billion in TSFC bonds were outstanding.

The bonds carry a final nominal maturity of 19 years and have an expected final maturity of 13 years, based on optional redemptions (i.e., an expected final maturity in calendar year 2018). The expected final maturity may deviate due to the optional nature of the redemptions and adjustments to tobacco settlement payments due from participating manufacturers. Various manufacturers, including the original participating manufacturers, have adjusted payments downward or indicated that they plan on adjusting subsequent payments downward to states and territories, or otherwise have deposited or will deposit payments into a special disputed payments account awaiting determination of entitlement to adjustments.

Moral Obligation Financings

Moral obligation financing generally involves the issuance of debt by a public authority to finance a revenue producing project or other activity. The debt is secured, in the first instance, by project revenues, but includes statutory provisions requiring the State, subject to appropriation by the Legislature, to make up any deficiencies which may occur in the issuer's debt service reserve fund. There has never been a payment default on any moral obligation debt of any public authority. DOB does not expect the State to increase statutory authorizations for moral obligation bond programs. From 1976 through 1987, the State was called upon to appropriate and make payments totaling \$162.8 million to make up deficiencies in the debt service reserve funds of HFA pursuant to moral obligation provisions. In the same period, the State also expended additional funds to assist the Project Finance Agency, Urban Development Corporation and other public authorities which had moral obligation debt outstanding. The State has not been called

upon to make any payments pursuant to any moral obligations since the 1986-87 fiscal year and no such requirements are anticipated during the 2010-11 fiscal year.

State-Guaranteed Financings

Pursuant to specific constitutional authorization, the State may also directly guarantee certain public authority obligations. Payments of debt service on State-guaranteed bonds and notes are legally enforceable obligations of the State. The only current authorization provides for the State guarantee of the repayment of certain borrowings for designated projects of the New York State Job Development Authority ("JDA"). The State has never been called upon to make any direct payments pursuant to any such guarantees.

Due to concerns regarding the economic viability of its programs, JDA's loan and loan guarantee activities were suspended in 1995. JDA resumed its lending activities in 1997 under a revised set of lending programs and underwriting guidelines. In April 2004, JDA issued approximately \$42.4 million of State-guaranteed bonds to refinance certain of its outstanding bonds and notes in order to restructure and improve JDA's capital finances. As of March 31, 2010, JDA had approximately \$28 million of bonds outstanding. DOB does not anticipate that the State will be called upon to make any payments pursuant to the State guarantee in the 2010-11 fiscal year.

Other State Financings

Other State financings relate to the issuance of debt by a public authority on behalf of a municipality which receives proceeds of the sale. These include Capital Leases, Mortgage Loan Commitments and Municipal Bond Bank Agency ("MBBA") prior year school aid claims. To ensure that debt service payments are made, the municipality assigns specified State and local assistance payments it receives to the issuer or the bond trustee. The State has no legal obligation to make any debt service payments or to continue to appropriate local assistance payments that are subject to the assignment.

Borrowing Plan

**State Debt Issuances
By Function and Financing Program
2010-11 through 2014-15
(millions of dollars)**

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Personal Income Tax Bonds	\$3,954	\$3,738	\$2,683	\$2,359	\$2,308
General Obligation Bonds	606	469	385	325	309
Dedicated Highway & Bridge Trust Fund Bonds	495	542	546	547	545
Mental Health Facilities Improvement Revenue Bonds ⁽¹⁾	232	534	681	590	555
SUNY Dormitory Bonds	78	85	77	77	77
Total Issuances:	<u><u>\$5,365</u></u>	<u><u>\$5,368</u></u>	<u><u>\$4,371</u></u>	<u><u>\$3,898</u></u>	<u><u>\$3,793</u></u>

Source: NYS DOB

⁽¹⁾ May also be issued under the State PIT Revenue Bond financing program.

Debt issuances of \$5.4 billion are planned to finance new capital projects in 2010-11, a decrease of \$717 million (11.8 percent) from 2009-10. The bond issuances will finance capital commitments for education (\$2.0 billion), transportation (\$1.5 billion), State facilities and equipment (\$623 million), economic development (\$721 million), health and mental hygiene (\$359 million), and the environment (\$226 million). Consistent with recent experience, education (including higher education and EXCEL), transportation, and economic development projects are projected to represent approximately 77 percent of new issuances.

Over the next five years, new debt issuances are projected to total nearly \$23 billion and will finance capital investments authorized in the five-year transportation program, the five-year higher education capital plan, to protect the environment, to enhance the State's economic development, and maintain correctional and mental hygiene facilities. New issuances are planned for education facilities (\$8.1 billion), transportation infrastructure (\$6.5 billion), mental hygiene and healthcare facilities (\$3.1 billion), State facilities and equipment (\$2.5 billion), and other programs (\$2.5 billion).

The PIT credit has replaced most of the State's service contract bonding, and is projected to comprise about three-quarters of all new State bond issuances. The remaining quarter is divided between general obligation bonds and other revenue credits. *Transportation.* The State Department of Transportation ("DOT") is primarily responsible for maintaining and rehabilitating the State's system of highways and bridges, which includes over 38,000 State highway lane miles and over 7,500 State bridges. DOT also oversees and funds programs for rail, port, transit and aviation projects and programs that help defray local capital expenses associated with road and bridge projects.

The 2010-12 State Transportation Plan reflects a two-year DOT capital plan of \$7.0 billion and the funded first two years of the approved 2010-14 Metropolitan Transportation Authority ("MTA") capital program of \$9.1 billion. The entire five-year MTA capital program contains project obligations totaling \$23.8 billion, but current funding is only sufficient for 2010 and 2011. After that, the continuation of the capital program will require additional funding. The MTA capital program is financed by a combination of City, State, Federal, and MTA resources. DOT's programs are financed by a combination of Federal grants, pay-as-you-go capital and bond proceeds supported by the Dedicated Highway and Bridge Trust Fund, transfers from the General Fund, and revenues from the Dedicated Mass Transportation Trust Fund. Legislation has been periodically adopted to increase the deposit of revenues into the Dedicated Highway and Bridge Trust Fund and the Dedicated Mass Transportation Trust Fund to meet program needs. In addition, general obligation bond acts have been used to support capital transportation spending.

The State has supported the capital plans of the MTA through legislation adopted in 1992 and 1993 which authorized payments, subject to appropriation, of a portion of the petroleum business tax from the State's Dedicated Mass Transportation Trust Fund to the MTA and authorized it to be used as a source of payment for non-State-supported bonds to be sold by the MTA to support its capital program. Legislation adopted in 2000 provided for increases in amounts dedicated to the MTA through the Dedicated Mass Transportation Trust Fund by increasing the portion of the petroleum business tax and other transportation related taxes and fees that would flow to that Fund between 2000-01 and 2004-05. In 2002, the MTA implemented an overall debt restructuring program. The program simplified and restructured MTA credits, modernized resolutions and restructured existing debt to create new capital capacity and better match the bond maturities with the useful lives of the projects financed. In 2009, the State adopted legislation to collect a tax on payrolls, known as the Mobility Tax, in the MTA region, as well as an increase on fees for motor vehicle license and registrations, taxi rides, and auto rentals in the MTA region. These new and additional taxes and fees were dedicated to the MTA from the Mobility Tax Trust Account and the MTA Aid Trust Account, and the Authority was authorized to use these revenue streams as a source of payment for non-State-supported bonds to be sold by the Authority to support its capital program.

Education. The State finances the physical infrastructure of SUNY and CUNY, and their respective community colleges and State Education Department through direct State capital spending and through financing arrangements with DASNY, paying all capital costs of the senior colleges and sharing equally with local governments for the community colleges, except that SUNY dormitories are financed through dormitory fees. Also included are bond issuances to support school construction projects for the Expanding our Children's Education and Learning ("EXCEL") program.

SUNY State-operated campuses include nearly 2,300 buildings, encompassing classrooms, dormitories, libraries, research laboratories, athletic and recreation facilities, hospitals and dining halls. Together with the 30 SUNY community colleges, the SUNY system serves more than 425,000 students. The CUNY system is comprised of 11 senior colleges and 6 community colleges that serve more than 243,000 students.

Mental Hygiene/Health. The State provides care for its citizens with mental illness, mental retardation and developmental disabilities, and for those with chemical dependencies, through the OMH, OPWDD, and OASAS and their network of not-for-profit service providers. Capital investments for State-operated programs are primarily supported by patient revenues through financing arrangements with DASNY. Historically, this care was provided at large State institutions. Beginning in the 1980s, the State adopted policies to provide institutional care to only those most in need of this specialized setting and to expand care in community programs for the vast majority of those served.

OMH's capital program supports an institutional physical plant consisting of 21 campuses with over 450 actively used buildings as well as a State and non-profit operated community network of over 35,000 beds. The overall policy direction of this program has limited institutional capital projects to those that are necessary to ensure the health and safety of clients and staff, retain program accreditation, and maintain the condition of existing facilities. In addition, the program supports the preservation of existing State and community beds and the development of new non-profit operated community beds.

OPWDD's capital program supports a State institutional infrastructure comprising 13 service districts, as well as the Valley Ridge Center for Intensive Treatment and the Institute for Basic Research in Developmental Disabilities, with approximately 267 actively used buildings. Additionally, OPWDD provides capital support for a State and non-profit operated community network of over 36,000 beds. The program continues the recent shift in emphasis from the development of new facilities (primarily in the community) to the improvement and maintenance of existing State and non-profit infrastructure.

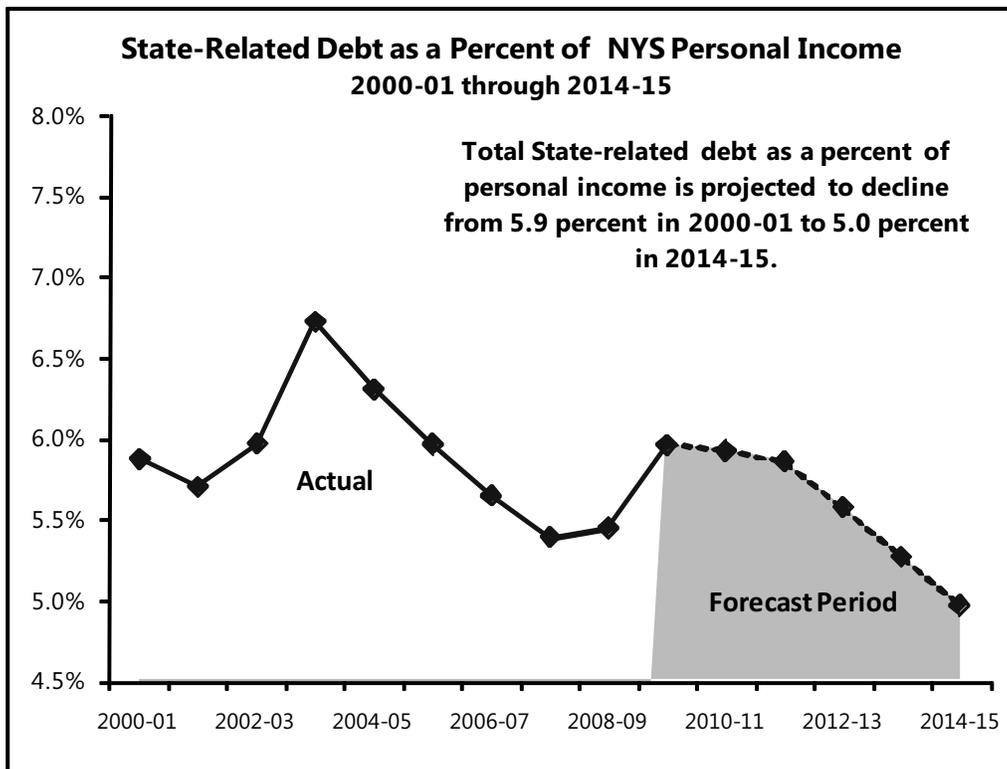
As the need for institutional beds has declined in recent years, both OMH and OPWDD have consolidated, reconfigured or closed many of their campuses, permitting the planned development of alternate uses for the surplus facilities.

Various capital programs for DOH facilities have also been financed by DASNY using patient revenues and contractual-obligation financing arrangements.

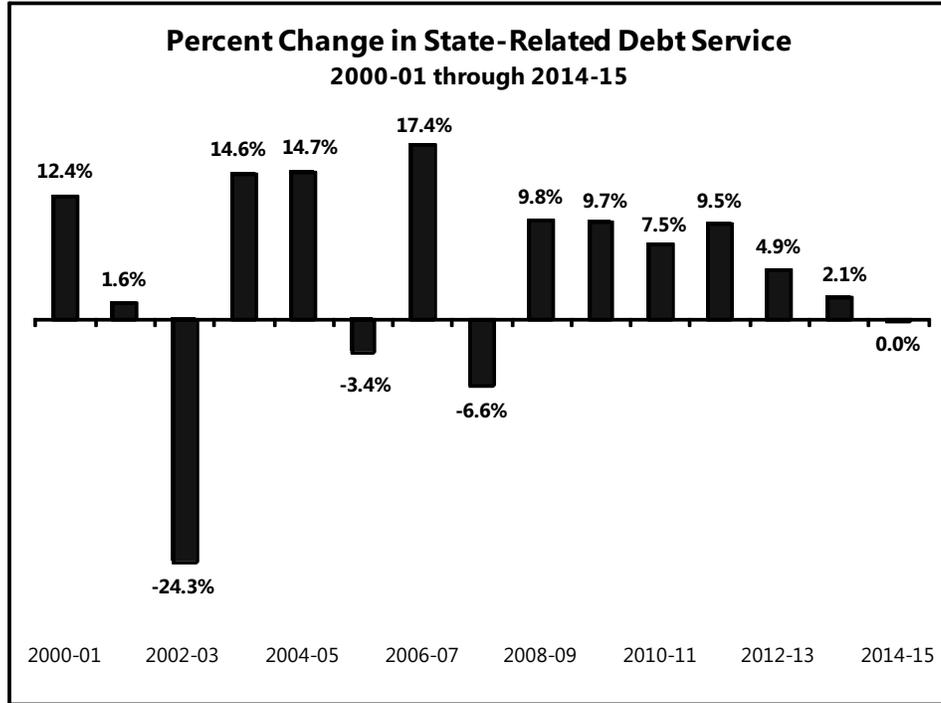
State-Related Debt Long-Term Trends

State debt from 2009-10 to 2014-15 reflect a 1.2 percent average annual increase in debt levels and a 5.0 percent average annual increase in statewide personal income. As a result, debt as a percentage of personal income is expected to decline over the five-year Plan period, settling at 5.0 percent in 2014-15. The projections do not include the potential impact of new bonded capital commitments that may be approved in future years.

Over a longer time horizon, State-related debt outstanding as a percentage of personal income is projected to drop from 5.9 percent in 2000-01 to 5.0 percent in 2014-15, not including the potential impact of future bonded capital commitments. Much of the decline that occurred from 2000-01 through 2002-03 resulted from the elimination of the State's moral obligation on approximately \$4.2 billion of New York City MAC bonds. For a two-year period beginning in 2001-02, State-related debt outstanding increased as the State issued \$4.6 billion in tobacco bonds to help close deficits in 2002-03 and 2003-04.



Debt service growth is projected to average roughly 4.1 percent in the forecast period due to fewer refunding opportunities, the Dedicated Highway debt restructuring, continued support for education and economic development capital programs, and continued issuance of PIT revenue bonds which are the primary source of financing.



The following table provides the detailed data to support previous graphs.

DEBT AFFORDABILITY MEASURES										
(in millions)										
Fiscal Year	Population	State-Related Debt Outstanding				State-Related Debt Service				
		Personal Income	All Funds	Total Debt	% Change	% Personal Income	Debt Per Capita	Total Debt Service ¹	% Change	% All Funds
2000-01	19.0	\$657,894	\$83,527	\$38,661	--	5.9%	\$2,037	\$4,368	--	5.2%
2001-02	19.1	\$676,825	\$84,312	\$38,601	-0.2%	5.7%	\$2,022	\$4,437	1.6%	5.3%
2002-03	19.2	\$678,647	\$88,274	\$40,531	5.0%	6.0%	\$2,115	\$3,358	-24.3%	3.8%
2003-04	19.2	\$695,479	\$99,698	\$46,773	15.4%	6.7%	\$2,432	\$3,847	14.6%	3.9%
2004-05	19.3	\$741,124	\$101,381	\$46,744	-0.1%	6.3%	\$2,422	\$4,412	14.7%	4.4%
2005-06	19.3	\$786,571	\$107,027	\$46,927	0.4%	6.0%	\$2,427	\$4,264	-3.4%	4.0%
2006-07	19.4	\$851,635	\$112,397	\$48,095	2.5%	5.6%	\$2,483	\$5,004	17.4%	4.5%
2007-08	19.4	\$925,063	\$115,423	\$49,884	3.7%	5.4%	\$2,568	\$4,672	-6.6%	4.0%
2008-09	19.5	\$950,210	\$119,235	\$51,768	3.8%	5.4%	\$2,658	\$5,131	9.8%	4.3%
2009-10	19.5	\$917,473	\$126,748	\$54,694	5.7%	6.0%	\$2,798	\$5,626	9.7%	4.4%
2010-11 *	19.6	\$959,796	\$134,295	\$56,877	4.0%	5.9%	\$2,898	\$6,051	7.5%	4.5%
2011-12 *	19.7	\$996,719	\$133,706	\$58,413	2.7%	5.9%	\$2,966	\$6,627	9.5%	5.0%
2012-13 *	19.8	\$1,053,670	\$132,739	\$58,751	0.6%	5.6%	\$2,974	\$6,949	4.9%	5.2%
2013-14 *	19.8	\$1,109,789	\$137,814	\$58,487	-0.4%	5.3%	\$2,951	\$7,095	2.1%	5.1%
2014-15 *	19.9	\$1,169,251	\$139,956	\$58,102	-0.7%	5.0%	\$2,922	\$7,093	0.0%	5.1%

*Projected

1. Reflects disbursement of funds from the Debt Reduction Reserve Fund (DRRF), used to defease high-cost debt in certain fiscal years.

State-Related Debt Service Requirements

The following table presents the current and future debt service (principal and interest) requirements on State-related debt outstanding as of March 31, 2010. The requirements of LGAC and other financing obligations of public authorities are based on the gross amounts due from the authorities to bondholders within the fiscal year when such authorities make the payments. The amounts shown do not reflect other associated costs or revenues anticipated to be available, such as interest earnings, capitalized interest or debt service reserve fund releases. Thus, the requirements shown are generally in excess of the amounts expected to be actually paid by the State during its fiscal year.

ESTIMATED DEBT SERVICE REQUIREMENTS ON EXISTING STATE-RELATED DEBT BY CREDIT STRUCTURE(1)
As of March 31, 2010
(millions of dollars)

	Fiscal Years Ending March 31					Total
	2011	2012	2013	2014	2015	
General Obligation	505	471	432	390	352	2,150
Local Government Assistance Corporation	374	374	376	369	378	1,871
State Personal Income Tax Financing Obligations	1,749	1,711	1,659	1,600	1,554	8,273
Other State-Supported Financing Obligations	2,939	2,861	2,801	2,682	2,484	13,767
Tobacco (2)	395	451	453	455	457	2,211
All Other State-Related	142	142	140	138	132	694
Total	\$6,104	\$6,010	\$5,861	\$5,634	\$5,357	\$28,966

Source: NYS DOB

(1) Reflects debt issued as of March 31, 2010. Estimated debt service requirements are calculated based on swap rates in effect at March 31, 2010 for all bonds that were synthetically fixed under an interest rate exchange agreement. Debt service requirements for variable rate bonds for which there are no related interest rate exchange agreements were calculated at rates ranging from 3.50 percent to 5.38 percent.

(2) Estimated debt service numbers are based on available information as of March 31, 2010. Since 2006 certain monies expected to flow to the State under the Master Settlement Agreement have been withheld and placed in an escrow account. Pending the outcome of a resolution between participating manufactures and the states, the debt service numbers will be adjusted accordingly.

Limitations on State-Supported Debt

Debt Reform Act of 2000

Chapter 59 of the Laws of 2000 enacted the Debt Reform Act, which is intended to improve the State's borrowing practices and applies to all new State-supported debt issued on and after April 1, 2000. The Debt Reform Act imposes phased-in caps on new debt outstanding and new debt service costs, limits the use of debt to capital works and purposes only, and establishes a maximum term of 30 years on such debt.

The cap on new State-supported debt outstanding began at 0.75 percent of personal income in 2000-01 and is fully phased-in at 4 percent of personal income in 2010-11. The cap on new State-supported debt service costs began at 0.75 percent of total governmental funds receipts in 2000-01 and will increase until it is fully phased in at 5 percent in 2013-14.

The Debt Reform Act requires that the limitations on the issuance of State-supported debt and debt service costs be calculated by October 31st of each year and reported in the quarterly Financial Plan Update most proximate to such date. If the calculations for new State-supported debt outstanding and debt service costs are less than the State-supported debt outstanding and debt service costs permitted under the Debt Reform Act, new State-supported debt may continue to be issued. However, if either cap is met or exceeded, the State would be precluded from contracting new State-supported debt until the next annual cap calculation is made and State-supported debt is found to be within the appropriate limits. The prohibition on issuing new State-supported debt if the caps are met or exceeded provides a significant incentive to treat the debt caps as absolute limits that should not be reached, and therefore DOB intends to manage subsequent capital plans and issuance schedules under these limits.

Pursuant to the provisions of the Debt Reform Act, the most recent annual calculation of the limitations imposed by the Debt Reform Act was reported in the Financial Plan Update most proximate to October 31, 2009. The State reported that it was in compliance with both debt caps, with debt issued after March 31, 2000 and outstanding at March 31, 2009 at 2.67 percent of personal income and debt service on such debt at 1.58 percent of total governmental receipts, compared to the caps of 3.65 percent for each.

Current projections estimate that debt outstanding and debt service costs will continue to remain below the limits imposed by the Act throughout the next several years. However, the State has entered into a period of significantly declining debt capacity. Available room under the cap, in regards to debt outstanding is expected to decline from .47 percent (\$4.5 billion) in 2010-11 to 0.22 percent (\$2.3 billion) in 2012-13, a decrease of \$2.2 billion.

Interest Rate Exchange Agreements and Net Variable Rate Obligations

Chapter 81 of the Laws of 2002 authorized issuers of State-supported debt to issue a limited amount of variable rate debt instruments and to enter into a limited amount of interest rate exchange agreements. The current limit on debt instruments which result in a net variable rate exposure (i.e., both variable rate debt and interest rate exchange agreements) is no more than 20 percent of total outstanding State-supported debt. Interest rate exchange agreements are also limited to a total notional amount of no more than 20 percent of total outstanding State-supported debt. As of March 31, 2010, State-supported debt of \$50.3 billion results in variable rate exposure cap and interest rate exchange agreement cap authorizations of about \$10 billion each. As discussed below, as of March 31, 2010, both the amount of outstanding variable rate debt instruments and interest rate exchange agreements are significantly less than the authorized totals of 20 percent of total outstanding State-supported debt.

Interest Rate Exchange Agreements

As of March 31, 2010, the State's Authorized issuers have a notional amount of \$2.7 billion in interest rate exchange agreements that are subject to the interest rate exchange agreement cap, or 5.3 percent of total debt outstanding.

The State has significantly reduced its swap exposure from \$5.9 billion as of March 31, 2008 to \$2.7 billion as of March 31, 2010, a 54 percent reduction. Over this two-year period, the State has terminated \$3.2 billion of swaps, including \$565 million that was terminated automatically due to the bankruptcy of Lehman Brothers Holdings, Inc. The State currently has no plans to increase its swap exposure, and may take further actions to reduce swap exposures commensurate with variable rate restructuring efforts.

The following table shows the amount of outstanding interest rate exchange agreements which are subject to the statutory cap over the past three years.

**Interest Rate Exchange Cap
(millions of dollars)**

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Interest Rate Exchange Cap	10,065	10,567	10,955	11,108	11,145	11,162
Notional Amounts of Interest Rate Exchange Agreements	2,671	2,253	2,248	2,234	2,202	2,115
Percent of Interest Rate Exchange Agreements to Debt Outstanding	5.3%	4.3%	4.1%	4.0%	4.0%	3.8%

Net Variable Rate Obligations

As of March 31, 2010 the State had about \$1.3 billion of outstanding variable rate debt instruments that are subject to the net variable rate exposure cap. This is equal to 2.5 percent of total debt outstanding and that amount includes \$1.2 billion of unhedged variable rate obligations and \$82 million of synthetic variable rate obligations.

The State has made significant adjustments to its variable rate bond portfolio to mitigate risks and reduce costs. Since February 2008, the State has reduced its variable rate bond exposure by \$4.2 billion.

In addition to the variable rate obligations described above, the State has \$2.4 billion of fixed rate obligations that may convert to variable rate obligations in the future. This includes \$1.75 billion in State-supported convertible rate bonds currently outstanding. These bonds bear a fixed rate until future mandatory tender dates in 2011, 2012 and 2013, at which times the State can convert them to either a fixed rate or continue them in a variable rate mode. Similar to these convertible bonds, the \$618 million in forward starting synthetic variable rate obligations result in the State paying a fixed rate through 2014, and a variable rate between 2014 and 2030. Legislation was enacted in 2005 to clarify that convertible bonds, synthetic variable obligations and similar obligations that were issued on or before July 1, 2005 and which result in the State paying a fixed rate in a fiscal year do not count under the variable rate cap until the fiscal year in which the State may pay a variable rate.

State Bond Caps and Debt Outstanding

Bond caps are legal authorizations to issue bonds to finance the State's capital projects. The caps can authorize bond financing of capital appropriations. As the bond cap for a particular programmatic purpose is reached, subsequent legislative changes are required to raise the statutory cap to the level necessary to meet the bondable capital needs, as permitted by a single or multi-year appropriation. The aggregate bond caps have increased by \$1.2 billion million in fiscal year 2010-11.

Debt authorizations for capital programs are either approved or enacted at one time, expected to be fully issued over time, or are enacted annually by the Legislature and are usually consistent with bondable capital projects appropriations. Authorization does not, however, indicate intent to sell bonds for the entire amount of those authorizations, because capital appropriations often include projects that do not materialize or are financed from other sources. The amount of bonds authorized may be increased or decreased from time to time by the Legislature. In the case of general obligation debt, increases in the authorization must be approved by the voters. See Exhibit C for additional information.

For More Information

Additional information on the State's debt portfolio is available on DOB's public website (www.budget.state.ny.us). The Investor's Guide section of the site contains information on New York State bonds including: the State's bond issuance schedule; which is updated periodically; swap and variable rate capacity reports; variable rate trading activity; State PIT Revenue Bond debt service and debt outstanding; and swap performance reports.

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Selected State Government Summary

State Government Organization

The State has a centralized administrative system with most executive powers vested in the Governor. The State has four officials elected in statewide elections, the Governor, Lieutenant Governor, Comptroller and Attorney General. These officials serve four-year terms that next expire on December 31, 2010.

<u>Name</u>	<u>Office</u>	<u>Party Affiliation</u>	<u>First Elected</u>
David A. Paterson*	Governor	Democrat	N/A
Richard Ravitch**	Lieutenant Governor	Democrat	N/A
Thomas P. DiNapoli***	Comptroller	Democrat	2007
Andrew M. Cuomo	Attorney General	Democrat	2006

*Sworn in as Governor on March 17, 2008 following the resignation of Governor Spitzer.

**Appointed by the Governor on July 8, 2009.

***Elected by the State Legislature on February 7, 2007 following the December 2006 resignation of Comptroller Hevesi.

The Governor and Lieutenant Governor are elected jointly. David A. Paterson became Governor under provisions of the State Constitution following the resignation of former Governor Spitzer. The vacancy created in the office of Lieutenant Governor was filled on July 8, 2009 when the Governor appointed Richard Ravitch to serve as Lieutenant Governor. The Comptroller and Attorney General are chosen separately by the voters during the election of the Governor. The Governor appoints the heads of most State departments, including the Director of the Budget (the current Director is Robert L. Megna). DOB is responsible for preparing the Governor's Executive Budget, negotiating that budget with the State Legislature, and implementing the budget once it is adopted, which includes updating the State's fiscal projections quarterly. DOB is also responsible for coordinating the State's capital program and debt financing activities. The Comptroller is responsible for auditing the disbursements, receipts and accounts of the State, as well as for auditing State departments, agencies, public authorities and municipalities. The Comptroller is also charged with managing the State's general obligation debt and most of its investments (see "Fiscal Controls" and "Investment of State Moneys" below). The Attorney General is the legal advisor to State departments, represents the State and certain public authorities in legal proceedings and opines upon the validity of all State general obligation bonds and notes.

The State Legislature is composed of a 62-member Senate and a 150-member Assembly, all elected from geographical districts for two-year terms, expiring December 31, 2010. Both the Senate and the Assembly operate on a committee system. The Legislature meets annually, generally for about six months, and remains formally in session the entire year. In recent years there have been special sessions, as well. The current majority leaders are John Sampson (Democrat) and Pedro Espada Jr. (Democrat) in the Senate and Sheldon Silver (Democrat), Speaker of the Assembly. The Temporary President of the Senate is Malcolm Smith (Democrat). The minority leaders are Dean Skelos (Republican) in the Senate and Brian Kolb (Republican) in the Assembly.

Appropriations and Fiscal Controls

The State Constitution requires the Comptroller to audit the accrual and collection of State revenues and receipts. In addition, the Comptroller is required to audit all official State accounts and all vouchers before payment, and no State payment may be made unless the Comptroller has audited it.

Disbursements from State funds are limited to the level of authorized appropriations. Disbursements from Federal funds must be appropriated in accordance with appropriate legal authority, are limited to the amounts anticipated from Federal programs and may not be made in the absence of appropriate certifications from the Director of the Budget. State agency contracts for disbursements in excess of \$50,000 require the Comptroller's approval (except for the Office of General Services expenditure contracts, for which the threshold for Comptroller's approval is \$85,000) Other approval thresholds apply to certain State University contracts, as provided for in Section 355 of the Education Law, and certain City University of New York contracts, as provided for in Section 6218 of the Education Law. State agency contracts depend in most cases upon the existence of an appropriation and the issuance of a certificate of availability by the Director of the Budget. The Budget Director must review all applications for State participation in continuing grant- or contract-supported programs, with specified exceptions. Certain legislative leaders have the opportunity to make recommendations on the applications. In addition, the Comptroller has the discretion to identify and review certain public authority contracts valued at \$1.0 million or greater that are either awarded without competition or which are paid using State-appropriated funds.

No appropriation may be increased or decreased by transfer or otherwise, except by (i) the interchange within a fund, among items of a particular program or purpose, of moneys appropriated for such program or purpose in such fund, with limited exceptions, or (ii) the enactment of certain emergency appropriations. Moneys or other financial resources from one fund may also be loaned to another fund, but only if such loan is repaid in full prior to the end of the month in which the loan was made, except as provided by law.

In addition, the Governor has traditionally exercised substantial authority in administering the State Financial Plan by limiting disbursements after the Legislature has enacted appropriation bills and revenue measures. The Governor may, primarily through DOB, limit spending by State departments, or delay construction projects to control disbursements. An important limitation of the Governor's ability to restrict disbursements is that local assistance payments, which typically make up close to 70 percent of General Fund disbursements (including operating transfers to other funds), are generally mandated by statute. The State Court of Appeals has held that, even in an effort to maintain a balanced Financial Plan, neither the Governor nor the Director of the Budget has the authority to refuse to make a local assistance disbursement mandated by law.

Investment of State Moneys

The Comptroller is responsible for the investment of substantially all State moneys. By law, such moneys may be invested only in obligations issued or guaranteed by the Federal government or the State, obligations of certain Federal agencies that are not guaranteed by the Federal government, certain general obligations of other states, direct obligations of the State's municipalities and obligations of certain public authorities, certain short-term corporate obligations, certain bankers' acceptances, and certificates of deposit secured by legally qualified governmental securities. All securities in which the State invests moneys held by funds administered within the State Treasury must mature within twelve years of the date they are purchased. Money impounded by the Comptroller for payment of TRANs may only be invested, subject to the provisions of the State Finance Law, in (i) obligations of the Federal government, (ii) certificates of deposit secured by such obligations, or (iii) obligations of or obligations guaranteed by

agencies of the Federal government as to which the payment of principal and interest is guaranteed by the Federal government.

The Comptroller invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments through STIP, which is comprised of joint custody funds (Governmental Funds, Internal Service Funds, Enterprise Funds and Private Purpose Trust Funds), as well as several sole custody funds including the Tobacco Settlement Fund. The interest earnings accrued are allocated and deposited to the credit of those funds with positive balances that contribute to the overall invested STIP pool.

The Comptroller is authorized to make temporary loans from STIP to cover temporary cash shortfalls in certain funds and accounts resulting from the timing of receipts and disbursements. The Legislature authorizes the funds and accounts that may receive loans each year, based on legislation submitted with the Executive Budget. Loans may be granted only for amounts that the Director of the Budget certifies are “receivable on account” or can be repaid from the current operating receipts of the fund (i.e., loans cannot be granted in expectation of future revenue enhancements). The General Fund is authorized to receive temporary loans from STIP for a period not to exceed four months or the end of the fiscal year, whichever is shorter.

The State Comptroller repays loans from the first cash receipts into the borrowing fund or account. Fund balances outside the General Fund are presented on a net basis, i.e., they are reduced by the amount of outstanding temporary loans from STIP. The primary sources of the State's temporary loans include timing-related delays in the receipt from Federal Funds and the sale of bonds used to finance capital projects, a delinquent SUNY hospital loan, and unreimbursed costs related to the Office for Technology Internal Service funds. The total outstanding balance of loans from STIP at March 31, 2010 was \$1.486 billion, a decrease of \$70 million from the outstanding loan balance of \$1.556 billion at March 31, 2009.

Accounting Practices, Financial Reporting and Budgeting

Historically, the State has accounted for, reported and budgeted its operations on a cash basis. Under this form of accounting, receipts are recorded at the time money or checks are deposited in the State Treasury, and disbursements are recorded at the time a check is drawn. As a result, actions and circumstances, including discretionary decisions by certain governmental officials, can affect the timing of payments and deposits and therefore can significantly affect the cash amounts reported in a fiscal year. Under cash-basis accounting, all estimates and projections of State receipts and disbursements relating to a particular fiscal year are of amounts to be deposited in or disbursed from the State Treasury during that fiscal year, regardless of the fiscal period to which particular receipts or disbursements may otherwise be attributable.

The State also has an accounting and financial reporting system based on GAAP and currently formulates a GAAP financial plan. GAAP for governmental entities requires use of the accrual basis of accounting for the government-wide financial statements which includes governmental and business-type activities and component units. Revenues are recorded when they are estimated to have been earned and expenses are recorded when a liability is estimated to have been incurred, regardless of the timing of related cash flows. Governmental fund financial statements are prepared using the modified accrual basis of accounting. Under modified accrual procedures, revenues are recorded when they become both measurable and available within 12 months of the end of the current fiscal period to finance expenditures; expenditures are recorded in the accounting period the liability is incurred to the extent it is expected to be paid within the next 12 months with the exception of expenditures such as debt service, compensated absences, and claims and judgments. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Non-

exchange grants and subsidies such as local assistance grants and public benefit corporation subsidies are recognized as expenditures when all requirements of the grant and or subsidy have been satisfied.

State Government Employment

As of March 31, 2010, the State had approximately 195,792 full-time equivalent annual salaried employees funded from all funds including some part-time and temporary employees but excluding seasonal, legislative and judicial employees. The workforce is now 15 percent smaller than it was 20 years ago, when it peaked at 230,600 positions. The State expects to end the 2010-11 fiscal year with a total 191,997 filled positions, after implementation of workforce savings initiatives, which include the rightsizing of certain youth facilities, agency consolidations, early retirement incentives, and the continuation of statewide hiring controls. The State workforce subject to Executive control is expected to total 128,165 full time equivalent positions at the end of 2010-11, a reduction of approximately 3,576 from 2009-10 levels.

The State Public Employment Relations Board defines negotiating units for State employees. The Governor's Office of Employee Relations conducts collective bargaining negotiations with the State's unions, with the exception of employees of the Judiciary, public authorities and the Legislature. Such negotiations include terms and conditions of employment, except pension benefits. The State has contracts with four of the major labor unions, the Civil Service Employees Association ("CSEA"), United University Professions ("UUP"), Public Employees Federation ("PEF"), and District Council 37. Under terms of the four-year contracts, which run from April 2, 2007 through April 1, 2011 (July 2, 2007 through July 1, 2011 for UUP), employees received pay increases of 3 percent annually in 2007-08, 2008-09, and 2009-10, and will receive 4 percent in 2010-11.

While approximately 94 percent of the State workforce is unionized, the remainder of the workforce is designated as "managerial" or "confidential" and is excluded from collective bargaining. In practice, however, the results of collective bargaining negotiations are usually applied to all State employees within the Executive Branch. Under the State's Taylor Law, the general statute governing public employee-employer relations in the State, employees are prohibited from striking. A strike against the State last occurred in 1979 by employees of the Department of Correctional Services.

State Retirement Systems

General

The New York State and Local Retirement Systems (the "Systems") provide coverage for public employees of the State and its localities (except employees of New York City and teachers, who are covered by separate plans). The Systems comprise the New York State and Local Employees' Retirement System ("ERS") and the New York State and Local Police and Fire Retirement System ("PFRS"). The Comptroller is the administrative head of the Systems. State employees made up about 34 percent of the membership during the 2009-10 fiscal year. There were 3,035 other public employers participating in the Systems, including all cities and counties (except New York City), most towns, villages and school districts (with respect to non-teaching employees) and a large number of local authorities of the State.

As of March 31, 2010, 679,217 persons were members and 375,803 pensioners or beneficiaries were receiving benefits. The State Constitution considers membership in any State pension or retirement system to be a contractual relationship, the benefits of which shall not be diminished or impaired. Members cannot be required to begin making contributions or make increased contributions beyond what was required when membership began.

The investment losses experienced in fiscal year 2009 have negatively impacted the value of assets held for the Systems. The current actuarial smoothing method spreads the impact over a 5-year period, and thus contribution rates increased for fiscal years 2011 and 2012 and further increases are expected for fiscal years 2013 through 2015. The amount of such future increases would depend, in part, on the value of the pension fund as of each April 1 as well as on the present value of the anticipated benefits to be paid by the pension fund as of each April 1. Final contribution rates for fiscal year 2012 were released in early September 2010. The average ERS rate increased from 11.9 percent of salary in fiscal year 2011 to 16.3 percent of salary in fiscal year 2012, while the average PFRS rate increased from 18.2 percent of salary in fiscal year 2011 to 21.6 percent of salary in fiscal year 2012. The contribution rates for fiscal year 2012 reflect the System's Actuary's recommendations, including a reduction in the assumed investment rate of return from 8 percent to 7.5 percent, based on the legally required five year review of actuarial assumptions.

On December 10, 2009, the Governor signed a bill that amended Articles 14, 15 and 19 and created Article 22 of the Retirement and Social Security Law. This resulted in significant changes to benefits for members of ERS and PFRS. ERS members joining on or after January 1, 2010 will be covered by these benefits and will be in Tier 5. PFRS members joining on or after January 9, 2010 will be in Tier 5 and may also be covered by these changed benefits.

Legislation enacted in June 2010 providing the State and local employers with the option to offer a temporary Retirement Incentive Program for certain ERS members. This program does not apply to PFRS members. The Program has two distinct parts:

- Part A is a targeted incentive. Employers must identify eligible titles. Part A provides one additional month of service credit for each year of credited service an eligible member has at retirement. The maximum additional incentive service credit is three years.
- Part B is not targeted. It is open to all eligible Tier 2, 3 and 4 members unless an employer deems a member's position critical to the maintenance of public health and safety. Part B allows members who are at least age 55 and have 25 years or more of service credit to retire without a benefit reduction.

Members whose employer offers both parts of the program, and who meet the eligibility requirements of both parts, must choose between the two. Employers must establish a 30-to-90-day window for Part A and/or a 90-day window for Part B. The incentive window for State Executive Branch employees is July 1 through September 28, 2010. Generally, other public employers may establish incentive windows which may extend through December 31, 2010. The cost of the incentive will be borne by the State and each employer electing the incentive over a five-year period commencing with a payment in the State fiscal year 2011-12. The cost of this incentive can not be determined until completion of the program.

Legislation enacted in August 2010 gives the State and local employers the option to amortize a portion of their annual pension costs during periods of significant rate increases. Amortized amounts will be paid in equal annual installments over a ten-year period, and employers may prepay these amounts at any time. Interest will be charged at a rate which approximates a market rate of return on taxable fixed rate securities of a comparable duration. The first payment will be due in the fiscal year following the decision to amortize. When contribution rates fall below legally specified levels and all outstanding amortizations have been paid, employers that elected to amortize will be required to pay additional monies into a reserve fund that will be used when employer contribution rates begin to rise in the future. Over time, it is expected that this will reduce the budgetary volatility of employer contributions (See page

19 of this AIS for the Division of Budget's projections of amounts expected to be amortized in SFY 2010-11 through SFY 2014-15.)

Contributions

Contributions to the Systems are provided by employers and employees . Employers contribute on the basis of the plan or plans they provide for members. All ERS members joining from mid-1976 through 2009 are required to contribute 3 percent of their salaries for the first ten years of membership. All ERS members joining after 2009 are required to contribute 3 percent of their salaries for their career. Certain PFRS members joining since mid-2009 are required to contribute 3 percent of their salaries for their career, depending upon their contract.

Legislation enacted in May 2003 realigned the Retirement Systems billing cycle to match governments' budget cycles and also instituted a minimum annual payment. The employer contribution for a given fiscal year will be based on the value of the pension fund and its liabilities on the prior April 1. In addition, employers are required to make a minimum contribution of at least 4.5 percent of payroll every year.

Chapter 260 of the Laws of 2004 authorized the State and local employers to amortize over ten years, at five percent interest, a portion of their annual bill for fiscal years ended 2005, 2006 and 2007. As of March 31, 2010, the amortized amount receivable for fiscal year 2004-05 from the State is \$280.14 million and from participating employers is \$60.53 million; the amortized amount receivable for fiscal year 2005-06 from the State is \$102.62 million and from participating employers is \$20.61 million; and the amortized amount receivable for fiscal year 2006-07 from participating employers is \$18.07 million. The State did not amortize any portion of its 2007 contributions.

The State paid, in full, its employer contributions for the fiscal year ended March 31, 2010. Payments totaled \$994.4 million, including amortization payments of \$87 million for the 2005 and 2006 bills.

The State bill for the current fiscal year ending March 31, 2011 is \$1.55 billion, including amortization payments of \$87 million for the 2005 and 2006 bills and assuming a payment on March 1, 2011. The State bill reflects the full amount due for the current fiscal year ending March 31, 2011 without regard to any potential amortization pursuant to the 2010 legislation.

Pension Assets and Liabilities

Assets are held exclusively for the benefit of members, pensioners and beneficiaries. Investments for the Systems are made by the Comptroller as trustee of the Common Retirement Fund, a pooled investment vehicle. OSC reports that the net assets available for benefits as of March 31, 2010 were \$134.2 billion (including \$2.6 billion in receivables, which consist of employer contributions, member contributions, member loans, accrued interest and dividends, investment sales and other miscellaneous receivables) an increase of \$23.3 billion or 21 percent from the 2008-09 level of \$110.9 billion, reflecting, in large part, equity market performance. OSC reports that the present value of anticipated benefits for current members, retirees, and beneficiaries increased from \$176.6 billion on April 1, 2009 to \$186.8 billion (including \$75.6 billion for current retirees and beneficiaries) on April 1, 2010. The funding method used by the Systems anticipates that the net assets, plus future actuarially determined contributions, will be sufficient to pay for the anticipated benefits of current members, retirees and beneficiaries. Actuarially determined contributions are calculated using actuarial assets and the present value of anticipated benefits. Actuarial assets differed from net assets on April 1, 2010 in that amortized cost was used instead of market value for bonds and mortgages and the non-fixed investments utilized a

smoothing method which recognized 20 percent of unexpected gain for the 2010 fiscal year, 40 percent of the unexpected loss for the 2009 fiscal year, 60 percent of the unexpected loss for the 2008 fiscal year and 80 percent of the unexpected gain for the 2007 fiscal year. Actuarial assets decreased from \$149.0 billion on April 1, 2009 to \$147.7 billion on April 1, 2010. The funded ratio, as of April 1, 2010, using the entry age normal funding method and actuarial assets, was 94 percent.

The tables that follow show net assets, benefits paid and the actuarially determined contributions that have been made over the last ten years. See also "Contributions" above.

**NET ASSETS AVAILABLE FOR BENEFITS OF THE
NEW YORK STATE AND LOCAL RETIREMENT SYSTEMS (1)
(millions of dollars)**

Fiscal Year Ended		Percent Increase/ (Decrease) From Prior Year
<u>March 31</u>	<u>Total Assets(2)</u>	
2000	128,889	14.3
2001	114,044	(11.5)
2002	112,725	(1.2)
2003	97,373	(13.6)
2004	120,799	24.1
2005	128,038	6.0
2006	142,620	11.4
2007	156,625	9.8
2008	155,846	(0.5)
2009	110,938	(28.8)
2010	134,252	21.0

Sources: State and Local Retirement Systems.

(1) Includes relatively small amounts held under Group Life Insurance Plan. Includes some employer contribution receivables. Fiscal year ending March 31, 2010 includes approximately \$2.6 billion of receivables.

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

**CONTRIBUTIONS AND BENEFITS
NEW YORK STATE AND LOCAL RETIREMENT SYSTEMS
(millions of dollars)**

Fiscal Year Ended March 31	Contributions Recorded				Total Benefits Paid(3)
	All Participating Employers(1)(2)	Local Employers(1)(2)	State(1)(2)	Employees	
2000	165	11	154	423	3,787
2001	215	112	103	319	4,267
2002	264	199	65	210	4,576
2003	652	378	274	219	5,030
2004	1,287	832	455	222	5,424
2005	2,965	1,877	1,088	227	5,691
2006	2,782	1,714	1,068	241	6,073
2007	2,718	1,730	988	250	6,432
2008	2,649	1,641	1,008	266	6,883
2009	2,456	1,567	889	273	7,265
2010	2,344	1,447	897	284	7,719

(1) Contributions recorded include the full amount of unpaid amortized contributions.

(2) The annual required contributions (ARC) include the employers' normal costs, the Group Life Insurance Plan amounts, and other supplemental amounts.

(3) Includes payments from Group Life Insurance Plan.

Authorities and Localities

Public Authorities

For the purposes of this disclosure, public authorities refer to certain of the State's public benefit corporations, created pursuant to State law. Public authorities are not subject to the constitutional restrictions on the incurrence of debt that apply to the State itself and may issue bonds and notes within the amounts and restrictions set forth in legislative authorization. The State's access to the public credit markets could be impaired and the market price of its outstanding debt may be materially and adversely affected if certain of its public authorities were to default on their respective obligations, particularly those using the financing techniques referred to as State-supported or State-related debt under the section entitled "Debt and Other Financing Activities." As of December 31, 2009, each of the 19 public authorities below had outstanding debt of \$100 million or more, and the aggregate outstanding debt, including refunding bonds, of these public authorities was approximately \$152 billion, only a portion of which constitutes State-supported or State-related debt. The table below summarizes the outstanding debt of these public authorities.

Outstanding Debt of Certain Public Authorities (1) (2) (3)
As of December 31, 2009
 (millions of dollars)

Public Authority	State- Related Conduit (4)	Authority Revenue Bonding	Other Conduit Bonding	Total
Dormitory Authority (5)	19,273	0	22,835	42,108
Metropolitan Transportation Authority	2,144	17,754	0	19,898
Port Authority of NY & NJ	0	14,511	0	14,511
Thruway Authority	10,770	3,009	0	13,779
Housing Finance Agency	1,474	8,587	0	10,061
Triborough Bridge and Tunnel Authority	85	8,798	0	8,883
UDC/ESDC	8,528	256	0	8,784
Environmental Facilities Corporation	1,043	7,129	267	8,439
Long Island Power Authority (6)	0	6,857	0	6,857
Local Government Assistance Corporation	3,639	0	0	3,639
Energy Research and Development Authority (6)	0	0	3,627	3,627
Tobacco Settlement Financing Corporation	3,257	0	0	3,257
State of New York Mortgage Agency	0	3,237	0	3,237
Power Authority	0	2,013	0	2,013
Battery Park City Authority	0	1,092	0	1,092
Convention Center Development Corporation	0	700	0	700
Municipal Bond Bank Agency	419	219	0	638
Niagara Frontier Transportation Authority	0	185	0	185
United Nations Development Corporation	0	113	0	113
TOTAL OUTSTANDING	50,632	74,460	26,729	151,821

Source: Office of the State Comptroller. Debt Classifications are estimated by Budget Division.

(1) Includes only certain of the public authorities which have more than \$100 million in outstanding debt.

(2) Reflects original par amounts for bonds and financing arrangements or original gross proceeds in the case of capital appreciation bonds. Amounts outstanding do not reflect accretion of capital appreciation bonds or premiums received.

(3) Includes short-term and long-term debt.

(4) Reflects debt for which the primary repayment source is from State appropriations or assigned revenues of the State.

(5) Includes debt previously issued by New York State Medical Care Facilities Finance Agency, which was consolidated with the Dormitory Authority on September 1, 1995.

(6) Includes \$155 million in bonds issued by the New York State Energy Research and Development Authority and included in amounts reported for both NYSERDA and LIPA.

The State has numerous public authorities with various responsibilities, including those which finance, construct and/or operate revenue-producing public facilities. Public authorities generally pay their operating expenses and debt service costs from revenues generated by the projects they finance or operate, such as tolls charged for the use of highways, bridges or tunnels, charges for public power, electric and gas utility services, rentals charged for housing units, and charges for occupancy at medical care facilities. In addition, State legislation authorizes several financing techniques for public authorities.

Also, there are statutory arrangements providing for State local assistance payments otherwise payable to localities to be made under certain circumstances to public authorities. Although the State has no obligation to provide additional assistance to localities whose local assistance payments have been paid to public authorities under these arrangements, the affected localities may seek additional State assistance if local assistance payments are diverted. Some authorities also receive moneys from State appropriations to pay for the operating costs of certain of their programs.

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The City of New York

The fiscal demands on the State may be affected by the fiscal condition of the City, which relies in part on State aid to balance its budget and meet its cash requirements. It is also possible that the State's finances may be affected by the ability of the City, and certain entities issuing debt for the benefit of the City, to market securities successfully in the public credit markets. The official financial disclosure of The City of New York and the financing entities issuing debt on its behalf is available by contacting Raymond J. Orlando, City Director of Investor Relations, (212) 788-5875 or contacting the City Office of Management and Budget, 75 Park Place, 6th Floor, New York, NY 10007. The State assumes no liability or responsibility for any financial information reported by The City of New York. The following table summarizes the debt of New York City.

**DEBT OF NEW YORK CITY
AS OF JUNE 30 OF EACH YEAR
(millions of dollars)**

Year	General						Other(4) Obligations	Treasury Obligations	Total
	Obligation Bonds	Obligations of TFA (1)	Obligations of MAC	Obligations of STAR Corp. (2)	Obligations of TSASC, Inc.	HYIC (3)			
1980	6,179	---	6,116	---	---	---	995	(295)	12,995
1990	13,499	---	7,122	---	---	---	1,077	(1,671)	20,027
1995	24,992	---	4,882	---	---	---	1,299	(1,243)	29,930
1996	26,627	---	4,724	---	---	---	1,394	(1,122)	31,623
1997	27,549	---	4,424	---	---	---	1,464	(391)	33,046
1998	27,310	2,150	4,066	---	---	---	1,529	(365)	34,690
1999	27,834	4,150	3,832	---	---	---	1,835	(299)	37,352
2000	27,245	6,438 (5)	3,532	---	709	---	2,065	(230)	39,759
2001	27,147	7,386	3,217	---	704	---	2,019	(168)	40,305
2002	28,465	10,489 (6)	2,880	---	740	---	2,463	(116)	44,921
2003	29,679	13,134 (7)	2,151	---	1,258	---	2,328	(64)	48,486
2004	31,378	13,364	1,758	---	1,256	---	2,561	(52)	50,265
2005	33,903	12,977	---	2,551	1,283	---	3,746	(39)	54,421
2006	35,844	12,233	---	2,470	1,334	---	3,500	---	55,381
2007	34,506	14,607	---	2,368	1,317	2,100	3,394	---	58,292
2008	36,100	14,828	---	2,339	1,297	2,067	2,556	---	59,187
2009	39,991	16,913	---	2,253	1,274	2,033	2,442	---	64,906

Source: Office of the State Comptroller.

(1) Includes amounts for Building Aid Revenue Bonds (BARBS), the debt service on which will be funded solely from future State Building Aid payments that are subject to appropriation by the State and have been assigned by the City of New York to the TFA.

(2) A portion of the proceeds of the Sales Tax Asset Receivable Corporation (STARC) Bonds were used to retire outstanding Municipal Assistance Corporation bonds. The debt service on STARC bonds will be funded from annual revenues to be provided by the State, subject to annual appropriation. These revenues have been assigned to the Corporation by the Mayor of The City of New York.

(3) Includes a \$100 million obligation to the MTA.

(4) Includes bonds issued by the Fiscal Year 2005 Securitization Corporation, the Industrial Development Agency and the Samurai Funding Corporation. Also included are bonds issued by the Dormitory Authority of the State of New York for education, health, and court capital projects and other long-term leases which will be repaid from revenues of the City or revenues that would otherwise be available to the City if not needed for debt service.

(5) Includes \$515 million of bond anticipation notes issued to finance the City's capital expenditures.

(6) Includes \$2.2 billion of bond anticipation notes used to finance the City's capital expenditures in the amount of \$1.2 billion and Recovery notes for costs related to and arising from events on September 11, 2001 at the World Trade Center in the amount of \$1 billion.

(7) Includes \$1.11 billion of bond anticipation notes issued to finance the City's capital expenditures.

The staffs of the Financial Control Board for the City of New York ("FCB"), The Office of the State Deputy Comptroller ("OSDC"), the City Comptroller and the Independent Budget Office, issue periodic reports on the City's financial plans. Copies of the most recent reports are available by contacting: FCB, 123 William Street, 23rd Floor, New York, NY 10038, Attention: Executive Director; OSDC, 59 Maiden Lane, 29th Floor, New York, NY 10038, Attention: Deputy Comptroller; City Comptroller, Municipal Building, 6th Floor, One Centre Street, New York, NY 10007-2341, Attention: Deputy Comptroller for Budget; and IBO, 110 William Street, 14th Floor, New York, NY 10038, Attention: Director.

Other Localities

Certain localities outside New York City have experienced financial problems and have requested and received additional State assistance during the last several State fiscal years. While a relatively infrequent practice, deficit financing has become more common in recent years. Between 2004 and July 2010, the State Legislature authorized 21 bond issuances to finance local government operating deficits. There were four new or additional deficit financing authorizations during 2009-2010. In addition, the State has periodically enacted legislation to create oversight boards in order to address deteriorating fiscal conditions within a locality. The Buffalo Fiscal Stability Authority exercised Control Period powers with respect to the City of Buffalo for the City's 2009-10 fiscal year, but expects to transition to Advisory Period powers sometime during the first six months of the City's 2010-11 fiscal year. The counties of Nassau and Erie as well as the cities of New York and Troy have fiscal stability boards exercising Advisory Period powers. The City of Yonkers no longer operates under an oversight board but must adhere to a separate fiscal agent act. The City of Newburgh will operate under fiscal monitoring by the State Comptroller. The potential impact on the State of any future requests by localities for additional oversight or financial assistance is not included in the projections of the State's receipts and disbursements for the State's 2010-11 fiscal year or thereafter.

Like the State, local governments must respond to changing political, economic and financial influences over which they have little or no control. Such changes may adversely affect the financial condition of certain local governments. For example, the State or Federal government may reduce (or in some cases eliminate) funding of some local programs or disallow certain claims which, in turn, may require local governments to fund these expenditures from their own resources. The expected loss of temporary Federal stimulus funding in 2011 will particularly impact counties and school districts in New York State. The State's cashflow problems have resulted in delays to the payment of State aid, and in some cases, have necessitated borrowing by the localities. Similarly, State policymakers have expressed interest in implementing a property tax cap for local governments. Adoption of a property tax cap would affect the amount of property tax revenue available for local government purposes and could adversely affect their operations, particularly those that are heavily dependent on property tax revenue such as school districts. Changes to sales tax distributions resulting from the 2010 Federal population census may also have a material impact on certain local governments. Ultimately, localities or any of their respective public authorities may suffer serious financial difficulties that could jeopardize local access to the public credit markets, which may adversely affect the marketability of notes and bonds issued by localities within the State. Localities may also face unanticipated problems resulting from certain pending litigation, judicial decisions and long-range economic trends. Other large-scale potential problems, such as declining urban populations, declines in the real property tax base, increasing pension, health care and other fixed costs, and the loss of skilled manufacturing jobs, may also adversely affect localities and necessitate State assistance.

The following table summarizes the debt of New York City and all localities in the State outside of New York City.

DEBT OF NEW YORK LOCALITIES (1)
(millions of dollars)

Locality Fiscal Year Ending	Combined		Other Localities Debt(4)		Total Locality Debt(4)	
	New York City Debt (2)(3)		Bonds(5)	Notes(5)	Bonds(4)(5)	Notes(5)
	Bonds	Notes				
1980	12,995	---	6,835	1,793	19,830	1,793
1990	20,027	---	10,253	3,082	30,280	3,082
1995	29,930	---	15,829	3,219	45,759	3,219
1996	31,623	---	16,414	3,590	48,037	3,590
1997	33,046	---	17,526	3,208	50,572	3,208
1998	34,690	---	17,100	3,203	51,790	3,203
1999	37,352	---	18,448	3,420	55,800	3,420
2000	39,244	515	19,082	4,005	58,326	4,520
2001	40,305	---	20,303	4,745	60,608	4,745
2002	42,721	2,200	21,721	5,184	64,442	7,384
2003	47,376	1,110	23,951	6,429	71,327	7,539
2004	50,265	---	26,684	4,979	76,949	4,979
2005	54,421	---	29,245	4,832	83,666	4,832
2006	55,381	---	30,752	4,755	86,133	4,755
2007	58,192	100	32,268	4,558	90,460	4,658
2008	59,120	67	33,243	5,418	92,363	5,485

Source: Office of the State Comptroller.

NOTE: For localities other than New York City, the amounts shown for fiscal years ending in 1990 through 1997 may include debt that has been defeased through the issuance of refunding bonds.

(1) Because the State calculates locality debt differently for certain localities (including New York City), the figures above may vary from those reported by such localities. In addition, this table excludes indebtedness of certain local authorities and obligations issued in relation to State lease-purchase arrangements.

(2) New York City's debt outstanding has been revised as presented in the FY 2004 City Comptroller's Comprehensive Annual Financial Report.

(3) Includes New York City capital leases obligations which were not reflected in previous years. Includes bonds issued by the Dormitory Authority of the State of New York for education, health and courts capital projects, the Samurai Funding Corporation and other long-term financing leases which will be repaid from revenues of the City or revenues that would otherwise be available to the City if not needed for debt service.

(4) Outstanding bonded debt shown includes bonds issued by the localities and certain debt guaranteed by the localities and excludes capital lease obligations (for localities other than New York City), assets held in sinking funds and certain amounts available at the start of a fiscal year for redemption of debt. Starting in 2001, debt for other localities includes installment purchase contracts.

(5) Does not include the indebtedness of certain localities that did not file annual financial reports with the Comptroller.

Litigation and Arbitration

General

The legal proceedings listed below involve State finances and programs and miscellaneous civil rights, real property, contract and other tort claims in which the State is a defendant and the potential monetary claims against the State are deemed to be material, generally in excess of \$100 million. As explained below, these proceedings could adversely affect the State's finances in the 2010-11 fiscal year or thereafter. The State intends to describe newly initiated proceedings which the State deems to be material and existing proceedings which the State subsequently deems to be material, as well as any material and adverse developments in the listed proceedings, in quarterly updates and/or supplements to this AIS.

For the purpose of this Litigation and Arbitration section of the AIS, the State defines "material and adverse developments" as rulings or decisions on or directly affecting the merits of a proceeding that have a significant adverse impact upon the State's ultimate legal position, and reversals of rulings or decisions on or directly affecting the merits of a proceeding in a significant manner, whether in favor of or adverse to the State's ultimate legal position. The State intends to discontinue disclosure with respect to any individual case after a final determination on the merits or upon a determination by the State that the case does not meet the materiality threshold described above.

As of the date of this AIS, except as described below, there is no current material litigation involving the State's constitutional or statutory authority to contract indebtedness, issue its obligations, or pay such indebtedness when due, or affects the State's power or ability, as a matter of law, to impose or collect significant amounts of taxes and revenues.

The State is party to other claims and litigation, which either its legal counsel has advised that it is not probable that the State will suffer adverse court decisions or the State has determined do not meet the materiality threshold described in the first paragraph of this section. Although the amounts of potential losses, if any, resulting from this litigation are not presently determinable, it is the State's opinion that its ultimate liability in any of these cases is not expected to have a material and adverse effect on the State's financial position in the 2010-11 fiscal year or thereafter. The Basic Financial Statements for fiscal year 2009-10, which OSC issued in July 2010, will report possible and probable awarded and anticipated unfavorable judgments against the State.

Adverse developments in the proceedings described below, other proceedings for which there are unanticipated, unfavorable and material judgments, or the initiation of new proceedings could affect the ability of the State to maintain a balanced 2010-11 Financial Plan. The State believes that the 2010-11 Enacted Budget Financial Plan includes sufficient reserves to offset the costs associated with the payment of judgments that may be required during the 2010-11 fiscal year. These reserves include (but are not limited to) amounts appropriated for Court of Claims payments and projected fund balances in the General Fund. In addition, any amounts ultimately required to be paid by the State may be subject to settlement or may be paid over a multi-year period. There can be no assurance, however, that adverse decisions in legal proceedings against the State would not exceed the amount of all potential 2010-11 Enacted Budget Financial Plan resources available for the payment of judgments, and could therefore adversely affect the ability of the State to maintain a balanced 2010-11 Enacted Budget Financial Plan.

Real Property Claims

In *Oneida Indian Nation of New York v. State of New York*, 74-CV-187 (NDNY), the alleged successors-in-interest to the historic Oneida Indian Nation seek a declaration that they hold a current possessory interest in approximately 250,000 acres of lands that the tribe sold to the State in a series of transactions that took place beginning in 1795 and ending in 1846, and ejectment of the State and Madison and Oneida Counties from all publicly-held lands in the claim area. This case remained dormant while the Oneidas pursued an earlier action which sought limited relief relating to a single 1795 transaction and the parties engaged in intermittent, but unsuccessful, efforts to reach a settlement. 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 District Court also denied the State's motion to dismiss for failure to join indispensable parties.

Further efforts at settlement of this action failed to reach a successful outcome. While such discussions were underway, two significant decisions were rendered by the Supreme Court and the Second Circuit Court of Appeals which changed the legal landscape pertaining to ancient land claims: *City of Sherrill v. Oneida Indian Nation of New York*, 544 U.S. 197 (2005), and *Cayuga Indian Nation of New York v. Pataki*, 413 F.3d 266 (2d Cir. 2005), *cert. denied*, 126 S.Ct. 2021, 2022 (2006). Taken together, these cases have made clear that the equitable doctrines of laches, acquiescence, and impossibility can bar ancient land claims. These decisions prompted the District Court to reassess its 2002 decision, which in part had struck such defenses, and to permit the filing of a motion for summary judgment predicated on the *Sherrill* and *Cayuga* holdings. On August 11, 2006, the defendants moved for summary judgment dismissing the action, based on the defenses of laches, acquiescence, and impossibility. By order dated May 21, 2007, the District Court dismissed plaintiffs' claims to the extent that they asserted a possessory interest, but permitted plaintiffs to pursue a claim seeking the difference between the amount paid and the fair market value of the lands at the time of the transaction. The District Court certified the May 21, 2007 order for interlocutory appeal and, on July 13, 2007, the Second Circuit granted motions by both sides seeking leave to pursue interlocutory appeals of that order. On August 9, 2010, the Circuit Court rendered a decision which affirmed the summary judgment order insofar as it dismissed the *Oneida* land claim and reversed it insofar as it would have allowed plaintiffs to pursue a fair compensation claim against the State.

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

In the *Canadian St. Regis Band of Mohawk Indians* case, plaintiffs seek ejectment and monetary damages with respect to their claim that approximately 15,000 acres in Franklin and St. Lawrence Counties were illegally transferred from their predecessors-in-interest. By decision dated July 28, 2003, the District Court granted, in most respects, a motion by plaintiffs to strike defenses and dismiss counterclaims contained in defendants' answers. By decision dated October 20, 2003, the District Court denied the State's motion for reconsideration of that portion of the July 28, 2003 decision which struck a

counterclaim against the United States for contribution. On February 10, 2006, after renewed efforts at settlement failed to resolve this action, and recognizing the potential significance of the *Sherrill* and *Cayuga* appeals, the District Court stayed all further proceedings in this case until 45 days after the United States Supreme Court issued a final decision in the *Cayuga Indian Nation of New York* Case. On November 6, 2006, after certiorari was denied in *Cayuga*, the defendants moved for judgment on the pleadings. Although the motion is fully briefed and awaiting decision, on April 16, 2008, the District Court issued an order staying the case until a decision is rendered with respect to the appeal in the *Oneida* case. In light of the recent decision in *Oneida*, the stay will be lifted, and it is anticipated that further briefing as to the impact of *Oneida* will soon be scheduled.

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 August 15, 2006, based on *Sherrill* and *Cayuga*, the defendants moved for an order dismissing this action, based on laches. The motion is now fully briefed and awaiting decision.

Cayuga Indian Nation of New York, et al. v Pataki, et al., USDC, NDNY, 80-CV-930 (McCurn, DJ) (2d Cir. [02-6111]) involved approximately 64,000 acres in Seneca and Cayuga Counties surrounding the northern portion of Cayuga Lake that the historic Cayuga Nation sold to the State in 1795 and 1807 in alleged violation of the Nonintercourse Act ("NIA") (first enacted in 1790 and now codified at 25 U.S.C. § 177) because the transactions were not held under federal supervision, and were not formally ratified by the United States Senate and proclaimed by the President. After 2 lengthy trials, in 2001 the District Court denied ejectment as a remedy, and rendered a judgment against the State for damages and prejudgment interest in the net amount of \$250 million. The State appealed. The tribal plaintiffs (but not the U.S.) cross-appealed, seeking ejectment of all of the present day occupants of the land in the 64,000 acre claim area and approximately \$1.5 billion in additional prejudgment interest.

On June 28, 2005, the Second Circuit reversed and entered judgment dismissing the Cayuga action, based upon the intervening Supreme Court decision in *Oneida Indian Nation v. City of Sherrill*, 544 U.S. 197 (2005) which held (in the context of a property tax dispute involving a parcel that the tribe had purchased in fee within the Oneida claim area) that disruptive claims of Indian sovereignty could be barred by equitable defenses, including laches, acquiescence and impossibility. *Cayuga Indian Nation v. Pataki*, 413 F.3d 266 (2d Cir. 2005). The Second Circuit concluded that the same equitable considerations that the Supreme Court relied on in *City of Sherrill* applied to the Cayugas' possessory claim and required dismissal of the entire lawsuit, including plaintiffs' claim for money damages and their claim for ejectment. The Court also held that the United States' complaint-in-intervention was barred by laches. The Supreme Court denied certiorari in *Cayuga* on May 15, 2006. 126 S. Ct. 2021, 2022.

This case was closed but recently became active when the Cayuga plaintiffs filed a FRCP 60(b)(6) motion to have the judgment vacated. Along with this motion a letter was sent to Judge McCurn's chamber seeking a stay of the 60 (b)(6) motion until after the Second Circuit decides the appeal in the *Oneida* Land Claim case. The motion is premised on Judge Kahn's ruling in *Oneida*, discussed above, that in spite of the Second Circuit decision in *Cayuga*, the tribe may proceed to prove a non-possessory claim for unjust compensation against the State defendant. By stipulation of the parties, so-ordered by Judge McCurn, further briefing on the Cayugas' motion for relief from judgment was suspended, pending the outcome of the *Oneida* appeal. That stay was recently lifted in light of the August 9, 2010 *Oneida* decision, and further briefing regarding the pending Rule 60(b) motion is due to be filed on September 10, 2010.

West Valley Litigation

In *State of New York, et al. v. The United States of America, et al.*, 06-CV-810 (WDNY), the State and the New York State Energy Research and Development Authority have filed suit seeking (1) a declaration that defendants are liable under CERCLA for the State's response costs and for damages to the State's natural resources resulting from releases from the site in Cattaraugus County, New York, and a judgment reimbursing the State for these costs and damages, (2) a declaration of defendants' responsibilities under the West Valley Demonstration Project Act to decontaminate and decommission the site and for future site monitoring and maintenance, and (3) a declaration that the defendants are responsible for paying the fees for disposal of solidified high level radioactive waste at the West Valley site. The parties have agreed to stay the litigation and submit the issues in (1) and (2) to non-binding arbitration and early neutral evaluation.

As a result of mediation, the parties filed a proposed Consent Decree on October 27, 2009, resolving part of the litigation. The order will propose to settle the claims for CERCLA allocation of costs and the obligations of the United States under the West Valley Demonstration Project by allocating among the parties specific percentages of the cost of each potential remedy for the various structures and contaminated areas on the site. The claim for natural resource damages would be dismissed pursuant to a tolling agreement that would give the plaintiffs three years in which to file a new action or seek another tolling period. The claim regarding the Federal government's obligation to pay fees for disposal of high level radioactive waste from the West Valley Demonstration Project under the Nuclear Waste Policy Act is neither settled nor dismissed and will remain in litigation.

The Court-ordered thirty day period for the public to send comments to the State regarding the terms of the proposed Consent Decree has concluded. On June 29, 2010, the State sent letters responding to the comments filed during the comment period and on July 1, 2010, the State filed a motion for court approval of the Consent Decree. Also on July 1, 2010, the United States filed a motion joining with the State's request for approval of the Consent Decree.

On August 17, 2010, the Court granted the motions of the State and the United States for approval of the consent decree and entered the decree. The court will advise the parties as to the date of a scheduling conference for the purpose of preparing a scheduling order for adjudicating the remaining cause of action (which party pays the fees for disposal of the high level waste at the site pursuant to the Nuclear Waste Policy Act).

Metropolitan Transportation Authority

In *Hampton Transportation Ventures, Inc. et al. v. Silver et al.* (Sup. Ct, Suffolk Co.), and other similar cases, including *William Floyd Union Free School District v. State* (Sup. Ct., Suffolk Co.) and *Town of Brookhaven v. Silver, et al* (Sup. Ct., Suffolk Co.), plaintiffs challenge the constitutionality of 2009 Laws of New York chapter 25, which imposed certain taxes and fees, including a regional payroll tax, in the Metropolitan Commuter Transportation District, the revenue from which is directed to the Metropolitan Transportation Authority. Plaintiffs seek a judgment declaring that enactment of chapter 25 violated State constitutional provisions relating to the need for a home rule message, supermajority requirements for enactment of special or local laws, single purpose appropriation bills, and liability for the debts of public authorities. Plaintiffs also seek a judgment declaring that enactment of chapter 25 violated provisions of the Public Authority Law § 1266 requiring that the Metropolitan Transportation Authority be self-sustaining.

Defendants in the *Hampton Transportation* case have moved to change the venue of that case to Albany County or New York County. The defendants in the other cases intend to seek similar relief.

School Aid

In *Becker et al. v. Paterson et al.* (Sup. Ct, Albany Co.), plaintiffs seek a judgment declaring that the governor's determination to delay payment of school aid due by statute on December 15, 2009, violated State constitutional provisions related to, among other things, the separation of powers doctrine. Since the commencement of the suit, the moneys at issue have been released. Following a February 3, 2010 conference with the court to discuss the status of the case, plaintiffs amended their complaint to reflect late payment of the moneys at issue. Pursuant to a Court-direct schedule, following defendants' answer, plaintiffs moved for summary judgment on March 5, 2010. Defendants cross-moved for summary judgment on April 15, 2010. The plaintiffs replied on May 7, 2010 and defendants filed their sur-reply on May 21, 2010. The motions were argued on June 24, 2010 and the parties await decision.

In *Hussein v. State of New York*, plaintiffs seek a judgment declaring that the State's system of financing public education violates section 1 of article 11 of the State Constitution, on the ground that it fails to provide a sound basic education. In a decision and order dated July 21, 2009, Supreme Court, Albany County, denied the State's motion to dismiss the action. The State has appealed this denial to the Appellate Division, Third Department. The appeal will be argued in November, 2010.

Representative Payees

In *Weaver et ano. v. State of New York*, filed in the New York State Court of Claims on July 17, 2008 and subsequently amended, two claimants allege that the executive directors of the Office of Mental Health facilities in which the claimants were hospitalized, acting as representative payees under the Federal Social Security Act, improperly received benefits due them and improperly applied those benefits to the cost of their in-patient care and maintenance and, in the case of one of the claimants, also to the cost of her care and maintenance in a state-operated community residence.

The first named claimant initially sought benefits on her own behalf as well as certification of a class of claimants. However, the class claims were dismissed by the Court of Claims on February 10, 2010 for failure to comply with Court of Claims Act § 11(b), which provides that a claim must state when and where the claim arose, the nature of the claim, the items of damage, and the total sum claimed. On March 18, 2010, claimants filed a notice of appeal.

On June 4, 2010, the State moved for summary judgment against the individual claims on various grounds. The State's summary judgment motion is *sub judice*.

Sales Tax

In *Seneca Nation of Indians v. Paterson et al.* (USDC WDNY) and *St. Regis Mohawk Tribe v. Paterson, et al.* (USDC NDNY), plaintiffs seek judgments declaring that Chapters 134 and 136 of the Laws of 2010, which enacted amendments to the Tax Law regarding collection of excise taxes on cigarette sales to non-tribal members, violate their rights under Federal law and enjoining the State from enforcing those laws. On August 26, 2010, in *Seneca*, the District Court granted a motion to intervene brought by the Cayuga Indian Nation of New York. In *Seneca*, in an order dated August 31, 2010, the District Court ordered that defendants are temporarily restrained from implementing, administering and enforcing the challenged provisions of the Tax Law and the implementing regulations as applied to the Seneca Nation of Indians and the Cayuga Indian Nation of New York pending further order of the Court. A hearing on a preliminary injunction is tentatively scheduled for September 13, 2010.

In *Day Wholesale Inc., et al. v. State, et al.* (Sup. Ct., Erie Co.), plaintiffs also seek to enjoin the collection of taxes on cigarettes sold to or by reservation retailers. On August 31, 2010, the Supreme Court, Erie County issued an order vacating two earlier preliminary injunctions of that court barring the collection of such taxes until defendants had taken certain steps to comply with prior law. The Court also denied plaintiffs' motion for a preliminary injunction enjoining enforcement of the provisions of Chapters 134 and 186 of the Laws of 2010.

The plaintiffs in *Day Wholesale* appealed. On September 1, 2010, a Justice of the Appellate Division, Fourth Department stayed the order appealed from pending the Court's hearing and disposition of the plaintiffs' motion for a preliminary injunction pending appeal. Plaintiffs' preliminary injunction motion will be submitted to the Court on September 9, 2010.

Bottle Bill Litigation

In *International Bottled Water Association, et al. v. Paterson, et al.*, plaintiffs seek declaratory and injunctive relief declaring that certain amendments to the State's Bottle Bill enacted on April 7, 2009 as part of the 2009-2010 budget violate the due process clause, the equal protection clause and the commerce clause of the United States Constitution. On May 27, 2009, the United States District Court for the Southern District of New York issued a preliminary injunction staying the June 1, 2009 effective date of the amendments to the Bottle Bill and declared that the section of the amendments which requires that the plaintiffs and other beverage manufacturers and distributors place a unique New York-exclusive universal product code on all bottles covered by the law that are offered for sale in the State violates the commerce clause of the United States Constitution. By order entered May 29, 2009 that superseded the above-referenced May 27, 2009 preliminary injunction, the district court granted a preliminary injunction that (1) enjoined the State from implementing or enforcing the New-York exclusive universal product code provision of the Bottle Bill and (2) enjoined the State from implementing or enforcing any and all other amendments to the Bottle Bill signed into law on April 7, 2009, until April 1, 2010, to allow persons subject to the amendments sufficient time to comply with the law's requirements.

The State defendants moved to modify the preliminary injunction. On August 13, 2009 the Court modified the injunction so that its provisions applied only to water bottles, stating that the injunction would dissolve by October 22, 2009 unless the bottlers showed cause that due process required that the injunction should continue. On October 23, 2009, after reviewing the parties' submissions, the Court lifted the injunction, allowing most parts of the State law requiring a five cent deposit on water bottles to take effect October 31, 2009. The Court's decision, however, permanently enjoined the State from

implementing a provision that required water bottles to bear a New York-exclusive universal product code on each bottle.

On March 22, 2010, the Court endorsed stipulated final judgments making final the permanent injunction on the New York-exclusive UPC provisions and lifting the preliminary injunctions in the August 13, 2009 and October 23, 2009 orders. On March 23, 2010, the Court endorsed plaintiffs' voluntary dismissal of all remaining claims, including their challenge to the Sugar Water Exemption. An interlocutory appeal by a non-party to the Second Circuit challenging a September 14, 2009 clarification order that the August 13, 2009 order lifting the preliminary injunction as to all non-bottled water products was not intended to be retroactive remains pending. Negotiations over plaintiffs' attorney fees are ongoing.

Civil Service Litigation

In *Simpson v. New York State Department of Civil Service et ano.*, plaintiffs have brought a class action under 42 U.S.C 2000d et seq., claiming that a civil service test administered between 1996 and 2006 resulted in a disparate impact upon the class. Cross motions for summary judgment are currently pending in the United States District Court for the Northern District of New York.

Public Finance

In *Bordeleau et al. v. State of New York, et al.*, a group of 50 individuals filed a complaint in the Supreme Court, Albany County, asking the court to enjoin certain expenditures of State funds and declare them to be illegal under the New York State Constitution. In particular, the plaintiffs claim that the State budget appropriates funds for grants to private corporations, allegedly in violation of Article VII, § 8, paragraph 1 of the Constitution, which provides that "money of the state shall not be given or loaned to or in aid of any private corporation or association, or private undertaking," except for certain specified exceptions. The plaintiffs also claim that because the State budget provides, in part, that some appropriated funds will be used "in accordance with a memorandum of understanding entered into between the governor, majority leader of the senate and the speaker of the assembly, or their designees," the Senate and Assembly have "improperly delegated their legislative powers" in violation of Article VII, § 7, which provides that every law making an appropriation "shall distinctly specify the sum appropriated, and the object or purpose to which it is to be applied."

In addition to the State defendants, the complaint names as defendants certain public authorities and private corporations that are claimed to be recipients of the allegedly illegal appropriations. The State defendants and several other defendants moved to dismiss the complaint for failure to state a cause of action, for failure to join certain necessary parties, and for lack of a justiciable controversy. In a decision and order dated February 27, 2009, Supreme Court, Albany County, granted the motion to dismiss the complaint, finding no violation of either Article VII, § 7, or Article VII, § 8. The court concluded that the challenged appropriations were valid expenditures for public purposes and not "gifts" prohibited under Article VII, § 8. The court also rejected the appellant's challenge to the reference in the budget to a memorandum of understanding, relying on that Court's holding in *Saxton v. Carey*, 44 N.Y.2d 545 (1978), that the degree of itemization required under Article VII, § 7 is to be determined by the Legislature, not the courts.

Plaintiffs appealed from the dismissal of their complaint. The appeal was argued in the Appellate Division, Third Department, on April 26, 2010. On June 24, 2010, the Appellate Division reversed the dismissal of the case and remanded the matter back to the lower court. The Appellate Division order directed the defendants to answer the complaint thirty days after the date of the decision. The defendants

have moved for reargument of the Appellate Division's decision or, in the alternative, leave to appeal to the Court of Appeals and have asked the Appellate Division to extend the time to answer the complaint until 30 days after the court rules on the motion. A decision on the motion is pending.

Personal Injury Claims

In *Watson v. State* (Court of Claims) claimants seek damages arising out of a motor vehicle accident in which four members of a family were injured. On February 2, 2010, the Court of Claims granted summary judgment on the issue of liability to claimants. Following a status conference with the parties on September 1, 2010, the Court has scheduled the trial on the issue of damages to begin January 24, 2011.

Eminent Domain

In *Gyrodine v. State of New York* (Court of Claims), claimant seeks compensation under the Eminent Domain Procedures Law in connection with the appropriation by the State of 245 acres of land in connection with the expansion of SUNY Stony Brook. By decision dated June 21, 2010, the Court of Claims awarded claimant \$125 million as compensation for the appropriation. The time in which the State may appeal the decision has not yet expired.

Insurance Department Assessments

In *New York Insurance Association, Inc. v. State (Sup. Ct., Albany Co.)*, several insurance companies and an association of insurance companies seek a declaration that certain assessments issued against the plaintiff insurance companies by the Insurance Department pursuant to Insurance Law § 332 violate the Insurance Law and the State and Federal Constitutions to the extent that the assessments include amounts for items that are not direct expenses of the Insurance Department. The State filed its answer on May 4, 2010.

On June 9, 2010, the State filed a motion for summary judgment. The court has not yet set a briefing schedule.

Tobacco Master Settlement Agreement (MSA)

In *Freedom Holdings Inc. et al. v. Spitzer et ano.*, two cigarette importers brought an action in 2002 challenging portions of laws enacted by the State under the 1998 Tobacco Master Settlement Agreement (MSA) that New York and many other states entered into with the major tobacco manufacturers. The initial complaint alleged: (1) violations of the Commerce Clause of the United States Constitution; (2) the establishment of an "output cartel" in conflict with the Sherman Act; and (3) selective nonenforcement of the laws on Native American reservations in violation of the Equal Protection Clause of the United States Constitution. The United States District Court for the Southern District of New York granted defendants' motion to dismiss the complaint for failure to state a cause of action. Plaintiffs appealed from this dismissal. In an opinion dated January 6, 2004, the United States Court of Appeals for the Second Circuit (1) affirmed the dismissal of the Commerce Clause claim; (2) reversed the dismissal of the Sherman Act claim; and (3) remanded the selective enforcement claim to the District Court for further proceedings. Plaintiffs have filed an amended complaint that also challenges the MSA itself (as well as other related State statutes) primarily on preemption grounds. On September 14, 2004, the District Court denied all aspects of plaintiffs' motion for a preliminary injunction, except that portion of the motion relating to the ability of tobacco manufacturers to obtain the release of certain funds from escrow. Plaintiffs have appealed from the denial of the remainder of the motion to the United States Court of Appeals for the

Second Circuit. In May 2005, the Second Circuit affirmed the denial of the preliminary injunction. In December 2006, the motions and cross-motions of the parties for summary judgment were fully submitted to the District Court. By order dated July 7, 2008, the District Court requested updated statistical information and other information needed to resolve certain material questions. Following an evidentiary hearing, by December 15, 2008 order summarizing a preliminary decision, the District Court dismissed all of plaintiff's claims. On January 12, 2009, the Court issued its opinion and order granting judgment dismissing the complaint. Plaintiff has appealed and the appeal is pending before the Second Circuit.

In *Grand River Ent. v. King*, a cigarette importer raises the same claims as those brought by the plaintiffs in *Freedom Holdings*, in a suit against the attorneys general of thirty states, including New York. The parties have cross-moved for summary judgment in the United States District Court for the Southern District of New York; oral argument was held on April 27, 2010 and the parties are awaiting the decision from Judge Keenan.

MSA Arbitration

Each year in perpetuity, under the MSA between tobacco manufacturers who are party to the MSA ("PMs") and 46 settling states, plus some territories and the District of Columbia, (collectively the "Settling States") the PMs pay the Settling States a base payment to compensate for financial harm to the Settling States for smoking-related illness. New York's allocable share of the total payment is approximately 12.8% of the total, or approximately \$800 million annually. In order to keep the base payment under the MSA, each Settling State must pass and diligently enforce a statute that requires tobacco manufacturers who are not party to the MSA ("NPMs") to deposit in escrow an amount roughly equal to the amount that the PMs pay per pack sold. The PMs have brought a nationwide arbitration against the Settling States (minus Montana) asserting that those States failed to diligently enforce their respective escrow statutes in 2003. Any such claim for the years prior to 2003 were settled in 2003. The PMs are making the same claim for years 2004-2006, but none of those years are yet in arbitration. The full panel of arbitrators, all of whom are retired Art. III federal judges, has been selected. An Administrative Conference was held on July 20, 2010; the Initial Conference is scheduled to take place in Chicago on October 5, 2010.

Exhibit A to Annual Information Statement

Glossary of Financial Terms

The following glossary, which is an integral part of this AIS, includes certain terms that are used herein and are intended for use only in connection with the entire AIS.

Appropriation: An appropriation is a statutory authorization against which liabilities may be incurred during a specific year, and from which disbursements may be made, up to a stated amount, for the purposes designated. Appropriations generally are authorizations, rather than mandates, to spend, and disbursements from an appropriation need not, and generally do not, equal the amount of the appropriation. An appropriation represents maximum spending authority. Appropriations may be adopted at any time during the fiscal year.

Bond Anticipation Note or BANs: A bond anticipation note is a short-term obligation, the principal of which is paid from the proceeds of the bonds in anticipation of which such note is issued.

Business-type Activities: Business-type activities describes those operations that are financed in whole or in part by fees charged to external parties for goods or services. These activities are usually reported in enterprise funds and include the Lottery, Unemployment Insurance Benefit, SUNY and CUNY - senior colleges.

Capital Projects Funds: Capital Projects Funds, one of the four GAAP-defined governmental fund types, account for financial resources of the State to be used for the acquisition or construction of major capital facilities (other than those financed by SRFs, Proprietary Funds and Fiduciary Funds).

Cash Basis Accounting: Accounting, budgeting and reporting of financial activity on a cash basis results in the recording of receipts at the time money or checks are deposited in the State Treasury and the recording of disbursements at the time a check is drawn, regardless of the fiscal period to which the receipts or disbursements relate.

Community Projects Fund: The State created this fund within the General Fund in 1996 to finance certain community projects for the Legislature and the Governor. The State transfers moneys from other General Fund accounts into the Community Projects Fund, as provided by law. Spending out of the Community Projects Fund is governed by specific appropriations for each account in the Fund, but cannot exceed the cash balance for that account.

Contingency Reserve Fund or CRF: This fund was established in 1993 to assist the State in financing the costs of any extraordinary known or anticipated litigation. Deposits to this fund are made from the General Fund.

Contractual-Obligation Financing: Contractual-obligation financing is an arrangement pursuant to which the State makes periodic payments to a public benefit corporation under a contract having a term not less than the amortization period of debt obligations issued by the public benefit corporation in connection with such contract. Payments made by the State are used to pay debt service on such obligations and are subject to annual appropriation by the Legislature and the availability of moneys to the State for the purposes of making contractual payments.

Debt Reduction Reserve Fund or DRRF: The State created DRRF in 1998 to accumulate surplus revenues to pay debt service costs on State-supported bonds, retire or defease such bonds, and to finance capital projects. Use of DRRF funds requires an appropriation.

Debt Service: Debt service refers to the payment of principal and interest on bonds, and interest on bond anticipation notes and TRANs, in accordance with the respective terms thereof.

Debt Service Funds: DSFs, one of the four GAAP-defined governmental fund types, account for the accumulation of resources (including receipts from certain taxes, transfers from other funds and miscellaneous revenues, such as dormitory room rental fees, which are dedicated by statute for payment of lease-purchase rentals) for the payment of general long-term debt service and related costs and payments under lease-purchase and contractual-obligation financing arrangements.

Disbursement: A disbursement is a cash outlay and in the General Fund includes transfers to other funds.

Executive Budget: The Executive Budget is the Governor's constitutionally mandated annual submission to the Legislature which contains his recommended program for the forthcoming fiscal year. The Executive Budget is an overall plan of recommended appropriations. It projects disbursements and expenditures needed to carry out the Governor's recommended program and receipts and revenues expected to be available for such purpose. The recommendations contained in the Executive Budget serve as the basis for the State Financial Plan (defined below) which is adjusted after the Legislature acts on the Governor's submission. Under the State Constitution, the Governor is required each year to propose an Executive Budget that is balanced on a cash basis.

Expenditure: An expenditure, in GAAP terminology, is a decrease in net financial resources as measured under the modified accrual basis of accounting. In contexts other than GAAP, the State uses the term expenditure to refer to a cash outlay or disbursement.

Expenses: Expenses, in GAAP terminology, are a decrease in net financial resources as measured in the government-wide financial statements under the accrual basis of accounting.

Fiduciary Funds: Fiduciary Funds refers to a GAAP-defined fund type which accounts for assets held by the State in a trustee capacity or as agent for individuals, private organizations and other governmental units and/or other funds. These funds are custodial in nature and do not involve the measurement of operations. Although the Executive Budget for a fiscal year generally contains operating plans for Fiduciary Funds, and their results are included in the Comptroller's GAAP-based financial statements, they are not included in the State Financial Plan.

Financial Plan: see State Financial Plan.

Fiscal Year: The State's fiscal year commences on April 1 and ends on March 31. The term fiscal year refers to the fiscal year of the State unless the context clearly indicates otherwise.

Fund Accounting: The accounts of the State are presented on the basis of GAAP funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise the fund's assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

GAAP: GAAP refers to generally accepted accounting principles for state and local governments, which are the uniform minimum standards of and guidelines for financial accounting and reporting prescribed by GASB. GAAP requires that the government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the Enterprise

Funds, Component Units and the Fiduciary Funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The modified accrual basis of accounting recognizes revenues when they become both measurable and available to finance expenditures. Expenditures and related liabilities are recognized in the accounting period they are incurred to the extent they are expected to be paid within the next 12 months, under the modified accrual basis of accounting.

General Fund: The General Fund, one of the four GAAP-defined governmental fund types, is the major operating fund of the State and receives all receipts that are not required by law to be deposited in another fund, including most State tax receipts and certain fees, transfers from other funds and miscellaneous receipts from other sources.

General Obligation Bonds: Long-term obligations of the State, used to finance capital projects. These obligations must be authorized by the voters in a general election, are issued by the Comptroller, and are backed by the full faith and credit of the State. Under current provisions of the Constitution, only one bond issue may be put before the voters at each general election, and it must be for a single work or purpose. Debt service must be paid from the first available taxes whether or not the Legislature has enacted the required appropriations for such payments.

General State Charges: Costs mandated by statute or court decree or by agreements negotiated with employee unions for which the State is liable, including: pensions; health, dental and optical benefits; payments on behalf of State employees for Social Security; unemployment insurance benefits; employee benefit programs; court judgments and settlements; assessments for local improvements; and taxes on public lands.

Governmental Activities: Governmental activities describes those operations that are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues and are reported in the governmental funds.

Governmental Funds: Governmental funds refers to a category of GAAP-defined funds which account for most governmental functions and which, for the State, include four GAAP-defined governmental fund types: the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. The State's projections of receipts and disbursements in the governmental funds comprise the State Financial Plan.

Interfund Transfers: Under GAAP fund accounting principles, each fund is treated as a separate fiscal and accounting unit with limitations on the kinds of disbursements to be made. To comply with these limitations, moneys are moved from one fund to another to make them available for use in the proper fund, and are accounted for as "interfund transfers."

Lease-Purchase Financing: Lease-purchase financing is an arrangement pursuant to which the State leases facilities from a public benefit corporation or municipality for a term not less than the amortization period of the debt obligations issued by the public benefit corporation or municipality to finance acquisition and construction, and pays rent which is used to pay debt service on the obligations. At the expiration of the lease, title to the facility vests in the State in most cases. Generally, the State's rental payments are expressly subject to annual appropriation by the Legislature and availability of moneys to the State for the purposes thereof.

Local Assistance: Disbursements of State grants to counties, cities, towns, villages, school districts and other local entities, certain contractual payments to localities, and financial assistance to, or on behalf of, individuals and not-for-profit organizations.

Moral obligation debt: Long-term bonds issued by certain State public benefit corporations which are essentially supported by their own revenues. Moral obligation debt is not incurred pursuant to a referendum, is not State-supported debt, and is not backed by the full faith and credit of the State. However, the authorities selling such obligations have been allowed to establish procedures where, under certain conditions, the State may be requested to meet deficiencies in debt service reserve funds supporting such bonds. An appropriation must be enacted by the Legislature to meet any such request.

Official Statement: A disclosure document prepared to accompany an issuance of bonds, notes and certificates of participation offered for sale by the State or its public authorities. Its primary purpose is to provide prospective bond or note purchasers sufficient information to make informed investment decisions. It describes, among other things, the issuer, the project or program being financed and the security behind the bond issue.

Pay-as-you-go financing: The use of current State resources (as opposed to bonds) to finance capital projects. Also referred to as "hard dollar" financing.

Rainy Day Reserve Fund: This fund was created in 2007 to enhance the State's fiscal reserves. The fund, which may have a maximum balance equal to 3 percent of General Fund spending, may be used to respond to an economic downturn or catastrophic event, as defined by the enabling statute.

Receipts: Receipts consist of cash actually received during the fiscal year and in the General Fund include transfers from other funds.

Revenue Accumulation Fund: This fund holds certain tax receipts temporarily before their deposit into other funds.

Revenues: Revenues, in GAAP terminology, are an increase in net financial resources, as measured for the government-wide financial statements under the accrual basis of accounting and for the governmental funds under the modified accrual basis of accounting. In contexts other than GAAP, the State uses the term revenues to refer to income or receipts.

Short-Term Investment Pool or STIP: The combination of available cash balances in funds within the State Treasury on a daily basis for investment purposes.

Special Revenue Funds: SRFs, one of the four GAAP-defined governmental fund types, account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects), such as Federal grants, that are legally restricted to specified purposes.

State Financial Plan: The State Financial Plan sets forth projections of State receipts and disbursements in the governmental fund types for each fiscal year and is prepared by the Director of the Division of Budget, based initially upon the recommendations contained in the Executive Budget. After the budget is enacted, the State Financial Plan is adjusted to reflect revenue measures, appropriation bills and certain related bills enacted by the Legislature. It serves as the basis for the administration of the State's finances by the Director of the Budget, and is updated quarterly, or more frequently as necessary, during the fiscal year.

State Funds: State funds refers to a category of funds which includes the General Fund and all other State-controlled moneys, excluding Federal grants. This category captures all governmental disbursements except spending financed with Federal grants.

State-guaranteed debt: Debt authorized by the voters to be sold by three public authorities: the Job Development Authority, the New York State Thruway Authority, and the Port Authority of New York and New Jersey. State-guaranteed bonds issued for the Thruway Authority and the Port Authority were fully retired on July 1, 1995 and December 31, 1996, respectively. Such debt is backed by the full faith and credit of the State.

State Operations: Operating costs of State departments and agencies, the Legislature and the Judiciary, including salaries and other compensation for most State employees.

State-related debt: In this broad category, DOB combines all forms of debt for which the State is liable, either directly or on a contingent basis, including all State-supported debt and State-guaranteed and moral obligation debt.

State-supported debt: This category includes all obligations for which the State appropriates money that is used to pay debt service, including general obligation debt, lease-purchase and contractual-obligation debt, including PIT Revenue Bonds, LGAC and certificates of participation. While tax supported debt (obligations supported by State taxes) represents the majority of obligations in this category, obligations supported by other State revenues (such as dormitory fees or patient revenues) are also included.

Tax and Revenue Anticipation Notes or TRANS: Notes issued in anticipation of the receipt of taxes and revenues, direct or indirect, for the purposes and within the amounts of appropriations theretofore made.

Tax Refund Reserve Account: The tax refund reserve account is used to hold moneys available to pay tax refunds. During a given fiscal year, the deposit of moneys in the account reduces receipts and the withdrawal of moneys from the account increases receipts. There is no requirement that moneys withdrawn from this account be replaced.

Tax Stabilization Reserve Fund: This fund was created to hold surplus revenue that can be used in the event of any unanticipated General Fund deficit. Amounts within this fund can be borrowed to cover any year-end deficit and must be repaid within six years in no less than three equal annual installments. The fund balance cannot exceed two percent of General Fund disbursements for the fiscal year; contributions are limited to two-tenths of one percent of General Fund disbursements in that year.

Exhibit B to Annual Information Statement

Principal State Taxes and Fees

Personal income taxes are imposed on the New York source income of individuals, estates and trusts. Personal income taxes are projected to account for roughly 61 percent of estimated All Government Funds tax receipts during the State's 2009-10 fiscal year. The State tax adheres closely to the definitions of adjusted gross income and itemized deductions used for Federal personal income tax purposes, with certain modifications. Receipts from this tax are sensitive to changes in economic conditions in the State. New York allows a standard deduction of \$15,000 for married couples filing jointly, with lower deductions for the other types of filers. New York also allows a \$1,000 exemption for dependents. For tax years 2009 through 2011, the tax rate schedule has seven tax brackets which, for married couples filing jointly, start at 4 percent for taxable income below \$16,000 and increase to 8.97 percent on taxable income over \$500,000. There are comparable tax rate schedules for heads of households, single individuals, and married couples filing separately. After 2011, the rate schedule will revert to the pre-2009 schedule of five tax intervals, ranging from 4 percent to 6.85 percent on taxable income over \$40,000 for married couples filing jointly.

Beginning in tax year 2009, taxpayers with incomes above \$1 million are limited to deducting 50 percent of their Federal charitable contributions as their only New York itemized deduction. For tax years 2010-2012, taxpayers with incomes above \$10 million may deduct only 25 percent of their Federal charitable contributions deductions as their only itemized deduction.

New York also allows several credits against the tax. The most significant are the: Empire State Child Credit (generally equal to one-third of the Federal child tax credit), household credit, credit for taxes paid to other states, the investment tax credit, various Empire Zone credits, child and dependent care credit, real property tax circuit breaker credit, earned income tax credit, long-term care insurance credit, and college tuition credit. For tax years 2010 through 2012 business taxpayers must defer the usage of certain business-related tax credits if they exceed \$2 million in aggregate. Such taxpayers can begin to use the deferred nonrefundable payout credit in tax year 2013. For refundable credits, taxpayers can claim 50 percent of deferred amounts in tax year 2013, 75 percent in 2014, and the entire remainder in 2015.

In 2001, legislation was enacted to provide for the issuance of State PIT Revenue Bonds, which has become the primary financing vehicle for a broad range of existing State-supported debt programs previously secured by service contract or lease-purchase payments. The first bonds were issued in May 2002. The legislation provided that 25 percent of PIT receipts (excluding refunds owed to taxpayers and deposits to the STAR Fund) be deposited to the RBTF for purposes of making debt service payments on the bonds, with excess amounts transferred to the General Fund. Legislation enacted with the 2007-08 budget provides that the RBTF will be calculated based on 25 percent of PIT receipts (excluding refunds owed to taxpayers, but before deposits to the STAR fund).

In the event that (i) the State Legislature fails to appropriate amounts required to make all debt service payments on the State PIT Revenue Bonds or (ii) having been appropriated and set aside pursuant to a certificate of the Director of the Budget, financing agreement payments have not been made when due on the bonds, the legislation requires that PIT receipts continue to be deposited to the RBTF until amounts on deposit in the Fund equal the greater of 25 percent of annual PIT receipts or \$6 billion.

User taxes and fees consist of several taxes on consumption, the largest of which is the State sales and compensating use tax. The following discussion describes these taxes and summarizes significant revenue actions taken since 2000. The *sales and use tax* is imposed, in general, on the receipts from the sale of all tangible personal property unless exempted, and all services are exempt unless specifically enumerated. Certain charges for meals, admissions, hotel and motel occupancy and dues are also subject to the tax. The current State sales tax rate is 4.0 percent, of which 3.0 percent is deposited in the General Fund and 1.0 percent is deposited in the Local Government Assistance Tax Fund to meet debt service obligations. Receipts in excess of debt service requirements are transferred to the General Fund. Although there are numerous exemptions, the most significant are: food; clothing and footwear costing less than \$110; drugs; medicine and medical supplies; residential energy; capital improvements and installation charges; machinery and equipment used in manufacturing; trade-in allowances; and goods sold to Federal, state or local governments. Legislation enacted in 2000 totally or partially exempted receipts from most purchases made by qualifying businesses located in Empire Zones. Legislation enacted in 2003 increased the sales tax rate from 4 percent to 4.25 percent beginning on June 1, 2003, and expiring on May 31, 2005. In addition, the legislation limited the exemption for clothing and footwear costing less than \$110 to two one-week periods in the State's 2003-04 and 2004-05 fiscal years. In 2005, legislation was enacted to continue the two one-week exemptions for clothing and footwear costing less than \$110 per item until March 31, 2007. Effective April 1, 2006, clothing and footwear costing less than \$110 were fully exempted from the State sales tax. The 2006-07 Enacted budget increased the vendor credit. Effective June 1, 2006, the sales tax on motor fuel was capped at 8 cents per gallon. Legislation enacted in 2008 requires non-profit tax-exempt organizations to collect sales tax on additional retail sales and rentals or leases of tangible personal property, includes a vendor registration program (vendors must register and pay a \$50 fee except for new registrations or small businesses) and creates an evidentiary presumption that certain sellers using New York residents to solicit sales in the State are vendors required to collect sales and use tax. Legislation enacted as part of the 2009-10 Financial Plan expanded the definition of "affiliate nexus", imposed the sales tax on certain transportation services, narrowed the exemption for commercial aircraft, narrowed the use tax exemption for motor vehicles and vessels, increased the tax rate on passenger car rentals, and increased the pre-paid sales tax rate on cigarettes. Legislation enacted as part of the 2010-11 Financial Plan temporarily eliminated the State sales and use tax exemption on clothing and footwear priced under \$110 for the period October 1, 2010, through March 31, 2011. From April 1, 2011, through March 31, 2012, the State exemption will be \$55 and thereafter the \$110 exemption will be reinstated. Additionally, the sales and use tax is imposed on hotel room remarketers on the price differential between the discounted rate they pay and the rate the final consumer pays, the vendor credit is eliminated for monthly filers, provisions allowing private label credit cards to claim a credit for uncollectible debts are repealed, affiliate nexus provisions affecting vendors are narrowed, and certain New York City livery services are exempted from the tax.

The State imposes a *tax on cigarettes* at the rate of \$4.35 per package of 20 cigarettes and imposes a *tax on other tobacco products* equal to 75 percent of the wholesale price. The tax rate on cigarettes was raised from 39 cents to 56 cents, and the tax rate on tobacco products other than cigarettes was increased from 15 percent to 20 percent in 1993 and from 20 percent to 37 percent on July 3, 2002. The tax on cigarettes was raised from 56 cents to \$1.11 per pack on March 1, 2000, to \$1.50 per pack on April 3, 2002, to \$2.75 on June 3, 2008, and to \$4.35 per pack on July 1, 2010. The tobacco products tax was raised from 37 percent to 46 percent in April 2009, and to 75 percent in August 2010. The revenue derived from the tax is split, with 24.0 percent of receipts deposited in the General Fund and the balance deposited in the Tobacco Control and Insurance Initiatives Pool established by HCRA of 2000. In 2008, certain tobacco products were converted from price-based taxes to weight-based taxes.

Motor fuel and diesel motor fuel taxes are levied at 8 cents per gallon upon the sale, generally for highway use, of gasoline and diesel fuel. The diesel fuel tax was reduced from 10 cents per gallon to 8 cents per gallon on January 1, 1996. The 2000-01 Enacted Budget contained legislation which provided

that all motor fuel taxes be deposited in the dedicated transportation funds effective April 1, 2001. Legislation enacted in 2008 allows the Commissioner of Taxation and Finance to work and enter into an agreement with transportation-related agencies to use technology to reduce the bootlegging of fuel.

Motor vehicle fees are derived from a variety of sources, including motor vehicle registration fees and driver licensing fees, which together account for most motor vehicle fee revenue. Legislation enacted in 1997 provided for five-year licenses instead of four-year licenses, and for the retention of refunds. Legislation enacted in 1998 reduced motor vehicle registration fees by 25 percent and re-instituted the prior refund policy and increased the percent of such fees earmarked to the Dedicated Highway and Bridge Trust Fund to 28 percent on April 1, 1998, 34 percent on July 1, 1998, and to 45.5 percent on February 1, 1999. Legislation enacted with the 2000-01 Budget directs the remaining 54.5 percent of registration fees to the dedicated transportation funds pool, of which 63 percent goes to the Dedicated Highway and Bridge Trust Fund. Legislation enacted in 2001 directed the deposit of \$169 million in non-registration fees to the Trust Fund in State fiscal year 2001-02. Legislation enacted in 2002 redirected \$171.6 million in non-registration fees to the Trust Fund in State fiscal year 2002-03 and \$152.7 million in State fiscal year 2003-04. Legislation enacted in 2003 directed \$59.9 million in existing non-registration motor vehicle fee revenues, to the Trust Fund effective April 1, 2004. Legislation enacted in 2005 directed all remaining General Fund receipts be moved to the dedicated funds pool. Legislation enacted in 2008 implements the Western Hemisphere Travel Initiative (WHTI) by offering Federally-compliant drivers licenses and non-driver ID cards. Legislation enacted with the 2009-10 Financial Plan included increases of approximately 25 percent for vehicle registrations and drivers' licenses.

The State imposes *alcoholic beverage excise taxes* at various rates on liquor, beer, wine and specialty beverages. Legislation enacted in 1999 reduced the excise tax on beer from 13.5 cents per gallon to 12.5 cents per gallon, and expanded an exemption for small brewers. Legislation enacted with the 2000-01 Budget reduced the tax on a gallon of beer from 12.5 cents to 11 cents on September 1, 2003, and accelerated the current exemption for small brewers to January 1, 2000. In addition, separate *licensing fees* are imposed on those who sell alcoholic beverages in New York. The fees vary depending on the type and location of the establishment or premises operated by the licensee, as well as the class of beverage for which the license is issued. Legislation enacted in 2002, raised fees on the majority of licenses by 28 percent. Legislation was adopted in 2003, which allowed for the option to sell liquor or wine on Sundays provided the establishment closed on one other day. In 2004, legislation was enacted to allow seven day liquor sales. This law was made permanent in 2008. Legislation enacted in 2009 increased the tax rate on beer to 14 cents per gallon and increased the tax rate on wine to 30 cents per gallon.

The *highway use tax* revenue is derived from three sources: the truck mileage tax, related highway use permit fees and the fuel use tax. The truck mileage tax is levied on commercial vehicles, at rates graduated by vehicle weight, based on miles traveled on State highways. Highway use permits are issued triennially at \$15 for an initial permit and \$4 for a permit renewal. The fuel use tax is an equitable complement to the State's motor fuel tax and sales tax paid by those who purchase fuel outside but consumed in New York. It is levied on commercial vehicles having three or more axles or a gross vehicle weight of more than 26,000 pounds. Currently all collections from the highway use tax are deposited in the Dedicated Highway and Bridge Trust Fund. Legislation enacted with the 2000-01 Budget reduced the supplemental truck mileage tax from 50 percent of the base tax to 40 percent of the base tax and increased the flow of motor vehicle fee receipts to the Dedicated Highway and Bridge Trust Fund to compensate for the revenue loss. Legislation enacted in 2007 replaced the current highway use permit system with a registration system. Legislation enacted in 2009 reauthorized the Commissioner of the Tax Department to require highway use tax decals on the exterior of all vehicles, and increased the decal renewal fee from \$4 to \$15 per vehicle.

The State imposes an *auto rental tax* on charges for any rental of passenger cars rented or used in the State, subject to certain exceptions including leases covering a period of one year or more. Legislation enacted in 2002 provided that effective April 1, 2002, all auto rental tax receipts be deposited in the dedicated transportation funds. Legislation enacted in 2009 increased the tax rate from 5 percent to 6 percent.

Business taxes include a general business corporation franchise tax as well as specialized franchise taxes on banks, insurance companies, certain transportation and transmission companies, and a cents-per-gallon-based levy on businesses engaged in the sale or importation for sale of various petroleum products. The franchise tax on utilities was eliminated as of January 1, 2000. Utilities now are taxed under the general business tax.

The *corporation franchise tax* is the largest of the business taxes, and the State's third largest source of revenue. It is imposed on all domestic general business corporations and foreign general business corporations which do business or conduct certain other activities in the State. The tax is imposed, generally, at a rate of 7.1 percent of taxable income allocated to New York. Taxable income is defined as Federal taxable income with certain modifications.

Legislation enacted in 1998 reduced the general business tax rate from 9 percent to 7.5 percent in three steps beginning in 1999; reduced the corporate alternative minimum tax rate from 3.5 percent to 3 percent in two steps beginning in 1998; reduced the fixed-dollar minimum corporate tax for most small businesses from \$325 to \$100 beginning in 1998; reduced the tax rate applied to subchapter S-corporations by 40 percent or more beginning in 1998; and adopted an investment tax credit for investment in securities trading infrastructure and instituted tax benefits for investments and employment in emerging technology companies. Significant statutory changes enacted in 1999 included: reforms to the subsidiary capital tax; a further reduction on the alternative minimum tax rate from 3 percent to 2.5 percent; doubling the Empire Zone and zone equivalent area wage tax credits; and reforms to the apportionment of income for the airline industry. In 2000, legislation was enacted to: shift the taxation of public utilities from taxation under a gross earnings tax to taxation as general business corporations; reduce taxes for small businesses; change the allocation formula for financial services companies; add new credits for "green buildings," low-income housing, alternative fuel vehicles, and certain transportation projects; and eliminate energy taxes paid by industrial and manufacturing businesses. Empire Zones were created which provide various credits and exemptions to qualified companies meeting certain employment criteria. In 2002, legislation was enacted authorizing six new Empire Zones, and increasing the mandatory first installment of estimated business tax payments from 25 percent to 30 percent for businesses. In 2003, legislation was enacted that decoupled New York from the Federal bonus depreciation provisions. This applies to property placed in service on or after June 1, 2003, except for qualified Resurgence Zone and New York Liberty Zone property. The legislation also required the addback of certain expenses and payments related to intangible holding companies. In 2004, legislation was enacted that temporarily created two new fixed dollar minimum tax amounts under the corporate franchise tax; increased the Statewide annual aggregate limit for the low-income housing credit from \$4 million to \$6 million; extended the Qualified Emerging Technology Company (QETC) credit to biotechnology; and extended the Empire Zones program to March 31, 2005. Legislation enacted in 2005: extended the Empire Zones program until June 30, 2011 and expanded the program to include 12 new zones; adopted a single sales factor formula for corporate franchise taxpayers and banks that provide certain services; adopted tax shelter provisions; reduced the small business tax rate; increased the low income housing tax credit from \$6 million to \$8 million; expanded and extended the green buildings tax credit program; increased the capital base cap under the corporate franchise tax; and created new tax credits for emerging technology companies.

Legislation enacted in 2006 eliminated the S-corporation differential; extended and increased the Empire State Film Production Credit and authorized a new Empire State Commercial Production Credit and a new credit for the production of alternative bio-fuels; accelerated the authorization of six of the remaining nine Empire Zones initially authorized in 2005, and provided zone benefits to enterprises that make substantial investments in regionally significant projects; and increased the low income housing credit from \$8 million to \$12 million.

Legislation enacted in 2007 provided that taxpayers operating on a unitary basis file a combined report if substantial inter-corporate transactions occur amongst affiliates; lowered the rate on Entire Net Income (ENI) to 7.1 percent for general businesses and to 6.5 percent for manufacturers; lowered the alternative minimum tax rate to 1.5 percent; increased the low income housing credit from \$12 million to \$16 million; and closed the real estate investment trust loophole.

Legislation enacted in 2008 restructured minimum taxes on corporations and the capital base tax; extended the MTA surcharge for four additional years; decoupled New York State from the Federal Qualified Production Activity Income (QPAI) deduction provided under Internal Revenue Code section 199; changed the first installment of tax from 25 percent to 30 percent; extended and increased the Empire State film production credit; extended the investment tax credit for financial services for three additional years; increased the low-income housing credit allocation by \$4 million; extended tax shelter reporting requirements for two years; and established a voluntary disclosure and compliance initiative program to encourage eligible taxpayers to enter into compliance agreements with the Department of Taxation and Finance.

Legislation enacted in 2009 made changes to the tax treatment of captive insurance companies by providing special rules for overcapitalized captive insurance companies. The legislation requires that an overcapitalized captive insurance company file a combined report with the corporation that directly owns or controls over 50 percent of the voting stock of the captive if that corporation is either an article 9 or an article 32 taxpayer. Additionally, for-profit HMOs are now taxed under the insurance tax. Previously they were taxed under the corporation franchise tax. The mandatory first installment that applies to large taxpayers was increased from 30 percent to 40 percent of the prior year's tax. The empire zones program was reformed requiring a performance review of all companies that have been certified in the program for at least three years. Companies not meeting a 1:1 benefit-cost ratio, or that reincorporated for the purpose of maximizing tax benefits will not be allowed to claim further benefits. An additional \$350 million was allocated to the Empire State film production credit program for 2009. In addition, for tax years beginning on or after January 1, 2009 all film tax credit claims will be paid across several years based on the amount of the credit claimed. Two seldom used tax credits, the fuel cell generating equipment credit and the transportation improvement contribution credit were repealed effective with tax year 2009. The low income housing credit authorization was increased by an additional \$4 million for a total of \$24 million.

Legislation enacted in 2010 increased the low income housing credit authorization by an additional \$4 million for a total of \$28 million; enacted a deferral of business related tax credits (see description under personal income tax) and made technical corrections to the 2009-10 Enacted Budget Empire Zones Program to clarify legislative intent for decertifications retroactive to 2008, clarify reporting changes and allow certified projects to claim the investment tax credit and the employee incentive tax credit after June 30, 2010. The Film tax credit was extended and expanded. An additional \$420 million per year was allocated for tax years 2010 through 2014. A portion of this allocation (\$7 million) is dedicated to a new post production credit. The film tax credit legislation also imposed various reforms to enhance the State's return on investment. The Excelsior Jobs Program was established to provide incentives based on job creation, investment and research and development expenditures in New York State.

Receipts from the *corporation* and *utilities taxes* are primarily attributable to taxes imposed on transportation and transmission companies, utility services and telecommunication services.

Legislation enacted in 1996 provided that as of January 1, 1997 the franchise tax rate imposed on truckers and railroads was reduced from 0.75 percent to 0.6 percent of gross earnings. As of January 1, 1998 truckers and railroads were allowed to choose between taxation under this tax or taxation under the general business corporation tax.

Legislation enacted in 1997 reduced the 3.5 percent gross receipts tax imposed upon gas, electric, and telephone service to 3.25 percent on October 1, 1998, and then to 2.5 percent on January 1, 2000. Local telephone companies and other franchise taxpayers realized an additional rate cut of 0.375 percent in their franchise tax on July 1, 2000. Also, the franchise tax on trucking and railroads was reduced on July 1, 2000, from 0.6 percent to 0.375 percent. Additional 1997 legislation established the Power for Jobs program which made 400 megawatts of low-cost power available for job creation and expansion with the utilities recouping their losses through a tax credit. Legislation enacted in 1998 expanded the low-cost power available to 450 megawatts and accelerated the phase-in of the Power for Jobs program.

In 2000, legislation was enacted which altered the way traditional gas and electric utilities are taxed. The changes included: the shift from a franchise tax imposed on gross earnings to taxation based on net income or the alternative bases under Article 9-A of the Tax Law, phase out of the gas import tax, phase out of the gross receipts tax on gas and electricity for business consumers, and overall reductions in remaining gross receipts taxes. The legislation also provided for an expansion of the Power for Jobs program which allows credits against the gross receipts taxes paid by utilities furnishing low-cost power. In 2002, legislation was enacted increasing the mandatory first installment of estimated business tax payments from 25 percent to 30 percent. In 2003, legislation was enacted that dedicated the remaining 20 percent of section 183 and section 184 revenues to the Dedicated Highway and Bridge Trust Fund. In 2004 and 2005, legislation was enacted that extended and modified the Power for Jobs Program under Article 9. Legislation enacted in 2008 extended the MTA surcharge for four additional years. Legislation enacted in 2009 increased the mandatory first installment payment from 30 percent to 40 percent.

Insurance taxes are imposed on insurance corporations, brokers and certain insurers at a basic rate of 7.1 percent (as of January 1, 2007) of entire net income allocable to New York, based on the level of activity of an insurance company in the State during the taxable year. In addition, there is a franchise tax on net premiums written or received by insurance corporations on risks resident or located within the State, at rates between 0.8 percent and 1.3 percent, depending on policy type, as well as certain taxes imposed under the Insurance Law. Legislation enacted in 1997 provided that on or after January 1, 1998 the overall limit on the combined taxes of 2.6 percent of premiums for life insurance companies is reduced to 2.0 percent and the gross premiums tax on such components is decreased from 0.8 percent to 0.7 percent. Also, the legislation provides preferential premium tax rates to captive insurance companies that insure the primary risks of their parent and affiliated companies. In addition, provisions enacted in 1999 reduced the limitation on tax liability for non-life insurers over a three-year period. Legislation enacted in 2000 extended the investment tax credit for equipment used in the trading of securities by insurance companies and expanded the existing certified capital company program. In 2002, legislation was enacted increasing the mandatory first installment payment from 25 percent to 30 percent. Legislation enacted in 2003 amended the insurance tax to place property and casualty insurance companies solely on a premiums tax base and imposed a minimum tax for life insurance companies. In 2004, legislation was enacted that established a fourth certified capital company program. In 2005, legislation was enacted that established a fifth certified capital company program. Legislation enacted in 2006 amended the method in which life insurance companies calculate their taxes when more than 95 percent of their total premiums consist of annuity premiums. Legislation enacted in 2007 lowered the rate on ENI to 7.1 percent for life insurers. Legislation enacted in 2008 extended the MTA surcharge for four

additional years. In 2009, legislation was enacted that increased the mandatory first installment payment from 30 percent to 40 percent, clarified that captive insurance companies receiving 50 percent or less of their gross receipts from insurance premiums must file a combined return with their closest affiliated taxpayer, and imposed a 1.75 percent premiums tax on for-profit health maintenance organizations.

Legislation enacted in 2010 allows insurance companies to claim the nonresidential historic properties tax credit.

The State imposes a *franchise tax on banking corporations* at a basic tax rate of 7.1 percent (as of January 1, 2007) of entire net income with certain exclusions, and subject to special rates for institutions with low net worth. The 7.1 percent rate represents a gradual reduction from the rate of 12 percent that was in effect until 1985, when the bank tax was restructured. The 1985 changes were extended through taxable years beginning before January 1, 2001. This was extended in 2001 for two more years. Legislation enacted in 1997 allowed banks a net operating loss deduction which can be carried forward against the bank franchise tax. This applied to net operating losses sustained on or after January 1, 2001. The legislation also allowed banks to form subchapter S-corporations which will exempt them from taxation under the bank tax and allow the same tax treatment as other subchapter S-subsidaries. Legislation enacted in 1998 authorized an investment tax credit for the purchase of tangible personal property used in a bank's normal course of business as a broker or dealer in connection with the purchase or sale of stocks or bonds. In 2002, legislation was enacted increasing the mandatory first installment payment from 25 percent to 30 percent. In 2003, legislation was enacted extending the bank tax provisions concerning the taxation of commercial banks for two years, until December 31, 2004. In 2004, legislation was enacted that extended the bank tax and the Federal Gramm-Leach-Bliley Act transition provisions until 2006. Legislation enacted in 2007 closed the real estate investment trust loophole for banks with assets of more than \$8 billion; required certain grandfathered Article 9-A subsidiaries to be taxed under Article 32; lowered the ENI rate to 7.1 percent; and extended certain 1985 provisions and Gramm-Leach-Bliley Act conforming provisions for two years. Legislation enacted in 2008 provided that certain credit card companies doing business in New York State will now be subject to the bank tax; extended the MTA surcharge for four additional years; and established a voluntary disclosure and compliance initiative program to encourage eligible taxpayers to enter into compliance agreements with the Department of Taxation and Finance. In 2009, legislation was enacted that increased the mandatory first installment payment from 30 percent to 40 percent, and reformed the Empire Zones program by decertifying firms that fail a 1:1 benefit-cost ratio or that re-incorporated to maximize tax benefits without making any new investments or creating any new jobs.

Legislation enacted in 2010 allows banks to claim the nonresidential historic properties tax credit; extends for one year the bank tax reform provisions from 1985 to 1987 and the temporary Gramm-Leach-Bliley Act conforming provisions; conforms State bank bad debt deduction for bad debts to the calculations provided for in the Internal Revenue Code for Federal tax purposes and makes permanent the provisions that addressed the closely-held Real Estate Investment trusts and Regulated Investment Companies loophole, which would have otherwise expired on December 31, 2010.

The State imposes a *petroleum business tax* on the privilege of operating a petroleum business in the State. This tax is measured by the quantity of various petroleum products imported into the State for sale or use. The tax is imposed at various cents-per-gallon rates depending on the type of petroleum product. The cents-per-gallon tax rates are indexed to reflect petroleum price changes but are limited to changes of no more than 5 percent of the tax rate in any one year. Legislation enacted in 1996, which was fully phased in on April 1, 1999, provided for reductions in the petroleum business taxes on residual petroleum, non-automotive diesel and diesel fuel used by motor vehicles and railroads, utilities, and commercial enterprises, and the elimination of the petroleum business taxes imposed on fuel used in manufacturing. In addition, the legislation also provided reimbursements of the tax paid for aviation gasoline when the

fuel is consumed outside New York. Legislation enacted in 1999 cut the tax rate on fuel used for commercial heating, eliminated the tax on fuel used for mining and adjusted the proportions of the tax going to dedicated funds to save-harmless the revenue flowing to those funds. Legislation enacted in 2000 reduced the tax rate on commercial heating by 33 percent. Legislation enacted in 2004 eliminated the tax on fuels used for aircraft overflight and landing. Legislation enacted in 2008 allows the Commissioner of Taxation and Finance to work and enter into an agreement with the DMV, DEC, Thruway Authority, NYS Bridge Authority, and the Port Authority of New York and New Jersey to use technology to reduce the bootlegging of fuel.

Other tax revenues include taxes on pari-mutuel wagering, the estate tax, taxes on real estate transfers, certain other minor taxes, and residual receipts following the repeal of the real property gains tax and the gift tax.

The State imposes an *estate tax* on the estates of deceased New York residents, and on that part of a nonresident's net estate made up of real and tangible personal property located within New York State. Estate tax liability is computed on the basis of the Federal definition of "gross estate" and is set equal to the Federal credit for Federal estate tax liability allowable for State estate taxes paid as it existed on July 22, 1998. Reflecting the composition of many decedents' estates in New York, collections of this tax are heavily influenced by fluctuations in the value of common stock. New York has not conformed to the most recent changes in Federal law and thus the base of the tax is, in general, unaffected by such changes.

The *real estate transfer tax* applies to each real property conveyance, subject to certain exceptions, at a rate of \$2 for each \$500 of consideration or fraction thereof. Pursuant to statute, beginning in State fiscal year 2007-08, \$212 million of real estate transfer tax receipts are deposited in the EPF and the remaining receipts are deposited in the CW/CA Debt Service Fund. In 2008-09, \$237 million was deposited into the EPF, and \$199 million will be deposited in 2009-10. Receipts in excess of the debt service requirements are transferred back to the General Fund. The 2010-11 Enacted Budget reduced the statutorily fixed deposit to the Environmental Protection Fund from \$199.3 million to \$119.1 million.

The *real property gains tax* had been levied at the rate of 10 percent on gains derived from certain real property transactions where the consideration is \$1 million or more. Legislation adopted in 1996 repealed the real property gains tax on transfers occurring on or after June 15, 1996; however, some receipts continue to flow to the General Fund based on transactions occurring prior to such date.

The State levies *pari-mutuel taxes* on wagering activity conducted at horse racetracks, simulcast theaters and off-track betting parlors throughout the State. In previous years the State temporarily reduced its tax rates and expanded simulcast opportunities and increased purses. Legislation enacted in 1999 and 2000 reduced taxes on races run at non-profit racing association tracks and dedicated the reduction to increasing purses at those tracks and operating the Breeders Cup races. Legislation enacted in 2003 provided for unlimited simulcasting, imposed a regulatory fee of 0.39 percent, allowed racetracks to set the takeout rate, and eliminated minimum balances on telephone betting accounts. Legislation enacted in 2005 revised the fee to 0.5 percent. These actions increased revenue to the General Fund and funded the expenses of regulating the industry. Legislation enacted in 2006 reduced tax rates on wagers placed on certain thoroughbred races. Legislation enacted in 2010 provided a one-year extension for pari-mutuel tax rates on simulcasting that were scheduled to expire during the 2010-11 fiscal year. In addition to pari-mutuel taxes, a 4 percent tax is levied on the charge for admissions to racetracks and simulcast theaters, and a 3 percent tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights.

Miscellaneous receipts and other revenues include various fees, fines, tuition, license revenues, lottery revenues, investment income, assessments on various businesses (including healthcare providers), and abandoned property. Miscellaneous receipts also include minor amounts received from the Federal government and deposited directly in the General Fund. Legislation enacted in 1997 provided for a phase-out of most of the assessments on health care providers by April 1, 2001. Legislation enacted in 1998 and 1999 accelerated the phase-out of the health care provider assessments; they were eliminated in January 2000. Legislation enacted in 2001, authorized the Division of the Lottery to license eligible racetracks to operate VLTs. The first license began operations in January 2003 and currently there are eight racetracks operating VLTs. Legislation enacted in 2002 re-imposed assessments on nursing home care providers and imposed a surcharge on State wireless communication services and increased bond issuance charges. Legislation enacted in 2003 reduced the time period for collecting abandoned property related to the demutualization or similar reorganization of an insurance company from five years to two years. In 2004, \$4.2 billion in proceeds from the sale of the State's tobacco payments under the national Master Settlement Agreement was collected. Legislation enacted in 2005 increased the photo image fee and authorized New York Power Authority PILOT payments. Legislation enacted in 2006 increased certain banking fines and penalties, accelerated the dormancy period on uncashed checks and securities, and created the internet point insurance reduction program.

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Exhibit C to Annual Information Statement

State-Related Debt by Function

STATE-RELATED DEBT				
2010-11 BOND CAPS AND DEBT OUTSTANDING				
(millions of dollars) (1)				
Type of Cap (Gross or Net)*	Program	2010-11 Bond Caps	Authorized But Unissued (2)	Debt Outstanding (3) As of 3/31/10
Education:				
Gross	SUNY Educational Facilities (4)	10,089	4,445	5,591
Net	SUNY Dormitory Facilities (5)	1,230	408	1,044
Net	SUNY Upstate Community Colleges (5)	536	229	657
Gross	CUNY Educational Facilities (6)	6,843	2,259	3,710
Net	State Ed Department Facilities (7)	0	0	56
Gross	Library for the Blind	16	0	4
Net	SUNY Athletic Facilities	22	0	17
Net	RESCUE	195	0	96
Net	University Facilities (Jobs 2000)	48	0	21
Net	School District Capital Outlay Grants	140	40	25
Net	Judicial Training Institute	16	0	10
Net	Transportation Transition Grants	80	12	0
Net	Public Broadcasting Facilities	15	0	10
Net	Higher Education Capital Matching Grants	150	57	85
Net	EXCEL	2,600	482	1,912
Net	Library Facilities	70	28	36
Net	Cultural Education Storage Facilities	79	69	9
Net	State Longitudinal Data System	20	20	0
Environment:				
Net	Environmental Infrastructure Projects (8)	904	137	669
Net	Hazardous Waste Remediation (SFUND)	1,200	770	405
Net	Riverbank State Park	78	18	46
Net	Water Pollution Control (SRF)	600	97	92
Net	State Park Infrastructure	30	0	3
Net	Pipeline for Jobs (Jobs 2000)	34	2	13
Net	Western New York Nuclear Service Center	104	0	0
Net	Long Island Pine Barrens	15	0	8
Net	Pilgrim Sewage Plant	11	0	5
State Building/Equipment/Public Protection:				
Net	Empire State Plaza	133	13	6
Net	State Capital Projects (Attica)	200	0	165
Net	Division of State Police Facilities	114	79	34
Net	Division of Military & Naval Affairs	18	3	14
Net	Alfred E. Smith Building	89	0	67
Net	Sheridan Ave. (Elk St.) Parking Garage	25	0	23
Net	State Office Buildings and Other Facilities	166	14	140
Net	Judiciary Improvements	38	1	28
Net	OSC State Buildings	52	0	32
Net	Albany Parking Garage (East)	41	0	31
Net	OGS State Buildings and Other Facilities (9)	140	26	113
Net	Equipment Acquisition (COPs) (10)	751	300	198
Net	Food Laboratory	40	31	9
Net	OFT Facilities	121	118	3
Net	Courthouse Improvements	86	56	28
Gross	Prison Facilities	6,164	459	4,569
Net	Homeland Security	67	43	18
Gross	Youth Facilities	380	51	193
Net	E-911 Program	100	0	16
Net	NYRA Land Acquisition/VLT Construction	355	250	98
Economic Development:				
Gross	Housing Capital Programs	2,532	285	1,651
Gross	Javits Convention Center (Original)	375	0	81
Net	Community Enhancement Facilities (CEFAP)	425	49	88
Net	University Technology Centers (incl. HEAT)(11)	248	13	84
Gross	Onondaga Convention Center	40	0	31
Net	Sports Facilities	145	0	92
Net	Child Care Facilities	30	1	17
Net	Bio-Tech Facilities	10	10	0
Net	Strategic Investment Program	225	41	27

Net	Regional Economic Development (Fund 002) (12)	1,200	16	633
Net	NYS Economic Development (2004) (13)	350	71	232
Net	Regional Economic Development (2004) (14)	250	250	0
Net	High Technology and Development	250	96	137
Net	Regional Economic Development/SPUR	90	37	39
Net	Buffalo Inner Harbor	50	25	22
Net	Jobs Now	14	0	0
Net	Economic Development 2006 (Various) (15)	2,318	1,025	1,208
Net	Javits Convention Center (Expansion '06)	350	350	0
Net	Queens Stadium (Mets)	75	0	66
Net	Bronx Stadium (Yankees)	75	0	67
Net	NYS Ec Dev Stadium Parking ('06)	75	75	0
Net	State Modernization Projects (RIOC Tram, etc.)	50	15	34
Net	Int. Computer Chip Research and Dev. Center	300	120	174
Net	2008 and 2009 Economic Development Initiatives	1,310	797	484
Net	H.H. Richardson Complex/Darwin Martin House	84	64	18
Health/Mental Hygiene:				
Net	Department of Health Facilities (inc. Axelrod)	495	3	361
Gross	Mental Health Facilities	7,367	1,638	3,882
Net	HEAL NY Capital Program	750	535	190
Transportation:				
Gross	Consolidated Highway Improvement Program (CHIPS)	6,287	806	3,680
Net	Dedicated Highway & Bridge Trust	16,500	5,322	7,537
Net	High Speed Rail	22	22	0
Net	Albany County Airport	40	1	23
N/A	MTA Transit and Commuter projects (16)	-	-	2,117
LGAC	Net Local Government Assistance Corporation	4,700	0	3,639
GO	Gross General Obligation	17,185	1,970	3,400
Total State-Supported Debt		98,421	24,153	50,323
Other State Financings:				
Tobacco Settlement Financing Corporation Bonds				3,257
MBBA Special Purpose School Aid Bonds				419
Capital Lease and Mortgage Loan Commitments				421
Other (17)				696
Total State-related Debt				55,116

* Gross caps include cost of issuance fees. Net caps do not.

- (1) Includes only authorized programs that are active at March 31, 2010 or have outstanding program balances or both.
- (2) Amounts issued may exceed the stated amount authorized by premiums, by providing for the cost of issuance, reserve fund requirements and, in certain circumstances, refunding bonds. In some cases, Authorized but Unissued bond cap amounts have been reduced by the higher of (i) net bond proceeds available to fund program, or (ii) par amount of bonds issued.
- (3) Amounts outstanding reflect original par amounts or original gross proceeds in the case of capital appreciation bonds.
- (4) Authorization also includes any amount necessary to refund outstanding Housing Finance Agency (HFA) State University Construction Bonds, all of which have been refunded.
- (5) Authorization applies to bonds issued after March 31, 2002, prior to that date there was no limit.
- (6) The amount outstanding includes CUNY Community Colleges bonds for which the State pays debt service. New York City pays 50 percent of the debt service on most of CUNY CC bonds. The total amount authorized for CUNY Senior Colleges was unlimited for resolutions adopted prior to 7/1/85 and limited to \$6.843 billion for both CUNY Senior and CUNY Community Colleges for resolutions adopted after 7/1/85.
- (7) Legislation enacted in May 2002 prohibits further issuance of bonds for this purpose, except for refunding purposes.
- (8) Includes bonds issued for West Valley, DEC Environmental Infrastructure Projects, Environmental Protection Fund, Onondaga Lake, and the Office of Parks and Recreation and Historic Preservation.
- (9) Includes debt outstanding for Office of General Services Buildings: 44 Holland Ave., 50 Wolf Rd., 625 Broadway Ave., Hampton Plaza, and DOT Region 1.
- (10) Authorized amounts includes Certificates of Participation, which have been issued as bonds after March 31, 2003.
- (11) Includes authorizations for Science and Technology Center (Syracuse), Super Computer Center (Cornell), Center for Telecommunications (Columbia), HEAT, Center for Industrial Innovation (City of Troy), Center for Advanced materials (Clarkson), Center for Electro-Optic (Rochester), Center for Neural Sciences (NYU) and Center for Incubator Facilities.
- (12) Includes bonds issued for Community Capital Assistance Program (CCAP), Rebuilding the Empire State Through Opportunities in Regional Economies Program (RESTORE), Empire Opportunity Fund (EOF), Generating Employment Through New York Science Program (Gen*NY*sis), Multi-Modal Transportation Program, and Center of Excellence Program. (Laws of 2002).
- (13) Includes bonds issued for the EOF, RESTORE and CCAP.
- (14) Includes bonds to be issued for economic development projects outside cities of 1 million or more in population.
- (15) Includes bonds to be issued for economic development and environmental projects.
- (16) Authorization is limited to \$165 million in annual debt service maturing no later than July 1, 2031.
- (17) Includes bonds issued for Secured Hospital Program, HFA and MCFFA Moral Obligation Bonds, and the JDA State-guaranteed bonds.

Exhibit D to Annual Information Statement

Glossary of Acronyms

(AFSCME)	American Federation of State, County, and Municipal Employees
(AHC)	Affordable Housing Corporation
(AIG)	American International Group
(AIM)	Aid and Incentive for Municipalities
(ARRA)	American Recovery and Reinvestment Act of 2009
(ARS)	Auction Rate Securities
(ATC)	Addiction Treatment Center
(AWP)	Average Wholesale Price
(BANS)	Bond Anticipation Notes
(BIC)	Bond Issuance Change
(BMA)	Bond Market Association
(BOCES)	Board of Cooperative Education Services
(CAFR)	Comprehensive Annual Financial Report
(CAP)	Comprehensive Attendance Program
(CDT)	Continuing Day Treatment Clinic
(CFE)	Campaign for Fiscal Equity
(CFIA)	Court Facilities Incentive Aid
(CHCCDP)	Community Health Care Conversion Demonstration Project
(CHIPs)	Consolidated Highway Improvement Programs
(CHP)	Child Health Plus
(CMS)	Centers for Medicaid and Medicare Services
(CLCs)	21st Century Community Learning Centers
(CLRN)	Community Legal Resources Network
(COLA)	Cost-of-Living Adjustment
(COPS)	Community Optional Preventative Services
(CPFs)	Community Projects Funds
(CPI)	Consumer Price Index
(CQCAPD)	Commission on Quality Care and Advocacy for Persons with Disabilities
(CRF)	Contingency Reserve Fund
(CSEA)	Civil Service Employees Association
(CSTEP)	Collegiate Science and Technology Entry Program
(CW/CA)	Clean Water/Clean Air
(CWSRF)	Clean Water State Revolving Fund
(CEFAP)	Community Enhancement Facilities Assistance Program
(DBE)	Disadvantaged Business Enterprise
(DHBTF)	Dedicated Highway and Bridge Trust Fund
(DRRF)	Debt Reduction Reserve Fund
(DRP)	Deficit Reduction Plan
(DSFs)	Debt Service Funds
(DWSRF)	Drinking Water Revolving Fund
(EI)	Early Intervention
(EITC)	Earned Income Tax Credit
(EMSC)	Elementary, Middle, Secondary and Continuing Education
(EOCs)	Educational Opportunity Centers
(EOP)	Educational Opportunity Program
(EPF)	Environmental Protection Fund

(EPIC)	Elderly Pharmaceutical Insurance Coverage
(ESCO).....	Energy Service Companies
(EXCEL).....	Expanding our Children’s Education and Learning
(FCB)	Financial Control Board
(FHP)	Family Health Plus
(FMAP).....	Federal Medical Assistance Percentage
(FMP).....	Fiscal Management Plan
(FSA)	Financial Security Assurance
(GAAP).....	Generally Accepted Accounting Principles
(GASB)	Governmental Accounting Standards Board
(GASB 34).....	Governmental Accounting Standards Board Statement 34
(GDP).....	Gross Domestic Product
(GHI).....	Group Health Insurance
(GME).....	Graduate Medical Education
(GOER).....	Governor's Office of Employee Relations
(GPHW).....	General Public Health Works
(GSCs)	General State Charges
(GSEW)	Graduate Student Employees Union
(HAF).....	Housing Assistance Fund
(HCBS)	Home and Community Based Services
(HCRA).....	Health Care Reform Act
(HEAL NY)	Health Care Equity and Affordability Law for New Yorkers
(HEAP)	Home Energy Assistance Program
(HELP).....	Higher Education Loan Program
(HHC)	Health and Hospital Corporation
(HESC).....	Higher Education Services Corporation
(HHAC)	Homeless Housing Assistance Corporation
(HHAP).....	Homeless Housing Assistance Program
(HIP)	Health Insurance Plan
(HMO)	Health Maintenance Organization
(HRPT).....	Hudson River Park Trust
(HTFC).....	Housing Trust Fund Corporation
(IDEA)	Individuals with Disabilities Education Act
(IFP)	Industrial Finance Program
(IPO)	Initial Public Offering
(ITC)	Investment Tax Credit
(LGAC).....	Local Government Assistance Corporation
(LIBOR).....	London Inter Bank Offered Rates
(LLC)	Limited Liability Company
(MCFFA)	Medical Care Facilities Finance Agency
(MCTD)	Metropolitan Commuter Transportation District
(MMTOA).....	Metropolitan Mass Transportation Operating Assistance Fund
(MTOA).....	Mass Transportation Operating Assistance Fund
(MOU)	Memorandum of Understanding
(M/WBE)	Minority/Women-Owned Business Enterprises
(NAICS).....	North American Industry Classification System
(NBER)	National Bureau of Economic Research
(NPS)	Non-Personal Service
(NTI)	New York State Net Taxable Income
(NYSCOPBRA)	New York State Correctional Officers and Police Benevolent Association
(NYS-OPTS).....	New York State Options for People Through Services

(OCA)	Office of Court Administration
(PACB)	Public Authorities Control Board
(PAYGO)	Pay-as-you-go
(PEF)	Public Employees Federation
(PEP)	Professional Education Pool
(PIA)	Patient Income Account
(PILOT)	Payment in Lieu of Taxes
(PIT)	Personal Income Tax
(PPA)	Permanent Place of Abode
(PPI)	Petroleum Price Index
(PRAG)	Public Resources Advisory Group
(PSYCKES)	Psychiatric Services and Clinical Knowledge Enhancement System
(PYCs)	Prior Year Claims
(QPAI)	Qualified Production Activity Income
(QCEW)	Quarterly Census of Employment and Wages
(REIT)	Real Estate Investment Fund
(RESCUE)	Rebuilding Schools to Uphold Education
(RIC)	Regulated Investment Company
(RBTF)	Revenue Bond Tax Fund
(SAFETEA-LU)	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
(SBE)	Sound Basic Education
(SEIP)	Supplemental Education Improvement Program
(SFSF)	State Fiscal Stabilization Fund
(SHU)	Special Housing Unit
(SIP)	Strategic Investment Program
(SOMTA)	Sex Offender Management Treatment Act
(SPIF)	State Parks Infrastructure Fund
(SRFs)	Special Revenue Funds
(SSI)	Supplemental Security Income
(STAR)	School Tax Relief
(STARC)	State Tax Asset Receivable Corporation
(STEP)	Science and Technology Entry Programs
(ST&I)	Science, Technology, and Innovation
(STIP)	Short-Term Investment Pool
(SWN)	Statewide Wireless Network
(TAG)	Technical Assistance Grant
(TANF)	Temporary Assistance for Needy Families
(TAP)	Tuition Assistance Program
(TAS)	Technical Advisory Service
(TFA)	Transitional Finance Authority
(TMT)	Truck Mileage Tax
(TRANS)	Tax and Revenue Anticipation Notes
(TSA)	Teacher Support Aid
(TSFC)	Tobacco Settlement Financing Corporation
(TSRF)	Tax Stabilization Reserve Fund
(UDC)	Urban Development Corporation
(UUP)	United University Professions
(VCI)	Voluntary Compliance Initiative
(VESID)	Vocational and Educational Services for Individuals with Disabilities
(VLT)	Video Lottery Terminal

(VRDBs) Variable-Rate Demand Bonds
 (WHTI) Western Hemisphere Travel Initiative
 (WMS) Welfare Management System
 (WRP) Workforce Reduction Plan

NEW YORK STATE AGENCIES AND PUBLIC AUTHORITIES

(CUNY) City University of New York
 (DASNY) Dormitory Authority of the State of New York
 (DCJS) Division of Criminal Justice Services
 (DEC) Department of Environmental Conservation
 (DHCR) Division of Housing and Community Renewal
 (DMNA) Department of Military and Naval Affairs
 (DOB) Division of the Budget
 (DOCS) Department of Correctional Services
 (DOH) Department of Health
 (DOS) Department of State
 (DOT) Department of Transportation
 (DSP) Division of State Police
 (EFC) Environmental Facilities Corporation
 (ERDA) Energy Research and Development Authority
 (ESDC) Empire State Development Corporation
 (HFA) Housing Finance Agency
 (JDA) Job Development Authority
 (LIPA) Long Island Power Authority
 (MAC) Municipal Assistance Corporation
 (MTA) Metropolitan Transportation Authority
 (NYCOMB) New York City Office of Management and Budget
 (NYHELPS) New York Higher Education Loan Program
 (NYRA) New York Racing Authority
 (NYSTAR) Office of Science, Technology and Academic Research
 (OASAS) Office of Alcoholism and Substance Abuse Services
 (OCFS) Office of Children and Family Services
 (OCR) Department of Transportation’s Office of Civil Rights
 (OFT) Office for Technology
 (OGS) Office of General Services
 (OMH) Office of Mental Health
 (OMIG) Office of the Medicaid Inspector General
 (OPWDD) Office for People with Developmental Disabilities
 (ORPS) Office of Real Property Services
 (OSC) Office of the State Comptroller
 (OTDA) Office of Temporary and Disability Assistance
 (PASNY) Power Authority of the State of New York
 (SED) State Education Department
 (SONYMA) State of New York Mortgage Agency
 (SUNY) State University of New York

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CERTAIN DEFINITIONS

The following are definitions of certain terms used in the Resolution, the Service Contract or this Official Statement.

“Account” means any account or accounts, as the case may be, established and created pursuant to the Resolution, but does not include any escrow or other fund or account established or created pursuant to a Security Instrument.

“Act” means the New York State Urban Development Corporation Act (being Chapter 174 of the Laws of the State, 1968, as amended, and constituting Subchapter I, Chapter 24 of Title 16 of McKinney’s Unconsolidated Laws, Section 6251 et seq., as amended), as existing from time to time.

“Acts” means, collectively, the Act and the Project Acts.

“Aggregate Obligations” means, as of any date, the sum of the amounts of (i) interest due and payable on such date on Bonds, (ii) the Principal Installment and purchase price, if any, due and payable on such date for Bonds, and (iii) the aggregate Parity Reimbursement Obligations due on such date.

“Amortized Value,” when used with respect to Investment Obligations purchased at a premium above or a discount below par, means the value at any given date obtained by dividing the total premium or discount at which such Investment Obligations were purchased by the number of interest payment dates remaining to maturity on such Investment Obligations after such purchase and by multiplying the amount so calculated by the number of interest payment dates having passed since the date of such purchase; and (i) in the case of Investment Obligations purchased at a premium, by deducting the product thus obtained from the purchase price, and (ii) in the case of Investment Obligations purchased at a discount, by adding the product thus obtained to the purchase price.

“Applicable Percentage” shall mean that percentage which represents the proportion that the aggregate principal amount of Series 2010B Bonds issued to refund bonds issued by the Corporation bears to the aggregate principal amount of the Series 2010B Bonds.

“Authorized Newspaper” means a newspaper or financial journal, customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language and of general circulation in the Borough of Manhattan, City and State of New York.

“Authorized Officer” means (i) in the case of the Corporation, the President, any Senior Vice President, any Vice President, the Treasurer, the Secretary, the Chief Financial Officer, any Assistant Treasurer and any Assistant Secretary, and when used with reference to any act or document, any other person authorized by resolution of the Corporation to perform such act or sign such document, (ii) in the case of the State, Commissioner of General Services, the Director of the Budget or the Comptroller and when used with reference to any act or document, any other person authorized by law or by the Commissioner of General Services, the Director of the Budget or the Comptroller, as the case may be, to perform such act or sign such document, (iii) in the case of the Trustee, any officer within its corporate trust office including the President, any Vice President, any Assistant Vice President, any Senior Trust Officer, any Trust Officer or any Assistant Trust Officer, or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer’s knowledge and familiarity with the particular subject matter, and (iv) any other officer or employee so designated on its behalf by resolution of the Corporation or the Trustee, respectively.

“Beneficiaries” means the Owners of Bonds Outstanding, and Credit Facility Providers and Liquidity Facility Providers as to which there are Parity Reimbursement Obligations.

“Bond” or **“Bonds”** means any bond or bonds, as the case may be, authenticated and delivered under the Resolution.

“Bondholder” or **“Bondowner”** means any person who shall be the registered owner of any Outstanding Bond or Bonds.

“Bond Payment Date” means any due date for the payment of any interest or Principal Installment (as such term is defined in the Bond Resolution) whether at maturity or by reason of acceleration, redemption or otherwise.

“Bond Proceeds Fund” means the Bond Proceeds Fund established pursuant to the Resolution. **“Bond Year”** means a twelve-month period commencing on the first day of January in any year.

“Bond Year” means the twelve-month period commencing on the first day of January in any year.

“Business Day” means any day other than a Saturday, a Sunday or legal holiday or a day on which banking institutions in New York, New York or any city in which the principal office of the Trustee or any Paying Agent is located are authorized or required by law or executive order to remain closed.

“Capital Appreciation Bonds” means the Bonds of any Series so designated in a Series Resolution; provided, however, that the term “Capital Appreciation Bonds” shall only be used with respect to Bonds the interest on which is payable only at maturity, or earlier redemption or acceleration of maturity, in amounts determined by reference to the Compounded Amount of each Bond.

“Capitalized Interest Account” means the Capitalized Interest Account established in the Bond Proceeds Fund pursuant to the Resolution.

“CEFAP Act” means Chapter 432 of the Laws of 1997, as amended and supplemented from time to time, and any subsequent Chapter of the Laws of the State of New York pursuant to which any subsequent Series of Bonds may be issued.

“Code” means the Internal Revenue Code of 1986, as amended, and the final, temporary and proposed regulations of the United States Department of Treasury promulgated thereunder.

“Compounded Amount” means the principal amount of the Capital Appreciation Bonds and Convertible Capital Appreciation Bonds plus the amount of interest that has accreted on such Bonds to the date of calculation, determined by reference to accretion tables contained in each such Bond or an offering circular with respect thereto.

“Consolidation Act” means Section 34 of Part T of Chapter 57 of the Laws of 2007, enacting Section 67-C of the State Finance Law.

“Contract Payments” means, except as otherwise provided in a Series Resolution, all payments or other amounts payable to or received by the Corporation under a Service Contract for Projects relating to the payment of the principal or purchase price of, redemption premium, if any, and interest on, the Bonds, including payments representing such amounts and payable to Credit Facility Providers and Liquidity Providers, and payments in satisfaction of rebate requirements under the Code.

“Convertible Capital Appreciation Bonds” means Bonds which, on or prior to the Current Interest Commencement Date, have the characteristics of Capital Appreciation Bonds and, after the Current Interest

Commencement Date, have the characteristics of Current Interest Bonds, in each case with such further terms and conditions as may be designated therefor by subsequent resolution adopted prior to the issuance of such Series of such Bonds.

“Corporation” means the New York State Urban Development Corporation, the corporate governmental agency created by the Act, and its successors and permitted assigns.

“Correctional Facilities Project Act” means Chapter 56 of the Laws of 1983, as amended and supplemented from time to time, and any subsequent Chapter of the Laws of the State of New York pursuant to which any subsequent Series of Bonds may be issued.

“Costs of Issuance” means all items of expense, directly or indirectly payable or reimbursable by or to the Corporation or the State, as specified and related to the authorization, sale and issuance of Bonds, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums, fees or charges for any Credit Facility or Liquidity Facility, upfront payments to counterparties on interest rate exchange agreements, and any other cost, charge or fee in connection with the original issuance of Bonds.

“Costs of Issuance Account” means the Costs of Issuance Account established in the Bond Proceeds Fund pursuant to the Resolution.

“Credit Facility” means an irrevocable letter of credit, bond insurance policy, surety bond, loan agreement, Standby Purchase Agreement or other agreement, facility or insurance or guaranty arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a savings bank, a savings and loan association, a Federal Home Loan Bank, a corporation, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal or State agency or instrumentality approved by the Corporation, pursuant to which the Corporation is entitled to obtain moneys to pay the principal, purchase price or Redemption Price of Bonds due in accordance with their terms or tendered for purchase or redemption, plus accrued interest thereon to the date of payment, purchase or redemption thereof in accordance with the Resolution and with the Series Resolution authorizing such Bonds, whether or not the Corporation is in default under the Resolution; provided, that use of a Credit Facility shall not result, at the time of delivery of the Credit Facility, in a reduction in the rating of any Bonds Outstanding; and provided further, that a substitute Credit Facility (the “Substitute Credit Facility”) may be obtained from time to time (i) which shall contain the same material terms as set forth in the Credit Facility for which substitution is made, and (ii) will not, in and of itself, result in a rating of the related Bonds lower than those which then prevailed.

“Credit Facility Provider” means the counterparty which has executed a Credit Facility with the Corporation, or otherwise has provided a Credit Facility at the request of the Corporation, for the benefit of any of the Bonds.

“Current Interest Bonds” means Bonds that bear interest which is payable semiannually or more often.

“Current Interest Commencement Date” means the date established prior to the issuance of each Series of Convertible Capital Appreciation Bonds, at which time the semiannual compounding of interest ceases and on and after such date interest is payable currently on the Compounded Amounts on the next ensuing interest payment dates.

“Debt Service Fund” means the Debt Service Fund established pursuant to the Resolution.

“Defeased Municipal Obligations” means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Fitch or Standard & Poor’s or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or direct obligations of the Treasury of the United States of America, which escrow may be applied only to the payment of such principal and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

“Earnings Fund” means the Fund by that name established pursuant to the Resolution.

“Event of Default” means an event described in the Resolution.

“Fiduciary” or **“Fiduciaries”** means the Trustee, any Paying Agent, or either or both of them, as may be appropriate.

“Fitch” means Fitch Ratings, and its successors and assigns.

“Fixed Tender Bond” means any Bond, not constituting an Adjustable Rate Bond, which by its terms must be tendered by the Owner thereof for purchase by the Corporation prior to the stated maturity thereof or for purchase thereof.

“Fund” or **“Funds”** means any fund or Funds, as the case may be, established pursuant to the Resolution.

“Government Obligations” means (a) direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America and entitled to the full faith and credit thereof; (b) certificates, depositary receipts or other instruments which evidence a direct ownership interest in obligations describe in clause (a) above or in any specific interest or principal payments due in respect thereof, provided, however, that the custodian of such obligations or specific interest or principal payments shall be a bank or trust company organized under the laws of the United States of America or of any state or territory thereof or of the District of Columbia, with a combined capital stock, surplus and undivided profits of at least \$50,000,000 or the custodian is appointed by or on behalf of the United States of America; and provided, further that except as may be otherwise required by law, such custodian shall be obligated to pay to the holders of such certificates, depositary receipts or other instruments the full amount received by such custodian in respect of such obligations or specific payments and shall not be permitted to make any deduction therefrom; (c) an obligation of any federal agency approved by the Corporation; (d) a share or interest in a mutual fund, partnership or other fund wholly comprised of obligations described in clauses (a), (b) and (c) above; or (e) Defeased Municipal Obligations.

“HEAT and University Program Act” means Chapter 684 of the Laws of 1986, as amended or supplemented and Chapter 796 of the Laws of 1992, as amended and supplemented from time to time, and any

subsequent Chapter of the Laws of the State of New York pursuant to which any subsequent Series of Bonds may be issued.

“Investment Obligations” means and includes any of the following securities, if and to the extent the same are at the time legal for investment of the Corporation’s funds:

- (i) Government Obligations;
- (ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate;
- (iii) public housing bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; or obligations issued by any state or any public agencies or municipalities which are rated in the highest rating category by a nationally recognized bond rating agency;
- (iv) direct and general obligations of any state of the United States to the payment of the principal of and interest on which the full faith and credit of such state is pledged which are rated in either of the two highest rating categories by a nationally recognized bond rating agency;
- (v) prime commercial paper of a corporation incorporated under the laws of any state of the United States of America, rated “A-1” or “P-1” by Fitch or Standard & Poor’s;
- (vi) shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, which has been rated “A” or better by Fitch or Standard & Poor’s or money market accounts of the Trustee or any bank or trust company organized under the laws of the United States or any state thereof, which has a combined capital and surplus of not less than \$50,000,000;
- (vii) bank deposits evidenced by certificates of deposit issued by banks (which may include any Fiduciary) which are members of the Federal Deposit Insurance Corporation, provided that such time deposits are fully secured by obligations described in clauses (i) or (ii) above, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to such bank deposits so secured, including interest;
- (viii) repurchase agreements relating to securities of the type specified in clauses (i) and (ii) above, provided that such securities in an amount at least equal to the face value of such

agreements shall be delivered as security for such agreements to the account of the Trustee to be held therein during the term of the agreements;

(ix) investment agreements, secured or unsecured, with any institutions whose debt securities are rated at least “AA” (or equivalent rating of short-term obligations if the investment is for a period not exceeding one year) by Standard & Poor’s or equivalent rating by a nationally recognized rating agency; and

(x) any other obligations conforming to the Corporation’s guidelines for investment, so long as such obligations are rated at least in the two highest rating categories of each of the Rating Agencies and approved by the applicable Insurer.

“Liquidity Facility” means an irrevocable letter of credit, surety bond, loan agreement, Standby Purchase Agreement, line of credit or other agreement or arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a savings bank, a savings and loan association, a Federal Home Loan Bank, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal or State agency or instrumentality approved by the Corporation, pursuant to which the Corporation is entitled to obtain moneys upon the terms and conditions contained therein for the purchase or redemption of Bonds tendered for purchase or redemption in accordance with the terms of the Resolution and of the Series Resolution authorizing such Bond; provided, that the use of the Liquidity Facility shall not result, at the time of delivery of the Liquidity Facility, in a reduction in the rating of any Bonds Outstanding; and provided further that a substitute Liquidity Facility (the “Substitute Liquidity Facility”) may be obtained from time to time (i) which shall contain the same material terms as set forth in the Liquidity Facility for which substitution is made, and (ii) will not, in and of itself, result in a rating of the related Bonds lower than those which then prevailed.

“Liquidity Facility Provider” means the counterparty which has executed a Liquidity Facility with the Corporation or, otherwise has provided a Liquidity Facility at the request of the Corporation, for the benefit of any of the Bonds.

“Maturity Amount” means the Compounded Amount of any Capital Appreciation Bond as of the stated maturity thereof.

“Maximum Interest Rate” means, with respect to any particular Adjustable Rate Bond, a numerical rate of interest, which shall be set forth in the Series Resolution authorizing such Bond, that shall be the maximum rate at which such Bond may bear interest at any time.

“Minimum Interest Rate” means, with respect to any particular Adjustable Rate Bond, a numerical rate of interest, if any, set forth in the Series Resolution authorizing such Bond, that shall be the minimum rate at which such Bond may bear interest at any time.

“Opinion of Bond Counsel” means an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds selected by the Corporation and satisfactory to the Trustee.

“Opinion of Counsel” means an opinion signed by an attorney or firm of attorneys of recognized standing (who may be counsel to the Corporation) selected by the Corporation.

“Option Bond” means any Bond which by its terms may be tendered by and at the option of the Owner thereof for redemption by the Corporation prior to the stated maturity thereof or for purchase thereof, or the maturity of which may be extended by and at the option of the Owner thereof.

“Original Principal Amount” means the Compounded Amount of any Capital Appreciation Bond as of the date of original issuance.

“Outstanding,” when used with reference to the Bonds as a whole or the Bonds of a Series, describes, as of any date, all Bonds or Bonds of such Series, as the case may be, theretofore or thereupon being delivered and issued under the provisions of the Resolution, except:

(i) any Bonds cancelled by or surrendered for cancellation to the Trustee at or prior to such date;

(ii) Bonds for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agent in trust (whether at or prior to the maturity or redemption date), provided that if such Bonds are to be redeemed, notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds deemed to have been paid as provided in the Resolution; and

(iv) Bonds in lieu of or in substitution for which other Bonds shall have been issued pursuant to Article III or Section 408 or Section 1007 of the Resolution;

provided, however, that in determining whether the Owners of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver, Bonds owned by the State or the Corporation, or any other obligor upon the Bonds or any affiliate of such other obligor shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be so disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Bonds and that the pledgee is not the State or the Corporation, or any other obligor upon the Bonds or any affiliate of such other obligor.

“Owner” or **“Owner of Bonds”** means the Bondholder.

“Parity Reimbursement Obligations” means payments due from the Corporation to the provider of any Credit Facility or any Liquidity Facility which are payable from the Contract Payments on a parity with the Bonds and the Corporation’s obligation to make such payments having been secured by a lien and pledge of the Contract Payments, as the case may be, which shall be equal and ratable to the lien and pledge securing the Bonds, all as set forth in any Supplemental Resolution.

“Paying Agent” means any bank, trust company or national banking association appointed to act as a paying agent for the Bonds of any Series, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the provisions of the Resolution.

“Permitted Encumbrance” means any of (i) the Resolution and any Supplemental Resolution, (ii) the Security Instruments, and (iii) any assignments thereof to the Corporation or the Trustee.

“Person” or **“Persons”** means an individual, partnership, corporation, trust or unincorporated organization and a government or agency or political subdivision or branch thereof.

“Pine Barrens Project Act” means Section 93, Chapter 83 of the Laws of 1995, as amended and supplemented from time to time, and any subsequent Chapter of the Laws of the State of New York pursuant to which any subsequent Series of Bonds may be issued.

“Pledged Property” means the items pledged to the payment of the principal of, and premium, if any and interest on, and Sinking Fund Installments for all of the Bonds pursuant to subsection 1 of Section 501 of the Resolution.

“Principal Installment” means, as of any date with respect to any Series, so long as any Bonds thereof are Outstanding, the sum of (i) the principal amount and Compounded Amount (to the extent applicable) of Bonds of such Series due on such date, and (ii) the unsatisfied balance (determined as provided in Section 511 of the Resolution) of any Sinking Fund Installments due on such date for Bonds of such Series.

“Project Acts” means, collectively, (i) the HEAT and University Program Act; (ii) the Pine Barrens Project Act; (iii) the Correctional Facilities Project Act; (iv) the Youth Facilities Project Act; (v) the CEFAP Act; (vi) the Sports Facilities Project Act, and as each such act ay be further amended from time to time and any subsequent Chapter of the Laws of the State pursuant to which any subsequent Series of Bonds may be issued, and with respect to the Series 2010B Bonds means the Correctional Facilities Project Act and the Youth Facilities Project Act.

“Rating Agency” means each nationally recognized statistical rating organization then maintaining a rating on the Bonds at the request of the Corporation.

“Rebate Amount” means with respect to the Bonds, the amounts computed as described in the Tax Certificate.

“Rebate Fund” means the Rebate Fund established pursuant to the Resolution.

“Record Date” means any date (whether or not a Business Day) fifteen (15) days prior to any interest payment date on the Bonds or as specified in a Series Resolution.

“Recoveries and Awards” means all amounts arising from or attributable to all amounts realized upon or as a result of the exercise of any right or remedy or enforcement of any security interest under a Security Instrument or the Resolution, and any proceeds thereof, after deducting from any such amounts, any costs and expenses incurred in the exercise of any such right or remedy or in the enforcement of any such security interest, collecting the proceeds thereof or producing income thereon.

“Redemption Fund” means the Redemption Fund established pursuant to the Resolution.

“Redemption Price” means, when used with respect to a Bond (other than a Convertible Capital Appreciation Bond or a Capital Appreciation Bond), or a portion thereof to be redeemed, the principal amount of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof, pursuant to the Resolution and the applicable Series Resolution, but, when used with respect to a Convertible Capital Appreciation Bond or a Capital Appreciation Bond, “Redemption Price” means the Compounded Amount on the date of redemption of such Bond or portion thereof plus the applicable premium, if any.

“Refunding Bonds” means all Bonds authenticated and delivered on original issuance pursuant to the Resolution or thereafter authenticated and delivered in lieu of or in substitution for such Bond pursuant to the Resolution.

“Resolution” means the New York State Urban Development Corporation Service Contract Revenue Refunding Bond Resolution, as from time to time amended or supplemented by Supplemental Resolutions and/or Series Resolutions.

“Revenue Fund” means the Revenue Fund established pursuant to the Resolution.

“Revenues” means all Contract Payments and Recoveries and Awards.

“Security Instruments” means, collectively, the Service Contract and all assignments of all or any part thereof to the Corporation or the Trustee as collateral or otherwise, as from time to time amended or supplemented.

“Series” means all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction pursuant to the Resolution and any Bonds thereafter authenticated and delivered in lieu of or in substitution therefor pursuant to the Resolution.

“Series Resolution” means a resolution of the Corporation authorizing the issuance of a Series of Bonds in accordance with the terms and provisions thereof adopted by the Corporation in accordance with the Resolution.

“Service Contract” means, with respect to each Series of Bonds, a written agreement or agreements between the Corporation and the State of not more than 30 years in duration pursuant to which the State agrees to pay the Corporation, subject to annual appropriations by the State legislature, such sums as are necessary to meet, among other things, the debt service payments due on any Outstanding Bonds of such Series and any Parity Reimbursement Obligations in any calendar year.

“Sinking Fund Installment” means, when used with respect to any Series of Bonds, the amount of principal or Compounded Amount, as the case may be, due prior to maturity on Bonds of a given maturity on any particular due date pursuant to the Resolution as specified in the Series Resolution pursuant to which such Series was issued.

“Sports Facilities Project Act” means Chapter 258 of the Laws of 1993, as amended and supplemented and as each such act may be further amended from time to time and any subsequent Chapter of the Laws of the State pursuant to which any subsequent Series of Bonds may be issued.

“Standard & Poor’s” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc., and its successors and assigns.

“Standby Purchase Agreement” means an agreement by and between the Corporation and another person pursuant to which such person is obligated to purchase Option Bonds or Fixed Tender Bonds tendered for purchase.

“State” means the State of New York.

“Supplemental Resolution” means any resolution supplemental to or amendatory of the Resolution or any Series Resolution, adopted by the Corporation in accordance with the Resolution.

“Taxable Bonds” means Bonds of a Series which are not Tax Exempt Bonds.

“Tax Certificate” means the document executed by the Corporation with respect to each Series and entitled “Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986, as amended.”

“Tax Exempt Bonds” means Bonds of a Series the interest on which, in the opinion of Bond Counsel, on the date of original issuance thereof, is excludable from gross income for federal income tax purposes.

“Trustee” means the bank, trust company or national banking association appointed pursuant to the Resolution to act as trustee thereunder, and its successor or successors and any other bank, trust company or national banking association which may at any time be substituted in its place pursuant to the provisions of the Resolution.

“Youth Facilities Project Act” means Chapter 211 of the Laws of 1990, as amended and supplemented from time to time, and any subsequent Chapter of the Laws of the State of New York pursuant to which any subsequent Series of Bonds may be issued.

**SUMMARY OF CERTAIN PROVISIONS
OF THE GENERAL RESOLUTION**

The following is a general summary of certain provisions of the General Resolution as presently in effect. This summary is not to be considered a full statement of the terms of the General Resolution and, accordingly, is qualified by reference thereto and is subject to the full text thereof. All references to Articles and Sections in this summary refer to articles and sections of the General Resolution unless expressly stated otherwise. A copy of the General Resolution may be obtained upon request therefor addressed to the Secretary of the Corporation.

Resolution to Constitute Contract (Section 103)

In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued under the Resolution by those Persons who shall hold the same from time to time, the Resolution shall be deemed to be and shall constitute a contract between the Corporation and the Owners from time to time of the Bonds; and the pledge made in the Resolution and the covenants and agreements therein set forth to be performed on behalf of the Corporation shall be for the equal benefit, protection and security of the Owners of any and all of the Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof, except as expressly provided in or permitted by the Resolution.

Special Provisions Concerning Capital Appreciation Bonds (Section 104)

For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed, or (ii) receiving payment of a Capital Appreciation Bond, or (iii) computing the principal amount of Bonds held by the registered owner of a Capital Appreciation Bond in giving to the Corporation or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, or (iv) calculating the principal amount of Bonds to be credited toward Sinking Fund Installments, the principal amount of a Capital Appreciation Bond shall be deemed to be its then current Compounded Amount.

Authorization of Bonds (Section 201)

The Resolution creates and establishes an issue of Bonds of the Corporation to be designated as “Service Contract Revenue Refunding Bonds” and creates, in the manner and to the extent provided therein, a continuing pledge and lien to secure the full and final payment of the principal and premium of, if any, and interest on, all the Bonds issued pursuant to the Resolution. The Bonds shall be special obligations of the Corporation payable from the Pledged Property without recourse against other assets of the Corporation. The State is not liable on the Bonds, and the Bonds shall not be a debt of the State and the Bonds shall contain on the face thereof a statement to this effect. The aggregate principal amount of the Bonds which may be executed, authenticated and delivered under the Resolution is not limited except as is or may be provided in the Resolution or as may be limited by the Acts.

General Provisions for Issuance of Bonds (Section 202)

One or more Series of Bonds may be authenticated and delivered upon original issuance, in such principal amount or amounts for each such Series as may be determined from time to time by the Corporation, for the purpose of (i) refunding or otherwise repaying any Bonds or any bonds, notes or other obligations issued by the Corporation pursuant to the Project Acts; (ii) funding a debt service reserve fund, if necessary; (iii) paying the costs associated with terminating swap agreements relating to refunded bonds, and (iv) paying the Costs of Issuance; or Bonds may issued for any combination of (i) through (iv) above.

Bonds of any Series shall be authorized by a Series Resolution which shall specify, among other things, the authorized principal amount and designation of such Series of such Bonds and the purposes for which such Series of Bonds is being issued. Each Series of Bonds shall be executed by the Corporation for issuance under the Resolution and delivered to the Trustee, and thereupon shall be authenticated by the Trustee and delivered to the Corporation or upon its order, but only upon receipt by the Trustee of:

- (a) A copy of the Resolution, certified by an Authorized Officer of the Corporation,
- (b) An Opinion of Bond Counsel to the effect that (A) the Corporation has the right and power under the Acts to adopt the Resolution and the Resolution has been duly and lawfully adopted by the Corporation, is in full force and effect and is valid and binding upon the Corporation and enforceable in accordance with its terms, and no other authorization for the Resolution is required; (B) the Resolution creates the valid pledge for the benefit of the owners of the Bonds which it purports to create of the Pledged Property, subject only to the provisions of the Resolution permitting the application thereof to the purposes and on the terms and conditions set forth in the Resolution; and (C) the Bonds of such Series are valid and binding special obligations of the Corporation as provided in the Resolution, enforceable in accordance with their terms and the terms of the Resolution (except insofar as the enforceability thereof may be limited by any applicable bankruptcy, insolvency or similar laws relating to the enforcement of creditors' rights generally or the availability of the remedy of specific performance, injunctive relief or any other equitable remedy), and entitled to the benefit of the Resolution and of the Acts, and such Bonds have been duly and validly authorized and issued in accordance with law, including the Acts, and in accordance with the Resolution;
- (c) A written order as to the authentication and delivery of the Bonds of such Series, signed by an Authorized Officer of the Corporation;
- (d) A copy of the Series Resolution authorizing such Series, certified by an Authorized Officer of the Corporation;
- (e) Except in the case of any Refunding Bonds, a copy of a Supplemental Resolution (which may be the Series Resolution authorizing the Series of Bonds) authorizing the final form of the Service Contract and Security Instruments related thereto;
- (f) A certificate of an Authorized Officer of the Corporation stating that (i) the Corporation is not in default in any material respect in the performance of any of the terms, provisions or covenants of the Resolution or any Series Resolution to be complied with or performed by the Corporation, (ii) the Corporation has not violated the provision of the Resolution described herein under the heading "Creation of Liens," and (iii) the Service Contracts as in effect following the delivery of the such Series of Bonds collectively provide for the timely payment of the Aggregate Obligations when due;
- (g) A certificate of an Authorized Officer of the State (i) except in the case of the first Series of Bonds, stating that as of the date of delivery of such Series of Bonds the State is not in default in the payment when due of any Contract Payments required to be paid under any Service Contract securing Bonds issued under the Resolution, and (ii) consenting to the issuance of such Series of Bonds;
- (h) A certificate of an Authorized Officer of the Corporation setting forth the aggregate principal amount of Bonds issued and stating that such aggregate amount does not, at the time of delivery of such Bonds, exceed the maximum authorization therefor set forth in the Project Acts, as amended to the date of the certificate;
- (i) An executed counterpart of each Security Instrument or, if previously delivered, a copy of each such instrument and agreement, in each case certified by an Authorized Officer of the Corporation;

(j) An Opinion of Counsel to the State (who may be the Attorney General of the State) substantially to the effect that, with respect to each Service Contract entered into as a result of the issuance of the Bonds, (i) the State has the requisite power and authority to execute and deliver the Service Contract, (ii) the Service Contract has been duly and lawfully authorized, executed and delivered by the Director of the Budget and/or the Commissioner of General Services on behalf of the State, is in full force and effect and is the legal, valid and binding obligation of the State enforceable in accordance with and subject to its terms, (iii) the execution of the Service Contract by the Director of the Budget and/or the Commissioner of General Services does not conflict with or constitute on the part of the Director of the Budget and/or the Commissioner of General Services a breach of, or a default under, any existing law, court or administrative regulation, decree or order to which the Director of the Budget and/or the Commissioner of General Services is subject or by which it is bound and (iv) to the best knowledge of such counsel, there is no litigation pending or threatened which would have a material adverse effect on the power of the Director of the Budget and/or the Commissioner of General Services to pay all amounts required under the Service Contract or which would restrain, enjoin, bar or contest the valid and effective execution of the Service Contract by the Director of the Budget and/or the Commissioner of General Services;

(k) An Opinion of Counsel to the Corporation to the effect that (i) all authorizations, consents and approvals of governmental bodies or regulatory authorities required for the Corporation's execution or performance of each Security Instrument of which the Corporation is a signatory and executed in connection with the issuance of such Series of Bonds, the Bonds of such Series, the Resolution and the Series Resolution pursuant to which such Series of Bonds is issued have been obtained or effected, (ii) the execution of each Security Instrument to which the Corporation is a signatory and executed in connection with the issuance of such Series of Bonds, and the Bonds of such Series, and the adoption of the Resolution and the Series Resolution pursuant to which such Series of Bonds are issued by the Corporation, do not conflict with or constitute on the part of the Corporation a breach of, or default under, any existing law, court or administrative regulation, decree or order, or any contract of which such counsel has knowledge or to which the Corporation is subject or by which it is bound, and (iii) to the best knowledge of such counsel, there is no litigation pending or threatened which would have a material adverse effect on the power of the Corporation to enter into the transactions contemplated by the Resolution or which would restrain, enjoin, bar or contest the valid and effective execution of the Security Instruments to which the Corporation is a signatory, and the Bonds, and adoption of the Resolution and the Series Resolution pursuant to which such Series of Bonds is issued by the Corporation;

(l) If any Bonds of such Series are Option Bonds, a Credit Facility or Liquidity Facility in such an amount as would provide sufficient moneys for the purchase or redemption of, and payment of interest due on all Option Bonds of such Series if the Owners thereof elected to tender for purchase or redemption of the entire aggregate Outstanding principal amount of the Option Bonds of such Series; and

(m) Such further documents and moneys as are required by the Resolution or by any Supplemental or Series Resolution.

Special Provisions for Refunding Bonds (Section 203)

Bonds of one or more Series may be authenticated and delivered upon original issuance for the purpose of refunding Bonds.

The Refunding Bonds of such Series shall be authenticated and delivered by the Trustee only upon receipt by the Trustee (in addition to the other documents required for issuance of a Series of Bonds) of:

(a) Irrevocable instructions to the Trustee, in form reasonably satisfactory to it, to give due notice of the payment or redemption of all the Bonds so to be refunded on a payment or redemption date specified in such instructions and the payment or redemption dates, if any, upon which such Bonds are to be paid or redeemed;

(b) If the Bonds of a Series to be refunded are to be paid or redeemed subsequent to the forty-fifth day next succeeding the date of authentication, irrevocable instructions to the Trustee, to provide notice in the manner provided in the Resolution with respect to the payment of such Bonds pursuant to the Resolution;

(c) Either (i) moneys or (ii) Investment Securities as shall be necessary to comply with the provisions of subsection 2 of Section 1105, described below under the heading “Defeasance (Section 1105),” which moneys and Investment Securities shall be held in trust and used only as provided in said subsection; and

(d) A certificate of an independent certified public accountant that the proceeds of the Refunding Bonds deposited pursuant to the Resolution are sufficient to pay or redeem all of the Bonds to be refunded.

The proceeds of the Refunding Bonds of each such Series, including accrued interest, shall be applied simultaneously with the delivery of such Bonds in the manner provided in the Series Resolution authorizing such Bonds.

Mandatory Redemption Upon Deposit of Certain Funds (Section 404)

The Bonds are subject to mandatory redemption, without premium or penalty, in whole at any time or in part only on any interest payment date and shall be prepaid or redeemed at such time from any Recoveries and Awards being deposited in the Redemption Fund pursuant to the provisions of the Resolution described in “Redemption Fund; Amounts to be Deposited Therein” below.

The Pledge Effected by the Resolution (Section 501)

The Corporation pledges and assigns unto and grants a security interest to, the Trustee, and its respective successor in trust, forever, in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof, for the purposes and on the terms and conditions set forth in the Resolution for the securing of the performance of the obligations of the Corporation set forth in the Resolution, all right, title and interest of the Corporation, now or hereafter acquired in and to the following (the “Pledged Property”):

1. Each Security Instrument including all extensions and renewals, if any, of the term thereof, including all right, title and interest of the Corporation therein, including but without limiting the generality of the foregoing, the present and continuing right to make claim for, collect, receive and acknowledge receipt of any of the Contract Payments and other income, revenues, and sums of money payable to or receivable by the Corporation thereunder, whether payable as scheduled therein or otherwise, to bring actions and proceedings thereunder or for the enforcement thereof, to make claim for, collect, receive and dispose of any collateral therefor, and to do any and all things that the Corporation is or may become entitled to do under each Security Instrument; provided that, except as otherwise provided in a Series Resolution, there shall not be so pledged or assigned any provisions of any Service Contract other than those relating to the payment of the principal or purchase price of, redemption premium, if any, and interest on the Bonds including payments representing such amounts and payable to Credit Facility Providers and Liquidity Providers, and payments in satisfaction of rebate requirements under the Code; and

2. All the Funds (other than the Rebate Fund) Accounts, Revenues, moneys and securities from time to time held by any Fiduciary under the terms of the Resolution or a Series Resolution and any and all other real or personal property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed or transferred to the Corporation in connection with or incidental to the issuance of Bonds or with its written consent to the Trustee as Trustee thereunder which is thereby authorized to receive any and all such property at any and all times and hold and apply the same subject to the terms thereof.

Subject to the provisions of the Resolution, this pledge shall be valid and binding from and after the date of issuance and delivery of the Bonds; and the Pledged Property shall, except as provided under this heading, immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation irrespective of whether such parties have notice thereof. Pursuant to the Act as existing at the date of adoption of the first Series Resolution, neither the Resolution nor any other instrument by which any such pledge or assignment is created need be recorded, and no filing with respect to such pledge or assignment need be made under the Uniform Commercial Code of the State.

Establishment of Funds and Accounts (Section 502)

The Resolution creates the following Funds and Accounts, which shall be held and administered by the Trustee. Each of such Funds and Accounts shall have as a prefix “New York State Urban Development Corporation Service Contract Revenue Refunding Bonds.”

- (1) Bond Proceeds Fund, which shall contain therein the Costs of Issuance Account and the Capitalized Interest Account;
- (2) Revenue Fund;
- (3) Debt Service Fund, which shall contain therein the Principal Account and the Interest Account;
- (4) Redemption Fund;
- (5) Earnings Fund; and
- (6) Rebate Fund; which shall contain therein a Rebate Account for each Series of Bonds.

Amounts held at any time by the Trustee in any of these Funds and Accounts shall be held in trust separate and apart from all other funds and accounts of the Corporation and shall be applied only in accordance with the provisions of the Resolution and the Acts. The Corporation may establish and create such other Funds and Accounts in any such Funds as may be authorized pursuant to any Supplemental Resolution, including a Series Resolution authorizing the issuance of a Series of Bonds.

Bond Proceeds Fund (Section 503)

There shall be deposited from time to time in the Bond Proceeds Fund the cash proceeds of sale (inclusive of premium, if any, but not of accrued interest or underwriters’ discount) of any Series of Bonds and any other amounts the Corporation determines from time to time to deposit therein, subject to the requirements of the Series Resolution authorizing the issuance of such Series of Bonds. Amounts in the Bond Proceeds Fund, including any Account or subaccount thereof, shall be expended only for the purpose or purposes for which such Series of Bonds is being issued and as may be provided in the Series Resolution authorizing the issuance of such Series of Bonds.

Within the Bond Proceeds Fund shall be the Costs of Issuance Account and the Capitalized Interest Account, into which, for each Series shall be deposited amounts, if any, determined to be deposited therein pursuant to the requirements of the Series Resolution therefor. Amounts on deposit in the Costs of Issuance Account shall be applied to the payment of Costs of Issuance of the Bonds, upon receipt by the Trustee of a written requisition therefor and a certificate of an Authorized Officer of the Corporation stating that the amount to be paid pursuant to such requisition is a proper charge on the Costs of Issuance Account and has not been the basis of any previous withdrawal. Amounts on deposit in the Capitalized Interest Account shall be transferred to the Interest Account prior to the tenth day preceding each interest payment date as required by a

Series Resolution or a Supplemental Resolution authorizing such deposits to be made and providing for the application of such deposits.

Upon such day as shall be specified in the applicable Series Resolution, any amounts remaining (i) in the Costs of Issuance Account or any subaccount thereof and not set aside or appropriated by the Trustee to pay Costs of Issuance of the Series of Bonds, (ii) in the Capitalized Interest Account or any subaccount thereof and not set aside or appropriated by the Trustee to pay interest accrued to such date, and (iii) in any other Account or any subaccount thereof of the Bond Proceeds Fund and not set aside or appropriated by the Trustee to pay any other cost or expense the payment of which was authorized or provided for by the Series Resolution authorizing such Series of Bonds, shall be deposited as provided for in the next paragraph.

The Trustee, upon written instructions of an Authorized Officer of the Corporation, shall deposit any funds described in the previous paragraph in (i) the Revenue Fund, (ii) the Redemption Fund, or (iii) any one or more of the Funds and Accounts set forth in clause (i) or (ii) above; provided, however, in the case of a Series of Tax Exempt Bonds, that any written instructions of the Authorized Officer of the Corporation directing that deposits be made to the Funds and Accounts described in clause (ii) above shall be accompanied by an opinion of Bond Counsel to the effect that such deposit is authorized or permitted to be made pursuant to the Resolution and that such deposit will not adversely affect the exemption of interest in the Bonds from federal income taxation. If the Trustee shall not have received written instructions from an Authorized Officer as provided in this paragraph within ten (10) days of the Date of Completion as provided in the previous paragraph, then the Trustee shall deposit any funds described in the previous paragraph in the Redemption Fund.

Revenue Fund; Amounts to be Deposited Therein (Section 504)

Except as otherwise required by the section of the Resolution described herein under the heading "Debt Service Fund," all Contract Payments shall, upon receipt thereof, be deposited into the Revenue Fund. There shall also be transferred to and deposited in the Revenue Fund such portion of the Contract Payments paid by any Person to the Corporation pursuant to and to the extent provided in a Credit Facility or Liquidity Facility, or, to the extent set forth in the applicable Series Resolution, any interest rate exchange agreement. Moneys and the proceeds of the sale of securities from time to time in the Revenue Fund shall be paid out and applied for the uses and purposes for which the same are pledged by the provisions of the Resolution, in the manner provided in the Resolution.

Revenue Fund; Application Thereof (Section 505)

On or before the last business day prior to each interest payment date or Principal Installment due date, as the case may be, the Trustee shall transfer from the Revenue Fund to the Principal Account and the Interest Account the amount, if any, required so that the balance in the Debt Service Fund shall equal the Aggregate Obligations due on such interest payment date or Principal Installment due date.

If there are any amounts on deposit in the Revenue Fund after this transfer, the Trustee, upon receipt of written instructions from an Authorized Officer of the Corporation, shall transfer from the Revenue Fund to the Redemption Fund all or any portion of such remaining amounts for the purposes of such Fund.

At least ten (10) days prior to any interest payment date or Principal Installment due date, the Trustee shall make transfers to the Corporation from the Revenue Fund to the extent any funds are on deposit therein of the amounts certified by an Authorized Officer of the Corporation as necessary to reimburse the Corporation or to pay reasonable and necessary expenses incurred by the Corporation in connection with the Bonds, including fees and costs with respect to Credit Facilities and Liquidity Facilities, and not previously reimbursed; provided, that no such transfer shall result, in and of itself, on or before the immediately subsequent interest payment or Principal Installment due date, in a transfer of moneys on deposit in the

Redemption Fund, pursuant to the Resolution, to the Debt Service Fund to make up a deficiency in such Fund with respect to such interest payment or Principal Installment due date.

Debt Service Fund (Section 506)

There shall be deposited into the Interest Account of the Debt Service Fund the following:

- (i) Such amount determined by the applicable Series Resolution representing accrued interest received upon the sale of a Series of Bonds;
- (ii) Amounts transferred from the Capitalized Interest Account pursuant to the Resolution; and
- (iii) Amounts transferred from the Revenue Fund or the Redemption Fund equal to the portion of the Aggregate Obligations representing interest due on the Bonds.

The Trustee shall pay out of the Interest Account, to the respective Paying Agents, on or before each interest payment date for any of the Bonds, the amount required for the interest payable on such date. Also, the Trustee shall pay out of the Interest Account to the respective Paying Agents, on or before any redemption date for any Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. Such amount shall be applied by the Paying Agent to such payment on or after the due date thereof.

There shall be deposited into the Principal Account amounts transferred from the Revenue Fund or from the Redemption Fund equal to the portion of the Aggregate Obligations representing Principal Installments due on the Bonds. The Trustee shall pay out of the Principal Account, to the respective Paying Agents on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date.

There shall be retained in the Debt Service Fund the portion of the Aggregate Obligations transferred from the Revenue Fund representing Parity Reimbursement Obligations. The Trustee shall pay out of the Debt Service Account, on each date such amounts are due and owing, to the counterparties to which such amounts are owed, any Parity Reimbursement Obligations.

Redemption Fund; Amounts to be Deposited Therein (Section 508)

Upon receipt, the following shall be deposited into the Redemption Fund:

- (i) Such portion of the Contract Payments prepaid by the State pursuant to the provisions of a Service Contract for the stated purpose of redemption of Bonds; and
- (ii) All Recoveries and Awards, unless the Trustee shall receive instructions from the Corporation to deposit such amounts in the Revenue Fund, accompanied by, in the case of a Series of Tax Exempt Bonds, an Opinion of Bond Counsel to the effect that such deposit will not adversely affect the exclusion of interest on the Bonds for federal income tax purposes under the Code.

Subject to certain limitations if, on the last business day preceding any interest payment date or Principal Installment due date, the amount on deposit in the Debt Service Fund is less than Aggregate Bond Service for such interest payment date or Principal Installment due date, then the Trustee shall transfer from the Redemption Fund to the Debt Service Fund an amount which will be sufficient to make up such deficiency (or all of the moneys in the Redemption Fund if less than the amount required).

To the extent not required to make up such deficiency, amounts in the Redemption Fund shall be applied by the Trustee as promptly as practicable, upon receipt of written instructions from an Authorized Officer of the Corporation, to the purchase or redemption (including premium, if any) of Bonds. Interest on

Bonds so purchased or redeemed shall be paid from the Debt Service Fund, and all expenses in connection with such purchase or redemption shall be paid by the Corporation from moneys held in the Revenue Fund.

Earnings Fund (Section 509)

To the extent amounts deposited in the Earnings Fund are required to be transferred to the Rebate Fund, such amounts shall be released from the lien of the Resolution and shall not be subject to a security interest, pledge, assignment, lien or charge in favor of the Trustee or any Owner of any Bond or any other Person. No transfer of moneys from the Earnings Fund shall take place, and no moneys in the Earnings Fund shall be applied to payment of the Bonds or for any other purpose, until all moneys required to be transferred to the Rebate Fund shall have been so transferred.

All investment income or earnings on amounts held in the Redemption Fund, the Debt Service Fund, the Revenue Fund or the Bond Proceeds Fund or any other special fund held under the Resolution (other than the Rebate Fund) shall be deposited upon receipt by the Trustee into the Earnings Fund. The Trustee shall keep separate accounts of all amounts deposited in the Earnings Fund to indicate the source of the income or earnings.

Upon receipt of the certificate referred to in the second paragraph under the heading "Rebate Fund" below, the Trustee shall withdraw from the Earnings Fund that amount as is set forth as the Rebate Amount in a written certificate delivered by an Authorized Officer of the Corporation to the Trustee pursuant to the Resolution and deposit, to the extent available, such amount in the Rebate Fund. Any amounts remaining in the Earnings Fund following such transfer will be deposited in the Debt Service Fund.

Rebate Fund (Section 510)

The Rebate Fund and the amounts deposited therein shall not be subject to a security interest, pledge, assignment, lien or charge in favor of the Trustee or any Owner of any Bond or any other Person. The Trustee, upon the receipt of a certification of the Rebate Amount from an Authorized Officer of the Corporation shall deposit in the Rebate Fund within thirty (30) days after the end of each Bond Year, an amount such that the amount held in the Rebate Fund after such deposit is equal to the Rebate Amount calculated as of the last day of the immediately preceding Bond Year. The amount deposited in the Rebate Fund pursuant to the preceding sentence shall be withdrawn from the Earnings Fund. In the event that on the first day of any Bond Year the amount on deposit in the Rebate Fund exceeds the Rebate Amount, the Trustee, upon the receipt of written instructions from an Authorized Officer of the Corporation, shall withdraw such excess amount and deposit it in the Debt Service Fund.

The Trustee, upon the receipt of written instructions from an Authorized Officer of the Corporation, shall pay to the United States, out of amounts in the Rebate Fund, (i) not later than thirty (30) days after the last day of the fifth Bond Year and after every fifth Bond Year thereafter, an amount such that, together with prior amounts paid to the United States, the total paid to the United States is equal to 90% of the Rebate Amount with respect to the Bonds as of the date of such payment and (ii) notwithstanding the provisions of the Resolution not later than sixty (60) days after the date on which all Bonds have been paid in full, 100% of the Rebate Amount as of the date of payment.

Investment of Funds and Accounts Held by the Trustee (Section 602)

Moneys in any Fund or Account shall be continuously invested and reinvested or deposited and redeposited by the Trustee upon the written direction of an Authorized Officer of the Corporation. The Corporation shall direct the Trustee to invest and reinvest the moneys in any Fund or Account in Investment Obligations so that the maturity date or date of redemption at the option of the holders shall coincide as nearly as practicable with the times at which moneys are anticipated to be needed to be expended. The Investment Obligations purchased shall be held by the Trustee, or for its account as Trustee, and the Trustee shall keep the

Corporation advised as to the details of all such investments. The Trustee, at the written direction of the Corporation as to specific investments, shall sell, or present for redemption, any Investment Obligations purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment from such Fund or Account. The Trustee shall have no obligation to invest, reinvest, deposit, redeposit to sell investments contemplated by the Resolution except upon the written direction of an Authorized Officer of the Corporation as to specific investments.

Investment Obligations purchased under the provisions of the Resolution as an investment of moneys in any Fund or Account shall be deemed at all times to be a part of such Fund or Account but, unless otherwise expressly provided in the Resolution or any Series Resolution, the income or interest earned and gains realized in excess of losses suffered by a Fund or an Account due to the investment thereof shall be deposited in the Earnings Fund except that all such income and interest received from any Investment Obligation on deposit in the Rebate Fund, except as provided in a Series Resolution, shall remain in such Fund.

The Trustee shall sell, or present for redemption or exchange, any Investment Obligation purchased by it pursuant to the Resolution or any Series Resolution whenever it shall be requested in writing by an Authorized Officer of the Corporation to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account for which such investment was made, except that any Investment Obligation may be credited to more than one Fund or Account based upon the portions thereof purchased by or allocable to each such Fund or Account and need not be sold in order to provide for the transfer of amounts from one Fund or Account to another. The Trustee shall advise the Corporation in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund and Account in its custody under the provisions of the Resolution as of the end of the preceding month.

Nothing in the Resolution shall prevent any Investment Obligations acquired as investments of or security for Funds or Accounts held under the Resolution from being issued or held in book entry form on the books of the Department of the Treasury of the United States or any national securities depository.

In the event that the Trustee has not, prior to 11:00 a.m. on any Business Day, received investment instructions as provided in the Resolution as to any investment proceeds received under the Resolution, the Trustee shall invest the same in Investment Obligations having the shortest available maturity.

Satisfaction of Sinking Fund Installments (Section 507)

Any amount accumulated in the Debt Service Fund up to the unsatisfied balance of each Sinking Fund Installment may and, if so directed in writing by an Authorized Officer of the Corporation shall, be applied (together with amounts accumulated in the Debt Service Fund with respect to interest on the Bonds for which such Sinking Fund Installment was established), by the Trustee, prior to the forty-fifth day preceding the due date of such Sinking Fund Installment, as follows:

(a) to the purchase of Bonds of the maturity and interest rate for which such Sinking Fund Installment was established, at prices (including any brokerage and other charges) not exceeding the principal amount (or Compounded Amount, if applicable) of such Bonds plus unpaid interest accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(b) to the redemption of such Bonds if then redeemable by their terms at the price equal to the principal amount (or Compounded Amount, if applicable) of such Bonds plus unpaid interest accrued to the date of redemption.

Upon the purchase or redemption of any Bond as described in the preceding paragraph, an amount equal to the principal amount (or Compounded Amount, if applicable) of the Bonds so purchased or redeemed shall be credited toward the next Sinking Fund Installment thereafter to become due with respect to the Bonds of such maturity and interest rate and the amount of any excess of the amounts so credited over the amount of

such Sinking Fund Installment shall be credited by the Trustee against future Sinking Fund Installments in direct chronological order, except as otherwise instructed in writing by an Authorized Officer of the Corporation at the time of such purchase or redemption.

The Corporation may purchase, at any price, Bonds or portions of Bonds whether or not such Bonds or portions shall then be subject to redemption at the option of the Corporation provided that purchases pursuant to this paragraph shall not be made with Pledged Property. In satisfaction, in whole or in part, of any Sinking Fund Installment, the Corporation may deliver to the Trustee at least forty-five (45) days prior to the date of such Sinking Fund Installment, for cancellation, Bonds acquired by purchase of the Series and maturity entitled to such Sinking Fund Installment. All Bonds so delivered to the Trustee in satisfaction of a Sinking Fund Installment shall reduce the amount of each Sinking Fund Installment by the aggregate principal amount (or Compounded Amount, if applicable) of such Bonds.

In the event that Bonds are redeemed prior to maturity pursuant to any Section of the Resolution other than Section 405, the Trustee shall credit the principal amount (or Compounded Amount, if applicable) of the Bonds so redeemed against the subsequent Sinking Fund Installments due under the Resolution.

The Trustee, upon notice and in the manner provided in the Resolution, shall call for redemption, on the date of each Sinking Fund Installment falling due prior to maturity, such principal amount (or Compounded Amount, if applicable) of Bonds of the Series and maturity entitled to such Sinking Fund Installment as is required to exhaust the unsatisfied balance of such Sinking Fund Installment.

Payment of Obligations (Section 701)

The Corporation shall duly and punctually pay or cause to be paid the principal of every Bond, and premium, if any, and the interest thereon, and all Parity Reimbursement Obligations, at the date(s) and place(s) and in the manner mentioned in the Resolution, the applicable Series Resolution and the Bonds, according to the true intent and meaning thereof, and shall duly and punctually satisfy all Sinking Fund Installments which may be established for any Series, subject to the provisions of the Resolution.

Power to Issue Bonds and Pledge Funds and Accounts (Section 705)

The Corporation is duly authorized under all applicable laws to create and issue the Bonds and to adopt the Resolution and to pledge the Pledged Property purported to be pledged by the Resolution in the manner and to the extent provided in the Resolution. The Pledged Property is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution, except for any pledge of or lien upon the Contract Payments made or to be credited for the benefit of the provider of a Credit Facility or Liquidity Facility, and all corporate action on the part of the Corporation to that end has been and will be duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally binding special obligations of the Corporation enforceable in accordance with their terms and the terms of the Resolution. The Corporation shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Pledged Property and all the rights of the Trustee and the Bondholders under the Resolution against all claims and demands of all Persons whomsoever.

Creation of Liens (Section 707)

Until the pledge created in the Resolution is discharged and satisfied:

(i) the Corporation shall not issue any bonds or other evidences of indebtedness, other than the Bonds, secured by a pledge of the Pledged Property held or set aside by the Corporation or by the Fiduciaries under the Resolution, nor create or cause to be created any lien or charge on the Pledged Property (other than Permitted Encumbrances), nor

(ii) at any time when the Corporation is in default in making any payment required to be made under the Resolution or in maintaining any Fund or Account required to be maintained in the amount required therefor by the Resolution, set apart or appropriate and pay any amount in any Fund or Account except as required by the Resolution.

Accounts and Reports (Section 708)

The Corporation shall keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to each Fund and Account established under the Resolution, and which shall at all reasonable times during normal business hours be subject to the inspection of the Trustee and the Owners of an aggregate of not less than 25% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

The Corporation shall file with the Trustee and each provider of a Credit Facility and of a Liquidity Facility forthwith upon becoming aware of any Event of Default, or event which with notice or lapse of time or both would be an Event of Default, in the performance by the Corporation of any covenant, agreement or condition contained in the Resolution or in the performance by the State of its obligations under a Service Contract to pay when due the Contract Payments, a certificate, signed by an Authorized Officer of the Corporation, specifying any Event of Default or other event as described under this heading, and if any such Event of Default or other such event shall so exist, specifying the nature and status of such Event of Default or other such event.

Tax Matters (Section 709)

The Corporation will not make, or give its consent to any Fiduciary to make, any use of the proceeds of the Bonds or of any moneys which may be deemed to be the proceeds of the Bonds pursuant to Section 148 of the Code which, if reasonably expected to have been so used on the date of issuance of the Bonds, would have caused any of the Bonds to have been “arbitrage bonds” within the meaning of said Section 148 and the regulations in effect thereunder at the time of such use and applicable to obligations issued on the date of issuance of the Bonds. The Corporation shall at all times do and perform all acts and things necessary or desirable and within its power in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof. Notwithstanding any other provision of the Resolution, the obligation to comply with the requirements of described under this heading shall survive the defeasance or payment in full of the Bonds.

Special Covenants with Respect to Service Contract (Section 711)

The Corporation shall from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of the Resolution, any Supplemental Resolution and sound banking practices and principles, (i) do all such acts and things as shall be necessary to receive and collect Revenues, (ii) comply with the obligations on its part contained in each Service Contract, and use its best efforts to require the State to comply with its obligations thereunder and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Corporation to protect its rights with respect to each Service Contract. The Corporation shall provide the certifications to the State required by each Service Contract regarding the amounts owed by the State under such Service Contract. The Corporation may not sell, assign or otherwise dispose of all or any part of any interest in a Service Contract, other than to the Trustee. The Corporation, without the consent of the Trustee or of the Owners of Bonds Outstanding, may consent to any amendment, change, modification, or alteration of and cause to be amended, changed, modified or altered any provision of, or exhibit to, the Service Contract, except as would affect the obligation of the State to make payments thereunder relating to the payment of the principal or purchase price of, redemption premium, if any, and interest on the Bonds, (i) which would make the Service Contract subject to any lien, claim or encumbrance, provided the same is a Permitted Encumbrance, (ii) which would not materially adversely affect, in the Opinion of Bond Counsel, the interest of the Owners of the Bonds Outstanding or any

Credit Facility Providers or Liquidity Facility Providers, or (iii) with the prior written consent of (A) the Owners of at least fifty one percent (51%) in aggregate principal amount of the Bonds then Outstanding, or (B) in case less than all of the several Series of Bonds then Outstanding are affected by the alteration, change, modification or amendment, the Owners of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds of each Series so affected then Outstanding; provided, however, that if such change, alteration, modification or amendment will, by its terms, not take effect so long as any Bonds of any specified Series remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds described under this Section; and provided, further, that no such alteration, change, modification or amendment shall decrease the amount of any payment required to be made by the State under the Service Contract or extend the time of payment of any payment by the State so as to cause the payments thereunder to be less than the related payments in respect of Aggregate Obligations. The Service Contract may also be amended, changed, modified or altered, without the consent of the Trustee or the Owners of Bonds Outstanding, to provide conforming changes in connection with the issuance of any Series of Bonds which will not materially adversely affect, in the Opinion of Bond Counsel, the interest of the Owners of the Bonds Outstanding or any Credit Facility Providers or Liquidity Facility Providers. With respect to a Series of Tax Exempt Bonds, no amendment, change, modification, alteration, consolidation or other act permitted in the Resolution may be effected by the Corporation without receipt of an Opinion of Bond Counsel to the effect that such act will not adversely affect the exclusion of the Bonds from gross income for federal income tax purposes under the Code.

General (Sections 704, 705 and 710)

At any and all times the Corporation shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances and record the same in any office or register as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights and other moneys, securities and funds pledged or assigned by the Resolution, or intended so to be, or which the Corporation may become bound to pledge or assign and, if required by law, to perfect the security interest created thereby.

The Bonds and the provisions of the Resolution are and will be the valid and legally binding special obligations of the Corporation enforceable in accordance with their terms and the terms of the Resolution. The Corporation shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Pledged Property and all the rights of the Trustee and the Bondholders under the Resolution against all claims and demands of all persons whomsoever.

The Corporation shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Corporation under the provisions of the Acts and the Resolution.

Upon the date of authentication and delivery of any of the Bonds, all conditions, acts and things required by law and the Resolution to exist, to have happened and to have been performed precedent to and in the issuance of such Bonds shall exist, shall have happened and shall have been performed and the issue of such Bonds, together with all other indebtedness of the Corporation, shall be within every debt and other limit prescribed by the laws of the State of New York.

The Trustee and the Paying Agents (Article VIII)

The General Resolution appoints Manufacturers & Traders Trust Company, Buffalo, New York, as Trustee and requires the appointment of one or more Paying Agents (which includes the Trustee). The Trustee may resign by giving not less than sixty (60) days' written notice to the Corporation and publishing notice thereof and may be removed by the Owners of a majority in principal amount of Bonds then Outstanding or by

resolution of the Board of Directors of the Corporation evidenced by an instrument in writing filed with the Trustee and signed by an Authorized Officer.

Any successor Trustee must be a bank or trust company organized under the laws of the State of New York or a national banking association, doing business and having its principal corporate trust office in the Borough of Manhattan, City and State of New York, and having capital and surplus aggregating at least \$100,000,000, if there is such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms.

Supplemental Resolutions (Article IX)

The Corporation, may at any time or from time to time adopt a Supplemental Resolution for one or more of the following purposes:

(a) To close the Resolution against, or to provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the authentication and delivery of the Bonds or the issuance of other evidences of indebtedness;

(b) To add to the covenants and agreements of the Corporation in the Resolution, other covenants and agreements to be observed by the Corporation which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(c) To add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the Corporation which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(d) To surrender any right, power or privilege reserved to or conferred upon the Corporation by the Resolution which is for the benefit of the Owners of the Bonds;

(e) To authorize Bonds of a Series and, in connection therewith, to specify and determine the matters and things referred to in Section 202 of the Resolution, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Bonds;

(f) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolution, of the Pledged Property or of any other moneys, securities, funds or accounts;

(g) To modify any of the provisions of the Resolution as may be necessary or desirable to provide for the issuance of Bonds in book entry form;

(h) To provide for additional investments that may be delivered in lieu of Government Obligations in order to cause Bonds of a Series then or thereafter being initially issued and delivered to be deemed paid within the meaning of subsection 2 of Section 1105 of the Resolution; provided, however, that any deposit of such investments, together with other moneys and Government Obligations deposited for such purpose, shall in all other respects comply with the requirements of subsection 2 of Section 1105 of the Resolution; and

(i) To modify any of the provisions of the Resolution or any previously adopted Supplemental Resolution in any respect whatsoever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Resolution have ceased to be Outstanding and (ii) such Supplemental Resolution shall be specifically referred

to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof.

The Corporation, with the consent of the Trustee, may adopt a Supplemental Resolution for one or more of the following purposes:

(a) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution;

(b) To insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect; or

(c) To make such other changes as are not, in the judgment of the Trustee, materially adverse to the interests of the Bondowners or other beneficiaries of the pledge of the Resolution.

At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article X of the General Resolution. Such a Supplemental Resolution will become fully effective upon the filing of a certified copy thereof with the Trustee.

No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

Powers of Amendment (Section 1002)

Any modification or amendment of the Resolution and of the rights and obligations of the Corporation and of the Owners of the Bonds, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the Resolution, (i) of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds Outstanding at the time such consent is given; and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds described under this heading. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal amount (or Compounded Amount, if applicable) of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount (or Compounded Amount, if applicable) or the Redemption Price thereof or in the rate of interest thereon without the consent of all Bondowners, or shall reduce the percentage of the aggregate principal amount (or Compounded Amount, if applicable) of Bonds or otherwise affect classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of this paragraph, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment of the Resolution, and any such determination if reasonable and in good faith shall be binding and conclusive on the Corporation and all Owners of Bonds.

Consent of Bondholders (Section 1003)

The Corporation may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of the Resolution, to take effect when and as provided in this

Paragraph. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed by the Corporation to Bondholders. Such Supplemental Resolution shall not be effective unless and until (a) there are filed with the Trustee (i) the written consents of Owners of the percentage of the aggregate principal amount of Outstanding Bonds specified in the Resolution and (ii) an Opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Corporation in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Corporation and enforceable in accordance with its terms, and (b) a notice shall have been given as provided in the Resolution. Ownership of Bonds shall be conclusively presumed by the registration books of the Corporation. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued upon registration of transfer thereof or in exchange therefor (whether or not such subsequent Owner thereof has notice thereof), unless such consent is revoked in writing by the Owner of such Bonds giving such consent or a subsequent Owner thereof by filing with the Trustee, prior to the time when the written statement of the Trustee is filed. At any time after the Owners of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the Corporation and the Trustee a written statement that the Owners of such required percentage of the aggregate principal amount of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed.

Powers of Trustee (Section 1101)

The Trustee by the Resolution shall be vested with all of the rights, powers and duties of a trustee appointed by the Bondholders pursuant to the Acts, and the right of the Bondholders to appoint a trustee under the Acts is abrogated by the Resolution.

Events of Default (Section 1102)

Each of the following events is an Event of Default under the Resolution: (a) there shall occur a default in the payment of principal or Redemption Price of or interest on any Bond after the same has become due, whether at maturity or upon call for redemption or otherwise, which default shall continue for a period of thirty (30) days; (b) there shall occur a failure to observe, or a refusal to comply with, the terms of the Resolution or the Bonds; provided, however, that with respect to any failure to observe or refusal to comply with the covenants and agreements set forth in the Resolution, such failure or refusal shall have continued for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Corporation by the Trustee or any Beneficiary unless, prior to the expiration of the thirty-day period, the Corporation and each Beneficiary shall request in writing an extension of time and the Trustee shall agree in writing to such extension, and provided further, that if the failure stated in the notice cannot be remedied within the thirty day period, the Trustee and each Beneficiary shall not unreasonably withhold its consent to an extension of such time if corrective action has been instituted by the Corporation within the thirty day period and is being diligently pursued.

Remedies (Section 1103)

Upon the happening and continuance of any Event of Default specified in the Resolution, then and in each such case the Trustee may proceed, and upon the written request of the Owners of not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds or of each other Beneficiary, shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders and the Beneficiaries by such of the following remedies, as the Trustee, being advised by counsel shall deem most effectual to protect and enforce such rights subject to the provisions of the Resolution:

1. By suit, action or proceeding in accordance with the Civil Practice Law and Rules to enforce all rights of the Beneficiaries, including the right to collect or require the Corporation to collect Revenues adequate to carry out the covenants, agreements and pledges with respect thereto contained in the Resolution

and to require the Corporation to carry out any other covenant or agreement with Beneficiaries and to perform its duties under the Act;

2. By suit upon the Bonds limited, upon recovery thereunder, to the Revenues and assets pledged under the Resolution;

3. By action or suit in equity, to require the Corporation to account as if it were the trustee of an express trust for the Beneficiaries, for the Revenues and assets pledged under the Resolution as shall be within its control;

4. By action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Beneficiaries; and

5. By declaration, to cause all Bonds to be due and payable and if all defaults shall be cured, then, with the written consent of the Owners of not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds, to annul such declaration and its consequences.

In the enforcement of any remedy under the Resolution, but subject to certain Sections of the Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Corporation for principal, Redemption Price, interest or otherwise and for Parity Reimbursement Obligations, under any provision of the Resolution or a Supplemental Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce judgment or decree against the Corporation for any portion of such amounts remaining unpaid, with interest, costs and expenses, in any manner provided by law, the moneys adjudged or decreed to be payable.

Except upon the occurrence and during the continuance of an Event of Default under the Resolution, the Corporation expressly reserves and retains the privilege to receive and, subject to the terms and provisions of the Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interests in and to each Security Instrument assigned to the Trustee, and the proceeds and collections therefrom. Neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

So long as no Event of Default under the Resolution has occurred and is continuing the Trustee shall not exercise any remedy under any Service Contract without the prior written consent of the Corporation.

Defeasance (Section 1105)

If the Corporation shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Bonds then Outstanding, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then, at the option of the Corporation, expressed in an instrument in writing signed by an Authorized Officer of the Corporation and delivered to the Trustee, the covenants, agreements and other obligations of the Corporation to the Bondholders shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Corporation, execute and deliver to the Corporation such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the Corporation all money, securities and funds held by them pursuant to the Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the Corporation of funds for such

payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the Resolution. All Outstanding Bonds of any Series or any maturity within a Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the paragraph above if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Corporation shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to publish as provided in Article IV of the Resolution notice of redemption on said date of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations or other investments authorized for such purpose in accordance with Section 901 of the Resolution (“Other Authorized Investments”) the principal of and interest on which when due will provide moneys which, together with the moneys, if any deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Corporation shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, once in an Authorized Newspaper a notice to the Owners of such Bonds that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this heading and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds. The Trustee shall also mail a copy of such notice, postage prepaid, not less than seven (7) days after such publication to the registered owners of the Bonds or portion of Bonds which are to be deemed to have been paid under the Resolution, at their last mailing address, if any, appearing on the registry books, but such mailing shall not be a condition precedent to the deemed payment of such Bonds and failure so to mail any such notice shall not affect the validity of the defeasance of such Bonds as provided for in the Resolution. Neither Government Obligations, Other Authorized Investments nor moneys deposited with the Trustee pursuant to this heading nor principal or interest payments on any such Government Obligations or Other Authorized Investments shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Government Obligations or Other Authorized Investments deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested by the Trustee at the written direction of the Corporation in Government Obligations or Other Authorized Investments maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, in excess of the amounts required to pay the principal of, Redemption Price, if applicable, and interest on such Bonds, as realized, shall be transferred by the Trustee to the Corporation, and any such moneys so paid by the Trustee to the Corporation shall be released from any trust, lien or pledge created by the Resolution.

For purposes of determining whether Adjustable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Investment Securities and moneys, if any, in accordance with this heading, the interest to come due on such Adjustable Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Maximum Interest Rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Adjustable Rate Bonds having borne interest at less than such Maximum Interest Rate for any period, the total amount of moneys and Investment Securities on deposit with the Trustee for the payment of interest on such Adjustable Rate Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Adjustable Rate Bonds in order to satisfy this heading, the Trustee shall, if requested by the Corporation, pay the amount of such excess to the Corporation free and clear of any trust, pledge, lien, encumbrance or security interest created by the Resolution.

Option Bonds shall be deemed to have been paid in accordance with this heading only if, in addition to satisfying the requirements of clauses (a) and (c) above, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum amount of principal of and

premium, if any, and interest on such Bonds which could become payable to the Owners of such Bonds upon the exercise of any options provided to the Owners of such Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to this heading, the options originally exercisable by the Owner of an Option Bond are no longer exercisable, such Bond shall not be considered an Option Bond for purposes of this paragraph. If any portion of the moneys deposited with the Trustee for the payment of the principal and premium, if any, and interest on Option Bonds is not required for such purpose, the Trustee shall, if requested by the Corporation in writing, pay the amount of such excess to the Corporation free and clear of any trust, pledge, lien, encumbrance or security interest created by the Resolution.

Anything in the Resolution to the contrary notwithstanding, but subject to any applicable law to the contrary, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for two (2) years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for two (2) years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the Corporation, be repaid by the Fiduciary to the Corporation, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the Corporation for the payment of such Bonds; provided, however, that before being required to make any such payment to the Corporation, the Fiduciary shall, at the expense of the Corporation, cause to be published once in an Authorized Newspaper, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than thirty (30) days after the date of the publication of such notice, the balance of such moneys then unclaimed will be returned to the Corporation.

**SUMMARY OF CERTAIN PROVISIONS
OF THE SERVICE CONTRACT**

The following is a general summary of certain provisions of the Service Contract securing the Series 2010B Bonds. Such summary is not to be considered a full statement of the terms of such documents and, accordingly, is qualified by reference thereto and is subject to the full text thereof. All capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Service Contract. A copy of the Service Contract is available for review at the corporate headquarters of the Corporation at 633 Third Avenue, New York, New York 10017. See also, "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION."

Financial Obligations of the State

In consideration for the issuance by the Corporation of the Bonds and the disbursement of the proceeds thereof in accordance with the provisions of, and carrying out the provisions of the Project Acts including, as applicable, the Consolidation Act, the State agrees to make the Contract Payments to the Corporation in accordance with the provisions of Article II of the Service Contract.

Subject to the provisions of the Service Contract, the State shall pay to the Corporation so long as any of the Bonds are Outstanding, five (5) Business Days preceding each Bond Payment Date, an amount equal to the debt service payable on the next succeeding Bond Payment Date less the amount paid or provided for under the Bond Resolution on account thereof on such Bond Payment Date without duplication (i) from the proceeds of Bonds designated therefor by the Corporation, and (ii) from amounts on deposit with the Trustee and available for the payment of debt service under the Bond Resolution, as certified by the Corporation to the Director of the Budget. The term of the Service Contract shall commence on the date of the original issuance of the Series 2010B Bonds and shall expire on the earlier of (i) the date on which all Bonds shall be paid or deemed paid within the meaning of the Bond Resolution or (ii) thirty (30) years from the date of the original issuance of the Series 2010B Bonds.

Subject to the provisions of the Service Contract, the State shall also pay to the Corporation, so long as any of the Bonds are Outstanding, as additional Contract Payments, (i) all amounts as authorized by the Director of the Budget which may become due to the issuer of any surety bond, insurance policy, letter of credit or similar obligation securing the Bonds, if and to the extent such obligation arises as a result of the State's failure to make any payment pursuant to the paragraph above and (ii) all fees and expenses of the Trustee or other fiduciaries incurred or payable under the Bond Resolution.

If at any time(s) any payment in respect of the Bonds is rescinded, avoided, or must otherwise be returned pursuant to a court order, decree or directive, whether appealable or not, rendered in connection with the insolvency, bankruptcy or reorganization with respect to the Corporation, and the Trustee gives the State notice thereof, the State will, within ten (10) Business Days of the date of receipt of such notice, subject to the Service Contract, pay directly to the Trustee as additional Contract Payments thereunder, such additional amount(s) as shall equal the amount of the rescinded, avoided or returned payment for which such notice was given.

Payments of Contract Payments by the State

The State has the right to stipulate that all sums paid by it pursuant to the Service Contract be applied to the purchase or redemption of Bonds in accordance with the terms of the Bond Resolution and (provided that such amount is equal to the "Redemption Price," as such term is defined in the Bond Resolution, on such Bonds) that amounts be transferred from the Revenue Fund to the Redemption Fund for such purposes. Such

amounts shall then be so transferred and applied to the redemption or purchase of Bonds in the manner and to the extent permitted under the Bond Resolution.

Except as provided in the Service Contract, the obligation of the State to pay Contract Payments shall be absolute and unconditional, and such Contract Payments shall be payable without any rights of abatement, deduction, deferment, reduction, set-off, recoupment or counterclaim the State might have against the Corporation or any assignee thereof or any other Person, whether or not the Service Contract shall have been terminated and whether or not the Corporation shall be in default of its obligations under the Service Contract. Subject to the provisions of the Service Contract, the State, however, shall not be precluded from bringing any action it may otherwise have against the Corporation.

Notwithstanding anything in the Service Contract to the contrary, (i) the obligation of the State to fund or to pay the amounts provided for is subject to annual appropriation by the State Legislature, and (ii) the obligation of the State to fund or to pay the amounts provided for shall not constitute a debt of the State within the meaning of any constitutional or statutory provision and shall be deemed executory only to the extent of monies appropriated and available to the State and no liability shall be incurred by the State beyond moneys appropriated and available to the State for the purpose.

Duties of the Corporation

The Corporation agrees to issue the Bonds and to carry out the provisions of the Resolutions, the Project Acts including, as applicable, the Consolidation Act. Such agreement of the Corporation shall constitute consideration for the promises and agreements of the State contained in the Service Contract.

Within ten days after the issuance of the Bonds, the Corporation shall furnish to the State (i) a schedule of the debt service payments to be made on each date in respect of the Series 2010B Bonds and (ii) the Applicable Percentages for the Series 2010B Bonds in the form set forth in Exhibit A to the Service Contract.

The Corporation covenants and agrees that (i) it shall apply the Contract Payments received by it solely in accordance with the Resolutions, (ii) it shall not issue any Additional Bonds, or amend, modify, change or alter, or consent to any amendment, modification, change or alteration of, the terms of the Bonds so as to increase Contract Payments payable in respect thereof, without the prior written consent of the Director of the Budget and (iii) it shall not amend, modify or supplement the Resolutions so as to adversely affect the rights and duties of the Corporation or the State under the Service Contract without the prior written consent of the Director of the Budget.

Special Covenants

The State agrees to request appropriations during the term of the Service Contract, for each year in an amount equal to the principal of (including mandatory sinking fund payments) and interest on the Bonds coming due in such year. The State shall include in its annual budget a request for an appropriation to pay the Contract Payments, without regard to amounts on deposit with the Trustee and available for the payment of debt service under the Resolutions, due under the Service Contract during such year.

The State agrees that whenever requested by the Corporation with reasonable advance notification it shall provide and certify, or cause to be provided and certified, in form satisfactory to the Corporation, such information concerning (A) the operations and finances of the State and such other matters, that the Corporation considers necessary to enable it to complete and publish an official statement, placement memorandum or other similar disclosure document relating to the sale or issuance of the Bonds and to comply with any applicable contractual agreements with respect to the provisions of Rule 15c2-12 under the Securities

Exchange Act of 1934, as amended, and (B) the payments to be made by the State as provided in the Service Contract, or information necessary to enable the Corporation to make any reports required by law or government regulations in connection with the Bonds.

The State, so long as Bonds are Outstanding (i) will take no action, or permit any action to be taken which will impair the exclusion of interest on any Bonds from gross income for purposes of federal income taxation and (ii) will not invest or otherwise use the proceeds of the Bonds in a manner which would cause any Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code, and any proposed or final regulations thereunder as are applicable to any Bond.

Events of Default and Remedies

If, for any reason other than a failure by the State Legislature to appropriate moneys for such purpose, the State shall fail to pay when due any of the payments provided for in the Service Contract or shall fail to observe or perform any other covenant, condition or agreement on its part to be observed or performed, the Corporation shall, if such default has not been cured, have the right to institute any action in the nature of mandamus or take whatever action at law or in equity as may appear necessary or desirable to collect the payment then due or thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the State under the Service Contract.

The remedies conferred upon or reserved to the Corporation described above in respect of any default described therein are not intended to be exclusive of any other available remedy or remedies and shall be in addition to every other remedy now or hereafter existing at law or in equity; provided, however, that such remedy or remedies may in no event include a termination of the Service Contract, nor may they include any amendment, change, modification or alteration of the Service Contract that is prohibited by the Service Contract.

If the Corporation shall fail to observe or perform any covenant, condition or agreement on its part to be observed or performed and such failure to observe or perform shall have continued for 60 days after written notice, specifying such failure and requesting that it be remedied, is given to the Corporation by the State, the State shall, if the default has not been cured, have the right to institute an action in the nature of mandamus or take whatever action at law or in equity as may appear necessary or desirable to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Service Contract.

The remedies conferred upon or reserved to the State described above in respect of any default described therein are not intended to be exclusive of any other available remedy or remedies and shall be in addition to every other remedy now or hereafter existing at law or in equity; provided, however, that such remedy or remedies may in no event include a termination of the Service Contract or the obligations of the State to make the payments provided therein, nor may they include any amendment, change, modification or alteration of the Service Contract that is prohibited by the Service Contract.

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PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

New York State Urban
Development Corporation
d/b/a Empire State Development Corporation
633 Third Avenue
New York, New York 10017

Ladies and Gentlemen:

We, as Bond Counsel to the New York State Urban Development Corporation (the “Corporation”), a corporate governmental agency of the State of New York (the “State”) constituting a public benefit corporation created by the New York State Urban Development Corporation Act, being Chapter 174 of the Laws of New York of 1968, as amended (the “Corporation Act”), have examined a record of proceedings relating to the issuance of \$467,335,000 aggregate principal amount of the Corporation’s Service Contract Revenue Refunding Bonds, Series 2010B (the “Series 2010B Bonds”). The Series 2010B Bonds are dated, bear interest, mature and are subject to redemption as set forth in the Resolutions.

The Series 2010B Bonds are authorized to be issued pursuant to the Corporation Act and Chapter 56 of the Laws of 1983, as amended and supplemented, and Chapter 211 of the Laws of 1990, as amended and supplemented (collectively, the “Project Acts”), and pursuant and subject to the provisions, terms and conditions of a resolution of the Corporation adopted on May 12, 2005, entitled “Service Contract Revenue Refunding Bond Resolution,” as amended to date (the “General Resolution”), as supplemented by a resolution of the Corporation adopted on September 21, 2010, entitled “Series Resolution Authorizing Service Contract Revenue Refunding Bonds, Series 2010B,” and by a resolution of the Corporation adopted on September 21, 2010, entitled “Bond Financing Committee Resolution Concerning the Sale and Issuance of Service Contract Revenue Refunding Bonds, Series 2010B” (collectively, the “Supplemental Resolutions”; together with the General Resolution, the “Resolutions”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the General Resolution.

The Series 2010B Bonds are secured under the Resolutions by a pledge and assignment of the Pledged Property, including certain payments made by the State under a Service Contract between the Corporation and the State, acting by and through the Director of the Budget, dated as of October __, 2010 (the “Service Contract”), which payments are subject to annual appropriation by the New York State Legislature.

The Corporation heretofore has issued Bonds, and has reserved the right hereafter to issue additional Bonds, on the terms and conditions and for the purposes stated in the General Resolution. Under and subject to the terms of the General Resolution, the Series 2010B Bonds and all Bonds heretofore and hereafter issued under the General Resolution rank and will rank equally as to security and payment.

Based on the foregoing, we are of the opinion that:

1. The Corporation has been duly created and is validly existing under the Corporation Act and has the right, power and authority to adopt the Resolutions and the Resolutions have been duly and

lawfully adopted by the Corporation, are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms.

2. The Resolutions create the valid pledge which they purport to create of the Pledged Property, subject only to the provisions of the Resolutions permitting the application thereof to the purposes and on the terms and conditions set forth in the Resolutions.

3. The Series 2010B Bonds have been duly and validly authorized and issued by the Corporation and are valid and binding special obligations of the Corporation payable solely from the sources provided therefor in the Resolutions.

4. The Series 2010B Bonds are not a debt of the State and the State is not liable thereon, nor shall the Series 2010B Bonds be payable out of funds of the Corporation other than those pledged for the payment of the Series 2010B Bonds.

5. The Service Contract has been duly authorized, executed and delivered by the Corporation and, assuming the due and valid authorization, execution and delivery thereof by the State, constitutes a legal, valid and binding agreement of the Corporation, enforceable against the Corporation in accordance with its terms. Pursuant to the terms of the Service Contract, the obligation of the State, subject to the executory provisions contained in Article II of the Service Contract, to fund or to pay the amounts provided to be funded or paid thereunder is absolute and unconditional.

6. Under existing statutes and court decisions, interest on the Series 2010B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Series 2010B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for the purpose of calculating the alternative minimum tax imposed on such corporations. In rendering this opinion, we have relied on certain representations, certifications of fact and statements of reasonable expectations made by the Corporation and others in connection with the Series 2010B Bonds, and we have assumed compliance by the Corporation and others with certain ongoing covenants to comply with the applicable requirements of the Code to assure the exclusion of interest on the Series 2010B Bonds from gross income under Section 103 of the Code. Under the Code, failure to comply with such covenants may cause the interest on the Series 2010B Bonds to be included in gross income for Federal income tax purposes, retroactive to the date of issuance of the Series 2010B Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

7. For any Series 2010B Bonds having original issue discount, original issue discount that has accrued and is properly allocable to the owners of such Series 2010B Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2010B Bonds.

8. Under existing statutes, interest on the Series 2010B Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof (including The City of New York).

This opinion letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

We are rendering this opinion letter under existing statutes and court decisions as of the date hereof, and assume no obligation to update this opinion letter after the date hereof to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise.

We express no opinion herein regarding any Federal or state tax consequences with respect to the Series 2010B Bonds other than as expressed in paragraphs 6, 7 and 8 above. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2010B Bonds, or under state and local tax law.

In rendering this opinion letter, we are advising you that the enforceability of rights and remedies with respect to the Series 2010B Bonds, the Resolutions and the Service Contract may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted, and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed Series 2010B Bond and, in our opinion, the form of said Series 2010B Bond and its execution is regular and proper.

Very truly yours,

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Empire State  Development Corporation

