New York State Capital Overview: Constraints and Opportunities

June 4, 2012

Overview

- In FY 2013, the State expects to spend $9.7 billion on capital works and purposes, an increase of 3.8 percent from FY 2012 (FY ended March 31, 2012). From FY 2003 to FY 2013, capital spending increased at approximately 8 percent annually.

- New York State's primary government (the "State") accounts for a little less than 30 percent of total capital spending by governmental entities; the rest is done by localities (including New York City) and public authorities (e.g., MTA; Thruway; Port Authority).

- The State authorizes its share of capital spending as part of the annual budget process. Other governmental entities approve capital spending through their own distinct governmental and administrative processes (e.g., MTA Capital Program and Review Board).

- The State finances its capital activities from three sources: long-term bonds, State pay-as-you-go resources, and Federal aid.

- In FY 2013, bonds will finance 54 percent of capital spending; State "pay-as-you-go" resources, 27 percent; and Federal aid, 19 percent.

- Most long-term bonds to finance State capital activities are issued by State public authorities (principally, the Dormitory Authority and Empire State Development Corporation) acting as agents on behalf of the State.

- The debt issued by authorities on behalf of the State is secured by State resources and viewed by investors as an obligation of the State (authorities also issue "conduit" debt that is <u>not</u> a State obligation).

- The "pay-as-you-go" share of capital spending consists of Federal aid and State funding for projects that, for the most part, are not eligible for tax-exempt bond financing.

Overview

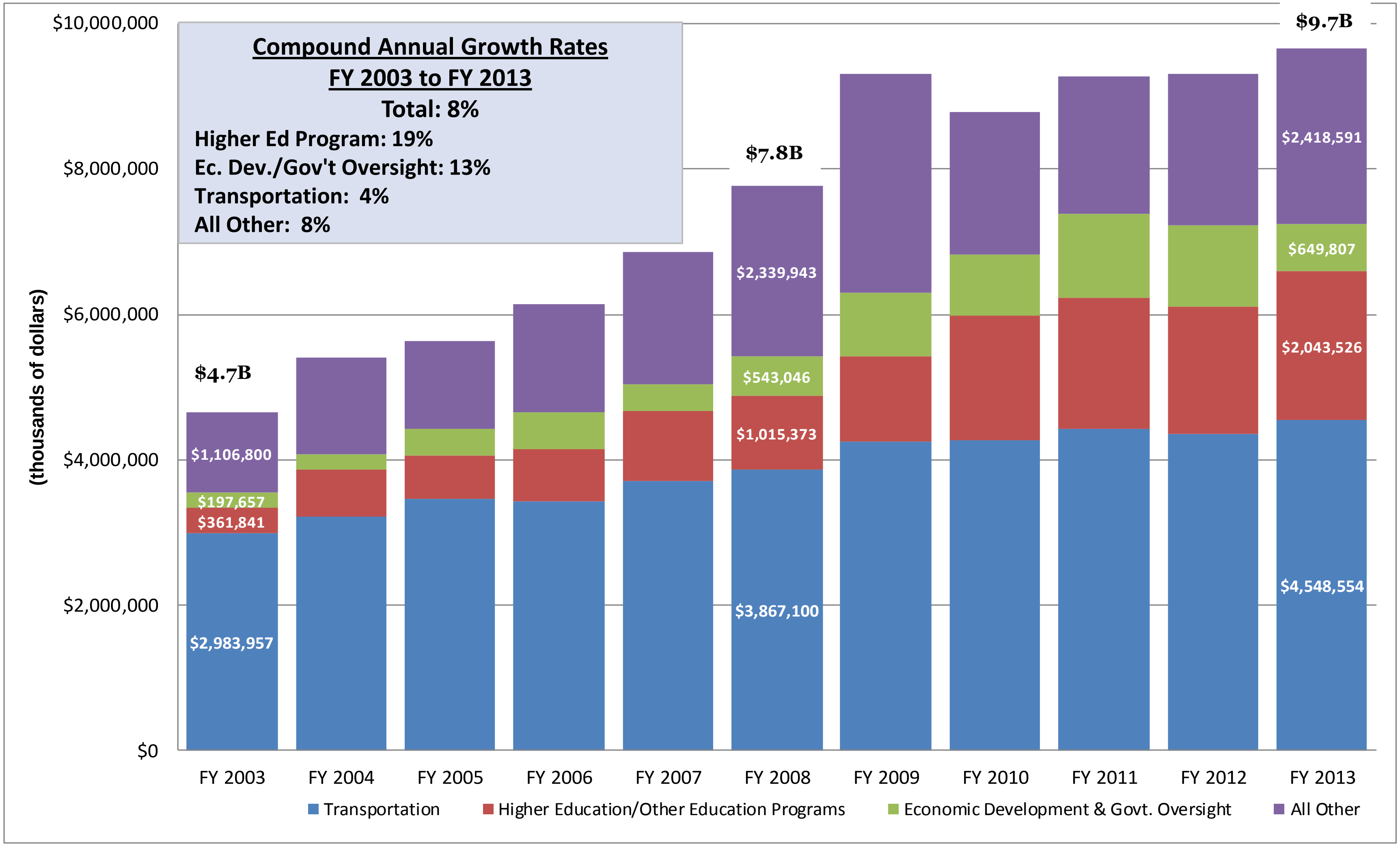
- The State does not have a comprehensive, unified, long-term process for evaluating and prioritizing capital projects within its own budget process.

- The State's capital planning process is marked by "silo-based" decision-making without reference to statewide priorities -- and a legislative process that often favors capital spending directed by legislators.

- Over the past decade, the State's allocation of new capital resources has been weighted toward higher education and economic development.

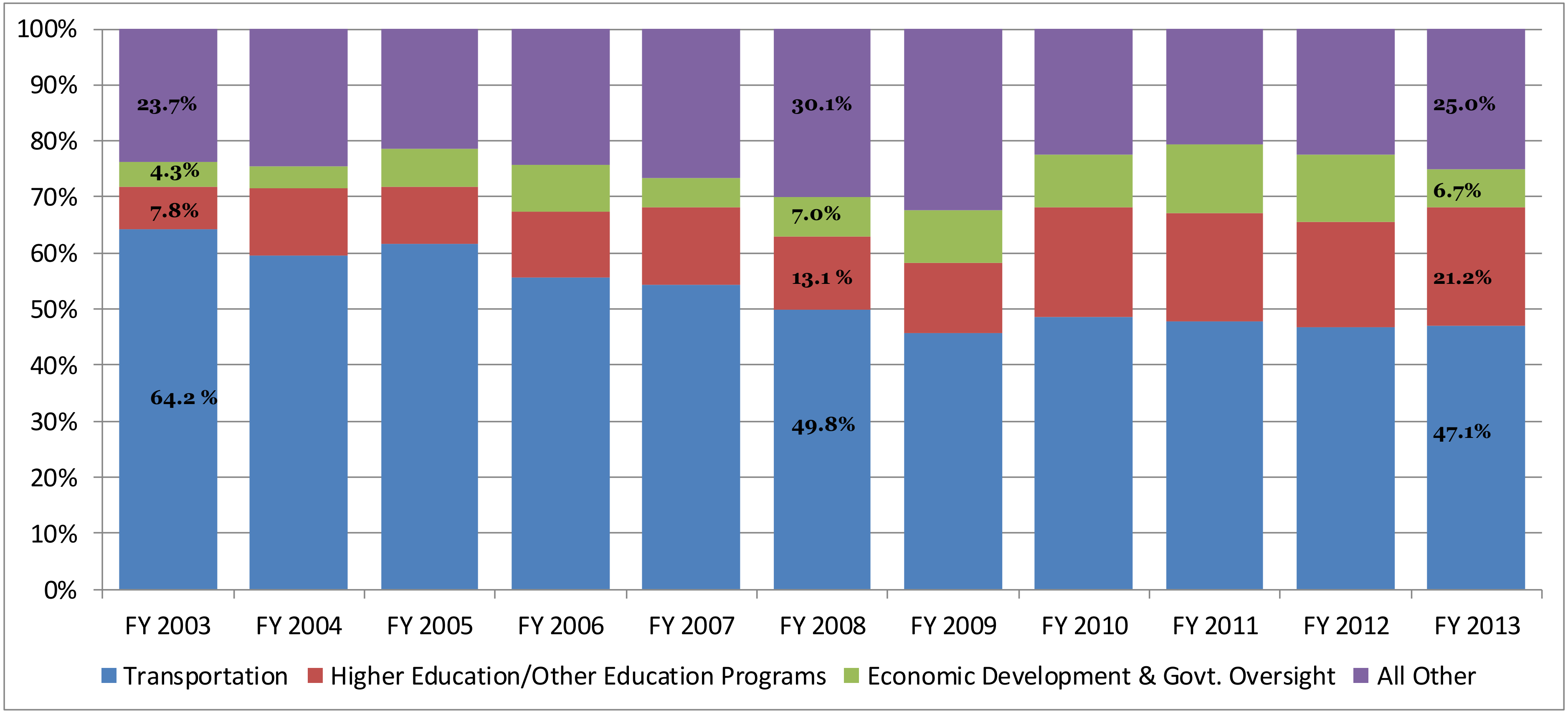
- The State's historical lack of attention to capital planning and affordability has created pressure on the State's debt limits.

Where It Goes: State Capital Spending by Purpose
(All Sources)



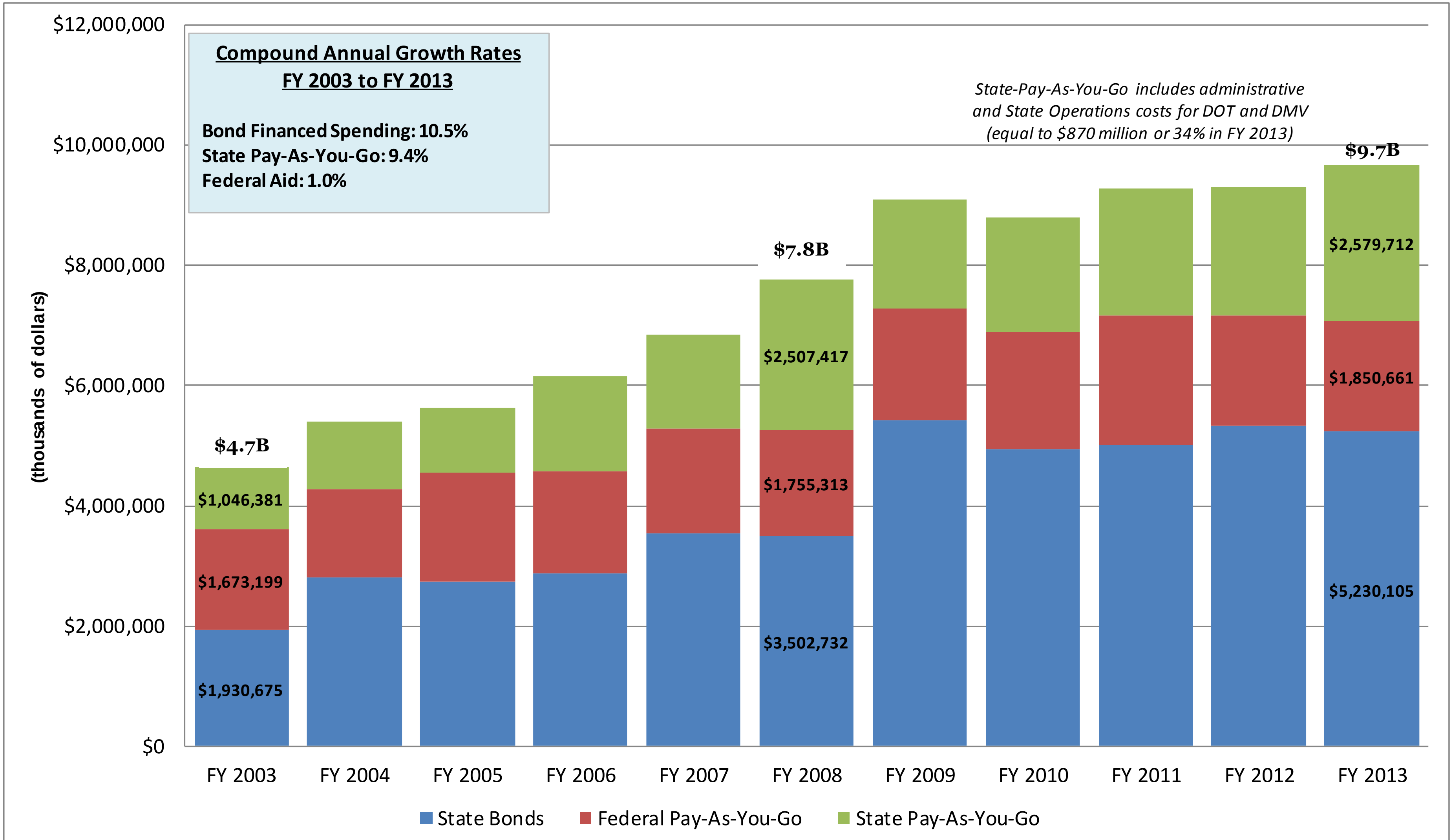
- By comparison, the growth rate over this period was 7 percent for Medicaid, 5 percent for Education aid, and 5 percent for State Operations.

State Capital Spending - Shares By Purpose (All Sources)

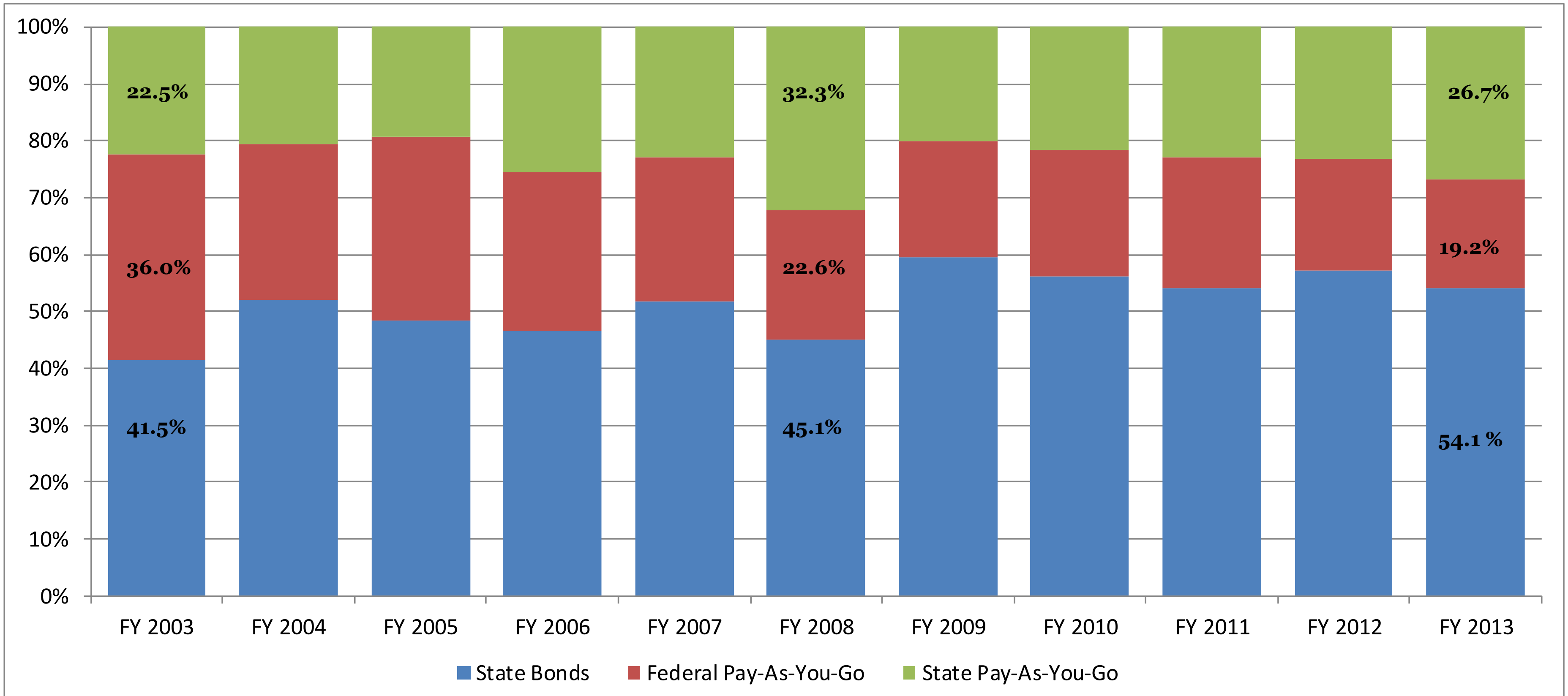


- Transportation's share of capital spending has dropped from 64 percent to 47 percent since FY 2003.
- Higher Education's share of capital spending has increased from 7.8 percent to 21.2 percent.

How It's Paid For: Financing Sources of Capital Spending

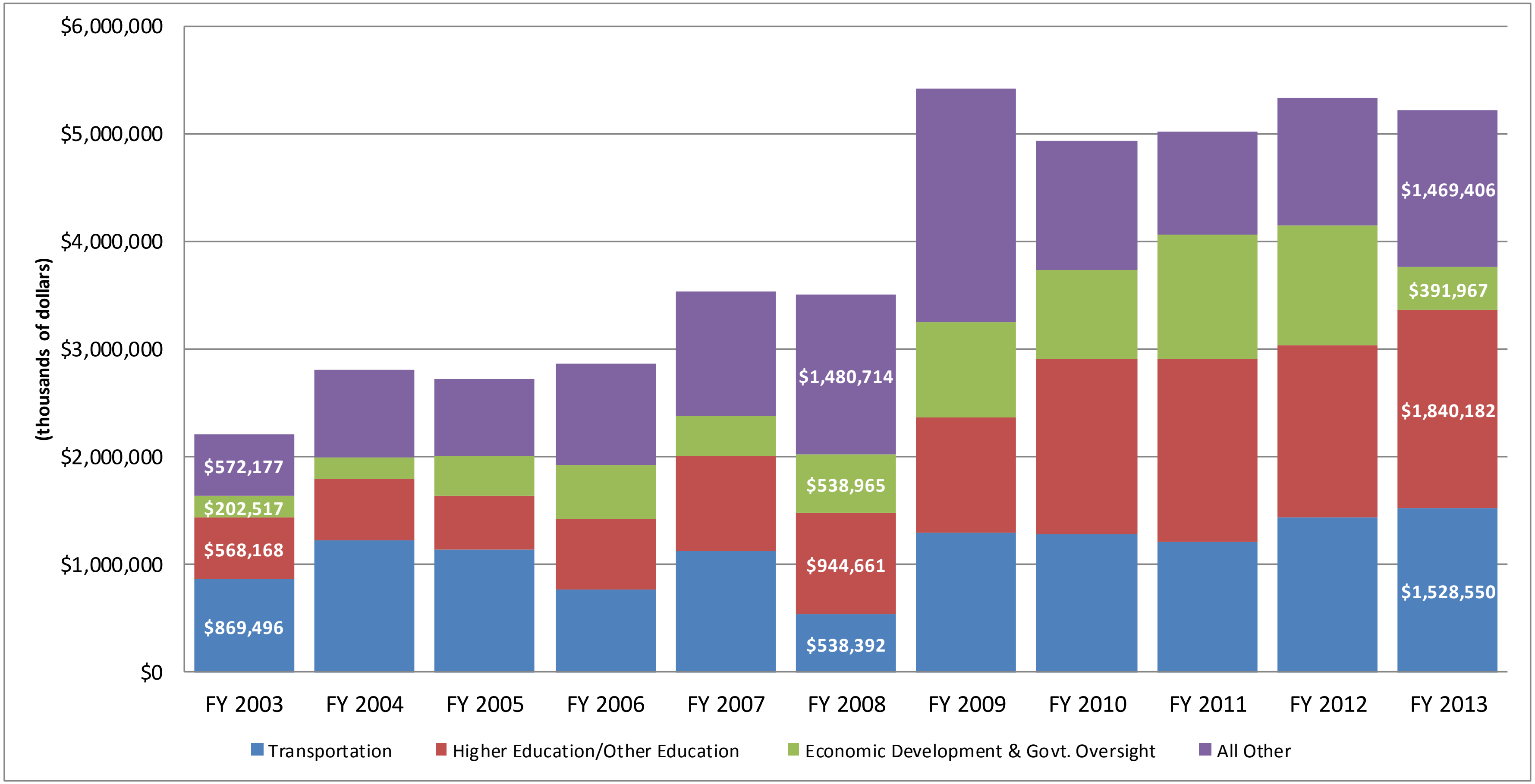


Capital Financing - Shares by Source



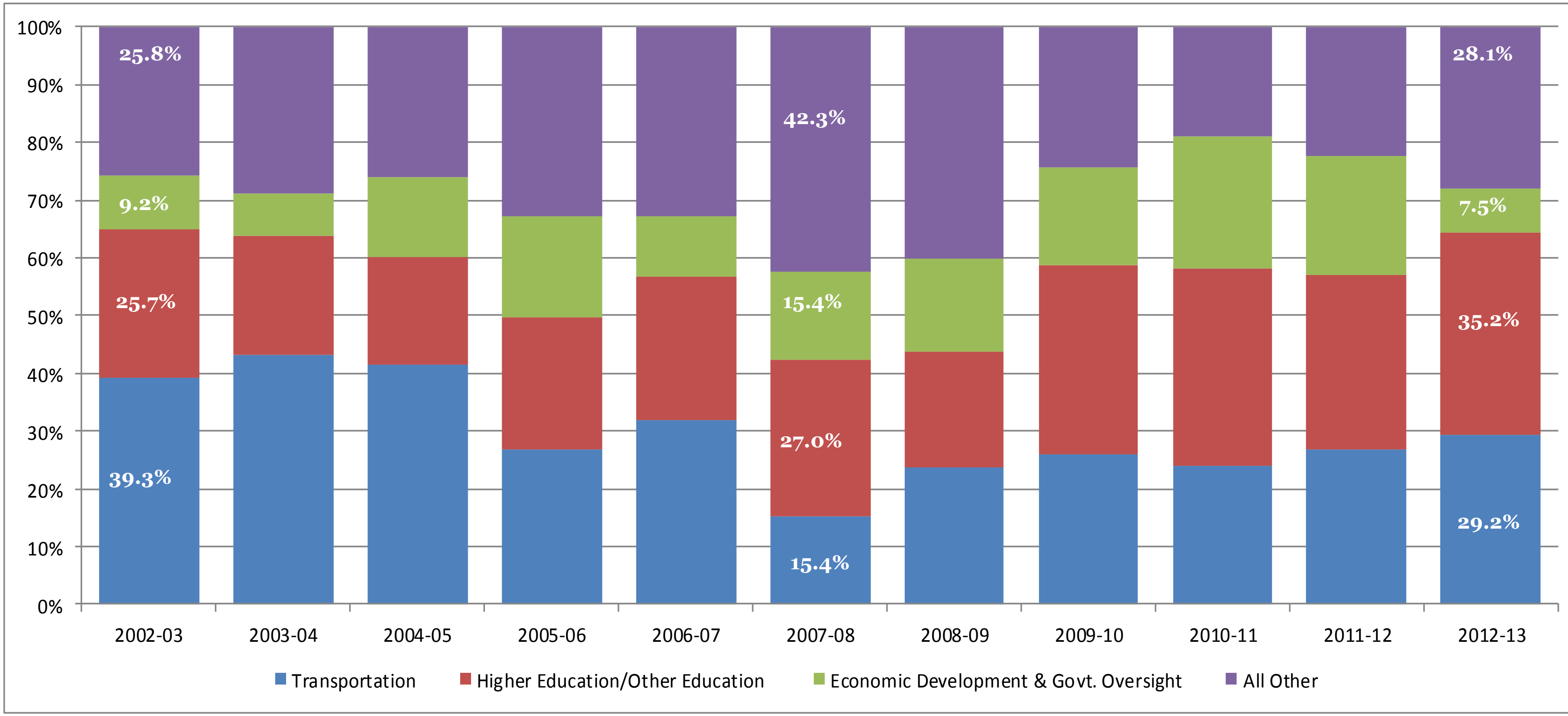
- The portion of capital financed with bonds has increased from 42 percent to 54 percent since FY 2003.
- Federal aid has declined as a financing source.

Bond-Financed Capital Spending by Purpose



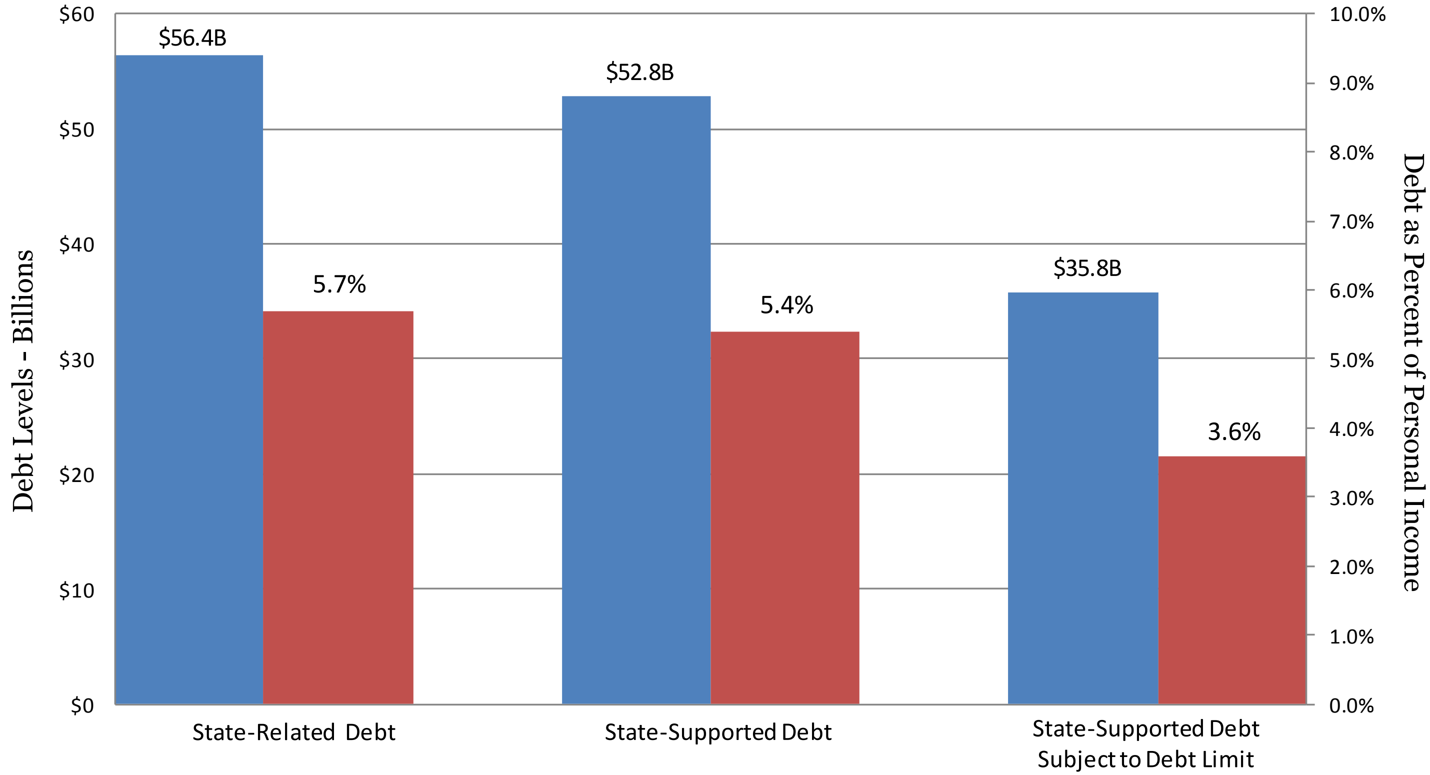
- From FY 2003 through FY 2013, transportation increased by 6 percent annually, from $869 million to $1.5 billion.
- Economic Development increased by 7 percent annually, from $203 million to $392 million.
- Higher Education increased by 12 percent annually, from $568 million to $1.8 billion.
- All other capital increased by 10 percent annually, from $572 million to $1.5 billion.

Bond-Financed - Shares by Purpose



- Transportation's share of bond-financed capital declined from 39 percent to 29 percent since FY 2003.
- Higher Education's share of bond-financed capital increased from 26 percent to 35 percent.

State Debt Levels



*As of 3/31/12.

- State-supported debt is paid directly by State resources in the first instance (i.e., GO bonds, PIT bonds, service contract bonds, etc.). It includes G.O. Bonds and debt issued by public authorities on the State's behalf.

- State-related debt includes State-supported debt plus debt where debt service is paid from non-State resources in the first instance, but where the State is legally obligated to pay if those resources are not sufficient (e.g., "secured" hospital bonds; "tobacco" bonds).

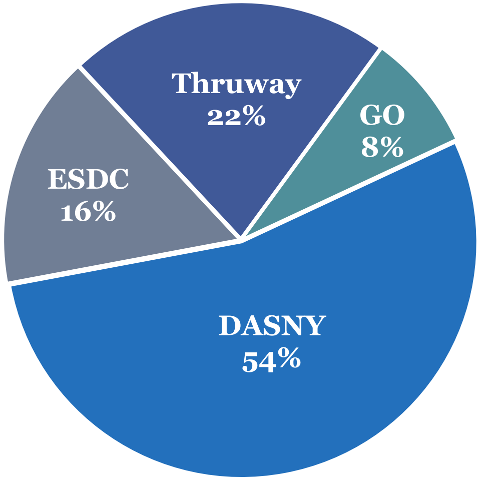
- The debt limit (discussed later) applies only to State-supported debt that was issued from April 1, 2000.

New York Mainly Issues Debt Through Three Authorities

State Has Streamlined Issuance

State Debt Outstanding As of March 31, 2012 ($ in thousands)	
Current Issuers of State Debt	
DASNY	$22,288,589
Thruway	11,365,020
ESDC	9,102,348
GO	3,494,365
Prior Issuers of State Debt	
EFC	871,175
HFA	1,048,129
LGAC	3,118,923
MBBA	370,910
MTA	2,005,455
Tobacco	2,689,805
Other State-Related Debt	20,975
Total State-Related Debt:	**$56,375,694**

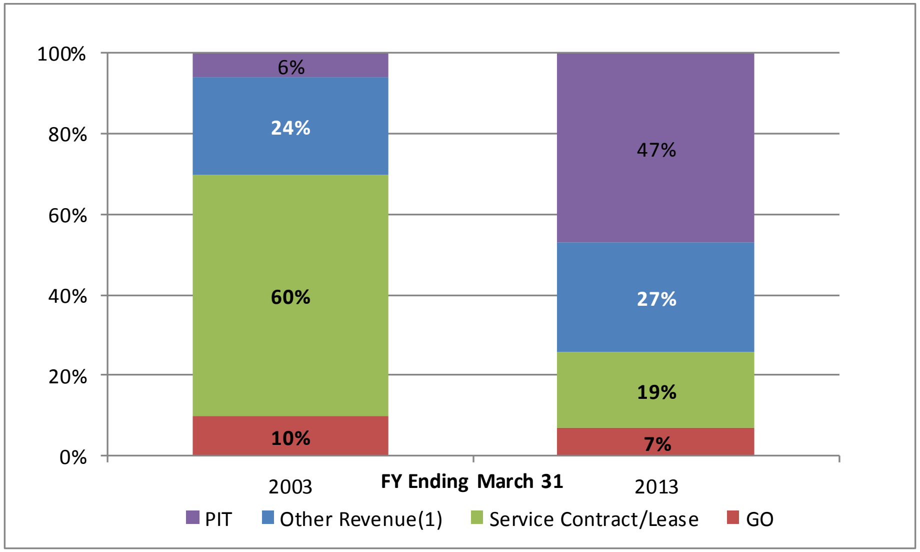
FY 2013 Debt Issuances - $5.4 billion
(tentative – subject to change)



- In FY 2013, the State will issue bonds through three primary issuers (Dormitory Authority, Empire State Development Corporation, and Thruway Authority).
- The State has simplified its issuance process. State law now permits both the Dormitory Authority and Empire State Development Corporation to issue PIT bonds for any State program.
- Several authorities also issue conduit debt or own-source debt backed by their own revenues (e.g., tolls) to fund programs.
- These conduit and own-source financings are <u>not</u> State-related or supported debt, and are not authorized through the State budget process.

PIT Bonds Are the State's Primary Credit

State-Supported Debt Outstanding by Financing Program



(1) Includes LGAC, SUNY Dorms, Dedicated Highway, MH, and DOH

- The State has consolidated its bonding programs over the past ten years to eliminate lower-rated, less efficient structures (e.g., State appropriation-backed credits with no dedicated revenues).
- Personal Income Tax (PIT) bonds are the least expensive borrowing option (AAA Rated by Standard & Poor's) and the primary credit for new capital.
- During FY 2013, PIT bonds will constitute roughly 68 percent of new bond issuances.
- Further consolidation of credits may make sense.

Summary of the State's Debt Limits

- The limits, which are set in statute, cover all State-supported debt issued on or after April 1, 2000.

  - **Debt outstanding** is limited to 4 percent of State personal income.
  - **Debt service** is limited to 5 percent of governmental receipts.
  - Prohibits bonding for non-capital purposes and limits maturities to no more than 30 years.

- Approximately 60 percent of State-related debt is counted under the cap.

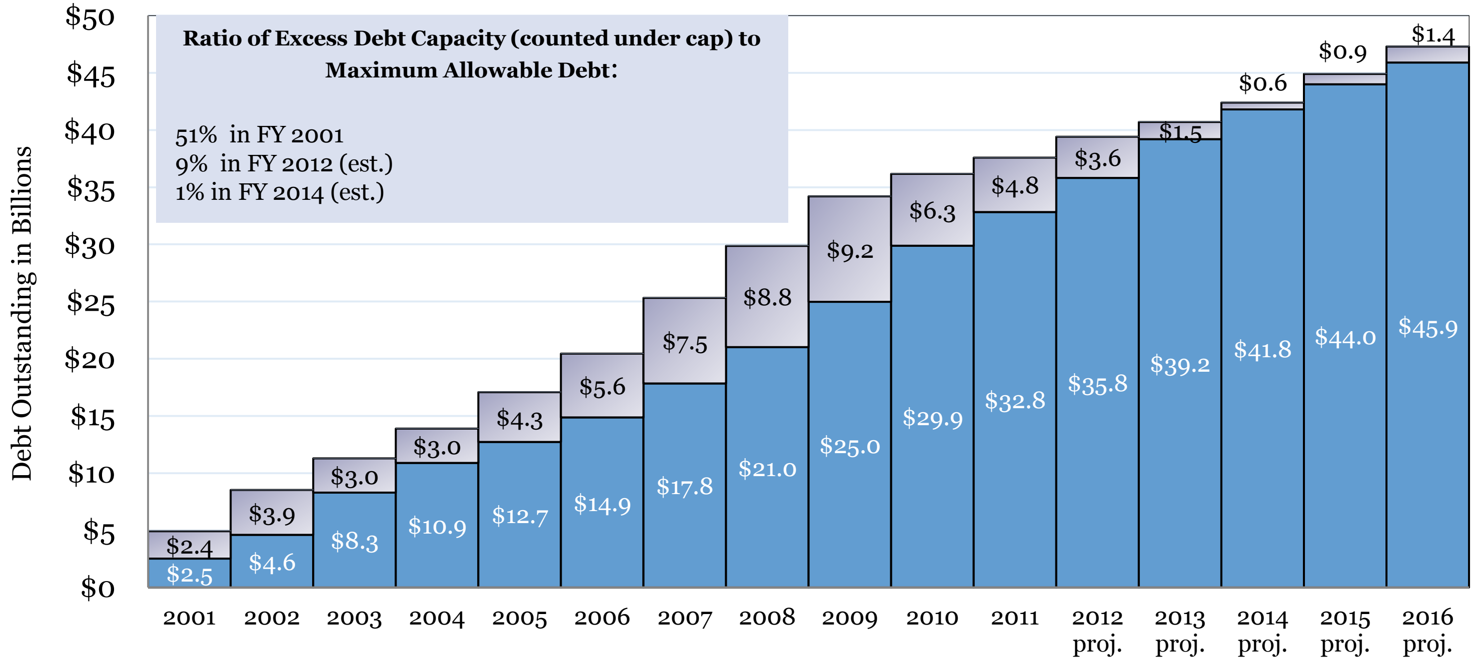
- The State annually calculates compliance with the limits in October. The calculation is based on debt outstanding at the end of the prior fiscal year.

- If either limit is exceeded, the State would be prohibited from issuing any new State-supported debt for one year.

- Bonds where the State has a contingent commitment, such as tobacco bonds, are not subject to the limit. The State took advantage of this loophole to issue $4.2 billion in tobacco bonds.

- Unlike the Federal debt ceiling, the State limit is not expected to be raised periodically, but is instead meant to maintain affordable debt levels.

Debt Limit History and Forecast



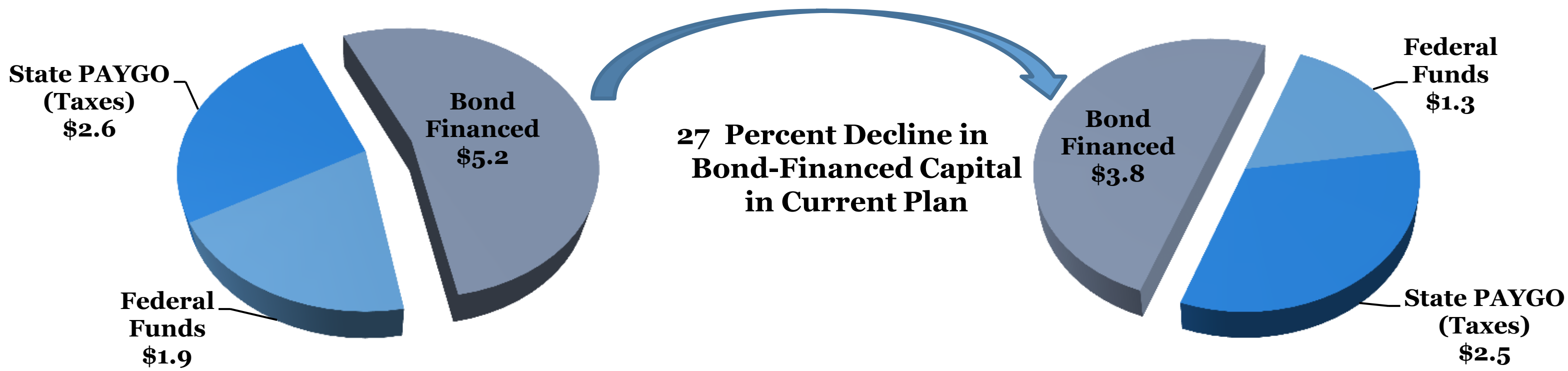
ESTIMATED DEBT OUTSTANDING – SUBJECT TO CAP (millions of dollars)

Year	Personal Income	% Personal Income Growth	Cap %	Cap $	Debt Outstanding Since April 1, 2000	$ Remaining Capacity	Debt as a % of PI	% Remaining Capacity
FY 2012	983,868	4.7%	4.00%	39,355	35,803	3,552	3.64%	0.36%
FY 2013	1,017,103	3.4%	4.00%	40,684	39,192	1,492	3.85%	0.15%
FY 2014	1,061,148	4.3%	4.00%	42,446	41,843	602	3.94%	0.06%
FY 2015	1,122,828	5.8%	4.00%	44,913	44,047	866	3.92%	0.08%
FY 2016	1,183,444	5.4%	4.00%	47,338	45,930	1,408	3.88%	0.12%
FY 2017	1,243,645	5.1%	4.00%	49,746	47,161	2,585	3.79%	0.21%

TOTAL STATE-SUPPORTED (millions of dollars)

Debt Outstanding Prior to April 1, 2000	Total State-Supported Debt Outstanding
16,969	52,772
15,348	54,540
13,718	55,562
12,126	56,172
10,593	56,523
9,132	56,293

Capital Spending Projections



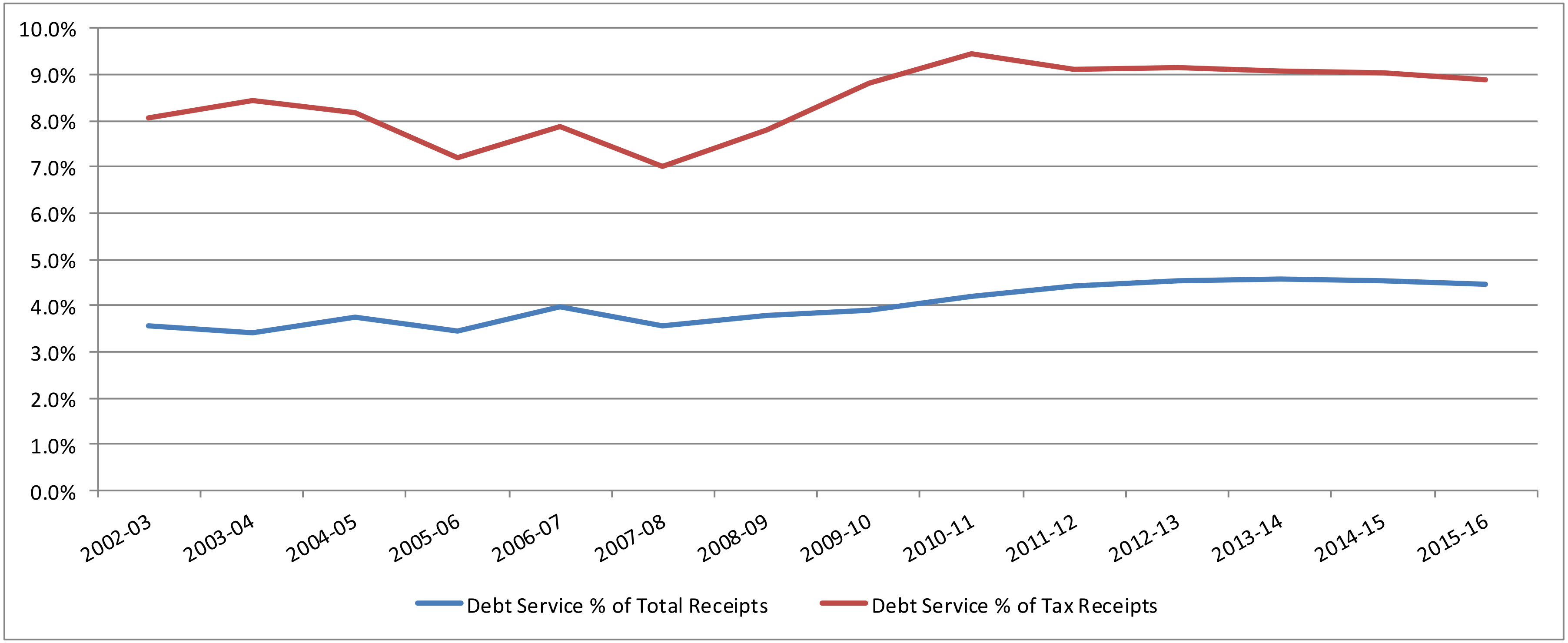
FY 2013 CAPITAL SPENDING BY PROGRAM (thousands of dollars)

Spending	FY 2013	Percent
Transportation	4,548,554	47.1%
Other Higher Education/Education Programs	2,043,526	21.2%
Economic Development & Gov't. Oversight	649,807	6.7%
Mental Hygiene	551,940	5.7%
Parks and Environment	743,849	7.7%
Health and Social Welfare	523,018	5.4%
Public Protection	334,106	3.5%
Other (Excel, State Office Buildings,)	265,678	2.8%
Total	**9,660,478**	**100%**

FY 2017 CAPITAL SPENDING BY PROGRAM (thousands of dollars)

Spending	FY 2017	Percent
Transportation	4,016,385	-3%
Other Higher Education/Education Programs	1,596,786	-6%
Economic Development & Gov't. Oversight	273,009	-19%
Mental Hygiene	672,252	5%
Parks and Environment	438,080	-12%
Health and Social Welfare	139,264	-28%
Public Protection	318,436	-1%
Education-EXCEL School Construction	0	-100%
Other (State Office Buildings)	109,883	-19%
Total	**7,564,095**	**-183%**

Debt Service Share of on State Operating Budget



- Debt service as a percent of tax receipts is expected to remain in the 9 percent range over plan period.

- Several factors contributed to the increase in debt service as a percent of tax receipts since the mid-2000s:
  - Recession resulted in a drop in State tax receipts.
  - Increases in bonded capital spending and $2 billion debt restructuring in 2005 lead to significant increases in debt service costs. Over the three year period, debt service costs increased from $4.1 billion in FY 2008 to $5.6 billion in FY 2011, an increase of 37 percent.

Conclusion

- New York State spends a lot on capital activities. Capital has grown faster than most other parts of the budget over the past decade, increasing at over 8 percent annually.

- The allocation of capital resources has traditionally been done in "silos" without reference to statewide needs, priorities, or ability to pay. This has led to a rapid increase in capital investment in some areas, while leaving other areas potentially underfunded.

- At the same time, the run-up in capital spending has eroded capacity under the State's debt cap.

- Therefore, the State must reform its capital allocation practices to ensure that it can meet its infrastructure needs while abiding by the limits on debt affordability.

- Governor Cuomo has taken decisive action to begin to address the deficiencies in capital planning (e.g., regional councils, NY Works).