NOT A NEW ISSUE

REMARKETING CIRCULAR

$156,000,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
MENTAL HEALTH SERVICES FACILITIES IMPROVEMENT REVENUE BONDS, SUBSERIES 2003D-2A

Date of Issuance: July 15, 2003
Date of Remarketing: March 2, 2009 **Price: 100%** **Due: February 15, 2031**

The Mental Health Services Facilities Improvement Revenue Bonds, Subseries 2003D-2A (the "Subseries 2003D-2A Bonds") were issued on July 15, 2003 as variable rate interest bonds in a Weekly Mode under the Second Mental Health Services Facilities Improvement Revenue Bond Resolution, adopted by the Dormitory Authority of the State of New York (the "Authority") on February 26, 2003 (the "Resolution") and the Series Resolution authorizing the Subseries 2003D-2A Bonds, adopted by the Authority on February 26, 2003 (the "Series 2003D-2 Resolution"). **On March 2, 2009 (the "Conversion Date"), the interest rate mode applicable to the Subseries 2003D-2A Bonds will be converted to a Daily Mode. On the Conversion Date, the Subseries 2003D-2A Bonds are subject to mandatory tender and purchase in connection with the cancellation and surrender of the financial guaranty insurance policy (the "Policy") issued upon initial issuance of the Subseries 2003D-2A Bonds and the substitution of the existing Liquidity Facility. From and after March 2, 2009, the Subseries 2003D-2A Bonds will not benefit from any policy of municipal bond insurance.**

Payment and Security: The Subseries 2003D-2A Bonds are special obligations of the Authority. Principal and Redemption Price of and interest on the Subseries 2003D-2A are payable solely from and secured by a pledge of (i) certain payments to be made to the Authority pursuant to the Financing Agreements (defined herein), which payments are subject to appropriation by the New York State Legislature and which pledge is junior and subordinate to the prior pledge made to secure the mental health services facilities improvement revenue bonds heretofore issued by the Authority under the Prior Authority Resolution (as herein defined), and (ii) all funds and accounts (except the Arbitrage Rebate Fund) established under the Resolution and the Series 2003D-2 Resolution. The Subseries 2003D-2A Bonds are secured on a parity with all bonds (collectively the "Bonds") issued under the Resolution.

The Bonds are not a debt of the State of New York (the "State") and the State is not liable on such Bonds. Neither the Authority nor the Department of Mental Hygiene has any taxing power. Under applicable State law, the State shall not be liable for the Annual Payments (defined herein) payable to the Authority pursuant to the terms of the Financing Agreements. Additionally, the State is under no legal or moral obligation to provide moneys to make up any deficiency in any funds or accounts established under the Resolution.

Description: The Subseries 2003D-2A Bonds were issued under a Book Entry Only System, and are registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Individual purchases of beneficial interests in the Subseries 2003D-2A Bonds will be made in book entry form without certificates. So long as DTC or its nominee is the registered owner of the Subseries 2003D-2A Bonds, payments of the principal and Redemption Price of and interest on such Subseries 2003D-2A Bonds will be made by Deutsche Bank Trust Company Americas, New York, New York, as Trustee and Paying Agent, directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See "PART 3 - THE SUBSERIES 2003D-2A BONDS - Book Entry Only System."

Commencing on the Conversion Date, the Subseries 2003D-2A Bonds will bear interest at a Daily Rate determined by the Remarketing Agent on each Business Day (the "Rate Determination Date"), and will remain in effect for the period beginning on the Rate Determination Date to and excluding the next Business Day. While bearing interest at a Daily Rate, interest on the Subseries 2003D-2A Bonds is payable on the first Business Day of each calendar month, commencing on April 1, 2009. The Subseries 2003D-2A Bonds are subject to conversion at the option of the Authority to alternate interest rate modes and to conversion to a rate fixed to maturity upon the terms and conditions described herein, and, except for conversions between the Daily and Weekly Modes, will be subject to mandatory tender for purchase on the date of such conversion. **This Remarketing Circular, in general, describes the Subseries 2003D-2A Bonds only during the Daily and Weekly Modes.**

Tender and Purchase: The Subseries 2003D-2A Bonds are subject to optional tender for purchase upon demand by the owner thereof, upon the terms and conditions described herein. In addition to being subject to mandatory tender for purchase upon a change in determining the interest rate for such Subseries 2003D-2A Bonds as discussed above, the Subseries 2003D-2A Bonds also are subject to mandatory tender for purchase in certain other circumstances as described herein. See "PART 3 - THE SUBSERIES 2003D-2A BONDS - Optional and Mandatory Tender and Purchase." The purchase price of tendered Subseries 2003D-2A Bonds is payable from the proceeds of remarketing of such Bonds and, to the extent remarketing proceeds are insufficient for such purpose, from amounts available under the Standby Bond Purchase Agreement, dated as of March 2, 2009 (the "JPMorgan Facility"), by and between the Authority and JPMorgan Chase Bank, National Association (the "Bank"), or from amounts available under any Alternate Liquidity Facility (as described herein). The JPMorgan Facility terminates on March 1, 2010, unless extended or terminated sooner in accordance with its terms. Under certain circumstances described herein, the obligation of the Bank to purchase Subseries 2003D-2A Bonds tendered for purchase may be terminated or suspended without notice. See "PART 4 – LIQUIDITY FACILITIES AND JPMORGAN FACILITY" herein.

Redemption: *The Subseries 2003D-2A Bonds are subject to redemption prior to maturity as more fully described herein.*

Tax Exemption: On July 15, 2003 Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, rendered its opinion in connection with the original issuance of the Subseries 2003D-2 Bonds to the effect that under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Subseries 2003D-2 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 Subseries 2003D-2 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; and (iii) interest on the Subseries 2003D-2 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. In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, to be rendered on the Conversion Date, the conversion of the interest rate from a Weekly Rate to a Daily Rate, the cancellation of the Policy for the Subseries 2003D-2A Bonds and the substitution of the Liquidity Facility, in and of itself, will not impair (i) the exclusion of interest on the Subseries 2003D-2A Bonds from gross income for Federal income tax purposes, the interest on which is otherwise excluded from gross income for Federal income tax purposes under Section 103 of the Code; or (ii) the exemption of interest on the Subseries 2003D-2A Bonds from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York. See "PART 10 - TAX MATTERS" herein.

In connection with the conversion of the interest rate mode and the cancellation of the Policy, certain legal matters will be passed upon by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Remarketing Agent by its Counsel, Nixon Peabody LLP, New York, New York. Certain legal matters will be passed upon for the Bank by its Counsel, King & Spalding LLP, New York, New York. The Authority expects to deliver the Subseries 2003D-2A Bonds in definitive form in New York, New York upon the conversion and remarketing of the Subseries2003D-2A Bonds on March 2, 2009.

J.P. MORGAN
Remarketing Agent

February 25, 2009

No dealer, broker, salesperson or other person has been authorized by the Authority, the State, the Department of Mental Hygiene (the "Department") or the Remarketing Agent to give any information or to make any representations with respect to the Subseries 2003D-2A Bonds, other than the information and the representations contained in this Remarketing Circular. If given or made, any such information or representations must not be relied upon as having been authorized by the Authority, the State, the Department or the Remarketing Agent.

This Remarketing Circular does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Subseries 2003D-2A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information in this Remarketing Circular has been furnished by the Authority and by certain other sources referred to below. The Remarketing Agent does not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation by the Remarketing Agent.

Certain information in this Remarketing Circular has been supplied by the Department, the State of New York Division of the Budget, DTC, JPMorgan Chase Bank, National Association (the "Bank") and other sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation of the Authority.

References in this Remarketing Circular to the Act, the Resolutions, the Financing Agreements and the Pledge and Assignment (each as defined herein) do not purport to be complete. Refer to the Act, the Resolutions, the Financing Agreements and the Pledge and Assignment for full and complete details of their provisions. Copies of the Resolutions, the Financing Agreements and the Pledge and Assignment are on file with the Authority and the Trustee.

The order and placement of material in this Remarketing Circular, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Remarketing Circular, including its appendices, must be considered in its entirety.

Under no circumstances shall the delivery of this Remarketing Circular or any sale made after its delivery create any implication that the affairs of the Authority, the Department or the State have remained unchanged after the date of this Remarketing Circular.

IN CONNECTION WITH THE OFFERING OF THE SUBSERIES 2003D-2A BONDS, THE REMARKETING AGENT MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SUBSERIES 2003D-2A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DORMITORY AUTHORITY - STATE OF NEW YORK 515 BROADWAY, ALBANY, N.Y. 12207
PAUL T. WILLIAMS, JR. - EXECUTIVE DIRECTOR GAIL GORDON, ESQ. - CHAIR

$156,000,000
DORMITORY AUTHORITY
OF THE STATE OF NEW YORK
MENTAL HEALTH SERVICES FACILITIES IMPROVEMENT
REVENUE BONDS, SUBSERIES 2003D-2A

PART 1 – INTRODUCTION

Purpose of the Remarketing Circular

The purpose of this Remarketing Circular, including the cover page and appendices, is to provide information about the Dormitory Authority of the State of New York (the "Authority"), the State of New York (the "State"), the Department of Mental Hygiene (the "Department"), and JPMorgan Chase Bank, National Association (the "Bank") in connection with the remarketing of the Authority's $156,000,000 Mental Health Services Facilities Improvement Revenue Bonds, Subseries 2003D-2A Bonds (the "Subseries 2003D-2A Bonds"). The Subseries 2003D-2A Bonds and any other bonds issued pursuant to the Resolution (hereinafter defined) are collectively referred to in this Remarketing Circular as the "Bonds."

The following is a brief description of certain information concerning the Subseries 2003D-2A Bonds, the Authority, the Department, the payment of and security for the Bonds, and the State Facilities (hereinafter defined) and the Voluntary Agency Facilities (hereinafter defined). A more complete description of such information and additional information that may affect decisions to invest in the Subseries 2003D-2A Bonds is contained throughout this Remarketing Circular, which should be read in its entirety. Certain terms used in this Remarketing Circular are defined in Appendix A hereto.

Purpose of the Issue; Plan of Finance

The Subseries 2003D-2A Bonds were originally issued on July 15, 2003 as one of nine subseries of the Authority's Mental Health Services Facilities Improvement Revenue Bonds, Series 2003D-2 issued in the aggregate principal amount of $818,800,000. The Series 2003D-2 Bonds were issued, together with the other series of Bonds, to refund certain bonds previously issued by the New York State Medical Care Facilities Finance Agency (referred to as "Prior Agency Bonds") and certain Prior Authority Bonds (as hereinafter defined) previously issued by the Authority, in each case issued to finance or refinance the costs of mental health services facilities for use by the Department.

Authorization of Issuance; Amendments

The Second Mental Health Services Facilities Improvement Revenue Bond Resolution, adopted by the Authority on February 26, 2003 (the "Resolution"), authorizes the issuance of multiple series of Bonds (each a "Series") pursuant to separate series resolutions (each a "Series Resolution"). The aggregate principal amount of Bonds which may be issued under the Resolution is unlimited except as provided in the Resolution and by law.

The Subseries 2003D-2A Bonds were issued pursuant to the Act (as defined in Appendix A hereto), the Resolution, a Series Resolution adopted by the Authority on February 26, 2003 (the "Series 2003D-2 Resolution") and a Bond Series Certificate fixing the terms and details of the Series 2003D-2 Bonds (the "Series 2003D-2 Certificate"). On May 28, 2008, the Authority adopted a supplemental resolution authorizing the amendment and restatement of the Series 2003D-2 Resolution. The Series 2003D-2 Resolution, as amended and restated with the consent of Deutsche Bank Trust Company Americas, as Trustee (the "Trustee") in accordance with the Resolution, authorizes amendments to the Series 2003D-2 Certificate as may be necessary in connection with the termination or substitution of a Credit Facility as permitted under the terms of the original Series 2003D-2 Certificate. The Authority will execute an amendment to the Series 2003D-2 Certificate relating to the Subseries 2003D-2A Bonds on March 2, 2009 to (i) eliminate references to the financial guaranty insurance policy (the "Policy") issued by MBIA Insurance Corporation ("MBIA") upon original issuance of the Subseries 2003D-2A Bonds and any provisions relating thereto, which Policy is being surrendered and cancelled on March 2, 2009 in accordance with the terms of the original Series 2003D-2 Certificate, and (ii) accommodate changes required in connection with the substitution on March 2, 2009 of the prior Liquidity Facility for the Subseries 2003D-2A Bonds with the JPMorgan Facility (as hereinafter defined) necessitated by the cancellation of the Policy. See "The Subseries 2003D-2A Bonds" below.

The Series 2003D-2 Certificate provides that whenever the consent of the Owners of an affected Subseries of Series 2003D-2 Bonds may be required by the Resolution to effect amendments to the Series 2003D-2 Certificate, such amendments will be deemed to have been consented by the Owners of such affected Subseries of Series 2003D-2 Bonds if, in connection with the reoffering of such Subseries of Series 2003D-2 Bonds upon the mandatory tender and payment in full of the purchase price thereof and delivery to the Trustee of a Favorable Opinion of Bond Counsel (as defined in Appendix A), the Remarketing Agent (as the purchaser and initial holder of the reoffered Bonds) consents to such amendments. J.P. Morgan Securities Inc., as remarketing agent (the "Remarketing Agent") and the purchaser and initial holder of the Subseries 2003D-2A Bonds upon the tender and reoffering thereof on March 2, 2009, has agreed to give its consent to the First Amendment to the Series 2003D-2 Certificate relating to the Subseries 2003D-2A Bonds simultaneously with such reoffering.

This Reoffering Circular describes the terms of the Subseries 2003D-2A Bonds as provided for in the Series 2003D-2 Resolution, as amended and restated, and the Series 2003D-2 Certificate, as amended, and all references herein to the Series 2003D-2 Resolution or the Series 2003D-2 Certificate are to such documents as amended. By purchasing the Subseries 2003D-2A Bonds, a purchaser will be deemed to have consented to the amendments to the Series 2003D-2 Certificate as described herein. The Resolution, the Series 2003D-2 Resolution as amended and restated and the Series 2003D-2 Certificate as amended are collectively referred to herein as the "Resolutions."

The Authority

The Authority is a public benefit corporation of the State, created for the purpose of financing and constructing a variety of public-purpose facilities for certain educational, governmental and not-for-profit institutions and to purchase and make certain loans in connection with its student loan program. See "PART 7 - THE AUTHORITY."

On September 1, 1995, the Authority, through State legislation, succeeded to the powers, duties and functions of the New York State Medical Care Facilities Finance Agency (the "Agency") and the New York State Facilities Development Corporation (the "Corporation"), each of which continues its corporate existence in and through the Authority. Under such legislation, the Authority also acquired by operation of law all assets and property, and assumed all the liabilities and obligations, of the Agency and the Corporation, including, without limitation, the obligation of the Agency to make payments on its outstanding bonds, notes or other obligations.

The financing or refinancing of mental health services facilities for use by the Department or by Voluntary Agencies on and after the date of the consolidation has been undertaken by the Authority through the issuance of its mental health services facilities improvement revenue bonds under a general resolution adopted by the Authority on January 31, 1996 (the "Prior Authority Resolution") and under the Resolution. As of December 31, 2008, approximately $529 million of bonds issued under the Prior Authority Resolution (the "Prior Authority Bonds") were outstanding and approximately $3.3 billion of Bonds were outstanding under the Resolution. The Authority has covenanted in the Resolution that no additional bonds will be issued under the Prior Authority Resolution, and the continued financing or refinancing of mental health services facilities for use by the Department or the Voluntary Agencies is to be undertaken through the issuance of Bonds under the Resolution.

The Department of Mental Hygiene

The Department was established on January 1, 1927, replacing and consolidating the functions of the State Hospital Commission and the State Commission for Mental Defectives. Pursuant to legislation effective in 1978, as amended in 1992, the Department is organized into three autonomous offices:

1. The Office of Mental Health ("OMH");

2. The Office of Mental Retardation and Developmental Disabilities ("OMRDD"); and

3. The Office of Alcoholism and Substance Abuse Services ("OASAS").

These three units function independently within the Department with complete responsibilities for the planning and administration of their respective programs. Each office is headed by a commissioner appointed by the Governor with the advice and consent of the Senate. See "PART 6 - THE DEPARTMENT."

The Subseries 2003D-2A Bonds

The Subseries 2003D-2A Bonds were issued on July 15, 2003 as variable interest rate bonds in the Weekly Mode. Since their date of issuance, the payment of principal of and interest on the Subseries 2003D-2A Bonds when due has been insured under the Policy issued by MBIA. Pursuant to the terms of the Series 2003D-2 Certificate, if certain conditions are satisfied on or prior to March 2, 2009 (the "Conversion Date"), the interest rate mode applicable to the Subseries 2003D-2A Bonds will be converted to a Daily Mode. ***Simultaneously on the Conversion Date, the Policy for the Subseries 2003D-2A Bonds will be cancelled and surrendered and, thereafter, the Subseries 2003D-2A Bonds will not benefit from any policy of municipal bond insurance. By purchasing the Subseries 2003D-2A Bonds, a purchaser acknowledges and agrees that the Subseries 2003D-2A Bonds are not secured by and do not have the benefit of the Policy.*** In connection with the cancellation of the Policy, the prior Liquidity Facility for the Subseries 2003D-2A Bonds will be replaced with the JPMorgan Facility (as defined below) and the Subseries 2003D-2A Bonds will be subject to mandatory tender for purchase on March 2, 2009.

The Subseries 2003D-2A Bonds are being reoffered as variable interest rate bonds and will bear interest from March 2, 2009 at the Daily Rate determined by the Remarketing Agent on the Conversion Date. Thereafter, the Subseries 2003D-2A Bonds will bear interest at the Daily Rate determined by the Remarketing Agent on each Business Day in accordance with the Resolutions, unless the method of determining interest on the Subseries 2003D-2A Bonds is converted to an alternate mode of determining interest thereon or converted to a rate fixed to maturity, in each case upon the terms and conditions described herein. See "PART 3 - THE SUBSERIES 2003D-2A BONDS." The Subseries 2003D-2A Bonds are subject to a maximum interest rate of twelve percent (12%) per annum, subject to adjustment in accordance with the Resolutions (the "Maximum Rate").

While bearing interest at a Daily Rate or a Weekly Rate, the Subseries 2003D-2A Bonds are subject to optional and mandatory tender for purchase as described herein under "PART 3 - THE SUBSERIES 2003D-2A BONDS – Optional and Mandatory Tender and Purchase." The purchase price for Subseries 2003D-2A Bonds tendered for purchase is payable from proceeds of the remarketing of the Subseries 2003D-2A Bonds, or, if not so remarketed, from moneys provided the Bank pursuant to a Standby Bond Purchase Agreement, dated March 2, 2009 between the Authority and the Bank (the "JPMorgan Facility"). See "PART 4 – LIQUIDITY FACILITIES AND THE JPMORGAN FACILITY."

This Remarketing Circular, in general, describes the Subseries 2003D-2A Bonds only during the Daily and Weekly Modes.

Payment and Security

The Bonds are special obligations of the Authority payable solely from the Revenues and all funds and accounts (excluding the Arbitrage Rebate Fund) established under the Resolution in the manner provided in the Resolution. The Revenues consist of (i) the Net Annual Payments received or receivable by the Authority pursuant to the hereinafter defined Financing Agreements (except payments for deposit in the Arbitrage Rebate Fund), and (ii) all earnings on the investment of amounts held in the funds and accounts under the Resolution except the Arbitrage Rebate Fund. Net Annual Payments are Annual Payments (as hereinafter defined) net of the Annual Expenditures (as defined in Appendix A hereto) of the Authority. Pursuant to the Resolution, the Revenues have been pledged to the Trustee. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE BONDS."

The Bonds are secured by the pledge and assignment to the Trustee of the Revenues, the proceeds from the sale of the Bonds (until disbursed as provided by the Resolution), and all funds and accounts established by the Resolution and each Series Resolution (with the exception of the Arbitrage Rebate Fund). The pledge of the Net Annual Payments component of the Revenues is junior and subordinate to the pledge of the Prior Authority Annual Payments (as hereinafter defined) made by the Authority to secure the payment of the Prior Authority Bonds. The Authority has covenanted in the Resolution that no additional bonds will be issued under the Prior Authority Resolution.

The Authority and the Department have previously entered into two financing agreements each dated January 31, 1996, as amended and supplemented (the "Prior Financing Agreements"), for the financing and refinancing of mental health services facilities for use by the Department or Voluntary Agencies. The Prior Financing Agreements provided for the payment of annual payments (the "Prior Authority Annual Payments") to the Authority.

The Authority and the Department have entered into the Financing Agreement (State Project), dated as of February 26, 2003, (the "Financing Agreement (State Project)"), which provides for, among other things, the financing and refinancing by the Authority of mental health services facilities for use by the Department (the "State Facilities") and for the payment of annual payments to the Authority (the "Annual Payments"). All State Facilities financed and refinanced pursuant to the Financing Agreement (State Project) will collectively constitute the "State Project."

The Authority and the Department also have entered into the Financing Agreement (Voluntary Agency Project), dated as of February 26, 2003 (the "Financing Agreement (Voluntary Agency Project)"), which provides for, among other things, the financing and refinancing by the Authority of mental health services facilities for use by the Voluntary Agencies (the "Voluntary Agency Facilities") and for the payment of annual payments to the Authority (also "Annual Payments"). All Voluntary Agency Facilities financed and refinanced pursuant to the Financing Agreement (Voluntary Agency Project) will collectively constitute the "Voluntary Agency Project."

The Authority and the Department may in the future enter into agreements for the financing or refinancing of Other Projects and other mental health services facilities constituting such Projects for use by the Department, Voluntary Agencies or other persons and, if so, will also enter from time to time into Other Financing Agreements. These agreements will provide for the payment of annual payments (also "Annual Payments") on a parity with the Annual Payments to be paid to the Authority pursuant to the Financing Agreement (State Project) and the Financing Agreement (Voluntary Agency Project).

Pursuant to the Financing Agreement (State Project) and the Financing Agreement (Voluntary Agency Project), the Authority is to receive the Annual Payments, which right to receive Annual Payments is junior and subordinate to the right to receive the Prior Authority Annual Payments. The obligation to make such Annual Payments shall be deemed executory only to the extent of moneys made available by the New York State Legislature (the "State Legislature"), and no monetary liability on account thereof shall be incurred beyond the moneys legally made available for the purposes thereof by the State Legislature. Further, the availability of moneys to make the Prior Authority Annual Payments and the Annual Payments is subject to and dependent upon appropriations being made annually by the State Legislature for such purposes. Subject to the foregoing, Annual Payments and Prior Authority Annual Payments are to be made to the Authority on February 10 and August 10 of each year with respect to payments required to be made on a semiannual basis and on such other dates as specified in the Financing Agreements or other agreements with respect to payments required to be made other than on a semiannual basis. The schedule of Annual Payments to be paid to the Authority under the Financing Agreement (State Project) and the Financing Agreement (Voluntary Agency Project) is set forth in "Appendix C – Summary of Certain Provisions of the Financing Agreements."

The Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution. All Bonds are equally and proportionally secured by the foregoing.

The Bonds, including the Subseries 2003D-2A Bonds, are not a debt of the State nor is the State liable thereon. The Authority has no taxing power.

See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE BONDS - Payment of and Security for the Bonds."

Facilities Financed

As part of an overall plan of refunding, the Series 2003D-2 Bonds, including the Subseries 2003D-2A Bonds, were issued to provide funds, together with other available funds, to refund certain Prior Agency Bonds previously issued by the Agency and certain Prior Authority Bonds previously issued by the Authority to finance mental health services facilities for use by the Department. Through such refunding, the mental health services facilities previously financed with proceeds of such Prior Agency Bonds and Prior Authority Bonds were refinanced and became State Facilities constituting a part of the State Project of use by the Department. Supplemental Financing Agreement No. 2-2 (State Project) identifies the mental health services facilities refinanced with the proceeds of the Series 2003D-2 Bonds and which became State Facilities.

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for all Bonds issued under the Resolution and certain related covenants. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the Resolutions, the Financing Agreements and the Pledge and Assignment, copies of which are on file with the Authority and the Trustee. See also "Appendix C - Summary of Certain Provisions of the Financing Agreements" and "Appendix D - Summary of Certain Provisions of the Resolutions" for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of and Security for the Bonds

The Bonds are special obligations of the Authority payable solely from the Revenues and all funds and accounts (excluding the Arbitrage Rebate Fund) established under the Resolution. The Revenues consist of (i) the Net Annual Payments received or receivable by the Authority (except payments for deposit in the Arbitrage Rebate Fund), and (ii) all earnings on the investment of amounts held in the funds and accounts under the Resolution except the Arbitrage Rebate Fund. Net Annual Payments are Annual Payments net of the Annual Expenditures of the Authority. All Bonds, notwithstanding the Series under which issued or their date or dates of issuance, are secured equally and ratably by the foregoing except as otherwise provided in or permitted by the Resolution. No debt service reserve fund has been established under the Resolution.

The Bonds are secured by the pledge and assignment of the Revenues, the proceeds from the sale of the Bonds (until disbursed as provided in the Resolution) and all funds and accounts established under the Resolution (with the exception of the Arbitrage Rebate Fund). The pledge of the Net Annual Payments component of the Revenues is junior and subordinate to the pledge of the Prior Authority Annual Payments made by the Authority to secure the payment of the Prior Authority Bonds. The Authority has covenanted in the Resolution that no additional bonds will be issued under the Prior Authority Resolution.

The Authority may at its option issue bonds or other obligations under and pursuant to other resolutions which are secured and payable on a parity with the Annual Payments. The availability of moneys to make the Prior Authority Annual Payments and the Annual Payments is subject to and dependent upon appropriations being made annually by the State Legislature for such purposes. Chapter 52 of the Laws of 2008 provides a single appropriation of moneys sufficient to make the Prior Authority Annual Payments and the Annual Payments due in 2008-09 fiscal year.

The Bonds are not a debt of the State and the State is not liable on such Bonds. Neither the Authority nor the Department has any taxing power. Under applicable State law, the State shall not be liable for the Annual Payments payable to the Authority pursuant to the terms of the Financing Agreements. Additionally, the State is under no legal or moral obligation to provide moneys to make up any deficiency in any funds or accounts established under the Resolution.

As described above, the Authority and the Department have entered into the Financing Agreement (State Project) to provide for the financing and refinancing by the Authority of State Facilities constituting the State Project for use directly by the Department and for the payment of Annual Payments to the Authority. The availability of moneys to make the Annual Payments is subject to and dependent upon appropriations being made annually by the State Legislature for such purposes. The Authority and the Department entered into Supplemental Financing Agreement No. 2-2 (State Project) in connection with the issuance of the Series 2003D-2 Bonds to provide for the financing of the State Facilities to be financed from the proceeds of the Series 2003D-2 Bonds, including the Subseries 2003D-2A Bonds, and to set forth the financing terms.

The Authority has entered into other Supplemental Financing Agreements (State Projects) in connection with the issuance of other Series of Bonds and it is anticipated that, from time to time, the Authority and the Department will enter into additional Supplemental Financing Agreements (State Project) to provide for the financing or refinancing of other State Facilities to be financed or refinanced from the proceeds of other Series of Bonds and to set forth the financing terms.

Also as described above, the Authority and the Department have entered into the Financing Agreement (Voluntary Agency Project) to provide for the financing and refinancing of Voluntary Agency Facilities constituting the Voluntary Agency Project for use by Voluntary Agencies and for the payment of Annual Payments to the Authority. The availability of moneys to make these Annual Payments also is subject to and dependent upon appropriations being made annually by the State Legislature for such purposes.

The Authority has entered into Supplemental Financing Agreements (Voluntary Agency Project) and it is also anticipated that, from time to time, the Authority and the Department will enter into additional Supplemental Financing Agreements (Voluntary Agency Project) to provide for the financing or refinancing of Voluntary Agency Facilities to be financed or refinanced from the proceeds of other Series of Bonds and to set forth the financing terms. The Financing Agreement (State Project), the Financing Agreement (Voluntary Agency Project) and all Supplemental Financing Agreements are collectively called the "Financing Agreement" or the "Financing Agreements." The Annual Payments payable thereunder are collectively called the "Annual Payments."

While the Authority and the Department have not entered into any agreement for the financing or refinancing of Other Projects and other mental health services facilities comprising such Projects for use by the Department, Voluntary Agencies or other persons, the Authority and the Department may do so in the future and, if so, will also enter from time to time into Other Financing Agreements. These agreements will provide for the payment of annual payments (also "Annual Payments") to the Authority on a parity with the Annual Payments to be paid to the Authority pursuant to the Financing Agreement (State Project) and the Financing Agreement (Voluntary Agency Project).

Subject to legislative appropriation, the Annual Payments payable to the Authority and pledged by the Authority to secure the Bonds are expected to be derived from mental hygiene patient care income and from loan repayments to the Authority with respect to Voluntary Agency Facilities ("Voluntary Agency Payments"), both of which are deposited in the Mental Health Services Fund (the "Services Fund") in the manner described below. The Prior Authority Annual Payments payable and pledged to secure the Prior Authority Bonds are expected to be derived from mental hygiene patient care income and from loan repayments to the Authority with respect to mental health services facilities owned, used, or leased by voluntary agencies previously financed with proceeds of the Prior Authority Bonds (also "Voluntary Agency Payments") which also are deposited in the Services Fund. Subject to the foregoing, Annual Payments and Prior Authority Payments are to be made to the Authority on February 10 and August 10 of each year with respect to payments required to be made on a semiannual basis and on such other dates as specified in the Financing Agreements or other agreements with respect to payments required to be made other than on a semiannual basis. The Services Fund is held in the joint custody of the Comptroller of the State of New York (the "Comptroller") and the Commissioner of Taxation and Finance of the State of New York (the "Commissioner of Taxation and Finance"). Subject to (i) the withdrawals of amounts in excess of amounts required to be maintained in order to make the next installment of the Prior Authority Annual Payments due with respect to the Prior Authority Bonds and the next installment of the Annual Payments due with respect to the Bonds, and (ii) the prior pledge made in respect of the payment of the Prior Authority Bonds, the Services Fund is pledged pursuant to the Pledge and Assignment (as described below) to the Authority as security for amounts due under the Financing Agreements.

Mental hygiene patient care income includes Medicare, private insurance, third party beneficiary payments and State appropriation of Federal Medicaid funds and the local share of the State's Medicaid plan for alcoholism services, and represents reimbursement for the cost of the care, maintenance and treatment of individuals in the State mental hygiene facilities. For information concerning such State mental hygiene facilities, including their population and the income available for the Prior Authority Annual Payments and Annual Payments, see "PART 6 - THE DEPARTMENT." Mental hygiene patient care income from Medicare, private insurance and third party beneficiary payments is received by the appropriate Office of the Department and is paid to the Authority and deposited in the Mental Hygiene Facilities Improvement Fund Income Account held by the Commissioner of Taxation and Finance, as agent of the Authority. Mental hygiene patient care income from Federal Medicaid funds and Medicaid income from local governments for the care of consumers in Alcohol Treatment Centers is received by the State Department of Health and is then transferred to the appropriate Office of the Department, but such transfer is subject to annual appropriation by the State Legislature. Such mental hygiene patient care income from Federal Medicaid funds and Medicaid income from local governments is then paid to the Authority and deposited in the Mental Hygiene Facilities Improvement Fund Income Account. In addition, Voluntary Agency Payments are deposited by the Authority into the Mental Hygiene Facilities Improvement Fund Income Account.

All amounts deposited in the Mental Hygiene Facilities Improvement Fund Income Account are required to be transferred to the Services Fund pursuant to State law. All moneys deposited in the Services Fund are subject to appropriation by the State Legislature for the payment of the Prior Authority Annual Payments with respect to the Prior Authority Bonds and the Annual Payments due with respect to the Bonds and, to the extent the amounts received in the Services Fund exceed the retainage requirement described below, for financing a portion of the operating costs of the Department.

Of the amounts received in the Services Fund, the Comptroller is required to retain in the Services Fund 20% of the amount of the next payment coming due with respect to payments required to be made semiannually, pursuant to the terms of (i) the agreements entered into by the Authority prior to February 26, 2003 and (ii) any agreements entered into by the Authority on or after February 26, 2003, for the financing or refinancing of mental health services facilities for use by the Department or a Voluntary Agency, multiplied by the number of months from the date of the last such payment. With respect to payments required to be made other than semiannually, the Comptroller also is required to retain in the Services Fund in each month until paid to the Authority, the amounts as are specified in the Financing Agreements or other agreements. See "Appendix C – Summary of Certain Provisions of the Financing Agreements." Any amounts on deposit in the Services Fund in excess of the amounts required to be so retained are to be paid over for deposit in the Mental Hygiene Patient Income Account and, subject to appropriation, are to be used to fund a portion of the operating costs of the Department.

To secure the payment, subject to legislative appropriation, of any moneys due in any year under the Financing Agreements, the Comptroller and the Commissioner of Taxation and Finance have pledged and assigned to the Authority any and all moneys which may be received by the Commissioner of Taxation and Finance and the Comptroller and credited to the Services Fund and any right, title and interest of the Commissioner of Taxation and Finance and the Comptroller in and to moneys in or to be deposited in the Services Fund, subject to the above-described provisions regarding payment to the Mental Hygiene Patient Income Account, pursuant to a Pledge and Assignment, dated as of February 26, 2003 (the "Pledge and Assignment"), by and among the Commissioner of Taxation and Finance, the Comptroller and the Authority. The pledge made in the Pledge and Assignment is subject to and is junior and subordinate to a similar pledge made in respect of the Prior Authority Bonds.

Pursuant to the Financing Agreements, the Annual Payments shall be paid to the Authority; provided, however, the obligation to make such Annual Payments shall not constitute a debt of the State of New York within the meaning of any constitutional or statutory provision and shall be deemed executory only to the extent of moneys made available by the State Legislature, and no monetary liability on account thereof shall be incurred beyond the moneys legally made available for the purposes thereof by the State Legislature; and provided, further, that the availability of moneys to make the Annual Payments is subject to and dependent upon appropriations being made annually by the State Legislature for such purposes. The Pledge and Assignment provides that, subject to appropriation by the State Legislature and the prior payment with respect to the Prior Authority Annual Payments, the Commissioner of Taxation and Finance and the Comptroller shall during the term of the Financing Agreements pay to the Authority the installments of the Annual Payments due the Authority under the Financing Agreements, solely from moneys credited to or to be credited to the Services Fund. The Pledge and Assignment shall be deemed executory only to the extent of moneys appropriated and available to the State and no liability on account thereof is incurred by the State beyond moneys appropriated and available for the purposes thereof.

The successful maintenance and operation of the mental health services facilities improvement program, its overall financial viability and the marketability of the Bonds are dependent upon the ability and willingness of the State Legislature to continue making appropriations in the amounts required for the Prior Authority Annual Payments, for the Annual Payments due under the Financing Agreements and for the operation of such program through the Department, and there can be no assurance that State funds will be available in the amounts contemplated or required for such purposes.

Summary of Statutory Flow of Funds

The following paragraphs and chart are a summary of the flow of funds relating to the deposits and transfers of mental hygiene patient care income and Voluntary Agency Payments.

1. Mental hygiene patient care income from Federal Medicaid funds and the local share of the State's Medicaid plan for alcoholism services is received by the State Department of Health and, subject to appropriation, is then transferred to the appropriate Office of the Department. Such amounts are then paid to the Authority and deposited in the Mental Hygiene Facilities Improvement Fund Income Account.

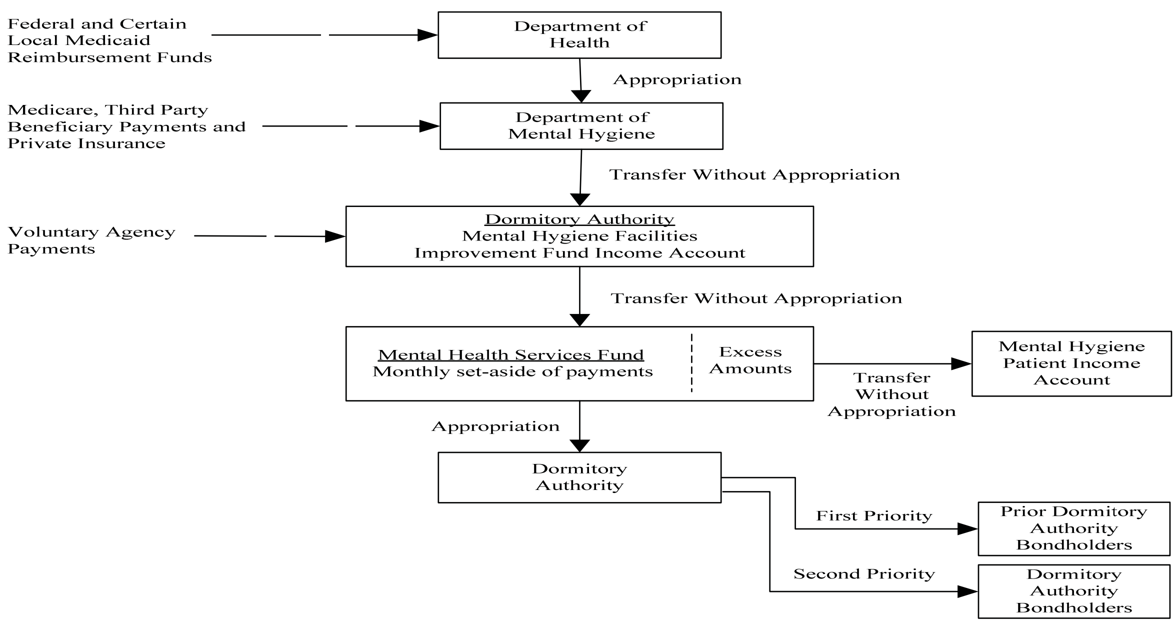
2. Mental hygiene patient care income from Medicare, private insurance and third party beneficiary payments is received by the appropriate Office of the Department and is then paid to the Authority and is deposited in the Mental Hygiene Facilities Improvement Fund Income Account.

3. Voluntary Agency Payments are received by the Authority and then deposited in the Mental Hygiene Facilities Improvement Fund Income Account.

4. All moneys in the Mental Hygiene Facilities Improvement Fund Income Account (i.e., Nos. 1, 2 and 3 above) are required, pursuant to the State law, to be transferred to the Services Fund.

5. Of the amounts so received in the Services Fund, the Comptroller is required to retain in the Services Fund 20% of the next payment due with respect to payments required to be made semiannually: (i) under the agreements entered into by the Authority and the Department prior to February 26, 2003 for the financing and refinancing of mental health services facilities, and (ii) under the Financing Agreements; multiplied by the number of months from the date of the last such payment. The effect of such retainage is to set aside, on a monthly basis, 20% of the next semi-annual installment of the Prior Authority Annual Payments and the Annual Payments so that by the time such next semi-annual installment is due, a sufficient amount has been set aside (from amounts received in the Services Fund) to make such payment. With respect to payments required to be made other than semiannually, the Comptroller also is required to retain in the Services Fund in each month until paid to the Authority, the amounts due as are specified in Financing Agreements or other agreements. Amounts in excess of such required retainage are to be deposited in the Mental Hygiene Patient Income Account and, subject to appropriation, are to be used to fund a portion of the Department's operating costs.

6. The Pledge and Assignment provides that, subject to appropriation, the Commissioner of Taxation and Finance and the Comptroller, after paying or setting aside for the payment of the installments of Prior Authority Annual Payments shall pay to the Authority on February 10 and August 10 of each year with respect to payments required to be made semiannually and on such other dates specified in the Financing Agreements with respect to payments required to be paid other than semiannually, the installments of Annual Payments due the Authority under the Financing Agreements, solely from moneys credited or to be credited to the Services Fund.



Outstanding Indebtedness

Prior Authority Bonds have been issued to finance and refinance mental hygiene facilities for use by the Department or by Voluntary Agencies, $528,840,000 of which remain outstanding as of December 31, 2008. In addition, $3,765,885,000 aggregate principal amount of Bonds have been issued to finance and refinance mental hygiene facilities for use by the Department or by Voluntary Agencies, $3,294,785,000 of which were outstanding as of December 31, 2008. See "PART 7 - THE AUTHORITY - Outstanding Indebtedness of the Authority (Other than Indebtedness Assumed by the Authority)."

PART 3 - THE SUBSERIES 2003D-2A BONDS

General

The Subseries 2003D-2A Bonds were issued pursuant to the Act and the Resolutions. The Subseries 2003D-2A Bonds are dated and will mature as set forth on the cover of this Remarketing Circular.

The Subseries 2003D-2A Bonds are being remarketed as fully registered bonds in denominations of $100,000 or any integral multiple of $5,000 in excess thereof. The Subseries 2003D-2A Bonds are exchangeable for other fully registered Subseries 2003D-2A Bonds of the same Series and subseries in any other authorized denomination of the same maturity. The Trustee may impose a charge sufficient to reimburse the Authority or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Subseries 2003D-2A Bond. The cost, if any, of preparing each new Subseries 2003D-2A Bond issued upon such exchange or transfer and any other expenses of the Authority or the Trustee incurred in connection therewith, will be paid by the person requesting such exchange or transfer.

The Subseries 2003D-2A Bonds are registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's "Book-Entry Only System." Purchases of beneficial interests in the Subseries 2003D-2A Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued, the Subseries 2003D-2A Bonds will be exchangeable for other fully registered certificated Subseries 2003D-2A Bonds in any authorized denominations of the same Series, subseries, maturity and interest rate. So long as DTC or its nominee, Cede & Co., is the registered owner of the Subseries 2003D-2A Bonds, payments of the principal and Redemption Price of and interest on the Subseries 2003D-2A Bonds will be made by the Trustee directly to Cede & Co. Disbursement of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC and disbursement of such payments to the owners of beneficial interest in the Subseries 2003D-2A Bonds is the responsibility of the DTC Participants and the Indirect Participants (as hereinafter defined). See "Book-Entry Only System" below.

The Subseries 2003D-2A Bonds will be remarketed as variable rate obligations in a Daily Mode. The method of determining interest on the Subseries 2003D-2A Bonds may be converted at the option of the Authority from the Daily Mode to a Weekly, Flexible, Auction Rate, Term Rate or Fixed Rate Mode upon the terms and subject to the conditions described below under the heading "Mode Conversions."

This Remarketing Circular in general describes the Subseries 2003D-2A Bonds only while the Subseries 2003D-2A Bonds are in the Daily and Weekly Modes.

Daily and Weekly Rate Bonds

Rate Periods

<u>Daily Rate Bonds</u>. While in the Daily Mode (sometimes referred to herein as "Daily Rate Bonds"), the Subseries 2003D-2A Bonds will bear interest at the rate determined in accordance with the Resolutions and described below, during the period from the date of the remarketing of the Subseries 2003D-2A Bonds on March 2, 2009 to and excluding March 3, 2009, and thereafter, unless converted to another Mode, commencing on each Business Day to and excluding the next Business Day (the "Daily Rate Period"). The Daily Rate for any day that is not a Business Day shall be the same rate as the interest rate established for the immediately preceding Business Day.

Weekly Rate Bonds. While in the Weekly Mode (sometimes referred to herein as "Weekly Rate Bonds"), the Subseries 2003D-2A Bonds will bear interest at the rate determined by the Remarketing Agent in accordance with the Resolutions and described below during the period from the date of the conversion of the Subseries 2003D-2 Bonds to a Weekly Mode to and including the following Wednesday, and thereafter, unless converted to another Mode, commencing on each Thursday to and including the earlier of (i) the Wednesday of the following week or (ii) the day preceding any Mandatory Tender Date (defined below) or the maturity date of the Subseries 2003D-2 Bonds (the "Weekly Rate Period").

Interest Payment Dates

While in the Daily or Weekly Modes, interest on the Subseries 2003D-2A Bonds will be payable on April 1, 2009 and on the first Business Day of each month thereafter, calculated on the basis of a 365- or 366-day year, as applicable, for the actual number of days lapsed.

Determination of Interest Rates

Daily Rate Bonds. Daily Rate Bonds will bear interest at the rate (the "Daily Rate") determined by the Remarketing Agent on or before 9:30 a.m., New York City time, on each Business Day (the "Daily Rate Determination Date"). Each Daily Rate determined by the Remarketing Agent shall be the minimum rate of interest that, in the opinion of the Remarketing Agent, would, under then existing market conditions, result in the sale of the Subseries 2003D-2 Bonds on the Daily Rate Determination Date at a price equal to the principal amount thereof, plus accrued interest, if any. The Remarketing Agent shall make the Daily Rate available by Electronic Means to the Authority, the Trustee, the Tender Agent and the Liquidity Facility Provider (collectively with the Remarketing Agent, the "Notice Parties") by 10:30 A.M., New York City time, on the Daily Rate Determination Date.

Weekly Rate Bonds. Weekly Rate Bonds will bear interest at the rate (the "Weekly Rate") determined by the Remarketing Agent on the Business Day preceding the conversion of such Bonds to the Weekly Mode to and including the following Wednesday, and thereafter, at the Weekly Rates determined by the Remarketing Agent by no later than 4:00 p.m., New York City time, on each Wednesday or, if such Wednesday is not a Business Day, the Business Day next preceding such Wednesday (the "Weekly Rate Determination Date"). Each Weekly Rate determined by the Remarketing Agent shall be the minimum rate of interest that, in the opinion of the Remarketing Agent, would, under then existing market conditions, result in the sale of the Subseries 2003D-2 Bonds on the Weekly Rate Determination Date at a price equal to the principal amount thereof, plus accrued interest, if any. The Remarketing Agent shall make the Weekly Rate available by Electronic Means to each Notice Party by 4:30 p.m., New York City time, on the Weekly Rate Determination Date.

Maximum Rate. In no event may the Daily or Weekly Rate exceed the Maximum Rate which is 12% per annum for Subseries 2003D-2A Bonds other than Bank Bonds (as defined below).

Rates Binding. The determination of each Daily or Weekly Rate by the Remarketing Agent shall, in the absence of manifest error, be conclusive and binding upon the Remarketing Agent, the Tender Agent, the Trustee, the Liquidity Facility Provider and the Bondholders.

Failure to Determine Rates. In the event (i) the Remarketing Agent fails to determine the Daily Rate or Weekly Rate for the Subseries 2003D-2A Bonds, or (ii) the method of determining the Daily Rate or Weekly Rate shall be held to be unenforceable by a court of law of competent jurisdiction, then the interest rate to be borne by the Subseries 2003D-2A Bonds during the applicable Daily Rate Period or Weekly Rate Period will be the SIFMA Municipal Swap Index or, in the event the SIFMA Municipal Swap Index is no longer published, the S&P Weekly Index. If neither the SIFMA Municipal Swap Index nor the S&P Weekly Index are published, then the interest rate to be borne by the Subseries 2003D-2A Bonds during such Daily Rate Period or Weekly Rate Period shall be an index or a rate selected or determined by the Trustee and consented to by the Authority.

Mode Conversions

At the option of the Authority, all or any portion of the Subseries 2003D-2A Bonds may be converted to or from a Daily Rate, a Weekly Rate, Flexible Rate, Auction Rate, Term Rate or may be converted to a Fixed Rate Mode on any Interest Payment Date, or, if such date is not a Business Day, the following Business Day (referred to herein as a "Conversion Date") in the manner and upon the satisfaction of any terms and conditions set forth in the

Resolutions; *provided, however*, any Subseries 2003D-2A Bonds to be converted to a Fixed Rate Mode shall not bear interest at a rate exceeding the Maximum Rate in effect for such Subseries 2003D-2A Bonds prior to conversion to a Fixed Rate Mode, and, once converted to a Fixed Rate Mode, the Subseries 2003D-2A Bonds may not then be converted to any other Mode.

Mandatory Tender Upon Conversion

Any Subseries 2003D-2A Bonds to be converted to a different Mode other than a conversion from a Daily Mode to a Weekly Mode or a Weekly Mode to a Daily Mode, shall be subject to mandatory tender on the Conversion Date at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. See "Optional and Mandatory Tender for Purchase" below.

Conditions Precedent to Conversion

The Resolutions provide that the following conditions be satisfied in order to effect a Conversion from the Daily or Weekly Mode to another Mode:

(a) Not less than twenty (20) days prior to the proposed Conversion Date, the Authority shall give written notice to the other Notice Parties of its intention to effect a change in the Mode from the Daily or Weekly Mode to another Mode specified in such written notice, together with the proposed Conversion Date. On or prior to the delivery of such notice, the Authority shall deliver to the Trustee a letter from counsel acceptable the Trustee and addressed to the Trustee to the effect that it expects to be able to deliver a Favorable Opinion of Bond Counsel with respect to such Conversion on the Conversion Date.

(b) On the Conversion Date, the Trustee and Remarketing Agent shall have received:

(i) a Favorable Opinion of Bond Counsel;

(ii) in the case of a Conversion to the Daily Mode, the Weekly Mode, the Flexible Rate Mode or the Term Rate Mode (other than for a Term Rate Period effective to the maturity date of the Subseries 2003D-2A Bonds), a Liquidity Facility satisfying the requirements of the Resolutions shall be in effect on the Conversion Date;

(iii) in the case of a Conversion to an Auction Mode, an executed copy of an Auction Agreement and one or more Broker-Dealer Agreements; and

(iv) a certificate of an authorized officer of the Tender Agent to the effect that all Subseries 2003D-2A Bonds tendered or deemed tendered have been purchased at a price at least equal to the Purchase Price.

Failed Conversions

If all of the conditions precedent to a Mode Conversion described above have not been satisfied on or prior to the Conversion Date, then the new Mode shall not take effect, and such Subseries 2003D-2A Bonds will continue to bear interest at a Daily Rate or Weekly Rate, as the case may be, commencing on the date which would have been the effective date of the Conversion, and such Bonds will continue to be subject to mandatory tender for purchase on the failed Conversion Date (other than Subseries 2003D-2A Bonds proposed to be converted from a Daily Mode to a Weekly Mode or from a Weekly Mode to a Daily Mode which are not subject to mandatory tender upon conversion).

Notice of Conversions

The Trustee will given notice of a Conversion, by first class mail, to the Owners of the Subseries 2003D-2A Bonds to be converted not less than fifteen (15) days prior to the proposed Conversion Date. Such notice may be combined with the notice of mandatory tender required to be given in connection with a Mode Conversion as described below under the heading "Optional and Mandatory Tender and Purchase of Daily Rate Bonds – *Mandatory Tender and Purchase*."

Optional and Mandatory Tender and Purchase

Optional Tender and Purchase

Any Daily Rate Bond or Weekly Rate Bond (or portions thereof in Authorized Denominations) that is not a Bank Bond is subject to purchase, on the demand of the Owner thereof, at a price equal to the Purchase Price on any Business Day,

(i) in the case of Daily Rate Bonds, upon irrevocable written notice of tender submitted by hand delivery or Electronic Means to the Tender Agent and the Remarketing Agent, at their respective Principal Offices, not later than 10:30 A.M., New York City time, on the Purchase Date; and

(ii) in the case of Weekly Rate Bonds, upon delivery of an irrevocable written notice of tender by hand delivery or Electronic Means to the Tender Agent and the Remarketing Agent, at their respective Principal Offices, not later than 4:00 p.m. on a Business Day not less than seven (7) days before the Optional Tender Date specified by the Owner.

Each notice shall state the number and principal amount of such Subseries 2003D-2A Bond being tendered and the Purchase Date. Such tender notice, once transmitted to the Tender Agent, shall be irrevocable with respect to the tender for which such tender notice was delivered and such tender shall occur on the Business Day specified in such Tender Notice. The contents of any irrevocable tender notice shall be conclusive and binding on all parties.

Notwithstanding the foregoing, during any period that the Subseries 2003D-2A Bonds are registered in the name of DTC or a nominee thereof pursuant to the Resolutions, (i) any notice of tender delivered as provided above shall identify the DTC participant through whom the beneficial owner will direct transfer; (ii) on or before the Purchase Date, the beneficial owner must direct (or if the beneficial owner is not a DTC participant, cause its DTC participant to direct) the transfer of said Bond on the records of DTC; and (iii) it shall not be necessary for the Subseries 2003D-2A Bonds to be physically delivered on the date specified for purchase thereof, but such purchase shall be made as if such Subseries 2003D-2A Bonds had been so delivered, and the Purchase Price thereof shall be paid to DTC. In accepting a notice of tender of any Subseries 2003D-2A Bonds as provided above, the Trustee and the Tender Agent may conclusively assume that the Person providing the notice of tender is the beneficial owner of the Bonds being tendered and therefore entitled to tender them. The Trustee and Tender Agent assume no liability to anyone in accepting a notice of tender from a Person whom it reasonably believes to be such a beneficial owner of the Subseries 2003D-2A Bonds.

Mandatory Tender and Purchase

The Subseries 2003D-2A Bonds are subject to mandatory tender for purchase upon the occurrence of the following events on the dates specified below (each a "Mandatory Tender Date").

Upon Conversion to Another Mode. Other than Bank Bonds and Daily Rate Bonds to be converted to Weekly Rate Bonds or Weekly Rate Bonds to be converted to Daily Rate Bonds, any Subseries 2003D-2A Bonds to be converted to a different Mode from the Daily Mode or Weekly Mode shall be subject to mandatory tender on the Conversion Date as described above under the heading "Mode Conversions - *Mandatory Tender Upon Conversion*."

Upon Expiration, Termination or Substitution of the Liquidity Facility. Except for Bank Bonds, the Subseries 2003D-2A Bonds shall be subject to mandatory tender for purchase on:

(a) the second Business Day preceding the stated expiration date of the Liquidity Facility, or such stated expiration date as it may be extended from time to time as provided therein (the "Expiration Date"), which second Business Day is referred to herein as the "Expiration Tender Date";

(b) the fifth calendar day (or if such day is not a Business Day, the preceding Business Day) preceding the date on which (a) a Liquidity Facility shall terminate pursuant to its terms or otherwise be terminated prior to its Expiration Date, or (b) the obligation of the Liquidity Facility Provider to provide a loan pursuant to the Liquidity Facility shall terminate (collectively, the "Termination Date"), which fifth calendar day is referred to herein as a "Termination Tender Date," if the Liquidity Facility permits a draw thereon on the Termination Tender Date; and

(c) on the Substitution Date of a Liquidity Facility which is defined as:

(i) the second Business Day preceding the date that is specified in a written notice given to the Trustee and the Tender Agent in accordance with the Liquidity Facility, as the date on which the assignment of the obligation of the Liquidity Facility Provider under such Liquidity Facility shall be effective; *provided, however*, that any date so specified in the notice as the effective date of such assignment shall be treated as the effective date of such assignment if the substitution of the assignment fails to occur on such date; and

(ii) the date specified in a written notice from the Authority to the Trustee and the Tender Agent as the date on which an Alternate Liquidity Facility is to be substituted for the then-existing Liquidity Facility; *provided, however*, that (a) any date so specified in the written notice shall be treated as a Substitution Date only if such notice is given to the Trustee and the Tender Agent at least sixteen (16) days preceding such date, and (b) any date so specified in the notice shall be treated as a Substitution Date for purposes of the Resolutions even if the substitution of the Liquidity Facility fails to occur on such date.

Notice of Mandatory Tender for Purchase. The Trustee shall,

(i) at least fifteen (15) days prior to any Conversion Date, give notice of the mandatory tender of the Subseries 2003D-2A Bonds that is to occur on such Conversion Date;

(ii) at least fifteen (15) days prior to any Expiration Tender Date, give notice of the mandatory tender on such Expiration Tender date if it has not theretofore received confirmation that the Expiration Date has been extended;

(iii) within one (1) Business Day upon receipt of written notice from the Liquidity Facility Provider or the Authority that the Liquidity Facility will terminate, give notice of the mandatory tender that is to occur on the Termination Tender Date; and

(iv) at least fifteen (15) days prior to any Substitution Date, give notice of the mandatory tender that is to occur on such Substitution Date.

Except as otherwise provided, notice of any mandatory tender of the Subseries 2003D-2A Bonds shall be provided by the Trustee or caused to be provided by the Trustee by mailing a copy of the notice of mandatory tender by first class mail to each Owner of Subseries 2003D-2A Bonds at the respective addresses shown on the registry books. Each notice of mandatory tender for purchase shall identify the reason for the mandatory tender for purchase, and specify the Mandatory Tender Date, the Purchase Price, the place and manner of payment, that the Owner has no right to retain such Subseries 2003D-2A Bonds and that no further interest will accrue from and after the Mandatory Tender Date to such Owner. Each notice of mandatory tender for purchase caused by a Conversion in the Mode shall also specify the conditions that must be satisfied pursuant to the Resolutions for the new Mode to become effective and the consequences of a failure to satisfy any of such conditions (as described above under the heading "Mode Conversions"). In the event a mandatory tender of Subseries 2003D-2A Bonds shall occur at or prior to the same date on which an optional tender for purchase is scheduled to occur, the terms and conditions of the applicable mandatory tender for purchase shall control. Any notice mailed as described above shall be conclusively presumed to have been duly given, whether or not the Owner of any Bond receives the notice, and the failure of such Owner to receive any such notice shall not affect the validity of the action described in such notice. Failure by the Trustee to give a notice as provided under this caption would not affect the obligation of the Tender Agent to purchase the Subseries 2003D-2A Bonds on the Mandatory Tender Date.

Remarketing of Subseries 2003D-2A Bonds

The Remarketing Agent shall offer for sale and use its best efforts to find purchasers for all Subseries 2003D-2A Bonds tendered for purchase. To the extent a Liquidity Facility is in effect, (i) no Subseries 2003D-2A Bonds shall be remarketed to the Authority, or any affiliate of the Authority, and (ii) no Bank Bonds shall be remarketed unless the Liquidity Facility has been or will be, immediately upon such remarketing, reinstated by the amount of the reduction that occurred when such Subseries 2003D-2A Bonds became Bank Bonds.

Delivery and Payment of Purchased Bonds; Undelivered Bonds

Except as otherwise required or permitted by the book entry only system of the Securities Depository, in order for payment to be made on the Tender Date, the Subseries 2003D-2A Bonds purchased shall be delivered (with all necessary endorsements) at or before 1:00 p.m. on the Tender Date, as the case may be, at the office of the Tender Agent in New York, New York; *provided, however*, that payment of the Purchase Price of any Subseries 2003D-2A Bond purchased upon demand of the Owner thereof as described above under the heading "*Optional Tender and Purchase*" shall be made only if such Bond so delivered to the Tender Agent conforms in all respects to the description thereof in the notice of tender. Payment of the Purchase Price shall be made by wire transfer in immediately available funds by the Tender Agent by the close of business on the Tender Date, or, if the Owner has not provided or caused to be provided wire transfer instructions, by check mailed to the Owner at the address appearing in the books required to be kept by the Trustee pursuant to the Resolutions.

If Subseries 2003D-2A Bonds to be purchased are not delivered by the Owners to the Tender Agent by 1:00 p.m. on the Tender Date (referred to herein as "Undelivered Bonds"), the Tender Agent shall hold any funds received for the purchase of such Subseries 2003D-2A Bonds in trust in a separate account and shall pay such funds to the former Owners upon presentation of the Subseries 2003D-2A Bonds subject to tender. Any such amounts shall be held uninvested. Undelivered Bonds shall be deemed tendered and cease to accrue interest as to the former Owners on the Tender Date and moneys representing the Purchase Price shall be available against delivery of such Undelivered Bonds at the Principal Office of the Tender Agent; *provided, however*, that any funds which shall be so held by the Tender Agent and which remain unclaimed by the former Owner of any such Undelivered Bond for a period of two years after delivery of such funds to the Tender Agent, shall, to the extent permitted by law, upon request in writing by the Authority and the furnishing of security or indemnity to the Tender Agent's satisfaction, be paid to the Authority free of any trust or lien and thereafter the former Owner of such Undelivered Bond shall look only to the Authority and then only to the extent of the amounts so received by the Authority and any interest thereon and the Tender Agent shall have no further responsibility with respect to such moneys or payment of the Purchase Price of such Subseries 2003D-2A Bonds.

Source of Funds for Purchase

Payment of the Purchase Price of Subseries 2003D-2A Bonds tendered or deemed tendered for purchase shall be paid first, from immediately available funds transferred by the respective Remarketing Agent to the Tender Agent from proceeds of the remarketing of such Subseries 2003D-2A Bonds, and second, from immediately available funds transferred from the Liquidity Facility Provider pursuant to a draw on the Liquidity Facility. The Authority is not obligated to pay the Purchase Price of any tendered Subseries 2003D-2A Bonds.

Special Considerations Relating to the Remarketing of the Subseries 2003D-2A Bonds

The information contained under this subheading "Special Considerations Relating to the Remarketing of the Subseries 2003D-2A Bonds" has been provided by the Remarketing Agent for use in this Remarketing Circular but has not been required by the Authority to be included herein and, to the extent such information does not describe express provisions in the Resolutions or the Remarketing Agreement, the Authority does not accept any responsibility for its accuracy or completeness.

The Remarketing Agent is Paid by the Authority

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Subseries 2003D-2A Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Remarketing Circular. The Remarketing Agent is appointed by the Authority and is paid by the Authority for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Subseries 2003D-2A Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, to purchase tendered Subseries 2003D-2A Bonds for its own account and, if it does so, it may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Subseries 2003D-2A Bonds by routinely purchasing and selling Subseries 2003D-2A Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Subseries 2003D-2A Bonds. The Remarketing Agent may also sell any Subseries 2003D-2A Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Subseries 2003D-2A Bonds. The purchase of Subseries 2003D-2A Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Subseries 2003D-2A Bonds in the market than is actually the case. The practices described above also may result in fewer Subseries 2003D-2A Bonds being tendered in a remarketing.

Subseries 2003D-2A Bonds May be Offered at Different Prices on Any Date Including a Rate Determination Date

Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Subseries 2003D-2A Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the Rate Determination Date. The interest rate will reflect, among other factors, the level of market demand for the Subseries 2003D-2A Bonds (including whether the Remarketing Agent is willing to purchase Subseries 2003D-2A Bonds for its own account). There may or may not be Subseries 2003D-2A Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any Subseries 2003D-2A Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Subseries 2003D-2A Bonds at varying prices to different investors on either such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Subseries 2003D-2A Bonds at the remarketing price. In the event the Remarketing Agent owns any Subseries 2003D-2A Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Subseries 2003D-2A Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

The Ability to Sell the Subseries 2003D-2A Bonds other than through Tender Process May Be Limited

The Remarketing Agent may buy and sell Subseries 2003D-2A Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Subseries 2003D-2A Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Subseries 2003D-2A Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Subseries 2003D-2A Bonds other than by tendering the Subseries 2003D-2A Bonds in accordance with the tender process.

Redemption Provisions

The Subseries 2003D-2A Bonds are subject to optional and mandatory redemption as described below.

Optional Redemption

While bearing interest at a Daily Rate or Weekly Rate, the Subseries 2003D-2A Bonds are subject to redemption prior to maturity, at the option of the Authority, in whole or in part, on any Business Day, at a Redemption Price of 100% of the principal amount of the Subseries 2003D-2A Bonds or portions thereof to be redeemed, plus accrued interest to the date of redemption.

Sinking Fund Redemption

The Subseries 2003D-2A Bonds are also subject to redemption, in part, on February 15 in each of the years and in the respective principal amounts set forth below, at a Redemption Price of 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem the principal amount of the Subseries 2003D-2A Bonds specified for each of the years shown on the below:

Sinking Fund Installments

Year	Principal Amount	Year	Principal Amount
2011	$ 3,700,000	2022	$12,600,000
2012	3,800,000	2023	11,800,000
2013	3,900,000	2024	10,400,000
2014	4,700,000	2025	8,900,000
2015	5,400,000	2026	9,600,000
2016	5,600,000	2027	8,200,000
2017	7,700,000	2028	5,600,000
2018	10,100,000	2029	4,300,000
2019	11,400,000	2030	2,500,000
2020	11,800,000	2031	1,300,000†
2021	12,700,000		

† Final maturity.

The Authority may from time to time direct the Trustee to purchase Subseries 2003D-2A Bonds with moneys set aside for redemption in the Debt Service Account, at or below par plus accrued interest to the date of such purchase, and apply any Subseries 2003D-2A Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required Sinking Fund Installment on the Subseries 2003D-2A Bonds of the same Series and maturity. To the extent the Authority's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, the likelihood of redemption in such year through mandatory Sinking Fund Installments of any Bondholder's Subseries 2003D-2A Bonds of the Series and maturity so purchased will be reduced.

Selection of Bonds to be Redeemed

In the case of redemptions of Subseries 2003D-2A Bonds described above under the heading "Optional Redemption," the Authority will select the principal amounts and maturities of the applicable Subseries 2003D-2A Bonds to be redeemed. If less than all of a maturity of a Subseries 2003D-2A Bond is to be redeemed, the Subseries 2003D-2A Bonds of such maturity to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee shall consider proper in its discretion. DTC has informed the Authority that so long as DTC acts as securities depository for the Subseries 2003D-2A Bonds, if less than all of the Subseries 2003D-2A Bonds of a maturity are called for redemption, the particular Subseries 2003D-2A Bonds or portions thereof to be redeemed will be selected by lot by DTC and the DTC Participants in accordance with their procedures. See "Book-Entry Only System" below.

Notice of Redemption

The Trustee is to give notice of the redemption of the Subseries 2003D-2A Bonds in the name of the Authority which notice shall be given by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the redemption date to the registered owners of any Subseries 2003D-2A Bonds which are to be redeemed, at their last known addresses appearing on the registration books. The failure of any owner of an Subseries 2003D-2A Bond to be redeemed to receive notice of redemption thereof will not affect the validity of the proceedings for the redemption of such Subseries 2003D-2A Bond. If directed in writing by an Authorized Officer of the Authority, the Trustee shall publish or cause to be published such notice in an Authorized Newspaper not less than thirty (30) days nor more than forty-five (45) days prior to the redemption date, but such publication is not a condition precedent to such redemption and failure to publish such notice or any defect in such notice or publication will not affect the validity of the proceedings for the redemption of such Subseries 2003D-2A Bonds.

If, on the redemption date, moneys for the redemption of the Subseries 2003D-2A Bonds to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the Redemption Price, and if notice of redemption shall have been mailed, then interest on the Subseries 2003D-2A Bonds will cease to accrue from and after the redemption date and such Subseries 2003D-2A Bonds will no longer be considered to be Outstanding under the Resolutions.

For a more complete description of the redemption and other provisions relating to the Subseries 2003D-2A Bonds, see "Appendix D - Summary of Certain Provisions of the Resolutions." Also see "Book-Entry Only System" below for a description of the notices of redemption to be given to Beneficial Owners of the Subseries 2003D-2A Bonds when the Book-Entry System is in effect.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Subseries 2003D-2A Bonds. The Subseries 2003D-2A Bonds will be remarketed as fully-registered securities 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 Subseries 2003D-2A Bond certificate has been issued for each maturity of the Subseries 2003D-2A Bonds, each in the aggregate principal amount of such maturity of such Series, and has been 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. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Subseries 2003D-2A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Subseries 2003D-2A Bonds on DTC's records. The ownership interest of each actual purchaser of each Subseries 2003D-2A Bond ("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 Subseries 2003D-2A 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 any Series of the Subseries 2003D-2A Bonds, except in the event that use of the book-entry system for the Subseries 2003D-2A Bonds is discontinued.

To facilitate subsequent transfers, all Subseries 2003D-2A 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 Subseries 2003D-2A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Subseries 2003D-2A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Subseries 2003D-2A 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.

As long as the DTC book-entry-only system is used for the Subseries 2003D-2A Bonds, redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity of the Subseries 2003D-2A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other nominee) will consent or vote with respect to Subseries 2003D-2A Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the Authority 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 the Subseries 2003D-2A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Subseries 2003D-2A 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 receipt of funds and corresponding detail information from the Authority or the Trustee 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 Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner must give notice to elect to have its Subseries 2003D-2A Bonds purchased or tendered, through its Participant, to the Remarketing Agent, and will effect delivery of such Subseries 2003D-2A Bonds by causing the Direct Participant to transfer the Participant's interest in the 2003D-2A Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of the 2003D-2A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Subseries 2003D-2A Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered securities to the Remarketing Agent's DTC account.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Subseries 2003D-2A Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Subseries 2003D-2A Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Subseries 2003D-2A Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Authority and the Trustee shall not have any responsibility or obligation to any Direct or Indirect Participant, any person claiming a beneficial ownership interest in the Subseries 2003D-2A Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Subseries 2003D-2A Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as registered owner. Interest, redemption premium, if any, and principal will be paid by the Trustee to DTC or its nominee. Disbursement of such payments to the Direct or Indirect Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct or Indirect Participants.

For every transfer and exchange of beneficial ownership of any of the Subseries 2003D-2A Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its service with respect to the Subseries 2003D-2A Bonds at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable law, or the Authority may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, the Authority may retain another securities depository for the Subseries 2003D-2A Bonds or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the Authority directs the Trustee to deliver such bond certificates, such Subseries 2003D-2A Bonds may thereafter be exchanged for an equal aggregate principal amount of Subseries 2003D-2A Bonds in any other authorized denominations and of the same maturity as set forth in the Resolution, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of the Authority.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection "Book-Entry Only System" has been extracted from information given by DTC. Neither the Authority, the Trustee nor the Underwriters make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS. PAYMENTS MADE TO DTC OR ITS NOMINEE SHALL SATISFY THE AUTHORITY'S OBLIGATION UNDER THE ACT AND THE RESOLUTION TO THE EXTENT OF SUCH PAYMENTS.

So long as Cede & Co. is the registered owner of the Subseries 2003D-2A Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Subseries 2003D-2A Bonds (other than under the captions "PART 10 - TAX MATTERS" and "PART 16 - CONTINUING DISCLOSURE" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Subseries 2003D-2A Bonds.

PART 4 – LIQUIDITY FACILITIES AND THE JPMORGAN FACILITY

Requirement of a Liquidity Facility

The Resolutions require that whenever the Subseries 2003D-2A Bonds bear interest at a Daily, Weekly, Flexible or Term Rate and upon any conversion of the Subseries 2003D-2A Bonds to the Daily, Weekly, Flexible or Term Rate Mode (other than for Term-Rate Period extending to the maturity date of the Subseries 2003D-2A Bonds), the Authority shall obtain a Liquidity Facility meeting the requirements of the Resolutions, for all, but not less than all, of the Subseries 2003D-2A Bonds. The Authority may at any time provide for an Alternate Liquidity Facility to replace the Liquidity Facility then in effect. The minimum amount of moneys available to be obtained under a Liquidity Facility on any date shall be the sum of (i) the principal amount of the Subseries 2003D-2A Bonds that are outstanding on such date (other than Bank Bonds), plus (ii) an amount with respect to interest on such Subseries 2003D-2A Bonds equal to interest accruing for such period and at such rate as in the determination of an Authorized Officer of the Authority is necessary to obtain the highest short-term ratings on such Subseries 2003D-2A Bonds. For a more complete description of the provisions relating to the requirement of a Liquidity Facility for the Subseries 2003D-2A Bonds, see "Appendix D - Summary of Certain Provisions of the Resolutions."

The JPMorgan Facility

During the Commitment Period (as defined below), the Bank will purchase the Subseries 2003D-2A Bonds bearing interest at a Daily Rate or Weekly Rate which have been tendered pursuant to an optional or mandatory tender and are not successfully remarketed on the Purchase Date. The obligation of the Bank to pay the Purchase Price for the Subseries 2003D-2A Bonds is limited to its "Available Commitment" which is initially equal to the principal amount of the Subseries 2003D-2A Bonds, subject to adjustment as described below (the "Available Principal Commitment"), plus up to 34 days' accrued interest on the Available Principal Commitment calculated at an assumed rate of 12% per annum (the "Available Interest Commitment").

Set forth below is a brief summary of certain provisions of the JPMorgan Facility to be entered into with the Bank. Such summary does not purport to be comprehensive or definitive. All references in this Remarketing Circular to the JPMorgan Facility are qualified by reference to such document. For information about the Bank, see "Appendix F – Information Concerning the Bank."

THE JPMORGAN FACILITY WILL EXPIRE PRIOR TO THE FINAL MATURITY OF THE SUBSERIES 2003D-2A BONDS, UNLESS EXTENDED OR TERMINATED AS DESCRIBED BELOW. UNDER CERTAIN CIRCUMSTANCES DESCRIBED BELOW, THE OBLIGATION TO PURCHASE THE SUBSERIES 2003D-2A BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY TENDER FOR PURCHASE MAY BE TERMINATED OR SUSPENDED WITHOUT NOTICE AND WITHOUT OPPORTUNITY FOR TENDER THEREOF. THE JPMORGAN FACILITY DOES NOT PROVIDE SECURITY FOR THE PAYMENT OF REGULARLY SCHEDULED PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE SUBSERIES 2003D-2A BONDS.

Commitment to Purchase Tendered Subseries 2003D-2A Bonds

From time to time during the Commitment Period (as defined below), the Bank will purchase the Subseries 2003D-2A Bonds bearing interest at a Daily Rate or Weekly Rate which have been tendered pursuant to an optional or mandatory tender and are not successfully remarketed on the Purchase Date. The price to be paid by the Bank for such Subseries 2003D-2A Bonds will be equal to the unpaid principal amount thereof plus accrued interest thereon from and including the Interest Payment Date immediately preceding the Purchase Date (but excluding the Purchase Date), calculated at the applicable interest rate for the Subseries 2003D-2A Bonds but not exceeding the Available Interest Commitment; *provided, however*, that in the event the Purchase Date is also an Interest Payment Date for the Subseries 2003D-2A Bonds so purchased, no accrued interest on such Subseries 2003D-2A Bonds shall be included in the Purchase Price. If and to the extent the JPMorgan Facility provides for the payment of the Purchase Price of the Subseries 2003D-2A Bonds, the Bank will become the owner of such Subseries 2003D-2A Bonds so purchased (the "Bank Bonds") in a principal amount equal to the principal amount of Subseries 2003D-2A Bonds purchased.

In addition to being reduced to zero upon the termination, expiration or substitution of the JPMorgan Facility, the Available Principal Commitment to purchase the Subseries 2003D-2A Bonds will be reduced from time to time by the principal amount of any Subseries 2003D-2A Bonds (a) purchased by the Bank, which amounts may be reinstated upon the remarketing of the Bank Bonds and payment of the principal and interest accrued thereon to the Bank; (b) defeased, redeemed, or repaid in accordance with the terms of the Resolutions; and (c) converted to a Mode other than a Daily Mode or Weekly Mode. The Available Interest Commitment also shall be reduced and reinstated upon any reduction or reinstatement of the Available Principal Commitment such that the Available Interest Commitment at all times during the Commitment Period (as defined below) is equal to 34 days' interest on the Available Principal Commitment for the Subseries 2003D-2A Bonds at a rate of 12% per annum.

The Bank's obligation to purchase tendered Subseries 2003D-2A Bonds will continue for the duration of the Commitment Period, which shall be March 2, 2009 (the "Effective Date"), to and including, the earliest of (i) 5:00 p.m. New York City time on March 1, 2010 or on such later date to which the JPMorgan Facility may be extended as hereinafter described (the "Expiration Date"); (ii) the date on which no Subseries 2003D-2A Bonds remain outstanding under the Resolution; (iii) the date on which the Subseries 2003D-2A Bonds have been converted to a Mode other than a Daily Mode or Weekly Mode; (iv) the date on which an Alternate Liquidity Facility is substituted for the JPMorgan Facility; (v) the date specified in a notice to the Bank that the Authority has elected to terminate the JPMorgan Facility pursuant to the terms of the JPMorgan Facility; and (vi) any date upon which the Bank's obligations to purchase Subseries 2003D-2A Bonds is terminated as a result of the occurrence of a terminating event under the terms of the JPMorgan Facility as hereinafter described.

No earlier than ninety (90) days prior to the applicable Expiration Date, the Authority may request an extension of the Expiration Date.

Mandatory Redemption of Bank Bonds

Any outstanding Bank Bonds are subject to mandatory redemption in equal semiannual installments, commencing on the first Amortization Payment Date to occur immediately following the Amortization Start Date with respect to such Bank Bonds and on each subsequent Amortization Payment Date with respect to such Bank Bonds; provided that, in any event, all of the then unpaid principal amount of Bank Bonds shall be redeemed on the Amortization End Date. If on the Amortization Start Date there shall have occurred and be continuing an Immediate Termination Event (as defined below), the Authority shall cause the mandatory redemption of any Bank Bonds Outstanding on the first Amortization Payment Date following the Amortization Start Date.

The "Amortization Payment Date" means (a) the first date that is six months following the Amortization Start Date with respect to such Bank Bond (the "First Amortization Payment Date"), (b) each succeeding anniversary of the Amortization Start Date and of the First Amortization Payment Date occurring prior to the related Amortization End Date with respect to such Bank Bond, and (c) the Amortization End Date with respect to such Bank Bond. With respect to any Bank Bond, the "Amortization Start Date" means the earlier of (a) the ninety-first day following the Purchase Date and (b) the last day of the Commitment Period. The "Amortization End Date" means the fifth anniversary of the Amortization Start Date with respect to such Bank Bond.

Events of Default; Remedies

Events of Defaults. Each of the following constitutes an "Event of Default" under the JPMorgan Facility, the specific remedies for which follow:

(a) any principal or interest due on the Subseries 2003D-2A Bonds is not paid by the Authority when due, including, without limitation, scheduled payments of principal and interest on Bank Bonds pursuant to the JPMorgan Facility; or

(b) any representation or warranty made by the Authority under or in connection with the JPMorgan Facility, the Subseries 2003D-2A Bonds or the Resolution shall prove to be untrue in any material respect on the date as of which it was made; or

(c) nonpayment of any quarterly fees payable on the Available Commitment (the "Commitment Fees") under the terms of the JPMorgan Facility (together with interest thereon at a rate equal to the

Default Rate) within ten (10) Business Days after the Authority has received written notice from the Bank that the same were not paid when due; or

(d) nonpayment of any other fees, or any other amounts when due under the JPMorgan Facility (together with interest thereon at a rate equal to the Default Rate), if such failure to pay when due shall continue for ten (10) Business Days after written notice thereof to the Authority by the Bank; or

(e) the breach by the Authority of certain covenants contained in the JPMorgan Facility relating to (i) the furnishing of notices of an "Event of Default" or "Default" under the JPMorgan Facility (as such terms are defined therein), (ii) obtaining an Alternate Liquidity Facility upon the happening of certain events, (iii) notices, consents and payment of fees upon (A) conversion of the Subseries 2003D-2A Bonds to a Mode other than a Daily Mode or Weekly Mode and (B) defeasance of the Subseries 2003D-2A Bonds; (iv) maintenance of a Remarketing Agent; (v) rating downgrades which require (A) converting the interest rate to a Mode that does not require the maintenance of a Liquidity Facility or (B) providing an Alternate Liquidity Facility to the Trustee; or (vi) amending certain documents; or

(f) the breach by the Authority of any of the other terms or provisions of the JPMorgan Facility (other than those specified under this subsection, "Events of Default"), which is not remedied within thirty (30) days after written notice thereof shall have been received by the Authority from the Bank; or

(g) (i) the Authority shall commence any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, (A) relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Authority shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Authority any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in an order for such relief or in the appointment of a receiver or similar official or (B) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the Authority, any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) a moratorium shall be declared with respect to the payment of debts of the Authority; or (v) the Authority shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), (iii) or (iv) above; or (vi) the Authority shall admit in writing its inability to pay its debts; or

(h) an "event of default" which is not cured within any applicable cure period under the Resolutions or the Subseries 2003D-2A Bonds shall occur which, if not cured, would give rise to remedies available thereunder; or

(i) (A) the Authority shall default in any payment of principal of or premium, if any, or interest on any of its indebtedness payable from amounts on deposit in the Services Fund ("Parity Debt") and such default shall continue beyond the expiration of the applicable grace period, if any, or (B) the Authority shall fail to perform any other agreement, term or condition contained in any agreement under which any such obligation is created or secured, which shall permit or result in the declaring due and payable of such obligation prior to the date on which it would otherwise have become due and payable; or

(j) any change shall be made by the legislature or other governmental authority in the provisions of Section 97-f of the State Finance Law if such change would invalidate or make unenforceable the pledged security under the Pledge and Assignment or the pledged security under the Resolutions or the Subseries 2003D-2A Bonds, the Financing Agreements, the JPMorgan Facility or any document relating thereto (other than this Remarketing Circular); or

(k) (i) an authorized representative of the Authority shall claim in writing to the Trustee or the Bank or shall assert in any legal or administrative proceeding (A) that any material provision of the JPMorgan Facility, the Financing Agreements, the Resolutions or the Subseries 2003D-2A Bonds (including Bank Bonds) relating to the payment of or security for the payment of principal of or interest on the Subseries 2003D-2A Bonds (including Bank Bonds) is not valid and binding on the Authority or (B) that it is repudiating its obligations under any material provision of the JPMorgan Facility, the Financing Agreements, the Resolutions or the Subseries 2003D-2A Bonds (including Bank Bonds) relating to the payment of or the security for the payment of the principal of or interest on the Subseries 2003D-2A Bonds (including Bank Bonds), (ii) any court of competent jurisdiction or other governmental authority with jurisdiction to rule on the validity of the JPMorgan Facility, the Financing Agreements, the Resolutions or the Subseries 2003D-2A Bonds (including Bank Bonds) shall find or rule in a final nonappealable ruling or judgment that any material provision of the JPMorgan Facility, the Financing Agreements, the Resolutions or the Subseries 2003D-2A Bonds (including Bank Bonds) relating to payment of or security for the payment of principal of or interest on the Subseries 2003D-2A Bonds (including Bank Bonds) is not valid or binding on the Authority or shall declare any such provision to be null and void or (iii) any court of competent jurisdiction or other governmental authority with jurisdiction to rule on the validity of the JPMorgan Facility, the Financing Agreements, the Resolutions or the Subseries 2003D-2A Bonds (including Bank Bonds) shall find or rule in a ruling or judgment that is not final or is appealable that any material provision of the JPMorgan Facility, the Financing Agreements, the Resolutions or the Subseries 2003D-2A Bonds (including Bank Bonds) relating to payment of or security for the payment of principal of or interest on the Subseries 2003D-2A Bonds (including Bank Bonds) is not valid or binding on the Authority or shall declare any such provision to be null and void; or

(l) any funds on deposit in, or otherwise to the credit of, the Construction Fund, the Revenue Fund or the Subordinated Payment Fund established under the Resolution or the Services Fund pledged under the Pledge and Agreement shall become subject to any final and nonappealable judgment, writ, judgment lien, warrant or attachment, execution or similar process that is not satisfied, removed or terminated within sixty (60) days of being imposed; or

(m) each of Fitch and S&P shall have (i) assigned a long-term rating of the Subseries 2003D-2A Bonds or unenhanced Parity Debt below "BBB-" (or its equivalent), (ii) withdrawn their ratings of the Subseries 2003D-2A Bonds or unenhanced Parity Debt for credit related reasons, which shall not include debt maturity, redemption, defeasance, nonapplication or nonprovision of information or (iii) suspended their ratings of the Subseries 2003D-2A Bonds or unenhanced Parity Debt for credit related reasons, which shall not include debt maturity, redemption or defeasance; or

(n) a ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the Subseries 2003D-2A Bonds is includable in the gross income of the holder(s) or owner(s) of such Bonds and either (i) the Authority, after it has been notified by the Internal Revenue Service, shall not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) the Authority shall challenge such ruling, assessment, notice or advice and a court of law shall make a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered.

Remedies.

Immediate Termination Events. Subject to the provisions below under the subheading "Suspension Events", upon the occurrence of an "Event of Default" specified in clauses (a), (g), (i)(A), (j), (k)(i), (k)(ii), (l) or (m) above (each referred to herein as an "Immediate Termination Event"), the Available Commitment and the obligation of the Bank to purchase the Subseries 2003D-2A Bonds shall immediately terminate without notice or action on the part of the Bank and, thereafter, the Bank shall be under no obligation to purchase any Subseries 2003D-2A Bonds.

Notice Termination Events. Upon the occurrence of (i) a failure of the State legislature to appropriate funds from the Service Fund to enable the Authority to meet its obligations under the JPMorgan Facility and in respect of the Subseries 2003D-2A Bonds and other Parity Debt (an "Event of Termination"), or (ii) an "Event of Default" other than an Immediate Termination Event or a Suspension Event (as defined below), the Bank may terminate the

Available Commitment by giving written notice ("Notice of Termination") of such Event of Default or Event of Termination, to the Trustee, the Tender Agent and the Authority, requesting a mandatory tender of the Subseries 2003D-2A Bonds and specifying the date on which the Available Commitment shall terminate (as heretofore defined, the "Termination Date"), which Termination Date shall not be less than thirty (30) days from the date of receipt of the Termination Notice by the Trustee. On and after the Termination Date, the Bank shall be under no further obligation to purchase the Subseries 2003D-2A Bonds, other than Subseries 2003D-2A Bonds for which the Bank has received a notice of a drawing prior to the Termination Date.

Suspension Events. Upon the occurrence and during the continuance of an "Event of Default" specified in clause (g)(ii), (g)(iii), k(iii) or (l) above (each a "Suspension Event"), the obligation of the Bank to purchase Subseries 2003D-2A Bonds shall be immediately and automatically suspended, without notice, and the Bank shall be under no further obligation under the JPMorgan Facility to purchase 2003D-2A Bonds until:

(i) with respect to an "Event of Default" specified in clause (g)(ii) or (iii) above, the case, proceeding or other action referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding, in which case the obligations of the Bank under the JPMorgan Facility shall be automatically reinstated and the terms of the JPMorgan Facility shall continue in full force and effect (unless the obligation of the Bank to purchase Subseries 2003D-2A Bonds under the JPMorgan Facility shall otherwise have terminated or there has occurred an Immediate Termination Event) as if there had been no such suspension;

(ii) with respect to an "Event of Default" specified in clause (l) above, the judgment, writ, judgment lien, warrant or attachment, execution or similar process is satisfied, removed or terminated, in which case the obligations of the Bank under the JPMorgan Facility shall be automatically reinstated and the terms of the JPMorgan Facility shall continue in full force and effect (unless the obligation of the Bank to purchase Subseries 2003D-2A Bonds under the JPMorgan Facility shall otherwise have terminated or there has occurred an Immediate Termination Event) as if there had been no such suspension; and

(iii) with respect to an event specified in clause (k)(iii) above, a court of competent jurisdiction shall issue a judgment overturning the judgment prior to the date that is three years after the occurrence of the "Event of Default" under clause (k)(iii) above; provided that if a court of competent jurisdiction shall enter a final nonappealable judgment or ruling as described in said clause (k)(ii), or if the relevant litigation is still pending and a final and nonappealable judgment has not been obtained by the date that is three years after the occurrence of the event specified in clause (k)(iii), then an Immediate Termination Event shall have occurred under clause (k)(ii) and the JPMorgan Facility shall immediately terminate and the Bank shall be under no further obligation to purchase the Subseries 2003D-2A Bonds.

Additional Remedies. In addition to the rights and remedies set forth above, in the case of any "Event of Default" or an "Event of Termination", the Bank may (i) assess interest on all amounts due and payable under the JPMorgan Facility at the Default Rate, and (ii) exercise all rights and remedies under or in respect of the JPMorgan Facility, the Subseries 2003D-2A Bonds, the Resolutions, the Financing Agreements, the Pledge and Assignment or this Remarketing Circular, or any document relating thereto, or all other rights and remedies available at law or in equity, including, without limitation, specific performance; *provided, however*, the Bank shall not have the right to terminate its obligation to purchase the Subseries 2003D-2A Bonds, to declare amounts due and payable with respect to the Subseries 2003D-2A Bonds (including Bank Bonds), or to accelerate the maturity date of the Subseries 2003D-2A Bonds, except as expressly provided in the JPMorgan Facility or the Resolutions.

PART 5 - SCHEDULE OF ANNUAL DEBT SERVICE REQUIREMENTS

12 Month Period Ending Feb. 15	Debt Service Requirements for all outstanding series of Prior Authority Bonds	Debt Service Requirements for Subseries 2003D-2A Bonds(1)	Debt Service Requirements for all other Outstanding series of Bonds(1)	Total Debt Service Requirements(1)
2010	$76,335,455	$4,748,640	$267,027,770	$348,111,865
2011	53,849,959	8,448,640	279,923,220	342,221,820
2012	49,435,278	8,436,012	286,757,093	344,628,383
2013	44,080,161	8,420,340	290,134,481	342,634,982
2014	43,732,753	9,101,624	282,772,224	335,606,601
2015	43,564,920	9,658,556	274,988,519	328,211,995
2016	39,788,679	9,694,180	271,014,910	320,497,769
2017	32,612,705	11,623,716	268,271,555	312,507,976
2018	26,572,829	13,789,328	270,867,860	311,230,017
2019	25,512,166	14,781,884	244,448,276	284,742,326
2020	41,922,879	14,834,868	210,837,520	267,595,267
2021	40,523,029	15,375,676	193,365,418	249,264,123
2022	39,711,124	14,889,088	160,707,240	215,307,452
2023	31,368,556	13,705,544	151,427,986	196,502,086
2024	25,982,413	11,946,352	134,830,352	172,759,117
2025	27,392,650	10,129,776	119,295,213	156,817,639
2026	14,646,381	10,558,860	114,968,310	140,173,551
2027	9,821,194	8,866,636	105,102,226	123,790,056
2028	11,882,988	6,017,028	88,843,833	106,743,848
2029	9,353,150	4,546,564	77,321,425	91,221,139
2030	6,206,369	2,615,672	68,395,152	77,217,193
2031	5,981,450	1,339,572	59,079,216	66,400,238
2032	2,878,631		54,163,476	57,042,108
2033			51,388,796	51,388,796
2034			35,775,306	35,775,306
2035			35,782,556	35,782,556
2036			17,530,000	17,530,000
2037			17,532,500	17,532,500
2038			8,106,000	8,106,000

(1) Assumes swap rates as the interest costs for Bonds issued at a variable rate of interest, and includes ongoing expenses as part of debt service.

PART 6 - THE DEPARTMENT

Department of Mental Hygiene

The Department was established on January 1, 1927, replacing and consolidating the functions of the State Hospital Commission and the State Commission for Mental Defectives. Pursuant to legislation effective in 1978, as amended in 1992, the Department is organized into three autonomous offices:

1. The Office of Mental Health ("OMH");
2. The Office of Mental Retardation and Developmental Disabilities ("OMRDD"); and
3. The Office of Alcoholism and Substance Abuse Services ("OASAS").

These three units function independently within the Department with complete responsibilities for the planning and administration of their respective programs. Each office is headed by a commissioner appointed by the Governor with the advice and consent of the Senate.

Office of Mental Health

As the State mental health agency, OMH has two main functions: assuring access to services of the highest quality for children with serious emotional disturbance and adults with serious mental illness, and promoting the mental health of all New Yorkers through a public health approach of education and advocacy. To that end, OMH works with local governments, voluntary agencies, and providers and consumers of mental health services to ensure appropriate care to those in need.

Currently, OMH operates 25 State psychiatric centers, including 16 facilities for adults, 6 for children and 3 for forensic patients, and several small community and residential care facilities. These provide a mix of inpatient, residential and outpatient services. In addition, OMH currently operates two research facilities, the Nathan S. Kline Institute and the New York State Psychiatric Institute, which conduct basic research into the causes and treatment of mental illness. OMH is responsible for regulating and licensing mental health programs operated by local governments and not-for-profit and proprietary agencies. In its capacity as a regulator, OMH oversees clinical and residential care provided by over 1,100 community agencies and hospitals. In connection with the foregoing, OMH is responsible for, among other things, the regulation and licensing of certain of the Voluntary Agency Facilities financed with the proceeds of the Bonds as well as certain of the Voluntary Agency Facilities financed with the proceeds of the Prior Authority Bonds. Such regulation and licensing includes, among other things, participation in the determination as to the need for the facility, review of plans and specifications for construction of the facility, the right to conduct inspections and audits and the establishment of a reimbursement rate for client care. In addition, the capital costs and projected financing sources for any such Voluntary Agency Facilities financed from proceeds of the Bonds and the Prior Authority Bonds are subject to the approval of the State Division of the Budget.

Office of Mental Retardation and Developmental Disabilities

OMRDD is charged with developing a comprehensive, cost-effective and integrated system of services to serve the full range of needs of individuals with developmental disabilities. OMRDD operates through 13 service districts, which administer community-based and, where applicable, institutionally-based service programs for persons with mental retardation and developmental disabilities within regional catchment areas. Institutional programs offer residential care and habilitative services in campus settings informally known as developmental centers and at special population units located throughout the State. The community-based service program, funded and regulated by OMRDD, reflects the cooperative efforts of local governments, voluntary not-for-profit service providers and OMRDD as a provider of services. Community programs include State- and voluntary-operated residential and day services, as well as a variety of support services to families and individuals living in their own homes, including respite and crisis intervention, which help prevent unnecessary and costly out-of-home placement. In connection with the foregoing, OMRDD is responsible for, among other things, the regulation and licensing of certain of the Voluntary Agency Facilities financed with the proceeds of the Bonds as well as certain of the Voluntary Agency Facilities financed with the proceeds of the Prior Authority Bonds. Such regulation and licensing includes, among other things, participation in the determination as to the need for the facility, review of plans and specifications for construction of the facility, the right to conduct inspections and audits and the establishment of a reimbursement rate for client care. In addition, the capital costs and projected financing sources for any such Voluntary Agency Facilities financed from proceeds of the Bonds and the Prior Authority Bonds are subject to the approval of the State Division of the Budget.

Office of Alcoholism and Substance Abuse Services

OASAS is responsible for assuring the development of comprehensive plans, programs and services in the areas of research, prevention, care, education, training, treatment and rehabilitation to address chemical dependencies and/or compulsive gambling problems of individuals and their families. OASAS will operate 12 inpatient Addiction Treatment Centers ("ATCs") providing intensive chemical dependence rehabilitation services to more than 9,000 patients in State Fiscal Year 2009-10. With the exception of the Kingsboro and the Van Dyke ATCs, all ATCs are housed on the grounds of State psychiatric centers. In addition, OASAS oversees a network of approximately 1,500 drug, alcohol and compulsive gambling treatment and prevention programs that provide a continuum of care ranging from short stay detoxification centers to long term drug and alcohol free residential communities. In connection with the foregoing, OASAS is responsible for, among other things, the regulation and licensing of certain of the Voluntary Agency Facilities financed with the proceeds of the Bonds as well as certain of the Voluntary Agency Facilities financed with the proceeds of the Prior Authority Bonds. Such regulation and licensing includes, among other things, participation in the determination as to the need for the facility, review of plans and specifications for construction of the facility, the right to conduct inspections and audits and the establishment of a reimbursement rate for client care. In addition, the capital costs and projected financing sources for any such Voluntary Agency Facilities financed from proceeds of the Bonds and the Prior Authority Bonds are subject to the approval of the State Division of the Budget.

Department Facilities

A listing of institutions operated by each office of the Department, by category, follows. This listing excludes numerous small facilities in which these offices provide community services.

Office of Mental Health

Psychiatric Centers

Greater Binghamton Health Center
Bronx Psychiatric Center
Buffalo Psychiatric Center
Capital District Psychiatric Center
Creedmoor Psychiatric Center
Elmira Psychiatric Center
Hudson River Psychiatric Center
Kingsboro Psychiatric Center
Manhattan Psychiatric Center
Mohawk Valley Psychiatric Center
Pilgrim Psychiatric Center
Richard H. Hutchings Psychiatric Center
Rochester Psychiatric Center
Rockland Psychiatric Center
St. Lawrence Psychiatric Center
South Beach Psychiatric Center

Children's Psychiatric Centers

Bronx Children's Psychiatric Center
Brooklyn Children's Psychiatric Center
Queens Children's Psychiatric Center
Rockland Children's Psychiatric Center
Sagamore Children's Psychiatric Center
Western New York Children's Psychiatric Center

Forensic Facilities

Central New York Psychiatric Center
Kirby Forensic Psychiatric Center
Mid-Hudson Forensic Psychiatric Center

Research Facilities

Nathan S. Kline Institute for Psychiatric Research
New York State Psychiatric Institute

Office of Mental Retardation and Developmental Disabilities

Service Districts

Bernard M. Fineson Developmental Disabilities Services Office
Brooklyn Developmental Disabilities Services Office
Broome Developmental Disabilities Services Office
Capital District Developmental Disabilities Services Office
Central New York Developmental Disabilities Services Office
Finger Lakes Developmental Disabilities Services Office
Hudson Valley Developmental Disabilities Services Office
Long Island Developmental Disabilities Services Office
Metro New York Developmental Disabilities Services Office
Staten Island Developmental Disabilities Services Office
Sunmount Developmental Disabilities Services Office
Taconic Developmental Disabilities Services Office
Western New York Developmental Disabilities Services Office

Other Facilities

Institute for Basic Research in Developmental Disabilities
Valley Ridge Center for Intensive Treatment

Office of Alcoholism and Substance Abuse Services

Addiction Treatment Centers

Bronx Addiction Treatment Center
C.K. Post Addiction Treatment Center
Creedmoor Addiction Treatment Center
Dick Van Dyke Addiction Treatment Center
J.L. Norris Addiction Treatment Center
Kingsboro Addiction Treatment Center
McPike Addiction Treatment Center
R.E. Blaisdell Addiction Treatment Center
Richard C. Ward Addiction Treatment Center
South Beach Addiction Treatment Center
St. Lawrence Addiction Treatment Center
Stutzman Addiction Treatment Center

Population

Office of Mental Health

OMH's comprehensive five year plan continues to support the programmatic and fiscal strategy of implementing an integrated community based system of care. While OMH continues to monitor the need for State adult inpatient hospitalization, the plan calls for continued development of a comprehensive and integrated community mental health system, for which OMH proposes sponsoring continued State capital assistance to the voluntary, not-for-profit provider network.

In State Fiscal Year 2009-10, consistent with the Executive Budget, OMH will staff and operate 3,580 beds in adult psychiatric centers, 538 children's beds and 695 forensic beds. OMH will also continue implementation of the Sex Offender Management and Treatment Act (SOMTA) at Manhattan Psychiatric Center, Central New York Psychiatric Center and St. Lawrence Psychiatric Center. In addition to inpatient hospital care, OMH will also continue to provide residential services to more than 2,500 individuals in State-operated programs, and outpatient services to more than 27,000 individuals across the State.

Office of Mental Retardation and Developmental Disabilities

Consistent with its comprehensive Five-Year Plan, OMRDD serves a diverse population of developmentally disabled individuals including persons with cerebral palsy, autism and epilepsy. OMRDD's programs are characterized by two related service systems: a State-operated institutional system and a community-based system with programs run by both the State and voluntary not-for-profit agencies.

The State-operated institutional system provides residential care and habilitative services to consumers at developmental centers and related special population units located throughout the State. The 2009-10 Executive Budget supports a census of about 1,550 consumers at the beginning of the State fiscal year. During 2009-10 OMRDD will continue to move institutional consumers to more appropriate community settings; however, it is anticipated that these movements will be offset partially by new admissions, mostly of persons with challenging behaviors who will be placed in special population units.

The 2009-10 Executive Budget supports the development of community residential beds for the NYS CARES initiatives for consumers on registration lists and for legally mandated populations, such as young adults aging out of either the special educational or foster care systems, and New York City Administration for Children's Services consumers, as well as resources to develop community program opportunities for clients on registration lists.

The voluntary- and State-operated community-based service system provides a variety of day and residential programs for individuals. The emphasis in these programs is on habilitative and vocational services to meet the individualized needs of persons with developmental disabilities. The 2009-10 Executive Budget includes resources for a 2009-10 start-of-year census of more than 8,000 consumers in State-operated community residential programs and approximately 4,700 consumers in State-operated day programs.

Office of Alcoholism and Substance Abuse Services

OASAS will operate 12 ATCs with a total bed capacity of 600 during the State's 2009-10 fiscal year.

Population Statistics

The following are actual and projected population statistics for the State- and voluntary-operated residential programs of OMH, OMRDD and OASAS:

	Mentally Ill		Mentally Retarded or Developmentally Disabled		Chemical Dependence
Year (as of 3/31)	Psychiatric Center (1)	Community Residences (2)	Developmental Center	Community Residences	Addiction Treatment Centers
2004	4,130	26,900	1,634	32,250	652
2005	4,080	27,700	1,635	32,597	652
2006	3,969	27,755	1,605	33,157	652
2007	3,979	29,050	1,712	33,761	652
2008	3,934	30,100	1,657	34,148	652
2009 (estimated)	4,030	32,000	1,605	35,115	652
2010 (estimated)	3,580	33,700	1,550	36,080	600

(1) The actual and the estimated population statistics exclude 695 forensic beds and 538 children's beds. Figures beginning in 2007 also exclude individuals who are civilly committed to sexual offender treatment programs. 100 beds for adult individuals with forensic or dangerous histories known as the Manhattan STAIR Unit are included in the actual and estimated population.
(2) Includes both licensed and unlicensed programs.

Income Available for Prior Authority Annual Payments and Annual Payments

Under applicable State statutes, the Authority is required to establish and maintain with the Commissioner of Taxation and Finance, as agent of the Authority, the Mental Hygiene Facilities Improvement Fund Income Account. The Authority is required to deposit therein or have credited thereto all payments made for the care, maintenance, and treatment of patients in every mental hygiene facility now or hereafter under the possession, jurisdiction, supervision and control of the Authority, all income from investments and all moneys received or to be received for the purposes of the Mental Hygiene Facilities Improvement Fund Income Account on a recurring basis. Following deposit of receipts in the Mental Hygiene Facilities Improvement Fund Income Account, amounts therein are transferred to the Services Fund pursuant to State law.

Substantially all of the Medicaid receipts shown below represent the Federal share thereof. The Federal government pays 50% under Medicaid and 100% under Medicare of allowable costs of covered services to eligible patients. The State share of Medicaid which is used for inpatient services is not available for the payment of Annual Payments and therefore is not reflected in the following tables.

The following table shows the amounts received in the Mental Hygiene Facilities Improvement Fund Income Account (not including Voluntary Agency Payments) and transferred to the Services Fund and that were available for (i) Prior Agency Annual Payments with respect to the Prior Agency Bonds (none of which Prior Agency Bonds remain outstanding as of the date of this Official Statement), Prior Authority Annual Payments with respect to the Prior Authority Bonds, and Annual Payments with respect to the Bonds, and (ii) annual debt service for the Prior Agency Bonds, the Prior Authority Bonds and the Bonds, for State Fiscal Years 2003-04 through 2007-08 inclusive.

Historical Receipts Available for Prior Agency Annual Payments, Prior Authority Annual Payments and Annual Payments, and Annual Debt Service for Prior Agency Bonds, Prior Authority Bonds and Bonds (Millions)

	2003-04	2004-05	2005-06	2006-07	2007-08
Medicaid	$2,356.53	$2,397.50	$2,629.48	$2,569.14	$2,762.83
Medicare	66.86	54.81	32.42	78.97	49.81
Other	119.49	101.52	95.52	125.18	129.35
Total	$2,542.88	$2,553.83	$2,757.42	$2,773.29	$2,941.99
Annual Debt Service*	$ 151.75	$ 220.45	$ 285.42	$ 293.70	$ 268.65

* Does not include swap receipts.

The following table prepared by OMRDD, OMH and OASAS, in consultation with the State Division of the Budget, is based upon the 2009-10 Executive Budget, and shows the projected receipts available for payment of annual debt service for the Prior Authority Bonds and the Bonds. This table also includes projected annual debt service for the Prior Authority Bonds and the Bonds.

Projected Receipts Available for Prior Authority
Annual Payments and Annual Payments and Annual Debt Service for
the Prior Authority Bonds and the Bonds

Department of Mental Hygiene
5 Year Revenue Projections
(Millions)

	2008-09	2009-10	2010-11	2011-12	2012-13
OMRDD					
Medicaid	$2,299.19	$2,398.47	$2,441.11	$2,436.49	$2,438.64
Medicare	0.10	0.10	0.10	0.10	0.10
Other	64.56	64.56	64.56	64.56	64.56
Subtotal	$2,363.85	$2,463.13	$2,505.77	$2,501.15	$2,503.30
OMH					
Medicaid	$ 601.77	$ 615.10	$ 615.10	$ 615.10	$ 615.10
Medicare	71.71	55.53	55.53	55.53	55.53
Other	42.95	42.97	42.97	42.97	42.97
Subtotal	$ 716.43	$ 713.60	$ 713.60	$ 713.60	$ 713.60
OASAS					
Medicaid	$ 7.90	$ 7.90	$ 7.90	$ 7.90	$ 7.90
Other	15.60	14.00	14.00	14.00	14.00
Subtotal	$ 23.50	$ 21.90	$ 21.90	$ 21.90	$ 21.90
Other Receipts	$ 2.70	$ 2.70	$ 2.70	$ 2.70	$ 2.70
Gross Receipts	$3,106.48	$3,201.33	$3,243.97	$3,239.35	$3,241.50
Annual Debt Service*	$ 324.35	$ 348.11	$ 342.22	$ 344.63	$ 342.64

* Includes debt service on Prior Authority Bonds and Bonds but does not include debt service on any Bonds that may be issued subsequent to the date of this Remarketing Circular although the 2009-10 Executive Budget projects the average issuance of approximately $600 million of Bonds annually through fiscal year 2012-13 to finance State Facilities and Voluntary Agency Facilities.

Factors Affecting Revenue Projections

As with any long-term projection, the level of revenue expected to be received by the Department in the above projections is dependent on many factors. Among these are patient and client census, the certification status of facilities as participants in the Medicare and Medicaid programs, and Federal and State reimbursement policies. A change in any of these factors can affect the revenues to be deposited in the Services Fund.

Census - Both total census and the proportion of patients who are Medicaid- or Medicare-eligible or can otherwise pay for their care are subject to change and therefore affect total revenue. Of particular significance is that over three quarters of OMH revenue is received through the Medicaid program, which does not provide reimbursement of inpatient costs for individuals from the ages of 21 through 64. To the extent the projection of total census or of the proportion of the population eligible for Medicaid is incorrect, revenue may be above or below projected levels. Assumptions regarding the percent of the age-eligible population that will in fact meet billing criteria are also a factor. The Department considers census assumptions for the 2009-10 through 2013-14 forecast years to be relatively conservative.

No age limitations are imposed on OMRDD Medicaid eligibility, and substantially all consumers are in fact Medicaid-eligible.

Certification - Department facilities are periodically reviewed by Federal surveyors to determine continued eligibility as certified Medicaid or Medicare service providers. The revenue projections shown above may be overstated to the extent that any facility loses certification. Substantial State investment is made to retain certification at all facilities.

All OMRDD developmental centers, OMH psychiatric centers and OASAS ATCs are currently certified by appropriate Federal and State regulatory agencies.

Federal efforts begun in 1985 to control Medicare expenditures through Peer Review Organizations (PROs) have recently focused on general hospitals. However, there is a potential that specialty hospitals will be more closely reviewed in the future. Were this to occur, there is some potential for revenue impact. To date, less than 5 percent of cases reviewed have led to disallowances, and all the disallowances have been appealed.

Other - In addition to these specific factors, all claims are subject to audit and review by the Federal government and have on occasion resulted in disallowances. The potential for future disallowances remains but is not subject to forecast.

Over the last several years, various Federal legislative initiatives have been proposed to reduce the growth in Federal Medicaid and Medicare spending. The current Federal budget establishes limits on the amount of Federal disproportionate share payments made to mental hygiene facilities. The Department's Medicaid revenue projections largely reflect these changes and continued claiming under a fee-for-service Medicaid program utilizing trend factors, volume adjustments, capitated payments and other traditional or new rate methodologies. The Department anticipates some decline in revenues due to several factors including continued census decline, changes in capitated program initiatives and lower spending on State institutions. The forecast presented above reflects these factors, and the Department believes that such decline will not materially affect the State's ability to make required Prior Authority Annual Payments and Annual Payments.

Despite the potential influences on projected revenues described herein, the State believes that the forecast presented above is reasonable.

Disposition of Facilities

In the past, the State has closed a number of mental hygiene services facilities, some of which have been sold. The proceeds from the sale of such facilities have been used to redeem and/or defease certain Prior Agency Bonds and Prior Authority Bonds or deposited into the Services Fund. Certain other closed facilities are being offered for sale but are not yet under contract. If and when such sales occur, the proceeds from the sales will be used to redeem and/or defease certain Prior Authority Bonds or deposited into the Services Fund. Negotiations for contracts of sale are taking place for certain other closed mental hygiene services facilities. It is possible that such facilities will be sold or conveyed to entities other than the Authority or the Department. Any such sale or conveyance would be required to comply with the provisions of the related agreements and the Prior Authority Resolution and related agreements, as applicable, including any applicable covenants as to preserving the tax-exempt status of the Prior Authority Bonds. Additional Prior Authority Bonds may be redeemed and/or defeased as a result of such sale or conveyance.

State Appropriations

The successful maintenance and operation of the Department, the payment of the Prior Authority Annual Payments and the Annual Payments and the marketability of the Bonds are dependent upon the ability and willingness of the State Legislature to continue making appropriations in the amounts required for both the operation of the Department and the payment of the Prior Authority Annual Payments and the Annual Payments. There can be no assurance, however, that State appropriations of funds will be available in the amounts contemplated or required by the Department.

The costs of operating each of the offices of the Department are met principally out of appropriations made by the State Legislature from the State's General Fund and out of moneys deposited in the Services Fund which are not required for the payment of Prior Authority Annual Payments and Annual Payments and are therefore released from the lien of the pledge and assignment to the Authority. These excess funds are transferred to a special operating account (called the Mental Hygiene Patient Income Account) for OMH, OMRDD and OASAS.

The appropriations made by the State Legislature from the General Fund for the operations of OMH, OMRDD and OASAS for the State Fiscal Years 2004-05 through 2008-09 and proposed in the Executive Budget for 2009-10 are as follows:

Fiscal Year	OMH	OMRDD	OASAS	Total
2004-05	$603,915,000	$134,012,000	$46,783,000	$784,710,000
2005-06	586,610,000	502,621,000	46,681,000	1,135,912,000
2006-07	772,557,000	530,123,000	52,721,000	1,355,401,000
2007-08	754,655,000	472,028,000	60,543,000	1,287,226,000
2008-09*	1,107,057,000	375,600,000	72,707,000	1,555,364,000
2009-10 (recommended)	1,043,439,000	523,630,000	75,542,000	1,642,611,000

* Beginning in 2008-09, the General Fund is replaced by the Special Revenue Fund, Mental Hygiene Program Fund Account. In addition, all DMH fringe benefit costs are budgeted within each agency instead of in a central appropriation. Appropriated amounts in the Special Revenue Fund, Mental Hygiene Program Fund Account are funded by the General Fund.

The appropriations made by the State Legislature from the Mental Hygiene Patient Income Account for the operations of OMH, OMRDD and OASAS for the State Fiscal Years 2004-05 through 2008-09 and proposed in the Executive Budget for 2009-10 are as follows:

Fiscal Year	OMH	OMRDD	OASAS	Total
2004-05	$484,730,000	$1,851,300,000	$22,100,000	$2,358,130,000
2005-06	575,601,000	1,950,095,000	23,500,000	2,549,196,000
2006-07	487,881,000	2,020,765,000	21,500,000	2,530,146,000
2007-08	543,167,000	2,086,250,000	21,500,000	2,650,917,000
2008-09	806,728,000	2,067,814,000	31,295,000	2,905,837,000
2009-10 (recommended)	978,601,000	1,954,579,000	22,200,000	2,955,380,000

Litigation Affecting the Department

The Department at any given time is involved in a number of legal actions and proceedings. The greater number involve special proceedings seeking the reversal of various administrative determinations. A number of cases are pending against the State in the Court of Claims seeking damages in tort or under contracts involving the Department. Another area involves claims alleging deprivation of a patient's Federal constitutional rights by employees of the Department pursuant to 42 U.S.C. Section 1983 and the Civil Rights of Institutionalized Persons Act. Upon the basis of information presently available, the Department believes that there are substantial defenses in connection with said disputes. The Department further believes that, in any event, its ultimate liability, if any, resulting from such disputes should not materially affect its financial position; should be satisfied from moneys available to the Department from State appropriations and insurance funds; and should in no way affect the Department's obligations or its ability to carry out its obligations under the provisions of the Financing Agreements.

PART 7 - THE AUTHORITY

Background, Purposes and Powers

The Authority is a body corporate and politic constituting a public benefit corporation. The Authority was created by the Act for the purpose of financing and constructing a variety of facilities for certain independent colleges and universities and private hospitals, certain not-for-profit institutions, public educational institutions including The State University of New York, The City University of New York and Boards of Cooperative Educational Services ("BOCES"), certain school districts in the State, facilities for the Departments of Health and Education of the State, the Office of General Services, the Office of General Services of the State on behalf of the Department of Audit and Control, facilities for the aged and certain judicial facilities for cities and counties. The Authority is also authorized to make and purchase certain loans in connection with its student loan program. To carry out this purpose, the Authority was given the authority, among other things, to issue and sell negotiable bonds and notes to finance the construction of facilities of such institutions, to issue bonds or notes to refund outstanding bonds or notes and to lend funds to such institutions.

On September 1, 1995, the Authority through State legislation (the "Consolidation Act") succeeded to the powers, duties and functions of the New York State Medical Care Facilities Finance Agency (the "Agency") and the Facilities Development Corporation (the "Corporation"), each of which will continue its corporate existence in and through the Authority. Under the Consolidation Act, the Authority has also acquired by operation of law all assets and property, and has assumed all the liabilities and obligations, of the Agency and the Corporation, including, without limitation, the obligation of the Agency to make payments on its outstanding bonds, and notes or other obligations. Under the Consolidation Act, as successor to the powers, duties and functions of the Agency, the Authority is authorized to issue and sell negotiable bonds and notes to finance and refinance mental health services facilities for use directly by the New York State Department of Mental Hygiene and by certain voluntary agencies. As such successor to the Agency, the Authority has acquired additional authorization to issue bonds and notes to provide certain types of financing for certain facilities for the Department of Health, not-for-profit corporations providing hospital, medical and residential health care facilities and services, county and municipal hospitals and nursing homes, not-for-profit and limited profit nursing home companies, qualified health maintenance organizations and health facilities for municipalities constituting social services districts. As successor to the Corporation, the Authority is authorized, among other things, to assume exclusive possession, jurisdiction, control and supervision over all State mental hygiene facilities and to make them available to the Department of Mental Hygiene, to provide for construction and modernization of municipal hospitals, to provide health facilities for municipalities, to provide health facilities for voluntary non-profit corporations, to make its services available to the State Department of Correctional Services, to make its services available to municipalities to provide for the design and construction of local correctional facilities, to provide services for the design and construction of municipal buildings, and to make loans to certain voluntary agencies with respect to mental hygiene facilities owned or leased by such agencies.

The Authority has the general power to acquire real and personal property, give mortgages, make contracts, operate dormitories and other facilities and fix and collect rentals or other charges for their use, contract with the holders of its bonds and notes as to such rentals and charges, make reasonable rules and regulations to assure the maximum use of facilities, borrow money, issue negotiable bonds or notes and provide for the rights of their holders and adopt a program of self-insurance.

In addition to providing financing, the Authority offers a variety of services to certain educational, governmental and not-for-profit institutions, including advising in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and equipment for projects, designing interiors of projects and designing and managing projects to rehabilitate older facilities. In succeeding to the powers, duties and functions of the Corporation as described above, the scope of design and construction services afforded by the Authority has been expanded.

Outstanding Indebtedness of the Authority (Other than Indebtedness Assumed by the Authority)

At December 31, 2008, the Authority had approximately $37.7 billion aggregate principal amount of bonds and notes outstanding, excluding indebtedness of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act. The debt service on each such issue of the Authority's bonds and notes is paid from moneys received by the Authority or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue or from borrowers in connection with its student loan program.

The Authority's bonds and notes include both special obligations and general obligations of the Authority. The Authority's special obligations are payable solely from payments required to be made by or for the account of the institution for which the particular special obligations were issued or from borrowers in connection with its student loan program. Such payments are pledged or assigned to the trustees for the holders of respective special obligations. The Authority has no obligation to pay its special obligations other than from such payments. The Authority's general obligations are payable from any moneys of the Authority legally available for the payment of such obligations. However, the payments required to be made by or for the account of the institution for which general obligations were issued generally have been pledged or assigned by the Authority to trustees for the holders of such general obligations. The Authority has always paid the principal of and interest on its special and general obligations on time and in full.

The total amounts of the Authority bonds and notes (excluding debt of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act) outstanding at December 31, 2008 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
State University of New York Dormitory Facilities	$ 2,250,196,000	$ 974,760,000	$ 0	$ 974,760,000
State University of New York Educational and Athletic Facilities	12,199,467,999	5,255,462,634	0	5,255,462,634
Upstate Community Colleges of the State University of New York	1,431,000,000	608,320,000	0	608,320,000
Senior Colleges of the City University of New York	9,605,001,762	2,890,614,213	0	2,890,614,213
Community Colleges of the City University of New York	2,364,178,350	514,260,787	0	514,260,787
BOCES and School Districts	2,000,366,208	1,488,605,000	0	1,488,605,000
Judicial Facilities	2,161,277,717	731,557,717	0	731,557,717
New York State Departments of Health and Education and Other	4,793,390,000	3,258,425,000	0	3,258,425,000
Mental Health Services Facilities	6,368,100,000	3,823,725,000	0	3,823,725,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	985,555,000	802,230,000	0	802,230,000
Total Public Programs	$ 44,932,008,036	$ 20,347,960,351	$ 0	$ 20,347,960,351

Non-Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
Independent Colleges, Universities and Other Institutions	$ 16,700,711,020	$ 8,225,813,995	$ 184,725,000	$ 8,410,538,995
Voluntary Non-Profit Hospitals	13,422,604,309	7,940,035,000	0	7,940,035,000
Facilities for the Aged	1,996,020,000	1,011,180,000	0	1,011,180,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Total Non-Public Programs	$ 32,214,335,329	$ 17,177,028,995	$ 184,725,000	$ 17,361,753,995
GRAND TOTAL BONDS AND NOTES	$ 77,146,343,365	$ 37,524,989,346	$ 184,725,000	$ 37,709,714,346

Outstanding Indebtedness of the Agency Assumed by the Authority

At December 31, 2008, the Agency had approximately $381.9 million aggregate principal amount of bonds outstanding, the obligations as to all of which have been assumed by the Authority. The debt service on each such issue of bonds is paid from moneys received by the Authority (as successor to the Agency) or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue.

The total amounts of the Agency's bonds (which indebtedness was assumed by the Authority on September 1, 1995) outstanding at December 31, 2008 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding
Mental Health Services Improvement Facilities	$ 3,817,230,725	$ 0

Non-Public Programs	Bonds Issued	Bonds Outstanding
Hospital and Nursing Home Project Bond Program	$ 226,230,000	$ 3,255,000
Insured Mortgage Programs	6,625,079,927	370,965,939
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	7,670,000
Total Non-Public Programs	$ 9,265,549,927	$381,890,939
TOTAL MCFFA OUTSTANDING DEBT	$13,082,780,652	$381,890,939

Governance

The Authority carries out its programs through an eleven-member board, a full-time staff of approximately 660 persons, independent bond counsel and other outside advisors. Board members include the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her who serves until his or her successor is appointed, the Director of the Budget of the State, one member appointed by the Temporary President of the State Senate, one member appointed by the Speaker of the State Assembly and five members appointed by the Governor, with the advice and consent of the Senate, for terms of three years. The Board member position that is filled by an appointment from the Temporary President of the State Senate is currently vacant. The Commissioner of Education of the State, the Commissioner of Health of the State and the Director of the Budget of the State each may appoint a representative to attend and vote at Authority meetings. The members of the Authority serve without compensation, but are entitled to reimbursement of expenses incurred in the performance of their duties.

The Governor of the State appoints a Chair from the members appointed by him or her and the members of the Authority annually choose the following officers, of which the first two must be members of the Authority: Vice-Chair, Secretary, Treasurer, Assistant Secretaries and Assistant Treasurers.

The current members of the Authority are as follows:

GAIL H. GORDON, Esq., *Chair*, Slingerlands.

Gail H. Gordon was appointed as a Member of the Authority by the Governor on May 10, 2004. Ms. Gordon served as Deputy Commissioner and General Counsel for the Office of Children and Family Services from September 15, 1997 to December 31, 2006. She previously was of counsel to the law firm of Helm, Shapiro, Anito & McCale, P.C., in Albany, New York, where she was engaged in the private practice of law. From 1987 to 1993, Ms. Gordon served as Counsel to the Comptroller of the State of New York where she directed a legal staff of approximately 40 attorneys, was responsible for providing legal and policy advice to the State Comptroller and his deputies in all areas of the State Comptroller's responsibilities, including the supervision of accounts of public authorities and in the administration, as sole trustee, of the New York State Employees Retirement System and the Policemen's and Firemen's Retirement System. She served as Deputy Counsel to the Comptroller of the State of New York from 1983 to 1987. From 1974 to 1983, Ms. Gordon was an attorney with the law firm of Hinman, Howard & Kattell, Binghamton, New York, where she concentrated in areas of real estate, administrative and municipal law. Ms. Gordon holds a Bachelor of Arts degree from Smith College and a Juris Doctor degree from Cornell University School of Law. Ms. Gordon's term expired on March 31, 2007 and by law she continues to serve until a successor shall be chosen and qualified.

JOHN B. JOHNSON, JR., *Vice-Chair*, Watertown.

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on April 26, 2004. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, a trustee of Clarkson University and president of the Bugbee Housing Development Corporation. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expires on March 31, 2010.

JACQUES JIHA, Ph.D., Woodbury.

Jacques Jiha was appointed as a Member of the Authority by the Governor on December 15, 2008. Mr. Jiha is an Executive Vice President and the Chief Financial Officer of Earl G. Graves, Ltd., a multi-media company that includes Black Enterprise magazine. He is also a member of the Investment Advisory Committee of the New York Common Retirement Fund. Mr. Jiha has previously served as Deputy Comptroller for Pension Investment and

Public Finance in the Office of the New York State Comptroller and as Co-Executive Director of the New York Local Government Assistance Corporation (LGAC). Prior thereto, Mr. Jiha was Nassau County Deputy Comptroller for Audits and Finances. He also worked for the New York City Office of the Comptroller in increasingly responsible positions: first as Chief Economist and later as Deputy Comptroller for Budget. Mr. Jiha has served as Executive Director of the New York State Legislative Tax Study Commission and as Principal Economist for the New York State Assembly Committee on Ways and Means. He holds a Ph.D. and a Master's degree in Economics from the New School University and a Bachelor's degree in Economics from Fordham University. His current term expires on March 31, 2010.

BRIAN RUDER, Scarsdale.

Mr. Ruder was appointed as a Member of the Authority on June 23, 2006. He is Chief Executive Officer of Skylight Partners, a strategic marketing and business development consulting group that he founded in 2001. Prior to Skylight Partners, Mr. Ruder served for four years as Executive Vice President of Global Marketing for Citigroup. He spent 16 years at the H.J. Heinz Co. in progressively responsible positions, including President of Heinz USA, President of Weight Watchers Food Company and corporate Vice President of Worldwide Infant Feeding. He also served as Director of Marketing, New Products and Sales for Pepsi USA in the mid-1980s. Mr. Ruder is a member of the board of the New York State Foundation for Science, Technology and Academic Research (NYSTAR), and also serves as chair of the board of the Adirondack Council, board member and secretary of the New York Metro Chapter of the World Presidents' Organization, and an advisory board member of PNC Private Client Advisors. Mr. Ruder earned a Bachelor of Arts degree in American History in 1976 from Washington University in St. Louis, Mo., and a Master of Business Administration degree in Marketing in 1978 from the Tuck School at Dartmouth College. His current term expires on March 31, 2009.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on April 26, 2004. A certified public accountant with more than 37 years of experience, Mr. Martino is a retired partner of the Buffalo CPA firm Lumsden & McCormick, LLP. He began his career at Price Waterhouse where he worked in the firm's Buffalo and Washington, DC, offices. Mr. Martino is a member of the American Institute of CPAs and the New York State Society of CPAs. Long involved in community organizations, he serves on the boards of the Buffalo Niagara Medical Campus as Vice Chairman, Mount Calvary Cemetery as Chair of the Investment Committee, Cradle Beach Camp of which he is a former Chair, the Kelly for Kids Foundation and Key Bank. Mr. Martino received a Bachelor of Science degree in accounting from the University at Buffalo. Mr. Martino's current term expires on August 31, 2010.

SANDRA M. SHAPARD, Delmar.

Ms. Shapard was appointed as a Member of the Authority by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from January, 1995 until her retirement in 2001, during which time she headed the Office of Fiscal Research and Policy Analysis and twice served as Acting First Deputy Comptroller. Previously, Ms. Shapard held the positions of Deputy Director and First Deputy Director for the New York State Division of Budget, from 1991 to 1994, and Deputy Assistant Commissioner for Transit for the State Department of Transportation, from 1988 to 1991. She began her career in New York State government with the Assembly in 1975 where, over a thirteen year period, she held the positions of Staff Director of the Office of Counsel to the Majority, Special Assistant to the Speaker, and Deputy Director of Budget Studies for the Committee on Ways and Means. Ms. Shapard also served as Assistant to the County Executive in Dutchess County. A graduate of Mississippi University for Women, Ms. Shapard received a Masters of Public Administration from Harvard University, John F. Kennedy School of Government, where she has served as visiting lecturer, and has completed graduate work at Vanderbilt University.

ROMAN B. HEDGES, Ph.D., Delmar.

Dr. Hedges was appointed as a Member of the Authority by the Speaker of the State Assembly on February 24, 2003. Dr. Hedges serves on the Legislative Advisory Task Force on Demographic Research and Reapportionment. He is the former Deputy Secretary of the New York State Assembly Committee on Ways and Means. Dr. Hedges previously served as the Director of Fiscal Studies of the Assembly Committee on Ways and

Means. He was an Associate Professor of Political Science and Public Policy at the State University of New York at Albany where he taught graduate and undergraduate courses in American politics, research methodology, and public policy. Dr. Hedges holds a Doctor of Philosophy and a Master of Arts degree from the University of Rochester and a Bachelor of Arts degree from Knox College.

RICHARD P. MILLS, *Commissioner of Education of the State of New York,* Albany; ex-officio.

Dr. Mills became Commissioner of Education on September 12, 1995. Prior to his appointment, Dr. Mills served as Commissioner of Education for the State of Vermont since 1988. From 1984 to 1988, Dr. Mills was Special Assistant to Governor Thomas H. Kean of New Jersey. Prior to 1984, Dr. Mills held a number of positions within the New Jersey Department of Education. Dr. Mills' career in education includes teaching and administrative experience at the secondary and postsecondary education levels. Dr. Mills holds a Bachelor of Arts degree from Middlebury College and a Master of Arts, a Master of Business Administration and a Doctor of Education degree from Columbia University.

LAURA L. ANGLIN, *Budget Director of the State of New York,* Albany*; ex-officio.*

Ms. Anglin was appointed Budget Director on January 1, 2008. As Budget Director, she is responsible for the overall development and management of the State's fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State's debt portfolio, as well as pensions and employee benefits. Ms. Anglin previously served as First Deputy Budget Director from January 2007 to December 2007. She was appointed Deputy Comptroller of the Division of Retirement Services in January 2003 and was responsible for overseeing the administration and managing the operations of the New York State and Local Retirement System. From 1996-2003, Ms. Anglin worked in the New York State Assembly where she served as Director of Budget Studies for the Assembly Ways and Means Committee and as First Deputy Fiscal Director for the Committee. Ms. Anglin has also held the position of Econometrician in the Department of Taxation and Finance from 1992-1996 and began her career as an Economist for the Department of Environmental Conservation. Ms. Anglin holds a Bachelor of Arts degree and a Masters degree in Economics from the State University of New York at Albany.

RICHARD F. DAINES, M.D., *Commissioner of Health*, Albany; ex-officio.

Richard F. Daines, M.D., became Commissioner of Health on March 21, 2007. Prior to his appointment he served as President and CEO at St. Luke's-Roosevelt Hospital Center since 2002. Before joining St. Luke's-Roosevelt Hospital Center as Medical Director in 2000, Dr. Daines served as Senior Vice President for Professional Affairs of St. Barnabas Hospital in the Bronx, New York since 1994 and as Medical Director from 1987 to 1999. Dr. Daines received a Bachelor of History degree from Utah State University in 1974 and served as a missionary for the Church of Jesus Christ of Latter-day Saints in Bolivia, 1970-1972. He received his medical degree from Cornell University Medical College in 1978. He served a residency in internal medicine at New York Hospital and is Board Certified in Internal Medicine and Critical Care Medicine.

The principal staff of the Authority is as follows:

PAUL T. WILLIAMS, JR. is the Executive Director and chief administrative and operating officer of the Authority. Mr. Williams is responsible for the overall management of the Authority's administration and operations. He most recently served as Senior Counsel in the law firm of Nixon Peabody LLP. Prior to working at Nixon Peabody, Mr. Williams helped to establish a boutique Wall Street investment banking company. Prior thereto, Mr. Williams was a partner in, and then of counsel to, the law firm of Bryan Cave LLP. He was a founding partner in the law firm of Wood, Williams, Rafalsky & Harris, which included a practice in public finance and served there from 1984-1998. Mr. Williams began his career as an associate at the law firm of Walker & Bailey in 1977 and thereafter served as a counsel to the New York State Assembly. Mr. Williams is licensed to practice law in the State of New York and holds professional licenses in the securities industry. He holds a Bachelor's degree from Yale University and a Juris Doctor degree from Columbia University School of Law.

MICHAEL T. CORRIGAN is the Deputy Executive Director of the Authority, and assists the Executive Director in the administration and operation of the Authority. Mr. Corrigan came to the Authority in 1995 as Budget Director, and served as Deputy Chief Financial Officer from 2000 until 2003. He began his government service career in 1983 as a budget analyst for Rensselaer County, and served as the County's Budget Director from 1986 to 1995. Immediately before coming to the Authority, he served as the appointed Rensselaer County Executive for a short period. Mr. Corrigan holds a Bachelor's degree in Economics from the State University of New York at Plattsburgh and a Master's degree in Business Administration from the University of Massachusetts.

PORTIA LEE is the Managing Director of Public Finance and Portfolio Monitoring. She is responsible for supervising and directing Authority bond issuance in the capital markets, through financial feasibility analysis and financing structure determination for Authority clients; as well as implementing and overseeing financing programs, including interest rate exchange and similar agreements; overseeing the Authority's compliance with continuing disclosure requirements and monitoring the financial condition of existing Authority clients. Ms. Lee previously served as Senior Investment Officer at the New York State Comptroller's Office where she was responsible for assisting in the administration of the long-term fixed income portfolio of the New York State Common Retirement Fund, as well as the short-term portfolio, and the Securities Lending Program. From 1995 to 2005, Ms. Lee worked at Moody's Investors Service where she most recently served as Vice President and Senior Credit Officer in the Public Finance Housing Group. In addition, Ms. Lee has extensive public service experience working for over 10 years in various positions in the Governor's Office, NYS Department of Social Services, as well as the New York State Assembly. She holds a Bachelor's degree from the State University of New York at Albany.

JOHN G. PASICZNYK is the Chief Financial Officer of the Authority. Mr. Pasicznyk is responsible for investment management and accounting, as well as the development of the financial policies for the Authority. Before joining the Authority in 1985, Mr. Pasicznyk worked in audit positions at KPMG Peat Marwick and Deloitte & Touche. He holds a Bachelor's degree from Syracuse University and a Master of Business Administration degree from the Fuqua School of Business at Duke University.

JEFFREY M. POHL is General Counsel to the Authority. Mr. Pohl is responsible for all legal services including legislation, litigation, contract matters and the legal aspects of all Authority financings. He is a member of the New York State Bar, and most recently served as a counsel in the public finance group of a large New York law firm. Mr. Pohl had previously served in various capacities in State government with the Office of the State Comptroller and the New York State Senate. He holds a Bachelor's degree from Franklin and Marshall College and a Juris Doctor degree from Albany Law School of Union University.

STEPHEN D. CURRO, P.E. is the Managing Director of Construction. In that capacity, he is responsible for the Authority's construction groups, including design, project management, purchasing, contract administration, interior design, and engineering and other technology services. Mr. Curro joined the Authority in 2001 as Director of Technical Services, and most recently served as Director of Construction Support Services. He is a registered Professional Engineer in New York and Rhode Island and has worked in the construction industry for over 20 years as a consulting structural engineer and a technology solutions provider. Mr. Curro is also an Adjunct Professor at Hudson Valley Community College and Bryant & Stratton College. He holds a Bachelor of Science in Civil Engineering from the University of Rhode Island, a Master of Engineering in Structural Engineering from Rensselaer Polytechnic Institute and a Master of Business Administration from Rensselaer Polytechnic Institute's Lally School of Management.

CARRA WALLACE is the Managing Director of the Office of Executive Initiatives (OEI). In that capacity, she oversees the Authority's Communications and Marketing, Opportunity Programs, Environmental Initiatives, Client Outreach, Training, Executive Projects, and Legislative Affairs units. Ms. Wallace is responsible for strategic efforts in developing programs, maximizing the utilization of Minority and Women Owned Businesses, and communicating with Authority clients, the public and governmental officials. She possesses more than twenty years of senior leadership experience in diverse private sector businesses and civic organizations. Ms. Wallace most recently served as Executive Vice President at Telwares, a major telecommunications service firm. Prior to her service at Telwares, Ms. Wallace served as Executive Vice President of External Affairs at the NYC Leadership Academy. She holds a Bachelor of Science degree in management from the Pepperdine University Graziadio School of Business and Management.

Claims and Litigation

Although certain claims and litigation have been asserted or commenced against the Authority, the Authority believes that these claims and litigation are covered by the Authority's insurance or by bonds filed with the Authority should the Authority be held liable in any of such matters, or that the Authority has sufficient funds available or the legal power and ability to seek sufficient funds to meet any such claims or judgments resulting from such litigation.

Other Matters

New York State Public Authorities Control Board

The New York State Public Authorities Control Board (the "PACB") has authority to approve the financing and construction of any new or reactivated projects proposed by the Authority and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. The Authority obtained the approval of the PACB for the issuance of the Subseries 2003D-2A Bonds.

Legislation

From time to time, bills are introduced into the State Legislature which, if enacted into law, would affect the Authority and its operations. The Authority is not able to represent whether such bills will be introduced or become law in the future. In addition, the State undertakes periodic studies of public authorities in the State (including the Authority) and their financing programs. Any of such periodic studies could result in proposed legislation which, if adopted, would affect the Authority and its operations.

Environmental Quality Review

The Authority complies with the New York State Environmental Quality Review Act and with the New York State Historic Preservation Act of 1980, and the respective regulations promulgated thereunder respecting the Project to the extent such acts and regulations are applicable.

Independent Auditors

The accounting firm of KPMG LLP audited the financial statements of the Authority for the fiscal year ended March 31, 2008. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 8 - LEGALITY OF THE SUBSERIES 2003D-2A BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Subseries 2003D-2A Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State may properly and legally invest funds in their control.

The Subseries 2003D-2A Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 9 - NEGOTIABLE INSTRUMENTS

The Subseries 2003D-2A Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the Subseries 2003D-2A Bonds.

PART 10 - TAX MATTERS

Opinion of Bond Counsel

On July 15, 2003, in connection with the original issuance of the Subseries 2003D-2A Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, rendered its opinion to the effect that under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Subseries 2003D-2A 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 Subseries 2003D-2A 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 had relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority and the Department, and Bond Counsel to the Authority had assumed compliance by the Authority and the Department with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Subseries 2003D-2A Bonds from gross income under Section 103 of the Code.

In addition, on July 15, 2003, in connection with the original issuance of the Subseries 2003D-2A Bonds. Bond Counsel to the Authority rendered its opinion to the effect that under existing statutes, interest on the Subseries 2003D-2A 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).

The form of Bond Counsel's original opinion in connection with the original issuance of the Subseries 2003D-2A Bonds is attached hereto as part of Appendix E.

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, to be rendered on the Conversion Date, the conversion of the interest rate mode from the Weekly Mode to the Daily Mode, the cancellation of the Policy and the substitution of the prior Liquidity Facility with the JPMorgan Facility, in and of itself, will not impair (a) the exclusion of interest from gross income for Federal income tax purposes under Section 103 of the Code on any Subseries 2003D-2A Bonds, the interest on which is otherwise excluded from gross income for Federal income tax purposes under Section 103 of the Code, and (b) the exemption of interest on any Subseries 2003D-2A Bonds from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

The form of Bond Counsel's opinions to be delivered on the Conversion Date is attached hereto as part of Appendix E. The opinions expressed in Bond Counsel's opinion set forth in Appendix E are limited to the conversion of the interest rate mode, the cancellation of the Policy and the substitution of the Liquidity Facility on March 2, 2009 and do not extend to any other event or matter occurring subsequent to the delivery of its opinion in connection with the original issuance of the Subseries 2003D-2A Bonds. Bond Counsel has not been asked to, and does not, express any opinion as to whether interest on the Subseries 2003D-2A Bonds is currently excludable from gross income for Federal income tax purposes.

Bond Counsel to the Authority will give its opinion as of the Conversion Date and will assume no obligation to update, revise or supplement the opinion to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel to the Authority will express no opinion on the effect of any action thereafter 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 Subseries 2003D-2A 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 Subseries 2003D-2A Bonds in order that interest on the Subseries 2003D-2A 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 Subseries 2003D-2A 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 Subseries 2003D-2A 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 Authority and the Department have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Subseries 2003D-2A 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 Subseries 2003D-2A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of an Series 2003 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 Subseries 2003D-2A Bonds.

Prospective owners of the Subseries 2003D-2A 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 Subseries 2003D-2A 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.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest on tax-exempt obligations, including the Subseries 2003D-2A 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 unless the recipient is one of a limited class of exempt recipients, including corporations. 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 Subseries 2003D-2A Bonds 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 Subseries 2003D-2A 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 action taken by tax authorities, and court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Subseries 2003D-2A Bonds under Federal or state law and could affect the market price or marketability of the Subseries 2003D-2A Bonds. There can be no assurance that any such legislation, actions or decisions, if ever enacted, taken or rendered following the issuance of the Subseries 2003D-2A Bonds, will not have an adverse effect on the tax exempt status, market price or marketability of the Subseries 2003D-2A Bonds.

Prospective purchasers of the Subseries 2003D-2A Bonds should consult their own tax advisors regarding the foregoing matters.

PART 11 - STATE NOT LIABLE ON THE SUBSERIES 2003D-2A BONDS

The Act provides that notes and bonds of the Authority shall not be a debt of the State nor shall the State be liable thereon, nor shall such notes or bonds be payable out of any funds other than those of the Authority. The

Resolution specifically provides that the Subseries 2003D-2A Bonds shall not be a debt of the State nor shall the State be liable thereon.

PART 12 - COVENANT BY THE STATE

The Act states that the State pledges and agrees with the holders of the Authority's notes and bonds that the State will not limit or alter the rights vested in the Authority to provide projects, to establish and collect rentals therefrom and to fulfill agreements with the holders of the Authority's notes and bonds or in any way impair the rights and remedies of the holders of such notes or bonds until such notes or bonds and interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the holders of such notes or bonds are fully met and discharged. Notwithstanding the State's pledges and agreements contained in the Act, the State may in the exercise of its sovereign power enact or amend its laws which, if determined to be both reasonable and necessary to serve an important public purpose, could have the effect of impairing these pledges and agreements with the Authority and with the holders of the Authority's notes or bonds.

PART 13 - LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Subseries 2003D-2A Bonds by the Authority were subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel, which delivered its approving opinion in connection with the original issuance of the Subseries 2003D-2A Bonds on July 15, 2003 (a copy of which is attached as part of Appendix E hereto). The remarketing of the Subseries 2003D-2A Bonds is subject to the delivery by Bond Counsel on the Conversion Date of its opinion to be substantially in the form attached as part of Appendix E hereto.

Certain legal matters will be passed upon for the Remarketing Agent by its Counsel, Nixon Peabody LLP, New York, New York. Certain legal matters will be passed upon for the Bank by its Counsel, King & Spalding LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance, remarketing or delivery of the Subseries 2003D-2A Bonds or questioning or affecting the validity of the Subseries 2003D-2A Bonds or the proceedings and authority under which they were issued. There is no litigation pending which in any manner questions the right of the Authority to finance the State Facilities or the Voluntary Agency Facilities in accordance with the provisions of the Act, the Resolutions and the Financing Agreements.

PART 14 – RATINGS

It is expected that upon the conversion of the interest rate Mode, the cancellation of the Policy and the substitution of the prior Liquidity Facility with the JPMorgan Facility, the Subseries 2003D-2A Bonds will be assigned long-term ratings of "A+" and "AA-" by Fitch, Inc. ("Fitch") and Standard & Poor's Ratings Services (S&P), respectively. The Subseries 2003D-2A Bonds are expected to be assigned short-term ratings of "F1+" and "A-1+" by Fitch and S&P, respectively. The short-term ratings are based upon the credit of the Bank. An explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. There is no assurance that such ratings will prevail for any given period of time or that they will not be changed or withdrawn by the respective rating agency if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Subseries 2003D-2A Bonds.

PART 15 - REMARKETING

J.P. Morgan Securities Inc., as Remarketing Agent for the Subseries 2003D-2A Bonds, has agreed, subject to certain conditions, to purchase the Subseries 2003D-2A Bonds to be tendered on March 2, 2009 at a purchase price of par and to remarket the Subseries 2003D-2A Bonds at par. The Remarketing Agent will be obligated to purchase all such Subseries 2003D-2A Bonds tendered on March 2, 2009. In connection with the reoffering of the Subseries 2003D-2A, J.P. Morgan Securities Inc. will be paid a fee of $78,000 plus certain expenses.

PART 16 - CONTINUING DISCLOSURE

For the purpose of compliance with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as amended ("Rule 15c2-12"), in connection with the original issuance of the Subseries 2003D-2A Bonds, the Authority, the State and the Trustee entered into a written agreement (the "Continuing Disclosure Agreement") for the benefit of the holders of the Subseries 2003D-2A Bonds to provide continuing disclosure. The State has undertaken for the benefit of the holders of the Subseries 2003D-2A Bonds to provide each Nationally Recognized Municipal Securities Information Repository (each a "Repository"), and if and when one is established, the New York State information depository (the "State Information Depository"), 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, 2003, (i) financial information and operating data relating to the State of the type included in the Annual Information Statement of the State set forth in Appendix B to this Remarketing Circular and (ii) financial information and operating data relating to the State and the Department, both as described in more detail below and collectively referred to herein as the "Annual Information". 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, and the State will undertake to provide 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, to each Repository and to the State Information Depository, if and when such statements are available. In addition, the Authority will undertake, for the benefit of the holders of the Subseries 2003D-2A Bonds, to provide to each such Repository or to the Municipal Securities Rulemaking Board (the "MSRB"), and to the State Information Depository, 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 this Remarketing Circular under the headings "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE BONDS - Outstanding Indebtedness," "PART 5 - SCHEDULE OF ANNUAL DEBT SERVICE REQUIREMENTS," and "PART 6 - THE DEPARTMENT," including information relating to (1) population statistics for residential programs of OMH, OMRDD and OASAS, (2) income available for Prior Agency Annual Payments, Prior Authority Annual Payments and Annual Payments, and (3) State appropriations (unless, with respect to items (1) through (3) just described, the source of revenue for the payment of the Subseries 2003D-2A Bonds has been materially changed or modified, in which case the Annual Information will include similar information regarding such new or modified source of revenue, whether on an actual historical basis, a pro forma basis, or otherwise); (b) financial information and operating data of the type included in the Annual Information Statement of the State set forth in Appendix B hereto under the headings or sub headings "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 (c) 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 concerning the Department and the State and sources of revenue for the Mental Health Services Fund and in judging the financial condition about the State.

The Notices include notices of any of the following events with respect to the Subseries 2003D-2A Bonds, if material: (a) principal and interest payment delinquencies; (b) non payment related defaults; (c) unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of credit or liquidity providers, or their failure to perform; (f) adverse tax opinions or events affecting the tax exempt status of the securities; (g) modifications to the rights of security holders; (h) bond calls; (i) defeasances; (j) release, substitution, or sale of property securing repayment of the securities; and (k) rating changes. In addition, the Authority has undertaken, for the benefit of the holders of the Subseries 2003D-2A Bonds, to provide to each Repository or the MSRB and to the State Information Depository, in a timely manner, notice of any failure by the State to provide the Annual Information and annual financial statements by the date required in the State's undertaking described above.

The sole and exclusive remedy for breach under the Continuing Disclosure Agreement to provide continuing disclosure described above is an action to compel specific performance of the undertakings of the State and/or the Authority, and no person, including any holder of the Subseries 2003D-2A Bonds, may recover monetary damages thereunder under any circumstances. The Authority or the State may be compelled to comply with their respective obligations under the Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required under the Continuing Disclosure Agreement, by any owner of Outstanding Subseries 2003D-2A Bonds or by the Trustee on behalf of the owners of Outstanding Subseries 2003D-2A Bonds or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the owners of Outstanding Subseries 2003D-2A Bonds; *provided, however*, that the Trustee shall not be required to take any enforcement action except at the direction of the owners of not less than 25% in aggregate principal amount of Subseries 2003D-2A Bonds at the time Outstanding. A breach under the Continuing Disclosure Agreement shall not constitute an Event of Default under the Resolution or any other agreement delivered in connection with the issuance of the Subseries 2003D-2A Bonds. 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 providing of such information, shall no longer be required to be provided.

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 related have been materially changed or discontinued, a statement to that effect will be provided. The Continuing Disclosure Agreement, however, may be amended or modified without the consent of the owners of the Subseries 2003D-2A Bonds under certain circumstances set forth therein. Copies of the Continuing Disclosure Agreement are on file at the principal office of the Authority.

PART 17 - MISCELLANEOUS

Reference in this Remarketing Circular to the Act, the Resolutions, the Financing Agreements and the Pledge and Assignment do not purport to be complete. Refer to the Act, the Resolutions, the Financing Agreements and the Pledge and Assignment for full and complete details of their provisions. Copies of the Resolutions, the Financing Agreements and the Pledge and Assignment are on file with the Authority and the Trustee.

The agreements of the Authority with Holders of the Subseries 2003D-2A Bonds are fully set forth in the Resolutions. Neither any advertisement of the Subseries 2003D-2A Bonds nor this Remarketing Circular is to be construed as a contract with purchasers of the Subseries 2003D-2A Bonds.

Any statements in this Remarketing Circular involving matters of opinion, whether or not expressly stated, are intended merely as expressions of opinion and not as representations of fact.

The Authority's use of certain information concerning the Department, the State and the Bank included in this Remarketing Circular has been furnished or reviewed and authorized by the sources described below. While the Authority believes that these sources are reliable, the Authority has not independently verified this information and does not guarantee the accuracy or completeness of the information furnished by the respective sources. The Authority is relying on certificates from each source, to be delivered at or prior to the time of remarketing of the Subseries 2003D-2A Bonds, as to the accuracy of such information provided or authorized by it.

The Department. The Department provided certain of the information contained in this Remarketing Circular regarding the Department, including the information in "PART 6 - THE DEPARTMENT."

Certain officers of the Department have been authorized by the Department to include the information about the Department in this Remarketing Circular and are to certify to the Authority that the statements of material fact concerning the Department contained in the Remarketing Circular are true and correct and do not fail to state any material fact necessary in order to make the statements of fact made therein, in the light of the circumstances under which they were made, not misleading.

The State. The State provided the information relating to the State in "Appendix B - Information Concerning the State of New York."

The Director of the Budget of the State of New York will certify to the Authority that the information contained in the Annual Information Statement of the State of New York, including any updates or supplements, is true, correct and complete in all material respects, and that no facts have come to her attention that would lead her to believe that such statements and information, as of the date of the Remarketing Circular and the date of the delivery of the Subseries 2003D-2F Bonds, 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 the light of the circumstances under which they were made, not misleading; provided, however, that while the statements and information contained in Appendix B to the Remarketing Circular 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 she believes to be reliable and, as of the date of the Remarketing Circular and the delivery of the Subseries 2003D-2A Bonds, she has no reason to believe, and does not 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 the light of the circumstances under which they were made, not misleading; provided further, however, that with regard to the statements and information in Appendix B hereto under the caption "Litigation" such statements and information are given to the best of her information and belief, having made such inquiries as she deemed appropriate at the offices of the Department of Law of the State, without any further independent investigation.

The State Department of Audit and Control has informed the Authority that it has reviewed the historical and financial information with respect to the State contained in Appendix B hereto, but since bonds of the Authority are not a direct obligation of the State, the Comptroller, the chief auditor and fiscal officer of the State, will not certify to such information contained in Appendix B hereto.

The Bank. The Bank provided the information relating to the Bank in "Appendix F – Information Concerning the Bank."

"Appendix A - Certain Definitions," "Appendix C - Summary of Certain Provisions of the Financing Agreements," "Appendix D - Summary of Certain Provisions of the Resolution," and "Appendix E – Forms of Opinions of Bond Counsel" have been prepared by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority.

The execution and delivery of this Remarketing Circular by an Authorized Officer have been duly authorized by the Authority.

DORMITORY AUTHORITY OF
THE STATE OF NEW YORK

By: /s/ Paul T. Williams, Jr.
Authorized Officer

CERTAIN DEFINITIONS

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CERTAIN DEFINITIONS

The following are definitions of certain of the terms defined in the Resolution or the Agreement and used in this Official Statement:

"Accreted Value" means with respect to any Capital Appreciation Bond (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Capital Appreciation Bond or a Series Certificate and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve thirty-day months, and (2) the difference between the Accreted Values for such Valuation Dates.

"Act" means, collectively, the Dormitory Authority Act, the Agency Act, and the Health Care Financing Consolidation Act.

"Agency" means the New York State Medical Care Facilities Finance Agency, the corporate governmental agency created by the Agency Act, the corporate existence of which has been continued in and through the Authority and the powers, duties and functions of which the Authority has succeeded pursuant to the Health Care Financing Consolidation Act.

"Agency Act" means the New York State Medical Care Facilities Finance Agency Act, being Chapter 392 of the Laws of New York 1973, as amended, McKinney's Unconsolidated Laws, Sections 7411 to 7432, inclusive, as amended.

"Agreement" means, (i) when used with respect to the Resolution, collectively, the Financing Agreement (State Project), the Financing Agreement (Voluntary Agency Project) and any Other Agreement entered into by the Authority and the Department with respect to any Other Project, or singularly, any one of such agreements, as the context may require; (ii) when used with respect to the Financing Agreement (State Project), the Financing Agreement State Project; and (ii) when used with respect to the Financing Agreement (Voluntary Agency Project), the Financing Agreement (Voluntary Agency Project).

"Alternate Credit Facility" means a Credit Facility that is issued in substitution for a then-existing Credit Facility in accordance with, and pursuant to, the Series 2003D-2 Certificate, as the same may be amended or supplemented from time to time.

"Alternate Liquidity Facility" means a Liquidity Facility that is issued in substitution for a then existing Liquidity Facility in accordance with, and pursuant to, the Series 2003D-2 Certificate, as the same may be amended or supplemented from time to time.

"Annual Administrative Fee" means, collectively, a fee payable during each Bond Year as set forth in each Supplemental Financing Agreement for (i) a portion of the general administrative and overhead expenses of the Authority allocated in accordance with a formula established by the Authority to the services performed by the Authority in the financing and refinancing of or the design, construction, acquisition, reconstruction, rehabilitation, improvement or equipping of Facilities and matters related thereto; and (ii) the costs, expenses and charges incurred by the Authority pursuant to law or otherwise in carrying out its duties under the Resolution and the Agreement, or in enforcing the Agreement or as a consequence of Bonds remaining Outstanding, including, without limitation, accounting, auditing, financial advisory and legal expenses incurred by the Authority, and the fees and expenses of any Facility Provider, the Trustee, any Paying Agent or other fiduciary acting under the Resolution.

"Annual Expenditures" means the Annual Expenditures due and payable for and computed in accordance with the provisions of the Financing Agreement (State Project)., the provisions of the Financing Agreement (Voluntary Agency Project) and such provisions as shall be contained in any Other Agreement.

"Annual Payments" means the Annual Payments due and payable as provided for and computed in accordance with the provisions of the Financing Agreement (State Project), the provisions of the Financing Agreement (Voluntary Agency Project) and such provisions as shall be contained in any Other Agreement.

"Appreciated Value" means with respect to any Deferred Income Bond (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Deferred Income Bond or a Series Certificate, and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Appreciated Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve thirty-day months, and (2) the difference between the Appreciated Values for such Valuation Dates, and (iii) as of any date of computation on and after the Interest Commencement Date, the Appreciated Value on the Interest Commencement Date.

"Arbitrage Rebate Fund" means the fund so designated, created and established pursuant to the Resolution.

"Authority" means the Dormitory Authority of the State of New York, a body corporate and politic constituting a public benefit corporation of the State created by the Act, or any body, agency or instrumentality of the State which succeeds to the rights, powers, duties and functions of the Authority.

"Authorized Denominations" means with respect to Bonds of a Series or Subseries a Daily Mode or Weekly Mode, $100,000 and any integral multiple of $5,000 in excess thereof, provided, however, that if as a result of the change in the Mode of the Bonds of a Series or Subseries from a Daily Mode or Weekly Mode, it is not possible to deliver all the Bonds of a Series or Subseries required or permitted to be Outstanding in a denomination permitted above, Bonds of a Series or Subseries may be delivered, to the extent necessary, in different denominations.

"Authorized Newspaper" means The Bond Buyer or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority.

"Authorized Officer" means (i) in the case of the Authority, the Chairman, the Vice–Chairman, the Treasurer, an Assistant Treasurer, the Secretary, an Assistant Secretary, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Managing Director of Public Finance, the Managing Director of Construction, the Managing Director of Policy and Program Development, and the General Counsel, and when used with reference to any act or document also means any other person authorized by a resolution or the by–laws of the Authority to perform such act or execute such document; (ii) in the case of the Department, the Commissioner, Executive Deputy Commissioner, First Deputy Commissioner or Deputy Commissioner of each office within the Department; and (iii) in the case of the Trustee, the President, Vice President, Corporate Trust Officer, Trust Officer or an Assistant Trust Officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to resolution or bylaws of the Board of Directors of the Trustee.

"Bank Bond" means any Bond of a Series or Subseries during any period commencing on the day such Bond is owned by or held on behalf of the Liquidity Facility Provider or its permitted assignee as a result of such Bond having been purchased pursuant to the Resolutions from the proceeds of a draw under the Liquidity Facility and ending when such Bond is, pursuant to the provisions of the Liquidity Facility, no longer deemed to be a Bank Bond.

"Bond" or "*Bonds"* means any of the bonds of the Authority authorized and issued pursuant to the Resolution or a Series Resolution.

"Bond Counsel" means an attorney or a law firm, appointed by the Authority, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

"Bond Year" means a period of twelve (12) consecutive months beginning February 15 in any calendar year and ending on February 14 of the succeeding calendar year.

"Book Entry Bond" means a Bond authorized to be issued to, and issued to and registered in the name of, a Depository directly or indirectly for the beneficial owners thereof.

"Business Day" means any day which is not a Saturday, Sunday or a legal holiday in the State or a day on which banking institutions chartered by the State or the United States of America are legally authorized to close in The City of New York, and when used with respect to the Series 2003D-2 Certificate, shall also mean a day on which the Trustee, the Tender Agent, the Remarketing Agent, the Credit Facility Provider, if any, or the Liquidity Facility Provider are authorized or required to remain closed, or a day on which the New York Stock Exchange is closed.

"Capital Appreciation Bond" means any Bond as to which interest is compounded on each Valuation Date therefor and is payable only at the maturity or prior redemption thereof.

"Code" means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Commissioner" means the Commissioner of Taxation and Finance of the State.

"Comptroller" means the Comptroller of the State.

"Construction Fund" means the fund so designated, created and established pursuant to the Resolution.

"Conversion" means (i) a change in the Mode of a Bond of a Series or Subseries made in accordance with the Series 2003D-2 Certificate.

"Conversion Date" means, with respect to Bonds of a Series or Subseries, the date one Mode terminates and another Mode begins.

"Corporation" means the Facilities Development Corporation, a corporate governmental agency constituting a public benefit corporation created pursuant to the Facilities Development Corporation Act, the corporate existence of which has been continued in and through the Authority and the powers, duties and functions of which the Authority has succeeded pursuant to the Health Care Financing Consolidation Act.

"Cost of the Project" or "*Costs of the Project"* means, with respect to a Project, the costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with such Project and each Facility comprising such Project that are not otherwise included in the Annual Administrative Fee, such costs and expenses to include, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of a Facility comprising such Project, (iii) the cost of surety bonds, indemnity and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of a Facility comprising a part of such Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of a Facility comprising a part of such Project, (v) costs and expenses required for the acquisition and installation of equipment or machinery in a Facility comprising a part of such Project, (vi) all costs which the Authority, the Department, a Voluntary Agency or other qualified person shall be required to pay for or in connection with additions to, or the alterations, expansions, reconstruction, rehabilitation, repair, and equipping of a Facility comprising a part of such Project, (vii) any sums required to reimburse the State, or any agency, instrumentality or officer thereof, the Department, the Authority, a Voluntary Agency or other qualified person for advances made by

any of them for any of the above items or for other costs incurred and for work done by any of them in connection with a Facility comprising a part of such Project (including interest on moneys borrowed to temporarily finance the payment of any item or terms of Costs of the Project), (viii) interest on the Bonds prior to, during and for a reasonable period after construction of a Facility comprising a part of such Project is complete and such Facility is available for occupancy or use, (ix) the payment of any notes of the Authority (including any interest thereon and redemption premium thereof) issued to temporarily finance the payment of any item or items of Cost of the Project with respect to a Facility comprising a part of such Project, (x) fees, expenses and liabilities of the Authority incurred in connection with a Facility comprising a part of such Project or pursuant to the Resolution or to the applicable Agreement, (xi) any bond discount, including underwriters' discount, with respect to the Bonds, and (xiii) any other proper item of cost and expense not specifically mentioned herein as may be provided in a Supplemental Financing Agreement.

"Cost of Issuance" or *"Costs of Issuance"* means the items of expense incurred in connection with the authorization, sale and issuance of Bonds, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee, commitment and initial fees or similar charges of a remarketing agent or relating to a Credit Facility or a Qualified Swap, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of Bonds, premiums, fees and charges for insurance on Bonds, costs and expenses of refunding Bonds, Prior Authority Bonds or Prior Agency Bonds and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

"Credit Facility" means (i) with respect to the Resolution, any letter of credit, standby bond purchase agreement, line of credit, policy of bond insurance, surety bond, guarantee or similar instrument, or any agreement relating to the reimbursement of any payment thereunder (or any combination of the foregoing), which is obtained by the Authority and is issued by a financial institution, insurance provider or other person and which provides security or liquidity in respect of any Outstanding Bonds or Parity Reimbursement Obligations, and (ii) with respect to the Series 2003D-2 Certificate, a Credit Facility (as defined in the Resolution but excluding any Liquidity Facility) which is obtained by the Authority pursuant to the Series 2003D-2 Certificate and that provides (to the extent and subject to the terms and conditions set forth therein) for the payment of principal of and interest on the Bonds of a Series or Subseries becoming due and payable during the term thereof, as the same may be amended or supplemented from time to time.

"Close of Business" means the close of business of DTC as the same may be amended from time to time.

"Daily Mode" means the mode during which Bonds of a Series or Subseries bear interest at a Daily Rate.

"Daily Rate" means an interest rate determined for Bonds in a Daily Mode pursuant to the Series 2003D-2 Certificate.

"Daily Rate Period" means with respect to Bonds of a Series or Subseries in the Daily Mode, the period from and including the Closing Date (if initially issued in the Daily Mode) or the Conversion Date that Bonds of such Series or Subseries began to bear interest at the Daily Rate to and excluding the next Business Day, and thereafter commencing on each Business Day to and excluding the next Business Day.

"Debt Service Account" means the account in the Revenue Fund so designated, created and established pursuant to the Resolution.

"Defeasance Security" means any of the following:

(a) a Government Obligation of the type described in clauses (a), (b), (c) or (d) of the definition of Government Obligations;

(b) a Federal Agency Obligation described in clauses (a) or (b) of the definition of Federal Agency Obligations; and

(c) an Exempt Obligation, provided such Exempt Obligation (i) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) above, and (iv) is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least two nationally recognized statistical rating services in the highest rating category;

provided, however, that such term shall not include (1) any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

"Deferred Income Bond" means any Bond as to which interest accruing thereon prior to the Interest Commencement Date of such Bond is compounded on each Valuation Date for such Deferred Income Bond, and as to which interest accruing after the Interest Commencement Date is payable semi-annually on August 15 and February 15 of each Bond Year.

"Department" means the Department of Mental Hygiene, a department of State government established pursuant to the Mental Hygiene Law, being Chapter 978 of the Laws of New York 1977, as amended, McKinney's Consolidated Laws, Title 34A, as amended.

"Depository" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State, or its nominee, or any other person, firm, association or corporation designated in the Series Resolution authorizing a Series of Bonds or a Series Certificate relating to a Series of Bonds to serve as securities depository for the Bonds of such Series.

"Direct-Pay Credit Facility" means a Credit Facility that is issued in the form of a direct-pay letter of credit.

"Director of the Budget" means the Director of the Division of the Budget of the State and, to the extent permitted by law in connection with the exercise of any specific right or duty, any official of the State authorized to act on behalf of the Director of the Budget in connection therewith.

"Dormitory Authority Act" means the Dormitory Authority Act (being Chapter 524 of the Laws of 1944 of the State, as amended, and constituting Title 4 of Article 8 of the Public Authorities Law, as amended).

"Excess Earnings" means, with respect to a Series of Bonds, (i) the amount by which the earnings on the Gross Proceeds of such Series of Bonds exceeds the amount which would have been earned thereon if such Gross Proceeds were invested at a yield equal to the yield on such Series of Bonds, as such yield is determined in accordance with the Code, and (ii) amounts earned on the investment of such excess.

"Exempt Obligation" means any of the following:

(a) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a "specified private activity bond" within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account hereunder, is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least two nationally recognized statistical rating services not lower than the second highest rating category for such obligation;

(b) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and

(c) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Expiration Date" means, with respect to a Credit Facility or Liquidity Facility with respect to the Bonds of a Series or Subseries, the stated expiration date of such Credit Facility or Liquidity Facility, or such stated expiration date as it may be extended from time to time as provided therein; *provided, however*, that the "Expiration Date" shall not mean any date upon which a Credit Facility or Liquidity Facility is no longer effective by reason of its Termination Date, the date on which all Bonds of such Series or Subseries bear interest at a Fixed Rate or the expiration of such Credit Facility or Liquidity Facility by reason of the obtaining of an Alternate Credit Facility or Alternate Liquidity Facility.

"Facilities Development Corporation Act" means the Facilities Development Corporation Act, being Chapter 359 of the Laws of New York 1968, as amended, McKinney's Unconsolidated Laws, Sections 4401 to 4417, inclusive, as amended.

"Facility" means any State Facility, any Voluntary Agency Facility or any Other Facility.

"Facility Provider" means the issuer of a Credit Facility.

"Favorable Opinion of Bond Counsel" means, with respect to any action the occurrence of which requires such an opinion, an unqualified Counsel's Opinion to the effect that such action is permitted under the Authority Act and the Resolution and that such action will not impair the exclusion of interest on such Bonds from gross income for purposes of federal income taxation (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds).

"Fixed Rate" means an interest rate fixed to the Maturity Date of the Bonds of a Series or Subseries.

"Fixed Rate Mode" means the period during which Bonds of a Series or Subseries bear interest at a Fixed Rate.

"Federal Agency Obligation" means any of the following:

(a) an obligation issued by any federal agency or instrumentality approved by the Authority;

(b) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency approved by the Authority;

(c) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and

(d) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Financing Agreement (State Project)" means the Financing Agreement (State Project) executed by and between the Authority and the Department, dated as of February 26, 2003, as from time to time amended or

supplemented by Supplemental Financing Agreements in accordance with the terms and provisions of the Resolution and of the Financing Agreement (State Project).

"Financing Agreement (Voluntary Agency Project)" means the Financing Agreement (Voluntary Agency Project) executed by and between the Authority and the Department, dated as of February 26, 2003, as from time to time amended or supplemented by Supplemental Financing Agreements in accordance with the terms and provisions of the Resolution and of the Financing Agreement (Voluntary Agency Project).

"Financing Term" means (i) with respect to a State Facility, the Financing Term for the State Facility or State Facilities under the Financing Agreement (State Project) as specified in the applicable Supplemental Financing Agreement; and (ii) with respect to a Voluntary Agency Facility, the Financing Term for the Voluntary Agency Facility or Voluntary Agency Facilities under the Financing Agreement (Voluntary Agency Project) as specified in the applicable Supplemental Financing Agreement.

"Government Obligation" means any of the following:

(a) a direct obligation of the United States of America;

(b) an obligation the principal of and interest on which are fully insured or guaranteed as to payment of principal and interest by the United States of America;

(c) an obligation to which the full faith and credit of the United States of America are pledged;

(d) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and

(e) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Gross Proceeds" means, with respect to a Series of Bonds the "gross proceeds" as defined in the Tax Certificate executed by the Authority or the Department in connection with the issuance of such Series of Bonds, which definition shall be consistent with the provisions of the Code relating to the exclusion of interest on state and local government obligations for federal income taxation purposes.

"Health Care Financing Consolidation Act" means the Health Care Financing Consolidation Act (being part of Chapter 83 of the Laws of 1995 of the State, and constituting Title 4-B of Article 8 of the Public Authorities Law, as amended).

"Holder of Bonds," "*Bondholder*" or "*Holder*" or any similar term, when used with reference to a Bond or Bonds, means any person who shall be the registered owner of any Outstanding Bond.

"Interest Commencement Date" means, with respect to any particular Deferred Income Bond, the date prior to the maturity date thereof specified in the Series Resolution authorizing such Bond or a Series Certificate, after which interest accruing on such Bond shall be payable on the interest payment date immediately succeeding such Interest Commencement Date and semi-annually thereafter on August 15 and February 15 of each Bond Year.

"Interest Payment Date" means (a) with respect to any Subseries 2003D-2A Bonds that are not Bank Bonds, (i) the Maturity Date or any Conversion Date, and (ii) while in the Daily Mode or the Weekly Mode, the first Business Day of each calendar month; and (b) with respect to Bank Bonds, each date that is specified as a date on which interest is payable thereon pursuant to the Liquidity Facility under which such Bank Bond was purchased.

"Investment Agreement" means an agreement for the investment of moneys with a Qualified Financial Institution.

"Investment Obligations" means any of the following:

(a) Government Obligations,

(b) Federal Agency Obligations;

(c) Exempt Obligations;

(d) Uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State;

(e) collateralized certificates of deposit that are (i) issued by a banking organization authorized to do business in the State that has an equity capital of not less than $125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter of credit, contract, agreement or surety bond issued by it, are rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category, and (ii) are fully collateralized by Permitted Collateral;

(f) commercial paper that (i) matures within two hundred seventy (270) days after its date of issuance, (ii) is rated in the highest short term rating category by at least one nationally recognized statistical rating service and (iii) is issued by a domestic corporation whose unsecured senior debt is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category; and

(g) Investment Agreements that are fully collateralized by Permitted Collateral.

Any investment in any of the foregoing obligations may be made in the form of an entry made on the records of the issuer of the particular obligations or of a recognized Securities Depository.

"Liquidity and Credit Amount" means at any time:

(i) in the case of a Credit Facility and/or a Liquidity Facility that is not also a Direct-Pay Credit Facility and with respect to the Bonds of a Series or Subseries bearing interest at the Daily Rate or Weekly Rate, an amount to pay the Purchase Price equal to the principal amount (and, with respect to a Credit Facility, Redemption Price) of the Bonds of the Series or Subseries then Outstanding plus an interest amount equal to 35 days' interest thereon calculated at the Maximum Rate on the basis of a 365 day year for the actual number of days elapsed; and

(ii) in the case of a Credit Facility and/or a Liquidity Facility that is also a Direct-Pay Credit Facility and with respect to the Bonds of a Series or Subseries bearing interest at the Daily Rate or Weekly Rate, an amount to pay the Purchase Price equal to the principal amount (and, with respect to a Credit Facility, Redemption Price) of the Bonds of the Series or Subseries then Outstanding plus an interest amount equal to 45 days' interest thereon calculated at the Maximum Rate on the basis of a 365 day year for the actual number of days elapsed.

"Liquidity Facility" means a Facility which is obtained by the Authority pursuant to Series 2003D-2 Certificate that provides (to the extent, and subject to the terms and conditions, set forth therein) for the payment of the Purchase Price of Bonds of a Series or Subseries tendered or deemed tendered to the Tender Agent during the term thereof, as the same may be amended or supplemented from time to time.

"Liquidity Facility Provider" means the issuer of a Liquidity Facility.

"Mandatory Tender Date" means while Bonds bear interest at a Weekly Rate or a Daily Rate, (i) the Purchase Date, (ii) any Conversion Date except, unless otherwise provided in a Liquidity Facility applicable thereto, a Conversion Date with respect to Bonds of a Series or Subseries to be converted from a Daily Mode to a Weekly

Mode and Bonds of a Series or Subseries to be converted from a Weekly Mode to a Daily Mode, (iii) the Substitution Date, (iv) the Expiration Tender Date and (v) the Termination Tender Date.

"Maximum Rate" means twelve percent (12%) per annum or such higher rate as determined by the Authority's Board with the consent of any affected Credit Facility Provider and, with respect to Bonds of a Series or Subseries that are Bank Bonds, the Bank Bond Maximum Rate; provided, however, that in no event shall the Maximum Rate exceed the maximum rate permitted by applicable law.

"Mode" means the Flexible Mode, the Daily Mode, the Weekly Mode, the Term Rate Mode, the Auction Rate Mode or the Fixed Rate Mode.

"Mental Health Services Fund" means the Mental Health Services Fund created by Section 97-f of the State Finance Law and held in the joint custody of the Comptroller and the Commissioner.

"Mental Hygiene Law" means Chapter 978 of the Laws of New York 1977, as amended.

"Net Annual Payments" means Annual Payments net of the Annual Expenditures.

"Option Bond" means any Bond which by its terms may be tendered by and at the option of the Holder thereof for redemption by the Authority 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 Holder thereof in accordance with the Series Resolution authorizing such Bond or the Series Certificate related to such Bonds.

"Other Agreement" means any agreement to be dated and executed from time to time by and between the Authority and the Department, as from time to time amended or supplemented by Supplemental Financing Agreements in accordance with the terms and provisions of the Resolution and of such agreement, which agreement (i) shall provide for the financing and refinancing by the Authority of Other Facilities comprising an Other Project and the lease, sublease or use of such Other Facilities by the Department, Voluntary Agencies or other persons, and (ii) shall contain provisions for the payment of the Annual Payments which are substantially identical to the provisions contained in the Financing Agreement (State Project) and the Financing Agreement (Voluntary Agency Project).

"Other Facility" means any mental health services or other facility owned, leased, subleased or used by the Department, a Voluntary Agency or other qualified person which the Authority and the Department are authorized, now or hereafter, to undertake or provide the financing or refinancing for pursuant to law, as described and provided for in an Other Agreement and a Supplemental Financing Agreement.

"Other Project" means, collectively, all the Other Facilities financed or refinanced pursuant to an Other Agreement.

"Outstanding" when used in reference to Bonds, means, as of a particular date, all Bonds authenticated and delivered under the Resolution and any applicable Series Resolution except (i) any Bond cancelled by the Trustee at or before such date; (ii) any Bond deemed to have been paid in accordance with the Resolution; and (iii) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the Resolution; and (iv) Option Bonds tendered or deemed tendered in accordance with the provisions of the Series Resolution authorizing such Bonds on the applicable tender date, if the purchase price thereof and interest thereon shall have been paid or amounts are available and set aside for such payment as provided in such Series Resolution, except to the extent such tendered Option Bonds thereafter may be resold pursuant to the terms thereof and of such Series Resolution. The principal component of any Parity Reimbursement Obligation shall be deemed to be Outstanding in a principal amount equal to the principal amount of the obligation then owed by the Authority thereunder in lieu of the related Bond, regardless of the authorized amount of the principal component of such Parity Reimbursement Obligation or the related Bond and provided that, unless otherwise required pursuant to the related Series Resolution, the principal component of such Parity Reimbursement Obligation shall not by itself increase the Outstanding principal amount of Bonds.

"Parity Reimbursement Obligation" has the meaning as provided in Section 2.06 of the Resolution.

"Paying Agent" means, with respect to the Bonds of any Series, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution or a Series Resolution or any other resolution of the Authority adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

"Permitted Collateral" means any of the following:

(a) Government Obligations described in clauses (a), (b) or (c) of the definition of Government Obligations;

(b) Federal Agency Obligations described in clauses (a) or (b) of the definition of Federal Agency Obligations;

(c) commercial paper that (i) matures within two hundred seventy (270) days after its date of issuance, (ii) is rated in the highest short term rating category by at least one nationally recognized statistical rating service and (iii) is issued by a domestic corporation whose unsecured senior debt is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category; and

(d) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company that has an equity capital of at least $125,000,000 and is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by Bests Insurance Guide or a at least one nationally recognized statistical rating service in the highest rating category.

"Plans and Specifications" means (a) with respect to a State Facility, the plans and specifications for a State Facility prepared pursuant to the Financing Agreement (State Project), including site plans showing the location of such State Facility upon the land, schematic drawings of the interior of the buildings and improvements included in such State Facility, and the design of such buildings and improvements, and any plans and specifications for the improvement, rehabilitation, reconstruction or repair of a State Facility; and (b) with respect to a Voluntary Agency Facility*,* the plans and specifications for a Voluntary Agency Facility prepared pursuant to the Financing Agreement (Voluntary Agency Project), including site plans showing the location of such Voluntary Agency Facility upon the land, schematic drawings of the interior of the buildings and improvements included in such Voluntary Agency Facility, and the design of such buildings and improvements, and any plans and specifications for the improvement, rehabilitation, reconstruction or repair of a Voluntary Agency Facility.

"Pledge and Assignment" means the Pledge and Assignment, made, executed and delivered as of February 26, 2003, by and among the Commissioner, the Comptroller and the Authority.

"Principal Installments" means, as of any date of calculation and with respect to any Series of Bonds or any Parity Reimbursement Obligation, as applicable, (a) the principal amount of Outstanding Bonds of such Series, due on the dates and in the amounts specified by Series Resolution or Supplemental Resolution, reduced by the principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with the Resolution of Sinking Fund Installments payable before such dates, plus the unsatisfied balance of any Sinking Fund Installments due on any certain future date for Bonds of such Series, together with such redemption premiums, if any, applicable on any such future date, and (b) with respect to any Parity Reimbursement Obligation, the amount due thereunder on the dates and in the amounts established in accordance with the Resolution as a principal component of such Parity Reimbursement Obligation payable on a parity with the Bonds.

"Prior Agency Agreement" means, collectively, the Agreement of Lease dated as of October 1, 1987 by and among the Agency, the Corporation and the Department, as the same has been and may be hereafter amended and supplemented, and the Loan Agreement dated as of July 1, 1989 by and among the Agency, the Corporation and the Department, as the same has been and may be hereafter amended and supplemented.

"Prior Agency Annual Payments" means the annual payments due and payable by the Corporation to the Agency in accordance with the provisions of Section 4.01 of the Prior Agreement, including any and all penalties imposed upon the Corporation for failure to make any such payment on or before the due date thereof.

"Prior Agency Bonds" means the bonds and other obligations of the Agency issued under and pursuant to the Prior Agency Resolution.

"Prior Agency Resolution" means the Mental Health Services Facilities Improvement Revenue Bond Resolution adopted by the Agency on September 22, 1987, as the same has been and may be hereafter amended and supplemented.

"Prior Authority Agreement" means, collectively, the Financing Agreement (State Project) dated as of January 31, 1996 by and between the Authority and the Department, as the same has been and may be hereafter amended and supplemented, and the Financing Agreement (Voluntary Agency Project) dated as of January 31, 1996 by and between the Authority and the Department, as the same has been and may be hereafter amended and supplemented.

"Prior Authority Annual Payments" means the annual payments due and payable by the Department to the Authority in accordance with the provisions of Article V of the Prior Authority Agreement, including any and all penalties imposed upon the Department for failure to make any such payment on or before the due date thereof.

"Prior Authority Bonds" means the bonds and other obligations of the Authority issued under and pursuant to the Prior Authority Resolution.

"Prior Authority Resolution" means the Mental Health Services Facilities Improvement Revenue Bond Resolution adopted by the Authority on January 31, 1996, as the same has been and may be hereafter amended and supplemented.

"Project" means, collectively, the State Project, the Voluntary Agency Project and an Other Project, or singularly, any one of such projects as the context may require.

"Project Account" means the State Project Account, the Voluntary Agency Project Account, or such other project account in the Construction Fund as may be so designated, created and established pursuant to the Resolution.

"Purchase Price" means an amount equal to the principal amount of any Bond of a Series or Subseries purchased on any Tender Date plus, in the case of any Bond of a Series or Subseries that has been optionally tendered pursuant to the Resolutions, unless the Tender Date for such Bond is also an Interest Payment Date, accrued interest to the Tender Date.

"Qualified Financial Institution" means any of the following entities that has an equity capital of at least $125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least $125,000,000:

(i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Agency;

(ii) a bank, a trust company, a national banking association, a corporation 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 domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America or any foreign nation, whose senior unsecured long term debt is at the time an investment with it is made is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Agency;

(iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity, whose senior unsecured long term debt is at the time an investment with it is made is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Agency;

(iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority; or

(v) a corporation whose obligations, including any investments of any moneys held hereunder purchased from such corporation, are insured by an insurer that meet the applicable rating requirements set forth above.

"Qualified Swap" means, to the extent from time to time permitted by law, with respect to Bonds, any financial arrangement (i) which is entered into by the Authority with an entity that is a Qualified Swap Provider at the time the arrangement is entered into, (ii) which is a cap, floor or collar; forward rate; future rate; swap (such swap may be based on an amount equal either to the principal amount of such Bonds of the Authority as may be designated or a notional principal amount relating to all or a portion of the principal amount of such Bonds); asset, index, price or market-linked transaction or agreement; other exchange or rate protection transaction agreement; other similar transaction (however designated); or any combination thereof; or any option with respect thereto, in each case executed by the Authority for the purpose of moderating interest rate fluctuations, reducing debt service costs or creating either fixed interest rate Bonds or variable interest rate Bonds on a synthetic basis or otherwise, or other similar financial transaction, and (iii) which has been designated in writing to the Trustee by an Authorized Officer of the Authority as a Qualified Swap with respect to such Bonds.

"Qualified Swap Payment" means any payment required to be made by the Authority under a Qualified Swap, such payment to be made only from the Subordinated Payment Fund.

"Qualified Swap Provider" means an entity whose senior long term obligations, other senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under an interest rate exchange agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, are rated at the time the Qualified Swap is executed without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, at least as high as the third highest rating category by at least two nationally recognized statistical rating services.

"Rating Agency" means each nationally recognized statistical rating organization then maintaining a rating on the Bonds at the request of the Authority.

"Rating Confirmation" means evidence that no rating then in effect from a Rating Agency will be withdrawn or reduced solely as a result of an action to be taken hereunder; provided, however, that no action requiring Rating Confirmation shall be undertaken unless at least one Rating Agency at that time maintains a rating on the Bonds.

"Record Date" means *with respect to Bonds of a Series or Subseries in the Daily Mode or the Weekly Mode, the opening of business on the Business Day next preceding an Interest Payment Date.*

"Redemption Price," when used with respect to a Bond, means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution or any applicable Series Resolution or Series Certificate.

"Refunding Bonds" means all Bonds, whether issued in one or more Series of Bonds, authenticated and delivered on original issuance pursuant to the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution.

"Reimbursement Obligation" has the meaning provided in Section 2.06 of the Resolution.

"Resolution" means the Second Mental Health Services Facilities Improvement Revenue Bond Resolution of the Authority, adopted February 26, 2003, as from time to time amended or supplemented by Supplemental Resolutions or Series Resolutions in accordance with the terms and provisions thereof.

"Revenue Fund" means the fund so designated, created and established pursuant to the Resolution.

"Revenues" means (i) all Net Annual Payments received or receivable by the Authority, which pursuant to the Agreement are to be paid to the Trustee, (ii) all earnings on the investment of amounts held in the funds and accounts under the Resolution except the Arbitrage Rebate Fund and (iii) the payments received by the Authority pursuant to a Qualified Swap, excluding any payment made by the counterparty to a Qualified Swap that was payable solely upon the early termination such Qualified Swap.

"SEQR" means Article 8 of the New York Environmental Conservation Law and the regulations promulgated thereunder

"Serial Bonds" means the Bonds so designated in a Series Resolution or a Series Certificate.

"Series" means all of the Bonds authenticated and delivered on original issuance and pursuant to the Resolution and any applicable Series Resolution or applicable Series Certificate authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

"Series Certificate" means a certificate of an Authorized Officer of the Authority fixing terms, conditions and other details of Bonds in accordance with the delegation of power to do so under the Resolution or a Series Resolution.

"Series Resolution" means a resolution of the Authority authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Resolution.

"Services Fund" means the Mental Health Services Fund established by section 97-f of the State Finance Law.

"Sinking Fund Installment" means, as of any date of calculation and with respect to any Series or Subseries of Bonds, so long as any Bonds thereof are Outstanding, the amount of money required by the Resolution or by the Series Resolution pursuant to which such Bonds were issued or by any applicable Series Certificate, to be paid on dates as set forth in such Series Resolution or Series Certificate for the retirement of any Outstanding Bonds of said Series, but does not include any amount payable by the Authority by reason only of the maturity of a Bond.

"State" means the State of New York.

"State Facility" means any facility for use by the Department which the Authority and the Department are authorized, now or hereafter, to undertake or provide the financing for pursuant to law, as described and provided for in the Financing Agreement (State Project) and a Supplemental Financing Agreement.

"State Project" means, collectively, all of the State Facilities.

"State Project Account" means the account in the Construction Fund so designated, created and established pursuant to the Resolution.

"Subordinated Indebtedness" means any bond, note or other indebtedness authorized by Series Resolution or other resolution of the Authority and designated as constituting "Subordinated Indebtedness" in a certificate of an Authorized Officer of the Authority delivered to the Trustee, which shall be payable and secured in a manner permitted by Article V of the Resolution, and any lien on and pledge of any portion of the Revenues securing Subordinated Indebtedness shall be junior and inferior to the lien on and pledge of the Revenues herein created for the payment of the Bonds and Parity Reimbursement Obligations.

"Subseries" means the grouping of Bonds of a Series established by the Authority pursuant to the Series Resolution authorizing issuance of the Bonds of such Series or the applicable Series Certificate.

"Subordinated Payment Fund" means the fund so designated, created and established pursuant to the Resolution.

"Substitution Date" means:

(a) the second Business Day preceding the date that is specified in a written notice given to the Trustee and the Tender Agent in accordance with the Liquidity Facility or the Credit Facility as the date on which the assignment of the obligation of the Liquidity Facility Provider or the Credit Facility Provider under such Liquidity Facility or Credit Facility shall be effective; *provided, however*, that any date specified in such written notice as the effective date of such assignment shall be treated as the effective date of such assignment even if the assignment fails to occur on such date; and

(b) the date that is specified in a written notice given by the Authority to the Trustee and the Tender Agent as the date on which an Alternate Credit Facility or an Alternate Liquidity Facility is to be substituted for a then existing Credit Facility or Liquidity Facility in effect pursuant to the Series 2003D-2 Certificate; *provided, however*, that any date so specified in the written notice shall be treated as a Substitution Date only if a written notice thereof is given to the Trustee and the Tender Agent at least sixteen (16) days preceding such date; *provided further, however*, that any date so specified in the written notice shall be treated as a Substitution Date for the purposes of the Resolutions even if the substitution of the Alternate Credit Facility or the Alternate Liquidity Facility fails to occur on such date.

"Supplemental Financing Agreement" means any agreement amending or supplementing the Financing Agreement (State Project), the Financing Agreement (Voluntary Agency Project), any Other Agreement, or any Supplemental Financing Agreement, executed and becoming effective in accordance with the terms and provisions of the Resolution and the Financing Agreement (State Project) or the Financing Agreement (Voluntary Agency Project) or any Other Agreement.

"Supplemental Resolution" means any resolution of the Authority amending or supplementing the Resolution, any Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms and provisions of the Resolution.

"Tax Certificate" means such tax certificates, instructions and other documents as may be executed by an Authorized Officer of the Authority in connection with the issuance of Bonds of a Series for the purpose of demonstrating compliance with the provisions of Section 103(a) of the Code.

"Term Bonds" means the Bonds so designated in a Series Resolution or a Series Certificate and payable from Sinking Fund Installments.

"Term Rate Mode" means the mode during which Bonds of a Series or Subseries bear interest at a Term Rate.

"Termination Date" means, with respect to a Credit Facility or a Liquidity Facility, (i) the date on which such Credit Facility or Liquidity Facility shall terminate pursuant to its terms or otherwise be terminated prior to its Expiration Date or (ii) the date on which the obligation of the Credit Facility Provider or the Liquidity Facility Provider to provide a loan shall terminate; provided, however, that "Termination Date" shall not mean any date upon which a Credit Facility or Liquidity Facility is no longer effective by reason of its Expiration Date.

"Trustee" means the bank or trust company appointed as Trustee for the Bonds pursuant to the Resolution and having the duties, responsibilities and rights provided for in the Resolution, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant to the Resolution.

"Valuation Date" means (i) with respect to any Capital Appreciation Bond, the date or dates set forth in the Series Resolution authorizing such Bond or a Series Certificate on which specific Accreted Values are assigned to such Capital Appreciation Bond, and (ii) with respect to any Deferred Income Bond, the date or dates prior to the Interest Commencement Date set forth in the Series Resolution authorizing such Bond or a Series Certificate on which specific Appreciated Values are assigned to such Deferred Income Bond.

"Variable Interest Rate Bonds" means Bonds which bear a variable interest rate but does not include any Bond which, during the remainder of the term thereof to maturity, bears interest at a fixed rate. The method of computing such variable interest rate shall be specified in the Series Resolution authorizing such Series of Bonds.

"Voluntary Agency" means a corporation organized under or existing pursuant to the Not-For-Profit Corporation Law and as otherwise defined in Section 3 of the Facilities Development Corporation Act.

"Voluntary Agency Facility" means any facility owned, or for lease, sublease or use, by a Voluntary Agency which the Authority and the Department are authorized, now or hereafter, to undertake or provide the financing or refinancing for pursuant to law, as described and provided for in the Financing Agreement (Voluntary Agency Project) and a Supplemental Financing Agreement.

"Voluntary Agency Financing Documents" means the mortgage, the note and the loan, security, lease, sublease, financing or other documents and instruments entered into by a Voluntary Agency with or for the benefit of the Authority or the Department for the financing or refinancing of a Facility owned, or for lease, sublease or use, by such Voluntary Agency.

"Voluntary Agency Project" means, collectively, all of the Voluntary Agency Facilities.

"Voluntary Agency Project Account" means the account in the Construction Fund so designated, created and established pursuant to the Resolution.

"Weekly Mode" means a period of time during which Bonds of a Series or Subseries bear interest at a Weekly Rate.

"Weekly Rate Period" means with respect to Bonds of a Series or Subseries in the Weekly Mode, the period from and including the Closing Date (if initially issued in the Weekly Mode) or the Conversion Date that Bonds of such Series or Subseries began to bear interest at the Weekly Rate to and including the following Wednesday, and thereafter commencing on each Thursday to and including the earlier of the Wednesday of the following week or the day preceding any Mandatory Tender Date or the Maturity Date.

INFORMATION CONCERNING THE STATE OF NEW YORK

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APPENDIX B

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 B 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 B 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 B is dated May 12, 2008. It was updated on January 28, 2009 and supplemented on February 24, 2009. The AIS was also filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR). An official copy of the AIS may be obtained by contacting a NRMSIR, or 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, 2008 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 25, 2008 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.

Supplement to the Third Quarterly Update to the 2008-09 Annual Information Statement (AIS) of the State of New York

February 24, 2009

Recent Financial Plan Developments

This Supplement summarizes several developments concerning the State Financial Plan that have occurred since the release of the Third Quarterly Update to the AIS on January 28, 2009.

The Executive Budget, as amended, projected a General Fund budget gap of $1.6 billion in the current fiscal year and $13.8 billion in fiscal year 2009-10. The Governor and Legislature approved a deficit reduction plan ("DRP") for the current fiscal year on February 6, 2009. The DRP is expected to provide $1.6 billion in savings in fiscal year 2008-09 and approximately $800 million in savings in fiscal year 2009-10. The DRP included, among other things, an increased assessment on the insurance industry, a tuition increase for the State University, spending reductions in a range of programs, the transfer of certain assets from the New York Power Authority, strict controls on State-wide spending for agency operations, and the use of existing fund balances. The Legislature continues to deliberate on the 2009-10 Executive Budget proposal submitted by the Governor.

President Obama signed into law the American Recovery and Reinvestment Act of 2009 (the "ARRA") on February 17, 2009. Based on the Division of the Budget's ("DOB") preliminary analysis, New York State and localities will receive approximately $24.6 billion under ARRA during the current fiscal year and over the course of the next two fiscal years (2009-10 and 2010-11). In the current fiscal year and fiscal year 2009-10, the State itself (as distinct from local governments and school districts) is expected to receive approximately $6.5 billion in direct federal aid, of which approximately $5.3 billion is unrestricted aid to the State and approximately $1.2 billion (on a school year basis) is, based on DOB's review of the ARRA, restricted to financing education and higher education programs that would have otherwise been reduced based upon recommendations in the Executive Budget.

On February 24, 2009, the Governor and Legislature reached a consensus that, based on updated economic information and operating results through mid-February 2009, General Fund tax receipts over the two-year period from fiscal year 2008-09 to fiscal year 2009-10 are likely to be $1 billion lower than the levels forecast in the Executive Budget, as amended by the Governor on January 15, 2009. The consensus forecast notes that, "all parties agreed that the greatest risk to the consensus forecast is the current state of financial markets . . . [and] find virtually no upside potential to the consensus forecast." The DOB also estimates that a delay in budget enactment from March 1, 2009 to April 1, 2009 (the start of the State fiscal year) would result in approximately $250 million to $300 million in potential lost savings in fiscal year 2009-10, mainly due to later implementation of proposed health care cost containment. The DOB further notes that the State Financial Plan projections are subject to a number of risks, including risks related to (a) the economic forecast, (b) the execution of certain transactions counted on in the Financial Plan, and (c) legislative action on the Executive Budget, as proposed (please see the Third Quarterly Update to the AIS for a discussion of such risks).

On balance, DOB believes that the developments described above will permit the State to end the current fiscal year in balance without the use of existing reserves.

Update to Annual Information Statement (AIS)
State of New York

January 28, 2009

This quarterly update (the "AIS Update") is the third quarterly update to the Annual Information Statement of the State of New York, dated May 12, 2008 (the "AIS") and contains information only through January 28, 2009. This AIS Update should be read in its entirety, together with the AIS and the first and second quarterly updates to the AIS dated August 6, 2008 (the "First Quarterly Update") and October 28, 2008 (the "Second Quarterly Update") and the Supplement to the Second Quarterly Update released on December 23, 2008 which was based on the 2009-10 Executive Budget proposal. This AIS Update is based on the Supplement to the Second Quarterly Update and contains updates thereto based on the 2009-10 Executive Budget 30-day amendment process. Summary tables on pages 50-53 compare Financial Plan changes between the Executive Budget Financial Plan and the updated Financial Plan provided in conjunction with the 30-day amendments (the "Amended Financial Plan").

The Governor submitted the Executive Budget for 2009-10 (the "2009-10 Executive Budget"), on December 16, 2008, one month earlier than mandated by law. The 2009-10 Executive Budget Financial Plan (the "Executive Budget Financial Plan") included (1) a proposed Deficit Reduction Plan ("DRP") to eliminate a current-year budget gap estimated at $1.7 billion, and (2) a complete plan of savings proposals and new resources to eliminate a budget gap of $13.7 billion projected for the 2009-10 fiscal year. The budget gaps represent (a) the difference between the General Fund disbursements projected to be needed to maintain current service levels and specific commitments, and the projected level of resources to pay for them, plus (b) the projected operating deficit in HCRA.

On January 15, 2009, the Governor submitted amendments to the Executive Budget, as authorized by the State Constitution. In conjunction with the amendments, the Division of the Budget issued the Amended Financial Plan, reflecting minor revisions to the operating projections set forth in the Executive Budget Financial Plan based on updated economic data, operating results through December 2008, the programmatic and technical amendments submitted by the Governor, and other information.

In the Amended Financial Plan, DOB revised the estimate for General Fund receipts upward by $115 million in the current year, mainly reflecting the impact of certain litigation settlements reached by the State Attorney General. This reduced the estimated imbalance in the current year that must be closed by the DRP from $1.7 billion to $1.6 billion. In 2009-10 and beyond, DOB reduced projected General Fund tax receipts by $200 million annually, based in large part on updated economic information for December 2008. This estimated decline in tax receipts was partially offset by other forecast revisions, leaving a potential imbalance of $128 million in 2009-10 compared to the Executive Budget Financial Plan. To eliminate the budget imbalance in 2009-10, and maintain a balanced budget proposal, the Amended Financial Plan reflected adjustments that (a) deferred, until 2009-10, savings actions of $100 million that were originally included in the DRP for 2008-09 but are no longer expected to be needed and (b) new savings actions of $28 million. In addition to the changes described above, the Governor introduced several programmatic and technical amendments to the Executive Budget that have a minimal fiscal impact. The Amended Financial Plan projections assume that the Legislature will enact the Executive Budget, as amended on January 15, in its entirety.

The Executive Budget, as amended by the Governor, is structured to permit the Legislature to enact the DRP in advance of the budget for 2009-10. The Legislature convened for its new session on January 7, 2009. The Amended Financial Plan assumes the Legislature will take action on the DRP proposals by February 1, 2009 and on the Executive Budget proposals by March 1, 2009. Negotiations on the DRP have been held between the Executive and the Legislature. DOB believes that the level of Financial Plan savings that could be achieved would not be materially affected if the DRP were enacted later in the current fiscal year, and expects that any items not addressed as part of the DRP will be considered as part of the overall negotiations on the 2009-10 Budget.

As in any year, there can be no assurance that the Legislature will act on the assumed timetable, that it will adopt the DRP as proposed, or that it will not make material revisions to the 2009-10 Executive Budget, as amended and proposed.

In this AIS Update, readers will find:

1. Extracts from the Governor's Executive Budget Financial Plan for 2009-10 presented to the Legislature on December 16, 2008, updated to reflect the revisions captured in the Amended Financial Plan. The Amended Financial Plan includes:

   (a) estimates for the State's current fiscal year (2008-09) and detailed projections for fiscal years 2009-10 through 2012-13, which reflect the 2009-10 Executive Budget recommendations (including the Amended Financial Plan);

   (b) a summary of the recent events and changes to the Financial Plan made since the Second Quarterly Update;

   (c) an updated economic forecast;

   (d) operating results for the first nine months of fiscal year 2008-09;

   (e) the Generally Accepted Accounting Principles ("GAAP")-basis Financial Plan projections for 2008-09 and 2009-10; and

   The Executive Budget Financial Plan, the Amended Financial Plan, the proposed Capital Program and Financing Plan, and related budgetary information are available on the DOB website, www.budget.state.ny.us.

2. A discussion of special considerations related to the Amended Financial Plan.

3. Updated information regarding the State Retirement Systems.

4. The current status of significant litigation 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 Update on behalf of the State. In preparing this AIS Update, DOB has utilized significant portions of the Executive Budget Financial Plan and the Amended Financial Plan, but has also relied on information drawn from other sources, such as the Office of the State Comptroller ("OSC"), that it believes to be reliable. Information relating to matters described in the section entitled "Litigation" is furnished by the State Office of the Attorney General.

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

The State may issue AIS supplements or other disclosure notices to this AIS Update 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 Update in Official Statements or related disclosure documents for State or State-supported debt issuance. The State has filed this AIS Update directly with Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") and with the Central Post Office, Disclosure USA, an internet-based disclosure filing system, approved by the Securities and Exchange Commission and established by the Municipal Advisory Council of Texas to facilitate the transmission of disclosure-related information to the NRMSIRs. An official copy of this AIS Update may be obtained by contacting the New York State Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 474-8282 or from any NRMSIR.

Usage Notice

This AIS Update 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 payment of their respective bonds, notes or other obligations.

An informational copy of this AIS Update is available on the DOB website (www.budget.state.ny.us). The availability of this AIS Update in electronic form at DOB's website is being provided to you 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 Update on this website is not intended as a republication of the information therein on any date subsequent to its release date.

Neither this AIS Update 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 Update or any portion thereof in a Preliminary Official Statement, Official Statement, or other offering document or continuing disclosure filing or incorporated by reference therein 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 Update if so misused.

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Amended Financial Plan

Note: *DOB issued the 2009-10 Executive Budget Financial Plan on December 16, 2008 and the Amended Financial Plan on January 15, 2009. The extracts set forth below are from the Executive Budget Financial Plan, as updated to reflect the Governor's amendments and revised projections of January 15, 2009 (the "Executive Budget"). The Financial Plans include estimates and proposals for 2008-09 and 2009-10, and projections for 2010-11 through 2012-13. As such, they contain estimates and projections of future results that should not be construed as statements of fact. These estimates and projections are based upon various assumptions that may be affected by numerous factors, including future economic conditions in the State and nation and potential litigation. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained in the Amended Financial Plan.*

The State accounts for all of its spending and revenues by the fund in which the activity takes place (such as the General Fund), and the broad category or purpose of that activity (such as State Operations). The Financial Plan tables sort all State projections and results by fund and category. The State Constitution requires the Governor to submit an Executive Budget that is balanced on a cash basis in the General Fund — the Fund that receives the majority of State taxes, and all income not earmarked for a particular program or activity. Since this is the fund that is required to be balanced, the focus of the State's budget discussion is weighted toward the General Fund.

The State also reports disbursements and receipts activity by two other broad measures: State Operating Funds, which includes the General Fund and funds specified for dedicated purposes, but excludes Federal Funds and Capital Projects 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 see the Glossary of Acronyms on Pages 46-49 of this AIS Update for the definitions of acronyms, defined terms and abbreviations that are used in this AIS Update.

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Amended Financial Plan

The outlook for State finances has continued to weaken since the budget for the current fiscal year was enacted in April 2008. In the First Quarterly Update to the AIS, DOB significantly lowered its projections for tax receipts to reflect the worsening outlook for the national and State economies, and the anticipated impact on tax collections.[1] A potential gap was identified for the current fiscal year (2008-09), which DOB expected to eliminate through a 7 percent reduction in State agency operations. At the time, DOB warned that the State's fiscal outlook could worsen further, noting "the nation's economic troubles are severe and widespread [and] important financial institutions face a crisis of confidence among investors and the general public."

In September and October 2008, a series of unprecedented financial sector shocks transformed the economic downturn that began in late 2007 into a global financial crisis. In New York, the crisis was expected to have grave consequences for the State's financial services sector, one of the principal sources of State tax receipts. In the Second Quarterly AIS Update, after evaluating the still-unfolding crisis, DOB reduced the General Fund receipts forecast by nearly $1.7 billion for the current year and by over $5.8 billion for 2009-10.[2] In addition, market conditions were expected to disrupt plans to convert GHI/HIP to a for-profit company and to sell certain surplus properties, reducing expected resources by an additional $384 million in the current year. As a result of these and other revisions, a combined General Fund and HCRA budget gap of $1.5 billion was projected for the current year, growing to $12.5 billion in 2009-10. The combined General Fund and HCRA four-year gap totaled $47 billion, an increase of $21 billion from the First Quarterly Update to the AIS.[3] At the Governor's request, the Legislature convened a special session on November 18, 2008 to consider options to close the current-year gap, but ultimately took no action.

Economic Discussion

U.S. Forecast Discussion

Since the end of October 2008, evidence has mounted that the U.S. recession that began in December 2007 has deepened and the advance toward global recession has accelerated. The deleveraging process in the housing and credit markets has destroyed trillions of dollars of wealth, resulting in what may become the most severe economic contraction since the early 1980s and possibly the Great Depression. In spite of a massive government effort to restore the domestic banking system, and similar efforts around the world, the global economy's downward momentum continues unabated.

Real U.S. GDP is projected to decline for four consecutive quarters starting with the third quarter of calendar year 2008. For estimating purposes, it is assumed that a stimulus package will be approved at the Federal level at $800 billion for two years. DOB projects the U.S. economy to contract by 1.4 percent in 2009, following growth of 1.2 percent in 2008.

The housing market has still failed to find a bottom, with housing starts falling to unprecedented post-war lows and home prices continuing to fall. Declining employment and wealth, combined with unfavorable credit market conditions, continue to put downward pressure on household spending. On the positive side, the recent decline in energy prices has increased the purchasing power of household incomes, while at the same time reducing inflation expectations and increasing the Federal Reserve's policy options. But this favorable trend is expected only to cushion the impact of a falling labor market and a slow-recovering financial system. Consequently, real consumption is projected to decline.

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[1] Issued on August 6, 2008
[2] Issued October 28, 2008
[3] Covering fiscal years 2008-09 through 2011-12

With the accelerated loss of jobs projected for 2009, wage growth is also expected to fall. DOB projects that wages will actually fall in both the fourth quarter of 2008 and the first quarter of 2009, owing in part to weak bonus performance anticipated nationwide for these quarters. The substantial decline in wage growth is expected to reduce personal income growth from 3.8 percent in 2008 to 1.8 percent in 2009. DOB projects inflation as measured by growth in the Consumer Price Index of 0.1 percent for 2009, following 3.9 percent for 2008.

New York Forecast Discussion

With the financial markets at the center of the economic downturn, the New York State economy stands to be hit hard by the current recession. Financial industry consolidation is likely to have grave implications for financial sector employment, particularly in New York City. Layoffs from the State's financial services sector are now expected to total approximately 60,000 as strained financial institutions seek to cut costs and newly merged banks seek to reduce duplication of services. These projected losses are approximately double those that occurred in the wake of September 11th.

But the current downturn in the State economy is expected to extend far beyond Wall Street. A broad-based State recession is now projected to result in private sector job losses of about 180,000, with declines anticipated for all major industrial sectors except for health and education. The loss of manufacturing jobs is expected to accelerate going forward, particularly in auto-related industries. The State's real estate market will continue to weaken in 2009, with office vacancy rates expected to rise due to falling employment, tight credit market conditions, and completed construction coming online. In addition, a weak global economy and strong dollar are expected to negatively affect the State’s export-related and tourism industries. State employment is now expected to fall 1.9 percent for 2009, with private sector jobs projected to fall 2.2 percent, following growth of 0.3 percent for both total and private employment for 2008. DOB projects a decline in total State wages of 4.1 percent for 2009, largely driven by a decline of 48 percent in bonus payments of the finance and insurance industry, following an estimated increase of 1.1 percent for 2008. Declines in both the wage and non-wage components of income will result in a decline in total personal income of 1.6 percent for 2009, following 2.3 percent growth for 2008.

Financial Plan Revisions Reflect the Weakening Economic Outlook

In DOB’s view, the updated economic information that has become available since the Second Quarterly AIS Update, the continuing instability in the financial markets, and the uneven response to Federal government efforts to restore confidence combine to provide compelling evidence for further reducing the General Fund receipts forecast over the plan period. The impact of the recession on tax collections is expected to begin to register in the high-tax collection months that remain in the current fiscal year. DOB has lowered the estimate of General Fund tax receipts (excluding deposits to the STAR fund) by $492 million in the current year and $1.8 billion in 2009-10.[4] The reductions are in addition to the substantial downward revisions reflected in the Second Quarterly AIS Update.

In comparison to the Second Quarterly AIS Update, General Fund PIT receipts (excluding STAR), have been reduced by $253 million in 2008-09 and $1.27 billion in 2009-10. In 2008-09, the revisions reflect an expected decrease in estimated tax payments and withholding, offset in part by an expected increase in final returns. In 2009-10, the revisions reflect falling wage growth and lower withholding and estimated tax payments, consistent with the updated economic forecast. Lower expected spending in the STAR program, based on rebate requests and other indicators, offsets these downward revisions in PIT receipts. General Fund user taxes and fees have been lowered by $143 million in the current year, reflecting slower than expected growth in the sales tax base. Business tax estimates have been reduced by $87 million in 2009-10, which is consistent with the economic outlook. Real estate transfer tax receipts have been lowered by $50 million in

[4] The STAR program is financed by a deposit of PIT receipts from the General Fund to a special revenue fund.

2008-09 and $210 million in 2009-10, consistent with the expected weakness in the real estate and credit markets. The estate tax estimate has been lowered by $56 million in 2008-09 and $127 million in 2009-10, reflecting market conditions. DOB has also lowered its multi-year VLT forecast. Although a new facility at Aqueduct Racetrack is expected to begin operations in October 2010, plans for a temporary facility that would open earlier have not materialized.

The downward revisions to tax and VLT receipts are offset in part by lower expected costs in several areas, as compared to the forecast in the Second Quarterly AIS Update. These include: school aid, as a result of the November 2008 database update; the Judiciary, based on a review of operating results; and in other programs and agencies. In addition, DOB has revised downward its estimate concerning the cost of certain legislation enacted during the 2008 regular legislative session. DOB believes that pressure on entitlement spending is likely to build and may add additional costs over the plan period.

Fiscal Situation

In fiscal year 2008-09, the net impact of the revisions leaves a budget gap of $1.6 billion, an increase of $117 million from the Second Quarterly AIS Update. In 2009-10, the result is a budget gap of $13.8 billion, an increase of $1.3 billion from the Second Quarterly AIS Update. The table below summarizes the impact of the revisions to operating projections.

SUMMARY OF CHANGES TO GENERAL FUND/HCRA CURRENT SERVICES FORECAST
SAVINGS/(COSTS)
(millions of dollars)

	2008-09*	2009-10	2010-11	2011-12	2012-13**
Mid-Year Current Services Surplus/(Gap)	(1,475)	(12,518)	(15,752)	(17,234)	
Four-Year Total Gap (2008-09 through 2011-12)				*(46,979)*	
Revisions	(232)	(1,160)	(1,356)	(1,321)	
Tax Revenue	(492)	(1,618)	(1,700)	(1,796)	
VLT Operations	0	(96)	(148)	(149)	
STAR	159	300	378	406	
School Aid November Database Update	0	213	142	214	
All Other	101	41	(28)	4	
Executive Budget Current Services Surplus/(Gap) Estimate	(1,707)	(13,678)	(17,108)	(18,555)	(19,627)
Four-Year Total Gap (2008-09 through 2011-12)				*(51,048)*	
30-Day Amendment Forecast Revisions	115	(128)	(165)	*(164)*	(164)
Revised Current Services Surplus/(Gap) Estimate	(1,592)	(13,806)	(17,273)	(18,719)	(19,791)
Change in Current Services Surplus/(Gap) Estimate since Mid-Year	(117)	(1,288)	(1,521)	(1,485)	N/A
Four-Year Total Gap (2008-09 through 2011-12)				*(51,390)*	

** 2008-09 estimate, before reflecting impact of proposed Deficit Reduction Plan.*
*** The 2012-13 gap estimates are published for the first time in the 2009-10 Executive Budget.*

The combined four-year gap (excluding fiscal year 2012-13, which is included for the first time in the 2009-10 Executive Budget) totals $51 billion before recommendations, up by more than $4 billion compared to the Second Quarterly AIS Update.[5] The gap for 2009-10 is the largest ever faced by the State as measured in absolute dollars, and is roughly equivalent to the magnitude of the gap that needed to be closed in 2003-04 as a percentage of the total General Fund.

Since the Executive Budget was presented on December 16, 2008, DOB has revised the estimate for General Fund receipts upward by $115 million, mainly reflecting the impact of certain litigation settlements

[5] The estimates beyond 2009-10 are meant to provide only a general perspective on the State's long-term operating forecast, and will be revised with each quarterly update.

reached by the State Attorney General. In 2009-10 and beyond, DOB has reduced projected General Fund tax receipts by $200 million, based in large part on updated economic information for December 2008. The decline in tax receipts is partially offset by other forecast revisions, leaving a potential imbalance of $128 million compared to the Executive Budget Financial Plan.

Overview of Governor's 2009-10 Executive Budget Recommendations

The Executive Budget would make significant progress in bringing State finances into structural balance. The gap-closing plan proposes $15.4 billion in savings and new resources to balance the budgets in the 2008-09 and 2009-10 fiscal years.[6] The recommendations would, if approved by the Legislature in their entirety, fully balance the General Fund and HCRA in the current year and 2009-10, and leave a General Fund gap of $2.0 billion in 2010-11. The combined four-year gap (2008-09 through 2011-12) would be reduced from $51 billion to $6.2 billion, a decrease of $44.9 billion (88 percent). The Executive Budget gap-closing plan for 2009-10 is summarized in the following table.

COMBINED GENERAL FUND AND HCRA BUDGET-BALANCING PLAN: 2009-10 EXECUTIVE BUDGET (millions of dollars)

	2008-09	2009-10	Shares of Plan	2010-11	2011-12	2012-13
Revised Current Services Gaps	**(1,592)**	**(13,806)**		**(17,273)**	**(18,719)**	**(19,791)**
Spending Restraint:	350	9,150	67%	11,166	11,416	11,142
Savings Actions	212	7,286	54%	9,006	9,194	8,852
School Tax Relief Program	93	1,668	12%	2,160	2,222	2,290
Elimination of Member Item Funding	45	196	1%	0	0	0
Revenue Actions	112	3,076	23%	3,630	3,503	3,024
Non-recurring Actions	1,157	1,137	8%	361	(434)	(34)
HCRA Revisions	88	315	2%	117	25	(14)
Revised Executive Budget Gaps	**115**	**(128)**		**(1,999)**	**(4,209)**	**(5,673)**
30-Day Amendments	(115)	128		14	14	12
30-Day Amendment Executive Budget Gaps*	**0**	**0**		**(1,985)**	**(4,195)**	**(5,661)**

**Assumes enactment of Deficit Reduction Plan (DRP) in current year at levels proposed.*

The Executive Budget holds 2009-10 spending flat in the General Fund and below inflation for nearly all budget measures. The State's rainy day reserves would remain intact at $1.2 billion, equal to approximately 2.2 percent of expected spending. Non-recurring resources would total just over $1.1 billion in 2009-10, or approximately 8 percent of the total gap-closing plan. The number of State employees is expected to decline by approximately 3,100 in 2009-10, the first annual reduction in headcount since 2004.[7] The gap-closing plan is balanced with actions that are under the State's control to enact and implement. It does not rely on the prospect of extraordinary Federal aid, which at this point remains speculative.

To address the two-year budget imbalance, the Executive Budget is presented as two distinct plans: (1) a Deficit Reduction Plan (DRP) to eliminate the current-year budget gap, and (2) a complete plan of savings

[6] The gap-closing plan refers to actions proposed to eliminate the combined General Fund and HCRA budget gaps. The gaps represent (a) the difference between the General Fund disbursements expected to be needed to maintain current service levels and specific commitments, and the expected level of resources to pay for them, plus (b) the operating deficit projected in HCRA.
[7] Employees measured as full-time equivalents.

proposals and new resources to balance the 2009-10 fiscal year. The Executive Budget is structured to permit the Legislature to enact the DRP in advance of the budget for 2009-10.

The Legislature convened for its new session on January 7, 2009. The Amended Financial Plan assumes the Legislature will take action on the DRP proposals by February 1, 2009 and on the Executive Budget proposals by March 1, 2009. Negotiations on the DRP have been held between the Executive and the Legislature. DOB believes that the level of Financial Plan savings that could be achieved would not be materially affected if the DRP were enacted later in the current fiscal year, and expects that any items not addressed as part of the DRP will be considered as part of the overall negotiations on the 2009-10 Budget.

To eliminate the entire current-year gap, the DRP for 2008-09 must achieve $1.6 billion in savings by March 31, 2009. The types of DRP actions that can be implemented in the final quarter of the fiscal year are limited by the time period and, therefore, were developed under separate guidelines from the Executive Budget for 2009-10. Accordingly, the discussion that follows concerns the 2009-10 Executive Budget recommendations. The DRP is discussed separately in the section herein entitled “2008-09 Deficit Reduction Plan”.

2009-10 Executive Budget Actions

The 2009-10 gap-closing actions can be grouped into three general categories: (1) actions that reduce current services spending in the General Fund on a recurring basis (“Spending Restraint”); (2) actions that increase revenues on a recurring basis (“Revenue Actions”); and (3) transactions that increase revenues or lower spending in 2009-10, but that are not expected to recur (“Non-Recurring Resources”). The section below provides details on the actions under each category that are recommended for 2009-10.

Spending Restraint

The fallout from the global financial crisis has caused a dramatic decline in projected State receipts, driving the extraordinary increases in the State’s budget gaps over the past two quarters. But the sustained growth in spending commitments during the last economic recovery has also contributed substantially to the State’s long-term structural deficit. Since 2004, nearly all of the State’s major aid programs and activities, including school aid, health care, and STAR, have grown faster than personal income and inflation. Left unaddressed, State spending in the General Fund next fiscal year would grow in the range of 12 percent, far greater than the rate of inflation[8] and more than twice the 5.3 percent long-term growth rate for State personal income. Growth rates in this range are not sustainable, based on either historical receipts patterns or current projections, especially in light of the extraordinary uncertainties in the economic outlook. It is important to note, however, that the high level and wide impact of proposed spending actions is a direct (and, in DOB’s view, necessary) response to the severity of the budget gaps. It is expected that once the immediate fiscal demands have been resolved and the long-term operating outlook improves, the State may again be in a position to increase funding for high-priority programs, albeit at more sustainable levels.

Accordingly, the Executive Budget gap-closing plan for 2009-10 focuses foremost on actions that substantially reduce the growth in State spending on a recurring basis. Actions to restrain spending account for approximately two-thirds of the gap-closing plan and will affect most activities funded by the State. The following table summarizes the recurring spending actions in the General Fund by major function or activity.

[8] Projected at 0.5 percent in 2009-10.

COMBINED GENERAL FUND AND HCRA GAP-CLOSING PLAN FOR 2009-10 - SPENDING RESTRAINT
(millions of dollars)

	2009-10	2010-11	2011-12	2012-13
Spending Restraint	**9,150**	**11,166**	**11,416**	**11,142**
Medicaid/HCRA	2,626	2,506	2,624	2,678
School Aid/Lottery Aid	1,872	3,259	3,387	3,144
School Tax Relief Program	1,668	2,160	2,222	2,290
Local Government Aid	432	504	500	493
Mental Hygiene	423	451	450	416
Human Services/Labor/Housing	385	425	398	290
Higher Education	338	415	390	365
Other Education Aid	246	272	275	286
Public Safety	191	247	223	231
Transportation	177	305	381	444
Economic Development/Gaming/Regulatory	112	108	108	108
Health/Aging	106	288	287	287
State Workforce Wages	281	161	161	161
General State Charges (Fringe Benefits)	85	131	170	213
Convert Capital to PAYGO	0	(100)	(200)	(300)
Repeal Planned Member Item Deposits	196	0	0	0
All Other	12	34	40	36

The most significant actions recommended in the Executive Budget that reduce General Fund spending from the current services forecast include the following:

- Medicaid/HCRA ($2.6 billion) through cost-containment measures, including rate reductions, restructuring the base on which rates are calculated, re-establishing certain industry assessments, and financing a greater share of Medicaid spending through HCRA. In addition, the Executive Budget recommends savings actions to fully eliminate the HCRA operating deficit;

- School Aid ($1.9 billion on a State fiscal year basis) by maintaining selected aids at 2008-09 school year levels, extending the phase-in of Foundation Aid and the UPK program, instituting a Deficit Reduction Assessment, and authorizing certain changes to the lottery program that would increase projected resources available to education;

- STAR ($1.7 billion) by eliminating the Middle-class STAR program, reducing the PIT credit for New York City taxpayers, and adjusting the “hold harmless” floor;

- Local government aid ($432 million) by eliminating AIM payments to New York City, holding aid flat for other municipalities, reducing VLT aid, and other measures;

- Mental hygiene ($423 million) by eliminating a cost-of-living increase for providers, instituting programmatic reforms to: align reimbursement with actual costs; to close, consolidate, and restructure facility operations which reduce the planned workforce by 865 positions; to maximize available Federal aid; and other measures;

- Human Services ($385 million) by reducing the State supplement for SSI recipients living in community settings, increasing the level of Federal funding that local districts are required to spend on child welfare services, eliminating the human services COLA, discontinuing reimbursement for non-mandated, community-based preventive services funding, creating a block grant for youth programs funding, closing or downsizing underutilized facilities, and other measures;

- Higher education ($338 million) by tuition increases at public universities approved by the SUNY and CUNY Boards of Trustees, reducing aid to community colleges, and other measures;

- Other Education Aid ($246 million) by requiring school districts to assume a share of financial responsibility for pre-school special education ($143 million); eliminating certain attendance requirements at non-public schools; reducing library aid; and other measures;

- Public Safety ($191 million) by closing four prison camps and various annexes in correctional facilities; delaying expansion of mental health programs under the SHU Exclusion bill; improving parolee release and violation processes; eliminating farm operations at correctional facilities; reducing programs for inmates; and other operational changes;

- Transportation ($177 million) by reducing the subsidies to the DHBTF (which is made possible by an increase in certain fees) and transit systems, and lowering spending on DOT operations consistent with overall reduction in planned capital activities;

- Economic development, regulatory activities, and gaming ($112 million) by eliminating duplicative services and achieving staffing efficiencies through consolidations of existing agencies, reducing funding for the Centers for Advanced Technology program and "I Love New York" tourism marketing program, and financing, through industry assessments, assistance for small businesses in paying for the costs of Timothy's Law (mental health) coverage;

- Health and aging ($106 million) by discontinuing reimbursement for optional services in the General Public Health Works program, financing a portion of EI costs through insurance industry assessments, eliminating a planned Human Services COLA in 2009-10, and other targeted reductions; and

- Member item funding ($196 million) by eliminating all planned deposits into the fund that finances discretionary payments.

The Executive Budget also recommends a number of actions to reduce the costs of the State government workforce through wage, health benefit, and pension changes. To achieve immediate savings, the Executive Budget recommends elimination of the general salary increases scheduled in 2009-10 and the deferral of five days of salary in 2009-10 that would be payable upon separation from State service, or when fiscal conditions permit. It also advances proposals that would require current and retired employees to contribute toward Medicare Part B premiums and would adjust the State's contribution for future retirees' health insurance on a sliding scale basis that takes years of service into account. To reduce the State's long-term pension costs, the Budget proposes the creation of a new tier of pension benefits ("Tier 5"). This proposal includes, among other changes, raising the minimum retirement age from 55 to 62 and requiring all newly hired employees to contribute 3 percent annually to the pension system during all years of service. The Executive Branch workforce is expected to total 196,292 FTEs in 2009-10, a reduction of approximately 3,100 from the estimated total for 2008-09. The decline mainly reflects the impact of recommended closures of certain State correctional and youth facilities, agency consolidations, and the continuation of the statewide hiring freeze.

The Executive Budget proposes financing a larger share of economic development projects with ongoing resources rather than with long-term debt, starting in fiscal year 2010-11. By converting from debt financing, the State will increase capacity under its statutory debt cap and realize debt service savings in future years. The determination to allocate the "pay-as-you-go resources" to economic development takes into account that projects in this area typically have above-average financing costs.

The Executive Budget includes new initiatives in 2009-10, the costs of which are counted against the savings actions presented in the Amended Financial Plan. The most significant include additional funding for HEAL-NY and other health priorities; quality incentive pools for nursing homes and home care agencies; an increase in the basic public assistance grant of 10 percent annually over the next three years; and a new grant and loan program to be funded with savings from reforms to the existing Empire Zone program.

Revenue Actions

Balancing the budget exclusively through spending reductions in 2009-10 would require an extraordinary retrenchment in State services. Absent any actions to raise revenues, General Fund spending would have to be reduced by over $13 billion from the level required to meet existing commitments – and by over $6 billion, or 11 percent, from the current year – to achieve a balanced budget in 2009-10. Spending reductions of this magnitude in a recession could threaten to slow a future recovery, as well as raise potential health and public safety concerns.

Accordingly, the Executive Budget includes a package of tax increases and other revenue enhancements to help close the budget gap. The table below summarizes the actions.

COMBINED GENERAL FUND AND HCRA GAP-CLOSING PLAN FOR 2009-10 - REVENUE ACTIONS
(millions of dollars)

	2009-10	2010-11	2011-12	2012-13
Revenue Actions	**3,076**	**3,630**	**3,503**	**3,024**
Increase 18-A Utility Assessment	652	652	652	273
Eliminate Sales Tax Exemption on Clothing Under $110	462	660	660	660
Reform Empire Zones Program (net of successor program)	247	264	266	274
Enhanced "Bottle Bill"/EPF Financing	207	207	207	207
Limit Itemized Deductions for High Income Taxpayers	140	200	150	150
Impose Cable/Satellite Television Sales Tax	136	180	180	180
Limit Capital Improvement Exemption	120	160	160	160
Permit Sale of Wine in Grocery Stores	105	54	3	3
Repeal Motor Fuel Sales Tax Cap	90	120	120	120
Enhance Revenue Audit/Compliance Activities	85	85	85	85
Impose Personal Care Service Tax	78	104	104	104
Increase Beer/Wine Tax	63	63	63	63
Restructure Insurance Rates	62	50	50	50
Impose Tax on Hedge Fund Management Fees	60	60	60	60
Impose Sales Tax on Entertainment-related Activities	53	70	70	70
Install Work-Zone Cameras for Auto. Speed Enforcement	50	100	100	100
Impose Fee on Non-LLC Partnerships	50	50	50	50
Impose Sales Tax on Transportation-related Activities	45	60	60	60
All Other Revenue Actions	371	491	463	355

The largest actions include: increasing the gross receipts assessment on utilities from 1 percent to 2 percent; eliminating the sales tax exemption on clothing priced under $110 and replacing it with time-limited exemption periods on clothing priced under $500; broadening the State's sales tax base to cover certain services (i.e., cable/satellite television, entertainment-related and transportation-related activities); reforming the existing Empire Zone program to link benefits to performance; expanding the "bottle bill" to cover additional types of containers and directing unclaimed deposits to the EPF, which would allow real estate transfer tax revenues currently deposited into EPF to flow to the General Fund; limiting certain types of itemized deductions by high-income taxpayers, but maintaining the exemption for charitable contributions; and permitting the sale of wine in grocery stores.

Non-Recurring Resources

The Executive Budget relies on $1.1 billion in non-recurring resources in 2009-10. Non-recurring resources total less than the annual growth in savings from recurring actions from 2009-10 to 2010-11, which increase in value by over $2 billion. The practical effect is that non-recurring actions have no adverse impact on the 2010-11 gap because they are more than offset by the growth in savings. In fact, if the entire 2009-10 Executive Budget gap-closing plan consisted of recurring actions that did not grow in value (i.e., $13.7 billion), the current-services gap remaining in 2010-11 would total approximately $3.4 billon, instead of the $1.8 billion projected.

The largest non-recurring actions consist of delaying, by two years, an extra Medicaid cycle that would otherwise occur at the end of 2009-10, increasing the business tax prepayment to 40 percent, transferring available resources from the Battery Park City Authority to the State and New York City, transferring of assets from NYPA, and bond-financing certain capital costs. In 2010-11, the Amended Financial Plan assumes a one-time franchise payment from a VLT operator that would be selected for the Belmont VLT facility that is proposed with the 2009-10 Executive Budget. The following table itemizes the non-recurring actions in the Executive Budget.

COMBINED GENERAL FUND AND HCRA GAP-CLOSING PLAN FOR 2009-10 - NON-RECURRING RESOURCES
(millions of dollars)

	2009-10	2010-11	2011-12	2012-13
Non-Recurring Resources	**1,137**	**361**	**(434)**	**(34)**
Delay extra MA Cycle (two years)	400	0	(400)	0
Increase Business Tax Prepayment to 40 Percent	333	0	0	0
Battery Park City Authority Resources (State Share)	270	0	0	0
NYPA Payments	170	0	(25)	(25)
Equipment Financing	104	(4)	(4)	(4)
School Aid Overpayment Recoveries	80	0	0	0
ESDC "Lock-Box" Sweep	60	0	0	0
EPF Sweep/Capital Bonding	50	0	0	0
Medicaid Reimbursement of Education Costs	20	0	0	0
Recoup Overpayments to NYC (General Public Health Works)	15	0	0	0
Increase Pre-Paid Sales Tax on Cigarettes	14	0	0	0
Recoup Overpayments to NYC (Early Intervention)	9	0	0	0
Continue TADA software bonding	3	0	0	0
Belmont Franchise Payment	0	370	0	0
Finance CUNY Payments with Jan-Mar '09 MA Savings	(429)	0	0	0
Fund Sweeps/Other	38	(5)	(5)	(5)

Consistent with the Second Quarterly AIS Update, the Amended Financial Plan assumes that $145 million in existing reserves will be applied to finance labor settlements in 2009-10 with unions that have not yet reached agreements (assuming settlements are reached).

30-Day Amendments

To eliminate the budget imbalance, the Amended Financial Plan has been adjusted to (a) defer, until 2009-10, savings actions of $100 million that were originally included in the DRP for 2008-09 but are no longer expected to be needed and (b) new savings actions of $28 million. In addition to the changes described above, the Governor introduced several programmatic and technical amendments to the Executive Budget that have a minimal fiscal impact. The Amended Financial Plan projections assume that the Legislature will enact the Executive Budget, as amended, in its entirety.

2008-09 Deficit Reduction Plan

The DRP for 2008-09 is designed to achieve $1.6 billion in savings by March 31, 2009, which when combined with additional revenues from Attorney General litigation settlements ($125 million), will eliminate the current year deficit of $1.7 billion. As noted above, the types of DRP actions that can be implemented by the end of the fiscal year are limited by the time period and therefore were developed under separate guidelines from the Executive Budget for 2009-10. The DRP consists of actions that require legislative approval and actions that DOB expects to take administratively. Actions requiring legislative approval total $1.2 billion (77 percent of the $1.6 billion total). The following table summarizes the specific actions.

GENERAL FUND/HCRA OPERATING FORECAST FOR 2008-09
DRP SUMMARY
SAVINGS/(COSTS)
(millions of dollars)

	2008-09
Current Budget Surplus/(Gap) Estimate	**(1,707)**
30-Day Revenue Forecast Revisions	115
Current Budget Surplus/(Gap) Estimate after Revisions	**(1,592)**
Debt Reduction Plan Savings	**1,592**
Legislative Actions:	**1,219**
Health Care Savings:	500
MA/HCRA Savings Attributable to Jan-Mar 2009	500
MA/HCRA Cash Savings Realized in 2009-10	(429)
CUNY Payment Deferral to Realize Current Year Savings	429
New York Power Authority Payments	306
Earned Administration Federal Funding	50
Attorney General Litigation Settlements	91
EPF Fund Sweeps/Capital Bonding	75
Higher Education (Tuition Increase/Reductions)	68
Repeal Planned Member Item Deposits	30
All Other	99
Administrative Actions:	**373**
Statewide Spending Controls	100
Existing Fund Balances	100
Timing of New York City STAR Payment	93
Manhattan District Attorney Balance	75
All Other	5
General/HCRA Surplus/(Gap) Estimate After Actions	**0**

In the case of health care savings, the DRP consists of cost containment measures that are applicable to the period from January 1, 2009 through March 31, 2009 (the fourth quarter of the 2008-09 fiscal year), but which will not generate actual cash savings until the first quarter of fiscal year 2009-10. The delay in savings is due to the lag between the assumed enactment of the proposals and their implementation. To realize the benefit of the savings from these cost containment measures in 2008-09, it is expected that payments to New York City related to the City University that are due in the first quarter of 2009-10 but that were budgeted in the current fiscal year will be made on their statutory due dates, not ahead of schedule.

Other legislative actions include: the transfer of assets from the Power Authority to the State under the terms of a memorandum of understanding negotiated between the Authority and the Executive; the transfer of earned Federal money related to reimbursement for the administration of child support enforcement activities; a reduction in spending for the EPF and a related transfer of excess balances; approval by the SUNY Board of Trustees of a tuition increase for SUNY; a reduction in community college base aid; elimination of a planned cash transfer to the Community Projects Fund; an across-the-board reduction to legislative initiatives authorized in the 2008-09 enacted budget; and a number of other actions to reduce planned spending.

Administrative actions include strict enforcement of the spending controls put in place in November 2008 over agency operational and capital spending, the use of existing fund balances that do not require prior legislative approval, an adjustment to the timing of the STAR payment to New York City (from December to June) on a permanent basis, and the elimination of a vacation "buy-back" program for management/confidential employees in State government.

Certain savings action originally included as part of the 2008-09 DRP have been deferred to 2009-10 to reflect the increase in expected resources in the current year and the downward revision to receipts in 2009-10. These actions include:

- **Earned Federal Administration Funding:** One half of the $100 million in earned Federal money related to reimbursement for the administration of child support enforcement activities is now recommended for use in 2009-10.

- **Workers Compensation Board Surplus Recapture:** The use of recaptured funds is now planned for 2009-10 instead of 2008-09.

- **Member Items**: Reflects a revision to the amount of money that can be made available to the General Fund based on spending trends.

Projected Closing Balances

DOB estimates the State will end 2008-09 with a General Fund balance of $1.5 billion, consisting of $1.2 billion in undesignated reserves and $287 million in designated reserves. The projected closing balance is $94 million lower than the balance projected at the time of the Second Quarterly Update to the AIS. This is due to the expected use of the Debt Reduction Reserve for debt service costs and elimination of a planned deposit to the Community Projects Fund.

The year-end balance in 2009-10 is expected to decline by $272 million to a total of $1.2 billion. This reflects the expected use of amounts reserved for labor settlements to finance a portion of new contracts that may be agreed to during the upcoming fiscal year. It also reflects the expected spend-down of existing balances in the Community Projects Fund to finance discretionary ("member item") spending. The DRP and Executive Budget recommend elimination of all planned deposits (totaling $226 million over two years) into the Community Projects Fund through 2009-10.

The closing balance estimates assume the successful implementation of the DRP and the enactment of the Executive Budget in its entirety.

GENERAL FUND ESTIMATED CLOSING BALANCE (millions of dollars)			
	2008-09	**2009-10**	**Change**
Projected Year-End Fund Balance	**1,514**	**1,242**	**(272)**
Undesignated Reserves	1,227	1,227	0
Tax Stabilization Reserve Fund	1,031	1,031	0
Rainy Day Reserve Fund	175	175	0
Contingency Reserve Fund	21	21	0
Designated Reserves	287	15	(272)
Reserved for Labor Settlements	145	0	(145)
Reserved for Debt Reduction	0	0	0
Community Projects Fund	142	15	(127)

2009-10 All Funds 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

- Base receipt growth over the period 2005-06 to 2007-08, supported by a strong financial services sector and real estate market, averaged over 9.5 percent. However, the current decline in economic activity is estimated to negatively impact receipt growth for 2008-09 and 2009-10. As a result, base tax receipts (correcting for law changes) are expected to fall 2.1 percent in 2008-09 and 2.9 percent in 2009-10.

- The negative impact of the sub-prime mortgage crisis and its aftermath on the State's economy in general and financial services industry in particular is expected to result in major declines in bonus payouts during the current fiscal year (down 46 percent from prior year) and reduced growth in business tax receipts over the remaining years of the Financial Plan.

- The volatile real estate and financial markets represent even greater risks to revenues due to the high concentration of taxable income among a relatively small segment of the taxpaying population.

- The decline in the residential housing market is projected to largely eliminate the surge in taxable capital gains realizations associated with real estate sales that characterized the last few years.

- The economy is expected to continue to decline, and as a result, 2009-10 growth in PIT withholding and sales tax collections will be weak absent the legislation included with this Budget.

- The combined impact of the declining real estate and financial markets and the deepening recession results in estimated declines in personal income tax liability of 8.9 percent in 2008, and 7.3 percent in 2009.

- The large audit settlements associated with financial service industry firms continued into 2008-09 but are expected to be largely concluded before 2009-10, and this loss of resources must be compensated for by other tax compliance actions included with this Budget.

All Funds receipts are projected to total $120.1 billion, an increase of $3.6 billion over 2008-09 projections. The table below summarizes the receipts projections for 2008-09 and 2009-10.

TOTAL RECEIPTS
(millions of dollars)

	2007-08 Actual	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund	**53,096**	**54,136**	**1,040**	**2.0%**	**55,083**	**947**	**1.7%**
Taxes	38,395	38,603	208	0.5%	39,665	1,062	2.8%
Miscellaneous Receipts	2,460	3,124	664	27.0%	3,806	682	21.8%
Federal Grants	69	41	(28)	-40.6%	0	(41)	-100.0%
Transfers	12,172	12,368	196	1.6%	11,612	(756)	-6.1%
State Funds	**80,375**	**80,430**	**55**	**0.1%**	**84,119**	**3,689**	**4.6%**
Taxes	60,871	60,786	(85)	-0.1%	61,170	384	0.6%
Miscellaneous Receipts	19,435	19,602	167	0.9%	22,948	3,346	17.1%
Federal Grants	69	42	(27)	-39.1%	1	(41)	-97.6%
All Funds	**115,423**	**116,474**	**1,051**	**0.9%**	**120,061**	**3,587**	**3.1%**
Taxes	60,871	60,786	(85)	-0.1%	61,170	384	0.6%
Miscellaneous Receipts	19,643	19,710	67	0.3%	23,054	3,344	17.0%
Federal Grants	34,909	35,978	1,069	3.1%	35,837	(141)	-0.4%

Base growth in tax receipts is estimated to decline 2.1 percent adjusted for law changes for fiscal year 2008-09 and a further 2.9 percent for 2009-10. Overall base growth in tax receipts is dependent on many factors. Over the past several fiscal years the most important factors explaining tax receipt growth have been related to:

- Improvements in overall economic activity, especially in New York City and surrounding counties;
- Continued profitability and compensation gains of financial services companies;
- Continued growth in the downstate commercial real estate market; and
- Continued positive impact of high-income taxpayers on personal income tax growth.

Each of these factors is now expected to retard growth in 2008-09 and 2009-10.

Proposed Law Changes

The 2009-10 Executive Budget includes changes to tax law that would:

- Reform certain components of our tax structure to ensure that tax burdens are fairly distributed, that our tax incentive programs are most efficiently utilized, and that taxpayers remit the proper amount of tax owed;
- Close unintended tax loopholes to improve the equity of the tax code; and

- Generate additional recurring revenues to help close the State's financial gaps in 2009-10 and beyond.

The tax policy changes proposed with this Budget are reported in summary below and in detail in the tax-by-tax write-ups contained in the separate "Economic and Revenue Outlook" report provided with the Executive Budget.

Personal Income Tax

- Authorize UDC to award tax credits to qualifying research and development projects and qualifying grants made to certain research colleges and universities based on strategic economic development criteria.
- Amend the definition of "presence in New York" for determining the residency of taxpayers who are usually outside the country, by requiring that their spouses and children only be present in New York versus present at the taxpayers' PPA in New York for 90 days.
- Close a loophole by including the gain from the sale of partnership interests as NY-source income to nonresident taxpayers to the extent that these gains are from sales of real property located in New York.
- Enact a reciprocal program with the U.S. Treasury Department to intercept vendor payments to satisfy tax debts.
- Increase the itemized deduction limitation applicable to high income taxpayers from 50 percent to 100 percent, except charitable contributions would remain unchanged from current law.
- Impose tax on the full amount of hedge fund management fees earned by nonresidents.
- Levy fees on non-LLC partnerships with New York-source income at or above $1 million at the same amounts currently applicable to LLC partnerships.
- Reform the Empire Zones program by ensuring that participants are providing a clear benefit to the State and disallowing certain static industries from prospective participation.
- Eliminate certain little-used and narrowly-targeted credits.

Business Taxes

- Reform the Empire Zones program by ensuring that participants are providing a clear benefit to the State and disallowing certain static industries from prospective participation.
- Provide a new credit for qualifying research and development expenditures and donations to certain research colleges and universities, which would be administered by UDC and subject to an aggregate limitation amount.
- Expand the eligibility criteria for the Qualified Emerging Technology Company credit for Facilities, Operations and Training.
- Authorize the Commissioner of DHCR to allocate an additional $4 million in State Low-Income Housing Tax Credits to developers of qualifying affordable housing projects in New York.
- Conform the definition of "manufacturer" under the capital base to the definition under the entire net income base.
- Change the mandatory first estimated tax payment for all business taxes from 30 percent to 40 percent.
- Eliminate a tax exemption intended for small, rural cooperative insurers for any large cooperatives receiving $25 million or more in annual premiums.
- Clarify that captive insurance companies receiving less than 50 percent of their gross receipts from insurance premiums would no longer meet the definition of an insurance business and would file a combined return with their closest affiliated taxpayer.

- Restructure the insurance franchise tax to eliminate the complex calculation of tax imposed on life insurers, and equalize the rate on taxable premiums imposed on all types of insurance at 2 percent.
- Clarify current administrative practice for sourcing receipts from the sale of digital products for purposes of calculating the corporation franchise tax.
- Eliminate underutilized tax credits (automated external defibrillator, fuel cell, security guards, and QETC capital tax).

Other Actions

- Prohibit certain sales tax avoidance schemes.
- Impose an 18 percent sales tax on certain non-dietetic soft drinks.
- Impose sales tax on cable and satellite television radio services.
- Treat all discount coupons consistently for sales tax purposes.
- Replace the year-round sales tax exemption for clothing and footwear under $110 with two one-week exemption periods with a $500 threshold.
- Expand State and local sales tax base to cover miscellaneous personal services and credit reporting services now taxed in New York City.
- Increase the prepaid sales tax on cigarettes from 7 percent to 8 percent of the base retail price.
- Repeal the private label credit card provision.
- Modernize the definition of vendor to include an affiliate nexus provision.
- Impose sales tax on transportation related consumer spending.
- Impose sales tax on digital products.
- Impose sales tax on entertainment related consumer spending.
- Repeal the sales tax cap on fuel.
- Impose a 5 percent sales tax on certain luxury goods.
- Limit the capital improvement sales tax exemption.
- Increase beer and wine taxes.
- Allow the sale of wine in grocery stores.
- Modify the tax treatment of flavored malt beverages.
- Increase driver's license fees by 25 percent.
- Increase vehicle registration fees by 25 percent.
- Reissue license plates at a cost of $25.
- Modify the tax treatment of cigars.
- Increase the cigarette and tobacco products retail dealer registration fee.
- Allow the Department of Taxation and Finance to issue decals to commercial carriers liable for the truck mileage tax.
- Increase the highway use tax renewal fee to $15.
- Increase auto rental tax from 5 percent to 6 percent.
- Extend the pari-mutuel tax rates.
- Authorize a VLT facility at Belmont Park.
- Eliminate the hour restrictions and sunset of the VLT program.
- Eliminate the sunset of Quick Draw and remove the location and hours restrictions.

- Authorize the participation in more than one multi-jurisdictional lottery game.
- Authorize alternative investments of the lottery prize fund.
- Provide the Department of Taxation and Finance with statutory tools that would compliment additional staff provided in the Budget and result in a more comprehensive audit, compliance and tax enforcement program to ensure that taxpayers are remitting the taxes they owe.

2009-10 Disbursements Forecast

TOTAL DISBURSEMENTS
(millions of dollars)

	2008-09 Revised	2009-10 Proposed	After Proposed Changes Annual $ Change	Annual % Change
State Operating Funds	**79,433**	**79,817**	**384**	**0.5%**
General Fund *	49,665	49,441	(224)	-0.5%
Other State Funds	25,081	25,178	97	0.4%
Debt Service Funds	4,687	5,198	511	10.9%
All Governmental Funds	**119,763**	**121,066**	**1,303**	**1.1%**
State Operating Funds	79,433	79,817	384	0.5%
Capital Projects Funds	6,679	7,661	982	14.7%
Federal Operating Funds	33,651	33,588	(63)	-0.2%
General Fund, including Transfers	**55,376**	**55,355**	**(21)**	**0.0%**

** Excludes transfers.*

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 $79.8 billion in 2009-10. All Funds spending, which includes capital spending and Federal aid in addition to State Operating Funds, is projected to total $121.1 billion in 2009-10. The Financial Plan projections assume that the 2009-10 Executive Budget is enacted in its entirety.

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The major sources of annual spending change between 2008-09 and 2009-10 (after Executive Budget recommendations) are summarized in the table below.

EXECUTIVE BUDGET SPENDING PROJECTIONS - AFTER EXECUTIVE BUDGET RECOMMENDATIONS
MAJOR SOURCES OF ANNUAL CHANGE
(millions of dollars)

	General Fund *	Other State Funds**	Total State Operating Funds	Capital Projects Funds	Federal Operating Funds	Total All Funds
2008-09 Revised Estimate* **	**49,665**	**29,749**	**79,414**	**6,679**	**33,651**	**119,744**
Major Functions						
Public Health:						
Medicaid	(1,205)	1,605	400	0	(371)	29
Public Health	10	(538)	(528)	91	53	(384)
K-12 Education:						
School Aid	116	(75)	41	0	10	51
All Other Education Aid	(228)	(7)	(235)	29	11	(195)
STAR	0	(1,025)	(1,025)	0	0	(1,025)
Higher Education	789	255	1,044	191	5	1,240
Social Services:						
Temporary and Disability Assistance	(38)	(6)	(44)	(2)	(6)	(52)
Children and Family Services	(26)	1	(25)	(9)	(2)	(36)
Mental Hygiene	72	175	247	23	50	320
Transportation	(24)	(245)	(269)	227	1	(41)
General State Charges	426	(370)	56	0	(6)	50
Debt Service	92	418	510	0	0	510
All Other Changes						
Economic Development	(131)	288	157	315	4	476
Judiciary	38	7	45	15	(1)	59
Local Government Aid	(255)	0	(255)	0	0	(255)
Labor Adjustments	127	(150)	(23)	0	(26)	(49)
Correctional Services	(16)	1	(15)	25	(16)	(6)
Empire State Stem Cell Trust Fund	0	31	31	0	0	31
Criminal Justice Services	(25)	(1)	(26)	0	(53)	(79)
Homeland Security	(9)	(4)	(13)	(3)	183	167
Parks and Recreation	(1)	(2)	(3)	(47)	0	(50)
Technology	1	0	1	119	(1)	119
Elections	(6)	(5)	(11)	0	28	17
State Police	(33)	47	14	20	2	36
Department of State	(2)	1	(1)	(17)	0	(18)
Military and Naval Affairs	22	0	22	(22)	6	6
All Other	82	226	308	27	66	401
2009-10 Executive Budget Estimate	**49,441**	**30,376**	**79,817**	**7,661**	**33,588**	**121,066**
Annual Dollar Change	*(224)*	*627*	*403*	*982*	*(63)*	*1,322*
Annual Percent Change	*-0.5%*	*2.1%*	*0.5%*	*14.7%*	*-0.2%*	*1.1%*

** Excludes Transfers.*
*** Includes State Special Revenue and Debt Service Funds.*
**** Revised estimate assumes successful implementation of Deficit Reduction Plan.*

The spending forecast for each of the State's major programs and activities follows. In general, the forecasts are described in two parts: the current services estimate for each functional area or activity, and the Executive Budget recommendations and resulting annual change in spending.

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 the amounts appropriated in the Budget are disbursed in the same fiscal year.

Major assumptions used in preparing the spending projections for the State's major programs and activities are summarized in the following tables.

FORECAST FOR SELECTED PROGRAM MEASURES AFFECTING LOCAL ASSISTANCE
(millions of dollars, where applicable)

	Actual	Forecast				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Medicaid						
Medicaid Coverage	3,559,381	3,649,347	3,825,420	4,021,205	4,225,903	4,441,020
Family Health Plus Coverage	518,189	527,961	558,345	588,945	589,784	590,623
Child Health Plus Coverage	360,436	403,913	435,665	444,667	453,670	462,743
Medicaid Inflation	2.0%	2.9%	3.0%	3.0%	3.0%	3.0%
Medicaid Utilization	-3.0%	-4.1%	4.1%	4.2%	4.3%	4.5%
State Takeover of County/NYC Costs (Total)	$564	$724	$964	$1,315	$1,711	$2,168
- Family Health Plus	$396	$424	$448	$479	$509	$521
- Medicaid	$168	$300	$516	$836	$1,202	$1,647
Education						
School Aid (School Year)	$19,736	$21,391	$20,693	$22,390	$24,030	$25,940
Public Higher Education Enrollment (FTEs)	512,362	520,047	525,248	529,187	533,156	537,000
Tuition Assistance Program Recipients	309,320	312,362	312,655	313,155	313,655	314,000
Welfare						
Family Assistance Caseload	372,964	350,370	351,718	354,609	357,608	359,485
Single Adult/No Children Caseload	150,447	144,591	152,033	160,380	165,546	170,609
Mental Hygiene						
Mental Hygiene Community Beds	83,528	86,041	88,960	91,927	93,676	94,447

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FORECAST OF SELECTED PROGRAM MEASURES AFFECTING STATE OPERATIONS

	Actual	Forecast				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
State Operations						
Prison Population (Corrections)	62,261	61,400	59,500	59,400	59,300	59,300
Negotiated Salary Increases*	3.0%	3.0%	0.0%	4.0%	0.0%	0.0%
Personal Service Inflation	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
State Workforce	199,754	199,400	196,292	196,912	196,912	196,912

** Negotiated salary increases reflect labor settlements included in the Financial Plan estimates*

FORECAST OF SELECTED PROGRAM MEASURES AFFECTING GENERAL STATE CHARGES

	Actual	Forecast				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
General State Charges						
Pension Contribution Rate as % of Salary	9.7%	8.8%	7.6%	10.3%	11.0%	11.5%
Rate of Growth Employee/Retiree Health Insurance	5.4%	6.5%	4.4%	11.0%	7.7%	7.7%

FORECAST OF SELECTED PROGRAM MEASURES AFFECTING DEBT SERVICE

	Actual	Forecast				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
State Debt						
Interest on Variable Rate Debt	3.56%	3.75%	3.75%	3.75%	3.75%	3.75%
Interest on Fixed Rate 30-Year Bonds	4.79%	5.00%	5.00%	4.85%	5.50%	5.65%

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General Fund Financial Plan OutYear Projections (2010-11 Through 2012-13)

Since the Mid-Year Update, DOB has revised its current services forecasts for receipts and disbursements for 2010-11 and 2011-12 and calculated an estimate of the 2012-13 budget gap. The current services gaps, which formed the starting point for developing the 2009-10 Executive Budget recommendations, are calculated at $17.1 billion in 2010-11, $18.6 billion in 2011-12, and $19.6 billion in 2012-13. The recommendations set forth in the Executive Budget result in a balanced General Fund Financial Plan in 2009-10 and leave projected outyear budget gaps of $2.0 billion in 2010-11, $4.2 billion in 2011-12, and $5.7 billion in 2012-13. The projections assume that the Legislature will enact the 2009-10 Executive Budget recommendations in their entirety. The following table summarizes the General Fund projections by major tax and Financial Plan category.

OUTYEAR GENERAL FUND PROJECTIONS
(millions of dollars)

	2009-10	2010-11	Annual $ Change	Annual % Change	2011-12	Annual $ Change	Annual % Change	2012-13	Annual $ Change	Annual % Change
Receipts										
Taxes	50,214	53,386	3,172	6.3%	55,930	2,544	4.8%	59,094	3,164	5.7%
Personal Income Tax*	29,984	32,131	2,147	7.2%	33,952	1,821	5.7%	36,186	2,234	6.6%
User Taxes and Fees*	12,655	13,382	727	5.7%	13,798	416	3.1%	14,182	384	2.8%
Business Taxes	6,084	6,236	152	2.5%	6,405	169	2.7%	6,805	400	6.2%
Other Taxes*	1,491	1,637	146	9.8%	1,775	138	8.4%	1,921	146	8.2%
Miscellaneous Receipts	3,806	3,189	(617)	-16.2%	3,158	(31)	-1.0%	2,786	(372)	-11.8%
Other Transfers	1,063	611	(452)	-42.5%	647	36	5.9%	659	12	1.9%
Total Receipts	**55,083**	**57,186**	**2,103**	**3.8%**	**59,735**	**2,549**	**4.5%**	**62,539**	**2,804**	**4.7%**
Disbursements										
Grants to Local Governments:	37,357	39,486	2,129	5.7%	43,452	3,966	10.0%	46,759	3,307	7.6%
School Aid	17,883	18,205	322	1.8%	19,991	1,786	9.8%	21,586	1,595	8.0%
Medicaid (incl. administration)	6,823	8,400	1,577	23.1%	9,862	1,462	17.4%	10,612	750	7.6%
Medicaid: Local Relief	964	1,315	351	36.4%	1,711	396	30.1%	2,168	457	26.7%
Higher Education	2,922	2,557	(365)	-12.5%	2,596	39	1.5%	2,627	31	1.2%
Mental Hygiene	2,127	2,198	71	3.3%	2,294	96	4.4%	2,380	86	3.7%
Children and Family Services	1,697	1,840	143	8.4%	2,016	176	9.6%	2,198	182	9.0%
Other Education Aid	1,486	1,568	82	5.5%	1,623	55	3.5%	1,695	72	4.4%
Temporary and Disability Assistance	1,159	1,195	36	3.1%	1,234	39	3.3%	1,320	86	7.0%
Local Government Assistance	968	967	(1)	-0.1%	970	3	0.3%	969	(1)	-0.1%
Public Health	573	468	(105)	-18.3%	487	19	4.1%	523	36	7.4%
All Other	755	773	18	2.4%	668	(105)	-13.6%	681	13	1.9%
State Operations:	8,539	8,945	406	4.8%	9,222	277	3.1%	9,385	163	1.8%
Personal Service	6,288	6,626	338	5.4%	6,817	191	2.9%	6,908	91	1.3%
Non-Personal Service	2,251	2,319	68	3.0%	2,405	86	3.7%	2,477	72	3.0%
General State Charges	3,545	3,970	425	12.0%	4,230	260	6.5%	4,604	374	8.8%
Pensions	1,143	1,392	249	21.8%	1,485	93	6.7%	1,594	109	7.3%
Health Insurance (Active Employees)	1,689	1,877	188	11.1%	2,020	143	7.6%	2,173	153	7.6%
Health Insurance (Retired Employees)	1,108	1,228	120	10.8%	1,324	96	7.8%	1,427	103	7.8%
Fringe Benefit Escrow	(2,247)	(2,436)	(189)	8.4%	(2,552)	(116)	4.8%	(2,559)	(7)	0.3%
All Other	1,852	1,909	57	3.1%	1,953	44	2.3%	1,969	16	0.8%
Transfers to Other Funds:	5,914	6,770	856	14.5%	7,026	256	3.8%	7,452	426	6.1%
State Share Medicaid	2,732	2,716	(16)	-0.6%	2,710	(6)	-0.2%	2,712	2	0.1%
Debt Service	1,780	1,757	(23)	-1.3%	1,732	(25)	-1.4%	1,720	(12)	-0.7%
Capital Projects	520	1,071	551	106.0%	1,220	149	13.9%	1,384	164	13.4%
All Other	882	1,226	344	39.0%	1,364	138	11.3%	1,636	272	19.9%
Total Disbursements	**55,355**	**59,171**	**3,816**	**6.9%**	**63,930**	**4,759**	**8.0%**	**68,200**	**4,270**	**6.7%**
Change in Reserves										
Prior Year Reserves	(145)	0			0			0		
Community Projects Fund	(127)	0			0			0		
Deposit to/(Use of) Reserves	**(272)**	**0**			**0**			**0**		
Budget Surplus/(Gap) Estimate	**0**	**(1,985)**			**(4,195)**			**(5,661)**		

** Includes transfers after debt service.*

After recommendations, General Fund spending is projected to grow at an average annual rate of 5.3 percent from 2008-09 through 2012-13. The spending is driven by Medicaid growth, rising costs for education, the State-financed cap on local Medicaid spending, employee and retiree health benefits, and child welfare programs. Over the same period, General Fund receipts are estimated to grow at approximately 3.7 percent a year, consistent with DOB's economic forecast for the recession and recovery.

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, 2010-11 is perhaps 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. The State will provide quarterly revisions to its multi-year estimates.

The outyear forecast for 2010-11 is based on assumptions of economic performance, revenue collections, spending patterns, and projections for the current services costs of program activities, and assumes enactment of the Executive Budget in its entirety. DOB believes the estimates of annual change in receipts and disbursements that constitute the current services gap forecast are based on reasonable assumptions and methodologies.

Outyear Receipts/Projections

Overall, tax receipts growth in the three fiscal years following 2009-10 is expected to remain in the range of 4.8 to 6.3 percent. This is consistent with a projected return to trend economic growth in the U.S. and New York economies in the second half of 2009. Receipt growth is supported by proposals contained with this Budget that eliminate unintended tax loopholes, reform and simplify the Tax Law, and supplement Department of Taxation and Finance efforts to find noncompliant and fraudulent taxpayers. These factors are expected to continue to enhance expected receipts growth through 2012-13.

- Total General Fund receipts are projected to reach $57 billion in 2010-11, nearly $60 billion in 2011-12 and almost $63 billion in 2012-13.

- Total State Funds receipts are projected to be approximately $88 billion in 2010-11, almost $91 billion in 2011-12 and nearly $94 billion in 2012-13.

- Total All Funds receipts in 2010-11 are projected to reach over $125 billion, an increase of $5.2 billion, or 4.3 percent over 2009-10 estimates. All Funds receipts in 2011-12 are expected to increase by nearly $5.2 billion (4.2 percent) over the prior year. In 2012-13, receipts are expected to increase by nearly $2.7 billion (2.1 percent) over 2011-12 projections.

- All Funds tax receipts are expected to increase by 6.0 percent in 2010-11, 4.8 percent in 2011-12 and 5.4 percent in 2012-13. Again, the growth pattern is consistent with an economic forecast of continued, but slower, economic growth.

Outyear General Fund Disbursement Projections

DOB forecasts General Fund spending of $59.2 billion in 2010-11, an increase of $3.8 billion (6.9 percent) over recommended 2009-10 levels. Growth in 2011-12 is projected at $4.8 billion (8.0 percent) and in 2012-13 at $4.3 billion (6.7 percent). The growth levels are based on current services projections, as modified by the recommendations contained in the 2009-10 Executive Budget. They do not incorporate any estimate of potential new actions to control spending in future years.

2008-09 Operating Results Through December 2008

The tables below compare operating results for the period from April 1, 2008 through December 31, 2008 to the estimates included in the Executive and Enacted Financial Plans for 2008-09, as well as actual results for the same nine-month period in 2007-2008.

General Fund

2008-09 FISCAL YEAR
GENERAL FUND RESULTS VS. ESTIMATES: APRIL - DECEMBER 2008
(millions of dollars)

	Enacted Budget	Executive Budget	Results	Results vs. Estimates Favorable/(Unfavorable): Enacted Budget	Results vs. Estimates Favorable/(Unfavorable): Executive Budget	Increase/ (Decrease) from Prior Year
Opening Balance (April 1, 2008)	**2,754**	**2,754**	**2,754**	**n/a**	**n/a**	**(291)**
Receipts	**38,113**	**38,253**	**38,182**	**69**	**(71)**	**2,696**
Taxes	27,597	27,555	27,577	(20)	22	2,247
Personal Income Tax	*15,544*	*16,121*	*16,236*	*692*	*115*	*2,325*
User Taxes and Fees	*6,717*	*6,552*	*6,457*	*(260)*	*(95)*	*(83)*
Business Taxes	*4,439*	*3,871*	*3,858*	*(581)*	*(13)*	*(228)*
All Other Taxes	*897*	*1,011*	*1,026*	*129*	*15*	*233*
Receipts & Grants	1,621	1,586	1,644	23	58	*(40)*
Transfers From Other Funds	8,895	9,112	8,961	66	(151)	*489*
Disbursements	**40,068**	**39,078**	**39,202**	**866**	**(124)**	**2,320**
Local Assistance	25,719	25,109	25,024	695	85	1,845
Medicaid, including admin	*7,239*	*7,038*	*7,082*	*157*	*(44)*	*110*
School Aid	*10,183*	*9,809*	*9,796*	*387*	*13*	*1,262*
Higher Education	*1,580*	*1,494*	*1,463*	*117*	*31*	*35*
All Other Education	*1,121*	*1,299*	*1,200*	*(79)*	*99*	*25*
Public Health	*417*	*463*	*465*	*(48)*	*(2)*	*(24)*
Mental Hygiene	*1,296*	*1,379*	*1,423*	*(127)*	*(44)*	*408*
Children and Families	*1,187*	*992*	*947*	*240*	*45*	*(121)*
Temporary and Disability Assistance	*1,220*	*1,148*	*1,150*	*70*	*(2)*	*(98)*
Transportation	*98*	*96*	*98*	*0*	*(2)*	*2*
All Other	*1,378*	*1,391*	*1,400*	*(22)*	*-9*	*246*
State Operations	6,642	6,656	6,709	(67)	(53)	(894)
Personal Service	*4,961*	*4,983*	*5,040*	*(79)*	*(57)*	*(552)*
Non-Personal Service	*1,681*	*1,673*	*1,669*	*12*	*4*	*(342)*
General State Charges	2,599	2,502	2,588	11	(86)	(981)
Transfers To Other Funds	5,108	4,811	4,881	227	(70)	2,350
Debt Service	*1,529*	*1,515*	*1,554*	*(25)*	*(39)*	*191*
Capital Projects	*944*	*579*	*616*	*328*	*(37)*	*27*
State Medicaid Share	*2,096*	*2,144*	*2,133*	*(37)*	*11*	*2,132*
All Other	*539*	*573*	*578*	*(39)*	*(5)*	*0*
Change in Operations	**(1,955)**	**(825)**	**(1,020)**	**935**	**(195)**	**376**
Closing Balance	**799**	**1,929**	**1,734**	**935**	**(195)**	**85**

General Fund Comparison to Executive Budget Update Projections

The General Fund ended December 2008 with a cash balance of $1.7 billion, which is $195 million below the amount projected in the Executive Budget Financial Plan. General Fund receipts, including transfers from other funds, were $71 million lower than projected, which is primarily due to the timing of expected fund sweeps from various special revenue accounts, partly offset by the unplanned receipt of $50 million from the recent Attorney General settlement with Citigroup. The variance in net tax receipts is small, but individual categories did vary from planned levels, including lower than expected collections from user taxes and fees ($95 million) that is partly offset by higher personal income tax receipts ($115 million).

General Fund disbursements through December 2008, including transfer to other funds, totaled $39.2 billion, $118 million higher than projected. The largest spending variances included:

- **All Other Education ($99 million lower than planned):** Largely due to lower-than-expected disbursements for special education categorical programs and nonpublic school aid, both of which are expected to occur later in the fiscal year. Payment of nonpublic school aid is expected to occur later due to an extension in the filing date for submission of claims by nonpublic schools.
- **General State Charges ($86 million higher than planned):** Primarily attributable to slower than projected fringe benefit escrow payments, mainly from the Mental Hygiene agencies. These payments are now expected to be made in January 2009.
- **State Operations ($53 million higher than planned):** SUNY, State Police and Tax and Finance personal service spending exceeded projections. These variances are expected to be resolved through the planned use of other financing sources that will offset costs later in the fiscal year.

General Fund Comparison to 2008-09 Enacted Budget Projections

Through December 2008, General Fund receipts, including transfers from other funds, were $69 million more than the initial forecast. This variance is mainly due to higher-than-expected collections in personal income tax ($692 million), estate and gift taxes ($128 million), and transfers from other funds ($66 million), which are partly offset by lower receipts in business taxes ($581 million) and sales and use taxes ($260 million).

General Fund disbursements were $866 million lower than projected at the time of the Enacted Budget. The largest spending variances include:

- **School Aid ($387 million lower than planned):** Reflects lower-than-expected general aid payments and lower-than-expected claims for categorical aid programs.
- **Children and Families ($240 million lower than planned):** Driven largely by the timing of Child Welfare Services payments.
- **Medicaid ($157 million lower than planned):** Results from the timing of Medicaid offsets, as well as the timing of Medicaid-related spending in the Mental Hygiene agencies. Medicaid offsets were taken at an accelerated rate earlier in the fiscal year, which reduced General Fund Medicaid spending for those months.
- **Mental Hygiene ($127 million higher than planned):** Medicaid spending in the Mental Hygiene agencies was higher than projected through the first nine months, however it is not expected to affect full-year projections for Medicaid spending in Mental Hygiene.
- **Higher Education ($117 million lower than planned):** Largely reflects actions taken since the Enacted Budget to adjust General Fund payment schedules.
- **Transfers to Other Funds ($227 million lower than planned):** Mainly due to lower than projected spending in capital projects.

General Fund Annual Change

On a year-over-year basis, General Fund receipts were in 2008 $2.7 billion, or 7.4 percent, higher than the same period in 2007. This annual increase is largely due to increased collections in the personal income tax ($2.3 billion), transfers from other funds ($489 million) and estate and gift taxes ($232 million), which is partially offset by decreases in business taxes ($228 million), the sales and use tax ($83 million), and all other receipts and grants collections ($40 million).

General Fund spending through December 2008 was $2.3 billion higher than actual results through December 2007. Significant changes in spending levels include:

- **School Aid ($1.3 billion growth):** Driven largely by the annual increase in "tail" payments for the 2007-08 school year, and partly by the annual increase in initial payments for the 2008-09 school year. On a school year basis, the State increased school aid by $1.8 billion in 2007-08, and by another $1.7 billion in 2008-09.
- **Mental Hygiene ($408 million growth):** Primarily due to Medicaid-related spending in Mental Hygiene agencies. Much of this spending occurred in 2008-09, resulting in the significantly higher spending in the current year.
- **Children and Families ($121 million decline):** Driven largely by the timing of Child Welfare Services payments.
- **Medicaid ($110 million growth):** Primarily reflects an additional weekly cycle payment in the first nine months of 2008 compared to the prior year.
- **Temporary and Disability Assistance ($98 million decline):** Primarily due to the timing of payments to local districts.
- **State Operations ($894 million decline):** Primarily reflects the movement of a portion of Mental Hygiene State Operations spending from the General Fund to the Special Revenue Funds, as part of the 2008-09 restructuring of Medicaid spending.
- **General State Charges ($981 million decline):** Primarily reflects a change in reporting related to the restructuring of Medicaid Spending, whereby fringe benefit waivers were eliminated for personal service costs supported by State and Federal Medicaid monies.
- **Transfers to Other Funds ($2.4 billion growth):** Primarily reflects the change in reporting related to the restructuring of Medicaid spending. Beginning in 2008-09 the State share of Medicaid payments dispersed by State-operated mental hygiene facilities is now reflected as a General Fund transfer to the new State Share of Medicaid Special Revenue Fund account. Debt Service spending is also higher ($191 million growth) due mainly to the timing of debt service payments on certain SUNY educational facilities bonds.

State Operating Funds

2008-09 FISCAL YEAR
STATE OPERATING RESULTS VS. ESTIMATES: APRIL - DECEMBER 2008
(millions of dollars)

	Enacted Budget	Executive Budget	Preliminary Results	Results* vs. Estimates Favorable/(Unfavorable) Enacted Budget	Results* vs. Estimates Favorable/(Unfavorable) Executive Budget	Increase/ (Decrease) from Prior Year
Total Receipts	**55,989**	**55,504**	**55,267**	**(722)**	**(237)**	**2,194**
Taxes	44,230	43,848	43,867	(363)	19	2,608
Personal Income Tax	*26,983*	*27,415*	*27,567*	*584*	*152*	*2,713*
User Taxes and Fees	*10,320*	*10,077*	*9,948*	*(372)*	*(129)*	*132*
Business Taxes	*5,470*	*4,904*	*4,891*	*(579)*	*(13)*	*(252)*
Other Taxes	*1,457*	*1,452*	*1,461*	*4*	*9*	*15*
Miscellaneous Receipts	11,722	11,620	11,355	(367)	(265)	(384)
Federal Grants	37	36	45	8	9	(30)
Total Disbursements	**58,969**	**58,219**	**57,253**	**1,716**	**966**	**2,028**
Local Assistance	40,620	39,645	38,671	1,949	974	1,770
Medicaid (Including Admin)	*9,773*	*9,403*	*9,680*	*93*	*(277)*	*537*
School Aid	*12,777*	*12,388*	*12,374*	*403*	*14*	*1,212*
Higher Education	*1,581*	*1,495*	*1,464*	*117*	*31*	*35*
All Other Education	*1,135*	*1,317*	*1,219*	*(84)*	*98*	*35*
STAR	*4,694*	*4,440*	*3,535*	*1,159*	*905*	*(1,087)*
Public Health	*2,042*	*2,087*	*1,812*	*230*	*275*	*(97)*
Mental Hygiene	*1,878*	*2,038*	*2,108*	*(230)*	*(70)*	*894*
Children and Families	*1,189*	*993*	*949*	*240*	*44*	*(120)*
Temporary and Disability Assistance	*1,222*	*1,154*	*1,155*	*67*	*(1)*	*(93)*
Transportation	*2,790*	*2,735*	*2,769*	*21*	*(34)*	*164*
All Other	*1,539*	*1,595*	*1,606*	*(67)*	*(11)*	*290*
State Operations	11,509	11,865	11,927	(418)	(62)	330
Personal Service	*7,861*	*8,147*	*8,162*	*(301)*	*(15)*	*368*
Non-Personal Service	*3,648*	*3,718*	*3,765*	*(117)*	*(47)*	*(38)*
General State Charges	3,757	3,635	3,574	183	61	(449)
Capital Projects	3	7	7	(4)	0	0
Debt Service	3,080	3,067	3,074	6	(7)	377

State Operating Funds Comparison to Executive Financial Plan Projections

State Operating Funds receipts totaled $55.3 billion or $237 million less than the last forecast. Tax receipts totaled $43.9 billion, $19 million more than the 2009-10 Executive Budget estimates, which is largely due to lower-than-expected collections in the sales and use tax ($129 million) and business taxes ($13 million); partly offset by higher-than-expected collections in the PIT ($152 million), cigarette and tobacco taxes ($19 million) and estate and gift taxes ($17 million). Miscellaneous receipts were $265 million below initial estimates due mostly to lower than anticipated Special Revenue Fund receipts, primarily SUNY ($242 million). The variance is expected to be offset by higher receipts in the final three months of the current fiscal year.

Disbursements totaled $57.3 billion; $966 million lower than the forecast, primarily driven by the timing of STAR payments to homeowners for property tax exemptions.

State Operating Funds Comparison to 2008-09 Enacted Budget Projections

State Operating Funds receipts were $722 million below the Enacted Budget projection. Tax receipts were $363 million less than the initial estimate. The variance is largely due to decreased collections in business taxes ($579 million), sales and use taxes ($372 million) and the real estate transfer tax ($128 million), which is partially offset by increases in the personal income tax ($584 million) and estate and gift taxes ($132 million). Miscellaneous receipts were $367 million lower than projected, largely driven by lower-than-anticipated Special Revenue Fund receipts for SUNY.

State Operating Funds disbursements were $1.7 billion below the Enacted Budget forecast. The largest variances outside the General Fund include the timing of HCRA-supported public health spending as well as lower-than-projected STAR payments.

State Operating Funds Annual Change

Total taxes increased by $2.6 billion compared to the same period in 2007-08. This increase is largely due to increased collections in the personal income tax ($2.7 billion), cigarette and tobacco taxes ($268 million) and estate and gift taxes ($235 million), partially offset by decreases in business taxes ($252 million), the real estate transfer tax ($219 million), and the sales and use tax ($132 million). The annual decline in miscellaneous receipts is largely due to the receipt of $499 million in health insurance conversion proceeds in April 2007.

Compared to the same period in 2007-08, State Operating Funds disbursements were $2.0 billion higher in the current year. The largest increases were for School Aid ($1.2 billion), State Operations ($330 million) and Debt Service ($377 million) as described above; offset by the timing of the STAR payments ($1.1 billion).

State Operating Funds Medicaid spending through December 2008 increased by $537 million. This increase is primarily driven by an additional weekly cycle payment in 2008-09 and increases in recipients, service utilization, and medical care cost inflation. In addition, growth in mental hygiene spending is primarily attributable to the State share of Medicaid spending now reflected in the agency totals, which also accounts for most of the decline in General State Charges.

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GAAP-Basis Financial Plans

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, in accordance with standards and regulations set forth by GASB. Thus, the GAAP projections provided herein are intended to supplement, for informational purposes, the cash-basis Financial Plan. The GAAP-basis plans model the accounting principles applied by OSC in preparation of the 2007-08 Financial Statements. Tables comparing the cash basis and GAAP basis General Fund Financial Plans are provided at the end of this AIS Update.

In 2008-09, the General Fund GAAP Financial Plan shows total revenues of $41.6 billion, total expenditures of $55.8 billion, and net other financing sources of $9.5 billion, resulting in an operating deficit of $4.8 billion and a projected accumulated deficit of $803 million. These results are due primarily to the use of a portion of prior year reserves to support 2008-09 operations and the impact of economic conditions on revenue accruals, primarily PIT. PIT collections received in the first quarter of 2008-09 were related primarily to prior year estimated payments and final returns (i.e., calendar year ended December 31, 2007) and are therefore recorded in State fiscal year 2007-08 for GAAP purposes. Estimated collections in the first quarter of 2009-10 related to calendar end year 2008 tax returns are expected to decline significantly resulting in lower accrued revenue in 2008-09.

In 2009-10, the General Fund GAAP Financial Plan shows total revenues of $47.2 billion, total expenditures of $55.2 billion, and net other financing sources of $8.6 billion, resulting in an operating surplus of $601 million, which reduces the projected accumulated deficit to $217 million. These results reflect the impact of the Executive Budget gap-closing actions.

The GAAP-basis results for 2007-08 showed the State in a net positive asset condition of $47.7 billion after reflecting the impact of GASBS 45 "Accounting and Financial Reporting by Employers for Post-Retirement Benefits."

The State 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, 2008 at $49.9 billion ($41.4 billion for the State and $8.5 billion for SUNY), using the level percentage of projected payroll approach under the Frozen Entry Age actuarial cost method. The actuarial accrued liability was calculated using a 4.155 percent annual discount rate. DOB expects the present value of the actuarial accrued total liability for benefits as of March 31, 2009 for the State, including SUNY, may increase by as much as $9 billion. If enacted, the benefit changes proposed with the Executive Budget would reduce this liability.

This liability was disclosed in the 2007-08 basic GAAP financial statements issued by the State Comptroller in July 2008. GASB rules indicate the 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 2007-08 liability totaled $3.8 billion ($3.1 billion for the State and $0.7 billion for SUNY) under the Frozen Entry Age actuarial cost method amortized based on a level percent of salary, or roughly $2.7 billion ($2.1 billion for the State and $0.6 billion for SUNY) above the current PAYGO retiree costs. 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 2007-08 by $2.7 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. Anticipated increases in these costs are reflected in the State's multi-year Financial Plan as detailed below.

HISTORY AND FORECAST OF NEW YORK STATE EMPLOYEE HEALTH INSURANCE (millions of dollars)

	Health Insurance		
Year	Active Employees	Retirees	Total State
1999-00	777	466	1,243
2000-01	876	521	1,397
2001-02	937	565	1,502
2002-03	1,023	634	1,657
2003-04	1,072	729	1,801
2004-05	1,216	838	2,054
2005-06	1,331	885	2,216
2006-07	1,518	913	2,431
2007-08	1,390	1,182	2,572
2008-09	1,623	1,057	2,680
2009-10	1,689	1,108	2,797
2010-11	1,877	1,228	3,105
2011-12	2,020	1,324	3,344
2012-13	2,173	1,427	3,600

All numbers reflect the cost of Health Insurance for General State Charges (Executive and Legislative branches); actuals through 2007-08.

As noted, the current Financial Plan does not assume pre-funding of 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.

DOB's detailed GAAP Financial Plans for 2008-09 through 2012-13 are provided in the Financial Plan Tables.

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Special Considerations

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

State Cash-Flow Projections

DOB projects the General Fund for 2008-09 and 2009-10 will maintain sufficient monthly cash balances to meet statutorily obligated payments. The projections are based on the assumption that the Legislature will enact the DRP, as proposed, by February 1, 2009 and the Executive Budget for 2009-10 by March 1, 2009. The State's 2009-10 fiscal year will begin on April 1, 2009. Negotiations on the DRP have been held between the Executive and the Legislature. DOB believes that the level of Financial Plan savings that could be achieved would not be materially affected if the DRP were enacted later in the current fiscal year, and expects that any items not addressed as part of the DRP will be considered as part of the overall negotiations on the 2009-10 Budget. The Executive Budget includes certain statutory changes intended to improve the State's monthly operating margins, which are projected to fall below $750 million at month-end in June 2009, November 2009, and December 2009.

Bond Market Issues

One aspect of the credit crisis is that many municipal issuers either have been unable to issue bonds or, if market access exists, do so at much higher rates than existed before September 2008. If the State cannot sell bonds at the levels (or on the timetable) expected, it could experience significantly increased costs in the General Fund and a weakened overall cash position in the current fiscal year. This is because the State finances much of its capital spending in the first instance through loans from the General Fund or STIP, which it then repays with proceeds from the sale of bonds. The State expects to complete several bond sales during the remainder of the current fiscal year. The State is executing a multi-step strategy to stage entries into the bond market in a way that addresses the most immediate and consequential fiscal issues first. At the same time, DOB has imposed stringent capital controls that are expected to marginally reduce the need to issue bonds in the coming months.

The State continues to adjust its variable-rate debt portfolio in response to widespread disruption in the municipal bond market. Since February 2008, the State has repositioned nearly $4 billion of variable-rate bonds, including $2.8 billion of auction rate securities and $1.2 billion of variable-rate demand bonds to mitigate risk and reduce debt service costs. The adjustments were accomplished using a combination of fixed rate bonds and better-performing variable rate bonds.

The State has terminated approximately $1.7 billion in interest-rate exchange agreements at a cost of approximately $76 million. The State has received $125 million in revenues from settlements negotiated by the State Attorney General in relation to auction rate securities.

Other Considerations

The Amended Financial Plan forecast contains specific transaction risks and other uncertainties, including, but not limited to, the closing of the final sale of development rights for a VLT facility at the Aqueduct Racetrack by the close of the current fiscal year; the receipt of certain payments from public authorities; the receipt of miscellaneous revenues at the levels expected in the Amended Financial Plan; the enforcement of certain tax regulations on Native American reservations; the timing and value of other proceeds to the State that are expected to finance health care costs; and the achievement of cost-saving measures, including, but not limited to, administrative savings in State agencies 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 Amended Financial Plan in the current year.

There can be no assurance that (1) legislative or administrative actions will be sufficient to eliminate the current-year shortfall without the use of existing reserves, (2) receipts will not fall below current projections, requiring additional budget-balancing actions in the current year, and (3) the gaps projected for future years will not increase materially from the projections set forth herein.

Risks to the Financial Plan

In any year, the Financial Plan is subject to risks that, if they were to materialize, could affect operating results. The most significant current risks include the following:

- Further under-performance of the national and State economies that can affect State revenues and increase the demand for means-tested programs such as Medicaid and welfare. Most recently, Medicaid caseload — which declined from 2005-06 through 2007-08 — has now begun to increase and program spending may climb;

- The potential cost of collective bargaining agreements and salary increases for Judges (and possibly other elected officials) in 2008-09 and beyond. DOB estimates that if all remaining unsettled unions were to agree to the same terms that have been ratified by settled unions, it would result in added General Fund costs of approximately $340 million in 2009-10 (assuming a retroactive component for fiscal year 2007-08 and 2008-09; and an elimination of the 2009-10 salary increase). DOB has included a reserve to finance the costs of a pattern settlement for all unions. There can be no assurance that actual settlements will not exceed the amounts included in the Plan. In addition, no reserve has been set aside for potential pay raises for judges;

- Potential Federal disallowances arising from audits related to Medicaid claims under the School Supportive Health Services program and various other reimbursement methodologies;

- Proposed Federal rule changes concerning Medicaid payments; and

- Litigation against the State, including potential challenges to the constitutionality of certain tax actions authorized in the budget.

In addition, the forecast contains specific transaction risks and other uncertainties, including, but not limited to: the final sale of development rights for a VLT facility at the Aqueduct Racetrack, which is expected to close by the end of the current fiscal year; the enforcement of certain tax regulations on Native American reservations; and the achievement of cost-saving measures, including, but not limited to, FMP savings, at the levels projected.

Recent market volatility and the decline in the market value of many stocks have negatively impacted the assets held for the New York State and Local Retirement Systems. According to OSC, as of December 31, 2008, the unaudited value of the Systems' assets had declined approximately 21 percent from their March 31, 2008 value. These factors and/or any future downturns in financial markets may result in an increase in the amount of the contributions required to be made by employers for fiscal years after fiscal year 2010. See also the section on "State Retirement Systems" in this AIS Update.

Labor Settlements

The State has reached labor settlements with several labor unions, the Civil Service Employees Association, the Public Employees Federation, the United University Professions, District Council 37, and the Police Benevolent Association, and has extended comparable changes in the pay and benefits to "management/confidential" employees. Under terms of these four-year contracts, which run from April 2, 2008 through April 1, 2012 (July 2, 2008 through July 1, 2012 for UUP), employees will receive pay increases of 3 percent annually in 2008-09, 2009-10, and 2010-11 and 4 percent in 2011-12. The Executive Budget savings proposals include eliminating the 2009-10 general salary increases.

Other unions representing uniformed officers (i.e., New York State Correction Officers, BCI) graduate students (Graduate State Employee Union) and supervisory security/park police (Council 82) have not reached settlements with the State at this time. DOB estimates that if all the unsettled unions were to agree to the same terms that have been ratified by other unions, it would result in added costs of approximately $340 million in 2009-10 (assuming a retroactive component for fiscal year 2007-08 and 2008-09; and an elimination of the 2009-10 salary increase), and approximately $220 million in both 2010-11 and 2011-12. The earliest any costs for these contracts would likely be paid is in 2009-10. The Executive Budget recommendations would, if enacted in their entirety, provide savings sufficient to finance pattern settlements.

School Supportive Health Services

The OIG of the United States Department of Health and Human Services has conducted six audits of aspects of New York State's School Supportive Health Services program with regard to Medicaid reimbursement. The audits cover $1.4 billion in claims submitted between 1990 and 2001. To date, OIG has issued four final audit reports, which cover claims submitted by upstate and New York City school districts for speech pathology and transportation services. The final audits recommend that the CMS disallow $173 million of the $362 million in claims for upstate speech pathology services, $17 million of $72 million for upstate transportation services, $436 million of the $551 million in claims submitted for New York City speech pathology services, and $96 million of the $123 million for New York City transportation services. New York State disagrees with the audit findings on several grounds and has requested that they be withdrawn. If the recommended disallowances are not withdrawn, the State expects to appeal.

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

Proposed Federal Rule on Medicaid Funding

On May 25, 2007, CMS issued a final rule that, if implemented, would significantly curtail Federal Medicaid funding to public hospitals (including New York City's HHC) and programs operated by both OMRDD and OMH. The rule seeks to restrict State access to Federal Medicaid resources by changing the upper payment limit for certain rates to actual facility reported costs. It is estimated that this rule could result in a loss of $350 million annually in Federal funds for HHC and potentially larger losses in aid for the State Mental Hygiene System.

On May 23, 2007, CMS issued another rule that would eliminate Medicaid funding for GME. The proposed rule clarifies that costs and payments associated with GME programs are not expenditures of Medicaid for which Federal reimbursement is available. This rule could result in a Financial Plan impact of up to $600 million since the State would be legally obligated to pay the lost non-Federal share.

On February 22, 2008, CMS issued a change to the rules that regulate State taxation of healthcare entities, effective April 22, 2008. The rule affords CMS flexibility in identifying a "linkage" between provider taxes and Medicaid payments rendering the tax invalid. The State currently uses a substantial amount of provider tax receipts to finance various healthcare programs that serve the State's most vulnerable populations. While the State strongly believes that our imposed taxes are in full compliance, the vagueness of the new rules provides no assurance that these funding streams are adequately protected.

CMS has also issued a rule regarding targeted case management which clarifies the definition of covered services. The final rule was issued on December 4, 2007 and made effective March 3, 2008. The State is currently in the process of litigating this issue and has requested a one-year implementation extension. Further, CMS has proposed to restrict Medicaid reimbursement for hospital outpatient and school based health services and restricts coverage to rehabilitative services, which could pose a risk to the Financial Plan and result in hundreds of millions of dollars in reduced Federal-share funding. However, the State argues that the proposed regulation regarding outpatient services is in direct violation of the current moratorium.

On all rules, the State is actively lobbying the Federal government to be held harmless, either through an extension/modification of the current moratorium or through other administrative or statutory means. The State is joined by many other states in challenging the adoption on the basis that CMS is overstepping its authority and ignoring Congressional intent. As a result, Congress passed a moratorium barring the implementation of these proposed rule changes (except for hospital outpatient reimbursement) set to expire April 1, 2009.

New York City Personal Care Audit

The OIG of the United States Department of Health and Human Services released a September 2008 draft audit with regard to Medicaid reimbursement for personal care services in New York City. The draft audit reviewed claims for the period July 1, 2004 through December 31, 2006. Based upon their review, the OIG is calling for the State to repay an estimated $815 million in Federal Medicaid because payments were not supported with required medical exams and social and nursing assessments. Both New York City and the Department of Health disagree with these findings and are in the process of conducting their own claims review. DOH's response to this audit is due February 2, 2009.

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State Retirement Systems

General

The New York State and Local Retirement Systems (the "Systems") provide coverage for public employees of the State and its localities (except employees of New York City and teachers, who are covered by separate plans). The Systems comprise the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System. The Comptroller is the administrative head of the Systems. State employees made up about 33 percent of the membership during the 2007-08 fiscal year. There were 3,020 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, 2008, 677,321 persons were members and 358,109 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.

Recent market volatility and the recent decline in the market value of many equity investments have negatively impacted the assets held for the Systems. These or future downturns in financial markets will not affect the State's contribution to the Systems for fiscal year 2009 (which was based on the value of the assets as of April 1, 2007 and has already been paid) or the estimated contribution to the Systems for fiscal year 2010 (which is based on the value of the pension fund and its liabilities as of April 1, 2008). However, such downturns may result in an increase in the amount of the contributions required to be made for fiscal years after fiscal year 2010. The amount of such 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, and, therefore, it is not possible to estimate the amount of any contribution for the period after fiscal year 2010.

Contributions

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

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

The State paid, in full, its employer contributions for the fiscal year ending March 31, 2009. Payments totaled $1.06 billion. This amount included the Judiciary bill and the amortization payments for the 2005 and 2006 bills.

The State bill for the fiscal year ending March 31, 2010 is estimated to be $959.1 million, assuming a payment date of September 1, 2009.

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, 2008 were $155.8 billion (including $2.9 billion in receivables), a decrease of $0.8 billion or 0.5 percent from the 2006-07 level of $156.6 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 $163.1 billion on April 1, 2007 to $170.5 billion (including $66.1 billion for current retirees and beneficiaries) on April 1, 2008. 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, 2008 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 2008 fiscal year, 40 percent of the unexpected gain for the 2007 fiscal year, 60 percent of the unexpected gain for the 2006 fiscal year and 80 percent of the unexpected gain for the 2005 fiscal year. Actuarial assets increased from $142.6 billion on April 1, 2007 to $151.8 billion on April 1, 2008. The funded ratio, as of April 1, 2008, using the entry age normal funding method, was 107 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 March 31	Total Assets(2)	Percent Increase/ (Decrease) From Prior Year
1999	112,723	6.0
2000	128,889	14.3
2001	114,044	(11.5)
2002	112,725	(1.2)
2003	97,373	(13.6)
2004	120,799	24.1
2005	128,038	6.0
2006	142,620	11.4
2007	156,625	9.8
2008	155,846	(0.5)

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, 2008 includes approximately $2.9 billion of receivables.

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

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

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

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

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Authorities and Localities

Localities

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 Obligation Bonds	Obligations of TFA (1)	Obligations of MAC	Obligations of STAR Corp. (2)	Obligations of TSASC, Inc.	HYIC (3)	Other(4) Obligations	Treasury Obligations	Total
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	---	2,552	1,283	---	3,745	(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

Source: Office of the State Comptroller.

(1) Starting in 2007, amounts include 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 and a $67 million obligation to the MTA in 2007 and 2008, respectively.

(4) Includes bonds issued by the Fiscal Year 2005 Securitization Corporation, the Educational Construction Fund, 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 2008, the State Legislature authorized 17 bond issuances to finance local government operating deficits. 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 2008-09 fiscal year or thereafter.

To help resolve persistent fiscal difficulties in the City of Buffalo, the State enacted legislation in July 2003 that created the Buffalo Fiscal Stability Authority (BFSA) and to address a deteriorating fiscal situation in Erie County, legislation was enacted in July 2005 that created the Erie County Fiscal Stability Authority (ECFSA). Under these statutes, the City is currently subject to fiscal oversight and control by the BFSA, and the County is currently subject to fiscal oversight and control by the ECFSA. The BFSA has issued, and the ECFSA is authorized to issue bonds to eliminate budgetary deficits and to restructure or refinance outstanding debt. Sales tax revenues payable to the City and the Buffalo City School District are pledged to support the outstanding bonds issued by the BFSA. The County's sales tax revenues and certain statutorily defined State aid payments are authorized to be pledged as security to support any bonds that may be issued by ECFSA.

Under the BFSA Act, the City has been in a "control period" since 2003. In 2006, the ECFSA instituted a "control period" for the county after rejecting its fiscal 2007 budget and financial plan for fiscal years 2007 through 2010. During a control period, the applicable legislation grants to BFSA and ECFSA significant fiscal oversight authority over the financial operations of the City and the County, respectively, including: the power to approve or reject contracts, labor settlements, and borrowings in excess of $50,000; to approve and reject budgets and four-year financial plans and, if necessary, formulate an acceptable budget for the City or the County, as applicable; and to implement a wage or hiring freeze.

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 Federal government may reduce (or in some cases eliminate) Federal 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 State could also reduce funding of certain local programs, adding pressure on local governments to fund expenditures from their own resources.

Some State policymakers have expressed interest in implementing a property tax cap for local governments. Adoption of a property tax cap could 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. In the current economic recession,, 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, increasing expenditures, and the loss of skilled manufacturing jobs, may also adversely affect localities and necessitate State assistance.

Similar to the State (see "Bond Market Issues" above), municipal issuers are also being affected by diminished market access. If local governments or their public authorities cannot sell bonds or notes at the levels (or on the timetable) expected, they could experience significantly increased costs or a weakened overall cash position.

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 New York City Debt (2)(3)		Other Localities Debt(4)		Total Locality Debt(4)	
	Bonds	Notes	Bonds(5)	Notes(5)	Bonds(4)(5)	Notes(5)
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	---	20,221	4,279	60,526	4,279
2002	42,721	2,200	21,721	4,746	64,442	6,946
2003	47,376	1,110	23,908	5,972	71,284	7,082
2004	50,265	---	26,638	4,657	76,903	4,657
2005	54,421	---	29,202	4,363	83,623	4,363
2006	55,381	---	30,734	4,281	86,115	4,281

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. Debt for other localities does not include Installment Purchase Contracts.

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

Litigation

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. The cross-appeals have been fully briefed, and oral argument before the Second Circuit was conducted on June 3, 2008. The case now awaits decision by the Second Circuit.

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 pending appeal in the *Oneida* case.

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 has been suspended, pending the outcome of the Oneida appeal that was argued on June 3, 2008.

Tobacco Master Settlement Agreement

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 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.

Representative Payees

In *Weaver v. State of New York*, filed in the New York State Court of Claims on July 17, 2008, the claimant alleges that executive directors of Office of Mental Health facilities, acting as representative payees under the Federal Social Security Act, have improperly received benefits due to patients and former patients and improperly applied those benefits to defray the cost of patient care and maintenance. The named claimant seeks benefits on her own behalf as well as certification of a class of claimants.

On September 26, 2008, the State moved to dismiss the claim on the grounds that (i) claimant failed to file a motion to certify the class in a timely manner and (ii) claimant's failure to identify the time and place in which each claim arose violates the provisions of Court of Claims Act §11(b). Claimant has opposed the motion and cross-moved, seeking certification of the class, pre-certification discovery, and partial summary judgment. The State's reply papers are currently due on February 9, 2009.

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
(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
(COLA) ....Cost-of-Living Adjustment
(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
(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
(PFM) .... Public Financial Management
(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
(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
(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
(VLT) .... Video Lottery Terminal
(VRDBs) .... Variable-Rate Demand Bonds
(WHTI) .... Western Hemisphere Travel Initiative
(WMS) .... Welfare Management System

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
(OMRDD)	Office of Mental Retardation and 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

CASH FINANCIAL PLAN
GENERAL FUND
2008-2009
(millions of dollars)

	Executive	30-Day Changes	Technical Adjustments	30-Day
Opening fund balance	2,754	0		2,754
Receipts:				
Taxes:				
Personal income tax	22,979	93	0	23,072
User taxes and fees	8,711	(93)	0	8,618
Business taxes	5,645	0	0	5,645
Other taxes	1,268	0	0	1,268
Miscellaneous receipts	2,999	125	0	3,124
Federal Grants	41	0	0	41
Transfers from other funds:				
PIT in excess of Revenue Bond debt service	8,306	21	0	8,327
Sales tax in excess of LGAC debt service	2,267	(31)	0	2,236
Real estate taxes in excess of CW/CA debt service	390	0	0	390
All other	1,515	(100)	0	1,415
Total receipts	54,121	15	0	54,136
Disbursements:				
Grants to local governments	38,197	0	(4)	38,193
State operations:				
Personal Service	6,151	0	65	6,216
Non-Personal Service	2,198	0	(61)	2,137
General State charges	3,119	0	0	3,119
Transfers to other funds:				
Debt service	1,688	0	0	1,688
Capital projects	428	0	0	428
State Share Medicaid	2,664	0	0	2,664
Other purposes	931	0	0	931
Total disbursements	55,376	0	0	55,376
Change in fund balance	(1,255)	15	0	(1,240)
Closing fund balance	1,499	15	0	1,514
Reserves				
Tax Stabilization Reserve Fund	1,031	0	0	1,031
Statutory Rainy Day Reserve Fund	175	0	0	175
Contingency Reserve Fund	21	0	0	21
Community Projects Fund	127	15	0	142
Labor Settlement Other Risks Reserve *	145	0	0	145

**The Labor Settlement Reserve/Other Risks is a DOB-designated use of the Refund Reserve Account.*

Technical Adjustments comprise the reclassification of receipts and disbursements from one Financial Plan category to another to align estimates with actual results as reported by the Office of the State Comptroller or the allocation of State Operations appropriations between personal and non-personal service. These adjustments affect multiple agencies but have no net Financial Plan impact.

Source: NYS DOB

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

	Executive	30-Day Changes	Technical Adjustments	30-Day
Receipts:				
Taxes:				
Personal income tax	22,662	(150)	0	22,512
User taxes and fees	10,021	0	0	10,021
Business taxes	6,084	0	0	6,084
Other taxes	1,048	0	0	1,048
Miscellaneous receipts	3,764	45	(3)	3,806
Federal Grants	0	0	0	0
Transfers from other funds:				
PIT in excess of Revenue Bond debt service	7,524	(53)	1	7,472
Sales tax in excess of LGAC debt service	2,634	0	0	2,634
Real estate taxes in excess of CW/CA debt service	443	0	0	443
All other	940	120	3	1,063
Total receipts	55,120	(38)	1	55,083
Disbursements:				
Grants to local governments	37,370	(15)	2	37,357
State operations:				
Personal Service	6,303	(15)	0	6,288
Non-Personal Service	2,265	(13)	(1)	2,251
General State charges	3,540	5	0	3,545
Transfers to other funds:				
Debt service	1,780	0	0	1,780
Capital projects	520	0	0	520
State Share Medicaid	2,732	0	0	2,732
Other purposes	882	0	0	882
Total disbursements	55,392	(38)	1	55,355
Deposit to/(use of) Community Projects Fund	(127)	0	0	(127)
Deposit to/(use of) Prior Year Reserves	(145)	0	0	(145)
Margin	0	0	0	0

Technical Adjustments comprise the reclassification of receipts and disbursements from one Financial Plan category to another to align estimates with actual results as reported by the Office of the State Comptroller or the allocation of State Operations appropriations between personal and non-personal service. These adjustments affect multiple agencies but have no net Financial Plan impact.

Source: NYS DOB

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

	Executive	30-Day Changes	Technical Adjustments	30-Day
Receipts:				
Taxes:				
Personal income tax	24,511	(150)	0	24,361
User taxes and fees	10,589	0	0	10,589
Business taxes	6,236	0	0	6,236
Other taxes	1,096	0	0	1,096
Miscellaneous receipts	3,193	0	(4)	3,189
Federal Grants	0	0	0	0
Transfers from other funds:				
PIT in excess of Revenue Bond debt service	7,823	(53)	0	7,770
Sales tax in excess of LGAC debt service	2,793	0	0	2,793
Real estate taxes in excess of CW/CA debt service	541	0	0	541
All other	587	20	4	611
Total receipts	57,369	(183)	0	57,186
Disbursements:				
Grants to local governments	39,512	(27)	1	39,486
State operations:				
Personal Service	6,631	(5)	0	6,626
Non-Personal Service	2,330	(10)	(1)	2,319
General State charges	3,960	10	0	3,970
Transfers to other funds:				
Debt service	1,757	0	0	1,757
Capital projects	1,071	0	0	1,071
State Share Medicaid	2,716	0	0	2,716
Other purposes	1,226	0	0	1,226
Total disbursements	59,203	(32)	0	59,171
Margin	(1,834)	(151)	0	(1,985)

Technical Adjustments comprise the reclassification of receipts and disbursements from one Financial Plan category to another to align estimates with actual results as reported by the Office of the State Comptroller or the allocation of State Operations appropriations between personal and non-personal service. These adjustments affect multiple agencies but have no net Financial Plan impact.

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2011-2012
(millions of dollars)

	Executive	30-Day Changes	Technical Adjustments	30-Day
Receipts:				
Taxes:				
Personal income tax	26,048	(150)	0	25,898
User taxes and fees	10,913	0	0	10,913
Business taxes	6,405	0	0	6,405
Other taxes	1,154	0	0	1,154
Miscellaneous receipts	3,161	0	(3)	3,158
Federal Grants	0	0	0	0
Transfers from other funds:				
PIT in excess of Revenue Bond debt service	8,106	(52)	0	8,054
Sales tax in excess of LGAC debt service	2,885	0	0	2,885
Real estate taxes in excess of CW/CA debt service	621	0	0	621
All other	623	20	4	647
Total receipts	59,916	(182)	1	59,735
Disbursements:				
Grants to local governments	43,478	(27)	1	43,452
State operations:				
Personal Service	6,822	(5)	0	6,817
Non-Personal Service	2,415	(10)	0	2,405
General State charges	4,220	10	0	4,230
Transfers to other funds:				
Debt service	1,732	0	0	1,732
Capital projects	1,220	0	0	1,220
State Share Medicaid	2,710	0	0	2,710
Other purposes	1,364	0	0	1,364
Total disbursements	63,961	(32)	1	63,930
Margin	(4,045)	(150)	0	(4,195)

Technical Adjustments comprise the reclassification of receipts and disbursements from one Financial Plan category to another to align estimates with actual results as reported by the Office of the State Comptroller or the allocation of State Operations appropriations between personal and non-personal service. These adjustments affect multiple agencies but have no net Financial Plan impact.

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2008-2009
(millions of dollars)

	Mid-Year	Change	30-Day
Opening fund balance	2,754	0	2,754
Receipts:			
Taxes:			
Personal income tax	22,986	86	23,072
User taxes and fees	8,749	(131)	8,618
Business taxes	5,645	0	5,645
Other taxes	1,324	(56)	1,268
Miscellaneous receipts	2,551	573	3,124
Federal Grants	41	0	41
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	8,387	(60)	8,327
Sales tax in excess of LGAC debt service	2,279	(43)	2,236
Real estate taxes in excess of CW/CA debt service	440	(50)	390
All other	1,185	230	1,415
Total receipts	53,587	549	54,136
Disbursements:			
Grants to local governments	38,769	(576)	38,193
State operations:			
Personal Service	6,260	(44)	6,216
Non-Personal Service	2,280	(143)	2,137
General State charges	3,113	6	3,119
Transfers to other funds:			
Debt service	1,730	(42)	1,688
Capital projects	435	(7)	428
State Share Medicaid	2,664	0	2,664
Other purposes	869	62	931
Total disbursements	56,120	(744)	55,376
HCRA Operating Shortfall	(88)	88	0
Legislative/Administrative Actions to Close Gaps	1,475	(1,475)	0
Change in fund balance	(1,146)	(94)	(1,240)
Closing fund balance	1,608	(94)	1,514
Reserves			
Tax Stabilization Reserve Fund	1,031	0	1,031
Statutory Rainy Day Reserve Fund	175	0	175
Contingency Reserve Fund	21	0	21
Community Projects Fund	172	(30)	142
Debt Reduction Reserve Fund *	64	(64)	0
Labor Settlement Other Risks Reserve *	145	0	145

**The Debt Reduction Reserve Fund and Labor Settlement Reserve/Other Risks are DOB-designated uses of the Refund Reserve Account.*

Source: NYS DOB

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

	Mid-Year	Change	30-Day
Receipts:			
Taxes:			
Personal income tax	21,253	1,259	22,512
User taxes and fees	8,947	1,074	10,021
Business taxes	5,670	414	6,084
Other taxes	1,175	(127)	1,048
Miscellaneous receipts	2,399	1,407	3,806
Federal Grants	0	0	0
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	7,647	(175)	7,472
Sales tax in excess of LGAC debt service	2,373	261	2,634
Real estate taxes in excess of CW/CA debt service	449	(6)	443
All other	582	481	1,063
Total receipts	50,495	4,588	55,083
Disbursements:			
Grants to local governments	43,452	(6,095)	37,357
State operations:			
Personal Service	6,923	(635)	6,288
Non-Personal Service	2,436	(185)	2,251
General State charges	3,646	(101)	3,545
Transfers to other funds:			
Debt service	1,747	33	1,780
Capital projects	757	(237)	520
State Share Medicaid	2,572	160	2,732
Other purposes	1,277	(395)	882
Total disbursements	62,810	(7,455)	55,355
Deposit to/(use of) Community Projects Fund	31	(158)	(127)
Deposit to/(use of) Prior Year Reserves	(145)	0	(145)
HCRA Operating Shortfall	(317)	317	0
Margin	(12,518)	12,518	0

Source: NYS DOB

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

	Mid-Year	Change	30-Day
Receipts:			
Taxes:			
Personal income tax	22,583	1,778	24,361
User taxes and fees	9,167	1,422	10,589
Business taxes	6,182	54	6,236
Other taxes	1,190	(94)	1,096
Miscellaneous receipts	2,333	856	3,189
Federal Grants	0	0	0
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	7,930	(160)	7,770
Sales tax in excess of LGAC debt service	2,440	353	2,793
Real estate taxes in excess of CW/CA debt service	484	57	541
All other	556	55	611
Total receipts	52,865	4,321	57,186
Disbursements:			
Grants to local governments	47,361	(7,875)	39,486
State operations:			
Personal Service	7,207	(581)	6,626
Non-Personal Service	2,539	(220)	2,319
General State charges	4,131	(161)	3,970
Transfers to other funds:			
Debt service	1,735	22	1,757
Capital projects	1,239	(168)	1,071
State Share Medicaid	2,589	127	2,716
Other purposes	1,735	(509)	1,226
Total disbursements	68,536	(9,365)	59,171
Deposit to/(use of) Community Projects Fund	(36)	36	0
HCRA Operating Shortfall	(117)	117	0
Margin	(15,752)	13,767	(1,985)

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2011-2012
(millions of dollars)

	Mid-Year	Change	30-Day
Receipts:			
Taxes:			
Personal income tax	24,141	1,757	25,898
User taxes and fees	9,541	1,372	10,913
Business taxes	6,363	42	6,405
Other taxes	1,244	(90)	1,154
Miscellaneous receipts	2,295	863	3,158
Federal Grants	0	0	0
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	8,292	(238)	8,054
Sales tax in excess of LGAC debt service	2,531	354	2,885
Real estate taxes in excess of CW/CA debt service	565	56	621
All other	595	52	647
Total receipts	55,567	4,168	59,735
Disbursements:			
Grants to local governments	50,486	(7,034)	43,452
State operations:			
Personal Service	7,384	(567)	6,817
Non-Personal Service	2,595	(190)	2,405
General State charges	4,463	(233)	4,230
Transfers to other funds:			
Debt service	1,710	22	1,732
Capital projects	1,357	(137)	1,220
State Share Medicaid	2,579	131	2,710
Other purposes	2,368	(1,004)	1,364
Total disbursements	72,942	(9,012)	63,930
Deposit to/(use of) Community Projects Fund	(166)	166	0
HCRA Operating Shortfall	(25)	25	0
Margin	(17,234)	13,039	(4,195)

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2009-2010 through 2012-2013
(millions of dollars)

	2009-2010 30-Day	2010-2011 Projected	2011-2012 Projected	2012-2013 Projected
Receipts:				
Taxes:				
Personal income tax	22,512	24,361	25,898	27,724
User taxes and fees	10,021	10,589	10,913	11,181
Business taxes	6,084	6,236	6,405	6,805
Other taxes	1,048	1,096	1,154	1,221
Miscellaneous receipts	3,806	3,189	3,158	2,786
Federal grants	0	0	0	0
Transfers from other funds:				
PIT in excess of Revenue Bond debt service	7,472	7,770	8,054	8,462
Sales tax in excess of LGAC debt service	2,634	2,793	2,885	3,002
Real estate taxes in excess of CW/CA debt service	443	541	621	700
All other transfers	1,063	611	647	659
Total receipts	55,083	57,186	59,735	62,540
Disbursements:				
Grants to local governments	37,357	39,486	43,452	46,759
State operations:				
Personal Service	6,288	6,626	6,817	6,909
Non-Personal Service	2,251	2,319	2,405	2,477
General State charges	3,545	3,970	4,230	4,604
Transfers to other funds:				
Debt service	1,780	1,757	1,732	1,720
Capital projects	520	1,071	1,220	1,384
State Share Medicaid	2,732	2,716	2,710	2,712
Other purposes	882	1,226	1,364	1,636
Total disbursements	55,355	59,171	63,930	68,201
Deposit to/(use of) Community Projects Fund	(127)	0	0	0
Deposit to/(use of) Prior Year Reserves	(145)	0	0	0
Margin	0	(1,985)	(4,195)	(5,661)

Source: NYS DOB

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	38,603	7,813	12,314	58,730
Miscellaneous receipts	3,124	12,798	779	16,701
Federal grants	41	1	0	42
Total receipts	41,768	20,612	13,093	75,473
Disbursements:				
Grants to local governments	38,193	16,885	0	55,078
State operations:				
Personal Service	6,216	4,152	0	10,368
Non-Personal Service	2,137	2,564	73	4,774
General State charges	3,119	1,472	0	4,591
Debt service	0	0	4,614	4,614
Capital projects	0	8	0	8
Total disbursements	49,665	25,081	4,687	79,433
Other financing sources (uses):				
Transfers from other funds	12,368	4,056	5,816	22,240
Transfers to other funds	(5,711)	(1,244)	(14,218)	(21,173)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	6,657	2,812	(8,402)	1,067
Change in fund balance:	(1,240)	(1,657)	4	(2,893)
Deposit to/(use of) Community Projects Fund	(198)			
Deposit to/(use of) Prior Year Reserves	(920)			
Deposit to/(use of) Debt Reduction Reserve	(122)			
Closing fund balance	1,514	1,863	290	3,667

Source: NYS DOB

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	0	1,863	290	2,153
Receipts:				
Taxes	39,665	7,248	12,231	59,144
Miscellaneous receipts	3,806	14,692	830	19,328
Federal grants	0	1	0	1
Total receipts	43,471	21,941	13,061	78,473
Disbursements:				
Grants to local governments	37,357	16,971	0	54,328
State operations:				
Personal Service	6,288	4,242	0	10,530
Non-Personal Service	2,251	2,860	75	5,186
General State charges	3,545	1,102	0	4,647
Debt service	0	0	5,123	5,123
Capital projects	0	3	0	3
Total disbursements	49,441	25,178	5,198	79,817
Other financing sources (uses):				
Transfers from other funds	11,612	4,245	5,968	21,825
Transfers to other funds	(5,914)	(1,204)	(13,837)	(20,955)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	5,698	3,041	(7,869)	870
Deposit to/(use of) Community Projects Fund	(127)	0	0	(127)
Deposit to/(use of) Prior Year Reserves	(145)	0	0	(145)
Change in fund balance	0	(196)	(6)	(202)
Closing fund balance	0	1,667	284	1,951

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,667	284	1,951
Receipts:				
Taxes	42,282	7,385	13,088	62,755
Miscellaneous receipts	3,189	15,259	820	19,268
Federal grants	0	1	0	1
Total receipts	45,471	22,645	13,908	82,024
Disbursements:				
Grants to local governments	39,486	17,581	0	57,067
State operations:				
Personal Service	6,626	4,469	0	11,095
Non-Personal Service	2,319	2,908	75	5,302
General State charges	3,970	1,193	0	5,163
Debt service	0	0	5,743	5,743
Capital projects	0	2	0	2
Total disbursements	52,401	26,153	5,818	84,372
Other financing sources (uses):				
Transfers from other funds	11,715	4,296	6,310	22,321
Transfers to other funds	(6,770)	(1,014)	(14,404)	(22,188)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	4,945	3,282	(8,094)	133
Change in fund balance	(1,985)	(226)	(4)	(2,215)
Closing fund balance	(1,985)	1,441	280	(264)

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,441	280	1,721
Receipts:				
Taxes	44,370	7,633	13,830	65,833
Miscellaneous receipts	3,158	15,366	839	19,363
Federal grants	0	1	0	1
Total receipts	47,528	23,000	14,669	85,197
Disbursements:				
Grants to local governments	43,452	17,850	0	61,302
State operations:				
Personal Service	6,817	4,501	0	11,318
Non-Personal Service	2,405	2,929	75	5,409
General State charges	4,230	1,231	0	5,461
Debt service	0	0	6,150	6,150
Capital projects	0	2	0	2
Total disbursements	56,904	26,513	6,225	89,642
Other financing sources (uses):				
Transfers from other funds	12,207	4,386	6,377	22,970
Transfers to other funds	(7,026)	(1,123)	(14,810)	(22,959)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	5,181	3,263	(8,433)	11
Change in fund balance	(4,195)	(250)	11	(4,434)
Closing fund balance	(4,195)	1,191	291	(2,713)

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	0	1,191	291	1,482
Receipts:				
Taxes	46,931	7,856	14,690	69,477
Miscellaneous receipts	2,786	15,750	858	19,394
Federal grants	0	1	0	1
Total receipts	49,717	23,607	15,548	88,872
Disbursements:				
Grants to local governments	46,759	18,504	0	65,263
State operations:				
Personal Service	6,909	4,523	0	11,432
Non-Personal Service	2,477	3,112	75	5,664
General State charges	4,604	1,291	0	5,895
Debt service	0	0	6,474	6,474
Capital projects	0	2	0	2
Total disbursements	60,749	27,432	6,549	94,730
Other financing sources (uses):				
Transfers from other funds	12,823	4,569	6,399	23,791
Transfers to other funds	(7,452)	(922)	(15,399)	(23,773)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	5,371	3,647	(9,000)	18
Change in fund balance	(5,661)	(178)	(1)	(5,840)
Closing fund balance	(5,661)	1,013	290	(4,358)

Source: NYS DOB

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	(433)	286	6,486
Receipts:					
Taxes	38,603	7,813	2,056	12,314	60,786
Miscellaneous receipts	3,124	12,906	2,900	779	19,709
Federal grants	41	34,031	1,906	0	35,978
Total receipts	41,768	54,750	6,862	13,093	116,473
Disbursements:					
Grants to local governments	38,193	46,135	484	0	84,812
State operations:					
Personal Service	6,216	6,282	0	0	12,498
Non-Personal Service	2,137	3,964	0	73	6,174
General State charges	3,119	2,343	0	0	5,462
Debt service	0	0	0	4,614	4,614
Capital projects	0	8	6,195	0	6,203
Total disbursements	49,665	58,732	6,679	4,687	119,763
Other financing sources (uses):					
Transfers from other funds	12,368	6,601	595	5,816	25,380
Transfers to other funds	(5,711)	(4,241)	(1,303)	(14,218)	(25,473)
Bond and note proceeds	0	0	349	0	349
Net other financing sources (uses)	6,657	2,360	(359)	(8,402)	256
Change in fund balance	(1,240)	(1,622)	(176)	4	(3,034)
Deposit to/(use of) Community Projects Fund	(198)				
Deposit to/(use of) Prior Year Reserves	(920)				
Deposit to/(use of) Debt Reduction Reserve	(122)				
Closing fund balance	1,514	2,257	(609)	290	3,452

Source: NYS DOB

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	0	2,257	(609)	290	1,938
Receipts:					
Taxes	39,665	7,248	2,025	12,231	61,169
Miscellaneous receipts	3,806	14,798	3,620	830	23,054
Federal grants	0	33,971	1,866	0	35,837
Total receipts	43,471	56,017	7,511	13,061	120,060
Disbursements:					
Grants to local governments	37,357	46,056	487	0	83,900
State operations:					
Personal Service	6,288	6,392	0	0	12,680
Non-Personal Service	2,251	4,348	0	75	6,674
General State charges	3,545	1,967	0	0	5,512
Debt service	0	0	0	5,123	5,123
Capital projects	0	3	7,174	0	7,177
Total disbursements	49,441	58,766	7,661	5,198	121,066
Other financing sources (uses):					
Transfers from other funds	11,612	6,782	806	5,968	25,168
Transfers to other funds	(5,914)	(4,263)	(1,178)	(13,837)	(25,192)
Bond and note proceeds	0	0	531	0	531
Net other financing sources (uses)	5,698	2,519	159	(7,869)	507
Deposit to/(use of) Community Projects Fund	(127)	0	0	0	(127)
Deposit to/(use of) Prior Year Reserves	(145)	0	0	0	(145)
Change in fund balance	0	(230)	9	(6)	(227)
Closing fund balance	0	2,027	(600)	284	1,711

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	2,027	(600)	284	1,711
Receipts:					
Taxes	42,282	7,385	2,058	13,088	64,813
Miscellaneous receipts	3,189	15,365	3,645	820	23,019
Federal grants	0	35,646	1,768	0	37,414
Total receipts	45,471	58,396	7,471	13,908	125,246
Disbursements:					
Grants to local governments	39,486	48,205	468	0	88,159
State operations:					
Personal Service	6,626	6,760	0	0	13,386
Non-Personal Service	2,319	4,463	0	75	6,857
General State charges	3,970	2,157	0	0	6,127
Debt service	0	0	0	5,743	5,743
Capital projects	0	2	7,622	0	7,624
Total disbursements	52,401	61,587	8,090	5,818	127,896
Other financing sources (uses):					
Transfers from other funds	11,715	7,105	1,505	6,310	26,635
Transfers to other funds	(6,770)	(4,068)	(1,442)	(14,404)	(26,684)
Bond and note proceeds	0	0	596	0	596
Net other financing sources (uses)	4,945	3,037	659	(8,094)	547
Change in fund balance	(1,985)	(154)	40	(4)	(2,103)
Closing fund balance	(1,985)	1,873	(560)	280	(392)

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,873	(560)	280	1,593
Receipts:					
Taxes	44,370	7,633	2,072	13,830	67,905
Miscellaneous receipts	3,158	15,472	3,667	839	23,136
Federal grants	0	37,607	1,800	0	39,407
Total receipts	47,528	60,712	7,539	14,669	130,448
Disbursements:					
Grants to local governments	43,452	50,431	543	0	94,426
State operations:					
Personal Service	6,817	6,797	0	0	13,614
Non-Personal Service	2,405	4,505	0	75	6,985
General State charges	4,230	2,217	0	0	6,447
Debt service	0	0	0	6,150	6,150
Capital projects	0	2	7,617	0	7,619
Total disbursements	56,904	63,952	8,160	6,225	135,241
Other financing sources (uses):					
Transfers from other funds	12,207	7,189	1,693	6,377	27,466
Transfers to other funds	(7,026)	(4,172)	(1,488)	(14,810)	(27,496)
Bond and note proceeds	0	0	452	0	452
Net other financing sources (uses)	5,181	3,017	657	(8,433)	422
Change in fund balance	(4,195)	(223)	36	11	(4,371)
Closing fund balance	(4,195)	1,650	(524)	291	(2,778)

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,650	(524)	291	1,417
Receipts:					
Taxes	46,931	7,856	2,076	14,690	71,553
Miscellaneous receipts	2,786	15,856	2,980	858	22,480
Federal grants	0	37,317	1,844	0	39,161
Total receipts	49,717	61,029	6,900	15,548	133,194
Disbursements:					
Grants to local governments	46,759	50,800	555	0	98,114
State operations:					
Personal Service	6,909	6,832	0	0	13,741
Non-Personal Service	2,477	4,698	0	75	7,250
General State charges	4,604	2,341	0	0	6,945
Debt service	0	0	0	6,474	6,474
Capital projects	0	2	6,805	0	6,807
Total disbursements	60,749	64,673	7,360	6,549	139,331
Other financing sources (uses):					
Transfers from other funds	12,823	7,463	1,645	6,399	28,330
Transfers to other funds	(7,452)	(3,974)	(1,513)	(15,399)	(28,338)
Bond and note proceeds	0	0	380	0	380
Net other financing sources (uses)	5,371	3,489	512	(9,000)	372
Change in fund balance	(5,661)	(155)	52	(1)	(5,765)
Closing fund balance	(5,661)	1,495	(472)	290	(4,348)

Source: NYS DOB

CASHFLOW
GENERAL FUND
2008-2009
(dollars in millions)

	2008 April Results	May Results	June Results	July Results	August Results	September Results	October Results	November Results	December Results	2009 January Projected	February Projected	March Projected	Total
OPENING BALANCE	2,754	7,589	3,546	3,618	4,234	4,396	5,673	3,888	1,166	1,734	5,474	4,864	2,754
RECEIPTS:													
Personal Income Tax	5,613	850	2,382	1,715	1,540	2,099	252	(70)	1,855	4,113	1,000	1,723	23,072
User Taxes and Fees	637	651	847	704	684	877	645	631	781	743	616	802	8,618
Business Taxes	104	(17)	948	59	85	1,218	36	64	1,361	68	97	1,622	5,645
Other Taxes	102	134	80	294	82	64	89	80	101	80	81	81	1,268
Total Taxes	6,456	1,618	4,257	2,772	2,391	4,258	1,022	705	4,098	5,004	1,794	4,228	38,603
Licenses, fees, etc.	43	64	42	17	42	57	38	56	55	55	55	68	592
Abandoned Property	0	5	4	0	16	50	30	114	31	74	63	363	750
Reimbursement	5	10	21	6	11	29	13	11	30	13	10	16	175
Investment income	35	0	12	11	5	2	13	8	6	25	19	44	180
Other transactions	33	110	200	45	44	85	32	44	114	109	372	239	1,427
Total Miscellaneous Receipts	116	189	279	79	118	223	126	233	236	276	519	730	3,124
Federal Grants	3	0	0	13	0	14	0	0	14	2	3	(8)	41
PIT in excess of Revenue Bond Debt Service	1,870	212	950	571	308	1,017	493	78	925	1,236	144	523	8,327
Sales Tax in Excess of LGAC Debt Service	174	27	424	205	139	272	198	184	243	228	1	141	2,236
Real Estate Taxes in Excess of CW/CA Debt Service	54	54	52	36	52	32	28	22	13	14	16	17	390
All Other	1	10	44	90	20	9	11	4	137	95	4	990	1,415
Total Transfers from Other Funds	2,099	303	1,470	902	519	1,330	730	288	1,318	1,573	165	1,671	12,368
TOTAL RECEIPTS	8,674	2,110	6,006	3,766	3,028	5,825	1,878	1,226	5,666	6,855	2,481	6,621	54,136
DISBURSEMENTS:													
School Aid	410	2,284	1,923	137	477	1,403	559	1,084	1,518	526	866	6,579	17,766
Higher Education	20	18	454	82	223	46	159	358	102	159	146	324	2,091
All Other Education	19	75	394	113	79	133	156	64	167	131	176	204	1,711
Medicaid - DOH	892	1,271	761	833	363	404	1,194	839	525	719	629	560	8,990
Public Health	50	14	14	19	20	193	28	90	38	48	34	26	574
Mental Hygiene	60	69	359	4	(30)	349	44	105	463	24	115	495	2,057
Children and Families	8	69	167	201	146	144	78	93	41	311	94	376	1,728
Temporary & Disability Assistance	123	123	320	152	153	195	(131)	91	126	62	(56)	53	1,211
Transportation	0	14	32	0	17	1	0	27	6	0	1	6	104
All Other	29	34	413	61	43	244	82	50	444	26	31	504	1,961
Total Local Assistance Grants	1,611	3,971	4,837	1,602	1,491	3,112	2,169	2,801	3,430	2,006	2,036	9,127	38,193
Personal Service	775	419	476	661	532	460	699	496	521	439	428	309	6,215
Non-Personal Service	226	206	191	198	181	226	139	115	187	155	166	148	2,138
Total State Operations	1,001	625	667	859	713	686	838	611	708	594	594	457	8,353
General State Charges	489	1,020	(142)	341	278	19	376	39	168	186	260	85	3,119
Debt Service	240	132	220	49	36	279	1	193	404	7	23	104	1,688
Capital Projects	100	77	72	45	90	118	(4)	7	111	51	1	(240)	428
State Share Medicaid	267	296	203	228	205	232	249	226	227	245	128	158	2,664
Other Purposes	131	32	77	26	53	102	34	71	50	26	49	280	931
Total Transfers to Other Funds	738	537	572	348	384	731	280	497	792	329	201	302	5,711
TOTAL DISBURSEMENTS	3,839	6,153	5,934	3,150	2,866	4,548	3,663	3,948	5,098	3,115	3,091	9,971	55,376
Excess/(Deficiency) of Receipts over Disbursements	4,835	(4,043)	72	616	162	1,277	(1,785)	(2,722)	568	3,740	(610)	(3,350)	(1,240)
CLOSING BALANCE	7,589	3,546	3,618	4,234	4,396	5,673	3,888	1,166	1,734	5,474	4,864	1,514	1,514

Source: NYS DOB

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

	2007-2008 Actuals	Medicaid Transparency	2007-2008 Adjusted	2008-2009 Revised	2009-2010 30-Day	2010-2011 Projected	2011-2012 Projected	2012-2013 Projected
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT								
Agriculture and Markets, Department of	106,078	0	106,078	103,084	102,463	120,890	114,924	103,075
Alcoholic Beverage Control	16,109	0	16,109	17,142	21,634	22,538	22,871	23,364
Banking Department	82,523	0	82,523	78,993	79,690	83,343	82,476	83,857
Consumer Protection Board	4,002	0	4,002	4,720	3,209	3,365	3,330	3,375
Economic Development Capital Programs	41,578	0	41,578	14,500	18,300	0	0	0
Economic Development, Department of	139,785	0	139,785	103,055	97,937	132,278	123,855	84,146
Empire State Development Corporation	280,348	0	280,348	498,648	775,703	778,716	777,084	506,734
Energy Research and Development Authority	30,416	0	30,416	27,054	29,560	29,798	30,041	30,041
Housing and Community Renewal, Division of	303,779	0	303,779	348,220	351,980	319,420	320,810	324,767
Insurance Department	249,708	0	249,708	295,974	500,405	621,982	625,305	630,197
Olympic Regional Development Authority	6,543	0	6,543	11,559	9,509	7,714	7,924	7,924
Public Service, Department of	68,955	0	68,955	77,793	80,612	87,497	90,322	92,886
Science, Technology and Innovation, Foundation for	44,350	0	44,350	24,557	16,729	16,589	17,309	17,309
Strategic Investment	9,704	0	9,704	4,000	9,000	14,000	10,376	5,000
Functional Total	1,383,878	0	1,383,878	1,609,299	2,096,731	2,238,130	2,226,627	1,912,675
PARKS AND THE ENVIRONMENT								
Adirondack Park Agency	5,289	0	5,289	5,703	5,802	6,005	6,008	6,010
Environmental Conservation, Department of	964,379	0	964,379	883,410	891,394	905,577	890,843	883,885
Environmental Facilities Corporation	20,603	0	20,603	11,417	10,272	10,448	10,630	10,814
Hudson River Park Trust	14,370	0	14,370	20,682	15,000	10,000	0	0
Parks, Recreation and Historic Preservation, Office of	267,441	0	267,441	333,898	273,084	256,962	255,558	257,176
Functional Total	1,272,082	0	1,272,082	1,255,110	1,195,552	1,188,992	1,163,039	1,157,885
TRANSPORTATION								
Motor Vehicles, Department of	295,115	0	295,115	328,689	331,225	349,835	359,870	363,413
Thruway Authority	1,245	0	1,245	1,734	1,804	1,876	1,951	2,029
Metropolitan Transportation Authority	86,371	0	86,371	160,000	195,300	206,500	194,500	183,600
Transportation, Department of	6,151,063	0	6,151,063	6,513,762	6,433,425	6,447,806	6,457,651	6,509,143
Functional Total	6,533,794	0	6,533,794	7,004,185	6,961,754	7,006,017	7,013,972	7,058,185
HEALTH AND SOCIAL WELFARE								
Aging, Office for the	234,607	0	234,607	225,774	217,368	225,689	229,729	229,729
Children and Family Services, Office of	2,972,714	0	2,972,714	3,123,976	3,087,147	3,248,516	3,428,700	3,619,756
OCFS	2,972,714	(33,505)	2,939,209	3,075,828	3,031,129	3,190,453	3,345,378	3,493,926
OCFS - Medicaid	0	33,505	33,505	48,148	56,018	58,063	83,322	125,830
Health, Department of	36,549,449	0	36,549,449	37,024,397	36,672,647	40,205,884	43,928,746	44,769,055
Medical Assistance	31,040,404	0	31,040,404	31,395,627	31,383,579	34,680,325	38,079,445	39,035,413
Medicaid Administration	838,272	0	838,272	853,000	895,500	939,500	983,750	1,029,750
Public Health	4,670,773	0	4,670,773	4,775,770	4,393,568	4,586,059	4,865,551	4,703,892
Health - Medicaid Assistance	0	0		0	0	0	0	0
Human Rights, Division of	16,007	0	16,007	19,768	21,565	21,858	21,914	22,106
Labor, Department of	561,263	0	561,263	593,616	660,260	644,537	648,376	639,123
Medicaid Inspector General, Office of	47,840	0	47,840	92,248	91,740	94,464	97,905	97,921
Prevention of Domestic Violence, Office for	2,432	0	2,432	2,471	2,439	2,381	2,393	2,414
Stem Cell and Innovation	163	0	163	15,153	46,321	63,300	50,000	167,826

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

	2007-2008 Actuals	Medicaid Transparency	2007-2008 Adjusted	2008-2009 Revised	2009-2010 30-Day	2010-2011 Projected	2011-2012 Projected	2012-2013 Projected
HEALTH AND SOCIAL WELFARE (Continued)								
Temporary and Disability Assistance, Office of	4,756,394	0	4,756,394	4,591,345	4,541,429	4,600,194	4,647,017	4,741,147
Welfare Assistance	3,217,951	0	3,217,951	3,053,369	3,330,678	3,368,691	3,407,291	3,492,291
Welfare Administration	369,646	0	369,646	366,669	54,222	52,830	52,830	52,830
All Other	1,168,797	0	1,168,797	1,171,307	1,156,529	1,178,673	1,186,896	1,196,026
Welfare Inspector General, Office of	1,073	0	1,073	1,476	0	0	0	0
Workers' Compensation Board	194,007	0	194,007	203,807	214,070	199,636	204,198	209,096
Functional Total	45,335,949	0	45,335,949	45,894,031	45,554,986	49,306,459	53,258,978	54,498,173
MENTAL HEALTH								
Mental Health, Office of	2,548,711	442,327	2,991,038	3,136,245	3,303,547	3,588,954	3,762,217	3,897,247
OMH	2,548,711	(1,228,855)	1,319,856	1,425,422	1,513,123	1,663,846	1,781,400	1,843,351
OMH - Medicaid	0	1,671,182	1,671,182	1,710,823	1,790,424	1,925,108	1,980,817	2,053,896
Mental Hygiene, Department of	237	449,449	449,686	661,542	406,080	438,611	477,163	478,986
Mental Retardation and Developmental Disabilities, Office of	3,395,365	548,766	3,944,131	4,149,566	4,272,660	4,480,740	4,598,915	4,737,981
OMRDD	3,395,365	(3,028,003)	367,362	546,002	513,874	514,557	524,957	539,657
OMRDD - Medicaid	0	3,576,769	3,576,769	3,603,564	3,758,786	3,966,183	4,073,958	4,198,324
Alcoholism and Substance Abuse Services, Office of	598,292	16,187	614,479	625,541	646,189	673,820	735,709	754,778
OASAS	598,292	(60,784)	537,508	546,370	561,758	586,862	647,819	665,358
OASAS - Medicaid	0	76,971	76,971	79,171	84,431	86,958	87,890	89,420
Developmental Disabilities Planning Council	5,530	0	5,530	4,150	4,150	4,150	4,150	4,150
Quality of Care for the Mentally Disabled, Commission on	14,115	0	14,115	17,227	17,169	18,933	19,018	19,226
Functional Total	6,562,250	1,456,729	8,018,979	8,594,271	8,649,795	9,205,208	9,597,172	9,892,368
PUBLIC PROTECTION								
Capital Defenders Office	1,035	0	1,035	361	0	0	0	0
Correction, Commission of	2,767	0	2,767	2,653	2,785	2,927	2,956	2,990
Correctional Services, Department of	2,723,700	0	2,723,700	2,747,532	2,741,318	2,788,382	2,849,521	2,921,402
Crime Victims Board	63,894	0	63,894	63,033	65,430	65,608	65,710	65,903
Criminal Justice Services, Division of	295,043	0	295,043	313,794	235,370	235,404	231,247	230,444
Homeland Security	65,821	0	65,821	151,428	359,617	286,486	553,012	550,121
Investigation, Temporary State Commission of	3,663	0	3,663	3,882	0	0	0	0
Judicial Commissions	3,925	0	3,925	5,075	5,214	5,208	5,311	5,385
Military and Naval Affairs, Division of	449,205	0	449,205	297,179	285,673	224,377	190,481	191,492
Parole, Division of	208,618	0	208,618	196,122	190,652	199,975	204,329	208,322
Probation and Correctional Alternatives, Division of	74,765	0	74,765	76,716	69,253	70,898	71,586	73,121
State Police, Division of	663,255	0	663,255	713,493	726,917	786,240	783,662	759,738
Functional Total	4,555,691	0	4,555,691	4,571,268	4,682,229	4,665,505	4,957,815	5,008,918

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

	2007-2008 Actuals	Medicaid Transparency	2007-2008 Adjusted	2008-2009 Revised	2009-2010 30-Day	2010-2011 Projected	2011-2012 Projected	2012-2013 Projected
EDUCATION								
Arts, Council on the	53,425	0	53,425	45,246	44,863	44,992	45,090	45,090
City University of New York	1,105,307	0	1,105,307	937,208	1,784,481	1,435,249	1,482,152	1,515,138
Education, Department of	28,940,338	0	28,940,338	30,607,158	29,449,015	30,488,031	32,408,890	34,452,011
School Aid	21,543,493	(80,000)	21,463,493	23,218,033	23,289,338	24,217,513	25,898,356	27,710,190
School Aid - Medicaid Assistance	0	80,000	80,000	100,000	80,000	80,000	80,000	80,000
STAR Property Tax Relief	4,657,721	0	4,657,721	4,440,285	3,415,450	3,371,270	3,568,620	3,745,167
Special Education Categorical Programs	1,623,565	0	1,623,565	1,725,000	1,638,090	1,737,950	1,813,470	1,878,490
All Other	1,115,559	0	1,115,559	1,123,840	1,026,137	1,081,298	1,048,444	1,038,164
Higher Education Services Corporation	966,555	0	966,555	947,591	994,730	945,340	943,498	947,430
Higher Education Capital Grants	0	0	0	50,000	40,000	30,000	30,000	0
State University Construction Fund	15,813	0	15,813	18,255	19,586	20,992	21,463	21,822
State University of New York	6,126,674	0	6,126,674	6,633,687	6,980,050	7,456,758	7,587,033	7,648,215
Functional Total	37,208,112	0	37,208,112	39,239,145	39,312,725	40,421,362	42,518,126	44,629,706
GENERAL GOVERNMENT								
Audit and Control, Department of	250,228	0	250,228	268,777	263,980	265,052	269,832	274,416
Budget, Division of the	38,216	0	38,216	57,450	73,822	85,293	98,206	108,270
Civil Service, Department of	24,988	0	24,988	23,946	22,630	23,376	23,586	23,833
Elections, State Board of	14,269	0	14,269	123,392	139,719	7,576	7,685	7,827
Employee Relations, Office of	3,613	0	3,613	4,093	3,623	3,901	3,939	3,978
Executive Chamber	20,167	0	20,167	19,577	18,605	19,580	20,204	20,481
General Services, Office of *	223,178	0	223,178	226,172	221,551	225,934	234,211	238,429
Inspector General, Office of	6,567	0	6,567	6,687	6,704	6,939	7,015	7,100
Law, Department of	205,403	0	205,403	244,050	248,256	252,131	258,403	265,253
Lieutenant Governor, Office of the	1,314	0	1,314	133	0	276	1,193	1,208
Lottery, Division of	218,612	0	218,612	188,023	188,569	194,284	194,546	195,298
Public Employment Relations Board	3,657	0	3,657	3,985	4,396	4,646	4,685	4,733
Public Integrity, Commission on	1,733	0	1,733	4,984	5,018	5,120	5,453	5,530
Racing and Wagering Board, State	24,477	0	24,477	20,701	21,515	22,366	22,466	22,799
Real Property Services, Office of	62,770	0	62,770	60,855	47,403	44,934	45,945	46,532
Regulatory Reform, Governor's Office of	3,850	0	3,850	3,168	640	763	763	763
State, Department of	200,896	0	200,896	186,486	165,908	166,237	162,702	165,238
Tax Appeals, Division of	3,325	0	3,325	3,168	3,152	3,321	3,321	3,321
Taxation and Finance, Department of	382,325	0	382,325	381,051	425,470	443,249	443,688	444,804
Technology, Office for	21,468	0	21,468	48,815	168,333	216,385	191,469	152,541
Lobbying, Temporary State Commission on	1,093	0	1,093	0	0	0	0	0
Veterans Affairs, Division of	15,429	0	15,429	16,268	17,481	18,436	18,010	18,136
Functional Total	1,727,578	0	1,727,578	1,891,781	2,046,775	2,009,799	2,017,322	2,010,490

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

	2007-2008 Actuals	Medicaid Transparency	2007-2008 Adjusted	2008-2009 Revised	2009-2010 30-Day	2010-2011 Projected	2011-2012 Projected	2012-2013 Projected
ALL OTHER CATEGORIES								
Legislature	216,946	0	216,946	218,950	220,717	220,717	220,717	220,717
Judiciary (excluding fringe benefits)	2,266,864	0	2,266,864	2,433,666	2,505,026	2,718,941	2,896,326	2,915,710
World Trade Center	39,755	0	39,755	60,000	50,000	40,000	30,000	20,000
Local Government Assistance	917,495	0	917,495	1,221,875	967,079	966,740	968,848	968,473
Long-Term Debt Service	4,008,752	0	4,008,752	4,084,555	4,655,702	5,239,547	0	0
Capital Projects	0	0	0	0	0	0	0	0
General State Charges	3,997,233	(1,456,729)	2,540,504	2,469,182	2,884,840	3,264,886	3,499,455	3,868,849
Miscellaneous	32,028	0	32,028	(783,679)	(717,488)	(595,930)	4,872,899	5,167,306
Functional Total	11,479,073	(1,456,729)	10,022,344	9,704,549	10,565,876	11,854,901	12,488,245	13,161,055
TOTAL ALL GOVERNMENTAL FUNDS SPENDING	116,058,407	0	116,058,407	119,763,639	121,066,423	127,896,373	135,241,296	139,329,455

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.

Medicaid: To facilitate comparable reporting of spending trends and annual growth, 2007-08 results are adjusted to be consistent with the budgeting of 2008-09 Medicaid spending by agency. Adjustments by agency and financial plan category of spending by fund are available in the 2008-09 Enacted Budget Report.

** To facilitate comparability, the new Office of Procurement Services is reflected within the amounts shown for the Office of General Services.*

Source: NYS DOB

GAAP FINANCIAL PLAN
GENERAL FUND
UPDATED FOR GOVERNORS AMENDMENTS
2008-2009
(millions of dollars)

	Mid-Year	Change	Revised
Revenues:			
Taxes:			
Personal income tax	20,788	74	20,862
User taxes and fees	8,637	(131)	8,506
Business taxes	5,741	0	5,741
Other taxes	1,307	(145)	1,162
Miscellaneous revenues	4,646	644	5,290
Federal grants	41	0	41
Total revenues	41,160	442	41,602
Expenditures:			
Grants to local governments	40,086	(301)	39,785
State operations	12,140	(151)	11,989
General State charges	4,036	19	4,055
Debt service	0	0	0
Capital projects	1	0	1
Total expenditures	56,263	(433)	55,830
Other financing sources (uses):			
Transfers from other funds	15,315	(29)	15,286
Transfers to other funds	(6,267)	62	(6,205)
Proceeds from financing arrangements/	0		0
advance refundings	393	0	393
Net other financing sources (uses)	9,441	33	9,474
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(5,662)	908	(4,754)
Legislative/Administrative Actions to Close Gap	1,387	(1,387)	0
Operating Surplus/(Deficit)	(4,275)	(479)	(4,754)
Accumulated Surplus/(Deficit)	(324)		(803)

Source: NYS DOB

GAAP FINANCIAL PLAN
GENERAL FUND
UPDATED FOR GOVERNORS AMENDMENTS
2009-2010 THROUGH 2012-2013
(millions of dollars)

	2009-2010 30-Day	2010-2011 Projected	2011-2012 Projected	2012-13 Projected
Revenues:				
Taxes:				
Personal income tax	23,070	23,742	25,303	27,172
User taxes and fees	10,022	10,603	10,927	11,195
Business taxes	6,084	6,237	6,405	6,805
Other taxes	1,081	1,136	1,201	1,278
Miscellaneous revenues	6,946	6,342	6,391	6,061
Federal grants	0	0	0	0
Total revenues	47,203	48,060	50,227	52,511
Expenditures:				
Grants to local governments	39,024	41,853	45,877	49,209
State operations	12,336	12,682	14,669	15,508
General State charges	3,808	4,280	3,015	3,665
Debt service	0	0	0	0
Capital projects	1	0	0	0
Total expenditures	55,169	58,815	63,561	68,382
Other financing sources (uses):				
Transfers from other funds	14,642	15,035	15,452	20,183
Transfers to other funds	(6,390)	(6,873)	(7,395)	(11,719)
Proceeds from financing arrangements/	0			
advance refundings	315	355	359	359
Net other financing sources (uses)	8,567	8,517	8,416	8,823
Operating Surplus/(Deficit)	601	(2,238)	(4,918)	(7,048)

Source: NYS DOB

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Annual Information Statement

State of New York

May 12, 2008

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Annual Information Statement
State of New York
Dated: May 12, 2008

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Annual Information Statement of the State of New York

Introduction

This Annual Information Statement ("AIS") is dated May 12, 2008 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 8, 2007 and all updates and supplements thereto. This AIS is scheduled to be updated on a quarterly basis (in August 2008, November 2008, and February 2009) and is subject to being 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 update or supplement 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 2008-09 Enacted Budget Financial Plan, dated May 1, 2008 (the "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 2008-09 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 2008-09.

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) governmental organization, and (e) activities of public authorities and localities.

3. The status of significant litigation 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 relies on information drawn from other sources, including the Office of the State Comptroller ("OSC"), that DOB believes to be reliable. Information relating to matters described in the section entitled "Litigation" is furnished by the State Office of the Attorney General.

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

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 directly with the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) and with the Central Post Office, Disclosure USA. The Municipal Advisory Council of Texas established this internet-based disclosure filing system, approved by the Securities and Exchange Commission, to facilitate the transmission of disclosure-related information to the NRMSIRs. An official copy of this AIS may be obtained by contacting Mr. Dominic Colafati, Chief Budget Examiner, New York State Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705 or from any NRMSIR. OSC expects to issue the Basic Financial Statements for the 2007-08 fiscal year in July 2008. Copies may be obtained by contacting the Office of the State Comptroller, 110 State Street, Albany, NY 12236 and will be available on its website at www.osc.state.ny.us.

Usage Notice

The AIS has been supplied by the State to provide updated information about the financial condition of 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 payment of their respective bonds, notes or other obligations and for which the State has contractually obligated itself to provide such information pursuant to an applicable continuing disclosure agreement (a "CDA").

An informational copy of this AIS is available on the DOB website (www.budget.state.ny.us). The availability of this AIS in electronic form at DOB's website 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 the AIS on the 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.

Current Fiscal Year

The 2008-09 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 Financial Plan contains estimates for the 2008-09 fiscal year and projections for the 2009-10 through 2011-12 fiscal years. As such, it contains estimates and projections of future results that should not be construed as statements of fact. These estimates and projections are based upon various assumptions that may be affected by numerous factors, including future economic conditions in the State and nation and potential litigation. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained in the Financial Plan set forth below.

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

In addition to the General Fund, the State reports spending and revenue activity by other broad measures: including 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.

2008-09 Enacted Budget Financial Plan Overview

The Legislature completed action on the State Budget for the 2008-09 fiscal year on April 9, 2008, nine days after the start of the State fiscal year (interim appropriations were enacted for the period from April 1 to April 8 to meet contractual and other obligations until final enactment of the State Budget). Governor Paterson did not veto any legislative additions. Consistent with past practice, the Legislature enacted all debt service appropriations without amendment before the start of the fiscal year (on March 12, 2008).

On April 11, 2008, following final action on the budget, members of the Public Employees Federation (PEF), which represents approximately 52,000 State employees, ratified a new labor contract with the State covering fiscal years 2007-08 through 2010-11. The General Fund costs of the contract are estimated at $254 million in 2008-09, which includes a retroactive payment for 2007-08. The Legislature has not yet passed the enabling legislation needed for the contract to take effect, but the Financial Plan nonetheless includes these costs. The costs will be financed in 2008-09 from the reserve designated for this purpose. (See "Labor Settlements" later in this section.)

DOB, which prepares the official Financial Plan for the State, projects that the Enacted Budget Financial Plan for 2008-09 is balanced in the General Fund on a cash basis, as required by law. The Enacted Budget Financial Plan closes a current-services gap estimated at $5.2 billion and funds $873 million in new initiatives. General Fund receipts, including transfers from other funds, are projected to total $55.6 billion. General Fund disbursements, including transfers to other funds, are estimated at $56.4 billion. The State expects to use $723 million in designated reserves in 2008-09, most of which will be used to finance the cost of labor settlements with State employee unions that have ratified their contracts. The State expects to close the 2008-09 fiscal year with a balance of $2.0 billion in the General Fund, down from an opening balance of $2.8 billion. (See "General Fund Closing Balances" later in this section.)

Spending in State Operating Funds at the time of budget enactment was projected at $80.5 billion in 2008-09, an increase of 4.5 percent over 2007-08 results. State spending growth in the current Financial Plan, which includes the impact of the labor settlement that PEF ratified after budget enactment, is estimated at $80.9 billion, an annual increase of 5.0 percent. (See "Annual Spending Growth" later in this section.)

The Enacted Budget Financial Plan projects current-services budget gaps in future years of $5.0 billion in 2009-10 growing to $7.7 billion in 2010-11 and $8.8 billion in 2011-12. The gap estimates are meant to provide a general perspective on the State's long-term operating forecast, and will be revised with each quarterly Financial Plan Update. (See the section on "General Fund Financial Plan Outyear Projections" later in this AIS.) Over the past five years, DOB estimates that the State has closed current-services gaps of $9.3 billion in 2003-04, $5.1 billion in 2004-05, $4.2 billion in 2005-06, $762 million in 2006-07, and $1.6 billion in 2007-08. By law, the Governor must annually submit, and the Legislature must enact, a budget that is balanced on a cash-basis in the General Fund.

On April 21, 2008, Governor Paterson directed all State agencies to prepare spending and management plans. The State workforce estimate for 2008-09, which is currently at 201,170 positions, is expected to be modified at the First Quarterly Update to the Financial Plan to reflect the impact of the approved plans. The management plans must be submitted to the DOB by May 16, 2008.

The Enacted Budget forecast is subject to many complex economic, social, environmental and political risks and uncertainties, many of which are outside of 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 on the profitability of the financial services sector, and the concomitant effect on bonus income and capital gains realizations; litigation against the State, including potential challenges to the constitutionality of certain tax actions authorized in the budget; and actions taken by the Federal government, including audits, disallowances, and changes in aid levels. In addition, the forecast contains specific transaction risks and other uncertainties, including, but not limited to, the sale of development rights for a video lottery terminal (VLT) facility at the Aqueduct racetrack; the enforcement of certain tax regulations on Native American reservations; and the achievement of cost-saving measures at the levels projected. Such risks and uncertainties, if they were to materialize, could have a materially adverse impact on the Financial Plan in the current year (See the section on "Special Considerations" later in this AIS.)

Financial Plan Information (millions of dollars)			
	2006-07 Actual	2007-08 Results*	2008-09 Enacted Budget**
State Operating Funds Budget			
Size of Budget (at time of enactment)	$73,489	$77,001	$80,501
Annual Growth	11.0%	4.8%	4.5%
Size of Budget (incl. Labor Settlment after enactment)			$80,862
Annual Growth, as adjusted			5.0%
NYS Long-Term Estimated Personal Income Growth	5.3%	5.3%	5.3%
Other Budget Measures (Annual Growth)			
General Fund (with transfers)	$51,591	$53,385	$56,361
	11.0%	3.5%	5.6%
State Funds (Including Capital)	$77,311	$81,377	$85,972
	10.9%	5.3%	5.6%
Capital Budget (Federal and State)	$5,559	$6,131	$7,080
	17.0%	10.3%	15.5%
Federal Operating	$33,716	$32,924	$33,664
	1.0%	-2.3%	2.2%
All Governmental Funds	$112,764	$116,056	$121,606
	8.1%	2.9%	4.8%
All Govt'l Funds (Including "Off-Budget" Capital)	$114,056	$117,690	$123,674
	8.3%	3.2%	5.1%
Inflation (CPI) Growth	3.4%	3.3%	3.1%
All Funds Receipts			
Taxes	$58,739	$60,871	$63,904
Miscellaneous Receipts	$18,078	$19,640	$20,084
Federal Grants	$35,579	$34,909	$35,956
Total Receipts	$112,396	$115,420	$119,944
Base Tax Growth	12.8%	6.0%	2.6%
General Fund Outyear Gap Forecast			
2008-09	N/A	N/A	$0
2009-10	N/A	N/A	($5,016)
2010-11	N/A	N/A	($7,731)
2011-12	N/A	N/A	($8,762)
Total General Fund Reserves (year-end)	$3,045	$2,754	$2,031
State Workforce (# of FTEs at year-end)	195,526	199,754	201,170 ***
Debt			
Debt Service as % All Funds	4.5%	4.0%	4.4%
State Related Debt Outstanding	$48,095	$49,579	$52,794

* *Unaudited Year-End Results*

** *Projection*

*** *Does not reflect the workforce impact of agency management plans, proposals for which are due to DOB by May 16, 2008*

Current-Services Gap for 2008-09

The Enacted Budget closes a current-services budget gap in 2008-09 that is estimated at $5.2 billion by DOB. The current-services gap represents the difference between the expected level of tax receipts and other receipts based on the current economic forecast and transactions authorized in law and the estimated cost of maintaining programs, activities, and other obligations at the level required in current law. The current-services gap is the starting point for budget development, determining the scope of actions that must be taken to achieve a balanced budget. By definition, the current services gap does not reflect any of the actions that were recommended or ultimately enacted to balance the budget. The table below summarizes the revisions to the current-services gaps over the four-year Financial Plan horizon.

Summary of Changes to Current Services Forecast Since the Executive Budget
(millions of dollars)

	2008-09	2009-10	2010-11	2011-12
Initial Current Services Gaps	**(4,422)**	**(6,154)**	**(7,697)**	**(9,454)**
21-Day Receipts Reestimates	(304)	(481)	(485)	(489)
21-Day Disbursement Reestimates	147	100	(58)	39
21-Day Current Services Gaps	**(4,579)**	**(6,535)**	**(8,240)**	**(9,904)**
Consensus Receipts Revisions	(300)	(300)	(300)	(300)
Additional Receipts Revisions	(532)	(712)	(691)	(645)
PEF Labor Settlement	(254)	(265)	(399)	(399)
Disbursement Reestimates	442	127	12	60
Current Services Gaps Before Enacted Actions	**(5,223)**	**(7,685)**	**(9,618)**	**(11,188)**

Current-Services Receipts Changes (Since Executive Budget)

Since the Executive Budget for 2008-09 was introduced in January 2008, DOB has reduced its current-services forecast for General Fund receipts in 2008-09 by $1.13 billion. On February 12, 2008, DOB issued an updated Executive Budget Financial Plan to accompany Governor Spitzer's amendments to the Executive Budget (the "21-Day Financial Plan"), at which time it reduced projected General Fund receipts (exclusive of proposed law changes) by $304 million for 2008-09, largely on the basis of updated economic information and actual receipts experience through January 2008. This was followed on March 1, 2008 by the Executive and Legislature reaching a consensus that General Fund receipts in 2008-09 should be further reduced by $300 million from the level projected in the 21-Day Financial Plan. DOB has since concluded, along with a growing number of other economic forecasters, that the economy is now entering recession (see the section on "Special Considerations" later in this AIS). Accordingly, DOB has reduced its revenue forecast by an additional $532 million as part of the Enacted Budget Financial Plan.

Current-Services Disbursements Changes (Since Executive Budget)

DOB revised its current-services spending forecast based on a review of year-end results for 2007-08 and program trends. The PEF labor settlement increased costs. The forecast for Medicaid spending was lowered by $325 million in 2008-09, reflecting service trends and the effectiveness of audit and compliance activities. Spending estimates for a number of other programs were also reduced in 2008-09. For the most part, the revisions were made in agencies and programs where spending in 2007-08 came in below planned levels and where the trend is expected to continue in 2008-09.

The Enacted Budget Closes the 2008-09 Current-Services Gap

The Enacted Budget Financial Plan for 2008-09 is balanced on a cash basis in the General Fund, closing a current-services gap of $5.2 billion, as estimated by DOB. The plan is sufficient to eliminate the entire gap and finance new initiatives. The following table summarizes the plan.

2008-09 Enacted Budget -- General Fund Budget-Balancing Plan
(millions of dollars)

	2008-09	2009-10	2010-11	2011-12
Current Services Gaps	**(5,223)**	**(7,685)**	**(9,618)**	**(11,188)**
Savings Plan	**6,096**	**3,888**	**3,684**	**3,967**
Savings Actions [1]	2,835	2,784	2,586	3,102
Across-the-Board Reductions (Total)	778	778	780	780
Across-the-Board Reductions Accruing to Other Funds	(293)	(292)	(292)	(292)
Health Care [2]	763	928	846	1,372
Health Care Financing: Cigarette Tax [3]	265	296	292	291
STAR	354	400	185	195
General State Charges	202	79	84	85
Mental Hygiene	199	220	254	257
Welfare/TANF	151	163	163	162
Judicial Pay Raise Exclusion	143	37	37	37
Criminal Justice	20	12	16	18
All Other [4]	253	163	221	197
Revenue Actions	1,264	1,075	1,069	836
Improve Audit and Compliance Efforts	487	239	322	357
Capital Base Rate Reduction/Cap Elimination	89	71	71	(76)
LLC Minimum Partner Fees	85	85	85	85
Sales Tax Nexus	50	73	85	98
Federal QPAI Decoupling	50	50	50	50
Credit Card Nexus	49	39	39	39
REIT Loophole Correction	42	64	64	(106)
Abandoned Property	150	100	100	100
Authority Resources	60	35	35	0
All Other	202	319	218	289
Non-Recurring Actions	1,377	29	29	29
VLT Development Rights	250	0	0	0
Phase in AIM Restoration for NYC	82	0	0	0
Bond Finance Certain Eligible Capital Costs	173	(21)	(21)	(21)
Blanket Sweeps Authorization	150	50	50	50
All Other	722	0	0	0
Use of Reserves to Finance Labor Settlements	620	0	0	0
New Initiatives [5]	**(873)**	**(1,219)**	**(1,797)**	**(1,541)**
Education	(447)	(391)	(633)	(294)
Health Care	(156)	(289)	(381)	(451)
Community Projects Fund Deposits	0	(111)	(129)	0
Human Services COLA	0	(88)	(180)	(278)
All Other	(270)	(340)	(474)	(518)
Enacted Budget Gaps	**0**	**(5,016)**	**(7,731)**	**(8,762)**

[1] *Savings are net of legislative denial of cost-savings measures. New initiatives authorized in the budget are presented separately.*
[2] *Includes Medicaid, Health, and Aging. Excludes certain resources and HCRA savings.*
[3] *Tax revenues will be deposited to the Health Care Resources Fund and used to finance State health care costs, including Medicaid.*
[4] *Includes, among other things, State operations savings not displayed in above totals.*
[5] *Commitments authorized in the Enacted Budget above current-services levels.*

Savings Actions

Savings actions, which for the most part include recurring reductions in spending, are valued at $2.8 billion, comprising approximately 50 percent of the gap-closing plan. The actions include across-the-board reductions in the operating budgets for State agencies and "non-entitlement" local assistance programs; diverse measures to control health care spending; slowing the phase-in of the "middle-class" School Tax-Relief Program; operational controls on State agencies, including management of overtime costs; and a range of other cost-savings measures.

Health Care

Health care savings, including savings in Medicaid, HCRA programs, public health and aging, total $828 million in 2008-09 from all sources. In the General Fund, savings total $763 million in 2008-09 and grow to $928 million in 2009-10. Actions include intensifying audit activities to reduce fraud, expanding controls on pharmaceutical programs, adjusting reimbursement rates for prescription drugs, reducing inflationary growth in Medicaid rates, limiting managed care premium increases, and implementing new strategies to improve utilization management and patient outcomes. Other savings result from the reduction of detoxification reimbursement, implementation of the Berger Commission recommendations for hospitals and nursing homes, limitations on the Early Intervention (EI) cost-of-living increase, and reductions in discretionary public health and aging spending.

Health Care Financing: Cigarette Tax

The Enacted Budget raises the tax on cigarettes by $1.25 per pack, effective June 3, 2008, bringing the total State tax to $2.75 per pack. The additional revenues generated by the tax increase, estimated at $265 million in 2008-09, are to be deposited into the Health Care Resources Fund and help finance health care costs, including Medicaid.

Across-the Board Reductions

At Governor Patterson's direction, DOB identified $778 million in across-the-board reductions in State Operating Funds. The General Fund savings from the reductions total $485 million, which consist of $322 million in State Operations and $163 million in local assistance payments.

2008-09 Across-the-Board Reductions
(millions of dollars)

	State Operations	Local Assistance	Total
State Operating Funds Total	**509**	**269**	**778**
General Fund	322	163	485
Other State Funds	187	106	293
Legislative-Financed Changes	**(4)**	**(64)**	**(68)**
General Fund	(4)	(64)	(68)
Other State Funds	-	-	-
Net Savings	**505**	**205**	**710**
General Fund	318	99	417
Other State Funds	187	106	293

The Legislature financed the restoration of $68 million of the reductions as part of their changes to the Executive Budget, and identified a commensurate level of new resources. The restorations were primarily for the Aid and Incentives to Municipalities (AIM) program ($18 million), the Tuition Assistance Program (TAP) ($15 million), the State University of New York (SUNY) Community College Aid ($9 million), certain education programs ($4 million), and State payments to local governments for the administration of the welfare program ($6 million).

School Tax Relief Program

The Enacted Budget provides for a slower phase-in of the basic middle-class School Tax Relief (STAR) rebate and related New York City income tax payments; a reduction in the STAR credit for New York City resident personal income taxpayers with incomes above $250,000; a change in the adjustment that limits annual reductions in the STAR exemption amount due to increased property values, from 5 percent to 10 percent in 2008-09 and 11 percent in 2009-10 and thereafter; and authorization for the State to offset middle-class STAR rebates owed to individuals who are delinquent on their taxes, child support, or other legal debt obligations. After these actions, the State will finance $4.7 billion in total property tax relief in 2008-09 (nearly $5 billion on a commitment basis), growing to $6.2 billion over the next few years.

General State Charges

Savings in General State Charges are expected to be realized through an eligibility audit to eliminate health insurance coverage for ineligible dependents, the pre-payment of a portion of the 2008-09 pension obligation at the close of 2007-08, the application of available health insurance dividends, and elimination of fringe benefit waivers for certain State agencies.

Mental Hygiene

In this area, savings are expected from, among other things, the generation of additional third-party revenues that will be used to reduce General Fund costs, management of program expansions, and continued vacancy, overtime, and other operational controls.

Welfare/Temporary Assistance for Needy Families

Savings in welfare are expected to take several forms. The Enacted Budget increases the level of Temporary Assistance for Needy Families (TANF) resources available to offset the State's Earned Income Tax Credit (EITC). This is done by allocating certain TANF-funded programs on a cash rather than commitment basis. In addition, the budget makes additional TANF resources available by discontinuing funding for certain 2004-05 program commitments and eliminating several functions that are not essential.

Other Savings

These cover a broad range of State activities and agencies. Operational savings include hiring controls, including not filling vacancies for non-essential positions; management of overtime; and energy and other utility savings. In addition, the savings plan reduces a planned deposit to the member-item fund and eliminates certain initiatives enacted in 2007-08. Finally, the Enacted Budget includes no funding for the pay increases requested by the Judiciary in its budget submission, the costs of which were included in the current-services forecast in the Executive Budget.

Revenue Actions

The Enacted Budget includes $1.3 billion in General Fund revenue actions. The Department of Taxation and Finance is to enhance audit initiatives, bolstered by the hiring of new auditors, and institute a voluntary tax compliance initiative to encourage timely payments by delinquent taxpayers. Other revenue actions include:

- Restructuring and streamlining the fees on Limited Liability Companies (LLCs) and the minimum taxes on corporations so that they are based on New York income;
- Subjecting credit card companies with a qualifying number of customers or receipts in New York State to the bank tax;
- Amending the 2007 legislation that was intended to fully close the Real Estate Investment Trust/Regulated Investment Company (REIT/RICs) loophole;
- Temporarily raising the tax limitation amount in the capital base tax for non-manufacturing companies from $1 million to $10 million for three years beginning in the 2008 tax year and reducing the tax rate from 0.178 percent to 0.15 percent, starting with the 2008 tax year; and
- Decoupling New York State from the Federal Qualified Production Activity Income (QPAI) deduction (currently a 6 percent deduction of qualifying income) provided under Internal Revenue Code section 199.

Non-Recurring Resources

The State typically uses some non-recurring resources each year to support operations. Over the past five years, the State Budget has included estimated non-recurring resources, including reserves, of $3.2 billion in 2003-04, $2.1 billion in 2004-05, $889 million in 2005-06, $259 million in 2006-07, and $1.4 billion in 2007-08, as estimated by DOB. DOB estimates that the Enacted Budget Financial Plan for 2008-09 includes approximately $1.4 billion in non-recurring resources to help balance the General Fund and $620 million in reserves to finance ratified labor settlements. The latter is money the State set aside in prior years with the explicit purpose of financing the current round of labor settlement costs. The following table summarizes the non-recurring actions.

General Fund Non-Recurring Resources (millions of dollars)

	2008-09
VLT Development Rights	250
Bonding Capital Originally Planned to be Cash Financed (incl. Software	173
Sweep Excess Balances	150
Transfer SONYMA Excess Balances to the General Fund	100
Sale of Mental Hygiene Surplus Properties	100
Additional 5 Percent Business Tax Prepayment	95
Partial Restoration of NYC AIM	82
Sweep Excess EPF Fund Balances to General Fund	80
Sweep Excess EPIC Fund Balances to General Fund	70
Mental Hygiene: Federal PIA Revenues/Cash Management	66
Recovery of Early Intervention Overpayments to New York City	60
Student Loan Default Fee	27
District Attorney Settlement Revenues	25
Pension Bill Prepayment Interest Savings	24
Sweep Excess Motor Vehicle Fund Balances to General Fund	16
All other	59
Total One-Time Resources	**1,377**
Use of Reserves to Finance Labor Settlements	620
Total Non-Recurring Resources	**1,997**

There are two non-recurring transactions in 2008-09 that differ from typical fund sweeps, overpayment recoveries, and other routine actions. The first is an anticipated payment by a private operator for the development rights of a VLT facility at Aqueduct racetrack. The State is expected to finance the construction of, and own, the facility. The private operator would be granted an exclusive right to run the facility, subject to satisfying certain performance requirements. The facility is expected to generate annual net revenue in the range of $300 million for public education when it is fully operational. The second is an aid payment to New York City under the AIM program at a level less than planned in the current-services forecast.

Initiatives

Initiatives, above the substantial investments already included in the current-services forecast, total an estimated $873 million in 2008-09. The initiatives include increased aid for public education, the reinvestment of certain health care savings into ambulatory and primary care improvements, and the extension of the Cost-of-Living Adjustment (COLA) for human service providers through 2011-12. Other initiatives were included for a range of activities and purposes, including higher education, agriculture, housing, and economic development. (See the section on "Changes to the Executive Budget" later in this AIS.)

General Fund Closing Balances

General Fund Estimated Closing Balance (millions of dollars)

	2007-08 Results *	2008-09 Enacted	*Change*
Projected Year-End Fund Balance	**2,754**	**2,031**	***(723)***
Undesignated Reserves	1,227	1,227	*0*
Tax Stabilization Reserve Fund	1,031	1,031	*0*
Rainy Day Reserve Fund	175	175	*0*
Contingency Reserve Fund	21	21	*0*
Designated Reserves	1,527	804	*(723)*
For Labor Settlement	1,065	445	*(620)*
For Debt Reduction	122	122	*0*
Community Projects Fund	340	237	*(103)*

** Unaudited Year-End Results*

The Enacted Budget Financial Plan projects that the General Fund will end the 2008-09 fiscal year with a balance of $2.0 billion. This is a decrease of $723 million from 2007-08. It reflects the planned use of $620 million in reserves to finance the costs of labor settlements ($254 million for the PEF contract and the remainder for unions that settled in 2007-08), and $103 million for member-items in the Community Projects Fund. Market conditions will determine whether all or a portion of the Debt Reduction Reserve will be used in the current year. Balances in the other reserves are expected to remain unchanged. The closing balance would decrease if the State were to reach collective bargaining settlements with other unions in the current year.

Labor Settlements

The State has new contracts with four labor unions, the Civil Service Employees Association (CSEA), United University Professions (UUP), PEF, and District Council 37, and has extended similar changes in pay and benefits to management/confidential (M/C) employees. 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 will receive pay increases of 3 percent annually in 2007-08, 2008-09, and 2009-10, and 4 percent in 2010-11.

DOB estimates the General Fund costs of the ratified contracts at $620 million in 2008-09, $775 million in 2009-10, and $1.2 billion in both 2010-11 and 2011-12. The current Financial Plan includes these costs. In 2008-09, the costs are expected to be paid for through the use of existing reserves set aside for this purpose.

The unions representing uniformed officers (i.e., Police Benevolent Association of the New York State Troopers, New York State Correctional Officers and Police Benevolent Association), the Graduate Student Employees Union, and City University of New York (CUNY) employees, have not reached settlements with the State at this time. DOB estimates that if the unsettled unions were to agree to terms comparable to those that have been ratified by the other unions, it would result in added costs of $200 million in 2008-09, $185 million in 2009-10, and $264 million in both 2010-11 and 2011-12.

Annual Spending Growth

General Fund spending, including transfers to other funds, is projected to total $56.4 billion in 2008-09, an increase of $3.0 billion over 2007-08 results. The General Fund must, by law, end the year in balance. State Operating Funds spending, which includes the General Fund, State-financed special revenue funds, and debt service, is projected to increase by $3.9 billion and total $80.9 billion in 2008-09. All Funds spending, the broadest measure of spending that includes State Operating Funds, capital spending, and Federal grants, is projected to total $121.6 billion in 2008-09, an increase of $5.6 billion. The PEF labor settlement (and an adjustment to other funds to reflect unallocated costs for unions that had settled in 2007-08) added $362 million to the 2008-09 spending estimate for State Operating Funds and All Funds ($254 million to the General Fund).

Total Disbursements
(millions of dollars)

	2007-08 Results**	2008-09 Enacted	Annual $ Change	Annual % Change	Adjusted % Change***
State Operating Funds	**77,001**	**80,862**	**3,861**	**5.0%**	**4.5%**
General Fund *	50,611	50,811	200	0.4%	-0.1%
Other State Funds	22,254	25,338	3,084	13.9%	13.4%
Debt Service Funds	4,136	4,713	577	14.0%	14.0%
All Governmental Funds	**116,056**	**121,606**	**5,550**	**4.8%**	**4.5%**
State Operating Funds	77,001	80,862	3,861	5.0%	4.5%
Capital Projects Funds	6,131	7,080	949	15.5%	15.5%
Federal Operating Funds	32,924	33,664	740	2.2%	2.2%
General Fund, incl. Transfers	**53,385**	**56,361**	**2,976**	**5.6%**	**5.1%**

**Excludes transfers.*

*** Unaudited Year-End Results*

**** Excludes recent labor settlements ($254 million General Fund cost; $362 million State Operating Funds cost)*

The major sources of State Operating Funds spending growth from 2007-08 to 2008-09 are presented in the table below.

Main Sources of State Operating Funds Growth
State Fiscal Year Basis
(millions of dollars)

	2007-08 Results***	2008-09 Enacted	Annual $ Change	Annual % Change
STATE OPERATING FUNDS	**77,001**	**80,862**	**3,861**	**5.0%**
School Aid**	18,983	20,747	1,764	9.3%
Medicaid (excluding Local Cap)*	12,133	12,338	205	1.7%
Medicaid: Local Cap Takeover Initiative	235	486	251	106.8%
Mental Hygiene**	2,107	2,970	863	41.0%
CUNY	1,013	1,191	178	17.6%
Local Government Assistance	917	1,242	325	35.4%
Children and Families**	1,611	1,763	152	9.4%
Transportation	2,825	3,003	178	6.3%
Debt Service	4,104	4,652	548	13.4%
State Operations (excluding collective bargaining)	14,975	14,535	(440)	-2.9%
Collective Bargaining	93	728	635	682.8%
All Other	18,005	17,207	(798)	-4.4%

** DOH Medicaid only, excluding local cap payments.*
*** Includes Medicaid spending disbursed by such agency*
**** Unaudited Year-End Results*

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Changes to the Executive Budget

The Executive Budget 21-Day Financial Plan for 2008-09 underwent substantial revisions for two main reasons: (1) changes negotiated by the Legislature and Executive during the process of budget enactment, which included the consensus revenue forecast, the identification of new resources, the additions and restorations to the Executive Budget recommendations, and the impact of across-the-board reductions to State agencies and "non-entitlement" local assistance programs; and (2) the substantial revisions to the current-services forecast made by DOB apart from the budget enactment process. The table below summarizes the revisions to the General Fund operating forecast for 2008-09 through 2011-12.

Changes to General Fund Operating Forecast for 2008-09 Through 2011-12
(millions of dollars)

	2008-09	2009-10	2010-11	2011-12
Executive Budget 21-Day Gap Estimate	**0**	**(3,576)**	**(6,139)**	**(7,180)**
New Resources Identified in Negotiations	**1,254**	**793**	**763**	**728**
Consensus Revenue Forecast	*(300)*	*(300)*	*(300)*	*(300)*
Spending Cuts to Executive Proposal	341	190	239	275
Consensus Spending Reestimates	*395*	*285*	*285*	*250*
Health Care Financing: Cigarette Tax	265	296	292	291
Fund Balances	220	50	50	50
Property Sales	110	85	10	10
Abandoned Property	100	100	100	100
Authority Resources	60	35	35	0
Surcharges and Civil Recoveries	63	52	52	52
Additions/Restorations made in Negotiations	**(1,254)**	**(1,584)**	**(1,480)**	**(1,564)**
Education	(436)	(327)	(274)	(274)
Health and Medicaid	(234)	(180)	(200)	(197)
Human Services	(133)	(127)	(130)	(133)
Local/General Government	(127)	(65)	(69)	(69)
Higher Education	(92)	(112)	(112)	(112)
Agriculture/Environment/Housing	(35)	(7)	(5)	(1)
Criminal Justice/Homeland Security	(32)	(50)	(51)	(56)
Transportation	(15)	(7)	(5)	(5)
Economic Development	(14)	0	0	0
Mental Hygiene	(9)	(18)	(18)	(18)
Member Items	0	(110)	(129)	0
Debt Service for Capital Additions	0	(7)	(21)	(38)
Fee/Surcharge Rejections	(143)	(208)	(183)	(174)
Net Tax/Revenue Changes	16	(366)	(283)	(487)
Across-the-Board Reductions	**485**	**486**	**488**	**488**
NET IMPACT OF NEGOTIATED CHANGES	**485**	**(305)**	**(229)**	**(348)**
CURRENT SERVICES ADJUSTMENTS	**(739)**	**(1,135)**	**(1,363)**	**(1,234)**
Revenue Revisions	(532)	(712)	(691)	(645)
PEF Collective Bargaining	(254)	(265)	(399)	(399)
Additional Spending Reestimates	47	(158)	(273)	(190)
Use of Labor Reserves to Fund PEF	**254**	**0**	**0**	**0**
Enacted Budget Surplus/(Gap) Estimate	**0**	**(5,016)**	**(7,731)**	**(8,762)**

Impact on the Budget Gaps

In comparison to the 21-Day Financial Plan forecast, the budget gaps for 2009-10 through 2011-12 have increased by an average of approximately $1.5 billion. The table below summarizes the sources that contributed to the changes in the gaps. Please note that this incremental view of the current-services forecast begins with the Executive 21-Day forecast and excludes certain items, such as the consensus revenue forecast and the spending reestimates agreed to jointly by the Executive and Legislature, since these were part of the negotiated agreement.

2008-09 Enacted Budget: Impact on Budget Gaps (millions of dollars)

	2009-10	2010-11	2011-12
EXECUTIVE 21-DAY GAPS (AFTER ACTIONS)	**(3,576)**	**(6,139)**	**(7,180)**
Current Services Impact on 21-Day Gap Estimate	**(1,135)**	**(1,363)**	**(1,234)**
Net Impact of Negotiated Changes	**(305)**	**(229)**	**(348)**
Across-the-Board Reductions	486	488	488
Budget Changes	(791)	(717)	(836)
ENACTED GAPS (AFTER ACTIONS)	**(5,016)**	**(7,731)**	**(8,762)**

The substantive negotiated changes are summarized below. Negotiations identified $1.25 billion in new resources, excluding the impact of the across-the-board reductions, to finance $1.25 billion in changes to the Executive Budget.

New resources identified in negotiations include:

- Spending Reductions/Reestimates: The Legislature and Executive identified $734 million in spending reductions and reestimates compared to the Executive Budget projections. Spending reductions totaled $341 million. These included:

  - Not authorizing a request by the Judiciary for a pay increase ($143 million in 2008-09 and $37 million thereafter). The request included funding for a retroactive payment.

  - Eliminating the proposed cap on county pre-school education costs ($20 million growing to $120 million by 2011-12). The cap would have limited county expenses to an annual growth rate, similar to the existing cap on Medicaid.

  - Eliminating the proposed implementation of the Healthy Schools Program ($5 million in 2008-09 growing to $37 million by 2010-11).

  - Reducing or eliminating a number of other initiatives in the areas of health, aging, social services, and economic development. These include Avian Flu preparation ($17 million), Brownfield remediation ($10 million), "broadband" capacity expansion ($5 million), and a range of Health and Mental Hygiene initiatives (including long-term care reform; and facilitated enrollment).

  - Spending reestimates agreed to during negotiations totaled approximately $395 million. The current-services growth for Medicaid was reduced by $250 million based on updated price and utilization trends, and by $75 million based on audit projections. The remaining reestimates were based on operating trends in a number of programs.

- Abandoned Property: The State Comptroller agreed to make available $100 million in additional abandoned property resources on a recurring basis. Abandoned property consists of bank accounts, un-cashed checks, and other resources for which an owner cannot be found or has not made a claim. The State Comptroller is solely responsible for the Fund's operation.

- Cigarette Tax Increase: Revenues from the $1.25 per pack increase will be directed to the Health Care Resources Fund. Health care costs, including Medicaid, are to be financed with any additional revenues.

- Fund Balances: These include $150 million in transfers from special revenue funds with balances in excess of what is needed to fund existing commitments and $70 million in balances from the Elderly Pharmaceutical Insurance Coverage (EPIC) premium account.

- Authority Resources: The New York Power Authority is authorized to make payments to the State for the years 2008-09 through 2010-11.

- Property Sales: Two underutilized State mental hygiene facilities, one in Brooklyn (Gateway) and the other in Manhattan (Morton Street), are expected to be sold in 2008-09, the revenues of which will be used to defray operating expenses related to the mental hygiene system.

- Surcharges/Civil Recoveries: The Enacted Budget authorizes an additional State surcharge on traffic tickets and new surcharges for alcohol and drug violations. It also includes revenues from civil recoveries by district attorneys.

The new resources financed $1.25 billion in legislative changes to the Executive Budget. The changes can be grouped into three categories: (a) additions to programs, either through simply increasing program spending or by not accepting cost-savings measures advanced by the Executive ("restorations"), (b) denial of revenues earmarked to finance programmatic spending, and (c) tax law changes.

Legislative additions and restorations to programs totaled $1.13 billion, which included aid increases for School Aid, the rejection of a number of cost-saving measures, including public assistance cost-sharing with counties, certain rate and rebasing changes in health care, and a large number of special purpose additions for agricultural, economic development, education, and other activities. Additions and restorations included:

- **Education:** The Legislature did not accept proposed changes to the Board of Cooperative Education Services (BOCES) formula; partially accepted proposed changes to the Foundation Aid formula and also made one-time additions for Foundation Aid, High Tax Aid, and other categories. In Special Education, the proposal to realign funding for preschool special education was not adopted. Outside of School Aid and Special Education, the Enacted Budget included restorations to several State programs, and additional funding on a one-time basis for selected school districts and non-profit organizations. In addition, the proposed expansion of the Quick Draw lottery game was not adopted.

- **Health Care and Medicaid:** The Legislature did not accept proposals that would have, among other things, altered the rebasing plan for nursing homes and realized administrative savings in long-term care and home health care. It also slowed the implementation of certain cost-containment measures related to hospitals and detoxification services.

- **Local Government/General Government:** The Legislature restored AIM funding for New York City ($82 million), provided $18 million to finance a restoration of the 2 percent reduction in non-entitlement local assistance, and added $12 million in special aid to certain cities. Other funding changes in this category include the costs of adding 120 new auditors to the Department of Taxation and Finance to improve audit and compliance efforts and the rejection of a proposal that would have permitted the State to pay interest at the market rate (rather than a statutory rate) on Court of Claims judgments.

- **Human Services:** The Legislature did not approve proposals that would have increased local cost-sharing for certain welfare services ($41 million) and for youth detention ($35 million); restored funding for certain TANF-financed programs ($21 million); financed the restoration of the 2 percent reduction for local welfare administration ($6 million); and added funding for a range of activities and organizations, including youth employment, worker education, and special-purpose programs. In addition, it accepted the closure of five youth facilities, rather than the seven that were recommended in the Executive Budget.

- **Higher Education:** The Legislature financed the restoration of reductions in SUNY, CUNY, and TAP, and certain other programs, and added funding for a number of special-purpose programs.

- **Criminal Justice:** The Legislature did not approve the closure of three correctional camps and one medium-term correctional facility, or provisions related to parole for certain medical conditions. It also added funding for a number of special-purpose programs and activities.

- **Mental Hygiene:** Legislative changes primarily reflect one-time targeted funding for specific non-profit providers in the Office of Mental Health (OMH) ($2 million), the Office of Mental Retardation and Developmental Disabilities (OMRDD) ($1 million), and the Office of Alcoholism and Substance Abuse Services (OASAS) ($1 million); funding for additional research positions and related costs in OMH ($2 million); and partial restoration of OMRDD provider reimbursement rate reforms proposed in the Executive Budget ($4 million growing to $16 million).

- **Transportation:** The Legislature added funding for the Rochester Genesee Regional Transportation Authority and the Capital District Transportation Authority, high-speed rail operating assistance, multi-modal projects, and Seaway trails.

- **Agriculture/Environment/Housing:** The Legislature added funding for the Neighborhood Preservation and Rural Preservation programs and a number of special-purpose programs and activities (e.g., studies, agricultural specialty grants, tenant services, historical sites, agricultural tourism, etc.)

- **Economic Development:** The Legislature added funding for Empire Zones administration and a number of special-purpose programs and activities (e.g., Griffiss Air Force Base, Plattsburgh Air Force Base, Seneca Army Depot, Watervliet Arsenal, Luther Forest Technology Development Corporation, etc.)

- **Member-Items:** The Legislature authorized a $200 million deposit to the Community Projects Fund, which finances a range of special-purpose programs and activities. The authorized deposits are to be made in installments in 2009-10 and 2010-11. In addition, the $40 million reduction in 2008-09 is to be funded in 2009-10.

The Legislature did not accept several revenue proposals valued at an estimated total of $143 million, including an auto insurance surcharge that would have been used to finance State Police and transportation safety initiatives, and a restructuring of the real property transfer fee based on sale prices, the revenues from which would have helped finance activities of the Office of Real Property Services.

Lastly, negotiations produced a package of tax law changes that has a net positive impact of $16 million in 2008-09, but results in higher costs in future years. The changes are summarized below.

2008-09 Receipts and Disbursements Forecast

This section describes the State's Financial Plan projections for receipts and disbursements based on the 2008-09 Executive Budget recommendations. The receipts forecast describes estimates for the State's principal taxes, miscellaneous receipts, and transfers from other funds. The spending projections summarize the annual growth in current-services spending and the impact of the Budget on each of the State's major areas of spending (e.g.; Medicaid, School Aid, etc.).

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.

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.

2008-09 Receipts Overview

Total Receipts (millions of dollars)				
	2007-08 Results**	2008-09 Estimated	Annual $ Change	Annual % Change
State Operating Funds	**75,596**	**78,623**	**3,027**	**4.0%**
General Fund*	40,922	43,156	2,234	5.5%
Other State Funds	21,237	21,542	305	1.4%
Debt Service Funds	13,437	13,925	488	3.6%
All Governmental Funds	**115,420**	**119,944**	**4,524**	**3.9%**
State Operating Funds	75,596	78,623	3,027	4.0%
Capital Projects Funds	6,527	7,280	753	11.5%
Federal Operating Funds	33,297	34,041	744	2.2%

** Excludes transfers*

***Unaudited Year-End Results*

All Funds receipts are projected to total $119.9 billion, an increase of $4.5 billion over 2007-08 results. The total comprises tax receipts ($63.9 billion), Federal grants ($36.0 billion) and miscellaneous receipts ($20.1 billion). The following table summarizes the actual receipts for 2007-08 and the Enacted Budget projections for 2008-09 and 2009-10.

Total Receipts (millions of dollars)							
	2007-08 Results*	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund	**53,094**	**55,638**	**2,544**	**4.8%**	**57,146**	**1,508**	**2.7%**
Taxes	38,395	40,610	2,215	5.8%	42,324	1,714	4.2%
Miscellaneous Receipts	2,458	2,505	47	1.9%	2,470	(35)	-1.4%
Federal Grants	69	41	(28)	-40.6%	0	(41)	-100.0%
Transfers	12,172	12,482	310	2.5%	12,352	(130)	-1.0%
State Funds	**80,371**	**83,910**	**3,539**	**4.4%**	**87,944**	**4,034**	**4.8%**
Taxes	60,871	63,904	3,033	5.0%	67,088	3,184	5.0%
Miscellaneous Receipts	19,431	19,964	533	2.7%	20,855	891	4.5%
Federal Grants	69	42	(27)	-39.1%	1	(41)	-97.6%
All Funds	**115,420**	**119,944**	**4,524**	**3.9%**	**125,087**	**5,143**	**4.3%**
Taxes	60,871	63,904	3,033	5.0%	67,088	3,184	5.0%
Miscellaneous Receipts	19,640	20,084	444	2.3%	20,965	881	4.4%
Federal Grants	34,909	35,956	1,047	3.0%	37,034	1,078	3.0%

**Unaudited Year-End Results*

2008-09

- Total All Funds receipts in 2008-09 are expected to reach $119.9 billion, an increase of $4.5 billion, or 3.9 percent from 2007-08 results. All Funds tax receipts are projected to grow by more than $3.0 billion. All Funds Federal grants are expected to increase by just over $1.0 billion, or 3.0 percent. All Funds Miscellaneous receipts are projected to increase by $444 million, or 2.3 percent.

- After controlling for the impact of all policy changes, base tax revenue growth is estimated to be 2.6 percent for fiscal year 2008-09.

- Total State Funds receipts are projected to be $83.9 billion, an increase of $3.5 billion, or 4.4 percent from 2007-08 receipts.

- Total General Fund receipts are projected at $55.6 billion, an increase of $2.5 billion, or 4.8 percent from 2007-08 results. General Fund tax receipt growth is projected to be 5.8 percent over 2007-08 results and General Fund miscellaneous receipts are projected to increase by $47 million.

Total Receipts (millions of dollars)

	2009-10 Projected	2010-11 Projected	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund	**57,146**	**59,774**	**2,628**	**4.6%**	**62,744**	**2,970**	**5.0%**
Taxes	42,324	44,389	2,065	4.9%	46,892	2,503	5.6%
State Funds	**87,944**	**91,492**	**3,548**	**4.0%**	**95,204**	**3,712**	**4.1%**
Taxes	67,088	70,531	3,443	5.1%	74,276	3,745	5.3%
All Funds	**125,087**	**129,676**	**4,589**	**3.7%**	**135,052**	**5,376**	**4.1%**
Taxes	67,088	70,531	3,443	5.1%	74,276	3,745	5.3%

Overall, receipts growth after 2008-09 is expected to be moderate at first then regain strength consistent with the U.S. and New York economic forecast.

- Total All Funds receipts in 2009-10 are projected to reach $125.1 billion, an increase of $5.1 billion, or 4.3 percent from 2008-09 estimates. All Funds receipts in 2010-11 are expected to increase by $4.6 billion (3.7 percent) over the prior year. In 2011-12, receipts are expect to increase by nearly $5.4 billion (4.1 percent) over 2010-11.

- All Funds tax receipts are expected to increase by 5.0 percent in 2009-10, 5.1 percent in 2010-11 and 5.3 percent in 2011-12.

- Total State Funds receipts are projected to be over $87.9 billion in 2009-10, nearly $91.5 billion in 2010-11 and $95.2 billion in 2011-12.

- Total General Fund receipts are projected to be $57.1 billion in 2009-10, $59.8 billion in 2010-11 and roughly $62.7 billion in 2011-12.

Base Growth

Governmental Funds Actual and Base Tax Receipts Growth (percent growth)

State Fiscal Year	Actual Receipts	Base Receipts	Personal Income
2007-08*	3.6	6.0	5.7
2008-09	5.0	2.6	2.5
2009-10	5.0	6.0	3.9
2010-11	5.1	5.4	5.0
2011-12	5.3	5.6	5.1

**Unaudited Year-End Results*

Base growth, adjusted for law changes, in tax receipts for fiscal year 2007-08 was 6.0 percent. This was the first time in four years growth fell below 9 percent. The relatively weak growth was the result of:

- Reductions in finance sector activities such as high-yield debt underwriting and mergers and acquisitions, which created a drag on finance sector wage growth;
- Declining corporate and banking income in the face of the sub-prime mortgage crisis; and
- A much weaker residential and commercial real-estate market.

The strong economic growth, which was concentrated in downstate New York and drove receipts growth over the past several years, is expected to give way to more moderate growth over the Financial Plan forecast period. After recovering to 6.0 percent in 2009-10, base receipts growth is expected to moderate in 2010-11 and beyond. Base growth is expected to remain above 5.0 percent throughout the forecast period. Actual receipts are expected to grow more rapidly than the underlying base in 2008-09, reflecting the impact of tax actions taken with this Budget. As the table above indicates, base receipts growth closely matches expected growth in personal income over the forecast period, with the exception of 2009-10 and 2010-11 when personal income growth lags the rebound in base business receipts growth by one year.

Personal Income Tax

Personal Income Tax
(millions of dollars)

	2007-08 Results*	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund	**22,759**	**23,921**	**1,162**	**5.1%**	**24,816**	**895**	**3.7%**
Gross Collections	43,170	45,613	2,443	5.7%	47,446	1,833	4.0%
Refunds	(6,606)	(7,463)	(857)	13.0%	(7,182)	281	-3.8%
STAR	(4,664)	(4,693)	(29)	0.6%	(5,383)	(690)	14.7%
RBTF	(9,141)	(9,536)	(395)	4.3%	(10,065)	(529)	5.5%
State/All Funds	**36,564**	**38,150**	**1,586**	**4.3%**	**40,264**	**2,114**	**5.5%**
Gross Collections	43,170	45,613	2,443	5.7%	47,446	1,833	4.0%
Refunds	(6,606)	(7,463)	(857)	13.0%	(7,182)	281	-3.8%

**Unaudited Year-End Results*

All Funds personal income tax receipts, which reflects the net of gross payments minus refunds, for 2008-09 are estimated at $38.1 billion, an increase of nearly $1.6 billion or 4.3 percent over the prior year. Gross receipts are projected to increase 5.7 percent. The relatively modest increase is primarily attributable to a strong settlement on 2007 tax year liabilities, offset by slow growth in withholding of approximately $850 million, or 2.9 percent. This reflects a weak forecast in overall wage growth resulting from the forecast economic slowdown, and an outright decline in financial sector bonus compensation. Also, estimated taxes for tax year 2008 liabilities are projected to decline by approximately $300 million (3.7 percent) from 2007, reflecting large drops in capital gains realizations (16 percent) and slow growth in other non-wage income.

The weakness associated with tax year 2008 liabilities is partly offset by the strong settlement on 2007 tax year returns noted above, with extension payments expected to increase by over $1.5 billion (50.1 percent) and payments with final returns increasing by over $350 million (18.9 percent). The growth in these components is primarily attributable to robust growth in gains (15 percent) and other income, especially among a fairly small group of high-income taxpayers.

Finally, refunds are expected to increase by approximately $850 million (13.0 percent) in part due to an increase in the fixed amount of refunds the Tax Department pays from January through March, from $1.5 billion to $1.75 billion, as well as an expected increase in refunds for high-income taxpayers who file extension returns in October, many of whom likely overpaid when filing their extensions in April 2008. There is a historical relationship between October-December refunds and April extension payments, suggesting some of the extraordinary spike in extension payments will ultimately be refunded.

Personal Income Tax Fiscal Year Collection Components
All Funds
(millions of dollars)

	2007-08 (Results**)	2008-09 (Estimated)	2009-10 (Projected)	2010-11 (Projected)	2011-12 (Projected)
Receipts					
Withholding	28,440	29,276	31,368	33,070	35,558
Estimated Payments	11,640	12,852	12,756	14,026	14,730
Current Year	8,592	8,277	9,301	10,151	10,605
Prior Year*	3,048	4,575	3,455	3,875	4,125
Final Returns	2,167	2,538	2,336	2,493	2,659
Current Year	206	207	207	207	207
Prior Year*	1,961	2,331	2,129	2,286	2,452
Delinquent Collections	923	947	986	1,027	1,065
Gross Receipts	43,170	45,613	47,446	50,616	54,012
Refunds					
Prior Year*	4,286	4,819	4,438	4,788	5,193
Previous Years	341	290	310	330	330
Current Year*	1,500	1,750	1,750	1,750	1,750
State-City Offset*	479	604	684	758	841
Total Refunds	6,606	7,463	7,182	7,626	8,114
Net Receipts	36,564	38,150	40,264	42,990	45,898

** These components, collectively, are known as the "settlement" on the prior year's tax liability.*

*** Unaudited Year-End Results*

General Fund income tax receipts for 2008-09, which are net of deposits to the Revenue Bond Tax Fund (RBTF) and STAR Fund, are estimated to increase by $1.2 billion (5.1 percent). Deposits to the STAR Fund are projected to increase by $29 million (0.6 percent) reflecting the impact of base program growth offset by Enacted Budget reductions to the program. Transfers to the RBTF, which equal 25 percent of net collections, are expected to increase by the same percentage as net collections (4.3 percent) or approximately $400 million.

Personal Income Tax
(millions of dollars)

	2009-10 Projected	2010-11 Projected	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund	**24,816**	**26,333**	**1,517**	**6.1%**	**28,229**	**1,896**	**7.2%**
Gross Collections	47,446	50,616	3,170	6.7%	54,012	3,396	6.7%
Refunds	(7,182)	(7,626)	(444)	6.2%	(8,114)	(488)	6.4%
STAR	(5,383)	(5,910)	(527)	9.8%	(6,195)	(285)	4.8%
RBTF	(10,065)	(10,747)	(682)	6.8%	(11,474)	(727)	6.8%
State/All Funds	**40,264**	**42,990**	**2,726**	**6.8%**	**45,899**	**2,909**	**6.8%**
Gross Collections	47,446	50,616	3,170	6.7%	54,012	3,396	6.7%
Refunds	(7,182)	(7,626)	(444)	6.2%	(8,113)	(488)	6.4%

In general, income tax growth for 2009-10 and 2010-11 is governed by projections of growth in taxable personal income and its major components, including wages, interest and dividend earnings, realized taxable capital gains, and business net income, and the impact of tax law changes. Projections for 2009-10 and 2010-11 reflect the impact of Enacted Budget legislation that strengthens the Tax Department's compliance tools, extension of tax shelter legislation, and restructuring of fees paid by LLCs.

All Funds personal income tax projected receipts for 2009-10 of slightly under $40.3 billion reflect an increase of $2.1 billion (5.5 percent) above the 2008-09 estimate. The forecast reflects a slow but steady recovery from the 2008 recession, and the impact of legislation described above. All Funds receipts for 2010-11 of $43 billion are $2.7 billion (6.8 percent) above 2009-10, reflecting continued economic recovery and growth.

General Fund income tax receipts are projected to increase by just under $900 million (3.7 percent) in 2009-10. The change reflects the growth in net receipts discussed above, offset by a $690 million (14.7 percent) increase in the STAR Fund transfer mainly to finance the continuation of the second phase of the middle class rebate program which will be delayed for one year in 2008-09. Also, the RBTF transfer is projected to increase by $529 million (5.5 percent). General Fund receipts for 2010-11 are projected to increase over 2009-10 by slightly over $1.5 billion. This reflects 6.8 percent growth in net collections and the RBTF transfer, offset by an increase in the STAR Fund transfer of $527 million (9.8 percent) mainly to fund the delayed third and final phase of the middle class rebate program.

All funds personal income tax receipts are expected to grow by 6.8 percent to $45.9 billion in 2011-12. General Fund receipts are expected to grow by 7.2 percent to $28.2 billion.

User Taxes and Fees

User Taxes and Fees (millions of dollars)

	2007-08 Results*	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund	**8,555**	**8,937**	**382**	**4.5%**	**9,258**	**321**	**3.6%**
Sales Tax	7,945	8,186	241	3.0%	8,481	295	3.6%
Cigarette and Tobacco Taxes	409	433	24	5.9%	430	(3)	-0.7%
Motor Vehicle Fees	(51)	61	112	N/A	81	20	32.8%
Alcoholic Beverage Taxes	205	209	4	2.0%	214	5	2.4%
ABC License Fees	47	48	1	2.1%	52	4	8.3%
State/All Funds	**13,993**	**14,820**	**827**	**5.9%**	**15,298**	**478**	**3.2%**
Sales Tax	11,296	11,655	359	3.2%	12,076	421	3.6%
Cigarette and Tobacco Taxes	976	1,322	346	35.5%	1,343	21	1.6%
Motor Fuel	525	535	10	1.9%	538	3	0.6%
Motor Vehicle Fees	748	848	100	13.4%	870	22	2.6%
Highway Use Tax	148	155	7	4.7%	155	0	0.0%
Alcoholic Beverage Taxes	205	209	4	2.0%	214	5	2.4%
ABC License Fees	48	48	0	0.0%	52	4	8.3%
Auto Rental Tax	47	48	1	2.1%	50	2	4.2%

Unaudited Year-End Results

All Funds user taxes and fees receipts for 2008-09 are estimated to be $14.8 billion, an increase of $827 million or 5.9 percent from 2007-08. Sales tax receipts are expected to increase by $359 million from the prior year due to tax law changes (voluntary compliance, vendor registration, adjusting not-for-profit tax exemption, sales tax nexus) and a base growth of 2.9 percent. Non-sales tax user taxes and fees are estimated to increase by $468 million from 2007-08 mainly due to an increase in cigarette tax and motor vehicle fee collections. The increase in cigarette tax collections is due to an increase in the cigarette tax rate from $1.50 per pack to $2.75 per pack, effective June 3, 2008, and increased enforcement efforts. The increase in motor vehicle fee collections is due to the implementation of the Western Hemisphere Travel Initiative.

General Fund user taxes and fees receipts are expected to total $8.9 billion in 2008-09, an increase of $382 million or 4.5 percent from 2007-08. The increase reflects an increase in sales tax receipts of $241 million, motor vehicle fee collections of $112 million and cigarette tax collections of $24 million.

All Funds user taxes and fees receipts for 2009-10 are projected to be $15.3 billion, an increase of $478 million, or 3.2 percent from 2008-09. General Fund user taxes and fees receipts are projected to total $9.3 billion in 2009-10, an increase of $321 million, or 3.6 percent from 2008-09. This increase largely reflects a projected increase in sales tax due to base growth and the full implementation of tax law changes.

User Taxes and Fees
(millions of dollars)

	2009-10 Projected	2010-11 Projected	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund	**9,258**	**9,602**	**344**	**3.7%**	**9,975**	**373**	**3.9%**
Sales Tax	8,481	8,800	319	3.8%	9,145	345	3.9%
Cigarette and Tobacco Taxes	430	426	(4)	-0.9%	425	(1)	-0.2%
Motor Vehicle Fees	81	109	28	34.6%	130	21	19.3%
Alcoholic Beverage Taxes	214	219	5	2.3%	223	4	1.8%
ABC License Fees	52	48	(4)	-7.7%	52	4	8.3%
State/All Funds	**15,298**	**15,767**	**469**	**3.1%**	**16,299**	**532**	**3.4%**
Sales Tax	12,076	12,530	454	3.8%	13,021	491	3.9%
Cigarette and Tobacco Taxes	1,343	1,327	(16)	-1.2%	1,324	(3)	-0.2%
Motor Fuel	538	541	3	0.6%	544	3	0.6%
Motor Vehicle Fees	870	892	22	2.5%	918	26	2.9%
Highway Use Tax	155	158	3	1.9%	164	6	3.8%
Alcoholic Beverage Taxes	214	219	5	2.3%	223	4	1.8%
ABC License Fees	52	49	(3)	-5.8%	53	4	8.2%
Auto Rental Tax	50	51	1	2.0%	52	1	2.0%

All Funds user taxes and fees are projected to increase by $469 million in 2010-11 and $532 million in 2011-12.

Business Taxes

Business Taxes (millions of dollars)							
	2007-08 Results*	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund	**6,018**	**6,559**	**541**	**9.0%**	**6,925**	**366**	**5.6%**
Corporate Franchise Tax	3,446	3,706	260	7.5%	4,240	534	14.4%
Corporation & Utilities Tax	603	613	10	1.7%	623	10	1.6%
Insurance Tax	1,089	1,171	82	7.5%	1,197	26	2.2%
Bank Tax	880	1,069	189	21.5%	865	(204)	-19.1%
State/All Funds	**8,231**	**8,782**	**551**	**6.7%**	**9,215**	**433**	**4.9%**
Corporate Franchise Tax	3,997	4,220	223	5.6%	4,830	610	14.5%
Corporation & Utilities Tax	802	816	14	1.7%	827	11	1.3%
Insurance Tax	1,219	1,300	81	6.6%	1,323	23	1.8%
Bank Tax	1,058	1,242	184	17.4%	998	(244)	-19.6%
Petroleum Business Tax	1,155	1,204	49	4.2%	1,237	33	2.7%

**Unaudited Year-End Results*

All Funds business tax receipts for 2008-09 of $8.8 billion are estimated to increase by $551 million or 6.7 percent over the prior year. The estimates reflect a net increase in receipts of $664 million from enacted provisions that will close loopholes, restructure and streamline fees and minimum taxes, increase tax compliance and provide certain business tax reductions. Absent these provisions, All Funds business tax receipts are expected to decline by $113 million or 1.4 percent. The loophole provisions include: decoupling from the Federal Qualified Production Activity Income deduction ($56 million), fully closing the REIT/RIC loophole ($50 million) and subjecting credit card companies with a qualifying number of customers or receipts in New York State to the bank tax ($57 million).

The Enacted Budget also reflects legislation that will reduce business tax receipts by $59 million in 2008-09. That legislation will extend the ITC for the financial services industry for three additional years, through September 30, 2011 ($35 million), extend the Power for Jobs program by one-year ($15 million), increase and extend the State film tax credit ($5 million), and increase the amount of low-income housing credits the Commissioner of Housing and Community Renewal may allocate by $4 million.

All Funds non-audit business tax receipts before these enacted tax initiatives are estimated to increase 3.5 percent in 2008-09. This overall increase reflects a moderation in the growth of non-audit corporate franchise tax receipts to roughly 2.9 percent. Total corporate franchise tax receipts for 2008-09 of $4.2 billion reflect the Enacted Budget tax legislation described above and decreasing corporate profits in 2008.

All Funds non-audit bank tax receipts before enacted tax initiatives are projected to decrease by 0.1 percent. Total bank tax receipts for 2008-09 of $1.2 billion reflect the Enacted Budget tax legislation described above and an increase in audit receipts from last year's moderate level.

Projected All Funds non-audit business tax receipts for 2008-09 also reflect growth in corporation and utilities tax receipts of 3.3 percent, insurance tax receipts of 7 percent and petroleum business tax receipts of 4.4 percent. All Funds audit receipts from all business taxes are projected to decline by 4.2 percent, or $59 million, from the relatively high level of the prior year.

General Fund business tax receipts for 2008-09 of $6.6 billion are estimated to increase $541 million, or 9 percent over the prior year. Absent Enacted Budget tax law changes, General Fund business tax receipts are expected to decline by $82 million, or 1.4 percent. More specifically, estimated 2008 corporate franchise tax liability after adjusting for enacted tax initiatives is estimated to decline by 2.7 percent, consistent with the revised corporate profits estimate. Business tax receipts deposited to the General Fund reflect the All Funds trends and the enacted tax initiatives discussed above.

All Funds business tax receipts for 2009-10 are projected to increase $433 million, or 4.9 percent, to $9.2 billion. This change reflects increases in corporate franchise tax, corporation and utilities taxes, insurance taxes and petroleum business taxes receipts, partially offset by a moderate decrease in bank tax receipts.

Business Taxes (millions of dollars)							
	2009-10 Projected	2010-11 Projected	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund	**6,925**	**7,047**	**122**	**1.8%**	**7,190**	**143**	**2.0%**
Corporate Franchise Tax	4,240	4,224	(16)	-0.4%	4,392	168	4.0%
Corporation & Utilities Tax	623	632	9	1.4%	636	4	0.6%
Insurance Tax	1,197	1,236	39	3.3%	1,280	44	3.6%
Bank Tax	865	955	90	10.4%	882	(73)	-7.6%
State/All Funds	**9,215**	**9,357**	**142**	**1.5%**	**9,526**	**169**	**1.8%**
Corporate Franchise Tax	4,830	4,809	(21)	-0.4%	5,002	193	4.0%
Corporation & Utilities Tax	827	837	10	1.2%	842	5	0.6%
Insurance Tax	1,323	1,365	42	3.2%	1,414	49	3.6%
Bank Tax	998	1,103	105	10.5%	1,018	(85)	-7.7%
Petroleum Business Tax	1,237	1,243	6	0.5%	1,250	7	0.6%

For 2010-11, All Funds business tax receipts are projected to increase by 1.5 percent, to $9.4 billion. This increase reflects increases in bank tax, insurance tax, corporation and utilities tax and petroleum business tax receipts, largely offset by a small decrease in corporate franchise tax receipts, as a result of an expected significant increase in Brownfield credit claims. For 2011-12, All Funds business tax receipts are projected to increase by 1.8 percent to $9.5 billion.

Other Taxes

Other Taxes (millions of dollars)							
	2007-08 Results*	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund	**1,064**	**1,194**	**130**	**12.2%**	**1,325**	**131**	**11.0%**
Estate Tax	1,037	1,170	133	12.8%	1,301	131	11.2%
Gift Tax	1	0	(1)	-100.0%	0	0	0.0%
Real Property Gains Tax	1	0	(1)	-100.0%	0	0	0.0%
Pari-mutuel Taxes	24	23	(1)	-4.2%	23	0	0.0%
All Other Taxes	1	1	0	0.0%	1	0	0.0%
State/All Funds	**2,085**	**2,151**	**66**	**3.2%**	**2,311**	**160**	**7.4%**
Estate Tax	1,037	1,170	133	12.8%	1,301	131	11.2%
Gift Tax	1	0	(1)	-100.0%	0	0	0.0%
Real Property Gains Tax	1	0	(1)	-100.0%	0	0	0.0%
Real Estate Transfer Tax	1,021	957	(64)	-6.3%	986	29	3.0%
Pari-mutuel Taxes	24	23	(1)	-4.2%	23	0	0.0%
All Other Taxes	1	1	0	0.0%	1	0	0.0%

**Unaudited Year-End Results*

All Funds other tax receipts for 2008-09 are estimated to be nearly $2.2 billion, up $66 million or 3.2 percent from 2007-08 receipts, reflecting growth in estate tax receipts due to an anticipated increase in the number of large estate tax payments and declines in the real estate transfer tax. General Fund other tax receipts are expected to total $1.2 billion in fiscal year 2008-09, an increase of $130 million.

All Funds other tax receipts in 2009-10 are projected to be over $2.3 billion, up $160 million or 7.5 percent from 2008-09, reflecting modest growth in real estate transfer tax receipts as well as growth in estate tax receipts. General Fund receipts for 2009-10 are projected to total approximately $1.3 billion, an increase of $131 million.

Other Taxes (millions of dollars)							
	2009-10 Projected	2010-11 Projected	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund	**1,325**	**1,408**	**83**	**6.3%**	**1,498**	**90**	**6.4%**
Estate Tax	1,301	1,384	83	6.4%	1,474	90	6.5%
Gift Tax	0	0	0	0.0%	0	0	0.0%
Real Property Gains Tax	0	0	0	0.0%	0	0	0.0%
Pari-mutuel Taxes	23	23	0	0.0%	23	0	0.0%
All Other Taxes	1	1	0	0.0%	1	0	0.0%
State/All Funds	**2,311**	**2,419**	**108**	**4.7%**	**2,555**	**136**	**5.6%**
Estate Tax	1,301	1,384	83	6.4%	1,474	90	6.5%
Gift Tax	0	0	0	0.0%	0	0	0.0%
Real Property Gains Tax	0	0	0	0.0%	0	0	0.0%
Real Estate Transfer Tax	986	1,011	25	2.5%	1,057	46	4.5%
Pari-mutuel Taxes	23	23	0	0.0%	23	0	0.0%
All Other Taxes	1	1	0	0.0%	1	0	0.0%

The 2010-11 All Funds receipts projection for other taxes is just over $2.4 billion, up $108 million or 4.7 percent over the 2009-10 receipts total. Growth in the estate tax is projected to follow expected increases in household net worth and receipts from the real estate transfer tax continue to reflect the slow growth in the housing market.

The 2011-12 All Funds receipts projection for other taxes is approximately $2.6 billion, up $136 million or 5.6 percent over 2010-11 receipts total. The forecast reflects continued increases in household net worth as well as in the value of real property transfers.

Miscellaneous Receipts and Federal Grants

Miscellaneous Receipts and Federal Grants (millions of dollars)							
	2007-08 Results*	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund	**2,527**	**2,546**	**19**	**0.8%**	**2,470**	**(76)**	**-3.0%**
Miscellaneous Receipts	2,458	2,505	47	1.9%	2,470	(35)	-1.4%
Federal Grants	69	41	(28)	-40.6%	0	(41)	-100.0%
State Funds	**19,500**	**20,006**	**506**	**2.6%**	**20,856**	**850**	**4.2%**
Miscellaneous Receipts	19,431	19,964	533	2.7%	20,855	891	4.5%
Federal Grants	69	42	(27)	-39.1%	1	(41)	-97.6%
All Funds	**54,549**	**56,040**	**1,491**	**2.7%**	**57,999**	**1,959**	**3.5%**
Miscellaneous Receipts	19,640	20,084	444	2.3%	20,965	881	4.4%
Federal Grants	34,909	35,956	1,047	3.0%	37,034	1,078	3.0%

**Unaudited Year-End Results*

All Funds miscellaneous receipts include moneys 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 $20.1 billion in 2008-09, an increase of $444 million from 2007-08 largely driven by growth in: lottery revenues, including VLTs ($314 million); SUNY hospital revenues ($168 million); and HCRA revenues excluding the State cigarette tax ($85 million).

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 expects that Federal reimbursement will be received in the State fiscal year in which spending occurs, but timing differences sometimes varies. Federal grants are projected to total nearly $36.0 billion in 2008-09, an increase of over $1.0 billion from 2007-08. Federal spending is expected to increase for public health ($209 million), Medicaid ($257 million), homeland security ($78 million) and temporary and disability assistance ($175 million).

General Fund miscellaneous receipts collections are estimated to be approximately $2.5 billion in 2008-09, up $47 million from 2007-08 receipts. This increase is primarily due to an increase in Monroe County's Medicaid sales tax intercept payments and additional abandoned property receipts. General Fund Federal grants are expected to decline by $28 million from the prior year, one-half which is due to the possible loss of the Federal Medicare Part D receipts if the State converts its retiree contracted Medicare Part D subsidy for State retirees.

All Funds miscellaneous receipts are projected to total nearly $21.0 billion in 2009-10, an increase of $881 million from the current year, driven by: growth in programs financed with authority bond proceeds ($1.0 billion), including spending for economic development, environment, education and mental health; offset by a reduction in expected HCRA revenues ($213 million). Federal grants are projected to total $37.0 billion in 2009-10, an increase of $1.0 billion from the current year. Federal spending is expected to increase for Medicaid ($958 million) and Elections ($114 million). These increases would be slightly offset by a decline in lottery revenues of $45 million, due to the expected sale of development rights of the Aqueduct VLT facility during 2008-09, and the decrease of approximately $14 million due to the potential loss of the Medicare Part D Subsidy should a conversion to a contracted Medicare Part D plan. Such a conversion would have no negative impact on retirees while potentially reducing State spending. In most cases, the grant levels reflect projected changes in State spending levels and a corresponding change in estimated Federal reimbursement, not changes in aid levels for New York authorized by Congress.

General Fund miscellaneous receipts collections in 2009-10 are projected to fall to just under $2.5 billion, down $35 million from 2008-09 estimates, due to the loss of revenue from the State of New York Mortgage Authority.

Miscellaneous Receipts and Federal Grants (millions of dollars)							
	2009-10 Projected	2010-11 Projected	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund	**2,470**	**2,471**	**1**	**0.0%**	**2,234**	**(237)**	**-9.6%**
Miscellaneous Receipts	2,470	2,471	1	0.0%	2,234	(237)	-9.6%
Federal Grants	0	0	0	0.0%	0	0	0.0%
State Funds	**20,856**	**20,960**	**104**	**0.5%**	**20,928**	**(32)**	**-0.2%**
Miscellaneous Receipts	20,855	20,959	104	0.5%	20,927	(32)	-0.2%
Federal Grants	1	1	0	0.0%	1	0	0.0%
All Funds	**57,999**	**59,145**	**1,146**	**2.0%**	**60,776**	**1,631**	**2.8%**
Miscellaneous Receipts	20,965	21,070	105	0.5%	21,037	(33)	-0.2%
Federal Grants	37,034	38,075	1,041	2.8%	39,739	1,664	4.4%

In 2010-11, General Fund miscellaneous receipts and Federal grants are projected to be nearly $2.5 billion, virtually unchanged from 2009-10.

2008-09 Disbursements Forecast

Total Disbursements (millions of dollars)					
	2007-08 Results**	2008-09 Enacted	Annual $ Change	Annual % Change	Adjusted % Change***
State Operating Funds	**77,001**	**80,862**	**3,861**	**5.0%**	**4.5%**
General Fund *	50,611	50,811	200	0.4%	-0.1%
Other State Funds	22,254	25,338	3,084	13.9%	13.4%
Debt Service Funds	4,136	4,713	577	14.0%	14.0%
All Governmental Funds	**116,056**	**121,606**	**5,550**	**4.8%**	**4.5%**
State Operating Funds	77,001	80,862	3,861	5.0%	4.5%
Capital Projects Funds	6,131	7,080	949	15.5%	15.5%
Federal Operating Funds	32,924	33,664	740	2.2%	2.2%
General Fund, incl. Transfers	**53,385**	**56,361**	**2,976**	**5.6%**	**5.1%**

**Excludes transfers.*

*** Unaudited Year-End Results*

**** Excludes recent labor settlements ($254 million General Fund cost; $362 million State Operating Funds cost)*

State Operating Funds spending, which includes the General Fund, debt service, and other operating funds supported by assessments, tuition, HCRA resources and other non-Federal revenues, is projected to total $80.9 billion in 2008-09. All Funds spending is projected to total $121.6 billion in 2008-09. The major sources of annual spending change between 2007-08 and 2008-09 (after Enacted Budget actions) are summarized in the following table.

2008-09 Enacted Budget Spending Projections -- After Enacted Budget Actions
Major Sources of Annual Change
(millions of dollars)

	General Fund **	Other State Funds***	Total State Operating Funds	Capital Projects Funds	Federal Operating Funds	Total All Funds
2007-08 Results*	**50,611**	**26,390**	**77,001**	**6,131**	**32,924**	**116,056**
Medicaid Transparency Adjustment	(2,655)	2,655	0	0	0	0
Major Functions						
Public Health:						
Medicaid (DOH only)	198	258	456	0	257	713
Public Health/Aging	(36)	195	159	46	152	357
K-12 Education:						
School Aid	1,629	135	1,764	0	37	1,801
All Other Education Aid	72	(3)	69	84	59	212
STAR	0	35	35	0	0	35
Higher Education	182	10	192	81	12	285
Social Services:						
Temporary and Disability Assistance	(341)	2	(339)	0	164	(175)
Children and Family Services	158	1	159	(1)	18	176
Mental Hygiene	98	59	157	43	(21)	179
Transportation	8	182	190	353	5	548
General State Charges	(140)	58	(82)	0	16	(66)
Debt Service	144	404	548	0	0	548
All Other Changes						
Economic Development	1	56	57	268	0	325
PEF Labor Settlement	254	108	362	0	0	362
Local Government Aid	325	0	325	0	0	325
Correctional Services	(42)	6	(36)	36	32	32
Empire State Stem Cell Trust Fund	0	50	50	0	0	50
Homeland Security	55	0	55	2	80	137
Parks and Recreation	(6)	(3)	(9)	68	(2)	57
State Equipment Financing	0	0	0	102	0	102
Elections	7	3	10	0	54	64
All Other	289	(550)	(261)	(133)	(123)	(517)
2008-09 Enacted Budget Estimate	**50,811**	**30,051**	**80,862**	**7,080**	**33,664**	**121,606**
Annual Dollar Change, incl. MA adjust	*200*	*3,661*	*3,861*	*949*	*740*	*5,550*
Annual Percent Change	*0.4%*	*12.6%*	*5.0%*	*15.5%*	*2.2%*	*4.8%*

**Unaudited Year-End Results.*

***Excludes Transfers*

****Includes State Special Revenue and Debt Service Funds*

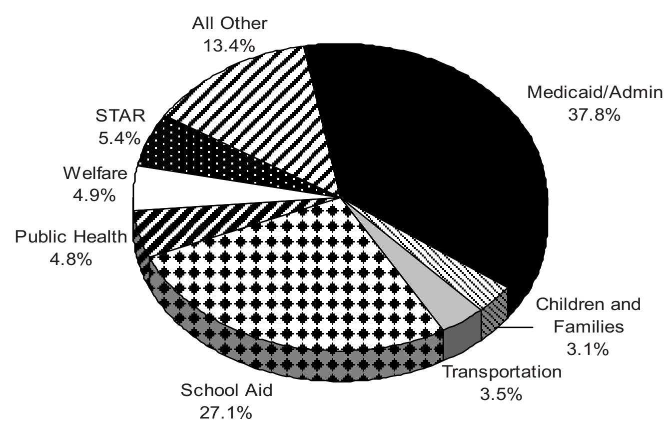
The spending forecast for each of the State's financial plan categories follows. In general, the spending changes are driven by two components: the current-services estimate for each area or activity; and the impact of the Enacted Budget actions.

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 the amounts appropriated in the Budget are disbursed in the same fiscal year.

Grants to Local Governments

Grants to Local Governments (Local Assistance) include payments to local governments, school districts, healthcare providers, and other local entities, as well as certain financial assistance to, or on behalf of, individuals, families, and nonprofit organizations. Local Assistance comprises 71 percent of All Funds spending.

2008-09 All Funds Local Assistance Spending
$86.3 Billion



Local Assistance Spending Projections (millions of dollars)						
	2007-08 Results*	Medicaid Allocation	2007-08 Adjusted	2008-09 Enacted	Annual $ Change	Annual % Change
General Fund	**36,412**	**49**	**36,461**	**39,126**	**2,665**	**7.3%**
Other State Support	16,157	598	16,755	17,230	475	2.8%
State Operating Funds	**52,570**	**647**	**53,217**	**56,356**	**3,140**	**5.9%**
Capital Project Funds	1,078	0	1,078	571	(508)	-47.1%
Federal Operating Funds	29,547	(784)	28,763	29,349	586	2.0%
All Funds	**83,195**	**(137)**	**83,058**	**86,276**	**3,218**	**3.9%**

**Unaudited Year-End Results*

In 2008-09, All Funds spending for local assistance is expected to total $86.3 billion. Total spending comprises State Aid to medical assistance providers and public health programs ($36.7 billion); State Aid to school districts, universities, and tuition assistance ($33.0 billion); temporary and disability assistance ($4.2 billion); mental hygiene programs ($3.6 billion); transportation ($3.0 billion); children and family services ($2.5 billion); and local government assistance ($1.2 billion). Other local assistance programs include criminal justice, economic development, housing, parks and recreation, and environmental quality. The following chart highlights proposed local assistance annual spending changes from 2007-08 to 2008-09 by major program and/or agency.

Local Assistance Spending Projections Major Sources of Annual Change (millions of dollars)	General Fund	State Operating Funds	All Governmental Funds
2007-08 Results*	**36,412**	**52,570**	**83,195**
Medicaid Allocation Adjustment	49	647	(137)
2007-08 Adjusted	**36,461**	**53,217**	**83,058**
School Aid	1,629	1,764	1,800
Medicaid (incl. Admin)	202	460	717
Local Government Assistance	324	324	324
City University	178	178	178
Children and Families	151	152	168
Other Education Aid	65	67	111
Mental Hygiene	197	863	95
Transportation	4	177	(267)
Temporary and Disability Assistance	(319)	(318)	(181)
Economic Development	(45)	(45)	(101)
All Other	278	(483)	373
2008-09 Enacted Budget	**39,126**	**56,356**	**86,276**
Annual Dollar Change	*2,665*	*3,140*	*3,218*
Annual Percent Change	*7.3%*	*5.9%*	*3.9%*

**Unaudited Year-End Results*

For 2008-09, All Funds local assistance spending is projected to total $86.3 billion, an increase of $3.2 billion (3.9 percent) over the current year. The growth is largely driven by projected increases in School Aid ($1.8 billion) and Medicaid ($717 million). The largest annual variances are described in more detail below.

School Aid: General Fund growth reflects the balance of the 2007-08 school year increase and the level of spending growth which was already projected in the State's current services plan ($1.4 billion), new spending for enhancements to Foundation Aid, High Tax Aid, and other School Aid programs ($447 million), partially offset by additional lottery revenues generated by the State's sale of VLT development rights at Aqueduct ($250 million). Additional State Operating Funds spending is financed by additional lottery revenues, and additional All Governmental Funds spending is financed by additional Federal aid.

Medicaid: General Fund Medicaid spending growth reflects growth which was already projected in the State's current services plan to cover the increasing costs of providing health care services ($1.1 billion) and new Medicaid initiatives ($87 million), largely offset by enacted budget savings ($1.0 billion). General Fund initiatives include investments in hospital services, nursing homes and home care providers, while General Fund savings actions include savings which result from the $1.25 per pack increase in State cigarette taxes, savings associated with the Health Care Reform Act (HCRA), Medicaid fraud prevention, and pharmaceutical savings. Additional State Operating Funds spending is financed by available resources in HCRA and increased cigarette tax revenues, and additional All Governmental Funds spending is financed by additional Federal aid.

Local Government Assistance: In addition to over $200 million in increased aid to municipalities already budgeted in the current services plan, the enacted budget restored $82 million in Aid and Incentives to Municipalities (AIM) funding for New York City and provided $12 million in special aid to certain other cities.

City University: Largely reflects changes in the current services budget for operating costs, including increased spending associated with the State support for fringe benefit costs and an adjustment to prior-year fringe benefit payments.

Children and Families: Reflects increased spending for current services, particularly child welfare services, and new spending initiatives for programs previously funded through TANF, partly offset by various enacted savings initiatives including the 2 percent Statewide across-the-board reduction to programs and the bond financing of system software needs.

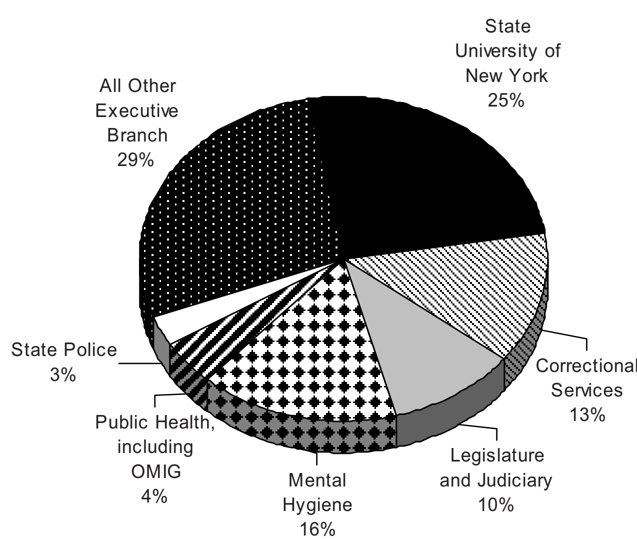
Other Education Aid: Largely reflects current services spending for special education programs, new costs associated with education aid increases to targeted school districts around the State and aid to non-public schools, partly offset by savings associated with the 2 percent across-the-board reduction to programs and the bond financing of technology purchases.

Mental Hygiene: Current service budget increases reflect existing program commitments and mandates associated with the Office of Mental Retardation and Developmental Disabilities (OMRDD) and the Office of Mental Health (OMH). The growth in current services is partly offset by enacted savings initiatives to implement various local assistance cash management and revenue maximization inititiaves.

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, includes salaries of State employees of the Executive Branch, Legislature, and Judiciary, as well as overtime payments and costs for temporary employees. 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.

2008-09 All Funds State Operations Spending
$18.7 Billion



All Funds State Operations spending, after across-the-board reductions, is projected at $18.7 billion in 2008-09, a reduction of $700 million from the Executive Budget. Funding for the Office of the Lieutenant Governor has been eliminated. Spending finances the costs of Executive agencies ($16.8 billion) and the Legislature and Judiciary ($1.9 billion). The largest agencies include SUNY ($4.7 billion; 40,632 Full Time Equivalent Employees (FTEs)), Correctional Services

($2.5 billion; 31,973 FTEs), Mental Hygiene ($3.0 billion; 40,754 FTEs), Public Health, including OMIG ($808 million; 6,793 FTEs), and State Police ($592 million; 5,989 FTEs).

Approximately 93 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 (i.e., attorneys, nurses, accountants, social workers, and institution teachers); UUP, which represents faculty and non-teaching professional staff within the State University system; and the New York State Correctional Officers and Police Benevolent Association which represents security personnel (correction officers, safety and security officers).

The State workforce, which reflects full-time employees of the Executive branch, excluding the Legislature, Judiciary, and contractual labor, is currently projected to total 201,170 in 2008-09, an increase of 1,369 FTEs over 2007-08 levels. This is before the impact of agency spending and management plans. Increases are expected in Mental Hygiene agencies (182 FTEs) primarily due to staffing related to the Sex Offender Management and Treatment Act and the NYS-CARES II program; OMIG (227 FTEs), reflecting staffing growth needed for Medicaid audit and fraud prevention activities; Motor Vehicles (109 FTEs) driven by the Federal Western Hemisphere Travel Initiative; and Health (256 FTEs), CUNY (140 FTEs) and Education (113 FTEs), reflecting authorized fill levels for 2008-09. Declines in Children and Family Services (128 FTEs) are expected mainly through attrition as a result of facility closures.

State Operations Spending Projections
(millions of dollars)

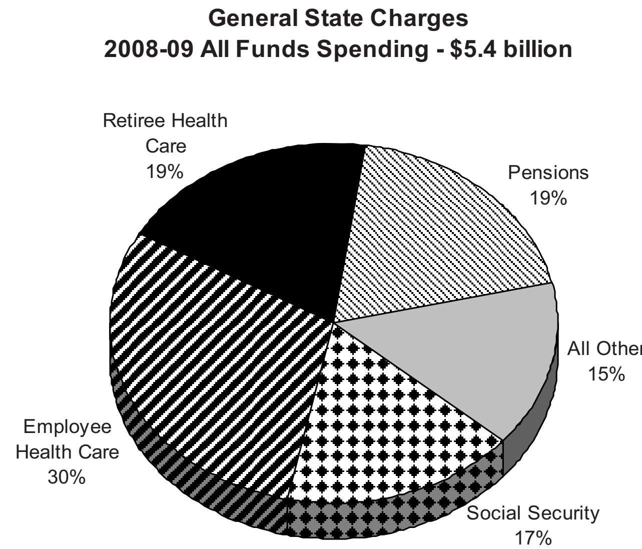
	2007-08 Results*	Medicaid Allocation	2007-08 Adjusted	2008-09 Proposed	Annual $ Change	Annual % Change
General Fund	**9,579**	**(1,247)**	**8,332**	**8,662**	**330**	**4.0%**
Other State Support	5,489	1,183	6,672	6,601	(71)	-1.1%
State Operating Funds	**15,068**	**(64)**	**15,004**	**15,263**	**259**	**1.7%**
Capital Projects Funds	**0**	**0**	**0**	**0**	**0**	N/A
Federal Operating Funds	3,153	201	3,354	3,474	120	3.6%
Total All Funds	**18,221**	**137**	**18,358**	**18,737**	**379**	**2.1%**

**Unaudited Year-End Results*

All Funds State Operations spending is expected to total $18.7 billion in 2008-09, comprising PS ($12.3 billion) and NPS ($6.4 billion). The majority of State Operations spending is for SUNY ($4.7 billion), Correctional Services ($2.5 billion), Judiciary ($1.9 billion), OMRDD ($1.5 billion), and OMH ($1.4 billion).

State Operations spending by category, based upon historical spending trends, is allocated among employee base salaries (62 percent), overtime payments (3 percent), contractual services (24 percent), supplies and materials (6 percent), equipment (3 percent), employee travel (1 percent) and other operational costs (1 percent).

General State Charges



General State Charges 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 General State Charges. These centrally-paid fringe benefit costs represent the majority of General State Charges 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 the General State Charges account 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. The funding source of fringe benefit costs directly paid by certain agencies is dependent on the respective agencies' funding sources. Fixed costs are paid in full by General Fund revenues from the General State Charges account.

General State Charges Spending Projections
(millions of dollars)

	2007-08 Results*	Medicaid Allocation**	2007-08 Adjusted	2008-09 Enacted	Annual $ Change	Annual % Change
General Fund	4,620	(1,457)	3,163	3,023	(140)	-4.4%
Other State Support	632	874	1,506	1,564	58	3.9%
State Operating Funds	**5,252**	**(583)**	4,669	**4,587**	(82)	-1.8%
Capital Projects Funds	0	0	0	0	0	0.0%
Federal Operating Funds	243	583	826	842	16	1.9%
Total All Funds	**5,495**	**0**	**5,495**	**5,429**	**(66)**	-1.2%

**Unaudited Year-End Results*
*** For detailed discussion please see Exhibit C to the Annual Information Statement.*

All Funds spending on General State Charges is expected to total $5.4 billion in 2008-09, and includes health insurance spending for employees ($1.7 billion) and retirees ($1.0 billion), pensions ($1.1 billion) and Social Security ($908 million).

The Budget authorizes an eligibility audit to eliminate ineligible dependents from receiving health insurance coverage from the State ($16 million), as well as increasing audit recoveries through the addition of five audit staff ($1 million). Savings are derived from the prepayment of pension costs, as well as accelerating the State's pension payment from September 1, 2008 to May 1, 2008, resulting in interest savings. The budget relies on the use of one-time health insurance dividends to pay for health care spending in 2008-09. Savings are expected from efforts to ensure all non-General Fund State programs are paying their appropriate share of fringe benefit costs. In 2008-09, approximately $18 million in savings will be realized from the cessation of certain fringe benefit waivers which had previously been granted.

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 certain bonds issued by State public authorities (i.e., Empire State Development Corporation (ESDC), the Dormitory Authority of the State of New York (DASNY), and the Thruway Authority (TA)) for which the State is contractually obligated to pay debt service, subject to an appropriation. Depending on the credit structure, debt service is financed through transfers from the General Fund, dedicated taxes and fees, and other resources, such as patient income revenues.

Debt Service Spending Projections
(millions of dollars)

	2007-08 Results*	2008-09 Enacted	Annual $ Change	Annual % Change
General Fund	**1,548**	**1,692**	**144**	**9.3%**
Other State Support	2,556	2,960	404	15.8%
State Operating Funds	**4,104**	**4,652**	**548**	**13.4%**
Capital Projects Funds	0	0	0	0.0%
Total All Funds	**4,104**	**4,652**	**548**	**13.4%**

**Unaudited Year-End Results*

All Funds debt service is projected at $4.7 billion in 2008-09, of which $1.7 billion is paid from the General Fund through transfers and $3.0 billion from other State funds. Debt service is paid on revenue credits supported by dedicated taxes and fees and patient income, including Personal Income Tax Revenue bonds, Dedicated Highway and Bridge Trust Fund bonds and Mental Health facilities bonds, as well as service contract bonds that are secured mainly by the General Fund.

Growth in debt service reflects costs to support ongoing capital spending. The increased spending is for education purposes ($183 million, of which $79 million is for Expanding our Children's Education and Learning (EXCEL)), transportation ($126 million), health and mental hygiene ($65 million), and economic development and housing ($67 million), as offset by the $127 million Debt Reduction Reserve Fund spending in 2007-08 and other factors. In addition, 2007-08 spending for SUNY educational facilities and the Local Government Assistance Corporation (LGAC) was reduced by $222 million due to the timing of debt service payments made during 2006-07. Variable interest rates are projected at 3.15 percent for 2008-09. The rates include an assumed $20 million in additional variable rate interest costs related to the dislocation in the bond markets for auction rate securities and variable rate demand bonds insured by bond insurers that have had their credit ratings downgraded. The State is substantially reducing its exposure to auction rate securities and to variable rate demand bonds connected to affected insurers. The State expects to complete this restructuring by the end of the first quarter of fiscal year 2008-09. The 2008-09 projected rate is moderately less than 2007-08 actual levels of about 3.56 percent. See also the section on "Special Considerations" later in this AIS.

The projections reflect $21 million in savings from a variety of debt management actions, including selling a minimum of 25 percent of new bond sales competitively, expanding the use of performance measures to monitor the effectiveness of broker-dealers, remarketing agents, and other service providers, and maximizing savings opportunities, including through consolidated service contract refunding structures. The State will also continue to use personal income tax revenue bonds to reduce borrowing costs.

The projections include $23 million in projected additional debt service costs to the State, primarily as a product of dislocations in the variable rate markets. These increased interest costs result mainly from credit rating agency downgrades to several bond insurance firms which have affected demand for certain variable rate bonds. See the section on "Special Considerations" later in this AIS for more information.

A number of new bond-financed capital initiatives were enacted with the 2008-09 budget. These include increased capital programs for SUNY and CUNY ($2.7 billion), $1.285 billion for various economic development initiatives, $75 million of bond-eligible capital spending from the Environmental Protection Fund (EPF), $85 million of software development costs, $100 million for housing capital, and $60 million for local highway improvements. These are expected to have a minimal impact on 2008-09 debt service spending, although they will produce higher costs in later years.

Capital Projects

The Capital Projects Fund Group 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 are 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.

Capital Projects Spending Projections
(millions of dollars)

	2007-08 Results*	2008-09 Enacted	Annual $ Change	Annual % Change
General Fund	**141**	**433**	**292**	**207.1%**
Other State Support	4,235	4,677	442	10.4%
State Funds	**4,376**	**5,110**	**734**	**16.8%**
Federal Funds	1,755	1,970	215	12.3%
All Funds	**6,131**	**7,080**	**949**	**15.5%**

**Unaudited Year-End Results*

All Funds capital spending of $6.1 billion in 2007-08 is projected to increase to $7.1 billion in 2008-09. In fiscal year 2008-09, transportation spending, primarily for improvements and maintenance to the State's highways and bridges, continues to account for the largest share (55 percent) of this total. The balance of projected spending will support capital investments in the areas of economic development and government oversight (10 percent), education (10 percent), mental hygiene and public protection (9 percent), and parks and the environment (9 percent). The remainder of projected capital projects spending will be spread across health and social welfare, general government and other areas (7 percent).

The spending increase for economic development reflects the cumulative impacts of initiatives begun over the previous several years. They include projects at State University facilities and its Research Foundation and private universities; various local projects across the State; cultural facilities needs, and energy-related projects. The increase for transportation reflects spending for ongoing commitments, including $106 million in Federal grants and $181 million for spending from the 2005 Rebuild and Renew New York General Obligation Bond Act, as those projects begin to spend more fully. The $354 million increase for other spending is spread across all other program areas, including mental hygiene, public protection, higher education, and health. To account for historical differences between commitments and cash disbursements in Capital Projects Funds, the Financial Plan includes a negative $250 million spending adjustment.

Approximately $8 million has been identified in savings by shifting environmental spending to bond financing. Another $50 million in savings is achieved in the Transportation area through a funding reduction to the State and Local Bridge Program.

The Enacted Budget Financial Plan reflects $417 million in spending on new initiatives including $122 million for economic development and housing projects, $78 million to expand existing environmental programs, $67 million for local highway and bridge projects, $64 million for education projects and $86 million for other areas including $1.5 million for renovations to the Legislative Office Building hearing rooms and $10 million for the Cornell Grape Genomics Research Facility.

OTHER FINANCING SOURCES/(USES)

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

General Fund

The most significant General Fund transfers to other funds in 2008-09 include transfers for the State share of Medicaid spending ($2.7 billion), general debt service ($1.7 billion) and capital projects ($433 million, including $241 million for pay-as-you-go projects and a $192 million transfer to the Dedicated Highway and Bridge Trust Fund). General Fund transfers to the Judiciary include moneys transferred to the Court Facilities Incentive Aid Fund, New York City County Clerks Fund, and Judiciary Data

General Fund
Other Financing Sources/(Uses)
(millions of dollars)

	2007-08 Results*	2008-09 Enacted	Annual $ Change	Annual % Change
Transfers From Other Funds	**12,172**	**12,482**	**310**	**2.5%**
Revenue Bond Tax Fund (PIT)	8,473	8,583	110	1.3%
LGAC Fund (Sales Tax)	2,358	2,355	(3)	-0.1%
CW/CA Fund (Real Estate Transfer Tax)	682	597	(85)	-12.5%
All Other	659	947	288	43.7%
Transfers to Other Funds	**(2,774)**	**(5,551)**	**(2,777)**	**100.1%**
Debt Service	(1,548)	(1,692)	(144)	9.3%
Capital Projects	(141)	(433)	(292)	207.1%
All Other	(1,085)	(3,426)	(2,341)	215.8%

Unaudited Year-End Results

Processing Fund ($157 million). Also included in General Fund transfers to other funds are transfers representing payments for patients residing in State-operated Health, Mental Hygiene and State University facilities ($174 million), and SUNY hospital subsidy payments ($141 million).

General Fund transfers from other funds are expected to total $12.5 billion in 2008-09, an increase of $310 million from 2007-08. Portions of personal income tax, sales tax, and the real estate transfer tax are pledged to pay debt service on State personal income tax bonds, LGAC bonds, and General Obligation bonds. Tax receipts in excess of debt service requirements are transferred to the General Fund. Annual growth in these dedicated tax receipts ($389 million) is partially offset by an increase in debt service costs ($361 million). All other General Fund transfers are projected to total $947 million in 2008-09, an increase of $288 million, primarily as a result of an increase in the sweep of excess EPF balances ($181 million).

General Fund transfers to other funds for debt service increase by $144 million from 2007-08, reflecting increases in debt service costs after accelerations of 2007-08 payments into 2006-07. Transfers to support capital projects are projected to increase by $292 million, mainly for potential transfers to the Dedicated Highway and Bridge Trust Fund aimed at reducing fund gaps ($179 million) and the conclusion of reconciling reimbursements for economic development projects in 2007-08 as the result of anticipated 2006-07 bond sales that were delayed by the absence of timely Public Authority Control Board approvals. The annual growth in transfers to other funds of $2.3 billion reflects the change to the reporting on State Medicaid spending described earlier in this report ($2.7 billion). Annual declines in other fund transfers which partly offset this increase include non-recurring transfers from the General Fund to the Debt Reduction Reserve Fund to defease debt and reduce long-term costs ($127 million) and transfers made to support School Aid ($103 million).

Other Fund Types

In Special Revenue Funds, transfers to other funds include transfers 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 ($2.9 billion), a transfer from HCRA to the Capital Projects Fund to finance anticipated non-bondable spending for HEAL-NY ($100 million) and transfer of moneys from several Special Revenue accounts in excess of spending requirements.

Capital Projects funds transfers include transfers to the General Debt Service Fund from the Dedicated Highway and Bridge Trust Fund ($969 million), and transfers to the General Fund from the Hazardous Waste Remedial Fund ($27 million), and the Environmental Protection Fund ($200 million).

Debt Service Fund transfers to the General Fund include tax receipts in excess of debt service requirements for general obligation, LGAC and personal income tax revenue bonds ($11.5 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 at DOH, Mental Hygiene facilities, and SUNY ($3.2 billion).

Annual growth in transfers between Non-General Funds is driven by an increase in transfers from Debt Service Funds to Special Revenue Funds for receipts in excess of debt obligations on State-operated Mental Hygiene facilities ($149 million) and higher than anticipated transfers from the Dedicated Highway and Bridge Trust Fund to the General Debt Service Fund due to increased debt service costs for State and local transportation programs ($195 million).

General Fund Financial Plan Outyear Projections

DOB projects that the Enacted Budget Financial Plan is balanced in the General Fund in 2008-09, and projects out-year budget gaps of $5.0 billion in 2009-10, $7.7 billion in 2010-11, and $8.8 billion in 2011-12. The following table summarizes the General Fund projections by major tax and Financial Plan category.

General Fund Enacted Budget Forecast (millions of dollars)

	2008-09	2009-10	2010-11	2011-12
Receipts				
Taxes	40,610	42,324	44,389	46,892
Personal Income Tax	23,920	24,816	26,333	28,229
User Taxes and Fees	8,937	9,258	9,601	9,975
Business Taxes	6,559	6,925	7,047	7,190
Other Taxes	1,194	1,325	1,408	1,498
Miscellaneous Receipts	2,505	2,470	2,471	2,234
Federal Grants	41	0	0	0
Transfers from Other Funds	12,482	12,351	12,914	13,618
PIT in Excess of Revenue Bond Debt Service	8,583	8,782	9,215	9,705
Sales Tax in Excess of LGAC Debt Service	2,355	2,454	2,561	2,682
Real Estate Taxes in Excess of CW/CA Debt Service	597	582	610	664
All Other	947	533	528	567
Total Receipts	**55,638**	**57,145**	**59,774**	**62,744**
Disbursements				
Grants to Local Governments	39,126	43,136	47,046	49,988
State Operations	8,662	9,100	9,664	9,909
General State Charges	3,023	3,848	4,039	4,336
Transfers to Other Funds	5,550	6,029	6,778	7,353
Debt Service	1,692	1,680	1,706	1,673
Capital Projects	433	680	1,046	1,099
Other Purposes	3,425	3,669	4,026	4,581
Total Disbursements	**56,361**	**62,113**	**67,527**	**71,586**
Change in Reserves				
Rainy Day Reserve Fund	0	0	0	0
Prior Year Reserves	(620)	0	0	0
Community Projects Fund	(103)	48	(22)	(80)
Deposit to/(Use of) Reserves	**(723)**	**48**	**(22)**	**(80)**
Revised Budget Surplus/(Gap) Estimate	**0**	**(5,016)**	**(7,731)**	**(8,762)**

After actions, General Fund spending is projected to grow at an average annual rate of 8.3 percent over this period. The spending is driven by, among other things, School Aid, health care, the State-financed cap on local Medicaid spending, employee and retiree health benefits, local government aid and child welfare programs. Over the same period, General Fund receipts are estimated to grow at approximately 4 percent a year.

In evaluating the State's out-year 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, the 2009-10 forecast is perhaps 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. The State will provide quarterly revisions to its multi-year estimates.

The following chart provides a "zero-based" look at the causes of the 2009-10 General Fund budget gap, followed by a brief summary of the assumptions behind the projections. For a detailed explanation of the assumptions underlying the out-year revenue and spending projections, see "Out-Year General Fund Receipt Projections" and "Out-Year General Fund Disbursement Projections" later in this section.

2009-10 General Fund Annual Change
Savings/(Costs)
(millions of dollars)

	Dollar
RECEIPTS GROWTH	**1,507**
Personal Income Tax *	896
User Taxes and Fees *	321
Business Taxes	366
Other Taxes *	131
Miscellaneous Receipts	(35)
All Other Transfers/Changes	(172)
** Includes transfers after debt service*	
DISBURSEMENTS GROWTH	**5,752**
Local Assistance	**4,010**
Medicaid (incl. admin)	1,797
Program Growth	*889*
Other (Includes 53rd Medicaid Cycle and Timing of Certain Payments	*650*
Medicaid Cap/Family Health Plus Takeover	*258*
School Aid	1,762
Children and Family Services	149
Local Government Aid	163
All Other Local Assistance	139
State Operations	**438**
Personal Service	295
Non-personal Service	143
General State Charges	**825**
Health Insurance	228
Pensions	233
All Other	364
Transfers to Other Funds	**479**
Change Reserves Used for Operations	**(771)**
"CURRENT SERVICES" BUDGET GAP FOR 2009-10	**(5,016)**

The forecast for 2009-10 is based on assumptions of economic performance, revenue collections, spending patterns, and projections for the current-services costs of program activities. DOB believes the estimates of annual change in revenues and spending that create the 2009-10 current-services gap forecast are based on reasonable assumptions and methodologies. Significant assumptions that affect the forecast include:

- The performance of the economy in general and the financial services sector in particular, and the concomitant impact on State tax receipts. DOB's current economic forecast predicts a mild recession in 2008, with growth beginning again in calendar year 2008. The forecast for State tax receipts is based on the current forecast.

- The Federal government will not make substantive funding changes to major aid programs or make substantive regulatory changes that adversely affect the State.

- The projections do not include any extra costs for unsettled labor settlements. The Financial Plan projections do not include spending for unions that have not yet reached tentative labor settlements with the State. These include unions representing uniformed officers and CUNY employees.

- The projections after 2008-09 do not assume the use of one-time resources. In a typical year, however, the Financial Plan usually includes some such resources.

Changes to these or other assumptions could have a materially adverse impact on the size of the budget gaps for 2009-10 and beyond.

Outyear General Fund Receipts Projections

General Fund Receipts Projections (millions of dollars)

	2008-09	2009-10	Annual $ Change	2010-11	Annual $ Change	2011-12	Annual $ Change
Receipts							
Personal Income Tax	23,920	24,816	896	26,333	1,517	28,229	1,896
User Taxes and Fees	8,937	9,258	321	9,601	343	9,975	374
Business Taxes	6,559	6,925	366	7,047	122	7,190	143
Other Taxes	1,194	1,325	131	1,408	83	1,498	90
Miscellaneous Receipts	2,505	2,470	(35)	2,471	1	2,234	(237)
Federal Grants	41	0	(41)	0	0	0	0
Transfers from Other Funds	12,482	12,351	(131)	12,914	563	13,618	704
PIT in Excess of Revenue Bond Debt Service	8,583	8,782	199	9,215	433	9,705	490
Sales Tax in Excess of LGAC Debt Service	2,355	2,454	99	2,561	107	2,682	121
Real Estate Taxes in Excess of CW/CA Debt Service	597	582	(15)	610	28	664	54
All Other	947	533	(414)	528	(5)	567	39
Total Receipts	**55,638**	**57,145**	**1,507**	**59,774**	**2,629**	**62,744**	**2,970**

Fiscal Years 2009-10, 2010-11 and 2011-12 Overview

The complete multi-year forecast for receipts is found in the section "2008-09 Receipts and Disbursements Forecast" presented earlier in this AIS.

Outyear General Fund Disbursement Projections

DOB forecasts General Fund spending of $62.1 billion in 2009-10, an increase of $5.8 billion (10.2 percent) over recommended 2008-09 levels. Growth in 2010-11 is projected at $5.4 billion (8.7 percent) and in 2011-12 at $4.1 billion (6.0 percent). The growth levels are based on current-services projections, as modified by the actions contained in the 2008-09 Executive Budget including Governor Paterson's across-the-board cuts. The main sources of annual spending growth for 2009-10, 2010-11, and 2011-12 are itemized in the following table.

Out-Year Disbursement Projections - General Fund
(millions of dollars)

	2008-09	2009-10	Annual $ Change	Annual % Change	2010-11	Annual $ Change	Annual % Change	2011-12	Annual $ Change	Annual % Change
Grants to Local Governments:	**39,126**	**43,136**	**4,010**	**10.2%**	**47,046**	**3,910**	**9.1%**	**49,988**	**2,942**	**6.3%**
School Aid	17,825	19,587	1,762	9.9%	21,597	2,010	10.3%	23,157	1,560	7.2%
Medicaid (including administration)	8,253	9,792	1,539	18.6%	10,864	1,072	10.9%	11,589	725	6.7%
Medicaid: Local Relief	943	1,201	258	27.4%	1,542	341	28.4%	1,923	381	
Mental Hygiene	2,062	2,149	87	4.2%	2,198	49	2.3%	2,261	63	2.9%
Children and Family Services	1,762	1,911	149	8.5%	2,096	185	9.7%	2,246	150	7.2%
Local Government Assistance	1,242	1,405	163	13.1%	1,482	77	5.5%	1,478	(4)	-0.3%
Higher Education	2,461	2,538	77	3.1%	2,600	62	2.4%	2,621	21	0.8%
Public Health	628	723	95	15.1%	778	55	7.6%	806	28	3.6%
Other Education Aid	1,762	1,798	36	2.0%	1,854	56	3.1%	1,917	63	3.4%
Temporary and Disability Assistance	1,213	1,279	66	5.4%	1,280	1	0.1%	1,283	3	0.2%
Transportation	110	103	(7)	-6.4%	103	0	0.0%	103	0	0.0%
All Other	865	650	(215)	-24.9%	652	2	0.3%	604	(48)	-7.4%
State Operations:	**8,662**	**9,100**	**438**	**5.1%**	**9,664**	**564**	**6.2%**	**9,909**	**245**	**2.5%**
Personal Service	6,275	6,570	295	4.7%	7,019	449	6.8%	7,200	181	2.6%
Non-Personal Service	2,387	2,530	143	6.0%	2,645	115	4.5%	2,709	64	2.4%
General State Charges	**3,023**	**3,848**	**825**	**27.3%**	**4,039**	**191**	**5.0%**	**4,336**	**297**	**7.4%**
Pensions	1,054	1,287	233	22.1%	1,285	(2)	-0.2%	1,342	57	4.4%
Health Insurance (Active Employees)	1,652	1,790	138	8.4%	1,950	160	8.9%	2,127	177	9.1%
Health Insurance (Retired Employees)	1,039	1,129	90	8.7%	1,233	104	9.2%	1,347	114	9.2%
Medicaid Adjustment	(1,458)	(1,113)	345		(1,219)	(106)		(1,297)	(78)	
All Other	736	755	19	2.6%	790	35	4.6%	817	27	3.4%
Transfers to Other Funds:	**5,550**	**6,029**	**479**	**8.6%**	**6,778**	**749**	**12.4%**	**7,353**	**575**	**8.5%**
Debt Service	1,692	1,680	(12)	-0.7%	1,706	26	1.5%	1,673	(33)	-1.9%
Capital Projects	433	680	247	57.0%	1,046	366	53.8%	1,099	53	5.1%
All Other	3,425	3,669	244	7.1%	4,026	357	9.7%	4,581	555	13.8%
TOTAL DISBURSEMENTS	**56,361**	**62,113**	**5,752**	**10.2%**	**67,527**	**5,414**	**8.7%**	**71,586**	**4,059**	**6.0%**

Grants to Local Governments

Annual growth in local assistance is driven primarily by School Aid, Medicaid, local government assistance, other education aid and children and family services. The following table summarizes some of the factors that affect the local assistance projections over the Financial Plan period.

Forecast for Selected Program Measures Affecting Local Assistance
(millions of dollars, where applicable)

	Actual		Forecast			
	2006-07	**2007-08***	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Medicaid						
Medicaid Enrollment	3,608,075	3,581,311	3,665,541	3,746,047	3,994,438	4,149,548
Family Health Plus Enrollment	514,058	525,596	545,996	563,084	605,390	605,390
Child Health Plus Enrollment	388,187	360,436	444,044	494,112	499,053	504,043
Medicaid Inflation	2.4%	2.0%	2.9%	3.0%	3.0%	3.0%
Medicaid Utilization	1.1%	-3.9%	-4.5%	4.4%	4.2%	4.4%
State Takeover of County/NYC Costs (Total)	$622	$667	$943	$1,201	$1,542	$1,923
- Family Health Plus	$424	$432	$457	$470	$487	$487
- Medicaid*	$198	$235	$486	$731	$1,055	$1,436
Education						
School Aid (School Year)	$17,835	$19,650	$21,395	$23,200	$25,750	$27,300
K-12 Enrollment	2,783,153	2,747,606	2,747,606	2,747,606	2,747,606	2,747,606
Public Higher Education Enrollment (FTEs)	499,082	512,362	518,431	525,408	529,133	533,021
TAP Recipients	320,930	312,779	311,036	312,536	314,286	315,786
Welfare						
Family Assistance Caseload	402,348	348,901	339,686	344,328	331,340	329,517
Single Adult/No Children Caseload	158,513	158,576	166,597	172,876	179,708	186,053
Mental Hygiene						
Mental Hygiene Community Beds	81,737	85,058	87,731	90,520	92,614	95,332

**Unaudited Year-End Results*

Medicaid

General Fund spending for Medicaid is expected to grow by $1.8 billion in 2009-10, $1.4 billion in 2010-11, and another $1.6 billion in 2011-12.

Medicaid growth results, in part, from the combination of projected increases in recipients, service utilization, and medical care cost inflation that impact nearly all categories of service (e.g., hospitals, nursing homes). The State cap on local Medicaid costs and takeover of local FHP costs, which are included in base categories of service, are projected to increase spending by $276 million in 2008-09, $258 million in 2009-10, and $341 million in 2010-11. In 2009-10, an extra weekly payment to providers adds an estimated $300 million in base spending across all categories of service. The remaining growth is primarily attributed to the available resources in other State Funds which are used to lower General Fund costs, including lower levels of HCRA financing beginning in 2008-09.

The average number of Medicaid recipients is expected to grow to 3.7 million in 2008-09, an increase of 2.4 percent from the estimated 2007-08 caseload of 3.6 million. FHP enrollment is estimated to grow to approximately 546,000 individuals in 2008-09, an increase of 3.8 percent over projected 2007-08 enrollment of almost 526,000 individuals.

School Aid

Multi-Year School Aid Projection -- School-Year Basis
(millions of dollars)

	2007-08	2008-09	Annual $ Change	2009-10	Annual $ Change	2010-11	Annual $ Change	2011-12	Annual $ Change
Foundation Aid/Academic Achievement Grant	13,745	14,862	1,117	16,200	1,338	18,050	1,850	18,750	700
Universal Pre-kindergarten	354	451	97	540	89	630	90	655	25
High Tax Aid	100	202	102	100	(102)	100	0	100	0
EXCEL Building Aid	70	135	65	179	44	191	12	191	0
Expense-Based Aids (Building, Transportation, High Cost and Private Excess Cost, BOCES)	4,717	5,080	363	5,487	407	5,941	454	6,421	480
Other Aid Categories/Initiatives	664	665	1	694	29	838	144	1,183	345
Total School Aid	**19,650**	**21,395**	**1,745**	**23,200**	**1,805**	**25,750**	**2,550**	**27,300**	**1,550**

Projected School Aid increases are primarily due to increases in Foundation Aid; Universal Pre-kindergarten expansion; and increases in expense-based aids such as Building Aid and Transportation Aid. Increased funding in 2008-09 for High Tax Aid and several other aid categories is provided on a one-year basis and not continued in the out-years.

On a school-year basis, School Aid is projected at $23.2 billion in 2009-10, $25.8 billion in 2010-11, and $27.3 billion in 2011-12. On a School Year basis, School Aid spending is projected to grow by $1.8 billion in 2009-10, $2.6 billion in 2010-11, and $1.6 billion in 2011-12. Outside the General Fund, revenues from core lottery sales are projected to increase by $99 million in 2009-10, $74 million in 2010-11, and $108 million in 2011-12 (totaling $2.5 billion in 2011-12). Revenues from VLTs are projected to total $731 million in 2008-09, then decrease by $144 million in 2009-10 following the expected one-time receipt of $250 million in revenues during 2008-09 for the sale of development rights. They are then projected to increase by $219 million in 2010-11 and $196 million in 2011-12. VLTs are expected to total $1.0 billion in 2011-12. The VLT estimates assume the start of operations at Aqueduct in 2009-10 and Belmont in 2010-11.

Mental Hygiene

Mental Hygiene spending is projected at $2.1 billion in 2009-10, $2.2 billion in 2010- 11, and $2.3 billion in 2011-12. Sources of growth include: increases in the projected State share of Medicaid costs; cost-of-living increases, including a proposed three-year extension of the human services COLA; and projected expansions of the various mental hygiene service systems including OMH's children's services; increases in the NYS-CARES program and in the development of children's beds in OMRDD to bring children back from out-of-state placements; the NY/NY III Supportive Housing agreement and community bed expansion in OMH; and certain chemical dependence treatment and prevention initiatives in OASAS.

Children and Family Services

Children and Family Services local assistance spending is projected to grow by $149 million in 2009-10, $185 million in 2010-11 and $150 million in 2011-12. The increases are driven primarily by expected growth in local child welfare claims, the implementation of the OCFS Medicaid waiver, and cost-of-living increases for human services providers through 2011-12.

Temporary and Disability Assistance

Spending is projected at $1.3 billion in 2009-10, an increase of $66 million from 2008-09, and is expected at the same level through 2011-12. Although public assistance caseload is projected to increase marginally between 2009-10 and 2011-12, this spending is countered by an expected increase in Federal offsets, which decrease the level of General Fund resources needed.

Other Local Assistance

All other local assistance programs total $4.7 billion in 2009-10, an increase of $195 million over 2008-09 levels. This growth in spending primarily reflects increases in local government assistance including unrestricted aid to New York City ($82 million), additional payments for AIM and Local Government Efficiency Grants ($71 million), various public health program costs, and other education aid. This growth is partially offset by declines in the Division of Military and Naval Affairs and Labor.

STATE OPERATIONS

Forecast of Selected Program Measures Affecting State Operations

	Actual		Forecast			
	2006-07	**2007-08***	**2008-09**	**2009-10**	**2010-11**	**2011-12**
State Operations						
Prison Population (Corrections)	63,577	62,800	62,200	61,800	61,600	61,400
Negotiated Salary Increases (1)	3.0%	3.0%	3.0%	3.0%	4.0%	0.0%
Personal Service Inflation	0.8%	1.0%	1.0%	1.0%	1.0%	1.0%
State Workforce	195,526	199,754	201,170	201,170	201,170	201,170

**Unaudited Year-End Results*

(1) Negotiated salary increases reflect recent labor settlements included in the Financial Plan estimates

State Operations spending is expected to total $9.1 billion in 2009-10, an annual increase of $438 million (5.1 percent). In 2010-11, spending is projected to grow by another $564 million (6.2 percent) to a total of $9.7 billion, followed by another $245 million (2.5 percent) for a total of $9.9 billion in 2011-12. Across-the-board reductions are projected to reduce State Operations spending levels by $524 million in all years, a 5.5 percent reduction from 2007-08 spending levels. The net personal service growth primarily reflects the impact of the settled labor contracts. In addition, salary adjustments for performance advances, longevity payments and promotions; and increased staffing levels, primarily in Judiciary and Correctional Services drive spending growth. Inflationary increases for non-personal service costs result in higher spending in all years. Additional growth is driven by spending for ongoing initiatives, including the civil commitment program for sexual offenders, and medical and pharmacy costs in the areas of mental hygiene and corrections. The agencies experiencing the most significant personal service and non-personal service growth are depicted in the charts below, followed by brief descriptions.

Personal Service

General Fund - Personal Service (millions of dollars)							
	2008-09	2009-10	Annual $ Change	2010-11	Annual $ Change	2011-12	Annual $ Change
Total	**6,275**	**6,570**	**295**	**7,019**	**449**	**7,201**	**182**
Collective Bargaining	620	775	155	1,155	380	1,155	0
Management Plan	(228)	(228)	0	(227)	1	(227)	0
Correctional Services	1,830	1,875	45	1,915	40	1,934	19
Judiciary	1,355	1,474	119	1,603	129	1,740	137
All Other	2,698	2,674	(24)	2,573	(101)	2,599	26

- **Collective Bargaining:** Reflects the impact of settled labor negotiations which provide a 3 percent salary increase each year beginning in 2007-08 and a 4 percent increase in the final year (2010-11).

- **Correctional Services:** Growth is attributable primarily to the Sex Offender Management and Treatment Act, the restricted use of special housing units for mentally ill inmates, and re-entry services for inmates who will be released to the community, thus driving higher workforce levels and costs.

- **Judiciary:** Reflects Office of Court Administration (OCA) projections for non-judicial OCA employees, as well as the annualization of prior-year Judiciary actions, including increasing the number of full-time judges and adding Court of Claims and Family Judges.

Non-Personal Service

General Fund - Non-Personal Service (millions of dollars)							
	2008-09	2009-10	Annual $ Change	20010-11	Annual $ Change	2011-12	Annual $ Change
Total	**2,387**	**2,530**	**143**	**2,645**	**115**	**2,709**	**64**
Management Plan	(296)	(295)	1	(295)	0	(295)	0
Correctional Services	636	674	38	713	39	756	43
State Police	60	83	23	83	0	82	(1)
Public Health	123	142	19	161	19	165	4
Temporary and Disability Assistance	36	53	17	54	1	57	3
State University	438	452	14	470	18	490	20
All Other	1,094	1,126	32	1,164	38	1,159	(5)

- **Correctional Services:** Growth is primarily driven by the escalating costs of food, fuel, utilities, and providing health care services and prescription drugs to inmates.

- **State Police:** Spending growth reflects costs previously supported by cellular surcharge revenues in other State funds that will be supported by General Fund revenues in 2009-10.

- **Public Health:** Growth is largely driven by the annualization of the Enacted Budget action providing funding for the State to directly enroll individuals into Medicaid, CHP and FHP.

- **Temporary and Disability Assistance:** Spending will increase in 2009-10 as one-time actions, including Federal revenue maximization and bonding of software development costs, do not recur.

- **State University:** Primarily reflects funding for inflationary increases in non-personal service at SUNY.

General State Charges

Forecast of Selected Program Measures Affecting General State Charges

	Actual		Forecast			
	2006-07	2007-08*	2008-09	2009-10	2010-11	2011-12
General State Charges						
Pension Contribution Rate as % of Salary	10.2%	9.7%	8.8%	9.0%	9.0%	9.3%
Employee/Retiree Health Insurance Growth Rates	10.3%	5.4%	5.5%	9.5%	9.5%	9.5%

**Unaudited Year-End Results*

General State Charges are projected to total $3.9 billion in 2009-10, $4.0 billion in 2010-11 and $4.3 billion in 2011-12. The annual increases are due mainly to anticipated cost increases in pensions and health insurance for State employees and retirees.

The State's pension contribution rate to the New York State and Local Retirement System, which is 8.8 percent for 2008-09, is expected to increase to 9.0 percent for 2009-10 and 2010-11 and to 9.3 percent in 2011-12. Pension costs in 2009-10 are projected to total $1.3 billion, an increase of $233 million over 2008-09 due to projected growth in the salary base. This large growth is also caused by the prepayment of the State's 2008-09 amortization costs in 2007-08. In 2010-11, pension costs are expected to remain virtually unchanged. In 2011-12, they are expected to increase by $57 million due to an anticipated increase in the State contribution rate.

Forecast of New York State Employee Health Insurance Costs (millions of dollars)

	Health Insurance		
Year	Active Employees	Retirees	Total State
2006-07	1,518	913	2,431
2007-08	1,566	988	2,554
2008-09	1,652	1,039	2,691
2009-10	1,790	1,129	2,919
2010-11	1,950	1,233	3,183
2011-12	2,127	1,347	3,474

All numbers reflect the cost of health insurance for General State Charges (Executive and Legislative branches) and the Office of Court Administration.

Spending for employee and retiree health care costs is expected to increase by $228 million in 2009-10, $264 million in 2010-11, and another $291 million in 2011-12 and assumes an average annual premium increase of roughly 9.5 percent. Health insurance is projected at $2.9 billion in 2009-10 ($1.8 billion for active employees and $1.1 billion for retired employees), $3.2 billion in 2010-11 ($2.0 billion for active employees and $1.2 billion for retired employees) and $3.4 billion in 2011-12 ($2.1 billion for active employees and $1.3 billion for retired employees).

See discussion of the Governmental Accounting Standards Board (GASB) 45 later in this AIS for the valuation of future State health insurance costs for State employees.

Transfers to Other Funds

Out-Year Disbursement Projections - Transfers to Other Funds
(millions of dollars)

	2008-09	2009-10	Annual Change	2010-11	Annual Change	2011-12	Annual Change
Transfers to Other Funds:	**5,550**	**6,029**	**479**	**6,778**	**749**	**7,353**	**575**
Debt Service	1,692	1,680	(12)	1,706	26	1,673	(33)
Capital Projects	433	680	247	1,046	366	1,099	53
Dedicated Highway and Bridge Trust Fund	192	313	121	698	385	792	94
All Other Capital	241	367	126	348	(19)	307	(41)
All Other Transfers	3,425	3,669	244	4,026	357	4,581	555
State Share Medicaid Costs	2,655	2,632	(23)	2,678	46	2,701	23
Mental Hygiene Operations	0	170	170	464	294	572	108
Medicaid Payments for State Facility Patients	174	174	0	174	0	174	0
Judiciary Funds	156	148	(8)	158	10	165	7
HCRA	0	0	0	0	0	466	466
SUNY- Hospital Operations	141	159	18	167	8	167	0
Banking Services	66	66	0	66	0	66	0
Empire State Stem Cell Trust Fund	3	35	32	47	12	0	(47)
Statewide Financial System	0	30	30	35	5	30	(5)
All Other	230	255	25	237	(18)	240	3

In 2009-10, transfers to other funds are estimated at $6.0 billion, an increase of $479 million over 2008-09. This increase includes potential transfers to the Dedicated Highway and Bridge Trust Fund aimed at reducing fund gaps and an increase in other capital transfers of $126 million.

All other transfers are expected to increase by $244 million from 2008-09. The most significant change includes an increase in transfers to supplement resources available for the Mental Hygiene system. In addition transfers are increasing for the State's SUNY subsidy to hospitals and funding for the State's financial management system. General Fund transfers for stem cell research increase in 2009-10 and decline in 2011-12 as support is transitioned from the General Fund to the Health Care Resources Fund beginning in 2009-10.

In 2010-11, transfers to other funds are expected to increase by $749 million. This reflects expected growth in General Fund support to the Dedicated Highway and Bridge Trust Fund and Medicaid related spending in State Operated Mental Hygiene facilities. In 2011-12 transfers are expected to increase by

$575 million, mainly to provide subsidies to HCRA, the Dedicated Highway and Bridge Trust Fund, and Mental Hygiene facility Medicaid related spending.

Financial Plan Reserves

In January 2007, the State created a new statutory Rainy Day Reserve that has an authorized balance of 3 percent of General Fund spending. The new Rainy Day Reserve may be used to respond to an economic downturn or catastrophic event. The State made its first deposit of $175 million in 2007-08. The Tax Stabilization Reserve has an authorized balance of 2 percent and can be used only to cover unforeseen year-end deficits.

The State projects that General Fund reserves will total $2.0 billion at the end of 2008-09, with $1.2 billion in undesignated reserves available to deal with unforeseen contingencies and $804 million designated for subsequent use.

The $1.2 billion of undesignated reserves includes a balance of $1 billion in the Tax Stabilization Reserve, $175 million in the new Rainy Day Reserve, and $21 million in the Contingency Reserve Fund for litigation risks.

The designated reserves consist of $445 million set aside for labor settlements (after the use of $620 million for existing settlements in 2008-09), $237 million in the Community Projects Fund to finance existing "member-item" initiatives, and $122 million set aside for the debt management purposes.

Aside from the amounts noted above, the 2008-09 Financial Plan does not have specific reserves to cover potential costs that could materialize as a result of Federal disallowances or other Federal actions that could adversely affect the State's projections of receipts and disbursements.

Cash Flow Forecast

In 2008-09, the General Fund is projected to have quarterly-ending balances of $3.8 billion in June 2008, $5.2 billion in September 2008, $799 million in December 2008, and $2.0 billion at the end of March 2009. The lowest projected month-end cash flow balance is in December 2008. DOB's detailed monthly cash flow projections for 2007-08, 2008-09, and 2009-10 are set forth in the Financial Plan Tables.

The Office of the State Comptroller (OSC) invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments through the Short-Term Investment Pool (STIP), which comprises joint custody funds (Governmental Funds, Internal Service Funds, Enterprise Funds and Private Purpose Trust Funds), as well as several sole custody funds including the Tobacco Settlement Fund.

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

CASH FINANCIAL PLAN
GENERAL FUND
2007-2008 and 2008-2009
(millions of dollars)

	2007-2008 Year-End*	2008-2009 Enacted	Annual Change
Opening fund balance	3,045	2,754	(291)
Receipts:			
Taxes:			
Personal income tax	22,759	23,920	1,161
User taxes and fees	8,555	8,937	382
Business taxes	6,018	6,559	541
Other taxes	1,063	1,194	131
Miscellaneous receipts	2,458	2,505	47
Federal grants	69	41	(28)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	8,473	8,583	110
Sales tax in excess of LGAC debt service	2,358	2,355	(3)
Real estate taxes in excess of CW/CA debt service	682	597	(85)
All other transfers	659	947	288
Total receipts	53,094	55,638	2,544
Disbursements:			
Grants to local governments	36,412	39,126	2,714
State operations	9,579	8,662	(917)
General State charges	4,620	3,023	(1,597)
Transfers to other funds:			0
Debt service	1,548	1,692	144
Capital projects	141	433	292
Other purposes	1,085	3,425	2,340
Total disbursements	53,385	56,361	2,976
Change in fund balance	(291)	(723)	(432)
Closing fund balance	2,754	2,031	(723)
Reserves			
Tax Stabilization Reserve Fund	1,031	1,031	0
Statutory Rainy Day Reserve Fund	175	175	0
Contingency Reserve Fund	21	21	0
Community Projects Fund	340	237	(103)
Refund Reserve Account**	1,187	567	(620)

Source: NYS DOB

**Unaudited Year-end Results*

**At the end of 2007-08, DOB designated $1.065 billion of Refund Reserve Account balance for labor settlements and other risks, and $122 million for debt reduction management. At the end of 2008-09, DOB expects to have reserved $445 million of the Refund Reserve Account balance for labor settlements and other risks, and $122 million for debt reduction management.

CASH FINANCIAL PLAN
GENERAL FUND
2008-2009 through 2011-2012
(millions of dollars)

	2008-2009 Enacted	2009-2010 Projected	2010-2011 Projected	2011-2012 Projected
Receipts:				
Taxes:				
Personal income tax	23,920	24,816	26,333	28,229
User taxes and fees	8,937	9,258	9,601	9,975
Business taxes	6,559	6,925	7,047	7,190
Other taxes	1,194	1,325	1,408	1,498
Miscellaneous receipts	2,505	2,470	2,471	2,234
Federal grants	41	0	0	0
Transfers from other funds:				
PIT in excess of Revenue Bond debt service	8,583	8,782	9,215	9,705
Sales tax in excess of LGAC debt service	2,355	2,454	2,561	2,682
Real estate taxes in excess of CW/CA debt service	597	582	610	664
All other transfers	947	533	528	567
Total receipts	55,638	57,145	59,774	62,744
Disbursements:				
Grants to local governments	39,126	43,136	47,046	49,988
State operations	8,662	9,100	9,664	9,909
General State charges	3,023	3,848	4,039	4,336
Transfers to other funds:				
Debt service	1,692	1,680	1,706	1,673
Capital projects	433	680	1,046	1,099
Other purposes	3,425	3,669	4,026	4,581
Total disbursements	56,361	62,113	67,527	71,586
Deposit to/(use of) Community Projects Fund	(103)	48	(22)	(80)
Deposit to/(use of) Prior Year Reserves	(620)	0	0	0
Margin	0	(5,016)	(7,731)	(8,762)

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2008-2009
(millions of dollars)

	21-Day	Change	Enacted
Opening fund balance	2,626	128	2,754
Receipts:			
Taxes:			
Personal income tax	24,205	(285)	23,920
User taxes and fees	8,832	105	8,937
Business taxes	7,127	(568)	6,559
Other taxes	1,194	0	1,194
Miscellaneous receipts	2,242	263	2,505
Federal Grants	41	0	41
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	8,694	(111)	8,583
Sales tax in excess of LGAC debt service	2,310	45	2,355
Real estate taxes in excess of CW/CA debt service	615	(18)	597
All other	724	223	947
Total receipts	55,984	(346)	55,638
Disbursements:			
Grants to local governments	41,608	(2,482)	39,126
State operations	8,851	(189)	8,662
General State charges	3,033	(10)	3,023
Transfers to other funds:			
Debt service	1,692	0	1,692
Capital projects	381	52	433
Other purposes	819	2,606	3,425
Total disbursements	56,384	(23)	56,361
Change in fund balance	(400)	(323)	(723)
Closing fund balance	2,226	(195)	2,031
Reserves			
Tax Stabilization Reserve Fund	1,031	0	1,031
Statutory Rainy Day Reserve Fund	175	0	175
Contingency Reserve Fund	21	0	21
Community Projects Fund	291	(54)	237
Debt Reduction Reserve Fund	0	122	122
Labor Settlement Reserve/Other Risks	708	(263)	445

Source: NYS DOB

CURRENT STATE RECEIPTS
GENERAL FUND
2007-2008 and 2008-2009
(millions of dollars)

	2007-2008 Year-End*	2008-2009 Enacted	Annual Change
Personal income tax	22,759	23,920	1,161
User taxes and fees	8,555	8,937	382
Sales and use tax	7,945	8,186	241
Cigarette and tobacco taxes	409	433	24
Motor vehicle fees	(51)	61	112
Alcoholic beverages taxes	205	209	4
Alcoholic beverage control license fees	47	48	1
Business taxes	6,018	6,559	541
Corporation franchise tax	3,446	3,706	260
Corporation and utilities tax	603	613	10
Insurance taxes	1,089	1,171	82
Bank tax	880	1,069	189
Petroleum business tax	0	0	0
Other taxes	1,063	1,194	131
Estate tax	1,037	1,170	133
Gift tax	1	0	(1)
Real property gains tax	1	0	(1)
Pari-mutuel taxes	23	23	0
Other taxes	1	1	0
Total taxes	38,395	40,610	2,215
Miscellaneous receipts	2,458	2,505	47
Federal Grants	69	41	(28)
Total	40,922	43,156	2,234

Source: NYS DOB
**Unaudited Year-end Results*

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	38,395	7,834	12,595	58,824
Miscellaneous receipts	2,458	13,403	842	16,703
Federal grants	69	0	0	69
Total receipts	40,922	21,237	13,437	75,596
Disbursements:				
Grants to local governments	36,412	16,157	0	52,569
State operations	9,579	5,457	32	15,068
General State charges	4,620	632	0	5,252
Debt service	0	0	4,104	4,104
Capital projects	0	8	0	8
Total disbursements	50,611	22,254	4,136	77,001
Other financing sources (uses):				
Transfers from other funds	12,172	1,579	5,434	19,185
Transfers to other funds	(2,774)	(713)	(14,683)	(18,170)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	9,398	866	(9,249)	1,015
Change in fund balance	(291)	(151)	52	(390)
Closing fund balance	2,754	3,520	285	6,559

Source: NYS DOB
**Unaudited Year-end Results*

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	285	6,559
Receipts:				
Taxes	40,610	8,200	12,984	61,794
Miscellaneous receipts	2,505	13,341	941	16,787
Federal grants	41	1	0	42
Total receipts	43,156	21,542	13,925	78,623
Disbursements:				
Grants to local governments	39,126	17,230	0	56,356
State operations	8,662	6,540	61	15,263
General State charges	3,023	1,565	0	4,588
Debt service	0	0	4,652	4,652
Capital projects	0	3	0	3
Total disbursements	50,811	25,338	4,713	80,862
Other financing sources (uses):				
Transfers from other funds	12,482	3,987	5,641	22,110
Transfers to other funds	(5,550)	(963)	(14,785)	(21,298)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	6,932	3,024	(9,144)	812
Deposit to/(use of) Community Projects Fund	(103)	0	0	(103)
Deposit to/(use of) Prior Year Reserves	(620)	0	0	(620)
Change in fund balance	0	(772)	68	(704)
Closing fund balance	2,031	2,748	353	5,132

Source: NYS DOB

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	0	2,748	353	3,101
Receipts:				
Taxes	42,324	8,992	13,590	64,906
Miscellaneous receipts	2,470	13,250	897	16,617
Federal grants	0	1	0	1
Total receipts	44,794	22,243	14,487	81,524
Disbursements:				
Grants to local governments	43,136	18,010	0	61,146
State operations	9,100	6,706	61	15,867
General State charges	3,848	1,182	0	5,030
Debt service	0	0	5,158	5,158
Capital projects	0	3	0	3
Total disbursements	56,084	25,901	5,219	87,204
Other financing sources (uses):				
Transfers from other funds	12,351	4,057	5,741	22,149
Transfers to other funds	(6,029)	(739)	(14,950)	(21,718)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	6,322	3,318	(9,209)	431
Deposit to/(use of) Community Projects Fund	48	0	0	48
Change in fund balance	(5,016)	(340)	59	(5,297)
Closing fund balance	(5,016)	2,408	412	(2,196)

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	2,408	412	2,820
Receipts:				
Taxes	44,389	9,555	14,403	68,347
Miscellaneous receipts	2,471	13,664	933	17,068
Federal grants	0	1	0	1
Total receipts	46,860	23,220	15,336	85,416
Disbursements:				
Grants to local governments	47,046	18,664	0	65,710
State operations	9,664	6,908	61	16,633
General State charges	4,039	1,255	0	5,294
Debt service	0	0	5,803	5,803
Capital projects	0	2	0	2
Total disbursements	60,749	26,829	5,864	93,442
Other financing sources (uses):				
Transfers from other funds	12,914	4,321	6,155	23,390
Transfers to other funds	(6,778)	(822)	(15,562)	(23,162)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	6,136	3,499	(9,407)	228
Deposit to/(use of) Community Projects Fund	(22)	0	0	(22)
Change in fund balance	(7,731)	(110)	65	(7,776)
Closing fund balance	(7,731)	2,298	477	(4,956)

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	2,298	477	2,775
Receipts:				
Taxes	46,892	9,896	15,290	72,078
Miscellaneous receipts	2,234	13,948	975	17,157
Federal grants	0	1	0	1
Total receipts	49,126	23,845	16,265	89,236
Disbursements:				
Grants to local governments	49,988	19,784	0	69,772
State operations	9,909	6,929	61	16,899
General State charges	4,336	1,306	0	5,642
Debt service	0	0	6,146	6,146
Capital projects	0	2	0	2
Total disbursements	64,233	28,021	6,207	98,461
Other financing sources (uses):				
Transfers from other funds	13,618	4,904	6,266	24,788
Transfers to other funds	(7,353)	(861)	(16,241)	(24,455)
Bond and note proceeds	0	0	0	0
Net other financing sources (uses)	6,265	4,043	(9,975)	333
Deposit to/(use of) Community Projects Fund	(80)	0	0	(80)
Change in fund balance	(8,762)	(133)	83	(8,812)
Closing fund balance	(8,762)	2,165	560	(6,037)

Source: NYS DOB

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	(432)	233	6,853
Receipts:					
Taxes	38,395	7,834	2,047	12,595	60,871
Miscellaneous receipts	2,458	13,605	2,735	842	19,640
Federal grants	69	33,095	1,745	0	34,909
Total receipts	40,922	54,534	6,527	13,437	115,420
Disbursements:					
Grants to local governments	36,412	45,704	1,079	0	83,195
State operations	9,579	8,610	0	32	18,221
General State charges	4,620	856	0	0	5,476
Debt service	0	0	0	4,104	4,104
Capital projects	0	8	5,052	0	5,060
Total disbursements	50,611	55,178	6,131	4,136	116,056
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)	(939)	(14,683)	(21,880)
Bond and note proceeds	0	0	269	0	269
Net other financing sources (uses)	9,398	516	(398)	(9,249)	267
Change in fund balance	(291)	(128)	(2)	52	(369)
Closing fund balance	2,754	3,879	(434)	285	6,484

Source: NYS DOB
**Unaudited Year-end Results*

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)	285	6,484
Receipts:					
Taxes	40,610	8,200	2,110	12,984	63,904
Miscellaneous receipts	2,505	13,461	3,177	941	20,084
Federal grants	41	33,922	1,993	0	35,956
Total receipts	43,156	55,583	7,280	13,925	119,944
Disbursements:					
Grants to local governments	39,126	46,579	571	0	86,276
State operations	8,662	10,014	0	61	18,737
General State charges	3,023	2,406	0	0	5,429
Debt service	0	0	0	4,652	4,652
Capital projects	0	3	6,509	0	6,512
Total disbursements	50,811	59,002	7,080	4,713	121,606
Other financing sources (uses):					
Transfers from other funds	12,482	6,545	613	5,641	25,281
Transfers to other funds	(5,550)	(3,801)	(1,235)	(14,785)	(25,371)
Bond and note proceeds	0	0	473	0	473
Net other financing sources (uses)	6,932	2,744	(149)	(9,144)	383
Deposit to/(use of) Community Projects Fund	(103)	0	0	0	(103)
Deposit to/(use of) Prior Year Reserves	(620)	0	0	0	(620)
Change in fund balance	0	(675)	51	68	(556)
Closing fund balance	2,031	3,204	(383)	353	5,205

Source: NYS DOB

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	0	3,204	(383)	353	3,174
Receipts:					
Taxes	42,324	8,992	2,182	13,590	67,088
Miscellaneous receipts	2,470	13,360	4,238	897	20,965
Federal grants	0	35,034	2,000	0	37,034
Total receipts	44,794	57,386	8,420	14,487	125,087
Disbursements:					
Grants to local governments	43,136	48,616	625	0	92,377
State operations	9,100	10,235	0	61	19,396
General State charges	3,848	2,091	0	0	5,939
Debt service	0	0	0	5,158	5,158
Capital projects	0	3	7,923	0	7,926
Total disbursements	56,084	60,945	8,548	5,219	130,796
Other financing sources (uses):					
Transfers from other funds	12,351	6,670	915	5,741	25,677
Transfers to other funds	(6,029)	(3,554)	(1,168)	(14,950)	(25,701)
Bond and note proceeds	0	0	617	0	617
Net other financing sources (uses)	6,322	3,116	364	(9,209)	593
Deposit to/(use of) Community Projects Fund	48	0	0	0	48
Change in fund balance	(5,016)	(443)	236	59	(5,164)
Closing fund balance	(5,016)	2,761	(147)	412	(1,990)

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	2,761	(147)	412	3,026
Receipts:					
Taxes	44,389	9,555	2,184	14,403	70,531
Miscellaneous receipts	2,471	13,774	3,892	933	21,070
Federal grants	0	36,122	1,953	0	38,075
Total receipts	46,860	59,451	8,029	15,336	129,676
Disbursements:					
Grants to local governments	47,046	50,276	631	0	97,953
State operations	9,664	10,621	0	61	20,346
General State charges	4,039	2,237	0	0	6,276
Debt service	0	0	0	5,803	5,803
Capital projects	0	2	7,654	0	7,656
Total disbursements	60,749	63,136	8,285	5,864	138,034
Other financing sources (uses):					
Transfers from other funds	12,914	7,071	1,362	6,155	27,502
Transfers to other funds	(6,778)	(3,683)	(1,509)	(15,562)	(27,532)
Bond and note proceeds	0	0	660	0	660
Net other financing sources (uses)	6,136	3,388	513	(9,407)	630
Deposit to/(use of) Community Projects Fund	(22)	0	0	0	(22)
Change in fund balance	(7,731)	(297)	257	65	(7,706)
Closing fund balance	(7,731)	2,464	110	477	(4,680)

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	2,464	110	477	3,051
Receipts:					
Taxes	46,892	9,896	2,198	15,290	74,276
Miscellaneous receipts	2,234	14,058	3,770	975	21,037
Federal grants	0	37,818	1,921	0	39,739
Total receipts	49,126	61,772	7,889	16,265	135,052
Disbursements:					
Grants to local governments	49,988	53,064	634	0	103,686
State operations	9,909	10,675	0	61	20,645
General State charges	4,336	2,337	0	0	6,673
Debt service	0	0	0	6,146	6,146
Capital projects	0	2	7,348	0	7,350
Total disbursements	64,233	66,078	7,982	6,207	144,500
Other financing sources (uses):					
Transfers from other funds	13,618	7,640	1,401	6,266	28,925
Transfers to other funds	(7,353)	(3,745)	(1,593)	(16,241)	(28,932)
Bond and note proceeds	0	0	513	0	513
Net other financing sources (uses)	6,265	3,895	321	(9,975)	506
Deposit to/(use of) Community Projects Fund	(80)	0	0	0	(80)
Change in fund balance	(8,762)	(411)	228	83	(8,862)
Closing fund balance	(8,762)	2,053	338	560	(5,811)

Source: NYS DOB

CASHFLOW
GENERAL FUND
2008-2009
(dollars in millions)

	2008 April Projected	May Projected	June Projected	July Projected	August Projected	September Projected	October Projected	November Projected	December Projected	2009 January Projected	February Projected	March Projected	Total
OPENING BALANCE	2,754	7,484	3,270	3,786	3,502	3,682	5,222	3,875	1,239	799	5,445	4,861	2,754
RECEIPTS:													
Personal Income Tax	5,457	831	2,234	1,518	1,553	2,047	598	(56)	1,362	4,997	1,563	1,816	23,920
User Taxes and Fees	642	656	903	690	664	896	658	702	906	723	618	879	8,937
Business Taxes	194	54	1,240	125	141	1,320	111	78	1,176	97	162	1,861	6,559
Other Taxes	99	99	100	100	101	101	99	99	99	99	99	99	1,194
Total Taxes	6,392	1,640	4,477	2,433	2,459	4,364	1,466	823	3,543	5,916	2,442	4,655	40,610
Licenses, fees, etc.	30	63	46	29	63	44	54	51	35	40	54	62	571
Abandoned Property	20	0	18	17	10	56	15	184	41	74	61	255	751
Reimbursement	4	11	24	5	14	22	13	10	24	7	12	27	173
Investment income	35	7	25	24	(7)	6	53	16	5	25	0	11	200
Other transactions	30	36	156	47	57	59	41	34	57	37	33	223	810
Total Miscellaneous Receipts	119	117	269	122	137	187	176	295	162	183	160	578	2,505
Federal Grants	0	11	4	0	4	0	9	9	0	4	0	0	41
PIT in excess of Revenue Bond Debt Service	1,818	206	873	525	350	942	600	35	877	1,419	143	795	8,583
Sales Tax in Excess of LGAC Debt Service	189	24	447	207	200	211	198	212	278	219	23	147	2,355
Real Estate Taxes in Excess of CW/CA Debt Service	63	56	45	47	57	57	53	40	50	53	39	37	597
All Other	0	0	55	39	1	5	8	5	122	3	1	708	947
Total Transfers from Other Funds	2,070	286	1,420	818	608	1,215	859	292	1,327	1,694	206	1,687	12,482
TOTAL RECEIPTS	8,581	2,054	6,170	3,373	3,208	5,766	2,510	1,419	5,032	7,797	2,808	6,920	55,638
DISBURSEMENTS:													
School Aid	341	2,335	1,891	193	560	1,494	636	1,124	1,609	471	829	6,342	17,825
Higher Education	17	11	490	115	109	93	472	24	249	53	348	479	2,460
All Other Education	14	233	150	221	85	101	101	103	113	178	163	301	1,763
Medicaid - DOH	1,300	893	938	744	359	467	880	867	791	664	567	724	9,194
Public Health	40	53	44	51	37	50	50	46	46	102	22	86	627
Mental Hygiene	73	77	134	142	127	251	137	129	226	233	133	398	2,060
Children and Families	8	125	107	262	103	115	86	87	294	92	96	388	1,763
Temporary & Disability Assistance	126	128	308	156	156	166	(144)	156	168	(144)	125	12	1,213
Transportation	0	14	46	1	14	2	0	13	8	0	12	0	110
All Other	16	42	427	71	58	208	16	59	481	54	53	626	2,111
Total Local Assistance Grants	1,935	3,911	4,535	1,956	1,608	2,947	2,234	2,608	3,985	1,703	2,348	9,356	39,126
Personal Service	669	578	477	684	529	495	615	466	448	521	426	367	6,275
Non-Personal Service	170	206	197	193	209	192	173	160	181	213	198	295	2,387
Total State Operations	839	784	674	877	738	687	788	626	629	734	624	662	8,662
General State Charges	357	1,042	(68)	443	295	(114)	412	285	(53)	325	145	(46)	3,023
Debt Service	228	139	201	36	46	278	22	175	404	3	19	141	1,692
Capital Projects	101	56	54	98	83	111	150	70	221	111	84	(706)	433
Other Purposes	391	336	258	247	258	317	251	291	286	275	172	343	3,425
Total Transfers to Other Funds	720	531	513	381	387	706	423	536	911	389	275	(222)	5,550
TOTAL DISBURSEMENTS	3,851	6,268	5,654	3,657	3,028	4,226	3,857	4,055	5,472	3,151	3,392	9,750	56,361
Excess/(Deficiency) of Receipts over Disbursements	4,730	(4,214)	516	(284)	180	1,540	(1,347)	(2,636)	(440)	4,646	(584)	(2,830)	(723)
CLOSING BALANCE	7,484	3,270	3,786	3,502	3,682	5,222	3,875	1,239	799	5,445	4,861	2,031	2,031

Source: NYS DOB

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

	2007-2008 Actuals*	Medicaid Transparency	2007-2008 Adjusted	2008-2009 Projected	2009-2010 Projected	2010-2011 Projected	2011-2012 Projected
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT							
Agriculture and Markets, Department of	102,118	0	102,118	108,995	110,443	123,940	111,700
Alcoholic Beverage Control	12,293	0	12,293	13,537	14,098	14,400	14,593
Banking Department	59,154	0	59,154	59,011	60,541	61,783	60,413
Consumer Protection Board	2,982	0	2,982	3,732	3,837	3,965	3,852
Economic Development Capital Programs	138,367	0	138,367	117,450	293,675	234,050	110,599
Economic Development, Department of	42,878	0	42,878	60,974	58,631	58,832	58,931
Empire State Development Corporation	280,348	0	280,348	502,020	1,129,470	708,252	666,721
Energy Research and Development Authority	28,944	0	28,944	29,053	29,192	29,390	29,592
Housing and Community Renewal, Division of	290,439	0	290,439	313,861	289,914	290,806	291,939
Insurance Department	206,046	0	206,046	271,547	268,887	271,082	271,082
Olympic Regional Development Authority	6,543	0	6,543	14,169	8,927	9,147	9,373
Public Service, Department of	50,945	0	50,945	58,823	60,947	63,367	65,216
Science, Technology and Innovation, Foundation for	44,350	0	44,350	37,772	36,913	31,156	32,031
Strategic Investment	9,704	0	9,704	8,000	14,000	14,000	10,376
Functional Total	1,275,111	0	1,275,111	1,598,944	2,379,475	1,914,170	1,736,418
PARKS AND THE ENVIRONMENT							
Adirondack Park Agency	5,289	0	5,289	5,843	5,899	5,978	5,978
Environmental Conservation, Department of	925,887	0	925,887	898,011	912,485	913,532	920,613
Environmental Facilities Corporation	18,500	0	18,500	12,089	7,263	7,563	7,563
Hudson River Park Trust	14,370	0	14,370	20,682	15,000	10,000	0
Parks, Recreation and Historic Preservation, Office of	264,710	0	264,710	322,414	291,870	263,343	261,968
Functional Total	1,228,756	0	1,228,756	1,259,039	1,232,517	1,200,416	1,196,122
TRANSPORTATION							
Motor Vehicles, Department of	272,358	0	272,358	313,588	308,156	321,759	330,062
Thruway Authority	1,245	0	1,245	1,734	1,804	1,876	1,951
Metropolitan Transportation Authority	86,371	0	86,371	160,000	195,300	206,500	194,500
Transportation, Department of	6,144,099	0	6,144,099	6,576,057	6,785,709	6,986,004	7,038,865
Functional Total	6,504,073	0	6,504,073	7,051,379	7,290,969	7,516,139	7,565,378
HEALTH AND SOCIAL WELFARE							
Aging, Office for the	234,593	0	234,593	237,037	244,482	252,818	256,964
Children and Family Services, Office of	2,963,884	0	2,963,884	3,139,271	3,309,081	3,508,959	3,664,291
OCFS	2,963,884	(33,505)	2,930,379	3,095,766	3,243,214	3,397,165	3,531,690
OCFS - Medicaid	0	33,505	33,505	43,505	65,867	111,794	132,601
Health, Department of	36,497,883	0	36,497,883	37,567,315	40,588,072	43,035,036	45,928,866
Medical Assistance	31,040,404	0	31,040,404	31,737,487	34,303,301	36,546,627	39,262,169
Medicaid Administration	838,272	0	838,272	853,000	887,000	922,500	959,250
DOH - Other	4,619,207	0	4,619,207	4,976,828	5,397,771	5,565,909	5,707,447
Health - Medicaid Assistance	0	0		0	0	0	0
Human Rights, Division of	16,007	0	16,007	16,890	17,759	17,898	17,957
Labor, Department of	477,139	0	477,139	502,000	490,728	499,739	507,237
Medicaid Inspector General, Office of	41,501	0	41,501	85,586	90,072	91,395	95,070
Prevention of Domestic Violence, Office for	2,432	0	2,432	2,501	2,532	2,568	2,578
Stem Cell and Innovation	163	0	163	49,950	96,450	93,250	46,600

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

	2007-2008 Actuals*	Medicaid Transparency	2007-2008 Adjusted	2008-2009 Projected	2009-2010 Projected	2010-2011 Projected	2011-2012 Projected
HEALTH AND SOCIAL WELFARE (Continued)							
Temporary and Disability Assistance, Office of	4,718,347	0	4,718,347	4,542,915	4,622,877	4,628,314	4,636,021
Welfare Assistance	3,217,951	0	3,217,951	3,053,619	3,117,868	3,117,781	3,118,781
Welfare Administration	369,646	0	369,646	369,982	371,907	371,907	371,907
All Other	1,130,750	0	1,130,750	1,119,314	1,133,102	1,138,626	1,145,333
Welfare Inspector General, Office of	1,073	0	1,073	1,279	1,319	1,367	1,385
Workers' Compensation Board	156,166	0	156,166	146,112	149,930	154,904	154,904
Functional Total	45,109,188	0	45,109,188	46,290,856	49,613,302	52,286,248	55,311,873
MENTAL HEALTH							
Mental Health, Office of	2,548,566	(43,162)	2,505,404	2,615,089	2,880,892	3,034,587	3,127,134
OMH	2,548,566	(1,380,312)	1,168,254	1,277,939	1,467,186	1,544,340	1,608,375
OMH - Medicaid	0	1,337,150	1,337,150	1,337,150	1,413,706	1,490,247	1,518,759
Mental Hygiene, Department of	237	5,819	6,056	7,500	7,500	7,500	7,500
Mental Retardation and Developmental Disabilities, Office of	3,395,320	46,098	3,441,418	3,481,965	3,688,882	3,844,094	3,930,132
OMRDD	3,395,320	(3,028,003)	367,317	407,864	411,727	419,704	422,650
OMRDD - Medicaid	0	3,074,101	3,074,101	3,074,101	3,277,155	3,424,390	3,507,482
Alcoholism and Substance Abuse Services, Office of	597,901	(8,755)	589,146	614,777	709,353	725,141	741,900
OASAS	597,901	(75,276)	522,625	548,256	642,322	657,533	673,871
OASAS - Medicaid	0	66,521	66,521	66,521	67,031	67,608	68,029
Developmental Disabilities Planning Council	5,022	0	5,022	3,617	3,617	3,617	3,617
Quality of Care for the Mentally Disabled, Commission on	12,661	0	12,661	15,194	16,712	16,887	16,921
Functional Total	6,559,707	0	6,559,707	6,738,142	7,306,956	7,631,826	7,827,204
PUBLIC PROTECTION							
Capital Defenders Office	1,035	0	1,035	388	0	0	0
Correction, Commission of	2,767	0	2,767	2,710	2,766	2,829	2,861
Correctional Services, Department of	2,720,406	0	2,720,406	2,752,368	2,839,663	2,929,267	2,997,976
Crime Victims Board	63,778	0	63,778	61,833	61,989	62,197	62,252
Criminal Justice Services, Division of	294,747	0	294,747	312,170	248,188	245,006	241,841
Homeland Security	63,963	0	63,963	200,324	371,597	298,530	564,310
Investigation, Temporary State Commission of	3,663	0	3,663	4,159	0	0	0
Judicial Commissions	3,925	0	3,925	5,075	5,220	5,367	5,470
Military and Naval Affairs, Division of	441,185	0	441,185	405,548	196,890	162,251	177,294
Parole, Division of	208,618	0	208,618	204,249	217,889	236,316	241,117
Probation and Correctional Alternatives, Division of	74,662	0	74,662	81,581	79,843	79,932	79,622
State Police, Division of	643,054	0	643,054	625,365	626,757	622,456	612,754
Functional Total	4,521,803	0	4,521,803	4,655,770	4,650,802	4,644,151	4,985,497

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

	2007-2008 Actuals*	Medicaid Transparency	2007-2008 Adjusted	2008-2009 Projected	2009-2010 Projected	2010-2011 Projected	2011-2012 Projected
EDUCATION							
Arts, Council on the	53,425	0	53,425	54,617	54,861	54,934	55,032
City University of New York	1,100,593	0	1,100,593	1,281,625	1,341,678	1,408,697	1,436,039
Education, Department of	28,879,203	0	28,879,203	30,876,987	33,342,452	36,280,748	38,486,605
School Aid	21,543,493	(80,000)	21,463,493	23,263,833	24,991,450	27,303,570	29,177,570
School Aid - Medicaid Assistance	0	80,000	80,000	80,000	80,000	80,000	80,000
STAR Property Tax Relief	4,657,721	0	4,657,721	4,692,899	5,383,170	5,909,569	6,195,582
Special Education Categorical Programs	1,623,565	0	1,623,565	1,729,690	1,828,590	1,889,590	1,968,090
All Other	1,054,424	0	1,054,424	1,110,565	1,059,242	1,098,019	1,065,363
Higher Education Services Corporation	950,356	0	950,356	924,791	936,989	939,607	941,163
Higher Education Capital Grants	0	0	0	50,000	40,000	30,000	30,000
State University Construction Fund	12,229	0	12,229	13,857	14,311	14,923	15,069
State University of New York	5,725,371	0	5,725,371	5,852,817	6,016,794	6,198,131	6,244,132
Functional Total	36,721,177	0	36,721,177	39,054,694	41,747,085	44,927,040	47,208,040
GENERAL GOVERNMENT							
Audit and Control, Department of	249,088	0	249,088	264,664	269,326	275,408	277,761
Budget, Division of the	38,216	0	38,216	89,462	84,010	90,181	89,680
Civil Service, Department of	24,868	0	24,868	24,391	25,172	26,222	26,458
Elections, State Board of	14,108	0	14,108	78,157	190,362	9,435	9,552
Employee Relations, Office of	3,613	0	3,613	4,262	4,354	4,537	4,577
Executive Chamber	20,167	0	20,167	21,061	22,081	23,238	23,908
General Services, Office of	221,618	0	221,618	232,550	237,306	241,552	239,517
Inspector General, Office of	6,416	0	6,416	7,184	7,466	7,730	7,812
Law, Department of	189,357	0	189,357	221,073	228,152	235,930	240,912
Lieutenant Governor, Office of the	1,314	0	1,314	126	0	328	1,314
Lottery, Division of	207,420	0	207,420	176,677	181,287	186,063	186,063
Public Employment Relations Board	3,657	0	3,657	4,284	4,404	4,555	4,602
Public Integrity, Commission on	1,733	0	1,733	5,359	5,446	5,569	5,927
Racing and Wagering Board, State	19,197	0	19,197	16,908	17,506	17,941	17,925
Real Property Services, Office of	51,994	0	51,994	52,077	53,048	54,088	55,057
Regulatory Reform, Governor's Office of	3,850	0	3,850	3,371	3,482	3,592	3,592
State, Department of	189,497	0	189,497	180,851	156,093	156,768	152,902
Tax Appeals, Division of	3,325	0	3,325	3,259	3,336	3,426	3,426
Taxation and Finance, Department of	376,148	0	376,148	363,096	375,297	385,121	385,176
Technology, Office for	21,468	0	21,468	75,036	152,340	214,243	194,327
Lobbying, Temporary State Commission on	1,093	0	1,093	0	0	0	(332)
Veterans Affairs, Division of	15,161	0	15,161	17,883	17,034	16,818	16,381
Functional Total	1,663,308	0	1,663,308	1,841,731	2,037,502	1,962,745	1,946,537
ALL OTHER CATEGORIES							
Legislature	216,946	0	216,946	219,279	221,931	221,974	221,974
Judiciary (excluding fringe benefits)	1,794,754	0	1,794,754	1,826,099	1,972,558	2,116,876	2,247,264
World Trade Center	39,755	0	39,755	80,000	70,000	35,000	32,500
Local Government Assistance	917,495	0	917,495	1,241,893	1,405,395	1,481,724	1,477,164
Long-Term Debt Service	4,104,001	0	4,104,001	4,652,161	5,158,092	5,803,370	6,146,358
General State Charges	5,475,909	0	5,475,909	5,428,324	5,939,542	6,275,959	6,673,026
Miscellaneous	(75,576)	0	(75,576)	(332,000)	(228,842)	15,847	(75,665)
Functional Total	12,473,284	0	12,473,284	13,115,756	14,538,676	15,950,750	16,722,621
TOTAL ALL GOVERNMENTAL FUNDS SPENDING	116,056,407	0	116,056,407	121,606,311	130,797,284	138,033,485	144,499,690

**Unaudited Year-end Results*
Source: NYS DOB

GAAP-Basis Financial Plans/GASB Statement 45

In addition to the cash-basis Financial Plans, the General Fund and All Funds Financial Plans are prepared on a basis of GAAP in accordance with Governmental Accounting Standards Board (GASB) regulations. DOB's GAAP projections, which are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2006-07, are for informational purposes only and are not relied on for budget management or execution.

In 2008-09, the General Fund GAAP Financial Plan shows total revenues of $45.0 billion, total expenditures of $55.7 billion, and net other financing sources of $10.0 billion, resulting in an operating deficit of $1.7 billion. These changes are due primarily to the use of a portion of the prior year surplus to support 2008-09 operations, as well as economic conditions on revenue accruals.

The GAAP basis results for 2006-07 showed the State in a net positive overall asset condition of $48.9 billion. The net positive asset condition is before the State reflects the impact of GASB 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions." GASB 45 requires State and local governments to reflect the value of post-employment benefits, predominantly health care, for current employees and retirees beginning with the financial statements for the 2007-08 fiscal year.

The State used an independent actuarial consulting firm to calculate retiree health care liabilities. Assuming there is no pre-funding of this liability, the analysis indicates that the present value of the actuarial accrued total liability for benefits to date would be roughly $50 billion, using the level percentage of projected payroll approach under the Frozen Entry Age actuarial cost method. This is the actuarial methodology recommended to be used to implement GASB 45 by OSC. The actuarial accrued liability was calculated using a 4.155 percent annual discount rate.

The State's total unfunded liability will be disclosed in the 2007-08 basic financial statements. While the total liability is substantial, GASB rules indicate it may be amortized over a 30-year period; therefore, only the annual amortized liability above the current pay-as-you-go costs would be recognized in the financial statements. Assuming no pre-funding, the 2007-08 liability would total roughly $3.8 billion under the Frozen Entry Age actuarial cost method amortized based on a level percent of salary, or $2.7 billion above the current pay-as-you-go retiree costs. This difference between the State's pay-as-you-go costs and the actuarially determined required annual contribution under GASB 45 would reduce the State's currently positive net asset condition.

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 pay-as-you-go basis. Anticipated increases in these costs are reflected in the State's multi-year Financial Plan as detailed below.

History and Forecast of New York State Employee Health Insurance Costs (millions of dollars)

	Health Insurance		
Year	**Active Employees**	**Retirees**	**Total State**
1999-00	777	466	1,243
2000-01	876	521	1,397
2001-02	937	565	1,502
2002-03	1,023	634	1,657
2003-04	1,072	729	1,801
2004-05	1,216	838	2,054
2005-06	1,331	885	2,216
2006-07	1,518	913	2,431
2007-08	1,566	988	2,554
2008-09	1,652	1,039	2,691
2009-10	1,790	1,129	2,919
2010-11	1,950	1,233	3,183
2011-12	2,127	1,347	3,474

All numbers reflect the cost of Health Insurance for General State Charges (Executive and Legislative branches) and the Office of Court Administration; actuals through 2007-08.

As noted, the current Financial Plan does not assume pre-funding of the GASB 45 liability. If such liability was fully funded, the total unfunded liability would be reduced from $50 billion to $28 billion, and the additional cost above the pay-as-you-go amounts would be $1.5 billion in 2007-08. The State's Health Insurance Council, which consists of the Governor's Office of Employee Relations (GOER), Civil Service, and DOB will continue to review this matter, seek input from the State Comptroller, the legislative fiscal committees and outside parties, and provide options for consideration.

DOB's detailed GAAP Financial Plan for 2008-09 is provided below.

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Revenues:					
Taxes	40,168	8,200	2,110	12,984	63,462
Patient fees	0	0	0	587	587
Miscellaneous revenues	4,757	5,074	131	25	9,987
Federal grants	41	36,484	1,993	0	38,518
Total revenues	44,966	49,758	4,234	13,596	112,554
Expenditures:					
Grants to local governments	40,419	47,437	570	0	88,426
State operations	12,405	1,719	0	61	14,185
General State charges	3,848	340	0	0	4,188
Debt service	0	0	0	3,718	3,718
Capital projects	1	2	7,515	0	7,518
Total expenditures	56,673	49,498	8,085	3,779	118,035
Other financing sources (uses):					
Transfers from other funds	15,602	2,535	585	5,641	24,363
Transfers to other funds	(5,968)	(3,185)	(1,235)	(15,383)	(25,771)
Proceeds of general obligation bonds	0	0	473	0	473
Proceeds from financing arrangements/ advance refundings	393	0	3,864	0	4,257
Net other financing sources (uses)	10,027	(650)	3,687	(9,742)	3,322
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	(1,680)	(390)	(164)	75	(2,159)

Source: NYS DOB

Special Considerations

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

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" in this AIS.

DOB believes that its projections of receipts and disbursements relating to the current State 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 for 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. The most significant current risks include the following:

Risks to the Economic Forecast

DOB expects the current recession to be relatively mild, though there are a number of risks to the forecast. The disruption to financial markets caused by subprime-related debt could be much worse than anticipated, further delaying the recovery of the financial sector. The downturn in both the residential and commercial real estate markets could be deeper and last longer than anticipated. In addition, volatile food and energy prices could push inflation even higher than projected, tying the Federal Reserve’s hands and effectively placing a tax on households, causing household spending to slow even further than expected. The global economy could slow further than anticipated in response to the U.S. downturn, depressing demand for U.S. exports and putting additional downward pressure on corporate earnings. Slower corporate earnings growth than expected could further depress equity markets, delaying their recovery and that of Wall Street. On the other hand, lower energy prices or stronger global growth than anticipated could result in stronger economic growth than is reflected in the forecast.

All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation’s financial capital, financial market uncertainty poses a particularly large degree of risk for New York. New York's tax revenues are more reliant on the financial sector of the economy than are other states and other regions of the nation. The full extent of the losses associated with subprime debt still remains to be seen. Higher losses than anticipated could result in a further delay in the recovery of Wall Street profits and bonuses. A more severe national recession than expected could prolong the State's downturn, producing weaker employment and wage growth than projected. Should core inflation significantly accelerate, the Federal Reserve may feel compelled to reverse course and raise rates, which traditionally has adverse effects on the State economy. Moreover, weaker equity and real estate activity than anticipated could negatively affect household spending and taxable capital gains realizations. These effects could ripple through the economy, further depressing both employment and wage growth. In contrast, should the national and world economies grow faster than expected, a stronger upturn in stock prices, along with even stronger activity in mergers and acquisitions and other Wall Street activities, could result in higher wage and bonuses growth than projected.

Labor Settlements

The State has reached labor settlements with four labor unions: CSEA; PEF; UUP; and District Council 37, and extended comparable changes in pay and benefits to M/C employees. 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 will receive pay increases of 3 percent annually in 2007-08, 2008-09, and 2009-10 and 4 percent in 2010-11.

The State's Financial Plan funds the costs of current contracts in 2008-09 through the use of $620 million of the $1.1 billion in existing reserves available at the start of the fiscal year for this purpose.

DOB estimates the General Fund costs of the agreements at $620 million in 2008-09, $775 million in 2009-10, and $1.2 billion in both 2010-11 and 2011-12. The current Financial Plan includes these costs.

The unions representing uniformed officers (e.g., Police Benevolent Association, New York State Correctional Officers and Police Benevolent Association), the union representing graduate students (Graduate Student Employees Union), and CUNY employees have not reached settlements at this time. DOB estimates that if all remaining unsettled unions were to agree to the same terms that have been ratified by CSEA, it would result in added costs of $200 million in 2008-09, $185 million in 2009-10, and $264 million in both 2010-11 and 2011-12.

School Supportive Health Services

The Office of the Inspector General (OIG) of the United States DOH and Human Services conducted six audits of aspects of New York State's School Supportive Health Services program with regard to Medicaid reimbursement. The audits cover $1.4 billion in claims submitted between 1990 and 2001. To date, OIG has issued four final audit reports, which cover claims submitted by upstate and New York City school districts for speech pathology and transportation services. The final audits recommend that the Centers for Medicare and Medicaid Services (CMS) disallow $173 million of the $362 million in claims for upstate speech pathology services, $17 million of $72 million for upstate transportation services, $436 million of the $551 million in claims submitted for New York City speech pathology services, and $96 million of the $123 million for New York City transportation services. New York State disagrees with the audit findings on several grounds and has requested that they be withdrawn. If the recommended disallowances are not withdrawn, the State expects to appeal.

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

Proposed Federal Rules on Medicaid Funding

On May 25, 2007, CMS issued a final rule that, if implemented, would significantly curtail Federal Medicaid funding to public hospitals (including New York City's Health and Hospital Corporation (HHC)) and programs operated by both the State OMRDD and the State OMH. The rule seeks to restrict State access to Federal Medicaid resources by changing the upper payment limit for certain rates to actual facility reported costs. It is estimated that this rule could result in a loss of $350 million annually in Federal funds for HHC and potentially larger losses in aid for the State Mental Hygiene System.

On May 23, 2007, CMS issued another rule that would eliminate Medicaid funding for graduate medical education (GME). The proposed rule clarifies that costs and payments associated with GME programs are not expenditures of Medicaid for which Federal reimbursement is available. This rule could result in a Financial Plan impact of up to $600 million since the State would be legally obligated to pay the lost non-Federal share.

The states affected by these regulations are challenging such adoption on the basis that CMS is overstepping its authority and ignoring the intent of Congress. As a result, Congress passed a one-year moratorium barring implementation of these proposed rule changes. The moratorium expires on May 29, 2008.

CMS has proposed other regulations that could pose a risk to the State's Financial Plan beyond those addressed by the moratorium. On February 22, 2008, CMS issued a change to the rules that regulate State taxation of healthcare entities, effective April 22, 2008. The rule affords CMS flexibility in identifying a "linkage" between provider taxes and Medicaid payments rendering the tax invalid. The State currently uses a substantial amount of provider tax receipts to finance various healthcare programs that serve the State's most vulnerable populations. While the State strongly believes that its imposed taxes are in full compliance, the vagueness of the new rules provides no assurance that these funding streams are adequately protected.

CMS has also issued a rule regarding targeted case management which clarifies the definition of covered services. The final rule was issued on December 4, 2007 and made effective March 3, 2008. The State is currently in the process of litigating this issue and has requested a one-year implementation extension.

Further, CMS proposes to restrict Medicaid reimbursement for hospital outpatient services and restrict coverage to rehabilitative services, which could pose a risk to the Financial Plan and result in hundreds of millions of dollars in reduced Federal-share funding. However, the State argues that the proposed regulation regarding outpatient services is in direct violation of the current moratorium.

On all of these rules, the State is actively lobbying the Federal government to be held harmless, either through an extension/modification of the current moratorium or through other administrative or statutory means.

Variable Rate Debt

In recent months, the market for municipal auction rate securities and certain variable rate demand bonds has been disrupted by, among other things, credit rating downgrades to certain municipal bond insurers, investor concerns over liquidity and the level of participation of investment banks in the operation of the market. The disruption has not had a material impact on State debt service costs. The State is substantially reducing its exposure to auction rate securities and to variable-rate demand bonds that carry insurance from bond insurers that have been subject to credit rating downgrades. DOB expects the adjustments to its variable rate portfolio will be completed by the end of the first quarter of fiscal year 2008-09.

SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENTS

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SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENTS

The following are summaries of the Financing Agreement (State Project) and the Financing Agreement (Voluntary Agency Project), referred to in each summary as the "Agreement." Such summaries do not purport to be complete and reference is made to the Agreements for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

A. SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENT (STATE PROJECT)

AUTHORITY FOR AGREEMENT; SUPPLEMENTAL FINANCING AGREEMENTS; GENERAL PROVISIONS

Authority for Agreement

The Agreement is authorized by subdivision 4 of Section 9 of the Facilities Development Corporation Act and subdivision 2 of Section 7419-a of the Agency Act, and shall be deemed to be and shall constitute an agreement between the Agency and the Corporation referred to in such subdivisions. For purposes of the Resolution, the Agreement shall be the "Financing Agreement (State Project)," the Annual Payments provided for thereunder shall constitute "Annual Payments," and each Supplemental Financing Agreement shall constitute a "Supplemental Financing Agreement," as each of said terms is defined and used in the Resolution.
(Section 1.02)

Supplemental Financing Agreements

The State Facilities to be designed, constructed, acquired, reconstructed, rehabilitated, improved, equipped, financed, refinanced and used as part of the State Project pursuant to the provisions of the Agreement; the Cost of the Project with respect to such State Facilities to be financed or refinanced by the Authority; the installment amounts and period of the Annual Payments to be paid to the Authority; and the Financing Terms and all details thereof and with respect thereto shall be as prescribed and defined in one or more Supplemental Financing Agreements by and between the Authority and the Department, which, upon the execution and approval thereof, in the manner required by law, shall thenceforth constitute a part of the Agreement with the same force and effect as if incorporated in the Agreement. Any such Supplemental Financing Agreement may add additional covenants and agreements between the parties to the Agreement, provided such additional covenants and agreements are not contrary to or inconsistent with the rights of the Holders of the Bonds and holders of Parity Reimbursement Obligations deriving from the Agreement and the Resolution. To the extent required by law, no Supplemental Financing Agreement shall be entered into unless there shall have been made a certification by the Director of the Budget of the State of the availability of required appropriation authority. All State Facilities financed or refinanced as provided for in a Supplemental Financing Agreement shall be part of the State Project. *(Section 1.03)*

Certain Provisions of Agreement Executory

The provisions of the Agreement requiring the payment to and expenditure of moneys by the Authority (other than proceeds of the Bonds and other moneys held under the Resolution) shall be deemed executory only to the extent of the moneys made available for such purposes by the State Legislature, and no monetary liability on account thereof shall be incurred beyond moneys legally made available by the State Legislature for such payments and expenditures. The provisions of the Agreement requiring the expenditure of moneys by the Authority for the financing or refinancing of the Cost of the Project with respect to State Facilities shall be deemed executory to the extent that the Authority shall have moneys derived from the proceeds of sale of Bonds and other moneys held under the Resolution and available for such purposes as provided in the Resolution, and no monetary liability on account thereof shall be incurred by the Authority except as aforestated. *(Section 2.01)*

Covenants for Benefit of Holders of Bonds

The Agreement is executed in part in order to induce the purchase by others of Bonds of the Authority to be issued to finance or refinance the Cost of the Project with respect to the State Facilities and for the purposes of securing such Bonds and, accordingly, all of the covenants and agreements on the part of the Authority and the Department set forth in Articles V and VI of the Agreement are declared to be for the benefit of the Holders from time to time of the Bonds.

Except as otherwise expressly provided in the Agreement or in the Resolution, particularly with respect to the rights of Bondholders, nothing in the Agreement, expressed or implied, is intended, or shall be considered, to confer upon any person, firm or corporation, other than Authority, the Department and the Trustee, any right, remedy or claim, legal or equitable, under or by reason of the Agreement or any provision thereof. *(Section 2.02)*

Pledge and Assignment

The Authority may pledge, assign, and transfer the right to receive and collect all or a portion of the Annual Payments, in the Resolution, together with the Authority's rights to enforce the provisions of Articles V and VI of the Agreement, and from and after such pledge, assignment, or transfer, such assignee shall have the Authority's rights and privileges under the Agreement to the extent, and as conferred, in such pledge, assignment, and transfer; provided, however, that the pledge and assignment of the right to receive and collect Annual Payments shall be subject and junior and subordinate to the prior right of the Authority to receive and collect the Prior Authority Annual Payments, which right is subject and junior and subordinate to the prior right of the Authority to receive and collect the Prior Agency Annual Payments. *(Section 2.03)*

CONSTRUCTION, USE AND OPERATION OF STATE FACILITIES

Construction of State Facilities

The Authority agrees that with respect to each State Facility described in a Supplemental Financing Agreement, the Authority will design (including preparation of the Plans and Specifications for such State Facility), construct, acquire, reconstruct, rehabilitate, improve or equip such State Facility, or cause such State Facility to be designed, constructed, acquired, reconstructed, rehabilitated, improved, equipped, substantially in accordance with the Plans and Specifications for such State Facility and in compliance with the Facilities Development Corporation Act. The Authority further agrees that it will use its best efforts to cause such design, construction, acquisition, reconstruction, rehabilitation, improvement and equipping to be completed as soon as may be practicable, delays incident to strikes, riots, acts of God, the public enemy or any delay beyond its reasonable control only excepted; but if for any reason such design, construction, acquisition, reconstruction, rehabilitation, improvement or equipping is delayed there shall be no resulting liability on the part of the Authority and no diminution in or postponement of the amounts payable under the Agreement.

The Authority makes no warranties or representations and accepts no liabilities or responsibilities with respect to or for the adequacy, sufficiency or suitability of or defects in the Plans and Specifications or any contracts or agreements with respect to the design, construction, acquisition, reconstruction, rehabilitation, improvement and equipping of any State Facility or the furnishing and equipping thereof. *(Section 3.01)*

Construction Costs

The Authority in the Resolution is authorized to, and shall, make payments from the State Project Account in the Construction Fund to pay the Costs of the Project with respect to each State Facility or to reimburse the State for Costs of the Project with respect to each State Facility paid by the State upon the written approval of an Authorized Officer of the Authority stating with respect to each payment to be made (i) the State Facility in connection with which payment is to be made, (ii) the names of the payees, (iii) the purpose for which such payment is to be made in terms sufficient for identification, (iv) the respective amount of each such payment, and (v) that such purpose constitutes a proper purpose for which moneys in the Construction Fund may be applied and has not been the basis of any previous withdrawal from the Construction Fund.

The Authority, subject to the tax covenant contained in the Agreement, may reapply at any time prior to the filing of the certificate described in subdivision 5 of Section 5.04 of the Resolution as to the completion of the State Facilities comprising the State Project the moneys held in the State Project Account in the Construction Fund for the payment of Cost of the Project with respect to a State Facility to the payment of Costs of the Project with respect to any other State Facility previously or subsequently specified to be financed or refinanced pursuant to a

Supplemental Financing Agreement. Such reapplication of amounts shall be described in a Supplemental Financing Agreement to be entered into prior to, at the time of, or subsequent to such reapplication. *(Section 3.02)*

Possession, Use, Operation, Maintenance, Repair and Replacement of State Facilities

The Authority shall hold possession of each State Facility unless (i) the State Facility or some portion thereof is disposed of in accordance with the terms of the Agreement or (ii) the possession of any State Facility or portion thereof is permitted by State law to not be held by the Authority and the Authority and the Department agree that the Authority shall not hold possession of such State Facility. As soon as practicable after the completion of work on a State Facility, the Authority shall make available such State Facility to the Department for the purposes intended by, and in accordance with, the terms and provisions of the Agreement.

The Department covenants and agrees that during the use by the Department of each State Facility, the Department shall be responsible for the maintenance and upkeep of such property, for the maintenance and routine repair of the facility represented by each such State Facility, and for the replacement of furnishings, equipment, apparatus and machinery therein.

Except as otherwise provided for by the Agreement, there shall be made available to pay the cost of repairs and replacements of a State Facility and its equipment the proceeds of insurance or condemnation, if any, received by reason of the damage necessitating such repairs or replacements. *(Section 3.03)*

Abandonment of a State Facility

Subject to compliance with any applicable provisions of the Prior Agency Resolution, any applicable provisions of the Prior Authority Resolution and the tax covenants in the Agreement and applicable State law, if the Authority is required for any reason to abandon the design, construction, acquisition, reconstruction, rehabilitation, improvement and equipping of any part or portion of a State Facility, or if the Department shall fail to use or shall cease to use any part or portion of a State Facility whether by abandonment, demolition or otherwise, or if a State Facility is amended by a Supplemental Financing Agreement to withdraw any part or portion of such State Facility (any of which events shall be called an "abandonment" in the Agreement), the proceeds of the Bonds allocable to such State Facility (the "allocable proceeds" for purposes of this paragraph) and held in the Construction Fund may be applied to the financing of Cost of the Project with respect to other State Facilities as provided in a Supplemental Financing Agreement but only to the extent there is no reduction or diminution in the payment of the Annual Payments under the Agreement; otherwise the allocable proceeds held in the Construction Fund shall be applied to redeem, purchase or defease such Bonds and the Annual Payments may be reduced to reflect such redemption, purchase or defeasance. *(Section 3.04)*

Sale of a State Facility

Subject to compliance with any applicable provisions of the Prior Agency Resolution, any applicable provisions of the Prior Authority Resolution and the tax covenants in the Agreement and applicable State law, a State Facility may be sold for such amount and upon such terms as the Authority and the Department may agree. The parties to the Agreement agree that for purposes of the provisions of State law or of any deed, lease or other conveyance requiring that an amount (the "Allocable Amount") be paid to the Authority as a condition precedent to any reversion to the State with a right of reentry to any State Facility which ceases to be used for the purposes intended, the following shall apply: (i) the Allocable Amount shall be the amount which, together with interest earnings thereon, shall be sufficient to provide for the payment or retirement, whether by redemption, purchase or defeasance or a combination thereof, of the principal amount of the Outstanding Bonds allocable to such State Facility and interest thereon to the redemption, purchase or maturity date or dates thereof; (ii) the Allocable Amount shall represent the purchase price of real property, any interest in real property, and improvements, the depreciated cost of any facility or facilities constructed, reconstructed, rehabilitated or improved thereon, and all other costs of the Authority incident to the acquisition of such real property, interest in real property, and the financing of construction, reconstruction, rehabilitation or improvement relating to such facility or facilities; and (iii) the Allocable Amount may be paid as follows: (a) the amount to be received by the Authority at the time of the sale (the "Disposition Amount") and (b) if the Disposition Amount is less than the Allocable Amount, the amount to be received by the Authority through the continued payment of Annual Payments (the "Remaining Amount"). The Disposition Amount shall be the amount actually received by the Authority upon the sale of the State Facility up to the Allocable Amount. The Remaining Amount shall be equal to the remaining Annual Payments required to be paid pursuant to the Agreement, including amounts necessary to pay the debt service on the Bonds issued to finance or refinance the Cost of the Project with respect to the State Facility or a portion thereof being sold which remain Outstanding after application of the Disposition Amount to the redemption, purchase or defeasance of such principal amount of such Bonds as can be redeemed, purchased or defeased. As a condition of the conveyance of such State Facility, the Department shall confirm the right of the Authority to receive the Remaining Amount at the times and in the amounts set forth in the Agreement and any applicable Supplemental Financing Agreements as the same may be amended, subject to all provisions of the Agreement.

The Disposition Amount paid to the Authority in connection with the sale or other disposition of a State Facility up to the Allocable Amount shall be deposited to the credit of the Construction Fund and used to pay the Cost of the Project with respect to other State Facilities, or applied to the redemption, purchase or defeasance of all or such portion of the Outstanding Bonds issued in connection with such State Facility, in accordance with the written direction of an Authorized Officer of the Authority. Subject to compliance with the tax covenants in the Agreement, in lieu of the redemption or purchase or defeasance of all or such portion of the Outstanding Bonds issued in connection with the State Facility to be sold, the amount received by the Authority in connection with the sale of such State Facility may be applied to the redemption or purchase of all or such portion of the Outstanding Bonds issued in connection with any other State Facility. In the event of any redemption, purchase or defeasance of any Outstanding Bonds pursuant to the Agreement, the Annual Payments may be reduced to reflect such redemption, purchase or defeasance.

In the event the amount paid to the Authority upon sale of a State Facility for the redemption, purchase or defeasance of any Outstanding Bonds, after taking into account such moneys as may be available under the Resolution, shall be insufficient to maintain compliance with the agreements and covenants in the Agreement, there shall be paid to the Authority, subject to all provisions of the Agreement, such amount as shall be necessary to cure the non-compliance. *(Section 3.05)*

Loss of Use of a State Facility

Subject to compliance with any applicable provisions of the Prior Agency Resolution, any applicable provisions of the Prior Authority Resolution and the tax covenants in the Agreement and applicable State law, in case a State Facility or part thereof is taken by eminent domain or condemnation, or damaged or destroyed, then and in such event:

(a) if, within one hundred and twenty (120) days from the occurrence, the Department notifies the Authority in writing of its intention to replace or restore such State Facility, the Department shall proceed to replace or restore such State Facility, including all fixtures, furniture, equipment and effects, to its original condition insofar as possible. The moneys required for such replacement or restoration shall be paid from the proceeds of any condemnation award or insurance received by reason of such occurrence, and to the extent such proceeds are not sufficient, from moneys to be provided or caused to be provided by the Department; or

(b) if the Authority has not within such one hundred and twenty (120) day period been notified in writing of the intention of the Department to restore or replace such State Facility or if the Department determines not to restore or replace such State Facility, the Authority in its discretion may determine that such State Facility has been abandoned. In such event, the proceeds of any condemnation award or insurance received by reason of such occurrence shall be applied and paid in the same manner and order of priority as provided for the proceeds of the sale of such State Facility pursuant to the Agreement. *(Section 3.06)*

Right of Inspection

The Authority shall have the right to enter upon, inspect and examine each State Facility at any reasonable time upon prior notice to the Department; provided that no such notice shall be required if the Authority in its sole judgment determines that such inspection is to be made because of the existence of a situation which poses an imminent danger to the public or the occupants of such State Facility or which otherwise constitutes an emergency. *(Section 3.07)*

Compliance with Laws and Regulations

In the performance of its obligations under the Agreement, the Authority and the Department shall comply with all applicable laws, regulations and rules of the Government of the United States of America and the State of New York, the rules and regulations of the National Board of Fire Underwriters and any requirement of an insurance company relating to a State Facility so long as such company is writing insurance on such State Facility. *(Section 3.08)*

Environmental Quality Review and Historic Preservation

For the purpose of assisting the Authority in making any findings or determinations which might be required by (i) SEQR or (ii) the New York State Historic Preservation Act of 1980 and the regulations promulgated thereunder (collectively, the "Preservation Act"), the Department agrees as follows:

(a) to prepare such documents, if any, as the Authority or other governmental body having primary responsibility under SEQR or the Preservation Act determines are required by SEQR or the Preservation Act, in such form and containing such information in such detail as the Authority or such other governmental body determines is required by SEQR or the Preservation Act; and

(b) to file such documents with, or send such documents to, the persons or places required by SEQR or the Preservation Act or the Authority, and to present documentation of such filing or sending in such form as is satisfactory to an Authorized Officer of the Authority. *(Section 3.09)*

FINANCING PROVISIONS

Issuance of Bonds; Purposes

The Authority shall use its best efforts to authorize, issue, sell and deliver the Bonds, in accordance with the provisions of the Resolution, in aggregate principal amounts which, together with other moneys available therefor, are sufficient to pay the Costs of the Project with respect to each State Facility. In addition to providing for the Costs of the Project with respect to each State Facility, it is understood that the Resolution provides, and it is agreed, that the Authority may issue Bonds for one or more of the following purposes: (i) paying the Costs of Issuance of Bonds, (ii) refunding Bonds or other bonds, notes or other obligations of the Authority issued in connection with the State Project, (iii) refunding Prior Agency Bonds; and refunding Prior Authority Bonds. *(Section 4.01)*

FINANCIAL OBLIGATIONS; CERTAIN COVENANTS

Payments

As consideration for the financing or refinancing of the State Project as provided in the Agreement, there shall be paid to the Authority the Annual Payments specified in all Supplemental Financing Agreements relating to State Facilities. Concurrently with the execution of each Supplemental Financing Agreement, the Authority will have been deemed to have financed or refinanced the State Facility or State Facilities specified in such Supplemental Financing Agreement.

The agreement and obligation to pay installments of the Annual Payments, in the amount and manner, and at the time and place, in the Agreement and in the applicable Supplemental Financing Agreement provided, is and shall be absolute and unconditional, subject to the executory provisions of the Agreement contained in the Agreement. Each Annual Payment shall be due and payable (except to the extent of any credit therefor under the Agreement and the Resolution), and shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non happening of any event, irrespective of any defense or any rights of setoff, recoupment or counterclaim any person may otherwise have against the Authority, the Trustee or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Authority to complete any State Facility or the completion thereof with defects, failure of the Department to occupy or use any State Facility, any damage or destruction or condemnation of all or part of any State Facility, any abandonment of any State Facility, any declaration or finding that the Bonds, the Agreement or the Resolution are invalid or unenforceable, or any other failure or default by the Authority or the Trustee. *(Section 5.01)*

Amount and Payment of Annual Payments

(a) Unless otherwise provided for in a Supplemental Financing Agreement, Annual Payments shall be payable to the Authority in the amounts and manner and on the dates set forth below:

(i) The amount determined by an Authorized Officer of the Authority as required to be held under the Resolution on the delivery date of any Series of Bonds, promptly after notice of the amount thereof is given to the Department;

(ii) The amount determined by an Authorized Officer of the Authority as required to be rebated to the Department of the Treasury of the United States of America in excess of the amount available therefor in the Arbitrage Rebate Fund, within fifteen (15) days after notice of the amount thereof is given to the Department;

(iii) At least five days prior to the first day of a month, the amount, if any, as shall be necessary to provide for the payment by the Authority of reimbursements, other than fees and charges, which are payable to each Facility Provider during such month;

(iv) On February 10 of each Bond Year with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is fixed and is payable semiannually on February 15 or August 15, an amount equal to: (A) the interest payable on such Bonds and Parity Reimbursement Obligations on or prior to the next succeeding February 15; and (B) the principal (whether by maturity, redemption or acceleration) and Sinking Fund Installments of such Bonds and Parity Reimbursement Obligations payable on the next succeeding February 15;

(v) On August 10 of each Bond Year with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is fixed and is payable semiannually on February 15 or August 15, an amount equal to (A) the interest payable on such Bonds and Parity Reimbursement Obligations on or prior to the next succeeding August 15; and (B) the principal (whether by maturity, redemption or acceleration) and Sinking Fund Installments of such Bonds and Parity Reimbursement Obligations payable on the next succeeding August 15;

(vi) On the tenth day of each month with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is variable and is payable once every two (2) months or more frequently than once every two (2) months, (A) an amount equal to the interest estimated by an Authorized Officer of the Authority to be payable on such Bonds and Parity Reimbursement Obligations during the succeeding second month; plus (B) an amount equal to the fees estimated by an Authorized Officer of the Authority to be payable to broker-dealers and tender and other agents with respect to such Bonds and Parity Reimbursement Obligations for such succeeding second month; plus (C) an amount equal to the principal (whether by maturity, redemption or acceleration) and Sinking Fund Installments of such Bonds and Parity Reimbursement Obligations payable during such second succeeding month;

(vii) On the tenth day of each month with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is variable and is payable less frequently than once two (2) months but more frequently than semiannually, (A) an amount equal to the interest payable on such Bonds and Parity Reimbursement Obligations during the next succeeding month; plus (B) an amount equal to the fees estimated by an Authorized Officer of the Authority to be payable to broker-dealers and tender and other agents with respect to such Bonds and Parity Reimbursement Obligations for such next succeeding month; plus (C) an amount equal to the principal (whether by maturity, redemption or acceleration) and Sinking Fund Installments of such Bonds and Parity Reimbursement Obligations payable during such next succeeding month. With respect to such Annual Payments, the Comptroller, as permitted by subdivision 5 of section 97-f of the State Finance Law, shall set aside in the Services Fund in each month until paid to the Authority the amounts set forth below, beginning in the months set forth below and for the interest frequency periods with respect to such Bonds and Parity Reimbursement Obligations set forth below:

Percentage to be Set Aside	First Month for Set Aside	Interest Frequency Period
One-half of required Annual Payment amount	Second month preceding payment date to Authority	More than 2 month but less than 3 months
One-Third of required Annual Payment amount	Third month preceding payment date to Authority	More than 3 month but less than 4 months
One-Quarter of required Annual Payment amount	Fourth month preceding payment date to Authority	More than 4 month but less than 5 months
One-Fifth of required Annual Payment amount	Fifth month preceding payment date to Authority	More than 5 month but less than 6 months

(viii) On the tenth day of each month with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is variable and is payable semiannually or less frequently than semiannually, (A) an amount equal to the interest payable on such Bonds and Parity Reimbursement Obligations during the next succeeding month; plus (B) an amount equal to the fees estimated by an Authorized Officer of the Authority to be payable to broker-dealers and tender and other agents with respect to such Bonds and Parity Reimbursement Obligations for such next succeeding month; plus (C) an amount equal to the principal (whether by maturity, redemption or acceleration) and Sinking Fund Installments of such Bonds and Parity Reimbursement Obligations payable during such next succeeding month. The Annual Payments with respect to such interest and fees on such Bonds and Parity Reimbursement Obligations shall be treated as required to be made semiannually for purposes of subdivision 5 of section 97-f of the State Finance Law with the effect that the first required twenty percent (20%) monthly set-aside under such subdivision 5 shall begin in the sixth month preceding the due date for such Annual Payments; and

(b) Unless otherwise provided for in a Supplemental Financing Agreement, Annual Payments shall also be payable to the Authority in the amounts and manner and on the dates set forth below (collectively, the "Annual Expenditures"):

(i) On February 10 and August 10 of each Bond Year, (A) one-half (1/2) of the Annual Administrative Fee payable during such Bond Year, (B) an amount equal to the fees or charges estimated by an Authorized Officer of the Authority to be payable to auction agents, remarketing agents and other agents with respect to Bonds and Parity Reimbursement Obligations on which interest is variable for the next succeeding half of the Bond Year; and (C) an amount equal to the fees or charges estimated by an Authorized Officer of the Authority to be payable to Credit Facility Providers for the next succeeding half of the Bond Year;

(ii) On the tenth day of each month with respect to Outstanding Bonds to be purchased pursuant to mandatory or optional tenders, an amount equal to: (A) the interest estimated by the Authority to be payable on such Bonds during the next succeeding month, and (B) the purchase price of such Bonds estimated by the Authority to be payable during such next succeeding month;

(iii) On the tenth day of each month with respect to Outstanding Bonds which are subject to a Qualified Swap for which Qualified Swap Payments are variable and are not secured by the pledge of the Resolution, the estimated amount of any such Qualified Swap Payment certified by an Authorized Officer of the Authority as payable by the Authority to a Qualified Swap Provider during the second succeeding month, including but not limited to any fees or charges in connection therewith; and

(iv) On the tenth day of each month with respect to Outstanding Bonds which are subject to a Qualified Swap for which Qualified Swap Payments are fixed and payable semiannually and are not secured by the pledge of the Resolution, the estimated amount of any such Qualified Swap Payments certified by an Authorized Officer of the Authority as payable by the Authority to a Qualified Swap Provider during such month, including but not limited to any fees or charges in connection therewith.

(c) There shall be a credit against the Annual Payments required to be made pursuant to clauses (iv) and (v) of paragraph (a) above with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is fixed and is payable semiannually in an amount equal to: (A) the amount by which the amount in the Debt Service Account on the date any such payment is to be made exceeds the amount required pursuant to Section 5.05(1) of the Resolution to be on deposit in such account or required to pay the purchase price or Redemption Price, including accrued interest to the date of purchase or redemption, of Outstanding Bonds theretofore contracted to be purchased or called for redemption; and (B) the amount actually received by the Authority as a counter-payment from the Qualified Swap Provider with respect to a Qualified Swap to which such Outstanding Bonds are subject during the prior month.

(d) There shall be a credit against the Annual Payments required to be made pursuant to clauses (vi), (vii) and (viii) of paragraph (a) and clause (ii) of paragraph (b) above with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is variable in an amount equal to: (A) the amount by which the amount in the Debt Service Account on the date any such payment is to be made exceeds the amount required pursuant to the Resolution to be on deposit in such account or required to pay the purchase price or Redemption Price, including accrued interest to the date of purchase or redemption, of Outstanding Bonds theretofore contracted to be purchased or called for redemption; and (B) the amount actually received by the Authority as a counter-payment from the Qualified Swap Provider with respect to a Qualified Swap to which such Outstanding Bonds are subject during the prior month.

(e) The Authority shall furnish the State Division of the Budget not less than ten (10) days prior to the date on which a payment is due pursuant to the Agreement, a statement of the amount, purpose and payment date of each payment required to be made pursuant to the Agreement. The Authority agrees that it will provide the State Division of the Budget such information as may be reasonably requested by it with respect to the calculation of the Annual Expenditures and the allocation formula utilized in connection therewith. The failure to furnish such statement or information shall not affect the rights of the Authority to receive, when due, the amounts payable pursuant to the Agreement.

(f) Any payments required to be made pursuant to the Agreement which are not paid within seven (7) days after the due date thereof shall, from and after said due date, bear interest (to the extent permitted by law) at the highest rate per annum borne by any of the Outstanding Bonds until paid, time being of the absolute essence of this obligation.

(g) All Annual Payments and other payments required to be made under the Agreement shall be payable in lawful money of the United States, which shall be legal tender for public and private debts under the laws of the United States at the time of payment. Payment shall be made in accordance with the provisions of Section 5.05 of the Agreement. *(Section 5.02)*

State Not Liable for Annual Payments

The State shall not be liable for any of the Annual Payments or any interest thereon payable to the Authority pursuant to the provisions of the Agreement. *(Section 5.03)*

Mental Health Services Fund

(a) It is anticipated that the Annual Payments shall, subject to legislative appropriation, be payable from amounts on deposit in the Services Fund pursuant to the provisions of Section 97-f of the State Finance Law and the Pledge and Assignment.

(b) Annual Payments which are required to be made on a date on which Prior Agency Annual Payments and Prior Authority Annual Payments are not required to be made shall be made only if the amount retained in the Services Fund is not less than the amount required to be on deposit therein pursuant to Section 97-f of the State Finance Law with respect to Prior Agency Annual Payments and Prior Authority Annual Payments and other retained amounts in such fund.

(c) In addition to retaining in the Services Fund the amounts required by subdivision 5 of Section 97-f with respect to Prior Agency Annual Payments, Prior Authority Annual Payments and Annual Payments that are to be made semiannually (including Annual Payments under clauses (vii) and (viii) of paragraph (a) of "Amount and Payment of Annual Payments" above, which shall be treated as required to be made semiannually for purposes of such subdivision 5), the Comptroller shall maintain in such fund, from and after the eleventh day of the month preceding any month in which payments are due pursuant to clause (vi) of paragraph (a) under "Amount and Payment of Annual Payments" above, the amount of such Annual Payment until such amount has been paid to the Authority.

(d) It is understood that, pursuant to the Pledge and Assignment, the obligation to make Annual Payments is (i) subject to State legislative appropriations, and (ii) subject, junior and subordinate to the obligation to make Prior Authority Annual Payments to the Authority for, among other things, the payment of the principal, sinking fund installments, if any, and redemption price of and interest on the Prior Authority Bonds, which obligation is subject, junior and subordinate to the obligation to make Prior Agency Annual Payments to the Authority for, among other things, the payment of the principal, sinking fund installments, if any, and redemption price of and interest on the Prior Agency Bonds. *(Section 5.04)*

Direction as to Payments

The Annual Payments payable pursuant to clause (i) of paragraph (b) under "Amount and Payment of Annual Payments" above shall be paid, when due, to the Authority, and after the making of such payment, the Annual Payments payable pursuant to paragraph (a) of "Amount and Payment of Annual Payments" above shall be paid, when due, to the Trustee for deposit and application in accordance with the Resolution, and after the making of such payment, the Annual Payments payable pursuant to clauses (ii), (iii) and (iv) of paragraph (b) under "Amount and Payment of Annual Payments" above shall be paid, when due, to the Authority.

The interest on the Annual Payments payable pursuant to paragraph (f) under "Amount and Payment of Annual Payments" above shall be paid, when due, to the Authority. *(Section 5.05)*

Indemnification of Authority

Both during the term of the Agreement and thereafter, the Department, to the extent not otherwise prohibited by State law and decisions thereunder, shall indemnify and hold the Authority and any member, officer, and employee of the Authority harmless from and against any and all liability, loss, cost, damage, claim, suit or judgment and any and all costs and expenses including, but not limited to, reasonable counsel fees and disbursements, if assessed by a court of competent jurisdiction, of any and all kinds or nature and however arising, imposed by law, which it or any of them may sustain, be subject to or be caused to incur by reason of any claim, suit or action based upon personal injury, death, or damage to property, whether real, personal or mixed, or upon or arising out of the financing, design, construction, reconstruction, acquisition, rehabilitation, improvement, occupancy, or use of a State Facility, pursuant to the Agreement, or upon or arising out of the allegation that an official statement, prospectus, placement memorandum or other offering document prepared in connection with the sale and issuance of obligations contained an untrue or misleading statement of a material fact relating to the Department, the State, a State Facility or the estimated sources and uses of funds, or omitted to state a material fact relating to the Department, the State, a State Facility or the estimated sources and uses of funds necessary in order to make the statements made therein in light of the circumstances under which they were made not misleading; provided, however, that such liability, loss, cost, damage, claim, suit or judgment is not contributed to, caused by or resulted from the intentional wrong doing of the Authority, its members, officers or employees.

The indemnification provisions of the Agreement shall not be deemed to relieve any insurance company which has issued a policy of insurance as may be provided for in the Agreement from its obligation to defend or indemnify the Department, the Authority and any other insured named in such policy of insurance in connection with claims, suits or actions covered by such policy.

It is the intention of the parties to the Agreement that any such insurance shall be primary, and shall take precedence to the indemnifications provided by the Department thereunder.

The Authority and each member, officer or employee shall be entitled to employ separate counsel in any action or proceeding and to participate in the defense thereof; provided, however, that the Department shall not be liable for attorneys' fees of separate counsel so retained or any other expenses incurred in connection with its participation in the defense of such action or proceeding, other than the reasonable costs of investigation thereof, unless the Department shall have consented thereto or unless, (i) in the reasonable judgment of the Authority (A) its or any member, officer or employee's interests and the interests of the Department therein are adverse or (B) it or any member, officer or employee may have a defense available to it which is not available to the Department or (ii) the Department does not provide for legal representation.

The indemnification provisions of the Agreement shall not apply with respect to any matters concerning which the parties to be indemnified thereunder are otherwise indemnified pursuant to Section 17 of the Public Officers Law or any other statute providing equivalent indemnification. *(Section 5.06)*

MISCELLANEOUS

Reserved Right of Amendment

Notwithstanding any of the other provisions of the Agreement or of any Supplemental Financing Agreement, the Authority and the Department reserve the right to terminate, modify or amend the Agreement and any Supplemental Financing Agreement in any manner; provided, that no such termination, modification or amendment shall affect or impair in any way the right of the Authority to receive the Annual Payments at the times and in the manner and amounts therein and in the Supplemental Financing Agreements provided or any provisions of the Agreement or of any Supplemental Financing Agreement made or provided for the purpose of assuring payment of such Annual Payments and the obligations of the Authority and the Department under Section 6.03 of the Agreement. In connection with the sale of one or more State Facilities, the provisions of one or more Supplemental Financing Agreements describing the State Facilities, the Cost of the Project with respect to such State Facilities, the installment amounts and period of the Annual Payments to be paid to the Authority, and the Financing Terms and all details thereof and with respect thereto may be amended from time to time by a master schedule agreed to and executed by an Authorized Officer of the Authority and Authorized Officers of the Department and approved and consented to by the Budget Director of the State and the Comptroller of the State. Such master schedule shall constitute an amendment to such Supplemental Financing Agreements and shall become effective upon the filing thereof with the Trustee. Upon termination of the Agreement and any Supplemental Financing Agreement, the Authority and Department shall include any surviving right of the Authority to receive the Annual Payments in a financing agreement permitted by law and the Resolution, and shall continue their obligations under Section 6.03 of the Agreement by including identical language in any such financing agreement permitted by law and the Resolution. *(Section 6.01)*

Termination of the Agreement and Provisions Relating Thereto

The Agreement shall remain in full force and effect until the date on which (i) the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Bonds the proceeds of which are used to finance or refinance Costs of the Project with respect to the State Facilities shall have been fully paid and discharged or provision for the payment and discharge thereof shall have been made as provided by the Resolution and (ii) all other obligations, liabilities and expenses of the Authority relating to a State Facility or required to be paid by the Authority in connection with such termination of the Agreement and the defeasance of the Resolution shall have been fully paid and discharged or provision satisfactory to the Authority for the payment and discharge thereof shall have been made; provided, however, that the indemnification provisions and the tax covenants of the Agreement shall survive the termination of the Agreement as provided therein. *(Section 6.02)*

Tax Covenant

With respect to any Bonds the interest on which is intended to be excluded in the gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Code as specified in the Series Resolution or the Series Certificate, the Authority and the Department each covenant and agree that they shall comply with the provisions of the Code applicable to such Bonds, including without limitation, the provisions of the Code relating to the computation of the yield on investments of the "gross proceeds" of such Bonds, as such term is defined in the Code, reporting of the earnings on such gross proceeds, rebates of earnings on such gross proceeds to the Department of the Treasury of the United States of America, and use, ownership and management of the State Facilities financed by such gross proceeds.

The Authority and the Department shall not take any action or fail to take any action with respect to the application and investment of gross proceeds of such Bonds or use, ownership or management of any State Facility or portions of any State Facility which would cause a failure to comply with the provisions of Sections 103 and 141 to 150 of the Code.

In furtherance of the foregoing, the Authority and, to the extent applicable to it, the Department, shall comply with the Tax Certificate delivered by the Authority and the letter of instructions, if any, delivered by Bond Counsel, at the time the Bonds of a Series are issued as to compliance with the Code with respect to such Series of Bonds, as such Tax Certificate and letter may be amended from time to time, as a source of guidance for achieving compliance with the Code. *(Section 6.03)*

Non Assignability of Agreement

The Agreement may not be assigned, except to the Trustee, by any party without the consent in writing of each other party. *(Section 6.04)*

Disclaimer of Personal Liability

No recourse shall be had against or liability incurred by any member of the Authority or any officer or employee of the Authority or of the State, or any person executing the Agreement for any covenants and provisions thereof or for any claims based thereon. *(Section 6.07)*

B. SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENTS (Voluntary Agency Project)

AUTHORITY FOR AGREEMENT; SUPPLEMENTAL FINANCING AGREEMENTS; GENERAL PROVISIONS

Authority for Agreement

The Agreement is authorized by subdivision 4 of Section 9 of the Facilities Development Corporation Act and subdivision 2 of Section 7419-a of the Agency Act, and shall be deemed to be and shall constitute an agreement between the Agency and the Corporation referred to in such subdivisions. For purposes of the Resolution, the Agreement shall be the "Financing Agreement (Voluntary Agency Project)," the Annual Payments provided for thereunder shall constitute "Annual Payments," and each Supplemental Financing Agreement shall constitute a "Supplemental Financing Agreement," as each of said terms is defined and used in the Resolution. *(Section 1.02)*

Supplemental Financing Agreements

The Voluntary Agency Facilities to be financed and refinanced as part of the Voluntary Agency Project pursuant to the provisions of the Agreement; the Cost of the Project with respect to such Voluntary Agency Facilities to be financed or refinanced by the Authority; the installment amounts and period of the Annual Payments to be paid to the Authority; and the Financing Terms and all details thereof and with respect thereto shall be as prescribed and defined in one or more Supplemental Financing Agreements by and between the Authority and the Department, which, upon the execution and approval thereof, in the manner required by law, shall thenceforth constitute a part of the Agreement with the same force and effect as if incorporated in the Agreement. Any such Supplemental Financing Agreement may add additional covenants and agreements between the parties to the Agreement, provided such additional covenants and agreements are not contrary to or inconsistent with the rights of the Holders of the Bonds and the holders of Parity Reimbursement Obligations deriving from the Agreement and the Resolution. To the extent required by law, no Supplemental Financing Agreement shall be entered into unless there shall have been made a certification by the Director of the Budget of the State of the availability of required appropriation authority. Each such Supplemental Financing Agreement shall also specify which of the commissioners of the Department shall be acting as agent or agents of the Authority for particular Voluntary Agency Facilities or classes of Voluntary Agency Facilities under such Supplemental Financing Agreement pursuant to Section 3.01 of the Agreement, and with respect to such Voluntary Agency Facilities, unless the context otherwise requires, the term "Department" as used in the Agreement shall be deemed to refer to such commissioners. All

Voluntary Agency Facilities financed or refinanced as provided for in a Supplemental Financing Agreement shall be a part of the Voluntary Agency Project. *(Section 1.03)*

Certain Provisions of Agreement Executory

The provisions of the Agreement requiring the payment to and expenditure of moneys by the Authority (other than proceeds of the Bonds and other moneys held under the Resolution) shall be deemed executory only to the extent of the moneys made available for such purposes by the State Legislature, and no monetary liability on account thereof shall be incurred beyond moneys legally made available by the State Legislature for such payments and expenditures. The provisions of the Agreement requiring the expenditure of moneys by the Authority for the financing and refinancing of the Cost of Project with respect to Voluntary Agency Facilities shall be deemed executory to the extent that the Authority shall have moneys derived from the proceeds of sale of Bonds and other moneys held under the Resolution and available for such purposes as provided in the Resolution, and no monetary liability on account thereof shall be incurred by the Authority except as aforestated. *(Section 2.01)*

Covenants for Benefit of Holders of Bonds

The Agreement is executed in part in order to induce the purchase by others of Bonds of the Authority to be issued to finance or refinance the Cost of the Project with respect to the Voluntary Agency Facilities and for the purposes of securing such Bonds and, accordingly, all of the covenants and agreements on the part of the Authority and the Department set forth in Articles V and VI of the Agreement are declared to be for the benefit of the Holders from time to time of the Bonds.

Except as otherwise expressly provided in the Agreement or in the Resolution, particularly with respect to the rights of Bondholders, nothing in the Agreement, expressed or implied, is intended, or shall be considered, to confer upon any person, firm or corporation, other than Authority, the Department and the Trustee, any right, remedy or claim, legal or equitable, under or by reason of the Agreement or any provision thereof. *(Section 2.02)*

Pledge and Assignment

The Authority may pledge, assign, and transfer the right to receive and collect all or a portion of the Annual Payments, in the Resolution, together with the Authority's rights to enforce the provisions of Articles V and VI of the Agreement, and from and after such pledge, assignment, or transfer, such assignee shall have the Authority's rights and privileges under the Agreement to the extent, and as conferred, in such pledge, assignment, and transfer; provided, however, that the pledge and assignment of the right to receive and collect Annual Payments shall be subject and junior and subordinate to the prior right of the Authority to receive and collect the Prior Authority Annual Payments, which right is subject and junior and subordinate to the prior right of the Authority to receive and collect the Prior Agency Annual Payments. *(Section 2.03)*

Representations and Warranties

The Department and the Authority represent and warrant to each other as follows:

(a) Each of the Voluntary Agency Facilities referred to in a Supplemental Financing Agreement will be owned, leased or subleased and operated or used by a Voluntary Agency (or if different Voluntary Agencies own, lease or sublease and operate or use the Voluntary Agency Facility, each of the Voluntary Agencies which owns, leases or subleases the Voluntary Agency Facility and the Voluntary Agency which operates or uses the Facility is a Voluntary Agency) which: (i) is an organization described in Section 501(c)(3) of the Code and is not a "private foundation" as defined in the Code; (ii) has received a letter or letters from the Internal Revenue Service to such effect; (iii) is in compliance with all terms conditions and limitations, if any, contained in such letter or letters; and (iv) is a duly organized not-for-profit corporation operating under the laws of the State of New York.

(b) No financing or refinancing of a Voluntary Agency Facility for the benefit of a Voluntary Agency shall be made by the Authority or the Department acting as its agent prior to an environmental review as required by SEQR. *(Section 2.06)*

**CONSTRUCTION OF VOLUNTARY AGENCY FACILITIES;
LOANS AND LOAN SERVICING**

The Department to Act as Agent of the Authority

Pursuant to the provisions of Subdivision 13-f of Section 5 of the Facilities Development Corporation Act, the Authority appoints the Department as general agent for the Authority, and the Department accepts appointment as agent for the Authority with full and unrestricted authority on the part of the Department to finance or refinance the costs of each Voluntary Agency Facility for the benefit of a Voluntary Agency as described in each Supplemental Financing Agreement and to perform any and all other powers, duties and functions of the Authority as the Authority is authorized to perform under the Facilities Development Corporation Act with respect to financing or refinancing the Voluntary Agency Facilities for the benefit of Voluntary Agencies described in each Supplemental Financing Agreement. The Authority further agrees the Department has full authority to act as such agent of the Authority in effectuating such financing and refinancing and the Department shall have the right to require such mortgages, notes, security, leases, subleases, financing or other agreements or instruments from such Voluntary Agencies together with the right to enter into the same with such Voluntary Agencies on behalf of the Authority without its prior approval or consent upon such terms and conditions as may be determined by the Department to be necessary and appropriate, subject to any requirements, terms or conditions, as may be required by the Authority. The Department, as agent of the Authority, has full authority to charge, collect and retain all fees and other charges as may be authorized to be imposed by the Authority upon providing such a financing to a Voluntary Agency.

The appointment of the Department as the Authority's agent shall continue until the Authority provides written notice of termination to the Department. The Authority may terminate the agency designation of one or more of the commissioners of the Department without terminating the agency of the remainder of the Department. In that event, notice of termination shall be sent only to the affected commissioners. During the tenure of this appointment, the Authority will provide such documents and resolutions as the Department may reasonably request to implement its authority as agent. Following notice of termination, the Department will comply with all reasonable requests of the Authority with regard to Voluntary Agency Facilities financed during the Department's agency and with respect to the termination process.

In the event that the Authority shall terminate one or more commissioners of the Department as its agent, the Authority shall act on its own behalf under the Agreement with respect to those Voluntary Agency Facilities for which such terminated commissioners had been the agent of the Authority, and with respect to such Voluntary Agency Facilities, references therein to the Department, in its capacity as agent, shall be deemed to refer to the Authority. The Authority shall be bound by actions of the Department made while acting as the Authority's agent.

Any actions taken by the Department pursuant to the Agreement or any Supplemental Financing Agreement shall be solely as agent of the Authority and not as principal. *(Section 3.01)*

Construction of Facilities

The Authority and the Department shall require, as part of the Voluntary Agency Financing Documents entered into with a Voluntary Agency, that the Voluntary Agency Facility financed or refinanced thereby shall, be designed, constructed, acquired, reconstructed, rehabilitated, improved, equipped, substantially in accordance with the Plans and Specifications for such Voluntary Agency Facility and that such Voluntary Agency shall use its best efforts to cause such design, construction, acquisition, reconstruction, rehabilitation, improvement and equipping to be completed as soon as may be practicable, delays incident to strikes, riots, acts of God, the public enemy or any delay beyond its reasonable control only excepted.

The Authority and the Department shall require, as part of the Voluntary Agency Financing Documents entered into with a Voluntary Agency, that the Voluntary Agency Facility financed or refinanced thereby shall, upon completion, be free and clear of any liens and encumbrances of every kind and character which may arise in connection with the work of any character performed in connection with the Voluntary Agency Facility, including mechanics', laborers' and materialmen's liens and other liens of a similar nature.

The Authority and the Department shall require, as part of the Voluntary Agency Financing Documents entered into with a Voluntary Agency, that all buildings and improvements erected or constructed upon the premises comprising the site of a Voluntary Agency Facility financed or refinanced thereby and all buildings, improvements, fixtures, machinery and equipment installed or placed thereon by the Authority, the Department or such Voluntary Agency except where title thereto is vested in and remains with other parties, shall be and become a part of the Facility.

The Authority and the Department shall require that the Voluntary Agency Financing Documents entered into with each Voluntary Agency with respect to a Voluntary Agency Facility shall provide for the maintenance and upkeep of the Facility property, for the maintenance and routine repair of the facility represented by such Facility, and for the replacement of furnishings, equipment apparatus and machinery therein. *(Section 3.02)*

Construction Costs

The Authority in the Resolution is authorized to, and shall, make payments from the Voluntary Agency Project Account in the Construction Fund to pay the Costs of the Project with respect to each Voluntary Agency Facility or to reimburse the State or a Voluntary Agency for Costs of the Project with respect to each Voluntary Agency Facility paid by the State or a Voluntary Agency upon the written approval of an Authorized Officer of the Authority stating with respect to each payment to be made (i) the Voluntary Agency Facility in connection with which payment is to be made, (ii) the names of the payees, (iii) the purpose for which such payment is to be made in terms sufficient for identification, (iv) the respective amount of each such payment, and (v) that such purpose constitutes a proper purpose for which moneys in the Construction Fund may be applied and has not been the basis of any previous withdrawal from the Construction Fund.

The Authority may cause amounts requisitioned from the Construction Fund for the payment of Costs of the Project with respect to the Voluntary Agency Facilities to be transferred to one or more separate accounts established by the Authority, upon the request of the Department, with the Comptroller for which accounts the Department shall be the signatory and from which accounts disbursements for the financing of Voluntary Agency Facilities will be advanced. Such accounts shall be subject to the lien of the Resolution.

The Authority, subject to the tax covenants contained in the Agreement, may reapply at any time prior to the filing of the certificate described in subdivision 5 of Section 5.04 of the Resolution as to the completion of all the Voluntary Agency Facilities comprising the Voluntary Agency Project, the moneys held in the Voluntary Agency Project Account in the Construction Fund for the payment of Cost of the Project with respect to a Voluntary Agency Facility to the payment of Costs of the Project with respect to any other Voluntary Agency Facility previously or subsequently specified to be financed or refinanced pursuant to a Supplemental Financing Agreement. Such reapplication of amounts shall be described in a Supplemental Financing Agreement to be entered into prior to, at the time of, or subsequent to such reapplication. *(Section 3.03)*

Abandonment of a Voluntary Agency Facility

The Voluntary Agency Financing Documents entered into with each Voluntary Agency with respect to a Voluntary Agency Facility shall provide that, subject to compliance with any applicable provisions of the Prior Agency Resolution, any applicable provisions of the Prior Authority Resolution and the tax covenants in the Agreement and applicable State law, if for any reason the design, construction, acquisition, reconstruction, rehabilitation, improvement and equipping of any part or portion of a Voluntary Agency Facility is abandoned, or if the Voluntary Agency shall fail to use or shall cease to use any part or portion of a Voluntary Agency Facility whether by abandonment, demolition or otherwise, or if a Voluntary Agency Facility is amended by a Supplemental Financing Agreement to withdraw any part or portion of such Voluntary Agency Facility (any of which events shall be called an "abandonment" in this paragraph), the proceeds of the Bonds allocable to such Voluntary Agency Facility (the "allocable proceeds" for purposes of this paragraph) and held in the Construction Fund may be applied to the financing of Cost of the Project with respect to other Voluntary Agency Facilities as provided in a Supplemental Financing Agreement but only to the extent there is no reduction or diminution in the payment of the Annual Payments under the Agreement; otherwise the allocable proceeds held in the Construction Fund shall be applied to redeem, purchase or defease such Bonds and the Annual Payments may be reduced to reflect such redemption, purchase or defeasance. *(Section 3.04)*

Sale of a Voluntary Agency Facility

The Voluntary Agency Financing Documents entered into with each Voluntary Agency with respect to a Voluntary Agency Facility shall provide that, subject to compliance with any applicable provisions of the Prior Agency Resolution, any applicable provisions of the Prior Authority Resolution and the tax covenants in the Agreement and applicable State law:

(a) the Voluntary Agency Facility may be sold for such amount and upon such terms as the Voluntary Agency may determine and as the Authority and the Department may approve;

(b) the proceeds of such sale, up to the principal amount of Outstanding Bonds issued in connection with such Voluntary Agency Facility plus the premium payable and interest accrued thereon, if any, on the first date after the sale on which such Bonds can be redeemed at the election of the Authority, shall be paid to the Authority for deposit to the credit of the Construction Fund and used to pay the Cost of the Project with respect to other Voluntary Agency Facilities or applied to the redemption or purchase of Outstanding Bonds issued in connection with such Voluntary Agency Facility, in accordance with the written direction of an Authorized Officer of the Authority; and

(c) in lieu of paying such proceeds to the Authority for the redemption of Bonds, there may be paid to the Authority an amount sufficient to purchase Defeasance Securities the principal of and interest on which, when due, will provide moneys which, together with the moneys, if any, paid to the Authority at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price and interest due and to become due on an aggregate principal amount of the Bonds equal to the amount required to be paid to the Authority pursuant to the immediately preceding clause (b).

In the event of any redemption, purchase or defeasance of Bonds as set forth in clauses (a), (b) and (c) above, the Annual Payments may be reduced to reflect such redemption, purchase or defeasance. *(Section 3.05)*

Loss of Use of a Voluntary Agency Facility

The Voluntary Agency Financing Documents entered into with each Voluntary Agency with respect to a Voluntary Agency Facility shall provide that, subject to compliance with any applicable provisions of the Prior Agency Resolution, any applicable provisions of the Prior Authority Resolution and the tax covenants in the Agreement, and applicable State law, in case such Voluntary Agency Facility or part thereof is taken by eminent domain or condemnation, or damaged or destroyed, then and in such event:

(a) if, within one hundred and twenty (120) days from the occurrence, the Department notifies the Authority in writing of the Voluntary Agency's intention to replace or restore such Voluntary Agency Facility, the Department shall cause such Voluntary Agency to proceed to replace or restore such Voluntary Agency Facility, including all fixtures, furniture, equipment and effects, to its original condition insofar as possible. The moneys required for such replacement or restoration shall be paid from the proceeds of any condemnation award or insurance received by reason of such occurrence, and to the extent such proceeds are not sufficient, from moneys to be provided or cause to be provided by the Department or the Voluntary Agency; or

(b) if the Authority has not within such one hundred and twenty (120) day period been notified in writing of the intention of such Voluntary Agency to restore or replace such Voluntary Agency Facility or if such Voluntary Agency determines not to restore or replace such Voluntary Agency Facility, the Authority in its discretion may determine that such Voluntary Agency Facility has been abandoned. In such event, the proceeds of any condemnation award or insurance received by reason of such occurrence shall be applied and paid in the same manner and order of priority as provided for the proceeds of the sale of such Voluntary Agency Facility pursuant to the Agreement. *(Section 3.06)*

Right of Inspection

The Voluntary Agency Financing Documents entered into with a Voluntary Agency with respect to a Voluntary Agency Facility shall provide that Authority or the Authority's agent or representative has the right to enter upon, inspect and examine such Facility at any reasonable time upon prior notice to such Voluntary Agency;

provided that, to the extent permitted by law, no such notice shall be required if the Authority in its sole judgment determines that such inspection is to be made because of the existence of a situation which poses an imminent danger to the public or the occupants of such Voluntary Agency Facility or which otherwise constitutes an emergency. *(Section 3.07)*

Compliance with Laws and Regulations

In the performance of its obligations under the Agreement, the Authority and the Department shall comply, and shall in the Voluntary Agency Financing Documents entered into with a Voluntary Agency cause such Voluntary Agency to comply, with all applicable laws, regulations and rules of the Government of the United States of America and the State of New York, the rules and regulations of the National Board of Fire Underwriters and any requirement of an insurance company relating to a Voluntary Agency Facility so long as such company is writing insurance on such Facility. *(Section 3.08)*

Environmental Quality Review and Historic Preservation

For the purpose of assisting the Authority in making any findings or determinations which might be required by (i) SEQR or (ii) the New York State Historic Preservation Act of 1980 and the regulations promulgated thereunder (collectively, the "Preservation Act"), the Department agrees as follows:

(a) to prepare such documents, if any, as the Authority or other governmental body having primary responsibility under SEQR or the Preservation Act determines are required by SEQR or the Preservation Act, in such form and containing such information in such detail as the Authority or such other governmental body determines is required by SEQR or the Preservation Act; and

(b) to file such documents with, or send such documents to, the persons or places required by SEQR or the Preservation Act or the Authority, and to present documentation of such filing or sending in such form as is satisfactory to an Authorized Officer of the Authority. *(Section 3.09)*

Substitution of Voluntary Agencies by the Department

In the event that the Authority has acquired the fee or other right to enter or take possession of a Voluntary Agency Facility, the Authority authorizes the Department to enter the same and to operate the Facility in the manner consistent with the mental hygiene services facilities program and to pay all operating expenses and financing expenses outstanding and to allow substitute Voluntary Agencies to perform such functions and duties in its place; provided, however, that no such substitution shall result in a reduction in the Annual Payments specified in the related Supplemental Financing Agreement except to the extent of any Bonds redeemed, purchased or defeased in connection with such substitution, and provided further, that the Authority and the Department shall not permit such substitution unless they shall have received an opinion of Bond Counsel to the effect that such substitution will not adversely affect the exclusion of interest on any Bonds as to which the Authority shall have received an opinion described in the tax covenants in the Agreement from the gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Code. *(Section 3.10)*

Financings for Voluntary Agencies

The Department, as agent for the Authority, shall provide financings, including mortgage loans, to Voluntary Agencies in such amounts as have been approved by the Department and for which moneys have been transferred to the Voluntary Agency Project Account in the Construction Fund or the special accounts described in the Agreement. The Department shall provide such financings and may require and enter into such Voluntary Agency Financing Documents upon such terms and conditions as may be determined necessary by the Department. Such financings shall provide for the payment of interest at such interest rate as the Authority shall approve and shall further provide for the payment of any fees and expenses of each of the Department and the Authority. *(Section 3.11)*

Financing Servicing During Construction by the Department

The Department and the Authority agree that the Department shall act as and be the agent and financing servicer for the Authority. In performance of such duties the Department shall where applicable:

(i) review and approve all requests for advances to verify compliance with the Voluntary Agency Financing Documents and provide coordination between the Authority and the Department and the Voluntary Agency.

(ii) verify all conditions precedent to an advance of a financing with respect to a Voluntary Agency Facility are satisfied, including without limitation, in the case of a mortgage, a satisfactory title continuation showing the mortgage to constitute a valid first lien subject to no encumbrances other than those set forth in the policy insuring the lien of the mortgage.

(iii) approve any change orders which do not adversely affect the amount of any construction contract or the time for completion thereof.

(iv) approve any change orders which may adversely affect the amount of any construction contract or the time for completion thereof, but only with the written consent of the Authority. *(Section 3.12)*

Financing Disbursements

The Department may make financing advances to Voluntary Agencies for Voluntary Agency Facilities on behalf of the Authority from amounts on deposit in a separate account established with the Comptroller pursuant to the Agreement.

(a) Prior to each disbursement of proceeds under the Agreement, the Department will obtain such documentation as may be applicable as follows:

> (i) From the Voluntary Agency a Contractors' Requisition AIA form 702 and 703 signed by all of the appropriate parties, together with, owner's approval covering all work performed and all materials furnished for the Voluntary Agency Facility since the date of the last Contractors' Requisition, and with an affidavit by an officer of the Voluntary Agency, in a form satisfactory to the Department.
>
> (ii) Said requisition shall be submitted three weeks preceding the date upon which the advance is to be made which shall be such day of the month as approved by the Department in a Supplemental Financing Agreement, if applicable.
>
> (iii) Such other documentation in addition to or in lieu of the documentation described above as the Department may determine.

(b) Upon receipt of the documentation described above, and the approval of the Voluntary Agency to whom the financing was provided, the Department will advance financing proceeds for the requested disbursement, subject to such adjustments as the Department may deem appropriate to assure completion of the work.

(c) In no event shall the final disbursement of proceeds be made until all conditions are satisfied to issue the final proceeds to the Voluntary Agency Facility, subject to the terms, conditions and exceptions acceptable to the Department for final disbursement, including but not limited to the Voluntary Agency Facility securing all required licenses and permits to operate the Voluntary Agency Facility in accordance with all rules, laws and regulations applicable to the Facility. *(Section 3.13)*

Initial Advances of Financing Proceeds

Prior to the initial advance of financing proceeds to a Voluntary Agency pursuant to the Agreement for financing or refinancing the design, construction, acquisition, reconstruction, rehabilitation or improvement of a

Voluntary Agency Facility, as the case may be, the Department shall obtain for such Facility from the Voluntary Agency the following as may be applicable:

(i) a complete Environmental Assessment Form along with such other information and documentation as the Department may require.

(ii) the executed construction contract for the Voluntary Agency Facility including all Plans and Specifications.

(iii) a guaranteed maximum price, fixed price or owners estimate of cost for the Voluntary Agency Facility along with a drawdown schedule for that amount.

(iv) the executed architects' contract and other designers and consultant contracts.

(v) building permits and all other approvals required to start construction of the Voluntary Agency Facility.

(vi) a mortgage, mortgage note, building loan agreement, lease, sublease or financing or other documents and instruments in form and substance satisfactory to the Department.

(vii) mortgage title insurance naming the Authority as the insured.

(viii) such payment and performance bonds insuring the Voluntary Agency or Voluntary Agencies which own and operate the Voluntary Agency Facility and the Authority as the Department deems reasonable and prudent.

(ix) evidence that the Voluntary Agency or Voluntary Agencies which own and operate the Voluntary Agency Facility have obtained liability and hazard insurance in amounts deemed reasonable and prudent by the Department.

The Department may in its discretion waive the requirements for the documentation described in (a) above with the exception of (i) above. *(Section 3.14)*

Other Financing Monitoring and Financing Servicing Responsibilities of the Department

The Department as financing servicer and agent of the Authority shall diligently enforce the terms of the mortgage, mortgage note, building loan agreement, lease, sublease or any financing or other agreements with the Voluntary Agencies regarding the Voluntary Agency Facilities.

The Department shall collect all payment due from each Voluntary Agency with respect to each Voluntary Agency Facility under the mortgage, mortgage note, building loan agreement, lease, sublease or any financing or other documents and arrange for prompt payment to the Authority as such documents may require. Amounts collected by the Department may be transferred to a separate account which the Authority shall cause to be established with the Comptroller, at the request of the Department, and for which the Department shall be a signatory. *(Section 3.15)*

Covenant Against Waste

The Authority and the Department covenant, and agree to require as part of any financing to a Voluntary Agency, that such Voluntary Agency covenant, not to do or suffer or permit any waste or damage, disfigurement or injury to any of the Voluntary Agency Facilities. *(Section 3.16)*

FINANCING PROVISIONS

Issuance of Bonds; Purposes

The Authority shall use its best efforts to authorize, issue, sell and deliver the Bonds, in accordance with the provisions of the Resolution, in aggregate principal amounts which, together with other moneys available therefor, are sufficient to pay the Costs of the Project with respect to each Voluntary Agency Facility. In addition to providing for the Costs of the Project with respect to each Voluntary Agency Facility, it is understood that the Resolution provides, and it is agreed, that the Authority may issue Bonds for one or more of the following purposes: (i) paying the Costs of Issuance of Bonds, (ii) refunding Bonds or other bonds, notes or other obligations of the Authority issued in connection with the Voluntary Agency Facility, (iii) refunding Prior Agency Bonds; and (iv) refunding Prior Authority Bonds. *(Section 4.01)*

FINANCIAL OBLIGATIONS; CERTAIN COVENANTS

Payments

As consideration for the financing or refinancing of the Voluntary Agency Project as provided in the Agreement, there shall be paid to the Authority the Annual Payments specified in all Supplemental Financing Agreements relating to Voluntary Agency Facilities. Concurrently with the execution of each Supplemental Financing Agreement, the Authority will have been deemed to have financed or refinanced the Voluntary Agency Facility or Voluntary Agency Facilities specified in such Supplemental Financing Agreement.

The agreement and obligation to pay installments of the Annual Payments, in the amount and manner, and at the time and place, in the Agreement and in the applicable Supplemental Financing Agreement provided, is and shall be absolute and unconditional, subject to the executory provisions of the Agreement contained therein. Each Annual Payment shall be due and payable (except to the extent of any credit therefor under the Agreement and the Resolution), and shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any rights of set-off, recoupment or counterclaim any person may otherwise have against the Authority, the Trustee or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Authority to complete any Voluntary Agency Facility or the completion thereof with defects, failure of the Department to occupy or use any Voluntary Agency Facility, any damage or destruction or condemnation of all or part of any Voluntary Agency Facility, any abandonment of any Voluntary Agency Facility, any declaration or finding that the Bonds, the Agreement or the Resolution are invalid or unenforceable, or any other failure or default by the Authority or the Trustee. *(Section 5.01)*

Amount and Payment of Annual Payments

(a) Unless otherwise provided for in a Supplemental Financing Agreement, Annual Payments shall be payable to the Authority in the amounts and manner and on the dates set forth below:

(i) The amount determined by an Authorized Officer of the Authority as required to be held under the Resolution on the delivery date of any Series of Bonds, promptly after notice of the amount thereof is given to the Department;

(ii) The amount determined by an Authorized Officer of the Authority as required to be rebated to the Department of the Treasury of the United States of America in excess of the amount available therefor in the Arbitrage Rebate Fund, within fifteen (15) days after notice of the amount thereof is given to the Department;

(iii) At least five days prior to the first day of a month, the amount, if any, as shall be necessary to provide for the payment by the Authority of reimbursements, other than fees and charges, which are payable to each Facility Provider during such month;

(iv) On February 10 of each Bond Year with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is fixed and is payable semiannually on February 15 or

August 15, an amount equal to: (A) the interest payable on such Bonds and Parity Reimbursement Obligations on or prior to the next succeeding February 15; and (B) the principal (whether by maturity, redemption or acceleration) and Sinking Fund Installments of such Bonds and Parity Reimbursement Obligations payable on the next succeeding February 15;

(v) On August 10 of each Bond Year with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is fixed and is payable semiannually on February 15 or August 15, an amount equal to (A) the interest payable on such Bonds and Parity Reimbursement Obligations on or prior to the next succeeding August 15; and (B) the principal (whether by maturity, redemption or acceleration) and Sinking Fund Installments of such Bonds and Parity Reimbursement Obligations payable on the next succeeding August 15;

(vi) On the tenth day of each month with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is variable and is payable once every two (2) months or more frequently than once every two (2) months, (A) an amount equal to the interest estimated by an Authorized Officer of the Authority to be payable on such Bonds and Parity Reimbursement Obligations during the succeeding second month; plus (B) an amount equal to the fees estimated by an Authorized Officer of the Authority to be payable to broker-dealers and tender and other agents with respect to such Bonds and Parity Reimbursement Obligations for such succeeding second month; plus (C) an amount equal to the principal (whether by maturity, redemption or acceleration) and Sinking Fund Installments of such Bonds and Parity Reimbursement Obligations payable during such second succeeding month;

(vii) On the tenth day of each month with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is variable and is payable less frequently than once two (2) months but more frequently than semiannually, (A) an amount equal to the interest payable on such Bonds and Parity Reimbursement Obligations during the next succeeding month; plus (B) an amount equal to the fees estimated by an Authorized Officer of the Authority to be payable to broker-dealers and tender and other agents with respect to such Bonds and Parity Reimbursement Obligations for such next succeeding month; plus (C) an amount equal to the principal (whether by maturity, redemption or acceleration) and Sinking Fund Installments of such Bonds and Parity Reimbursement Obligations payable during such next succeeding month. With respect to such Annual Payments, the Comptroller, as permitted by subdivision 5 of section 97-f of the State Finance Law, shall set aside in the Services Fund in each month until paid to the Authority the amounts set forth below, beginning in the months set forth below and for the interest frequency periods with respect to such Bonds and Parity Reimbursement Obligations set forth below:

Percentage to be Set Aside	First Month for Set Aside	Interest Frequency Period
One-half of required Annual Payment amount	Second month preceding payment date to Authority	More than 2 month but less than 3 months
One-Third of required Annual Payment amount	Third month preceding payment date to Authority	More than 3 month but less than 4 months
One-Quarter of required Annual Payment amount	Fourth month preceding payment date to Authority	More than 4 month but less than 5 months
One-Fifth of required Annual Payment amount	Fifth month preceding payment date to Authority	More than 5 month but less than 6 months

(viii) On the tenth day of each month with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is variable and is payable semiannually or less frequently than semiannually, (A) an amount equal to the interest payable on such Bonds and Parity Reimbursement Obligations during the next succeeding month; plus (B) an amount equal to the fees estimated by an Authorized Officer of the Authority to be payable to broker-dealers and tender and other agents with respect to such Bonds and Parity Reimbursement Obligations for such next succeeding month; plus (C) an amount equal to the principal (whether by maturity, redemption or acceleration) and Sinking Fund

Installments of such Bonds and Parity Reimbursement Obligations payable during such next succeeding month. The Annual Payments with respect to such interest and fees on such Bonds and Parity Reimbursement Obligations shall be treated as required to be made semiannually for purposes of subdivision 5 of section 97-f of the State Finance Law with the effect that the first required twenty percent (20%) monthly set-aside under such subdivision 5 shall begin in the sixth month preceding the due date for such Annual Payments; and

(b) Unless otherwise provided for in a Supplemental Financing Agreement, Annual Payments shall also be payable to the Authority in the amounts and manner and on the dates set forth below (collectively, the "Annual Expenditures"):

(i) On February 10 and August 10 of each Bond Year, (A) one-half (1/2) of the Annual Administrative Fee payable during such Bond Year, (B) an amount equal to the fees or charges estimated by an Authorized Officer of the Authority to be payable to auction agents, remarketing agents and other agents with respect to Bonds and Parity Reimbursement Obligations on which interest is variable for the next succeeding half of the Bond Year; and (C) an amount equal to the fees or charges estimated by an Authorized Officer of the Authority to be payable to Credit Facility Providers for the next succeeding half of the Bond Year;

(ii) On the tenth day of each month with respect to Outstanding Bonds to be purchased pursuant to mandatory or optional tenders, an amount equal to: (A) the interest estimated by the Authority to be payable on such Bonds during the next succeeding month, and (B) the purchase price of such Bonds estimated by the Authority to be payable during such next succeeding month;

(iii) On the tenth day of each month with respect to Outstanding Bonds which are subject to a Qualified Swap for which Qualified Swap Payments are variable and are not secured by the pledge of the Resolution, the estimated amount of any such Qualified Swap Payment certified by an Authorized Officer of the Authority as payable by the Authority to a Qualified Swap Provider during the second succeeding month, including but not limited to any fees or charges in connection therewith; and

(iv) On the tenth day of each month with respect to Outstanding Bonds which are subject to a Qualified Swap for which Qualified Swap Payments are fixed and payable semiannually and are not secured by the pledge of the Resolution, the estimated amount of any such Qualified Swap Payments certified by an Authorized Officer of the Authority as payable by the Authority to a Qualified Swap Provider during such month, including but not limited to any fees or charges in connection therewith.

(c) There shall be a credit against the Annual Payments required to be made pursuant to clauses (iv) and (v) of paragraph (a) above with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is fixed and is payable semiannually in an amount equal to: (A) the amount by which the amount in the Debt Service Account on the date any such payment is to be made exceeds the amount required pursuant to Section 5.05(1) of the Resolution to be on deposit in such account or required to pay the purchase price or Redemption Price, including accrued interest to the date of purchase or redemption, of Outstanding Bonds theretofore contracted to be purchased or called for redemption; and (B) the amount actually received by the Authority as a counter-payment from the Qualified Swap Provider with respect to a Qualified Swap to which such Outstanding Bonds are subject during the prior month.

(d) There shall be a credit against the Annual Payments required to be made pursuant to clauses (vi), (vii) and (viii) of paragraph (a) and clause (ii) of paragraph (b) above with respect to Outstanding Bonds and Parity Reimbursement Obligations on which interest is variable in an amount equal to: (A) the amount by which the amount in the Debt Service Account on the date any such payment is to be made exceeds the amount required pursuant to the Resolution to be on deposit in such account or required to pay the purchase price or Redemption Price, including accrued interest to the date of purchase or redemption, of Outstanding Bonds theretofore contracted to be purchased or called for redemption; and (B) the amount actually received by the Authority as a counter-payment from the Qualified Swap Provider with respect to a Qualified Swap to which such Outstanding Bonds are subject during the prior month.

(e) The Authority shall furnish the State Division of the Budget not less than ten (10) days prior to the date on which a payment is due pursuant to the Agreement, a statement of the amount, purpose and payment date of each payment required to be made pursuant to the Agreement. The Authority agrees that it will provide the State Division of the Budget such information as may be reasonably requested by it with respect to the calculation of the Annual Expenditures and the allocation formula utilized in connection therewith. The failure to furnish such statement or information shall not affect the rights of the Authority to receive, when due, the amounts payable pursuant to the Agreement.

(f) Any payments required to be made pursuant to the Agreement which are not paid within seven (7) days after the due date thereof shall, from and after said due date, bear interest (to the extent permitted by law) at the highest rate per annum borne by any of the Outstanding Bonds until paid, time being of the absolute essence of this obligation.

(g) All Annual Payments and other payments required to be made under the Agreement shall be payable in lawful money of the United States, which shall be legal tender for public and private debts under the laws of the United States at the time of payment. Payment shall be made in accordance with the provisions of Section 5.05 of the Agreement. *(Section 5.02)*

State Not Liable for Annual Payments

The State shall not be liable for any of the Annual Payments or any interest thereon payable to the Authority pursuant to the provisions of the Agreement. *(Section 5.03)*

Mental Health Services Fund

(a) It is anticipated that the Annual Payments shall, subject to legislative appropriation, be payable from amounts on deposit in the Services Fund pursuant to the provisions of Section 97-f of the State Finance Law and the Pledge and Assignment.

(b) Annual Payments which are required to be made on a date on which Prior Agency Annual Payments and Prior Authority Annual Payments are not required to be made shall be made only if the amount retained in the Services Fund is not less than the amount required to be on deposit therein pursuant to Section 97-f of the State Finance Law with respect to Prior Agency Annual Payments and Prior Authority Annual Payments and other retained amounts in such fund.

(c) In addition to retaining in the Services Fund the amounts required by subdivision 5 of Section 97-f with respect to Prior Agency Annual Payments, Prior Authority Annual Payments and Annual Payments that are to be made semiannually (including Annual Payments under clauses (vii) and (viii) of paragraph (a) of "Amount and Payment of Annual Payments" above, which shall be treated as required to be made semiannually for purposes of such subdivision 5), the Comptroller shall maintain in such fund, from and after the eleventh day of the month preceding any month in which payments are due pursuant to clause (vi) of paragraph (a) under "Amount and Payment of Annual Payments" above, the amount of such Annual Payment until such amount has been paid to the Authority.

(d) It is understood that, pursuant to the Pledge and Assignment, the obligation to make Annual Payments is (i) subject to State legislative appropriations, and (ii) subject, junior and subordinate to the obligation to make Prior Authority Annual Payments to the Authority for, among other things, the payment of the principal, sinking fund installments, if any, and redemption price of and interest on the Prior Authority Bonds, which obligation is subject, junior and subordinate to the obligation to make Prior Agency Annual Payments to the Authority for, among other things, the payment of the principal, sinking fund installments, if any, and redemption price of and interest on the Prior Agency Bonds. *(Section 5.04)*

Direction as to Payments

The Annual Payments payable pursuant to clause (i) of paragraph (b) under "Amount and Payment of Annual Payments" above shall be paid, when due, to the Authority, and after the making of such payment, the Annual Payments payable pursuant to paragraph (a) of "Amount and Payment of Annual Payments" above shall be paid, when due, to the Trustee for deposit and application in accordance with the Resolution, and after the making of such payment, the Annual Payments payable pursuant to clauses (ii), (iii) and (iv) of paragraph (b) of "Amount and Payment of Annual Payments" above shall be paid, when due, to the Authority.

The interest on the Annual Payments payable pursuant to the Agreement shall be paid, when due, to the Authority. *(Section 5.05)*

Indemnification of Authority

Both during the term of the Agreement and thereafter, the Department, to the extent not otherwise prohibited by State law and decisions thereunder, shall indemnify and hold the Authority and any member, officer, and employee of the Authority harmless from and against any and all liability, loss, cost, damage, claim, suit or judgment and any and all costs and expenses including, but not limited to, reasonable counsel fees and disbursements, if assessed by a court of competent jurisdiction, of any and all kinds or nature and however arising, imposed by law, which it or any of them may sustain, be subject to or be caused to incur by reason of any claim, suit or action based upon personal injury, death, or damage to property, whether real, personal or mixed, or upon or arising out of the financing, design, construction, reconstruction, acquisition, rehabilitation, improvement, occupancy, or use of a Voluntary Agency Facility, pursuant to the Agreement, upon or arising out of the allegation that an official statement, prospectus, placement memorandum or other offering document prepared in connection with the sale and issuance of obligations contained an untrue or misleading statement of a material fact relating to the Department, the State, a Voluntary Agency Facility or the estimated sources and uses of funds, or omitted to state a material fact relating to the Department, the State, a Voluntary Agency Facility or the estimated sources and uses of funds necessary in order to make the statements made therein in light of the circumstances under which they were made not misleading; provided, however, that such liability, loss, cost, damage, claim, suit or judgment is not contributed to, caused by or resulted from the intentional wrong doing of the Authority, its members, officers or employees.

The indemnification provisions of the Agreement shall not be deemed to relieve any insurance company which has issued a policy of insurance as may be provided for in the Agreement from its obligation to defend or indemnify the Department, the Authority and any other insured named in such policy of insurance in connection with claims, suits or actions covered by such policy.

It is the intention of the parties to the Agreement that any such insurance shall be primary, and shall take precedence to the indemnifications provided by the Department thereunder.

The Authority and each member, officer or employee shall be entitled to employ separate counsel in any action or proceeding and to participate in the defense thereof; provided, however, that the Department shall not be liable for attorneys' fees of separate counsel so retained or any other expenses incurred in connection with its participation in the defense of such action or proceeding, other than the reasonable costs of investigation thereof, unless the Department shall have consented thereto or unless, (i) in the reasonable judgment of the Authority (A) its or any member, officer or employee's interests and the interests of the Department therein are adverse or (B) it or any member, officer or employee may have a defense available to it which is not available to the Department or (ii) the Department does not provide for legal representation.

The indemnification provisions of the Agreement shall not apply with respect to any matters concerning which the parties to be indemnified thereunder are otherwise indemnified pursuant to Section 17 of the Public Officers Law or any other statute providing equivalent indemnification. *(Section 5.06)*

MISCELLANEOUS

Reserved Right of Amendment

Notwithstanding any of the other provisions of the Agreement or of any Supplemental Financing Agreement, the Authority and the Department reserve the right to terminate, modify or amend the Agreement and any Supplemental Financing Agreement in any manner; provided, that no such termination, modification or amendment shall affect or impair in any way the right of the Authority to receive the Annual Payments at the times and in the manner and amounts provided in the Agreement and in the Supplemental Financing Agreements or any provisions of the Agreement or of any Supplemental Financing Agreement made or provided for the purpose of assuring payment of such Annual Payments and the obligations of the Authority and the Department under the tax covenants of the Agreement. Upon termination of the Agreement and any Supplemental Financing Agreement, the Authority and Department shall include any surviving right of the Authority to receive the Annual Payments in a financing agreement permitted by law and the Resolution, and shall continue their obligations under the tax covenants of the Agreement by including identical language in any such financing agreement permitted by law and the Resolution. *(Section 6.01)*

Termination of the Agreement and Provisions Relating Thereto

The Agreement shall remain in full force and effect until the date on which (i) the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Bonds the proceeds of which are used to finance or refinance Costs of the Project with respect to the Voluntary Agency Facilities shall have been fully paid and discharged or provision for the payment and discharge thereof shall have been made as provided by the Resolution and (ii) all other obligations, liabilities and expenses of the Authority relating to a Voluntary Agency Facility or required to be paid by the Authority in connection with such termination of the Agreement and the defeasance of the Resolution shall have been fully paid and discharged or provision satisfactory to the Authority for the payment and discharge thereof shall have been made; provided, however, that the indemnification provisions and tax covenants of the Agreement shall survive the termination of the Agreement as provided therein. *(Section 6.02)*

Tax Covenant

With respect to any Bonds the interest on which is intended to be excluded in the gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Code as specified in the Series Resolution or the Series Certificate, the Authority and the Department each covenant and agree that they shall comply with the provisions of the Code applicable to such Bonds, including without limitation, the provisions of the Code relating to the computation of the yield on investments of the "gross proceeds" of such Bonds, as such term is defined in the Code, reporting of the earnings on such gross proceeds, rebates of earnings on such gross proceeds to the Department of the Treasury of the United States of America, and use, ownership and management of the Voluntary Agency Facilities financed by such gross proceeds.

The Authority and the Department shall not take any action or fail to take any action with respect to the application and investment of gross proceeds of such Bonds or use, ownership or management of any Voluntary Agency Facility or portions of any Voluntary Agency Facility which would cause a failure to comply with the provisions of Sections 103 and 141 to 150 of the Code.

In furtherance of the foregoing, the Authority and, to the extent applicable to it, the Department, shall comply with the Tax Certificate delivered by the Authority and the letter of instructions, if any, delivered by Bond Counsel, at the time the Bonds of a Series are issued as to compliance with the Code with respect to such Series of Bonds, as such Tax Certificate and letter may be amended from time to time, as a source of guidance for achieving compliance with the Code.

The Voluntary Agency Financing Documents entered into with a Voluntary Agency with respect to each Voluntary Agency Facility financed or refinanced with proceeds of such Bonds shall contain a similar tax covenant by the Voluntary Agency and such other covenants and representations as the Authority and the Department, upon the advice of Bond Counsel, may require. *(Section 6.03)*

Non-Assignability of Agreement

The Agreement may not be assigned, except to the Trustee, by any party without the consent in writing of each other party. *(Section 6.04)*

Disclaimer of Personal Liability

No recourse shall be had against or liability incurred by any member of the Authority or any officer or employee of the Authority or of the State, or any person executing the Agreement for any covenants and provisions thereof or for any claims based thereon. *(Section 6.07)*

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a summary of certain provisions of the Resolution as supplemented by the Series 2003D-2 Resolution authorizing the Subseries 2003D-2A Bonds and the Series 2003D-2 Certificate relating thereto. Such summary does not purport to be complete and reference is made to the Resolutions for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

AUTHORIZATION AND ISSUANCE OF BONDS

Authority for the Resolution

The Resolution is adopted pursuant to the provisions of the Act. Under the Health Care Financing Consolidation Act, the Authority has succeeded to the powers, duties and functions of the Agency and the Corporation, and the corporate existence of the Agency and the Corporation shall be continued in and through the Authority. Under the Health Care Financing Consolidation Act, the Authority has the power to finance any Facility initiated on and after the effective date of such act which the Agency would be authorized to undertake by the provisions of the Agency Act, provided that such financing shall be governed by the Agency Act. *(Section 1.02)*

Resolution and Bonds Constitute a Contract

With respect to the Bonds and Parity Reimbursement Obligations, in consideration of the purchase and acceptance of any and all of the Bonds and Parity Reimbursement Obligations authorized to be issued under the Resolution by those who shall hold or own the same from time to time, the Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of such Bonds and Parity Reimbursement Obligations, and the pledge and assignment made therein and the covenants and agreements set forth to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the Holders of any and all of such Bonds and Parity Reimbursement Obligations, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any such Bonds or Parity Reimbursement Obligations, over any other Bonds or Parity Reimbursement Obligations except as expressly provided in or permitted by the Resolution. *(Section 1.03)*

Option of Authority to Assign Certain Rights and Remedies to the Trustee

As security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Outstanding Bonds and for the performance of each other obligation of the Authority under the Resolution, the Authority may grant, pledge and assign to the Trustee all of the Authority's estate, right, title, interest and claim in, to and under the Agreement, a Credit Facility or any other agreement entered into in connection with Bonds, together with all rights, powers, security interests, privileges, options and other benefits of the Authority under the Agreement, a Credit Facility or any other agreement entered into in connection with Bonds including, without limitation, the immediate and continuing right to receive, enforce and collect (and to apply the same in accordance with the Resolution) all Revenues, insurance proceeds, condemnation awards, sale proceeds and other payments and other security now or hereafter payable to or receivable by the Authority under the Agreement, a Credit Facility or any other agreement entered into in connection with Bonds, and the right to make all waivers and agreements in the name and on behalf of the Authority, as agent and attorney-in-fact, and to perform all other necessary and appropriate acts under the Agreement, a Credit Facility or any other agreement entered into in connection with Bonds, subject to the following conditions: (a) that the Holders of the Bonds shall not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions thereof to be performed by the Authority; and (b) that, unless and until the Trustee shall so elect, by instrument in writing delivered to the Authority and the Department (and then only to the extent that the Trustee shall so elect), the Trustee shall not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions contained in the Agreement to be performed by the Authority (except to the extent of actions undertaken by the Trustee in the course of its performance of any such covenant or provision), and until such time the Authority shall remain liable to observe and perform all the conditions and covenants in the Agreement provided to be observed and performed by it; provided, however, that any grant, pledge and assignment of moneys, revenues, accounts, rights or other property made with respect to the Agreement as described in this paragraph shall secure, in the case of the Agreement, only the payment of the amounts payable under the Agreement and pledged thereby.

In the event the Authority elects to grant, pledge and assign to the Trustee any of its rights as provided above, the Trustee shall accept such grant, pledge and assignment which acceptance shall be evidenced in writing and signed by an Authorized Officer of the Trustee. *(Section 1.04)*

Authorization of Bonds

Bonds of the Authority are authorized to be issued and designated as "Dormitory Authority of the State of New York Mental Health Services Facilities Improvement Revenue Bonds", and the Resolution creates a continuing pledge and lien as provided thereby to secure the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on all the Bonds. The Bonds shall be special obligations of the Authority payable solely from the Revenues (except with respect to payments to the Trustee for deposit in the Arbitrage Rebate Fund), and all funds and accounts (excluding the Arbitrage Rebate Fund) established by the Resolution, all in the manner more particularly provided in the Resolution. The aggregate principal amount of Bonds which may be executed, authenticated and delivered under the Resolution is not limited except as provided therein.

The Bonds of the Authority shall not be a debt of the State, nor shall the State be liable thereon, nor shall the Bonds be payable out of any funds other than those of the Authority pledged by the Resolution to the payment of the principal, Sinking Fund Installments, if any, and the Redemption Price of and interest on all the Bonds.

The Bonds may, if and when authorized by the Authority pursuant to the Resolution and one or more Series Resolutions, if applicable, be issued in one or more Series and the Bonds of each Series shall contain an appropriate Series designation. *(Section 2.01)*

Provisions for Issuance of Bonds

The issuance of Bonds shall be authorized by a Series Resolution or Series Resolutions adopted at the time of or subsequent to the adoption of the Resolution. The Bonds of a Series authorized to be issued shall be executed by the Authority and delivered to the Trustee. Such Bonds shall from time to time and in such amounts as are directed by the Authority be authenticated by the Trustee and by it delivered to or upon the order of the Authority upon receipt of the consideration therefor and upon delivery to the Trustee of: (i) a copy of the Resolution and the Series Resolution authorizing such Bonds, certified by an Authorized Officer of the Authority; (ii) a copy of the applicable Agreement, including the applicable Supplemental Financing Agreement and any Supplemental Financing Agreement not previously filed with the Trustee, certified by an Authorized Officer of the Authority; (iii) a copy of the Series Certificate executed in connection with such Bonds; (iv) a written order as to the delivery of such Bonds, signed by an Authorized Officer of the Authority, describing the Bonds to be delivered, designating the purchaser or purchasers to whom such Bonds are to be delivered, and stating the consideration for such Bonds; (v) a certificate of an Authorized Officer of the Authority stating that (x) as a result of the issuance of such Bonds, the Authority shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained therein and (y) except in the case of Refunding Bonds, the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained therein; (vi) unless the Trustee is a party thereto, a copy of the agreement, if any, between the Authority and the Depository for such Bonds; (vii) if a Credit Facility is to be provided in connection with the issuance of the Bonds of such Series, such Credit Facility; and (vii) an opinion of Bond Counsel stating, in the opinion of Bond Counsel, that the Resolution, including the applicable Series Resolution authorizing the Series of Bonds, has been duly and lawfully adopted by the Authority; that the Resolution is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms; that the Resolution creates the valid pledge which it purports to create, subject only to the provisions of the Resolution permitting the withdrawal, payment, setting apart or appropriation of the moneys pledged thereby for the purposes and on the terms and conditions set forth in the Resolution; and that the Authority is duly authorized and entitled to issue such Series of Bonds and, upon the execution and delivery thereof and upon authentication by the Trustee, such Series of Bonds will be duly and validly issued and will constitute valid and binding special obligations of the Authority entitled to the benefits of the Resolution; provided, however, that such opinion may be qualified to the extent that enforceability of rights and remedies may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally or as to the availability of any particular remedy. *(Section 2.02)*

Refunding Bonds

All or any portion of one or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all Outstanding Bonds, one or more Series of Outstanding Bonds or Parity Reimbursement Obligations, a portion of a Series of Outstanding Bonds or Parity Reimbursement Obligations or a portion of a maturity of a Series of Outstanding Bonds or Parity Reimbursement Obligations, all or a portion of Prior Agency Bonds, all or a portion of Prior Authority Bonds, or all or a portion of outstanding bonds or other obligations issued by the Authority. The Authority may issue Refunding Bonds in an aggregate principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Resolution and the Series Resolution authorizing such Series of Refunding Bonds, by the provisions of the Prior Agency Resolution, by the provisions of the Prior Authority Resolution, or by the provisions of the resolution or resolutions authorizing the bonds or other obligations issued by the Authority, as the case may be.

The proceeds, including accrued interest, of Refunding Bonds shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or as determined in accordance with the Series Resolution authorizing such Refunding Bonds. With respect to the Refunding Bonds issued to refund all or any portion of any Prior Authority Bonds, the proceeds, including accrued interest, shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or as determined in accordance with the Prior Authority Resolution. With respect to the Refunding Bonds issued to refund all or any portion of any bonds, notes or other obligations issued by the Authority, the proceeds, including accrued interest, shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or as determined in accordance with the resolution or resolutions authorizing such bonds, notes or other obligations. (*Section 2.04)*

Additional Obligations

The Authority reserves the right to issue bonds, notes or any other obligations pursuant to other and separate resolutions of the Authority, on a parity with the Bonds then Outstanding, entitled to a charge or lien or right equal to the charge or lien created by the Resolution or equal to the rights of the Authority and Holders of Bonds provided thereby or with respect to the moneys pledged by the Resolution*. (Section 2.05*)

Credit Facilities; Qualified Swaps and Other Similar Obligations; Parity Reimbursement Obligations

The Authority may include such provisions in a Series Resolution or related Series Certificate authorizing the issuance of a Series of Bonds secured by a Credit Facility as the Authority deems appropriate, including:

(i) So long as the Credit Facility is in full force and effect, and payment on the Credit Facility is not in default and the provider of the Credit Facility is qualified to do business in the State, and (a) no proceeding shall have been instituted in a court having jurisdiction seeking a decree or order for relief in respect of the provider of the Credit Facility in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) for the provider of the Credit Facility or for any substantial part of its property or for the winding up or liquidation of the affairs of the provider of the Credit Facility and such proceeding shall remain undismissed or unstayed and in effect for a period of sixty (60) days or such court shall enter a decree or order granting the relief sought in such proceeding, or (b) the provider of the Credit Facility shall not have commenced a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall not have consented to the entry of an order for relief in an involuntary case under any such law, or shall not have consented to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) for the provider of the Credit Facility or for any substantial part of its property, or shall not have made a general assignment for the benefit of creditors, or shall not have failed generally to pay its debts as they become due, or shall not have taken any corporate action with respect to any of the foregoing, then, in all such events, the provider of the Credit Facility shall be deemed to be the sole Holder of the Outstanding Bonds the payment of which such Credit Facility secures when the approval, consent or action of the Bondholders for such

Bonds is required or may be exercised under the Resolution, including, without limitation, Articles IX and X thereof, and following a default under the Resolution, except where the Credit Facilities provide only liquidity support and not credit support.

(ii) In the event that the principal, Sinking Fund Installments, if any, and Redemption Price, if applicable, and interest due on any Bonds Outstanding, or the purchase price of puts in connection with such Bonds, shall be paid under the provisions of a Credit Facility, all covenants, agreements and other obligations of the Authority to the Bondholders of such Bonds shall continue to exist and such provider of the Credit Facility shall be subrogated to the rights of such Bondholders in accordance with the terms of such Credit Facility.

(iii) In addition, such Series Resolution or related Series Certificate may establish such provisions as are necessary (i) to comply with the provisions of each such Credit Facility, (ii) to provide relevant information to the provider of the Credit Facility, (iii) to provide a mechanism for paying Principal Installments and interest on such Series of Bonds under the Credit Facility, and (iv) to make provision for any events of default or for additional or improved security required by the provider of a Credit Facility. In connection therewith the Authority may enter into such agreements with the issuer of such Credit Facility providing for, inter alia: (i) the payment of fees and expenses to such provider for the issuance of such Credit Facility; (ii) the terms and conditions of such Credit Facility and the Series of Bonds affected thereby; and (iii) the security, if any, to be provided for the issuance of such Credit Facility.

(iv) The Authority may secure such Credit Facility by an agreement providing for the purchase of the Series of Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified by the Authority in the applicable Series Resolution. The Authority may also in an agreement with the provider of such Credit Facility agree to directly reimburse such issuer for amounts paid under the terms of such Credit Facility, together with interest thereon (the "Reimbursement Obligation") solely from Revenues; provided, however, that no Reimbursement Obligation shall be created, for purposes of this Resolution, until amounts are paid under such Credit Facility. Any such Reimbursement Obligation, which may include interest calculated at a rate higher than the interest rate on the related Bond, may be secured by a pledge of, and a lien on, the Revenues on a parity with the lien created by the Resolution, but only to the extent principal amortization requirements with respect to such reimbursement are equal to the amortization requirements for such related Bonds, without acceleration. Any Reimbursement Obligation conforming with the provisions of the previous sentence shall be deemed a "Parity Reimbursement Obligation". Parity Reimbursement Obligations shall not include any payments of any fees, expenses, indemnification, or other obligations to any such provider, or any payments pursuant to term loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Bonds. Parity Reimbursement Obligations may be evidenced by Bonds designated as "Bank Bonds." Any such Parity Reimbursement Obligation shall be deemed to be a part of the Series of Bonds to which the Credit Facility which gave rise to such Parity Reimbursement Obligation relates.

(v) Any such Credit Facility shall be for the benefit of and secure such Series of Bonds or portion thereof as specified in the applicable Series Resolution. In connection with the issuance of a Series of Bonds or at any time thereafter so long as a Series of Bonds remains Outstanding, the Authority also may enter into Qualified Swaps or, to the extent from time to time permitted pursuant to law, other similar arrangements if the Authority determines that such Qualified Swaps or other similar arrangements will assist the Authority in more effectively managing its interest costs. To the extent provided in a Series Resolution or related Series Certificate, the Authority's obligation to pay Qualified Swap Payments under any Qualified Swap may be secured by a pledge of, and a lien on, the Subordinated Payment Fund. Qualified Swap Payments may include any payments of any termination or other fees, expenses, indemnification or other obligations to a Qualified Swap Provider, or any payments that represent payment of interest thereunder in advance of the payment of interest on the Bonds to which such Qualified Swap relates.

(vi) Parity Reimbursement Obligations and Subordinated Indebtedness shall not be a debt of the State and the State shall not be liable thereon, nor shall Parity Reimbursement Obligations and Subordinated Indebtedness be payable out of any funds other than those of the Authority pledged therefor pursuant to the Resolution. *(Section 2.06)*

PLEDGE OF REVENUES; FUNDS AND ACCOUNTS

Pledge

The proceeds from the sale of any Bonds, the Revenues (except the payments to the Trustee for deposit in the Arbitrage Rebate Fund), and all funds and accounts established by the Resolution, other than the Arbitrage Rebate Fund, are pledged and assigned to the Trustee as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds and on the Parity Reimbursement Obligations and as security for the performance of any other obligation of the Authority under the Resolution and each Series Resolution all in accordance with the provisions thereof. The pledge and assignment of and lien upon the Net Annual Payments component of the Revenues are subject to and subordinate to the prior pledge and assignment of and lien upon the Prior Authority Annual Payments as security for the payment of the principal, sinking fund installments, if any, and redemption price of and interest on the Prior Authority Bonds, which prior pledge and assignment and lien are subject to and subordinate to the prior pledge and assignment of and lien upon the Prior Agency Annual Payments as security for the payment of the principal, sinking fund installments, if any, and redemption price of and interest on the Prior Agency Bonds. The pledge made by the Resolution is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of any Bonds or Parity Reimbursement Obligations, the Revenues, and all funds and accounts established by the Resolution and which are pledged by the Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. The Bonds shall be special obligations of the Authority payable solely from and secured by the aforesaid pledge of the proceeds from the sale of any Bonds, the Revenues, and all funds and accounts established by the Resolution. The pledge and lien created by the Resolution for the Bonds and Parity Reimbursement Obligations shall be superior in all respects to any pledge or lien now or hereafter created for indebtedness or other obligation secured by the Subordinated Payment Fund.

Notwithstanding anything to the contrary contained in the Resolution, the Authority may incur obligations or indebtedness to any Facility Provider which are payable from the Revenues or on a parity with the Bonds and which are secured by a lien on and pledge of the Revenues equal to the lien and pledge made by the Resolution, without preference, priority or distinction over the rights of the Holders of the Bonds. *(Section 5.01)*

Establishment of Funds and Accounts

The following special funds and separate accounts within special funds are established by the Resolution and, except for the Construction Fund which shall be held and maintained by the Authority, shall be held and maintained by the Trustee:

1. Mental Health Services Facilities Improvement Construction Fund (referred to as the "Construction Fund") and a State Project Account and a Voluntary Agency Project Account therein;

2. Mental Health Services Facilities Fund (referred to as the "Revenue Fund") and a Debt Service Account therein;

3. Mental Health Services Facilities Improvement Arbitrage Rebate Fund (referred to as the "Arbitrage Rebate Fund"); and

5. Mental Health Services Facilities Improvement Subordinated Payment Fund.

Accounts and subaccounts required to be established by the Resolution, may be established from time to time in accordance with a Series Resolution, a Series Certificate or upon the direction to the Trustee by an Authorized Officer of the Authority for accounting purposes or any other purpose. All moneys at any time deposited in any fund (including all accounts and subaccounts therein) created and pledged by the Resolution or required by the Resolution to be created shall be held in trust for the benefit of the Holders of Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided therein; provided, however, that the moneys derived from the remarketing of Option Bonds tendered or deemed to have been tendered for purchase or redemption in accordance with the Series Resolution authorizing the issuance of such Bonds or the Series Certificate relating to such Bonds, and any fund or account established by or pursuant to such Series Resolution for the payment of the purchase price or Redemption Price of Option Bonds so tendered or deemed to have been tendered, shall not be held in trust for the benefit of the Holders of Bonds other than the Holders of such Option Bonds, and such moneys and each such fund and account are pledged by the Resolution for the payment of the purchase price or Redemption Price of such Option Bonds. *(Section 5.02)*

Application of Proceeds and Allocation Thereof

Upon the receipt of the proceeds from the sale of a Series of Bonds, the Authority shall apply such proceeds as specified in the Resolution and the Series Resolution authorizing such Series of Bonds or in the Series Certificate relating to such Series of Bonds.

Accrued interest or capitalized interest, if any, received upon the delivery of a Series of Bonds shall be deposited in the Debt Service Account unless all or any portion of such amount is to be otherwise applied as specified in the Series Resolution authorizing such Series or in the Series Certificate relating to such Series. *(Section 5.03)*

Application of Moneys in the Construction Fund

As soon as practicable on the date of delivery of the Bonds of a Series, the Trustee shall deposit in the Construction Fund to the credit of a Project Account the amount required to be deposited therein pursuant to the Series Resolution authorizing such Series of Bonds or the Series Certificate relating to such Series of Bonds. In addition, the Authority shall pay over to the Construction Fund to the credit of the appropriate Project Account any moneys paid to the Authority pursuant to Section 7.08 of the Resolution.

Except as otherwise provided in the Resolution and any applicable Series Resolution or Series Certificate, moneys in the Construction Fund shall be applied only to pay the Costs of Issuance and the Costs of the Project. In addition to the State Project Account and the Voluntary Agency Project Account, a separate account within the Construction Fund (a "Project Account") appropriately named shall be established for each Other Project financed or refinanced under any Other Agreement in connection with which Bonds have been issued. For purposes of internal accounting or other purposes, the Authority may establish one or more other accounts and subaccounts in the Construction Fund or in the State Project Account, the Voluntary Agency Project Account or any other account therein as the Authority may deem proper, including without limitation, a separate subaccount within the State Project Account for each State Facility, a separate subaccount within the Voluntary Agency Project Account for each Voluntary Agency Facility or a separate subaccount within such other Project Account for each Facility comprising a part of any Other Project for which such Project Account is established.

Payments for Costs of Issuance shall be made by the Authority upon the written approval of an Authorized Officer of the Authority stating the names of the payees, the purpose of each payment in terms sufficient for identification and the respective amounts of each such payment.

Payments for Cost of the Project paid by the Authority or reimbursement to the State, a Voluntary Agency or other qualified person for Costs of the Project paid by the State, a Voluntary Agency or other qualified person, in each case shall be made by the Authority upon the written approval of an Authorized Officer of the Authority stating (i) the Facility in connection with which payment is to be made, (ii) the names of the payees, (iii) the purpose for which such payment is to be made in terms sufficient for identification, (iv) the respective amount of each such payment, and (v) that such purpose constitutes a proper purpose for which moneys in the Construction Fund may be applied and has not been the basis of any previous withdrawal from the Construction Fund.

Moneys in the Construction Fund to be applied to pay interest on Bonds shall be transferred from the Construction Fund to the Debt Service Account at such times and in such amounts as shall be determined by an Authorized Officer of the Authority.

Subject to the provisions of the Prior Agency Resolution and the Prior Authority Resolution, as applicable, any proceeds of insurance, condemnation or eminent domain awards received by the Trustee, the Department, the State or the Authority with respect to a Facility or any proceeds of the sale of a Facility received by the Authority, the State or the Department, in accordance with the terms of the applicable Agreement, shall be deposited in the Construction Fund to the credit of the applicable Project Account and used to repair, restore or replace such Facility or for any purposes of such Project Account, including payment of the Cost of the Project with respect to another Facility, and if not so used, shall be transferred to the Debt Service Account, and applied, at the option of the Authority, to pay principal, Sinking Fund Installments of or interest on the Bonds when due or to the redemption of Bonds or shall be applied to the defeasance of Bonds.

A Facility shall be deemed to be complete upon the filing in the offices of the Authority of a certificate signed by an Authorized Officer of the Authority or an authorized agent of the Authority which certificate shall state that such Facility has been completed and the amount of moneys, if any, to be retained in the applicable Project Account, other account or subaccount in the Construction Fund to make provision for the payment of any Cost of the Project or Costs of Issuance with respect to such Facility then remaining unpaid.

Upon the filing in the offices of the Authority of a certificate signed by an Authorized Officer of the Department and of the Authority which states that all of the Facilities comprising a Project have been completed, the moneys, if any, then remaining in the Project Account, other account or subaccounts in the Construction Fund established for the Facilities comprising such Project, after making provision for the payment of any Costs of Issuance and Costs of the Project with respect to such Project then unpaid, shall be transferred to and applied by the Trustee in the following order of priority:

First: Upon the direction of an Authorized Officer of the Authority, to the Arbitrage Rebate Fund, the amount set forth in such direction; and

Second: To the Debt Service Account, at the direction of the Authority, for the payment of principal of the Bonds and Parity Reimbursement Obligations at the maturity date or prior redemption thereof or through the purchase thereof in accordance with the Resolution, any balance remaining.

At any time prior to the filing of the certificate as to the completion of all Facilities comprising a Project, the Authority, subject to the provisions of the Resolution, may reapply moneys that are held for the payment of Cost of the Project with respect to a Facility in the State Project Account, the Voluntary Agency Project Account or such other Project Account as may be established of the Resolution thereto to such other purposes as may be provided in the related Financing Agreement (State Project), the Financing Agreement (Voluntary Agency Project) or an Other Agreement, or a Supplemental Financing Agreement, including for the purpose of paying the Costs of the Project with respect to another Facility comprising the same Project specified to be financed or refinanced from such Project Account. *(Section 5.04)*

Deposit of Revenues and Allocation Thereof

The Revenues and other moneys, which, by any of the provisions of the Agreement, are required to be paid to the Trustee, shall be paid to the Trustee and upon receipt thereof shall be deposited or paid by the Trustee in the Revenue Fund and then applied in the following order of priority:

First: To the credit of the Debt Service Account (i) in the case of Revenues and other amounts received during the period from the beginning of each Bond Year until August 14 thereof, the amount, if any, necessary to make the amount on deposit in the Debt Service Account equal to the principal, Sinking Fund Installments and Redemption Price of Outstanding Bonds and Parity Reimbursement Obligations becoming due on or before the next succeeding August 15 and the interest payable on Outstanding Bonds and Parity Reimbursement Obligations on or before the next succeeding August 15; and (ii) in the case of Revenues and other amounts received thereafter and until the end of such Bond Year, the amount, if any, necessary to make the amount on deposit in the Debt Service Account equal to the principal, Sinking Fund Installments and Redemption Price of Outstanding Bonds and Parity Reimbursement Obligations becoming due on or before the next succeeding February 15 and the interest payable on Outstanding Bonds and Parity Reimbursement Obligations on or before the next succeeding February 15;

Second: To reimburse, pro rata, each Facility Provider for payments due for use of the Credit Facility provided by such Facility Provider other than fees and charges which are then unpaid, in proportion to the amount of such payments then unpaid to each Facility Provider;

Third: Upon the direction of an Authorized Officer of the Authority, to the Arbitrage Rebate Fund the amount set forth in such direction; and

Fourth: To the Subordinated Payment Fund.

After making the payments required by paragraph First above, the balance, if any, of the Revenues shall, upon the direction of an Authorized Officer of the Authority, be paid by the Trustee to the Authority for deposit to the credit of the Construction Fund or deposited by the Trustee to the credit of the Debt Service Account for application in accordance with the Resolution, or to both, in the respective amounts set forth in such direction. The Trustee shall notify the Authority promptly after making the payments required by paragraph First above of any balance remaining from such Revenues or other amounts.

The Annual Expenditures which are paid from the Annual Payments shall be deemed to have been deposited in the Revenue Fund and immediately disbursed to the Authority in accordance with the Agreement but shall not constitute Revenues which are subject to the lien and pledge of the Resolution. (*Section 5.05*)

Debt Service Account

The Trustee shall on or before the Business Day preceding each interest payment date pay to itself as a Paying Agent and any other Paying Agent the amount of: (a) the interest due on all Outstanding Bonds on such interest payment date; (b) the principal and Sinking Fund Installments due on all Outstanding Bonds on such interest payment date; (c) moneys required for the redemption or purchase of Bonds in accordance with the Resolution; and (d) amounts due with respect to Parity Reimbursement Obligations.

The amount paid out shall continue to be subject to the pledge made by the Resolution and shall be held by the Trustee and Paying Agents subject to such pledge and applied to the payments due on such interest payment date to the Holders of Bonds in accordance with the Resolution.

The Authority may, at any time subsequent to February 15 or August 15 of any Bond Year on which principal or Sinking Fund Installments of Outstanding Bonds are due and payable but in no event later than the forty-fifth (45) day preceding the succeeding August 15 or February 15 , as the case may be, on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Debt Service Account, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Term Bonds to be redeemed from such Sinking Fund Installment. Any Term Bonds so purchased shall be cancelled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so cancelled shall be credited against the Sinking Fund Installment due on such August 15 or February 15 , as the case may be; provided that such Term Bond is cancelled by the Trustee prior to the date on which notice of redemption is given.

In the event that on any interest payment date the amount in the Debt Service Account shall be less than the amounts respectively required for payment of interest on the Outstanding Bonds and Parity Reimbursement Obligations, for the payment of principal of the Outstanding Bonds and Parity Reimbursement Obligations or for the payment of Sinking Fund Installments of the Outstanding Bonds and Parity Reimbursement Obligations due and payable on such interest payment date, the Trustee shall apply moneys in the Debt Service Account deposited therein for the redemption of Bonds (other than moneys required to pay the Redemption Price of any Outstanding Bonds theretofore called for redemption or to pay the purchase price of Outstanding Bonds theretofore contracted to be purchased, including in both cases accrued interest on such Bonds to the date of redemption or purchase) in the following order of priority, to pay interest on, principal of or Sinking Fund Installment of Bonds and Parity Reimbursement Obligations, respectively.

Moneys in the Debt Service Account in excess of the amount required to pay (i) the principal and Sinking Fund Installments of Outstanding Bonds and Parity Reimbursement Obligations payable on or before the next succeeding semi-annual interest payment date, (ii) the interest on Outstanding Bonds and Parity Reimbursement Obligations on which interest is payable semi-annually payable on the next succeeding semi-annual interest payment date, (iii) the interest on Outstanding Bonds and Parity Reimbursement Obligations on which interest is payable more frequently than semi-annually payable prior to the next succeeding semi-annual interest payment date, and (iv) the purchase price or Redemption Price, including accrued interest to the date of such purchase or redemption, of Outstanding Bonds theretofore contracted to be purchased or called for redemption shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to the purchase of Outstanding Bonds of any Series at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued interest to such date, at such times, at such purchase prices and in such manner as an Authorized Officer of the Authority shall direct.

Notwithstanding the provisions of the preceding paragraph, if the amount in the Debt Service Account at any time (other than moneys required to pay the Redemption Price of any Outstanding Bonds theretofore called for redemption or to pay the purchase price of Outstanding Bonds theretofore contracted to be purchased, including in both cases accrued interest on such Bonds to the date of redemption or purchase) is sufficient to make provision pursuant to the Resolution for the payment of such Outstanding Bonds at the maturity or redemption date thereof as the Authority may select, the Authority may request the Trustee to take such action consistent with the Resolution as is required thereby to deem such Bonds to have been paid within the meaning of the Resolution. The Trustee, upon receipt of such request, the irrevocable instructions required by the Resolution and irrevocable instructions of the Authority to purchase Defeasance Securities sufficient to make any deposit required thereby, shall comply with such request. *(Section 5.06)*

Subordinated Payment Fund

The Authority may, at any time, or from time to time, issue Subordinated Indebtedness payable out of, and which may be secured by a pledge of and lien on, such amounts as may from time to time be available for transfer to the Subordinated Payment Fund pursuant to the Resolution; provided, however, that (a) such pledge shall be, and shall be expressed to be, subordinate in all respects to the pledge created by the Resolution as security for the Bonds and Parity Reimbursement Obligations and (b) to the extent provided by Series Resolution, any amounts so transferred shall thereafter be free and clear of any lien, pledge or claim of the Resolution. The Authority may establish such priorities of payment and security among Subordinated Indebtedness as it deems appropriate; provided, however, that the Series Resolution or indenture or other agreement providing for the issuance of such Subordinated Indebtedness shall not permit the holders of such Subordinated Indebtedness to declare the same, nor to instruct such holders' trustee to declare the same, to be immediately due and payable any time that any Bonds and Parity Reimbursement Obligations remain Outstanding.

Subject to the other provisions of the Resolution, the Trustee shall deposit into the Subordinated Payment Fund all Revenues for (i) payments on any Subordinated Indebtedness, or (ii) Qualified Swap Payments or payments on other financial instruments entered into by the Authority.

The Trustee shall pay out of the Subordinated Payment Fund all amounts required for the payments described in the preceding two paragraphs pursuant to any resolution adopted by, or otherwise at the written direction of, the Authority.

Except as otherwise provided in the Resolution or a Series Resolution, investment income on amounts in the Subordinated Payment Fund shall be transferred to the Revenue Fund, or, upon the direction of an Authorized Officer of the Authority, shall be transferred to the Rebate Fund, or with the concurrence of the Director of the Budget, shall be retained in the Subordinated Payment Fund or transferred to the Debt Service Fund. *(Section 5.08)*

Arbitrage Rebate Fund

The Trustee shall deposit to the Arbitrage Rebate Fund any moneys delivered to it by the Department or any qualified person for deposit therein or transferred by it or paid to it by the Authority in accordance with the provisions of the Resolution for deposit therein. Notwithstanding any other provisions of the Resolution, the Trustee shall transfer to the Arbitrage Rebate Fund, in accordance with the directions of an Authorized Officer of the Authority, moneys on deposit in any other funds held by the Trustee thereunder at such times and in such amounts as shall be set forth in such directions, and the Authority may withdraw from the Construction Fund and pay to the Trustee for deposit to the Arbitrage Rebate Fund, such amounts as shall be determined by the Authority to be necessary to comply with the Code.

Moneys on deposit in the Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which an Authorized Officer of the Authority determines to be in excess of the amount required to be so rebated shall be deposited to any fund or account held pursuant to the Resolution including the Construction Fund in accordance with the directions of such Authorized Officer.

If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, determine the amount of Excess Earnings with respect to each Series of Bonds and direct the Trustee to (i) transfer from any other of the funds and accounts held by the Trustee under the Resolution and deposit to the Arbitrage Rebate Fund, all or a portion of the Excess Earnings with respect to each Series of Bonds and (ii) pay out of the Arbitrage Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated thereto. *(Section 5.09)*

Application of Moneys in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions of the Resolution, if at any time the amounts held in the Debt Service Account, after making any necessary transfer to the Arbitrage Rebate Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds and the interest accrued and to accrue on such Bonds to the next date of redemption when all such Bonds are redeemable, the Trustee shall so notify the Authority and the Department. Upon receipt of such notice, the Authority may direct the Trustee to redeem all such Outstanding Bonds. The Trustee shall, upon receipt of such request in writing by the Authority, proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds by the Resolution and by each Series Resolution as provided in the Resolution. *(Section 5.10)*

Transfer of Investments

Whenever moneys in any fund or account established by the Resolution or by any Series Resolution are to be paid in accordance therewith to another such fund or account, such payment may be made, in whole or in part, by transferring to such other fund or account investments held as part of the fund or account from which such payment is to be made, whose value, together with the moneys, if any, to be transferred, is at least equal to the amount of the payment then to be made, provided that no such transfer of investments would result in a violation of any investment standard or restriction applicable to moneys in such fund or in a violation of the Resolution, relating to the exclusion from gross income of the interest on certain Bonds for federal income taxation purposes. *(Section 5.11)*

SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

Security for Deposits

All moneys held under the Resolution by the Trustee shall be continuously and fully secured, for the benefit of the Authority and the Holders of the Bonds and Parity Reimbursement Obligations, by direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America of a market value equal at all times to the amount of the deposit so held by the Trustee; provided, however, (a) that if the securing of such moneys is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds, and (b) that it shall not be necessary for the Trustee or any Paying Agent to give security for the deposit of any moneys with them pursuant to the Resolution and held in trust for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on any Bonds, or for the Trustee to give security for any moneys which shall be represented by obligations purchased or other investments made under the provisions of the Resolution as an investment of such moneys. *(Section 6.01)*

Investment of Funds and Accounts

Moneys held under the Resolution in any fund or account established thereby or by or pursuant to a Series Resolution, if permitted by law, shall, as nearly as may be practicable, be invested in Government Obligations, Federal Agency Obligations, Exempt Obligations, and, if not inconsistent with the investment guidelines of a Rating Agency applicable to funds held thereunder, any other Investment Obligations; provided, however, that each such investment shall permit the moneys so deposited or invested to be available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes of the Resolution; provided, further, that (x) any Permitted Collateral required to secure any Investment Obligation shall have a market value, determined by the Trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (y) the Permitted Collateral shall be deposited with and held by the Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (z) the Permitted Collateral shall be free and clear of claims of any other person. Moneys held under the Resolution by the Trustee shall be invested by the Trustee upon the direction of an Authorized Officer of the Authority given or confirmed in writing, which direction shall specify the amount to be so invested.

Investment Obligations purchased or other investments made as an investment of moneys in any fund or account held under the provisions of the Resolution shall be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof shall be retained in, credited or charged to, as the case may be, such fund or account.

In computing the amount in any fund or account held by the Trustee under the provisions of the Resolution, each Investment Obligation shall be valued at the par value or cost thereof, plus accrued interest, whichever is lower.

Notwithstanding anything to the contrary in the Resolution, the Authority, in its discretion, may direct the Trustee to, and the Trustee shall, sell, present for redemption or exchange any investment held by the Trustee pursuant to the Resolution and the proceeds thereof may be reinvested as provided in the Agreement. Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant thereto whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account in which such investment is held. The Trustee shall advise the Authority, in writing, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account thereunder and of the details of all investments held for the credit of each fund and account in its custody under the provisions hereof as of the end of the preceding month and as to whether such investments comply with the provisions of the above first two paragraphs under the heading "Investment of Funds and Accounts." The details of such investments shall include the par value, if any, the cost and the current market value of such investments as of the end of the preceding month. The Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund and account in the previous month.

No part of the proceeds of any Series of Bonds or any other moneys of the Authority shall be used directly or indirectly to acquire any securities or investments the acquisition of which would cause any Bonds to be an "arbitrage bond" within the meaning of Section 148(a) of the Code.

Neither the Authority nor the Trustee shall have any liability arising out of or in connection with the making of any investment authorized by the provisions of the Resolution, in the manner provided in the Resolution, for any depreciation in value of any investment or for any loss, direct or indirect, resulting from any investment. *(Section 6.02)*

PARTICULAR COVENANTS

Payment of Principal and Interest

The Authority shall pay or cause to be paid the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on every Bond of each Series on the date and at the places and in the manner provided in the Bonds according to the true intent and meaning thereof. *(Section 7.01)*

Accounts and Audits

The Authority shall keep proper books of records and accounts (separate from all other records and accounts), which may be kept on behalf of the Authority by the Trustee, in which complete and correct entries shall be made of its transactions relating to each Series of Bonds, which books and accounts, at reasonable hours and subject to the reasonable rules and regulations of the Authority, shall be subject to the inspection of the State, the Trustee or of any Holder of a Bond or his representative duly authorized in writing. The Trustee shall annually prepare a report which shall be furnished to the Authority, to each Facility Provider and to the Department. Such report shall include at least: a statement of all funds (including investments thereof) held by such Trustee and the Authority pursuant to the provisions of the Resolution and of each Series Resolution; a statement of the Revenues collected in connection with the Resolution and with each Series Resolution; and complete and correct entries of the Authority's transactions relating to each Series of Bonds. A copy of such report shall, upon receipt of a written request therefor, and payment of any reasonable fee or charge made in connection therewith, be furnished to the registered owner of a Bond or any beneficial owner of a Book Entry Bond requesting the same. *(Section 7.05)*

Creation of Liens

Except for the superior and prior pledge of and lien upon the Net Annual Payments component of the Revenues as security for the payment of the principal, sinking fund installments, if any, and redemption price of and interest on the Prior Agency Bonds and the Prior Authority Bonds, the Authority shall not create or cause to be created any lien or charge prior or equal to that of the Bonds on the proceeds from the sale of any Bonds, the Revenues, or the funds and accounts established by the Resolution or by any Series Resolution which are pledged by the Resolution; provided, however, that nothing contained on the Resolution shall prevent the Authority from (i) issuing bonds, notes or other obligations under another and separate resolution on a parity with Bonds then Outstanding pursuant to the Resolution, and (ii) incurring Parity Reimbursement Obligations. *(Section 7.06)*

Enforcement of Duties and Obligations of the Department

The Authority shall take all legally available action to cause the Department to perform fully all duties and acts and comply fully with the covenants of the Department required by the Agreement in the manner and at the times provided in the Agreement; provided, however, that the Authority may delay or defer enforcement of one or more provisions of the Agreement (other than provisions requiring the payment of moneys to the Trustee for deposit to any fund or account established thereunder) if the Authority determines such delay or deferment will not materially adversely affect the interests of the Holders of the Bonds. *(Section 7.07)*

Deposit of Certain Moneys in the Construction Fund

In addition to the proceeds of Bonds to be deposited in the Construction Fund, any moneys paid to the Authority for the acquisition, construction, reconstruction, rehabilitation and improvement or otherwise providing, furnishing and equipping of a Facility shall be deposited in the Construction Fund to the credit of the appropriate Project Account and such subaccount therein as may be established for such Facility. *(Section 7.08)*

Offices for Payment and Registration of Bonds

The Authority shall at all times maintain an office or agency in the State where Bonds may be presented for payment. The Authority may, pursuant to a Supplemental Resolution or a Series Resolution or pursuant to a resolution adopted in accordance with the Resolution, designate an additional Paying Agent or Paying Agents where

Bonds of the Series authorized thereby or referred to therein may be presented for payment. The Authority shall at all times maintain an office or agency in the State where Bonds may be presented for registration, transfer or exchange and the Trustee is appointed as its agent to maintain such office or agency for the registration, transfer or exchange of Bonds. The provisions of this paragraph shall be subject to the provisions of the Resolution. *(Section 7.09)*

Pledge and Assignment of Net Annual Payments; Amendment of Agreement

The Net Annual Payments are pledged and assigned to the Trustee for the benefit of the Holders of the Bonds and for the application thereof in accordance with the provisions of the Resolution, and the Trustee shall have the legal right to enforce such pledge and assignment and the provisions of the Agreement providing for the payment thereof in the manner provided in the Agreement and the Resolution; provided that such pledge and assignment is subject and subordinate to the prior pledge and assignment of and lien upon the Prior Authority Annual Payments as security for the payment of the principal, sinking fund installments, if any, and redemption price of and interest on the Prior Authority Bonds, which prior pledge and assignment and lien are subject to and subordinate to the prior pledge and assignment of and lien upon the Prior Agency Annual Payments as security for the payment of the principal, sinking fund installments, if any, and redemption price of and interest on the Prior Agency Bonds.

All Net Annual Payments shall be paid directly to the Trustee for the account of the Authority and deposited by the Trustee in the Revenue Fund. The Trustee, upon receiving any checks for payments on account thereof, shall endorse the same in the name and on behalf of the Authority and cause the same to be presented for collection in due course and deposit the proceeds thereof in the Revenue Fund, and is authorized and empowered so to do by the Resolution. Any Net Annual Payments which may be received by the Authority shall be paid over to the Trustee as received, and the Authority covenants and agrees so to do.

Notwithstanding anything to the contrary contained in the Resolution, the Authority reserves the right to enter into any Other Agreement and to terminate, modify or amend any of the Agreement and any Supplemental Financing Agreement in any manner; provided, however, that if such termination, modification or amendment shall affect or impair in any way the obligation to pay the Net Annual Payments at the times and in the manner and amounts in any of the Agreement and in the Supplemental Financing Agreements provided or any provisions of any of the Agreement or of any Supplemental Financing Agreement made or provided for the purpose of assuring payment of such Net Annual Payments, then no such termination, modification or amendment shall take effect without the prior written consent of (i) the Holders of at least a majority in principal amount of the Bonds then Outstanding or (ii) in case less than all of the several Series of Bonds then outstanding are affected by the termination, modification or amendment, the Holders of not less than a majority in principal amount of the Bonds so affected. *(Section 7.10)*

Payment of Lawful Charges

The Authority shall pay or take all legally available action to cause the Department to pay all taxes and assessments or other municipal or governmental charges, if any, lawfully levied or assessed upon any Revenues, or any fund or account created under the Resolution or any Series Resolution, when the same shall become due. Except as otherwise provided by the Resolution and by the Agreement, the Authority shall not create or suffer to be created any lien or charge upon the Revenues, or any fund or account created under the Resolution or any Series Resolution, except the pledge and lien of the Resolution and of the Bonds. The Authority shall pay or cause to be paid or cause to be discharged, or shall make adequate provisions to satisfy and discharge all lawful claims and demands for labor, materials, equipment, supplies or other objects which, if unpaid, might by law become a lien upon the Revenues; provided, however, that nothing in the Resolution shall require the Authority to pay or cause to be paid or discharged, or make provision for, any such lien or charge, so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.
(Section 7.11)

Abandonment, Sale, Lease or Condemnation of a Facility

The Authority shall not permit the abandonment of the acquisition, design, construction, reconstruction, rehabilitation, improvement or otherwise providing and furnishing and equipping of a Facility, or any abandonment, sale, lease or other disposition of a Facility except in accordance with the provisions of the applicable Agreement. The proceeds of any condemnation, sale, or other disposition of a Facility shall be applied by the Authority in accordance with the applicable Agreement. *(Section 7.12*)

Tax Exemption; Rebates

The following provisions shall not apply to Bonds the interest on which is not intended to be excluded from gross income for federal income taxation purposes, as specified in an applicable Series Resolution or Series Certificate.

In order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Bonds of each Series the interest on which is intended to be so excluded, the Authority shall comply with the provisions of the Code applicable to the Bonds of a Series, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of a Series of Bonds, reporting of earnings on the Gross Proceeds of a Series of Bonds, and rebates of Excess Earnings to the Department of the Treasury of the United States of America. In furtherance of the foregoing, the Authority shall comply with the Tax Certificate delivered by the Authority and the letter of instructions, if any, delivered by Bond Counsel, at the time the Bonds of a Series are issued as to compliance with the Code with respect to such Series of Bonds, as such Tax Certificate and letter may be amended from time to time, as a source of guidance for achieving compliance with the Code.

The Authority shall not take any action or fail to take any action with respect to the application and investment of Gross Proceeds of Bonds or use, ownership or management of any Facility or portions of any Facility which would cause a failure to comply with the provisions of Sections 103 and 141 to 150 of the Code.

Notwithstanding any other provision of the Resolution to the contrary, the Authority's failure to comply with the provisions of the Code applicable to the Bonds of a Series shall not entitle the Holder of Bonds of any other Series, or the Trustee acting on their behalf, to exercise any right or remedy provided to Holders of Bonds under the Resolution based upon the Authority's failure to comply with the above provisions or the Code. *(Section 7.13)*

Compliance with Prior Agency Resolution; Amendments Thereof; Incurring of Debt Thereunder

So long as any of the Prior Agency Bonds are outstanding, the Authority, in its capacity as successor to the powers, functions, and duties of the Agency, shall comply in all respects with each of the provisions, covenants and agreements of or contained in the Prior Agency Resolution.

The Authority will not consent to or agree to any change, amendment or modification of the Prior Agency Resolution which would in any way or manner affect adversely the rights or interests of the Holders of the Bonds.

The Authority will not issue bonds, notes, certificates of indebtedness or other evidences of indebtedness or incur any other form of indebtedness under the Prior Agency Resolution. *(Section 7.15)*

Compliance with Prior Authority Resolution; Amendments Thereof; Incurring of Debt Thereunder.

So long as any of the Prior Authority Bonds are outstanding, the Authority shall comply in all respects with each of the provisions, covenants and agreements of or contained in the Prior Authority Resolution.

The Authority will not consent to or agree to any change, amendment or modification of the Prior Authority Resolution which would in any way or manner affect adversely the rights or interests of the Holders of the Bonds.

The Authority will not issue bonds, notes, certificates of indebtedness or other evidences of indebtedness or incur any other form of indebtedness under the Prior Authority Resolution. *(Section 7.16)*

SERIES RESOLUTIONS AND SUPPLEMENTAL RESOLUTIONS

Modification and Amendment Without Consent

Notwithstanding any other provisions of the Resolution, the Authority may adopt at any time or from time to time Series Resolutions or Supplemental Resolutions for any one or more of the following purposes, and any such Series Resolution or Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority:

(a) to provide for the issuance of a Series of Bonds pursuant to the provisions of the Resolution and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(b) to provide for the incurrence of Parity Reimbursement Obligations pursuant to the provisions of the Resolution and to prescribe the terms and conditions pursuant to which such Parity Reimbursement Obligations may be incurred;

(c) to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(d) to prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(e) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained therein;

(f) to confirm, as further assurance, any pledge under the Resolution, and the subjection to any lien, claim or pledge created or to be created by the provisions thereof, of the Revenues, or any pledge of any other moneys or funds;

(g) to modify any of the provisions of the Resolution or of any previously adopted Series Resolution in any other respect, provided that such modifications shall not be effective until after all Bonds of any Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution or Series Resolution shall cease to be Outstanding, and all Bonds issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent resolutions;

(h) to modify the provisions of the Resolution regarding the investments of funds and accounts in any respect, provided that such modification shall not permit the investment of moneys in the Debt Service Account in any manner inconsistent with the provisions of the Resolution and shall not result in the reduction by each Rating Agency of the ratings assigned thereby to any of the Outstanding Bonds;

(i) to modify, amend or supplement the Resolution in any manner in order to provide for a Credit Facility, Qualified Swap or other similar arrangement with respect to any Series of Bonds, under the Resolution, so long as the Authority determines that such Series Resolution or Supplemental Resolution does not materially adversely affect the right, security and interest of the Holders of Outstanding Bonds;

(j) to authorize Subordinated Indebtedness and, in connection therewith, specify and determine (or provide procedures for an Authorized Officer of the Authority to specify or determine) the matters and things required or permitted by the Resolution in connection therewith, and also any other matters and things relative to such Subordinated Indebtedness which are not contrary to or inconsistent with the Resolution as then in effect, or at any time to amend, rescind or limit any authorization for any such Subordinated Indebtedness theretofore authorized but not issued or entered into; and in connection with the authorization of Subordinated Indebtedness, any such Supplemental Resolution may include provisions for the availability, transferability, use or application of amounts available to pay Subordinated Indebtedness in the Subordinated Payment Fund and any other funds, accounts or subaccounts created for the benefit of such Subordinated Indebtedness;

(k) to modify, with prior written notice to each Rating Agency, the definition of Qualified Swap Provider; or

(l) with the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising thereunder as are necessary or desirable if any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect, or to modify any of the provisions thereof or of any previously adopted Series Resolution or Supplemental Resolution in any other respect, provided that such modification shall not adversely affect the interests of the Holders of the Bonds in any material respect. *(Section 9.01*)

Supplemental Resolutions Effective With Consent of Holders of Bonds

The provisions of the Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of the Holders of Bonds in accordance with and subject to the provisions of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority. *(Section 9.02)*

General Provisions Relating to Series Resolutions and Supplemental Resolutions

The Resolution shall not be modified or amended in any respect except in accordance with and subject to the provisions thereof. Nothing contained in the Resolution shall affect or limit the rights or obligations of the Authority to adopt, make, do, execute or deliver any resolution, act or other instrument pursuant to the provisions of the Resolution or the right or obligation of the Authority to execute and deliver to the Trustee or any Paying Agent any instrument provided in the Resolution or permitted to be delivered to the Trustee or any Paying Agent.

A copy of every Series Resolution and Supplemental Resolution adopted by the Authority, when filed with the Trustee, shall be accompanied by an opinion of Bond Counsel stating that such Series Resolution or Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution and is valid and binding upon the Authority and enforceable in accordance with its terms.

The Trustee is authorized by the Resolution to accept delivery of a certified copy of any Series Resolution or Supplemental Resolution permitted or authorized pursuant to the provisions of the Resolution and to make all further agreements and stipulations which may be contained therein, and, in taking such action, the Trustee shall be fully protected in relying on the opinion of Bond Counsel that such Series Resolution or Supplemental Resolution is authorized or permitted by the provisions of the Resolution.

No Series Resolution or Supplemental Resolution changing, amending or modifying any of the rights or obligations of the Trustee or of any Paying Agent shall become effective without the written consent of the Trustee or Paying Agent affected thereby. *(Section 9.03)*

Powers of Amendment

Any modification or amendment of the Resolution and of the rights and obligations of the Authority and of the Holders of the Bonds under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the Resolution, (i) of the Holders of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least a majority in principal amount of the Bonds of each Series so affected and outstanding at the time such consent is given, or (iii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least a majority in principal amount of the Bonds of the particular Series, maturity and interest rate entitled to such Sinking Fund Installment 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 Holders 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 under this paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment. 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 materially adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds. The Trustee may receive an opinion of counsel, including an opinion of Bond Counsel, as conclusive evidence as to whether Bonds of any particular Series or maturity would be so affected by any such modification or amendment of the Resolution. *(Section 10.01)*

Consent of Holders of Bonds

The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of the preceding paragraph to take effect when and as provided in this and the following 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 the Holders of Bonds for their consent thereto in form satisfactory to the Trustee, shall promptly after adoption be mailed by the Authority to the Holders of Bonds (but failure to mail such copy and request to any particular Holder shall not affect the validity of the Supplemental Resolution when consented to as provided in the Resolution). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consents of the Holders of the percentages of Outstanding Bonds specified in the Resolution and (b) an opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms, and (ii) a notice shall have been mailed as provided in the Resolution. Each such consent shall be effective only if accompanied by proof of the holding or owning at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by the Resolution. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with the Resolution shall be conclusive proof that the consents have been given by the Holders of the Bonds described in the certificate or certificates of the Trustee. Any consent given by a Holder of Bonds shall be binding upon the Holder of the Bonds giving such consent and, anything in the Resolution to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee provided for in the Resolution is filed. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the Authority and the Trustee a written statement that the Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive evidence that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in the Resolution, shall be given to the Holders of Bonds by the Authority by mailing such notice to the Holders of Bonds and, at the discretion of the Authority, by publishing the same at least once not more than ninety (90) days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee is filed. The Authority shall file with the Trustee proof of the mailing of such notice, and, if the same shall have been published, of the publication thereof (but failure to publish such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in the Resolution). A transcript, consisting of the papers required or permitted by the Resolution to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Authority, the Trustee, each Paying Agent and the Holders of all Bonds upon the filing with the Trustee of proof of the mailing of such notice or at the expiration of thirty (30) days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, if such publication is required, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period; provided, however, that the Authority, the Trustee and any Paying Agent during such thirty (30) day period and any such further period during which any such action or proceeding may be pending shall be entitled in their reasonable discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

For the purposes of amendments of the Resolution, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Authority, may consent to a modification or amendment permitted by the Resolution as provided therein, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Bonds; provided, however, that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering of the Bonds of such Series by the Authority. *(Section 10.02)*

Modifications by Unanimous Consent

The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Holders of the Bonds may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of a Supplemental Resolution certified by an Authorized Officer of the Authority and the consent of the Holders of all of the Bonds then Outstanding, such consent to be given as provided in the Resolution, except that no notice to Holders of Bonds either by mailing or publication shall be required. *(Section 10.03)*

DEFAULTS AND REMEDIES

Events of Default

An event of default shall exist under the Resolution if: (a) payment of the principal, Sinking Fund Installments or Redemption Price of any Bond shall not be made by the Authority when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or (b) payment of an installment of interest on any Bond shall not be made by the Authority when the same shall become due and payable; or (c) the Authority shall default in the due and punctual performance of the covenants relating to tax exemption contained in the Resolution and, as a result thereof, the interest on the Bonds of a Series to which such covenants apply shall no longer be excluded from gross income under Section 103 of the Code; or (d) the Authority shall default in the due and punctual performance of any of the other covenants, conditions, agreements and provisions contained in the Resolution or in the Bonds or any Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds. *(Section 11.02)*

Acceleration of Maturity

Upon the happening and continuance of any event of default specified in “Events of Default” above, other than an event of default specified in clause (c) above, then and in every such case the Trustee may, and upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds shall, by a notice in writing to the Authority, declare the principal of all of the Outstanding Bonds and the interest accrued thereon to be due and payable immediately. At the expiration of thirty (30) days from the giving of notice of such declaration, such principal and interest shall become and be immediately due and payable, anything in

the Resolution or in the Bonds or any Series Resolution to the contrary notwithstanding. At any time after the principal of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee may with the written consent of the Holders of not less than twenty-five per centum (25%) in principal amount of the Bonds not then due by their terms and then Outstanding annul such declaration and its consequences if: (i) moneys shall have accumulated in the Debt Service Account sufficient to pay all arrears of interest, if any, upon all of the Outstanding Bonds (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Bonds or in the Resolution (other than a default in the payment of the principal of such Bonds then due only because of a declaration under this paragraph) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon. *(Section 11.03)*
Enforcement of Remedies

Upon the happening and continuance of any event of default specified in "Events of Default" above, then and in every such case, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds or, in the case of a happening and continuance of an event of default specified in clause (c) of "Events of Default" above, upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Series affected thereby, shall proceed to protect and enforce its rights and the rights of the Holders of the Bonds under the laws of the State or under the Resolution or any Series Resolution by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution or in aid or execution of any power therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution and each Series Resolution the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any event of default specified in "Events of Default" above becoming, and at any time remaining, due from the Authority for principal, Redemption Price or interest or otherwise under any of the provisions of the Resolution or any Series Resolution or the Bonds, with interest on overdue payments of the principal of or interest on the Bonds 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 any Series Resolution and such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Authority but solely as provided in the Resolution and such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable. *(Section 11.04)*

Priority of Payments After Default

If at any time the moneys held by the Trustee under the Resolution and under each Series Resolution shall not be sufficient to pay the principal of and interest on the Bonds and on Parity Reimbursement Obligations as the same become due and payable (either by their terms or by acceleration of maturity, such moneys together with any moneys then available or thereafter becoming available for such purpose, whether through exercise of the remedies provided for in the Agreement entitled "Defaults and Remedies" or otherwise, shall be applied (after first depositing in the Arbitrage Rebate Fund all amounts required to be deposited therein and then paying all amounts owing to the Trustee under the Resolution) as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due with respect to Bonds or Parity Reimbursement Obligations in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in such Bonds and Parity Reimbursement Obligations; and

Second: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Bonds or Parity Reimbursement Obligations which shall have become due whether at maturity or by call for redemption in the order of their due dates and, if the amount available shall not be sufficient to pay in full all Bonds due on any date, then to the payment thereof ratably, according to the amount of principal, Sinking Fund Installments or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds shall have become or been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds and the Parity Reimbursement Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, or of any Bond over any Parity Reimbursement Obligation, or of any Parity Reimbursement Obligation over any other Parity Reimbursement Obligation, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in the Bonds or Parity Reimbursement Obligations.

Whenever moneys are to be applied by the Trustee pursuant to the above provisions, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for application in accordance with the Resolution shall constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Authority, to any Holder of Bonds or to any other person for any delay in applying any such moneys so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be on an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement. *(Section 11.05)*

Bondholders' Direction of Proceedings

Anything to the contrary in the Resolution notwithstanding, the Holders of a majority in principal amount of the Outstanding Bonds, or, in the case of an event of default specified in paragraph (c) of "Events of Default" above, the Holders of a majority in principal amount of Outstanding Bonds of the Series affected thereby, shall have the right to direct, by an instrument in writing executed and delivered to the Trustee, the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and the Series Resolution for each such Series of Bonds affected, provided, that such direction shall not be otherwise than in accordance with law or the provisions of the Resolution and the Series Resolution for each such Series of Bonds affected, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Holders of Bonds not parties to such direction. *(Section 11.07)*

Limitation of Rights of Individual Bondholder

No Holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution, or for any other remedy under the Resolution unless such Holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds, or, in the case of an event of default specified in clause (c) of "Events of Default" above, the Holders of not less than twenty-five percent (25%) in principal amount of the

Outstanding Bonds of the Series affected thereby, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy under the Resolution and in equity or at law. It is understood and intended that no one or more Holders of the Bonds secured by the Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner provided in the Resolution, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds affected thereby. Notwithstanding any other provision of the Resolution, the Holder of any Bond shall have the right which is absolute and unconditional to receive payment of the principal of (or Redemption Price, if any) an interest on such Bond on the stated maturity of such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder. *(Section 11.08)*

DEFEASANCE

If the Authority shall pay or cause to be paid to the Holders of the Bonds of a Series the principal, Sinking Fund Installments, if any, or Redemption Price of and interest thereon, at the times and in the manner stipulated therein, in the Resolution and in the applicable Series Resolution and the applicable Series Certificate, then the pledge of the Revenues, or other moneys and securities pledged by the Resolution to such Bonds and all other rights granted by the Resolution to such Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Authority, and all moneys or securities held by it pursuant to the Resolution and to the applicable Series Resolution which are not required for the payment or redemption of Bonds of such Series not theretofore surrendered for such payment or redemption or for any other purposes of the Resolution shall be first deposited in the Arbitrage Rebate Fund in accordance with the direction of an Authorized Officer of the Authority and thereafter paid or delivered by the Trustee to the Authority, in each case, free from any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Agreement.

Bonds for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit of moneys 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 preceding paragraph. All Outstanding Bonds of any Series, any Subseries or any maturity within a Series or a portion of a 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 preceding paragraph if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give as provided in 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 Defeasance Securities the principal of and interest on which when due will provide moneys which without regard to reinvestment, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of such Bonds at their last known addresses appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper, a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Resolution and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority shall give written notice to the Trustee of its selection of which Series or Subseries of Bonds or which maturity within a Series or Subseries or the principal amount of Bonds within a maturity of a Series or Subseries payment of which shall be made in accordance with the Resolution. The Trustee shall select which Bonds of like Series or Subseries and maturity payment of which shall be made in accordance with the Resolution in the manner provided therein. Neither Defeasance Securities nor moneys deposited with the Trustee pursuant to the Resolution nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; provided that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable and subject to any applicable tax covenant, be reinvested in defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be; and provided further that moneys and Defeasance Securities may be withdrawn and used by the Authority for any purpose upon (i) the simultaneous substitution therefor of either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide moneys which without regard to reinvestment, together with the moneys, if any, held by or deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (ii) receipt by the Trustee of a letter or other written report of a firm of independent certified public accountants verifying the accuracy of the arithmetical computations which establish the adequacy of such moneys and Defeasance Securities for such purpose. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, paid by the Trustee as follows: first to the Arbitrage Rebate Fund the amount specified to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; and then the balance thereof to the Authority. The moneys so paid by the Trustee shall be released and free from any trust, pledge, lien, encumbrance or security interest created hereby or by the Agreement.

For purposes of determining whether Variable Interest 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 Defeasance Securities and moneys, if any, in accordance with the second sentence of the preceding paragraph, the interest to come due on such Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the maximum rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Bonds having borne interest at less than such maximum rate for any period, the total amount of moneys or Defeasance Securities on deposit with the Trustee for the payment of interest on such 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 Bonds in order to satisfy the second sentence of the preceding paragraph, the Trustee shall, if requested, by the Authority, pay the amount of such excess to the Authority free and clear of any trust, pledge, lien, encumbrance or security interest securing the Bonds or otherwise existing under the Resolution.

Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or a Paying Agent 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 Trustee or Paying Agent at such date, or for two (2) years after the date of deposit of such moneys if deposited with the Trustee or Paying Agent after said date when such Bonds become due and payable, shall, at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent shall thereupon be released and discharged with respect thereto and the Holders of Bonds shall look only to the Authority for the payment of such Bonds; provided, however, that, before being required to make any such payment to the Authority, the Trustee or Paying Agent may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than forty (40) nor more than ninety (90) days after the date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority. (Section 12.01)

ADDITIONAL PROVISIONS WITH RESPECT TO BONDS BEARING INTEREST AT A VARIABLE INTEREST RATE

Optional Tenders of Bonds in Daily Mode and Weekly Mode

Any Bond of a Series or Subseries (or portions thereof in Authorized Denominations) in the Daily Mode (that is not a Bank Bond) is subject to purchase, on the demand of the Owner thereof, at a price equal to the Purchase Price on any Business Day (such purchase to be made on the Business Day upon which such demand is made), upon irrevocable written notice submitted by hand delivery or Electronic Means to the Tender Agent and the Remarketing Agent by 10:30 a.m., New York City time, at their respective Principal Offices which states the number and principal amount of such Bond being tendered and the Purchase Date. Such tender notice, once transmitted to the Tender Agent, shall be irrevocable with respect to the tender for which such tender notice was delivered and such tender shall occur on the Business Day specified in such tender notice. The Tender Agent shall, as soon as practicable, notify the Trustee of the principal amount of Bonds of the Series or Subseries being tendered. The contents of any such irrevocable tender notice shall be conclusive and binding on all parties.

The Owners of Bonds of a Series or Subseries in a Weekly Mode that are not Bank Bonds may elect to have such Bonds (or portions thereof in Authorized Denominations) purchased at a price equal to the Purchase Price upon delivery of an irrevocable written notice of tender by hand delivery or Electronic Means to the Tender Agent and Remarketing Agent at their respective Principal Offices, not later than 4:00 p.m. on a Business Day not less than seven (7) days before the Optional Tender Date specified by the Owner. Such notice shall (i) state the number and the principal amount of such Bond being tendered and (ii) state that such Bond shall be purchased on the Optional Tender Date so specified by the Owner. The Tender Agent shall notify the Trustee by the Close of Business on the next succeeding Business Day of the receipt of any notice pursuant to this paragraph.

Notwithstanding anything contained in the above two paragraphs to the contrary, during any period that the Bonds of a Series or Subseries are issued registered in the name of DTC or a nominee thereof pursuant to the Resolutions, (i) any notice of tender delivered pursuant to the resolutions shall identify the DTC participant through whom the beneficial owner will direct transfer; (ii) on or before the Optional Tender Date, the beneficial owner must direct (or if the beneficial owner is not a DTC participant, cause its DTC participant to direct) the transfer of said Bond on the records of DTC; and (iii) it shall not be necessary for Bonds of a Series or Subseries to be physically delivered on the date specified for purchase thereof, but such purchase shall be made as if such Bonds had been so delivered, and the Purchase Price thereof shall be paid to DTC. In accepting a notice of tender of any Bond of a Series or Subseries as provided above, the Trustee and the Tender Agent may conclusively assume that the Person providing the notice of tender is the beneficial owner of the Bonds being tendered and therefore entitled to tender them. The Trustee and Tender Agent assume no liability to anyone in accepting a notice of tender from a Person whom it reasonably believes to be such a beneficial owner of the Bonds of the Series or Subseries. (*Section A-401 of the Series 2003D-2 Certificate*)

Mandatory Purchase on Any Conversion Date

Except for Bank Bonds, and, unless otherwise provided in a Liquidity Facility applicable thereto, Bonds of a Series or Subseries to be converted from a Daily Mode to a Weekly Mode, and Bonds of a Series or Subseries to be converted from a Weekly Mode to a Daily Mode, the Bonds of a Series or Subseries to be changed to any Mode from any other Mode are subject to mandatory tender for purchase on the Conversion Date at the Purchase Price. *(Section A-403 of the Series 2003D-2 Certificate)*

Mandatory Purchase Upon Expiration Date, Termination Tender Date and Substitution Date.

Except for Bank Bonds, the Bonds of a Series or Subseries in a Daily Mode or Weekly Mode shall be subject to mandatory tender for purchase on:

(i) the second Business Day preceding the Expiration Date of a Credit Facility or Liquidity Facility, which second Business Day is hereinafter referred to as an "Expiration Tender Date";

(ii) the fifth calendar day (or if such day is not a Business Day, the preceding Business Day) preceding the Termination Date of a Credit Facility or a Liquidity Facility, which fifth calendar day is hereinafter referred to as a "Termination Tender Date", if the Liquidity Facility permits a draw thereon on the Termination Tender Date;

(iii) the Substitution Date for a Credit Facility or a Liquidity Facility. *(Section A-405 of the Series 2003D-2 Certificate)*

Notice of Mandatory Tender for Purchase

(a) The Trustee shall, at least fifteen (15) days prior to the Expiration Tender Date with respect to Bonds of a Series or Subseries, give notice of the mandatory tender of the Bonds of such Series or Subseries on such Expiration Tender Date if it has not theretofore received confirmation that the Expiration Date has been extended.

(b) Upon receipt of a written notice from the Credit Facility Provider, the Liquidity Facility Provider or the Authority that the Credit Facility or the Liquidity Facility, as the case may be, will terminate or the obligation of the Credit Facility Provider or Liquidity Facility Provider, as the case may be, to provide a loan thereunder will terminate prior to its Expiration Date, the Trustee shall within one (1) Business Day give notice of the mandatory tender of the Bonds of such Series or Subseries that is to occur on such Termination Tender Date if it has not theretofore received from the Credit Facility Provider, the Liquidity Facility Provider or the Authority, as the case may be, a notice stating that the event which resulted in the Credit Facility Provider, the Liquidity Facility Provider or the Authority giving a notice of the Termination Date has been cured and that the Credit Facility Provider, the Liquidity Facility Provider or the Authority has rescinded its election to terminate the Credit Facility or Liquidity Facility, as the case may be. Notwithstanding anything to the contrary in subsection (f) below, such notice shall be given by Electronic Means capable of creating a written notice. Any notice given substantially as provided in this subsection (b) shall be conclusively presumed to have been duly given, whether or not actually received by each Owner.

(c) The Trustee shall, at least fifteen (15) days prior to any Substitution Date with respect to a Liquidity Facility relating to any Bonds, give notice of the mandatory tender of such Bonds that is to occur on such Substitution Date.

(d) The Trustee shall, at least fifteen (15) days prior to any Conversion Date or any Purchase Date (other than a Purchase Date for any Flexible Rate Bond) give notice of the mandatory tender for purchase of such Bonds that is to occur on such date.

(e) Notice of any mandatory tender of Bonds of a Series or Subseries shall state that such Bonds are to be purchased because of a Conversion or because of the expiration, termination or substitution of the Liquidity Facility or Credit Facility, shall be provided by the Trustee or caused to be provided by the Trustee by mailing a copy of the notice of mandatory tender by first class mail to each Owner of Bonds of the Series or Subseries at the respective addresses shown on the registry books. Each notice of mandatory tender for purchase shall identify the reason for the mandatory tender for purchase, and specify the Mandatory Tender Date, the Purchase Price, the place and manner of payment, that the Owner has no right to retain such Bonds and that no further interest will accrue from and after the Mandatory Tender Date to such Owner. Each notice of mandatory tender for purchase caused by a change in the Mode applicable to the Bonds of a Series or Subseries shall in addition specify the conditions that have to be satisfied pursuant to the Resolutions in order for the new Mode to become effective and the consequences that the failure to satisfy any of such conditions would have. In the event a mandatory tender of Bonds of a Series or Subseries shall occur at or prior to the same date on which an optional tender for purchase is scheduled to occur, the terms and conditions of the applicable mandatory tender for purchase shall control. The Trustee shall give a copy of any notice of mandatory tender given by it to the other Notice Parties. Any notice mailed as provided in under this heading "Notice of Mandatory Tender for Purchase" shall be conclusively presumed to have been duly given, whether or not the Owner of any Bond receives the notice, and the failure of such Owner to receive any such notice shall not affect the validity of the action described in such notice. Failure by the Trustee to give a notice as provided under this heading "Notice of Mandatory Tender for Purchase" shall not affect the obligation of the Tender Agent to purchase the Bonds of a Series or Subseries subject to mandatory tender for purchase on the Mandatory Tender Date. *(Section A-406 of the Series 2003D-2 Certificate)*

Purchase Fund

(a) Pursuant to the Series 2003D-2 Certificate, there is established, and maintained with the Tender Agent for the Bonds of each Series or Subseries, a separate fund to be known as the "Purchase Fund" and within the Purchase Fund, a separate account known as the "Liquidity Facility Purchase Account" and a separate account known as the "Remarketing Proceeds Account."

(b) Upon receipt of the proceeds of a remarketing of Bonds of a Series or Subseries on a Tender Date, the Tender Agent shall deposit such proceeds in the related Remarketing Proceeds Account for application to the payment of the Purchase Price of such Bonds. Notwithstanding the foregoing, upon receipt of the proceeds of a remarketing of Bank Bonds, the Tender Agent shall immediately pay such proceeds to or for the account of the related Liquidity Facility Provider to the extent of any amount owing to the Liquidity Facility Provider.

(c) Upon receipt by the Tender Agent of the proceeds of any draw on a Liquidity Facility supporting Bonds of a Series or Subseries that are transferred to such Tender Agent pursuant to subsection (a) of Section A 412 hereof, the Tender Agent shall deposit such moneys in the related Liquidity Facility Purchase Account for application to the payment of the Purchase Price of Bonds of such Series or Subseries. Any amounts deposited in the Liquidity Facility Purchase Account for Bonds of a Series or Subseries and not needed with respect to any Tender Date for the payment of the Purchase Price for any Bonds of such Series or Subseries shall be returned immediately to the Liquidity Facility Provider.

(d) Amounts held by the Tender Agent in the Liquidity Facility Purchase Account and the Remarketing Proceeds Account relating to the Bonds shall not be deemed as part of the Trust Estate and shall be held uninvested and separate and apart from all other funds and accounts. Amounts so held or available to be drawn under the Liquidity Facility for deposit in a Liquidity Facility Purchase Account shall not be available to pay the Purchase Price of Bonds of any Series or Subseries other than Bonds of the Series or Subseries that are supported by such Liquidity Facility.

(e) The Tender Agent shall pay the Purchase Price of Bonds to their Owners from the moneys in the Liquidity Facility Purchase Account and the Remarketing Proceeds Account in accordance with the Resolutions by the Close of Business on any Tender Date. (Section A 407 of the Series 2003D-2 Certificate)

Remarketing of Bonds

The Remarketing Agent for Bonds of a Series or Subseries shall offer for sale and use its best efforts to find purchasers for (i) all Bonds of such Series or Subseries or portions thereof as to which notice of an optional tender has been given and (ii) all Bonds of a Series or Subseries required to be tendered for purchase. To the extent a Liquidity Facility is in effect, no Bonds of a Series or Subseries supported by such Liquidity Facility shall be remarketed to the Authority, or any affiliate of the Authority, nor shall any Bank Bonds be remarketed unless the Liquidity Facility has been or will be, immediately upon such remarketing, reinstated by the amount of the reduction that occurred when such Bonds became Bank Bonds.

The Remarketing Agent shall at or before 11:30 a.m. on the Tender Date (a) notify the Authority, the Trustee and the Tender Agent by Electronic Means of the amount of tendered Bonds of the Series or Subseries that were not successfully remarketed, and (b) confirm to the Trustee and the Tender Agent the transfer of the Purchase Price of remarketed Bonds of the Series or Subseries to the Tender Agent in immediately available funds at or before 11:45 a.m., such confirmation to include the pertinent Fed Wire reference number. To the extent a Liquidity Facility is in effect, the Trustee shall draw on the Liquidity Facility, in accordance with the terms thereof, by 12:00 noon on the Tender Date in an amount equal to the Purchase Price of all Bonds of the Series or Subseries tendered or deemed tendered less the aggregate amount of remarketing proceeds confirmed to the Trustee and the Tender Agent by the Remarketing Agent and shall cause the proceeds of such draw to be transferred to the Tender Agent by no later than 2:30 p.m. Notwithstanding the foregoing, the Trustee shall draw on the Liquidity Facility, if any, in an amount equal to the Purchase Price of all Bonds of the Series or Subseries tendered or deemed tendered for purchase on each Tender Date if it does not receive a confirmation from the Remarketing Agent as provided above. To the extent a Liquidity Facility is in effect, the Tender Agent shall confirm to the Authority and the Trustee by 2:30 p.m. on the Tender Date, receipt of the proceeds of any draw on the Liquidity Facility.

The Remarketing Agent shall notify the Authority by Electronic Means of any proposed remarketing of Bank Bonds by the Close of Business on the Business Day preceding the proposed date of remarketing of such Bank Bonds. (*Section A-408 of the Series 2003D-2 Certificate*)

Source of Funds for Purchase of Bonds

On or before the Close of Business on the Tender Date with respect to Bonds of a Series or Subseries, the Tender Agent shall purchase such Bonds from the Owners at the Purchase Price. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated:

(a) immediately available funds on deposit in the Remarketing Proceeds Account with respect to Bonds of such Series or Subseries; and

(b) to the extent a Liquidity Facility is in effect, immediately available funds on deposit in the Liquidity Facility Purchase Account derived from the Liquidity Facility relating to Bonds of such Series or Subseries.

Notwithstanding the foregoing, the Authority shall have the option, but shall not be obligated, to transfer immediately available funds to the Tender Agent for the payment of the Purchase Price of any Bond that is tendered or deemed tendered for purchase in accordance with the Resolutions and the Purchase Price of which is not paid on the Tender Date from any of the sources identified above. None of the Authority, the Trustee, the Tender Agent nor the Remarketing Agent shall have any liability or obligation to pay or, except from the sources identified above, make available such Purchase Price. The failure to pay any such Purchase Price for Bonds of a Series or Subseries that have been tendered or deemed tendered for purchase from any of the sources identified above shall not constitute an Event of Default under the Resolution and in the case of such failure such Bonds shall not be purchased and shall remain in the Mode in effect immediately preceding such Tender Date unless such Mode is automatically converted to a Weekly Rate Mode pursuant to the Resolutions. *(Section A-409 of the Series 2003D-2 Certificate)*

Delivery and Payment for Purchased Bonds; Undelivered Bonds

Except as otherwise required or permitted by the book entry only system of the Securities Depository, in order for payment to be made on the Tender Date, the Bonds of a Series or Subseries purchased pursuant to the Resolutions shall be delivered (with all necessary endorsements) at or before 1:00 p.m. on the Tender Date at the office of the Tender Agent in New York, New York; *provided, however*, that payment of the Purchase Price of any Bond of a Series or Subseries purchased pursuant to an optional tender shall be made only if such Bond so delivered to the Tender Agent conforms in all respects to the description thereof in the notice of tender. Payment of the Purchase Price shall be made by wire transfer in immediately available funds by the Tender Agent by the Close of Business on the Tender Date, or, if the Owner has not provided or caused to be provided wire transfer instructions, by check mailed to the Owner at the address appearing in the books required to be kept by the Trustee pursuant to the Resolution. If Bonds of a Series or Subseries to be purchased are not delivered by the Owners to the Tender Agent by 1:00 p.m. on the Tender Date, the Tender Agent shall hold any funds received for the purchase of such Bonds in trust in a separate account and shall pay such funds to the former Owners upon presentation of the Bonds subject to tender. Any such amounts shall be held uninvested. Such undelivered Bonds shall be deemed tendered and cease to accrue interest as to the former Owners on the Tender Date, and moneys representing the Purchase Price shall be available against delivery of those Bonds at the Principal Office of the Tender Agent; *provided, however*, that any funds which shall be so held by the Tender Agent and which remain unclaimed by the former Owner of any such Bond not presented for purchase for a period of two years after delivery of such funds to the Tender Agent, shall, to the extent permitted by law, upon request in writing by the Authority and the furnishing of security or indemnity to the Tender Agent's satisfaction, be paid to the Authority free of any trust or lien and thereafter the former Owner of such Bond shall look only to the Authority and then only to the extent of the amounts so received by the Authority without any interest thereon and the Tender Agent shall have no further responsibility with respect to such moneys or payment of the Purchase Price of such Bonds. The Tender Agent shall authenticate a replacement Bond of a Series or Subseries for any undelivered Bond of such Series or Subseries which may then be remarketed by the Remarketing Agent. *(Section A-411 of the Series 2003D-2 Certificate)*

Draws on Liquidity Facility

To the extent a Liquidity Facility is in effect with respect to the Bonds of a Series or Subseries, by 12:00 p.m. on each Tender Date with respect to Bonds of such Series or Subseries, the Trustee shall draw on the Liquidity Facility supporting the Bonds of such Series or Subseries in accordance with the terms thereof and cause to have transferred the proceeds of such draw to the Tender Agent so as to have funds deposited with the Tender Agent by 2:30 p.m. on such date in an amount, in immediately available funds, sufficient, together with the proceeds of the remarketing of such Bonds on such date, to enable the Tender Agent to pay the Purchase Price in connection therewith. The Tender Agent shall deposit said proceeds in the related Liquidity Facility Purchase Account.

Notwithstanding the foregoing provisions of this Section, the Trustee shall not draw on a Liquidity Facility with respect to the Purchase Price of Bank Bonds or Bonds of a Series or Subseries owned by the Authority, any subsidiary or affiliate of the Authority, or the Liquidity Facility Provider. *(Section A-412 of the Series 2003D-2 Certificate)*

Liquidity Facilities and Credit Facilities

Whenever any Bonds of a Series or Subseries bear interest at a Daily, Weekly, Flexible or Term Rate and upon any conversion of Bonds of a Series or Subseries to the Daily, Weekly, Flexible or Term Rate Mode, the Authority shall obtain a Liquidity Facility for all, but not less than all, of such Series or Subseries of Bonds. Such Liquidity Facility must meet the requirements of set forth below under this heading "Liquidity Facilities and Credit Facilities"; *provided, however*, a Liquidity Facility that does not meet such requirements may be delivered with the prior written consent of the Credit Facility Provider, if any, upon approval of the terms and conditions of such Liquidity Facility, and the consent of Remarketing Agent of the Series or Subseries of Bonds to which such Liquidity Facility relates. The minimum amount of moneys available to be obtained under a Liquidity Facility on any date shall be the sum of (i) the principal amount of the Series or Subseries of Bonds to which such Liquidity Facility relates that are Outstanding on such date (other than Bank Bonds), plus (ii) an amount with respect to interest on such Series or Subseries of Bonds equal to interest accruing for such period and at such rate as in the determination of an Authorized Officer of the Authority is necessary to obtain the highest short-term ratings on such Series or Subseries of Bonds. *(Section A-501 of the Series 2003D-2 Certificate)*

At any time, the Authority may provide for the delivery to the Trustee of (i) an initial and an Alternate Liquidity Facility with respect to the Bonds of any Series or Subseries, and/or (ii) an initial and an Alternate Credit Facility with respect to the Bonds of any Series or Subseries. The Authority shall not obtain a Liquidity Facility for the Bonds of a Series or Subseries or provide for the delivery of a Liquidity Facility or Alternate Liquidity Facility for the Bonds of a Series or Subseries to the Trustee without the prior consent of the Credit Facility Provider, if any, for the Bonds of such Series or Subseries. Any such Liquidity Facility or Alternate Liquidity Facility obtained by the Authority shall be rated at least "A-1" by Standard and Poor's Ratings Service and Fitch Ratings. Any such Liquidity Facility or Credit Facility shall provide that a Termination Date which permits the Trustee to make on the Termination Tender Date a draw under the Liquidity Facility or the Credit Facility, as the case may be, shall not occur unless written notice thereof is given to the Trustee and the Tender Agent at least sixteen (16) days prior to the Termination Tender Date. To the extent that any Liquidity Facility or Credit Facility permits the issuer thereof to assign its obligation thereunder, such Liquidity Facility or Credit Facility, as the case may be, shall provide that such assignment shall not be effective unless a written notice of such assignment is given to the Trustee and the Tender Agent at least sixteen (16) days prior to the effective date of such assignment. On or prior to the date on which a Liquidity Facility or Credit Facility is obtained or delivered to the Trustee, the Authority shall furnish to the Trustee a Favorable Opinion of Bond Counsel. All Outstanding Bonds of the Series or Subseries to which such Liquidity Facility or Credit Facility relates will become subject to mandatory tender for purchase on the Substitution Date.

At the direction of the Authority, the Trustee shall execute and deliver any instrument that, upon such execution and delivery by the Trustee, would constitute a "Credit Facility" or "Liquidity Facility."

The Authority shall deliver to the Trustee, the Tender Agent, the Credit Facility Provider, if any, and the Remarketing Agent a copy of each Liquidity Facility or Credit Facility obtained on the effective date of such Liquidity Facility or Credit Facility. If at any time there shall have been delivered to the Trustee (i) an Alternate Credit Facility or Alternate Liquidity Facility in substitution for the Credit Facility or Liquidity Facility with respect to Bonds of a Series or Subseries then in effect and (ii) a Favorable Opinion of Bond Counsel, then, providing that any condition to substitution contained in the existing Credit Facility or Liquidity Facility shall have been satisfied, the Trustee shall accept such Alternate Credit Facility or Alternate Liquidity Facility and, subject to the provisions of the next paragraph below, shall surrender the Credit Facility or Liquidity Facility then in effect to the Credit Facility Provider or Liquidity Facility Provider on the effective date of the Alternate Credit Facility or Alternate Liquidity Facility. In the event of an extension of the Expiration Date, the Authority shall give the Trustee, the Tender Agent, the Credit Facility Provider and the Remarketing Agent a written notice of the new Expiration Date at least sixteen (16) days prior to the Expiration Tender Date. In the event of a substitution of a Liquidity Facility with an Alternate Liquidity Facility or of a Credit Facility with an Alternate Credit Facility, the Authority shall give the Trustee, the Tender Agent and the Remarketing Agent a written notice of the Substitution Date at least sixteen (16) days prior to such Substitution Date. The Authority shall give the Trustee, Tender Agent and the Remarketing Agent a written notice of its election to terminate the Credit Facility or the Liquidity Facility at least sixteen (16) days prior to the Termination Tender Date resulting from its election to terminate such Credit Facility or Liquidity Facility.

In no event shall the Trustee surrender or cancel a Liquidity Facility relating to the Bonds of any Series or Subseries unless it has received funds, either from proceeds of remarketing or a draw under the Liquidity Facility to be surrendered or cancelled, sufficient to pay the Purchase Price of such Bonds to the applicable Mandatory Tender Date. In no event shall the Trustee surrender or cancel a Credit Facility relating to the Bonds of any Series or Subseries unless it has received funds sufficient to pay the Purchase Price of such Bonds to the applicable Mandatory Tender Date.

The Trustee shall not sell, assign or otherwise transfer the Credit Facility or Liquidity Facility, except to a successor Trustee under the Resolutions and in accordance with the terms of the Credit Facility or Liquidity Facility and the Resolutions.

To the extent that both the Liquidity Facility Provider for the Bonds of a Series or Subseries is not at the same time also the Credit Facility Provider with respect to such Bonds and the Credit Facility Provider is an insurance company, neither the Authority nor the Trustee shall consent to the substitution of a new Credit Facility Provider for the then-existing Credit Facility Provider, or the surrender, cancellation, termination, amendment or modification of the then-existing Credit Facility, without the prior written consent of the Liquidity Facility Provider.

On or prior to the Substitution Date, no drawing under an Alternate Liquidity Facility shall be made by the Trustee if the predecessor Liquidity Facility shall be effective and available to make drawings thereunder on the date of such drawing. After the Substitution Date, no drawing under a predecessor Liquidity Facility shall be made by the Trustee if the Alternate Liquidity Facility shall be effective and available to make drawings thereunder on the date of such drawing. *(Section A-502 of the Series 2003D-2 Certificate)*

OPINIONS OF BOND COUNSEL

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OPINION OF BOND COUNSEL
DELIVERED UPON ISSUANCE OF THE SERIES 2003D-2 BONDS

Upon delivery of the Series 2003D-2 Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, issued its approving opinion with respect to the Subseries 2003D-2A Bonds substantially in the following form:

HAWKINS DELAFIELD & WOOD LLP
67 WALL STREET
NEW YORK, NEW YORK 10005

July 15, 2003

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of $72,500,000 aggregate principal amount of Mental Health Services Facilities Improvement Revenue Bonds, Series 2003C-2 (the "Series 2003C-2 Bonds") and $818,800,000 aggregate principal amount of Mental Health Services Facilities Improvement Revenue Bonds, Series 2003D-2 (the "Series 2003D-2 Bonds" and, together with the Series 2003C-2 Bonds, the "Offered Bonds") of the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic of the State of New York (the "State"), constituting a public benefit corporation created and existing under the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the "Dormitory Authority Act"). The Series 2003D-2 Bonds consist of nine subseries: $156,000,000 Subseries D-2A (the "Subseries 2003D-2A Bonds"), $158,900,000 Subseries D-2B (the "Subseries 2003D-2B Bonds"), $99,700,000 Subseries D-2C (the "Subseries 2003D-2C Bonds"), $50,000,000 Subseries D-2D (the "Subseries 2003D-2D Bonds"), $99,700,000 Subseries D-2E (the "Subseries 2003D-2E Bonds"), $50,000,000 Subseries D-2F (the "Subseries 2003D-2F Bonds"), $50,000,000 Subseries D-2G (the "Subseries 2003D-2G Bonds"), $50,000,000 Subseries D-2H (the "Subseries 2003D-2H Bonds"), and $104,500,000 Subseries D-2I (the "Subseries 2003D-2I Bonds").

The Offered Bonds are issued under and pursuant to the Dormitory Authority Act, the New York State Medical Care Facilities Finance Agency Act, being Chapter 392 of the Laws of New York of 1973, as amended, and the Health Care Financing Consolidation Act, being a part of Chapter 83 of the Laws of New York of 1995 (collectively, the "Act"), the Second Mental Health Services Facilities Improvement Revenue Bond Resolution adopted by the Authority on February 26, 2003 (the "Bond Resolution"), as supplemented by series resolutions adopted by the Authority on February 26, 2003 authorizing the Series 2003C-2 Bonds and the Series 2003D-2 Bonds, respectively (collectively, the "Series Resolutions"), and series certificates of the Authority fixing the terms and details of the Series 2003C-2 Bonds and the Series 2003D-2 Bonds, respectively (collectively, the "Series Certificates"; the Bond Resolution, the Series Resolutions and the Series Certificates are collectively referred to herein as the "Resolution"). The Authority is authorized to issue Mental Health Services Facilities Improvement Revenue Bonds, in addition to the Offered Bonds, upon the terms and conditions set forth in the Bond Resolution and such bonds, when issued, shall, with the Offered Bonds and all other bonds which are being concurrently issued or which may be hereafter issued under the Bond Resolution (collectively, the "Bonds"), be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution.

The Offered Bonds are dated July 15, 2003, except as otherwise provided in the Resolution. The Offered Bonds are being issued as variable interest rate obligations. The Offered Bonds are issuable only in fully registered form without interest coupons in Authorized Denominations as provided in the Resolution. The Offered Bonds will mature on the dates in the respective principal amounts and will bear interest from their dated date, payable on the dates and at the respective rates of interest per annum, all as provided in the Resolution. The Offered Bonds are subject to redemption as provided in the Resolution.

We are of the opinion that:

1. The Authority has been duly created and is validly existing under the Act and has the right, power and authority to adopt the Resolution and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms.

2. The Bond Resolution creates the valid pledge which it purports to create of the proceeds from the sale of the Bonds, the Revenues and all Funds and Accounts other than the Arbitrage Rebate Fund (as such terms are defined in the Bond Resolution) established by the Bond Resolution, including the investments thereof and the proceeds of such investments, if any, subject only to the provisions of the Bond Resolution permitting the application thereof to the purposes and on the terms and conditions set forth in the Bond Resolution. The pledge of the Net Annual Payments component of the Revenues is junior and subordinate to the prior pledge made in respect of the Prior Authority Annual Payments, which prior pledge is junior and subordinate to the prior pledge made in respect of the Prior Agency Annual Payments (as such terms are defined in the Bond Resolution).

3. The Offered Bonds are valid and binding special obligations of the Authority payable as provided in, and enforceable in accordance with their terms and the terms of, the Resolution and are entitled to the benefits of the Act and the Resolution. Pursuant to the Financing Agreement (State Project) by and between the Authority and the Department of Mental Hygiene (the "Department") dated as of February 26, 2003, as supplemented to the date hereof, including as supplemented by the Supplemental Financing Agreement No. 2-2 (State Project) dated as of February 26, 2003 and the Financing Agreement (Voluntary Agency Project), by and between the Authority and the Department dated as of February 26, 2003, as supplemented to the date hereof, including by the Supplemental Financing Agreement No. 2-2 (Voluntary Agency Project) dated as of February 26, 2003 (collectively, the "Agreement"), the Annual Payments (as defined in the Resolution) are to be made to the Authority, which Annual Payments are executory to the extent of the monies made available by the State Legislature and no monetary liability on account thereof is incurred with respect thereto beyond monies legally made available for such payments by the State Legislature, and which Annual Payments are to be made after making the Prior Authority Annual Payments, and which Prior Authority Annual Payments are to be made after making the Prior Agency Annual Payments. To secure the payment of the Annual Payments, the New York State Commissioner of Taxation and Finance (the "Commissioner") and the New York State Comptroller (the "Comptroller"), pursuant to the Pledge and Assignment dated as of February 26, 2003 by and among the Commissioner, the Comptroller and the Authority (the "Pledge and Assignment"), have pledged and assigned to the Authority, subject to legislative appropriation, all or any monies in the Mental Health Services Fund established pursuant to Section 97-f of the State Finance Law and any and all monies which may be received by the Commissioner and the Comptroller and credited to such Fund and any right, title and interest of the Commissioner and the Comptroller in and to the monies in or to be deposited in such Fund, subject to the provisions of subdivision 5 of said Section 97-f, which pledge is subject, junior and subordinate to the prior pledge made in respect of the Prior Authority Annual Payments, and which prior pledge is subject, junior and subordinate to the prior pledge made in respect of the Prior Agency Annual Payments.

4. The Offered Bonds do not constitute a legally enforceable obligation upon the part of the State nor create a debt on behalf of the State enforceable against the State.

5. Under existing statutes and court decisions, interest on the Offered 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"). Under the Code, interest on the Offered Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations by the Code. In

rendering the opinion in this paragraph 5, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the federal tax compliance documents delivered by the Authority, the Department and each Voluntary Agency (as defined in the Financing Agreement (Voluntary Agency Project)) receiving a loan from the Authority made with proceeds of the Series 2003D-2 Bonds with respect to the use of proceeds of the Offered Bonds and the investment of certain funds, and other matters affecting the exclusion of interest on the Offered Bonds from gross income for federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Authority, the Department and each Voluntary Agency receiving a loan from the Authority made with proceeds of the Series 2003D-2 Bonds with procedures and covenants set forth in the federal tax compliance documents and with the tax covenants set forth in the documents authorizing or relating to the Offered Bonds as to such matters. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Offered Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Offered Bonds, irrespective of the date on which such noncompliance occurs or is ascertained. Under existing statutes, interest on the Offered 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).

6. "Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of an Offered 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 those Bonds of that maturity was sold (excluding sales to bonds houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). For any Offered Bonds having OID (a "Discount Bond"), OID that is properly allocable to the owners of the Discount Bonds is excluded from gross income for federal income tax purposes to the same extent as other interest on the Offered 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 at least annually, 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 Bond.

Except as stated in paragraphs 5 and 6 above, we express no opinion as to any federal, state or local tax consequences arising with respect to the Offered Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken on the exclusion from gross income for federal income tax purposes of interest on the Offered Bonds, or under state and local tax law in reliance upon an opinion of counsel other than ourselves.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Offered Bonds and the Resolution 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 2003C-2 Bond, Subseries 2003D-2A Bond, Subseries 2003D-2B Bond, Subseries 2003D-2C Bond, Subseries 2003D-2D Bond, Subseries 2003D-2E Bond, Subseries 2003D-2F Bond, Subseries 2003D-2G Bond, Subseries 2003D-2H Bond and Subseries 2003D-2I Bond and, in our opinion, the forms of said Bonds and their execution are regular and proper.

Very truly yours,

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**PROPOSED FORM OF OPINION OF BOND COUNSEL
TO BE DELIVERED UPON CONVERSION, CREDIT FACILITY TERMINATION,
LIQUIDITY FACILITY SUBSTITUTION AND REMARKETING OF
THE SUBSERIES 2003D-2A BONDS**

Upon conversion of the interest rate mode, the termination of the Credit Facility and the substitution of the Liquidity Facility applicable to the Subseries 2003D-2A Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, proposes to issue its legal opinion in substantially the following form:

HAWKINS DELAFIELD & WOOD LLP
ONE CHASE MANHATTAN PLAZA
NEW YORK, NEW YORK 10005

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Deutsche Bank Trust Company Americas,
as Trustee
60 Wall Street
New York, New York 10005

Ladies and Gentlemen:

On July 15, 2003, we delivered our final approving opinion (the "2003 Approving Opinion") as bond counsel to the Dormitory Authority of the State of New York (the "Authority") with respect to the issuance by the Authority of $156,000,000 aggregate principal amount of Mental Health Services Facilities Improvement Revenue Bonds, Subseries 2003D-2A (the "Subseries 2003D-2A Bonds").

The Subseries 2003D-2A Bonds were issued under and pursuant to the Dormitory Authority Act, the New York State Medical Care Facilities Finance Agency Act, being Chapter 392 of the Laws of New York of 1973, as amended, and the Health Care Financing Consolidation Act, being a part of Chapter 83 of the Laws of New York of 1995 (collectively, the "Act"), the Second Mental Health Services Facilities Improvement Revenue Bond Resolution adopted by the Authority on February 26, 2003 (the "Bond Resolution"), as supplemented by a series resolution adopted by the Authority on February 26, 2003 authorizing the Subseries 2003D-2A Bonds (the "Series Resolution"), and a series certificate of the Authority fixing the terms and details of the Subseries 2003D-2A Bonds (the "Series Certificate"). The Bond Resolution, the Series Resolution and the Series Certificate are herein collectively referred to as the "Resolution." Unless otherwise defined in this opinion, all capitalized terms used herein shall have the meanings ascribed thereto in the Resolution.

Initially, the Subseries 2003D-2A Bonds bore interest at the Weekly Rate determined in accordance with the Resolution. Payment of the principal of and interest on the Subseries 2003D-2A Bonds was guaranteed by a financial guaranty insurance policy issued upon original issuance of the Subseries 2003D-2A Bonds (the "Credit Facility") by MBIA Insurance Corporation. In addition, the Purchase Price of Subseries 2003D-2A Bonds tendered or deemed tendered for purchase in accordance with the Resolution was payable under and pursuant to a Standby Bond Purchase Agreement, dated as of July 15, 2003 (the "Original Liquidity Facility"), between the Authority and JPMorgan Chase Bank, National Association, formerly known as JPMorgan Chase Bank, N.A. (the "Bank").

The Authority has elected to change the mode of determining interest on the Outstanding Subseries 2003D-2A Bonds from the Weekly Mode to the Daily Mode (the "Conversion") and to terminate and surrender the Credit Facility (the "Credit Facility Termination") on March 2, 2009, all in accordance with the terms of the Resolution. Simultaneously, upon the Credit Facility Termination and the mandatory tender and reoffering of the Outstanding Subseries 2003D-2A Bonds (the "Reoffered Bonds") in connection therewith, the Original

Liquidity Facility will be terminated and replaced with a new Standby Bond Purchase Agreement, dated as of March 2, 2009, between the Authority and the Bank (the "Alternate Liquidity Facility"). We are delivering this opinion in connection with the Conversion, the Credit Facility Termination and the substitution of the Alternate Liquidity Facility for the Original Liquidity Facility (collectively referred to herein as the "Restructuring") on the date hereof.

We are of the opinion that the Restructuring is permitted under the Act and the Resolution.

We have not been asked to, and we do not, express any opinion as to whether, as of the date hereof, the interest on the Reoffered Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). We are of the opinion, however, that, under existing statutes and court decisions, the Restructuring in and of itself, will not impair (a) the exclusion of interest from gross income for Federal income tax purposes under Section 103 of the Code on any Reoffered Bonds, the interest on which is otherwise excluded from gross income for Federal income tax purposes under Section 103 of the Code, and (b) the exemption of interest on any Reoffered Bonds from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Except as stated above, we express no opinion regarding any other Federal, state or local tax consequences with respect to the Reoffered Bonds. We wish to advise you that our opinion is limited to the Restructuring on March 2, 2009 and does not extend to any other event or matter occurring subsequent to the delivery of our 2003 Approving Opinion on July 15, 2003.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. 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 Reoffered Bonds, or under state and local tax law.

Very truly yours,

INFORMATION CONCERNING THE BANK

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JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

JPMorgan Chase Bank, National Association ("the Bank") is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of September 30, 2008, JPMorgan Chase Bank, National Association, had total assets of $1,768.7 billion, total net loans of $687.0 billion, total deposits of $1,013.4 billion, and total stockholder's equity of $125.6 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income (the "Call Report") as at September 30, 2008, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2007, of JPMorgan Chase & Co., the 2007 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "SEC") by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov.

The information contained in this Appendix relates to and has been obtained from the Bank. The delivery of the Remarketing Circular shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

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DORMITORY AUTHORITY OF THE STATE OF NEW YORK • MENTAL HEALTH SERVICES FACILITIES IMPROVEMENT REVENUE BONDS, SUBSERIES 2003D-2A

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