RATINGS: See "RATINGS" herein

NEW ISSUE

$32,570,000
DORMITORY AUTHORITY
OF THE STATE OF NEW YORK
SECURED HOSPITAL REVENUE REFUNDING BONDS
(New York Downtown Hospital), Series 2011

Dated: Date of Delivery **Due: February 15, as shown on the inside cover page**

Payment and Security: The Secured Hospital Revenue Refunding Bonds (New York Downtown Hospital), Series 2011 (the "Series 2011 Bonds") are special obligations of the Dormitory Authority of the State of New York (the "Authority"), payable solely from and secured by a pledge of (i) certain payments to be made under the Loan Agreement, dated as of December 8, 2010, between New York Downtown Hospital (the "Institution") and the Authority (the "Loan Agreement"), (ii) all funds and accounts (except the Arbitrage Rebate Fund) authorized under the Master Secured Hospital Revenue Bond Resolution, adopted by the Authority on December 8, 2010, and the Series Resolution Authorizing Up To $38,500,000 Secured Hospital Revenue Refunding Bonds (New York Downtown Hospital), adopted by the Authority on December 8, 2010, and (iii) payments under the Service Contract with the State of New York (the "State"). The obligation of the State to make payments under the Service Contract is subject to, and dependent upon, the making of annual appropriations by the State Legislature and the availability of monies to fund such payments.

The Loan Agreement is a general obligation of the Institution and requires such Institution to pay, in addition to the fees and expenses of the Authority, the State and the Trustee, amounts sufficient to pay the principal, Sinking Fund Installments, if any, Redemption Price of, and interest on, the Series 2011 Bonds, as such payments become due. The obligations of the Institution under the Loan Agreement to make such payments will be secured by a pledge of Gross Receipts of the Institution and a mortgage on certain of the Institution's facilities comprising the Mortgaged Property.

The Series 2011 Bonds are not a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

Description: The Series 2011 Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple thereof. Interest (due August 15, 2011 and each February 15 and August 15 thereafter) on the Series 2011 Bonds will be payable by check or draft mailed to the registered owners thereof, or as otherwise provided in the Master Resolution. The principal, Sinking Fund Installments, if any, and Redemption Price or Purchase Price of the Series 2011 Bonds will be payable at the principal corporate trust office of U.S. Bank National Association, the Trustee and Paying Agent.

The Series 2011 Bonds will be issued initially under a Book-Entry Only System, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Individual purchases of beneficial interests in the Series 2011 Bonds will be made in book-entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2011 Bonds, payments of the principal and Redemption Price of and interest on such Series 2011 Bonds will be made 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 SERIES 2011 BONDS - Book-Entry Only System" herein.

Purpose: The Series 2011 Bonds are being issued for the purposes of providing funds which, together with other available moneys, will be used to (i) refund and defease the Authority's outstanding Secured Hospital Revenue Refunding Bonds (New York Downtown Hospital), Series 1998I issued by the Authority on February 26, 1998 under the Secured Hospital Program (as described herein), (ii) fund certain operating room enhancements at the Institution, (iii) fund the Capital Reserve Fund in an amount equal to the Capital Reserve Fund Requirement, and (iv) pay the Costs of Issuance of the Series 2011 Bonds. *See* "PART 5 — PLAN OF FINANCE" and "PART 6 — ESTIMATED SOURCES AND USES OF FUNDS."

Redemption: The Series 2011 Bonds are subject to redemption or purchase in lieu of optional redemption prior to maturity as more fully described herein.

Tax Matters: In the opinion of Sidley Austin LLP, New York, New York, Co-Bond Counsel to the Authority, based on current law and assuming, among other matters, the accuracy of certain representations and compliance with the tax covenants described herein and the requirements of the Internal Revenue Code of 1986, as amended, interest on the Series 2011 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. Sidley Austin LLP is also of the opinion that, under current law, interest on the Series 2011 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 and the City of Yonkers). See "PART 12 – TAX MATTERS" herein.

The Series 2011 Bonds are offered when, as and if issued and received by the Underwriter. The offer of the Series 2011 Bonds may be subject to prior sale or withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Sidley Austin LLP, New York, New York, and McKenzie & Associates, P.C., Washington, DC, Co-Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Institution by its counsel, Epstein Becker & Green, P.C., New York, New York, and for the Underwriter by its counsel, Cozen O'Connor, New York, New York. The Authority expects to deliver the Series 2011 Bonds in definitive form in New York, New York, on or about March 30, 2011.

M.R. Beal & Company

Dated: March 22, 2011

$32,570,000
DORMITORY AUTHORITY
OF THE STATE OF NEW YORK
SECURED HOSPITAL REVENUE REFUNDING BONDS
(New York Downtown Hospital), Series 2011

Maturity Date	Amount	Interest Rate	Yield	CUSIP†	Maturity Date	Amount	Interest Rate	Yield	CUSIP†
02/15/2014	2,910,000	5.000%	1.88%	6499057F7	02/15/2019	3,770,000	5.000%	3.78%	6499057L4
02/15/2015	3,105,000	5.000	2.50	6499057G5	02/15/2020	3,960,000	5.000	4.01	6499057M2
02/15/2016	3,260,000	5.000	2.80	6499057H3	02/15/2021	4,175,000	5.000	4.23	6499057N0
02/15/2017	3,420,000	5.000	3.12	6499057J9	02/15/2022	4,380,000	5.000	4.40*	6499057P5
02/15/2018	3,590,000	5.000	3.47	6499057K6					

* Yield to par call.

† Copyright 2010, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2011 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2011 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2011 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2011 Bonds.

No dealer, broker, salesperson or other person has been authorized by the Authority, the State, the Institution or the Underwriter to give any information or to make any representations with respect to the Series 2011 Bonds, other than the information and representations contained in this Official Statement. If given or made, any such information or representations must not be relied upon as having been authorized by the Authority, the State, the Institution or the Underwriter.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Series 2011 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information in this Official Statement has been supplied by the Institution, the State 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.

The Institution has reviewed the information in this Official Statement, including "PART 1 – INTRODUCTION – The Institution," "PART 3 — THE SERIES 2011 BONDS — Debt Service Requirements for the Series 2011 Bonds," PART 5, PART 6, PART 7, PART 8 and PART 15 herein and Appendices E-1 and E-2 hereto, describing or necessarily relating to the estimated sources and uses of funds, the Institution and certain Bondholders' risks. It is a condition to the sale and the delivery of the Series 2011 Bonds that the Institution certify that, as of such dates, such information does not contain any untrue statement of a material fact and does not omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The Institution makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

References in this Official Statement to the Act, the Master Resolution, the Series Resolution, the Loan Agreement or the Service Contract do not purport to be complete. Refer to the Act, the Master Resolution, the Series Resolution, the Loan Agreement and the Service Contract for full and complete details of their provisions. Copies of the Master Resolution, the Series Resolution, the Loan Agreement and the Service Contract are on file with the Authority and the Trustee.

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

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 2011 BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2011 BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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DORMITORY AUTHORITY - STATE OF NEW YORK — 515 BROADWAY, ALBANY, NEW YORK 12207
PAUL T. WILLIAMS, JR. – PRESIDENT ALFONSO L. CARNEY, JR., ESQ. – CHAIR

OFFICIAL STATEMENT RELATING TO
$32,570,000
DORMITORY AUTHORITY
OF THE STATE OF NEW YORK
SECURED HOSPITAL REVENUE REFUNDING BONDS
(New York Downtown Hospital), Series 2011

PART 1 — INTRODUCTION

Purpose of this Official Statement

This Official Statement (including the cover pages, inside cover pages and appendices) provides certain information concerning the Dormitory Authority of the State of New York (the "Authority") in connection with the sale of $32,570,000 aggregate principal amount of its Secured Hospital Revenue Refunding Bonds (New York Downtown Hospital), Series 2011 (the "Series 2011 Bonds").

This Official Statement also provides certain information concerning New York Downtown Hospital (the "Institution"). A description of the Institution is contained in "PART 7 — NEW YORK DOWNTOWN HOSPITAL." Appendix E-1 hereto contains audited combined financial statements of New York Downtown Hospital and Affiliates for the years ended December 31, 2009 and 2008 with Report of Independent Auditors and Appendix E-2 hereto contains the unaudited combined financial statements of New York Downtown Hospital and Affiliates as of and for the eleven month period ended November 30, 2010 and for the eleven month period ended November 30, 2009.

The following is a brief description of certain information concerning the Series 2011 Bonds, the Authority, the Institution and the State of New York (the "State"). A more complete description of such information and additional information that may affect decisions to invest in the Series 2011 Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain terms used in this Official Statement are defined in Appendix F hereto.

Purpose of the Series 2011 Bonds

The Series 2011 Bonds are being issued for the purposes of providing funds which, together with other available monies, will be used to (i) refund and defease the Authority's outstanding Secured Hospital Revenue Refunding Bonds (New York Downtown Hospital), Series 1998I (the "Prior Bonds") issued by the Authority on February 26, 1998 under the Secured Hospital Program (as described herein), (ii) fund certain operating room enhancements at the Institution, (iii) fund the Capital Reserve Fund in an amount equal to the Capital Reserve Fund Requirement, and (iv) pay the Costs of Issuance of the Series 2011 Bonds. *See* "PART 5 —PLAN OF FINANCE" and "PART 6 — ESTIMATED SOURCES AND USES OF FUNDS."

Authorization of Issuance

The Series 2011 Bonds will be issued pursuant to (i) the Dormitory Authority Act (being Chapter 524 of the Laws of 1944 of the State, and constituting Title 4 of Article 8 of the Public Authorities Law), as the same may be amended from time to time, including, but not limited to, the Health Care Financing Consolidation Act and as incorporated thereby the New York State Medical Care Facilities Finance Agency Act being Chapter 392 of Laws of

New York 1973, including Chapter 58 of the Laws of 2010, as amended from time to time (the "Act"), (ii) the Master Secured Hospital Revenue Bond Resolution, adopted by the Authority on December 8, 2010 (the "Master Resolution"), and (iii) the Series Resolution Authorizing Up To $38,500,000 Secured Hospital Revenue Refunding Bonds (New York Downtown Hospital), Series 2010, adopted by the Authority on December 8, 2010 (the "Series Resolution").

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, healthcare, governmental and not-for-profit institutions. *See* "PART 9 — THE AUTHORITY."

The Secured Hospital Program

In 1985, the State established a special bond financing program (the "Secured Hospital Program") for the purpose of enabling "financially distressed" not-for-profit hospitals to gain access to the capital markets to finance needed facility rebuilding and modernization projects. Under the now-expired New York inpatient rate-setting system known as the New York Prospective Hospital Reimbursement Methodology ("NYPHRM"), the Commissioner of Health had discretion to designate applicants as financially distressed ("Financially Distressed Hospitals") based on a showing, among other things, that the facility served a demonstrated public need and was experiencing severe financial distress due to the provision of unreimbursed bad debt and charity care services. When NYPHRM expired on December 31, 1996, legislation enacted in its place extended the Secured Hospital Program and made Financially Distressed Hospitals eligible for certain transitional financial protections, as well as for participation in the Secured Hospital Program. These transitional protections expired in December 2000 and the enabling provisions of the Secured Hospital Program expired on March 1,1998. The authorization provided by Chapter 590 of the Laws of 2002 ("Chapter 590"), which provided for the refinancing of secured hospital debt incurred with the Secured Hospital Program, expired on December 31, 2004. In 2006, the State Legislature enacted Chapter 387 of the Laws of 2006 ("Chapter 387") which authorized eligible secured hospital borrowers with outstanding secured hospital debt to refinance such debt upon application approved by the hospital's board of trustees containing, among other things, analytical evidence sufficient to demonstrate that such refinancing serves a sound business purpose and will help maintain or improve the hospital's financial condition. Under Chapter 387, the Authority's authorization to issue secured hospital bonds for refunding purposes expired on March 31, 2007. In 2010, the State enacted Chapter 58 of the Laws of 2010 ("Chapter 58") which authorizes eligible secured hospital borrowers with outstanding secured hospital debt to refinance such debt upon application approved by the hospital's board of trustees containing, among other things, analytical evidence sufficient to demonstrate that such refinancing serves a sound business purpose and will help maintain or improve the hospital's financial condition. The Commissioner of Health must approve the refinancing application. Under this limited refunding program, the Authority, as successor to the New York State Medical Care Facilities Finance Agency, and the State, acting through the State Director of the Budget, are authorized to enter into a service contract (the "Service Contract"), simultaneously with the delivery of a series of bonds issued to refund an eligible secured hospital borrower's existing secured hospital debt, to provide additional security for the bonds. *See* "PART 4 — THE SECURED HOSPITAL PROGRAM" and "Appendix A — PROPOSED FORM OF SERVICE CONTRACT." Under Chapter 58, the Authority's authorization to issue secured hospital bonds for refunding purposes expires on March 31, 2011. This expiration date, however, does not impair any bonds issued under the Secured Hospital Program prior to such expiration date. *See* "Appendix D – INFORMATION CONCERNING THE STATE OF NEW YORK – Annual Information Statement - - State-Related Debt Outstanding - - - Contingent Contractual Obligation Financing - - - - Secured Hospital Program."

The Institution

The Institution is an acute care community and teaching hospital located in lower Manhattan. Under NYPHRM, the Institution was designated a Financially Distressed Hospital by the State Commissioner of Health.

The Series 2011 Bonds

The Series 2011 Bonds will be dated and bear interest from their date of delivery, payable each February 15 and August 15, commencing August 15, 2011. The Series 2011 Bonds will bear interest at the rates and mature at the times set forth on the inside cover page of this Official Statement. *See* "PART 3 — THE SERIES 2011 BONDS — Description of the Series 2011 Bonds."

Payment of the Series 2011 Bonds

The Series 2011 Bonds are special obligations of the Authority payable solely from the Revenues, which consist of certain payments to be made by the Institution under the Loan Agreement, or otherwise derived by the Authority under the Mortgage, and payments under the Service Contract. The Loan Agreement is a general obligation of the Institution. The obligation of the State under the Service Contract is subject to annual appropriation as more fully described in this PART 1 under the caption "The Service Contract." Pursuant to the Master Resolution and the Series Resolution, the Revenues and the Authority's right to receive the Revenues have been pledged to the Trustee. *See* "PART 2 — SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011 BONDS."

Security for the Series 2011 Bonds

The Series 2011 Bonds will be secured by the pledge and assignment to the Trustee (as defined herein) of the Revenues and all funds and accounts authorized by the Master Resolution and established by the Series Resolution (with the exception of the Arbitrage Rebate Fund), which include the Capital Reserve Fund and the Special Debt Service Reserve Fund. Upon the delivery of the Series 2011 Bonds, the Capital Reserve Fund will be funded in an amount equal to ten percent (10%) of the net proceeds of the sale of the Series 2011 Bonds, which is the least of (i) maximum annual debt service on the Series 2011 Bonds, (ii) ten percent (10%) of the net proceeds of the sale of the Series 2011 Bonds or (iii) 125% of the average annual debt service on the Series 2011 Bonds. The Special Debt Service Reserve Fund is expected to be funded from other available monies in an amount equal to approximately one-half (1/2) of maximum annual debt service on the Series 2011 Bonds. The Master 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 and to be separately secured from each other Series of Bonds. *See* "PART 2 — SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011 BONDS."

The Series 2011 Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

The Loan Agreement and the Mortgage

The Loan Agreement is a general obligation of the Institution and obligates the Institution to make payments to satisfy the principal, Sinking Fund Installments, if any, Redemption Price of, and interest on Outstanding Series 2011 Bonds. Under the Loan Agreement, the Institution has granted to the Authority a security interest in its Gross Receipts. *See* "PART 2 — SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011 BONDS — The Loan Agreement." The Institution's obligations to the Authority under the Loan Agreement will be additionally secured by a Mortgage on the Mortgaged Property of the Institution and a security interest in certain fixtures, furnishings and equipment now or hereafter located thereon or used in connection therewith. The Institution has agreed to enter into account control agreements by and among the Institution, the Authority and the depository bank or banks holding the Institution's Gross Receipts in order to perfect the Authority's security interest in the Institution's Gross Receipts. The Authority may assign its rights under the Loan Agreement (including its security interest in Gross Receipts) and the Mortgage and its security interests in certain fixtures, furnishings and equipment now or hereafter located in or used in connection with the Mortgaged Property to the Trustee for the benefit of the Holders of the Series 2011 Bonds, but has no present intention to do so. The Authority is required to assign its rights under the Loan Agreement, the Mortgage and such security interests to the Trustee only if a payment is necessary under the Service Contract and such payment is not made by the State and may release the Mortgage, or any portion thereof, without the consent of Bondholders at any time prior to such assignment. Nevertheless, all payments received or receivable by the Authority under the Loan Agreement and Mortgage, including any net receipts as a result of any foreclosure action, constitute Revenues under the Master Resolution, which are pledged to the Trustee as security for the Series 2011 Bonds. *See* "PART 2 — SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011 BONDS — The Loan Agreement — *The Mortgage*."

The Service Contract

The Authority and the State, acting through the Director of the Budget of the State, will enter into the Service Contract to provide additional security for the Series 2011 Bonds. The Director of the Budget on behalf of the State has agreed in the Service Contract to include in each year, as a requested appropriation item during the term of the Service Contract, an amount equal to the principal of and interest on the Series 2011 Bonds coming due on the next succeeding February 15 and August 15. The Service Contract contains the agreement of the State, subject to the making of annual appropriations therefor by the State Legislature, for the payment to the Authority on or before each February 15 and August 15 of such sum, if any, as shall be necessary to provide for the payment of principal of and interest on the Series 2011 Bonds coming due on such dates, if all other funds pledged and available therefor are inadequate. A copy of the proposed form of Service Contract to be executed simultaneously with the delivery of the Series 2011 Bonds is attached hereto as Appendix A. *See* "PART 2 — SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011 BONDS — The Service Contract."

PART 2 — SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011 BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2011 Bonds 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 Master Resolution, the Series Resolution, the Loan Agreement and the Service Contract. Copies of the Master Resolution, the Series Resolution, the Loan Agreement and the Service Contract are on file with the Authority and the Trustee. See also "Appendix A — PROPOSED FORM OF SERVICE CONTRACT," "Appendix B — SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION" and "Appendix C — SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT" for a more complete statement of the rights, duties and obligations of the parties thereto.

General

The Series 2011 Bonds are special obligations of the Authority payable solely from the Revenues. The principal, Sinking Fund Installments, if any, Redemption Price or Purchase Price of, and interest on the Series 2011 Bonds are secured by the Revenues, and all funds and accounts authorized under the Master Resolution and established under the Series Resolution (with the exception of the Arbitrage Rebate Fund), subject to the application thereof to the purposes and on the conditions authorized and permitted by the Master Resolution. The Revenues consist of the payments received or receivable by the Authority (i) from the Institution under the Loan Agreement and Mortgage to satisfy the principal, Sinking Fund Installments, if any, Redemption Price of, and interest on the Series 2011 Bonds and to maintain the Capital Reserve Fund at its requirement, and (ii) from the State under the Service Contract. The Revenues and the right to receive them have been pledged to the Trustee for the benefit of the Holders of the Series 2011 Bonds. Pursuant to the terms of the Master Resolution, the funds and accounts established by the Series Resolution secure only the Series 2011 Bonds, and do not secure any other Series of Bonds issued under the Master Resolution, regardless of their dates of issue. In addition, the Authority has pledged to the Trustee for the benefit of the Holders of the Series 2011 Bonds its interest in the Service Contract.

The Series 2011 Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power. *See* "PART 9 — THE AUTHORITY."

The Loan Agreement

The Loan Agreement is a general obligation of the Institution and obligates the Institution to make payments to satisfy the principal of, Sinking Fund Installments, if any, and interest on Outstanding Series 2011 Bonds. Such payments are to be made monthly on the first day of each month. Each payment is to be equal to a proportionate share of the principal and interest coming due on the next succeeding payment date. The Loan Agreement also obligates the Institution to pay, at least forty-five (45) days prior to a redemption date of Series 2011 Bonds called for redemption or the purchase date of Series 2011 Bonds contracted to be purchased, the amount, if any, required to pay the Redemption Price or Purchase Price of such Series 2011 Bonds. *See* "PART 3 — THE SERIES 2011 BONDS — Redemption Provisions."

The Authority has directed, and the Institution has agreed, to make such payments directly to the Trustee. Such payments are to be applied by the Trustee to the payment of the principal, Sinking Fund Installments, if any, Redemption Price or Purchase Price of, and interest on the Series 2011 Bonds. The payments to be made by the Institution to restore the Capital Reserve Fund to its requirement are to be made directly to the Trustee for deposit therein.

Security Interest in Gross Receipts. As further security for its obligations under the Loan Agreement, the Institution has granted to the Authority a security interest in its Gross Receipts, which consist, generally, of all receipts, revenues, income and other monies received or receivable by or on behalf of the Institution except for gifts, grants, bequests, donations and contributions and the income derived therefrom that are specifically restricted by the donor or grantor to a special project or purpose inconsistent with the payments under the Loan Agreement. The Institution has also agreed in the Loan Agreement not to create or permit the creation of any pledge, assignment, encumbrance, restriction, security interest in or other commitment of or with respect to its Gross Receipts that is prior to or equal to the pledge made to the Authority in the Loan Agreement without the prior consent of the Authority and the New York State Department of Health ("NYSDOH"). Under the Loan Agreement, the Authority, with the consent of NYSDOH, may consent to the granting of a superior or parity interest in the Gross Receipts or may release the Authority's interest in Gross Receipts.

The Loan Agreement and the Mortgage. In connection with the delivery of the Series 2011 Bonds, the Institution will execute and deliver a mortgage which will secure the obligations of the Institution to the Authority under the Loan Agreement (hereinafter, the "Mortgage"). The Institution has also granted, with certain permitted exceptions, to the Authority, a security interest in certain fixtures, furnishings and equipment to secure the payments required to be made by the Institution pursuant to the Loan Agreement. The Authority may assign its rights under the Loan Agreement (including its security interest in Gross Receipts) and the Mortgage and its security interests in certain fixtures, furnishings and equipment now or hereafter located in or used in connection with the Mortgaged Property to the Trustee for the benefit of the Holders of the Series 2011 Bonds, but has no present intention to do so. The Authority is required to assign its rights under the Loan Agreement, the Mortgage and such security interests to the Trustee only if a payment is necessary under the Service Contract and such payment is not made by the State and may release, modify or amend the Mortgage without the consent of the Bondholders at any time prior to such assignment Pursuant to the Master Resolution and the Loan Agreement, prior to their assignment to the Trustee, the Authority may amend the Loan Agreement without the consent of Holders of Outstanding Series 2011 Bonds so long as any such amendments to the Loan Agreement are not detrimental to Bondholders, provided, however, that the Loan Agreement may be modified in any manner without the consent of Holders of Outstanding Series 2011 Bonds so long as the Institution continues to be obligated to make all payments required thereunder to allow the Trustee to comply with the payment terms of the Master Resolution and the Series Resolution, and the Loan Agreement and the Mortgage may be modified without the consent of Holders of Outstanding Series 2011 Bonds in connection with the issuance of Refunding Bonds to refund and defease Series 2011 Bonds to conform to the terms of such Refunding Bonds and the Series Resolution authorizing the issuance of such Refunding Bonds.

Reserve Funds

The Series Resolution establishes two reserve funds: (i) the Capital Reserve Fund (funded with a portion of the proceeds of the Series 2011 Bonds), and (ii) the Special Debt Service Reserve Fund (funded with monies made available by the Commissioner of Health and the Director of the Budget of the State or from other sources). The reserve funds are to be held by the Trustee, are to be applied solely for the purposes specified in the Master Resolution and are pledged to secure the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Series 2011 Bonds. Monies in the Special Debt Service Reserve Fund are to be applied to pay debt service on the Series 2011 Bonds before any monies in the Capital Reserve Fund are to be so applied.

Special Debt Service Reserve Fund. The Special Debt Service Reserve Fund is required to be created pursuant to the Act for the purpose of providing a reserve fund from which payment of principal, Sinking Fund Installments, if any, Redemption Price of, and interest on the Series 2011 Bonds could be made in the event that payments made under the Loan Agreement are insufficient for such purpose, prior to the withdrawal of any monies from the Capital Reserve Fund or payment under the Service Contract. The Master Resolution does not prescribe a minimum balance for the Special Debt Service Reserve Fund. The Authority may deposit in the Special Debt

Service Reserve Fund monies legally available to the Authority, other than the proceeds of the Series 2011 Bonds. Pursuant to the Series Resolution relating to the Series 2011 Bonds, the Authority expects to deposit an amount equal to approximately one-half (1/2) of the maximum annual debt service on the Series 2011 Bonds (the "Special Debt Service Reserve Fund Maximum Deposit") in the Special Debt Service Reserve Fund on the date of delivery of the Series 2011 Bonds. *Neither the Authority, the Institution nor the State (under the Service Contract or otherwise) is required to maintain the Special Debt Service Reserve Fund for the Series 2011 Bonds in an amount equal to the Special Debt Service Reserve Fund Maximum Deposit*. There is no requirement that withdrawals from the Special Debt Service Reserve Fund be restored by the Authority or otherwise.

To the extent funds are on deposit therein, monies in the Special Debt Service Reserve Fund are to be withdrawn and deposited in the Debt Service Fund for the Series 2011 Bonds whenever (i) the amount in the Debt Service Fund on the fourth business day prior to an interest payment date is less than the amount that is necessary to pay the principal and Sinking Fund Installments of Series 2011 Bonds due and payable on such interest payment date, and the interest on Outstanding Series 2011 Bonds due and payable on such interest payment date, and (ii) the amount in the Debt Service Fund on the fourth business day prior to a redemption date or purchase date is less than the Redemption Price or Purchase Price of Series 2011 Bonds called for redemption or contracted for purchase, respectively, on such date, and interest on Outstanding Series 2011 Bonds payable on such date.. *See* "Appendix B — SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION."

Capital Reserve Fund. The Capital Reserve Fund is required to be created pursuant to the Act to provide a reserve fund from which payments of principal, Sinking Fund Installments, if any, Redemption Price or Purchase Price of, and interest on the Series 2011 Bonds could be made in the event that payments made under the Loan Agreement and amounts, if any, in the Special Debt Service Reserve Fund are insufficient for such purposes, prior to payment under the Service Contract. Pursuant to the Act and the Master Resolution, the Capital Reserve Fund for the Series 2011 Bonds shall be funded at an amount equal to ten percent (10%) of the net proceeds of the sale of the Series 2011 Bonds, which is the least of (i) maximum annual debt service on the Series 2011 Bonds, (ii) ten percent (10%) of the net proceeds of the sale of the Series 2011 Bonds or (iii) 125% of the average annual debt service on the Series 2011 Bonds.

Monies in the Capital Reserve Fund are to be withdrawn and deposited in the Debt Service Fund for the Series 2011 Bonds whenever (i) the amount in the Debt Service Fund on the fourth business day prior to an interest payment date is less than the amount that is necessary to pay the principal and Sinking Fund Installments of Series 2011 Bonds due and payable on such interest payment date, and the interest on Outstanding Series 2011 Bonds due and payable on such interest payment date, and (ii) the amount in the Debt Service Fund on the fourth business day prior to a redemption date or purchase date is less than the Redemption Price or Purchase Price of Series 2011 Bonds called for redemption or contracted for purchase, respectively, on such date, and interest on Outstanding Series 2011 Bonds payable on such date. The Loan Agreement and the Master Resolution require that the Institution restore the Capital Reserve Fund to its requirement by paying the amount of any deficiency to the Trustee within five days after receiving notice of a deficiency. *Under the Service Contract, the State is not required to restore the Capital Reserve Fund to its requirement*. Monies in the Capital Reserve Fund in excess of its requirement shall be withdrawn and applied in accordance with the Master Resolution. *See* "Appendix B — SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION."

The Service Contract

The Series 2011 Bonds are secured by a pledge of all of the Authority's interest under the Service Contract, including, without limitation, the payments made by the State thereunder. The Service Contract provides for payment to the Authority on or before each February 15 and August 15 of such sum, if any, as shall be necessary to provide for the payment of principal of and interest on the Series 2011 Bonds coming due on such date, if all other funds pledged and available therefor, as described above, are inadequate. The Service Contract provides that the State's obligation to make the payments due thereunder is absolute and unconditional, subject only to the "executory clause" described below, and that neither the Authority nor the State will terminate the Service Contract for any reason, including any acts or circumstances that may constitute a failure of consideration or frustration of purpose or the failure of either the Authority or the State to perform or observe any duty, liability or obligation with respect to the Service Contract, and including, but not limited to, the bankruptcy or liquidation of the Institution. The Director of the Budget on behalf of the State has agreed in the Service Contract to include in each year, as a requested appropriation item, an amount equal to the principal of, and interest on, the Series 2011 Bonds coming due on the next February 15 and August 15. The obligations of the State pursuant to the Service Contract shall terminate not earlier than the final stated maturity of the Series 2011 Bonds.

The obligation of the State to fund or to pay the amounts provided for by the Service Contract is subject to and dependent upon annual appropriations being made by the State Legislature for such purpose, shall not constitute a debt of the State within the meaning of any constitutional or statutory provision and shall be deemed executory only to the extent of monies available to the State therefor, and no liability shall be incurred by the State beyond the monies available for the purposes thereof. The State Legislature is not obligated to make appropriations to satisfy the State's obligations under the Service Contract and there can be no assurance that the State Legislature will make any such appropriations.

Upon the occurrence of a monetary event of default under the Loan Agreement and the necessity for payment by the State under the Service Contract, the State may, in its sole discretion, elect to pay such amount as shall permit the Authority to redeem all or any portion of the Series 2011 Bonds. *See* "PART 3 — THE SERIES 2011 BONDS — Redemption Provisions — *State Extraordinary Redemption*."

PART 3 — THE SERIES 2011 BONDS

Description of the Series 2011 Bonds

The Series 2011 Bonds will be issued pursuant to the Master Resolution and the Series Resolution, will be dated their date of delivery, and will bear interest from such date (payable August 15, 2011, and on each February 15 and August 15 thereafter) at the rates, and will mature at the times set forth on the inside cover page of this Official Statement.

The Series 2011 Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple thereof. The Series 2011 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), pursuant to DTC's Book-Entry Only System. Purchases of beneficial interests in the Series 2011 Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series 2011 Bonds, the Series 2011 Bonds will be exchangeable for other fully registered Series 2011 Bonds in any authorized denominations of the same maturity without charge except for the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the Master Resolution. *See* "THE SERIES 2011 BONDS - Book-Entry Only System" herein and "Appendix B — SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION."

Interest on the Series 2011 Bonds will be payable by check or draft mailed to the registered owners thereof. The principal, Sinking Fund Installments, if any, or Redemption Price or Purchase Price of the Series 2011 Bonds will be payable in lawful money of the United States of America at the principal corporate trust office of U.S. Bank National Association, the Trustee and Paying Agent. As long as the Series 2011 Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. *See* "PART 3 - THE SERIES 2011 BONDS - Book-Entry Only System" herein.

For a more complete description of the Series 2011 Bonds, see "Appendix B — SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION."

Redemption Provisions

The Series 2011 Bonds are subject to redemption and purchase in lieu of optional redemption, as described below.

Optional Redemption. The Series 2011 Bonds maturing before February 15, 2022 are not subject to optional redemption prior to maturity, except for Special Redemption and State Extraordinary Redemption described below. The Series 2011 Bonds maturing on February 15, 2022 are subject to redemption prior to maturity at the option of the Authority on or after February 15, 2021, in any order, in whole or in part at any time, at a Redemption

Price equal to 100% of the principal amount of the Series 2011 Bonds to be redeemed, plus accrued interest to the redemption date.

Purchase in Lieu of Optional Redemption. The Series 2011 Bonds maturing on February 15, 2022 are also subject to purchase in lieu of optional redemption prior to maturity at the option of the Institution with the consent of the Authority, on or after February 15, 2021, in any order, in whole or in part at any time, at a purchase price equal to 100% of the principal amount of the Series 2011 Bonds to be purchased, plus accrued interest (the "Purchase Price") to the date set for purchase (the "Purchase Date").

Special Redemption. The Series 2011 Bonds are subject to redemption at the option of the Authority at any time, in whole or in part, at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the redemption date, from (i) proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Mortgaged Property, and (ii) monies derived as a result of a default by the Institution under the Loan Agreement or from foreclosure proceedings under the Mortgage.

State Extraordinary Redemption. The Series 2011 Bonds are also subject to redemption at any time, in whole or in part, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption, if as a result of a monetary default by the Institution under the Loan Agreement, which default results in a payment by the State under the Service Contract, the State exercises its prepayment option with respect to its obligations under the Service Contract and provides the Authority with monies sufficient to effect such redemption. *See* "PART 2 — SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011 BONDS — The Service Contract," "PART 7 — NEW YORK DOWNTOWN HOSPITAL" and "PART 8 — BONDHOLDERS' RISKS."

Selection of Bonds to be Redeemed. In the case of redemptions of Series 2011 Bonds as described above under the heading "*Special Redemption*," Series 2011 Bonds will be redeemed to the extent practicable *pro rata* among maturities of the Series 2011 Bonds. In the case of redemptions of Series 2011 Bonds as described above under the heading "*State Extraordinary Redemption*," the principal amount and maturities of the Series 2011 Bonds to be redeemed shall be specified by the State in its sole discretion. If less than all of the Series 2011 Bonds of a maturity are to be redeemed, the Series 2011 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.

Notice of Redemption. The Trustee is to give notice of the redemption of the Series 2011 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 Series 2011 Bonds that are to be redeemed, at their last known addresses appearing on the registration books of the Authority not more than ten (10) business days prior to the date such notice is given. Each notice of redemption, other than a Notice of Special Redemption or a Notice of State Extraordinary Redemption, may state, in addition to any other conditions, that the redemption is conditioned on the availability on the Redemption Date of sufficient monies to pay the Redemption Price of the Series 2011 Bonds to be redeemed, and the interest on the Series 2011 Bonds to be redeemed. The failure of any owner of a Series 2011 Bond to be redeemed to receive notice of redemption thereof will not affect the validity of the proceedings for the redemption of such Series 2011 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 Series 2011 Bonds.

If on the redemption date monies for the redemption of the Series 2011 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 and the conditions, if any, to such redemption have been satisfied or waived by the Authority, then interest on such Series 2011 Bonds will cease to accrue from and after the redemption date and such Series 2011 Bonds will no longer be considered to be Outstanding under the Master Resolution and the Series Resolution.

Notice of Purchase in Lieu of Optional Redemption and its Effect. Notice of purchase of the Series 2011 Bonds will be given in the name of the Institution to the registered owners of the Series 2011 Bonds to be purchased by first-class mail, postage prepaid, not less than 30 days nor more than 45 days prior to the Purchase Date specified in such notice. The Series 2011 Bonds to be purchased are required to be tendered on the Purchase Date to the Trustee. Series 2011 Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. If the Series 2011 Bonds are called for purchase in lieu of an optional redemption, such purchase will not extinguish the indebtedness of the Authority evidenced thereby. Such Series 2011 Bonds need not be cancelled, and will remain Outstanding under the Master Resolution and continue to bear interest.

The Institution's obligation to purchase a Series 2011 Bond to be purchased or cause it to be purchased is conditioned upon the availability of sufficient money to pay the Purchase Price for all of the Series 2011 Bonds to be purchased on the Purchase Date. If sufficient money is available on the Purchase Date to pay the Purchase Price of the Series 2011 Bonds to be purchased, the former registered owners of such Series 2011 Bonds will have no claim thereunder or under the Master Resolution or otherwise for payment of any amount other than the Purchase Price. If sufficient money is not available on the Purchase Date for payment of the Purchase Price, the Series 2011 Bonds tendered or deemed tendered for purchase will continue to be registered in the name of the registered owners on the Purchase Date, who will be entitled to the payment of the principal of and interest on such Series 2011 Bonds in accordance with their respective terms.

If not all of the Outstanding Series 2011 Bonds of a maturity are to be purchased, the Series 2011 Bonds to be purchased will be selected by lot in the same manner as Series 2011 Bonds to be redeemed in part are to be selected.

For a more complete description of the redemption and other provisions relating to the Series 2011 Bonds, see "Appendix B — SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION."

Book-Entry Only System

Payment of principal of, premium, if any, and interest on the Series 2011 Bonds will be made directly to The Depository Trust Company ("DTC"), New York, New York, or its nominee, Cede & Co., by the Trustee. In the event the Series 2011 Bonds are not in a book-entry-only system, payment of principal of, premium, if any, and interest on the Series 2011 Bonds will be made as described in the Master Resolution.

The information in this Official Statement concerning DTC and DTC's book-entry system has been obtained from DTC and the Authority takes no responsibility for the completeness or accuracy thereof. The Authority can not and does not give any assurances that DTC, DTC Direct Participants or DTC Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2011 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2011 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2011 Bonds, or that they will so do on a timely basis, or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described under this heading. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC acts as securities depository for the Series 2011 Bonds. The Series 2011 Bonds are issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Series 2011 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011 Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2011 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2011 Bonds, except in the event that use of the book-entry system for the Series 2011 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2011 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011 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. Beneficial Owners of the Series 2011 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2011 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Series 2011 Bonds may wish to ascertain that the nominee holding the Series 2011 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2011 Bonds of a particular maturity are being redeemed, DTC's usual practice is to determine by lot the amount of the interest of each Direct Participant the Series 2011 Bonds of such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an 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 Series 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Series 2011 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct 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 Direct Participant and not of DTC (nor its nominee), the Trustee or the

Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Series 2011 Bonds 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 will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2011 Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2011 Bonds, giving any notice permitted or required to be given to registered owners under the Master Resolution, registering the transfer of the Series 2011 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 Series 2011 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 Series 2011 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 Series 2011 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 services as depository with respect to the Series 2011 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2011 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository. In the event that no substitute securities depository is found by the Authority or restricted registration is no longer in effect, Bond certificates will be delivered as described in the Master Resolution and the Series Resolution..

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

THE AUTHORITY, THE UNDERWRITER AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DIRECT 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 DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR 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 Series 2011 Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2011 Bonds (other than under the captions "PART 12 - TAX MATTERS" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2011 Bonds.

Debt Service Requirements for the Series 2011 Bonds

The following table sets forth the amounts required to be paid by the Institution or the State during the periods ending February 15 and August 15 for the payment of (i) the principal of the Series 2011 Bonds payable on each February 15, (ii) the interest on the Series 2011 Bonds payable on such February 15 and August 15, and (iii) the total debt service during such period with respect to the Series 2011 Bonds.

Period Ending	Principal Payments	Interest Payments	Total Debt Service
8/15/2011	-	$610,687.50	$610,687.50
2/15/2012	-	814,250.00	814,250.00
8/15/2012	-	814,250.00	814,250.00
2/15/2013	-	814,250.00	814,250.00
8/15/2013	-	814,250.00	814,250.00
2/15/2014	$2,910,000.00	814,250.00	3,724,250.00
8/15/2014	-	741,500.00	741,500.00
2/15/2015	3,105,000.00	741,500.00	3,846,500.00
8/15/2015	-	663,875.00	663,875.00
2/15/2016	3,260,000.00	663,875.00	3,923,875.00
8/15/2016	-	582,375.00	582,375.00
2/15/2017	3,420,000.00	582,375.00	4,002,375.00
8/15/2017	-	496,875.00	496,875.00
2/15/2018	3,590,000.00	496,875.00	4,086,875.00
8/15/2018	-	407,125.00	407,125.00
2/15/2019	3,770,000.00	407,125.00	4,177,125.00
8/15/2019	-	312,875.00	312,875.00
2/15/2020	3,960,000.00	312,875.00	4,272,875.00
8/15/2020	-	213,875.00	213,875.00
2/15/2021	4,175,000.00	213,875.00	4,388,875.00
8/15/2021	-	109,500.00	109,500.00
2/15/2022	4,380,000.00	109,500.00	4,489,500.00
	$32,570,000.00	$11,737,937.50	$44,307,937.50

PART 4 — THE SECURED HOSPITAL PROGRAM

The State established the Secured Hospital Program in 1985 to allow financially distressed New York not-for-profit hospitals access to the capital markets. The Secured Hospital Program was enacted into law because the physical plants of certain Financially Distressed Hospitals were deteriorating and no longer code-compliant, yet their financial conditions were too weak to enable them to borrow the capital necessary to modernize and upgrade their facilities. Under the statutory hospital rate-setting methodology known as NYPHRM, which expired on December 31, 1996, hospitals were designated as Financially Distressed Hospitals in the discretion of the Commissioner of Health if they were determined to be experiencing "severe financial distress" due in part to the provision of a disproportionate share of services to uninsured and other indigent patients. Financially Distressed Hospitals were required to satisfy a range of other criteria indicative of financial distress, including: (i) the inability to obtain credit that would allow the facility to operate on an ongoing basis; (ii) liquidation of all financial resources at their disposal and their exhaustion of all other available support, including programs of major third-party payors; (iii) the inability of the facility to meet immediate and long-term financial commitments; and (iv) a negative fund balance from operations, excluding plant assets and related liabilities. The Institution consistently met these tests and was annually recertified by the Commissioner of Health as eligible for the benefits of "financially distressed" status throughout the NYPHRM period.

Under NYPHRM, Financially Distressed Hospitals such as the Institution received enhanced reimbursement for their bad debt and charity care losses, resulting in higher coverage of such losses from a series of State-administered pools than other voluntary, not-for-profit hospitals operating in the State. In addition, Financially Distressed Hospitals enjoyed a special exemption from an assessment on gross inpatient revenue that served as a principal funding source for certain of these pools. Effective January 1, 1997, the NYPHRM rate-setting methodology expired and was replaced by the New York Health Care Reform Act of 1996 ("HCRA"), which governed inpatient reimbursement to New York hospitals through December 31, 1999 and which has been extended through its current expiration date of December 31, 2011. Under HCRA, most inpatient reimbursement rates are set by negotiations between payors and hospitals, with the exception of rates payable for Medicaid and Medicare beneficiaries who are not enrolled in managed care plans, and for certain miscellaneous insurance programs that are subject to State oversight. HCRA also effected substantial changes in the prior methodology for financing bad debt and charity care losses.

With the expiration of the NYPHRM methodology and the transition to HCRA, the Commissioner of Health no longer conducts an annual review of Financially Distressed Hospitals to determine their continuing eligibility for such status. Likewise, there is no longer a special bad debt and charity care pool dedicated to these hospitals. Until December 31, 2000, any Financially Distressed Hospital so designated in 1996, including the Institution, was entitled to partial hold-harmless distributions from a single "general hospital indigent care pool," with the amount of such distributions calculated in accordance with a complex statutory formula and designed to achieve a unified system for reimbursing indigent care losses. Effective January 1, 2001, these "hold-harmless" protections expired and the indigent care losses of Financially Distressed Hospitals are now recognized and partially defrayed with pool distributions in accordance with the same formula as applies to other voluntary hospitals. Supplemental pool allocations are provided for "high need" hospitals and for rural hospitals. Similarly, the exemption of Financially Distressed Hospitals from the assessment on gross inpatient revenue has been eliminated.

In 1985, the State established a special bond financing program (the "Secured Hospital Program") for the purpose of enabling "financially distressed" not-for-profit hospitals to gain access to the capital markets to finance needed facility rebuilding and modernization projects. Under the now-expired New York inpatient rate-setting system known as the New York Prospective Hospital Reimbursement Methodology ("NYPHRM"), the Commissioner of Health had discretion to designate applicants as financially distressed ("Financially Distressed Hospitals") based on a showing, among other things, that the facility served a demonstrated public need and was experiencing severe financial distress due to the provision of unreimbursed bad debt and charity care services. When NYPHRM expired on December 31, 1996, legislation enacted in its place extended the Secured Hospital Program and made Financially Distressed Hospitals eligible for certain transitional financial protections, as well as for participation in the Secured Hospital Program. These transitional protections expired in December 2000 and the enabling provisions of the Secured Hospital Program expired on March 1, 1998. The authorization provided by Chapter 590, which provided for the refinancing of secured hospital debt incurred with the Secured Hospital Program, expired on December 31, 2004. In 2006, the State Legislature enacted Chapter 387 which authorized eligible secured hospital borrowers with outstanding secured hospital debt to refinance such debt upon application approved by the hospital's board of trustees containing, among other things, analytical evidence sufficient to demonstrate that such refinancing serves a sound business purpose and will help maintain or improve the hospital's financial condition. Under Chapter 387, the Authority's authorization to issue secured hospital bonds for refunding purposes expired on March 31, 2007. In 2010, the State Legislature enacted Chapter 58 which authorizes eligible secured hospital borrowers with outstanding secured hospital debt to refinance such debt upon application approved by the hospital's board of trustees containing, among other things, analytical evidence sufficient to demonstrate that such refinancing serves a sound business purpose and will help maintain or improve the hospital's financial condition. The Commissioner of Health must approve the refinancing application. Under this limited refunding program, the Authority, as successor to the New York State Medical Care Facilities Finance Agency, and the State, acting through the State Director of the Budget, are authorized to enter into a service contract (the "Service Contract"), simultaneously with the delivery of a series of bonds issued to refund an eligible secured hospital borrower's existing secured hospital debt, to provide additional security for the bonds. Chapter 58 expires on March 31, 2011. This expiration date, however, does not impair any bonds issued under the Secured Hospital Program prior to such expiration date.

Revenue bonds separately secured from each other have been issued for the purpose of providing funds to make mortgage loans to eleven hospitals, including the Institution, under the Secured Hospital Program. Nine of such mortgage loans remain outstanding with a total of $586,390,000 million in revenue bonds outstanding under the Secured Hospital Program as of February 28, 2011. The revenue bonds are secured by loan repayments on account of such mortgage loans and by the monies in the funds and accounts under the general resolutions authorizing the issuance of such bonds. Such bonds are also secured by payments under service contracts with the State. See "PART 8 – BONDHOLDERS' RISKS - The Secured Hospital Program." *See, also,* "Appendix D – INFORMATION CONCERNING THE STATE OF NEW YORK – Annual Information Statement - - State-Related Debt Outstanding - - - Contingent Contractual Obligation Financing - - - - Secured Hospital Program."

Unless new financing legislation is enacted into law, no additional financings or refinancings will be undertaken through the Secured Hospital Program after March 31, 2011. However, in the event the Authority finances other projects or refinances outstanding borrowings for other Financially Distressed Hospitals, from time to time under the Master Resolution or under other resolutions, such other series of bonds will not be secured by the payments to be made under the Loan Agreement or by any of the funds or accounts established pursuant to the Master Resolution for the purpose of securing the Series 2011 Bonds or any other Bonds issued under the Master Resolution.

PART 5 — PLAN OF FINANCE

The Series 2011 Bonds are being issued for the purposes of providing funds which, together with other available monies, will be used to (i) refund and defease the Prior Bonds; (ii) fund certain operating room enhancements at the Institution; (iii) fund the Capital Reserve Fund in an amount equal to the Capital Reserve Fund Requirement; and (iv) pay Costs of Issuance of the Series 2011 Bonds. *See* "PART 6 — ESTIMATED SOURCES AND USES OF FUNDS" and "PART 7 — NEW YORK DOWNTOWN HOSPITAL."

A major portion of the proceeds of the Series 2011 Bonds in an amount sufficient, without investment, to pay the principal or redemption price of, and interest on, all Prior Bonds on May 4, 2011 will be deposited in a separate trust fund (the "Refunding Escrow") established with the trustee for the Prior Bonds. Such amount may be invested, at the direction of the Authority, in direct obligations of, or obligations the principal of and interest on which is unconditionally guaranteed by, the United States of America maturing on or prior to May 4, 2011. At the time of such deposit, the Authority will direct such trustee to make irrevocable provision for the giving of notice of redemption of the Prior Bonds to be redeemed prior to their stated maturities. *See* "PART 6 — ESTIMATED SOURCES AND USES OF FUNDS."

In addition, a portion of the funds released as part of the refunding of the Prior Bonds will be used, together with other available funds of the Institution, for certain operating room enhancements. *See* "PART 7 – NEW YORK DOWNTOWN HOSPITAL - Operating Room Enhancement Initiative."

PART 6 — ESTIMATED SOURCES AND USES OF FUNDS

Estimated sources and uses of funds for the Series 2011 Bonds are as follows:

Sources of Funds

Principal Amount of Series 2011 Bonds	$32,570,000
Net Original Issue Premium	2,604,385
Other Available Funds	8,651,854
Total Sources:	$43,826,239

Uses of Funds

Deposit to Refunding Escrow	$33,935,870
Deposit to Construction Fund[1]	2,709,520
Transfer to the State[1 2]	107,811
Deposit to Capital Reserve Fund	3,517,438
Deposit to Special Debt Service Reserve Fund[1]	2,301,375
Transfer to Debt Service Fund	868
Costs of Issuance[3]	1,253,357
Total Uses:	$43,826,239

[1]From other available funds.
[2]To reimburse the State for previous funding of the Special Reserve Fund.
[3]Includes an Underwriter's discount in the amount of $389,226.70.

PART 7 — NEW YORK DOWNTOWN HOSPITAL

Introduction

New York Downtown Hospital ("NYDH" or the "Institution") is a 180-bed, not-for-profit, community teaching hospital and the only hospital south of 14th Street in Manhattan. As such, it plays a critical role in the communities it serves, which include the Financial District; Chinatown; Battery Park City; Little Italy; TriBeCa; City Hall; Police Plaza; the Federal, State and City Courthouse complex; and the rapidly expanding residential community of Lower Manhattan.

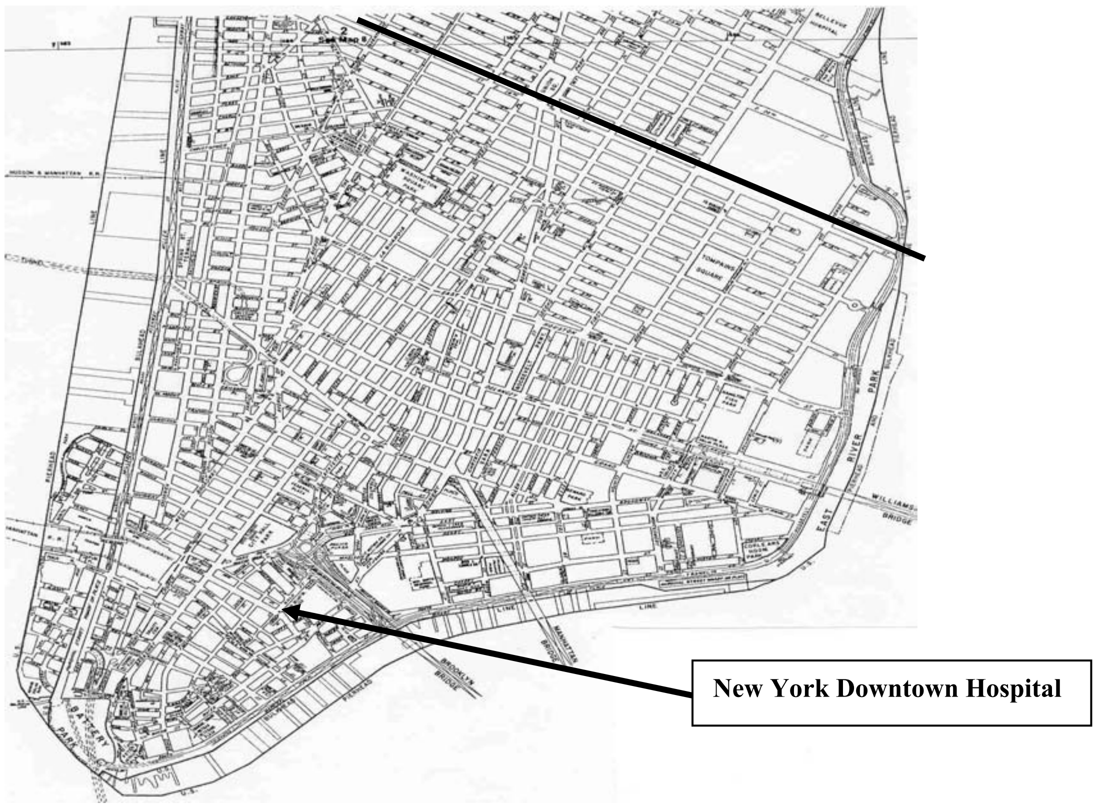
The Financial District ("FiDi") is recognized as one of the fastest-growing residential communities in New York. In February 2009, the *New York Times* reported, "…the Financial District is now truly on the verge of becoming a 24-hour, seven-day neighborhood that is genuinely family friendly [where] the percentage of households with children under age 18 downtown grew from 19 percent in 2004 to nearly 25 percent in 2007."

This growth in population has been "prompted by new residential construction and conversions, both spurred by tax abatements and post-9/11 building incentives. The Alliance for Downtown New York estimates that Lower Manhattan had about 13,000 residential units in 2001 and now has more than 27,000. Many of the recently built and currently planned buildings are condominiums that include apartments with two or more bedrooms. Another 3,000 units, most of them in condos, are under construction and expected to open by 2011 …"

Another significant component of this newly-reconstituted Lower Manhattan community is the largely immigrant population of Chinatown. NYDH continues to be the backbone healthcare provider to this Chinese community and commands an inpatient market share in Chinatown in excess of 50%. In its effort to provide culturally sensitive healthcare services for this community, more than 40% of the Institution's staff is fluent in one or more Chinese dialects.

These neighborhoods currently employ 317,000 people and provide housing for 227,000. NYDH defines its Service Area as the area south of Canal Street**.** This area, as well as those immediately adjacent, delivers a high number of patients to the Institution**.** The South Street Seaport, the World Trade Center site and the Statue of Liberty attract 5 million tourists annually to the Institution's Service Area. This swells the Lower Manhattan population to approximately 550,000 a day.

In addition, an increasing number of patients from SoHo, Greenwich Village, Union Square and the Lower West Side are relying on the Institution for emergency, medical, obstetrical and surgical services following the closing of St. Vincent Catholic Medical Centers St. Vincent's Hospital Manhattan ("St. Vincent's"). With the closure of St. Vincent's, NYDH is now the only remaining acute care hospital south of 14th Street in Manhattan.



NYDH has more than 42,000 emergency room visits, 105,000 outpatient visits, 12,000 inpatients, 7,200 outpatient surgeries, and delivers 2,800 new babies.

NYDH is a primary care-focused community hospital and is certified as a designated Stroke Center by the NYSDOH. In addition, the Institution has Centers of Excellence in Cardiology, Obstetrics and Gynecology, Joint Replacement and Revision Surgery, Spine Surgery, Wound Care and Vascular Surgery.

As a teaching hospital, NYDH conducts accredited Medical Residency training programs in the fields of Surgery, Medicine and Obstetrics and Gynecology.

Historical Background

NYDH traces its history back to 1853, when Dr. Elizabeth Blackwell, America's first licensed female physician, opened a free dispensary to provide outpatient care for poor women and children. This dispensary became the New York Infirmary for Indigent Women and Children, which opened in a rented house at 64 Bleecker Street in 1857.

In 1922, following the terrorist bombing outside the JP Morgan building on Wall Street, a group of concerned financiers created the Beekman Street Hospital which, in 1945, merged with the Broad Street Hospital forming the Beekman Downtown Hospital.

In 1979, the Infirmary merged with Beekman Downtown and, in 1981, relocated to its present location at 170 William Street in Lower Manhattan. The Institution was renamed New York Downtown Hospital.

In 1995, the Institution entered into an affiliation with New York University Medical Center. In 2006, the Institution dissolved this relationship and became an affiliate member of the prestigious New York-Presbyterian Healthcare System and an academic affiliate of the Weill Cornell Medical College.

On September 11, 2001, NYDH was the first hospital to respond to the horrific attacks on the World Trade Center. The Institution treated more than 1,500 people, including 269 firefighters, police and rescue workers. It also delivered medical aid and food to hundreds of stranded seniors in spite of the loss of electricity, gas, steam and dangerously reduced water pressure.

Recognizing the Institution's historic role in emergency response and 9/11, the financial community was instrumental in the creation of a brand new 28,000 square foot Emergency Center. This new Center, which was opened in 2006, is more than twice the size of the original emergency room and contains a state-of-the-art Decontamination Suite.

In 2006, the Commission on Health Care Facilities in the 21st Century (the "Berger Commission") acknowledged NYDH as a critical healthcare provider to the Downtown community providing a high volume of safety net services to the community it serves. In addition, NYDH has been recognized by NYSDOH, New York City and other civic authorities as being an essential acute care facility.

In 2007, on the site of the Institution's former parking lot, Forest City Enterprises began construction for the new, 76-story Beekman Tower, designed by world-renowned architect Frank Gehry. The Tower, which is expected to be completed in 2011, rises prominently over Lower Manhattan and will eventually house 900 families, a public school, and 21,000 square feet to be utilized by the Institution in providing expanded healthcare services to the Downtown community.

In March 2011, in recognition of the quality care provided at NYDH, the Institution was awarded a full, three year accreditation by the Joint Commission. The Joint Commission accredits and certifies more than 17,000 health care organizations and programs in the United States.

More recently, the Institution received grants from the Lower Manhattan Development Corporation ("LMDC") and New York State to construct a new Wellness & Prevention Center, which opened in January, 2011. The Center offers the seamless provision of diagnostic, preventive and therapeutic services, thereby achieving better patient outcomes.

Today, NYDH, in collaboration with the New York-Presbyterian Healthcare System and Weill Cornell Medical College, continues to develop programs to meet the healthcare needs of a burgeoning Downtown community.

Through the support of a variety of public and corporate donors, the Institution has been able to acquire state-of-the-art imaging equipment, which includes an MRI, a 64-slice CT Scanner, a Digital Mammography System and advanced echocardiography technology. In addition, the Institution has enhanced its Labor and Delivery Suite with the addition of six new private postpartum rooms and a spa-like shower facility, a second C-section operating room, a normal newborn Nursery and a Neonatal Intensive Care Unit ("NICU"). This is in response to market forces as Lower Manhattan has significantly higher birth and fertility rates than Manhattan or New York City overall, and in response to the closure of St. Vincent's.

In 2007, the Insitution was certified as a Stroke Center by NYSDOH. Fewer than half of the hospitals in the State have qualified and been approved as stroke centers. Further, in the August 2010 "Best Hospitals" edition of the U.S. News & World Report, the American Heart/Stroke Association recognized the Institution's stroke service with its Gold Plus Performance Achievement Award.

Access to excellent primary care, and specialists when needed, is essential to defining the long-term health of the community. By virtue of its long history as a provider of primary care-focused healthcare services and its location, NYDH is designed to provide the array of medical services with the intent to keep the residents, the visitors and the workforce of Lower Manhattan healthy for generations to come.

With recognition that the emerging communities' health needs are on the rise, NYDH works diligently to adapt to the ever-changing needs of the community. To meet the need created by the closure of St. Vincent's, NYDH is re-staffing 25 inpatient beds and re-configuring two (2) of its three (3) endoscopy suites to two (2) operating rooms.

Market Share

NYDH has the largest market share in Lower Manhattan and Chinatown with 22.3%. As such, and given the population growth Downtown, NYDH, New York-Presbyterian Hospital and Weill Cornell Medical College are prepared to bring new physicians to Lower Manhattan. The combined Lower Manhattan market share of New York-Presbyterian Hospital/Weill Cornell Medical Center and New York-Presbyterian Hospital/Columbia University Medical Center indicates that those in the community who presently obtain their medical care from these two institutions would now have the opportunity to see their physicians Downtown.

TABLE 1

NEW YORK DOWNTOWN HOSPITAL
MARKET SHARE

Hospital:	2008 Market Share (%)
New York Downtown Hospital	22.30%
Beth Israel Medical Center – Petrie	13.40%
St. Vincent's Hospital and Medical Center (closed)	14.70%
HHC/Bellevue Hospital Center	8.40%
NYU Hospitals Center	11.40%
New York-Presbyterian Hospital (Weill Cornell Medical Center and Columbia University Medical Center)	10.50%
Mount Sinai Hospital	5.40%
St. Luke's Roosevelt Hospital Center	5.10%
Lenox Hill Hospital	4.40%
All Other	4.40%

Source: Polaris (Solucient) Market Level Data

Community Outreach

The Institution supports extensive outreach to the Downtown communities and meets regularly with its Community Advisory Board to promote constructive dialogue with other community organizations. Nearly all of the following services are provided free of charge.

Programs for the Elderly: Palliative Care, NICHE, ACE Unit, On-Site Professional Practices

NYDH offers special medical and social service programs to senior citizens. *Dzi Yuan: The Palliative Care Consultation Service* at NYDH offers a full range of palliative care services to patients, their caregivers, and families, with a special focus on elderly Chinese and Latino patients. Another initiative is the Nurses Improving Care for Health System Elderly ("NICHE") program which trains nurses to prevent or mitigate functional decline in older patients during hospitalization. In 2007, The Institution initiated the Acute Care for Elders ("ACE") Unit which provides specialized care to minimize the physical, mental and emotional effects of hospitalization on the frail elderly.

The Chinese Community Partnership for Health ("CCPH")

NYDH is one of the largest providers of health care for the metropolitan area's vast and growing Chinese community. CCPH offers community-based screenings for high blood pressure, cholesterol, vision and hearing; screening and treatment for breast cancer; health education workshops at worksites and community halls; maternal and child services; and a Chinese-language health Hotline. Since its inception in 1994, CCPH has enabled NYDH to directly assist over 100,000 residents of the Chinese community. The Institution also provides translation services in Mandarin and Cantonese, 24 hours a day, through its Patient Advocacy Program.

The Kress Vision Program

The Kress Vision team works with community agencies to identify groups and individuals in need of eye care services. The program provides eye screenings to young children at local schools, and screens thousands of adults and seniors in order to protect patients' eye sight and restore their vision. In 2007, the NYDH program reached a milestone: a total of 100,000 patients served.

Existing Facilities and Beds

NYDH's clinical facilities occupy one city block, bounded on the north by Spruce Street, on the east by Gold Street, on the south by Beekman Street, and on the west by a de-mapped portion of William Street. The clinical facilities are housed in four contiguous buildings containing approximately 325,000 gross square feet. The Institution's main entrance is at the first floor level on William Street. The emergency and receiving entrances are at the ground floor level on Gold Street.

Table 2 shows the square footage and year constructed for the Institution's buildings.

TABLE 2

NEW YORK DOWNTOWN HOSPITAL
FACILITY SQUARE FOOTAGE AND YEAR CONSTRUCTED[1]

Building	Gross Square Footage	Year Constructed
Building A	72,056	1953
Building B	73,981	1953
Building C	129,536	1972
Building D	22,764	1949
Subtotal	**298,337**	
Infill of Central Courtyard	17,720	2005
Addition to Building C	8,748	2005
Total	**324,805**	

Source: Records of the Institution as of December 1, 2010

[1] Included in Mortgaged Property.

The four buildings were originally arranged to form a central courtyard, which was used for the site of an infill building constructed in 2005. Buildings A and B are eight-story structures built in 1953 fronting William and Spruce Streets. Building C is a six-story building constructed in 1972, expanded in 2005 and fronting on Gold Street. Building D is a three-story building built in 1949 and located on Beekman Street. In 2005, the Institution completed the expansion and upgrade of its Emergency Department. The Emergency Department project enclosed the central courtyard on the ground level and first floor. The first floor space was built out in 2010 for the Institution's Wellness and Prevention Center.

Inpatient and ancillary services, the operating rooms and ambulatory surgery suite are located in Buildings A, B and C. Building D contains the inpatient physical therapy area, outpatient pediatrics, and space for certain support functions. **Table 3** shows the number of existing inpatient beds and nursery bassinets at NYDH.

TABLE 3

NEW YORK DOWNTOWN HOSPITAL
INPATIENT BED COMPLEMENT

GENERAL ACUTE CARE	2008 Bed Complement	2009 Bed Complement	2010 Bed Complement
Medicine/Surgery	131	131	127
Critical Care	21	21	21
Obstetrics	24	24	24
Neonatal ICU	4	4	8
Pediatrics	-	-	-
TOTAL ACUTE CARE BEDS	180	180	180
NURSERY BASSINETS	24	24	24

Source: 2010 Operating Certificate

The Project

Proceeds of Medical Care Facilities Finance Agency Bonds, 1995 Series A (the "1995 Series A Bonds"), which were refunded with the Prior Bonds which Prior Bonds are being refunded with the Series 2011 Bonds, were applied to fund a portion of the Institution's modernization project (the "Modernization Project"). The Modernization Project included repairs to the Institution's basic infrastructure, renovations to patient service areas, acquisition of medical and non-medical equipment, the refinancing of existing bank loans, compensation for prior years unreimbursed bad debt and charity care, the funding of a Capital Reserve Fund and capitalized interest, and the payment of the cost of issuance associated with the Modernization Project. The Modernization Project is complete and the 1995 Series A Bonds were refunded in 1998 by the Prior Bonds. The outstanding Prior Bonds are to be refunded under the Project with a portion of the proceeds of the Series 2011 Bonds. *See* "PART 5 - PLAN OF FINANCE."

The Project also includes the funding of certain operating room enhancements (as described in the subsection below) with funds available as a result of the refunding of the Prior Bonds and cash flow savings from the deferral of principal on the Series 2011 Bonds. *See* "PART 5 - PLAN OF FINANCE" and "PART 7 – NEW YORK DOWNTOWN HOSPITAL – Operating Room Enhancement Initiative."

Operating Room Enhancement Initiative

A key objective of the current refunding initiative is assist NYDH in pursuing capital projects that will enable it to better serve its community, improve the Institution's financial operations and provide for its continued financial viability. With the closing of St. Vincent's, the Institution experienced a rapid growth in volume as patients and health care providers in the lower Manhattan community sought out an alternative, local hospital site. It is important that NYDH continues to attract and retain the increased utilization of the Institution, particularly of its operating rooms ("ORs") resulting from the St. Vincent's closure. The increased volume associated with the ORs enhancement initiatives ("ORs Enhancement Initiative") will assist with the generation of positive operating results. The ORs Enhancement Initiative is designed to alleviate the overcrowded conditions currently facing the Institution.

ORs Enhancement Initiative is a high priority due to:

1. Positive impact on patient access, especially in light of the closure of St. Vincent's in Greenwich Village and NYDH's increased obligation to serve Lower Manhattan;

2. Immediate positive impact on NYDH's operating margin;

3. Positive impact on NYDH's physicians who have relocated from St. Vincent's, which will enhance the Institution's opportunity to retain their services; and

4. The fact that a precursor ORs Enhancement Initiative is currently in construction under a Limited Review Approval.

NYDH is proceeding with a reconfiguration of the ORs under this ORs Enhancement Initiative to address existing capacity issues that were exacerbated by the closing of St. Vincent's. In June 2010, the Institution proceeded with a NYSDOH Limited Certificate of Need Review proposal in the amount of $2.629 million. Through the ORs Enhancement Initiative which is currently underway, two (2) existing endoscopy rooms will be converted to two (2) operating rooms. The ORs Enhancement Initiative will result in the Institution having eight ORs and one minor procedure rooms, for a total of nine rooms (i.e., no net change in total number of rooms). As noted above, the ORs Enhancement Initiative was designed in response to the increase in volume resulting from the closure of St. Vincent's in Greenwich Village, which was located only 2.2 miles from NYDH. The additional scope of work proposed includes, but is not limited to, acquisition of major medical equipment, movable equipment and furniture, some of which is on a one-for-one replacement basis; enhancement to the Women's Staff Lockers; enhancement of the Post Anesthesia Care Unit (PACU); enhancement of the Waiting Room; and related HVAC upgrades.

Service Area

The primary service area ("PSA") of NYDH includes the following neighborhoods, as defined by the United Hospital Fund ("UHF"):

Lower Manhattan – ZIP Codes 10004, 10005, 10006, 10007, 10038 and 10280;

Greenwich Village and Soho – ZIP Codes 10013, 10012 and 10014; and

Lower East Side – ZIP Codes 10002, 10003 and 10009.

TABLE 4
NEW YORK DOWNTOWN HOSPITAL
POPULATION DEMOGRAPHICS

	PSA[2]	Manhattan	NYC[3]
Total Pop (2000)	311,700	1,537,195	8,008,278
% 25-44 years	40%	38%	33%
% Asian	25%	9%	10%
% <Federal Poverty Level ("FPL")	20%	20%	21%
Total Pop (2008)	348,257	1,624,225	8,308,163
% Change from 2000	12%	6%	4%
% 25-44 years	39%	38%	31%
% Change from 2000	9%	-1%	-6%
% Asian	28%	11%	12%
% Change from 2000	27%	26%	22%
% <FPL	N/A	18%	19%

As demonstrated by the data in **Table 4** above, the PSA has experienced considerable population growth since 2000. The PSA population increased 12% from 2000 to 2008, twice the rate of increase in Manhattan as a whole (6%) and three (3) times the citywide increase. Although net migration into the PSA was the major component of the population surge, natural increase due to births was still relatively high, with a net increase of 2,484, with births in 2007 (4,401) outnumbering deaths (1,917) by a 2.3:1 margin.[4] The low number of deaths can be partly explained by the demographic make-up of the PSA, with 40% of the residents between the ages of 25 and 44, compared to 38% in Manhattan and 33% citywide. Moreover, the number of residents in this age group increased 9% from 2000 to 2008, compared to overall decreases in Manhattan and citywide. Lower Manhattan, in particular, has significantly higher birth and fertility rates than Manhattan or New York City overall, as shown in **Table 5**. These data underscore the continuing and future projected increased need for maternity services in the PSA, even before taking into account the effect of the closure of St. Vincent's.

TABLE 5

NEW YORK DOWNTOWN HOSPITAL
BIRTH RATE AND FERTILITY RATES

	Total Live Births	Birth Rate per 1,000 Pop.	Fertility Rate per 1,000 Women (age 15-44)
Greenwich Village/SoHo	933	10	38.8
Lower East Side	2,704	12.6	49.7
Lower Manhattan	764	21.6	80.8
Manhattan	20,513	12.7	50.5
New York City	128,961	15.6	68.5

Source: Records of the Institution as of December 1, 2010

2 Data for 2000 for the PSA are from the U.S. Census. 2008 data for the PSA are calculated using the New York City Department of Health and Mental Hygiene's on-line Epi-Query tool.

3 Year 2000 data for Manhattan and New York City are from the U.S. Census. 2008 data for Manhattan and New York City are the 2006-2008 estimates from the U.S. Census.

4 Salvo, J.J., A.P. Lobo and J.A. Alveraz, 2007. "A Pre- and Post-9/11 Look (2000-2005) at Lower Manhattan". Population Division, New York City Department of Planning. Prepared for the March 2007 Population Association Meetings in New York City.

Traditionally Underserved Demographic Characteristics

The PSA has a significantly higher percentage of Asian residents than Manhattan and New York City overall (28% vs. 11% and 12%, respectively), as shown in **Table 6**. In addition, the number of Asian residents in the PSA grew by roughly 20,000 from 2000 to 2008, an increase of 27%, compared to a citywide growth of 22% from 2000 to 2006-2008. NYDH has become the provider of choice for the Asian community of Lower Manhattan. (Chinatown is located in the Lower East Side.)

According to 2000 Census data, roughly one (1) in five (5) PSA residents live in poverty. The PSA has several ZIP Codes in which a significant percent of residents are living below the federal poverty level (FPL), as follows: ZIP Code 10002 (29.4%); ZIP Code 10013 (21.0%); ZIP Code 10038 (26.2%); ZIP Code 10048 (82.8%); and ZIP Code 10009 (22.3%).

TABLE 6

NEW YORK DOWNTOWN HOSPITAL
PERSONS RECEIVING INCOME SUPPORT (2008)

	Community Districts 1,2,3	Manhattan	NYC
Public Assistance	7,518	49,189	340,502
Supplemental Security Income (“SSI”)	16,988	80,160	410,314
Medicaid Only	69,906	250,784	1,803,515
Total	94,412	380,133	2,554,331
% of Population (2000)	32.3%	24.7%	31.9%

The PSA is also roughly equivalent to the area covered by Manhattan Community Districts 1, 2 and 3. As shown in **Table 6** above, there are 94,412 persons in Community Districts (CD) 1, 2 and 3, and nearly a third of the total population (32%) receives some type of income support (Public Assistance, Supplemental Security Income or Medicaid), compared to 25% in Manhattan as a whole. In CD3, in particular, which includes Chinatown, nearly half (49%) of residents in the CD are receiving some type of income support.

A total of 19 of the 71 census tracts in the PSA (26.8%) have received federal designation as medically underserved areas (“MUAs”). Likewise, a total of 31 of the 71 census tracts comprising the PSA (43.7%) have received federal designation as health professional shortage areas (“HPSAs”). Nearly all of these MUAs and HPSAs are located in the Lower Manhattan and Lower East Side (including Chinatown) communities.

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Selected Utilization Data

Table 7 below shows selected utilization data for NYDH for the years ended December 31, 2008, 2009, and 2010.

TABLE 7

NEW YORK DOWNTOWN HOSPITAL
SELECTED UTILIZATION DATA

	2008	2009	2010
Discharges			
Medicine	4,641	4,072	4,112
Surgery	1,460	1,551	1,676
Pediatrics	1	-	-
Gynecology	468	470	449
Sub-Total	6,570	6,093	6,237
Obstetrics	2,523	2,425	2,572
Newborn	2,149	2,063	2,228
Neonatal	204	208	200
Grand Total	**11,446**	**10,789**	**11,237**
Patient Days			
Medicine	22,087	19,192	22,406
Surgery	9,806	9,866	10,304
Pediatrics	2	-	-
Gynecology	1,116	1,099	1,115
Sub-Total	33,011	30,157	33,825
Obstetrics	6,699	6,393	7,022
Newborn	5,300	5,014	5,449
Neonatal	1,326	1,277	1,368
Grand Total	**46,336**	**42,841**	**47,664**
Average Length of Stay			
Medicine	4.8	4.7	5.4
Surgery	6.7	6.4	6.1
Pediatrics	2.0	-	-
Gynecology	2.4	2.3	2.5
Average	5.0	4.9	5.4
Obstetrics	2.7	2.6	2.7
Newborn	2.5	2.4	2.4
Neonatal	6.5	6.1	6.8
Total Average	**4.0**	**4.0**	**4.2**
Case Mix Index			
Medicine	1.25	1.25	1.30
Surgery	2.35	2.57	2.40
Gynecology	1.13	1.12	1.10
Average	1.49	1.58	1.58
Obstetrics	0.70	0.71	0.70
Neonatal	1.47	1.43	1.74
Total Average (Excluding Newborns)	**1.27**	**1.33**	**1.33**
Newborn	0.25	0.25	0.23

TABLE 7

NEW YORK DOWNTOWN HOSPITAL
SELECTED UTILIZATION DATA (continued)

	2008	2009	2010
Emergency Room Visits			
Treated & Released	31,214	33,020	34,508
Admitted	6,063	5,564	5,413
Total	**37,277**	**38,584**	**39,921**
Clinic Visits	44,749	33,780	25,659
Ambulatory Surgery Cases	4,347	4,884	5,519
Endoscopy Procedures	2,065	1,732	1,656

Source: Internal Financial Statements for 2008, 2009 and 2010.

Management's Discussion Of Utilization

As demonstrated by the selected utilization data set forth in **Table 7** above, the Institution's current year utilization shows an increase over 2009 inpatient discharges, ambulatory surgeries and emergency visits. This increased utilization stems from a variety of factors such as the Institution's focused efforts in physician recruitment, including physician group practices, its expanded hospitalist program, its added emphasis on strengthening inpatient and outpatient perioperative services, and the closure of Saint Vincent's.

Physicians formerly of the St Vincent's medical staff joining the staff of NYDH played a large role in the increased utilization of the Institution, particularly in orthopedic services where a multi physician group practice joined the Institution's medical staff. The Institution's current year projected increase in obstetric services was also the result of physicians with established practices, with some formerly from the Saint Vincent's medical staff joining the Institution staff.

Inpatient discharges in 2010 increased 4.1% over 2009. Inpatient surgeries, in particular, increased 8.1% over 2009 and over 31% from 2007 levels. Additionally, ambulatory surgeries increased over the prior year by 13% and by 32% over 2007 levels.

The increase in surgery services is connected with the Institution's reconfiguration of its existing operating rooms as described previously. Management anticipates continued growth in inpatient and outpatient surgeries which are a major driver of patient revenue. The increase in surgeries since 2007 has improved the Institution's average case mix by 13.5%; the Institution's increase in length of stay over the years correlates with the rise in case mix acuity.

Designed using the lessons learned on September 11, 2001, the Institution's Emergency Center is twice the size of the previous emergency room. This state-of-the-art facility includes the largest, fully-integrated decontamination unit in the city to respond to bio-chemical attacks and other emergency situations. Features include an enlarged Trauma Room equipped to perform a wider range of procedures and a new Chest Pain Emergency Unit.

Emergency room visits increased 3.5% from 2009 and 12% from 2007 levels. Management anticipates continued increase in emergency service utilization because of the growth of the Institution's catchment area as a result of the closure of St. Vincent's.

Outpatient clinic utilization decreased from 2007 levels because of the closure of two off-site clinics as mandated by the Berger Commission. The clinics accounted for approximately 40,000 visits annually. The clinics' facilities were transferred to other health care providers in order to maintain continuity of health care services in the respective communities.

Services And Programs

NYDH is a full-service community hospital providing a broad range of primary and secondary inpatient and outpatient services at its hospital facilities. NYDH patients also have access to high quality tertiary level care through the Institution's affiliation with the New York-Presbyterian Healthcare System.

The Institution also serves as a training site for residents as well as other health care providers. The teaching programs are important to operations and quality of care at the Institution. These programs help provide continuous physician coverage for patients, provide support to attending physicians, act as a source of future attending physicians for the Institution, and contribute to an environment where experienced faculty work with physicians in training on the latest clinical treatments and techniques.

Table 8 below shows the number of residents in teaching programs by clinical service. Each of the five post-graduate programs has a mix of first through fourth year residents. The medicine and obstetrics/gynecology programs are free-standing residencies. Residents in these programs receive most of their training at NYDH and rotate to or visit other sites for specialty training for specific educational experiences. The surgery residency program is fully integrated with New York Presbyterian Hospital – Weill Cornell Center and residents rotate to NYDH for periods of four to six weeks. Coverage for services without residents is provided by fully credentialed attending physicians.

TABLE 8

NEW YORK DOWNTOWN HOSPITAL
RESIDENTS BY SERVICE

	Number of Residents
Medicine	51
Surgery	7
Obstetrics/Gynecology	12
Podiatry	8
Orthopedics	4
Total	**82**

Source: Records of the Institution as of December 1, 2010.

The following is a description of certain of the more significant Hospital services and programs:

Inpatient Services

With the recent closure of St. Vincent's, NYDH has greatly expanded its medical and surgical services in response to increased demand for services from the community. To meet the need created by the closure of St. Vincent's, NYDH is re-staffing 25 patient beds and is in the process of configuring its operating rooms.

Medicine. Medicine is the Institution's largest department, accounting for 37% of total discharges for the Eleven Months ended November 30, 2010. The medical staff includes 44 faculty attendings and 51 residents. Subspecialties offered by the medical staff include cardiology, dermatology, dialysis, endocrinology, gastroenterology, geriatrics, hematology, infectious diseases, nephrology, neurology, oncology, pulmonology, rehabilitation therapy and rheumatology.

Maternity. The Labor and Delivery Unit at NYDH consists of eight modern Labor/Delivery/Recovery (LDR) Rooms, operating rooms and a recently renovated Nursery and Neonatal Intensive Care Unit, and is supervised by a staff of Maternal Fetal Medicine Specialists. Each LDR is equipped with state-of-the-art monitoring equipment in a comfortable and soothing setting, providing maximum patient safety and care.

Obstetrics and Gynecology. The Department of Obstetrics and Gynecology offers treatment and research of gynecological disorders including Urogynecology and Gynecologic Oncology. The Urogynecology Division treats women with disorders such as urinary incontinence, interstitial cystitis / painful bladder syndrome, pelvic organ prolapse and chronic pelvic pain disorders. The Gynecologic Oncology team manages all types of gynecologic malignancy. The Perinatal Diagnostic Unit provides state-of-the-art monitoring for pregnant patients. Four new 4D ultrasound units monitor and screen pregnancies. This Unit is supervised by two board certified Maternal Fetal Medicine specialists. Services include 1st and 2nd trimester screening, amniocentesis, chorionic villus sampling, biophysical profile, non-stress testing, comprehensive level II screening ultrasound, echocardiogram and follow-up testing.

Surgery. NYDH surgeons perform more than 7,000 outpatient and inpatient surgical procedures each year in the Institution's operating rooms. Laser, laparoscopic, endoscopic, endovascular and other minimally invasive surgical procedures are performed daily. There are ongoing departmental programs for clinical quality assurance and quality improvement, as well as continuing and graduate medical education. The Surgery Faculty Practice Suite is located on the fifth floor of the Institution, immediately adjacent to the department's administrative offices. Surgeons in a wide variety of specialties have offices in this state-of-the art facility and are readily available to see outpatients in consultation and for follow-up care. The Suite also contains operating rooms for minor surgical procedures. There is a fully equipped ophthalmology practice suite on the second floor. A pain management clinic is available on-site in cooperation with the Department of Anesthesia. Surgical specializations include: Breast Surgery, Colon and Rectal Surgery, Ear, Nose and Throat (Otorhinolaryngology), Ophthalmology, Oral and Maxillo-facial Surgery, Pain Management, Plastic Surgery, Spine Surgery, Surgical Oncology, Thoracic Surgery, Trauma and Critical Care, Urology and Vascular Surgery. The Department maintains an ACGME-approved residency training program in surgery as an integrated part of the surgical residency training program at Weill Cornell Medical College.

Orthopedics. NYDH orthopedic surgeons now perform over two thousand inpatient and outpatient surgical procedures each year (procedures included in the Surgery section above) in hospital operating rooms. These include adult reconstructive orthopedic surgery, primary and revision joint replacement of the hip and knee, ambulatory and complex spinal surgery, foot and ankle surgery, shoulder and elbow surgery, surgery of the hand and wrist, orthopedic oncologic surgery, surgical treatment of fractures and other orthopedic trauma, as well as a large variety of arthroscopic and sports medicine procedures.

<u>Outpatient Services</u>

Emergency Services. NYDH has a full service Emergency Department, except for Psychiatric Cases which are not seen routinely at the facility. The Institution is prepared to handle all levels of Emergency Care from Critical to Urgent to Non-Urgent Cases. NYDH is an accredited 911 receiving Hospital and a Level 2 Trauma Center. The Trauma Level designation states that NYDH is capable of handling any traumas that occur in the service area, but the Institution will not receive traumas which can be best cared for in a more sophisticated tertiary care institution or that are referred from another area. The Emergency Department is one of the few in a community hospital in New York City to offer Emergency Department Ultrasound. Usually reserved for large tertiary care hospitals, this type of ultrasound examination greatly facilitates diagnosis of many abdominal pathologies and obstetric issues. NYDH physicians are also trained in the latest techniques of Emergency Anesthesia to provide optimum care of critical patients. Being surrounded by the Financial District, NYDH has had tremendous experience with the intricacies of heart disease treatment. In a nationwide study of hospitals, NYDH ranked in the top ten hospitals in the speed of delivery of clot busting medications (thrombolytics) delivered to heart attack patients.

Perioperative Services. This service is presently comprised of nine rooms, which upon completion of the OR Enhancement Project will include eight (8) ORs and one (1) endoscopy suite, a Postanesthesia Care Unit, Ambulatory Surgery Unit and Preoperative Testing Unit. The Operating Room patient population consists of those who have been prescheduled for same day surgery or major procedures and those patients who enter the Institution through the Emergency Department or are in-patients. The Operating Room performs an average of 600 surgical procedures monthly. Patient care is provided by Registered Nurses, Licensed Practical Nurses, Operating Room Technicians, Surgeons, Anesthesiologists, Certified Registered Nurse Anesthetists and Residents. The Ambulatory Surgery Unit is a hospital-based integrated unit. The nursing staff prepares patients undergoing same day and major procedures. Patients and family members/significant others are provided with a comfortable and caring environment. The Preoperative Testing Unit is an area designated for the preoperative evaluation and education of elective surgical patients. Patients are given an appointment to visit the unit prior to the scheduled date of surgery. Routine laboratory tests, x-ray, and electrocardiogram as ordered by the surgeon will be performed. The Institution recently had a successful inspection by NYSDOH for its new, seventh Operating Room.

General Clinic. The clinic at NYDH provides primary care medical services largely to Lower Manhattan's Medicaid and medically indigent population groups through its clinic. The clinic covers 38 primary and specialty care clinic services.

Wellness & Prevention Center. The Wellness & Prevention Center's objective is disease prevention and the maintenance of optimum health for all in the community. The most advanced diagnostic and screening tools will follow evidence-based protocols which result in individual assessments and treatment plans to prevent or reduce the severity of disease. Access to excellent primary care is essential to long-term health, and NYDH's unique facility and programs will be the right answer for patients when early detection and intervention can affect outcome. Each patient will have a preliminary work-up performed by a Primary Care physician. Trained in a broad range of disease types, physicians will complete a formal medical history and perform a comprehensive physical. Testing will follow evidence-based clinical protocols that are age and gender specific. Clinical findings will be developed into individual patient medical profiles with customized risk assessments and recommended treatment plans. The three major components of the Center are The Women's Health Center, the Breast Care and high-risk Screening Program and the Moody's Foundation Center for Cardiovascular Health.

Cardiac Rehabilitation. NYDH provides a comprehensive cardiac rehabilitation program for people with a history of heart attack, coronary bypass surgery, or stable angina pectoris; patients, who have had a heart attack, angioplasty heart surgery, or coronary artery disease, are candidates for the program. Patients at risk for developing coronary disease, they may also be considered for the cardiac rehabilitation program at NYDH. Patients enrolled in the cardiac rehabilitation program typically visit the Medical Diagnostics Unit three times per week for three months consisting of 35 sessions. Rehabilitation sessions consist of supervised exercise therapy, nutritional guidance and education and support for risk factor modification.

The NYDH Faculty Practices. New York Downtown Medical Associates (NYDMA) is a critical component of the faculty practices at NYDH. NYDMA physicians are employed by the Institution and provide comprehensive medical care to the people of Lower Manhattan. NYDMA offers to individuals and businesses the professional expertise and care of a physician in the convenient setting of a major metropolitan hospital. Its specialties include: Cardiology, Gastroenterology, General Internal Medicine, Hematology/Oncology, Infectious Disease, Pulmonary Medicine, Physical Medicine and Rehabilitation, Preventive Medicine, Rheumatology, Travel Medicine and Wound Care. Other faculty practices provided at the Institution include Downtown OB/GYN Associates and Downtown Surgical Associates which offers general and specialty care also with the added convenience of easy access to the Institution and its services.

The Chinese Community Partnership for Health. NYDH is one of the largest providers of health care for the metropolitan area's vast and growing Chinese community. See "PART 7 – NEW YORK DOWNTOWN HOSPITAL – Community Outreach - - *The Chinese Community Partnership for Health (CCPH)*."

The Kress Vision Program. The Kress Vision team of NYDH works with community agencies to identify groups and individuals in need of eye care services. See "PART 7 – NEW YORK DOWNTOWN HOSPITAL – Community Outreach - - *The Kress Vision Program*.

Prenatal Care Assistance Program (PCAP). NYDH participates in the PCAP program enabling NYDH to provide a full range of pregnancy, post-partum and birthing services provided at no cost to indigent individuals who meet eligibility requirements.

Women, Infants, and Children Program (WIC). WIC is a nutritional program for low income perinatal women and their children under five years of age and is available at NYDH.

Certified Medical Services

NYDH is certified for the following services by the NYSDOH:

- Ambulance
- Ambulatory Surgery - Multi Specialty
- Clinical Laboratory Service
- Coronary Care

- CT Scanner
- Dental O/P
- Emergency Department
- Family Planning O/P
- Intensive Care
- Magnetic Resonance Imaging
- Maternity
- Medical Social Services
- Medical/Surgical
- Methadone Maintenance O/P
- Neonatal Intermediate Care
- Nuclear Medicine - Diagnostic
- Nuclear Medicine - Therapeutic
- Optometry O/P
- Outpatient Surgery
- Pediatric O/P
- Pharmaceutical Service
- Physical Medicine and Rehabilitation O/P
- Prenatal O/P
- Primary Medical Care O/P
- Radiology - Diagnostic
- Radiology-Therapeutic
- Renal Dialysis - Acute
- Renal Dialysis - Chronic
- Therapy - Physical O/P
- Therapy - Speech Language Pathology

Source: 2010 Hospital Operating Certificate (Key: O/P = outpatient)

Accreditations

Licenses, Accreditations, Memberships, and Affiliations

Table 9 shows the Institution's licenses, accreditations, memberships, and affiliations:

TABLE 9

NEW YORK DOWNTOWN HOSPITAL
LICENSES AND ACCREDITATIONS

Nature of Relationship	Agency/Group
Licenses/Accreditations	New York State Department of Health
	Joint Commission
	Accreditation Council for Graduate Medical Education
	The American Association of Blood Banks
Memberships/Affiliations	Healthcare Association of New York State
	Greater New York Hospital Association
	The New York And Presbyterian Hospital
	Cornell University and Weill Medical College of Cornell University
	Charles B. Wang Community Health Center, Inc.
	Community Healthcare Network

Source: Records of the Institution as of December 1, 2010

Table 10 is a list of the Institution's affiliations with various educational institutions from which the Institution accepts students in health-related professions.

TABLE 10

NEW YORK DOWNTOWN HOSPITAL
EDUCATION AFFILIATIONS

Educational Institution	Area of Training
Pace University	Masters of Science Nursing Students
	OB/Gyn Physician Assistant Student Program
	Surgery Physician Assistant Student Program
New York University	Bachelor of Science Nursing Students
	Masters of Science Nursing Students
	Graduate Nursing Practicum
Overlook Hospital	OB/Gyn Residents
Memorial Sloan Kettering	OB/Gyn Residents
	Medicine Residents
Peninsula Hospital	Resident Program
Ross Medical University	Medical Students
Borough of Manhattan Community College	Paramedic Students
	Masters of Science Nursing Students
Kingsbrook Medical Center	Orthopedic Residents
Weill Cornell	Physician Assistant Student Program
	Ophthalmology Residents
University of Florida	Externship Program for Pharmacy
Centers for Specialty Care	Podiatry Residency Program
Sanford Brown College	Medical Diagnostic Students
Columbia University	Physical Therapy Students

Source: Records of the Institution as of December 1, 2010

Summary Of Historical Revenues And Expenses

The following summary of historical revenue and expenses of the Institution and its Affiliates (the "Summary") for each year in the two-year period ended December 31, 2009 has been derived from the Institution's audited combined financial statements. The audited combined statements of financial position of the Institution and Affiliates as of December 31, 2008 and 2009, and the related combined statements of operations, changes in net assets and cash flows for each of the years then ended, together with the report of Ernst & Young LLP independent auditors, are set forth in Appendix E-1. The summary of revenue and expenses for the eleven months ended November 30, 2009 and November 30, 2010 were taken from the Institution's unaudited combined financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which Management considers necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the eleven months ended November 30, 2010 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2010. The Summary should be read in conjunction with the audited combined financial statements and related notes to the financial statements of the Institution and the report of independent auditors included in Appendix E-1.

TABLE 11

NEW YORK DOWNTOWN HOSPITAL
SUMMARY OF HISTORICAL REVENUES AND EXPENSES
(IN THOUSANDS)

	Year Ended December 31,		Eleven Months Ended November 30,	
	2008	2009	2009	2010
Operating Revenue (patient care and related)	Audited		Unaudited	
Net patient service revenue	$ 135,547	$ 135,529	$125,277	$138,303
Other operating revenue	36,309	36,896	27,616	39,914
Net assets released from restrictions used for operations	2,000	2,282	2,046	1,671
Total operating revenue (patient care and related)	173,856	174,707	154,939	179,888
Operating expenses (patient care and related)				
Salaries and wages	80,468	78,165	70,609	76,764
Employee benefits	18,253	19,026	16,818	18,775
Supplies and other	57,230	59,936	55,421	60,270
Interest	2,367	2,250	2,064	1,985
Depreciation and amortization	8,882	9,563	8,718	9,772
Bad debts	6,365	9,575	9,562	10,272
Total operating expenses (patient care and related)	173,565	178,515	163,192	177,838
Gain (loss) from operations before housing company operations and other items	**291**	**(3,808)**	**(8,253)**	**2,050**
Housing company operations				
Operating revenue	638	642	568	595
Operating expenses	1,409	1,182	772	850
Net housing company operations before gain on sale of real estate	(771)	(540)	(204)	(255)
Gain on sale of real estate	49,755	2,000	2,000	
Net housing company operations after gain on sale of real estate	48,984	1,460	1,796	(255)
Other items				
Loss on abandonment of long-lived assets	(311)	-		
Gain on sale of real estate (parking lot settlement)	2,800	-		
Total other items	2,489	-		
Excess (deficiency) of revenue over expenses	51,764	(2,348)	(6,457)	1,795
Other changes in unrestricted net assets				
Net assets released from restrictions used for plant replacement funds	1,798	1,302	366	7,545
Change in accrued pension and postretirement benefits liabilities to be recognized in future periods	(6,114)	4,832		
Change in unrestricted net assets	**$ 47,448**	**$ 3,786**	**(6,091)**	**9,340**

Source: Audited financial statements (2008, 2009) and unaudited financial statements for the eleven months ended November 30, 2009 and 2010

Management's Discussion Of Financial Performance

Eleven Months Ended November 30, 2010 Compared to Eleven Months Ended November 30, 2009

The Institution had an operating gain of $2,050,000 for the eleven months ended November 30, 2010 compared to an operating loss of $8,253,000 for the eleven months ended November 30, 2009. Total operating revenue increased $24.9 million from 2009 to 2010; net patient service revenue increased by $13.0 million primarily due to increased inpatient volume, outpatient volume and case mix. Discharges increased by 289 from 2009 to 2010, or 2.9%, and case mix increased by .03 or 3%. Emergency room treated and released visits increased by 1,298 or 4.3%, and ambulatory surgeries increased by 678 procedures or 15.3%. Other operating revenue increased by $12.3 million from 2009 to 2010 primarily due to improved Healthfirst distributions under the Institution's Medicaid insured risk program. The Healthfirst distributions represent payments from a managed care organization that are based on patient utilization. The period to period fluctuation is caused by changes in patient utilization. Net assets released from restrictions decreased by $0.4 million.

Total Institution's operating expenses for the eleven months ended November 30, 2010 increased $14.6 million over the prior year period. Salaries increased $6.2 million and fringe benefits increased $2.0 million due to increased staffing, particularly agency nurses, to cover the increase in the average daily census ("ADC"). The ADC increased by 12 patients over the prior year period in part due to the closure of Saint Vincent's. The salary increase was also affected by wage adjustments, as part of collective bargaining agreements, and resident and medical education administrative teaching costs particularly in orthopedics and podiatry services. Hospital supplies and other expenses increased $4.8 million due to the usage of medical supplies, pharmaceuticals and implantable devices related to the increase in census, including inpatient and outpatient surgery cases. Depreciation increased $1.1 million primarily due to an increase in capital projects and major equipment, such as the refurbishment of the maternal child health unit and the acquisition of a new MRI.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

The Institution incurred an operating loss of $3.8 million in the fiscal year 2009 as compared to an operating gain of $0.3 million in 2008. This was primarily due to increased expenses of $5.0 million, which was offset by an increase in operating revenue of $0.9 million.

Net patient service revenue was similar for each of the two years. Although patient revenue for 2009 was unfavorably impacted by a decrease in patient volume from the prior year (657 discharges) and a decrease in clinic volume (24.5%) from the closure of Institution's off-site clinics as mandated by the Berger Commission, these negative effects were offset by an improvement in case mix (4.7% increase), increased ambulatory surgeries (12.4%), and a reclassification adjustment of approximately $1.5 million related to prior year bad debt.

Other operating revenue increased $0.6 million, or 1.6% from 2008 to 2009. This was primarily due to an increase in Healthfirst distributions and offset with decreases in investment income, contributions and faculty practice revenue.

Total operating expenses increased $5.0 million from 2008 to 2009. This was primarily due to increases in supply costs, employee benefits, depreciation and bad debt (see reclassification adjustment noted above), offset by decreases in salaries and interest expenses. Salaries decreased by $2.3 million or 2.9% due to staff reductions caused by lower patient volume. Employee benefits increased $0.8 million, or 4.2%, due to new payroll taxes and benefit premium increases. Supplies and other expense increased by $2.7 million or 4.7% due to the increase in inpatient and outpatient surgery cases, and the effect of a full-year impact of outsourced services related to revenue cycle. Depreciation increased $0.7 million, or 7.7%, primarily due to project assets placed in service during 2009, including a new chiller system, major roof refurbishments and other infrastructure projects.

Sources Of Patient Revenue

The major portion of revenue received by the Institution is derived from third party payers. The Institution is a provider under the Medicare and Medicaid programs and receives payment from Empire Blue Cross and Blue Shield (Blue Cross), commercial insurance companies, and health maintenance organizations and other prepaid health plans. The following table shows the percentage distribution of total patient discharges by payer source for the three years ended December 31, 2008, 2009 and 2010.

TABLE 12

NEW YORK DOWNTOWN HOSPITAL
PERCENT OF PATIENT DISCHARGES BY PAYER SOURCE

	Years Ended December 31		
	2008	2009	2010
Medicare	20%	19%	19%
Medicaid	9%	8%	8%
Blue Cross	7%	8%	9%
Commercial and Other	4%	4%	5%
HMO Medicaid	40%	39%	35%
HMO Medicare	7%	7%	7%
HMO Other	11%	13%	15%
Self Pay	2%	2%	2%
Total	**100%**	**100%**	**100%**

Source: Records of the Institution as of December 31, 2010

All revenue statistics and reimbursement information in this "Part 7 – NEW YORK DOWNTOWN HOSPITAL – Souces of Patient Revenue" for 2008 and 2009 represent historical data and may not be indicative of future activity. The Institution cannot assess or predict the ultimate effect on its operations which may result from existing or future reimbursement legislation or regulation.

Outstanding And Future Indebtedness

As of November 30, 2010, the Institution's outstanding indebtedness, aside from the loan agreement which secures the Prior Bonds, which are being refunded with a portion of the proceeds of the Series 2011 Bonds, consisted of capitalized leases as well as non-cancellable operating leases. As of November 30, 2010, the future minimum payments under capitalized leases were $4.7 million and $4.5 million under non-cancellable operating leases.

The Institution's affiliate, Beekman Staff Residence, Inc., has an outstanding senior mortgage, which is insured by the Secretary of Housing and Urban Development, and a junior mortgage. The Institution does not guarantee the mortgages nor does it have a cross-collateralization agreement with its affiliate or the mortgagees. As of November 30, 2010, the outstanding amount on the mortgage was $7.1 million**.** For additional information, see the Notes to Combined Financial Statements.

Corporate Structure

The Institution is organized as a not-for-profit corporation governed by the New York State Not-For-Profit Corporation Law ("NPCL") and is licensed under Article 28 of the New York Public Health Law to operate a general voluntary Institution to provide health care services to residents of the New York City metropolitan area. The Institution is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code") as a charitable, scientific and educational organization qualifying under Section 501(c)(3) of the Code. The Institution is also exempt from state and local income and property taxes. The corporate purposes of the Institution include, among other things, to "establish and maintain a hospital for the care of persons suffering from illness or disabilities which require in- or out-patient hospital care, without regard to the such person's race, creed, color, national origin, sex or age;" " to carry on any educational activities related to rendering care to the sick and injured or to promotion of health…;" " to promote and carry on scientific research related to the care of the sick and injured…;" and "to participate…in any activity designed and carried on to promote the general health of the community."

The Institution's corporate structure includes several affiliated not-for-profit entities that support the Institution's mission and related programs and activities. These affiliates include: NYU Downtown Hospital Chinese Community Partnership for Health Foundation, Inc. ("CCPH"), Beekman Staff Residence, Inc. ("Beekman") and the Elizabeth Blackwell Foundation (the "Blackwell Foundation"). Each of these not-for-profit affiliates of the Institution are governed by the NPCL and are exempt from federal income taxation under Section 501(a) of the Code as charitable organizations qualifying under Section 501(c)(3) of the Code, as well as from state and local income and property taxes. None of the above-mentioned affiliated not-for-profit entities is responsible for payment of debt service on the Series 2011 Bonds.

Beekman is a limited profit housing company that was organized under the Limited-Profit Housing Companies Law of the State of New York and the Membership Corporation Law of the State of New York (which has been superseded by the NPCL). Beekman was established for the purpose of planning, acquiring, constructing, owning, maintaining, operating and providing housing and auxiliary facilities for personnel of the Institution.

The Blackwell Foundation is a charitable grant making foundation that was formed for the purpose of: (a) promoting the health of the community, (b) collecting and disseminating research and information concerning the promotion of health, (c) conducting public programs concerning the health of the community, (d) giving any of its property to other organizations in the promotion of the health of the community, (e) receiving and administering any funds and contributions, and (f) publicly soliciting funds in furtherance of the foregoing purposes.

CCPH was formed by the Institution for the purpose of raising funds to support the Institution's Chinese Community Partnership for Health program, which is a community-based collaboration between the Institution and various members of Chinese community served by the Institution aimed at addressing the unmet healthcare needs of the Chinese population throughout New York City.

In November 2005, the Institution entered into an affiliation agreement with New York-Presbyterian Healthcare System, Inc. ("NYPH") for the purpose of enhancing the ability of the Institution and NYPH to collaborate on (a) programs to improve quality of care and achieve efficiencies in clinical and administrative operations; (b) clinical trials, (c) recruiting support, (d) strategic planning, and (e) financial and operational benchmarking. Notwithstanding the affiliation agreement with NYPH, the Institution is not affiliated with NYPH from a corporate organizational or governance perspective and remains an independent legal entity.

Governance

The Institution is governed by a Board of Trustees, presently composed of 38 trustees, inclusive of the President of the Institution and the President of the Medical Board, who serve as members of the Board of Trustees by reason of their office (i.e., ex officio trustees). The Institution's Bylaws provide that the Board of Trustees must be composed of at least 6 trustees and not more than 50 trustees. Trustees are elected by the Institution's Board of Trustees at its Annual Meeting. The non-ex officio trustees are generally elected to serve for terms of three years, but are divided into three classes, with each class being as nearly equal in number as possible, for purposes of staggering their terms as trustees so that the terms of approximately one-third of the trustees' expire each year. The term of office of the two ex officio trustees is co-terminus with their term as President of the Institution or the Medical Board, as the case may be. Except for officers of the Institution or Committee Chairs, the each trustee is limited to two successive terms.

The bylaws of the Institution provide that trustees of the Board should be selected on the basis of (i) their character and reputation for integrity; (ii) their experience and expertise; (iii) their interest in and commitment to the charitable mission of the Institution; (iv) their ability and willingness to commit time, talent and expertise to the Board of Trustees and Hospital matters; (v) their ability to participate on the Board of trustees that is effective, collegial, and responsive to the needs of the Institution; (vi) their potential to provide or solicit philanthropic support for the Institution; and (vii) their understanding and commitment to ethical obligations and compliance including the avoidance of conflicts of interest. Regular meetings of the Board of Trustees are held at least four times per year, with various committee meetings held more frequently. An annual meeting of the Board of Trustees is held for the election of officers.

The current composition of the Board of Trustees is listed in **Table 13** below. Each Trustee's year of initial election, expiration of current term and primary occupation are set forth below.

TABLE 13

NEW YORK DOWNTOWN HOSPITAL
BOARD MEMBERS

Board Member	Year of Initial Election	Expiration of Current Term	Primary Occupation
Board Officers			
Christopher L. Mann	2007	2012	Partner, Sullivan & Cromwell LLP
Ralph M. Mastrangelo	1996	2011	Retired Executive, Bank of New York
Ronald K. Menaker	1991	2012	Chairman, American Kennel Club
Robert D. Hunter	2003	2012	Retired Executive, Barclay's Bank
Nelson Schaenen, Jr.	1991	2012	Retired Executive, Weiss, Peck & Greer
Kathryn George Tyree	2010	2013	Partner, Brown Brothers Harriman & Co.
Troland S. Link	n/a	2011	Senior Counsel, Davis, Polk & Wardell
Additional Members of the Board			
Giovanna Cipriani	2006	2011	Private Business
J. Christopher Daly	2006	2011	President, The Sheldrake Organization
John G. Daniello	2000	2012	Retired Executive, JP Morgan Chase
John T. Flynn, M.D.	1991	Life Trustee	New York Downtown Hospital, Department of Medicine
Sun-Hoo Foo, M.D.	1996	2012	Private Practitioner
Stephen J. Friedman		2013	President, Pace University
Lai Wah Fung	1996	2013	Private Business
Peter Gross	2006	2011	Managing Director, Goldman Sachs
Pauline G. Hecht, M.D.	1994	2011	Associate Chairman, Department of Surgery, New York Downtown Hospital
Mordechai Hoschander, DMD		Ex-Officio as President of the Medical Board	Medical Board President, New York Downtown Hospital
Peter James Johnson, Jr. Esq.	1996	2013	President, Leahey & Johnson, P.C.
Richard T. Kennedy	2000	2012	Senior Director, Cushman & Wakefield, Inc.
Ronald M. Krinick, M.D.	2001	2013	Chairman, Seaport Orthopaedic
Frances G. Laserson	2003	2012	President, The Moody's Foundation
Sandra K. Lee, R.N.	1993	2012	Chair and CEO, Harold L. Lee & Sons, Inc.
George C.K. Liu, M.D.	1997	2011	Private Practitioner
Bruce D. Logan, M.D.		2013	New York Downtown Hospital – Assistant Dean "NYDH" Weill Cornell Medical College, Associate Professor of Clinical Medicine, Weill Cornell Medical College
Edward C. Malmstrom	2002	2012	Managing Director, Bank of America Merrill Lynch
Julie Menin	2010	2013	Chairperson, City of New York, Community Board # 1
Jeffrey Menkes		Ex-Officio as President of New York Downtown Hospital	President & CEO – New York Downtown Hospital
Neil Moskowitz	2004	2013	Retired Executive, Credit Suisse

Board Member	Year of Initial Election	Expiration of Current Term	Primary Occupation
Susan Brown Roschen	n/a	Life Trustee	Retired Executive, Douglass Elliman
Herbert Rosenfield	n/a	Life Trustee	President, Continental Converters Corp
Patricia Bakwin Selch	n/a	2012	Retired Executive, Real Estate
Philip Seskin	2006	2012	Senior Vice President, Corporate Development Verizon Communications
Douglas Skolnick	2010	2013	Retired Managing Director and Chief Investment Officer, Bankers Trust
Steve Squeri	2007	2013	Executive Vice President and CIO, American Express
Ronald J. Strauss	2005	2012	Retired Executive, Merrill Lynch
Kenneth C. Sze, M.D.	1991	Life Trustee	Retired Private Practitioner
John A. Ward, III	2006	2011	Retired Chairman, Doral Financial Corporation
Stanley Zinberg, M.D.	2002	2011	Retired Vice President, American College of Obstetrics and Gynecology

Source: Records of the Institution as of December 1, 2010

Management – The Institution

The principal members of the Institution's management staff and summary biographical information are listed below:

JEFFREY MENKES, *President and Chief Executive Officer*

Mr. Menkes, age 62**,** was appointed President and Chief Executive Officer of New York Downtown Hospital in 2007. In this role he directs the day to day operations of the Institution. Previously he served as a Executive Vice President and Chief Operating Officer at Beth Israel Medical Center and The Mount Sinai Hospital and as Corporate Senior Vice President of Hospital Operations at the North Shore – Long Island Jewish Health System. Mr. Menkes received a Master of Business Administration (Health Administration) degree from Bernard M. Baruch College Mount Sinai School of Medicine and a Bachelor of Arts degree from Herbert H. Lehman College of the City University of New York.

ANTHONY J. ALFANO, *Chief Operating Officer, Senior Vice President for Operations*

Mr. Alfano, age 59**,** was appointed Chief Operating Officer, Senior Vice President for Operations in 2006. He is responsible for all aspects of the Human Resources Department and hospital operations inclusive of Radiology, Laboratory Services, Emergency Medicine, Payroll, Facility Management, Housekeeping, Food and Nutrition, Patient Transportation, Parking Management, Van Services, Safety, Security, Real Estate Management, Employee Health Services, Volunteers, and Mail Services. His previous experience includes positions as Senior Vice President of Human Resources at Brooklyn Hospital Center and Regional Vice President of Human Resources at Saint Vincent Catholic Medical Centers. Mr. Alfano received his M.S. degree in Administration from Long Island University.

FRANK A. VUTRANO, *Senior Vice President for Finance and Chief Financial Officer*

Mr. Vutrano, age 60, has been Chief Financial Officer and Senior Vice President for Finance since 2006. His major responsibilities include all of the financial functions of the Institution, including Financial Reporting, Budget, Reimbursement, Information Systems, Health Information Management, Patient Accounting and Revenue cycle. His previous experience includes positions as the Senior Vice President and CFO at Interfaith Medical Center, Corporate Director at Saint Vincent Catholic Medical Centers of New York, and Vice President, Financial Operations at Sound Shore Medical Center and CFO at The Mount Vernon Hospital. Mr. Vutrano holds an M.S. degree in Health Administration from Central Michigan University and a B.S. in Accounting from Herbert H. Lehman College.

WARREN LICHT, M.D., *Chief Medical Officer and Senior Vice President of Medical Affairs*

Dr. Licht**,** age 45**,** has been the Chief Medical Officer and Senior Vice President of Medical Affairs since 2004. In addition to being the Institutional Director of Graduate Medical Education, Dr. Licht is the Assistant Clinical Professor of Medicine at the NYU School of Medicine and is on staff at New York-Presbyterian Hospital – Weill Cornell Medical College. He served as the Chief Medical Resident at NYDH and graduated from Georgetown University School of Medicine and completed his residency in Internal Medicine at The New York Hospital-Cornell Medical Center.

LEAH BORENSTEIN, RN, M.P.A., CNOR, *Interim Chief Nursing Officer*

Ms. Borenstein, age 52 is the Institution's Interim Chief Nursing Officer. In this capacity, Ms. Borenstein is responsible for clinical, operational, financial and strategic initiatives for Nursing Services, Perioperative Services, Dialysis, Emergency Department, Respiratory Therapy, Ambulatory Services, Patient Advocacy, Infection Control, Case Management and Social Work. Ms. Borenstein received her RN at Henrietta Szold Hadassah School of Nursing, Jerusalem; her B.A. degree from New England College, Henniker, New Hampshire; and her M.P.A. degree from Clark University, Worcester, Massachusetts.

PETER MINICHIELO, *Senior Vice President for Development*

Mr. Minichielo, age 64, joined the Institution in January, 2011 as Senior Vice President for Development. His previous experience includes positions as the Director of Development for the Boston Symphony Orchestra, Inc., Senior Vice President for External Affairs for Lighthouse International, the Vice President, Development and External Affairs for AmFAR, and the American Foundation for AIDS Reseearch. He is a graduate of Bard College in New York.

Medical Staff

As of December 1, 2010 there were 693 members of the medical staff of the Institution, all of whom are active physicians. **Table 14**, below, shows the number of physicians by department.

TABLE 14

NEW YORK DOWNTOWN HOSPITAL
MEDICAL STAFF BY DEPARTMENT
AS OF DECEMBER 1, 2010

Departments	Physicians
Anesthesiology	37
Emergency Medicine	27
Medicine	300
Obstetrics & Gynecology	70
Pathology	6
Pediatrics	46
Radiology	43
Surgery	90
Orthopedic Surgery	74
Total	**693**

Source: Records of the Institution as of December 1, 2010

Nursing Staff And Other Employees

General. As of December 1, 2010, the Institution had 1,155 paid full time equivalent ("FTE") employees, as shown in **Table 15** below:

TABLE 15

NEW YORK DOWNTOWN HOSPITAL
PAID FTE EMPLOYEES
AS OF DECEMBER 1, 2010

Full Time	Per Diem	Total	Paid FTE's/ Occupied Bed
1,062	93	1,155	6.02

Source: Records of the Institution as of December 1, 2010

Nursing. As of December 1, 2010, the nursing department employed 221 full-time registered nurses; 16 full-time licensed practical nurses and approximately 66 full-time patient care technicians and other technicians.

Labor Relations. The registered professional nurses at the Institution are represented by the Communications Workers of America ("CWA Local 1104") union. The Institution negotiated a five year contract which is effective from December 1, 2008 through November 30, 2013. Almost all other non-professional employees are members of the District 1199 National Union of Hospital and Health Care Employees ("Union Local 1199"). The contract agreement with Union Local 1199 was ratified in January 2007, and is in effect from July 1, 2007 through September 30, 2011. Finally, the Institution also has a collective bargaining agreement with the House Staff Association an affiliate of CIR/SEIU Healthcare, which represents the interns and residents employed by New York Downtown Hospital. Such contract is effective from May 1, 2010 through April 30, 2013. Institution management believes its employee relations to be good; there have been no work stoppages or interruptions under any of the above agreements.

Employee Benefits. The Institution provides a comprehensive range of benefits for all its employees, including hospitalization, major medical, prescription, dental, life, disability, pension, tax deferred annuity program, tuition reimbursement, vacation and personal days and sick days. In addition, all Union Local 1199 employees receive benefits through such union, which the Institution supports with payments to such union's benefit fund.

Volunteer Services. The Institution's volunteer staff provides an estimated total of 37,500 volunteer hours on an annual basis or the equivalent of an additional 18.0 FTE to the NYDH staffing complement. The volunteers are active in approximately 90 different departments with the greatest support provided to areas such as Nursing, Community Outreach, Patient Registration, Admitting, Medical Board, Pharmacy and the Information Desk, including the Information Hotline

Insurance

Professional and General Liability Insurance

Prior to April 1, 1997, the Institution was self-insured for professional liabilities. At December 31, 2008, the professional liabilities for the self-insurance period aggregated approximately $1,100,000 and represented the total remaining valuation of all open claims for that period. At December 31, 2009, all asserted claims were closed for that period.

Effective April 1, 1997, the Institution purchased professional liability insurance through a captive insurance program which NYU Hospital Center, an affiliate at that time, jointly owned with several other not-for-profit institutions.

Effective August 6, 2003, the Institution purchased a claims-made primary layer professional and general liability insurance policy through NYU Hospitals Center's participation in Combined Coordinating Council. This policy had coverage limits of $1.0 million per occurrence/$3.0 million in aggregate. The primary layer was supplemented by a $2.0 million per occurrence/$4.0 million aggregate excess policy.

Effective July 1, 2004, the Institution paid a $4.0 million deposit premium for a claims-made retrospective rated primary layer professional/general liability policy. This policy has coverage limits of $2.0 million per occurrence/$8.0 million in aggregate. This policy has prior acts coverage through a retroactive date of August 6, 2003. This primary layer was supplemented by a $5.0 million per occurrence/$5.0 million aggregate excess policy with a retroactive date of July 1, 2004. On July 31, 2004, the Institution also purchased an additional $5.0 million per occurrence/$5.0 million aggregate excess insurance policy. In subsequent years, the Institution may receive a return of premium or may be required to pay an additional premium on the primary policy based on the level of claim experience during the policy period.

Effective July 1, 2005, the Institution paid a $3.5 million deposit premium for a claims-made retrospective rated primary layer professional/general liability policy. This policy has coverage limits of $2.0 million per occurrence/$8.0 million in aggregate. The primary policy is supplemented by a $1.0 million self-insurance layer. The Institution purchased a $7.0 million per occurrence/$7.0 million aggregate excess policy with a retroactive date of July 1, 2004. The Institution purchased a $5.0 million per occurrence/$5.0 million aggregate additional excess policy with attaching excess of $10.0 million for each and every loss. The retroactive date of these excess policies is July 1, 2004. In subsequent years, the Institution may receive a return of premium or may be required to pay an additional premium on the primary policy based on the level of claim experience during the policy period.

As of December 31, 2009 and 2008, the Institution maintains fully secured letters of credit for $2.0 million related to certain layers of insurance coverage for the period July 1, 2004 through June 30, 2006. As of November 30, 2010, the Institution maintains $1.0 million in a fully secured letter of credit.

Effective July 1, 2006, the Institution self-insured its primary layer for professional liabilities for $2.0 million for each and every claim on a claims-made basis, retroactive to August 6, 2003. The actuarially determined undiscounted professional liabilities associated with this self-insurance aggregated approximately $14.4 million at December 31, 2009 ($10.7 million at December 31, 2008). Funded amounts ($16.1 million at December 31, 2009; $12.5 million at December 31, 2008) have been placed into a separate account and are classified as assets limited as to use in the Institution's combined statements of financial position. Additionally, the Institution purchased an $8.0 million per occurrence/$8.0 million aggregate excess policy and a $5.0 million per occurrence/$5.0 million aggregate additional excess policy. The retroactive date of these excess policies is July 1, 2004. In subsequent years, the Institution may receive a return of premium on the first excess policy based on the level of claim experience during the policy period.

Effective July 1, 2009, the Institution increased its claims-made self-insured program to $6 million with a retroactive date of August 6, 2003. The primary layer consists of $2 million per claim with a $10 million aggregate (the aggregate includes $1.5 million of general liability coverage) followed by an excess layer of $4 million per claim and aggregate limit (the excess excludes general liability). For this layer, however, the Institution has the option to activate claims-made coverage from an insurance company for a specified premium. The purchase option can be activated at any point during the next seven years after inception and the coverage applies to all claims in the layer from the July 1, 2009 inception date. The Institution also purchased additional excess layers of coverage from insurance companies of $4 million and $5 million, respectively, both per claim and in the aggregate. The aforementioned self-insurance and claims-made policies do not cover claims and incidents not reported during the respective policy periods. As a result, the Institution has recorded an actuarially determined estimated liability for these types of claims and incidents, also known as a claims tail. At December 31, 2009 and 2008, the net aggregate professional liability for the claims tail was approximately $5.5 million.

As of November 30, 2010, Hospital management, with the assistance of the Institution's outside actuary, estimated total self insured Professional Liabilities at approximately $22.0 million, including claims tail exposure of approximately $6.0 million. As of November 30, 2010, the Institution had cash and investments totaling $16.8 million in a board designated account.

Other Insurance

The Institution also maintains the following additional insurance coverage: directors and officers liability, including employment practices liability; fiduciary liability; crime; property, including business interruption; and automobile liability for the Institution's ambulances and other vehicles.

Institution Litigation

As described above under the subheading "- Insurance," the Institution self-insures and has purchased certain policies for professional liability expenses and maintains insurance policies for other types of insurance. Professional liability claims have been asserted against the Institution by various claimants, including but not limited to, those claims described in this subheading. In addition, the Institution is a defendant in various legal actions claiming damages in excess of the Institution's general liability insurance coverage as described in this subheading.

The Institution is currently a defendant in the following litigation:

In September 2008, the Institution was served with two complaints in two separate qui tam actions in which the Institution is named as a defendant. The United States and the State (collectively, the "Government") each intervened in part in the lawsuits and filed complaints in intervention in October 2008, naming the Institution as a defendant. The Government's complaints allege a variety of claims, including claims under the Federal False Claims Act, the New York State False Claims Act, common law fraud, payment by mistake of fact, unjust enrichment, the New York Social Services Law and the New York Executive Law. The Government alleges that the Institution obtained combined Medicare and Medicaid payments related to the activity in question of approximately \$9.6 million from 2002 to 2006. The Government seeks, among other things, to recover treble damages, in an amount to be determined at trial, and civil penalties for each violation under the Federal and New York State False Claims Acts. The civil penalties sought are \$5,500 to \$11,000 for each violation under the Federal False Claims Act and \$6,000 to \$12,000 for each violation under the New York State False Claims Act. The Institution has denied liability and is actively litigating the matter, and settlement discussions are ongoing. The case is currently in the discovery phase, and is scheduled for trial late this year. See "Exhibit E-1—COMBINED FINACNIAL STATEMENTS NEW YORK DOWNTOWN HOSPITAL AND AFFILIATES YEARS ENDED DECEMBER 31, 2009 AND 2008 WITH REPORT OF INDEPENDENT AUDITORS - Note 10. See, also, "PART 8 – BONDHOLDERS' RISKS" – Federal and State False Claims Act."

A former medical resident who had been terminated from his residency program for unsatisfactory performance filed a claim with the New York State Division of Human Rights alleging that he had been the subject of discrimination and retaliation. When the State Division concluded in favor of the Institution, the former resident commenced an Article 78 proceeding which was denied by the court. The former resident has filed a notice of appeal of that denial which he has not yet perfected.

The Institution is being sued in NYS Supreme Court by a resident who was discharged from the Institution's training program due to poor performance. The plaintiff's allegation is that she was terminated in violation of the NYS Whistleblower Law. The Institution is vigorously defending against the lawsuit, and the parties are currently in discovery. The potential damages cannot be determined at this time.

The Institution is being sued in NYS Supreme Court by a former employee. The plaintiff's allegation is that he was terminated in violation of the NYS Whistleblower Law and for unclaimed overtime. The Institution is vigorously defending against the lawsuit, and the parties are currently in discovery. The potential damages cannot be determined at this time, but the plaintiff is claiming damages in excess of \$100,000.

In addition to the above matters, in the regular course of its operations, the Institution is sued for medical malpractice from time to time, and is currently defending several such suits. As of November 30, 2010, the Institution estimated total self insured professional liabilities at approximately \$22.0 million and the Institution had cash and investments totaling \$16.8 million in a board-designated account. See "PART 7 – NEW YORK DOWNTOWN HOSPITAL – Insurance - - Professional and General Liability Insurance."

The Institution responded to an inquiry from the United States Attorney's office for the Southern District of New York ("SDNY"), apparently related to complaints from certain staff members at the Institution in regard to the drug prescribing and hospital admission practices of a voluntary attending physician. The Institution reviewed the matter with its medical staff leadership and outside experts, and believes its policies and practices in this regard are compliant with law. The Institution believes that the investigation by the SDNY is no longer active.

The Institution has been notified by the Office of the Inspector General of the United States ("OIG") that the OIG will audit the Institution's claims for inpatient and outpatient reimbursements for the years 2008-2010. The

Institution intends to cooperate fully with the OIG and believes that this is a standard audit and not tied to any specific concern or whistleblower complaint. The audit has not yet commenced.

In the opinion of Institution management, the outcome of existing litigation, including medical malpractice litigation, pending proceedings and, to management's knowledge, threatened proceedings, will not materially and adversely affect the Institution's operations or financial condition; however, the ultimate liability with respect to such matters, if any, cannot presently be determined.

PART 8 — BONDHOLDERS' RISKS

The following discussion of risks to Holders of the Series 2011 Bonds is not intended to be exhaustive, but rather to summarize certain matters which could affect payment of the Series 2011 Bonds, in addition to other risks described throughout this Official Statement.

The revenue and expenses of the Institution are affected by the changing health care environment. These changes are a result of efforts by federal and state governments, managed care organizations, private insurance companies and business coalitions to reduce and contain health care costs, including, but not limited to, the costs of inpatient and outpatient care, physician fees, capital expenditures and the costs of graduate medical education. In addition to matters discussed elsewhere herein, the following factors may have a material effect on the operations of the Institution to an extent that cannot be determined at this time.

General

The Series 2011 Bonds are not a debt or liability of the State or any political subdivision thereof, but are special and limited obligations of the Authority payable solely from the Revenues, and secured by a pledge of, the Revenues and certain amounts in the Capital Reserve Fund, the Special Debt Service Reserve Fund and other funds held pursuant to the Master Resolution and the Series Resolution (excluding the Arbitrage Rebate Fund). The Authority has no taxing power.

Future revenues and expenses of the Institution will be affected by events and economic conditions which may include an inability to control expenses in periods of inflation and other conditions, such as demand for health care services, including an anticipated continued decline in utilization of inpatient facilities, the capability of the management of the Institution, the receipt of grants and contributions, referring physicians' and self-referred patients' confidence in the Institution, increased use of contracted discounted payment schedules with HMOs, PPOs, and other payors, the ability of the Institution to provide services required by patients, the relationship of the Institution with physicians, the success of the Institution's strategic plans, the degree of cooperation among and competition with other hospitals in the Institution's area, changes in levels of private philanthropy, malpractice claims and other litigation, economic and demographic developments in the United States and in the service areas in which facilities of the Institution are located, competition from other health care institutions, changes in interest rates that affect investment results, and changes in rates, costs, third-party payments (including, without limitation, Medicare and Medicaid program reimbursement) and governmental regulations concerning payment. Such factors, among others, may adversely affect revenues and expenses and, consequently, the Institution's ability to make payments pursuant to the Loan Agreement. *See* "PART 7 - NEW YORK DOWNTOWN HOSPITAL," "Appendix E-1 — AUDITED COMBINED FINANCIAL STATEMENTS OF NEW YORK DOWNTOWN HOSPITAL AND AFFILIATES FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 WITH REPORT OF INDEPENDENT AUDITORS" and "Appendix E-2 - UNAUDITED COMBINED FINANCIAL STATEMENTS OF NEW YORK DOWNTOWN HOSPITAL AND AFFILIATES AS OF AND FOR THE ELEVEN MONTH PERIOD ENDED NOVEMBER 30, 2010 AND FOR THE ELEVEN MONTH PERIOD ENDED NOVEMBER 30, 2009."

Event of Taxability

If the Institution does not comply with certain of the covenants set forth in its Loan Agreement, or if certain representations or warranties made by the Institution in the Loan Agreement or Mortgage or in certain certificates of the Institution are false or misleading, or if the Authority fails to comply with certain covenants set forth in certain certificates of the Authority, then the interest paid or payable on the Series 2011 Bonds may become subject to inclusion in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2011 Bonds, regardless of the date on which such noncompliance or misrepresentation is ascertained. In the event that the interest on the Series 2011 Bonds should become subject to inclusion in gross income for federal income tax purposes, the Master Resolution does not provide for payment of any additional interest on any Series 2011 Bonds, the redemption of any Series 2011 Bonds or the acceleration of the payment of principal on any Series 2011 Bonds.

The Code and the regulations promulgated thereunder impose certain requirements or restrictions, including (i) the timely expenditure of certain amounts, (ii) the investment return on certain amounts which may be held and invested by the Institution, and (iii) the payment by the Institution of certain arbitrage earnings to the U.S. Treasury. The Institution will be required to invest and expend certain amounts and rebate certain arbitrage earnings to the U.S. Treasury in accordance with such provisions of the Code and the regulations promulgated thereunder. Prospective purchasers should be aware that a failure by the Institution to invest and expend such amounts and to rebate certain arbitrage earnings to the U.S. Treasury in accordance with such requirements of the Code and the regulations promulgated thereunder may cause the Internal Revenue Service to declare the interest on the Series 2011 Bonds to be includable in the gross income of the owners thereof for purposes of federal income taxation retroactive to the date of issuance of the Series 2011 Bonds.

General Factors Affecting the Institution's Financial Condition

No representation or assurance is given or can be made that revenues will be realized by the Institution in amounts sufficient to pay debt service on the Series 2011 Bonds when due or to make other payments necessary to meet the obligations of the Institution. As of February 28, 2011, management advised that there was no change in long-term debt (other than scheduled principal repayments and amortization of the original issue discount) or decrease in net current assets or total net assets of the Institution, as compared with the respective amounts for the Institution included in the audited combined financial statements of the Institution and its affiliates included as Appendix E-1 to this Official Statement, except for as otherwise stated in Appendix E-2 hereto. Management believes these results are comparable to the results for the same period in 2009, excluding the impact of non-recurring revenues. See "Appendix E-2—UNAUDITED COMBINED FINANCIAL STATEMENT OF NEW YORK DOWNTOWN HOSPITAL AND AFFILIATES AS OF AND FOR THE ELEVEN MONTH PERIOD ENDED NOVEMBER 30, 2010 AND FOR THE ELEVEN MONTH PERIOD ENDED NOVEMBER 30, 2009." *See* "PART 7 — NEW YORK DOWNTOWN HOSPITAL — Management's Discussion of Revenues and Expenses — Update."

The Commissioner of Health designated the Institution as a Financially Distressed Hospital throughout the NYPHRM period in recognition of its negative financial position due to the provision of unreimbursed bad debt and charity care services. As a consequence of this historic designation, the Institution has qualified for participation in the Secured Hospital Program. *See* "PART 7 — NEW YORK DOWNTOWN HOSPITAL," "Appendix E-1—AUDITED COMBINED FINANCIAL STATEMENTS OF NEW YORK DOWNTOWN HOSPITAL AND AFFILIATES FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 WITH REPORT OF INDEPENDENT AUDITORS," and "Appendix E-2—UNAUDITED COMBINED FINANCIAL STATEMENTS OF NEW YORK DOWNTOWN HOSPITAL AND AFFILIATES AS OF AND FOR THE ELEVEN MONTH PERIOD ENDED NOVEMBER 30, 2010 AND FOR THE ELEVEN MONTH PERIOD ENDED NOVEMBER 30, 2009."

Default by the Institution

No representations or assurances can be given that the Institution will not default in performing its obligations under the Loan Agreement. If a monetary default by the Institution occurs under the Loan Agreement, which default results in a payment by the State under the Service Contract, the State may exercise its prepayment options with respect to its obligations under the Service Contract and provide the Authority with monies sufficient to effect a redemption of the Series 2011 Bonds, in whole or in part, at 100% of the principal amount thereof. *See* "PART 3 — THE SERIES 2011 BONDS — Redemption Provisions — *State Extraordinary Redemption*."

Enforceability of Remedies; Bankruptcy

The Series 2011 Bonds are payable from the sources of payment and security described in "PART 2 — SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011 BONDS." The practical realization of value from the collateral described therein upon any default will depend upon the exercise of various remedies specified by the Loan Agreement and the Mortgage. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the Loan Agreement and the Mortgage may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in those documents. The legal opinion to be delivered concurrently with the delivery of the Series 2011 Bonds will be qualified as to enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, insolvency, reorganization, moratorium or other laws affecting the enforcement of creditors' rights generally.

The rights and remedies of the Holders of the Series 2011 Bonds are subject to various provisions of the United States Bankruptcy Code. If the Institution were to file a petition for relief under the United States Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceedings against the Institution and its property, including the commencement of a foreclosure proceeding under the Mortgage.

The Institution could file a plan for the adjustment of its debts in a proceeding under the United States Bankruptcy Code which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by the court, would bind all creditors who have notice or knowledge of the plan and would discharge all claims against the debtor provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

The Service Contract

The Service Contract contains the agreement of the Director of the Budget on behalf of the State, subject to the making of annual appropriations therefor by the State Legislature, to make payments to the Authority in an amount equal to the amount of the principal of and interest on the Series 2011 Bonds, as the same shall become due in the event that all other funds pledged and available therefor are inadequate. **The obligation of the State to fund or to pay the amounts provided for by the Service Contract: (i) is subject to and dependent upon annual appropriations being made by the State Legislature for such purpose, (ii) shall not constitute a debt of the State within the meaning of any constitutional or statutory provision, and (iii) shall be deemed executory only to the extent of monies available to the State therefor; and no liability shall be incurred by the State beyond the monies available for the purposes thereof. The State Legislature is not obligated to make appropriations to satisfy the State's obligations under the Service Contract and there can be no assurance that the State Legislature will make any such appropriations.** *See* "PART 2 — SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2011 BONDS — The Service Contract" and "Appendix D – INFORMATION CONCERNING THE STATE OF NEW YORK – Annual Information Statement - - State-Related Debt Outstanding - - - Contingent Contractual Obligation Financing - - - - Secured Hospital Program." *See, also*, "PART 8 – BONDHOLDERS' RISKS – The Secured Hospital Program."

Legislative, Regulatory and Contractual Matters Affecting Revenue

The Institution is subject to a wide variety of federal and State regulatory actions, and a substantial portion of the Institution's revenue is derived from governmental sources. Governmental revenue sources are subject to legislative and policy changes by the governmental and private agencies that administer Medicare, Medicaid, other third-party payors, and governmental payors and actions by, among others, NYSDOH, the Joint Commission on

Accreditation of Healthcare Organizations ("Joint Commission"), the Office of Medicaid Inspector General ("OMIG"), Center for Medicare and Medicaid Services ("CMS") (an agency of DHHS), and other federal, State and local government agencies. These agencies have broad discretion to alter or eliminate programs that contribute significantly to revenues of the Institution. In the past, there have been frequent and significant changes in the methods and standards used by government agencies to reimburse and regulate the operation of hospitals. No assurances can be given that further substantial changes will not occur in the future or that payments made under such programs will remain at levels comparable to the present levels or that they will be sufficient to cover all existing costs. While changes are anticipated, the impact of such changes on the Institution cannot be predicted.

The Institution has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Institution-specific data. The current Medicaid, Medicare and other third party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Institution is not aware of any allegations of noncompliance that could have a material adverse effect on its financial statements and believes that it is in material compliance with all applicable laws and regulations.

Legislation is periodically introduced in Congress and in the State Legislature that could result in limitations on the Institution's revenue, third-party payments, and costs or charges, or that could result in increased competition or an increase in the level of indigent care required to be provided by the Institution. From time to time, legislative proposals are made at the federal and State level to engage in broader reform of the health care industry, including proposals to promote competition in the health care industry, to contain health care costs, to provide national health insurance and to impose additional requirements and restrictions on health care insurers, providers and other health care entities. The effects of future reform efforts on the Institution cannot be predicted.

Medicare and Medicaid Reimbursement

A substantial portion of the Institution's revenues is derived from the Medicare and Medicaid programs.

Medicare is a federal health benefits program administered by the Centers for Medicare and Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services ("HHS"), fiscal intermediaries and carriers. Available to individuals age 65 or over, and certain other classes of individuals, the Medicare program provides, among other things, health care benefits that cover, within prescribed limits, the major costs of most medically necessary care for such individuals, subject to certain deductibles and co-payments.

Medicare Part A covers inpatient services and certain other services, Medicare Part B covers certain outpatient services and physician services, and Medicare Part C covers services for persons enrolled in Medicare managed care organizations. Medicare pays most acute care hospitals for most services provided to inpatients under a payment system known as the "Prospective Payment System" or "PPS." Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs. Some costs are also paid on the basis of "reasonable cost."

Medicaid is a federal health benefits program that is state administered. Medicaid is available only to certain low-income individuals and families who fit into an eligibility group that is recognized by federal and state law. The NYSDOH administers the New York Medicaid Program for the State. Services are provided through use of a Medicaid card or through a Medicaid managed care plan.

Health care providers have been and will be affected significantly by changes in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "MMA"), which was signed into law December 8, 2003, contained many significant changes to the Medicare program, including the availability of prescription drug coverage. The Deficit Reduction Act of 2005 (the "DRA") also contained significant changes including, among other things, various provisions to decrease spending growth in the Medicare program while increasing health care providers' focus on quality and efficient delivery of health care services. Diverse and complex statutory and regulatory mechanisms, the effect of which is to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs, have been enacted and approved in recent years. It is impossible to predict what effect, if any, current and future legislative initiatives related to Medicare and Medicaid may have on the operations of the Institution.

Inpatient Operating Costs. Under PPS, acute care hospitals are paid a specified amount towards their operating costs based on the Diagnosis Related Group ("DRG") to which each Medicare inpatient service is assigned, which is determined by the diagnoses, procedures and other factors for each particular inpatient stay. The amount paid for each DRG is established prospectively by CMS as a part of the Institution's PPS, and is not related to a hospital's actual costs. For each DRG, CMS assigns a weighting factor that reflects the relative hospital resources used with respect to discharges classified within that group compared to discharges classified within other groups. Each DRG weight represents the average resources required to care for cases in that particular DRG, relative to the national average resources consumed per case by the average hospital. CMS is required to adjust, or recalibrate, on a budget-neutral basis, the DRG weights annually to reflect changes in treatment patterns, new technologies and other factors affecting the use of hospital resources.

To calculate the payment for a particular discharge, the DRG weight is multiplied by a "standardized amount" that reflects the operating and labor costs particular to the geographical region where the Institution is located. The standardized amounts are adjusted annually based upon an annual update factor. The annual update factor is based on a hospital "market basket" index, or the percentage by which the cost of the mix of goods and services for the cost reporting period at issue will exceed the cost of such mix of goods and services for the preceding 12-month cost reporting period. Congress can apply (and has done so) a statutory adjustment to the market basket index for any given year. For every year since 1983, Congress has modified the increases and given substantially less than the increase in the market basket index. There is no assurance that future updates in DRG payments will keep pace with the increases in providing inpatient hospital services.

Additional payments are available, where applicable, for the direct and indirect costs of medical education for hospitals serving a disproportionate share of patients subsidized by federal funds, and for certain atypical or "outlier" cases. With the exception of outlier cases, PPS payments are not adjusted for actual costs or variations in service or length of stay. The PPS amount and adjustments described above are calculated using formulae established by CMS that are revised periodically pursuant to federal budgetary policy. There is no assurance that the Institution will be paid amounts that adequately reflect the actual cost of providing health care or the cost of the health care technologies available to patients.

Outpatient Services. Under Section 1833(t) of the Social Security Act ("SSA"), hospital outpatient services, including hospital operating and capital costs, are reimbursed on a PPS basis. Several Medicare Part B services are specifically excluded from this rule, including certain physician and non-physician practitioner services, ambulance, physical and occupational therapy, and speech pathology services. Under hospital outpatient PPS, predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures that are comparable clinically and in terms of resource use into ambulatory payment classification ("APC") groups. Using hospital outpatient claims data from the most recent available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group.

Outpatient PPS ("OPPS") are adjusted annually based on the hospital inpatient market basket percentage increase. There can be no assurance that the hospital OPPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the Institution's allocable to Medicare patient care. Hospitals that fail to report certain required quality data will face a penalty of two (2) percentage points from their most recent market basket update.

In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group. There can be no assurance that the beneficiary will pay this amount.

Medical Education Costs. Medicare pays for certain costs associated with both direct and indirect medical education (including portions of the salaries of residents and teachers and other overhead costs directly attributable to medical education programs for training residents, nurses and allied health professionals) under Section 1886(h) of the Social Security Act. Payment for direct graduate medical education ("DGME") reimburses hospitals for the direct costs of their medical education programs, including faculty and resident salaries and other costs incurred directly and in support of the teaching programs. The payment amount for DGME costs for a cost reporting period is based on the hospital's number of residents in that period and the hospital's costs per resident in a base year ("PRA"), multiplied by the hospital's Medicare "patient load." Payment for the operating costs of indirect medical education is made as an adjustment to a hospital's DRG payment and based on a statutory formula determined in part by the ratio of a hospital's number of full-time equivalent residents to its average number of staffed beds. There can be no assurance that payments to the Institution for providing medical education will be adequate to cover the costs attributable to medical education programs for training residents, nurses and allied health professionals.

Physician Payments. Certain physician services are reimbursed on a national fee schedule called the "resource-based-relative-value scale" ("RB-RVS"). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. The Sustainable Growth Rate ("SGR"), which is a limit on the growth of Medicare payments for physician services, is linked to changes in the U.S. Gross Domestic Product over a ten-year period. SGR targets are compared to actual expenditures in order to determine subsequent physician fee schedule updates.

Capital Costs. Hospitals are reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Thus, capital costs are paid exclusively on the basis of a standard federal rate (based on average national costs), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the Institution.

There can be no assurance that the prospective payments for capital costs will be sufficient to cover the actual capital-related costs of the Institution allocable to Medicare patient stays or to provide adequate flexibility in meeting the Institutions's future capital needs.

Compliance and Reimbursement. Hospitals must comply with standards called "Conditions of Participation" to be eligible for Medicare and Medicaid reimbursement. CMS is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. Under applicable Medicare rules, hospitals accredited by the Joint Commission are deemed to meet the Conditions of Participation. Failure to maintain the Joint Commission accreditation or to otherwise comply with the Conditions of Participation or other applicable state licensing requirements could have a material adverse effect on the revenues of the Institution. There can be no assurance that the Institution will continue to receive the Joint Commission accreditation in the future.

2011 Executive Budget and Medicaid Redesign Team. On February 1, 2011, Governor Andrew M. Cuomo proposed his 2011-2012 Executive Budget. The 2011 Executive Budget reflects savings anticipated from the proposals of the Medicaid Redesign Team, established pursuant to Executive Order No. 5. The Medicaid Redesign Team, comprised of health care professionals, stakeholder and legislators, was charged with reducing Medicaid costs and improving patient care. On February 24, 2011, the Medicaid Redesign Team issued report findings and recommendations for cost reductions of over $2.3 billion to the Governor for consideration in the budget negotiation process. Specifically, the Medicaid Redesign Team identified cost-containment measures of approximately $2.85 billion in gap-closing savings in 2011-12, and stated that growth in Department of Health Medicaid State funds spending for future years should be restrained to the ten-year average change of the medical component of the Consumer Price Index (currently estimated at approximately 4 percent annually). *See* "Appendix D – INFORMATION CONCERNING THE STATE OF NEW YORK – Annual Information Statement Update March 15, 2011 - - 2011-12 FISCAL YEAR - - - REDUCTIONS/OFFSETS - - - - Local Assistance."

The New York State Constitution permits the Governor to amend his Executive Budget within 30 days of presenting it to lawmakers. Governor Cuomo amended his Executive Budget on February 24, 2011 and March 1, 2011 to reflect, *inter alia,* a 2% cut across the board on much of the Medicaid funding for hospitals, nursing homes and other health care providers. In addition, he proposed to limit future Medicaid Program State Funds growth to the 10-year rolling average of the medical care component of the Consumer Price Index (currently four percent). He also proposed an increase in the copayment paid by patients for various Medicaid-funded medical services. The budget is required to be adopted by April 1, 2011. There can be no assurance as to the amount of decrease, if any, in Medicaid funding to the Institution as a result of final budget adoption.

The State's debt service appropriation bill, as submitted by the Governor, was passed by the State legislature on March 16, 2011. The State's debt service bill includes the contingency appropriation for the Secured Hospital Program.

Although the 2011-2012 Executive Budget includes the statutory tools necessary to implement the recommendations of the Medicaid Redesign Team, there can be no assurance that these proposals will achieve the level of gap-closing savings anticipated in 2011-12 or limit the rate of annual growth in NJDOH State Funds Medicaid spending. In addition, these recommendations are dependent upon timely Federal approvals, appropriate amendments to existing systems and processes and a collaborative working relationship with health care industry stakeholders. *See* "Appendix D – INFORMATION CONCERNING THE STATE OF NEW YORK – Annual Information Statement Update March 15, 2011 - - SPECIAL CONSIDERATIONS - - - BUDGET RISKS AND UNCERTAINTIES."

Medicare and Medicaid Managed Care

The Medicare Program has encouraged the development of private health plan options for Medicare beneficiaries through the "Medicare Advantage" program. Enrollment in a Medicare Advantage plan is voluntary and enrollees may dis-enroll and re-enroll in the traditional fee-for-service Medicare system at specified times. Medicare Advantage plans include coordinated care plans (e.g., health maintenance organizations, provider-sponsored organizations, regional or local preferred provider organizations); private fee-for-service plans; and Medical Savings Account ("MSA") plans. Each Medicare Advantage plan, except an MSA plan, is required to provide benefits approved by the Secretary of HHS. A Medicare Advantage plan will receive a monthly capitated payment from HHS for each Medicare beneficiary who has elected coverage under the plan. Health care providers, such as the Institution, must contract with Medicare Advantage plans to treat Medicare Advantage enrollees at agreed upon rates or they may form a PSO to contract directly with HHS as a Medicare Advantage plan. Covered inpatient emergency services rendered to a Medicare Advantage beneficiary by an out-of-network hospital (i.e., a hospital that has not entered into a contract with a Medicare Advantage plan) will be paid at Medicare fee-for-service payment rates as payment in full. There can be no assurance, however, that rates negotiated for the treatment of Medicare Advantage enrollees will be sufficient to cover the cost of providing services to such patients of the Institution.

The federal Medicare program pays different types of Medicare Advantage plans differently. Generally, all plans are paid on the basis of their bids to the regulating agency for the Medicare covered services they are providing to enrollees; a benchmark or capitation rate; or a combination of the two payment mechanisms. Payments are risk-adjusted to reflect enrollees' age, gender, health status, and other factors. Certain Medicare Advantage plans are subject to risk corridors that may result in extra payments to or from the plan, depending on its profits or losses. In return for premium and other payments from the federal government and enrollees, Medicare Advantage plans are generally responsible for payment for Medicare-covered services for their enrollees.

The Institution also participates in the State Medicaid program. In order to control Medicaid expenditures, the State has sought to enroll large numbers of Medicaid patients in managed care programs because experience in other states has shown that inpatient utilization decreases for Medicaid recipients who are enrolled in such programs. The State's program for mandatory Medicaid enrollment, The Partnership Plan (also known as the "1115 Waiver"), was approved by CMS in July 1997, allowing the State to begin enrolling most Medicaid recipients in managed care plans. Mandatory enrollment programs are now in place in all of New York City and a significant portion of the Medicaid eligible population has been enrolled in managed care plans. The change to Medicaid managed care may also result in a decrease in Medicaid patient revenue over time, although currently the contracts in place are at, or just slightly below, traditional Medicaid reimbursement. The teaching component of Medicaid reimbursement is expected to continue to be paid by the State directly to hospitals, although the Governor's Executive Budget proposed changes to the DGME distribution methodology, as noted above.

Future actions by the federal and State governments are expected to continue the trend toward more restrictive limits on reimbursement for hospital services. Management of the Institution cannot assess or predict the ultimate effect of any such legislation or regulation, if enacted or adopted, on its operations.

Managed Care and Other Private Initiatives

Traditional insurance companies and managed care organizations in the State are increasingly offering managed care programs, including various payment methodologies and utilization controls through the use of primary care physicians. Payment methodologies include per diem rates, per discharge rates, discounts from established charges, fee schedules and capitation payments. Enrollment in managed care programs has increased, and managed care programs are expected to have a greater influence on the manner in which health care services are delivered and paid for in the future. Managed care programs are expected to reduce significantly the utilization of health care services, particularly inpatient services. In addition, some managed care organizations have been delaying reimbursements to hospitals, thereby affecting cash flows. The Institution's financial condition may be adversely affected by these trends.

Regulatory Reviews and Audits

The Institution, like other health care institutions, is subject to regulatory review and audit on its governmental reimbursement. In the last several years the federal and state governments have devoted a significant amount of resources to the auditing of health care providers, including hospitals. The recoveries from these audits are often substantial and are often based on a small sample with the result extrapolated to a universe of all paid claims in the audit period. Although the Institution is not currently the subject of such an audit, if it is audited in the future, depending on the results of the audit, the Institution could be required to repay substantial sums and it could have an adverse financial impact on the Institution . Specifically, New York State has established OMIG. Since its inception, the OMIG has undertaken numerous audits, including extrapolation audits, of providers throughout the state of New York and has achieved large recoveries. The Institution is not currently the subject of such an audit, but could be in the future and the result of any such audit could have a significant adverse financial impact on the Institution.

Management confirmed that the Institution is currently undergoing two routine audits: the annual cost report audit and an audit of the Institution's 2005-2007 Disproportionate Share payments. Management has advised that these are routine audits and they are not expecting a substantial recovery.

Competition

Payments to the hospital industry have undergone rapid and fundamental change, triggered by the deregulation of the acute care hospital reimbursement system and the requirement to negotiate all non-government contracts and prices. This may further increase competitive pressures on acute care hospitals, including the Institution. The Institution faces and will continue to face competition from other hospitals and integrated delivery systems that offer similar health care services.

There are many limitations on the ability of a hospital to increase volume and control costs, and there can be no assurance that volume increases or expense reductions needed to maintain the financial stability of the Institution will occur.

Management believes that insurers may encourage competition among hospitals and providers on the basis of price, payment terms, and quality. Payors may use the threat of patient steerage, restrictive physician contracting, carve outs, and network exclusion to drive provider prices lower. If insurance companies attempt to steer patients to hospitals that have the most favorable contracts, this may lead to increased competition among hospitals based on price.

Workforce Shortages

Workforce shortages are affecting health care organizations at the local, regional and national level, in part, due to the fact that a smaller number of students are considering careers in nursing and the allied health professions than in the past. There can be no assurance that such workforce shortages will not continue or increase over time and adversely affect the Institution's ability to control costs and its financial performance.

In order to recruit and retain professional and nursing staff to strengthen clinical services, the Institution has offered, and in the future intends to offer, competitive salaries to both newly recruited individuals and existing staff. In some years such salaries have increased, and in the future may continue to increase, more than the rate of inflation. Such increases also have exceeded, and in the future may exceed, increases in the Institution's rates of payment. *See* "PART 7 — NEW YORK DOWNTOWN HOSPITAL — Nursing."

Labor Relations and Collective Bargaining

Hospitals and other health care providers often are large employers with a wide diversity of employees. Increasingly, employees of hospitals and other providers are becoming unionized, and many hospitals and other providers have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to the affected members. In addition, employee strikes or other adverse labor actions may have an adverse impact on the Institution.

Federal "Fraud and Abuse" Laws and Regulations

The federal Anti-Kickback Law is a criminal statute that prohibits anyone from knowingly and willfully offering, paying, soliciting or receiving any remuneration, directly or indirectly, in cash or in kind, in return for or to induce business that may be paid for, in whole or in part, under a federal health care program including, but not limited to, the Medicare or Medicaid programs. Violation of the Anti-Kickback Law is a felony, subject to a maximum fine of $25,000 for each criminal act, imprisonment for up to five years and exclusion from the Medicare and Medicaid programs by the Office of the Inspector General ("OIG"), the enforcement arm of DHHS. In addition, civil monetary penalties of $50,000 for each act in violation of the Anti-Kickback Law or damages equal to three times the amount of prohibited remuneration may be imposed. The scope of prohibited payments in the Anti-Kickback Law is broad and includes many economic arrangements involving hospitals, physicians and other health care providers, including (but not limited to) joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts. The Patient Protection and Affordable Care Act of 2010 ("PPACA") relaxed the meaning of "knowingly and willfully" to a standard that previously required actual knowledge in some jurisdictions to a standard that now does not require that a person need have actual knowledge. The result of this change is that the government will have less of a burden to prove a violation under the Anti-Kickback Law.

The outcome of any government efforts to enforce the Anti-Kickback Law against health care providers is difficult to predict due, in part, to government discretion in pursuing enforcement.

Federal and State False Claims Act

The federal criminal False Claims Act ("criminal FCA") makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. Violation of the criminal FCA can result in imprisonment and/or a fine. The Federal civil False Claims Act ("civil FCA"), one of the government's primary weapons against health care fraud, allows the United States government to recover significant damages from persons or entities that submit fraudulent claims for payment to any federal agency through actions taken by the United States Attorney's Office or the Department of Justice. The State also has a False Claims Act that closely tracks the civil FCA (the "New York State FCA"). It imposes penalties and fines on individuals and entities that file false or fraudulent claims for payment from any state or local government, including health care programs such as Medicaid. The civil FCA and New York State FCA also permit individuals to initiate actions on behalf of the government in lawsuits called *qui tam* actions. These *qui tam* plaintiffs, or "whistleblowers," can share in the damages recovered by the government.

Under the civil FCA and New York State FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims or failing to refund known overpayments. Civil FCA and New York State FCA violations have been alleged solely on the existence of alleged kickback or self-referral arrangements. Even in the absence of evidence that literally false claims have been submitted, these cases argue that the improper business relationship tainted the subsequently submitted claims, thereby rendering the claims false under the civil FCA and New York State FCA. The Federal Enforcement and Recovery Act of 2009 amended the FCA to impose liability on so-called "reverse false claims," where a person knowingly fails to repay the Federal government for any overpayments resulting from a false statement of record. The PPACA requires that any overpayment be reported and repaid within sixty (60) days after the date in which overpayment was identified. Failure to do so will be considered per se a false claim under the FCA. The PPACA also modified the FCA by extending the FCA to any Anti-Kickback Law violation. Other civil FCA and New York

State FCA cases have proceeded on a theory that providers are liable for the submission of false claims when they are not in full compliance with applicable legal and regulatory standards. It is impossible to predict with certainty whether courts will uniformly hold that regulatory non-compliance are subject to prosecutions as false claims. If a provider is faced with a civil FCA or New York State FCA prosecution based on one of these theories, however, allocation of the funds required to contest or settle the matter could have a material adverse impact on that provider and, potentially, its affiliates.

Violations of the civil FCA and New York State FCA can result in penalties up to triple the actual damages incurred by the government and also monetary penalties.

As discussed in "PART 7 – NEW YORK DOWNTOWN HOSPITAL – Institution Litigation," in September 2008, the Institution was served with two complaints in which the Institution is named as a defendant alleging a variety of claims, including claims under the FCA, the New York State FCA, common law fraud, payment by mistake of fact, unjust enrichment, the New York Social Services Law and the New York Executive Law. The Government alleged that the Institution obtained combined Medicare and Medicaid payments related to the activity in question of approximately \$9.6 million from 2002 to 2006. The Government sought, among other things, to recover treble damages, in an amount to be determined at trial, and civil penalties for each violation under the Federal and New York State False Claims Acts. The civil penalties sought are \$5,500 to \$11,000 for each violation under the FCA and \$6,000 to \$12,000 for each violation under the New York State FCA. The Institution has denied liability and is actively litigating the matter, and settlement discussions are ongoing. The case is currently in the discovery phase, and is scheduled for trial late next year. See "Exhibit E-1—AUDITED COMBINED FINACNIAL STATEMENTS OF NEW YORK DOWNTOWN HOSPITAL AND AFFILIATES FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008 WITH REPORT OF INDEPENDENT AUDITORS - Note 10. See, also, "PART 7 – NEW YORK DOWNTOWN HOSPITAL – Institution Litigation."

Management of the Institution is not aware of any other alleged violations by the Institution of the criminal FCA, civil FCA or New York State FCA. However, there can be no assurances that the Institution will not be charged with, or found to have violated, the criminal FCA, civil FCA or New York State FCA and, if so, that any fines or other penalties would not have a material adverse effect on its operations.

Limitations on Patient Referrals

The federal Ethics in Patient Referrals Act (known as the "Stark Law") prohibits the referral of Medicare and Medicaid patients for certain "designated health services" to entities with which the referring physician (or an immediate family member of such physician) has a financial relationship. The statute also prohibits the entity furnishing the "designated health services" from billing the Medicare or Medicaid program for designated health services furnished pursuant to a prohibited referral. The designated health services subject to these prohibitions are clinical laboratory services, physical and occupational therapy services, radiology services (including magnetic resonance imaging, computerized tomography and ultrasound), radiation therapy services and supplies (not including nuclear medicine), durable medical equipment and supplies, parenteral and enteral nutrients (including equipment and supplies), orthotic and prosthetic devices and supplies, speech language pathology, home health services, outpatient prescription drugs and inpatient and outpatient hospital services (not including lithotripsy).

The New York Health Care Practitioner Referral Law (the "State Provisions") is similar to the Stark Law; however, it covers all patients (irrespective of payor) and prohibits practitioners from referring a patient to a health care provider for clinical laboratory services, x-ray imaging services, radiation therapy services, physical therapy or pharmacy services, if the referring practitioner (or an immediate family member) has a financial interest in the health care provider.

A financial relationship, for purposes of the Stark Law and State Provisions (the Stark Law and State Provisions are hereinafter collectively referred to as "Stark"), is defined as either an ownership or investment interest in the entity or a compensation arrangement between the physician (or immediate family member) and the entity. An ownership or investment interest may be through equity, debt, or other means and includes an interest in an entity that holds an ownership or investment interest in an entity providing the designated health services. Many ordinary business practices and economically desirable arrangements with physicians would constitute "financial relationships" within the meaning of Stark.

The Stark provisions provide certain exceptions to these restrictions, but these exceptions are narrow and an arrangement must fully comply with an exception. If the relationship (which would include compensation arrangements such as employment and other professional services relationships, and ownership or investment interests) between a physician/practitioner and the hospital cannot be made to fit within the exceptions, the hospital will not be permitted to accept referrals for designated services from the physician/practitioner who has such financial relationship. Pursuant to the PPACA, DHHS has published a self-reporting disclosure protocol for violations of Stark. Section 6409 of the PPACA authorizes the Secretary of DHHS to reduce the amounts owed for Stark violation based on certain criteria that includes the nature and extent of the illegal practice and the timeliness of the self-disclosure.

Violations of Stark can result in denial of payment, substantial civil money penalties, and exclusion from the Medicare and Medicaid programs. In certain circumstances, knowing violations may also create liability under the False Claims Act. Such enforcement actions would have a material adverse impact on the financial condition of a health care provider, including the Institution.

Regulation of Patient Transfer

Federal and State laws require hospitals to provide emergency treatment to all persons presenting themselves with emergency medical conditions. Congress enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA") in response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided. EMTALA requires hospitals with emergency rooms, including the Institution, to treat or conduct an appropriate and uniform medical screening for emergency conditions (including active labor) on all patients and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient to another hospital.

Failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as civil penalties of up to $50,000 per violation. In addition, the hospital is liable for any claim by an individual who has suffered harm as a result of such violation. The failure of the Institution to meet its responsibilities under EMTALA could adversely affect the financial condition of the Institution. EMTALA and its implementing regulations are complex, and the Institution's compliance is dependent, in part, upon the compliance of independent medical staff members. While Management believes that it is compliant with EMTALA, there can be no assurance that no violation of EMTALA will be found or, if found, that any sanction imposed would not have a material adverse effect on the operations or financial conditions of the Institution.

Health Insurance Portability and Accountability Act ("HIPAA")

HIPAA prohibits the following practices, the commission of which may lead to civil monetary penalties: 1) the practice or pattern of presenting a claim for an item or service on a reimbursement code that the person knows or should know will result in greater payment than appropriate (i.e., upcoding); and 2) the submission of claims for payment for medically unnecessary services. Violation of such prohibited practices could amount to civil monetary penalties of up to $10,000 for each item or service involved.

HIPAA also includes administrative simplification provisions intended to facilitate the processing of health care payments by encouraging the electronic exchange of information and use of standardized formats for health care information. Congress recognized, however, that standardization of information formats and greater use of electronic technology present additional privacy and security risks due to the creation of databases of personally identifiable health care information and ease of transmitting vast amounts of such data. Thus, HIPAA requires the establishment of distinct privacy and security protections for individually identifiable health information.

HHS issued privacy regulations that protect patient medical records and other personal health information maintained by health care providers, hospitals, health plans, health insurers, and health care clearinghouses. The privacy regulations impose specific federal penalties for a violation of a patient's privacy. For non-criminal violations of the privacy standards by the persons subject to the standards, including disclosures made in error, there are civil monetary penalties of $100 per violation up to $25,000 per year, per standard. In addition, criminal penalties are provided in HIPAA for certain types of violations of the statute that are done knowingly: up to $50,000 and one year in prison for obtaining or disclosing protected health information; up to $100,000 and up to five years in prison for obtaining or disclosing protected health information under "false pretenses"; and up to $250,000 and up to 10 years in prison for obtaining protected health information with the intent to sell, transfer or use it for commercial advantage, personal gain or malicious harm.

HIPAA also mandates the establishment of security regulations. The security regulations require health care providers to implement administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of electronic protected health information they receive or create. Management of the Institution believes that operations and information systems comply with the HIPAA and privacy and security regulations, although there can be no assurance that the Institution will not be found to have violated the regulations in any one instance.

Civil Monetary Penalty Act

The federal Civil Monetary Penalty Act ("CMPA") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under the CMPA if it knowingly presents, or causes to be presented, improper claims for reimbursement under Medicare, Medicaid and other federal health care programs. A hospital that participates in arrangements known as "gainsharing" by paying a physician to limit or reduce services to Medicare fee-for-service beneficiaries also would be subject to CMPA penalties. A health care provider that provides benefits to Medicare or Medicaid beneficiaries that the provider knows or should know are likely to induce the beneficiaries to choose the provider for their care also would be subject to CMPA penalties. The CMPA authorizes imposition of a civil money penalty and treble damages. Section 6408 of the Patient Protection and Affordable Care Act of 2010 added and enhanced CMPA penalties for false statements for knowingly making, using or causing to be made, a false record or statement material to a claim for payment for items or services furnished under a Federal health care program or failing to grant timely access on reasonable request to the OIG for carrying out audits or investigations. The PPACA imposes a penalty of $50,000 for each false record or statement and $15,000 for each day of delay. The PPACA also established CMPA penalties for ordering or prescribing services while excluded from the Federal health care program and knowingly failing to repay an overpayment.

Health care providers may be found liable under the CMPA even when they did not have actual knowledge of the impropriety of their action. Knowingly undertaking the action is sufficient. Ignorance of the Medicare regulations is no defense. The imposition of civil money penalties on a health care provider could have a material adverse impact on the provider's financial condition.

Exclusions from Medicare or Medicaid Participation

The Secretary of DHHS is required to exclude from governmental program participation (including Medicare and Medicaid) for not less than five years any individual or entity who has been convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, felony fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. DHHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program.

In New York State, NYSDOH and OMID have similar authority to exclude individuals or entities from the program in similar circumstances.

Enforcement Activity

Enforcement activity against health care providers has increased, and enforcement authorities are adopting more aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals will be subject to an investigation, audit or inquiry regarding billing practices or false claims. Due to the complexity of these laws, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries are increasing and could result in enforcement action against the Institution. The PPACA provides funding of health care fraud initiative in the amounts of $10 million per year for fiscal years 2011-2020 and an additional $250 million over fiscal years 2011-2016.

Enforcement authorities are sometimes in a position to compel settlements by providers charged with, or being investigated for, false claims violations by withholding or threatening to withhold Medicare, Medicaid or similar payments or by threatening the possibility of a criminal action. In addition, the cost of defending such an action, the time and management attention consumed thereby and the facts of a particular case may dictate settlement. Therefore, regardless of the merits of a particular case or cases, the Institution could experience materially adverse settlement costs, as well as materially adverse costs associated with the implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation, business and credit of the Institution, regardless of the outcome, and could have material adverse consequences on the financial condition of the Institution.

Department of Health Regulations

The Institution is subject to regulations of NYSDOH. Compliance with such regulations may require substantial expenditures for administrative or other costs. The Institution's ability to add services or beds and to modify existing services materially is also subject to NYSDOH review and approval. Approvals can be highly discretionary, may involve substantial delay, and may require substantial changes in the proposed request. Accordingly, the Institution's ability to make changes to its service offerings and respond to changes in the environment may be limited.

Other Governmental Regulation

The Institution is subject to regulatory actions and policy changes by those governmental and private agencies that administer the Medicare and Medicaid programs and actions by, among others, the National Labor Relations Board and professional and industrial associations of staff and employees, applicable professional review organizations, the Joint Commission, Environmental Protection Agency, the Internal Revenue Service (the "IRS") and other federal, state and local governmental agencies.

Renewal and continuation of certain licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative activity or response by the Institution. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could cause a loss or reduction in the Institution's scope of licensure, certification or accreditation, could reduce the payment received or could require repayment of amounts previously remitted to the provider.

OIG and OMIG Compliance Guidelines

On February 23, 1998, the OIG published Compliance Program Guidance ("CPG") for the hospital industry. In recognition of the significant changes in the delivery and reimbursement for hospital services that have occurred since the CPG's publication, the OIG published Supplemental Compliance Program Guidance on January 31, 2005. These issuances (collectively, the "Guidances") provide recommendations to hospitals for adopting and implementing effective programs to promote compliance with applicable federal and state law and the program requirements of federal, state, and private health plans, and they include a discussion of significant risk areas for hospitals. Compliance with the Guidances is voluntary but is nevertheless an important factor in controlling risk because the OIG will consider the existence of an effective compliance program that pre-dated any governmental investigation when addressing the appropriateness of administrative penalties. However, the presence of a compliance program is not an assurance that health care providers, such as the Institution, will not be investigated by one or more federal or state agencies that enforce health care fraud and abuse laws or that they will not be required to make repayments to various health care insurers (including the Medicare and/or Medicaid programs).

Since October 2009, hospitals in New York have been required by statute and regulation to have an effective compliance program. The Program must include, among other things, a chief compliance officer, written policies and the conduct of audits after the identification of risk areas. It is expected that the OMIG will conduct audits of compliance programs and assess their effectiveness. Under New York law, each year the Institution must certify that it has a compliance program in place and that it has been effective and management has advised that it will so certify this year.

The federal Deficit Reduction Act of 2005 has added specific requirements requiring health care providers such as the Institution to provide information to their employees, agents and certain of their vendors regarding the state and federal laws designed to encourage whistleblowers and prevent fraud, waste and abuse. In addition the health care providers must make available the content of the providers policies for preventing fraud, waste and abuse. Compliance is a prerequisite to entitlement to receive Medicaid Payments. Management believes that the Institution is in substantial compliance and certifies compliance with the Deficit Reduction Act each year.

Not-for-Profit Status

As a non-profit tax-exempt organization, the Institution is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the Institution conducts large-scale complex business transactions and is a significant employer in its geographic area. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for non-profit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the health care organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation.

Internal Revenue Code Limitations

*Private Inurement and Excess Benefit Transactions***.** The Code contains restrictions on the issuance of tax-exempt bonds for the purpose of financing and refinancing different types of health care facilities for not-for-profit organizations, including facilities generating taxable income. Consequently, the Code could adversely affect the Institution's ability to finance its future capital needs and could have other adverse effects on the Institution that cannot be predicted at this time. The Code continues to subject unrelated business income of nonprofit organizations to taxation.

As a tax-exempt organization, the Institution is limited with respect to the use of practice income guarantees, reduced rent on medical office space, below market rate interest loans, joint venture programs, and other means of recruiting and retaining physicians. The IRS has recently intensified its scrutiny of a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities and has issued detailed hospital audit guidelines suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or revocation of, their tax-exempt status or assessment of additional tax. The IRS has also commenced intensive audits of select health care providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital's tax-exempt status. Like many health care providers, the Institution has entered into arrangements, directly or through affiliates, with physicians that are of the kind that the IRS has indicated that it will examine in connection with audits of tax-exempt hospitals.

Any suspension, limitation, or revocation of the tax-exempt status of the Institution or assessment of significant tax liability could have a material adverse effect on the Institution and might lead to loss of tax exemption of interest on the Series 2011 Bonds.

Revocation of the tax-exempt status of the Institution under Section 501(c)(3) of the Code could subject the interest paid to Bondholders to federal income tax retroactively to the date of the issuance of the Series 2011 Bonds. Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its tax-exempt status under Section 501(c)(3) of the Code. The IRS has issued guidance in published rulings as well as informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt health care providers and nonexempt individuals or entities. There can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the Institution.

Intermediate sanctions legislation enacted in 1996 imposes penalty excise taxes in cases where an exempt organization is found to have engaged in an "excess benefit transaction" with a "disqualified person." Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization functions as a charity. The tax is imposed both on the disqualified person receiving such excess benefit and on any officer, director, trustee or other person having similar powers or responsibilities who participated in the transaction willfully or without reasonable cause, knowing it would involve "excess benefit." "Excess benefit transactions" include transactions in which a disqualified person receives unreasonable compensation for services or receives other economic benefit from the organization that either exceeds fair market value or, to the extent provided in regulations yet to be promulgated, is determined in whole or in part by the revenues of one or more activities of such organization, and results in prohibited private inurement. "Disqualified persons" include "insiders" such as board members and officers, senior management, and members of the medical staff, who in each case are in a position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person. The legislative history sets forth Congressional intent that compensation of disqualified persons shall be presumed to be reasonable if it is: (i) approved by disinterested members of the organization's board or compensation committee; (ii) based upon data regarding comparable compensation arrangements paid by similarly situated organizations; and (iii) adequately documented by the board or committee as to the basis for its determination. A presumption of reasonableness will also arise with respect to transfers of property between the exempt organization and disqualified persons if a similar procedure with approval by an independent board is followed.

Charity Care. Hospitals are permitted to have tax-exempt status under the Internal Revenue Code because the provision of health care historically has been treated as a "charitable" enterprise. This treatment arose before most Americans had health insurance, and when charitable donations were required to fund the health care provided to the sick and disabled. Some have posited that, with the onset of employer health insurance and government reimbursement programs, there is no longer any justification for special tax treatment for the not-for-profit health care sector, and the availability of tax-exempt status should be eliminated. Management of the Institution cannot predict the likelihood for such a dramatic change in the law. Federal and state tax authorities are beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits.

Tax Audits

Taxing authorities have recently been conducting general tax audits on non-profit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part of the settlement process. Although the Institution is not the subject of any such audit at this time, other hospitals located in the State have been the subject of such audits and the can be no assurance that the Institution will not be the subject of a future tax audit.

Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, and certain pricing and salary setting activities. Actions can be brought by federal and state enforcement agencies seeking criminal and civil penalties and, in some instances, by private litigants seeking damages for harm arising out of allegedly anti-competitive behavior. Common areas of potential liability include joint action among providers with respect to payor contracting, medical staff credentialing, and issues relating to market share. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case. With respect to payor contracting, the Institution, from time to time, may be involved in joint contracting activity with hospitals or other providers. The degree to which these or similar joint contracting activities may expose a participant to antitrust risk from governmental or private sources is dependent on a myriad of factors that may change from time to time. If any provider with whom the Institution is or becomes affiliated is determined to have violated the antitrust laws, the Institution may be subject to liability as a joint actor.

Some judicial decisions have permitted physicians who are subject to disciplinary or other adverse actions by a hospital at which they practice, including denial or revocation of medical staff privileges, to seek treble damages from the hospital under the federal antitrust laws. The federal Health Care Quality Improvement Act of 1986 provides immunity from liability for discipline of physicians by hospitals under certain circumstances, but courts have differed over the nature and scope of this immunity. In addition, hospitals occasionally indemnify medical staff members who incur costs as defendants in lawsuits involving medical staff privilege decisions. Some court decisions have also permitted recovery by competitors claiming harm from a hospital's use of its market power to obtain unfair competitive advantage in expanding into ancillary health care businesses. Antitrust liability in any of these contexts can be substantial, depending upon the facts and circumstances involved. There can be no assurance that a third party reviewing the activities of the Institution would find such activities to be in full compliance with the antitrust laws.

Provider-Specific Taxes

The Medicaid Voluntary Contribution and Provider-Specific Tax Amendments of 1991 established standards that govern how states can impose and use provider-specific taxes. In general, states are allowed to impose broad-based, uniform and provider-specific taxes that are redistributive and do not contain "hold harmless" provisions. The State imposes surcharges on non-Medicare payments for inpatient and outpatient hospital services and certain diagnostic and treatment center services and a 1% assessment on hospital inpatient services to fund, in part, various State-administered pools of funds under HCRA.

The law also limits aggregate Medicaid payment adjustments for hospitals that service a disproportionate number of low-income patients to a specific amount for each state and, on a facility-specific basis, to the difference between each hospital's fully allocated costs incurred in the care of Medicaid and indigent patients and the revenue attributable to such care. Because of its reliance on State disproportionate-share hospital payment adjustments, largely paid in the form of indigent care pool distributions, the Institution would be adversely affected to a material degree by a determination that such pool distributions exceed the aggregate or facility-specific payment caps allowed by federal law.

Environmental Matters

Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These requirements govern medical and toxic or hazardous waste management, air and water quality control, notices to employees and the public and training requirements for employees. As an owner and operator of properties and facilities, the Institution may be subject to potentially material liability for costs of investigating and remedying the release of any such substances either on, or that have migrated off the property. Typical health care provider operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, health care provider operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that the Institution will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Institution.

Professional Liability Claims and General Liability Insurance

Although the number of malpractice lawsuits filed against physicians and hospitals has stabilized in recent years, the dollar amounts of patient damage recoveries still remain potentially significant. A number of insurance carriers have withdrawn from this segment of the insurance market citing underwriting losses, and premiums have increased in the last several years. The effect of these developments has been to significantly increase the operating costs of hospitals, including the Institution.

The Institution currently carries malpractice, directors' and officers' liability and general liability insurance, and management of the Institution considers its current coverage adequate, but no assurance can be given that the Institution will maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover all malpractice judgments rendered against the Institution or settlements of any such claims or that such coverage will be available at a reasonable cost in the future. For a more complete discussion of the insurance coverage of the Institution, see "PART 7 - NEW YORK DOWNTOWN HOSPITAL —Insurance" and "—Litigation."

Certain Accreditations

The Institution is subject to periodic review by the Joint Commission. The Institution has received accreditation from the Joint Commission. No assurance can be given as to the effect on future operations of existing, or subsequently amended, laws, regulations and standards for certification or accreditation.

Increased Costs and State-Regulated Reimbursement

In recent years, substantial cutbacks in personnel and other cost-cutting measures have been instituted at hospitals throughout the State. Generally, these cutbacks have been instituted to address the disparity between rising medical costs and State-regulated reimbursement formulas, including those for Medicaid. Rising health care costs resulted from, among other factors, health care costs exceeding inflation, staff shortages, pharmaceutical costs and the highly technical nature of the industry. The Institution has been affected by the impact of such rising costs, and there can be no assurance that the Institution would not be similarly affected by the impact of additional unreimbursed costs in the future.

Healthcare Reform and Other Government Initiatives

On March 23, 2010, President Obama signed into law the PPACA. On March 30, 2010, he signed into law the Reconciliation Act of 2010 ("Reconciliation Act and together with the PPACA, the "Health Care Reform Law"). Together these laws represent major changes in health care. Hospitals may be helped by the Health Care Reform Law to the extent that individuals who were uninsured or underinsured gain access to fuller coverage for hospital services by increasing revenue and lowering the cost of uncompensated care. Among the features of the Health Care Reform Law to expand health care insurance coverage are: (1) the establishment of health insurance exchanges to provide insurance to individuals that do not have access to health insurance through employment or other means, (2) expansion of Medicaid eligibility, and (3) prohibition, beginning in September 2010, on exclusion of insurance coverage for children with pre-existing conditions and later for adults.

In order to pay for health reform there will be (i) reductions in amounts paid to Medicare Advantage plans, (ii) reductions in disproportionate share payments to hospitals beginning in 2014, and (iii) controls on Medicare spending, all of which may adversely affect hospitals. In addition, the Health Care Reform Law requires pilot studies and demonstration projects to reduce hospital readmission and post acute care costs, including bundling payments for hospital care with physicians, or with physicians and post acute care providers such as skilled nursing facilities and home health agencies. As a result, hospitals may be held financial responsible for hospital readmissions that are beyond their ability to control. Payments to hospitals may also be reduced if they fail to implement electronic health records in a manner required by the governments or if they fail to meet certain performance standards.

At the present time it is too early to assess the overall impact of the Health Care Reform Law on hospitals. Investors should review the legislation for themselves as well as reports in the media in order to assess the effect on health care in general hospitals in particular.

Certain provisions of the Health Care Reform Law will take effect immediately or within a few months, while others will be phased in over time, ranging from one year to ten years. Because of the complexity of health care reform generally, additional legislation is likely to be considered and enacted over time. The Health Care Reform Law, and any subsequent health care reform legislation, will require the promulgation of substantial regulations with significant effect on the health care industry. Thus, the health care industry will be subjected to significant new statutory and regulatory requirements, and consequently to structural and operational changes and challenges, for a substantial period of time.

Legislation has been introduced in the United States Senate to repeal the Health Care Reform Law and the attorneys general of several states have filed lawsuits which challenge the constitutionality of various provisions of the Health Care Reform Law.

Management of the Institution is analyzing the Health Care Reform Law and will continue to do so in order to assess its effect on current and projected operations, financial performance and financial condition. However, management cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation or whether additional health care reform legislation will be enacted.

The Health Care Reform Law changes the sources and methods by which consumers pay for health care for themselves and their families and by which employers procure health insurance for their employees and dependents, consequently expanding the base of consumers of healthcare services. One of the primary drivers of recent health care reform is to provide or make available, or subsidize the premium costs of, health care insurance for uninsured (or underinsured) consumers who fall below certain income levels. The Health Care Reform Law proposes to accomplish that objectives through various provisions, including: (i) the creation or active markets (referred to as exchanges) in which individuals and small employers can purchase health care insurance for themselves and their families or their employees and dependents, (ii) mandating that individual consumers obtain and certain employers provide a minimum level of health care insurance, and providing for penalties or taxes on consumers and employers that do not comply with these mandates, (iii) establishment of insurance reforms that expand coverage generally through such provisions as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps, (iv) expansion of existing public programs, including Medicaid for individuals and families, and (v) expansion of the program of insurance currently available to federal employees. To the extent all or any of those provisions produce the intended result, an increase in utilization of health care services by those who are currently avoiding or rationing their health care can be expected and bad debt expenses may be reduced.

Some of the specific provisions of Health Care Reform Law that may affect the Institution's operations, financial performance or financial condition are described below. *This listing is not intended to be, nor should be considered by the reader as comprehensive. The Health Care Reform Law is complex and comprehensive, and includes myriad new programs and initiatives and changes to existing programs, policies, practices and laws. The reader is encouraged to review more comprehensive summaries and analyses of the Health Care Reform Law available in the public media.*

With varying effective dates, the annual Medicare market basket updates for many providers, including hospitals, would be reduced, and adjustments to payment for expected productivity gains would be implemented.

Commencing in 2015, Medicare disproportionate share hospital ("DSH") payments will be reduced to account for reductions in the national rate of consumers who do not have healthcare insurance. Commencing in 2011, a state's Medicaid DSH allotment from federal funds will be reduced.

Commencing in 2012, Medicare payments that would otherwise be made to hospitals would be reduced by specified percentages to account for excess and "preventable" hospital readmissions.

Commencing in 2015, Medicare payments to certain hospitals for hospital-acquired conditions will be reduced by 1%. Commencing in 2011, federal payments to states for Medicaid services related to health care-acquired conditions will be prohibited.

Effective in 2012, a value-based purchasing program will be established under the Medicare program designed to pay hospitals based on performance on quality measures.

The Health Care Reform Law mandates a reduction of waste, fraud, and abuse in public programs by allowing provider enrollment screening, enhanced oversign periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs, and by requiring Medicare and Medicaid program providers and suppliers to establish compliance programs. In addition, the Health Care Reform

Law requires the development of a database to capture and share healthcare provider data across federal healthcare programs and provides for increased penalties for fraud and abuse violations, and increased funding for antifraud activities.

Effective for tax years commencing immediately after approval, additional requirements for tax-exemption will be imposed upon tax-exempt hospitals, including obligations to conduct a community needs assessment every three years; adopt implementation strategy to meet those identified needs; adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the lowest amount charged to insured patients; and control the billing and collection process. Failure to satisfy these conditions may result in the imposition of fines.

Commencing in 2015, the establishment of an Independent Payment Advisory Board to develop proposals to improve the quality of care and limitations on cost increases. Those proposals would be automatically implemented if Congress does not act to invalidate them.

In addition, the Health Care Reform Law provides for the implementation of various demonstration programs and pilot projects to test, evaluate, encourage and expand new payment structures and methodologies to reduce health care expenditures while maintaining or improving quality of care, including bundled payments under Medicare and Medicaid, and comparative effectiveness research programs that compare the clinical effectiveness of medical treatments and develop recommendations concerning practice guidelines and coverage determinations. Other provisions encourage the creation of new health care delivery programs, such as "accountable" care organizations, or combinations of provider organizations, that voluntarily meet quality thresholds to share in the cost savings they achieve for the Medicare program. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

Based upon all of the above, it is more difficult for management of the Institution to project future performance than it has been in the past.

Secondary Market

There can be no assurance that there will be a secondary market for the purchase or sale of the Series 2011 Bonds. From time to time there may be no market for them depending upon prevailing market conditions, including the financial condition or market position of firms who may make the secondary market, the evaluation of the Institution's capabilities and the financial conditions and results of operations of the Institution.

Secured Hospital Program

The financial position of certain hospitals that are part of the State's Secured Hospital Program has continued to deteriorate. Currently there are nine hospitals in the program with a total of $586,390,000 million in bonds outstanding as of February 15, 2011. However, three hospitals are currently delinquent on their payment obligations, including one hospital (North General Hospital) that closed in July 2010 and filed for bankruptcy and is not expected to make further payments under its loan agreement to meet its debt service payments on $117 million of debt outstanding. Therefore, based upon existing circumstances, it might be necessary for the trustee to use pledged reserve funds and, ultimately, for the State to make payments in the future under the applicable Service Contract. The Institution is not delinquent on its payment obligations.

Other Risk Factors

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Institution, or the market value of the Series 2011 Bonds, to an extent that cannot be determined at this time:

- Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates.

- Increased unemployment or other economic conditions in the service area of the Institution, which could increase the proportion of patients who are unable to pay fully for the cost of their care.

- Efforts by insurers and governmental agencies to limit the cost of hospital and physician services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.

- Reduced demand for the services of the Institution that might result from decreases in population or innovations in technology.

- Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.

- The occurrence of a natural or man-made disaster, including but not limited to acts of terrorists, that could damage the facilities of the Institution, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the operations and the generation of revenues from the Institution's facilities.

- Adoption of a so-called "flat tax" federal income tax, a reduction in the marginal rates of federal income taxation or replacement of the federal income tax with another form of taxation, any of which might adversely affect the market value of the Series 2011 Bonds and the level of charitable donations to the Institution.

PART 9 — 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, 2010, the Authority had approximately $43.3 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.

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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, 2010 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
State University of New York Dormitory Facilities	$ 2,478,656,000	$ 1,139,920,000	$ 0	$ 1,139,920,000
State University of New York Educational and Athletic Facilities	14,369,077,999	6,486,831,657	0	6,486,831,657
Upstate Community Colleges of the State University of New York	1,644,630,000	693,095,000	0	693,095,000
Senior Colleges of the City University of New York	10,799,906,762	3,602,086,213	0	3,602,086,213
Community Colleges of the City University of New York	2,548,418,350	542,633,787	0	542,633,787
BOCES and School Districts	2,785,881,208	2,094,945,000	0	2,094,945,000
Judicial Facilities	2,161,277,717	692,952,717	0	692,952,717
New York State Departments of Health and Education and Other	6,713,455,000	4,639,840,000	0	4,639,840,000
Mental Health Services Facilities	8,306,980,000	4,102,250,000	0	4,102,250,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	1,146,845,000	760,220,000	0	760,220,000
Totals Public Programs	$ 53,728,603,036	$ 24,754,774,374	$ 0	$ 24,754,774,374

Non-Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
Independent Colleges, Universities and Other Institutions	$ 19,855,389,952	$ 10,389,780,083	$ 30,730,000	$ 10,420,510,083
Voluntary Non-Profit Hospitals	14,562,754,309	7,382,330,000	0	7,382,330,000
Facilities for the Aged	2,010,975,000	755,570,000	0	755,570,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Totals Non-Public Programs	$ 36,524,119,261	$ 18,527,680,083	$ 30,730,000	$ 18,558,410,083
Grand Totals Bonds and Notes	$ 90,252,722,297	$ 43,282,454,457	$ 30,730,000	$ 43,313,184,457

Outstanding Indebtedness of the Agency Assumed by the Authority

At December 31, 2010, the Agency had approximately $303.5 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, 2010 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	$ 2,480,000
Insured Mortgage Programs	6,625,079,927	294,625,000
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	6,380,000
Total Non-Public Programs	$ 9,265,549,927	$ 303,485,000
Total MCFFA Outstanding Debt	$ 13,082,780,652	$ 303,485,000

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 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:

ALFONSO L. CARNEY, JR., *Chair*, New York.

Alfonso L. Carney, Jr. was appointed as a Member of the Authority by the Governor on May 20, 2009. Mr. Carney is a principal of Rockwood Partners, LLC, which provides medical and legal consulting services in New York City. Consulting for the firm in 2005, he served as Acting Chief Operating Officer and Corporate Secretary for the Goldman Sachs Foundation in New York where, working with the President of the Foundation, he directed overall staff management of the foundation, and provided strategic oversight of the administration, communications and legal affairs teams, and developed selected foundation program initiatives. Prior to this, Mr. Carney held several positions with Altria Corporate Services, Inc., most recently as Vice President and Associate General Counsel for Corporate and Government Affairs. Prior to that, Mr. Carney served as Assistant Secretary of Philip Morris Companies Inc. and Corporate Secretary of Philip Morris Management Corp. For eight years, Mr. Carney was Senior International Counsel first for General Foods Corporation and later for Kraft Foods, Inc. and previously served as Trade Regulation Counsel, Assistant Litigation Counsel and Federal Government Relations Counsel for General Foods, where he began his legal career in 1975 as a Division Attorney. Mr. Carney is a trustee of Trinity College, the University of Virginia Law School Foundation, the Riverdale Country School and the Virginia Museum of Fine Arts in Richmond. In addition, he is a trustee of the Burke Rehabilitation Hospital in White Plains. Mr. Carney holds a Bachelors degree in Philosophy from Trinity College and a Juris Doctor degree from the University of Virginia School of Law. His current term expires on March 31, 2013.

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on June 20, 2007. 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, 2013.

JACQUES JIHA, Ph.D., *Secretary*, Woodbury.

Jacques Jiha was appointed as a Member of the Authority by the Governor on December 15, 2008. Mr. Jiha is the Executive Vice President / Chief Operating Officer & Chief Financial Officer of Earl G. graves, Ltd / Black Enterprise, a multi-media company with properties in print, digital media, television, events and the internet. He is a member of the Investment Advisory Committee of the New York Common Retirement Fund and a member of the Board of Directors at Ronald McDonald House of New York. Previously, Mr. Jiha served as Deputy Comptroller for Pension Investment and Public Finance in the Office of the New York State Comptroller. As the state's chief investment officer, he managed the assets of the NY Common Retirement Fund, valued at $120 billion, and was also in charge of all activities related to the issuance of New York State general obligation bonds, bond anticipation notes, tax and revenue anticipation notes, and certificates of participation. Mr. Jiha was the Co-Executive Director of the New York State Local Government Assistance Corporation (LGAC) in charge of the sale of refunding bonds, the ratification of swap agreements, and the selection of financial advisors and underwriters. 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. Earlier, Mr. Jiha 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, 2011.

CHARLES G. MOERDLER, Esq., New York.

Charles Moerdler was appointed as a Member of the Authority by the Governor on March 16, 2010. Mr. Moerdler is a founding partner in the Litigation Practice of the law firm Stroock & Stroock & Lavan LLP. His areas of practice include defamation, antitrust, securities, real estate, class actions, health care, international law, labor law, administrative law and zoning. By appointment of the Appellate Division, First Department, Mr. Moerdler serves as Vice Chair of the Committee on Character and Fitness and as a Member of the Departmental Disciplinary Committee. He served as Commissioner of Housing and Buildings of the City of New York, as a real estate and development consultant to New York City Mayor John Lindsay, as a member of the City's Air Pollution Control Board, and as Chairman and Commissioner of the New York State Insurance Fund. Mr. Moerdler currently serves on the Board of Directors of the New York City Housing Development Corporation as well as the Metropolitan Transportation Authority and is a member of the New York City Board of Collective Bargaining. He holds a Bachelors of Arts degree from Long Island University and a Juris Doctor degree from Fordham University. His current term expires on March 31, 2012.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on December 15, 2008. 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 term expired on August 31, 2010 and by law he continues to serve until a successor shall be chosen and qualified.

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.

GERARD ROMSKI, Esq., Mount Kisco.

Mr. Romski was appointed as a Member of the Authority by the Temporary President of the State Senate on June 8, 2009. He is Counsel and Project Executive for "Arverne By The Sea," where he is responsible for advancing and overseeing all facets of "Arverne by the Sea," one of New York City's largest mixed-use developments located in Queens, NY. Mr. Romski is also of counsel to the New York City law firm of Bauman, Katz and Grill LLP. He formerly was a partner in the law firm of Ross & Cohen, LLP (now merged with Duane Morris, LLP) for twelve years, handling all aspects of real estate and construction law for various clients. He previously served as Assistant Division Chief for the New York City Law Department's Real Estate Litigation Division where he managed all aspects of litigation arising from real property owned by The City of New York. Mr. Romski is a member of the Urban Land Institute, Council of Development Finance Agencies, the New York State Bar Association, American Bar Association and New York City Bar Association. He previously served as a member of the New York City Congestion Mitigation Commission and the Board of Directors for the Bronx Red Cross. Mr. Romski holds a Bachelor of Arts degree from the New York Institute of Technology and a Juris Doctor degree from Brooklyn Law School.

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.

DAVID M. STEINER, Ph.D., *Commissioner of Education of the State of New York,* Albany; *ex-officio.*

David M. Steiner was appointed by the Board of Regents as President of the University of the State of New York and Commissioner of Education on October 1, 2009. Prior to his appointment, Dr. Steiner served as the Klara and Larry Silverstein Dean of the School of Education at Hunter College CUNY. Prior to his time with Hunter College, Dr. Steiner served as Director of Arts Education at the National Endowment for the Arts and Chairman of the Department of Education Policy at Boston University. As Commissioner of Education, Dr. Steiner serves as chief executive officer of the Board of Regents, which has jurisdiction over the State's entire educational system, which includes public and non-public elementary, middle and secondary education; public and independent colleges and universities; museums, libraries and historical societies and archives; the vocational rehabilitation system; and responsibility for licensing, practice and oversight of numerous professions. He holds a Doctor of Philosophy in political science from Harvard University and a Bachelor of Arts and Master of Arts degree in philosophy, politics and economics from Balliol College at Oxford University.

NIRAV R. SHAH, M.D., M.P.H., *Commissioner of Health*, Albany; *ex-officio*.

Nirav R. Shah, M.D., M.P.H.., was appointed Commissioner of Health on January 24, 2011. Prior to his appointment he served as Attending Physician at Bellevue Hospital Center, Associate Investigator at the Geisinger Center for Health Research in central Pennsylvania, and Assistant Professor of Medicine at the NYU Langone Medical Center. Dr. Shah is an expert in use of systems-based methods, a leading researcher in use of large scale clinical laboratories and electronic health records and he has served on the editorial boards of various medical journals. He is a graduate of Harvard College, received his medical and master of public health degrees from Yale

School of Medicine, was a Robert Wood Johnson Clinical Scholar at UCLA and a National Research Service Award Fellow at NYU.

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

Mr. Megna was appointed Budget Director on June 15, 2009. He 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. Mr. Megna previously served as Commissioner of the New York State Department of Taxation and Finance, responsible for overseeing the collection and accounting of more than $90 billion in State and local taxes, the administration of State and local taxes, including New York City and the City of Yonkers income taxes and the processing of tax returns, registrations and associated documents. Prior to this he served as head of the Economic and Revenue Unit of the New York State Division of the Budget where he was responsible for State Budget revenue projections and the development and monitoring of the State Financial Plan. Mr. Megna was Assistant Commissioner for Tax Policy for the Commonwealth of Virginia. He also served as Director of Tax Studies for the New York State Department of Taxation and Finance and as Deputy Director of Fiscal Studies for the Ways and Means Committee of the New York State Assembly. Mr. Megna was also an economist for AT&T. He holds Masters degrees in Public Policy from Fordham University and Economics from the London School of Economics.

The principal staff of the Authority is as follows:

PAUL T. WILLIAMS, JR. is the President and chief executive 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 Vice President of the Authority, and assists the President 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.

PAUL W. KUTEY is the Chief Financial Officer of the Authority. Mr. Kutey oversees and directs the activities of the Office of Finance and Information Services. He is responsible for supervising the Authority's investment program, accounting functions, operation, maintenance and development of computer hardware, software and communications infrastructure; as well as the development and implementation of financial policies, financial management systems and internal controls for financial reporting. Previously, Mr. Kutey was Senior Vice President of Finance and Operations for AYCO Company, L.P., a Goldman Sachs Company, where his responsibilities included finance, operations and facilities management. Prior to joining AYCO Company, he served as Corporate Controller and Acting Chief Financial Officer for First Albany Companies, Inc. From 1982 until 2001, Mr. Kutey held increasingly responsible positions with PricewaterhouseCoopers, LLP, becoming Partner in 1993. He is a Certified Public Accountant and holds a Bachelor of Business Administration degree from Siena College.

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 has obtained the approval of the PACB for the issuance of the Series 2011 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, 2010. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 10 — LEGALITY OF THE SERIES 2011 BONDS FOR INVESTMENT AND DEPOSIT

Under State law, the Series 2011 Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or other obligations of the State may properly and legally invest funds, including capital in their control and belonging to them. Certain of such investors may be subject to separate restrictions that may limit or prevent their investment in the Series 2011 Bonds.

The Series 2011 Bonds may be deposited with the State Comptroller to secure deposits of State monies in banks, trust companies and industrial banks.

PART 11 — NEGOTIABLE INSTRUMENTS

The Series 2011 Bonds shall be negotiable instruments as provided in the Act subject to the provisions for registration and transfer contained in the Master Resolution and in the Series 2011 Bonds.

PART 12 — TAX MATTERS

In General

In the opinion of Sidley Austin LLP, Co-Bond Counsel, based on current law and except as provided in the next sentence, interest on the Series 2011 Bonds is not includable in the gross income of the owners of the Series 2011 Bonds for federal income tax purposes. Interest on the Series 2011 Bonds will be includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Series 2011 Bonds in the event of a failure by the Institution or the Authority to comply, subsequent to the issuance of the Series 2011 Bonds with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code") and covenants regarding the use, expenditure and investment of the Series 2011 Bond proceeds and the timely payment of certain investment earnings to the U.S. Treasury.

The above opinion with respect to the exclusion from gross income of the interest on the Series 2011 Bonds for federal income tax purposes may not be relied upon to the extent that such exclusion is adversely affected as a result of any action taken or not taken in reliance upon the opinion or advice of counsel other than Sidley Austin LLP.

In rendering this opinion, Sidley Austin LLP has relied upon the representations made by the Institution with respect to certain material facts within the knowledge of the Institution and upon the accompanying opinion of its counsel and has made no independent investigation thereof.

Interest on the Series 2011 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum tax. The Code contains provisions (some of which are noted below) that could result in tax consequences upon which no opinion will be rendered by Sidley Austin LLP as a result of (i) ownership of the Series 2011 Bonds or (ii) the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S-corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Prospective purchasers of the Series 2011 Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

In the opinion of Sidley Austin LLP, Co-Bond Counsel, under current law, the interest on Series 2011 Bonds is exempt from personal income taxation of the State of New York and any political subdivision thereof (including The City of New York and the City of Yonkers).

Original Issue Premium

The excess, if any, between the tax basis of a maturity of substantially identical Series 2011 Bonds to a purchaser (other than a purchaser who holds such Series 2011 Bonds as inventory, stock in trade, or for sale to customers in the ordinary course of business) who purchases such Series 2011 Bonds at the initial offering price and the amount payable at maturity is "bond premium". Bond premium is amortized over the respective terms of the Series 2011 Bonds with bond premium (the "Premium Bonds") for federal income tax purposes (or, in the case of a Series 2011 Bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Series 2011 Bond). Owners of the Premium Bonds are required to decrease their adjusted basis in the Premium Bonds by the amount of amortizable bond premium attributable to each taxable year such Premium Bonds are held. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of the bond premium upon the sale or other disposition of Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Information Reporting and Backup Withholding

Interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of interest on the Series 2011 Bonds from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Series 2011 Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's federal income tax liability provided the required information is furnished to the IRS.

Future Developments

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Series 2011 Bonds will not have an adverse impact on the tax exempt status of the Series 2011 Bonds.

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Series 2011 Bonds to be subject, directly or indirectly, to Federal income taxation or to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Further, legislation or regulatory actions and proposals may affect the economic value of the Federal or state tax exemption or the market value of the Series 2011 Bonds. Prospective investors of the Series 2011 Bonds should consult their own tax advisors regarding any pending or proposed Federal or state tax legislation, regulations, ruling or litigation as to which Co-Bond Counsel expresses no opinion.

Miscellaneous

Co-Bond Counsel expresses no opinion regarding any other consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011 Bonds.

ERISA Considerations

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"),and Section 4975 of the Code generally prohibit certain transactions between employee benefit plans under ERISA or tax qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. In addition, each fiduciary of a Plan ("Plan Fiduciary") must give appropriate consideration to the facts and circumstances that are relevant to an investment in the Series 2011 Bonds, including the role that such an investment in the Series 2011 Bonds would play in the Plan's overall investment portfolio. Each Plan Fiduciary, before deciding to invest in the Series 2011 Bonds, must be satisfied that such investment in the Series 2011 Bonds is a prudent investment for the Plan, that the investments of the Plan, including the investment in the Series 2011 Bonds, are diversified so as to minimize the risk of large losses, and that an investment in the Series 2011 Bonds complies with the documents of the Plan and related trust, to the extent such documents are consistent with ERISA. All Plan Fiduciaries, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Series 2011 Bond.

PART 13 — STATE NOT LIABLE ON THE SERIES 2011 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 Master Resolution specifically provides that the Series 2011 Bonds shall not be a debt of the State nor shall the State be liable thereon.

PART 14 — COVENANT BY THE STATE

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 fulfill the terms of any agreements made 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, together with the interest thereon, with interest or any unpaid installments of interest, 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, 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.

This pledge and agreement by the State does not, among other things, bind or obligate the State to appropriate funds for the payment of the principal of and interest on the Series 2011 Bonds. See "PART 2 - SOURCES OF PAYMENT AND SECURITY."

PART 15 — LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2011 Bonds by the Authority are subject to the approval of Sidley, Austin LLP, New York, New York, and McKenzie & Associates, P.C., Washington, DC, Co-Bond Counsel, whose approving opinion will be delivered with the Series 2011 Bonds. The proposed forms of Co-Bond Counsel's opinion are set forth in Appendix G hereto.

Certain legal matters will be passed upon for the Underwriter by its counsel, Cozen O'Connor, New York, New York.

Certain legal matters will be passed upon for the Institution by its counsel, Epstein Becker & Green, P.C., New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2011 Bonds or questioning or affecting the validity of the Series 2011 Bonds or the proceedings and authority under which they are to be issued.

PART 16 — UNDERWRITING

The Underwriter has agreed, subject to certain conditions, (i) to purchase the Series 2011 Bonds from the Authority at an aggregate Underwriter's discount of $389,226.70; and (ii) to make a public offering of Series 2011 Bonds at prices that are not in excess of the public offering prices stated on the inside cover page of this Official Statement. *See* "PART 6 — ESTIMATED SOURCES AND USES OF FUNDS." The Underwriter will be obligated to purchase all of the Series 2011 Bonds, if any Series 2011 Bonds are purchased.

The Series 2011 Bonds may be offered and sold to certain dealers at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

M.R. Beal & Company has entered into a Distribution Agreement (the "Distribution Agreement") with TD Ameritrade, Inc. for the retail distribution of certain municipal securities offerings, including the Series 2011 Bonds, at the original issue price. Pursuant to the Distribution Agreement, M.R. Beal & Company will share a portion of its underwriting compensation with respect to the Series 2011 Bonds with TD Ameritrade, Inc.

PART 17 — CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the Institution and the State will each undertake, in written agreements, to provide continuing disclosure for the benefit of the Holders of the Series 2011 Bonds. The Institution, in its continuing disclosure agreement (the "Agreement to Provide Continuing Disclosure") will undertake to provide to Digital Assurance Certification LLC ("DAC") as the Authority's disclosure dissemination agent, for filing with the Municipal Securities Rulemaking Board (the "MSRB") through the MSRB's Electronic Municipal Market Access ("EMMA") in such electronic format as is prescribed by the MSRB and accompanied by such identifying information as prescribed by the MSRB, on or before 150 days after the end of each fiscal year, commencing December 31, 2011; and the State, in its agreement, will file, on or before 120 days after the end of each fiscal year, commencing March 31, 2012, with the MSRB through EMMA in such electronic format as is prescribed by the MSRB and accompanied by such identifying information as prescribed by the MSRB, on an annual basis, operating data and financial information of the type hereinafter described that is included in this Official Statement (the "Annual Information"), together with the Institution's annual financial statements prepared in accordance with generally accepted accounting principles and audited by an independent firm of certified public accountants in accordance with generally accepted auditing standards. The State Comptroller is required by existing law to issue audited annual financial statements of the State, prepared in accordance with accounting principles accepted in the United States of America ("GAAP"), 120 days after the close of the State fiscal year, and the State will file 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 Governmental Auditing Standards issued by the Comptroller General of the United States, with the MSRB through EMMA in such electronic format as is prescribed by the MSRB and accompanied by such identifying information as prescribed by the MSRB, if and when such statements are available.

If, and only if, and to the extent that it receives the Annual Information and annual financial statements described above from the Institution, DAC has undertaken in the Agreement to Provide Continuing Disclosure for the benefit of the Holders, on behalf of and as agent for the Institution and the Authority, to file such information and financial statements, as promptly as practicable, but no later than three business days after receipt of the information by DAC from the Institution, with the MSRB through EMMA in such electronic format as is prescribed by the MSRB and accompanied by such identifying information as prescribed by the MSRB. The Annual Information and annual financial statements of the State will be filed with the MSRB through EMMA in such electronic format as is prescribed by the MSRB and accompanied by such identifying information as prescribed by the MSRB by the State directly and not through the offices of the DAC.

The Institution also will undertake in the Agreement to Provide Continuing Disclosure to provide to the Authority, the Trustee and DAC, in a timely manner not in excess of ten (10) business days after the occurrence of a Notice Event, the notices required to be provided by Rule 15c2-12 and described below (the "Notices"). In addition, the Authority and the Trustee will undertake to provide such Notices to DAC, should they have actual knowledge of the occurrence of a Notice Event (as hereinafter defined). Upon receipt of Notices from the Institution, the Trustee or the Authority, DAC will file the Notices with the MSRB through EMMA in such electronic format as is prescribed by the MSRB and accompanied by such identifying information as prescribed by the MSRB, in a timely manner. With respect to the Series 2011 Bonds, DAC has only the duties specifically set forth in the Agreement to Provide Continuing Disclosure. DAC's obligation to deliver the information at the times and with the contents described in the Agreement to Provide Continuing Disclosure is limited to the extent it has been provided such information pursuant to the Agreement to Provide Continuing Disclosure. DAC has no duty with respect to the content of any disclosure or Notices made pursuant to the terms of the Agreement to Provide Continuing Disclosure and DAC has no duty or obligation to review or verify any information contained in the Annual Information, audited financial statements, Notices or any other information, disclosures or notices provided to it by the Institution or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Institution, the Holders of the Series 2011 Bonds or any other party. DAC has no responsibility for the Authority's, the Institution's or the Trustee's failure to provide to DAC a Notice required by the Agreement to Provide Continuing Disclosure or duty to determine the materiality thereof. DAC shall have no duty to determine or liability for failing to determine whether the Institution, the Trustee or the Authority has complied with the Agreement to Provide Continuing Disclosure, and DAC may conclusively rely upon certifications of the Institution, the Trustee and the Authority with respect to their respective obligations under the Agreement to Provide Continuing Disclosure. In the event that the obligations of DAC as the Authority's disclosure dissemination agent terminate, the Authority will either appoint a successor disclosure dissemination agent or, alternatively, assume all responsibilities of the disclosure dissemination agent for the benefit of the Bondholders.

The Institution. The Annual Information concerning the Institution will consist of the following: (a) operating data and financial information of the type included in "PART 7 — NEW YORK DOWNTOWN HOSPITAL" and Appendices E-1 and E-2 to this Official Statement, which will include information relating to utilization statistics, revenue and expense data, sources of patient service revenue, and outstanding indebtedness; together with (b) a narrative explanation, if necessary, to avoid misunderstanding and to assist the reader in understanding the presentation of financial and operating data concerning the Institution.

The State. The Annual Information shall consist of the following: (a) financial information and operating data of the type included in the Annual Information Statement of the State set forth in Appendix D to this Official Statement 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 (b) such *narrative explanation* as may be necessary to avoid misunderstanding and to assist the reader in understanding the presentation of financial information and operating data concerning, and in judging the financial condition of, the State.

Notices. The Notices include notices of any of the following events with respect to the Series 2011 Bonds, (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of the credit or liquidity providers or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2011 Bonds or other material events affecting the tax status of the Series 2011 Bonds; (7) modifications to rights of Holders, if material; (8) Series 2011 Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution or sale of property securing repayment of the Series 2011 Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Institution; (13) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee, or the change of name of a trustee, if material. In addition, the Institution will undertake, for the benefit of the Holders of the Series 2011 Bonds, to file in a timely manner with the MSRB and accompanied by such identifying information as prescribed by the MSRB, 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.

In addition, in the State's written undertaking, the Authority will undertake, for the benefit of the Holders of the Series 2011 Bonds, to file with the MSRB through EMMA in such electronic format as is prescribed by the MSRB and accompanied by such identifying information as prescribed by the MSRB, in a timely manner, the Notices described above, as well as any failure by the State to provide the State's Annual Information and annual financial statements by the date required in the State's undertaking described above.

The sole and exclusive remedy for breach or default under the Agreement to Provide Continuing Disclosure or any such agreement to provide continuing disclosure described above is an action to compel specific performance of the undertakings of DAC, the Institution, the Trustee and/ or the Authority, or the State, as the case may be, and no person, including any Holder of the Series 2011 Bonds, may recover monetary damages thereunder under any circumstances. The Authority, the Institution, the Trustee, DAC or the State, as the case may be, may be compelled to comply with their respective obligations under the applicable continuing disclosure agreement (i) in the case of enforcement of their obligations to provide information required thereunder by any Holder of Outstanding Series 2011 Bonds or by the Trustee on behalf of such Holders, or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the Holders of the Series 2011 Bonds, provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the Holders of not less than 25% in aggregate principal amount of Series 2011 Bonds at the time Outstanding. A breach or default under any such agreement shall not constitute an Event of Default under the Master Resolution, the Series Resolution or the Loan Agreement. In addition, if all or any part of Rule 15c2-12 is amended or ceases to be in effect for any reason, then the information required to be provided under such agreements, insofar as Rule 15c2-12 no longer requires the provision of such information, shall no longer be required to be provided.

The foregoing undertaking is intended to set forth a general description of the type of financial information and operating data that will be provided; the description is 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. Each continuing disclosure agreement, however, may be amended or modified without Bondholders' consent under certain circumstances set forth therein. Copies of each continuing disclosure agreement, when executed by the parties thereto upon the delivery of the Series 2011 Bonds, will be on file at the principal office of the Authority.

PART 18 — RATINGS

The Series 2011 Bonds are rated "AA-", "Aa3" and "AA-," respectively by Fitch Ratings, Moody's Investors Service, Inc., Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies. The credit rating reflects only the view of such credit rating agency, and an explanation of the significance of the credit rating may be obtained from the rating agency. There is no assurance that the credit rating will continue for any given period of time or that it will not be revised or withdrawn entirely by the credit rating agency, if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of the credit rating may have an adverse effect on the market price of the Series 2011 Bonds.

PART 19 — MISCELLANEOUS

Reference in this Official Statement to the Act, the Master Resolution, the Series Resolution, the Loan Agreement and the Service Contract, do not purport to be complete. Refer to the Act, the Master Resolution, the Series Resolution, Loan Agreement and the Service Contract for full and complete details of their provisions. Copies of the Master Resolution, the Series Resolution and the Loan Agreement are on file with the Authority and the Trustee.

The agreements of the Authority with Holders of the Series 2011 Bonds are fully set forth in the Master Resolution and the Series Resolution. Neither any advertisement of the Series 2011 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2011 Bonds.

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

PART 7, certain sections of PART 8, Appendix E and any other information regarding the Institution were supplied by the Institution. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever as to the accuracy or completeness of this information.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information regarding the State has been furnished by the State. No representation is made herein by the Authority, the Institution or the Underwriter as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. None of the Authority, the Institution or the Underwriter have made any independent investigation of the State.

The information regarding DTC and DTC's book-entry only system has been furnished by DTC. The Authority believes that this information is reliable, but makes no representations or warranties whatsoever to the accuracy or completeness of this information.

"Appendix B — SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION," "Appendix C — SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT," "Appendix F — DEFINITIONS" and "Appendix G — FORMS OF APPROVING OPINIONS OF CO-BOND COUNSEL" have been prepared by Co-Bond Counsel.

"Appendix E-1 - AUDITED COMBINED FINANCIAL STATEMENTS OF NEW YORK DOWNTOWN HOSPITAL AND AFFILIATES FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 WITH REPORT OF INDEPENDENT AUDITORS" contains the audited combined financial statements of New York Downtown Hospital and Affiliates and the report of the Institution's independent auditors, Ernst & Young LLP, on such financial statements. "Appendix E-2—UNAUDITED COMBINED FINANCIAL STATEMENT OF NEW YORK DOWNTOWN HOSPITAL AND AFFILIATES AS OF AND FOR THE ELEVEN MONTH PERIOD ENDED NOVEMBER 30, 2010 AND FOR THE ELEVEN MONTH PERIOD ENDED NOVEMBER 30, 2009" contains the unaudited combined financial statements of the New York Downtown Hospital and Affiliates for the periods stated therein.

The Institution has reviewed the information in this Official Statement including "PART 1 – INTRODUCTION – The Institution," "PART 3 — THE SERIES 2011 BONDS — Debt Service Requirements for the Series 2011 Bonds," PART 6, PART 7 and PART 8 herein and Appendice E-1 and E-2 hereto, describing or necessarily relating to the estimated sources and uses of funds, the Institution and certain Bondholders' risks. It is a condition to the sale and the delivery of the Series 2011 Bonds that the Institution certify that, as of such date, such information does not contain any untrue statement of a material fact and does not omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The Institution makes no representation as to the accuracy or completeness of any information included in this Official Statement other than information describing or necessarily relating to the Institution.

The Institution has agreed to indemnify the Authority and the Underwriter and certain others against losses, claims, damages and liabilities arising out of any untrue statements or omissions of statements of any material fact about such Institution, as described in the preceding paragraph.

The Director of the Budget of the State is to certify that the statements and information, including any updates or supplements, included in the Annual Information Statement dated September 7, 2010 of the State (the "AIS") and the Update to the AIS dated March 15, 2011, as contained in Appendix D hereto, are true, correct and complete in all material respects, and that no facts have come to his attention that would lead him to believe that such statements and information contained any untrue statement of a material fact or omit to state any material fact necessary in order to make such statements and information, in light of the circumstances under which they were made, not misleading; provided, however, that while the statements and information contained in the AIS that were obtained from sources other than the State are not certified as to truth, correctness or completeness, such statements and information have been obtained from sources that he believes to be reliable and he has no reason to believe that such statements and information contain any untrue statement of a material fact or omit to state any material fact necessary in order to make such statements and information, in light of the circumstances under which they were made, not misleading; provided, further, however, that with regard to the information and statements in the AIS under the caption "*Litigation*," such statements and information as to legal matters are given to the best of his information and belief, having made such inquiries as he deemed appropriate at the offices of the Department of Law of the State, without any further independent investigation. The certification is to apply both as of the date of this Official Statement and as of the date of delivery of the Series 2011 Bonds. *See* "Appendix D — INFORMATION CONCERNING THE STATE OF NEW YORK."

The Institution has agreed to furnish, or cause to be furnished, no later than sixty (60) days subsequent to the last day of each quarter in each fiscal year to (1) the Authority, (2) the MSRB, and (3) each Bondholder who is the registered owner of in excess of an aggregate $1 million principal amount of Series 2011 Bonds who has so requested, the following information: (a) the unaudited financial statements of the Institution, including the balance sheet as of the end of such quarter, the statement of operations, changes in net assets and cash flows; (b) utilization statistics of the Institution for such quarter, including discharges per facility, patient days, average length of stay, average daily census, emergency room visits, ambulatory surgery visits and home care visits (if applicable); and (c) discharges of the Institution by major payor mix for such quarter, together with comparable data for the corresponding period of the preceding fiscal year. In addition, the Institution has agreed to furnish, or cause to be furnished, to each of the parties identified in clauses (1), (2) and (3) above the audited financial statements of the Institution, within one hundred fifty (150) days after the completion of the Institution's fiscal year.

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The execution and delivery of this Official Statement 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.
Paul T. Williams, Jr.
President and Executive Director

Dated: March 22, 2011

PROPOSED FORM OF SERVICE CONTRACT

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SECURED HOSPITAL REVENUE BOND SERVICE CONTRACT, dated as of March 30, 2011 (the "Contract"), by and between the Dormitory Authority of the State of New York, a body corporate and politic constituting a public benefit corporation of the State of New York (the "Authority"), and the State of New York (the "State"), acting by and through the Director of the Budget of the State.

WHEREAS, pursuant to the Dormitory Authority Act, being Chapter 524 of the Laws of New York, l944, as amended, and constituting Title 4 of Article 8 of the Public Authorities Law of the State of New York and the New York State Medical Care Facilities Finance Agency Act being Chapter 392 of the Laws of 1973 of the State of New York, each amended by Chapter 83 of the Laws of 1995 of the State of New York (collectively, the "Act"), the Authority issued its Secured Hospital Revenue Refunding Bonds (New York Downtown Hospital), Series 1998I (the "Series 1998I Bonds") for the benefit of New York Downtown Hospital; and

WHEREAS, Chapter 58 of the Laws of 2010 ("Chapter 58") authorizes the Authority to undertake the refinancing of certain projects for eligible secured hospital borrowers, as therein defined, but places limitations upon the amount of bonds and other obligations which the Authority is authorized to issue or incur for such purposes; and

WHEREAS, pursuant to the Act, as amended by Chapter 58, the Authority adopted its Master Secured Hospital Revenue Bond Resolution (the "Resolution") on December 8, 2010 for the purpose of issuing from time to time one or more series of bonds to be secured by a service contract with the State; and

WHEREAS, pursuant to the Resolution, the Authority adopted a Series Resolution Authorizing Up To $38,500,000 Secured Hospital Revenue Refunding Bonds (New York Downtown Hospital) Series 2010, dated December 8, 2010, for the purpose of making a loan to New York Downtown Hospital (the "Hospital") to refund the Series 1998I Bonds; and

WHEREAS, in order to assist the Authority in the refinancing of certain projects for eligible secured hospital borrowers and in consideration of the undertaking thereof and the benefits to be derived therefrom by the people of the State, the Act and Chapter 58 authorize the Director of the Budget, acting on behalf of the State, to enter into one or more service contracts not to exceed 30 years with the Authority whereunder the State would agree, subject to the making of annual appropriations therefor by the State Legislature, to make annual payments to the Authority over a period of years and authorized the Authority to pledge and assign the State payments as security for bonds which the Authority might issue in order to refinance such projects.

NOW, THEREFORE, the parties mutually agree as follows:

I. Payments by the State

1.1. Subject to the provisions of Section 1.4, the State agrees to pay to the Authority, on or before each August 15 and February 15 of any year for which the Authority shall have outstanding bonds secured in whole or in part by this Contract (the "Contractual Obligation"), a sum of money equal to the amount necessary to provide for the payment of the principal of and interest on the Secured Hospital Revenue Refunding Bonds (New York Downtown Hospital), Series 2010 (the "New York Downtown Hospital Secured Hospital Bonds") coming due on such

August 15 and February 15 as certified by the Chairman of the Authority to the Director of the Budget and the Comptroller; provided, however, that the term of this Contract shall not exceed the final maturity of the New York Downtown Hospital Secured Hospital Bonds.

1.2. The State may at its sole discretion, subject to the provisions of Section 1.4, choose to prepay all or any part of the payments payable under Section 1.1. Any amounts so prepaid shall be applied by the Authority to pay or to redeem the New York Downtown Hospital Secured Hospital Bonds in accordance with the terms of such Bonds and the direction of the Director of the Budget.

1.3. The State agrees that, subject to the provisions of Section 1.4, its obligations to make the payments provided for in this Article I shall be absolute and unconditional, without any rights of set-off, recoupment or counterclaim the State may have against the Authority or any other person or entity having an interest in this Contract or the payments made hereunder.

1.4. Notwithstanding anything in this Contract to the contrary, (i) the obligation of the State to fund or to pay the amounts herein provided for is subject to annual appropriation by the State Legislature, (ii) the obligation of the State to fund or to pay the amounts herein provided for shall not constitute a debt of the State within the meaning of any constitutional or statutory provision and shall be deemed executory only to the extent of moneys available and no liability shall be incurred by the State beyond moneys available for the purpose, and (iii) the amounts paid to the Authority pursuant to this Contract shall be applied by the Authority solely for deposit into the Debt Service Fund (as defined in the Master Resolution) established pursuant to the Series Resolution and applied to pay debt service on the New York Downtown Hospital Secured Hospital Bonds.

II. Duties of the Authority

2.1. The Authority agrees to apply the proceeds from the sale of its New York Downtown Hospital Secured Hospital Bonds to make a loan to the Hospital, an Eligible Secured Hospital Borrower in accordance with the applicable provisions of the Act and Chapter 58.

2.2. The Authority agrees to deposit into the Debt Service Fund all amounts received pursuant to this Contract, which fund shall be held and administered by the trustee, as provided in the Master Resolution and shall not be commingled with any other funds of the Authority.

2.3. Upon the appointment of the trustee and the issuance of the New York Downtown Hospital Secured Hospital Bonds thereunder, the provisions of the Master Resolution relating to all funds and accounts and the application and investment thereof shall apply.

2.4. The Authority shall repay the State all moneys advanced to the Authority pursuant to Article I hereof, but only to the extent: (i) the Authority has received such moneys in the form of payments made under the Loan Agreement from the Hospital whose failure to make such payments resulted in the payment by the State contemplated hereby; and (ii) such moneys are not required to be otherwise applied under the Master Resolution or Series Resolution.

2.5. Within ten days after the issuance of any New York Downtown Hospital Secured Hospital Bonds, the Authority shall furnish to the State a schedule of the aggregate of all debt service payments to be made on each date in respect of all New York Downtown Hospital Secured Hospital Bonds then being issued or then otherwise outstanding.

III. Pledge and Assignment

3.1. The State hereby consents to the pledge and assignment by the Authority to the owners of any of its New York Downtown Hospital Secured Hospital Bonds, or to any trustee acting on their behalf, of all or any part of the benefits or rights of the Authority herein, of the payments by the State as provided herein and of the funds established under the Master Resolution.

IV. Special Covenants

4.1. The State agrees to include in each year as a requested appropriations item during the term of this Contract, an amount equal to the principal of and interest on the New York Downtown Hospital Secured Hospital Bonds coming due on the next August 15 and February 15.

4.2. The State agrees that whenever requested by the Authority with reasonable advance notification it shall provide and certify, or cause to be provided and certified, in form satisfactory to the Authority, such information concerning (A)(i) the State and various public authorities, or (ii) the operations and finances of the State and such other matters that the Authority considers necessary to enable it to complete and publish an official statement, placement memorandum or other similar document relating to the sale or issuance of the New York Downtown Hospital Secured Hospital Bonds, and (B) the payments to be made by the State as provided herein or any funds established under the Master Resolution, or information necessary to enable the Authority to make any reports required by law or governmental regulations in connection with any New York Downtown Hospital Secured Hospital Bonds.

4.3. Neither the Authority nor the State will terminate this Contract for any cause including, without limiting the generality of the foregoing, any acts or circumstances which may constitute failure of consideration or frustration of purpose or the failure of either party to perform and observe any duty, liability or obligation arising out of or connected with this Contract, including but not limited to the bankruptcy or liquidation of the Hospital or the closing of the Project whether by reason of administrative action, court order or otherwise.

4.4. This Contract may not be amended, changed, modified or altered so as to adversely affect the rights of the owners of any New York Downtown Hospital Secured Hospital Bonds, the payments to be made by the State as provided herein or the funds required by the Master Resolution without the consent of such owners or any trustee acting on their behalf given in accordance with the provisions of the Master Resolution. An increase in the amount payable under this Contract or in the term of the State's obligations shall not be deemed such an adverse change.

V. Events of Default by the State and Remedies

5.1. If, for any reason other than a failure by the State Legislature to appropriate moneys for such purpose, the State shall fail to pay when due any of the payments provided for in Section 1.1 or shall fail to observe or perform any other covenant, condition or agreement on its part to be observed or performed, the Authority shall, if such default has not been cured, have the right to institute any action in the nature of mandamus or take whatever action at law or in equity may appear necessary or desirable to collect the payments then due or thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the State hereunder.

5.2. The Remedies conferred upon or reserved to the Authority under Section 5.1 in respect of any default described therein are not intended to be exclusive of any other available remedy or remedies and shall be in addition to every other remedy now or hereafter existing at law or in equity; provided, however, that such remedy or remedies may in no event include a termination of this Contract, nor may they include any amendment, change, modification or alteration that is prohibited by Sections 4.3 or 4.4.

VI. Events of Default by the Authority and Remedies

6.1. If the Authority shall fail to observe or perform any covenant, condition or agreement on its part to be observed or performed and such failure to observe or perform shall have continued for 60 days after written notice, specifying such failure and requesting that it be remedied, is given to the Authority by the State, the State shall, if the default has not been cured, have the right to institute any action in the nature of mandamus or take whatever action at law or in equity may appear necessary or desirable to enforce the performance and observance of any obligation, agreement or covenant of the Authority hereunder.

6.2. The remedies conferred upon or reserved to the State under Section 6.1 in respect of any default described therein are not intended to be exclusive of any other available remedy or remedies and shall be in addition to every other remedy now or hereafter existing at law or in equity; provided, however, that such remedy or remedies may in no event include a termination of this Contract or of the obligations of the State to make the payments provided for in Article I, nor may they include any amendment, change, modification or alteration of this Contract that is prohibited by Sections 4.3 or 4.4.

VII. Miscellaneous

7.1. This Contract shall be construed and interpreted in accordance with the laws of the State of New York and any suits and actions arising out of this Contract shall be instituted in a court of competent jurisdiction in the State.

7.2. This Contract may be executed in several counterparts, each of which shall be deemed to be an original, but such counterparts together shall constitute one and the same instrument.

7.3. In the event any provision of this Contract shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

7.4. The waiver by either party of a breach by the other shall not be deemed to waive any other breach hereunder nor shall any delay or omission to exercise any right or power upon any default impair any such right or power or be construed as a waiver thereof.

7.5. All notices provided for in this Contract shall be in writing and shall be delivered personally to be sent by certified or registered mail to the respective offices of the State, the Department of Health and the Authority as follows:

If to the State:	Director of the Budget State of New York Executive Department Division of the Budget State Capitol, Room 113 Albany, New York 12224
If to the Department of Health:	Department of Health Tower Building Empire State Plaza Albany, New York 12224 Attention: Director of Office of Health Systems Management
If to the Authority:	Dormitory Authority of the State of New York 515 Broadway Albany, New York 12207 Attention: Executive Director

The Authority, the Department of Health or the State may from time to time designate in writing other representatives with respect to receipt of notices.

7.6. This Contract represents the entire agreement between the parties. It may not be amended or modified otherwise than by a written instrument executed by each of the parties. Such amendments shall not be contrary to the provisions of Sections 4.3 or 4.4.

7.7. Nothing in this Contract shall be construed to confer upon or to give notice to any person or corporation other than the State, the Authority, and the owners of any New York Downtown Hospital Secured Hospital Bonds, or any trustee acting on their behalf, any right, remedy or claim under or by reason of this Contract or any provision thereof.

7.8 This Contract supersedes and replaces the Secured Hospital Revenue Bond Service Contract, dated as of February 1, 1998 as it relates to the Series 1998I Bonds.

IN WITNESS WHEREOF, the State has caused this Service Contract to be executed in its name by the Director of the Budget and the Authority has caused this instrument to be signed by its Executive Director as its duly authorized officer all as of the 30th day of March, 2011.

Witness as to the State of New York	STATE OF NEW YORK
______________________________	________________________ Director of the Budget
Witness as to the Dormitory Authority	DORMITORY AUTHORITY OF THE STATE OF NEW YORK
______________________________	________________________ Authorized Officer

Approved as to form:

ATTORNEY GENERAL	STATE COMPTROLLER
By ______________________________	By ________________________
Date__________________	Date__________________

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION

The following is a summary of certain provisions of the Master Resolution. Such summary does not purport to be complete and reference is made to the Master Resolution for full and complete statements of each of its provisions. Defined terms used in this Appendix shall have the meanings ascribed to them in Appendix F. Unless otherwise indicated, references to section numbers herein refer to sections in the Master Resolution.

Master Resolution, the Series Resolutions and the Bonds Constitute Separate Contracts

The Master Resolution authorizes the issuance by the Authority, from time to time, of its Secured Hospital Revenue Bonds in one or more Series, each such Series to be authorized by a separate Applicable Series Resolution and, inter alia, to be separately secured from each other Series of Bonds. Each such Series of Bonds shall be separate and apart from any other Series of Bonds authorized by a different Series Resolution and the Holders of Bonds of such Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series of Bonds by the Applicable Series Resolution authorizing such Series of Bonds. With respect to each Applicable Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of an Applicable Series authorized to be issued under the Master Resolution and under the Applicable Series Resolution by those who shall hold or own the same from time to time, the Master Resolution and the Applicable Series Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of the Bonds of an Applicable Series, and the pledge and assignment made in the Master Resolution 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 the Bonds of such Series, 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 Bonds of a Series over any other Bonds of such Series except as expressly provided in the Master Resolution or permitted by the Master Resolution or by the Applicable Series Resolution or the Applicable Bond Series Certificate.

(Section 1.03)

Option of Authority to Assign Certain Rights and Remedies to the Trustee

Upon the happening of the failure of the State to advance moneys under the Applicable Service Contract securing a Series of Bonds, the Authority shall, assign to the Trustee for the benefit of the Bondholders of the Applicable Series all of its right, title and interest in and to the Applicable Service Contract, the Applicable Loan Agreement and the Applicable Mortgage to exercise any of the remedies provided thereby for the enforcement of the obligations of the Institution and the State to make the payments thereunder, including the right to declare the indebtedness under the Applicable Loan Agreement and the Applicable Mortgage immediately due and payable; provided, however, that the Authority may retain the right to the payment of the fees, costs and expenses of the Authority payable pursuant to such Loan Agreement and Mortgage, the right to the indemnities provided thereby, the right to the payments, if any, required to be made pursuant to such indemnities and the right to exercise any of the remedies available thereunder for the enforcement of the obligations of the Institution, the rights to which have been retained by the Authority. Such assignment shall be made by the execution and delivery to the Trustee of documents of assignment in form and substance reasonably acceptable to the Trustee making the request to the Authority to assign said documents to the Trustee.

In the event the Authority grants, pledges and assigns to the Trustee any of its rights as provided in this Section, 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)

Refunding Bonds

All or any portion of one or more Series of Refunding Bonds may be authenticated and delivered to refund all Outstanding Bonds of one or more Series of Bonds, to refund all or one or more series of Secured Hospital Revenue Bonds, a portion of a Series of Outstanding Bonds or a portion of a series of Secured Hospital Revenue Bonds, a portion of a maturity of a Series of Outstanding Bonds, or a portion of a maturity of Secured Hospital Revenue Bonds. The Authority by resolution of its members may issue Refunding Bonds of a Series 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 this Section and of the Series Resolution authorizing such Series of Refunding Bonds 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 such Refunding Bonds shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or determined in accordance with the Series Resolution authorizing such Refunding Bonds.

(Section 2.04)

Additional Obligations

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, entitled to a charge or lien or right prior or equal to the charge or lien created by the Master Resolution and pursuant to an Applicable Series Resolution, or prior or equal to the rights of the Authority and Holders of an Applicable Series of Bonds provided by the Master Resolution or with respect to the moneys pledged under the Master Resolution or pursuant to an Applicable Series Resolution.

(Section 2.05)

Redemption at Demand of the State

The State of New York may, upon furnishing sufficient funds therefor, require the Authority to redeem Bonds in accordance with the provisions of Section 14 of the New York State Medical Care Facilities Finance Agency Act, being Chapter 392 of the Laws of New York 1973, as amended.

(Section 4.02)

Pledge of Revenues

The proceeds from the sale of an Applicable Series of Bonds, the Applicable Revenues and all funds authorized by the Master Resolution and established pursuant to an Applicable Series Resolution, other than an Applicable Arbitrage Rebate Fund, are by the Master Resolution, subject to the adoption of an Applicable Series Resolution, 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 Applicable Series of Bonds and as security for the performance of any other obligation of the Authority under the Master Resolution and under an Applicable Series Resolution with respect to such Series, all in accordance with the provisions of the Master Resolution and the Series Resolution. The pledge made by the Master Resolution subject to the adoption of an Applicable Series Resolution, shall relate only to the Bonds of an Applicable Series authorized by a Series Resolution and no other Series of Bonds and such pledge shall not secure any such other Series of Bonds. The pledge made by the Master Resolution is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of the Applicable Series of Bonds, the Applicable Revenues and all funds and accounts established by the Master Resolution and pursuant to the Applicable Series Resolution which are pledged by the Master Resolution and pursuant to the Applicable Series 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 of each Applicable Series shall be special obligations of the Authority payable from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the Applicable Revenues and the funds established by the Master Resolution and pursuant to the Applicable Series Resolution, which pledge shall constitute a first lien thereon.

(Section 5.01)

Establishment of Funds

Unless otherwise provided by the Applicable Series Resolution, the following funds are authorized to be established, held and maintained for each Applicable Series by the Trustee under the Applicable Series Resolution separate from any other funds established and maintained pursuant to any other Series Resolution:

Construction Fund;
Debt Service Fund;
Capital Reserve Fund;
Special Debt Service Reserve Fund; and
Arbitrage Rebate Fund

Accounts and sub-accounts within each of the foregoing funds may from time to time be established in accordance with an Applicable Series Resolution, an Applicable Bond Series Certificate or upon the direction of the Authority. All moneys at any time deposited in any fund created by the Master Resolution, other than the Applicable Arbitrage Rebate Fund, shall be held in trust for the benefit of the Holders of the Applicable Series of Bonds, but shall nevertheless be disbursed, allocated and applied solely in connection with an Applicable Series of Bonds for the uses and purposes provided in the Master Resolution.

(Section 5.02)

Application of Bond Proceeds and Allocation Thereof

Upon the receipt of proceeds from the sale of an Applicable Series of Bonds, the Authority shall apply such proceeds as specified in the Master Resolution and in an Applicable Series Resolution authorizing such Series or in the Applicable Bond Series Certificate.

Accrued interest, if any, received upon the delivery of an Applicable Series of Bonds shall be deposited in the appropriate account in the Applicable Debt Service Fund unless all or any portion of such amount is to be otherwise applied as specified in the Applicable Series Resolution or the Applicable Bond Series Certificate.

(Section 5.03)

Application of Moneys in the Construction Fund

1. For purposes of internal accounting, an account in an Applicable Construction Fund may contain one or more subaccounts, as the Authority or the Trustee may deem necessary or desirable. As soon as practicable after the delivery of an Applicable Series of Bonds, the Trustee shall deposit in the appropriate account in the Applicable Construction Fund the amount required to be deposited therein pursuant to the Applicable Series Resolution, the Applicable Loan Agreement or the Applicable Bond Series Certificate. In addition, the Authority shall remit to the Trustee and the Trustee shall deposit in the appropriate account in the Applicable Construction Fund any moneys paid or instruments payable to the Authority derived from insurance proceeds or condemnation awards from the Applicable Project.

2. Except as otherwise provided in the Master Resolution and in the Applicable Series Resolution or Applicable Bond Series Certificate, moneys deposited in the Applicable Construction Fund shall be used only to pay

the Costs of Issuance of the Bonds issued in connection with such Series Resolution or Bond Series Certificate and the Costs of the Project in connection with which such Bonds were issued.

3. Payments for Costs of an Applicable Project shall be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates 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. Such certificate or certificates shall be substantiated by a certificate filed with the Authority signed by an Authorized Officer of the Institution, describing in reasonable detail the purpose for which moneys were used and the amount thereof, and further stating that such purpose constitutes a necessary part of the Costs of such Project except that payments to pay interest on the Applicable Series of Bonds shall be made by the Trustee upon receipt of, and in accordance with, the direction of an Authorized Officer of the Authority directing the Trustee to transfer such amount from the Applicable Construction Fund to the Applicable Debt Service Fund.

4. Any proceeds of insurance, condemnation or eminent domain awards received by the Trustee, the Authority or an Institution with respect to a Project or the Applicable Mortgaged Property shall be deposited in the appropriate account in the Applicable Construction Fund and, if necessary, such fund may be reestablished for such purpose and if not used to repair, restore or replace such Project, transferred to the Applicable Debt Service Fund for the redemption of the Applicable Series of Bonds in accordance with the Applicable Loan Agreement.

5. An Applicable Project shall be deemed to be complete (a) upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the Institution which certificate shall be delivered as soon as practicable after the date of completion of such Project or (b) upon delivery to the Institution and the Trustee of a certificate of the Authority which certificate may be delivered at any time after completion of such Project. Each such certificate shall state that such Project has been completed substantially in accordance with the plans and specifications, if any, applicable to such Project and that such Project is ready for occupancy, and, in the case of a certificate of an Authorized Officer of such Institution, shall specify the date of completion.

Upon receipt by the Trustee of the certificate required pursuant to this subdivision, the moneys, if any, then remaining in the Applicable Construction Fund, after making provision in accordance with the direction of the Authority for the payment of any Costs of Issuance of such Applicable Series of Bonds and Costs of the Applicable Project then unpaid, shall be paid by the Trustee as follows and in the following order of priority:

First: Upon the direction of the Authority, to the Applicable Arbitrage Rebate Fund, the amount set forth in such direction;

Second: To the Applicable Capital Reserve Fund, such amount as shall be necessary to make the amount on deposit in such fund equal to the Applicable Capital Reserve Fund Requirement;

Third: To the Applicable Special Debt Service Reserve Fund, such amount as shall be necessary to make the amount on deposit in such fund equal to the Applicable Special Debt Service Reserve Fund Maximum Deposit or such additional amount as may be determined by the Authority; and

Fourth: To the Applicable Debt Service Fund for the redemption or purchase of the Applicable Series of Bonds in accordance with the Master Resolution and the Applicable Series Resolution, any balance remaining.

(Section 5.04)

Deposit of Revenues and Allocation Thereof

1. The Applicable Revenues, including all payments received under the Applicable Loan Agreement and Mortgage and any moneys advanced under the Applicable Service Contract, shall be deposited upon receipt by the Trustee to the appropriate account of the Applicable Debt Service Fund. To the extent not required to pay, (a) the interest, principal and Sinking Fund Installments becoming due on Outstanding Bonds of the Applicable Series on the next succeeding interest payment date of such Bonds; and (b) moneys which are required or have been set

aside for the redemption of Bonds of the Applicable Series, moneys in the Applicable Debt Service Fund shall be paid by the Trustee on or before the business day preceding each interest payment date as follows and in the following order of priority:

First: To the Applicable Capital Reserve Fund, the amount, if any, necessary to make the amount on deposit therein equal to the Applicable Capital Reserve Fund Requirement; and

Second: If directed by the Authority, to the Applicable Special Debt Service Reserve Fund, the amount, if any, necessary to make the amount on deposit therein equal to the Applicable Special Debt Service Reserve Fund Maximum Deposit; and

Third: To the Authority, unless otherwise paid, such amounts as are payable to the Authority relating to such Series for: (i) any expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Paying Agents, all as required by the Master Resolution, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of the Applicable Project, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Applicable Loan Agreement or Applicable Mortgage in accordance with the terms thereof, and (iii) the Annual Administrative Fee of the Authority; but only upon receipt by the Trustee of a certificate of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to the third paragraph of this Section.

2. After making the payments required by subdivision 1 of this Section, any balance remaining in the Applicable Debt Service Fund on the immediately succeeding February 15, shall be paid by the Trustee upon and in accordance with the direction of the Authority. The Trustee shall notify the Authority promptly after making the payments required by subdivision 1 of this Section of any balance remaining in the Applicable Debt Service Fund on the immediately succeeding February 15.

3. Notwithstanding the provisions of subdivision 1 of this Section or of the following Section, the Authority may, at any time subsequent to February 15 or August 15, as applicable of any Bond Year but in no event less than forty-five (45) days prior to the succeeding February 15 or August 15, as applicable on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Applicable Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Term Bonds of the Applicable Series to be redeemed from such Sinking Fund Installment. Any such Term Bond so purchased and any Term Bond purchased by the Institution and delivered to the Trustee in accordance with the Applicable Loan Agreement shall be cancelled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of such Term Bond so cancelled shall be credited against the Sinking Fund Installment due on such fifteenth day of February or August, as applicable; provided that such Term Bond is cancelled by the Trustee prior to the date on which notice of redemption is given.

4. Notwithstanding the provisions of subdivision 1 and 2 of this Section, in the event there is a payment under the Applicable Service Contract or repayment of more than one month's payment due under the Applicable Loan Agreement and Mortgage, the Authority may direct the Trustee to retain in the Applicable Debt Service Fund such amounts as shall be necessary to assure the continued timely payment of the interest due, maturing principal of and Sinking Fund Installments on the Applicable Series of Bonds.

(Section 5.05)

Debt Service Fund

1. The Trustee shall on or before the business day preceding each interest payment date pay, from the Applicable Debt Service Fund, to itself and any other Paying Agent:

(a) the interest due on all Outstanding Bonds of the Applicable Series on such interest payment date;

(b) the principal amount due on all Outstanding Bonds of the Applicable Series on such interest payment date;

(c) the Sinking Fund Installments, if any, due on all Outstanding Bonds of the Applicable Series on such interest payment date; and

(d) moneys required for the redemption of Bonds of the Applicable Series.

The amounts paid out pursuant to this Section shall be irrevocably pledged to and applied to such payments.

2. In the event that (i) on the fourth business day preceding any interest payment date the amount in the Applicable Debt Service Fund shall be less than the amounts, respectively, required for payment of interest on the Outstanding Bonds of the Applicable Series, for the payment of principal of such Outstanding Bonds, and for the payment of Sinking Fund Installments of such Outstanding Bonds due and payable on such interest payment date or (ii) on the fourth business day preceding any purchase date or redemption date the Applicable Debt Service Fund shall be less than the amounts, respectively, required for the payment of the purchase price or Redemption Price of such Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, the Trustee shall withdraw from the Applicable Special Debt Service Reserve Fund and deposit to the Applicable Debt Service Fund such amounts as will increase the amount in the Debt Service Fund to an amount sufficient to make such payments.

The Trustee shall notify the Authority, the Commissioner of Health and the Director of the Budget of a withdrawal from the Applicable Special Debt Service Reserve Fund.

3. In the event the amount in the Applicable Debt Service Fund, after providing for the transfers from the Applicable Special Debt Service Reserve Fund pursuant to subdivision 2 of this Section, shall be less than the amount, respectively, required (i) for payment of interest on the Outstanding Bonds of an Applicable Series, for the payment of principal of such Outstanding Bonds, for the payment of Sinking Fund Installments of such Outstanding Bonds due and payable on such interest payment date and (ii) for the payment to the purchase price or Redemption Price of such Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, the Trustee shall withdraw from the Applicable Capital Reserve Fund such amounts as will increase the amount in the Applicable Debt Service Fund to an amount sufficient to make such payments. The Trustee shall notify the Authority, the Commissioner of Health and the Director of the Budget of a withdrawal from the Applicable Capital Reserve Fund.

4. Monies derived from payments under the Applicable Services Contract shall be applied to pay principal or Sinking Fund Installments of or interest on an Applicable Series of Bonds, only in the event the amounts on deposit in the Applicable Debt Service Fund, after providing for the transfers in this Section, are insufficient for such purpose.

(Section 5.06)

Capital Reserve Fund

1. The Trustee shall deposit to the credit of the appropriate account in the Applicable Capital Reserve Fund such proceeds of the sale of Bonds of the Applicable Series, if any, as shall be prescribed in the Applicable Series Resolution or the Applicable Bond Series Certificate, and any moneys, Government Obligations and Exempt Obligations as are delivered to the Trustee by an Institution for deposit to the Applicable Capital Reserve Fund.

2. Moneys held for the credit of an Applicable Capital Reserve Fund shall be withdrawn by the Trustee and applied to the payment of interest, principal and Sinking Fund Installments at the times and in the amounts required to comply with the provisions of the preceding Section.

3. Moneys and investments held for the credit of the Applicable Capital Reserve Fund in excess of the Applicable Capital Reserve Fund Requirement shall be withdrawn by the Trustee and deposited, upon direction of the Authority, in the Applicable Arbitrage Rebate Fund, the Applicable Debt Service Fund or the Applicable Construction Fund or applied to the redemption of Bonds of the Applicable Series in accordance with such direction.

4. If, upon a valuation, the value of all moneys, Government Obligations, Exempt Obligations and Investment Agreements held for the credit of the Applicable Capital Reserve Fund is less than the Applicable Capital Reserve Fund Requirement, the Applicable Trustee shall immediately notify the Authority and the Institution of such deficiency. Such Institution shall, as soon as practicable, but in no event later than five (5) days after receipt of such notice, deliver to the Trustee moneys, Government Obligations or Exempt Obligations the value of which is sufficient to increase the amount in the Applicable Capital Reserve Fund to the Applicable Capital Reserve Fund Requirement.

(Section 5.07)

Special Debt Service Reserve Fund

1. The Trustee shall deposit into the Applicable Special Debt Service Reserve Fund any monies made available from time to time by the Commissioner of Health and the Director of the Budget for the purposes of the Special Debt Service Reserve Fund and any other monies which may be made available to the Authority for the purpose of the Applicable Special Debt Service Reserve Fund from any other source or sources. The Authority shall deposit into the Applicable Special Debt Service Reserve Fund monies received pursuant to the Applicable Tri-Party Agreement until the aggregate amount so deposited equals the Applicable Special Debt Service Reserve Fund Maximum Deposit.

2. Monies and securities held for the credit of the Special Debt Service Reserve Fund shall be transferred by the Trustee to the Applicable Debt Service Fund at the times and in the amounts required to comply with the provisions regarding payments from the Applicable Debt Service Fund.

3. Any income or interest earned by, or increment to, an Applicable Special Debt Service Reserve Fund due to the investment thereof accruing during a Bond Year shall be transferred by the Trustee, on the last day of such Bond Year, to the Authority for deposit in the Secured Hospital Fund, but only to the extent that any such transfer will not reduce the amount of the Applicable Special Debt Service Reserve Fund below the aggregate amount of the Applicable Special Debt Service Reserve Maximum Deposit.

(Section 5.08)

Application of Moneys in the Debt Service Fund for Redemption of Bonds

1. Moneys delivered to the Trustee, which by the provisions of an Applicable Loan Agreement, the Applicable Service Contract, the Applicable Series Resolution or the Master Resolution are to be applied for redemption of the Applicable Series of Bonds, shall upon receipt by the Trustee be deposited to the credit of the appropriate account in the Applicable Debt Service Fund for such purpose.

2. In the event that on any interest payment date the amount in the Applicable Debt Service Fund, exclusive of amounts therein deposited for the redemption of an Applicable Series of Bonds, shall be less than the amounts respectively required for payment of interest on Outstanding Bonds of such Series, for the payment of principal of such Outstanding Bonds or for the payment of Sinking Fund Installments of such Outstanding Bonds of such Series due and payable on such interest payment date, the Trustee shall, after the withdrawals made from the Applicable Special Debt Service Reserve Fund and Applicable Capital Reserve Fund pursuant to the Master Resolution, apply moneys in the Applicable Debt Service Fund deposited therein for the redemption of such Bonds (other than moneys required to pay the Redemption Price of any such Outstanding Bonds theretofore called for redemption or to pay the purchase price of Outstanding Bonds of such Series 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 Installments of such Bonds, respectively.

3. Subject to the provisions of the preceding paragraph, moneys in the Applicable Debt Service Fund to be used for redemption of Bonds of an Applicable Series shall be applied by the Trustee to the purchase of Outstanding Bonds of such 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 the Authority shall direct.

4. Notwithstanding the provisions of the preceding paragraph of this Section, if the amount in the Applicable Debt Service Fund at any time (other than moneys required to pay the Redemption Price of any Outstanding Bonds of an Applicable Series theretofore called for redemption or to pay the purchase price of such 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 Master Resolution for the payment of such Outstanding Bonds at the maturity or redemption date thereof, the Authority may request the Trustee to take such action consistent with the Master Resolution as is required thereby to deem certain of such Bonds to have been paid within the meaning of the Master Resolution. The Trustee, upon receipt of such request, the irrevocable instructions required by the Master Resolution and irrevocable instructions of the Authority to purchase direct obligations of the United States of America sufficient to make any deposit required thereby, shall comply with such request.

(Section 5.09)

Arbitrage Rebate Fund

The Trustee shall deposit to the appropriate account in the Applicable Arbitrage Rebate Fund any moneys delivered to it by the Institution for deposit therein and, notwithstanding any other provisions of Article 5 of the Master Resolution, shall transfer to the Applicable Arbitrage Rebate Fund, in accordance with the directions of the Authority, moneys on deposit in any other funds held by such Trustee under the Master Resolution at such times and in such amounts as shall be set forth in such directions.

Moneys on deposit in the Applicable Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction 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 the Authority determines to be in excess of the amount required to be so rebated shall be deposited to any Applicable Fund in accordance with the directions of the Authority.

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 Applicable Series of Bonds and direct the Trustee to (i) transfer from any other of the Applicable funds held by the Trustee under the Master Resolution and deposit to the Applicable Arbitrage Rebate Fund, all or a portion of the Excess Earnings with respect to such Series of Bonds and (ii) pay out of the Applicable 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 5.10)

Application of Moneys in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions of the Master Resolution, if, upon the computation of assets of an Applicable Debt Service Fund and the Applicable Capital Reserve Fund pursuant to the Master Resolution, the amounts held in the appropriate accounts in the Applicable Debt Service Fund and the Applicable Capital Reserve Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of the Applicable Series and the interest accrued and to accrue on such Bonds to the next date of redemption when all such Bonds be redeemable, the Trustee shall so notify the Authority and the Institution. Upon receipt of such notice, the Authority may request 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 Master Resolution and by the Applicable Series Resolution.

(Section 5.11)

Computation of Assets of Certain Funds

The Trustee, as promptly as practicable (i) after the end of each calendar month, (ii) upon the request of the Authority, (iii) upon the request of an Institution, but not more frequently than once a calendar month, and (iv) at such other times as may be necessary in connection with a withdrawal and deposit made pursuant to the Master Resolution, shall compute the value of the assets in the Applicable Capital Reserve Fund and the Applicable Special Debt Service Reserve Fund, in the case of the requirement under (i) above, on the last day of each such month, in the case of a request pursuant to (ii) or (iii) above, at the date of such request, or, in the case of a withdrawal and deposit, at the date of such withdrawal and deposit, and notify the Authority and the Institution as to the results of such computation and the amount by which the value of the assets (i) in the Applicable Capital Reserve Fund exceeds or is less than the Applicable Capital Reserve Fund Requirement or (ii) in the Applicable Special Debt Reserve Fund exceeds or is less than the Applicable Special Debt Service Reserve Fund Maximum Deposit.

(Section 5.13)

Investment of Funds Held by the Trustee

1. Moneys held under the Master Resolution by the Trustee in an Applicable Debt Service Fund, Applicable Construction Fund, Applicable Capital Reserve Fund, Applicable Special Debt Service Reserve Fund and Applicable Arbitrage Rebate Fund, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority (which direction shall specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations, Exempt Obligations, and, if not inconsistent with the investment guidelines of an Applicable Credit Facility Provider or a Rating Service applicable to funds held under the Master Resolution any other Permitted Investment, **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 Master Resolution; **provided, further**, that (x) any Permitted Collateral required to secure any Permitted Investment 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.

2. Permitted Investments purchased or other investments made as an investment of moneys in any fund or account held by the Trustee under the provisions of the Master 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, as the case may be, to such fund or account.

3. In computing the amount in any fund or account held by the Trustee under the provisions of the Master Resolution, each Permitted Investment shall be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in a Capital Reserve Fund and a Special Debt Service Reserve Fund shall be valued at the market value thereof, plus accrued interest.

4. The Authority, in its discretion, may direct the Trustee to, and the Trustee shall, sell, or present for redemption or exchange any investment held by the Trustee pursuant to the Master Resolution and the proceeds thereof may be reinvested as provided in the Master Resolution. Except as otherwise provided in the Master Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant to the Master Resolution 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 and the Institution 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 under the Master Resolution and of the details of all investments held for the credit of each fund and account in its custody under the provisions of the Master Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of the Master Resolution for such investments. 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.

5. No part of the proceeds of any Applicable Series of Bonds or any other funds of the Authority shall be used directly or indirectly to acquire any securities or investments the acquisition of which would cause any Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code.

(Section 6.02)

Enforcement of Duties and Obligations of the Institution

The Authority shall take all legally available action to cause an Institution to perform fully all duties and acts and comply fully with the covenants of such Institution required by the Applicable Mortgage and Loan Agreement in the manner and at the times provided in such Mortgage or Loan Agreement; provided, however, that the Authority may delay, defer or waive enforcement of one or more provisions of said Mortgage or Loan Agreement (other than provisions requiring the payment of moneys or the delivery of securities to the Trustee for deposit to any fund or account established under the Master Resolution) if the Authority determines such delay, deferment or waiver will not materially adversely affect the interests of the Holders of the Bonds of an Applicable Series.

(Section 7.06)

Deposit of Certain Moneys in the Construction Fund

In addition to the proceeds of Bonds of an Applicable Series to be deposited in the Applicable Construction Fund, any moneys paid or letter of credit or other security payable to the Authority for the acquisition, construction, reconstruction, renovation or equipment of an Applicable Project and any moneys received in respect of damage to or condemnation of such Project shall be deposited in the Applicable Construction Fund.

(Section 7.07)

Amendment of Service Contract

An Applicable Service Contract may not be amended, changed, modified, altered or terminated so as to materially adversely affect the interest of the Holders of Outstanding Bonds without the prior written consent of (a) the Holders of at least fifty-one percent (51%) in principal amount of such Bonds then Outstanding, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modifications or amendments, the Holders of not less than fifty-one percent (51%) in principal amount of the Bonds of each Series so affected than Outstanding; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified Series remain Outstanding, the consent of the 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 the Master Resolution; and provided, further, that no such amendment, change, modification, alteration or termination will reduce the percentage of the aggregate principal amount of Outstanding Bonds the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment to be made under the Service Contract or extend the time of payment thereof. An Applicable Service Contact may be amended, changed, modified or altered with the consent of the Trustee but without the consent of the Holders of Outstanding Series of Bonds to provide necessary changes in connection with the acquisition, construction, reconstruction, rehabilitation and improvement or otherwise providing, furnishing and equipping of a Project or the issuance of a Series of Bonds, to cure any ambiguity, or to correct or supplement any provisions contained in the Applicable Service Contract which may be defective or inconsistent with any other provisions contained in the Master Resolution or in the Applicable Service Contract. No amendment to the Applicable Service Contract shall become effective until an executed copy thereof certified by an Authorized Officer of the Authority shall be filed with the Trustee.

(Section 7.10)

Amendment of Mortgage or Loan Agreement

No Loan Agreement shall be modified in a manner detrimental to Bondholders; **provided, however**, an Applicable Loan Agreement may be modified so long as the Applicable Institution shall be obligated to make all payments required thereunder to allow the Trustee to comply with the payment terms of the Master Resolution, as amended, and the payment terms of the Applicable Series Resolution, as amended and an Applicable Loan Agreement and Applicable Mortgage may be modified in connection with the issuance of a Series of Bonds to refund and defease all of the Bonds of such Applicable Series to conform to the terms of the Refunding Bonds and the Series Resolution authorizing the issuance of such Refunding Bonds. Principal payments of an Applicable Loan Agreement and Mortgage may not be extended or deferred without delivery of a certificate of an Authorized Officer of the Trustee that such deferral or extension will not adversely affect the Authority's ability to pay interest coming due, Sinking Fund Installments, when due, or principal at maturity of the Applicable Series of Bonds.

(Section 7.11)

Notice as to Event of Default Under Loan Agreement

The Authority shall notify the Applicable Trustee in writing that an "Event of Default" under an Applicable Loan Agreement, as such term is defined in such Loan Agreement, has occurred and is continuing, which notice shall be given within five (5) days after the Authority has obtained actual knowledge thereof.

(Section 7.12)

Compliance with and Pledge of Service Contract

In order to assure the timely payment of all amounts to be received pursuant to the terms of any Service Contract, the Authority covenants to fully comply with the requirements of each Service Contract and does by the Master Resolution pledge for the benefit of the Applicable Bondholders its interest in the Applicable Service Contract. The pledge of such Service Contract for the benefit of the Bondholders shall be valid and binding from and after the date of adoption of this Resolution, and each such Service Contract 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 and binding 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.

(Section 7.13)

Tax Exemption: Rebates

In order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Bonds of each Applicable Series, the Authority shall comply with the provisions of the Code applicable to the Bonds of each Applicable Series, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of each Applicable Series of Bonds, reporting of earnings on the Gross Proceeds of each Applicable 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 letter of instructions as to compliance with the Code with respect to each such Series of Bonds, to be delivered by Bond Counsel at the time the Bonds of an Applicable Series are issued, as such 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, which would cause the Bonds of an Applicable Series to be "arbitrage bonds" within the meaning or Section 148(a) of the Code.

Notwithstanding any other provision of the Master Resolution to the contrary, the Authority's failure to comply with the provisions of the Code applicable to the Bonds of an Applicable Series shall not entitle the Holder of Bonds of any other Applicable Series, or the Trustee acting on their behalf, to exercise any right or remedy provided to Bondholders under the Master Resolution based upon the Authority's failure to comply with the provisions of this Section of the Master Resolution or of the Code.

(Section 7.14)

Modification and Amendment Without Consent

Notwithstanding any other provisions of the Master Resolution, the Authority may adopt at any time or from time to time Supplemental Resolutions for any one or more of the following purposes, and any such Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by the Authority:

(a) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds of an Applicable Series, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Master Resolution;

(b) To prescribe further limitations and restrictions upon the issuance of Bonds of an Applicable Series and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(c) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Master 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 in the Master Resolution;

(d) To confirm, as further assurance, any pledge under, and the subjection to any lien, claim or pledge created or to be created by the provisions of, the Master Resolution, or any Applicable Series Resolution, the Applicable Revenues, the Applicable Mortgage, or any pledge of any other moneys, securities or funds;

(e) To modify any of the provisions of the Master Resolution or of any previously adopted Applicable Series Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of an Applicable Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution shall cease to be Outstanding, and all Bonds of an Applicable Series issued under an Applicable Series Resolution shall contain a specific reference to the modifications contained in such subsequent resolutions; or

(f) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Master Resolution or to insert such provisions clarifying matters or questions arising under the Master Resolution as are necessary or desirable, provided that any such modifications are not contrary to or inconsistent with the Master Resolution as theretofore in effect, or to modify any of the provisions of the Master Resolution or of any previously adopted Applicable Series Resolution or Applicable Supplemental Resolution in any other respect, provided that such modification shall not adversely affect the interests of the Holders of Bonds of an Applicable Series in any material respect.

(Section 9.02)

Applicable Supplemental Resolutions Effective With Consent of Bondholders

The provisions of the Master Resolution and an Applicable Series Resolution may also be modified or amended at any time or from time to time by an Applicable Supplemental Resolution, subject to the consent of the Applicable Bondholders in accordance with and subject to the provisions of Article 10 of the Master Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by the Authority.

(Section 9.03)

Powers of Amendment

Any modification or amendment of the Master Resolution and of the rights and obligations of the Authority which shall be deemed to affect an Applicable Series of Bonds and of the Holders of the Bonds of such Applicable Series under the Master Resolution, in any particular, may be made by an Applicable Supplemental Resolution, with the written consent given as provided in the Master Resolution, (i) of the Holders of at least two-thirds (2/3) in principal amount of the Bonds Outstanding of an Applicable Series at the time such consent is given, or (ii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least two-thirds (2/3) in principal amount of the Bonds of the Applicable 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 Applicable 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 the Master Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond of an Applicable Series 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 of an Applicable Series the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of the Master Resolution, an Applicable Series shall be deemed to be affected by a modification or amendment of the Master Resolution if the same 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, the Bonds of an Applicable Series or maturity would be affected by any modification or amendment of the Master Resolution and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds of an Applicable Series. The Trustee may receive an opinion of counsel, including an opinion of Bond Counsel, as conclusive evidence as to whether the Bonds of an Applicable Series or maturity would be so affected by any such modification or amendment of the Master Resolution.

(Section 10.01)

Modifications by Unanimous Consent

The terms and provisions of the Master Resolution and the rights and obligations of the Authority and of the Holders of the Bonds of an Applicable Series under the Master Resolution may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of such Supplemental Resolution certified by the Authority and the consent of the Holders of all of the Bonds then Outstanding of the Applicable Series, such consent to be given as provided in the Master Resolution, except that no notice to such Bondholders either by mailing or publication shall be required.

(Section 10.03)

Events of Default

An event of default shall exist under the Master Resolution and under an Applicable Series Resolution (in the Master Resolution called "event of default") if:

(a) With respect to the Applicable Series of Bonds, payment of the principal, Sinking Fund Installments or Redemption Price of any such 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) With respect to the Applicable Series of Bonds, payment of an installment of interest on any such Bond shall not be made by the Authority when the same shall become due and payable; or

(c) With respect to the Applicable Series of Bonds, the Authority shall default in the due and punctual performance of the covenants contained in Section 7.14 of the Master Resolution or any similar covenants contained in the Applicable Series Resolution and, as a result thereof, the interest on the Bonds of such Series shall no longer be excludable from gross income under Section 103 of the Code; or

(d) With respect to the Applicable Series of Bonds, the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions for the benefit of the holders of such Bonds contained in the Master Resolution or in the Bonds of such Series or in the Applicable 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 the 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 of the Applicable Series; or

(e) The State shall fail to pay to the Authority such amount as shall be certified by the Chair of the Authority pursuant to such provision of the Applicable Service Contract, as the State's contractual obligation.

An Event of Default under the Master Resolution in respect of an Applicable Series of Bonds shall not in and of itself be or constitute an Event of Default in respect of any other Applicable Series of Bonds.

(Section 11.02)

Acceleration of Maturity

Upon the happening and continuance of any event of default specified in the Master Resolution, other than an event of default relating to the covenant to maintain tax-exemption then and in every such case the Trustee 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 Applicable Series shall, by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds of the Applicable Series 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 Master Resolution or in the Applicable Series Resolution or in the Applicable Series of Bonds to the contrary notwithstanding. At any time after the principal of the Bonds of an Applicable Series 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 Master Resolution, the Trustee may with the written consent of the Holders of not less than twenty-five per centum (25%) in principal amount of such Series of Bonds not then due by their terms and then Outstanding, by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Applicable Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Outstanding Bonds of such Series (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 incurred in connection with such Series of Bonds; (iii) all other amounts then payable by the Authority under the Master Resolution in connection with such Series of Bonds and under such Series 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 such covenant, condition or agreement contained in the Master Resolution or in such Series Resolution or in such Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration under this Section) 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 the Master Resolution, 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 of the Applicable Series, shall proceed, to protect and enforce its rights and the rights of the Holders of Bonds of the Applicable Series under the Master Resolution or under such Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Master Resolution or under such Series Resolution or in aid or execution of any power in the Master Resolution or 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, including the foreclosure of any Applicable Mortgage assigned to the Trustee. In the enforcement of any remedy under the Master Resolution and under the Applicable Series Resolution the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions of the Master Resolution or of the Applicable Series Resolution or of the Applicable Series of Bonds, with interest or overdue payment of the principal of and interest on such 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 Master Resolution and under any Applicable Series Resolution and under 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 Master Resolution, in the Applicable Series Resolution and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in the manner provided by law, the moneys adjudged or decreed to be payable.

(Section 11.04)

Limitation of Rights of Individual Bondholders

No Holder of any of the Bonds of an Applicable Series shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Master Resolution or under any Applicable Series Resolution, or for any other remedy under the Master 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 of an Applicable Series or, in the case of an event of default specified for maintaining the tax-exempt status of the Bonds, the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series, 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 Master 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 by the Master Resolution 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 Master Resolution or for any other remedy under the Master Resolution and thereunder. It is understood and intended that no one or more Holders of the Bonds of an Applicable Series secured by the Master Resolution and by an Applicable Series Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Master Resolution or to enforce any right under the Master Resolution except in the manner in the Master Resolution provided, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds of such Series. Notwithstanding any other provision of the Master Resolution, the Holder of any Bond of an Applicable Series shall have the right which is absolute and unconditional to receive payment of the principal of (or Redemption Price, if any) and interest on such Bond on the stated maturity expressed in 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

1. If the Authority shall pay or cause to be paid to the Holders of the Bonds of an Applicable Series the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated therein, in the Master Resolution, and in the Applicable Series Resolution and Applicable Bonds Series Certificate, then the pledge of the Applicable Revenues or other moneys and securities pledged to such Series of Bonds and all other rights granted by the Master Resolution to such Series of Bonds shall be discharged and satisfied, and the right, title and interest of the Applicable Trustee in the Applicable Loan Agreement, the Mortgage and the Revenues shall thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Applicable Trustee, on demand of the Authority, shall release the lien of the Master Resolution and Applicable Series Resolution but only with respect to such Applicable Series, except as it covers moneys and securities provided for the payment of such Bonds, shall endorse the Applicable Mortgage for cancellation and return the same to the Applicable Institution together with a release of the Mortgage in proper form for recordation, and shall execute such documents to evidence such release as may be reasonably required by the Authority, and the Institution and shall turn over to the Institution or such person, body or authority as may be entitled to receive the same, upon such indemnification, if any, as the Authority or the Applicable Trustee may reasonably require, all balances remaining in any funds held under and all moneys or other the Applicable Series Resolution after paying or making proper provision for the payment of the principal or Redemption Price (as the case may be) of, and interest on, all Bonds of the Applicable Series and payment of expenses in connection therewith; provided that if any of such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Master Resolution and the Applicable Series Resolution or irrevocable instructions to mail such notice shall have been given to the Applicable Trustee.

2. Bonds of an Applicable Series for which moneys shall have been set aside, shall be held in trust by the Trustee for the payment or redemption thereof, (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 Master Resolution. All Outstanding Bonds of an Applicable Series or any maturity within such Series or a portion of a maturity within such 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 Master Resolution if (a) in case any of said 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 mail, as provided in Article 4 of the Master 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, as verified by the report of a firm of independent certified public accountants, provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds of an Applicable Series on and prior to the redemption date or maturity date thereof, as the case may be, (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 said Bonds at their respective last known addresses, if any, 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 this Section 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 the maturity for which payment shall be made in accordance with the Master Resolution. The Trustee shall select which Bonds of such Series and which maturity thereof shall be paid in accordance with the Master Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to the Master Resolution nor principal or interest payments on any 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, be reinvested in the 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. 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 amount required in the Master Resolution to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Applicable Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, as directed by the Authority and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Master Resolution or by such Loan Agreement.

3. Anything in the Master 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 of a Series or interest thereon which remain unclaimed for one (1) year after the date when all of the Bonds of such Series 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 one (1) year after the date of deposit of such moneys if deposited with the Trustee or Paying Agent after said date when all of the Bonds of such Series become due and payable, or one (1) year after the date when the principal or Redemption Price of or interest on the Bonds for which said moneys is held was 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 thirty (30) nor more than sixty (60) 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)

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement. Such summary does not purport to be complete and reference is made to the Loan Agreement for full and complete statements of each of its provisions. Defined terms used in this Appendix shall have the meanings ascribed to them in Appendix F. Unless otherwise indicated, references to section numbers herein refer to sections in the Loan Agreement.

Debt Service Requirement

"Debt Service Requirement" means as of any time of determination thereof, an amount equal to the aggregate of (i) with respect to the interest on Outstanding Bonds payable on the first interest payment date therefor, if such interest payment date occurs more or less than six (6) calendar months after the date of issuance of the Bonds, the amount of interest thereon payable on such interest payment date multiplied by a fraction, the numerator of which is one (1) and the denominator of which is the number of payment dates occurring prior to such interest payment date on which payments with respect to such interest are to be made pursuant to paragraph (c) of subdivision 1 under "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" herein, multiplied by the number of dates on which such payments are to be made which have occurred on or prior to the date of determination, (ii) with respect to the interest on Outstanding Bonds payable on such Bonds on an interest payment date subsequent to the first interest payment date therefor, one-sixth (1/6) of the interest payable on such Bonds on the next succeeding interest payment date on which interest on such Bonds comes due multiplied by the number of calendar months or part thereof which has elapsed since the immediately preceding interest payment date for such Bonds, (iii) with respect to the principal and Sinking Fund Installments of Outstanding Bonds payable on the February 15 next succeeding the date on which the Bonds were issued, the principal and Sinking Fund Installments thereon payable on such February 15 multiplied by a fraction, the numerator of which is one (1) and the denominator of which is the number of dates occurring prior to such February 15 on which payments with respect to such principal and Sinking Fund Installments are to be made pursuant to paragraph (d) of subdivision 1 under "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" herein, multiplied by the number of dates on which such payments are to be made which have occurred on or prior to the date of determination, and (iv) with respect to the principal and Sinking Fund Installments of Outstanding Bonds payable on the February 15 on which principal or Sinking Fund Installments thereof were payable, one-twelfth (1/12) of the amount of principal and Sinking Fund Installments of such Bonds payable on the next succeeding February 15 multiplied by the number of calendar months or part thereof which has elapsed since the immediately preceding February 15.

(Section 1)

Amendment of Project; Sale, Conveyance or Encumbrance of Project

The Project may be amended by agreements supplementing the Loan Agreement by and between the Authority, the Department of Health and the Institution, to decrease, increase or otherwise modify the scope thereof. Any such increase may provide for the addition of any further acquisition, design, construction, reconstruction, rehabilitation, renovation, improving, or otherwise providing, furnishing and equipping of the Project which the Authority is authorized to undertake.

The Institution covenants that it shall not transfer, sell, encumber, grant liens on or convey any interest in the Project, the Mortgaged Property or any part thereof or interest therein, including development rights, without the prior written consent of the Authority and the Department of Health, which consent shall be accompanied by (i) an agreement by the Institution to comply with all terms and conditions of such consent and (ii) an opinion of Bond Counsel stating that the change will have no material adverse effect on the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. As a condition to such approval, the Authority may require that the Institution pay to the Trustee for deposit in the Debt Service Fund an amount not to exceed the principal amount of the Bonds Outstanding at the date of such transfer, sale or conveyance, as such amount is determined by the Authority. Notwithstanding the foregoing, the Institution may remove equipment, furniture or fixtures in the Project or which comprise a part of the Project provided that the Institution substitutes equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced.

(Section 5)

Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments

1. Except to the extent that moneys are available therefor under the Master Resolution or the Series Resolution or under the Loan Agreement, including moneys in the Debt Service Fund, but excluding moneys from the Capital Reserve Fund, Special Debt Service Reserve Fund or the Arbitrage Rebate Fund and excluding interest accrued but unpaid on investments held in the Debt Service Fund, the Institution unconditionally agrees to pay, so long as Bonds are Outstanding, to or upon the order of the Authority, from its general funds or any other moneys legally available to it:

(a) (i) On or before the date of delivery of the Bonds, an amount set forth in the Loan Agreement to pay the Authority fee and (ii) on or before a date set forth in the Loan Agreement, the Department of Health fee and the State bond issuance charge related to the issuance of the Bonds;

(b) On or before the date of delivery of the Bonds, such amount, if any, as in the reasonable judgment of the Authority is necessary to pay the Costs of Issuance of such Bonds, and other costs in connection with the issuance of such Bonds;

(c) On the first (1st) day of each month commencing on the first (1st) day of the sixth (6th) month immediately preceding the date on which interest on Bonds becomes due, one-sixth (1/6) of the interest coming due on the Bonds on the immediately succeeding interest payment date on the Bonds; provided, however, that, if there are more or less than six (6) such payment dates prior to the first interest payment on the Bonds of such Series, on each payment date prior to such interest payment date the Institution shall pay an amount equal to the interest coming due on Bonds on such interest payment date multiplied by a fraction, the numerator of which is one (1) and the denominator of which is the number of payment dates prior to the first interest payment date on the Bonds;

(d) On the first (1st) day of each month commencing on the first (1st) day of the twelfth (12th) Month preceding the month in which a principal or a Sinking Fund Installment payment of Bonds becomes due, one-twelfth (1/12) of the principal and Sinking Fund Installment on the Bonds coming due; provided, however, that, if there are less than twelve (12) such payment dates prior to a principal or Sinking Fund Installment due date, on each loan payment date prior to such principal or Sinking Fund Installment due date, the Institution shall pay an amount equal to the principal and Sinking Fund Installment coming due multiplied by a fraction, the numerator of which is one (1) and the denominator of which is the number of loan payment dates prior to such principal or Sinking Fund Installment due date;

(e) At least forty-five (45) days prior to any date on which the Redemption Price or purchase price of Bonds previously called for redemption or contracted to be purchased is to be paid, the amount required to pay the Redemption Price or purchase price of such Bonds;

(f) On a date set forth in the Loan Agreement, and on the tenth (10) day of each month thereafter, an amount equal to one-twelfth (1/12) of the annual Department of Health fee as described in Exhibit E to the Loan Agreement;

(g) The Annual Administrative Fee through the final maturity date or earlier date or until such Bonds are no longer Outstanding;

(h) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made by it pursuant to subdivision 5 under this Section and any expenses or liabilities incurred by the Authority pursuant to Sections 22, 24 or 27 of the Loan Agreement, (iii) to reimburse the Authority for any external costs or expenses incurred by it attributable to the issuance of the Bonds or the financing or refinancing of the Project, including, but not limited to, costs and expenses of insurance and auditing, (iv) for the costs and expenses incurred by the Authority to compel full and punctual performance by the Institution of all the provisions of the Loan Agreement, or of the Mortgage or the Master Resolution or the Series Resolution in accordance with the terms of the Loan Agreement and thereof, and (v) for the fees and expenses of the Trustee and any Paying Agent in connection with performance of their duties under the Master Resolution or the Series Resolution;

(i) Promptly upon demand by the Authority (a copy of which demand shall be furnished to the Trustee), all amounts required to be paid by the Institution as a result of an acceleration pursuant to Section 28 of the Loan Agreement; and

(j) Promptly upon demand by the Authority, the difference between the amount on deposit in the Arbitrage Rebate Fund or otherwise available therefor under the Master Resolution for the payment of any rebate required by the Code to be made and the amount required to be rebated to the Department of the Treasury of the United States of America in accordance with the Code in connection with the Bonds of any Series.

Subject to the provisions of the Loan Agreement and of the Master Resolution or the Series Resolution, the Institution shall receive a credit against the amount required to be paid by the Institution during a Bond Year pursuant to paragraph (d) of this subdivision on account of a Sinking Fund Installment if, prior to the date notice of redemption is given pursuant to the Master Resolution with respect to Bonds to be redeemed through a Sinking Fund Installment payable on the next succeeding February 15, the Institution delivers to the Trustee for cancellation one or more Bonds and maturity to be so redeemed on such February 15. The amount of the credit shall be equal to the principal amount of the Bonds so delivered.

The Authority by the Loan Agreement directs the Institution, and the Institution by the Loan Agreement agrees, to make the payments required by paragraphs (c), (d), (e) and (i) of this subdivision directly to the Trustee for deposit in the Debt Service Fund and application in accordance with the Master Resolution or the Series Resolution, the payments required by paragraph (b) of this subdivision directly to the Trustee for deposit in the Construction Fund or other fund established under the Master Resolution or the Series Resolution, as directed by the Authority, the payments required by paragraph (j) of this subdivision, directly to the Trustee for deposit in the Arbitrage Rebate Fund, and the payments required by paragraphs (a), (g) and (h) of this subdivision directly to the Authority and the payments required by paragraph (f) of this sub-division directly to the Commissioner of Health.

2. Notwithstanding any provision in the Loan Agreement or in the Master Resolution or the Series Resolution to the contrary (except as otherwise specifically provided for in this subdivision 2), (i) all moneys paid by the Institution to the Trustee pursuant to paragraphs (c), (d), (e) and (i) of subdivision 1 of this Section (other than moneys received by the Trustee pursuant to Section 8.06 of the Master Resolution which shall be retained and applied by the Trustee for its own account) shall be received by the Trustee as agent for the Authority in satisfaction of the Institution's indebtedness to the Authority with respect to the interest on and principal or Redemption Price of the Bonds to the extent of such payment and (ii) the transfer by the Trustee of any moneys (other than moneys described in clause (i) of this subdivision) held by it in the Construction Fund to the Debt Service Fund in accordance with the applicable provisions of the Loan Agreement or of the Master Resolution shall be deemed, upon such transfer, receipt by the Authority from the Institution of a payment in satisfaction of the Institution's indebtedness to the Authority with respect to the Redemption Price of the Bonds to the extent of the amount of moneys transferred. Immediately after receipt or transfer of such moneys, as the case may be, by the Trustee, the Trustee shall hold such moneys in trust in accordance with the applicable provisions of the Master Resolution for the sole and exclusive benefit of the Bondholders, regardless of the actual due date or applicable payment date

of any payment to the Bondholders, except in respect to the payment to the Authority by the Trustee as provided for in Section 5.05 of the Master Resolution.

2. The obligations of the Institution to make payments or cause the same to be made under the Loan Agreement shall be absolute and unconditional and the amount, manner and time of making such payments 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 right of set-off, recoupment or counterclaim which the Institution 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 Institution to complete the Project or the completion thereof with defects, failure of the Institution to occupy or use the Project, any declaration or finding that the Bonds are or the Master Resolution or the Series Resolution is invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release the Authority from the performance of any agreements on its part in the Loan Agreement contained or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the Institution may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Institution for, or to pay, the Costs of the Project beyond the extent of moneys in the Construction Fund established for the Project.

The Loan Agreement and the obligation of the Institution to make payments under the Loan Agreement are general obligations of the Institution.

3. The Authority, for the convenience of the Institution, shall furnish to the Institution statements of the due date, purpose and amount of payments to be made pursuant to the Loan Agreement. The failure to furnish such statements shall not excuse non-payment of the amounts payable under the Loan Agreement at the time and in the manner provided by the Loan Agreement. The Institution shall notify the Authority as to the amount and date of each payment made to the Trustee by the Institution.

4. The Authority shall have the right in its sole discretion to make on behalf of the Institution any payment required pursuant to this Section which has not been made by the Institution when due. No such payment by the Authority shall limit, impair or otherwise affect the rights of the Authority under Section 28 of the Loan Agreement arising out of the Institution's failure to make such payment and no payment by the Authority or by the State pursuant to the Service Contract or from moneys advanced from the Special Debt Service Fund or the Capital Reserve Fund shall be construed to be a waiver of any such right or of the obligation of the Institution to make such payment.

5. The Institution, if there is not then an Event of Default under the Loan Agreement, shall have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid shall be deposited in accordance with the directions of the Authority in the Debt Service Fund or held by the Trustee for the payment of Bonds in accordance with Section 12.01 of the Master Resolution. Upon any voluntary payment by the Institution or any deposit in the Debt Service Fund made pursuant to subdivision 2 hereinabove, the Authority agrees to direct the Trustee to purchase or redeem Bonds in accordance with the Master Resolution or to give the Trustee irrevocable instructions in accordance with Sections 5.09 and 12.01 of the Master Resolution; provided, however, that in the event such voluntary payment is in the sole judgment of the Authority sufficient to pay all amounts then due under the Loan Agreement and under the Master Resolution or the Series Resolution, including the purchase or redemption of all Bonds Outstanding, or to pay or provide for the payment of all Bonds Outstanding in accordance with Section 12.01 of the Master Resolution, the Authority agrees, in accordance with the instructions of the Institution, to direct the Trustee to purchase or redeem all Bonds Outstanding, or to cause all Bonds Outstanding to be paid or to be deemed paid in accordance with Section 12.01 of the Master Resolution.

(Section 8)

Reserve Funds

The Institution agrees that it will at all times maintain on deposit in the Capital Reserve Fund an amount at least equal to the Capital Reserve Fund Requirement, provided that the Institution shall be required to deliver moneys, Government Obligations or Exempt Obligations to the Trustee for deposit in the Capital Reserve Fund as a result of a deficiency in such fund only after the notice required by subdivision 4 of Section 5.07 of the Master Resolution is given.

The Institution agrees that upon each delivery to the Trustee of Government Obligations, Exempt Obligations or other Securities, whether initially or upon later delivery or substitution, the Institution shall deliver to the Authority and the Trustee a certificate of an Authorized Officer of the Institution to the effect that the Institution warrants and represents that the Government Obligations, Exempt Obligations or other Securities delivered by the Institution (i) are on the date of delivery thereof free and clear of any lien, pledge, charge, security interest or other encumbrance or any statutory, contractual or other restriction that would be inconsistent with or interfere with or prohibit the pledge, application or disposition thereof as contemplated by the Loan Agreement, by the Series Resolution or by the Master Resolution and (ii) are pledged under the Loan Agreement pursuant to appropriate corporate action of the Institution duly had and taken.

(Section 9)

Security Interest in Gross Receipts

As security for the payment of all liabilities and the performance of all obligations of the Institution pursuant to the Loan Agreement, the Institution does continuously pledge, grant a security interest in, and assign to the Authority the Gross Receipts, together with the Institution's right to receive and collect the Gross Receipts and the proceeds of the Gross Receipts.

The Institution represents and warrants that no part of the Gross Receipts or any right to receive or collect the same or the proceeds thereof is subject to any lien, pledge, security interest or assignment, and that the Gross Receipts assigned pursuant to the Loan Agreement are legally available to provide security for the Institution's performance under the Loan Agreement. The Institution agrees that it shall not, without the prior written consent of the Authority and the Department of Health, after the date of the Loan Agreement create or permit the creation of any pledge, assignment, encumbrance, restriction, security interest in or other commitment of or with respect to the Gross Receipts which is prior or on a parity with the pledge made by this Section.

(Section 10)

Collection of Gross Receipts

Commencing on the date on which the Bonds are first issued and delivered and continuing until no Bonds are Outstanding, the Institution agrees to establish and maintain at a bank approved by the Authority an account designated as the "Gross Receipts Pledge Fund Account for the Project" (the "Pledge Fund") and the Institution agrees to execute and deliver in form and content satisfactory to the Authority, an account control agreement for the Pledge Fund (the "Account Control Agreement") that shall, among other things, provide a security interest therein for the benefit of the Authority under the New York Uniform Commercial Code. The Institution agrees to deposit into the Pledge Fund as and when received, its Gross Receipts. The Institution shall apply the monies in the Pledge Fund to the making of the payments required by the Loan Agreement as they become due and payable, and may withdraw monies from the Pledge Fund for any lawful purpose of the Institution including the making of such payments. If an Event of Default shall occur under the Loan Agreement or the Institution shall violate any of the conditions relating to the maintenance of, or the disbursement of monies from the Pledge Fund in accordance with the terms of the Account Control Agreement, then, in accordance with the terms of the Account Control Agreement, and so long as the Event of Default or violation continues, with the consent of the Commissioner of Health, any withdrawal from the Pledge Fund thereafter shall require the consent of the Authority and the consent of the Commissioner of Health. In taking or not taking such action the Authority may consult with and make use of the expertise of professionals knowledgeable in the health care field. The Authority may, in its sole discretion, waive any of the requirements of this Section.

(Section 11)

Mortgage(s); Lien on Fixtures, Furnishings and Equipment

At or before the delivery by the Authority of the Bonds, the Institution shall execute and deliver to the Authority a Mortgage, in recordable form, mortgaging the Mortgaged Property acceptable to the Authority, which Mortgage shall constitute a first lien on such Mortgaged Property, subject only to the Permitted Encumbrances. To the extent any provisions of the Mortgage conflict with the provisions of the Loan Agreement, the Loan Agreement shall govern.

Prior to assignment, if any, of the Mortgage to the Trustee, and so long as the State has not failed to advance any funds in accordance with the provisions of the Service Contract, the Authority, with the prior consent of the Department of Health, however, without the consent of the Trustee or the Holders of Bonds, may consent to the amendment, modification, termination, subordination, granting of an interest in the Mortgaged Property on a parity with the Mortgage, or satisfaction of such Mortgage and of any security interest in fixtures, furnishings or equipment located in or on or used in connection with such Mortgaged Property and all or any portion of the property subject to such Mortgage or security interest may be released from the lien thereof, all upon such terms and conditions as the Authority may reasonably require. As a condition to such approval, the Authority may require that the Institution pay to the Trustee for deposit in the Debt Service Fund an amount not to exceed the principal amount of the Bonds Outstanding at the date of such transfer, sale or conveyance, as such amount is determined by the Authority. Notwithstanding the foregoing, the Institution may remove equipment, furniture or fixtures in the Mortgaged Property provided that the Institution substitutes equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced.

(Section 12)

Warranty as to Title; Encumbrances; Title Insurance

The Institution warrants and represents to the Authority that (i) it has good and marketable title to the Project and all Mortgaged Property, free and clear of liens and encumbrances, except Permitted Encumbrances, so as to permit it to have quiet enjoyment and use thereof for purposes of the Loan Agreement and the Institution's programs and (ii) the Institution has such rights of way, easements or other rights in land as may be reasonably necessary for ingress and egress to and from the Project and all Mortgaged Property, for proper operation and utilization of such Project and such Mortgaged Property and for utilities required to serve such Project and such Mortgaged Property, together with such rights of way, easements or other rights in, to and over land as may be necessary for construction by the Institution of each such Project.

The Institution covenants that title to the Project and all Mortgaged Property shall be kept free from any encumbrances, liens or commitments of any kind, other than Permitted Encumbrances and such other encumbrances approved in writing by the Authority.

The Institution warrants, represents and covenants that (i) the Project and all Mortgaged Property are and shall be serviced by all necessary utilities (including, to the extent applicable, without limitation, electricity, gas, water, sewer, steam, heating, air-conditioning and ventilation) and (ii) to the extent applicable, such Project and the Mortgaged Property shall have its own separate and independent means of access, apart from any other property owned by the Institution or others. Such access, however, may be through common roads or walks owned by the Institution used also for other parcels owned by the Institution.

(Section 13)

Consent to Pledge and Assignment by the Authority

1. The Institution consents to and authorizes the assignment, transfer or pledge by the Authority to the Trustee of the Authority's rights to receive the payments required to be made pursuant to paragraphs (c), (d), (e) and (i) of subdivision 1 under "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" herein, any or all security interests granted by the Institution under the Loan Agreement, including without limitation the security interest in the Gross Receipts, the Mortgage, any security interest in the fixtures, furnishings and equipment located or used in connection with the Mortgaged Property, the Government Obligations, Exempt Obligations and other Securities delivered pursuant to Subdivision 1 under "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or "Reserve Funds" herein and all funds and accounts established by the Master Resolution (other than the Arbitrage Rebate Fund) and pledged under the Master Resolution in each case to secure any payment or the performance of any obligation of the Institution under the Loan Agreement or arising out of the transactions contemplated by the Loan Agreement whether or not the right to enforce such payment or performance shall be specifically assigned by the Authority to the Trustee. The Institution further agrees that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized by this Section, the Trustee shall be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided therefor by the Loan Agreement or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing the Institution's obligation to make all payments required by the Loan Agreement and to performing all other obligations required to be performed by the Institution under the Loan Agreement. Any realization upon the Mortgaged Property, and any pledge made or security interest granted by the Loan Agreement shall not, by operation of law or otherwise, result in cancellation or termination of the Loan Agreement or the obligations of the Institution under the Loan Agreement.

2. The Institution covenants, warrants and represents that it is duly authorized by all applicable laws, its charter and by-laws to enter into the Loan Agreement, to incur the indebtedness contemplated thereby, to make and deliver the Mortgage, and to pledge, grant a security interest in and assign to the Authority and the Trustee, for the benefit of the Bondholders, the Gross Receipts and the Government Obligations, Exempt Obligations and other Securities delivered pursuant to subdivision 1 of "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or "Reserve Funds" herein in the manner and to the extent provided in the Loan Agreement and in the Master Resolution. The Institution further covenants, warrants and represents that any and all pledges, security interests in and assignments to the Authority and the Trustee for the benefit of the Bondholders, granted or made pursuant to the Loan Agreement or to the Mortgage are and shall be free and clear of any pledge, lien, charge, security interest or encumbrance prior thereto, or of equal rank therewith, other than the Permitted Encumbrances, and that all corporate action on the part of the Institution to that end has been duly and validly taken. The Institution further covenants that the provisions of the Loan Agreement are and shall be valid and legally enforceable obligations of the Institution in accordance with their terms. The Institution further covenants that it shall at all times, to the extent permitted by law, defend, preserve and protect the pledge, security interest in and assignment of the Gross Receipts and the Government Obligations, Exempt Obligations and other Securities delivered pursuant to subdivision 1 of "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or "Reserve Funds" herein and all of the rights of the Authority and Trustee for the benefit of the Bondholders under the Loan Agreement, under the Series Resolution and under the Master Resolution and the Mortgage against all claims and demands of all persons whomsoever. The Institution further covenants, warrants and represents that the execution and delivery of the Loan Agreement, and of the Mortgage, and the consummation of the transactions contemplated by the Loan Agreement and thereby and compliance with the provisions of the Loan Agreement and thereof, including, but not limited to, the assignment as security or the granting of a security interest in the Government Obligations, Exempt Obligations and other Securities delivered to the Trustee pursuant to subdivision 1 of "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" or "Reserve Funds" herein, do not violate, conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the charter or by-laws of the Institution or any indenture or mortgage, or any trusts, endowments or other

commitments or agreements to which the Institution is party or by which it or any of its properties are bound, or any existing law, rule, regulation, judgment, order, writ, injunction or decree of any governmental authority, body, agency or other instrumentality or court having jurisdiction over the Institution or any of its properties.

(Section 14)

Tax-Exempt Status

The Institution represents that (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is not a "private foundation," as such term is defined under Section 509(a) of the Code, (ii) it has received a letter or other notification from the Internal Revenue Service to that effect, (iii) such letter or other notification has not been modified, limited or revoked, (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification, (v) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist, and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. The Institution agrees that (a) it shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in the manner which will conform to the standards necessary to qualify the Institution as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law and (b) it shall not perform any act, enter into any agreement or use or permit the Project to be used in any manner, or for any trade or business or other non-exempt use unrelated to the purposes of the Institution, which could adversely affect the exclusion of interest on the Bonds from federal gross income pursuant to Section 103 of the Code.

(Section 15)

Securities Acts Status

The Institution represents that it is an organization organized and operated: (i) exclusively for educational, benevolent or charitable purposes, (ii) not for pecuniary profit, and (iii) no part of the net earnings of which inures to the benefit of any person, private stockholder or individual, all within the meaning, respectively, of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. The Institution agrees that it shall not perform any act or enter into any agreement which shall adversely affect such status as set forth in clauses (i), (ii) and (iii) of this Section.

(Section 16)

Maintenance of Corporate Existence; Business Covenants

The Institution covenants that it will maintain its corporate existence, will continue to operate as a non-profit institution for charitable purposes as set forth in its charter, will obtain, maintain and keep in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may necessary for the continued operation of the Institution as an institution for charitable purposes as set forth in its charter providing such services as it may from time to time determine, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, however, that if no Event of Default shall have occurred and be continuing and prior written notice shall have been given to the Authority, the Commissioner of Health and the Trustee, the Institution may (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with or merge into, another organization or corporation which qualifies under Section 501(c)(3) of the Code, or any successor provision of federal income tax law or, any other corporation or organization upon delivery of an opinion of Bond Counsel stating that such sale, transfer or merger, by itself, will not affect the exemption from income tax of interest on the Bonds, or (ii) permit one or more corporations or any other organization to consolidate with or merge into it, or (iii) acquire all or substantially all of the assets of one or more corporations or any other organization; provided, however, (a) that any such sale, transfer, consolidation, merger or acquisition does not in the opinion of counsel satisfactory to the Authority adversely affect the exclusion from federal gross income of the interest paid or payable on the Bonds, (b) that the surviving, resulting or transferee corporation or organization, as the case may be, is incorporated under the laws of the State, and qualified under Section 501(c)(3) of the Code or any successor provision of federal income tax law or any other corporation or organization upon delivery of an opinion of Bond Counsel stating that such sale, transfer or merger will not affect the exemption from income tax of interest on the Bonds, (c) that the surviving, resulting or transferee corporation or organization, as the case may be, assumes in writing all of the obligations of and restrictions on the Institution hereunder and under the Mortgage and furnishes to the Authority a certificate and an opinion of counsel to the effect that upon such sale, transfer, consolidation, merger or acquisition such corporation shall be in compliance with each of the provisions hereof and shall meet the requirements of the Act and (d) such other certificates and opinions as may reasonably be required by the Authority.

(Section 17)

Use of the Project; Eligible Secured Hospital Borrower

1. Subject to the rights, duties and remedies of the Authority under the Loan Agreement and the statutory and regulatory powers of the Commissioner of Health, the Institution shall have sole and exclusive control of, possession of and responsibility for (i) the Project and all Mortgaged Property, (ii) the operation of the Project and all Mortgaged Property and supervision of the activities conducted therein or in connection with any part thereof, and (iii) the maintenance, repair and replacement of the Project and all Mortgaged Property.

2. The Institution represents that it has received a determination from the Commissioner of Health that it is an Eligible Secured Hospital Borrower.

(Section 19)

Restrictions on Religious Use

The Institution agrees that with respect to the Project or portion thereof, so long as such Project or portion thereof exists and unless and until such Project or portion thereof is sold for the fair market value thereof, such Project or any portion thereof shall not be used for sectarian religious instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; provided, however, that the foregoing restriction shall not prohibit the free exercise of any religion; and, further provided, however, that if at any time after the date of the Loan Agreement, in the opinion of Bond Counsel, the then applicable law would permit the Project or a portion thereof to be used without regard to the above stated restriction, said restriction shall not apply to such Project and each portion thereof. The Authority and its agents may conduct such inspections as the Authority deems necessary to determine whether the Project or any portion of real property thereof financed or refinanced by the Bonds is being used for any purpose proscribed by the Loan Agreement. The Institution under the Loan Agreement further agrees that prior to any disposition of any portion of the Project for less than fair market value, it shall execute and record in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of such portion of such Project to the restriction that (i) so long as such portion of such Project (and, if included in such Project, the real property on or in which such portion of such Project is situated) shall exist and (ii) until such portion of such Project is sold or otherwise transferred to a person who purchases the same for the fair market value thereof at the time of such sale or transfer, such portion of such Project shall not be used for sectarian religious instruction or as a place of religious worship or used in connection with any part of the program of a school or department of divinity of any religious denomination. The instrument containing such restriction shall further provide that such restriction may be enforced at the instance of the Authority or the Attorney General of the State, by a proceeding in any court of competent jurisdiction, by injunction, mandamus or by other appropriate remedy. The instrument containing such restriction shall also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of such Project, or, if included in such Project, the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction shall be without any force or effect. For the purposes of this Section an involuntary transfer or disposition of the Project or a portion thereof, upon foreclosure or otherwise, shall be considered a sale for the fair market value thereof.

(Section 20)

Covenant as to Insurance

1. The Institution shall procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, from responsible insurers, insurance of the type and in the amounts customarily maintained by institutions located in the State of New York providing services similar to those provided by the Institution.

2. The Institution shall, with respect to the Mortgaged Property, at the times specified in the following paragraphs, procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, from responsible insurers acceptable to the Authority, the following insurance:

(a) with respect to any building on the Mortgaged Property the construction of which shall not have been completed (and until insurance is procured pursuant to paragraph (b) of this paragraph), builders' risk insurance against direct physical loss or damage thereto by fire and lightning, extended coverage perils and vandalism and malicious mischief, or with respect to the acquisition and installation of equipment or machinery, in lieu of builders' risk, an installation floater on an all risk basis. The amount of such insurance shall be on a one hundred per centum (100%) completed value basis on the insurable portion. The builders' risk coverage will include the prime contractors or the installer and the Institution as named insureds as their interests may appear;

(b) at all times (except during a period when builders' risk insurance is in effect as required by paragraph (a) of this subdivision 2), insurance against direct physical loss or damage to the Project or the Mortgaged Property by fire and lightning, extended coverage perils and vandalism and malicious mischief on the plant, structure, machinery, equipment and apparatus comprising the insured property, in an amount not less than eighty per centum (80%) of the replacement value thereof (such replacement value to be determined on the basis of replacement costs without allowance for depreciation), exclusive of excavations and foundations and similar property normally excluded under New York standard forms; provided, however, that the inclusion of the Project or the Mortgaged Property under a blanket insurance policy or policies of the Institution insuring against the aforesaid hazards in an amount aggregating at least ninety per centum (90%) of the insurable value of the insured property, exclusive of excavations and foundations and similar property normally excluded under New York standard forms, shall constitute complete compliance with the provisions of this paragraph with respect to the Project or the Mortgaged Property; provided further, that in any event, each such policy shall be in an amount sufficient to prevent the Institution and the Authority from becoming co-insurers under the applicable terms of such policy;

(c) at all times, statutory workers' compensation insurance, covering loss resulting from injury, sickness, disability or death of employees and employer's liability insurance with limits of at least $1,000,000 for each accident, each sickness, and aggregate occupational illness or sickness;

(d) at all times, statutory disability benefits;

(e) at all times, insurance protecting the Authority and the Institution against loss or losses from liabilities arising from bodily injury of persons or damage to the property of others caused by accident or occurrence, with limits of not less than $1,000,000 per accident or occurrence on account of injury to persons, and $500,000 per accident or occurrence on account of injury to the property of others, or $2,000,000 combined single limit with $2,000,000 policy aggregate, excluding liability imposed upon the Authority or the Institution by any applicable workers' compensation law;

(f) professional liability insurance in an annual aggregate amount of not less than $2,000,000 and not less than $1,000,000 per accident or occurrence;

(g) commencing with the date on which the Project or any improvement on the Mortgaged Property or any part thereof is completed or first occupied, or any equipment, machinery, fixture or personal property covered by comprehensive boiler and machinery coverage is accepted, whichever occurs earlier, insurance providing comprehensive boiler and machinery coverage in an amount considered adequate by the Authority, which insurance may include deductible provisions approved by the Authority; and

(h) each other form of insurance which the Institution is required by law to provide and such other kinds of insurance in such amounts as from time to time may be reasonably required by the Authority.

3. Any insurance procured and maintained by the Authority or the Institution pursuant to this Section including any blanket insurance policy, may include deductible provisions reasonably satisfactory to the Authority and the Institution. In determining whether or not any insurance required by this Section is reasonably obtainable or if the deductible on any such insurance is a reasonable deductible, the Authority may rely solely and exclusively upon the advice and judgment of any insurance consultant chosen by the Institution and approved by the Authority, and any such decision by the Authority, based upon such advice and judgment, shall be conclusive.

4. No provision of this Section shall be construed to prohibit the Institution from self-insuring against any risk at the recommendation of any insurance consultant chosen by the Institution and approved by the Authority provided, however, that self insurance plans shall not cover property, plant and equipment. The Institution shall also cause an annual evaluation of such self-insurance plans to be performed by an independent insurance consultant. The Institution shall provide adequate funding of such self-insurance if and to the extent recommended by such insurance consultant and approved by the Authority.

5. Each policy maintained pursuant to subdivision 2 of this Section shall provide that the insurer writing such policy shall give at least thirty (30) days notice in writing to the Authority of the cancellation or non-renewal or material change in the policy unless a lesser period of notice is expressly approved in writing by the Authority. The Institution, not later than February 15 of each year, shall provide to the Authority a list describing all policies of insurance maintained as of January 31 by the Institution pursuant to this Section stating with respect to each such policy (i) the insurer, (ii) the insured parties or loss payees, (iii) the level of coverage, and (iv) such other information as the Authority may have reasonably requested.

6. All policies and certificates of insurance shall be open to inspection by the Authority and the Trustee or their representatives at all reasonable times. If any change shall be made in any such insurance, a description and notice of such change shall be furnished to the Authority and the Trustee at the time of such change. The Institution covenants and agrees not to make any change in any policy of insurance which would reduce the coverages or increase the deductible thereunder without first securing the prior written approval of the Authority.

7. All policies of insurance required pursuant to subdivision 2 of this Section, other than policies of workers' compensation insurance, shall include the Authority and the Institution, and, upon assignment of a Mortgage pursuant to the Master Resolution, the assignees of the Authority, as named insureds or as mortgagee or as loss payee as their interests may appear.

8. In the event the Institution fails to provide the insurance required by subdivision 2 of this Section, the Authority may elect at any time thereafter to procure and maintain the insurance required by this Section at the expense of the Institution. The policies procured and maintained by the Authority shall be open to inspection by the Institution at all reasonable times, and, upon request of the Institution, a complete list describing such policies as of the January 31 preceding the Authority's receipt of such request shall be furnished to the Institution by the Authority.

(Section 22)

Defaults and Remedies

1. As used in the Loan Agreement the "Event of Default" shall mean:

(a) the Institution shall default in the timely payment of any amount payable pursuant to the Section entitled "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" herein or the payment of any other amounts required to be delivered or paid in accordance with the Loan Agreement, the Series Resolution or with the Master Resolution, and such default continues for a period in excess of seven (7) days;

(b) the Institution defaults in the due and punctual performance of any other covenant in the Loan Agreement contained and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given to the Institution by the Authority or the Trustee;

(c) as a result of any default in payment or performance required of the Institution under the Loan Agreement or any Event of Default under the Loan Agreement, whether or not declared, continuing or cured, the Authority shall be in default in the payment or performance of any of its obligations under the Master Resolution or an "event of default" (as defined in the Master Resolution) shall have been declared under the Master Resolution so long as such default or event of default shall remain uncured or the Trustee or Holders of the Bonds shall be seeking the enforcement of any remedy under the Master Resolution as a result thereof;

(d) the Institution shall be in default under the Mortgage and such default continues beyond any applicable grace period;

(e) the Institution shall (i) be generally not paying its debts as they become due, (ii) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (iii) make a general assignment for the benefit of its creditors, (iv) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (v) be adjudicated insolvent or be liquidated or (vi) take corporate action for the purpose of any of the foregoing;

(f) a court or governmental authority of competent jurisdiction shall enter an order appointing, without consent by the Institution, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or an order for relief shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Institution, or any petition for any such relief shall be filed against the Institution and such petition shall not be dismissed within ninety (90) days;

(g) the charter of the Institution shall be suspended or revoked;

(h) a petition to dissolve the Institution shall be filed by the Institution with the legislature of the State or other governmental authority having jurisdiction over the Institution;

(i) an order of dissolution of the Institution shall be made by the legislature of the State or other governmental authority having jurisdiction over the Institution, which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

(j) a petition shall be filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institution which petition shall remain undismissed or unstayed for an aggregate of ninety (90) days;

(k) an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institution, which order shall remain undismissed or unstayed for an aggregate of thirty (30) days; or

(l) a final judgment for the payment of money which in the judgment of the Authority will adversely affect the rights of the Bondholders shall be rendered against the Institution and at any time after thirty (30) days from the entry thereof, (i) such judgment shall not have been discharged or (ii) the Institution shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within thirty (30) days, the execution of or levy under such judgment, order, decree or process for the enforcement thereof, to have been stayed pending determination of such appeal.

2. Upon the occurrence of an Event of Default the Authority shall provide the Department of Health written notice of such Event of Default upon its becoming aware thereof, provided however, that failure to give such notice shall in no way impair or dismiss the Authority ability to take any action hereunder. The Authority may take any one or more of the following actions upon the occurrence of an Event of Default:

(a) declare all sums payable by the Institution under the Loan Agreement immediately due and payable;

(b) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of the Bonds or the Construction Fund or otherwise to which the Institution may otherwise be entitled under the Loan Agreement and in the Authority's sole discretion apply any such proceeds or moneys for such purposes as are authorized by the Master Resolution;

(c) withhold any or all further performance under the Loan Agreement;

(d) maintain an action against the Institution under the Loan Agreement to recover any sums payable by the Institution or to require its compliance with the terms of the Loan Agreement or of any Mortgage;

(e) permit, direct or request the Trustee to liquidate all or any portion of the assets of the Special Debt Service Reserve Fund and the Capital Reserve Fund by selling the same at public or private sale in any commercially reasonable manner and apply the proceeds thereof and any dividends or interest received on investments thereof to the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Bonds, or any other obligation or liability of the Institution or the Authority arising from the Loan Agreement, from the Series Resolution or from the Resolution;

(f) to the extent permitted by law, (i) enter upon any Project and complete the construction of such Project(s) in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect such Project(s), all at the risk, cost and expense of the Institution, consent to such entry being given by the Institution under the Loan Agreement, (ii) at any time discontinue any work commenced in respect of the construction of any Project or change any course of action undertaken by the Institution and not be bound by any limitations or requirements of time whether set forth in the Loan Agreement or otherwise, (iii) assume any construction contract made by the Institution in any way relating to the construction of any Project and take over and use all or any part of the labor, materials, supplies and equipment contracted for by the Institution, whether or not previously incorporated into the construction of such Project, and (iv) in connection with the construction of a Project undertaken by the Authority pursuant to the provisions of this paragraph (f), (x) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of such Project, (y) pay, settle or compromise all bills or claims which may become liens against any Project or against any moneys of the Authority applicable to the construction of any Project, or which have been or may be incurred in any manner in connection with completing the construction of any Project or for the discharge of liens, encumbrances or defects in the title to any Project or against any moneys of the Authority applicable to the construction of any Project, and (z) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The Institution shall be liable to the Authority for all sums paid or incurred for construction of any Project whether the same shall be paid or incurred pursuant to the provisions of this paragraph (f) or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever shall be paid by the Institution to the Authority upon demand. The Institution under the Loan Agreement irrevocably constitutes and appoints the Authority its true and lawful attorney-in-fact to execute, acknowledge and deliver any instruments and to do and perform any acts in the name and on behalf of the Institution for the purpose of exercising the rights granted to the Authority by this subparagraph during the term of the Loan Agreement;

(g) take any action necessary to enable the Authority to realize on its liens under the Loan Agreement, under the Mortgage, or by law, including foreclosure of the Mortgage and any other action or proceeding permitted by the terms of the Loan Agreement, by the Mortgage or by law;

(h) realize upon any security interest in the fixtures, furnishings and equipment, including any one or more of the following actions: (i) enter the Mortgaged Property and take possession of any such fixtures, furnishings and equipment; or (ii) sell, lease or otherwise dispose of any such fixtures, furnishings and equipment either together with a sale, lease or other disposition of the Mortgaged Property pursuant to the Loan Agreement or to the Mortgage, or separately, whether or not possession has been secured; provided, however, that if sold, leased or otherwise disposed of separately, such sale, lease or other disposition shall be in a commercially reasonable manner and upon five (5) days' prior written notice to the Institution of the time and place of such sale; and

(i) subject to the provisions of the Public Health Law of the State of New York, require the Institution at its expense to retain a Hospital Consultant, to make recommendations with respect to such rates, fees and charges, management policies and other matters deemed necessary by the Authority. A copy of the Hospital Consultant's report and recommendations shall be filed with the Authority, the Commissioner of Health and the Institution, and the Institution shall follow the recommendations of the Hospital Consultant as required by the Authority and the Commissioner of Health.

3. All rights and remedies in the Loan Agreement given or granted to the Authority are, to the extent permitted by law, cumulative, non-exclusive and in addition to any and all rights and remedies that the Authority may have or may be given by reason of any law, statute, ordinance or otherwise, and no failure to exercise or delay in exercising any remedy shall effect a waiver of the Authority's right to exercise such remedy thereafter.

4. At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreement, the Authority may annul any declaration made pursuant to paragraph (a) of the remedies described in subdivision 2 above and its consequences if such Events of Default shall be cured. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereto.

(Section 28)

Arbitrage

Each of the Institution and the Authority covenants that it shall take no action, nor shall it approve the Trustee's taking any action or making any investment or use of the proceeds of Bonds or other moneys, which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code, and any proposed or final regulations thereunder as are applicable to the Bonds at the time of such action, investment or use. Neither the Institution nor any "related person" (as such term is defined in Section 147(a)(2) of the Code) shall purchase any Bonds other than for delivery to and cancellation by the Trustee, unless the Trustee shall receive an opinion of Bond Counsel to the effect that the purchase by the Institution or by a related person of such Bonds will not cause interest on the Bonds to be included in the gross income of the owners of the Bonds for purposes of federal income taxation.

The Institution covenants that it will not take any action or fail to take any action which would cause any representation or warranty of the Institution contained in the Tax Certificate then to be untrue and shall comply with all covenants and agreements of the Institution contained in the Tax Certificate, unless, in the opinion of Bond Counsel, taking or failing to take such action or failing to comply with its obligations under a Tax Certificate would not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

In the event that the Authority is notified in writing that the Bonds or any transaction pertaining thereto is the subject of any Internal Revenue Service or Securities and Exchange Commission investigation, suit or order, it shall promptly give notice thereof to the Institution. In the event that the Institution is notified in writing that the Bonds or any transaction pertaining thereto is the subject of any Internal Revenue Service or Securities and Exchange Commission investigation, suit or order, it shall promptly give notice thereof to the Authority. Upon the occurrence of such an event, the Institution and the Authority shall fully cooperate with one another and participate in all aspects of the conduct of the response thereto.

(Section 34)

Rebate Calculation

The Authority shall retain in its possession, so long as required by the Code, copies of all documents, reports and computations made by it in connection with the calculation of Excess Earnings and the rebate of all or a portion thereof to the Department of the Treasury of the United States of America, which shall be subject at all reasonable times to the inspection of the Institution and its agents and representatives, any of whom may make copies thereof. Upon written request from the Institution the Authority shall as soon as practicable provide the Institution with a copy of such documents, reports and computations.

(Section 35)

Amendments to Loan Agreement

This Loan Agreement may be amended only in accordance with Section 7.11 of the Master Resolution and each amendment shall be made by an instrument in writing signed by an Authorized Officer of the Institution and the Authority, an executed counterpart of which shall be filed with the Trustee; provided, however, that no amendment or waiver of any provisions of the Loan Agreement may be made without the prior written consent of the Commissioner of Health.

(Section 44)

Termination

The Loan Agreement shall remain in full force and effect until no Bonds are Outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the Institution shall have been made or provision made for the payment thereof; provided, however, that the liabilities and the obligations of the Institution under subdivision 1(j) of "Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments" herein, and to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred pursuant to Sections 22, 24, 27 and 40 of the Loan Agreement shall nevertheless survive any such termination. Upon such termination, the Authority shall promptly deliver such documents as may be reasonably requested by the Institution to evidence such termination and the discharge of the Institution's duties under the Loan Agreement, including the satisfaction of the Mortgage and the release or surrender of any security interests granted by the Institution to the Authority pursuant to the Loan Agreement.

(Section 46)

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INFORMATION CONCERNING THE STATE OF NEW YORK

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APPENDIX D

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 D 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 D 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 D is dated September 7, 2010. It was updated on March 15, 2011. The AIS was filed with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system. An electronic copy of this AIS can be accessed through the EMMA system at www.emma.msrb.org. An official copy of the AIS may be obtained by contacting the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705. An informational copy of the AIS is available on the Internet at http://www.budget.state.ny.us.

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

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

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Annual Information Statement

State of New York

September 7, 2010

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Annual Information Statement
State of New York
Dated: September 7, 2010

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Annual Information Statement
of the State of New York

Introduction

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

In this AIS, readers will find:

1. A section entitled the "Current Fiscal Year" that contains (a) extracts from the 2010-11 Enacted Budget Financial Plan, dated August 20, 2010 (the "Updated Financial Plan"), prepared by the Division of the Budget ("DOB"), including the State's official Financial Plan projections, and (b) a discussion of potential risks that may affect the Financial Plan during the State's current fiscal year under the heading "Special Considerations." The first part of the section entitled "Current Fiscal Year" summarizes the major components of the 2010-11 Enacted Budget and the projected impact on operations, annual spending growth, and the magnitude of future potential budget gaps; the second part provides detailed information on projected total receipts and disbursements in the State's governmental funds in 2010-11.

2. Information on other subjects relevant to the State's fiscal condition, including: (a) operating results for the three prior fiscal years, (b) the State's revised economic forecast and a profile of the State economy, (c) debt and other financing activities, (d) selected State government summary, and (e) activities of public authorities and localities.

3. The status of significant litigation and arbitration that has the potential to adversely affect the State's finances.

DOB is responsible for preparing the State's Financial Plan and presenting the information that appears in this AIS on behalf of the State. In preparing this AIS, DOB has utilized significant portions of the Updated Financial Plan, but has also relied on information drawn from other sources, including the Office of the State Comptroller ("OSC"), that DOB believes to be reliable. Information contained in the section entitled "State Retirement Systems" is furnished by the Office of the State Comptroller. Information relating to matters described in the section entitled "Litigation and Arbitration" is furnished by the State Office of the Attorney General.

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

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

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

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

Usage Notice

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

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

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

Overview

The State Budget Process

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

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

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

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

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

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

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

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The 2010-11 Enacted Budget Overview

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

ENACTED BUDGET FINANCIAL PLAN AT-A-GLANCE: KEY MEASURES
(millions of dollars)

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

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

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

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

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

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

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

2010-11 Enacted Budget Gap-Closing Plan

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

COMBINED GENERAL FUND AND HCRA GAP-CLOSING PLAN FOR 2010-11
(millions of dollars)

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

[1] Includes the carry-forward of the 2009-10 budget shortfall of $1.6 billion into 2010-11.

[2] Recurring value of administrative and legislative actions approved in December 2009.

[3] State law provides for the uniform reduction of local assistance payments to cover the difference between the $1.085 billion in savings assumed in the gap-closing plan from the extension of enhanced FMAP and the $804 million in savings now expected under the legislation approved by the Federal Government.

[4] Estimate of State Financial Plan benefit of the six-month extension of FMAP (January 1, 2011 through June 30, 2011) approved by Congress and signed by the President in August 2010.

Current Fiscal Year

The 2010-11 Enacted Budget Financial Plan, extracts of which are set forth below, was prepared by the DOB and reflects the actions of the Legislature and Governor. The Updated Financial Plan contains estimates for the 2010-11 fiscal year and projections for the 2011-12 through 2013-14 fiscal years. As such, it contains estimates and projections of future results that should be construed as forward-looking statements and expectations, not statements of fact. These estimates and projections are based upon assumptions that may be affected by numerous factors, including future economic conditions in the State and the nation, and potential litigation. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained in the Updated Financial Plan.

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

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

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

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

Updated Financial Plan

Before enactment of the 2010-11 budget, the State faced a projected current-services budget gap of $9.2 billion for fiscal year 2010-11.[1] The gap included a budget shortfall of $1.65 billion from 2009-10 that was carried forward into 2010-11.[2] Over the course of the budget process, the estimated gap for 2010-11 increased from the level estimated in the Executive Budget Financial Plan, mainly due to downward revisions to projected tax receipts.[3] Over the four-year Financial Plan period (2010-11 through 2013-14), the current-service budget gaps totaled an estimated $66 billion.

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

GENERAL FUND BUDGETARY BASIS SURPLUS/(GAP) PROJECTIONS
SUMMARY OF CHANGES FROM REVISED CURRENT-SERVICES THROUGH ENACTED BUDGET RECOMMENDATION
(millions of dollars)

	2010-11[1]	2011-12	2012-13	2013-14
Current Services Surplus/(Gap) Estimates	(9,188)	(15,851)	(19,650)	(21,584)
2010-11 Enacted Budget Actions	9,188	7,674	6,189	6,021
Spending Control	6,319	4,783	4,308	4,396
December 2009 Deficit Reduction Actions	692	811	876	854
Enacted Budget	4,813	4,526	4,192	4,095
Veto Benefit	533	(554)	(760)	(553)
FMAP Local Assistance Contingency	281	0	0	0
Revenue Actions	1,034	1,867	1,460	1,204
Tax Audits; Recoveries; Enforcement	371	421	421	421
Non-Recurring Actions	660	0	0	0
Extension of Enhanced FMAP	804	603	0	0
ENACTED BUDGET SURPLUS/(GAP) ESTIMATES	0	(8,177)	(13,461)	(15,563)
Four-Year Total Gap (2010-11 through 2013-14)				(37,201)

[1] Includes the carry-forward of the $1.65 billion budget shortfall from 2009-10.

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

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

[3] See "Summary of Changes to the Current-Services Gap" herein.

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

The Updated Financial Plan:

- Reduces spending from the current-services forecast by over $6.4 billion in 2010-11, in both the General Fund and in State Operating Funds;[5]
- Holds annual spending, as adjusted, at below the rate of inflation in both the General Fund (-1.3 percent) and State Operating Funds (0.1 percent)[6].Annual spending, as adjusted, for local assistance and agency operations[7] — the portion of the budget that can be controlled most effectively in the short-term — is reduced by a combined total of $1.1 billion;
- Mandates uniform reductions to remaining local assistance payments, with certain limited exceptions, to cover the estimated $280 million shortfall from the $1.1 billion in savings assumed in the gap-closing plan from enhanced FMAP; and
- Maintains the State's rainy day reserves at $1.2 billion.

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

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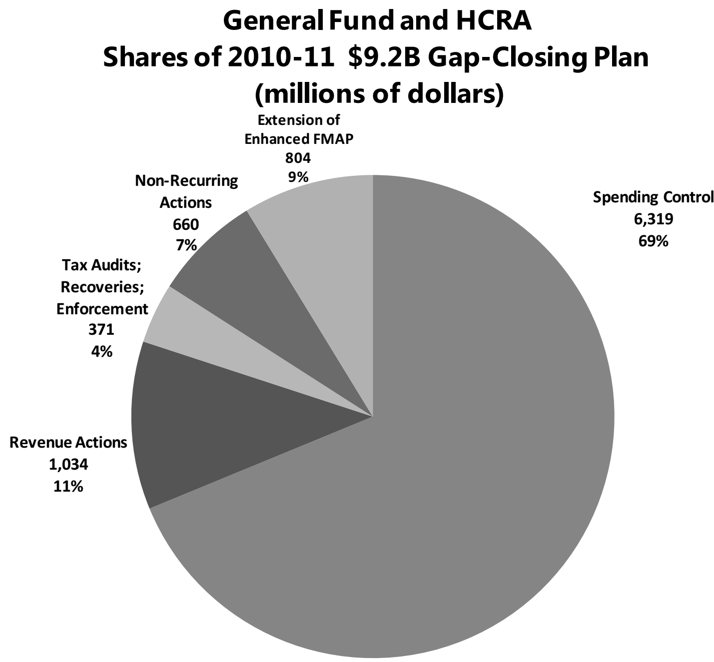
[5] State Operating Funds combines activity in the General Fund, State-financed special revenue funds, and debt service funds and is intended to measure the portion of the State budget that supports operations (as distinct from capital) and that is financed by State resources (as distinct from Federal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

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

[7] Agency operations include fixed costs.

Composition of the Gap-Closing Plan

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



Reductions to current-services spending total over $6.4 billion[8] in State Operating Funds and $6.6 billion in the General Fund, constituting nearly 70 percent of the gap-closing plan. The proposed reductions in spending affect nearly every activity financed by State government, ranging from aid to public schools to agency operations to capital expenditures.

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

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

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

Impact on Spending

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

TOTAL DISBURSEMENTS -- SUMMARY OF ADJUSTMENTS[1]
(millions of dollars)

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

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

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

TOTAL DISBURSEMENTS — ADJUSTED FOR PAYMENT DEFERRALS AND ARRA PASS-THROUGH
(millions of dollars)

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

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

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

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

CAUSES OF ADJUSTED STATE OPERATING FUNDS SPENDING CHANGE [1]
(millions of dollars)

	2009-10	2010-11	Annual $ Change	Annual % Change
Total	**78,934**	**78,998**	**64**	**0.1%**
Debt Service	4,961	5,516	555	11.2%
Fringe Benefits	4,276	4,879	603	14.1%
Personal Service	10,874	10,307	(567)	-5.2%
Non-Personal Service/Fixed Costs	4,885	4,663	(222)	-4.5%
Local Assistance	53,938	53,633	(305)	-0.6%

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

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

The following table summarizes the major sources of annual change.

ADJUSTED STATE SPENDING MEASURES: BEFORE AND AFTER BUDGET ACTIONS [1]
(millions of dollars)

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

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

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

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

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

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

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

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

EXPLANATION OF GAP-CLOSING PLAN

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

2010-11 Enacted Budget Actions

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

Spending Control

The Enacted Budget gap-closing plan for 2010-11 focuses foremost on actions that reduce the growth in State spending on a recurring basis. Actions to control spending account for nearly 70 percent of the gap-closing plan and will affect most activities funded by the State. The 2010-11 appropriation and Article VII "language" bills[9] passed by the Legislature, as well as the agency operating reductions, reduced spending by roughly $4.8 billion from current services levels. The Governor's vetoes further reduced General Fund spending in 2010-11 by $533 million.

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

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

COMBINED GENERAL FUND/HCRA GAP-CLOSING PLAN FOR 2010-11
SPENDING CONTROL (AFTER VETO BENEFIT)
SAVINGS/(COSTS)
(millions of dollars)

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

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

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

Local Assistance

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

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

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

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

Impact of Vetoes

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

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

SUMMARY OF 2010-11 BUDGET VETOES
SAVINGS/(COSTS)
(millions of dollars)

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

FMAP Contingency Spending Reductions

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

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

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

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

*Estimated year-end results.

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

State Operations

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

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

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

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

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

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

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

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

Revenue Actions

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

COMBINED GENERAL FUND AND HCRA GAP-CLOSING PLAN FOR 2010-11 - REVENUE ACTIONS SAVINGS/(COSTS) (millions of dollars)

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

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

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

Non-Recurring Resources

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

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

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

2009-10 Deficit Reduction Plan

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

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

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

Projected Closing Balances

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

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

GENERAL FUND CLOSING BALANCE
(millions of dollars)

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

2010-11 Disbursements Forecast

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

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

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

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

[1] Includes General Fund, State Special Revenue and Debt Service Funds.

[2] General Fund only. Fringe benefits are allocated to agency budgets outside of the General Fund.

[3] Reductions will be allocated by agency in the Mid-Year Financial Plan, following approval of early retirement and other savings plans.

2010-11 Financial Plan and OutYear Projections

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

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

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

Budget Gaps

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

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

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

Spending

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

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

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

Receipts

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

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

General Fund

OUTYEAR GENERAL FUND PROJECTIONS (ADJUSTED)
(millions of dollars)

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

State Operating Funds

STATE OPERATING FUNDS PROJECTIONS (ADJUSTED)
(millions of dollars)

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

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

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

STATE OPERATING FUNDS SPENDING PROJECTIONS
MAJOR PROGRAM AREAS ADJUSTED FOR IMPACT OF ARRA DIRECT FEDERAL AID
(millions of dollars)

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

Grants to Local Governments

Medicaid (Department of Health)

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

MAJOR SOURCES OF ANNUAL CHANGE IN MEDICAID
(millions of dollars)

	2010-11	2011-12	Annual $ Change	Annual % Change	2012-13	Annual % Change	2013-14	Annual % Change
State Operating Funds (Before FMAP)	15,053	17,065	2,012	13.4%	18,358	7.6%	20,057	9.3%
Enhanced FMAP -- State Share[1]	(3,425)	(107)	3,318	-96.9%	254	0.0%	0	0.0%
State Operating Funds (After FMAP)	11,628	16,958	5,330	45.8%	18,612	9.8%	20,057	7.8%
Other State Funds Support	(4,559)	(4,519)	40	-0.9%	(4,807)	6.4%	(5,009)	4.2%
HCRA Financing	(2,938)	(2,981)	(43)	1.5%	(3,269)	9.7%	(3,471)	6.2%
Provider Assessment Revenue	(750)	(750)	0	0.0%	(750)	0.0%	(750)	0.0%
Indigent Care Revenue	(871)	(788)	83	-9.5%	(788)	0.0%	(788)	0.0%
Total General Fund	7,069	12,439	5,370	76.0%	13,805	11.0%	15,048	9.0%

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

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

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

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

School Aid

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

MULTI-YEAR SCHOOL AID PROJECTIONS - SCHOOL-YEAR BASIS (millions of dollars)

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

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

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

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

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

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

Mental Hygiene

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

Social Services

Children and Family Services spending is expected to grow by approximately $200 million annually through 2013-14 primarily driven by growth in local claims-based programs, including child welfare. TADA spending is projected to increase by $529 million from $1.2 billion in 2010-11 to $1.7 billion by 2013-14, due to the loss of one-time TANF Emergency Contingency Fund grants that were used to support public assistance costs and the projected increase in the public assistance caseload. Based on the latest economic forecast and updated program data, the total public assistance caseload has increased in all years from 2010-11 to 2013-14 in the Enacted Budget compared to the Executive Budget.

State Operations

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

STATE OPERATING FUNDS - STATE OPERATIONS
(millions of dollars)

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

Personal Service

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

Non-Personal Service

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

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

General State Charges

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

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

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

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

Transfers to Other Funds (General Fund Basis)

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

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

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

Dedicated Highway and Bridge Trust Fund

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

2010-11 All Funds Financial Plan Forecast

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

2010-11 Receipts Forecast

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

Overview of the Revenue Situation

- The unsteady recovery of the national and New York State economies is expected to translate into receipts growth for the first time in two years. DOB anticipates that the wage growth that began early in 2010 coupled with positive corporate earnings and a projected rebound in employment later in the year should lead to positive receipts growth in 2010-11.

- After five consecutive years of growth averaging 9.5 percent per year, base receipts slipped by 3 percent in 2008-09 and plunged another 12.3 percent in 2009-10, as the result of the recession which began in 2008.

- The nascent recovery is expected to result in base receipts growth of 2.2 percent in 2010-11 and further improvement in 2011-12 after employment growth returns in earnest. The 2007-08 base receipts All Funds tax receipts peak is not expected to be reached again until 2011-12.

- The return of corporate profits in general, and the financial sector profits so vital to New York's economy in particular, are expected to result in both increases in finance and insurance sector bonuses and stepped up business tax receipts growth in 2010-11 and 2011-12.

- The forecast assumes a shift in taxable capital gains realizations from tax year 2011 into tax year 2010 (resulting in increased 2010-11 receipts) as a result of the expected sunset of preferential Federal tax rates on capital gains on December 31, 2010. If Federal action results in complete or partial continuation of lower rates for all or a portion of taxpayers, these gains will be realized over the long run, not in 2010-11.

- Absent the impact of high income provisions enacted in 2009 and 2010, estimated PIT liability plunged 16.6 percent in 2009 and is projected to increase 11.8 in 2010. The 2009 fall was the result of the continuing overall impact of the recession, and in particular, the impact on the real estate and financial sectors. The high growth rate in 2010 is due, in part, to the expected movement of wages and capital gains realizations from 2011 or later into 2010 to take advantage of expiring lower Federal tax rates. Positive wage and income growth that began in early 2010 and the employment growth anticipated to follow later in the year will also play a role.

- After a vigorous retreat during 2008-09 and 2009-10, consumer spending on taxable goods and services should improve somewhat during 2010-11, driven by increasing disposable income, employment, and a pickup in vehicle sales after a long drought. Despite this improvement, the pre-recession sales tax collections peak will not be reached until 2011-12.

- The bulk of the $4.1 billion (7.2 percent) increase in All Funds tax receipts from 2009-10 to 2010-11 is the result of the full-year impact of the 2009 and 2010 high income personal income tax provisions ($2.1 billion) and other actions taken in the 2010-11 Enacted Budget ($1.3 billion).

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

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

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

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

Personal Income Tax

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

[1] Excludes Transfers.

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

User Taxes and Fees

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

[1] Excludes Transfers.

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

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

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

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

Business Taxes

BUSINESS TAXES
(millions of dollars)

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

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

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

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

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

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

Other Taxes

OTHER TAXES
(millions of dollars)

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

[1] Excludes Transfers.

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

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

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

Miscellaneous Receipts and Federal Grants

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

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

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

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

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

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

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

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

Enacted Budget Revenue Actions

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

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

Increased Taxes or Fee Liability

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

- **Tax Actions.** The Enacted Budget contains seven tax actions that will produce $747 million in 2010-11 All Funds revenue.

- **Loophole Closing Actions.** The Enacted Budget contains five actions that close loopholes and ensure that tax burdens are fairly distributed. These actions are expected to produce $44.0 million in additional revenue on an All Funds basis in the 2010-11 fiscal year.

- **New or Increased Fees.** The Enacted Budget contains new and increased legal fees as well as waste fees. These fees are expected to produce $44.1 million in revenue on an All Funds basis in the 2010-11 fiscal year.

Other Actions

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

- **Tax Enforcement Actions.** The Enacted Budget contains four actions that will improve tax audit and compliance activities. These actions are expected to produce $372 million in additional tax revenue on an All Funds basis in the 2010-11 fiscal year. A significant portion ($150 million) of this revenue will be generated by cigarette tax enforcement on sales by Native American tribes to non-tribal members.

- **Other Revenue Actions.** The Enacted Budget contains five other revenue actions, including expanding Quick Draw and video lottery terminal operations, and changing dormancy periods for certain types of abandoned property among other actions. These five actions are expected to produce $152 million in revenue on a General Fund basis and $202 million on an All Funds basis in the 2010-11 fiscal year.

- **New or Expanded Tax Credits/Exemptions.** The Enacted Budget contains five new or expanded tax credits at a cost of $15 million on an All Funds basis in the 2010-11 fiscal year.

- **Technical Corrections and Extenders.** The Enacted Budget contains two extenders that will maintain both the pari-mutuel tax and major provisions of the bank tax, and temporary GLB provisions and five technical corrections that will amend previously enacted items. These five actions preserve current revenue or tax benefits.

- **New or Expanded Fines.** The Enacted Budget contains two fines that help protect the State's wetlands and mineral resources. These fines are expected to produce $1 million in revenue on an All Funds basis during the 2010-11 fiscal year.

Tax Actions

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

- Temporarily Reduce Sales Tax Clothing Exemption. Eliminates State sales and compensating use tax exemptions for clothing and footwear sold for less than $110 per item for the period October 1, 2010 through March 31, 2011; exempts clothing and footwear sold for less than $55 per item for the period April 1, 2011 through March 31, 2012; and restores the original exemption of $110 on April 1, 2012.

- Itemized Deduction Limitation. Decreases the percentage of allowable remaining itemized deductions from 50 percent to 25 percent for taxpayers with New York adjusted gross income of $10 million or more for tax years 2010 through 2012.

- Other Tobacco Products Increase. Increases the tobacco products tax to 75 percent of the wholesale price from 46 percent; increases the tax on snuff to $2.00 per ounce from $0.96 per ounce; and creates a new category under the tobacco products tax imposing a tax on "little cigars" at a rate equivalent to the cigarette tax rate.

- Repeal Vendor Credit for Monthly Filers. Repeals the vendor credit for monthly sales tax filers. Quarterly and annual filers will continue to receive the credit.

- Apply Sales Tax to Hotel Reseller Markup. Clarifies that room remarketers are required to collect sales and New York City occupancy taxes.

- Increase Cigarette Excise Tax by $1.60 per Pack. Increases the State cigarette excise tax from $2.75 per pack to $4.35 per pack.

- Add Back Federal Sales Tax Deduction. Requires itemizing taxpayers who elect to deduct sales tax instead of income tax for Federal purposes to reduce their New York itemized deductions by the amount of sales tax deducted for Federal purposes.

Loophole Closing Actions

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

- **Treat S Corp Gains and Installment Income as Taxable for Non-Residents.** Eliminates three related tax loopholes that allow non-residents to avoid taxation by converting underlying S Corporation assets to stock or receiving installment income after termination of S Corporation nexus to New York. Previously, gains on stock and such installment income were considered intangible income and were therefore not subject to tax for non-residents.

- **Conform to Federal Bad Debt Provisions.** Conforms the State bank tax deduction for bad debts to the calculations provided for in the Internal Revenue Code for Federal tax purposes.

- **Define Flow-Through Entities as Taxpayers for QETC and Biofuel Credit Claims.** Eliminates the ability of individual shareholders in flow-through entities (i.e. partnerships, LLCs, and S Corporations) to each claim up to the statutory cap for a taxpayer when claiming the Biofuel and QETC facilities, operations and training credits. The cap will apply to the entity, just as it does for C Corporations.

- **Treat Compensation for Past Services as Taxable for Non-Residents.** Eliminates a tax loophole that permitted a non-resident to receive income – without paying New York taxes – for past services (e.g. termination pay) conducted during a period when their employer had a New York nexus. Such income had been nontaxable.

- **Make REITs/RICs Loophole Closer Permanent.** Makes permanent the provisions that address the closely-held Real Estate Investment trusts and Regulated Investment Companies loophole, which would have otherwise expired on December 31, 2010.

New or Increased Fees

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

- **Legal Fees.** Establishes new and increased fees to fund civil legal services, indigent defense, and costs of court operations. A new $95 fee will be paid by plaintiffs (banks and credit card companies) in consumer credit cases. A new $500 "credentialing" fee will be paid by persons who sit for the bar examination and were educated outside the country. A new $190 fee will be charged at the time the index fee is paid in a foreclosure action. The criminal history search fee, which is paid when the Office of Court Administration performs background checks, will be raised from $55 to $65. The biennial bar registration fee will be raised from $350 to $375.

- **Hazardous Waste Fees.** Amends Environmental Conservation Law to consolidate two separate sliding-scale fees paid by hazardous waste generators into a single fee of $130 per ton.

- **E-Waste Fee.** Establishes a statewide electronic equipment reuse and recycling program. It will require manufacturers to accept for recycling or reuse electronic waste for which it is the manufacturer from consumers in the State and accept one piece of electronic waste if offered by a consumer, with the purchase of a piece of equipment of the same type beginning April 1, 2011. It will establish registration requirements for manufacturers of covered electronic equipment sold in the State, and require each manufacturer of covered electronic equipment to register with DEC by January 1, 2011, and pay a $5,000 registration fee; and require any person who becomes a manufacturer after January 1, 2011, to register with DEC before selling or offering for sale covered electronic equipment in the State.

Tax Enforcement Actions

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

- **Improve Audit and Compliance.** The Commissioner of Taxation and Finance will increase compliance staff and re-direct department resources to generate $221 million in additional annual revenue.

- **Native American Tax Enforcement.** Requires all cigarettes sold to Native American nations or tribes and reservation cigarette sellers to bear a tax stamp and allows the governing body of a Native American nation or tribe two options for tax-exempt sales to its tribal members.

- Require **Informational Returns for Credit and Debit Cards.** Mirrors Federal requirements by requiring certain financial institutions to also file information returns with the State annually regarding amounts of credit/debit card settlements and third-party network transactions.

- **False Claims Act.** Removes the exemption for tax fraud from the State False Claims Act, allowing citizens to bring legal action against tax cheats and share in the proceeds of the case if the action is successful.

Other Revenue Actions

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

- **Tax Credit Deferral.** Allows $2 million in aggregate credit at the taxpayer level for tax years 2010, 2011, and 2012. The total amount of credits deferred under this proposal will be paid back to taxpayers over tax years 2013, 2014, and 2015. This provision affects personal income and corporate income taxpayers. The credits impacted are business-related credits. Personal income tax credits such as the child credit and EITC are excluded.

- **Change Abandoned Property Dormancy Periods.** Reduces the dormancy period for receipts from unclaimed goods from five to three years and non-bank money orders seven to five years.

- **Repeal Private Label Credit Card Law.** Repeals Tax Law §1132(e-1), which allowed private label credit card lenders, as well as vendors who use private label credit card lenders to finance their credit card sales, to claim a sales tax credit or refund on accounts financed by or assigned to the lender that are written or charged off as uncollectible.

- **Extend VLT Hours of Operation.** Increases the authorized hours of operation of VLTs from sixteen to 20 hours a day but no later than 4 AM, reduces the commission rate paid to vendor tracks by one percent, and eliminates the sunset of the VLT program.

- **Quick Draw Hours and Sunset.** Eliminates the restriction on the number of hours that the Division of the Lottery can operate the Quick Draw lottery game and makes the Lottery's authorization to operate the game permanent.

New or Expanded Tax Credits

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

- **Narrow Affiliate Nexus Provision.** The affiliate nexus provision contained within the 2009-10 Enacted Budget is amended by narrowing the definition of a sales tax vendor by providing that certain in-State activities of an affiliate do not make the seller a vendor.

- **Expand the Low-Income Housing Tax Credit Program.** The Commissioner of the Division of Housing and Community Renewal is authorized to allocate an additional $4 million in aggregate credit awards to taxpayers that develop qualifying housing projects for low-income New Yorkers. Credits are given in equal installments for a ten-year period. As such, the total amount of credits that will be awarded from this new authorization will be $40 million.

- **Historic Properties Tax Credits.** Allows banks and insurance companies to claim the nonresidential tax credit and sunsets the higher residential and non-residential caps enacted in 2009 on December 31, 2014.

- **Livery Vehicle Sales Tax Exemption.** This provision exempts transportation delivered by livery vehicles that both originates and terminates in New York City from the State and New York City sales taxes.

- **Extend and Expand Film Tax Credit.** Provides an additional film tax credit allocation of $420 million per year for tax years 2010 through 2014, $7 million of which is dedicated to a new post-production credit. This measure also imposes various reforms to enhance the State's return on investment. They include requirements that the recipient: conduct at least 10 percent of shooting days at a qualified facility; include an end-credit acknowledging financial support from New York State or provide a New York promotional video as part of the film or DVD release in the secondary market; ensure only purchases of taxable property and services from registered sales tax vendors are eligible in the credit calculation; ensure at least 75 percent of post-production costs are incurred in New York in order to be considered a qualified cost.

- **Create Excelsior Jobs Program.** Establishes a new economic development program to provide incentives based on job creation, investment, and research and development expenditures in New York State. The new program maximizes the return on State investment by capping both total program and individual project costs, allowing only targeted industries to participate, and requiring substantial job and investment thresholds to be met and maintained prior to any project claiming benefits.

Technical Corrections and Extenders

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

- **Extend Major Provisions of the Bank Tax and Temporary GLB Provisions.** Extends for one year bank tax reform provisions from 1985 and 1987, as well as provisions that were intended to temporarily address regulatory changes from the Federal Gramm-Leach-Bliley Act.

- **Extend the Pari-Mutuel Tax.** Extends lower Pari-Mutuel tax rates for one year. Also extends by one year the rules governing the simulcasting of out-of-state races and the authorization for account wagering.

- **Make Technical Corrections to the 2009-10 Enacted Budget Empire Zones Program Changes.** Clarifies that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarifies reporting provisions, and allows qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.

- **Make Technical Corrections to the 2009-10 Enforcement Provisions.** Restores nonfiling as a class E felony, changes mail response requirements for taxpayer reconciliation conferences, corrects typographical error (changes "article one" to "one article"), defines contribution of aircraft from a nonresident to new subsidiary as a retail sale (and therefore taxable), and restores requirement that IDAs file a report when they appoint an agent to manage a project.

- **Amend the Tax on Medallion Taxicab Trip.** Amends the tax on medallion taxicab rides in MCTD by requiring the medallion owner to collect and remit the 50 cent per ride tax.

- **Real Estate Investment Trusts Technical Amendments.** Clarifies that certain publicly traded REITs with fractional ownership shares in non-related United States REITs are not subject to provisions relating to "closely-held" REITs that were enacted in 2008-09.

- **Estate Tax Unified Credit Technical Amendment.** Preserves the $1 million State unified credit for 2010 despite the expiration of the Federal estate tax.

New or Increased Fines

NEW OR INCREASED FINES
(millions of dollars)

	2010-11		2011-12	
	General Fund	All Funds	General Fund	All Funds
Freshwater Wetlands Fines	-	0.7	-	0.7
Mineral Resources Fines	-	0.3	-	0.3
TOTAL NEW OR INCREASED FINES	-	**1.0**	-	**1.0**

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

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

2010-11 Financial Plan Disbursements Forecast

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

TOTAL DISBURSEMENTS - ADJUSTED FOR PAYMENT DEFERRALS AND ARRA PASS-THROUGH
(millions of dollars)

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

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

ADJUSTED STATE OPERATING FUNDS [1] SPENDING PROJECTIONS
MAJOR SOURCES OF ANNUAL CHANGE
(millions of dollars)

	2009-10	2010-11	Change
Major Functions (Annual Change)			
Health Care:			
Medicaid	11,479	11,675	196
Public Health	2,404	2,523	119
K-12 Education:			
School Aid (State Fiscal Year)	20,374	19,942	(432)
All Other Education Aid	1,693	1,663	(30)
STAR	3,414	3,300	(114)
Higher Education	8,447	8,092	(355)
Social Services:			
Temporary and Disability Assistance	1,360	1,222	(138)
Children and Family Services	2,006	2,148	142
Mental Hygiene	4,360	4,537	177
Transportation	3,941	4,433	492
General State Charges [2]	3,594	4,128	534
Debt Service	4,961	5,516	555
All Other (Annual Change)			
Local Government Aid	1,080	791	(289)
Department of Insurance	658	463	(195)
Statewide Agency Operating Reductions [3]	0	(500)	(500)
All Other	9,163	9,065	(65)
Total Adjusted State Operating Funds Spending	**78,934**	**78,998**	**97**

[1] Includes General Fund, State Special Revenue and Debt Service Funds.

[2] General Fund only. Fringe benefits are allocated to agency budgets outside of the General Fund.

[3] Reductions will be allocated by agency in the Mid-Year Financial Plan, following approval of early retirement and other savings plans.

Selected Program Measures and Assumptions

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

FORECAST FOR SELECTED PROGRAM MEASURES AFFECTING OPERATING ACTIVITIES

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

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

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

[2] Subject to Executive Control.

[3] As Percent of Salary.

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

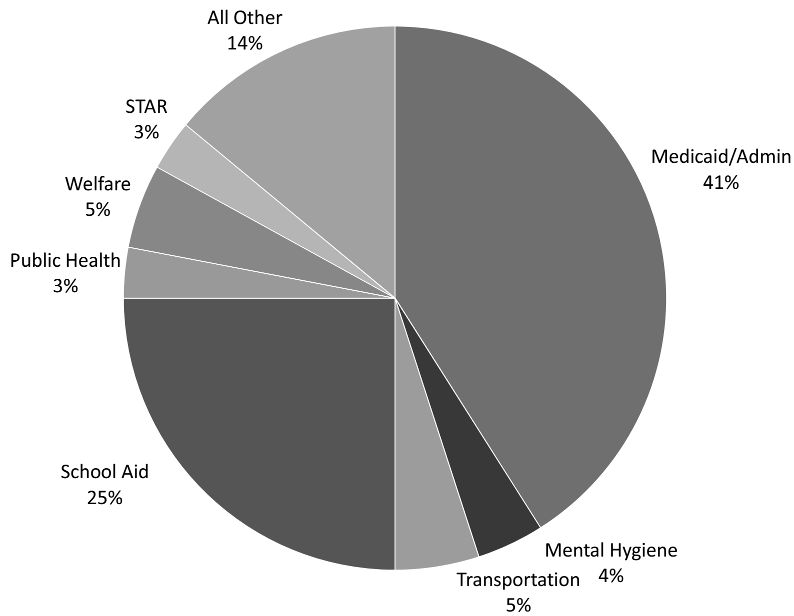
The spending forecast for each of the State's Financial Plan categories follows.

Grants to Local Governments

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

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

2010-11 All Funds Local Assistance Spending
$95.6 Billion

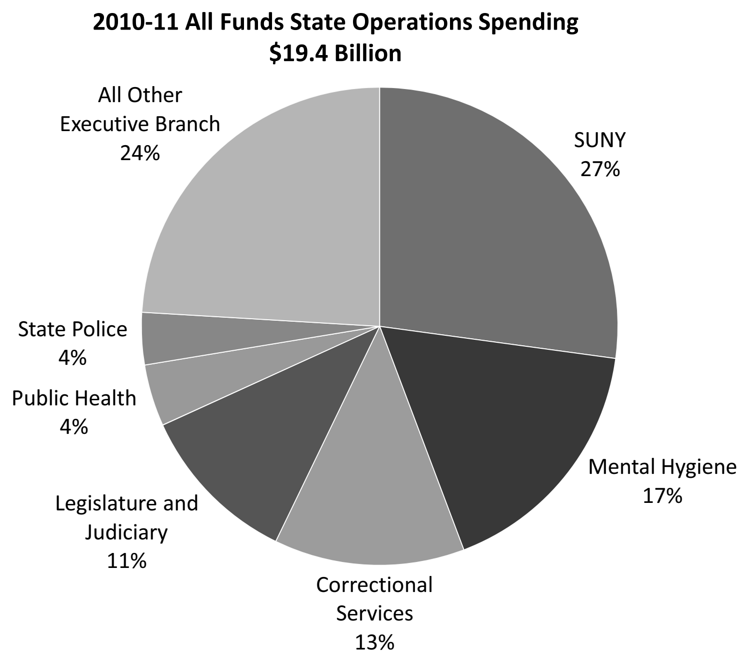


LOCAL ASSISTANCE SPENDING PROJECTIONS (ADJUSTED) (millions of dollars)				
	2009-10 Results	2010-11 Enacted	Annual Change	Percent Change
General Fund	**36,294**	**35,448**	**(846)**	**-2.3%**
Other State Support	17,644	18,185	**541**	**3.1%**
State Operating Funds	**53,938**	**53,633**	**(305)**	**-0.6%**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

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

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

State Operations



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

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

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

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

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

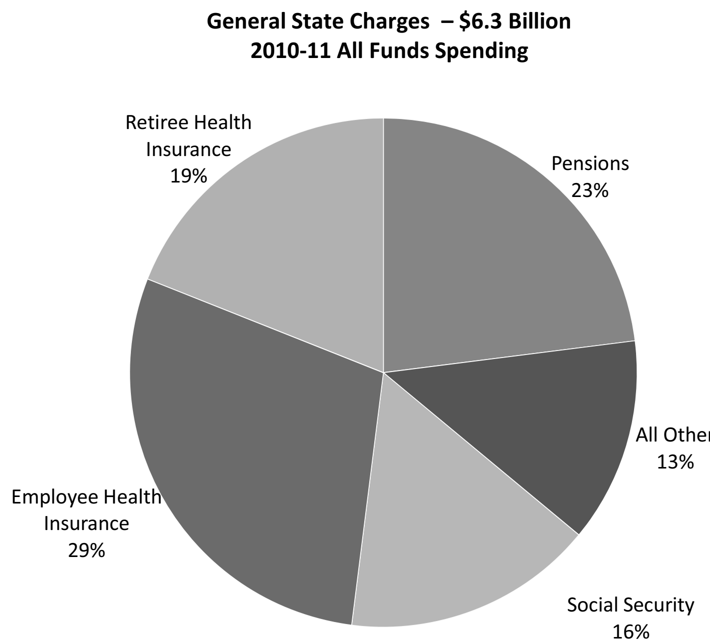
STATE OPERATIONS SPENDING PROJECTIONS (millions of dollars)				
	2009-10 Results	2010-11 Enacted	Annual Change	Percent Change
General Fund	**5,571**	**5,868**	**297**	**5.3%**
Other State Support	9,819	8,774	(1,045)	-10.6%
State Operating Funds	**15,390**	**14,642**	**(748)**	**-4.9%**
Capital Projects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

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

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

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

General State Charges



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

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

GENERAL STATE CHARGES SPENDING PROJECTIONS
(millions of dollars)

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

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

Current-Services

GENERAL STATE CHARGES
SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) FROM 2009-10 TO 2010-11
(millions of dollars)

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

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

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

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

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

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

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

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

2010-11 Enacted Savings

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

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

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

Debt Service

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

DEBT SERVICE SPENDING PROJECTIONS
(millions of dollars)

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

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

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

Current-Services

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

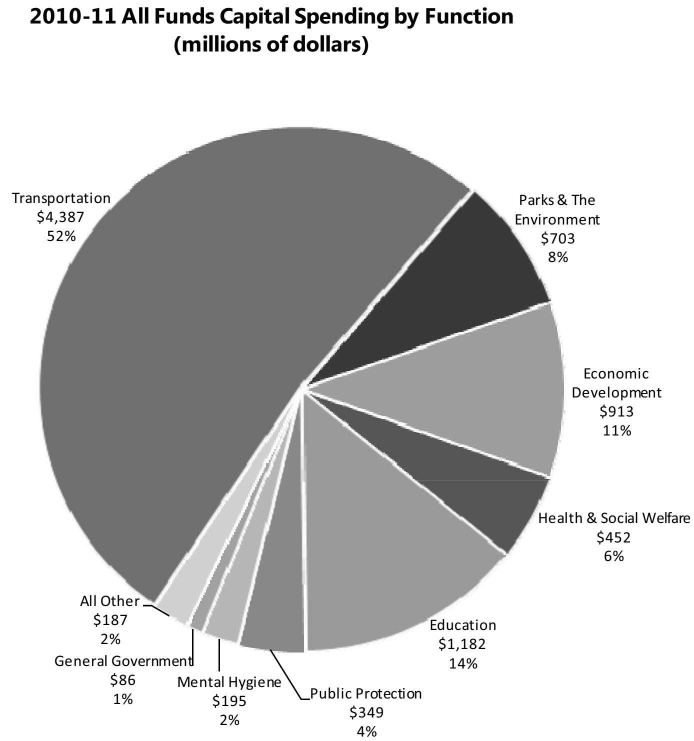
2010-11 Savings

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

Capital Projects

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

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



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

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

2010-11 Recommended Savings

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

Other Financing Sources/(Uses)

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

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

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

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

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

2010-11 Operating Results Through July 2010

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

* Includes transfers from other funds after debt service.

Source: DOB.

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

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

All Funds

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

Source: DOB.

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

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

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

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

Source: NYS DOB

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

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

Source: NYS DOB

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

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

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

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

Source: NYS DOB

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

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

Source: NYS DOB

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

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

Source: NYS DOB

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

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

Source: NYS DOB

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

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

Source: NYS DOB

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

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

Source: NYS DOB

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

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

Source: NYS DOB

CASHFLOW
GENERAL FUND
2010-2011
(dollars in millions)

	2010 April Acutals	May Actuals	June Actuals	July Actuals	August Projected	September Projected	October Projected	November Projected	December Projected	2011 January Projected	February Projected	March Projected	Total
OPENING BALANCE	2,302	4,274	1,648	(87)	590	(28)	2,476	1,888	1,442	1,197	6,220	6,851	2,302
RECEIPTS:													
Personal Income Tax	3,069	783	2,164	1,575	1,623	2,716	1,582	1,279	587	5,329	2,011	1,655	24,373
User Taxes and Fees	669	589	858	666	664	944	694	684	899	744	637	762	8,810
Business Taxes	60	2	915	80	102	1,153	104	95	1,297	65	115	1,726	5,714
Other Taxes	93	83	103	155	76	76	75	75	75	75	75	73	1,034
Total Taxes	3,891	1,457	4,040	2,476	2,465	4,889	2,455	2,133	2,858	6,213	2,838	4,216	39,931
Licenses, Fees, etc.	47	56	55	77	50	40	55	50	50	45	65	77	667
Abandoned Property	0	(4)	77	3	20	62	16	120	40	70	60	186	650
ABC License Fee	9	1	6	4	4	5	4	3	3	3	4	0	46
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	0	42	42
Reimbursements	7	13	35	13	13	33	10	11	36	6	11	34	222
Investment Income	1	0	0	1	(1)	4	(3)	5	1	2	4	6	20
Other Transactions	26	33	80	41	65	383	54	49	99	73	77	270	1,250
Total Miscellaneous Receipts	90	99	253	139	151	527	136	238	229	199	221	615	2,897
Federal Grants	1	13	0	0	0	14	0	0	14	0	(1)	19	60
PIT in Excess of Revenue Bond Debt Service	1,022	108	887	509	230	999	392	142	1,078	1,315	288	825	7,795
Sales Tax in Excess of LGAC Debt Service	180	100	350	202	299	226	209	203	270	224	3	52	2,318
Real Estate Taxes in Excess of CW/CA Debt Service	32	34	33	39	19	19	19	19	19	19	19	14	285
All Other	4	1	62	87	26	31	32	35	122	156	164	670	1,390
Total Transfers from Other Funds	1,238	243	1,332	837	574	1,275	652	399	1,489	1,714	474	1,561	11,788
TOTAL RECEIPTS	5,220	1,812	5,625	3,452	3,190	6,705	3,243	2,770	4,590	8,126	3,532	6,411	54,676
DISBURSEMENTS:													
School Aid	491	2,615	3,767	100	516	1,236	506	959	1,561	302	526	6,330	18,909
Higher Education	16	16	379	198	243	81	372	40	250	45	345	510	2,495
All Other Education	17	15	17	24	412	101	415	197	67	84	66	81	1,496
Medicaid - DOH	1,085	633	668	516	633	233	584	722	398	588	785	224	7,069
Public Health	40	30	122	16	91	133	27	39	125	28	25	113	789
Mental Hygiene	10	5	362	50	132	417	121	17	392	128	150	450	2,234
Children and Families	9	15	14	66	350	302	134	77	228	161	84	423	1,863
Temporary & Disability Assistance	61	140	61	62	135	134	86	87	122	87	28	151	1,154
Transportation	0	0	0	11	9	19	0	25	9	0	26	1	100
Unrestricted Aid	3	12	274	1	6	93	11	2	215	2	2	170	791
All Other	19	16	189	(27)	39	44	(50)	15	2	32	19	310	608
Total Local Assistance Grants	1,751	3,497	5,853	1,017	2,566	2,793	2,206	2,180	3,369	1,457	2,056	8,763	37,508
Personal Service	514	547	586	619	467	661	331	425	543	385	348	859	6,285
Non-Personal Service	143	108	151	171	197	171	138	131	147	159	109	115	1,740
Total State Operations	657	655	737	790	664	832	469	556	690	544	457	974	8,025
General State Charges	122	30	485	112	292	331	192	170	401	277	110	1,606	4,128
Debt Service	414	38	3	470	(4)	(122)	603	0	(1)	430	(15)	(174)	1,642
Capital Projects	14	21	4	121	48	116	12	77	47	117	97	422	1,096
State Share Medicaid	180	162	244	185	187	208	248	179	280	227	210	140	2,450
Other Purposes	110	35	34	80	55	43	101	54	49	51	(14)	146	744
Total Transfers to Other Funds	718	256	285	856	286	245	964	310	375	825	278	534	5,932
TOTAL DISBURSEMENTS	3,248	4,438	7,360	2,775	3,808	4,201	3,831	3,216	4,835	3,103	2,901	11,877	55,593
Excess/(Deficiency) of Receipts over Disbursements	1,972	(2,626)	(1,735)	677	(618)	2,504	(588)	(446)	(245)	5,023	631	(5,466)	(917)
CLOSING BALANCE	4,274	1,648	(87)	590	(28)	2,476	1,888	1,442	1,197	6,220	6,851	1,385	1,385

Source: NYS DOB

CASH DISBURSEMENTS BY FUNCTION
ALL FUNDS
(thousands of dollars)

	2009-2010 Year-End	2010-2011 Enacted	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT					
Agriculture and Markets, Department of	109,449	109,328	120,189	118,068	106,907
Alcoholic Beverage Control	17,012	19,892	20,776	20,294	20,911
Banking Department	87,166	87,865	87,211	89,047	89,647
Developmental Authority North	36	200	162	162	162
Consumer Protection Board	2,295	2,946	2,926	2,741	2,783
Economic Development Capital Programs	18,306	2,500	2,500	2,500	2,500
Economic Development, Department of	76,889	71,358	66,831	67,702	82,387
Energy Research and Development Authority	29,380	34,935	31,158	29,658	31,178
Insurance Department	657,937	463,437	481,233	486,080	486,080
Empire State Development Corporation	606,568	772,848	860,671	431,301	382,996
Olympic Regional Development Authority	7,966	5,064	5,274	5,274	5,401
Public Service, Department of	77,313	78,738	83,729	88,620	91,901
Racing and Wagering Board, State	22,575	21,833	22,044	23,007	23,453
Science, Technology and Innovation, Foundation for	29,083	31,376	29,181	26,796	23,356
Strategic Investment	8,827	10,000	4,000	5,000	5,000
Functional Total	1,750,802	1,712,320	1,817,885	1,396,250	1,354,662
PARKS AND THE ENVIRONMENT					
Adirondack Park Agency	5,292	5,470	5,019	5,021	5,021
Environmental Conservation, Department of	864,001	1,042,606	1,021,569	817,173	787,873
Environmental Facilities Corporation	10,025	9,370	9,552	9,736	9,736
Hudson River Park Trust	11,977	10,000	0	0	0
Parks, Recreation and Historic Preservation, Office of	305,485	240,442	227,951	229,618	229,594
Functional Total	1,196,780	1,307,888	1,264,091	1,061,548	1,032,224
TRANSPORTATION					
Motor Vehicles, Department of	320,230	336,621	347,882	360,754	367,603
Thruw ay Authority	1,403	1,800	1,800	1,800	1,800
Metropolitan Transportation Authority	184,681	217,100	194,500	183,600	183,600
Transportation, Department of	7,376,584	8,341,474	8,306,937	8,196,273	8,248,166
Functional Total	7,882,898	8,896,995	8,851,119	8,742,427	8,801,169
HEALTH					
Aging, Office for the	229,966	227,821	224,739	224,739	224,739
Health, Department of	42,156,549	43,728,010	47,352,064	49,027,667	52,109,920
Medical Assistance	37,025,209	38,091,219	41,341,155	43,229,713	46,375,013
Medicaid Administration	939,296	1,102,500	1,147,500	1,193,500	1,193,500
Public Health	4,192,044	4,534,291	4,863,409	4,604,454	4,541,407
Health - Medicaid Assistance	0	0	0	0	0
Medicaid Inspector General, Office of	64,868	76,563	91,660	93,500	94,430
Stem Cell and Innovation	17,676	52,616	73,071	123,149	63,673
Functional Total	42,469,059	44,085,010	47,741,534	49,469,055	52,492,762
SOCIAL WELFARE					
Children and Family Services, Office of	3,189,020	3,431,576	3,497,590	3,728,859	3,952,980
OCFS	3,139,542	3,298,033	3,364,133	3,591,504	3,811,720
OCFS - Medicaid	49,478	133,543	133,457	137,355	141,260
Human Rights, Division of	20,300	19,690	20,058	20,664	20,949
Labor, Department of	728,721	703,650	606,814	603,128	595,107
Housing and Community Renew al, Division of	417,003	464,833	405,261	275,451	292,533
National Commission Services	16,862	16,016	14,627	14,629	14,715
Prevention of Domestic Violence, Office for	2,167	2,076	2,088	2,109	2,109

CASH DISBURSEMENTS BY FUNCTION
ALL FUNDS
(thousands of dollars)

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

CASH DISBURSEMENTS BY FUNCTION
ALL FUNDS
(thousands of dollars)

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

CASH DISBURSEMENTS BY FUNCTION
ALL FUNDS
(thousands of dollars)

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

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

Source: NYS DOB

GAAP-Basis Financial Plans/GASB Statement 45

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

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

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

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

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

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

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

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

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

Special Considerations

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

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

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

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

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

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

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

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

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

State Cash Flow Projections

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

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

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

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

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

Federal Funding

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

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

Labor Settlements

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

Personal Care Audits

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

Other Financial Plan Risks

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

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

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UPDATE TO ANNUAL INFORMATION STATEMENT (AIS) STATE OF NEW YORK

March 15, 2011

This quarterly update (the "AIS Update") updates the Annual Information Statement of the State of New York (the "AIS") that was dated September 7, 2010. The AIS Update contains information only through March 15, 2011 and should be read in its entirety, together with the AIS.

In this AIS Update, readers will find:

1. Extracts from the Governor's Executive Budget Financial Plan for 2011-12, as updated for forecast revisions and Governor's amendments (the "Updated Financial Plan"), which the Division of the Budget ("DOB") issued on March 3, 2011. The Updated Financial Plan includes (a) a summary of recent events and changes to the Financial Plan made since the last quarterly update to the AIS dated November 9, 2010 (the "Mid-Year Update"), (b) revised Financial Plan projections for fiscal years 2010-11 through 2013-14, and initial projections through 2014-15, including the estimated impact of the Governor's proposed budget (c) preliminary operating results for the first eleven months of fiscal year 2010-11, (d) an updated economic forecast, and (e) pro forma Generally Accepted Accounting Principles (GAAP)-basis Financial Plan projections for 2010-11 and 2011-12 and information on the category of Other Post-Employment Benefits (OPEB). The Updated Financial Plan is available on the DOB website, www.budget.state.ny.us.

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

3. Updated information regarding the State Retirement Systems.

4. Updated information on certain localities of the State.

5. 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 Update on behalf of the State. In preparing this AIS Update, DOB has utilized significant portions of the Updated Financial Plan, but has also relied on information furnished by other sources that it believes to be reliable. Information contained in the section entitled "State Retirement Systems" and certain statistical information concerning local governments contained in the section entitled "Authorities and Localities" is furnished by the Office of the State Comptroller ("OSC"). Information relating to matters described in the section entitled "Litigation and Arbitration" is furnished by the State Office of the Attorney General. DOB has not undertaken any independent verification of the information concerning the information contained in the sections entitled "State Retirement Systems", "litigation and arbitration" and certain local government information.

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. Investors and other market participants should refer to the AIS, as updated, or supplemented from time to time, for the most current official information regarding the financial condition of the State.

The State may issue AIS supplements 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-related debt issuance. The State has filed this AIS Update with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system. Effective July 1, 2009, pursuant to Rule 15c2-12, promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, the MSRB is designated as the sole repository for the electronic filing of all primary and secondary market disclosure for municipal securities. An electronic copy of this AIS Update can be accessed through EMMA at www.emma.msrb.org. 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) 474-7705.

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.

This AIS Update is available on the DOB website (www.budget.state.ny.us) and is being provided on the DOB website 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 the DOB website, or on EMMA 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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OVERVIEW OF THE UPDATED FINANCIAL PLAN

INTRODUCTION

State law requires the Governor to submit an Executive Budget proposal 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. The General Fund is typically the financing source of last resort for the State's other major funds, including Health Care Reform Act ("HCRA") funds, the Dedicated Highway and Bridge Trust Fund, the School Tax Relief Fund, and the Lottery Fund. Therefore, the General Fund projections account for any estimated funding shortfalls in these funds. Since the General Fund is the fund that is required to be balanced, the focus of the State's budget discussion is often weighted toward the General Fund.

The Governor submitted his Executive Budget proposal for 2011-12 on February 1, 2011, and amendments on February 24 and March 1, 2011, as permitted by law. On March 3, 2011, the DOB issued the Updated Financial Plan, extracts and summaries of which are set forth herein. The Updated Financial Plan includes updated estimates for the current fiscal year (2010-11) and projections for 2011-12 through 2014-15. The projections for 2011-12 through 2014-15 reflect the estimated impact of the Governor's Executive Budget proposal.

The projections assume that the Legislature enacts the Governor's Executive Budget proposal in its entirety and without modification by the start of the 2011-12 fiscal year, which begins April 1, 2011. The Governor's proposal is awaiting action by the Legislature. There can be no assurance that the Legislature will adopt a budget for the 2011-12 fiscal year by April 1, 2011, or that it will adopt all or any portion of the Executive Budget as proposed, Accordingly, there can be no assurance that the fiscal impact of the budget for 2011-12, when adopted, will not differ materially and adversely from the estimates and projections contained in the Updated Financial Plan.

The factors affecting the State's financial condition are complex. This AIS Update contains forecasts, projections and estimates that are based on expectations and assumptions which existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect the fiscal and economic conditions in the State, the inclusion in this AIS Update of such forecasts, projections and estimates should not be regarded as a representation that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results. If and when included in this AIS Update, the words "expects," "forecasts," "projects," "intends,""anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially and adversely from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the State. These forward-looking statements speak only as of the date they were prepared.

The State accounts for all of its receipts and disbursements 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 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 certain 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 debt issued by the State and its public authorities.

SUMMARY

DOB expects the General Fund to end the current fiscal year in balance on a cash basis, although risks remain. In 2011-12, the State faces a projected budget gap of $10 billion. The budget gaps in future years are projected at $14.9 billion in 2012-13, $17.4 billion in 2013-14, and $20.9 billion in 2014-15. The budget gaps represent the difference between the projected General Fund disbursements, including transfers to other funds, needed to maintain anticipated service levels and specific commitments, and the expected level of resources to pay for them.[1] The gaps are based on a number of assumptions and projections developed by the DOB in consultation with other State agencies. The assumptions reflect the impact of current statutory provisions on out-year spending growth. Statutory mandates and entitlements, combined with enrollment increases and assumed reductions in Federal grants, account for a significant portion of projected spending increases.

The estimated gaps, reflect in part the short-term impact of the recession on State tax receipts and economically-sensitive programs, the long-term impact of rapidly growing entitlement programs (especially, Medicaid and School Aid) and other spending commitments, and the phase-out[2] of the Federal government's increased support for Medicaid, education, and other costs through the Federal stimulus funding.

The Governor's Executive Budget, if enacted as proposed, is expected to eliminate the General Fund budget gap of $10 billion in 2011-12, and reduce the future projected budget gaps to $2.2 billion in 2012-13, $2.5 billion in 2013-14, and $4.4 billion in 2014-15.

The Executive Budget proposes savings of approximately $2.85 billion each for School Aid and Medicaid, $1.4 billion for State agency operations, including a 10 percent year-to-year reduction in State Operations spending in the General Fund, and corresponding reductions in other funds, where appropriate, and $1.8 billion for a range of other programs and activities. The Executive Budget does not recommend any tax increases.

The Governor has appointed advisory commissions charged with redesigning current operations and recommending specific savings from Medicaid, prison closures, and State agency operations. On February 24, 2010, the Medicaid Redesign Team submitted its proposals to achieve $2.85 billion in savings in 2011-12, which is reflected in the Executive Budget. Recommendations by the other commissions are due in the coming months.

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[1] Typically referred to as the "current services" or "base" gaps.

[2] Under the American Recovery and Reinvestment Act (ARRA), the Federal government increased the matching amount it paid on eligible State Medicaid expenditures from 50 percent to approximately 62 percent. This temporary increase in the Federal Medical Assistance Percentage ("FMAP") ends on June 30, 2011. The ARRA also provided a temporary increase in Federal funding for other governmental services, including aid to public education.

To begin addressing the out-year gaps, the Executive Budget proposes limits on the annual growth rates for major programs, including Medicaid and School Aid. The target growth rate for Department of Health Medicaid State Funds spending would be the ten-year average change in the medical component of the Consumer Price Index. The target growth rate for School Aid would be limited to the multi-year average rate of growth in New York State personal income. The Executive Budget includes two-year appropriations and changes to permanent law for Medicaid and School Aid, which are intended to effectively limit the growth in these programs to the target rates.

Under the Executive Budget proposal reflected in the Updated Financial Plan, All Governmental Funds spending, the broadest measure of State spending, would decrease by $3.6 billion (-2.6 percent) in 2011-12. State Operating Funds disbursements would increase by 2 percent.

The State's new fiscal year begins on April 1, 2011 and the Executive Budget, as amended, is awaiting action by the Legislature. The General Fund gap-closing measures included as part of the Executive Budget proposal assume the enactment of a budget by the start of the 2011-12 fiscal year. There can be no assurance that the Legislature will adopt a budget for the 2011-12 fiscal year by April 1, 2011, or that it will adopt all or any portion of the Executive Budget as proposed, or that the fiscal impact of the budget for 2011-12, when enacted, will not differ materially and adversely from the estimates and projections contained in the Updated Financial Plan.

The following table summarizes certain fiscal information presented on a budgetary basis of accounting. The information in the columns entitled "Before Actions ("Base")" is based on DOB's current Financial Plan projections, before taking into account the estimated impact of the Governor's Executive Budget proposal. The information in the column entitled "Executive Budget Proposal" assumes that the Legislature will approve the Executive Budget proposal without modification by April 1, 2011.

EXECUTIVE BUDGET FINANCIAL PLAN AT-A-GLANCE: KEY MEASURES (AS AMENDED) (millions of dollars)						
		2010-11 (Current Year)		2011-12 (Budget Year)		
				Before Actions ("Base")		
	2009-10 Results[1]	Mid-Year Update [1]	Revised [1]	Mid-Year [1,2]	Revised [1,2]	Executive Proposal [1]
State Operating Funds Budget						
Size of Budget	$80,659	$85,507	$84,964	$96,014	$95,047	$86,677
Annual Growth	-1.2%	6.0%	5.3%	13.0%	11.9%	2.0%
Other Budget Measures						
General Fund (with transfers)	$52,202	$55,746	$55,049	$66,161	$65,346	$56,766
	-4.4%	6.8%	5.5%	20.2%	18.7%	3.1%
State Funds (Including Capital)	$86,044	$91,982	$91,196	$102,622	$95,047	$92,838
	-1.0%	6.9%	6.0%	12.5%	4.2%	1.8%
Capital Budget (Federal and State)	$7,112	$8,508	$8,274	$8,617	$8,273	$8,169
	4.1%	19.6%	16.3%	4.1%	0.0%	-1.3%
Federal Operating	$39,107	$43,382	$42,876	$39,686	$40,273	$37,688
	18.1%	10.9%	9.6%	-7.4%	-6.1%	-12.1%
All Funds	$126,878	$137,397	$136,114	$144,317	$143,593	$132,534
	4.4%	8.3%	7.3%	6.0%	5.5%	-2.6%
All Funds (Including "Off-Budget" Capital)	$128,555	$139,178	$137,763	$145,919	$145,251	$134,192
	3.8%	8.3%	7.2%	5.9%	5.4%	-2.6%
All Funds Receipts						
Taxes	$57,668	$61,452	$60,793	$65,516	$64,538	$64,758
	-4.4%	6.6%	5.4%	7.8%	6.2%	6.5%
Miscellaneous Receipts	$23,556	$23,218	$23,702	$22,870	$22,809	$23,617
	17.4%	-1.4%	0.6%	-3.5%	-3.8%	-0.4%
Federal Grants	$45,525	$50,565	$50,013	$46,280	$46,753	$44,302
	17.2%	11.1%	9.9%	-7.5%	-6.5%	-11.4%
Total Receipts	$126,749	$135,235	$134,508	$134,666	$134,100	$132,677
	6.3%	6.7%	6.1%	0.1%	-0.3%	-1.4%
Base Tax Growth/(Decline) [3]	-12.3%	2.3%	2.1%	8.1%	7.5%	7.5%
Inflation (CPI)	0.3%	1.3%	1.4%	1.7%	1.9%	2.1%
Budget Gaps						
2011-12	N/A	N/A	N/A	($9,026)	($10,001)	0
2012-13	N/A	N/A	N/A	($14,644)	($14,945)	($2,198)
2013-14	N/A	N/A	N/A	($17,232)	($17,429)	($2,463)
2014-15	N/A	N/A	N/A	N/A	($20,903)	($4,368)
Total General Fund Reserves	$2,302	$1,385	$1,357	$1,337	N/A	$1,609
Rainy Day Reserve Funds	$1,206	$1,206	$1,206	$1,206	N/A	$1,206
Reserved for Deferred Payments [4]	$906	$0	$0	$0	N/A	$0
All Other Reserves	$190	$179	$151	$131	N/A	$403
State Workforce (Subject to Direct Executive Control) [5]	131,741	126,493	126,634	127,032.0	127,032	126,367
State-Related Debt						
Debt Service as % All Funds Receipts	4.4%	4.4%	4.5%	4.9%	4.9%	5.0%
State-Related Debt Outstanding	$54,694	$56,630	$56,438	$57,855	$57,855	$58,017

[1] Spending in State Operating Funds, State Funds, and Federal Operating Funds has been restated to the classification of State and Federal special revenue accounts followed by the State Comptroller. See note on following page for more information on how this change impacts reporting.

[2] Before proposed spending reductions to eliminate the projected budget gap.

[3] The base tax growth rate for the current year equals current year actual collections, less the incremental values of tax law changes and involuntary collections, divided by actual collections from the prior year.

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

[5] This table does not reflect layoffs that may be necessary in the absence of negotiated workforce savings.

SPENDING ADJUSTMENTS

With this AIS Update, DOB has altered its classification of State and Federal special revenue funds to conform to the accounting classifications used by the Office of State Comptroller. This means that certain special revenue accounts formerly reported in the State's Financial Plan as Federal Operating Funds have been reclassified to State Operating Funds. This change has the effect of increasing the reported disbursements from State Operating Funds, and reducing reported disbursements from Federal Operating Funds by an equal amount. Accordingly, there is no impact on the State's reported All Governmental Funds spending totals. The impact of the reclassification is summarized in the following table for comparability.

STATE OPERATING FUNDS AS RESTATED
(millions of dollars)

	Before Restatement	Reporting Adjustment*	Restated
2005-06	66,240	3,065	69,305
2006-07	73,476	3,031	76,507
2007-08	76,989	3,029	80,018
2008-09	78,166	3,459	81,625
2009-10	76,873	3,786	80,659
2010-11 Mid-Year	81,261	4,246	85,507
2010-11 Revised	80,807	4,157	84,964
2011-12 Mid-Year	92,315	3,699	96,014
2011-12 Revised	91,348	3,699	95,047
2011-12 Proposed	83,109	3,568	86,677

*DOB has reclassified certain special revenue accounts from Federal Operating Funds to State Operating Funds to be consistent with the methodology used by the Office of the State Comptroller.

Source: NYS DOB

CURRENT FISCAL YEAR UPDATE (2010-11) SUMMARY OF REVISIONS TO MID-YEAR UPDATE

In the Mid-Year Update dated November 9, 2010, DOB estimated that the General Fund had a potential budget gap of $315 million in the current fiscal year. Based on a review of updated information for receipts and disbursements, DOB expects to end the current fiscal year in balance[3] on a cash basis in the General Fund, although risks remain. Tax receipts have continued to fall substantially below anticipated levels, but a combination of unplanned miscellaneous receipts and lower than anticipated disbursements across a range of programs and activities are expected to be sufficient to end the fiscal year in balance. The table below summarizes the revisions to the 2010-11 Financial Plan since the Mid-Year Update.

GENERAL FUND BUDGETARY BASIS SURPLUS/(GAP) ESTIMATE FOR 2010-11
SUMMARY OF CHANGES FROM MID-YEAR UPDATE
(millions of dollars)

	2010-11
MID-YEAR ESTIMATE	**(315)**
Total Receipts Revisions	**(410)**
Tax Receipts	(721)
Fund Sweeps Shortfall	(181)
18-a Assessment	266
Workers Compensation Surplus Recapture	38
All Other	188
Total Disbursements Revisions	**697**
Local Assistance	502
State Operations	100
Debt Service	61
All Other	34
Use of Unreserved Fund Balance	**37**
Increase in Community Projects Fund Reserve	**(9)**
CURRENT ESTIMATE	**0**

General Fund receipts, including transfers from other funds, are expected to total $54.1 billion in 2010-11, a decrease of $410 million compared to the Mid-Year Update. Based on collections experience to date, DOB lowered the estimate for General Fund tax receipts by approximately $721 million compared to the Mid-Year Update.

[3] Neither the State Constitution nor State Finance Law provides a precise meaning of budget balance. In practice, the General Fund is considered "balanced" on a cash-basis of accounting if, at the end of a State fiscal year, all required payments, including personal income tax refunds, have been made without the issuance of deficit notes or bonds, and the balances in the Tax Stabilization Reserve and Rainy Day Reserve have been restored to levels at or above the levels on deposit when the fiscal year began.

The reduction in estimated annual tax receipts and transfers from other funds in 2010-11 is expected to be offset in part by higher than expected receipts from other sources. The most significant change reflects payment of public utility assessments that were not previously incorporated in the Financial Plan estimates, as they were not expected to be received in the 2010-11 fiscal year. This is expected to result in $266 million in additional miscellaneous receipts in the current year. Other transactions are also expected to exceed budgeted levels in the final quarter of the fiscal year.

General Fund disbursements, including transfers to other funds, are estimated at $55.0 billion, a decrease of $697 million from the estimate in the Mid-Year Update. Estimated disbursements have been reduced across a range of programs and activities in local assistance, State agency operations, and debt service. The revisions reflect operating results to date, the continuing impact of cost control measures imposed on discretionary spending, and the conservative estimation of General Fund costs. In addition, the Updated Financial Plan reflects a technical adjustment that aligns School Aid disbursements with available appropriation authority (a reduction in General Fund spending of $50 million).

The Updated Financial Plan assumes the General Fund will use approximately $37 million of the $73 million in unreserved fund balances to make all planned payments in the current year.

It is expected that the General Fund will end 2010-11 with a cash balance of $1.36 billion. The balance consists of $1.03 billion in the Tax Stabilization Reserve, $175 million in the Rainy Day Reserve, $94 million in the Community Projects Fund, $21 million in the Contingency Reserve, and $36 million in undesignated fund balance.

Risks to budget balance in the current fiscal year remain. They include the potential that actual tax receipts may fall below the revised estimates; year-end transactions, such as the transfer of excess balances from other funds or payments from non-State entities, may occur at lower levels than assumed in the Updated Financial Plan; and disbursements in certain programs, especially economically-sensitive programs such as Medicaid, may exceed budgeted amounts. In addition, the State expects to price and close a General Obligation bond sale by March 30, 2011. A portion of the sale proceeds will be used to reimburse the State's General Fund for capital expenditures through the end of the 2010-11 fiscal year. See “Other Matters Affecting the Updated Financial Plan - Financial Plan Risks” herein.

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PRELIMINARY YEAR-TO-DATE OPERATING RESULTS

The following discussion summarizes DOB's estimate of operating results through February 2011. The State Comptroller is expected to publish in mid-March 2011 the official monthly operating results through February 2011. DOB does not anticipate material changes between the results reported herein and the official monthly results that will be published in mid-March 2011.

GENERAL FUND

DOB estimates that the General Fund ended February 2011 with a closing balance of approximately $6.4 billion, or $734 million higher than the estimated closing balance in the Mid-Year Update. General Fund receipts, including transfers from other funds, were $694 million below the Mid-Year Update forecast, reflecting lower tax collections and lower miscellaneous receipts to date. General Fund disbursements, including transfers to other funds, were $1.4 billion below the Mid-Year Update forecast, due to lower than expected Medicaid spending, the timing of payments for a number of programs, earlier than expected payment of fringe benefit bills this year (paid to the General Fund from other funds), and slower than expected spending across various local programs. DOB took into account actual operating results through January 2011 and preliminary results through February 2011 in preparing the forecasts and projections in the Updated Financial Plan.

The following table compares preliminary, unaudited results through February 2011 to the estimates included in the Mid-Year Update and the AIS.

GENERAL FUND RESULTS VS. PROJECTIONS: APRIL 2010 to FEBRUARY 2011
(millions of dollars)

	Projections			Favorable/ (Unfavorable) vs.	
	2010-11 Enacted Budget	2011-12 Mid-Year	Preliminary Results *	2010-11 Enacted Budget	2011-12 Mid-Year
Opening Balance (April 1, 2010)	**2,302**	**2,302**	**2,302**	**n/a**	**n/a**
Receipts	**48,265**	**47,687**	**46,993**	**(1,272)**	**(694)**
Personal Income Tax**	29,688	29,449	28,769	(919)	(680)
User Taxes and Fees**	10,314	10,092	10,124	(190)	32
Business Taxes	3,988	3,736	3,673	(315)	(63)
Other Taxes**	1,232	1,275	1,485	253	210
Non-Tax Revenue**	3,043	3,135	2,942	(101)	(193)
Disbursements	**43,716**	**44,305**	**42,877**	**839**	**1,428**
Medicaid (including admin)	6,845	7,104	6,828	17	276
Higher Education	1,985	1,975	1,724	261	251
All Other Education	1,415	1,411	1,195	220	216
Children and Families	1,440	1,396	1,301	139	95
All Other Local	17,060	16,980	16,756	304	224
Personal Service	5,426	5,596	5,550	(124)	46
Non-Personal Service	1,625	1,777	1,597	28	180
General State Charges	2,522	2,783	2,788	(266)	(5)
Transfers To Other Funds	5,398	5,283	5,138	260	145
Change in Operations	**4,549**	**3,382**	**4,116**	**(433)**	**734**
Closing Balance (February 28, 2011) *	**6,851**	**5,794**	**6,418**	**(433)**	**734**

* The Office of State Comptroller will publish actual results in mid-March, 2011, following release of this AIS Update.
** Includes transfers from other funds after debt service.
*** Mid-year closing balance includes $110 million of proposed spending reductions.

General Fund tax receipts, including transfers after debt service, were $694 million below the Mid-Year estimate, primarily attributable to lower-than-expected personal income tax receipts during this time period. Disbursements, including transfers to other funds, were $1.4 billion below the Mid-Year forecast, largely due to Medicaid, higher education, and other education aid. Disbursements in these areas were lower than expected due to variations in claiming and the timing of local aid payments.

GENERAL FUND ANNUAL CHANGE

GENERAL FUND PRELIMINARY RESULTS: APRIL 2010 THROUGH FEBRUARY 2011
(millions of dollars)

	2009-10 Actual	2010-11 Preliminary (unaudited)	Increase/ (Decrease) from Prior Year
Opening Balance (April 1)	**1,948**	**2,302**	**354**
Receipts	**45,241**	**46,993**	**1,752**
Personal Income Tax*	27,480	28,769	1,289
User Taxes and Fees*	9,334	10,124	790
Business Taxes	3,744	3,673	(71)
Other Taxes*	975	1,485	510
Non-Tax Revenue	3,708	2,942	(766)
Disbursements	**42,651**	**42,877**	**226**
School Aid	10,926	10,155	(771)
School Aid End of Year Payment Delay	-	2,060	2,060
Medicaid (including admin)	6,612	6,828	216
Higher Education	2,103	1,724	(379)
Temporary and Disability Assistance	1,248	1,052	(196)
All Other Education	1,361	1,195	(166)
All Other Local	5,228	4,790	(438)
Personal Service	5,962	5,550	(412)
Non-Personal Service	1,739	1,597	(142)
General State Charges	2,567	2,788	221
Transfers To Other Funds	4,905	5,138	233
Change in Operations	**2,590**	**4,116**	**1,526**
Closing Balance (February 28)	**4,538**	**6,418**	**1,880**

** Includes transfers from other funds after debt service.*

Receipts through February 2011 were $1.8 billion, or 3.9 percent higher than the same period in the prior fiscal year. Total tax receipts are $2.5 billion higher mainly due to the growth in personal income tax collections, user taxes and fees, estate taxes, and the real estate transfer tax, resulting from both law changes and the economic recovery. Business tax collections fell, due mainly to the timing of refunds. The decline in non-tax revenue is mainly due to receipts that were not received or received in lower amounts in 2010-11, including 18-a assessment ($382 million), the Energy Research and Development Authority ($90 million), Tribal Nations ($78 million), Insurance ($65 million), SUNY non-tuition revenues ($55 million), and lower fine collections.

Disbursements through February 2011 were $226 million, or 0.5 percent, higher than the same period in the prior fiscal year. Spending growth is affected by the delay of the end of year school aid payment ($2.06 billion) from March 2010 to the statutory deadline of June 1, 2010. Excluding the school aid delay, spending through February 2011 totaled $40.8 billion, or $1.8 billion below the 2009-10 level.

The most significant annual spending changes include: lower general school aid spending to date that results mainly from savings enacted in the 2010-11 Budget ($771 million); roughly $550 million in lower state operations spending, reflecting in part, the one-time payment of retroactive salary settlements for employees represented by NYSCOPBA, PBA and BCI in 2009-10 and the impact of strict spending controls; the elimination of approximately $300 million in annual AIM funding for New York City that would have been paid by December; delay of a $300 million CUNY Senior College payment from 2008-09 to June of 2009-10, which increased 2009-10 spending relative to the current year; higher State payments for employee and retiree health insurance ($221 million); and the availability of Federal funding for public assistance benefit costs which reduced General Fund spending ($196 million).

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2011-12 FISCAL YEAR

UPDATED BUDGET GAPS (BEFORE EXECUTIVE BUDGET PROPOSAL)

The budget gap for 2011-12 that must be closed is projected at $10 billion, an increase of $975 million from the Mid-Year Update. The projected gaps in future years have also increased since the Mid-Year Update. DOB has revised the multi-year forecast of receipts and disbursements since the Mid-Year Update based on a review of operating results to date, updated forecasts for the State and national economies, and other information. The following table summarizes the revisions to the base budget gaps, that is, before reflecting the estimated impact of the Executive Budget proposal.

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

	2011-12	2012-13	2013-14	2014-15[4]
Mid-Year Budget Surplus/(Gap) Estimates	(9,026)	(14,644)	(17,232)	
Current-Services Revisions[1]	(975)	(301)	(197)	
Receipts Forecast Revisions	(1,326)	(620)	(841)	
Tax Forecast Receipts	(936)	(617)	(531)	
Miscellaneous Receipts	(66)	(75)	(125)	
18-a Assessment	0	0	(265)	
All Other	(324)	72	80	
Disbursements Forecast Revisions[2]	351	319	644	
School Aid Database Update	215	298	433	
Judiciary	90	(50)	(72)	
Transfers/All Other	46	71	283	
Current Services Surplus/(Gap) Estimates[3]	(10,001)	(14,945)	(17,429)	(20,903)

[1] Excludes the reclassification of certain mental hygiene activities between receipts and disbursements, which has no impact on Financial Plan operating results.

[2] Excluding the impact of showing the potential cost of retroactive labor settlements as a reserve, rather than as spending. This change has the effect of reducing disbursements, and increasing the projected closing balance in the General Fund. See Financial Plan Table on page 66 of this AIS Update.

[3] Does not include the potential $155 million in additional receipts for 2010-11 and 2011-12 as identified in the March 1, 2011 consensus forecast report.

[4] Added for the first time in the Executive Budget released on February 1, 2011.

The forecast for General Fund tax receipts in each fiscal year of the Updated Financial Plan has been lowered, consistent with the reductions made to the 2010-11 forecast (see above). The forecast for tax receipts reflects updated forecasts for the State and national economies, as well as current-year results to date. Reductions to projected receipts across the plan period account for most of the increase in the gaps compared to the Mid-Year forecast.

DOB has also made a number of other revisions to the multi-year forecast that, in total, have a relatively modest impact on the base gap projections. The more significant changes include the results of the November 2010 database update for School Aid, which reduced projected spending in each fiscal year of the plan (by $215 million in 2011-12, from $19.9 billion to $19.7 billion; by $298 million in 2012-13, from $22.4 billion to $22.1 billion; by $433 million in 2013-14, from $24.8 billion to $24.4 billion; and by $444 million in 2014-15, from $26.6 billion to $26.2 billion); a downward adjustment to the level of resources expected to be transferred from other funds to the General Fund in 2011-12, based on an updated analysis of existing fund balances and administrative constraints ($336 million); and reestimates to the spending projections for a number of agencies, based on updated information.

ESTIMATED IMPACT OF EXECUTIVE BUDGET PROPOSAL ON BUDGET GAPS

DOB estimates that the Governor's Executive Budget proposal would eliminate the General Fund budget gap of $10 billion in 2011-12 and reduce the budget gaps to $2.2 billion in 2012-13, $2.5 billion in 2013-14, and $4.4 billion in 2014-15. This assumes the Legislature enacts the Governor's proposal in its entirety and without modification by the start of the 2011-12 fiscal year on April 1, 2011. The following table summarizes the projected multi-year fiscal impact of the Governor's proposal.

GENERAL FUND BUDGETARY BASIS SURPLUS/(GAP) PROJECTIONS
SUMMARY OF CHANGES FROM REVISED CURRENT-SERVICES THROUGH EXECUTIVE BUDGET RECOMMENDATION AMENDED
(millions of dollars)

	2011-12	2012-13	2013-14	2014-15
REVISED CURRENT-SERVICES ESTIMATE (BEFORE ACTIONS)	**(10,001)**	**(14,945)**	**(17,429)**	**(20,903)**
Executive Budget Proposals	**10,001**	**12,747**	**14,966**	**16,535**
Spending Control	8,856	12,394	14,662	16,246
Aid to Localities Reductions[1]	*7,482*	*10,927*	*13,179*	*14,768*
State Agency Redesign	*1,374*	*1,467*	*1,483*	*1,478*
Revenue Enhancements	340	351	304	289
Non-Recurring Resources	805	2	0	0
BUDGET SURPLUS/(GAPS) AFTER ACTIONS	**0**	**(2,198)**	**(2,463)**	**(4,368)**

[1] Outyear savings assume Medicaid and School Aid grow at their proposed target rates.

To help accomplish the goal of fundamentally reducing the level of State long-term spending, the Governor appointed advisory commissions charged with redesigning current operations and recommending specific savings in the areas of Medicaid, prison closures, and State agency operations.

- The Medicaid Redesign Team has identified cost-containment measures and reestimates that are expected to provide approximately $2.85 billion in gap-closing savings in 2011-12, and restrain growth in Department of Health Medicaid State funds spending for future years to the ten-year average change of the medical component of the Consumer Price Index (currently estimated at approximately 4 percent annually). The Executive Budget includes specific proposals to achieve the savings identified by the Medicaid Redesign Team.

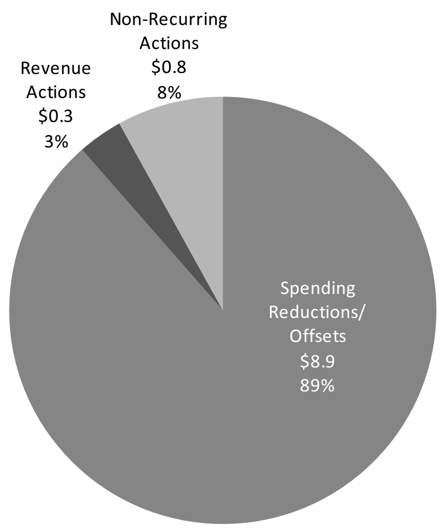
- The Prison Closure Advisory Task Force will be charged with undertaking an extensive review of the State prison system and recommending correctional facilities for closure during 2011-12. The Task Force will base its determinations using specified selection criteria with the intent of eliminating excess capacity to achieve a more efficiently operating prison system.

- The Spending and Government Efficiency Commission ("SAGE") is charged with making recommendations to reduce the number of State agencies, authorities, and commissions by 20 percent over the next four years. The Updated Financial Plan does not currently include specific savings from the SAGE Commission, but the Commission is expected to aid in achieving the aggressive savings targets for State agencies. Further, the projections for State Operations include significant reductions beginning in 2011-12.

COMPOSITION OF THE PROPOSED 2011-12 GAP-CLOSING PLAN

The chart below summarizes the shares of the proposed $10 billion gap-closing plan by broad category.

Shares of 2011-12 Gap-Closing Plan
(billions of dollars)



The gap-closing plan includes proposals to lower spending by approximately $8.9 billion in 2011-12 compared to the current-services forecast. The Executive Budget proposes savings of $2.85 billion each for School Aid and Medicaid, $1.4 billion for State agency operations, and $1.8 billion for a range of other programs and activities. In total, actions to reduce spending from base projections comprise nearly 90 percent of the overall gap-closing plan.

The gap-closing plan also anticipates $340 million in additional revenues in 2011-12. The additional revenues are expected to be derived from modernizing the State's tax system, improving voluntary compliance with tax law, and increasing the level of resources available from the Abandoned Property Fund.

Proposed non-recurring actions total $805 million in 2011-12, comprising approximately 8 percent of the gap-closing plan. The actions are expected to be derived from contributions by the State's public authorities, use of fund balances, and maintaining a consistent level of pay-as-you-go financing for eligible capital expenses.

ESTIMATED IMPACT ON SPENDING

DOB estimates that State Operating Funds spending would total $86.7 billion in 2011-12, an increase of $1.7 billion (2.0 percent) from the estimate for the current fiscal year. All Governmental Funds spending, which includes capital projects and Federal operating spending, would total $132.5 billion, a decrease of $3.6 billion from the current year.

TOTAL DISBURSEMENTS
(millions of dollars)

	2010-11 Revised	2011-12 Base	Before Actions: Annual $ Change	Before Actions: Annual % Change	2011-12 Proposed	After Actions: Annual $ Change	After Actions: Annual % Change
State Operating Funds	**84,964**	**95,047**	**10,083**	**11.9%**	**86,677**	**1,713**	**2.0%**
General Fund (excluding transfers)	49,403	58,591	9,188	18.6%	50,502	1,099	2.2%
Other State Funds	29,997	30,364	367	1.2%	30,092	95	0.3%
Debt Service Funds	5,564	6,092	528	9.5%	6,083	519	9.3%
All Governmental Funds	**136,114**	**143,593**	**7,479**	**5.5%**	**132,534**	**(3,580)**	**-2.6%**
State Operating Funds	84,964	95,047	10,083	11.9%	86,677	1,713	2.0%
Capital Projects Funds	8,274	8,273	(1)	0.0%	8,169	(105)	-1.3%
Federal Operating Funds	42,876	40,273	(2,603)	-6.1%	37,688	(5,188)	-12.1%
General Fund, including Transfers	**55,049**	**65,346**	**10,297**	**18.7%**	**56,766**	**1,717**	**3.1%**
State Funds	**91,196**	**101,311**	**10,115**	**11.1%**	**92,838**	**1,642**	**1.8%**

Adjusted for several factors, State Operating Funds spending would increase by approximately $900 million in 2011-12, or 1.0 percent. By comparison, inflation is projected at 2.1 percent. The annual growth in State Operating Funds spending is affected by several factors: (a) the deferral of a School Aid payment from 2009-10 to 2010-11; (b) the planned amortization of the State's pension costs above a certain percentage of payroll, as authorized in 2010; (c) the set-aside of a reserve to pay for potential retroactive labor settlements through 2010-11, rather than assuming spending for these settlements in 2011-12; and (d) accounting for the phase-out of the Federal government's payment of an increased share of State Medicaid costs. The State Operating Funds spending total in the table below is adjusted to exclude the impact of these factors.

STATE OPERATING FUNDS TOTAL DISBURSEMENTS (ADJUSTED)
(millions of dollars)

	2010-11 Revised	2011-12 Base	Before Actions: Annual $ Change	Before Actions: Annual % Change	2011-12 Proposed	After Actions: Annual $ Change	After Actions: Annual % Change
State Operating Funds	**84,964**	**95,047**	**10,083**	**11.9%**	**86,677**	**1,713**	**2.0%**
Adjustments [1]	**2,137**	**1,334**	**(803)**	**-37.6%**	**1,334**	**(803)**	**-37.6%**
2010 School Aid Deferral	(2,060)	0	2,060	-100.0%	0	2,060	-100.0%
Pension Amortization (Authorized 2010)	249	635	386	155.0%	635	386	155.0%
Retroactive Labor Settlements	0	346	346	n/ap	346	346	N/A
Enhanced FMAP (DOH Medicaid)	3,948	353	(3,595)	-91.1%	353	(3,595)	-91.1%
STATE OPERATING FUNDS (ADJUSTED)	**87,101**	**96,381**	**9,280**	**10.7%**	**88,011**	**910**	**1.0%**

[1] See text above.

The annual spending growth in State Operating Funds is affected by the rapid annual increase in debt service and fringe benefits, which are difficult to control in the short-term due to existing constitutional, statutory and contractual obligations. Together, these costs are projected to increase by nearly $1.0 billion in 2011-12. Debt service on State-supported debt is projected to increase by $519 million (9.3 percent) in 2011-12. Spending on fringe benefits and fixed costs is projected to increase by $473 million (7.8 percent). Growth in fringe benefits is due to increases in the State's annual contribution to the New York State and Local Retirement System and the cost of providing health insurance for active and retired State employees. Pension costs, including State contributions to SUNY's optional retirement program, are expected to increase by $204 million (13.9 percent) in 2011-12, even with the amortization (i.e., deferral with interest expense) of contributions in excess of 10.5 percent of payroll, as authorized in the 2010-11 Enacted Budget. Without amortization, the State contribution to the State pension system in 2011-12 would total approximately $2.1 billion, or $635 million above the amount in the Updated Financial Plan.[4] See "State Retirement Systems" and pages 26 and 27 of this AIS Update for a discussion of the pension amortization. The following table summarizes the major sources of annual change in State spending by major program, purpose, and Fund perspective.

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[4] The Financial Plan assumes that the State will amortize pension costs, consistent with the provisions of the authorizing legislation. The State amortized $249 million of its fiscal year 2010-11 pension bill of $1.5 billion and paid the balance on or before March 1, 2011. The amounts assumed to be amortized over the Financial Plan period are $635 million in 2011-12, $789 million in 2012-13, $1.0 billion in 2013-14, and $1.1 billion in 2014-15.

STATE SPENDING PROJECTIONS: BEFORE AND AFTER PROPOSED BUDGET ACTIONS
(millions of dollars)

STATE OPERATING FUNDS	2010-11 Revised	2011-12 Base	Annual Change Before Actions $	Annual Change Before Actions %	2011-12 Proposed	Annual Change After Actions $	Annual Change After Actions %
Local Assistance	**55,732**	**64,509**	**8,777**	**15.7%**	**57,295**	**1,563**	**2.8%**
School Aid [1]	19,798	22,453	2,655	13.4%	19,502	(296)	-1.5%
Medicaid [2]	14,152	19,992	5,840	41.3%	17,329	3,177	22.4%
Department of Health	15,900	17,943	2,043	12.8%	15,461	(439)	-2.8%
Enhanced FMAP (DOH Only)	(3,948)	(353)	3,595	-91.1%	(353)	3,595	-91.1%
Mental Hygiene	2,131	2,290	159	7.5%	2,110	(21)	-1.0%
Children and Family Services	69	112	43	62.3%	111	42	60.9%
Transportation	4,271	4,298	27	0.6%	4,246	(25)	-0.6%
STAR	3,270	3,418	148	4.5%	3,293	23	0.7%
Social Services (Non-Medicaid)	2,755	3,302	547	19.9%	2,929	174	6.3%
Higher Education	2,640	2,711	71	2.7%	2,571	(69)	-2.6%
Public Health/Aging	2,256	2,412	156	6.9%	2,307	51	2.3%
Other Education Aid	1,821	1,833	12	0.7%	1,657	(164)	-9.0%
Mental Hygiene (Non-Medicaid)	1,486	1,661	175	11.8%	1,512	26	1.7%
Local Government Assistance	776	1,070	294	37.9%	736	(40)	-5.2%
All Other [3]	2,507	1,359	(1,148)	-45.8%	1,213	(1,294)	-51.6%
State Operations	**17,689**	**17,908**	**219**	**1.2%**	**16,830**	**(859)**	**-4.9%**
Personal Service:	12,462	12,485	23	0.2%	11,717	(745)	-6.0%
Executive Agencies	7,344	7,168	(176)	-2.4%	6,603	(741)	-10.1%
SUNY	3,183	3,343	160	5.0%	3,165	(18)	-0.6%
Judiciary	1,540	1,568	28	1.8%	1,568	28	1.8%
Legislature	167	165	(2)	-1.2%	165	(2)	-1.2%
Department of Law	112	117	5	4.5%	109	(3)	-2.7%
Audit & Control	116	124	8	6.9%	107	(9)	-7.8%
Non-Personal Service	5,227	5,423	196	3.7%	5,113	(114)	-2.2%
Fringe Benefits/Fixed Costs	**6,056**	**6,598**	**542**	**8.9%**	**6,529**	**473**	**7.8%**
Pensions	1,468	1,664	196	13.4%	1,672	204	13.9%
Health Insurance	3,053	3,389	336	11.0%	3,409	356	11.7%
All Other Fringe Benefits	1,198	1,217	19	1.6%	1,120	(78)	-6.5%
Fixed Costs	337	328	(9)	-2.7%	328	(9)	-2.7%
Debt Service	**5,485**	**6,030**	**545**	**9.9%**	**6,021**	**536**	**9.8%**
Capital Projects	**2**	**2**	**0**	**0.0%**	**2**	**0**	**0.0%**
TOTAL STATE OPERATING FUNDS	**84,964**	**95,047**	**10,083**	**11.9%**	**86,677**	**1,713**	**2.0%**
Capital Projects (State Funded)	**6,232**	**6,264**	**32**	**0.5%**	**6,161**	**(71)**	**-1.1%**
TOTAL STATE FUNDS	**91,196**	**101,311**	**10,115**	**11.1%**	**92,838**	**1,642**	**1.8%**
Federal Aid (Including Capital Grants)	**44,918**	**42,282**	**(2,636)**	**-5.9%**	**39,696**	**(5,222)**	**-11.6%**
TOTAL ALL GOVERNMENTAL FUNDS	**136,114**	**143,593**	**7,479**	**5.5%**	**132,534**	**(3,580)**	**-2.6%**

[1] Excludes payment deferral. Includes Medicaid spending for School Supportive Health Services in 2010-11.

[2] An additional $3.6 billion in Medicaid spending for mental hygiene agencies is included in state operations and fringe benefits spending totals.

[3] All other includes ARRA, school aid deferral, local aid spending in a number of other programs, including parks and the environment, economic development, and public safety, and reclassification of money between Financial Plan categories.

EXPLANATION OF EXECUTIVE BUDGET GAP-CLOSING PLAN

The table below summarizes the Executive Budget gap-closing plan.

GENERAL FUND GAP-CLOSING PLAN FOR 2011-12
(millions of dollars)

	2011-12	2012-13	2013-14	2014-15
CURRENT-SERVICES GAP ESTIMATES (BEFORE ACTIONS)	**(10,001)**	**(14,945)**	**(17,429)**	**(20,903)**
Total Executive Budget Gap-Closing Proposals	**10,001**	**12,747**	**14,966**	**16,535**
Spending Reductions/Offsets	**8,856**	**12,394**	**14,662**	**16,246**
Local Assistance	**7,482**	**10,927**	**13,179**	**14,768**
Medicaid	2,850	4,357	5,152	5,888
Public Health/Aging	81	226	233	240
School Aid	2,851	4,651	6,091	6,947
Lottery Aid	155	200	200	200
School Tax Relief	125	262	262	262
Education/Special Education	181	61	66	72
Higher Education	69	87	89	89
Human Services/Labor/Housing	385	396	409	428
Local Government Aid	334	304	304	304
Mental Hygiene	307	327	317	280
Member Item Fund Deposit Repeal	85	0	0	0
All Other	59	56	56	58
State Agency Redesign	**1,374**	**1,467**	**1,483**	**1,478**
Revenue Enhancements	**340**	**351**	**304**	**289**
Tax Modernization/Voluntary Compliance	200	200	200	200
Abandoned Property	100	115	60	45
All Other	40	36	44	44
Non-Recurring Resources	**805**	**2**	**0**	**0**
MTA Transaction	200	0	0	0
NYPA/Other Authorities	150	0	0	0
Debt Management/Capital Financing	200	0	0	0
School Aid Claims Limited to Nov 2010 Database	100	0	0	0
Recoveries	75	0	0	0
All Other	80	2	0	0
EXECUTIVE BUDGET SURPLUS/(GAP) ESTIMATE	**0**	**(2,198)**	**(2,463)**	**(4,368)**

The 2011-12 gap-closing actions are organized into three general categories: (a) actions that reduce current-services spending in the General Fund on a recurring basis (Spending Reductions/Offsets); (b) actions that increase revenues on a recurring basis (Revenue Actions); and (c) transactions that increase revenues or lower spending in 2011-12, but that cannot be relied on in the future (Non-Recurring Resources).

The sections below provide details on the actions that are recommended for 2011-12 under each category. For additional information on the Executive Budget recommendations for major programs and activities, see “Multi-Year Financial Plan Projections” herein.

REDUCTIONS/OFFSETS

LOCAL ASSISTANCE

Local assistance spending includes financial aid to local governments and non-profit organizations, as well as entitlement payments to individuals. State Operating Funds spending for local assistance is estimated at $57.3 billion in 2011-12, an increase of $1.6 billion (2.8 percent) from the current year. Reductions from the 2011-12 current-services forecast for local assistance contribute $7.5 billion to the General Fund gap-closing plan.

The most significant gap-closing actions in local assistance include the following:

- **Medicaid ($2.85 billion in savings and reestimates):** The Medicaid Redesign Team (MRT) has identified a series of programmatic changes and cost-containment measures that are expected to generate gap-closing savings in 2011-12, and are expected to restrain growth in future years. Specifically, the MRT recommended a series of programmatic reforms to Medicaid payments and program structures ($1.1 billion); the elimination of annual statutory inflation factors for hospitals, nursing homes and home and personal care providers ($186 million); further spending reduction achieved, either by a 2 percent across the board rate reduction or other industry-specific measures ($345 million); the acceleration of certain payments to take advantage of additional enhanced Federal Medical Assistance Percentage payments ($66 million); and an industry-led effort to generate additional savings ($640 million). In addition, the plan recognizes the impact of slower caseload growth and changes in provider spending patterns ($475 million). See “Special Considerations” for a discussion of potential implementation risks. The following table summarizes the most significant MRT savings proposals included in the Updated Financial Plan.

SUMMARY OF MEDICAID REDESIGN TEAM SAVINGS ACTIONS SAVINGS/(COSTS) (millions of dollars)	2011-12	2012-13	2013-14	2014-15
Total	**2,850**	**4,357**	**5,152**	**5,888**
Hospitals/Clinics	**402**	**520**	**555**	**557**
Establish Medical Malpractice Reforms	209	209	209	209
2 Percent Reduction	85	88	88	88
Permanently Eliminate Inflationary Rate Increases	28	61	93	126
Implement Health Homes for High-Cost/High-Need Population	33	112	119	95
All Other	47	50	46	39
Managed Care	**296**	**329**	**339**	**341**
Reduce Profit Margin from 3% to 1%	94	100	100	100
2 Percent Reduction	86	89	89	89
Reduce Premium Rates	84	86	86	86
Eliminate Marketing Funding	23	23	23	23
All Other	9	31	41	43
Home Care	**250**	**204**	**224**	**258**
Reduce Utilization	157	127	88	69
2 Percent Reduction	58	60	60	60
Permanently Eliminate Inflationary Rate Increases	27	58	89	120
Establish Supportive Housing Initiative	0	(75)	(75)	(75)
All Other	8	34	62	84
Nursing Home	**181**	**258**	**310**	**365**
2 Percent Reduction	70	73	73	73
Permanently Eliminate Inflationary Rate Increases	48	102	157	211
Restructure Reimbursement for Proprietary Homes	44	44	44	44
All Other	19	39	36	37
All Other	**1,721**	**3,046**	**3,724**	**4,367**
Contingency Industry Utilization Reduction	328	1,058	1,572	2,140
Program Growth Revision	475	650	850	850
Pharmaceutical Savings	182	276	276	276
HCRA Actions	370	570	570	570
Enhance Program Integrity	80	160	160	160
All Other	286	332	296	371

- **Public Health/Aging ($81 million):** Reducing the EPIC program to only provide coverage for enrollees during the Medicare Part D coverage gap; modifying the payment rates, eligibility standards, and operation of the Early Intervention ("EI") program; eliminating reimbursement for optional services provided through the General Public Health Work program ("GPHW"); and, eliminating various Department of Health and New York State Office for the Aging programs and reinvesting 50 percent of the savings in a new Local Competitive Performance Grant Program.

- **School Aid ($2.85 billion on a State fiscal year basis):** Applying a Gap Elimination Adjustment to School Aid that would reduce aid progressively, with low-wealth districts receiving proportionally smaller reductions, and extending the phase-in of the Foundation Aid and Universal Prekindergarten ("UPK") programs from seven to ten years. Additional savings are expected to be realized in future years by limiting annual School Aid increases to growth in personal income and through reforms to building aid, transportation aid and the Board of Cooperative Education Services ("BOCES") aid.

- **Lottery Aid ($155 million):** Enhancing the operation of the State's lottery games and Video Lottery Terminal ("VLT") facilities (including increased promotion of VLTs and enhancements to Quick Draw and other lottery games) to increase lottery revenues for financing School Aid.

- **STAR ($125 million):** Capping growth in School Tax Relief ("STAR") exemption benefits per property taxpayer at 2 percent annually.

- **Education/Special Education ($181 million):** Realigning reimbursement for certain special education programs, and reducing funding for various other education programs.

- **Human Services/Labor/Housing ($385 million):**

  - In the area of public assistance, maximizing Federal Temporary Assistance for Needy Families ("TANF") funds to pay the full benefit costs for TANF-eligible households on public assistance; delaying by one year the final 10 percent increase to the public assistance grant that is scheduled to start on July 1, 2011; eliminating State participation for New York City's shelter supplement program; withholding the public assistance grant for those households not in compliance with Federal work requirements; and reducing reimbursement to New York City for adult homeless shelter costs.

  - In the area of Children and Family Services, reducing Child Welfare disbursements based on improved program performance data; decreasing the State share of the Adoption Subsidy Program from 73.5 to 62 percent; requiring local districts to utilize certain Federal Title XX funds for Child Welfare Services; establishing a competitive grant program to replace a number of separately appropriated programs; increasing the share of Committee on Special Education program costs paid by school districts to better align costs with funding responsibility; restructuring funding for local detention costs and replacing it with increased funding for alternatives to detention and a new competitive grant program; and eliminating the 1.2 percent Human Services Cost of Living Adjustment ("COLA") scheduled for 2011-12.

- **Local Government Aid ($334 million):** Continuing the State's current Aid and Incentives for Municipalities ("AIM") policy that excludes payments for New York City and reduces AIM for other municipalities, and eliminates additional aid provided to municipalities, other than Yonkers, that host a VLT facility. In the outyears, the savings would be offset in part by new funding for the Local Government Performance and Efficiency Program to reward municipal efficiencies.

- **Mental Hygiene ($307 million):** Eliminating the planned 1.2 percent Human Services COLA; reforming and restructuring the Office of Mental Health ("OMH"), the Office for People with Developmental Disabilities ("OPWDD") and the Office of Alcoholism and Substance Abuse Services ("OASAS") programs; enhancing billing and auditing recovery; freezing community bed development and planned program expansion; and, maintaining existing funding levels related to the implementation of the Rockefeller drug law reforms and other programs.

- **Higher Education ($69 million):** Reducing State support for the State University of New York ("SUNY") and the City University of New York ("CUNY") community colleges and reducing the Tuition Assistance Program ("TAP") program spending by changing eligibility standards and reducing certain grant awards. Savings would be offset in part by renewal of funding for certain scholarship programs.

- **Member Item Deposit ($85 million):** Repealing the planned deposit of $85 million and eliminating the fund, which finances legislative and gubernatorial initiatives.

STATE AGENCY REDESIGN

Agency redesign savings are expected to be achieved through several means including, but not limited to, facility closures reflecting excess capacity conditions, operational efficiencies, and wage and benefit changes negotiated with the State's employee unions. In total, the proposed reductions are expected to provide an estimated $1.4 billion in savings compared to the current-services forecast. If the State is unsuccessful in negotiating changes, DOB expects that significant layoffs would be necessary to achieve the State agency savings expected in the Updated Financial Plan. Implementation of the savings in State agencies may be affected by, among other things, statutory or regulatory constraints, negotiations with State employee unions, and other factors. Accordingly, there can be no assurance that the actual savings will not differ materially and adversely from the Updated Financial Plan projections.

To achieve the overall savings target, the Executive Budget proposes a 10 percent year-to-year reduction to State agencies financed from the General Fund, and comparable reductions to the following: health care and mental hygiene institutions, City University Senior Colleges (for parity with SUNY), and the operations of the Department of Transportation and Department of Motor Vehicles. The 10 percent reduction was calculated as part of the February 1, 2011 Financial Plan. Accordingly, subsequent revisions to estimated disbursements in 2010-11 have modestly altered the reductions in some agencies. The Judiciary and Legislature, and activities financed with specific dedicated revenues such as tuition, are not included in the reductions.

State agency operations are financed from a number of different appropriations and funds. The following table summarizes the annual reductions in State Operations by major agency. In some instances, only a portion of an agency's operations were exempt from reduction (e.g., SUNY).

REVENUE ENHANCEMENTS

The Executive Budget proposes $340 million in revenue enhancements. The following table summarizes the specific proposals.

COMBINED GENERAL FUND GAP-CLOSING PLAN FOR 2011-12 - REVENUE ENHANCEMENTS
(millions of dollars)

	2011-12	2012-13	2013-14	2014-15
Revenue Enhancements	**340**	**351**	**304**	**289**
Tax Modernization/Voluntary Compliance	200	200	200	200
Abandoned Property	100	115	60	45
All Other	40	36	44	44

NON-RECURRING RESOURCES

The Executive Budget relies on $805 million in non-recurring resources in 2011-12. Non-recurring resources include using available funds in the Metropolitan Mass Transportation Operating Assistance Account ("MMTOA"); maintaining a consistent annual level of discretionary pay-as-you-go capital spending, rather than increasing it as previously planned; negotiating funding agreements with the State's public authorities, including $100 million from the New York Power Authority; limiting the State's liability for School Aid claims; and a number of routine transactions. The table below lists the non-recurring resources.

COMBINED GENERAL FUND GAP-CLOSING PLAN FOR 2011-12
NON-RECURRING RESOURCES SAVINGS/(COSTS)
(millions of dollars)

	2011-12
Non-Recurring Resources	**805**
MTA Transaction	200
NYPA/Other Authorities	150
Debt Management/Capital Financing	200
School Aid Claims Limited to Nov 2010 Database	100
Recoveries	75
All Other	80

DOB estimates that the value of non-recurring resources in the Executive Budget proposal is less than the annual growth in savings achieved by the recurring gap-closing actions, which are estimated to increase in value by approximately $3.5 billion from 2010-11 to 2011-12. As a result, non-recurring resources have no adverse impact on the gap for 2012-13 because they are more than offset by the growth in recurring savings.

PROJECTED CLOSING BALANCES

If the Executive Budget is enacted as proposed, DOB estimates the State would end 2011-12 with a General Fund balance of $1.6 billion. Balances in the principal reserve funds would remain unchanged.

GENERAL FUND ESTIMATED CLOSING BALANCE
(millions of dollars)

	2010-11	Planned Deposit	Planned Uses	2011-12
Projected Year-End Fund Balance	**1,357**	**346**	**(94)**	**1,609**
Tax Stabilization Reserve Fund	1,031	0	0	1,031
Rainy Day Reserve Fund	175	0	0	175
Contingency Reserve Fund	21	0	0	21
Community Projects Fund	94	0	(94)	0
Prior Year Labor Agreements (2007-2011)	0	346	0	346
Reserved for Debt Reduction	36	0	0	36

The closing balance includes $346 million identified to cover the costs of potential retroactive labor settlements with unions that have not agreed to contracts through 2010-11. The amount is calculated based on the pattern settlement for the 2006-07 through 2010-11 period agreed to by the State's largest unions. In prior years, this amount has been carried in the annual spending totals. Therefore, this change in presentation has no impact on net operating results. If settlements are reached in 2011-12, the fund balance in the General Fund will decline.

The Community Projects Fund, which finances discretionary ("member item") grants allocated by the Legislature and Governor, is expected to decrease by $94 million, reflecting the proposed repeal of a scheduled $85 million deposit, elimination of the fund, and the final spend-down of the balance.

OTHER MATTERS AFFECTING THE FINANCIAL PLAN

CURRENT CASH-FLOW PROJECTIONS

The General Fund is authorized to borrow resources temporarily from other available funds in the State's Short-Term Investment Pool ("STIP") for up to four months, or to the end of the fiscal year, whichever period is shorter. The amount of resources that can be borrowed by the General Fund is limited to the available balances in STIP, as determined by the State Comptroller. Available balances include money in the State's governmental funds (labeled "All Funds" in the table below), as well relatively small amounts of other money belonging to the State.

The General Fund has used this authorization to meet certain payment obligations in May, June, September, November, and December 2010. The General Fund may need to rely on this borrowing authority at times during the remainder of the fiscal year (See "Preliminary Year-to-Date Operating Results Through February 2011" herein).

The State continues to reserve money on a quarterly basis for debt service payments that are financed with General Fund resources. Money to pay debt service on bonds secured by dedicated receipts, including PIT bonds, continues to be set aside as required by law and bond covenants.

FORECAST OF 2011-12 MONTH-END CASH BALANCES

The projected month-end balances for 2011-12 are shown in the table below. The projections assume that the Executive Budget gap-closing plan is enacted in its entirety by the start of the fiscal year. General Fund cash balances are expected to be relatively low, especially during the first half of the fiscal year. It is expected that the General Fund will continue to borrow periodically from STIP.

DOB will continue to monitor and manage the State's cash position closely during the fiscal year in an effort to maintain adequate operating balances.

PROJECTED ALL FUNDS MONTH-END CASH BALANCES
FISCAL YEAR 2011-12
(millions of dollars)

	General Fund	Other Funds	All Funds
April 2011	3,591	3,993	7,584
May	400	4,174	4,574
June	594	3,228	3,822
July	663	4,103	4,766
August	265	4,540	4,805
September	3,340	2,336	5,676
October	2,256	3,414	5,670
November	1,409	3,714	5,123
December	2,017	2,424	4,441
January 2012	6,318	3,643	9,961
February	6,168	3,765	9,933
March	1,609	2,823	4,432

CONSENSUS REVENUE FORECAST

On March 1, 2011, as required by State law, the Executive and Legislature issued a joint report containing a consensus forecast for the economy and estimates of receipts for the current and upcoming fiscal years. The consensus forecast is intended to provide a common agreement on tax receipts as a precursor to legislative deliberations on the Executive Budget proposal. In the consensus forecast report, the parties agreed that tax receipts over the two-year period (2010-11 and 2011-12) were likely to exceed the Executive Budget forecast by approximately $155 million. The consensus forecast will be taken into consideration in negotiations to adopt a budget for 2011-12, but is not reflected in the Updated Financial Plan.

BUDGET TIMELINE

The Legislature has announced a tentative schedule for deliberating on the proposed budget. According to the schedule, joint legislative conference committees will begin on March 15 and issue final conference reports by March 28, and the Legislature will consider joint budget bills from March 28 through March 31. The State's new fiscal year begins on April 1, 2011.

PENSION AMORTIZATION

Under legislation enacted in 2010, the State and local governments may defer paying (or "amortize") a portion of their pension costs beginning in 2010-11. Amortization temporarily reduces the pension costs that must be paid by participating employers in a given fiscal year, but results in substantially higher costs overall. Specifically, pension contribution costs in excess of the amortization thresholds that would otherwise be paid in a given fiscal year, which are 9.5 percent of payroll for the Employees' Retirement System ("ERS") and 17.5 percent for the Police and Fire Retirement System ("PFRS") in 2010-11, may be amortized by certain governmental entities. The threshold for amortization in the legislation increases by 1 percentage point annually (e.g., from 9.5 percent in 2010-11 to 10.5 percent in 2011-12). The State's ERS pension contribution rate as a percentage of payroll is expected to grow from 10.5 percent in 2011-12 to 13.5 percent in 2014-15, after amortization. The PFRS pension contribution rate is expected to be 18.5 percent in 2011-12, growing to 21.5 percent by 2014-15. The authorizing legislation also permits amortization in all future years if the actuarial contribution rate is greater than the amortization threshold, which may increase or decrease by no more than one percentage point for each year. Repayment of the amortized amounts will be made over a ten-year period at an interest rate to be determined by the State Comptroller. For amounts amortized in 2010-11, the Comptroller set an interest rate of 5 percent.

In March 2011, the State made a pension payment of $1.078 billion for 2010-11, and amortized $216 million. In addition, the State's Office of Court Administration (OCA) made its pension payment of $179 million, and amortized $33 million. The $249 million in total deferred payments will be repaid with interest over the next ten years, beginning in 2011-12. The Updated Financial Plan assumes that the State will amortize pension costs, consistent with the provisions of the authorizing legislation, and repay such amounts at an interest cost assumed by DOB to be 5 percent over 10 years from the date of each deferred payment. OCA elected to amortize for fiscal year 2010-11. DOB assumes that OCA will amortize $83 million for fiscal year 2011-12. DOB's Updated Financial Plan does not assume any additional amortizations by the OCA for fiscal years beyond 2011-12.

The following table summarizes DOB's amortization assumptions and their impact on the Updated Financial Plan.

Employee Retirement System (ERS) and Police and Fire Retirement System (PFRS)
Pension Contributions and Outyear Projections
(millions of dollars)

Fiscal Year	Normal Costs	Excess Contributions	Amortized Contributions*	New Amortization Costs	Total	Side Account Balance	Plus Interest at 5%
2010-11 Actual	1,552.4	0.0	(249.0)	0.0	1,303.4	0.0	0.0
2011-12 Projected	2,110.2	0.0	(635.0)	31.5	1,506.7	0.0	0.0
2012-13 Projected	2,424.9	0.0	(789.0)	104.8	1,740.7	0.0	0.0
2013-14 Projected	2,763.7	0.0	(1,013.0)	209.5	1,960.2	0.0	0.0
2014-15 Projected	3,068.7	0.0	(1,115.0)	343.6	2,297.3	0.0	0.0
2015-16 Projected	2,733.0	0.0	(705.3)	491.6	2,519.4	0.0	0.0
2016-17 Projected	2,481.2	0.0	(395.6)	585.2	2,670.9	0.0	0.0
2017-18 Projected	2,393.8	0.0	(143.8)	637.7	2,887.7	0.0	0.0
2018-19 Projected	2,361.2	80.5	0.0	656.8	3,098.5	0.0	0.0
2019-20 Projected	2,083.0	321.6	0.0	621.1	3,025.7	0.0	0.0
2020-21 Projected	1,663.1	699.9	0.0	502.4	2,865.4	0.0	0.0
2021-22 Projected	1,104.9	1,124.1	0.0	313.2	2,542.2	508.2	533.6
2022-23 Projected	1,037.0	1,087.9	0.0	0.0	2,124.9	1,596.1	1,702.6
2023-24 Projected	1,006.4	1,006.3	0.0	0.0	2,012.7	2,602.4	2,844.3
2024-25 Projected	993.6	898.2	0.0	0.0	1,891.8	3,500.6	3,929.7
2025-26 Projected	957.2	782.8	0.0	0.0	1,740.0	4,283.4	4,948.1

*Amortized contributions in 2012-13 through 2017-18 do not assume any amortized amounts for the Office of Court Administration.

Source: NYS DOB

DEBT REFORM ACT LIMIT

The Debt Reform Act of 2000 limits outstanding State-supported debt to no greater than 4 percent of New York State personal income, and debt service on State-supported debt to no greater than 5 percent of All Governmental Funds receipts. The limits apply to all State-supported debt issued after April 1, 2000. The State projects that $33.6 billion of State-supported debt outstanding will be subject to the cap as of March 31, 2011, which is equal to approximately 3.55 percent of personal income. Debt service subject to the cap will be approximately $3.1 billion, equal to 2.34 percent of All Governmental Funds receipts.

Based on the updated forecast, debt outstanding and debt service costs over the Updated Financial Plan period are expected to remain below the limits imposed by the Debt Reform Act. However, the available room under the debt outstanding cap is expected to decline from $4.2 billion in 2010-11 to approximately $850 million in 2013-14. The estimates do not include the potential impact of new capital spending that may be authorized in future budgets, or efforts to curtail existing bonded programs. The debt reform projections are sensitive to changes in State personal income levels. Measures to adjust capital spending and debt financing practices will continue to be needed for the State to stay in compliance with the statutory debt limit. The table below reflects the State's available debt capacity, after factoring in the SUNY transaction described below, which adds $152 million to the State’s outstanding debt, and other adjustments, such as changes to projected bond-financed capital spending and estimated growth in State personal income over the plan period.

STATE DEBT REFORM ACT - DEBT OUTSTANDING
DEBT OUTSTANDING ISSUED AFTER APRIL 1, 2000 -- LIMITED TO 4 PERCENT OF PERSONAL INCOME
(millions of dollars)

Year	Personal Income	Cap %	Actual/ Recommended %	$ (Above)/Below	% (Above)/Below
2010-11	945,392	4.00%	3.55%	4,229	0.45%
2011-12	993,986	4.00%	3.74%	2,599	0.26%
2012-13	1,025,348	4.00%	3.90%	978	0.10%
2013-14	1,078,785	4.00%	3.92%	849	0.08%
2014-15	1,136,349	4.00%	3.88%	1,409	0.12%
2015-16	1,196,626	4.00%	3.81%	2,312	0.19%

SUNY ACQUISITION OF LONG ISLAND COLLEGE HOSPITAL AND ASSUMPTION OF DEBT

SUNY has initiated plans to acquire the Long Island College Hospital (“LICH”), a 500-licensed bed facility located in Brooklyn, New York. SUNY indicates that the operations of LICH would be merged into those of SUNY's Downstate Medical Center. As part of the proposed transaction, which requires the approval of the State Legislature, the State Comptroller, DOB, and the Attorney General, SUNY would assume $152 million of LICH debt. SUNY indicates that it expects that annual debt service payments of approximately $17.3 million associated with the LICH debt will be paid from patient revenues. However, there can be no assurance that patient revenues will be sufficient to cover the cost of the debt service, and that the State will not need to make the debt service payments directly, resulting in a cost to the General Fund. Based on the structure of the transaction, it is expected that the debt will be classified as State-supported debt and subject to the State's statutory debt caps. Legislation has been proposed in the Executive Budget that would authorize SUNY to make lease payments to pay this debt. SUNY reports that New York State appropriations remain the largest single source of revenues for SUNY, and SUNY’s continued operational viability is substantially dependent upon a consistent and proportionate level of ongoing State support.

SPECIAL CONSIDERATIONS

GENERAL

The Updated Financial Plan forecasts are subject to many complex economic, social, financial, and political risks and uncertainties, some of which are outside the ability of the State to control. DOB believes that the projections of receipts and disbursements in the Updated Financial Plan are based on reasonable assumptions, but there can be no assurance that actual results will not differ materially and adversely from these projections. In recent fiscal years, actual receipts collections have fallen substantially below the levels forecast in the Financial Plan.

The Updated Financial Plan is based on numerous assumptions, including the condition of the State and national economies and the concomitant receipt of economically sensitive tax receipts in the amounts projected. The Updated Financial Plan is subject to various other uncertainties and contingencies relating to, among other factors, the extent, if any, to which wage increases for State employees exceed the annual wage costs assumed; realization of projected earnings for pension fund assets and current assumptions with respect to wages for State employees affecting the State's required pension fund contributions; the willingness and ability of the Federal government to provide the aid contemplated by the Updated Financial Plan; the impact on adoption of the State's budgets by the Legislature in substantially the forms submitted by the Governor; the ability of the State to implement cost reduction initiatives, including the reduction in State agency operations, and the success with which the State controls expenditures; and the ability of the State and its public authorities to market securities successfully in the public credit markets. Some of these specific issues are described in more detail in this AIS Update. The projections and assumptions contained in the Financial Plan are subject to revision which may involve substantial change, and no assurance can be given that these estimates and projections, which include actions the State expects to be taken but which are not within the State's control, will be realized.

BUDGET RISKS AND UNCERTAINTIES

The Executive Budget is a proposal. There can be no assurance that the Legislature will not make changes to the Executive Budget proposal that have an adverse impact on the budgetary projections set forth herein, or that it will take final action on the Executive Budget before the start of the new fiscal year on April 1, 2011. In prior years when a budget has not been enacted by the start of the fiscal year, the State has enacted interim appropriation bills to maintain certain governmental services. Starting in fiscal year 1995-96, the Legislature has annually approved the State's debt service appropriations by the start of each State fiscal year.

Although the Executive Budget includes the statutory tools necessary to implement the recommendations of the Medicaid Redesign Team, there can be no assurance that these proposals will achieve the level of gap-closing savings anticipated in 2011-12 or limit the rate of annual growth in Department of Health State Funds Medicaid spending. These recommendations are subject to the same risks identified for other Executive Budget proposals discussed above. In addition, these recommendations are dependent upon timely Federal approvals, appropriate amendments to existing systems and processes and a collaborative working relationship with health care industry stakeholders.

There can be no assurance that the budget gaps will not increase materially from current projections. If this were to occur, the State would be required to take additional gap-closing actions. These may include, but are not limited to, additional reductions in State agency operations; delays in payments to local governments or other recipients of State aid; suspension of capital maintenance and construction; extraordinary financing of operating expenses; or other measures. In nearly all cases, the ability of the State to implement these actions requires the approval of the Legislature or other entities outside of the control of the Governor.

The forecast contains specific transaction risks and other uncertainties including, but not limited to, the receipt of certain payments from public authorities; the receipt of miscellaneous revenues at the levels expected in the Updated Financial Plan, including payments pursuant to the Tribal State Compact; and, the achievement of cost-saving measures including, but not limited to, administrative savings in State agencies, including workforce management initiatives, the transfer of available fund balances to the General Fund at the levels currently projected; and increased demand in entitlement and claims-based programs such as Medicaid, public assistance and general public health, above the levels anticipated in the Updated Financial Plan. Such risks and uncertainties, if they were to materialize, could have an adverse impact on the Updated Financial Plan in the current year or future years.

ECONOMIC OUTLOOK

The Updated Financial Plan is based on numerous assumptions, including the performance of the national and State economies and the concomitant receipt of economically sensitive tax revenues in the amounts projected. Other uncertainties and risks concerning the economic and receipt forecasts include the impact of international events in Japan, the Middle East, and elsewhere, on consumer confidence, oil supplies, and oil prices, the impact of Federal statutory and regulatory changes concerning financial sector activities; the impact of changes concerning financial sector bonus payouts, as well as any future legislation governing the structure of compensation; the impact of an anticipated shift in monetary policy actions on interest rates and the financial markets; the impact of financial and real estate market developments on bonus income and capital gains realizations; and, the impact of household deleveraging on consumer spending and the impact of possible reduced household consumption on State tax collections. See full section on "Economic Outlook" later in this AIS Update

BOND MARKET

Implementation of the Updated Financial Plan is dependent on the State's ability to market successfully its bonds. 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. If the State cannot sell bonds at the levels (or on the timetable) expected in the capital plan, it couldamong other things, be required to contain capital spending, incur increased costs in the General Fund, and face a deterioration in its overall cash position. The success of projected public sales will be subject to prevailing market conditions. Future developments in the financial markets generally, as well as future developments concerning the State, and public discussion of such developments, may affect the market for outstanding State-supported and State-related debt.

LITIGATION

Litigation against the State may include potential challenges to the constitutionality of various actions. The State may also be affected by adverse decisions that are the result of various lawsuits, which do not meet the materiality threshold to warrant individual description in the “Litigation and Arbitration” section of this AIS Update, but, in the aggregate, could still adversely affect the State's Financial Plan.

FEDERAL ISSUES

The State receives a substantial amount of Federal aid for health care, education, transportation, and other governmental purposes. The Updated Financial Plan assumes relatively stable levels of Federal aid over the forecast period. Changes in Federal funding levels could have a materially adverse impact on the State's Financial Plan.

The Updated Financial Plan may be adversely affected by actions taken by the Federal government, including audits, disallowances, changes in aid levels, and changes to Medicaid rules. For example, all Medicaid claims are subject to audit and review by the Federal government. Most recently, the Federal Centers for Medicare and Medicaid Services ("CMS") requested additional information pertaining to claims for services provided to individuals in developmental centers operated by OPWDD. Among other information, CMS requested that the State provide a detailed description of how rates are developed. Although no official audit has commenced and the rates paid for these services are established in accordance with the methodology set forth in the approved State Plan, adverse action by CMS relative to these claims could jeopardize a significant amount of Federal financial participation in the State Medicaid program.

HEALTH INSURANCE COMPANY CONVERSIONS

State law permits a health insurance company to convert its organizational status from a not-for-profit to a for-profit corporation (a "health care conversion"), subject to a number of terms, conditions, and approvals. Under State law, the State must use the proceeds from a health care company conversion for health care related expenses included in the Health Care Reform Act (HCRA) Account. For planning purposes, the Updated Financial Plan assumes that approximately $150 million in proceeds from a health care conversion in 2011-12, and additional amounts in future years, would be deposited into HCRA. If the conversion does not occur on the timetable or at the levels assumed in the Updated Financial Plan, the State would be required to take other actions to increase available resources or to reduce planned spending to fund projected HCRA expenditures.

LABOR SETTLEMENTS

The Updated Financial Plan for 2011-12 includes a reserve of $346 million to cover the costs of a pattern settlement with all unions that have not agreed to contracts through 2010-11. The pattern is based on the terms agreed to by the State's largest unions for this period. There can be no assurance that actual settlements, some of which are subject to binding arbitration, will not exceed the amounts included in the Updated Financial Plan. An additional risk is the cost of salary increases for judges which could occur in 2012-13 and beyond as a result of the actions of a statutorily authorized judicial compensation commission. The Updated Financial Plan does not include any costs for potential general wage increases after the current labor agreements expire, or salary increases for judges.

GENERAL FUND OUT-YEAR BUDGET PROJECTIONS

This section presents the State's updated multi-year projections for receipts and disbursements based on the Updated Financial Plan, including the impact of the 2011-12 Executive Budget proposals. The projections for School Aid and Medicaid assume that spending will be held to target levels, as described earlier. State law requires the Governor to submit, and the Legislature to enact, a balanced plan of receipts and disbursements on a cash-basis for the General Fund. However, over 40 percent of total State spending for operating purposes is accounted for outside of the General Fund and is primarily concentrated in the areas of health care, School Aid, higher education, transportation and mental hygiene. Thus, the multi-year projections and growth rates are presented, where appropriate, on both a General Fund and State Operating Funds basis.

In evaluating the State's multi-year operating forecast, it should be noted that the reliability of the estimates as a predictor of the State's future financial position is likely to diminish as one moves further from the current year and budget year estimates. Accordingly, in terms of the out-year projections, 2012-13 is the most relevant from a planning perspective.

BUDGET GAPS

DOB estimates that the Executive Budget, if enacted as proposed, would result in a balanced General Fund Financial Plan in 2011-12 and leave projected gaps that total approximately $2.2 billion in 2012-13, $2.5 billion in 2013-14, and $4.4 billion in 2014-15. The net operating deficits in State Operating Funds are projected at $1.7 billion in 2012-13, $1.9 billion in 2013-14, and $3.7 billion in 2014-15.

The imbalances projected for the General Fund and State Operating Funds in future years are similar because the General Fund is the financing source of last resort for many State programs. Imbalances in other funds are typically financed by the General Fund.

SPENDING

Over the multi-year Financial Plan, spending is expected to increase by an average annual rate of 4.6 percent in the General Fund and 4.0 percent in State Operating Funds. The spending projections incorporate the target growth rates in the areas of Medicaid and School Aid, as well as an estimate of the effect of national health care reform on State health care costs. Spending growth reflects an expected return to a lower Federal matching rate for Medicaid expenditures after June 30, 2011, which will increase the share of Medicaid costs that must be financed by State resources, and the expected loss of temporary Federal aid for education. Spending growth is driven primarily by Medicaid, education, pension costs (including contributions to SUNY's optional retirement program), employee and retiree health benefits, social services programs and debt service.

RECEIPTS

Overall, tax receipts growth in the three fiscal years following 2011-12 is expected to remain in the range of 1.9 percent to 5.1 percent. This is consistent with the end of the personal income tax temporary rate increase and projected modest economic growth in the New York economy during this period.

GENERAL FUND PROJECTIONS (EXECUTIVE BUDGET PROPOSAL)

MULTI-YEAR GENERAL FUND PROJECTIONS
(millions of dollars)

	2011-12	2012-13	2013-14	2014-15
Receipts				
Taxes (After Debt Service)	52,805	53,591	56,494	58,051
Miscellaneous Receipts/Federal Grants	3,148	2,887	2,466	2,036
Other Transfers	1,065	757	660	656
Total Receipts	**57,018**	**57,235**	**59,620**	**60,743**
Disbursements				
Local Assistance Grants	**38,333**	**39,329**	**41,257**	**43,177**
School Aid	16,610	17,257	18,135	19,020
Medicaid (incl. administration)	10,190	9,971	10,456	11,059
Higher Education	2,555	2,678	2,766	2,854
Mental Hygiene	1,861	1,958	2,141	2,260
Social Services	3,029	3,355	3,628	3,787
Other Education Aid	1,639	1,852	1,935	1,998
All Other	2,449	2,258	2,196	2,199
State Operations	**7,511**	**8,091**	**8,060**	**8,355**
Personal Service	5,647	5,866	5,973	6,141
Non-Personal Service	1,864	2,225	2,087	2,214
General State Charges	**4,658**	**5,119**	**5,477**	**5,650**
Pensions	1,672	1,904	2,126	2,460
Health Insurance	3,409	3,737	4,113	4,113
All Other	(423)	(522)	(762)	(923)
Transfers to Other Funds	**6,264**	**6,752**	**7,147**	**7,787**
State Share Medicaid	3,032	3,119	3,082	3,082
Debt Service	1,615	1,722	1,668	1,576
Capital Projects	895	1,186	1,350	1,449
All Other	722	725	1,047	1,680
Total Disbursements	**56,766**	**59,291**	**61,941**	**64,969**
Change in Reserves	**252**	**142**	**142**	**142**
Community Projects Fund	(94)	0	0	0
Prior-Year Labor Agreement (2007-2011)	346	142	142	142
Proposed Budget Surplus/(Gap)	**0**	**(2,198)**	**(2,463)**	**(4,368)**

STATE OPERATING FUNDS PROJECTIONS (EXECUTIVE BUDGET PROPOSAL)

STATE OPERATING FUNDS PROJECTIONS
(millions of dollars)

	2011-12	2012-13	2013-14	2014-15
Receipts:				
Taxes	63,391	64,602	67,936	69,972
Personal Income Tax	38,659	38,924	41,162	42,938
User Taxes and Fees	14,196	14,517	15,020	15,509
Business Taxes	7,569	7,984	8,334	7,889
Other Taxes	2,967	3,177	3,420	3,636
Miscellaneous Receipts/Federal Grants	19,562	20,279	20,271	20,112
Total Receipts	**82,953**	**84,881**	**88,207**	**90,084**
Disbursements:				
Local Assistance Grants	57,295	59,558	62,156	64,512
School Aid	19,502	20,352	21,299	22,204
Medicaid (incl. administration)	15,063	15,665	16,295	16,947
Transportation	4,246	4,345	4,425	4,515
STAR	3,293	3,322	3,510	3,693
Mental Hygiene	3,623	3,854	4,170	4,371
Social Services	3,040	3,365	3,628	3,787
Higher Education	2,571	2,678	2,766	2,854
Public Health/Aging	2,307	2,205	2,228	2,267
Other Education Aid	1,654	1,863	1,945	2,008
Local Government Assistance	737	767	759	759
All Other	1,259	1,142	1,131	1,107
State Operations	16,830	17,708	17,871	18,341
Personal Service	11,717	12,088	12,286	12,569
Non-Personal Service	5,113	5,620	5,585	5,772
General State Charges	6,529	7,145	7,648	8,004
Pensions	1,672	1,904	2,126	2,460
Health Insurance (Active Employees)	2,059	2,244	2,469	2,509
Health Insurance (Retired Employees)	1,351	1,493	1,643	1,603
All Other	1,447	1,504	1,410	1,432
Debt Service	6,021	6,335	6,502	6,560
Capital Projects	2	2	2	2
Total Disbursements	**86,677**	**90,748**	**94,179**	**97,419**
Net Other Financing Sources/(Uses)	**4,367**	**4,204**	**4,100**	**3,624**
Net Operating Surplus/(Deficit)	**643**	**(1,663)**	**(1,872)**	**(3,711)**
Reconciliation to General Fund Gap:				
Designated Fund Balances	**(643)**	**(535)**	**(591)**	**(657)**
Prior-Year Labor Agreements (2007-2011) Reserve	(346)	0	0	0
Community Projects Fund	94	0	0	0
Special Revenue Funds	(271)	(435)	(490)	(517)
Debt Service Funds	(120)	(100)	(101)	(140)
General Fund Budget Gap	**0**	**(2,198)**	**(2,463)**	**(4,368)**

LOCAL ASSISTANCE GRANTS

MEDICAID

The Updated Financial Plan projects growth in the range of 4 percent annually for overall State Medicaid spending, after adjusting for the phase-out of enhanced FMAP. This reflects the target growth rate for Medicaid proposed in the Executive Budget, which is the long-term average change in the medical component of the Consumer Price Index.

TOTAL STATE-SHARE MEDICAID DISBURSEMENTS [1]
(millions of dollars)

	2011-12	2012-13	2013-14	2014-15
Department of Health [2]	15,109	15,711	16,341	16,994
State Share Without FMAP	15,462	15,457	16,341	16,994
Enhanced FMAP	(353)	254	0	0
Mental Hygiene	5,732	5,958	6,277	6,547
Foster Care	111	121	132	138
State Share Total	**20,952**	**21,790**	**22,750**	**23,679**
Annual $ Change - Total State Share		838	960	929
Annual % Change - Total State Share		4.0%	4.4%	4.1%
Annual $ Change - DOH Only		602	630	653
Annual % Change - DOH Only		4.0%	4.0%	4.0%

[1] To conform the Financial Plan classification of State Operating Funds spending to the classification followed by the State Comptroller, approximately $3 billion in Medicaid spending supported by a transfer from Federal Funds to the State Mental Hygiene Patient Income Account is now classified as State spending.

[2] Includes operational costs that support contracts related to the management of the Medicaid program and various activities to ensure appropriate utilization.

Medicaid growth over the plan period is affected by estimates of increasing Medicaid enrollment, rising costs of provider health care services (particularly in managed care), and higher levels of utilization, as well as the expiration of enhanced levels of Federal aid. The number of Medicaid recipients is expected to exceed 5.4 million at the end of 2012-13, an increase of 12.3 percent from the 2010-11 caseload of 4.9 million.

DEPARTMENT OF HEALTH - MEDICAID

MAJOR SOURCES OF ANNUAL CHANGE IN MEDICAID (DOH ONLY) -- LOCAL ASSISTANCE (millions of dollars)	2011-12	2012-13	Annual $ Change	Annual % Change	2013-14	Annual % Change	2014-15	Annual % Change
State Operating Funds (Before FMAP) [1]	**15,416**	**15,411**	**(5)**	**0.0%**	**16,295**	**5.7%**	**16,947**	**4.0%**
Enhanced FMAP -- State Share [2]	**(353)**	**254**	**607**	**-172.0%**	**0**	**-100.0%**	**0**	**0.0%**
State Operating Funds (After FMAP)	**15,063**	**15,665**	**602**	**4.0%**	**16,295**	**4.0%**	**16,947**	**4.0%**
Other State Funds Support	**(4,873)**	**(5,694)**	**(821)**	**16.8%**	**(5,839)**	**2.5%**	**(5,888)**	**0.8%**
HCRA Financing	(3,331)	(4,152)	(821)	24.6%	(4,297)	3.5%	(4,346)	1.1%
Provider Assessment Revenue	(750)	(750)	0	0.0%	(750)	0.0%	(750)	0.0%
Indigent Care Revenue	(792)	(792)	0	0.0%	(792)	0.0%	(792)	0.0%
Total General Fund	**10,190**	**9,971**	**(219)**	**-2.1%**	**10,456**	**4.9%**	**11,059**	**5.8%**

[1] Does not include Medicaid spending in other State agencies, DOH State operations spending, or the local government share of total Medicaid program spending.

[2] Excludes benefits in other State agencies. Costs in 2012-13 reflect the reconciliation of the local share benefit for 2011-12 that will occur in 2012-13.

The expiration of the enhanced FMAP will increase spending by over $600 million from 2011-12 to 2012-13, primarily due to the reconciliation of costs between the State and counties related to the Medicaid cap. After adjusting for the impact of enhanced FMAP, State spending for Medicaid is expected to grow from $15.1 billion in 2011-12 to $16.9 billion in 2014-15. Overall Medicaid growth results, in part, from the takeover of local Medicaid costs under the cap, the combination of projected increases in service utilization, and medical care cost inflation that affects nearly all categories of service (e.g., hospitals, nursing homes), as well as rising enrollment levels.

MENTAL HYGIENE

Local assistance spending in mental hygiene is projected to grow on average by 4.4 percent annually over the plan period, reaching a total of $4.4 billion in 2014-15. This growth is attributable to increases in the projected State share of Medicaid costs and projected expansion of the various mental hygiene service systems, including: increases primarily associated with the OPWDD NYS-CARES program; the New York/New York III Supportive Housing agreement and community beds that are currently under development in the OMH pipeline, as well as funds for additional supported housing beds and associated support services for individuals leaving certain New York city adult homes, pursuant to a Federal district court order; and several chemical dependence treatment and prevention initiatives in OASAS.

SCHOOL AID

State funding for School Aid is paid from two State sources, the General Fund and lottery revenues (including VLTs). On a school year basis, following a reduction in 2011-12, School Aid is projected to grow at rates based on changes in New York State personal income. The Executive Budget proposes a $2.8 billion Gap Elimination Adjustment ("GEA") for the 2011-12 school year. Low wealth districts would receive proportionately smaller reductions than high-wealth districts. In the future, the GEA would be scaled to limit growth in School Aid to the target rate, which is based on growth in New York State personal income. The Executive Budget recommends maintaining operating aid categories at current levels. Foundation Aid, the largest formula aid, is recommended to remain at $14.9 billion in both 2011-12 and 2012-13.

FIVE-YEAR SCHOOL AID PROJECTION - SCHOOL YEAR BASIS
(millions of dollars)

	2010-11	2011-12	Annual $ Change	2012-13	Annual $ Change	2013-14	Annual $ Change	2014-15	Annual $ Change
Foundation Aid/Academic Achievement Grant	$14,894	$14,894	$0	$14,894	$0	$16,381	$1,487	$17,804	$1,423
Universal Prekindergarten	$393	$393	$0	$393	$0	$452	$59	$511	$59
Expense-Based Aids[1]	$5,769	$6,074	$305	$6,280	$206	$6,680	$400	$7,150	$470
Other Aid Categories/Initiatives	$806	$815	$9	$868	$53	$923	$55	$971	$48
Gap Elimination Adjustment	($805)	($2,786)	($1,981)	($2,250)	$536	($3,306)	($1,056)	($4,566)	($1,260)
FMAP Contingency Reduction	($132)	$0	$132	$0	$0	$0	$0	$0	$0
Total School Aid (School Year)	**$20,925**	**$19,390**	**($1,535)**	**$20,185**	**$795**	**$21,130**	**$945**	**$21,870**	**$740**

[1]Building, Transportation, High Cost and Private Special Education, BOCES, and Special Services Aids

Over the multi-year Financial Plan period, revenues available to finance School Aid from lottery sales are expected to increase nominally. Increasing revenues from VLTs in 2012-13 and 2013-14 reflect the anticipated opening of a VLT facility at Aqueduct Racetrack by October 2011.

SOCIAL SERVICES

The Office of Children and Family Services ("OCFS") provides funding for programs including foster care, adoption, child protective services, preventive services, delinquency prevention, and child care. OCFS oversees the State's system of family support and child welfare services administered by local departments of social services and community-based organizations. OCFS spending is projected to increase by $540 million, from $1.7 billion in 2011-12 to $2.2 billion by 2014-15, driven by expected growth in claims-based programs, including Child Welfare Services.

The Office of Temporary and Disability Assistance ("OTDA") administers local assistance programs that provide cash benefits and supportive services to low-income families. The agency also provides a State supplement to the Federal Supplemental Security Income benefit for the elderly, visually handicapped, and disabled. The State share of OTDA spending is expected to grow by approximately 5 percent annually from 2011-12 through 2014-15, primarily due to higher costs of public assistance programs.

STATE OPERATIONS

Personal service spending includes wages and compensation for overtime, holiday and temporary services. It does not include fringe benefits, which are accounted for under General State Charges. Non-personal service spending accounts for the costs of operations other than employee wages and benefits. It includes utilities, rent, equipment, supplies and materials, telecommunications, information technology, travel, training, medical supplies, prescription drugs, and certain contractual obligations.

Growth in State Operations spending over the multi-year Financial Plan is concentrated in agencies that operate large facilities, such as the SUNY, the Mental Hygiene agencies, Corrections and Community Supervision, and Children and Family Services. The main causes of growth include inflationary increases in operating costs expected for food, medical care and prescription drugs, and energy costs in State facilities. It also reflects higher costs for ongoing initiatives, including the civil commitment program for sexual offenders.

GENERAL STATE CHARGES

The General State Charges ("GSCs") account for the costs of fringe benefits provided to State employees and retirees of the Executive, Legislative and Judicial branches, as well as for certain fixed costs. GSCs are projected to grow at an average annual rate of 7 percent over the plan period. The growth is mainly due to anticipated cost increases in pensions and health insurance for active and retired State employees.

Pension costs also include the State's payment for the retirement incentives approved in 2010. The Updated Financial Plan currently assumes an annual State payment of $70 million.

Spending for employee and retiree health insurance costs is expected to grow at a consistently high rate through 2014-15, with annual growth reflecting expected annual premium increases of over 8 percent. See "GAAP-Basis Financial Plan/GASB Statement 45" section on Other Post-Employment Benefits later in this AIS Update for a discussion of the valuation of future State health insurance costs for State employees.

TRANSFERS TO OTHER FUNDS (GENERAL FUND BASIS)

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

A significant portion of the capital and operating expenses of the Department of Motor Vehicles ("DMV") are funded from the Dedicated Highway and Bridge Trust Fund ("DHBTF"). The Fund receives dedicated tax and fee revenue from the Petroleum Business Tax, the Motor Fuel Tax, the Auto Rental Tax, highway use taxes, transmission taxes and motor vehicle fees administered by DMV. The Financial Plan includes transfers from the General Fund that effectively subsidize the expenses of the DHBTF. The subsidy is required because the cumulative expenses of the fund – capital and operating expenses of the Department of Transportation ("DOT") and DMV, debt service on DHBTF bonds and transfers for debt service on bonds that fund the Consolidated Highway Improvement Programs ("CHIPs") and local transportation programs – exceed current and projected revenue deposits and bond proceeds.

MULTI-YEAR DISBURSEMENT PROJECTIONS - GENERAL FUND TRANSFERS TO OTHER FUNDS (millions of dollars)	2011-12	2012-13	Annual $ Change	2013-14	Annual $ Change	2014-15	Annual $ Change
Transfers to Other Funds:	**6,264**	**6,752**	**488**	**7,147**	**395**	**7,787**	**640**
Medicaid State Share	3,032	3,119	87	3,082	(37)	3,082	0
Debt Service	1,615	1,722	107	1,668	(54)	1,576	(92)
Capital Projects	895	1,186	291	1,350	164	1,449	99
Dedicated Highway and Bridge Trust Fund	523	588	65	671	83	664	(7)
All Other Capital	372	598	226	679	81	785	106
All Other Transfers	722	725	3	1,047	322	1,680	633
SUNY- Hospital Medicaid	200	200	0	200	0	200	0
Judiciary Funds	156	156	0	160	4	162	2
Banking Services	66	66	0	66	0	66	0
Indigent Legal Services	40	40	0	40	0	40	0
Public Transportation Systems	12	12	0	12	0	12	0
Department of Transportation (MTA Tax)	25	25	0	25	0	25	0
Mass Transportation Operating Assistance	12	12	0	12	0	12	0
Medicaid Payments for State Facility Patients	16	16	0	16	0	16	0
DCJS - Crimes Against Revenues Account	16	16	0	16	0	16	0
Alcoholic Beverage Control	17	17	0	19	2	20	1
Correctional Industries	14	14	0	14	0	14	0
Mental Hygiene	0	0	0	317	317	960	643
All Other	148	151	3	150	(1)	137	(13)

Transfers to other funds are expected to total $6.8 billion in 2012-13, an annual increase of over $488 million, or 7.8 percent. This increase is mainly due to higher costs related to the Medicaid State share transfers, capital projects and projected debt service payments.

Support for capital projects is expected to increase by 32.5 percent in 2012-13, mainly for economic development projects and statewide technology initiatives.

With the exception of the mental hygiene system, the subsidies to all other operational areas are projected to remain relatively flat through 2014-15. Mental hygiene transfers to other funds are offset in part by transfers from other funds (not displayed on table).

ECONOMIC OUTLOOK

THE NATIONAL ECONOMY

Real household spending grew over 4 percent in the fourth quarter of 2010, the first quarter of such growth since 2006, with real spending finally surpassing its fourth quarter 2007 prerecession peak. The national economy overall, as measured by real U.S. GDP, grew 2.8 percent in the fourth quarter. Real U.S. GDP is currently projected to grow by 3.2 percent in 2011, following an increase of 2.9 percent for 2010.

The U.S. Bureau of Labor Statistics has released its 2010 benchmark revision to the national employment data. The revised data indicate that about 8.8 million jobs were lost during the last downturn, compared to the pre-revision estimate of 8.4 million. In addition, the labor market now appears to have turned around in March 2010 rather than in January as originally estimated. Since February of last year, the private sector has added 1.3 million jobs, an average of 114,000 per month, while total employment has increased by about 1 million, or an average of 93,000 per month. The labor market is expected to add an average of about 200,000 jobs per month for the remainder of the year. On an annual average basis, DOB projects an increase in total employment of 1.3 percent for 2011, following a decline of 0.7 percent for 2010.

Personal income is projected to rise 5.3 percent in 2011, following growth of 3.0 percent in 2010. In addition, several indicators of confidence in the sustainability of the national economic recovery have strengthened since earlier in the year, including equity market activity, price growth, and interest rates. DOB projects inflation, as measured by growth in the Consumer Price Index, of 2.0 percent for 2011. A 10-year Treasury yield of 3.8 percent is anticipated for the current year.

The economic outlook calls for the national recovery to continue its growth, in large part led by strong demand from both consumers and businesses. However, there are significant risks to this forecast. With conflict continuing to spread across the Middle East, the risk of oil and gasoline prices remaining elevated is heightened. Higher energy prices act effectively as a tax on household and business spending, and would likely result in lower spending in other areas. This lower spending could diminish the pace of job growth relative to current projections, which could result in an even greater pullback in spending on the part of households. Lower household spending and weaker job growth could both add to the strain already being faced by state and local governments. In contrast, a quick resolution to the turmoil in the Middle East, accompanied by faster global growth than projected could result in stronger growth than is reflected in this forecast.

THE NEW YORK STATE ECONOMY

State wage growth for 2010 is estimated at 4.4 percent while wage growth for 2011 is projected to be 3.1 percent. All of the risks to the U.S. forecast apply to the State forecast as well, although with New York the nation's financial capital, the volume of financial market activity and equity market volatility pose a particularly large degree of uncertainty for the State. In addition, with Wall Street still adjusting their compensation practices in the wake of the passage of financial reform, the cash portion of bonus payments for the current and subsequent fiscal years could be lower than projected. In turn, the economic activity generated by the spending of that income could also be lower. An even weaker labor market than projected could also result in lower wages, which in turn could result in weaker household consumption. Similarly, should financial and real estate markets be weaker than anticipated, taxable capital gains realizations could be negatively affected. These effects would ripple though the State economy, depressing both employment and wage growth. In contrast, stronger national and world economic growth, or a stronger upturn in stock prices, along with even stronger activity in mergers and acquisitions and other Wall Street activities, could result in higher wage and bonuses growth than projected.

SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2009 (actual[1])	2010 (estimate)	2011 (forecast)	2012 (forecast)	2013 (forecast)	2014 (forecast)
U.S. Indicators[2]						
Real Gross Domestic Product ($ billions)	12,881	13,249	13,670	14,172	14,686	15,192
Percent Change	(2.6)	2.9	3.2	3.7	3.6	3.4
Personal Income ($ billions)	12,175	12,545	13,214	13,753	14,537	15,410
Percent Change	(1.7)	3.0	5.3	4.1	5.7	6.0
Nonagricultural Employment (millions)	130.8	129.8	131.5	134.1	136.8	139.6
Percent Change	(4.4)	(0.7)	1.3	2.0	2.0	2.1
Unemployment Rate	9.3	9.6	8.8	7.9	7.0	6.2
CPI Inflation	(0.3)	1.6	2.0	1.9	2.3	2.6
New York State Indicators						
Personal Income[2] ($ billions)	891.2	928.1	975.8	1,006.6	1,059.0	1,115.5
Percent Change	(3.1)	4.1	5.1	3.2	5.2	5.3
Wages and Salaries[2] ($ billions)	481.1	502.4	518.0	544.5	572.8	601.5
Percent Change	(7.2)	4.4	3.1	5.1	5.2	5.0
Bonuses[3] ($ billions)	56.5	68.2	66.9	72.0	76.7	81.6
Percent Change	(31.6)	20.8	(2.0)	7.8	6.5	6.4
Employment[2] (thousands)	8,312.0	8,307.5	8,360.5	8,457.0	8,555.1	8,637.1
Percent Change	(3.1)	(0.1)	0.6	1.2	1.2	1.0
Unemployment Rate (percent)	8.4	8.4	8.0	7.6	7.3	6.9
NYS Adjusted Gross Income (NYSAGI)						
Capital Gains ($ millions)	32,430	38,993	43,933	56,170	46,013	49,443
Percent Change	(43.1)	20.2	12.7	27.9	(18.1)	7.5
Total NYSAGI ($ millions)	590,308	622,234	651,693	697,576	725,061	767,218
Percent Change	(10.8)	5.4	4.7	7.0	3.9	5.8

[1] For NYSAGI variables, 2009 is an estimate based on preliminary processing data.
[2] Nonagricultural employment, w age, and personal income numbers are based on QCEW data.
[3] Series created by the Division of the Budget.
Source: Moody's Economy.com; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

ALL FUNDS RECEIPTS PROJECTIONS

THE REVENUE SITUATION

Consistent with the slow pace of the economic recovery, revenue growth in the State has been weak. After plunging 12.3 percent in fiscal year 2009-10, tax receipts growth (after correcting for law changes) is estimated to be a tepid 2.1 percent in 2010-11; a more robust 7.5 percent is projected for 2011-12. Unadjusted State funds tax receipts are estimated to increase 5.4 percent in 2010-11 and are projected to increase 6.5 percent in 2011-12. In addition to below average growth, revenue collections have exhibited volatility. The uncertainty surrounding the year-end sunset of the Federal tax cuts and the last minute extension created significant taxpayer confusion. The impacts of potential changes in the timing and level of financial sector bonus payments and in the way employees in this sector are compensated as a result of recent financial reforms are unknown. Extreme volatility in the volume of taxable capital gains, the large overhang of residential and commercial mortgage debt, the continuation of recent gains in consumer spending, and the expected recovery from the apparent decline in the value of property being insured have provided obstacles to accurate forecasting. In addition, the lag between the realization of profits as well as the use of previous overpayments by taxpayers, make projecting business tax receipts very difficult. Further, inconsistent personal income and business taxpayer behavior related to the timing and level of estimated and final payments has caused large swings in quarterly receipts.

As a result of these and other factors, the tax receipts forecast has been revised downward by $699 million for 2010-11, $950 million for 2011-12, and $587 million for 2012-13, mainly reflecting the weakness seen in personal income tax and business tax collections for the current year when compared with the Mid-year Update. For the most part, the downward revisions to out-year projections reflect reductions in the current-year base forecast.

A modest acceleration in State employment and average wage growth, as well as the stock market recovery, are expected to provide growth of 8.0 percent in personal income tax receipts in 2011-12. Projected corporate profits growth for the 2011 calendar year combined with the tax credit deferral legislation enacted in 2010 is expected to provide a second consecutive year of growth in business tax receipts in 2011-12. The return of consumers to the marketplace, partially offset by the return of a limited version of the tax exemption on clothing is projected to produce sales tax growth of 4.3 percent in 2011-12.

Governmental Funds
Actual and Base Tax Receipts Growth
(percent growth)

State Fiscal Year	Actual Receipts	Base Receipts	Inflation Adjusted Base Receipts
1987-88	6.2	6.4	1.9
1988-89	1.6	2.9	(2.3)
1989-90	6.8	8.3	2.4
1990-91	(0.8)	(3.8)	(8.2)
1991-92	7.2	1.4	(2.0)
1992-93	6.1	5.0	2.0
1993-94	4.3	0.7	(1.8)
1994-95	0.1	1.5	(1.1)
1995-96	2.6	3.6	0.6
1996-97	2.0	2.6	0.2
1997-98	3.7	5.6	4.0
1998-99	7.2	7.9	5.8
1999-00	7.5	9.1	5.9
2000-01	7.9	10.1	7.4
2001-02	(4.9)	(4.2)	(6.4)
2002-03	(6.7)	(8.0)	(10.8)
2003-04	8.2	5.8	2.5
2004-05	13.4	11.5	7.7
2005-06	10.2	9.3	2.7
2006-07	9.7	4.9	2.1
2007-08	3.7	13.4	9.5
2008-09	(0.8)	(3.2)	(3.3)
2009-10	(3.2)	(12.3)	(14.0)
2010-11*	5.4	2.1	0.1
2011-12**	6.5	7.5	5.3
2012-13**	1.9	7.3	4.8
2013-14**	5.1	5.5	2.9
2014-15**	3.0	5.5	2.9

	Actual Change	Base Change	Adjusted Base Change
Historical Average (87-88 to 09-10)	4.0	3.4	0.2
Forecast Average (10-11 to 14-15)	4.4	5.6	3.2
Forecast Average (11-12 to 14-15)	4.1	6.4	4.0
Recessions	1.3	(1.2)	(4.2)
Expansions	5.7	6.4	3.0

*Estimated Receipts
**Projected Receipts

TOTAL RECEIPTS (millions of dollars)	2009-10 Actual	2010-11 Estimated	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund	**52,556**	**54,104**	**1,548**	**2.9%**	**57,018**	**2,914**	**5.4%**
Taxes	36,997	39,187	2,190	5.9%	41,985	2,798	7.1%
Miscellaneous Receipts	3,888	3,083	(805)	-20.7%	3,088	5	0.2%
Federal Grants	71	60	(11)	-15.5%	60	0	0.0%
Transfers	11,600	11,774	174	1.5%	11,885	111	0.9%
State Funds	**81,150**	**84,440**	**3,290**	**4.1%**	**88,388**	**3,948**	**4.7%**
Taxes	57,668	60,793	3,125	5.4%	64,758	3,965	6.5%
Miscellaneous Receipts	23,397	23,520	123	0.5%	23,485	(35)	-0.1%
Federal Grants	85	127	42	49.4%	145	18	14.2%
All Funds	**126,748**	**134,508**	**7,760**	**6.1%**	**132,677**	**(1,831)**	**-1.4%**
Taxes	57,668	60,793	3,125	5.4%	64,758	3,965	6.5%
Miscellaneous Receipts	23,557	23,702	145	0.6%	23,617	(85)	-0.4%
Federal Grants	45,523	50,013	4,490	9.9%	44,302	(5,711)	-11.4%

FISCAL YEAR 2010-11 OVERVIEW

- Total All Funds receipts for 2010-11 are estimated to reach $134.5 billion, an increase of $7.8 billion, or 6.1 percent from 2009-10 results. All Funds tax receipts are estimated to increase by $3.1 billion, or 5.4 percent. The majority of the increase in tax receipts is attributable to growth in personal income tax, sales tax, estate tax, and cigarette and tobacco tax collections.

- All Funds miscellaneous receipts are projected to reach $23.7 billion in 2010-11, an increase of $145 million from 2009-10. General Fund miscellaneous receipts reductions of $805 million are more than offset by growth in other areas, primarily SUNY revenue growth from expansions at the three SUNY teaching hospitals ($170 million), enrollment growth, and greater bond proceeds available for SUNY capital projects ($397 million), and increased lottery fund receipts which reflect the one-time receipt of the franchise fee for rights to operate a VLT facility at Aqueduct ($380 million).

- Total State Funds receipts are estimated to reach over $84.4 billion in 2010-11, an increase of $3.3 billion, or 4.1 percent.

- Total General Fund receipts are estimated at $54.1 billion, an increase of over $1.5 billion, or 2.9 percent from 2009-10 results. General Fund tax receipts are estimated to increase by 5.9 percent, reflecting the modest economic recovery, full year compliance with the personal income tax surcharge, and the temporary elimination of the sales tax clothing exemption. General Fund miscellaneous receipts are estimated to decrease by 20.7 percent, reflecting the loss of several one-time receipts in 2009-10.

- Base tax receipts growth, which nets out the impact of law changes, will increase by an estimated 2.1 percent in 2010-11 after a base decline of 12.3 percent in 2009-10. The rebound in economic activity is estimated to increase base growth in tax receipts for the first time since 2007-08.

FISCAL YEAR 2011-12 OVERVIEW

- Total All Funds receipts are projected to reach $132.7 billion, a decrease of $1.8 billion, or 1.4 percent from 2010-11 reflecting the significant loss in Federal grants. All Funds tax receipts are projected to grow by nearly $4.0 billion or 6.5 percent. This increase is attributable to the full year impact of the economic recovery, legislation enacted in 2010 and positive revenue actions proposed with the Executive Budget. All Funds Miscellaneous receipts are projected to decrease by $85 million, or 0.4 percent. All Funds Federal grants are expected to decrease by $5.7 billion, or 11.4 percent.

- Total State Funds receipts are projected to be $88.4 billion, an increase of $3.9 billion, or 4.7 percent from the 2010-11 estimate.

- Total General Fund receipts are projected to be $57.0 billion, an increase of $2.9 billion, or 5.3 percent from 2010-11 estimates. General Fund tax receipts are projected to grow by 7.1 percent, while General Fund miscellaneous receipts are projected to grow by 0.2 percent. Federal grants revenues are projected to remain constant.

- After controlling for the impact of policy changes, base tax revenue growth is estimated to increase by 7.5 percent for fiscal year 2011-12.

FISCAL YEARS 2012-13, 2013-14, AND 2014-15 OVERVIEW

TOTAL RECEIPTS (millions of dollars)

	2011-12 Projected	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change
General Fund	**56,966**	**57,235**	**269**	**59,620**	**2,385**	**60,743**	**1,123**
Taxes	41,986	42,754	768	44,967	2,213	46,004	1,037
State Funds	**88,388**	**90,010**	**1,622**	**93,193**	**3,183**	**94,800**	**1,607**
Taxes	64,758	66,002	1,244	69,342	3,340	71,388	2,046
All Funds	**132,677**	**130,450**	**(2,227)**	**135,688**	**5,238**	**142,503**	**6,815**
Taxes	64,758	66,002	1,244	69,342	3,340	71,388	2,046

Overall, tax receipts growth in the three fiscal years following 2011-12 is expected to remain in the range of 1.9 percent to 5.1 percent. This is consistent with the end of the personal income tax temporary rate increase and projected modest economic growth in the New York economy during this period. Receipts growth is supported by modest proposals contained with the Executive Budget that eliminate a single tax loophole and improve taxpayer compliance. These factors are expected to continue to enhance expected receipts growth through 2014-15.

- Total All Funds receipts in 2012-13 are projected to be $130.5 billion, a decrease of $2.2 billion over the prior year. All Funds receipts in 2013-14 are expected to increase by $5.2 billion over 2012-13 projections. In 2014-15, receipts are expected to increase by $6.8 billion over 2013-14 projections.

- Total State Funds receipts are projected to be $90.0 billion in 2012-13, close to $93.2 billion in 2013-14 and $94.8 billion in 2014-15.

- Total General Fund receipts are projected to reach just over $57.2 billion in 2012-13, $59.6 billion in 2013-14 and over $60.7 billion in 2014-15.

- All Funds tax receipts are expected to increase by 1.9 percent in 2012-13, 5.1 percent in 2013-14 and 3.0 percent in 2014-15. Again, the growth pattern is consistent with an economic forecast for continued but slower economic growth.

BASE GROWTH

Base growth, adjusted for law changes, in tax receipts for fiscal year 2010-11 is estimated to grow 2.1 percent and 7.5 percent in 2011-12. Overall base growth in tax receipts is dependent on a multitude of factors.

The estimated return to positive base receipts growth in 2010-11 results from:

- Full year growth in employment and wages;

- Strong corporate profits growth;

- Positive capital gains from a resurgent stock market; and

- An end to consumption declines.

The acceleration in base growth in 2011-12 results from:

- A second consecutive year of corporate profits growth; and

- A return to historical trend growth in consumption and income.

GAAP-BASIS FINANCIAL PLANS/GASB STATEMENT 45

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

In 2010-11, the General Fund GAAP Financial Plan shows total estimated revenues of $46.4 billion, total expenditures of $55.8 billion, and net other financing sources of $9.4 billion, resulting in an estimated operating deficit of $23 million, which increases the projected accumulated deficit to $3.6 billion.

In 2011-12, the General Fund GAAP Financial Plan shows total projected revenues of $48.3 billion, total projected expenditures of $57.4 billion, and net other financing sources of $9.4 billion, resulting in a projected operating surplus of $267 million. These results reflect the net impact of the Executive Budget gap-closing actions.

OTHER POST-EMPLOYMENT BENEFITS

Substantially all of the State's employees become eligible for post-retirement benefits if they reach retirement while working for the State. In accordance with the Governmental Accounting Standards Board Statement 45 ("GASBS 45"), the State must perform an actuarial valuation every two years for purposes of calculating Other Post Employment Benefits ("OPEB") liabilities. As disclosed in Note 13 of the State's Basic Financial Statements for fiscal year 2009-10[5], the Annual Required Contribution ("ARC") represents the annual level of funding that, if set-aside on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liabilities of the plan over a period not to exceed 30 years. Amounts required but not actually set aside to pay for these benefits are accumulated with interest as part of the net OPEB obligation, after adjusting for amounts previously required.

As reported in the State's Basic Financial Statements for 2009-10, an actuarial valuation of OPEB liabilities was performed as of April 1, 2008, with results projected to April 1, 2009 for the fiscal year ended March 31, 2010. The valuation calculated the present value of the actuarial accrued total liability for benefits as of March 31, 2010 at $55.9 billion ($46.3 billion for the State and $9.6 billion for SUNY). This was determined using the Frozen Entry Age actuarial cost method, and is amortized over an open period of 30 years using the level percentage of projected payroll amortization method.

The net OPEB liability for 2009-10 totaled $3.3 billion ($2.7 billion for the State and $0.6 billion for SUNY) under the Frozen Entry Age actuarial cost method, allocating costs on a level basis over earnings. This was $2.1 billion ($1.7 billion for the State and $0.4 billion for SUNY) above the payments for retiree costs made by the State in 2009-10. This difference between the State's Pay-As-You-Go ("PAYGO") costs and the actuarially determined required annual contribution under GASBS 45 reduced the State's currently positive net asset condition at the end of 2009-10 by $2.1 billion.

The State's actuarial consultant has provided an updated calculation of the ARC and annual OPEB costs. The updated calculation shows the present value of the actuarial accrued total liability for benefits

[5] See the State Comptroller's Comprehensive Annual Financial Report, 2009-10 at http://www.osc.state.ny.us/finance/finreports/cafr10.pdf

at $60.2 billion ($50.1 billion for the State and $10.1 billion for SUNY). The updated calculation will ultimately be reflected in the financial statements for the State and SUNY for fiscal year 2010-11. In future updates, DOB expects the estimate of OPEB costs to increase substantially. The causes of this anticipated increase include: higher assumed increases in the cost of health care, implementation of the Federal Patient Protection and Affordable Care Act, and decreased interest rates.

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 Updated Financial Plan. On a budgetary (cash) basis, the State continues to finance these costs, along with all other employee health care expenses, on a PAYGO basis. The following table summarizes the actual and budgeted payments for health insurance in the Updated Financial Plan.

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

	Health Insurance		
Year	**Active Employees**	**Retirees**	**Total State**
2007-08 (Actual)	1,390	1,182	2,572
2008-09 (Actual)	1,639	1,068	2,707
2009-10 (Actual)	1,609	1,072	2,681
2010-11 (Projected)	1,833	1,220	3,053
2011-12 (Projected)	2,059	1,351	3,410
2012-13 (Projected)	2,244	1,493	3,737
2013-14 (Projected)	2,469	1,643	4,112
2014-15 (Projected)	2,509	1,603	4,112

All numbers reflect the cost of health insurance for GSCs (Executive and Legislative branches) and the Office of Court Administration.

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

SELECTED STATE GOVERNMENT SUMMARY

STATE GOVERNMENT ORGANIZATION

The State has a centralized administrative system with most executive powers vested in the Governor. The State has four officials elected in statewide elections, the Governor, Lieutenant Governor, Comptroller and Attorney General. These officials serve four-year terms that next expire on December 31, 2014.

Name	Office	Party Affiliation	First Elected
Andrew M. Cuomo	Governor	Democrat	2010
Robert J. Duffy	Lieutenant Governor	Democrat	2010
Thomas P. DiNapoli*	Comptroller	Democrat	2007
Eric T. Schneiderman	Attorney General	Democrat	2010

*Elected by the State Legislature on February 7, 2007 following the December 2006 resignation of Comptroller Hevesi. Comptroller DiNapoli subsequently was elected by the voters during the November 2010 general election.

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

The State Legislature is composed of a 62-member Senate and a 150-member Assembly, all elected from geographical districts for two-year terms, expiring December 31, 2012. Both the Senate and the Assembly operate on a committee system. The Legislature meets annually, generally for about six months, and remains formally in session the entire year. In recent years there have been special sessions, as well. The current majority leaders are President Pro Tempore Dean Skelos (Republican) in the Senate and Sheldon Silver (Democrat), Speaker of the Assembly. The minority leaders are John Sampson (Democrat) in the Senate and Brian Kolb (Republican) in the Assembly.

STATE RETIREMENT SYSTEMS

GENERAL

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

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

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

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

Legislation enacted in June 2010 provided the State and local employers with the option to offer a temporary Retirement Incentive Program (ERI) for certain ERS members. This program did not apply to PFRS members. The Program had two distinct parts:

- Part A was a targeted incentive. Employers identified eligible titles. Part A provided one additional month of service credit for each year of credited service an eligible member had at retirement. The maximum additional incentive service credit was three years.

- Part B was not targeted. It was open to all eligible Tier 2, 3 and 4 members unless an employer deemed a member's position critical to the maintenance of public health and safety. Part B allowed members who were at least age 55 and had 25 years or more of service credit to retire without a benefit reduction.

Members whose employer offered both parts of the program, and who met the eligibility requirements of both parts, had to choose between the two. Employers established a 30-to-90-day window for Part A and/or a 90-day window for Part B. The incentive window for State Executive Branch employees was July 1 through September 28, 2010. Other public employers were able to establish incentive windows which could extend through December 31, 2010. The cost of the incentive will be borne by the State and each employer electing the incentive over a five-year period commencing with a payment in the fiscal year 2011-12. The number of members who retired under the State ERI is 6,412. Three hundred ninety-nine (399) participating employers elected to participate in Part A of the ERI. Two hundred eleven (211) participating employers elected to participate in Part B of the ERI. Five thousand four hundred fifty three (5,453) members from participating employers retired under the ERI. While members are receiving payments based on estimates, costs cannot be determined until final calculations have been completed.

Part TT of Chapter 57 of the Laws of 2010, authorized the State and local employers to amortize a portion of their annual pension costs during periods of significant rate increases. Amortized amounts will be paid in equal annual installments over a ten-year period, and employers may prepay these amounts at any time without penalty. Employers would pay interest on the amortized amount at a rate determined by the Comptroller that is comparable to taxable fixed income investments of a comparable duration. The interest rate will be set annually. Rates will vary according to market performance. The interest rate on the amount an employer chooses to amortize in a particular rate year will be the rate for that year and will be fixed for the duration of the ten-year repayment period. Should the employer choose to amortize in the next rate year, the interest rate on that amortization will be the rate set for that year, which may be different from the previous rate year. For amounts amortized in 2011, the Comptroller has set an interest rate of 5 percent. The first payment will be due in the fiscal year following the decision to amortize. Part TT of Chapter 57 further provides that when contribution rates fall below legally specified levels and all outstanding amortizations have been paid, employers that elected to amortize will be required to pay additional monies into a reserve fund that will be used when employer contribution rates begin to rise in the future. Over time, it is expected that this will reduce the budgetary volatility of employer contributions (See the table on page 27 of this AIS Update for the Division of Budget's projections of amounts amortized in fiscal year 2010-11 and amounts expected to be amortized in fiscal years 2011-12 through 2017-18.) The State elected to amortize $249,574,168 for fiscal year 2010-11, and 57 participating employers amortized a total of $43,683,088.

CONTRIBUTIONS

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

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

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

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

In March 2011, the State paid $1,257.0 million in contributions for the fiscal year ending March 31, 2011, including amortization payments of some $87 million for 2005 and 2006 bills. As noted above, the State elected to amortize $249,574,168 for fiscal year 2010-11 under Part TT of Chapter 57 of the laws of 2010.

PENSION ASSETS AND LIABILITIES

Assets are held exclusively for the benefit of members, pensioners and beneficiaries. Investments for the Systems are made by the Comptroller as trustee of the Common Retirement Fund, a pooled investment vehicle. OSC reports that the net assets available for benefits as of March 31, 2010 were $134.2 billion (including $2.6 billion in receivables, which consist of employer contributions, member contributions, member loans, accrued interest and dividends, investment sales and other miscellaneous receivables) an increase of $23.3 billion or 21 percent from the 2008-09 level of $110.9 billion, reflecting, in large part, equity market performance. OSC reports that the present value of anticipated benefits for current members, retirees, and beneficiaries increased from $176.6 billion on April 1, 2009 to $186.8 billion (including $75.6 billion for current retirees and beneficiaries) on April 1, 2010. The funding method used by the Systems anticipates that the net assets, plus future actuarially determined contributions, will be sufficient to pay for the anticipated benefits of current members, retirees and beneficiaries. Actuarially determined contributions are calculated using actuarial assets and the present value of anticipated benefits. Actuarial assets differed from net assets on April 1, 2010 in that amortized cost was used instead of market value for bonds and mortgages and the non-fixed investments utilized a smoothing method which recognized 20 percent of unexpected gain for the 2010 fiscal year, 40 percent of the unexpected loss for the 2009 fiscal year, 60 percent of the unexpected loss for the 2008 fiscal year and

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

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

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

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

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

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

(3) Includes payments from Group Life Insurance Plan.

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
2000	128,889	14.3
2001	114,044	(11.5)
2002	112,725	(1.2)
2003	97,373	(13.6)
2004	120,799	24.1
2005	128,038	6.0
2006	142,620	11.4
2007	156,625	9.8
2008	155,846	(0.5)
2009	110,938	(28.8)
2010	134,252	21.0

Sources: State and Local Retirement Systems.

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

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

AUTHORITIES AND 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	---	2,551	1,283	---	3,746	(39)	54,421
2006	35,844	12,233	---	2,470	1,334	---	3,500	---	55,381
2007	34,506	14,607	---	2,368	1,317	2,100	3,394	---	58,292
2008	36,100	14,828	---	2,339	1,297	2,067	2,556	---	59,187
2009	39,991	16,913	---	2,253	1,274	2,033	2,442	---	64,906
2010	41,555	20,094	---	2,178	1,265	2,000	2,402	---	69,494

Source: Office of the State Comptroller.

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

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

(3) Includes a $100 million obligation to the MTA, which has been fully paid as of June 30, 2010.

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

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

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

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

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

OTHER LOCALITIES

Certain localities outside New York City have experienced financial problems and have requested and received additional State assistance during the last several State fiscal years. While a relatively infrequent practice, deficit financing has become more common in recent years. Between 2004 and July 2010, the State Legislature authorized 21 bond issuances to finance local government operating deficits. There were four new or additional deficit financing authorizations during 2009-2010. Furthermore, the State has periodically enacted legislation to create oversight boards in order to address deteriorating fiscal conditions within a locality. The Buffalo Fiscal Stability Authority has exercised Control Period powers with respect to the City of Buffalo since the City's 2003-04 fiscal year, but may transition to Advisory Period powers during the City's 2011-12 fiscal year. In January 2011, the Nassau County Interim Finance Authority ("NIFA") declared that it was entering a Control Period, citing the "substantial likelihood and imminence" that the County will incur a major operating funds deficit of 1% or more during the County's 2011 fiscal year. Nassau County has commenced a lawsuit challenging NIFA's determination and authority to impose a Control Period. Erie County as well as the cities of New York and Troy have fiscal stability boards exercising Advisory Period powers. The City of Yonkers no longer operates under an oversight board but must adhere to a separate fiscal agent act. The City of Newburgh will operate under fiscal monitoring by the State Comptroller. The potential impact on the State of any future requests by localities for additional oversight or financial assistance is not included in the projections of the State's receipts and disbursements for the State's 2010-11 fiscal year or thereafter.

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

LITIGATION AND ARBITRATION

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 United States Supreme Court and the Second Circuit Court of Appeals which changed the legal landscape pertaining to ancient land claims: *City of Sherrill v. Oneida Indian Nation of New York*, 544 U.S. 197 (2005), and *Cayuga Indian Nation of New York v. Pataki,* 413 F.3d 266 (2d Cir. 2005), *cert. denied*, 126 S.Ct. 2021, 2022 (2006). Taken together, these cases have made clear that the equitable doctrines of laches, acquiescence, and impossibility can bar ancient land claims. These decisions prompted the District Court to reassess its 2002 decision, which in part had struck such defenses, and to permit the filing of a motion for summary judgment predicated on the *Sherrill* and *Cayuga* holdings. On August 11, 2006, the defendants moved for summary judgment dismissing the action, based on the defenses of laches, acquiescence, and impossibility. By order dated May 21, 2007, the District Court dismissed plaintiffs' claims to the extent that they asserted a possessory interest, but permitted plaintiffs to pursue a claim seeking the difference between the amount paid and the fair market value of the lands at the time of the transaction. The District Court certified the May 21, 2007 order for interlocutory appeal and, on July 13, 2007, the Second Circuit granted motions by both sides seeking leave to pursue interlocutory appeals of that order. On August 9, 2010, the Circuit Court rendered a decision which affirmed the summary judgment order insofar as it dismissed the *Oneida* land claim and reversed it insofar as it would have allowed plaintiffs to pursue a fair compensation claim against the State. *Oneida Indian Nation et al v. County of Oneida et al*, 617 F.3d 114 (2d Cir. 2010). This decision mandates dismissal of the *Oneida* land claim. The U.S. and the Oneidas filed an application for *en banc* review before the Second Circuit on October 21, 2010, which was denied on December 16, 2010. The plaintiffs would have had until March 16, 2011 to apply for a writ of certiorari before the Supreme Court, but have applied for a 30-day extension.

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 pending 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. On April 16, 2008, the District Court issued an order staying the case until a decision is rendered with respect to the appeal in the *Oneida* case. Once the *Oneida* decision was rendered, supplemental briefs were field on February 7, 2011. Reply briefs were filed on March 9, 2011.

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. On September 22, 2010, the Court granted this motion. It is now on appeal before the Second Circuit.

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 two lengthy trials, in 2001 the District Court denied ejectment as a remedy, and rendered a judgment against the State for damages and prejudgment interest in the net amount of $250 million. The State appealed. The tribal plaintiffs (but not the U.S.) cross-appealed, seeking ejectment of all of the present day occupants of the land in the 64,000 acre claim area and approximately $1.5 billion in additional prejudgment interest.

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

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

On January 6, 2011, the Court denied the Rule 60(b) motion. Plaintiff's time to appeal expired on March 6, 2011.

METROPOLITAN TRANSPORTATION

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

With the consent of the plaintiff (the County Executive of Rockland County), the Vanderhoef case was transferred to Albany County from Rockland County and the defendants have moved for judgment in their favor. By order of the Supreme Court, Albany County, the *Huntington* case has been transferred from Albany County to Suffolk County, from which order the plaintiff is appealing, and the state defendants have moved for judgment in their favor. Also by order of the Supreme Court, Albany County, the *William Floyd* case is to be transferred to New York County from Suffolk County. Defendants in each of the other cases have moved to change the venue of their respective cases to Albany County or New York County. A number of additional towns and a village in various counties, Suffolk County and the Orange County Chamber of Commerce have joined the Mangano case as plaintiffs.

SCHOOL AID

In *Becker et al. v. Paterson et al. (Sup. Ct., Albany Co.),* plaintiffs seek a judgment declaring that the governor's determination to delay payment of school aid due by statute on December 15, 2009, violated State constitutional provisions related to, among other things, the separation of powers doctrine. After the commencement of the suit, the moneys at issue were released. Following a February 3, 2010 conference with the court to discuss the status of the case, plaintiffs amended their complaint to reflect late payment of the moneys at issue. Pursuant to a Court-directed schedule, following defendants' answer, plaintiffs moved for summary judgment on March 5, 2010. Defendants cross-moved for summary judgment on April 15, 2010.

In a second case involving the parties *(Becker et al. v. Paterson [Sup. Ct., Albany Co.])*, plaintiffs seek a judgment declaring that the governor's determination to delay payment of school aid from March 31, 2010 to June 1, 2010, also violated State constitutional provisions related to, among other things, the separation of powers doctrine. Since the commencement of the suit, the moneys at issue were also released. The defendants answered, claiming that the statue in question, Education Law §3609-a, permitted payment on June 1, 2010, and that March 31, 2010 was merely an authorized pre-payment date. Plaintiffs moved for summary judgment on July 21, 2010 and defendants responded and cross-moved for summary judgment on September 16, 2010.

On January 14, 2011, the Court issued a joint order and decision dismissing both actions as moot because of the payments made after the commencement of the actions. On February 25, 2011, plaintiffs appealed to the Appellate Division, Third Department.

In *Hussein v. State of New York*, plaintiffs seek a judgment declaring that the State's system of financing public education violates section 1 of article 11 of the State Constitution, on the ground that it fails to provide a sound basic education. In a decision and order dated July 21, 2009, Supreme Court, Albany County, denied the State's motion to dismiss the action. The State has appealed this denial to the Appellate Division, Third Department. On January 13, 2011, the Appellate Division, Third Department, affirmed the denial of the motion to dismiss. Defendants have until March 25, 2011 to seek leave to appeal to the Court of Appeals.

REPRESENTATIVE PAYEES

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

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

On June 4, 2010, the State moved for summary judgment against the individual claims on various grounds. By decision and order dated September 27, 2010, the Court of Claims (Ruderman, J.), granted the State's motion for summary judgment and dismissed the individual claims. The Court held that the state statutes relied on by claimants do not apply to Social Security benefits and that executive directors of OMH facilities are acting properly in accordance with the Social Security Act and applicable federal regulations. Claimants served a notice of appeal on November 23, 2010.

SALES TAX

In *Oneida Indian Nation of New York v. Paterson, et al.* (and four consolidated cases), the tribal plaintiffs seek judgments declaring that Chapters 134 and 136 of the Laws of 2010, which enacted amendments to the Tax Law regarding collection of excise taxes on reservation cigarette sales to non-tribal members, violate their rights under Federal law, and enjoining the State from enforcing those laws. In four of the five cases, the District Court for the Western District of New York denied plaintiffs' motions for preliminary injunctions but granted a stay of enforcement pending plaintiffs' appeal. In the fifth case, the District Court for the Northern District of New York granted the plaintiff's motion for a preliminary injunction. On December 9, 2010, the Second Circuit denied defendants' motion to vacate the injunctions pending appeal. The Second Circuit will hear argument on the preliminary injunction appeals on March 15, 2011.

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

The plaintiffs in *Day Wholesale* appealed. On September 14, 2010 the Appellate Division, Fourth Department denied plaintiffs' motion for a preliminary injunction pending appeal.

On February 10, 2011, the Seneca Nation of Indians commenced *Seneca Nation of Indians v. State of New York, et al.,* in Supreme Court, Erie County, challenging the promulgation of regulations to implement the statutory voucher system intend to enable the State to collect taxes on certain sales of cigarettes on Indian reservations. Plaintiffs seek declaratory judgment that the regulations are void, a temporary and permanent injunction against enforcing both the regulations and the statutory provisions authorizing the voucher system.

BOTTLE BILL LITIGATION

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

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

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

CIVIL SERVICE LITIGATION

In *Simpson v. New York State Department of Civil Service et ano.,* plaintiffs have brought a class action under 42 U.S.C 2000d et seq., claiming that a civil service test administered between 1996 and 2006 resulted in a disparate impact upon the class. This case was settled on December 29, 2010, for $45 million in damages and fees, payable in four equal annual installments, starting on or about April 1, 2001 or upon passage of the State budget. Class members must opt out by April 1, 2011 and a fairness hearing is scheduled for April 15, 2011.

PUBLIC FINANCE

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

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

The plaintiffs appealed from the dismissal of the complaint. On June 24, 2010, the Appellate Division reversed the order of Supreme Court to the extent it dismissed the plaintiffs' cause of action under Article VII, § 8 and affirmed the order to the extent it dismissed the plaintiffs' cause of action under Article VII, § 7, and remitted the case to Supreme Court for further proceedings. The defendants moved for reargument or, in the alternative, leave to appeal to the Court of Appeals from the portion of the Appellate Division's order that reversed Supreme Court's dismissal of the cause of action under Article VII, § 8. The Appellate Division denied reargument but granted leave to appeal to the Court of Appeals on the question of whether the Appellate Division erred by reversing the dismissal of the plaintiffs' cause of action under Article VII, § 8. The appeal to the Court of Appeals is pending.

PERSONAL INJURY CLAIMS

In *Watson v. State* (Court of Claims) claimants seek damages arising out of a motor vehicle accident in which four members of a family were injured. On February 2, 2010, the Court of Claims granted summary judgment on the issue of liability to claimants. Pursuant to negotiations among the parties, all claims were settled on February 8, 2011. Infant compromise and Surrogate's Court proceedings still remain to be scheduled before the matter can be closed.

EMINENT DOMAIN

In *Gyrodine v. State of New York* (Court of Claims), claimant seeks compensation under the Eminent Domain Procedures Law in connection with the appropriation by the State of 245 acres of land in connection with the expansion of SUNY Stony Brook. By decision dated June 21, 2010, the Court of Claims awarded claimant $125 million as compensation for the appropriation. On September 13, 2010, the State appealed from the decision.

INSURANCE DEPARTMENT ASSESSMENTS

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

On June 9, 2010, the State filed a motion for summary judgment. By decision dated March 10, 2011, plaintiffs' motion for permission to conduct discovery prior to responding to the State's motion for summary judgment was granted.

TOBACCO MASTER SETTLEMENT AGREEMENT (MSA)

In *Freedom Holdings Inc. et al. v. Spitzer et ano*., two cigarette importers brought an action in 2002 challenging portions of laws enacted by the State under the 1998 Tobacco Master Settlement Agreement (MSA) that New York and many other states entered into with the major tobacco manufacturers. The initial complaint alleged: (1) violations of the Commerce Clause of the United States Constitution; (2) the establishment of an “output cartel” in conflict with the Sherman Act; and (3) selective nonenforcement of the laws on Native American reservations in violation of the Equal Protection Clause of the United States Constitution. The United States District Court for the Southern District of New York granted defendants’ motion to dismiss the complaint for failure to state a cause of action. Plaintiffs appealed from this dismissal. In an opinion dated January 6, 2004, the United States Court of Appeals for the Second Circuit (1) affirmed the dismissal of the Commerce Clause claim; (2) reversed the dismissal of the Sherman Act claim; and (3) remanded the selective enforcement claim to the District Court for further proceedings. Plaintiffs have filed an amended complaint that also challenges the MSA itself (as well as other related State statutes) primarily on preemption grounds. On September 14, 2004, the District Court denied all aspects of plaintiffs' motion for a preliminary injunction, except that portion of the motion relating to the ability of tobacco manufacturers to obtain the release of certain funds from escrow. Plaintiffs have appealed from the denial of the remainder of the motion to the United States Court of Appeals for the Second Circuit. In May 2005, the Second Circuit affirmed the denial of the preliminary injunction. In December 2006, the motions and cross-motions of the parties for summary judgment were fully submitted to the District Court. By order dated July 7, 2008, the District Court requested updated statistical information and other information needed to resolve certain material questions. Following an evidentiary hearing, by December 15, 2008 order summarizing a preliminary decision, the District Court dismissed all of plaintiff's claims. On January 12, 2009, the Court issued its opinion and order granting judgment dismissing the complaint. Plaintiff appealed to the Second Circuit. On October 18, 2010, the Second Circuit affirmed the decision.

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

MSA ARBITRATION

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

An Administrative Conference was held on July 20, 2010; the Initial Conference took place in Chicago on October 5, 2010; at the next hearing, on December 6, 2010, also in Chicago, several preliminary legal issues were argued; on January 28, 2011 a discovery conference was held in San Francisco. The Panel has ruled that the States have the burden of proof in establishing diligent enforcement and also ruled against the States, finding that the 2003 settlements (which settled NPM Adjustment disputes for 1999-2002) do not preclude the PMs from basing their claim for a 2003 NPM Adjustment on 2002 NPM sales. Further, they have denied the States' request to have the issue of "units sold" briefed and decided as a purely legal preliminary issue. The parties are now engaged in extensive discovery. The next hearing will be held in Chicago on April 12, 2011.

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

	Mid-Year	Change	Exec. (Amended)
Opening Fund Balance	2,302	0	2,302
Receipts:			
Taxes:			
Personal Income Tax	24,148	(599)	23,549
User Taxes and Fees	8,736	39	8,775
Business Taxes	5,783	(119)	5,664
Other Taxes	1,034	165	1,199
Miscellaneous Receipts	2,861	222	3,083
Federal Receipts	60	0	60
Transfers from Other Funds:			
PIT in Excess of Revenue Bond Debt Service	7,771	(239)	7,532
Sales Tax in Excess of LGAC Debt Service	2,298	30	2,328
Real Estate Taxes in Excess of CW/CA Debt Service	332	2	334
All Other	1,491	89	1,580
Total receipts	54,514	(410)	54,104
Disbursements:			
Local Assistance Grants	37,748	(502)	37,246
Departmental Operations:			
Personal Service	6,189	72	6,261
Non-Personal Service	1,949	(164)	1,785
General State Charges	4,119	(8)	4,111
Transfers to Other Funds:			
Debt Service	1,650	(61)	1,589
Capital Projects	878	(39)	839
State Share Medicaid	2,435	0	2,435
Other Purposes	778	5	783
Total Disbursements	55,746	(697)	55,049
Excess (Deficiency) of Receipts Over Disbursements and Reserves	(1,232)	287	(945)
Closing Fund Balance	1,385	(28)	1,357

Source: NYS DOB

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

	Mid-Year	Change	Reclasses	Base
Opening Fund Balance	1,385	(28)	0	1,357
Receipts:				
Taxes:				
Personal Income Tax	26,040	(585)		25,455
User Taxes and Fees	9,035	86		9,121
Business Taxes	6,452	(367)		6,085
Other Taxes	989	41		1,030
Miscellaneous Receipts	2,821	(66)		2,755
Federal Receipts	60	0		60
Transfers from Other Funds:				
PIT in Excess of Revenue Bond Debt Service	8,151	(195)		7,956
Sales Tax in Excess of LGAC Debt Service	2,363	44		2,407
Real Estate Taxes in Excess of CW/CA Debt Service	354	40		394
All Other	792	(324)	(133)	335
Total receipts	57,057	(1,326)	(133)	55,598
Disbursements:				
Local Assistance Grants	46,012	(342)	25	45,695
Departmental Operations:				
Personal Service	6,659	(122)	(346)	6,191
Non-Personal Service	2,090	(43)		2,047
General State Charges	4,583	75		4,658
Transfers to Other Funds:				
Debt Service	1,766	14		1,780
Capital Projects	1,197	(40)		1,157
State Share Medicaid	3,013	0		3,013
Other Purposes	811	153	(158)	806
Total Disbursements	66,131	(305)	(479)	65,347
Change in Reserve				
Community Project Fund	48	46		94
Prior Labor Agreement	0		(346)	(346)
Excess (Deficiency) of Receipts Over Disbursements and Reserves	(9,026)	(975)	0	(10,001)

Source: NYS DOB

Reclassifications reflect 1) the accounting of retroactive labor settlements as a reserve, rather than as spending, which has the effect of reducing disbursements, and increasing the projected closing balance in the General Fund and 2) the reclassification of mental hygiene activity from receipts to disbursements, which has no impact on net operating results.

CASH FINANCIAL PLAN
GENERAL FUND
ANNUAL CHANGE FROM CURRENT YEAR
(millions of dollars)

	2010-2011 Revised	2011-2012 Exec. (Amended)	Annual $ Change	Annual % Change
Opening Fund Balance	2,302	1,357	(945)	-41.1%
Receipts:				
Taxes:				
Personal Income Tax	23,549	25,701	2,152	9.1%
User Taxes and Fees	8,775	9,153	378	4.3%
Business Taxes	5,664	6,101	437	7.7%
Other Taxes	1,199	1,030	(169)	-14.1%
Miscellaneous Receipts	3,083	3,088	5	0.2%
Federal Receipts	60	60	0	0.0%
Transfers from Other Funds:				
PIT in Excess of Revenue Bond Debt Service	7,532	8,008	476	6.3%
Sales Tax in Excess of LGAC Debt Service	2,328	2,418	90	3.9%
Real Estate Taxes in Excess of CW/CA Debt Service	334	394	60	18.0%
All Other Transfers	1,580	1,065	(515)	-32.6%
Total Receipts	54,104	57,018	2,914	5.4%
Disbursements:				
Local Assistance Grants	37,246	38,333	1,087	2.9%
Departmental Operations:				
Personal Service	6,261	5,647	(614)	-9.8%
Non-Personal Service	1,785	1,864	79	4.4%
General State Charges	4,111	4,658	547	13.3%
Transfers to Other Funds:				
Debt Service	1,589	1,615	26	1.6%
Capital Projects	839	895	56	6.7%
State Share Medicaid	2,435	3,032	597	24.5%
Other Purposes	783	722	(61)	-7.8%
Total Disbursements	55,049	56,766	1,717	3.1%
Excess (Deficiency) of Receipts Over Disbursements and Reserves	(945)	252	1,197	-126.7%
Closing Fund Balance	1,357	1,609	252	18.6%
Statutory Reserves				
Tax Stabilization Reserve Fund	1,031	1,031	0	
Rainy Day Reserve Fund	175	175	0	
Contingency Reserve Fund	21	21	0	
Community Projects Fund	94	0	(94)	
Reserved For				
Prior-Year Labor Agreements (2007-2011)	0	346	346	
Debt Management	36	36	0	

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2011-2012 through 2014-2015
(millions of dollars)

	2011-2012 Exec. (Amended)	2012-2013 Projected	2013-2014 Projected	2014-2015 Projected
Receipts:				
Taxes:				
Personal Income Tax	25,701	25,871	27,361	28,510
User Taxes and Fees	9,153	9,386	9,754	10,113
Business Taxes	6,101	6,422	6,717	6,186
Other Taxes	1,030	1,075	1,135	1,195
Miscellaneous Receipts	3,088	2,827	2,406	1,976
Federal Receipts	60	60	60	60
Transfers from Other Funds:				
PIT in Excess of Revenue Bond Debt Service	8,008	7,863	8,318	8,653
Sales Tax in Excess of LGAC Debt Service	2,418	2,495	2,629	2,741
Real Estate Taxes in Excess of CW/CA Debt Service	394	479	580	653
All Other Transfers	1,065	757	660	656
Total Receipts	57,018	57,235	59,620	60,743
Disbursements:				
Local Assistance Grants	38,333	39,329	41,257	43,177
Departmental Operations:				
Personal Service	5,647	5,866	5,973	6,141
Non-personal Service	1,864	2,225	2,087	2,214
General State Charges	4,658	5,119	5,477	5,650
Transfers to Other Funds:				
Debt Service	1,615	1,722	1,668	1,576
Capital Projects	895	1,186	1,350	1,449
State Share Medicaid	3,032	3,119	3,082	3,082
Other Purposes	722	725	1,047	1,680
Total Disbursements	56,766	59,291	61,941	64,969
Reserves:				
Community Projects Fund	(94)	0	0	0
Prior-Year Labor Agreements (2007-2011)	346	142	142	142
Increase (Decrease) in Reserves	252	142	142	142
Excess (Deficiency) of Receipts Over Disbursements and Reserves	0	(2,198)	(2,463)	(4,368)

Source: NYS DOB

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

	Mid-Year	Amount Restated	Restated Mid-Year	Change	Executive (Amended)
Opening Fund Balance	4,669	95	4,764	47	4,811
Receipts:					
Taxes	60,124	(1)	60,123	(658)	59,465
Miscellaneous Receipts	18,638	8	18,646	685	19,331
Federal Receipts	119	0	119	2	121
Total Receipts	78,881	7	78,888	29	78,917
Disbursements:					
Local Assistance Grants	55,759	589	56,348	(616)	55,732
Departmental Operations:					
Personal Service	10,270	2,057	12,327	135	12,462
Non-Personal Service	4,613	705	5,318	(91)	5,227
General State Charges	5,146	895	6,041	15	6,056
Debt Service	5,471	0	5,471	14	5,485
Capital Projects	2	0	2	0	2
Total Disbursements	81,261	4,246	85,507	(543)	84,964
Other Financing Sources (Uses):					
Transfers from Other Funds	22,884	4,157	27,041	(1,051)	25,990
Transfers to Other Funds	(22,059)	61	(21,998)	1,044	(20,954)
Bond and Note Proceeds	0	0	0	0	0
Net Other Financing Sources (Uses)	825	4,218	5,043	(7)	5,036
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	(1,555)	(21)	(1,576)	565	(1,011)
Closing Fund Balance	3,114	74	3,188	612	3,800

Source: NYS DOB

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

	Mid-Year	Amount Restated	Restated Mid-Year	Change	Revised Base	Proposed Changes	Executive (Amended)
Opening Fund Balance	2,044	1,145	3,189	146	3,335	465	3,800
Receipts:							
Taxes	64,163	0	64,163	(992)	63,171	220	63,391
Miscellaneous Receipts	18,486	7	18,493	77	18,570	852	19,422
Federal Receipts	132	0	132	8	140	0	140
Total Receipts	82,781	7	82,788	(907)	81,881	1,072	82,953
Disbursements:							
Local Assistance Grants	64,475	596	65,071	(562)	64,509	(7,214)	57,295
Departmental Operations:							
Personal Service	11,260	1,612	12,872	(387)	12,485	(768)	11,717
Non-Personal Service	4,790	712	5,502	(201)	5,301	(188)	5,113
General State Charges	5,749	779	6,528	192	6,720	(191)	6,529
Debt Service	6,039	0	6,039	(9)	6,030	(9)	6,021
Capital Projects	2	0	2	0	2	0	2
Total Disbursements	92,315	3,699	96,014	(967)	95,047	(8,370)	86,677
Other Financing Sources (Uses):							
Transfers from Other Funds	22,882	3,687	26,569	(609)	25,960	(80)	25,880
Transfers to Other Funds	(22,488)	8	(22,480)	600	(21,880)	367	(21,513)
Bond and Note Proceeds	0	0	0	0	0	0	0
Net Other Financing Sources (Uses)	394	3,695	4,089	(9)	4,080	287	4,367
Deposit to/(use of) Reserves	(48)	48	0	(346)	(346)	346	0
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	(9,092)	(45)	(9,137)	397	(9,432)	10,075	643
Closing Fund Balance	(7,048)	1,100	(5,948)	543	(6,097)	10,540	4,443

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Debt Service Funds	State Operating Funds Total
Opening Fund Balance	2,302	2,099	410	4,811
Receipts:				
Taxes	39,187	8,192	12,086	59,465
Miscellaneous Receipts	3,083	15,341	907	19,331
Federal Receipts	60	1	60	121
Total Receipts	42,330	23,534	13,053	78,917
Disbursements:				
Local Assistance Grants	37,246	18,486	0	55,732
Departmental Operations:				
Personal Service	6,261	6,201	0	12,462
Non-Personal Service	1,785	3,363	79	5,227
General State Charges	4,111	1,945	0	6,056
Debt Service	0	0	5,485	5,485
Capital Projects	0	2	0	2
Total Disbursements	49,403	29,997	5,564	84,964
Other Financing Sources (Uses):				
Transfers from Other Funds	11,774	7,252	6,964	25,990
Transfers to Other Funds	(5,646)	(932)	(14,376)	(20,954)
Bond and Note Proceeds	0	0	0	0
Net Other Financing Sources (Uses)	6,128	6,320	(7,412)	5,036
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	(945)	(143)	77	(1,011)
Closing Fund Balance	1,357	1,956	487	3,800

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Debt Service Funds	State Operating Funds Total
Opening Fund Balance	1,357	1,956	487	3,800
Receipts:				
Taxes	41,985	8,438	12,968	63,391
Miscellaneous Receipts	3,088	15,385	949	19,422
Federal Receipts	60	1	79	140
Total Receipts	45,133	23,824	13,996	82,953
Disbursements:				
Local Assistance Grants	38,333	18,962	0	57,295
Departmental Operations:				
Personal Service	5,647	6,070	0	11,717
Non-Personal Service	1,864	3,187	62	5,113
General State Charges	4,658	1,871	0	6,529
Debt Service	0	0	6,021	6,021
Capital Projects	0	2	0	2
Total Disbursements	50,502	30,092	6,083	86,677
Other Financing Sources (Uses):				
Transfers from Other Funds	11,885	7,294	6,701	25,880
Transfers to Other Funds	(6,264)	(755)	(14,494)	(21,513)
Bond and Note Proceeds	0	0	0	0
Net Other Financing Sources (Uses)	5,621	6,539	(7,793)	4,367
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	252	271	120	643
Closing Fund Balance	1,609	2,227	607	4,443

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Debt Service Funds	State Operating Funds Total
Receipts:				
Taxes	42,754	8,658	13,190	64,602
Miscellaneous Receipts	2,827	16,315	997	20,139
Federal Receipts	60	1	79	140
Total Receipts	45,641	24,974	14,266	84,881
Disbursements:				
Local Assistance Grants	39,329	20,229	0	59,558
Departmental Operations:				
Personal Service	5,866	6,222	0	12,088
Non-Personal Service	2,225	3,333	62	5,620
General State Charges	5,119	2,026	0	7,145
Debt Service	0	0	6,335	6,335
Capital Projects	0	2	0	2
Total Disbursements	52,539	31,812	6,397	90,748
Other Financing Sources (Uses):				
Transfers from Other Funds	11,594	7,261	6,620	25,475
Transfers to Other Funds	(6,752)	12	(14,389)	(21,129)
Reserve for Collective Bargaining	(142)	0	0	(142)
Bond and Note Proceeds	0	0	0	0
Net Other Financing Sources (Uses)	4,700	7,273	(7,769)	4,204
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	(2,198)	435	100	(1,663)

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Debt Service Funds	State Operating Funds Total
Receipts:				
Taxes	44,967	9,001	13,968	67,936
Miscellaneous Receipts	2,406	16,682	1,043	20,131
Federal Receipts	60	1	79	140
Total Receipts	47,433	25,684	15,090	88,207
Disbursements:				
Local Assistance Grants	41,257	20,899	0	62,156
Departmental Operations:				
Personal Service	5,973	6,313	0	12,286
Non-Personal Service	2,087	3,436	62	5,585
General State Charges	5,477	2,171	0	7,648
Debt Service	0	0	6,502	6,502
Capital Projects	0	2	0	2
Total Disbursements	54,794	32,821	6,564	94,179
Other Financing Sources (Uses):				
Transfers from Other Funds	12,187	7,455	6,564	26,206
Transfers to Other Funds	(7,147)	172	(14,989)	(21,964)
Reserve for Collective Bargaining	(142)	0	0	(142)
Bond and Note Proceeds	0	0	0	0
Net Other Financing Sources (Uses)	4,898	7,627	(8,425)	4,100
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	(2,463)	490	101	(1,872)

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	All Funds Total
Opening Fund Balance	2,302	2,401	(254)	410	4,859
Receipts:					
Taxes	39,187	8,192	1,328	12,086	60,793
Miscellaneous Receipts	3,083	15,523	4,189	907	23,702
Federal Receipts	60	47,426	2,467	60	50,013
Total Receipts	42,330	71,141	7,984	13,053	134,508
Disbursements:					
Local Assistance Grants	37,246	59,251	2,644	0	99,141
Departmental Operations:					
Personal Service	6,261	6,922	0	0	13,183
Non-Personal Service	1,785	4,467	0	79	6,331
General State Charges	4,111	2,231	0	0	6,342
Debt Service	0	0	0	5,485	5,485
Capital Projects	0	2	5,630	0	5,632
Total Disbursements	49,403	72,873	8,274	5,564	136,114
Other Financing Sources (Uses):					
Transfers from Other Funds	11,774	7,253	1,104	6,964	27,095
Transfers to Other Funds	(5,646)	(5,663)	(1,418)	(14,376)	(27,103)
Bond and Note Proceeds	0	0	578	0	578
Net Other Financing Sources (Uses)	6,128	1,590	264	(7,412)	570
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	(945)	(142)	(26)	77	(1,036)
Closing Fund Balance	1,357	2,259	(280)	487	3,823

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	All Funds Total
Opening Fund Balance	1,357	2,259	(280)	487	3,823
Receipts:					
Taxes	41,985	8,438	1,367	12,968	64,758
Miscellaneous Receipts	3,088	15,517	4,063	949	23,617
Federal Receipts	60	41,854	2,309	79	44,302
Total Receipts	45,133	65,809	7,739	13,996	132,677
Disbursements:					
Local Assistance Grants	38,333	54,620	2,836	0	95,789
Departmental Operations:					
Personal Service	5,647	6,768	0	0	12,415
Non-Personal Service	1,864	4,207	0	62	6,133
General State Charges	4,658	2,183	0	0	6,841
Debt Service	0	0	0	6,021	6,021
Capital Projects	0	2	5,333	0	5,335
Total Disbursements	50,502	67,780	8,169	6,083	132,534
Other financing sources (Uses):					
Transfers from Other Funds	11,885	7,295	1,355	6,701	27,236
Transfers to Other Funds	(6,264)	(5,052)	(1,448)	(14,494)	(27,258)
Bond and Note Proceeds	0	0	488	0	488
Net Other Financing Sources (Uses)	5,621	2,243	395	(7,793)	466
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	252	272	(35)	120	609
Closing Fund Balance	1,609	2,531	(315)	607	4,432

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	All Funds Total
Receipts:					
Taxes	42,754	8,658	1,400	13,190	66,002
Miscellaneous Receipts	2,827	16,446	3,724	997	23,994
Federal Receipts	60	38,453	1,862	79	40,454
Total Receipts	45,641	63,557	6,986	14,266	130,450
Disbursements:					
Local Assistance Grants	39,329	52,641	1,894	0	93,864
Departmental Operations:					
Personal Service	5,866	6,913	0	0	12,779
Non-Personal Service	2,225	4,285	0	62	6,572
General State Charges	5,119	2,375	0	0	7,494
Debt Service	0	0	0	6,335	6,335
Capital Projects	0	2	5,392	0	5,394
Total Disbursements	52,539	66,216	7,286	6,397	132,438
Other Financing Sources (Uses):					
Transfers from Other Funds	11,594	7,262	1,333	6,620	26,809
Transfers to Other Funds	(6,752)	(4,168)	(1,508)	(14,389)	(26,817)
Reserve for Collective Bargaining	(142)	0	0	0	(142)
Bond and Note Proceeds	0	0	425	0	425
Net Other Financing Sources (Uses)	4,700	3,094	250	(7,769)	275
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	(2,198)	435	(50)	100	(1,713)

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Total
Receipts:					
Taxes	44,967	9,001	1,406	13,968	69,342
Miscellaneous Receipts	2,406	16,813	3,575	1,043	23,837
Federal Receipts	60	40,549	1,821	79	42,509
Total Receipts	47,433	66,363	6,802	15,090	135,688
Disbursements:					
Local Assistance Grants	41,257	55,506	1,825	0	98,588
Departmental Operations:					
Personal Service	5,973	6,996	0	0	12,969
Non-Personal Service	2,087	4,372	0	62	6,521
General State Charges	5,477	2,529	0	0	8,006
Debt Service	0	0	0	6,502	6,502
Capital Projects	0	2	5,183	0	5,185
Total Disbursements	54,794	69,405	7,008	6,564	137,771
Other Financing Sources (Uses):					
Transfers from Other Funds	12,187	7,456	1,412	6,564	27,619
Transfers to Other Funds	(7,147)	(3,925)	(1,557)	(14,989)	(27,618)
Reserve for Collective Bargaining	(142)	0	0	0	(142)
Bond and Note Proceeds	0	0	341	0	341
Net Other Financing Sources (Uses)	4,898	3,531	196	(8,425)	200
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	(2,463)	489	(10)	101	(1,883)

Source: NYS DOB

CASHFLOW
GENERAL FUND
2010-2011
(dollars in millions)

	2010 April Results	May Results	June Results	July Results	August Results	September Results	October Results	November Results	December Results	2011 January Results	February Prel. (DOB)	March Projected	Total
OPENING BALANCE	2,302	4,274	1,648	(87)	590	528	2,381	2,256	1,689	3,008	5,617	6,418	2,302
RECEIPTS:													
Personal Income Tax	3,069	783	2,164	1,575	1,669	2,571	1,610	1,329	2,732	2,575	1,962	1,510	23,549
User Taxes and Fees	669	589	858	666	666	863	669	688	931	754	612	810	8,775
Business Taxes	60	2	915	80	21	990	59	132	1,169	122	121	1,993	5,664
Other Taxes	93	83	103	155	81	116	82	85	96	149	113	43	1,199
Total Taxes	3,891	1,457	4,040	2,476	2,437	4,540	2,420	2,234	4,928	3,600	2,808	4,356	39,187
Licenses, Fees, etc.	47	56	55	77	53	69	52	72	48	36	50	12	627
Abandoned Property	0	(4)	77	3	28	43	32	129	68	18	12	244	650
ABC License Fee	9	1	6	4	4	4	2	4	4	5	3	0	46
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	15	21	36
Reimbursements	7	13	35	13	6	47	9	8	35	5	32	12	222
Investment Income	1	0	0	1	0	0	1	0	0	1	0	1	5
Other Transactions	26	33	80	41	69	423	51	36	71	98	24	545	1,497
Total Miscellaneous Receipts	90	99	253	139	160	586	147	249	226	163	136	835	3,083
Federal Grants	1	13	0	0	0	0	17	0	13	0	0	16	60
PIT in Excess of Revenue Bond Debt Service	1,022	108	887	509	232	964	382	162	989	1,245	228	804	7,532
Sales Tax in Excess of LGAC Debt Service	180	100	350	202	132	267	191	207	294	232	3	170	2,328
Real Estate Taxes in Excess of CW/CA Debt Service	32	34	33	39	33	28	26	21	11	33	40	4	334
All Other	4	1	62	87	20	11	18	21	144	105	181	926	1,580
Total Transfers from Other Funds	1,238	243	1,332	837	417	1,270	617	411	1,438	1,615	452	1,904	11,774
TOTAL RECEIPTS	5,220	1,812	5,625	3,452	3,014	6,396	3,201	2,894	6,605	5,378	3,396	7,111	54,104
DISBURSEMENTS:													
School Aid	491	2,616	3,767	100	574	1,063	397	871	1,745	125	467	6,499	18,715
Higher Education	16	16	379	198	14	314	58	377	126	184	43	726	2,451
All Other Education	17	14	17	24	88	523	24	170	224	55	37	279	1,472
Medicaid - DOH	1,085	633	668	516	590	389	244	638	832	462	771	626	7,454
Public Health	40	30	122	16	65	117	17	20	40	40	12	177	696
Mental Hygiene	10	5	362	50	130	392	164	16	398	122	157	409	2,215
Children and Families	9	15	14	66	274	74	338	72	235	149	55	358	1,659
Temporary & Disability Assistance	61	140	61	62	114	83	152	73	236	66	3	101	1,152
Transportation	0	0	0	11	9	18	0	13	29	3	12	3	98
Unrestricted Aid	3	12	274	1	1	96	9	0	209	3	0	168	776
All Other	19	16	189	(27)	45	48	(48)	87	57	44	33	95	558
Total Local Assistance Grants	1,751	3,497	5,853	1,017	1,904	3,117	1,355	2,337	4,131	1,253	1,590	9,441	37,246
Personal Service	514	547	586	619	465	622	405	475	579	351	386	712	6,261
Non-Personal Service	143	108	151	171	180	175	123	112	136	134	164	188	1,785
Total State Operations	657	655	737	790	645	797	528	587	715	485	550	900	8,046
General State Charges	122	30	485	112	348	298	439	317	147	412	79	1,322	4,111
Debt Service	414	38	0	470	(5)	(133)	601	(37)	19	422	(19)	(181)	1,589
Capital Projects	14	21	4	121	(42)	63	88	(10)	67	(20)	108	425	839
State Share Medicaid	180	162	244	185	184	363	179	193	184	157	287	117	2,435
Other Purposes	110	35	37	80	42	38	136	74	23	60	0	148	783
Total Transfers to Other Funds	718	256	285	856	179	331	1,004	220	293	619	376	509	5,646
TOTAL DISBURSEMENTS	3,248	4,438	7,360	2,775	3,076	4,543	3,326	3,461	5,286	2,769	2,595	12,172	55,049
Excess/(Deficiency) of Receipts over Disbursements	1,972	(2,626)	(1,735)	677	(62)	1,853	(125)	(567)	1,319	2,609	801	(5,061)	(945)
CLOSING BALANCE	4,274	1,648	(87)	590	528	2,381	2,256	1,689	3,008	5,617	6,418	1,357	1,357

Source: NYS DOB

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

	2009-2010 Actuals	2010-2011 Revised	2011-2012 Exec. (Amended)	2012-2013 Projected	2013-2014 Projected	2014-2015 Projected
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT						
Agriculture and Markets, Department of	109,449	103,283	103,890	116,447	97,854	99,562
Alcoholic Beverage Control	17,012	17,774	18,383	18,549	19,366	19,366
Developmental Authority North	36	200	162	162	162	162
Consumer Protection Board	2,295	2,684	0	0	0	0
Economic Development Capital Programs	18,306	6,500	2,500	2,500	2,500	0
Economic Development, Department of	76,889	89,589	60,607	62,112	76,797	56,602
Empire State Development Corporation	606,568	1,015,195	775,106	305,619	394,151	401,363
Energy Research and Development Authority	29,380	34,858	30,807	30,158	31,178	31,178
Financial Regulation, Department of	745,103	533,467	528,167	539,385	549,782	560,648
Olympic Regional Development Authority	7,966	4,815	4,366	4,366	4,493	4,575
Public Service, Department of	77,313	74,990	78,822	82,617	85,830	89,507
Racing and Wagering Board, State	22,575	23,733	24,185	22,172	22,952	23,704
Science, Technology and Innovation, Foundation for	29,083	31,024	2,585	300	0	0
Strategic Investment	8,827	10,000	4,000	5,000	5,000	5,000
Functional Total	1,750,802	1,948,112	1,633,580	1,189,387	1,290,065	1,291,667
PARKS AND THE ENVIRONMENT						
Adirondack Park Agency	5,292	5,118	4,641	4,643	4,643	4,643
Environmental Conservation, Department of	864,001	1,049,379	1,013,206	816,150	778,850	773,457
Environmental Facilities Corporation	10,025	10,023	10,425	10,666	10,818	10,940
Hudson River Park Trust	11,977	10,000	0	0	0	0
Parks, Recreation and Historic Preservation, Office of	305,485	258,977	208,414	210,080	210,822	211,886
Functional Total	1,196,780	1,333,497	1,236,686	1,041,539	1,005,133	1,000,926
TRANSPORTATION						
Motor Vehicles, Department of	320,230	326,441	301,689	308,146	314,459	320,123
Thruway Authority	1,403	1,800	1,800	1,800	1,800	1,800
Metropolitan Transportation Authority	184,681	217,000	194,500	183,600	183,600	183,600
Transportation, Department of	7,376,584	8,158,057	8,003,598	7,840,294	7,851,963	7,908,273
Functional Total	7,882,898	8,703,298	8,501,587	8,333,840	8,351,822	8,413,796
HEALTH						
Aging, Office for the	229,966	228,271	214,992	214,891	214,934	214,978
Health, Department of	42,156,549	44,728,677	43,892,661	42,733,929	45,503,914	51,652,140
Medical Assistance	37,025,209	39,183,472	37,904,241	37,131,783	39,920,327	46,048,183
Medicaid Administration	939,296	1,098,413	1,147,500	1,193,500	1,241,300	1,290,900
Public Health	4,192,044	4,446,792	4,840,920	4,408,646	4,342,287	4,313,057
Medicaid Inspector General, Office of	64,868	64,894	72,652	75,849	78,462	80,409
Stem Cell and Innovation	17,676	44,700	50,000	61,373	63,673	50,000
Functional Total	42,469,059	45,066,542	44,230,305	43,086,042	45,860,983	51,997,527

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

	2009-2010 Actuals	2010-2011 Revised	2011-2012 Exec. (Amended)	2012-2013 Projected	2013-2014 Projected	2014-2015 Projected
SOCIAL WELFARE						
Children and Family Services, Office of	3,189,020	3,203,227	3,054,792	3,223,638	3,432,275	3,586,123
OCFS	3,139,542	3,134,526	2,943,691	3,102,256	3,300,705	3,448,268
OCFS - Other	49,478	68,701	111,101	121,382	131,570	137,855
Human Rights, Division of	20,300	19,339	18,567	19,173	19,458	19,458
Labor, Department of	728,721	800,337	732,286	731,954	714,843	716,120
Housing and Community Renew al, Division of	417,003	467,684	396,944	257,082	274,036	263,220
National Commission Services	16,862	20,732	14,599	14,601	14,687	14,909
Prevention of Domestic Violence, Office for	2,167	1,947	0	0	0	0
Temporary and Disability Assistance, Office of	5,275,993	5,247,194	5,249,750	5,131,213	5,177,354	5,195,256
Welfare Assistance	3,857,439	3,829,675	3,864,811	3,733,488	3,781,142	3,794,840
Welfare Administration	51,263	0	0	0	0	0
All Other	1,367,291	1,417,519	1,384,939	1,397,725	1,396,212	1,400,416
Welfare Inspector General, Office of	727	1,432	1,420	1,436	1,456	1,475
Workers' Compensation Board	190,135	197,512	208,755	208,633	215,587	222,423
Functional Total	9,840,928	9,959,404	9,677,113	9,587,730	9,849,696	10,018,984
MENTAL HYGIENE						
Mental Health, Office of	3,121,486	3,316,838	3,278,119	3,502,233	3,695,125	3,897,219
OMH	1,423,971	1,561,135	1,423,709	1,596,484	1,708,367	1,817,589
OMH - Other	1,697,515	1,755,703	1,854,410	1,905,749	1,986,758	2,079,630
Mental Hygiene, Department of	175	0	0	0	0	0
People w ith Developmental Disabilities, Office for	4,397,581	4,409,924	4,323,324	4,509,531	4,771,278	4,961,946
OPWDD	522,032	563,017	546,043	560,026	586,996	602,416
OPWDD - Other	3,875,549	3,846,907	3,777,281	3,949,505	4,184,282	4,359,530
Alcoholism and Substance Abuse Services, Office of	550,090	571,125	591,380	692,350	702,017	711,172
OASAS	456,695	469,569	490,827	589,346	596,344	602,851
OASAS - Other	93,395	101,556	100,553	103,004	105,673	108,321
Developmental Disabilities Planning Council	3,397	4,200	4,200	4,200	4,200	4,200
Quality of Care and Advocacy for Persons w ith Disabilities, Commission	15,508	16,155	15,964	16,366	16,818	17,323
Functional Total	8,088,237	8,318,242	8,212,987	8,724,680	9,189,438	9,591,860
PUBLIC PROTECTION/CRIMINAL JUSTICE						
Capital Defenders Office	21	0	0	0	0	0
Correction, Commission of	2,628	2,701	0	0	0	0
Correctional Services, Department of	2,909,312	2,699,168	2,641,076	2,707,245	2,784,215	2,853,415
Criminal Justice Services, Division of	241,767	343,785	372,871	357,110	354,173	356,382
Office of Victim Services	67,342	67,372	0	0	0	0
Statew ide Financial System	0	26,864	40,498	55,484	55,584	55,584
Homeland Security and Emergency Services	296,589	356,658	378,360	380,439	398,038	374,108
Homeland Security	800	34,298	30,868	31,283	31,705	32,133
Office of Indigent Legal Services	0	73,691	79,997	80,125	80,237	80,354
Investigation, Temporary State Commission of	395	0	0	0	0	0
Judicial Commissions	5,145	5,292	4,763	4,837	4,917	4,995
Military and Naval Affairs, Division of	276,622	218,975	192,238	187,285	186,497	182,185
Parole, Division of	188,383	176,398	0	0	0	0
Probation and Correctional Alternatives, Division of	74,852	0	0	0	0	0
State Emergency Management Office	0	0	0	0	0	0
State Police, Division of	776,340	714,235	647,159	662,137	637,377	635,513
Wireless Netw ork	6,672	3,586	0	0	0	0
Functional Total	4,846,868	4,723,023	4,387,830	4,465,945	4,532,743	4,574,669

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

	2009-2010 Actuals	2010-2011 Revised	2011-2012 Exec. (Amended)	2012-2013 Projected	2013-2014 Projected	2014-2015 Projected
HIGHER EDUCATION						
City University of New York	1,655,773	1,359,461	1,386,017	1,492,482	1,585,083	1,663,982
Higher Education Services Corporation	1,022,235	961,429	1,007,522	1,056,925	1,061,462	1,064,188
Higher Education Capital Grants	37,320	28,000	48,000	29,000	0	0
Higher Education Miscellaneous	378	355	355	355	355	355
State University Construction Fund	18,595	25,678	26,172	27,074	27,854	28,609
State University of New York	6,989,582	7,120,374	7,228,506	7,503,477	7,660,157	7,782,437
Functional Total	9,723,883	9,495,297	9,696,572	10,109,313	10,334,911	10,539,571
EDUCATION						
Arts, Council on the	43,436	44,768	36,553	36,590	36,650	36,717
Education, Department of	27,725,560	32,312,078	30,189,405	29,785,733	30,957,701	32,150,613
School Aid	21,484,784	25,634,910	23,488,080	23,145,115	24,019,150	24,953,798
School Aid - Other	63,757	125,820	0	0	0	0
STAR Property Tax Relief	3,413,542	3,269,866	3,292,520	3,322,067	3,510,375	3,692,726
Special Education Categorical Programs	1,680,004	2,203,888	2,227,545	2,098,236	2,225,316	2,348,316
All Other	1,083,473	1,077,594	1,181,260	1,220,315	1,202,860	1,155,773
Functional Total	27,768,996	32,356,846	30,225,958	29,822,323	30,994,351	32,187,330
GENERAL GOVERNMENT						
Budget, Division of the	40,775	39,212	37,638	38,712	39,642	41,739
Civil Service, Department of	21,384	17,406	15,743	15,993	16,280	16,461
Deferred Compensation	673	826	774	796	823	850
Elections, State Board of	50,405	101,615	55,724	35,301	5,246	5,468
Employee Relations, Office of	3,204	3,202	2,889	2,923	2,963	2,997
Financial Plan Control Board	2,630	3,190	3,330	3,494	3,638	3,789
General Services, Office of	197,766	195,627	185,528	195,684	198,571	201,575
Inspector General, Office of	6,079	6,024	5,430	5,515	5,602	5,671
Labor Management Committee	33,609	41,256	50,256	60,874	25,721	25,721
Lottery, Division of	185,777	173,408	176,790	177,280	181,544	185,220
Public Employment Relations Board	3,785	4,208	3,845	3,897	3,949	4,004
Public Integrity, Commission on	4,209	4,054	3,649	3,829	3,906	3,972
Real Property Services, Office of	42,806	0	0	0	0	0
Regulatory Reform, Governor's Office of	2,449	1,634	0	0	0	0
State, Department of	176,349	203,106	131,132	133,279	134,967	136,711
Tax Appeals, Division of	3,458	3,053	2,514	2,514	2,552	2,585
Taxation and Finance, Department of	417,898	461,979	400,165	402,915	409,781	415,538
Technology, Office for	23,549	25,698	32,714	71,144	40,607	41,274
Veterans' Affairs, Division of	16,072	17,000	16,167	16,369	16,556	16,636
Functional Total	1,232,877	1,302,498	1,124,288	1,170,519	1,092,348	1,110,211

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

	2009-2010 Actuals	2010-2011 Revised	2011-2012 Exec. (Amended)	2012-2013 Projected	2013-2014 Projected	2014-2015 Projected
ELECTED OFFICIALS						
Legislature	226,089	220,795	218,795	227,685	232,263	235,415
Judiciary	2,520,040	2,610,241	2,756,548	3,000,446	3,173,911	3,410,679
Audit and Control, Department of	242,702	178,908	170,616	178,640	181,162	183,340
Law , Department of	220,152	206,266	205,617	215,238	219,160	221,132
Executive Chamber	17,056	15,473	13,926	14,203	14,461	15,185
Lieutenant Governor, Office of the	0	516	464	479	479	524
Functional Total	3,226,039	3,232,199	3,365,966	3,636,691	3,821,436	4,066,275
LOCAL GOVERNMENT ASSISTANCE						
Aid and Incentives for Municipalities	1,039,488	739,569	708,762	738,803	738,971	739,060
Efficiency Incentive Grants Program	3,293	5,120	7,632	7,533	0	0
Miscellaneous Financial Assistance	8,920	3,920	0	0	0	0
Municipalities w ith VLT Facilities	26,489	25,801	19,600	19,600	19,600	19,600
Small Government Assistance	2,089	2,065	0	0	0	0
Functional Total	1,080,279	776,475	735,994	765,936	758,571	758,660
ALL OTHER CATEGORIES						
Long-Term Debt Service	5,012,102	5,563,826	6,083,348	6,397,402	6,563,495	6,621,768
General State Charges	2,920,603	3,364,019	3,851,054	4,185,465	4,572,675	4,676,506
Miscellaneous	(162,872)	(29,966)	(429,882)	(79,162)	(449,182)	(449,113)
Functional Total	7,769,833	8,897,879	9,504,520	10,503,705	10,686,988	10,849,161
TOTAL ALL FUNDS SPENDING	126,877,479	136,113,312	132,533,386	132,437,650	137,768,485	146,400,637

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

Source: NYS DOB

GAAP FINANCIAL PLAN
GENERAL FUND
2010-2011 and 2011-2012
(millions of dollars)

	2010-11 Revised	2011-12 Exec. (Amended)	Annual Change
Revenues:			
Taxes:			
Personal income tax	23,460	25,435	1,975
User taxes and fees	8,856	9,176	320
Business taxes	5,579	6,116	537
Other taxes	1,111	1,061	(50)
Miscellaneous revenues	7,321	6,464	(857)
Federal grants	61	60	(1)
Total revenues	46,388	48,312	1,924
Expenditures:			
Grants to local governments	38,508	40,756	2,248
State operations	12,135	11,103	(1,032)
General State charges	5,127	5,541	414
Debt service	0	0	0
Capital projects	0	0	0
Total expenditures	55,770	57,400	1,630
Other financing sources (uses):			
Transfers from other funds	15,103	14,947	(156)
Transfers to other funds	(6,105)	(5,995)	110
Proceeds from financing arrangements/ advance refundings	361	403	42
Net other financing sources (uses)	9,359	9,355	(4)
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	(23)	267	290
Accumulated Surplus/(Deficit)	(3,561)	(3,294)	267

Source: NYS DOB

GAAP FINANCIAL PLAN
GENERAL FUND
2011-2012 THROUGH 2014-2015
(millions of dollars)

	2011-12 Projected	2012-13 Projected	2013-14 Projected	2014-15 Projected
Revenues:				
Taxes:				
Personal income tax	25,435	24,905	26,528	28,315
User taxes and fees	9,176	9,400	9,777	10,135
Business taxes	6,116	6,421	6,724	6,152
Other taxes	1,061	1,117	1,177	1,195
Miscellaneous revenues	6,464	6,112	5,824	5,427
Federal grants	60	60	60	60
Total revenues	48,312	48,015	50,090	51,284
Expenditures:				
Grants to local governments	40,756	42,115	44,129	46,008
State operations	11,103	11,570	11,559	11,939
General State charges	5,541	5,938	6,499	6,734
Debt service	0	0	0	0
Capital projects	0	0	0	0
Total expenditures	57,400	59,623	62,187	64,681
Other financing sources (uses):				
Transfers from other funds	14,947	15,186	15,488	14,872
Transfers to other funds	(5,995)	(6,849)	(7,079)	(7,062)
Proceeds from financing arrangements/ advance refundings	403	400	400	400
Net other financing sources (uses)	9,355	8,737	8,809	8,210
Operating Surplus/(Deficit)	267	(2,871)	(3,288)	(5,187)

Source: NYS DOB

Workforce Impact Summary
All Funds
2009-10 Through 2011-12

	2009-10 Actuals (03/31/10)	Starting Estimate (03/31/11)	Layoffs*	Attritions	New Fills	Fund Shifts	Mergers	Net Change	Ending Estimate (03/31/12)
Children and Family Services, Office of	3,555	3,351	0	(345)	765	0	0	420	3,771
Correctional Services, Department of	30,104	29,878	0	(940)	345	0	1,893	1,298	31,176
Education Department, State	2,976	2,806	0	(141)	141	0	0	0	2,806
Environmental Conservation, Department of	3,454	3,003	0	(52)	52	0	0	0	3,003
General Services, Office of	1,519	1,371	0	(44)	47	0	0	3	1,374
Health, Department of	5,388	5,055	0	(151)	288	0	0	137	5,192
Labor, Department of	3,982	3,949	0	(284)	312	0	0	28	3,977
Motor Vehicles, Department of	2,750	2,472	0	(49)	49	0	0	0	2,472
Mental Health, Office of	16,173	15,760	0	(1,592)	1,492	0	0	(100)	15,660
People with Developmental Disabilities, Office of	21,530	21,367	0	(1,854)	1,679	0	0	(175)	21,192
Parks, Recreation and Historic Preservation, Office of	2,053	1,785	0	(28)	28	0	0	0	1,785
Parole, Division of	1,973	1,893	0	(70)	70	0	(1,893)	(1,893)	0
State Police, Division of	5,704	5,439	0	(234)	104	0	0	(130)	5,309
Temporary and Disability Assistance, Office of	2,259	2,248	0	(157)	157	0	0	0	2,248
Taxation and Finance, Department of	5,263	5,008	0	(336)	336	0	0	0	5,008
Transportation, Department of	9,963	8,708	0	(265)	265	0	0	0	8,708
Workers' Compensation Board	1,395	1,450	0	(60)	76	0	0	16	1,466
Subtotal - Major Agencies	**120,041**	**115,543**	**0**	**(6,602)**	**6,206**	**0**	**0**	**(396)**	**115,147**
Minor Agencies	**11,700**	**11,091**	**(29)**	**(475)**	**610**	**0**	**23**	**129**	**11,220**
Subject to Direct Executive Control	**131,741**	**126,634**	**(29)**	**(7,077)**	**6,816**	**0**	**23**	**(267)**	**126,367**
Adjustments									
Workforce Savings	0	0	(9,748)	(1,830)	68	0	0	(11,510)	(11,510)
Subtotal - Adjustments	**0**	**0**	**(9,748)**	**(1,830)**	**68**	**0**	**0**	**(11,510)**	**(11,510)**
University Systems									
City University of New York	13,073	12,933	0	(1,099)	1,099	0	0	0	12,933
State University Construction Fund	129	172	0	(15)	15	0	0	0	172
State University of New York	41,900	41,815	0	(3,555)	3,955	0	0	400	42,215
Subtotal - University Systems	**55,102**	**54,920**	**0**	**(4,669)**	**5,069**	**0**	**0**	**400**	**55,320**
Off-Budget Agencies									
Roswell Park Cancer Institute	2,025	2,025	0	(162)	162	0	0	0	2,025
Science, Technology and Innovation, NYS Foundation for	25	23	(23)	0	0	0	0	(23)	0
State Insurance Fund	2,547	2,564	0	(205)	205	0	0	0	2,564
Off-Budget Agencies	**4,597**	**4,612**	**(23)**	**(367)**	**367**	**0**	**0**	**(23)**	**4,589**
Independently Elected Agencies									
Audit and Control, Department of	2,545	2,552	0	0	0	0	(23)	(23)	2,529
Law, Department of	1,807	1,747	0	0	0	0	0	0	1,747
Subtotal - Independently Elected Agencies	**4,352**	**4,299**	**0**	**0**	**0**	**0**	**(23)**	**(23)**	**4,276**
Grand Total	**195,792**	**190,465**	**(9,800)**	**(13,943)**	**12,320**	**0**	**0**	**(11,423)**	**179,042**

* This table reflects layoffs that may be necessary in the absence of negotiated workforce savings

Source: NYS DOB

AUDITED COMBINED FINANCIAL STATEMENTS OF NEW YORK DOWNTOWN HOSPITAL AND AFFILIATES FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 WITH REPORT OF INDEPENDENT AUDITORS

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Combined Financial Statements

New York Downtown Hospital and Affiliates
Years Ended December 31, 2009 and 2008
With Report of Independent Auditors

New York Downtown Hospital and Affiliates

Combined Financial Statements

Years Ended December 31, 2009 and 2008

Contents

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Report of Independent Auditors

Board of Trustees
New York Downtown Hospital

We have audited the accompanying combined statements of financial position of New York Downtown Hospital and Affiliates (the "Hospital") as of December 31, 2009 and 2008, and the related combined statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of New York Downtown Hospital and Affiliates at December 31, 2009 and 2008, and the combined results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

July 12, 2010

New York Downtown Hospital and Affiliates

Combined Statements of Financial Position

	December 31 2009	December 31 2008
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 4,182**	$ 8,133
Accounts receivable, less allowance for uncollectibles of $8,796 in 2009 and $9,750 in 2008	**14,787**	16,336
Other receivables	**17,569**	12,457
Inventories and other current assets	**3,089**	3,927
Current portion of assets limited as to use:		
Internally restricted	**360**	2,008
Board designated – self-insurance fund	**2,000**	2,023
Donor-restricted	**2,073**	1,562
Bond financing and other	**3,257**	5,243
Total current assets	**47,317**	51,689
Assets limited as to use, less current portion:		
Board designated – self-insurance fund	**14,088**	10,467
Donor-restricted	**13,548**	14,278
Bond financing and other	**21,163**	21,243
	48,799	45,988
Long-term investments	**30,030**	32,894
Property, plant and equipment – net	**70,465**	69,345
Deferred financing costs – net	**428**	505
Other assets	**991**	1,077
Total assets	**$ 198,030**	$ 201,498
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 16,728**	$ 17,578
Accrued payroll and related liabilities	**7,351**	7,059
Accrued interest	**746**	801
Current portion of professional liabilities	**2,000**	2,023
Current portion of long-term debt	**3,798**	5,219
Current portion of third-party payor liabilities	**11,242**	10,493
Other current liabilities	**653**	2,531
Total current liabilities	**42,518**	45,704
Noncurrent liabilities:		
Professional liabilities – less current portion	**18,030**	15,329
Accrued pension and postretirement benefits	**7,219**	10,999
Long-term debt – less current portion	**45,605**	48,701
Third-party payor liabilities – less current portion	**15,439**	14,995
Other noncurrent liabilities	**2,125**	2,327
Total liabilities	**130,936**	138,055
Commitments and contingencies		
Net assets:		
Unrestricted	**48,468**	44,682
Temporarily restricted	**11,916**	12,051
Permanently restricted	**6,710**	6,710
Total net assets	**67,094**	63,443
Total liabilities and net assets	**$ 198,030**	$ 201,498

See accompanying notes.

New York Downtown Hospital and Affiliates

Combined Statements of Operations

	Year Ended December 31 2009	2008
	(In Thousands)	
Operating revenue (patient care and related)		
Net patient service revenue	**$ 135,529**	$ 135,547
Other operating revenue	**36,896**	36,309
Net assets released from restrictions used for operations	**2,282**	2,000
Total operating revenue (patient care and related)	**174,707**	173,856
Operating expenses (patient care and related)		
Salaries and wages	**78,165**	80,468
Employee benefits	**19,026**	18,253
Supplies and other	**59,936**	57,230
Interest	**2,250**	2,367
Depreciation and amortization	**9,563**	8,882
Bad debts	**9,575**	6,365
Total operating expenses (patient care and related)	**178,515**	173,565
(Loss) gain from operations before housing company operations and other items	**(3,808)**	291
Housing company operations		
Operating revenue	**642**	638
Operating expenses	**1,182**	1,409
Net housing company operations before gain on sale of real estate	**(540)**	(771)
Gain on sale of real estate	**2,000**	49,755
Net housing company operations after gain on sale of real estate	**1,460**	48,984
Other items		
Loss on abandonment of long-lived assets	**–**	(311)
Gain on sale of real estate (parking lot settlement)	**–**	2,800
Total other items	**–**	2,489
(Deficiency) excess of revenue over expenses	**(2,348)**	51,764
Other changes in unrestricted net assets		
Net assets released from restrictions used for plant replacement funds	**1,302**	1,798
Change in accrued pension and postretirement benefits liabilities to be recognized in future periods	**4,832**	(6,114)
Change in unrestricted net assets	**$ 3,786**	$ 47,448

See accompanying notes.

New York Downtown Hospital and Affiliates

Combined Statements of Changes in Net Assets

Years Ended December 31, 2009 and 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Net assets (deficiency) at January 1, 2008	$ (2,766)	$ 14,165	$ 6,710	$ 18,109
Change in unrestricted net assets	47,448	–	–	47,448
Investment income restricted for specific purposes, including net realized and unrealized gains and losses on investments	–	(1,287)	–	(1,287)
Net assets released from restrictions for plant replacement funds	–	(1,798)	–	(1,798)
Restricted gifts, bequests and similar items	–	2,971	–	2,971
Net assets released from restrictions for operations	–	(2,000)	–	(2,000)
Total changes in net assets (deficiency)	47,448	(2,114)	–	45,334
Net assets at December 31, 2008	44,682	12,051	6,710	63,443
Change in unrestricted net assets	**3,786**	**–**	**–**	**3,786**
Investment income restricted for specific purposes, including net realized and unrealized gains and losses on investments	**–**	**884**	**–**	**884**
Net assets released from restrictions for plant replacement funds	**–**	**(1,302)**	**–**	**(1,302)**
Restricted gifts, bequests and similar items	**–**	**2,565**	**–**	**2,565**
Net assets released from restrictions for operations	**–**	**(2,282)**	**–**	**(2,282)**
Total changes in net assets	**3,786**	**(135)**	**–**	**3,651**
Net assets at December 31, 2009	**$ 48,468**	**$ 11,916**	**$ 6,710**	**$ 67,094**

See accompanying notes.

New York Downtown Hospital and Affiliates

Combined Statements of Cash Flows

	Year Ended December 31	
	2009	2008
	(In Thousands)	
Cash flows from operating activities		
Change in net assets	**$ 3,651**	$ 45,334
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**9,696**	9,002
Amortization of deferred financing costs	**77**	83
Loss on abandonment of long-lived assets	**–**	311
Gain on sale of real estate	**(2,000)**	(52,555)
Change in accrued pension and postretirement benefits liabilities to be recognized in future periods	**(4,832)**	6,114
Changes in operating assets and liabilities:		
Accounts receivable	**1,549**	145
Other receivables and other assets	**(5,026)**	(3,835)
Inventories and other current assets	**838**	133
Accounts payable and accrued expenses	**(850)**	1,313
Accrued payroll and related liabilities	**292**	(316)
Accrued interest	**(55)**	(51)
Professional liabilities	**2,678**	628
Accrued pension and postretirement benefits	**1,052**	90
Other liabilities	**(887)**	4,547
Net cash provided by operating activities	**6,183**	10,943
Cash flows from investing activities		
Net proceeds from sale of real estate	**2,000**	54,138
Net change in assets limited as to use	**335**	(5,483)
Net change in long-term investments	**2,864**	(32,894)
Acquisitions of property, plant and equipment – net	**(10,279)**	(11,211)
Net cash (used in) provided by investing activities	**(5,080)**	4,550
Cash flows from financing activities		
Principal payments on long-term debt, including capital leases	**(5,054)**	(13,979)
Net cash used in financing activities	**(5,054)**	(13,979)
Net (decrease) increase in cash and cash equivalents	**(3,951)**	1,514
Cash and cash equivalents at beginning of year	**8,133**	6,619
Cash and cash equivalents at end of year	**$ 4,182**	$ 8,133
Supplemental disclosure of noncash investing and financing activities		
Capital leases incurred	**$ 537**	$ 1,537

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization

The accompanying combined financial statements include the activities of New York Downtown Hospital ("NYDH"), NYU Downtown Hospital Chinese Community Partnership for Health Foundation, Inc. ("CCPH"), Beekman Staff Residence, Inc. ("Beekman"), NYDH Management Services Corporation, Inc. ("MSC"), New York Downtown Medical Associates, P.C. ("DMA") and the Elizabeth Blackwell Foundation (the "Blackwell Foundation"). These entities are collectively referred to as the "Hospital." Intercompany accounts and transactions have been eliminated in combination.

NYDH is a not-for-profit membership corporation providing health care services to the Metropolitan New York area. NYDH is a Section 501(c)(3) organization exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code"). It also is exempt from state and local income taxes.

Beekman is a limited-profit corporation organized under the Limited-Profit Housing Companies Law of the State of New York and the Membership Corporation Law of the State of New York whose purpose of is to plan, acquire, construct, own, maintain, operate and provide housing and auxiliary facilities for personnel of the Hospital. Beekman is a Section 501(c)(3) organization exempt from Federal income taxes under Section 509(a) of the Code.

The Blackwell Foundation is a Section 501(c)(3) organization exempt from Federal income taxes under Section 509(a) of the Code whose sole member is the Hospital. The Blackwell Foundation was formed to collect, exchange and disseminate research and information concerning the promotion of health and administration of systems for the promotion of health and the delivery of health care.

MSC is a not-for-profit membership organization that was formed in 1992 whose sole member is the Hospital. DMA is an organization formed in 1992 and is controlled through management by the Hospital. DMA's primary purpose is to promote and provide professional medical services for the patients of the Hospital. MSC provides management, administrative and other support services to the Hospital. These companies are both Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Code. They also are exempt from state and local income taxes.

1. Organization and Significant Accounting Policies (continued)

CCPH was formed in 2000 and incorporated under Section 402 of the Not-for-Profit Corporation Law and is controlled through management by the Hospital. CCPH's purpose is to raise and provide funds to support the community health and other health care activities of the Chinese Community Partnership for Health, a program of NYDH. CCPH is a Section 501(c)(3) organization exempt from Federal income taxes under Section 501(a) of the Code. It is also exempt from state and local income taxes.

In November 2005, the Hospital entered into an affiliation agreement with New York - Presbyterian Healthcare System, Inc. ("NYPH"). The Hospital remains an independent entity. The affiliation allows the Hospital and NYPH to collaborate on programs to improve quality of care, achieving efficiencies in clinical and administrative operations, clinical trials, recruiting support, strategic planning, and financial and operational benchmarking.

Cash and Cash Equivalents

The Hospital considers highly liquid financial instruments purchased with a maturity of three months or less, excluding those held in its investment portfolio and assets limited as to use, to be cash equivalents.

The Hospital has balances in financial institutions that exceed Federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant.

Accounts Receivable for Patient Care

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

1. Organization and Significant Accounting Policies (continued)

Investments, Assets Limited as to Use and Investment Income

Assets so classified represent donor-restricted funds and assets internally or otherwise restricted for specific purposes (see Note 3), including assets related to terms of loan agreements (see Note 5) and self-insured malpractice (see Note 6) and other programs. In January 2005, the Dormitory Authority of the State of New York (the "Authority") required the Hospital to place into escrow two years of principal and interest payments on the Hospital's outstanding bonds (see Note 5).

Investments and assets limited as to use consist of cash and cash equivalents, U.S. government and other fixed income securities, mutual funds and equity securities, and are carried at fair value (quoted market values). Donated securities are initially recorded at market value on the date of contribution. Realized gains and losses are computed using the average cost method.

Income earned on temporarily restricted net assets is added to unrestricted net assets, unless donor restricted. Donor-restricted income, including realized and unrealized gains and losses earned on permanently restricted net assets, is reported in temporarily restricted net assets. All other investment income is reported in other operating revenue in the accompanying combined statements of operations.

Inventories

Inventories are valued at average cost.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of these costs is provided over the term of the applicable indebtedness using the effective interest method. See Note 5 for additional information relative to debt-related matters.

1. Organization and Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at appraised or fair value established at the date of contribution. Capitalized lease assets are recorded at the present value of the minimum lease payments at the inception of the leases. Additionally, certain costs incurred in connection with developing or obtaining internal use software are capitalized. Annual provisions for depreciation and amortization are made based upon the straight-line method over the assets' estimated useful lives ranging from three to forty years and for capitalized leases over the lesser of the estimated useful life or lease term. Amortization of equipment held under capital leases is included in depreciation and amortization expense in the accompanying combined statements of operations.

The carrying amount of assets and the related accumulated depreciation or amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less costs to sell. For the year ended December 31, 2008, the Hospital recorded a loss on abandonment of leasehold improvements of approximately $311,000 associated with the sponsorship transfer of the Brooklyn Primary Care Center ("BPCC") (see Note 14).

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those net assets whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity (see Note 8).

1. Organization and Significant Accounting Policies (continued)

Contributions, Pledges and Restricted Gifts

The Hospital encourages contributions and donations for capital replacement and expansion and other specific purposes. Amounts received for capital replacement and expansion or specific operating or endowment purposes are added directly to the respective temporarily restricted or permanently restricted net asset balances.

Unconditional promises to give cash and other assets are reported at fair value on the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. The Hospital is aware of numerous unconditional promises to give and estimates the year of receipt to the extent possible. At December 31, 2009, the anticipated present value of the receivables included in other receivables and other assets in the combined statement of financial position is as follows:

2010	$ 211,000
2011	15,000
	$ 226,000

Charity Care

The Hospital recognizes that some patients are unable to compensate the Hospital for their treatment either through third-party coverage or their own resources. Accordingly, the Hospital extends charity or free care to those patients who do not have the ability to meet their obligations or when it is determined that the patients are unable to fulfill their obligations to the Hospital. In 2009, the Hospital provided approximately $1.2 million in charity care ($1.4 million in 2008).

1. Organization and Significant Accounting Policies (continued)

Performance Indicator

The combined statements of operations include the (deficiency) excess of revenue over expenses as the performance indicator. For purposes of display, transactions deemed by management to be ongoing, major or central to the provisions of health care services are reported as operating revenue and operating expenses; peripheral or incidental transactions and unusual, nonrecurring items are reported as non-operating gains and losses.

Consistent with industry practice, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets), and the change in accrued pension and postretirement benefits liabilities to be recognized in future periods are excluded from the performance indicator.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. In the accompanying combined financial statements, estimates relate primarily, although not exclusively, to revenue recognition in the valuation of bad debt and contractual allowances and in the valuation of amounts due to and from third-party payors, the estimation of self-insured professional liabilities and the measurement of actuarially determined retirement liabilities. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates. For the year ended December 31, 2009, the net change in estimates, related to years prior to 2009, decreased the performance indicator by approximately $3.7 million. The change in estimate primarily relates to estimates made by management for third-party payor settlements. For the year ended December 31, 2008, the net change in estimates, relative principally to the items discussed above, was not material.

Reclassifications

Certain 2008 amounts in the accompanying combined financial statements have been reclassified from amounts previously reported to conform to the 2009 presentation. These reclassifications have no impact on the change in net assets previously reported.

1. Organization and Significant Accounting Policies (continued)

Recent Accounting Standards

During 2009, the Financial Accounting Standards Board established general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the combined financial statements are issued. In accordance with these requirements, the Hospital has evaluated the impact of subsequent events through July 12, 2010, representing the date at which the combined financial statements were issued.

2. Net Patient Service Revenue and Accounts Receivable for Services to Patients

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Medicare Reimbursement
Hospitals are paid for most Medicare inpatient and outpatient services under national prospective payment systems and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data.

Non-Medicare Reimbursement
In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health ("NYSDOH"). Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the payment system was based on a blended rate consisting of hospital-specific and group rates promulgated by the NYSDOH, which provided for retroactive adjustments to payment rates using a prospective payment formula. Outpatient services are also paid based on a statewide prospective system that became effective December 1, 2008. Medicaid rate methodologies

2. Net Patient Service Revenue and Accounts Receivable for Services to Patients (continued)

are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Hospital-specific data. Such net amounts are included in third-party payor liabilities in the accompanying combined statements of financial position. Additionally, certain payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

There are various proposals at the Federal and State levels that could, among other things, change payment rates and increase managed care penetration, including Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been final settled through 2004. Other years remain open for settlement, as are cost reports for numerous years related to the New York State Medicaid program.

Except as discussed in Note 10, the Hospital is not aware of any allegations or instances of noncompliance that could have a material adverse effect on the combined financial statements and believes that it is in compliance with all applicable laws and regulations.

2. Net Patient Service Revenue and Accounts Receivable for Services to Patients (continued)

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party agreements. The significant concentrations of accounts receivable for services to patients at December 31, 2009 and 2008 include 16% from Medicare, 10% from Medicaid, 45% from Medicaid managed care and other commercial insurance carriers and 29% from others; and 20% from Medicare, 10% from Medicaid, 44% from Medicaid managed care and other commercial insurance carriers and 26% from others, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 65% and 70% of the Hospital's net patient service revenue for 2009 and 2008, respectively.

As a participant in the New York State Indigent Care Pool, the Hospital receives funds based on a need distribution methodology, which takes into account the costs associated with the Hospital's bad debts and charity care. During 2009, such receipts approximated $2.7 million ($2.9 million in 2008).

3. Investments and Assets Limited as to Use

Investments and assets limited as to use consist of the following at December 31 (in thousands):

	2009	2008
Cash and cash equivalents	**$ 52,244**	$ 56,286
U.S. Government and other fixed income securities	**30,413**	30,813
Mutual funds	**3,862**	2,614
Equity securities	**–**	5
	$ 86,519	$ 89,718

Net realized losses on sales of marketable securities aggregated approximately $338,000 and $510,000 for the years ended December 31, 2009 and 2008, respectively. The change in net unrealized gains and losses aggregated approximately $887,000 and ($1.3 million) for the years ended December 31, 2009 and 2008 respectively.

3. Investments and Assets Limited as to Use (continued)

Assets held under bond financing agreements and other are for the following purposes at December 31 (in thousands):

	2009	2008
Bond financing agreements:		
Capital reserve fund	**$ 4,781**	$ 4,781
Debt service fund	**3,563**	3,626
Escrow fund	**10,467**	10,924
Accrued interest receivable	**138**	167
	18,949	19,498
Other:		
Secured letters of credit	**5,471**	4,934
Escrow fund related to the sale of Booth House	**–**	2,054
	$ 24,420	$ 26,486

4. Property, Plant and Equipment

A summary of property, plant and equipment is as follows at December 31 (in thousands):

	2009	2008
Land	**$ 1,368**	$ 1,368
Land improvements	**849**	849
Buildings and improvements	**99,365**	95,848
Equipment	**76,290**	72,416
Software and related costs	**14,050**	13,081
	191,922	183,562
Less accumulated depreciation and amortization	**126,747**	117,240
	65,175	66,322
Construction in progress	**5,290**	3,023
	$ 70,465	$ 69,345

Substantially all property, plant and equipment has been collateralized under various loan agreements.

4. Property, Plant and Equipment (continued)

Moveable equipment includes capitalized leased assets having an original cost of approximately $5.2 million and $4.7 million at December 31, 2009 and 2008, respectively. Accumulated amortization relating to capitalized leased assets aggregated approximately $2.1 million and $1.2 million at December 31, 2009 and 2008, respectively.

Capitalized software costs have an original cost of approximately $14.1 million and $13.1 million at December 31, 2009 and 2008, respectively. Accumulated amortization relating to capitalized software aggregated approximately $7.2 million and $5.3 million at December 31, 2009 and 2008, respectively.

In 2004, the Hospital sold a parking lot adjacent to the Hospital building. As part of the sale transaction, the buyer agreed to convey to the Hospital, upon completion of a building proposed to be built on the site, certain parking spaces and an ambulatory care site. In connection with the conveyance of such property, the buyer agreed to liquidating damages of approximately $9.8 million in the event that such properties are not conveyed. Due to the uncertainty associated with the valuation of the properties to be conveyed and other contingencies, the Hospital did not reflect the value of such properties in its recognition of the gain. During 2008, however, the Hospital received $2.8 million from the buyer in settlement of a certain number of parking spaces that previously were agreed to as part of the sale transaction that ultimately were deemed undeliverable by the buyer. The amount is reflected as gain on sale of real estate in the accompanying 2008 combined statement of operations.

In 2008, the Hospital sold the land, building and fixtures, which comprised Booth House Inc. ("Booth House"), a 148-unit rental building located in Manhattan, New York, which housed Hospital staff, for $56.0 million, prior to certain charges aggregating approximately $2.4 million. The carrying value of assets sold was approximately $1.6 million. The sale and closing of Booth House assets occurred on January 31, 2008. The Hospital's cash basis gain from the sale was approximately $52.0 million, which included $2.1 million held in escrow until certain remaining tenants vacated the building; such amount was deferred and not recorded as a component of the gain in the 2008 combined statement of operations and was included in the accompanying combined statement of financial position in assets limited as to use and other current liabilities at December 31, 2008. In April 2009, the remaining tenants vacated the building and the funds held in escrow were released; such amount was recorded as a gain on sale of real estate in the accompanying combined statement of operations for the year ended December 31, 2009.

5. Long-Term Debt

A summary of long-term debt is as follows at December 31 (in thousands):

	2009	2008
Series 1998 I Revenue Refunding Bonds [a]	**$ 39,155**	$ 41,755
Beekman mortgage payable [b]	**7,121**	7,053
HCRA funds [c]	**–**	1,600
Capitalized leases, interest rates ranging from 0.65% to 19.24% [d]	**3,127**	3,512
	49,403	53,920
Less current portion of long-term debt	**3,798**	5,219
	$ 45,605	$ 48,701

[a] In February 1998, the Hospital, along with other Metropolitan New York area, financially distressed not-for-profit hospitals, refunded existing bonds through participation in the Authority's Secured Hospital Revenue Refunding Bonds Series 1998. The principal amount of the Series 1998 I bonds allocated to the Hospital was approximately $60.7 million, consisting of $43,895,000 Serial Bonds with interest rates ranging from 3.9% to 5.2%, maturing through 2016 and $16,815,000 term bonds with an interest rate of 5.30%, maturing in 2020. The Hospital has granted to the Authority, with certain permitted exceptions, a security interest in gross receipts and certain fixtures, furnishings and equipment that secure the payment of the debt. The agreement with the Authority requires the Hospital to pay principal, interest and sinking fund installments associated with the bonds.

In January 2005, the Authority required the Hospital to place into escrow two years of principal and interest payments on the Hospital's outstanding bonds. Such amount (approximately $10.5 million and $10.9 million, including accumulated investment earnings, at December 31, 2009 and 2008, respectively) is reflected as assets limited as to use in the accompanying combined statements of financial position.

Amortization expense for the bond issuance costs for 2009 was approximately $77,000 ($83,000 in 2008) and is reflected in interest expense in the accompanying combined statements of operations.

5. Long-Term Debt (continued)

(b) In July 1977, Beekman entered into an agreement with the New York City Housing Development Corporation ("HDC"), whereby the then existing mortgage was modified and divided into a senior mortgage, which is insured by the Secretary of Housing and Urban Development (the "Secretary"), and a junior mortgage.

The senior mortgage, amounting to $552,385 at December 31, 2009, bears interest at 7.25% with principal and interest payable in monthly installments of approximately $8,000 through August 1, 2017. The provisions of the senior mortgage, among other things, provide for establishment of an escrow reserve for replacement and maintenance. These funds may not be used without prior written authorization from HDC. The junior mortgage, amounting to $6,568,135 at December 31, 2009, bears interest at 7.82% with monthly payments approximating $13,400 payable until such time as the Secretary ceases to insure the senior mortgage (the "Release Date"). Subsequent to the Release Date, equal monthly payments are to be made at a rate of 8.50% sufficient to retire the outstanding principal and interest by the earlier of August 1, 2027 or 15 years subsequent to the retirement of the senior mortgage. Beekman did not make junior mortgage principal payments in 2009 or 2008 because it did not generate surplus cash, as defined in the regulatory agreement, which would require principal payments to be made.

(c) During 2003, the Hospital acquired two interest-free loans from the Authority totaling $4.0 million. During 2004, the Hospital acquired an additional interest-free loan from the Authority for $3.0 million. The loans were repaid in full in September 2009.

5. Long-Term Debt (continued)

[d] Future minimum payments, by year and in the aggregate, under capitalized leases and noncancellable operating leases with initial or remaining terms of one year or more at December 31, 2009 consist of the following (in thousands):

	Capitalized Leases	Operating Leases
Year ending December 31:		
2010	$ 1,085	$ 997
2011	1,013	811
2012	877	713
2013	247	671
2014	81	661
Thereafter	–	1,606
Total minimum lease payments	3,303	$5,459
Less amount representing interest	(176)	
Capital leases outstanding	$ 3,127	

Total rental expense charged to operations approximated $2 million for each of the years ended December 31, 2009 and 2008.

The aggregate amount of principal payments under all long-term indebtedness for the next five years ending December 31 is as follows (in thousands):

	NYDH	Beekman	Total
2010	$ 3,742	$ 56	$ 3,798
2011	3,833	60	3,893
2012	3,872	65	3,937
2013	3,414	69	3,483
2014	3,406	74	3,480

Annual interest paid on all obligations aggregated approximately $2.3 million and $2.4 million for the years ended December 31, 2009 and 2008, respectively. There was no interest capitalized in 2009 or 2008.

6. Professional Liabilities Insurance

Prior to April 1, 1997, the Hospital was self-insured for professional liabilities. At December 31, 2008, the professional liabilities for the self-insurance period aggregated approximately $1,100,000 and represented the total remaining valuation of all open claims for that period. At December 31, 2009, all asserted claims were closed for that period.

Effective April 1, 1997, the Hospital purchased professional liability insurance through a captive insurance company which NYU Hospitals Center, an affiliate at that time, jointly owns with several other not-for-profit institutions.

Effective August 6, 2003, the Hospital purchased a claims-made primary layer professional and general liability insurance policy through NYU Hospitals Center's participation in Combined Coordinating Council. This policy had coverage limits of $1.0 million per occurrence/$3.0 million in aggregate. The primary layer was supplemented by a $2.0 million per occurrence/$4.0 million aggregate excess policy.

Effective July 1, 2004, the Hospital paid a $4.0 million deposit premium for a claims-made retrospective rated primary layer professional/general liability policy. This policy has coverage limits of $2.0 million per occurrence/$8.0 million in aggregate. This policy has prior acts coverage through a retroactive date of August 6, 2003. This primary layer was supplemented by a $5.0 million per occurrence/$5.0 million aggregate excess policy with a retroactive date of July 1, 2004. On July 31, 2004, the Hospital also purchased an additional $5.0 million per occurrence/$5.0 million aggregate excess insurance policy. In subsequent years, the Hospital may receive a return of premium or may be required to pay an additional premium on the primary policy based on the level of claim experience during the policy period.

Effective July 1, 2005, the Hospital paid a $3.5 million deposit premium for a claims-made retrospective rated primary layer professional/general liability policy. This policy has coverage limits of $2.0 million per occurrence/$8.0 million in aggregate. The primary policy is supplemented by a $1.0 million self-insurance layer. The Hospital purchased a $7.0 million per occurrence/$7.0 million aggregate excess policy with a retroactive date of July 1, 2004. The Hospital purchased a $5.0 million per occurrence/$5.0 million aggregate additional excess policy with attaching excess of $10.0 million for each and every loss. The retroactive date of these excess policies is July 1, 2004. In subsequent years, the Hospital may receive a return of premium or may be required to pay an additional premium on the primary policy based on the level of claim experience during the policy period.

6. Professional Liabilities Insurance (continued)

As of December 31, 2009 and 2008, the Hospital maintains fully secured letters of credit for $2.0 million related to certain layers of insurance coverage for the period July 1, 2004 through June 30, 2006.

Effective July 1, 2006, the Hospital self-insured its primary layer for professional liabilities for $2.0 million for each and every claim on a claims-made basis, retroactive to August 6, 2003. The actuarially determined undiscounted professional liabilities associated with this self-insurance aggregated approximately $14.4 million at December 31, 2009 ($10.7 million at December 31, 2008). Funded amounts ($16.1 million at December 31, 2009; $12.5 million at December 31, 2008) have been placed into a separate account and are classified as assets limited as to use in the accompanying combined statements of financial position. Additionally, the Hospital purchased an $8.0 million per occurrence/$8.0 million aggregate excess policy and a $5.0 million per occurrence/$5.0 million aggregate additional excess policy. The retroactive date of these excess policies is July 1, 2004. In subsequent years, the Hospital may receive a return of premium on the first excess policy based on the level of claim experience during the policy period.

Effective July 1, 2009, the Hospital increased its claims-made self-insured program to $6 million with a retroactive date of August 6, 2003. The primary layer consists of $2 million per claim with a $10 million aggregate (the aggregate includes $1.5 million of general liability coverage) followed by an excess layer of $4 million per claim and aggregate limit (the excess excludes general liability). For this layer, however, the Hospital has the option to activate claims-made coverage from an insurance company for a specified premium. The purchase option can be activated at any point during the next seven years after inception and the coverage applies to all claims in the layer from the July 1, 2009 inception date. The Hospital also purchased additional excess layers of coverage from insurance companies of $4 million and $5 million, respectively, both per claim and in the aggregate.

The aforementioned self-insurance and claims-made policies do not cover claims and incidents not reported during the respective policy periods. As a result, the Hospital has recorded an actuarially determined estimated liability for these types of claims and incidents, also known as a claims tail. At December 31, 2009 and 2008, the net aggregate professional liability for the claims tail was approximately $5.5 million.

6. Professional Liabilities Insurance (continued)

Professional liability claims in excess of amounts recorded have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some have been, or may ultimately be, brought to trial. It is the opinion of Hospital management that the ultimate resolution of professional liability claims will not have a significant effect on the Hospital's combined financial position.

7. Benefit Plans

Pension

The Hospital participates in a noncontributory defined benefit multiemployer pension plan which covers certain union employees. The Hospital's contributions to this plan are based upon rates required under union contracts. Information regarding the Hospital's share of accumulated plan benefits and plan net assets for this multiemployer union plan is not available. Total pension expense under this plan amounted to approximately $1.2 million for each of the years ended December 31, 2009 and 2008.

The Hospital has adopted a defined benefit retirement plan under a collective bargaining agreement, which covers certain classes of employees. Plan benefits are based on years of service and compensation during their years of employment. The Hospital's funding policy is to contribute annually the minimum funding requirements according to actuarial valuation results and as required by the Employee Retirement Income Security Act of 1974. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

All other employees of the Hospital are covered under a defined contribution plan to which contributions are made based on defined percentages of both applicable salaries and voluntary contributions. The Hospital's contributions under this plan were approximately $1.1 million for each of the years ended December 31, 2009 and 2008.

Postretirement Benefits

Effective January 1, 1996, the Hospital terminated its postretirement benefit plan which provided certain health care and life insurance benefits for certain eligible employees. Employees vested prior to this date continued to receive benefits until May 31, 2009.

7. Benefit Plans (continued)

Effective June 1, 2009, the Hospital participates in the United Medicare Advantage Supplemental Plan. The vested members and benefits were transferred and the members will continue to receive benefits under the new plan.

The Hospital recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its retiree pension and defined benefit postretirement plans in its combined statements of financial position.

Net unrecognized actuarial losses and the net unrecognized prior service costs at the reporting date will be subsequently recognized in the future as net periodic benefit cost pursuant to the Hospital's accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets.

Included in other changes in unrestricted net assets at December 31, 2009 and 2008 are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	December 31, 2009		
	Pension Benefits	**Postretirement Benefits**	**Total**
Unrecognized actuarial loss	**$ (5,351)**	**$ (1,288)**	**$ (6,639)**
Unrecognized prior service (cost) credit	**(624)**	**2,753**	**2,129**
	$ (5,975)	**$ 1,465**	**$ (4,510)**

	December 31, 2008		
	Pension Benefits	**Postretirement Benefits**	**Total**
Unrecognized actuarial loss	$ (7,319)	$ (1,837)	$ (9,156)
Unrecognized prior service cost	(52)	(134)	(186)
	$ (7,371)	$ (1,971)	$ (9,342)

The prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending December 31, 2010 is $189,060.

7. Benefit Plans (continued)

The following tables provide a reconciliation of the changes in each plan's benefit obligations and fair value of plan assets for the years ended December 31, 2009 and 2008, as well as a statement of the funded status of the plans as of December 31, 2009 and 2008 (in thousands):

	2009		2008	
	Pension Benefits	**Post-retirement Benefits**	**Pension Benefits**	**Post-retirement Benefits**
Changes in benefit obligations				
Benefit obligation at January 1	**$ 18,916**	**$ 4,038**	$ 16,157	$ 3,971
Service cost	**810**	–	770	–
Interest cost	**1,156**	**119**	1,060	250
Actuarial loss (gain)	**76**	**(412)**	1,411	155
Benefit payments	**(509)**	**(71)**	(482)	(338)
Plan amendments	**689**	**(3,015)**	–	–
Benefit obligation at December 31	**21,138**	**659**	18,916	4,038
Changes in fair value of plan assets				
Fair value of plan assets at January 1	**11,955**	–	15,333	–
Actual return on plan assets	**2,572**	–	(3,562)	–
Employer contributions	**639**	**71**	769	338
Benefit payments	**(509)**	**(71)**	(482)	(338)
Other	**(79)**	–	(103)	–
Fair value of plan assets at December 31	**14,578**	–	11,955	–
Funded status				
Unfunded status at December 31	**$ (6,560)**	**$ (659)**	$ (6,961)	$ (4,038)
Accumulated benefit obligation	**$ 20,023**		$ 17,591	

7. Benefit Plans (continued)

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	Pension Benefits		Postretirement Benefits	
	2009	**2008**	**2009**	**2008**
Discount rate	**5.88%**	6.04%	**5.88%**	6.04%
Rate of compensation increase	**4.00**	4.00	–	–

Plan Assets

The Hospital's pension plan weighted-average asset allocations at December 31, by asset category, are as follows:

	2009	**2008**
Mutual funds	**3%**	10%
Common collective trusts	**97**	90
	100%	100%

The pension plan's investment strategy is to invest in a prudent manner for the exclusive purpose of providing benefits to participants. The strategy is targeted to produce a total return that, when combined with contributions to the plan, will maintain the plan's ability to meet all required benefit obligations. Risk is controlled through diversification of asset types and investments in equities and fixed income.

Cash Flows

Contributions: The Hospital expects to contribute approximately $1.2 million to its pension plan and approximately $54,000 to its postretirement benefits plan in 2010.

7. Benefit Plans (continued)

Estimated Future Benefit Payments

The Hospital expects to pay the following future pension and postretirement benefit payments, which reflect expected future service (in thousands):

	Pension Benefits	Postretirement Benefits
2010	$ 855	$ 54
2011	940	60
2012	1,003	67
2013	1,063	74
2014	1,117	82
2015 to 2019	6,317	559

Net Periodic Benefit Cost

The following table provides the components of the net periodic benefit cost for the plans for the years ended December 31 (in thousands):

	2009		2008	
	Pension Benefits	**Post-retirement Benefits**	**Pension Benefits**	**Post-retirement Benefits**
Service cost	**$ 810**	**$ –**	$ 770	$ –
Interest cost	**1,156**	**119**	1,060	250
Expected return on plan assets	**(953)**		(1,226)	–
Amortization of transition obligation	**–**	**56**	–	134
Amortization of unrecognized net actuarial loss	**503**	**137**	–	145
Amortization of net prior service cost (credit)	**118**	**(184)**	64	–
Net periodic benefit cost	**$ 1,634**	**$ 128**	$ 668	$ 529

7. Benefit Plans (continued)

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31 are as follows:

	Pension Benefits		Postretirement Benefits	
	2009	**2008**	**2009**	**2008**
Discount rate	**6.04%**	6.50%	**6.04%**	6.50%
Expected long-term rate of return on plan assets	**8.00**	8.00	–	–
Rate of compensation increase	**4.00**	4.00	–	–

The long-term rate of return on plan assets assumption is determined by calculating a total fund return estimate based on a weighted-average of estimated returns for each asset class. Asset class returns are estimated using current and projected economic factors such as real rates of return, inflation, credit spreads, equity risk premiums and excess return expectations.

Assumed health care cost trend rates at December 31 are as follows:

	2009	**2008**
Health care cost trend rate assumed for next year	**9.5%**	8.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.0**	5.0
Year that the rate reaches the ultimate trend rate	**2019**	2024

7. Benefit Plans (continued)

Assumed health care cost trend rates may have a significant effect on the amounts reported. A 1% change in assumed health care cost trend rates would have the following effects (in thousands):

	2009		2008	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	**$ 13**	**$ (19)**	$ 19	$ (17)
Effect on the health care component of the accumulated postretirement benefit obligation	**50**	**(57)**	293	(262)

Measurement Date

The measurement date used to determine pension and postretirement benefit measurements is December 31.

Fair Value of Assets

The fair values of the defined benefit plan assets at December 31, 2009, by asset category (see Note 11), are as follows:

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 494	$ –	$ –	$ 494
Common collective trusts	–	14,084	–	14,084
	$ 494	$ 14,084	$ –	$ 14,578

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted as follows at December 31 (in thousands):

	2009	2008
Eye Care Program	**$ 4,956**	$ 4,520
Community Service Program	**3,663**	3,784
Expansion, renovation projects and other department support	**1,504**	1,861
Medical research	**1,230**	1,516
Training and education programs	**563**	370
	$ 11,916	$ 12,051

The Hospital follows the requirements of the Uniform Management of Institutional Funds Act of 1972 as they relate to its permanently restricted contributions and net assets. Permanently restricted net assets of approximately $6.7 million have been restricted by donors to be maintained in perpetuity, the income from which is restricted as to use. The carrying value of the endowment assets is approximately $5.9 million at December 31, 2009 ($5.1 million at December 31, 2008).

9. Functional Expenses

The Hospital's program services consist of providing health care services and graduate medical education. Functional expenses, including other items, for the years ended December 31 were as follows (in thousands):

	2009	2008
Health care and related services	**$ 98,711**	$ 99,890
Program support and general services	**80,986**	75,395
	$ 179,697	$ 175,285

Fund raising costs were approximately $471,000 and $715,000 for the years ended December 31, 2009 and 2008, respectively. Investment expenses were approximately $37,000 and $39,000 for the years ended December 31, 2009 and 2008, respectively.

10. Commitments and Contingencies

The Hospital is a defendant in various legal actions arising during the normal course of its operations, the final outcome of which cannot presently be determined. Hospital management is of the opinion that eventual liability, if any, with respect to all of these matters will not have a material adverse effect on the Hospital's combined financial position.

The Hospital has committed to provide a loan not exceeding $1.0 million to the Charles B. Wang Community Health Center, Inc. ("CHC") for construction and working capital. CHC has approximately $119,000 outstanding at December 31, 2009, which is included in other assets in the accompanying combined statements of financial position ($178,000 at December 31, 2008). It is the intention of the Hospital to forgive payments on the loan if certain activities occur and conditions are met. Principal and interest amounting to approximately $72,000 were forgiven in 2009; such amount is recorded as an expense (approximately $76,000 in 2008).

Prior to December 1, 2009, the Hospital was self-insured for workers' compensation benefits. In connection with being self-insured, the Hospital has an outstanding unused letter of credit aggregating approximately $3.3 million at December 31, 2009. The letter of credit is collateralized by cash and marketable securities. Effective December 1, 2009, the Hospital is fully insured. During 2002, the Hospital became self-insured, based on individual employee's elections, for medical and pharmaceutical benefits. Liabilities have been accrued at December 31, 2009 and 2008 based on expected future payments pertaining to such years.

Approximately 55% of the Hospital's employees are union employees who are covered under the terms of various collective bargaining agreements. One of the collective bargaining agreements, which represents approximately 5% of union employees, has expired and is currently being negotiated.

10. Commitments and Contingencies (continued)

In September 2008, the Hospital was served with two complaints in two separate qui tam actions in which the Hospital is named as a defendant. The United States and the State of New York (collectively, the "Government") each intervened in part in the lawsuits and filed complaints-in intervention in October 2008, naming the Hospital as a defendant. The Government alleges that (1) from approximately 1998 to 2006, the Hospital operated an inpatient detoxification unit without obtaining required licensure/certification from the New York State Office of Alcoholism and Substance Abuse Services and NYSDOH; and (2) the agreement between an unrelated health care company (also a defendant, along with other hospitals, in the Government's complaints) and the Hospital constituted an illegal arrangement of payment for patient referrals in violation of, among other laws and regulations, the Federal and New York State Anti-kickback laws. New York State's complaint also alleges that the Hospital provided patients with treatment that was either inadequate under professionally recognized standards or unnecessary. The Government's complaints allege a variety of claims, including claims under the Federal False Claims Act, the New York State False Claims Act, common law fraud, payment by mistake of fact, unjust enrichment, the New York Social Services Law and the New York Executive Law. The Government alleges that the Hospital obtained combined Medicare and Medicaid payments related to the activity in question of approximately $9.6 million from 2002 to 2006.

The Government seeks, among other things, to recover treble damages, in an amount to be determined at trial, and civil penalties for each violation under the Federal and New York State False Claims Acts. The civil penalties sought are $5,500 to $11,000 for each violation under the Federal False Claims Act and $6,000 to $12,000 for each violation under the New York State False Claims Act. The Government also seeks to recover treble or other damages, restitution and other monetary relief in amounts to be determined at trial.

The Hospital believes it has defenses to the claims and intends to defend the matters vigorously. On April 6, 2009, a pre-motion conference was held and the presiding judge granted the Hospital permission to file motions to dismiss the complaints. On May 13, 2009, the Hospital filed motions to dismiss and/or limit the Federal and State complaints on a variety of grounds. The Government has not yet responded to the motions and it is uncertain when a decision will be reached. Discovery is currently proceeding and all parties have filed initial demands for production of documents and interrogatories. Prior to the filing of the Government's complaints, the Hospital engaged in discussions with various Government agencies concerning whether these matters might be settled. The Government's latest settlement offer was $18.0 million payable over five years, along with the imposition of a corporate integrity agreement. It is possible that there will be additional settlement discussions concerning these matters.

10. Commitments and Contingencies (continued)

It is uncertain as to whether a settlement will be reached and what further legal or regulatory action might result, in any event. The Hospital has provided its best estimate of potential liability related to this matter in the accompanying combined financial statements; however, the ultimate effect on the combined financial statements cannot be determined currently.

11. Fair Values of Financial Instruments

For assets and liabilities required to be measured at fair value, the Hospital measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Hospital's perspective.

The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The Hospital follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

> *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
>
> *Level 2:* Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.
>
> *Level 3:* Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

11. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value as of December 31, 2009 and 2008 are classified in the tables below in one of the three categories described previously (in thousands):

	December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 56,426**	**$ –**	**$ –**	**$ 56,426**
U.S. Government and other fixed income securities	**30,413**	**–**	**–**	**30,413**
Mutual funds	**3,862**	**–**	**–**	**3,862**
	$ 90,701	**$ –**	**$ –**	**$ 90,701**

	December 31, 2008			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 64,419	$ –	$ –	$ 64,419
U.S. Government and other fixed income securities	30,813	–	–	30,813
Mutual funds	2,614	–	–	2,614
Equity securities	5	–	–	5
	$ 97,851	$ –	$ –	$ 97,851

The amounts reported in the tables above exclude assets invested in the Hospital's defined benefit pension plan (see Note 7).

The Hospital's long-term debt obligations are reported at carrying value. The fair values of the Hospital's long-term debt are based on current traded value and other valuation considerations. The fair value of the Hospital's long-term debt obligations, excluding capitalized lease obligations, is approximately $46 million and $49 million at December 31, 2009 and 2008, respectively.

12. Other Operating Revenue

Other operating revenue, including housing company operations, for the years ended December 31 consists of the following (in thousands):

	2009	2008
Rental income	**$ 857**	$ 882
Faculty practice revenue	**18,779**	19,447
Healthfirst distribution	**13,347**	10,370
WIC program	**528**	516
Contributions	**1,182**	1,532
Investment income	**603**	2,061
Other	**2,242**	2,139
	$ 37,538	$ 36,947

13. Nondiscretionary Trusts

The Hospital receives income (approximately $337,000 in 2009 and $232,000 in 2008) from certain nondiscretionary trusts held by others. The quoted market value of the investments of the trusts is approximately $8.5 million at December 31, 2009 ($7.9 million at December 31, 2008). These investments are not included in the accompanying combined financial statements due to the conditions on which they were granted.

14. Clinic Closures

As a condition of New York State Berger Commission's conclusions, the Hospital was required to close and/or transfer the business of two of its off-site clinics, the Downtown Family Care Clinic ("DFCC') and the BPCC.

Effective October 2007, the Hospital transferred sponsorship of DFCC to an unrelated federally qualified health center ("FQHC"). Under the conditions of the transfer sponsorship, the Hospital agreed to provide a community benefit grant to FQHC in the amount of approximately $3.1 million to be paid in installments over ten years. The first installment of $600,000 was paid in 2008. A $200,000 installment was paid in 2009. The present value of the unpaid balance of the grant is approximately $2.0 million and $2.1 million as of December, 31, 2009 and 2008, respectively.

14. Clinic Closures (continued)

Effective July 2008, the Hospital ceased operations of BPCC through the sale of its clinical practice and related leasehold improvements. The operating results of BPCC include revenue of approximately $406,000 and related expenses of approximately $1,072,000 which were included in the Hospital's 2008 combined statement of operations.

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UNAUDITED COMBINED FINANCIAL STATEMENTS OF NEW YORK DOWNTOWN HOSPITAL AND AFFILIATES AS OF AND FOR THE ELEVEN MONTH PERIOD ENDED NOVEMBER 30, 2010 AND FOR THE ELEVEN MONTH PERIOD ENDED NOVEMBER 30, 2009

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UNAUDITED COMBINED FINANCIAL STATEMENTS

New York Downtown Hospital and Affiliates

As of and for the Eleven Month Period Ended November 30, 2010 and
for the Eleven Month Period Ended November 30, 2009

New York Downtown Hospital and Affiliates

Unaudited Combined Financial Statements

As of and for the Eleven Month Period Ended November 30, 2010 and
for the Eleven Month Period Ended November 30, 2009

Contents

New York Downtown Hospital and Affiliates

Combined Statements of Financial Position

	Unaudited November 30, 2010	Audited December 31, 2009
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 9,589**	$ 4,182
Accounts receivable, less allowance for uncollectibles of $6,673 in 2010 and $8,796 in 2009	**11,650**	14,787
Other receivables	**12,556**	17,569
Inventories and other current assets	**3,263**	3,089
Current portion of assets limited as to use:		
Internally restricted	**–**	360
Board designated – self insurance fund	**2,000**	2,000
Donor-restricted	**2,073**	2,073
Bond financing and other	**2,926**	3,257
Total current assets	**44,057**	47,317
Assets limited as to use, less current portion:		
Board designated – self insurance fund	**14,836**	14,088
Donor-restricted	**13,454**	13,548
Bond financing and other	**20,395**	21,163
	48,685	48,799
Long-term investments	**28,550**	30,030
Property, plant and equipment – net	**84,304**	70,465
Deferred financing costs – net	**361**	428
Other assets	**1,096**	991
Total assets	**$ 207,053**	$ 198,030
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 15,802**	$ 16,728
Accrued payroll and related liabilities	**8,538**	7,351
Accrued interest	**530**	746
Current portion of professional liabilities	**2,000**	2,000
Current portion of long-term debt	**4,651**	3,798
Current portion of third party payor liabilities	**9,348**	11,242
Other current liabilities	**400**	653
Total current liabilities	**41,269**	42,518
Noncurrent liabilities:		
Professional liabilities – less current portion	**20,049**	18,030
Accrued pension and postretirement benefits	**8,036**	7,219
Long-term debt – less current portion	**43,525**	45,605
Third party payor liabilities – less current portion	**15,628**	15,439
Other noncurrent liabilities	**1,948**	2,125
Total liabilities	**130,455**	130,936
Commitments and contingencies		
Net assets:		
Unrestricted	**57,808**	48,468
Temporarily restricted	**12,080**	11,916
Permanently restricted	**6,710**	6,710
Total net assets	**76,598**	67,094
Total liabilities and net assets	**$ 207,053**	$ 198,030

See accompanying notes.

New York Downtown Hospital and Affiliates

Unaudited Combined Statements of Operations

	Unaudited Eleven Months Ended November 30, 2010	Unaudited Eleven Months Ended November 30, 2009
	(In Thousands)	
Operating revenue (patient care and related)		
Net patient service revenue	**$ 138,303**	$ 125,277
Other operating revenue	**39,914**	27,616
Net assets released from restrictions used for operations	**1,671**	2,046
Total operating revenue (patient care and related)	**179,888**	154,939
Operating expenses (patient care and related)		
Salaries and wages	**76,764**	70,609
Employee benefits	**18,775**	16,818
Supplies and other	**60,270**	55,421
Interest	**1,985**	2,064
Depreciation and amortization	**9,772**	8,718
Bad debts	**10,272**	9,562
Total operating expenses (patient care and related)	**177,838**	163,192
Gain (loss) from operations before housing company operations and other items	**2,050**	(8,253)
Housing company operations		
Operating revenue	**595**	568
Operating expenses	**850**	772
Net housing company operations before gain on sale of real estate	**(255)**	(204)
Gain on sale of real estate	**–**	2,000
Net housing company operations after gain on sale of real estate	**(255)**	1,796
Excess (deficiency) of revenue over expenses	**1,795**	(6,457)
Other changes in unrestricted net assets		
Net assets released from restrictions used for plant replacement funds	**7,545**	366
Change in unrestricted net assets	**$ 9,340**	$ (6,091)

See accompanying notes.

New York Downtown Hospital and Affiliates

Unaudited Combined Statements of Changes in Net Assets

Eleven Months Ended November 30, 2010 and 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Net assets at January 1, 2009	$ 44,682	$ 12,051	$ 6,710	$ 63,443
Change in unrestricted net assets	(6,091)	–	–	(6,091)
Investment income restricted for specific purposes, including net realized and unrealized gains and losses on investments	–	828	–	828
Net assets released from restrictions for plant replacement funds	–	(366)	–	(366)
Restricted gifts, bequests and similar items	–	1,844	–	1,844
Net assets released from restrictions for operations	–	(2,046)	–	(2,046)
Total changes in net assets	(6,091)	260	–	(5,831)
Net assets at November 30, 2009 (Unaudited)	38,591	12,311	6,710	57,612
Net assets at January 1, 2010	48,468	11,916	6,710	67,094
Change in unrestricted net assets	**9,340**	**–**	**–**	**9,340**
Investment income restricted for specific purposes, including net realized and unrealized gains and losses on investments	**–**	**727**	**–**	**727**
Net assets released from restrictions for plant replacement funds	**–**	**(7,545)**	**–**	**(7,545)**
Restricted gifts, bequests and similar items	**–**	**8,653**	**–**	**8,653**
Net assets released from restrictions for operations	**–**	**(1,671)**	**–**	**(1,671)**
Total changes in net assets	**9,340**	**164**	**–**	**9,504**
Net assets at November 30, 2010 (Unaudited)	**$ 57,808**	**$ 12,080**	**$ 6,710**	**$ 76,598**

See accompanying notes.

New York Downtown Hospital and Affiliates

Unaudited Combined Statements of Cash Flows

	Unaudited Eleven Months Ended November 30, 2010	Unaudited Eleven Months Ended November 30, 2009
	(In Thousands)	
Cash flows from operating activities		
Change in net assets	**$ 9,504**	$ (5,831)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**9,899**	8,819
Amortization of deferred financing costs	**67**	71
Gain on sale of real estate	**–**	(2,000)
Changes in operating assets and liabilities:		
Accounts receivable	**3,137**	(308)
Other receivables and other assets	**4,908**	3,451
Inventories and other current assets	**(174)**	151
Accounts payable and accrued expenses	**(926)**	(3,829)
Accrued payroll and related liabilities	**1,187**	1,487
Accrued interest	**(216)**	(225)
Professional liabilities	**2,019**	4,646
Accrued pension and postretirement benefits	**817**	815
Other liabilities	**(2,135)**	974
Net cash provided by operating activities	**28,087**	8,221
Cash flows from investing activities		
Net proceeds from sale of real estate	**–**	2,000
Change in assets limited as to use	**805**	1,088
Change in long-term investments	**1,480**	720
Acquisitions of property, plant and equipment – net	**(20,882)**	(7,435)
Net cash used in investing activities	**(18,597)**	(3,627)
Cash flows from financing activities		
Principal payments on long-term debt, including capital leases	**(4,083)**	(5,303)
Net cash used in financing activities	**(4,083)**	(5,303)
Net increase (decrease) in cash and cash equivalents	**5,407**	(709)
Cash and cash equivalents at beginning of period	**4,182**	8,133
Cash and cash equivalents at end of period	**$ 9,589**	$ 7,424
Supplemental disclosure of noncash investing and financing activities		
Capital leases incurred	**$ 2,856**	$ 651

See accompanying notes.

Note A – Basis of Presentation

The accompanying unaudited combined financial statements as of November 30, 2010 and for the eleven month period then ended, have been prepared in accordance with accounting principles generally accepted in the United States applied on a basis substantially consistent with that of the 2009 audited combined financial statements of New York Downtown Hospital and Affiliates (collectively, the "Hospital"). They do not include all of the information and footnotes required by US generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The Hospital presumes that users of this interim financial information have read or have access to the Hospital's audited combined financial statements and that the adequacy of additional disclosures needed for a fair presentation may be determined in that context. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in the Hospital's most recent audited combined financial statements have been omitted.

Patient volumes and net operating revenue and results are subject to seasonal variations caused by a number of factors. Monthly and periodic operating results are not necessarily representative of operations for a full year for various reasons, including levels of occupancy and other patient volumes, interest rates, unusual or infrequent items and other seasonal fluctuations. These same considerations apply to year-to-year comparisons.

Note B – Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. In the accompanying unaudited combined financial statements, estimates relate primarily, although not exclusively, to revenue recognition in the valuation of bad debt and contractual allowances and in the valuation of amounts due to and from third-party payors, the estimation of self-insured professional liabilities and the measurement of actuarially determined retirement liabilities. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates. For the eleven month period ended November 30, 2010, the net change in estimates, relative principally to the items discussed above, was not material.

Note C – Fair Value Measurement

For assets and liabilities required to be measured at fair value, the Hospital measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Hospital's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The Hospital follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

> *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
>
> *Level 2:* Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.
>
> *Level 3:* Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

All of the Hospital's financial assets that are carried at fair value (cash and cash equivalents, marketable securities and assets limited as to use), except for those that are part of the Hospital's defined benefit pension plan, are categorized as level one.

The Hospital's long-term debt obligations are reported at carrying value. The fair values of the Hospital's long-term debt are based on current traded value and other valuation considerations. The fair value of the Hospital's long-term debt obligations, excluding capitalized lease obligations, is approximately $42 million at November 30, 2010.

Note D – Other Operating Revenue

Other operating revenue, including housing company operations, for eleven month periods ended November 30 consists of the following (in thousands):

	Unaudited November 30, 2010	Unaudited November 30, 2009
Rental income	**$ 1,224**	$ 782
Faculty practice revenue	**18,371**	17,782
HealthFirst distributions	**16,633**	5,486
WIC program	**461**	472
Contributions	**1,201**	1,005
Investment Income	**466**	567
Other	**2,153**	2,090
	$ 40,509	$ 28,184

The HealthFirst distributions represent payments from a managed care organization that are based on patient utilization. The period to period fluctuation is caused by changes in patient utilization.

Note E – Commitments and Contingencies

The Hospital is a defendant in various legal actions arising during the normal course of its operations, the final outcome of which cannot presently be determined. Hospital management is of the opinion that eventual liability, if any, with respect to all of these matters will not have a material adverse effect on the Hospital's combined financial position.

In September 2008, the Hospital was served with two complaints in two separate qui tam actions in which the Hospital is named as a defendant. The United States and the State of New York (collectively, the "Government") each intervened in part in the lawsuits and filed complaints-in-intervention in October 2008, naming the Hospital as a defendant. The Government alleges that (1) from approximately 1998 to 2006, the Hospital operated an inpatient detoxification unit without obtaining required licensure/certification from the New York State Office of Alcoholism and Substance Abuse Services and NYSDOH; and (2) the agreement between an unrelated health care company (also a defendant, along with other hospitals, in the Government's complaints) and the Hospital constituted an illegal arrangement of payment for patient referrals in violation of, among other laws and regulations, the Federal and New York State Anti-kickback laws. New York State's complaint also alleges that the Hospital provided patients with treatment that was either inadequate under professionally recognized standards or unnecessary. The Government's complaints allege a variety of claims, including claims under the Federal False Claims Act, the New York State False Claims Act, common law fraud, payment

Note E – Commitments and Contingencies (continued)

by mistake of fact, unjust enrichment, the New York Social Services Law and the New York Executive Law. The Government alleges that the Hospital obtained combined Medicare and Medicaid payments related to the activity in question of approximately $9.6 million from 2002 to 2006.

The Government seeks, among other things, to recover treble damages, in an amount to be determined at trial, and civil penalties for each violation under the Federal and New York State False Claims Acts. The civil penalties sought are $5,500 to $11,000 for each violation under the Federal False Claims Act and $6,000 to $12,000 for each violation under the New York State False Claims Act. The Government also seeks to recover treble or other damages, restitution and other monetary relief in amounts to be determined at trial.

The Hospital believes it has defenses to the claims and intends to defend the matters vigorously. On April 6, 2009, a pre-motion conference was held and the presiding judge granted the Hospital permission to file motions to dismiss the complaints. On May 13, 2009, the Hospital filed motions to dismiss and/or limit the Federal and State complaints on a variety of grounds. The Government has not yet responded to the motions and it is uncertain when a decision will be reached. Discovery is currently proceeding and all parties have filed initial demands for production of documents and interrogatories. Prior to the filing of the Government's complaints, the Hospital engaged in discussions with various Government agencies concerning whether these matters might be settled. The Government's latest settlement offer was $18.0 million payable over five years, along with the imposition of a corporate integrity agreement. It is possible that there will be additional settlement discussions concerning these matters.

It is uncertain as to whether a settlement will be reached and what further legal or regulatory action might result, in any event. The Hospital has provided its best estimate of potential liability related to this matter in the accompanying combined financial statements; however, the ultimate effect on the combined financial statements cannot be determined currently.

Note F – Subsequent Events

Generally accepted accounting principles establish standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In accordance with these requirements, the Hospital has evaluated the impact of subsequent events through March 17, 2011, representing the date at which the unaudited combined financial statements were issued.

DEFINITIONS

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APPENDIX F

CERTAIN DEFINITIONS

In addition to the other terms defined in this Official Statement, when used in the summaries of certain provisions of the Master Resolution and the Loan Agreement, the terms have the meanings ascribed to them below.

Account Control Agreement means an account control agreement for the Pledge Fund that provides a security interest for the benefit of the Authority, under the New York Uniform Commercial Code;

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 from time to time, including, but not limited to, the Health Care Financing Consolidation Act and as incorporated thereby the New York State Medical Care Facilities Finance Agency Act being Chapter 392 of Laws of New York 1973, as amended by Chapter 58 of the Laws of New York 2010 and as otherwise amended from time to time;

Annual Administrative Fee means the fee payable during each Bond Year for the general administrative and supervisory expenses of the Authority in the amount or percentage stated in the Applicable Loan Agreement;

Applicable means (i) with respect to any Construction Fund, Arbitrage Rebate Fund, Debt Service Fund, Capital Reserve Fund or Special Debt Service Reserve Fund, the fund so designated and established by an Applicable Series Resolution authorizing an Applicable Series of Bonds relating to a particular Project, (ii) with respect to any Capital Reserve Fund Requirement, the amount established in connection with a Series of Bonds by the Master Resolution or the Applicable Series Resolution, (iii) with respect to any Special Debt Service Reserve Fund Requirement, the said Requirement established in connection with a Series of Bonds by the Applicable Series Resolution or Bond Series Certificate, (iv) with respect to any Series Resolution, the Series Resolution relating to a particular Series of Bonds, (v) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for a particular Project for an Institution, (vi) with respect to any Loan Agreement or Mortgage, the Loan Agreement or Mortgage, as applicable, entered into by and between an Institution and the Authority, relating to a particular Project for an Institution, (vii) with respect to any Institution, the respective Institution identified in the Applicable Series Resolution, (viii) with respect to a Bond Series Certificate, such certificate authorized pursuant to an Applicable Series Resolution, (ix) with respect to a Credit Facility Provider, the respective Credit Facility Provider identified in the Applicable Series Resolution or Bond Series Certificate and (x) with respect to any Service Contract, the Service Contract entered into by the Director of the Budget in connection with an Applicable Series of Bonds;

Arbitrage Rebate Fund means the fund so designated and established by the Applicable Series Resolution pursuant to the Master 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 shall hereafter succeed to the rights, powers, duties and functions of the Authority;

Authority Fee means a fee payable to the Authority consisting of (a) all the Authority's internal costs and overhead expenses attributable to the issuance of a Series of Bonds and the financing of a Project, plus (b) a payment to be made upon the issuance of a Series of Bonds in an amount set forth in the Applicable Series Resolution, unless otherwise provided in the Applicable Series Resolution;

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 Chair, Vice-Chair, Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Executive Director and President, Deputy Executive Director and Vice President, the Chief Financial Officer, Managing Director of Public Finance, and Portfolio Monitoring, Managing Director of Construction, General Counsel and any other person authorized by a resolution or the by-laws of the Authority to perform any specific act or execute any specific document; (ii) in the case of an Institution, the person or persons authorized by a resolution or the by-laws of such Institution to perform any act or execute any document; and (iii) in the case of the Trustee, the President, a Vice President, an Assistant Vice President, a Corporate Trust Officer, a 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 a resolution of the Board of Directors of such Trustee or the by-laws of such Trustee;

Bond or *Bonds* means any of the bonds of the Authority authorized pursuant to the Master Resolution and issued pursuant to an Applicable Series Resolution;

Bond Counsel means an attorney or a law firm, appointed by the Authority with respect to a particular Series of Bonds, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds;

Bond Series Certificate means a certificate of the Authority fixing terms, conditions and other details of Bonds of an Applicable Series in accordance with the delegation of power to do so under an Applicable Series Resolution;

Bond Year means, unless otherwise stated in the Applicable Series Resolution, a period of twelve (12) consecutive months beginning February 15 in any calendar year and ending on February 14 of the succeeding calendar year;

Bondholder, *Holder of Bonds*, *Holder*, *owner* or any similar term, when used with reference to a Bond or Bonds of a Series, means the registered owner of any Bonds of such Series;

Business Day shall mean any day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed;

Capital Reserve Fund means each such fund so designated and established by the Applicable Series Resolution pursuant to the Master Resolution;

Capital Reserve Fund Requirement means as of any particular date of computation, with respect to Bonds of a Series, an amount equal to the least of (A) the greatest amount required in the then current or any future Bond Year to pay the sum of interest on Outstanding Bonds of such Series payable during such Bond Year, and the principal and Sinking Fund Installments of such Outstanding Bonds payable on February 15 of such Bond Year, excluding interest accruing on the Bonds of a Series from the dated date of any such Bonds to the August 15 or February 15 immediately preceding the first interest payment date, (B) an amount equal to ten percent (10%) of the net proceeds of the sale of Bonds of such Series or (C) an amount equal to 125% of the average of the principal, whether at maturity or on mandatory redemption, and interest becoming due in any one Bond Year on the Outstanding Bonds of such Series, in each case as provided in the Applicable Series Resolution or the Applicable Bond Series Certificate;

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

Commissioner of Health shall mean the Commissioner of Health of the State of New York or any board, agency or body which shall hereafter succeed to the powers, functions and duties of the Commissioner;

Construction Fund means each such fund so designated and established by the Applicable Series Resolution pursuant to the Master Resolution;

Continuing Disclosure Agreement means the undertaking entered into by the Institution agreeing to provide continuing disclosure information in accordance with Rule 15(c)2-12 of the Securities and Exchange Commission;

Cost or *Costs of Issuance* means the items of expense incurred in connection with the authorization, sale and issuance of a Series 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, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of such Bonds, premiums, costs and expenses of refunding such Bonds and any other Secured Hospital Revenue Bonds issued previously by the Agency and other costs, charges and fees, including those of the Authority, in connection with the foregoing;

Cost or *Costs of the Project* means the total of all costs authorized by law incurred by an Applicable Institution with respect to the Applicable Project and approved by the Commissioner of Health, to the extent required by law;

Credit Facility means an irrevocable letter of credit, surety bond, loan agreement, financial guaranty insurance policy, or other agreement, facility or insurance or guaranty arrangement issued or extended by any of (i) a bank, (ii) a trust company, (iii) a national banking association, (iv) an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, (v) a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, (vi) a savings bank, (vii) a savings and loan association, (viii) an insurance company or association chartered or organized under the laws of any state of the United States of America, (ix) the Government National Mortgage Association or any successor thereto, (x) the Federal National Mortgage Association or any successor thereto, or (xi) any other federal agency or instrumentality approved by the Authority, in each case pursuant to which the Authority is entitled to obtain moneys to pay the principal or Redemption Price of Outstanding Bonds due either at maturity or upon redemption through mandatory Sinking Fund Installments, plus accrued interest thereon to the date of payment or redemption thereof in accordance with the Master Resolution and with the Series Resolution authorizing such Bonds or a Bond Series Certificate, whether or not the Authority is in default under the Master Resolution or the Applicable Institution is in default under the Applicable Loan Agreement;

Credit Facility Provider means the issuer of a Credit Facility.

Debt Service Fund means each such fund so designated and established by the Applicable Series Resolution pursuant to the Master Resolution;

Debt Service Requirement means as of any time of determination thereof, an amount equal to the aggregate of (i) with respect to the interest on Outstanding Bonds payable on the first interest payment date therefor, if such interest payment date occurs more or less than six (6) calendar months after the date of issuance of the Bonds, the amount of interest thereon payable on such interest payment date multiplied by a fraction, the numerator of which is one (1) and the denominator of which is the number of payment dates occurring prior to such interest payment date on which payments with respect to such interest are to be made pursuant to paragraph (c) of subdivision 1 of Section 8 of the Loan Agreement, multiplied by the number of dates on which such payments are to be made which have occurred on or prior to the date of determination, (ii) with respect to the interest on Outstanding Bonds payable on such Bonds on an interest payment date subsequent to the first interest payment date therefor, one-sixth (1/6) of the interest payable on such Bonds on the next succeeding interest payment date on which interest on such Bonds comes due multiplied by the number of calendar months or part thereof which has elapsed since the immediately preceding interest payment date for such Bonds, (iii) with respect to the principal and Sinking Fund Installments of Outstanding Bonds payable on the February 15 next succeeding the date on which the Bonds were issued, the principal and Sinking Fund Installments thereon payable on such February 15 multiplied by a fraction, the numerator of which is one (1) and the denominator of which is the number of dates occurring prior to such February 15 on which payments with respect to such principal and Sinking Fund Installments are to be made pursuant to the Loan Agreement, multiplied by the number of dates on which such payments are to be made which have occurred on or prior to the date of determination, and (iv) with respect to the principal and Sinking Fund Installments of Outstanding Bonds payable on the February 15 on which principal or Sinking Fund Installments thereof were payable, one-twelfth (1/12) of the amount of principal and Sinking Fund Installments of such Bonds payable on the next succeeding February 15 multiplied by the number of calendar months or part thereof which has elapsed since the immediately preceding February 15;

Defeasance Security means any of the following: (a) a Government Obligation of the type described in clauses (i), (ii), (iii) or (iv) of the definition of Government Obligations; (b) Federal Agency Obligations described in clauses (i) or (ii) 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 by at least two nationally recognized statistical rating services in the highest rating category for such Exempt Obligation, provided, however, that (1) such term shall not include 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;

Department of Health means the Department of Health of the State of New York;

Director of the Budget means the Director of the Budget of the State of New York;

Eligible Secured Hospital Borrower means an institution that has been determined by the Commissioner of Health to constitute an Eligible Secured Hospital Borrower as defined in subdivision 3-b of Section 2872 of the Public Health Law of the State of New York;

Excess Earnings means, with respect to the Applicable Series of Bonds, the amount equal to the rebatable arbitrage and any income attributable to the rebatable arbitrage as required by the Code;

Exempt Obligation means any of the following: (i) 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, (A) 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 or (B) which qualifies as a "build America bond" within the meaning of Section 54AA of the Internal Revenue Code, and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Master Resolution, is rated, without regard to qualification of such rating by symbols such as "+" or "–" and numerical notation, at least in the second highest rating category for such obligation by at least two nationally recognized statistical rating organizations; (ii) 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 (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations;

Federal Agency Obligation means any of the following: (i) an obligation issued by any federal agency or instrumentality approved by the Authority; (ii) 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; (iii) 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 (iv) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations;

Government Obligation means any of the following: (i) a direct obligation of the United States of America; (ii) 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; (iii) an obligation to which the full faith and credit of the United States of America are pledged; (iv) 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 (v) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations;

Governmental Requirements means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to a Project or any Mortgaged Property, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, including, but not limited to, the Department of Health of the State of New York, now existing or hereafter created, and having or asserting jurisdiction over a Project or any Mortgaged Property or any part of either, including in particular, Article 28 and 28-B of the Public Health Law of the State of New York;

Gross Proceeds means, with respect to an Applicable Series of Bonds unless inconsistent with the provisions of the Code, (i) amounts received by the Authority from the sale of such Series of Bonds (other than amounts used to pay underwriters' fees and other expenses of issuing such Series of Bonds), (ii) amounts treated as transferred proceeds of such Series of Bonds in accordance with the Code, (iii) amounts treated as proceeds under the provisions of the Code relating to invested sinking funds, including any necessary allocation between two or more Series of Bonds in the manner required by the Code, (iv) amounts in the Capital Reserve Fund, (v) securities or obligations pledged by the Authority or the Institution as security for payment of debt service on such Bonds, (vi) amounts received with respect to obligations acquired with Gross Proceeds, (vii) amounts used to pay debt service on such Series of Bonds, and (viii) amounts received as a result of the investment of Gross Proceeds at a yield equal to or less than the yield on such Series of Bonds as such yield is determined in accordance with the Code;

Gross Receipts means all receipts, revenues, income and other moneys received or receivable by or on behalf of the Institution, including without limitation contributions, donations, and pledges whether in the form of cash, securities or other personal property and the rights to receive the same whether in the form of accounts, payment on tangibles, contract rights, general intangibles, healthcare insurance receivables, chattel paper, deposit accounts, instruments, promissory notes, and the proceeds thereof, as such terms are presently or hereinafter defined in the Uniform Commercial Code in effect from time to time in the State of New York, and any insurance or condemnation proceeds thereon, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired; provided, Gross Receipts shall not include gifts, grants, bequests, donations, and contributions heretofore or hereafter made, designated at the time of the making thereof by the donor or maker as being for a specific purpose contrary to the payment requirements under the Loan Agreement;

Hospital Consultant means a nationally recognized accounting or management consulting firm acceptable to the Authority and the Department of Health;

Institution means with respect to an Applicable Series of Bonds, the not-for-profit hospital corporation, which is an eligible secured hospital borrower as now or hereafter defined in Subdivision 3-b of Section 2872 of the Public Health Law or any successor provision of law, for whose benefit the Authority shall have issued such Series of Bonds and with whom the Authority shall have executed a Loan Agreement and Mortgage;

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

Loan Agreement means the loan agreement, note or other agreement, or any combination thereof, by and between the Authority and an Applicable Institution in connection with the issuance of an Applicable Series of Bonds, including a loan agreement between the Authority and an Applicable Institution in connection with another issue of obligations that has been modified in connection with the issuance of an Applicable Series of Bonds, as the same may from time to time be amended, supplemented or otherwise modified as permitted by the Master Resolution and by the Loan Agreement;

Master Resolution or *Resolution* means the Master Secured Hospital Revenue Bond Resolution, as the same may be from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions of the Master Resolution;

Moody's means Moody's Investors Service Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns;

Mortgage means a mortgage or mortgages granted by an Applicable Institution to the Authority in connection with the issuance of an Applicable Series of Bonds, including a mortgage or mortgages granted by an Applicable Institution to the Authority in connection with obligations to be refunded with proceeds of an Applicable Series of Bonds that is modified to reflect the terms of such Applicable Series of Bonds, in form and substance satisfactory to the Authority, on the Mortgaged Property mortgaged in connection therewith, as security for the performance of such Institution's obligations under an Applicable Loan Agreement, as such Mortgage may be amended or modified as provided in such Loan Agreement;

Mortgaged Property means the real property, fixtures, personal property and other property interests described in and mortgaged pursuant to the Applicable Mortgage;

Official Statement means an official statement or other offering document relating to and in connection with the Sale of the Bonds;

Outstanding when used in reference to Bonds of an Applicable Series means, as of a particular date, all Bonds of such Series authenticated and delivered under the Master Resolution and under the Applicable Series Resolution except: (i) any such Bond cancelled by the Applicable Trustee at or before such date; (ii) any such Bond deemed to have been paid in accordance with the Master Resolution; and (iii) any such Bond in lieu of or in substitution for which another such Bond shall have been authenticated and delivered pursuant to the Master Resolution;

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

Permitted Collateral means any of the following: (i) Government Obligations described in clauses (i), (ii) or (iii) of the definition of Government Obligations; (ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; (iii) commercial paper that (a) matures within two hundred seventy (270) days after its date of issuance, (b) is rated in the highest short term rating category by at least one nationally recognized statistical rating service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category; and (iv) 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 by Bests Insurance Guide or a nationally recognized statistical rating service in the highest rating category;

Permitted Encumbrances means (i) the Loan Agreement, (ii) the Master Resolution, (iii) any Mortgage, (iv) any instrument recorded pursuant to the Loan Agreement, (v) any other encumbrances or matters approved in writing by the Authority and the Department of Health, (vi) those matters referred to in the title insurance policy delivered on the date the Bonds are issued and accepted by the Authority or referred to in Exhibit F of the Loan Agreement and (vii) encumbrances permitted by Section 2 of Exhibit B of the Loan Agreement;

Permitted Investments means any of the following: (i) Government Obligations; (ii) Federal Agency Obligations; (iii) Exempt Obligations; (iv) 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; (v) Collateralized certificates of deposit that are (a) 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 or credit, contract, agreement or surety bond issued by it, are rated by at least one nationally recognized statistical rating service in at least the second highest rating category, and (b) are fully collateralized by Permitted Collateral; and (vi) Investment Agreements that are fully collateralized by Permitted Collateral;

Pledge Fund means such fund which is established by the Applicable Loan Agreement;

Prior Bonds means the Dormitory Authority of the State of New York Secured Hospital Revenue Refunding Bonds (New York Downtown Hospital), Series 1998I, dated February 1, 1998;

Project means any eligible hospital project as such term is defined in the Act;

Purchased Bonds means Bonds of a Series purchased by or at the direction of an Institution pursuant to the provisions of the Applicable Series Resolution authorizing the issuance of such Bonds or the Applicable Bond Series Certificate relating to such Bonds, as authorized by and in accordance with the Master Resolution;

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 by at least one nationally recognized statistical rating service no 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 by at least one nationally recognized statistical rating service no lower than in the highest rating category for such short term debt; 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 Service or Credit Facility Provider of Outstanding Bonds of a Series;
>
> (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 by at least one nationally recognized statistical rating service no 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 by at least one nationally recognized statistical rating service no lower than in the highest rating category for such short term debt; 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 Service or Credit Facility Provider of Outstanding Bonds of a Series;

(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 by at least one nationally recognized statistical rating service no 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 by at least one nationally recognized statistical rating service no lower than in the highest rating category for such short term debt; 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 Service or Credit Facility Provider of Outstanding Bonds of a Series;

(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 under the Master Resolution, purchased from such corporation, are insured by an insurer that meet the applicable rating requirements set forth above;

Rating Service means each of Moody's Investors Service, Inc., Standard & Poor's Rating Services, and Fitch Ratings, in each case, which has assigned a rating to Outstanding Bonds at the request of the Authority, or their respective successors and assigns;

Record Date means, unless the Applicable Series Resolution authorizing an Applicable Series of Bonds or a Bond Series Certificate relating thereto provides otherwise with respect to Bonds of such Series, the first (1st) day (whether or not a business day) of the August and February preceding the next interest payment date;

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

Refunding Bonds means all Bonds, whether issued in one or more Applicable Series of Bonds, authenticated and delivered pursuant to the Master Resolution, and originally issued pursuant to the Master Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds;

Revenues means with respect to a particular Series of Bonds, all payments received or receivable by the Authority which, pursuant to (i) the Applicable Loan Agreement and Mortgage and (ii) the Applicable Service Contract, are to be paid to the Trustee (except payments to such Trustee for the administrative costs and expenses or fees of such Trustee and payments to such Trustee for deposit to the Applicable Arbitrage Rebate Fund) and secure such Bonds;

S&P means Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, and its successors and assigns;

Secured Hospital Fund means such fund which is established pursuant to Section 7417-a of the Unconsolidated Laws of the State of New York;

Secured Hospital Revenue Bonds means bonds issued by the Agency or the Authority pursuant to Section 7417-a of the Unconsolidated Laws of the State of New York, and currently outstanding;

Securities means (i) money or (ii) Permitted Investments;

Serial Bonds means the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate;

Series means all of the Bonds authenticated and delivered on original issuance and pursuant to the Master Resolution and the Applicable Series Resolution, and any Bonds of such Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Master Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions;

Series Resolution means a resolution of the members of the Authority authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Master Resolution;

Service Contract means the Applicable Service Contract entered into by the Director of the Budget and delivered to the Authority with respect to an Applicable Series of Bonds of a term not in excess of thirty (30) years pursuant to which the Director of the Budget agrees to pay to the Authority subject to appropriation by the State Legislature, such sums as are necessary to meet the debt service payments on the Applicable Series of Bonds in any Bond Year;

Sinking Fund Installment means, with respect to any Series of Bonds, as of any date of calculation and with respect to any Bonds of such Series, so long as any such Bonds thereof are Outstanding, the amount of money required by the Applicable Series Resolution pursuant to which such Bonds were issued or by the Applicable Bond Series Certificate, to be paid on a single future February 15 for the retirement of any Outstanding Bonds of said Series which mature after said future February 15, but does not include any amount payable by the Authority by reason only of the maturity of such Bond, and said future February 15 is deemed to be the date when such Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment;

Special Debt Service Reserve Fund means each such fund so designated and established by the Applicable Series Resolution pursuant to the Master Resolution;

Special Debt Service Reserve Fund Maximum Deposit means, as of any particular date of computation, the amount set forth in a Series Resolution or Bond Series Certificate relating to a Series of Bonds for such date of computation; provided, however, that there shall be no obligation to restore any withdrawal from a Special Debt Service Reserve Fund that results in the amount then remaining to be less than the Applicable Special Debt Service Reserve Fund Maximum Deposit;

State means the State of New York;

Supplemental Resolution means any resolution of the members of the Authority amending or supplementing the Master Resolution, any Applicable Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms of the Master Resolution;

Tax Certificate means the tax certificate, dated the date of delivery of the Bonds, and executed and delivered by the Authority and the Institution in connection with the issuance of the Bonds setting forth the expectations of the Authority and the Institution with respect to the use, application and investment of proceeds of the Bonds and containing such other representations, agreements and undertakings as may be required by Bond Counsel;

Term Bonds means with respect to Bond of a Series, the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate and payable from Sinking Fund Installments;

Tri-Party Agreement means the Tri-Party Agreement between the Director of the Budget, the Commissioner of Health and the Authority pursuant to which the funds in the Secured Hospital Fund are disbursed; and

Trustee means a bank or trust company appointed as Trustee for an Applicable Series of the Bonds pursuant to the Applicable Series Resolution or the Bond Series Certificate delivered under the Master Resolution and having the duties, responsibilities and rights provided for herein with respect to such Series, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant hereto.

FORMS OF APPROVING OPINIONS OF CO-BOND COUNSEL

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Form of Approving Opinion of Sidley Austin LLP

March 30, 2011

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

$32,570,000
Dormitory Authority of the State of New York
Secured Hospital Revenue Refunding Bonds
(New York Downtown Hospital), Series 2011

Ladies and Gentlemen:

We have acted as Co-Bond Counsel to the Dormitory Authority of the State of New York (the "Authority") in connection with the Authority's issuance of its Secured Hospital Revenue Refunding Bonds (New York Downtown Hospital), Series 2011 in the aggregate principal amount of $32,570,000 (the "Series 2011 Bonds").

In such capacity, we have examined the Dormitory Authority Act, being Chapter 524 of the Laws of 1944 of the State of New York, as amended to the date hereof including, but not limited to, the Health Care Financing Consolidation Act and, as incorporated thereby, the New York State Medical Care Facilities Financing Act, being Chapter 392 of the Laws of 1973 of the State of New York, as amended by Chapter 58 of the Laws of 2010 of the State of New York and as otherwise amended to the date hereof (the "Act"), creating the Authority, a body corporate and politic constituting a public benefit corporation of the State of New York. We have also examined a certified record of the proceedings authorizing the execution and delivery of the Loan Agreement (hereinafter mentioned) and a certified record of the proceedings showing the adoption by the Authority on December 8, 2010 of the Dormitory Authority of the State of New York Master Secured Hospital Revenue Bond Resolution (the "Master Resolution") and the Series Resolution Authorizing Up To $38,500,000 Secured Hospital Revenue Refunding Bonds, (New York Downtown Hospital), Series 2010 (the "Series Resolution" and; together with the Master Resolution, the "Resolutions"), and other proofs relating to the issuance of the Series 2011 Bonds as we have deemed necessary as a basis for the following opinions. We have not undertaken an independent audit or investigation of the matters and opinions described or contained in the foregoing proofs.

The Series 2011 Bonds are dated the date of this opinion, shall mature on February 15 in each of the years and shall bear interest, payable August 15, 2011 and semi-annually thereafter on February 15 and August 15 in each year, at the respective rates per annum set forth in the Bond Series Certificate of the Authority with respect to the Series 2011 Bonds (the "Bond Series Certificate") and in the Resolutions. The Series 2011 Bonds are issuable in the form of fully registered Series 2011 Bonds in the denomination of $5,000 or integral multiples thereof. The Series 2011 Bonds are lettered and numbered R- followed by the number of Series 2011 Bonds. The Series 2011 Bonds are numbered consecutively from one upward in order of issuance. The Series 2011 Bonds are subject to redemption prior to maturity or purchase in lieu of optional redemption prior to maturity in the manner and upon the terms and conditions set forth in the Bond Series Certificate and the Resolutions.

The Series 2011 Bonds are secured by the funds and accounts held under the Resolutions and a pledge of revenues received by the Authority under a Loan Agreement with New York Downtown Hospital (the "Institution"), dated as of December 8, 2010 (the "Loan Agreement") and a mortgage on certain of the Institution's facilities (together, the "Mortgage"). Additionally, the Series 2011 Bonds are secured by a pledge of the Service Contract dated as of March 30, 2011 by and between the State of New York, acting by and through the Director of the

Budget, and the Authority (the "Service Contract"), which provides for payments by the State of New York to the Authority, subject to annual appropriation by the State Legislature, in the event that all other pledged funds under the Resolutions are not sufficient to pay debt service on the Series 2011 Bonds.

From such examination, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York, with the right and lawful authority and power to adopt the Resolutions and to issue the Bonds, including the Series 2011 Bonds, thereunder.

2. The Master Resolution and the Series Resolution have been duly and lawfully adopted by the Authority, and the Series Resolution is authorized and permitted by, and has been adopted in accordance with the provisions of, the Master Resolution. The Resolutions are in full force and effect, and are legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms.

3. The Series 2011 Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of New York, including the Act, and in accordance with the Resolutions. The Series 2011 Bonds are legal, valid and binding special obligations of the Authority payable as provided in the Resolutions, are enforceable in accordance with their terms and the terms of the Resolutions and are entitled to the equal benefits of the Resolutions and the Act.

4. The Loan Agreement has been duly authorized, executed and delivered and constitutes the legal, valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms.

5. The Resolutions validly pledge and assign the revenues received by the Authority under the Loan Agreement, the Mortgage and the Service Contract, and the monies, securities and funds held or set aside under the Resolutions, subject to the application thereof to the purposes and on the conditions permitted by the Resolutions, including the payment of and interest on the Series 2011 Bonds.

6. Assuming compliance by the Institution and the Authority with their respective covenants to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and except as provided in the following sentence, interest on the Series 2011 Bonds is not includable in the gross income of the owners of the Series 2011 Bonds for purposes of federal income taxation under current law. Interest on the Series 2011 Bonds will be includable in gross income of the owners thereof retroactive to the date of issue of the Series 2011 Bonds in the event of a failure by the Institution or the Authority to comply subsequent to the issuance of the Series 2011 Bonds with certain requirements of the Code, and covenants regarding use, expenditure and investment of the Series 2011 Bond proceeds and the timely payment of certain investment earnings to the United States Treasury. The Institution and the Authority have covenanted, among other things, not to take any action that would cause interest on the Series 2011 Bonds to be includable in the gross income of the holders thereof for federal income tax purposes. Interest on the Series 2011 Bonds will not be treated as a tax preference item for purposes of calculating the alternative minimum taxable income of individuals; however, interest on the Series 2011 Bonds will be includable in the calculation of the alternative minimum tax liabilities on corporations imposed by the Code.

7. Interest on the Series 2011 Bonds is exempt from personal income taxes of the State of New York and its political subdivisions.

We have examined a fully executed Series 2011 Bond and, in our opinion, the form of said Bond and its execution are regular and proper.

The opinions contained in paragraphs 2, 3,4 and 5 above are qualified to the extent that the enforceability of the Resolutions, the Loan Agreement, the Mortgage and the Series 2011 Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally or as to the availability of any particular remedy. In rendering the opinions contained in paragraphs 4 and 5 above, we have relied on the opinion of Epstein Becker & Green, P.C., counsel to the Institution, that the Institution has full corporate power and authority to execute, make, deliver and perform the Loan Agreement and the Mortgage, the Loan Agreement and the

Mortgage have been duly authorized, executed, made and delivered by the Institution and the Loan Agreement and the Mortgage create legal, valid and binding obligations of the Institution, as more fully set forth therein.

In rendering the opinion in paragraph 6 above, we have relied upon the representations made by the Institution with respect to certain material facts within the knowledge of the Institution, which facts and representations we have not independently verified and upon the accompanying opinion of Epstein Becker & Green, P.C., counsel for the Institution, that the Institution is exempt from federal income taxation, except for unrelated business income tax, under Section 501(a) of the Code, as an organization described in Section 501(c)(3) of the Code. Our opinion in paragraph 6 above with respect to the exclusion from gross income of the interest on the Series 2011 Bonds for federal income tax purposes may not be relied on to the extent that such exclusion is adversely affected as a result of any action taken, or not taken, in reliance on the opinion or advice of counsel other than this firm. Except as stated in paragraphs 6 and 7 above, we have not addressed and we are not opining on the tax consequences to any investor of the investment in, ownership, or disposition of, or receipt of the interest on, the Series 2011 Bonds.

In connection with the delivery of this opinion, we are not passing upon the authorization, execution and delivery of the Loan Agreement by the Institution.

The opinions expressed herein are based on an analysis of current laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur and we have no obligation to update this opinion in light of such actions or events.

Very truly yours,

Form of Approving Opinion of McKenzie & Associates

March 30, 2011

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

$32,570,000
Dormitory Authority of the State of New York
Secured Hospital Revenue Refunding Bonds
(New York Downtown Hospital), Series 2011

Ladies and Gentlemen:

We have acted as Co-Bond Counsel to the Dormitory Authority of the State of New York (the "Authority") in connection with the Authority's issuance of its Secured Hospital Revenue Refunding Bonds (New York Downtown Hospital), Series 2011 in the aggregate principal amount of $32,570,000 (the "Series 2011 Bonds").

In such capacity, we have examined the Dormitory Authority Act, being Chapter 524 of the Laws of 1944 of the State of New York, as amended to the date hereof including, but not limited to, the Health Care Financing Consolidation Act and, as incorporated thereby, the New York State Medical Care Facilities Financing Act, being Chapter 392 of the Laws of 1973 of the State of New York, as amended by Chapter 58 of the Laws of 2010 of the State of New York and as otherwise amended to the date hereof (the "Act"), creating the Authority, a body corporate and politic constituting a public benefit corporation of the State of New York. We have also examined a certified record of the proceedings authorizing the execution and delivery of the Loan Agreement (hereinafter mentioned) and a certified record of the proceedings showing the adoption by the Authority on December 8, 2010 of the Dormitory Authority of the State of New York Master Secured Hospital Revenue Bond Resolution (the "Master Resolution") and the Series Resolution Authorizing Up To $38,500,000 Secured Hospital Revenue Refunding Bonds, (New York Downtown Hospital), Series 2010 (the "Series Resolution" and; together with the Master Resolution, the "Resolutions"), and other proofs relating to the issuance of the Series 2011 Bonds as we have deemed necessary as a basis for the following opinions. We have not undertaken an independent audit or investigation of the matters and opinions described or contained in the foregoing proofs.

The Series 2011 Bonds are dated the date of this opinion, shall mature on February 15 in each of the years and shall bear interest, payable August 15, 2011 and semi-annually thereafter on February 15 and August 15 in each year, at the respective rates per annum set forth in the Bond Series Certificate of the Authority with respect to the Series 2011 Bonds (the "Bond Series Certificate") and in the Resolutions. The Series 2011 Bonds are issuable in the form of fully registered Series 2011 Bonds in the denomination of $5,000 or integral multiples thereof. The Series 2011 Bonds are lettered and numbered R- followed by the number of Series 2011 Bonds. The Series 2011 Bonds are numbered consecutively from one upward in order of issuance. The Series 2011 Bonds are subject to redemption prior to maturity or purchase in lieu of optional redemption prior to maturity in the manner and upon the terms and conditions set forth in the Bond Series Certificate and the Resolutions.

The Series 2011 Bonds are secured by the funds and accounts held under the Resolutions and a pledge of revenues received by the Authority under a Loan Agreement with New York Downtown Hospital (the "Institution"), dated as of December 8, 2010 (the "Loan Agreement") and a mortgage on certain of the Institution's facilities (together, the "Mortgage"). Additionally, the Series 2011 Bonds are secured by a pledge of the Service Contract dated as of March 30, 2011 by and between the State of New York, acting by and through the Director of the Budget, and the Authority (the "Service Contract"), which provides for payments by the State of New York to the Authority, subject to annual appropriation by the State Legislature, in the event that all other pledged funds under the Resolutions are not sufficient to pay debt service on the Series 2011 Bonds.

From such examination, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York, with the right and lawful authority and power to adopt the Resolutions and to issue the Bonds, including the Series 2011 Bonds, thereunder.

2. The Master Resolution and the Series Resolution have been duly and lawfully adopted by the Authority, and the Series Resolution is authorized and permitted by, and has been adopted in accordance with the provisions of, the Master Resolution. The Resolutions are in full force and effect, and are legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms.

3. The Series 2011 Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of New York, including the Act, and in accordance with the Resolutions. The Series 2011 Bonds are legal, valid and binding special obligations of the Authority payable as provided in the Resolutions, are enforceable in accordance with their terms and the terms of the Resolutions and are entitled to the equal benefits of the Resolutions and the Act.

4. The Loan Agreement has been duly authorized, executed and delivered and constitutes the legal, valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms.

5. The Resolutions validly pledge and assign the revenues received by the Authority under the Loan Agreement, the Mortgage and the Service Contract, and the monies, securities and funds held or set aside under the Resolutions, subject to the application thereof to the purposes and on the conditions permitted by the Resolutions, including the payment of and interest on the Series 2011 Bonds.

We have examined a fully executed Series 2011 Bond and, in our opinion, the form of said Bond and its execution are regular and proper.

The opinions contained in paragraphs 2, 3,4 and 5 above are qualified to the extent that the enforceability of the Resolutions, the Loan Agreement, the Mortgage and the Series 2011 Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally or as to the availability of any particular remedy. In rendering the opinions contained in paragraphs 4 and 5 above, we have relied on the opinion of Epstein Becker & Green, P.C., counsel to the Institution, that the Institution has full corporate power and authority to execute, make, deliver and perform the Loan Agreement and the Mortgage, the Loan Agreement and the Mortgage have been duly authorized, executed, made and delivered by the Institution and the Loan Agreement and the Mortgage create legal, valid and binding obligations of the Institution, as more fully set forth therein.

In connection with the delivery of this opinion, we are not passing upon the authorization, execution and delivery of the Loan Agreement by the Institution.

The opinions expressed herein are based on an analysis of current laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur and we have no obligation to update this opinion in light of such actions or events.

Very truly yours,

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DORMITORY AUTHORITY OF THE STATE OF NEW YORK • SECURED HOSPITAL REVENUE REFUNDING BONDS (NEW YORK DOWNTOWN HOSPITAL), SERIES 2011

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