NEW ISSUE

DORMITORY AUTHORITY OF THE STATE OF NEW YORK

$44,900,000	$29,855,000
UPSTATE COMMUNITY COLLEGES REVENUE BONDS, SERIES 2005A	UPSTATE COMMUNITY COLLEGES REVENUE BONDS, SERIES 2005B

Dated: Date of Delivery **Due: July 1, as shown on inside cover**

Payment and Security: The Series 2005A Bonds and the Series 2005B Bonds (collectively, the "Series 2005 Bonds") will be special obligations of the Dormitory Authority of the State of New York (the "Authority"). The principal and Redemption Price of and interest on the Series 2005 Bonds are payable from amounts to be appropriated each year by the State of New York (the "State") pursuant to the State Education Law in an amount equal to the obligation of the State University of New York (the "University") under a financing agreement (the "Financing Agreement") to make payments on account of the principal and Redemption Price of and interest on the Series 2005 Bonds. Moneys appropriated for Annual Payments to be made by the University on account of the principal and Redemption Price of and interest on the Series 2005 Bonds shall be deposited in a special account known as the Community College Tuition and Instructional Income Fund (the "Pledge Fund"). Moneys in the Pledge Fund are to be held by the New York State Commissioner of Taxation and Finance separate and apart from all other funds and moneys of the State pending their use for Annual Payments by the University in the amounts and at the times required by the Financing Agreement.

The provisions of the State Education Law regarding State appropriations for the principal and Redemption Price of and interest on the Series 2005 Bonds do not constitute a legally enforceable obligation of the State. The State may legally decide not to make any such appropriation. Certain information concerning the State appears in Appendix B.

The scheduled payment of the principal of and interest on the Insured Series 2005 Bonds (as defined herein) when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2005 Bonds. See "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2005 BONDS – Bond Insurance" herein.

FGIC Financial Guaranty Insurance Company

No revenues or assets of the Community Colleges, the Local Sponsors or of the University have been pledged or will be available to pay the principal or Redemption Price of and interest on the Series 2005 Bonds other than the aforementioned amounts.

The Series 2005 Bonds will not be a debt of the State nor will the State be liable on them. The Authority has no taxing power.

Description: The Series 2005 Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple thereof. Interest (due July 1, 2005 and each January 1 and July 1 thereafter) will be payable by check or draft mailed to the registered owners of the Series 2005 Bonds. The principal or Redemption Price will be payable at the corporate trust office of U.S. Bank Trust National Association, New York, New York, the Trustee and Paying Agent.

The Series 2005 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 2005 Bonds will be made in Book-Entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2005 Bonds, payments of the principal and Redemption Price of and interest on the Series 2005 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 the DTC participants. See "PART 3 - THE SERIES 2005 BONDS - Book-Entry Only System" herein.

Redemption: *The Series 2005A Bonds are subject to redemption prior to maturity as more fully described herein. The Series 2005B Bonds are not subject to redemption prior to maturity.*

Tax Exemption: In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming compliance with certain covenants and the accuracy of certain representations, interest on the Series 2005 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (ii) interest on the Series 2005 Bonds is exempt from personal income taxes imposed by the State of New York and political subdivisions thereof, including The City of New York and the City of Yonkers. Interest on the Series 2005 Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see "PART 12 - TAX MATTERS" herein.

The Series 2005 Bonds are offered when, as and if issued and received by the Underwriters. The offer of the Series 2005 Bonds may be subject to prior sale, or may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality of the Series 2005 Bonds by Squire, Sanders & Dempsey L.L.P., New York, New York, Bond Counsel to the Authority, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by Harris Beach LLP, New York, New York, Counsel to the Underwriters. The Authority expects to deliver the Series 2005 Bonds in definitive form to DTC on or about March 3, 2005.

Goldman, Sachs & Co.		**First Albany Capital**
A.G. Edwards		**CIBC World Markets**
Merrill Lynch	**M♦R♦ Beal & Company**	**UBS Financial Services Inc.**

February 18, 2005

MATURITIES, AMOUNTS, INTEREST RATES, AND PRICES OR YIELDS

$44,900,000
UPSTATE COMMUNITY COLLEGES
REVENUE BONDS, SERIES 2005A

Serial Bonds

Maturity July 1,	Amount	Interest Rate	Yield	CUSIP Numbers*	Maturity July 1,	Amount	Interest Rate	Yield	CUSIP Numbers*
2010	$ 210,000	3.10%	3.15%	64983QAD1	2015†	$5,945,000	5.00%	3.70%	64983QAJ8
2011	445,000	4.00	3.30	64983QAE9	2016†‡	5,935,000	5.00	3.78	64983QAK5
2012†	2,705,000	4.00	3.35	64983QAF6	2017†‡	6,310,000	5.00	3.85	64983QAL3
2013†	4,645,000	5.00	3.50	64983QAG4	2018†‡	6,620,000	5.00	3.90	64983QAM1
2014†	5,650,000	5.00	3.60	64983QAH2	2019†‡	6,435,000	5.00	3.95	64983QAN9

$29,855,000
UPSTATE COMMUNITY COLLEGES
REVENUE BONDS, SERIES 2005B

Serial Bonds

Maturity July 1,	Amount	Interest Rate	Price or Yield	CUSIP Numbers*	Maturity July 1,	Amount	Interest Rate	Yield	CUSIP Numbers*
2019†	$ 515,000	4.00%	100%	64983QAP4	2022†	$10,090,000	5.50%	4.08%	64983QAS8
2020†	7,300,000	5.50	4.02	64983QAQ2	2023†	4,265,000	5.50	4.11	64983QAT6
2021†	7,685,000	5.50	4.05	64983QAR0					

† Insured by Financial Guaranty Insurance Company.

‡ Priced to the July 1, 2015 par call date.

 The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Series 2005 Bonds and neither the State nor the Authority makes any representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2005 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 2005 Bonds.

No dealer, broker, salesperson or other person has been authorized by the Authority, the State University of New York (the "University"), the State or the Underwriters to give any information or to make any representations with respect to the Series 2005 Bonds, other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized.

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 2005 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 or authorized by the State and the University, sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information, however, and the information provided by such sources is not to be construed as a representation of the Authority. See "PART 18 - SOURCES OF INFORMATION AND CERTIFICATIONS" of this Official Statement for a schedule indicating the information provided by the various sources.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in the Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Other than with respect to information concerning Financial Guaranty Insurance Corporation (the "Bond Insurer") contained under the captions "PART 1 – INTRODUCTION - Bond Insurance" and "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2005 BONDS – Bond Insurance" herein and the specimen municipal bond insurance policy set forth in Appendix G, none of the information in this Official Statement has been supplied or verified by the Bond Insurer, and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2005 Bonds; or (iii) the tax status of the interest on the Series 2005 Bonds.

References in this Official Statement to the Act, the Resolution and the Financing Agreement do not purport to be complete. Refer to the Act, the Resolution and the Financing Agreement for full and complete details of their provisions. Copies of the Resolution and the Financing Agreement 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 the Official Statement, including its appendices, must be considered in its entirety.

Under no circumstances will the delivery of this Official Statement or any sale made after its delivery create any implication that the affairs of the Authority, the State, the University or the Community Colleges referred to herein have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2005 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2005 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DORMITORY AUTHORITY - STATE OF NEW YORK 515 BROADWAY, ALBANY, N.Y. 12207
MARYANNE GRIDLEY - EXECUTIVE DIRECTOR GAIL H. GORDON, ESQ. – CHAIR

OFFICIAL STATEMENT RELATING TO

DORMITORY AUTHORITY OF THE STATE OF NEW YORK

$44,900,000
UPSTATE COMMUNITY COLLEGES
REVENUE BONDS, SERIES 2005A

$29,855,000
UPSTATE COMMUNITY COLLEGES
REVENUE BONDS, SERIES 2005B

PART 1 - INTRODUCTION

Purpose of the Official Statement

The purpose of this Official Statement, including its appendices, is to provide information about the Authority, the State and the community college program, all in connection with the issuance and sale by the Authority of its $44,900,000 Upstate Community Colleges Revenue Bonds, Series 2005A (the "Series 2005A Bonds") and its $29,855,000 Upstate Community Colleges Revenue Bonds, Series 2005B (the "Series 2005B Bonds"; and collectively with the Series 2005A Bonds, the "Series 2005 Bonds").

The following is a brief description of certain information concerning the Series 2005 Bonds, the Authority and the Plan of Refunding. A more complete description of such information and additional information that may affect decisions to invest in the Series 2005 Bonds is contained throughout this Official Statement, which should be read in its entirety. The definitions of certain terms used in this Official Statement appear in Appendix A hereto.

Purpose of the Issue

The Series 2005 Bonds are being issued (i) to refund certain outstanding Upstate Community College bonds issued by the Authority under Prior Resolutions and (ii) to pay certain Costs of Issuance of the Series 2005 Bonds. See "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS" and "PART 7 - THE PLAN OF REFUNDING".

Authorization of Issuance

The Series 2005 Bonds will be issued pursuant to the Authority's Upstate Community Colleges Revenue Bond Resolution, adopted by the Authority on January 26, 2005 (the "Resolution"), the Series 2005A Resolution, adopted January 26, 2005, the Series 2005B Resolution, adopted January 26, 2005, and the Act. The Series 2005 Bonds and the Series 2005C Bonds (hereafter defined) are the first three Series of Bonds issued pursuant to the Resolution. All Bonds issued under the Resolution rank on a parity with each other and are secured equally and ratably with each other.

In addition to the Resolution, the Authority has adopted other resolutions (the "Prior Resolutions") which also authorize the issuance of bonds to pay the costs of projects for the Community Colleges, to refund bonds or notes of the Authority issued for or on behalf of one or more Community Colleges and to pay the related costs of issuance. Upon the issuance of the Series 2005 Bonds and the Series 2005C Bonds, and giving effect to the refunding of the Refunded Bonds (hereafter defined), there will be approximately $406,905,000 outstanding bonds issued pursuant to the Resolution and the Prior Resolutions.

The Series 2005 Bonds

The Series 2005 Bonds will be dated the date of delivery of the Series 2005 Bonds and will bear interest from such date (payable July 1, 2005 and on each July 1 and January 1 thereafter) at the rates, and will mature at the times, set forth on the inside cover page of this Official Statement. See "PART 3 - THE SERIES 2005 BONDS".

Payment of the Series 2005 Bonds

The Series 2005 Bonds will be special obligations of the Authority, the principal and Redemption Price of and interest on which are payable solely from amounts to be appropriated each year by the State pursuant to the State Education Law in an amount equal to the obligation of the State University of New York (the "University") under a financing agreement between the Authority and the University dated January 26, 2005 (the "Financing Agreement") to make payments ("Annual Payments") on account of the Series 2005 Bonds. Moneys appropriated by the State for Annual Payments to be made by the University shall be deposited in a special account known as the Community College Tuition and Instructional Income Fund (the "Pledge Fund"). Moneys in the Pledge Fund are to be held by the New York State Commissioner of Taxation and Finance separate and apart from all other funds and moneys of the State pending their use for Annual Payments by the University in the amounts and at the times required by the Financing Agreement.

The obligation of the University to make such payments is a special obligation and the payments are not required to be made from any moneys of the University other than amounts appropriated and payable by the State under the State Education Law on account of obligations of the University under the Financing Agreement. As authorized by the Act and the State Education Law, the University has assigned its interest in the amounts appropriated by the State in connection with the Financing Agreement to the Authority. See "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2005 BONDS - Security for the Series 2005 Bonds".

Security for the Series 2005 Bonds

The Bonds issued under the Resolution, including the Series 2005 Bonds, are secured by the pledge of the Revenues, the proceeds of all Bonds, including the Series 2005 Bonds, until applied for the purpose for which they were raised, and, except as otherwise provided by the Resolution, all funds and accounts established by the Resolution, other than the Arbitrage Rebate Fund.

Bond Insurance

In connection with the issuance of the Series 2005 Bonds, the Bond Insurer has committed to issue as of the delivery date of the Series 2005 Bonds a municipal bond insurance policy (the "Bond Insurance Policy") guaranteeing the payment of the maturing principal of and the interest on the Insured Series 2005 Bonds (as defined herein), when due. See "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2005 BONDS – Bond Insurance" and "Appendix G - "Specimen Bond Insurance Policy".

The Authority

The Authority is a public benefit corporation of the State created for the purposes of financing and constructing a variety of public-purpose facilities, certain educational, governmental and not-for-profit institutions. The Authority has never defaulted in the timely payment of principal, or sinking fund installments or interest on, its bonds or notes. See "PART 8 - THE AUTHORITY".

The Plan of Refunding

The Series 2005 Bonds, together with the Dormitory Authority of the State of New York Upstate Community Colleges Revenue Bonds, Series 2005C (the "Series 2005C Bonds") to be delivered on the same day, are being issued to refund certain maturities, or portions thereof, of the Authority's Upstate Community Colleges bonds listed in "Appendix F – Information Relating to Refunded Bonds" hereto (collectively, the "Refunded Bonds"). See "PART 7 - THE PLAN OF REFUNDING". In connection with the issuance of the Series 2005B Bonds and the Series 2005C Bonds, the Authority expects to enter into interest rate swap agreements in an aggregate notional amount equal to all or a portion of the aggregate principal amount of such Series of Bonds, the payment on which will be subordinate to the payment of debt service on the Bonds.

PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2005 BONDS

Set forth below is a narrative description of certain statutory and contractual provisions constituting the sources of payment and security for the Series 2005 Bonds. These provisions have been summarized and abridged and this description does not purport to be complete. Reference should be made to the Resolution and the Financing Agreement, copies of which are on file with the Authority and the Trustee. The Resolution and the Financing Agreement are governed and construed in accordance with New York State law, and, in particular, reference should be made to the Act, the State Education Law, the State Finance Law and the State Constitution *among others. See also "Appendix C - Summary of Certain Provisions of the Financing Agreement" and "Appendix D - Summary of Certain Provisions of the Resolution" for a more complete statement of the rights, duties and obligations of the parties thereto.*

Payment of the Series 2005 Bonds

Special Obligations

The Series 2005 Bonds will be special obligations of the Authority payable solely from moneys annually appropriated by the State Legislature and deposited in the Pledge Fund held by the State Commissioner of Taxation and Finance pursuant to Section 97-p of the State Finance Law.

The Authority has no taxing power and the Series 2005 Bonds are not a debt of the State and the State will not be liable on them.

Payment of the Annual Payments

The State Education Law provides that the State, during each of its fiscal years, is to appropriate the amount payable by the University pursuant to the Financing Agreement during each twelve month period beginning July 1 of a year and ending on the succeeding June 30 (the "Annual Payments"). The Financing Agreement assigns to the Authority the University's interest in the money appropriated by the State for payment of the Annual Payments and deposited in the Pledge Fund. The State Commissioner of Taxation and Finance is required by Section 97-p of the State Finance Law to pay the Annual Payments from the money in the Pledge Fund at the times and in the amounts required by the Financing Agreement.

The Financing Agreement requires the University to pay Annual Payments that are at least equal to the total debt service on the Outstanding Bonds. As more particularly described below, the Annual Payments are to be made at times and in amounts sufficient to enable the Authority to pay debt service on the Outstanding Bonds as it becomes due. However, the University is obligated to pay the Annual Payments solely from the money appropriated by the State for that purpose and is not required to make payment from any other funds even if the amount appropriated by the State for the Annual Payments is not sufficient.

Certain Annual Payments are to be paid directly to the Trustee in two installments, on December 10 and June 10 of each Bond Year, each in an amount and at times sufficient to pay the principal and Sinking Fund Installments of and interest on the Outstanding Bonds (if interest on such Bonds is payable semiannually) when due. If interest is due more frequently than semiannually, Annual Payments in respect of such interest are to be paid directly to the Trustee in monthly installments on the 10th day of each calendar month for the next succeeding calendar month. As described above, the Annual Payments will be paid by the State Commissioner of Taxation and Finance from moneys appropriated by the State for that purpose and deposited in the Pledge Fund.

Limitations on Appropriations

The State's obligation to pay the Annual Payments on behalf of the University is dependent upon an annual appropriation by the State and the availability of money for such payment. The appropriation of money is a legislative act and the State Legislature is not legally obligated to make an appropriation and cannot be compelled to do so. The failure to make an appropriation for the Annual Payments will not constitute an Event of Default under the Resolution or the Financing Agreement. If the State appropriates money for payment of the Annual Payments and the appropriation has not lapsed or been repealed, the State's obligation to pay the Annual Payments will be enforceable against the State.

Security for the Series 2005 Bonds

The Series 2005 Bonds will be secured by all of the funds and accounts established by the Resolution (with the exception of the Arbitrage Rebate Fund and except as otherwise set forth in the Resolution) and the security interest in the Annual Payments. The security for the Series 2005 Bonds is also for the benefit of all other Bonds Outstanding under the Resolution, which Bonds rank on a parity and are secured equally and ratably with each other and with the Series 2005 Bonds. The Authority, however, has reserved the right to pledge and create liens upon the Revenues to secure any obligation of the Authority to a Provider of a Credit Facility or a Liquidity Facility or counterparty. Such pledges or liens may be of equal priority with the pledge and lien created by the Resolution. See "Appendix D - Summary of Certain Provisions of the Resolution". In connection with the issuance of the Series 2005B Bonds, the Authority expects to enter into interest rate swap agreements in an aggregate notional amount equal to all or a portion of the aggregate principal amount of the Series 2005B Bonds, the payment on which will be subordinate to the payment of debt service on the Bonds. See "PART 7 - THE PLAN OF REFUNDING – Related Interest Rate Swaps".

In addition to the Resolution, the Authority has adopted the Prior Resolutions which also authorize the issuance of bonds to pay the costs of projects for the Community Colleges, to refund bonds or notes of the Authority issued for or on behalf of one or more Community Colleges and to pay the related costs of issuance. Upon the issuance of the Series 2005 Bonds and the Series 2005C Bonds, and giving effect to the refunding of the Refunded Bonds, there will be approximately $406,905,000 outstanding bonds issued pursuant to the Resolution and the Prior Resolutions.

In connection with the Prior Resolutions, the Authority entered into other financing agreements with each of the Community Colleges and their respective Local Sponsors (collectively, the "Community College Agreements") that are similar to the Financing Agreement. The Community College Agreements require payments to be made on account of bonds issued under the Prior Resolutions, which payments are made from amounts appropriated under the State Education Law as described herein. The Authority entered into each of the Community College Agreements pursuant to the State Education Law in order to receive amounts appropriated by the State and paid pursuant to the Pledge Fund on account of bonds used under the Prior Resolutions. The State Education Law now authorizes the Authority to enter into a single agreement with the University for the purpose of receiving amounts appropriated by the State and paid to the Pledge Fund.

The Bonds and bonds issued pursuant to the Prior Resolutions are not on a parity with respect to each other. The Annual Payments made pursuant to the Community College Agreements have priority over payments required to be made pursuant to the Financing Agreement. Thus, if the State appropriates sufficient moneys with respect to the bonds issued pursuant to the Prior Resolutions, but not with respect to such bonds and the Bonds, then there would be insufficient moneys to pay the Bonds. However, the State has never failed to make the payments necessary to permit the Local Sponsors to pay their respective shares of debt service on the bonds issued pursuant to the Prior Resolutions. The Authority anticipates that bonds issued pursuant to any future resolutions adopted for this program will be on a parity as to payment with all Bonds issued pursuant to the Resolution.

Annual Payments

The Series 2005 Bonds will be secured by a pledge of the Annual Payments, consisting of amounts appropriated and paid by the State pursuant to the provisions of the State Education Law in connection with the Series 2005 Bonds.

As stated above, the State Education Law provides that the State annually is to appropriate and pay an amount equal to the aggregate of all payments due and payable to the Authority pursuant to any agreement entered into between the Authority and the University, whether or not the University is liable therefor, for each twelve-month period beginning on the next succeeding July first. *This provision of the State Education Law does not, however, constitute a legally enforceable obligation of the State. The State may legally decide not to make any such appropriation.* However, the State has historically appropriated such amounts each year.

No revenues or assets of the Community Colleges, of the Local Sponsors or of the University have been pledged or will be available to pay debt service on the Series 2005 Bonds.

Bond Insurance

Payments of the principal of and interest on the Series 2005A Bonds maturing July 1, 2012 through July 1, 2019 and the Series 2005B Bonds (collectively, the "Insured Series 2005 Bonds") when due are insured by a municipal bond insurance policy to be issued simultaneously upon the issuance of such Insured Series 2005 Bonds by Financial Guaranty Insurance Company ("FGIC" or "Financial Guaranty").

The Financial Guaranty Insurance Company Bond Insurance Policy

The following information has been furnished by FGIC for use in this Official Statement. Reference is made to Appendix G attached hereto for specimens of the FGIC insurance policy, including the endorsements thereto. The Authority takes no responsibility for the accuracy or completeness of this information and makes no representations with respect thereto.

Payments Under the Policy

Concurrently with the issuance of the Insured Series 2005 Bonds, Financial Guaranty will issue its Municipal Bond New Issue Insurance Policy for the Insured Series 2005 Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Insured Series 2005 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority. Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Insured Series 2005 Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Authority. The Fiscal Agent will disburse such amount due on any Insured Series 2005 Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of an Insured Series 2005 Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of an Insured Series 2005 Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Insured Series 2005 Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Insured Series 2005 Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Insured Series 2005 Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Insured Series 2005 Bond, appurtenant coupon or right to payment of principal or interest on such Insured Series 2005 Bond and will be fully subrogated to all of the Insured Series 2005 Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Authority, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Insured Series 2005 Bonds, Financial Guaranty may be granted certain rights under the Insured Series 2005 Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Insured Series 2005 Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company

Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), affiliates of The Blackstone Group L.P. ("Blackstone"), affiliates of The Cypress Group L.L.C. ("Cypress") and affiliates of CIVC Partners L.P. ("CIVC") acquired FGIC Corporation (the "FGIC Acquisition") from a subsidiary of General Electric Capital Corporation ("GE Capital"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. FGIC Corporation paid GE Capital approximately $284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from Financial Guaranty, and GE Capital retained approximately $234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law ("Article 69"), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles ("SAP") and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the nine months ended September 30, 2004, and the years ended December 31, 2003 and December 31, 2002, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately $43.5 billion, $42.4 billion and $47.9 billion par value of securities, respectively (of which approximately 57%, 79% and 81%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately $250.7 million, $260.3 million and $232.6 million, respectively. For the nine months ended September 30, 2004, Financial Guaranty had reinsured, through facultative arrangements, approximately 0.1% of the risks it had written.

As of September 30, 2004, Financial Guaranty had net admitted assets of approximately $3.015 billion, total liabilities of approximately $1.877 billion, and total capital and policyholders' surplus of approximately $1.138 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of Financial Guaranty as of September 30, 2004, and the audited financial statements of Financial Guaranty as of December 31, 2003 and December 31, 2002, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the caption "PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2005 BONDS – Bond Insurance", or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Insured Series 2005 Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Insured Series 2005 Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured Series 2005 Bonds. Financial Guaranty does not guarantee the market price or investment value of the Insured Series 2005 Bonds nor does it guarantee that the ratings on the Insured Series 2005 Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Insured Series 2005 Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the caption "PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2005 BONDS – Bond Insurance". In addition, Financial Guaranty makes no representation regarding the Insured Series 2005 Bonds or the advisability of investing in the Insured Series 2005 Bonds.

Events of Default and Acceleration

An Event of Default shall exist under the Resolution if (i) payment of the principal, Sinking Fund Installments or Redemption Price of, or interest on, any Bond shall not be made when the same shall become due and payable; (ii) with respect to any Series of Bonds, the Authority shall default in the due and punctual performance of any covenants contained in the Resolution or the Series Resolution authorizing the issuance thereof to the effect that the Authority shall comply with the provisions of the Code applicable to such Bonds necessary to maintain the exclusion of interest therein from gross income under Section 103 of the Code and shall not take any action which would adversely affect the exclusion of interest on such Bonds from gross income under Section 103 of the Code 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 (iii) the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Resolution or any Series Resolution on the part of the Authority to be performed and such default shall continue for 30 days after written notice specifying such default and requiring the same to be remedied has been given to the Authority by the Trustee, which may give such notice in its discretion and must give such notice at the written request of the Holders of not less than 25% in principal amount of the Outstanding Bonds or, if such default is not capable of being cured within 30 days, the Authority fails to commence within 30 days and diligently prosecute the cure thereof. An event of default under the Financing Agreement is not necessarily an Event of Default under the Resolution.

The Resolution provides that if an Event of Default (other than as described in clause (ii) of the preceding paragraph) occurs and continues, the Trustee may, and upon the written request of Holders of not less than 25% in principal amount of the Bonds outstanding must, declare the principal and interest on all of the Bonds to be due and payable immediately. The Trustee may, with the written consent of the Holders of not less than 25% in principal amount of Bonds not yet due by their terms and then Outstanding, annul such declaration and its consequences if all Events of Default have been remedied and if the other conditions specified in the Resolution with respect to such annulment have been met.

The Resolution requires the Trustee to mail to the Holders of the Bonds Outstanding, within 90 days after the Trustee has knowledge of the occurrence of an Event of Default, notice of all Events of Default which have occurred. Such notice may also be published by the Trustee in an Authorized Newspaper.

Pursuant to the Resolution, if provided in or authorized by the Series Resolution authorizing the issuance of a Series of Bonds, the Authority may provide for the rights of the Provider of a Credit Facility in connection with such Series of Bonds, which rights may include that, whenever by the terms of the Resolution the Holders of any percentage in principal amount of Outstanding Bonds may exercise any right or power, consent to any amendment, change, modification or waiver, or request or direct the Trustee to take an action, such Provider may be deemed to be the Holder of such Bonds.

Issuance of Additional Bonds

In addition to the Series 2005 Bonds, the Resolution authorizes the issuance of other Series of Bonds and Notes to pay the Costs of the Projects to be financed with such other Series of Bonds and to refund Outstanding Bonds or other notes or bonds of the Authority issued on behalf of a Community College. Such Notes and Bonds may be issued as Capital Appreciation Obligations, Deferred Income Obligations, Option Obligations, Variable Interest Rate Obligations and Fixed Rate Obligations. All Obligations issued under the Resolution will rank on a parity with each other and will be secured equally and ratably with each other. The Authority may issue additional bonds pursuant to one or more of the Prior Resolutions, which bonds would have priority over Obligations issued under the Resolution.

General

The Series 2005 Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power. The Authority has never defaulted in the timely payment of principal or sinking fund installments of or interest on its bonds or notes. See "PART 8 - THE AUTHORITY".

PART 3 - THE SERIES 2005 BONDS

Description of the Series 2005 Bonds

The Series 2005 Bonds will be dated their date of delivery and will bear interest from such date (payable July 1, 2005 and on each July 1 and January 1 thereafter) at the rates shown, and will mature on July 1 of each of the designated years in the principal amounts as shown on the inside cover page of this Official Statement.

The Series 2005 Bonds will be issued as fully registered bonds. The Series 2005 Bonds will be issued in denominations of $5,000 or any integral multiple thereof. The Series 2005 Bonds will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's Book-Entry Only System. Purchases of beneficial interests in the Series 2005 Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series 2005 Bonds, the Series 2005 Bonds will be exchangeable for other fully registered Series 2005 Bonds in any other authorized denomination of the same maturity without charge except 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 Resolution. See "Book-Entry Only System" herein and "Appendix D - Summary of Certain Provisions of the Resolution".

Interest on the Series 2005 Bonds will be payable by check mailed to the registered owners thereof. The principal or Redemption Price of the Series 2005 Bonds will be payable in lawful money of the United States of America at the principal corporate trust office of U.S. Bank Trust National Association, New York, New York, the Trustee and Paying Agent. As long as the Series 2005 Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See "Book-Entry Only System" herein.

Redemption Provisions

The Series 2005A Bonds maturing on or before July 1, 2015 are not subject to redemption prior to maturity. The Series 2005B Bonds are not subject to redemption prior to maturity.

Optional Redemption. The Series 2005A Bonds maturing after July 1, 2015 are subject to redemption prior to maturity, at the election or direction of the Authority, beginning on or after July 1, 2015, in any order, as a whole or in part at any time at par, plus accrued interest to the date of redemption.

Selection of Bonds to be Redeemed. In the case of Series 2005A Bonds to be redeemed at the election or direction of the Authority, the Authority will select the principal amounts and maturities of the Series 2005A Bonds to be redeemed. If less than all of the Series 2005A Bonds of a maturity are to be redeemed, the Series 2005A Bonds of such maturity to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee shall consider proper in its discretion. DTC has informed the Authority that so long as DTC acts as securities depository for the Series 2005A Bonds of a maturity, if less than all of the Series 2005A Bonds of such maturity are called for redemption, the particular Series 2005A Bonds or portions thereof to be redeemed will be selected by lot by DTC and the DTC Participants in accordance with their procedures.

Notice of Redemption. The Trustee is to give notice of the redemption of the Series 2005 Bonds in the name of the Authority, by first-class mail, postage prepaid, not less than 30 days nor more than 60 days prior to the redemption date to the registered owners of any Series 2005 Bonds which are to be redeemed, at their last known addresses appearing on the registration books of the Authority. The failure of any owner of a Series 2005 Bond to be redeemed to receive notice of redemption will not affect the validity of the proceedings for the redemption of such Series 2005 Bond. If directed in writing by an Authorized Officer of the Authority, the Trustee will publish or cause to be published such notice in an Authorized Newspaper not less than 30 days nor more than 60 days prior to the redemption date, but 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 2005 Bonds.

If on the redemption date moneys for the redemption of the Series 2005 Bonds of like maturity 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, the conditions, if any, to such redemption have been satisfied or waived by the Authority, and if notice of redemption has been mailed, then interest on the Series 2005 Bonds of such maturity will cease to accrue from and after the redemption date and such Series 2005 Bonds will no longer be considered to be Outstanding.

For a more complete description of the redemption and other provisions relating to the Series 2005A Bonds, see "Appendix D - Summary of Certain Provisions of the Resolution".

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2005 Bonds. The Series 2005 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2005 Bond will be issued for each maturity of the Series 2005 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic, computerized, book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com**.

Purchases of Series 2005 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2005 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2005 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2005 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 definitive Series 2005 Bonds, except in the event that use of the book-entry system for the Series 2005 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2005 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 Series 2005 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 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2005 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 Series 2005 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2005 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Resolution and other related documents. For example, Beneficial Owners of Series 2005 Bonds may wish to ascertain that the nominee holding the Series 2005 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 shall be sent to DTC. If less than all of the Series 2005 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2005 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 Series 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, and principal and interest payments on the Series 2005 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 payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (or 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 redemption proceeds, and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the 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.

DTC may discontinue providing its services as depository with respect to the Series 2005 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, definitive Series 2005 Bonds 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 that event, definitive Series 2005 Bonds will also be printed and delivered.

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, the Trustee, the Institution and the Underwriters take no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO 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 2005 Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2005 Bonds (other than under the captions "PART 12 - TAX MATTERS and PART 17 - CONTINUING DISCLOSURE" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2005 Bonds.

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PART 4 - DEBT SERVICE REQUIREMENTS FOR THE SERIES 2005 AND OTHER OUTSTANDING BONDS

The following table sets forth, for each 12-month period ending June 30 of the years shown, the amounts required for the payment of debt service on the Series 2005 Bonds, the estimated debt service on the Series 2005C Bonds, the debt service on outstanding Prior Resolution bonds (after giving effect to the refunding of the Refunded Bonds listed in Appendix F hereto) and the aggregate total during each such period.

12-Month Period Ending June 30	Total Debt Service on Series 2005A and Series 2005B Bonds[1]	Estimated Total Debt Service on the Series 2005C Bonds[2]	Debt Service on Outstanding Prior Resolution Bonds*	Estimated Aggregate Debt Service
2005	$ 1,259,915.50	$ 568,479.95	$16,773,199.80	$18,601,595.25
2006	3,843,810.00	1,734,345.60	16,106,387.50	21,684,543.10
2007	3,843,810.00	1,734,345.60	22,156,553.76	27,734,709.36
2008	3,843,810.00	1,734,345.60	25,007,460.00	30,585,615.60
2009	3,843,810.00	1,734,345.60	28,871,952.50	34,450,108.10
2010	4,053,810.00	1,734,345.60	28,863,165.00	34,651,320.60
2011	4,282,300.00	1,734,345.60	24,397,830.00	30,414,475.60
2012	6,524,500.00	1,734,345.60	26,322,440.00	34,581,285.60
2013	8,356,300.00	1,734,345.60	24,502,190.00	34,592,835.60
2014	9,129,050.00	1,734,345.60	23,710,267.50	34,573,663.10
2015	9,141,550.00	1,734,345.60	22,815,970.00	33,691,865.60
2016	8,834,300.00	1,734,345.60	23,182,238.76	33,750,884.36
2017	8,775,708.50	1,734,345.60	23,181,601.26	33,691,655.36
2018	8,770,208.50	1,734,345.60	22,320,251.26	32,824,805.36
2019	8,769,208.50	1,734,345.60	20,728,981.26	31,232,535.36
2020	8,776,858.50	1,734,345.60	19,017,418.76	29,528,622.86
2021	8,769,808.80	1,734,345.60	17,522,875.00	28,027,029.40
2022	10,796,553.10	1,734,345.60	12,998,956.26	25,529,854.96
2023	4,474,923.30	8,779,345.60	8,903,500.00	22,157,768.90
2024	--	7,958,412.46	11,947,750.00	19,906,162.46
2025	--	9,581,560.96	10,322,500.00	19,904,060.96
2026	--	7,186,021.36	6,052,750.00	13,238,771.36
2027	--	7,188,790.86	6,053,500.00	13,242,290.86
2028	--	8,000,146.36	2,430,750.00	10,430,896.36
2029	--	6,643,950.80	--	6,643,950.80
2030	--	4,308,673.66	--	4,308,673.66
2031	--	2,151,865.96	--	2,151,865.96
Total	$126,090,234.70	$91,851,123.17	$444,190,488.62	$662,131,846.49

1. Reflects a fixed rate of interest on the Series 2005B Bonds to maturity and a variable rate swap beginning on July 1, 2016 whereby the Authority will pay a variable rate (assumed at 3.96%) and receive a fixed rate of 4.538% to the final maturity of the Series 2005B Bonds.
2. Based on the fixed swap rate of 3.207% for the Series 2005C Bonds.

* Excludes debt service on the Refunded Bonds.

PART 5 - UPSTATE COMMUNITY COLLEGE PROGRAM

There are 37 community colleges in the State. Seven of them, located in New York City, are part of The City University of New York. Of the remaining 30, which operate under the program of the State University of New York (the "University"), one, the Fashion Institute of Technology, is located in New York City. The other 29 are located outside of New York City. All of these 30, collectively referred to as "Upstate Community Colleges", are also known as "locally sponsored community colleges" as defined in the State Education Law. The map on page 11 shows the locations of the Upstate Community Colleges.

Each Upstate Community College was established by a city, county or school district in the State, acting individually or jointly. All but three of the Upstate Community Colleges were established by counties. The three exceptions are Jamestown Community College, established by the City of Jamestown and now sponsored by the Jamestown Community College Region consisting of the City of Jamestown and the counties of Chautauqua and Cattaraugus; Corning Community College, established by the City School District of the City of Corning and now sponsored by the Corning Community College Region currently consisting of Chemung, Steuben and Schuyler Counties; and the Fashion Institute of Technology, established by the Board of Education of The City of New York.

The State Education Law provides that the University shall be responsible for approving the establishment of Upstate Community Colleges.

Management

Each Upstate Community College, except Corning Community College and Jamestown Community College, is administered by a board of trustees of ten members. Nine are appointed for terms of nine years in annual rotation. Under legislation enacted in 2003, members appointed on or after August 5, 2003 are appointed for terms of seven years. One member is elected by and from the students to serve as a member for a one-year term. Of the nine appointed members of the board, five are appointed by the appropriate governing board of the Local Sponsor and four by the Governor from among persons residing in the sponsoring community. Corning Community College is administered by a regional board of trustees of 14 members. Six members are appointed by the Governor, seven members are appointed by the appropriate governing board of each of those counties eligible to appoint members to the community college regional board of trustees and one member is selected by the student body. Jamestown Community College is administered by a regional board of trustees of 15 members. Six members are appointed by the Governor, eight members are appointed by the local governing bodies of the counties and city eligible to appoint members to the community college regional board of trustees, and one member is selected by the student body. Once established, the board of trustees selects its chairman from among its voting members. Board members receive no compensation for their services, but they are reimbursed for out-of-pocket expenses.

Each board of trustees appoints a President for its college, subject to the approval of the University, and appoints, or delegates to the President the appointment of, other members of the staff of the college. The board of trustees also adopts the curricula, subject to the approval of the University, prepares the budget for submission to and approval by the Local Sponsor and the University and, subject to the general supervision and regulations of the University, discharges such other duties as may be appropriate or necessary to operate the college.

The State Education Law requires the University to provide standards and regulations covering the organization and operation of community college programs, courses and curricula, financing arrangements, State financial assistance, tuition charges and fees and other matters involved in the operation of the Upstate Community Colleges. The standards and procedures cover, among other things, the formula for determining the State's share of college operating costs, curricula, facilities, schedules and formats for budgets, schedules for disbursements to Upstate Community Colleges of Local Sponsors' shares of operating costs, and systems of accounts for use by such colleges.

A board of trustees may acquire real or personal property suitable for carrying out the program of an Upstate Community College. Title to personal property vests in the board of trustees in its own name, to be held and used by the board for college purposes. Title to real property vests in and is held by the Local Sponsor in trust for the uses and purposes of the Upstate Community College. Each board of trustees is responsible for the care, custody and control of the buildings and equipment of its Upstate Community College.

Academic Matters

Upstate Community Colleges provide a wide range of two-year programs of post-high school general and technical education. Programs include liberal arts courses leading to transfer into four-year degree programs, vocational courses for the development of occupational skills and continuing education programs in a variety of areas of interest to the communities. Upstate Community Colleges offer Associates degrees in Arts, Applied Science, Science and Occupational Studies. In addition, the Upstate Community Colleges offer a wide variety of one-year certificate programs and one institution, the Fashion Institute of Technology, offers programs leading to Bachelor of Science, Bachelor of Arts and Masters degrees.

In 1952, the Middle States Association of Colleges and Secondary Schools granted accreditation to the State University as an entity. In addition, each Upstate Community College has been separately accredited by the Middle States Association.

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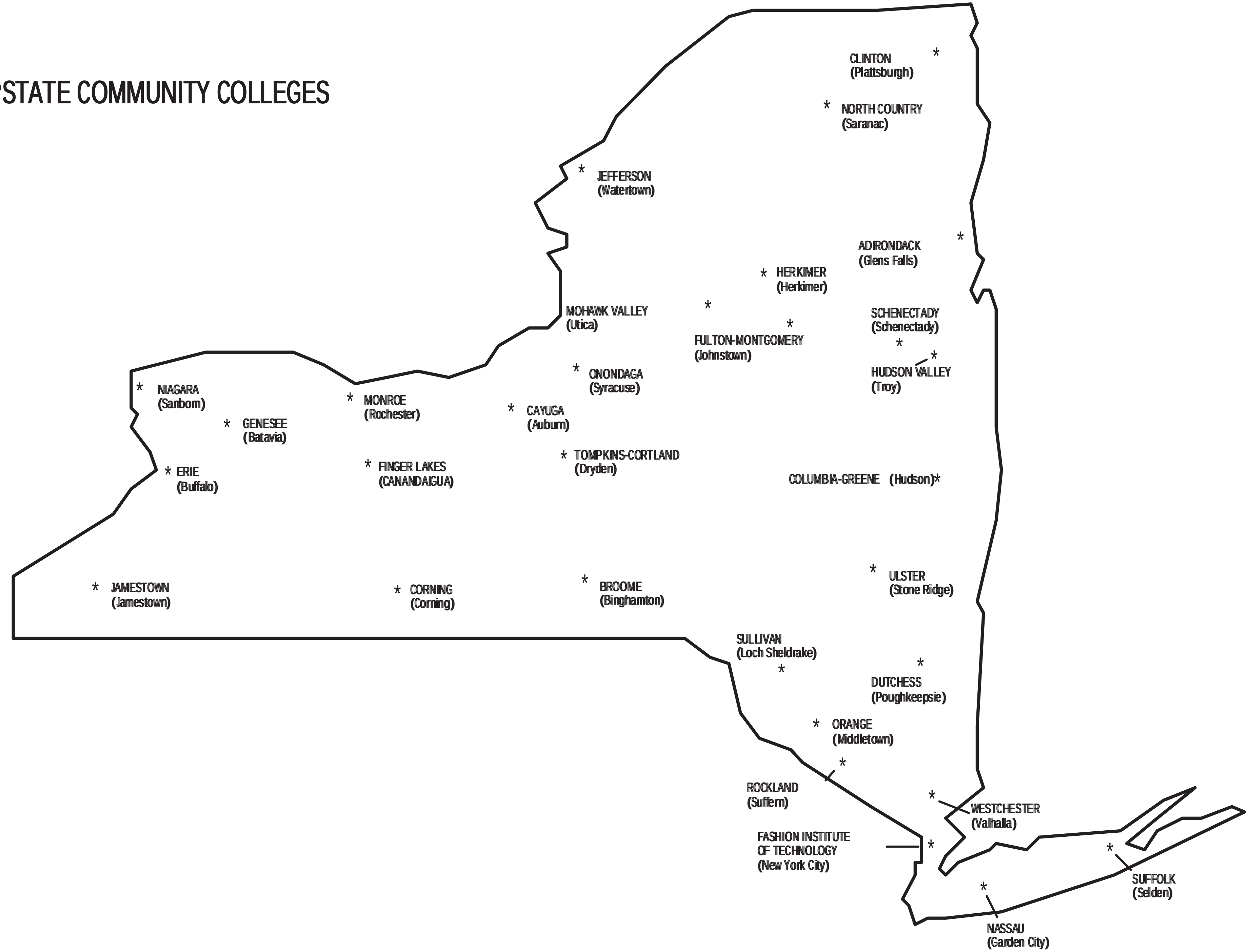
UPSTATE COMMUNITY COLLEGES



Financial Operations

The sources of operating revenue for the Upstate Community Colleges are:

- State aid to the Community College and Local Sponsor(s);
- Tuition;
- General funds of the Local Sponsor(s);
- "Operating chargebacks" received from State municipalities, other than the Local Sponsor, for students of such municipalities attending the college; and
- Certain other miscellaneous revenue, including Federal aid.

The board of trustees of each Upstate Community College prepares the budget of its community college and submits it for approval to the Local Sponsor and the University. The State operating aid of each Upstate Community College is subject to maximum limits prescribed by the University, subject to the approval of the Director of the Budget of the State.

The State Education Law provides that, subject to such maximum limitations and regulations as shall be prescribed by the University with the approval of the Director of the Budget of the State, State financial aid to Upstate Community Colleges shall be one-third of the amount of operating costs of the community college as approved by the University. There is, however, an exception; State financial aid to a community college with a "Full Opportunity Program" (a program which requires in part that the community college and the Local Sponsor have promised that every resident high school graduate from the prior June and every eligible veteran will automatically be admitted upon payment of the applicable tuition) shall be up to two-fifths of operating costs. All of the Upstate Community Colleges for which Projects are either being refinanced with the proceeds of the Series 2005 Bonds or have been financed with the proceeds of bonds issued under Prior Resolutions have Full Opportunity Programs in operation.

The State has paid operating aid to Upstate Community Colleges each year since its fiscal year ended March 31, 1951. In the five years ending March 31, 2004, the State has appropriated an aggregate in excess of $1.6 billion to the Upstate Community Colleges for operating purposes. State aid for operating costs is paid to the Upstate Community Colleges four times during each community college fiscal year in approximately equal amounts.

The State Education Law also provides that Local Sponsors shall contribute up to one-third or, in the case of an Upstate Community College implementing a Full Opportunity Program, 26.7% of operating costs or so much as may be necessary. Local Sponsors provide for these costs by general revenue appropriations, special tax levies, the use of gifts of money or, with the consent of the University, by the use of property or by furnishing services. Where a county is the Local Sponsor, the taxes to pay the county's share of operating costs may be charged back to the cities and towns in the county in proportion to the number of students attending the Upstate Community College each term who were residents of the cities or towns at the beginning of the term.

The State Education Law provides that tuition charged to students by Upstate Community Colleges shall be fixed so as not to exceed, in the aggregate, more than one-third of the amount of the net operating costs of a community college. Since 1991, legislation has been enacted annually to allow Upstate Community Colleges to exceed this limitation. In addition, the regulations of the University provide that tuition rates cannot exceed the statutory limitations and other limitations set forth in the regulations of the University, except upon a showing of financial need. Upstate Community Colleges may, however, with the consent of Local Sponsors and the University, establish a lower tuition rate for residents, one aggregating less than one-third of net operating costs. If that is done, Local Sponsors must provide sufficient funds, from appropriations or otherwise, to make up the difference between tuition actually charged and the one-third of net operating costs that would otherwise be provided by tuition.

State non-resident students -- that is, students who live in the State but outside the Local Sponsor area -- and out-of-State students may attend Upstate Community Colleges subject to such quotas and conditions as may be prescribed by the University. The University has not prescribed any such quotas or conditions.

Each Upstate Community College is required by the University to charge the same tuition to all residents of the State, whether they reside inside or outside the Local Sponsor area (provided the student presents a valid certificate of residence). The maximum full-time and part-time tuition rates for out-of-State students and State non-resident students not presenting certificates of residence is a maximum of three times the maximum full-time and part-time tuition rates, respectively.

Upstate Community Colleges may, subject to the approval of the University, charge each county of residence of a State non-resident student, an allocable share of the Local Sponsor's share of operating costs. These charges are known as "operating chargebacks". Also, Local Sponsors may charge the same counties an additional amount, not to exceed $300 each year, for each State non-resident student on account of the capital costs incurred. These are known as "capital chargebacks". They, unlike operating chargebacks, are not an item of revenue. Instead, they may be used to buy equipment or used to finance the Local Sponsors' shares of capital costs, either directly or by paying debt service on Local Sponsor debt incurred to finance capital projects.

Neither the revenues nor "capital chargebacks" described above will be available to pay either the Series 2005 Bonds or Annual Payments.

Financing Capital Expansion

Until 1972, the capital expansion programs of the Upstate Community Colleges were financed by Local Sponsors paying 50% of the construction costs from the proceeds of bonds or notes issued by the Local Sponsors and other available funds, with the State appropriating and paying to the Local Sponsor the other 50% of construction costs. County Local Sponsors issuing bonds and notes for an Upstate Community College capital program were not and are not required to submit to public referendum the question of whether to undertake the capital program.

In 1972, the State changed the law relating to the financing of capital needs of Upstate Community Colleges. The Authority was authorized to finance, at the request of the State, the 50% share of the capital costs which previously had been paid by State appropriations. Also, Local Sponsors of Upstate Community Colleges were given the option to finance their 50% share of the capital costs through the Authority. In 1977, each Local Sponsor was also given power to finance all or part of the capital costs of Upstate Community College facilities by the issuance of Local Sponsor debt.

To finance either the State's 50% share or both the State's and the Local Sponsor's share, each Local Sponsor must apply to the Authority for financing. Both the University and the Director of the Budget of the State or his or her designee must approve the application. Although not required by law, the Director of the Budget of the State has required, as a prerequisite to his or her approval of a Local Sponsor's application, that the State Legislature indicate its approval of the Projects by appropriating an amount equal to the State's 50% share of project capital costs. However, none of the appropriated moneys will be expended on the Projects and will not be available to the Authority to pay debt service on the Series 2005 Bonds.

In connection with the Prior Resolutions, the Authority entered into Community College Agreements with each of the Community Colleges and their respective Local Sponsors that are similar to the Financing Agreement. The Community College Agreements require payments to be made on account of bonds issued under the Prior Resolutions, which payments are made from amounts appropriated under the State Education Law as described herein. The Authority entered into each of the Community College Agreements pursuant to the State Education Law in order to receive amounts appropriated by the State and paid pursuant to the Pledge Fund on account of bonds issued under the Prior Resolutions. In 2004, the State Education Law was amended to authorize the Authority to enter into a single agreement with the University for the purpose of receiving amounts appropriated by the State and paid to the Pledge Fund.

Under the Resolution, at or prior to the issuance of Bonds by the Authority to finance the State's 50% share of the capital costs, the Authority shall have entered into the Financing Agreement with the University pursuant to which the University is obligated to make payments at times and in amounts sufficient to pay, when due, debt service on the Authority's Bonds. However, the University is only obligated to make such payments from the moneys appropriated by the State for that purpose. For a discussion of the source of payment and security for the Series 2005 Bonds, see "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2005 BONDS".

Although not legally obligated to make such appropriations, the State has never failed to appropriate the amount required to allow the Authority to pay in full the principal and interest due on its previously issued Upstate Community College bonds.

PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

Estimated sources and uses of funds for the Series 2005 Bonds and the Series 2005C Bonds are as follows:

Sources of Funds

Principal Amount of Series 2005 Bonds and the Series 2005C Bonds	$128,835,000.00
Net Original Issue Premium	9,391,533.35
Funds Released from Refunded Bonds	480,000.00
Total Sources	$138,706,533.35

Uses of Funds

Deposit to the Escrow Funds	$135,648,610.78
Underwriters' Discount	660,381.61
Costs of Issuance	2,397,540.96
Total Uses	$138,706,533.35

* Includes New York State Bond Issuance Charge, bond insurance premiums and contingency.

PART 7 - THE PLAN OF REFUNDING

Refunding Plan

The Series 2005 Bonds are being issued to refund the Refunded Bonds previously issued by the Authority under the Prior Resolutions (the "Refunded Bonds"). Simultaneously with the issuance of the Series 2005 Bonds, the Authority expects to issue the Series 2005C Bonds as variable rate obligations in the Weekly Mode. In connection therewith, the Authority anticipates entering into variable rate and fixed rate interest rate swap agreements described below. The fixed rate Series 2005A and Series 2005B Bonds are being offered pursuant to this Official Statement. The variable rate Series 2005C Bonds will be offered pursuant to another official statement. The Bond Purchase Agreement for the Series 2005 Bonds specifically conditions the issuance, sale and delivery of the Series 2005 Bonds upon the issuance, sale and delivery of the Series 2005C Bonds.

Substantially all of the proceeds of the Series 2005 Bonds and the Series 2005C Bonds will be used, together with other available moneys, to purchase noncallable direct obligations of the United States of America (the "Investment Securities"), the maturing principal of and interest on which will be sufficient, together with any uninvested cash, to pay the principal and Redemption Price of and interest on the respective Refunded Bonds coming due on and prior to their respective maturity or redemption dates. Such Investment Securities will be deposited with the applicable trustees in separate escrow funds and will be held in trust solely for the payment of such principal and Redemption Price of and interest on the Refunded Bonds. See "PART 11 - VERIFICATION OF MATHEMATICAL COMPUTATIONS". At the time of such deposit, the Authority will give the applicable trustees irrevocable instructions to give notice of the redemption of the respective Refunded Bonds and to apply the maturing principal of and interest on the applicable Investment Securities, together with any uninvested cash, for the payment of the Redemption Price of and interest on such Refunded Bonds.

In the opinion of Bond Counsel, upon making such deposits with the Trustee and the issuance of certain irrevocable instructions to the applicable trustees, the Refunded Bonds, will, under the terms of the Prior Resolutions, be deemed to have been paid and will no longer be outstanding under the Prior Resolutions and the pledge of the revenues or other moneys and securities pledged to the Refunded Bonds and all other rights granted by the Prior Resolutions to the Refunded Bonds shall be discharged and satisfied.

See "Appendix F - Information Relating to the Refunded Bonds" for a list of bond issues and maturities expected to be refunded with the proceeds of the Series 2005 Bonds and the Series 2005C Bonds.

Related Interest Rate Swaps

The Authority also expects to enter into interest rate swap agreements with respect to the Series 2005B and Series 2005C Bonds, in an aggregate notional amount equal to all or a portion of the aggregate principal amount of such Series of Bonds.

Pursuant to the swap agreement related to the Series 2005B Bonds, the Authority will be obligated to make payments based on variable rates to the swap provider and will receive payments based on a fixed rate from the swap provider. Such payments are scheduled to commence on or about July 1, 2016 and terminate on the final maturity date of the Series 2005B Bonds. This swap agreement will have the effect of converting the Authority's fixed interest cost on a portion of the Series 2005B Bonds to a variable interest cost.

Pursuant to the swap agreement related to the Series 2005C Bonds, the Authority will be obligated to make payments based on a fixed rate to the swap provider and will receive payments based on a variable rate from the swap provider. Such payments will commence on the delivery of the Series 2005C Bonds and the swap agreement is expected to have the effect of converting the Authority's variable interest cost to a fixed interest cost from the date of issuance to the final maturity of the Series 2005C Bonds.

Under certain circumstances, the swap agreements may be terminated, at which time the Authority may be required to make a termination payment to the swap provider. The obligation of the Authority to make any such swap payments, including termination payments, will be subordinate to the obligation of the Authority to pay the principal or Redemption Price of, and interest on, the Series 2005 Bonds and the Series 2005C Bonds, and any Bonds that may be issued by the Authority under the Resolution in the future.

The swap agreements do not alter the Authority's continuing underlying obligations under the Resolution to pay the principal of, premium, if any, and interest on the Series 2005B Bonds and the Series 2005C Bonds when due. The swap providers have no obligation to make any payments with respect to the principal of, premium, if any, or interest on the Series 2005B Bonds or the Series 2005C Bonds, and are only obligated to make certain payments to the Authority pursuant to the terms of their respective swap agreement.

PART 8 - 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, 2004, the Authority had approximately $30 billion aggregate principal amount of bonds and notes outstanding, excluding indebtedness of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act. The debt service on each such issue of the Authority's bonds and notes is paid from moneys received by the Authority or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue or from borrowers in connection with its student loan program.

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

The total amounts of the Authority bonds and notes (excluding debt of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act) outstanding at December 31, 2004 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
State University of New York Dormitory Facilities	$ 1,711,871,000	$ 633,780,000	$ 0	$ 633,780,000
State University of New York Educational and Athletic Facilities	9,757,867,999	4,172,775,349	0	4,172,775,349
Upstate Community Colleges of the State University of New York	1,106,720,000	464,710,000	0	464,710,000
Senior Colleges of the City University of New York	7,616,453,549	2,854,696,284	0	2,854,696,284
Community Colleges of the City University of New York	2,094,411,563	610,340,000	0	610,340,000
BOCES and School Districts	1,413,246,208	1,148,740,000	0	1,148,740,000
Judicial Facilities	1,563,692,717	762,782,717	0	762,782,717
New York State Departments of Health and Education and Other	1,934,655,000	1,130,635,000	0	1,130,635,000
Mental Health Services Facilities	4,393,955,000	3,468,795,000	0	3,468,795,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	901,760,000	883,530,000	0	883,530,000
Total Public Programs	$ 33,268,108,036	$ 16,130,784,350	$ 0	$ 16,130,784,350

Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
Independent Colleges, Universities and Other Institutions	$ 11,755,976,953	$ 5,703,760,794	$ 152,595,000	$ 5,856,355,794
Voluntary Non-Profit Hospitals	9,791,849,309	6,922,031,209	0	6,922,031,209
Facilities for the Aged	1,708,695,000	1,144,255,000	0	1,144,255,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Totals Non-Public Programs	$ 23,351,521,262	$ 13,770,047,003	$ 152,595,000	$ 13,922,642,003
Grand Totals Bonds and Notes	$ 56,619,629,298	$ 29,900,831,354	$ 152,595,000	$ 30,053,426,354

Outstanding Indebtedness of the Agency Assumed by the Authority

At December 31, 2004, the Agency had approximately $1.48 billion 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, 2004 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	$ 29,935,000
Insured Mortgage Programs	6,056,990,000	1,268,834,927
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	176,620,000
Total Non-Public Programs	$ 8,697,460,000	$ 1,475,389,927
GRAND TOTAL	$ 12,514,690,725	$ 1,475,389,927

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:

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

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

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on April 26, 2004. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Evening 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. His term expires on March 31, 2007.

JOSE ALBERTO CORVALAN, M.D., *Secretary*, Armonk.

Dr. Corvalan was appointed as a Member of the Authority by the Governor on June 18, 2002. Dr. Corvalan is Chief of Surgery, Department of Surgery, St. Clare's Hospital and Health Center, New York, New York. He is also an attending surgeon at St. Vincent's Hospital and Medical Center and St. Clare's Hospital and Health Center. Dr. Corvalan is a Diplomate, American Board of Surgery, and is a Fellow of the American College of Surgeons and the New York Academy of Medicine. Dr. Corvalan has held a number of teaching positions and is Associate Professor of Surgery at New York Medical College, Valhalla, New York. His term expires on March 31, 2005.

BRIAN RUDER, Scarsdale.

Mr. Ruder was appointed as a Member of the Authority by the Governor on May 3, 2004. He is Chief Executive Officer of Skylight Partners, a strategic marketing and business development consulting group that he founded in 2001. Prior to Skylight Partners, Mr. Ruder served for four years as Executive Vice President of Global Marketing for Citigroup. He spent 16 years at the H.J. Heinz Co. in progressively responsible positions, including President of Heinz USA, President of Weight Watchers Food Company and corporate Vice President of Worldwide Infant Feeding. He also served as Director of Marketing, New Products and Sales for Pepsi USA in the mid-1980's. Mr. Ruder is Vice Chairman of the New York State Board of Science, Technology and Academic Research (NYSTAR), and also serves on the board of the Adirondack Council, the Scarsdale United Way, the New York Metro Chapter of the Young Presidents' Organization and PNC Private Client Advisors. Mr. Ruder earned a Bachelor of Arts degree in American History in 1976 from Washington University in St. Louis, Mo., and a Master of Business Administration degree in Marketing in 1978 from the Tuck School at Dartmouth College. His term expires on March 31, 2006.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on April 26, 2004. With over 37 years of experience in finance and public accounting, he 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 currently serves on the boards of the Buffalo Niagara Medical Campus as Vice Chair, Hauptman-Woodward Medical Research Institute where he chairs the Building Committee, Mount Calvary Cemetery as Chair of the Investment Committee and a member of the Budget 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, 2004 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.

ROMAN B. HEDGES, Delmar.

Dr. Hedges was appointed as a Member of the Authority by the Speaker of the State Assembly on February 24, 2003. Dr. Hedges currently serves as the Deputy Secretary of the New York State Assembly Committee on Ways and Means. Dr. Hedges serves on the Legislative Advisory Task Force on Demographic Research and Reapportionment. He previously served as the Director of Fiscal Studies of the Assembly Committee on Ways and Means where he was responsible for the preparation of studies of the New York State economy and revenues of local government, tax policy and revenue analyses, and for negotiating revenue and local government legislation for the Assembly. Dr. Hedges 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.

DEAN H. LEITH, JR., Troy.

Mr. Leith was appointed as a Member of the Authority by the Temporary President of the State Senate on September 11, 1998. Mr. Leith is a former President, CEO, and Chairman of the Board of Garden Way, Inc. in Troy, New York. He has served on the boards of Samaritan Hospital and the Rensselaer County Historical Society, and has chaired fundraising campaigns for several not-for-profit organizations. He received his Bachelor of Arts degree from the University of Michigan.

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

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

JOHN F. CAPE, Acting Budget Director for the State of New York, Albany; *ex-officio*.

Mr. Cape was appointed Acting Director of the Budget on October 18, 2004. As Acting Director of the Budget, Mr. Cape heads the New York State Division of the Budget and serves as the chief fiscal policy advisor to the Governor. Mr. Cape 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. Prior to his appointment, Mr. Cape served as First Deputy Director of the Division of the Budget. Prior to assuming these responsibilities in 2002, Mr. Cape served for three years as Deputy Director for State Operations, overseeing budget and fiscal policy for the majority of State agencies and programs. He previously served as the Division of the Budget's Assistant Director for Fiscal Management, and as Chief Budget Examiner for Public Protection, Transportation and General Government programs. He has served in the Division of the Budget for 24 years. Mr. Cape holds a Bachelor's degree in Economics from the State University of New York.

ANTONIA C. NOVELLO, M.D., *Commissioner of Health of the State of New York*, Albany; *ex-officio*.

Dr. Novello became Commissioner of Health on June 15, 1999. Prior to her appointment, Dr. Novello held a number of teaching positions including Visiting Professor of Health Policy and Management and Special Director of Community Health Policies at the Johns Hopkins University School of Hygiene and Public Health, Adjunct Professor of Pediatrics and Communicable Diseases at the University of Michigan and Adjunct Professor of International Health at the Johns Hopkins School of Public Health. Between 1993 and 1996, Dr. Novello served as the United Nations Children's Fund (UNICEF) Special Representative for Health and Nutrition, where she advised UNICEF's executive director on global issues pertaining to vitamin deficiency disorders, immunizations and preventing substance abuse among the world's youth. Prior to that, Dr. Novello served as the Surgeon General of the United States. Before becoming Surgeon General, Dr. Novello had a long career working for the United States Public Health Service at the National Institutes of Health.

The principal staff of the Authority is as follows:

MARYANNE GRIDLEY is the Executive Director and chief administrative and operating officer of the Authority. Ms. Gridley is responsible to the Authority for the management, operations and administration of its affairs. Prior to joining the Authority in April 2002, she was First Deputy Secretary to Governor George E. Pataki, serving as a senior advisor on policy issues. From 1995 to 1999, she held positions with the Governor's Office of Public Authorities within the Executive Chamber, first as Assistant Secretary, and then as Deputy Secretary. From 1985 to 1995, she was Assistant Deputy Comptroller for Investments and Cash Management in the Office of the State Comptroller. She also served as a Senior Legislative Budget Analyst with the State Senate Finance Committee from 1977 to 1985. The Municipal Forum of New York honored Ms. Gridley with its Public Sector Career Service Award in March 2000. She received her Bachelor's degree from Newton College of the Sacred Heart, and holds a Master's degree in Public Administration from the State University of New York at Albany.

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

CHERYL ISHMAEL is the Managing Director of Public Finance. She conducts and coordinates financial feasibility studies for certain institutions and coordinates the production of disclosure documents for the sale of Authority obligations. Ms. Ishmael has worked in finance in both the public and private sectors, as a Managing Director of public finance at two investment banking firms. She served as Deputy Budget Director of the New York City Office of Management and Budget and as Director of Fiscal Studies for the State Senate Finance Committee. She also served as an Adjunct Professor at Columbia University. She holds a Bachelor's degree in Political Science and Journalism from Syracuse University and a Master's degree in Public Administration from the State University of New York at Albany, Graduate School of Public Affairs.

LORA K. LEFEBVRE is the Managing Director of Policy and Program Development. She is responsible for the supervision and direction of the Authority's health care monitoring and higher education monitoring groups. Prior to joining the Authority in 1995, Ms. Lefebvre worked for the New York State Division of Budget for nine years in a number of different capacities, working in subject areas that included the State University of New York, school aid and public authority oversight. She holds a Bachelor of Arts in Political Science from Alfred University and a Master's degree in Public Administration from the State University of New York at Albany.

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

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

DOUGLAS M. VAN VLECK is the Managing Director of Construction. In that capacity, he is responsible for the Authority's construction groups, including design, project management, rehabilitation, purchasing, interior design and engineering services. He has been with the Authority for over 25 years, where he has held increasingly responsible positions within the Construction Division. Mr. Van Vleck holds a Bachelor's degree from Siena College and a Master of Business Administration from Rensselaer Polytechnic Institute.

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 2005 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, 2004. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 9 - LEGALITY OF THE SERIES 2005 BONDS FOR INVESTMENT AND DEPOSIT

The Act provides that the Series 2005 Bonds are securities in which public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State may properly and legally invest funds in their control.

The Series 2005 Bonds may be deposited with the Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 10 - NEGOTIABLE INSTRUMENTS

The Series 2005 Bonds are negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the Series 2005 Bonds.

PART 11 - VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore, Inc., a firm of independent public accountants, will deliver to the Authority its report indicating that it has verified the mathematical accuracy of the computations in the schedules provided by the Authority and its representatives. Included in the scope of its verification report will be a verification of the mathematical accuracy of (a) the computations of the adequacy of the cash, the maturing principal amounts and the interest on the Investment Securities deposited with the Trustee to pay the interest and Redemption Price coming due on the Refunded Bonds on and prior to their respective redemption dates as described in "PART 7 - THE PLAN OF REFUNDING", and (b) the computations supporting the conclusion of Bond Counsel that the Series 2005 Bonds and the Series 2005C Bonds are not "arbitrage bonds" under the Code and the regulations promulgated thereunder.

PART 12 - TAX MATTERS

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) interest on the Series 2005 Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (ii) interest on the Series 2005 Bonds is exempt from personal income taxes imposed by the State of New York and political subdivisions thereof, including The City of New York and the City of Yonkers. Bond Counsel will express no opinion as to any other tax consequences regarding the Series 2005 Bonds.

The opinion on federal tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Authority and of each of the Community Colleges to be contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2005 Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of those certifications and representations.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income purposes, some of which require future or continued compliance after issuance of the Series 2005 Bonds in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with these requirements by the Authority or any Community College may cause the interest on the Series 2005 Bonds to be included in gross income for federal income tax purposes and thus to be subject to federal income tax retroactively to the date of their issuance. The Authority and the Community Colleges have each covenanted to take the actions required of it for the interest on the Series 2005 Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

A portion of the interest on the Series 2005 Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Series 2005 Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2005 Bonds. Bond Counsel will express no opinion regarding those consequences.

Purchasers of the Series 2005 Bonds at other than their original issuance at the respective prices indicated on the inside cover page should consult their own tax advisers regarding other tax considerations such as the consequences of market discount.

Original Issue Discount/Original Issue Premium

The Series 2005A Bonds maturing on July 1, 2010 (the "Discount Bonds") were offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated Redemption Price at maturity (the principal amount) over the "issue price" of such a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above, as other interest on the Series 2005 Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the inside cover page of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Bond.

The Series 2005A Bonds maturing on July 1, 2011 through July 1, 2019, inclusive, and the Series 2005B Bonds maturing on July 1, 2020 through July 1, 2023, inclusive (the "Premium Bonds") were offered and sold to the public at a price in excess of their stated Redemption Price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield must be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside cover page of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Discount and Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and bond premium for purposes of state and local taxes.

PART 13 - STATE NOT LIABLE ON THE SERIES 2005 BONDS

The Act provides that notes and bonds of the Authority are not a debt of the State, that the State is not liable on them and that such notes or bonds are not payable out of any funds other than those of the Authority. The Resolution specifically provides that the Series 2005 Bonds are not a debt of the State and that the State is not liable on them.

PART 14 - COVENANT BY THE STATE

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

PART 15 - UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2005 Bonds from the Authority at an aggregate purchase price of $83,643,226.05 (representing the aggregate principal amount of $74,755,000 of Series 2005 Bonds less the Underwriters' discount of $503,307.30 plus net original issue premium of $9,391,533.35) and to make a public offering of the Series 2005 Bonds at prices that are not in excess of the public offering prices stated on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all such Series 2005 Bonds if any such Series 2005 Bonds are purchased. The Bond Purchase Agreement for the Series 2005 Bonds specifically conditions the issuance, sale and delivery of the Series 2005 Bonds upon the issuance, sale and delivery of the Series 2005C Bonds.

In connection with the Series 2005B Bonds and the Series 2005C Bonds, the Authority has entered into interest rate exchange agreements with Goldman, Sachs & Co. and Lehman Brothers Inc., respectively, or their respective affiliates or related entities. In addition, the Goldman, Sachs & Co. will serve as a remarketing agent for the Series 2005C Bonds to be issued by the Authority.

The Series 2005 Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

PART 16 - LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2005 Bonds by the Authority are subject to the approval of Squire, Sanders & Dempsey L.L.P., New York, New York, Bond Counsel to the Authority, whose approving opinions will be delivered with the Series 2005 Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix E hereto.

Certain legal matters will be passed upon for the Underwriters by their Counsel, Harris Beach LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2005 Bonds or questioning or affecting the validity of the Series 2005 Bonds or the proceedings and authority under which they are to be issued.

PART 17 - CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the Authority, the State and the Trustee will enter into a written agreement (the "Continuing Disclosure Agreement") for the benefit of the holders of the Series 2005 Bonds to provide continuing disclosure. The State will undertake for the benefit of the holders of the Series 2005 Bonds to provide each Nationally Recognized Municipal Securities Information Repository (each a "Repository"), and, if and when one is established, the New York State Information Depository (the "State Information Depository"), on an annual basis on or before 120 days after the end of each fiscal year of the State, commencing with the fiscal year ending March 31, 2005, financial information and operating data (referred to herein as the "Annual Information" and described in more detail below) of the type included in the Information Concerning the State set forth in Appendix B hereto. Filings may be made either directly with the repositories or through a central information repository approved in accordance with Rule 15c2-12. The State Comptroller is required by existing law to issue audited annual financial statements of the State 120 days after the close of the State fiscal year, and the State will undertake to provide the State's annual financial statements prepared in accordance with generally accepted accounting principles ("GAAP") and audited by an independent firm of certified public accountants in accordance with generally accepted auditing standards to each Repository and to the State Information Depository, if and when such statements are available. In addition, the Authority will undertake, for the benefit of the holders of the Series 2005 Bonds, to provide to each such Repository or the Municipal Securities Rulemaking Board ("MSRB") and to the State Information Depository, in a timely manner, the notices described below (the "Notices").

The Annual Information will consist of financial information and operating data of the type included in the Information Concerning the State set forth in Appendix B hereto under the headings or sub-headings "Prior Fiscal Years," "Debt and Other Financing Activities," "State Government Employment," "State Retirement Systems," and "Authorities and Localities," including, more specifically, information consisting of: (1) *for prior fiscal years*, an analysis of cash-basis results for the State's three most recent fiscal years, and a presentation of the State's results in accordance with GAAP for at least the two most recent fiscal years for which that information is then-currently available; (2) *for debt and other financing activities*, a description of the types of financings the State is authorized to undertake, a presentation of the outstanding debt issued by the State and certain public authorities, as well as information concerning debt service requirements on that debt; (3) *for authorities and localities*, information on certain public authorities and local entities whose financial status may have a material impact on the financial status of the State; and (4) material information regarding State government employment and retirement systems; together with 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.

The Notices include notices of any of the following events with respect to the Series 2005 Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the security; (7) modifications to the rights of security holders; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the securities; and (11) rating changes. In addition, the Authority will undertake, for the benefit of the Holders of the Series 2005 Bonds, to provide to each Repository or the MSRB and to the State Information Depository, in a timely manner, notice of any failure by the State to provide the Annual Information and annual financial statements by the date required in the State's undertaking described above.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Agreement to provide continuing disclosure described above is an action to compel specific performance of the undertakings of the State and/or the Authority, and no person, including any Holder of the Series 2005 Bonds, may recover monetary damages thereunder under any circumstances. The Authority or the State may be compelled to comply with their respective obligations under the Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by any Holder of Outstanding Series 2005 Bonds or by a Trustee on behalf of the Holders of Outstanding Series 2005 Bonds or (ii) in the case of challenges to the adequacy of the information provided, by a Trustee on behalf of the Holders of Outstanding Series 2005 Bonds; provided, however, that a Trustee may 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 2005 Bonds at the time Outstanding. A breach or default under the Continuing Disclosure Agreement does not constitute an Event of Default under the Resolution. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, will no longer be required to be provided.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided. The descriptions are not intended to state more than general categories of financial information and operating data. Where an undertaking calls for information that no longer can be generated or is no longer relevant because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The Continuing Disclosure Agreement, however, may be amended or modified without the consent of the holders of the Series 2005 Bonds under certain circumstances set forth therein. Copies of the Continuing Disclosure Agreement when executed by the parties thereto upon the delivery of the Series 2005 Bonds will be on file at the principal office of the Authority.

PART 18 - SOURCES OF INFORMATION AND CERTIFICATIONS

Certain information concerning the Community Colleges, the University and the State (which is either included in or appended to this Official Statement) has been furnished or reviewed and authorized for use by the Authority by such sources as described below. While the Authority believes these sources are reliable, the Authority has not independently verified this information and does not guarantee the accuracy or completeness of the information furnished by the respective sources. The Authority is relying on certificates from each source as to the accuracy of the information provided or authorized by it.

The State University: An authorized officer of the University, as a condition to delivery of the Series 2005 Bonds, will certify to the Authority that (a) the University has reviewed the information in this Official Statement under the captions "PART 5 - UPSTATE COMMUNITY COLLEGE PROGRAM," and "PART 7 - THE PLAN OF REFUNDING," as more fully described in a certificate provided by the University; (b) as of the date of this Official Statement and on the date of delivery of the Series 2005 Bonds such information does not contain an untrue statement of a material fact and does not omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading; (c) the University is not aware of any present intention of any Local Sponsor to discontinue the operation of its Community College or to substantially reduce or cut back such Community College operations; and (d) the University does not presently intend to cause a termination or reduction in the operations of any such Community College.

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

The Director of the Budget of the State, as a condition to delivery of the Series 2005 Bonds, will certify to the Authority that the information contained in the Annual Information Statement of the State of New York, (the "Annual Information Statement") included as Appendix B, as of the date of this Official Statement and on the date of delivery of the Series 2005 Bonds, is true, correct and complete in all material respects, and that no facts have come to his attention that would lead him to believe that such statements and information, as of the date of this Official Statement and the date of delivery of the Series 2005 Bonds, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make such statements and information, in the light of the circumstances under which they were made, not misleading, *provided, however,* that, while the statements and information contained in the Annual Information Statement which were obtained from sources other than the State are not certified as to truth, correctness or completeness, such statements and information have been obtained from sources that he believes to be reliable and, as of the date of this Official Statement and as of the date of such certification, he has no reason to believe, and does not believe, that such statements and information contain any untrue statement of a material fact or omit to state any material fact necessary in order to make such statements and information, in the light of the circumstances under which they were made, not misleading; *provided further, however,* that with regard to the information and statements in the Annual Information Statement hereto under the caption "Litigation" such statements and information are given to the best of his information and belief, having made such inquiries as he deemed appropriate at the office of the Department of Law of the State, without any further independent investigation.

The Authority: The Authority provided the balance of the information in or appended to this Official Statement, except as otherwise specifically noted therein.

The Authority will certify that, both as of the date of this Official Statement and on the date of delivery of the Series 2005 Bonds, the information contained in this Official Statement is and will be fairly presented in all material respects and that this Official Statement does not and will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements contained therein, in the light of the circumstances under which they were made, not misleading (it being understood that the Authority has relied upon and has not undertaken independently to verify the information contained in this Official Statement relating to the Community Colleges, the University or the State, but which information the Authority has no reason to believe is untrue or incomplete in any material respect).

The Authority has not committed to provide information on an ongoing basis concerning the Authority, the University, the State or the Community Colleges.

The information regarding the Bond Insurer, including the information under the captions "PART 1 - INTRODUCTION – Bond Insurance" and "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2005 BONDS – Bond Insurance", and the specimen bond insurance policy in Appendix G has been furnished by the Bond Insurer. No representation is made herein by the Authority, the University, the Underwriters or the State 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. Neither the Authority, the University, the Underwriters nor the State has made any independent investigation of the Bond Insurer or its Policy.

The references herein to the Act, other laws of the State, the Resolution and the Financing Agreement are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference should be made to each for a full and complete statement of their provisions. The agreements of the Authority with the holders of the Series 2005 Bonds are fully set forth in the Resolution, including any Supplemental Resolutions thereto, and neither any advertisement of the Series 2005 Bonds nor this Official Statement is to be construed as a contract with the purchasers of the Series 2005 Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and the Trustee.

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/ Maryanne Gridley
Authorized Officer

DEFINITIONS

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DEFINITIONS

The following are definitions of certain of the terms defined in the Resolution, the Series 2005 Resolutions or the Agreement and used in this Official Statement.

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

"*Act*" means the Dormitory Authority Act being and constituting Title 4 of Article 8 of the Public Authorities Law, as amended, including, without limitation, by the Healthcare Financing Construction Act, being Title 4-B of the Public Authorities Law of the State of New York, as amended.

"*Agreement*" means the Financing Agreement by and between the Dormitory Authority of the State of New York and the State University of New York, dated as of January 26, 2005, as from time to time amended or supplemented by Supplemental Agreements in accordance with the terms and provisions of the Resolution and the Financing Agreement.

"*Annual Payments*" means the payments due and payable by the State University to the Authority during a Bond Year, as provided for and computed in accordance with the provisions of Section 5.02 of the Agreement.

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

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

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

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

"*Authorized Officer*" means (i) in the case of the Authority, the Chairman, the Vice-Chairman, the Treasurer, an Assistant Treasurer, the Secretary, an Assistant Secretary, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Managing Director of Public Finance, the Managing Director of Construction, the Managing Director of Public Policy and Program Development, and the General Counsel, and when used with reference to any act or document also means any other person authorized by a resolution or the by-laws of the Authority to perform such act or execute such document; (ii) in the case of the State University, the Chancellor, the Executive Vice Chancellor, the Senior Vice Chancellor and the Secretary of the Board of Trustees, and when used with reference to any act or document also means any other person authorized by resolution or by-laws of the State University to perform such act or execute such document; and (iii) in the case of the Trustee, the President, a 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 resolution or by-laws of the Board of Directors of the Trustee.

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

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

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

"*Bond Year*" means a period of twelve (12) consecutive months beginning July 1 in any calendar year and ending on June 30 of the succeeding calendar year.

"*Business Day*" means unless with respect to any Obligation the applicable Series Resolution or Series Certificate otherwise provides, any day which is not a Saturday, Sunday or a day on which banking institutions chartered by the State or the United States of America are legally authorized to close in The City of New York; provided, however, that, with respect to Variable Interest Rate Obligations of a Series, such term means any day which is not a Saturday, Sunday or a day on which the New York Stock Exchange, banking institutions chartered by the State or the United States of America, the Trustee or the Provider of a Credit Facility or Liquidity Facility for such Bonds are legally authorized to close in The City of New York.

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

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

"Community College" means any Community College for which Obligations have been issued to finance or refinance the costs of a Project or for whose benefit Obligations have been issued to fund or refund other notes or bonds of the Authority or notes, bonds or other obligations of the State or any agency, instrumentality or public benefit corporation thereof issued for or on behalf of such Community College.

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

"*Cost*" or "*Costs of the Project*" means costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with a Project, including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of a Project, (iii) the cost of surety bonds and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of a Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising a Project, (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the Local Sponsor, the Community College or the Authority shall be required to pay or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of a Project, (vii) any sums required to reimburse the Local Sponsor, the Community College or the Authority for advances made by them for any of the above items or for other costs incurred and for work done by them in connection with a Project (including interest on borrowed money), (viii) interest on the Bonds prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, repair, improvement or equipping of a Project, and (ix) fees, expenses and liabilities of the Authority incurred in connection with a Project or pursuant hereto or to the Agreement.

"*Cost*" or "*Costs of Issuance"* means the items of expense incurred in connection with the authorization, sale and issuance of Obligations or notes and bonds issued in connection with a Project, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of Ratings Services, initial fees and charges of the Trustee, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of Obligations or notes and bonds issued in connection with a Project, premiums, fees and charges for insurance on Obligations or notes and bonds issued in connection with a Project, costs and expenses of refunding Obligations and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

"*Costs of Issuance Account*" means the account so designated, created and established in the Construction Fund pursuant to the Resolution.

"*Counterparty*" means any person with which the Authority has entered into an Interest Rate Exchange Agreement, provided that, at the time the Interest Rate Exchange Agreement is executed, the senior or uncollateralized long–term debt obligations of such person, or of any person that has guaranteed for the term of the Interest Rate Exchange Agreement the obligations of such person thereunder, are rated, without regard to qualification of such rating by symbols such as "+" or "–" or numerical notation, by at least two nationally recognized statistical rating services, not lower than in the third highest rating category.

"*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 Obligations 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 Resolution and with the Series Resolution authorizing such Obligations or a Series Certificate, whether or not the Authority is in default thereunder or the State University is in default under the Agreement.

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

"*Debt Service Fund*" means the fund so designated, created and established pursuant to the Resolution.

"*Defeasance Security*" means any of the following: (a) a Government Obligation of the type described in clauses (i), (ii), (iii) or (iv) of the definition of Government Obligations; (b) a Federal Agency Obligation 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, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least two nationally recognized statistical rating services in the highest rating category; provided, however, that (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.

"*Deferred Income Obligation*" means any Obligation as to which interest accruing thereon prior to the Interest Commencement Date of such Obligation is compounded on each Valuation Date for such Deferred Income Obligation, and as to which interest accruing after the Interest Commencement Date is payable semiannually on July 1 and January 1 of each Bond Year.

"*Education Law* " means the Education Law of the State, constituting Chapter 16 of the Consolidated Laws of the State, as amended from time to time.

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

"*Holder*" "*Holder of Obligations*," or "*Obligationholder*" or any similar term, when used with reference to an Obligation or Obligations, means any person who shall be the registered owner of an Obligation.

"*Interest Commencement Date*" means, with respect to any particular Deferred Income Obligation, the date prior to the maturity date thereof specified in the Series Resolution authorizing such Obligation or a Series Certificate, after which interest accruing on such Obligation shall be payable on the interest payment date immediately succeeding such Interest Commencement Date and semi-annually thereafter on July 1 and January 1 of each Bond Year.

"*Interest Rate Exchange Agreement*" means an agreement entered into by the Authority in connection with the issuance of or which relates to Obligations of one or more Series which provides that during the term of such agreement the Authority is to pay to the Counterparty an amount based on the interest accruing at a fixed or variable rate per annum on an amount equal to a principal amount of such Obligations and that the Counterparty is to pay to the Authority an amount based on the interest accruing on a principal amount equal to the same principal amount of such Obligations at a fixed or variable rate per annum, in each case computed according to a formula set forth in such agreement, or that one shall pay to the other any net amount due under such agreement.

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

"*Liquidity Facility*" means an irrevocable letter of credit, surety bond, loan agreement, Standby Purchase Agreement, line of credit, or other agreement or arrangement issued or extended by 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 domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized under the laws of any state or territory of the United States of America, (viii) a savings and loan association, (ix) an insurance company or association chartered or organized under the laws of any state of the United States of America, (x) the Government National Mortgage Association or any successor thereto, (xi) the Federal National Mortgage Association or any successor thereto, (xii) or any other federal agency or instrumentality approved by the Authority in each case, pursuant to which the Authority is entitled to obtain moneys upon the terms and conditions contained therein for the purchase or redemption of Outstanding Option Obligations tendered for purchase or redemption in accordance with the terms of the Resolution and of the Series Resolution authorizing such Option Obligations or the applicable Series Certificate.

"Local Sponsor" means any county within the State or any other public entity within the State designated by statute as a local sponsor of a Community College.

"*Maximum Interest Rate*" means, with respect to any particular Variable Interest Rate Obligation, a numerical rate of interest, which shall be set forth in the Series Resolution authorizing such Obligation or a Series Certificate, that shall be the maximum rate at which such Obligation may bear interest at any time.

"*Minimum Interest Rate*" means, with respect to any particular Variable Interest Rate Obligation, a numerical rate of interest, if any, set forth in the Series Resolution authorizing such Obligation or a Series Certificate, that shall be the minimum rate at which such Obligation may bear interest at any time.

"*Note*" or "*Notes*" means any of the notes of the Authority authorized and issued pursuant to the Resolution.

"*Obligation*" or "*Obligations*" means any of the Authority's Bonds or Notes.

"*Option Obligation*" means any Obligation which by its terms may be tendered by and at the option of the Holder thereof for redemption by the Authority prior to the stated maturity thereof or for purchase thereof, or the maturity of which may be extended by and at the option of the Holder thereof.

"*Outstanding*" when used in reference to Obligations, means, as of a particular date, all Obligations authenticated and delivered under the Resolution and under any applicable Series Resolution except: (i) any Obligation cancelled by the Trustee at or before such date; (ii) any Obligation deemed to have been paid in accordance with the Resolution; (iii) any Obligation in lieu of or in substitution for which another Obligation shall have been authenticated and delivered pursuant to the Resolution; and (iv) any Option Obligation tendered or deemed tendered in accordance with the provisions of the Series Resolution authorizing such Obligation or the Series Certificate relating to such Obligation on the applicable adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payment as provided in the Resolution and in the Series Resolution authorizing such Obligation or the Series Certificate relating to such Obligation.

"Payment Account" means the account so designated, created and established pursuant to the Agreement.

"Paying Agent" means with respect to the Obligations of any Series, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution or a Series Resolution or a Series Certificate or any other resolution of the Authority adopted prior to authentication and delivery of the Series of Obligations 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, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category; and (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, without regard to qualification by symbols such as "+" or "–" or numerical notation, by Bests Insurance Guide or a nationally recognized statistical rating service in the highest rating category.

"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 of credit, contract, agreement or surety bond issued by it, are rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category, and (b) are fully collateralized by Permitted Collateral; (vi) 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, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category; and (vii) Investment Agreements that are fully collateralized by Permitted Collateral.

"Pledge Fund" means the "community college tuition and instructional income fund" established and maintained pursuant to Section 97-p of the State Finance Law.

"Prior Agreements" means each of the agreements by and among the Authority, the Community Colleges, and their respective Local Sponsor(s) and relating to the Prior Resolutions.

"Prior Resolution" means each of the Authority's (i) Upstate Community Colleges Bond Resolution, adopted by the Authority on January 26, 1994 and amended and restated on March 24, 2004, (ii) Upstate Community Colleges Revenue Bond Resolution (1997 Issue), adopted by the Authority on February 26, 1997 and (iii) Upstate Community Colleges Revenue Bond Resolution, adopted by the Authority on December 4, 2002, in each case and the same has been or may be amended or supplemented.

"*Project*" means all of the Community College facilities in connection with which Obligations have been issued and are Outstanding.

"*Provider*" means the issuer of a Credit Facility or a Liquidity Facility.

"*Provider Default*" means, with respect to a Provider, any of the following: (i) there shall occur a failure of the Provider to make payment under its Credit Facility or Liquidity Facility; (ii) the applicable Credit Facility or Liquidity Facility shall have been declared null and void or unenforceable in a final determination by a court of law; (iii) a proceeding shall have been instituted in a court having jurisdiction seeking a decree or order for relief in respect of an applicable Provider in an involuntary case under the applicable bankruptcy, insolvency or other similar law now or hereafter in effect or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) of an applicable Provider or for any substantial part of its property or for the winding-up or liquidation of its affairs and such proceeding shall remain undismissed or unstayed and in effect for a period of 30 consecutive days or such court shall enter a decree or order granting the relief sought in such proceeding; or (iv) an applicable Provider shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the applicable Provider or for any substantial part of its property, or shall make a general assignment for the benefit of creditors.

"*Provider Payments*" means the amount, certified by a Provider to the Trustee, payable to such Provider on account of amounts advanced by it under a Credit Facility or Liquidity Facility, including interest, if any, due on amounts advanced and fees and charges with respect thereto.

"*Qualified Financial Institution*" means any of the following entities that has an equity capital of at least $125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least $125,000,000: (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service; (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 any state of the United States of America or any foreign nation, whose senior unsecured long term debt is at the time an investment with it is made is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category, or, in the absence of a rating on long term debt., whose short term debt is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service; (iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity, whose senior unsecured long term debt is at the time an investment with it is made is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated, without regard to qualification by symbols such as "+" or "–" or numerical notation, by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service; (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 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., and Standard & Poor's Rating Services, in each case, which has assigned a rating to Outstanding Obligations at the request of the Authority, or their respective successors and assigns.

"*Record Date*" means, unless with respect to Obligations of a Series the applicable Series Resolution or Series Certificate provides otherwise, the fifteenth (15^{th}) day (whether or not a Business Day) of the calendar month next preceding an interest payment date.

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

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

"*Resolution*" means the "Upstate Community Colleges Revenue Bond Resolution, adopted January 26, 2005, as from time to time amended or supplemented by Supplemental Resolutions or Series Resolutions in accordance with the terms and provisions thereof.

"*Revenues*" means all payments made by the State University pursuant to Section 5.02 of the Agreement, the right to receive the same and the proceeds thereof and of such right.

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

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

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

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

"*Series 2005 Resolutions*" means, collectively, the Authority's Upstate Community Colleges Series 2005A Resolution Authorizing Series 2005A Bonds and the Upstate Community Colleges Series 2005B Resolution Authorizing Series 2005B Bonds, each adopted January 26, 2005.

"*Sinking Fund Installment*" means, as of any date of calculation, so long as any Bonds of the Series, Sub-Series and maturity entitled to Sinking Fund Installments are Outstanding, the amount of money required by the Series Resolution pursuant to which such Bonds were issued or by the Series Certificate relating thereto to be paid on a single future date for the retirement of any Outstanding Bonds of said Series which mature after said future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future date is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Option Bonds or Variable Interest Rate Bonds of such Series are deemed to be Bonds entitled to such Sinking Fund Installment; provided, however, that Sinking Fund Installments shall be payable on all Bonds, other than Variable Interest Rate Obligations or Option Obligations, on July 1 or January 1 of any year in which a Sinking Fund Installment is scheduled to be due.

"*Standby Purchase Agreement*" means an agreement by and between the Authority and another person pursuant to which such person is obligated to purchase Option Obligations tendered for purchase.

"*State*" means the State of New York.

"*State's Share*" means the State's one-half share of the Costs of the Project.

"*State University*" or "*University*" means the State University of New York, a corporation created by Chapter 695 of the Laws of 1948 of the State, as amended, and constituting Article 8 of Title 1 of the Education Law of the State of New York, as amended.

"*Sub–Series*" means the grouping of Obligations of a Series established by the Authority pursuant to the Series Resolution authorizing issuance of the Obligations of such Series or the applicable Series Certificate.

"*Supplemental Agreement*" means any agreement amending or supplementing the Agreement or any Supplemental Agreement, executed and becoming effective in accordance with the terms and provisions of the Resolution and of the Agreement.

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

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

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

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

"*Variable Interest Rate*" means a variable interest rate or rates to be borne by a Series of Obligations or any one or more maturities within a Series of Obligations, the method of computing such variable interest rate is specified in the Series Resolution authorizing such Obligations or a Series Certificate and shall be based on (i) a percentage or percentages or other function of an objectively determinable interest rate or rates (e.g., a prime lending rate) or a function of such objectively determinable interest rate or rates which may be in effect from time to time or at a particular time or times; provided, however, that such variable interest rate shall be subject to a Maximum Interest Rate and may be subject to a Minimum interest Rate and that there may he an initial rate specified, in each case as provided in such Series Resolution or a Series Certificate or (ii) a stated interest rate that may he changed from time to time as provided in the Series Resolution authorizing such Obligations or a Series Certificate; and provided that such interest rate shall he subject to a Maximum Interest Rate and may be subject to a Minimum Interest Rate: provided, further, that such Series Resolution or Series Certificate shall also specify either (i) the particular period or periods of' time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (ii) the time or times upon which any change in such variable interest rate shall become effective.

"*Variable Interest Rate Obligation*" means any Obligation which bears a Variable Interest Rate; provided, however, that an Obligation shall not be considered to be a Variable Interest Rate Obligation during any period that it will bear interest at a fixed rate per annum to and including its stated maturity date.

"Verification Agent" means a firm of independent certified public accounts or other firm selected by the Authority that is regularly engaged in verifying the accuracy of the arithmetical computations that establish the adequacy of the deposit of moneys and securities, and the payments of the principal of and interest on such securities, to pay when due the principal of and interest and premium on refunded notes, bonds and other indebtedness.

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APPENDIX B

INFORMATION CONCERNING THE STATE OF NEW YORK

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

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

The AIS set forth in this Appendix B is dated September 19, 2004. It was updated on January 25, 2005 and contains information only through that date. Appendix B sets forth the section of the AIS entitled “Current Fiscal Year”. The remaining sections of the AIS set out under the headings “Prior Fiscal Years”, “Economics and Demographics”, “Debt and Other Financing Activities”, “State Organization”, “Authorities and Localities”, “Litigation”, and “Exhibits” are hereby included by cross reference. The AIS was also filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR). An official copy of the AIS may be obtained by contacting a NRMSIR, or the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705. An informational copy of the AIS is available on the Internet at http://www.budget.state.ny.us.

The General Purpose Financial Statements of the State of New York for the State fiscal year ended March 31, 2004 were prepared by the State Comptroller in accordance with generally accepted accounting principles and independently audited in accordance with generally accepted auditing standards. The General Purpose Financial Statements were issued on July 29, 2004 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 General Purpose Financial Statements of the State for the State fiscal year ended March 31, 2004 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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Update to Annual Information Statement (AIS) State of New York

January 25, 2005

This quarterly update (the "Update") to the AIS of the State of New York is dated January 25, 2005 and contains information only through that date. It is the second quarterly update to the AIS of the State of New York dated September 19, 2004. The first update to the AIS was issued on November 16, 2004. This Update is organized in three parts.

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

1. Extracts from the Financial Plan Overview contained in the Financial Plan of the Governor's Executive Budget for 2005-06 presented to the Legislature on January 18, 2005. The Financial Plan Overview includes updated Financial Plan projections for State fiscal years 2004-05 through 2007-08 and detailed narrative descriptions of the receipts and disbursements estimates for the State's governmental funds.

2. A discussion of special considerations affecting the State Financial Plan.

3. Information on the proposed Five-Year Capital Program and Financing Plan, which is also contained in the Financial Plan of the Governor's Executive Budget for 2005-06.

   The entire 2005-06 Financial Plan, including the economic forecast for calendar years 2004 and 2005, detailed forecasts for State receipts, and the proposed Capital Program and Financing Plan for the 2004-05 through 2008-09 fiscal years, is available on the Division of the Budget's website, www.budget.state.ny.us.

Part II updates information regarding the State Retirement System.

Part III updates the status of certain litigation against the State. Information relating to litigation in this part is furnished by the State Office of the Attorney General.

The State has filed this Update with the Central Post Office, Disclosure USA. The Municipal Advisory Council of Texas (Texas MAC) has established this internet-based disclosure filing system approved by the Securities and Exchange Commission to facilitate the transmission of disclosure-related information to the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs). An official copy of this Update may be obtained from the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705 or from any NRMSIR. The State's Basic Financial Statements for the 2003-04 fiscal year were issued in July 2004 may be obtained from the Office of the State Comptroller, 110 State Street, Albany, NY 12236.

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PART I

2005-06 Financial Plan Overview

Note*: DOB issued the Financial Plan Overview set forth below on January 18, 2005. It contains estimates and projections of future results that should not be construed as statements of fact. These estimates and projections are based upon various assumptions that may be affected by numerous factors, including future economic conditions in the State and nation and potential litigation. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained therein.*

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

The State also reports spending and revenue activity by two other broad measures: State Funds, which includes the General Fund and funds specified for dedicated purposes, but excludes Federal Funds; and All Governmental Funds, which includes both State and Federal Funds and provides the most comprehensive view of the financial operations of the State.

Fund types of the State include: the General Fund; State special revenue funds (SRFs), which receive certain dedicated taxes, fees and other revenues that are used for a specified purpose; Federal SRFs, which receive Federal grants; State and Federal Capital Projects Funds, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and Debt

Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

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EXECUTIVE SUMMARY

OVERVIEW

New York emerged from the national recession in September 2003, marking an important milestone in the State's recovery from the impact of September 11th. The State economy is experiencing sustained growth, and generating tax collections above the levels forecast by DOB in its most recent update to the 2004-05 Financial Plan issued November 1, 2004 (the "Mid-Year Update"). DOB now projects underlying annual receipts growth of 10.2 percent in 2004-05 and 6.5 percent in 2005-06, based on actual results to date and a revised economic forecast.

The improvement in tax collections, in combination with savings from the statewide Fiscal Management Plan (FMP), is expected to permit the State to end the 2004-05 fiscal year with a $170 million cash surplus in the General Fund and make the maximum possible contribution ($70 million) to the Rainy Day Fund[1], bringing the balance to $864 million, equal to its statutory cap of 2 percent of General Fund spending.

The revised revenue and spending projections also reduce the projected budget gaps to $4.2 billion in 2005-06 and $5.8 billion in 2006-07, at the lower end of the forecast range in the Mid-Year Update, as described in detail later in this overview.

Revisions to Mid-Year Budget Gap Projections (millions of dollars)		
	2005-06	2006-07
Mid-Year Budget Gaps	**(5,995)**	**(7,708)**
Revenue Revisions	1,456	1,177
Spending Revisions	387	687
Revised Budget Gaps	**(4,152)**	**(5,844)**

The 2005-06 Executive Budget recommends closing the $4.2 billion gap primarily through permanent spending restraint, supplemented with limited levels of revenue enhancements and nonrecurring resources. DOB projects that the recommendations would produce net recurring savings of roughly $3 billion annually, reducing the 2006-07 and 2007-08 budget gaps to about $2.7 billion.

2005-06 Executive Budget Recommended Actions (millions of dollars)			
	2005-06	2006-07	2007-08
Revised Budget Gaps	**(4,152)**	**(5,844)**	**(5,571)**
Total Recommendations	**4,152**	**3,143**	**2,786**
Spending Actions (net of adds)	2,763	2,513	2,025
Revenue Actions (net of tax cuts)	533	724	791
Nonrecurring Resources	856	(94)	(30)
Remaining Budget Gaps	**0**	**(2,701)**	**(2,785)**

[1] Also known as the Tax Stabilization Reserve Fund.

The most significant recommendations include:

- $2.8 billion in net initiatives to restrain spending. This reflects $3.1 billion in cost containment in high-growth programs, especially Medicaid, pensions, and debt service, and maximizes Federal aid and efficiencies in State Operations spending. These savings initiatives allow targeted new investments of $313 million, including increased State funding to cap the growth in local Medicaid costs and increased aid and incentives for municipalities.
- $533 million in net revenue actions. This reflects $779 million of increased resources including a sales tax exemption on clothing purchases under $250 that will run for two weeks (rather than reverting to a permanent exemption for purchases under $110), and elimination of tax loopholes to promote tax equity. The recommendations include new tax cuts of $246 million to accelerate the phase-out of the temporary 2003 personal income tax (PIT) surcharge, and provide targeted tax cuts intended to promote economic growth.
- $856 million of nonrecurring actions, including commencing the recent discretionary funding changes for the State and Local Retirement System only after independent review and public comment ($321 million)[2], use of the 2004-05 surplus ($170 million), asset sales ($54 million), and fund sweeps.

The Executive Budget recommendations hold annual spending growth in the General Fund and All Governmental Funds (hereafter "All Funds") to below the rate of inflation.

Total Disbursements (millions of dollars)

				Unadjusted		Adjusted (1)	
	2004-05 Revised	2004-05 Adjusted	2005-06 Proposed	Annual Change	Percent Change	Annual Change	Percent Change
General Fund	43,407	43,915	45,075	1,668	3.8%	1,160	2.6%
State Funds	64,137	65,570	69,088	4,951	7.7%	3,518	5.4%
All Funds	101,607	103,040	105,527	3,920	3.9%	2,487	2.4%

(1) To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted for the inclusion of all HCRA funded programs on-budget and additional Medicaid spending to comply with Federal policy changes related to certain county shares adjustments. The 2004-05 adjustment for HCRA is $925 million in State Funds and All Funds; Medicaid is $508 million in the General Fund, State Funds and All Funds.

In response to the Campaign for Fiscal Equity (CFE) litigation concerning the State's system for financing public schools, the 2005-06 Budget recommends a $526 million school aid increase for the 2005-06 school year comprised of $201 million in traditional school aid and $325 million in a new Sound Basic Education (SBE) Aid Program. Funding for statewide SBE grants to school districts is projected to grow to over $2 billion annually by 2009-10, financed with revenues generated from existing and future video lottery terminals (VLTs). New York City would receive approximately 60 percent of the annual SBE aid.

The 2005-06 budget advances several new initiatives intended to help localities reduce local property taxes, including:

- Capping annual growth in local Medicaid costs up to 2005 spending levels, adjusted by 3.5 percent in 2005-06, 3.25 percent in 2006-07, and 3 percent in 2007-08, with the State paying for all costs above this level. The local cap will convert to a full takeover of local costs effective January 1, 2008. The plan is projected to generate over $2 billion in local government savings over the next three years and will provide greater predictability to local government budgets.

[2] See "Special Considerations" later in this AIS Update for a discussion of the Comptroller's role in approving this proposal.

- Accelerating the State takeover of Family Health Plus (FHP) costs from local governments, bringing the value of the takeover to $312 million in 2005-06, growing to $576 million in 2006-07.
- Providing increased aid and incentives to municipalities of $55 million in 2005-06, growing to $109 million in 2006-07, bringing annual funding to $671 million.
- New funding structures for family services in welfare and for the General Public Health Works program that are intended to enhance local discretion in efficiently targeting resources by eliminating State-level spending mandates.

DOB projects that the State will end 2005-06 in balance on a cash basis in the General Fund if the 2005-06 Executive Budget recommendations are enacted in their entirety. However, in any year, the Financial Plan is subject to risks that, if they were to materialize, could adversely or positively affect operating results. A full discussion of risks to the State Financial Plan appears in the section entitled "Reserves and Risks" later in this Overview.

SIZE OF THE 2005-06 BUDGET

General Fund spending is projected to total $45.1 billion in 2005-06, an increase of $1.2 billion (2.6 percent) over the adjusted current year forecast. State Funds spending, which includes both the General Fund and spending from other funds supported by State revenues, is projected to increase by $3.5 billion (5.4 percent) and total $69.1 billion in 2005-06. All Funds spending, the broadest measure of State spending, is projected to total $105.5 billion in 2005-06, an increase of $2.5 billion (2.4 percent).

The 2005-06 Financial Plan includes the roughly 25 percent of spending financed through the Health Care Reform Act (HCRA) that is currently "off budget" (i.e., outside the Financial Plan). The change does not affect the General Fund, since all HCRA spending is budgeted in State Special Revenue Funds (SRFs), but does increase both State Funds and All Funds totals in 2005-06. In addition, new General Fund Medicaid spending to comply with Federal policy changes related to county shares adjustments is reflected in 2005-06 projections but not in 2004-05 results. To provide a comparable basis for calculating annual growth, the 2004-05 estimates in this Overview are presented on both an "adjusted" (i.e., including the additional HCRA and Medicaid spending in 2004-05 to provide a comparable basis of comparison) and an "unadjusted" basis. The 2004-05 adjustment for HCRA is $925 million; the Medicaid adjustment is $508 million.

The major sources of annual spending from 2004-05 to 2005-06 are presented in the table below, and are explained in more detail later in this Overview. The estimates assume the Executive Budget recommendations are approved in their entirety.

Disbursement Projections -- After Recommended Savings Major Sources of Annual Change (millions of dollars)	General Fund	State Funds	All Funds
2004-05 Revised Estimate	**43,407**	**64,137**	**101,607**
All HCRA On-budget	0	925	925
Discontinue County Shares Adjustment	508	508	508
2004-05 Adjusted Estimate	**43,915**	**65,570**	**103,040**
Local Assistance:			
Medicaid	(6)	1,278	1,034
School Aid	321	458	668
Social Services	97	88	263
Public Health	53	68	104
Transportation	(10)	188	188
STAR	0	130	130
Elections	0	0	118
Homeland Security	0	0	96
Higher Education	65	75	75
All Other Education Aid	(6)	(6)	64
Empire State Development Corp.	52	52	52
World Trade Center	0	0	(1,557)
Community Projects Fund/CSPAP	(77)	(102)	(102)
All Other Local Aid	(35)	(58)	123
State Operations	**448**	**756**	**569**
General State Charges	**224**	**298**	**320**
Debt Service	**(66)**	**34**	**34**
Capital Projects	**21**	**259**	**308**
All Other	**79**	**0**	**0**
2005-06 Executive Budget Estimate	**45,075**	**69,088**	**105,527**
Dollar Change	*1,160*	*3,518*	*2,487*
Percent Change	*2.6%*	*5.4%*	*2.4%*

2005-06 GAP-CLOSING SUMMARY

Sources of the 2005-06 gap

DOB projects General Fund budget gaps of $4.2 billion in 2005-06 and $5 billion to $6 billion in 2006-07 and 2007-08, before the savings that are projected to be achieved by the 2005-06 Executive Budget recommendations. In summary, the 2005-06 gap results from anticipated spending increases to support current service levels and the loss of nonrecurring resources used to help balance the budget in 2004-05, which together exceed annual growth in underlying revenues of $3.1 billion (6.5 percent). The following chart provides a "zero-based" look at the sources of the 2005-06 gap. It is followed by a brief summary of the assumptions behind the projections. For a detailed explanation of the specific assumptions supporting the revenue and spending projections, see the sections entitled "2005-06 Financial Plan" and "General Fund Financial Plan Outyear Projections" later in this Overview, and "Explanation of Receipt Estimates" contained in the volume entitled "2005-06 New York State Executive Budget Financial Plan" available on the DOB website or by contacting DOB.

2005-06 Causes of Budget Gaps -- Before 2005-06 Recommended Savings (millions of dollars)		
Total Annual Revenue Growth		**197**
Underlying Growth (6.5 Percent)	3,127	
Loss of One-time Actions	(1,182)	
PIT/Sales Tax Temporary Surcharge Phase-out/Clothing Exemption	(1,080)	
Final Use of Tobacco Proceeds	(400)	
STAR Fund Transfer	(150)	
Transfer for Higher Debt Service Costs (RBTF)	(138)	
All Other Revenue Changes	20	
Total Annual Spending Growth		**(4,349)**
Loss of One-time Actions	(683)	
Medicaid	(1,069)	
State Takeover of FHP	(282)	
Loss of Enhanced Federal Medicaid Match Rate (Reverts to 50%)	(220)	
School Aid	(360)	
Welfare	(251)	
Pension/Health Insurance Costs	(650)	
Collective Bargaining Costs (including fringe benefits)	(387)	
All Other Spending Growth	(447)	
Total Projected 2005-06 Budget Gap		**(4,152)**

Based on the revised DOB forecast that predicts a sustained economic recovery in 2005 (described later in this Overview), underlying revenues are expected to grow by $3.1 billion in 2005-06, or 6.5 percent, following projected growth of 10.2 percent in 2004-05. However, this growth is nearly entirely absorbed by the loss of one-time and nonrecurring revenues ($1.6 billion, including tobacco securitization proceeds), the phase-out of both the personal income tax (PIT) surcharge ($149 million) and one-quarter percent increase in sales tax enacted in 2003 ($452 million), the reversion to a permanent sales tax exemption on clothing purchases under $110 ($479 million), and increasing costs for debt service and the School Tax Relief (STAR) Program ($288 million).

Prior to any Executive Budget proposals, General Fund disbursements are projected to increase by $4.3 billion in 2005-06. The main factors driving growth include (a) the loss of one-time and nonrecurring resources ($903 million, including FMAP[3]), and (b) higher spending to maintain current service levels in Medicaid, school aid, and other programs ($2.1 billion), finance collective bargaining, pensions, and health insurance costs ($1.0 billion), and pay for the continued State takeover of local Family Health Plus costs ($282 million).

A full description of the one-time actions budgeted in 2004-05 appears in both the 2004-05 Enacted Budget Report for the State of New York and the 2004-05 Annual Information Statement of the State of New York.

2005-06 Gap-Closing Plan

The 2005-06 Financial Plan is balanced on a cash basis in the General Fund, with recommendations projected to close a $4.2 billion General Fund budget gap. Recurring actions are valued at roughly $3.1 billion in 2006-07 and $2.8 billion in 2007-08, leaving projected gaps of $2.7 billion in 2006-07 and $2.8 billion in 2007-08. The table below summarizes the 2005-06 gap-closing plan.

[3] Federal Medical Assistance Percentage. It refers to the matching rate the Federal government pays for eligible State Medicaid expenditures. New York's FMAP is 50 percent.

2005-06 Executive Budget General Fund Gap Closing Actions (millions of dollars)	2005-06	2006-07	2007-08
Initial Budget Gaps	**(4,152)**	**(5,844)**	**(5,571)**
Spending Actions	**3,076**	**3,483**	**3,761**
Medicaid - Cost Containment	869	1,461	1,521
Medicaid - Provider Assesments	234	470	470
Medicaid - Other Financing Sources	795	203	351
Mental Hygiene	250	164	135
Transportation/Motor Vehicles	163	171	178
Debt Management	150	100	100
SUNY and CUNY	137	159	159
Restructure Tuition Assistance Program	135	265	337
State Operations Efficiencies (other than listed separately)	130	136	132
Social Services	104	153	156
All Other Spending Actions	109	201	222
Recommended Adds	**(313)**	**(970)**	**(1,736)**
Cap/Takeover Local MA Costs (State Costs/Local Savings)	(121)	(631)	(1,257)
Other Local Medicaid Relief	(45)	(10)	0
Aid and Incentives for Municipalities	(55)	(109)	(109)
County STAR	0	(67)	(146)
All Other Adds	(92)	(153)	(224)
Revenue Actions	**779**	**1,027**	**995**
Two Week Clothing Exemption at $250	456	584	605
Power Authority PILOT Payments	75	100	100
Corporation Franchise Taxes	51	101	51
Close "Thrift" Loophole on REIT (Same as Feds/NYC)	50	50	50
Eliminate Quick Draw Restrictions	39	57	57
Increase Wine Tax	38	44	45
All Other Revenue	70	91	87
Tax Cuts	**(246)**	**(303)**	**(204)**
PIT Top Tax Rate Decrease	(190)	(130)	0
Corp Franchise Tax Cuts (SPUR; Green buildings)	(30)	(48)	(49)
STAR Plus	(12)	(62)	(119)
Extend Power for Jobs credit	0	(25)	0
All Other Tax Cuts	(14)	(38)	(36)
One-Time Resources	**856**	**(94)**	**(30)**
Pensions (Delay Actuarial Funding Changes)	321	(96)	(25)
Use 2004-05 Surplus	170	0	0
Fund Sweeps	124	0	0
TANF Reprogramming	61	0	0
Proceeds from Sale of Property	54	(8)	(8)
Mortgage Insurance Fund (Excess Balances)	50	0	0
Federal Medicaid Participation for Aliens	42	0	0
All Other One-Timers	34	10	3
Total Recommendations	**4,152**	**3,143**	**2,786**
Proposed Budget Gaps	**0**	**(2,701)**	**(2,785)**

Spending Actions

Recommendations to restrain spending in the General Fund total $3.1 billion. They include a combination of cost containment, program restructuring, and the use of alternate funding sources. Highlights are summarized below, with specific details provided later in this Overview:

- Medicaid: Includes actions to restrain growth for nursing homes ($182 million), Family Health Plus ($227 million), hospitals ($201 million), prescription drug prices ($80 million), and managed care programs ($48 million); lower the cost of optional services; reimpose an assessment on hospital revenues; and increase an existing reimbursable nursing home revenue assessment to support health care programs.
- Mental Hygiene: Includes initiatives to increase Patient Income Account (PIA) and other revenues ($196 million) and cost containment actions, including audit recoveries, overtime controls, and local program reductions ($54 million);
- Transportation/Motor Vehicle Operations: Expands the use of non-General Fund resources to help support ongoing operations ($163 million);
- Debt Management: Continued use of swaps, refundings, and variable rate debt is projected to reduce the growth in debt service ($150 million);
- State University of New York (SUNY)/City University of New York (CUNY): Reduced State support for operations ($137 million) is coupled with flexibility for the universities to increase tuition revenues;
- Tuition Assistance Program (TAP): Award restructuring would provide prospective students with incentives for timely completion of studies ($135 million);
- State Operations: Reductions are projected to total roughly $230 million, of which $100 million is accounted for in the itemized listing of agencies that appears on the table above. The remaining $130 million of savings are spread across multiple agencies and are achieved through the continuation of the hiring freeze, expansion of operational hosting (in which one agency provides administrative functions for multiple agencies to improve efficiency), controls in non-personal service spending and centralized purchasing of certain commodities and services;
- Social Services: Maximizes the use of Federal resources ($49 million), imposes benefit and reimbursement penalties for non-compliance with work requirements ($24 million), TANF welfare spending realignment (net of OCFS) ($24 million), and redirection of funding for institutional-based programs ($7 million); and
- All other spending actions include lower funding for certain programs operated by the Empire State Development Corporation, reduced interest payments for Court of Claims settlements, elimination of supplemental financial aid under the opportunity program (in education), and alternate financing for certain environmental protection capital projects.

Revenue Actions

General Fund Revenue enhancements are expected to raise $779 million in 2005-06. Significant proposals include:

- Authorizing two sales-tax free weeks on clothing and footwear purchases under $250, instead of reverting to a permanent $110 exemption ($456 million);
- Eliminating double benefits for certain taxpayers, changing outdated provisions to promote fairness and updating caps on corporate taxes to reflect changes in inflation ($51 million); and
- Increasing the excise tax on wine from 5 cents per liter to 28 cents per liter, a level comparable with other states ($38 million).

Other tax and fee increases include new penalties for vehicle owners caught speeding, by automated cameras, in work zones and on dangerous stretches of highway; higher filing fees for limited liability partnerships; modification of certain operating restrictions for the Quick Draw lottery game; and higher fees to register all terrain vehicles.

One-Time Resources

The 2005-06 Financial Plan includes $856 million in one-time actions to support General Fund spending. The proposals, the majority of which do not result in new costs in later fiscal years, include:

- Seeking the Comptroller's approval to make discretionary funding revisions only after independent review and public comment, which would reduce annual pension costs for State and local governments in 2005-06 ($321 million);
- Using the 2004-05 surplus ($170 million);
- Using available resources from Federal Temporary Assistance for Needy Families (TANF) block grants to finance a portion of the Earned Income Tax Credit (EITC) and other programs that would otherwise be paid for in the General Fund ($61 million); and
- Routine sweeps of fund balances, increasing Federal aid, and projected asset sales account for the balance of the nonrecurring actions.

Recommended Adds

The combined total of spending, revenue, and nonrecurring actions described above is expected to be sufficient to provide funding for new investments, including tax reductions intended to improve the State's economic competitiveness, and enhanced State aid for local governments to help control the growth in local property taxes. Significant proposals include:

Spending Initiatives

The recommendations include over $300 million in new General Fund spending initiatives in 2005-06, including:

- A State cap on the growth in local Medicaid costs effective January 1, 2006 leading to a full takeover of local Medicaid costs beginning January 1, 2008 ($121 million in 2005-06 growing to $1.3 billion by 2007-08);
- Acceleration of the full State takeover of the Family Health Plus program, the cost of which is currently shared with counties ($25 million), with a full annual value for takeover of $576 million in 2006-07;
- Additional local aid related to Medicaid costs ($20 million in 2005-06 and $10 million in 2006-07);
- Enhanced aid for distressed municipalities and planning grants to improve local management ($55 million in 2005-06, growing to $109 million by 2006-07);
- A county tax rebate program for taxpayers who live in counties that hold the growth in their general fund budgets at or below the proposed Medicaid spending cap ($67 million - begins in 2006-07);
- A $10 million expansion of the Expanded In-Home Services for the Elderly Program (EISEP) in 2005-06, growing to $25 million in 2006-07, which will double the size of the current program funding;
- New spending for mental health clinics and programs ($8 million);
- More resources for Operation IMPACT, which directs State Police manpower and other State criminal justice resources to high-crime areas around the State ($5 million); and

- Other spending initiatives, including new capital spending for health care facilities under the Health Care System Improvement Capital Grant Program, debt service costs related to new capital projects primarily to promote economic development, and a new program to provide employment services to unemployed and under-employed non-custodial parents.

Tax Cuts

The recommendations include nearly $250 million in new, targeted tax cuts, including:

- Acceleration of the phase-out of the 2003 temporary tax increases ($190 million) by dropping temporary rates more rapidly in 2005;
- Tax credits to encourage economic development, including a targeted wage credit ($30 million);
- STAR Plus, which provides an income tax credit that increases the annual STAR benefit by the rate of inflation in school districts that comply with the school spending cap ($12 million growing to $119 million in 2007-08); and
- Expansion of the Earned Income Tax Credit (EITC) to encourage non-custodial parents to provide financial assistance to their children ($4 million growing to $22 million in 2007-08).

ECONOMIC FORECAST SUMMARY

The DOB economic forecast and the State's tax and fee structure serve as the basis for projecting receipts. After consulting with public and private sector experts, DOB prepares a detailed economic forecast for both the nation and New York, including Gross Domestic Product (GDP), employment levels, inflation, wages, consumer spending, and other relevant economic indicators. DOB then projects the yield of the State's revenue structure against the backdrop of these forecasts.

DOB's economic forecast is described at length in "Explanation of Receipts Estimates — Economic Backdrop," in the volume entitled "2005-06 New York State Executive Budget Financial Plan" available on the DOB website or by contacting DOB. The following is a brief summary of the major points.

U.S. ECONOMY

Following almost two years of growth well above the economy's long-term trend rate, the nation is entering the fourth year of economic expansion. The economy added an average of 185,000 jobs per month in 2004, almost returning total payroll employment to its pre-recession level. Despite lackluster growth in both employment and wages, the bedrock of the nation's economic recovery has to this point been household spending, fueled by two rounds of tax cuts and very low interest rates. However, those supports will begin to diminish as we enter 2005, bringing economic growth closer to its estimated long-term trend rate. DOB is projecting growth in real U.S. GDP to decelerate from 4.4 percent for 2004 to 3.4 percent for the current year.

DOB projects steady trend growth throughout the forecast period, permitting the Federal Reserve to maintain its "measured" course of interest rate increases. Recent data indicates that employment growth may finally be rebounding to rates that are more typical of a maturing expansion. Total nonagricultural employment is projected to grow 1.8 percent in 2005, following an increase of 1.0 percent in 2004. The U.S. unemployment rate is expected to decline to 5.3 percent in 2005, from 5.5 percent in 2004. The inflation rate, measured by the Consumer Price Index (CPI), is forecast to be 2.5 percent in 2005, following a similar rate in 2004.

THE NEW YORK STATE ECONOMY

Recent above-trend national growth rates have helped to buttress the New York State economy as well. The State is estimated to have emerged from recession in the summer of 2003. The New York City economy is well on its way to a full recovery from the impact of the September 11th attack, reversing several years where the City's job base was in decline. The continued strengthening of the State economy will help to sustain the housing market, although not at the torrid pace of growth observed in 2004. Moreover, with the pickup in equity market activity toward the end of 2004, the profit outlook for the finance industry is brightening, though the level of profits for the year is not expected to match that of 2003. Bonus growth is expected to slow to 15 percent resulting in total New York wage growth of 4.9 percent for 2005, reduced modestly from 5.7 percent in 2004. State nonagricultural employment is projected to rise 1.1 percent in 2005, a significant improvement compared with 0.4 percent growth for 2004, but below projected growth of 1.8 percent for the nation.

2004-05 FINANCIAL PLAN UPDATE

DOB projects the State will end the 2004-05 fiscal year with a cash-basis surplus of $170 million in the General Fund, after making the maximum annual contribution of $70 million to the State's Rainy Day Fund. As described below, the projected surplus results primarily from recent positive revenue experience, which is driving projected underlying revenue growth of 10.2 percent in 2004-05.

General Fund receipts, including transfers from other funds, are now projected at $43.5 billion. DOB has revised the revenue estimate upward based on revenue collections to date and the strength of key economic indicators, both of which have exceeded expectations. Consistent with the experience in prior State economic expansions, personal income tax collections have shown robust growth, which DOB believes is due mainly to increases in non-wage income. Real estate related tax collections have also exceeded planned levels, reflecting strength in home sales and mortgage refinancings.

General Fund spending is expected to total $43.4 billion in 2004-05. A delay in the expected receipt of $200 million in Empire conversion proceeds[4] that was budgeted to reduce General Fund Medicaid spending and cost overruns in correctional services account for most of the increase. Financial Management Plan savings and lower than expected claims from counties under the General Public Health Works program partially offset these costs. The revisions are based on a review of actual operating results through December 2005, and an updated analysis of economic, revenue, and spending trends.

[4] See "Reserves and Risks" later in this Financial Plan Overview for a discussion of the conversion of not-for-profit health care entities to for-profit companies.

2004-05 General Fund Changes from Enacted Budget (millions of dollars)	Mid-Year Revisions	January Revisions	Total
Enacted Budget (Before FMP)	**(434)**		**(434)**
Revenues	**359**	**671**	**1,030**
New Costs	**(215)**	**(302)**	**(517)**
Delayed Empire Conversion Proceeds	0	(200)	(200)
Medicaid	(90)	(16)	(106)
DOCS	(75)	(45)	(120)
Lottery	(55)	(13)	(68)
General State Charges	0	(45)	(45)
Collective Bargaining	(43)		(43)
Health	0	55	55
All Other Changes	48	(38)	10
Fiscal Management Plan Savings	**290**	**(129)**	**161**
Use 2004-05 Surplus in 2005-06	**0**	**(170)**	**(170)**
Deposit to Rainy Day Fund	**0**	**(70)**	**(70)**
Revised Estimate	**0**	**0**	**0**

Based on actual results to date, State Funds spending is now projected to total $64.1 billion in the current year, a decrease of $136 million from the Mid-Year Update. Lower spending for the “wireless” emergency 911 capital project ($50 million), maximization of Patient Income Account revenues ($50 million), and the timing of other capital projects ($46 million) account for the majority of the decrease.

All Funds spending in 2004-05 is now projected to total $101.6 billion, an increase of $316 million from the Mid-Year Update. Federal aid for K-12 education programs, including special education, is expected to exceed the Mid-Year estimate ($600 million), but is partially offset by the State Funds spending reductions described above.

DOB projects the State will end the 2004-05 fiscal year with a balance of $1.2 billion in the General Fund. The balance consists of $864 million in the Rainy Day Fund, $301 million in the Community Projects Fund, and $21 million in the CRF.

The closing balance excludes $693 million projected to be on deposit in the tax refund reserve account at the end of 2004-05. The tax refund reserve account is used to reserve money for the payment of tax refunds that are owed as part of the 2004 tax year, but are not processed until early in the subsequent fiscal year, as well as to accomplish other Financial Plan objectives. The projected balance includes amounts for the payment of tax refunds and $170 million from the 2004-05 estimated surplus, which the Governor recommends using to help balance the 2005-06 Financial Plan, as described earlier in this Overview.

2005-06 FINANCIAL PLAN

INTRODUCTION

The State’s Financial Plan projections consist of separate receipts and spending forecasts. The receipts forecast for the State’s principal taxes, miscellaneous receipts, and transfers from other funds is described first, followed by the spending projections that summarize the annual growth in current services spending and impact of recommended actions for the State’s major functions (e.g., Medicaid, school aid).

The 2005-06 Financial Plan projections are presented on an All Funds basis, which encompasses activity in both State Funds and Federal Funds, thus providing the most comprehensive view of the financial operations of the State. [State Funds includes the General Fund, which is the principal operating fund of the State, and other State-supported funds including State SRFs, Capital Projects Funds (CPFs) and Debt Service Funds (DSFs)].

2005-06 RECEIPTS FORECAST

Total Receipts (millions of dollars)

	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	43,516	45,091	1,575	3.6%
State Funds	63,593	68,871	5,278	8.3%
All Funds	101,129	105,520	4,391	4.3%

All Funds receipts are projected to total $105.5 billion, an increase of $4.4 billion (4.3 percent) over 2004-05 projections. The total comprises tax receipts ($50.7 billion), Federal grants ($36.6 billion) and miscellaneous receipts ($18.3 billion). The following table summarizes the receipts projections for 2004-05 and 2005-06.

2005-06 Executive Budget Receipts Projections (millions of dollars)	2004-05 Revised	Percent Share	2005-06 Projected	Percent Share	Percent Change
ALL FUNDS RECEIPTS					
Taxes	48,078	47.5%	50,657	48.0%	5.4%
Federal Grants	37,420	37.0%	36,560	34.6%	-2.3%
Miscellaneous Receipts	15,631	15.5%	18,303	17.3%	17.1%
Total All Funds Receipts	**101,129**		**105,520**		**4.3%**
STATE FUNDS RECEIPTS					
Personal Income Tax	28,138	44.2%	29,616	43.0%	5.3%
Net Change in Refund Reserve	531	0.8%	134	0.2%	-74.8%
User Taxes and Fees	13,003	20.4%	13,638	19.8%	4.9%
Business Taxes	5,473	8.6%	5,886	8.5%	7.5%
Other Taxes	1,464	2.3%	1,517	2.2%	3.6%
Total Taxes	**48,078**	**75.6%**	**50,657**	**73.6%**	**5.4%**
Total Taxes Adjusted (1)	**47,547**	**74.8%**	**50,523**	**73.4%**	**6.3%**
Miscellaneous Receipts & Federal Grants	**15,515**	**24.4%**	**18,214**	**26.4%**	**17.4%**
Lottery	2,074	3.3%	2,321	3.4%	11.9%
Other	13,441	21.1%	15,893	23.1%	18.2%
Total State Funds Receipts	**63,593**		**68,871**		**8.3%**
GENERAL FUND RECEIPTS					
Personal Income Tax	18,932	43.5%	19,844	44.0%	4.8%
User Taxes and Fees	8,752	20.1%	8,622	19.1%	-1.5%
Business Taxes	3,764	8.6%	4,066	9.0%	8.0%
Other Taxes	730	1.7%	778	1.7%	6.6%
Total Taxes	**32,178**	**73.9%**	**33,310**	**73.9%**	**3.5%**
Miscellaneous Receipts & Federal Grants	2,301	5.3%	2,455	5.4%	6.7%
Transfers	9,037	20.8%	9,326	20.7%	3.2%
Total General Fund Receipts	**43,516**		**45,091**		**3.6%**
GENERAL FUND TAXES					
Personal Income Tax	**18,932**	**58.8%**	**19,844**	**59.6%**	**4.8%**
Gross - Refunds	27,607	85.8%	29,482	-	6.8%
Net Change in Refund Reserve	531	1.7%	134	-	-74.8%
STAR	(3,072)	-9.5%	(3,202)	-	4.2%
RBTF	(6,134)	-19.1%	(6,570)	-	7.1%
User taxes and fees	**8,752**	**27.2%**	**8,622**	**25.9%**	**-1.5%**
Sales Tax	8,097	25.2%	7,951	23.9%	-1.8%
Other User Taxes and Fees	655	2.0%	671	2.0%	2.4%
Business Taxes	3,764	11.7%	4,066	12.2%	8.0%
Other Taxes	730	2.3%	778	2.3%	6.6%
Total General Fund Taxes	**32,178**	**100.0%**	**33,310**	**100.0%**	**3.5%**
Total General Fund Taxes Adjusted (2)	**31,647**		**33,176**		**4.8%**

1 Nets out impact of refund reserve.
2 Nets out impact of refund reserve, STAR and the RBTF on the personal income tax.

Tax Receipts

All Funds tax receipts are projected to be almost $51 billion in 2005-06, an increase of $2.6 billion (5.4 percent) from 2004-05. The increase is attributable to continued economic growth combined with the net impact of tax and other revenue actions proposed with this Budget. For an in-depth description of the sources and the factors affecting receipts growth for each tax and other revenue sources, see “Explanation of Receipt Estimates” in the volume entitled “2005-06 New York State Executive Budget Financial Plan” available on the DOB website or by contacting DOB.

Personal Income Tax

All Funds PIT net receipts for 2005-06 are projected to reach $29.6 billion, an increase of $1.5 billion (5.3 percent) from 2004-05 due largely to an increase in underlying liability growth associated with improved economic conditions and the temporary three-year tax increase enacted in 2003. Excluding the Refund Reserve transaction, All Funds income tax receipts are projected to increase by 6.8 percent over 2004-05.

PIT General Fund receipts for 2005-06 (excluding the Refund Reserve transaction) are projected to reach $19.7 billion, an increase of $1.3 billion from 2004-05 offset by increased STAR deposits of $130 million. The 2005-06 estimate reflects the accelerated phase-out of the temporary tax surcharge and other tax actions.

User Taxes and Fees

All Funds user taxes and fees net receipts for 2005-06 are projected to reach $13.6 billion, an increase of $636 million (4.9 percent) from 2004-05. The sales and use tax is projected to reach $11.0 billion, an increase $27 million or 0.2 percent from 2004-05. The sales tax base is expected to increase by 5.8 percent due largely to increases in employment, income and overall consumption. The increased revenue from the expanding base will be augmented by the gain from eliminating the exemption for clothing and footwear costing less than $110 and replacing it with an exemption for two specified tax-free weeks for clothing and footwear costing less than $250 and a minor increase from the proposal to allow direct shipments of wine into New York. These gains will be largely offset by the loss of the temporary one-quarter percent sales tax surcharge and by providing a new exemption for specified “Energy Star” products.

The other user taxes and fees in this category are projected to increase $609 million (30.6 percent) from 2004-05. This change is also comprised of offsetting factors. First, the cigarette tax that is dedicated to HCRA and was formerly deposited directly into health related off budget accounts has been included as a special revenue fund and accounts for $561 million of the increase. This amount is offset by the normal decline in revenue due to the average annual decline in consumption. Second, motor vehicle fees would have declined due to the loss of revenue from the move to eight-year licenses in 2000. However, the Executive Budget recommends significant increases in several categories of fees which, while only effective for part of the 2005-06 fiscal year, will keep motor vehicle receipts roughly constant. Finally, revenue in this category is enhanced by the proposals to increase the excise tax on wine and to allow the direct shipment of wine to New York customers.

General Fund user taxes and fees receipts for 2005-06 are projected to reach $8.6 billion, a decrease of $130 million (1.5 percent) from 2004-05. The sales and use tax is projected to decrease by $146 million (1.8 percent) from 2004-05 due to the loss of the temporary one-quarter percent sales tax surcharge which is partially offset by growth in the sales tax base. The other user taxes and fees are projected to increase by $16 million (2.4 percent) from 2004-05, due mainly to the proposed increase in alcoholic beverage taxes partially offset by the increased dedication of motor vehicle fees to transportation funds.

Business Taxes

All Funds business tax receipts in 2005-06 are expected to be $5.9 billion, or $413 million (7.5 percent) above 2004-05. This is due primarily to strong growth in corporate and bank tax collections in the current fiscal year and estimated increases in profitability, accompanied by increases in petroleum business tax rates effective January 1, 2005, and projected increases in 2006.

General Fund business tax receipts in 2005-06 are projected to be $4.1 billion or $302 million (8.0 percent) over 2004-05. This reflects the continued strength of corporate and bank profitability.

Other Taxes

All Funds other taxes in 2005-06 are expected to be $1.5 billion, which is $52 million (3.6 percent) above 2004-05 estimates. The increase is the result of a projected increase in estate tax collections of $52 million and an increase in real estate transfer tax of $5 million slightly offset by projected decreases in the other revenue sources in this category.

The estimate for General Fund other taxes in 2005-06 is $778 million, which is $48 million (6.6 percent) above 2004-05. This estimate reflects an increase in estimated receipts from the estate tax, offset by minor losses in the other sources of revenue in this category.

Miscellaneous Receipts

General Fund miscellaneous receipts are projected to total $2.5 billion in 2005-06, an increase of $158 million (6.9 percent) from the current fiscal year. Recommended increases in various fines and penalties, property sales, local government reimbursements, the proposal to increase the Part D Medicare subsidy, the increased payments from the New York Power Authority, and the expected modest increase in abandoned property receipts. These are offset by losses of tobacco bond proceeds, the loss of the deposit of the wireless surcharge in the General Fund and the loss of the Local Government Assistance Corporation sales tax deposit.

Miscellaneous receipts in State Funds are projected at $18.2 billion in 2005-06, an increase of $2.7 billion (17.4 percent) over 2004-05. This increase is comprised of the increase in the General Fund of $158 million described above, augmented by an additional $2.5 billion in other State funds growth. The annual growth is primarily due to the additional HCRA financing, including Empire Conversion proceeds, to support State Medicaid costs and various public health programs ($1.6 billion), receipts that were formerly deposited directly into health related off budget accounts are now included in the special revenue fund ($364 million), increased receipts to the Provider Assessment SRF resulting from restoration of assessments on hospital, home care and nursing home revenues ($292 million), and higher lottery receipts, including VLT revenues.

All Governmental Funds miscellaneous receipts for 2005-06 are projected to reach $18.3 billion, an increase of $2.7 billion (17.1 percent) over the adjusted current year forecast. The adjusted annual growth is to growth of $2.7 billion in other State funds described above.

Federal Grants

Federal grants are projected to total $36.6 billion in 2005-06, a decrease of $860 million from the prior year. Changes to Federal grants generally correspond to changes in federally-reimbursed spending as described in the disbursements outlook section above. However, since Federal reimbursement was assumed to be received in the State fiscal year in which spending occurs, additional timing-related variances result. Major program areas projected to decline significantly from 2004-05 levels include World Trade Center ($1.6 billion), Children and Families ($195 million) and

Medicaid ($145 million). These declines are partially offset by growth in welfare ($374 million), federally supported school aid costs ($210 million), elections ($148 million), homeland security ($96 million), and grants primarily to support capital projects for transportation and the environment ($50 million).

2005-06 DISBURSEMENTS FORECAST

Total Disbursements (millions of dollars)

				Unadjusted		Adjusted (1)	
	2004-05 Revised	2004-05 Adjusted	2005-06 Proposed	Annual Change	Percent Change	Annual Change	Percent Change
General Fund	43,407	43,915	45,075	1,668	3.8%	1,160	2.6%
State Funds	64,137	65,570	69,088	4,951	7.7%	3,518	5.4%
All Funds	101,607	103,040	105,527	3,920	3.9%	2,487	2.4%

(1) To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted for the inclusion of all HCRA funded programs on-budget and additional Medicaid spending to comply with Federal policy changes related to certain county shares adjustments. The 2004-05 adjustment for HCRA is $925 million in State Funds and All Funds; Medicaid is $508 million in the General Fund, State Funds and All Funds.

General Fund spending is projected to total $45.1 billion in 2005-06, an increase of $1.2 billion (2.6 percent) over the adjusted current year forecast. State Funds spending, which includes both the General Fund and spending from other funds supported by State revenues, is projected to increase by $3.5 billion (5.4 percent) and total $69.1 billion in 2005-06. All Funds spending, the broadest measure of State spending, is projected to total $105.5 billion in 2005-06, an increase of $2.5 billion (2.4 percent). The Financial Plan projections assume that the 2005-06 Executive Budget recommendations are enacted in their entirety.

The major sources of annual spending change between 2004-05 and 2005-06 (after Executive Budget recommendations) are summarized in the table below.

Spending Projections -- After Recommended Savings Major Sources of Annual Change (millions of dollars)	General Fund	*Other State Funds*	State Funds	*Federal Funds*	All Funds
2004-05 Revised Estimate	**43,407**	***20,730***	**64,137**	***37,470***	**101,607**
All HCRA On-Budget	0	925	925	0	925
Discontinue County Shares Adjustment	508	0	508	0	508
2004-05 Adjusted Estimate	**43,915**	***21,655***	**65,570**	***37,470***	**103,040**
Major Functions					
Public Health:					
Medicaid	(6)	1,284	1,278	*(244)*	1,034
Public Health	54	*43*	97	*31*	128
K-12 Education:					
School Aid	321	*137*	458	*210*	668
All Other Education Aid	(11)	*44*	33	*76*	109
STAR	0	*130*	130	*0*	130
Higher Education	26	*369*	395	*6*	401
Social Services:					
Welfare	(72)	*0*	(72)	*374*	302
Children and Family Services	147	*(1)*	146	*(165)*	(19)
Mental Hygiene	16	*14*	30	*138*	168
General State Charges	224	*74*	298	*22*	320
Debt Service	(66)	*104*	38	*0*	38
Transportation	(10)	*237*	227	*19*	246
All Other Changes					
Empire State Development Corp	52	*175*	227	*0*	227
Judiciary	53	*5*	58	*2*	60
Local Government Aid	50	*0*	50	*0*	50
World Trade Center	0	*(1)*	(1)	*(1,538)*	(1,539)
All Other	382	*(256)*	126	*38*	164
2005-06 Executive Budget Estimate	**45,075**	***24,013***	**69,088**	***36,439***	**105,527**
Dollar Change	*1,160*	*2,358*	*3,518*	*(1,031)*	*2,487*
Percent Change	*2.6%*	*10.9%*	*5.4%*	*-2.8%*	*2.4%*

The spending forecast for each of the State's major functions follows. In general, the forecasts are described in two parts: the first describes the current services estimate for each functional area; the second summarizes the impact of the Executive Budget recommendations.

Projected 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. In criminal justice, spending estimates are based on recent trends and data from the criminal justice system, as well as on estimates of the State's prison population. All projections account for the timing of payments, since not all the amounts appropriated in the budget are disbursed in the same fiscal year. Major assumptions used in preparing the spending projections for the State's major programs and activities are summarized in the table below. For a discussion of the spending forecast by Financial Plan fund type (e.g., General Fund, SRFs), see the section entitled "2005-06 Governmental Funds Financial Plan (Fund Type)" later in this Overview.

Selected Program Measures	2004-05	2005-06	2006-07	2007-08
Economic Indicators				
Base Revenue Growth	10.2%	6.5%	6.6%	6.2%
Inflation Rate	3.1%	2.5%	2.3%	2.8%
Education				
K-12 Enrollment	2,864,037	2,848,713	n/a	n/a
Public Higher Education Enrollment (FTEs)	489,936	495,900	n/a	n/a
TAP-Annual Average TAP Recipients	345,000	345,000	n/a	n/a
Health				
Medicaid Coverage	3,622,184	3,748,627	3,868,627	3,988,627
Medicaid Inflation	4.1%	3.9%	3.8%	3.7%
Medicaid Utilization	2.3%	2.5%	2.6%	2.7%
State Takeover of FHP Costs ($ millions)	$49	$312	$576	$625
State Takeover of All Other Local Medicaid Costs (Net State Costs - $ millions)	n/a	$121	$631	$1,257
Social Services				
Family Assistance Caseload	499,400	503,100	519,500	537,700
Single Adult/No Children Caseload	142,300	152,800	165,300	179,000
Mental Hygiene Community Beds	**81,388**	**83,032**	**84,373**	**86,650**
Prison Population	**63,800**	**63,100**	**n/a**	**n/a**
State Operations				
Negotiated Salary Increases (1)	2.5%	2.75%	3.0%	0.0%
Personal Service Inflation	0.8%	0.8%	0.8%	0.8%
State Workforce	190,933	191,424	191,852	191,852
General State Charges				
Pension Contribution Rate	7.0%	7.0%	12.4%	11.5%
Employee Health Insurance Rate	14.0%	9.2%	11.6%	10.9%
State Debt				
Interest on Variable Rate Debt	1.5%	2.8%	3.0%	3.3%
Interest on 30-Year Bonds	5.0%	5.3%	5.8%	6.2%

(1) Negotiated salary increases also include a recurring $800 base salary adjustment effective April 1, 2007.

PUBLIC HEALTH

The Department of Health (DOH) is responsible for ensuring access to high quality health services for all New York residents. In fulfilling this responsibility DOH works closely with county health departments to promote and monitor statewide health activities, and reduce infectious diseases. In addition to the oversight and administration of various public health programs and services, including Medicaid, DOH operates one hospital, four nursing homes for veterans and three laboratory facilities.

Medicaid

Medicaid, the largest program budgeted in New York State, finances health care services for low-income individuals, long-term care for the elderly, and services for disabled individuals, primarily through payments to health care providers. New York's per capita Medicaid spending of over $2,300 is the highest in the nation.

The State share of Medicaid spending is budgeted principally in DOH ($11.3 billion), but also appears in the Office of Mental Health (OMH) ($290 million), the Office of Mental Retardation and Developmental Disabilities (OMRDD) ($1.1 billion), the Office of Alcoholism and Substance Abuse Services (OASAS) ($37 million), the Office of Children and Family Services (OCFS) ($33 million) and the State Education Department (SED) ($180 million). The major areas of DOH Medicaid spending in 2005-06 include long-term care, inpatient hospital care, prescription drugs, managed care, outpatient hospital and clinics, and Family Health Plus.

New York's Medicaid program is financed jointly by the Federal government, the State, and counties (including New York City). The Federal government matching rate on eligible Medicaid expenditures is 50 percent, the lowest matching rate possible. The county share is projected at $7.8 billion, or rough 17 percent of program spending, before Executive Budget recommendations. The Executive Budget proposes capping local government Medicaid costs at 2005 spending levels, adjusted by 3.5 percent in 2005-06, 3.25 percent in 2006-07 and 3.0 percent in 2007-08. Thus, effective January 1, 2006, the State will pay for any local costs above the cap. The projected local government share of Medicaid costs that the State will finance is $121 million in 2005-06, growing to $631 million in 2006-07, and $1.3 billion in 2007-08. In addition, the State will provide local governments with $20 million in new aid in 2005-06 related to growing Medicaid costs and $25 million by accelerating of the State takeover of FHP costs planned for January 1, 2006 up to October 1, 2005 for all local governments except New York City.

DEPARTMENT OF HEALTH -- MEDICAID SPENDING PROJECTIONS
(millions of dollars)

				Unadjusted		Adjusted [1]	
	2004-05 Revised	2004-05 Adjusted	2005-06 Proposed	Annual Change	Percent Change	Annual Change	Percent Change
General Fund	**6,811**	**7,319**	**7,313**	**502**	**7.4%**	**(6)**	**-0.1%**
Other State Support	2,677	2,677	3,961	1,284	48.0%	1,284	48.0%
State Funds	**9,488**	**9,996**	**11,274**	**1,786**	**18.8%**	**1,278**	**12.8%**
Federal Funds	19,959	19,959	19,715	(244)	-1.2%	(244)	-1.2%
All Funds	**29,447**	**29,955**	**30,989**	**1,542**	**5.2%**	**1,034**	**3.5%**

(1) To provide a comparable basis for calculating the annual change, the 2004-05 amounts have been adjusted for additional Medicaid spending to comply with Federal policy changes related to certain county shares adjustments ($508 million in General Fund, State Funds and All Funds).

DOH General Fund Medicaid will decrease by $6 million on an adjusted year-to-year basis. Total DOH Medicaid spending in 2005-06 is projected to increase by $1.0 billion (3.5 percent) over the adjusted prior year, consisting of an increase in other State support of $1.3 billion offset by a decline in Federal funding of $244 million. The higher State spending is attributable primarily to projected growth in the cost of services and prescription drugs, the rising number of Medicaid recipients, increases in utilization, Federal law changes, and the State cost of the local Medicaid cap, offset by the 2005-06 Executive Budget recommendations to reduce costs. These changes are described in more detail below. The number of Medicaid recipients is projected to average 3.7 million (excluding Family Health Plus) in 2005-06, an increase of 3.5 percent over the current fiscal year.

State Funds DOH spending is projected to total $11.3 billion in 2005-06. The General Fund will support $7.3 billion of spending, with the balance of $4.0 billion financed through various SRFs. These SRFs include: (1) the HCRA Transfer account supported by HCRA pool resources and used to finance Medicaid pharmacy costs, a portion of the Family Health Plus Program, and various Medicaid related programs including the Workforce Recruitment and Retention Program; (2) the Provider Assessments Fund currently supported by a partially reimbursable 5 percent assessment on nursing home revenues; and (3) the Indigent Care account supported by taxes, assessments and surcharges on hospital revenues and third-party payers and used to finance payments to providers and municipalities for the cost of providing services to uninsured people.

DEPARTMENT OF HEALTH -- MEDICAID SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) FROM 2004-05 TO 2005-06 (millions of dollars)	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Program Growth	619	7	914	1,540
Family Health Plus Takeover/Growth	282	146	270	698
2004-05 Medicaid Cycle Delay	190		270	460
HCRA Financing	302	56		358
Empire Conversion Proceeds	(200)	200		0
Federal Changes	568		(619)	(51)
Executive Budget Recommendations:				
Local Cap	121			121
Accelerate FHP Takeover	25			25
Local Medicaid Relief	20			20
Other Financing	(795)	642	18	(171)
Provider Assessments	(234)	264		30
Family Health Plus Cost Containment	(227)	(30)	(295)	(552)
Hospital Cost Containment	(201)		(312)	(513)
Nursing Home Cost Containment	(182)		(211)	(393)
Pharmacy Cost Containment	(80)		(127)	(207)
Restructure Dental/Other Benefits	(66)		(102)	(168)
Managed Care Cost Containment	(48)		(74)	(122)
All Other Cost Containment (Net)	(100)	(1)	24	(41)
Total Annual Change	**(6)**	**1,284**	**(244)**	**1,034**

Current Services

Program Growth: General Fund growth is attributable to the increasing cost of providing health care services ($398 million), the rising number of recipients and corresponding increases in medical service utilization of services in hospitals, nursing homes, managed care programs, and growth in prescription drug costs ($221 million). Other changes in the State share of costs include reductions in available funds collected in the existing Indigent Care Fund and modest growth in provider assessments used to finance a portion of Medicaid costs. The Federal share of underlying growth is projected at $914 million.

Family Health Plus (FHP) Takeover/Growth: The State pays for its share of FHP from the General Fund and the HCRA Transfer account. The 2004-05 Enacted Budget authorized a full State takeover of local FHP costs over two years. The State began paying 50 percent of the local share of FHP in January 2005, and was scheduled to pay for 100 percent in January 2006. Absent the 2005-06 budget recommendations to accelerate the takeover, the takeover is expected to cost $49 million in 2004-05, growing to $331 million in 2005-06 (up $282 million), and to $612 million in 2006-07. Growth in other State Funds and Federal Funds for FHP reflects rising enrollment and utilization.

Cycle Payment Delay: Medicaid payments to providers are made on a weekly basis. The 2004-05 Enacted Budget deferred the last weekly 2004-05 Medicaid cycle from March 31, 2004 into the 2005-06 fiscal year, producing an annual increase of $190 million in the General Fund and $270 million in Federal Funds for the payment of that extra cycle in 2005-06.

HCRA Financing: General Fund support for HCRA is projected to grow by $302 million including a partial repayment of a 2002-03 loan from HCRA ($143 million) and a “tobacco guarantee” payment pursuant to the tobacco guarantee legislation that requires the General Fund to finance any projected shortfall in HCRA up to the payment that would have been received by HCRA absent the securitization of tobacco proceeds ($120 million), and a decline in HCRA support of Medicaid pharmacy costs. Spending from the existing HCRA Transfer Fund increases are primarily for the Workforce Recruitment and Retention Program.

Empire Conversion Proceeds: The 2004-05 Budget planned on $200 million in Empire conversion proceeds that would pay for Medicaid spending that would otherwise occur in the General Fund. Ongoing litigation has resulted in the proceeds from a completed sale being held in escrow until a decision is reached. DOB expects a favorable ruling and budgets the funds in 2005-06. Thus, 2004-05 General Fund costs have been adjusted upward, while 2005-06 costs have been lowered.

Federal Changes: Federal policy changes impacting county shares adjustments are expected to result in an increase in General Fund costs. In addition, the Federal government authorized a temporary 15-month increase of 2.95 percent in Federal Medical Assistance Percentage (FMAP) for Medicaid (from 50 percent to 52.95 percent) in May 2003. The temporary FMAP increase, which expired in June 2004, reduced total General Fund costs in 2004-05 by $260 million ($220 million in DOH Medicaid spending and $40 million in mental hygiene spending) and $128 million for localities. Thus, with the expiration of the FMAP increase, the General Fund will incur higher DOH Medicaid costs in 2005-06 ($220 million) and Federal Funds spending will decline ($388 million).

Executive Budget Recommendations

Local Cap: The Budget proposes a cap on local Medicaid costs up to 2005 spending levels, adjusted by 3.5 percent in 2005-06, 3.25 percent in 2006-07 and 3.0 percent in 2007-08. Effective January 1, 2008, the Budget recommends a full takeover of local government Medicaid costs to be partially financed with local sales tax revenues and other local resources. Capping local Medicaid costs is expected to result in higher General Fund costs beginning on January 1, 2006. DOB estimates the State cost of this phased in takeover of local costs initiative at $121 million in 2005-06, growing to $631 million in 2006-07, and $1.3 billion in 2007-08.

FHP Takeover: The State will provide local governments with $25 million in additional aid in 2005-06 related to a proposed acceleration of the State takeover of FHP costs from January 1, 2006 to October 1, 2005 for all local governments except New York City. This will bring the total value of the takeover to $312 million in 2005-06 and $576 million in 2006-07 after revising prior enrollment projections downward. Average annual FHP enrollment is expected to grow to 553,044 in 2005-06, an increase of 24 percent over the current fiscal year.

Local Medicaid Relief: In addition to the local benefit provided by the cap and the FHP takeover acceleration, the State will provide local governments with $20 million in new aid in 2005-06 related to growing Medicaid costs.

Other Financing: Several cost containment initiatives to restrain spending on programs financed by HCRA, including Child Health Plus, FHP spending revisions, and other revisions to HCRA revenues will be used to partially finance General Fund health care costs and avoid the need for a “tobacco guarantee” payment. A detailed explanation of the HCRA revisions is presented later in this Overview. In addition, increased recoveries from audit activities ($25 million) and Federal reimbursement to support audit contracts ($18 million) are expected to generate additional Federal aid that will be used to support General Fund spending for these services.

Provider Assessments: The Executive Budget proposes an imposition of a 0.7 percent assessment on hospital revenues and an increase in the nursing home reimbursable assessment to 6.0 percent of revenues from 5.0 percent, which currently sunsets on March 31, 2006. This recommendation provides $234 million in funding for what otherwise would be General Fund health care costs, after accounting for $30 million in costs related to the reimbursable portion of the nursing home assessment.

FHP Cost Containment: Proposed FHP reforms are projected to reduce spending by $227 million in the General Fund and $30 million in the HCRA Transfer account. The proposals include conforming FHP benefits to those programs that provide less extensive coverage, higher co-payments, and closing eligibility loopholes.

Hospital Cost Containment: Proposals to reduce hospital costs include reducing reimbursement for inpatient detoxification services and Graduate Medical Education (GME) payments to certain facilities, continued management of high-cost specialty populations receiving mental health and substance abuse services through mental hygiene facilities, authorizing DOH to negotiate reimbursement rates for certain high-cost procedures, and the elimination of inflationary rate adjustments and the reconciliation of GME grant overpayments made in prior years. These actions are projected to save $201 million in the General Fund.

Nursing Home Cost Containment: Several proposals to control the rising costs of reimbursement to nursing homes are estimated to reduce 2005-06 spending growth in the General Fund ($182 million). They include an updated regional reimbursement methodology based on 2003 costs, revisions to the Medicaid case mix calculation that limits the use of Medicaid payments to subsidize other costs, and the elimination of inflationary rate adjustments.

Pharmacy Cost Containment: Several proposals to control the rising costs of prescription drugs would reduce spending growth in the General Fund ($80 million). These proposals include establishing a preferred drug program requiring prior authorization for certain high cost drugs and increasing pharmacy co-payments for both generic and brand-name prescription drugs.

Restructure Dental/Optional Benefits: Proposals include restricting adult dental benefits to clinical settings ($53 million) and eliminating various optional services provided to adult Medicaid recipients including private duty nursing, audiology, podiatry, and clinical psychology services ($13 million).

Managed Care Cost Containment: Projected savings include freezing managed care premium payments at current year levels, capping marketing expenses, and taking steps to ensure appropriate enrollment safeguards are in place.

All Other: All other recommended actions include General Fund reductions resulting from the application of recently approved one-time Federal credits for past emergency medical services provided to illegal immigrants ($42 million), the elimination of long-term care eligibility loopholes, realigning home care administrative reimbursement at more appropriate levels, and various other cost containment initiatives. These decreases are offset by new spending for enhanced home care rates for certain complex cases, for additional funds for long-term care reforms, and criminal background checks for staff employed by long-term care facilities.

Other Public Health Programs

In general, public health spending in New York is shared by the Federal government, the State, and local governments. Several public health programs, such as the Early Intervention program and General Public Health Works, are administered by county health departments for which the State reimburses counties for a share of program costs. The Financial Plan does not include the local government share of public health funding, but does include the entire Federal share.

Consistent with the Governor's proposed budget reform bill, the 2005-06 Executive Budget includes the HCRA financed programs that are not currently included in the State Financial Plan, adding $929 million in 2005-06 to public health spending above the $4.4 billion already included throughout the State Financial Plan for HCRA. For more information on HCRA projections, see the section entitled "HCRA Financial Plan" in the volume entitled "2005-06 New York State Executive Budget Financial Plan" available on the DOB website or by contacting DOB.

The largest public health programs include the Elderly Pharmaceutical Insurance Coverage (EPIC) Program providing prescription drug insurance to low-income seniors ($834 million), the Child Health Plus program that finances health insurance coverage for children of low-income families up to the age of 19 ($674 million), the General Public Health Works (GPHW) program that reimburses local health departments for the cost of providing certain public health services ($222 million), the Early Childhood Intervention (EI) Program providing services to infants and toddlers under the age of three with disabilities or developmental delays ($253 million), and health and support programs for people suffering from AIDS/HIV ($366 million).

PUBLIC HEALTH SPENDING PROJECTIONS
(millions of dollars)

				Unadjusted		Adjusted [1]	
	2004-05 Revised	2004-05 Adjusted	2005-06 Proposed	Annual Change	Percent Change	Annual Change	Percent Change
General Fund	**705**	**705**	**759**	**54**	**7.7%**	**54**	**7.7%**
Other State Support	1,479	2,404	2,447	968	65.4%	43	1.8%
State Funds	**2,184**	**3,109**	**3,206**	**1,022**	**46.8%**	**97**	**3.1%**
Federal Funds	1,241	1,241	1,272	31	2.5%	31	2.5%
All Funds	**3,425**	**4,350**	**4,478**	**1,053**	**30.7%**	**128**	**2.9%**

(1) To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted for the inclusion of all HCRA funded programs on-budget ($925 million in State Funds and All Funds).

All Funds spending in 2005-06 for public health is projected to increase by $128 million (2.9 percent) over the adjusted prior year, consisting of an increase in State share costs of $97 million and higher Federal aid of $31 million. The higher State share spending is primarily attributable to the projected growth in various public health programs, including EPIC.

State Funds public health spending is projected to total $3.2 billion in 2005-06. Activities include reimbursement to localities for the costs of operating public health programs ($2.7 billion), personal service costs and fringe benefit costs for nearly 6,000 employees of DOH ($213 million), non-personal service costs including operational expenses ($261 million), and financing for capital projects to maintain DOH facilities ($13 million). In addition to General Fund support, a portion of DOH's costs are financed by patient care revenues, and fees related to regulations, registration, testing, and certification. Several local aid programs are financed by dedicated revenues, including transfers from HCRA and certain fees. Finally, Federal aid helps support various programs, including

Federal nutrition assistance for Women, Infants, and Children (WIC), and is projected to total $1.3 billion in 2005-06.

PUBLIC HEALTH SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
EPIC		110		110
Child Health Plus		16	27	43
Early Intervention	17			17
Local Public Health	12			12
All Other	14	(81)	10	(57)
Executive Budget Recommendations:				
Child Health Plus		(13)	(13)	(26)
EPIC		(13)		(13)
Capital Improvement Grants		7		7
TANF Program/Funding Realignment	20			20
All Other	(9)	17	7	15
Total Annual Change	**54**	**43**	**31**	**128**

Current Services

EPIC: Higher projected EPIC spending in 2005-06 is due primarily to the rising cost of prescription drugs and enrollment, which is projected to reach 358,000, an increase of 2.3 percent over current year projections.

Child Health Plus: Growth in the CHP program is attributable to projected increases in enrollment. CHP enrollment is expected to reach approximately 450,000 in 2005-06.

Early Intervention: Spending is expected to grow as a result of increases in the number of children enrolled in the program. DOB projects enrollment at 75,825 in 2005-06, an increase of 1,849 (or 2.4 percent) over 2004-05 estimated levels.

General Public Health Works: DOB projects that State funding for local public health services will total $222 million in 2005-06, an annual increase of $12 million.

All Other: The remaining All Funds spending decrease includes primarily revisions to other State support partially offset by the repayment of a HCRA loan from the Physicians Excess Medical Malpractice program ($45 million) and higher costs for personal services due to collective bargaining increases and staffing ($11 million).

Executive Budget Recommendations

Early Childhood Intervention: Proposals include instituting service fees based on parental income levels, allowing counties to negotiate rates with providers, eliminating reimbursement for extended home visits, requiring independent evaluations for children receiving a single service, and requiring health insurance coverage in the first instance. These proposals will result in savings beginning in 2006-07, as the reimbursement schedule for the EI program is on a lag.

CHP: The Executive Budget recommends a temporary freeze on payments to providers that will reduce the growth in CHP spending.

EPIC: Projected savings in the EPIC program include automatic enrollment of low income EPIC enrollees in the Medicare Part D prescription drug program, and verification of applicants' reported income with Department of Tax and Finance income tax information.

Health Care Capital Improvement Grants: The Executive Budget includes additional capital financing that will provide grants to hospitals to increase operational efficiency. The program is expected to eventually total $1 billion.

Program/Funding Realignment: Spending for certain health care programs previously financed by the TANF program have been shifted to the agencies directly responsible for their oversight.

All Other: Other Executive Budget proposals include the elimination of certain non-essential programs including Endoscopy Study, Reflex Sympathetic Dystrophy Syndrome, and Tattooing, Body Piercing Regulation, and certification of home medical equipment personnel. Higher use of non-General Fund resources to fund certain program costs and operational efficiencies achieved through information technology advancements are also expected to produce savings. The Executive Budget also recommends funding for criminal background checks for health care workers, and for disease management. In addition, the General Public Health Works program is recommended to be converted from a reimbursement-based entitlement program to a grant-based program in 2005-06 to enhance local discretion in efficiently targeting resources by eliminating State-level spending mandates. In addition to increasing local flexibility, this change is projected to result in a $12 million annual increase in funding above 2004-05 levels.

K-12 EDUCATION

School Aid

School aid, the single largest program financed by the General Fund, helps finance elementary and secondary education provided to New York pupils enrolled in nearly 680 school districts throughout the State. State funding is provided to districts based on statutory aid formulas and through reimbursement for various categorical programs. In New York, approximately 45 percent of spending on education by local school districts is funded by the State. School aid is distributed in a manner intended to allow districts to meet locally defined needs, to receive aid for the construction of school facilities, and to transport 2.5 million students statewide. The State Court of Appeals has found that the school financing system failed to provide students in New York City with an opportunity for a sound basic education, in violation of the State Constitution. The litigation is described in more detail in the section entitled "Reserves and Risks" in this Overview.

Federal funding supplements school aid, representing approximately 15 percent of projected cash disbursements. Federal education aid supports a range of services including educational programs and services targeted to disadvantaged children, and free and reduced price meals.

SCHOOL AID SPENDING PROJECTIONS (millions of dollars)	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	**12,907**	**13,228**	**321**	**2.5%**
Other State Support	2,184	2,321	137	6.3%
State Funds	**15,091**	**15,549**	**458**	**3.0%**
Federal Funds	2,545	2,755	210	8.3%
All Funds	**17,636**	**18,304**	**668**	**3.8%**

All Funds spending for school aid is projected to total $18.3 billion in State fiscal year 2005-06. General Fund spending is projected at $13.2 billion, with the remaining aid paid from other State funds, primarily the Lottery Fund ($2.3 billion), and the Federal government ($2.8 billion).

On a school year basis (July 1 through June 30), State support for school aid is recommended at nearly $15.9 billion in 2005-06 (excluding Federal aid), an increase of $526 million (3.4 percent) over the current school year. This $526 million increase comprises $201 million in traditional school aid and $325 million in a new Sound Basic Education aid program funded by VLT revenues. Major components of the $15.9 billion school year recommendation include Flex Aid ($8.4 billion), Public Excess Cost Aid ($2.3 billion), Building Aid ($1.4 billion), Transportation Aid ($1.2 billion), as well as the $325 million for SBE aid.

SCHOOL AID SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Federal Fund Reestimates			210	210
Balance of 2004-05 School Year	212			212
2005-06 Traditional School Aid ($201M SY)	161	(20)		141
RESCUE/Transportation Grants/ All Other	(13)	(110)		(123)
Executive Budget Recommendations:				
Eliminate Quick Draw Restrictions	(39)	39		0
2005-06 Sound Basic Education Aid ($325M SY)		228		228
Total Annual Change	**321**	**137**	**210**	**668**

On a State fiscal year basis, All Funds spending for school aid in 2005-06 is estimated to be $18.3 billion, an increase of $668 million from 2004-05. The increase includes $212 million for the balance of the prior school year increase, $369 million to cover the costs associated with the new school year recommendations, and $210 in increased Federal funds, partially offset by a decrease of $123 million primarily in projected spending from capital funds. These changes are explained in more detail below.

Current Services

Federal Funds Reestimates: Federal aid is projected to grow by $210 million over the revised 2004-05 estimate, reflecting increased grants to high-poverty school districts around the State ($191 million) and for the School Lunch and Breakfast Program ($19 million).

Balance of 2004-05 School Year Increase: The General Fund increases by $212 million to cover the remaining "tail" payments related to the 2004-05 school year increase of over $750 million.

2005-06 Traditional School Aid: The General Fund will finance $201 million of the $526 million school year increase. That translates into a State fiscal year increase of $141 million in the General Fund in 2005-06, as explained in more detail below. In addition, the General Fund will increase by another $20 million to cover the decrease in the State Lottery Fund contribution. The remaining $325 million of the school year increase is paid for from the Lottery Fund, as described below.

RESCUE and Transportation Grants/All Other: The majority of changes are in capital spending, which decreases by $109 million reflecting the final spend-out in 2004-05 of the Rebuilding Schools to Uphold Education (RESCUE) program ($34 million) and one-time grants for school bus purchases ($75 million).

Executive Budget Recommendations

Eliminate Quick Draw Restrictions: The Budget recommends lifting restrictions imposed on Quick Draw in its enabling statute, including limits on the hours of operation and food sales and restrictions on the minimum size of premises that can operate Quick Draw games. The changes are expected to generate $39 million in additional lottery revenues.

SY 2005-06 Sound Basic Education Aid: The school year increase of $526 million includes $325 million for a new Sound Basic Education Aid Program. The State fiscal year increase of $228 million for Sound Basic Education Aid will be fully supported with VLT revenues. New York City will receive approximately 60 percent of the aid to be distributed from this program under a formula that will include weightings for concentrations of children from economically disadvantaged backgrounds, children with limited English proficiency, and regional cost differences.

2005-06 Traditional School Aid: The traditional school aid recommendation of a $201 million increase includes higher funding of $122 million in Flex Aid and $77 million in expense-based aids. A new $15 million Fund for Innovation Program is also proposed for the State's Big Five City school districts that is intended to promote public/private partnerships that integrate technology in the classroom.

Finally, the school aid recommendations include a number of reforms in building aid and special education aid. Building aid reforms include targeted initiatives to address NYC school facility needs, creation of a simplified building aid formula to provide realistic student-based allowances, and a statewide Wicks Law exemption. Special education reforms are advanced to eliminate the existing fiscal incentives for placing children in restrictive private placements by conforming the aid formula to that used to provide these same services in the public schools. With these reforms, Building aid increases by $27 million and Private Excess Cost aid decreases by $96 million on a school year basis.

School Tax Relief (STAR) Program

STAR provides New York's taxpayers with school property tax relief. The three components of STAR, and their approximate share, include the enhanced school property tax exemption to eligible senior citizen homeowners (22 percent), the basic school property tax exemption to all other eligible homeowners (59 percent), and a flat refundable credit and rate reduction for New York City resident personal income taxpayers (19 percent).

STAR SPENDING PROJECTIONS (millions of dollars)				
	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	**0**	**0**	**0**	**0.0%**
Other State Support	3,072	3,202	130	4.2%
State Funds	**3,072**	**3,202**	**130**	**4.2%**
Federal Funds	0	0	0	0.0%
All Funds	**3,072**	**3,202**	**130**	**4.2%**

STAR spending is expected to total $3.2 billion in 2005-06, and is comprised of $1.9 billion for the basic property tax exemption, $707 million for the enhanced property tax exemption, and $595 million for the New York City PIT reduction. The annual changes are described in more detail below.

STAR SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Growth in STAR Program		150		150
Executive Budget Recommendations:				
STAR School District Spending Cap		(20)		(20)
Total Annual Change	**0**	**130**	**0**	**130**

STAR spending in 2005-06, prior to the Executive Budget recommendations to restrain school district spending, is projected to grow by $150 million over the current fiscal year. The increase includes 9 percent annual growth in the basic STAR exemption to homeowners and growth in the enhanced STAR exemption.

The 2005-06 Executive Budget proposes instituting a school spending cap that would limit annual growth in local school district budgets to the lesser of 4 percent or 120 percent of the growth in Consumer Price Index. Slowing the growth in local tax increases is expected to reduce the growth in STAR payments by $20 million. The savings are reinvested in a recommended STAR Plus tax credit program that would provide increased tax cuts (described as a tax cut on the revenue side of the Financial Plan) for STAR recipients in school districts that keep their spending growth within the proposed spending cap.

Other Education Aid

In addition to school aid, other education aid is provided for special education services and other targeted programs. Other education categories include Elementary, Middle, Secondary and Continuing Education (EMSC); cultural education, and higher education programs. Major programs under EMSC address specialized student needs or reimburse school districts for education-related services and include the School Lunch and Breakfast Program, the Pre-School Special Education Program, and non-public school aid. In special education, New York provides a full spectrum of services to over 400,000 students from ages 4 to 21. Higher and professional education programs ensure the quality and availability of post-secondary education programs and regulate the licensing and oversight for 44 State professions.

OTHER EDUCATION AID SPENDING PROJECTIONS (millions of dollars)	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	**1,488**	**1,477**	**(11)**	**-0.7%**
Other State Support	84	128	44	52.4%
State Funds	**1,572**	**1,605**	**33**	**2.1%**
Federal Funds	888	964	76	8.6%
All Funds	**2,460**	**2,569**	**109**	**4.4%**

All Funds spending is expected to total $2.6 billion in 2005-06, comprised of $1.5 billion in General Fund spending, $128 million in other State support and $964 million in Federal funding. All Funds includes handicapped programs ($1.7 billion), State Operations ($286 million) and various other education programs ($583 million). The annual changes are described in more detail below.

OTHER EDUCATION AID SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Federal Fund Reestimates			76	76
Special Education Program Costs	50			50
Other Base Changes	(42)	2	0	(40)
Executive Budget Recommendations:				
Higher Education Capital Matching Grant		20		20
Program Reductions and Other Actions	(19)	22		3
Total Annual Change	**(11)**	**44**	**76**	**109**

Current Services

Federal Fund Reestimates: Growth of $76 million is due primarily to higher expected funding for the Individuals with Disabilities Education Act program that supports special education programs.

Special Education Program Costs: The $50 million projected increase in special education programs reflects enrollment growth in the Preschool Special Education Program and higher claiming ($40 million), summer school special education ($8 million) and private schools which serve the blind and deaf ($2 million).

Other Changes: The changes are attributable primarily to declining spending associated with one-time legislative member items.

Executive Budget Recommendations

Higher Education Capital Matching Grant: Includes $20 million in first-year costs for a new higher education capital matching grants program to finance critical programs for both public and private colleges and universities.

Program Reductions and Other Actions: Includes reductions and consolidations to reduce the spending growth in Elementary, Middle, Secondary and Continuing Education and higher education programs ($9 million). Other State support increases by $22 million, and includes $5 million first-year spending under a new $15 million capital program to finance matching grants for improvements at public broadcasting facilities.

HIGHER EDUCATION

Higher education includes operational and administrative costs for the SUNY, CUNY, and the Higher Education Services Corporation (HESC). Nearly the entire higher education budget is supported by State funds, including General Fund support, tuition revenues and various fees.

The SUNY system is the largest public university system in the nation with 64 campuses offering a range of academic, professional and vocational programs. The SUNY hospitals work together with medical schools in academics and research and provide students with a wide variety of residency programs. The SUNY system also includes 30 community colleges. Currently, there are over 413,000 SUNY students pursuing studies ranging from one-year certificate programs to doctorates.

The CUNY system is the third largest public university system in the nation and provides higher education to the urban community of New York City. The State has full financial responsibility for CUNY's senior college operations and works in conjunction with the City of New York to support CUNY's community colleges. There are approximately 219,000 CUNY students currently enrolled in degree programs.

HESC is responsible for administering TAP grant awards to income-eligible students and for providing centralized processing of other student financial aid programs. The Corporation also helps students as they plan for college by providing information and guidance on how to finance a college education. The financial aid programs that the Corporation administers are funded by the State and the Federal government.

HIGHER EDUCATION SPENDING PROJECTIONS (millions of dollars)

	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	**2,965**	**2,991**	**26**	**0.9%**
Other State Support	3,726	4,095	369	9.9%
State Funds	**6,691**	**7,086**	**395**	**5.9%**
Federal Funds	187	193	6	3.2%
All Funds	**6,878**	**7,279**	**401**	**5.8%**

All Funds spending is expected to total $7.3 billion in 2005-06, and is comprised of $3.0 billion in General Fund spending, $4.1 billion in other State support, and $193 million in Federal funding. By agency, All Funds spending is projected to total $5.0 billion in SUNY, $1.4 billion in CUNY, and $817 million in HESC. Another $632 million in State support for CUNY is paid from a State fiduciary fund (outside the All Governmental Funds Financial Plan) that consists primarily of senior college tuition revenues. The annual changes are described in more detail below.

HIGHER EDUCATION SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
SUNY/CUNY/HESC Inflation and Salaries	223	63		286
SUNY/CUNY Capital		187		187
HESC TAP	20			20
SUNY/CUNY Community Colleges Aid	10			10
SUNY/CUNY/HESC All Other Services	47	(43)	6	10
Executive Budget Recommendations:				
SUNY/CUNY Savings	(137)	76		(61)
Restructure TAP for Graduation Incentive	(135)			(135)
SUNY/CUNY Capital		69		69
SUNY/CUNY PACT	4			4
All Other Budget Actions	(6)	17		11
Total Annual Change	**26**	**369**	**6**	**401**

Current Services

SUNY/CUNY/HESC Inflation and Salaries: The Executive Budget provides $223 million in General Fund support and $63 million in Other State Funds support for salaries and inflationary increases at SUNY, CUNY, and HESC.

SUNY/CUNY Capital: Annual growth in capital spending reflects changes in the needs and priorities of the public universities as well as changes in the timing of capital projects ($187 million).

HESC TAP: Spending adjustments reflect annualization of the 2004-05 TAP Program ($20 million).

SUNY/CUNY Community Colleges Aid: The increase of $10 million is attributable primarily to enrollment growth.

SUNY/CUNY/HESC All Other Services: The increase reflects cash adjustments, annualizations, and nonrecurring special revenue funding for SUNY and CUNY financial aid activity.

Executive Budget Recommendations

SUNY/CUNY Savings: General Fund savings are achieved through a mix of administrative efficiencies and authorization for increased tuition revenues resulting in savings of $61 million on an All Funds basis.

HESC/TAP Restructuring: Changes at HESC include the proposed restructuring of the TAP program, which would defer one-half of each first-time student's award until graduation as an incentive for timely degree completion, and additional reforms including more rigorous academic eligibility standards ($135 million).

SUNY/CUNY Capital: The Executive Budget enhances the current multi-year capital investment programs for SUNY and CUNY with an additional $323 million over the next five years. Spending of $69 million reflects the first year of capital spending from these supplemental funds.

SUNY/CUNY PACT: The Executive Budget recommends $4 million in funding to finance the implementation of a new Partnership to Accelerate Completion Time (PACT) program to improve college graduation rates at all SUNY and CUNY campuses and participating private colleges.

All Other Budget Actions: Reflects reductions in the General Fund for the Aid for Part-Time Study program, which will be financed from other available revenues in 2005-06.

SOCIAL SERVICES

Welfare

Welfare programs provide benefits to poor families in the form of cash grants, child welfare services, tax credits for eligible low-income workers, and employment services. The State's three main programs include Family Assistance, Supplemental Security Income (SSI) and Safety Net. The Family Assistance program, which is financed jointly by the Federal government, the State, and local districts, provides employment assessments, support services and time-limited cash assistance to eligible families and children. The State adds a supplement to the Federal SSI benefit for the elderly, visually handicapped, and disabled. The Safety Net Assistance program provides cash assistance and employment services for single adults, childless couples, and families that have exhausted their five-year limit on Family Assistance imposed by Federal law and is financed jointly by the State and local districts. Funding is also provided for local administration of welfare programs.

Federal funding for welfare programs is provided through the Temporary Assistance for Needy Families (TANF) block grant. TANF funding also helps finance the State's EITC for low-income workers and child care services, including child care subsidies for low-income working families. In addition, the State directs the "difference" between the block grant and current spending requirements (the "TANF surplus") to fund additional eligible programs including employment and education.

WELFARE/WELFARE ADMINISTRATION SPENDING PROJECTIONS (millions of dollars)

	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	**1,465**	**1,393**	**(72)**	**-4.9%**
State Funds	**1,465**	**1,393**	**(72)**	**-4.9%**
Federal Funds	1,979	2,353	374	18.9%
All Funds	**3,444**	**3,746**	**302**	**8.8%**

All Funds spending for welfare is projected to total $3.7 billion in 2005-06, consisting of $1.4 billion in General Fund support and $2.3 billion in Federal support. Major programs include Family Assistance benefits ($1.3 billion), including the State's EITC ($746 million); Safety Net ($728 million); SSI ($633 million); and administration ($360 million).

Welfare caseload is projected to total approximately 655,900 recipients in 2005-06, an increase of 14,200 from 2004-05. The family assistance caseload consists of approximately 327,200 families supported through the Family Assistance program, a decrease of 2,100 from the current year, and 175,900 families receiving benefits through the Safety Net program, an increase of 5,800. The caseload for single adults/couples supported through the Safety Net program is projected at 152,800, an annual increase of 10,500.

WELFARE/WELFARE ADMINISTRATION SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)	General Fund	Federal Funds	All Funds
Current Services:			
Loss of One-Time TANF	141	0	141
Caseload Growth	81	(24)	57
Funding for Administration	29	0	29
Executive Budget Recommendations:			
TANF Welfare Consolidation	0	279	279
Program/Funding Realignment	(191)	0	(191)
TANF Reprogramming	(85)	85	0
Out-of-Wedlock Bonus	(25)	25	0
Safety Net Work Rate Penalties	(15)	0	(15)
Eligibility/Benefit Restrictions	(10)	9	(1)
Strengthening Families through Stronger Fathers	3	0	3
Total Annual Change	**(72)**	**374**	**302**

Current Services

Loss of One-Time TANF: TANF funding of $141 million used in 2004-05 for public assistance is not available in 2005-06.

Caseload Growth: In the General Fund, the combined family caseload (i.e., Family Assistance and Safety Net families) is expected to grow by 1 percent, adding $43 million in General Fund spending. The "non-family" Safety Net caseload is projected to increase by 7 percent, adding another $38 million. A projected decrease in the family caseload supported exclusively by the TANF block grant results in a reduction in Federal spending ($24 million).

Funding for Administration: Funding for administrative services associated with the public assistance program is projected to increase by $29 million.

Executive Budget Recommendations

TANF Welfare Consolidation: To improve accountability and streamline operations, the Budget recommends consolidating all TANF spending in the Office of Temporary and Disability Assistance (OTDA). Thus, TANF spending authority for both the Child Care and the Title XX Social Services Block Grants will now be appropriated in OTDA ($279 million).

Program/Funding Realignment: To streamline spending and focus on the core mission of the welfare program, spending that has limited or no local district involvement will be supported by the General Fund, not TANF, and budgeted in the agencies directly responsible for their oversight. These programs include advantage schools (OCFS, $20 million), home visiting (OCFS, $16 million), food pantries (DOH, $12 million), Women, Infants and Children program (DOH, $5 million), alternatives to incarceration (DPCA, $4 million), and school-based health centers (DOH, $3 million).

In addition, certain child welfare and child care services formerly funded by TANF will now be funded through the child care and foster care block grants administered by OCFS ($131 million).

TANF Reprogramming: Recommendations would reduce General Fund costs and increase Federal funding by reprogramming the unspent prior-year TANF surplus earmarked for certain initiatives, and using funds in excess of the TANF maintenance-of-effort levels ($60 million and $25 million, respectively) to support EITC.

Reduction in "Out-of-Wedlock" Rate: The State received a TANF bonus from the Federal government for decreasing the rate of teenage out-of-wedlock pregnancies, which the Budget recommends using to support State welfare costs ($25 million).

Safety Net Work Rate Penalty: State reimbursement for administrative costs would be reduced for local districts that fail to achieve State-mandated work participation rates for their Safety Net population ($15 million).

Eligibility/Benefit Restrictions: Proposed benefit changes include decreasing the amount of earned income that is disregarded when determining benefit eligibility and eliminating benefits for families in which an adult fails to comply with mandated employment obligations. These proposed changes reduce General Fund costs by $10 million and increase Federal spending by $9 million.

Strengthening Families through Stronger Fathers: A portion of the savings noted above is proposed to be reinvested in a five-county demonstration program to assist unemployed and under-employed non-custodial parents in obtaining and retaining employment ($3 million).

OFFICE OF CHILDREN AND FAMILY SERVICES

The Office of Children and Family Services (OCFS) provides child welfare services including foster care, adoption, child protective services, delinquency prevention, and child care. OCFS oversees the State's system of family support and child welfare services that are administered by local departments of social services and community-based organizations. Specifically, child welfare services programs, which are financed jointly by the Federal government, the State and local districts, are structured to encourage local governments to invest in preventive services necessary to reduce out-of-home placement of children. In addition, the State Child Care block grant, which is also financed by a combination of Federal, State and local sources, supports child care subsidies for public assistance and low-income families. The youth facilities program serves youth directed by family or criminal courts to be placed in residential facilities. Federal funding for OCFS programs is provided through the Flexible Fund for Family Services, Federal Title IV-E Foster Care and Adoption Assistance Payments, the Federal Child Care and Development Fund, and the Title XX Social Services block grant.

CHILDREN AND FAMILY SERVICES SPENDING PROJECTIONS (millions of dollars)	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	**1,318**	**1,465**	**147**	**11.2%**
Other State Support	30	29	(1)	-3.3%
State Funds	**1,348**	**1,494**	**146**	**10.8%**
Federal Funds	1,785	1,620	(165)	-9.2%
All Funds	**3,133**	**3,114**	**(19)**	**-0.6%**

All Funds spending for OCFS is expected to total $3.1 billion in 2005-06, consisting of $1.5 billion in General Fund spending, $29 million in other State spending and $1.6 billion in Federal spending. Spending supports child welfare ($1.8 billion), child care ($727 million) and juvenile justice services including delinquency prevention, youth facilities and local detention facilities ($272 million). The annual changes are described in more detail below.

CHILDREN AND FAMILY SERVICES SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Underlying Base Changes	(14)	(2)	114	98
Executive Budget Recommendations:				
TANF Welfare Consolidation	0	0	(279)	(279)
Program/Funding Realignment	167	0	0	167
Priority Programming	(1)	0	0	(1)
All other Buget Actions	(5)	1	0	(4)
Total Annual Change	**147**	**(1)**	**(165)**	**(19)**

Current Services

Underlying Base Changes: Spending decreases by $14 million in the General Fund due primarily to downward revisions in expected State reimbursements to local districts for child welfare spending. Additionally, increased use of Federal funds for programs such as foster care and adoption results in growth in Federal fund spending.

Executive Budget Recommendations

TANF Welfare Consolidation: To improve accountability and streamline operations, the Budget recommends consolidating all TANF spending in OTDA. Thus, TANF spending authority for Child Care and the Title XX Social Services Block Grant will now be appropriated in OTDA ($279 million).

Program/Funding Realignment: As noted above in the section on welfare, certain child welfare, child care and juvenile justice services currently funded by TANF are proposed to be financed with State funding in OCFS ($167 million).

Priority Programming: Funding for institutional-based programs is redirected to community-based programs for youth, including Persons in Need of Supervision (PINS) and preventive mental health services.

All Other Budget Actions: Decreases reflect primarily program reforms and use of Federal and other funds in the area of juvenile justice.

MENTAL HYGIENE

The Department of Mental Hygiene comprises three independent agencies — OMH, OMRDD, and OASAS. The agencies provide a wide array of services to special needs populations. Services are administered to individuals with mental illnesses, developmental disabilities, and chemical dependencies through institutional or community-based settings. Specifically, OMH plans and operates an integrated system of mental health care that serves adults with serious and persistent mental illness and children with serious emotional disturbances. OMRDD serves and supports individuals and families of individuals with developmental disabilities. OASAS licenses and evaluates service providers and implements programs for the prevention, early intervention, and treatment of chemical dependence.

All three agencies provide services directly to their clients through State-operated facilities and receive reimbursement for these services from Medicaid, Medicare and third-party insurance. Patient revenues are pledged first to the payment of debt service on outstanding Mental Hygiene bonds, with the remaining revenue deposited to the PIA to help support General Fund costs of providing services.

MENTAL HYGIENE SPENDING PROJECTIONS
(millions of dollars)

	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	**2,446**	**2,462**	**16**	**0.7%**
Other State Support	437	451	14	3.2%
State Funds	**2,883**	**2,913**	**30**	**1.0%**
Federal Funds	2,596	2,734	138	5.3%
All Funds	**5,479**	**5,647**	**168**	**3.1%**

All Funds spending is expected to total $5.6 billion in 2005-06, with $2.5 billion in General Fund spending, $451 million in other State funding and $2.7 billion in Federal funding. By agency, All Funds spending is projected to total $2.9 billion in OMRDD, $2.2 billion in OMH and $482 million in OASAS. The State share of Medicaid spending budgeted in the Department of Mental Hygiene is projected to total $1.4 billion in 2005-06. The annual increase of $168 million in mental hygiene programs is described in more detail below.

MENTAL HYGIENE SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Local Services	125	0	0	125
Underlying Program Growth	156	8	(106)	58
Executive Budget Recommendations:				
Patient Income Account Actions	(174)	0	242	68
Local Assistance Efficiencies	(63)	0	0	(63)
State Operations Efficiencies	(33)	0	0	(33)
Local Program Redirection	5	0	0	5
All Other Budget Actions	0	6	2	8
Total Annual Change	**16**	**14**	**138**	**168**

Current Services

Local Services: Funding increases support existing program commitments and mandates including OMRDD's NYS-CARES and NYS-OPTS programs and OMH's community bed pipeline.

Underlying Program Growth: Includes funding for collective bargaining agreements, inflation and staffing adjustments ($151 million); and a decline in PIA revenues used to offset General Fund spending ($107 million). Other factors include the "tail" of 2004-05 savings actions ($32 million) and removal of funding for the 27th institutional payroll ($70 million).

Executive Budget Recommendations

PIA Actions: Higher Federal aid is driven primarily by enhanced trend factors, Medicaid rate adjustments, additional revenues for inpatient billings, and Medicare cost settlements. These actions are expected to increase the amount of patient care revenues available to support what would otherwise be General Fund costs in 2005-06, resulting in net General Fund savings of $174 million.

Local Assistance Efficiencies: Includes conversion of 100 percent State funded programs to Medicaid ($18 million), aggressive pursuit of provider audit and under-spending recoveries and program development slippage ($26 million) and other local program cash management actions ($19 million).

State Operations Efficiencies: State Operations savings will be achieved through continued vacancy and staffing controls aimed at reducing excessive overtime and managing future hiring, as well as management of non-personal service spending ($33 million).

Local Program Redirection: Savings from reducing or eliminating funding for under-performing or less effective programs ($16 million) is redirected to enhance existing priority OMH and OASAS not-for-profit operated programs to improve recruitment and retention of direct care staff and maintain chemical dependence treatment services for the working poor ($21 million).

All Other Budget Actions: Other State Funds increased by more than $5 million as a result of increased funding for case management in adult homes.

TRANSPORTATION

The Department of Transportation (DOT) directly maintains and improves the State's more than 40,000 highway lane miles and 7,500 bridges. Overall, the State's transportation network includes 239,000 lane miles of roads, 19,500 bridges, 4,000 railroad miles, 147 public use airports, 12 major ports and over 70 mass transit systems. The State maintains and improves this extensive collection of assets through taxes, Federal grants, voter-approved general obligation bonds, and bonds issued by public authorities pursuant to contractual agreements with the State. In addition to State-owned transportation assets, the DOT assists in funding projects for highways, bridges, transit systems and other transportation facilities which are owned by local governments.

TRANSPORTATION SPENDING PROJECTIONS
(millions of dollars)

	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	**113**	**103**	**(10)**	**-8.8%**
Other State Support	3,568	3,805	237	6.6%
State Funds	**3,681**	**3,908**	**227**	**6.2%**
Federal Funds	1,543	1,562	19	1.2%
All Funds	**5,224**	**5,470**	**246**	**4.7%**

All Funds spending in 2005-06 for transportation is projected to increase by $246 million (4.7 percent) over the prior year, consisting of an increase in State funding ($227 million) and Federal disbursements ($19 million).

General Fund spending for transportation is projected to decrease by $10 million (8.8 percent) and reflects primarily the use of roughly $155 million of other funds to support what otherwise would be General Fund costs (including fringe benefits).

Spending from other State Funds is projected to increase by $237 million, reflecting primarily the new five-year capital DOT Plan totaling $17.4 billion to improve transportation and transit facilities across the State. For a more detailed discussion of the new five-year capital DOT Plan, see the "Capital Program and Financing Plan" in this volume.

In addition to funding the first year of the five-year DOT Capital Plan, the 2005-06 Executive Budget includes funding for the first year of the new Metropolitan Transportation Authority (MTA) five-Year Capital Program. Although not part of the State's capital plan, the MTA program reflects continuation of their core "State-of-Good-Repair and Normal Replacement" program at levels established in their 2000-2004 capital plan. The program also includes essential security projects, interagency policing facilities, and the City-funded extension of the #7 Line.

State funding for transit systems comprises the majority of transportation SRF spending. Over $1.67 billion of 2005-06 transit aid is derived from taxes dedicated to the Mass Transportation Operating Assistance (MTOA) Fund and the Dedicated Mass Transportation Trust Fund. Total disbursements from transportation SRFs are projected to be $1.84 billion in 2005-06, $162 million above the current year. This increase reflects an increase of $57.3 million in capital support for the MTA from the Dedicated Mass Transportation Trust Fund.

GENERAL STATE CHARGES

General State Charges (GSCs) account for the costs of fringe benefits to State employees and retirees of the Executive, Legislative and Judicial branches, as well as for tax payments related to public lands and litigation. 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. Other costs include State payments-in-lieu-of-taxes to local governments for certain State-owned lands, and payments related to lawsuits against the State and its public officers.

Employee fringe benefits paid from the General Fund are financed primarily by General Fund revenues (78 percent) and supplemented with revenue from fringe benefit assessments on Federal and other dedicated revenue programs (22 percent). Other General State Charges costs are paid in full by General Fund revenues.

GENERAL STATE CHARGES SPENDING PROJECTIONS (millions of dollars)

	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	**3,665**	**3,889**	**224**	**6.1%**
Other State Support	484	558	74	15.3%
State Funds	**4,149**	**4,447**	**298**	**7.2%**
Federal Funds	204	226	22	10.8%
All Funds	**4,353**	**4,673**	**320**	**7.4%**

All Funds spending on GSCs is expected to total $4.7 billion in 2005-06, and comprises $3.9 billion in General Fund spending, $558 million other State funding and $226 million Federal funding. Major components of All Funds spending include health insurance ($2.2 billion), pensions ($935 million), and social security ($804 million). The annual changes are described in more detail below.

GENERAL STATE CHARGES SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)

	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Pension Rate Increase	455	0	0	455
Employee Health Care	195	0	0	195
All Other Changes	(34)	73	22	61
Executive Budget Recommendations:				
Pension Rate Relief	(321)	0	0	(321)
Increased Non-General Fund Payments	(57)	0	0	(57)
Other Budget Actions	(14)	1	0	(13)
Total Annual Change	**224**	**74**	**22**	**320**

Current Services

Pension Rate Increase: Higher projected contributions to the New York State and Local Retirement Systems for fiscal year 2005-06 are associated with discretionary actuarial funding changes developed by the State Comptroller in calculating the 2005-06 pension contribution rates. Baseline projections from the Comptroller show an employer pension contribution rate of 11 percent of payroll in 2005-06 compared to 7 percent paid in 2004-05, resulting in an annual State pension cost of $1.3 billion, an increase of $455 million (56.7 percent) in 2005-06.

Employee Health Care: The cost of providing health insurance to State employees and retirees is projected to total $2.2 billion in 2005-06, an increase of $195 million (9.5 percent). The major program assumptions include underlying premium growth of 7.8 percent in 2005 and 11 percent in 2006 for the State employee health plan.

Executive Budget Recommendations

Pension Rate Relief: The Executive Budget proposes legislation that would require the State Comptroller to seek independent professional review and receive public comment prior to making changes in pension funding assumptions. It is anticipated that through this process the 2005-06 pension contribution rate will be reduced from 11 percent to 7 percent, resulting in a total employer pension contribution of $935 million, an annual increase of $133 million (16.6 percent) compared to the $455 million increase that would otherwise occur.

Increased Non-General Fund Payments: The 2005-06 Executive Budget recommends increased funding for certain DOT personnel costs from the Dedicated Transportation Fund. This assumes that the full cost of Dedicated Highway personnel will be payable from the Dedicated Highway and Bridge Trust Fund, thus reducing what otherwise would be General Fund costs ($57 million).

Other Budget Actions: The most significant recommendation reflects revising statutory interest rates payable on court judgments from a current fixed rate of 9 percent to prevailing market rates ($7 million).

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 [e.g., Empire State Development Corporation (ESDC), Dormitory Authority of the State of New York (DASNY), Thruway Authority, Local Government Assistance Corporation (LGAC)] for which the State is contractually obligated to pay debt service, subject to an appropriation. Debt service is paid for through transfers from the General Fund, dedicated taxes and fees, and other resources, such as patient income revenues.

DEBT SERVICE SPENDING PROJECTIONS (millions of dollars)				
	2004-05 Revised	2005-06 Proposed	Annual Change	Percent Change
General Fund	**1,732**	**1,666**	**(66)**	**-3.8%**
Other State Support	2,098	2,202	104	5.0%
State Funds	**3,830**	**3,868**	**38**	**1.0%**
Federal Funds	0	0	0	0.0%
All Funds	**3,830**	**3,868**	**38**	**1.0%**

All Funds spending on debt service is projected to total $3.9 billion in 2005-06, of which $1.7 billion is paid from the General Fund spending and $2.2 billion in other State funding. Spending reflects debt service due on revenue credits supported by dedicated taxes and fees and patient income, including PIT Revenue Bonds, Dedicated Highway and Bridge Trust Fund bonds and Mental Health facilities bonds, and service contract bonds that are supported primarily by the General Fund.

DEBT SERVICE SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) (millions of dollars)	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:				
Underlying Growth	84	293	0	377
Executive Budget Recommendations:				
Transportation Restructuring	0	(209)	0	(209)
Debt Management Actions	(150)	0	0	(150)
Javits Expansion	0	20	0	20
Total Annual Change	**(66)**	**104**	**0**	**38**

Current Services

Underlying Growth: The $377 million in current underlying growth includes increased costs from the bond-financing of prior year capital projects. It reflects the use of PIT revenue bonds (in lieu of more costly service contract bonds) to finance a variety of capital programs, and increases in debt service costs on other revenue credits, including Mental Health ($52 million), SUNY dormitory facilities ($10 million), and LGAC bonds ($21 million).

Executive Budget Recommendations

Transportation Restructuring: To generate short-term savings ($209 million), the proposal would restructure outstanding Dedicated Highway and Bridge Trust Fund bonds to more closely align the schedule for which principal amortizes to the underlying useful lives of the projects financed.

Debt Management Actions: Maximizing refunding savings, and diversifying the State's debt portfolio with variable rate obligations and interest rate exchange agreements, are projected to reduce the growth in costs ($150 million).

Javits Center: Reflects debt service for the State's share of the expansion of the Javits Center ($350 million).

ALL OTHER

In addition to the programs described above, the Executive Budget includes funding for economic development, environmental protection, public protection, general government, the Judiciary, and various other programs. Significant sources of annual change in these areas include:

ESDC: Additional economic development initiatives, primarily for high technology projects, account for most of the $227 million All Funds increase.

Judiciary: Annual All Funds growth of $60 million is attributable primarily to personal service cost increases for collective bargaining ($20 million), as well as performance advances and inflation.

Local Government Aid: The recommended increase of $50 million for aid and incentives for municipalities preserves existing funding for local governments while providing for additional aid to cities, ranging from 5 to 25 percent over two years, and will be tied to performance agreements intended to encourage local efficiencies and improve financial management. The recommended funding of $5 million for the Shared Municipal Services Incentive Awards will provide additional funding for collaborative shared service initiatives undertaken by two or more municipalities. Growth in local government aid reflects payments to Madison and Oneida counties related to Indian land claims settlements ($4 million), which are partially offset by the deferral of the final payment to the Nassau Interim Finance Authority from 2005-06 to 2006-07 ($8 million). The budget recommends continuation of the $170 million of aid to New York City that was used by the City to restructure MAC bonds.

World Trade Center: Immediate Federal aid directly related to the September 11th attacks is projected to be completed in 2004-05. Funds in 2004-05 were used to create a new captive insurance company to support the debris removal and recovery efforts ($1.0 billion) and to apply reimbursement for State-only expenses to support HCRA ($300 million). It also included hazard mitigation measures to reduce or eliminate the threat of future damage, and emergency protective measures to protect the public health and prevent damage to property ($300 million).

GENERAL FUND FINANCIAL PLAN OUTYEAR PROJECTIONS

Before accounting for the impact of the 2005-06 Executive Budget recommendations, DOB projects potential budget gaps of $5.8 billion in 2006-07 and $5.6 billion in 2007-08. The 2005-06 recommendations are estimated to reduce the 2006-07 and 2007-08 gaps to roughly $2.7 billion each year. Detailed projections for both receipts and disbursements outyear gap estimates are described below. The gaps assume the Legislature will enact the 2005-06 Executive Budget recommendations in their entirety.

The following table summarizes the impact of the 2005-06 Budget recommendations on the 2006-07 and 2007-08 budget gaps.

Outyear Savings From 2005-06 Executive Budget Recommendations (millions of dollars)

	2005-06	2006-07	2007-08
Revised Gaps	**(4,152)**	**(5,844)**	**(5,571)**
Total Recommendations	**4,152**	**3,143**	**2,786**
Spending Actions (net of adds):	**2,763**	**2,513**	**2,025**
Spending Actions	3,076	3,483	3,761
Spending Initiatives	(313)	(970)	(1,736)
Revenue Actions (net of tax cuts):	**533**	**724**	**791**
Revenue Actions	779	1,027	995
Tax Cuts	(246)	(303)	(204)
Non-Recurring Resources	**856**	**(94)**	**(30)**
Remaining Budget Gaps	**0**	**(2,701)**	**(2,785)**

RECEIPTS PROJECTIONS FOR 2006-07 AND 2007-08

General Fund Receipts (millions of dollars)	2005-06	2006-07	Annual Change	2007-08	Annual Change
Personal Income Tax	19,844	20,419	575	21,865	1,446
User Taxes and Fees	8,622	8,829	207	9,166	337
Business Taxes	4,066	4,176	110	4,315	139
Other Taxes	778	872	94	920	48
Miscellaneous Receipts	2,451	2,504	53	4,560	2,056
Federal Grants	4	4	0	4	0
Transfers from Other Funds					
Revenue Bond Fund	6,129	6,208	79	6,515	307
LGAC Fund	2,300	2,377	77	2,473	96
CW/CA Fund	510	517	7	525	8
All Other	387	223	(164)	217	(6)
Total Receipts	**45,091**	**46,129**	**1,038**	**50,560**	**4,431**
Annual Percent Change			*2.3%*		*9.6%*

General Fund tax receipts, including transfers from other funds, are projected to total $46.1 billion in 2006-07, an increase of $1 billion over 2005-06 projections. Base growth in tax receipts is expected to exceed historical averages, which is typical of an economy in the early stages of an expansion. Tax receipts are expected to increase by 2.3 percent in 2006-07, reflecting the loss of receipts from the temporary income tax surcharge. Growth jumps to 9.6 percent in 2007-08 due to the $2 billion increase in miscellaneous receipts associated with the Medicaid takeover plan. Adjusting for the impact of law changes, tax receipt growth is expected to average over 6 percent for the forecast period. The growth in tax receipts is consistent with DOB's forecast for the U.S. and New York economies, which projects the recovery extending into 2006 and 2007 and continued profitability in the financial services sector. A more detailed comparison of historical and projected growth rates for tax receipts is contained in "Explanation of Receipt Estimates" later in this volume.

Personal Income Tax

In general, income tax growth for 2006-07 and 2007-08 is governed by projections of growth in taxable personal income and its major components, including wages, interest and dividend earnings, realized taxable capital gains, and business net income and income derived from partnerships and S Corporations.

General Fund PIT receipts, before the impact of the refund reserve, are projected to increase by $752 million to $20.4 billion in 2006-07. The increase from 2005-06 reflects largely growth in underlying liability, offset by the elimination of the 2003 surcharge in tax year 2006. PIT receipts for 2007-08 are projected to increase by $1.4 billion to $21.9 billion. Again, the increase reflects growth in liability consistent with an expanding personal income base during economic expansion. Wages are expected to continue to improve steadily in 2006-07 and 2007-08, reflecting stronger employment growth and increases in bonuses paid. Realized capital gains are expected to continue growing significantly in 2006 and 2007. This growth represents the continuation of the recovery of the stock market from the anemic period of 2001 through 2003.

The 2006-07 and 2007-08 projections also assume increases in the other major components of income, consistent with continued growth in the overall economy. See "Explanation of Estimated Receipts, Economic Backdrop" for a more detailed discussion of these estimates.

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

User Taxes and Fees

General Fund receipts from user taxes and fees are estimated to total $8.8 billion in 2006-07, an increase of $207 million from 2005-06. The increase is due almost exclusively to the projected growth in the sales tax base, which changes in the overall New York economy. The expected growth in the sales tax base in 2006-07 is expected to be 4 percent.

General Fund user taxes and fees receipts are expected to grow to $9.2 billion in 2007-08. The economy is expected to continue to grow at trend rates over this period, resulting in sales tax growth more in line with historical averages. This is expected to result in underlying growth in the sales tax base of 4.2 percent.

Business Taxes

General Fund business tax receipts are expected to increase to $4.2 billion in 2006-07. This is due primarily to the anticipated continued growth in corporate and bank profits, as well as the continued growth in insurance premiums. Business tax receipts are projected to increase to $4.3 billion in 2007-08 reflecting continued modest increases in underlying liability.

Other Taxes

General Fund receipts from other taxes are expected to increase to $872 million in 2006-07, reflecting the impact of the expected growth in household net worth on the value of taxable estates. In 2007-08, receipts are projected to rise to $920 million, reflecting the expectation of continued growth in estate tax liability.

Miscellaneous Receipts

General Fund miscellaneous receipts are estimated at $2.5 billion in 2006-07 and $4.6 billion in 2007-08. The 2007-08 increase includes the proposed full State takeover of Medicaid costs beginning in 2008 and accounts for $2 billion of this increase.

Transfer from Other Funds

Transfers from other funds are estimated to grow to $9.3 billion in 2006-07 and $9.7 billion in 2007-08. The projections anticipate growth in the dedicated portions of the PIT, sales tax and the real estate transfer tax, which comprise a significant portion of transfers from other funds each year. The projected growth in PIT, sales and real estate taxes ($371 million) in 2006-07 is more than offset by net increases in debt service related to PIT Revenue Bonds, LGAC Bonds and Clean Water/Clean Air General Obligation debt service ($208 million) and fund balances ($164 million).

DISBURSEMENT PROJECTIONS FOR 2006-07 AND 2007-08

DOB forecasts General Fund spending of $49 billion in 2006-07, an increase of $3.9 billion (8.7 percent) over recommended 2005-06 levels. The growth rate assumes that the Executive Budget recommendations are enacted in their entirety, but does not reflect additional actions to control spending beyond those proposed in the 2005-06 Executive Budget. Annual growth from 2006-07 to 2007-08 is projected at $2.2 billion (4.5 percent), adjusted for full State takeover of local Medicaid costs, or $4.5 billion (9.2 percent) with full takeover. The forecast for 2007-08 is necessarily more speculative than the forecast for 2006-07, since two budgets must be enacted between now and the development of the 2007-08 Executive Budget.

The primary sources of annual spending growth for 2006-07 and 2007-08 are itemized in the table below. A detailed table of the key trend factors used in the outyear projections and the multi-year impact of all major budget recommendations was provided earlier in this overview, and should be read in conjunction with the following data.

General Fund Disbursements (millions of dollars)	2005-06	2006-07	Annual Change	2007-08	Annual Change
Grants to Local Governments:	**30,619**	**32,995**	**2,376**	**36,921**	**3,926**
School Aid	13,228	13,394	166	13,732	338
Medicaid	7,313	9,122	1,809	12,358	3,236
Welfare	1,393	1,552	159	1,714	162
All Other	8,685	8,927	242	9,117	190
State Operations:	**8,055**	**8,809**	**754**	**9,250**	**441**
Personal Service	5,861	6,350	489	6,539	189
Non-Personal Service	2,194	2,459	265	2,711	252
General State Charges	**3,889**	**4,654**	**765**	**4,845**	**191**
Transfers to Other Funds:					
Debt Service	**1,666**	**1,679**	**13**	**1,648**	**(31)**
Capital Projects	**219**	**234**	**15**	**231**	**(3)**
All Other	**627**	**609**	**(18)**	**617**	**8**
Total Disbursements	**45,075**	**48,980**	**3,905**	**53,512**	**4,532**
Annual Percent Change			*8.7%*		*9.3%*

Grants to Local Governments

Local assistance spending is projected to total $33 billion in 2006-07 and $36.9 billion in 2007-08. Medicaid, welfare, and school aid are primarily responsible for the annual growth. The following table summarizes some of the factors that affect the local assistance projections over the Financial Plan period.

Local Assistance -- Selected Program Measures	2004-05	2005-06	2006-07	2007-08
Medicaid				
Medicaid Coverage	3,622,184	3,748,627	3,868,627	3,988,627
Medicaid Inflation	4.1%	3.9%	3.8%	3.7%
Medicaid Utilization	2.3%	2.5%	2.6%	2.7%
State Takeover of FHP Costs ($ millions)	$49	$312	$576	$625
State Takeover of All Other Local Medicaid Costs (Net State Costs - $ millions)	n/a	$121	$631	$1,257
Education				
K-12 Enrollment	2,864,037	2,848,713	n/a	n/a
Public Higher Education Enrollment (FTEs)	489,936	495,900	n/a	n/a
TAP-Annual Average TAP Recipients	345,000	345,000	n/a	n/a
Welfare				
Family Assistance Caseload	499,400	503,100	519,500	537,700
Single Adult/No Children Caseload	142,300	152,800	165,300	179,000
Mental Hygiene				
Mental Hygiene Community Beds	81,388	83,032	84,373	86,650

General Fund spending for Medicaid is expected to grow by $1.8 billion to $9.1 billion in 2006-07 and another $3.2 billion to $12.4 billion in 2007-08. These projections reflect the estimated impact of the 2005-06 budget recommendations. The factors affecting growth include: more recipients, higher service utilization, and growth in prescription drug prices, which are projected to add approximately $840 million in spending in both 2006-07 and 2007-08; growth related to the State takeover of local FHP costs that are estimated to rise by $264 million in 2006-07 and $49 million in 2007-08; and the loss of resources from Empire conversion proceeds ($200 million) and HCRA ($500 million) that are expected to help lower 2005-06 spending, but will not be available again in 2006-07. The payment of an extra Medicaid cycle in 2005-06 partially offsets the increase in spending in 2006-07. In addition, the proposed cap on local Medicaid costs that phases into a full takeover of local Medicaid costs effective January 1, 2008 is expected to increase General Fund costs by $510 million in 2006-07 and $2.7 billion in 2007-08, which will be offset by $2.0 billion in additional receipts from local sales tax and other local resources currently used to pay local Medicaid costs.

DOB projects the average number of Medicaid recipients to grow to 3.9 million in 2006-07, an increase of 3.1 percent over the estimated 2005-06 caseload of 3.7 million. FHP enrollment is estimated to grow to approximately 661,044 in 2006-07, an increase of 19.5 percent over projected 2005-06 enrollment of 553,044.

Traditional school aid on a school year basis is projected at $16 billion in 2006-07 and $16.5 billion in 2007-08, an increase of $500 million. The traditional school aid projections assume growth in the Flex Aid program advanced with the 2005-06 Budget, the impact of recommended reforms to building and special education aid, and maintenance of current levels for most other aid categories. On a State fiscal year basis, school aid spending is projected to grow by approximately $166 million (1.3 percent) in 2006-07 and $338 million (2.5 percent) in 2007-08. In addition, revenues from VLTs are projected to finance additional sound basic education grants in Special Revenue Funds.

Welfare spending, including administration, is projected at $1.6 billion in 2006-07, an increase of $159 million (11.4 percent) from 2005-06. Projected growth in family caseload ($72 million or 3 percent), and the single adult/childless couples caseload ($47 million or 8 percent) are responsible for the upward trend in spending.

All other local assistance programs total $8.9 billion in 2006-07, an increase of $242 million over 2005-06 recommended levels (2.8 percent). Growth in handicapped programs ($31 million), mental hygiene ($67 million), children and families services ($48 million), K-12 education programs excluding school aid ($46 million), and, to a lesser extent, other agencies are the main factors affecting spending.

State Operations

State Operations -- Selected Program Measures	2004-05	2005-06	2006-07	2007-08
State Operations				
Prison Population (Corrections)	63,800	63,100	n/a	n/a
Negotiated Salary Increases (1)	2.5%	2.75%	3.0%	0.0%
Personal Service Inflation	0.8%	0.8%	0.8%	0.8%
State Workforce	190,933	191,424	191,852	191,852

(1) Negotiated salary increases include a recurring $800 base salary adjustment effective April 1, 2007.

State Operations spending is expected to total $8.8 billion in 2006-07, comprised of $6.4 billion for personal service and $2.4 billion for non-personal service. This reflects an annual increase of $754 million (9.4 percent) mainly due to collective bargaining costs, normal "salary creep" increases, and inflationary increases for non-personal service costs ($563 million) and the decline in patient income revenues available to offset spending in the General Fund ($191 million).

General State Charges

General State Charges -- Selected Program Measures	2004-05	2005-06	2006-07	2007-08
General State Charges				
Pension Contribution Rate	7.0%	7.0%	12.4%	11.5%
Employee Health Insurance	14.0%	9.2%	11.6%	10.9%

GSCs are projected to total $4.7 billion in 2006-07 and $4.8 billion in 2007-08. The annual increases of $765 million (19.7 percent) in 2006-07 and $191 million (4.1 percent) in 2007-08 are due mainly to anticipated cost increases in pension and health insurance benefits for State employees and retirees. The estimates include projected costs of $1.4 billion in 2006-07 and 2007-08 for pensions, and $2.5 billion in 2006-07 and $2.8 billion in 2007-08 for health insurance. The employer pension contribution rate to the New York State and Local Retirement Systems is expected to increase from 7.0 percent of employee salaries in 2005-06 to 12.4 percent in 2006-07, and then decline to 11.5 percent in 2007-08. These rates, which assume the 2005-06 Executive Budget pension recommendation is implemented, require additional State spending of $506 million in 2006-07, and a decline in spending of $60 million in 2007-08. Spending for employee health care costs is expected to increase by $259 million in 2006-07 and another $273 million in 2007-08, and assumes average annual premium trend increases of 11 percent.

Transfers to Other Funds

Transfers -- Selected Program Measures	2004-05	2005-06	2006-07	2007-08
State Debt				
Interest on Variable Rate Debt	1.5%	2.8%	3.0%	3.3%
Interest on 30-Year Bonds	5.0%	5.3%	5.8%	6.2%

Transfers to other funds are estimated to total $2.5 billion in 2006-07 and 2007-08. Over the period of the Financial Plan, total transfers are projected to remain virtually unchanged. However, it should be noted that debt service transfers from the General Fund are projected to remain stable primarily because increases in debt service costs are reflected in State Funds due to the accounting treatment of the Personal Income Tax revenue bond program.

2005-06 GOVERNMENTAL FUNDS FINANCIAL PLAN (FUND TYPE)

This section summarizes the 2005-06 Financial Plan from the perspective of each of the four major fund types that comprise the All Funds budget: the General Fund, SRFs, CPFs, and DSFs.

GENERAL FUND

The State projects General Fund receipts of $45.1 billion in 2005-06, an increase of $1.6 billion (3.6 percent) from the current year. The increase in General Fund receipts is the result of increased collections from the personal income tax and sales tax, resulting from temporary tax actions taken in the 2003-04 Enacted Budget as well as continued growth resulting from the improving economic climate. More detail on the receipts outlook is provided earlier in this Overview.

General Fund Receipts (millions of dollars)				
	2004-05 Adjusted	**2005-06 Proposed**	**Annual Change**	**Percent Change**
Personal Income Tax	18,932	19,844	912	4.8%
User Taxes and Fees	8,752	8,622	(130)	-1.5%
Business Taxes	3,764	4,066	302	8.0%
Other Taxes	730	778	48	6.6%
Miscellaneous Receipts	2,801	2,451	(350)	-12.5%
Federal Grants	8	4	(4)	-50.0%
Transfers From Other Funds:				
Revenue Bond Fund	5,842	6,129	287	4.9%
LGAC Fund	2,171	2,300	129	5.9%
CW/CA Fund	520	510	(10)	-1.9%
All Other	504	387	(117)	-23.2%
Total Receipts	**44,024**	**45,091**	**1,067**	**2.4%**

Transfers From Other Funds

Transfers from other funds are expected to total $9.3 billion, an increase of $289 million from 2004-05. This annual increase comprises primarily higher transfers from the Revenue Bond Tax Fund (RBTF) ($287 million), the LGAC Fund ($129 million), offset by lower transfers from the CW/CA Fund ($10 million) and all other funds ($117 million).

Transfers to the General Fund from PIT receipts deposited to the RBTF in excess of debt service payable on State PIT Bonds is projected to total $6.1 billion in 2005-06, an increase of $287 million from 2004-05. The annual increase is attributable to overall growth in PIT ($436 million), partially offset by an increase in debt service costs on those bonds ($149 million).

Transfers to the General Fund of sales tax receipts deposited to the LGAC fund in excess of debt service due on LGAC bonds is projected to total $2.3 billion in 2005-06, an increase of $129 million from the prior year. This growth is due to overall growth in sales tax receipts ($150 million), partially offset by a modest increase in debt service costs ($21 million).

Transfers to the General Fund from the real estate transfer tax deposited to the CW/CA DSF in excess of debt service due on those general obligation bonds is projected to total $510 million in 2005-06. The modest change is due to overall growth in real estate transfer taxes ($5 million), more than offset by an increase in debt service costs ($15 million).

All other transfers are projected to total $387 million in 2005-06, an annual decrease of $117 million primarily due to nonrecurring transfers from SUNY and CUNY to reimburse the General Fund for equipment costs ($163 million).

Disbursements

The State projects adjusted General Fund disbursements, including transfers to other funds, of $45.1 billion in 2005-06, an increase of $1.2 billion (2.6 percent) from the current year. Increases in Grants to Local Governments ($454 million), State Operations ($448 million), GSCs ($224 million), and transfers ($34 million) account for the change. The major components of these disbursement changes are summarized below and are explained in more detail in the "2005-06 Financial Plan — 2005-06 Disbursements Forecast" above.

General Fund Disbursements (millions of dollars)

	2004-05 Adjusted	2005-06 Proposed	Annual Change	Percent Change
Grants to Local Governments	30,165	30,619	454	1.5%
State Operations	7,607	8,055	448	5.9%
General State Charges	3,665	3,889	224	6.1%
Transfers to Other Funds				
Debt Service	1,732	1,666	(66)	-3.8%
Capital Projects	198	219	21	10.6%
All Other	548	627	79	14.4%
Total Disbursements	**43,915**	**45,075**	**1,160**	**2.6%**

Grants to Local Governments

Grants to Local Governments include financial aid to local governments and nonprofit organizations, as well as entitlement payments to individuals. Local assistance spending is projected at $30.6 billion in 2005-06, an increase of $454 million from the current year. Growth in school aid ($321 million), CUNY operating costs (mainly for salary growth and increases in fixed costs) and CUNY/SUNY community college enrollment growth ($163 million), and welfare (due mainly to caseload increases) ($89 million) are partially offset by savings from Medicaid cost containment, TAP reforms, a patient income revenue reclassification described below, and other actions summarized in "2005-06 Gap-Closing Plan" earlier in this Overview.

State Operations

State Operations accounts for the cost of running the Executive, Legislative, and Judicial branches of government and is projected to total $8.1 billion in 2005-06 an increase of $448 million (5.9 percent) from the prior year. Personal service costs (e.g., State employee payroll) comprise 73 percent of State Operations spending. The remaining 27 percent represents non-personal service costs for contracts, rent, supplies, and other operating expenses.

The projected annual increase in State Operations is affected by the use of $400 million in patient income revenues in 2005-06 to offset local assistance spending, instead of offsetting State Operations spending as was done in 2004-05. The change results in a $400 million annual increase in State operations costs financed by the General Fund and a comparable decrease in local assistance spending. Adjusting for this reclassification, State Operations is projected to increase by $48 million from 2004-05. The growth, before any budget actions, is comprised of scheduled wage increases under current labor contracts, normal salary creep, and salary grade changes ($338 million), costs associated with the gaming and racing program ($108 million) and other program growth ($84 million). This underlying growth is offset by savings in agency operations ($161 million), the use of alternate sources of revenue to fund operations, and the removal of the 27th institutional payroll.

Personal service spending, after Executive Budget actions, totals $5.9 billion in 2005-06, an increase of $246 million or 4.4 percent. The annual growth is driven primarily by the patient income revenue reclassification ($400 million) and underlying growth ($221 million) partially offset by savings resulting from budget actions, including revenue maximization ($375 million).

Non-personal service spending totals $2.2 billion, an increase of $203 million or 10.2 percent. Underlying growth ($201 million) and the costs of the gaming and racing program ($108 million) partially offset by savings actions ($106 million) account for this increase.

DOB projects the Executive branch workforce will total 191,424 in 2005-06, an increase of 491 over the current-year estimate. Of the 79 agencies that comprise the Executive Branch workforce, 25 project an annual increase in their workforce. Ten agencies project a reduction in their workforce in 2005-06. Tables that summarize of historical, current, and projected workforce levels by fund type and fund group appear in the "Financial Plan Tables" later in this Overview.

General State Charges

GSCs account for the costs of providing fringe benefits to State employees and retirees of the Executive, Legislative and Judicial branches, as well as fixed costs for taxes on public lands and litigation costs.

General Fund spending for GSCs is projected to be $3.9 billion in 2005-06, an increase of $224 million (6.1 percent) over the prior year. This annual increase is due mostly to rising costs of employee health benefits (an increase of $189 million to $2.2 billion), higher costs related to employer pension contributions (an increase of $133 million to $935 million) and fringe benefit increases for unsettled collective bargaining agreements ($31 million). These increases are partially offset by higher fringe benefit cost reimbursements to the General Fund which are payable from other funds, thus reducing General Fund costs ($129 million). GSCs are explained in more detail earlier in this Overview.

Transfers to Other Funds

Transfers to Other Funds are projected to total $2.5 billion in 2005-06 and include General Fund transfers to support debt service ($1.7 billion), capital projects ($219 million), and other funds ($627 million).

General Fund transfers for debt service decline by $66 million (3.8 percent) from 2004-05 primarily due to $150 million in projected savings from debt management actions, offset by higher debt service on existing bonds for corrections and CUNY, and the accounting treatment of the PIT Revenue Bond program which reduces General Fund costs and increases costs State Funds. Transfers to support capital projects increase by $21 million mainly from a recast of the timing of capital spending based on experience to date. All other transfers are projected to increase by $79 million (14.4 percent) in 2005-06 due primarily to a nonrecurring transfer to the HCRA SRF to pay a prior year loan from the Physicians Excess Medical Malpractice Program ($45 million), and an increase in the State subsidy payments to SUNY hospitals ($27 million).

SPECIAL REVENUE FUNDS

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

In 2005-06 the SRFs Cash Financial Plan projects total receipts of $53.8 billion, total disbursements of $54.2 billion, and net other financing sources of $429 million, resulting in an operating surplus of $82 million.

Receipts

Special Revenue Funds Receipts (millions of dollars)

	2004-05 Adjusted	2005-06 Proposed	Annual Change	Percent Change
Taxes	5,396	5,659	263	4.9%
Miscellaneous Receipts	11,378	13,420	2,042	17.9%
Federal Grants	35,634	34,728	(906)	-2.5%
Total Receipts	**52,408**	**53,807**	**1,399**	**2.7%**

Total SRF receipts are projected to be $53.8 billion in 2005-06, an increase of $1.4 billion (2.7 percent) over the current year adjusted forecast. Increases in miscellaneous receipts ($2.0 billion) and taxes ($263 million) offset by a decrease in Federal grants ($906 million). The major components of these receipt changes are summarized below and are explained in more detail in the "2005-06 Financial Plan - 2005-06 Receipts Forecast" earlier in this Overview.

Taxes

Tax receipts in the SRF are projected to be $5.7 billion, an increase of $263 million (4.9 percent) over the adjusted current year forecast. The annual growth is driven primarily by taxes dedicated to support the STAR program resulting from increased participation by taxpayers and local tax levy growth ($130 million), and higher tax receipts dedicated to support the MTOA Fund ($90 million) and the Dedicated Mass Transportation Trust Fund ($43 million).

Miscellaneous Receipts

Miscellaneous receipts are projected to be $13.4 billion, an annual increase of $2.0 billion (17.9 percent) over the current adjusted forecast. The annual growth is primarily due to the additional transfers from HCRA, including projected Empire conversion proceeds, to support State Medicaid and other public health costs ($1.0 billion), increased receipts from restoration of assessments on hospital, home care and nursing home revenues ($292 million), higher lottery receipts, including VLT revenues, due to expected development of new VLT facilities and higher SUNY receipts.

Federal Grants

Federal grants are projected to be $34.7 billion, a decrease of $906 million (2.5 percent) from the prior year. Changes to Federal grants generally correspond to changes in federally-reimbursed spending as described in the "Disbursements Outlook" section above. However, since Federal reimbursement was assumed to be received in the State fiscal year in which spending occurs, additional timing-related variances result. Spending for World Trade Center activities ($1.6 billion), Children and Families ($195 million) and Medicaid ($145 million) are expected to decline significantly from 2004-05 levels. These declines are partially offset by growth in welfare ($374 million), federally supported school aid costs ($210 million), elections ($148 million), and homeland security ($96 million).

Disbursements

Special Revenue Funds Disbursements (millions of dollars)

	2004-05 Adjusted	2005-06 Proposed	Annual Change	Percent Change
Grants to Local Governments	44,013	44,855	842	1.9%
State Operations	8,396	8,513	117	1.4%
General State Charges	688	784	96	14.0%
Debt Service	0	0	0	0.0%
Capital Projects	2	2	0	0.0%
Total Disbursements	**53,099**	**54,154**	**1,055**	**2.0%**

Total SRF disbursements are projected to be $54.2 billion, an increase of $1.1 billion (2.0 percent) from the current adjusted forecast. The annual growth is due primarily to increases in Grants to Local Governments ($842 million), State Operations ($117 million) and GSCs ($96 million). The major changes in disbursements are summarized below and are explained in more detail in the "2005-06 Financial Plan - 2005-06 Disbursements Forecast" earlier in this Overview.

Grants to Local Governments

Grants to local government are projected at $44.9 billion, an annual increase of $842 million (1.9 percent) from the adjusted 2004-05 projection. Sources of growth include higher spending from SRFs financed by transfers from HCRA and assessments on hospital, home care and nursing home revenues to support State Medicaid costs ($1.0 billion); Federal aid for education for instructional support, IDEA and the School Lunch programs ($522 million), the reclassification of "offset" spending from State Operations to local assistance ($400 million); grants for transit systems ($198 million), a net increase in social services spending driven by TANF reprogramming and growth in OCFS Federal Funds spending ($175 million), STAR due to increased participation by taxpayers and local tax levy growth ($130 million); implementation of the Help America Vote Act ($118 million) and Federal grants for Urban Area Security Initiatives ($96 million). The expected decline in World Trade Center spending ($1.6 billion) partially offsets the growth in other areas.

State Operations

State Operations disbursements are projected to be $8.5 billion, an increase of $117 million (1.4 percent) from 2004-05. Spending increases as a result of collective bargaining agreements ($68 million), performance advances, and inflation ($79 million). An increase in revenues available to finance State Operations in the mental hygiene programs attributable to Federal revenue initiatives ($244 million) and an increase in SUNY revenues available to support SUNY operations ($76 million) account for the remaining increase. The reclassification of PIA "offset" spending from State Operations to local assistance partially offsets the growth in these areas ($400 million).

General State Charges

Disbursements for GSCs are projected to be $784 million, an increase of $96 million (14.0 percent) from the prior year. Growing employer pension contributions and higher employee health insurance costs account for most of the annual growth in GSCs.

Other Financing Sources/(Uses)

Special Revenue Funds Other Financing Sources/(Uses) (millions of dollars)				
	2004-05	**2005-06**	**Annual Change**	**Percent Change**
Transfers From Other Funds	3,182	3,433	251	7.9%
Transfers To Other Funds	(2,923)	(3,004)	(81)	2.8%
Net Other Financing Sources (Uses)	**259**	**429**	**170**	**65.6%**

Transfers from other funds are projected to total $3.4 billion, an increase of $251 million (7.9 percent) from the current year. Patient care revenues, net of debt service on outstanding Mental Hygiene bonds ($136 million), a nonrecurring General Fund transfer to the HCRA Fund to finance a prior year excess medical malpractice loan ($45 million), a nonrecurring transfer from the Suburban Transportation Fund to the MTOA Fund for the MTA Commuter Railroad ($39 million), and an increase in the State subsidy payments to SUNY hospitals ($27 million) account for the change.

Transfers to other funds are estimated to be $3.0 billion, an increase of $81 million (2.7 percent) from 2004-05. The annual growth is due to an increase in Federal Medicaid reimbursement for Mental Hygiene services before payment of debt service ($199 million), and a net increase in fund sweeps ($46 million) partially offset by nonrecurring transfers from SUNY and CUNY to reimburse the General Fund for equipment costs ($163 million).

CAPITAL PROJECTS FUNDS

The following section briefly summarizes activity in the capital projects fund type. For a complete explanation of the State's capital and debt programs, see the summary of the "Capital Program and Financing Plan" later in this AIS Update. The full Capital Program and Financing Plan for 2004-05 through 2009-10 is contained in the "2005-06 New York State Executive Budget Financial Plan" and is available on the DOB website or by contacting DOB.

The CPF group accounts for spending from the CPF, which is supported by a transfer from the General Fund, and spending from other funds for specific purposes, including transportation, mental health, housing, public protection, education and the environment.

The following tables for capital projects reflect accounting adjustments for capital projects activity for anticipated spending delays and certain capital spending that is not reported by the State Comptroller in actual cash spending results, although it is reflected in the State's Generally Accepted Accounting Principles (GAAP) Financial Statements. The spending is related to programs which are financed in the first instance by bond proceeds, rather than with a short-term loan from STIP or cash from the General Fund. Such capital spending is projected at $903 million in 2004-05 and almost $1.2 billion in 2005-06.

Receipts

Capital Projects Funds Receipts (millions of dollars)	2004-05	2005-06	Annual Change	Percent Change
Taxes	1,823	1,855	32	1.8%
Miscellaneous Receipts	2,980	3,444	464	15.6%
Federal Grants	1,778	1,828	50	2.8%
Total Receipts	**6,581**	**7,127**	**546**	**8.3%**
GAAP Adjustment	(903)	(1,168)	(265)	29.3%
Spending Delays	(400)	(500)	(100)	25.0%
Financial Plan Total	**5,278**	**5,459**	**181**	**3.4%**

CPF receipts include dedicated tax receipts from highway-related taxes deposited to the Dedicated Highway and Bridge Trust Fund, and real estate transfer taxes deposited to the EPF. Miscellaneous receipts include bond proceeds that finance capital projects across all functional areas, as well as other fees, including State park fees, industry-specific environmental fees and receipts from the sale of surplus land.

Taxes

Taxes deposited to the CPFs are projected to be $1.9 billion in 2005-06, an increase of $32 million (1.8 percent) from 2004-05. The projected growth includes increases in highway-related taxes deposited to the Dedicated Highway and Bridge Trust Fund and a statutory dedication of $112 million in 2005-06 from the Real Estate Transfer Tax to the EPF.

Miscellaneous Receipts

Miscellaneous receipts are projected to total $3.4 billion in 2005-06, an increase of $464 million from the current year. The increase is attributable primarily to projected increases in economic development ($295 million) and education ($173 million) programs financed with authority bond proceeds.

Federal Grants

Federal grants are estimated at $1.8 billion in 2005-06, an increase of $50 million (2.8 percent) over 2004-05. Environmental grants are projected to remain level, while grants are projected to increase by $50 million to finance projects for the Division of Military and Naval Affairs ($10 million), transportation ($20 million) and World Trade Center capital reconstruction projects ($20 million).

Disbursements

Capital Projects Funds Disbursements (millions of dollars)				
	2004-05	**2005-06**	**Annual Change**	**Percent Change**
Transportation	3,495	3,602	107	3.1%
Parks and Environment	670	661	(9)	-1.3%
Economic Development and Gov't Oversight	301	595	294	97.7%
Health and Social Welfare	128	149	21	16.4%
Education	715	887	172	24.1%
Public Protection	213	235	22	10.3%
Mental Health	286	286	0	0.0%
General Government	137	137	0	0.0%
Other	32	58	26	81.3%
Total Disbursements	**5,977**	**6,610**	**633**	**10.6%**
GAAP Adjustment	(903)	(1,168)	(265)	29.3%
Spending Delays	(400)	(500)	(100)	25.0%
Financial Plan Total	**4,674**	**4,942**	**268**	**5.7%**

Spending for CPFs (prior to adjustments) is projected to total $6.6 billion in 2005-06, an increase of $633 million. The majority of the projected increase is for economic development programs ($294 million) and education ($172 million). The balance of the increase is spread across transportation ($107 million), public protection ($22 million), health and social welfare ($21 million), and other areas ($15 million).

Other Financing Sources/(Uses)

Capital Projects Funds Other Financing Sources (Uses) (millions of dollars)				
	2004-05	**2005-06**	**Annual Change**	**Percent Change**
Transfers From Other Funds	233	257	24	10.3%
Transfers To Other Funds	(1,047)	(937)	110	-10.5%
Bond Proceeds	193	185	(8)	-4.1%
Net Other Financing Sources (Uses)	**(621)**	**(495)**	**126**	**-20.3%**

Transfers from other funds are estimated at $257 million in 2005-06, an increase of $24 million from 2004-05. The change is attributable to an increase in the transfer from the General Fund to the CPFs ($21 million), which supports pay-as-go capital spending in a variety of agencies. Of this increase, $6 million is attributable to the beginning of anticipated spending for the non-bonded portion of the Health Care Efficiency and Affordability Law with the balance representing the impacts of reestimates based on anticipated program activity.

The $110 million decrease in CPF transfers to other funds primarily reflects a decrease in the transfer of receipts from the Dedicated Highway and Bridge Trust Fund to reimburse the General DSF for debt service on Dedicated Highway and Bridge Trust Fund and CHIPs bonds ($173 million), offset by increases in the transfer to the General Fund from the EPF ($21 million) and a new transfer from the Suburban Transportation Fund to the Mass Transportation Assistance Account ($39 million) for projected mortgage recording taxes deposited in that fund.

DEBT SERVICE FUNDS

The following section briefly summarizes activity in the Debt Service Funds type. For a complete explanation of the State's debt perspective, see the "Capital Program and Financing Plan" in the "2005-06 New York State Executive Budget Financial Plan" availably on the DOB website or by contacting DOB.

All tax-financed State debt service on long-term debt and payments on certain lease-purchase or other contractual obligations are paid from DSFs. These account for the accumulation of moneys set aside for, and the payment of principal and interest on, general long-term debt and certificates of participation. Debt service payments for SUNY Dormitories and Health and Mental Hygiene facilities made through contractual obligations with public authorities are also paid from funds classified as DSFs. Debt service on highway bonds supported by dedicated highway revenues is also reflected in this fund type, as such spending is reclassified to DSFs. DSF revenue sources include transfers from the General Fund, dedicated taxes and fees, patient receipts, and other revenues.

Total receipts in the debt service funds are projected at $10.5 billion in 2005-06. Total debt service disbursements are expected to total $3.9 billion. Receipts in excess of those required to satisfy the State's debt service obligations are transferred to the General Fund or to other funds to support capital or operating disbursements.

Receipts

Debt Service Fund Receipts (millions of dollars)				
	2004-05	2005-06	Annual Change	Percent Change
Taxes	9,242	9,833	591	6.4%
Miscellaneous Receipts	647	656	9	1.4%
Total Receipts	**9,889**	**10,489**	**600**	**6.1%**

Total DSF receipts are projected to be $10.5 billion, an increase of $600 million (6.1 percent) from 2004-05. The annual growth is due to increases in dedicated taxes ($591 million) as well as a modest increase in miscellaneous receipts ($9 million). These changes are described in more detail below.

Taxes

The $591 million (6.4 percent) increase in taxes deposited to the DSFs is primarily attributable to growth in dedicated PIT receipts deposited to the RBTF ($436 million), growth in sales and use taxes deposited to the Local Government Assistance Tax Fund ($150 million), and increases in real estate transfer taxes deposited to the CW/CA Fund ($5 million). Starting in 2006-07, a portion of the real estate tax deposits (up to $25 million) is projected to be redirected to the EPF to further support environmental programs.

Miscellaneous Receipts

The modest projected increase in miscellaneous receipts of $9 million (1.4 percent) from 2004-05 is attributable primarily to receipts from SUNY dormitory fees ($9 million). Patient income for health and mental hygiene facilities as well as receipts supporting General Obligation housing bonds, are essentially unchanged.

Disbursements

Debt Service Fund Disbursements (millions of dollars)				
	2004-05	**2005-06**	**Annual Change**	**Percent Change**
General Debt Service Fund	3,150	3,105	(45)	-1.4%
LGAC	316	337	21	6.6%
Mental Health	255	307	52	20.4%
All Other	109	119	10	9.2%
Total Disbursements	**3,830**	**3,868**	**38**	**1.0%**

Total disbursements from the DSF are projected to increase from $3.8 billion in 2004-05 to $3.9 billion in 2005-06. The $38 million increase (1 percent) is due to growth in debt service costs from previous and planned bond sales, offset by $150 million in projected savings from debt management efforts, including the increased use of variable rate obligations and interest rate exchange agreements, as well as the restructuring of the Dedicated Highway and Bridge Trust Fund bonds to more closely align the schedule for principal amortization to the useful lives of the financed projects.

General DSF

Spending from the General DSF is projected to decrease by $45 million (1.4 percent) from 2004-05 and reflects $150 million in projected savings from debt management actions and the restructuring of Dedicated Highway and Bridge Trust Fund Bonds ($209 million). These decreases are offset by increases in spending from the RBTF to support debt service on State PIT Revenue Bonds ($219 million).

LGAC

The Local Government Assistance Tax Fund is projected to receive $2.6 billion in 2005-06 from the dedicated one-cent statewide sales tax. Debt service and related costs on LGAC bonds are projected at $337 million in 2005-06, an increase of $21 million (6.6 percent) from the prior year. Local aid payments due to the State Tax Asset Receivable Corporation (STARC) are paid from the Local Government Assistance Tax Fund after all LGAC debt and related obligations are met, and are reflected in the local assistance portion of the Financial Plan.

Mental Health

Patient income revenues of $2.9 billion deposited and transferred to the Mental Health Services Fund will satisfy debt service obligations of $307 million in 2005-06. Debt service and related costs for this program are projected to increase by $52 million (20.4 percent) from 2004-05 levels. This increase is due primarily to savings achieved from refundings effectuated in prior fiscal years.

All Other

This category includes debt service spending from the Health Income Fund, Housing Debt Fund, and the SUNY Dormitory Income Fund. The $10 million increase in spending from 2004-05 is attributable primarily to increased debt service for SUNY dormitory bonds ($10 million).

Debt Service Funds Other Financing Sources (Uses) (millions of dollars)				
	2004-05	2005-06	Annual Change	Percent Change
Transfers From Other Funds	5,221	5,212	(9)	-0.2%
Transfers To Other Funds	(11,286)	(11,833)	(547)	4.8%
Net Other Financing Sources (Uses)	**(6,065)**	**(6,621)**	**(556)**	**9.2%**

Other Financing Sources/(Uses)

The decrease in transfers from other funds compared to 2004-05 ($9 million) reflects reduced transfers from the General Fund and various other dedicated funds, including the Dedicated Highway and Bridge Trust Fund and the Centralized Services Fund, to the General DSF ($194 million) offset by increased transfers from the Federal Health and Human Services SRFs to the Mental Health DSF ($200 million), and a net reduction in all other transfers of $15 million.

The $547 million (4.8 percent) increase in Transfers to other funds from 2004-05 reflects primarily the excess beyond the debt service due on State PIT Revenue Bonds from the RBTF ($287 million) and the Local Government Assistance Tax Fund ($129 million), as well as increased transfers in excess of SRFs from the Mental Health and the Health DSFs ($135 million), offset by lower transfers to the General Fund from the CW DSF ($10 million), and modest increases in other transfers ($6 million).

FINANCIAL PLAN RESERVES AND RISKS[5]

RESERVES

The State projects that balances in its principal reserves to guard against unbudgeted risks will total $885 million in 2005-06. The reserves include $864 million in the Rainy Day Reserve Fund after a maximum deposit of $70 million in 2004-05, and $21 million in the Contingency Reserve Fund for litigation risks. To permanently improve the State's reserve levels, the Executive again will submit legislation in 2005-06 to increase the maximum size of the State's Rainy Day Fund from 2 percent to 5 percent of General Fund spending. Absent enactment of legislation to increase the Rainy Day Fund, the State has reached its statutory maximum balance of 2 percent with the 2004-05 annual deposit.

The 2005-06 Financial Plan does not set aside specific reserves to cover potential costs that could materialize as a result of adverse rulings in pending litigation, Federal disallowances, or other Federal actions that could adversely affect the State's projections of receipts and disbursements.

[5] For additional discussion of risks, see the section entitled "Special Considerations" in this AIS Update and the AIS dated September 19, 2004.

RISKS

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

Economic Forecast

DOB believes that the U.S. economy will grow at approximately its long-term trend growth rate through the end of the forecast horizon, but risks attend this forecast. The forecast is contingent upon the absence of any further severe shocks to the economy. Unpredictable events such as a terrorist attack remain the biggest risk to the economic expansion. Such a shock could induce firms to postpone their spending and hiring plans yet again, reducing future investment and employment, which in turn could result in lower consumption growth. Moreover, successful attacks on oil facilities abroad could send oil prices back up to their Fall 2004 highs, having adverse economic repercussions. A major setback in the Iraqi conflict could have a similar impact.

On the other hand, a more rapid increase in export growth due to either a weakened dollar or faster global growth could generate a somewhat stronger increase in total output than expected. Similarly, lower inflation than expected, perhaps as a result of an even greater drop in the price of oil or stronger productivity growth than expected, could induce the Federal Reserve to be even more measured in its interest rate increases, resulting in stronger consumption and investment growth than projected. Moreover, stronger employment growth could result in higher real wages, supporting faster growth in consumer spending than expected.

In addition to the risks described above for the national forecast, there are risks specific to New York. Another attack targeted at New York City would once again disproportionately affect the State economy. Any other such shock that had a strong and prolonged impact on the financial markets would also disproportionately affect New York State, resulting in lower income and employment growth than reflected in the current forecast. In addition, if the national and world economies grow more slowly than expected, demand for New York State goods and services would also be lower than projected, dampening employment and income growth relative to the forecast. In contrast, should the national and world economies grow faster than expected, a stronger upturn in stock prices, along with even stronger activity in mergers and acquisitions and IPOs is possible, resulting in higher wage growth than projected. It is important to recall that the financial markets, which are so pivotal to the direction of the downstate economy, are notoriously difficult to forecast. In an environment of global uncertainty, the pace of both technological and regulatory change is as rapid as it has ever been, compounding even further the difficulty in projecting industry revenues and profits.

Litigation[6]

The State is a defendant in several court cases that could ultimately result in costs to the State Financial Plan. The most significant is the *Campaign for Fiscal Equity v. State of New York*, in which the State Court of Appeals directed the State to implement a remedy by July 30, 2004 that ensures all

[6] See the section entitled "Litigation" later in this AIS Update and in the AIS dated September 19, 2004 for a complete summary of litigation affecting the State.

children in New York City have the opportunity to receive a sound basic education (SBE). In August 2004, the State Supreme Court directed a panel of three Special Masters to report and make recommendations on the measures the State has taken to bring its school financing system into constitutional compliance with respect to New York City schools. The Special Masters submitted their report to the Court on November 30, 2004. The report recommended (a) an annual increase of $5.6 billion in education aid to New York City to be phased in over four years and (b) $9.2 billion for school construction and renovation to be phased in over five years. The Court is scheduled to hear oral arguments and is expected to issue a ruling in January 2005.

The 2005-06 Executive Budget proposes a combination of traditional school aid and a new SBE aid program as part of a comprehensive five-year plan to comply with the Court's order. Under an expansion plan proposed by the Governor in the 2005-06 Executive Budget, revenues from VLTs that will be used for SBE Aid are expected to total $325 million in 2005-06 growing to $700 million in school year 2006-07 and $1 billion in 2007-08. Eight VLT facilities are authorized under the current law, but two major facilities located at Yonkers and Aqueduct Raceways have not yet begun operations. These two facilities are expected to produce the majority of the growth of VLT receipts under current law. In July 2004, the Appellate Division of the Court of Appeals upheld the constitutionality of VLTs as a lottery providing education funding. However, the decision stated that certain allocation provisions within the statute allowing VLTs were unconstitutional. While the order of the Court allows current VLT facilities to continue operations, development of the Yonkers and Aqueduct projects has been deferred pending the outcome of litigation at the Court of Appeals.

Ongoing litigation challenging the use of proceeds from the conversion of Empire Blue Cross/Blue Shield from a not-for-profit corporation to a for-profit corporation may result in a loss of resources in both the General Fund and HCRA. Pursuant to court order the State Comptroller is currently holding all proceeds in escrow until a judgment is rendered. The current and proposed HCRA Plans count on a total of $2 billion in Empire proceeds through June 30, 2007. Another $200 million in conversion proceeds is expected to finance Medicaid costs in the General Fund in 2005-06. The availability of the $2.2 billion in resources depends on successful resolution of the litigation or release of the moneys currently held in escrow. Under current law, the General Fund is required to finance any shortfall in HCRA up to the payment that would have been received by HCRA absent the securitization of tobacco proceeds (roughly $450 million annually). In addition, a statutory loan repayment provision requires the General Fund to provide up to $200 million to cover any additional HCRA shortfall.

Other litigation includes ongoing claims by several Indian Nations alleging wrongful possession of lands by the State and several counties, as well as claims involving the adequacy of shelter allowances for families on public assistance. The State has implemented a court-ordered increase in the shelter allowance schedule for public assistance families that became effective on November 1, 2003. However, the plaintiffs are challenging the adequacy of the increase and thus further Court proceedings are pending.

Federal

The Federal government is currently auditing Medicaid claims submitted since 1993 under the school supportive health services program. At this point, the Federal government has not finalized audits, and, as a result, the liability of the State and school districts for any disallowances cannot be determined. Federal regulations include an appeals process that could postpone repayment of any disallowances. The Financial Plan assumes the Federal government will fully reimburse these claims.

In addition, through June 2004, a portion of Federal Medicaid payments related to school supportive health services has been deferred by the Federal Centers for Medicare and Medicaid Services pending finalization of audits. Since the State has continued to reimburse school districts for these costs, these Federal deferrals, if not resolved, could negatively impact future health care spending.

The State continues to await Federal approval of the State Plan Amendment (SPA) for both GME payments and a retroactive HCRA surcharge, which is needed to achieve roughly $150 million in resources counted on in the HCRA Financial Plan. In addition, the State has complied with a request from the CMS to discontinue intergovernmental transfers (IGT) payments on March 31, 2005 pending the submission and approval of a SPA. These payments are related to disproportionate share hospital (DSH) payments to public hospitals throughout the State, including the New York City Health and Hospital Corporation (HHC), SUNY and other State and county operated hospitals. Failure of the Federal government to approve a SPA to reestablish these payments in 2005-06 could have an adverse impact on the State's health care financing system.

CASH FLOW[7]

In 2005-06, the General Fund is projected to have quarterly-ending balances of $2.0 billion in June 2005, $2.8 billion in September 2005, $2 billion by the end of December 2005, and $1.2 billion at the end of March 2006. The lowest projected month-end cash flow balance is $1.3 billion in November. The 2005-06 General Fund cash flow estimates assume enactment of all Executive Budget recommendations, and that the budget is enacted on time. DOB's monthly cash flow projections for 2005-06 are set forth in the section "Financial Plan Tables" later in this Overview.

OSC invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments through STIP, which is comprised of joint custody funds (Governmental Funds, Internal Service Funds, Enterprise Funds and Private Purpose Trust Funds), as well as several sole custody funds including the Tobacco Settlement Fund.

OSC is authorized to make temporary loans from STIP to cover temporary cash shortfalls in certain funds and accounts resulting from the timing of receipts and disbursements. The Legislature authorizes the funds and accounts that may receive loans each year, based on legislation submitted with the Executive Budget. Loans may be granted only for amounts that the Director of the Budget certifies are "receivable on account" or can be repaid from the current operating receipts of the fund (i.e., loans cannot be granted in expectation of future revenue enhancements).

Consistent with the Governor's budget reform proposal, the DOB has summarized actual cash flow expenses for the period from April 1, 2004 through December 31, 2004 against the estimates in the 2004-05 Enacted Budget, the 2004-05 Mid-Year Update, and actual results for the same nine-month period in 2003.

[7] Unaudited cashflow results as prepared and reported by DOB.

Actual Results through December (Comparison of 2003 to 2004)

Cash Flow April 1 through December 31 (Actuals) (millions of dollars)			
	2003	**2004**	**Variance**
Receipts	31,647	31,599	(48)
Disbursements	29,450	30,140	(690)
Closing Fund Balance	3,012	2,536	(476)

General Fund receipts from April 1, 2004 through December 31, 2004 totaled $31.6 billion, a decrease of $48 million from the same period in 2003. This decrease is comprised of the loss on nonrecurring resources related to tobacco securitization proceeds ($3.2 billion) and Federal revenue sharing grants ($645 million) offset by sales and personal income tax temporary rate increases implemented as part of the 2003-04 Enacted Budget. Taxes grew by nearly 14 percent over this period, recovering most of the loss of one-time resources.

General Fund disbursements through December 31, 2004 were $30.1 billion, an increase of $690 million from the same period in 2003. After adjusting for the deferral of $1.9 million in payments that were scheduled in 2002-03 but made in 2003-04 related to the State's tobacco securitization, total disbursements increased by $2.6 billion. This increase is attributable primarily to higher costs for Medicaid ($711 million), pensions and employee health insurance ($420 million), debt service ($265 million), State operations including salary increases and inflation ($232 million), school aid ($158 million), and welfare ($137 million), as well as delayed reimbursement for capital projects spending from General Obligation bond proceeds ($127 million).

The closing balance on December 31, 2004 was $2.5 billion, a decrease of $476 million from December 31, 2003. This decrease is primarily due to lower receipts of $48 million and higher disbursements of $690 million, offset by an increase in the opening fund balance of $262 million comprised of $177 million in the Community Projects Fund, $84 million in the Tax Stabilization Reserve Fund, and $1 million in the Contingency Reserve Fund. The receipts and disbursements variances are described in more detail below.

Actual Results vs. Mid-Year Projections (April through December)

Cash Flow April 1 through December 31 (Mid-Year vs. Actuals) (millions of dollars)			
	Mid-Year	**Actuals**	**Variance**
Receipts	31,005	31,599	594
Disbursements	30,288	30,140	148
Closing Fund Balance	1,834	2,536	702

Actual General Fund receipts through December 2004 were $594 million higher than the Mid-Year Update projections, due primarily to better than anticipated tax collections as a result of a rapidly improving economy. Most of the change was concentrated in the personal income tax and the real estate transfer tax reflecting a robust real estate market and significant growth in non-wage income.

Total General Fund disbursements from April 1 through December 31, 2004 were $148 million lower than the Mid-Year Update primarily due to slower-than-projected payments of school aid categorical and LADDER programs ($128 million).

The closing balance on December 31, 2004 was $2.5 billion, an increase of $702 million from the the Mid-Year projection. This increase results from higher receipts of $594 million and lower spending of $148 million, offset by other fund balance changes.

Actual Results vs. Enacted Budget Projections (April through December)

Cash Flow April 1 through December 31 (Enacted vs. Actuals) (millions of dollars)			
	Enacted	Actuals	Variance
Receipts	30,739	31,599	860
Disbursements	30,651	30,140	511
Closing Fund Balance	1,325	2,536	1,211

General Fund receipts from April 1 through December 31, 2004 were $860 million higher than the Enacted Budget projections due primarily to the better than expected results described above in the Mid-Year Update Comparison section.

Total General Fund disbursements through December 2004 were $511 million lower than the Enacted Budget due primarily to slower-than-projected payments of school aid categorical and LADDER programs, as well as higher education and all other education programs ($180 million), slower than anticipated capital projects spending for education ($110 million) and wireless E-911 projects ($50 million), and lower State Operations spending due to earlier than projected receipt of Mental Hygiene revenues used to offset spending ($190 million).

The closing balance on December 31, 2004 is $2.5 billion, an increase of $1.2 billion from the projection published in the Enacted Budget. This increase results from higher receipts of $860 million and lower spending of $511 million, offset by other fund balance changes.

GAAP-BASIS FINANCIAL PLANS

In addition to the cash-basis Financial Plans, the General Fund and All Funds Financial Plans are prepared on a GAAP basis in accordance with Governmental Accounting Standards Board (GASB) regulations. Tables comparing the cash basis and GAAP basis General Fund Financial Plans are provided at the end of this Overview. The GAAP projections for both years are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2003-04. The GAAP projections reflect the impact of GASB Statement 34, which has significantly changed the presentation of GAAP financial information for State and local governments. The changes are intended to portray the State’s net overall financial condition, including activities that affect State assets and liabilities during the fiscal year. The GASB 34 results for 2003-04 show the State in a net positive overall financing condition of $39.1 billion.

In 2004-05, the General Fund GAAP Financial Plan shows total revenues of $36.6 billion, total expenditures of $45.9 billion, and net other financing sources of $8.5 billion, resulting in an operating deficit of $786 million and a projected accumulated deficit of $1.1 billion. This operating result reflects the use of the 2003-04 surplus and the remaining tobacco resources in 2004-05.

In 2005-06, the General Fund GAAP Financial Plan shows total revenues of $37.9 billion, total expenditures of $46.8 billion, and net other financing sources of $8.8 billion, resulting in an operating deficit of $123 million and a projected accumulated deficit of $1.2 billion. These changes are due primarily to the use of the 2004-05 cash surplus in 2005-06.

The accumulated deficit of $1.2 billion at the end of 2005-06 is an improvement of $189 million from the 2003-04 actual results.

CASH FINANCIAL PLAN
GENERAL FUND
2004-2005
(millions of dollars)

	Mid-Year	Change	January
Opening fund balance	1,077	0	1,077
Receipts:			
Taxes:			
Personal income tax	18,716	216	18,932
User taxes and fees	8,679	73	8,752
Business taxes	3,714	50	3,764
Other taxes	764	(34)	730
Miscellaneous receipts	2,347	(54)	2,293
Federal grants	6	2	8
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,713	129	5,842
Sales tax in excess of LGAC debt service	2,158	13	2,171
Real estate taxes in excess of CW/CA debt service	411	109	520
All other transfers	506	(2)	504
Total receipts	43,014	502	43,516
Disbursements:			
Grants to local governments	29,482	175	29,657
State operations	7,625	(18)	7,607
General State charges	3,615	50	3,665
Transfers to other funds:			
Debt service	1,733	(1)	1,732
Capital projects	194	4	198
Other purposes	539	9	548
Total disbursements	43,188	219	43,407
Fiscal Management Plan (1)	224	(224)	0
Change in fund balance	50	59	109
Closing fund balance	1,127	59	1,186
Tax Stabilization Reserve Fund	794	70	864
Contingency Reserve Fund	21	0	21
Community Project Fund	312	(11)	301

(1) A total of $161 million in Fiscal Management Plan savings was achieved, and is reflected in the revised January spending estimates.

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND ADJUSTED
2004-2005
(millions of dollars)

	January	Adjusted	January Adjusted
Opening fund balance	1,077	0	1,077
Receipts:			
Taxes:			
Personal income tax	18,932	0	18,932
User taxes and fees	8,752	0	8,752
Business taxes	3,764	0	3,764
Other taxes	730	0	730
Miscellaneous receipts	2,293	508	2,801
Federal grants	8	0	8
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,842	0	5,842
Sales tax in excess of LGAC debt service	2,171	0	2,171
Real estate taxes in excess of CW/CA debt service	520	0	520
All other	504	0	504
Total receipts	43,516	508	44,024
Disbursements:			
Grants to local governments	29,657	508	30,165
State operations	7,607	0	7,607
General State charges	3,665	0	3,665
Transfers to other funds:			
Debt service	1,732	0	1,732
Capital projects	198	0	198
Other purposes	548	0	548
Total disbursements	43,407	508	43,915
Fiscal Management Plan	0	0	0
Change in fund balance	109	0	109
Closing fund balance	1,186	0	1,186
Tax Stabilization Reserve Fund	864	0	864
Contingency Reserve Fund	21	0	21
Community Project Fund	301	0	301

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted ($508 million) for Medicaid spending to comply with Federal policy changes related to certain county shares adjustments.

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2004-2005 ADJUSTED AND 2005-2006
(millions of dollars)

	2004-2005 January Adjusted	2005-2006 Recommended	Annual Adjusted Change
Opening fund balance	1,077	1,186	109
Receipts:			
Taxes:			
Personal income tax	18,932	19,844	912
User taxes and fees	8,752	8,622	(130)
Business taxes	3,764	4,066	302
Other taxes	730	778	48
Miscellaneous receipts	2,801	2,451	(350)
Federal grants	8	4	(4)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,842	6,129	287
Sales tax in excess of LGAC debt service	2,171	2,300	129
Real estate taxes in excess of CW/CA debt service	520	510	(10)
All other	504	387	(117)
Total receipts	44,024	45,091	1,067
Disbursements:			
Grants to local governments	30,165	30,619	454
State operations	7,607	8,055	448
General State charges	3,665	3,889	224
Transfers to other funds:			
Debt service	1,732	1,666	(66)
Capital projects	198	219	21
Other purposes	548	627	79
Total disbursements	43,915	45,075	1,160
Change in fund balance	109	16	(93)
Closing fund balance	1,186	1,202	16
Tax Stabilization Reserve Fund	864	864	0
Contingency Reserve Fund	21	21	0
Community Project Fund	301	317	16

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted ($508 million) for Medicaid spending to comply with Federal policy changes related to certain county shares adjustments.

Source: NYS DOB

GENERAL FUND
2004-2005 AND 2005-2006
(millions of dollars)

	2004-2005 January	2005-2006 Recommended	Annual Change
Opening fund balance	1,077	1,186	109
Receipts:			
Taxes:			
Personal income tax	18,932	19,844	912
User taxes and fees	8,752	8,622	(130)
Business taxes	3,764	4,066	302
Other taxes	730	778	48
Miscellaneous receipts	2,293	2,451	158
Federal grants	8	4	(4)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,842	6,129	287
Sales tax in excess of LGAC debt service	2,171	2,300	129
Real estate taxes in excess of CW/CA debt service	520	510	(10)
All other	504	387	(117)
Total receipts	43,516	45,091	1,575
Disbursements:			
Grants to local governments	29,657	30,619	962
State operations	7,607	8,055	448
General State charges	3,665	3,889	224
Transfers to other funds:			
Debt service	1,732	1,666	(66)
Capital projects	198	219	21
Other purposes	548	627	79
Total disbursements	43,407	45,075	1,668
Change in fund balance	109	16	(93)
Closing fund balance	1,186	1,202	16
Tax Stabilization Reserve Fund	864	864	0
Contingency Reserve Fund	21	21	0
Community Project Fund	301	317	16

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2005-2006 THROUGH 2007-2008
(millions of dollars)

	2005-2006 Recommended	2006-2007 Projected	2007-2008 Projected
Receipts:			
Taxes:			
Personal income tax	19,844	20,419	21,865
User taxes and fees	8,622	8,829	9,166
Business taxes	4,066	4,176	4,315
Other taxes	778	872	920
Miscellaneous receipts	2,451	2,504	4,560
Federal grants	4	4	4
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,129	6,208	6,515
Sales tax in excess of LGAC debt service	2,300	2,377	2,473
Real estate taxes in excess of CW/CA debt service	510	517	525
All other	387	223	217
Total receipts	45,091	46,129	50,560
Disbursements:			
Grants to local governments	30,619	32,995	36,921
State operations	8,055	8,809	9,250
General State charges	3,889	4,654	4,845
Transfers to other funds:			
Debt service	1,666	1,679	1,648
Capital projects	219	234	231
Other purposes	627	609	617
Total disbursements	45,075	48,980	53,512
Deposit to/(use of) Community Projects Fund	16	(150)	(167)
Margin	0	(2,701)	(2,785)

Source: NYS DOB

GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2003-2004 THROUGH 2005-2006
(millions of dollars)

	2003-2004 Actual	2004-2005 Estimated	2005-2006 Recommended
Withholdings	21,986	23,032	24,174
Estimated Payments	5,159	7,008	7,511
Final Payments	1,313	1,610	1,947
Delinquencies	631	600	675
Gross Collections	29,089	32,250	34,307
State/City Offset	(261)	(343)	(300)
Refund Reserve	(597)	531	134
Refunds	(4,181) (1)	(4,300) (2)	(4,525) (3)
Reported Tax Collections	24,050	28,138	29,616
STAR	(2,819)	(3,072)	(3,202)
RBTF	(5,457)	(6,134)	(6,570)
General Fund	15,774	18,932	19,844

Net personal income tax collections are affected by transactions in the tax refund reserve account. The tax refund reserve account is used to hold moneys designated to pay tax refunds. The Comptroller deposits receipts into this account at the discretion of the Commissioner of Taxation and Finance. The deposit of moneys into the account during a fiscal year has the effect of reducing receipts for the fiscal year, and the withdrawal of moneys from the account has the effect of increasing receipts in the fiscal year of withdrawal. The tax refund reserve account also includes amounts made available as a result of the LGAC financing program. Beginning in 1998-99, a portion of personal income tax collections is deposited directly in the School Tax Reduction (STAR) fund and used to make payments to reimburse local governments for their revenue decreases due to the STAR program.

Note 1: Reflects the payment of the balance of refunds on 2002 liability and payment of $960 million of calendar year 2003 refunds in the last quarter of the State's 2003-04 fiscal year and a balance in the Tax Refund Reserve Account of $1,225 million.

Note 2: Reflects the payment of the balance of refunds on 2003 liability and the projected payment of $960 million of calendar year 2004 refunds in the last quarter of the State's 2004-05 fiscal year and a projected balance in the Tax Refund Reserve Account of $693 million.

Note 3: Reflects the payment of the balance of refunds on 2004 liability and the projected payment of $960 million of calendar year 2005 refunds in the last quarter of the State's 2005-06 fiscal year and a projected balance in the Tax Refund Reserve Account of $559 million.

Sources: NYS DOB.

CASH FINANCIAL PLAN
STATE FUNDS
2003-2004
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	1,230	(558)	158	1,645
Receipts:					
Taxes	27,934	4,442	1,756	8,122	42,254
Miscellaneous receipts	5,917	10,372	2,162	810	19,261
Federal grants	654	0	0	0	654
Total receipts	34,505	14,814	3,918	8,932	62,169
Disbursements:					
Grants to local governments	29,246	10,399	290	0	39,935
State operations	7,093	4,497	0	9	11,599
General State charges	3,247	424	0	0	3,671
Debt service	0	0	0	3,351	3,351
Capital projects	0	3	2,774	0	2,777
Total disbursements	39,586	15,323	3,064	3,360	61,333
Other financing sources (uses):					
Transfers from other funds	7,822	994	254	4,794	13,864
Transfers to other funds	(2,479)	(12)	(1,026)	(10,350)	(13,867)
Bond and note proceeds	0	0	140	0	140
Net other financing sources (uses)	5,343	982	(632)	(5,556)	137
Change in fund balance	262	473	222	16	973
Closing fund balance	1,077	1,703	(336)	174	2,618

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,077	1,703	(336)	174	2,618
Receipts:					
Taxes	32,178	5,396	1,823	9,242	48,639
Miscellaneous receipts	2,801	11,253	1,677	647	16,378
Federal grants	8	1	0	0	9
Total receipts	34,987	16,650	3,500	9,889	65,026
Disbursements:					
Grants to local governments	30,165	11,882	988	0	43,035
State operations	7,607	5,032	0	22	12,661
General State charges	3,665	484	0	0	4,149
Debt service	0	0	0	3,808	3,808
Capital projects	0	1	1,916	0	1,917
Total disbursements	41,437	17,399	2,904	3,830	65,570
Other financing sources (uses):					
Transfers from other funds	9,037	762	233	5,221	15,253
Transfers to other funds	(2,478)	(400)	(1,038)	(11,286)	(15,202)
Bond and note proceeds	0	0	193	0	193
Net other financing sources (uses)	6,559	362	(612)	(6,065)	244
Change in fund balance	109	(387)	(16)	(6)	(300)
Closing fund balance	1,186	1,316	(352)	168	2,318

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted for the inclusion of all HCRA funded programs on-budget and additional Medicaid spending to comply with Federal policy changes related to certain county shares adjustments. The 2004-05 adjustment for HCRA is $925 million and Medicaid is $508 million.

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,077	1,703	(336)	174	2,618
Receipts:					
Taxes	32,178	4,835	1,823	9,242	48,078
Miscellaneous receipts	2,293	10,889	1,677	647	15,506
Federal grants	8	1	0	0	9
Total receipts	34,479	15,725	3,500	9,889	63,593
Disbursements:					
Grants to local governments	29,657	10,957	988	0	41,602
State operations	7,607	5,032	0	22	12,661
General State charges	3,665	484	0	0	4,149
Debt service	0	0	0	3,808	3,808
Capital projects	0	1	1,916	0	1,917
Total disbursements	40,929	16,474	2,904	3,830	64,137
Other financing sources (uses):					
Transfers from other funds	9,037	762	233	5,221	15,253
Transfers to other funds	(2,478)	(400)	(1,038)	(11,286)	(15,202)
Bond and note proceeds	0	0	193	0	193
Net other financing sources (uses)	6,559	362	(612)	(6,065)	244
Change in fund balance	109	(387)	(16)	(6)	(300)
Closing fund balance	1,186	1,316	(352)	168	2,318

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,186	1,316	(352)	168	2,318
Receipts:					
Taxes	33,310	5,659	1,855	9,833	50,657
Miscellaneous receipts	2,451	13,326	1,776	656	18,209
Federal grants	4	1	0	0	5
Total receipts	35,765	18,986	3,631	10,489	68,871
Disbursements:					
Grants to local governments	30,619	13,638	949	0	45,206
State operations	8,055	5,336	0	26	13,417
General State charges	3,889	558	0	0	4,447
Debt service	0	0	0	3,842	3,842
Capital projects	0	2	2,174	0	2,176
Total disbursements	42,563	19,534	3,123	3,868	69,088
Other financing sources (uses):					
Transfers from other funds	9,326	880	257	5,212	15,675
Transfers to other funds	(2,512)	(304)	(928)	(11,833)	(15,577)
Bond and note proceeds	0	0	185	0	185
Net other financing sources (uses)	6,814	576	(486)	(6,621)	283
Change in fund balance	16	28	22	0	66
Closing fund balance	1,202	1,344	(330)	168	2,384

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,344	(330)	168	1,182
Receipts:					
Taxes	34,296	5,971	2,008	10,203	52,478
Miscellaneous receipts	2,504	12,586	2,149	665	17,904
Federal grants	4	1	0	0	5
Total receipts	36,804	18,558	4,157	10,868	70,387
Disbursements:					
Grants to local governments	32,995	13,912	811	0	47,718
State operations	8,809	5,408	0	23	14,240
General State charges	4,654	596	0	0	5,250
Debt service	0	0	0	4,156	4,156
Capital projects	0	1	2,914	0	2,915
Total disbursements	46,458	19,917	3,725	4,179	74,279
Other financing sources (uses):					
Transfers from other funds	9,325	817	274	5,098	15,514
Transfers to other funds	(2,522)	(202)	(901)	(11,792)	(15,417)
Bond and note proceeds	0	0	161	0	161
Net other financing sources (uses)	6,803	615	(466)	(6,694)	258
Deposit to/(use of) Community Projects Fund	(150)	0	0	0	(150)
Change in fund balance	(2,701)	(744)	(34)	(5)	(3,484)
Closing fund balance	(2,701)	600	(364)	163	(2,302)

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	600	(364)	163	399
Receipts:					
Taxes	36,266	6,235	2,033	10,814	55,348
Miscellaneous receipts	4,560	13,279	2,584	671	21,094
Federal grants	4	1	0	0	5
Total receipts	40,830	19,515	4,617	11,485	76,447
Disbursements:					
Grants to local governments	36,921	15,025	743	0	52,689
State operations	9,250	5,478	0	23	14,751
General State charges	4,845	629	0	0	5,474
Debt service	0	0	0	4,443	4,443
Capital projects	0	1	3,335	0	3,336
Total disbursements	51,016	21,133	4,078	4,466	80,693
Other financing sources (uses):					
Transfers from other funds	9,730	829	273	5,167	15,999
Transfers to other funds	(2,496)	(203)	(1,007)	(12,185)	(15,891)
Bond and note proceeds	0	0	157	0	157
Net other financing sources (uses)	7,234	626	(577)	(7,018)	265
Deposit to/(use of) Community Projects Fund	(167)	0	0	0	(167)
Change in fund balance	(2,785)	(992)	(38)	1	(3,814)
Closing fund balance	(2,785)	(392)	(402)	164	(3,415)

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2003-2004
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	1,039	(790)	158	1,222
Receipts:					
Taxes	27,934	4,442	1,756	8,122	42,254
Miscellaneous receipts	5,917	10,517	2,168	810	19,412
Federal grants	654	35,121	1,548	0	37,323
Total receipts	34,505	50,080	5,472	8,932	98,989
Disbursements:					
Grants to local governments	29,246	41,368	781	0	71,395
State operations	7,093	7,866	0	9	14,968
General State charges	3,247	601	0	0	3,848
Debt service	0	0	0	3,351	3,351
Capital projects	0	8	3,756	0	3,764
Total disbursements	39,586	49,843	4,537	3,360	97,326
Other financing sources (uses):					
Transfers from other funds	7,822	3,447	254	4,794	16,317
Transfers to other funds	(2,479)	(2,539)	(1,028)	(10,350)	(16,396)
Bond and note proceeds	0	0	140	0	140
Net other financing sources (uses)	5,343	908	(634)	(5,556)	61
Change in fund balance	262	1,145	301	16	1,724
Closing fund balance	1,077	2,184	(489)	174	2,946

Source: NYS DOB.

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2004-2005 ADJUSTED
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,077	2,184	(489)	174	2,946
Receipts:					
Taxes	32,178	5,396	1,823	9,242	48,639
Miscellaneous receipts	2,801	11,378	1,677	647	16,503
Federal grants	8	35,634	1,778	0	37,420
Total receipts	34,987	52,408	5,278	9,889	102,562
Disbursements:					
Grants to local governments	30,165	44,013	1,200	0	75,378
State operations	7,607	8,396	0	22	16,025
General State charges	3,665	688	0	0	4,353
Debt service	0	0	0	3,808	3,808
Capital projects	0	2	3,474	0	3,476
Total disbursements	41,437	53,099	4,674	3,830	103,040
Other financing sources (uses):					
Transfers from other funds	9,037	3,182	233	5,221	17,673
Transfers to other funds	(2,478)	(2,923)	(1,047)	(11,286)	(17,734)
Bond and note proceeds	0	0	193	0	193
Net other financing sources (uses)	6,559	259	(621)	(6,065)	132
Change in fund balance	109	(432)	(17)	(6)	(346)
Closing fund balance	1,186	1,752	(506)	168	2,600

To provide a comparable basis for calculating annual change, the 2004-05 amounts have been adjusted for the inclusion of all HCRA funded programs on-budget and additional Medicaid spending to comply with Federal policy changes related to certain county shares adjustments. The 2004-05 adjustment for HCRA is $925 million and Medicaid is $508 million.

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2004-2005
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,077	2,184	(489)	174	2,946
Receipts:					
Taxes	32,178	4,835	1,823	9,242	48,078
Miscellaneous receipts	2,293	11,014	1,677	647	15,631
Federal grants	8	35,634	1,778	0	37,420
Total receipts	34,479	51,483	5,278	9,889	101,129
Disbursements:					
Grants to local governments	29,657	43,088	1,200	0	73,945
State operations	7,607	8,396	0	22	16,025
General State charges	3,665	688	0	0	4,353
Debt service	0	0	0	3,808	3,808
Capital projects	0	2	3,474	0	3,476
Total disbursements	40,929	52,174	4,674	3,830	101,607
Other financing sources (uses):					
Transfers from other funds	9,037	3,182	233	5,221	17,673
Transfers to other funds	(2,478)	(2,923)	(1,047)	(11,286)	(17,734)
Bond and note proceeds	0	0	193	0	193
Net other financing sources (uses)	6,559	259	(621)	(6,065)	132
Change in fund balance	109	(432)	(17)	(6)	(346)
Closing fund balance	1,186	1,752	(506)	168	2,600

Source: NYS DOB

CASH DISBURSEMENTS BY FUNCTION
GENERAL FUND
(thousands of dollars)

	2003-2004 Actual	2004-2005 Estimated	2005-2006 Recommended
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	39,806	41,967	37,426
Alcoholic Beverage Control	0	0	0
Banking Department	0	0	0
Consumer Protection Board	457	385	0
Economic Development, Department of	30,273	38,866	36,449
Empire State Development Corporation	31,810	14,975	67,000
Energy Research and Development Authority	0	0	0
Housing Finance Agency	0	0	0
Housing and Community Renewal, Division of	75,067	67,915	66,599
Insurance Department	0	0	0
Olympic Regional Development Authority	7,400	7,350	7,350
Public Service, Department of	0	0	0
Science, Technology and Academic Research, Office of	31,491	49,132	41,314
Functional Total	216,304	220,590	256,138
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	3,889	4,314	4,408
Environmental Conservation, Department of	97,757	114,805	107,394
Environmental Facilities Corporation	0	0	0
Parks, Recreation and Historic Preservation, Office of	102,502	106,711	107,898
Functional Total	204,148	225,830	219,700
TRANSPORTATION			
Motor Vehicles, Department of	1,025	4,660	0
Thruway Authority	0	0	0
Transportation, Department of	162,507	112,866	103,140
Functional Total	163,532	117,526	103,140
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	828	831	0
Aging, Office for the	68,334	66,040	76,263
Children and Family Services, Office of	1,293,612	1,317,612	1,465,007
Health, Department of	6,980,194	7,635,886	8,191,280
Medical Assistance	6,143,547	6,810,759	7,312,601
Medicaid Administration	124,311	120,150	119,950
All Other	712,336	704,977	758,729
Human Rights, Division of	13,540	13,706	13,142
Labor, Department of	50,219	10,913	4,278
Prevention of Domestic Violence, Office of	1,677	2,134	2,205

CASH DISBURSEMENTS BY FUNCTION
GENERAL FUND
(thousands of dollars)

	2003-2004 Actual	2004-2005 Estimated	2005-2006 Recommended
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	1,557,967	1,539,754	1,471,219
Welfare Assistance	1,088,966	1,121,796	1,032,908
Welfare Administration	378,024	342,533	359,550
All Other	90,977	75,425	78,761
Welfare Inspector General, Office of	572	736	754
Workers' Compensation Board	0	0	0
Functional Total	9,966,943	10,587,612	11,224,148
MENTAL HEALTH			
Mental Health, Office of	1,150,498	1,324,061	1,332,641
Mental Hygiene, Department of	0	0	0
Mental Retardation and Developmental Disabilities, Office of	688,051	841,810	835,907
Alcohol and Substance Abuse Services, Office of	293,532	279,620	292,952
Developmental Disabilities Planning Council	0	0	0
Quality of Care for the Mentally Disabled, Commission on	2,800	3,019	4,263
Functional Total	2,134,881	2,448,510	2,465,763
PUBLIC PROTECTION			
Capital Defenders Office	12,519	12,694	10,916
Correction, Commission of	2,472	2,511	2,510
Correctional Services, Department of	1,911,860	2,058,339	1,972,922
Crime Victims Board	8,276	2,908	3,314
Criminal Justice Services, Division of	91,636	91,991	175,148
Homeland Security	4,717	10,300	5,219
Investigation, Temporary State Commission of	2,953	3,326	3,463
Judicial Commissions	2,298	2,604	2,703
Military and Naval Affairs, Division of	53,791	26,083	23,817
Parole, Division of	185,480	178,855	181,052
Probation and Correctional Alternatives, Division of	77,218	75,546	0
Public Security, Office of	0	0	0
State Police, Division of	367,771	331,786	350,035
Functional Total	2,720,991	2,796,943	2,731,099
EDUCATION			
Arts, Council on the	45,255	44,672	42,705
City University of New York	952,406	744,515	899,649
Education, Department of	15,042,113	14,395,289	14,705,411
School Aid	13,685,258	12,907,149	13,227,650
STAR Property Tax Relief	0	0	0
Handicapped	750,298	858,359	907,473
All Other	606,557	629,781	570,288
Higher Education Services Corporation	584,591	926,532	828,937
State University Construction Fund	0	0	0
State University of New York	1,232,735	1,293,028	1,261,673
Functional Total	17,857,100	17,404,036	17,738,375

CASH DISBURSEMENTS BY FUNCTION
GENERAL FUND
(thousands of dollars)

	2003-2004 Actual	2004-2005 Estimated	2005-2006 Recommended
GENERAL GOVERNMENT			
Audit and Control, Department of	146,318	166,966	164,467
Budget, Division of the	23,011	28,500	28,185
Civil Service, Department of	19,399	21,241	24,199
Elections, State Board of	3,356	3,711	3,594
Employee Relations, Office of	3,276	3,564	3,580
Executive Chamber	12,451	15,629	15,480
General Services, Office of	114,351	119,891	144,686
Inspector General, Office of	4,404	4,303	4,579
Law, Department of	110,553	115,511	116,937
Lieutenant Governor, Office of the	358	487	485
Lottery, Division of	0	0	0
Racing and Wagering Board, State	0	0	108,000
Real Property Services, Office of	27,612	25,716	21,197
Regulatory Reform, Governor's Office of	3,227	3,472	3,554
State Labor Relations Board	3,229	3,412	4,019
State, Department of	19,418	19,120	14,922
Tax Appeals, Division of	2,676	2,812	2,994
Taxation and Finance, Department of	308,508	309,599	306,876
Technology, Office for	32,737	20,197	20,076
TSC Lobbying	929	1,036	909
Veterans Affairs, Division of	10,019	10,973	11,404
Functional Total	845,832	876,140	1,000,143
ALL OTHER CATEGORIES			
Legislature	200,752	200,679	206,672
Judiciary (excluding fringe benefits)	1,282,759	1,349,800	1,402,500
World Trade Center	0	0	0
Local Government Assistance	824,372	972,661	1,023,650
Long-Term Debt Service	1,473,720	1,731,820	1,665,731
Capital Projects	228,582	197,885	219,157
General State Charges/Miscellaneous	3,945,815	4,276,943	4,818,934
Functional Total	7,956,000	8,729,788	9,336,644
TOTAL GENERAL FUND SPENDING	42,065,731	43,406,975	45,075,150

Source: NYS DOB

CASH DISBURSEMENTS BY FUNCTION
STATE FUNDS
(thousands of dollars)

	2003-2004 Actual	2004-2005 Estimated	2005-2006 Recommended
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	58,397	70,761	66,422
Alcoholic Beverage Control	10,501	10,446	11,471
Banking Department	55,390	59,923	80,331
Consumer Protection Board	3,113	2,438	2,575
Economic Development, Department of	131,873	207,639	328,769
Empire State Development Corporation	52,074	36,975	264,200
Energy Research and Development Authority	29,557	26,123	26,006
Housing Finance Agency	0	0	0
Housing and Community Renewal, Division of	183,013	188,857	178,914
Insurance Department	105,913	137,349	151,444
Olympic Regional Development Authority	7,575	7,750	7,750
Public Service, Department of	46,086	54,719	55,395
Science, Technology and Academic Research, Office of	34,003	66,620	59,014
Functional Total	717,495	869,600	1,232,291
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	3,889	4,314	4,408
Environmental Conservation, Department of	602,399	727,817	740,791
Environmental Facilities Corporation	6,788	13,744	6,414
Parks, Recreation and Historic Preservation, Office of	191,295	225,026	223,903
Functional Total	804,371	970,901	975,516
TRANSPORTATION			
Motor Vehicles, Department of	188,994	210,963	256,380
Thruway Authority	2,865	4,000	4,000
Transportation, Department of	3,636,705	3,681,077	3,907,598
Functional Total	3,828,564	3,896,040	4,167,978
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	977	1,045	0
Aging, Office for the	68,338	66,051	76,274
Children and Family Services, Office of	1,317,515	1,348,165	1,494,064
Health, Department of	11,165,208	11,792,054	14,599,819
Medical Assistance	8,915,218	9,487,659	11,273,801
Medicaid Administration	124,311	120,150	119,950
All Other	2,125,679	2,184,245	3,206,068
Human Rights, Division of	13,540	13,712	13,148
Labor, Department of	80,675	245,774	255,544
Prevention of Domestic Violence, Office of	1,679	2,164	2,235

CASH DISBURSEMENTS BY FUNCTION
STATE FUNDS
(thousands of dollars)

	2003-2004 Actual	2004-2005 Estimated	2005-2006 Recommended
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	1,602,085	1,629,717	1,584,251
Welfare Assistance	1,088,966	1,121,796	1,032,908
Welfare Administration	378,024	342,533	359,550
All Other	135,095	165,388	191,793
Welfare Inspector General, Office of	572	736	754
Workers' Compensation Board	126,458	0	0
Functional Total	14,377,047	15,099,418	18,026,089
MENTAL HEALTH			
Mental Health, Office of	1,463,580	1,620,667	1,625,249
Mental Hygiene, Department of	0	4,750	4,800
Mental Retardation and Developmental Disabilities, Office of	767,467	939,490	951,637
Alcohol and Substance Abuse Services, Office of	315,877	318,303	331,172
Developmental Disabilities Planning Council	0	0	0
Quality of Care for the Mentally Disabled, Commission on	2,800	3,091	4,565
Functional Total	2,549,724	2,886,301	2,917,423
PUBLIC PROTECTION			
Capital Defenders Office	12,519	12,694	10,916
Correction, Commission of	2,472	2,511	2,510
Correctional Services, Department of	2,096,719	2,233,344	2,162,427
Crime Victims Board	28,677	30,480	30,890
Criminal Justice Services, Division of	97,473	112,399	197,109
Homeland Security	25,769	26,104	16,233
Investigation, Temporary State Commission of	3,071	3,513	3,652
Judicial Commissions	2,298	2,604	2,703
Military and Naval Affairs, Division of	69,721	43,143	40,383
Parole, Division of	185,510	178,955	181,152
Probation and Correctional Alternatives, Division of	77,218	75,546	0
Public Security, Office of	0	0	0
State Police, Division of	491,422	475,549	507,587
Functional Total	3,092,869	3,196,842	3,155,562
EDUCATION			
Arts, Council on the	45,355	45,372	43,405
City University of New York	1,220,761	1,027,315	1,361,579
Education, Department of	19,820,369	19,735,281	20,355,999
School Aid	15,561,534	15,090,841	15,548,650
STAR Property Tax Relief	2,819,455	3,072,000	3,202,000
Handicapped	750,298	858,359	907,473
All Other	689,082	714,081	697,876
Higher Education Services Corporation	653,797	1,006,240	917,351
State University Construction Fund	8,184	9,256	10,480
State University of New York	4,324,144	4,657,656	4,807,213
Functional Total	26,072,610	26,481,120	27,496,027

CASH DISBURSEMENTS BY FUNCTION
STATE FUNDS
(thousands of dollars)

	2003-2004 Actual	2004-2005 Estimated	2005-2006 Recommended
GENERAL GOVERNMENT			
Audit and Control, Department of	148,963	182,508	240,088
Budget, Division of the	28,955	43,714	43,399
Civil Service, Department of	20,120	22,241	25,199
Elections, State Board of	3,356	3,711	3,594
Employee Relations, Office of	3,298	3,752	3,768
Executive Chamber	12,458	15,729	15,580
General Services, Office of	195,645	213,960	238,013
Inspector General, Office of	5,194	5,605	6,017
Law, Department of	131,137	153,227	155,956
Lieutenant Governor, Office of the	358	487	485
Lottery, Division of	159,224	174,220	177,264
Racing and Wagering Board, State	13,734	16,770	125,902
Real Property Services, Office of	46,108	52,790	51,299
Regulatory Reform, Governor's Office of	3,227	3,472	3,554
State Labor Relations Board	3,262	3,669	4,605
State, Department of	58,716	111,748	110,587
Tax Appeals, Division of	2,676	2,812	2,994
Taxation and Finance, Department of	343,892	345,645	343,506
Technology, Office for	32,737	20,197	20,076
TSC Lobbying	1,044	1,336	1,376
Veterans Affairs, Division of	10,019	10,973	11,404
Functional Total	1,224,123	1,388,566	1,584,666
ALL OTHER CATEGORIES			
Legislature	202,252	201,629	207,622
Judiciary (excluding fringe benefits)	1,426,526	1,538,884	1,596,566
World Trade Center	0	1,375	0
Local Government Assistance	824,372	972,661	1,023,650
Long-Term Debt Service	3,351,303	3,807,373	3,841,998
General State Charges/Miscellaneous	2,861,297	2,826,589	2,863,106
Functional Total	8,665,750	9,348,511	9,532,942
TOTAL STATE FUNDS SPENDING	61,332,553	64,137,299	69,088,494

Source: NYS DOB

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

	2003-2004 Actual	2004-2005 Estimated	2005-2006 Recommended
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	68,780	86,302	81,962
Alcoholic Beverage Control	10,558	10,446	11,471
Banking Department	55,868	59,923	80,331
Consumer Protection Board	3,113	2,438	2,575
Economic Development, Department of	131,877	207,978	329,114
Empire State Development Corporation	52,074	36,975	264,200
Energy Research and Development Authority	29,557	26,123	26,006
Housing Finance Agency	0	0	0
Housing and Community Renewal, Division of	250,348	218,008	208,106
Insurance Department	105,913	137,349	151,444
Olympic Regional Development Authority	7,575	7,750	7,750
Public Service, Department of	47,080	56,259	56,800
Science, Technology and Academic Research, Office of	39,304	72,245	64,639
Functional Total	802,047	921,796	1,284,398
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,207	4,664	4,758
Environmental Conservation, Department of	795,259	910,179	923,971
Environmental Facilities Corporation	6,788	13,744	6,414
Parks, Recreation and Historic Preservation, Office of	196,921	230,253	229,175
Functional Total	1,003,175	1,158,840	1,164,318
TRANSPORTATION			
Motor Vehicles, Department of	203,748	225,512	282,085
Thruway Authority	2,865	4,000	4,000
Transportation, Department of	4,923,094	5,223,558	5,470,221
Functional Total	5,129,707	5,453,070	5,756,306
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	1,213	4,075	0
Aging, Office for the	177,333	175,592	179,963
Children and Family Services, Office of	3,365,235	3,133,154	3,114,406
Health, Department of	31,567,174	33,449,683	36,056,490
Medical Assistance	27,643,723	29,447,466	30,989,058
Medicaid Administration	578,628	577,400	589,500
All Other	3,344,823	3,424,817	4,477,932
Human Rights, Division of	14,067	15,328	15,119
Labor, Department of	882,065	1,017,503	894,781
Prevention of Domestic Violence, Office of	2,063	2,164	2,235

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

	2003-2004 Actual	2004-2005 Estimated	2005-2006 Recommended
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	4,224,108	4,455,430	4,756,977
Welfare Assistance	2,876,620	3,100,802	3,385,656
Welfare Administration	378,024	342,533	359,550
All Other	969,464	1,012,095	1,011,771
Welfare Inspector General, Office of	892	1,106	1,124
Workers' Compensation Board	130,832	755	766
Functional Total	40,364,982	42,254,790	45,021,861
MENTAL HEALTH			
Mental Health, Office of	2,138,308	2,191,254	2,236,667
Mental Hygiene, Department of	1,654	4,750	4,800
Mental Retardation and Developmental Disabilities, Office of	2,623,994	2,816,190	2,922,882
Alcohol and Substance Abuse Services, Office of	474,930	467,249	481,507
Developmental Disabilities Planning Council	3,270	3,739	3,679
Quality of Care for the Mentally Disabled, Commission on	9,722	11,376	13,492
Functional Total	5,251,878	5,494,558	5,663,027
PUBLIC PROTECTION			
Capital Defenders Office	12,519	12,694	10,916
Correction, Commission of	2,503	2,511	2,510
Correctional Services, Department of	2,131,272	2,272,941	2,198,965
Crime Victims Board	63,192	62,059	62,478
Criminal Justice Services, Division of	309,208	302,479	314,199
Homeland Security	25,769	152,804	238,516
Investigation, Temporary State Commission of	3,071	3,513	3,652
Judicial Commissions	2,298	2,604	2,703
Military and Naval Affairs, Division of	1,639,924	127,199	135,722
Parole, Division of	188,005	181,667	182,352
Probation and Correctional Alternatives, Division of	80,814	75,557	0
Public Security, Office of	0	0	0
State Police, Division of	512,740	492,591	511,473
Functional Total	4,971,315	3,688,619	3,663,486
EDUCATION			
Arts, Council on the	45,949	46,003	44,134
City University of New York	1,220,761	1,027,315	1,361,579
Education, Department of	22,969,248	23,167,976	24,075,147
School Aid	15,561,534	17,636,096	18,303,517
STAR Property Tax Relief	2,819,455	3,072,000	3,202,000
Handicapped	1,344,140	1,538,359	1,653,373
All Other	3,244,119	921,521	916,257
Higher Education Services Corporation	881,988	1,016,445	927,845
State University Construction Fund	8,184	9,256	10,480
State University of New York	4,497,866	4,834,556	4,989,413
Functional Total	29,623,996	30,101,551	31,408,598

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

	2003-2004 Actual	2004-2005 Estimated	2005-2006 Recommended
GENERAL GOVERNMENT			
Audit and Control, Department of	148,963	182,508	240,088
Budget, Division of the	28,955	43,714	43,399
Civil Service, Department of	20,148	22,241	25,199
Elections, State Board of	3,356	3,711	151,525
Employee Relations, Office of	3,298	3,752	3,768
Executive Chamber	12,458	15,729	15,580
General Services, Office of	200,233	218,353	242,479
Inspector General, Office of	5,194	5,605	6,017
Law, Department of	149,095	174,910	178,245
Lieutenant Governor, Office of the	358	487	485
Lottery, Division of	159,224	174,220	177,264
Racing and Wagering Board, State	13,734	16,770	125,902
Real Property Services, Office of	46,108	52,790	51,299
Regulatory Reform, Governor's Office of	3,227	3,472	3,554
State Labor Relations Board	3,262	3,669	4,605
State, Department of	125,628	185,816	190,622
Tax Appeals, Division of	2,676	2,812	2,994
Taxation and Finance, Department of	344,957	345,923	343,784
Technology, Office for	32,737	20,197	20,076
TSC Lobbying	1,044	1,336	1,376
Veterans Affairs, Division of	10,953	12,293	12,835
Functional Total	1,315,608	1,490,308	1,841,096
ALL OTHER CATEGORIES			
Legislature	202,252	201,629	207,622
Judiciary (excluding fringe benefits)	1,431,275	1,543,984	1,604,166
World Trade Center	0	1,688,125	149,000
Local Government Assistance	824,372	972,661	1,023,650
Long-Term Debt Service	3,351,303	3,807,373	3,841,998
General State Charges/Miscellaneous	3,054,632	2,829,997	2,897,621
Functional Total	8,863,834	11,043,769	9,724,057
TOTAL ALL GOVERNMENTAL FUNDS SPENDING	97,326,542	101,607,301	105,527,147

Source: NYS DOB

CASHFLOW
GENERAL FUND
2003-2004
(millions of dollars)

	First Quarter (Actual)	Second Quarter (Actual)	Third Quarter (Actual)	Fourth Quarter (Actual)	Total (Actual)
Opening fund balance	815	1,989	2,559	3,012	815
Receipts:					
Taxes:					
Personal income tax	4,600	4,131	2,550	4,493	15,774
User taxes and fees	1,820	2,108	2,074	1,977	7,979
Business taxes	650	887	754	1,122	3,413
Other taxes	176	223	223	146	768
Miscellaneous receipts	2,440	360	2,605	512	5,917
Federal grants	325	2	325	2	654
Transfers from other funds					
PIT in excess of Revenue Bond debt service	1,314	1,333	782	1,815	5,244
Sales tax in excess of LGAC debt service	514	507	587	363	1,971
Real estate taxes in excess of CW/CA debt service	77	71	84	75	307
All Other	60	51	14	175	300
Total receipts	11,976	9,673	9,998	10,680	42,327
Disbursements:					
Grants to local governments					
School Aid	4,238	1,405	1,753	6,289	13,685
Medicaid	2,071	1,149	2,068	1,405	6,693
Welfare	(4)	548	426	497	1,467
All Other	1,187	2,157	2,143	1,914	7,401
State operations					
Personal Service	1,709	1,599	1,393	436	5,137
Non-Personal Service	481	486	409	580	1,956
General State charges	546	1,242	729	730	3,247
Transfers to other funds					
Debt service	377	360	447	290	1,474
Capital projects	5	53	104	66	228
Other purposes	192	104	73	408	777
Total disbursements	10,802	9,103	9,545	12,615	42,065
Change in fund balance	1,174	570	453	(1,935)	262
Closing fund balance	1,989	2,559	3,012	1,077	1,077

Source: NYS DOB

CASHFLOW
GENERAL FUND
2004-2005
(millions of dollars)

	April through December 2004 (Actual)	January 2005 (Projected)	February 2005 (Projected)	March 2005 (Projected)	Total
Opening fund balance	1,077	2,536	5,864	6,561	1,077
Receipts:					
Taxes:					
Personal income tax	13,593	3,220	1,767	352	18,932
User taxes and fees	6,637	684	542	889	8,752
Business taxes	2,699	37	43	985	3,764
Other taxes	550	58	61	61	730
Miscellaneous receipts	1,686	172	168	267	2,293
Federal Grants	6	0	0	2	8
Transfers from other funds					
PIT in excess of Revenue Bond debt service	3,943	1,074	589	236	5,842
Sales tax in excess of LGAC debt service	1,789	186	3	193	2,171
Real estate taxes in excess of CW/CA debt service	425	31	26	38	520
All Other	271	46	1	186	504
Total receipts	31,599	5,508	3,200	3,209	43,516
Disbursements:					
Grants to local governments					
School Aid	6,242	297	544	5,824	12,907
Medicaid	5,917	359	640	518	7,434
Welfare	1,061	136	159	108	1,464
All Other	5,511	462	548	1,331	7,852
State operations					
Personal Service	4,836	481	219	79	5,615
Non-Personal Service	1,436	141	167	248	1,992
General State charges	2,951	266	145	303	3,665
Transfers to other funds					
Debt service	1,449	14	28	241	1,732
Capital projects	305	12	41	(160)	198
Other purposes	432	12	12	75	548
Total disbursements	30,140	2,180	2,503	8,567	43,407
Change in fund balance	1,459	3,328	697	(5,358)	109
Closing fund balance	2,536	5,864	6,561	1,203	1,186

Source: NYS DOB

CASHFLOW
GENERAL FUND
2005-2006
(dollars in millions)

	2005 April	May	June	July	August	September	October	November	December	2006 January	February	March	Total
Opening fund balance	1,186	4,271	1,976	1,999	2,157	2,340	2,775	1,906	1,309	1,954	5,470	6,266	1,186
Receipts:													
Taxes													
Personal income tax	4,059	332	1,917	1,247	1,426	2,061	679	585	1,729	3,357	1,914	538	19,844
User taxes and fees	659	661	932	665	632	866	628	628	912	665	525	849	8,622
Business taxes	87	14	861	70	36	894	51	5	871	41	10	1,126	4,066
Other taxes	63	69	71	55	65	57	69	67	68	63	66	65	778
Miscellaneous receipts	152	94	164	103	101	165	186	402	232	194	195	463	2,451
Federal Grants	0	0	1	0	0	1	0	0	1	0	0	1	4
Transfers from other funds													
PIT in excess of Revenue Bond debt service	1,122	111	605	416	476	625	227	195	412	1,119	638	183	6,129
Sales tax in excess of LGAC debt service	179	185	291	198	189	190	188	189	282	199	2	208	2,300
Real estate taxes in excess of CW/CA debt service	50	49	48	50	39	53	51	45	39	34	30	22	510
All Other	0	(1)	138	0	0	10	0	0	20	57	0	163	387
Total receipts	6,371	1,514	5,028	2,804	2,964	4,922	2,079	2,116	4,566	5,729	3,380	3,618	45,091
Disbursements:													
Grants to local governments													
School Aid	115	1,610	1,578	115	310	964	435	434	1,114	280	540	5,732	13,227
Medicaid	1,104	790	1,101	405	690	406	535	512	387	399	574	812	7,715
Welfare	124	(36)	75	148	146	249	137	(24)	79	164	163	167	1,392
All Other	415	344	830	858	531	613	873	402	969	455	674	1,321	8,285
State operations													
Personal Service	602	554	770	592	532	623	433	719	456	456	235	(111)	5,861
Non-Personal Service	172	179	197	212	141	167	184	170	174	194	186	218	2,194
General State charges	405	192	171	251	356	1,003	265	270	247	271	135	323	3,889
Transfers to other funds													
Debt service	230	145	213	23	28	300	50	183	379	17	26	72	1,666
Capital projects	18	13	23	20	27	78	(7)	26	90	(44)	32	(57)	219
Other purposes	101	18	47	22	20	84	43	21	26	21	19	205	627
Total disbursements	3,286	3,809	5,005	2,646	2,781	4,487	2,948	2,713	3,921	2,213	2,584	8,682	45,075
Change in fund balance	3,085	(2,295)	23	158	183	435	(869)	(597)	645	3,516	796	(5,064)	16
Closing fund balance	4,271	1,976	1,999	2,157	2,340	2,775	1,906	1,309	1,954	5,470	6,266	1,202	1,202

Source: NYS DOB

Special Considerations

The Financial Plan is necessarily based upon forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies. DOB believes that its current receipts and spending estimates related to the performance of the State and national economies are reasonable. However, there can be no assurance that actual results will not differ materially and adversely from the current forecast. For a discussion of additional risks to the Financial Plan, see the section entitled "Financial Plan Reserves and Risks" in the extracts from the Financial Plan Overview provided in this AIS Update.

DOB can provide no assurance that the Legislature will adopt a budget for 2005-06, before the fiscal year begins on April 1, 2005. Furthermore, DOB can provide no assurance that, when the Legislature does enact a budget, it will not differ materially and adversely from the 2005-06 Executive Budget Financial Plan projections set forth by the Governor on January 18, 2005 which are contained in this update.

The State Comptroller is the Administrative Head of the New York State and Local Retirement Systems (the "Systems"), and Trustee of the assets of those Systems. If the proposed pension legislation to authorize the Comptroller to delay the impact of the actuarial funding changes described in the Financial Plan Overview earlier in this AIS Update (which the Executive Budget counts on to provide $321 million in savings in the 2005-06 fiscal year) are authorized by the State Legislature, the changes would have to be reviewed and approved by the State Comptroller to ensure that such changes (i) do not violate the State Constitution and (ii) are consistent with his fiduciary responsibilities to System members and beneficiaries. If the Comptroller does not implement the changes, the proposed appropriation for the State's pension contribution would be insufficient to cover its pension obligation for the 2005-06 fiscal year.

Capital Program and Financing Plan

Section 22-c of the State Finance Law requires the Governor to submit a Five-Year Capital Program and Financing Plan (the Plan) with the Executive Budget and update the Plan by the later of July 30 or 90 days after the enactment of the State Budget. The proposed 2005-06 through 2009-10 Capital Program and Financing Plan is contained in the Financial Plan (Part III) of the 2005-06 Executive Budget, released on January 18, 2005, and can be obtained by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705, or by visiting its website at www.budget.state.ny.us.

The State-supported issuance plan for the five-year period 2005-06 through 2009-10 reflects the expectation that State personal income tax revenue bonds will continue to be issued to finance certain new programs and programs previously authorized to be secured by service contract or lease purchase payments.

For the five-year period 2005-06 through 2009-10, the Plan projects total issuances of: $676 million in general obligation bonds;$7.8 billion in bonds issued by the Thruway Authority to finance capital projects for transportation including the anticipated issuance of approximately $3 billion of Dedicated Highway and Bridge Trust Funds refunding bonds in 2005-06 to restructure outstanding debt to more closely align the schedule for which principal amounts to the underlying useful lives of the projects financed; $1 billion in Mental Health Facilities Improvement Revenue Bonds issued by DASNY to finance capital projects at mental health facilities; $459 million in SUNY Dormitory Facilities Revenue Bonds to finance capital projects related to student dormitories; $21 million in Department of Health Revenue Bonds to finance the construction of a new veteran's nursing home at Oxford; and $11 billion in State Personal Income Tax Revenue Bonds to finance existing and recommended capital programs for education, local highway improvements, prisons, housing, economic development, the environment, mental health facilities, equipment, and State facilities. Total debt outstanding is projected to rise from $42.5 billion in 2005-06 to $47.8 billion in 2009-10, or by an annual average of 3 percent. The projections of State borrowings are subject to change as market conditions, interest rates and other factors vary throughout the fiscal year.

Chapter 59 of the Laws of 2000 enacted the Debt Reform Act which restricted new State-supported debt to capital purposes only and limited new debt outstanding to 4 percent of personal income and new debt service costs to 5 percent of total governmental funds receipts. The debt restrictions apply to all new State-supported debt issued on and after April 1, 2000. The cap on debt outstanding will be fully phased-in during 2010-11, while the cap of debt service costs will be fully phased-in during 2013-14. Chapter 81 of the Laws of 2002 authorized issuers of State-supported debt to issue a limited amount of variable rate obligations and to enter into a limited amount of interest rate exchange agreements. The statute limits the use of debt instruments which result in a variable rate exposure (e.g. variable rate obligations and interest rate exchange agreements) to no more than 15 percent of total outstanding State-supported debt, and limits the use of interest rate exchange agreements to a total notional amount of no more than 15 percent of total outstanding State-supported debt. DOB expects that, over the plan, debt outstanding and debt service costs, the use of variable rate debt instruments, and interest rate exchange agreements will be within all of these statutory limitations.

Contingent Contractual-Obligation Financing

An eligible secured hospital borrower, Catskill Regional Medical Center, the successor to Community General Hospital of Sullivan County ("Community General"), refinanced bonds issued in 1994 for the benefit of Community General under the Secured Hospital Program. The refunding bonds were issued on December 16, 2004, with a final maturity of 2023.

In regard to St. Agnes Hospital, the Dormitory Authority of the State of New York (DASNY) obtained a Judgment of Foreclosure and Sale against St. Agnes on October 22, 2004 and sold the property subject to DASNY's mortgage at a sale of foreclosure on December 14, 2004. The net proceeds of the foreclosure sale, along with reserve funds established for the bonds and other resources, have been applied to the February 15, 2005 redemption of all outstanding bonds. Thus, the State no longer has a contingent contractual obligation related to St. Agnes Hospital.

Moral Obligation Financings

On September 30, 2004, Riverbay Corporation, the tenant-owned corporation that owns Co-Op City, closed on a third party financing that provided the Housing Finance Agency with a mortgage prepayment sufficient to redeem on November 1, 2004 all of the Agency's outstanding Non-Profit Housing Project Bonds relating to Co-Op City ($207,065,000), which redemption occurred on November 1, 2004. Riverbay provided a release to the Agency releasing it from damages or liabilities of any kind, including but not limited to, suits, judgments, debts and causes of action of any kind, in connection with the Co-Op City project.

PART II

State Organization

State Retirement Systems

General

The New York State and Local Retirement Systems (the "Systems") provide coverage for public employees of the State and its localities (except employees of New York City and teachers, who are covered by separate plans). The Systems comprise the New York State and Local Employees Retirement System and the New York State and Local Police and Fire Retirement System. The Comptroller is the administrative head of the Systems. State employees made up about 33 percent of the membership during the 2003-04 fiscal year. There were 2,835 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, 2004, 641,721 persons were members and 328,355 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.

Contributions

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

Legislation enacted in May 2003 realigned the Retirement Systems billing cycle to match governments' budget cycles and also instituted a minimum annual payment. The employer contribution for a given fiscal year will be based on the value of the pension fund and its liabilities on the prior April 1. In addition, employers will be required to make a minimum contribution of at least 4.5 percent of payroll every year. Recent 2004 legislation modified the amortization schedule of the 2004-05 bill by changing it to a ten-year schedule at 5 percent interest with the first payment due in 2005-06.

The State bill due in the fiscal year ending March 31, 2005, payable September 1, 2004, utilizing the amortization feature, was $653.7 million and has been fully paid. Employer contributions due from the State for the fiscal year ending March 31, 2006, payable September 1, 2005, are estimated at $1.14 billion, which includes the first amortization payment from the 2005 bill of $65 million.

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 the net assets available for benefits as of March 31, 2004 were $120.8 billion (including $1.4 billion in receivables), an increase of $23.4 billion or 24.1 percent from the 2002-03 level of $97.4

billion, reflecting, in large part, equity market performance. OSC reports that the present value of anticipated benefits for current members, retirees, and beneficiaries as of April 1, 2003 was $130.5 billion (including $46.1 billion for current retirees and beneficiaries), an increase of $3.5 billion or 2.8 percent from the April 1, 2002 level of $127 billion. 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 differ from net assets in that they are calculated using a five-year smoothing method for valuing equity investments and using amortized cost instead of market value for bonds and mortgages. Actuarial assets decreased from $125.2 billion on April 1, 2002 to $106.7 billion on April 1, 2003. The table below shows the actuarially determined contributions that have been made over the last six years. See also "Contributions" above.

Net Assets Available for Benefits of the
New York State and Local Retirement Systems(1)
(millions of dollars)

Fiscal Year Ended March 31	Total Assets(2)	Increase/ (Decrease) From Prior Year
1999	112,723	6.0
2000	128,889	14.3
2001	114,044	(11.5)
2002	112,725	(1.2)
2003	97,373	(13.6)
2004	120,829	24.1

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, 2004 includes approximately $1.4 billion of receivables.
(2) Includes certain accrued employer contributions to be paid with respect to service rendered during fiscal years other than the year shown.

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

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

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

PART III

Litigation

State Finance Policies

In *Consumers Union of U.S., Inc. v. State*, plaintiffs challenge the constitutionality of those portions of Chapter 1 of the Laws of 2002 which relate to the authorization of the conversion of Empire Health Choice, d/b/a Empire Blue Cross and Blue Shield from a not-for-profit corporation to a for-profit corporation. Chapter 1 requires, in part, that upon such conversion, assets representing 95 percent of the fair market value of the not-for-profit corporation be transferred to a fund designated as the "public asset fund" to be used for the purpose set forth in § 7317 of the Insurance Law. The State and private defendants have separately moved to dismiss the complaint. On November 6, 2002, the Supreme Court, New York County, granted a temporary restraining order, directing that the proceeds from the initial public offering of the for-profit corporation be deposited with the State Comptroller in an interest-bearing account, pending the hearing of a motion for a preliminary injunction, which was returnable simultaneously with the motions to dismiss, on November 26, 2002.

By decision and order dated May 20, 2004, the Appellate Division, First Department affirmed the dismissal of plaintiff's original complaint but also affirmed the denial of defendants' motion to dismiss the amended claim. The State, the other defendants and the plaintiffs have been granted leave to appeal to the Court of Appeals.

Line Item Veto

In *Silver v. Pataki*, the Speaker of the Assembly of the State of New York challenges the Governor's application of his constitutional line item veto to certain portions of budget bills adopted by the State Legislature contained in Chapters 56, 57 and 58 of the Laws of 1998. By decision dated July 20, 2000, the Appellate Division reversed the January 7, 1999 order of the Supreme Court, New York County, and dismissed the petition. By opinion dated July 10, 2001, the Court of Appeals reversed the decision of the Appellate Division, holding that plaintiff has the capacity and standing to sue as a member of the Assembly. By order dated June 17, 2002, the Supreme Court, New York County, granted defendant's motion for summary judgment, dismissing the complaint. Plaintiff appealed to the Appellate Division, First Department. On July 22, 2002, the Senate of the State of New York moved in Supreme Court to intervene and for re-argument.

By decision entered December 11, 2003, the Appellate Division, First Department, affirmed the decision of the Supreme Court, New York County, dismissing the complaint. Plaintiff appealed this decision to the Court of Appeals. By decision dated December 16, 2004, the Court of Appeals affirmed the decision of the Appellate Division, First Department.

Budget Process

In *Pataki v. New York State Assembly, et al.*, the Governor seeks a judgment declaring that the actions of the Senate and the Assembly in voting and passing 46 budget bills on August 2, 2001 and August 3, 2001 violated Article 7, sections 4 and 5 of the State Constitution, because they deleted provisions of appropriations proposed by the Governor, substituted other appropriations, and considered other appropriation bills prior to taking action on the appropriation bills submitted by the Governor. The action also seeks to enjoin the approval of vouchers submitted pursuant to the budget bills enacted by the Senate and Assembly.

By decision and order dated November 7, 2001, the Supreme Court, Albany County, granted the State Comptroller's motion to dismiss this action as against the Comptroller. The plaintiff has appealed from that order. By decision and order dated January 17, 2002, the Supreme Court, Albany County, granted summary judgment dismissing certain affirmative defenses and declaring the actions of the Legislature in enacting the budget bills as modified or proposed by the Legislature other than the Legislative and Judiciary budget bills an unconstitutional violation of article VII of the State Constitution and denied defendants cross-motions for summary judgment. Defendants appealed from the January 17, 2002 order to the Appellate Division, Third Department. By opinion and order dated April 22, 2004, the Appellate Division, Third Department, affirmed the decision and order of the Supreme Court, Albany County. Defendants appealed from this opinion and order to the Court of Appeals. By decision dated December 16, 2004, the Court of Appeals affirmed the opinion and order of the Appellate Division, Third Department.

Real Property Claims

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

On December 7, 2004, settlement agreements were signed between the State, the Oneidas of Wisconsin and the Stockbridge-Munsee Tribe, which would in part require the passage of State and Federal legislation to become effective. Such legislation must be enacted by September 1, 2005 unless the parties agree to an extension of time. The agreements contemplate the extinguishment of all Oneida and other Indian claims in the tract at issue in this litigation. Although the agreements provide for monetary payment, transfers of lands and other consideration to non-signatory tribal plaintiffs, these agreements have not been signed by the United States, the Oneidas of New York, the Oneida of the Thames Band or the New York Brothertown.

In the *Canadian St. Regis Band of Mohawk Indians* case, plaintiffs seek ejectment and monetary damages with respect to their claim that approximately 15,000 acres in Franklin and St. Lawrence Counties were illegally transferred from their predecessors-in-interest. By decision dated July 28, 2003, the District Court granted, in most respects, a motion by plaintiffs to strike defenses and dismiss counterclaims contained in defendants' answers. By decision dated October 20, 2003, the District Court denied the States motion for reconsideration of that portion of the July 28, 2003 decision which struck a counterclaim against the United States for contribution. On November 29, 2004, the plaintiff tribal entities, with one exception, approved a settlement proposed by the State, which would require enactment of State and Federal legislation to become effective.

In the Cayuga Indian Nation of New York case, plaintiffs seek monetary damages for their claim that approximately 64,000 acres in Seneca and Cayuga Counties were illegally purchased by the State in 1795. Prior to trial, the court held that plaintiffs were not entitled to seek the remedy of ejectment. In October 1999, the District Court granted the Federal government's motion to have the State held liable for any damages owed to the plaintiffs. In February 2000, at the conclusion of the damages phase of the trial of this case, a jury verdict of $35 million in damages plus $1.9 million representing the fair rental value of the tract at issue was rendered against the defendants. By decision and judgment dated October 2, 2001, the District Court also granted plaintiffs $211 million in prejudgment interest. The State has appealed from the judgment to the United States Court of Appeals for the Second Circuit. Following argument of the appeal, the second Circuit requested that the parties brief the Court on the impact of any eventual decision by the United States Supreme Court in *City of Sherrill v. Oneida Indian Nation of New York, et al*., a case to which the State is not a named party, involving the issue of whether parcels of land recently acquired by the Oneida Indian Nation of New York within the 1788 reservation boundaries are subject to local property taxation. On October 1, 2004, the State filed an action in the District Court for the Northern District Court under the Federal Tort Claims Act, seeking contribution from the United States toward the $248 million judgment and post-judgment interest. The State and the United States have agreed to stay this litigation pending a decision in the *Sherrill* case.

Settlements were signed on by the Governor of the State with the Chief of the Seneca-Cayuga Tribe of Oklahoma on November 12, 2004 and with the Cayuga Indian Nation of New York on November 17, 2004 which would, in part, require enactment of State and Federal legislation to become effective. Such legislation must be enacted by September 1, 2005 unless the parties agree to an extension of time. These agreements provide for differential payments to be made to the plaintiff tribes, based upon the outcome of the appeal now pending in the Second Circuit.

State Programs

School Aid

In *Campaign for Fiscal Equity, Inc. et al. v. State, et al.*(Supreme Court, New York County), plaintiffs challenge the State's method of providing funding for New York City public schools. Plaintiffs seek a declaratory judgment that the State's public school financing system violates article 11, section 1 of the State Constitution and Title VI of the Federal Civil Rights Act of 1964 and injunctive relief that would require the State to satisfy State Constitutional standards.

This action was commenced in 1993. In 1995, the Court of Appeals affirmed the dismissal of claims under the equal protection clauses of the Federal and State constitutions and Title VI of the Federal Civil Rights Act of 1964. It reversed dismissal of the claims under article 11, section 1 of the State Constitution and implementing regulations of Title VI, and remanded these claims for trial.

By decision dated January 9, 2001, following trial, the trial court held that the State's education funding mechanism does not provide New York City students with a "sound basic education" as required by the State Constitution, and that it has a disparate impact on plaintiffs in violation of regulations enacted by the U.S. Department of Education pursuant to Title VI of the Civil Rights Act of 1964. The court ordered that defendants put in place reforms of school financing and governance designed to redress those constitutional and regulatory violations, but did not specify the manner in which defendants were to implement these reforms. The State appealed, and the trial court's decision was stayed pending resolution of the appeal. By decision and order entered June 25, 2002, the Appellate Division, First Department, reversed the January 9, 2001 decision and dismissed the claim in its entirety. On July 22, 2002, the plaintiffs filed a notice of appeal to the decision and order to the Court of Appeals.

By decision dated June 26, 2003, the Court of Appeals reversed that portion of the June 25, 2002 decision and order of the Appellate Division, First Department relating to the claims arising under the State Constitution. The Court held that the weight of the credible evidence supported the trial court's conclusion that New York City schoolchildren were not receiving the constitutionally mandated opportunity for a sound basic education and further held that the plaintiffs had established a causal link between the present education funding system and the failure to provide said sound basic education. The Court remitted the case to the trial court for further proceedings in accordance with its decision.

On August 3, 2004, the Supreme Court, New York County, referred this case to a panel of three referees. The panel is to make recommendations to the court as to how the State should fulfill the Court of Appeals mandate to provide New York City school children with a sound basic education.

On November 30, 2004, the panel issued its report and recommendations. It recommended that the District Court direct the State to pay to New York City schools a total of $14.08 billion over the next four years in additional operations funding and $9.179 billion over the next five years for capital improvements.

Medicaid

In a decision dated June 3, 2003, involving seven consolidated cases (*Matter of St. James Nursing Home v. DeBuono*), the Supreme Court, Albany County, partially granted petitioners claims that the State violated the procedural requirements of the Boren Amendment and directed the State to recalculate the Medicaid rates associated with State Plan Amendment 95-23. The court dismissed petitioners' claims as to the Medicaid rates associated with State Plan Amendments 95-24 and 96-24. The parties appealed from this decision. In a decision and order dated November 18, 2004, the Appellate Division, Third Department, affirmed the judgement of the Supreme Court, Albany County.

Annual Information Statement
State of New York
Dated: September 19, 2004

Table of Contents

Annual Information Statement of the State of New York

Introduction

This Annual Information Statement ("AIS") is dated September 19, 2004 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"). This AIS, including the Exhibits attached hereto, should be read in its entirety, together with any update or supplement issued during the fiscal year.

In this AIS, readers will find:

1. A section entitled the "Current Fiscal Year" that contains (a) extracts from the 2004-05 Enacted Budget 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 State's Financial Plan during the current fiscal year under the heading "Special Considerations." The first part of the Enacted Budget Financial Plan summarizes the major changes to the 2004-05 Executive Budget and the projected impact on operating results, annual spending growth, and the magnitude of future potential budget gaps; the second part provides detailed information on total receipts and disbursements projected in the State's governmental funds in 2004-05.

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

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

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

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

The State plans to issue updates to this AIS on a quarterly basis and may issue supplements or other disclosure notices 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. Readers may obtain informational copies of the AIS, updates, and supplements by contacting Mr. Louis Raffaele, Chief Budget Examiner, New York State Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705. The State has filed this AIS with the Central Post Office, Disclosure USA. The Municipal Advisory Council of Texas (Texas MAC), has established this internet-based disclosure filing system approved by the Securities and Exchange Commission to facilitate the transmission of disclosure-related information to the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs). An official copy of this AIS may be obtained from the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705 or from any NRMSIR. The Basic Financial Statements for the 2003-04 fiscal year issued in July 2004 may be obtained from the Office of the State Comptroller, 110 State Street, Albany, NY 12236.

Usage Notice

The AIS has been supplied by the State to provide updated information about the financial condition of the State in connection with financings of certain issuers, including public authorities of the State, that may depend in whole or in part on State appropriations as sources of payment of their respective bonds, notes or other obligations and for which the State has contractually obligated itself to provide such information pursuant to an applicable continuing disclosure agreement (a "CDA").

An informational copy of this AIS is available on the DOB website (www.budget.state.ny.us). The availability of this AIS in electronic form at DOB's website is being provided to you solely as a matter of convenience to readers and does not create any implication that there have been no changes in the financial condition of the State at any time subsequent to its release date. Maintenance of the AIS on this 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 included in a Preliminary Official Statement, Official Statement, or other offering document, or incorporated by reference in an Official Statement unless (i) DOB has expressly consented thereto following a written request to the State of New York, Division of the Budget, State Capitol, Albany, NY 12224 and (ii) a CDA relating to the series of bonds or notes described in such Preliminary Official Statement, Official Statement, or other offering document has been agreed to be 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 incorporated by reference in any Official Statement or other offering document without such consent and agreement by DOB to execute a CDA is unauthorized and the State expressly disclaims any responsibility with respect to the inclusion, intended use, and updating of this AIS if so misused.

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Current Fiscal Year

The State's current fiscal year began on April 1, 2004 and ends on March 31, 2005. On March 31, 2004, the State Legislature enacted appropriations for all State-supported, contingent contractual, and certain other debt service obligations for the entire 2004-05 fiscal year. On August 11, 2004, the Legislature completed action on the remaining appropriations and accompanying legislation constituting the budget for the 2004-05 fiscal year. The Governor vetoed portions of the budget revisions enacted by the Legislature on August 20, 2004. The Legislature is authorized to take action on the Governor's vetoes until December 31, 2004. The 2004-05 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 as of the date of this AIS.

The 2004-05 Enacted Budget Financial Plan contains estimates and projections of future results that should not be construed as statements of fact. These estimates and projections are based upon various assumptions that may be affected by numerous factors, including future economic conditions in the State and nation. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained in the 2004-05 Enacted Budget Financial Plan set forth herein.

2004-05 Enacted Budget Financial Plan

General Fund Summary

The 2004-05 Executive Budget recommended actions to close a General Fund budget gap of $5.1 billion. The recommendations included $2.6 billion in savings from spending restraint (including program restructuring and the use of alternate funding sources), $972 million in new revenues, and $1.5 billion in other measures. The Executive Budget projected budget gaps of $2.9 billion in 2005-06 and $4.4 billion in 2006-07, a reduction of $3.8 billion and $3.5 billion, respectively, from the initial gaps at the start of the 2004-05 budget cycle. The gap estimates assumed all the Executive Budget savings proposals were enacted in their entirety.

The Legislature completed action on the budget for the 2004-05 fiscal year on August 11, 2004. Consistent with prior years, the debt service bill was enacted by March 31, 2004. DOB estimates that, in comparison to the Executive Budget, the Legislative Budget Agreement identified $1.1 billion in new General Fund resources to fund $1.5 billion in additions and $280 million in new costs, leaving an imbalance of roughly $600 million to $700 million in 2004-05 and gaps of approximately $6 billion in 2005-06 and $8 billion in 2006-07.

The Governor vetoed General Fund spending additions valued at $235 million in 2004-05, reducing the projected General Fund imbalance in the current year to approximately $400 million. The vetoes are expected to generate comparable savings in 2005-06 and 2006-07. The Governor also vetoed $1.6 billion in new bonding for capital spending approved by the Legislature. Under the State Constitution, the Legislature may take action on the Governor's vetoes through December 31, 2004, or enact additional appropriations, subject to gubernatorial veto, at any time during the 2004-05 fiscal year.

General Fund Gaps (millions of dollars)	2004-05	2005-06	2006-07
2004-05 Executive Budget	**0**	**(2,852)**	**(4,354)**
Net Additions	(1,527)	(2,618)	(2,788)
New Costs	(280)	(650)	(823)
Available Resources	1,138	(230)	11
2004-05 Legislative Budget Agreement	**(669)**	**(6,350)**	**(7,954)**
Vetoes	235	211	259
Fiscal Management Plan	434	450	450
2004-05 Enacted Budget	**0**	**(5,689)**	**(7,245)**

The DOB, in close cooperation with State agencies, expects to develop a Fiscal Management Plan intended to balance the 2004-05 budget and reduce the outyear gaps. The Plan will be described in the Mid-Year Update to the Financial Plan that is expected to be issued by October 30, 2004. DOB expects that the Fiscal Management Plan will produce savings sufficient to balance the 2004-05 fiscal year and reduce the outyear gaps to the range of $5 billion to $6 billion in 2005-06 and roughly $7 billion in 2006-07. It is expected that with a Fiscal Management Plan, the State will not need to borrow from the rainy day reserve of $794 million to end the fiscal year in balance on a cash basis in the General Fund.

The DOB projects that All Funds spending will total $101.2 billion in 2004-05, an increase of $3.9 billion or 4.0 percent above actual 2003-04 results. When 2003-04 spending is adjusted to reflect certain deferrals, adjusted 2004-05 All Fund spending increases by $5.8 billion or 6.1 percent over 2003-04 levels.

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The following sections provide more detail on the General Fund changes since the Executive Budget, including legislative additions, vetoes, new costs and new resources.

General Fund Additions to the Executive Budget

DOB projects that the net General Fund additions above the level projected in the Executive Budget total $1.3 billion in 2004-05, $2.4 billion in 2005-06, and $2.5 billion in 2006-07, after reflecting available resources and vetoes. The following table summarizes, by major function, the Legislature's "gross" additions to the Executive Budget, the available resources specifically identified to offset certain spending additions, and the savings generated by the Governor's vetoes.

General Fund Additions -- Change from Executive Budget
(millions of dollars)

	2004-05	2005-06	2006-07
Gross Additions	**1,950**	**2,680**	**2,863**
Education/STAR	575	725	688
Higher Education	373	448	467
Medicaid/Health	507	954	1,299
Housing/Transportation/Environment	115	86	108
Human Services	107	134	136
Criminal Justice	76	98	98
General Government/Economic Development	27	27	17
Mental Hygiene	10	10	10
Tax/Revenue Restorations	60	98	40
Member Items	100	100	0
"Avails" Identified to Offset Gross Additions	**(423)**	**(62)**	**(75)**
Use 2004-05 VLTs to Finance School Aid Add	(240)	0	0
Bond Projects Financed on PAYGO Basis	(95)	2	4
Adjust Current TAP Roll at 70/30	(60)	0	0
Medicare Discount Cards	(18)	(19)	0
Resources Made Available by TAP Rejection	(10)	(45)	(79)
Total General Fund Additions (before vetoes)	**1,527**	**2,618**	**2,788**
Vetoes	**(235)**	**(211)**	**(259)**
Education/STAR	(28)	(12)	(12)
Higher Education	(30)	(50)	(69)
Medicaid/Health	(5)	(40)	(72)
Housing/Transportation/Environment	(75)	(13)	(13)
Human Services	(48)	(21)	(21)
Criminal Justice	(24)	(49)	(49)
General Government/Economic Development	(16)	(17)	(14)
Mental Hygiene	(9)	(9)	(9)
Total General Fund Additions (after vetoes)	**1,292**	**2,407**	**2,529**

The following information provides more detail on the legislative additions to the Executive Budget, including the impact of the Governor's vetoes.

Education/STAR[1]

General Fund Education/STAR Summary (millions of dollars)	2004-05	2005-06	2006-07
Increase School Aid (State Fiscal Year)	506	673	673
Reject STAR Plus Proposal	20	20	0
All Other Revisions	49	32	15
Gross Additions	**575**	**725**	**688**
Use 2004-05 VLTs to Finance School Aid Add	(240)	0	0
Vetoes	(28)	(12)	(12)
Net Additions	**307**	**713**	**676**

Total gross additions in the legislative budget for education are projected at $575 million in 2004-05, including $506 million for school aid. The 2004-05 school year increase is $751 million. The Legislature did not enact proposed reforms for Building Aid and Flex Aid, and restored most proposed reductions including: Board of Continuing Education Services (BOCES); Teacher Support Aid (TSA); other teacher-related programs; Library Aid; and Public Broadcasting.

In *Campaign for Fiscal Equity (CFE) v. State of New York*, the State Court of Appeals directed the State to implement a remedy by July 30, 2004 that ensures all children in New York City have the opportunity to receive a sound basic education (SBE). Although the Governor called the Legislature into special session on July 22, 2004 to enact legislation in response to the CFE decision, the Legislature failed to reach agreement on a remedy. As a result, the Court subsequently appointed a panel of three special masters who will submit a report by November 30, 2004 that summarizes their review and recommendations on the measures the State has taken to bring its school financing system into constitutional compliance with respect to New York City schools. For a discussion of this litigation, see the section entitled "Litigation - State Programs - School Aid" in this AIS.

Projected revenues of $240 million from video lottery terminals (VLTs) directed by the Legislature to offset the school aid addition in 2004-05, as well as vetoes of $28 million, result in a net addition of $307 million. The outyear value of VLTs are reserved for compliance with the CFE court case. For a discussion of litigation affecting VLTs, see the section entitled "Litigation - State Finance Policies - Gaming" in this AIS.

[1] School Tax Relief.

Higher Education

General Fund Higher Education Summary (millions of dollars)			
	2004-05	2005-06	2006-07
Reject TAP Restructuring Savings	272	302	302
SUNY Operating Aid	35	50	50
CUNY Operating Aid	25	33	33
SUNY/CUNY Community College	28	37	37
All Other Revisions	13	26	45
Gross Additions	**373**	**448**	**467**
Resources Made Available by TAP Rejection	(10)	(45)	(79)
Adjust Current TAP Roll at 70/30	(60)	0	0
Bond Projects Financed on PAYGO Basis	(95)	2	4
Vetoes	(30)	(50)	(69)
Net Additions	**178**	**355**	**323**

The budget included $373 million in gross additions for higher education, including $272 million to reflect legislative rejection of the Tuition Assistance Program (TAP) program restructuring initiatives, operating aid increases of $35 million for the State University of New York (SUNY), and $25 million for the City University of New York (CUNY), and $28 million for SUNY and CUNY community colleges.

The Legislature identified resources totaling $165 million to offset the gross additions in higher education, including $60 million in costs rolled into 2005-06 to maintain TAP program funding at 70 percent in the current fiscal year, and $95 million in bond financing for programs originally expected to be funded with pay-as-you-go resources. Together with $30 million in vetoes, the net additions are estimated to total $178 million.

Medicaid/Public Health

General Fund Medicaid/Public Health Summary (millions of dollars)	2004-05	2005-06	2006-07
Rejects Hospital/Home Care Assessments	198	217	217
Rejects Preferred Drug Program	37	119	119
Partially Rejects Nursing Home Assessment	36	43	258
Partially Rejects Pharmacy Cost Containment	37	52	52
Partially Rejects FHP Cost Containment	28	37	37
Rejects Closing Long-Term Care Loopholes	25	82	82
State Takeover of FHP Costs	25	158	226
Rejects Streamlining of Benefit Packages	32	35	35
Partially Rejects HCRA Cost Containment	22	32	52
Public Health	12	70	93
All Other Medicaid	55	109	128
Gross Additions	**507**	**954**	**1,299**
Medicare Discount Card	(18)	(19)	0
Vetoes	(5)	(40)	(72)
Net Additions	**484**	**895**	**1,227**

The Legislature did not enact Executive Budget cost containment initiatives to create a Preferred Drug Program and to reform the Family Health Plus (FHP), Early Intervention, and Long Term Care programs. The budget maintained a nursing home assessment of 5 percent in 2004-05 (the Executive Budget proposed 6 percent) and 2005-06, with complete elimination in 2006-07, but denied the 0.7 percent assessment on hospitals and home care providers. Finally, the State will begin paying for 50 percent of the local costs of the FHP beginning in January 2005 growing to 100 percent in January 2006 (the Executive Budget proposed the takeover of Long Term Care costs). Total gross additions are offset by $18 million in savings for the Elderly Pharmaceutical Insurance Coverage (EPIC) Program related to the Medicare discount card and $5 million in vetoes, for a net addition of $484 million.

Housing/Transportation/Environmental Conservation

General Fund Housing/Transportation/Environmental Conservation Summary (millions of dollars)	2004-05	2005-06	2006-07
Housing Capital	57	0	0
Shift EPF Expenses to the General Fund	14	25	25
Decrease DWI/DWAI Annual Surcharge	9	32	54
Reject $15 Surcharge for Parking Tickets	8	8	8
Restore 5 Percent Cuts in Agriculture Programs	7	7	7
Reject ATV Fee Increase	6	6	6
Add for Neighborhood Preservation Program	5	5	5
Add for Rural Preservation Program	2	2	2
All Other	7	1	1
Gross Additions	**115**	**86**	**108**
Vetoes	(75)	(13)	(13)
Net Additions	**40**	**73**	**95**

The Legislature added a total of $115 million including $57 million in capital spending financed with a portion of the $225 million available State of New York Mortgage Agency (SONYMA) balance (see "Available Resources" later in this AIS) and an additional $14 million transfer from the Environmental Protection Fund (EPF) to fund initiatives in the General Fund. Vetoes reduced the total additions by $75 million.

Human Services

General Fund Human Services Summary (millions of dollars)	2004-05	2005-06	2006-07
Reject Welfare Reform Proposals	50	104	107
Temp. Assistance for Needy Families	22	0	0
Increase Foster Care Payments to NYC	10	10	10
Reject Detention Block Grant	7	11	11
All Other	18	9	8
Gross Additions	**107**	**134**	**136**
Vetoes	(48)	(21)	(21)
Net Additions	**59**	**113**	**115**

The Legislature rejected most of the Executive's welfare reform proposals, including a reduction in welfare grant levels, a step-down in the level of the Earned Income Disregard and imposition of "full family" sanctions. In addition, the Legislature added $10 million in General Fund spending to support the

State's share of the total funding increase necessary to bring New York City foster care payments up to the full maximum State aid rate. In 2004-05, gross additions are projected at $107 million offset by $48 million in vetoes.

Criminal Justice

General Fund Criminal Justice Summary (millions of dollars)	2004-05	2005-06	2006-07
Denial of Handgun Fees	31	11	11
Denial of the Work Zone Speed Enforcement	15	33	33
Increase Correction Officer Staffing Ratio	7	27	27
Add Funding for Correctional Facilites	6	11	11
Add Funding for Fulton Work Release Program	6	6	6
Restore Funding for Westchester Policing Program	3	3	3
All Other	8	7	7
Gross Additions	**76**	**98**	**98**
Vetoes	(24)	(49)	(49)
Net Additions	**52**	**49**	**49**

The Legislature added $76 million by denying proposed Executive fee increases ($31 million for handgun fees and $15 million for speed enforcement fines in transportation work zones), rejecting the closure of three correctional facilities, and increasing correction officer staffing ratios. Total gross additions were reduced by $24 million in vetoes for a net addition of $52 million.

General Government/Economic Development

General Fund General Government/Economic Development Summary (millions of dollars)	2004-05	2005-06	2006-07
Various Economic Development Adds	12	13	13
Accelerate PILOT Payments	7	7	0
New Add for Capital Improvements	3	3	0
All Other Revisions	5	4	4
Gross Additions	**27**	**27**	**17**
Vetoes	(16)	(17)	(14)
Net Additions	**11**	**10**	**3**

The Legislature added $27 million in 2004-05. These additions include $12 million for economic development, including grants for local tourism and high-technology programs, and $7 million to accelerate payments otherwise due in future years to the city of Albany under the Payment in Lieu of Taxes (PILOT) program. These additions were lowered by $16 million in vetoes.

Mental Hygiene

General Fund Mental Hygiene Summary (millions of dollars)	2004-05	2005-06	2006-07
Restore OMH/OASAS Local Service Cuts	7	7	7
Senate Priority Program Adds	2	2	2
All Other	1	1	1
Gross Additions	**10**	**10**	**10**
Vetoes	(9)	(9)	(9)
Net Additions	**1**	**1**	**1**

The Legislature added $10 million to partially restore recommended cuts in the Office of Mental Health (OMH) and the Office of Alcoholism and Substance Abuse Services (OASAS) and to fund program adds in all of the Mental Hygiene agencies. The additions were offset by $9 million in vetoes.

Tax/Revenue Restorations

General Fund Tax/Revenue Restorations Summary (millions of dollars)	2004-05	2005-06	2006-07
Rejected/Modified Revenue Actions	**(29)**	**(21)**	**43**
Eliminate Restrictions of Quick Draw	(43)	(68)	(68)
Direct Wine Shipments	(2)	(3)	(3)
Empire Zones	0	(25)	(25)
Single Sales Factor for Manufacturers	0	8	16
Biotechnology Investment Credit	5	10	10
STAR Inflation Adjustment	11	57	113
New Tax Cuts	**(31)**	**(77)**	**(83)**
Long-Term Care Credit	(18)	(20)	(20)
Film Production Credit	(12)	(25)	(25)
Brownfields Expansion - Income/Corporate	0	(30)	(30)
All Other Sales Tax	(1)	(2)	(2)
New CAPCO Allocation	0	0	(6)
Net Additions	**(60)**	**(98)**	**(40)**

The Legislature did not approve several revenue actions proposed in the Executive Budget. The revenue lost by not enacting these proposals is projected to total $29 million in 2004-05. In addition, the Legislature added several tax reduction proposals not included in the Executive Budget that are expected to reduce revenues by $31 million in 2004-05.

Member Items

The Legislature added a $200 million lump sum for "member items." It is expected that this addition will result in costs of $100 million in 2004-05 and $100 million in 2005-06.

General Fund -- New Costs Since the Executive Budget

The 2004-05 Financial Plan reflects several new costs incurred since the Executive Budget was proposed by the Governor. These total $280 million in 2004-05, $650 million in 2005-06, and $823 million in 2006-07.

General Fund New Costs -- Change from Executive Budget (millions of dollars)	2004-05	2005-06	2006-07
Collective Bargaining Settlements (Statewide Pattern)	274	473	621
SUNY Capital Costs	21	0	0
Changes to Pension Reform	(15)	177	202
LGAC/STARC Payment to New York City	170	0	0
City Offset for LGAC/STARC	(170)	0	0
Total General Fund New Costs	**280**	**650**	**823**

Collective Bargaining: Since the start of the fiscal year, the State has reached labor settlements with many of the major employee unions, including the Civil Service Employees Association, the United University Professions, and the Professional Employee Federation, as well as the State's Management-Confidential employees. DOB projects that if, as expected, the State settles all the remaining contracts following the pattern set by these unions, it will result in $274 million in costs in 2004-05, growing to $473 million in 2005-06 and $621 million in 2006-07.

Pensions: Pension legislation enacted in July 2004 provides current year savings of $15 million above the Executive proposal, but is projected to cost $177 million in 2005-06, growing to $202 million in 2006-07. The legislation authorizes State and local governments to amortize 2004-05 pension costs above 7 percent of salary expenditures over a period of ten years at a market rate to be established by the State Comptroller. The first annual payment is due in 2005-06. In addition, the legislation extends the amortization option to local governments for costs above 9.5 percent in 2005-06 and 10.5 percent in 2006-07. In contrast, the Executive Budget proposed reforms would have produced recurring savings.

LGAC[2]/STARC[3]: The Legislature rejected the Executive Budget proposal to provide fiscal relief to New York City in a less costly way than having STARC issue bonds to stretch out existing New York City debt from the 1970s to 2034 at an estimated cost of $5.1 billion. The Legislature provided an appropriation to make a payment to the City of $170 million in 2004-05 (that would result, subject to annual appropriations, in $5.3 billion of payments to the City rather than the previous legislative agreement of $5.1 billion). However, it is expected that the City will provide $170 million to the State in 2004-05 to ensure that the State's Financial Plan does not incur unplanned costs.

[2] Local Government Assistance Corporation.
[3] State Tax Asset Receivable Corporation.

General Fund -- Available Resources Above the Executive Budget

General Fund available resources above the level projected in the Executive Budget are estimated to total $1.1 billion in 2004-05 and $11 million in 2006-07, and to drive additional costs of $230 million in 2005-06. These available resources are summarized below. See the section entitled "2004-05 Governmental Funds Financial Plans" in this AIS for a discussion of the receipts forecast.

General Fund Available Resources -- Change from Executive Budget (millions of dollars)			
	2004-05	2005-06	2006-07
Revenue Consensus Forecast	325	350	375
Spending Reductions/Reestimates/Other	225	38	39
Housing SONYMA Balances	225	(225)	0
Empire Conversions	200	0	0
Alteration of Clothing Sales Tax Exemption	83	(429)	(451)
2003-04 Surplus Above Executive Budget Projection	47	0	0
Fund Balances	25	0	0
Abandoned Property Resources	20	21	21
Seven Day Sales at Liquor Stores	1	2	2
Internet Affiliate/Procurement	0	13	25
Native American Regulations	(13)	0	0
Total General Fund Available Resources	**1,138**	**(230)**	**11**

Revenue Consensus: The current DOB forecast of $325 million in additional available resources is based on the mid-point of the consensus revenue forecast agreed to with the Legislature in March 2004 ($150 million to $500 million). DOB believes that current economic conditions and actual collections experience support this estimate. While the forecast has upside potential given receipt collections through August in certain components of revenue, the recent slowdown in employment growth and consumer spending and large increases in energy prices, combined with recent declines in equity market valuations, represent risks to the current year forecast.

Spending Reductions/Reestimates/Other: This category consists of legislative spending cuts in various programs and agencies, and lower projected spending based on actual results through August 2004.

Housing SONYMA Balances: The Enacted Budget accelerates into 2004-05 the use of a one-time fund balance of $225 million from SONYMA originally planned to reduce the 2005-06 budget gap.

Empire Conversions: The Financial Plan assumes that the conversion of Empire Blue Cross and Blue Shield to a for-profit corporation will produce $1.2 billion in receipts in State Fiscal Year 2004-05, $200 million above the level forecast in the Executive Budget. The Executive Budget proposed language authorizing additional insurance conversions intended to assure the receipt of the assumed Empire conversion proceeds. The Legislative Budget Agreement did not include that language which could jeopardize receipt of these proceeds.

Alteration of Clothing Sales Tax Exemption: The Legislature did not enact the Executive proposal to permanently substitute four "sales-tax-free" weeks (for items less than $500) for the current clothing exemption for items under $110. Instead, the Legislature passed the reform for 2004-05 only. The outyear cost of the Legislature's action would exceed $400 million annually if the reform is not extended.

Native American Regulations: The Department of Taxation and Finance estimated additional collections of $60 million in All Funds receipts if the Executive Budget proposal for parity agreements was enacted. That legislation was replaced by the Legislature with an action that implements proposed Tax Department regulations by January 1, 2005. This action is expected to lead to a General Fund loss of $13 million in 2004-05.

General Fund -- Nonrecurring Resources

The Executive Budget recommended a total of $1.5 billion in nonrecurring actions which were detailed in the Executive Budget Financial Plan. The Legislature accepted these actions and added roughly $550 million in additional nonrecurring resources to fund a portion of its additions. The additional nonrecurring resources are comprised of surplus reserves from the Housing Finance Agency (HFA) originally planned to lower the projected 2005-06 gap ($225 million), additional Empire conversion proceeds ($200 million), additional bonding of capital spending, sweeps of available fund balances, and 2003-04 surplus amounts above the Executive Budget projection.

2004-05 Nonrecurring Resources (millions of dollars)	
Revenues:	**1,182**
2003-04 Surplus	308
SONYMA Balances	225
Tobacco Securitization	182
LGAC Payment from NYC	170
PASNY	100
Fund Sweeps	97
Reverse Meyers Tax Decision	50
Bond Issuance Charges	50
Spending:	**883**
Bonding of Capital Spending	378
Empire Conversion	200
Delay Medicaid Cycle	190
Federal Welfare Funds	115
Total Nonrecurring Resources	**2,065**

Vetoes

The Governor vetoed 105 separate legislative additions, generating General Fund savings of roughly $700 million over three years. In addition, the Governor vetoed $1.6 billion in additional bond-financed capital spending, to avoid roughly $2.5 billion of long-term debt service costs.

Fiscal Management Plan

In order to assure budget balance in the current fiscal year and to begin to address the 2005-06 and 2006-07 budget gaps, the Governor has directed DOB to develop a Fiscal Management Plan to reduce State Operations costs, curtail non-essential spending, and identify other cost containment actions to bring the General Fund into balance. This plan will be developed in cooperation with State agency managers and is expected to be detailed by October when DOB issues the Mid-Year Update to the 2004-05 Financial Plan. Elements of the plan are expected to include:

- Continuing statewide austerity measures that limit discretionary spending, ban non-essential travel, and restrict or terminate lower-priority capital spending and other contractual liabilities;
- Updating agency management plans to eliminate, consolidate, and streamline governmental services;
- Maximizing Federal aid; and
- Developing cost containment proposals that can be presented for legislative action later this year.

In addition, DOB will continue to review actual results against plan.

All Governmental Funds Summary

Summary of Receipts Growth

Total receipts in 2004-05 are projected to be $42.7 billion in the General Fund, $63.2 billion in State Funds, and $100.1 billion in All Governmental Funds, an annual increase of $328 million (.8 percent), $1.0 billion (1.6 percent) and $1.1 billion (1.1 percent) respectively.

Summary of Annual Receipts Growth (millions of dollars)

	General Fund	State Funds	All Funds
2003-04 Actuals	**42,327**	**62,170**	**98,989**
2004-05 Executive Budget	**41,846**	**63,142**	**99,521**
Available Resourses	689	774	774
New Costs/Reestimates	121	(714)	(128)
Vetoes	(1)	(49)	(49)
Net Change from Executive Budget	**809**	**11**	**597**
2004-05 Enacted Budget	**42,655**	**63,153**	**100,118**
Annual Change from 2003-04			
-- Dollar Change	***328***	***983***	***1,129***
-- Percent Change	***0.8%***	***1.6%***	***1.1%***
Annual Change Adjusted for $1.9B in Tobacco Proceeds Received in 2003-04			
-- Dollar Change	***2,228***	***2,883***	***3,029***
-- Percent Change	***5.5%***	***4.8%***	***3.1%***

NOTE: Annual growth is affected by the receipt of $1.9 billion in tobacco bond proceeds in 2003-04. The nonrecurring increase in receipts artificially inflates the 2003-04 revenue base and thus understates the annual change to 2004-05. Accordingly, DOB is reporting the annual revenue change on both an adjusted (excluding the impact of tobacco proceeds) and unadjusted basis.

Receipts in the 2004-05 Enacted Budget exceed the level recommended in the Governor's Executive Budget by $809 million in the General Fund, $11 million in State Funds, and $597 million in All Funds.

The major components of these receipt changes are summarized in the following table and in the section entitled "2004-05 Governmental Funds Financial Plans" in this AIS.

Summary of Receipts Changes (millions of dollars)	General Fund	State Funds	All Funds
2004-05 Executive Budget	**41,846**	**63,142**	**99,521**
Revenue Consensus Forecast	325	325	325
Housing SONYMA Balances	225	225	225
City Offset for LGAC/STARC	170	170	170
Alteration of Clothing Sales Tax Exemption	83	83	83
Fund Balances	25	0	0
Abandoned Property Resources	20	20	20
2003-04 Surplus Above Executive Budget Projection	21	21	21
Native American Regulations	(13)	(13)	(13)
Tax/Revenue Restorations	(60)	(60)	(60)
Health Care Provider Assessments	0	(264)	(264)
All Other	13	(496)	90
2004-05 Enacted Budget	**42,655**	**63,153**	**100,118**
Change from Executive Budget	**809**	**11**	**597**

The largest areas of All Governmental Funds receipt growth since the Executive Budget include the revised revenue consensus forecast ($325 million), the SONYMA balance ($225 million), and the expected New York City one-time payment to the State as part of the LGAC/STARC transaction ($170 million). For a more detailed discussion of these changes, see “General Fund Available Resources” and “New Costs” earlier in this AIS.

Total State Funds and All Governmental Funds receipts are offset by the Legislature's rejection of certain health care provider assessments ($264 million) and various reestimates in the Capital Projects and Special Revenue fund types based upon prior-year actual results and year-to-date experience.

Summary of Disbursement Growth

DOB projects General Fund disbursements will total $43.0 billion in 2004-05, an increase of $974 million (2.3 percent) over 2003-04 actual results. State Funds and All Governmental Funds disbursements are projected to reach $64.3 billion and $101.2 billion in 2004-05, an increase of $3.0 billion (4.8 percent) and $3.9 billion (4.0 percent) over the prior year. When adjusted for $1.9 billion of payment deferrals which artificially increased 2003-04 spending levels, the annual spending increases are 7.2 percent, 8.2 percent and 6.1 percent, respectively, for the General Fund, State Funds, and All Funds.

The spending estimates in this AIS reflect savings from the Governor’s vetoes as well as a $90 million reduction in the level of projected spending for legislative member items in 2004-05, based on actual experience to date.

Summary of Annual Disbursement Growth (millions of dollars)			
	General Fund	State Funds	All Funds
2003-04 Actuals	**42,065**	**61,332**	**97,326**
2004-05 Executive Budget	**41,896**	**63,503**	**99,811**
Net Spending Additions	1,417	1,548	1,928
New Costs/Reestimates	(38)	(472)	(227)
Vetoes	(236)	(286)	(305)
Net Change from Executive Budget	**1,143**	**790**	**1,396**
2004-05 Enacted Budget	**43,039**	**64,293**	**101,207**
Annual Change from 2003-04			
-- Dollar Change	***974***	***2,961***	***3,881***
-- Percent Change	***2.3%***	***4.8%***	***4.0%***
Annual Change Adjusted for $1.9B in Payment Deferrals Paid in 2003-04			
-- Dollar Change	***2,874***	***4,861***	***5,781***
-- Percent Change	***7.2%***	***8.2%***	***6.1%***

NOTE: Annual growth is affected by the deferral of $1.9 billion in payments from 2002-03 to 2003-04. The deferral artificially inflates the 2003-04 spending base and thus understates the annual change to 2004-05. Accordingly, DOB is reporting the annual spending change on both an adjusted (excluding the impact of payment deferrals) and unadjusted basis.

Estimated disbursements in the 2004-05 Enacted Budget exceed the level recommended in the Governor's Executive Budget by $1.1 billion in the General Fund, $790 million in State Funds and $1.4 billion in All Funds. The major components of these disbursement changes are summarized in the following table, and are explained in more detail below and in the section entitled "2004-05 Governmental Funds Financial Plans" in this AIS.

Summary of Disbursement Changes (millions of dollars)			
	General Fund	State Funds	All Funds
2004-05 Executive Budget	**41,896**	**63,503**	**99,811**
Medicaid	200	154	583
School Aid/STAR	309	561	671
All Other Education	73	81	171
Higher Education	272	224	224
Collective Bargaining Settlements (Statewide Pattern)	274	359	417
LGAC/STARC Payment to New York City	170	170	170
All Other	(155)	(759)	(840)
2004-05 Enacted Budget	**43,039**	**64,293**	**101,207**
Change from Executive Budget	**1,143**	**790**	**1,396**

The largest areas of All Governmental Funds disbursement changes since the Executive Budget (excluding Federal education reclassification) are in the areas of Medicaid ($583 million), school aid/STAR ($671 million), all other education programs ($171 million), and higher education ($224 million). The changes in these major programs, which represent most of the spending additions to the 2004-05 Executive Budget, are described in more detail below.

Collective bargaining settlements and the LGAC/STARC payment to New York City are the other significant factors in the growth in spending above the Executive Budget forecast. The increases in spending are partially offset by legislative spending reductions and reestimates in projected spending for capital projects and Federal programs based upon prior-year actual results and year-to-date experience.

Medicaid

DOH Medicaid - Sources of Changes from Executive Budget (millions of dollars)					
	General Fund	Other State Supported Funds	State Funds	Federal Funds	All Funds
2004-05 Executive Budget	**6,325**	**2,987**	**9,312**	**19,406**	**28,718**
Provider Assessments	234	(264)	(30)	0	(30)
Pharmacy Cost Containment	74	0	74	148	222
Additional Support by HCRA	68	28	96	83	179
State Takeover of Local Costs	25	0	25	0	25
All Other Adds	93	0	93	147	240
Additional Resources	(218)	218	0	0	0
All Other Changes	(76)	(28)	(104)	51	(53)
2004-05 Enacted Budget	**6,525**	**2,941**	**9,466**	**19,835**	**29,301**
Change from Executive Budget	**200**	**(46)**	**154**	**429**	**583**

New York's Medicaid program is financed jointly by the Federal government, the State, and local governments (including New York City). The Federal Government matching rate on eligible Medicaid expenditures is 50 percent, the lowest matching rate possible. Total Medicaid financing (including administrative costs) from all sources is projected to reach $44.5 billion in 2004-05, consisting of $22.9 billion in Federal support, $14.2 billion in State funding, and $7.1 billion in local government financing. The Financial Plan does not include the local government share of Medicaid funding, but does include the entire Federal share of the program. Total State Medicaid spending of $14.2 billion consists of Department of Health (DOH) State Funds of $9.5 billion, as well as $4.7 billion in spending by other State agencies and administrative costs.

Compared to the Executive Budget projections for 2004-05, DOH Medicaid spending has increased by $200 million in the General Fund, $154 million in State Funds, and $583 million in All Governmental Funds.

The Legislature did not accept some of the cost savings measures proposed by the Executive, adding spending above 2003-04 levels of $494 million to the General Fund, $258 million in State Funds and $636 million in All Funds. The spending increases are expected to be partially financed in the General Fund by $200 million in additional Empire conversion proceeds and an estimated $18 million from the implementation of auto-enrollment into the Medicare Transitional Drug Discount Card Program. The additional spending comprises:

Provider Assessments: The Legislature rejected the Executive Budget proposals to restore a 0.7 percent assessment on hospital and home care revenues, and to restore the nursing home reimbursable assessment to 6.0 percent of revenues to finance a portion of State Medicaid spending. Instead, the nursing home assessment will continue at 5.0 percent in 2004-05 and 2005-06 and be completely phased out in 2006-07. As a result, spending is increased by $234 million in the General Fund and reduced by $264 million in the Provider Assessment Special Revenue Fund, which is supported by the assessment revenues.

Pharmacy Cost Containment: Several proposals intended to control the rising costs of prescription drugs and reduce spending growth were restored by the Legislature at an estimated cost of $74 million to the General Fund and $148 million to Federal Funds. The proposals included a Preferred Drug Program, requiring prior authorization for certain high-cost drugs; reducing the reimbursement rate to pharmacies; and increasing pharmacy co-payments for Medicaid recipients.

Additional Support by the Health Care Reform Act (HCRA): The denial of cost containment initiatives in various programs supported by HCRA, including the FHP and Child Health Plus (CHP) programs, that would have reduced General Fund and HCRA costs, is projected to add spending of $68 million to the General Fund, $28 million in the HCRA Transfer Special Revenue Fund, and $83 million in Federal Funds.

State Takeover: The Legislature did not accept the proposed multi-year State takeover of local government Medicaid costs of long-term care services. Instead it required the State to take over 50 percent of local government FHP costs beginning in January 2005, growing to 100 percent of the local government share in January 2006. As a result, 2004-05 General Fund spending is increased by $25 million above the Executive Budget plan and provides a total local benefit of $49 million in 2004-05 growing to $291 million in 2005-06.

All Other Adds: Other rejected Executive cost containment and savings initiatives increase Medicaid costs by $93 million in the General Fund and $147 million in Federal Funds. These items include the elimination of various optional services provided to Medicaid recipients, closing long-term care eligibility loopholes, nursing home cost containment initiatives including the elimination of payment "add-ons" for facilities with more than 300 beds and hospital-based facilities, and various other cost containment initiatives.

School Aid/STAR

School Aid/STAR - Sources of Changes from Executive Budget (millions of dollars)

	General Fund	Other State Supported Funds	State Funds	Federal Funds	All Funds
2004-05 Executive	**12,530**	**5,018**	**17,548**	**0**	**17,548**
School Aid Increase	506	0	506	0	506
VLT Revenues	(240)	240	0	0	0
Quick Draw Restriction	43	(43)	0	0	0
RESCUE	0	35	35	0	35
Reject STAR Plus Proposal	0	20	20	0	20
Federal Education Aid Reclassification	0	0	0	1,175	1,175
Federal Education Aid Reestimate	0	0	0	110	110
2004-05 Enacted Budget	**12,839**	**5,270**	**18,109**	**1,285**	**19,394**
Change from Executive Budget	**309**	**252**	**561**	**1,285**	**1,846**

In the General Fund, school aid spending increased by $309 million above the level projected in the 2004-05 Executive Budget. Spending from State Funds grew by $561 million, primarily reflecting the use of VLT revenues to finance a portion of the 2004-05 school aid increase. In addition to the State Funds increase, Federal Funds increased by $1.3 billion primarily due to the reclassification of certain federally supported education programs (Title 1, teacher quality, and other reading programs) from other education to school aid. These changes are described below:

School Aid Increase: The Legislature added $506 million on a fiscal year basis to the General Fund, producing a 2004-05 school year increase of $751 million over the prior year.

VLT Revenue: The Executive Budget set aside $240 million in VLT revenues to support SBE requirements. The Enacted Budget redirects the VLT revenues in 2004-05 to partially finance the General Fund school aid increase. For litigation affecting VLTs, see the section entitled "Litigation - State Finance Policies - Gaming" in this AIS.

Quick Draw Restrictions: The Legislature rejected the Executive Budget proposal to eliminate restrictions on the Quick Draw program. As a result, spending is projected to increase by $43 million in the General Fund and decline by an equal amount in the Lottery Special Revenue Fund.

RESCUE: Due to delayed school district claiming, school district claims for payment under the Rebuilding Schools to Uphold Education (RESCUE) program that were originally budgeted in 2003-04 are now expected to be paid in 2004-05, resulting in an increase of $35 million above the Executive Budget spending estimates.

STAR Plus Proposal: The Legislature rejected an inflationary adjustment to the STAR benefit for residents of school districts that complied with a proposed cap on spending growth (the cap was rejected, as well) adding $20 million to the Executive Budget estimate.

Federal Education Aid: The increase of $1.3 billion in Federal Aid reflects the reclassifications of certain programs from all other education to school aid, as well as reestimates since the Executive Budget projections in Federal aid of approximately $110 million based upon prior year results for various grants to local education agencies.

All Other Education Aid

Other Education Aid - Sources of Changes from Executive Budget (millions of dollars)

	General Fund	Other State Supported Funds	State Funds	Federal Funds	All Funds
2004-05 Executive Budget	**1,412**	**73**	**1,485**	**2,820**	**4,305**
Federal Education Aid Reclassification	0	0	0	(1,175)	(1,175)
Federal Education Aid Reestimate	0	0	0	90	90
All Other Revisions	73	8	81	0	81
2004-05 Enacted Budget	**1,485**	**81**	**1,566**	**1,735**	**3,301**
Change from Executive Budget	**73**	**8**	**81**	**(1,085)**	**(1,004)**

State Funds education aid (other than general support to public schools) is projected to increase by $81 million over the 2004-05 Executive Budget recommendation. In addition to the State Funds increase, All Governmental Funds decreased by $1.0 billion primarily due to the reclassification of certain federally supported education programs (Title 1, teacher quality, and other reading programs) from all other education aid to school aid. The major changes include:

Federal Education Aid: The decrease of $1.1 billion in Federal Funds reflects the reclassification of $1.2 billion offset by an upward reestimate of $90 million based upon 2003-04 actual results. The higher Federal estimate reflects additional funding from various education grants.

All Other Revisions: Includes the restoration of library aid, Bundy aid, as well as reestimates related to the closeout of the 2003-04 fiscal year.

Higher Education

Higher Education - Sources of Changes from Executive Budget (millions of dollars)					
	General Fund	Other State Supported Funds	State Funds	Federal Funds	All Funds
2004-05 Executive Budget	**2,673**	**3,705**	**6,378**	**182**	**6,560**
Reject TAP Restructuring Savings	272	0	272	0	272
Current TAP Roll	(60)	0	(60)	0	(60)
SUNY Operating Aid Add	35	0	35	0	35
CUNY Operating Aid Add	25	0	25	0	25
SUNY/CUNY CC Adds	8	0	8	0	8
All Other Revisions	(8)	(48)	(56)	0	(56)
2004-05 Enacted Budget	**2,945**	**3,657**	**6,602**	**182**	**6,784**
Change from Executive Budget	**272**	**(48)**	**224**	**0**	**224**

Spending is projected to increase from the Executive Budget level by $224 million, reflecting $272 million in the General Fund partially offset by a decrease of $48 million in other State-supported funds. The major components of higher education spending changes include:

Reject TAP Restructuring: The Executive Budget proposed reforms in TAP which would defer one-third of each student's award until graduation as an incentive for timely degree completion. The Legislature rejected those reforms, and as a result, spending increased by $272 million from the Executive Budget projections.

Current TAP Roll: $60 million in additional costs associated with the restoration of the TAP program will occur in 2005-06 to maintain program funding at 70 percent in the current fiscal year.

SUNY/CUNY Operating Aid Adds: The Legislature added operating aid of $35 million for SUNY and $25 million for CUNY.

SUNY/CUNY Community College Adds: The Legislature added $8 million for SUNY and CUNY community colleges for a $50 per full-time student base aid increase.

General Fund Outyear Projections

At the beginning of the 2004-05 budget cycle, the State faced potential General Fund budget gaps of $6.7 billion in 2005-06 and $7.8 billion in 2006-07. The recurring savings proposed in the 2004-05 Executive Budget recommendations reduced the gaps to $2.9 billion and $4.4 billion, respectively.

Compared to Executive Budget projections, the General Fund budget gaps for the 2005-06 and 2006-07 fiscal years have increased, and now are estimated at roughly $5 billion to $6 billion in 2005-06 and roughly $7 billion in 2006-07. The gaps are roughly $1 billion below the original baselevel projections.

Projected General Fund Outyear Gaps (millions of dollars)		
	2005-06	**2006-07**
2004-05 Baselevel Budget	**(6,727)**	**(7,805)**
Proposed Executive Budget Actions	3,875	3,451
2004-05 Executive Budget	**(2,852)**	**(4,354)**
Net Additions	(2,618)	(2,788)
New Costs	(650)	(823)
Available Resources	(230)	11
2004-05 Legislative Budget Agreement	**(6,350)**	**(7,954)**
Vetoes	211	259
Fiscal Management Plan/Revenue Forecast	450	450
2004-05 Enacted Budget -- Remaining Gaps	**(5,689)**	**(7,245)**
2006-07 Gap if 2005-06 Gap is Closed with Recurring Actions		***(1,556)***

The current budget gap estimates reflect the Legislature's revisions to the budget, new costs, the value of gubernatorial vetoes, and expected savings resulting from a Fiscal Management Plan that will be implemented in 2004-05. If the 2005-06 budget gap were closed entirely with recurring actions, the 2006-07 gap would be reduced to $1.6 billion.

It should be noted that the current gap projections are subject to revision as additional information becomes available about, among other things, the national and State economies, financial sector activity, entitlement spending and social service caseloads, and State reimbursement obligations that are driven by local government activity. Key factors include: end-of-year business tax collections; calendar year economic results; year-end financial sector bonus income data; the school aid database update in November; and quarterly Medicaid and welfare cycle trend analyses. Historically, these factors have been subject to a high degree of fluctuation across the forecast period, and could produce results above or below the current projections.

Sources of Projected General Fund Outyear Gaps

The projected General Fund gaps are primarily the result of anticipated spending increases that exceed the growth in revenue collections, as well as the loss of nonrecurring resources used to help balance the budget in 2004-05.

Sources of 2005-06 Budget Gap (billions of dollars)	
	2005-06
Revenue Growth	2.2
Loss of Nonrecurring Actions	(2.1)
PIT/Sales Tax Temporary Surcharge Phase-out	(0.6)
Clothing Exemption	(0.4)
All Other Revenue Changes	(0.9)
Medicaid	(1.6)
School Aid	(0.6)
Pension Costs	(0.4)
All Other Spending Growth	(1.3)
2005-06 Projected Budget Gap	**(5.7)**

The major sources of the 2005-06 budget gap are described in more detail below.

Outyear Receipts

Sources of Annual Increase/(Decrease) in Projected Receipts (millions of dollars)	
	2005-06
Total Receipts Change	**(912)**
Revenue Growth	2,230
Loss of Nonrecurring Revenues	(1,182)
PIT/Sales Tax Temporary Surcharge Phase-out	(621)
Clothing Exemption	(429)
Final Use of Tobacco Proceeds	(400)
Revenue Bond Tax Fund	(174)
STAR Fund Transfer	(159)
Additional Tax Cuts	(49)
All Other	(128)

Receipts in 2005-06 are projected to decrease by $912 million from the current year. Underlying revenue growth of $2.2 billion (4.8 percent) in 2004-05 revenue growth is offset by decreases attributable to the loss of several one-time revenues ($308 million from the 2003-04 surplus; $225 million from SONYMA; $182 million in tobacco settlement payments; $170 million from the City of New York related to the LGAC/STARC transaction; $100 million from the Port Authority of New York and New Jersey; $97 million from fund sweeps; $50 million from the legislation to reverse the effect of the "Meyers" decision to eliminate delays in collecting tax payments and $50 million from the continuation of bond issuance changes). In addition, revenues decline due to the phase-out of the personal income tax (PIT) surcharge and a one-quarter percent increase in sales tax ($621 million), the change in the clothing exemption ($429 million), the final use of the tobacco securitization proceeds ($400 million) and transfers for the Revenue Bond Tax Fund (RBTF) for increasing debt service costs and STAR for local property tax relief ($333 million).

Outyear Disbursements

Sources of Annual Increase/(Decrease) in Projected Disbursements (millions of dollars)	
	2005-06
Total Disbursements Change	**4,893**
Loss of Nonrecurring Actions	
Bonding of Capital Spending	378
Empire Conversion Proceeds	200
Delay of Medicaid Cycle	190
Use of Federal Welfare Funds	115
Spending Growth	
Medicaid	1,648
School Aid	646
Social Services	381
Higher Education	163
Pension Costs	429
Employee Health Insurance	335
All Other	408

Spending is projected to increase by $4.8 billion in 2005-06. The growth is primarily attributable to the loss of one-time savings, and growth in Medicaid, school aid, social services, higher education, mental hygiene, and employee benefits. The assumptions behind the current projections are summarized below.

The use of nonrecurring actions in 2004-05 is expected to add roughly $883 million in costs in 2005-06, as resources to lower spending are no longer available. The major components include bonding of capital spending ($378 million), the use of additional Empire Conversion proceeds ($200 million), delayed Medicaid cycle payments ($190 million), and availability of Federal Welfare Funds ($115 million).

Growth in Medicaid of $1.6 billion in 2005-06 is attributable to the increasing cost of providing health care services, as well as the rising number of recipients and corresponding increases in medical service utilization. These trends account for a projected increase of nearly half of the overall growth. This estimate is based on current experience in the State's Medicaid program and the Congressional Budget Office's national projections. In addition to this growth, the expiration of a temporary 2.95 percent Federal share increase will result in $220 million in higher State share spending in 2005-06. The remaining growth includes $242 million ($49 million in 2004-05 growing to $291 million in 2005-06 and $468 million in 2006-07) to finance the continued phase-in of the State takeover of local government FHP costs, and various other changes including the planned repayment of a 2002-03 loan from HCRA and the discontinuation of certain county shares adjustments.

The school aid projections assume growth in expense-based programs and other selected aid categories. On a State fiscal year basis, school aid spending is projected to grow by $646 million in 2005-06. The school year basis growth is estimated at roughly $350 million in 2005-06 and $250 million in

2006-07, however these increases do not reflect additional spending for CFE as the Legislature did not address this issue in the 2004-05 Enacted Budget.

Social services spending is projected to increase by $381 million in 2005-06 primarily due to projected increases in both the family assistance caseload (4.7 percent) and single adult/childless couples caseload (10 percent), as well as growth in expenditures per person (3 percent).

Spending for higher education programs in 2005-06 ($163 million) is largely attributable to projected growth in CUNY and SUNY operating costs.

State pension costs are anticipated to grow $429 million in 2005-06, due to prior year pension fund investment losses that have significantly increased the employer contribution rate to the New York State and Local Retirement Systems and the impact of amortizing a portion of the 2004-05 pension bill. The projections reflect employer costs of roughly 10.5 percent of payroll in 2005-06 and 12.5 percent in 2006-07. Rising employee health care costs of $335 million in 2005-06 assume 15 percent annual premium increases.

All other spending growth is comprised of inflationary spending increases across numerous local assistance programs, cost of collective bargaining agreements with many of the State's employee unions and the anticipated settlements with the remaining unions ($199 million in 2005-06) and normal salary step increases and non-personal service increases (roughly $125 million).

Cash Flow

In 2004-05, while certain daily cash balances have been low, General Fund month-end balances have been strong. Accordingly, DOB projects positive quarterly balances of $2.2 billion in September, $1.3 billion by the end of December 2004, and $1.1 billion at the end of March 2005 (including Fiscal Management Plan savings). The lowest projected month-end cash flow balance is $1.0 billion in November 2004. See the tables later in this AIS for monthly cash flow projections.

The State Comptroller invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments, through the State's Short-Term Investment Pool (STIP), which comprises of joint custody funds (Governmental Funds, Internal Service Funds, Enterprise Funds, and Private Purpose Trust Funds), as well as several sole custody funds.

OSC is authorized to make temporary loans from the State's STIP to cover temporary cash shortfalls in certain funds and accounts resulting from the timing of receipts and disbursements. The Legislature authorizes the funds and accounts that may receive loans each year. Loans may be granted only for amounts that are "receivable on account" or can be repaid from the current operating receipts of the particular fund (i.e., loans cannot be granted in expectation of future revenue enhancements). The 2004-05 Enacted Budget extends legislation that permits OSC to temporarily loan balances in other funds to the General Fund within any month that must be repaid by month end. This authorization was utilized in May 2004 to support intra-month cash flow needs; however, as required under the legislation, the General Fund ended May 2004 with a positive cash balance of $1.2 billion.

GAAP Financial Plans

DOB also prepares the General Fund and All Governmental Funds Financial Plans in accordance with Generally Accepted Accounting Principles (GAAP). The GAAP operating results for 2003-04 and the projections for 2004-05 are based on the accounting principles applied by the State Comptroller in the financial statements issued for the 2003-04 State fiscal year, and reflect the impact of Governmental

Accounting Standards Board (GASB) Statement 34. GASB 34 has significantly changed the presentation of GAAP financial information for state and local governments. The changes are intended to portray the State's net overall financial condition, including activities that affect State assets and liabilities during the fiscal year. Based on the new GASB 34 presentation, the State had a net positive asset condition on March 31, 2004 of $39.1 billion, a decrease of $3.3 billion from the prior year.

In the General Fund, the State ended the 2003-04 fiscal year with an operating surplus of $3.0 billion. This operating result is attributable primarily to a GAAP benefit received from financing $1.9 billion of 2002-03 payment deferrals in 2003-04, from $400 million of tobacco proceeds received in 2003-04 but which were reserved for 2004-05 budget balance, and the 2003-04 General Fund operating surplus of $308 million. As a result, the 2002-03 accumulated deficit of $3.3 billion was reduced in 2003-04 to $281 million.

The General Fund is anticipated to end the 2004-05 fiscal year with an operating deficit of $1.1 billion on a GAAP basis, which is primarily attributable to the use of the 2003-04 surplus and the remaining tobacco reserves in 2004-05. As a result, the accumulated deficit is projected at $1.4 billion by the end of the 2004-05 fiscal year.

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2004-05 Governmental Funds Financial Plans

The following sections summarize the receipts and disbursement activity within the four major fund types that comprise the All Governmental Fund type: General Fund, Special Revenue Funds (SRFs), Capital Projects Funds (CPFs) and Debt Service Funds (DSFs).

General Fund

The General Fund receives most of the State's tax revenue and accounts for spending on programs that are not supported directly by dedicated fees and revenues.

In 2004-05, the projected General Fund receipts of $42.7 billion, disbursements of $43.0 billion (including transfers), and $434 million in savings from a Fiscal Management Plan. The General Fund is projected to end the 2004-05 fiscal year with a $1.1 billion fund balance, comprising $794 million in the Tax Stabilization Reserve Fund, $312 million in the Community Projects Fund, and $21 million in the Contingency Reserve Fund for litigation.

Receipts

General Fund Receipts (millions of dollars)

	2003-04 Actuals	2004-05 Enacted	Annual $ Change	Annual % Change	Change from 30-Day
Personal Income Tax	15,774	18,490	2,716	17.2%	(11)
User Taxes and Fees	7,979	8,679	700	8.8%	297
Business Taxes	3,413	3,714	301	8.8%	5
Other Taxes	768	764	(4)	-0.5%	2
Miscellaneous Receipts (1)	5,917	2,438	(3,479)	-58.8%	351
Federal Grants (1)	654	0	(654)	-100.0%	0
Transfers From Other Funds					
Revenue Bond Fund	5,244	5,612	368	7.0%	(10)
LGAC Fund	1,971	2,158	187	9.5%	97
CW/CA Fund	307	246	(61)	-19.9%	0
All Other	300	554	254	84.7%	78
Total Receipts	**42,327**	**42,655**	**328**	**0.8%**	**809**

(1) Actuals reflect amounts published in Comptroller's Cash Basis Report for 2003-04.

Total General Fund receipts in support of the 2004-05 Financial Plan are projected to be $42.7 billion, an increase of $328 million (0.8 percent) from 2003-04. This total includes $31.6 billion in Taxes, $2.4 billion in Miscellaneous Receipts, and $8.6 billion in Transfers from Other Funds. The increase largely reflects the combined impact of an improving economy and net-revenue increases adopted this year and with the 2003-04 budget, offset by the loss of the one-time benefit of tobacco securitization receipts in 2003-04 ($4.2 billion).

Personal Income Tax

General Fund PIT receipts are projected to increase by $2.7 billion (17.2 percent) from 2003-04. This is due to continued economic improvement in 2004, enactment of a three-year temporary tax increase from 2003 to 2005, and a robust settlement for 2003 tax returns. This amount is slightly offset by a larger deposit into the PIT Refund Reserve Account and a higher deposit into the RBTF.

The preliminary results of the 2003 PIT settlement from April and May, and overall results through August, have required some modifications within the cash components of the income tax, but have no net impact on 2004-05 estimates. More specifically, extension payments filed with 2003 tax returns have been increased by $425 million, while final payments filed with 2003 tax returns have been reduced by $110 million and the refund estimate has been increased by $315 million.

General Fund PIT receipts, including refund reserve transactions, are expected to be reduced by $11 million from the Executive Budget estimate. This reflects a $32 million loss in net revenue actions, including an expansion of the long term care credit and a new film production credit, offset by $21 million in additional resources from the 2003-04 actual results (increasing income tax receipts through the PIT Refund Reserve Account).

User Taxes and Fees

User taxes and fees include receipts from the State sales tax, cigarette and tobacco products taxes, alcoholic beverage taxes and fees, motor fuel taxes, and motor vehicle license and registration fees. Receipts for user taxes and fees for 2004-05 are projected to total $8.7 billion, an increase of $700 million (8.8 percent) from reported 2003-04 collections.

The projected growth in sales tax cash receipts of $777 million (10.7 percent) is largely attributable to the enactment of a temporary increase in the overall tax rate (to 4.25 percent) and a change in the clothing and footwear exemption. The Enacted Budget postponed the exemption on items of clothing and footwear for one year, until May 31, 2005, and replaced it with two temporary one-week exemptions with the same $110 thresholds – one beginning in August 2004 and another in January 2005. Growth in the sales tax base, after adjusting for tax law changes and other factors, is projected at 5.5 percent.

The decline in General Fund cigarette tax receipts of $8 million from the prior year is the result of a continuation of the long-term consumption decline in cigarettes.

User taxes and fees are expected to rise by $297 million from the Executive Budget estimates. This increase mainly reflects tax actions contained in the Enacted Budget and improvements in cash collections through August.

Business Taxes

Business taxes include the corporate franchise tax, corporation and utilities taxes, the insurance franchise tax, and the bank franchise tax. Receipts for business taxes for 2004-05 are projected to total $3.7 billion, an increase of $301 million (8.8 percent) from 2003-04 collections. This increase is primarily due to the continued economic recovery as reflected in the corporate franchise tax. Business tax receipts for 2004-05 have been revised up by $5 million from the Executive Budget level, to reflect the Legislature's rejection of an Executive Budget proposal to allow biotechnology companies to transfer net operating losses.

Corporation and utilities taxes, bank tax, and insurance franchise tax receipts remain unchanged from Executive Budget estimates.

Other Taxes

Other tax receipts are now projected to total $764 million, which is $4 million below last year's amount, but $2 million above the Executive Budget estimate. This category includes the estate and gift tax, real property gains tax, and pari-mutuel taxes. Previously enacted legislation to repeal both the real property gains tax and the gift tax, and to reduce the estate and pari-mutuel taxes, has significantly reduced collection from resources.

Miscellaneous Receipts

Miscellaneous receipts are expected to reach nearly $2.4 billion, a decrease of $3.5 billion from the 2003-04 actuals. After adjusting for the receipt of one-time tobacco securitization moneys ($4.2 billion) in 2003-04, the annual increase is projected at $721 million. This increase is primarily due to the acceleration of $225 million in housing SONYMA balances from 2005-06 into 2004-05, and the receipt of $182 million from the Tobacco Settlement Fund.

The increase in miscellaneous receipts of $351 million from the Executive Budget estimate is primarily attributable to the early collection of housing SONYMA balances and the NYC payment of $170 million for LGAC/STARC, offset by legislative rejection of several proposed increases in licenses and fees.

Transfers From Other Funds

Transfers from Other Funds are expected to total $8.6 billion, an increase of $748 million from 2003-04. This annual increase is comprised of higher transfers from the RBTF Fund ($368 million), the LGAC Fund ($187 million), and all other funds ($254 million), offset by lower transfers form the Clean Water/Clean Air (CW/CA) Fund ($61 million). Compared to the Executive Budget estimates, Transfers from Other Funds increased by $165 million.

PIT receipts in excess of RBTF debt service costs is projected to total $5.6 billion in 2004-05, an increase of $368 million from last year and a decrease of $10 million from the Executive Budget estimate. The annual increase is primarily attributable to higher dedicated PIT receipts ($475 million), including legislative tax increases, offset by increased debt service requirements ($107 million).

Transfers from sales tax in excess of LGAC debt service costs are projected to total $2.2 billion in 2004-05, an increase of $187 million from the prior year and $97 million from the Executive Budget estimate. These changes are primarily due to the legislation altering the permanent exemption on items of clothing and footwear for one year.

Real estate taxes in excess of CW/CA debt service costs are projected at $246 million in 2004-05, a decrease of $61 million from 2003-04, primarily resulting from a decrease in projected tax receipts ($49 million). The 2004-05 Enacted Budget estimate is unchanged from the Executive Budget estimate.

All other transfers are projected to total $554 million in 2004-05, an annual increase of $254 million. This is due primarily to nonrecurring fund sweeps ($100 million) and transfers from SUNY and CUNY to reimburse the General Fund for equipment costs ($184 million). Compared to the Executive Budget estimate, all other transfers increased by $78 million primarily due to additional transfers from SUNY and CUNY to reimburse General Fund equipment costs.

Revenue Actions

The 2004-05 Enacted Budget contains over $178 million in All Governmental Funds revenue actions in the 2004-05 State fiscal year, including:

Revenue Enhancements:

- Provide a temporary (two-year) increase in the fixed dollar minimum amounts under the corporate franchise tax ($40 million);
- Create additional abandoned property collections through increased out-of-state audits ($20 million);
- Postpone the exemption on items of clothing and footwear for one year ($83 million);
- Include the gain from the sale of residential cooperative housing as New York source income from non-residents ($5 million in 2004-05, $20 million annually thereafter);
- Allow for seven day sales of alcoholic beverages in wine and liquor stores ($1 million); and
- Change various licenses and fees ($62 million).

Tax Reductions:

- Create a new credit to provide an incentive for filmmakers to film on soundstages in New York State($12 million in 2004-05, $25 million annually thereafter);
- Double the existing Long-term care credit by increasing the credit from 10 to 20 percent of premiums($18 million);
- Increase the aggregate limit for the low-income housing credit from $4 million to $6 million ($2 million);
- Create a credit or refund for water taxis under the sales tax ($100,000); and
- Provide a new exemption for maintenance and certain other services performed on private aircraft under the sales tax ($400,000).

In addition, several revenue actions with outyear implications were included in the 2004-05 Enacted Budget, including:

Revenue Enhancement:

- Require companies, including affiliates, entering into contracts with the State to comply with various sales and use tax obligations ($12.5 million in 2005-06 and $25 million annually thereafter).

Tax Reductions:

- Expand the Brownfields program ($30 million annually, beginning in 2005-06); and
- Establish a fourth phase of the CAPCO program ($6 million annually for ten years beginning in 2006-07).

Disbursements

General Fund Disbursements (millions of dollars)					
	2003-04 Actuals	**2004-05 Enacted**	**Annual $ Change**	**Annual % Change**	**Change from 30-Day**
Grants to Local Governments	27,420	29,392	1,972	7.2%	921
State Operations	7,056	7,501	445	6.3%	250
General State Charges	3,214	3,671	457	14.2%	19
Transfers to Other Funds					
Debt Service	1,474	1,737	263	17.8%	(11)
Capital Projects	225	196	(29)	-12.9%	9
All Other	776	542	(234)	-30.2%	(45)
2002-03 Payment Deferrals	1,900	0	(1,900)	-100.0%	0
Total Disbursements	**42,065**	**43,039**	**974**	**2.3%**	**1,143**

The State projects General Fund disbursements of $43.0 billion in 2004-05, an increase of $974 million (2.3 percent) from the current year, and $1.1 billion from the Executive Budget level. These changes are discussed in more detail below.

Grants to Local Governments

Grants to Local Governments include financial aid to local governments and nonprofit organizations, as well as entitlement payments to individuals. Local assistance spending is projected to be $29.4 billion in 2004-05, an increase of $2.0 billion (7.2 percent) from the prior year. This spending increase is primarily attributable to higher spending in Medicaid ($463 million), Higher Education Services Corporation ($352 million), school aid ($466 million), special education programs ($132 million), Office of Children and Family Services ($61 million) and the community projects fund ($58 million).

Local assistance spending increased by $921 million from the Executive Budget level. This increase is primarily due to legislative restorations and adds in school aid ($309 million), Medicaid ($200 million), and higher education ($272 million).

State Operations

State Operations accounts for the cost of running the Executive, Legislative, and Judicial branches of government and is projected to total $7.5 billion in 2004-05, an increase of $445 million (6.3 percent) from the prior year. Personal service costs (e.g., State employee payroll) comprise 73 percent of State Operations spending. The remaining 27 percent represents non-personal service costs for contracts, rent, supplies, and other operating expenses.

The projected annual increase in State Operations costs includes higher spending of $225 million (with additional costs of $49 million in fringe benefits for a total of $274 million) resulting from the ratification of several State employee union labor contracts, which included provisions for a nonrecurring lump sum payment and salary increases of 2.5 percent. In addition, an extra institutional payroll occurring in 2004-05 increases spending by $130 million.

Compared to the Executive Budget estimate, projected State Operations spending increased by $250 million primarily attributable to the impact of the collective bargaining agreements, which was not included in the Executive Budget projections ($225 million).

The State's Executive agency all funds workforce is projected to total 187,900 by the end of 2004-05, level with the current year.

General State Charges

General State Charges (GSCs) account for the costs of providing fringe benefits to State employees and retirees of the Executive, Legislative and Judicial branches, as well as fixed costs for taxes on public lands and litigation costs.

General Fund spending for GSCs is projected to be $3.7 billion in 2004-05, an increase of $457 million (14.2 percent) over the prior year. This annual increase is due mostly to rising costs of employee health benefits (an increase of $225 million to $2.1 billion), higher costs related to employer pension contributions (an increase of $159 million to $654 million) and $49 million in fringe benefit increases relating to collective bargaining settlements. Compared to the Executive Budget estimates, GSC spending increased by $19 million.

Transfers to Other Funds

Transfers to Other Funds are projected to total $2.5 billion in 2004-05 and includes General Fund transfers to support debt service ($1.7 billion), capital projects ($196 million), and other funds ($542 million).

The net increase in the General Fund transfers for debt service of $263 million (17.8 percent) from 2003-04 is primarily attributable to higher debt service costs for education (including SUNY and CUNY), corrections, the Metropolitan Transportation Authority (MTA), housing, and the environment, offset by significant savings from refundings and the use of variable rate bonds and interest rate exchange agreements. The $11 million decrease from the Executive Budget estimate reflects modest reestimates.

The $29 million (12.9 percent) reduction in capital projects spending financed by the General Fund primarily reflects the use of bond proceeds to finance SUNY capital costs previously supported by the General Fund, as well as minor reestimates to other areas of capital projects spending. Compared with Executive Budget estimates, transfers in support of capital projects have increased by $9 million.

All other transfers are projected to decline by $234 million (30.2 percent) in 2004-05 primarily due to a nonrecurring transfer to the HCRA Special Revenue Fund to finance 2003-04 legislative restorations ($128 million) and the “doubling up” of 2002-03 and 2003-04 State subsidy payments to SUNY hospitals in 2003-04 ($41 million). Compared with Executive Budget estimates, all other transfers have declined by $45 million.

Special Revenue Funds

SRFs receive State and Federal revenues dedicated to finance specific activities. SRFs are intended to be self-supporting, with receipts equaling or exceeding disbursements. When statutorily authorized, certain funds and accounts may borrow from the State's STIP to cover temporary cash shortfalls resulting from the timing of receipts and disbursements (i.e., disbursements occurring prior to receipts being received).

In 2004-05 the Special Revenue Funds Cash Financial Plan projects total receipts of $51.0 billion, total disbursements of $51.8 billion, and net other financing sources of $246 million, resulting in an operating deficit of $557 million. This operating result primarily reflects the transfer of Federal moneys to the Tobacco Control and Insurance Initiatives Pool in 2004-05, which were received in 2003-04 and reflected in the SRFs opening fund balance ($289 million), and use of prior-year cash balances to support current-year spending.

Receipts

Special Revenue Funds Receipts (millions of dollars)					
	2003-04 Actuals	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Taxes	4,442	4,758	316	7.1%	(26)
Miscellaneous Receipts	10,517	11,256	739	7.0%	(226)
Federal Grants	35,121	34,972	(149)	-0.4%	547
Total Receipts	**50,080**	**50,986**	**906**	**1.8%**	**295**

Total SRF receipts are projected to be $51.0 billion, an increase of $906 million (1.8 percent) from 2003-04. The annual growth is due to increases in taxes ($316 million) and miscellaneous receipts ($739 million), offset by a decrease in Federal grants ($149 million). Compared to Executive Budget estimates, projected SRF receipts increased by $295 million primarily attributable to increased Federal grants ($547 million) offset by decreased miscellaneous receipts ($226 million) and taxes ($26 million). These changes are described in more detail below.

Taxes

Tax receipts in the SRF are projected to be $4.8 billion, an increase of $316 million (7.1 percent) from 2003-04, driven primarily by taxes dedicated to support the STAR program ($199 million) and the Dedicated Mass Transportation Trust Fund ($116 million). Projected SRF tax receipts declined from the Executive Budget level due to the Legislature's rejection of both a new surcharge on sales tax proposed to support the New York State Wireless Telephone Emergency Service program ($38 million) offset by the inflationary adjustment to the STAR program ($20 million).

Miscellaneous Receipts

Miscellaneous receipts are projected to be $11.3 billion, an increase of $739 million (7.0 percent) from 2003-04. The annual growth is primarily due to additional transfers from the "off-budget" HCRA pools, including Empire conversions ($350 million), higher lottery receipts ($212 million) and SUNY tuition revenues ($91 million). Compared to the Executive Budget estimate, projected SRF miscellaneous receipts declined by $226 million. This decline is primarily attributable to the Legislature's rejection of Executive Budget proposals to restore assessments on hospital, home care and nursing home revenues ($264 million).

Federal Grants

Federal grants are projected to be $35 billion, a decrease of $149 million from 2003-04 actuals and an increase of $547 million from the Executive Budget estimate. Changes to Federal grants generally correspond to changes in federally-reimbursed spending as described later in this report; however, since Federal reimbursement was assumed to be received in the State fiscal year in which spending occurs, additional timing-related variances resulted. Major program areas projected to grow significantly from 2003-04 levels include Medicaid and welfare.

Disbursements

Special Revenue Funds Disbursements (millions of dollars)					
	2003-04 Actuals	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Grants to Local Governments	41,368	42,895	1,527	3.7%	464
State Operations	7,866	8,207	341	4.3%	180
General State Charges	601	686	85	14.1%	26
Capital Projects	9	1	(8)	-88.9%	(1)
Total Disbursements	**49,844**	**51,789**	**1,945**	**3.9%**	**669**

Total SRF disbursements are projected to be $51.8 billion, an increase of $1.9 billion (3.9 percent) from 2003-04. The annual growth is due primarily to increases in Grants to Local Governments ($1.5 billion) and State Operations ($341 million). Compared to the Executive Budget estimate, projected SRF disbursements increased by $669 million, attributable primarily to increased Grants to Local Governments ($464 million) and State Operations ($180 million) spending. The disbursements changes are described in more detail below.

Grants to Local Governments

Grants to Local Government SRF disbursements are projected to be $42.9 billion, an increase of $1.5 billion (3.7 percent) from 2003-04. The annual growth is primarily due to projected growth in Medicaid ($1.3 billion), school aid ($307 million), and STAR ($199 million). Compared to the Executive Budget estimate, Grants to Local Governments disbursements increased by $464 million. This increase is primarily attributable to several Medicaid proposals rejected by the Legislature, including various cost containment and savings initiatives ($410 million), and the use of VLT revenues to support school aid increases ($240 million) offset by the Legislature's elimination of appropriations to implement the Help America Vote Act ($118 million).

State Operations

State Operations SRF disbursements are projected to be $8.2 billion, an increase of $341 million (4.3 percent) from 2003-04 and $180 million from the Executive Budget estimates. These increases are primarily attributable to the impact of the collective bargaining agreements, which was not included in the Executive Budget projections ($104 million).

General State Charges

GSCs SRF disbursements are projected to be $686 million, an increase of $85 million (14.1 percent) from 2003-04. Growing employer pension contributions and higher employee health insurance costs account for most of the annual growth in GSCs. Compared to the Executive Budget estimate, GSCs disbursements increased by $26 million primarily due to the impact of the collective bargaining agreements.

Other Financing Sources/(Uses)

Special Revenue Funds Other Financing Sources (Uses) (millions of dollars)					
	2003-04 Results	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Transfers From Other Funds	3,447	3,137	(310)	-9.0%	(33)
Transfers To Other Funds	(2,539)	(2,891)	(352)	13.9%	(72)
Net Other Financing Sources	**908**	**246**	**(662)**	**-72.9%**	**(105)**

Transfers from Other Funds are projected to be $3.1 billion, a decrease of $310 million (9.0 percent) from 2003-04. The annual decline is primarily due to a nonrecurring General Fund transfer to the HCRA fund in 2003-04 ($128 million) and a reduction in available patient care revenues ($101 million). Compared to the Executive Budget estimate, projected Transfers from Other Funds decreased by $33 million, reflecting modest reestimates.

Transfers to Other Funds are estimated to be $2.9 billion, an increase of $352 million (13.9 percent) from 2003-04. The annual growth is due to nonrecurring transfers from SUNY and CUNY to reimburse the General Fund for equipment costs ($184 million), and various other fund sweeps to the General Fund ($100 million). Compared to the Executive Budget estimate, projected Transfers to Other Funds increased by $72 million primarily due to additional transfers from SUNY and CUNY to reimburse the General Fund for equipment costs ($94 million) offset by a reduction in the expected revenues from the Waste Tire Management and Recycling Program ($34 million).

Capital Projects Funds

The CPF group accounts for spending from the CPF, which is supported by a transfer from the General Fund, and spending from other funds for specific purposes, including transportation, mental health, housing, public protection, education and the environment. Other funds include the Dedicated Highway and Bridge Trust Fund, Mental Hygiene Capital Facilities Improvement Fund, Housing Assistance and Housing Program Funds, the Correctional Facilities Capital Improvement Fund, the SUNY Residence Hall Rehabilitation Fund, the Hazardous Waste Remedial Fund, and EPF. Receipts from dedicated State taxes, miscellaneous receipts (which include proceeds from State-supported bonds issued by certain public authorities) and Federal grants disbursements in the CPF group.

The following tables for CPFs reflect an accounting adjustment for capital projects activity because certain capital spending is not reported by the State Comptroller in actual cash spending results, although it is reflected in the GAAP Financial Statements. The spending is related to programs which are financed in the first instance by bond proceeds, rather than with a short-term loan from STIP or cash from the General Fund. Capital spending for these types of programs was $861 million in 2003-04 and is projected to grow to nearly $1.1 billion in 2004-05. It includes spending for local transportation projects for the Consolidated Highway Improvement Program (CHIPs), education projects for CUNY higher education facilities, SUNY community colleges and dormitory facilities, the Department of Mental Hygiene and a variety of economic development programs. These receipts and disbursements are included in this section in order to present a comprehensive overview of State capital projects spending. The CPFs table also includes a spending adjustment of $400 million to reflect anticipated underspending in 2004-05 that is expected to occur across all agencies and financing sources based on lower 2003-04 results.

Receipts

Capital Projects Funds Receipts (millions of dollars)					
	2003-04 Actuals	**2004-05 Enacted**	**Annual $ Change**	**Annual % Change**	**Change From 30-Day**
Taxes	1,756	1,795	39	2.2%	(10)
Miscellaneous Receipts	3,029	3,077	48	1.6%	(664)
Federal Grants	1,548	1,864	316	20.4%	24
Total Receipts	**6,333**	**6,736**	**403**	**6.4%**	**(650)**
Accounting Adjustment	(861)	(1,090)	(229)	26.6%	220
Financial Plan Receipts	**5,472**	**5,646**	**174**	**3.2%**	**(430)**

CPF receipts include tax receipts from highway-related taxes earmarked to the Dedicated Highway and Bridge Trust Fund, and real estate transfer taxes that are designated for the EPF. Miscellaneous receipts include bond proceeds that finance capital projects across all functional areas, as well as other fees, including State park fees, industry-specific environmental fees and receipts from the sale of surplus land.

Taxes

The $39 million increase in 2004-05 taxes from 2003-04 actuals is attributable to increases in Dedicated Highway and Bridge Trust Fund receipts, as the EPF receives a statutory dedication of $112 million annually from the real estate transfer tax. The $10 million reduction in dedicated taxes from the Executive Budget estimate is attributable to reestimated Dedicated Highway and Bridge Trust Fund receipts.

Miscellaneous Receipts

The $48 million increase in miscellaneous receipts from 2003-04 is primarily attributable to increases in spending for capital programs which are reimbursed or financed directly with bond proceeds, including education and general government ($245 million), and the environment ($100 million), offset by a reduction in bond proceeds to reimburse transportation ($200 million) and economic development spending (74). Compared to the Executive Budget estimate, miscellaneous receipts are projected to decrease by $664 million and are attributable primarily to increases in bond-financed spending added by the Legislature for CHIPs and increases in bond proceeds to reimburse transportation spending ($112 million), offset by a reduction in bond proceeds to reimburse the Higher Education Facilities Capital Matching Grants Program that was vetoed ($30 million) and reestimates in bonded education spending ($30 million) also included in this change is a $400 million reduction to reflect reduced receipts based on actual 2003-04 results.

Federal Grants

The $316 million increase in Federal Funds over the prior year reflects increases in Federal support for transportation, and the $24 million increase in Federal Funds compared to the Executive Budget estimate reflects reestimates to Federal support for transportation.

Disbursements

Capital Projects Funds Disbursements (millions of dollars)					
	2003-04 Actuals	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Transportation	3,219	3,611	392	12.2%	73
Education	640	768	128	20.0%	(39)
Parks and Environment	568	667	99	17.4%	18
Economic Development and Govnt Oversight	215	475	260	120.9%	(327)
Mental Health	297	298	1	0.3%	0
Public Protection	201	215	14	7.0%	0
Health and Social Welfare	149	128	(21)	-14.1%	0
General Government/Other	108	261	153	141.7%	1
Anticipated Underspending	N/A	(400)	(400)	100.0%	(400)
Total Disbursements	**5,397**	**6,023**	**626**	**11.6%**	**(674)**
Accounting Adjustment	(861)	(1,090)	(229)	26.6%	220
Financial Plan Disbursements	**4,536**	**4,933**	**397**	**8.8%**	**(454)**

Compared to 2003-04, total CPFs spending is projected to increase $397 million, or about 9.0 percent, and is primarily attributable to increases in transportation spending for highways and bridges spending ($392 million); environment spending for the State Superfund Program, the EPF, and the Hudson River Park ($99 million); spending for a variety of economic development programs, including Centers of Excellence, Empire Opportunity Fund, Gen*NY*sis, RESTORE and the New Regional Economic Growth Program ($260 million); education spending for SUNY, CUNY, RESCUE, and the Capital Transition Grant Program ($128 million); public protection and mental health spending to support the maintenance and preservation of infrastructure at correctional facilities and institutional and community-based mental health institutions ($15 million); general government spending to support the construction and renovation of State office buildings and $110 million in spending for local public safety answering point equipment upgrades for wireless E-911 service ($110 million); and increased Federal spending for homeland security ($43 million); offset by a $21 million decrease in health and social welfare spending, a $229 million increase in the accounting adjustment primarily attributable to increases in bond-financed spending for economic development programs ($135 million) and CHIPs ($56 million). The almost $1.1 billion accounting adjustment in spending financed with authority bonds reflect capital projects activity for which certain capital spending is not reported by OSC in cash financial statements, although it is reflected in the GAAP Financial Statements. These programs are financed directly from bond proceeds, rather than in the first instance by a short-term loan from the STIP or cash from the General Fund.

Compared to the Executive Budget estimate, CPF spending is projected to decrease by $454 million which is attributable to $400 million in lower spending based on actual 2003-04 results, increases in spending from legislative adds to the Enacted Budget and reestimates ($84 million), and a decrease in other spending financed with bond proceeds ($138 million). The $84 million increase in spending reflects a $72 million increase in transportation spending from reestimates ($43 million) and legislative adds to CHIPs ($28 million); an $18 million increase in spending for parks and the environment attributable to legislative adds ($20 million) offset by reestimates to spending in parks ($2 million), reestimates to spending for economic development programs and homeland security ($33 million); offset by a $38 million decrease in education, attributable to reestimates to spending for RESCUE ($35 million) and other higher education spending ($43 million), and by the veto of the Higher Education Facilities Capital Matching Grants Program ($30 million).

Other Financing Sources (Uses)

Capital Projects Funds Other Financing Sources (Uses)
(millions of dollars)

	2003-04 Results	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Transfers From Other Funds	254	234	(20)	-7.9%	9
Transfers To Other Funds	(1,028)	(1,124)	(96)	9.3%	(16)
Bond Proceeds	140	193	53	37.9%	62
Net Other Financing Sources (Uses)	**(634)**	**(697)**	**(63)**	**9.9%**	**55**

The $20 million decrease in transfers from other funds from 2003-04 is attributable to a decrease in the transfer from the General Fund to the CPF ($47 million), which supports pay-as-go capital spending in a variety of agencies, and a decrease in the transfer from the Transportation Safety Account to the Dedicated Highway and Bridge Trust Fund ($5 million); offset by transfers from the General Fund to the Hazardous Waste Remedial Transfer Fund ($15 million), from the License Fee Surcharge Account to the Hazardous Waste Remedial Transfer Fund ($14 million), and from the SUNY Dormitory Income Account to the SUNY Dormitory Rehabilitation Fund ($4 million).

The $96 million increase in CPF transfers to other funds primarily reflect increases in the transfer of receipts from the Dedicated Highway and Bridge Trust Fund to reimburse the General DSF for debt service paid on Dedicated Highway and Bridge Trust Fund and CHIPs bonds ($106 million) and the transfer from the Hazardous Waste Remedial Fund to the General Fund ($27 million); offset by the transfer from the EPF to the General Fund ($46 million). The $53 million increase in bond and note proceeds reflect the receipt of General Obligation CW/CA Bonds to reimburse the CPF for environment spending. The $62 million increase is due to a reestimate of CW/CA spending.

Debt Service Funds

All tax-financed State debt service on long-term debt and payments on certain lease-purchase or other contractual obligations are paid from DSF. These account for the accumulation of money for, and the payment of principal and interest on, general long-term debt and certificates of participation. Lease-purchase payments for SUNY, Health and Mental Hygiene facilities under contractual agreements with public authorities are also paid from funds classified as DSFs. Debt service on highway bonds supported by dedicated highway revenues is also reflected in this fund type. DSF revenue sources include transfers from the General Fund, dedicated taxes and other revenues.

In 2004-05 the DSFs Cash Financial Plan projects total receipts of $9.4 billion, total disbursements of $3.9 billion, and net other financing sources (uses) of $5.5 billion, resulting in an operating deficit of $19 million.

The DSFs are projected to end the 2004-05 fiscal year with a fund balance of $155 million. This balance primarily reflects amounts statutorily and contractually required to be set aside for debt service payments in the next fiscal year, including $89 million in the SUNY Dormitory Income Fund and $40 million in the Mental Health Services Fund.

Receipts

Debt Service Funds Receipts (millions of dollars)					
	2003-04 Actuals	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Taxes	8,122	8,754	632	7.8%	90
Miscellaneous Receipts	810	647	(163)	-20.1%	0
Total Receipts	**8,932**	**9,401**	**469**	**5.3%**	**90**

Total DSF receipts are projected to be $9.4 billion, an increase of $469 million (5.3 percent) from 2003-04. The annual growth is due to increases in taxes ($632 million) offset by a decrease in miscellaneous receipts ($163 million). Compared to the Executive Budget estimates, projected DSF receipts increased by $89 million, all of which is attributable to increased taxes. These changes are described in more detail below.

Taxes

The $632 million (7.8 percent) increase in taxes deposited to the DSF from 2003-04 is attributable primarily to growth in dedicated PIT receipts deposited to the RBTF ($475 million) and the growth in sales and use taxes deposited to the Local Government Assistance Tax Fund ($207 million), offset by decreases in real estate transfer taxes deposited to the CW/CA Fund ($49 million). Compared to the Executive Budget estimate, projected taxes deposited to the DSF increased by $89 million, reflecting an increase in the growth of dedicated sales and use tax receipts ($96 million) offset by a modest reduction in dedicated PIT receipts ($7 million).

Miscellaneous Receipts

The projected decrease in miscellaneous receipts of $163 million (20.1 percent) from 2003-04 is primarily attributable to reduced funding of the Debt Reduction Reserve Fund ($53 million) and reduced miscellaneous receipts from health and mental health patient income ($109 million) and housing ($16 million) programs, offset by modest increases in receipts from SUNY dormitory fees ($15 million). Miscellaneous receipts remain unchanged from the Executive Budget.

Disbursements

Debt Service Funds Disbursements (millions of dollars)					
	2003-04 Actuals	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
General Debt Service Fund	2,751	3,223	472	17.2%	(6)
LGAC	296	316	20	6.8%	4
Mental Health	165	264	99	60.0%	5
All Other	148	118	(30)	-20.3%	(1)
Total Disbursements	**3,360**	**3,921**	**561**	**16.7%**	**2**

Total disbursements from the DSF are projected to increase from $3.4 billion in 2003-04 to $3.9 billion in 2004-05. The $561 million increase (16.7 percent) is due to growth in debt service costs from previous and planned bond sales offset by savings from debt management efforts, including refundings, and the use of variable rate bonds and interest rate exchange agreements. The $9 million reduction in disbursements from the Executive Budget estimate reflects modest reestimates in projected debt service costs, debt service savings as a result of vetoing the $350 million Higher Education Facilities Capital Matching Grant Program, offset by an increase in debt service costs for the $35 million added to CHIPs.

General Debt Service Fund

Spending from the General DSF is projected to increase by $472 million (17.2 percent) from 2003-04 and reflects an increase in the transfer from the General Fund and other funds to support the debt service on bonds for various capital programs including corrections, SUNY and CUNY, MTA transportation, housing, and environmental ($284 million), spending from the RBTF to support debt service on State PIT Revenue Bonds ($143 million), and spending for debt service supported by dedicated sources of taxes and fees from the Dedicated Highway and Bridge Trust Fund ($45 million).

LGAC

The Local Government Assistance Tax Fund is projected to receive $2.5 billion in 2004-05 from the dedicated one-cent statewide sales tax. Debt service costs on LGAC bonds are projected at $316 million in 2004-05, an increase of $20 million (6.8 percent) from the prior year. These payments reflect LGAC debt service requirements only, and do not reflect any local aid payments to New York City after these debt service obligations are met, which are reflected in the local assistance portion of the budget.

Mental Health

Patient revenues of $2.6 billion deposited to the Mental Health Services Fund will satisfy debt service obligations of $264 million in 2004-05. Debt service and related costs for this program are projected to increase by $99 million (60.0 percent) from 2003-04 actuals. This increase is primarily due to significant savings achieved during the 2003-04 fiscal year from refundings.

All Other

All other reflects debt service spending from the Health Income Fund, Housing Debt Fund, SUNY Dormitory Income Fund, and the Debt Reduction Reserve Fund. The $30 million decrease in spending from 2003-04 is attributable to the spend out of Debt Reduction Reserve Fund moneys in 2003-04 ($53 million) and modest declines in debt service spending for housing and health ($9 million), offset by an increase in debt service for SUNY dormitory bonds ($32 million).

Debt Service Funds Other Financing Sources (Uses) (millions of dollars)					
	2003-04 Results	2004-05 Enacted	Annual $ Change	Annual % Change	Change From 30-Day
Transfers From Other Funds	4,794	5,234	440	9.2%	(2)
Transfers To Other Funds	(10,349)	(10,733)	(384)	3.7%	(103)
Net Other Financing Sources	**(5,555)**	**(5,499)**	**56**	**-1.0%**	**(105)**

Other Financing Sources (Uses)

The $440 million (9.2 percent) increase in Transfers from Other Funds from 2003-04 reflects increases in transfers from the General Fund and various other dedicated funds, including the Dedicated Highway and Bridge Trust Fund and the Centralized Services Fund, to the General DSF ($365 million); transfers from the Federal Health and Human Services SRFs to the Mental Health DSF ($101 million); and a net reduction in all other transfers of $26 million. Compared to the Executive Budget estimate, Transfers from Other Funds declined by $2 million.

The $384 million (3.7 percent) increase in Transfers to Other Funds from 2003-04 primarily reflects the excess beyond the debt service due on State PIT Revenue Bonds from the RBTF ($368 million) and the Local Government Assistance Tax Fund ($187 million), offset by decreases in transfers in excess of debt service to SRFs from Mental Health and the Health DSF ($114 million), to the General Fund from the Clean Water DSF ($61 million), and modest changes in other transfers ($3 million). Transfers to Other Funds increased by $103 million from the Executive Budget estimates due to higher sales tax revenues from the LGAC Fund ($98 million).

Health Care Reform Act Financial Plan

In accordance with Chapters 62 and 686 of the Laws of 2003, the following provides the Financial Plan information regarding the HCRA receipts and disbursements for 2004-05. Readers should refer to the Financial Plan of the 2004-05 Executive Budget – Appendix II for more detailed information.

Overview

HCRA was established in 1996 to improve the fiscal health of hospitals and ensure that affordable and quality health care coverage was available to all New Yorkers. Subsequent extensions and modifications of the legislation have initiated new health care programs and provided additional funding for workforce recruitment and training. HCRA legislation expires on June 30, 2005.

The 2004-05 Executive Budget included a series of cost savings actions that were expected to produce a State Financial Plan benefit of more than $240 million in 2004-05. These proposals included reducing the cost of the EPIC Program, realigning FHP coverage consistent with private insurance policies, maximizing the use of Medicaid dollars in the financing of Graduate Medical Education costs, and eliminating unnecessary insurance pilot programs. With the exception of the Graduate Medical Education initiative, the Legislature rejected the majority of these cost savings actions. HCRA balances were not negatively impacted since the Legislature directed General Fund resources to HCRA to offset the loss of savings from the rejected actions. The Legislature also added an additional $21 million in HCRA spending in 2004-05.

The Legislature also failed to enact legislation authorizing additional insurance industry conversions resulting in the loss of $400 million in anticipated receipts in the first quarter of 2005-06. The absence of this legislation may also increase the risk that certain assumed Empire Conversion proceeds may not become available, which could trigger HCRA's General Fund Tobacco Revenue guarantee, as authorized pursuant to Chapters 62 and 686 of the Laws of 2003.

HCRA Receipts

HCRA receipts are primarily collected in the Public Goods Pool and in the Tobacco Control and Insurance Initiatives Pool. Receipts include surcharges and assessments on hospital revenues, a covered lives assessment paid by insurance carriers, a portion of cigarette tax revenues, proceeds from insurance company conversions, Federal revenues received with the renewal of the State's Medicaid managed care waiver, and Federal relief associated with the World Trade Center disaster.

HCRA Receipts 2004-05 (millions of dollars)	
Public Goods Pool:	**2,632**
Surcharges	1,493
Covered Lives Assessment	703
Hospital Assessment (1 percent)	217
Federal Funds/Other	219
Tobacco Control and Insurance Initiatives Pool:	**2,200**
Empire Conversion Proceeds	1,217
Cigarette Tax	693
Federal Funds	290
Total Receipts	**4,832**

Total receipts, estimated at $4.8 billion in 2004-05, are primarily comprised of surcharges ($1.5 billion), Empire conversion proceeds ($1.2 billion), covered lives assessment ($703 million), cigarette taxes ($693 million), Federal funds ($509 million), and hospital assessments of 1 percent ($217 million). Since the Executive Budget projections, HCRA receipt estimates have increased by $398 million, which reflects an additional $200 million in Empire Conversion proceeds and greater than anticipated HCRA surcharge receipts.

HCRA Disbursements

HCRA Disbursements 2004-05 (millions of dollars)	
Medicaid/Public Health Support	1,067
Hospital Indigent Care	826
EPIC	494
Graduate Medical Education	383
FHP	381
CHP	375
Workforce Recruitment/Retention	329
All Other	617
Total Disbursements	**4,472**

Total disbursements of nearly $4.5 billion are projected in 2004-05, an increase of $107 million since the Executive Budget projections, largely attributed to $200 million in increased transfers to Medicaid assumed in the Enacted Budget offset by spending revisions in various programs based on prior year results and current year experience.

Roughly three-quarters of HCRA disbursements are appropriated in the State Budget, and are reflected in the financial plan estimates earlier in this Report. . The largest "on-budget" program spending includes transfers to accommodate various Medicaid and public health costs ($1.1 billion), hospital indigent care ($826 million), EPIC ($494 million); FHP ($381 million); CHP ($375 million); provider workforce recruitment and retention funds paid through Medicaid rates ($329 million), and roughly $100 million of all other program spending primarily for mental health expansion programs. The remaining spending that is not included in the State Budget comprises Graduate Medical Education ($383 million) and roughly $500 million for various other program spending (including Roswell subsidy payments, excess medical malpractice, programs serving the uninsured, and anti-tobacco programs).

The cash balance is projected to be $790 million at the end of 2004-05, declining to approximately $165 million on June 30, 2005 when the HCRA statute expires.

The State's Fund Structure

The State accounts for all of its spending and receipts by the fund in which the activity takes place (such as the General Fund or the CPF), and the broad category or purpose of that activity (such as State Operations or Capital Projects). The Financial Plan tables sort all State projections and results by fund and category.

The State Constitution requires the Governor to submit an Executive Budget that is balanced in the General Fund which receives the majority of State taxes. State Funds include the General Fund and funds specified for dedicated purposes, with the exception of Federal Funds. All Governmental Funds, which includes State Funds and Federal Funds, comprises four major fund types, and provides the most comprehensive view of the financial operations of the State. It includes:

The General Fund, which receives most of the State's tax revenue and accounts for spending on programs that are not supported directly by dedicated fees and revenues;

SRFs, which receive Federal grants, certain dedicated taxes, fees and other revenues that are used for a specified purpose;

CPFs, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and

DSFs, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

Within each of these fund types, revenues and spending are classified by major categories of the Financial Plan (e.g., Taxes, Miscellaneous Receipts, Grants to Local Governments, State Operations). Activity in these Financial Plan categories is described in greater detail later in this Overview. Summary charts display the annual change for each category of the Financial Plan, and a narrative explanation of major changes follows each chart.

The following tables summarize projected General Fund, State Funds and All Governmental Funds receipts and disbursements for the 2003-04 through 2006-07 fiscal years.

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CASH FINANCIAL PLAN
GENERAL FUND
2003-2004 and 2004-2005
(millions of dollars)

	2003-2004 Actual	2004-2005 Enacted	Change
Opening fund balance	815	1,077	262
Receipts:			
Taxes:			
Personal income tax	15,774	18,490	2,716
User taxes and fees	7,979	8,679	700
Business taxes	3,413	3,714	301
Other taxes	768	764	(4)
Miscellaneous receipts (1)	5,917	2,438	(3,479)
Federal Grants (1)	654	0	(654)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,244	5,612	368
Sales tax in excess of LGAC debt service	1,971	2,158	187
Real estate taxes in excess of CW/CA debt service	307	246	(61)
All other	300	554	254
Total receipts	42,327	42,655	328
Disbursements:			
Grants to local governments	29,246	29,392	146
State operations	7,093	7,501	408
General State charges	3,247	3,671	424
Transfers to other funds:			
Debt service	1,474	1,737	263
Capital projects	229	196	(33)
Other purposes	776	542	(234)
Total disbursements	42,065	43,039	974
Fiscal Management Plan	0	434	434
Change in fund balance	262	50	(212)
Closing fund balance	1,077	1,127	50
Tax Stabilization Reserve Fund	794	794	0
Contingency Reserve Fund	21	21	0
Community Projects Fund	262	312	50

(1) Actuals reflect amounts published in Comptroller's Cash Basis Report for 2003-04.

CASH FINANCIAL PLAN
GENERAL FUND
2004-2005
(millions of dollars)

	30-Day	Change	Enacted
Opening fund balance	1,014	63	1,077
Receipts:			
Taxes:			
Personal income tax	18,501	(11)	18,490
User taxes and fees	8,382	297	8,679
Business taxes	3,709	5	3,714
Other taxes	762	2	764
Miscellaneous receipts	2,087	351	2,438
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,622	(10)	5,612
Sales tax in excess of LGAC debt service	2,061	97	2,158
Real estate taxes in excess of CW/CA debt service	246	0	246
All other	476	78	554
Total receipts	41,846	809	42,655
Disbursements:			
Grants to local governments	28,471	921	29,392
State operations	7,251	250	7,501
General State charges	3,652	19	3,671
Transfers to other funds:			
Debt service	1,748	(11)	1,737
Capital projects	187	9	196
Other purposes	587	(45)	542
Total disbursements	41,896	1,143	43,039
Fiscal Management Plan	0	434	434
Change in fund balance	(50)	100	50
Closing fund balance	964	163	1,127
Tax Stabilization Reserve Fund	794	0	794
Contingency Reserve Fund	20	1	21
Community Projects Fund	150	162	312

Source: NYS DOB

CASHFLOW
GENERAL FUND
2004-2005
(dollars in millions)

	2004 April	May	June	July	August	September	October	November	December	2005 January	February	March	Total
Opening Fund Balance	1,077	3,842	1,227	1,865	1,740	2,462	2,166	1,585	1,004	1,325	4,731	5,437	1,077
Receipts:													
Taxes													
Personal income tax	3,851	526	1,945	1,215	1,338	1,764	554	569	1,270	3,065	1,831	562	18,490
Sales tax	626	576	857	622	600	825	593	586	875	621	505	732	8,018
User taxes and fees	79	41	52	62	53	57	53	52	59	59	47	47	661
Business taxes	148	(9)	727	91	60	745	52	12	753	37	18	1,080	3,714
Other taxes	68	50	79	60	49	61	65	63	72	64	67	66	764
Miscellaneous receipts	70	68	319	245	122	165	176	194	467	172	168	272	2,438
Transfers from other funds													
Revenue Bond Fund	875	158	648	405	379	602	184	71	424	1,021	416	429	5,612
LGAC	181	33	0	0	787	178	180	176	263	194	3	163	2,158
Clean Water/Clean Air	52	26	77	23	66	0	0	4	(2)	0	1	(1)	246
All Other Transfers	4	0	0	6	1	220	1	1	44	1	1	275	554
Total receipts	5,954	1,469	4,704	2,729	3,455	4,617	1,858	1,728	4,225	5,234	3,057	3,625	42,655
Disbursements:													
Grants to local governments	1,621	3,089	2,805	1,669	1,694	2,822	1,454	1,422	2,313	1,182	1,869	7,452	29,392
State operations	837	708	790	795	601	740	513	597	819	528	316	257	7,501
General State charges	423	179	214	268	306	958	256	148	243	268	161	247	3,671
Transfers to other funds													
Debt Service	211	45	220	50	34	326	51	174	353	14	28	231	1,737
Capital Projects	1	46	23	56	31	48	19	30	237	(106)	43	(232)	196
All Other Transfers	96	17	14	16	67	19	146	18	19	22	14	94	542
					143								
Total disbursements	3,189	4,084	4,066	2,854	2,733	4,913	2,439	2,389	3,984	1,908	2,431	8,049	43,039
Fiscal Management Plan	0	0	0	0	0	0	0	80	80	80	80	114	434
Excess (deficiency) of receipts over disbursements	2,765	(2,615)	638	(125)	722	(296)	(581)	(581)	321	3,406	706	(4,310)	50
Closing Fund Balance	**3,842**	**1,227**	**1,865**	**1,740**	**2,462**	**2,166**	**1,585**	**1,004**	**1,325**	**4,731**	**5,437**	**1,127**	**1,127**

Note: April through July cashflow is based on actual experience, August reflects preliminary results and the remaining months are projections.

Source: NYS DOB

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,077	1,703	(336)	174	2,618
Receipts:					
Taxes	31,647	4,758	1,795	8,754	46,954
Miscellaneous receipts	2,438	11,126	1,987	647	16,198
Federal grants	0	1	0	0	1
Total receipts	34,085	15,885	3,782	9,401	63,153
Disbursements:					
Grants to local governments	29,392	11,336	1,002	0	41,730
State operations	7,501	4,919	0	22	12,442
General State charges	3,671	479	0	0	4,150
Debt service	0	0	0	3,899	3,899
Capital projects	0	1	2,071	0	2,072
Total disbursements	40,564	16,735	3,073	3,921	64,293
Other financing sources (uses):					
Transfers from other funds	8,570	961	234	5,234	14,999
Transfers to other funds	(2,475)	(406)	(1,115)	(10,733)	(14,729)
Bond and note proceeds	0	0	193	0	193
Net other financing sources (uses)	6,095	555	(688)	(5,499)	463
Fiscal Management Plan	434	0	0	0	434
Change in fund balance	50	(295)	21	(19)	(243)
Closing fund balance	1,127	1,408	(315)	155	2,375

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2004-2005
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,077	2,183	(489)	174	2,945
Receipts:					
Taxes	31,647	4,758	1,795	8,754	46,954
Miscellaneous receipts	2,438	11,256	1,987	647	16,328
Federal grants	0	34,972	1,864	0	36,836
Total receipts	34,085	50,986	5,646	9,401	100,118
Disbursements:					
Grants to local governments	29,392	42,895	1,220	0	73,507
State operations	7,501	8,207	0	22	15,730
General State charges	3,671	686	0	0	4,357
Debt service	0	0	0	3,899	3,899
Capital projects	0	1	3,713	0	3,714
Total disbursements	40,564	51,789	4,933	3,921	101,207
Other financing sources (uses):					
Transfers from other funds	8,570	3,137	234	5,234	17,175
Transfers to other funds	(2,475)	(2,891)	(1,124)	(10,733)	(17,223)
Bond and note proceeds	0	0	193	0	193
Net other financing sources (uses)	6,095	246	(697)	(5,499)	145
Fiscal Management Plan	434	0	0	0	434
Change in fund balance	50	(557)	16	(19)	(510)
Closing fund balance	1,127	1,626	(473)	155	2,435

Source: NYS DOB

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

	2003-2004 Actual	2004-2005 Enacted	Annual Change
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	65,436	88,992	23,556
Alcoholic Beverage Control	10,558	10,220	(338)
Banking Department	55,868	60,221	4,353
Consumer Protection Board	3,113	2,465	(648)
Economic Development, Department of	39,122	345,557	306,435
Empire State Development Corporation	50	65,975	65,925
Energy Research and Development Authority	29,557	26,123	(3,434)
Housing Finance Agency	0	0	0
Housing and Community Renewal, Division of	248,348	219,674	(28,674)
Insurance Department	105,913	128,217	22,304
Olympic Regional Development Authority	7,575	7,750	175
Public Service, Department of	47,080	57,429	10,349
Science, Technology and Academic Research, Office of	35,584	80,170	44,586
Functional Total	648,204	1,092,793	444,589
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,207	4,523	316
Environmental Conservation, Department of	820,901	901,821	80,920
Environmental Facilities Corporation	6,788	12,416	5,628
Parks, Recreation and Historic Preservation, Office of	194,993	228,028	33,035
Functional Total	1,026,889	1,146,788	119,899
TRANSPORTATION			
Motor Vehicles, Department of	203,748	217,695	13,947
Thruway Authority	2,865	4,000	1,135
Transportation, Department of	4,610,012	5,334,101	724,089
Functional Total	4,816,625	5,555,796	739,171
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	1,213	4,044	2,831
Aging, Office for the	177,333	171,228	(6,105)
Children and Families, Council on	470	0	(470)
Children and Family Services, Office of	3,364,763	3,092,522	(272,241)
Health, Department of	31,480,929	33,478,337	1,997,408
Medical Assistance	27,561,478	29,300,766	1,739,288
Medicaid Administration	578,628	542,400	(36,228)
All Other	3,340,823	3,635,171	294,348
Human Rights, Division of	14,067	14,884	817
Labor, Department of	879,965	766,602	(113,363)
Prevention of Domestic Violence, Office of	2,063	1,602	(461)

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

	2003-2004 Actual	2004-2005 Enacted	Annual Change
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	4,177,608	4,455,899	278,291
Welfare Assistance	2,868,220	3,124,959	256,739
Welfare Administration	339,924	341,133	1,209
All Other	969,464	989,807	20,343
Welfare Inspector General, Office of	892	1,083	191
Workers' Compensation Board	130,832	145,860	15,028
Functional Total	40,230,135	42,132,061	1,901,926
MENTAL HEALTH			
Mental Health, Office of	2,048,760	2,172,437	123,677
Mental Retardation and Developmental Disabilities, Office of	2,609,153	2,820,865	211,712
Alcohol and Substance Abuse Services, Office of	471,437	478,649	7,212
Developmental Disabilities Planning Council	3,270	3,730	460
Quality of Care for the Mentally Disabled, Commission on	9,722	11,200	1,478
Functional Total	5,142,342	5,486,881	344,539
PUBLIC PROTECTION			
Capital Defenders Office	12,519	12,519	0
Correction, Commission of	2,503	2,427	(76)
Correctional Services, Department of	2,127,272	2,140,898	13,626
Crime Victims Board	60,392	61,858	1,466
Criminal Justice Services, Division of	305,713	304,234	(1,479)
Investigation, Temporary State Commission of	3,071	3,426	355
Judicial Commissions	2,298	2,542	244
Military and Naval Affairs, Division of (1)	1,630,324	1,840,922	210,598
Parole, Division of	188,005	175,903	(12,102)
Probation and Correctional Alternatives, Division of	76,114	75,480	(634)
Public Security, Office of	7,737	11,929	4,192
State Police, Division of	486,640	489,083	2,443
Functional Total	4,902,588	5,121,221	218,633
EDUCATION			
Arts, Council on the	45,949	45,789	(160)
City University of New York	830,448	1,134,572	304,124
Education, Department of	21,603,046	22,694,716	1,091,670
School Aid	15,414,132	16,375,841	961,709
STAR Property Tax Relief	2,819,455	3,018,000	198,545
Handicapped	1,320,140	1,432,976	112,836
All Other	2,049,319	1,867,899	(181,420)
Higher Education Services Corporation	872,380	1,014,996	142,616
State University Construction Fund	8,184	9,402	1,218
State University of New York	4,337,870	4,634,189	296,319
Functional Total	27,697,877	29,533,664	1,835,787

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

	2003-2004 Actual	2004-2005 Enacted	Annual Change
GENERAL GOVERNMENT			
Audit and Control, Department of	148,963	176,815	27,852
Budget, Division of the	28,955	39,786	10,831
Civil Service, Department of	20,148	21,652	1,504
Elections, State Board of	3,356	6,616	3,260
Employee Relations, Office of	3,298	3,550	252
Executive Chamber	12,458	14,916	2,458
General Services, Office of	200,234	213,756	13,522
Inspector General, Office of	5,194	5,441	247
Law, Department of	149,095	170,823	21,728
Lieutenant Governor, Office of the	358	458	100
Lottery, Division of	159,224	159,651	427
Public Employment Relations Board	3,262	3,472	210
Racing and Wagering Board, State	13,734	14,832	1,098
Real Property Services, Office of	43,472	53,800	10,328
Regulatory Reform, Governor's Office of	3,227	3,375	148
State, Department of	125,628	234,589	108,961
Tax Appeals, Division of	2,676	2,718	42
Taxation and Finance, Department of	344,957	338,027	(6,930)
Technology, Office for	32,737	19,897	(12,840)
TSC Lobbying	1,044	1,325	281
Veterans Affairs, Division of	10,953	12,517	1,564
Functional Total	1,312,973	1,498,016	185,043
ALL OTHER CATEGORIES			
Legislature	202,252	201,629	(623)
Judiciary (excluding fringe benefits)	1,431,275	1,508,013	76,738
Homeland Security	15,676	141,974	126,298
Local Government Assistance	823,952	802,661	(21,291)
Long-Term Debt Service	3,351,303	3,898,993	547,690
General State Charges/Miscellaneous	3,824,451	4,176,765	352,314
Capital Accounting Adjustment (2)	0	(1,090,000)	(1,090,000)
One-time Payment Deferrals (3)	1,900,000	0	(1,900,000)
Functional Total	11,548,909	9,640,035	(1,908,874)
TOTAL ALL GOVERNMENTAL FUNDS SPENDING	97,326,542	101,207,255	3,880,713

Note 1: Projected 2004-05 includes $1.7 billion in World Trade Center spending that will be reflected in various agencies at year end.

Note 2: Projected 2004-05 spending by function has been adjusted to include certain off-budget capital projects spending, however it is excluded from total projected spending. This spending is not included in actual cash results by the State Comptroller on a cash basis but is reflected on a GAAP basis.

Note 3: To provide a comparable annual change by function, spending by function has been adjusted for $1.9 billion in one-time payment deferrals from 2002-03 to 2003-04. The payment deferrals are shown in aggregate and were detailed most recently in the 2003-04 Year-End Report.

Special Considerations

Many complex political, social, and economic forces influence the State's economy and finances, which may in turn affect the State's Financial Plan. These forces may affect the State from fiscal year to fiscal year and are influenced by governments, institutions, and events that are not subject to the State's control. The Financial Plan is also necessarily based upon forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies. DOB believes that its current estimates related to the performance of the State and national economies are reasonable. However, there can be no assurance that actual results will not differ materially and adversely from the current forecast. For a discussion of the DOB economic forecast, see the section entitled “Economics and Demographics,” in this AIS.

Based on current projections, the 2004-05 Financial Plan depends in part on the implementation of a fiscal management plan to maintain budget balance in the current fiscal year. The plan currently under development by DOB is expected to contain a range of actions that can be implemented administratively, as well as proposals that may require legislative approval. DOB expects to incorporate the fiscal management plan into the Financial Plan projections in the Mid-Year Update to the Financial Plan, planned for October 2004.

As of the close of 2003-04, balances in the State’s principal reserves to guard against unbudgeted risks totaled $815 million. The reserves include $794 million in the Tax Stabilization Reserve Fund and $21 million in the Contingency Reserve Fund for litigation. To permanently improve the State’s reserve levels, the Governor has proposed legislation to increase both the maximum size of the State’s rainy day fund from 2 percent to 5 percent of General Fund spending, and the maximum annual deposits from two-tenths of one percent to five-tenths of one percent of spending. Absent this legislation, the Fund will reach its statutory maximum balance of 2 percent or $840 million with the next annual deposit.

Aside from the $21 million in the Contingency Reserve Fund, the current Financial Plan does not set aside specific reserves to cover potential costs that could materialize as a result of adverse rulings in pending litigation, Federal disallowances, or other Federal actions that could adversely affect the State's projections of receipts and disbursements.

Federal Issues

The Federal government is currently auditing Medicaid claims submitted since 1993 under the School Supportive Health Services Program. At this point, these audits have not been finalized, and, as a result, the liability of the State and school districts for any disallowances cannot be determined. Federal regulations include an appeals process that could postpone repayment of any disallowances. The current Financial Plan assumes the Federal government will fully reimburse these costs.

In addition, a portion of Federal Medicaid payments related to School Supportive Health Services have been deferred by the Federal Centers for Medicare and Medicaid Services pending finalization of audits. Since the State has continued to reimburse local school districts for these costs, these Federal deferrals, if not resolved, could negatively impact the Financial Plan. Alternatively, if the State suspends reimbursement, local governments could be adversely affected.

An ongoing risk to the Financial Plan arises from the potential impact of certain litigation and Federal disallowances now pending against the State, which could produce adverse effects on the State's projections of receipts and disbursements. For example, the Federal government has issued a draft disallowance for certain claims, and deferred the payment of other claims, submitted by school districts related to school supportive health services. It is unclear at this time what impact, if any, such disallowances may have on the State Financial Plan in the current year or in the future. The Financial Plan assumes no significant Federal disallowances or other Federal actions that could adversely affect State finances. For more information on certain litigation pending against the State, see the section entitled "Litigation" in this AIS.

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SUMMARY OF CERTAIN PROVISIONS OF THE AGREEMENT

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SUMMARY OF CERTAIN PROVISIONS OF THE AGREEMENT

The following is a summary of the Agreement. Such summary does not purport to be complete and reference is made to the Agreement for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

Limited Obligation to Pay Annual Payments.

The State University shall have no liability to pay the Annual Payments except from moneys payable as described in the Agreement and assigned to the Authority under the Agreement.

(Section 2.01)

Covenants for Benefit of Holders of Obligations

The Agreement is executed in part to induce the purchase by others of the Obligations and accordingly all covenants and agreements on the part of the State University and the Authority as set forth in the Agreement are thereby declared to be for the benefit of the Holders from time to time of the Obligations.

(Section 2.02)

Issuance of the Authority's Obligations

The proceeds of the Obligations shall be applied as specified in the Resolution, the Series Resolution or the Series Certificate relating thereto.

(Section 3.01)

Construction Costs

The Authority in the Resolution is authorized to, and shall, make payments from the Construction Fund to pay the Costs of the Project or to reimburse the Local Sponsors, the Community Colleges or the State for Costs of the Project paid by any of them upon receipt and acceptance by the Authority of a requisition signed by an Authorized Officer of the respective Local Sponsor filed with the Authority, stating with respect to each payment to be made (i) the names of the payees, (ii) the purpose for which such payment is to be made in terms sufficient for identification, (iii) the respective amount of each such payment, and (iv) that such purpose constitutes a proper purpose for which moneys in the Construction Fund may be applied and has not been the basis of any previous withdrawal from the Construction Fund, together with copies of all unpaid invoices for such items of Costs for which the Local Sponsor may have requested the Authority to make payment on behalf of such Local Sponsor or related Community College.

(Section 3.03)

Issuance of Obligations; Purposes

The Authority agrees to use its best efforts to authorize, issue, sell and deliver from time to time one or more Series of Obligations, in accordance with the provisions of the Resolution, in aggregate principal amounts which, together with other moneys available therefor, are sufficient to pay the State's Share of the Costs of the Project.

In addition to providing for the Costs of the Project it is understood that the Resolution provides, and it is agreed, that the Authority may issue Obligations for one or more or the following purposes: (i) paying the Costs of Issuance of Obligations and (ii) funding or refunding Obligations, other notes or bonds of the Authority or notes, bonds or other obligations of the State or any agency, instrumentality or public benefit corporation thereof issued for or on behalf of a Community College.

(Section 4.01)

Certain Limitations on Principal and Interest

The Authority agrees that, unless the State University and the Authority agree that the first payment dates for the principal and Sinking Fund Installments of and interest on Obligations of a Series shall be other than as provided in this Section: (i) the first date for the payment of the principal or Sinking Fund Installment of any Obligations of a Series shall not be prior to the July 1 immediately succeeding the January 1 of the Bond Year in which such Series of Obligations are delivered and (ii) any installment of interest payable prior to the July 1 of the Bond Year succeeding the Bond Year in which such Series of Obligations are delivered or prior to the end of the first year after the Project or part thereof in connection with which such Obligations were issued are placed in service, whichever is earlier, shall be paid from the proceeds of such Series of Obligations unless, in the opinion of Bond Counsel, the same would adversely affect the exclusion of interest on such Obligations from gross income for purposes of federal income taxation.

(Section 4.02)

Obligation to Make Payments

Subject to the Agreement, the obligation of the State University to make the payments required by the Agreement shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening of any event.

The State University's liability to make payments shall be executory only to the extent of the availability of moneys from the sources specified therefore under the Agreement

(Section 5.01)

Amount and Payment of Annual Payments

(a) The State University shall pay to the Authority the following in the amounts and on the dates set forth below:

(i) On December 10 of each Bond Year (A) the interest payable on the next succeeding January 1 on Outstanding Obligations on which interest is payable semiannually on each July 1 and January 1 and (B) the principal and Sinking Fund Installments of Outstanding Obligations payable prior to the next succeeding July 1;

(ii) On June 10 of each Bond Year (A) the interest payable on the next succeeding July 1 on Outstanding Obligations on which interest is payable semiannually on each July 1 and January 1 and (B) the principal and Sinking Fund Installments of Outstanding Obligations payable prior to the next succeeding January 1;

(iii) On the 10th day of each calendar month, the interest estimated by an Authorized Officer of the Authority to be payable during the next succeeding calendar month on Outstanding Variable Interest Rate Obligations on which interest is payable more frequently than semiannually;

(iv) Not less than five (5) Business Days prior to the date the principal or a Sinking Fund Installment of or interest on Outstanding Bonds is payable, the amount by which the money available in the Debt Service Fund is insufficient to make such payment, as set forth in a written notice from the Authority given not less than ten days prior to such date; and

(v) On the 10th day of each calendar month the amount, if any, as shall be necessary to provide for the payment by the Authority of the fees and other amounts payable to the Provider of a Credit Facility or Liquidity Facility if such payment obligation of the Authority is secured, as specifically set forth in or pursuant to a Series Resolution, on a parity with the pledge and lien created by the Resolution; and

(vi) On the 10th day of each calendar month the amount, if any, as shall be necessary to provide for the payment by the Authority of the fees and other amounts payable to a Counterparty if such payment obligation of the Authority is secured, as specifically set forth in or pursuant to a Series Resolution, on a parity with the pledge and lien created by the Resolution.

The State University shall receive a credit against the payments required to be made pursuant to (i) and (ii) above in an amount equal to the amount by which the amount in the Debt Service Fund on the date any such payment is to be made exceeds the amount required pursuant to the Resolution to be on deposit in such fund or required to pay the purchase price or Redemption Price, including accrued interest to the date of purchase of redemption, of Outstanding Obligations theretofore contracted to be purchased or called for redemption.

(b) In addition to the foregoing payments, the State University shall pay to the Authority the following, in the amounts and on the dates set forth below (the State University and the Authority agree that all payments made pursuant to the Section of the Agreement summarized herein shall first be applied against payments required to have been made pursuant to provisions of the Agreement summarized in the preceding paragraph (a) before application to any payments required to have been made pursuant to provisions of the agreement summarized in this paragraph (b)):

(i) on December 10 and June 10 of each Bond Year, one–half (1/2) of the Annual Administrative Fee payable during such Bond Year;

(ii) the amount determined by an Authorized Officer of the Authority as required to be rebated to the Department of the Treasury of the United States of America in excess of the amount available therefor in the Arbitrage Rebate Fund, within fifteen (15) days after notice of the amount thereof is given to the State University;

(iii) on the 10th day of each calendar month, the amount certified by the Authority as the estimated amount payable by the Authority (1) in connection with the purchase and remarketing of Option Obligations, (2) the adjustment of the rate at which Variable Interest Rate Obligations bear interest, and (3) to the Provider of a Credit Facility or Liquidity Facility that is not secured on a parity with the pledge and lien created by the Resolution, in each case that are payable during the next succeeding calendar month; and

(iv) on the 10th day of each calendar month, the amount certified by the Authority as the estimated amount payable by the Authority to each Counterparty that is not secured on a parity with the pledge and lien created by the Resolution during the next succeeding calendar month, including but not limited to any fees or charges in connection therewith.

(Section 5.02)

Establishment of the Payment Account

The State University agrees that (i) all public funds appropriated or otherwise made payable by the State with respect to the Agreement pursuant to the Education Law shall be paid by the Comptroller of the State to the Commissioner pursuant to Section 97-p of the State Finance Law for deposit in the Pledge Fund (the “Payment Account”) to be held as a separate account by the Commissioner of Taxation and Finance of the State of New York, as agent of the State University, separate and apart from other funds and moneys of the State University, (ii) the Commissioner, in accordance with Section 97-p of the State Finance Law, is authorized and directed to pay such funds as described in the Agreement, and (iii) the moneys in the Payment Account shall not be commingled with any other moneys.

(Section 6.01)

Pledge of Payment Account; Security Interest; and Consent to Assignment

The State University unconditionally pledges and assigns to the Authority its interest in the moneys and investments from time to time on deposit in the Payment Account. To the extent authorized by law, the State University grants to the Authority a security interest in the State University's rights now and hereafter to receive and collect any of the moneys assigned to the Authority in in the Agreement. The State University agrees that the Authority shall have the power to pledge and assign to the Trustee the moneys to be paid to the Authority under the Agreement and any or all of the Authority's rights, security interests and remedies under Agreement.

(Section 6.02)

Payments to the Payment Account

Pursuant to the Education Law and Section 97-p of the State Finance Law, all moneys payable to the Authority pursuant to Agreement shall be paid to the Payment Account by the Comptroller of the State.

(Section 6.03)

Payments from the Payment Account

The State University agrees that it shall pay or cause to be paid from Payment Account the Annual Payments and other payments required under the Agreement and described in the Agreement, and at the times and in the manner required by the Agreement.

(Section 6.04)

Limitation on Liens

The State University shall not create or cause to be created any lien or charge prior or equal to the lien of the pledge and assignment made under the Agreement on its interest in the moneys and investments from time to time on deposit in the Payment Account.

(Section 6.05)

Survival of the Prior Agreements

The Agreement is not intended to supersede or amend the prior agreements or to diminish the security pledge to the holders of obligations outstanding under the Prior Resolutions or significantly impair the prospect of payment of any obligations outstanding under the Prior Resolutions.

Security pledged to holders of Obligations under the Agreement shall constitute a subordinate lien which shall be neither equal to nor senior to security pledged to holders of obligations outstanding under the Prior Resolutions.

The holders of the Obligations shall not be entitled to any benefit, right, remedy or claim, legal or equitable, under or by reason of the prior agreements or any provisions thereof.

The Authority and the State University may enter into agreements subsequent to the Agreement wherein the State University's liability to make annual payments shall also be limited to amounts made available from the Payment Account as set forth in the Agreement (each, a "Future Agreement"). Notwithstanding anything in the Agreement to the contrary, if the moneys held in the Payment Account are insufficient to make Annual Payments under the Agreement and annual payments under such Future Agreement(s), the Authority and the State University agree that available moneys shall first be apportioned, pro rata, based upon the Annual Payments payable on account of the provisions of the Agreement summarized in paragraph (a) under the heading "Amount and Payment of Annual Payments" above, and the similar section of any Future Agreement(s). Payments of all other amounts shall also be apportioned, in the event of insufficiencies, pro rata, based upon the Annual Payments payable on account of provisions of the Agreement summarized in paragraph (b) under the heading "Amount and Payment of Annual Payments" above, and the similar section of such Future Agreement(s), but only after all Annual Payments payable on account of provisions of the Agreement summarized in paragraph (a) under the heading "Amount and Payment of Annual Payments" above, and the similar section of any Future Agreement have been paid.

(Section 6.06)

Option to Defease Resolution

Upon 60 days' written notice to the Authority and the Trustee, the State University shall have the right to pay or cause to be paid to the Trustee an amount equal to the principal or Redemption Price of and interest to the next date on which all Outstanding Obligations are subject to redemption. If at any time the moneys on deposit in the Debt Service Fund are at least equal to the principal or Redemption Price of and interest to the next date on which all Outstanding Obligations are subject to redemption, the Authority upon the written request of the State University shall give notice to the Trustee of the Authority's election to redeem all Outstanding Obligations on such redemption date.

(Section 7.01)

Termination of the Agreement and Provisions Relating Thereto

The Agreement shall remain in full force and effect until the date on which (i) the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Obligations shall have been fully paid and discharged or provision for the payment and discharge thereof shall have been made as provided by the Resolution and (ii) all other obligations, liabilities and expenses of the Authority relating to the Project or required to be paid by the Authority in connection with such termination of the Agreement and the defeasance of the Resolution or required to be paid by the Authority pursuant to any Interest Rate Exchange Agreement shall have been fully paid and discharged or provision satisfactory to the Authority for the payment and discharge thereof shall have been made.

(Section 7.02)

Amendment of Agreement or Resolution

The Agreement may be amended by a Supplemental Agreement executed by and between, the Authority and the State University; provided, however, that any amendment contained in a Supplemental Agreement shall not become effective unless and until (i) if the consent of Holders of Outstanding Obligations is required by the Resolution, there shall have been filed with the Trustee the written consents of the Holders of the percentage of Outstanding Obligations specified in the Resolution, (ii) if the consent of the Trustee is required by the Resolution, the Trustee has consented thereto, and (iii) an executed copy of such Supplemental Agreement certified by an Authorized Officer of the Authority shall have been filed with the Trustee.

The Authority agrees that it shall not adopt a Supplemental Resolution which amends or supplements the Resolution in any manner which requires the consent of any percentage of the Holders of Outstanding Obligations to be obtained as provided in the Resolution unless such Supplemental Agreement is approved in writing by the State University.

(Section 7.03)

Successor and Assigns; Non-Assignability

The provisions of the Agreement shall be binding upon and inure to the benefit of the parties thereto and their respective successors and assigns; provided, however, the Agreement may not be assigned, except to the Trustee, by any party without the consent in writing of each other party.

(Section 7.07)

Disclaimer of Personal Liability

No recourse shall be had against or liability incurred by any member of the Authority or the State University, or officer or employee of either of them, or any person executing the Agreement for any covenants and provisions of the Agreement or for any claims based upon such Agreement.

(Section 7.10)

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a summary of certain provisions of the Resolution. Such summary does not purport to be complete and reference is made to the Resolution for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

Resolution and Obligations Constitute a Contract

The Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of the Obligations, and the pledge and assignment made in the Resolution and the covenants and agreements set forth in the Resolution 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 Obligations, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any Obligations over any other Obligations except as expressly provided in or permitted by the Resolution.

(Section 1.03)

Authorization of Obligations

Obligations are authorized to be issued and shall be designated as “General Resolution Revenue Bonds Upstate Community Colleges” or “General Resolution Revenue Notes Upstate Community Colleges”, and there is created a continuing pledge and lien as provided by the Resolution to secure the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on all the Obligations. The Obligations shall be special obligations of the Authority payable solely from the Revenues, all in the manner more particularly provided in the Resolution. The aggregate principal amount of Obligations which may be executed, authenticated and delivered is not limited except as provided in the Resolution.

The Obligations of the Authority shall not be a debt of the State, nor shall the State be liable thereon, nor shall the Obligations be payable out of any funds other than those of the Authority pledged by the Resolution to the payment of the principal, Sinking Fund Installments, if any, and the Redemption Price of and interest on all the Obligations.

(Section 2.01)

Additional Obligations

The Authority reserves the right to issue bonds, notes or any other obligations pursuant to other and separate resolutions of the Authority, so long as such bonds, notes or other obligations are not entitled to a charge or lien or right prior or equal to the charge or lien created by, or prior or equal to the rights of the Authority and Holders of Obligations provided by the Resolution or with respect to the moneys pledged by the Resolution.

(Sections 2.05)

Place and Medium of Payment

Unless the Series Resolution authorizing issuance of the Obligations of a Series or the applicable Series Certificate otherwise provides, the Obligations shall be payable, with respect to interest, principal, Sinking Fund Installments and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts. Except as otherwise provided in the Resolution, upon presentation and surrender of an Obligation the principal or Redemption Price thereof shall be payable at the principal corporate trust office of the Trustee. Except as otherwise provided in the Series Resolution authorizing the issuance of Variable Interest Rate Obligations or Option Obligations or the applicable Series Certificate, interest on Obligations shall be paid by check or draft mailed to the registered owner thereof at the address thereof as it appears on the registry books of the Authority, or, at the option of the registered owner of at least $1,000,000 in principal amount of Obligations of a Series, by wire transfer to the registered owner at the wire transfer address in the continental United States to which such registered owner has not less than five days prior to the Record Date for such Obligations, directed the Trustee to wire such interest payment. For purposes of this Section, interest is payable to the registered owner of an Obligation at the close of business on the Record Date for such Obligation.

(Section 3.01)

Interchangeability of Obligations

Obligations, upon their surrender at the principal corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his attorney duly authorized in writing may, at the option of the registered owner, be exchanged for an equal aggregate principal amount of Obligations of the same Series, Sub-Series, maturity and tenor of any other authorized denominations.

(Section 3.04)

Negotiability, Transfer and Registry

All Obligations shall be negotiable as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and the Obligations. So long as any of the Obligations shall not have matured or been called for redemption, the Authority shall maintain and keep, at the principal corporate trust office of the Trustee, books for the registration and transfer of Obligations; and, upon presentation thereof for such purpose at said office, the Authority shall register or cause to be registered therein, and permit to be transferred thereon, under such reasonable regulations as it or the Trustee may prescribe, any Obligation entitled to registration or transfer. So long as any of the Obligations have not matured or been called for redemption, the Authority shall make all necessary provisions to permit the exchange of Obligations at the principal corporate trust office of the Trustee.

(Section 3.05)

Transfer of Obligations

Each Obligation shall be transferable only upon the books of the Authority by the registered owner in person or by his attorney duly authorized in writing, upon surrender of the Obligation together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney and the payment of a charge sufficient to reimburse the Authority or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such transfer. Upon the transfer of any such Obligation, the Authority shall issue in the name of the transferee a new Obligation or Obligations.

The Authority and the Trustee may deem and treat the person in whose name any Outstanding Obligation shall be registered upon the books of the Authority as the absolute owner of such Obligation, whether such Obligation shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal or Redemption Price, of and, subject to the provisions of the Resolution with respect to Record Dates, interest on such Obligation and for all other purposes whatsoever, and all payments made to a registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Obligation to the extent of the sum or sums paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary.

(Section 3.06)

Regulations with Respect to Exchanges and Transfers

For every such exchange or transfer of Obligations, whether temporary or definitive, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. Notwithstanding any other provisions of the Resolution, the cost of preparing each new Obligation upon each exchange or transfer, and any other expenses of the Authority or the Trustee incurred in connection therewith, shall be paid by the person requesting such exchange or transfer. The Authority shall not be obliged to make any such exchange or transfer of Obligations of any Series during the period beginning on the Record Date for Obligations of a particular Series next preceding an interest payment date and ending on such interest payment date.

(Section 3.07)

Payment of Redeemed Obligations

Notice having been given by mail in the manner provided in the Resolution, the Obligations or portions thereof so called for redemption shall, if on the redemption date all conditions to the redemption have been satisfied, become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date. Upon presentation and surrender of Obligations that are not Book Entry Obligations at the office or offices specified in such notice, together with, in the case of Obligations presented by other than the registered owner, a written instrument of transfer duly executed by the registered owner or his duly authorized attorney, such Obligations, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. At the request of the registered owner of at least $1,000,000 in principal amount of Obligations to be redeemed, payment of the Redemption Price shall be made by wire transfer to such registered owner at the wire transfer address in the continental United States to which such registered owner has, at the time such Obligation is surrendered to the Trustee, directed in writing the Trustee to wire such Redemption Price. If less than all of the principal amount of an Obligation shall be called for redemption, the Authority shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Obligation, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Obligation so surrendered, Obligations of like Series, Sub-Series, maturity and tenor in any of the authorized denominations. If on the redemption date moneys for the redemption of all Obligations or portions thereof to be redeemed, together with interest to the redemption date, shall be held by the Trustee and Paying Agents so as to be available therefor on such date, and if notice of redemption shall have been mailed as aforesaid and the conditions, if any, to such redemption have been satisfied or waived by the Authority, then, from and after the redemption date, interest on the Obligations or portion thereof so called for redemption shall cease to accrue and such Obligations shall no longer be considered to be Outstanding. If such moneys shall not be so available on the redemption date, such Obligations or portion thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

(Section 4.06)

Pledge of Revenues

The proceeds from the sale of any Obligations, the Revenues and except as otherwise provided by the Resolution, all funds and accounts established by the Resolution and by or pursuant to any Series Resolution, other than the Arbitrage Rebate Fund, are pledged and assigned to the Trustee as security for the payment of the principal and Redemption Price of and interest on the Obligations and as security for the performance of any other obligation of the Authority under the Resolution and each Series Resolution all in accordance with the provisions of the Obligations and the Resolution. Such pledge is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of any Obligations, the Revenues and all funds and accounts established by the Resolution and by any 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 Obligations shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of any Obligations, the Revenues and all funds and accounts established by the Resolution and by any Series Resolution, which pledge shall constitute a first lien thereon, subject only to the prior liens theron granted by the Prior Resolutions or the Prior Agreements.

Notwithstanding anything to the contrary contained in the Resolution, the Authority may incur obligations or indebtedness to any person providing a Credit Facility or Liquidity Facility which are payable from the Revenues on a parity with the Obligations and which are secured by a lien and pledge of the Revenues equal to the lien and pledge made by the Resolution, without preference, priority or distinction over the rights of the Holders of the Obligations.

(Section 5.01)

Establishment of Funds and Accounts

The following funds and separate accounts within funds are established by the Resolution and shall be held and maintained by the Trustee, except that the Construction Fund shall be held and maintained by the Authority:

Construction Fund;

Debt Service Fund; and

Arbitrage Rebate Fund.

All moneys at any time deposited in any fund created by the Resolution or any Series Resolution or required by either to be created shall be held in trust for the benefit of the Holders of Obligations, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided in the Resolution. However, the proceeds derived from the remarketing of Option Obligations tendered or deemed to have been tendered for purchase or redemption in accordance with the Series Resolution authorizing the issuance of such Obligations or the applicable Series Certificate or derived from a Liquidity Facility relating to such Obligations, and any fund or account established by or pursuant to such Series Resolution for the payment of the purchase price or Redemption Price of Option Obligations so tendered or deemed to have been tendered, shall not be held in trust for the benefit of the Holders of Obligations other than such Option Obligations and are pledged thereby for the payment of the purchase price or Redemption Price of such Option Obligations.

(Section 5.02)

Application of Money in the Construction Fund

Upon the filing in the office of the Authority of a certificate signed by an Authorized Officer of the Authority stating the completion of the Project, or upon the filing in the offices of the Authority of a certificate signed by an Authorized Officer of the Authority which states that the moneys then remaining in the Construction Fund exceeds the amount necessary to complete the Project, any money then remaining in the Construction Fund, after making provision for the payment of any Costs of Issuance and Costs of the Project then unpaid shall be applied by the Trustee in the following order of priority:

First: To the Arbitrage Rebate Fund, the amount determined by the Authority to be required to be deposited therein; and

Second: To the Debt Service Fund for application in accordance with the Resolution, any balance remaining.

(Section 5.04)

Deposit of Revenues and Allocation Thereof

The Revenues paid to the Trustee shall upon receipt be deposited or paid by the Trustee in the following order of priority:

First: To the credit of the Debt Service Fund

(i) in the case of Revenues received during the period from the beginning of each Bond Year until December 31 thereof, the amount, if any, necessary to make the amount on deposit in the Debt Service

Fund equal to the sum of (A) the principal and Sinking Fund Installments of Outstanding Obligations payable prior to the next succeeding July 1, (B) the interest payable on the next succeeding January 1 on Outstanding Obligations on which interest is payable semiannually on each July 1 and January 1, and (C) the amount of interest estimated by the Authority to be payable prior to the next succeeding July 1 on Variable Interest Rate Obligations on which interest is payable more frequently than semiannually; and

(ii) in the case of Revenues received thereafter and until the end of such Bond Year, the amount, if any, necessary to make the amount on deposit in the Debt Service Fund equal to the sum of (A) the principal and Sinking Fund Installments of Outstanding Obligations payable prior to the next succeeding January 1, (B) the interest payable on the next succeeding July 1 on Outstanding Obligations on which interest is payable semiannually on each July 1 and January 1 and (C) the amount of interest estimated to be payable prior to the next succeeding January 1 on Variable Interest Rate Obligations on which interest is payable more frequently than semiannually;

Second: To reimburse, pro rata, each Provider for Provider Payments which are then unpaid, in proportion to the respective Provider Payments then unpaid to such Provider;

Third: Upon the direction of an Authorized Officer of the Authority, to the Arbitrage Rebate Fund in the amount set forth in such direction; and

Fourth: To the Authority such amounts as are then due and owing to the Authority pursuant to the Agreement 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 Resolution and (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing or construction of one or more Projects, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Agreement in accordance with the terms thereof; but only upon receipt by the Trustee of a certificate signed by an Authorized Officer of the Authority, stating in reasonable detail the amounts then due and owing to the Authority pursuant to the Agreement and payable pursuant to the Resolution.

After making the foregoing payments, the balance, if any of the Revenues shall, upon the direction of an Authorized Officer of the Authority, be paid by the Trustee to the Authority for deposit to the credit of the Construction Fund or deposited by the Trustee to the credit of the Debt Service Fund for application in accordance with the Resolution, or to both, in the respective amounts set forth in the Resolution.

(Section 5.05)

Debt Service Fund

The Trustee shall on or before the Business Day preceding each interest payment date pay to itself and any other Paying Agent the amount of: (a) the interest due on all Outstanding Obligations on such interest payment date; and (b) the principal and Sinking Fund Installments due on all Outstanding Obligations on such interest payment date. The amount paid out shall continue to be subject to the pledge made by the Resolution and shall be held by the Trustee and Paying Agents subject to such pledge and applied to the payments due on such interest payment date to the Holders of Obligations.

The Authority may, at any time that is not later than forty-five days prior to the date on which a Sinking Fund Installment is payable, direct the Trustee to purchase, with moneys on deposit in the Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Term Bonds to be redeemed from such Sinking Fund Installment due on said date. Any Term Bonds so purchased shall be cancelled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so cancelled shall be credited against the Sinking Fund Installment due on such date provided that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

Moneys in the Debt Service Fund that:

(A) during the period from the beginning of each Bond Year until December 31 thereof, is in excess of the amount required to pay the sum of (i) the principal and Sinking Fund Installments payable prior to the next succeeding July 1, (ii) the interest payable on the next succeeding January 1 on Outstanding Obligations on which interest is payable semiannually on each July 1 and January 1, (iii) the amount of interest estimated by the Authority to be payable prior to the next succeeding July 1 on Variable Interest Rate Obligations on which interest is payable more frequently than semiannually and (v) the purchase price or Redemption Price, including accrued interest to the date of such purchase or redemption, payable on or prior to the next succeeding July 1 of Outstanding Obligations theretofore contracted to be purchased or called for redemption, or

(B) during the period from January 1 until the end of the Bond Year, is in excess of the amount required to pay the sum of (i) the principal and Sinking Fund Installments of Outstanding Obligations payable prior to the next succeeding January 1, (ii) the interest payable on the next succeeding July 1 on Outstanding Obligations on which interest is payable semiannually on each July 1 and January 1, (iii) the amount of interest estimated to be payable prior to the next succeeding January 1 on Variable Interest Rate Obligations on which interest is payable more frequently than semiannually and (v) the purchase price or Redemption Price, including accrued interest to the date of such purchase or redemption, payable on or prior to the next succeeding January 1 of Outstanding Obligations theretofore contracted to be purchased or called for redemption,

shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to the purchase of Outstanding Obligations of any Series at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Obligations are redeemable, plus accrued interest to such date, at such times, at such purchase prices and in such manner as an Authorized Officer of the Authority shall direct. If fifty (50) days prior to any interest payment date on which Obligations of any Series are subject to redemption the amount of such excess is $50,000.00 or more, the Trustee shall, to the extent such moneys are sufficient therefor, apply such moneys in accordance with the direction of an Authorized Officer of the Authority given pursuant to the Resolution to the redemption of Obligations as provided in the Resolution at the Redemption Prices specified in the applicable Series Resolution or Series Certificate.

(Section 5.06)

Arbitrage Rebate Fund

Notwithstanding any other provisions of Article V of the Resolution, money in the Construction Fund and the Building and Equipment Reserve Fund may be transferred to the Arbitrage Rebate Fund in accordance with the directions of an Authorized Officer of the Authority.

Moneys on deposit in the Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which an Authorized Officer of the Authority determines to be in excess of the amount required to be so rebated shall be deposited to any fund or account established under the Resolution in accordance with the written direction of such Authorized Officer.

(Section 5.08)

Application of Moneys in Certain Funds for Retirement of Obligations

Notwithstanding any other provisions of the Resolution, if at any time the amounts held in the Debt Service Fund are sufficient to pay the principal or Redemption Price of all Outstanding Obligations and the interest accrued and to accrue on such Obligations to the next date of redemption when all such Obligations are redeemable, or to make provisions pursuant to the Resolution for payment of such Outstanding Obligations at the maturity or redemption dates thereof, the Authority may direct the Trustee to proceed to redeem such Outstanding Obligations in the manner provided for redemption of such Obligations by the Resolution and by each Series Resolution or give the Trustee irrevocable instructions in accordance with the Resolution and make provision for payment of the Outstanding Obligations at the maturity or redemption dates thereof.

(Section 5.09)

Transfer of Investments

Whenever moneys in any fund or account established by the Resolution or by any Series Resolution are to be paid in accordance with the Resolution or any Series Resolution to another such fund or account, such payment may be made, in whole or in part, by transferring to such other fund or account investments held as part of the fund or account from which such payment is to be made, whose value, together with the moneys, if any, to be transferred, is at least equal to the amount of the payment then to he made, provided, however, that no such transfer of investments would result in a violation of any investment standard or restriction applicable to moneys in such fund.

(Section 5.10)

Security for Deposits

All moneys held under the Resolution by the Trustee shall be continuously and fully secured, for the benefit of the Authority and the Holders of the Obligations, by direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America of a market value equal at all times to the amount of the deposit so held by the Trustee; provided, however, (a) that if the securing of such moneys is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or Federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds, and (b) that it shall not be necessary for the Trustee or any Paying Agent to give security for the deposit of any moneys with them pursuant to the Resolution and held in trust for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on any Obligations, or for the Trustee to give security for any moneys which shall be represented by obligations purchased or other investments made under the provisions of the Resolution as an investment of such moneys.

(Section 6.01)

Investment of Funds and Accounts

Moneys held under the Resolution in any fund or account established thereby or by a Series Resolution, if permitted by law, shall, as nearly as may be practicable, be invested in Government Obligations, Federal Agency Obligations, Exempt Obligations, and, if not inconsistent with the investment guidelines of a Rating Service applicable to funds held pursuant to the 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 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.

Permitted Investments purchased or other investments made as an investment of moneys in any fund or account held under the provisions of the Resolution shall be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof shall be retained in, credited or charged, as the case may be, such fund or account.

In computing the amount in any fund or account held by the Trustee under the Resolution, each Permitted Investment shall be valued at the market value thereof, plus accrued interest.

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

(Section 6.02)

Payment of Principal and Interest

The Authority shall pay or cause to be paid the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on every Obligation of each Series on the date and at the places and in the manner provided in the Obligations according to the true intent and meaning thereof.

(Section 7.01)

Powers as to Obligations and Pledge

The Authority is duly authorized under the Act and all applicable laws to create and issue the Obligations, to adopt the Resolution and each Series Resolution and to pledge and assign the proceeds from the sale of any Obligations, the Revenues and all funds and accounts established by the Resolution and by any Series Resolution which are pledged by the Resolution, in the manner and to the extent provided in the Resolution and therein. The Authority further covenants that the proceeds from the sale of any Obligations, the Revenues and all funds and accounts established by the Resolution and by any Series Resolution which are pledged by the Resolution are and shall he free and clear of any pledge, lien, charge or encumbrance that is prior to or of equal rank with the pledge created by the Resolution and each Series Resolution, except for any pledge of or lien upon the Revenues made to or created for the benefit of a Provider or Counterparty, and that all corporate action on the part of the Authority to that end has been duly and validly taken. The Authority further covenants that the Obligations and the provisions of the Resolution and of each Series Resolution are and shall be the valid and legally enforceable obligations of the Authority in accordance with their terms and the terms by the Resolution and of each Series Resolution. The Authority further covenants that it shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the proceeds of the sale of any Obligations, the Revenues and all funds and accounts established under the Resolution or by any Series Resolution which are pledged by the Resolution and all of the rights of the Holders of Obligations under the Resolution and under each Series Resolution against all claims and demands of all persons whomsoever.

(Section 7.03)

Accounts and Audits

The Authority shall keep proper books of records and accounts (separate from all other records and accounts), which may be kept on behalf of the Authority by the Trustee, in which complete and correct entries shall be made of its transactions relating to each Series of Obligations, which books and accounts, at reasonable hours and subject to the reasonable rules and regulations of the Authority, shall be subject to the inspection of the State University, the Trustee or of any Holder of an Obligation or his representative duly authorized in writing.

(Section 7.05)

Creation of Liens

The Authority shall not create or cause to be created any lien or charge prior or equal to that of the Obligations on the proceeds from the sale of any Obligations, the Revenues or the funds and accounts established by the Resolution or any Series Resolution which are pledged by the Resolution; provided, however, that nothing contained in the Resolution shall prevent the Authority from (i) issuing bonds, notes or other obligations under another and separate resolution so long as the charge or lien created by such resolution is not prior or equal to the charge or lien created by the Resolution, and (ii) incurring obligations or indebtedness to a Provider or a Counterparty which are secured by a lien on and pledge of the Revenues which are equal to the lien and pledge thereon made by the Resolution, provided further, that nothing contained herein shall prevent the Authority from issuing bonds, notes or other obligations under the Prior Resolutions.

(Section 7.06)

Enforcement of Duties and Obligations

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

(Section 7.07)

Offices for Payment and Registration of Obligations

The Authority shall at all times maintain an office or agency in the State where Obligations may be presented for payment, registration, transfer or exchange. The Trustee is appointed as its agent to maintain such office or agency. The Authority may, pursuant to a Supplemental Resolution or a Series Resolution or pursuant to a resolution adopted in accordance with the Resolution, designate an additional Paying Agent or Paying Agents where Obligations of the Series authorized thereby or referred to therein may be presented for payment.

(Section 7.09)

Amendment of Agreement

The Agreement may, without the consent of the Holders of Obligations, be amended, changed, modified or supplemented for any one or more of the following purposes:

(i) to add an additional covenant or agreement for the purpose of further securing the payment of the State University's obligations thereunder that is not contrary to or inconsistent with the other covenants and agreements of the State University in the Agreement;

(ii) to surrender any right, power or privilege reserved to or conferred upon the State University, if surrender of such right, power or privilege is not contrary to or inconsistent with the other covenants and agreements of the State University contained in the Agreement;

(iii) to make changes necessary or appropriate in connection with the acquisition, construction, reconstruction, rehabilitation and improvement, or otherwise providing, furnishing and equipping of any Project, to amend the description of any Project or to add or delete a Project;

(iv) to establish, amend or modify any fees payable to the Authority by the State University in connection with any Project or Obligations; or

(v) with the prior written consent of the Trustee and each Credit Facility Provider, to cure any ambiguity, or to correct or supplement any provisions contained in the Agreement which may be defective or inconsistent with any other provisions contained in the Resolution or in the Agreement or to amend, modify or waive any other provision of the Agreement provided that the same does not adversely affect the interests of the Holders of Outstanding Obligations in any material respect.

Notwithstanding the foregoing, the Agreement may not be amended, changed modified or terminated nor may any provision thereof be waived, without the consent of the Holders of Outstanding Obligations as hereinafter provided, if such amendment, change, modification, termination or waiver (i) reduces the amount payable by the State University under the Agreement on any date or delays the date on which payment is to be made, (ii) modifies the events which constitute events of default under the Agreement, (iii) diminishes, limits or conditions the rights or remedies of the Authority upon the occurrence of an event of default thereunder, or (iv) adversely affects the rights of the Holders of Outstanding Obligations in any material respect.

No such amendment, change, modification, termination or waiver shall take effect unless the prior written consent of (a) the Holders of at least a majority in principal amount of the Obligations then Outstanding, or (b) in case less than all of the several Series of Obligations then Outstanding are affected by the amendment, change, modification, termination or waiver, the Holders of not less than a majority in principal amount of the Obligations of the Series so affected and then Outstanding; provided, however, that if such amendment, change, modification, termination or waiver will, by its terms, not take effect so long as any Obligations of any specified Series and maturity remain Outstanding, the consent of the Holders of such Obligations shall not be required and such Obligations shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Obligations under this Section.

For the purposes of this Section, the purchasers of the Obligations of a Series, whether purchasing in connection with a primary offering or a reoffering of Obligations or as underwriters, for resale or otherwise, upon such purchase, may consent to an amendment, change, modification, alteration or termination permitted by this Section in the manner provided in the Resolution, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Obligations; provided, however, that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the amendment, change, modification, alteration or termination and the provisions for the purchaser consenting thereto shall be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering or the reoffering of the Obligations of such Series.

For the purposes of this Section, a Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of the Agreement if the same adversely affects or diminishes the rights of the Holders of the Obligations of such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Obligations of any particular Series would be adversely affected in any material respect by any amendment, change, modification or alteration, and any such determination shall he binding and conclusive on the State University, the Authority and all Holders of Obligations.

For all purposes of this Section, the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee, with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Obligations then Outstanding in any material respect.

(Section 7.10)

Notice as to Event of Default under Agreement

The Authority shall notify the Trustee in writing that the State University is in default under the Agreement, which default is continuing, which notice shall be given within five days after the Authority has obtained actual knowledge thereof.

(Section 7.11)

Modification and Amendment Without Consent

The Authority may adopt at any time or from time to time Series Resolutions or Supplemental Resolutions for any one or more of the following purposes:

(a) to provide for the issuance of a Series of Obligations pursuant to the provisions of the Resolution and to prescribe the terms and conditions pursuant to which such Obligations may be issued, paid or redeemed;

(b) to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Obligations, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(c) to prescribe further limitations and restrictions upon the issuance of Obligations and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(d) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(e) to confirm, as further assurance, any pledge under the Resolution, and the subjection to any lien, claim or pledge created or to be created by the provisions of the Resolution, of the Revenues, or any pledge of any other moneys, investments thereof or funds;

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

(g) to modify the provisions of the Resolution concerning investment of funds in any respect, provided that such modification shall not permit the investment of moneys in the Debt Service Fund in any manner inconsistent with the provisions of the Resolution and shall not result in the reduction by a Rating Service of the ratings assigned thereby to any of the Outstanding Obligations; or

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

(Section 9.01)

Supplemental Resolutions Effective With Consent of Holders of Obligations

The provisions of the Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of the Holders of Obligations in accordance with and subject to the provisions of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority.

(Section 9.02)

General Provisions Relating to Series Resolutions and Supplemental Resolutions

The Resolution shall not be modified or amended in any respect except in accordance with and subject to the provisions of the Resolution. Nothing contained in the Resolution shall affect or limit the rights or obligations of the Authority to adopt, make, do, execute or deliver any resolution, act or other instrument pursuant to the provisions of the Resolution or the right or obligation of the Authority to execute and deliver to the Trustee or any Paying Agent any instrument provided in the Resolution or permitted to be delivered to the Trustee or any Paying Agent.

A copy of every Series Resolution and Supplemental Resolution adopted by the Authority, when filed with the Trustee, shall be accompanied by an opinion of Bond Counsel stating that such Series Resolution or Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution and is valid and binding upon the Authority and enforceable in accordance with its terms. The Trustee shall transmit a copy of such Supplemental Resolution to the State University and to each Provider upon its becoming effective.

The Trustee is authorized to accept delivery of a certified copy of any Series Resolution or Supplemental Resolution permitted or authorized pursuant to the provisions of the Resolution and to make all further agreements and stipulations which may be contained therein, and, in taking such action, the Trustee shall be fully protected in relying on the opinion of Bond Counsel that such Series Resolution or Supplemental Resolution is authorized or permitted by the provisions of the Resolution.

No Series Resolution or Supplemental Resolution, changing, amending or modifying any of the rights or obligations of the Trustee, a Paying Agent or a Provider shall become effective without the written consent of the Trustee, the Paying Agent or Provider affected thereby.

(Section 9.03)

Powers of Amendment

Any modification or amendment of the Resolution and of the rights and obligations of the Authority and of the Holders of the Obligations under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the Resolution, (i) of the Holders of at least a majority in principal amount of the Obligations Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Obligations then Outstanding are affected by the modification or amendment, of the Holders of at least a majority in principal amount of the Obligations of each Series so affected and Outstanding at the time such consent is given, or (iii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least a majority in principal amount of the Obligations of the particular Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Obligations of any specified like Series, maturity and tenor remain Outstanding, the consent of the Holders of such Obligations shall not be required and such Obligations shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Obligations under the Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Obligation 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 Obligation, or shall reduce the percentages or otherwise affect the classes of Obligations the consent of the Holders of which is required to effect any such modification or amendment.

(Section 10.01)

Consent of Holders of Obligations

The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of the Resolution to take effect when and as provided in the Resolution. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request to the Holders of Obligations for their consent thereto in form satisfactory to the Trustee, shall promptly after adoption be mailed by the Authority to the Holders of Obligations (but failure to mail such copy and request to any particular Holder shall not affect the validity of the Supplemental Resolution when consented to as in the Resolution provided). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consents of the Holders of the percentages of Outstanding Obligations specified in the Resolution and (b) an opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms, and (ii) a notice shall have been mailed as provided in the Resolution. At any time after the Holders of the required percentages of Obligations shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the Authority and the Trustee a written statement that the Holders of such required percentages of Obligations have filed such consents.

A Supplemental Resolution making an amendment or modification requiring the consent of the Holders of Outstanding Obligations shall be deemed conclusively binding upon the Authority, the Trustee, each Paying Agent and the Holders of all Obligations upon the filing with the Trustee of proof of the mailing of a notice that the Supplemental Resolution has been consented to by the Holders of the required percentage of Outstanding Obligations or at the expiration of thirty (30) days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, if such notice is published, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such 30 day period. However, that the Authority, the Trustee and any Paying Agent during such 30 day period and any such further period during which any such action or proceeding may be pending shall be entitled in their reasonable discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

The purchasers of the Obligations of a Series, whether purchasing in connection with a primary offering or a reoffering of Obligations or as underwriters, for resale or otherwise, upon such purchase, may consent to a modification or amendment permitted by Section 10.01 or 10.03 of the Resolution in the manner provided in the Resolution, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Obligations; provided, however, that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering or the reoffering of the Obligations of such Series.

(Section 10.02)

Modifications by Unanimous Consent

The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Holders of the Obligations may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of a Supplemental Resolution certified by an Authorized Officer of the Authority and the consent of the Holders of all of the Obligations then Outstanding, such consent to be given as provided in Section 10.02 of the Resolution, except that no notice to Holders of Obligations either by mailing or publication shall be required.

(Section 10.03)

Events of Default

An event of default under the Resolution shall exist if:

(a) payment of the principal, Sinking Fund Installments or Redemption Price of any Obligation is not made when due; or

(b) payment of an installment of interest on any Obligation is not made when due; or

(c) with respect to the Obligations of any Series, the Authority defaults in the due and punctual performance of the covenants contained in the Series Resolution authorizing the issuance thereof to the effect that the Authority shall comply with the provisions of the Code applicable to such Obligations necessary to maintain the exclusion of interest therein from gross income under Section 103 of the Code and shall not take any action which would adversely affect the exclusion of interest on such Bonds from gross income under Section 103 of the Code and, as a result thereof the interest on the Obligations of a Series shall no longer be excluded from gross income under Section 103 of the Code; or

(d) the Authority defaults in the due and punctual performance of any of the other covenants, conditions, agreements and provisions contained in the Obligations or in the Resolution or in any Series Resolution on the part of the Authority to be performed and such default shall continue for 30 days after written notice specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than 25% in principal amount of the Outstanding Obligations, or if such default is not capable of being cured within 30 days, if the Authority fails to commence within said 30 days and diligently prosecute the cure therof.

(Section 11.02)

Acceleration of Maturity

Upon the happening and continuance of any event of default, other than a default as a result of which the interest on the Obligations of a Series shall no longer be excluded from gross income under Section 103 of the Code, the Trustee may, and upon the written request of the Holders of not less than 25% in principal amount of the Outstanding Obligations shall, by a notice in writing to the Authority, declare the principal of all of the Outstanding Obligations and the interest accrued thereon to be due and payable immediately. At the expiration of 30 days from the giving of notice of such declaration, such principal and interest shall become and be immediately due and payable. If all defaults shall have been remedied to the satisfaction of the Trustee with the written consent of the Holders of not less than 25% in principal amount of the Obligations 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 Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Outstanding Obligations (except the interest accrued on such Obligations since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under each Series Resolution (other than principal amounts payable only because of a declaration and acceleration under the Resolution) shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Obligations or in the Resolution (other than a default in the payment of the principal of such Obligations then due only because of a declaration made pursuant to 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 to such default.

(Section 11.03)

Enforcement of Remedies

Upon the happening and continuance of any event of default the Trustee may proceed, and upon the written request of the Holders of not less than 25% in principal amount of the Outstanding Obligations or, in the case of a default resulting from a failure to observe the covenant to maintain the exclusion from gross income of interest on the Obligations of a particular Series, the written request of the Holders of not less than 25% in principal amount of the Outstanding Obligations of the Series affected thereby, shall proceed (subject to the provisions of the Resolution concerning indemnity of the Trustee), to protect and enforce its rights and the rights of the Holders of the Obligations under the laws of the State or under the Resolution by such suits, actions or special proceedings in equity or at law, as the Trustee shall deem most effectual to protect and enforce such rights.

(Section 11.04)

Priority of Payments After Default

If at any time the moneys held by the Trustee under the Resolution and under each Series Resolution is not sufficient to pay the principal of and interest on the Obligations as it becomes due and payable (either by their terms or by acceleration of maturity), such moneys together with any moneys then available or thereafter becoming available for such purpose, whether through exercise of the remedies provided for in this Resolution or otherwise, shall be applied (after payment of all amounts owing to the Trustee under the Resolution) as follows:

(a) Unless the principal of all the Obligations shall have become or has been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference;

Second: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Obligations which shall have become due whether at maturity or by call for redemption in the order of their due dates and, if the amount available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amount of principal, Sinking Fund Installments or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference; and

Third: To the payment of the interest on and the principal or Redemption Price of the Bonds and Sinking Fund Installments as the same become due and payable.

(b) If the principal of all of the Obligations shall have become or been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in the Obligations.

Whenever moneys are to be applied by the Trustee pursuant to the foregoing provisions, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for application in accordance with the provisions of this Section shall constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Authority, to any Holder of Obligations or to any other person for any delay in applying any such moneys so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be on an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any Obligation unless such Obligation shall be presented to the Trustee for appropriate endorsement.

(Section 11.05)

Termination of Proceedings

In case any proceedings commenced by the Trustee on account of any default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee, each Provider and the Holders of Obligations shall be restored to their former positions and rights under the Resolution, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been commenced.

(Section 11.06)

Holders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Holders of a majority in principal amount of the Outstanding Obligations, or, in the case of a default resulting from a failure to observe a covenant to maintain the exclusion from gross income of interest on the Obligations of a particular Series, the Holders of a majority in principal amount of Outstanding Obligations of the Series affected thereby, shall have the right, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Holders of Obligations not parties to such direction.

(Section 11.07)

Limitation of Rights of Individual Holders of Obligations

No Holder of any of the Obligations shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution, or for any other remedy under the Resolution unless such Holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than 25% in principal amount of the Outstanding Obligations, or, in the case of a default resulting from a failure to observe a covenant to maintain the exclusion from gross income of interest on the Obligations of a particular Series, the Holders of not less than 25% in principal amount of the Outstanding Obligations of the Series affected thereby, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

(Section 11.08)

Defeasance

If the Authority, shall pay or cause to be paid to the Holders of the Obligations of a Series the principal, Sinking Fund Installments, if any, or Redemption Price of and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the applicable Series Resolution and the applicable Series Certificate, then the pledge of the Revenues or other moneys and securities pledged to such Series of Obligations and all other rights granted to such Series of Obligations shall be discharged and satisfied. In such event, all moneys or securities held by it pursuant to the Resolution and to the applicable Series Resolution which are not required for the payment or redemption of Obligations of such Series not theretofore surrendered for such payment or redemption shall be paid or delivered by the Trustee paid or delivered by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Provider, the Provider Payments which have not been repaid, pro rata, based upon the respective

Provider Payments then unpaid to each Provider; third, to the Authority free from any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Agreement.

Obligations for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the paragraph above. All Outstanding Obligations of any Series or any Sub-Series or maturity within a Series or Sub-Series or a portion of a maturity within a Series or Sub—Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the paragraph above if (a) in case any of said Obligations are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give as provided in the Resolution notice of redemption on said date of such Obligations, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide moneys which, 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 Obligations on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Obligations are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in an Authorized Newspaper a notice to the Holders of such Obligations that the deposit described in (b) above has been made with the Trustee and that said Obligations are deemed to have been paid in accordance with the Resolution and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Obligations. Neither Defeasance Securities nor moneys deposited with the Trustee pursuant to the Resolution nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Obligations: provided, however, 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 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 said Obligations on and prior to such redemption date or maturity date thereof, as the case may be; and, provided further that Defeasance Securities may be withdrawn and used by the Authority for any purpose upon (i) the simultaneous substitution therefore of either moneys an amount which shall be sufficient or Defeasance Securities the principal of and interest on which when due will provide moneys which, together with the moneys, if any, held by or deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Obligations on and prior to the redemption date or maturity date thereof, as the case may be, and (ii) receipt by the Trustee of a letter or other written report of a Verification Agent verifying the accuracy of the arithmetical computations which establish the adequacy of such moneys and Defeasance Securities for such purpose. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Obligations, as realized, be paid by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Provider, the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then unpaid to each Provider; third, to the Authority free from any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Agreement.

For purposes of determining whether Variable Interest Rate Obligations shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Securities and moneys, if any, in accordance with the Resolution, the interest to come due on such Variable Interest Rate Obligations on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated either at the Maximum Interest Rate permitted by the terms thereof or the actual rate at which such Obligations will bear interest to the their respective maturity or redemption dates; provided, however, that if on any date, as a result of such Variable Interest Rate Obligations having borne interest at less than such Maximum Interest Rate for any period, the total amount of moneys and Defeasance Securities on deposit with the Trustee for the payment of interest on such Variable Interest Rate Obligations is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Interest Rate Obligations in order to satisfy the Resolution, the Trustee shall, if requested by the Authority, pay the amount of such excess to the Authority free and clear of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Agreement.

Option Obligations shall be deemed to have been paid in accordance with the Resolution only if, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Obligations which could become payable to the Holders of such Obligations upon the exercise of any options provided to the Holders of such Obligations; provided, however, that if, at the time a deposit is made with the Trustee pursuant to the Resolution, the options originally exercisable by the Holder of an Option Obligation are no longer exercisable, such Obligation shall not be considered an Option Obligation for purposes of the Resolution. If any portion of the moneys deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Obligations is not required for such purpose, the Trustee shall, if requested by the Authority, pay the amount of such excess to the Authority free and clear of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Agreement.

Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or a Paying Agent in trust for the payment and discharge of any of the Obligations which remain unclaimed for one year after the date when such Obligations 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 year after the date of deposit of such moneys if deposited with the Trustee or Paying Agent after said date when such Obligations become due and payable, shall, at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent shall thereupon be released and discharged with respect thereto and the Holders of Obligations shall look only to the Authority for the payment of such Obligations; provided, however, that, before being required to make any such payment to the Authority, the Trustee 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 30 nor more than 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)

No Recourse under Resolution or on the Obligations

All covenants, stipulations, promises, agreements and Obligations of the Authority contained in the Resolution shall be deemed to be the covenants, stipulations, promises, agreements and Obligations of the Authority and not of any member, officer or employee of the Authority in his individual capacity. No recourse shall be had for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on the Obligations or for any claims based thereon or on the Resolution against any member, officer or employee of the Authority or the State University or any person executing the Obligations, all such liability, if any, being expressly waived and released by every Holder of Obligations by the acceptance of the Obligations.

(Section 14.04)

Certain Provisions Relating to Capital Appreciation Obligations and Deferred Income Obligations

For the purposes of (i) receiving payment of the Redemption Price if a capital Appreciation Obligation is redeemed prior to maturity, (ii) receiving payment of a Capital Appreciation Obligation if the principal of all Obligations is declared immediately due and payable following an event of default or (iii) computing the principal amount of Obligations held by the registered owner of a Capital Appreciation Obligation in giving to the Authority or the Trustee any notice, consent, request, or demand pursuant hereto for any purpose whatsoever, the then current Accreted Value of such Obligation shall be deemed to be its principal amount. Notwithstanding any other provision of the Resolution, the amount payable at any time with respect to the principal of and interest on any Capital Appreciation Bond shall not exceed the Accreted Value thereof at such time. For purposes of receiving payment of the Redemption Price or principal of a Capital Appreciation Bond called for redemption prior to maturity or the principal of which has been declared to be immediately due and payable pursuant to the Resolution, the difference between the Accreted Value of such Bond when the Redemption Price or principal thereof is due upon such redemption or declaration and the principal of such Bond on the date the Bonds of the Series of which it is a part were first issued shall be deemed not to be accrued and unpaid interest thereon.

For the purposes of (i) receiving payment of the Redemption Price if a Deferred Income Obligation is redeemed, or (ii) receiving payment of a Deferred Income Obligation if the principal of all Obligations is declared immediately due and payable following an event of default or (iii) computing the principal amount of Obligations held by the registered owner of a Deferred Income Obligation in giving to the Authority or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the then current Appreciated Value of such Obligation shall be deemed to be its principal amount. Notwithstanding any other provision of the Resolution, the amount payable at any time prior to the Interest Commencement Date with respect to the principal of and interest on any Deferred Income Bond shall not exceed the Appreciated Value thereof at such time. For purposes of receiving payment prior to the Interest Commencement Date of the Redemption Price or principal of a Deferred Income Bond called for redemption prior to maturity or the principal of which has been declared to be immediately due and payable pursuant to the Resolution, the difference between the Appreciated Value of such Bond when the Redemption Price or principal thereof is due upon such redemption or declaration and the principal of such Bond on the date the Bonds were first issued shall be deemed not to be accrued and unpaid interest thereon.

(Section 14.07)

Credit Facility Provider as Holder

If provided in or authorized by the Series Resolution authorizing issuance of a Series of Obligations, the Authority may provide for the rights of the Provider of a Credit Facility in connection with Obligations of such Series, which rights may include that, whenever by the terms of the Resolution the Holders of any percentage in principal amount of Outstanding Obligations may exercise any right or power, consent to any amendment, change, modification or waiver, or request or direct the Trustee to take an action, such Provider may be deemed to be the Holder of such Obligations.

(Section 14.09)

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FORM OF APPROVING OPINION
OF BOND COUNSEL

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FORM OF APPROVING OPINION OF BOND COUNSEL

March __, 2005

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We have acted as Bond Counsel to 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"), in connection with the issuance and sale by the Authority of its $44,900,000 Upstate Community Colleges Revenue Bonds, Series 2005A (the "Series 2005A Bonds") and $29,855,000 Upstate Community Colleges Revenue Bonds, Series 2005B (the "Series 2005B Bonds" and together with the Series 2005A Bonds, collectively, the "Series 2005 Bonds"). The Series 2005 Bonds are being issued and sold pursuant to the Dormitory Authority Act constituting Chapter 524 of The Laws of 1944 of New York and codified as Title 4 of Article 8 of the New York Public Authorities Law, as amended to the date hereof (the "Act"), the Upstate Community Colleges Revenue Bond Resolution, adopted by the Authority on January 26, 2005 (the "Resolution"), the Upstate Community Colleges Series 2005A Resolution Authorizing Series 2005A Bonds, adopted January 26, 2005 (the "Series 2005A Resolution") and the Upstate Community Colleges Series 2005B Resolution Authorizing Series 2005B Bonds, adopted January 26, 2005 (the "Series 2005B Resolution" and collectively with the Series 2005A Resolution, the "Series Resolutions"). The Series Resolutions, individually and in the aggregate, authorize the issuance of up to $200,000,000 of Series 2005 Bonds. The Resolution and the Series Resolutions are herein collectively referred to as the "Resolutions." Defined terms used herein and not otherwise defined shall have the meanings assigned thereto in the Resolutions.

Interest on the Series 2005 Bonds is to be payable semiannually on January 1 and July 1 of each year commencing July 1, 2005. The Series 2005 Bonds are to mature on the date and in the year and amounts, bear interest at the rates and are subject to redemption prior to maturity, as set forth in the Series Certificates executed and delivered pursuant to the Resolutions.

The Series 2005 Bonds are being issued (i) to refund certain outstanding bonds issued pursuant to the Prior Resolutions on behalf of Community Colleges and (ii) to pay certain Costs of Issuance of the Series 2005 Bonds. The Series 2005 Bonds are part of an issue of bonds and notes of the Authority (the "Obligations") which the Authority has established and created under the terms of the Resolutions and is authorized to issue from time to time for the purposes authorized by the Act and the Resolutions, as then in effect, and without limitation as to amount except as provided in the Resolutions or as may be limited by law. The Series 2005 Bonds are payable, subject to redemption prior to maturity, exchangeable, transferable and secured upon such terms and conditions as are contained in the Resolutions.

The principal and Redemption Price of and interest on the Series 2005 Bonds are payable from the amounts to be appropriated each year by the State pursuant to the State Education Law in an amount equal to the State University of New York's (the "State University") obligations to make payments on account of the principal and Redemption Price of and interest on the Series 2005 Bonds pursuant to an agreement between the Authority and the State University (the "Agreement") wherein the State University assigns to the Authority the State University's interest in those appropriations. All amounts payable under the Agreement, except for amounts to be paid to the Authority or U.S. Bank Trust National Association, as trustee under the Resolutions, for the administrative costs, expenses and fees of either of them or amounts payable to either of them pursuant to indemnities, have been pledged by the Authority for the benefit of the holders of the Obligations.

We have examined a record of proceedings of the Authority in connection with the authorization and issuance of the Series 2005 Bonds and have made such investigation of law and such further review, inquiry or examinations as we have deemed necessary or desirable in rendering the opinions set forth herein.

We are of the opinion that:

l. 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 Series 2005 Bonds thereunder.

2. Each of the Series 2005 Resolutions has been duly and lawfully adopted in accordance with the provisions of the Resolution and is authorized and permitted thereby. The Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are the legal, valid and binding obligations of the Authority enforceable in accordance with their terms.

3. The Series 2005 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 2005 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 benefits of the Resolutions and the Act.

4. The Authority has the right and lawful authority and power to enter into the Agreement, and the Agreement has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

5. The Internal Revenue Code of 1986, as amended (the “Code”), prescribes a number of qualifications and conditions for the interest on state and local obligations to be and to remain excluded from gross income for federal income purposes, some of which, including provisions for potential payments by the Authority to the federal government, require future or continued compliance after issuance of the Series 2005 Bonds in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with these requirements by the Authority or any of the Community Colleges may cause the interest on the Series 2005 Bonds to be included in gross income for federal income tax purposes and thus to be subject to federal income tax retroactively to the date of their issuance. The Authority, in the Resolution, and the Community Colleges have each covenanted to comply with the requirements of the Code, and to take the actions required of it for the interest on the Series 2005 Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. In our opinion, under existing law and assuming compliance with the aforementioned covenants, (i) interest on the Series 2005 Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code and is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Series 2005 Bonds is exempt from personal income taxes imposed by the State of New York and political subdivisions thereof, including The City of New York and the City of Yonkers. However, we note that a portion of the interest on the Series 2005 Bonds earned by corporations may be subject to the federal alternative minimum tax, which is based in part on adjusted current earnings.

We are further of the opinion that the difference between the principal amount of the Series 2005A Bonds maturing on July 1, 2010 (“Discount Bonds”), and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount (“OID”). For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner’s gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above, as other interest on the Series 2005 Bonds, and (ii) is added to the owner’s tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bonds. A purchaser of a Discount Bond at its issue price in the initial public offering who holds that Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond. Initial purchasers of the Series 2005A Bonds maturing on July 1, 2011 through July 1, 2019, inclusive, and the Series 2005B Bonds maturing on July 1, 2020 through July 1, 2023, inclusive, whose initial adjusted basis in such Bonds exceeds the respective principal amount of such Bonds ("Premium Bonds") will have bond premium to the extent of that excess. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bonds (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield must be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership.

The opinions contained in paragraphs 2, 3, and 4 above are qualified to the extent that the enforceability of the Resolutions, the Series 2005 Bonds and the Agreement may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally or as to the availability of any particular remedy.

Except as stated in paragraph 5 above, we express no opinion as to the federal or state tax consequences of the ownership or disposition of the Series 2005 Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Series 2005 Bonds, or the interest thereon, if any action is taken with respect to the Series 2005 Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

In connection with the delivery of this opinion, we are not passing upon the authorization, execution and delivery of the Agreement by the State University or as to the accuracy, completeness or sufficiency of the Official Statement or other offering materials relating to the Series 2005 Bonds except to the extent, if any, stated in the Official Statement.

Very truly yours,

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INFORMATION RELATING TO REFUNDED BONDS

The Authority expects to refund the following Upstate Community Colleges bonds of the series specified below by providing for the payment of the principal of and interest thereon to the respective redemption dates set forth below. The refunding is contingent upon delivery of the Series 2005A Bonds, the Series 2005B Bonds and the Series 2005C Bonds.

Upstate Community Colleges Bonds Series 1994A

Maturity	Interest Rate	Original Par Amount	Refunded Amount	Redemption Date	Redemption Price
7/1/2023[T]	5.25%	$4,200,000	$4,200,000	4/8/2005	102%

Upstate Community Colleges Bonds Series 1997A

Maturity	Interest Rate	Original Par Amount	Refunded Par Amount	Redemption Date	Redemption Price
7/1/2006	5.50 %	$ 800,000	$ 800,000	7/1/2006	100%
7/1/2007	5.60	845,000	845,000	7/1/2007	100
7/1/2015[T]	5.875	2,565,000	2,565,000	7/1/2007	102

Upstate Community Colleges Bonds Series 1999A

Maturity	Interest Rate	Original Par Amount	Refunded Par Amount	Redemption Date	Redemption Price
7/1/2012	5.25%	$ 6,230,000	$ 2,255,000	7/1/2009	101%
7/1/2013	5.00	6,555,000	2,375,000	7/1/2009	101
7/1/2014	5.00	5,640,000	2,040,000	7/1/2009	101
7/1/2015	5.00	5,915,000	2,140,000	7/1/2009	101
7/1/2016	5.00	6,215,000	2,250,000	7/1/2009	101
7/1/2019[T]	5.00	20,580,000	7,460,000	7/1/2009	101
7/1/2028[T]	5.00	73,595,000	26,655,000	7/1/2009	101

Upstate Community Colleges Bonds Series 2000A

Maturity	Interest Rate	Original Par Amount	Refunded Par Amount	Redemption Date	Redemption Price
7/1/2013	5.25 %	$ 910,000	$ 910,000	7/1/2010	101%
7/1/2014	5.375	950,000	950,000	7/1/2010	101
7/1/2015	6.00	1,010,000	1,010,000	7/1/2010	101
7/1/2016	6.00	1,070,000	1,070,000	7/1/2010	101
7/1/2017	6.00	1,135,000	1,135,000	7/1/2010	101
7/1/2018	6.00	1,200,000	1,200,000	7/1/2010	101
7/1/2019	6.00	1,270,000	1,270,000	7/1/2010	101
7/1/2020	6.00	1,345,000	1,345,000	7/1/2010	101
7/1/2029[T]	5.75	16,265,000	16,265,000	7/1/2010	101

T = Term Bond, final maturity

Upstate Community Colleges Bonds Series 2001A

Maturity	Interest Rate	Original Par Amount	Refunded Par Amount	Redemption Date	Redemption Price
7/1/2005	4.00 %	$ 635,000	$ 635,000	7/1/2005	100%
7/1/2006	4.00	665,000	665,000	7/1/2006	100
7/1/2007	4.00	690,000	690,000	7/1/2007	100
7/1/2008	4.00	715,000	715,000	7/1/2008	100
7/1/2013	5.00	905,000	905,000	7/1/2010	101
7/1/2014	5.00	950,000	950,000	7/1/2010	101
7/1/2015	5.00	1,000,000	1,000,000	7/1/2010	101
7/1/2016	5.00	1,050,000	1,050,000	7/1/2010	101
7/1/2017	5.00	1,100,000	1,100,000	7/1/2010	101
7/1/2018	5.00	1,155,000	1,155,000	7/1/2010	101
7/1/2019	5.00	1,215,000	1,215,000	7/1/2010	101
7/1/2020	5.00	1,275,000	1,275,000	7/1/2010	101
7/1/2021	5.00	1,340,000	1,340,000	7/1/2010	101
7/1/2022	5.00	1,405,000	1,405,000	7/1/2010	101
7/1/2023	5.00	1,475,000	1,475,000	7/1/2010	101
7/1/2025	5.00	1,625,000	1,625,000	7/1/2010	101
7/1/2027[T]	5.00	3,505,000	3,505,000	7/1/2010	101
7/1/2030[T]	5.125	5,945,000	5,945,000	7/1/2010	101

Upstate Community Colleges Bonds Series 2002A

Maturity	Interest Rate	Original Par Amount	Refunded Par Amount	Redemption Date	Redemption Price
7/1/2005	4.00%	$ 650,000	$ 650,000	7/1/2005	100%
7/1/2006	4.00	680,000	680,000	7/1/2006	100
7/1/2007	4.00	705,000	705,000	7/1/2007	100
7/1/2008	4.00	735,000	735,000	7/1/2008	100
7/1/2016	5.00	1,015,000	1,015,000	7/1/2011	101
7/1/2017	5.00	1,070,000	1,070,000	7/1/2011	101
7/1/2018	5.00	1,120,000	1,120,000	7/1/2011	101
7/1/2019	5.00	1,175,000	1,175,000	7/1/2011	101
7/1/2020	5.00	1,235,000	1,235,000	7/1/2011	101
7/1/2021	5.00	1,300,000	1,300,000	7/1/2011	101
7/1/2022	5.00	1,360,000	1,360,000	7/1/2011	101
7/1/2023	5.00	1,430,000	1,430,000	7/1/2011	101
7/1/2031[T]	5.00	7,865,000	7,865,000	7/1/2011	101

T = Term Bond, final maturity

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory New York State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

The insurance provided by this Policy is not covered by the New York Property/Casualty Insurance Security Fund (New York Insurance Code, Article 76).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory New York State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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DORMITORY AUTHORITY OF THE STATE OF NEW YORK • UPSTATE COMMUNITY COLLEGES REVENUE BONDS, SERIES 2005A AND SERIES 2005B

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