



Debt Affordability Study

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New York State
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Section

1

Executive Summary

The ability of New York State to issue debt has enhanced the quality of life for each New Yorker. The infrastructure we take for granted—roads and bridges, hospitals and universities, housing and mass transit—is made possible through the issuance of debt. What has proven detrimental to every New Yorker, however, is the lack of both a prudent debt management policy and an ongoing effort to assess the State’s capacity to borrow.

Chapter 59 of the Laws of 2000 established the Debt Reform Act of 2000. When enacted, the Act was considered by many to be the final word in stemming the use of debt. Peppered with loopholes, the legislation fell short of reform in that it lacked enforcement measures, mandates for transparency and provisions to actually reduce the State’s debt burden. While designed to cap the levels of future debt, it did little to provide fiscal discipline or ensure that future debt is affordable. In fact, since its authorization, nearly every State debt indicator has moved in the wrong direction.

Over the past five years, State-Funded debt per capita has grown nearly 30 percent, from \$1,937 to \$2,509; total State-funded debt increased by \$11.2 billion to \$48.2 billion during the past four years alone.¹ Additionally, over the past several years, debt issuances traditionally used to finance capital improvements have been relied on more to finance non-capital asset

¹ To provide a clearer and more comprehensive assessment of New York’s indebtedness, as part of the 2005 reform initiative, the Comptroller introduced a specific measure of all debt supported by State resources termed “State-Funded debt.” State-Funded debt includes all debt where principal and interest is paid either directly or indirectly by the State. Totalling \$48.2 billion at the beginning of the 2005-06 fiscal year, this measure includes General Obligation bonds, obligations associated with the State tobacco revenue stream and with the refinancing of New York City’s MAC obligation, and other State-Supported debt as defined in the State Finance Law.

spending as well. Debt continues to increase, and yet the State has failed to provide a comprehensive assessment of its ability to repay the debt.

Furthermore, changes in the Act were merely statutory and not constitutional. This lack of permanency is a fundamental flaw that has allowed the Legislature and the Executive to circumvent the law with artful legislative language. Without constitutional changes, the “reforms” provided no guarantee of adherence and the Legislature and the Executive have sidestepped the restraints each time that debt could be used to solve their budgetary troubles. In fact, since its passage, the State has authorized the issuance of an additional \$7.7 billion outside of the Act’s definition and, therefore, outside of the statutory limitation.

As a solution to the State’s enormous and ever-growing debt burden, the Comptroller issued a comprehensive report and submitted a legislative package containing sweeping reforms to the State’s debt practices. As part of the February 2005 report, *New York State’s Debt Policy, A Need for Reform*, Comptroller Hevesi called for the establishment of a Debt Management Board to develop a measure of affordability and annually assess the State’s level of debt within the context of affordability. When the State’s plan to issue debt exceeds the affordability threshold, the Board would play a role in prioritizing projects and determining acceptable debt issues.

While the Comptroller continues to pursue a comprehensive reform agenda, in the absence of an established Board, the Comptroller is assuming this responsibility and considers the State’s debt affordability levels with this Study. This comprehensive Debt Affordability Study evaluates resources and expected debt levels as a means of determining the State’s debt and its ability to repay. Utilizing standard industry ratios as a basis of comparison to the national average and to peer states, this Study will allow the State to better monitor debt levels. It introduces a realistic measurement of the State’s debt burden and provides a roadmap of how to bring that burden down to an affordable level. Moreover, the Debt Affordability Study is a review mechanism favorably regarded and recommended by rating agencies when evaluating issuers and assigning credit ratings.

In reviewing the State’s total debt position, this Debt Affordability Study evaluates key debt ratios: 1) debt outstanding as a percentage of personal income, 2) debt outstanding per capita, and 3) debt service as a percentage of revenues. It notes that New York has the highest debt service ratio of any of the peer groups (1.47 times higher than the peer median), the second highest debt per capita (3.01 times higher than the peer median) and the second highest debt to personal income ratio (2.44 times higher than the

peer median). Only New Jersey has a higher per capita debt and higher debt to personal income ratio.

This Study illustrates that plans to issue an additional \$19.6 billion in State-Funded debt over the next five years will only exacerbate the present situation since only \$12.1 billion will be retired during the same time period. The net result will be a 15.5 percent increase in the debt burden, raising outstanding debt by another \$7.5 billion. This further increases the debt per capita from \$2,584 in State fiscal year (SFY) 2006 to \$2,847 by SFY 2010 and the debt service to revenues ratio from 4.2 percent to 4.4 percent during the same time period.

The Debt Reform Act of 2000 set a cap on outstanding debt of 4 percent of personal income. State-Funded outstanding debt burden was well above this cap, reaching 7 percent of personal income by March 31, 2005. Clearly the Debt Reform Act of 2000 has been ineffective in restricting the growth of debt. Absent more stringent and comprehensive policies, debt will continue to escalate. As part of the Comptroller's debt reform plan, all State debt would be counted and the cap on State-Funded debt outstanding would be raised to 5 percent of personal income.

The implementation of recommended actions outlined in this report can effectively curtail the growth of debt and provide a framework for structuring future debt issuances. Since the State is currently over the statutory cap, of critical importance is to reduce the State's debt to a reasonable and affordable level. This Study would reduce State-Funded debt down to 5 percent of personal income by restricting State-Funded debt issuance to 95 percent of the previous year's level. State-Funded outstanding debt would decline to an amount equal to 5 percent within seven years, achieving the capped level in the 2012-2013 fiscal year. These actions, combined with the establishment of a constitutional definition of State-Funded debt, will provide New York State with the ability to effectively manage the State's burgeoning debt.

If the State were to limit the issuance of additional State-Funded debt to 95 percent of the prior year issuance level, the State would have \$54 billion in State-Funded debt outstanding in 2010—representing a reduction of \$1.7 billion from the current plan.

The State would issue \$1.8 billion less over the five-year period. This lower level of issuances would also affect planned retirements.² For the purposes of this Study, retirements were lowered proportionately beginning in 2008-09.

² For the purposes of this Study, retirements were lowered proportionately beginning in 2008-09.

EXECUTIVE SUMMARY

These figures assume that the planned level of debt issuance for SFY 2006-07 of \$3.7 billion, as anticipated in the current Capital Plan, cannot grow with the Executive Budget submission, and future fiscal year reductions are based on the 2005-06 Enacted Budget Capital Program and Financing Plan, dated April 25, 2005.

It is further recommended that the State increase its use of cash financing in the years where there is a surplus, as well as dedicate a portion of those funds to the early payment of existing debt.

Careful capital planning, the establishment of realistic debt limits and a comprehensive review of additional borrowing proposals can reduce New York State debt. More importantly, it establishes a framework for the State to control the growth of future debt and ensure the State's capacity to borrow and repay. These recommended reforms are essential to our State's long-term fiscal health.

Introduction

On February 1, 2005, the State Comptroller issued a report entitled *New York's Debt Policy, A Need for Reform*. This report included a thorough analysis of the State's borrowing practices and a comprehensive package of recommended constitutional and statutory reforms to restore accountability, limit debt to an affordable level and provide more transparency. The seven-point reform proposal is comprised of the following provisions:

- Constitutionally define State-Funded debt,
- Limit State-Funded debt outstanding to 5 percent of personal income,
- Statutorily limit debt issuance to 95 percent of previous year issuance,
- Require voter approval for annual issuances exceeding \$1 billion, authorize multiple ballot initiatives and consolidate the issuance of State-Funded debt,
- Improve accountability and transparency with expanded oversight by the Public Authorities Control Board to over 200 public authorities,
- Mandate intergenerational equity and efficiency through the use of standards and guidelines, and
- Create a Debt Management Board and annually publish a realistic measure of debt affordability.

The Need for a Debt Affordability Study Now

The State does not currently provide a comprehensive assessment of its ability to afford the issuance of additional debt. Recognizing that prudent debt management and capital planning should include a comprehensive annual assessment of debt affordability, the State Comptroller, as part of the comprehensive debt reform package, called for the creation of a Debt Management Board to establish debt management policy and regularly monitor and report on the State's debt affordability level. The Comptroller continues to pursue his comprehensive reform agenda. However, absent the existence of a Debt Management Board, the State Comptroller is taking the initiative to publish this Debt Affordability Study (the Study) so that the State can effectively plan and implement a manageable and affordable long-term Capital Plan.

Debt affordability can be described as a measure of debt relative to the ability to repay. There are a number of measures that are useful in quantifying affordable debt levels. Popular measures of affordability include debt per capita, a comparison of outstanding debt to a measure of taxable revenue base (personal income or full value of taxable property) and a comparison of debt service to a measure of capacity or ability to pay (receipts). This Study uses three indicators to measure the State's ability to afford the issuance of additional debt in the future: the ratio of State-Funded debt outstanding to personal income, State-Funded debt service to All Funds revenues and State-Funded debt outstanding per capita. This Study also uses these measures as a basis of comparison to the national average and to a group of peer states in order to provide meaningful comparisons.

Debt capacity is a limited resource that should be used only after careful analysis of all funding sources and spending needs. This Debt Affordability Study examines the State's ability to issue debt to finance critical infrastructure needs throughout the State and reinforces the prudent debt principles, including the immediate need to produce measures of debt affordability, as stipulated in the Comptroller's February 2005 report on New York's debt policies.

This Study will provide the necessary framework for the State to structure future debt issuances within current and projected resource constraints. The Study is premised on the concept that resources, as well as needs, should be considered in the development of the State's debt issuance program.

INTRODUCTION

The methodology used in this Study follows an analytical approach, which measures the true State-Funded debt burden, rather than the legal measure of State-Supported debt often used by the State.

The Debt Reform Act of 2000 (the Act) created a statutory definition and limitation on State-Supported debt; yet, the Act does not measure the true debt burden of the State. Since inception of the Act, the State has authorized the issuance of an additional \$7.7 billion in debt outside of this definition and outside of the statutory limitation, even though these obligations are solely dependent on State resources for repayment. Furthermore, the Act excluded approximately \$35 billion in existing debt.

A Debt Affordability Study can also provide a framework to evaluate the effect of the State's debt level on its credit standing. This Study, coupled with other reforms articulated by the State Comptroller, can help the State improve its credit ratings and lower the costs of its debt.³ A Debt Affordability Study is viewed favorably by the rating agencies when evaluating issuers and assigning credit ratings. Standard & Poor's stated in a June 2002 report, "Capital planning and, more recently, debt affordability models or guidelines that evaluate capital requirements and funding sources and assess the future impact of current bond programs are strong management tools."⁴ Furthermore, according to a Fitch Ratings report, debt affordability guidelines "are viewed as most valuable in Fitch's debt management analysis."⁵

³ The State's General Obligation debt is currently rated AA/A1/AA- by Standard and Poor's Ratings Services, Moody's Investors Service and Fitch Ratings, respectively.

⁴ Standard & Poor's Ratings Services. "Stability and Resilience Led Six US Counties to 'AAA' Status in Past Year." June 2002.

⁵ Fitch Ratings Ltd. "12 Habits of Highly Successful Finance Officers." November, 2002.

Review of Credit Ratings

Credit ratings are the rating agencies' assessment of the probability of a debt issuer's ability and willingness to repay debt on a timely basis. Credit ratings are a primary factor in determining the interest cost that debt issuers are required to pay when they go to market, as well as the on-going costs of liquidity support agreements associated with certain variable rate debt. Rating agencies have indicated that prudent debt management practices, including the use of debt affordability studies, are positive factors in assigning credit ratings.

There are several factors which rating agencies analyze in assigning credit ratings. Significant weakness in any single category, including financial results and economic environment, level of reserves, debt portfolio, and fiscal administration and management, will hold ratings down. However, weakness in any one area may be offset by strength in another.

For rating agencies, the level of available reserves a State has may indicate financial stability, flexibility and the capacity to meet financial obligations, including the payment of debt service during times of fiscal stress. In 1998, the State established the Debt Reduction Reserve Fund (DRRF) with the goal of supplementing pay-as-you-go spending and paying debt service or paying down existing, outstanding debt.⁶ For State fiscal years (SFYs) 1999 through 2002, \$1.1 billion in revenues was deposited into the DRRF and was utilized for its intended purpose. While the State's objective for the DRRF was commendable, the amount of funds dedicated to retire debt only minimally affected outstanding debt levels. Furthermore, since 2002, the DRRF has not been utilized. The Division of the Budget projects a \$1 billion surplus by the close of SFY 2005-06. A key component to any debt reform package should include a commitment to place surplus revenues in the DRRF to increase the use of pay-as-you-go (PAYGO) spending and/or for the retirement of outstanding debt.

⁶ See Section 97-rrr of the State Finance Law.

The State’s General Obligation bonds are rated AA- by Fitch Ratings (Fitch), A1 with a “positive” outlook by Moody’s Investors Service (Moody’s) and AA with a “stable” outlook by Standard & Poor’s Ratings Services (S&P). All three agencies base their General Obligation ratings on the fact that the State has a strong, diverse economic base, but also has high debt levels, persistent out-year gaps and a politically charged budget process. Rating agencies place emphasis on consistently maintaining adequate reserves and overcoming fiscal challenges posed by local spending pressures.

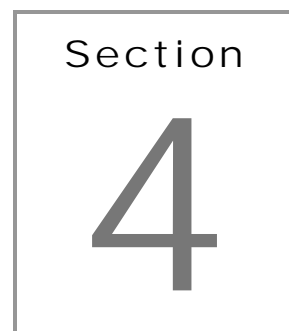
Moody’s rates New York third lowest in the nation—in front of California and Louisiana. S&P’s and Fitch’s ratings are somewhat higher, with New York closer to the national median.

Figure 1

State of New York General Obligation Credit Ratings		
<i>(as of December 2, 2005)</i>		
	Rating	Outlook
Fitch Ratings	AA-	Not Applicable
Moody’s Investors Service	A1	Positive
Standard & Poor’s Ratings Services	AA	Stable

Rating agencies also rate other New York credits, such as the Dedicated Highway and Bridge Trust Fund bonds, Personal Income Tax Revenue bonds, Local Government Assistance Corporation bonds and various appropriation backed credits issued by public authorities on behalf of the State. In the past, the State’s General Obligation credit garnered the highest rating among New York State credits because of the pledge of the State’s full faith and credit and the fact that the debt service did not require an appropriation to be paid. Most appropriation-backed bonds are typically rated lower due to the required appropriation. However, all three rating agencies currently rate Personal Income Tax Revenue bonds the same as General Obligation bonds because they are backed by a portion (25 percent, or \$6 billion) of the State’s largest revenue source and the fact that even though the State budget has been enacted late for 20 of the last 21 years, the debt service portion of the budget has been enacted on time annually, allowing debt service payments to continue without interruption.⁷

⁷ Standard & Poor’s, Fitch and Moody’s rate the New York State Personal Income Tax Revenue bonds at AA/AA-/A1, respectively.



State-Funded Debt Outstanding

New York's State-Funded debt portfolio utilizes a complex mix of dedicated, pledged or assigned resources in which many of the taxes and revenues previously reported in the General Fund have been moved to other funds for the repayment of debt. To provide a comprehensive approach to measure debt burden and capacity, the State Comptroller introduced the measure of State-Funded debt, which accounts for **all** debt exclusively supported by State resources.

State-Funded debt includes all debt where debt service (principal and interest) is paid, directly or indirectly, by the State.⁸ It includes General Obligation bonds and other State-Supported debt as defined by Section 67-a of the State Finance Law, as well as obligations associated with the financing of the State tobacco settlement revenue stream (bonds issued by the Tobacco Settlement Financing Corporation – TSFC), debt issued by the Sales Tax Asset Receivable Corporation (STARC) to refinance New York City's Municipal Assistance Corporation (MAC) obligation from the 1975 fiscal crisis, and amortized prior year school aid claims (bonds issued by the Municipal Bond Bank Agency – MBBA).

The State makes payments for State-Funded debt, either directly for General Obligation bonds or indirectly to a public authority, bank trustee or, on past occasions, municipal issuers (lease-purchase or contractual obligation) to enable such issuer to make payments on its outstanding bonds. As of March 31, 2005, the State had approximately \$48.2 billion in State-Funded debt outstanding (see Figure 6).⁹ Public authority debt

⁸ This Study considers State-Funded debt as bonds, notes and other bonded long-term obligations, reported on a cash basis and defined in the proposed statutory and constitutional changes associated with the Comptroller's debt reform package.

⁹ Debt figures throughout this Study, except where noted, are the original issue par amounts that remain outstanding and do not include adjustments for premiums, discounts, accretions, deferred losses or outstanding actions from the Debt Reduction Reserve Fund.

issued for the State comprised approximately 92 percent of this State-Funded debt burden, or approximately \$44.6 billion, included in Figure 2.¹⁰ Total State-Funded debt outstanding, as of March 31, 2005, includes \$7.6 billion of debt not counted as State-Supported, as narrowly defined in Section 67-a of the State Finance Law.

Figure 2

State of New York State-Funded Debt	
As of March 31, 2005	
(in millions)	
General Obligation Bonds	\$3,652
State-Supported Authority Debt	37,044
Total State-Supported Debt	<u>\$40,696</u>
TSFC - Tobacco Securitization	4,495
STARC - MAC Refinancing	2,551
MBBA - Prior Year School Aid Claims	507
State-Funded Debt	<u>\$48,249</u>

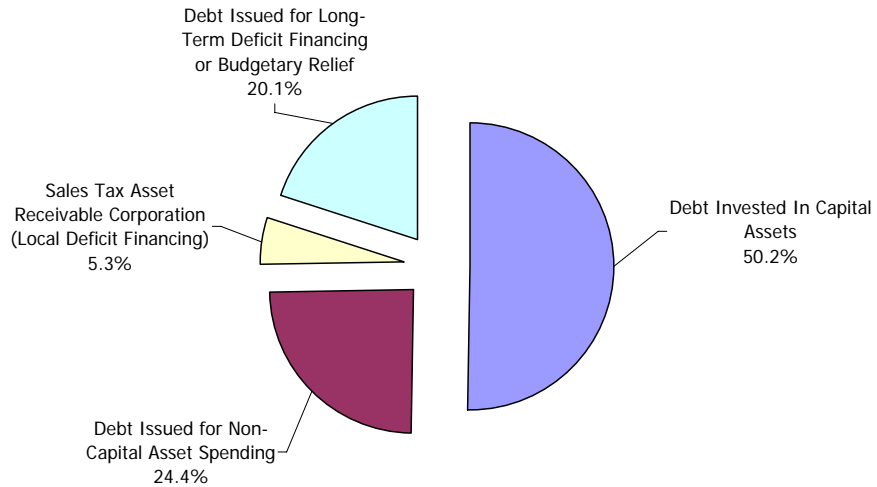
Source: New York State Office of the State Comptroller

Figure 3 illustrates the State's outstanding debt itemized by major purpose as of March 31, 2005. In the State-Funded debt portfolio, 50.2 percent was issued to support or create State capital assets (\$24.2 billion). Financing for primarily non-State capital asset purposes was also provided (\$14.3 billion, or 29.7 percent, including debt issued by STARC). The remaining debt outstanding was used to finance annual and accumulated State deficits (\$9.5 billion) or refinance existing assets for budgetary relief (\$258 million). The use of debt for deficit financing or budgetary relief creates a long-term cost for future generations without creating an asset. Furthermore, it exacerbates structural imbalances because non-recurring resources are used for recurring expenses.

¹⁰ This figure includes the Sales Tax Asset Receivable Corporation (STARC), which is a government created not-for-profit corporation and not a public authority.

Figure 3

State-Funded Debt Outstanding by Major Purpose
As of March 31, 2005 - \$48.2 billion



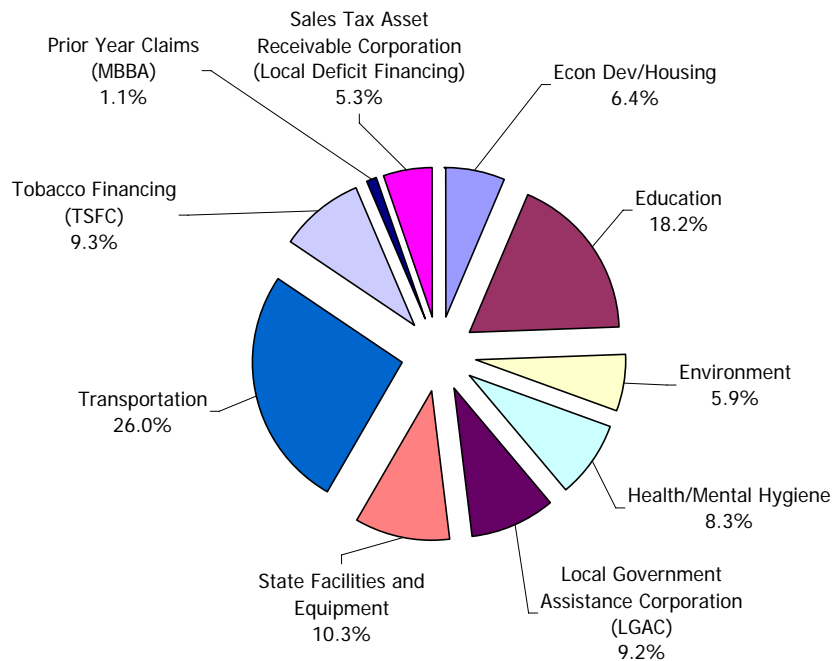
Source: New York State Office of the State Comptroller

Figure 4 illustrates State-Funded debt outstanding by major functional area invested for State-owned capital assets or other purposes as of March 31, 2005. Of the \$48.2 billion outstanding at March 31, 2005, transportation associated debt comprised the majority of debt outstanding (\$12.6 billion, or approximately 26 percent) with education, including higher education, holding the next highest share (\$8.8 billion, or 18.2 percent). Note that the \$7.7 billion (with \$7.6 billion outstanding as of March 31, 2005) in debt issued outside of the Debt Reform Act (Tobacco Settlement Financing Corporation - TSFC, MAC refinancing – STARC and Prior Year School Aid Claims issued by the Municipal Bond Bank Agency – MBBA) makes up approximately 16 percent of total State-Funded debt outstanding.

Figure 4

State-Funded Debt Outstanding - By Major Function Area

As of March 31, 2005 - \$48.2 billion



Source: New York State Office of the State Comptroller

RAPIDITY OF REPAYMENT

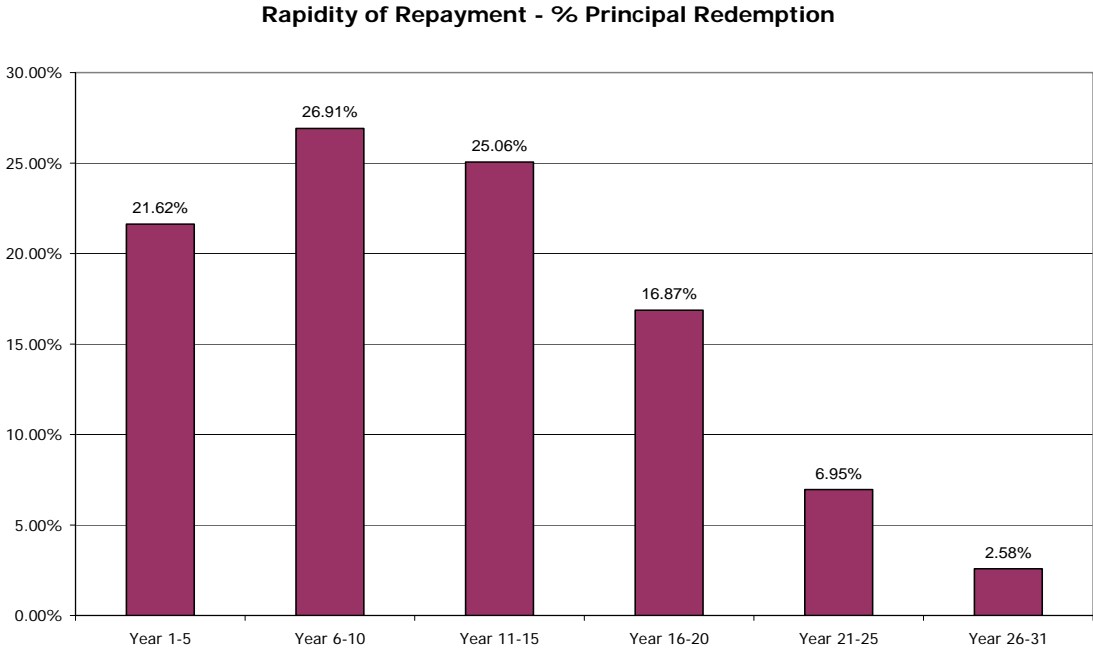
When issuing debt, the term of the debt should not exceed the useful or economic life of the underlying asset. The structure of payments and how that structure affects capacity and affordability are also important considerations. The rapidity of repayment or principal redemption measures how fast the State pays off its debt burden. According to Fitch, an issuer that pays off 65 percent of its debt within ten years is viewed more favorably than one that pays off only 50 percent. Fitch considers it weak fiscal practice to pay off 35 percent or less in ten years.¹¹

Currently, the State is scheduled to pay 48.5 percent of its State-Funded debt outstanding within ten years, which misses Fitch's criteria for favorable consideration of 65 percent. The payment structure of both new and existing debt directly affects this measure. Since 2003, the State has refunded and restructured over \$18 billion in outstanding debt. These refundings reconfigured portions of both the principal due in the current and near terms, as well as interest accrued on certain refunded debt. Many principal payments were restructured to eliminate or lower near term

¹¹ Fitch Ratings Ltd. "The 12 Habits of Highly Successful Finance Officers." 2002.

payments, thus increasing the future burden and adversely affecting future debt capacity.

Figure 5



State Debt Ratios

To facilitate peer group comparisons and better monitor affordability levels, it is useful to review debt ratios and analyze their change over time. As indicated, this Study uses the following key ratios to assess the financial burden of outstanding debt: 1) debt outstanding as a percentage of personal income, 2) debt outstanding per capita, and 3) debt service as a percentage of revenues. Debt to personal income indicates the burden a state's debt places on the income tax base, a primary source of revenue for New York State. Outside of federal funds, New York's personal income tax is the State's largest revenue source, comprising nearly 28 percent of All Funds receipts. The debt per capita measure allows the issuer to assess the relative magnitude of an entity's debt position compared to other issuers, and the level of debt service to All Funds revenues indicates the amount of flexibility that the issuer has in its budget.

States use a number of different measures to compare with debt service, including state funds revenues and general fund expenditures. To correspond to the limits established in the Debt Reform Act of 2000, this report uses the ratio of State-Funded debt service as a percentage of All Funds receipts to measure annual debt burden. While it is reasonable to use All Funds receipts as a basis of comparison, included in this revenue is federal funding, much of which is earmarked for specific purposes and cannot be used for debt service needs. Since these funds are not available for debt service costs, it is not entirely accurate to include this revenue in the calculation of the percentage of resources that could be used to retire debt. An additional measure of the State's debt service burden is to compare debt service against State-generated revenues.¹² If the ratio of State-Funded debt service to State-generated receipts were used, the State would have a ratio of 6.5 percent as compared to 4.2 percent of All Funds

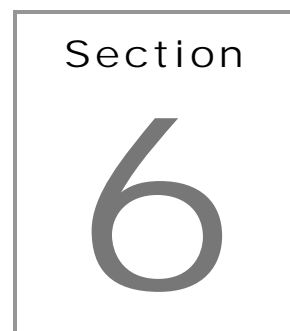
¹² State generated revenues include all revenues generated within the State, including taxes, fees and tobacco settlement revenues used to pay debt service on Tobacco Settlement Financing Corporation bonds. It does not include federal funding.

(as of March 31, 2005). For a more thorough and comprehensive assessment of the State's debt service burden, the State may want to continue utilizing the All Funds comparison, but should also begin measuring debt service against State generated revenues.

Figure 6 provides a presentation of the State's indebtedness and debt ratios as of March 31, 2005, compared to March 31, 2000. State-Funded debt outstanding increased by \$11.5 billion, or 31.0 percent, between 2000 and 2005. State-Funded debt outstanding to personal income increased from 6.2 percent to 7.0 percent, while State-Funded debt outstanding per capita increased by \$572, from \$1,937 to \$2,509. The State-Funded debt service to All Funds revenue ratio declined from 5.4 percent to 4.2 percent during this period, however, this decline is largely because refundings, including restructurings, temporarily lowered debt service costs.

Figure 6

State of New York				
State-Funded Debt Ratios at March 31, 2000 vs. March 31, 2005				
	State-Funded Debt Outstanding (millions)	State-Funded Debt to Personal Income	State-Funded Debt Per Capita	Debt Service to All Funds Revenue
SFY 2000	\$36,797	6.22%	\$1,937	5.40%
SFY 2005	\$48,249	7.00%	\$2,509	4.20%



Comparison of State Debt Ratios to Selected Medians

A comparison to national and peer group medians is useful to provide context. The peer group in this Debt Affordability Study is represented by those states with the highest populations—California, Texas, Florida, Illinois, Pennsylvania, Ohio, Michigan, Georgia, New Jersey and North Carolina. In May 2005, Moody's published the *2005 State Debt Medians* report, which included its annual analysis of state debt medians. As shown in Figure 7, New York's State-Funded debt to personal income ratio, the State-Funded debt per capita ratio and the State-Funded debt service to All Funds revenues ratio are all significantly above the medians published in the Moody's report.

Figure 7 also details the peer group comparison for the three debt ratios evaluated. The debt to personal income and debt outstanding per capita ratios for peer states are taken from Moody's *2005 State Debt Medians* report, while the debt service to revenue ratio has been calculated using data from the most recent Comprehensive Annual Financial Report available for each state. Ratios for New York use the State Comptroller's measure of State-Funded debt, rather than Tax-Supported debt as presented in the Moody's report, because the use of State-Funded debt provides for a more accurate measure of New York's debt burden.¹³

As shown in Figure 7, New York has the highest debt service ratio of any of the peer groups (1.5 times higher than the peer median), the second highest debt per capita (3.0 times higher than the peer median) and the second highest debt to personal income ratio (2.4 times higher than the peer median).

¹³ Moody's measure of Net Tax-Supported debt includes State-Guaranteed Job Development Authority debt, moral obligation debt and debt associated with the State Secured Hospital Program. The Comptroller's State-Funded debt measure does not include these obligations because they are not directly supported with State resources. As a result, Moody's figure for Net Tax-Supported debt is approximately \$1.6 billion higher than the Comptroller's State-Funded measure.

COMPARISON OF STATE DEBT RATIOS TO SELECTED
SELECTED MEDIANS

Figure 7

Peer Group Comparisons					
	General Obligation Bond Rating (Fitch/S&P/Moody's)	2004 Debt (\$000)	2004 Debt Per Capita	2004 Debt as % of 2003 Personal Income	2004 Debt Service as % of All Funds Receipts *
California	BBB/A/A3	\$ 55,452,000	\$ 1,545	4.7%	2.3%
Texas	AA+/AA/Aa1	6,270,830	279	1.0%	0.9%
Florida	AA/AA+/Aa2	17,538,400	1,008	3.4%	3.0%
Illinois	AA/AA/Aa3	25,672,456	2,019	6.0%	4.1%
Pennsylvania	AA/AA/Aa2	9,052,000	730	2.3%	1.7%
Ohio	AA+/AA+/Aa1	9,922,638	866	2.9%	3.5%
Michigan	AA+/AA+/Aa2	6,987,100	691	2.2%	2.7%
Georgia	AAA/AAA/Aaa	7,090,755	803	2.8%	3.1%
New Jersey	AA/AA-/Aa3	25,236,000	2,901	7.3%	3.2%
North Carolina	AAA/AAA/Aa1	5,824,194	682	2.5%	1.5%
Peer Median		9,487,319	835	2.9%	2.9%
National Median		2,685,360	703	2.4%	3.5% **
New York	AA-/AA/A1	48,248,981	2,509	7.0%	4.2%
NYS Ratio to Peer Median - March 31, 2005			3.01	2.44	1.47
NYS Ratio to National Median			3.57	2.91	1.20

* Note that Debt Service and All Funds Revenue are from each state's Statement of Revenues, Expenditures, and Changes in Fund Balances contained within the state's 2004 Comprehensive Annual Financial Reports. Consequently, reported debt service does not include payments reported in proprietary funds that are supported by proprietary fund resources. New York's debt service includes SUNY and CUNY obligations from proprietary funds that are not self-supporting.

** Last Published by Moody's in 1996.

Sources:

Comprehensive Annual Financial Reports from Fiscal Years Ending in 2004 for listed states

Moody's Investors Services, *2005 State Debt Medians*, May 2005

US Census Bureau

US Bureau of Economic Analysis

Global Insight

New York State Office of the State Comptroller, *New York State's Debt Policy - A Need For Reform*, February 2005

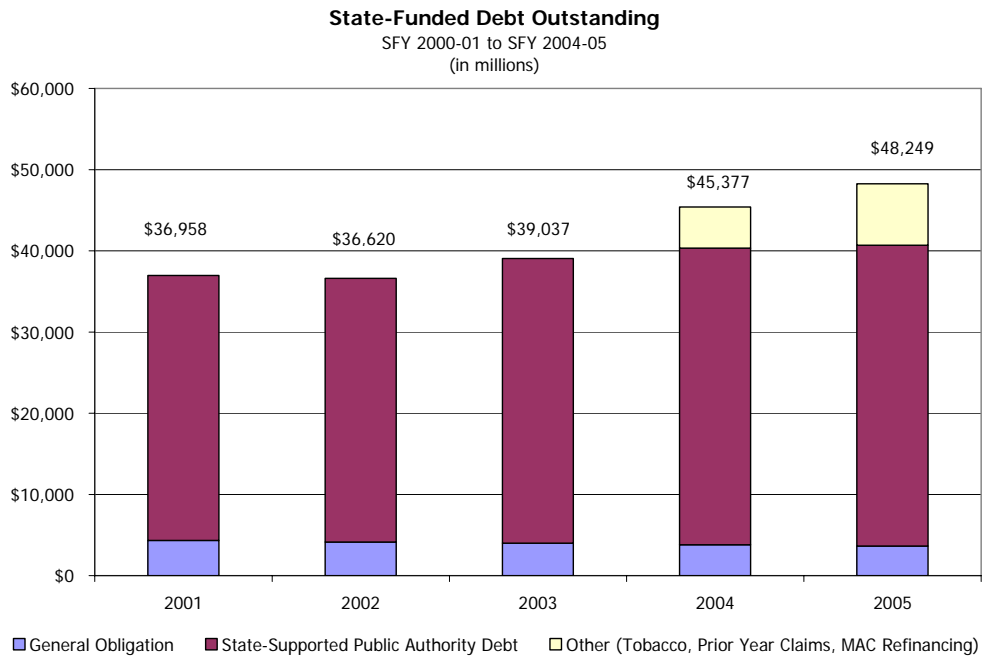
New York State Division of the Budget, *2005-06 Enacted Budget Capital Program and Financing Plan*, April 2005

Section
7

Growth in State-Funded Debt Outstanding and Debt Service

It is necessary to review the rate at which debt has grown as part of the evaluation of the State's debt capacity and affordability. While the State has made substantial investments in infrastructure over time, it has also used debt to finance other non-capital asset spending. Total State-Funded debt grew by 30.3 percent during the last four years, increasing by \$11.2 billion to \$48.2 billion at March 31, 2005. This represents an average annual growth rate of 7.6 percent. Figure 8 illustrates the total State-Funded debt outstanding at the end of fiscal years 2001 through 2005.

Figure 8

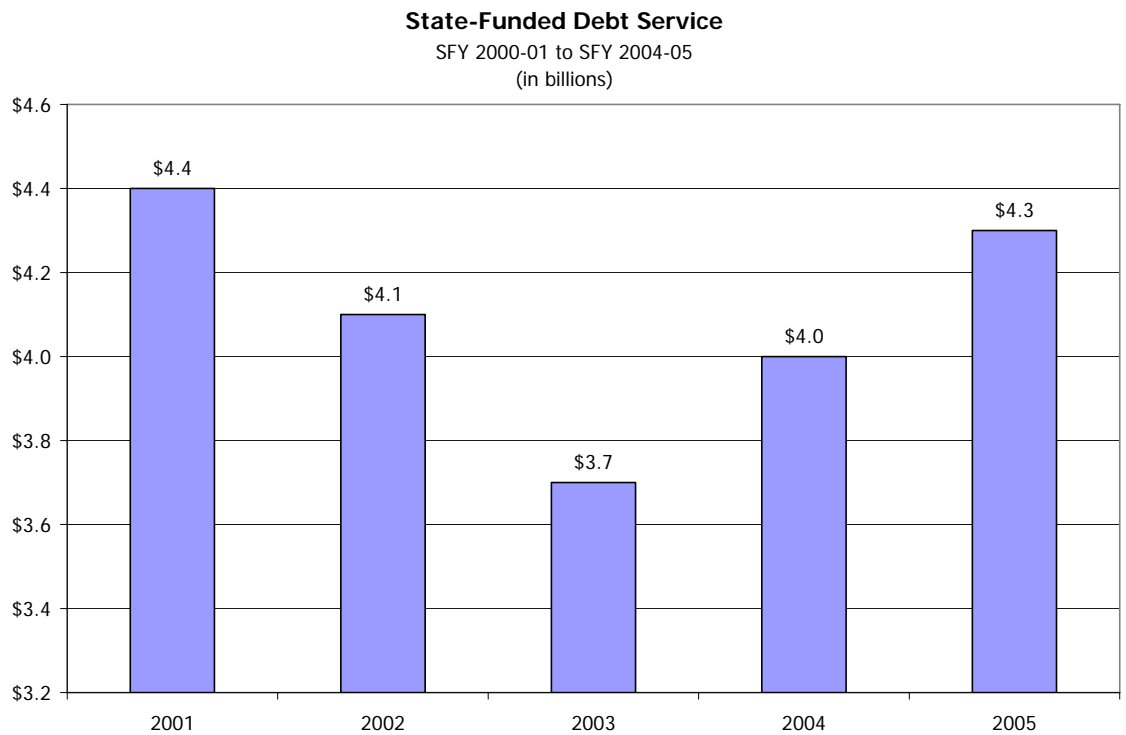


Source: New York State Office of the State Comptroller

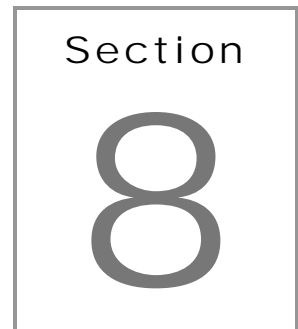
GROWTH IN STATE-FUNDED DEBT OUTSTANDING
AND DEBT SERVICE

State-Funded debt service remains relatively unchanged when comparing SFY 2000-01 to SFY 2004-05 despite significant growth in State-Funded debt outstanding (see Figure 9). The lack of growth in State-Funded debt service during this period of increasing State-Funded debt outstanding is primarily attributable to: the restructuring of debt through refundings to defer some principal payments to future years, the increased use of variable rate debt and interest rate exchange agreements, and lower interest rates.

Figure 9



Source: New York State Office of the State Comptroller



Capital Program and Financing Plan

The Executive is statutorily required to annually submit to the Legislature a five-year Capital Program and Financing Plan with the proposed State budget. The Plan is required to include a comprehensive assessment of the capital assets and program needs of all State agencies, as well as a review and analysis of how such needs would be financed. The statute also requires an analysis of the affordability of State-Supported debt and an analysis of all costs related to financing the plan.¹⁴

The Capital Program and Financing Plan is financed by four major sources of funds: current resources of the State (often referred to as pay-as-you-go), federal funds, General Obligation bonds and bonds issued by public authorities on behalf of the State. The assumptions and information in the Capital Program and Financing Plan relate only to State-Supported debt and do not account for the financing of future tobacco settlement revenues by the Tobacco Settlement Financing Corporation (TSFC), the Municipal Assistance Corporation for New York City (MAC) refinancing by the Sales Tax Asset Receivable Corporation (STARC), and the financing of prior year school-aid claims by the Municipal Bond Bank Agency (MBBA). However, for purposes of measuring the true burden of the State's debt, these items must be included.

Projected State-Funded Debt Issuance

Figure 10 represents the projected State-Funded debt issuance over the next five years pursuant to the Capital Program and Financing Plan updated April 25, 2005. The table represents all planned State-Funded debt issuance associated with current and past Capital Plans.¹⁵

¹⁴ Section 22-c of the State Finance Law.

¹⁵ Note that the issuance figure provided for 2005-06 does not include debt restructurings of approximately \$2.7 billion from the Dedicated Highway and Bridge Trust Fund (New York State Thruway bonds) and \$175 million for the Javits Center Expansion.

Figure 10

State of New York Projected State-Funded Debt Issuance 2005-06 through 2009-10 (in thousands)						
	SFY 2006	SFY 2007	SFY 2008	SFY 2009	SFY 2010	Total 2006-2010
General Obligation	\$ 279,400	\$ 372,400	\$ 490,600	\$ 586,400	\$ 616,400	\$ 2,345,200
State-Supported Public Authority	3,759,470	3,326,895	3,491,574	3,506,328	3,125,629	17,209,896
State-Funded Total Issuance	\$ 4,038,870	\$ 3,699,295	\$ 3,982,174	\$ 4,092,728	\$ 3,742,029	\$ 19,555,096

Source: New York State Division of the Budget, *2005-06 Enacted Budget Capital Program and Financing Plan* and New York State Office of the State Comptroller. Note that the State's Capital Plan does not recognize State-Funded debt and its scope is limited to State-Supported debt only.

Projected State-Funded Debt Retirement

The State can generate the capacity to afford issuance of additional debt through the retirement of outstanding debt. Figure 11 illustrates projected State-Supported debt retirements pursuant to the Capital Program and Financing Plan and scheduled retirements for the Tobacco Settlement Financing Corporation, the Sales Tax Asset Receivable Corporation, and the Municipal Bond Bank Agency (as it relates to Prior Year School Aid Claims) as of March 31, 2005.

Figure 11

State of New York Projected State-Funded Debt Retirements 2005-06 through 2009-10 (in thousands)						
	SFY 2006	SFY 2007	SFY 2008	SFY 2009	SFY 2010	Total 2006-2010
General Obligation	\$ 341,110	\$ 351,515	\$ 361,181	\$ 368,731	\$ 378,679	\$ 1,801,216
State-Supported Public Authority	1,819,429	1,714,855	1,880,481	1,890,975	2,121,636	9,427,376
State-Supported Total Retirement	\$ 2,160,539	\$ 2,066,370	\$ 2,241,662	\$ 2,259,706	\$ 2,500,315	\$ 11,228,592
TSFC *	78,145	85,455	93,410	139,405	116,705	513,120
STARC	46,785	48,145	49,730	51,520	53,525	249,705
MBBA	2,980	20,025	20,770	21,620	22,590	87,985
State-Funded Total Retirement	\$ 2,288,449	\$ 2,219,995	\$ 2,405,572	\$ 2,472,251	\$ 2,693,135	\$ 12,079,402

Source: New York State Office of the State Comptroller and New York State Division of the Budget

*Note that principal payments for TSFC are based on minimum mandatory redemption requirements.

Projected State-Funded Debt Outstanding

According to issuance and retirement assumptions in the Capital Program and Financing Plan and scheduled retirements for the Tobacco Settlement Financing Corporation, the Sales Tax Asset Receivable Corporation, and the Municipal Bond Bank Agency (Prior Year School Aid Claims), the State will issue \$7.5 billion more than it will retire over the next five years (see Figure 12). Consequently, the State is projected to end the SFY 2009-10 with \$55.7 billion in outstanding State-Funded debt—representing an increase of 15.5 percent, or \$7.5 billion, from the start of SFY 2005-06.

Figure 12

State of New York Projected State-Funded Debt Outstanding 2005-06 through 2009-10 (in thousands)						
	SFY 2006	SFY 2007	SFY 2008	SFY 2009	SFY 2010	Increase (Decrease) 2006 Beginning - 2010 End
Debt at Beginning of Period	\$ 48,248,981	\$ 49,999,402	\$ 51,478,702	\$ 53,055,304	\$ 54,675,781	
Issuance	4,038,870	3,699,295	3,982,174	4,092,728	3,742,029	19,555,096
Retirement	(2,288,449)	(2,219,995)	(2,405,572)	(2,472,251)	(2,693,135)	(12,079,402)
Projected Debt at End of Period	\$ 49,999,402	\$ 51,478,702	\$ 53,055,304	\$ 54,675,781	\$ 55,724,675	\$ 7,475,694

Source: New York State Office of the State Comptroller and New York State Division of the Budget

Effect of New Debt and Restructuring Debt

To fund its capital budget, which is comprised of projects to create and support State capital assets, as well as funding for non-State assets, including grants for school districts, local governments and economic development, the State plans to issue \$19.6 billion in State-Funded debt between fiscal years 2006 and 2010. Over the 2006-10 period, the State intends to retire approximately \$12.1 billion in current outstanding State-Funded debt. The net effect of the \$19.6 billion in new issuances and \$12.1 billion in new retirements is an increase of \$7.5 billion, or 15.5 percent, in State-Funded debt outstanding by the end of SFY 2010.

The issuance of \$19.6 billion in new debt will also have an effect on the State's debt ratios over the next five years. Analyzing projected available resources and assumptions in the current Capital Plan, Figure 13 illustrates projected debt ratios from SFY 2006 to SFY 2010. The ratio of State-Funded debt outstanding to personal income is projected to decline from 6.8 percent in SFY 2006 to 6.0 percent by SFY 2010. The ratio of State-Funded debt per capita is projected to rise from \$2,584 in SFY 2006 to

\$2,847 by SFY 2010. The debt service to All Funds revenues ratio is projected to increase from 4.2 percent in SFY 2006 to 4.4 percent by SFY 2010.¹⁶

Figure 13

State of New York					
Effect of Projected New Debt Issuances on Debt Ratios					
	SFY 2006	SFY 2007	SFY 2008	SFY 2009	SFY 2010
Personal Income (prior year - \$ thousands)	\$737,039	\$782,809	\$828,664	\$874,009	\$921,087
State-Funded Debt to Personal Income	6.8%	6.6%	6.4%	6.3%	6.0%
Population (millions)	19,350	19,412	19,471	19,523	19,575
State-Funded Debt Per Capita	\$2,584	\$2,652	\$2,725	\$2,801	\$2,847
All Funds Revenues (\$ millions)	\$107,339	\$113,044	\$119,052	\$125,380	\$132,044
State-Funded Debt Service to All Funds Revenues	4.2%	4.3%	4.3%	4.4%	4.4%

Projected State-Funded Debt Service

Annual State-Funded debt service is estimated to grow to \$5.8 billion by SFY 2010 assuming projected bond issuances of \$19.6 billion. Figure 14 shows projected debt service each year over the next five years, including debt service on currently outstanding debt and projected new debt issuances. By SFY 2009-10, State-Funded debt service is projected to be 4.4 percent of All Funds revenues, down from 5.4 percent in 2000 but up from 4.2 percent in 2004. This decline from 2000 can largely be explained by growth in revenues in conjunction with reductions in debt service associated with refundings and restructurings.

¹⁶ Projections for personal income and population are provided by Global Insight Inc. Over the life of the plan, New York State personal income is projected to increase 23.5 percent and population is projected to increase 1.2 percent. All Funds receipts projections are explained on Section 9 of this Study.

Figure 14

State of New York Projected State-Funded Debt Service 2005-06 through 2009-10 (in thousands)						
	SFY 2006	SFY 2007	SFY 2008	SFY 2009	SFY 2010	Total 2006-2010
General Obligation	\$ 489,825	\$ 504,875	\$ 519,389	\$ 537,677	\$ 565,071	2,616,837
State-Supported Public Authority	3,365,458	3,687,023	3,972,560	4,289,999	4,586,164	19,901,204
Total State- Supported Debt Service	\$ 3,855,283	\$ 4,191,898	\$ 4,491,949	\$ 4,827,676	\$ 5,151,235	\$ 22,518,041
TSFC *	425,000	425,000	425,000	425,000	425,000	2,125,000
STARC	170,000	170,000	170,000	170,000	170,000	850,000
MBBA	28,363	45,189	45,186	45,184	45,182	209,104
State-Funded Total	\$ 4,478,646	\$ 4,832,087	\$ 5,132,135	\$ 5,467,860	\$ 5,791,417	\$ 25,702,145

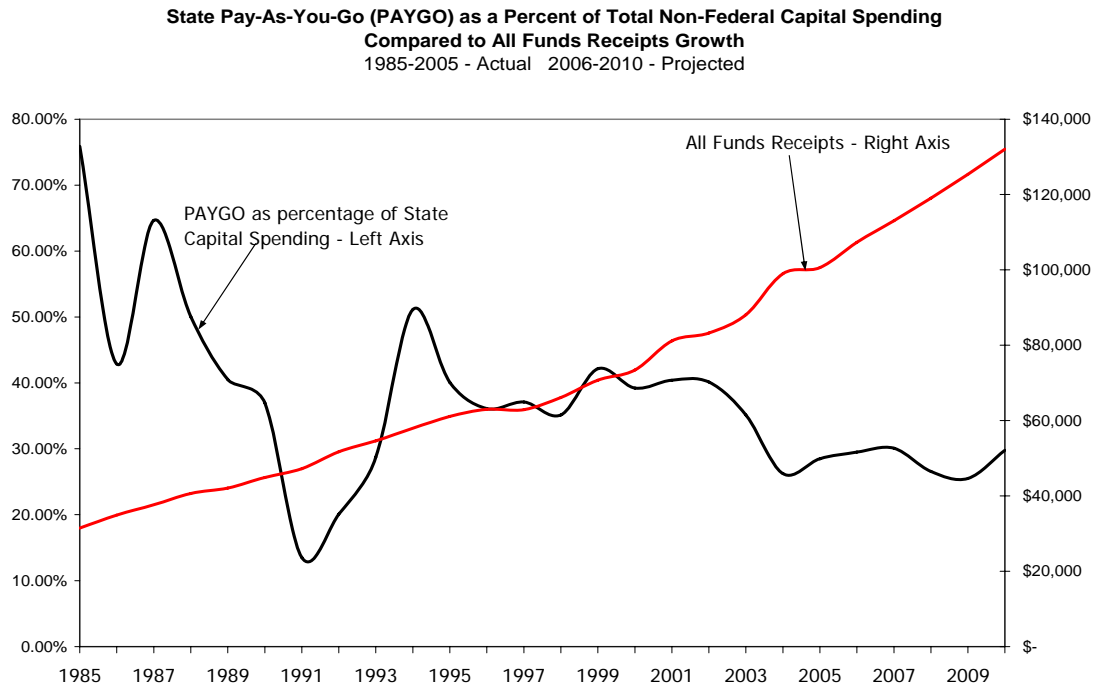
Source: New York State Office of the State Comptroller and New York State Division of the Budget

*Debt Service for tobacco bonds represents the entire estimated tobacco settlement payment, although not all is required for debt service in the same year received.

Current State Resources – Pay-as-You-Go

The use of current State resources to support a portion of the State's Capital Plan is critical to achieving a balanced approach to meeting the State's capital needs. During the 1980s, the State used pay-as-you-go (PAYGO) financing for as much as 75 percent of its State-Funded Capital Plan. The State's current Capital Plan assumes that current resources will fund only 28 percent of the Capital Plan. Utilizing current revenues for capital projects reduces the need to issue debt, thereby reducing future debt service, and is viewed positively by rating agencies. Increasing the use of PAYGO conserves debt capacity and reduces the burden passed to future generations. Furthermore, the increased capacity that results from increased use of PAYGO creates a buffer for those years when spending capacity is limited due to a downturn in the economy or other constraining circumstances. Figure 15 illustrates New York's continuing downward trend in the use of PAYGO as a percentage of non-federal capital spending.

Figure 15



Pay-As-You-Go and the Economy

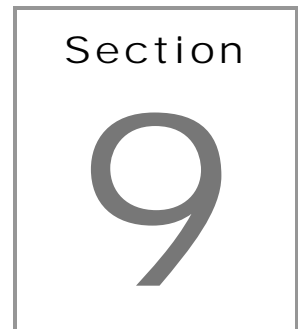
The amount of current resources used to finance capital needs can be indicative of fiscal health. When a state or municipality is financially healthy or has accumulated a surplus, it can be inferred that it has increased ability to pay cash, instead of issuing additional debt for capital purposes. Rating agencies view the use of PAYGO very favorably.

New York's use of current resources to finance capital projects has varied greatly throughout its recent history. In 1985, the State financed over 75 percent of its non-federal capital program with cash. In 1991, only 13.5 percent of non-federal capital spending was financed with cash. Between 1996 and 2001, the State enjoyed surpluses ranging from \$445 million to \$3.6 billion. While the State did utilize \$1.1 billion in Debt Reduction Reserve Funds for either debt retirement or PAYGO financing, the State, on average for those years, utilized cash for only 38 percent of its non-federal capital financing. As a result of increasing debt and underutilizing cash financing during its years of surplus, the State created a greater debt service burden in times of need. While there is not an industry standard for PAYGO financing, rating agencies state that the level of PAYGO should be balanced as part of the larger financial picture.

Debt should be used as a policy tool and should be structured to support capital investment activity throughout a business cycle. Maintaining infrastructure and other capital projects should be a continuing process. During downturns in the economy when revenue collections fall, the State has the responsibility to ensure the continuation of these projects, along with other spending priorities.

Besides allowing these projects to continue during downturns in the economy, the use of debt also helps keep the economy from sliding further into recession as: 1) workers remain employed and 2) the State spends money purchasing goods and services from the private sector. This spending provides income to businesses, which in turn allows them to maintain a stable workforce during the recession. The continued employment and business income allows for higher levels of spending on other goods and services, which in turn builds the foundation for recovery.

However, as the economy improves and revenue collections increase, the additional money should be used to pay down the existing debt or to pay for capital projects by increasing PAYGO financing. Paying down the debt and using current resources in place of debt during upswings in the economy enables the State to keep debt levels manageable. Failure to do so during these times makes it more difficult to use this stabilizing tool in the future because the debt servicing costs will continue to grow, resulting in increased borrowing costs that have the potential to lower the State's credit worthiness in bad economic times.



Projected Revenues

In April 2005, the Division of the Budget projected All Funds receipts to reach \$130.2 billion by 2010. The 2005-06 mid-year update to the Financial Plan increased All Funds receipts by \$1.6 billion for 2005-06, including \$750 million in higher tax receipts. While the mid-year update did not include new projections for out-year All Funds receipts, it did increase out-year General Fund tax receipts by \$750 million in both 2006-07 and 2007-08, illustrating an increase in baseline tax revenue projections.¹⁷ Since All Funds Revenues include General Fund revenues, it can be reasonably implied that All Funds revenues through 2010 will increase providing a ratio of State-Funded debt service to All Funds receipts of 4.6 percent, an increase from 4.2 percent in 2005. Since 1995, All Funds receipts have increased annually by an average of 5.3 percent, which would equate to approximately \$132 billion in 2010 (see Figure 16).

¹⁷ *Ibid.*

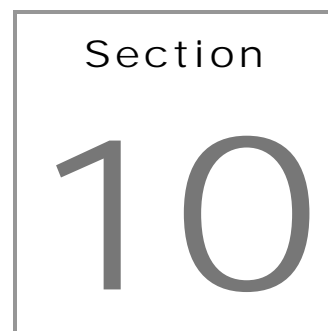
Figure 16

New York State All Funds Receipts	
(in millions)	
1995	\$ 61,106
1996	\$ 62,969
1997	\$ 62,886
1998	\$ 66,127
1999	\$ 70,736
2000	\$ 73,409
2001	\$ 81,123
2002	\$ 83,247
2003	\$ 88,073
2004	\$ 98,989 (1)
2005	\$ 100,576
2006*	\$ 107,339
2007*	\$ 113,044
2008*	\$ 119,052
2009*	\$ 125,380
2010*	\$ 132,044

* Projected

(1) - Note that revenues from the 2003-04 fiscal year include \$4.2 billion from the assignment of the State's tobacco settlement.

Source: New York State Office of the State Comptroller



Debt Reform Act of 2000 - Statutory Debt Limits

Chapter 59 of the Laws of 2000 added Article 5-B, sections 67-a and 67-b, to the State Finance Law. These provisions established statutory limitations, to be phased in beginning April 1, 2000, on State-Supported debt and are commonly referred to as the Debt Reform Act of 2000.

Unfortunately, the Debt Reform Act did little to provide fiscal discipline or ensure that future debt is affordable. The legislation made the following three statutory amendments:

- Cap the level of debt outstanding to 4 percent of personal income for debt issued after April 1, 2000. This cap is phased in over 10 years and will reach 4 percent in SFY 2009-10.
- Cap debt service on new debt issued after April 1, 2000 at 5 percent of All Funds receipts. This cap is phased in over 13 years.
- Provide that debt can only be used for capital works or purposes and that State-Supported debt cannot have a maturity longer than 30 years.

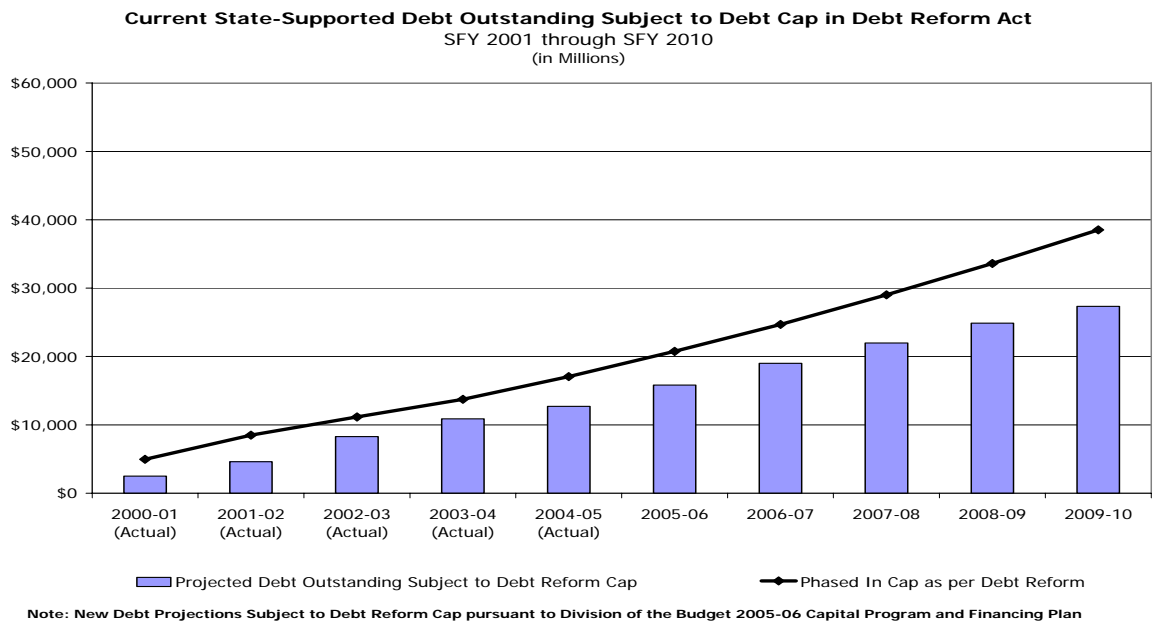
According to the Division of the Budget, the State remains well under the caps established in 2000.¹⁸ However, the debt counted under these statutory State-Supported debt caps does not include all borrowing that is funded with State resources. Furthermore, the law ignored the roughly \$35 billion in outstanding debt that existed at the time of its enactment by excluding it from debt counted under the caps. To get a true picture of the State's obligations, it is necessary to consider all State-Funded debt as

¹⁸ The Division of the Budget annually reports on debt that is counted under the cap along with other State-Supported debt outstanding.

DEBT REFORMS ACT OF 2000 – STATUTORY
DEBT LIMITS

defined in this Study. Figures 17 through 19 compare the Debt Reform Act's measure of State-Supported debt outstanding subject to its cap with this Study's definition of State-Funded debt. Figure 17 shows, according to statutory definitions, the State is currently below the cap with room to spare throughout the next five years.

Figure 17

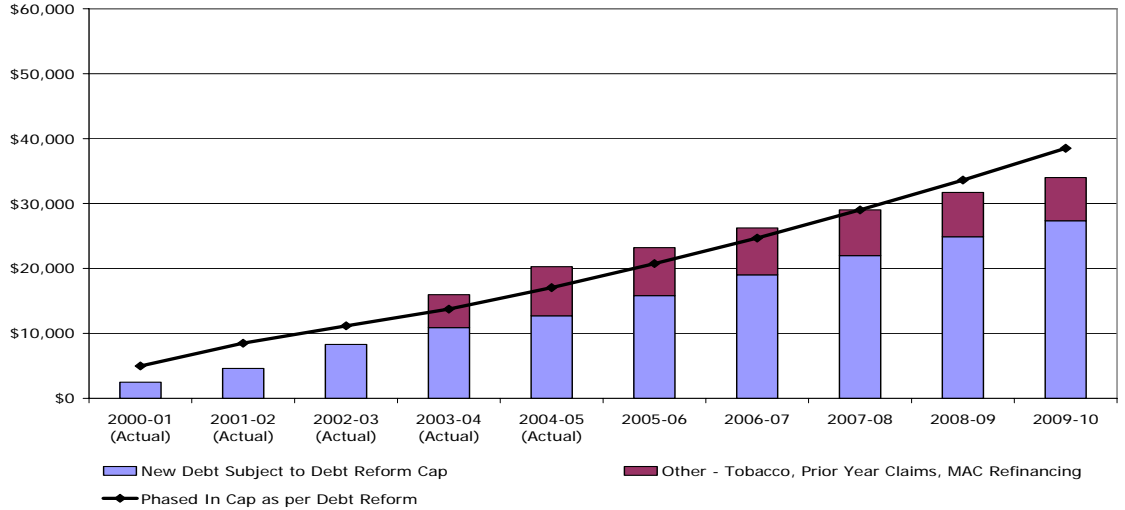


However, if the \$7.7 billion in additional debt authorized and issued since 2000, but not counted within the definition of State-Supported debt, were added, the State would have surpassed the debt cap annually from 2003-04 through 2007-08.

DEBT REFORMS ACT OF 2000 – STATUTORY
DEBT LIMITS

Figure 18

Current State-Supported Debt Outstanding Subject to Cap Plus Tobacco, Prior Year Claims and MAC Refinancing
SFY 2001 through SFY 2010
(in Millions)

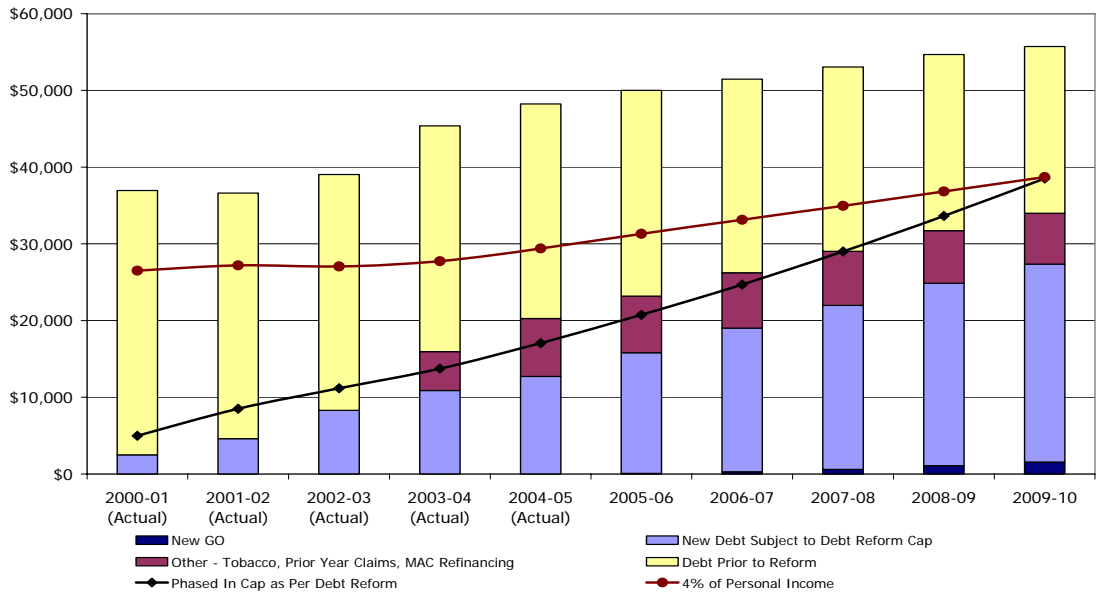


Note: New Debt Projections Subject to Debt Reform Cap pursuant to Division of the Budget 2005-06 Capital Program and Financing Plan

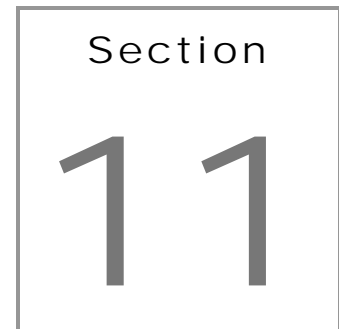
Finally, if debt outstanding before April 1, 2000 is included, the debt cap established in the Debt Reform Act of 2000 is surpassed from the beginning (see Figure 19).

Figure 19

Outstanding Debt Cap Projections - State-Funded Debt
SFY 2001 through SFY 2010
(in Millions)



Note: New Debt Projections Subject to Debt Reform Cap pursuant to Division of the Budget 2005-06 Capital Program and Financing Plan



Recommended Reductions in State-Funded Debt Outstanding

The projected level of State-Funded debt issuance over the next five fiscal years, as outlined in this Study, is excessive and should be curtailed. An excessive debt burden limits the State's flexibility and could harm its credit position. Debt and financial management policies should provide a framework to ensure that the issuance of additional debt is affordable. However, the existing policies and limitations implemented with the Debt Reform Act of 2000 will never effectively restrain the growth of debt because of various loopholes that are built into the law. A comprehensive debt policy, including an all-encompassing definition of State-Funded debt coupled with real limits on debt issuance, is necessary in order to bring the State's debt burden to a more affordable level. Firm policies with respect to the limited issuance of future debt would help protect and perhaps enhance the State's credit ratings, particularly in view of potential future spending needs. At the same time, the State must ensure that necessary capital asset investment is not impaired. A debt limitation policy must balance the State's need to provide enough debt capacity to finance needed capital assets, while at the same time limiting the creation of an excessive debt service burden that could lead to a deteriorated credit position.

- ***State-Funded Debt Outstanding to Personal Income.*** This ratio is a key indicator of fiscal position because it compares debt levels to the tax base that generates revenues that can be used to repay debt. The State Comptroller's Debt Reform proposal recommends capping the level of State-Funded debt outstanding at 5 percent of personal income. The State-Funded debt outstanding to personal income ratio is projected to decline from 6.8 percent in SFY 2006 to 6.0 percent in SFY 2010, above the Comptroller's target level of 5 percent for this indicator. The decline is largely due to the fact that personal income is currently growing faster than projected debt. The Comptroller recommends

RECOMMENDED REDUCTIONS IN STATE-
FUNDED DEBT OUTSTANDING

reducing outstanding State-Funded debt by limiting debt issuance to 95 percent of the previous year's issuances. In doing so, it is expected that the level of State-Funded debt outstanding will decline to an amount equal to 5 percent of personal income within the 2012-13 fiscal year. The State would reach the current statutory cap of 4 percent of personal income (if it applied to all State-Funded debt outstanding) in 2015-16 if the same issuance limitation were applied.

- ***State-Funded Debt Service to All Funds Revenues Ratio.*** This ratio illustrates the State's ability to respond to changes in revenue and spending by comparing the amount of State resources necessary to meet its debt obligations compared to its overall revenue base. The State's current ratio of 4.2 percent is projected to increase to 4.4 percent by SFY 2010, indicating that debt service is projected to consume a larger share of the State's resources.

While it is reasonable to use All Funds receipts as a basis of comparison, included in this revenue is federal funding, much of which is earmarked for specific purposes and cannot be used for debt service needs. For a more thorough and comprehensive assessment of the State's debt service burden, the State may want to continue utilizing the All Funds comparison, but should also begin measuring debt service against State generated revenues. This will more adequately measure the State's debt service burden compared to State generated revenues available for repayment. If comparing State-Funded debt service with State generated receipts, the ratio would grow from 6.5 percent in 2004-05 to 6.7 percent in 2009-10.

- ***State-Funded Debt Outstanding per Capita.*** This ratio measures the State debt burden per taxpayer and can be compared to other individual measures, such as wages or personal debt. This Study does not include the local debt burden in its ratios of debt per capita. According to Moody's, New York has the fifth highest State debt per capita in the nation (behind Connecticut, Massachusetts, Hawaii and New Jersey). However, according to the U.S. Census Bureau, New York has the second highest state and local debt combined per capita in the country, behind Alaska.¹⁹

¹⁹ U.S. Census data of 2002 State and local debt.

Section
12

State-Funded Debt Level With Recommended Issuance Limitations

If the State were to limit the issuance of additional State-Funded debt to 95 percent of the prior year issuance level, the State would have \$54 billion in State-Funded debt outstanding in 2010—representing a reduction of \$1.7 billion from the current plan (see figure 20). The State would issue \$1.8 billion less over the five-year period. This lower level of issuances would also affect planned retirements.²⁰

These figures assume that the planned level of debt issuance for SFY 2006-07 of \$3.7 billion, as anticipated in the current Capital Plan, cannot grow with the Executive Budget submission, and future fiscal year reductions are based on the 2005-06 Enacted Budget Capital Program and Financing Plan, dated April 25, 2005.

Figure 20

State of New York Proposed State-Funded Debt Outstanding 2005-06 through 2009-10 (in thousands)					
	SFY 2006	SFY 2007	SFY 2008	SFY 2009	SFY 2010
Debt at Beginning of Year	\$ 48,248,981	\$ 49,999,402	\$ 51,478,702	\$ 52,587,460	\$ 53,477,215
Issuance	4,038,870	3,699,295	3,514,330	3,338,614	3,171,683
Retirement	(2,288,449)	(2,219,995)	(2,405,572)	(2,448,859)	(2,632,037)
Debt at end of Year With Issuance Limit	49,999,402	51,478,702	52,587,460	53,477,215	54,016,861
Debt at end of Year Without Issuance Limit	49,999,402	51,478,702	53,055,304	54,675,781	55,724,675
Difference	\$ -	\$ -	\$ 467,844	\$ 1,198,566	\$ 1,707,814

²⁰ For the purposes of this Study, retirements were lowered proportionately beginning in 2008-09.

STATE-FUNDED DEBT LEVEL WITH
RECOMMENDED ISSUANCE LIMITATIONS

Figure 21

State of New York Projected State-Funded Debt Issuance 2005-06 through 2009-10 (in thousands)						
	SFY 2006	SFY 2007	SFY 2008	SFY 2009	SFY 2010	Total 2006-2010
General Obligation	\$ 279,400	\$ 372,400	\$ 490,600	\$ 586,400	\$ 616,400	\$ 2,345,200
Public Authority	3,759,470	3,326,895	3,491,574	3,506,328	3,125,629	17,209,896
Sub-Total	\$ 4,038,870	\$ 3,699,295	\$ 3,982,174	\$ 4,092,728	\$ 3,742,029	\$ 19,555,096
95% Issuance Limit	4,038,870	3,699,295	3,514,330	3,338,614	3,171,683	17,762,792
Difference	\$ -	\$ -	\$ 467,844	\$ 754,114	\$ 570,346	\$ 1,792,304

Figure 22

State of New York Effect of Projected New Debt Issuances on Debt Ratios					
	SFY 2006	SFY 2007	SFY 2008	SFY 2009	SFY 2010
State-Funded Debt Outstanding to Personal Income - Without Issuance Limitation	6.8%	6.6%	6.4%	6.3%	6.0%
State-Funded Debt Outstanding to Personal Income - Reduced Issuance	6.8%	6.6%	6.3%	6.1%	5.9%
State-Funded Debt Outstanding Per Capita - Without Issuance Limitation	\$2,584	\$2,652	\$2,725	\$2,801	\$2,847
State-Funded Debt Outstanding Per Capita - Reduced Issuance	\$2,584	\$2,652	\$2,701	\$2,739	\$2,759
State-Funded Debt Service to All Funds Revenues - Without Issuance Limitation	4.2%	4.3%	4.3%	4.4%	4.4%
State-Funded Debt Service to All Funds Revenues - Reduced Issuance	4.2%	4.3%	4.3%	4.3%	4.3%

Section
13

Risks

There are always risks that could jeopardize the Financial Plan and the State's ability to pay for spending needs. Notable risks to the financial and capital plans include the manner in which the State responds to the court order regarding the Campaign for Fiscal Equity lawsuit and planned investment in the \$2 billion Statewide Wireless Network.

Campaign For Fiscal Equity

In June 1995, the Campaign for Fiscal Equity (CFE), on behalf of New York City schoolchildren, filed a lawsuit challenging the constitutionality of the State's public school financing. In 2003, after eight years of court battles, the State Court of Appeals issued a final decision in favor of the CFE requiring the State to determine the actual cost of providing a sound basic education in New York City, enact and implement appropriate reforms, and implement a system of accountability by July 30, 2004. With no formal State response by the court ordered deadline, the State Supreme Court appointed a three-member Special Master Panel, which studied the issue and, on November 30, 2004, recommended the State pay \$5.6 billion a year to New York City schools for operating expenses and another \$9.2 billion for capital costs such as constructing new schools. The Court confirmed these recommendations in February 2005, but Governor Pataki appealed the court ruling, stating it is the Legislature's, and not the Court's, job to make education-funding decisions. In October 2005, the Court heard oral arguments from both sides, but a decision is not expected for several months.

The risk associated with the CFE does not end with the current lawsuit. There has been significant debate on the possibility that other school districts around the State may file similar lawsuits.

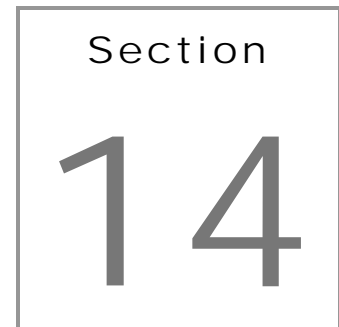
Capital Lease - Statewide Wireless Network

The State recently entered into a contract to build the Statewide Wireless Network to facilitate emergency communications and update associated infrastructure. The infrastructure must meet functional specifications before the State is obligated to pay on the lease, and the State has the right to purchase the network in whole or in part at any time during the contract term. The significant future costs associated with the network and the associated lease may not be covered by cell phone surcharges, which put the State in the position of having to provide additional funds to pay for the lease obligation. Further, the anticipated \$2 billion cost of the network only involves the network infrastructure—additional funding will be required for the acquisition of equipment by State agencies and local government entities to use the network.

Economy and Interest Rates

The Capital Program and Financing Plan update released on April 25, 2005 provides projections for interest rates through 2010 for variable rate; 30-year, fixed rate, tax exempt; 20-year, fixed rate, tax exempt and 10-year taxable bonds. The projections indicate moderate increases in interest rates throughout the life of the Capital Plan. While the projected increases are consistent with other interest rate projections (i.e., 10-year treasury notes), future interest rates are highly uncertain and very difficult to predict, thus introducing uncertainty in both the cost of future borrowings and the future cost of existing debt in variable rate mode.²¹

²¹ Variable rate mode includes unhedged variable rate and fixed rated swapped to floating rate characterized as "excluded agreements."



Recommendations

The State is significantly above the benchmark for outstanding State-Funded debt, as recommended in the Comptroller's February 2005 report, *New York State's Debt Policy - A Need for Reform*. Prioritizing capital spending and the use of future debt capacity is imperative before debt grows to a level that significantly impairs the State's ability to respond to other spending needs. Furthermore, the State needs to take additional steps to increase accountability and transparency in its debt management process, as well as effectively constrain additional debt by establishing meaningful limits on new debt issuances.

Establish a Debt Management Board

Clearly, New York State has to be held accountable for its actions regarding every State dollar, including those gained as a result of debt issuances. In order for this to take place, New York State should establish an effective oversight mechanism for new and refunded debt, as well as outstanding obligations. Over time, the voting public has been virtually excluded from managing the amount, the timing and the purpose of borrowed *public* dollars. The taxpaying public should have an understanding and a voice in the process.

Currently, the Division of the Budget and the Executive control a substantial portion of the process. The establishment of a debt management board would provide coordinated monitoring and reporting of all debt, including debt issued by public authorities. The State Comptroller, the fiscal watchdog for the State, should be as active in planning, implementing, reporting and managing the State's borrowing from beginning to end, as the Executive. Furthermore, a qualified representative of the general public, knowledgeable and experienced in public finance, accounting or economics, should provide a voice outside of the budget-making process.

RECOMMENDATIONS

To increase accountability, complete and transparent information regarding debt practices and plans must be readily available to all New Yorkers. The creation of a Debt Management Board made up of the State Comptroller, the Executive and the public would be responsible for the assessment of Executive and legislative proposals and would be prepared to balance oversight with risk management practices.

The Debt Management Board would establish overall debt policy and regularly monitor and report on the State's debt affordability level. It also would have the authority to adopt guidelines and standards addressing the issuance of bonds and the management of bond proceeds and establishing guidelines for refinancing.

Limit State-Funded Debt Outstanding

In order to reduce the State's debt burden, the State Comptroller recommends limiting outstanding State-Funded debt to 5 percent of personal income. Since the State's current State-Funded debt burden is significantly higher than the Comptroller's recommended limit (7.0 percent as of March 31, 2005), there is a need to limit future debt issuances to 95 percent of the prior year's issuances to not only slow the growth of outstanding debt, but eventually reduce outstanding debt until the recommended level is reached.

Prioritize Capital and Non-Capital Spending Needs

The State must stop issuing debt to finance deficits or to provide budget relief. Currently, over 20 percent of State-Funded debt outstanding, or nearly \$10 billion, has no associated asset. That represents almost 10 percent of 2004-05 All Fund revenues. The debt service on this deficit financing is over \$700 million annually. Furthermore, almost 30 percent of outstanding State-Funded debt created assets for entities other than the State, even though State-wide resources will pay the debt service.

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