

# NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION

*(A Component Unit of the State of New York)*



## Basic Financial Statements

for fiscal year ended March 31, 2020

**NEW YORK**  
**LOCAL GOVERNMENT ASSISTANCE CORPORATION**  
**(A Component Unit of the State of New York)**  
**Basic Financial Statements**  
**Year Ended March 31, 2020**

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## **Independent Auditor's Report**

Board of Directors  
New York Local Government Assistance Corporation  
Albany, New York

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the New York Local Government Assistance Corporation (Corporation) as of and for the year ended March 31, 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation as of March 31, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 5 to 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2020, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

BST & CO. CPAs, LLP

Albany, New York  
June 12, 2020

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The following discussion and analysis of the New York Local Government Assistance Corporation's (the "Corporation" or "LGAC") financial performance provides an overview of the Corporation's financial activities for the fiscal year ended March 31, 2020.

### **FINANCIAL HIGHLIGHTS**

- The Corporation's total bonds outstanding at year-end were \$266.2 million, net of unamortized amounts, which is a decrease of \$988.1 million from the prior year.
- The Corporation's net position as of March 31, 2020 is a deficit of \$87.2 million. This represents an increase of \$688.7 million from the Corporation's net position from the previous fiscal year-end, a deficit of \$775.9 million. This increase is primarily the result of repayment of bonds from State appropriations and proceeds from the refunding issuance of the New York State Urban Development Corporation State Sales Tax Revenue Bonds, Series 2020A (Tax-Exempt) and Series 2020B (Federally Taxable) ("STRB 2020").
- During the fiscal year ended March 31, 2020, the Corporation had revenues of \$704.9 million, which included \$302.4 million in funds drawn from appropriations from New York State and \$381.3 million in proceeds received from STRB 2020.
- Total expenses of the Corporation for the fiscal year ended March 31, 2020 on a full accrual basis were \$16.2 million, which includes \$14.1 million for interest on the Corporation's outstanding bonds.
- As a result of the STRB 2020, the Corporation recorded a Gain on in-substance bond defeasance, which is attributed to write-offs of unamortized bond premiums, unamortized deferred losses attributed to the refunded debt, swap deferred inflow and swap liability and payments made to the escrow agent.
- The Corporation's General Fund ended the year with an annual operating deficit of \$392 thousand and a fund balance of \$1.1 million.
- The Corporation's Debt Service Fund ended the year with an annual operating deficit of \$331 million and a fund balance of \$181.9 million. Assets in the Debt Service Fund included \$169.2 million in cash, and \$12.7 million in investments. The Corporation's Trustee held cash to pay debt service of \$169.2 million that was payable on April 1, 2020. The annual operating deficit and related decrease in fund balance in the Debt Service Fund are primarily attributable to the fact that the funds drawn from State appropriations were less than debt service.
- The Corporation's \$158 million combined capital reserve requirements were satisfied on an amortized cost basis by holding cash and investments with no amortized cost and owning a FGIC Municipal Bond Debt Service Reserve Insurance Policy ("Surety Bond") that will pay up to \$170 million through April 1, 2021 to pay debt service, if needed. The Corporation's Senior Capital Reserve Fund is currently funded with a Surety Bond. Pursuant to a reinsurance agreement between FGIC and National Public Finance Guarantee Corporation ("NPFPG"), a subsidiary of MBIA, Inc., NPFPG has reinsured certain obligations of FGIC, including the Surety Bond on deposit in the Senior Capital Reserve Fund. As of March 31, 2020, NPFPG is rated Baa2 by Moody's Investor Services ("Moody's"), and is no longer rated by S&P Global Ratings ("S&P").
- The long-term bond ratings assigned to the Corporation as of March 31, 2020 were Aa1 by Moody's, AA+ by S&P and AA+ by Fitch Ratings, Inc. ("Fitch").

## **USING THIS FINANCIAL REPORT**

This financial report consists of four financial statements presented on two pages. The first two financial statements are the Governmental Funds Balance Sheet/Statement of Net Position on page 10. The final two financial statements are the Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities on page 11.

The Statement of Net Position and the Statement of Activities provide information about the activities of the Corporation as a whole, and present a longer term view of the Corporation's finances by focusing on total available resources and changes therein. The fund financial statements indicate how expenditures were financed in the short-term, as well as reflecting amounts remaining as fund balance. Fund financial statements also report the Corporation's operations in more detail than the Corporation-wide statements by providing information about the Corporation's two separate funds: the General Fund and the Debt Service Fund.

The change in the focus between currently available resources and total available resources is identified in the Adjustments columns found on the financial statements (pages 10 and 11). To arrive at the Statement of Net Position, the accrued interest expense on the Corporation's bonds, the outstanding balance of bonds, and certain other adjustments are added to the total column on the Governmental Funds Balance Sheet. This is displayed in the Adjustments column to the left of the Statement of Net Position. To arrive at the Statement of Activities, transactions relating to long-term liabilities and expenditures that were deferred and amortized are added to or eliminated from the Statement of Revenues, Expenditures and Changes in Fund Balances. For the Corporation, transactions not affecting its reported net position are payments of debt principal, the advance repayment of debt, and expenditures incurred in prior periods. Amounts relating to the aforementioned transactions are displayed in the Adjustments column to the left of the Statement of Activities.

## **Reporting the Corporation as a Whole**

### **The Statement of Net Position and the Statement of Activities**

These statements report the Corporation's net position and changes to the Corporation's net position. Annual changes in the Corporation's net position - assets and deferred outflows of resources less liabilities and deferred inflows of resources - provide one way to measure the Corporation's financial health or financial position. Over time, increases or decreases in the Corporation's net position are indicators of whether its financial health is improving or deteriorating. As the Corporation is entirely dependent on appropriations from the State of New York ("State") in evaluating the financial health of the Corporation, the reader will also need to consider the ability and likelihood of the State to continue to make appropriations to the Corporation to support the payments of debt service on the Corporation's bonds, as well as its other expenses.

## **Reporting the Corporation's Funds**

### **Fund Financial Statements**

The fund financial statements provide detailed information about the Corporation's two distinct funds - not the Corporation as a whole. The fund financial statements are prepared using a different approach than the Corporation-wide financial statements. The fund financial statements focus on how money flows into and out of those funds and the balances remaining at year-end. The Corporation's revenues and expenditures are reported in governmental funds. These funds are reported using the modified accrual basis of accounting, which reports revenues when they become both measurable and available to finance expenditures of the current period; expenditures are recorded in the period the liability is incurred and expected to be paid from current financial resources, with the exception of long-term liabilities which are recognized in the period they are payable. The governmental fund statements provide a detailed short-term view of the Corporation's operating requirements for the year ended March 31, 2020.

## THE CORPORATION AS A WHOLE

The Corporation will annually report a deficit in its net position. The deficit in the Corporation's net position arose as it carried out its statutory purpose of eliminating the State's annual short-term borrowing. During the years 1991 through 1995, the Corporation issued long-term obligations to finance State local assistance payments, capital reserve requirements, and costs of issuance. This debt will continue to be repaid from appropriations expected to be received from the State in subsequent years. This unrestricted deficit can be expected to continue for as long as the Corporation has debt outstanding.

The following table summarizes the net position for the fiscal years ended March 31, 2020 and March 31, 2019:

**Table 1**  
**Net Position as of March 31, 2020 and March 31, 2019**  
**(Amounts in thousands)**

	2020	2019
<b>Assets and Deferred Outflows of Resources:</b>		
Cash and investments.....	\$ 183,480	\$ 514,420
Interest receivable .....	-	390
<b>Total assets.....</b>	<b>183,480</b>	<b>514,810</b>
Deferred outflows of resources .....	2,172	17,548
<b>Total assets and deferred outflows of resources .....</b>	<b>185,652</b>	<b>532,358</b>
<b>Liabilities and Deferred Inflows of Resources:</b>		
Liabilities due within one year.....	169,651	399,810
Liabilities due in more than one year.....	103,175	900,605
<b>Total liabilities .....</b>	<b>272,826</b>	<b>1,300,415</b>
Deferred inflows of resources .....	-	7,817
<b>Total liabilities and deferred inflows of resources .....</b>	<b>272,826</b>	<b>1,308,232</b>
<b>Net Position:</b>		
Restricted for debt service.....	181,926	512,539
Unrestricted (deficit).....	(269,100)	(1,288,413)
<b>Total net position (deficit) .....</b>	<b>\$(87,174)</b>	<b>\$(775,874)</b>

The Corporation's net position increased by \$688.7 million from one year ago, from a deficit of \$775.9 million to a deficit of \$87.2 million. The increase in the net position resulted from bond repayments made from State appropriations and proceeds received from STRB 2020.

The following table summarizes the changes in net position for the fiscal years ended March 31, 2020 and March 31, 2019.

**Table 2**  
**Changes in Net Position for the fiscal years ended March 31, 2020 and March 31, 2019**  
**(Amounts in thousands)**

	<b>2020</b>	<b>2019</b>
<b>General Revenues:</b>		
Appropriations from New York State .....	\$ 302,401	\$ 424,856
Public Authority Proceeds .....	381,304	-
Gain on in-substance bond defeasance .....	17,443	-
Investment income .....	3,731	3,308
<b>Total revenues .....</b>	<b>704,879</b>	<b>428,164</b>
<b>Expenses:</b>		
General and administrative .....	2,036	2,340
Interest expense .....	14,143	37,245
<b>Total expenses .....</b>	<b>16,179</b>	<b>39,585</b>
<b>Changes in net position .....</b>	<b>688,700</b>	<b>388,579</b>
<b>Net position (deficit), beginning of year .....</b>	<b>(775,874)</b>	<b>(1,164,453)</b>
<b>Net position (deficit), end of year .....</b>	<b>\$ (87,174)</b>	<b>\$ (775,874)</b>

## THE CORPORATION'S FUNDS

At the close of the 2019-20 fiscal year, the Corporation reported a combined fund balance in its governmental funds (as presented in the balance sheet on page 10) of \$183 million, a decrease of \$331.4 million or 64.4 percent from the prior year's combined fund balance of \$514.4 million. Included in this year's total changes in fund balances are an operating deficit of \$392 thousand in the Corporation's General Fund and a deficit of \$331 million in the Corporation's Debt Service Fund. The primary reason for the \$331 million deficit in the Corporation's Debt Service Fund is that funds drawn from State appropriations were less than the debt service paid. Funds drawn from appropriations change annually based on interest rates and cash flow assumptions.

### Corporation Revenues and Expenditures

During the year, the Corporation received \$1.6 million in its General Fund from State appropriations and earned \$28 thousand in investment income on funds in the Operating Account within the General Fund. These revenues were used to pay \$2 million in general and administrative expenditures. This resulted in a decrease of \$392 thousand in the General Fund balance. The Corporation also received \$300.8 million in its Debt Service Fund from State appropriations, \$381.3 million from Public Authority proceeds and earned \$3.7 million in investment income on funds in its Capital Reserve and Debt Service Accounts within the Debt Service Fund. These revenues were used to pay \$1 billion in debt service expenditures which included \$31.4 million (of which \$15.5 million was for termination payments) on its interest rate exchange agreements. This resulted in a decrease of \$331 million in the Debt Service Fund balance.

### Debt

The Corporation is authorized to issue up to \$4.7 billion of bonds or notes plus an amount necessary to fund capital reserve requirements, costs of issuance and a limited amount of capitalized interest. As of March 31, 1996, the Corporation had issued all the debt it was authorized to issue. Any future debt issuance is limited to refunding or portfolio management purposes. At year end, the Corporation had \$266.2 million in bonds

outstanding, net of unamortized deferred amounts. This represents a \$988.1 million decrease from the prior year.

The long-term ratings assigned to the Corporation's bonds as of March 31, 2020 were Aa1 by Moody's, AA+ by S&P, and AA+ by Fitch.

## **DEBT SERVICE COVERAGE RATIO**

The Corporation is dependent upon receipt of appropriations from the State for payment of debt service on its bonds and for its operating costs. The State makes its payments from the Local Government Assistance Tax Fund ("LGATF"), which is under the joint custody of the State Comptroller and the Commissioner of Taxation and Finance. The LGATF receives a portion of the receipts collected within the State from the imposition of sales and use taxes, including interest and penalties ("sales tax"), equivalent to a one percent rate of taxation. Sales tax receipts received by the LGATF during the State's 2019-20 fiscal year were 21.7 times the maximum annual debt service at rates in effect at March 31, 2020.

## **CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives and spends. If you have any questions about this report or need additional financial information, contact the Corporation at 110 State Street, 15<sup>th</sup> Floor, Albany, New York 12236, by phone at (518) 474-4015 or by email at [debtmanagement@osc.ny.gov](mailto:debtmanagement@osc.ny.gov).

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**NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF NEW YORK)**  
Governmental Funds Balance Sheet/Statement of Net Position

March 31, 2020  
(Amounts in thousands)

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>	<b>Adjustments (Note 6)</b>	<b>Statement of Net Position</b>
<b>Assets:</b>					
Cash and investments.....	\$ 1,554	\$ 181,926	\$ 183,480	\$ —	\$ 183,480
<b>Total assets.....</b>	<b>1,554</b>	<b>181,926</b>	<b>183,480</b>	<b>—</b>	<b>183,480</b>
Deferred outflows of resources.....	—	—	—	2,172	2,172
<b>Total assets and deferred outflows of resources.....</b>	<b>1,554</b>	<b>181,926</b>	<b>183,480</b>	<b>2,172</b>	<b>185,652</b>
<b>Liabilities:</b>					
Accounts payable.....	\$ 466	\$ —	\$ 466	—	466
Accrued interest payable.....	—	—	—	6,210	6,210
Long-term liabilities:					
Due within one year.....	—	—	—	162,975	162,975
Due in more than one year:					
Bonds payable .....	—	—	—	103,175	103,175
<b>Total liabilities.....</b>	<b>466</b>	<b>—</b>	<b>466</b>	<b>272,360</b>	<b>272,826</b>
<b>Fund Balances:</b>					
Restricted.....	—	181,926	181,926	(181,926)	—
Assigned .....	1,088	—	1,088	(1,088)	—
<b>Total fund balances.....</b>	<b>1,088</b>	<b>181,926</b>	<b>183,014</b>	<b>(183,014)</b>	<b>—</b>
<b>Total liabilities and fund balances.....</b>	<b>1,554</b>	<b>181,926</b>	<b>183,480</b>		
<b>Net position (deficit):</b>					
Restricted for debt service.....				181,926	181,926
Unrestricted (deficit).....				(269,100)	(269,100)
<b>Total net position (deficit).....</b>				<b>(87,174)</b>	<b>(87,174)</b>

See accompanying notes to the basic financial statements.

**NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF NEW YORK)**  
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities

For the Year Ended March 31, 2020  
(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments (Note 7)</u>	<u>Statement of Activities</u>
<b>General Revenues:</b>					
Appropriations from New York State.....	\$ 1,616	\$ 300,785	\$ 302,401	\$ —	\$ 302,401
Public Authority proceeds.....	—	381,304	381,304	—	381,304
Gain on in-substance bond defeasance.....	—	—	—	17,443	17,443
Investment income.....	28	3,703	3,731	—	3,731
<b>Total revenues.....</b>	<b><u>1,644</u></b>	<b><u>685,792</u></b>	<b><u>687,436</u></b>	<b><u>17,443</u></b>	<b><u>704,879</u></b>
<b>Expenditures/Expenses:</b>					
General and administrative.....	2,036	—	2,036	—	2,036
Debt service					
Principal.....	—	941,890	941,890	(941,890)	—
Interest.....	—	74,905	74,905	(60,762)	14,143
<b>Total expenditures/expenses.....</b>	<b><u>2,036</u></b>	<b><u>1,016,795</u></b>	<b><u>1,018,831</u></b>	<b><u>(1,002,652)</u></b>	<b><u>16,179</u></b>
<b>Excess (deficiency) of revenues over expenditures.....</b>	<b><u>(392)</u></b>	<b><u>(331,003)</u></b>	<b><u>(331,395)</u></b>	<b><u>1,020,095</u></b>	<b><u>—</u></b>
<b>Net change in fund balance.....</b>	<b><u>(392)</u></b>	<b><u>(331,003)</u></b>	<b><u>(331,395)</u></b>	<b><u>331,395</u></b>	<b><u>—</u></b>
<b>Change in net position.....</b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>688,700</u></b>	<b><u>688,700</u></b>
<b>Fund balances/net position (deficit):</b>					
Beginning of year.....	1,480	512,929	514,409	(1,290,283)	(775,874)
<b>End of year.....</b>	<b><u>\$ 1,088</u></b>	<b><u>\$ 181,926</u></b>	<b><u>\$ 183,014</u></b>	<b><u>\$ (270,188)</u></b>	<b><u>\$ (87,174)</u></b>

See accompanying notes to the basic financial statements.

**NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF NEW YORK)**

Notes to the Financial Statements  
Year Ended March 31, 2020

**(1) Summary of Significant Accounting Policies**

**(a) Organization**

The New York Local Government Assistance Corporation (“Corporation” or “LGAC”) was established by Chapter 220 of the Laws of 1990 (as amended) to issue up to \$4.7 billion in long-term debt, in order to finance certain local assistance payments appropriated by the State of New York (“State”), in addition to bonds necessary to fund a capital reserve account, costs of issuance and up to six months of capitalized interest. Issuance of these bonds eliminated the need for the State's annual “Spring Borrowing.” Prior to the creation of the Corporation, certain large payments due to the State's local government units were made in the first quarter of the State's fiscal year, particularly in support of primary and secondary education, while revenues were received more evenly throughout the fiscal year. To meet these payments, the State issued short-term tax and revenue anticipation notes referred to as the annual “Spring Borrowing.” Primarily as a result of bond issuances by the Corporation, there was no Spring Borrowing in the State's 1995 through 2020 fiscal years. The fiscal year ended March 31, 2020 was the twenty-ninth year of the Corporation's existence. The Corporation is a blended component unit of the State and its continued operations are almost entirely dependent upon the annual appropriations received from the State.

Payments of debt service on the Corporation's bonds will be made from appropriations received from the State. Pursuant to the Act establishing the Corporation, the State deposits one cent of the State's four cent sales and use tax into the LGATF, which is used by the State to make payments to the Corporation. Amounts in excess of the Corporation's needs are transferred from the LGATF to the State's General Fund after the Corporation's and other requirements have been met as provided by statute. State payments to the Corporation are subject to annual appropriations by the State Legislature. The Corporation's bondholders do not have a lien on monies deposited in the LGATF.

**(b) Basis of Presentation**

The accompanying basic financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for governments. Such principles are prescribed by the Governmental Accounting Standards Board (“GASB”), which is the standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America. The Corporation has prepared Corporation-wide financial statements titled “Statement of Net Position” and “Statement of Activities” as well as the required supplementary information titled “Management’s Discussion and Analysis” which precedes the financial statements. The Corporation also prepares fund financial statements, which are the “Governmental Funds Balance Sheet,” and “Statement of Revenues, Expenditures and Changes in Fund Balances.” The basic financial statements include both the Corporation-wide and the fund financial statements, which have been combined together and presented on the same pages.

The Corporation follows the principles of fund accounting in that each segment of operations is represented under a discrete fund presentation in the fund financial statements. The Corporation uses funds to report its financial position and results of operations. The General Fund consists of the Operating Account, Cost of Issuance Accounts for new bond issuances, and the Local Assistance

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Notes to the Financial Statements  
Year Ended March 31, 2020

Payment Account. The Debt Service Fund consists of the Debt Service Accounts, the Capital Reserve Accounts, the Rebate Accounts, and the Cost of Issuance Accounts for refunding bond issuances. The General Fund is used to account for all financial transactions of the Corporation except for debt service related transactions which are accounted for in the Debt Service Fund. The Rebate Account within the Debt Service Fund is used to remit investment earnings to the United States Department of the Treasury, when necessary, in accordance with the Internal Revenue Code (arbitrage rebate payments).

**(c) *Basis of Accounting***

The Corporation utilizes the modified accrual basis of accounting, which focuses on changes in current financial resources, in the preparation of the fund financial statements. Under the modified accrual basis of accounting, revenues and related receivables are recorded in the accounting period that they become both measurable and available. “Available” means collectible within the current period, which is within twelve months of the end of the current fiscal period, to be used to pay liabilities of the current period. Expenditures and related liabilities are recorded in the accounting period the liability is incurred and payable from current resources, except for principal and interest on long-term debt and estimated other long-term liabilities which are recorded only when payment is due and payable.

Operating expenditures are direct costs incurred by the Corporation, such as legal fees, financial advisory fees, printing costs, trustee fees, letter of credit/liquidity fees, remarketing agent fees, broker-dealer fees, arbitrage rebate calculation fees, and other related costs. Operating expenditures are paid from monies received from the State and earnings from their investments. Staff support is provided by the State without cost to the Corporation.

The Corporation utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in the preparation of the Corporation-wide financial statements. Under the full accrual basis of accounting, changes in long-term assets and deferred outflows of resources and liabilities and deferred inflows of resources are incorporated into the financial statements. Since the fund financial statements are prepared using a different method of measuring revenues and expenditures and a different basis of accounting than the Corporation-wide financial statements, an adjustments column is presented to convert the fund basis financial statements into the Corporation-wide financial statements.

Amortization of bond premiums has been computed using the straight-line method. The Corporation also defers and amortizes losses on refunding bond issuances using the straight-line method.

**(d) *Municipal Assistance Corporation Refinancing Act***

Chapter 62 and Chapter 63 of the Laws of 2003 enacted, among other provisions, the Municipal Assistance Refinancing Act (“Act”), effective July 1, 2003 and is deemed repealed as of July 1, 2034. The Act created an incentive for the State to seek an appropriation to provide \$170 million per year, from the LGATF to the City of New York (“City”) for each of the City’s fiscal years beginning July 1, 2003 and ending June 30, 2034. The Act requires the Corporation to annually

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Notes to the Financial Statements  
Year Ended March 31, 2020

certify \$170 million so that the State, subject to annual State appropriation by the Legislature, can provide for a series of payments to the City or the Mayor's assignee in each City fiscal year beginning July 1, 2003 and ending June 30, 2034 totaling \$5.27 billion.

The Act was established with the expectation that the City, acting through the Mayor, would assign the annual payments from the State to a newly created not-for-profit corporation that would issue bonds and use those proceeds to refinance all existing debt of the Municipal Assistance Corporation for the City of New York ("MAC") due in the near term (approximating \$2.5 billion at the time of the Act). The City subsequently created the Sales Tax Asset Receivable Corporation ("STARC") which, in 2004, securitized the annual payments and refinanced the MAC bonds with the proceeds. In 2014, STARC refinanced this debt and certain other bonds, all payable from the \$170 million State payment from the LGATF, as assigned. By law, the LGATF receives a portion of the receipts generated by the State's sales and use tax (equivalent to one quarter of the four percent tax which was \$3.7 billion during State fiscal year 2019-20). The balance of the LGATF's receipts not needed by the Corporation for its purposes are transferred from the LGATF to the State's General Fund. Based on current law, until the Legislature enacts an appropriation of \$170 million, the Corporation certifies the release of the funds, the \$170 million State payment is made, the Legislature enacts an appropriation to satisfy all Dedicated Highway and Bridge Trust Fund Cooperative Agreement payments as certified by the Chair of the New York State Thruway Authority and the Corporation receives the amount it has certified for its needs, no excess sales tax receipts can be transferred from the LGATF to the State's General Fund. During fiscal year 2019-20, the Corporation certified the release of the sixteenth State payment of \$170 million to the City.

The Corporation filed a complaint in New York State Supreme Court in August 2003 seeking a court determination that the statute requiring a certification and possible payment by the Corporation to the City or its assignee was invalid. Ultimately, the New York State Court of Appeals found the statute to be valid but determined that it does require an annual State appropriation to make any payments. The court further found that any annual payment required by the State could not interfere with the Corporation bondholders' rights.

In May 2004, the Corporation amended its General Bond Resolution and General Subordinate Lien Bond Resolution ("the Resolutions") to clarify that any failure to certify or assure that the State's payments are made to the City or its assignee has no impact on the Corporation's own bondholders; and that if any such act or omission were to occur with respect to any potential STARC bonds, that act or omission would not constitute an Event of Default with respect to the Corporation bonds. In June 2004, the Corporation's Trustee, The Bank of New York Mellon, notified the Corporation's bondholders of these amendments.

**(2) Cash and Investments**

The following are authorized investments for the Corporation's Debt Service and Capital Reserve Funds, which are included in the Debt Service Fund as presented in the financial statements.

To the extent permitted by law, the following are the Authorized Investments for the Capital Reserve Fund:

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1. Any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America including inflation index securities and Treasury STRIPS issued by a Federal Reserve Bank;
2. Direct and general obligations of New York State, provided that the rating thereon shall not be less than the rating on the Corporation's Bonds, each as established by Fitch, Moody's and S&P, if and to the extent that such firms continue to maintain a rating on the Corporation's Bonds and on such obligations of the State;
3. Certificates of deposit, whether negotiable or non-negotiable, issued by any bank or trust company having a combined capital and surplus of at least \$50 million organized under the laws of any state of the United States of America or any national banking association (including the Corporation's Trustee), which certificates of deposit are fully insured by the Federal Deposit Insurance Corporation or fully secured by such securities as are described in paragraph (1) above, but in any event collateralized to the level required by each of the rating agencies referred to in paragraph (2) if and to the extent such firms maintain a rating on the Corporation's Bonds;
4. Any purchase and sale of securities (simultaneous purchase of a permitted investment with an agreement to sell it back to the seller) with any bank or trust company organized under the laws of any state of the United States of America and authorized to do business in the State of New York or any national banking association (including the Corporation's Trustee) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York with respect to any one or more of the securities described in paragraph (1) above; and
5. General obligation bonds and notes of any state other than New York State and, to the extent permitted by law, general obligation bonds and notes of any political subdivision of the State or any state, provided that such bonds and notes receive the highest rating from each of Fitch, Moody's, and S&P, if and to the extent that such firms continue to maintain a rating on the Corporation's Bonds and on such bonds and notes.

The following are Authorized Investments for the Debt Service Fund:

1. To the extent permitted by law, and to the extent the securities are legal investments for the Corporation, the Authorized Investments for monies in the Debt Service Fund are as described in (1), (3), and (4) under Authorized Investments for the Capital Reserve Fund presented above.

Monies on deposit in any other fund or account not listed above may be invested pursuant to Section 98-a of the State Finance Law. All investments are insured, registered, or held by the Corporation's Trustee in the Corporation's name.

Investments are measured and recorded at fair value in accordance with the fair value hierarchy established by generally accepted accounting principles. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices for identical investments in active markets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. U.S. Treasury Notes are valued based on pricing techniques provided by a vendor and are therefore classified in Level 2 of the

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fair value hierarchy.

The following table represents investments of the Corporation by investment type with related reported amounts which are equal to recurring fair value measurement (excluding accrued interest) at March 31, 2020 (amounts in thousands):

<b>Investment Type</b>	<b>Reported Amount</b>	<b>Investment Maturities</b>	
		<b>Less than 1 Year</b>	<b>1-5 Years</b>
U.S. Treasury Bills.....	\$ 12,726	\$ 12,716	\$ -

The Corporation experienced a net decrease in the fair value of its investments during the year of \$508 thousand which is a component of the amount of investment income reported by the Corporation. This amount takes into account all changes in fair value that occurred during the year.

Included in the \$181.9 million of total cash and investments in the Debt Service Fund at March 31, 2020 is \$169.2 million in cash that was transferred by the Corporation's trustee to a separate account on March 31, 2020 in order to meet the Corporation's April 1, 2020 debt service payment. Pursuant to the Corporation's General Bond Resolution and General Subordinate Lien Bond Resolution, the Corporation's Trustee must transfer required debt service funds to a separate account on the business day preceding a debt service payment date.

**(3) Bonds Payable**

The Corporation is authorized to issue up to \$4.7 billion in bonds plus an amount necessary to fund a capital reserve, costs of issuance, and a limited amount of capitalized interest. As of March 31, 1996, the Corporation had issued bonds equal to its authorized amount. Under existing statutes, any issuance of bonds by the Corporation in the future is limited to refunding or portfolio management purposes only.

As of March 31, 2020, the Corporation had \$253.1 million of fixed rate debt in 3 series of bonds outstanding with interest rates ranging from 4 percent to 5 percent. The Corporation has no variable interest rate bonds outstanding.

The State dedicated a portion of its sales and use tax revenues to make payments to the Corporation pursuant to a payment agreement between the State Director of the Division of the Budget and the Corporation for the purpose of funding the Corporation's debt service. Subject to appropriation, the State will make these payments to the Corporation five days prior to the debt service due date. The \$1 billion representing fiscal year 2019-20 debt service payments is comprised of \$941.9 million in principal and \$74.9 million in interest.

The Corporation's general bond resolution requires that one or more capital reserve accounts be established and funded based on an amount equal, on an amortized cost basis, to the maximum annual amount on Senior Lien Bonds and half the maximum annual amount on Subordinate Lien Bonds of principal, sinking fund installments or redemption price of, and interest on, all bonds outstanding or on any related reimbursement obligations, coming due during the then current or any succeeding fiscal year. The Corporation may also fund a capital reserve account with a surety bond or other similar instrument. The

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Corporation has established two separate capital reserve accounts to support bonds based upon the priority of their lien against funds of the Corporation - bonds holding a first lien (“Senior Lien”) and bonds holding a subordinate lien (“Subordinate Lien”). At March 31, 2020, the Senior Lien requirement was met by a surety bond of \$170 million, expiring on April 1, 2021. At March 31, 2020, the Subordinate Lien requirement was met with investments with an amortized cost of \$12.2 million and a fair value of \$12.2 million and cash of \$14 thousand. The cash and investments of the Subordinate Lien accounts are reported as a part of cash and investments in the Debt Service Fund with a corresponding reservation of fund balance.

Estimated annual debt service payments to maturity for all of the Corporation’s bonds are as follows (amounts in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021.....	\$ 162,975	\$ 8,346	\$ 171,321
2022 .....	90,135	2,136	92,271
<b>Totals .....</b>	<b>\$ 253,110</b>	<b>\$ 10,482</b>	<b>\$ 263,592</b>

The Corporation believes it is in compliance with all significant limitations and restrictions related to bonds outstanding.

**(4) Interest Rate Exchange Agreements (Swap Agreements)**

On March 26, 2020, the Corporation refunded the Series 2003A-4V, 2008B-3V and 2008B-7V VRDBs (“VRDB Refunded Bonds”) with proceeds from the refunding issuance of New York State Urban Development Corporation State Sales Tax Revenue Bonds, Series 2020A (Tax-Exempt) and Series 2020B (Federally Taxable). As part of the refunding, the Corporation terminated its swap agreements to which the VRDB Refunded Bonds corresponded. In conjunction with the termination, the Corporation paid \$20,154,379, which includes interest of \$4,705,480 and penalties of \$15,448,899.

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**(5) Changes in Long-Term Liabilities**

Long-term liability activity for the year ended March 31, 2020 was as follows (amounts in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds payable .....	\$ 1,195,000	\$ -	\$ 941,890	\$ 253,110	\$ 162,975
Unamortized premium ....	<u>59,254</u>	<u>-</u>	<u>46,214</u>	<u>13,040</u>	<u>-</u>
<b>Net bonds payable .....</b>	<b>1,254,254</b>	<b>-</b>	<b>988,104</b>	<b>266,150</b>	<b>162,795</b>
Other Liability:					
Derivative instruments – interest rate swaps.....	<u>19,676</u>	<u>-</u>	<u>19,676</u>	<u>-</u>	<u>-</u>
<b>Total long-term liabilities.....</b>	<b>\$ <u>1,273,930</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>1,007,780</u></b>	<b>\$ <u>266,150</u></b>	<b>\$ <u>162,975</u></b>

**(6) Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Statement of Net Position**

Long-term liabilities of the Corporation’s activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position. The deferred loss on refunding bonds is not due and payable in the current period but is reported in the Statement of Net Position. Balances at March 31, 2020 were (amounts in thousands):

Bonds payable, net .....	\$ 266,150
Accrued interest on bonds payable .....	6,210
Deferred outflows of resources related to deferred loss on refunding.....	<u>(2,172)</u>
<b>Net adjustment .....</b>	<b>\$ <u>270,188</u></b>

**(7) Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities**

Repayment of bond principal is reported as an expenditure in the governmental funds and, therefore, contributes to the change in fund balance. In the Statement of Net Position, however, repaying bond principal decreases long-term liabilities. Similarly, recognition of revenues and expenditures not expected to be received or paid in the current year will not affect the fund balance reported for the governmental funds. In the Statement of Activities prepared on the full accrual basis, however, all revenues and expenses are recognized in the year they are earned or incurred, regardless of when they are paid, and will therefore be reflected in the Statement of Activities. These differences in measurement recognition affect both the reported fund balance and reported net position. Adjustments required to be made to the reported

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governmental funds revenues and expenditures in order to arrive at the Statement of Activities for March 31, 2020 are as follows (amounts in thousands):

**Adjustments to revenues:**

Gain on in-substance bond defeasance.....	\$	17,443
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**Adjustments to expenditures:**

Repayment of bond principal:		
Payments to bondholders .....	\$	(941,890)
Amortization of loss on refunding of bonds.....		5,224
Amortization of premium on refunding of bonds .....		(14,493)
Net adjustment to arrive at interest expense.....		(51,493)
<b>Net adjustment to expenditures .....</b>	<b>\$</b>	<b><u>(1,002,652)</u></b>