



Debt Impact Study

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New York State
Office of the State Comptroller
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Executive Summary

Debt is an essential financing tool for State and local governments. The infrastructure citizens rely on—roads, bridges, schools, hospitals, universities, housing and mass transit—is made possible through the issuance of debt. However, the overall debt burden of a government entity directly affects its ability to finance current services and future projects or meet unexpected needs resulting from disasters or emergencies. Debt capacity should not be treated as an unlimited resource. The use of debt has long-term consequences for a government’s operating budget since the cost of borrowing, including both principal and interest, is spread out over many years. An over reliance on the use of debt to finance government projects without a clear assessment of need will ultimately limit the flexibility a government has to respond to other spending pressures.

This *Debt Impact Study* provides a comprehensive assessment by the Office of the State Comptroller of the amount of outstanding State debt, the trends in the issuance of debt by the State and percentage of State financial resources dedicated to the payment of this debt. This *Study* concludes that despite the Debt Reform Act of 2000, New York State continues to issue increasing amounts of debt, not only for capital purposes but for the financing of operating costs.

Over the past five years, **State-funded debt outstanding** grew significantly, increasing from \$39 billion in State Fiscal Year (SFY) 2002-03 to \$51 billion in SFY 2006-07, a growth rate of 30.6 percent (\$11.9 billion).¹ The State’s current five-year capital plan projects State-funded debt to increase to \$63.7 billion in SFY 2011-12. This growth represents an increase of \$12.7 billion, or 25 percent, between the current fiscal year and SFY 2011-12. In total, State debt outstanding is expected to increase by approximately \$24.6 billion, or 63.1 percent, over the ten-year period from SFY 2002-03 to SFY 2011-12.

New York State-Funded Debt Outstanding and Debt Service
(in millions)

	SFY 2002-03	SFY 2006-07	\$ Change From 2002-03	% Change From 2002-03	Average Annual Growth	SFY 2011-12	\$ Change From 2006-07	% Change From 2006-07	Average Annual Growth
Total State-Funded Debt Outstanding	\$39,037	\$50,979	\$11,942	30.6%	7.1%	\$63,679	\$12,700	24.9%	4.1%
Total State-Funded Debt Service	\$3,695	\$4,625	\$931	25.2%	6.1%	\$7,058	\$2,433	52.6%	8.8%

¹ State-Funded debt is the broadest and most comprehensive measure of State debt when assessing burden. It includes all debt where principal and interest is paid either directly or indirectly by the State, solely with State resources. Totalling nearly \$51 billion through March 31, 2007, this measure includes General Obligation bonds and other State-Supported debt as defined by the Debt Reform Act in the State Finance Law, obligations associated with the State tobacco revenue stream, bonds issued to finance prior year school aid claims by the Municipal Bond Bank Agency on behalf of various school districts, obligations issued to refinance New York City’s Municipal Assistance Corporation obligations and Building Aid Revenue Bonds issued by the New York City Transitional Finance Authority.

This large increase in debt outstanding is accompanied by a significant increase in **debt service**. Over the past five years, debt service on State-funded debt increased by approximately \$931 million, or 25.2 percent, from \$3.7 billion to \$4.6 billion. Debt service on State-funded debt is projected to total nearly \$7.1 billion in SFY 2011-12, an increase of \$2.4 billion, or 52.6 percent, over the next five years. In total, debt service on State-funded debt is expected to increase by \$3.4 billion, or 91 percent, over the ten-year period beginning in SFY 2002-03 and ending in SFY 2011-12.

These ever increasing levels of debt are significant and even more disturbing when compared to other states. Such comparisons are accomplished by an examination of the following three ratios:

- Debt service as a percentage of All Funds revenue (debt service ratio). This indicator measures the amount of flexibility a budget has in financing additional debt.
- Debt outstanding per capita (debt per capita ratio). This measure assesses the amount of debt relative to the size of the State's population.
- Debt outstanding as a percentage of personal income (debt to personal income ratio). This indicator measures debt outstanding to an ability to pay—the underlying level of personal income in the State.

Debt service as a percentage of All Funds revenues is expected to increase 5.2 percent by SFY 2011-12, up from 4.1 percent in SFY 2006-07 and 4.2 percent in SFY 2002-03. However, the State's All Funds budget includes receipts, such as federal funds and bond proceeds that cannot be used to fund debt service on State-funded debt. Therefore, a more realistic indicator would be to measure debt service as a percentage of State operating receipts. As a percentage of State operating receipts, debt service would decline from 7.2 percent in SFY 2002-03 to 6.4 percent in SFY 2006-07 and then increase to 7.8 percent in SFY 2010-11.

State of New York				
State-Funded Debt Ratios at State Fiscal Years Ending 2003, 2007 and 2012				
	State-Funded Debt Outstanding (millions)	State-Funded Debt to Personal Income	State-Funded Debt Per Capita	Debt Service to All Funds Revenue
SFY 2003	\$39,037	5.74%	\$2,034	4.19%
SFY 2007	\$50,979	6.45%	\$2,641	4.11%
SFY 2012	\$63,679	5.99%	\$3,263	5.18%

As seen in the chart above, debt outstanding per capita is expected to increase by over 60 percent over the ten-year period between SFY 2002-03 and SFY 2011-12, to \$3,263 per person. However, debt as a percentage of personal income is projected to decline to 6.0 percent in SFY 2011-12 after increasing from 5.7 percent in SFY 2002-03 to 6.5 percent in SFY 2006-07. This expected decline is due primarily to two

reasons: expectations of faster growth in personal income than in the amount of debt outstanding over this five-year time frame and no projected new debt issuances by the New York City Transitional Finance Authority for schools after 2010.

When compared with the ten other states with the largest populations, New York ranks third in the size of its debt service ratio, surpassed by California and Illinois; second as measured by debt per capita and second as measured by the ratio of debt outstanding to personal income. The State of New Jersey has a higher debt per capita and debt to personal income ratio than New York. Not only is New York higher than other states in these measures, New York is substantially higher as measured by these ratios. Debt service as a ratio of receipts is one and one-half times higher than the peer median, debt per capita is nearly three times the peer median and debt to personal income ratio is over two times the peer median.

In 2000, the Legislature passed and the Governor signed the Debt Reform Act of 2000, which was intended to limit the amount of debt supported by State funds. This Act limited the issuance of debt to capital purposes and established a ten-year, phased in debt cap of 4 percent of personal income after excluding all debt which was then currently outstanding.

The debt counted under these debt caps does not include all borrowing funded with State resources due to this exclusion and due to a narrow definition of State-Supported debt in the Act. The debt outstanding subject to the statutory debt cap in SFY 2006-07 totaled \$17.8 billion. However, total State-Funded debt outstanding for the same period was far greater, totaling nearly \$51 billion.

In addition, New York's current portfolio of State-funded debt includes approximately \$11.5 billion in debt that was used to finance operating expenses and deficits. This \$11.5 billion represents 22.5 percent of all State-funded debt outstanding through March 31, 2007, an increase of nearly \$6.6 billion, or 135 percent, since SFY 2002-03. Approximately 61 percent, or \$7 billion, of this amount is debt issued for operating needs after enactment of the Debt Reform Act of 2000. Debt service to support these bonds has nearly tripled, from \$357 million to \$998 million between SFY 2002-03 and SFY 2006-07. Debt service on bonds issued for operating costs is expected at \$1.1 billion in SFY 2011-12, placing a significant burden on future taxpayers for one-time operating expenses.

Although a large portion of this non-capital debt was issued in the aftermath of the September 11, 2001 attacks in conjunction with a broader recovery plan, State choices regarding the use of debt relative to using current tax dollars must be balanced so that when extraordinary circumstances arise, needs can be accommodated.

However, the State's reliance on debt rather than the use of current State tax dollars to support capital projects has increased over time. Over the past ten years, the State has enjoyed various levels of budgetary surplus; however, over the same time period the State financed on average, only 34 percent of all non-federal capital spending with current State receipts, a significant drop from 20 years ago when the State financed

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approximately 65 percent of all non-federal capital spending with cash receipts. Further, current State receipts are forecast to support, on average, only 26.2 percent of non-federal capital spending over the next five-year capital plan.

The State currently lacks a centralized and coordinated infrastructure needs assessment that clearly identifies and prioritizes, in light of New York's current financial condition, all of the State's capital needs. This lack of information and coordination deprives decision makers of an essential tool necessary to be able to comprehensively assess the State's infrastructure needs.

Although the State has \$51 billion in debt outstanding, it is unclear how much of this debt was issued to address the State's critical infrastructure needs, and what the infrastructure needs of the State will be over the next five to ten years. The State should implement a long-range capital needs assessment plan identifying strategic capital objectives. Projects arising from this plan should be clearly defined based on comprehensive State priorities, affordability, condition of existing assets and appropriate economic analysis.

Introduction

Prudent debt management and capital planning should include a comprehensive annual assessment of debt levels. Debt affordability can be described as a measure of debt relative to the ability to repay. A number of measures are useful in quantifying debt levels. Popular measures of debt burden include a comparison of outstanding debt to a measure of taxable revenue base (such as personal income or full value of taxable property), debt per capita and a comparison of debt service to a measure of capacity or ability to pay (revenues). This *Study* uses three key indicators to measure the State-Funded debt burden and as a basis for comparison to the national average and to a group of peer states:

- Debt outstanding as a percentage of personal income (debt to personal income ratio),
- Debt outstanding per capita (debt per capita), and
- Debt service as a percentage of All Funds revenues (debt service ratio).

Debt capacity is a limited resource that should be used only after careful analysis of all funding sources and spending needs. This *Study* examines the State's debt levels over time and highlights the need for the implementation of prudent debt management principles and practices.

This *Study* provides the framework for the State to structure future debt issuances within current and projected resource constraints. It is premised on the concept that resources, as well as needs, must be considered when developing and implementing a State capital program and financing plan.

This *Study* also provides a backdrop upon which to evaluate the effect of the State's debt level on its credit standing. Debt affordability assessments, particularly when done comprehensively and consistently, are generally viewed favorably by rating agencies when evaluating issuers and assigning credit ratings. Standard and Poor's stated in a June 2002 report: "Capital planning and, more recently, debt affordability models or guidelines that evaluate capital requirement and funding sources and assess the future impact of current bond programs are strong management tools."² Furthermore, according to a Fitch Ratings report, debt affordability guidelines "are viewed as most valuable in Fitch's debt management analysis."³

² Standard and Poor's Ratings Services. "Stability and Resilience Led Six U.S. Counties to 'AAA' Status in Past Year." June 2002.

³ Fitch Ratings, Ltd. "12 Habits of Highly Successful Finance Officers." November 2002.

Review of Credit Ratings

Rating agencies determine the credit ratings of the debt issuer. Credit ratings assess a debt issuer's ability to repay debt on a timely basis. They 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 ongoing 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 guidelines and reviews, are positive factors in assigning credit ratings.

Rating agencies analyze several factors in assigning credit ratings, including financial results, the economic environment, the level of reserves, the debt portfolio, and a debt issuer's fiscal administration and management. While weakness in any one area may lower ratings, the impact of that weakness may be offset by strength in another area.

When analyzing states, rating agencies look at the level of available reserves a state has as an indication of financial stability and the capacity to meet financial obligations, including the payment of debt service during times of fiscal stress. The State established the Debt Reduction Reserve Fund (DRRF) in 1998 with the objectives of supplementing pay-as-you-go (PAYGO) spending, paying debt service or paying down outstanding debt.⁴

From SFY 1998-99 through SFY 2001-02, \$1.1 billion in revenue was deposited into the DRRF and was utilized for its intended purposes. The SFY 2006-07 and the SFY 2007-08 enacted budgets each included deposits of \$250 million to the DRRF, bringing total deposits to \$1.6 billion over the last eight years. The \$250 million SFY 2006-07 DRRF deposit was used to retire high cost debt. This resulted in total future cash flow savings of \$382 million and present value savings of \$25.2 million.⁵ Details regarding the intended specific use of the \$250 million SFY 2007-08 DRRF deposit are not yet available; however, the Division of the Budget indicated in the Mid-Year Financial Plan Update that these funds would also be used to eliminate high cost debt.

The State's objective for the DRRF is commendable, but more should be done in this area. A key component of any prudent debt management policy must be an ongoing, annual commitment to place a portion of any surplus revenues or other available resources in the DRRF or a similarly restricted fund to retire outstanding debt and/or to increase the use of PAYGO spending. Unfortunately, the State's ongoing commitment to PAYGO has declined significantly since 1985.

The State's General Obligation bonds are rated AA- by Fitch Ratings (Fitch) with a positive outlook, Aa3 with a stable outlook by Moody's Investors Service (Moody's) and AA with a stable outlook by Standard and Poor's Ratings Services (S&P). All three agencies base their General Obligation ratings on the State's strong and diverse

⁴ See Section 97-rrr of the State Finance Law.

⁵ Division of the Budget. <www.budget.state.ny.us/investor/bond/IntroDRRFDefeasance.pdf>.

economic base, and on the remote nature of default risk as compared to other issuers. This is offset by the State's high debt levels, persistent out-year gaps and politically charged budget process. Rating agencies place emphasis on consistently maintaining adequate reserves and overcoming fiscal challenges posed by spending pressures.

Rating agencies also rate other New York State-Funded debt issuances, such as the Dedicated Highway and Bridge Trust Fund (DHBTF) bonds, Personal Income Tax (PIT) Revenue bonds, Local Government Assistance Corporation (LGAC) bonds, Sales Tax Asset Receivable Corporation (STARC) bonds and various appropriation backed bonds issued by public authorities on behalf of the State.

Figure 1**Current Credit Ratings on New York State-Funded Bond Programs**

As of November 27, 2007

	Standard & Poor's	Fitch	Moody's
General Obligation Bonds	AA	AA-	Aa3
Personal Income Tax (PIT) Revenue Bonds	AAA	AA-	Aa3
Local Government Assistance Corporation (LGAC) Bonds	AAA	AA-	Aa3
Tobacco Settlement Financing Corporation (TSFC) Asset-Backed Revenue Bonds	AA-	A+	A1
Municipal Bond Bank Agency (MBBA) Special Purpose Revenue Bonds (Prior Year School Aid Claims)	A+	A+	N/A
Thruway Authority Dedicated Highway and Bridge Trust Fund Bonds	AA	AA-	Aa3
Thruway Authority Local Highway & Bridge Service Contract Bonds	AA-	A+	A1
Other NYS Service Contract / Lease-Purchase / Appropriation-Backed Bonds	AA-	A+	A1
NYC Sales Tax Asset Receivable Corporation (STARC) Sales Tax Asset Revenue Bonds	AAA	AA-	Aa3
NYC Transitional Finance Authority (TFA) Building Aid Revenue Bonds	AA-	A+	A1

In the past, the State's General Obligation debt earned the highest rating of all categories of New York State debt because of the State's full faith and credit pledge and because the payment of debt service does not require an appropriation. Most appropriation backed bonds have been rated lower than General Obligation debt because they require appropriations for the payment of debt service. However, Fitch and Moody's currently rate New York's PIT bonds the same as General Obligation bonds for two primary reasons. First, these bonds are backed by the greater of 25 percent or \$6 billion of the State personal income tax—the State's largest revenue source. Second, while the Enacted State Budget has been late for 20 of the last 23 years, the annual debt service bill has been enacted on time for the last 13 years. In February 2006, Standard and Poor's upgraded the ratings for PIT, LGAC and STARC bonds to AAA, a full step above the State's General Obligation debt, primarily due to an improved economic environment and revenue flow.

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, commonly referred to as the Debt Reform Act of 2000, defined State-Supported debt and established statutory limitations on such debt, to be phased in beginning April 1, 2000. Unfortunately, this Act did little to provide fiscal discipline or ensure that future debt is affordable. Statutory amendments in the legislation:

- Capped the level of debt outstanding at 4 percent of personal income for debt issued after April 1, 2000. This cap is phased in over 10 years and will be fully phased in during SFY 2010-11.
- Capped 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 and will be fully phased in during SFY 2012-13.
- Provided that debt can only be used for capital works or purposes and that debt cannot have a maturity longer than 30 years.

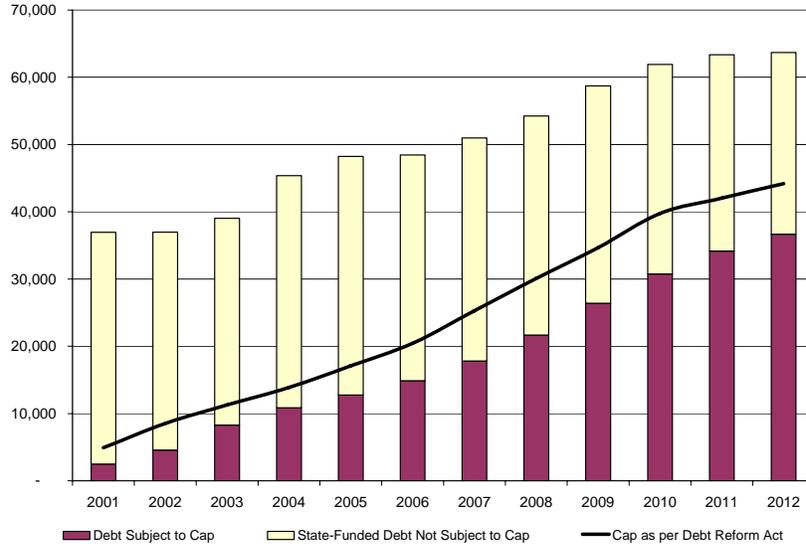
According to the Division of the Budget, the State remains well under the caps established in 2000.⁶ However, the debt counted under these statutory State-Supported debt caps does not include all borrowing funded with State resources, due to a narrowly constructed definition of State-Supported debt. For example, since enactment of the Debt Reform Act of 2000, \$17.1 billion in new debt has been authorized to be issued that is not subject to these caps, but whose repayment is solely supported with State resources. The narrow definition of State-Supported debt also precluded these new debt authorizations from being subject to the Debt Reform Act provision that requires the issuance of debt for capital purposes only. As a result of this loophole, approximately \$7.6 billion of this amount was issued for the purpose of deficit financing or budget relief.

Furthermore, the Debt Reform Act of 2000 excluded roughly \$35 billion in outstanding debt that existed at the time of its enactment from debt counted under the caps. To get a comprehensive picture of the State's obligations, it is necessary to consider all State-Funded debt as defined in this *Study*. For example, the debt outstanding subject to the statutory debt cap in SFY 2006-07 totaled \$17.8 billion; however, State-Funded debt totaled nearly \$51 billion, or \$33.2 billion higher than the amount subject to the statutory cap.

⁶ The Division of the Budget annually reports on State-Supported debt that is counted under these caps.

Figure 2

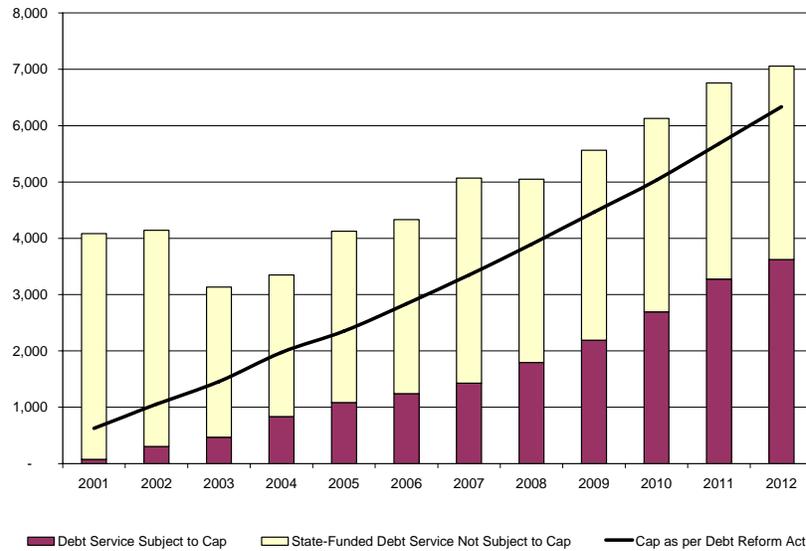
**Debt Outstanding Subject To and Excluded From
Debt Reform Act of 2000 Cap – SFYs Ending 2001-02 through 2011-12
(in millions of dollars)**



Note: Debt Subject to Cap and Cap as per Debt Reform Act are Division of the Budget estimates in SFYs 2008-12. See Page 98 of the Mid-Year Financial Plan Update issued October 30, 2007.

Figure 3

**Debt Service Subject To and Excluded From
Debt Reform Act of 2000 Cap – SFYs Ending 2001-02 through 2011-12
(in millions of dollars)**



Note: Debt Service Subject to Cap and Cap as per Debt Reform Act are Division of the Budget estimates for SFYs 2008-12. See page 98 of the Mid-Year Financial Plan Update issued October 30, 2007.

State-Funded Debt Outstanding

In 2005, the Comptroller's Office developed a new measure of *State-Funded* debt to provide a broader gauge of the State's debt burden. This measure includes *State-Supported* debt as defined in the Debt Reform Act of 2000, as well as other debt that is not counted under the Debt Reform Act statutory caps, for which payments are supported solely with State resources. As a result, the State-Funded debt measure provides a more accurate measure of the representation of the debt burden of the State and is a more comprehensive measure when determining affordability. Using the State-Funded definition of debt, as of March 31, 2007, there was nearly \$51 billion of debt outstanding.

New York's State-Funded debt 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: bonds issued by the Tobacco Settlement Financing Corporation (TSFC) to securitize the State's tobacco settlement revenue stream; bonds issued by the Sales Tax Asset Receivable Corporation (STARC) to refinance New York City's Municipal Assistance Corporation (MAC) debt from the 1975 fiscal crisis; bonds issued by the Municipal Bond Bank Agency (MBBA) to amortize prior year school aid claims; and, most recently, Building Aid Revenue Bonds (BARBs) issued by New York City's Transitional Finance Authority (TFA).

New York City Transitional Finance Authority

The School Financing Act (Part A-3 of Chapter 58 of the Laws of 2006), included as part of the SFY 2006-07 Enacted Budget, authorized an additional \$9.4 billion in bonds for the New York City TFA to finance a portion of New York City's (the City's) educational facilities capital plan, as well as the bonds' issuance costs, debt service reserves, refunding bonds and any capitalized interest, which is expressly authorized without limitation. This \$9.4 billion authorization is structured as a cap on the amount of debt that may be outstanding at any time, as opposed to a maximum cap on the amount of debt to be issued. Therefore, as the principal on these bonds is paid, additional debt can be issued by the TFA. In other words, this authorization represents a potentially significant ongoing State-Funded bonding program.

The School Financing Act also authorized the City, acting through the Mayor, to assign all or a portion of the City's State Building Aid (State aid payable to the City or its school district pursuant to subdivision 6 of section 3602 of the Education Law) to the TFA, at which point it becomes the property of the TFA. Pursuant to this authorization, the City assigned all of its State Building Aid to the TFA.

The TFA created a new category of subordinate debt secured solely by the assigned Building Aid and issued the first \$650 million of BARBs on November 16, 2006. To date, the TFA has issued \$1.3 billion in BARBs. The TFA has indicated that it does not expect

to use other statutory revenues to secure these bonds in the future.⁷ Payment of State Building Aid is subject to annual appropriation by the State. Although these bonds do not fall within the statutory definition of State-Supported debt, in its review of these bonds, Moody's Investors Service "...views this as a state appropriation credit, due to the fact that the debt is secured by a strong state commitment to Building Aid payments to the city, which are subject to state appropriation."⁸ While Standard and Poor's does not specifically identify the credit as a State credit, its credit summary and rating report offer a similar analysis of the funding stream.⁹

Although the BARBs are reported as a City rather than a State liability in accordance with Generally Accepted Accounting Principles (GAAP), in order to get a full accounting of State taxpayer debt burden and improve openness and transparency, these bonds should be counted as State-Funded debt, since the debt service is entirely dependent on future State Building Aid appropriations. The two accounting measures are not mutually exclusive.¹⁰

This debt will not count toward the City's constitutional or State's statutory debt limits. Furthermore, the State will not directly pay debt service for BARBs issued by the TFA. Instead, the cost to the State will be a local assistance payment to the City or its assignee. This is similar to certain other State-Funded obligations, such as the \$2.6 billion issued by STARC, which pledged \$170 million in annual State sales tax revenue provided through the New York Local Government Assistance Corporation (also subject to annual appropriation).

Composition of State-Funded Debt

Back-door borrowing is the term used for arrangements where the State is contractually obligated to make payments to public benefit corporations and/or public authorities equal to the debt service payments made by the authority. In these cases, payments made to public authorities are accounted for as debt service. Authorizing localities or public benefit corporations to pledge future revenues to be received from the State establishes a State obligation that is one step removed from back-door borrowing. In the case of TFA BARBs and other bonding methods the State has used, such as STARC, the debt does not appear as a State obligation on its books; yet,

⁷ See page 3, Official Statement for the New York City Transitional Finance Authority, Future Tax Secured Bonds Fiscal 2007 Series A, \$500,000,000 Subseries A-1 Tax-Exempt Subordinate Bonds, \$200,000,000 Subseries A-2 Taxable Subordinate Bonds.

⁸ Moody's Investors Service. "Moody's Assigns A1 Rating to \$650 Million New York City Transitional Finance Authority Building Aid Revenue Bonds." October 27, 2006.

⁹ Standard and Poor's. "New York City Transitional Finance Authority's State Building Aid Revenue Bonds Rated AA-." October 31, 2006.

¹⁰ The City recognizes the Building Aid Revenue Bonds (BARBs) as a debt in its Generally Accepted Accounting Principles (GAAP) based financial statements because the City accounts for all activities of the TFA, a blended component unit of the City; however, the debt is not a general obligation of the City and is exclusively dependent upon future State aid for repayment.

while there is no legal contractual obligation compelling payment, there is an implied obligation by the State.

The bonds issued by the TFA (BARBs), STARC and TSFC and the bonds issued by the MBBA to finance prior school aid claims are not counted as debt under section 67-a of the State Finance Law. The payments from the State—in all cases the sole source of funding for these bonds—are not counted as debt service subject to the statutory caps. Instead, payments are considered local assistance or the obligations are contingent or the payments are made from a transferred revenue stream, thus providing an incomplete accounting of the State's total debt burden.¹¹

The State makes payments for State-Funded debt, either directly for General Obligation bonds or indirectly to a public authority or bank trustee or, on past occasions, to municipal issuers (under lease-purchase or contractual obligation) to enable such issuer to make payments on its outstanding bonds. As of March 31, 2007, the State had approximately \$51 billion in State-Funded debt outstanding (see Figure 4).¹² Voter-approved, General Obligation debt issued by the State comprised only 6.5 percent of this State-Funded debt burden, or approximately \$3.3 billion. Total State-Funded debt outstanding, as of March 31, 2007, includes \$8.3 billion of debt not counted as State-Supported, as narrowly defined in Section 67-a of the State Finance Law.¹³

Figure 4

New York State-Funded Debt Outstanding		
(in millions)		
	SFY 2002-03	SFY 2006-07
General Obligation Debt	\$3,996	\$3,302
State-Supported Authority Debt	35,041	39,352
Total State-Supported Debt	\$39,037	\$42,654
TSFC - Tobacco Securitization	-	4,084
STARC - MAC Refinancing	-	2,457
TFA Building Aid Revenue Bonds (BARBs)	-	1,300
MBBA - Prior Year School Aid Claims	-	484
Sub-Total	-	\$8,325
Total State-Funded Debt	\$39,037	\$50,979

Source: New York State Office of the State Comptroller

¹¹ This Office counts debt issued by the Tobacco Settlement Financing Corporation (TSFC) as State-Funded due to the foregone tobacco settlement revenues, rather than as a contingent obligation.

¹² 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. This figure includes the Sales Tax Asset Receivable Corporation (STARC), which is a government created not-for-profit corporation and not a public authority.

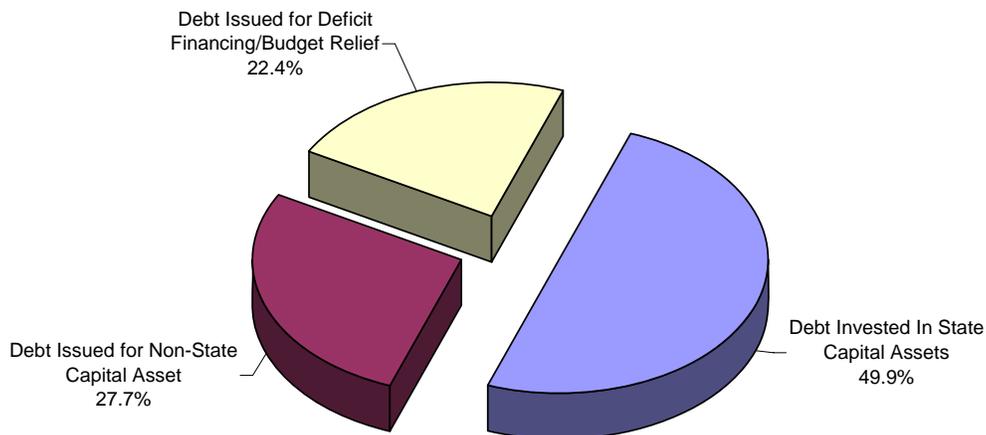
¹³ Section 67-b of the State Finance Law states the following: "'State-supported debt' shall mean any bonds or notes, including bonds or notes issued to fund reserve funds and costs of issuance, issued by the state or a state public corporation for which the state is constitutionally obligated to pay debt service or contractually obligated to pay debt service subject to an appropriation, except where the state has a contingent contractual obligation."

STATE-FUNDED DEBT OUTSTANDING

Figure 5 illustrates the State's outstanding debt itemized by major purpose as of March 31, 2007. In the State-Funded debt portfolio, of the nearly \$51 billion outstanding, \$25.4 billion, or 49.9 percent, was issued to support or create State capital assets, \$14.1 billion, or 27.7 percent, was issued to finance primarily non-State capital assets, and \$11.5 billion, or 22.4 percent, was issued to finance annual and accumulated State deficits and to refinance existing assets for budgetary relief. The use of debt for deficit financing or budgetary relief consumes valuable capital financing capacity and creates a long-term cost for future generations without creating an asset which those generations could enjoy. Furthermore, it exacerbates structural imbalances because non-recurring resources are used for recurring expenses.

Figure 5

State-Funded Debt Outstanding by Major Purpose
as of March 31, 2007 - \$51 billion

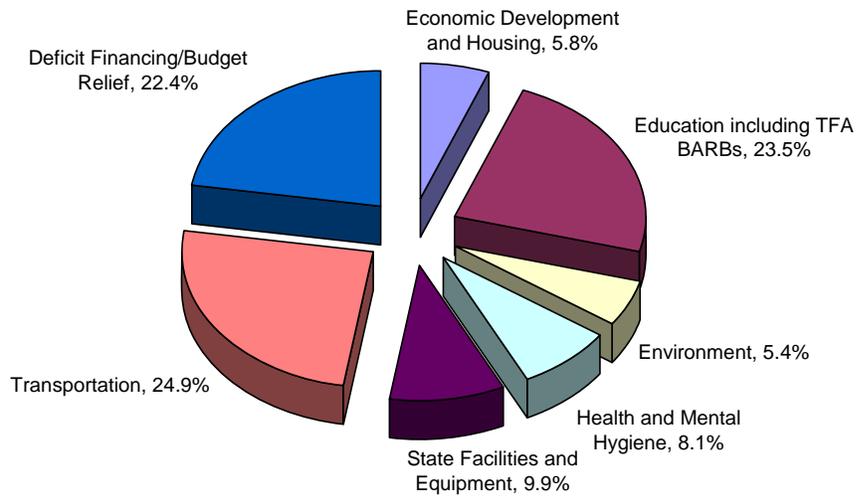


Source: New York State Office of the State Comptroller

Figure 6 illustrates State-Funded debt outstanding by major functional area as of March 31, 2007. Of the \$51 billion in debt outstanding on March 31, 2007, transportation associated debt comprised the majority (\$12.7 billion, or approximately 25 percent) with education, including higher education, holding the next highest share (\$12.0 billion, or 23.5 percent).

Figure 6

State-Funded Debt Outstanding by Issue Area
as of March 31, 2007 - \$51 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 probable useful life or economic life of the underlying asset. The structure of payments and how that structure affects debt capacity and burden 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.¹⁴ Fitch considers it weak fiscal practice to pay off 35 percent or less in ten years.

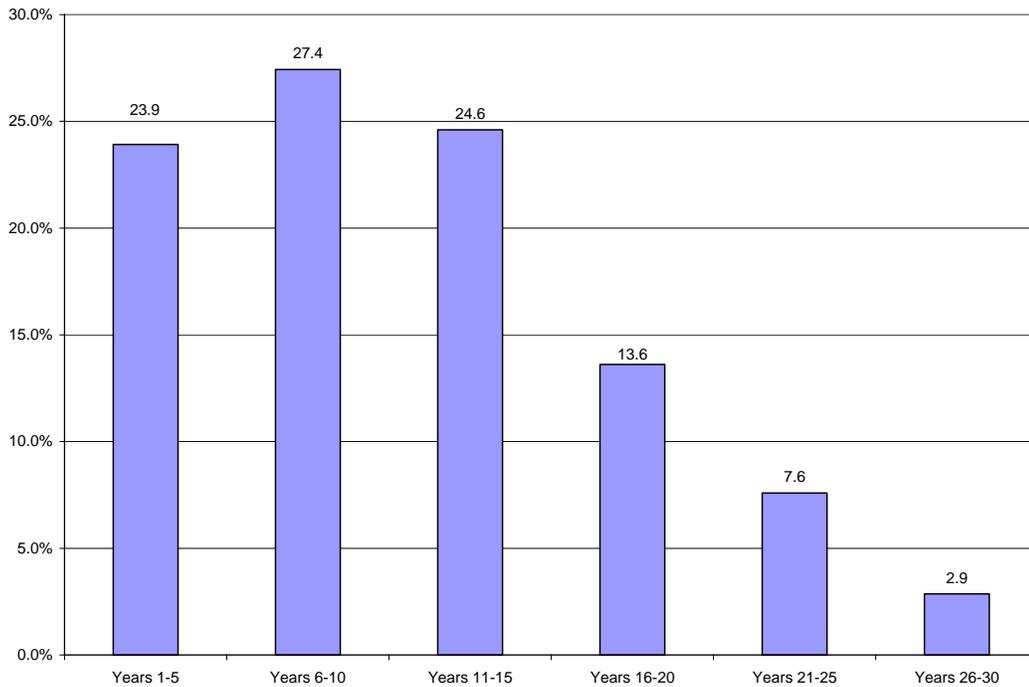
¹⁴ Fitch Ratings Ltd. "The 12 Habits of Highly Successful Finance Officers." 2002.

STATE-FUNDED DEBT OUTSTANDING

Currently, the State is scheduled to pay 51.3 percent of its State-Funded debt outstanding within ten years, which is below Fitch's criteria of 65 percent for favorable consideration; however, it is still well above the 35 percent indicator of weak fiscal practice. The payment structure of both new and existing debt directly affects this measure.

Figure 7

**Rapidity of Repayment - % Principal Redemption
State-Funded Debt Outstanding
as of March 31, 2007**



Note: Amounts do not include capital leases. Principal redemption on bonds issued by the Tobacco Settlement Financing Corporation is assumed using the rated retirement schedule.

Source: New York State Office of the State Comptroller

State Debt Ratios

To facilitate peer group comparisons and better monitor debt burden, it is useful to review debt ratios and analyze their change over time. 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.

The debt to personal income ratio indicates the burden a state's debt places on the income tax base, which is 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 31 percent of All Funds receipts in SFY 2006-07. The debt per capita measure allows the issuer to assess the actual and relative debt burden per taxpayer compared to other states. The level of debt service to All Funds revenues indicates the amount of flexibility that the issuer has in its budget.

Figure 8 provides a presentation of the State's indebtedness and debt ratios as of March 31, 2007 compared to March 31, 2003 and March 31, 2006. State-Funded debt outstanding increased by \$11.9 billion, or 30.6 percent, between 2003 and 2007 and increased over \$2.5 billion, or 5.2 percent, from 2006. State-Funded debt outstanding to personal income increased from 5.7 percent to 6.5 percent, but decreased marginally from 6.6 percent in 2006. State-Funded debt outstanding per capita increased by \$607, or nearly 30 percent, from \$2,034 in 2003 to \$2,641 in 2007—with a 4.9 percent increase from \$2,517 in 2006. The State-Funded debt service to All Funds revenue ratio decreased marginally from 4.2 percent in 2003 to 4.1 percent in 2007, after increasing to 4.6 percent in 2006.

Figure 8

State of New York				
State-Funded Debt Ratios at State Fiscal Years Ending 2003, 2006 and 2007				
	State-Funded Debt Outstanding (millions)	State-Funded Debt to Personal Income	State-Funded Debt Per Capita	Debt Service to All Funds Revenue
SFY 2003	\$39,037	5.74%	\$2,034	4.19%
SFY 2006	\$48,464	6.55%	\$2,517	4.57%
SFY 2007	\$50,979	6.45%	\$2,641	4.11%

To correspond to the limits established in the Debt Reform Act of 2000 and for comparison purposes, this *Study* 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.

STATE DEBT RATIOS

For a more thorough and comprehensive assessment of the State's debt service burden, the State could begin measuring debt service against State operating receipts.¹⁵ This would more adequately measure the State's debt service burden compared to State generated revenues available for repayment. If the ratio of State-Funded debt service to State operating receipts were used, the State would have a ratio of 6.4 percent, compared to 4.1 percent of All Funds Revenue (as of March 31, 2007). If the ratio of State-Funded debt service to State operating receipts were used, the ratio would grow from 6.4 percent in SFY 2006-07 to 7.8 percent in SFY 2010-11, the last year for which information regarding State operating receipts is available in the New York State Mid-Year Financial Plan Update.

¹⁵ State operating receipts include all general fund revenues excluding transfers to the General Fund, special revenue funds and debt service funds as detailed in the New York State Mid-Year Financial Plan Update released October 30, 2007. Receipts for capital spending and federal funds are excluded.

Comparison of State Debt Ratios to Selected Medians

A comparison to national and peer group medians is useful to provide context to New York's debt burden in relation to other states. The peer group in this *Debt Impact Study* is represented by those states with the largest populations—California, Texas, Florida, Illinois, Pennsylvania, Ohio, Michigan, Georgia, New Jersey and North Carolina. In April 2007, Moody's published the *2007 State Debt Medians* report, which included its annual analysis of state debt medians. As shown in Figure 9, 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 peer and national medians.

Figure 9 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 *2007 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 Net Tax-Supported debt as presented in the Moody's report, because State-Funded debt provides a more accurate measure of New York's debt burden.¹⁶

Within the peer group, New York's debt as a percentage of personal income, at 6.5 percent, is second to New Jersey, at 8.0 percent. New York's debt as a percentage of personal income is more than two times the median, as compared to both the ten other largest states and the nation.

In terms of debt per capita, New York's \$2,641 per capita debt burden is second only to New Jersey, at \$3,317, within the peer group. New York's debt per capita is nearly three times the peer group median and more than three times the national median.

As shown in Figure 9, New York follows California and Illinois with the third highest debt service as a percentage of All Funds receipts in the peer group of large states at 4.1 percent. New York's ratio is 1.5 times higher than the peer group median and 1.17 times higher than the national median as last measured by Moody's Investors Service.

Between SFY 2005-06 and SFY 2006-07, New York's ranking in comparison to peer states improved in all three categories. However, when the New York State ratios are compared to the national median, New York State improved only in debt service as a percentage of All Funds Receipts. Despite this improvement, New York State remains significantly above the peer and national medians in all categories.

¹⁶ 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 \$1.0 billion higher than the Comptroller's State-Funded measure.

COMPARISON OF STATE DEBT RATIOS TO SELECTED
MEDIANS

Figure 9

Peer Group Comparisons

	General Obligation Bond Rating (Fitch/S&P/Moody's)	2006 Debt (\$000)	2006 Debt Per Capita (\$)	2006 Debt as % of 2005 Personal Income	2006 Debt Service as % of All Funds Receipts *
California	A+/A+/A1	59,171,200	1,623	4.7%	5.8%
Texas	AA+/AA/Aa1	9,756,427	382	1.4%	0.9%
Florida	AA+/AAA/Aa1	18,454,123	1,020	3.4%	2.6%
Illinois	AA/AA/Aa3	25,359,214	1,976	5.7%	4.3%
Pennsylvania	AA/AA/Aa2	10,604,000	852	2.6%	1.7%
Ohio	AA+/AA+/Aa1	11,176,473	974	3.1%	3.4%
Michigan	AA-/AA-/Aa3	7,538,800	747	2.3%	2.9%
Georgia	AAA/AAA/Aaa	8,577,760	916	3.2%	3.0%
New Jersey	AA-/AA/Aa3	28,935,074	3,317	8.0%	0.9%
North Carolina	AAA/AAA/Aaa	6,447,199	728	2.6%	1.9%
Peer Median		10,890,237	945	3.2%	2.7%
National Median		3,590,062	787	2.4%	3.5% **
New York - 2006-07	AA-/AA/Aa3	50,978,825	2,641	6.5%	4.1%
NYS Ratio to Peer Median - March 31, 2007			2.79	2.03	1.50
NYS Ratio to National Median - March 31, 2007			3.36	2.69	1.17
New York - 2005-06	AA-/AA/Aa3	48,464,211	2,517	6.5%	4.6%
NYS Ratio to Peer Median - March 31, 2006			2.93	2.28	1.63
NYS Ratio to National Median - March 31, 2006			3.34	2.62	1.26
New York - 2004-05	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 - March 31, 2005			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 2006 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 2006 for listed states

Moody's Investors Service, *2007 State Debt Medians*, April 2007

US Census Bureau

US Bureau of Economic Analysis

Global Insight, Inc.

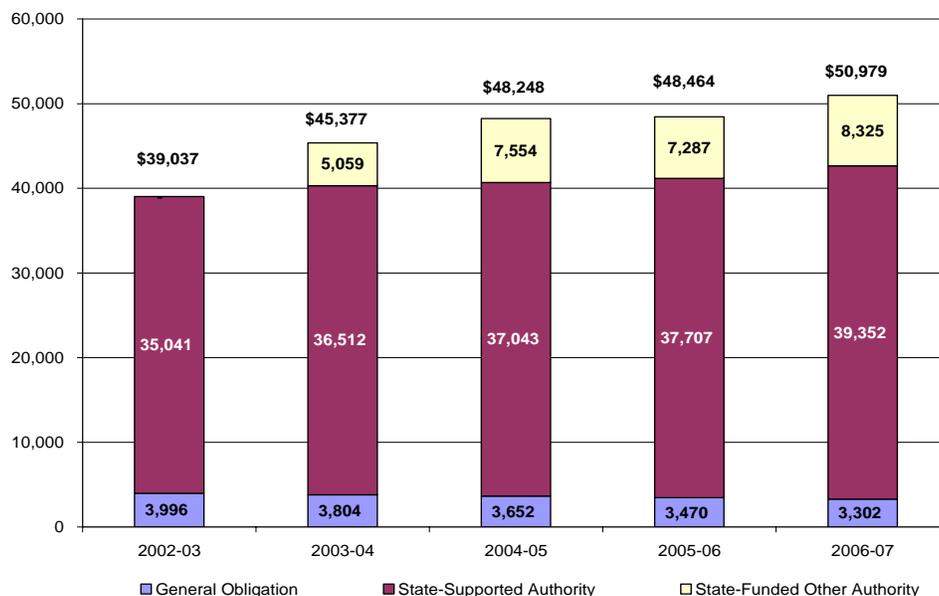
New York State Division of the Budget, *2007-08 Enacted Budget Capital Program and Financing Plan*, April 2007 - Updated October 2007

Growth in State-Funded Debt Outstanding and Debt Service

The rate at which debt has grown is an important 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 spending. Total State-Funded debt grew by nearly 31 percent since SFY 2002-03, increasing from \$39 billion to nearly \$51 billion by the end of SFY 2006-07. This represents an average annual growth rate of 7.1 percent. Figure 10 illustrates the total State-Funded debt outstanding at the end of SFY 2002-03 through the end of SFY 2006-07.

Figure 10

State-Funded Debt Outstanding
SFY 2002-03 through SFY 2006-07
(in millions of dollars)



Source: New York State Office of the State Comptroller

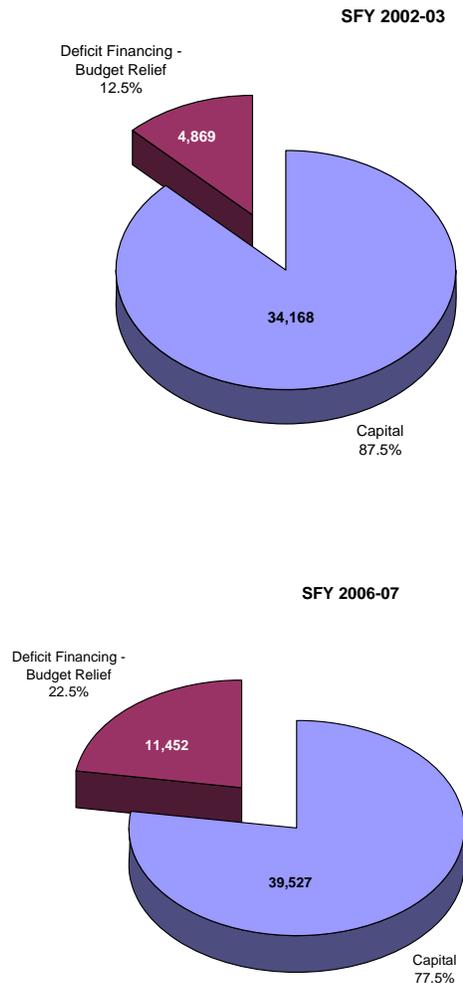
Since SFY 2002-03, the State has authorized the issuance of \$7.6 billion of new debt issuances for deficit financing or budget relief, including bonds authorized to be issued by the Tobacco Settlement Financing Corporation (TSFC), the Sales Tax Asset Receivable Corporation (STARC) and the Municipal Bond Bank Agency (MBBA). These bonds are not subject to the Debt Reform Act of 2000. These obligations, in addition to deficit financing from the Local Government Assistance Corporation and other outstanding obligations that provided budget relief in the 1980s and 1990s, make up 22.5 percent of State-Funded debt outstanding, or \$11.5 billion, as of March 31, 2007.

GROWTH IN STATE-FUNDED DEBT OUTSTANDING AND DEBT SERVICE

Figure 11 illustrates that State-Funded debt outstanding that was used for budget relief and deficit financing has grown from 12.5 percent of the entire portfolio in SFY 2002-03 to 22.5 percent of the total portfolio in SFY 2006-07, representing an increase of \$6.6 billion, or 135 percent. Further, this increase of \$6.6 billion represents 55 percent of the total growth in State-Funded debt outstanding between SFY 2002-03 and SFY 2006-07. Using debt for non-capital purposes, such as financing operating deficits or budget relief, is not considered good fiscal practice. It consumes valuable capital financing capacity without creating an asset and limits an entity's ability to finance its capital needs.

Figure 11

**State-Funded Debt Outstanding
Capital and Deficit Financing/Budget Relief Purposes
SFY 2002-03 and SFY 2006-07
(in millions of dollars)**



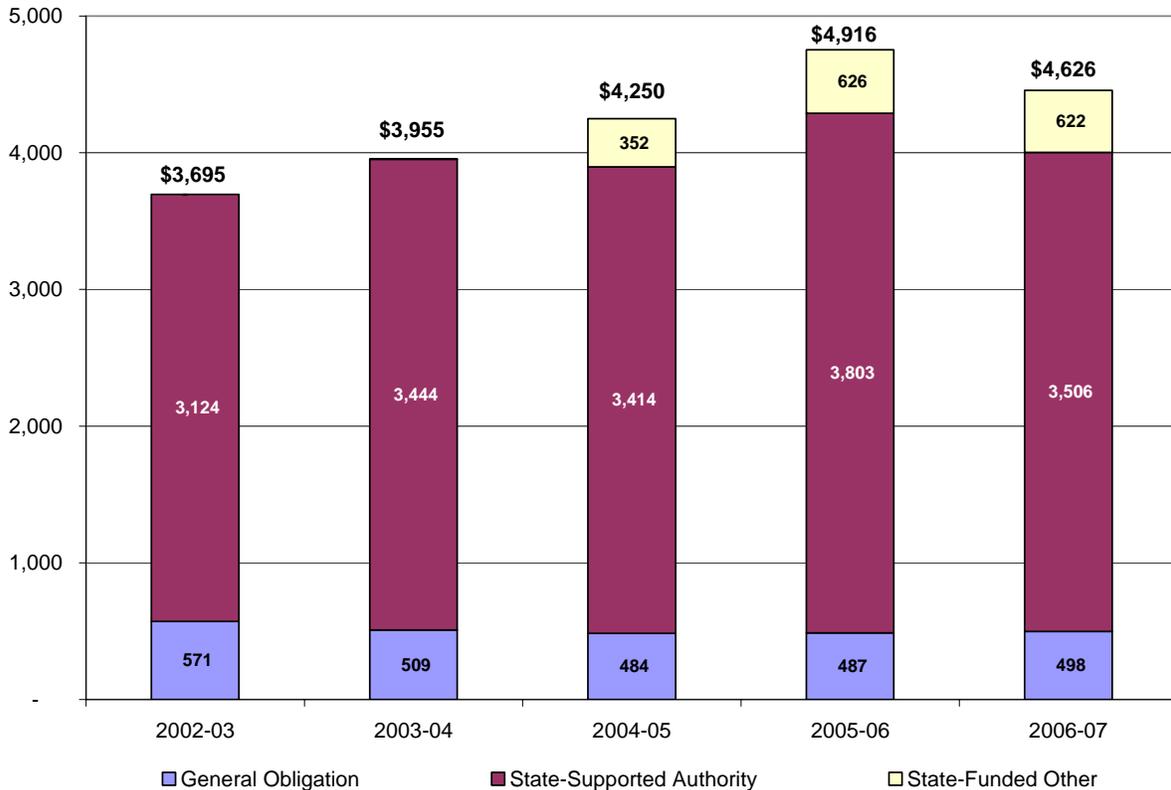
Source: New York State Office of the State Comptroller

GROWTH IN STATE-FUNDED DEBT OUTSTANDING AND DEBT SERVICE

State-Funded debt service increased by approximately \$931 million when comparing SFY 2002-03 to SFY 2006-07 (see Figure 12). This represents average annual growth of 6.1 percent, or \$232 million.

Figure 12

State-Funded Debt Service
SFY 2002-03 to SFY 2006-07
(in millions of dollars)



Note: State-Funded debt service in SFY 2003-04 included \$2 million in State-Funded Other that is not reflected in the chart.

Source: New York State Office of the State Comptroller

Figure 13 illustrates the growth in debt service related to bonds issued for deficit financing or budget relief compared to the growth in all other debt service from SFY 2002-03 through SFY 2006-07. In SFY 2002-03, debt service related to bonds issued for deficit financing and budget relief totaled \$357 million and represented approximately 10 percent of all State-Funded debt service.

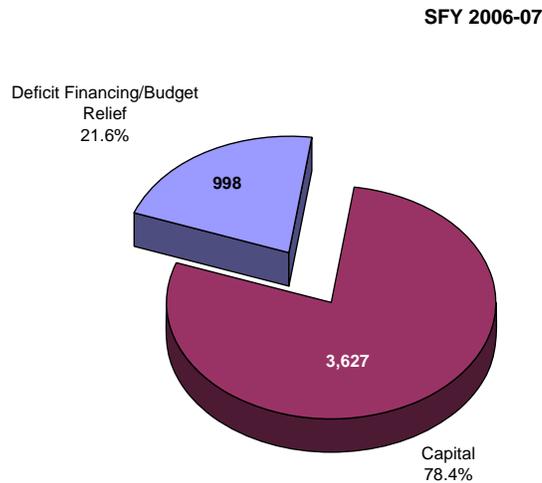
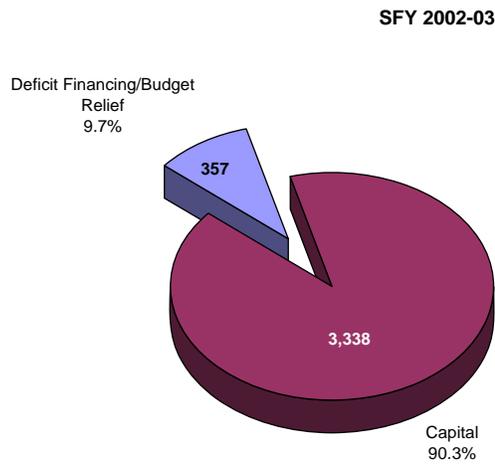
By the end of SFY 2006-07, debt service for this purpose had nearly tripled to \$998 million, or nearly 22 percent of total State-Funded debt service. This represents average annual growth of 50 percent, or \$160 million per year. Over the same time

GROWTH IN STATE-FUNDED DEBT OUTSTANDING AND DEBT SERVICE

frame, all other State-Funded debt service grew at an average annual rate of 2.5 percent, or \$72 million per year.

Figure 13

**State-Funded Debt Service
Capital and Deficit Financing/Budget Relief Purposes
SFY 2002-03 and SFY 2006-07
(in millions of dollars)**



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 also required to include an analysis of the affordability of State-Supported debt and an analysis of all costs related to financing the plan.¹⁷

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, or PAYGO), federal funds, General Obligation bonds and bonds issued by public authorities on behalf of the State. Until the release of the 2006-07 Capital Program and Financing Plan in January 2006, the assumptions and information in prior Capital Program and Financing Plans related only to State-Supported debt. However, starting in 2006-07, the Capital Program and Financing Plan was broadened to also account for the financing supported by future tobacco settlement revenues by the Tobacco Settlement Financing Corporation (TSFC) and the financing of prior year school-aid claims by the Municipal Bond Bank Agency (MBBA).

The Capital Program and Financing Plan for SFY 2007-08 through SFY 2011-12 includes debt retirement, debt levels and debt service information for TSFC and MBBA obligations, as well as moral obligations, contingent contractual obligations and State-Guaranteed debt.¹⁸ Still absent from the Capital Program and Financing Plan is the inclusion of debt related to the Municipal Assistance Corporation (MAC) for New York City refinancing by the Sales Tax Asset Receivable Corporation (STARC), and the New York City Transitional Finance Authority's (TFA's) Building Aid Revenue Bonds (BARBs). This *Study*, however, provides a comprehensive illustration of the State's debt burden by including obligations from STARC and the TFA BARBs.¹⁹

Projected State-Funded Debt Issuance

Figure 14 represents the projected State-Funded debt issuance over the next five years pursuant to the Capital Program and Financing Plan updated October 30, 2007.²⁰ The table represents all planned State-Funded debt issuance associated with current and past Capital Plans.

¹⁷ Section 22-c of the State Finance Law.

¹⁸ These other categories, along with State-Supported debt, are termed "State-Related Debt" by the Executive. Note that this measure does not include obligations issued by the Sales Tax Asset Receivable Corporation or the State-Funded portion of debt issued by the New York City Transitional Finance Authority. The State has not been called upon to make payments for moral obligation debt since 1987. The State has never been called upon to make payments on contingent contractual obligations or State-Guaranteed debt.

¹⁹ As it is unlikely that the State will ever be called on to make payments on the small amount remaining of moral obligation, contingent contractual obligation or State-Guaranteed debt, they are not included in this analysis.

²⁰ The projections for annual issuance of Building Aid Revenue Bonds issued by New York City's Transitional Finance Authority are from the New York City Financial Plan updated in October 2007.

Figure 14

State of New York							
Projected State-Funded Debt Issuances 2007-08 through 2011-12 (in thousands of dollars)							
	SFY 2007	Enacted Capital Plan					Total Cap Plan
		SFY 2008	SFY 2009	SFY 2010	SFY 2011	SFY 2012	2008-2012
General Obligation	180,475	297,600	457,100	608,100	655,100	514,100	2,532,000
Other State-Supported Public Authority	3,507,325	4,401,330	5,332,786	5,051,344	4,129,327	3,843,315	22,758,102
Total State-Supported Issuances	3,687,800	4,698,930	5,789,886	5,659,444	4,784,427	4,357,415	25,290,102
TFA BARBs	1,300,000	1,394,000	1,394,000	698,000	-		3,486,000
Total State-Funded Issuances	4,987,800	6,092,930	7,183,886	6,357,444	4,784,427	4,357,415	28,776,102

Note: BARBs issued by the TFA are scheduled to be issued in City Fiscal Years (July 1 to June 30). As such, issuance amounts may not match SFY (April 1- March 31) as listed above and in other tables throughout this Study. Sources: New York State Division of the Budget, *2007-08 Enacted Budget Capital Program and Financing Plan*, the New York City Financing Program and New York State Office of the State Comptroller

Projected State-Funded Debt Retirement

The State can generate the capacity for additional debt through the retirement of outstanding debt. Figure 15 illustrates projected State-Supported debt retirements pursuant to the Capital Program and Financing Plan, scheduled retirements for the TFSC, MBBA (as it relates to Prior Year School Aid Claims), STARC and the TFA BARBs, as of March 31, 2007.

Figure 15

State of New York							
Projected State-Funded Debt Retirements 2006-07 through 2011-12 (in thousands of dollars)							
	SFY 2007	Enacted Capital Plan					Total Cap Plan 2008-2012
		SFY 2008	SFY 2009	SFY 2010	SFY 2011	SFY 2012	
General Obligation	352,072	349,701	350,569	357,275	370,097	379,518	1,807,160
Other State-Supported Public Authority	1,727,688	2,149,040	1,954,930	2,349,771	2,476,577	3,088,200	12,018,518
Total State-Supported Retirements	2,079,760	2,498,741	2,305,499	2,707,046	2,846,674	3,467,718	13,825,678
TSFC	193,820	244,350	318,370	342,905	368,370	395,815	1,669,810
TFA BARBs			18,810	39,680	61,331	77,904	197,725
STARC	48,145	49,730	51,520	53,525	55,740	58,170	268,685
MBBA	20,025	20,770	21,620	22,590	23,700	24,865	113,545
Total Other	261,990	314,850	410,320	458,700	509,141	556,754	2,249,765
Total State-Funded Retirements	2,341,750	2,813,591	2,715,819	3,165,746	3,355,815	4,024,472	16,075,443

Note: State-Supported figures are adjusted to reflect the New York State Division of the Budget's planned use of debt reduction reserve funds in SFY 2007-08 for the repayment of high cost debt and the effect of refundings to date.

Sources: New York State Office of the State Comptroller, New York State Division of the Budget, and New York City Office of Management and Budget

Projected State-Funded Debt Outstanding

According to issuance and retirement assumptions in the Capital Program and Financing Plan, as well as scheduled retirements for the TSFC, STARC and the MBBA (Prior Year School Aid Claims) and projected retirements for TFA BARBs, the State will directly or indirectly issue \$12.7 billion more than it will retire over the next five years (see Figure 16). Consequently, the State is projected to end SFY 2011-12 with \$63.7 billion in outstanding State-Funded debt—representing an increase of 24.9 percent from the \$51 billion outstanding at the end of SFY 2006-07.

Figure 16

State of New York						
Projected State-Funded Debt Outstanding 2007-08 through 2011-12 (in thousands of dollars)						
	SFY 2008	SFY 2009	SFY 2010	SFY 2011	SFY 2012	Increase (Decrease) 2008 Beginning -2012 End
Debt at Beginning of Period	50,978,825	54,258,164	58,726,231	61,917,929	63,346,541	N/A
Issuance	6,092,930	7,183,886	6,357,444	4,784,427	4,357,415	28,776,102
Retirement	(2,813,591)	(2,715,819)	(3,165,746)	(3,355,815)	(4,024,472)	(16,075,443)
Projected Debt at End of Period	54,258,164	58,726,231	61,917,929	63,346,541	63,679,484	12,700,659

Sources: New York State Office of the State Comptroller, New York State Division of the Budget and New York City Office of Management and Budget

Projected State-Funded Debt Service

Annual State-Funded debt service is estimated to reach nearly \$7.1 billion by SFY 2011-12, assuming projected bond issuances of \$28.8 billion. This represents average annual growth of approximately 9 percent, or approximately \$500 million annually, over the five-year plan. Debt Service as reported in the State's Financial Plan disbursement tables is one of the fastest growing categories of spending. Figure 17 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 2011-12, State-Funded debt service is projected to be 5.1 percent of All Funds revenues, up from 4.3 percent in SFY 2007-08.

In SFY 2007-08, State-Funded debt service represents 6.6 percent of State operating funds receipts. This ratio is projected to grow to 7.8 percent in SFY 2010-11, the last year this receipts information is available in the New York State Mid-Year Financial Plan Update.

Figure 17

State of New York								
Projected State-Funded Debt Service 2006-07 through 2011-12 (in thousands of dollars)								
	SFY 2007	Enacted Capital Plan					Total Dollar Change	Total Percent Change
		SFY 2008	SFY 2009	SFY 2010	SFY 2011	SFY 2012	2008-2012	2008-2012
General Obligation	498,197	489,370	485,852	499,089	525,830	552,678	63,308	12.94%
Other State-Supported Public Authority	3,952,937	3,827,026	4,199,099	4,657,838	5,203,115	5,462,051	1,635,025	42.72%
2007-08 Capital Plan (State-Supported)	4,451,134	4,316,396	4,684,951	5,156,927	5,728,945	6,014,729	1,698,333	39.35%
TSFC	403,051	443,989	503,296	510,539	517,063	524,190	80,201	18.06%
TFA BARBs		73,320	160,078	247,767	295,796	304,022	230,702	314.65%
STARC	170,000	170,000	170,000	170,000	170,000	170,000	-	0.00%
MBBA	45,189	45,186	45,184	45,182	45,189	45,182	(4)	-0.01%
Total Other	618,240	732,495	878,558	973,488	1,028,048	1,043,394	310,899	42.44%
Projected Debt Service (State-Funded)	5,069,374	5,048,891	5,563,509	6,130,415	6,756,993	7,058,123	2,009,232	39.80%

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

Effect of New Debt on Ratios

The planned issuance of \$28.8 billion in new debt will have an effect on the State's debt ratios over the next five years. Based on projected available resources and assumptions in the current Capital Plan, Figure 18 illustrates projected debt ratios from SFY 2007-08 to SFY 2011-12. State Fiscal Year 2006-07 figures are also included for comparison purposes. The ratio of State-Funded debt outstanding to personal income is projected to decrease from 6.5 percent in SFY 2006-07 to 6.0 percent in SFY 2011-12. This decline is in part due to personal income growing faster than debt outstanding. Also, the forecast for new debt issuances for the New York City TFA BARBs is only projected through City Fiscal Year 2010. The ratio of State-Funded debt per capita is projected to rise from \$2,641 in SFY 2006-07 to \$3,263 by SFY 2011-12, representing a 23.6 percent increase. The debt service to All Funds revenues ratio is projected to increase from 4.1 percent in SFY 2006-07 to 5.2 percent by SFY 2011-12, representing a more than 26 percent increase over this time period.²¹

²¹ Projections for personal income and population are provided by Global Insight Inc. Over the life of the Capital Plan, New York State personal income is projected to increase 25.2 percent, and population is projected to increase slightly over 1 percent. All Funds receipts projections are explained later in this section.

Figure 18

State of New York						
Effect of Projected New Debt Issuances on Debt Ratios						
	SFY 2007	SFY 2008	SFY 2009	SFY 2010	SFY 2011	SFY 2012
Personal Income (prior year - millions)	\$790,330	\$848,744	\$919,126	\$964,483	\$1,011,929	\$1,062,988
State-Funded Debt to Personal Income	6.45%	6.39%	6.39%	6.42%	6.26%	5.99%
Population (millions)	19,306	19,323	19,372	19,421	19,470	19,517
State-Funded Debt Per Capita	\$2,641	\$2,808	\$3,031	\$3,188	\$3,254	\$3,263
All Funds Revenues (millions)	\$112,396	\$117,278	\$122,349	\$126,449	\$131,481	\$136,235
State-Funded Debt Service to All Funds Revenues	4.11%	4.31%	4.55%	4.85%	5.14%	5.18%

Sources: New York State Office of the State Comptroller, New York State Division of the Budget, U.S. Census Bureau and U.S. Bureau of Economic Analysis.

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 second half of the 1980s, the State used PAYGO financing for an average of 55 percent, and as much as 75 percent, of its State-Funded Capital Plan. During the first half of the 1990s, in which the first three years were in recession, the amount of PAYGO declined to an average of 30 percent, with a low of 13.5 percent in 1991, indicating the need for current resources in other budget areas. The use of current resources for State-Funded capital spending did increase somewhat during the latter half of the 1990s and into the next decade.

Even though the State experienced the largest economic expansion in history and a number of multi-billion dollar surplus years, the average annual use of PAYGO did not increase above 36.7 percent. If historical levels of PAYGO financing had been used during the late 1990s expansion, the State's debt outstanding and debt service levels would be lower today.

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 debt 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.

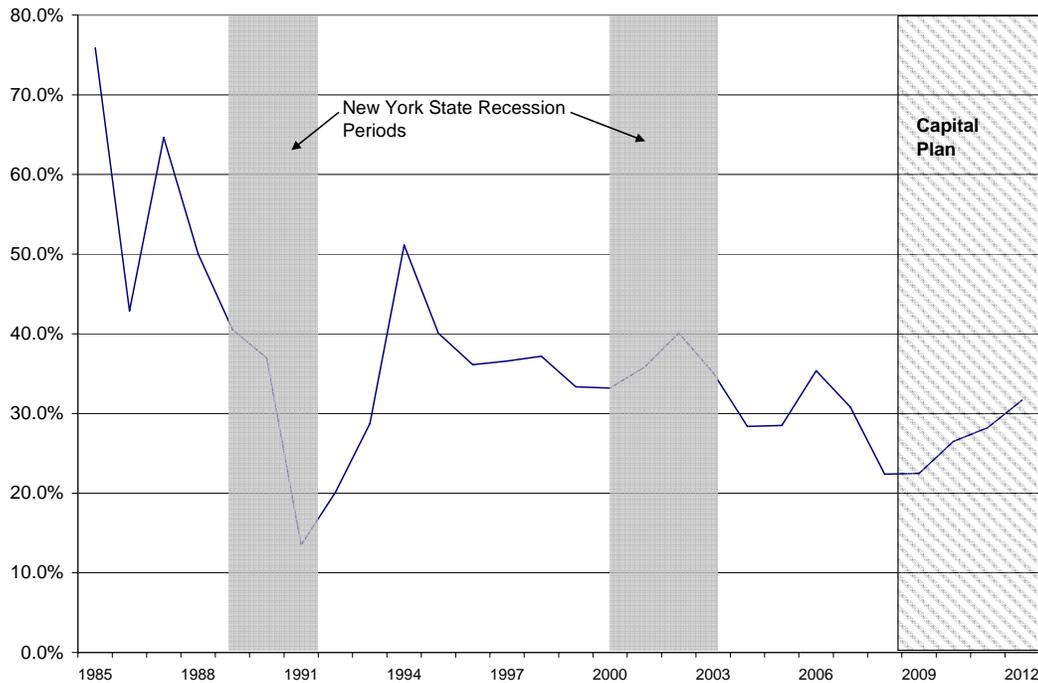
However, State PAYGO resources are forecast to average only 26.2 percent and climb to 31.7 percent in 2012, significantly lower than the average annual PAYGO amount from 1985 to 2006 of 38.4 percent.²² Figure 19 illustrates New York's

²² State PAYGO figures are from the 2007-08 Enacted Budget Capital Program and Financing Plan. These figures are not updated with Financial Plan updates.

continuing downward trend in the use of PAYGO as a percentage of non-federal capital spending.

Figure 19

PAYGO as a Percentage of Non-Federal Capital Spending



Source: New York State Office of the State Comptroller

Pay-As-You-Go and the Economy

The amount of current resources used to finance capital needs can be an indication of fiscal health. When a state or municipality is financially healthy or has accumulated a surplus, it generally has an increased ability to pay cash instead of issuing additional debt for capital purposes.

As previously discussed, New York’s use of current resources to finance capital projects has varied greatly throughout its recent history, ranging from over 75 percent of its non-federal capital program in 1985 to a low of only 13.5 percent in 1991. Over the past ten years, the State has enjoyed various levels of budgetary surplus; however, on average for those years, it utilized cash for only 33.8 percent of its non-federal capital financing. As a result of increasing debt and under utilizing 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 supporting these projects 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 business income and employment 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 rather than debt issuance 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 debt as a stabilizing tool in the future because the debt service costs will continue to grow, creating the potential to lower the State's credit worthiness in bad economic times. This, in turn, results in a potential increase in costs of borrowing when it may be needed the most.

Projected Receipts

In October 2007, the Division of the Budget released the 2007-08 Mid-Year Financial Plan Update, which projected All Funds receipts for the State through SFY 2011-12. The forecasted average growth over this period is expected to be 3.9 percent, with a high of 4.3 percent in SFY 2007-08 and a low of 3.4 percent in SFY 2009-10. Over the same period, the Division of the Budget forecasts an average annual rate of growth for personal income of 5.0 percent. This is consistent with other major forecasters, such as Global Insight, who expect the average annual rate of growth in New York to be 4.9 percent.

Figure 20

New York State All Funds Receipts	
(in millions)	
2000	\$73,409
2001	\$81,123
2002	\$83,247
2003	\$88,073
2004	\$98,989 (1)
2005	\$100,576
2006	\$107,339
2007	\$112,396
2008*	\$117,278
2009*	\$122,349
2010*	\$126,449
2011*	\$131,481
2012*	\$136,235

* Projected

(1) Note that revenues from the 2003-04 fiscal year include \$4.2 billion in non-recurring proceeds from bonds issued to finance the assignment of a portion of the State's future tobacco settlement revenues.

Source: New York State Office of the State Comptroller

Conclusions

Based on the debt ratios analyzed in this *Study*, New York's State-Funded debt levels are high when compared to both the peer group and the national median. Further, debt outstanding and debt service are projected to continue to grow over the next five-year period. Projected growth in debt service and its impact on the Financial Plan will further impede the State's flexibility to meet other spending priorities—with debt service consuming an increasingly larger share of the State's projected revenue.

An excessive debt burden limits the State's financial flexibility and could harm its future 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 have never, and will never, effectively restrain the growth of debt because of various loopholes built into the law.

A comprehensive debt policy, including an all-encompassing definition of State-Funded debt coupled with real limits on debt outstanding, is necessary to ensure the affordability of the State's debt burden in the future. Firm policies with respect to the limited issuance of future debt must be coupled with real restrictions on the use of debt for non-capital purposes and clear parameters that dictate a balanced mix of funding sources to be utilized to finance the State's capital needs. This is prudent fiscal practice.

Not only would this help protect and perhaps enhance the State's credit ratings, particularly in view of potential future spending needs, but it would ensure that financing decisions are made with recognition of the full cost of the overall debt burden. A debt management policy, including a comprehensive affordability assessment, 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.

A debt management policy cannot be developed in a vacuum, but must be implemented in conjunction with an overarching infrastructure needs assessment that clearly identifies and prioritizes, in light of New York's current financial condition, all of the State's capital needs. The State should develop and periodically update a long-range strategic infrastructure plan to ensure that necessary capital asset investment and maintenance is not impaired. In addition, funding decisions for the infrastructure plan are critical to both the long- and short-term financial planning process in order to ensure the State's ability to pay for these needs.

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