Standard & Poor's: AA
Fitch: AA–
(See "Ratings" herein)

NEW ISSUE-BOOK ENTRY ONLY

In the opinion of Sidley Austin Brown & Wood LLP, Bond Counsel, interest on the 2004 Bonds will be exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York (the "City"), and assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Series A Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes. Interest on the Series B (Federally Taxable) Bonds will be includable in gross income for federal income tax purposes. See "TAX MATTERS" herein for further information.

Empire State Development Corporation

$42,410,000
New York Job Development Authority
State-Guaranteed Special Purpose Bonds

$26,975,000 2004 Series A
$15,435,000 2004 Series B (Federally Taxable)

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

The State-Guaranteed Special Purpose Bonds, 2004 Series A (the "Series A Bonds") and 2004 Series B (Federally Taxable) (the "Series B Bonds" and together with the Series A Bonds, the "2004 Bonds") being offered hereby are special obligations of the New York Job Development Authority (the "Authority"), doing business as the Empire State Development Corporation, payable from any Available (as defined herein) funds of the Authority, as described herein. The 2004 Bonds are issued under and secured by a Trust Indenture dated as of February 1, 1997, as supplemented by a Third Supplemental Indenture and a Fourth Supplemental Indenture, each dated as of March 1, 2004, and each between the Authority and Manufacturers and Traders Trust Company, as Trustee (the "Indenture").

Pursuant to Section 8 of Article X of the Constitution of the State of New York, the punctual payment of the principal of and interest on the 2004 Bonds is fully and unconditionally guaranteed by the

STATE OF NEW YORK.

The Series A Bonds are not subject to optional redemption prior to maturity. The Series B Bonds are subject to optional redemption as described herein.

The proceeds of the 2004 Bonds will be used (i) to refund State-Guaranteed Special Purpose Bonds, 1997 Series A, due in 2009 and 2010 previously issued by the Authority, (ii) to refund certain outstanding Commercial Paper Notes issued to provide funds for the Authority's programs and (iii) to pay issuance costs. See "PURPOSE OF ISSUE" herein.

The 2004 Bonds are issuable only as fully registered bonds, without coupons, and when issued, will be registered in the name of Cede & Co. as nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the 2004 Bonds. Purchases of the 2004 Bonds will be made in book entry form in the denominations of $5,000 or any integral multiple thereof. Principal and semi-annual interest (payable March 1 and September 1 commencing September 1, 2004) are payable by the Trustee to Cede & Co., so long as Cede & Co. is the registered owner of the 2004 Bonds, as nominee for DTC, which is required, in turn, to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners.

The 2004 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to approval of the legality thereof by Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Clifford Chance US LLP, New York, New York. It is expected that the 2004 Bonds will be available for delivery on or about April 21, 2004 in New York, New York.

UBS Financial Services Inc.

Bear, Stearns & Co. Inc. **Citigroup** **Goldman, Sachs & Co.** **Morgan Stanley**

First Albany Capital Inc. **Lehman Brothers** **Merrill Lynch & Co.** **JPMorgan**

April 15, 2004

$42,410,000

NEW YORK JOB DEVELOPMENT AUTHORITY

State-Guaranteed Special Purpose Bonds

$26,975,000
2004 Series A Serial Bonds

Maturity (March 1)	Amount	Interest Rate	Price or Yield
2008	$2,020,000	3.00%	2.73%
2008	3,040,000	5.00	2.73
2009	2,860,000	3.00	3.05
2009	2,020,000	5.00	3.05
2010	3,725,000	3.30	3.35
2010	1,000,000	5.00	3.35
2011	1,045,000	3.60	3.61
2011	3,480,000	5.00	3.61
2012	1,765,000	4.00	3.84
2012	2,515,000	5.00	3.84
2013	780,000	4.00	100
2013	2,725,000	5.00	4.00

$15,435,000
2004 Series B Serial Bonds (Federally Taxable)

Maturity (March 1)	Amount	Interest Rate	Price
2014	$3,090,000	5.06%	100%
2015	3,090,000	5.14	100
2016	3,085,000	5.24	100
2017	3,085,000	5.33	100
2018	3,085,000	5.41	100

Information in this Official Statement has been furnished by the New York Job Development Authority, the State of New York and other sources, which are believed to be reliable, but is not guaranteed as to accuracy or completeness by the Underwriters. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2004 Bonds referred to herein, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the New York Job Development Authority or the State of New York since the date hereof (or since any earlier date indicated herein as the date as of which any such information is provided). This Official Statement is submitted in connection with the sale of the 2004 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE 2004 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

Relating to

$42,410,000

NEW YORK JOB DEVELOPMENT AUTHORITY

STATE-GUARANTEED SPECIAL PURPOSE BONDS

$26,975,000 2004 Series A
$15,435,000 2004 Series B (Federally Taxable)

INTRODUCTORY STATEMENT

This Official Statement, including the cover page, the inside cover page and the appendices, is being distributed by the New York Job Development Authority (the "Authority" or "JDA"), doing business as the Empire State Development Corporation ("ESDC"), in order to furnish information in connection with the sale of the Authority's State-Guaranteed Special Purpose Bonds, 2004 Series A in the aggregate principal amount of $26,975,000 (the "Series A Bonds") and 2004 Series B (Federally Taxable) in the aggregate principal amount of $15,435,000 (the "Series B Bonds" and, together with the Series A Bonds, the "2004 Bonds"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Indenture, as hereinafter defined.

The Authority is a body corporate and politic constituting a public benefit corporation organized and existing under the laws of the State of New York (the "State"). The 2004 Bonds are authorized to be issued pursuant to (i) the New York Job Development Authority Act, as amended, constituting Title 8 of Article 8 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York (the "Act"), (ii) resolutions of the Authority, adopted February 19, 2004 and (iii) a Trust Indenture, dated as of February 1, 1997 as supplemented by a Third Supplemental Indenture and Fourth Supplemental Indenture each dated as of March 1, 2004 (the "Indenture"), and each by and between the Authority and Manufacturers and Traders Trust Company, as trustee (the "Trustee"). The Third Supplemental Indenture amends certain provisions of the Indenture as described herein. See "AMENDMENTS TO INDENTURE." Certain of the provisions of the Act and the Indenture, as amended, are summarized below and in the Appendices hereto, and such summaries are qualified in their entirety by reference to the Act and the Indenture.

In order to advance the Authority's purpose under the Act of improving employment opportunities within the State, the Authority has made secured loans to local development corporations, which in turn have made loans to industrial, manufacturing and research and development firms and other eligible business enterprises. Such funds have been used to finance the construction of new plants, the acquisition, rehabilitation or improvement of existing plants and the acquisition of machinery and equipment.

Since the Authority's creation in 1962 through December 31, 2003, the Authority closed approximately 2,100 loans throughout the State in original principal amounts totaling approximately $880 million. The Authority has also guaranteed loans made by banking organizations in an amount not in excess of 80% of the costs of the project financed with the proceeds of such loans. Since the Authority's creation in 1962 through December 31, 2003, the Authority guaranteed 45 loans throughout the State in original principal amount totalling approximately $123 million.

In 1996, the Authority refashioned its lending programs and discontinued its loan guarantee programs, as described herein under "THE AUTHORITY—Future Lending Activities." The Authority also implemented a plan of finance in 1997 described under "THE AUTHORITY—1997 Debt Restructuring," in order to address operational deficits which had been expected to occur in future years.

Pursuant to provisions of the New York State Constitution and the Act, the State guarantees the punctual payment of the principal of and interest on the 2004 Bonds, according to their terms.

PURPOSE OF ISSUE

The proceeds of the 2004 Bonds are intended to be used for the purposes of and in accordance with the Act, (i) to refund principal and accrued interest on State-Guaranteed Special Purpose Bonds, 1997 Series A, issued by the Authority and due in 2009 and 2010 (the "Refunded Bonds"), (ii) to refund certain outstanding Commercial Paper Notes issued to provide funds for certain of the Authority's programs and (iii) to pay issuance costs. Payment of principal and accrued interest on the Refunded Bonds will be made prior to June 30, 2004.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are expected to be as follows:

Sources of Funds	
Principal Amount of the 2004 Bonds	$42,410,000.00
Other Available Funds	1,829,068.52
Net Original Issuance Premium	1,225,702.70
Total Sources	$45,464,771.22
Uses of Funds	
Refunding Escrow Deposits	$29,260,848.44
Redemption of Commercial Paper Notes	15,000,000.00
Costs of Issuance	942,366.12
Underwriters' Discount	261,556.66
Total Uses	$45,464,771.22

STATE GUARANTEE

The State Constitution and the Act provide that the punctual payment of the Authority's special purpose bonds and notes, including the 2004 Bonds, is fully and unconditionally guaranteed by the State both as to principal and interest, according to their terms. Such guarantee will be expressed upon the face of each 2004 Bond by the signature or facsimile signature of the State Comptroller or a Deputy Comptroller.

In the event the Authority fails to pay the principal of, or interest on, any State-guaranteed bond or note of the Authority when due, the State Comptroller is required to set apart from the first revenues thereafter received, applicable to the general fund of the State, a sum sufficient to pay such principal or interest.

The State Constitution empowers the Legislature to enact enabling legislation authorizing State-guaranteed bonds and notes of the Authority in an aggregate principal amount not exceeding $900 million outstanding at any time (excluding bonds issued to refund outstanding special purpose bonds). To date, enabling legislation has been passed by the Legislature allowing an aggregate principal amount of $750 million of State-guaranteed bonds and notes of the Authority to be outstanding at any time (excluding obligations issued to refund outstanding special purpose bonds). As of December 31, 2003, an aggregate principal amount of $50.98 million of the Authority's State-guaranteed bonds was outstanding. As of December 31, 2003, $30 million aggregate principal amount of the Authority's State-guaranteed commercial paper notes was outstanding.

Certain financial information concerning the State is set forth in the Annual Information Statement of the State of New York, dated May 30, 2003, as most recently updated on January 26, 2004, on file with each Nationally Recognized Municipal Securities Information Repository and included in part in Appendix B hereto.

THE 2004 BONDS

General Description

The 2004 Bonds will be issued as fully registered bonds without coupons in the respective aggregate principal amounts, and will be dated, bear interest at the rates, payable semi-annually on each March 1 and September 1 commencing September 1, 2004, and have stated maturities as set forth on the inside cover page of this Official Statement. The 2004 Bonds will be issued only in denominations of $5,000 and integral multiples thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2004 Bonds.

So long as DTC or its nominee, Cede & Co., is the registered owner of the 2004 Bonds, payment of the principal of, premium (if any) and interest on the 2004 Bonds will be made by Manufacturers and Traders Trust Company, as Trustee, directly to Cede & Co. Disbursement of such payments to the DTC participants is the responsibility of DTC and disbursement of such payments to the owners of beneficial interests in the 2004 Bonds is the responsibility of the DTC participants. See "DTC; Book Entry Only System" below.

Optional Redemption

The Series A Bonds are not subject to optional redemption.

The Series B Bonds are subject to redemption prior to their maturity at any time, at the option of the Authority, from any source available for such purpose, in whole or in part (and pro rata if less than all of a maturity is to be redeemed), at a redemption price equal to the principal amount of the Series B Bonds to be redeemed plus the Applicable Premium, if any, together with accrued interest to the redemption date. The "Applicable Premium" of any redeemed Series B Bond equals the excess of: (a) the present value at the date of redemption of 100% of the principal amount of such Bond plus all required interest payments due on such Bond through its Stated Maturity date (excluding accrued but unpaid interest), calculated using a discount rate equal to the Treasury Rate plus 20 basis points over (b) the principal amount of such Bond, if greater. If the period from the date of redemption to the Stated Maturity date is greater than one year, the "Treasury Rate" will be equal to the yield to maturity as of such date of redemption of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H. 15(519) that becomes publicly available at least two business days prior to the date of redemption (or, if such publication is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the date of redemption to the Stated Maturity date. If the period from the date of redemption to the Stated Maturity date is less than one year, the "Treasury Rate" will be equal to the weekly average yield of actually traded United States Treasury securities adjusted to a constant maturity of one year. The "Stated Maturity" date of any Bond is the maturity date shown on the inside front cover hereof.

General Redemption Notice Provisions

Notice to registered owners of any redemption of Series B Bonds (during the period of book entry registration with DTC, such notice will be mailed to Cede & Co.) shall be given in the manner set forth in the Indenture. The notice of redemption of Series B Bonds will be given not less than fifteen (15) days nor more than thirty (30) days prior to the date fixed for redemption.

On the date designated for redemption, the Series B Bonds called for redemption in the notice of redemption will become due and payable at the Redemption Price on such date. If on the date fixed for redemption, moneys for payment of the Redemption Price and accrued interest, if any, are held by the Trustee, as provided in the Indenture, interest on such Series B Bonds so called for redemption shall cease to accrue, and such Series B Bonds shall cease to be entitled to any benefit or security under the Indenture except the right of owners of Series B Bonds to receive payment from such moneys held by the Trustee.

DTC; Book Entry Only System

DTC, as an automated clearinghouse for securities transactions, will act as securities depository for the 2004 Bonds. Purchasers of beneficial ownership interests in the 2004 Bonds will not receive certificates representing their interests in the 2004 Bonds purchased. The 2004 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond certificate will be issued for each maturity of the 2004 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its direct participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the 2004 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2004 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2004 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the 2004 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bond certificates representing their ownership interests in the 2004 Bonds, except in the event that use of the book entry system for the 2004 Bonds is discontinued.

To facilitate subsequent transfers, all 2004 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the 2004 Bonds with DTC and their registration in the name of Cede & Co. effect no change in the beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2004 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2004 Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the 2004 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the 2004 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2004 Bonds, as appropriate, are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2004 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on a payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the 2004 Bonds registered in its name for the purpose of payment of the principal of or interest on the 2004 Bonds, giving any notice permitted or required to be given to registered owners under the Indenture registering the transfer of the 2004 Bonds or other action to be taken by registered owners and for all other purposes whatsoever. The Authority and the Trustee shall not have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the 2004 Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to: the accuracy of any records maintained by DTC or any Participant; the payment by DTC or any Participant of any amount in respect of the principal or interest on the 2004 Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as a registered owner. Interest and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct Participants or the Indirect Participants.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2004 BONDS, AS NOMINEE FOR DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE 2004 BONDS (OTHER THAN UNDER THE CAPTIONS "TAX MATTERS" AND "CONTINUING DISCLOSURE" HEREIN) SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2004 BONDS.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

For every transfer and exchange of the 2004 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to a Series of the 2004 Bonds if the Authority determines that (i) DTC is unable to discharge its responsibility with respect to such Series of Bonds or (ii) a continuation of the requirement that all of the Outstanding Series of Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners. In the event that no substitute securities depository is found by the Authority or restricted registration is no longer in effect, Bond certificates for such Series of Bonds will be delivered as described in the Indenture.

SOURCES OF PAYMENT AND SECURITY FOR THE 2004 BONDS

Guarantee by the State

The punctual payment of all the 2004 Bonds is fully and unconditionally guaranteed by the State, both as to principal and interest, according to their terms. This guarantee will be expressed upon the face of each 2004 Bond by the signature or facsimile signature of the State Comptroller or a Deputy Comptroller. The guarantee by the State is authorized by the Act and Section 8 of Article X of the Constitution of the State. Under these provisions, if the Authority shall fail to pay, when due, the principal of or interest on the 2004 Bonds, the Comptroller shall set apart from the first revenues thereafter received, applicable to the general fund of the State, a sum sufficient to pay such principal or interest, and shall so apply the moneys thus set apart, and thereupon the State shall be subrogated to the rights of the Bondholders so paid.

Available Funds

The Authority has covenanted in the Indenture to deposit with the Trustee, prior to each debt service payment date on the 2004 Bonds, the amount of principal of, premium (if any) and interest on, the 2004 Bonds due and owing on such date. The obligation of the Authority to make any such deposit is limited to "Available" funds of the Authority. "Available," when used with respect to funds of the Authority, means those funds of the Authority which (i) are lawfully available for payment of the principal of, premium, if any, and interest on, the 2004 Bonds, (ii) may be used for such payment consistent with such agreements with holders of bonds and notes issued by the Authority as may exist at the time of the proposed payment, and (iii) may, in the judgment of the Authority at such time, be used for such payment without adversely affecting the exemption from Federal income taxation (as applicable to the Series A Bonds).

Available funds are expected to be generated from the following sources: (1) repayments and interest payments on loans, (2) proceeds of bonds and notes of the Authority, (3) transfers of funds from or on behalf of the State and any moneys transferred by the New York State Urban Development Corporation ("UDC"), consisting of certain net annual savings from its refunding transaction as described herein, (4) interest earnings on the investment of Authority funds and (5) guarantee fees charged by the Authority. Certain of these sources of funds may not qualify as "Available" for purposes of the payment covenant of the Authority. This may occur, for instance, because (i) pursuant to certain tax law restrictions regarding the use of proceeds which are the subject of covenants of the Authority contained in the Indenture, only certain Available funds of the Authority (including funds described in items (2), (3), and (4) above and any other funds deemed Available by Bond Counsel) may be used for the payment of debt service on the Series A Bonds, (ii) certain of such moneys may have been expended for other purposes prior to the time needed for debt service on the 2004 Bonds or (iii) certain of such moneys may have been heretofore or may be hereafter pledged to other bonds or notes of the Authority.

The payment covenant of the Authority contained in the Indenture does not constitute a pledge of, or create a lien in favor of the Bondholders with respect to, any such funds until they are received by the Trustee under the Indenture. If, despite the State's guarantee of debt service on the 2004 Bonds as described above, Bondholders pursue claims against the Authority for payment of debt service on the 2004 Bonds, except with respect to any funds held by the Trustee under the Indenture, Bondholders will be treated equally with all other general unsecured creditors of the Authority and any such claims will be subordinate to the claims of any properly secured creditors of the Authority.

AMENDMENTS TO INDENTURE

The Third Supplemental Indenture amends the Indenture by revising certain terms defined therein as well as adding certain provisions relating to consent for subsequent amendments which are described in "Appendix C—Summary of Certain Provisions of the Indenture." Such amendments set forth in the Third Supplemental Indenture will be effective on the date when there are no longer Outstanding any of the Authority's State-Guaranteed Special Purpose Bonds, 1997 Series A ("1997 Series A Bonds"). The remaining Outstanding balance of such bonds are to be paid from a portion of the proceeds of the 2004 Bonds, as described under "PURPOSE OF ISSUE" above. Upon the delivery of the 2004 Bonds and the redemption of the 1997 Series A Bonds, the amendments to the Indenture will take effect and be binding on all holders of 2004 Bonds.

THE AUTHORITY

General

The Authority is a body corporate and politic constituting a public benefit corporation organized under the laws of the State and authorized by a Constitutional Amendment approved by the voters in 1961. The Authority was created pursuant to the Act for the purpose of assisting, promoting, encouraging, developing and advancing the general prosperity and economic welfare of the people of the State by improving employment opportunities within the State.

Included in Appendix A hereto are the financial statements of the Authority for the fiscal year ended March 31, 2003.

Historically, JDA has provided loans and loan guarantees to assist companies to expand facilities, build new plants and acquire machinery and equipment. These programs provided financing to encourage the growth of manufacturing and other private-sector business enterprises in the State without requiring appropriation of taxpayers' funds. This assistance is provided through local development corporations in cooperation with Federal entities.

Consolidation, Reorganization and Staffing

In 1995, the Chairman, who also serves as the Governor's Commissioner of Economic Development, consolidated, reorganized and streamlined the State's economic development agencies in order to increase efficiency, reduce administrative overhead and enhance the delivery of the State's economic development initiatives.

The staff and functions of the Authority and UDC were combined. While each of these entities retains a separate corporate existence, they operate in a consolidated manner under the name ESDC. ESDC and the State's Department of Economic Development ("DED") are distinct entities although both are headed by the Commissioner of Economic Development. Together, they are responsible for design, structure, coordination and implementation of the State's economic development policies and programs.

The legal corporate entities of the Authority and UDC will continue, as required by law, to separately issue bonds and/or notes pursuant to legislative powers. Except as described below under "1997 Debt Restructuring," UDC has no obligation to fund any of JDA's financial requirements. Such requirements, including debt service, remain the obligation of JDA. The consolidation has not caused UDC or JDA to become legally obligated on any of the current or future outstanding bonds of the other entity.

ESDC's staff and the staff of its subsidiaries numbered approximately 350 on December 31, 2003 and include financial analysts, accountants, lawyers, urban planners, project managers, architects, engineers, construction supervisors, specialists in industrial and commercial development, computer programmers and other support personnel.

Directors and Authority Management

The Members of the Authority are the State Commissioner of Economic Development, as Chairman, the State Commissioner of Labor, the State Superintendent of Bank and the State Commissioner of Agriculture and Markets, each serving ex-officio, and seven Members appointed for four-year terms by the Governor with the advice and consent of the Senate.

The present Members of the Authority and their positions or affiliations are as follows (two vacancies on the Board exist at the present time):

Board Members	**Position**
Charles A. Gargano, Chairman	Commissioner of Economic Development New York State Department of Economic Development
Charles E. Dorkey, III, Vice Chairman	Senior Partner, Torys LLP
David H. Feinberg	President, Laramie Dawson Corporation
Karen Noble Hanson	President, Corh Associates
James S. Simpson	Owner and President, Victory Van Lines, Inc.
Nicholas Yunis	Chairman, Yunis Enterprises Inc.

Linda Angello	Commissioner of Labor New York State Department of Labor
Nathan L. Rudgers	Commissioner of Agriculture and Markets New York State Department of Agriculture and Markets
Diana Taylor	Superintendent, New York State Banking Department

Senior Officers

Charles A. Gargano	Chief Executive Officer
Kevin S. Corbett	Executive Vice President and Chief Operating Officer
Frances A. Walton	Senior Vice President – Chief Financial Officer
Anita W. Laremont	Senior Vice President – Legal and General Counsel
Garry P. Ryan	Controller
Robert Godley	Treasurer
Eileen McEvoy	Corporate Secretary
Fredrick Eisenstein	Assistant Secretary

1997 Debt Restructuring

The Authority was established as a self-supporting operation in 1962. Funds for its programmatic initiatives are raised through the sale of bonds and notes. The revenues necessary to make payment on the Authority's bonds and notes, as well as to cover its operating expenses, have been provided by loan repayments from the borrowers assisted, interest earnings on investment of available funds and fee income. JDA successfully established a stable portfolio of moderate size, direct loans which enabled the Authority to meet all of its obligations and grow its funds balance to $10.4 million as of March 31, 1990. As a result, in that year JDA was able to contribute $3 million to the State's General Fund.

Beginning in 1987, following major changes in Federal tax laws governing eligibility for tax-exempt financing, the Authority began making loans funded by taxable borrowings and guaranteeing third party loans. Many of the loan guarantees proved to be high risk in nature and involved amounts which were much larger than the Authority had previously funded. In addition, during the late 1980's and early 1990's the Authority's direct loan program, primarily consisting of second mortgage loans, was negatively impacted by the severe decline in the State's real estate market and the general economic recession that occurred in the State and the country.

The combination of these factors has led to major provisions for loan and loan guarantee losses being recognized on the financial statements of the Authority, beginning in 1991. From 1991 through 1996, the Authority provided for approximately $63 million on its financial statements for loan and loan guarantee losses. As a result of the losses on its loan and loan guarantee program, the Authority in 1996 projected a mismatch between revenues available for debt service and debt service requirements on its outstanding bonds and notes which varied significantly in magnitude from year to year through at least 2010.

As part of the solution to this problem, legislation was passed by the State which required the transfer from UDC to the Authority of certain net savings resulting from a November 1996 refunding of certain outstanding obligations of UDC (i) after such savings were applied, to the extent necessary, for funding by UDC of a housing repair and modernization fund to assist in maintaining its residential and commercial portfolios, and (ii) based on a request by the Chairman of the Authority, and verified by UDC, to the effect that the Authority would not have sufficient funds available to pay its lawfully incurred debts and obligations.

In addition, to further remedy the projected cash flow shortfall, in 1997 the Authority issued $84,895,000 of its State-Guaranteed Special Purpose Bonds to restructure the Authority's capital structure so as to replace the varying levels of deficits and surpluses then projected with approximately level deficits through the year 2010. In addition, the Authority took certain other steps to lower costs and effect debt service savings. The debt restructuring and other steps taken by the Authority reconfigured the Authority's projected future operating deficits to levels which have been absorbed by transfers to the Authority of net savings from the UDC refunding transaction described above.

Recent Program Results

Since the 1997 Debt Restructuring, JDA has lent on a very modest scale. Thirty-nine Direct Loans for a total of approximately $56 million have been funded. Collections on loans, both current and delinquent have improved. Loans more than sixty days in arrears totalled $10.5 million as of December 31, 2003 compared to $21.9 million as of December 31, 1997.

The Loan Guarantee Program, which was suspended in 1995, has not been revived. Although still authorized in the statute, the Authority does not anticipate using this program in the foreseeable future. As a result, the outstanding Loan Guarantee balances, which were $54 million at the time of the 1997 Debt Restructuring, have been reduced to less then $2 million. This reduced balance indicates that the Loan Guarantee Program no longer has a material impact on the Authority's financial condition.

The Authority continues to vigorously pursue all available remedies for its delinquent direct loan portfolio. The existing portfolio consists of 195 direct loans with an aggregate outstanding principal balance of approximately $98 million as of December 31, 2003, of which $10.5 million is more than sixty days in arrears. While there is no assurance that there will not be additional defaults, management believes that the remaining portfolio is stable and has been adequately reserved.

To finance its activities, the Authority in February 2003 issued $30 million in Series H Commercial Paper Notes (the "Commercial Paper Notes") which provided funds to finance loans made by the Authority during the previous two years and provided the Authority with additional liquidity. The Commercial Paper Notes are fully and unconditionally guaranteed by the State of New York. Liquidity is provided by a revolving line of credit agreement provided by JPMorgan Chase Bank and Bayerische Landesbank Girozentrale splitting coverage respectively at 55% and 45%. The Commercial Paper program authorized the Authority to issue up to $35 million in Commercial Paper Notes.

Future Lending Activities

From 1995 until January 1997, due to the serious nature of the problems described under "1997 Debt Restructuring" above, no new loans or loan guarantees were approved. However, beginning in 1997, JDA resumed its business lending activities under a revised set of lending programs and underwriting guidelines. The Authority did not resume its loan guarantee program and does not intend to do so. In accordance with the Authority's mandate, its lending programs are designed to promote economic development and job creation throughout the State while preserving State-supported funds through the consistent application of prudent underwriting standards. These lending programs, approval processes, and underwriting guidelines are described below.

JDA Lending Program

Direct Loan Program. This program (the "Direct Loan Program") is directed toward small and medium-sized manufacturing, distribution and warehousing, and certain service industries. The products available under the program include fixed and variable rate term loans for the acquisition of eligible assets including: (a) real estate acquisition, construction, or renovation secured by, at minimum, a second mortgage lien on the property acquired and/or improved; and (b) machinery and equipment acquisition secured by a first mortgage lien or a co-equal first mortgage lien on the assets financed. The typical financing structure of a loan under this program consists of 50% private or public co-lender participation, 40% JDA participation, and 10% equity from the loan recipient.

Applications under the Direct Loan Program are submitted through local development corporations in coordination with the regional ESDC offices. An ESDC lending officer oversees the due diligence and finalization of the application. A completed application is then presented to the Authority Board for approval, after which it is forwarded to the Public Authorities Control Board ("PACB") for subsequent approval. Documentation and closing of loans are handled by an ESDC attorney.

Enhanced Small Business Administration Loans. This program is designed to leverage the lending capacity of the Small Business Administration ("SBA") 504 program to increase the loan size available to small and medium-sized businesses. SBA loans are limited to 40% of an eligible project's cost and a dollar limit of $750,000. Under this joint JDA/SBA program, JDA participates in SBA loans as a co-equal, second mortgage lender primarily on loans for the building and/or renovation of manufacturing facilities. Machinery and equipment loans are also available under this program if secured by a first priority lien shared by the Authority and SBA on the assets financed.

Underwriting Guidelines

As required by the Act, JDA loans must be secured by a lien on the assets being financed. Eligible miscellaneous project charges and fees (soft costs) may not exceed ten percent (10%) of total project costs. On real estate loans, JDA may take a second lien, but may not be subordinate to more than 50% of the project's costs. On machinery and equipment, JDA must have a co-equal first lien with other lenders. Additional collateral may be required as project circumstances dictate. Loan terms will generally not exceed the term of co-lender's financing. Personal guarantees are required for each proprietor, partner, or stockholder with 20% or more ownership in the project being financed. Life insurance on key persons is generally required.

AGREEMENT OF THE STATE

In accordance with the authority granted to the Authority pursuant to the provisions of the Act, the Authority, on behalf of the State, has pledged to and agreed with the Bondholders in the Indenture that the State will not limit or alter the rights and powers vested in the Authority by the Act to fulfill the terms of any contract made by the Authority with Bondholders, or in any way impair the rights and remedies of Bondholders until the 2004 Bonds, together with interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged.

TAX MATTERS

Tax-Exempt Bonds

In the opinion of Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel, except as provided in the following sentence, interest on the Series A Bonds (the "Tax-Exempt Bonds") will not be includable in the gross income of the owners of the Tax-Exempt Bonds for purposes of federal income taxation under existing law. Interest on the Tax-Exempt Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Tax-Exempt Bonds in the event of a failure by the Authority to comply with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and covenants regarding use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the United States Treasury; and no opinion is rendered by Sidley Austin Brown & Wood LLP as to the exclusion from gross income of the interest on the Tax-Exempt Bonds for federal income tax purposes (i) in the event the Indenture has been modified or amended in any manner which affects the exclusion of interest on the Series A Bonds for federal income tax purposes without the approval of such firm, or (ii) on or after the date on which any change contemplated by the documents executed and delivered in connection with the authorization, sale or issuance of the Series A Bonds occurs or action is taken that adversely affects the exclusion of interest on the Series A Bonds for federal income tax purposes upon the approval of counsel other than such firm.

Interest on the Tax-Exempt Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including The City of New York and the City of Yonkers.

Interest on the Tax-Exempt Bonds will not be a specific preference item for purposes of the federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which Sidley Austin Brown & Wood LLP renders no opinion, as a result of ownership of such Bonds or the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is excluded from gross income. Interest on the Tax-Exempt Bonds owned by a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability.

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

The excess, if any, of the amount payable at maturity of any maturity of the Tax-Exempt Bonds purchased as part of the initial public offering over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Tax-Exempt Bonds with original issue discount (a "Discount Bond") will be excluded from gross income for federal, State and City of New York income tax purposes to the same extent as interest on the Tax-Exempt Bonds. In general, the issue price of a maturity of the Tax-Exempt Bonds is the first price at which a substantial amount of Tax-Exempt Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser's adjusted basis in a Discount Bond is to be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bonds for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed above. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of such substantially identical bonds is sold to the public may be determined according to rules that differ from those described above. An owner of a Discount Bond should consult his tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount with respect to such Discount Bond and with respect to state and local tax consequences of owning and disposing of such Discount Bond.

The excess, if any, of the tax basis of the Tax-Exempt Bonds purchased as part of the initial public offering to a purchaser (other than a purchaser who holds such Tax-Exempt Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such Tax-Exempt Bonds for federal income tax purposes (or, in the case of a bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). Owners of such Tax-Exempt Bonds are required to decrease their adjusted basis in such Tax-Exempt Bonds by the amount of amortizable bond premium attributable to each taxable year such Tax-Exempt Bonds are held. The amortizable bond premium on such Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, bond premium is treated as an offset to qualified stated interest received on such Tax-Exempt Bonds. Owners of such Tax-Exempt Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premiums upon sale or other disposition of such Tax-Exempt Bonds and with respect to the state and local tax consequences of owning and disposing of such Tax-Exempt Bonds.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Tax-Exempt Bonds will not have an adverse effect on the tax-exempt status of the Tax-Exempt Bonds. Legislative or regulatory actions and proposals may also affect the economic value of the tax exemption or the market price of the Tax-Exempt Bonds.

Federally Taxable Bonds

The following discussion addresses certain federal income tax consequences to United States holders of the Series B Bonds. It does not discuss all the tax consequences that may be relevant to particular holders. Each holder should consult his own tax adviser with respect to his particular circumstances.

Interest on the Series B Bonds will be includable in the gross income of the owners thereof for purposes of federal income taxation. Interest on the Series B Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including The City of New York and the City of Yonkers.

AUTHORITY FINANCIAL STATEMENTS

The financial statements of the Authority as of March 31, 2003 and for the year then ended, appended hereto as Appendix A of the Official Statement, have been audited by Urbach Kahn & Werlin LLP, independent auditors, as set forth in their report dated June 27, 2003, which report is also included in Appendix A, and have been included in reliance upon the report of said auditors.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance, sale and delivery of the 2004 Bonds are subject to the approving opinion of Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel to the Authority, in substantially the form contained in Appendix D. Certain legal matters will be passed upon for the Underwriters by their counsel, Clifford Chance US LLP, New York, New York.

LITIGATION

Upon delivery of the 2004 Bonds, the Authority shall furnish a certificate of an Authorized Officer of the Authority, dated the date of delivery of the 2004 Bonds, to the effect that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, arbitrator, governmental or other public board, body or official, pending or, to the best knowledge of the Authority, threatened against or affecting the Authority, (i) questioning the validity of the Act or any proceeding taken by the Authority in connection with the issuance, execution, sale or delivery of the 2004 Bonds, or (ii) seeking to prohibit, restrain or enjoin the issuance, execution, sale or delivery of the 2004 Bonds, nor, to the best knowledge of the Authority, is there any basis therefor, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated hereby or which in any way would adversely affect (A) the validity or enforceability of the Authority's obligations under the Indenture, the 2004 Bonds or any other documents described herein or (B) the exemption of the interest of the 2004 Bonds from federal income taxation for the Series A Bonds or income taxation by the State or any political subdivision thereof.

LEGAL INVESTMENT

The Act provides that the 2004 Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks, savings associates, including savings and loan associations and building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or who may hereafter be authorized to invest in bonds or obligations of the State, may properly and legally invest funds including capital in their control or belonging to them. The Act further provides that the 2004 Bonds are securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities and municipal subdivisions for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and Fitch, Inc. have assigned the ratings of AA and AA–, respectively, to the 2004 Bonds. The Authority has furnished to each such rating agency certain information and materials relating to the 2004 Bonds, the Authority and the State, certain of which information and materials may not be included in this Official Statement. Generally, a rating agency bases its rating on the information and materials so furnished and on its investigation, studies and assumptions. There is no assurance that any rating will remain for any given period of time or that it will not be revised downward or withdrawn entirely by such agency, if in its judgment, circumstances so warrant. Any such downward revision or withdrawal of either such rating may have an adverse effect on the market price of the 2004 Bonds.

UNDERWRITING

The Underwriters have agreed, subject to the terms and conditions of the Contract of Purchase between the Authority and the Underwriters, to purchase the 2004 Bonds from the Authority at a purchase price of $43,374,146.04. In addition, the Authority has agreed in the Contract of Purchase to indemnify the Underwriters against certain liabilities and expenses, to the extent permitted by law. The Underwriters are listed on the cover of this Official Statement.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the Authority, the State and the Trustee will enter into a written agreement (the "Continuing Disclosure Agreement") for the benefit of the holders of the 2004 Bonds to provide continuing disclosure. The State will undertake for the benefit of the holders of the 2004 Bonds to provide each Nationally Recognized Municipal Securities Information Repository (each a "Repository") and, if and when one is established, the New York State Information Depository (the "State Information Depository"), on an annual basis on or before 120 days after the end of each fiscal year of the State, commencing with the fiscal year ending March 31, 2004, financial information and operating data relating to the State of the type included in the Annual Information Statement of the State set forth in Appendix B to this Official Statement and described in more detail in the next succeeding paragraph hereof. The State Comptroller is required by existing law to issue audited annual financial statements of the State 120 days after the close of the State fiscal year, and the State will also undertake to provide the State's annual financial statements prepared in accordance with generally accepted accounting principles ("GAAP") and audited by an independent firm of certified public accountants in accordance with generally accepted auditing standards to each Repository and to the State Information Depository, if and when such statements are available. In addition, the Authority will undertake, for the benefit of the holders of the 2004 Bonds, to provide (i) to each such Repository and to any State Information Depository, within 180 days after the close of its fiscal year beginning with the fiscal year ending March 31, 2004, (a) its annual financial statements prepared in accordance with GAAP and audited by an independent firm of certified public accountants in accordance with generally accepted auditing standards and (b) the financial information and operating data of the Authority described as "Authority Annual Information" in the second next succeeding paragraph hereof, and (ii) to each such Repository or the Municipal Securities Rulemaking Board (the "MSRB") and to any State Information Depository in a timely manner, the notices described below (the "Notices").

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

The Authority Annual Information consists of financial information and operating data of the type included in this Official Statement under the heading "THE AUTHORITY – Recent Program Results" together with such narrative explanation as may be necessary to avoid misunderstanding and to assist the reader in understanding the presentation of financial information and operating data concerning, and in judging the financial condition of, the Authority.

The Notices include notices of any of the following events with respect to the 2004 Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the security; (7) modifications to the rights of security holders; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the securities; and (11) rating changes. In addition, the Authority will undertake, for the benefit of the holders of the 2004 Bonds, to provide to each Repository or the MSRB, and to the State Information Depository, in a timely manner, notice of any failure by the State to provide the State Annual Information or by the Authority to provide the Authority Annual Information and annual financial statements by the date required in the State's and the Authority's undertakings described above.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Agreement to provide continuing disclosure described above is an action to compel specific performance of the undertakings by the State and/or the Authority, and no person, including any holder of the 2004 Bonds, may recover monetary damages thereunder under any circumstances. The Authority or the State may be compelled to comply with their respective obligations under the Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by any holder of Outstanding Bonds or by the Trustee on behalf of the holders of the Outstanding Bonds or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the owners of Outstanding Bonds; provided, however, that the Trustee may not take any enforcement action with respect to this clause (ii) except at the direction of the holders of not less than 25% in aggregate principal amount of 2004 Bonds at the time Outstanding. A breach or default under the Continuing Disclosure Agreement shall not constitute an Event of Default under the Indenture. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the provision of such information, shall no longer be required to be provided.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated or is no longer relevant because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The Continuing Disclosure Agreement, however, may be amended or modified without Bondholders' consent under certain circumstances set forth therein. Copies of the Continuing Disclosure Agreement when executed by the parties thereto upon the delivery of the 2004 Bonds will be on file at the office of the Authority.

In 1997, the Authority entered into a continuing disclosure agreement (the "1997 CDA") in connection with the issuance of $84,895,000 State-Guaranteed Special Purpose Bonds. The 1997 CDA contained disclosure obligations of the Authority which required the Authority to file certain information with the Repositories each year beginning in 1997. Such filings were not made by the Authority. In February 2004, the Authority filed the required information for 2003. The Authority has revised its procedures to make certain the required filings are made on a timely basis in the future.

MISCELLANEOUS

The references herein to and summaries of the laws of the State, including but not limited to the Constitution and the Act, and documents and agreements, including but not limited to the Indenture, are summaries of certain provisions thereof. Such summaries do not purport to be complete and are qualified in their entirety by references to the Constitution, the Act, laws, documents or agreements. Copies of the Indenture are available for inspection during normal business hours at the office of the Authority.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. Neither this Official Statement nor any statement which may have been made orally or in writing shall be construed as a contract or as a part of a contract with the Underwriters or any holders of the 2004 Bonds.

The execution and distribution of this Official Statement have been duly authorized by the Authority.

NEW YORK JOB DEVELOPMENT AUTHORITY

By: /s/ Frances A. Walton
Chief Financial Officer

Appendix A

Financial Statements of the Authority

NEW YORK JOB DEVELOPMENT AUTHORITY

SPECIAL PURPOSE FUND
SPECIAL REVENUE FUNDS

FINANCIAL REPORT

MARCH 31, 2003 AND 2002

New York Job Development Authority

Contents

UK Urbach Kahn & Werlin LLP
&W CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Authority Members
New York Job Development Authority

We have audited the accompanying balance sheets of New York Job Development Authority's Special Purpose Fund and Special Revenue Funds as of March 31, 2003 and 2002, and the related statements of revenues, expense and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New York Job Development Authority's Special Purpose Fund and Special Revenue Funds as of March 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, in 2003, the Authority adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments and Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2003 on our consideration of New York Job Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with the *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Urbach Kahn & Werlin LLP

New York, New York
June 27, 2003

FINANCIAL STATEMENTS

Overview

During fiscal 2003, the New York Job Development Authority ("JDA") continued its mission of providing loans to New York State businesses to expand facilities, build new plants and acquire machinery and equipment. This program provides financing to encourage the growth of manufacturing and other private sector business enterprises in the State without requiring appropriation of taxpayers' funds.

Since 1995, the Authority has done business as Empire State Development Corporation and has been administratively consolidated with the New York State Urban Development Corporation. JDA experienced financial difficulties in the mid-1990's. As a result, since 1997 JDA has received from the New York State Urban Development Corporation ("UDC"), also doing business as the Empire State Development Corporation, an annual operating transfer to assist in meeting its legal obligations.

With this assistance, improvements in collections of the loan portfolio and the absorption of personnel costs by UDC, in the year ending March 31, 2003, JDA has returned to a positive fund balance of $9.4 million.

Liquidity

The Authority's cash, cash equivalents and investments totaled approximately $10.6 million and $25.3 million at March 31, 2003 and 2002 respectively. The decrease from 2002 results primarily from the payment of the 1992 Series A Special Purpose Bonds which matured March 1, 2003 in the amount of $48 million.

In February 2003 the Authority issued $30 million in Series H Commercial Paper Notes which provided funds for loans that had been made from the Authority's cash in the previous two years and to provide additional liquidity. The Authority believes believes that it will be able to continue to roll over the Commercial Paper Notes for the foreseeable future. The Authority is also exploring terming the Notes out in a new bond issuance to match the maturities of the loans funded by the Commercial Paper Notes.

Cash generated from operations exceeded the Authority's operating requirements for fiscal 2003 by approximately $1 million

Capitalization

As of March 31, 2003, the Authority had approximately $81 million in Bonds and Notes outstanding. Total Debt decreased by approximately $30 million through scheduled maturities partially offset by the issuance of the $30 million in Series H Commercial Paper Notes in February 2003.

Investment Ratings

As of March 31, 2003, the Authority's outstanding debt had the following ratings from the two major rating agencies.

ISSUE	RATINGS	
	MOODY'S	S&P
Special Purpose Bonds Series '97 A	A2	AA
Special Purpose Variable Rate Bonds Series '89 A	A2 / VMIG1	AA
Special Purpose Variable Rate Bonds Series '89 B	A2 / VMIG1	AA
Special Purpose Variable Rate Bonds Series '92 A	Aa3 / VMIG1	Not Rated
Special Purpose Variable Rate Bonds Series '92 B	Aa3 / VMIG1	Not Rated

The following is a summary of the Special Purpose Fund's financial information for fiscal 2003 and fiscal 2002:

	(In Thousands)	
Summary of Balance Sheets	**2003**	**2002**
Assets		
Cash, cash equivalents and temporary investments	$ 10,611	$ 25,298
Debt service reserve fund investments	8,700	11,422
Loans receivables, net	68,035	65,536
Financing leases, net	21,084	21,136
Foreclosed properties, net	725	1,513
Other assets	1,349	1,747
Due from Special Revenue Funds	279	279
Total assets	$110,783	$126,931
Liabilities and net assets (deficit) - restricted		
Liabilities		
Special purpose bonds and commercial paper notes payable	$ 80,915	$110,420
Due to New York State Urban Development Corporation	19,430	18,146
Allowance for estimated losses on loan guarantees	579	1,059
Other liabilities	450	983
Total liabilities	101,374	130,608
Net assets (deficit) - restricted	9,409	(3,677)
Total liabilities and net assets	$110,783	$126,931

New York Job Development Authority

Management's Discussion and Analysis
Special Purpose Fund
For the Fiscal Year Ended March 31, 2003

Summary of Statements of Revenues, Expenses and Changes in Net Assets	(In Thousands) 2003	2002
Operating revenue		
Loan interest	$ 6,358	$ 6,414
Other revenue	771	2,222
Total operating revenue	7,129	8,636
Operating expenses:		
Interest	5,390	6,068
Recovery of provision on loans receivable and loan guarantee losses	(1,051)	(2,983)
Amortization of deferred financing costs	180	194
Credit and remarketing fees	191	277
General and administrative	986	1,209
Total operating expenses	5,696	4,765
Operating income	1,433	3,871
Nonoperating revenues	11,997	12,341
Nonoperating expenses	(344)	(591)
Excess of revenues over expenses	13,086	15,621
Net assets / (deficit) - restricted, beginning of year	(3,677)	(19,067)
Transfer of the book value of the Bond Assistance Experiment Fund net assets from the Special Revenue Funds	-	(231)
Net assets / (deficit) - restricted, end of year	$ 9,409	$ (3,677)

Excess of Revenues over Expenses

The excess of revenues over expenses for the year ended March 31, 2003 was $13.1 million compared with $15.6 million for the previous year.

Revenue

Operating revenue approximated $7.1 million in the current fiscal year compared to $8.6 million in fiscal 2002. Loan interest declined slightly. Other revenue declined by more than $1.4 million due to a reduction in loan fees and a non-recurring $1.2 million reduction in an arbitrage liability in 2002.

In non-operating revenue, investment income declined by $343,000 due to less cash available for investment and the lower interest rate environment.

Operating Expenses

Operating Expenses for fiscal 2003 were $5.6 million compared with $4.7 million in 2002. Interest on Bonds and Commercial Paper Notes declined by almost $700,000 due to reduced overall debt and the lower interest rate environment for variable rate debt. All other operating expense categories also experienced slight reductions. The recovery of provision on loans receivable and loan guarantee losses was $3 million in fiscal 2002 to $1 million in 2003 due to improved collections and loan loss experience.

The Authority's financial picture continues to improve. New loan activity has been moderate, approximately $22 million in 2003. In addition there are $26.9 million in loans approved but not closed. During the coming fiscal year management does not foresee any events that would have a significant effect on the financial position of the Authority.

Overview

In addition to the Authority's Special Purpose Fund, JDA also administers the Al Tech Trust Fund and several regional development funds. These revolving loan funds were funded by a variety of state and federal sources. At present, the only active fund is the Al Tech Trust Fund, which was established with a $10 million grant from the US Department of Commerce in 1976. This fund is for the benefit of companies located in Albany and Chautauqua Counties. During the last two fiscal years, loans totaling approximately $4.6 million were made.

The other funds, including the Rural Development Loan Fund, the Long Term Economic Development Fund, the Fisherman's Assistance Fund and the Regional Economic Fund have had no new loan activity in the last several years. JDA continues to collect outstanding balances from loans previously made. It is anticipated that these funds may be dissolved in the near future and the fund balances disbursed in accordance with the various funding agreements.

Liquidity

The Special Revenue Funds cash, cash equivalents and temporary investments totaled approximately $17.1 million and $15.1 million at March 31, 2003 and 2002 respectively. The increase from 2002 is the result of principal and interest payments on the outstanding loans exceeding the new loans disbursed. Cash generated from operations exceeded the Special Revenue Funds operating requirements for fiscal 2003.

Other than $279,000 due to the Special Purpose Fund and other liabilities of $70,000 the Special Revenue Funds have no additional liabilities.

Capitalization

As stated previously, the Special Revenue Funds were established with a variety of state and federal funds. No debt has been issued by any of the funds, therefore these funds are not rated by the various rating agencies.

The following is a summary of the Special Revenue Funds financial information for fiscal 2003 and 2002:

Summary of Combined Balance Sheets	**(In Thousands) 2003**	**2002**
Assets		
Cash, cash equivalents and temporary investments	$ 17,147	$ 15,118
Loans receivables, net	12,211	13,069
Other assets	51	52
Total assets	$ 29,409	$ 28,239
Liabilities and net assets - restricted		
Liabilities		
Due to Special Purpose Fund	$ 279	$ 279
Other liabilities	71	151
Total liabilities	350	430
Net assets - restricted	29,059	27,809
Total liabilities and net assets	$ 29,409	$ 28,239

Summary of Combined Statements of Revenue, Expenses and Changes in Net Assets	**(In Thousands) 2003**	**2002**
Operating revenue		
Loan interest	$ 693	$ 676
Other revenue	71	49
Total operating revenue	764	725
Operating expenses:		
Provision for loss (recovery of provision) on loans receivable	(241)	221
General and administrative	99	35
Total operating expenses	(142)	256
Operating income	906	469
Nonoperating revenues	344	646
Excess of revenues over expenses	1,250	1,115
Net assets - restricted, beginning of year	27,809	26,463
Transfer of the book value of the Bond Assistance Experiment Fund net assets to the Special Purpose Fund	-	231
Net assets - restricted, end of year	$ 29,059	$ 27,809

Excess of Revenues over Expenses

The excess of revenues over expenses for the year ended March 31, 2003 was $1.2 million compared with $1.1 million in the previous year.

Revenue

Operating revenue increased slightly to $764,000 form $725,000 as there were minor increase in loan interest and other revenues. Non-operating revenues decreased to $344,000 from $646,000 as the investment income of the Special Revenue Funds were severely impacted by the lower interest rate environment.

Operating Expenses

Operating expenses decreased to ($142,000) in 2003 from $256,000 in 2002 as the Special Revenue Funds realized a recovery of the provision for loans receivable of $241,000 as compared with an increase in the provision of $222,000 in the previous year. Administrative expenses increased to $99,000 from $35,000 primarily due to an increase in costs related to recovery of past due loans and some increase in the administrative fee received by Albany County for its assistance in administering its portion of the Al Tech Trust Fund.

The financial picture of the Special Revenue Funds is very strong. Net assets approximated $29 million with $25.8 of that amount attributable to the Al Tech Trust Fund. This fund continues to make new loans and has $3.6 million in new loan commitments. Management does not expect the other funds to make any new loans and a final disposition of the funds will continue.

New York Job Development Authority
Special Purpose Fund

Balance Sheets
March 31, 2003 and 2002

	2003	2002
Assets		
Cash and cash equivalents	$ 360,749	$ 467,637
Temporary investments in marketable securities	10,250,110	24,830,449
Debt service reserve fund investments	8,700,006	11,421,949
Accrued interest receivable	387,633	549,667
Loans receivables, net of allowance of $11,254,000 in 2003 and $14,248,000 in 2002	68,035,258	65,535,959
Financing leases, net of allowance of $1,208,000 in 2003 and $1,226,000 in 2002	21,084,013	21,135,720
Deferred financing costs, net of accumulated amortization $1,368,974 in 2003 and $2,158,314 in 2002	757,154	995,832
Foreclosed properties, net of allowances of $450,000 in 2003 and $860,000 in 2002	725,182	1,512,704
Other assets	203,649	201,633
Due from Special Revenue Funds	279,461	279,461
Total assets	$ 110,783,215	$ 126,931,011
Liabilities and Net Assets (Deficit) - Restricted		
Liabilities		
Special purpose bonds	$ 50,980,000	$ 110,420,000
Commerical paper notes payable	29,935,233	-
Accounts payable and accrued expenses	180,585	216,728
Accrued interest payable on bonds	145,518	470,521
Due to New York State Urban Development Corporation	19,430,421	18,146,190
Allowance for estimated losses on loan guarantees	578,930	1,058,812
Other	123,218	295,423
Total liabilities	101,373,905	130,607,674
Net assets (deficit) - restricted	9,409,310	(3,676,663)
Total liabilities and net assets	$ 110,783,215	$ 126,931,011

See Notes to Financial Statements

New York Job Development Authority
Special Purpose Fund

Statements of Revenue, Expenses and Changes in Net Assets
Years Ended March 31, 2003 and 2002

	2003	2002
Operating Revenues		
Loan interest	$ 6,358,354	$ 6,413,857
Other revenue	770,813	2,222,495
Total operating revenue	7,129,167	8,636,352
Operating Expenses		
Interest, principally bonds and commercial paper	5,389,677	6,068,189
Recovery of provision on loans receivable and loan guarantee losses	(1,051,507)	(2,982,609)
Amortization of deferred financing costs	179,712	194,250
Credit and remarketing fees	191,342	276,966
General and administrative	986,485	1,208,473
Total operating expenses	5,695,709	4,765,269
Operating income	1,433,458	3,871,083
Nonoperating Revenues		
Transfers from UDC	11,000,000	11,000,000
Investment income	997,112	1,340,515
Total nonoperating revenues	11,997,112	12,340,515
Nonoperating Expenses:		
Interest:		
New York Urban Development Corporation	344,597	591,059
Total nonoperating expenses	344,597	591,059
Nonoperating income	11,652,515	11,749,456
Excess of revenues over expenses	13,085,973	15,620,539
Net Assets / (deficit) - restricted:		
Beginning of year	(3,676,663)	(19,066,505)
Transfers of the book value of the Bond Assistance Experiment Fund net assets from Special Revenue Funds	-	(230,697)
Net assets/(deficit) - restricted end of year	$ 9,409,310	$ (3,676,663)

See Notes to Financial Statements

New York Job Development Authority
Special Purpose Fund

Statements of Cash Flows
Years Ended March 31, 2003 and 2002

	2003	2002
Cash Flows from Operating Activities		
Cash received from interest on loans	$ 6,256,817	$ 6,194,876
Other operating cash receipts	770,813	994,875
Interest paid on bonds payable	(5,625,472)	(6,091,759)
Cash paid for related bond expenses	(356,318)	(278,810)
Cash paid for general and administrative expenses	(52,052)	(218,763)
Net cash provided by operating activities	993,788	600,419
Cash Flows from Noncapital Financing Activities		
Receipt from JDA Special Revenue Fund	-	22,797
Special purpose bond retirements	(59,440,000)	(8,140,000)
Proceeds from issuance of commercial paper	29,882,750	-
Transfers from UDC	11,000,000	11,000,000
Other payments	(15,930)	(13,260)
Net cash (used in) provided by noncapital financing activities	(18,573,180)	2,869,537
Cash Flows from Investing Activities		
Proceed from sale of temporary investment in marketable securities	158,028,171	112,671,369
Purchase of temporary investment in marketable securities	(141,120,642)	(115,202,671)
Interest on investments	1,380,078	1,651,806
Loan disbursements	(22,046,100)	(17,311,406)
Principal collected on loans receivable	19,807,417	13,805,885
Principal collected on financing leases	1,356,059	1,210,662
Foreclosed property collections	67,521	-
Net cash provided by (used in) investing activities	17,472,504	(3,174,355)
(Decrease) increase in cash and cash equivalents	(106,888)	295,601
Cash and cash equivalents		
Beginning of year	467,637	172,036
End of year	$ 360,749	$ 467,637

See Notes to Financial Statements

New York Job Development Authority
Special Purpose Fund

Statements of Cash Flows
Years Ended March 31, 2003 and 2002

	2003	2002
Reconciliation of Operating Income to Net Cash Provided		
By Operating Activities:		
Operating income	$ 1,433,458	$ 3,871,083
Adjustments to reconcile operating income to net cash provided		
by operating activities:		
Recovery of provision on loans receivable, loan guarantees, and financing leases	(1,051,507)	(2,982,609)
Write-off of arbitrage liability	-	(1,227,620)
Operating expenses paid by UDC	939,634	981,740
Rebate liability adjustment	(156,275)	(1,844)
Amortization-deferred financing costs	179,712	194,250
Amortization - bonds payable and commercial paper note discounts	89,208	36,724
Amortization - deferred loan fees	22,241	22,241
Amortization-deferred lease premiums	(146,070)	(141,504)
Change in operating assets and liabilities:		
Accrued interest receivable	44,533	(77,477)
Accounts payable and accrued expenses	(36,143)	(14,271)
Accrued interest payable on bonds	(325,003)	(60,294)
Net cash provided by operating activities	$ 993,788	$ 600,419
Supplemental Disclosure of Noncash Investing Activities		
Restructuring of foreclosed properties as financing leases	$ 1,140,000	$ -
Noncash Investing, Capital and Financing Activities		
Transfer of the book value of the Bond Assistance Experiment Fund net assets	$ -	$ (230,697)

See Notes to Financial Statements

New York Job Development Authority
Special Revenue Funds

Combined Balance Sheets
March 31, 2003 and 2002

	2003	2002
Assets		
Cash and cash equivalents	$ 55,881	$ 54,479
Temporary investments in marketable securities	17,090,723	15,062,889
Accrued interest receivable	51,202	52,211
Loans receivables, net of allowance of $3,451,000 in 2003 and $4,068,000 in 2002	12,210,825	13,069,084
Total assets	$ 29,408,631	$ 28,238,663
Liabilities and Net Assets - Restricted		
Liabilities:		
Due to Special Purpose Fund	$ 279,461	$ 279,461
Other	70,036	150,036
Total liabilities	349,497	429,497
Net Assets - Restricted:		
Al Tech Trust Fund	25,770,062	24,663,568
Rural Development Loan Fund	1,872,575	1,815,773
Long-Term Economic Development Fund	1,176,597	1,120,988
Fishermen's Assistance Fund	237,163	231,410
Regional Economic Development Fund	2,737	(22,573)
Total net assets - restricted	29,059,134	27,809,166
Total liabilities and net assets	$ 29,408,631	$ 28,238,663

See Notes to Financial Statements

Combined Statements of Revenue, Expenses and Changes in Net Assets
Years Ended March 31, 2003 and 2002

	2003	2002
Operating Revenues		
Loan interest:		
Al Tech Trust Fund	$ 680,886	$ 656,834
Other Funds	12,178	18,936
Other revenue	70,505	49,513
Total operating revenue	763,569	725,283
Operating Expenses (Recoveries)		
Provision for loss (recovery of provision) on loans receivable	(241,495)	221,503
General and administrative	99,485	34,927
Total operating expenses (recoveries)	(142,010)	256,430
Operating income	905,579	468,853
Nonoperating Revenues		
Investment income, including change in fair value:		
Al TechTrust Fund	268,166	529,850
Other funds	76,223	116,541
Total nonoperating income	344,389	646,391
Excess of revenues over expenses	1,249,968	1,115,244
Net assets - restricted		
Beginning of year	27,809,166	26,463,225
Transfers of the book value of the Bond Assistant Experiment Fund net assets to Special Purpose Fund	-	230,697
Net assets - restricted end of year	$ 29,059,134	$ 27,809,166

See Notes to Financial Statements

Combined Statements of Cash Flows
Years Ended March 31, 2003 and 2002

	2003	2002
Cash Flows from Operating Activities		
Cash received from interest on loans	$ 694,073	$ 668,556
Other operating cash receipts	70,505	49,513
Other cash payments	(80,000)	-
Cash paid for general and administrative expenses	(99,485)	(34,927)
Net cash provided by operating activities	585,093	703,142
Cash Flows from Noncapital Financing Activities		
Payments to Special Purpose Fund	-	(22,797)
Cash Flows from Investing Activities		
Proceeds from sale of temporary investment in marketable securities	26,831,724	8,920,257
Purchases of temporary investment in marketable securities	(30,139,408)	(8,816,820)
Interest on temporary investments in marketable securities	1,624,239	445,735
Loan disbursements	(1,498,750)	(3,064,000)
Principal collected on loans receivable	2,598,504	1,841,800
Net cash used in investing activities	(583,691)	(673,028)
Increase in cash and cash equivalents	1,402	7,317
Cash and Cash Equivalents:		
Beginning of year	54,479	47,162
End of year	$ 55,881	$ 54,479
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 905,579	$ 468,853
Adjustment to reconcile operating income to net cash provided by operating activities:		
Provision for loss (recovery of provision) on loans receivable	(241,495)	221,503
Change in operating assets and liabilities:		
Accrued interest receivable	1,009	12,786
Other liabilities	(80,000)	-
Net cash provided by operating activities	$ 585,093	$ 703,142

See Notes to Financial Statements

Note 1. Background

a. General

New York Job Development Authority (the "Authority" or "JDA"), doing business as the Empire State Development Corporation ("ESDC"), is a public benefit corporation organized and existing under the laws of the State of New York (the "State"). The Authority's main function is assisting private sector business expansion and job creation in all parts of the State. As a public benefit corporation, the Authority is tax exempt. The Authority is a component unit of the State and, as such, its financial statements are included in the State's general purpose financial statements.

b. Special Purpose Fund

The principal activities of the Authority are providing business and industrial loans, described in the Authority's enabling legislation as "Special Purpose Loans," and the guarantee of loans made by banking organizations (as defined in the enabling legislation), described as "Special Purpose Loan Guarantees." These activities are accounted for within the "Special Purpose Fund," of the Authority's financial statements. All such loans and loan guarantees are made to businesses with operations in the State, and are provided for acquisition of real estate or machinery and equipment. The Authority generally requires security for loans and loan guarantees with the underlying assets and other available collateral.

The Authority finances these activities through the issuance of State guaranteed bonds and notes (the "Bonds") limited by the Constitution of the State and applicable legislation to an aggregate principal amount of $900,000,000 outstanding at any time. To date, enabling legislation allows an aggregate principal amount of $750,000,000 to be outstanding at any time.

The guarantee of the bonds by the State is authorized by New York Job Development Authority Act, as amended by Section 1813 of Title 8 Article 8 of the Public Authorities Law and Section 8 Article X of the Constitution of New York State. Under these provisions, if the Authority fails to pay, when due, the principal or interest on the Bonds or if sued by any holder of the Bonds, the State Comptroller must set apart from the first revenues thereafter received from any source, applicable to the General Fund of the State, a sum sufficient to pay such principal and interest, and shall so apply the monies thus set apart. Effectively, the State is subrogated to the rights of the bondholders. The net assets of the fund are considered restricted.

In August 2002, at the request of the Governor, the Authority caused the creation of New York Liberty Development Corporation (NYLDC). NYLDC was created at the direction of the Governor for the issuance of New York Liberty Bonds in the maximum amount of $4 billion. The Bonds will be used to finance businesses developing projects in the New York Liberty Zone, which is located in lower Manhattan. The Authority does not include the activities of NYLDC in its financial statements since it neither has control or economic interests in the entity. The activities of NYLDC for the year ended March 31, 2003 were not significant.

Note 1. Background, (Continued)

c. Special Revenue Funds

The Authority also administers the Al Tech Trust Fund and several regional development funds pursuant to legislative mandate. These funds are described in the following two paragraphs and are included in the Authority's financial statements as Special Revenue Funds.

The Authority has acted as Administrator of the Al Tech Trust Fund since 1978 after the United States Economic Development Administration (the "EDA") made a $10,000,000 grant to the State for the purpose of providing a loan to the Al Tech Specialty Steel Corporation (the "Corporation"). Under the grant agreement, the Authority uses the loan repayments from the Corporation to finance economic development assistance loans in Albany and Chautauqua Counties, the two counties where the Corporation's production facilities are located.

At March 31, 2003, the Authority also administers four other Special Revenue Funds. The purposes of all these funds are consistent with the main function of the Authority, and are more fully described in Note 10.

The net assets of the Special Revenue Fund are considered restricted since the net assets are the property of the granting agency.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting: The Authority follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB) as well as with authoritative pronouncements applicable to non-governmental entities (e.g. Financial Accounting Standards Board Statements) that do not conflict with GASB pronouncements.

The Authority's financial statements are presented consistent with enterprises whose principal activities are considered a financing enterprise.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

During 2003, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments and Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments Omnibus. The two statements require that State and Local governments' financial statements to include management's discussion and analysis. Government wide financial statements, fund financial statements, notes to the financial statements and required supplementary information. The statements also require State and Local Governments to report infrastructure assets. There were no effect on net assets as a result of implementing GASB 34 and 37, except with respect to their reclassification to a restricted net asset category.

Note 2. Summary of Significant Accounting Policies, (Continued)

Cash and Cash Equivalents: Cash and cash equivalents include cash deposits with banks and highly liquid temporary investments with original or remaining maturities of 90 days or less, that are not designated for specific purposes.

Investment Securities: Investment securities consist of temporary investment of available cash and debt service reserve funds in marketable securities. Investment securities are reported at fair value in the balance sheet, and investment income, including changes in fair value, is reported as non operating revenue in the statement of revenues, expenses and changes in net assets.

The fair value of investment securities, which include United States government and federal agency obligations and obligations of state and local governments, is generally based on quoted market prices. Interest earning investment contracts, including time deposits and repurchase agreements with maturities of one year or less, are reported at amortized cost. Investment income also includes realized gains and losses from disposition of investments on a specific identification basis. Collateral for these investments is held in the Authority's name by financial institutions as custodians. Investment securities that are not required by bond indentures to be held by independent trustees, are maintained and held by the New York State Department of Taxation and Finance.

Loans and Financing Leases Receivable: Loans and financing leases are generally reported at their principal amounts outstanding, net of allowances for possible credit losses. The Authority lends funds for the acquisition of land and buildings which are generally repayable over a 15 to 20 year period. Loans to fund machinery and equipment are generally repayable over 7 to 10 years. Generally, all loans represent second mortgages on other subordinated positions. Interest revenue on loans and financing leases is credited to interest income based on loan principal amounts outstanding at appropriate interest rates. Interest is not accrued on loans which are delinquent three or more months and which management considers uncollectible. The Authority also leases property previously acquired in foreclosure. These leases generally expire over periods ranging from 1-20 years.

Allowance for Possible Credit Losses and Estimated Loan Guarantee Losses: The allowance for possible credit losses provides for risks of losses inherent in the credit extension process. The Authority maintains this allowance on a specific and general basis at levels considered adequate to meet present and future losses on loans and financing leases. Estimates of loan guarantee losses are based on similar analyses. This evaluation encompasses business and economic conditions, the character, quality and performance of the portfolios, availability of collateral and the risks inherent in these loans.

Foreclosed Properties: The Authority's Special Purpose Fund holds title to properties acquired in satisfaction of loans, including in-substance foreclosures, which are carried at the lower of cost or estimated fair market value.

Deferred Financing Costs: Financing costs and bond issuance premiums are deferred and amortized on a straight line basis, which approximates the effective yield method, over the period of the related debt. Loan origination and commitment fees and certain incremental direct loan costs are deferred and amortized over the estimated remaining lives of the related loans using straight line basis, which approximates the effective yield method.

Reclassifications: Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Note 3. Liquidity and Restructuring

In 1996 the Authority determined that its revenues would be insufficient to provide funding for the entire amount of its obligations due in future years. In October, 1996, the New York State Urban Development Corporation ("UDC") completed a refunding of its outstanding general purpose bonds. UDC is required to utilize the savings generated from this refunding as provided in Section 103 of Chapter 309 of the Laws of 1996 (the "Act") to pay the lawfully incurred debts and obligations of JDA. UDC is directed to the extent of the net savings (as defined in the Act) to make such payments on behalf of the State of New York as provided in the Act.

In 1997, the Authority inaugurated its debt restructuring plan by issuing $28.41 million of its 1997 Series A (tax exempt) and $28.96 million of its Series B (taxable) (subsequently paid) special purpose bonds. The plan matches projected cash flows with a new debt service schedule resulting in level operating deficits through the year 2010. In fiscal years 2003 and 2002, $11,000,000 was funded each year by UDC to cover JDA's projected deficit. Pursuant to an agreement dated February 26, 1997 by and between the Director of the Budget of the State of New York, UDC and the Authority, such payments are recognized by the Authority as non operating income when received, as JDA is not obligated to repay any such monies to UDC. It is not anticipated that JDA will require any funds from UDC in fiscal year 2004. However, if necessary the funds will be available.

Note 4. Cash and Cash Equivalents

Time and demand deposits are secured by collateral held by a bank or trust company depository as custodian. Securities are either delivered or registered by book entry in the Authority's name with bond trustees or custodian banks.

At March 31, 2003 cash held in demand and custodial deposits, as well as investments in various time deposits, were collateralized by each depository, generally with obligations of the United States, its agencies, or New York State obligations as follows:

	SPECIAL PURPOSE FUND		SPECIAL REVENUE FUNDS	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured	$ 162,682	$ 155,316	$ 55,881	$ 55,881
Uninsured: collateral held by custodian in Authority's name	198,067	26,337	-	-
	$ 360,749	$ 181,653	$ 55,881	$ 55,881

Note 5. Temporary and Debt Service Reserve Fund Investments

Authorization for investments is governed by written internal investment guidelines, statutes, State guidelines and bond resolutions. Permitted investments include:

- Obligations of the United States Treasury, agencies and instrumentalities.
- Direct obligations of the State of New York, its political subdivisions, and public authorities.
- Collateralized investments, which are fully secured as to principal by U.S. Treasury securities and obligations of the U.S. Government, with financial institutions which meet specified criteria.
- Repurchase agreements with financial institutions doing business in the State of New York which are listed as primary government securities dealers by New York's Federal Reserve Bank and which are collateralized by U.S. Government securities.

Temporary and debt service reserve fund investments consisted of the following at March 31:

	2003		2002	
	Cost	Market Value	Cost	Market Value
Special Purpose Fund:				
Temporary investments in marketable securities:				
US Government and Federal Agency obligations	$ 10,240,155	$ 10,250,110	$ 24,729,636	$ 24,830,449
Debt service reserve fund investments:				
US Government and Federal Agency obligations	$ 8,078,211	$ 8,111,739	$ 6,093,931	$ 6,228,497
State/Local Government obligations	588,267	588,267	5,125,614	5,193,452
	$ 8,666,478	$ 8,700,006	$ 11,219,545	$ 11,421,949
Special Revenue Funds:				
Temporary investments in marketable securities:				
US Government and Federal Agency obligations	$ 17,060,094	$ 17,090,723	$ 13,749,219	$ 15,062,889

Note 6. Financing Leases Receivable - Special Purpose Fund

Minimum lease payments to be received under financing lease agreements as of March 31, 2003 were as follows:

2004	$ 2,669,023
2005	2,625,941
2006	2,624,062
2007	2,622,046
2008	2,619,885
Thereafter	22,779,350
	35,940,307
Less:	
Portion attributable to interest	(13,647,966)
Allowance for possible credit losses	(1,208,328)
Total	$ 21,084,013

Note 7. Allowances for Possible Credit Losses and Estimated Loan Guarantee Losses

The estimated allowances for possible credit and loan guarantee losses are based primarily on a continuing evaluation of the portfolios, and of current economic conditions and such other factors which management believes require consideration in estimating future risks. Additions (reductions) to the allowances are made by charges (credits) to expense.

A summary of loan loss allowance activity for fiscal year 2003 (with comparative totals for 2002) is as follows (in thousands):

Special Purpose Fund

	Allowances for losses on					
	Loans	Financing Leases	Foreclosed Properties	Loan Guarantees	Totals 2003	Totals 2002
Beginning balances	$ 14,248	$ 1,226	$ 860	$ 1,059	$ 17,393	$ 22,930
Net provisions (recoveries)	(143)	(18)	(410)	(480)	(1,051)	(2,983)
Transfers	-	-	-	-	-	452
Write-offs	(2,851)	-	-	-	(2,851)	(3,006)
Ending balances	$ 11,254	$ 1,208	$ 450	$ 579	$ 13,491	$ 17,393

Note 7. Allowances for Possible Credit Losses and Estimated Loan Guarantee Losses, (Continued)

Special Revenue Fund

	2003	2002
Beginning balance	$ 4,068	$ 5,989
Net provisions (recoveries)	(241)	222
Transfers	(376)	(452)
Write-offs	-	(1,691)
Ending balances	$ 3,451	$ 4,068

Note 8. Special Purpose Bonds and Commercial Paper Notes Payable

At March 31, 2003 and 2002, the principal amount of bonds outstanding was as follows:

	March 31, 2003	March 31, 2002	Coupon Rate Percentage	Remaining Annual Payments to
	(in thousands)			
FIXED RATE TAX EXEMPT BONDS				
1997 Series A	$ 28,410	$ 28,410	5.25	2010
	28,410	28,410		
FIXED RATE TAXABLE BONDS				
Series 1992 D	-	48,000		
	-	48,000		
VARIABLE RATE TAX EXEMPT BONDS				
Series 1988 A-B	-	8,775		
Series 1989 A-B	14,395	16,020	0.80 - 4.65	2005
Series 1992 A-B	8,175	9,215	0.75 - 4.50	2007
	22,570	34,010		
	$ 50,980	$110,420		

Maturities of special purpose bonds outstanding (in thousands) as of March 31, 2003 are as follows:

	Principal	Interest	Total
2004	$ 2,455	$ 1,475	$ 3,930
2005	13,445	1,475	14,920
2006	770	1,475	2,245
2007	5,900	1,475	7,375
2008	-	1,475	1,475

Aggregate principal maturities subsequent to 2008 are approximately $28.4 million.

Note 8. Special Purpose Bonds and Commercial Paper Notes Payable, (Continued)

The Authority has the option, in some cases, to retire bonds prior to maturity as stipulated in the respective debt agreements. Each series of bonds is issued pursuant to a separate trust indenture.

Certain bond issues give the bondholder the option of electing early redemption. The Authority has entered into letters and lines of credit arrangements with financial institutions to provide liquidity in the event of inability to remarket the bonds. The total amount of unused letters and lines of credit approximated $23 and $70 million at March 31, 2003 and 2002, respectively.

In addition, the Authority has outstanding commercial paper notes totaling $29,935,233 (which is net of unamortized discount $64,767), that mature in May 2003. The discount rate at March 31, 2003 is 1.34%. At maturity, the Authority reissued new commercial paper notes with a par value of $30,000,000 for $29,890,992, having a maturity in September 2003.

The Authority has entered into a revolving letter of credit agreement with financial institutions to support the commercial notes in order to facilitate their sale. The total amount of unused letter of credit was $35 million at March 31, 2003 (none in 2002).

Note 9. Due to New York State Urban Development Corporation ("UDC")

At March 31, 2003 and 2002, amounts due to UDC are primarily attributable to costs allocated to or paid by UDC on behalf of the Authority for various general and administrative expenses. These costs, plus interest, approximated $1,300,000 in 2003 and $1,600,000 in 2002. The interest rate used is the annualized average weighted yield earned by UDC on its investment portfolio. The interest portion of the accumulated liability, which covers the last eight fiscal years, began to be accrued in fiscal 1999, and totals approximately $3,577,000. Amounts due to UDC are accounted for in the Special Purpose Fund.

Note 10. Special Revenue Funds

AI Tech Trust Fund

Loans totaling $1,498,750 and $3,064,000 were made from the AI Tech Trust Fund during the fiscal years ended March 31, 2003 and 2002, respectively.

Rural Development Loan Fund

The Rural Development Loan Fund (the "Loan Fund"), has been managed by the Authority since 1982. Initial and subsequent funding was provided by the State and the Federal Economic Development Administration. The Loan Fund was established to provide financial assistance to small businesses located in rural areas of the State. No financial assistance was provided during fiscal years 2003 and 2002.

Long-Term Economic Development Fund

The Authority established the Long-Term Economic Development Fund with a $200,000 transfer from the Revolving Tactical Development Fund in November 1983. EDA approved a $500,000 application to provide additional funding in fiscal year 1984. The Fund provides assistance to localities in the State suffering long-term economic deterioration. The Fund's balance is designated exclusively for this purpose. No loans were made in fiscal years 2003 and 2002.

Fishermen's Assistance Fund

The Fishermens' Assistance Fund is designated primarily to promote the economic growth and employment of members of the fishing community affected by the decline and closure of the striped bass fishing industry and the destruction of the scallop fishery in the State. No loans were made in fiscal years 2003 and 2002.

Regional Economic Development Fund

The Authority assumed administrative responsibility for fourteen grants and loans totaling $1,575,000 of the Regional Economic Development Fund in 1986. The Fund, established from the State's capital and aid to localities budgets, was used for economic development projects throughout the State. At March 31, 2003 and 2002, a $280,000 loan was due to the Special Purpose Fund. No loans were made in fiscal years 2003 and 2002.

Note 10. Special Revenue Funds, (Continued)

Bonding Assistance Experiment Fund

The Authority initiated the Bonding Assistance Experiment Fund (BAX) in December 1982 to provide assistance in the form of bond guarantees to small and minority-owned business enterprises seeking to participate in construction contracts awarded by the Office of General Services.

The BAX Fund has been inactive since 1994. Approximately $1.6 million in contingent liabilities are still on record. No claims have been filed in the last five years. Management does not expect that there will be any further claims. In fiscal 2002, the residual deficit (amounting to $230,697) of the Bond Assistance Experiment Fund was transferred to the Special Purpose Fund.

Note 11. Commitments

Special Purpose Fund loans approved by the Authority, but not yet closed, approximated $26,900,000 at March 31, 2003.

Pending loans of the Special Revenue Funds approved by the Authority but not yet closed approximated $3,616,000 at March 31, 2003.

Note 12. Contingencies

Loan Guarantees: Under Section 1804 of the Act, the Special Purpose Fund is permitted to make loan guarantees to banking organizations to assist in financing the costs of real estate projects and acquisition of machinery and equipment. The following represents the approximate amount of loan guarantees and letters of credit outstanding at March 31:

	2003	2002
Loan guarantees for the Special Purpose Fund	$ 2,600,000	$ 3,100,000
Letters of credit loan guarantees	$ 1,600,000	$ 1,600,000

Litigation: The Authority has been named as a defendant in legal actions arising from the operation of various economic development initiatives. In addition, defendants in mortgage loan foreclosure proceedings initiated by the Authority have asserted defenses and counter claims for damages. The Authority believes that the ultimate outcome of such litigation will not have a material adverse effect on its financial condition.

COMPLIANCE INFORMATION

UK Urbach Kahn & Werlin LLP
&W CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance, Including Compliance with Investment Guidelines, and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members
New York Job Development Authority

We have audited the financial statements of New York Job Development Authority's Special Purpose Fund and Special Revenue Funds (the "Authority") as of and for the year ended March 31, 2003, and have issued our report thereon dated June 27, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Investment Guidelines for Public Authorities* issued by the Office of the State Comptroller, State of New York.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including *Investment Guidelines for Public Authorities* and the Authority's investment guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weaknesses is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Authority and the Office of State Comptroller, State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

Urbach Kahn & Werlin LLP

New York, New York
June 27, 2003

Appendix B

Information Concerning the State of New York

APPENDIX B

INFORMATION CONCERNING THE STATE OF NEW YORK

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

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

The AIS set forth in this Appendix B is dated May 30, 2003. It was updated on January 26, 2004 and contains information only through that date. Appendix B sets forth the section of the AIS entitled “Current Fiscal Year”. The remaining sections of the AIS set out under the headings “Prior Fiscal Years,” “Economics and Demographics”, “Debt and other Financing Activities”, “State Organization”, “Authorities and Localities”, “Litigation”, and “Exhibits” are hereby included by cross reference. The AIS was also filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR). An official copy of the AIS may be obtained by contacting a NRMSIR, or the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705. An informational copy of the AIS is available on the Internet at http://www.budget.state.ny.us.

The General Purpose Financial Statements of the State of New York for the State fiscal year ended March 31, 2003 were prepared by the State Comptroller in accordance with generally accepted accounting principles and independently audited in accordance with generally accepted auditing standards. The General Purpose Financial Statements were issued on July 29, 2003 and have been referred to or set forth thereafter in appendices of information concerning the State in Official Statements of the State and certain of its public authorities. The General Purpose Financial Statements of the State for the State fiscal year ended March 31, 2003 may be obtained by contacting the Office of the State Comptroller, 110 State Street, Albany, NY 12236 Tel: (518) 474-4015.

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

Update to Annual Information Statement (AIS) State of New York

January 26, 2004

This quarterly update (the "Update") to the AIS of the State of New York is dated January 26, 2004 and contains information only through that date. It is the third quarterly update to the AIS of the State of New York dated May 30, 2003. The first update to the AIS was issued on August 7, 2003; the second update on October 30, 2003. This Update is organized into three parts.

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

1. Extracts from the Financial Plan Overview contained in the Financial Plan (Appendix II) of the Governor's Executive Budget for 2004-05 presented to the Legislature on January 20, 2004. The Financial Plan Overview includes updated Financial Plan projections for State fiscal years 2003-04 through 2006-07 and detailed narrative descriptions of the receipts and disbursements estimates for the State's governmental funds.

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

3. Information on the proposed Five-Year Capital Program and Financing Plan, which is also contained in the Financial Plan (Appendix II) of the Governor's Executive Budget for 2004-05.

   The entire 2004-05 Financial Plan, including the economic forecast for calendar years 2003 and 2004, detailed forecasts for State receipts, and the proposed Capital Program and Financing Plan for the 2003-04 through 2007-08 fiscal years, is available on the Division of the Budget's website, www.budget.state.ny.us.

Part II contains updated disclosure for the Metropolitan Transportation Authority (MTA) and the City of New York. As a convenience to readers, Part II also reprints information from earlier updates regarding the State's audited basic Financial Statements for the 2002-03 fiscal year and the State Retirement System.

Part III updates information concerning certain litigation against the State.

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

An official copy of this Update has been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) and may be obtained by contacting a NRMSIR or the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705.

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

Neither this Update nor any portion thereof may be included or incorporated by reference in a Preliminary Official Statement, Official Statement, or other offering document without express written consent by DOB and agreement by DOB to execute a CDA relating to the series of bonds or notes described in such Preliminary Official Statement, Official Statement, or other offering document. Any use or incorporation by reference of this Update or any portion thereof in a Preliminary Official Statement, Official Statement, or other offering document without such consent and agreement is unauthorized and the State expressly disclaims any responsibility with respect to the inclusion, intended use, and updating of this Update if so misused.

PART I

Note on the 2004-05 Financial Plan Overview

DOB released the Financial Plan Overview set forth below on January 20, 2004. It contains estimates and projections of future results that should not be construed as statements of fact. These estimates and projections are based upon various assumptions that may be affected by numerous factors, including future economic conditions in the State and nation and potential litigation. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained therein.

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

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

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

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EXECUTIVE SUMMARY

Consistent with the Division of the Budget (DOB) projections since last year's Enacted Budget, the 2003-04 Budget is soundly balanced while the baseline budget gap for 2004-05 is projected at $5.1 billion and the outyear gaps at roughly $7 billion to $8 billion. The Executive Budget recommendations will close the entire 2004-05 gap, and significantly reduce the outyear gaps.

Like most states, New York continues to face significant fiscal challenges. The national recession, in conjunction with the economic dislocation caused by the September 11th attacks, produced consecutive year-to-year declines in total tax receipts. Costs for employee pensions have increased dramatically, while Medicaid, welfare and other entitlement programs have also risen, reflecting the impact of the national recession and the jobless recovery that has followed. New York's fiscal difficulties were also compounded by last year's Enacted Budget process that resulted in spending growth in excess of recurring revenues. Flexible reserves, significantly increased when times were good, have now been depleted.

The 2004-05 Executive Budget projects that a strengthening economic recovery will produce a return to above-average rates of growth in tax revenues. The Financial Plan reflects overall tax receipt growth of 7.8 percent. Real Gross Domestic Product (GDP) growth for the United States is forecast at 4.7 percent, with employment growth expected to accelerate in 2004. The equity market rebound is expected to produce renewed growth in financial sector compensation and in taxable income gains for the owners of corporate equities. A detailed analysis of the economic and receipt forecast is contained later in this Overview.

Economic growth alone will not solve the State's fiscal problems. Thus, the Executive Budget moves toward structural budget balance with a prudent mix of recurring cuts, revenue actions and transitional financing. No new broad-based tax increases are proposed in the Budget.

Reforms are proposed to hold spending in line with available resources, particularly in Medicaid and pensions. State agency operations will continue to be made more efficient, in part through the expansion of operational "hosting" by one agency of administrative functions for multiple agencies. The State workforce is expected to remain level at roughly 187,900. Revenue proposals focus on maximization of Federal resources, closing tax loopholes and ensuring that fees adequately fund the activities they support. Rainy day reserves are increased, and modest but important targeted investments are recommended in economic development, including tax cuts. A detailed discussion of the proposed gap-closing plan follows this section.

The Executive Budget also includes funding in response to the State Court of Appeals ruling requiring the State to implement reforms that ensure all children have the opportunity for a sound basic education (SBE). This Budget takes the first step in a multi year effort to fund SBE costs by reserving all proceeds from video lottery terminals (VLTs) and providing additional General Fund support of $100 million to New York City for this purpose. VLT proceeds from facilities now being developed and new ones proposed with the Executive Budget are projected at $325 million in the 2004-05 school year growing to $2 billion annually over the next five years.

The 2004-05 Executive Budget is expected to have a positive $1.4 billion impact on local governments, and furthers the process of lowering the local property tax burden over a multi year period. The $3 billion STAR program significantly reduced the school tax burden for New Yorkers. Recommendations this year would contain the growth in local property taxes through a proposed multi year takeover of Medicaid long-term care costs, reforms in pensions and health care that lower costs for both the State and its localities, and a cap on school district spending increases. In addition, a comprehensive mandate relief package is proposed to assist local governments.

Finally, this Budget begins rebuilding State reserves by making a maximum $84 million deposit to the rainy day fund in 2003-04, the eighth such deposit made in the last nine years. The last several years have clearly demonstrated that adequate reserve levels are critical if the State is to withstand economic downturns without draconian local assistance budget cuts or massive layoffs.

SIZE OF 2004-05 EXECUTIVE BUDGET (millions of dollars)						
			Actual		Adjusted	
	2003-04 Revised	2004-05 Proposed	Annual Change	Percent Change	Annual Change	Percent Change
General Fund	42,060	41,885	(175)	(0.4)	1,725	4.3%
State Funds	62,112	63,498	1,386	2.2	3,286	5.5%
All Governmental Funds	98,293	99,806	1,513	1.5	3,413	3.5%

The 2003-04 projections and associated annual dollar and percentage changes described throughout this Overview continue to include $1.9 billion of spending in 2003-04 deferred from 2002-03 due to a delay in enacting tobacco securitization legislation (hereafter "the 2002-03 payment deferrals"). The 2003-04 Enacted Budget Report (dated May 28, 2003) summarized the 2002-03 payment deferrals and a detailed chart is provided later in this section. That spending will be reported by the Office of the State Comptroller (OSC) in final results for 2003-04, and thus is counted as spending in the 2003-04 Financial Plan. The adjusted percentage change excludes this $1.9 billion in spending from 2003-04 projections in order to provide a comparable basis for calculating the annual change.

The major components of the annual spending change are summarized in the following table, and are explained in more detail later in this report. The spending totals assume enactment of all cost containment proposals recommended in the Executive Budget.

SPENDING PROJECTIONS — AFTER RECOMMENDED SAVINGS MAJOR SOURCES OF ANNUAL CHANGE (millions of dollars)			
	General Fund	State Funds	All Governmental Funds
2003-04 Revised Estimate	***42,060***	***62,112***	***98,293***
Medicaid	373	672	738
Mental Hygiene	299	342	233
Debt Service	285	566	566
Employee Health Insurance	255	255	255
Higher Education	206	304	58
Pensions	184	184	184
School Aid	169	278	278
All Other	(46)	685	1,101
2002-03 Payment Deferrals	(1,900)	(1,900)	(1,900)
2004-05 Executive Budget	***41,885***	***63,498***	***99,806***
Annual $ Change	***(175)***	***1,386***	***1,513***
Annual % Change	***(0.4%)***	***2.2%***	***1.5%***

CLOSING THE 2004-05 GENERAL FUND BUDGET GAP

SOURCES OF THE 2004-05 GAP

Prior to the Governor's recommended budget actions, the State faced potential General Fund budget gaps of $5.1 billion in 2004-05, $6.7 billion in 2005-06, and $7.8 billion in 2006-07. The $5.1 billion gap is consistent with estimates provided by DOB at the time of the 2003-04 Enacted Budget. Those projections indicated that the original 2004-05 Executive Budget gap of $2.8 billion would increase to between $5 billion and $6 billion primarily as a result of additional recurring spending adds in the Enacted Budget. The current $5.1 billion gap is at the lower end of the projected range due to modestly improved economic conditions and the expectation of continued increases in financial services incomes.

A summary explanation of the sources of the gap is provided below, and a more detailed analysis is provided later in this Overview.

CAUSES OF 2004-05 BUDGET GAP -- BEFORE RECOMMENDED SAVINGS ANNUAL RESOURCES/(COSTS) FROM 2003-04 (millions of dollars)		
Total Annual Revenue Changes		**(2,008)**
Revenue Growth (7%)	2,800	
Current Tax Law Changes	(265)	
Loss of One-time Tobacco Securitization Receipts	(3,400)	
Loss of One-time Federal Revenue Sharing	(645)	
Debt Service Impact on Receipts	(268)	
Loss of Other One-Time Revenues	(230)	
Total Annual Spending Changes		**(3,063)**
Loss of One-time Payment Deferrals	1,900	
Medicaid - includes Cycle Shift ($170m); Loss of Temporary FMAP Increase ($390m)	(1,268)	
Pension Costs (137% Annual Increase)	(664)	
Mental Hygiene - includes Loss of PIA ($220m) and Extra Payroll ($72m)	(596)	
Welfare - includes Loss of TANF/Offsets ($322 m)	(521)	
Higher Education - includes TAP Spending Roll ($104m); Loss of TANF ($246m)	(489)	
School Aid - includes Tail of 03-04 ($183m)	(444)	
Debt Service	(330)	
State Employee Health Insurance Costs	(255)	
All Other Spending/Fund Balance Changes	(396)	
Total Projected 2004-05 Budget Gap		**(5,071)**

Underlying receipts growth in 2004-05, adjusted to exclude the impact of tax law changes, is projected to increase by roughly $2.8 billion (7 percent) over 2003-04. The incremental value of existing tax law changes results in a net decrease of $265 million in receipts, including the Sales Tax exemption on clothing ($330 million), the college tuition deduction ($50 million), Earned Income Tax Credit ($44 million) and the marriage penalty ($35 million), partially offset by net annual increases for the 2003 PIT and Sales tax increases. The underlying receipts growth is also offset by the loss of tobacco securitization proceeds which were used, as planned, to provide $3.8 billion of resources in 2003-04 and $400 million in 2004-05, resulting in a net decrease of $3.4 billion. A one-time Federal revenue sharing grant of $645 million provided by the Federal economic stimulus package is not available in 2004-05. In addition, increasing debt service costs reduce the amount of available

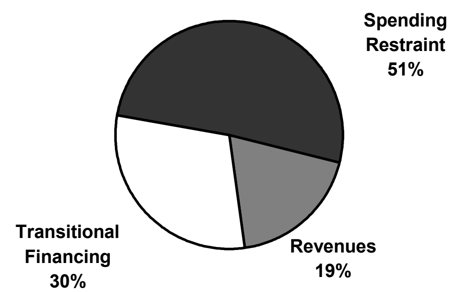
General Fund taxes, including costs for the State Personal Income Tax (PIT) Revenue Bond Program and the Local Government Assistance Corporation (LGAC).

Annual spending (before Executive Budget recommendations) is projected to grow by $3.1 billion, driven mainly by higher costs for employee pensions (up 137 percent); Medicaid, primarily to support current service levels and the inability to achieve proposed cost containment actions in the 2003-04 Enacted Budget; as well as for mental hygiene, higher education and welfare.

Also, one-time actions that reduced General Fund spending in the 2003-04 budget are not available in 2004-05, including a temporary increase in the Federal match rate for Medicaid, the use of Federal Temporary Assistance for Needy Families (TANF) for welfare-related spending, and Medicaid and Tuition Assistance Program (TAP) payment rolls that drive higher 2004-05 costs.

Spending for debt service and employee health insurance is also projected to increase as a result of programmatic and inflationary pressures. These cost increases are partially offset by the 2002-03 payment deferrals.

Recommended Solutions to $5.1B Gap



2004-05 GAP-CLOSING PLAN

The Governor's Executive Budget fully closes the $5.1 billion General Fund budget gap in 2004-05 with a mix of spending restraint, revenue actions and transitional financing. Actions of nearly $3.9 billion in 2005-06 and $3.5 billion in 2006-07 reduce the outyear gaps to more manageable levels of $2.9 billion in 2005-06 and $4.3 billion in 2006-07. In addition, $240 million in 2004-05 ($325 million on a school year basis), growing to $2 billion annually over the next five years is reserved from new VLT resources to fund the SBE requirements.

The major sources of these gap-closing actions are summarized below, and more detail on these specific actions is provided later in this Overview.

SOURCES OF PROPOSED GENERAL FUND GAP-CLOSING ACTIONS SAVINGS/(COSTS) (millions of dollars)			
	2004-05	2005-06	2006-07
2004-05 Initial Budget Gaps	**(5,071)**	**(6,727)**	**(7,805)**
Total Spending Actions:	**2,589**	**2,495**	**2,199**
Medicaid/Health Care Cost Containment	425	539	555
Pension Reform	440	301	150
Restructure Welfare Programs/Maximize TANF	362	382	396
Mental Hygiene Cost Containment/PIA	298	285	214
Restructure TAP to Encourage Timely Degree Completion	227	268	234
Restrain Growth in BOCES/Bldg. Aid/Transp. Aid	186	244	268
Debt Management	150	150	174
NYC School Aid for SBE (Supplement to VLT Reserves)	(70)	(100)	(100)
Medicaid Long-Term Care Takeover	(24)	(132)	(258)
All Other Spending	595	558	566
Total Revenue Actions:	**972**	**1,163**	**1,118**
Provide Four Weekly Sales Tax Exemptions	400	429	451
Health Care Provider Assessments	323	475	475
Criminal Justice Fees	58	113	113
Quick Draw Enhancements	43	68	68
Abandoned Property	42	3	
Fixed Dollar Minimum	40	40	40
Pistol Permit Fee	31	11	11
STAR Tax Credit	(11)	(57)	(113)
All Other Revenue	46	81	73
Total Nonrecurring Actions:	**1,510**	**219**	**139**
Capital Projects Bond Financing	283	192	139
Use of 2003-04 Surplus	261		
Continued Delay of Medicaid Cycle	190	(190)	
Additional Tobacco Benefit	181		
LGAC Payment Restructuring	170		
Federal Welfare Funds	115		
Reverse Meyers Tax Decision	50		
Use Available HFA Reserves in 2005-06		225	
All Other	260	(8)	
Total Savings Actions	**5,071**	**3,877**	**3,456**
2004-05 Executive Budget Gaps	**0**	**(2,850)**	**(4,349)**

Recommendations to restrain spending in the General Fund total $2.59 billion and include a combination of program restructuring and the use of alternate funding sources. Significant savings proposals include:

- Medicaid/health care cost containment to restrain prescription drug costs, lower the cost of optional services, enhance case management and reduce the need for General Fund payments to finance Health Care Reform Act (HCRA) spending ($425 million);
- Pension reforms, including a cap in the annual increases in employer contribution rates, to reduce the annual rate of increase in employer pension costs from 137 percent to 38 percent ($440 million);
- Restructure welfare-related programs including enhanced mandated employment requirements ($88 million) and use of Federal resources to support spending ($274 million);
- Cost containment in mental hygiene programs ($133 million) and initiatives to increase Patient Income Account (PIA) and other revenues ($165 million);
- Lower debt service costs through debt management actions including refundings and, expanded use of variable rate debt ($150 million);

- All other spending actions totaling $595 million include recommended efficiencies in State agency operations and restraint in local assistance spending and transportation costs; offset by
- General Fund spending increases totaling $94 million composed of $70 million additional General Fund school aid support to New York City ($100 million on a school year basis) that will supplement VLT reserves for SBE and initial costs for the proposed multi-year State takeover of local Medicaid costs for long-term care services ($24 million).

Revenue proposals are expected to raise $972 million in 2004-05 and include:
- Provision of four sales tax free weeks instead of a permanent exemption on clothing and footwear ($400 million); and
- Reimposition of an assessment on hospital and home care revenues and an increase to the existing reimbursable nursing home revenue assessment to support health care programs ($323 million).

The 2004-05 Financial Plan includes a total of $1.51 billion in nonrecurring actions including:
- The shift of various pay-as-you-go capital projects to bond financing ($283 million);
- A continuation of the legislative delay of the last Medicaid cycle payable at the end of the 2004-05 fiscal year ($190 million);
- Additional revenues produced by the 2003-04 tobacco bond sale transaction ($181 million);
- Implementation of an alternative proposal to provide support for New York City which eliminates legal uncertainty and protects LGAC bondholders while preserving expected City resources ($170 million);
- Legislation to reverse the effect of the recent "Meyers" decision to eliminate delays in collecting tax payments ($50 million); and,
- All other proposals include using available resources of the Power Authority of the State of New York (PASNY) to help finance the "Power-for-Jobs" program ($100 million), sweeps of available fund balances ($72 million) and continuation of bond issuance charges ($50 million).

In addition, surplus reserves from the Housing Finance Agency (HFA) will be available in 2004-05 and used to lower the projected 2005-06 outyear gap.

THE 2003-04 FINANCIAL PLAN UPDATE

SUMMARY OF MAJOR 2003-04 CHANGES SINCE THE ENACTED BUDGET

In the Enacted Budget, DOB projected a potential imbalance in the General Fund of roughly $900 million in 2003-04 prior to the anticipated receipt of Federal Funds from the Federal economic stimulus legislation. The stimulus package provided $1.07 billion of fiscal relief to the State, including $645 million in one-time Federal revenue sharing payments and $422 million from a 15-month increase in the Federal matching rate on Medicaid costs (FMAP). An additional $170 million of fiscal savings occurred from the delay in providing payments to New York City associated with the LGAC/Municipal Assistance Corporation (MAC) transaction for a total benefit of $1.24 billion. All other revisions since the Enacted Budget resulted in no significant change to budget balance, and incorporate a slightly improved receipts forecast, higher spending in Medicaid, welfare and TAP, and lower spending in State Operations and debt service. DOB's current receipts projection assumes significant growth in tax receipts for the remainder of the year.

Thus, the net positive impact of $1.24 billion, mostly from the Federal stimulus package, eliminated the potential $912 million General Fund Enacted Budget imbalance, allowed a maximum deposit of $84 million to the rainy day fund and generated a $261 million surplus to help lower the 2004-05 budget gap.

RECAP OF 2003-04 GENERAL FUND SAVINGS/(COSTS) (millions of dollars)	
Enacted Budget Potential Imbalance	**(912)**
Federal Revenue Sharing	645
Federal FMAP	422
Sub-Total After Federal Aid	**155**
LGAC/MAC Payment Delay	170
All Spending Changes	(17)
All Receipts Changes	37
Deposit to Rainy Day Fund	(84)
Total to Help Balance 2004-05	**261**

At the time of the Enacted Budget, DOB projected 2003-04 All Governmental Funds spending at $96.4 billion after reflecting legislative spending additions and the 2002-03 payment deferrals versus the legislative projection of $92.8 billion. Based on actual results to date, All Funds spending is currently projected at $98.3 billion, an increase of $1.9 billion since the initial projections. This increase is primarily attributable to higher projected spending in Medicaid for direct program needs, upward re-estimates to Federal grant levels, and higher Federal matching aid related to the one-time FMAP increase ($1.20 billion); an increase of Federal pass-through aid for the World Trade Center attacks ($556 million); and growth in Federal aid for education ($515 million) and child care spending ($126 million). These increases are partially offset by lower projected disbursements from the Community Projects Fund (CPF) ($300 million). All other spending increases and decreases result in no material change to total spending.

Revenue proposals added by the Legislature that DOB considered to be speculative and did not value in 2003-04, including Indian reservation taxes ($164 million), VLTs ($150 million) and intangible holding companies ($115 million), have not yet generated any material revenues in 2003-04 consistent with initial DOB projections as detailed below.

ESTIMATED IMPACT OF ENACTED BUDGET REVENUE PACKAGE ALL FUNDS TAX RECEIPTS - SFY 2003-04 (millions of dollars)		
	2003-04 Enacted	**2003-04 Revised**
Temporary PIT Increase	1,400	1,115
Sales Tax 0.25 Percent	451	445
Clothing	449	441
VLTs (Tracks Only)	0	0
Insurance Premiums Tax	158	158
Recapture of Bonus Depreciation	58	58
Intangible Holding Companies	0	0
Indians - Cigarettes and Gas	0	0
LLC's Filing Fees and Single Member	26	26
Non-Resident Partnership Withholding	15	15
Non-Resident Sales of Real Property	0	7
City Portion of Excise Tax	7	7
Reduced Refund for Late Refunds	5	5
Use Tax Line on PIT Return	0	0
SUV Decoupling	1	1
Regulatory Fees (Racing)	2	2
Six-Day Liquor Sales	0	1
Streamlined Sales Tax	0	0
Grand Total	**2,572**	**2,281**

The detail on all spending and revenue changes since the Enacted Budget are reflected in the Quarterly Financial Plans released in July, October and in this Overview. The following table provides a summary recap of all General Fund changes since the Enacted Budget, as reflected in each Quarterly Financial Plan Update published by DOB.

RECAP OF 2003-04 YEAR CHANGES SINCE ENACTED BUDGET GENERAL FUND (millions of dollars)				
	July	**October**	**January**	**Total**
Potential Enacted Budget Imbalance	(912)	0	0	**(912)**
Federal Revenue Sharing	645	0	0	**645**
Federal FMAP	371	51	0	**422**
LGAC Payment Delay	170	0	0	**170**
Member Items	100	0	0	**100**
Revenue Forecast	(193)	30	200	**37**
Medicaid	(100)	(54)	0	**(154)**
Welfare	(40)	(31)	0	**(71)**
Health Insurance	(26)	0	0	**(26)**
Lottery	(15)	15	0	**0**
TAP	0	(31)	0	**(31)**
State Operations	0	0	87	**87**
Debt Service **	0	0	26	**26**
All Other	0	20	32	**52**
Total	**0**	**0**	**345**	**345**
Deposit to TSRF				***(84)***
Net Surplus (used in 2004-05)				**261**

***$47 million of debt service costs appear as lower receipts transfers in the January estimate.*

SUMMARY OF CHANGES SINCE OCTOBER UPDATE

DOB has revised the 2003-04 Financial Plan (the "January Update") based on a review of actual operating results through mid-January 2004, and an updated analysis of underlying economic, revenue and spending trends. DOB projects the State will end the 2003-04 fiscal year with General Fund cash resources of $345 million above the levels projected in the Mid-Year Financial Plan Update issued October 28, 2003 (the "October Update"). Of this amount $261 million will reduce the 2004-05 budget gap and the remaining $84 million will be deposited to the Tax Stabilization Reserve Fund (the State's "rainy day reserve").

Total 2003-04 spending is projected at $42.06 billion in the General Fund and $62.11 billion in State Funds. Since the October Update, projected spending has been adjusted downward by $392 million in the General Fund and $752 million in State Funds. All Governmental Funds spending, projected to total $98.29 billion in 2003-04, has been revised upward by $314 million. These changes, as detailed below, consist primarily of higher Federal spending in education and Medicaid, offset by lower State-supported spending for the Community Projects Fund, State Operations, and debt service.

The projected General Fund closing balance of $1.01 billion consists of $794 million in the Tax Stabilization Reserve Fund (the Rainy Day Fund), $200 million in the CPF, and $20 million in the Contingency Reserve Fund for litigation (CRF). The projected increase of $284 million from the October Update reflects an additional $200 million balance in the CPF resulting from spending delays and a planned deposit of $84 million to the Rainy Day Fund (the eighth deposit in the last nine years). In addition, an additional deposit of $661 million to the Tax Refund Reserve Account will be made at year-end to account for the movement of $400 million in tobacco securitization proceeds planned for use in 2004-05 and the 2003-04 cash surplus of $261 million to help balance the 2004-05 fiscal year.

DETAIL OF 2003-04 CHANGES SINCE THE OCTOBER UPDATE

Current revenue and spending estimates for the General Fund, State Funds and All Governmental Funds are detailed below.

2003-04 REVENUE ESTIMATES (millions of dollars)

	October Update	January Update	Change from October Update
General Fund	42,367	42,259	(108)
State Funds	62,647	62,394	(253)
All Governmental Funds	98,322	99,053	731

General Fund revenues are projected to total $42.26 billion in 2003-04 and have been revised downward by $108 million from the October Update. The net decrease reflects an increase in PIT receipts ($235 million) before a $661 million deposit to the Refund Reserve Account, Estate Taxes ($60 million) and higher transfers to the General Fund related to the Real Estate Transfer Tax ($35 million). These increases are offset by reductions in User Taxes ($90 million) and Business Taxes ($41 million). Adjusting for the impact of the Refund Reserve transaction and transfers to other funds, tax receipts have increased by roughly $200 million from the October Update.

Excluding the impact of the Refund Reserve transactions, All Funds tax receipts are expected to increase by $3.06 billion, or 7.7 percent in 2003-04. Over $2.16 billion or 70 percent of this increase is the result of tax actions adopted in the 2003-04 Enacted Budget.

Total State Funds receipts are now projected to be $62.39 billion, a decrease of $253 million from the October Update. This revision reflects State Funds receipts growth resulting from higher than anticipated revenues for CUNY ($141 million), additional State University of New York (SUNY) receipts primarily due to the use of bond funds to support SUNY capital equipment spending ($66 million), and higher than anticipated deposits from HCRA pools to a dedicated Special Revenue Fund (SRF) that supports spending for the Family Health Plus (FHP) health care program for low income families ($80 million). These increases are offset by a decline in Capital Projects Fund receipts resulting from the exclusion of capital projects receipts and disbursements in a manner consistent with the practice by OSC for reporting actual results, a reduction in miscellaneous receipts to HCRA where a nonrecurring transfer from the General Fund financed legislative restorations for health care ($128 million), and the General Fund decrease described above.

All Governmental Funds receipts are projected to total $99.05 billion, an increase of $731 million from the October Update, consisting mainly of upward revisions to the estimates of Federal aid for education ($518 million), Medicaid ($379 million), and children and families services ($142 million). Federal receipts are generally assumed to be received in the state fiscal year in which spending is projected to occur; therefore, the revisions to Federal receipts correspond to the federally-reimbursed spending adjustments described below.

2003-04 SPENDING ESTIMATES (millions of dollars)			
	October Update	January Update	Change from October Update
General Fund	42,452	42,060	(392)
State Funds	62,864	62,112	(752)
All Governmental Funds	97,979	98,293	314

Spending in the General Fund is projected to total $42.06 billion in 2003-04, a decrease of $392 million from the October Update. The revisions include lower estimated spending from the CPF ($200 million) now projected to occur in 2004-05, which does not affect budget balance since the resources required to pay this spending have already been set aside in a separate account. The remaining decrease of $192 million primarily reflects: a net reduction in State Operations spending ($87 million) including increased mental hygiene offsets, lower spending for the Judiciary, and a net reduction in costs across several agencies from the ongoing statewide austerity measures; lower debt service costs provided from debt management actions ($73 million); and downward reestimates to all other transfers ($41 million), offset by a projected deficiency in nonpublic school aid ($16 million).

State Funds spending is projected to total $62.11 billion in 2003-04, a decrease of $752 million from the October Update. This downward revision includes lower capital projects spending estimates to conform with OSC's accounting methods and the decrease in General Fund spending described earlier.

All Governmental Funds spending in 2003-04 is projected at $98.29 billion. The increase of $314 million from the October Update for federally-funded programs consists of: higher than anticipated disbursements for education ($518 million); Medicaid costs relating to the 15-month increase in the

Federal matching rate ($379 million), and child care spending ($142 million). These Federal increases are partially offset by the State Funds decline described above.

2002-03 GENERAL FUND PAYMENT DEFERRALS

While total spending projections include the 2002-03 payment deferrals, the 2003-04 spending estimates within various programmatic areas have been adjusted to exclude the spending associated with this deferral which resulted from the delay in securing authorization to issue tobacco bonds. The adjustment, as detailed below, avoids distorting annual growth trends in a particular program area.

2002-03 GENERAL FUND PAYMENT DEFERRALS (millions of dollars)	
School Aid	1,312
CUNY Senior Colleges	219
Medicaid - Mentally Disabled Payments	82
Welfare - Administration	38
Empire State Development Corporation	35
Education - All Other	30
Education - Preschool Special Education	24
HESC	10
Division of Military and Naval Affairs	10
Welfare	8
All Other Local Assistance	58
Total Local Assistance	**1,826**
State Police	26
World Trade Center	9
All Other State Operations	2
Total State Operations	**37**
General State Charges	**33**
Capital Projects	**4**
Total 2002-03 Payment Deferrals	**1,900**

ECONOMIC OUTLOOK

U.S. ECONOMY

Following an unusually sluggish recovery period, the U.S. economy finally appears to be on a sustainable expansionary path. Since the simultaneous collapse of equities and the high-tech sector in 2000, the national economy absorbed three additional but distinct shocks: the September 11th terrorist attacks, a string of corporate governance scandals, and the war in Iraq and its aftermath. These events created an environment of uncertainty that lengthened the period of adjustment for the business sector from the unrealistic expectations of the late 1990s. However, the climate of uncertainty appears to have subsided and business confidence appears to be improving. Equity prices are rising in response to brisk profit growth and monetary policy is expected to remain accommodative. Household spending is expected to rise, supported by rising employment and incomes, and the continued impact of the 2003 tax cuts. Finally, the combined impact of a moderately falling dollar and accelerating growth in the world economy is expected to increase the demand for U.S. exports in 2004, although on balance, the trade deficit is projected to widen.

Strong real GDP growth of 4.7 percent is projected for 2004, following growth of 3.1 percent for 2003. Total nonagricultural employment is projected to rise 1.1 percent in 2004, following a decline of 0.2 percent in 2003. The U.S. unemployment rate is expected to decline to 5.7 percent in 2004, from 6.0 percent in 2003. Persistent slack in the economy and declining oil prices are expected to lower the inflation rate, as measured by growth in the Consumer Price Index (CPI), to 1.8 percent in 2004 from 2.3 percent in 2003. Personal income is expected to increase 4.7 percent in 2004 following an increase of 3.3 percent in 2003.

THE NEW YORK STATE ECONOMY

The New York State economy is slowly emerging from recession. The long recovery from September 11th and the loss of momentum in the national recovery due to corporate governance scandals and international tensions resulted in a lengthening of the State's recession. However, employment losses have stabilized and growth is evident in several sectors. State nonagricultural employment is projected to rise 0.8 percent in 2004, the first increase in four years. Moreover, with the first sustained rise in equity prices in three years and interest rates remaining low, the outlook for the finance industry has brightened, improving prospects for bonuses and wages. Bonuses in the finance and insurance sector are projected to rise 11.7 percent in 2004-05, following growth of 23.2 percent for 2003-04. Total New York wages are expected to grow 5.1 percent in 2004, the best performance in four years. Personal income is also expected to increase by 5.1 percent in 2004, primarily reflecting the strength in wage growth. Consistent with national trends, inflation in New York is projected to fall from 2.8 percent in 2003 to 2.1 percent in 2004.

THE 2004-05 FINANCIAL PLAN

This section provides a comprehensive explanation of the Financial Plan activity within key functional areas (e.g. Medicaid) across all governmental fund types. The State accounts for all budgeted receipts and disbursements that support programs and other administrative costs of running State government within the All Governmental Funds type. The All Governmental Funds, comprised of funding supported by State Funds and Federal Funds, provides the most comprehensive view of the financial operations of the State. State Funds includes the General Fund, which is the principal operating fund of the State, and other State-supported funds including State SRFs, Capital Projects Funds and Debt Service Funds.

RECEIPTS OUTLOOK

TOTAL RECEIPTS (millions of dollars)				
	2003-04	**2004-05**	**Annual Change**	**% Change**
General Fund	42,259	41,835	(424)	(1.0)
State Fund	62,394	63,137	743	1.2
All Governmental Funds	99,053	99,516	463	0.5

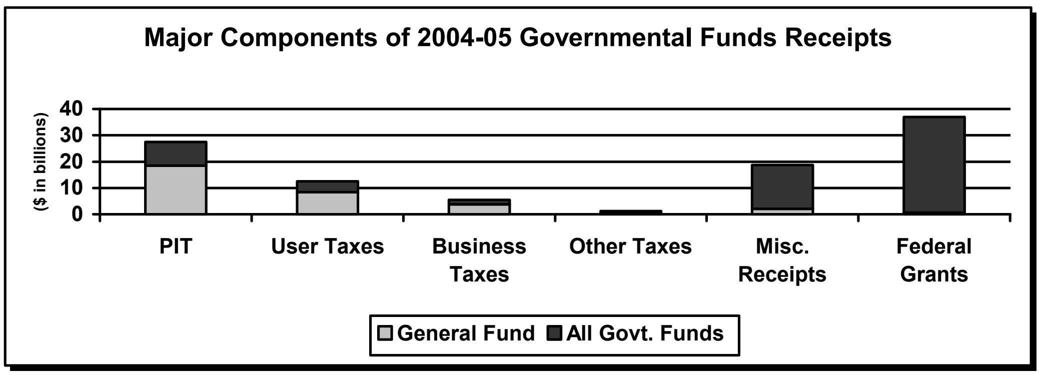
All Governmental Funds receipts are estimated to reach $99.05 billion in 2003-04, an increase of $10.98 billion (12.5 percent) from 2002-03. The increase reflects both gradually improving economic conditions and significant policy actions taken with the 2003-04 Enacted Budget. These actions included $4.20 billion in tobacco securitization proceeds as well as temporary increases in PIT rates and in the base and rate of the sales tax. The estimate is $731 million above the October estimate as discussed previously.

General Fund receipts are estimated to reach $42.26 billion in 2003-04, an increase of $4.86 billion (13.0 percent) from 2002-03. The increase is largely the result of the collection of $4.2 billion in tobacco securitization proceeds and $645 million in Federal revenue sharing grants. This estimate is

$108 million below the October estimate. Adjusting for the Refund Reserve transaction and transfers out of the General Fund, tax receipts are expected to exceed October estimates by $200 million.

All Governmental Funds receipts are projected to reach $99.52 billion in 2004-05, an increase of $463 million (0.5 percent) from 2003-04. The small net increase is due to the one-time nature of tobacco securitization and federal revenue sharing received in 2003-04 offset by expected improvements in economic conditions that will increase tax receipts significantly, and by revenue actions taken with the 2003-04 budget.

General Fund receipts are projected to reach $41.83 billion in 2004-05, a decrease of $424 million (1.0 percent) from 2003-04. The major source of the annual change in the General Fund is the impact of the $4.2 billion in tobacco securitization proceeds and $645 million from Federal revenue sharing grants, which were received in 2003-04, but will not recur in 2004-05. This loss is offset, in part, by increased receipts from both the PIT and Sales Tax, as a result of temporary tax increases adopted as part of the 2003-04 Enacted Budget. Overall, improved economic performance and a resurgence in financial service sector compensation are also expected to increase 2004-05 receipts.



Total Governmental Receipts comprise revenues from the PIT ($27.46 billion), user taxes and fees ($12.48 billion), business taxes ($5.44 billion), other taxes ($1.22 billion), miscellaneous receipts ($16.64 billion), and Federal Grants ($36.26 billion). As can be seen in the chart, a significant share of receipts are deposited into non-General Fund accounts.

ALL GOVERNMENTAL FUNDS 2003-04 TAX RECEIPTS ESTIMATES (millions of dollars)								
	All Governmental Funds				General Fund			
	2002-03 Actual	2003-04 Revised	Annual Change	Percent Change	2002-03 Actual	2003-04 Revised	Annual Change	Percent Change
Personal Income Tax (PIT)	23,698	24,083	385	1.6%	16,791	15,791	(1,000)	(6.0)%
PIT (Excluding Refund Reserve)	22,648	24,660	2,012	8.9%	15,741	16,368	627	4.0%
User Taxes and Fees	10,804	11,816	1,012	9.4%	7,063	7,897	834	11.8%
Business Taxes	4,983	4,983	0	0.0%	3,380	3,395	15	0.4%
Other Taxes	1,191	1,234	43	3.7%	743	784	41	5.5%
Total Taxes	40,676	42,116	1,440	3.5%	27,977	27,867	(110)	(0.4)%
Total Taxes (Excluding Refund Reserve)	39,626	42,692	3,066	7.7%	26,927	28,444	1,517	5.6%

ALL GOVERNMENTAL FUNDS 2004-05 TAX RECEIPTS ESTIMATES (millions of dollars)								
	All Governmental Funds				General Fund			
	2003-04 Revised	2004-05	Annual Change	Percent Change	2003-04 Revised	2004-05	Annual Change	Percent Change
Personal Income Tax (PIT)	24,083	27,462	3,379	14.0%	15,791	18,520	2,729	17.3%
PIT (Excluding Refund Reserve)	24,660	26,769	2,109	8.6%	16,368	17,827	1,459	8.9%
User Taxes and Fees	11,816	12,483	667	5.7%	7,897	8,340	443	5.6%
Business Taxes	4,983	5,440	457	9.2%	3,395	3,739	344	10.1%
Other Taxes	1,234	1,223	(11)	(0.9)%	784	762	(22)	(2.8)%
Total Taxes	42,116	46,608	4,492	10.7%	27,867	31,361	3,494	12.5%
Total Taxes (Excluding Refund Reserve)	42,692	45,913	3,221	7.5%	28,444	30,668	2,224	7.8%

Personal Income Tax

PIT net receipts for 2003-04 are estimated to reach $24.08 billion, an increase of $385 million (1.6 percent) from 2002-03 due largely to a modestly improved economic environment and the first-year impact of the temporary three-year PIT increase enacted in 2003. The increase is partially offset by a $1.63 billion lower contribution from the Refund Reserve account. Net of Refund Reserve transactions, All Funds income tax receipts are expected to grow 8.9 percent over 2002-03 results. The estimate is $235 million above the October Update forecast (adjusting for Refund Reserve transactions).

PIT General Fund receipts for 2003-04 are estimated to reach $15.79 billion, a decrease of $1 billion (5.9 percent) from 2002-03, due to the positive factors affecting All Funds receipts, more than offset by increased Revenue Bond Tax Fund (RBTF) and STAR deposits of $1.2 billion and $171 million, respectively.

PIT net receipts for 2004-05 are projected to reach $27.46 billion, an increase of $3.38 billion (14.0 percent) from 2003-04 due largely to three factors: an increase in underlying liability growth associated with improved economic conditions; the temporary three-year tax increase enacted in 2003; and a $1.27 billion higher contribution from the Refund Reserve account. Net of the Refund Reserve transaction, All Funds income tax receipts are projected to increase by 8.6 percent over 2003-04.

PIT General Fund receipts for 2004-05 (net of the Refund Reserve transaction) are projected to reach $17.83 billion, an increase of $1.46 billion (8.9 percent) from 2003-04, due to the factors affecting All Funds receipts, somewhat offset by increased RBTF and STAR deposits of $487 million and $163 million, respectively.

User Taxes and Fees

All Governmental Funds user taxes and fees receipts are estimated to reach $11.82 billion, an increase of $1.01 billion (9.4 percent) from 2002-03. The sales and use tax increased an estimated $1.03 billion (11.7 percent) from 2002-03, due mainly to modest improvement in the economy, the impact of the 0.25 percent surcharge imposed in 2003 (raising the State sales tax rate to 4.25 percent), and the substitution of tax-free weeks for clothing and footwear items costing less than $110 for the permanent exemption of clothing and footwear costing less than $110. The remainder of this category declined by an estimated $15 million (0.7 percent), due mainly to declines in taxable cigarette consumption. The estimate is $91 million below the October Update estimate.

General Fund user taxes and fees net receipts are estimated to reach $7.9 billion, an increase of $834 million (11.8 percent) from 2002-03. The sales and use tax increased an estimated $850 million (13.4 percent) from 2002-03, due mainly to the 0.25 percent surcharge and the changes to the clothing and footwear exemption. The other user taxes and fees declined by an estimated $16 million (2.2 percent), due mainly to declines in taxable cigarette consumption.

All Funds user taxes and fees net receipts for 2004-05 are projected to reach $12.48 billion, an increase of $667 million (5.7 percent) from 2003-04. The sales and use tax is projected to increase $662 million (6.8 percent) from 2003-04 due largely to increases in employment, income and overall consumption, which expanded the estimated taxable base. The 2004-05 projections include the proposed impact of retaining the clothing exemption for specified tax-free weeks at a higher threshold of $500 per item. The other user taxes and fees are projected to increase $5 million (0.2 percent) from 2003-04.

General Fund user taxes and fees net receipts for 2004-05 are projected to reach $8.34 billion, an increase of $443 million (5.6 percent) from 2003-04. The sales and use tax is projected to increase $488 million (6.8 percent) from 2003-04 due to increased economic growth and the recommended changes to the clothing and footwear exemption. The other user taxes and fees are projected to decrease $44 million (6.2 percent) from 2003-04, due mainly to the increased dedication of motor vehicle fee receipts to transportation funds.

Business Taxes

All Governmental Funds business tax receipts are expected to reach $5.0 billion in 2003-04, which is unchanged from 2002-03. Receipts are estimated to have remained roughly flat due to the offsetting impacts of weak profit performance in the corporate and banking sector in 2002 and 2003 with increased insurance tax collections associated with policy actions adopted in 2003. The estimate is $38 million below the October Update forecast as actual results continue to lag expectations.

General Fund business tax receipts in 2003-04 are estimated to be $3.39 billion, or $15 million (0.43 percent) over 2002-03. Receipts are slightly higher, due primarily to an increase in insurance tax collections as a result of tax restructuring.

All Governmental Funds business tax receipts in 2004-05 are expected to be $5.39 billion, or $411 million (8.3 percent) above 2003-04. This is primarily because of the anticipated increase in insurance tax receipts associated with continued premium growth and the expectation of strengthening corporate and bank profitability.

General Fund business tax receipts in 2004-05 are projected to be $3.74 billion, or $344 million (10.1 percent) over 2003-04. This is due primarily to tax law changes enacted in 2003-04 relating to intangible income and the de-coupling from certain Federal tax provisions, and the expectation of strengthening corporate and bank profits.

Other Taxes

All Funds other taxes, which include estate, pari-mutuel, gift, real property gains, real estate transfer, and racing admissions/boxing and wrestling exhibition taxes, are estimated at $1.23 billion in

2003-04, an increase of $43 million (3.7 percent) over 2002-03. The increase is primarily caused by an increase in the collections of the estate tax, which reflects an increase of equity values that improves the value of estates. The estimate is $93 million above the October Update forecast.

General Fund other taxes, which include estate, pari-mutuel, gift, real property gains, and racing admissions/boxing and wrestling exhibition taxes, are estimated at $784 million in 2003-04, an increase of $41 million (5.5 percent) over 2002-03. The increase is principally caused by a boost in the collections of the estate tax, which reflects an increase of market equity values from the recent improvement of the economy.

The estimate for All Funds other taxes in 2004-05 is $1.22 billion, which is $11 million (0.9 percent) below 2003-04. The decline is the result of a projected decrease in estate tax collections of $22 million partially offset by a projected increase in real estate transfer tax receipts of $11 million. This estimate reflects an anticipated leveling off of market equity values in the second half of 2004-05.

The estimate for General Fund other taxes in 2004-05 is $762 million, which is $22 million (2.8 percent) below 2003-04. This estimate also reflects an anticipated leveling off of market equity values in the second half of 2004-05.

MISCELLANEOUS RECEIPTS (millions of dollars)				
	2003-04	**2004-05**	**Annual Change**	**% Change**
General Fund	5,970	2,087	(3,883)	(65.0)
State Funds	19,621	16,517	(3,104)	(15.8)
All Governmental Funds	19,750	16,643	(3,107)	(15.7)

All Governmental Funds miscellaneous receipts for 2003-04 are projected to reach $19.75 billion, an increase of $5.60 billion (39.6 percent) from 2002-03. This increase primarily reflects the one-time receipt of tobacco securitization proceeds in the General Fund totaling $4.2 billion and projected growth of $1.40 billion in other State Funds. The revision reflects an increase of $195 million (1.0 percent) from the October Update, composed of the General Fund increase of $400 million from the acceleration of tobacco securitization proceeds offset by the projected decline of $205 million in other State funds.

Miscellaneous receipts in State Funds are projected at $19.62 billion, an increase of $5.62 billion (40.1 percent) from 2002-03. This increase is comprised of the net increase in the General Fund described below augmented by the projected growth of $1.74 billion in other State funds. Growth in other State funds includes higher receipts in transportation ($870 million), SUNY ($435 million), school aid ($113 million), CUNY ($87 million), and modest increases in numerous other programs. The estimate represents an increase of $197 million (1.0 percent) from the October Update. This increase from October is comprised of the General Fund changes described above, offset by the $225 million decrease in State Funds. This downward revision includes lower capital receipts estimates to conform with OSC's accounting methods ($325 million), partially offset by higher than anticipated revenues for CUNY ($141 million) and use of bond funds to support SUNY capital equipment spending ($66 million).

General Fund miscellaneous receipts for 2003-04 are estimated to reach $5.97 billion, including $4.2 billion in tobacco securitization proceeds, an increase of $3.88 billion (65.0 percent) from 2002-03. With tobacco securitization proceeds excluded, miscellaneous receipts are estimated to decrease by $321 million (15.4 percent) from 2002-03, largely due to lower collections in unclaimed and abandoned property. This estimate is $423 million above the October estimate, primarily the result of $400 million in tobacco securitization proceeds which were originally deposited in 2003-04 and will be used as anticipated in 2004-05.

All Governmental Funds miscellaneous receipts for 2004-05 are projected to reach $16.64 billion, a decrease of $3.10 billion (15.7 percent) from 2003-04. This decrease is primarily due to the one-time receipt of tobacco bond proceeds in 2003-04 of $4.2 billion, offset by projected growth of $779 million in other State funds.

Miscellaneous receipts in State Funds are projected at $16.52 billion in 2004-05, a decline of $3.10 billion (15.8 percent) from the current year. This net decrease is comprised of the decrease in the General Fund described above, offset by $779 million in State funds growth. Growth in other State funds includes higher receipts in lottery for anticipated VLT proceeds ($240 million), increased provider assessments reflecting the proposed assessments on nursing home, hospital and home care revenues ($258 million), and additional HCRA financing of health care costs ($279 million).

General Fund miscellaneous receipts are projected to total $2.09 billion in 2004-05, a decrease of $3.88 billion (65.0 percent) from the current fiscal year. This decrease is due largely to the tobacco securitization proceeds described above. Excluding these proceeds, General Fund miscellaneous receipts would increase by $317 million. This increase is due primarily to increased collections of Licenses and Fees, and an additional payment of $100 million from PASNY to offset the remaining cost of the "Power for Jobs" program.

TRANSFERS FROM OTHER FUNDS (millions of dollars)				
	2003-04	**2004-05**	**Annual Change**	**Percent Change**
PIT in Excess of Revenue Bond Debt Service	5,242	5,628	386	7.4
Sales Tax in Excess of LGAC Debt Service	1,944	2,047	103	5.3
Real Estate Taxes in Excess of CW/CA Debt Service	247	240	(7)	2.8
All Other Transfers	344	472	128	37.2
Total Transfers from Other Funds	**7,777**	**8,387**	**610**	**7.8**

Transfers to the General Fund from PIT receipts deposited to the RBTF in excess of debt service payable on State PIT Bonds is projected at $5.63 billion, an increase of $386 million from 2003-04. This increase is attributable to overall growth in personal income taxes, partially offset by a $102 million increase in debt service costs on those bonds.

The $103 million annual increase in transfers to the General Fund of sales tax receipts deposited to the Local Government Assistance Tax Fund in excess of debt service due on LGAC bonds is attributable to overall growth in sales tax receipts partially offset by a $16 million increase in debt service costs on LGAC bonds. These transfers are projected to total $2.0 billion in 2004-05.

Transfers to the General Fund of receipts from the real estate transfer tax deposited to the Clean Water/Clean Air (CW/CA) Debt Service Fund in excess of debt service due on those general obligation bonds is projected to total $240 million, a decrease of $7 million from 2003-04. This decrease reflects overall growth in real estate transfer taxes, partially offset by a $18 million increase in debt service costs.

All other transfers are projected to total $472 million in 2004-05, an increase of $127 million. This is due primarily to one-time fund sweeps ($91 million), a transfer from SUNY to reimburse the

General Fund for equipment costs ($90 million) and increased transfers from the Waste Tire Management and Recycling program ($20 million), partially offset by a $59 million decrease in the transfer from the Environmental Protection Fund (EPF).

FEDERAL GRANTS (millions of dollars)				
	2003-04	**2004-05**	**Annual Change**	**Percent Change**
General Fund	645	0	(645)	(100.0)
State Funds	657	12	(645)	(98.2)
All Governmental Funds	37,187	36,265	(922)	(2.5)

All Governmental Funds Federal grants for 2003-04 are projected to reach $37.19 billion, an increase of $3.94 billion (11.8 percent) from 2002-03. This increase primarily reflects growth in federal spending in the following program areas: Medicaid ($2.44 billion), World Trade Center pass-through costs ($885 million), and the increase in the General Fund described below. The estimate represents an increase of $997 million (2.8 percent) from the October Update consisting mainly of upward revisions to the estimates of Federal aid for education ($518 million), Medicaid ($379 million), and children and family services ($142 million).

Federal Grants reported in State Funds are projected at $657 million in 2003-04, an increase of $657 million from 2002-03. This increase reflects primarily the one-time Federal revenue sharing payments received in 2003-04. This estimate has been revised modestly from the October Update ($12 million).

Federal Grants in the General Fund are projected at $645 million in 2003-04, an increase of $645 million from 2002-03. This increase reflects the one-time Federal revenue sharing payments received in 2003-04. The estimate remains unchanged from the October Update.

All Governmental Funds Federal grants for 2004-05 are projected to reach $36.27 billion, a decrease of $922 million (2.5 percent) from 2003-04. This decrease reflects primarily the General Fund decrease of $645 million from the current fiscal year, augmented by the decrease in World Trade Center pass-through costs ($200 million).

Federal Grants in State Funds are projected at $12 million, a decline of $633 million (96.3 percent) from the current year. This net decrease is comprised primarily of the decrease in the General Fund described above.

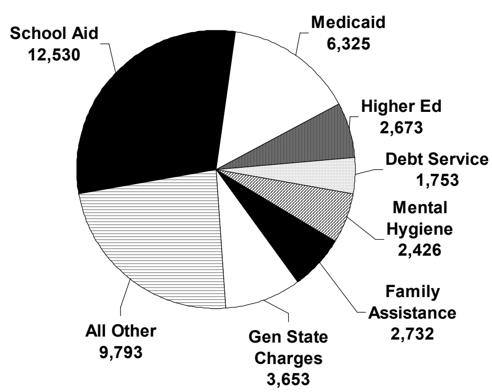
There are no projected Federal Grants in 2004-05 in the General Fund, a decrease of $645 million from the current fiscal year. This decrease reflects the loss of the one-time Federal revenue sharing payments received in 2003-04.

DISBURSEMENTS OUTLOOK

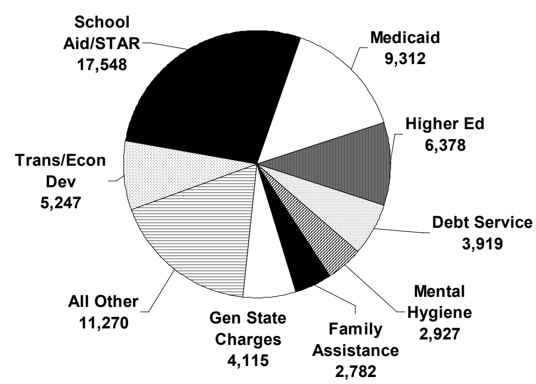
TOTAL DISBURSEMENTS (millions of dollars)				
	2003-04 Revised	**2004-05 Proposed**	**Actual Annual Change**	**Actual Percent Change**
General Fund	42,060	41,885	(175)	(0.4)
State Funds	62,112	63,498	1,386	2.2
All Governmental Funds	98,293	99,806	1,513	1.5

The Financial Plan projections assume that the 2004-05 Executive Budget and all accompanying proposals are enacted in their entirety. Absent the Executive Budget recommendations designed to reduce the growth in annual spending, General Fund spending would increase by more than $3 billion over 2003-04. (See "Sources of the 2004-05 Budget Gap" earlier in this Overview.) The following charts show the budget spending levels for 2004-05 by major function.

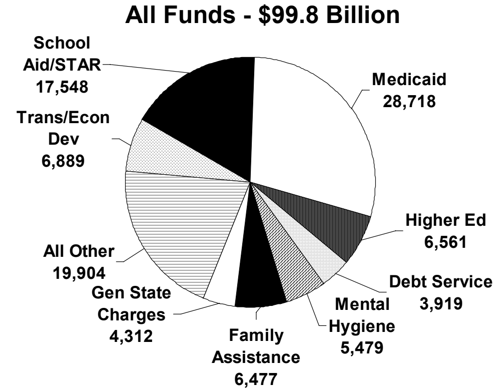
General Fund - $41.9 Billion



State Funds - $63.5 Billion



All Funds - $99.8 Billion



The major sources of annual spending changes between 2003-04 and 2004-05 (after reflecting all Executive Budget recommendations) are summarized in the table below. The 2003-04 projected spending totals are consistent with the reporting of actuals by OSC. Results within program areas (e.g. school aid, CUNY, Medicaid) are adjusted to eliminate the impact of the 2002-03 payment deferrals described earlier and provide a comparable basis of the annual change in each program area.

SPENDING PROJECTIONS -- AFTER RECOMMENDED SAVINGS MAJOR SOURCES OF ANNUAL CHANGE (millions of dollars)	General Fund	State Funds	All Governmental Funds
2003-04 Revised Estimate	***42,060***	***62,112***	***98,293***
Medicaid	373	672	738
Mental Hygiene	299	342	233
Debt Service	285	566	566
Employee Health Insurance	255	255	255
Higher Education	206	304	58
Pensions	184	184	184
School Aid	169	278	278
All Other	(46)	685	1,101
2002-03 Payment Deferrals	(1,900)	(1,900)	(1,900)
2004-05 Executive Budget	***41,885***	***63,498***	***99,806***
Annual $ Change	***(175)***	***1,386***	***1,513***
Annual % Change	***(0.4%)***	***2.2%***	***1.5%***

Primary sources of the annual change in projected disbursements are concentrated in the major areas of spending as detailed below.

Medicaid

DEPARTMENT OF HEALTH MEDICAID SPENDING PROJECTIONS (millions of dollars)	Adjusted 2003-04	2004-05	Annual Change	Percent Change
General Fund	**5,952**	**6,325**	**373**	**6.3**
Other State Support	2,688	2,987	299	11.1
State Funds	**8,640**	**9,312**	**672**	**7.8**
Federal Funds	19,340	19,406	66	0.3
All Governmental Funds	**27,980**	**28,718**	**738**	**2.6**

Medicaid, the single most expensive program budgeted in New York State, finances health care for low-income individuals, long-term care for the elderly, and services for disabled individuals, primarily through payments to health care providers.

New York's Medicaid program is financed jointly by the Federal government, the State, and counties (including New York City). Total Medicaid financing (including administrative costs) from all sources is projected to reach $42.7 billion in 2004-05, consisting of $21.9 billion in Federal support, $13.8 billion in State funding, and $7.0 billion in local government financing. The Financial Plan does not include the local government share of Medicaid funding, but does include the entire Federal share of the program.

Medicaid spending is budgeted principally in the Department of Health (DOH), but also appears in the Office of Mental Health (OMH), the Office of Mental Retardation and Developmental Disabilities (OMRDD), Office of Alcohol and Substance Abuse Services (OASAS) and the State Education Department (SED). Projected Medicaid spending of $28.72 billion in DOH consists of $19.4 billion in

Federal Funds and $9.3 billion in State Funds. Medicaid spending by other State agencies and administrative costs account for the remaining $2.5 billion in Federal and $4.5 billion in State support.

SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) IN DOH MEDICAID (millions of dollars)			
	General Fund	**Other State Supported Funds**	**Federal Funds**
Inflationary/Utilization/All Other	619	(175)	1,050
Loss of Federal Matching Rate (FMAP)	390		(584)
Nursing Home IGT Phase Out	90		(112)
2003-04 Medicaid Cycle Delay	170		340
2004-05 Medicaid Cycle Delay	(190)		(270)
Assessments	(323)	429	
Additional Support by HCRA	(163)	45	
Pharmacy Cost Containment	(93)		(191)
All Other Cost Containment	(170)		(256)
State Takeover/Increased Support	43		89
Total Annual Change	**373**	**299**	**66**

Inflation/Utilization Growth/All Other: Projected growth of approximately 7.4 percent reflects growth in medical cost inflation and utilization increases for hospitals, nursing homes, managed care programs and prescription drugs. The total Medicaid caseload is projected at 3.7 million in 2004-05, an increase of 5 percent from the current fiscal year. Other changes primarily include a "tobacco guarantee" payment to HCRA to replace the loss of revenue from the securitization of tobacco proceeds ($118 million).

Loss of Federal Matching Rate (FMAP): Expiration in June 2004 of the temporary 15-month increase in FMAP for Medicaid costs results in higher General Fund costs ($390 million) and lower spending from Federal Funds ($584 million). Total projected DOH General Fund savings from FMAP is $610 million in 2003-04 (another $80 million offsets in Mental Hygiene Medicaid costs) decreasing to $220 million in 2004-05. The additional FMAP support lowered Medicaid costs for the State and local governments by $1.01 billion in 2003-04 and provided $268 in resources to HCRA in 2003-04.

Nursing Home Intergovernmental Transfer (IGT) Phase Out: The planned phase-out of nursing home intergovernmental transfers implemented in 2001-02 increases General Fund costs by $90 million and reduces Federal Funds spending by $112 million (the remaining $22 million in costs accrue to local governments).

Cycle Payment Delays: The 2003-04 Enacted Budget deferred the last Medicaid cycle from March 31, 2004 into the 2004-05 fiscal year, producing an annual increase of $170 million. The 2004-05 Executive Budget continues this legislative action by delaying payment of the March 30, 2005 Medicaid cycle until April 1, 2005 ($190 million).

Assessments: The Executive Budget proposes a restoration of a 0.7 percent assessment on hospital and home care revenues and restoring the nursing home reimbursable assessment from 5.0 percent to 6.0 percent of revenues in order to finance State Medicaid spending. This recommendation lowers General Fund spending by $323 million and increases costs in the Provider Assessment Special Revenue Fund by $429 million, which is supported by the assessment revenues.

Additional Support by HCRA: Cost containment initiatives in FHP and the Child Health Plus (CHP) program produce HCRA savings that will support additional General Fund offloads related to pharmacy costs ($45 million). In addition, other proposed actions to reduce costs of programs supported by HCRA and the receipt of FMAP moneys have reduced the need for General Fund support for HCRA ($118 million).

Pharmacy Cost Containment: Several proposals to control the rising costs of prescription drugs would reduce spending growth in the General Fund ($93 million) and Federal Funds ($191 million). These proposals include establishing a preferred drug program that requires manufacturers to provide higher rebates to the State to secure placement of drugs on a preferred drug list; requiring prior authorization for certain high cost drugs; reducing pharmacy reimbursement; and increasing pharmacy co-payments for Medicaid recipients.

All Other Cost Containment: Recommended actions reduce General Fund costs by $170 million and Federal Funds spending by $256 million. These actions include General Fund reductions resulting from the elimination of various optional services provided to Medicaid recipients ($32 million), the payment of Federal Medicare premiums by, and implementation of a managed care program for, individuals who are dually eligible under both the Medicaid and Medicare programs ($46 million), elimination of long-term care eligibility loopholes ($25 million), nursing home cost containment initiatives including the elimination of payment "add-ons" for facilities with more than 300 beds and hospital-based facilities ($22 million), continuing the reduced payment levels to counties for services provided to mentally disabled individuals ($20 million), implementation of a case management program in partnership with counties for certain high cost individuals ($8 million), and other cost containment initiatives.

State Takeover/Increased Support: The 2004-05 Executive Budget includes higher General Fund costs for the proposed multi year State takeover of local Medicaid costs of long-term care services ($24 million) and a revision to the 1993 wage equalization factor used in the calculation of nursing home reimbursement rates ($19 million).

School Aid

SCHOOL AID SPENDING PROJECTIONS (millions of dollars)

	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	**12,361**	**12,530**	**169**	**1.4**
Other State Support	1,911	2,020	109	5.7
State Funds	**14,272**	**14,550**	**278**	**1.9**
All Governmental Funds	**14,272**	**14,550**	**278**	**1.9**

School aid, the single largest program financed by the General Fund and State Funds, helps support elementary and secondary education provided to New York pupils enrolled in 680 school districts throughout the State. State funding is provided to districts based on aid formulas governed by statute and through reimbursement for various categorical programs.

On a school year basis (July 1 through June 30), support for general school aid is recommended at $14.6 billion, an increase of $147 million (1.0 percent) over the current school year. In addition to $14.6 billion for general school aid, the budget sets aside all revenues from VLTs to support SBE requirements. Based upon VLT facilities now being developed and new ones proposed with the Executive Budget, receipts are projected at $325 million in the 2004-05 school year, growing to $2 billion annually over the next five years. To supplement the VLT revenues, New York City will also receive a separate $100 million SBE matching grant ($70 million on a State fiscal year basis) as part of its general school aid. General Fund spending in 2004-05 is projected at $12.53 billion on a State fiscal year basis.

The school aid recommendations to restrain spending growth include targeted reforms in building aid, transportation aid and BOCES to generate savings of $186 million. Proposed reforms would restrain cost increases for building aid ($62 million) and transportation aid ($52 million). Other building aid reforms include establishment of priority-based project selection; a simplified State aid calculation; and a State clearinghouse for more efficient construction practices. Transportation aid reforms build on recent reforms for State reimbursement of school construction to reimburse costs consistent with the useful life of the assets. Other actions in school aid that reduce General Fund costs include recovery of overpayments and one-time State-supported bond financing of transportation capital costs as part of the transition to the new reimbursement program.

In addition, these recommendations include a Flex Aid program to provide school districts with needed flexibility by consolidating seven separate categories of aid totaling nearly $10 billion into a single aid program.

The State Lottery Fund contribution is projected at $1.95 billion, an increase of $110 million in additional lottery revenues, including $43 million associated with proposed enhancements to the Quick Draw program. In addition, $240 million is reserved from VLT revenues ($325 million on a school year basis) to support SBE reforms.

In addition to the school year totals referenced above, Federal Funds also provide $2.89 billion in education funding to school districts in 2004-05. This spending includes support for various programs such as: free and reduced price meals to low income children; supplemental funding for educational services to low achieving students; special education services to students with disabilities; professional development activities for teachers; and programs that prevent school violence.

Welfare

WELFARE SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	**1,379**	**1,423**	**44**	**3.2**
State Funds	**1,379**	**1,423**	**44**	**3.2**
Federal Funds	2,049	1,979	(70)	(3.4)
All Governmental Funds	**3,428**	**3,402**	**(26)**	**(0.8)**

Welfare programs provide a wide range of benefits to poor families including cash assistance grants, child welfare services, tax credits for eligible low-income workers, and services that assist welfare recipients in securing and retaining employment. Funding is also provided for local administration of welfare programs. Total welfare caseload is estimated at 653,041 in 2004-05, an increase of 36,201 from the current fiscal year. Federal assistance consists of funds provided through the TANF block grant.

SOURCES OF ANNUAL SPENDING CHANGES IN WELFARE (millions of dollars)		
	General Fund	**Federal Funds**
Caseload/Expenditure Growth	125	
Loss of Offsets/TANF	322	(70)
Local Administration	74	
TANF Reprogramming	(372)	
Welfare Eligibility/Benefit Changes	(77)	
All Other	(28)	
Total Annual Change	**44**	**(70)**

Caseload/Expenditure Growth: Additional General Fund costs from caseload and expenditure growth reflect a projected 4.7 percent increase in the family caseload, a 10 percent increase in the single adult/childless couples caseload, and 3 percent growth in expenditures per person. Federal funding for welfare is a fixed amount provided through a TANF block grant and does not increase or decrease based on changes in caseload or State expenditures.

Loss of Offsets/TANF: 2004-05 General Fund increases resulting from the loss of TANF in 2003-04 ($322 million), include the one-time delay in the transfer of TANF funds to the Child Care Block Grant and the availability of one-time unprogrammed TANF initiative funding. The $70 million decrease in Federal Funds primarily reflects this reduced Federal funding available to support TANF-funded initiatives.

Local Administration Funding: Additional General Fund costs reflect increased funding for welfare employment and other initiatives ($63 million) and the use of one-time administration credits in 2003-04 ($56 million), which are partially offset by the annualization of the reduction in local administrative reimbursement enacted in 2003-04 ($45 million).

TANF Reprogramming: Actions proposed in the Budget will reprogram the remaining TANF funds to reduce General Fund costs by reducing the TANF to Title XX transfer from 10 percent to 5 percent ($122 million); reprogramming unspent prior-year TANF initiative funding ($104 million); utilizing prior-year child care funding ($83 million); budgeting the minimum TANF maintenance-of-effort level ($45 million); and reducing TANF for systems and other program initiatives ($18 million).

Proposed Welfare Eligibility/Benefit Changes: The 2004-05 Executive Budget reduces General Fund costs by $77 million through recommendations that would restructure welfare eligibility requirements, require full family sanctions that eliminate benefits if adults do not comply with mandated employment requirements, and impose a 10 percent reduction in welfare benefits to longer term participants.

All Other: The remaining annual decrease in General Fund costs relates primarily to a one-time prior year Federal settlement ($16 million), requiring a two-year limit on claiming local administrative reimbursement and rescinding unspent prior year contract funding ($12 million).

Office of Children and Family Services

CHILDREN AND FAMILY SERVICES SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	**1,261**	**1,309**	**48**	**3.8**
Other State Support	36	50	14	38.9
State Funds	**1,297**	**1,359**	**62**	**4.8**
Federal Funds	1,865	1,716	(149)	(8.0)
All Governmental Funds	**3,162**	**3,075**	**(87)**	**(2.8)**

The Office of Children and Family Services (OCFS) provides child welfare services including foster care, adoption, child protective services and childcare. The net decrease in All Funds spending is attributable primarily to a reduction of the Federal TANF for Child Care and Title XX program support ($150 million), partially offset by growth in State child welfare costs for preventive services, child protective services, and adoption subsidies supported by the General Fund ($48 million) and other State support ($14 million). In the General Fund, the impact of the reduced TANF to Title XX transfer produces increased child welfare spending by $58 million.

Mental Hygiene

MENTAL HYGIENE SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	**2,127**	**2,426**	**299**	**14.1**
Other State Support	458	501	43	9.4
State Funds	**2,585**	**2,927**	**342**	**13.2**
Federal Funds	2,661	2,552	(109)	4.1
All Governmental Funds	**5,246**	**5,479**	**233**	**4.4**

OMH, OMRDD and OASAS collectively provide a wide array of services to special needs populations. Services are administered to individuals with mental illnesses, developmental disabilities and/or chemical dependencies through institutional and community-based settings. Many of these services are partially financed with State and Federal Medicaid dollars.

Annual General Fund growth of $299 million is attributable primarily to increased State Operations costs including payment of an "extra" institutional facilities payroll ($95 million), local services and program enhancements including the OMRDD New York State - Creating Alternatives in Residential Environments and Services (NYS-CARES) program and OMH community-based housing initiatives ($85 million), and a reduction in available patient care revenues, primarily as a result of nonrecurring debt management actions ($69 million) and the expiration of the temporary 15-month increase in the Federal Medicaid matching rate ($40 million) used to support State Operations costs in the General Fund.

Absent proposed budget actions, mental hygiene agencies would have otherwise experienced roughly double the projected General Fund growth of $299 million in 2004-05, due mainly to the loss of nonrecurring offsets provided in 2003-04 by the temporary Medicaid matching rate increase and debt service savings that permitted more patient income revenues to be used for operations, and the extra institutional payroll due in 2004-05. Recommended cost containment actions to restrict this growth include Federal, local and third-party revenue maximization efforts primarily in the patient income account ($165 million), 5 percent reductions in various local assistance programs ($32 million) and a variety of State operations efficiencies ($56 million).

Higher spending of $43 million in other State-supported funds is attributable to growth in OMRDD's Provider of Services SRF that supports development under the NYS-OPTS (New York State - Options for People Through Services) program.

The Federal Funds decline of $109 million primarily reflects an annual decrease in available patient care revenues due to nonrecurring actions implemented in the current year, including the Federal Medicaid matching rate ($40 million). This Federal Funds decline results in higher General Fund costs as these resources are no longer available to reduce the State's cost of providing mental hygiene services in 2004-05.

Higher Education

HIGHER EDUCATION SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	**2,467**	**2,673**	**206**	**8.4**
Other State Support	3,637	3,735	98	2.7
State Funds	**6,104**	**6,408**	**304**	**5.0**
Federal Funds	428	182	(246)	(57.5)
All Governmental Funds	**6,532**	**6,590**	**58**	**0.9**

Higher education includes operational and administrative costs for SUNY, CUNY and the Higher Education Services Corporation (HESC) which is responsible for administering TAP grant awards to income eligible students.

SOURCES OF ANNUAL SPENDING CHANGE IN HIGHER EDUCATION (millions of dollars)			
	General Fund	Other State Supported Funds	Federal Funds
HESC Impact of TAP Roll	104		
HESC Nonrecurring TANF Funds	246		(246)
SUNY/CUNY/HESC Support	139	25	0
SUNY/CUNY CC Base Aid	(19)		
SUNY/CUNY Equipment Bonding	(37)	43	
HESC/TAP Restructuring	(227)		
Capital Matching Grants	0	30	0
Total Annual Change	**206**	**98**	**(246)**

HESC Impact of TAP Roll: General Fund costs increase by $104 million in 2004-05 as a result of legislative actions in the 2003-04 Enacted Budget that deferred TAP costs into 2004-05.

HESC Nonrecurring TANF Funds: TANF funding used in 2003-04 to finance the TAP program is no longer available in 2004-05 and thus General Fund spending increases ($246 million) and Federal spending decreases ($246 million).

SUNY/CUNY/HESC Support: The 2004-05 Executive Budget provides funding for higher costs at SUNY and CUNY for salaries and fringe benefits, community college enrollment growth, inflationary increases and growth in the number of TAP recipients.

SUNY/CUNY Community College Base Aid: Base aid decreases by 5 percent or $115 per student ($19 million).

SUNY/CUNY Equipment Bonding: The use of bond proceeds to support SUNY/CUNY capital equipment purchases will reduce General Fund spending ($37 million) and increase capital expenditures in the SRFs.

HESC/TAP Restructuring: Changes at HESC include the proposed restructuring of the TAP program, which would defer one-third of each student's award until graduation as an incentive for timely degree completion ($227 million).

Capital Matching Grants: The other funds increase reflects the first year of capital spending under the new $350 million Capital Matching Grants Program for public and private colleges and universities ($30 million).

Debt Service

DEBT SERVICE SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	**1,468**	**1,753**	**285**	**19.4**
Other State Support	1,885	2,166	281	14.9
State Funds	**3,353**	**3,919**	**566**	**16.9**
All Governmental Funds	**3,353**	**3,919**	**566**	**16.9**

Debt Service Funds are the conduits through which the State pays debt service on all State-supported bonds, including General Obligation bonds for which the State is constitutionally obligated to pay debt service and bonds issued by State public authorities (e.g., Empire State Development Corporation, Dormitory Authority, Thruway Authority, Local Government Assistance Corporation) for which the State is contractually obligated to pay debt service subject to an appropriation. Debt service is paid by transfers from the General Fund, dedicated taxes and fees, and other resources such as patient income revenues.

The growth in the General Fund is the result of increases in net debt service payments to support capital projects for Corrections ($86 million), SUNY Educational Facilities ($71 million), CUNY ($68 million), the Metropolitan Transportation Authority (MTA) ($41 million) and the Housing Finance Agency ($26 million), offset by modest reductions in other programs. The increase in net debt service costs related to other State-supported funds is also attributable to SUNY dormitory facilities ($32 million), Mental Hygiene facilities ($93 million), transportation ($70 million), economic development ($58 million) and educational capital programs ($38 million).

Recommendations to generate savings include expanded use of variable rate debt, increased use of swaps and other new refundings opportunities, streamlined approvals for refundings, and generating lower costs through the flexible use of issuers in the PIT program. Savings from these initiatives impact both spending and revenue in the General Fund by lowering debt service costs and/or increasing transfers of dedicated taxes from debt service funds.

General State Charges

GENERAL STATE CHARGES SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	**Projected 2004-05**	**Annual Change**	**Percent Change**
General Fund	3,257	3,652	395	12.1
State Funds	3,670	4,114	444	12.1
All Governmental Funds	3,842	4,312	470	12.2

General State Charges (GSCs) account for the costs of fringe benefits to State employees and retirees of the Executive, Legislative and Judicial branches, as well as for taxes on public lands and litigation. The General Fund supports approximately 85 percent of GSCs spending. Fringe benefit payments, many of which are mandated by statute or collective bargaining agreements, include employer contributions for pensions, social security, health insurance, workers' compensation and unemployment insurance. Fixed costs include State payments-in-lieu-of-taxes to local governments for certain State-owned lands, and the costs of defending lawsuits against the State and its public officers.

Higher projected contributions to the New York State and Local Retirement Systems for fiscal year 2004-05 are associated with prior year pension investment losses and the expansion of retiree benefits. Baseline projections from OSC show an employer pension contribution rate of 12.3 percent of payroll in 2004-05 that would produce an annual State pension cost increase of $664 million (136.8 percent) in 2004-05. The Executive Budget proposes a series of pension reforms that will moderate these costs and produce a total employer pension contribution of $669 million, an annual increase of $184 million (37.9 percent).

Providing health insurance to State employees and retirees is projected to total $2.05 billion in 2004-05, an increase of $255 million. This is attributable primarily to underlying growth of 13 percent in premium costs to cover the rising expense and utilization of employee health care, including escalating prescription drug costs.

All Other

In addition to the programs described above, the Executive Budget includes funding for Economic Development, Parks, the Environment, Public Health, Education, Public Protection, General Government, the Judiciary, and various other programs.

Other significant savings actions contained in this Budget, include:

- $150 million in recurring State operations efficiencies (across the remaining agencies not discussed earlier) through continued application of a strict hiring freeze, savings from contract reviews, elimination of inflationary increases, and maximization of non-General Fund resources;
- Over $56 million in savings due to reductions in local public health programs and maximization of HCRA. In addition, significant reforms are proposed in the Early Intervention program that contribute savings in the outyears of the Financial Plan;
- $117 million in transportation savings by eliminating one-time legislative adds and maximizing non-General Fund resources; and
- Savings from modest five percent reductions to a variety of local assistance programs.

All other State Funds spending is projected to increase $685 million over the current fiscal year. Growth in other State-supported spending includes economic development capital projects ($320 million), capital projects related to the E-911 program ($100 million), increased taxpayer participation and tax levy growth in STAR ($163 million), spending from the Indigent Legal Services Fund ($31 million), and inflationary increases and higher enrollment in the Elderly Pharmaceutical Insurance Coverage (EPIC) program ($73 million).

All Governmental Funds spending for these programs is projected to increase by $1.10 billion from the current fiscal year. This increase includes State Funds spending growth of $685 million and higher Federal spending of $416 million for, among other things, transportation-related capital projects ($172 million), implementation of the Help America Vote Act of 2002 ($142 million), and reimbursement for World Trade Center costs ($200 million).

THE 2004-05 GOVERNMENTAL FUNDS FINANCIAL PLAN

The following sections summarize activity within the four major fund types that comprise the All Governmental Fund type: General Fund, SRFs, Capital Projects Funds and Debt Service Funds.

GENERAL FUND

The Financial Plan presentation of receipts and disbursement activity within each fund type is detailed below.

Receipts Outlook

GENERAL FUND RECEIPTS (millions of dollars)				
	2003-04	**2004-05**	**Annual Change**	**Percent Change**
Personal Income Tax	15,791	18,520	2,729	17.3
User Taxes and Fees	7,897	8,340	443	5.6
Business Taxes	3,395	3,739	344	10.1
Other Taxes	784	762	(22)	(2.8)
Miscellaneous Receipts	5,970	2,087	(3,883)	(65.0)
Federal Grants	645	0	(645)	(100.0)
Transfers From Other Funds	7,777	8,387	610	7.8
Total Receipts	**42,259**	**41,835**	**(424)**	**(1.0)**

The State projects General Fund receipts of $41.83 billion in 2004-05, a decrease of $424 million (1.0 percent) from the current year. The decline in General Fund receipts is the result of one-time revenues from tobacco securitization ($4.20 billion) and Federal revenue sharing grants ($645 million) received in 2003-04 which will not recur in 2004-05. This is partially offset by increased collections from PIT and sales and use taxes resulting from temporary tax actions taken in the 2003-04 Enacted Budget as well as underlying growth resulting from the improving economic climate and the Refund Reserve transaction that moves $661 million in PIT resources from 2003-04 to 2004-05.

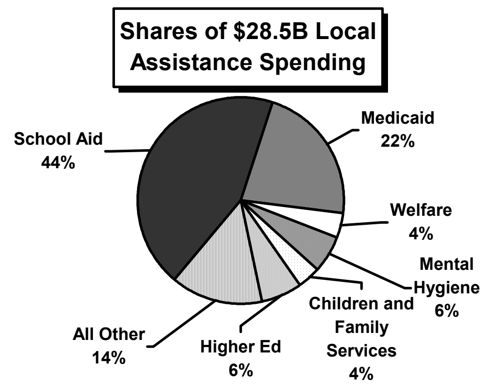
Disbursements Outlook

The State projects General Fund disbursements of $41.89 billion in 2004-05, a decrease of $175 million (0.4 percent) from the current year. The change in General Fund disbursements reflects higher spending in Grants to Local Governments, State Operations, GSCs and Debt Service, partially offset by lower spending in Capital Projects and Transfers to Other Funds (for a detailed discussion on annual changes in major spending areas please see the 2004-05 Financial Plan section earlier in this Overview).

GENERAL FUND DISBURSEMENTS (millions of dollars)				
	2003-04	Projected 2004-05	Annual Change	Percent Change
Grants to Local Governments	29,311	28,455	(856)	(2.9)
State Operations	7,055	7,251	196	2.8
General State Charges	3,257	3,652	395	12.1
Debt Service	1,468	1,753	285	19.4
Capital Projects	227	187	(40)	(17.6)
Transfers to Other Funds	742	587	(155)	(20.9)
Total Disbursements	**42,060**	**41,885**	**(175)**	**(0.4)**

Grants to Local Governments

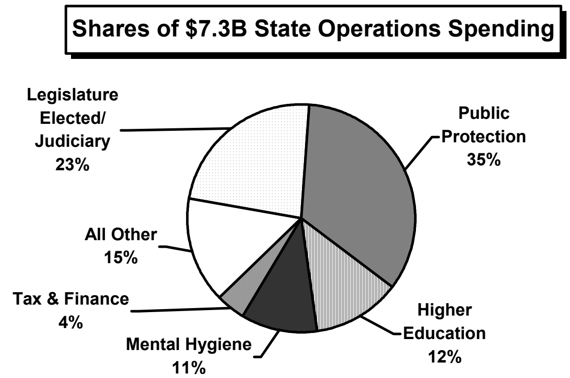
Grants to Local Governments include financial aid to local governments and non-profit organizations, as well as entitlement payments to individuals. The most significant areas of spending in local assistance are for aid to public schools (44 percent) and for Medicaid (22 percent). Other large areas of spending include mental hygiene (6 percent), higher education (6 percent), children and family services (4 percent), welfare assistance (4 percent), general purpose aid to counties and municipalities (3 percent), preschool special education (3 percent), and public health (2 percent).



Local assistance spending is projected to be $28.46 billion in 2004-05, a decrease of $856 million (2.9 percent) from 2003-04. Spending growth of roughly $3.4 billion is offset by the local assistance share of the 2002-03 payment deferrals ($1.8 billion) plus a combination of recommended cost containment initiatives and the use of alternative financing sources totaling nearly $2.5 billion, as described earlier. Reforms are proposed to continue to provide planned fiscal relief to New York City while eliminating legal concerns associated with the current linkage to LGAC. The recommendations would eliminate all impacts on LGAC, and reduce total taxpayer costs (financed by both State and City taxpayers) by $1.9 billion, through legislation authorizing a refunding of MAC debt for a period of 10 years rather than 30 years. The State would provide additional resources of $170 million annually to New York City to help them finance this refunding by directing certain State sales tax receipts previously received by the State to New York City. In addition, the recommendations would generate recurring savings to New York City of another $80 million through a variety of proposals.

Excluding payment deferrals, the annual increase in local assistance spending would be $970 million and is primarily attributable to higher spending in Medicaid ($373 million), HESC ($176 million), school aid ($169 million), preschool special education programs ($89 million), OCFS ($57 million) and mental hygiene ($55 million). These annual changes are discussed in more detail earlier in this Overview under “The 2004-05 Financial Plan.”

State Operations



State Operations accounts for the cost of running the Executive, Legislative, and Judicial branches of government and is projected to total $7.25 billion in 2004-05, an increase of $196 million (2.8 percent) from the current year. Personal service costs (e.g., State employee payroll) comprise 73 percent of State Operations spending and the remaining 27 percent represents non-personal service costs for contracts, rent, supplies, and other operating expenses.

The projected $196 million annual increase in State Operations costs includes higher spending of $130 million for an extra institutional payroll occurring in 2004-05. Spending for the Legislature and Judiciary is projected to remain unchanged.

Proposed savings initiatives designed to reduce annual spending growth associated with performance advances and inflation include various revenue maximization initiatives ($171 million), and the continuation of the strict statewide hiring freeze and other actions to restrain spending in agency operations ($142 million).

The revenue maximization efforts to finance State Operations spending include Federal revenue initiatives in mental hygiene programs ($70 million) and extending current provisions of the Motor Vehicle Insurance Fee to support State Police activities ($51 million). No general salary increases are budgeted in either 2003-04 or 2004-05.

The State's Executive agency All Funds workforce is projected to total 187,900 by the end 2004-05, level with the current year. Since 1994-95, the State workforce has declined by approximately 23,300.

General State Charges

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

Spending for GSCs is projected to be $3.65 billion in 2004-05, an increase of $395 million (12.1 percent) over the current year. This annual increase is due mostly to rising costs of employee health benefits to $2.05 billion (an increase of $255 million) and higher costs related to employer pension contributions to a level of $669 million (an increase of $184 million) after reflecting savings for proposed pension reforms. A more detailed discussion is provided earlier in this Overview under "The 2004-05 Financial Plan."

Transfers to Other Funds

Transfers to Other Funds is projected to total $2.53 billion in 2004-05, an increase of $90 million (3.7 percent) from the current year and include General Fund transfers to support debt service ($1.75 billion), capital projects ($187 million), and other funds ($587 million), including SUNY, banking services, and the Judiciary.

General Fund support for debt service is estimated to increase by $285 million (19.4 percent) to pay primarily for prior-year financings for CUNY, SUNY and correctional facilities partially offset by savings from the use of variable rate and interest rate exchange agreements to refund outstanding bonds and reduce borrowing costs.

The $40 million (17.6 percent) reduction in capital projects spending financed by the General Fund primarily reflects the use of bond proceeds to finance SUNY capital costs previously supported by the General Fund, as well as minor reestimates to other areas of capital projects spending.

All other transfers are projected to decline by $155 million in 2004-05 due to a nonrecurring transfer to the HCRA SRF that financed 2003-04 legislative restorations ($128 million) and the “doubling up” of 2002-03 and 2003-04 State subsidy payments to SUNY hospitals in 2003-04.

SPECIAL REVENUE FUNDS

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

SRF spending accounts for 51 percent of projected All Governmental Funds disbursements in 2004-05. The SRFs have grown steadily as a percentage of All Governmental Funds in recent years as the State continues to identify alternate funding sources to support costs otherwise financed by the General Fund, and to maximize Federal revenues where available.

Receipts

SPECIAL REVENUE FUNDS RECEIPTS (millions of dollars)			
	2003-04	2004-05	Annual Change
Taxes	**4,458**	**4,784**	**326**
Miscellaneous Receipts:			
SUNY	2,240	2,303	63
Lottery	2,030	2,318	288
Indigent Care	901	876	(25)
HCRA	2,477	2,756	279
Provider Assessments	371	629	258
All Other	2,377	2,596	219
Total Miscellaneous Receipts	**10,396**	**11,478**	**1,082**
Federal Grants	**34,921**	**34,425**	**(496)**
Total Receipts	**49,775**	**50,687**	**912**

Total SRF receipts are projected to be $50.69 billion, an increase of $912 million (1.8 percent) from 2003-04. This growth is due primarily to increases in taxes ($326 million) and miscellaneous receipts ($1.08 billion), partially offset by a decrease in Federal grants ($496 million), as detailed below.

Taxes

Taxes dedicated to support programs funded in the SRFs total $4.78 billion in 2004-05, an increase of $326 million (7.3 percent) over 2003-04, and primarily include STAR and mass transportation programs. Taxes comprise 9 percent of total SRF receipts. The increase in taxes is due to increased deposits into the STAR fund ($163 million), increased collections from surcharges earmarked for the mass transportation funds ($118 million), and the imposition of a new surcharge on sales tax, which will be deposited into the New York State Wireless Telephone Emergency Service Account ($39 million).

Miscellaneous Receipts

Miscellaneous receipts comprise 23 percent of total SRF receipts and are projected to total $11.48 billion in 2004-05, an increase of $1.08 billion (10.4 percent) from the current fiscal year. These receipts include SUNY tuition, lottery receipts, transfers from the "off-budget" HCRA pools, assessments on regulated industries, and a variety of fees and licenses. Changes in miscellaneous receipts are generally consistent with the spending changes in the major program areas described below with the exception of Medicaid, where a nonrecurring General Fund transfer of $128 million in 2003-04 (rather than miscellaneous receipts) supports legislative restorations.

Federal Grants

Federal grants are projected to total $34.43 billion, a decrease of $496 million (1.4 percent) from 2003-04. Federal grants comprise 68 percent of total receipts in the SRFs primarily for health and welfare programs. The State is required to adhere to specific Federal guidelines governing use of grant moneys. In most cases, the State finances programs in the first instance, then receives reimbursement from the Federal government. In addition, the State is subject to the Federal Cash Management Improvement Act, which imposes interest penalties on the State if Federal Funds are not spent expeditiously. Federal reimbursement is assumed to be received in the State fiscal year in which the spending occurs; however, timing-related variances can produce temporary negative balances in these funds.

Changes to Federal grants correspond to changes in federally-reimbursed spending as described below with the exception of the nonrecurring deposit of $289 million in Federal Funds to support HCRA health care costs.

Disbursements

SPECIAL REVENUE FUNDS DISBURSEMENTS (millions of dollars)				
	2003-04	**2004-05**	**Annual State Change**	*Annual Federal Change*
STAR	2,835	2,998	163	0
Medicaid	22,028	22,393	299	66
SUNY	2,894	2,940	46	0
Education	2,823	2,889	(7)	73
Lottery	1,990	2,105	115	0
Welfare/OCFS	3,932	3,717	5	(220)
Transportation	1,650	1,750	100	0
World Trade Center	1,484	1,640	0	156
Labor	714	711	2	(5)
HESC	319	76	3	(246)
Child Health Plus (CHP)	745	809	25	39
EPIC	646	719	73	0
All Other	8,200	8,373	122	51
Total Disbursements	***50,260***	***51,120***	***946***	***(86)***
Annual % change		***1.7%***		

Disbursements from SRFs are projected to be $51.12 billion, an increase of $860 million (1.7 percent) from 2003-04. Of this amount, $16.64 billion is supported by State revenues and $34.48 billion is supported by Federal grants. Additional Federal grants support capital spending for a grand total in Federal grants of $36.27 billion. The growth in SRF is attributable primarily to projected spending increases in Medicaid, STAR, SUNY, education and transportation programs, partially offset by the loss of TANF block grant funds that support OCFS programs and TAP in 2003-04.

The following describes projected activity in the major SRFs in 2004-05, including sources of funding, programs supported, and an explanation of annual growth or decline.

Medicaid: The SRF structure of Medicaid is detailed below. For a detailed discussion of the annual changes in Medicaid, please refer to "the 2004-05 Financial Plan" section earlier in this Overview.

- **Federal Medicaid**: The Federal Medicaid Fund accounts for the receipt and disbursement of the Federal government's share of direct payments made to health care providers and reimbursement to local governments for the administrative costs of the program. Federal support for the Medicaid program is projected to total $19.41 billion in 2004-05, which represents roughly 40 percent of total Federal SRF spending.
- **Indigent Care**: The Indigent Care Fund receives revenue through transfers from the Health Care Initiatives Pool, Bad Debt and Charity Care Pools, and the Tobacco Control and Insurance Initiatives Pool. These HCRA pools are financed with taxes, assessments and surcharges on hospital revenues and third-party payers. The Indigent Care Fund makes Medicaid payments to providers and municipalities for the cost of providing care to the

uninsured. Total disbursements from the Indigent Care Fund are estimated at $906 million in 2004-05, a decrease of $30 million from the current year.

- **Provider Assessments**: This account, created in 2002-03, is currently financed by a reimbursable assessment on nursing home revenues. The 2004-05 Executive Budget proposes an increase in the Medicaid reimbursable assessment on nursing home revenues from 5 percent to 6 percent and the restoration of a nonreimbursable 0.7 percent assessment on hospital and home care revenues. These assessments are expected to generate $629 million to finance Medicaid.
- **Health Care Reform Act Transfer**: This fund is supported by transfers from the Tobacco Control and Insurance Initiatives Pool and is used to finance a portion of the State's Medicaid program, including expansion of programs such as the FHP program and the workforce recruitment and retention program. Spending from this fund is projected to total $1.45 billion in 2004-05, an increase of $71 million over the current year.

STAR: This fund receives PIT receipts dedicated to the STAR property tax relief program. Spending for STAR is estimated at $3.0 billion in 2004-05, an increase of $163 million from 2003-04. STAR will provide $2.4 billion in local property tax relief for eligible homeowners statewide. In addition, residents of New York City, who pay property, income, and other taxes to fund City education services, will receive $560 million in City PIT reductions. Increased participation by taxpayers and local tax levy growth are largely responsible for the higher projected spending in 2004-05. The estimates include $20 million in savings from proposed legislation that would cap school district spending.

Lottery: The Lottery Fund supports public elementary and secondary school education through proceeds received from the sale of lottery tickets and the expected implementation of VLTs at racetracks. The 2004-05 Executive Budget projects roughly $2.32 billion in total lottery proceeds will be available to fund $2.19 billion of school aid costs and a reserve of $240 million ($325 million on a school year basis) from VLT proceeds to finance SBE. The remaining $160 million supports administrative costs of operating lottery games. Lottery prize money is held in a separate fiduciary account.

SUNY: SUNY receives revenues from tuition, third-party payers, room rents, user fees and the Federal government which support the costs of operating hospitals, dormitories and regular campus services. The University's spending from SRFs is projected to total $2.94 billion in 2004-05, comprising of $2.77 billion in State funds and $172 million in Federal Funds. Federal spending remains unchanged from 2003-04, but State spending is projected to increase by $163 million.

Transportation: State funding for transit systems comprises the majority of transportation SRF spending. Over $1.67 billion of 2004-05 transit aid is supported by taxes dedicated to the Mass Transportation Operating Assistance (MTOA) Fund and the Dedicated Mass Transportation Trust Fund. Total disbursements from transportation SRFs are projected to be $1.75 billion in 2004-05, $100 million above the current year. This increase reflects the shift of $50 million in transit local aid from the General Fund to the SRFs, and a scheduled $46 million increase in capital support for the MTA from the Dedicated Mass Transportation Trust Fund.

CHP: The CHP program finances health insurance coverage for children of low-income families up to the age of 18. The 2004-05 Executive Budget projects total spending of $809 million, an increase of $64 million over 2003-04. Funding for this program comes from the State ($375 million financed by transfers from the Tobacco Control and Insurance Initiatives Pool) and Federal government ($434 million). The annual increase reflects shifting eligible children currently covered under Medicaid into CHP.

EPIC: EPIC provides prescription drug insurance to low-income senior citizens. This program is projected to cost $719 million in 2004-05, an increase of $73 million from 2003-04. Projected EPIC spending in 2004-05 is supported by $494 million in State transfers from the Tobacco Control and Insurance Initiatives Pool, $23 million in premiums/fees, and $202 million from manufacturer rebates.

Welfare: The State receives Federal welfare funding through the TANF block grant. In 2004-05, Federal welfare spending will total $1.98 billion, a decrease of $70 million from 2003-04, resulting primarily from the use of one-time available Federal funding to support TANF-funded initiatives.

Education: Education spending in SRFs, including educational programs for disabled children and disadvantaged pupils, is projected to total $2.89 billion in 2004-05. Increased Federal funding of $73 million will provide additional resources to school districts for programs that serve these students.

HESC: Federally-supported spending for HESC is projected to decrease by $246 million as a result of the elimination of TAP financing with TANF block grant funds. The remaining spending on student financial aid programs is supported by State and Federal sources ($66 million and $10 million, respectively).

OCFS: The State receives $1.72 billion in Federal funding for children and family services from several sources including the TANF block grant, Title IV-E Foster Care and Adoption Assistance Federal Payments, and the Title XX Social Services Block Grant. In 2004-05, State and Federal spending for children and family services is projected to total $1.74 billion, a decrease of $145 million from the current fiscal year. This decrease is attributable primarily to a reduction in TANF block grant moneys available to support child care and locally provided services to children and families.

Labor: Labor programs are supported primarily by Federal grants and include job training and re-employment services. Labor spending is estimated at $711 million in 2004-05 and remains virtually unchanged from 2003-04 levels.

All Other: Spending for all other SRFs is projected to total $8.37 billion in 2004-05, an increase of $173 million (2.1 percent) and primarily includes support for health care, public protection and general government programs.

CAPITAL PROJECTS FUNDS

The Capital Projects Fund group accounts for spending from the Capital Projects Fund, which is supported by a transfer from the General Fund, and spending from other funds for specific capital purposes, including transportation, mental health, housing, public protection, education and the environment. Those other funds include the Dedicated Highway and Bridge Trust Fund, Mental Hygiene Capital Facilities Improvement Fund, Housing Assistance and Housing Program Funds, the Correctional Facilities Capital Improvement Fund, the SUNY Residence Hall Rehabilitation Fund, the Hazardous Waste Remedial Fund, and EPF. Receipts from dedicated State taxes, miscellaneous receipts (which include proceeds from State-supported bonds issued by certain State public authorities), and Federal grants finance disbursements in the Capital Projects Fund group.

The following tables for Capital Projects Funds reflect an accounting adjustment for capital projects activity because certain capital spending is not reported by OSC in actual cash spending results, although it is reflected in the Generally Accepted Accounting Principles (GAAP) Financial Statements. This spending is related to programs which are financed in the first instance by bond proceeds, rather than with a short-term loan from the General Fund. This includes capital spending for local transportation projects for the CHIPS Program ($340 million), education projects for CUNY higher education facilities ($215 million), SUNY Community Colleges and Dormitory Facilities ($125 million), the Department of Mental Hygiene projects ($90 million) and a variety of economic development projects including the Community Enhancement Facilities Assistance Program ($540 million). These receipts and disbursements are included in this section in order to present a comprehensive picture of State capital projects spending.

CAPITAL PROJECTS FUNDS RECEIPTS (millions of dollars)				
	2003-04	**2004-05**	*Annual* **Change**	**Percent Change**
Taxes	1,752	1,806	54	3.1
Miscellaneous Receipts	3,685	3,741	56	1.5
Federal Grants	1,621	1,840	219	13.5
Total Receipts	**7,058**	**7,387**	**329**	**4.7**
Accounting Adjustment	(995)	(1,310)	(315)	(31.7)
Financial Plan Total	**6,063**	**6,077**	**14**	**0.2**

Taxes deposited to the Capital Projects Funds are projected to be $1.81 billion, an increase of $54 million (3.1 percent) from 2003-04. This includes highway-related taxes earmarked for the Dedicated Highway and Bridge Trust Fund and real estate transfer taxes that are designated for the EPF. The $54 million increase is due solely to projected growth in highway related taxes, as the EPF receives a statutory dedication of $112 million annually from the Real Estate Transfer Tax.

Miscellaneous receipts include bond proceeds that finance capital projects across all major functional areas, as well as other miscellaneous fees such as State park fees, industry-specific environmental fees and receipts from the sale of surplus State land. Miscellaneous receipts are projected to total $3.7 billion, an increase of $56 million (1.5 percent) from 2003-04. The estimated growth reflects a $34 million increase in authority bond proceeds and a projected increase of $22 million in other miscellaneous receipts.

Federal grants primarily support capital projects for transportation and the environment and are estimated at $1.84 billion, an increase of $219 million (13.5 percent) over 2003-04. Environmental grants are projected to remain unchanged, while grants for transportation and the World Trade Center highway reconstruction increase by $219 million.

CAPITAL PROJECTS FUNDS DISBURSEMENTS (millions of dollars)				
	2003-04	**2004-05**	*Annual* **Change**	**Percent Change**
Transportation	3,461	3,538	77	2.2
Parks and Environment	688	649	(39)	(5.7)
Economic Development & Government Oversight	361	802	441	122.2
Health and Social Welfare	143	128	(15)	(10.5)
Education	748	807	59	7.9
Public Protection	206	215	9	4.4
Mental Health	299	298	(1)	(0.3)
General Government	80	185	105	131.3
Other	57	75	18	31.6
Total Disbursements	**6,043**	**6,697**	**654**	**10.8**
Accounting Adjustment	(995)	(1,310)	(315)	(31.7)
Financial Plan Total	**5,048**	**5,387**	**339**	**6.7**

The increase is attributable primarily to prior-year commitments in the areas of economic development ($441 million) and general government for financing of local public safety answering point equipment upgrades for wireless E-911 service ($100 million).

DEBT SERVICE FUNDS

DEBT SERVICE FUNDS RECEIPTS (millions of dollars)				
	2003-04	**2004-05**	*Annual* **Change**	**Percent Change**
Taxes	8,039	8,657	618	7.7
Miscellaneous Receipts	694	647	(47)	(6.8)
Total Receipts	**8,733**	**9,304**	**571**	**6.5**

This increase is attributable primarily to growth in dedicated State PIT receipts deposited to the RBTF ($487 million). Similar increases are projected for sales and use taxes deposited to the Local Government Assistance Tax Fund to support debt service on LGAC bonds ($120 million) and real estate transfer taxes deposited in the CW/CA Bond Debt Service Fund ($11 million). Receipts in excess of those required to satisfy the State's debt service obligations are transferred back to the General Fund. The projected decrease in miscellaneous receipts of $47 million is attributable to reduced funding of the Debt Reduction Reserve Fund, offset by a modest increase in receipts for health-related programs.

DEBT SERVICE FUNDS DISBURSEMENTS (millions of dollars)				
	2003-04	**2004-05**	*Annual* **Change**	**Percent Change**
General Debt Service Fund	2,742	3,229	487	17.8
LGAC	296	312	16	5.4
Mental Health	166	259	93	56.0
All Other	149	119	(30)	(20.1)
Total Disbursements	**3,353**	**3,919**	**566**	**16.9**

This increase, which is explained in more detail earlier in this Overview, reflects the growth in debt service costs after implementation of policy and statutory initiatives that have resulted in debt service savings over the last several years. Projected debt service costs and corresponding levels of State-supported debt outstanding are projected to remain within the caps and limitations imposed by the Debt Reform Act of 2000.

FINANCIAL PLAN RESERVES AND RISKS [1]

The State projects that balances in its principal reserves to guard against unbudgeted risks will total $815 million at the close of 2003-04 will remain unchanged through 2004-05. The reserves include $794 million in the TSRF (the State's rainy day fund) and $21 million in the CRF for litigation. To permanently improve the State's reserve levels, the Executive Budget includes legislation to gradually increase both the maximum size of the State's rainy day fund from 2 percent to 5 percent of General Fund spending, and the maximum annual deposits from two-tenths of one percent to five-tenths of one percent of spending. Absent this legislation, the State will reach its statutory maximum balance in the fund of 2 percent or $840 million with the next annual deposit.

The 2004-05 Financial Plan does not set aside specific reserves to cover potential costs that could materialize as a result of adverse rulings in pending litigation, future collective bargaining agreements with State employee unions, Federal disallowances, or other Federal actions that could adversely affect the State's projections of receipts and disbursements.

The State is a defendant in several court cases that could ultimately result in costs to the State Financial Plan. The most significant litigation is the State Court of Appeals ruling that the State's financing system for New York City public schools is unconstitutional. This ruling directs the State to submit a remedy to the Court by July 30, 2004. The 2004-05 Executive Budget provides $100 million in General Fund support and reserves all VLT revenues to provide SBE funding while the Governor's Commission on Educational Reform outlines a series of options for the State to consider. The VLT revenues are projected to increase from $240 million in 2004-05 to $950 million in 2005-06 and $1.3 billion in 2006-07.

Other litigation includes ongoing claims by several Indian Nations alleging wrongful possession of lands by the State and several counties, as well as claims involving the adequacy of shelter allowances for families on public assistance. The State has implemented a court-ordered increase in the shelter allowance schedule for public assistance families that became effective on November 1, 2003. The Court has also directed the parties to return on March 30, 2004 for further proceedings. For a complete summary of significant litigation affecting the State, please refer to the State's Annual Information Statement, as updated.

The State is negotiating new labor contracts with several State employee unions. The recently expired four-year agreements included a $500 nonrecurring lump sum payment and salary increases of 3.0 percent in 1999-2000 (effective mid-year), 3.0 percent in 2000-01 and 3.5 percent in 2001-02 and 2002-03, at a cost to the General Fund of approximately $2.5 billion over the life of the agreement. Each future one percent salary increase would cost the General Fund roughly $75 million annually.

The Federal government is currently auditing Medicaid claims submitted since 1993 under the school supportive health services program. At this point, these audits have not been finalized, and, as a result, the liability of the State and school districts for any disallowances cannot be determined.

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[1] For a discussion of other potential risks to the Financial Plan, please see the section entitled "Special Considerations" in this AIS Update.

Federal regulations include an appeals process that could postpone repayment of any disallowances. The Financial Plan assumes the Federal government will fully reimburse these costs.

In addition, through December 2003, a portion of Federal Medicaid payments related to school supportive health services have been deferred by the Federal Centers for Medicare and Medicaid Services pending finalization of audits. Since the State has continued to reimburse school districts for these costs, these Federal deferrals, if not resolved, could negatively impact future health care spending.

In December 2003, the State received partial Federal approval of the Medicaid State Plan Amendment necessary to make disproportionate share hospital (DSH) payments over two years to public hospitals throughout the State, including the New York City Health and Hospital Corporation (HHC), SUNY and other State and county operated hospitals. Although full payment for SUNY and State-operated hospitals was secured with the initial approval, the State continues to seek Federal approval of the balance of anticipated payments totaling roughly $1.3 billion for HHC and other county hospitals. Failure of the Federal government to approve these remaining payments could have an adverse impact on the State's health care financing system.

CASH FLOW

In 2004-05, the General Fund is projected to have quarterly balances of $2.0 billion in June, $2.20 billion in September, $1.22 billion by the end of December, and $964 million at the end of March. The lowest projected month-end cash flow balance other than March is $1.2 billion in December. The 2004-05 General Fund cash flow estimates assume the Executive Budget is enacted on time and in its entirety.

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

OSC is authorized to make temporary loans from STIP to cover temporary cash shortfalls in certain funds and accounts resulting from the timing of receipts and disbursements. The Legislature authorizes the funds and accounts that may receive loans each year, based on legislation submitted with the Executive Budget. Loans may be granted only for amounts that the Director of the Budget certifies are "receivable on account" or can be repaid from the current operating receipts of the fund (i.e., loans cannot be granted in expectation of future revenue enhancements). In addition, the 2003-04 Enacted Budget included legislation that expires on March 31, 2004 permitting OSC to temporarily loan balances in other funds to the General Fund within any month. This authorization was utilized on September 12 and 15, 2003 to support intra-month cash flow needs; however, as required under the legislation, the General Fund ended September 2003 with a positive cash balance of $2.6 billion. The 2004-05 Executive Budget includes legislation to permanently extend this authorization.

OSC makes repayment of such loans from the first cash receipts into the fund. Fund balances outside the General Fund are presented on a net basis, i.e., they are reduced by the amount of outstanding temporary loans from the State's STIP. The total outstanding loan balance at March 31, 2003 was $1.68 billion. The sources of this outstanding loan balance include timing-related delays in the receipt from Federal Funds and the sale of bonds used to finance capital projects, a delinquent

SUNY hospital loan, and unreimbursed costs related to the Office for Technology Internal Service funds.

GAAP-BASIS FINANCIAL PLANS

In addition to the cash-basis Financial Plans, the General Fund and All Governmental Funds Financial Plans are prepared on a Generally Accepted Accounting Principles basis (GAAP) in accordance with Governmental Accounting Standards Board (GASB) regulations. Tables comparing the cash basis and GAAP basis General Fund Financial Plans are provided at the end of this Overview. The GAAP projections for both years are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2002-03. They reflect the impact of GASB Statement 34 which has significantly changed the presentation of GAAP financial information for State and local governments. The changes are intended to portray the State's net overall financial condition, including activities that affect State assets and liabilities during the fiscal year. The GASB 34 results for 2002-03 show the State in a net positive overall financing condition of $42.40 billion.

In 2003-04, the General Fund GAAP Financial Plan shows total revenues of $37.31 billion, total expenditures of $43.41 billion, and net other financing sources of $7.43 billion, resulting in an operating surplus of $1.33 billion. This operating result reflects the receipt of the tobacco bond proceeds originally anticipated in 2002-03 but received in 2003-04, and the cash surplus in 2003-04. As a result, the accumulated deficit is expected to improve from $3.32 billion at the end of 2002-03 to an accumulated deficit of $1.99 billion at the end of 2003-04.

In 2004-05, the General Fund GAAP Financial Plan shows total revenues of $35.65 billion, total expenditures of $43.97 billion, and net other financing sources of $7.63 billion, resulting in an operating deficit of $691 million due to the use of 2003-04 cash reserves in 2004-05. The accumulated deficit is projected at $2.68 billion at the end of 2004-05, an improvement of $641 million from the 2002-03 actual results.

GENERAL FUND FINANCIAL PLAN OUTYEAR PROJECTIONS

At the beginning of the 2004-05 budget cycle, the State faced potential budget gaps of $6.7 billion in 2005-06 and $7.8 billion in 2006-07. The 2004-05 Executive Budget recommendations reduce the gaps by proposing roughly $3.5 billion in recurring savings. The gaps assume the Legislature will enact the 2004-05 Executive Budget and accompanying legislation in its entirety, and do not include any funding for possible collective bargaining salary increases or productivity savings.

OUTYEAR SAVINGS FROM 2004-05 EXECUTIVE BUDGET RECOMMENDATIONS (millions of dollars)		
	2005-06	**2006-07**
Projected Base Level Gaps	**(6,727)**	**(7,805)**
Spending Actions	2,495	2,199
Revenue Proposals	1,163	1,118
Nonrecurring Actions	219	139
Remaining Gaps	**(2,850)**	**(4,349)**

The statewide austerity measures limiting discretionary spending, travel, and low-priority capital spending will remain in force, and all State agencies will continue to operate under a hiring freeze, consistent with existing guidelines. State agencies will continue to identify opportunities where agencies, through increased administrative flexibility, statutory changes or other means, can achieve greater productivity, improve services, and reduce costs to help lower the outyear budget gaps.

OUTYEAR RECEIPTS

GENERAL FUND RECEIPTS (millions of dollars)				
	2005-06	Percent Change	2006-07	Percent Change
Personal Income Tax (PIT)	18,864	1.9	19,685	4.4
PIT Adjusted for Refund Reserve	18,899	6.0	19,727	4.4
User Taxes and Fees	7,963	(4.5)	8,176	2.7
Business Taxes	3,890	4.0	3,967	2.0
Other Taxes	820	7.6	878	7.1
Total Taxes	31,537	0.6	32,706	3.7
Total Taxes Adjusted for Refund Reserve	**31,572**	**2.9**	**32,748**	**3.7**
Miscellaneous Receipts	1,989	(4.7)	1,821	(8.4)
Total Transfers from Other Funds	8,461	0.9	8,699	2.8
Total Receipts	41,987	0.4	43,226	3.0
Total Receipts Adjusted for Refund Reserve	**42,022**	**2.1**	**43,268**	**3.0**

General Fund receipts are estimated at $41.98 billion in 2005-06 and $43.27 billion in 2006-07. Receipts growth is expected to exceed historical averages as is typical of an economy in its expansionary stages. Tax receipts adjusted for Refund Reserve transactions, are expected to increase by 2.9 percent in 2005-06 and 3.7 percent in 2006-07. The reduced increases in both years reflect the phase-out of temporary tax increases in PIT and sales tax. Adjusting for the impact of law changes, tax receipt growth is expected to average 5 percent. The growth in tax receipts is consistent with a forecast of US and New York economic recovery extending into 2005 and 2006 and continued profitability in the financial services sector of the economy.

Personal Income Tax

In general, income tax growth for 2005-06 and 2006-07 is governed by projections of growth in taxable personal income and its major components, including wages, interest and dividend earnings, realized taxable capital gains, and business net income and income derived from partnerships and S Corporations.

PIT receipts are projected to increase to $18.86 billion in 2005-06. The modest increase from 2004-05 largely reflects growth in underlying liability, offset by the phase out of the 2003 surcharge in tax year 2006. In addition, receipts are reduced by the incremental value of the STAR tax reduction program.

PIT receipts for 2006-07 are projected to increase by more than $800 million to $19.69 billion.

Wages are estimated to continue to improve steadily in 2005-06 and 2006-07, reflecting stronger employment growth, increases in bonuses paid, and the continuing return to normalcy after the 2001 World Trade Center attack.

Realized capital gains are expected to return to a robust level of growth in 2005 and 2006. This growth represents the continuation of the recovery of the stock market from the anemic period of 2001 through 2003.

The 2005-06 and 2006-07 projections also assume increases in the other major components of income, consistent with continued growth in the overall economy.

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

User Taxes and Fees

Receipts from user taxes and fees are estimated to total $7.96 billion in 2005-06, a decrease of $377 million from 2004-05. The decrease is due to the scheduled decline in the State sales tax rate from 4.25 percent to 4 percent on June 1, 2005, and the loss of $170 million in receipts due to changes in the State sales tax base in New York City associated with the proposed MAC refinancing, offset in part by expected growth in the sales tax base.

User taxes and fees receipts are expected to grow to $8.18 billion in 2006-07. The economy is expected to be growing at trend rates over this period, resulting in sales tax growth more in line with historical averages. This is expected to result in underlying growth in the sales tax base of 4 percent to 5 percent.

Business Taxes

Business tax receipts are expected to increase to $3.89 billion in 2005-06. This is primarily due to the anticipated growth in corporate and bank profits, as well as the continued growth in insurance premiums. Receipts are projected to increase to $3.97 billion in 2006-07 reflecting continued modest increases in underlying liability.

Other Taxes

The receipts from other taxes are expected to increase to $820 million in 2005-06, which reflects the expected growth in stock market prices on the value of taxable estates. In 2006-07, receipts rise to $878 million, reflecting the expectation of continued growth in estate tax liability.

Miscellaneous Receipts

Miscellaneous Receipts for 2005-06 are estimated to be $1.99 billion. Receipts in this category are projected to be $1.82 billion in 2006-07.

TRANSFERS FROM OTHER FUNDS (millions of dollars)		
	2005-06	**2006-07**
PIT in Excess of Revenue Bond Debt Service	5,820	5,985
Sales Tax in Excess of LGAC Debt Service	2,085	2,152
Real Estate Taxes in Excess of CW/CA Debt Service	245	255
All Other Transfers	311	307
Total Transfers from Other Funds	**8,461**	**8,699**

Transfers from other funds are estimated to grow to $8.46 billion in 2005-06 and $8.70 billion in 2006-07. Both the 2005-06 and 2006-07 projections reflect growth in the dedicated portions of PIT, sales tax and the real estate transfer tax, which comprise a significant portion of transfers from other funds each year. The growth of $74 million in 2005-06 is due to projected growth in income, sales and real estate taxes, offset by net increases in debt service related to PIT Revenue Bonds, LGAC Bonds and CW/CA General Obligation debt service of $180 million. The growth of $238 million in 2006-07 is due to growth in income, sales and real estate taxes, offset by net increases in debt service related PIT Revenue Bonds, LGAC Bonds and CW/CA General Obligation debt service of $164 million.

OUTYEAR DISBURSEMENTS

GENERAL FUND DISBURSEMENTS (millions of dollars)		
	2005-06	2006-07
Total Disbursements	44,987	47,575

Absent additional spending controls greater than those proposed in the 2004-05 Executive Budget, DOB currently projects that General Fund spending would grow by $3.10 billion (7.4 percent) in 2005-06 and $2.59 billion (5.8 percent) in 2006-07. The primary sources of this growth are itemized in the table below, and are described in further detail following the table.

PROJECTED ANNUAL SPENDING GROWTH (millions of dollars)		
	2005-06	2006-07
Medicaid (including tobacco guarantee)	1,411	1,249
Welfare	366	225
School Aid (excluding SBE reserve)	214	285
Mental Hygiene	100	53
All Other Local Assistance	252	50
Employee Health Insurance	335	309
Pensions	237	174
State Operations	191	234
Debt Service	97	(24)
All Other	(101)	33
Total Annual $ Growth	**3,102**	**2,588**
Total Annual % Growth	**7.4**	**5.8**

GRANTS TO LOCAL GOVERNMENTS (millions of dollars)		
	2005-06	2006-07
Grants to Local Governments	30,798	32,660

Local assistance spending is projected to increase by $2.34 billion (8.2 percent) in 2005-06 and another $1.86 billion (6.0 percent) in 2006-07, primarily attributable to growth in the areas of Medicaid, welfare, and school aid.

General Fund spending for Medicaid is expected to grow by $1.41 billion in 2005-06 and another $1.25 billion in 2006-07. This increase is attributable largely to inflationary and utilization growth of $721 million in 2005-06 and $837 million in 2006-07 on the State's gross share of Medicaid costs totaling roughly $10 billion, which represent projected underlying growth of approximately 7.5 percent. These estimates are based on programmatic trends experienced in New York State's Medicaid program and the Congressional Budget Office national average projections. The remaining growth is attributable primarily to the loss of nonrecurring financing sources in 2004-05 including Federal FMAP ($220 million), payment of the March 30, 2005 cycle payment in 2005-06 ($190 million), and increased General Fund support over the two years for HCRA including the repayment of a 2002-03 loan ($200 million) and planned "tobacco guarantee" payments in 2006-07 ($435 million).

Welfare spending is projected to increase by $366 million (34 percent) in 2005-06 and by another $255 million (16 percent) in 2006-07 due to projected increases in family caseload (4.7 percent), the single adult/childless couples caseload (10 percent), and growth in expenditures per person (3 percent).

General school aid on a school year basis is projected to grow approximately $350 million (2.4 percent) in 2005-06 and $235 million (1.6 percent) in 2006-07. The general school aid projections assume growth in expense-based programs, and reflect the impact of recommended reforms to building aid, ongoing limits in transportation aid and maintenance of current levels for most other aid categories. On a state fiscal year basis, school aid spending is projected to grow by approximately $214 million (1.7 percent) in 2005-06 and $285 million (2.2 percent) in 2006-07. However, the SBE reserves (financed with VLT revenues), are not yet included in these spending totals, and would add an estimated $950 million in fiscal year 2005-06 and $1.30 billion in 2006-07.

Mental hygiene programs are projected to increase by $100 million (6.2 percent) in 2005-06 and an additional $53 million (3.1 percent) in 2006-07. This growth is primarily attributable to bed development for community mental health services and OMRDD NYSCARES programs that provide services to the mentally ill and mentally retarded and developmentally disabled populations.

All other local assistance programs increase by $252 million (3.6 percent) in 2005-06 and by $50 million (0.7 percent) in 2006-07. This two-year increase is largely due to programmatic growth in higher education costs primarily for payments to CUNY ($150 million), funding for ESDC economic development programs ($75 million), children and family services ($74 million), and preschool special education ($96 million) and various other programmatic growth across all other agencies. These increases are partially offset by reduced funding for community projects ($150 million) and the phase of the final payments to the City of Yonkers relating to a court ordered settlement ($35 million).

STATE OPERATIONS (millions of dollars)		
	2005-06	**2006-07**
State Operations	7,442	7,676

State Operations spending is expected to increase by $191 million, or 2.6 percent, in 2005-06 and $236 million (3.2 percent) in 2006-07. The growth in State Operations spending is due to normal salary step increases and increases for non-personal service costs (valued at roughly $125 million) and the decline in resources used to offset spending in the General Fund valued at roughly $175 million in 2005-06 and $100 million in 2006-07. The annual growth in 2005-06 is reduced by the loss of the extra institutional payroll in 2004-05. No general salary increases or productivity savings are budgeted in either 2005-06 or 2006-07.

GENERAL STATE CHARGES (millions of dollars)		
	2005-06	**2006-07**
General State Charges	4,109	4,612

GSCs are expected to increase by $457 million (12.5 percent) in 2005-06 and another $503 million (12.2 percent) in 2006-07 to finance anticipated cost increases in pension and health insurance benefits for State employees and retirees. Prior year pension fund investment losses are expected to increase the employer contribution rate to the New York State and Local Retirement Systems from 6.5 percent in 2004-05 to 8.6 percent of employee salaries in 2005-06 and 10.6

percent in 2006-07. These rates, which assume the 2004-05 Executive Budget pension reform recommendation are enacted, will still require additional State spending of $237 million in 2005-06 and another $174 million in 2006-07, for a total of $1.08 billion by 2006-07. Spending for employee health care costs is expected to increase by $335 million in 2005-06 and another $309 million in 2006-07 for a total of $2.70 billion in 2006-07. This funding level assumes 15 percent annual premium trend increases, and does not incorporate any potential productivity savings or other changes to existing labor contracts.

TRANSFERS TO OTHER FUNDS (millions of dollars)		
	2005-06	**2006-07**
Debt Service	1,850	1,826
Capital Projects	201	204
All Other	587	597
Total Transfers to Other Funds	**2,638**	**2,627**

Transfers to the Debt Service Funds increase by $97 million in 2005-06 and decrease by $24 million 2006-07. The change in debt service in the outyears is due primarily to the loss of refunding savings that occurred in the prior years and the use of PIT revenue bonds to finance the debt service costs for capital projects previously financed by the General Fund transfer.

Capital projects transfers are projected to increase by $14 million in 2005-06 and $3 million in 2006-07. These increases reflect routine reestimates based upon projected program activity.

All other transfers are projected to remain virtually unchanged through 2006-07.

CASH FINANCIAL PLAN
GENERAL FUND
2003-2004
(millions of dollars)

	October	Change	January
Opening fund balance	815	0	815
Receipts:			
Taxes:			
Personal income tax	16,276	(485)	15,791
User taxes and fees	7,964	(67)	7,897
Business taxes	3,436	(41)	3,395
Other taxes	726	58	784
Miscellaneous receipts	5,547	423	5,970
Federal grants	645	0	645
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,173	69	5,242
Sales tax in excess of LGAC debt service	1,960	(16)	1,944
Real estate taxes in excess of CW/CA debt service	210	37	247
All other transfers	430	(86)	344
Total receipts	42,367	(108)	42,259
Disbursements:			
Grants to local governments	29,629	(318)	29,311
State operations	7,142	(87)	7,055
General State charges	3,258	(1)	3,257
Transfers to other funds:			
Debt service	1,541	(73)	1,468
Capital projects	255	(28)	227
Other purposes	627	115	742
Total disbursements	42,452	(392)	42,060
Change in fund balance	(85)	284	199
Closing fund balance	730	284	1,014
Tax Stabilization Reserve Fund	710	84	794
Contingency Reserve Fund	20	0	20
Community Project Fund	0	200	200

Note: Changes reflect the reclassification of $128 million in certain Medicaid disbursements from grants to local governments to transfers to other funds, pursuant to legislation enacted in 2003.

CASH FINANCIAL PLAN
GENERAL FUND
2003-2004
(millions of dollars)

	Enacted	Change	January
Opening fund balance	815	0	815
Receipts:			
Taxes:			
Personal income tax	16,285	(494)	15,791
User taxes and fees	8,007	(110)	7,897
Business taxes	3,498	(103)	3,395
Other taxes	771	13	784
Miscellaneous receipts	5,569	401	5,970
Federal grants	0	645	645
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,125	117	5,242
Sales tax in excess of LGAC debt service	1,853	91	1,944
Real estate taxes in excess of CW/CA debt service	202	45	247
All other	430	(86)	344
Total receipts	41,740	519	42,259
Disbursements:			
Grants to local governments	29,835	(524)	29,311
State operations	7,205	(150)	7,055
General State charges	3,232	25	3,257
Transfers to other funds:			
Debt service	1,583	(115)	1,468
Capital projects	255	(28)	227
Other purposes	627	115	742
Total disbursements	42,737	(677)	42,060
Fiscal Management Plan/Federal Aid	912	(912)	0
Change in fund balance	(85)	284	199
Closing fund balance	730	284	1,014
Tax Stabilization Reserve Fund	710	84	794
Contingency Reserve Fund	20	0	20
Community Project Fund	0	200	200

Note: Changes reflect the reclassification of $128 million in certain Medicaid disbursements from grants to local governments to transfers to other funds, pursuant to legislation enacted in 2003.

CASH FINANCIAL PLAN
GENERAL FUND
2003-2004 AND 2004-2005
(millions of dollars)

	2003-2004 January	2004-2005 Recommended	Change
Opening fund balance	815	1,014	199
Receipts:			
Taxes:			
Personal income tax	15,791	18,520	2,729
User taxes and fees	7,897	8,340	443
Business taxes	3,395	3,739	344
Other taxes	784	762	(22)
Miscellaneous receipts	5,970	2,087	(3,883)
Federal grants	645	0	(645)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,242	5,628	386
Sales tax in excess of LGAC debt service	1,944	2,047	103
Real estate taxes in excess of CW/CA debt service	247	240	(7)
All other	344	472	128
Total receipts	42,259	41,835	(424)
Disbursements:			
Grants to local governments	29,311	28,455	(856)
State operations	7,055	7,251	196
General State charges	3,257	3,652	395
Transfers to other funds:			
Debt service	1,468	1,753	285
Capital projects	227	187	(40)
Other purposes	742	587	(155)
Total disbursements	42,060	41,885	(175)
Change in fund balance	199	(50)	(249)
Closing fund balance	1,014	964	(50)
Tax Stabilization Reserve Fund	794	794	0
Contingency Reserve Fund	20	20	0
Community Project Fund	200	150	(50)

CASH FINANCIAL PLAN
GENERAL FUND
2004-2005 THROUGH 2006-2007
(millions of dollars)

	2004-2005 Recommended	2005-2006 Projected	2006-2007 Projected
Receipts:			
Taxes:			
Personal income tax	18,520	18,864	19,685
User taxes and fees	8,340	7,963	8,176
Business taxes	3,739	3,890	3,967
Other taxes	762	820	878
Miscellaneous receipts	2,087	1,989	1,821
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,628	5,820	5,985
Sales tax in excess of LGAC debt service	2,047	2,085	2,152
Real estate taxes in excess of CW/CA debt service	240	245	255
All other	472	311	307
Total receipts	41,835	41,987	43,226
Disbursements:			
Grants to local governments	28,455	30,798	32,660
State operations	7,251	7,442	7,676
General State charges	3,652	4,109	4,612
Transfers to other funds:			
Debt service	1,753	1,850	1,826
Capital projects	187	201	204
Other purposes	587	587	597
Total disbursements	41,885	44,987	47,575
Deposit to/(use of) Community Projects Fund	(50)	(150)	0
Margin	0	(2,850)	(4,349)

GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2002-2003 THROUGH 2004-2005
(millions of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended
Withholdings	19,959	22,085	23,104
Estimated Payments	4,855	5,130	5,785
Final Payments	1,334	1,275	1,645
Delinquencies	796	595	660
Gross Collections	26,944	29,085	31,194
State/City Offset	(288)	(270)	(250)
Refund Reserve	1,050	(577)	693
Refunds	(4,008) (1)	(4,155) (2)	(4,175) (3)
Reported Tax Collections	23,698	24,083	27,462
STAR	(2,664)	(2,835)	(2,998)
RBTF	(4,243)	(5,457)	(5,944)
General Fund	16,791	15,791	18,520

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

Note 1: Reflects the payment of the balance of refunds on 2001 liability and payment of $960 million of calendar year 2002 refunds in the last quarter of the State's 2002-03 fiscal year and a balance in the Tax Refund Reserve Account of $627 million.

Note 2: Reflects the payment of the balance of refunds on 2002 liability and the projected payment of $960 million of calendar year 2003 refunds in the last quarter of the State's 2003-04 fiscal year and a projected balance in the Tax Refund Reserve Account of $1.20 billion.

Note 3: Reflects the payment of the balance of refunds on 2003 liability and the projected payment of $960 million of calendar year 2004 refunds in the last quarter of the State's 2004-05 fiscal year and a projected balance in the Tax Refund Reserve Account of $511 million.

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	1,230	(558)	158	1,645
Receipts:					
Taxes	27,867	4,458	1,752	8,039	42,116
Miscellaneous receipts	5,970	10,267	2,690	694	19,621
Federal grants	645	12	0	0	657
Total receipts	34,482	14,737	4,442	8,733	62,394
Disbursements:					
Grants to local governments	29,311	10,596	1,221	0	41,128
State operations	7,055	4,680	0	9	11,744
General State charges	3,257	413	0	0	3,670
Debt service	0	0	0	3,353	3,353
Capital projects	0	5	2,212	0	2,217
Total disbursements	39,623	15,694	3,433	3,362	62,112
Other financing sources (uses):					
Transfers from other funds	7,777	935	266	4,881	13,859
Transfers to other funds	(2,437)	(215)	(1,081)	(10,240)	(13,973)
Bond and note proceeds	0	0	248	0	248
Net other financing sources (uses)	5,340	720	(567)	(5,359)	134
Change in fund balance	199	(237)	442	12	416
Closing fund balance	1,014	993	(116)	170	2,061

The Special Revenue Funds opening fund balance has been increased by $54 million to reflect the reclassification of the Expendable and Non-expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type pursuant to GASB34.

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,014	993	(116)	170	2,061
Receipts:					
Taxes	31,361	4,784	1,806	8,657	46,608
Miscellaneous receipts	2,087	11,352	2,431	647	16,517
Federal grants	0	12	0	0	12
Total receipts	33,448	16,148	4,237	9,304	63,137
Disbursements:					
Grants to local governments	28,455	11,336	1,609	0	41,400
State operations	7,251	4,843	0	22	12,116
General State charges	3,652	462	0	0	4,114
Debt service	0	0	0	3,919	3,919
Capital projects	0	2	1,947	0	1,949
Total disbursements	39,358	16,643	3,556	3,941	63,498
Other financing sources (uses):					
Transfers from other funds	8,387	815	225	5,241	14,668
Transfers to other funds	(2,527)	(333)	(1,099)	(10,616)	(14,575)
Bond and note proceeds	0	0	131	0	131
Net other financing sources (uses)	5,860	482	(743)	(5,375)	224
Change in fund balance	(50)	(13)	(62)	(12)	(137)
Closing fund balance	964	980	(178)	158	1,924

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	1,039	(790)	158	1,222
Receipts:					
Taxes	27,867	4,458	1,752	8,039	42,116
Miscellaneous receipts	5,970	10,396	2,690	694	19,750
Federal grants	645	34,921	1,621	0	37,187
Total receipts	34,482	49,775	6,063	8,733	99,053
Disbursements:					
Grants to local governments	29,311	41,684	1,438	0	72,433
State operations	7,055	7,986	0	9	15,050
General State charges	3,257	585	0	0	3,842
Debt service	0	0	0	3,353	3,353
Capital projects	0	5	3,610	0	3,615
Total disbursements	39,623	50,260	5,048	3,362	98,293
Other financing sources (uses):					
Transfers from other funds	7,777	3,412	266	4,881	16,336
Transfers to other funds	(2,437)	(2,654)	(1,087)	(10,240)	(16,418)
Bond and note proceeds	0	0	248	0	248
Net other financing sources (uses)	5,340	758	(573)	(5,359)	166
Change in fund balance	199	273	442	12	926
Closing fund balance	1,014	1,312	(348)	170	2,148

The Special Revenue Funds opening fund balance has been increased by $54 million to reflect the reclassification of the Expendable and Non-expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type pursuant to GASB 34.

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,014	1,312	(348)	170	2,148
Receipts:					
Taxes	31,361	4,784	1,806	8,657	46,608
Miscellaneous receipts	2,087	11,478	2,431	647	16,643
Federal grants	0	34,425	1,840	0	36,265
Total receipts	33,448	50,687	6,077	9,304	99,516
Disbursements:					
Grants to local governments	28,455	42,431	1,827	0	72,713
State operations	7,251	8,027	0	22	15,300
General State charges	3,652	660	0	0	4,312
Debt service	0	0	0	3,919	3,919
Capital projects	0	2	3,560	0	3,562
Total disbursements	39,358	51,120	5,387	3,941	99,806
Other financing sources (uses):					
Transfers from other funds	8,387	3,170	225	5,241	17,023
Transfers to other funds	(2,527)	(2,815)	(1,108)	(10,616)	(17,066)
Bond and note proceeds	0	0	131	0	131
Net other financing sources (uses)	5,860	355	(752)	(5,375)	88
Change in fund balance	(50)	(78)	(62)	(12)	(202)
Closing fund balance	964	1,234	(410)	158	1,946

GAAP FINANCIAL PLAN
GENERAL FUND
2003-2004 and 2004-2005
(millions of dollars)

	2003-2004 Estimate	2004-2005 Recommended	Change
Revenues:			
Taxes:			
Personal income tax	16,547	17,781	1,234
User taxes and fees	7,934	8,436	502
Business taxes	3,194	3,719	525
Other taxes	766	776	10
Miscellaneous revenues	8,224	4,940	(3,284)
Federal grants	645	0	(645)
Total revenues	37,310	35,652	(1,658)
Expenditures:			
Grants to local governments	30,807	31,099	292
State operations	9,796	9,851	55
General State charges	2,785	2,998	213
Debt service	24	25	1
Capital projects	0	0	0
Total expenditures	43,412	43,973	561
Other financing sources (uses):			
Transfers from other funds	11,609	11,883	274
Transfers to other funds	(4,535)	(4,593)	(58)
Proceeds from financing arrangements/ advance refundings	360	340	(20)
Net other financing sources (uses)	7,434	7,630	196
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	1,332	(691)	(2,023)
Accumulated Deficit	(1,988)	(2,679)	

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Revenues:					
Taxes	28,441	4,437	1,770	8,038	42,686
Patient fees	0	0	0	325	325
Miscellaneous revenues	8,224	2,063	149	87	10,523
Federal grants	645	36,980	1,621	0	39,246
Total revenues	37,310	43,480	3,540	8,450	92,780
Expenditures:					
Grants to local governments	30,807	38,396	1,429	0	70,632
State operations	9,796	1,528	0	9	11,333
General State charges	2,785	199	0	0	2,984
Debt service	24	0	0	2,898	2,922
Capital projects	0	5	3,283	0	3,288
Total expenditures	43,412	40,128	4,712	2,907	91,159
Other financing sources (uses):					
Transfers from other funds	11,609	1,181	245	4,957	17,992
Transfers to other funds	(4,535)	(4,242)	(1,096)	(10,504)	(20,377)
Proceeds of general obligation bonds	0	0	248	0	248
Proceeds from financing arrangements/ advance refundings	360	0	2,222	0	2,582
Net other financing sources (uses)	7,434	(3,061)	1,619	(5,547)	445
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	1,332	291	447	(4)	2,066

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Revenues:					
Taxes	30,712	4,711	1,790	8,692	45,905
Patient fees	0	0		326	326
Miscellaneous revenues	4,940	2,317	257	23	7,537
Federal grants	0	36,552	1,840	0	38,392
Total revenues	35,652	43,580	3,887	9,041	92,160
Expenditures:					
Grants to local governments	31,099	38,951	1,817	0	71,867
State operations	9,851	1,610	0	22	11,483
General State charges	2,998	236	0	0	3,234
Debt service	25	0	0	3,236	3,261
Capital projects	0	2	3,248	0	3,250
Total expenditures	43,973	40,799	5,065	3,258	93,095
Other financing sources (uses):					
Transfers from other funds	11,883	1,084	201	5,270	18,438
Transfers to other funds	(4,593)	(4,138)	(1,126)	(11,022)	(20,879)
Proceeds of general obligation bonds	0	0	131	0	131
Proceeds from financing arrangements/ advance refundings	340	0	1,939	0	2,279
Net other financing sources (uses)	7,630	(3,054)	1,145	(5,752)	(31)
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	(691)	(273)	(33)	31	(966)

CASHFLOW
GENERAL FUND
2003-2004
(millions of dollars)

	April through December 2003 (Actual)	January 2004 (Projected)	February 2004 (Projected)	March 2004 (Projected)	Total
Opening fund balance	815	2,947	6,226	6,499	815
Receipts:					
Taxes:					
Personal income tax	11,281	3,188	1,450	(128)	15,791
User taxes and fees	5,984	614	533	766	7,897
Business taxes	2,296	44	29	1,026	3,395
Other taxes	622	55	55	52	784
Tobacco bond proceeds	4,200	0	0	0	4,200
Miscellaneous receipts	1,199	169	104	298	1,770
Federal Grants	645	0	0	0	645
Transfers from other funds	5,382	1,277	363	755	7,777
Total receipts	31,609	5,347	2,534	2,769	42,259
Disbursements:					
Grants to local governments	19,182	1,138	1,747	7,245	29,311
State operations	6,077	500	267	211	7,055
General State charges	2,515	237	184	320	3,257
Transfers to other funds	1,703	193	63	478	2,437
Total disbursements	29,477	2,068	2,261	8,254	42,060
Excess (deficiency) of receipts over disbursements	2,132	3,279	273	(5,485)	199
Closing fund balance	2,947	6,226	6,499	1,014	1,014

CASHFLOW
GENERAL FUND
2004-2005
(millions of dollars)

	First Quarter (Projected)	Second Quarter (Projected)	Third Quarter (Projected)	Fourth Quarter (Projected)	Total (Projected)
Opening fund balance	1,014	2,001	2,200	1,222	1,014
Receipts:					
Taxes:					
Personal income tax	6,243	4,264	2,454	5,559	18,520
User taxes and fees	2,054	2,162	2,122	2,002	8,340
Business taxes	889	894	851	1,105	3,739
Other taxes	199	179	191	193	762
Miscellaneous receipts	547	406	669	465	2,087
Transfers from other funds	2,521	1,996	1,423	2,447	8,387
Total receipts	12,453	9,901	7,710	11,771	41,835
Disbursements:					
Grants to local governments	7,354	5,214	5,504	10,383	28,455
State operations	2,535	2,284	1,790	642	7,251
General State charges	781	1,495	671	705	3,652
Transfers to other funds	796	709	723	299	2,527
Total disbursements	11,466	9,702	8,688	12,029	41,885
Excess (deficiency) of receipts over disbursements	987	199	(978)	(258)	(50)
Closing fund balance	2,001	2,200	1,222	964	964

Special Considerations

The Financial Plan is necessarily based upon on forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies. DOB believes that its current receipts and spending estimates related to the performance of the State and national economies are reasonable. However, there can be no assurance that actual results will not differ materially and adversely from the current forecast. **Certain risks that may affect the Financial Plan are also described in Part I of this Update in the section entitled "Risks and Reserves." Both "Special Considerations" and "Risks and Reserves" should be read in their entirety.**

Risks to the U.S. Forecast

Although DOB believes that the U.S. is on a sustainable growth path, that belief is contingent upon the absence of any further shocks to the economy. Unpredictable events such as a terrorist attack remain the biggest risk to the economic expansion. Such a shock could induce firms to postpone their spending and hiring plans again, reducing future investment and employment, which in turn could result in lower consumption growth. Moreover, a destructive attack on oil facilities abroad or a policy shift on the part of oil-producing nations could result in higher oil prices than anticipated, having adverse economic repercussions. Similarly, a corporate governance scandal of Enron proportions could dishearten investors, weakening equity prices and business and consumer spending.

If the Federal Reserve Board should initiate a policy of monetary tightening sooner than anticipated, growth could also be more restrained than expected. A significant risk of deflation has now receded, and the Federal Reserve has demonstrated in the past that it can swiftly shift course when it deems necessary. If households demonstrate a weaker response than expected to the fiscal stimulus provided by the tax cut, growth could be weaker than what is reflected in the forecast. In addition, with the personal savings rate now at a relatively low level, there is a risk of a "virtuous reform" by consumers to increase savings in order to readjust their balance sheets. The resulting decline in consumption growth could weaken corporate profits, which could in turn result in lower employment and investment growth. The dollar is at some risk of a sharp adverse reaction by foreign investors. A dollar collapse would impart a substantial inflationary impulse to the economy. This could well lead to higher interest rates and lower stock prices, both of which would constrict economic activity. This problem could be exacerbated by weaker-than-expected growth among the nation's trading partners, producing weaker export growth than projected.

On the other hand, an economic resurgence that moderately exceeds DOB's expectations is also possible. A more rapid increase in export growth due to either a weakened dollar or faster global growth could generate a somewhat stronger increase in total output than expected. Similarly, lower inflation than expected, perhaps as a result of a substantial drop in the price of oil or stronger productivity growth than expected, could induce the Federal Reserve to postpone interest rate increases, resulting in stronger consumption and investment growth than projected. Moreover, strong productivity growth could result in higher real wages, supporting faster growth in consumer spending than expected.

Risks to the New York Forecast

In addition to the risks described above for the national forecast, there are risks specific to the New York. Another attack targeted at New York City would once again disproportionately affect the State economy. Any other such shock that had a strong and prolonged impact on the financial markets would also disproportionately affect New York State, resulting in lower income and employment growth than reflected in the current forecast. In addition, if the national and world economies grow more slowly than expected, demand for New York State goods and services would also be lower than projected, dampening employment and income growth relative to the forecast. In contrast, should the national and world economies grow faster than expected, a stronger upturn in stock prices, along with increased activity in mergers and acquisitions and IPOs is possible, resulting in higher wage growth than projected.

The State's economic expansion is just starting to gain momentum, and forecasting at or near a business cycle turning point is fraught with risk. Moreover, the financial markets, which are so pivotal to the direction of the downstate economy, are currently in a state of extreme flux. In the wake of several high-profile scandals, the pace of both technological and regulatory change is as rapid as it has ever been. These circumstances compound even further the difficulty in projecting industry revenues and profits.

Other Risks

On August 6, 2003, the LGAC board of directors, which is comprised of the LGAC chairperson, the State Comptroller, and the Director of DOB, unanimously approved a resolution objecting to the annual payments of $170 million to the City of New York and the refinancing of MAC bonds. The resolution directed LGAC to not participate in the New York City transaction, authorized the co-executive directors of LGAC to engage the services of litigation counsel, and declared that LGAC has no intention to pay such $170 million payments unless legal issues with the transaction (including but not limited to potential LGAC bond covenant violations) are resolved either by litigation or action by the Legislature. The 2004-05 Executive Budget has proposed an alternative approach to provide NYC the fiscal relief it sought, but without the legal uncertainty associated with the current legislation. For the status of this litigation, see the section entitled "Litigation" in Part III of this Update.

The State Comptroller is the Administrative Head of the State Retirement Systems, and Trustee of the assets of those Systems. The proposed 2004-05 Financial Plan assumes pensions reforms will be enacted that reduce the annual increase in employer contribution rates from 137 percent to 38 percent of employee salary base. If these pension reform changes (described in Part I) are authorized by the State Legislature, any proposed changes to the method of computing employer contributions would have to be reviewed and approved by the State Comptroller to ensure that such changes (i) do not violate the State Constitution and (ii) are consistent with his fiduciary responsibilities to System members and beneficiaries. The State Comptroller has advised the Division of the Budget that, in his opinion, a number of these changes that would produce the most significant savings could not be implemented without violating the State Constitution, his fiduciary duty or both.

The current State Financial Plan assumes no significant Federal disallowances or other Federal actions that could adversely affect State finances. For a discussion of certain Federal disallowance risks, see the section entitled "Risks and Reserves" in Part I of this Update.

Five-Year Capital Program and Financing Plan

Section 22-c of the State Finance Law requires the Governor to submit a five-year Capital Program and Financing Plan (the Plan) with the Executive Budget, and update the Plan by the later of July 30 or 90 days after the enactment of the State Budget. The proposed 2004-05 through 2008-09 Capital Program and Financing Plan is contained in the Financial Plan (Appendix II) of the 2004-05 Executive Budget and can be obtained by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705, or by visiting its website at www.budget.state.ny.us.

Total capital spending is projected to be $29.6 billion across the five years of the Plan, an average of $5.9 billion annually. Transportation continues to be largest area of spending, which is projected at $17.1 billion or 58 percent of total capital spending over the five-year Plan. Spending for education ($4.1 billion), the environment ($3 billion), economic development ($1.7 billion), mental health ($1.4 billion), public protection ($1.1 billion), and health, welfare, and other programs ($1.2 billion) constitutes the remainder of the five-year Plan.

For the five-year period 2004-05 through 2008-09, the Plan projects total issuances of: $686 million in general obligation bonds; $4.9 billion in Dedicated Highway and Bridge Trust Fund Bonds issued by the Thruway Authority to finance capital projects for transportation; $964 million in Mental Health Facilities Improvement Revenue Bonds issued by DASNY to finance capital projects at mental health facilities; $383 million in SUNY Dormitory Facilities Revenue Bonds to finance capital projects related to student dormitories; $23 million in Department of Health Revenue Bonds to finance the construction of a new veteran's nursing home at Oxford; and $8.8 billion in State Personal Income Tax Revenue Bonds to finance various capital programs including school construction, university facilities, SUNY community colleges, State court facilities, local highway improvements, prisons, housing, economic development and environmental programs, homeland security, and State facilities. Total debt outstanding is projected to rise from $41.7 billion in 2004-05 to $44.2 billion in 2008-09, or by an annual average of 1.5 percent. The projections of State borrowings are subject to change as market conditions, interest rates and other factors vary throughout the fiscal year.

The Debt Reform Act of 2000 imposed phased-in caps on new debt outstanding and new debt service costs, limited the use of debt to capital works and purposes only, and established a maximum term of 30 years on such debt. The Debt Reform Act applies to all new State-supported debt issued on and after April 1, 2000. The debt reform projections accompanying the Plan estimate that the State will remain in compliance with both debt caps throughout the projection period, with debt outstanding projected to be 2.46 percent of personal income and debt service to be 2.18 percent of total governmental receipts. The projected statutory caps for each measure would be 3.65 percent by 2008-09.

The State has also enacted statutory limits on the amount of variable rate obligations and interest rate exchange agreements that authorized issuers of State-supported debt may enter into. The statute limits the use of debt instruments which result in a variable rate exposure (e.g., variable rate obligations and interest rate exchange agreements) to no more than 15 percent of total outstanding State-supported debt, and limits the use of interest rate exchange agreements to a total notional amount of no more than 15 percent of total outstanding State-supported debt (exclusive of agreements that minimize State exposure risk). All interest rate exchange agreements are subject to various statutory restrictions such as minimum counterparty ratings, monthly reporting requirements, and the adoption of interest rate exchange agreement guidelines. All the authorized issuers have adopted uniform guidelines as required by statute. As of March 31, 2004, the State expects to have approximately $3.7 billion in net variable rate exposure, including amounts reserved for LIBOR swaps, (or about 9 percent of total State-supported debt outstanding), and have entered into a total notional amount of $5.2 billion in interest rate exchange agreements (or about 13 percent of total State-supported debt outstanding). These ratios are expected to increase over the five-year projections but remain below the 15 percent limitations.

PART II

Part II of this Update contains updated disclosure for the Metropolitan Transportation Authority and the City of New York. It also reprints information on GAAP-basis results for fiscal year 2002-03 and on the State Retirement System that appeared in prior updates to the AIS.

Authorities and Localities

Correction: Under the section entitled "Public Authorities" in the AIS, the table entitled "Outstanding Debt of Certain Authorities" displays the amounts outstanding in actual dollars, not in millions of dollars as the heading of the table indicates.

Metropolitan Transportation Authority

The following information was prepared from information furnished by the Metropolitan Transportation Authority (MTA) and is provided for informational purposes only. This section is intended to provide readers with a brief summary of State oversight and financial assistance to the MTA. The official financial disclosure of the MTA and its subsidiaries is available by contacting the Metropolitan Transportation Authority, Finance Department, 347 Madison Avenue, 6th Floor, New York, New York 10017 or by visiting the MTA website at www.mta.info/mta/investor.htm. The State assumes no liability or responsibility for any financial information reported by the MTA or for any errors or omissions that may be contained at the MTA website.

The MTA oversees the operation of subway and bus lines in New York City by its affiliates, the New York City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority (collectively, the TA). The MTA operates certain commuter rail and bus services in the New York metropolitan area through the MTA's subsidiaries, the Long Island Rail Road Company, the Metro North Commuter Railroad Company, and the Metropolitan Suburban Bus Authority. In addition, the Staten Island Rapid Transit Operating Authority, an MTA subsidiary, operates a rapid transit line on Staten Island. Through its affiliated agency, the Triborough Bridge and Tunnel Authority (TBTA), the MTA operates certain intrastate toll bridges and tunnels. Because fare revenues are not sufficient to finance the mass transit portion of these operations, the MTA has depended on, and will continue to depend on, operating support from the State, local governments and TBTA, including loans, grants and subsidies. If current revenue projections are not realized and/or operating expenses exceed current projections, the MTA may be required to seek additional State assistance, raise fares or take other actions.

On October 28, 2003, the MTA released a revised 2003 budget and a four-year Financial Plan for itself and its affiliates and subsidiaries for 2004 – 2007 (the 2004-2007 Financial Plan. The 2004-2007 Financial Plan included the fares on the transit and commuter systems and tolls on TBTA's bridges and tunnels that were increased in May 2003. The 2004-2007 Financial Plan expected that all such entities would be able to maintain their respective operations on a self-sustaining basis through 2004 and anticipated budget gaps of $840 million in 2005, $1.34 billion in

2006 and $1.45 billion in 2007. The 2004-07 Financial Plan tracks the final year of the 2000-2004 Capital Programs of the transit and commuter systems (the 2000-2004 Capital Programs) that were approved by the Capital Program Review Board.

On December 18, 2003, the MTA adopted a 2003 final budget estimate that showed an improvement of $152 million in the expected year-end cash balance, as well as an updated 2004 budget. The MTA decided to apply the additional 2003 cash balance to the prepayment of 2005 expenses, thereby lowering the anticipated budget gap in 2005 to $688 million.

On May 4, 2000, the Capital Program Review Board approved the MTA's $17.1 billion 2000-2004 Capital Programs. Other amendments were subsequently approved raising the total of the programs to $17.9 billion. The 2000-2004 Capital Programs are the fifth approved capital plan since the Legislature authorized procedures for the adoption, approval and amendment of MTA capital programs and is designed to upgrade the performance of the MTA's transportation systems by investing in new rolling stock, maintaining replacement schedules for existing assets, bringing the MTA system into a state of good repair, and making major investments in system expansion projects such as the Second Avenue Subway project and the East Side Access project. The 2000-2004 Capital Programs approved by the Capital Program Review Board assume the issuance of an estimated $11.0 billion in new money MTA bonds. The remainder of the plan is projected to be financed with assistance from the Federal government, the State, The City of New York, and from various other revenues generated from actions taken by the MTA.

Since 1980, the State has enacted several taxes including a surcharge on the profits of banks, insurance corporations and general business corporations doing business in the 12-county Metropolitan Transportation Region served by the MTA and a special one-quarter of one percent regional sales and use tax that provide revenues for mass transit purposes, including assistance to the MTA. Since 1987, State law also has required that the proceeds of a one-quarter of one percent mortgage recording tax paid on certain mortgages in the Metropolitan Transportation Region be deposited in a special MTA fund for operating or capital expenses. In 1993, the State dedicated a portion of certain additional petroleum business tax receipts to fund operating or capital assistance to the MTA. The 2000-01 Enacted Budget initiated a five-year State transportation plan that included nearly $2.2 billion in dedicated revenue support for the MTA's 2000-2004 Capital Programs. This capital commitment includes approximately $800 million of newly dedicated State petroleum business tax revenues, motor vehicle fees, and motor fuel taxes not previously dedicated to the MTA. State legislation accompanying the 2000-01 Enacted Budget increased the aggregate bond cap for the MTA, TBTA and TA to $16.5 billion in order to finance a portion of the 2000-2004 Capital Programs.

There can be no assurance that all the necessary governmental actions for the current or future capital programs will be taken or that funding sources currently identified will not be decreased or eliminated. As appropriate, the MTA and the Capital Program Review Board may amend the 2000-2004 Capital Programs from time to time to reflect the level of funding available to pay for the capital projects anticipated to be undertaken during the time period covered by the approved programs. If the 2000-2004 Capital Programs are delayed or reduced, ridership and fare revenue may decline, which could impair the MTA's ability to meet its operating expenses without additional State assistance.

The City of New York

The following information was prepared from information furnished by the City of New York and is provided for informational purposes only. This section is intended to provide readers with a brief summary of the financial condition of the City of New York, which is the largest municipal recipient of State assistance to local governments. The fiscal demands on the State may be affected by the fiscal condition of the City, which relies in part on State aid to balance its budget and meet its cash requirements. It is also possible that the State's finances may be affected by the ability of the City, and certain entities issuing debt for the benefit of the City, to market securities successfully in the public credit markets. The official financial disclosure of the City of New York and financing entities issuing debt on its behalf is available by contacting Raymond J. Orlando, Director of Investor Relations, (212) 788-5875 or contacting the Office of Management and Budget, 75 Park Place, 6th Floor, New York, NY 10007. The State assumes no liability or responsibility for any financial information reported by the City of New York.

On June 30, 2003, the City submitted to the State Financial Control Board (the "Control Board") the June Financial Plan for the 2003 through 2007 fiscal years, which relates to the City and certain entities which receive funds from the City, and which reflects changes as a result of the City's expense and capital budgets for the 2004 fiscal year which were adopted on June 27, 2003. The Financial Plan projected revenues and expenditures for the 2003 and 2004 fiscal years balanced in accordance with GAAP, and projected gaps of $2.0 billion, $3.2 billion, and $3.3 billion for fiscal years 2005, 2006, and 2007, respectively.

On January 15, 2004, the City issued the January Financial Plan for the 2004 through 2008 fiscal years, which is a modification to the June Financial Plan. The January Plan reflects the Preliminary Budget for fiscal year 2005 and changes since the June Financial Plan.

The January Financial Plan projects revenues and expenditures balanced in accordance with GAAP for both the 2004 and 2005 fiscal years, and projects gaps of $2.0 billion, $2.9 billion and $2.2 billion in fiscal years 2006, 2007 and 2008, respectively. The January Financial Plan includes proposed discretionary transfers and prepayments in fiscal year 2004 of $1.39 billion, reflecting prepayments of debt service of $695 million due in each of fiscal years 2005 and 2006.

Potential risks to the January Financial Plan include the loss of City savings due to the legal challenge concerning the payment of MAC debt with funds provided by the State, the potential for higher uniform overtime costs, and the failure of the MTA to assume operation of private bus services funded by the City, which total $531 million in fiscal year 2004 and $800 million annually in the 2005 through 2008 fiscal years, as well as assumed State and federal assistance.

In addition, the January Financial Plan does not make any provision for wage increases, other than the pay increases for the 2000-2002 round of bargaining and pay increases to be funded by productivity initiatives. It is estimated that each one percent wage increase for all City employees for subsequent contract periods would cost approximately $212 million annually (including benefits).

The City Comptroller and others have issued reports identifying various risks. In addition, the economic and financial condition of the City may be affected by various financial, social, economic, geo-political and other factors that could have a material effect on the City.

The City expects to update its disclosure in the next several weeks. Readers may obtain this disclosure (when available) using the contact information provided above.

Monitoring Agencies

On December 16, 2003, the Office of the State Deputy Comptroller issued a report on the City's November 2003 Financial Plan that identified net risks of $514 million, $591 million, $723 million, and $731 million for City fiscal years 2004 through 2007, respectively. In addition to the risks identified in the report, the report noted that wage increases at the projected inflation rate, without productivity savings, would increase the projected gaps by $770 million, $1.2 billion, $1.6 billion, and $2.1 billion in City fiscal years 2004 through 2007, respectively, and that actions taken by the State to balance its budget next year could adversely affect the City's budget.

The staffs of the FCB, OSDC, the City Comptroller and the Independent Budget Office, issue periodic reports on the City's financial plans. Copies of the most recent reports are available by contacting: FCB, 123 William Street, 23rd Floor, New York, NY 10038, Attention: Executive Director; Independent Budget Officer, OSDC, 59 Maiden Lane, 29th Floor, New York, NY 10038, Attention: Deputy Comptroller; City Comptroller, Municipal Building, 6th Floor, One Centre Street, New York, NY 10007-2341, Attention: Deputy Comptroller for Budget; and IBO, 110 William Street, 14th Floor, New York, NY 10038, Attention: Director.

GAAP-Basis Results for Prior Fiscal Years

(Reprinted from August 7, 2003 Update to the AIS)

On July 29, 2003, the State Comptroller issued the Basic Financial Statements and Other Supplementary Information (the 2002-03 Basic Financial Statements) for the 2002-03 fiscal year. The 2002-03 Basic Financial Statements were prepared in accordance with GASB 34 and other applicable GASB statements. The 2002-03 Basic Financial Statements can be obtained by visiting the Office of the State Comptroller's website, www.osc.state.ny.us, or by contacting the Office of the State Comptroller, 110 State Street, Albany, NY 12236.

For a brief summary of the 2002-03 GAAP-basis results, see the section entitled "GAAP-basis Financial Plans" in Part I of this Update.

State Organization

State Retirement Systems

(Reprinted from October 30, 2003 Update to the AIS)

General

The New York State and Local Retirement Systems (the "Systems") provide coverage for public employees of the State and its localities (except employees of New York City and teachers, who are covered by separate plans). The Systems comprise the New York State and Local Employees Retirement System and the New York State and Local Police and Fire Retirement System. The Comptroller is the administrative head of the Systems. State employees made up about 34 percent of the membership during the 2002-03 fiscal year. There were 2,818 other public employers participating in the Systems, including all cities and counties (except New York City), most towns, villages and school districts (with respect to non-teaching employees) and a large number of local authorities of the State.

As of March 31, 2003, 650,543 persons were members and 313,597 pensioners or beneficiaries were receiving benefits. The State Constitution considers membership in any State pension or retirement system to be a contractual relationship, the benefits of which shall not be diminished or impaired. Members cannot be required to begin making contributions or make increased contributions beyond what was required when membership began.

Contributions

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

Legislation enacted in May, 2003 realigns the Retirement Systems billing cycle to match governments' budget cycles and the legislation also institutes a minimum annual payment. The employer contribution for a given fiscal year will be based on the value of the pension fund and its liabilities on the prior April 1. In addition, employers will be required to make a minimum contribution of at least 4.5 percent of payroll every year. The legislation also eliminates the State's ability to delay payments when the amounts owed are greater than the amount budgeted, effective in fiscal year 2004-2005. Also, a portion of the 2004-2005 bill may be amortized over a five-year period at 8 percent interest with the first payment due in 2004-05.

Due to the enactment of this legislation, the State bill due in the fiscal year ending March 31, 2004, payable September 1, 2003, was $481.5 million, of which $396.3 million was paid. The difference with 8 percent interest will be due on or before March 1, 2006. Employer contributions due from the State for the fiscal year ending March 31, 2005, payable September 1, 2004, are estimated at $1.15 billion or $797 million if the maximum amount is amortized.

Assets and Liabilities

Assets are held exclusively for the benefit of members, pensioners and beneficiaries. Investments for the Systems are made by the Comptroller as trustee of the Common Retirement Fund, a pooled investment vehicle. OSC reports the net assets available for benefits as of March 31, 2003 were $97.4 billion (including $2.3 billion in receivables), a decline of $15.3 billion or 13.6 percent from the 2001-02 level of $112.7 billion, reflecting, in large part, equity market performance. OSC reports that the present value of anticipated benefits for current members, retirees, and beneficiaries as of March 31, 2003 was $130.5 billion (including $46.1 billion for current retirees and beneficiaries), an increase of $3.5 billion or 2.8 percent from the 2001-02 level of $127 billion. The funding method used by the Systems anticipates that the net assets, plus future actuarially determined contributions, will be sufficient to pay for the anticipated benefits of current members, retirees and beneficiaries. Actuarially determined contributions are calculated using actuarial assets and the present value of anticipated benefits. Actuarial assets differ from net assets in that they are calculated using a five-year smoothing method for valuing equity investments and using amortized cost instead of market value for bonds and mortgages. Actuarial assets decreased from $125.2 billion in 2002 to $106.7 billion on March 31, 2003. The table below shows the actuarially determined contributions that have been made over the last six years. See also "Contributions" above.

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

Fiscal Year Ended March 31	Total Assets(2)	Increase/ (Decrease) From Prior Year
1998	106,319	26.7
1999	112,723	6.0
2000	128,889	14.3
2001	114,044	(11.5)
2002	112,725	(1.2)
2003	97,373	(13.6)

(1) Includes relatively small amounts held under Group Life Insurance Plan. Includes some employer contribution receivables. Fiscal year ending March 31, 2003 includes approximately $2.3 billion of receivables.
(2) Includes certain accrued employer contributions to be paid with respect to service rendered during fiscal years other than the year shown.

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

Ended March 31	All Participating Employers(1)	Local Employers(1)	State(1)	Employees	Benefits Paid(2)
1998	463	358	105	369	3,395
1999	292	156	136	400	3,570
2000	165	11	154	423	3,787
2001	215	112	103	319	4,267
2002	264	199	65	210	4,576
2003	652	378	274	219	5,030

Sources: State and Local Retirement Systems.
(1) Includes employer premiums to Group Life Insurance Plan.
(2) Includes payments from Group Life Insurance Plan.

PART III

Litigation

Line Item Veto

In Silver v. Pataki, the Speaker of the Assembly of the State of New York challenges the Governor's application of his constitutional line item veto to certain portions of budget bills adopted by the State Legislature contained in Chapters 56, 57 and 58 of the Laws of 1998. By decision dated July 20, 2000, the Appellate Division reversed the January 7, 1999 order of the Supreme Court, New York County, and dismissed the petition. By opinion dated July 10, 2001, the Court of Appeals reversed the decision of the Appellate Division, holding that plaintiff has the capacity and standing to sue as a member of the Assembly. By order dated June 17, 2002, the Supreme Court, New York County, granted defendant's motion for summary judgment, dismissing the complaint. Plaintiff has appealed to the Appellate Division, First Department. On July 22, 2002, the Senate of the State of New York moved in Supreme Court to intervene and for reargument. By decision entered December 11, 2003, the Appellate Division, First Department, affirmed the decision of the Supreme Court, New York County, dismissing the complaint.

Local Government Assistance Corporation

In *Local Government Assistance Corporation et al. v. Sales Tax Asset Receivable Corporation and The City of New York* (Supreme Court, Albany County), the petitioners challenge, inter alia, the constitutionality of Public Authorities Law section 3238-a, which requires LGAC to annually transfer $170 million to The City of New York. Section 3238-a was enacted in 2003 as part of legislation (Part A4 of Chapter 62 and Part V of Chapter 63 of the Laws of 2003) authorizing the refinancing of debt incurred by the Municipal Assistance Corporation (the MAC Refinancing Act). By decision and order dated September 17, 2003, the court held that the MAC Refinancing Act was constitutional. Petitioners have appealed from the decision and order to the Appellate Division, Third Department. By decision and order entered August 27, 2003, the Appellate Division, Third Department granted a preliminary injunction restraining defendants, inter alia, from issuing any bonds pursuant to the MAC Refinancing Act pending appeal.

School Aid

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

This action was commenced in 1993. In 1995, the Court of Appeals affirmed the dismissal of claims under the equal protection clauses of the Federal and State constitutions and Title VI of the

Federal Civil Rights Act of 1964. It reversed dismissal of the claims under article 11, section 1 of the State Constitution and implementing regulations of Title VI, and remanded these claims for trial.

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

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

Medicaid

Several cases challenge provisions of Chapter 81 of the Laws of 1995 which alter the nursing home Medicaid reimbursement methodology on and after April 1, 1995. Included are *New York State Health Facilities Association, et al., v. DeBuono, et al., St. Luke's Nursing Center, et al. v. DeBuono, et al., New York Association of Homes and Services for the Aging v. DeBuono, et al. (three cases), Healthcare Association of New York State v. DeBuono and Bayberry Nursing Home et al. v. Pataki, et al*. Plaintiffs allege that the changes in methodology have been adopted in violation of procedural and substantive requirements of State and Federal law.

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

In related cases, *New York Association of Homes and Services for the Aging, Inc. v. Novello, et al., Valley Health Services v. State and Charles T. Sitrin Health Care Center, Inc., et al. v. SONY, et al.,* plaintiffs seek judgments declaring as unconstitutional, under provisions of the Constitutions of the United States and the State, amendments to Public Health Law § 2907-d, enacted as part of Chapter 1 of the Laws of 2002, also known as the Health Care Workforce Recruitment & Retention Act of 2002, or "HCRA 2002," which impose a 6 percent assessment on nursing home gross receipts from patient care services and operating income. In a decision dated April 24, 2003, the Court granted summary judgment to defendants dismissing the *Sitrin* case. Plaintiffs have appealed from this decision.

Empire Conversion

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

By decision dated February 28, 2003, the Supreme Court, New York County, granted the defendants' motions to dismiss. In its decision, the court also granted plaintiffs leave to amend their complaint to assert a new cause of action and deferred decision on plaintiffs' motion for a preliminary injunction. The plaintiffs and defendants have appealed from the February 28, 2003 decision. Plaintiffs served an amended complaint on April 1, 2003. On April 15, 2003, the defendants moved to dismiss the amended complaint. By decision dated October 1, 2003, the court denied defendants' motions to dismiss, except for the motions to dismiss brought by the individually named members of the board of directors of Empire Healthchoice, Inc. The court also declined to vacate the temporary restraining order directing that the proceeds from the initial public offering of the for-profit corporation be deposited with the State Comptroller in an interest-bearing account. Defendants intend to appeal this decision.

Real Property Claims

In the *Canadian St. Regis Band of Mohawk Indians* case, plaintiffs seek ejectment and monetary damages with respect to their claim that approximately 15,000 acres in Franklin and St. Lawrence Counties were illegally transferred from their predecessors-in-interest. By decision dated July 28, 2003, the District Court granted, in most respects, a motion by plaintiffs to strike defenses and dismiss counterclaims contained in defendants' answers. By decision dated October 20, 2003, the District Court denied the States motion for reconsideration of that portion of the July 28, 2003 decision which struck a counterclaim against the United States for contribution.

In the *Cayuga Indian Nation of New York* case, plaintiffs seek monetary damages for their claim that approximately 64,000 acres in Seneca and Cayuga Counties were illegally purchased by the State in 1795. Prior to trial, the court held that plaintiffs were not entitled to seek the remedy of ejectment. In October 1999, the District Court granted the Federal government's motion to have the State held liable for any damages owed to the plaintiffs. In February 2000, at the conclusion of the damages phase of the trial of this case, a jury verdict of $35 million in damages plus $1.9 million representing the fair rental value of the tract at issue was rendered against the defendants. By decision and judgment dated October 2, 2001, the District Court also granted plaintiffs $211 million in prejudgment interest. The State has appealed from the judgment to the United States Court of Appeals for the Second Circuit. On October 1, 2003, the State served the United States Department of the Interior and the United States Department of Justice with a statement of claim asserting that the United States is jointly and severally liable with the State for the $248 million judgment and post-judgment interest. A statement of claim is a precursor to filing a proceeding in the United States Court of Claims.

Annual Information Statement
State of New York
Dated: May 30, 2003

Table of Contents

Annual Information Statement of the State of New York

Introduction

This Annual Information Statement ("AIS") is dated May 30, 2003 and contains information only through that date. This AIS constitutes the official disclosure information regarding the financial condition of the State of New York (the "State"). This AIS, including the Exhibits attached hereto, should be read in its entirety, together with any update or supplement issued during the fiscal year.

In this AIS, readers will find:

1. A section entitled the "Current Fiscal Year" that contains (a) the Enacted Budget Financial Plan prepared by the Division of the Budget ("DOB"), including the State's official Financial Plan projections and (b) a discussion of potential risks that may affect the State's Financial Plan during the current fiscal year under the heading "Special Considerations."

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

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

DOB is responsible for organizing and presenting the information that appears in this AIS on behalf of the State. In preparing the AIS, DOB relies on information drawn from several sources, including the Office of the State Comptroller ("OSC"), public authorities, and other sources believed to be reliable, but its presentation herein has not been subject to an independent audit process by DOB. Information relating to matters described in the section entitled "Litigation" is furnished by the Office of the State Attorney General.

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

The State plans to issue updates to this AIS on a quarterly basis (generally in July, November and January of each fiscal year) and may issue supplements or other disclosure notices as events warrant. The State intends to announce publicly whenever an update or a supplement is issued. The State may choose to incorporate by reference all or a portion of this AIS in Official Statements or related disclosure documents for State or State-supported debt issuance. Readers may obtain informational copies of the AIS, updates, and supplements by contacting Mr. Louis Raffaele, Chief Budget Examiner, New York State Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705. This AIS has also been filed with the Nationally Recognized Municipal Securities Information Repositories. The Basic Financial

Statements for the 2002-03 fiscal year are expected to be available in July 2003 and may be obtained from the Office of the State Comptroller, 110 State Street, Albany, NY 12236.

Informational copies of this AIS are available electronically on the DOB website at www.budget.state.ny.us. Typographical or other errors may have occurred in converting the original source documents to their digital format, and DOB assumes no liability or responsibility for errors or omissions contained at the Internet site.

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Current Fiscal Year

The State's current fiscal year began on April 1, 2003 and ends on March 31, 2004. On March 31, 2003, the State Legislature enacted appropriations for all State-supported, contingent contractual, and certain other debt service obligations for the entire 2003-04 fiscal year. On May 2, 2003, the Legislature completed action on the remaining appropriations and accompanying legislation constituting the budget for the 2003-04 fiscal year. The Governor vetoed substantial portions of the budget revisions enacted by the Legislature, but the Legislature overrode the vetoes on May 15, 2003. Accordingly, DOB issued the Enacted Budget Financial Plan on May 28, 2003 that reflected final action on the 2003-04 State Budget by the Legislature.

The Enacted Budget Financial Plan set forth below was prepared by the DOB and reflects actions by the State Legislature through the date of this AIS. The Enacted Budget Financial Plan contains estimates and projections of future results that should not be construed as statements of fact. These estimates and projections are based upon various assumptions that may be affected by numerous factors, including future economic conditions in the State and nation and potential litigation concerning actions by the State Legislature in enacting the 2003-04 budget. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained in the Enacted Budget Financial Plan.

Enacted Budget Financial Plan

Overview

The 2003-04 Executive Budget reflected recommendations to close a combined 2002-03 and 2003-04 budget gap of over $11.5 billion. These recommendations included savings from spending restraint of $6.3 billion, tobacco securitization proceeds of $3.8 billion, and revenue/fee increases of $1.4 billion. Assuming these budget recommendations were enacted in their entirety, the Executive Budget projected potential outyear budget gaps of $2.8 billion in 2004-05 and $4.1 billion in 2005-06.

The Legislature completed action on the budget for the 2003-04 fiscal year on May 15, overriding the Governor's vetoes of $3.2 billion in tax increases and spending additions. DOB (DOB) analysis of the Enacted Budget, which is detailed in this report and in a preliminary report released on May 1, 2003[*], indicates that changes since the Executive Budget will increase General Fund spending by $2.3 billion above the levels recommended by the Governor. As compared to the Executive Budget, revenues are projected to increase by $1.4 billion, reflecting enacted tax and revenue increases offset by lower revenue results for 2002-03 and the April income tax settlement. This leaves the General Fund Financial Plan with a potential imbalance of roughly $900 million in 2003-04, and increases the outyear gaps by $3.7 billion in 2004-05 and $4.2 billion in 2005-06, before potential benefits provided by recently enacted Federal aid changes and savings from a Fiscal Management Plan being developed. Also excluded are revenues from certain measures enacted by the Legislature that DOB considers to be highly speculative at this time. The combination of Federal aid and management actions will keep the 2003-04 budget in balance and are discussed in more detail later in this report.

[*] Note: Reported in the May 2, 2003 Supplement to the 2002-03 AIS.

Summary of General Fund Revenue Changes

Legislative changes are projected to increase revenues by $1.9 billion in 2003-04, $1.4 billion in 2004-05, and $605 million in 2005-06. The outyear values of the revenue proposals decrease primarily because of "sunset" provisions enacted for the tax increases. In addition to these changes, revenues are projected to decrease from the Executive Budget forecast by $462 million in 2003-04 primarily due to the impact of 2002-03 actuals on the current year, and the April 2003 income tax settlement. The net 2003-04 revenue change since the Executive Budget is therefore $1.4 billion.

Not counted within these revenue totals are certain other revenue measures adopted by the Legislature that DOB considers to be speculative. Examples include receipts from video lottery terminals (VLTs) at racetracks, collection of cigarette and motor fuel taxes on Indian reservations, and use tax collections.

Net revenue changes since the Executive Budget include the following:

Net Revenue Changes from 30-Day Estimates
Increases (Decreases)
(millions of dollars)

	2003-04	2004-05	2005-06
Personal Income Tax Surcharge	1,400	1,200	1,000
Increase Sales Tax by 1/4 Cent	450	572	100
Restrict Sales Tax on Clothing	86	(315)	(435)
Recapture Bonus Depreciation	58	100	90
Redirect State Sales Tax to NYC	(170)	(170)	(170)
Revenue Losses	(462)	(609)	(609)
All Other	39	20	20
Net Revenue Increases	**1,401**	**798**	**(4)**

These revenue changes and speculative revenue sources are described in more detail later in this report.

Summary of General Fund Spending Changes

General Fund spending is projected to increase from the Executive Budget by a net $2.3 billion in 2003-04, $4.5 billion in 2004-05 and $4.2 billion in 2005-06. This spending increase reflects net legislative restorations and adds to the Governor's 2003-04 Executive Budget, including the denial of the Governor's pension reform proposals included in the Executive Budget ($434 million in 2004-05 and $197 million in 2005-06, after deferring required 2003-04 payments with interest to 2005-06). It also reflects increased outyear costs resulting from the May 15, 2003 school aid database update ($184 million in 2004-05 and $60 million in 2005-06).

In addition, the net spending changes include costs DOB projects but which the Legislature believes may not occur. Examples include a $200 million lump sum appropriation for member items which DOB values at $200 million in costs and which the Legislature valued at $100 million; various Medicaid savings DOB believes are not fully attainable; and higher costs associated with shelter allowances for welfare recipients.

Net General Fund Spending Changes from 30-Day Estimates Increases (Decreases) (millions of dollars)			
	2003-04	**2004-05**	**2005-06**
Medicaid (including HCRA)	840	1,681	1,494
School Aid (including 5/15 Database update)	599	1,354	1,409
Member Items	200	0	0
Higher Education	193	323	303
Handicapped/All Other Education	132	110	111
Welfare	114	157	157
Public Health	40	100	136
General State Charges (including pension deferral)	34	555	338
State Operations	2	94	102
All Other	171	132	101
Net Spending Increases	**2,325**	**4,506**	**4,151**

These spending changes are described in more detail later in this report.

Spending Projections

As a result of the deferred tobacco securitization proceeds and payment delays, 2002-03 actual receipts and disbursements were understated by $1.9 billion and 2003-04 estimates will be overstated by a like amount. To provide a meaningful year-to-year comparison of receipts and disbursements, the 2002-03 actuals and 2003-04 Enacted Budget estimates have been adjusted for this transaction in most of the tabular data in this report. Specifically, Miscellaneous Receipts and various spending categories (mainly Grants to Local Governments) were increased by $1.9 billion in 2002-03 and decreased by a like amount in 2003-04. (See Financial Plan tables at the end of this report for the detailed adjustments.)

2002-03 General Fund Payment Deferrals (millions of dollars)	
School Aid	1,312
CUNY Senior Colleges	219
Medicaid Payment to Counties	82
Education	54
Welfare	47
All Other	186
Total Payment Deferrals	**1,900**

The following table summarizes current spending levels for the General Fund, State Funds and All Governmental Funds under the 2003-04 Enacted Budget, after adjusting for the 2002-03 payment deferrals.

2003-04 Spending Projections (millions of dollars)				
	2002-03 Adjusted Actuals	2003-04 Adjusted Enacted	$ Change from 2002-03	% Change from 2002-03
General Fund	39,513	40,837	1,324	3.4
State Funds	57,712	61,087	3,375	5.8
All Governmental Funds	90,956	94,474	3,518	3.9

Note: Adjusted actuals account for the impact of $1.9 billion in spending deferrals described earlier that would reduce 2002-03 actual spending and increase 2003-04 estimates from the amounts shown above.

Annual spending is projected to increase by $1.3 billion (3.4 percent) in the General Fund, by $3.4 billion (5.8 percent) in State Funds, and by $3.5 billion (3.9 percent) in All Governmental Funds. These changes are explained in more detail below, and do not reflect any increased Federal aid or possible spending reductions associated with the Fiscal Management Plan.

Fiscal Management Plan/Federal Assistance

The recently enacted Federal economic stimulus legislation provides $20 billion nationwide in fiscal relief to states, to be distributed as $10 billion in revenue sharing grants and $10 billion from a 15-month increase in the Federal share of Medicaid. DOB expects New York to receive $2.1 billion as a result of this legislation over the next two State fiscal years.

The State's revenue sharing grant is estimated to be $645 million. The impact of the 2.95 percent increase in the Federal share of Medicaid costs is estimated to yield $1.4 billion for the State and its local governments. The State's share of this total is roughly $900 million.

In order to manage cash flow, assure budget balance in the current fiscal year, and begin to address significant 2004-05 and 2005-06 budget gaps, the Governor has directed DOB to develop a Fiscal Management Plan to reduce State operations costs, curtail non-essential spending, and identify other cost containment actions to bring the General Fund into balance. This plan will be developed in cooperation with State agency managers and is expected to be detailed by the time the State's First Quarterly Financial Plan Update is released in July. Elements of the plan are expected to include:

- Continuing statewide austerity measures that limit discretionary spending, ban non-essential travel, and restrict or terminate lower-priority capital spending and other contractual liabilities.
- Mandating agency management plans to eliminate, consolidate, and streamline governmental services.
- Making significant further reductions in the State workforce.
- Maximizing Federal aid.
- Developing cost containment proposals that can be presented for legislative action later this year.

As noted in the messages accompanying the Governor's vetoes, certain appropriations and spending authorizations may be legally flawed. The State will review all such authorizations and continue to assess the degree to which any legal deficiencies may reduce overall spending levels.

DOB will also monitor and work to achieve additional revenues, as specified in the Senate Finance Committee Staff Report on the Budget, from certain measures enacted by the Legislature that DOB believes are speculative in nature and thus not reflected in the Financial Plan. These include Video Lottery Terminals (VLTs) at racetracks (legislative value of $150 million), collection of cigarette and motor fuel taxes on Indian Reservations (legislative value of $186 million), and collection of use tax (legislative value of $25 million), as well as other measures that the Legislature believes will reduce the outyear gaps (casino revenue and streamlined sales tax are examples).

Explanation of the Financial Plan

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

Projected disbursements are based on agency staffing levels, program caseloads, levels of service needs, formulas contained in State and Federal law, inflation and other factors. The factors that affect spending estimates vary by program. For example, welfare spending is based primarily on anticipated caseloads that are estimated by analyzing historical trends, projected economic conditions and changes in Federal law. In criminal justice, spending estimates are based on recent trends and data from the criminal justice system, as well as on estimates of the State's prison population. All projections account for the timing of payments, since not all the amounts appropriated in the Budget are disbursed in the same fiscal year.

The State's Fund Structure

The State accounts for all of its spending and receipts by the fund in which the activity takes place (such as the General Fund or the Capital Projects Fund), and the broad category or purpose of that activity (such as State Operations or Capital Projects). The Financial Plan tables sort all State projections and results by fund and category.

The General Fund receives the majority of State taxes. State Funds include the General Fund and funds specified for dedicated purposes, with the exception of Federal Funds. The All Governmental Funds Financial Plan, which includes State Funds and Federal Funds, is comprised of four major fund types, and includes:

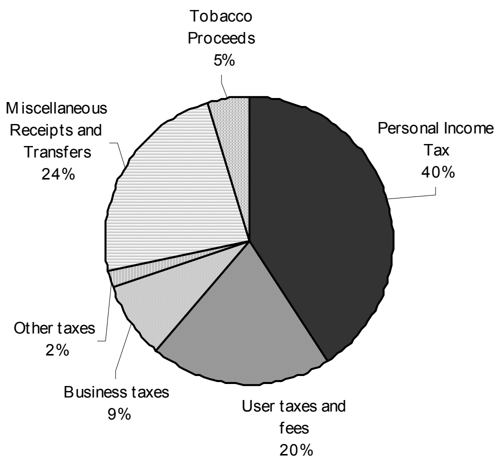
- The General Fund, which receives most of the State's tax revenue and accounts for spending on programs that are not supported directly by dedicated fees and revenues;
- Special Revenue Funds, which receive Federal grants, certain dedicated taxes, fees and other revenues that are used for a specified purpose;
- Capital Projects Funds, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and
- Debt Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

Within each of these fund types, revenues and spending are classified by major categories of the Financial Plan (e.g., Taxes, Miscellaneous Receipts, Grants to Local Governments, State Operations). Activity in these Financial Plan categories is described in greater detail later in this Report. Summary charts display the annual change for each category of the Financial Plan, and a narrative explanation of major changes follows each chart. The tables at the end of the Report summarize projected General Fund, State Funds and All Governmental Funds receipts and disbursements for the 2003-04 fiscal year.

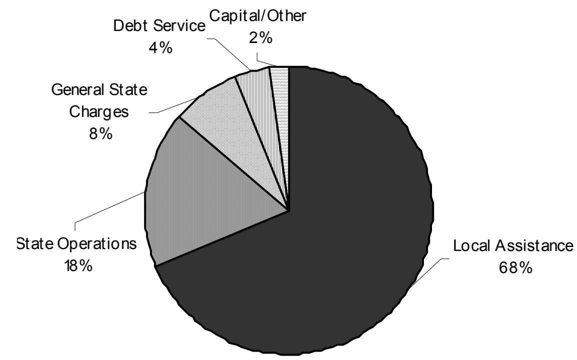
2003-04 General Fund Financial Plan

Where It Comes/Where It Goes

General Fund
2003-04 Adjusted Enacted



Receipts



Disbursements

The General Fund is the principal operating fund of the State and is used to account for all financial transactions except those required to be accounted for in another fund. It is the State's largest fund and receives almost all State taxes and other resources not dedicated to particular purposes. In the State's 2003-04 fiscal year, the General Fund is expected to account for approximately 41 percent of All Governmental Funds disbursements. General Fund moneys are also transferred to and from other funds, primarily to support certain capital projects and debt service payments in other fund types. The graphs above depict the components of projected receipts and disbursements in the General Fund (in percent).

Many complex political, social and economic forces influence the State's economy and finances, which may in turn affect the State Financial Plan and increase the likelihood that current projections will differ materially from the projections set forth in this Enacted Budget Report. These forces may affect the State unpredictably from fiscal year to fiscal year and are influenced by governments, institutions, and organizations that are not subject to the State's control. The 2003-04 Enacted Plan is also necessarily based upon forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies.

National Economy

U.S. economic growth slowed to 1.6 percent during the first quarter of 2003, partly due to severe weather conditions and the uncertainty surrounding the war in Iraq. Now that the war is over, the nation's economic recovery is expected to gain momentum. The national economy grew at a slower pace than anticipated in the Executive Budget during early 2003. However, higher growth toward the end of the year is expected to bring real U.S. GDP growth up to 2.3 percent for 2003, only slightly below the Executive Budget projection of 2.4 percent. Buttressed by low inflation and high productivity growth, the national economy is expected to grow 3.4 percent during 2004.

Although a boost in Federal spending contributed positively to GDP growth, the impact of the war on the labor market was clearly negative, with 220,000 reservists having been called up for duty as of April 2003. The Budget Division now expects no net growth in employment for 2003, compared to the

0.6 percent growth projected in the Executive Budget. Income growth for 2003, especially in wages, is also expected to be modestly below the Executive Budget projection. This is mainly due to the downward revision made to the data for the third quarter of 2003 by the U.S. Bureau of Economic Analysis.

Higher output growth toward the end of this year is expected to be fueled by a rebound in private investment activity. If business sector financial conditions do not improve, hiring may be delayed, leading to an even weaker labor market than now anticipated. On the positive side of the ledger, given the current and lagged effects of expansionary monetary and fiscal policy, the economy could grow faster than expected. A lower dollar could lead to higher exports and, therefore, higher output growth.

Major Economic Indicators			
	2002	**2003**	**2004**
Gross Domestic Product (real)	2.4	2.3	3.4
Personal Income	2.8	3.8	5.2
Corporate Profits	(0.7)	12.7	15.2
Unemployment Rate	5.8	5.8	5.5
Consumer Price Index	1.6	2.5	2.3
Note: Numbers above are percent change/calendar year, except for unemployment rate. The New York State Division of the Budget estimates are based on National Income and Product Account data through April 2003, except for nonagricultural employment and the unemployment rate which are based on U.S. Department of Labor data through early May 2003.			

State Economy

The September 11th terrorist attack had a more severe impact on the New York economy than on that of any other state. Therefore, not surprisingly, the State's economy is only now emerging from the most recent recession.

DOB now estimates that State employment fell 1.8 percent in 2002, and wage income is estimated to have declined 3.8 percent. The unemployment rate for 2002 was 6.1 percent and is expected to remain virtually unchanged for 2003.

Employment growth was weaker than expected during the last quarter of 2002. The weaker job base, combined with the sluggishness of the national economic recovery, has led DOB to anticipate marginally lower employment growth for the 2003-04 State fiscal year than projected in the Executive Budget. Growth in wages and salaries is expected to be marginally lower as well.

In addition to the risks associated with the national economic forecast, there are specific risks to the State economy. Chief among them is a more prolonged downturn in the financial sector than is currently projected, producing sharper declines in both employment and compensation. Moreover, significant numbers of business relocations out of the State could imply slower job and income growth as well. In contrast, a stronger national economy than expected could result in stronger equity market growth and, in turn, a stronger demand for financial market services, fueling a rebound in income growth in that sector.

Major Economic Indicators			
	2002	**2003**	**2004**
Personal Income	0.0	3.0	4.1
Nonagricultural Employment	(1.8)	0.3	1.0
Unemployment Rate	6.1	6.0	5.5
Note: Numbers above are percent change/calendar year. Personal income and nonagricultural employment growth for 2002 and all forecasts for 2003 and 2004 are projected by DOB.			

General Fund Revenue Actions

Revenue actions included with the 2003-04 Enacted Budget include: a personal income tax increase ($1.4 billion); a limited liability company filing fee increase ($26 million); income tax withholding for certain partnerships ($15 million); reduced interest for late refunds ($5 million); increasing the State sales tax rate from 4 percent to 4.25 percent ($450 million); temporarily replacing the permanent sales tax exemption on items of clothing and shoes priced under $110 with a sales tax free week in August 2003 and another in January 2004 for the same items and thresholds ($449 million); including the New York City cigarette excise tax in the sales tax base ($7 million); changing the tax structure for insurance companies ($158 million); decoupling from the Federal bonus depreciation provisions ($58 million); decoupling from Federal expensing provisions for SUVs; and reducing the time period for collecting abandoned property related to the demutualization of insurance companies ($75 million). In total, the Budget includes over $2.4 billion in revenue actions including those contained in the Executive Budget.

As part of the Enacted Budget, the Legislature also enacted tobacco securitization legislation that creates a bankruptcy-remote corporation to securitize all or a portion of the State's future share of tobacco settlement payments. The corporation will issue debt backed by payments from the tobacco industry under the master settlement agreement (MSA) and a contingent-contractual obligation on behalf of the State to pay debt service if MSA payments prove insufficient. The structure is designed to reduce overall borrowing costs to a level comparable to a typical State bond sale.

The Financial Plan assumes net proceeds of $3.8 billion ($1.9 billion on an adjusted basis) from this transaction in 2003-04 and $400 million in 2004-05; these amounts are reflected as miscellaneous receipts in the Financial Plan. It is possible that, in order to reduce costs of issuance, take advantage of current low interest rates and improve its cash flow balances, the State may securitize amounts sufficient to receive the entire $4.2 billion in 2003-04, reserving the $400 million for 2004-05 budget balance.

General Fund Receipts

General Fund Receipts (millions of dollars)				
	2002-03 Adjusted Actuals	**2003-04 Adjusted Enacted**	**Annual $ Change**	**Change from 30-Day Estimate**
Total Tax Receipts	27,977	28,561	584	1,148
All Other Receipts	11,319	11,279	(40)	255
Total Receipts	**39,296**	**39,840**	**544**	**1,403**

Total General Fund receipts in support of the 2003-04 Financial Plan are projected to be $39.84 billion, an increase of $544 million from the $39.30 billion recorded in 2002-03. This total includes $28.56 billion in tax receipts, $3.67 billion in miscellaneous receipts, and $7.61 billion in transfers from other funds. The increase largely reflects the impact of revenue actions adopted with the Budget. There are additional legislative actions enacted with the 2003-04 Budget that may have a positive impact on revenues but are too speculative at this point to value with any confidence, including the addition of a use tax line on the personal income tax return, non-resident sales of real property, six-day liquor sales, and VLTs.

General Fund receipts net of refund reserve account transactions are estimated at $39.69 billion for 2003-04. Adjusting for the impact of revenue actions, General Fund tax receipts have been reduced by $463 million from estimates released with the 30-day amendments to the Executive Budget. This revision reflects several factors including: the impact of lower-than-anticipated 2002-03 receipts on the 2003-04 revenue base; a modest net loss in personal income tax receipts due to a lower-than-expected net settlement of 2002 income tax liability in April and May; and continued weakness in corporate tax collections.

Personal Income Tax (millions of dollars)			
2002-03 Adjusted Actuals	**2003-04 Adjusted Enacted**	**Annual $ Change**	**Change from 30-Day Estimate**
16,791	16,285	(506)	833

General Fund personal income tax receipts are projected to decrease by $506 million from 2002-03. This is due to economic improvement in 2003-04 and enactment of a temporary tax increase, more than offset by a lower settlement for 2002 tax returns, a reduction in revenue reserves flowing through the refund reserve accounts, and a higher deposit into the Revenue Bond Tax Fund. Overall, net of law changes, personal income tax payments associated with the 2002 tax year are down modestly from what was anticipated in the Executive Budget.

The estimate for withholding tax collections increased by $1.03 billion from the Executive Budget estimate, reflecting the enacted temporary tax increase offset somewhat by lower wage growth than forecast with the Executive Budget. Estimated tax installment payments have been increased by $300 million, again reflecting the enacted temporary tax increase.

Additionally, reflecting April and May results on the settlement of 2002 tax liabilities, the estimate for payments with final returns has been increased by $100 million and the estimate for refunds has been increased by $175 million.

The estimate for delinquent collections of the personal income tax has been reduced by $50 million, reflecting the State tax amnesty program bringing greater-than-expected receipts forward into 2002-03.

General Fund personal income tax receipts, including refund reserve account transactions, are expected to be $833 million higher than the 30-day amendments to the Executive Budget adjusted for a higher net contribution from the refund reserve account. This increase is due to the temporary tax increase, offset somewhat by the lower-than-anticipated income tax settlement for 2002 tax liability, lower withholding resulting from a weaker-than-expected economy for 2003-04, lower expected assessment collections, and a higher STAR fund deposit due to the Legislature's rejection of the STAR spending limitation proposed in the Executive Budget.

User Taxes and Fees (millions of dollars)			
2002-03 Adjusted Actuals	**2003-04 Adjusted Enacted**	**Annual $ Change**	**Change from 30-Day Estimate**
7,063	8,007	944	499

Receipts for user taxes and fees for 2003-04 are projected to total $8.01 billion, an increase of $944 million from reported 2002-03 collections. Included in this category are: receipts from the State sales tax, cigarette and tobacco products taxes; alcoholic beverage taxes and fees; and motor vehicle license and registration fees.

The projected growth in sales tax cash receipts of 15.1 percent is largely attributable to the enactment of a temporary increase in the overall tax rate (to 4.25 percent) and a change in the clothing and footwear exemption. The Enacted Budget eliminated the exemption on items of clothing and footwear for one year, effective June 1, 2003, and replaced it with two temporary one-week exemptions with the same $110 thresholds -- one in August 2003 and another in January 2004. Growth in the sales tax base, after adjusting for tax law changes and other factors, is projected at 4.3 percent.

The decline in General Fund cigarette tax receipts is the result of a continuation of the long-term consumption decline in cigarettes.

User taxes and fees are expected to rise by $499 million from the 30-day amendments to the Executive Budget. This adjustment mainly reflects tax increases contained in the Enacted Budget.

Business Taxes (millions of dollars)			
2002-03 Adjusted Actuals	**2003-04 Adjusted Enacted**	**Annual $ Change**	**Change from 30-Day Estimate**
3,380	3,498	118	(184)

Receipts for business taxes for 2003-04 are projected to total $3.50 billion, an increase of $118 million from 2002-03 collections. Business taxes include the corporate franchise tax, corporation and utilities taxes, the insurance franchise tax, and the bank franchise tax. Business tax receipts for 2003-04 have been revised down by $184 million from the 30-day amendments to the Executive Budget to reflect lower 2002-03 actuals during closeout and anticipated enhanced refund activity. These negatives in 2002-03 have been offset by the effect of decoupling from the Federal bonus depreciation.

Corporate franchise tax receipts have been revised down by $141 million from the 30-day amendments to the Executive Budget. The difference is attributable to a closeout adjustment and enhanced refund activity. These reductions are offset by an increase in revenues of $58 million based on decoupling from Federal bonus depreciation provisions.

Corporation and utilities taxes, and insurance franchise tax receipts remain unchanged from the 30-day Executive Budget estimate.

Bank tax receipts are estimated to be $43 million lower than the 30-day Executive Budget estimate. This result is primarily attributable to continued weak earnings growth, and the decline in the 2002-03 base.

Other Taxes (millions of dollars)			
2002-03 Adjusted Actuals	**2003-04 Adjusted Enacted**	**Annual $ Change**	**Change from 30-Day Estimate**
743	771	28	0

Other tax receipts are now projected to total $771 million or $28 million above last year's amount. Sources in this category include the estate and gift tax, the real property gains tax and pari-mutuel taxes.

Previously enacted legislation to repeal both the real property gains tax and the gift tax and to reduce the estate and pari-mutuel taxes have significantly reduced the yield from this category of receipts.

Other taxes estimated in this category are unchanged from the 30-day estimate.

Miscellaneous Receipts (millions of dollars)			
2002-03 Adjusted Actuals	**2003-04 Adjusted Enacted**	**Annual $ Change**	**Change from 30-Day Estimate**
3,991	3,669	(322)	90

Miscellaneous receipts, adjusted for the tobacco securitization, are expected to reach $3.67 billion, a decrease of $322 million from 2002-03 and an increase of $90 million from the 30-day estimate. The annual decrease in receipts is the result of several non-recurring actions taken in the 2002-03 Enacted Budget, including transferring available balances from various State authorities. The increase in receipts from the 30-day estimates is attributed to a delay in the collection of a settlement recovery from various Wall Street firms originally expected in 2002-03, as well as the net impact of several legislative actions, which on balance increase receipts by an estimated $50 million.

Transfers From Other Funds (millions of dollars)				
	2002-03 Adjusted Actuals	**2003-04 Adjusted Enacted**	**Annual $ Change**	**Change from 30-Day Estimate**
PIT in Excess of Revenue Bond Debt Service	4,215	5,125	910	260
Sales Tax in Excess of LGAC Debt Service	1,919	1,853	(66)	(146)
Real Estate Taxes in Excess of CW/CA Debt Service	263	202	(61)	0
All Other Transfers	931	430	(501)	51
Total Transfers From	**7,328**	**7,610**	**282**	**165**

Transfers from other funds are expected to total $7.61 billion, or $282 million more than total receipts from this category during 2002-03 and $165 million higher than the 30-day estimates. The $910 million year-to-year increase in transfers of personal income tax (PIT) in excess of revenue bond debt service requirements is primarily attributable to higher dedicated PIT receipts ($1.1 billion), including legislative tax increases, offset by increased debt service requirements ($222 million). The $260 million net increase from the 30-day estimate reflects the legislative tax increases, offset by increased debt service costs.

The annual decrease of $66 million in transfers from the sales tax in excess of LGAC debt service reflects increased debt service requirements ($67 million) and an annual payment to New York City intended to cover debt service costs related to restructuring NYC MAC debt for City fiscal relief ($170 million), offset by increased sales tax receipts ($171 million). The 2003-04 estimate is $146 million lower than the 30-day estimate primarily due to the legislation requiring a payment of State sales tax to New York City.

Provisions enacted with the 2003-04 Budget relating to the Local Government Assistance Corporation (LGAC) and the Municipal Assistance Corporation of the City of New York (MAC) appear to intend that the State assume responsibility for debt service payments on the remaining $2.5 billion in outstanding MAC bonds. Thirty annual payments of $170 million from sales tax receipts dedicated to LGAC are authorized to be pledged to a New York City-created not-for-profit corporation allowing the maturity of the debt to be extended through 2034, well beyond the original 2008 maturity of the outstanding MAC debt. The structure of this bonding may be flawed and counsel are continuing to evaluate the constitutional and legal issues raised by the legislation, the implications on the State's Debt Reform Act of 2000, and the impact on LGAC and other bondholders.

The annual decline of $61 million in transfers from the real estate transfer tax is due to a projected decrease in tax receipts ($43 million) and an increase in Clean Water/Clean Air debt service requirements ($18 million). The 2003-04 enacted estimate is unchanged from the 30-day estimate.

The $501 million expected annual decrease in all other transfers is primarily due to the loss of one-time 2002-03 transfers from the Environmental Protection Fund ($269 million) and Federal reimbursement of World Trade Center related costs ($231 million). All other transfers increased by $51 million from the 30-day estimates due to an increase in expected receipts for the Waste Tire Management Recycling Act ($20 million) and one-time transfers from various non-General funds ($31 million).

General Fund Disbursements

General Fund Disbursements (millions of dollars)				
	2002-03 Adjusted Actuals	2003-04 Adjusted Enacted	Annual $ Change	Change from 30-Day Estimate
Welfare	496	1,127	631	114
General State Charges	2,732	3,199	467	34
Member Items	105	455	350	200
Medicaid (including HCRA)	5,951	6,269	318	840
Public Health	525	566	41	40
School Aid (including 5/15 database update)	12,278	12,312	34	599
Handicapped/All Other Education	1,341	1,323	(18)	132
Higher Education	1,528	1,488	(40)	193
State Operations	7,715	7,168	(547)	2
All Other	6,842	6,930	88	171
Total General Fund Disbursements	**39,513**	**40,837**	**1,324**	**2,325**

Total General Fund disbursements, including transfers to support capital projects, debt service and other purposes, are estimated at $40.84 billion for 2003-04, an increase of $1.32 billion or 3.4 percent from 2002-03. The annual growth in spending is primarily attributable to the use of non-recurring offsets in the previous fiscal year for welfare assistance programs ($631 million), higher costs for General State

Charges mostly due to pensions and health insurance ($467 million), additional spending for member items ($350 million), and growth in Medicaid ($318 million), offset by lower State Operations spending ($547 million). The annual change in spending is explained by financial plan category in more detail below.

Total projected spending in the 2003-04 Enacted Budget is $2.33 billion higher than the level recommended in the Governor's Executive Budget. Spending changes primarily reflect net legislative restorations and adds in Medicaid ($840 million), school aid ($599 million), funding for member items ($200 million), higher education programs ($193 million), handicapped/all other education programs ($132 million), and welfare programs ($114 million).

In addition, the net spending changes include certain costs resulting from the Legislature's action or inaction on several spending items. Examples include a $200 million lump sum appropriation for member items which the Legislature valued at $100 million; various Medicaid savings DOB believes are not fully attainable including additional Federal reimbursement for prescription drug costs and home care costs; and inaction on cost containment provisions which DOB believes results in higher welfare costs.

Grants to Local Governments (millions of dollars)			
2002-03 Adjusted Actuals	**2003-04 Adjusted Enacted**	**Annual $ Change**	**Change from 30-Day Estimate**
26,713	28,009	1,296	2,229

Grants to Local Governments (also known as local assistance) include financial aid to local governments and non-profit organizations, as well as entitlement payments to individuals. The largest shares of spending in local assistance are for aid to public schools (44 percent) and for the State's share of Medicaid payments to medical providers (22 percent). Spending for mental hygiene programs (6 percent), higher education programs (5 percent), welfare assistance (4 percent), and children and families services (4 percent) represent the next largest areas of local aid.

Spending in local assistance is estimated at $28.01 billion in 2003-04, an increase of $1.30 billion (4.9 percent) over the 2002-03 fiscal year. This net spending growth is primarily attributable to welfare assistance programs ($631 million), Medicaid ($318 million), additional spending in the Community Projects Fund ($350 million), higher spending for the Higher Education Service Corporation ($123 million) and various other local assistance programs. These increases are partially offset by an annual decline in spending for the City University of New York ($176 million) and a scheduled decline in payments for the Yonkers settlement agreement ($110 million).

General Fund spending for school aid on a State fiscal year basis is projected at $12.31 billion in 2003-04, an increase of $34 million over 2002-03. This net increase reflects the "tail" cost of the 2002-03 school year increase offset in part by the reduced spending in the 2003-04 enacted school year aid package. On a school year basis, school aid is projected at $14.43 billion for 2003-04, a decrease of $185 million from the prior school year. This decrease is primarily due to a reduction in operating aid ($285 million), which is partially offset by increases in transportation aid, excess cost aid and BOCES.

Medicaid spending is estimated at $6.27 billion in 2003-04, an increase of $318 million (5.3 percent) from the prior year. The net increase is primarily attributable to expected underlying spending growth of approximately 8 percent ($478 million), the sunset of the Tobacco Transfer Fund used to reimburse medical care providers for services rendered to Medicaid patients ($91 million), the Federally mandated phase out of the nursing home intergovernmental transfers ($90 million), and the reduction of the nursing home gross receipts assessment used to offset Medicaid costs ($78 million). The growth in Medicaid spending is partially offset by increased Federal aid from an increase in disproportionate share payments to public hospitals ($324 million), additional financing through the Health Care Reform Act ($117 million), and various cost containment proposals, as well as the phase out of Disaster Relief Medicaid related to the September 11th attack on the World Trade Center. In addition, the Enacted Budget "rolls" the last Medicaid cycle payable on March 31, 2004 to the first day of the 2004-05 fiscal year ($170 million), decreasing 2003-04 and increasing 2004-05 costs. The Medicaid estimate does not include possible savings related to the temporary increase in the Federal share of Medicaid costs.

Spending on welfare is projected at $1.13 billion, an increase of $631 million (127.2 percent) from 2002-03. This increase is due primarily to the use of Federal TANF reserve funds to offset welfare spending in 2002-03 ($465 million) and the increased cost of the welfare caseload ($166 million). The projected welfare caseload of 622,067 recipients represents an increase from 2002-03 of approximately 10,248 recipients.

Higher Education Services Corporation (HESC) spending is projected at $442 million, an increase of $123 million (38.6 percent) from 2002-03. This increase reflects underlying program growth ($163 million) and a reduction in available Federal TANF funds ($64 million), offset by a deferral of Tuition Assistance Program costs into the 2004-05 fiscal year ($104 million).

City University of New York (CUNY) spending is projected at $681 million, a decrease of $176 million (20.5 percent) from 2002-03. The decrease is primarily due to the impact of a tuition increase at the senior colleges used to offset General Fund spending ($91 million) and a reduction in costs due to a one-time retroactive collective bargaining payment made in 2002-03 ($70 million).

Spending for all other local assistance programs will total $7.18 billion in 2003-04, a net increase of $366 million (5.4 percent) from the 2002-03 fiscal year. This increase is largely attributable to additional spending for member items ($350 million), increased spending for children and family services ($90 million), public health programs ($41 million), mental hygiene programs ($27 million), and various other local assistance programs. These increases are offset by spending declines across other agencies and programs including an annual decrease in the funding for the Yonkers settlement agreement ($110 million).

The 2003-04 enacted estimate for local assistance spending increased by $2.23 billion from the 30-day estimate primarily as a result of net legislative adds and restorations of Executive Budget proposals. The largest adds and restorations occurred in Medicaid ($840 million), school aid ($599 million), additional funding for the Community Projects Fund ($200 million), higher education programs ($193 million), handicapped/all other education programs ($132 million), and welfare programs ($114 million). These net legislative adds reflect resources identified by the Legislature to delay the last Medicaid cycle in the 2003-04 fiscal year to the following fiscal year ($170 million) and defer Tuition Assistance Program payments to colleges out of 2003-04 into 2004-05 ($104 million).

State Operations (millions of dollars)			
2002-03 Adjusted Actuals	2003-04 Adjusted Enacted	Annual $ Change	Change from 30-Day Estimate
7,715	7,168	(547)	2

State Operations accounts for the cost of operating the Executive, Legislative, and Judicial branches of government. Spending in this category is projected at $7.17 billion, a decrease of $547 million or 7.1 percent from 2002-03. The annual decline in State Operations spending is comprised of lower spending in both personal service ($493 million) and non-personal service ($54 million).

The State Operations estimates reflect $1.03 billion in savings initiatives. Included in these savings are $363 million from continuation of the strict Statewide hiring freeze, aggressive use of a retirement incentive for State employees, and various actions to restrain non-personal service spending in all agencies. A total of $662 million in savings is projected to be available in 2003-04 from a variety of revenue maximization efforts to finance State Operations spending. Among these savings are additional SUNY revenues from an anticipated tuition increase and other revenue measures used to support General Fund costs ($325 million), additional Federal revenues to offset spending on mental hygiene programs ($174 million), and various shifts of General Fund costs to other funds ($133 million) -- most notably funding $93 million in Department of Motor Vehicles transportation-related spending in the Dedicated Highway Fund.

The savings initiatives and revenue maximization efforts are partially offset by base spending growth of $478 million, including normal salary step increases and required non-personal service cost increases and the loss of one-time offsets used in 2002-03. Virtually all Executive agencies are held flat or reduced from 2002-03 levels.

The 2003-04 State Operations estimate is $2 million higher than the estimate prepared at the time of the 30-day Amendments to the Executive Budget in February 2003. This additional spending represents minor legislative changes to the Executive Budget estimates.

The State's All Funds workforce is projected to be 186,000 at the end of 2003-04, a decrease of approximately 10,000 from November 2001 when the Governor announced a series of cost savings actions following the World Trade Center attacks. This reduction resulted from attrition and the use of early retirement incentives. Additional declines are possible as a result of the Fiscal Management Plan to be implemented during the fiscal year.

General State Charges (millions of dollars)			
2002-03 Adjusted Actuals	**2003-04 Adjusted Enacted**	**Annual $ Change**	**Change from 30-Day Estimate**
2,732	3,199	467	34

General State Charges (GSCs) account for the costs of providing fringe benefits to State employees and retirees of the Executive, Legislative and Judicial branches, as well as certain fixed costs of the State. Fringe benefit payments, many of which are mandated by statute or collective bargaining agreements, include employer contributions for pensions, social security, health insurance, workers' compensation and unemployment insurance. Fixed costs include State payments-in-lieu-of-taxes to local governments for certain State-owned lands, and the costs of litigation against the State and its public officers.

Total spending for GSCs is estimated at $3.20 billion, an increase of $467 million or 17.0 percent from the prior year. The projected annual growth is primarily attributable to higher pension and health insurance costs.

Pension investment losses resulting in significantly higher contributions to the New York State and Local Retirement System for the 2003-04 fiscal year. The employer pension contribution rate is the Executive Budget was projected to increase to 4 percent of payroll in 2003-04, increasing pension costs by $250 million (171 percent). Pension reform legislation approved with the Enacted Budget requires a minimum pension contribution equal to 4.5 percent of payroll annually. This change along with higher than expected retirement incentive costs would increase the 2003-04 fiscal year contribution by an additional $94 million to $344 million. However, the Legislature did not provide sufficient appropriation authority to allow the entire pension bill to be paid to the retirement system in 2003-04. As a result, it is anticipated that the State will pay this unbudgeted amount in 2005-06 at 8 percent annual interest, for a total cost of approximately $110 million.

Health insurance premiums are expected to increase by approximately $178 million (11 percent) in 2003-04 to cover the rising costs of employee and retiree health care. The enacted budget reflects $43 million in health benefit changes, which is expected to reduce the underlying growth in employee health insurance costs from $221 million (13.7 percent). These changes, some of which are subject to negotiations with State employee unions, would: place restrictions on pharmacy benefits, require a higher co-payments for prescription drugs, modernize the hospital benefit plan, and increase employee co-payments, deductibles and coinsurance levels for doctor visits.

The $34 million increase from the 30-day estimate is largely the result of the Legislature's denial of a proposal to change to the current 9 percent statutory interest rate on Court of Claims judgments to market-based rates, and partial restoration of Executive Budget proposals to change employee health insurance benefits.

Transfers to Other Funds (millions of dollars)

	2002-03 Adjusted Actuals	2003-04 Adjusted Enacted	Annual $ Change	Change from 30-Day Estimate
Transfers in Support of Debt Service	1,496	1,583	87	0
Transfers in Support of Capital Projects	170	251	81	45
Transfers in Support of State University	26	145	119	0
All Other Transfers	661	482	(179)	15
Total Transfers to Other Funds	**2,353**	**2,461**	**108**	**60**

Transfers to other funds are expected to total $2.46 billion, or $108 million higher than total receipts from this category during 2002-03 and $60 million higher than the 30-day estimates. The annual net increase in debt service transfers of $87 million reflects planned growth in underlying debt service costs, offset by debt reduction efforts. As compared to the 30-day estimate, transfers in support of debt service remain unchanged.

Transfers for capital projects provide General Fund support for projects that are not financed by bond proceeds, dedicated taxes, Federal grants or other revenues. The $81 million projected increase in 2003-04 reflects year-to-year increases in pay-as-you-go spending for legislative adds for transportation and the environment ($49 million) and changes in the timing of the receipt of bond proceeds to reimburse capital spending. Compared to the 30-day estimate for 2003-04, the $45 million increase in capital projects transfers reflects the legislative adds for transportation and the environment.

The State's cost of transfers to the State University are estimated to increase by $119 million over 2002-03 due to the timing of State subsidy payments to the SUNY hospitals ($107 million) and the use of Dormitory Authority funds in 2002-03 to help subsidize the SUNY hospitals ($12 million). This transfer remained unchanged from the 30-day estimate.

All other transfers are estimated to total $482 million in 2003-04, a decline of $179 million from 2002-03. This decline is primarily due to decreases in the Community Service Provider Assistance Program ($100 million), the State's share of Medicaid payments to SUNY hospitals ($48 million), and payments to the State Lottery Fund ($17 million). All other transfers increased $15 million from the 30-day estimates.

Non-Recurring Actions

A total of $5.1 billion in gross nonrecurring actions, with a net impact of $3.2 billion on the Financial Plan, are incorporated in the 2003-04 Enacted Budget. These include resources from the securitization of tobacco settlement payments ($3.8 billion), the use of Federal TANF moneys to offset General Fund welfare, HESC, and school aid program spending ($458 million), spending delays for a Medicaid cycle and TAP payments ($274 million), the one-time shift of various pay-as-you-go capital projects to bonding ($122 million), debt management actions to reduce debt service costs ($161 million), recoveries of school aid and welfare overpayments ($88 million), abandoned property collections ($75 million), and various routine fund sweeps ($138 million).

The 2003-04 spending projections include $1.9 billion of one-time payment delays from 2002-03 pending receipt of tobacco securitization proceeds. These one-time payment deferrals are "matched-up" with $1.9 billion of the $3.8 billion tobacco proceeds, for a net one-time impact of $3.2 billion ($5.1 billion of total actions offset by $1.9 billion linked to one-time costs).

General Fund Closing Balance

The Enacted Budget Financial Plan projects a closing General Fund balance of $730 million at the end of the 2003-04 fiscal year, unchanged from the 30-day projection. The closing balance represents monies on deposit in the Tax Stabilization Reserve Fund ($710 million) and the Contingency Reserve Fund ($20 million). The balance assumes achievement of $912 million of savings from the Fiscal Management Plan including additional Federal aid described earlier.

Governmental Funds Financial Plans

State Funds

State Funds represent the portion of the State's budget supported exclusively by State revenues: taxes, fees, fines, and other revenues imposed and collected by the State. Federal grants are not included as part of State Funds.

State Funds Receipts (millions of dollars)				
	2002-03 Adjusted Actuals	2003-04 Adjusted Enacted	Annual $ Change	Change from 30-Day Estimate
Taxes	40,676	42,672	1,996	1,541
Miscellaneous Receipts	15,903	17,483	1,580	297
Total State Funds Receipts	**56,579**	**60,155**	**3,576**	**1,838**

Total State Funds receipts are projected to total $60.16 billion in 2003-04, an increase of $3.58 billion or 6.3 percent from 2002-03. State Funds tax receipts are projected to total $42.67 billion, an increase of $2.0 billion from 2002-03 primarily reflecting a new personal income tax surcharge ($1.4 billion) and a one-quarter percent increase in sales tax ($450 million), offset by revenue losses associated with the closeout of 2002-03 and the April PIT settlement ($462 million). These changes are discussed in more detail in the General Fund section above.

Miscellaneous receipts in the State Funds are projected to total $17.48 billion, an increase of $1.58 billion over 2002-03. The growth in miscellaneous receipts primarily reflects the timing of the receipt of bond proceeds to reimburse capital spending from the Dedicated Highway and Bridge Trust Fund ($961 million), economic development spending that is not counted by the State Comptroller as spending even though the bond proceeds are counted as State-supported debt ($325 million), and growth in SUNY revenues primarily attributable to an anticipated tuition increase ($280 million). These increases are offset by a decline in General Fund miscellaneous receipts primarily due to the loss of non-recurring actions ($322 million).

The increase in State Funds receipts of $1.84 billion over the 30-day estimates is comprised of a projected tax increase of $1.54 billion and miscellaneous receipts increase of $297 million. The projected tax growth is consistent with the enacted tax increases described above. The growth in miscellaneous receipts is primarily attributable to the timing of the receipt of bond proceeds to reimburse capital spending ($482 million), offset by a decline in State Funds receipts in support of Medicaid due to the legislative restoration of the proposed home care and hospital assessments ($281 million).

Total State Funds disbursements are projected at $61.09 billion in 2003-04, an increase of $3.38 billion or 5.8 percent from 2002-03. Of this amount, $1.32 billion is due to a net increase in General Fund spending as described in detail above, and $2.05 billion is due to growth in other State funds.

State Funds Disbursements (millions of dollars)

	2002-03 Adjusted Actuals	2003-04 Adjusted Enacted	Annual $ Change	Change from 30-Day Estimate
Welfare	496	1,127	631	114
General State Charges	3,088	3,608	520	43
Medicaid	8,413	8,852	439	559
Community Projects Fund	105	455	350	200
Debt Service	3,038	3,387	349	27
Public Health	2,023	2,218	195	88
SUNY	4,043	4,225	182	58
STAR	2,664	2,800	136	93
School Aid	14,121	14,225	104	608
Transportation	3,521	3,600	79	42
Handicapped/All Other Education	1,522	1,443	(79)	152
Mental Hygiene	2,645	2,572	(73)	42
Public Protection	2,902	2,899	(3)	18
All Other	9,131	9,676	545	172
Total State Funds Disbursements	**57,712**	**61,087**	**3,375**	**2,216**

State Funds Medicaid spending growth of $439 million (5.2 percent) reflects increased General Fund spending of $318 million (discussed in the General Fund section above) and an increase of $121 million in Special Revenue Funds. Additional HCRA financing for the Family Health Plus program, workforce recruitment and retention initiatives, and additional funding for Medicaid pharmacy costs represent $389 million of the net growth in the Special Revenue Funds. This increase is partially offset by lower spending attributable to the use of available pool balances in the Indigent Care Fund ($125 million) in 2002-03, the sunset of the Tobacco Transfer Fund used to reimburse medical care providers for services rendered to Medicaid patients ($91 million), and the legislative reduction of the nursing home gross receipts assessment from 6 percent to 5 percent ($45 million).

Spending from Debt Service Funds is estimated to increase by $349 million or 11.5 percent from 2002-03. The net increase in debt service spending reflects planned growth in costs, and additional bonding enacted by the Legislature for the CHIPs capital program and equipment for E-911 cellular emergency systems. Net debt service costs increased modestly ($27 million) from the 30-day estimates.

Public Health spending supported by State Funds is projected to increase $195 million (9.6 percent) from the prior year, of which the General Fund supports $41 million. The increase in other State-supported spending is primarily attributable to additional spending for the Elderly Pharmaceutical Insurance Coverage Program (EPIC) providing senior citizens with prescription drug insurance ($105 million) and the Child Health Plus program providing health insurance to children up to age 19 ($68 million).

Projected annual spending growth of $182 million for SUNY is primarily attributable to enrollment growth at the State-operated campuses, hospital program expansion, and anticipated increases in disbursements for capital programs. The annual growth in the STAR program of $136 million is mainly due to inflation and increased taxpayer participation.

Annual State Funds spending growth due mostly to General Fund changes include: Welfare ($631 million), primarily reflecting the use of non-recurring Federal TANF reserve funds to offset 2002-03 welfare spending; General State Charges ($520 million), primarily due to higher pension and health insurance costs; and increased spending from the Community Projects Funds ($350 million).

Major areas experiencing modest annual increases or decreases on a State Funds basis include: school aid (up $104 million), transportation (up $79 million), handicapped/all other education (down $79 million), mental hygiene (down $73 million) and public protection (down $3 million).

State Funds disbursements increased $2.22 billion over the 30-day estimates primarily due to net legislative changes including school aid ($608 million), Medicaid ($559 million), the Community Projects Fund ($200 million), handicapped/all other education ($152 million), and welfare ($114 million).

All Governmental Funds

All Governmental Funds includes activity in the four governmental funds types: the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service funds. All Governmental Funds spending combines State funds (discussed earlier) with Federal grants across these fund types. It excludes Fiduciary, Internal Services, and Enterprise Funds.

All Governmental Funds Receipts (millions of dollars)				
	2002-03 Adjusted Actuals	**2003-04 Adjusted Enacted**	**Annual $ Change**	**Change from 30-Day Estimate**
Taxes	40,676	42,672	1,996	1,541
Miscellaneous Receipts	16,056	17,705	1,649	301
Federal Grants	33,242	33,444	202	1,426
Total All Governmental Funds Receipts	**89,974**	**93,821**	**3,847**	**3,268**

All Governmental Funds receipts are projected to be $93.82 billion in 2003-04, an increase of $3.85 billion or 4.3 percent from 2002-03. Tax receipts are projected to increase by $2.0 billion to total $42.67 billion primarily reflecting the impact of the enacted tax increases previously discussed.

Miscellaneous receipts are projected to increase by $1.65 billion to total $17.71 billion over 2002-03. The growth in All Governmental Funds miscellaneous receipts primarily reflects the timing of the receipt of bond proceeds to reimburse capital spending, economic development spending, and SUNY tuition increases, offset by a decline in General Fund miscellaneous receipts as discussed above.

Federal Grants are projected to total $33.44 billion, an increase of $202 million from 2002-03. Federal grants represent reimbursement from the Federal government for programs financed by the State in the first instance. Federal receipts are generally assumed to be received in the State fiscal year in which spending is incurred; therefore, the revisions to Federal receipts correspond to the adjustments to the federally-reimbursed spending revisions described below.

The All Governmental Funds receipts increase of $3.27 billion over the 30-day estimates is comprised of enacted tax increases described above and Federal grants of $1.43 billion primarily due to increases in Medicaid spending.

All Governmental Funds spending is estimated at $94.47 billion in 2003-04, an annual increase of $3.52 billion or 3.9 percent. The spending growth is comprised of the State Funds increases of $3.38 billion and growth in Federal Funds of $143 million. The growth in Federal spending is primarily due to increases for Medicaid ($1.02 billion), offset by declines in welfare ($426 million), World Trade Center costs ($302 million) and education ($180 million).

All Governmental Funds Disbursements
(millions of dollars)

	2002-03 Adjusted Actuals	2003-04 Adjusted Enacted	Annual $ Change	Change from 30-Day Estimate
Medicaid	25,315	26,778	1,463	2,003
Public Health	3,230	3,778	548	137
General State Charges	3,272	3,774	502	43
Community Projects Fund	105	455	350	200
Debt Service	3,038	3,387	349	27
Welfare	2,803	3,008	205	124
Mental Hygiene	4,983	5,174	191	45
SUNY	4,208	4,368	160	58
STAR	2,664	2,800	136	93
School Aid	14,121	14,225	104	608
Handicapped/All Other Education	3,922	3,663	(259)	187
Transportation	4,907	4,834	(73)	13
Public Protection	3,096	3,027	(69)	18
All Other	15,292	15,203	(89)	109
Total All Funds Disbursements	**90,956**	**94,474**	**3,518**	**3,665**

All Governmental Funds Medicaid spending growth of $1.46 billion reflects previously discussed State Funds spending growth of $439 million, and an increase of $1.02 billion (6.1 percent) in Medicaid spending supported by Federal Funds, which are estimated to total $26.78 billion in 2003-04. The net increase is primarily attributable to expected underlying spending growth of approximately 8 percent ($1.10 billion) and increased aid governed from an increase in disproportionate share payments to public hospitals ($394 million). This increase is partially offset by the mandated phase out of the nursing home intergovernmental transfers ($119 million), the phase out of Disaster Relief Medicaid related to the

September 11th attack on the World Trade Center ($83 million), nonrecurring additional indigent care payments ($72 million), and various other cost containment proposals. The Medicaid estimate does not include possible savings related to the temporary increase in the Federal share of Medicaid costs.

Public health spending supported by All Governmental Funds is expected to increase by $548 million from 2002-03 of which $195 million is attributable to increased State Funds support and the remaining $353 million consisting of additional Federal aid. The growth in Federal aid is largely attributable to increased spending for the Child Health Plus program ($324 million).

Spending from All Governmental Funds in support of welfare initiatives increased $205 million from 2002-03 actuals and reflects the State Funds increase described above ($631 million) offset by decreased welfare spending from federal funds ($426 million). The decreased spending is primarily due to the loss of one-time credits that were used to support 2002-03 spending.

All Governmental Funds spending growth largely attributable to State Funds spending includes growth for General State Charges ($502 million), Community Projects Fund ($350 million), debt service ($349 million), SUNY ($160 million), STAR ($136 million), and school aid ($104 million).

Major areas experiencing modest annual increases or decreases on an All Governmental Funds basis include: mental hygiene (up $191 million), handicapped/all other education (down $259 million), transportation (down $73 million), and public protection (down $69 million).

All Governmental Funds disbursements increased $3.67 billion over the 30-day estimates due to State Funds spending increases of $2.22 billion described above and growth in Federal Medicaid spending ($1.45 billion) attributable to legislative restorations of various cost containment and revenue maximizations, as well as revised estimates for underlying Federal Medicaid spending.

First Quarter Cash Flow

Unlike previous years, the 2003-04 General Fund first quarter cash flow estimates assume continued implementation of emergency cash management actions implemented after delays in enacting tobacco securitization legislation led to potential cash imbalances. The General Fund cash flow position is expected to be extremely tight during the first quarter of the 2003-04 fiscal year and thus requires continued management actions to maintain positive balances until $2.1 billion of tobacco proceeds are received in late June. DOB continues to monitor cash balances on a daily basis and has administratively managed the flow of funds and disbursements while continuing essential governmental operations through a statewide austerity plan. Under the current cash management plan, daily cash balances are expected to fluctuate significantly.

The General Fund balances assume continued deferrals of discretionary payments through June, including school aid payments scheduled in May and early June until the State receives the tobacco securitization proceeds. Thereafter, cash balances are expected to be healthy until March of the fiscal year.

The General Fund is projected to end May with a balance of $2.15 billion. This balance, along with June receipts, will be used to make the school aid payment deferred from March on June 2 ($1.2 billion) as well as weekly Medicaid, payroll, and other critical payments. As a result, cash balances are expected to decline to very low levels by mid-June. The State expects to make the remaining May and June school aid payments ($2.5 billion) in late June upon the receipt of tobacco securitization proceeds. Absent these proceeds, General Fund resources would be insufficient to pay school aid and end the month with a positive cash balance.

The 2003-04 Enacted Budget amends State Finance Law to permit the State Comptroller to make balances in other funds and accounts temporarily available to the General Fund for intra-month cash flow needs as long as such balances can be repaid by the end of the month. This provision is set to expire on March 31, 2004.

GAAP-Basis Financial Plans

The February Financial Plan included General Fund Financial Plans prepared in accordance with Generally Accepted Accounting Principles (GAAP) for State fiscal years 2002-03 through 2005-06. The accounting principles that DOB applied in preparing the GAAP projections are consistent with those applied by the State Comptroller for the 2001-02 GAAP-basis Financial Statements. Accordingly, the projections do not reflect the impact of any pending proposals of the Governmental Accounting Standards Board, including GASB 34. The changes mandated by GASB 34 are expected to significantly change the presentation of GAAP-basis financial results for state and local governments in 2002-03.

The General Fund GAAP Financial Plan issued as part of the February Financial Plan projected that the State would end the 2002-03 fiscal year with an operating imbalance of $2.74 billion. The operating result reflected the use of reserves in response to the World Trade Center disaster. As a result of the operating deficit, the accumulated surplus was projected to decline from $492 million at the end of 2001-02 to a $2.24 billion accumulated deficit at the end of 2002-03.

Certain legislative actions, including deferring a Medicaid Cycle ($170 million), and delaying TAP payments ($104 million) are expected to negatively impact the GAAP Financial Plan.

Additionally, the deferral of $1.9 billion in spending from 2002-03 until 2003-04 is expected to increase the 2002-03 accumulated GAAP-basis deficit, since the deferred payments are expected to be accrued to the 2002-03 fiscal year. However, the tobacco settlement revenues originally anticipated in 2002-03 but now expected in 2003-04 are likely to be accrued to the 2003-04 fiscal year resulting in no net change to the accumulated GAAP deficit by the end of 2003-04.

DOB expects to update the GAAP Financial Plan estimates for 2003-04 in the First Quarterly Financial Plan Update to be issued in July 2003.

Outyear General Fund Financial Plan Projections

General Fund budget gaps for the 2004-05 and 2005-06 fiscal years have increased significantly from the 30-day projections. It is currently estimated that spending and revenue actions in the Enacted Budget in concert with events since presentation of the Executive Budget will increase gaps to over $6 billion in 2004-05 and $8 billion in 2005-06, before reflecting savings from the Fiscal Management Plan or extra Federal aid. The Fiscal Management Plan savings will be implemented in 2003-04, and these actions coupled with new Federal assistance are expected to produce recurring savings in the outyears, reducing the gaps by approximately $900 million in each year.

Future budget gaps are subject to substantial revision as additional information becomes available about the national and State economies, financial sector activity, entitlement spending and social service caseloads, and State reimbursement obligations that are driven by local government activity. Key factors include: end-of-year business tax collections; calendar year economic results; year-end financial sector bonus income data; the school aid database update in November; and quarterly Medicaid cycle trend analysis.

These factors have historically been subject to a high degree of fluctuation across the forecast period, and could produce results above or below the current projections.

The outyear gap estimates do not assume any collective bargaining salary increases. If the projected budget gap for 2004-05 is closed fully with recurring actions, the 2005-06 budget gap would be reduced to under $2 billion.

Revenues are projected to increase from the Executive Budget as a result of legislative changes by $1.4 billion in 2004-05 and $605 million in 2005-06. The revenue proposals decrease primarily because of "sunset" provisions enacted for the tax increases. New revenue actions include a personal income tax surcharge ($1.2 billion in 2004-05 and $1.0 billion in 2005-06), one-quarter percent increase in sales tax ($572 million in 2004-05 and $100 million in 2005-06), and a decoupling from Federal bonus depreciation provisions ($100 million in 2004-05 and $90 million in 2005-06). These revenue actions are offset by the loss of receipts due to the sales tax free week proposed in the Executive Budget ($315 million in 2004-05 and $435 million in 2005-06), and the intended transfer of State sales tax receipts to New York City ($170 million annually).

In addition, revenues are expected to decrease by $609 million in 2004-05 and 2005-06 primarily reflecting the impact of 2002-03 actuals and the April 2003 PIT settlement.

As compared to the Executive Budget, spending is projected to increase by $4.5 billion in 2004-05 and $4.2 billion in 2005-06. This spending increase reflects revisions based on actual results and net legislative adds to the Governor's Executive Budget, including Medicaid programs ($1.7 billion in 2004-05 and $1.5 billion in 2005-06), school aid, including revised estimates resulting from the May 15 database update ($1.4 billion in 2004-05 and 2005-06), higher education ($323 million in 2004-05 and $303 million in 2005-06), and higher general state charges primarily driven by restorations of health insurance savings initiatives and the planned payment of the full required pension bill in 2004-05 and 2005-06 ($555 million in 2004-05 and $338 million in 2005-06).

2004-05 spending grows $2.2 billion above the $2.3 billion increase in 2003-04 from the Executive Budget (for a total 2004-05 increase of $4.5 billion). This incremental growth is driven by the annualization of Medicaid restorations ($403 million), HCRA ($268 million), and the deferral of a 2003-04 Medicaid cycle into 2004-05 ($170 million), the "tail" of school aid adds and restorations including the loss of proposed BOCES and Building Aid reforms ($571 million), the May 15 school aid database revisions ($184 million), and increased fringe benefits costs including the denial of the Governor's proposed pension reforms and the restoration of proposed health insurance cost containment ($521 million).

Fiscal Management Plan savings include continuing the statewide austerity measures implemented during 2003-04, mandating agencies to eliminate, consolidate, and streamline governmental services, reducing the State workforce further, maximizing Federal aid, and planning legislative actions that may include statutory modifications to programs.

A more detailed discussion of these revenue and spending changes, as well as the Fiscal Management Plan, is described in the Overview and General Fund sections above.

CASH FINANCIAL PLAN
GENERAL FUND
2002-2003 and 2003-2004
ADJUSTED FOR 2002-2003 DELAYS
(millions of dollars)

	2002-2003 Adjusted Actual	2003-2004 Adjusted Enacted	Annual Change
Opening fund balance	1,032	815	(217)
Receipts:			
Taxes:			
Personal income tax	16,791	16,285	(506)
User taxes and fees	7,063	8,007	944
Business taxes	3,380	3,498	118
Other taxes	743	771	28
Miscellaneous receipts	3,991	3,669	(322)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	4,215	5,125	910
Sales tax in excess of LGAC debt service	1,919	1,853	(66)
Real estate taxes in excess of CW/CA debt service	263	202	(61)
All other	931	430	(501)
Total receipts	39,296	39,840	544
Disbursements:			
Grants to local governments	26,713	28,009	1,296
State operations	7,715	7,168	(547)
General State charges	2,732	3,199	467
Transfers to other funds:			
Debt service	1,496	1,583	87
Capital projects	170	251	81
State University	26	145	119
Other purposes	661	482	(179)
Total disbursements	39,513	40,837	1,324
Fiscal Management Plan/Federal Aid	0	912	912
Change in fund balance	(217)	(85)	132
Closing fund balance	815	730	(85)
Tax Stabilization Reserve Fund	710	710	0
Contingency Reserve Fund	20	20	0
Community Projects Fund	85	0	(85)

CASH FINANCIAL PLAN
GENERAL FUND
2003-2004
ADJUSTED FOR 2002-2003 DELAYS
(millions of dollars)

	30-Day	Change	Adjusted Enacted
Opening fund balance	805	10	815
Receipts:			
Taxes:			
Personal income tax	15,452	833	16,285
User taxes and fees	7,508	499	8,007
Business taxes	3,682	(184)	3,498
Other taxes	771	0	771
Miscellaneous receipts	3,579	90	3,669
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	4,865	260	5,125
Sales tax in excess of LGAC debt service	1,999	(146)	1,853
Real estate taxes in excess of CW/CA debt service	202	0	202
All other	379	51	430
Total receipts	38,437	1,403	39,840
Disbursements:			
Grants to local governments	25,780	2,229	28,009
State operations	7,166	2	7,168
General State charges	3,165	34	3,199
Transfers to other funds:			
Debt service	1,583	0	1,583
Capital projects	206	45	251
State university	145	0	145
Other purposes	467	15	482
Total disbursements	38,512	2,325	40,837
Fiscal Management Plan/Federal Aid	0	912	912
Change in fund balance	(75)	(10)	(85)
Closing fund balance	730	0	730
Tax Stabilization Reserve Fund	710	0	710
Contingency Reserve Fund	20	0	20

Note: The 30-Day opening fund balance was reduced by $198 million and the personal income tax receipts were increased by $198 million to reflect the tax refund reserve transaction.

CASH FINANCIAL PLAN
GENERAL FUND
2002-2003 and 2003-2004
(millions of dollars)

	2002-2003 Actual	2003-2004 Enacted	Change
Opening fund balance	1,032	815	(217)
Receipts:			
Taxes:			
Personal income tax	16,791	16,285	(506)
User taxes and fees	7,063	8,007	944
Business taxes	3,380	3,498	118
Other taxes	743	771	28
Miscellaneous receipts	2,091	5,569	3,478
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	4,215	5,125	910
Sales tax in excess of LGAC debt service	1,919	1,853	(66)
Real estate taxes in excess of CW/CA debt service	263	202	(61)
All other	931	430	(501)
Total receipts	37,396	41,740	4,344
Disbursements:			
Grants to local governments	24,887	29,835	4,948
State operations	7,678	7,205	(473)
General State charges	2,699	3,232	533
Transfers to other funds:			
Debt service	1,496	1,583	87
Capital projects	166	255	89
State University	26	145	119
Other purposes	661	482	(179)
Total disbursements	37,613	42,737	5,124
Fiscal Management Plan/Federal Aid	0	912	912
Change in fund balance	(217)	(85)	132
Closing fund balance	815	730	(85)
Tax Stabilization reserve Fund	710	710	0
Contingency Reserve Fund	20	20	0
Community Projects Fund	85	0	(85)

Note: Actuals reflect the amounts published in the Comptroller's Cash Basis Report released on April 15, 2003.

CASH FINANCIAL PLAN
GENERAL FUND
2002-2003
(millions of dollars)

	Actual	Adjustments	Adjusted Actual
Opening fund balance	1,032	0	1,032
Receipts:			
Taxes:			
Personal income tax	16,791	0	16,791
User taxes and fees	7,063	0	7,063
Business taxes	3,380	0	3,380
Other taxes	743	0	743
Miscellaneous receipts	2,091	1,900	3,991
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	4,215	0	4,215
Sales tax in excess of LGAC debt service	1,919	0	1,919
Real estate taxes in excess of CW/CA debt service	263	0	263
All other	931	0	931
Total receipts	37,396	1,900	39,296
Disbursements:			
Grants to local governments	24,887	1,826	26,713
State operations	7,678	37	7,715
General State charges	2,699	33	2,732
Transfers to other funds:			
Debt service	1,496	0	1,496
Capital projects	166	4	170
State University	26	0	26
Other purposes	661	0	661
Total disbursements	37,613	1,900	39,513
Change in fund balance	(217)	0	(217)
Closing fund balance	815	0	815
Tax Stabilization Reserve Fund	710	0	710
Contingency Reserve Fund	20	0	20
Community Projects Fund	85	0	85

Note: Actuals reflect the amounts published in the Comptroller's Cash Basis Report released on April 15, 2003.

CASH FINANCIAL PLAN
GENERAL FUND
2003-2004
(millions of dollars)

	Enacted	Adjustments	Adjusted Enacted
Opening fund balance	815	0	815
Receipts:			
Taxes:			
Personal income tax	16,285	0	16,285
User taxes and fees	8,007	0	8,007
Business taxes	3,498	0	3,498
Other taxes	771	0	771
Miscellaneous receipts	5,569	(1,900)	3,669
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,125	0	5,125
Sales tax in excess of LGAC debt service	1,853	0	1,853
Real estate taxes in excess of CW/CA debt service	202	0	202
All other	430	0	430
Total receipts	41,740	(1,900)	39,840
Disbursements:			
Grants to local governments	29,835	(1,826)	28,009
State operations	7,205	(37)	7,168
General State charges	3,232	(33)	3,199
Transfers to other funds:			
Debt service	1,583	0	1,583
Capital projects	255	(4)	251
State University	145	0	145
Other purposes	482	0	482
Total disbursements	42,737	(1,900)	40,837
Fiscal Management Plan/Federal Aid	912	0	912
Change in fund balance	(85)	0	(85)
Closing fund balance	730	0	730
Tax Stabilization Reserve Fund	710	0	710
Contingency Reserve Fund	20	0	20

Note: The 30-Day opening fund balance was reduced by $198 million and the personal income tax receipts were increased by $198 million to reflect the PIT refund reserve transaction.

CURRENT STATE RECEIPTS
GENERAL FUND
2002-2003 and 2003-2004
ADJUSTED FOR 2002-2003 DELAYS
(millions of dollars)

	2002-2003 Adjusted Actual	2003-2004 Adjusted Enacted	Annual Change
Personal income tax	16,791	16,285	(506)
User taxes and fees	7,063	8,007	944
Sales and use tax	6,328	7,285	957
Cigarette and tobacco taxes	446	425	(21)
Motor vehicle fees	67	75	8
Alcoholic beverages taxes	180	180	0
Alcoholic beverage control license fees	42	42	0
Business taxes	3,380	3,498	118
Corporation franchise tax	1,407	1,450	43
Corporation and utilities tax	860	805	(55)
Insurance taxes	704	818	114
Bank tax	409	425	16
Other taxes	743	771	28
Estate tax	701	737	36
Gift tax	7	0	(7)
Real property gains tax	5	2	(3)
Pari-mutuel taxes	29	31	2
Other taxes	1	1	0
Total taxes	27,977	28,561	584
Miscellaneous receipts	3,991	3,669	(322)
Total	31,968	32,230	262

Note: Adjusted miscellaneous receipts include $1.9 billion in tobacco securitization proceeds in 2002-03 that will be received in 2003-04.

CURRENT STATE RECEIPTS
ALL GOVERNMENTAL FUNDS
2002-2003 and 2003-2004
ADJUSTED FOR 2002-2003 DELAYS
(millions of dollars)

	2002-2003 Adjusted Actual	2003-2004 Adjusted Enacted	Change
Personal income tax	23,698	24,460	762
User taxes and fees	10,804	11,984	1,180
Sales and use taxes	8,796	9,956	1,160
Cigarette and tobacco taxes	446	425	(21)
Motor fuel tax	544	537	(7)
Motor vehicle fees	612	651	39
Highway use tax	147	149	2
Alcoholic beverage taxes	180	180	0
Alcoholic beverage control license fees	42	42	0
Auto rental tax	37	44	7
Business taxes	4,983	5,052	69
Corporation franchise tax	1,612	1,655	43
Corporation and utilities taxes	1,091	993	(98)
Insurance taxes	776	903	127
Bank tax	481	500	19
Petroleum business taxes	1,023	1,001	(22)
Other taxes	1,191	1,176	(15)
Estate tax	701	737	36
Gift tax	7	0	(7)
Real property gains tax	5	2	(3)
Real estate transfer tax	448	404	(44)
Pari-mutuel taxes	29	32	3
Other taxes	1	1	0
Total taxes	40,676	42,672	1,996
Miscellaneous receipts	16,056	17,705	1,649
Federal grants	33,242	33,444	202
Total	89,974	93,821	3,847

Note: Adjusted miscellaneous receipts include $1.9 billion in tobacco securitization proceeds in 2002-03 that will be received in 2003-04.

GENERAL FUND
TAX REFUND RESERVE ACCOUNT
2002-2003 AND 2003-2004
ADJUSTED FOR 2002-2003 DELAYS
(millions of dollars)

	2002-2003 Adjusted Actual	2003-2004 Adjusted Enacted	Annual Change
Withholdings	19,959	22,135	2,176
Estimated Payments	4,855	4,780	(75)
Final Payments	1,334	1,241	(93)
Delinquencies	796	670	(126)
Gross Collections	26,944	28,826	1,882
State/City Offset	(288)	(300)	(12)
Refund Reserve	1,050	159	(891)
Refunds	(4,008) (1)	(4,225) (2)	(217)
Reported Tax Collections	23,698	24,460	762
STAR	(2,664)	(2,800)	(136)
RBTF	(4,243)	(5,375)	(1,132)
General Fund	16,791	16,285	(506)

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

Note 1: Reflects the payment of the balance of refunds on 2001 liability and payment of $960 million of calendar year 2002 refunds in the last quarter of the State's 2002-03 fiscal year and a balance in the Tax Refund Reserve Account of $627 million.

Note 2: Reflects the payment of the balance of refunds on 2002 liability and the projected payment of $960 million of calendar year 2003 refunds in the last quarter of the State's 2003-04 fiscal year and a projected balance in the Tax Refund Reserve Account of $468 million.

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	894	(560)	158	1,307
Receipts:					
Taxes	28,561	4,401	1,765	7,945	42,672
Miscellaneous receipts	5,569	9,880	3,232	702	19,383
Federal grants	0	0	0	0	0
Total receipts	34,130	14,281	4,997	8,647	62,055
Disbursements:					
Grants to local governments	29,835	10,191	1,095	0	41,121
State operations	7,205	4,561	0	8	11,774
General State charges	3,232	410	0	0	3,642
Debt service	0	0	0	3,387	3,387
Capital projects	0	2	3,061	0	3,063
Total disbursements	40,272	15,164	4,156	3,395	62,987
Other financing sources (uses):					
Transfers from other funds	7,610	801	401	4,844	13,656
Transfers to other funds	(2,465)	(231)	(1,068)	(10,093)	(13,857)
Bond and note proceeds	0	0	248	0	248
Net other financing sources (uses)	5,145	570	(419)	(5,249)	47
Fiscal Management Plan/Federal Aid	912	0	0	0	912
Change in fund balance	(85)	(313)	422	3	27
Closing fund balance	730	581	(138)	161	1,334

CASH FINANCIAL PLAN
STATE FUNDS
2003-2004
ADJUSTED FOR 2002-2003 DELAYS
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	894	(560)	158	1,307
Receipts:					
Taxes	28,561	4,401	1,765	7,945	42,672
Miscellaneous receipts	3,669	9,880	3,232	702	17,483
Federal grants	0	0	0	0	0
Total receipts	32,230	14,281	4,997	8,647	60,155
Disbursements:					
Grants to local governments	28,009	10,191	1,095	0	39,295
State operations	7,168	4,561	0	8	11,737
General State charges	3,199	410	0	0	3,609
Debt service	0	0	0	3,387	3,387
Capital projects	0	2	3,057	0	3,059
Total disbursements	38,376	15,164	4,152	3,395	61,087
Other financing sources (uses):					
Transfers from other funds	7,610	801	397	4,844	13,652
Transfers to other funds	(2,461)	(231)	(1,068)	(10,093)	(13,853)
Bond and note proceeds	0	0	248	0	248
Net other financing sources (uses)	5,149	570	(423)	(5,249)	47
Fiscal Management Plan/Federal Aid	912	0	0	0	912
Change in fund balance	(85)	(313)	422	3	27
Closing fund balance	730	581	(138)	161	1,334

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	986	(791)	158	1,168
Receipts:					
Taxes	28,561	4,401	1,765	7,945	42,672
Miscellaneous receipts	5,569	10,102	3,232	702	19,605
Federal grants	0	31,806	1,638	0	33,444
Total receipts	34,130	46,309	6,635	8,647	95,721
Disbursements:					
Grants to local governments	29,835	38,677	1,312	0	69,824
State operations	7,205	7,790	0	8	15,003
General State charges	3,232	576	0	0	3,808
Debt service	0	0	0	3,387	3,387
Capital projects	0	2	4,350	0	4,352
Total disbursements	40,272	47,045	5,662	3,395	96,374
Other financing sources (uses):					
Transfers from other funds	7,610	3,221	401	4,844	16,076
Transfers to other funds	(2,465)	(2,594)	(1,200)	(10,093)	(16,352)
Bond and note proceeds	0	0	248	0	248
Net other financing sources (uses)	5,145	627	(551)	(5,249)	(28)
Fiscal Management Plan/Federal Aid	912	0	0	0	912
Change in fund balance	(85)	(109)	422	3	231
Closing fund balance	730	877	(369)	161	1,399

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2003-2004
ADJUSTED FOR 2002-2003 DELAYS
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	986	(791)	158	1,168
Receipts:					
Taxes	28,561	4,401	1,765	7,945	42,672
Miscellaneous receipts	3,669	10,102	3,232	702	17,705
Federal grants	0	31,806	1,638	0	33,444
Total receipts	32,230	46,309	6,635	8,647	93,821
Disbursements:					
Grants to local governments	28,009	38,677	1,312	0	67,998
State operations	7,168	7,790	0	8	14,966
General State charges	3,199	576	0	0	3,775
Debt service	0	0	0	3,387	3,387
Capital projects	0	2	4,346	0	4,348
Total disbursements	38,376	47,045	5,658	3,395	94,474
Other financing sources (uses):					
Transfers from other funds	7,610	3,221	397	4,844	16,072
Transfers to other funds	(2,461)	(2,594)	(1,200)	(10,093)	(16,348)
Bond and note proceeds	0	0	248	0	248
Net other financing sources (uses)	5,149	627	(555)	(5,249)	(28)
Fiscal Management Plan/Federal Aid	912	0	0	0	912
Change in fund balance	(85)	(109)	422	3	231
Closing fund balance	730	877	(369)	161	1,399

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

	State	Federal	Total
Opening fund balance	894	92	986
Receipts:			
Taxes	4,401	0	4,401
Miscellaneous receipts	9,880	222	10,102
Federal grants	0	31,806	31,806
Total receipts	14,281	32,028	46,309
Disbursements:			
Grants to local governments	10,191	28,486	38,677
State operations	4,561	3,229	7,790
General State charges	410	166	576
Debt service	0	0	0
Capital projects	2	0	2
Total disbursements	15,164	31,881	47,045
Other financing sources (uses):			
Transfers from other funds	801	2,420	3,221
Transfers to other funds	(231)	(2,363)	(2,594)
Bond and note proceeds	0	0	0
Net other financing sources (uses)	570	57	627
Change in fund balance	(313)	204	(109)
Closing fund balance	581	296	877

CASH FINANCIAL PLAN
CAPITAL PROJECTS FUNDS
2003-2004
ADJUSTED FOR 2002-2003 DELAYS
(millions of dollars)

	State	Federal	Total
Opening fund balance	(560)	(231)	(791)
Receipts:			
Taxes	1,765	0	1,765
Miscellaneous receipts	3,232	0	3,232
Federal grants	0	1,638	1,638
Total receipts	4,997	1,638	6,635
Disbursements:			
Grants to local governments	1,095	217	1,312
State operations	0	0	0
General State charges	0	0	0
Debt service	0	0	0
Capital projects	3,057	1,289	4,346
Total disbursements	4,152	1,506	5,658
Other financing sources (uses):			
Transfers from other funds	397	0	397
Transfers to other funds	(1,068)	(132)	(1,200)
Bond and note proceeds	248	0	248
Net other financing sources (uses)	(423)	(132)	(555)
Change in fund balance	422	0	422
Closing fund balance	(138)	(231)	(369)

CASH FLOW
GENERAL FUND
2003-2004
(millions of dollars)

	April	May	June
Opening fund balance	815	2,786	2,145
Receipts:			
Taxes:			
Personal income tax	2,811	304	1,582
Sales tax	450	462	737
User taxes and fees	103	56	59
Business taxes	56	(128)	722
Other taxes	49	67	73
Miscellaneous receipts	70	103	2,239
Transfers from other funds	898	330	782
Total receipts	4,437	1,194	6,194
Disbursements:			
Grants to local governments	1,462	694	5,284
State operations	743	814	611
General State charges	32	241	236
Transfers to other funds	229	86	350
Total disbursements	2,466	1,835	6,481
Change in fund balance	1,971	(641)	(287)
Closing fund balance	2,786	2,145	1,858

Special Considerations

Many complex political, social, and economic forces influence the State's economy and finances, which may in turn affect the State's Financial Plan. These forces may affect the State unpredictably from fiscal year to fiscal year and are influenced by governments, institutions, and events that are not subject to the State's control. The Financial Plan is also necessarily based upon forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies. DOB believes that its current estimates related to the performance of the State and national economies are reasonable. However, there can be no assurance that actual results will not differ materially and adversely from the current forecast. For a discussion of the DOB economic forecast, see the sections entitled "Economic and Demographics," "Current Fiscal Year – National Economy" and "Current Fiscal Year – State Economy" in this AIS.

Based on current projections, the 2003-04 Financial Plan depends in part on the implementation of a fiscal management plan to maintain budget balance in the current fiscal year. The plan currently under development by DOB is expected to contain a range of actions that can be implemented administratively, as well as proposals that may require legislative approval. The fiscal management plan will also integrate savings from the Federal aid package enacted by Congress on May 23, 2003. DOB estimates the Federal package will provide the State and localities a total of $2.1 billion in fiscal relief over the next two State fiscal years, consisting of a temporary 2.95 percent increase in the Federal matching rate for State Medicaid expenditures (valued at $1.5 billion) and unrestricted aid payments (valued at $645 million). The Federal aid is expected to enhance the State's flexibility in preparing the fiscal management plan and maintaining a balanced budget in the 2003-04 fiscal year. DOB expects to incorporate the fiscal management plan into the Financial Plan projections by the release of the First Quarterly Update to the Financial Plan.

The Executive is reviewing legal questions surrounding certain actions taken by the Legislature in enacting the 2003-04 budget. The State Constitution provides that the Legislature may not alter an appropriation bill submitted by the Governor except to strike out or reduce items, or to add appropriations that are stated separately and distinctly from the original appropriations. A number of court cases have interpreted and clarified the Legislature's powers to act on the appropriations contained in the Executive Budget (see the section entitled "Litigation" for a discussion of two ongoing cases). In light of the provisions of the State Constitution and existing case law, the Executive believes that the Legislature, in enacting changes to the Governor's Executive Budget for 2003-04, may have acted in a manner that violates State constitutional and statutory requirements.

Labor contracts between the State and most State employee unions expired on March 31, 2003 and collective bargaining negotiations are underway on a new round of contracts. The Financial Plan contains no reserves to finance potential new costs related to any new labor agreements. DOB projects that every one percent increase in salaries for all State employees would result in a General Fund Financial Plan cost of approximately $80 million.

DOB expects the State's cash flow position to experience pressure in the first quarter of the 2004-05 fiscal year. A number of administrative options are available to DOB to manage General Fund cash flow needs during any fiscal year. The State is prohibited from issuing seasonal notes in the public credit markets to finance cash flow needs, unless the State satisfies certain restrictive conditions imposed under the Local Government Assistance Corporation ("LGAC") statute and related bond covenants. For a discussion of the LGAC restrictions, see the section entitled "Debt and Other Financing Activities – Local Government Assistance Corporation" in this AIS.

An ongoing risk to the Financial Plan arises from the potential impact of certain litigation and Federal disallowances now pending against the State, which could produce adverse effects on the State's projections of receipts and disbursements. For example, the Federal government has issued a draft disallowance for certain claims, and deferred the payment of other claims, submitted by school districts related to school supportive health services. It is unclear at this time what impact, if any, such disallowances may have on the State Financial Plan in the current year or in the future. The Financial Plan assumes no significant Federal disallowances or other Federal actions that could adversely affect State finances. For more information on certain litigation pending against the State, see the section entitled "Litigation" in this AIS.

In the past, the State has taken management actions to address potential financial plan shortfalls, and DOB believes it could take similar actions should adverse variances occur in its projections for the current fiscal year. To help guard against such risks, the State is maintaining a total of $730 million in General Fund reserves, after implementation of the fiscal management plan.

Appendix C

Summary of Certain Provisions of the Indenture

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a general summary of certain provisions of the Trust Indenture (hereinafter the "Indenture") as proposed to be amended, which amendments are to be effective on the date on which there are no longer Outstanding any of the Authority's 1997 Series A Bonds. Such summary is not to be considered a full statement of the terms of the Indenture and, accordingly, is qualified by reference thereto and is subject to the full text thereof. All references to Sections in such summary refer to Sections of the Indenture unless otherwise expressly stated. A copy of the Indenture may be obtained upon request therefor addressed to the Secretary of JDA.

Definitions (Section 1.01)

As used in the Indenture and in this summary thereof, unless a different meaning clearly appears from the context:

Accreted Value means with respect to any Capital Appreciation Bond (i) as of any Valuation Date, the amount set forth for such date in the Supplemental Indenture authorizing such Capital Appreciation Bond and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semiannual period in equal daily amounts on the basis of a year of twelve (12) thirty-day months, and (2) the difference between the Accreted Values for such Valuation Dates;

Act means the New York Job Development Authority Act, as amended, constituting Title 8 of Article 8 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as heretofore or hereafter amended.

Appreciated Value means with respect to any Deferred Income Bond (i) as of any Valuation Date, the amount set forth for such date in the Supplemental Indenture authorizing such Deferred Income Bond and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Appreciated Value accrues during any semiannual period in equal daily amounts on the basis of a year of twelve (12) thirty-day months, and (2) the difference between the Appreciated Values for such Valuation Dates, and (iii) as of any date of computation on and after the Interest Commencement Date, the Appreciated Value on the Interest Commencement Date;

Arbitrage Rebate Fund means the fund so designated, created and established under the Indenture;

Authority means New York Job Development Authority, a body corporate and politic constituting a public benefit corporation, created and existing under and pursuant to the Act.

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

Authorized Officer means (i) in the case of the Authority, the Chairman, the President, any Vice President, the Treasurer and the Secretary, and when used with reference to any act or document also means any other person authorized by a resolution or the by-laws of the Authority to perform such act or execute such document; and (ii) in the case of the Trustee, the President, a Vice President, a Corporate Trust Officer, an Assistant Corporate Trust Officer, a Trust Officer or an Assistant Trust Officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the by-laws of the Trustee;

Available, when used with respect to funds of the Authority, means those funds of the Authority which (i) are lawfully available for payment of the principal of, premium, if any, and interest on the Bonds, (ii) may be used for such payment consistent with such agreements with holders of bonds and notes issued by the Authority as may exist at the time of the proposed payment and (iii) may, in the judgment of the Authority at such time, be used for such payment without adversely affecting the exemption of interest on Exempt Bonds or any other obligations issued by the Authority with the intention that the interest thereon be exempt from Federal income taxation under the Code;

Bond or **Bonds** means any of the bonds of the Authority authorized and issued pursuant to the Indenture and to a Supplemental Indenture;

Bond Counsel means any attorney or law firm, appointed by the Authority, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds;

Bond Year means a period of twelve (12) consecutive months beginning March 1 in any calendar year and ending the last calendar day of February of the succeeding calendar year;

Bondholder, **Holder of Bonds** or **Holder** or any similar term, when used with reference to a Bond or Bonds, means the registered owner of any Bond;

Book Entry Bond means a Bond issued to and registered in the name of a Depository for the participants in such Depository;

Business Day means any day which is not (i) a Saturday or Sunday, or (ii) a day on which banking institutions chartered by the State or the United States of America are legally authorized to close in the State; **provided, however,** that, with respect to Option Bonds or Variable Interest Rate Bonds of a Series, such term means any day which is not a Saturday, Sunday or a day on which the New York Stock Exchange, banking institutions chartered by the State or the United States of America, the Trustee or the issuer of a Credit Facility or Liquidity Facility for such Bonds are legally authorized to close in the State;

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

Code means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder;

Comptroller means the Comptroller or any Deputy Comptroller of the State;

Counterparty means any person with which the Authority has entered into an Interest Rate Exchange Agreement;

Credit Facility means an irrevocable letter of credit, surety bond, loan agreement, Standby Purchase Agreement or other agreement, facility or insurance or guaranty arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, or any federal agency or instrumentality, pursuant to which the Authority is entitled to obtain moneys to pay the principal, purchase price or Redemption Price of Bonds due in accordance with their terms or tendered for purchase or redemption, plus accrued interest thereon to the date of payment, purchase or redemption thereof, whether or not the Authority is in default under the Indenture;

Debt Service Fund means the fund so designated, created and established under the Indenture;

Defeased Municipal Obligations means pre-refunded municipal obligations rated in the highest Rating Category by each Rating Agency and meeting the following requirements: The municipal obligations (i) are not subject to redemption prior to maturity or (ii) the trustee or the paying agent has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions; and the municipal obligations are fully secured by cash or Government Obligations which may be applied only to payment of the principal of and interest and premium, if any, on such municipal obligations.

Deferred Income Bond means any Bond as to which interest accruing thereon prior to the Interest Commencement Date of such Bond is compounded on each Valuation Date for such Deferred Income Bond, and as to which interest accruing after the Interest Commencement Date is payable semiannually on September 1 and March 1 of each Bond Year;

Depository means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State, or its nominee, or any other person, firm, association or corporation designated in the Supplemental Indenture authorizing a Series of Bonds to serve as securities depository for the Bonds of such Series;

Exempt Bonds mean any Bond the interest on which is excludable from gross income under Section 103 of the Code;

Government Obligation means (a) direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America and entitled to the full faith and credit thereof; (b) certificates, depositary receipts or other instruments which evidence a direct ownership interest in obligations described in clause (a) above or in any specific interest or principal payments due in respect thereof; provided, however, that the custodian of such obligations or specific interest or principal payments shall be a bank or trust company organized under the laws of the United States of America or of any state or territory thereof or of the District of Columbia, with a combined capital stock, surplus and undivided profits of at least $50,000,000 or the custodian is appointed by or on behalf of the United States of America; and provided, further, that except as may be otherwise required by law, such custodian shall be obligated to pay to the holders of such certificates, depositary receipts or other instruments the full amount received by such custodian in respect of such obligations or specific payments and shall not be permitted to make any deduction therefrom; (c) an obligation of any federal agency approved by the Authority; (d) a share or interest in a mutual fund, partnership or other fund wholly comprised of obligations described in clauses (a), (b) and (c) above; (e) Defeased Municipal Obligations; or (f) any other Investment Securities designated in a Supplemental Resolution as a Government Obligation for purposes of defeasing Bonds, which is not redeemable at the option of the issuer thereof and which shall be rated at the time of the investment in the highest long-term rating category by each Rating Service;

Indenture means the Trust Indenture, as from time to time amended or supplemented by Supplemental Indentures in accordance with the terms and provisions of the Indenture;

Interest Payment Date means a date on which interest on a Bond is payable in accordance with the Indenture, with the Bond or with the Supplemental Indenture authorizing the issuance of such Bond;

Interest Commencement Date means, with respect to any particular Deferred Income Bond, the date prior to the maturity date thereof specified in the Supplemental Indenture authorizing such Bond, after which interest accruing on such Bond shall be payable on the interest payment date immediately succeeding such Interest Commencement Date and semiannually thereafter on March 1 and September 1 of each Bond Year;

Interest Rate Exchange Agreement means an agreement entered into by the Authority in connection with the issuance of, or which relates to, Bonds of one or more Series which includes, but is not limited to any interest rate swap, cap, collar, floor, swaption, option, forward contract or any other hedging device or termination, amendment or replacement thereof.

Liquidity Facility means an irrevocable letter of credit, surety bond, loan agreement, Standby Purchase Agreement, line of credit or other agreement or arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a savings bank, a domestic branch or agency of a foreign bank which branch or agency is duly, licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, or any federal agency or instrumentality, pursuant to which moneys are to be obtained upon the terms and conditions contained therein for the purchase or redemption of Option Bonds tendered for purchase or redemption in accordance with the terms of the Indenture and of the Supplemental Indenture authorizing such Bonds;

Maximum Interest Rate means, with respect to any particular Variable Interest Rate Bond, the numerical rate of interest, if any, set forth in the Supplemental Indenture authorizing such Bond, as the maximum rate at which such Bond may bear interest at any time;

Option Bond means any Bond which by its terms may be tendered by and at the option of the Holder thereof for redemption by the Authority prior to the stated maturity thereof or for purchase thereof, or the maturity of which may be extended by and at the option of the Holder thereof in accordance with the Supplemental Indenture authorizing such Bonds;

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

Paying Agent means, with respect to the Bonds of any Series, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions Indenture or of a Supplemental Indenture or of a resolution of the corporation adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed;

Principal Installment means, as of any date of calculation, (i) the principal amount of all Outstanding Bonds due at maturity or upon call for redemption on a future date with respect to which no Sinking Fund Installments have been established and (ii) the Sinking Fund Installment due on a future date;

Principal Installment Date means any date on which a Principal Installment comes due;

Record Date means, unless the Supplemental Indenture authorizing provides otherwise, the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding an Interest Payment Date;

Redemption Price, when used with respect to a Bond, means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption prior to maturity thereof pursuant to the Indenture or to the applicable Supplemental Indenture;

Refunding Bonds means all Bonds, whether issued in one or more Series of Bonds, authenticated and delivered on original issuance, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds;

Remarketing Agent means the person appointed by the Authority to remarket the Option Bonds of a Series tendered or deemed to have been tendered for purchase in accordance with the Supplemental Indenture authorizing the issuance of such Bonds;

Series means all of the Bonds authenticated and delivered on original issuance and pursuant to the Indenture and to the Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions;

Sinking Fund Installment means, as of any date of calculation, when used with respect to any Bonds of a Series, other than Option Bonds or Variable Interest Rate Bonds, so long as any such Bonds are Outstanding, the amount of money required hereby or by the Supplemental Indenture pursuant to which such Bonds were issued to be paid on a single future March 1 or any future September 1 and March 1 for the retirement of any Outstanding Bonds of said Series which mature after said future March 1 or said future March 1 or September 1, as the case may be, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future March 1 or March 1 or September 1 are deemed to be the date or dates, when Sinking Fund Installments are payable and the date such Sinking Fund Installments and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment, and when used with respect to Option Bonds or Variable Interest Rate Bonds of a Series, so long as such Bonds are Outstanding, the amount of money required by the Supplemental Indenture pursuant to which such Bonds were issued to be paid on future Interest Payment Dates for the retirement of any Outstanding Bonds of said Series which mature after said Interest Payment Date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future dates are deemed to be the dates when Sinking Fund Installments are payable and the dates of such Sinking Fund Installment and said Outstanding Option Bonds or Variable Rate Interest Bonds of such Series are deemed to be Bonds entitled to such Sinking Fund Installment;

State means the State of New York;

Supplemental Indenture means any written instrument executed by the Authority and the Trustee authorizing the issuance of Bonds of a Series or amending or supplementing the Indenture or any Supplemental Indenture adopted and becoming effective in accordance with the terms and provisions of Article II or Article IX of the Indenture;

Tax Requirements means those provisions of (i) the Tax Reform Act of 1986, as amended by the Technical and Miscellaneous Revenue Act of 1988, (ii) the Code, and (iii) the Internal Revenue Code of 1954, as amended, and the temporary, proposed, or final regulations promulgated thereunder by the United States Treasury Department which are applicable to the Exempt Bonds and which must be complied with in order that the interest on the Exempt Bonds not be, and continue not to be, includable in the gross income of the Holders thereof for Federal income tax purposes.

Term Bonds means the Bonds so designated in the Supplemental Indenture authorizing such Bonds;

Trustee means Manufacturers and Traders Trust Company and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant to the Indenture;

Valuation Date means (i) with respect to any Capital Appreciation Bond, the date or dates set forth in the Supplemental Indenture authorizing such Bond on which specific Accreted Values are assigned to such Capital Appreciation Bond, and (ii) with respect to any Deferred Income Bond, the date or dates prior to the Interest Commencement Date and the Interest Commencement Date set forth in the Supplemental Indenture authorizing such Bond on which specific Appreciated Values are assigned to such Deferred Income Bond;

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

Variable Interest Rate Bond means any Bond which bears a Variable Interest Rate; **provided, however,** that a Bond the interest rate on which shall have been fixed for the remainder of the term thereof shall no longer be a Variable Interest Rate Bond.

Authorization of Bonds (Section 2.01)

The Indenture authorizes the issuance of Bonds of the Authority to be designated as "New York Job Development Authority State-Guaranteed Special Purpose Bonds. The Bonds shall be special obligations of the Authority solely payable from Available funds of the Authority and secured by the Trust Estate.

The Bonds may, if and when authorized by the Authority pursuant hereto and to one or more Supplemental Indentures, be issued in one or more Series and the Bonds of each Series shall contain an appropriate Series designation.

Guaranty by the State (Section 2.02)

The Comptroller shall execute by his signature or facsimile signature upon the face of each of the Bonds the full and unconditional guaranty by the State of the punctual payment of the principal of and interest on the Bond according to its terms, substantially in the following form:

> "GUARANTY BY THE STATE OF NEW YORK
>
> The punctual payment of the above bond is hereby fully and unconditionally guaranteed by the State of New York, which hereby pledges its full faith and credit to such payment, both as to principal and interest, according to its terms.
>
> IN WITNESS WHEREOF, THE STATE OF NEW YORK has caused this guaranty to be executed by the signature or facsimile signature of the Comptroller or a Deputy Comptroller of the State of New York.
>
> ____________________________
>
> Comptroller of the State of New York"

Provisions for Issuance of Bonds (Section 2.03)

The issuance of Bonds shall be authorized by a Supplemental Indenture. The Bonds of a Series authorized to be issued shall be executed by the Authority and delivered to the Trustee. Such Bonds shall from time to time and in such amounts as directed by the Authority be authenticated by the Trustee and be delivered to or upon the order of the Authority upon receipt of the consideration thereof and upon delivery to the Trustee of:

(i) A copy of the Indenture and the Supplemental Indenture authorizing such Bonds, certified by an Authorized Officer of the Authority;

(ii) A written order of the Authority to the Trustee as to the delivery of such Bonds, signed by an Authorized Officer of the Authority, describing the Bonds to be delivered, designating the purchaser or purchasers to whom such Bonds are to be delivered and stating the consideration for such Bonds;

(iii) A copy of a resolution of the Authority, authorizing the issuance of such Bonds;

(iv) Except in the case of Refunding Bonds, a certificate of an Authorized Officer of the Authority stating that the Authority is not, and, as a result of the issuance of such Bonds, shall not be, in default in the performance of any of the covenants, conditions, agreements or provisions contained herein;

(v) A certificate signed by the Comptroller, stating that the aggregate principal amount of the Bonds and any other special purpose bonds and special purpose notes previously or simultaneously issued by the Authority and to be outstanding upon delivery of the Bonds does not exceed such amount as described in the Act, as amended as of the date of the corresponding Supplemental Indenture;

(vi) If Bonds of such Series are Book Entry Bonds, a copy of the agreement, if any, between the Authority and the Depository for such Bonds;

(vii) If any Bonds of such Series are Option Bonds which are subject to optional or mandatory tender for purchase or redemption, a Credit Facility or Liquidity Facility in such an amount as would provide sufficient moneys for the purchase or redemption of all Option Bonds of such series if the Holders thereof elected to tender for purchase or redemption the entire aggregate Outstanding principal amount of the Option Bonds of such Series; and

(viii) An opinion of Bond Counsel to the effect that the Indenture and the applicable Supplemental Indenture Authorizing the Series of Bonds have been duly and lawfully authorized, executed and delivered by the Authority; that the Indenture and the applicable Supplemental Indenture are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms; and that the Authority is duly authorized and entitled to issue such Series of Bonds and, upon the execution and delivery thereof and upon authentication by the Trustee, such Series of Bonds will be duly and validly issued and will constitute valid and binding special obligations of the Authority entitled to the benefits of the Indenture; **provided**, **however,** that such opinion may be qualified to the extent that enforceability of rights and remedies may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally or as to the availability of any particular remedy.

Supplemental Indentures (Section 2.04)

Each Supplemental Indenture authorizing the issuance of a Series of Bonds shall specify the following:

(i) The sale of the Bonds of such Series at public or private sale; if such Bonds are to be sold at public sale, authorization for the publication of a notice of sale; and the execution of a contract or contracts of purchase at public or private sale on behalf of the Authority;

(ii) The authorized principal amount of such Series of Bonds;

(iii) The purpose or purposes for which such Series of Bonds is being issued, which shall be limited to those purposes authorized under the Act;

(iv) The date or dates, the maturity date or dates and principal amounts of each maturity of the Bonds of such Series, the amount and date of each Sinking Fund Installment, if any, and which Bonds of such Series are Serial Bonds or Term Bonds, if any, and the Record Date or Record Dates of the Bonds of such Series for which the Record Date or Record Dates is other than the fifteenth (15th) day of the calendar month next preceding an Interest Payment Date for such Bonds;

(v) Except in the case of Capital Appreciation Bonds and Deferred Income Bonds prior to the Interest Commencement Date, the interest rate or rates, if any, of the Bonds of such Series or the manner of determining such rate or rates, the date from which interest on the Bonds of such Series shall accrue, the first date on which interest on the Bonds of such Series shall be payable and the date or dates on which the rate at which Variable Interest Rate Bonds of such Series bear interest shall be adjusted and the date or dates on which interest on such Variable Interest Rate Bonds shall be paid, or the manner of determining the same and the manner in which interest is to be paid on such Variable Interest Rate Bonds;

(vi) If Bonds of such Series are Capital Appreciation Bonds, the Valuation Dates for such Bonds and the Accreted Value on each such Valuation Date;

(vii) If Bonds of such Series are Deferred Income Bonds, the Interest Commencement Date for such Bonds, the Valuation Date or Dates prior to the Interest Commencement Date for such Bonds and, the Appreciated Value, on each such Valuation Date;

(viii) The Maximum Interest Rate, if any, in connection with any Variable Interest Rate Bonds or Option Bonds of such Series;

(ix) If Bonds of such Series are Option Bonds, provisions regarding the tender, if any, for purchase or redemption thereof, payment of the Purchase or Redemption Price thereof and the appointment of a Remarketing Agent with respect thereto;

(x) The denomination or denominations of and the manner of numbering and lettering the Bonds of such Series;

(xi) The Paying Agent or Paying Agents, if any, for such Bonds, the place or places of payment of the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Bonds of such Series; **provided, however,** that such Paying Agent or Paying Agents may be appointed prior to authentication and delivery of such series of Bonds in accordance with the provisions of the Indenture;

(xii) The Redemption Price or Redemption Prices, if any, and, subject to Article IV of the Indenture, the redemption terms, if any, for the Bonds of such Series;

(xiii) Provisions for the sale or exchange of the Bonds of such Series and for the delivery thereof,

(xiv) The form of the Bonds of such Series and the form of the Trustee's certificate of authentication thereon, and whether any Bonds of such Series are to be issued as Book Entry Bonds and the Depository therefor;

(xv) Directions for the application of the proceeds of the Bonds of such Series;

(xvi) Source and security, if any, for the payment of such Series of Bonds; and

(xvii) Any other provisions deemed advisable by an Authorized Officer of the Authority, not in conflict with the provisions of the Indenture or of any Supplemental Indenture.

Refunding Bonds (Section 2.05)

All or any portion of one or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all Outstanding Bonds, one or more Series of Outstanding Bonds, a portion of a Series of Outstanding Bonds or a portion of a maturity of a Series of Outstanding Bonds. The Authority may issue Refunding Bonds in an aggregate principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Indenture and of the Supplemental Indenture authorizing such Series of Refunding Bonds.

The Refunding Bonds of such Series shall be authenticated and delivered by the Trustee only upon receipt by the Trustee of:

(i) If the Bonds to be refunded are to be redeemed, irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be refunded on a redemption date specified in such instructions;

(ii) If the Bonds to be refunded are not to be redeemed within the next succeeding sixty (60) days, irrevocable instructions to the Trustee, satisfactory to it, to duly give the defeasance notice provided for in the Indenture to the Holders of the Bonds being refunded;

(iii) Either (a) moneys in an amount sufficient to effect payment of the principal at maturity or the Redemption Price at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the maturity or redemption date, which money shall be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded or (b) Government Obligations which are not subject to redemption at the option of the obligor thereof in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of Section 12.01 of the Indenture, which Government Obligations and moneys shall beheld in trust and used only as provided in said Section;

(iv) The documents required by the Indenture for the provision of issuance of additional bonds;

(v) A certificate of an Authorized Officer of the Authority, containing such additional statements as may be reasonably necessary to show compliance with the requirements of the Indenture.

The proceeds, including accrued interest, of Refunding Bonds shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or as determined in accordance with the Supplemental Indenture authorizing such Refunding Bonds.

Additional Obligations (Section 2.06)

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate agreements of the Authority or pursuant to the Indenture, and such bonds, notes or other obligations may be entitled to the rights equal to the rights of the Holders of the Bonds.

Place And Medium of Payment (Section 3.01)

The Bonds shall be payable, with respect to interest, principal, Sinking Fund Installments and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts; **provided, however,** that the Bonds of a series or of any maturity within a series may be payable in any coin or currency of any other nation as may be authorized by the Supplemental Indenture authorizing the issuance of such Bonds. Except as otherwise provided in Section 4.06 of the Indenture, upon presentation and surrender of Bonds, the principal, Sinking Fund Installments or Redemption Price of such Bonds shall be payable at the principal corporate trust office of the Trustee. Except as otherwise provided in a Supplemental Indenture authorizing the issuance of Variable Interest Rate Bonds or Option Bonds, interest on the Bonds shall be paid by check or draft mailed to the registered owner thereof at the address thereof as it appears on the registry books of the Authority on the Record Date or, at the option of the registered owner of at least one million dollars ($1,000,000) in principal amount of Bonds of such Series, by wire transfer to such registered owner at the wire transfer address in the continental United States to which such registered owner has, not less than five (5) days prior to the Record Date immediately preceding such Interest Payment Date for such Bonds, directed the Trustee to wire such interest payment. For purposes of this Section, interest is payable to the registered owner of a Bond at the close of business on the Record Date for such Bond. All payments of principal, Sinking Fund Installments or Redemption Price of or interest on Bonds shall specify the CUSIP number, or numbers of the Bonds in connection with which such payment is made.

Interest on any Bond that is payable on any Interest Payment Date and that is punctually paid or duly provided for is payable to the person in whose name such Bond is registered at the close of business on the Record Date for such interest.

Interest on any Bond that is payable on any Interest Payment Date but that is not punctually paid or duly provided for (herein called "Defaulted Interest") ceases forthwith to be payable to the Bondholder on the relevant Record Date, solely by virtue of such Bondholder having been such Bondholder; and such Defaulted Interest may be paid by the Authority, at its election in each case, as provided in subsection (a) of (b) below:

(a) The Authority may elect to make payment of any Defaulted Interest on the Bonds to the persons in whose names such Bonds are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Authority shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment (which date shall be such as will enable the Trustee to comply with the next sentence hereof), and at the same time the Authority shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as provided in this subsection. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than fifteen (15) not less than ten (10) days prior to the date of the proposed payment and not less than ten (10) days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Authority of such Special Record Date and, in the name and at the expense of the Authority; such expense to be paid solely from amounts held under this Indenture, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Bondholder at his address as it appears in the registration books maintained by the Trustee not less than ten (10) days prior to such Special Record Date. Defaulted Interest shall be paid to the persons in whose names the Bonds are registered on such Special Record Date and shall no longer be payable pursuant to the following subsection (b).

(b) The Authority may make payment of any Defaulted Interest on the Bonds in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Bonds may be listed and upon such notice as may be required by such exchange, if, after notice given by the Authority to the Trustee of the proposed payment pursuant to this subsection, such payment shall be deemed practicable by the Trustee.

The Bonds of each Series shall be issued in the form of fully registered Bonds without coupons.

Bonds of each Series shall be dated the date specified in the Supplemental Indenture applicable to such Bonds. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication and delivery thereof by the Trustee, except that (a) if such date of authentication and delivery shall be prior to the first Interest Payment Date, said Bond shall bear interest from its date, (b) if such date of authentication and delivery shall be an Interest Payment Date, said Bond shall bear interest from such Interest Payment Date, and (c) if interest due on said Bond shall not have been paid in full, then notwithstanding any of the foregoing provisions of this Section, said Bond shall bear interest from the date to which interest has been paid in full on said Bond.

Interchangeability of Bonds (Section 3.05)

Bonds, upon surrender thereof at the principal corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his attorney duly authorized in writing, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity, interest rate and tenor of any other authorized denominations.

Negotiability, Transfer and Registry (Section 3.06)

All Bonds shall be negotiable, subject to the provisions for registration and transfer contained in the Bonds. So long as any of the Bonds shall not have matured or been called for redemption, the Authority shall maintain and keep, or cause to be maintained and kept, at the principal corporate trust office of the Trustee, books for the registration and transfer of Bonds; and, upon presentation thereof for such purpose at said office, the Authority shall register or cause to be registered therein, and permit to be transferred thereon, under such reasonable regulations as it or the Trustee may prescribe, any Bond entitled to registration or transfer. So long as any of the Bonds have not matured or been called for redemption, the Authority shall make all necessary provisions to permit the exchange of Bonds at the principal corporate trust office of the Trustee.

Transfer of Bonds (Section 3.07)

Each Bond shall be transferable only upon the books of the Authority, which shall be kept for that purpose at the principal corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney and the payment of a charge sufficient to reimburse the Authority or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such transfer. Upon the transfer of any such Bond, the Authority shall cause to be issued in the name of the transferee a new Bond or Bonds of the same aggregate principal amount, Series, maturity, interest rate and tenor as the surrendered Bond.

The Authority and the Trustee may deem and treat the person in whose name any Outstanding Bond shall be registered upon the books of the Authority as the absolute holder of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal, Sinking Fund Installments, if any, or Redemption Price of and, subject to the provisions of the Indenture with respect to Record Dates, interest on such Bond and for all of the purposes whatsoever, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary. The Authority agrees to indemnify and save the Trustee harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence, in so treating such registered owner.

Bonds Mutilated, Destroyed, Lost or Stolen (Section 3.09)

In case any Bond shall become mutilated or be destroyed, lost or stolen, the authority in its discretion may execute, and upon its request the Trustee shall authenticate and deliver, a new Bond of like Series, maturity, tenor and principal amount as the Bond so mutilated, destroyed, lost or stolen, in exchange and substitution for the mutilated, destroyed, lost or stolen Bond, upon surrender and cancellation of such mutilated Bond or in lieu of and substitution for such Bond so destroyed, lost or stolen upon filing with the Authority evidence satisfactory to the Authority and the Trustee that such Bond has been destroyed, lost or stolen and proof of ownership thereof, and upon furnishing the Authority and the Trustee with indemnity satisfactory to them and complying with such other reasonable regulations as the Authority and the Trustee may prescribe and paying such expenses as the Authority and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be canceled by it and evidence of such cancellation shall be given to the Authority. In case any Bond which has matured or is about to mature shall have become mutilated or have been destroyed, lost or stolen, the Authority may, instead of issuing a Bond in exchange or substitution therefor, pay or authorize the payment of such mutilated Bond upon the surrender on or after the maturity date thereof, or authorize the payment of such destroyed, lost or stolen Bond, upon the Holder thereof filing evidence satisfactory to the Authority and the Trustee that such Bond has been destroyed, lost or stolen and proof of ownership thereof, and upon furnishing the Authority and the Trustee with indemnity satisfactory to them and complying with such other reasonable regulations as the Authority and the Trustee may prescribe and paying such expenses as the Authority and the Trustee may incur in connection therewith.

Redemption at the Authority's Election (Section 4.02)

In the case of any redemption of Bonds other than as provided in Section 4.03 of the Indenture, the Authority shall give written notice to the Trustee of its election to redeem, the Series to be redeemed and the principal amounts of the Bonds of each maturity of such Series to be redeemed. The Series, maturities and principal amounts thereof to be redeemed at the election of the Authority shall be determined by the Authority in its sole discretion, subject to any limitations with respect thereto contained in the Indenture or in the Supplemental Indenture authorizing such Series. Such notice shall be given to the Trustee at least thirty (30) days prior to the date on which such Bonds are to be redeemed, or such lesser number of days as shall be acceptable to the Trustee. At or prior to the redemption date, the Authority shall have paid or caused to be paid to the Trustee an amount which, in addition to other amounts available therefor held by the Trustee, is sufficient to redeem, on the redemption dates at the Redemption Price thereof, together with interest accrued and unpaid thereon to the redemption date, all of the Bonds to be so redeemed.

Sinking Fund Redemptions (Section 4.03)

Whenever by the terms of the Indenture, the Trustee is required to redeem Bonds through the application of mandatory Sinking Fund Installments, the Trustee shall select the Bonds of the Series and maturities to be redeemed in the manner provided in Section 4.04 of the Indenture, give the notice of redemption and pay out of moneys available therefor the Redemption Price thereof, together with interest accrued and unpaid thereon to the redemption date, to the appropriate Paying Agents in accordance with the terms of Article IV of this Indenture.

Selection of Bonds to Be Redeemed (Section 4.04)

Unless otherwise provided in the Supplemental Indenture authorizing the issuance of Bonds of a Series, in the event of redemption of less than all of the Outstanding Bonds of like Series, maturity, interest rate and tenor, the Trustee shall assign to each Outstanding Bond of the Series, maturity, interest rate and tenor to be redeemed a distinctive number for each unit of the principal amount of such Bond equal to the lowest denomination in which the Bonds of such Series are authorized to be issued and shall select by lot, using such method of selection as it shall deem proper in its discretion, from the numbers assigned to such Bonds as many numbers as, at such unit amount equal to the lowest denomination in which the Bonds of such Series are authorized to be issued for each number, shall equal the principal amount of such Bonds to be redeemed. In making such selections the Trustee may draw the Bonds by lot (i) individually or (ii) by one or more groups, the grouping for the purpose of such drawing to be by serial numbers (or, in the case of Bonds of a denomination of more than the lowest denomination in which the Bonds of such Series are authorized to be issued, by the numbers assigned thereto as in this Section 4.04 provided) which end in the same digit or in the same two digits. In case, upon any drawing by groups, the total principal amount of Bonds drawn shall exceed the amount to be redeemed, the excess may be deducted from any group or groups so drawn in such manner as the Trustee may determine. The Trustee may in its discretion assign numbers to allot portions of Bonds and select part of any Bond for redemption. The Bonds to be redeemed shall be the Bonds to which were assigned numbers so selected; **provided, however,** that only so much of the principal amount of each such Bond of a denomination of more than the lowest denomination in which the Bonds of such Series are authorized to be issued shall be redeemed as shall equal the lowest denomination in which the Bonds of such Series are authorized to be issued for each number assigned to it and so selected; **further provided however**, that the Trustee may disregard such selection procedure and select such Bonds in a fair and reasonable manner.

Notice of Redemption (Section 4.05)

Whenever Bonds are to be redeemed, the Trustee shall give notice of the redemption of the Bonds in the name of the Authority which notice shall specify: (i) the Bonds to be redeemed which shall be identified by the designation of the Bonds given in accordance with Section 2.01 of the Indenture (or if less than all of a particular Bond is to be redeemed, a distinguishing characteristic to indicate the portion of the Bond to be redeemed), the maturity dates and interest rates of the Bonds to be redeemed and the date such Bonds were issued; (ii) the numbers and other distinguishing marks of the Bonds to be redeemed, including CUSIP numbers; (iii) the redemption date; (iv) the Redemption Price; (v) with respect to each such Bond, the principal amount thereof to be redeemed; (vi) the date of publication, if any, of the notice of redemption; (vii) that, except in the case of Book Entry Bonds, such Bonds will be redeemed at the principal corporate trust office of the Trustee giving the address thereof and the name and telephone number of a representative of the Trustee to whom inquiries may be directed; and (viii) that no representation is made as to the correctness of the CUSIP number either as printed on the Bonds or as contained in such notice and that an error in a CUSIP number as printed on a Bond or as contained in such notice shall not affect the validity of the proceedings for redemption. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, together with interest accrued and unpaid thereon to the redemption date, and that, from and after such date, payment having been made or provided for, interest thereon shall cease to accrue. Such notice shall be given by mailing a copy of such notice not less than fifteen (15) days nor more than thirty (30) days prior to the redemption date or, in the case of Variable Interest Rate Bonds or Option Bonds, such shorter period as shall be established by the Supplemental Indenture authorizing such Bonds relating thereto, but in no event less than fifteen (15) days prior to the redemption date. Such notice shall be sent by first class mail, postage prepaid, to the registered owners of the Bonds which are to be redeemed, at their last known addresses, if any, appearing on the registration books not more than ten (10) Business Days prior to the date such notice is given. Upon giving such notice, the Trustee shall promptly certify to the Authority that it has mailed or caused to be mailed such notice to the Holders of the Bonds to be redeemed in the manner provided in the Indenture. Such certificate shall be conclusive evidence that such notice was given in the manner required by the Indenture. The failure of any Holder of a Bond to be redeemed to receive such notice shall not affect the validity of the proceedings for the redemption of the Bonds.

In addition, the Trustee shall if any of the Bonds to be redeemed are Book Entry Bonds, mail a copy of the notice of redemption to the Depository for such Book Entry Bonds not less than twenty-five (25) days prior to the redemption date. Such copies shall be sent by certified mail, return receipt requested, but mailing such copies shall not be a condition precedent to such redemption and failure to so mail or of a person to which such copies were mailed to receive such copy shall not affect the validity of the proceedings for the redemption of the Bonds.

Payment of Redeemed Bonds (Section 4.06)

Notice having been given by mail in the manner provided in Section 4.05 of the Indenture, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, upon presentation and surrender of such Bonds, other than a Book Entry Bond which has been called for redemption in part, at the office or offices specified in such notice, and, in the case of Bonds presented by other than the registered owner, together with a written instrument of transfer duly executed by the registered owner or his duly authorized attorney, such Bonds, or portions thereof, shall be paid at the Redemption Price plus interest accrued and unpaid to the redemption date. Payment of the Redemption Price shall be made, upon the request of the registered owner of one million dollars ($1,000,000) or more in principal amount of Bonds to be redeemed, by wire transfer to such registered owner at the wire transfer address in the continental United States to which such registered owner has, at the time such Bonds are surrendered to the Trustee, directed in writing the Trustee to wire such Redemption Price. If there shall be drawn for redemption less than all of the principal amount of a registered Bond, the Authority shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the registered Bond so surrendered, Bonds of like Series, maturity, interest rate and tenor, in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all Bonds or portions thereof of any like Series, maturity, interest rate and tenor to be redeemed, together with interest accrued and unpaid thereon to the redemption date, shall be held by the Trustee and Paying Agents so as to be available therefor on such date and if notice of redemption shall have been mailed as aforesaid, then, from and after the redemption date, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and such Bonds shall no longer be considered to be Outstanding. If such moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Trust Estate (Section 5.01)

The Trust Estate shall be security for the payment of the interest, principal and Redemption price, if any, on the Bonds and as security for the performance of any other obligation of the Authority of the Indenture and under any Supplemental Indenture, all in accordance with the provisions of the Indenture and under any Supplemental Indenture. The Bonds shall be special obligations of the Authority payable solely from Available moneys of the Authority and secured by the Trust Estate.

Each Supplemental Indenture relating to each Series of Bonds may indicate that specific or additional sources of security will be allocated for the repayment of or pledged to secure the repayment of such Series of Bonds. Therefore, each Series of Bonds may not share equally, other than as indicated in Article V of the Indenture, in any allocation of or pledge of revenues and may not be viewed as parity obligations.

Establishment of Funds and Accounts (Section 5.02)

The following funds and separate accounts within funds are established by the Indenture or authorized to be established and shall be held and maintained by the Trustee:

Debt Service Fund;
- Interest Account;
- Principal Account;
- Interest Rate Exchange Agreement Account;
- Redemption Account; and

Arbitrage Rebate Fund.

All moneys at any time deposited in any fund, account or subaccount created by the Indenture or by any Supplemental Indenture or required by the Indenture or thereby to be created (other than the Arbitrage Rebate Fund) shall be held by the Trustee in trust for the benefit of the Holders of Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided in the Indenture; **provided**, **however,** that the moneys derived from the remarketing of Option Bonds tendered or deemed to have been tendered for purchase or redemption in accordance with the Supplemental Indenture authorizing the issuance of such Bonds or derived from a Liquidity Facility or a Credit Facility relating to such Bonds, and any fund or account established by or pursuant to such Supplemental Indenture for the payment of the purchase price or Redemption Price of Option Bonds so tendered or deemed to have been tendered, shall not be held in trust for the benefit of the Holders of Bonds other than the Holders of such Option Bonds, and such moneys and each such fund and account are pledged by the Indenture for the payment of the purchase price or Redemption Price of such Option Bonds. The Authority may establish such funds, accounts and subaccounts as it deems necessary and any funds, accounts and subaccounts may be established in any Supplemental Indenture.

Application of Bond Proceeds (Section 5.03)

Proceeds from the sale of a Series of Bonds shall be delivered to the Authority to be used in accordance with the Supplemental Indenture relating to each series of bonds.

Accrued interest, if any, received upon the delivery of a Series of Bonds shall be deposited in the Interest Account of the Debt Service Fund unless all or any portion of such amount is to be otherwise applied as specified in the Supplemental Indenture authorizing such Series.

Debt Service Fund Deposits (Section 5.04)

(i) So long as any Bond shall be Outstanding, the Authority shall deposit into the Debt Service Fund, all amounts as described in the Indenture and the applicable Supplemental Indenture.

(ii) In the event that on the Business Day next succeeding any Interest Payment Date, any amounts remain on deposit in the Interest Account after full payment thereof to the persons entitled thereto, such moneys may be used at the sole direction of an Authorized Officer of the Authority.

(iii) In the event that on the Business Day next succeeding any Principal Installment Date, any amounts remain on deposit in the Principal Account after full payment thereof to the persons entitled thereto, such moneys may be used, at the sole direction of an Authorized Officer of the Authority.

(iv) In the event that on the Business Day next succeeding any payment date relating to an Interest Rate Exchange Agreement, any amounts remain on deposit in the Interest Rate Exchange Agreement Account after full payment thereof to the persons entitled thereto, such moneys may be used at the sole direction of an Authorized Officer of the Authority.

(v) In the event that on the Business Day next succeeding the date on which the Authority has paid in full all amounts due and owing on the Bonds, any amounts remain on deposit in the Debt Service Fund, such moneys may be used at the sole direction of an Authorized Officer of the Authority.

(vi) In the event that the Authority does not anticipate having on deposit in the Debt Service Fund on an Interest Payment Date or Principal Installment Date, sufficient moneys for the payment of interest and principal then due and owing on the Bonds, the Authority shall notify the State Comptroller of such deficiency on the fifteenth calendar day next preceding such Interest Payment Date or Principal Installment Date, as the case may be.

Debt Service Fund Payments (Section 5.05)

The Trustee shall on each Interest Payment Date pay out of the Interest Account of the Debt Service Fund all interest due and owing on Outstanding Bonds.

The Trustee shall on each Principal Installment Date pay out of the Principal Account of the Debt Service Fund all Principal Installments due and owing on Outstanding Bonds.

The Trustee shall on each redemption date pay out of the Principal Account of the Debt Service Fund all amounts necessary to redeem Outstanding Bonds selected for redemption on such redemption date.

The Trustee shall on each payment date relating to an Interest Rate Exchange Agreement pay out of the Interest Rate Exchange Agreement Account of the Debt Service Fund all amounts that are owed to Counterparties entitled thereto.

The Authority may, at any time subsequent to the first day of any Bond Year, but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Principal Account Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Term Bonds to be redeemed from such Sinking Fund Installment. Any Term Bond so purchased shall be canceled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so canceled shall be credited against the Sinking Fund Installment due on such date and future Sinking Fund Installments in chronological order.

Arbitrage Rebate Fund (Section 5.06)

The Trustee shall deposit to the Arbitrage Rebate Fund any moneys delivered to it by the Authority and, notwithstanding any other provisions of Article V, shall transfer to the Arbitrage Rebate Fund, in accordance with the directions of an Authorized Officer of the Authority, moneys on deposit in any other funds held by the Trustee under the Indenture at such times and in such amounts as shall be set forth in such directions.

Moneys on deposit in the Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which an Authorized Officer of the Authority determines to be in excess of the amount required to be so rebated shall be applied in accordance with the written direction of such Authorized Officer.

If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, determine the amount required by the Code to be rebated to the Department of the Treasury of the United States of America with respect to each Series of Bonds and (i) transfer or direct the Trustee to transfer from any other of the funds and accounts held under the Indenture and deposit to the Arbitrage Rebate Fund, such amount as the Authority shall have determined to be necessary in order to enable it to comply with its obligation to rebate moneys to the Department of the Treasury of the United States of America with respect to each Series of Bonds and (ii) pay out of the Arbitrage Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated thereto.

Application of Moneys in Certain Funds for Retirement of Bonds (Section 5.07)

Notwithstanding any other provisions of the Indenture, if at any time the amounts held in the Debt Service Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds and the interest accrued and unpaid and to accrue on such Bonds to the next date of redemption when all such Bonds are redeemable, or to make provision pursuant to the defeasance provisions of the Indenture for the payment of the Outstanding Bonds at the maturity or redemption dates thereof, the Authority may (i) direct the Trustee to redeem all such Outstanding Bonds, whereupon the Trustee shall proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds by the Indenture and by each Supplemental Indenture as provided in Article IV of the Indenture, or (ii) give the Trustee irrevocable instructions in accordance with the defeasance provisions of the Indenture and make provision for the payment of the outstanding Bonds at the maturity or redemption dates thereof in accordance therewith.

Payment of Bonds (Section 7.02)

The Authority shall duly and punctually pay or cause to be paid the principal and redemption premium, if any, of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof. The Authority shall make such payments as are required under the Indenture and each Supplemental Indenture.

Power to Issue Bonds (Section 7.05)

The Authority is duly authorized under all applicable laws to authorize and issue the Bonds and to execute and deliver this Indenture. The Bonds and the provisions of this Indenture are and will be valid and legally enforceable obligations of the Authority in accordance with their terms and the terms of this Indenture.

State Pledge and Agreement (Section 7.06)

By virtue of subdivision 8 of Section 1805 of the Act, the State has pledged to and agreed with the holders of the Bonds that the State will not limit or alter the rights and powers vested in the Authority by the Act to fulfill the terms of any contract made by the Authority with such holders, or in any way impair the rights and remedies of such holders until the Bonds, together with interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged.

Tax Covenants (Section 7.07)

The Authority covenants with the holders from time to time of the Bonds that it will comply with the Tax Requirements. The Authorized Officers, and each of them without the others, are authorized by the Indenture to execute all certificates, agreements and other documents necessary or desirable to evidence compliance with such covenant, and are authorized by the Indenture and directed to make all investments of moneys under this Indenture, including any Supplemental Indenture, in accordance with such certificates and agreements required thereby.

The Authority covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest represented by the Exempt Bonds under Section 103 of the Code. The Authority will not directly or indirectly use or permit the use of any proceeds of the Exempt Bonds or any other funds of the Authority, or take or omit to take any action, that would cause the Exempt Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the Authority will comply with all requirements of Section 148 of the Code to the extent applicable to the Exempt Bonds. In the event that at any time the Authority is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, or otherwise, the Authority shall so instruct the Trustee in writing and shall cause the Trustee to take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Authority agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Exempt Bonds from time to time. This covenant shall survive payment in full or defeasance of the Exempt Bonds. The authority specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under this Section the Rebate Requirement, as described in the Arbitrage Certificate. Such payments shall be made to the Internal

Revenue Service at the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255 or such other address as may be applicable. Each such payment shall be accompanied by Internal Revenue Service Form 8038-T (or any successor or other applicable form).

In order to comply with the provisions of this Section, the Authority agrees to carry out the provisions of the Arbitrage Certificate as such provisions may from time to time be added to, modified or eliminated. Notwithstanding any provision of this Section, if the Authority shall provide to the Trustee a Counsel's Opinion to the effect that any action required under this Section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Exempt Bonds pursuant to Section 103 of the Code, the Authority may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture shall be deemed to be modified to that extent.

Accounts and Reports (Section 7.08)

The Authority shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Funds and Accounts established under the Indenture or under any Supplemental Indenture which shall at all reasonable times be subject to the inspection of the Trustee and the Holders, or their representatives duly authorized in writing, of an aggregate of not less than twenty-five per centum (25%) in principal amount of Bonds then Outstanding. After the close of each fiscal year of the Authority, the Authority will cause an audit of its books of record and account to be conducted by a nationally recognized firm of independent certified public accountants selected by the Authority, and a copy of the report of such accountants shall be furnished promptly upon the completion thereof to the Trustee and to each Bondholder who shall have filed his name and address with the Authority for such purpose.

General (Section 7.10)

The Authority shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Authority under the provisions hereof in accordance with the terms of such provisions.

Upon the date of issuance of Bonds, all conditions, acts and things required by the statutes of the State and hereby to exist, to have happened and to have been performed precedent to and in the issuance of such Bonds, shall exist, have happened and have been performed.

Compliance with Applicable Law (Section 7.11)

The Authority shall at all times comply with the laws and all governmental rules, regulations, orders and decrees applicable to the Authority and its properties.

No Diminution of Security (Section 7.12)

So long as any of the Bonds are Outstanding, no contract or contracts will be entered into or any action taken by which the rights of the Bondholders, might be impaired or diminished in any material respect.

Appointment and Acceptance of Trustee (Section 8.01)

The Trustee, who shall also serve as Paying Agent, by its execution of the Indenture signifies its acceptance of the duties and obligations of Trustee and Paying Agent imposed upon it by the Indenture.

Appointment and Acceptance of Paying Agents (Section 8.02)

In addition to the Trustee, the Authority may appoint one or more Paying Agents for the Bonds of any Series, and may at any time or from time to time appoint one or more other Paying Agents in the manner and subject to the conditions set forth in Section 8.13 of the Indenture for the appointment of a successor Paying Agent. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it hereby by written instrument of acceptance filed with the Authority and the Trustee.

Compensation (Section 8.06)

Unless otherwise provided by contract with the Trustee or any Paying Agent, the Authority shall pay to the Trustee and to each Paying Agent, from time to time, reasonable compensation for all services rendered by it under the Indenture and under the applicable Supplemental Indenture, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture and under the applicable Supplemental Indenture, and the Trustee and each Paying Agent shall have a lien therefor on any and all funds at any time held by it under the Indenture and under the applicable Supplemental Indenture (other than the Arbitrage Rebate Fund) prior to any of the Bonds for which such services have been rendered. The Authority shall indemnify and save the Trustee and each Paying Agent harmless against any liabilities which it may incur in the exercise and performance of its powers and duties under the Indenture and under the applicable Supplemental Indenture and which are not due to its negligence or default. None of the provisions contained in the Indenture or in any Supplemental Indenture shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there is reasonable ground for believing that the repayment of such funds or liability is not reasonably assured to it.

Resignation of Trustee (Section 8.08)

The Trustee, or any successor thereof, may at any time resign and be discharged of its duties and obligations under the Indenture and under each Supplemental Indenture by giving not less than sixty (60) days written notice to the Authority. Such resignation shall take effect upon the date specified in such notice unless previously a successor shall have been appointed as provided in Section 8.10 of the Indenture, in which event such resignation shall take effect immediately on the appointment of such successor; **provided, however,** that such resignation shall not take effect until a successor Trustee has been appointed and has accepted such appointment pursuant to Section 8.10 of the Indenture.

Removal of Trustee (Section 8.09)

The Trustee, or any successor thereof, may be removed at any time by the Holders of majority in principal amount of the Outstanding Bonds, excluding any Bonds held by or for the account of the Authority, by an instrument or concurrent instruments in writing signed and acknowledged by such Bondholders or by their attorneys-in-fact duly authorized and delivered to the Authority. The Trustee, or any successor thereof, may also be removed at any time for cause or any breach of trust or for acting or proceeding in violation of, or failing to act or proceed in accordance with, any provisions hereof or of any

Supplemental Indenture with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon application by the Holders of not less than twenty per centum (20%) in aggregate principal amount of the Outstanding Bonds, excluding any Bonds held by or for the account of the Authority. The Trustee may also be removed at any time, other than during the continuance of an event of default under the Indenture, by the Authority, by an instrument in writing signed and acknowledged by an Authorized Officer of the Authority. No removal under the Indenture shall take effect until a successor Trustee has been appointed. A copy of each instrument or order providing for the removal of the Trustee, or any successor thereof, shall be delivered by the Authority to the Trustee or such successor thereof.

Successor Trustee (Section 8.10)

In case the Trustee, or any successor thereof, shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee or of its property shall be appointed, or if any public officer shall take charge or control of the Trustee or of its property or affairs, the Authority shall forthwith appoint a Trustee to act as Trustee and Paying Agent. Copies of any instrument providing for any such appointment shall be delivered by the Authority to the Trustee so appointed and the predecessor Trustee. The Authority shall give notice of any such appointment to each registered owner of a Bond. Such notice shall be sent not later than thirty (30) days after such appointment, by first class mail, postage prepaid, to each registered owner at its last known address, if any appearing on the registration books of the Authority.

If in a proper case no appointment of a successor shall be made within forty-five (45) days after the giving of written notice in accordance, with Section 8.08 of the Indenture or after the occurrence of any other event requiring or authorizing such appointment, the Trustee or any Bondholder may apply to any court of competent jurisdiction for the appointment of such a successor, and such court may thereupon, after such notice, if any, as such court may deem proper, appoint such successor. Any successor appointed under the provisions of this Section shall be a bank located in the State having trust powers or a trust company organized under the laws of the State or national banking association located in the State having a capital and surplus aggregating at least $50,000,000, if there be such a bank having trust powers or trust company or national banking association willing and able to accept the appointment on reasonable and customary terms and authorized by law to perform all the duties required hereby and by each Supplemental Indenture.

Resignation or Removal of the Paying Agents and Appointment of Successors (Section 8.13)

Any Paying Agent (other than the Trustee) may at any time resign and be discharged of the duties and obligations created by the Indenture and by the applicable Supplemental Indenture by giving at least sixty (60) days' written notice to the Authority and the Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by an Authorized Officer of the Authority. Any successor Paying Agent shall be appointed by the Authority and (subject to the requirements of Section 7.08 of the Indenture) shall be a bank having trust powers or trust company organized under the laws of any state of the United States of America or a national banking association, having a capital and surplus aggregating at least $25,000,000, and willing and able to accept the office of Paying Agent on reasonable and customary terms and authorized by law to perform all the duties imposed upon it hereby and by the applicable Supplemental Indenture.

In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Modification and Amendment without Consent (Section 9.01)

Notwithstanding any other provisions of Article IX or Article X of the Indenture, the Authority may, and the Trustee shall, at any time or from time to time, execute and deliver Supplemental Indentures for any one or more of the following purposes, and any such Supplemental Indentures shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority:

(i) To provide for the issuance of a Series of Bonds, pursuant to the provisions of the Indenture and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(ii) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Indenture.

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

(iv) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Indenture, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Indenture;

(v) To confirm, as further assurance, any pledge under the Indenture, and the subjection to any lien, claim or pledge created or to be created by the provisions of the Indenture, of the Trust Estate, or any pledge of any other moneys, investments thereof or funds;

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

(vii) To provide to a Counterparty with an equal pledge of, assignment of or grant of a security interest in all or a part of the Trust Estate as security for the Authority's obligations under an Interest Rate Exchange Agreement; or

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

Supplemental Indentures Effective with Consent of Bondholders (Section 9.02)

The provisions of the Indenture may also be modified or amended at any time or from time to time by a Supplemental Indenture, subject to the consent of the Bondholders in accordance with and subject to the provisions of Article X of the Indenture. Such Supplemental Indenture to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority.

Powers of Amendment (Section 10.01)

Any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Holders of the Bonds under the Indenture, in any particular, may be made by a Supplemental Indenture, with the written consent given as provided in Section 10.02 of the Indenture, (i) of the Holders of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, or (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least a majority in principal amount of the Bonds of each Series so affected and outstanding at the time such consent is given, or (iii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least a majority in principal amount of the Bonds of the particular Series, maturity and interest rate entitled to such Sinking Fund Installment, Outstanding at the time such consent is given; **provided, however,** that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series, maturity and tenor remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment hereof if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series in any material respect. The Trustee may in its discretion determine whether or not the Bonds of any particular Series or maturity would be affected by any modification or amendment of the Indenture and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds. The Trustee may receive an opinion of counsel, including an opinion of Bond Counsel, as conclusive evidence as to whether the Bonds of any particular Series or maturity would be so affected by any such modification or amendment hereof.

Consent of Bondholders (Section 10.02)

The Authority may at any time execute and deliver a Supplemental Indenture making a modification or amendment permitted by the provisions of Section 10.01 of the Indenture to take effect when and as provided in this Section. A copy of such Supplemental Indenture (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to the Bondholders for their consent thereto in form satisfactory to the Trustee, shall promptly be mailed by the Authority to the Bondholders (but failure to mail such copy and request to any particular Bondholder shall not affect the validity of the Supplemental Indenture when consented to as in this Section provided). Such Supplemental Indenture shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consent of the Holders of the percentages of Bonds specified in Section 10.01 of the Indenture and (b) an opinion of Bond Counsel stating that such Supplemental Indenture has been duly and lawfully executed and delivered and filed by the Authority in accordance with the provisions hereof, is authorized or permitted hereby, and is valid and binding upon the Authority and enforceable in accordance with its terms, and (ii) a notice shall have been mailed as provided in this Section. Each such consent shall be effective only if accompanied by proof of the holding or owning at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 13.01 of the Indenture. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with Section 13.01 of the Indenture shall be conclusive proof that the consents have been given by the Holders of the Bonds described in the certificate or certificates of the Trustee. Any consent given by a Bondholder shall be binding upon the Bondholder giving such consent and, anything in Section 13.01 in the Indenture to the contrary notwithstanding, upon any subsequent Holder of such Bond and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Bondholder giving such consent or a subsequent Holder thereof by filing such revocation with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this Section provided for is filed. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Indenture, the Trustee shall make and file with the Authority and the Trustee a written statement that such Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Indenture has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this Section, shall be given to the Bondholders, by the Authority by mailing such notice to the Bondholders and, at the discretion of the Authority, by publishing the same at least once not more than ninety (90) days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Indenture and the written statement of the Trustee provided for in the Indenture is filed (but failure to publish such notice shall not prevent such Supplemental Indenture from becoming effective and binding as in this Section provided). The Authority shall file with the Trustee proof of the mailing of such notice, and, if the same shall have been published, of the publication thereof. A transcript, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Indenture making such amendment or modification shall be deemed conclusively binding upon the Authority, the Trustee, each Paying Agent, and the Holders of all Bonds upon the filing with the Trustee of proof of the mailing of such notice or at the expiration of thirty (30) days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, if such notice is published, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Indenture in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period; **provided, however,** that the Authority, the Trustee and any Paying Agent during such thirty (30) day period and any such further period during which any such action or proceeding may be pending shall be entitled in their reasonable discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Indenture as they may deem expedient.

The purchasers of Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Authority, may consent to a modification or amendment in the manner described above, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Bonds; **provided, however,** that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering of the Bonds of such Series by the Authority.

Events of Default (Section 11.01)

An event of default shall exist under the Indenture and under each Supplemental Indenture (herein called "event of default") if:

(i) Payment of the principal or Redemption Price of any Bond shall not be made by the Authority when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(ii) Payment of an installment of interest on any Bond shall not be made by the Authority when the same shall become due and payable; or

(iii) The Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Indenture or in the Bonds or in any Supplemental Indenture on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds unless, if such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within said thirty (30) days and diligently prosecutes the cure thereof.

Acceleration of Maturity (Section 11.02)

Upon the happening and continuance of any event of default (other than the event of default specified in Section 11.01(c) of the Indenture), then and in every such case the Trustee may, and, upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds, shall, by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds to be due and payable. At the expiration of thirty (30) days after such notice is given, such principal and interest shall become and be immediately due and payable, anything in the Indenture or in any Supplemental Indenture or in the Bonds to the contrary notwithstanding. At any time after the principal of the Bonds shall have then so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, the Trustee shall, with the written consent of the Holders of not less than twenty-five per centum (25%) in principal amount of the Bonds not then due by their terms and then Outstanding and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Outstanding Bonds (except the interest accrued on such Bonds since the last Interest Payment Date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Indenture and under each Supplemental Indenture (other than principal amounts and interest payable only because of a declaration and acceleration under this Section 11.02) shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Indenture or in any Supplemental Indenture or in the Bonds (other than a default in the payment of the principal of or interest on such Bonds then due only because of a declaration under this Section 11.02) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Enforcement of Remedies (Section 11.03)

Upon the happening and continuance of any event of default specified in Section 11.01 of the Indenture, then and in every such case, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds or, in the case of a happening and continuance of an event of default specified in paragraph (c) of Section 11.02 of the Indenture, upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Series affected thereby, shall proceed (subject to the provisions of Section 8.06 of the Indenture) to protect and enforce its rights and the rights of the Bondholders under the Indenture or under any Supplemental Indenture or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Indenture or under any Supplemental Indenture or in aid or execution of any power in the Indenture or therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Indenture and under each Supplemental Indenture the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions of the Indenture or of any Supplemental Indenture or of the Bonds, with interest on overdue payments of the principal of or interest on the Bonds at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Indenture and under any Supplemental Indenture and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Authority, but solely as provided in the Indenture, in any Supplemental Indenture and in such Bonds, for any portion of such amounts, remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

Priority of Payments after Default (Section 11.04)

If at any time the moneys held by the Trustee under the Indenture and under each Supplemental Indenture shall not be sufficient to pay the principal of and interest on the Bonds as the same become due and payable (either by their terms or by acceleration of maturity under the provisions of Section 11.02 of the Indenture) such moneys together with any moneys then available or thereafter becoming available for such purpose, whether through exercise of the remedies provided for in Article XI of the Indenture or otherwise, shall be applied (after payment of all amounts owing to the Trustee under the Indenture) as follows:

(i) Unless the principal of all the Bonds shall have become or been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due whether at maturity or by call for redemption in the order of their due dates and, if the amount available shall not be sufficient to pay in full all such amounts due on any date, then to the payment thereof ratably, according to the amount of principal or Redemption Price due on such date, to the persons entitled thereto, without, any discrimination or preference.

(ii) If the principal of all of the Bonds shall have become or been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in the Bonds.

Defeasance (Section 12.01)

If the Authority shall pay or cause to be paid to the Holders of Bonds of a Series the principal, Sinking Fund Installments, if any, or Redemption Price thereof and interest thereon, at the times and in the manner stipulated therein, in the Indenture, and in the applicable Supplemental Indenture, then the pledge of the Trust Estate and all other rights granted by the Indenture to such Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Authority, and all moneys or investments thereof held by it pursuant to the Indenture and to the applicable Supplemental Indenture which are not required for the payment or redemption of Bonds of such Series shall be paid or delivered by the Trustee as follows: to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority, and, then, the balance thereof to the Authority. Such moneys or investments thereof so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Indenture.

Bonds for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) of this Section. Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) of this Section if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give, as provided in Article IV of the Indenture, notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations which are not subject to prior redemption at the option of the obligor thereof the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not to be redeemed within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of said Bonds at their last known addresses appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper, a notice to the Holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Bonds. The Authority shall give written notice to the Trustee of its selection of the Series and maturity payment of which shall be made in accordance with this Section. The Trustee shall select the Bonds of like Series and maturity payment of which shall be made in accordance with this Section in the manner provided in section 4.04 of the Indenture. Neither the Government Obligations nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Government Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Bonds; **provided, however,** that any interest payments on such Government Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Government Obligations maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required in the Indenture to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority and the balance thereof to the Authority. The moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Indenture.

For purposes of determining whether Variable Interest Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Government Obligations and moneys, if any, in accordance with clause (ii) of the second sentence of paragraph (b) of this Section 12.01, the interest to come due on such Variable Interest Rate Bonds or prior to the maturity date or redemption date of the Indenture, as the case may be, shall be calculated at the Maximum Interest Rate permitted by the terms thereof; **provided, however,** that if on any date, as a result of such Variable Interest Rate Bonds having borne interest at less than such Maximum Interest Rate for any period, the total amount of moneys and Government Obligations on deposit with the Trustee for the payment of interest on such Variable Interest Rate Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Interest Rate Bonds in order to satisfy clause (ii) of the second sentence of paragraph (b) of this Section 12.01, the Trustee shall pay the amount of such excess as follows: to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority and the balance thereof to the Authority. The moneys so paid by the Trustee shall be released of any trust, pledge lien, encumbrance or security interest created by the Indenture.

Option Bonds shall be deemed to have been paid in accordance with clause (ii) of the second sentence of paragraph (b) of this Section 12.01 only if, in addition to satisfying the requirements of clauses (i) and (iii) of such sentence, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the Holders of such Bonds upon the exercise of any options provided to the Holders of such Bonds; **provided, however,** that if, at the time a deposit is made with the Trustee pursuant to paragraph (b) of this Section 12.01, the options originally exercisable by the Holder of an Option Bond are no longer exercisable, such Bond shall not be considered an option Bond for purposes of this paragraph (d). If any portion of the moneys deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose, the Trustee shall, if requested by the Authority, pay the amount of such excess as follows: to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority and the balance thereof to the Authority. The moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Indenture.

Amounts held by the Trustee for the payment of principal or Redemption Price of, or interest on, Bonds held by particular Bondholders with respect to which no claim for payment has been made shall be disposed of as provided by applicable law, or if there shall be no such applicable law, shall be returned to the Authority three years after the date on which payment of such amounts would have been due.

Appendix D

Form of Proposed Opinion of Bond Counsel

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April 21, 2004

New York Job Development Authority
633 Third Avenue, 35th Floor
New York, NY 10017

We have acted as bond counsel to the New York Job Development Authority (the "Authority"), a body corporate and politic of the State of New York (the "State") constituting a public benefit corporation organized and existing under the laws of the State, in connection with the Authority's issuance of its $26,975,000 aggregate principal amount of State-Guaranteed Special Purpose Bonds, 2004 Series A (the "Series A Bonds") and $15,435,000 aggregate principal amount of State-Guaranteed Special Purpose Bonds, 2004 Series B (Federally Taxable) (the "Series B Bonds", and, together with the Series A Bonds, the "2004 Bonds").

The 2004 Bonds are authorized to be issued in accordance with the New York Job Development Authority Act, being Title 8 of Article 8 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York (the "Act"), pursuant and subject to the provisions, terms and conditions of a resolution of the Authority adopted on February 19, 2004, (the "Resolution") and a Trust Indenture dated as of February 1, 1997, as supplemented by a Third Supplemental Indenture and a Fourth Supplemental Indenture, each dated as of March 1, 2004, for each series or subseries of the 2004 Bonds (collectively, the "Indenture"), and each between the Authority and Manufacturers and Traders Trust Company, as trustee (the "Trustee"). Terms not defined herein are used as defined in the Indenture.

The 2004 Bonds are issuable only in fully registered form without interest coupons in the denominations of $5,000 or integral multiples thereof. The 2004 Bonds are payable, subject to redemption prior to maturity, exchangeable and transferable upon such terms and conditions as are contained in the Indenture. Interest on the 2004 Bonds is to be payable semiannually on March 1 and September 1 of each year, commencing on September 1, 2004. The 2004 Bonds are to mature on the dates and in the years and amounts set forth in the Indenture.

In rendering the opinions set forth herein, we have reviewed the Resolution, the Indenture, the Tax Certificate, dated as of the date hereof (the "Tax Certificate") of the Authority, an opinion of counsel to the Authority, certificates of the Authority, the Trustee and others, and such other agreements, documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have not undertaken an independent audit or investigation of the matters and opinions described or contained in the foregoing agreements, certificates, opinions and documents.

Based upon our examination of existing laws, such legal proceedings and such other documents as we deem necessary to render this opinion, we are of the opinion as of the date hereof that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State with the authority to execute the Indenture, to perform the agreements on its part contained therein and to issue the 2004 Bonds.

2. The Indenture has been duly and lawfully executed by the Authority, is in full force and effect and is valid and legally binding upon the Authority, enforceable in accordance with its terms.

3. The 2004 Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority.

4. The payment of the principal of and interest on the 2004 Bonds has been fully and unconditionally guaranteed by the State, all in accordance with Section 8 of Article X of the Constitution of the State and the Act.

5. Except as provided in the following sentence, interest on the Series A Bonds is not includable in the gross income of the owners of the Series A Bonds for purposes of federal income taxation under existing law. Interest on the Series A Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series A Bonds in the event of a failure by the Authority to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and its covenants regarding use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the United States Treasury.

We express no opinion as to the exclusion from gross income of the interest on the Series A Bonds for federal income tax purposes (i) in the event the Resolution or the Indenture has been modified or amended in any manner which affects the exclusion of interest on the Series A Bonds for federal income tax purposes without the approval of this firm, or (ii) on or after the date on which any change contemplated by the documents executed and delivered in connection with the authorization, sale or issuance of the Series A Bonds occurs or action is taken that adversely affects the exclusion of interest on the Series A Bonds for federal income tax purposes upon the approval of counsel other than this firm.

6. Interest on the Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which we render no opinion, as a result of ownership of such Series A Bonds or the inclusion in certain computations (including without limitation those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

7. Under existing law, interest on the 2004 Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof, including The City of New York and the City of Yonkers by virtue of the Act.

8. The excess, if any, of the stated redemption price at maturity of any maturity of the Series A Bonds over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Series A Bonds with original issue discount is excluded from gross income for federal income tax purposes to the same extent as interest on the Series A Bonds. In general, the issue price of a maturity of the Series A Bonds is the first price at which a substantial amount of Series A Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). The Code provides that such original issue discount excluded as interest accrues in accordance with a constant yield method based on the compounding of interest, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of the Series A Bonds with original issue discount will be increased by the amount of such accrued interest.

We have examined an executed Series A Bond and Series B Bond and, in our opinion, the forms of said 2004 Bonds and their execution are regular and proper.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application of official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur and we have no obligation to update this opinion in light of such actions or events.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the 2004 Bonds, the Resolution and the Indenture may be limited by applicable bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights or remedies heretofore or hereafter enacted and subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Very truly yours,