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# **Debt Impact Study**

An Analysis of New York State's Debt Burden

January 2013

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**New York State Comptroller**

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# Executive Summary

Longstanding concern over New York's high debt levels, debt service costs, and imprudent use of borrowing led the Legislature to impose limits on State debt and enact related reforms in 2000. In the years since, outstanding debt has risen to the point where the State is approaching its statutory limit. As a result, meeting essential capital investment needs in transportation, education, environment, health and mental hygiene, and economic development will be an increasing challenge in the years to come. The borrowing of the past now threatens essential investments in New York's future.

This report examines New York State's shrinking debt capacity, resulting in part from misuse of borrowing in past years. It measures the rising cost of debt service over time and compares debt levels in New York to those in other states. The report also outlines a series of reforms proposed by Comptroller DiNapoli to prevent inappropriate and wasteful use of debt, and improve the State's capital planning practices in the future. Key points in the report include:

- The State's available debt capacity has declined from \$9.2 billion in State Fiscal Year (SFY) 2008-09 to an estimated \$1.5 billion at the end of the current fiscal year, and is projected to fall further, to \$509 million, in SFY 2013-14. Significant borrowing since the enactment of the debt cap in 2000, and recent weak economic conditions which have reduced Personal Income growth, have driven down available borrowing capacity. Examples of projects that could be threatened or delayed if the State exhausts its debt capacity include new construction or essential maintenance of State highways and bridges, State University and City University facilities, State-funded projects for the Metropolitan Transportation Authority, and capital investments funded by the State's economic development initiatives.
- The balance between pay-as-you-go (PAYGO) financing and borrowing has increasingly shifted toward more borrowing. During the second half of the 1980s, the State used PAYGO financing for an average of 55 percent of non-federally funded capital expenditures. In contrast, over the last 10 years, PAYGO has hovered around 31 percent. The State's current Capital Plan projects increases in the use of current revenues for capital investments over the next five years, with PAYGO averaging slightly less than 37 percent.
- The cost of borrowing increasingly crowds out other State expenditures. In SFY 2011-12, New York paid \$6.8 billion in State-Funded debt service, which amounted to approximately 5.1 percent of All Governmental Funds receipts. Growth in State-Funded debt service, at an average annual rate of 9.4 percent over the last 10 years, has far outpaced average annual growth in State spending on both education (5.3 percent) and Medicaid (5.1 percent) for the same period.

- New York State's debt burden is among the highest in the nation, based on several measures. For example, the State's debt per capita (which measures the amount of debt relative to the size of the State's population) of \$3,253 is nearly three times the median of all states, ranking second among its peer states. Other measures, including the ratio of debt to Personal Income (which measures the burden debt outstanding places on the aggregate income for New York State), State-Funded debt service relative to All Funds revenues (which measures the amount of flexibility a budget has in financing additional debt), and State-Funded debt as a percentage of Gross State Product (GSP, which measures debt outstanding as compared to aggregate economic activity within New York State), all show New York significantly above peer and national medians. The different measures or ratios provide a number of different ways to compare New York to other states beyond simply debt outstanding and debt service.
- New York's State-Funded debt outstanding totaled \$63.3 billion as of the close of SFY 2011-12. This level was second only to California's \$96.4 billion and more than 80 percent higher than New Jersey, the state with the third highest level of debt outstanding.
- New York spends a larger share of its annual budget repaying principal and interest on outstanding debt than its peer states, with the exception of Illinois. At 5.4 percent, New York's ratio of debt to GSP was 2.1 times the national median and far higher than levels in most comparable states.
- The State continues to pay hundreds of millions of dollars each year in debt service related to past borrowing for non-capital purposes, including the sale of Attica prison to a State public authority in 1991 and the refinancing through 2033 of certain New York City debt that originated in the 1970s. This year, the State will spend roughly \$1.1 billion to repay prior years' borrowing that was used for budget relief or other non-capital purposes.<sup>1</sup>

Debt is an essential tool for financing public infrastructure. However, a high debt load can undermine government operations because debt service is a fixed, long-term cost that cannot easily be reduced during times of fiscal stress. For example, expenditures for State-Funded debt service rose by nearly \$1.0 billion, or 15.5 percent, between SFY 2009-10 and SFY 2011-12, a period when the State imposed broad cuts in agency spending and eliminated billions of dollars in previously projected school aid increases.

Debt capacity is a limited resource. Relying too heavily on borrowing may impair a government's ability to respond to revenue shortfalls or fiscal pressures, a danger that is magnified when debt is issued to finance spending for non-capital purposes, such as operating expenses. Ratings agencies and other independent monitors, including the

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<sup>1</sup> Roughly \$437.7 million of this non-capital debt service is related to bonds issued in the aftermath of the September 11, 2001 attacks in conjunction with a broader recovery plan.

Office of the State Comptroller, have cited the State's comparatively high debt burden and debt service costs as negative indicators. Standard & Poor's repeated this assessment in its most recent analysis of New York State's credit condition, despite announcing an improvement in the State's overall outlook from stable to positive.

Before Hurricane Sandy hit, the State was already facing revenue challenges this year. As the State's debt service costs rise, fewer resources may be available in other important areas, such as education and health care. Comptroller DiNapoli has called for reforms to New York State's capital planning and prioritization process to ensure that the State's critical infrastructure needs are met. Hurricane Sandy has prompted increasingly serious questions about the State's public infrastructure. Many scientists and other experts have been warning of the likelihood that major storms will become increasingly frequent in coming years, indicating that the need for capital investments may be greater than current projections. The State's shrinking debt capacity may force New York to short-change capital investments at a time when they are badly needed.

New York's high debt levels and increasingly limited debt capacity underscore the need for the State to address its capital planning process and borrowing practices. The Executive and the Legislature have taken steps towards improving capital planning by creating the New York Works Task Force as part of the SFY 2012-13 Enacted Budget, which has been assigned a purpose similar to the Capital Asset and Infrastructure Council recommended by Comptroller DiNapoli as part of his comprehensive Fiscal Reform package. The Task Force's mission is to develop a coordinated, accelerated infrastructure investment plan for the State, and ensure that taxpayer resources are being targeted to critical infrastructure needs and job creation. An implementation council has also been created, comprising all major State agencies and public authorities, to assist the Task Force in coordinating the State's capital investment planning process.

### ***Comptroller DiNapoli's Agenda for Debt and Capital Reform***

While recent reforms are laudable, the State's capital planning and borrowing practices must be made more transparent and accountable, and its debt burden more affordable. Comptroller DiNapoli's Strategy for Fiscal Reform calls for the following additional reforms to New York's debt and capital planning practices:

- **Impose a Real Debt Cap Using a Comprehensive Definition of State Debt.** Create a more effective cap on New York's debt by limiting all State-Funded debt to 5.0 percent of Personal Income, with a nine-year phase-in of the cap, and amend the Constitution to restrict the use of long-term debt to capital purposes. The cap and the restriction on the use of debt would help New York further rein in its debt load.
- **Ban Backdoor Borrowing and Return Control of State Debt to Voters.** Constitutionally ban "backdoor borrowing" by State public authorities. This measure would also require new types of State debt to be approved by the

Legislature and the voters before being issued by the State Comptroller, with the same legal protections and controls that apply to General Obligation debt, and would authorize multiple bond acts to be presented to voters each year. These reforms would restore voter control over debt issued in New York, facilitate capital planning capabilities, and help the State regain control of its debt burden.

- **Create a Capital Asset and Infrastructure Council and a Statewide Capital Needs Assessment.** Establish a Council to develop a complete inventory of the State's infrastructure and assets, prepare a comprehensive 20-year long-term strategic plan to guide the five-year Capital Plan, and issue an annual comprehensive assessment of statewide capital needs with priorities and recommendations for planning and funding of capital asset investments. Such an assessment and strategic plan would allow policy makers to prioritize those capital projects that are most critical to New York's economy.

# New York's Debt Burden and Use of Debt

Article VII of the New York State Constitution generally prohibits issuance of debt unless it has been approved by the voters and by the Legislature.<sup>2</sup> For more than half a century, State policy makers have chosen to meet certain needs for capital investment and other purposes using debt that circumvents the Constitutional limits on the State's own borrowing authority, which require voter approval.

As a result, the great majority, or an annual average of nearly 95 percent over the last 10 years, of borrowing for State purposes in recent decades has been undertaken by public authorities. Because the State's authorities generally are not subject to the limitations of Article VII, such debt has become known as "backdoor borrowing."

The State is contractually or otherwise obligated under these arrangements to make payments to public authorities or other entities equal to the debt service payments made by the issuer – ranging from well-known agencies such as the Thruway Authority to little-known entities such as the Sales Tax Asset Receivable Corporation.

## ***Short-Term Fix, Long-Term Costs – Attica***

In 1990, in order to achieve budgetary relief, the State authorized the sale of the Attica Correctional Facility to the Urban Development Corporation (UDC) for \$200 million. In 1991, UDC issued \$241.75 million in 30-year bonds to pay for the facility and other costs associated with the issuance. The State then leased the facility back from UDC. The lease payments are used by UDC to pay the debt service on the bonds. The initial debt was subsequently refunded in 1995.

Although the State was able to achieve lower interest rates by refunding, the State also either skipped or made lower principal payments between 1996 and 1999. As of March 31, 2012, \$142.1 million in bonds remained outstanding, and are scheduled to be paid in full by April 1, 2020.

In this context, policy discussions involving "New York State's debt" require careful choice of terms. The Office of the State Comptroller uses the broadest measure of State borrowing – a concept known as **State-Funded debt** – to provide the most complete gauge of the State's debt burden.<sup>3</sup> This measure provides a more comprehensive picture of debt affordability than another measure that is often used, **State-Supported debt**.<sup>4</sup>

<sup>2</sup> This provision is in Article VII, Section 11, of the Constitution. Sections 9 and 10 provide exceptions for certain short-term borrowing, and for debt to pay for responses to invasion and certain other emergencies, respectively.

<sup>3</sup> State-Funded debt includes debt supported by any financing arrangement whereby the State agrees to make payments which will be used, directly or indirectly, for the payment of principal, interest, or related payments on indebtedness incurred or contracted by the State itself for any purpose, or by any State agency, municipality, individual, public or private corporation or any other entity for State capital or operating purposes or to finance grants, loans or other assistance payments made or to be made by or on behalf of the State for any purpose. Among other provisions, the definition applies (i) whether or not the obligation of the State to make payments is subject to appropriation, or (ii) whether or not debt service is to be paid from a revenue stream transferred by the State to another party that is responsible for making such payments.

<sup>4</sup> As discussed elsewhere in this report, State-Supported debt is the measure that is subject to the limits of the Debt Reform Act of 2000.

While both measures include most public authority debt which is issued on behalf of the State as well as the State's own General Obligation bonds issued by the State Comptroller, State-Funded debt includes debt supported by any financing arrangement whereby the State agrees to make payments which will be used, directly or indirectly, for the payment of debt service (see footnote 2).

In contrast, State-Supported debt only includes debt in which payments from the State are used to pay debt service on bonds issued by the State and public authorities. State-Supported debt can be issued only for capital works or purposes.<sup>5</sup> This measure is narrower than State-Funded debt because it excludes certain public authority debt where State revenue is not directly used for debt service.

For example, in 2003, the Tobacco Settlement Financing Corporation (TSFC) was created to issue bonds securitized by New York's share of a long-term stream of revenues from the settlement that states across the country reached with major tobacco manufacturers in 1998. These bonds were issued solely to provide State budget relief. Because this borrowing was not for a capital work or purpose, it could not be accomplished within the scope of State-Supported debt.

### ***Short-Term Fix, Long-Term Costs – MAC Debt***

In 2003, the Legislature and the Governor enacted the Municipal Assistance Refinancing Act, authorizing the City of New York (City) to refinance Municipal Assistance Corporation (MAC) debt. The refinancing extended the final maturity on the bonds to 2033, meaning that final payments for City expenses that had been incurred in the mid-1970s would be made well over half a century later.

The new financing is through a not-for-profit local development corporation established specifically for this purpose (the Sales Tax Asset Receivable Corporation (STARC)). The Act created an incentive for the State to seek an appropriation to provide \$170 million per year, from the Local Government Assistance Tax Fund to the City or its assignee, for each of the City's fiscal years beginning July 1, 2003 and ending June 30, 2034. The expected annual State payments would be used by STARC to pay the debt service on the refinanced debt.

In November 2004, STARC issued nearly \$2.6 billion to refinance the MAC debt, which was initially issued in 1978 and was otherwise scheduled to be paid in full in 2008. As of March 31, 2012, \$2.2 billion in bonds remained outstanding.

In order to accomplish this financing, the State's future settlement revenue was transferred to the TSFC. While the revenues – between \$400 million and \$500 million annually – no longer flow to the State Treasury, they effectively constitute use of State resources for debt repayment. Thus, the Office of the State Comptroller includes

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<sup>5</sup> Section 67-b of the State Finance Law states the following: "State-supported debt' shall mean any bonds or notes, including bonds or notes issued to fund reserve funds and costs of issuance, issued by the state or a state public corporation for which the state is constitutionally obligated to pay debt service or contractually obligated to pay debt service subject to an appropriation, except where the state has a contingent contractual obligation."

payments on the tobacco bonds in the calculation of State-Funded debt to provide a more inclusive and realistic measure of the State's debt burden.

In the legislation that authorized this transaction, the State assigned the tobacco revenue stream to TSFC, but created a contingent contractual obligation by providing a pledge of General Fund revenues in the event that the tobacco revenues were insufficient to meet the debt service requirement. This

contingent contractual obligation removed the issuance from the statutory restrictions and limitations on State-Supported debt.

### ***Short-Term Fix, Long-Term Costs – School Aid***

A financing structure created in 2002 allowed the State to provide for the payment of certain accumulated prior-year school aid claims (a State liability primarily supporting operational costs for school districts) through the issuance of bonds by the Municipal Bond Bank Agency (MBBA).

In SFY 2003-04, the MBBA issued \$510 million in bonds, which allowed the State to spread its liability over a 20-year period. The debt issuance provided budget relief for both the State and the school districts involved, but also created a long-term cost with no associated capital asset. As of March 31, 2012, \$368 million in bonds remained outstanding.

New York's State-Funded debt includes General Obligation bonds and other State-Supported debt as defined by the Debt Reform Act of 2000, as well as obligations issued outside the Debt Reform Act, including the following:

- Tobacco Settlement Financing Corporation (TSFC) bonds issued to securitize the State's tobacco settlement revenue stream;
- Sales Tax Asset Receivable Corporation (STARC) bonds issued to refinance New York City's Municipal Assistance Corporation (MAC) debt from the 1975 fiscal crisis;
- Municipal Bond Bank Agency (MBBA) bonds issued to amortize prior year school aid claims; and, most recently,
- Building Aid Revenue Bonds (BARBs) issued by the New York City Transitional Finance Authority (TFA) for education infrastructure within New York City. The State authorized New York City to assign its State building aid to the TFA to secure repayment of bonds issued to finance a portion of the City's educational capital facilities program.<sup>6</sup>

As of March 31, 2012, the State had approximately \$63.3 billion in State-Funded debt outstanding (see Figure 1), representing an increase of \$24.3 billion or 62.2 percent

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<sup>6</sup> Part A-3 of Chapter 58 of the Laws of 2006 authorized New York City's Transitional Finance Authority (TFA) to issue bonds to finance educational capital projects within New York City backed by an assignment of all or a part of the City's annual payment of State Building Aid. The authorization limited debt outstanding under this arrangement to \$9.4 billion. New York City recognizes the Building Aid Revenue Bonds (BARBs) as a debt in its financial statements because it accounts for all activities of the TFA, a blended component unit of the City; however, the debt is not a general obligation of the City and is exclusively dependent upon the appropriation of future State aid for repayment.

from SFY 2002-03.<sup>7</sup> Voter-approved, General Obligation debt issued by the State Comptroller represents only 5.5 percent of the State-Funded debt burden, down from 10.2 percent ten years ago. State-Supported debt issued for the State by public authorities increased \$14.2 billion or 40.6 percent over the period. Total State-Funded debt outstanding, as of March 31, 2012, includes \$10.6 billion of debt which is not counted as State-Supported debt, as narrowly defined in the Debt Reform Act.

**Figure 1**

**State-Funded Debt Outstanding**  
(in millions)

	SFY 2002-03	SFY 2011-12	Dollar Change	Percentage Change	Percentage of Total Growth
General Obligation Debt	\$3,996	\$3,494	(\$502)	-12.6%	-2.1%
State-Supported Authority Debt	35,041	49,279	14,238	40.6%	58.6%
<b>Total State-Supported Debt</b>	<b>\$39,037</b>	<b>\$52,773</b>	<b>\$13,736</b>	<b>35.2%</b>	<b>56.5%</b>
TSFC - Tobacco Securitization	-	2,690	2,690	100.0%	11.1%
STARC - MAC Refinancing	-	2,188	2,188	100.0%	9.0%
TFA Building Aid Revenue Bonds (BARBs)	-	5,309	5,309	100.0%	21.9%
MBBA - Prior Year School Aid Claims	-	368	368	100.0%	1.5%
Subtotal	\$0	\$10,555	\$10,555	100.0%	43.5%
<b>Total State-Funded Debt</b>	<b>\$39,037</b>	<b>\$63,328</b>	<b>\$24,291</b>	<b>62.2%</b>	<b>100.0%</b>

Source: New York State Office of the State Comptroller

Figure 1 illustrates the growth in State-Funded debt from SFY 2002-03 through SFY 2011-12. Outstanding General Obligation (voter-approved) debt decreased from just under \$4.0 billion to \$3.5 billion. During that period, voters approved the Rebuild and Renew New York Transportation Bond Act in 2005, authorizing \$2.9 billion of new bonding capacity for the State's transportation infrastructure needs. This was the first bond act approval by voters since the 1996 Clean Water/Clean Air Bond Act. In the last 25 years, voters have approved three bond acts authorizing nearly \$7.7 billion of bonding capacity, and disapproved four other bond acts which would have authorized just under \$9.0 billion of new bonding capacity.

While voter-approved debt declined, other State-Funded debt issued on behalf of the State by public authorities has increased from \$35.0 billion in SFY 2002-03 to \$59.8 billion as of the end of SFY 2011-12 – reflecting growth in State-Funded debt of nearly 71 percent, or an average of 6.1 percent annually. Of the \$63.3 billion outstanding as of March 31, 2012, \$8.5 billion or 13.4 percent had been issued for non-capital purposes (see Figure 2).<sup>8</sup> None of this debt was approved by voters; the associated debt service was nearly \$1.1 billion in SFY 2011-12. The Debt Reform Act specifically restricted the

<sup>7</sup> Debt figures throughout this study, except where noted, are the original issue par amounts that remain outstanding and do not include adjustments for premiums, discounts, accretions or deferred losses. This figure includes the Sales Tax Asset Receivable Corporation (STARC), which is a government-created not-for-profit corporation and not a public authority.

<sup>8</sup> The Office of the State Comptroller has identified debt from the Local Government Assistance Corporation (LGAC), TSFC, STARC, MBBA bonds for prior year school aid claims, and Urban Development Corporation (UDC) bonds for both the sale of Attica and the refinancing of the Empire State Plaza as non-capital debt.

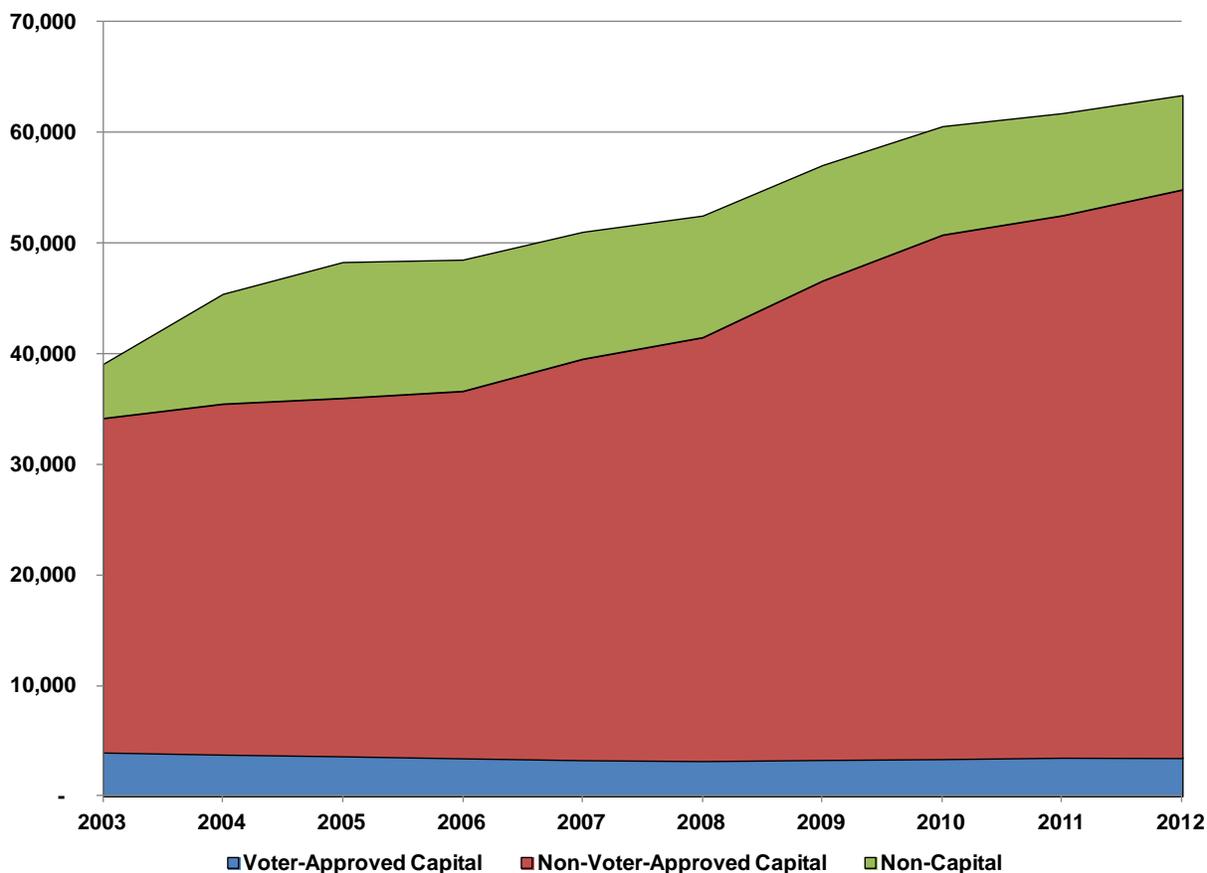
use of State-Supported debt to capital purposes; however, \$7.6 billion in State-Funded debt has been issued for operating purposes since that Act was passed in 2000.

Although a large portion of this non-capital debt was issued in the aftermath of the September 11, 2001 attacks in conjunction with a broader recovery plan, the State has also used long-term borrowing rather than current resources for purposes that did not involve such emergency conditions. As a matter of sound fiscal policy and practice, debt should be limited to capital purposes because long-term assets may reasonably be paid for over a decades-long period of use.

**Figure 2**

**Growth in State-Funded Debt Outstanding  
Issued for Capital and Non-Capital Purposes**

(in millions of dollars)



Source: New York State Office of the State Comptroller

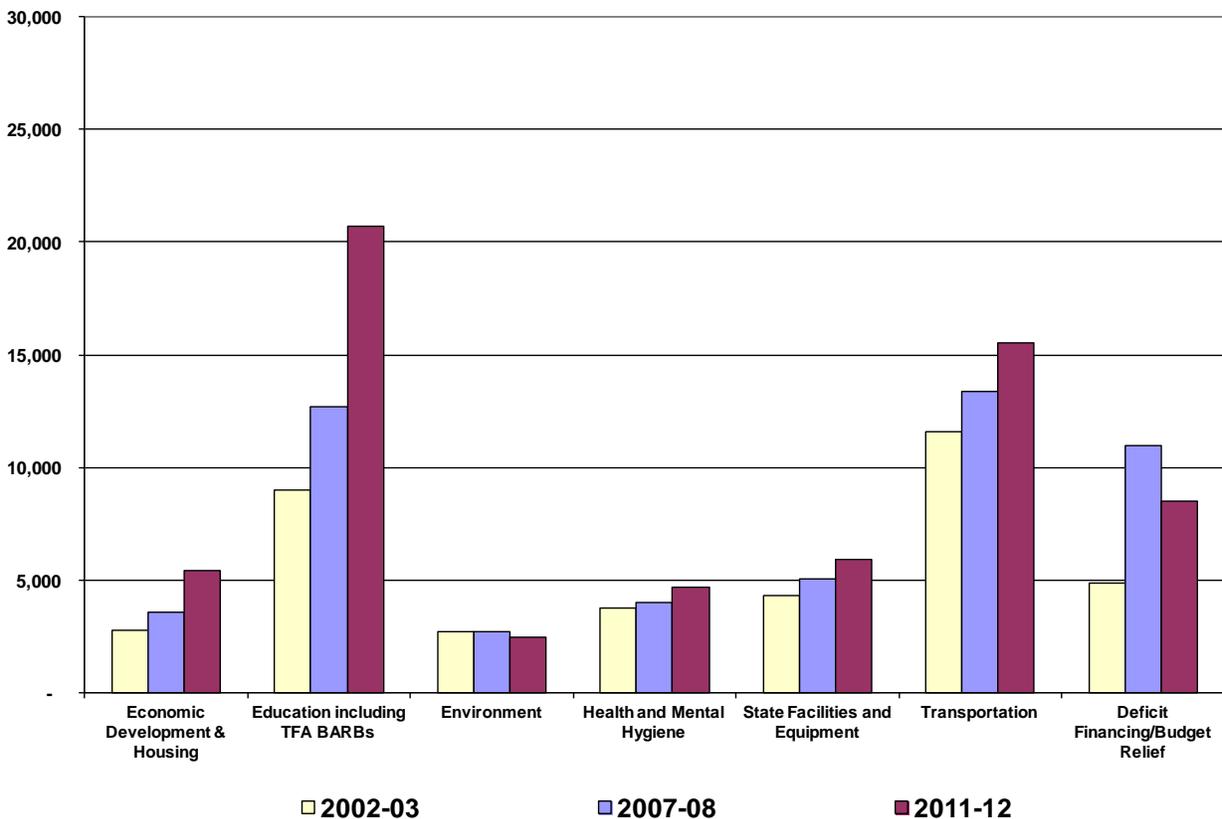
Figure 3 illustrates how the uses of debt have changed since SFY 2002-03. Debt associated with education (including debt issued for State University of New York (SUNY) and City University of New York (CUNY) as well as primary and secondary education and TFA BARBs after SFY 2006-07) and transportation represented 57.3 percent of the total in SFY 2011-12, and accounted for nearly 65 percent of total growth between SFY 2002-03 and SFY 2011-12. Since SFY 2002-03, the largest share of growth in State-Funded debt was associated with education (\$11.7 billion, or 48.1

percent of total growth). The increase was primarily attributable to BARBs issued by the New York City TFA (21.9 percent of total growth or \$5.3 billion), as well as the \$2.6 billion Expanding Our Children’s Education and Learning (EXCEL) program authorized in SFY 2006-07 (8.6 percent of the total growth or \$2.1 billion).

The third largest source of increase in State-Funded debt outstanding, representing 15.0 percent of the total (\$3.6 billion) was not for capital purposes, but instead for budget relief and other non-capital needs, and so was issued outside of the Debt Reform Act’s debt caps.

**Figure 3**

**State-Funded Debt Outstanding by Purpose**  
**SFY 2002-03, SFY 2007-08 and SFY 2011-12**  
 (in millions of dollars)



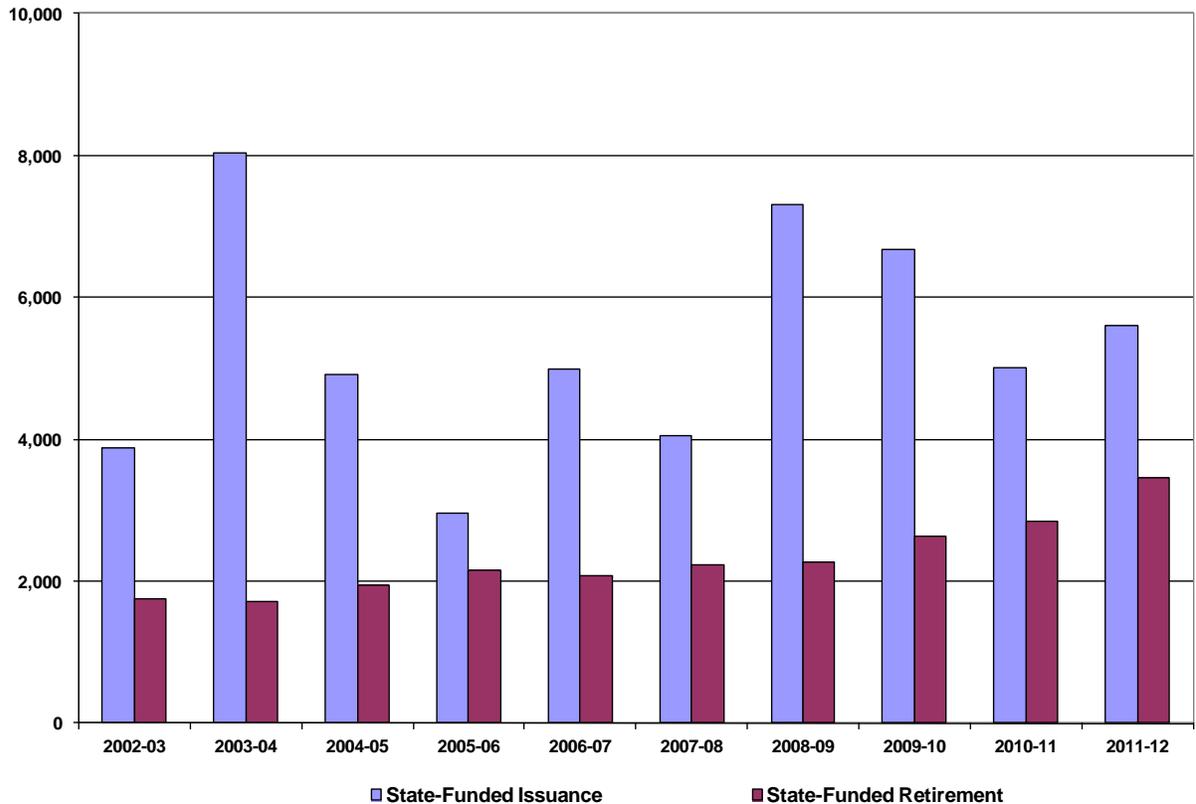
Source: New York State Office of the State Comptroller

The growth in State-Funded debt outstanding is also due to significant increases in new debt issuance without a corresponding increase in debt retirement (see Figure 4). Since SFY 2002-03, the State has issued over \$53.4 billion in new State-Funded debt while only retiring \$25.7 billion. In other words, more than twice as much debt was issued than was paid down during that period. Of the \$53.4 billion in new State-Funded debt, \$13.5 billion was issued outside of the Debt Reform Act’s definition of State-Supported debt and is not counted under the cap on State-Supported debt outstanding.

Of the \$25.7 billion in State-Funded debt outstanding retired during this period, only \$2.6 billion was not considered State-Supported.

**Figure 4**

**State-Funded Debt Issuance and Retirement**  
(in millions of dollars)



Source: New York State Office of the State Comptroller

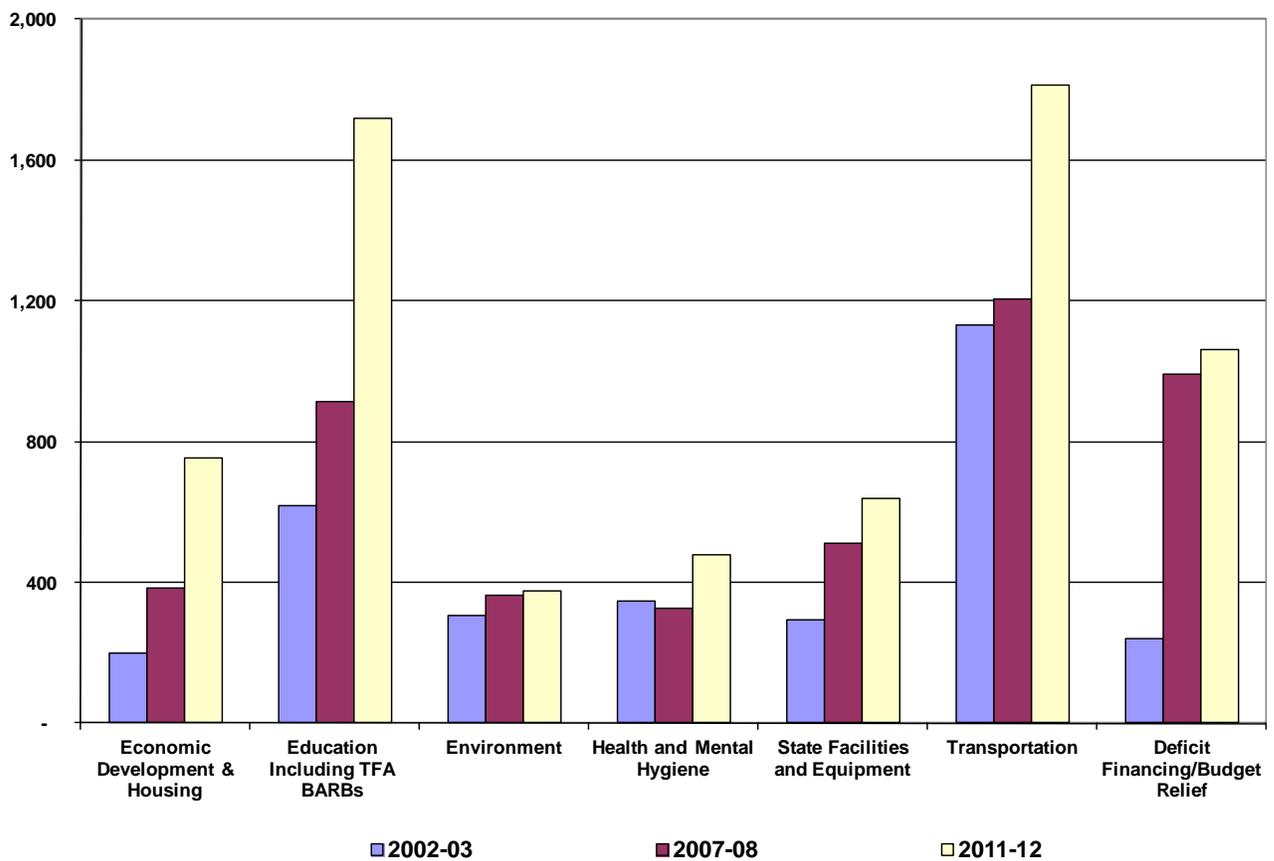
With the increase in debt outstanding, the annual debt service cost also increases. State-Funded debt service increased by approximately \$3.8 billion, or 125 percent, between SFY 2002-03 and SFY 2011-12.<sup>9</sup> This represents average annual growth of 9.4 percent. However, this growth also reflects over \$19 billion in debt refundings and restructurings from SFY 2002-03 through SFY 2005-06, during which time the State took advantage of historically low interest rates by refinancing certain existing obligations. The State also replaced debt service reserves with surety bonds and reduced the required amount of cash in such reserves, thus providing short-term fiscal relief, especially in SFY 2002-03. In one example, the Thruway Authority restructured \$2.7 billion of debt, providing immediate debt service relief but increasing costs in subsequent years.

Accounting for 29.7 percent of total growth, debt issued for education purposes, including new BARBs issued by New York City’s TFA, is the largest driver of growth in

<sup>9</sup> Note that total debt service payments included \$426 million in funding from the Debt Reduction Reserve Fund, which was not attributable to any particular program.

State-Funded debt service since SFY 2002-03.<sup>10</sup> The second largest driver, making up 22.2 percent, comprises bonds issued for non-capital purposes including deficit financing and budget relief. Figure 5 illustrates the growth in debt service by purpose. In SFY 2002-03, debt service related to non-capital purposes totaled \$239 million and represented approximately 7.9 percent of all State-Funded debt service. As of the end of SFY 2011-12, debt service for this purpose increased \$821 million, or 343.5 percent, to nearly \$1.1 billion from SFY 2002-03, and represented 15.5 percent of total State-Funded debt service.

**Figure 5**  
**State-Funded Debt Service by Purpose**  
 (in millions of dollars)



Source: New York State Office of the State Comptroller

<sup>10</sup> These amounts do not reflect amounts paid from the Debt Reduction Reserve Fund.

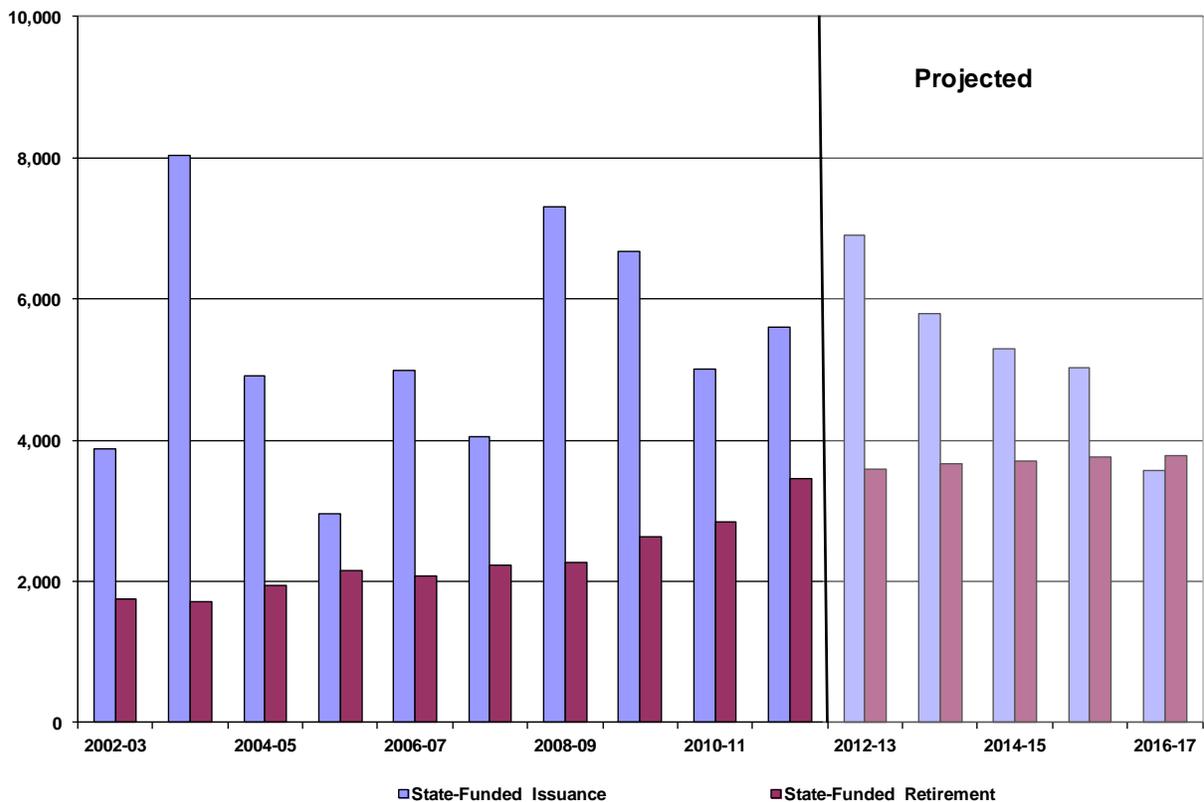
# Projected Growth in State Debt and Debt Service

The New York State Division of the Budget (DOB) is statutorily required to update the State's Five-Year Capital Program and Financing Plan annually to reflect legislative actions taken in the enacted budget.<sup>11</sup> According to debt issuance and retirement assumptions in the Plan, as well as scheduled retirements for the TSFC, STARC and the MBBA (Prior Year School Aid Claims) bonds and projected issuance and retirements for TFA BARBs, the State plans to directly or indirectly issue \$5.3 billion more in debt than it will retire over the next five years.

Figure 6 indicates how projections for new State-Funded bond issuances through SFY 2016-17 compare to proposed debt retirements. Note that new issuances for BARBs are only projected through SFY 2015-16.

**Figure 6**

**Projected State-Funded Debt Issuance and Retirements  
SFY 2002-03 through SFY 2016-17**  
(in millions of dollars)



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

<sup>11</sup> Section 23 of the State Finance Law.

As a result of the projected debt issuances and retirements over the next five years and projected issuances and retirements of TFA BARBs through 2016, the State is projected to end SFY 2016-17 with \$68.3 billion in outstanding State-Funded debt – representing an increase of 7.9 percent from the \$63.3 billion outstanding at the end of SFY 2011-12.

**Figure 7**

**Projected State-Funded Debt Outstanding**  
(in millions of dollars)

	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	Increase 2012 Beginning - 2017 End
State-Funded Debt at Beginning of Period	\$63,328	\$65,973	\$67,570	\$68,580	\$69,231	N/A
Issuance	6,905	5,792	5,297	5,037	3,570	26,602
Retirement	3,998	4,195	4,287	4,387	4,456	21,323
<b>Projected State-Funded Debt at End of Period (1)</b>	<b>\$65,973</b>	<b>\$67,570</b>	<b>\$68,580</b>	<b>\$69,231</b>	<b>\$68,345</b>	<b>\$5,279</b>

(1) Note that projected State-Funded debt at the end of the period for SFY 2012-13 is reduced by \$261.6 million; this amount is not reflected in issuance or retirement figures due to various refunding actions.

Table may not add due to rounding.

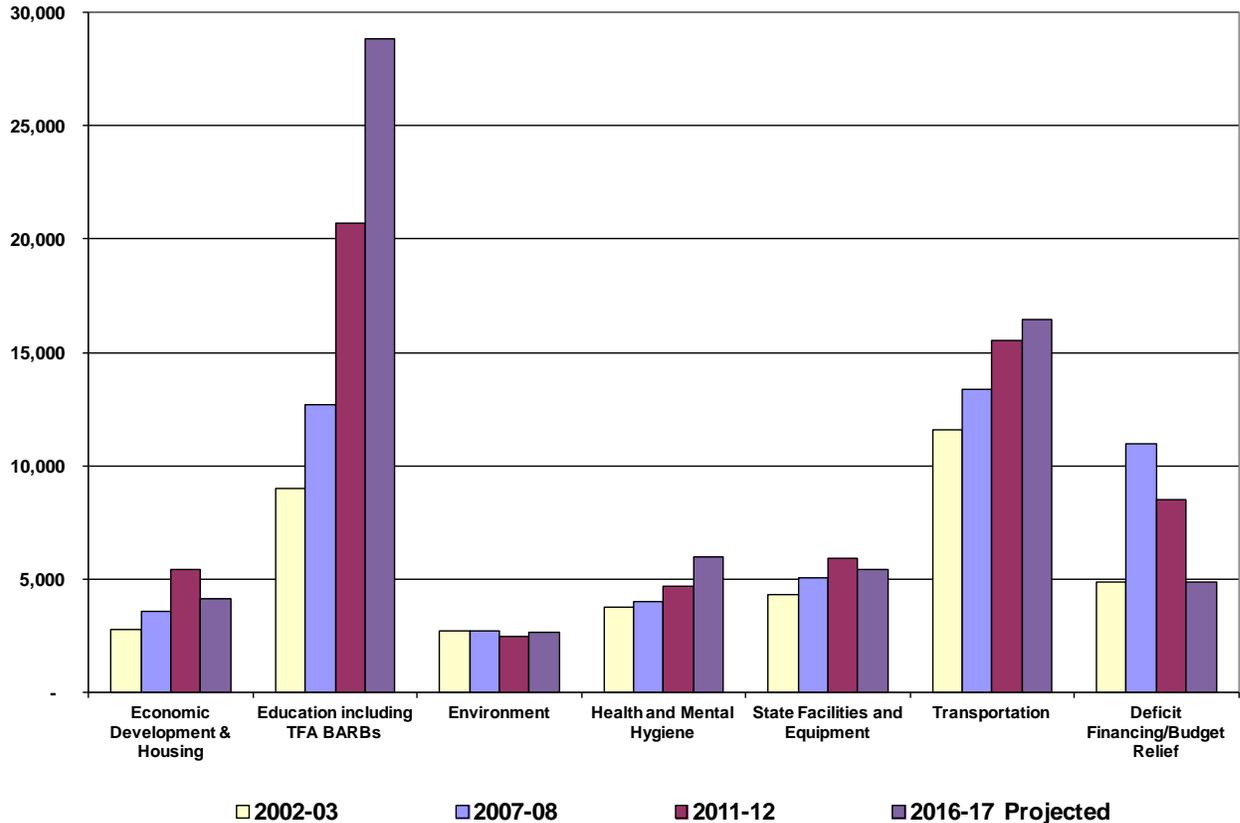
Sources: New York State Office of the State Comptroller, New York State Division of the Budget, and New York City Office of Management and Budget

Figure 8 shows that the majority of the increase in debt outstanding over the next five years is attributable to education, just as it was for the previous ten years. Education-related debt is expected to increase nearly 25 percent through SFY 2016-17. Approximately 43.8 percent of the growth in debt for education is attributable to BARBs issued by the New York City TFA that were authorized in SFY 2006-07.

Debt outstanding from BARBs is projected to grow to \$9.3 billion in SFY 2015-16, just under the \$9.4 billion statutory limit. Issuance projections are not available for the TFA for SFY 2016-17. Debt outstanding related to TFA BARBs is projected to decline to \$9.1 billion in SFY 2016-17. Once the TFA reaches its statutory limit, it can only issue new debt as existing debt is retired. The remaining growth in the education category is primarily attributable to higher education.

**Figure 8**

**State-Funded Debt Outstanding by Purpose**  
(in millions of dollars)



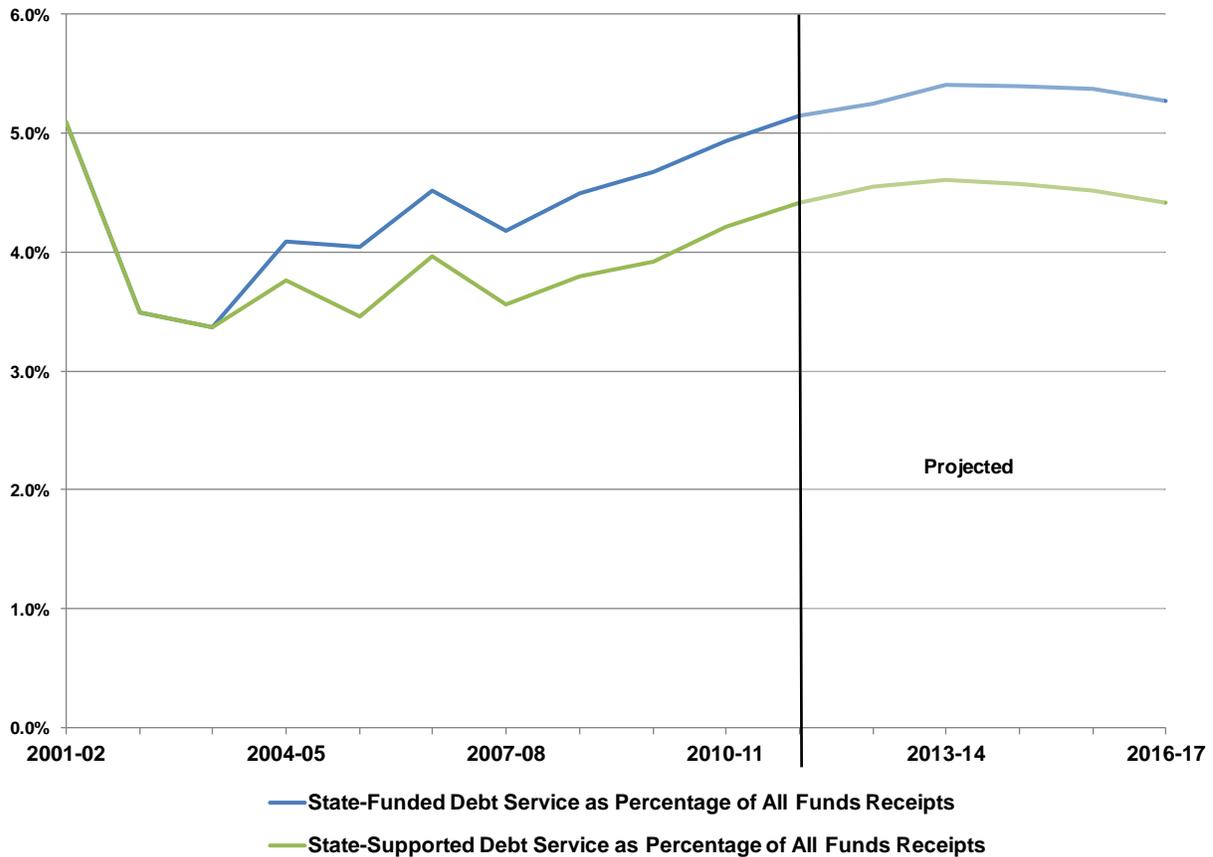
Sources: New York State Office of the State Comptroller, New York State Division of the Budget, and New York City Office of Management and Budget

Annual State-Funded debt service is projected to exceed \$8.0 billion by the end of SFY 2016-17, assuming projected bond issuances of \$26.6 billion and retirements of \$21.3 billion over the next five fiscal years. This represents average annual growth in State-Funded debt service of approximately 3.3 percent.

In SFY 2002-03, State-Funded debt service was approximately 3.5 percent of All Funds receipts. Figure 9 illustrates how State-Funded debt service as a percentage of All Funds receipts has changed since SFY 2002-03 and is projected to change through SFY 2016-17. For the purposes of illustrating the significant drop in debt service due to the refunding that began in SFY 2002-03, this chart includes SFY 2001-02. Figure 9 also includes State-Supported debt service as a percentage of All Funds receipts, because the Debt Reform Act limits State-Supported debt service issued after April 1, 2000 to 5.0 percent of All Funds Receipts (fully phased in by SFY 2013-14).<sup>12</sup> All these ratios are projected to level off over the next five years.

<sup>12</sup> For the purposes of comparison, Figure 9 illustrates debt service on *all* State-Supported debt, not just debt issued after April 1, 2000, which is the limit imposed by the Debt Reform Act.

**Figure 9**  
**State-Funded and State-Supported Debt Service as Percentage of All Funds Receipts**



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

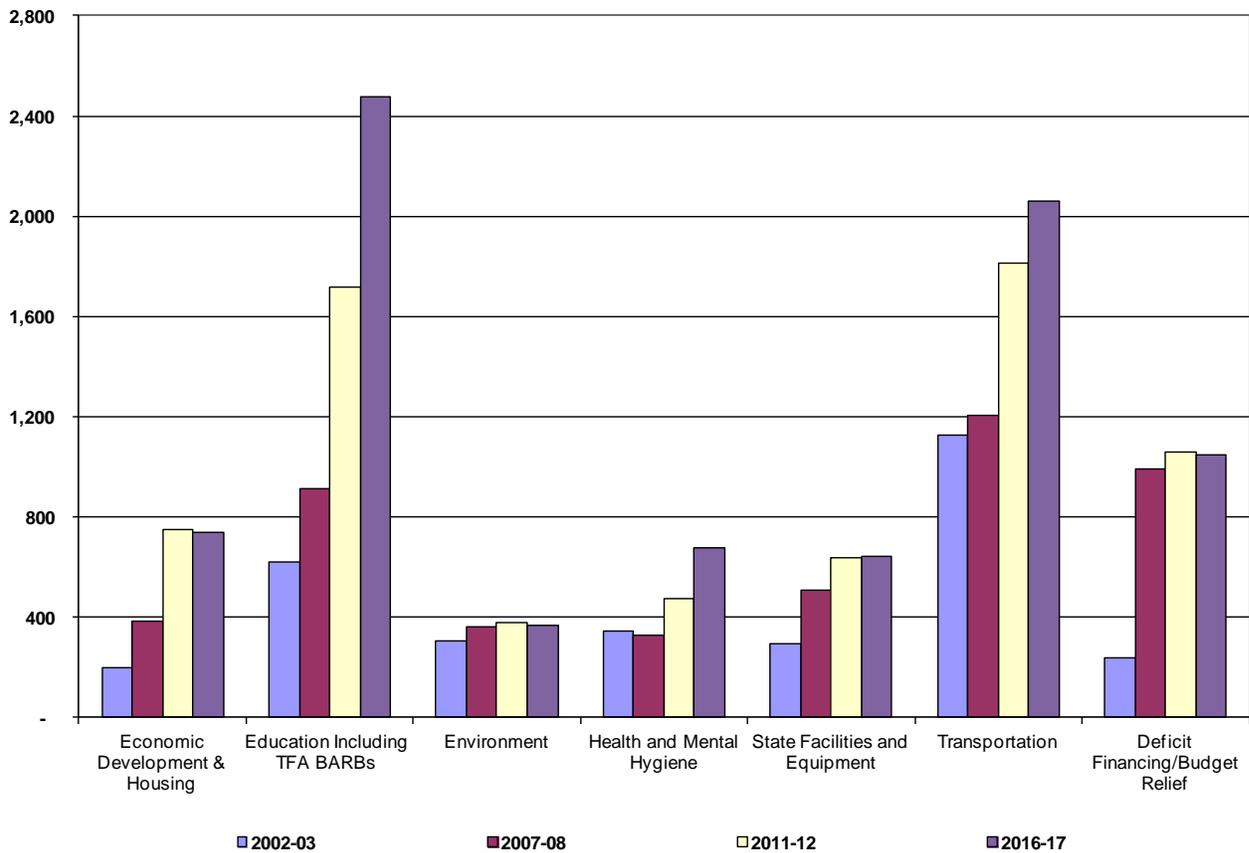
Figure 10 breaks down the growth in State-Funded debt service by category. Similar to projections for State-Funded debt outstanding, the majority of growth (41.5 percent) is projected to occur in education, largely attributable to new BARBs expected to be issued by the New York City TFA. While the debt outstanding associated with transportation has increased and is projected to continue increasing, Figure 10 illustrates a sharper increase in debt service between SFY 2007-08 and SFY 2011-12. The increase is projected to continue through SFY 2016-17, albeit more slowly. This increase is primarily associated with a restructuring in 2005 of \$2.7 billion in Dedicated Highway and Bridge Trust Fund debt. The restructuring allowed the State to delay five years of principal payments, which provided immediate Financial Plan relief but also resulted in higher debt service costs beginning in SFY 2010-11, when principal payments on the restructured bonds resumed.

There was a similar increase in debt and debt service associated with economic development and housing between SFY 2007-08 and SFY 2011-12, largely reflecting the various economic development programs enacted after 2000.<sup>13</sup> For much of the

<sup>13</sup> Examples of such programs include the Empire Opportunity Fund, Centers for Excellence, Upstate Regional Blueprint and Downstate Regional Economic Development, among many others.

debt issued for economic development and certain other programs, the only cost included in the State’s Financial Plan is the debt service on the associated bonds. The actual capital spending is considered “off-budget,” in that the State authorized public authorities to both issue and disburse bond proceeds, thus bypassing the State’s accounting system.<sup>14</sup>

**Figure 10**  
**Actual and Projected State-Funded Debt Service by Purpose**  
 (in thousands of dollars)



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

By SFY 2016-17, State-Funded debt service is projected to reach 5.3 percent of All Funds revenue, up from 5.1 percent in SFY 2011-12. In SFY 2011-12, State-Funded debt service was equal to 8.3 percent of State Operating Funds receipts.<sup>15</sup> This share is projected to grow to 8.5 percent in SFY 2015-16, the last year information for these

<sup>14</sup> Off-budget disbursements are reported for informational purposes in the Comptroller’s Monthly Report on State Funds Cash Basis of Accounting as required by Chapter 60 of the Laws of 2006. Reported disbursements are compiled by the Division of the Budget from unaudited financial data provided by public authorities.

<sup>15</sup> State Operating Funds comprises the General Fund, special revenue funds financed with State sources and debt service funds. It does not include federally funded special revenue funds or capital funds. The Office of the State Comptroller began reporting State Operating Funds as part of the Comptroller’s Monthly Report on State Funds Cash Basis of Accounting in April 2010. DOB has included State Operating Funds in the Financial Plan since SFY 2007-08. However, beginning with the SFY 2011-12 Executive Budget, DOB revised the Financial Plan’s presentation of State Operating Funds to be consistent with the Comptroller’s presentation. The Comptroller’s Annual Report to the Legislature on State Funds Cash Basis of Accounting for State Fiscal Year 2011-12 includes a ten-year history of receipts and disbursements in State Operating Funds (Schedule 6 – Supplemental).

receipts is available in the Mid-Year Update to the SFY 2012-13 Enacted Budget Financial Plan.

### ***Current State Resources – Pay-As-You-Go***

The Capital Plan is financed by four major sources of funds: (1) current cash resources of the State (often referred to as pay-as-you-go, or PAYGO), either from the General Fund or from dedicated fees or taxes; (2) federal funds; (3) General Obligation bonds approved by voters; and (4) bonds issued by public authorities on behalf of the State that are not approved by voters. The use of current State resources to support a portion of the Capital Plan is critical to achieving a balanced approach to meeting the State's capital purposes. However, PAYGO is more subject to the fluctuations of economic activity than the other sources. As available cash diminishes, the State often turns to bonds in place of PAYGO to free up available cash for other needs.

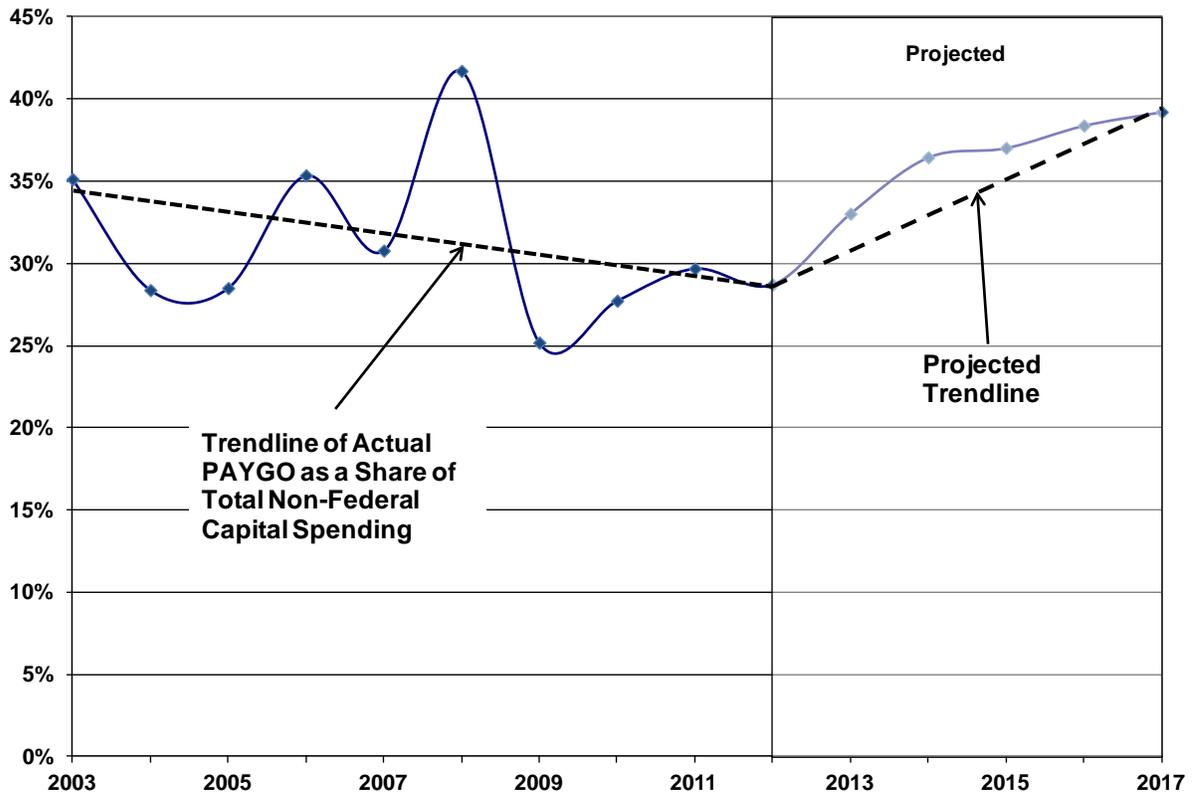
During the second half of the 1980s, the State used PAYGO financing for an average of 55 percent, and as much as 75 percent, of the non-federally funded Capital Plan. During the first half of the 1990s, which included a period of recession, the amount of PAYGO declined to an average of 30 percent, with a low of 13.5 percent in 1991, indicating the diversion of current resources to other budget areas. Even though the State experienced a number of multibillion-dollar surplus years in the latter half of the 1990s, the average annual use of PAYGO did not increase above 36.7 percent. If historical levels of PAYGO financing had been used during the expansion of the late 1990s, the State's debt outstanding and debt service levels would likely be lower today and the State would not be facing a rapidly declining capacity for new debt.

Utilizing current revenues for capital projects reduces the need to issue debt, thereby reducing future debt service, and is viewed positively by rating agencies. Increasing the use of PAYGO conserves debt capacity and reduces the burden passed to future generations. Furthermore, the increased debt capacity that results from increased use of PAYGO creates a buffer for those years when spending capacity is limited due to a downturn in the economy or other constraining circumstances.

Over the last ten years, PAYGO remained relatively stable at 31.1 percent of non-federal capital spending, representing an average of 31.6 percent in the first five years and 30.6 percent in the second five. The Capital Plan projects increases in the use of PAYGO over the next five years, as State PAYGO resources are forecast to average 36.8 percent, climbing to 39.3 percent in SFY 2016-17. Figure 11 depicts New York's historic downward trend in the use of PAYGO as a percentage of non-federal capital spending, as well as the planned upward trend through SFY 2016-17.

**Figure 11**

**PAYGO as a Percentage of Non-Federal Capital Spending**



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

***Projected Revenues and Economic Indicators***

Revenue projections are important not only because they serve as the basis for a viable spending plan, but also because they play a key role in debt management in New York. When the debt service cap is fully phased in, State-Supported debt service for bonds issued after April 1, 2000 will be limited to 5.0 percent of All Funds receipts. Debt service is a spending obligation that is not easily changed, unlike other categories of spending that can be reduced administratively or legislatively. Therefore, when debt service is increasing, other areas of desired spending must often be reduced to align total spending with available revenues. Indeed, expenditures for State-Funded debt service rose by nearly \$1.0 billion between SFYs 2009-10 and 2011-12, a period when the State imposed broad agency spending cuts and eliminated billions of dollars in previously projected school aid increases.

According to the Mid-Year Update to the SFY 2012-13 Enacted Budget Financial Plan, All Funds revenue is projected to increase to \$152.2 billion in SFY 2016-17, representing an increase of \$19.5 billion or 14.7 percent from SFY 2011-12, as illustrated in Figure 12. Average annual growth is projected at 3.4 percent for the next five years compared to average annual growth of 4.8 percent over the previous 10 years. However, the revenue growth of the past decade reflects reliance on significant

temporary resources such as federal stimulus funding, three different Personal Income Tax (PIT) surcharges, amnesty periods, deficit financing and tax credit deferments, among others. The revenue projected for the next five years includes some temporary resources, primarily the remainder of the last PIT changes enacted in December 2011 that are scheduled to end in SFY 2015-16, as well as proceeds from insurance conversions from not-for-profit to for-profit corporations.

**Figure 12**

**Actual and Projected Revenues and Economic Indicators for New York State**  
(in millions of dollars)

Fiscal Year Ending	All Funds Receipts	State Operating Funds Receipts	State-Funded Debt Outstanding	State-Funded Debt Service	Personal Income Tax Collections	DOB Personal Income	IHS Global Insight Personal Income	Gross State Product	Population (thousands)
2003	87,085	50,329	39,037	3,038	22,648	678,647	678,393	822,408	19,173
2004 (1)	99,587	58,855	45,375	3,352	24,647	695,479	695,392	842,678	19,165
2005	100,679	60,712	48,249	4,118	28,100	741,124	741,167	891,462	19,130
2006	107,027	68,094	48,464	4,331	30,813	786,571	786,512	959,869	19,112
2007	112,397	72,603	50,979	5,069	34,580	851,635	851,437	1,030,372	19,146
2008	115,423	75,619	52,445	4,825	36,564	915,526	915,526	1,076,254	19,225
2009 (2)	119,235	75,228	57,014	5,363	36,840	937,173	949,250	1,079,720	19,319
2010 (2)	126,748	75,847	60,522	5,919	34,571	908,997	904,026	1,072,311	19,404
2011 (2)	133,321	78,792	61,700	6,575	36,209	939,564	942,523	1,128,823	19,474
2012 (2)	132,745	82,616	63,328	6,835	38,767	995,185	995,185	1,157,969	19,465
2013 (3)	133,353	85,190	65,974	7,032	40,256	1,021,501	1,017,628	1,195,674	19,624
2014 (3)	138,315	88,483	67,570	7,848	43,172	1,062,812	1,057,851	1,239,333	19,696
2015 (3)	141,844	89,730	68,580	7,613	44,340	1,126,170	1,106,948	1,288,910	19,763
2016 (3)	146,492	92,726	69,231	7,859	45,811	1,189,498	1,158,544	1,349,820	19,825
2017 (3)(4)(5)	152,247	92,726	68,345	8,017	48,729	1,253,464	1,208,881	1,409,147	19,887
<b>Average Annual Growth SFY 2002-03 through SFY 2011-12</b>	<b>4.8%</b>	<b>5.7%</b>	<b>5.5%</b>	<b>9.4%</b>	<b>6.2%</b>	<b>4.3%</b>	<b>4.3%</b>	<b>3.9%</b>	<b>0.2%</b>
<b>Average Annual Growth SFY 2012-13 through SFY 2016-17</b>	<b>3.4%</b>	<b>2.1%</b>	<b>0.9%</b>	<b>3.3%</b>	<b>4.9%</b>	<b>5.2%</b>	<b>4.4%</b>	<b>4.2%</b>	<b>0.3%</b>

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

(2) Includes federal stimulus funds.

(3) Receipts, Debt Outstanding, Debt Service and Personal Income Tax projected from 2013 on. Other Indicators projected from 2011 on.

(4) Personal Income Tax projection for SFY 2016-17 derived from projected Personal Income Tax Revenue Bond Coverage Ratios as reported in the Enacted SFY 2012-13 Five-Year Capital Program and Financing Program - page 52.

(5) State Operating Funds projection for SFY 2016-17 equal to projected and actual average annual growth from previous 10 years.

Sources: New York State Office of the State Comptroller, New York State Division of the Budget, IHS Global Insight

The Debt Reform Act limits State-Supported debt outstanding issued after April 1, 2000 to 4.0 percent of New York State Personal Income (which measures the income received by all persons from all sources within New York State), phased in between SFY 2000-01 and SFY 2011-12. Over the last ten years, and especially since 2007, projected growth in Personal Income has been significantly affected by the severe economic downturn that began in 2007, and projections and actual results have fluctuated significantly.

Personal Income declined significantly in 2010 (the first decline since the Great Depression of the 1930s). In October 2007, two months before the Great Recession began, DOB projected that the State would have over \$7.5 billion in available debt capacity at the end of SFY 2011-12, the last year of the SFY 2007-08 Five-Year

Capital Program and Financing Plan. This forecast was based on a Personal Income projection of \$1.1 trillion, projected new debt issuances totaling \$25.3 billion and projected debt retirements of \$13.6 billion over the life of the SFY 2007-08 Enacted Budget Five-Year Capital Program and Financing Plan.<sup>16</sup> In fact, according to the Mid-Year Update to the SFY 2012-13 Enacted Budget Financial Plan, available capacity at the end of SFY 2011-12 was \$4.0 billion, just over half of what was projected five years ago, in part because Personal Income ended SFY 2011-12 at only \$995.2 billion.

Over the last ten years, Gross State Product (GSP), which measures economic output within the State, has increased 3.9 percent annually on average. IHS Global Insight projects annual average growth of GSP to increase to 4.2 percent over the next four years. Average annual population growth is also projected to increase from 0.2 percent to 0.3 percent over the next four years. State-Funded debt outstanding is projected to grow an average of 0.9 percent annually over the next five years, three times the rate of projected growth in population, so debt per capita is projected to increase as well.

**Figure 13**

**Debt Subject To Cap**  
**Comparison of Projections and Effect on Debt Caps**  
(in millions of dollars)

	Personal Income	Cap %	Cap \$	Projected %	Projected Debt (Above) Below Subject to Cap		
					Cap	Difference	
2012-13	1,021,501	4.00%	40,860	3.86%	39,390	<b>1,470</b>	
<i>2012-13</i>	<i>1,017,628</i>	<i>4.00%</i>	<i>40,705</i>	<i>3.87%</i>	39,390	<b>1,315</b>	(155)
2013-14	1,062,812	4.00%	42,512	3.95%	42,003	<b>509</b>	
<i>2013-14</i>	<i>1,057,851</i>	<i>4.00%</i>	<i>42,314</i>	<i>3.97%</i>	42,003	<b>311</b>	(198)
2014-15	1,126,170	4.00%	45,047	3.92%	44,124	<b>923</b>	
<i>2014-15</i>	<i>1,106,948</i>	<i>4.00%</i>	<i>44,278</i>	<i>3.99%</i>	44,124	<b>154</b>	(769)
2015-16	1,189,498	4.00%	47,580	3.86%	45,969	<b>1,611</b>	
<i>2015-16</i>	<i>1,158,544</i>	<i>4.00%</i>	<i>46,342</i>	<i>3.97%</i>	45,969	<b>373</b>	(1,238)
2016-17	1,253,464	4.00%	50,139	3.76%	47,192	<b>2,947</b>	
<i>2016-17</i>	<i>1,208,881</i>	<i>4.00%</i>	<i>48,355</i>	<i>3.90%</i>	47,192	<b>1,164</b>	(1,783)

Note: Rows in regular text reflect Division of the Budget projections; rows in *italics* reflect projections of Personal Income by IHS Global Insight.

Annually as of October 31, DOB determines whether the amount of State-Supported debt outstanding as of the end of the immediately preceding fiscal year is below the cap established in the Debt Reform Act of 2000 (4.0 percent of State Personal Income from the immediately preceding calendar year). At the same time and throughout the year, DOB also provides projections for Personal Income and reports on how those projections will affect debt capacity under the cap based on planned issuance and retirement of State-Supported debt assumed in the then current Capital Program and Financing Plan.

<sup>16</sup> Updated in Mid-Year Update to the SFY 2007-08 Enacted Budget Financial Plan, pages 98, 328, and 331.

Figure 13 presents DOB's latest projections from the Mid-Year Update to the Financial Plan for Fiscal Year 2013, as well as estimates based on IHS Global Insight's projections of Personal Income for same period. In each case, the level of Projected Debt Subject to Cap is the same (as this reflects current projections for issuance and retirement over the life of the Capital Program and Financing Plan). The projections of Personal Income from IHS Global Insight are significantly lower than those from DOB, especially in the latter years. As shown in the table, if growth in Personal Income is modestly lower than DOB projects, the State's remaining debt capacity would shrink further than expected.

DOB has acknowledged the State's limited statutory debt capacity. Most recently, the Mid-Year Update to the Financial Plan for Fiscal Year 2013 contained the following statement: "The State is continuing to consider measures to address capital spending priorities and debt financing practices in order to stay within the statutory limitations."<sup>17</sup>

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<sup>17</sup> New York State, Mid-Year Update to the Financial Plan for Fiscal Year 2013, p. 16.

# Change in Debt Ratios and Comparisons to Other States

To facilitate comparisons of New York with similar states and the nation as a whole, as well as to better monitor and understand our debt burden, it is useful to review debt ratios and analyze their changes over time. The following key ratios are used in this report to assess the financial burden of debt outstanding: (1) debt outstanding as a percentage of Personal Income, as reported by the U.S. Bureau of Economic Analysis; (2) debt outstanding per capita; (3) debt service as a percentage of all revenues; and (4) debt outstanding as a percentage of GSP, also reported by the Bureau of Economic Analysis.

The debt-to-Personal Income ratio indicates the burden a state's debt places on the income tax base, which is the primary source of in-state revenue for New York State. Outside of federal funds, New York's Personal Income Tax (PIT) is the State's largest revenue source, representing approximately 29.2 percent of All Funds receipts and just below 46.9 percent of State Operating Funds in SFY 2011-12. Over the last ten years, PIT has accounted for an annual average of 28.4 percent of All Funds receipts and 46.2 percent of State Operating Funds receipts.

The debt per capita measure allows the issuer to assess the actual and relative debt burden for the average taxpayer compared to other states. Population growth is an important consideration in assessing debt per capita because, if population growth is lower than debt growth, the measure increases. The comparison of debt outstanding to GSP is similar to comparing debt to Personal Income, except that GSP is a measure of all economic output within a state.

The level of debt service to All Funds revenue indicates the amount of flexibility in a state's budget. Annual debt service increases with debt levels and is generally a fixed cost. As such, when debt is used for non-capital purposes such as deficit financing or other budget relief, as is currently the situation in New York, there is a long-term associated cost. Debt service costs increase, while available revenues may not.

Figure 14 identifies the State's indebtedness and debt ratios as of March 31, 2012 compared to March 31, 2008 and March 31, 2011. State-Funded debt outstanding increased by \$9.3 billion, or 17.6 percent, between SFY 2007-08 and SFY 2010-11 and increased an additional \$1.6 billion, or 2.6 percent, in SFY 2011-12. State-Funded debt outstanding as a percentage of Personal Income increased from 5.7 percent to 6.6 percent between SFY 2007-08 and SFY 2010-11 but then declined to 6.4 percent in SFY 2011-12. State-Funded debt as a percentage of GSP showed similar changes. GSP also declined in 2009, thus affecting the comparison for SFY 2010-11.

**Figure 14**

**State-Funded Debt Ratios**  
(as of March 31)

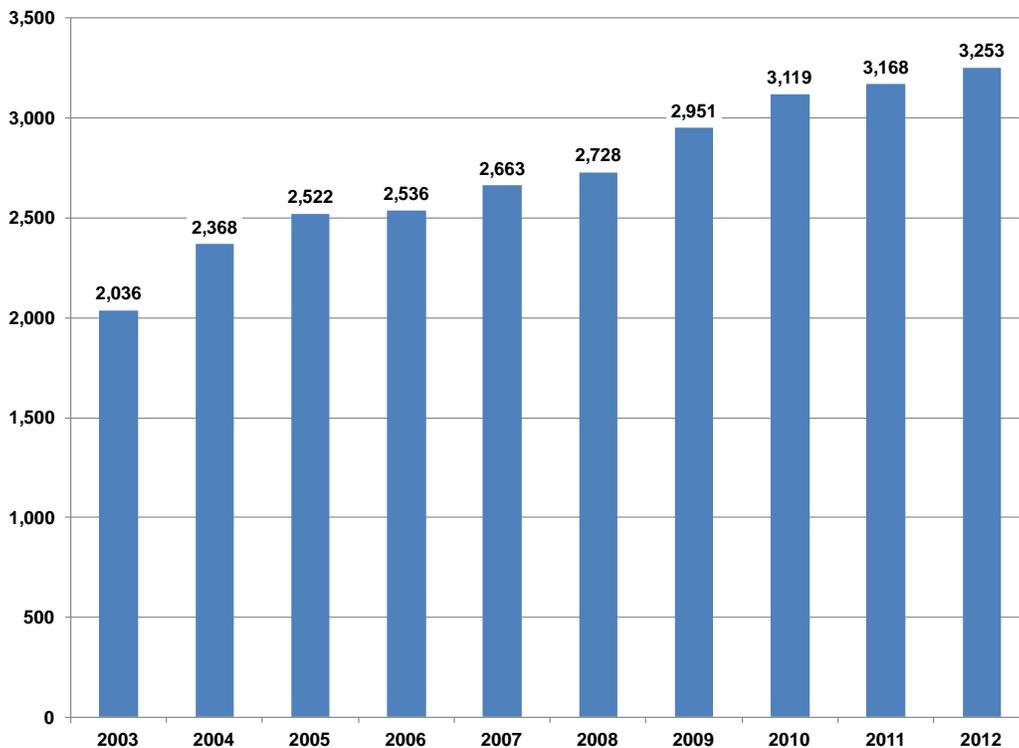
	State-Funded Debt Outstanding (millions)	State-Funded Debt to Personal Income	State-Funded Debt Per Capita	State-Funded Debt to GSP	Debt Service to All Funds Revenue
SFY 2008	\$52,445	5.7%	\$2,728	4.5%	4.2%
SFY 2011	\$61,700	6.6%	\$3,168	5.8%	4.9%
SFY 2012	\$63,328	6.4%	\$3,253	5.5%	5.1%

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

State-Funded debt outstanding per capita increased by \$440, or 16.1 percent, from \$2,728 in SFY 2007-08 to \$3,168 in SFY 2010-11, with another 2.7 percent increase to \$3,253 in SFY 2011-12. The State-Funded debt service to All Funds revenue ratio increased from 4.2 percent in SFY 2007-08 to 4.9 percent in SFY 2010-11 and to 5.1 percent in SFY 2011-12.

**Figure 15**

**Growth in State-Funded Debt per Capita**  
SFY 2002-03 through SFY 2011-12



Source: Office of the State Comptroller, Division of the Budget, New York City Office of Management and Budget, U.S. Census

Since SFY 2002-03, State-Funded debt per capita has increased an average of 5.0 percent annually. This level of growth is almost entirely due to growth in State-Funded debt outstanding, as New York's population only increased an average of 0.2 percent over the same period. To correspond to the limits established in the Debt Reform Act and for purposes of comparison, the ratio of State-Funded debt service as a percentage of All Funds receipts is used to measure annual debt burden. While it is reasonable to use All Funds receipts as a basis of comparison, this revenue includes federal funding, much of which is earmarked for specific purposes and cannot be used for debt service needs.

If the ratio of State-Funded debt service to State Operating Funds receipts were used, New York's debt burden would appear higher because State Operating Funds excludes federal funding as well as funding specifically used for capital purposes. The State had a ratio of 6.4 percent in SFY 2007-08 and 8.3 percent in SFY 2010-11 and SFY 2011-12. That ratio is projected to increase to 8.5 percent in SFY 2015-16, the last year for which information regarding State Operating Funds receipts is available in the Mid-Year Update to the SFY 2012-13 Enacted Budget Financial Plan.

### ***New York's Debt Burden Compared to Other States***

New York State's credit ratings are in the lower mid-range of the 50 states, as determined by the three major national ratings agencies (see Appendix A). One negative factor in such ratings is the State's above-average debt burden, including a comparatively high proportion of deficit-related bonding.<sup>18</sup>

A comparison to national and peer group medians is useful to put New York's debt burden in context. The peer group comprises the other states with the largest populations—California, Texas, Florida, Illinois, Pennsylvania, Ohio, Michigan, Georgia, North Carolina and New Jersey. In May 2012, Moody's published the *2012 State Debt Medians* report, presenting the data upon which much of this analysis related to state debt ratios is based. New York's State-Funded debt to Personal Income ratio, the State-Funded debt per capita ratio, the State-Funded debt service to All Funds revenues ratio and the State-Funded debt as a percentage of GSP are all significantly above peer and national medians.<sup>19</sup>

New York's debt as a percentage of Personal Income, at 6.4 percent, was second only to New Jersey within its peer group and more than two times the national median of 2.8 percent. New York's debt per capita of \$3,253 was again second to New Jersey within its peer group and nearly three times the national median of \$1,117. New York's debt as a percentage of GSP is more than two times higher than the median of its peers and 2.3 times higher than the national median. New York follows Illinois with the second highest debt service as a percentage of All Funds receipts in the peer group.

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<sup>18</sup> See, for example, New York State ratings update, Moody's Investors Service, August 22, 2012.

<sup>19</sup> Moody's Investors Service recently added a new metric to compare states – debt service as a percentage of operating fund revenues and pledged revenues. This report does not utilize Moody's latest comparison and instead compares debt service with all governmental funds receipts as reported in each state's latest Comprehensive Annual Financial Report. This measure is used primarily because the Debt Reform Act limits debt service for New York's State-Supported debt issued after April 1, 2000 to 5 percent of All Funds receipts.

Figure 16 details the peer group comparison for the four debt ratios evaluated. The debt-to-Personal Income and debt-to-GSP ratios as well as debt outstanding per capita for peer states are taken from Moody's *2012 State Debt Medians* report, while the debt service-to-revenue ratio has been calculated using data from the most recent Comprehensive Annual Financial Report or Basic Financial Statements available for each state. Ratios for New York use the Comptroller's measure of SFY 2011-12 State-Funded debt, rather than Net Tax-Supported debt as presented in the Moody's report, because State-Funded debt provides a more accurate measure of New York's debt burden.<sup>20</sup>

**Figure 16**

**Peer Group Comparisons  
(highest values *italicized*)**

	2011 Debt (\$000)	2011 Debt Per Capita (\$)	2011 Debt as % of 2010 Personal Income	2011 Debt as % of 2010 Gross State Product	2011 Debt Service as % of All Funds Receipts
California	<b>96,436,000</b>	2,559	6.0%	5.1%	3.8%
Texas	15,104,282	588	1.5%	1.3%	1.4%
Florida	22,241,600	1,167	3.0%	3.0%	3.3%
Illinois	32,999,133	2,564	6.0%	5.1%	<b>6.0%</b>
Pennsylvania	14,452,460	1,134	2.8%	2.5%	1.9%
Ohio	11,680,586	1,012	2.8%	2.4%	2.9%
Michigan	7,754,300	785	2.2%	2.0%	1.3%
Georgia	10,788,109	1,099	3.1%	2.7%	4.2%
North Carolina	7,866,993	815	2.3%	1.9%	2.3%
New Jersey	34,970,970	<b>3,964</b>	<b>7.8%</b>	<b>7.2%</b>	2.7%
<b>Peer Median</b>	<b>14,778,371</b>	<b>1,117</b>	<b>2.9%</b>	<b>2.6%</b>	<b>2.8%</b>
<b>National Median</b>	<b>4,242,808</b>	<b>1,117</b>	<b>2.8%</b>	<b>2.4%</b>	<b>2.6%</b>
<b>New York - 2011-12</b>	<b>63,327,668</b>	<b>3,253</b>	<b>6.4%</b>	<b>5.5%</b>	<b>5.4%</b>
NYS Ratio to Peer Median March 31, 2012	4.29	2.91	2.22	2.10	1.91
NYS Ratio to National Median March 31, 2012	14.93	2.91	2.30	2.28	2.08

\* Note that Debt Service and All Funds Revenue are from each state's Statement of Revenues, Expenditures, and Changes in Fund Balances contained within the state's 2011 Comprehensive Annual Financial Reports. Consequently, reported debt service does not include payments reported in proprietary funds that are supported by proprietary fund resources. New York's debt service includes SUNY and CUNY obligations from proprietary funds that are not self-supporting.

Sources:

Moody's Investors Service, *2012 State Debt Medians*, May 2012  
U.S. Census Bureau  
U.S. Bureau of Economic Analysis  
IHS Global Insight, Inc.  
New York State Division of the Budget SFY 2012-13 Enacted Budget Five Year Capital Program and Financing Plan  
Annual Comprehensive Financial Reports and/or Basic Financial Statements for all states.

<sup>20</sup> Moody's measure of Net Tax-Supported debt includes State-Guaranteed Job Development Authority debt, Moral Obligation debt and debt associated with the State Secured Hospital Program. The Comptroller's State-Funded debt measure does not include these obligations because they have not previously been supported with State resources. The State's *Mid-Year Update to the Financial Plan for Fiscal Year 2013 and Projections for FY 2013 through FY 2016* indicates that the financial conditions of hospitals in this program continue to deteriorate. The Plan includes \$3 million in FY 2013, \$32 million in 2014 and \$39 million annually thereafter for the assumption of costs under this program. Should the State be required to actually provide resources for this program, then this category of debt would be included as part of State-Funded debt. In addition, Moody's measures Net Tax-Supported debt on a calendar year basis as compared to the State Fiscal Year used for New York State throughout this report. As a result, Moody's Net Tax-Supported debt measure for New York State is \$62.44 billion as of December 31, 2011.

Figure 17

### Median Growth Comparisons Fiscal Years Ending 2002 and 2011

	Dollar Growth (millions)	Percentage Growth	Average Annual Growth
<b>State Debt</b>			
All States Median	1,870	78.8%	6.7%
Peer Median	6,221	72.7%	6.3%
Non-Peer Median	1,308	81.9%	6.9%
All States Mean	5,004	96.2%	7.8%
Peer Mean	13,983	122.2%	9.3%
Non-Peer Mean	2,207	80.7%	6.8%
<b>New York</b>	<b>24,289</b>	<b>62.2%</b>	<b>5.5%</b>
<b>Personal Income</b>			
All States Median	50,781	45.7%	4.3%
Peer Median	140,596	38.6%	3.7%
Non-Peer Median	35,526	44.0%	4.1%
All States Mean	78,168	43.3%	4.1%
Peer Mean	191,818	41.6%	3.9%
Non-Peer Mean	43,199	45.0%	4.2%
<b>New York</b>	<b>305,475</b>	<b>45.0%</b>	<b>4.2%</b>
<b>Gross State Product</b>			
All States Median	59,153	47.4%	4.4%
Peer Median	121,880	29.7%	2.9%
Non-Peer Median	39,252	42.8%	4.0%
All States Mean	87,379	41.6%	3.9%
Peer Mean	211,503	39.4%	3.8%
Non-Peer Mean	49,189	45.1%	4.2%
<b>New York</b>	<b>335,561</b>	<b>40.8%</b>	<b>3.9%</b>
<b>All Funds Receipts (GAAP)</b>			
All States Median	7,040	56.2%	5.1%
Peer Median	15,849	43.2%	4.1%
Non-Peer Median	6,461	67.2%	5.9%
All States Mean	11,033	60.2%	5.4%
Peer Mean	23,620	51.4%	4.7%
Non-Peer Mean	6,319	61.7%	5.5%
<b>New York</b>	<b>43,607</b>	<b>51.5%</b>	<b>4.7%</b>
<b>Debt Service (GAAP)</b>			
All States Median	194	59.6%	5.3%
Peer Median	542	64.7%	5.7%
Non-Peer Median	151	93.3%	7.6%
All States Mean	381	68.8%	6.0%
Peer Mean	826	63.8%	5.6%
Non-Peer Mean	186	66.1%	5.8%
<b>New York</b>	<b>3,236</b>	<b>87.6%</b>	<b>7.2%</b>

Figure 17 illustrates how debt and other measures have changed over the last ten years for all states, the ten peer states, the 39 non-peer states and New York, showing

how growth in debt outstanding compares to other capacity and wealth measures. Throughout this report, debt outstanding is measured against Personal Income and GSP, both of which serve as proxies for a state's ability to pay. Similarly, debt service is measured against receipts. In all states, peer states, non-peer states and New York, debt outstanding has grown faster than income and debt service has grown faster than receipts.

# Projected Effects of Enacted Capital Plan on State Debt Ratios

The planned issuance of \$26.6 billion in new debt combined with projected retirements of \$21.3 billion over the next five years equates to an increase of State-Funded debt outstanding of approximately \$5.3 billion. Figure 18 illustrates projected annual changes to the four debt ratios discussed in this report. State-Funded debt and debt service figures are based on the SFY 2012-13 Five-Year Enacted Budget Capital Program and Financing Plan as well as figures for TFA BARBs from New York City (issuance through 2016 only). All Funds revenue projections are from the Mid-Year Update to the SFY 2012-13 Enacted Budget Financial Plan. Economic projections are from IHS Global Insight.

The declines illustrated in the ratios of State-Funded debt outstanding to both Personal Income and GSP are indicative of projected average annual economic growth that is greater than projected average annual growth in State-Funded debt outstanding. However, both indicators are highly affected by the economy and thus could change in unexpected ways. For example, many economists' forecasts of GDP growth for 2012 and 2013 have been lowered in recent months, compared to projections made earlier this year.

**Figure 18**

## Effect of Projected New Debt Issuances and Retirements on Debt Ratios in New York

	SFY 2012	SFY 2013	SFY 2014	SFY 2015	SFY 2016	SFY 2017
Personal Income (prior year - millions)	\$995,185	\$1,017,628	\$1,057,851	\$1,106,948	\$1,158,544	\$1,208,881
<b>State-Funded Debt to Personal Income</b>	<b>6.4%</b>	<b>6.5%</b>	<b>6.4%</b>	<b>6.2%</b>	<b>6.0%</b>	<b>5.7%</b>
Population (thousands)	19,465	19,624	19,696	19,763	19,825	19,887
<b>State-Funded Debt Per Capita</b>	<b>\$3,253</b>	<b>\$3,362</b>	<b>\$3,431</b>	<b>\$3,470</b>	<b>\$3,492</b>	<b>\$3,437</b>
Gross State Product (prior year - millions)	\$1,157,969	\$1,195,674	\$1,239,333	\$1,288,910	\$1,349,820	\$1,409,147
<b>State-Funded Debt to Gross State Product</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.3%</b>	<b>5.1%</b>	<b>4.9%</b>
All Funds Revenues (millions)	\$132,745	\$133,353	\$138,315	\$141,844	\$146,492	\$152,247
<b>State-Funded Debt Service to All Funds Revenues</b>	<b>5.1%</b>	<b>5.3%</b>	<b>5.4%</b>	<b>5.4%</b>	<b>5.4%</b>	<b>5.3%</b>

Sources: Office of the State Comptroller. Division of the Budget, New York City Office of Management and Budget, IHS Global Insight

# Incomplete Reform: Debt Reform Act of 2000

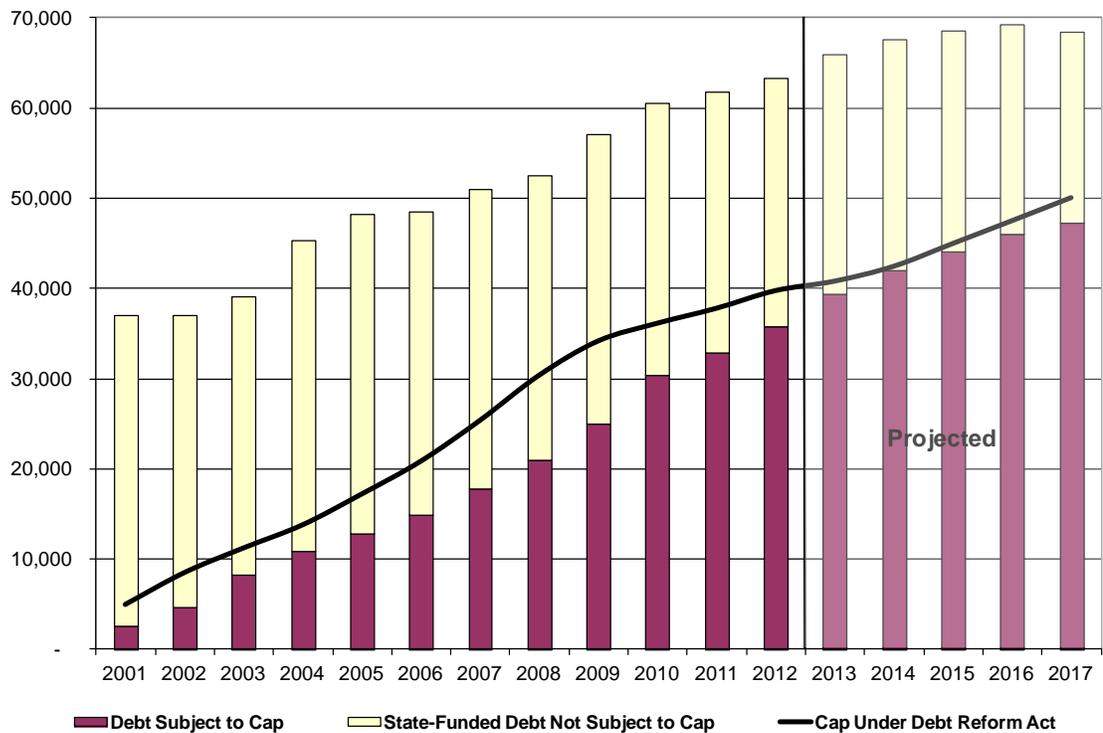
The Debt Reform Act of 2000 established a definition for State-Supported debt and imposed statutory limitations on such debt, which were phased in beginning April 1, 2000. Unfortunately, the Act did little to promote fiscal discipline or ensure that future debt would be affordable. The legislation:

- Capped the level of debt outstanding – for debt issued after April 1, 2000 – at 4.0 percent of Personal Income. After phasing in over 10 years, this cap was fully effective as of SFY 2010-11.
- Capped debt service on new debt issued after April 1, 2000 at 5.0 percent of All Funds receipts. This cap will be fully effective as of SFY 2013-14.
- Provided that State-Supported debt issued after April 1, 2000 can only be used for capital works or purposes, and cannot have a maturity longer than 30 years.

According to DOB, at the end of SFY 2012-13 the State is projected to have approximately \$1.5 billion of debt capacity under the cap on State-Supported debt outstanding.

**Figure 19**

**Debt Outstanding Subject To and Excluded From the Debt Cap**  
(in millions of dollars)



Sources: New York State Office of the State Comptroller, New York State Division of the Budget, New York City Office of Management and Budget  
 Note: Debt Subject to Cap and Cap Under Debt Reform Act are based on Division of the Budget estimates for SFYs 2013-17. See the Mid-Year Update to the SFY 2012-13 Enacted Budget Financial Plan, page 17.

Available debt capacity is projected based on planned issuance and retirement schedules as well as projections for Personal Income, all as updated in the Mid-Year Update to the SFY 2012-13 Enacted Budget Financial Plan. Available capacity is projected to decline to \$509 million in SFY 2013-14 before increasing again.<sup>21</sup> The projected decline is primarily attributable to two reasons: first, the State has been issuing significantly more debt annually than it is retiring, and second, the economic slowdown has caused reductions in projected Personal Income.

Due to the narrowly constructed definition of State-Supported debt in the Act, the borrowing counted under these statutory State-Supported debt caps does not include all borrowing funded with State resources. There are two broad categories of debt excluded from the caps. The Debt Reform Act excluded from its statutory caps all debt that was outstanding at the time of enactment. As of March 31, 2012, the debt still remaining from that time totaled \$13.0 billion. Also, \$17 billion in new debt has been authorized to be issued since 2000 that was not subject to the caps, but which must be repaid from State resources. That new debt now totals \$10.6 billion, for a total of \$23.6 billion in debt not counted toward the cap.

Certain of these new debt authorizations also circumvented the provision of the Act that limits the issuance of debt to capital purposes, including debt issued by the Tobacco Settlement Financing Corporation, the Sales Tax Asset Receivable Corporation and the Municipal Bond Bank Agency. As a result, approximately \$7.6 billion has been issued for non-capital purposes since 2000. As of March 31, 2012, 13.4 percent of the State's debt burden is attributable to non-capital purposes.

To get a comprehensive picture of the State's obligations, it is necessary to consider all State-Funded debt. For example, the debt outstanding subject to the statutory debt cap in SFY 2011-12 totaled \$35.8 billion; however, actual State-Funded debt totaled \$63.3 billion, or \$27.5 billion higher than the amount subject to the statutory cap and \$23.5 billion higher than the cap itself (as there was approximately \$4.0 billion in available debt capacity under the cap at that time). Approximately 43.4 percent of all State-Funded debt and 48.5 percent of associated debt service is not recognized under the statutory debt caps.

Figure 20 illustrates that the State has significant room under the cap on State-Supported debt service. However, if all State-Funded debt were subject to this cap, the State would have exceeded the debt service cap since inception, just as it would have with the cap on debt outstanding.

Based on the SFY 2012-13 Enacted Budget Five-Year Capital Program and Financing Plan, as updated in the Mid-Year Update to the SFY 2012-13 Enacted Budget Financial Plan, the cap on State-Supported debt service does not appear to be an issue in the immediate future, in that State-Supported debt service is projected to stay approximately \$2.8 billion below the cap. However, the Debt Reform Act did not

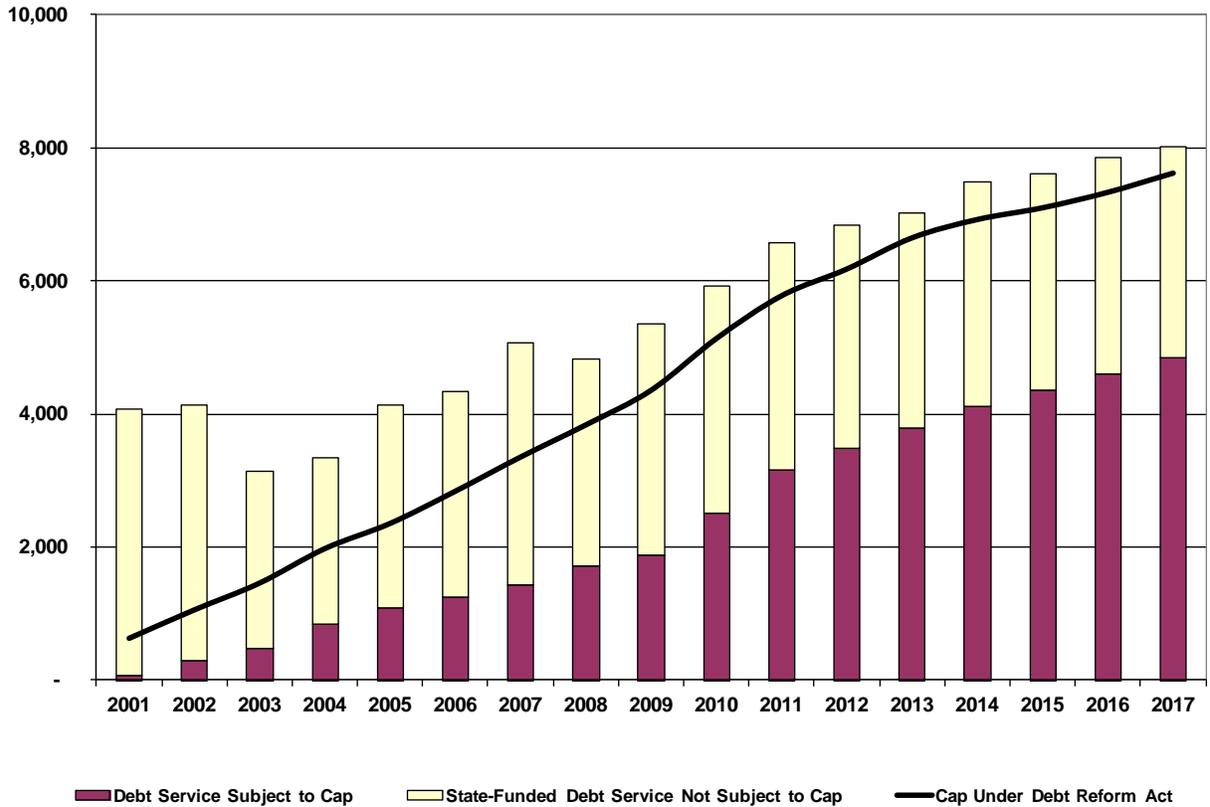
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<sup>21</sup> DOB is required to calculate the caps on State-Supported debt outstanding and debt service every October 31 and report in the most proximate quarterly Financial Plan update, although these caps are often revised in other quarterly Financial Plan and Capital Program and Financing Plan updates based on more up-to-date information.

establish a comprehensive cap on the growth of debt service on all State-Funded debt, and such debt service is a concern as it continues to require an ever-larger share of the State's limited resources.

**Figure 20**

**Debt Service Subject To and Excluded From the Cap**  
(in millions of dollars)



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

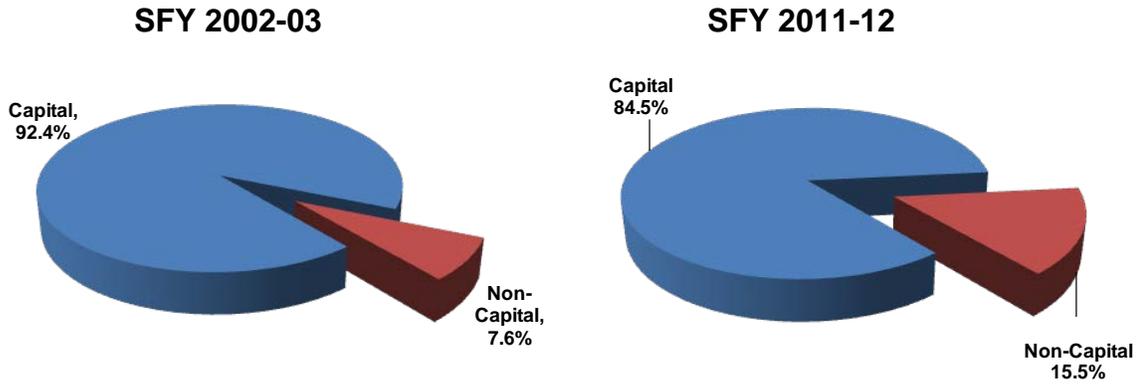
Note: Debt Service Subject to Cap and Cap Under Debt Reform Act are based on Division of the Budget estimates for SFYs 2013-17. See page 17 of the Mid-Year Update to the SFY 2012-13 Enacted Budget Financial Plan.

The Debt Reform Act has also failed to limit new debt issuances to capital purposes. As a percentage of State-Funded debt outstanding, debt that was issued for non-capital purposes, including deficit financing and budget relief, has only declined modestly, from 13.7 percent in SFY 2000-01 to 13.5 percent in SFY 2011-12.<sup>22</sup> Figure 21 illustrates that debt service costs associated with non-capital needs, including budget relief, as a percentage of total debt service have increased from 7.6 percent of State-Funded debt service to 15.5 percent, reaching nearly \$1.1 billion in SFY 2011-12.

<sup>22</sup> When the Debt Reform Act was enacted, the State had existing non-capital debt from the New York Local Government Assistance Corporation (LGAC) and debt issued by the Urban Development Corporation for both the sale of the Attica prison facility and the refinancing of the Empire State Plaza. Since the enactment of the Debt Reform Act, the State has had non-capital debt issued by the Tobacco Settlement Financing Corporation (TSFC), Sales Tax Asset Receivable Corporation (STARC) and the Municipal Bond Bank Agency (MBBA). A large portion of this non-capital debt was issued in the aftermath of the September 11, 2001 attacks in conjunction with a broader recovery plan. Bonds for the refinancing of Empire State Plaza were retired in SFY 2010-11.

**Figure 21**

**Percentage of State-Funded Debt Service for Non-Capital Purposes**



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

# Unfinished Business: Advancing Debt Reform

The Comptroller's Strategy for Fiscal Reform includes statutory and constitutional provisions that would restore control to the voters for approving virtually all debt, eliminate backdoor borrowing, ensure debt remains within affordable limits through a new cap that includes *all* debt funded entirely by State resources, and create an effective, transparent long-term capital planning process. The reforms would:

- **Impose a Real Debt Cap on all State-Funded Debt.** Amend the Constitution to limit all State-Funded debt to 5.0 percent of Personal Income, on a phased-in basis, and to prohibit the use of State-Funded debt for non-capital purposes. The cap and the restriction on the use of debt would help New York further rein in its debt load.
- **Ban Backdoor Borrowing.** Amend the Constitution to ban the issuance of State-Funded debt by the State's public authorities and other entities, and to require State-Funded debt to be issued by the Comptroller, following voter approval (except for \$250 million in non-voter-approved debt annually and emergency debt to be issued only under extraordinary circumstances within strict guidelines).

This proposal would not affect public authorities' ability to issue bonds in which State funds are not used for debt service, allowing debt for purposes such as the Thruway Authority's financing of its toll road or the Dormitory Authority's construction projects for private colleges.

This proposal authorizes a new category of voter-approved revenue debt to be issued by the State Comptroller, subject to the same constitutional and statutory controls applied to General Obligation debt. These reforms would restore voter control over debt issued in New York and help the State regain control of its debt burden.

- **Create a New York State Capital Asset and Infrastructure Council.** Amend State statutes to create a New York State Capital Asset and Infrastructure Council and require that it provide an inventory and monitor the status of all capital assets of the State, its public authorities and local governments, which receive a significant State investment.
- **Establish a Statewide Capital Needs Assessment.** Amend State statutes to establish a Statewide Capital Needs Assessment and require a comprehensive 20 year long-term strategic plan to guide the five-year Capital Plan. Significant elements of the State's infrastructure are in need of repair and rehabilitation. The breadth and scope of these needs requires a long-term and comprehensive approach to identifying needs across all areas, including transportation, education, environment and energy.

Such an assessment and strategic plan, to be undertaken by the Infrastructure Council, would allow policy makers to prioritize those capital projects most in need of repair and most critical to the economic recovery of New York. This assessment would lead to a Five-Year Capital Plan adopted by the Legislature.

The recently constituted New York Works Task Force reflects a step forward in improving the State's capital planning process by adding a mechanism to better coordinate and prioritize the State's vast infrastructure needs. An overall prioritization of the State's infrastructure needs is long overdue, as demonstrated in Comptroller DiNapoli's various reports on the topic, including:

- *The Dedicated Highway and Bridge Trust Fund: Where Did the Money Go?* (October 2009)
- *Cracks in the Foundation: Local Government Infrastructure and Capital Planning Needs* (August 2010)
- *Planning for the Long Term: Capital Spending Reform in New York* (October 2010)
- *Controlling Risks Without Gimmicks: New York's Infrastructure Crisis and Public-Private Partnerships* (January 2011).
- *Assessment of the Thruway Authority's Finances and Proposed Toll Increases* (August 2012)

The Task Force's basic purpose, to better coordinate and prioritize the State's capital planning process, is similar to the purpose of the Capital Asset and Infrastructure Council recommended by Comptroller DiNapoli as part of his comprehensive Fiscal Reform package. However, detailed information with respect to the outcome of the work of the Task Force is not yet fully available.

# Conclusion

In the last two years, the Governor and the Legislature have set New York upon a new era of State and local fiscal policy, with an increased focus on achieving structural budgetary balance. Improving the State's financial condition for the long term will also require the State to lock in protections against inappropriate borrowing in the future. The intention of this and previous Debt Impact studies by the Office of the State Comptroller is to provide a full picture of New York's true debt burden as a basis for monitoring the State's use of debt and promoting consideration of needed reforms. Notwithstanding the State's attempt to enact meaningful debt reform in 2000, debt levels have risen rapidly in recent years, both because of higher-than-normal debt issuance and additional debt issued outside of the parameters of the Debt Reform Act.

Because New York's debt levels have grown faster than the economy, the State's remaining statutory debt capacity has declined significantly and is projected to shrink further in the years ahead. Current dollar, or pay-as-you-go, funding for capital spending is well below the level of the 1980s. While PAYGO is projected to increase in the years ahead, history illustrates that such improvement is more easily projected than accomplished. New York's excessive debt burden constrains effective and timely capital investment, limits the State's financial flexibility, and could harm its future credit position.

New York State's credit ratings are in the lower mid-range of the 50 states, as determined by the three major national ratings agencies. Achieving a higher credit rating could reduce future borrowing costs. Debt service is consuming an increasing share of the State's revenue, and its projected growth will further impede New York's ability to meet other spending priorities within a balanced Financial Plan. Even though the 2000 debt reform effort sought to ban the issuance of debt for non-capital purposes, \$7.6 billion in bonds to fund operating expenses and obtain budget relief have been issued since the ban was imposed. Faced with a growing budget imbalance, New York spent nearly \$1.1 billion in SFY 2011-12 for principal and interest payments on debt issued years ago for budget relief and other non-capital purposes. A comparable level of cost is projected annually over the next five years.

Effective planning for the use of debt and capital investments should provide a framework to ensure that the issuance of additional debt is affordable. The State should prioritize capital and infrastructure needs, and decrease its reliance on debt, while increasing the use of pay-as-you-go spending. Comprehensive, strict reforms of the State's debt policy and capital planning practices are needed to ensure that New York can address its capital infrastructure needs over time, while keeping debt costs affordable and reducing the burden on future generations.

## Appendix A: State Credit Ratings

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

### Standard and Poor's Ratings of State General Obligation Bonds (as of November 5, 2012)

AAA	AA+	AA	AA-	A+	A	A-
Alaska	Idaho	Alabama	Arizona		Illinois	California
Delaware	Kansas	Arkansas	Kentucky			
Florida	Massachusetts	Colorado	Michigan			
Georgia	Minnesota	Connecticut	New Jersey			
Indiana	New Mexico	Hawaii				
Iowa	North Dakota	Louisiana				
Maryland	Ohio	Maine				
Missouri	Oklahoma	Mississippi				
Nebraska	Oregon	Montana				
North Carolina	South Carolina	New Hampshire				
Utah	South Dakota	<b>NEW YORK</b>				
Virginia	Tennessee	Nevada				
Wyoming	Texas	Pennsylvania				
	Vermont	Rhode Island				
	Washington	West Virginia				
		Wisconsin				

Source: Standard and Poor's Ratings Services

**Moody's Ratings of State General Obligation Bonds  
(as of May 22, 2012)**

<b>Aaa</b>	<b>Aa1</b>	<b>Aa2</b>	<b>Aa3</b>	<b>A1</b>	<b>A2</b>
Alaska	Alabama	Hawaii	Arizona	California	Illinois
Delaware	Arkansas	Kentucky	Connecticut		
Georgia	Colorado	Louisiana	New Jersey		
Indiana	Florida	Maine			
Iowa	Idaho	Michigan			
Maryland	Kansas	Mississippi			
Missouri	Massachusetts	<b>NEW YORK</b>			
New Mexico	Minnesota	Nevada			
North Carolina	Montana	Oklahoma			
South Carolina	New Hampshire	Rhode Island			
Tennessee	North Dakota	West Virginia			
Texas	Ohio	Wisconsin			
Utah	Oregon				
Vermont	Pennsylvania				
Virginia	Washington				
	West Virginia				

Source: Moody's Investors Services

**Fitch Ratings of State General Obligation Bonds  
(as of June 2012)**

<b>AAA</b>	<b>AA+</b>	<b>AA</b>	<b>AA-</b>	<b>A+</b>	<b>A</b>	<b>A-</b>
Delaware	Alabama	Connecticut	Kentucky		Illinois	California
Florida	Alaska	Hawaii	Michigan			
Georgia	Indiana	Idaho	New Jersey			
Iowa	Maine	Kansas				
Maryland	Massachusetts	Louisiana				
Missouri	Minnesota	<b>NEW YORK</b>				
North Carolina	Mississippi	Rhode Island				
South Carolina	Montana	South Dakota				
Tennessee	Nevada	Wisconsin				
Texas	New Hampshire					
Utah	Ohio					
Vermont	Oklahoma					
Virginia	Oregon					
	Pennsylvania					
	Washington					
	West Virginia					

Source: Fitch Ratings Ltd.