Annual Performance Report

Interest Rate Exchange and Similar Agreements

2008-09 Fiscal Year

New York State Division of the Budget

David A. Paterson, Governor

Robert L. Megna, Director of the Budget

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Preface

Pursuant to New York State Finance Law, Article 5-D, section 69-d, the Director of the Budget is required to issue an annual performance report for the prior State fiscal year for interest rate exchange agreements (“swaps”) entered into by the State.

This report fulfills this statutory requirement, and includes the annual and cumulative performance of all State swaps and similar agreements that were entered into since the inception of the program to the end of the 2008-09 fiscal year. In addition, this report contains a comprehensive review of the State’s swap agreements, as well as other related information.

The 2008-09 Annual Performance Report includes three sections. The first section, titled *“Summary of the Overall Swap Portfolio*”, provides an overview of the State’s swap portfolio and explains the adjustments that have occurred over the past year. The second section, titled “*Existing Swap Portfolio*”, includes all outstanding swap agreements and their performance since inception. The third section titled, “*Terminated Swaps*”, reflects the actions taken by the State to adjust its swap portfolio in response to the disruptions in the variable rate market this past year, including the termination of swaps. All three sections are included in section III of this report. For additional information on the disruptions in the variable rate market and how it affected the State, see Section II*, The Impact of the Credit Crisis on the State’s Debt Portfolio.*

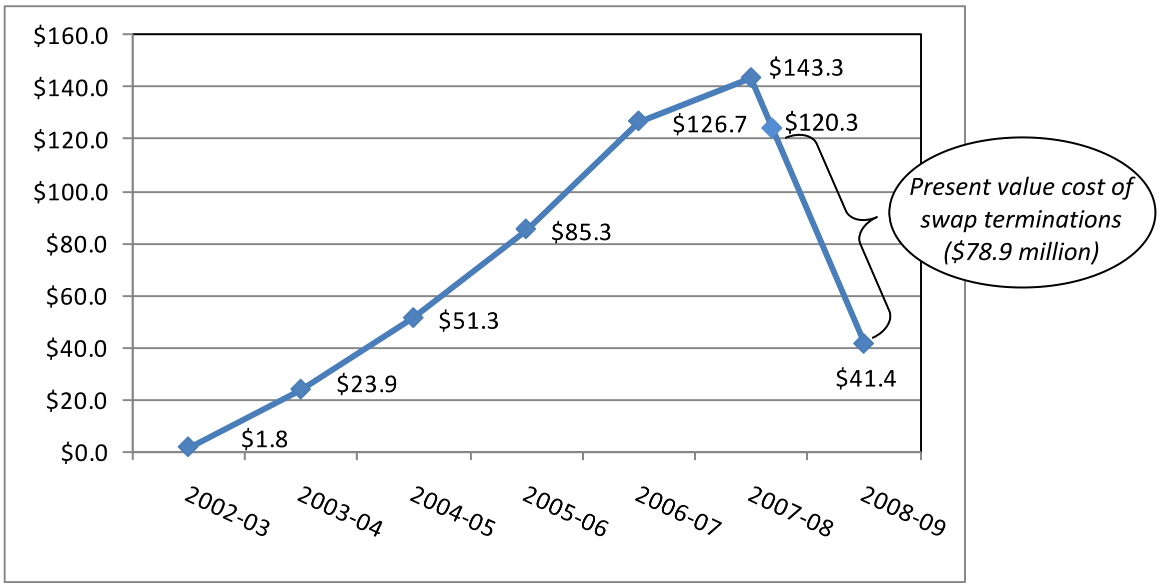
Over the past year, the State terminated $2.0 billion in a notional amount of swaps, at a present value cost of $79 million (Market Value[1] of $103 million). To measure the true costs of terminating swaps, a methodology was used that compares the actual costs of the original swaps (through maturity) to the estimated costs the State would have paid using traditional fixed rate bonds. In some cases the State benefitted from issuing lower cost fixed rate bonds to terminate swaps, as compared to the fixed rates the State would have paid initially when entering into swaps. Consequently, the analysis concludes that the present value cost of swap terminations was $79 million. Section III, *Performance of the State’s Swap Portfolio,* explains both the methodology and analysis in more detail.

1. Market Value (“Mark-to-Market”) represents the amount the State actually paid to counterparties to terminate its swaps.

I. Executive Summary

- Since its inception in 2002 through the end of March 31, 2009, the Division of the Budget (DOB) estimates that the swaps program has resulted in $41.4 million of reduced interest costs, when compared to traditional debt issuances. In 2008-09, the crisis in the credit markets negatively affected the performance of the swap portfolio. For existing swaps, the estimated overall savings declined by $23.0 million. In addition, the State incurred $78.9 million in costs (present value) related to swap terminations.

Graph 1 – Interest Rate Exchange Agreements
Cumulative Estimated Savings/Costs
(in millions)



- The State took steps to mitigate the negative consequences of the global economic crisis by adjusting its variable-rate and swap portfolios. In the past year, the State terminated approximately $2.0 billion of swap agreements. Of this amount, the bankruptcy of Lehman Brothers Holdings, Inc., in September 2008, resulted in the automatic termination of approximately $485 million of synthetic fixed rate swaps, $5 million of current synthetic variable rate swaps, and $75 million of forward-starting synthetic variable rate swaps.

- The State's swap capacity is limited by statute to 20 percent of debt outstanding. At present, the current statutory maximum amount of swaps is $9.4 billion. As of March 31, 2009, the State has $4.0 billion of swaps outstanding under its statutory cap, leaving $5.4 billion of additional capacity. The State also has $743 million of synthetic variable rate swaps that were used to mitigate risks. These are not counted against the cap.

- The State has statutory protections and a swap management plan in place to handle potential risks. Key components of the State's swap management plan include: (1) the adoption of interest-rate exchange guidelines, (2) minimum counterparty credit ratings (i.e., AA), (3) requiring any new swaps to be executed at "fair market value" as determined by an independent financial advisor, (4) the use of standard documentation recommended by rating agencies, and (5) ongoing reporting to evaluate swap performance. See Section VII *Monitoring Swap Performance* for a more detailed discussion on the State's approach to risks.

- Consolidation in the financial industry in 2008 reduced the diversification of counterparties in the State's swap portfolio. For example, counterparty exposure to JP Morgan increased from 25 percent to 34 percent of the portfolio due to its merger with Bear Stearns. The vast majority of the State's counterparties have good credit ratings, with the requirement of posting collateral by any counterparty that is downgraded below the statutory minimum of AA.

- DOB manages the State's swap portfolio by: (1) monitoring the performance and effectiveness of each swap, (2) accounting for changes in valuation, and (3) routinely reviewing with authority staff the underlying swap performance and related risks. This is accomplished with a monthly Mark-to-Market Swap Report, posted on the New York State DOB website, and also through an internal swap database system, which is updated and monitored daily.

- For the past five years, Standard & Poor's (S&P) has assigned the New York State swap portfolio a Debt Derivative Profile (DDP) score of 1.5 out of 4.0, with 1 being the lowest risk. This classifies the risk to the State's credit quality as very low. On February 19, 2009, the DDP score of 1.5 was confirmed.

II. The Impact of the Credit Crisis on the State's Debt Portfolio

Many municipal debt issuers, including New York State, created synthetic fixed rate debt (swaps) to mitigate the interest rate risks of variable (floating) rate debt and achieve cash flow savings in comparison to fixed rate bonds. While the use of variable rate debt and interest rate swaps succeeded in lowering borrowing costs, the global credit crisis has highlighted that the use of these financial instruments can expose municipal debt issuers to large unanticipated costs. In particular, the increased costs associated with credit risk, basis risk and early termination payment risk have had a significant impact on the performance of synthetic fixed rate swaps.

During the past year, the collapse of the auction rate and bond insurance market, in conjunction with rising credit concerns for a number of liquidity providers (commercial banks) caused the interest rates on certain variable rate bonds to increase to unprecedented levels. For example, interest rates on auction rate bonds in the Tobacco bond program rose to 14.2 percent from 4 percent over a one month period. The dislocation in the credit markets negatively affected more than half of the State's variable rate portfolio ($5.2 billion). Most of these bonds had related swaps, which were also negatively affected. In response, the State implemented a comprehensive plan to rebalance its variable rate and adjust its swap exposure to mitigate risks and reduce its debt service costs. Actions taken that have an impact on the State's swaps portfolio include:

- *Converting $1.7 billion in variable rate bonds to fixed rate bonds*. During 2008-09, certain variable rate bonds created extraordinary real and potential risks to the State Financial Plan in the form of higher interest rates and accelerated amortization as markets became impaired during the credit crisis. At the same time, capacity constraints for liquidity and LOCs (credit products offered by commercial banks) limited the State's access to variable rate demand bonds, a better performing variable rate product. As a result, the State opted to issue fixed rate bonds to refund poor performing variable rate bonds and terminate related swaps, based on cost benefit analysis. As a consequence, $1.3 billion in swaps were terminated, as they no longer provided a qualified hedge.

- *Terminating swaps due to Lehman bankruptcy ($565 million)*. The bankruptcy of Lehman Brothers Holdings, Inc., in September 2008, forced the automatic termination of approximately $565 million swaps. This consists of $485 million of synthetic fixed rate swaps and $80 million of synthetic variable rate swaps.

- *Paying off auction rate bonds and terminating related swaps ($101 million)*. The State retired $101 million of auction rate bonds and related swaps, via a cash defeasance. In addition, the State paid $5 million in the termination costs using the State Debt Reduction Reserve Fund (DRRF).

In addition, the State transitioned $2.3 billion of variable rate products to better performing variable rate products in fiscal year 2008-09, allowing the existing swaps to remain in place.

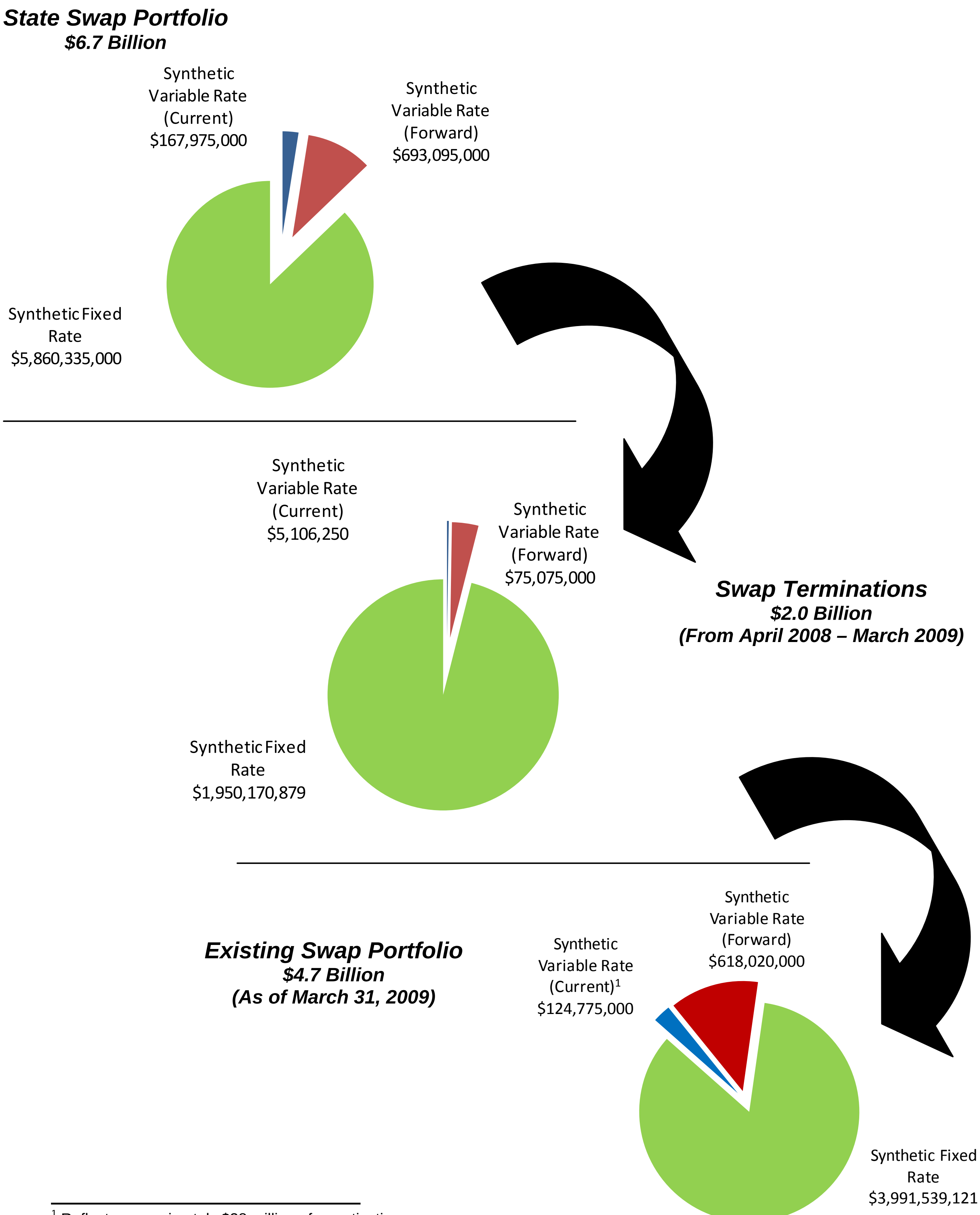
III. Performance of the State's Swap Portfolio

Due to disruptions in the credit markets and recent swap terminations, the State's swap portfolio has changed significantly over the past year. The first section, titled "*Summary of the Overall Swap Portfolio*", provides an overview of the State's swap portfolio since its inception and explains the adjustments that have occurred over the past year. The second section, titled "*Existing Swap Portfolio*", includes all outstanding swap agreements and their performance since inception. The third section titled, "*Terminated Swaps*", reflects the actions taken by the State to adjust its swap portfolio in response to the disruptions in the variable rate market this past year.

Summary of the Overall Swap Portfolio

Over the past year, the State made significant adjustments to its swap portfolio. The swap portfolio was reduced by $2.0 billion to $4.7 billion due to termination of swap agreements in 2008-09. The terminations included: $1.9 billion of synthetic fixed rate swaps, and approximately $80 million in synthetic variable rate swaps. Below is a breakdown of the State's swap portfolio in 2008 to where it stands as of March 31, 2009, including modifications over the past year.

Chart 1 – State Swap Portfolio Adjustment
(Outstanding as of March 31, 2008)



[1] Reflects approximately $38 million of amortization.

Based on the adjustments to the State's swap portfolio, the performance discussion is divided into two sections: *Existing Swap Portfolio* and *Terminated Swaps*. This is necessary because the performance analysis differs for existing and terminated swaps. The process used for calculating the performance of each is explained in the respective sections that follow.

Overall, the State's swap portfolio generated savings of approximately $41 million since inception, as shown in the chart below. This consists of $120 million of savings from existing swaps, offset by $79 million of present value termination costs.

Table 1 – New York State Swap Agreements

	Fixed Rate Swap Agreements		VR Swap Agreements[1]	Existing Swaps	
FY	**Notional Amount before SFY 08-09**	**Notional Amount as of 3/31/09**	**Notional Amount as of 3/31/09**	**Total Savings Per Year**	
2002-03	$1,630,200,000	$1,197,200,000	$0	$1,830,865	
2003-04	$2,150,404,121	$1,607,251,000	$0	$22,085,857	
2004-05	$325,035,000	$303,935,000	$157,030,000	$27,352,177	
2005-06	$0	$0	$170,440,000	$34,036,383	
2006-07	$0	$0	$0	$41,438,494	
2007-08[2]	$0	$0	$0	$16,571,391	
2008-09[3]	$0	$883,153,121	$0	($22,987,701)	
Cumulative Total	**$4,105,639,121**	**$3,991,539,121**	**$327,470,000**	**$120,327,466**	
Amortized	($13,000,000)		($197,588,750)		
Cash Defeasance	($101,100,000)		($5,106,250)	**($78,975,302)**	Present Value Termination Costs
Total:	**$3,991,539,121**	**$3,991,539,121**	**$124,775,000**	**$41,352,164**	

Total Notional Amount of Portfolio:	**$4,116,314,121**
Total Savings:	**$41,352,164**

1. Does not include $618,000,000 of synthetic variable rate forward starting swaps.
2. Savings include prior year (07-08) termination costs of $4,967,600.
3. Represents replacement swaps due to restructuring in 2008-09.

Existing Swap Portfolio - $4.7 Billion

As of March 31, 2009, the existing swap portfolio totaled $4.7 billion, which consisted of approximately $4.0 billion in synthetic fixed rate swaps and $743 million of synthetic variable rate swaps. The total savings for the existing swap portfolio is $120 million, with approximately $112 million produced from fixed rate swaps and $8 million from variable rate swaps. The discussion that follows defines the methodology used to measure performance. The cost of swap terminations is not reflected in this section, but is factored into the overall savings total and discussed in detail in the following sections.

Synthetic Fixed Rate Swap Portfolio - $3.99 billion

Starting in November 2002, the State began to enter into swap agreements that paid a “synthetic fixed rate.” The intention of these swaps was to lower the cost of borrowing below what could have been achieved by issuing fixed rate bonds. Based on DOB’s analysis, the State saved approximately $112 million through March 31, 2009, or an average of $46 million annually, compared to the estimated cost of traditional fixed rate bonds. This section explains the composition of the synthetic fixed rate portfolio and the process for calculating savings.

As of March 31, 2009, the State had $3.99 billion of synthetic fixed rate swaps outstanding. The original swap notional amount was $4.11 billion, of which $13 million has amortized and $101 million was defeased with cash payments, since April 1, 2008. The synthetic fixed rate swap portfolio includes 79 agreements entered into with eight different counterparties, and with five authorized State issuers. The original average life of the synthetic fixed rate swap agreements varied from 13 to 24 years, as seen in Table 2 below.

Due to market conditions and the lack of insurers, the State refunded two swaps in 2008 into new agreements, one of which was at a reduced amount. These two transactions account for the change in the notional amounts of the portfolio.

Table 2 – A “Snapshot” of the Synthetic Fixed Rate Swap Portfolio

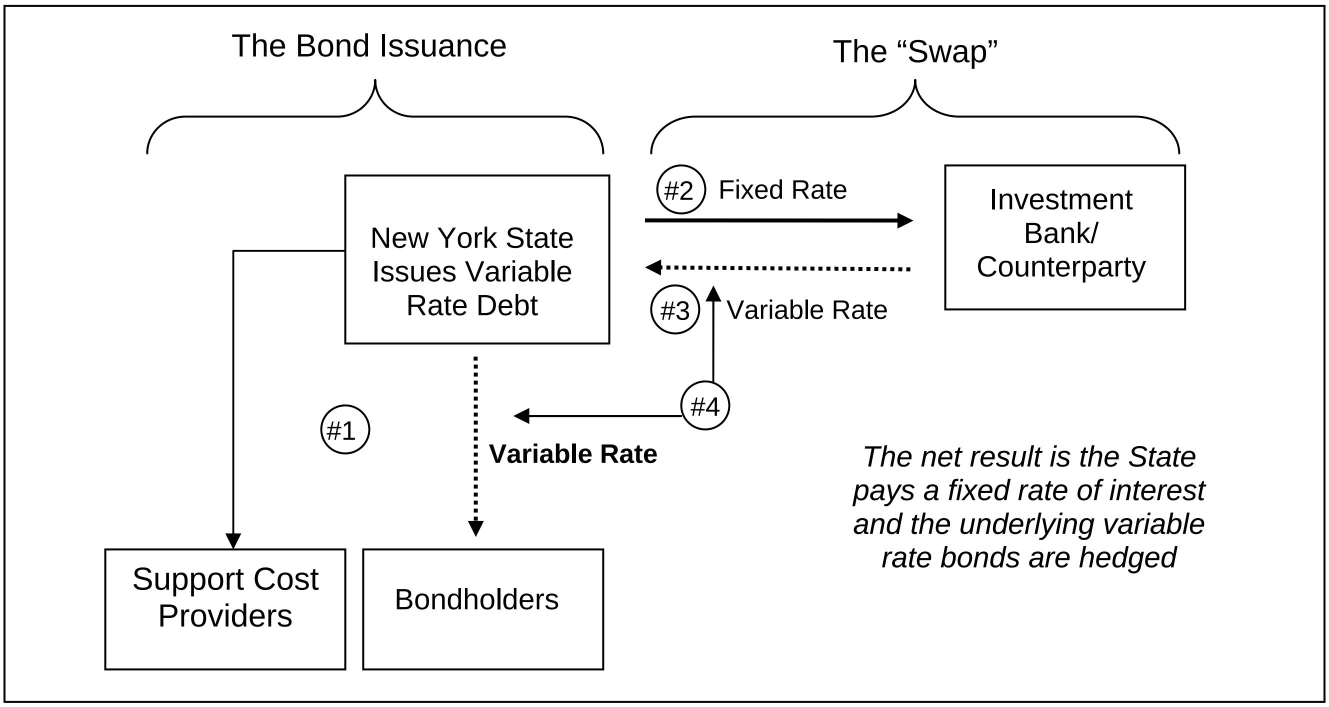
Issuer	Series	Notional Amount as of 3/31/2008	Notional Amount as of 3/31/2009	Number of Swaps as of 3/31/2009	Origination Date	Original Average Life (years)
DA	**CUNY 2003[1]**	**$543,153,121**	**$0**	**21**	**4/10/2003**	**18.8**
DA	**CUNY 2008CD**	**$0**	**$463,153,121**		**12/11/2008**	**13.8**
DA	CUNY 2005B	$21,100,000	$0		2/24/2005	19.6
DA	MH 2003C-2	$72,500,000	$72,500,000	5	7/15/2003	17.3
DA	MH 2003D-2I	$104,500,000	$104,500,000		7/15/2003	17.3
DA	MH 2003D-2ABEFGH	$564,600,000	$564,600,000		7/15/2003	17.3
ESDC	**CORR 2002B[2]**	**$420,000,000**	**$0**	**6**	**11/26/2002**	**19.6**
ESDC	**2008A**	**$0**	**$420,000,000**	**3**	**6/24/2008**	**14.1**
ESDC	PIT 2004 A3	$223,935,000	$223,935,000	4	12/22/2004	24.5
HFA	SCOR 2003ABCD	$210,200,000	$197,200,000	2	2/13/2003	14.3
HFA	SCOR 2003LM	$177,500,000	$177,500,000	2	8/28/2003	14.0
HFA	PIT 2005C	$80,000,000	$80,000,000	1	3/10/2005	23.4
LGAC	2003A/2008B	$746,650,000	$746,650,000	4	2/20/2003	15.8
LGAC	2003A/2008B	$253,350,000	$253,350,000		2/20/2003	15.8
LGAC	2004A/2008B	$210,450,000	$210,450,000	2	2/26/2004	15.1
TA	CHIPS 2003C	$477,701,000	$477,701,000	29	11/6/2003	13.3
	Original Total	**$ 4,105,639,121**	**$ 3,991,539,121**	**79**		
	Amortization:	$ (13,000,000)				
	Cash Defeasance[3]	$ (101,100,000)				
	Total:	**$ 3,991,539,121**	**$ 3,991,539,121**			

1. DA CUNY 2003 was refunded by DA CUNY 2008CD.
2. ESDC CORR 2002B was refunded by ESDC 2008A.
3. DA CUNY 2003S3_3G subseries (incorporated above with CUNY 2003) and CUNY 2005B were defeased with cash.

The Mechanics

As the illustration below shows, synthetic fixed rate debt involves two separate transactions, (1) a variable rate bond issuance sold to bondholders, and (2) a swap (between the State and the counterparty) to convert the variable rate into a fixed rate. The net result of the two transactions is a debt obligation that has similar characteristics to a fixed rate bond, albeit through a more complex structure, if each leg of the transaction works as planned. The following diagram, Figure 1, shows the steps of a synthetic fixed rate swap.

Figure 1 – Mechanics of a Synthetic Fixed Rate Swap



Steps:

1. The State issues variable rate debt. This includes variable rate payments to bondholders and support costs (i.e., letter of credit fees, remarketing fees, broker dealer fees, etc.) paid to providers.
2. The State agrees to pay the counterparty a fixed rate (i.e., synthetic fixed rate) in the swap agreement.
3. The counterparty agrees to pay the State a variable rate (i.e., 65 percent of LIBOR) intended to match the State's variable rate on the bonds. The State pays a variable rate to the bondholder that is set by the market, which is expected to be roughly equivalent to the variable rate calculated as a percentage of LIBOR received from the counterparty.
4. In theory, the variable rate payments off-set and the State is left with a fixed rate payment to a counterparty.

The "All In" Synthetic Fixed Rate

Swap performance is based on the actual swap rate paid by the State as compared to the rate the State would have paid on a traditional fixed rate bond issuance. As shown in Table 3, the costs associated with a synthetic fixed rate swap include: (1) Synthetic Fixed Rate, (Column A); (2) Variable Rate Support Costs, (Column B); and (3) Variable Rate Basis Leakage, the difference between the variable rate receipts flowing to the State and the variable rate payments made by the State on the underlying variable rate bonds (Column C).

Table 3 –Synthetic Fixed Rate Swap "All In" Rate Calculation

Issuer	Series	Notional Amount as of 3/31/2008	Notional Amount as of 3/31/2009	(A) Synthetic Fixed Rate	(B) Variable Rate Support Costs	(C) Variable Rate Basis Leakage	(D)=SUM ABC "All in" Synthetic Fixed Rate	Traditional Fixed Non-Callable Rate[3]	Savings in Basis Points (BPS)
DA	**CUNY 2003[1]**	**$543,153,121**	**$0**	**3.360%**	**0.257%**	**0.507%**	**4.124%**	**4.690%**	**57**
DA	**CUNY 2008CD**	**$0**	**$463,153,121**	**3.360%**	**0.856%**	**0.168%**	**4.384%**	**4.690%**	**31**
DA	CUNY 2005B	$21,100,000	$0	3.168%	0.267%	-0.028%	3.407%	3.970%	56
DA	MH 2003C-2	$72,500,000	$72,500,000	2.860%	0.257%	0.483%	3.600%	4.250%	65
DA	MH 2003D-2I	$104,500,000	$104,500,000	3.044%	0.257%	0.548%	3.849%	4.250%	40
DA	MH 2003D-2ABEFGH	$564,600,000	$564,600,000	3.044%	0.301%	0.507%	3.852%	4.250%	40
ESDC	**CORR 2002B[2]**	**$420,000,000**	**$0**	**3.579%**	**0.255%**	**0.366%**	**4.201%**	**4.800%**	**60**
ESDC	**2008A**	**$0**	**$420,000,000**	**3.579%**	**0.621%**	**0.573%**	**4.773%**	**4.800%**	**3**
ESDC	PIT 2004 A3	$223,935,000	$223,935,000	3.490%	0.258%	0.789%	4.537%	4.780%	24
HFA	SCOR 2003ABCD	$210,200,000	$197,200,000	3.256%	0.508%	0.231%	3.996%	4.490%	49
HFA	SCOR 2003LM	$177,500,000	$177,500,000	3.660%	0.282%	0.560%	4.502%	4.720%	22
HFA	PIT 2005C	$80,000,000	$80,000,000	3.336%	0.361%	1.285%	4.982%	4.682%	-30
LGAC	2003A/2008B	$746,650,000	$746,650,000	3.207%	0.355%	0.432%	3.994%	4.500%	51
LGAC	2003A/2008B	$253,350,000	$253,350,000	3.151%	0.260%	0.186%	3.597%	4.500%	90
LGAC	2004A/2008B	$210,450,000	$210,450,000	3.205%	0.290%	0.220%	3.715%	4.050%	34
TA	CHIPS 2003C	$477,701,000	$477,701,000	3.412%	0.254%	0.439%	4.105%	4.390%	29
	Original Total	**$ 4,105,639,121**	**$ 3,991,539,121**						
	Amortization:	$ (13,000,000)		*Weighted Averages:*					
	Cash Defeasance[4]	$ (101,100,000)		3.29%	0.30%	0.45%	4.04%	4.50%	46
	Total:	**$ 3,991,539,121**	**$ 3,991,539,121**						

1. DA CUNY 2003 was refunded by DA CUNY 2008CD.
2. ESDC CORR 2002B was refunded by ESDC 2008A.
3. Represents the interest rates the State would have paid if non-callable fixed rate bonds were issued.
4. DA CUNY 2003S3_3G subseries (incorporated above with CUNY 2003) and CUNY 2005B were defeased with cash.

A ***Synthetic Fixed Rate.*** The synthetic fixed rate represents the fixed rate the State pays to the swap counterparty. This rate is set initially at a swap pricing and remains fixed over the life of the swap. The rate is based on the State receiving 65 percent of one-month LIBOR payments, (a variable rate payment), in exchange for paying this synthetic fixed rate. As noted, the synthetic fixed rate was less than the traditional fixed bond rate the State would have paid to issue traditional fixed rate bonds.

B ***Variable Rate Support Costs.*** Variable rate support costs represent the costs the State must pay annually to maintain the variable rate bonds issued in the transaction. Since these expenses would not have been incurred in a traditional fixed rate bond transaction, the expenses must be offset against any swap savings. Both the ARS and VRDBs have different support costs. Examples include broker-dealer fees and auction agent fees for ARS, and liquidity facility fees and remarketing fees for VRDBs.

C ***Variable Rate "Basis Leakage".*** In a synthetic fixed rate swap, the State makes variable rate payments to bondholders which are set in the open market. At the same time, the State receives variable rate payments from counterparties under the terms of a swap. These two variable rate payment streams are expected to be roughly the same. However, mismatches may occur. In cases where variable rate receipts are less than the variable rate payments, the State experiences losses, or "basis leakage." The alternative could occur as well, and basis leakage could add to savings. Basis leakage is factored into the savings analysis.

D ***"All in" Synthetic Fixed Rate.*** The "All in" synthetic fixed rate swap is simply a calculation totaling all the swap related costs. Adding together all the related costs gives us a representative number with which to compare to the Fixed Non-Callable Rate.

Traditional Fixed Non-Callable Rate

Synthetic fixed rate swaps have similar characteristics to traditional fixed rate bonds. In both structures, the State ultimately pays a fixed rate. Generally, the fixed rate achieved through a synthetic fixed rate structure is lower than the fixed rate obtained through a traditional fixed rate bond. This is especially true for a LIBOR based swap due to a combination of factors including greater liquidity and efficiency of the taxable swap markets.

To accurately compare a traditional fixed bond rate to the "all in" synthetic fixed rate, it is important to use a *non-callable* fixed rate bond, rather than a typical fixed rate bond with optional redemption provisions. The reason is that the State may terminate a swap early, but only at the market value (i.e., mark-to-market), not at the par value. Since no opportunity exists to terminate the swap without a payment, it is reasonable to assume the swap will remain outstanding through maturity, unless other factors dictate termination.

Together, DOB and its financial advisors determined the most appropriate fixed non-callable rate that applies to each of the State's synthetic fixed swaps. This rate was based on the weighted average life of the underlying bond issue, the term and structure of the underlying swap, use of bond insurance, and all relevant bond information in the marketplace at the time of swap pricing.

Basis Leakage

As shown in Table 3, the State's basis leakage experience varies for each swap as it depends on the effectiveness of the underlying hedge. For example, the Dormitory Authority (DA) City University of New York (CUNY) 2003 series shows variable rate basis leakage of 0.507 percent; that is the State has been paying 0.507 percent more to bondholders than it has been receiving from counterparties. Conversely, the DA CUNY 2005B swap shows variable rate basis leakage of -0.028 percent, which means that the State has been receiving 0.028 percent more from counterparties than what it has been paying to bondholders.

With the exception of the DA CUNY 2005 swap, all of the 16 synthetic fixed rate swap series have experienced negative basis leakage through March 31, 2009. This outcome was expected, since most swaps were entered into during 2002 and 2003 when a disconnect between 65 percent of LIBOR and tax exempt variable rates existed. This mismatch was managed by factoring into the swap a lower fixed payor rate that the State would pay to the counterparty. Throughout the past year, the negative basis leakage was offset by the larger benefit built into the fixed rate payment streams.

Savings

As shown in Table 4, the State saved approximately $112 million using synthetic fixed rate swaps, or 46 basis points, on average since inception. The synthetic fixed rate swap portfolio lost the State approximately $28 million in fiscal year 2008-09. The primary reason for this decrease was the collapse of the variable rate market. However, on the whole the State has received moderate savings since inception. The primary factor producing the savings is the attractive "all-in" swap rate, ranging from 3.9 percent to 5.9 percent, relative to the comparable fixed rate bond. After factoring in all related swap costs, the State paid a synthetic fixed rate of 4.04 percent, on average, compared to the 4.50 percent fixed rate bond rate the State would have paid. This resulted in, on average, 46 basis points savings since 2002.

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Table 4–Synthetic Fixed Swap Portfolio Savings

Issuer	Series	Notional Amount as of 3/31/2008	Notional Amount as of 3/31/2009	Traditional Fixed Non-Callable Rate[3]	"All in" Synthetic Fixed Rate	SWAP Rate Advantage	Savings in Basis Points (BPS)	Dollars ($)
DA	**CUNY 2003[1]**	**$543,153,121**	**$0**	**4.690%**	**5.182%**	**0.581%**	**58**	**$19,510,759**
DA	**CUNY 2008CD**	**$0**	**$463,153,121**	**4.690%**	**4.858%**	**0.306%**	**31**	**$438,460**
DA	CUNY 2005B	$21,100,000	$0	3.970%	3.942%	0.563%	56	$361,652
DA	MH 2003C-2	$72,500,000	$72,500,000	4.250%	4.733%	0.650%	65	$2,489,652
DA	MH 2003D-2I	$104,500,000	$104,500,000	4.250%	4.798%	0.401%	40	$2,125,223
DA	MH 2003D-2ABEFGH	$564,600,000	$564,600,000	4.250%	4.757%	0.398%	40	$12,954,647
ESDC	**CORR 2002B[2]**	**$420,000,000**	**$0**	**4.800%**	**4.201%**	**0.599%**	**60**	**$17,333,615**
ESDC	**2008A**	**$0**	**$420,000,000**	**4.800%**	**5.373%**	**0.027%**	**3**	**$646,360**
ESDC	PIT 2004 A3	$223,935,000	$223,935,000	4.780%	5.569%	0.243%	24	$2,305,185
HFA	SCOR 2003ABCD	$210,200,000	$197,200,000	4.490%	3.996%	0.494%	49	$6,582,621
HFA	SCOR 2003LM	$177,500,000	$177,500,000	4.720%	5.280%	0.218%	22	$1,599,301
HFA	PIT 2005C	$80,000,000	$80,000,000	4.682%	5.967%	-0.300%	-30	$1,085,213
LGAC	2003A/2008B	$746,650,000	$746,650,000	4.500%	4.932%	0.506%	51	$24,385,311
LGAC	2003A/2008B	$253,350,000	$253,350,000	4.500%	4.686%	0.903%	90	$13,529,101
LGAC	2004A/2008B	$210,450,000	$210,450,000	4.050%	4.270%	0.335%	34	$3,610,071
TA	CHIPS 2003C	$477,701,000	$477,701,000	4.390%	4.829%	0.285%	29	$7,674,652
	Original Total	**$ 4,105,639,121**	**$ 3,991,539,121**					
	Amortization:	$ (13,000,000)		*Weighted Averages:*				Total (All SFYs):
	Cash Defeasance[4]	$ (101,100,000)		**4.50%**	**4.04%**	**0.46%**	**46**	**$111,664,223**
	Total:	**$ 3,991,539,121**	**$ 3,991,539,121**					

1. DA CUNY 2003 was refunded by DA CUNY 2008CD.
2. ESDC CORR 2002B was refunded by ESDC 2008A.
3. Represents the interest rates the State would have paid if non-callable fixed rate bonds were issued.
4. DA CUNY 2003S3_3G subseries (incorporated above with CUNY 2003) and CUNY 2005B were defeased with cash.

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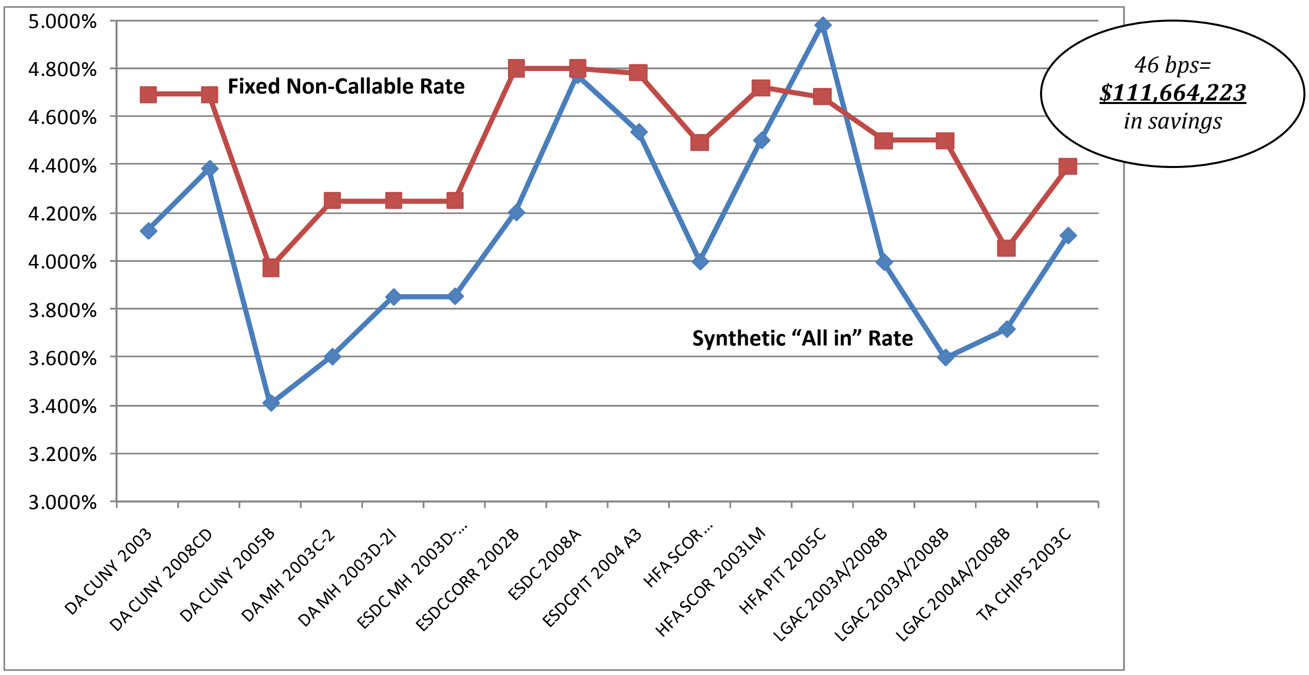
The following graph illustrates the savings for the entire synthetic fixed rate swap portfolio, since inception to March 31, 2009, by comparing the “all in” synthetic fixed swap rate to the fixed non-callable bond rate. Most of the State’s swap series remain below the fixed non-callable rate, thus continuing to produce savings.

Graph 2 - Synthetic Fixed Rate Swap Savings

(Inception 2002 to March 31, 2009)



Synthetic Variable Rate Swap Portfolio - $124 Million

General Overview

As of March 31, 2009, the State has $743 million of synthetic variable rate swaps, comprised of (1) $125 million of current-starting synthetic variable rate swaps (original notional amount $327 million), and (2) $618 million of forward-starting synthetic variable rate swaps. The difference between the two types is the effective date of the swap. *Current-starting* synthetic variable rate swaps take effect at closing. For *forward-starting* synthetic variable rate swaps, the effective date is a preset date in the future, at which time swap payments will be exchanged. The State’s first forward-starting variable rate swap takes effect in March 2014.

Synthetic variable rate swaps were first employed by the State in 2004 to: (1) diversify the State’s variable rate debt portfolio, (2) broaden the State’s investor base, and (3) take advantage of the most economical variable rate product available in the market. The existing synthetic variable rate portfolio (current starting) includes 11 swaps, with six counterparties and three authorized issuers. The average life for all current synthetic variable rate swaps varies from approximately two to six years. The following table summarizes the current-starting variable rate swaps.

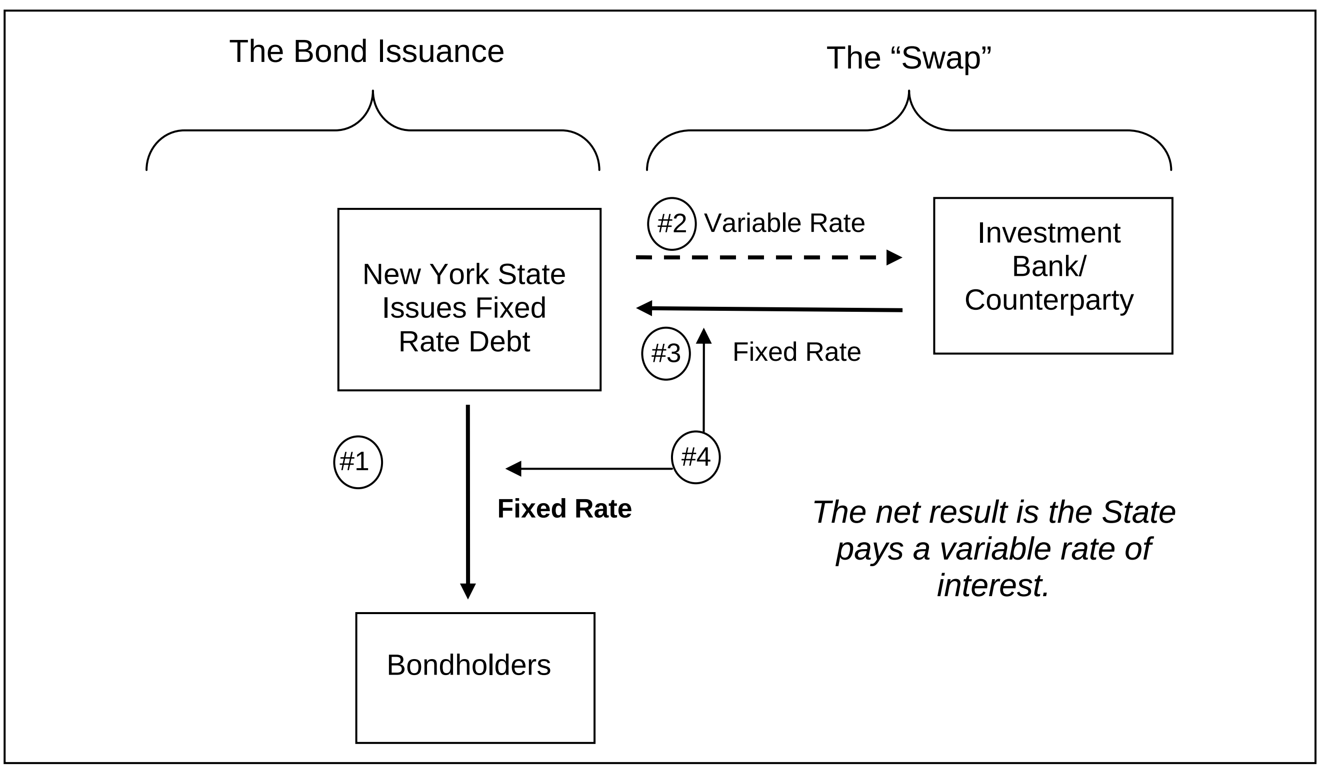
Table 5 – A "Snapshot" of Synthetic Variable Rate (Current-Starting) Swap Portfolio

Issuer	Series	Number of Swaps	Original Notional Amount	Synthetic VR Index	Origination Date	Average Life (years)
DA	PIT 2005A SF	1	$ 9,905,000	SIFMA	3/24/2005	2.0
DA	PIT 2005D ED	1	$ 65,725,000	SIFMA	3/24/2005	3.2
ESDC	PIT 2004A_4	6	$ 50,880,000	SIFMA	12/22/2004	2.5
ESDC	PIT 2004B_2		$ 30,520,000	SIFMA	12/22/2004	3.8
HFA*	PIT 2003B		$ 83,740,000	LIBOR	4/19/2005	4.3
HFA*	PIT 2004B	3	$ 51,715,000	LIBOR	4/19/2005	5.2
HFA*	PIT 2005B		$ 34,985,000	LIBOR	4/19/2005	5.8
	Original Total:	**11**	**$ 327,470,000**			
***Taxable**	Amortized		$ (202,695,000)			
	Current Total:		**$ 124,775,000**			

The Mechanics

As shown below, synthetic variable rate debt involves two separate transactions: (1) a fixed rate bond issuance, and (2) a swap (between the State and the counterparty) to convert the fixed rate into a variable rate. The net result of the two transactions is a debt obligation that has similar characteristics to a traditional variable rate bond. The following diagram, Figure 2, shows the steps of a synthetic variable rate swap.

Figure 2 – Mechanics of a Synthetic Variable Rate Swap



Steps:

1. New York State issues fixed rate debt.
2. The State enters into a swap and pays the counterparty a variable rate (i.e., a synthetic variable rate).
3. The counterparty pays the issuer a fixed rate.
4. The State uses the fixed rate receipts from the counterparty to cover the debt service on the fixed rate bonds and is left with a "synthetic" variable rate cost.

The "All In" Synthetic Variable Rate

Performance for synthetic variable rate swaps is measured by comparing an "all in" rate paid by the State to an "all in" rate the State would have paid with the issuance of traditional variable rate bonds. The "all in" synthetic variable rate is calculated by using the variable rate the State is paying to the counterparty (Column A) and subtracting the "fixed benefit" the State is receiving compared to the fixed rate on its bonds (Column B).

Table 6 –Synthetic Variable Rate "All In" Rate Calculation

				(A)	(B)	(C=A-B)
Issuer	**Series**	**Synthetic VR Index**	**Original Notional Amount**	**Variable Rate Index**	**Fixed Benefit**	**"All-in" Synthetic Variable Rate**
DA	PIT 2005A SF	SIFMA	$ 9,905,000	2.855%	0.107%	2.748%
DA	PIT 2005D ED	SIFMA	$ 65,725,000	2.855%	0.100%	2.755%
ESDC	PIT 2004A_4	SIFMA	$ 50,880,000	2.796%	0.085%	2.711%
ESDC	PIT 2004B_2	SIFMA	$ 30,520,000	2.796%	0.100%	2.696%
HFA*	PIT 2003B	LIBOR	$ 83,740,000	3.982%	0.600%	3.382%
HFA*	PIT 2004B	LIBOR	$ 51,715,000	3.982%	0.427%	3.555%
HFA*	PIT 2005B	LIBOR	$ 34,985,000	3.982%	0.025%	3.957%
Weighted Averages:			Tax Exempt Series	**2.82%**	**0.10%**	**2.73%**
*** Taxable**			HFA Taxable Series	**3.98%**	**0.43%**	**3.55%**

Original Total:	**$ 327,470,000**
Amortized	$ (202,695,000)
Current Total:	**$ 124,775,000**

A ***Variable Rate Index.*** The variable rate index, column (A) represents the variable rate the State is paying to the counterparties. For tax-exempt swaps, the counterparty is paid the SIFMA index, re-setting on a weekly basis. For the HFA taxable swaps, the State is paying the LIBOR index, also re-setting weekly. The rates reflected above are the average of the indexes from the swap effective date until present.

B ***Fixed Benefit.*** The fixed benefit, column (B), is the rate advantage the State realizes between the true interest cost (TIC) of the original fixed bond issuance and the actual fixed rate the State is receiving from the counterparty**.**

The "All In" Natural Rate

The actual "all in" natural variable rate is the variable rate the State would have paid, plus the associated support costs, if it did not enter into a swap agreement. The "all in" natural rate, shown in column F of Table 7 below, consists of two variables: the actual variable rate paid on the bonds (Column D), plus the support costs needed to issue variable rate debt (Column E).

Table 7 –Natural Variable Rate "All In" Rate Calculation

			(D)	(E)	(F=D+E)
Issuer	**Series**	**Original Notional Amount**	**Natural Variable Rate**	**Support Costs**	**"All-in" Natural Rate**
DA	PIT 2005A SF	$ 9,905,000	3.110%	0.260%	3.370%
DA	PIT 2005D ED	$ 65,725,000	3.110%	0.260%	3.370%
ESDC	PIT 2004A_4	$ 50,880,000	3.030%	0.260%	3.290%
ESDC	PIT 2004B_2	$ 30,520,000	3.030%	0.260%	3.290%
HFA*	PIT 2003B	$ 83,740,000	4.650%	0.260%	4.910%
HFA*	PIT 2004B	$ 51,715,000	4.650%	0.260%	4.910%
HFA*	PIT 2005B	$ 34,985,000	4.650%	0.260%	4.910%
Weighted Averages:		Tax Exempt Series	**3.07%**	**0.26%**	**3.33%**
*** Taxable**		HFA Taxable Series	**4.65%**	**0.26%**	**4.91%**

Original Total:	**$ 327,470,000**
Amortized	$ (202,695,000)
Current Total:	**$ 124,775,000**

D ***Natural Variable Rate.*** The natural variable rate is the average rate the State pays on existing variable rate bonds without support costs. It is based on the same time period as the synthetic variable rate swaps and a composite rate for all natural variable rate products underlying the State's $4.0 billion of synthetic fixed rate swaps.

E ***Support Costs.*** Variable rate support costs represent the ongoing costs the State must pay annually to maintain the variable rate debt issued in the transaction. As stated above, the State uses two different types of variable rate bonds – ARS and VRDBs. Both have slightly different support costs. Examples include broker-dealer fees and auction agent fees for ARS, and liquidity facility fees and remarketing fees for VRDBs.

The Resulting Savings

The savings, or positive performance of the synthetic variable rate swap portfolio, is shown in Table 8 below in three formats: percentage, basis points and dollar savings. The savings from synthetic variable rate swaps averaged 60 basis points for tax-exempt swaps and 136 basis points for the HFA taxable swaps on a weighted average basis. This equates to $8.7 million in actual savings since the inception of the State's swap program. Included in the $8.7 million total is a payment of $2.7 million the State received as compensation for terminating one of its forward-starting variable rate swaps ($75.1 million notional amount). This swap was automatically terminated as a result of the Lehman Brothers Holdings Inc. bankruptcy. As expected with the savings, these variable rate products have produced a lower cost of funds than issuing natural variable rate debt because of the associated support costs.

Table 8 – Synthetic Variable Swap Portfolio Savings

			(C=A-B)	(F=D+E)	*Swap Advantage* =(F-C)		
Issuer	**Series**	**Original Notional Amount**	**"All-in" Synthetic Variable Rate**	**"All-in" Natural Rate**	**Percentage (%)**	**Basis Points (bps)**	**Dollars ($)**
DA	PIT 2005A SF	$ 9,905,000	2.748%	3.370%	0.622%	62	$55,523
DA	PIT 2005D ED	$ 65,725,000	2.755%	3.370%	0.615%	62	$950,244
ESDC	PIT 2004A_4	$ 50,880,000	2.711%	3.290%	0.579%	58	$371,757
ESDC	PIT 2004B_2	$ 30,520,000	2.696%	3.290%	0.594%	59	$434,818
HFA*	PIT 2003B	$ 83,740,000	3.382%	4.910%	1.529%	153	$2,393,438
HFA*	PIT 2004B	$ 51,715,000	3.555%	4.910%	1.356%	136	$1,289,715
HFA*	PIT 2005B	$ 34,985,000	3.957%	4.910%	0.953%	95	$421,005
Weighted Averages:		Tax Exempt Series	**2.73%**	**3.33%**	**0.60%**	**60**	**$5,916,499**
*** Taxable**		HFA Taxable Series	**3.55%**	**4.91%**	**1.36%**	**136**	
						Lehman Automatic Termination (Receipt)[1]:	$2,746,746
						Total Savings:	**$8,663,245**

1. Represents the amount received from Lehman Brothers due to bankruptcy for automatic termination of a swap agreement ($75.1 million notional amount).

Terminated Swaps - $2.0 Billion

As discussed previously, the State terminated $2 billion of interest rate swaps due to disruptions in the variable rate market. The table below details the $2.0 billion of swap agreements terminated during the 2008-2009 fiscal year. The net termination cost to the State, at present value, was $79 million (mark-to-market value of $103 million). Of this amount, the bankruptcy of Lehman Brothers Holdings, Inc. resulted in the automatic termination of approximately $565 million notional amount of swaps and a $12.1 million payment.

Of the $2.0 billion in swap terminations, approximately $181 million are not included in this section, but are captured elsewhere, because a different performance approach applies. This includes swaps that were terminated using cash resources ($101 million) and variable rate swaps ($80 million). Approximately $101.1 million of CUNY swaps were paid off with cash, eliminating future cash flows and the ability to measure performance. Thus, the termination cost for these swaps is assumed to be the actual cash (mark-to-market) payments made to counterparties to terminate them. Also, approximately $80 million of variable rate swaps were terminated due to the bankruptcy of Lehman Brothers in September 2008. This includes $75.1 million of forward starting synthetic variable rate swaps and $5 million of current synthetic variable rate swaps. The forward starting swaps have no associated cash flows to measure, since the swaps are not effective until a future date. Consequently, the cash payment received from Lehman was recorded as the termination cost (or benefit). The same process was used for $5.1 million of current synthetic variable rate swaps. Both the $75.1 million and the $5.1 million were captured in the previous section, *Synthetic Variable Rate Swap Portfolio*.

This section covers the $1.85 billion of synthetic fixed rate swaps that were terminated during the 2008-09 fiscal year.

Table 9 – Terminated Swap Agreements During FY 2008-2009

	Issuer	Associated Bond Series	Notional Amount (000s)	Swap Termination Payment Date
Refunded with Fixed Rate	DASNY Mental Health	2003 F-2	$119,450	9/30/2008
			342,825	3/18/2009
	DASNY Mental Health	2003C,D	149,700	12/12/2008
	ESDC	2002B	455,000	7/1/2008
			125,000	9/9/2009
	DASNY UCC	2005C	54,080	9/30/2008
	DASNY PIT	2005C	58,880	9/30/2008
	DASNY CUNY	2003S	292,025	8/27/2008
			100,000	9/30/2008
Unhedged Variable Rate	Thruway CHIPs	2003C	53,074	9/30/2008
	ESDC PIT	2004A3C	74,615	9/30/2008
	DASNY CUNY	2003S	24,422	9/30/2008
			$1,849,071	
		Cash Defeasance[1]:	101,100	
		Forward Starting Terminated Swaps[1]:	75,100	
		Current Synthetic Variable Rate Terminated Swaps[1]:	5,100	
			$2,030,371	

1. See previous paragraph for more detail.

Mark-to-Market Discussion

The State's swaps were terminated at their mark-to-market values, which is a defined calculation prescribed in related swap documents. Based on this calculation, the State paid $103 million to its counterparties (investment banks) to terminate $1.85 billion of synthetic fixed rate swaps. In the performance analysis, however, the termination costs were normalized using a present value approach, recommended by the State's financial advisor, Public Resources Advisory Group (PRAG). Consequently, the net termination costs of the State were reduced to $79 million, as compared to the cash outlay of $103 million. The recommended approach analyzes the present value benefit/(costs) of swap terminations, assuming the swaps remained in place through their original term. Conceptually, the analysis measures the cost of using non-callable fixed rate bonds initially as compared to the actual cost of the alternative used, i.e., a synthetic product.

Several factors contribute to the present value cost of the swap terminations ($79 million) being less than the cash payment made to terminate the swaps ($103 million), including:

> _Favorable Swap Performance, Initially_. Of the swaps terminated, the State experienced favorable performance (i.e., savings) for approximately five years prior to termination. The actual debt service costs for the synthetic fixed rate alternative was substantially less than a comparable fixed rate issue. As a result, the State accrued savings from the swap execution date, generally 2002 and 2003, through early 2008 (approximately) when the credit markets became impaired. The initial benefits from the swaps offset a portion of the termination costs.

> _Decline in Fixed Interest Rates_. Fixed interest rates have declined over the five year period (approximately) between when the State entered into its swaps and when the State re-entered the fixed rate credit markets, in connection with swap terminations. At the same time, the average term for the financings has declined, allowing the State to use shorter term, lower cost financing. In refinancing bonds underlying the State's synthetic fixed rate swaps, the State has been able to "lock in" lower fixed interest rates, than the rates it would have paid if fixed rate bonds were used originally. This rate differential produces a benefit to the State, which offsets a portion of the termination costs.

For a more complete understanding of the methodology used to analyze termination costs, please refer to the detailed explanation provided below.

Measuring Performance of Terminated Swaps ($1.85 billion)

To analyze the performance of the terminated swaps, a present value calculation was used to compare the debt service costs of: (1) ***a hypothetical non-callable fixed rate bond issue***, to (2) ***the actual debt service cost of the associated terminated swap***. Using this analysis, the State concluded that the "all in" present value cost of terminating its $1.85 billion in swaps this past year was ***$79 million***.

The following table outlines the results of the performance analysis for the $1.85 million of the State's terminated swaps over the past year. Based on the methodology used, the State's present value cost of entering into swaps, and later terminating the swaps and issuing fixed rate bonds, versus issuing fixed rate bonds initially was approximately $79 million. As shown below, the State lost savings because the effective all in borrowing rate for non-callable fixed rate bonds was higher than the hypothetical borrowing rate for five swaps (i.e., DASNY mental Health of $32.4 million). In the case of the opposite relationship, the State actually received savings from four swaps (i.e., DASNY CUNY of $1.3 million).

Table 10 – Present Value Benefit of Terminated Swaps

	Issuer	Series	Notional Amount	Swap Termination Payment Date	Non-Callable Fixed Rate	Hypothetical Borrowing Rate	PV Debt Service Savings
Refunded with Fixed Rate	DASNY Mental Health	2003 F-2	$342,825,000 119,450,000	9/30/2008 3/26/2009	4.82%	4.02%	($32,391,985.45)
	DASNY Mental Health	2003C,D	149,700,000	12/12/2008	6.10%	4.25%	(33,627,927.88)
	ESDC	2002B	455,000,000 125,000,000	7/1/2008 9/9/2009	4.84%	4.80%	(2,728,752.86)
	DASNY UCC	2005C	54,080,000	9/30/2008	5.79%	4.42%	(9,076,276.16)
	DASNY PIT	2005C	58,880,000	9/30/2008	5.30%	4.18%	(9,266,613.38)
	DASNY CUNY	2003S	292,025,000 100,000,000	8/27/2008 9/30/2008	4.66%	4.69%	1,368,134.54
Unhedged Variable Rate	Thruway CHIPs	2003C	53,074,000	9/30/2008	4.26%	4.39%	703,238.78
	ESDC PIT	2004A3C	74,615,000	9/30/2008	4.39%	4.78%	4,297,740.07
	DASNY CUNY	2003S	24,421,879	9/30/2008	4.16%	4.69%	1,747,140.55
		Total [1]:	**$1,849,070,879**			***Total:***	**($78,975,301.79)**

1. Total does not include the $5.1 million notional amount for terminated current synthetic variable rate swaps, the $75.1 million in forward starting sythetic variable rate swaps due to the bankruptcy of Lehman Brothers and the $101 million in swaps defeased with cash.

- ***Non-Callable Fixed Rate:*** The debt service payments were based on the following assumptions.

  - Assume a non-callable bond rate. In order to accurately compare a traditional fixed bond rate to the actual borrowing rate, it is important to use a *non-callable* fixed rate bond, rather than a typical fixed rate bond with optional redemption provisions. The reason is that the State may terminate a swap early, but only at the market value (i.e., mark-to-market), not at the par value. Since no opportunity exists to terminate the swap for economic reasons, it is reasonable to assume the swap will remain outstanding through maturity, unless other factors dictate termination.
  - Assume the same principal amortization as the notional amount of the corresponding swap agreement.
  - Assume interest rates were extracted from transactions priced at the time of the original bond issuance.

- ***Actual Borrowing Rate:*** The debt service payments for each bond series depends on whether the associated variable rate bonds were refunded with *fixed-rate bonds,* and *the timing of any such refunding,* as defined below.

  - ***Fixed-rate refunding at the time swaps were terminated:*** For these bonds, the cash flows include all variable rate debt service payments and support costs paid while the bonds were outstanding, as well as all fixed rate swap payments made and floating swap receipts through the swap termination date. The swap termination payment, if paid with cash, is counted as debt service on the date the payment is made. The fixed rate refunding debt service, less any costs of issuance not associated with the refunded bonds, is then used from the date of the refunding through the final maturity date.

- ***Fixed-rate refunding <u>after swaps</u> were terminated:*** In cases where variable rate bonds were refunded with fixed rate bonds after the swap termination date, the actual variable rate bond debt service is included until the bonds are called and the fixed rate debt service takes it place.

Unhedged Variable Rate

In cases where variable rate bonds are not refunded, but are left outstanding, a rate of 4.0 percent, including support costs, is assumed through the remaining life of the bonds. Each year, the unhedged variable rate debt service will be updated to reflect the actual reset rates and the assumed rate going forward may be revised based on market conditions.

Other Considerations

The cash flows for the debt service are present valued to the original delivery date of the variable rate bonds. In addition, a separate discount rate is used for each series. This was determined by discounting the bond series cash flows back to the delivery date of the variable rate bonds, and produced a value equal to the original variable rate notional amount.

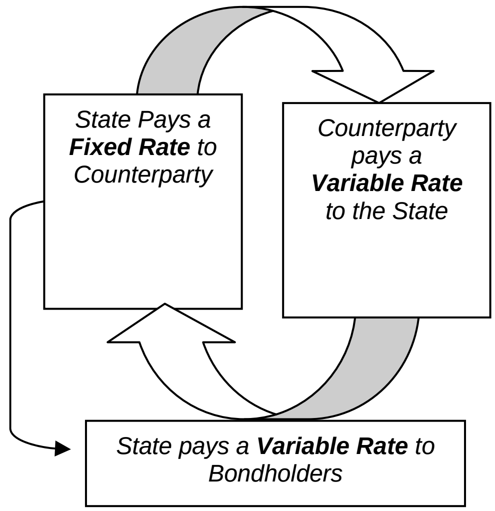
IV. General Swap Information

What is a Swap?

Interest rate exchange agreements have been part of today's municipal finance market for the past two decades. Swaps became an alternate means for municipalities to raise capital in the financial markets. State governments, large cities and counties participate in the swap market to lower borrowing costs and diversify their portfolios. In addition to New York State, other large municipalities in the swap market include California, Texas, New Jersey, Los Angeles and New York City as well as many other government entities.

A swap is a type of derivative, a contractual agreement between two parties linked to an underlying interest rate. The two parties are referred to as "counterparties" (usually the State and an investment bank). The two parties agree to exchange payments for a fixed period of time. For New York State swaps, the maximum term of the swap can be no greater than the life of the underlying bonds (20-30 years).

Figure 3 – A Synthetic Fixed Rate Swap



Swap payments are based on a fixed principal amount, called the "notional amount", because no principal is actually exchanged between the two parties. Swap agreements are generally for the life of the bond, but can be negotiated for a shorter term. Swaps are based on a standard floating rate of interest and a market-based fixed payment rate. The two most commonly used variable rate indices are the London Interbank Offered Rate (LIBOR) and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index.

A *synthetic fixed rate* swap, depicted in Figure 3, provides the State a less costly means to enter the fixed rate debt market, by taking advantage of the expected difference between short-term and long-term interest rates, and the expected relationships between taxable and tax-exempt benchmarks. In exchange, the issuer takes on certain risks that are not part of traditional fixed rate financings. These include hedging on the yield curve, the relative stability of taxable and tax-exempt markets, and counterparties' ability to continually make payments. In these transactions, the State issues variable rate bonds and converts them to fixed rate debt using a swap. A *synthetic variable rate swap* enabled the State to access a lower cost of variable rate debt by receiving a fixed rate payment in exchange for paying a variable rate. Either of the two structures can be used in conjunction with existing debt or combined with the issuance of new debt.

V. New York State Swap Fundamentals

New York State began its swap program in 2002. Since that time, the State has used swaps to diversify its debt portfolio and lower its borrowing costs. Generally, the State incorporated swaps into a bond issuance if a significantly lower cost of borrowing was achieved versus a traditional fixed rate bond issuance. Since its inception, the State's swap program has brought the State moderate savings. From the beginning, the State included in its debt management policies swap contingency plans for all associated risks. Although the recent variable rate market disruption was unpredictable, the State has been able to reconfigure the bulk of its swap portfolio systematically and efficiently. The State does not have any plans to enter into any new swap agreements in the near term.

Statute

Article 5-D of the State Finance Law authorizes the use of interest rate exchange agreements. The statute was implemented as a debt management tool to minimize debt service costs and to diversify the State's debt portfolio. Authorized issuers of State-supported bonds may enter into interest rate exchange agreements in a total notional amount that does not exceed 20 percent of State-supported debt. This was increased from 15 percent in 2007. The statutory provisions include criteria and limitations to ensure swaps are prudently managed and continue to reduce the cost of State-supported debt. These criteria include:

- The adoption of uniform interest rate exchange guidelines;

- Minimum counterparty ratings of AA, and collateral requirements should their ratings decrease;

- A finding by an independent financial advisor that the terms and conditions of all swaps reflect a fair market value;

- The use of standardized interest rate exchange agreements; and

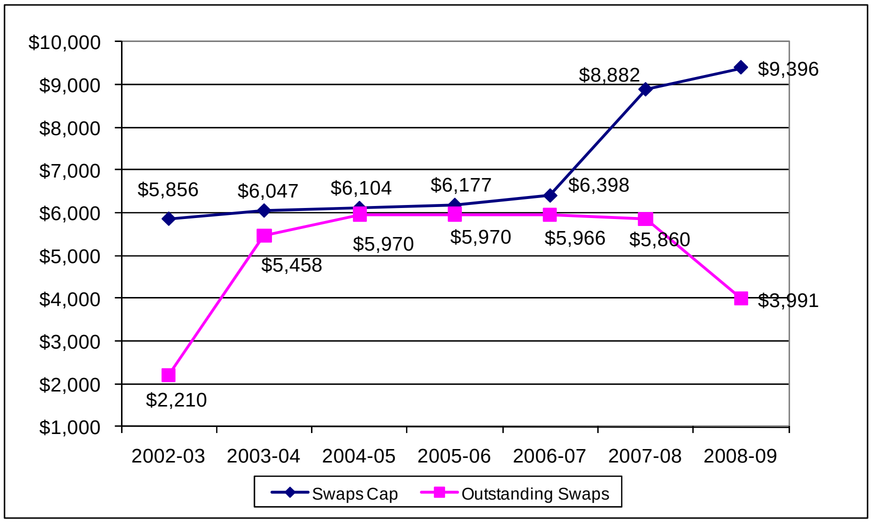
- A monthly reporting requirement by the State's authorized issuers and oversight by DOB to monitor and assess overall swap performance.

The use of swaps is governed by explicit statutory and policy guidelines intended to reduce the State's risk exposure and prohibit speculative transactions. See Appendix D*, The Dormitory Authority of the State of New York Guidelines for Interest Rate Exchange Agreements* and Appendix F*, New York State Variable Rate and Swaps Statutory Framework.*

Capacity and Usage

As stated above, the State's authorized issuers of State-supported bonds may enter into interest rate exchange agreements in a total notional amount that does not exceed 20 percent of State-supported debt. In April 2007, Article 5-D of the State Finance Law was changed, raising the cap to 20 percent of total State-supported debt outstanding, from the initial cap of 15 percent. After the swap statute was enacted in 2002, the State took advantage of substantial savings in the swap market, using nearly all available swaps capacity. However, the disruption in the credit market over the last eighteen months prompted the State to adjust its swap portfolio, including terminations of over $2 billion of swaps. As of March 31, 2009, the capacity for "new" swaps was $5.4 billion. However, due to current financial conditions and uncertainty concerning the regulations of derivative products in the variable rate market, the State does not plan to issue new swaps.

Graph 3 – Synthetic Fixed Rate Swap Capacity
(in millions)



Debt Derivative Profile Score (DDP) – 1.5

In September 2004, the rating agency Standard and Poors' (S&P) developed a DDP scoring methodology to improve the analysis and transparency of swaps, and their impact on overall credit quality. DDP scores range from 1.0 to 4.0, with 1.0 indicating the lowest credit risk. DDP scores were created principally to show an issuer's potential financial loss from derivatives, due to collateralization of a transaction or early termination. The DDP score is a weighted average of four factors: 1) issuer collateral posting and termination risk, 2) counterparty termination risk, 3) economic viability of the swap structure and, 4) the quality of the swap and a municipality's debt management policies and procedures.

For the past five years, New York State has received a score of 1.5. In early 2009, the State again received a DDP score of 1.5. The 1.5 score reflects S&P's view that the State's swap portfolio poses a very low risk to the State's credit quality. Key determinants behind the State's score include the swaps' low counterparty risk and low termination risk. As well, the State has average basis risk, since all of the floating-to-fixed swaps are set to 65 percent of LIBOR. Other scoring factors included the State's recent reduction in its variable rate and swap exposure. The State reduced its variable rate exposure by approximately $2.5 billion in 2008, and continues to do so in 2009. At the same time, the State reduced its swap exposure by $2.0 billion in 2008.

The State's swap policies and management plan were rated very strong. Both the statutory provisions, as well as DOB's swap policies are institutionally established. The swaps are monitored and reported via a monthly mark-to-market report. This report is posted on DOB's website, thereby improving overall transparency. Finally, all swap payments and interest rate exposure are covered in the State's debt service appropriation bill, thereby ensuring payments to counterparties.

VI. Authorized Issuers and Counterparties

Issuers

The State's authorized issuers that enter into interest rate exchange agreements must use the International Swap and Derivatives Association ("ISDA") Master Agreement in connection with State-supported debt obligations. An issuer cannot enter into a swap agreement unless it reasonably meets either or both of the following objectives: (1) result in lower net cost of borrowing with respect to State-supported debt, (2) provide benefits and flexibility to the State with respect to financial exposure.

Prior to entering into a swap agreement, each authority must work in conjunction with DOB to evaluate potential risks including: counterparty, termination, rollover, basis, tax and amortization risks. In addition, the issuer and DOB must consider longer-term issues, such as the costs of borrowing, historical trends in the market, the market capacity for variable rate bonds, credit enhancements and the potential impact on the future ability to call bonds. All agreements, including provisions regarding extensions, reversals, options and terminations, require the written approval of the Director of the Division of the Budget.

In addition, each swap agreement is subject to a written independent finding that the terms and conditions reflect a fair market value of such agreement, as of the date of its execution, regardless of whether the agreement is competitive or negotiated. The term of any agreement cannot exceed the final maturity of the bonds issued in conjunction with the agreement. Below is a breakdown of the swap portfolio by the State's authorized issuers.

Chart 2 – New York State Swap Authorized Issuers

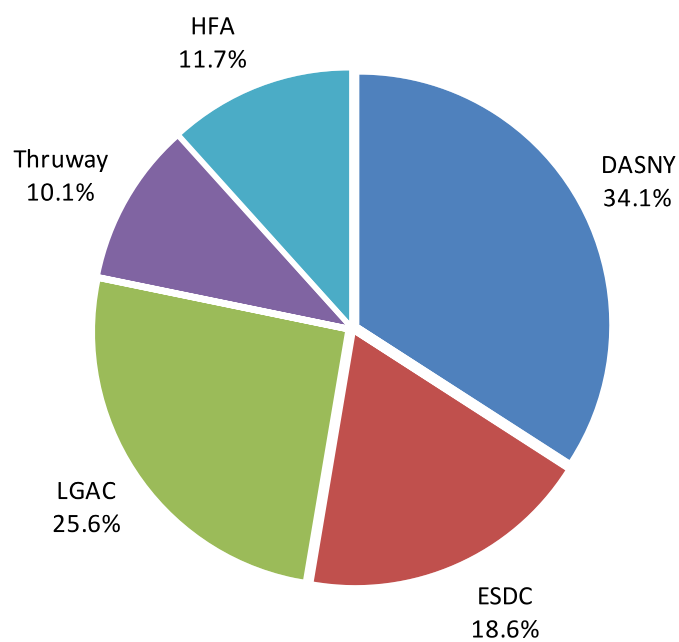


Table 11 - New York State Swap Authorized Issuers' Swap Portfolio Breakdown

Issuer	Synthetic Fixed	Synthetic Variable*	Total Amount	% of Notional Amount
DASNY	$1,204,753,121	$409,710,000	$1,614,463,121	34.1%
ESDC	643,935,000	234,740,000	878,675,000	18.6%
LGAC	1,210,450,000	0	1,210,450,000	25.6%
Thruway	477,701,000	0	477,701,000	10.1%
HFA	454,700,000	98,345,000	553,045,000	11.7%
Total:	**$3,991,539,121**	**$742,795,000**	**$4,734,334,121**	**100.0%**

**Includes both current and forward starting variable rate swaps.*

Counterparties

Each authorized issuer maintains a list of approved counterparties. Counterparties are evaluated based on the requirements of Article 5-D of the State Finance Law, their experience and presence in the municipal swap market, the maintenance of a two-way book that will assist the hedging of exposure, and other factors deemed necessary by the issuer. The issuers also procure credit enhancement and liquidity facilities, as well as establish reserves in connection with all swap agreements, if needed.

In 2008, the State's counterparty risk was impacted by consolidation in the financial industry. The diversification of counterparties in the State's swap portfolio was restructured. For example, counterparty exposure to JP Morgan increased from 25 percent to 34 percent of the portfolio due to their merger with Bear Stearns. Counterparty risk is also managed through the State's swap policy. The policy dictates that counterparties must have a credit rating that is within the two highest investment grade categories from at least one nationally recognized statistical rating agency, have significant experience and presence in the municipal swap market, and maintain a two-way book. The vast majority of the State's counterparties all have good credit ratings, with collateral required to be posted for any counterparty that is downgraded below the statutory minimum of AA. Chart 3 depicts all counterparties for the State as of March 31, 2009.

On October 24, 2007, Merrill Lynch was downgraded to A+, crossing the minimum threshold to maintain a swap. The downgrade triggered the enhanced collateral requirements since the mark-to-market value showed that the State would be owed money upon termination. Since the downgrade, the State has transferred certain Merrill Lynch swaps to a triple-A rated Merrill Lynch subsidiary.

Chart 3 – New York State Swap Agreement Counterparties

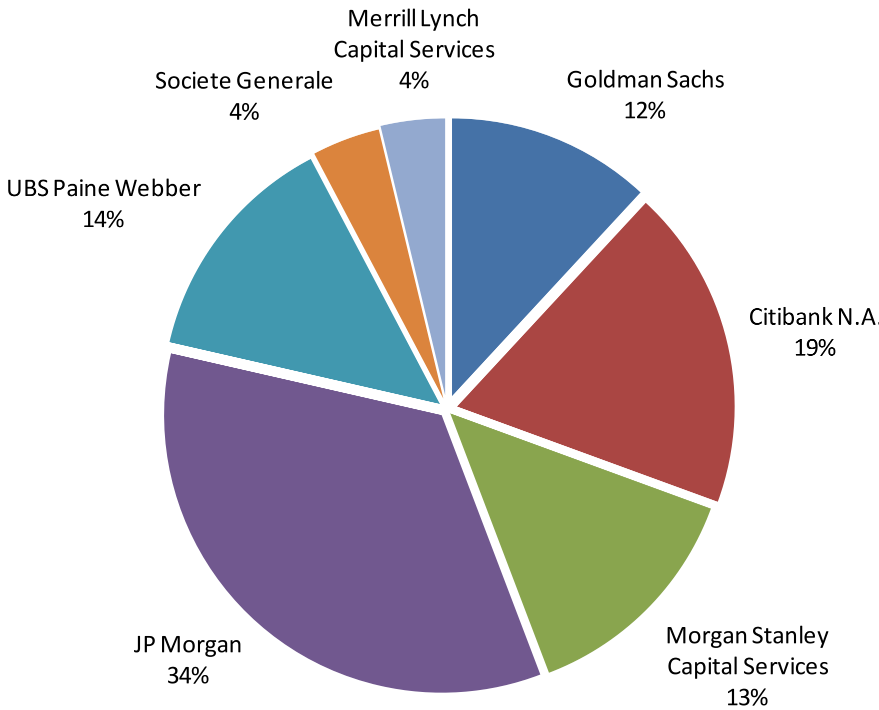


Table 12- New York State Swap Agreement Counterparties Swap Portfolio Breakdown

Counterparty	Synthetic Fixed	Synthetic Variable*	Total	% of Notional Amount
Goldman Sachs	$461,004,000	$101,975,000	$562,979,000	11.9%
Citibank N.A.	698,181,363	186,480,000	884,661,363	18.7%
Morgan Stanley Capital Services	628,299,000	17,000,000	645,299,000	13.6%
JP Morgan	1,397,848,000	228,732,500	1,626,580,500	34.4%
UBS Paine Webber	440,410,879	208,607,500	649,018,379	13.7%
Societe Generale	188,300,000	0	188,300,000	4.0%
Merrill Lynch Capital Services	177,495,879	0	177,495,879	3.7%
Total:	**$3,991,539,121**	**$742,795,000**	**$4,734,334,121**	**100.0%**

**Includes both current and forward starting variable rate swaps.*

In the event of a downgrade or if another financial risk factor is realized, a counterparty is required to post collateral to the State to comply with the collateralization provisions in Article 5-D of the State Finance Law. In addition, all State swap agreements contain, by law, an early termination clause that allows for optional termination at the State's request. Table 13 depicts the credit ratings of all New York State swap counterparties as of March 31, 2009. Since that time a number of counterparties have experienced downgrades (or bankruptcy) due to the credit crisis.

Table 13 – Counterparty Credit Ratings

Counterparty	Credit Rating As of 3/31/2009 *(Moody's/S&P/Fitch)*
Goldman Sachs	Aa1/AAA/NR
Citibank N.A.	A1/A+/A+
Morgan Stanley Capital Services	A2/A/A
JP Morgan Chase Bank	Aa1/AA-/AA-
UBS AG	Aa2/A+/A+
Societe Generale	Aa2/A+/A+
Merrill Lynch and Co.[1]	Aa3/A+/A+

1. Merrill Lynch and Co., is now a wholly owned subsidiary of Bank of America, N.A.; such ratings apply.

VII. Monitoring Swap Performance

Before entering into a swap agreement, DOB and its authorized issuers must evaluate all associated risks. The risks must be identified, mitigation strategies agreed upon and performance measures defined. Below are risks associated with swap transactions and specific strategies employed by the State to mitigate such risks.

Basis Risk is the risk that floating rate payments received by the State in a fixed rate swap will be different than the floating rate bondholder payments they were designed to match. This can occur because the variable rate payments received by the State from the counterparty and the variable rate payments owed are based on different indices and the ratios between those indices change over time. To mitigate this, DOB routinely monitors the State's basis spreads and makes adjustments as necessary.

Tax Risk may cause the State's costs to rise if Federal income tax rates fall or if the tax exemption for municipal debt is modified or eliminated. If this occurs, the State's variable rate costs to bondholders would exceed payments from the counterparty. To address this issue, and since this risk is the same as the State faces when it issues variable rate bonds, the State employs a policy which counts the difference between the percent of LIBOR received on a synthetic fixed rate swaps and 100 percent of LIBOR as additional variable rate debt under the State's separate variable rate debt cap.

Counterparty Risk is the risk that the counterparty will no longer perform its obligations under the contract, or that the counterparty's credit rating will decline to a point where there is uncertainty about its ability to perform. To mitigate this risk, the State sets minimum credit rating thresholds, employs standard documentation (ISDA), adopts interest rate exchange guidelines with all authorized issuers, evaluates the experience of a counterparty, ensures the counterparty employs a two-way book, and establishes a collateralization requirement of 102 percent of the swap value if their credit rating is downgraded to a predetermined level.

Termination Risk is the risk that an authorized issuer will be required to make a payment based on the market value of a swap in connection with an unforeseen termination of a swap. This occurred in the Lehman bankruptcy in 2008. As a precaution, the State's policy requires an appropriation equivalent to 35 percent of the notional amount of the swap as a reserve for potential termination payments.

Amortization Mismatch is the risk that the notional amount of the swap and the outstanding amount of the debt intended to be hedged will no longer be equal. To avoid this issue, State law restricts the maturity and amortization of the swap to that of the bonds.

Liquidity Risk is the inability to continue or renew a liquidity facility supporting State variable rate debt. The State routinely monitors the availability of liquidity support and market trends, but has limited options in a tightening credit market. Furthermore, the State maintains and reports on existing liquidity and letter of credit facilities to manage renewals on the most favorable terms possible, given market conditions.

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Glossary of Terms

Auction Rate Securities (ARS) – debt securities with a long-term nominal maturity with interest rates that reset through a modified Dutch auction, at pre-determined short-term intervals, usually 7, 28 or 35 days.

Authorized Issuers - the Dormitory Authority of the State of New York (DASNY), the New York State Environmental Facilities Corporation (EFC), the Housing Finance Agency (HFA), the New York State Thruway Authority (Thruway Authority) and the Urban Development Corporation (UDC), (collectively, the "Authorized Issuers").

Counterparty - is usually the entity with whom one negotiates on a given agreement, and the term can refer to either party or both, depending on context and can also refer to brokers, investment banks, and other securities dealers that serve as the contracting party when completing "over the counter" securities transactions

Credit Rating Downgrade – a negative change in credit ratings from Fitch, Standard and Poors and/or Moodys.

Dealers – a firm acting as Principal in a securities transaction. Principals trade for their own account and risk.

Hedge – a position taken in order to offset the risk associated with some other position. Most often, the initial position is a cash position and the hedge position involved a risk-management instrument such as a swap.

Letter of Credit (LOC) - Additional source of security for issues of notes, commercial paper or bonds, with a bank issuing the letter of credit committing to pay principal of and interest on the securities in the event that the issuer is unable to do so. A letter of credit may also be used to provide liquidity for commercial paper, variable rate demand obligations and other types of securities

LIBOR - London Interbank Offered Rate is a daily reference rate based on the interest rates at which banks borrow unsecured funds from other banks in the London wholesale money market (or interbank market).

Liquidity – an agreement with a third party, typically a bank, in which the third party agrees to purchase tendered variable rate demand obligations in the event that they cannot be remarketed.

Notional Amount – the pre-determined principal on which the exchange interest payments are based.

SIFMA - Securities Industry and Financial Markets Association is the leading securities industry trade group representing securities firms, banks, and asset management companies in the U.S. and Asia. SIFMA was formed on November 1, 2006, from the merger of *The Bond Market Association* and the *Securities Industry Association*.

Swap Termination Payment – A payment made by a counterparty that is required to terminate the swap. The payment is commonly based on market value of the swap, which is computed by factoring the rate on the initial swap and the rate on a replacement swap.

Variable Rate Demand Bonds (VRDBs) – are debt securities for which the interest rate is reset periodically, typically through a remarketing process.

List of Appendices

Appendix A

Synthetic Fixed Rate Cost Analysis
Total Savings of Synthetic Fixed Rate Swaps Over Fixed Rate Non-callable Bonds
Experience to 3/31/09

Issuer	Series	SWAP Notional Amount Before SFY 08-09	SWAP Notional Amount as of 3/31/09	VR Type	SWAP Origination Date	Fixed Rate Non-Callable Bond [1]	SWAP Fixed Rate	Support Cost	Variable Rate Basis Leakage	SWAP Actual Synthetic Rate	SWAP Rate Advantage		SWAP Average Life	Savings To Date
							A	B	C	D = A+B+C	%	bps	Years	
DA	CUNY 2003 [3]	$543,153,121	$0	7 & 35 Day ARS [2]	4/10/2003	4.690%	3.360%	0.257%	0.507%	4.124%	0.566%	57	18.8	19,510,759
DA	CUNY 2005B	$ 21,100,000	$0	7 Day ARS	2/24/2005	3.970%	3.168%	0.267%	-0.028%	3.407%	0.563%	56	19.6	361,652
DA	CUNY 2008CD	$0	$463,153,121	7 Day VRDB	12/11/2008	4.690%	3.360%	0.856%	0.168%	4.384%	0.306%	31	13.8	438,460
DA	MH 2003C-2	$ 72,500,000	$ 72,500,000	7 Day ARS	7/15/2003	4.250%	2.860%	0.257%	0.483%	3.600%	0.650%	65	17.3	2,489,652
DA	MH 2003D-2I	$ 104,500,000	$ 104,500,000	7 Day ARS	7/15/2003	4.250%	3.044%	0.257%	0.548%	3.849%	0.401%	40	17.3	2,125,223
DA	MH 2003D-2ABEFGH	$ 564,600,000	$ 564,600,000	7 Day VRDB	7/15/2003	4.250%	3.044%	0.301%	0.507%	3.852%	0.398%	40	17.3	12,954,647
ESDC	CORR 2002B [3]	$ 420,000,000	$0	7 & 28 Day ARS	11/26/2002	4.800%	3.579%	0.255%	0.366%	4.201%	0.599%	60	19.6	17,333,615
ESDC	PIT 2004 A3	$ 223,935,000	$ 223,935,000	7 Day VRDB	12/22/2004	4.780%	3.490%	0.258%	0.789%	4.537%	0.243%	24	24.5	2,305,185
ESDC	2008A	$0	$ 420,000,000	7 Day VRDB	6/24/2008	4.800%	3.579%	0.621%	0.573%	4.773%	0.027%	3	14.1	646,360
HFA	SCOR 2003ABCD	$ 210,200,000	$ 197,200,000	7 Day VRDB	2/13/2003	4.490%	3.256%	0.508%	0.231%	3.996%	0.494%	49	14.3	6,582,621
HFA	SCOR 2003LM	$ 177,500,000	$ 177,500,000	35 Day ARS converted to 7 Day VRDB	8/28/2003	4.720%	3.660%	0.282%	0.560%	4.502%	0.218%	22	14.0	1,599,301
HFA	PIT 2005C	$ 80,000,000	$ 80,000,000	7 Day VRDB	3/10/2005	4.682%	3.336%	0.361%	1.285%	4.982%	-0.300%	-30	23.4	1,085,213
LGAC	2003A/2008B	$ 746,650,000	$ 746,650,000	7 Day VRDB	2/20/2003	4.500%	3.207%	0.355%	0.432%	3.994%	0.506%	51	15.8	24,385,311
LGAC	2003A/2008B	$ 253,350,000	$ 253,350,000	7 Day ARS	2/20/2003	4.500%	3.151%	0.260%	0.186%	3.597%	0.903%	90	15.8	13,529,101
LGAC	2004A/2008B	$ 210,450,000	$ 210,450,000	7 Day ARS converted to VRDB	2/26/2004	4.050%	3.205%	0.290%	0.220%	3.715%	0.335%	34	15.1	3,610,071
TA	CHIPS 2003C	$ 477,701,000	$ 477,701,000	7 & 35 Day ARS	11/6/2003	4.390%	3.412%	0.254%	0.439%	4.105%	0.285%	29	13.3	7,674,652
	Weighted Ave of all swap series					4.50%	3.29%	0.30%	0.45%	4.04%	0.46%	46		

Total SWAP	$ 4,105,639,121	$ 3,991,539,121
Amorization:	$ (13,000,000)	
Cash Pay out [5]	$ (101,100,000)	

Savings	
SFY 02-03	1,830,865
SFY 03-04	22,085,857
SFY 04-05	27,293,059
SFY 05-06	32,849,620
SFY 06-07	40,301,760
SFY 07-08 [4]	15,199,704
SFY08-09	(27,896,644)
Total	**111,664,223**

1. Represent the interest rates the State would have paid if non-callable fixed rate bonds were issued.
2. Five 35-day ARS series were converted to 7-day ARS between 1/18/07 and 2/15/07.
3. DA CUNY 2003 was refunded by DA CUNY 2008CD; and ESDC CORR2002B was refunded by ESDC 2008A.
4. Savings are net of termination costs of $4,967,600 for 07-08.
5. DA CUNY 2003S3_3G subseries and CUNY 2005B were paid out with cash.

NYS Division of The Budget
Synthetic Fixed Rate Cost Analysis
Total Savings of Synthetic Fixed Rate Swaps Over Fixed Rate Non-callable Bonds

Issuer	Series	SWAP Notional Amount Before SFY 08-09	SWAP Notional Amount as of 3/31/09	VR Type	SFY02-03		SFY03-04		SFY04-05		SFY05-06		SFY06-07		SFY07-08		SFY08-09	
					bps	$	bps	$	bps	$	bps	$	bps	$	bps	$	bps	$
DA	CUNY 2003	$ 543,153,121	$0	7 & 35 Day ARS			93	4,876,713	94	5,108,314	109	5,918,079	128	6,932,190	50	2,661,586	(217)	(5,986,123)
DA	CUNY 2005B	$ 21,100,000	$0	7 Day ARS					62	13,221	67	142,754	81	168,008	20	37,670		
DA	CUNY 2008CD		$463,153,121														367	438,460
DA	MH 2003C-2	$ 72,500,000	$72,500,000	7 Day ARS			101	510,872	105	745,575	122	857,126	137	960,972	71	475,567	(140)	(1,060,459)
DA	MH 2003D-2I	$ 104,500,000	$104,500,000	7 Day ARS			82	599,387	87	880,489	104	1,051,726	120	1,205,058	31	257,994	(173)	(1,869,432)
DA	MH 2003D-2ABEFGH	$ 564,600,000	$564,600,000	7 Day VRDB			61	2,447,521	60	3,422,777	60	3,405,513	83	4,641,088	74	4,102,712	(89)	(5,064,966)
ESDC	CORR 2002B	$ 420,000,000	$0	7 & 28 Day ARS	73	1,060,347	81	3,296,766	77	3,064,238	86	3,375,609	108	4,385,908	41	1,535,364	(158)	615,383
ESDC	PIT 2004 A3	$ 223,935,000	$223,935,000	7 Day VRDB					88	543,367	78	1,797,994	105	2,112,689	44	762,088	(176)	(2,910,954)
ESDC	2008A	$ -	$420,000,000	7 Day VRDB													3	646,360
HFA	SCOR 2003ABCD	$ 210,200,000	$197,200,000	7 Day VRDB	28	63,022	31	640,730	28	589,952	51	1,104,265	73	1,597,537	74	1,578,098	49	1,009,017
HFA	SCOR 2003LM	$ 177,500,000	$177,500,000	35 Day ARS			60	643,546	50	881,975	56	987,960	74	1,308,771	10	160,658	(131)	(2,383,610)
HFA	PIT 2005C	$ 80,000,000	$80,000,000	7 Day VRDB					98	47,049	85	703,346	98	823,730	43	377,143	(110)	(866,055)
LGAC	2003A/2008B	$ 746,650,000	$746,650,000	7 Day VRDB	73	425,131	75	5,593,594	75	5,653,306	78	6,035,702	98	7,406,719	49	4,669,971	(75)	(5,399,114)
LGAC	2003A/2008B	$ 253,350,000	$253,350,000	7 Day ARS	98	282,366	95	2,329,626	98	2,408,325	110	2,651,366	119	2,778,970	54	1,527,270	66	1,551,179
LGAC	2004A/2008B	$ 210,450,000	$210,450,000	7 Day ARS			45	80,657	47	980,092	53	1,123,476	68	1,428,615	23	470,861	(24)	(473,632)
TA	CHIPS 2003C	$ 477,701,000	$477,701,000	7 & 35 Day ARS			57	1,066,444	62	2,954,377	77	3,694,703	96	4,551,504	35	1,550,323	(145)	(6,142,698)
Total Savings - Each SFY						1,830,865		22,085,857		27,293,059		32,849,620		40,301,760		20,167,304		(27,896,644)
Weighted Ave. of SWAP Advantage					71		71		72		80		100		48		(89)	
Grand Savings - All SFYs						116,631,823												

NYS Division of The Budget
Synthetic Fixed Rate Cost Analysis
Summary of Basis Leakage (Payouts vs. Received)

Issuer	Series	SWAP Notional Amount Before SFY 08-09	SWAP Notional Amount as of 3/31/09	VR Type	SFY02-03		SFY03-04		SFY04-05		SFY05-06		SFY06-07		SFY07-08		SFY08-09	
					bps	$	bps	$	bps	$	bps	$	bps	$	bps	$	bps	$
DA	CUNY 2003	$463,153,121	$0	7 & 35 Day ARS			15	(782,892)	13	(700,926)	-2	108,906	-20	1,123,016	57	(3,137,105)	325	(9,479,693)
DA	CUNY 2005B	$ 21,100,000	$0	7 Day ARS					-8	2,833	-14	30,514	-28	55,769	34	(73,146)		
DA	CUNY 2008CD	$0	$463,153,121														16.809	(228,645)
DA	MH 2003C-2	$ 72,500,000	$ 72,500,000	7 Day ARS			13	(71,982)	8	(73,343)	-9	38,218	-24	142,065	42	(342,827)	254	(1,879,377)
DA	MH 2003D-2I	$ 104,500,000	$ 104,500,000	7 Day ARS			13	(103,754)	8	(107,602)	-9	63,650	-25	216,981	64	(729,341)	268	(2,857,524)
DA	MH 2003D-2ABEFGH	$ 564,600,000	$ 564,600,000	7 Day VRDB			22	(886,395)	23	(1,267,681)	23	(1,280,575)	12	(646,984)	26	(1,449,782)	187	(10,589,888)
ESDC	CORR 2002B	$ 420,000,000	$0	7 & 28 Day ARS	23	(380,119)	15	(741,255)	20	(976,699)	11	(665,328)	(11)	344,971	56	(2,502,656)	257	(302,614)
ESDC	PIT 2004 A3	$ 223,935,000	$ 223,935,000	7 Day VRDB					19	(125,440)	28	(588,509)	2	(273,813)	58	(1,623,345)	268	(5,305,481)
ESDC	2008A	$0	$ 420,000,000	7 Day VRDB													57.283	(1,678,807)
HFA	SCOR 2003ABCD	$ 210,200,000	$ 197,200,000	7 Day VRDB	27	(68,747)	23	(461,970)	27	(516,939)	29	(530,821)	14	(202,659)	13	(179,931)	38	(715,469)
HFA	SCOR 2003LM	$ 177,500,000	$ 177,500,000	35 Day ARS			20	(216,919)	30	(540,320)	24	(434,308)	6	(113,497)	70	(1,260,350)	198	(3,556,837)
HFA	PIT 2005C	$ 80,000,000	$ 80,000,000	7 Day VRDB					16	(6,585)	29	(206,746)	16	(86,362)	65	(487,138)	166	(1,312,734)
LGAC	2003A/2008B	$ 746,650,000	$ 746,650,000	7 Day VRDB	25	(174,129)	21	(1,530,036)	21	(1,466,785)	19	(1,194,464)	9	(600,502)	51	(2,959,708)	141	(10,461,306)
LGAC	2003A/2008B	$ 253,350,000	$ 253,350,000	7 Day ARS	11	(32,797)	14	(427,112)	11	(351,127)	-1	(106,729)	-10	20,875	55	(1,229,470)	43	(1,208,272)
LGAC	2004A/2008B	$ 210,450,000	$ 210,450,000	7 Day ARS			14	(28,659)	12	(253,220)	5	(108,708)	(9)	196,430	36	(760,198)	67	(1,419,744)
TA	CHIPS 2003C	$ 477,701,000	$ 477,701,000	7 & 35 Day ARS			16	(306,974)	10	(487,591)	(5)	252,735	(23)	1,109,536	38	(1,888,328)	218	(9,658,137)
Total Leakage - Each SFY						(655,792)		(5,557,948)		(6,871,425)		(4,622,165)		1,285,828		(18,623,324)		(60,654,530)
Weighted Ave. of Basis Leakage					22		18		18		12		(4)		46		159	
Grand Total - All SFYs		**(95,699,357)**																

Appendix B

NYS Division of The Budget
Synthetic Variable Rate Cost Analysis
Total Savings of Synthetic Variable Rate Swaps Over Natural Variable Rate Bonds
Experience to 3/31/2009

					Synthetic VR Rate			**Natural Variable Rate**			**Performance**			
Issuer	Series	SWAP Original Notional Amount	Synthetic VR Index	SWAP Original Origination Date	Variable Rate Index	Fixed Benefit	"All-in" Synthetic Variable Rate	Natural Variable Rate	Support Costs	"All-in" Natural Rate	SWAP Rate Advantage (%)	(bps)	SWAP Average Life (years)	Savings To Date
					A	**B**	**C=(A-B)**	**D**	**E**	**F=(D+E)**	**(F-C)**			
DA	PIT 2005A SF	$ 9,905,000	SIFMA	3/24/2005	2.855%	0.107%	2.748%	3.110%	0.260%	3.370%	0.622%	62	2.0	55,523
DA	PIT 2005D ED	$ 65,725,000	SIFMA	3/24/2005	2.855%	0.100%	2.755%	3.110%	0.260%	3.370%	0.615%	62	3.2	950,244
ESDC	PIT 2004A_4	$ 50,880,000	SIFMA	12/22/2004	2.796%	0.085%	2.711%	3.030%	0.260%	3.290%	0.579%	58	2.5	371,757
ESDC	PIT 2004B_2	$ 30,520,000	SIFMA	12/22/2004	2.796%	0.100%	2.696%	3.030%	0.260%	3.290%	0.594%	59	3.8	434,818
HFA*	PIT 2003B	$ 83,740,000	LIBOR	4/19/2005	3.982%	0.600%	3.382%	4.650%	0.260%	4.910%	1.529%	153	4.3	2,393,438
HFA*	PIT 2004B	$ 51,715,000	LIBOR	4/19/2005	3.982%	0.427%	3.555%	4.650%	0.260%	4.910%	1.356%	136	5.2	1,289,715
HFA*	PIT 2005B	$ 34,985,000	LIBOR	4/19/2005	3.982%	0.025%	3.957%	4.650%	0.260%	4.910%	0.953%	95	5.8	421,005

*Taxable

Weighted Average of Tax Exempt Series:	**2.82%**	**0.10%**	**2.73%**	**3.07%**	**0.26%**	**3.33%**	**0.60%**	**60**
Weighted Average of HFA Taxable Series:	**3.98%**	**0.43%**	**3.55%**	**4.65%**	**0.26%**	**4.91%**	**1.36%**	**136**

Total Original SWAP	$ 327,470,000
Amorization:	$ (202,695,000)
Current Balance	**$ 124,775,000**

Savings	
SFY 04-05	$59,118
SFY 05-06	$1,186,763
SFY 06-07	$1,136,734
SFY 07-08	$1,371,687
SFY 08-09	$2,162,197
Sub-total:	$5,916,499
Lehman Automatic Termination Payment [1] *:*	$2,746,746
Total Savings:	**$8,663,245**

1. Represents the amount of payment received from Lehman Brothers due to bankruptcy for automatic termination of a swap agreement.

Appendix C

NEW YORK STATE

ANNUAL MARK-TO-MARKET REPORT

Introduction: Attached is a comprehensive annual State Swaps report on the amount of outstanding swaps issued by counterparty for the past 12 months. The attached report is a synopsis of the information collected and compiled from monthly swap reports received from each State Debt Issuer as required by statute and developed a single monthly report. The monthly swap report by issuer is available on the Division of the Budget Website.

Table of Contents:

Counterparty Exposure - Article 5-D Interest Rate Exchange Agreements - Fixed Rate Swaps
April 2008

Issuer		*Counterparty*	*Swaps Outstanding**	*Term of Swap*	*Swap Rate*	*Mark-to-Market (1)*
Dormitory Authority of the State of New York	New York City University System Consolidated Revenue Bonds	Citibank N.A.	$320,821,194	7/1/31	3.3600	11,811,633
Dormitory Authority of the State of New York	New York City University System Consolidated Revenue Bonds	Lehman Brothers Derivative Products Inc.	$186,259,602	7/1/31	3.3600	6,849,803
Dormitory Authority of the State of New York	New York City University System Consolidated Revenue Bonds	Merrill Lynch Capital Services, Inc.	$186,259,602	7/1/31	3.3600	6,849,803
Dormitory Authority of the State of New York	New York City University System Consolidated Revenue Bonds	UBS Paine Webber	$186,259,602	7/1/31	3.3600	6,849,803
Dormitory Authority of the State of New York	Mental Health Services Revenue Bonds (2003C-2)	JP Morgan	$72,500,000	2/15/26	2.8600	303,014
Dormitory Authority of the State of New York	Mental Health Services Revenue Bonds (2003D-2)	JP Morgan	$269,800,000	2/15/31	3.0440	1,943,928
Dormitory Authority of the State of New York	Mental Health Services Revenue Bonds (2003D-2)	Bear Stearns Financial Products	$183,000,000	2/15/31	3.0440	1,318,528
Dormitory Authority of the State of New York	Mental Health Services Revenue Bonds (2003D-2)	Goldman Sachs	$183,000,000	2/15/31	3.0440	1,318,528
Dormitory Authority of the State of New York	Mental Health Services Revenue Bonds (2003D-2)	Morgan Stanley Capital Services	$183,000,000	2/15/31	3.0440	1,318,528
Dormitory Authority of the State of New York	Mental Health Services Revenue Bonds (2003F-2)	Goldman Sachs	$119,450,000	2/15/21	3.0910	2,652,071
Dormitory Authority of the State of New York	Mental Health Services Revenue Bonds (2003F-2)	Lehman Brothers Derivative Products Inc.	$119,450,000	2/15/21	3.0910	2,652,071
Dormitory Authority of the State of New York	Mental Health Services Revenue Bonds (2003F-2)	Merrill Lynch Capital Services, Inc.	$119,450,000	2/15/21	3.0910	2,652,071
Dormitory Authority of the State of New York	Mental Health Services Revenue Bonds (2003F-2)	UBS Paine Webber	$119,450,000	2/15/21	3.0910	2,652,071
Dormitory Authority of the State of New York	Personal Income Tax Revenue Bonds (2005)	Lehman Brothers Derivative Products Inc.	$58,880,000	3/15/32	3.0940	(410,519)
Dormitory Authority of the State of New York	Upstate Community Colleges	Lehman Brothers Derivative Products Inc.	$54,080,000	7/1/31	3.2070	1,069,659
Total			$2,361,660,000			49,830,992
Empire State Development Corporation	Correctional Facilities Service Contract Bonds	Bear Stearns Financial Products	$50,000,000	1/1/30	3.5980	3,695,082
Empire State Development Corporation	Correctional Facilities Service Contract Bonds	Bear Stearns Financial Products	$100,000,000	1/1/30	3.5820	7,217,060
Empire State Development Corporation	Correctional Facilities Service Contract Bonds	Bear Stearns Financial Products	$100,000,000	1/1/30	3.5780	7,174,203
Empire State Development Corporation	Correctional Facilities Service Contract Bonds	Citibank N.A.	$250,000,000	1/1/30	3.5780	18,077,768
Empire State Development Corporation	Correctional Facilities Service Contract Bonds	Goldman Sachs	$250,000,000	1/1/30	3.5780	18,097,277
Empire State Development Corporation	Correctional Facilities Service Contract Bonds	Morgan Stanley Capital Services	$250,000,000	1/1/30	3.5780	18,062,289
Empire State Development Corporation	Personal Income Tax Revenue Bonds	Goldman Sachs	$74,705,000	3/15/33	3.4900	4,732,521
Empire State Development Corporation	Personal Income Tax Revenue Bonds	UBS Paine Webber	$74,615,000	3/15/33	3.4900	4,713,308
Empire State Development Corporation	Personal Income Tax Revenue Bonds.	Lehman Brothers Derivative Products Inc.	$74,615,000	3/16/33	3.4900	4,654,549
Empire State Development Corporation	Personal Income Tax Revenue Bonds.	Citibank N.A.	$74,615,000	3/17/33	3.4900	4,695,254
Total			$1,298,550,000			91,119,311
Housing Finance Agency	Housing SCR Bonds	Bear Stearns Financial Products	$100,700,000	3/15/26	3.2560	3,189,758
Housing Finance Agency	Housing SCR Bonds	Bear Stearns Financial Products	$88,750,000	9/15/21	3.6600	5,773,386
Housing Finance Agency	Housing SCR Bonds	JP Morgan	$100,700,000	3/15/26	3.2560	3,190,690
Housing Finance Agency	Housing SCR Bonds	JP Morgan	$88,750,000	9/15/21	3.6555	5,740,776
Housing Finance Agency	Personal Income Tax Revenue Bonds	JP Morgan	$80,000,000	3/15/33	3.3355	2,614,065
Total			$458,900,000			20,508,675
Local Government Assistance Corporation	LGAC Bonds	Morgan Stanley Capital Services	$311,700,000	4/1/22	3.1489	9,241,821
Local Government Assistance Corporation	LGAC Bonds	JP Morgan	$311,700,000	4/1/22	3.1538	9,360,530
Local Government Assistance Corporation	LGAC Bonds	UBS Paine Webber	$188,300,000	4/1/24	3.2629	6,802,956
Local Government Assistance Corporation	LGAC Bonds	Societe Generale	$188,300,000	4/1/24	3.2597	6,745,349
Local Government Assistance Corporation	LGAC Bonds (2004 Swap)	Goldman Sachs	$105,225,000	4/1/21	3.1940	3,047,257
Local Government Assistance Corporation	LGAC Bonds (2004 Swap)	Morgan Stanley Capital Services	$105,225,000	4/1/21	3.2150	3,240,043
Total			$1,210,450,000			38,437,956
Thruway Authority	Local Highway & Bridge Service Contract Bonds	Citibank N.A.	$159,257,000	3/15/21	3.4120	8,202,460
Thruway Authority	Local Highway & Bridge Service Contract Bonds	Bear Stearns Financial Products	$53,074,000	3/15/21	3.4120	2,733,583
Thruway Authority	Local Highway & Bridge Service Contract Bonds	Goldman Sachs	$53,074,000	3/15/21	3.4120	2,733,583
Thruway Authority	Local Highway & Bridge Service Contract Bonds	JP Morgan	$53,074,000	3/15/21	3.4120	2,733,583
Thruway Authority	Local Highway & Bridge Service Contract Bonds	Lehman Brothers Derivative Products Inc.	$53,074,000	3/15/21	3.4120	2,733,583
Thruway Authority	Local Highway & Bridge Service Contract Bonds	Merrill Lynch Capital Services, Inc.	$53,074,000	3/15/21	3.4120	2,733,583
Thruway Authority	Local Highway & Bridge Service Contract Bonds	Morgan Stanley Capital Services	$53,074,000	3/15/21	3.4120	2,733,583
Thruway Authority	Local Highway & Bridge Service Contract Bonds	UBS Paine Webber	$53,074,000	3/15/21	3.4120	2,733,583
Total			$530,775,000			$27,337,541
Total			**$5,860,335,000**			**$227,234,475**
Article 5-D Swaps Cap*			**$8,881,642,600**			
Excess Article 5-D Swaps Cap			**$3,021,307,600**			

(1) Negative numbers represent payments due the State to cancel the swap contract. Positive numbers represent payments the State would need to make.
* Based on actual debt outstanding as of March 31, 2008, less economically defeased bonds.

Article 5-D Interest Rate Exchange Agreements -- Variable Rate Swaps
April 2008

Issuer		*Counterparty*	*Swaps Outstanding**	*Term of Swap*	*Swap Rate*	*Mark-to-Market (1)*
Empire State Development Corporation	Personal Income Tax Revenue Bonds	Goldman Sachs	$75,160,000	3/15/14-3/15/25	4.9670	(3,168,963)
Empire State Development Corporation	Personal Income Tax Revenue Bonds	UBS Paine Webber	$75,075,000	3/15/14-3/15/25	4.9670	(3,195,688)
Empire State Development Corporation	Personal Income Tax Revenue Bonds	Lehman Brothers Derivative Products Inc.	$75,075,000	3/15/14-3/15/25	4.9670	(3,075,592)
Empire State Development Corporation	Personal Income Tax Revenue Bonds	Citibank N.A.	$75,075,000	3/15/14-3/15/25	4.9670	(3,106,272)
Empire State Development Corporation	Personal Income Tax Revenue Bonds	Goldman Sachs	$1,152,500	3/15/10	2.5750	(5,000)
Empire State Development Corporation	Personal Income Tax Revenue Bonds	UBS Paine Webber	$1,157,500	3/15/10	2.5750	(4,137)
Empire State Development Corporation	Personal Income Tax Revenue Bonds	Lehman Brothers Derivative Products Inc.	$1,157,500	3/15/10	2.5750	(5,096)
Empire State Development Corporation	Personal Income Tax Revenue Bonds	Citibank N.A.	$1,157,500	3/15/10	2.5750	(4,998)
Empire State Development Corporation	Personal Income Tax Revenue Bonds	Goldman Sachs	$3,938,750	12/15/14	2.8560	(24,596)
Empire State Development Corporation	Personal Income Tax Revenue Bonds	UBS Paine Webber	$3,948,750	12/15/14	2.8560	(22,436)
Empire State Development Corporation	Personal Income Tax Revenue Bonds	Lehman Brothers Derivative Products Inc.	$3,948,750	12/15/14	2.8560	(25,057)
Empire State Development Corporation	Personal Income Tax Revenue Bonds	Citibank N.A.	$3,948,750	12/15/14	2.8560	(25,027)
Total			$320,795,000			($12,662,862)
Dormitory Authority of the State of New York	New York City University System Consolidated Revenue Bonds	Citigroup	$108,260,000	7/1/16-7/1/24	4.4420	($767,548)
Dormitory Authority of the State of New York	Personal Income Tax Revenue Bonds	JPMorgan	$130,387,500	3/15/17-3/15/30	4.3380	($405,994)
Dormitory Authority of the State of New York	Personal Income Tax Revenue Bonds	UBS Paine Webber	$130,387,500	3/15/17-3/15/30	4.3380	($405,994)
Dormitory Authority of the State of New York	Upstate Community Colleges	Goldman Sachs	$23,675,000	7/1/16-7/1/23	4.5380	($281,545)
Dormitory Authority of the State of New York	Personal Income Tax Revenue Bonds (Series B)	Morgan Stanley	$30,355,000	3/15/10	3.1500	($374,751)
Total			$423,065,000			($2,235,832)
Housing Finance Agency	Personal Income Tax Revenue Bonds	JPMorgan	$54,985,000	4/19/05-	4.5130	($1,452,055)
Housing Finance Agency	Personal Income Tax Revenue Bonds	JPMorgan	$26,000,000	4/19/05-	4.6260	($851,338)
Housing Finance Agency	Personal Income Tax Revenue Bonds	JPMorgan	$36,225,000	4/19/05-	4.5770	($1,112,564)
Total			$117,210,000			($3,415,957)
		Total	$861,070,000			($18,314,651)

(1) Negative numbers represent payments due the State to cancel the swap contract. Positive numbers represent payments the State would need to make.
Mark-to-market values based on information submitted by State debt issuers.

Counterparty Exposure - Article 5-D Interest Rate Exchange Agreements -- Fixed Rate Swaps

				Origination	Final	*Mark-to Market*					*Mark-to Market*							*Mark-to Market*
Issuer	*Bond Issue*	*Counterparty*	**Swaps Outstanding**	*Date Swap*	*Swap Maturity*	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08
ESDC	Correctional Facilities Service Contract Bonds	Bear Stearns Financial Products	$50,000,000	11/21/2002	1/1/2030	1,051,142	1,235,263	556,960	(278,531)	683,121	940,310	1,444,598	3,127,558	3,068,351	3,432,056	3,629,362	4,414,363	3,695,082
ESDC	Correctional Facilities Service Contract Bonds	Bear Stearns Financial Products	$100,000,000	11/21/2002	1/2/2030	1,934,872	2,302,182	949,030	(753,597)	1,204,490	1,717,946	2,723,414	6,080,361	5,963,088	6,692,998	7,088,063	8,652,500	7,217,060
ESDC	Correctional Facilities Service Contract Bonds	Bear Stearns Financial Products	$100,000,000	11/21/2002	1/3/2030	1,892,655	2,259,762	907,192	(713,480)	1,163,495	1,676,634	2,681,653	6,037,073	5,919,737	6,650,263	7,045,026	8,608,894	7,174,203
HFA	Housing SCR Bonds	Bear Stearns Financial Products	$100,700,000	2/13/2003	3/15/2026	(1,132,103)	(826,694)	(1,963,102)	(1,381,206)	(1,253,749)	(1,171,748)	(370,858)	2,554,100	2,178,945	4,838,385	5,431,691	4,771,687	3,189,758
HFA	Housing SCR Bonds	Bear Stearns Financial Products	$88,750,000	8/28/2003	9/15/2021	2,007,107	2,274,694	1,231,239	1,784,916	1,812,153	1,888,119	2,611,794	5,291,168	4,974,113	7,509,960	8,134,840	7,309,280	5,773,386
DASNY	Mental Health Services Revenue Bonds (2003D-2)	Bear Stearns Financial Products	$183,000,000	7/15/2003	2/15/2031	(6,023,265)	(5,131,681)	(9,968,195)	(8,796,874)	(5,097,387)	(6,261,178)	(2,377,481)	(1,136,180)	3,623,155	1,795,745	4,405,555	4,826,657	1,318,528
TA	Local Highway & Bridge Service Contract Bonds	Bear Stearns Financial Products	$53,074,000	11/6/2003	3/15/2021	157,387	356,003	(237,899)	26,161	852,956	181,541	589,823	2,126,161	2,114,322	3,535,605	3,813,296	3,411,938	2,733,583
	Bear Stearns		$675,524,000			(112,205)	2,469,529	(8,524,775)	(10,112,611)	(634,921)	(1,028,376)	7,302,943	24,080,241	27,841,711	34,455,012	39,547,833	41,995,319	31,101,600
ESDC	Correctional Facilities Service Contract Bonds	Goldman Sachs	$250,000,000	11/21/2002	1/1/2030	4,710,457	5,632,897	2,212,707	(1,887,970)	2,915,750	4,275,978	6,695,117	15,105,663	14,688,688	16,426,888	17,496,648	21,458,738	18,097,277
DASNY	Mental Health Services Revenue Bonds (2003D-2)	Goldman Sachs	$183,000,000	7/15/2003	2/15/2031	(6,023,265)	(5,131,681)	(9,968,195)	(8,796,874)	(5,097,387)	(6,261,178)	(2,377,481)	(1,136,180)	3,623,155	1,795,745	4,405,555	4,826,657	1,318,528
TA	Local Highway & Bridge Service Contract Bonds	Goldman Sachs	$53,074,000	11/6/2003	3/15/2021	157,387	356,003	(237,899)	26,161	852,956	181,541	589,823	2,126,161	2,114,322	3,535,605	3,813,296	3,411,938	2,733,583
DASNY	Mental Health Services Revenue Bonds (2003F-2)	Goldman Sachs	$119,450,000	1/8/2004	2/15/2021	(1,462,104)	(938,360)	(3,071,478)	(2,545,328)	(858,393)	(1,326,458)	819,150	1,594,983	4,214,746	4,183,743	4,628,539	4,552,077	2,652,071
LGAC	LGAC Bonds (2004 Swap)	Goldman Sachs	$105,225,000	2/26/2004	4/1/2021	(2,041,406)	(2,068,967)	(3,555,247)	(3,904,851)	(2,358,134)	(2,173,649)	(1,520,444)	1,430,321	956,437	3,483,862	3,343,482	3,653,800	3,047,257
ESDC	ESDC Personal Income Tax bonds	Goldman Sachs	$74,705,000	12/22/2004	3/15/2033	401,170	688,332	(511,059)	(578,837)	1,054,585	124,129	952,015	3,847,341	3,517,830	5,361,349	5,435,280	5,765,723	4,732,521
	Goldman Sachs		$785,454,000			(4,257,761)	(1,461,776)	(15,131,171)	(17,687,699)	(3,490,623)	(5,179,637)	5,158,180	22,968,289	29,115,178	34,787,192	39,122,800	43,668,933	32,581,237
ESDC	Correctional Facilities Service Contract Bonds	Citibank N.A.	$250,000,000	11/21/2002	1/1/2030	4,782,774	5,703,654	2,322,325	(1,839,062)	3,094,096	4,314,650	6,751,903	15,157,658	14,835,623	16,570,626	17,782,582	21,522,817	18,077,768
DASNY	CUNY Consolidated Revenue Bonds	Citibank N.A.	$320,821,194	4/10/2003	7/1/2031	(1,812,967)	(36,170)	(9,932,782)	(7,881,054)	(223,708)	(2,641,251)	5,290,614	7,882,286	15,255,864	8,222,307	19,390,599	18,486,014	11,811,633
TA	Local Highway & Bridge Service Contract Bonds	Citibank N.A.	$159,257,000	10/21/2003	3/15/2021	472,267	1,068,241	(713,824)	78,552	2,559,442	544,763	1,769,860	6,379,826	6,344,314	10,609,046	11,442,308	10,237,953	8,202,460
ESDC	ESDC Personal Income Tax bonds	Citibank N.A.	$74,615,000	12/22/2004	3/15/2033	440,847	710,097	(459,096)	(554,429)	1,107,267	132,020	971,034	3,876,922	3,601,760	5,413,251	5,542,245	5,746,996	4,695,254
	Citicorp Global Markets		$804,693,194			3,882,921	7,445,822	(8,783,377)	(10,195,993)	6,537,097	2,350,182	14,783,411	33,296,692	40,037,561	40,815,230	54,157,734	55,993,780	42,787,115
ESDC	Correctional Facilities Service Contract Bonds	Morgan Stanley Capital Services	$250,000,000	11/21/2002	1/1/2030	4,722,256	5,625,615	2,238,840	(1,874,581)	2,927,335	4,247,200	6,655,231	15,123,583	14,733,039	16,556,998	17,744,367	21,504,848	18,062,289
LGAC	LGAC Bonds	Morgan Stanley Capital Services	$311,700,000	2/20/2003	4/1/2022	(4,899,602)	(4,981,794)	(9,101,741)	(9,859,102)	(5,585,901)	(4,979,895)	(3,343,572)	4,770,040	3,662,828	10,917,179	10,805,983	11,265,390	9,241,821
DASNY	Mental Health Services Revenue Bonds (2003D-2)	Morgan Stanley Capital Services	$183,000,000	7/15/2003	2/15/2031	(6,023,265)	(5,131,681)	(9,968,195)	(8,796,874)	(5,097,387)	(6,261,178)	(2,377,481)	(1,136,180)	3,623,155	1,795,745	4,405,555	4,826,657	1,318,528
TA	Local Highway & Bridge Service Contract Bonds	Morgan Stanley Capital Services	$53,074,000	11/6/2003	3/15/2021	157,387	356,003	(237,898)	26,161	852,956	181,541	589,823	2,126,162	2,114,323	3,535,604	3,813,297	3,411,938	2,733,583
LGAC	LGAC Bonds (2004 Swap)	Morgan Stanley Capital Services	$105,225,000	2/26/2004	4/1/2021	(1,845,847)	(1,874,538)	(3,364,839)	(3,716,538)	(2,167,917)	(1,983,786)	(1,330,634)	1,624,921	1,149,485	3,681,672	3,540,325	3,849,628	3,240,043
	Morgan Stanley Capital Services		$902,999,000			(7,889,071)	(6,006,395)	(20,433,833)	(24,220,934)	(9,070,914)	(8,796,118)	193,367	22,508,526	25,282,830	36,487,198	40,309,527	44,858,461	34,596,264
HFA	Housing SCR Bonds	JP Morgan	$100,700,000	2/13/2003	3/15/2026	(1,131,690)	(826,535)	(1,923,323)	(1,381,859)	(1,253,355)	(1,171,351)	(370,781)	2,554,259	2,178,887	4,838,127	5,431,327	4,772,955	3,190,690
HFA	Housing SCR Bonds	JP Morgan	$88,750,000	8/28/2003	9/15/2021	1,972,925	2,248,917	1,197,173	1,758,898	1,779,412	1,855,589	2,560,577	5,240,706	4,938,048	7,456,692	8,081,142	7,275,884	5,740,776
HFA	Personal Income Tax Revenue Bonds	JP Morgan	$80,000,000	3/10/05	3/15/2033	($1,570,846)	($1,335,479)	($2,629,754)	($2,467,921)	($1,927,776)	($1,911,906)	($1,007,373)	$2,114,702	$1,425,480	$3,647,734	$3,750,169	$4,026,528	$2,614,065
LGAC	LGAC Bonds	JP Morgan	$311,700,000	2/20/2003	4/1/2022	(4,777,156)	(4,860,179)	(8,982,632)	(9,741,466)	(5,467,341)	(4,861,672)	(3,225,581)	4,890,643	3,782,401	11,039,419	10,927,537	11,386,113	9,360,530
DASNY	Mental Health Services Revenue Bonds (2003C-2)	JP Morgan	$72,500,000	7/15/2003	2/15/2026	(2,438,211)	(2,108,078)	(3,608,637)	(3,159,711)	(2,005,760)	(2,357,673)	(976,659)	(488,547)	1,214,034	1,001,450	1,570,877	1,565,297	303,014
DASNY	Mental Health Services Revenue Bonds (2003D-2)	JP Morgan	$269,800,000	7/15/2003	2/15/2031	(8,880,202)	(7,565,724)	(14,696,279)	(12,969,381)	(7,515,164)	(9,230,961)	(3,505,160)	(1,675,089)	5,341,679	2,647,498	6,495,185	7,116,022	1,943,928
TA	Local Highway & Bridge Service Contract Bonds	JP Morgan	$53,074,000	11/6/2003	3/15/2021	157,387	356,003	(237,899)	26,161	852,956	181,541	589,823	2,126,161	2,114,322	3,535,605	3,813,297	3,411,938	2,733,583
	JP Morgan		$976,524,000			(16,667,793)	(14,091,075)	(30,881,351)	(27,935,279)	(15,537,028)	(17,496,433)	(5,935,154)	14,762,835	20,994,851	34,166,525	40,069,534	39,554,737	25,886,586
LGAC	LGAC Bonds	UBS Paine Webber	$188,300,000	2/20/2003	4/1/2024	(2,341,412)	(2,390,389)	(5,157,730)	(5,950,559)	(3,012,227)	(2,736,254)	(1,483,358)	4,044,702	3,035,207	7,460,152	6,768,776	7,748,958	6,802,956
DASNY	CUNY Consolidated Revenue Bonds	UBS Paine Webber	$186,259,602	4/10/2003	7/1/2031	(1,059,431)	(27,932)	(5,773,533)	(4,582,646)	(136,951)	(1,540,515)	3,064,236	4,568,779	8,849,347	4,765,523	11,249,629	10,724,609	6,849,803
TA	Local Highway & Bridge Service Contract Bonds	UBS Paine Webber	$53,074,000	11/6/2003	3/15/2021	157,387	356,003	(237,898)	26,162	852,955	181,540	589,822	2,126,162	2,114,323	3,535,604	3,813,297	3,411,938	2,733,583
DASNY	Mental Health Services Revenue Bonds (2003F-2)	UBS Paine Webber	$119,450,000	1/8/2004	2/15/2021	(1,462,104)	(938,360)	(3,071,478)	(2,545,328)	(858,393)	(1,326,458)	819,150	1,594,983	4,214,746	4,183,743	4,628,539	4,552,077	2,652,071
ESDC	ESDC Personal Income Tax bonds	UBS Paine Webber	$74,615,000	12/22/2004	3/15/2033	405,643	687,629	(483,553)	(590,923)	1,055,848	104,828	938,609	3,859,120	3,673,871	5,477,168	5,495,870	5,821,148	4,713,308
	UBS Paine Webber		$621,698,602			(4,299,917)	(2,313,049)	(14,724,192)	(13,643,294)	(2,098,768)	(5,316,859)	3,928,459	16,193,746	21,887,494	25,422,190	31,956,111	32,258,730	23,751,721
LGAC	LGAC Bonds - Societe Generale	Societe Generale	$188,300,000	2/20/2003	4/1/2024	(2,399,093)	(2,447,780)	(5,213,909)	(6,006,151)	(3,068,503)	(2,792,460)	(1,539,637)	3,986,826	2,977,796	7,401,231	6,710,148	7,690,519	6,745,349
DASNY	CUNY Consolidated Revenue Bonds	Lehman Brothers Derivative Products Inc.	$186,259,602	4/10/2003	7/1/2031	(1,059,431)	(27,932)	(5,773,533)	(4,582,646)	(136,951)	(1,540,515)	3,064,236	4,568,779	8,849,347	4,765,523	11,249,629	10,724,609	6,849,803
DASNY	Mental Health Services Revenue Bonds (2003F-2)	Lehman Brothers Derivative Products Inc.	$119,450,000	1/8/2004	2/15/2021	(1,462,104)	(938,360)	(3,071,478)	(2,545,328)	(858,393)	(1,326,458)	819,150	1,594,983	4,214,746	4,183,743	4,628,539	4,552,077	2,652,071
DASNY	Personal Income Tax Revenue Bonds (2005)	Lehman Brothers Derivative Products Inc.	$58,880,000	3/2/05	3/15/2032	($695,709)	($588,132)	($1,245,603)	($1,102,005)	($611,069)	($762,936)	($262,781)	($123,434)	$196,614	($151,606)	$595,987	$0	$0
DASNY	Upstate Community Colleges	Lehman Brothers Derivative Products Inc.	$54,080,000	3/3/05	7/1/2031	($1,389,510)	($1,111,518)	($2,889,682)	($2,522,629)	($1,160,607)	($1,583,173)	($291,989)	$68,810	$917,996	($96,389)	$1,957,835	$2,231,280	$1,069,659
ESDC	ESDC Personal Income Tax bonds	Lehman Brothers Derivative Products Inc.	$74,615,000	12/22/2004	3/15/2033	$425,859	$672,025	($497,903)	($551,890)	$1,089,481	$98,518	$925,356	$3,837,530	$3,598,022	$5,426,285	$5,525,334	$5,689,661	$4,654,549
TA	Local Highway & Bridge Service Contract Bonds	Lehman Brothers Derivative Products Inc.	$53,074,000	11/6/2003	3/15/2021	157,387	356,003	(237,899)	26,161	852,956	181,541	589,823	2,126,161	2,114,322	3,535,605	3,813,296	3,411,938	2,733,583
	Lehman Brothers Derivative Products		$546,358,602			(7,054,754)	(4,373,809)	(18,560,742)	(14,765,894)	(3,575,741)	(8,208,389)	2,979,786	10,608,201	20,195,412	16,644,633	29,247,909	27,532,494	17,549,146
DASNY	CUNY Consolidated Revenue Bonds	Merrill Lynch Capital Services, Inc.	$186,259,602	4/10/2003	7/1/2031	(1,059,431)	(27,932)	(5,773,533)	(4,582,646)	(136,951)	(1,540,515)	3,064,236	4,568,779	8,849,347	4,765,523	11,249,629	10,724,609	6,849,803
TA	Local Highway & Bridge Service Contract Bonds	Merrill Lynch Capital Services, Inc.	$53,074,000	11/6/2003	3/15/2021	157,387	356,003	(237,898)	26,161	852,956	181,541	589,823	2,126,162	2,114,323	3,535,605	3,813,297	3,411,938	2,733,583
DASNY	Mental Health Services Revenue Bonds (2003F-2)	Merrill Lynch Capital Services, Inc.	$119,450,000	1/8/2004	2/15/2021	(1,462,104)	(938,360)	(3,071,478)	(2,545,328)	(858,393)	(1,326,458)	819,150	1,594,983	4,214,746	4,183,743	4,628,539	4,552,077	2,652,071
	Merrill Lynch Capital Services		$358,783,602			(2,364,148)	(610,289)	(9,082,909)	(7,101,813)	(142,388)	(2,685,432)	4,473,209	8,289,924	15,178,416	12,484,871	19,691,465	18,688,624	12,235,457
Total			**$5,860,335,000**			**($41,161,821)**	**($21,388,822)**	**($131,336,259)**	**($131,669,668)**	**($31,081,789)**	**($49,153,522)**	**$31,344,564**	**$156,695,280**	**$203,511,249**	**$242,664,082**	**$300,813,061**	**$312,241,597**	**$227,234,475** (2)

(1) Negative numbers represent payments due the State to cancel the swap contract. Positive numbers represent payments the State would need to make.
Mark-to-market values based on information submitted by State debt issuers. Day of the month valuation performed is as follows:
LGAC (1st); DASNY (15th); ESDC (last day prior month); HFA (last day prior month); TA (1st)

(2) Outstanding Notional Amount as of 4/1/08. DA CUNY 2003 G ($80,000,000) and DA CUNY 2005B 5R ($21,000,000) Swaps were terminated on March 27, 2008.

Article 5-D Interest Rate Exchange Agreements -- Variable Rate Swaps

Issuer	*Bond Issue*	*Counterparty*	Swaps *Outstanding*	Origination *Date Swap*	Final *Swap Maturity*	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08
ESDC	ESDC Personal Income Tax bonds	UBS Paine Webber	$75,075,000	3/15/04	3/15/25	(2,214,653)	(2,324,945)	(2,065,767)	(1,409,128)	(1,722,713)	(1,903,130)	(2,058,775)	(2,999,868)	(2,584,672)	(2,852,981)	(2,116,781)	(3,022,437)	(3,195,688)
ESDC	ESDC Personal Income Tax bonds	UBS Paine Webber	$1,157,500	12/22/04	3/15/10	58,351	61,243	71,042	69,210	67,790	32,124	28,490	33,133	20,215	10,103	4,257	-8,060	-4,137
ESDC	ESDC Personal Income Tax bonds	UBS Paine Webber	$3,948,750	12/23/04	3/15/14	83,772	86,929	112,336	85,371	72,681	59,659	57,459	35,334	7,081	(28,502)	(30,722)	(34,668)	(22,436)
DASNY	Personal Income Tax Revenue bonds	UBS Paine Webber	$130,387,500	3/2/05	3/15/30	587,258	334,974	1,603,873	2,072,487	698,453	807,831	410,117	310,261	145,578	1,862,404	213,647	(414,739)	(405,994)
	UBS Paine Webber		$210,568,750			(1,485,272)	(1,841,799)	(278,516)	817,940	(883,789)	(1,003,516)	(1,562,709)	(2,621,140)	(2,411,798)	(1,008,976)	(1,929,599)	(3,479,904)	(3,628,255)
ESDC	ESDC Personal Income Tax bonds	Lehman Brothers Derivative Products Inc.	$75,075,000	3/15/04	3/15/25	(2,245,606)	(2,310,737)	(2,019,848)	(1,408,373)	(1,699,542)	(1,880,150)	(2,012,487)	(3,051,571)	(2,646,944)	(2,820,090)	(2,198,064)	(2,932,717)	(3,075,592)
ESDC	ESDC Personal Income Tax bonds	Lehman Brothers Derivative Products Inc.	$1,157,500	12/22/04	3/15/10	58,167	60,919	70,246	67,781	66,212	30,804	28,430	28,473	22,015	8,597	5,495	(8,884)	(5,096)
ESDC	ESDC Personal Income Tax bonds	Lehman Brothers Derivative Products Inc.	$3,948,750	12/22/04	3/15/14	83,191	85,826	110,283	84,294	72,604	59,668	58,573	34,117	5,037	-27,185	-34,264	-38,273	-25,057
	Lehman Brothers Derivative Products		$80,181,250			(2,104,248)	(2,163,992)	(1,839,319)	(1,256,298)	(1,560,726)	(1,789,678)	(1,925,484)	(2,988,981)	(2,619,892)	(2,838,678)	(2,226,833)	(2,979,874)	(3,105,745)
ESDC	ESDC Personal Income Tax bonds	Goldman Sachs	$75,160,000	3/15/04	3/15/25	(2,233,469)	(2,316,145)	(2,025,153)	(1,439,883)	(1,705,894)	(1,915,514)	(2,093,103)	(3,075,528)	(2,578,405)	(2,872,429)	(2,063,071)	(2,988,092)	(3,168,963)
ESDC	ESDC Personal Income Tax bonds	Goldman Sachs	$1,152,500	12/22/04	3/15/10	58,083	61,262	71,015	69,141	67,190	31,807	29,920	29,888	20,806	6,690	5,300	(8,996)	(5,000)
ESDC	ESDC Personal Income Tax bonds	Goldman Sachs	$3,938,750	12/22/04	3/15/14	83,149	85,933	110,188	81,148	72,144	59,843	58,426	34,516	3,919	(27,176)	(34,009)	(38,809)	(24,596)
DASNY	Upstate Community Colleges	Goldman Sachs	$23,675,000	3/3/05	7/1/23	(128,523)	(165,497)	46,772	122,249	(111,778)	(90,842)	(122,534)	(146,331)	(169,664)	95,961	(179,356)	(289,223)	(281,545)
	Goldman Sachs		$103,926,250			(2,220,760)	(2,334,447)	(1,797,178)	(1,167,345)	(1,678,338)	(1,914,706)	(2,127,291)	(3,157,455)	(2,723,344)	(2,796,954)	(2,271,136)	(3,325,120)	(3,480,104)
ESDC	ESDC Personal Income Tax bonds	Citibank N.A.	$75,075,000	3/15/04	3/15/25	(2,239,250)	(2,288,007)	(2,002,060)	(1,377,435)	(1,725,573)	(1,911,035)	(2,048,179)	(3,022,947)	(2,592,528)	(2,741,706)	(2,077,572)	(2,993,613)	(3,106,272)
ESDC	ESDC Personal Income Tax bonds	Citibank N.A.	$1,157,500	12/22/04	3/15/10	58,165	60,991	70,558	67,377	66,908	31,018	28,789	29,062	21,840	7,294	5,470	(8,796)	(4,998)
ESDC	ESDC Personal Income Tax bonds	Citibank N.A.	$3,948,750	12/22/04	3/15/14	83,295	85,387	110,037	84,257	72,405	59,598	57,616	33,420	3,686	-27,805	-33,577	-38,316	-25,027
DASNY	CUNY Consolidated Revenue Bonds	Citibank N.A.	$108,260,000	2/24/05	7/1/24	-282,485	-402,477	318,405	532,013	-202,088	-154,557	-235,427	-346,258	-401,432	464,210	-395,301	-835,500	-767,548
	Citicorp Global Markets		$188,441,250			(2,380,275)	(2,544,106)	(1,503,060)	(693,788)	(1,788,348)	(1,974,976)	(2,197,201)	(3,306,723)	(2,968,434)	(2,298,007)	(2,500,980)	(3,876,225)	(3,903,845)
DASNY	Personal Income Tax Revenue Bonds	JP Morgan	$130,387,500	3/2/05	3/15/30	587,258	334,974	1,603,873	2,072,487	698,453	807,831	410,117	310,261	145,578	1,862,404	213,647	(414,739)	(405,994)
HFA	Personal Income Tax Revenue Bonds	JP Morgan	$54,985,000	4/19/05		$867,073	$914,652	$1,537,668	$1,280,474	$659,159	$439,706	$335,728	($667,780)	($562,546)	($1,883,626)	($2,253,258)	($2,321,206)	($1,452,055)
HFA	Personal Income Tax Revenue Bonds	JP Morgan	$26,000,000	4/20/05		431,081	448,921	822,321	715,933	364,656	270,789	195,858	(439,447)	(351,579)	(1,102,460)	(1,298,024)	(1,356,653)	(851,338)
HFA	Personal Income Tax Revenue Bonds	JP Morgan	$36,225,000	4/21/05		595,621	624,353	1,106,342	942,862	485,525	344,401	255,150	(550,313)	(453,271)	(1,444,990)	(1,715,530)	(1,776,277)	(1,112,564)
	JP Morgan		$247,597,500			2,481,033	2,322,900	5,070,204	5,011,756	2,207,793	1,862,727	1,196,853	(1,347,279)	(1,221,818)	(2,568,672)	(5,053,165)	(5,868,875)	(3,821,951)
DASNY	Personal Income Tax Revenue Bonds	Morgan Stanley	$30,355,000	3/24/2005	3/15/10	311,967	320,714	519,801	311,567	108,883	148,908	(32,689)	(53,605)	(345,535)	(559,009)	(549,229)	(502,471)	(374,751)
	Morgan Stanley Capital Services		$30,355,000			336,007	346,552	547,529	335,528	120,732	159,462	(23,086)	(46,746)	(339,013)	(558,591)	(549,229)	(502,471)	(374,751)
Total			**$861,070,000**			(5,373,515)	(6,214,892)	199,660	3,047,793	(3,582,676)	(4,660,687)	(6,638,918)	(13,468,324)	(12,284,299)	(12,069,878)	(14,530,942)	(20,032,469)	(18,314,651)

(1) Negative numbers represent payments due the State to cancel the swap contract. Positive numbers represent payments the State would need to make.
Mark-to-market values based on information submitted by State debt issuers. Day of the month valuation performed is as follows:
LGAC (1st); DASNY (15th); ESDC (last day prior month); HFA (last day prior month); TA (1st)

Appendix D

GUIDELINES FOR INTEREST RATE EXCHANGE AGREEMENTS

Authorization

Subject to the provisions of Article 5-D of the State Finance Law (“Article 5-D”), the Dormitory Authority of the State of New York (the “Authority/Corporation/Agency”) and certain other public authorities (collectively, the “Authorized Issuers”) are authorized to enter into interest rate exchange and similar agreements (commonly referred to as “swaps”) in connection with State-supported debt. Subject to certain requirements and procedures, the maximum total notional amount of interest rate exchange and similar agreements (other than Excluded Agreements, as defined in Article 5-D) that can be entered into by all of the Authorized Issuers under Article 5-D shall not exceed twenty percent of total outstanding State-supported debt. In addition, the maximum total amount of Variable Rate Debt Instruments, also as defined in Article 5-D, which includes interest rate exchange and similar agreements which result in an Authorized Issuer effectively paying interest at a rate or rates which varies from time to time, are further limited by Article 5-D to an amount that shall not exceed twenty percent of total outstanding State-supported debt. These policy, procedures, reporting and control guidelines (the “Guidelines”) establish the requirements to be met and the process to be used by the Authority when entering into interest rate exchange agreements in connection with State-supported debt.

Purpose of Agreement

The Authority may enter into an interest rate exchange or similar agreement(s), based on the International Swap and Derivatives Association (“ISDA”) Master Agreement as further described in the section **“Form of Agreements”**, in connection with State-supported debt obligations (the "Agreement") if the Agreement is reasonably expected to:

A. reduce or hedge an exposure to changes in interest rates;

B. result in a lower net cost of borrowing with respect to the State-supported debt obligations; or

C. provide benefits and/or flexibility to the State or the Authority with respect to financial exposure or financial position.

The Authority shall not enter into an Agreement unless the Agreement is reasonably expected to achieve one or more of the objectives listed above. In addition, before entering into an Agreement, the Authority, in consultation with the Division of the Budget (the “Division”) shall consider the Agreement’s impact on other swap agreements entered into in connection with other State-supported debt, and periodically evaluate such Agreements entered into by the Authority for risks and exposures including, but not limited to, the following categories:

- counterparty risk;
- termination risk;
- rollover risk;
- basis risk;
- tax event risk; and
- amortization risk.

The Authority, in consultation with the Division, shall also consider the long-term implications associated with entering into such agreements including, but not limited to, the following:

- costs of borrowing;
- historical trends;
- use of capacity for variable rate bonds and related credit enhancements; and
- any potential impact on the future ability to call bonds, including opportunities to refund related debt obligations.

Under an Agreement, the Authority may be either the floating rate or fixed rate payor. The Agreement may also provide for the establishment of maximum or minimum interest rates (or both), payable thereunder and contain any other protections designed to limit exposure to changes in interest rates.

The Authority shall not enter into any Agreement for the purpose of speculation.

Excluded Agreements

An Excluded Agreement may be executed by the Authority for the purpose of reducing or eliminating a situation of imminent risk under an existing Agreement, including but not limited to a counterparty downgrade, default, or other actual or imminent economic loss.

Term of the Agreement

The term of any Agreement shall not exceed the final maturity of the bonds, notes or other obligations of the Authority issued or outstanding in connection with such agreement.

Selection of Counterparties and Other Procurements

The Authority shall select counterparties through an evaluation of qualifications based upon a Request for Qualifications solicited from interested providers. The evaluation of prospective counterparties shall include consideration of the following criteria:

A. the requirements of Article 5-D;

B. substantial and significant experience and presence in the municipal swap market;

C. maintenance of a two-way swap book which facilitates hedging of exposure;

D. demonstrated capability to develop creative and innovative ideas;

E. relationship with and understanding of the needs of the Authority and the State; and

F. other factors deemed appropriate by the Authority.

Upon the completion of the evaluations, a list of approved counterparties shall be prepared. Such list may include senior and other counterparty designations. Such Request for Qualifications may establish maximum limits to any one approved counterparty, such as a maximum notional amount per firm. The Authority shall consult with the Division on the notional amount limit for each counterparty. In no event shall the aggregate notional amount of outstanding interest rate exchange agreements with the approved counterparties (other than Excluded Agreements, as defined by Article 5-D) exceed the maximum notional amount permitted under Article 5-D.

The counterparty for a particular transaction will be selected from the approved list in accordance with the procedures provided in this section and in accordance with a competitive process based on the lowest overall net cost of the transaction, and such additional factors as the Authority deems pertinent. Alternatively, the Authority shall have the option to negotiate agreements or use a bidding process involving a combination of competitive bids and negotiations with counterparties to effectuate other sound business purposes.

The Authority shall also procure credit enhancement, liquidity facilities, and establish reserves in connection with such agreements, if necessary or advisable, with the same standards and using the same methods as it employs for the selection of credit enhancement, liquidity facilities, and the determination for the establishment of reserves for its bonds, notes, or other obligations.

Credit Ratings of Counterparties

As required by Article 5-D, a counterparty shall have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories and ratings which are obtained from any other nationally recognized statistical rating agencies for such counterparty shall also be within the three highest investment grade categories, or the payment obligations of the counterparty shall be unconditionally guaranteed by an entity with such credit ratings.

In the event a counterparty is downgraded or the Authority is notified of the termination of an Agreement by the counterparty, the Authority will promptly provide the Director of the Division of the Budget (the "Director") with notification of such downgrade or termination in writing and, if applicable, comply with the collateralization provisions in Article 5-D.

Collateralization

Pursuant to the provisions of Article 5-D, in the event that the rating of any counterparty, or of the entity unconditionally guaranteeing its payment obligations, is downgraded so that the counterparty, or such guarantor if applicable, does not have credit ratings meeting the criteria contained in the section **"Credit Ratings of Counterparties"** above, the Authority shall require the counterparty to deposit collateral with the Authority or a custodian acting on its behalf pursuant to a written collateral agreement. Such collateral shall consist of direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States of America (including cash) with a net market value of at least one hundred two percent of the net market value of the contract to the Authority ("collateral requirement"). Any collateral agreement shall require that the net market value of the contract and the collateral be marked-to-market periodically, but not less than once each month. If the market value of the collateral shall be found to be less than one hundred two percent of the net market value of the contract to the Authority, than the counterparty shall be required to post additional collateral to meet such requirement.

Form of Agreements and Approvals

The Authority shall enter into written Agreements based on the ISDA Master Agreement and Schedule to the Master Agreement (the "Master Agreement") with each approved counterparty. Each Agreement, including the modification or termination thereof, shall be subject to the approval of the Authority's governing board. This may include the approval as to form of such Master Agreement, and delegations to staff of such matters as deemed necessary or desirable to effectuate the purposes of Article 5-D, these Guidelines, and a particular swap transaction, provided that they do not alter or amend the requirements of these Guidelines. Transactions entered into under the Master Agreement shall be evidenced by written Confirmations.

Monitoring and Reporting Requirements

Pursuant to the provisions of Article 5-D, the Authority shall monitor its interest rate exchange program and all transactions made thereunder with respect to the items listed below. On or before the 15th of each month, the Authority will report to the Director, the chairs of the Senate Finance Committee and the Assembly Ways and Means Committee, and the State Comptroller, with respect to:

A. the value of the Securities Industry and Financial Markets Association ("SIFMA") index and/or such other indices applicable to the Authority's Agreements;

B. payments required to be paid and received, and payments actually paid and received under each agreement;

C. the status of individual Agreements in effect, including a summary of the terms and conditions thereto, such as notional amounts, rates, terms, bases or indices employed, a description of each counterparty thereto and their respective credit ratings, and the method of their procurement;

D. the status of any credit enhancement, liquidity facility or reserves associated with the Agreement including an accounting of all costs and expenses incurred, whether or not incurred in conjunction with the procurement of such credit enhancement or liquidity facilities;

E. the mark-to-market valuations of each Agreement, and an assessment of counterparty risk, termination risk, and other associated risks, and the amount of collateral which has been required to be posted, if any, and the amount which has been actually posted;

F. identification of each transaction placed in the preceding month, including a summary of the terms and conditions thereof; and

A copy of these Guidelines shall also be included with the monthly report submitted following their adoption and/or any subsequent modification thereto.

Based on information provided by the Authority and other Authorized Issuers, the Division will provide the Authority with a monthly report of the total outstanding swap agreements and the current value of the swap cap as set forth in Article 5-D.

The Authority's annual financial statements and annual report shall include a discussion and accounting of each existing Agreement in accordance with generally accepted accounting principles. If not otherwise required, the Authority shall also include a brief general description of each such Agreement, including their terms and conditions, in such reports.

Execution

To assist the State in monitoring the impact, including the costs and risks, of Agreements entered into by the Authority and other Authorized Issuers on the overall portfolio of State-supported debt, each such Agreement, including provisions and actions regarding extensions, reversals, options and terminations of such Agreement, shall be entered into in consultation with the Division and shall be subject to the written approval of the Director.

Each Agreement shall also be subject to a written independent finding that the terms and conditions reflect a fair market value of such Agreement as of the date of its execution, regardless of whether such Agreement was solicited on a competitive or negotiated basis.

1/23/08

Appendix E

*Extract from Standard & Poor's New York State Review (February 19, 2009)**

Debt Derivative Profile: '1.5', Very Low Risk

New York State's overall debt management strategy includes the use of variable-rate debt, as well as interest rate swaps. We assigned an overall Debt Derivative Profile (DDP) score of '1.5', on a scale of '1' to '4', where '1' represents the lowest risk and '4' the highest. The '1.5' DDP score reflects Standard & Poor's view that the swap portfolio poses a very low risk to the state's credit quality. Key determinants behind the DDP score include the swaps' low counterparty risk and low termination risk, but average basis risk; all of the floating-to-fixed swaps are set to 65% of LIBOR. The state does not have any plans to enter into any more swap agreements.

The state is continuing to adjust its debt management plan and, as a result, has reduced its variable-rate debt exposure in calendar year 2008, which entailed the termination of $1.5 billion in interest rate exchange agreements. New Yokr State terminated $973 million in swaps at a mark-to-market cost of $44.6 million as of Sept. 30, 2008. Also, the state was forced to terminate $565 million in swaps with Lehman Brothers Derivative Products as its bankruptcy filing triggered an automatic termination. The mark to market was $12.1 million. As of Sept. 30, 2008, New York State has $618 million synthetic variable-rate (forward-starting) swaps, $163 million synthetic variable-rate (current) swaps, and $4.5 billion in synthetic fixed-rate swaps. Also as of Sept. 30, no counterparty has more than 23.2% of the overall state portfolio. The counterparties include: Bear Stearns Financial Products Inc. (8%); Goldman Sachs Mitsui Marine Derivative Products LP (13%); Citibank NA (16.8%); Morgan Stanley Capital Services Inc. and Calyon (15.3%); JPMorgan Chase Bank (23%); UBS AG (14.6%); Societe Generale (3.6%); and Merrill Lynch Capital Services (5.6%).

New York State now has a $4.5 billion notional amount of floating-to-fixed-rate swaps; most of the swaps are coterminous with the life of the related bonds, and are therefore long. The state has swaps against service contract debt, New York State Local Government Assistance Corp. debt, New York State Urban Development Corp. debt, and personal income tax debt. Swaps are typically written to the conduit borrower and the state's obligations are covered within the service contract documents. Swap payments and interest rate exposure are covered within the state's debt service bill.

There is also a $781 million notional amount of fixed-to-floating-rate swaps that are considered excluded obligations by the state. The average life of the swaps varies from two to six years. These agreements reduce peak counterparty exposure under the floating-to-fixed swap agreements. They are not included in New York State's calculations of swap limitations. The swaps primarily used the Securities Industry and Financial Market Association Index, although a few were based on a percent of LIBOR. The state entered into these agreements to reduce peak counterparty exposure under the existing swap agreements.

The state's policies and management, in our view, are very strong. There are both statutory and policy limitations and controls in place, including a limitation on total notional and variable-rate debt amounts to 20% of state debt. Swaps are monitored and marked to market monthly. Swap payments and interest rate exposure are covered within New York State's debt service bill, and it has used swaps primarily to synthetically refund debt for savings. Key components of New York State's swap management plan include:

- The adoption of interest rate exchange guidelines;
- The requirement of minimum counterparty ratings of 'AA', with collateralization required in the event of a downgrade;
- The finding by an independent financial advisor that the terms and conditions of the swap reflect a fair market value;
- The use of standardized documentation; and
- Monthly reporting requirements that monitor and assess swap performance.

* Re-printed with the permission of Standard and Poor's

*Extract from Standard & Poor's New York State Review (February 6, 2008)**

Debt Derivative Profile: '1.5', Very Low Risk

New York State's overall debt management strategy includes the use of variable-rate debt, as well as interest rate swaps. The overall Debt Derivative Profile (DDP) score of '1.5' reflects Standard & Poor's view that the swap portfolio poses a very low risk to the state's credit quality. Key determinants behind the DDP score include the swaps' low counterparty risk and low termination risk, but average basis risk; all of the floating to fixed swaps are set to 65% of LIBOR. The state currently does not have any plans to enter into any more swap agreements. The state has a total of 106 floating- to fixed-rate swaps, with good diversification of nine different counterparties; most of the swaps are coterminous with the life of the related bonds, and are therefore long. The state has swaps against service contract debt, New York State Local Government Assistance Corp. debt, New York State Urban Development Corp. debt, and personal income tax debt. Swaps are typically written to the conduit borrower and the state's obligations are covered within the service contract documents. Swap payments and interest rate exposure are covered within the state's debt service bill.

There are also 21 fixed- to floating-rate swaps that are considered excluded obligations by the state; the swaps are with six counterparties and three authorized issuers. The average life of the swaps varies from two to six years. These agreements reduce peak counterparty exposure under the floating-to-fixed swap agreements. They are not included in the state's calculations of swap limitations. The swaps primarily used the Securities Industry and Financial Market Association (SIFMA) index, although a few were based on a percent of LIBOR. The state entered into these agreements to reduce peak counterparty exposure under the existing swap agreements.

The state's policies and management are very strong. There are both statutory and policy limitations and controls in place, including a limitation on total notional and variable-rate debt amounts to 20% of state debt. Swaps are monitored and marked to market monthly. Swap payments and interest rate exposure are covered within the state's debt service bill. The state has used swaps primarily to synthetically refund debt for savings. Key components of the state's swap management plan include:

- The adoption of interest rate exchange guidelines;
- The requirement of minimum counterparty ratings of 'AA', with collateralization required in the event of a downgrade;
- The finding by an independent financial advisor that the terms and conditions of the swap reflect a fair market value;
- The use of standardized documentation; and
- Monthly reporting requirements that monitor and assess swap performance.

*Extract from Standard & Poor's New York State Review (February 14, 2007)**

Debt Derivative Profile: '1.5', Very Low Risk

New York State's overall debt management strategy includes the use of variable-rate debt as well as interest-rate swaps. Although the state has not unwound or added any additional swaps over the past year, Standard & Poor's changed its Debt Derivative Profile (DDP) score on the state to '1.5' on a scale of '1' to '4', with '1' representing the lowest risk and '4' the highest. The previous DDP score was '1' on a scale of '1' to '5'. The new score reflects a revision of criteria in how derivative profiles are weighed and scored (see "**Public Finance Criteria: Debt Derivative Profile Scores**"). The overall score of '1.5' is based on Standard & Poor's view that the swap portfolio poses a very low risk to the state's credit quality. Key determinants behind the DDP score include the swaps' low counterparty risk and low termination risk, coupled with average basis risk; all of the floating to fixed swaps are set to 65% of LIBOR. The state has a total of 45 swaps, with good diversification of nine different counterparties; most of the swaps are coterminous with the life of the related bonds, and are therefore long. The state has swaps against service contract debt, New York State Local Government Assistance Corp. debt, **New York State Urban Development Corp.** debt, and personal income tax debt. Swaps are typically written to the conduit borrower, and the state's obligations are covered within the service contract documents. The state's policies and management are very strong. Both statutory and policy limitations and controls are in place--including limiting total notional and variable-rate debt amounts to 15% of state debt. The state is approaching this limitation. Gov. Spitzer's fiscal 2007-2008 budget recommendation, however, includes language to raise that cap to 20%. Swaps are monitored and marked to market monthly. Swap payments and interest-rate exposure are covered within the state's debt service bill.

There are also 21 fixed to floating swaps that are considered excluded obligations by the state. As a result, these agreements reduce peak counterparty exposure under the floating to fixed swap agreements. They are not included in the state's calculations of swap limitations. The BMA index was used on these swaps. The state entered into these agreements to reduce peak counterparty exposure under the existing swap agreements.

Swaps have been used primarily to synthetically refund debt for savings. Key components of the state's swap management plan include:

- The adoption of interest-rate exchange guidelines;
- The requirement of a minimum counterparty rating of 'AA', with collateralization required in the event of a downgrade;
- The finding by an independent financial advisor that the terms and conditions of the swap reflect a fair market value;
- The use of standardized documentation; and
- Required monthly reporting on the monitoring and assessing of swap performance.

*Extract from Standard & Poor's New York State Review (March 1, 2006)**

Debt Derivative Profile: '1.5', Very Low Risk

New York State has been assigned a Standard & Poor's Debt Derivative Profile (DDP) overall score of '1', on a scale of '1' to '5', with '1' representing the lowest risk and '5' the highest. The overall score of '1' primarily reflects the swaps' low counterparty risk and low termination risk, but average basis risk; all of the floating to fixed swaps are set to 65% of LIBOR. The state has a total of 45 swaps, with good diversification of nine different counterparties; most of the swaps are coterminous with the life of the related bonds, and are therefore long. The state has swaps against service contract debt, New York State Local Government Assistance Corp. debt, New York State Urban Development Corp. debt, and personal income tax debt. Swaps are typically written to the conduit borrower, and the state's obligations are covered within the service contract documents. The state's policies and management are very strong. There are both statutory and policy limitations and controls in place--including limiting total notional and variable-rate debt amounts to 15% of state debt. The state is approaching this limitation. Swaps are monitored and marked to market monthly. Swap payments and interest rate exposure are covered within the state's debt service bill.

There are also 21 fixed to floating swaps that are considered excluded obligations by the state. As a result, these agreements reduce peak counterparty exposure under the floating to fixed swap agreements. They are not included in the state's calculations of swap limitations. The BMA index was used on these swaps. The state entered into these agreements to reduce peak counterparty exposure under the existing swap agreements.

The state's policies and management are very strong. There are both statutory and policy limitations and controls in place--including limiting total notional and variable-rate debt amounts to 15% of state debt. The state is approaching this limitation. Swaps are monitored and marked to market monthly. Swap payments and interest rate exposure are covered within the state's debt service bill. Swaps have been used primarily to synthetically refund debt for savings. Key components of the state's swap management plan include:

- The adoption of interest rate exchange guidelines;
- The requirement of minimum counterparty ratings of 'AA', with collateralization required in the event of a downgrade;
- The finding by an independent financial advisor that the terms and conditions of the swap reflect a fair market value;
- The use of standardized documentation; and
- Monthly reporting requirements that monitor and assess swap performance.

*Extract from Standard & Poor's New York State Review (February 15, 2005)**

Debt Derivative Profile: '1.5', Very Low Risk

New York State has been assigned a Standard & Poor's Debt Derivative Profile (DDP) overall score of '2', on a scale of '1' to '5', with '1' representing the lowest risk and '5' the highest. The overall score of '2' primarily reflects the state's swaps having low counterparty risk and low termination risk, but moderate basis risk; all floating to fixed swaps are set to 65% of LIBOR. The state has made some use of what is known as excluded agreements, which are essentially fixed to floating swaps designed to hedge the LIBOR exposure. The state has more than 50 swaps, with good diversification of counterparties; most of the swaps are coterminous with the life of the related bonds, and are therefore long. The state has swaps against service contract debt, New York State Local Government Assistance Corp. debt, and personal income tax debt. Swaps are typically written to the conduit borrower, and the state's obligations are covered within the service contract documents. The state's policies and management are very strong. There are both statutory and policy limitations and controls in place--including limiting total notional and variable-rate debt amounts to 15% of outstanding state debt. The state is approaching this limitation. Swaps are monitored and marked to market monthly. Swap payments and interest rate exposure are covered within the state's debt service bill. Swaps have been used primarily to synthetically refund debt for savings.

Appendix F

NEW YORK STATE

VARIABLE RATE AND SWAPS STATUTORY FRAMEWORK

New York State Swaps and Variable Rate Debt Statute

NEW YORK STATE FINANCE LAW -- ARTICLE 5-D
VARIABLE RATE DEBT INSTRUMENTS

Introduction: Article 5-D of the State Finance Law authorizes the use of variable rate debt and swaps in association with State-supported bond issuances and provides limitations on their use. The statute which follows provides the details of these limitations, which includes limiting net variable rate debt and swaps to 20 percent of total state-supported debt outstanding.

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ARTICLE 5-D VARIABLE RATE DEBT INSTRUMENTS

§ 69-a. Definitions. As used throughout this article, the following terms shall have the following meanings:

1. "Variable rate bonds" shall mean any State-supported debt which bears interest at a rate or rates which varies from time to time.

2. "Interest rate exchange or similar agreement" shall mean a written contract entered into in connection with the issuance of State-supported debt, or in connection with such State-supported debt already outstanding, with a counterparty to provide for an exchange of payments based upon fixed and/or variable interest rates, and shall be for exchanges in currency of the United States of America only.

3. "State-supported debt" shall mean all debt included in subdivision one of section sixty-seven-a of this chapter.

4. "Authorized issuer" shall mean the state or any state public corporation which is authorized to issue State-supported debt.

5. "Governing board" shall mean, for each state public corporation which is authorized to issue State-supported debt, its board of directors or, in the absence of a board of directors, its other appropriate supervising body and, in relation to state general obligation debt, the state comptroller.

6. "Variable rate debt instruments" shall mean, for any calculation purpose, (i) variable rate bonds or (ii) any state-supported debt and related interest rate exchange or similar agreements which, when considered together, result in an authorized issuer effectively paying interest at a rate or rates which varies from time to time, but shall not include any variable rate bonds, or any state-supported debt considered together with related interest rate exchange or similar agreements issued on or before July first, two thousand five, during any period that such instrument or instruments provide for payment by the authorized issuer of a fixed rate throughout the then current fiscal year of the state.

7. "Excluded agreements" shall mean the total notional amount of interest rate exchange or similar agreements entered into for the purpose of reducing or eliminating a situation of risk or exposure under an existing interest rate exchange or similar agreement, including, but not limited to a counterparty downgrade, default, or other actual or potential economic loss; provided, however, that for agreements entered into on and after April first, two thousand seven "excluded agreements" shall mean the total notional amount of interest rate exchange or similar agreements entered into for the purpose of reducing or eliminating a situation of imminent risk under an existing interest rate exchange or similar agreement, including, but not limited to a counterparty downgrade, default, or other actual or imminent economic loss.

§ 69-b. Limitation on amount of variable rate debt instruments. As of the initial date of each issuance of variable rate bonds or the date of entering into any other variable rate debt instruments, or for debt issued on or before July first, two thousand five upon conversion of any state-supported debt to variable rate debt instruments, the total of the principal and notional amounts of such variable rate debt instruments outstanding and in effect shall not exceed an amount equal to twenty percent of the total principal amount of state-supported debt outstanding.

* § 69-c. Variable rate bonds. Notwithstanding any other provision of law to the contrary, any State-supported debt may be issued as variable rate bonds.
Notwithstanding any other provision of law to the contrary, for purposes of calculating the present value of debt service and calculating savings in connection with the issuance of refunding indebtedness, (i) the effective interest rate and debt service payable on variable rate bonds in connection with which, and to the extent that, an authorized issuer has entered into an interest rate exchange or similar agreement pursuant to which the authorized issuer makes payments based on a fixed rate and receives payments based on a variable rate that is reasonably expected by such authorized issuer to be equivalent over time to the variable rate paid on the related variable rate bonds, shall be calculated assuming that the rate of interest on such variable rate bonds is the fixed rate payable by the authorized issuer on such interest rate exchange or similar agreement for the scheduled term of such agreement; (ii) the effective interest rate and debt service on variable rate bonds in connection with which, and to the extent that, an authorized issuer has not entered into such an interest rate exchange or similar agreement shall be calculated assuming that interest on such variable interest rate bonds is payable at a rate or rates reasonably assumed by the authorized issuer; (iii) the effective interest rate and debt service on any bonds subject to optional or mandatory tender shall be a rate or rates reasonably assumed by the authorized issuer; (iv) any variable rate bonds that are converted or refunded to a fixed rate, whether or not financed on an interim basis with bond anticipation notes, shall be assumed to generate a present value savings; and (v) otherwise, the effective interest rate and debt service on any bonds shall be calculated at a rate or rates reasonably assumed by the authorized issuer. Notwithstanding any other provision of law to the contrary, for calculating the present value of debt service and calculating savings in connection with the issuance of refunding indebtedness, the refunding of variable rate debt instruments with new variable rate debt instruments shall be excluded from any such requirements, if effectuated for sound business purposes.

* NB Effective until March 31, 2010

* § 69-c. Variable rate bonds. Notwithstanding any other provision of law to the contrary, any State-supported debt may be issued as variable rate bonds.

* NB Effective March 31, 2010

§ 69-d. Interest rate exchange or similar agreements.

1. Authorized issuer; powers. In connection with the issuance of State-supported debt, or in connection with such State-supported debt already outstanding, an authorized issuer shall have the power to:

(a) enter into interest rate exchange or similar agreements with any person under such terms and conditions as the authorized issuer may determine, including provisions as to default or early termination and indemnification by the authorized issuer or any other party thereto for loss of benefits as a result thereof;

(b) procure insurance, letters of credit or other credit enhancement with respect to agreements described in paragraph (a) of this subdivision;

(c) provide security for the payment or performance of its obligations with respect to agreements described in paragraph (a) of this subdivision from such sources and with the same effect as is authorized by applicable law with respect to security for its bonds, notes or other obligations, provided, however, that any payment or performance of obligations with respect to agreements described in paragraph (a) of this subdivision in connection with debt obligations which carry the full faith and credit of the state shall be subject to appropriation;

(d) the state, acting through the director of the budget or other state officials who are so authorized by applicable law with respect to such bonds, notes or other obligations, shall also be authorized to enter into or amend agreements related to such State-supported debt to provide for payment, subject to appropriation, to such authorized issuer of any amounts required to be paid by such authorized issuer under any such interest rate exchange or similar agreement;

(e) if such funds are available, provide collateral for its own obligations under any such interest rate exchange or similar agreement; and

(f) modify, amend, or replace, such agreements.

2. Interest rate exchange; limitations. Any interest rate exchange or similar agreements entered into pursuant to subdivision one of this section shall be subject to the following limitations: (a) the counterparty thereto shall have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories and ratings which are obtained from any other nationally recognized statistical rating agencies shall also be within the three highest investment grade categories, or the payment obligations of the counterparty shall be unconditionally guaranteed by an entity with such credit ratings;

(b) the written contract shall require that should the rating: (i) of the counterparty, if its payment obligations are not unconditionally guaranteed by another entity, or (ii) of the entity unconditionally guaranteeing its payment obligations, if so secured, fall below the rating required by paragraph (a) of this subdivision, that the obligations of such counterparty shall be fully and continuously collateralized by direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States of America, with a net market value of at least one hundred two percent of the net market value of the contract to the authorized issuer and such collateral shall be deposited with the authorized issuer or an agent thereof;

(c) the total notional amount of all interest rate exchange or similar agreements for all authorized issuers to be in effect shall not exceed an amount equal to twenty percent of the total amount of state-supported debt outstanding as of the initial date of entering into each new agreement; provided, however, that such total notional amount shall not include any excluded agreements.

(d) no interest rate exchange or similar agreement shall have a maturity exceeding the maturity of the related State-supported debt;

(e) each interest rate exchange or similar agreement shall be subject to an independent finding that its terms and conditions reflect a fair market value of such agreement as of the date of its execution, regardless of whether such agreement was solicited on a competitive or negotiated basis; and

(f) each interest rate exchange or similar agreement, including the modification or termination thereof, shall be subject to the approval of the director of the budget, the governing board of such authorized issuer, and shall not be considered a project for the purposes of article one-A of the public authorities law.

3. Guidelines and reports.

(a) Prior to authorizing the approval of any contract for interest rate exchange or similar agreement pursuant to subdivision one of this section, the authorized issuer's governing board shall adopt guidelines for the use of interest rate exchange or similar agreements which shall include, but not be limited to the following:

(i) the conditions under which such contracts can be entered into;

(ii) the methods by which such contracts are to be solicited and procured;

(iii) the form and content such contracts shall take;

(iv) the aspects of risk exposure associated with such contracts;

(v) standards and procedures for counterparty selection;

(vi) standards for the procurement of credit enhancement, liquidity facilities, or the setting aside of reserves in connection with such contracts;

(vii) provisions for collateralization or other requirements for securing the financial interest in such contracts;

(viii) the long-term implications associated with entering into such agreements, such as costs of borrowing, historical trends, use of capacity for variable rate bonds and related credit enhancements, and any potential impact on the future ability to call bonds, including opportunities to refund related debt obligations, and similar considerations;

(ix) the methods to be used to reflect such contracts in the authorized issuer's financial statements;

(x) financial monitoring and periodic assessment of such contracts by the authorized issuer; and

(xi) such other matters relating thereto as the governing board shall deem necessary and proper.

(b) The guidelines to be adopted pursuant to paragraph (a) of this subdivision shall be developed in consultation with and subject to the approval of the director of the budget.

(c) The authorized issuer shall issue a monthly report to the director of the budget, the chairs of the senate finance committee and the assembly ways and means committee, and the state comptroller, on or before the fifteenth day of each month in any state fiscal year in which it enters into or continues to be a party to a contract for interest rate exchange or similar agreement, which shall list all such contracts entered into pursuant to this section, and shall include, but not be limited to, the following information for each such contract, as applicable:

(i) a description of the contract, including a summary of the terms and conditions, rates, maturity, the estimated market value of each agreement, and other provisions thereof and the method of procurement;

(ii) any amounts which were required to be paid and received, and any amounts which actually were paid and received thereunder;

(iii) any credit enhancement, liquidity facility or reserves associated therewith including an accounting of all costs and expenses incurred, whether or not in conjunction with the procurement of credit enhancement or liquidity facilities;

(iv) a description of each counterparty;

(v) an assessment of the counterparty risk, termination risk, and other risks associated therewith; and

(vi) such report shall include a copy of the guidelines required by paragraph (a) of this subdivision in the month after they are adopted or subsequently modified.

(d) In addition, the director of the budget shall issue and make public on or before October thirtieth of each year an annual performance report for the prior state fiscal year on interest rate exchange and similar agreements to the chairs of the senate finance committee and the assembly ways and means committee, which shall list all such interest rate exchange or similar agreements entered into pursuant to this section and in effect, and shall include, but not be limited to their annual and cumulative performance, including the net impact of the related variable rate debt instruments, support and related costs, and, for any excluded agreement entered into during such state fiscal year, an independent finding on how it reduced or eliminated a situation of risk or exposure under an existing interest rate exchange or similar agreement. The authorized issuers shall be required to provide such information in a timely manner on their respective interest rate exchange and similar agreements as the director of the budget determines necessary for the purpose of producing such annual performance report.

§ 69-e. Applicability. Nothing in this article shall be construed as to apply to or limit any debt obligation or related instrument of the state, state public corporations, or any other issuers except those obligations or instruments which are or relate to State-supported debt.