



STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY NY 12224

GEORGE E. PATAKI
GOVERNOR

January 16, 2001

To the People of New York:

The sweeping changes, bold innovations and fiscally responsible approach to budgeting we brought to State government during the past six years have allowed New York to move forward, confident that we can meet the challenges ahead.

Since the submission of my first Executive Budget in January of 1995, the State of New York has made truly historic gains. Nearly 876,000 people have left the welfare rolls, violent crime has been cut by 39 percent, more than 776,000 new private sector jobs have been created, and New York is now the premier tax-cutting state in the entire nation.

Today, New York also has its highest credit rating in more than 22 years and is in the best fiscal shape in a generation.

The 2001-2002 Executive Budget will build on that dramatic progress, while further strengthening New York's overall fiscal integrity. The Budget will cut taxes for the seventh straight year, keep spending growth under control, maintain our fiscal reserves, and continue to reform our borrowing practices. It will also make intelligent and targeted new investments in a wide array of critical programs and services.

This Budget will not only enable our State to continue its remarkable comeback, but will also take the new steps that will allow us to reach even greater heights as we move forward.

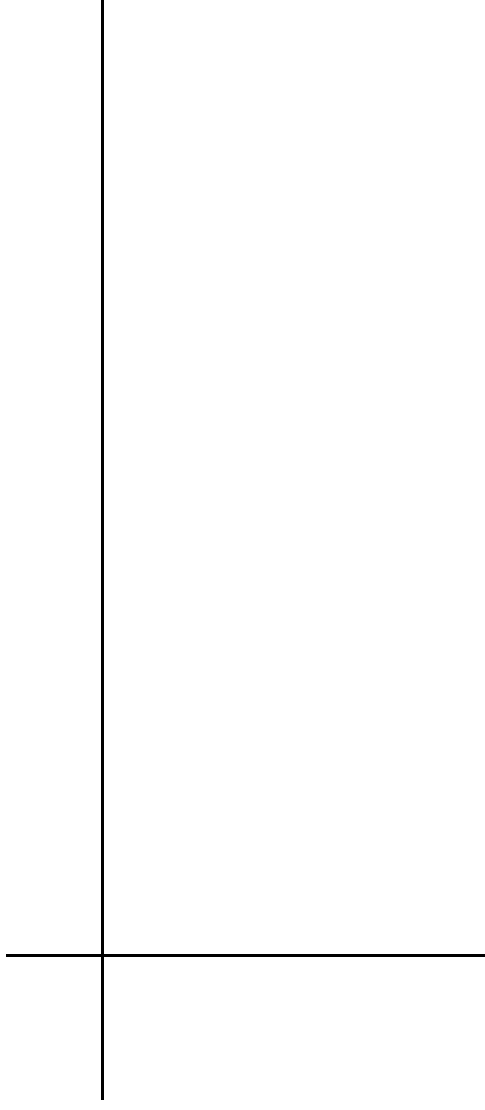
It is in this spirit that I am proud to present the 2001-2002 Executive Budget. I look forward to working with the members of the Legislature — and with all New Yorkers — as we take the next bold step in our historic journey.

Very Truly Yours,

A handwritten signature in black ink, reading "G. E. Pataki". The signature is written in a cursive style with a large initial "G" and a distinct "Pataki" ending.

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Message From the Budget Director

A Smart, Prudent Plan for New York's Future

A Message from New York State Budget Director Carole E. Stone

As we enter the new millennium, New York is the strong and vibrant State that Governor Pataki envisioned when he took office and that he has worked so vigorously to achieve over the six years of his administration. Each year, his Executive Budget has been an important tool in achieving that vision, advancing prudent fiscal practices, smart economic policies and targeted program investments that have revitalized New York and been a catalyst for growth and prosperity.

Prudent fiscal practices have produced six consecutive Budget surpluses, which Governor Pataki has used to bolster New York's fiscal reserves, better positioning the State for the inevitable "rainy day." These reserves, in concert with the Governor's debt reform legislation and debt reduction efforts, have led to three credit rating upgrades, bringing New York to its highest rating in 22 years.

Smart economic policies — like reducing taxes and providing resources to achieve a better trained workforce and a better educated citizenry; providing child care and other support to help welfare recipients become employed; and assisting promising start-up companies and fledgling industries — are paying off in a more competitive, diversified and robust economy. More than 776,000 new private sector jobs have been created since 1995 and a host of businesses — both existing and newly arrived — are growing in New York. Over 875,000 people have left the welfare rolls and our local governments are enjoying the improving fiscal condition that comes from a growing economy.

In addition to achieving a sound State fiscal condition and sparking unprecedented economic growth, Governor Pataki has expanded programs essential to the health, safety and well-being of all New Yorkers. The Governor's investments in criminal justice, the environment and health care, for example, have made our communities safer, our air and water resources cleaner, and ensured that more New Yorkers than ever before have access to high quality and affordable health care.

A Smart, Prudent Plan for New York's Future

Clearly, Governor Pataki's Budget practices and priorities have been a success and that's why the 2001-2002 Executive Budget again reflects familiar themes: it proposes new actions to further strengthen the State's fiscal health and fuel economic growth and new investments in programs critical to the well being of New Yorkers. Specifically, the Executive Budget:

Secures the State's Fiscal Health: Particularly with most economists forecasting slower national economic growth than has been the case in recent years, it is critical that we adhere to the prudent fiscal policies that have worked so well in the past. Accordingly, this Executive Budget, like each of Governor Pataki's previous ones, restrains spending growth and maintains significant fiscal reserves. In fact, the Executive Budget leaves the *entire* projected \$1.4 billion 2000-01 surplus unspent and in reserve. These reserves will allow New York to remain the nation's tax-cutting leader and safeguard existing budgetary commitments in the event of a significant slowdown in the national economy.

The Budget also builds on the Governor's historic Debt Reform Act of 2000, by proposing a new Constitutional Amendment that bans backdoor borrowing and introduces other significant limits on debt. The Debt Reduction Reserve Fund is being used to reduce outstanding debt, as well as to allow the State to proceed with capital projects critical to its future without issuing new debt.

Continues to Cut Taxes and Promote Economic Growth: The Executive Budget will advance new initiatives to ensure a continuation of New York's economic resurgence and preserve New York's role as the national leader in cutting taxes. New Yorkers will receive \$1.8 billion in additional tax relief in 2001, adding to the \$40.8 billion in cumulative tax relief already received since 1995. The Budget also proposes a comprehensive plan to stimulate job creation and economic development in Upstate New York, as well as a new local property tax reduction plan — Co-STAR. Co-STAR will build on the Governor's landmark STAR school tax reduction program by reducing county property taxes for seniors and farmers. A new \$1 billion high-technology and biotechnology plan that would allow New York to become a worldwide leader in university-based research, business creation and job development is also included.

Continues Investment in Critical Programs: While the 2001-02 Executive Budget limits overall spending growth to fiscally sound levels, it nevertheless makes important investments in programs and services critical to the well-being of New Yorkers. The Budget also recommends key reforms in programs where old approaches have been unsuccessful in achieving desired outcomes or where circumstances or new technology call for a change.

A Smart, Prudent Plan for New York's Future

Following are highlights of the many fiscal and programmatic proposals that Governor Pataki is recommending for fiscal year 2001-02, with additional details in the following pages. These proposals strike a critical balance among the objectives of ensuring the State's sound financial footing both now and in the longer term, fostering continued economic vibrancy, and investing intelligently in programs that make New York a better place to live and work.

Keeping Spending Growth Under Control

Since 1995, New York has emerged as a national leader in keeping State spending growth under control. Independent, bi-partisan data show that average annual spending growth in the State's General Fund during Governor Pataki's time in office has been held to just 3.1 percent — *less than half* the average of 7.6 percent for the other 49 states during the same time period. The State's All Funds spending growth of 4.4 percent has also remained well below the national average of 6.2 percent growth. During the Governor's first six years in office, the average annual growth in all three categories of government spending — All Funds, State Funds and General Fund — has been nearly cut in half compared to the annual growth under the prior administration.

While the Executive Budget for fiscal year 2001-02 makes substantial additional investments in many programs, overall spending growth in the General Fund — which is the critically important portion of the Budget that is supported directly by State taxpayers — will be kept at a modest 3.6 percent. This compares to the average annual General Fund growth that occurred under the prior administration of 5.4 percent. The Executive Budget also keeps All Funds spending growth (5.3 percent) and State Funds spending growth (4.9 percent) at affordable levels that are considerably lower than the average annual rate of growth under the prior administration.

“[Governor] Pataki deserves credit for recognizing the need for the State to use its surpluses to pay down debt...it's clear that prudent fiscal policies pushed by [Governor] Pataki helped slow growth of the State's debt.”

*Rochester Democrat and
Chronicle Editorial,
December 25, 2000*

A Smart, Prudent Plan for New York's Future

When the STAR program (which is actually a tax cut that counts as spending) is removed from the calculation, All Funds and State Funds spending growth are actually 4.5 percent and 3.8 percent, respectively. It should also be noted that, in addition to STAR, All Funds spending growth reflects increases of more than \$1.5 billion in Federal resources for a variety of programs, such as Child Health Plus.

Safeguarding New York Against Future Uncertainties

Largely because of this record of spending restraint, we anticipate ending the current fiscal year with a significant surplus, now projected to total \$1.4 billion. Thus, the Governor for the sixth straight year will end the fiscal year with unspent resources and again proposes that these be reserved for the future. The newly created Fiscal Responsibility Reserve Fund will ensure that New York State can mitigate the fiscal and programmatic disruption that has been characteristic in this State during previous national economic downturns.

Virtually every fiscal expert suggests that one of the keys to sound financial planning is setting aside funds to protect against future uncertainties and such reserves are an important element in every state's credit rating. Under Governor Pataki's leadership, New York has emphasized the importance of holding funds in reserve and has placed record funding levels in reserve accounts during the past six years.

The 2001-02 Executive Budget continues this fiscally prudent policy and, at the close of State Fiscal Year 2001-02, the State's reserves will total more than \$2 billion — or nearly five percent of the 2001-02 Executive Budget. Specific reserves will include:

- The newly established Fiscal Responsibility Reserve Fund, expected to contain \$1.3 billion (after an \$80 million deposit in the "Rainy Day" Reserve Fund) at the end of the current fiscal year.
- Nearly \$630 million in the State's formal "Rainy Day" Fund to guard against unplanned financial shortfalls. The size of the State's "Rainy Day" Fund has increased by 300 percent under the Governor's direction.
- A Contingency Reserve Fund of \$150 million for litigation risks, after a \$43 million deposit in 2000-01. The Contingency Reserve Fund was a paltry \$1 million when Governor Pataki first took office in 1995.

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Debt Reform

The Governor's leadership on debt reform and his efforts to bring overall fiscal responsibility to State government have paid remarkable dividends.

In 1998, the Governor created the Debt Reduction Reserve Fund (DRRF) and last year, at the Governor's insistence, the Budget included an additional \$500 million deposit into the DRRF, bringing the total amount of the Fund to a record \$750 million. Of this amount, \$500 million has been used to reduce the State's debt service costs by \$800 million, saving taxpayers \$300 million in interest costs. During 2001-02, the remaining \$250 million in the DRRF will be used to avoid additional debt in meeting the State's transportation needs, lowering debt service costs by \$400 million, and saving taxpayers \$150 million in interest costs.

Additional deposits to the DRRF will remain a key priority should any additional resources become available prior to enactment of the Budget for fiscal year 2001-02.

The Governor's key debt reduction priority for the coming year is enactment of Constitutional Debt Reform — which would ensure that the provisions of the historic and comprehensive Debt Reform Act of 2000 are constitutionally-mandated. The measure would also, for the first-time ever, ban "back door" borrowing and require voter approval for at least one-half of all new debt.

Last year, the Governor successfully fought for the Debt Reform Act, which made fundamental changes to New York's borrowing practices. The reforms included capping new debt and debt service costs, eliminating the use of debt as a fiscal gimmick, and reducing the maximum term of new State debt issued.

"...in 1994 New York had the worst credit rating of any state, but Governor Pataki's prudent fiscal stewardship is paying off big time."

*New York Daily News
Editorial,
December 24, 2000*

A Smart, Prudent Plan for New York's Future

Promoting Economic Growth

Under Governor Pataki's 2001-02 Executive Budget, New Yorkers would realize \$1.8 billion in additional tax savings resulting from a combination of newly-proposed and previously-enacted tax cuts. The Budget would place New Yorkers on track to receive nearly \$5.5 billion in tax cuts over the next five years — and bring the cumulative total of tax cuts since 1995 to more than \$100 billion.

The Governor's Budget also includes his comprehensive plan to strengthen job creation and economic development in Upstate New York.

The Governor's Upstate plan, which totals nearly \$300 million, would double the size of 22 Upstate Empire Zones, cut taxes and increase job opportunities for manufacturing businesses, and encourage the cleanup and revitalization of brownfield sites located in Upstate New York.

The Governor's 2001-02 Executive Budget also includes a number of new tax cuts to assist working families, help farmers remain competitive and productive, spur high technology job growth and help to protect the environment.

Reducing Local Property Taxes

The Executive Budget advances the Governor's new Co-STAR program, which will provide \$230 million in county tax relief to 700,000 seniors and farmers across the State. The program is largely modeled on his historic and successful STAR school tax reduction program, which will be fully implemented during fiscal year 2001-02 and provide an additional \$700 million — for a total \$2.6 billion annually — in school tax relief to school property taxpayers.

Co-STAR will save eligible seniors an average of over \$300 and eligible farmers over \$200 each year, and will cut the New York City personal income tax by \$120 for married senior couples and \$60 for individual seniors each year. When fully phased in over a five year period, Co-STAR will totally eliminate the county tax burden on as many as 200,000 seniors and farmers.

The Governor's Budget also includes a new proposal to protect and enhance the existing STAR program. Under the Governor's proposal, the \$60,000 STAR income eligibility ceiling for seniors receiving the Enhanced STAR benefit would be increased based on increases in the Consumer Price Index (CPI). This new measure will ensure that modest increases in Social Security, State pensions or other retirement income do not make seniors who receive the Enhanced STAR benefit ineligible in future years.

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Government for the 21st Century

A key factor in keeping overall spending down is that over the past six years, State government has become more efficient and effective. By taking actions that range from revamping operational processes to consolidating State agencies, to eliminating unnecessary programs, Governor Pataki has lowered the cost of government for taxpayers while vastly improving the delivery of important programs and services to New Yorkers.

Making government more responsive while costing less is an on-going process under Governor Pataki. As part of the development of the Executive Budget, the Division of the Budget and the Governor's Office of State Operations partnered with each State agency to review the agency's operations. The goal was to ensure that services and programs were being delivered to New Yorkers in the most efficient manner possible and that State government was taking advantage of new technology, while avoiding redundant or unnecessary operations.

Some highlights of this effort include:

- The Higher Education Services Corporation developing Web-based software that will further streamline its operations and enable students to apply for financial aid and loans through the Internet. This initiative will save taxpayers more than \$520,000 per year.
- The Department of Transportation saving nearly \$1 million per year in taxpayer funds by creating a new computer-based "paperless shop" system for their Equipment Management Division.
- Initiatives by the Division of Parole to shorten the parole revocation hearing process that have reduced the time that parole violators spend in local jails. This effort will save State taxpayers \$7 million per year, while reducing local jail overcrowding.
- Food quality inspectors from the Department of Agriculture & Markets carrying laptop computers to submit their reports from the field to agency headquarters electronically, increasing productivity and reducing overtime costs. This action will save taxpayers nearly \$150,000 per year.
- Efforts by the Office of Mental Retardation and Developmental Disabilities to deliver education and training services through partnerships among its district offices and providers by utilizing state-of-the-art "distance learning" technologies, which will save State taxpayers more than \$1.1 million per year.

Many of these initiatives reflect Governor Pataki's continued support for using technology to improve government operations and will help meet his goal of providing online access to critical State services and resources in a user-friendly and easily accessible environment.

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Smart Investments and New Approaches in Critical Programs and Services

Under the Governor's Budget, New York State will remain the national leader in providing support in many important areas, while undertaking new reforms in a number of critical programs:

Education Reform and Renewal

Perhaps most dramatic is Governor Pataki's proposal to reform school aid by consolidating 11 different aid formulas into a single "Flex Aid." This common-sense proposal which places decision-making where it belongs — with teachers, parents, and local school officials — would simplify the State's system of financing schools and provide greater flexibility in the use of State aid.

During the past four years, New York has increased support to our schools by a record \$3.4 billion — a remarkable 33 percent increase, or three times the rate of inflation.

These increases have not, however, produced the results we expect for our children. That is why the Governor's plan gives school districts the flexibility to target funding to local priorities and local needs, and then demands more accountability for results.

The Governor's education plan would also help recruit more and better qualified teachers by doubling the amount of funding for his "Teachers of Tomorrow" initiative. Under this program, new initiatives for the coming year will include training grants for alternative certification candidates, career grants for paraprofessionals seeking to become certified teachers, incentives for public employees to become teachers, and funds to improve the quality of math and science teaching.

For the 2001-02 school year, the Executive Budget recommends \$9.8 billion in Flex Aid, an increase of \$250 million over what was provided in 2000-01 in the now-consolidated 11 formulas. Overall, the Budget provides an additional school aid increase of \$382 million — the third highest school aid increase ever proposed by a New York Governor — bringing total funding to the highest-ever level of \$14.1 billion.

Health Care

The 2001-02 Executive Budget includes a record level of funds that will allow New York to remain a leader in providing affordable health care to its citizens. The Budget also includes funding to allow disabled New Yorkers to enter the workforce by obtaining their health insurance through Medicaid, and provides Medicaid cover-

A Smart, Prudent Plan for New York's Future

age for the treatment of breast and cervical cancer. The Budget also provides funding to support New York's nationally-recognized Child Health Plus program, the EPIC prescription drug program for seniors, and ensures adequate funds are available for all programs financed through the Health Care Reform Act.

The Budget also makes investments that will bolster the number of long-term care field surveillance staff to promote high-quality care in nursing homes and enhance fraud prevention efforts, and ensure that public funds are properly spent on providing care to our most vulnerable citizens. In addition, proposals are included to control increasing Medicaid costs, which focus on making long term care and the cost of pharmaceuticals more affordable for taxpayers.

Environment

The Governor's Budget includes \$1.3 billion to support New York's environmental programs, including a record funding level of \$150 million in the Environmental Protection Fund. In addition, legislation is proposed to refinance and improve the New York State Superfund program. This measure would maintain the most stringent environmental and public health standards in the nation, continue the "polluter pays" principle, and make common sense reforms that would remove more contamination from the environment and return sites to use quickly and safely.

Transportation

During the past six years, the Governor has provided record levels of funding for highways and bridges and mass transit systems across the State. This year, the Governor's Budget will substantially increase funding for these essential programs. The Department of Transportation's highway and bridge construction program will grow by \$150 million over 2000-01 levels, for a total letting level of \$1.75 billion — the highest level in State history. In addition, the Budget also increases engineering support by \$50 million. Transit aid will be enhanced by \$121 million under the Governor's Budget, including an \$81 million increase for the Metropolitan Transportation Authority.

Mental Health

Included in the Executive Budget is a new, multi-year plan to restructure financial support for community mental health services. The plan builds on the expiring Community Reinvestment Act to strengthen the operations and workforce of community-based mental health programs across the State.

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Criminal Justice

The Budget reflects the Governor's successful six-year effort to reduce crime. While the Governor successfully fought for and achieved longer sentences and additional prison capacity for violent criminals, he also implemented smart, sensible policies that enable non-violent drug offenders to pay for their crimes and overcome their addiction in alternative programs.

The result of the Governor's long-term strategy has been a steady decrease in crime and — for the first time in more than 20 years — a decrease in the demand for prison space. This provides an opportunity to reduce the State's prison system capacity, resulting in a savings to taxpayers of nearly \$50 million per year.

Children and Family Services

The Governor's Budget reflects a new approach to child welfare services that will better meet the needs of children and families who come in contact with New York's child welfare system. The new system will promote earlier intervention with troubled families that is expected to significantly reduce foster care placements for at-risk children.

Highlights of the new plan include providing uncapped funding for prevention and other key services, a new, quality fund for improving ways to deliver child welfare services, and a new Foster Care Block Grant that creates the proper incentive to reduce the number of children in foster care.

Adopting an On-Time Budget

This year, Governor Pataki is again proposing a budget reform package for consideration by the Legislature. Details of his plan to encourage a timely budget include advancing the date of the Consensus Revenue Forecasting Conference from March 10 to March 1, and requiring the Legislature to convene conference committees by March 1 to deliberate on changes to the Executive Budget.

Under the bill, the Governor would also provide legislators with a summary report of the financial plan impact of a proposed budget agreement prior to a vote on the budget bills, which would help legislators make more informed budget choices.

As the Legislature deliberates the Governor's Budget Reform Bill, the Division of the Budget remains committed to doing everything possible to assist in enacting an on-time Budget. It is our hope to build and improve on last year's record and we look forward to working with the members of the Senate and Assembly in a cooperative effort to enact an on-time State Budget.

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Virtually all of the material required to be submitted to the Legislature by one month *after* the Budget is introduced is instead being provided *today*, and any remaining items will be submitted as quickly as possible. In addition, we are committed to expediting — to the greatest extent possible — any 30-day amendments that may be introduced.

Governor Pataki believes that the conference committee process that has emerged during the last several years is an important reform that has improved the way in which the business of State government is conducted. But the hope for a better and more expeditious budget adoption process can only become a reality if the conference committee concept is embraced by both houses of the Legislature at the earliest date possible. With this in mind, we strongly encourage the legislative fiscal committees to move forward with an accelerated timetable for their budget-related hearings and conference committees.

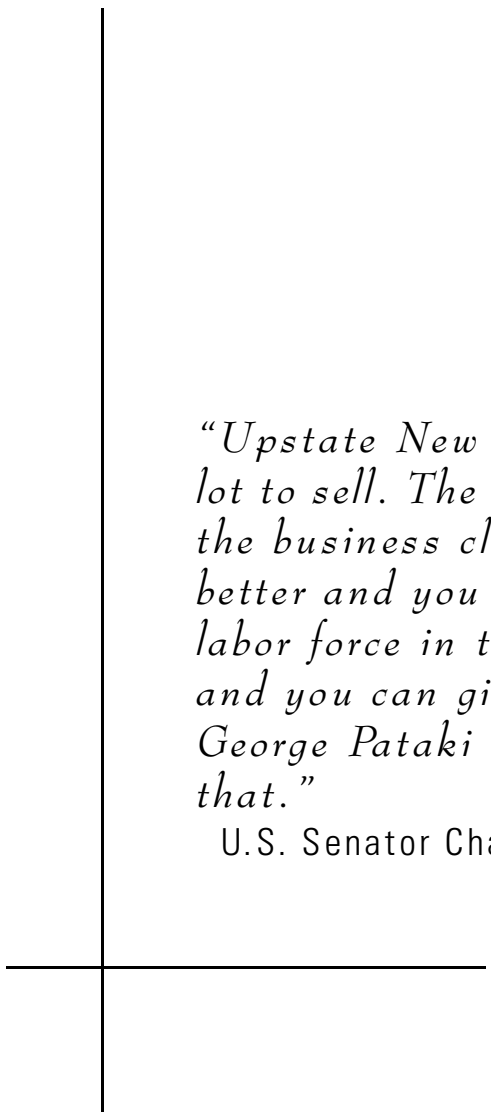
In keeping with Governor Pataki's belief that New Yorkers have every right to expect an on-time State Budget, the Division of the Budget stands ready to work with both houses of the Legislature toward the adoption of meaningful budget reform legislation.



Since Governor George Pataki unveiled his first Executive Budget nearly six years ago, New York State has undergone the changes he envisioned. Our economy is stronger, our taxes are lower and our streets are safer. New York's welfare system has been dramatically reformed. Health care is now available to hundreds of thousands of additional New Yorkers. Fiscal integrity has been restored to our State government. The bright future that Governor Pataki spoke of at his inauguration six years ago grows brighter each day.

The 2001-2002 Executive Budget will allow us to continue building on this renewed sense of hope and optimism that has taken hold in New York State. It is a smart, long-term plan that allows us to face the future, secure in the knowledge that we have made the smart and responsible decisions that will allow us to meet the exciting challenges ahead.





“Upstate New York has a lot to sell. The taxes are low, the business climate is better and you have the best labor force in the country, and you can give Governor George Pataki credit for that.”

U.S. Senator Charles E. Schumer

Governor Pataki's Economic Strategy is Paying Dividends, Creating Jobs

Governor Pataki's initiatives to promote private-sector job growth are paying dividends for New Yorkers. The combination of a new pro-business attitude from State government, the elimination of unnecessary regulations, and a continuing commitment to lowering taxes has brought about an economic revitalization that many thought impossible just six years ago. This continued economic expansion will remain a top priority in the Governor's 2001-02 Executive Budget.

Job Creation: Since December 1994, more than 776,000 private sector jobs have been created in New York State. Of that number, 195,100 jobs have been in Upstate New York, erasing all Upstate job losses that occurred during the early 1990s recession.

Job Creation at an All-Time High: The overall number of private-sector jobs has reached an all-time high for the third year in a row.

Outpacing National Growth: For the first time in 20 years, the State's rate of private sector job growth has outpaced the national average for two years in a row. Upstate New York's economic growth alone has beaten the growth rate of other Northeast and Midwest industrial states for each of the last 23 months — the best performance since 1959, when such record-keeping began.

Unprecedented Progress: Overall, New York has experienced the fastest rate of growth statewide in 15 years and the most significant State economic growth above the national average during periods of economic expansion in more than 40 years.

Unemployment at a 12-Year Low: New York's October 2000 unemployment rate (at 4.4 percent) was the lowest rate since November 1988.

Choosing New York: New York leads the nation as the location of choice for *Fortune 500* headquarters, with 56 such firms located in our State.

Promoting Economic Growth

Worldwide Economic Impact: New York is one of the top ten economies of the world, as measured by the Gross Domestic Product.

New Business Incorporations: According to Dun & Bradstreet, New York ranks second in new business incorporations.

Making Small Businesses Count: Since 1995, Governor Pataki has taken decisive steps to ensure that New York's more than 1.1 million small businesses continue to be a vital force in the State's growing economy. The centerpiece of these efforts is a nearly 25 percent reduction in the income tax rate, as most small businesses pay their tax under the personal income tax.

Other significant direct tax relief for small businesses include reductions in S and C corporation tax rates; benefits for farmers, including creation of the farmers credit for school property taxes; reduction of the Gross Receipts Tax (GRT) on telecommunications, and the elimination of the GRT on energy; creation of a sales tax vendor allowance so that small businesses, for the first time, can offset the cost of collecting and remitting sales taxes to the State; and a host of sales tax exceptions and exclusions targeted to small businesses. In addition, the Department of Taxation and Finance has undertaken numerous initiatives to ease tax compliance for New York's small businesses. Finally, Governor Pataki's Division for Small Business was recently awarded the United States Small Business Administration's "Vision 2000 Models of Excellence" award in recognition of its leadership and innovative support of New York's small business community. The State chapter of the National Federation of Independent Business (NFIB) nominated the Division for this award.

Creating A Business-Friendly Climate: The November 2000 issue of *Site Selection* magazine ranks the State's business climate as fifth best in the nation and first in the Northeast. Since 1995, New York has ranked among the top ten states

"New York State is as healthy economically as it has been in two generations... But earlier this month, the Feds conceded what every honest observer has been saying for months, if not years: The Empire State is on the way back. And, yesterday, IBM underscored that happy fact with its multibillion-dollar vote of confidence in New York.... Turning New York State around... has proven to be a gargantuan task. But it's happening."

New York Post editorial
10/11/00

in the nation in new business facilities and expansions. New York also fared well in the magazine's survey of top corporate executives, ranking first in the Northeast, and sixth in the nation, in terms of offering the best business climate.

A Less Taxing State

Throughout New York, Governor Pataki's tax reduction program is making a difference. Individuals and businesses are benefitting. New Yorkers are keeping a larger share of their earned income, and businesses, both large and small, now enjoy an environment in which they can expand or locate. The Governor's strategy of long-term, sustainable tax reductions has allowed the State's economy to thrive.

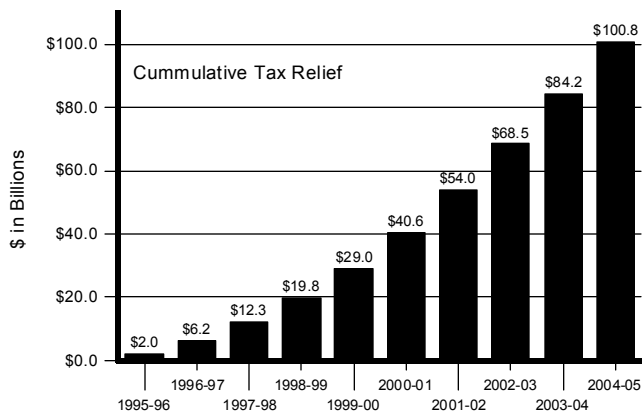
Under Governor Pataki's aggressive tax reduction program, New York has become the preeminent tax-cutting State in the nation. Since 1995, every major State tax has been cut. The scope of these tax cuts is remarkable. Consider that:

- On a cumulative basis — adding total relief from each of the past six fiscal years — New Yorkers have seen their overall tax burden reduced by \$54 billion. When all of our enacted tax cuts are fully phased in, this amount will have grown to over \$100 billion.
- New York State government now takes a smaller share of its citizens' hard-earned income. Since 1995, State tax collections per \$1,000 of personal income have dropped by 7.9 percent while the U.S. average has dropped by only 0.4 percent.

Promoting Economic Growth

- In 1995, the New York State tax collections per \$1,000 of personal income was 5.7 percent *above* the national average. By 1999, the State's tax rate was 2.2 percent *below* the national average.
- Local school property taxes and New York City taxes have been reduced under the School Tax Relief (STAR) program by \$6.2 billion on a cumulative basis.
- In 2001-02, New Yorkers will save approximately \$13.4 billion in annual tax relief.

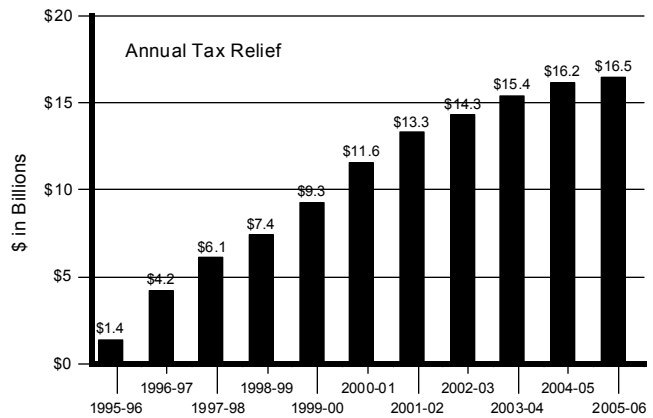
Governor Pataki's Tax Cuts Lead the Nation



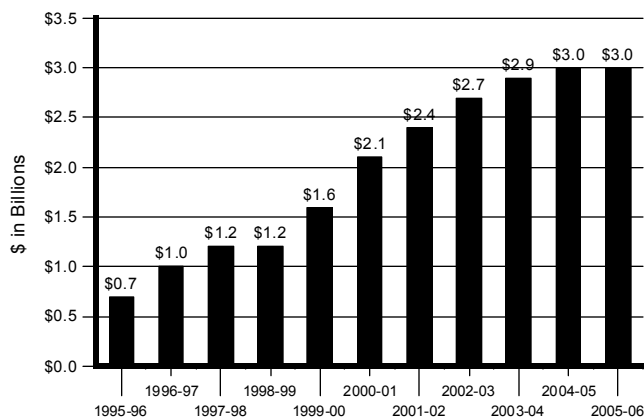
Enacted tax reductions have already saved New Yorkers a cumulative \$41 billion since Governor Pataki has been in office. When fully effective, cumulative tax savings will exceed \$110 billion.

Governor Pataki's Tax Cuts Lead the Nation

New Yorkers have received the benefit of the largest tax cuts in the nation.



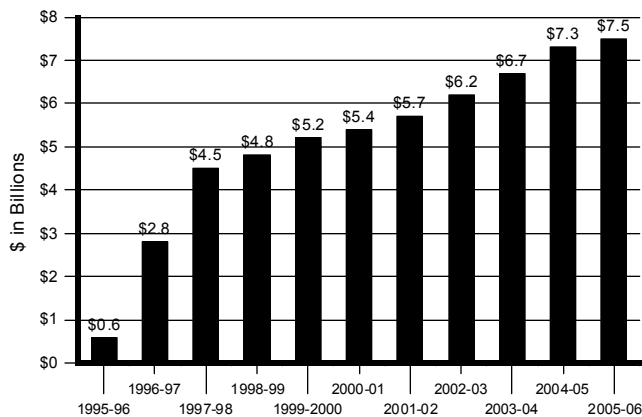
Governor Pataki's Business Tax Cuts Save New York Businesses Billions of Dollars



Tax reductions in New York State have saved businesses a total of \$7.9 billion over the last six years and will generate further savings as the multi-year tax reduction plan continues to take effect. These savings will drive greater investment and expansion, and create more jobs for New Yorkers.

Promoting Economic Growth

Governor Pataki's Personal Income Tax Cuts Save New York Taxpayers Billions of Dollars



Governor Pataki has cut the income tax by 20 percent or more for most families; reduced the marriage penalty; expanded the Earned Income Tax Credit and the Child Care Credit; created a credit for Long-Term Care Insurance; and started the Higher Education Savings Plan.

New Budget Carries Out \$1.8 Billion in Tax Cuts

Under Governor Pataki's 2001-02 Executive Budget, New Yorkers will begin to realize \$1.8 billion in additional savings resulting from the implementation of previously enacted tax cuts. Taxpayers will benefit from initiatives including:

Increased Savings Under the Governor's Energy Tax Reform and Reduction Plan: Most significant is the elimination of the gross receipts tax for manufacturers and industrial energy customers effective January 1, 2000.

Elimination of Sales Tax on Energy: The phase-out of sales taxes on the transportation, transmission or distribution of gas or electricity when purchased through retail access began on September 1, 2000 and will continue in 2001-02.

Expanded Power for Jobs Program: The Power for Jobs program, created in 1997, has been widely recognized as a highly successful initiative to create and protect jobs by providing low-cost power to businesses, particularly in Upstate communities. This program has created or protected more than 250,000 jobs since 1997. Building on this success, a fourth phase of the

Power for Jobs program will provide 300 megawatts of low-cost power. Allocations began this fall and three-year contracts for the reduced-cost power will begin on or after January 1, 2001.

Expansion of the Earned Income Tax Credit (EITC): The EITC will be increased from 22.5 percent to 25 percent of the Federal credit on January 1, 2001, and to 27.5 percent on January 1, 2002.

Marriage Penalty Reduction: The marriage penalty in the personal income tax will be reduced by increasing the joint standard deduction from \$13,000 to \$13,400 on January 1, 2001, and to \$14,200 on January 1, 2002.

College Tuition Deduction/Credit: An itemized deduction or a 4 percent credit will be allowed for up to \$2,500 of undergraduate college tuition beginning on January 1, 2001. The allowable tuition will be increased to \$5,000 on January 1, 2002.

Enhanced Empire Zone Benefits: The Empire Zones program will transform current Economic Development Zones (EDZs) into virtual "tax-free" zones for certain businesses. Empire Zones will target tax incentives and benefits to communities throughout New York State through real property tax and tax reduction credits, and sales and use tax exemptions. The credits apply to tax years beginning on or after January 1, 2001. The sales and use tax exemptions are effective on March 1, 2001.

School Tax Relief (STAR): The last phase of the STAR tax cuts for all homeowners will go into effect on July 1, 2001. STAR tax cuts providing \$50,000 exemptions have already been received by senior homeowners. The Governor's 2001-02 Executive Budget will complete the phase-in of school property tax cuts for non-senior homeowners by providing \$30,000 exemptions from the taxable full value of the residence, and reduced tax rates and increased STAR credit amounts under the New York City personal income tax.

Further Reduction of Corporate Franchise Tax Rate: The corporate franchise tax rate will drop from 8.0 percent to 7.5 percent, effective for tax years beginning on or after July 1, 2001.

Promoting Economic Growth

Further Reduction in Bank Tax Rate: The bank tax rate will drop from 8.5 percent to 8.0 percent for tax years beginning after June 30, 2001, and to 7.5 percent on or after July 1, 2002.

Further Reduction in Insurance Tax Rate: The insurance tax rate will drop from 8.5 percent to 8.0 percent for tax years beginning after June 30, 2001, and to 7.5 percent for tax years beginning on or after July 1, 2002. In addition, further reductions will occur on the limitation of tax liability for non-life insurers. The limitation will drop from 2.4 percent to 2.2 percent for tax years beginning after June 30, 2001, and to 2.0 percent for tax years beginning on or after July 1, 2002.

Green Buildings Tax Credits: The “green” buildings tax credit program — the first in the nation — provides tax incentives to construct environmentally sensitive or “green” buildings in New York State. The credits apply to costs incurred on or after June 1, 1999 for property placed in service or property that has received a final certificate of occupancy in tax years beginning on or after January 1, 2001.

Further Reductions of Corporate Franchise Tax Rate for Small Businesses: Small businesses with Entire Net Income (ENI) of not more than \$200,000 realized a rate reduction from 8 percent to 7.5 percent, effective for taxable years beginning before June 30, 1999, and a further reduction from 7.5 percent to 6.85 percent, effective for taxable years beginning after June 30, 2003. A separate formula applies to small businesses with ENI of more than \$200,000, but not over \$290,000. The rate ranges from 6.85 percent to 7.5 percent and takes effect for taxable years beginning after June 30, 2003.

Upstate Economic Revitalization

Since 1995, Governor Pataki has worked to stimulate business growth, create jobs, and revitalize New York's economy. The Governor's 2001-02 Executive Budget continues these efforts, with an emphasis on further strengthening the economies of Upstate communities.

For the first time in 20 years, the State's rate of job growth has outpaced the national average for two years in a row. Upstate New York's economic growth alone has beaten the growth rate of other Northeast and Midwest industrial states for each of the last 23 months — the best performance since 1959, when such record-keeping began.

To propel Upstate economic growth to new heights, the Governor's Executive Budget includes a comprehensive economic plan, which would double the size of 23 Upstate Empire Zones, cut taxes for manufacturing businesses, and encourage the cleanup and revitalization of brownfield sites. Details of the program include:

"...I was afraid it would be the Upstate New York I left in 1978...It's not."

Chris Gardner, a 40-year-old dot-com pioneer, and New York native, explaining his recent decision to return to Upstate New York with his family

Doubling the Size of Empire Zones

The Governor's plan would double the size of Empire Zones in 22 Upstate communities from the current two square miles to four square miles. Zones would be doubled in communities based on certain criteria, including changes in population, per capita income and unemployment.

Promoting Economic Growth

Once implemented, the following existing Zones would be expanded, enabling over \$115 million in additional tax savings to new and existing businesses:

Amsterdam	Jamestown	Rome
Binghamton	Lackawanna	Schenectady
Broome County	Niagara Falls	Seneca County
Buffalo	Norwich	Syracuse
Clinton County (Airbase Outside City)	Onondaga County	Utica
Dunkirk	Oneida-Herkimer	Watertown
Elmira	Plattsburgh	
Gloversville	Rochester	

Currently, there are 52 Empire Zones across the State, and six more will be established later this year. The program is especially well-suited for the cities — with about 65 percent of the 52 Zones located in urban areas.

Three-Point Plan for Manufacturers

The Governor's comprehensive economic development plan also includes a three-point plan to help manufacturers expand and remain competitive in New York:

Eliminating the Alternative Minimum Tax (AMT). The AMT hurts primarily manufacturing firms by requiring companies to pay 2.5 percent of their income in taxes, regardless of their level of capital investment. This limits the amount of tax credits that a company can claim, which effectively discourages manufacturers from making investments to upgrade their facilities in New York. The AMT also places New York at a competitive disadvantage with other states, the vast majority of which do not impose an AMT. Under the Governor's plan, the AMT would be phased out over five years, beginning January 1, 2001. When fully implemented, the tax cut would save businesses more than \$50 million. Under Governor Pataki, the AMT has already been cut in half, from 5 percent to 2.5 percent.

Enacting a Single Sales Factor for Manufacturers. This measure would effectively cut the corporate tax on manufacturers by changing the method of computing corporate income tax on multi-state manufacturing firms from a three-tiered formula — which takes into account sales, payroll and property in New York — to one based solely on sales within New York. This would encourage companies, particularly large firms with significant out-of-state sales, to remain and expand in New York. This measure would be phased in over five years, beginning January 1, 2001. When fully implemented, it will save businesses approximately \$34 million each year.

Retraining the Manufacturing Workforce. The Governor's 2001-02 Executive Budget continues the Strategic Training Alliance Program (STRAP), which provides grants to businesses to upgrade their employees' skills. With many manufacturers incorporating new technologies into their production processes, this program will serve as an important tool for maintaining highly skilled workforces.

Promoting Brownfield Redevelopment

Brownfields are abandoned, idled, or under-utilized industrial and commercial facilities where expansion or redevelopment is complicated by confirmed or possible environmental contamination. Many of these sites are located in prime urban areas, yet businesses often forgo opportunities to build and rehabilitate these sites.

The Governor's Upstate economic development plan includes the following measures to encourage the cleanup, revitalization and reuse of existing brownfield sites:

Provide Tax Benefits for Brownfields: This proposal would provide a real property tax credit for brownfields of 10 or more acres in Upstate cities. It will also provide an enhanced real property tax credit to brownfields of more than 100 acres in any part of Upstate. This new measure would save environmentally-friendly businesses nearly \$30 million each year.

Promoting Economic Growth

Create a New Statewide Brownfield Renewal Tax Credit: This new tax credit would encourage the voluntary clean-up of brownfields in every part of the State by providing individuals and businesses a tax credit equal to a portion of costs to clean up the contaminated site. It would also provide a tax credit for a portion of the costs of purchasing equipment and other property to use on the site. This new credit of \$12 million would be earned in 2001-02, growing to \$41 million in tax savings in the outyears.

Additional New Targeted Tax Cuts

The Governor's Budget also includes the following new tax cut initiatives:

Low- and Moderate-Income Housing Tax Credit: This new measure will enhance last year's credit by providing an additional \$2 million in funding to encourage the construction and development of affordable housing for low- and moderate-income working families and senior citizens. The low-income housing tax credit became effective January 1, 2000, and initially provided \$2 million in tax savings for the next ten years.

Historic Home Ownership Assistance Credit: This new measure will provide an income tax credit for a portion of qualified rehabilitation expenditures made by a taxpayer for the rehabilitation or purchase of a historic home. This credit will be effective beginning in the 2002 tax year and will save taxpayers an estimated \$10 million annually.

Expanded STAR Exemption for Farmers: This measure will allow farmers who own their farms as a corporation or partnership to take advantage of the STAR property tax reduction program. Currently, some farmers whose homes are part of their incorporated farming business are ineligible to receive the STAR tax cut even though the home is their primary residence. This expansion would become effective in the 2002-03 school year and would provide \$3 million in annual property tax savings to farmers.

Promoting Economic Growth

Extend Farm School Tax Credit to Cover Rental Land: This initiative will extend the school property tax credit under the personal income tax to cover land rented for farming. This credit will be effective beginning in the 2002 tax year and will save taxpayers an estimated \$5 million annually.

Farm Land Restoration Tax Credit Program: This proposal will provide a one-time State personal income tax credit, up to \$10,000, for 25 percent of the capital costs for specified land improvements designed to restore farmland, build fences and repair silos. This credit will be effective beginning in the 2002 tax year and will save taxpayers an estimated \$8 million annually.

Conservation Donor Tax Credit: This proposal will provide a personal income tax credit to taxpayers who donate property and conservation easements to a qualified nonprofit land trust, state or local government, or Federal agency. This credit will be effective beginning in the 2002 tax year and will save taxpayers an estimated \$12 million annually.

Biotechnology Refundable Tax Credit: This will expand the Investment Tax Credit (ITC) to enable biotechnology companies that do not qualify as "new businesses" to claim a refund of their ITC. The proposal will be limited to companies with 100 or fewer employees in New York State. This credit will be effective on or after January 1, 2002 and will save taxpayers an estimated \$1 million annually.

Investing in New York's High-Technology Future

In the increasingly intense national and international competition to attract and retain high technology industries, New York is well positioned to compete for the high-wage, high-skill, high-tech jobs that these industries offer. Governor Pataki's 2001-02 Executive Budget includes an unprecedented new \$1 billion high-technology program that builds upon New York's inherent strengths and the innovative State programs developed in recent years to ensure that we can compete and win.

New York: Already Among the Leaders in Technology

Since 1995, Governor Pataki has fostered the growth of New York's high-technology and biotechnology industries by supporting the investment of more than \$730 million in the State's technology business sector and in its world-class research laboratories and academic centers. The results are clear:

- The American Electronics Association ranks New York second in the nation in the total number of high-technology establishments and third in the nation in high-technology employment.
- New York State now ranks second in the nation — up from number five last year — in the number of young scientists winning awards from the National Science Foundation. In 2000, 41 of New York's outstanding junior faculty members in science and engineering were honored with NSF's Faculty Early Career Development (CAREER) awards, an increase of 20 over the prior year's total.
- New York is home to world-renowned public and private university research partnerships that are spending nearly \$2 billion annually to develop and improve business products and processes.

- New York has one of the best educated and most productive workforces in the nation. Our State ranks second in the total number of science and engineering graduate students. Last year, 30 percent of the winners of the prestigious Intel Science Talent Search were students from New York State schools.
- With support from Governor Pataki and legislative leaders, the State University of New York at Albany and Rensselaer Polytechnic Institute were jointly designated a Focus Research Center by the Semiconductor Industry Association in 1998. These institutions have assumed a leading role, nationally, in the development of the next generation of semiconductor technology.
- In 1999, New York established the Office of Science, Technology and Academic Research (NYSTAR) to foster high technology research and development in New York. A central element of NYSTAR's mission is the recognition that our world-class public and private research institutions are powerful economic engines.
- Nearly one million miles of fiber optic cable run through the State, evidence of New York's place at the center of national and international business communication.

Taking it to the Next Level

Governor Pataki's unprecedented \$1 billion high-technology and biotechnology plan will fund high-technology "Centers of Excellence" in Albany, Rochester, Buffalo and elsewhere. These new centers will directly link university researchers with business and industry leaders and position New York at the forefront of critical new growth industries in the most advanced areas of high-technology and biotechnology.

The Governor's plan provides \$283 million in State funds over the next five years to leverage more than \$700 million in combined Federal, university, and private resources to spur high-technology and biotechnology job growth through the "Centers of Excellence" and other initiatives. The plan is also specifically structured to provide flexibility to allow the State to effectively target its high-technology investments and rapidly respond to ever-changing technologies and business opportunities that exist in today's marketplace.

Promoting Economic Growth

The plan would allow for continued investment in New York's world-class university research facilities, while providing substantial new funding to secure Federal matching research grants, create new business incubators and business parks, train and recruit highly skilled employees, and increase support to emerging and growing high-technology firms.

Three of the "Centers of Excellence" are already under development:

Center of Excellence in Bioinformatics at Buffalo: This center will, through the University of Buffalo's Center for Computational Research, create academic and industrial partnerships with Roswell Park, the Hauptman Woodward Medical Research Institute, Praxair, Advanced Refractory Technologies (ART), Ethicon, Veridian, and Life Technologies, among others. The super-computing capability to decipher the structure of proteins and genes is a critical element of the new industry of bioinformatics.

Center of Excellence in Photonics & Optoelectronics at Rochester: This center will allow Corning, Kodak and other companies to collaborate with the Rochester Institute of Technology, the University of Rochester, the Rensselaer Polytechnic Institute and the University at Albany to secure New York's leading position in photonics, optics and fiber optics. Corning and Kodak are each expected to make multi-million dollar investments in this Center. The use of light to transfer energy and information is making ever faster and smaller devices possible, with wide applicability from medicine to telecommunications.

Center of Excellence in Nanoelectronics at Albany: This center will be a leader in the nanoelectronics industry, led by IBM in collaboration with the University at Albany, and will establish a state-of-the-art 300mm wafer computer chip workforce development facility in New York. This Center is needed to meet the workforce training needs of IBM's recently announced \$2.5 billion 300mm wafer computer chip fabrication facility in East Fishkill, and is critical if New York is to be successful in attracting new nanoelectronics companies.

The Governor's "Centers of Excellence" will provide a critical, job-creating bridge between NYSTAR's new Strategically Targeted Academic Research (STAR) Center program and New York's business community. The STAR Center program will establish up to six state-of-the-art academic research facilities located at higher education institutions across the State.

Promoting Economic Growth

Governor Pataki's plan was developed to provide the necessary resources to translate the research and technology innovations that result from STAR Centers into new products, new businesses and new jobs.

The Governor's "Centers of Excellence" will also be expanded to other areas across the State to further increase New York's technology-based efforts. Long Island is already a leader in software development and information technology. There are more than 900 Long Island companies employing nearly 10,000 people in this high-technology area, and Long Island is home to Computer Associates, the third largest software company in the world.

In addition, recognizing that the specialized equipment and infrastructure needs of high-technology research are often too expensive for any single university or emerging company to afford, the plan could support shared core research facilities. By design, these facilities would also create synergies among researchers and between researchers and businesses. In New York City, for example, 36 different medical schools, health centers and research institutions are developing collaborative research projects that will transform medicine in the future.

The construction of strategically located and commercially operated business incubators in critical growth areas such as biotechnology, financial and business services, software, and telecommunications could also be supported under the Governor's plan.

Preparing Workers for the 21st Century

The quality of New York's workforce is among our greatest strengths. Governor Pataki is committed to ensuring that businesses continue to have access to the best trained and highest skilled workers in the nation. Consider that:

- In November 2000, Governor Pataki launched a new web site, www.hightechNY.com, targeted toward high-tech employers and job seekers. The site lists more than 40,000 job openings with high-tech firms in New York State. Employers will find the new web site more streamlined and easier to use than other commercial job banks. Job seekers can post their resumes, search statewide for high-tech job opportunities, and apply directly online.
- This past year alone, the New York State Department of Labor hosted more than 750 job fairs and recruitments for businesses throughout New York State, including a statewide high-tech job fair that saw 4,000 job seekers meeting with 230 employers.
- Governor Pataki's 2001-02 Executive Budget would provide approximately \$1.7 billion in Federal, State and associated local dollars for the State's workforce development system. This funding supports employment training and education programs to help meet the changing workforce needs of the State's employers.
- The Individual Vocational Education and Skills Training (InVEST) program is one of New York's primary Welfare-to-Work training programs, providing workers with the upgraded skills and training required to fill high-demand occupations. The program can pay an employer up to \$3,250 for each qualified employee, and pay eligible training organizations with authorized projects up to \$5,500 per trainee.
- New York State employers can now place online job orders with the State Department of Labor at its web site, www.labor.state.ny.us. Employers can complete forms online, send them to the appropriate office with a click of the mouse, and receive automatic e-mail confirmation that the Department has received the job orders.
- As a result of reforms instituted in the past two years, New York now has the registered apprenticeship system needed to graduate workers in more than 300 apprentice occupations. These workers are skilled, knowledgeable, and ready to compete in the workforce.

Pro-Business Initiatives Continue

Eliminating Red Tape

Under the Governor's regulatory reform initiatives, New York continues to aggressively remove barriers that could impede the creation, location and retention of businesses in our State. Over the past six years:

- The rate of new regulations issued by State agencies has been reduced by 50 percent.
- More than 1,800 rules have been eliminated or substantially reformed.
- Businesses of all sizes, not-for-profit organizations and taxpayers have saved more than \$3 billion.

In addition, the new "Build Now-NY" program is pre-permitting over 40 "shovel-ready" sites for building and expansion. Wage, tax, utility and land cost analysis are already prepared, as are details on infrastructure, sewer, water and transportation access.

Governor Pataki's 2001-02 Executive Budget continues his commitment to creating a better regulatory climate for job growth by:

- Providing funds to continue the development of New York's Online Permitting and Licensing (OPAL) service, an Internet-based service that offers citizens a fast and effective way to apply for business permits — by enabling them to apply for multiple applications with multiple agencies on a single online application form.
- Funding the nation's premier permit assistance web site, www.nys-permits.org, so that new or expanding companies can receive online information regarding permits and licenses required for a particular business.

Promoting Economic Growth

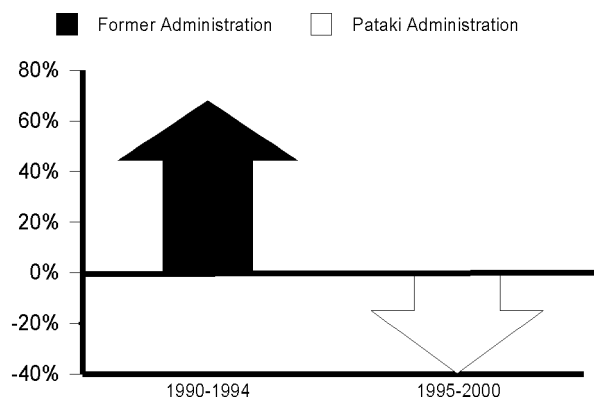
- Adopting the new international fire and building codes — to take effect January 1, 2002 — that will continue our State's national leadership in reducing overall construction costs while improving building code enforcement, higher quality construction, and the rehabilitation of historic downtowns.
- Aggressively pursuing the pre-permitting of commercial business sites so that businesses can break ground quickly and start producing jobs faster. The Governor's pre-permit strategy has already resulted in \$125 million in private investment.
- Promoting the cleanup and reuse of potentially prime locations for economic redevelopment through "REBUILDNOW-NY."

Cutting Workers' Compensation Costs

Governor Pataki, through the enactment of the New York State Employment, Safety and Security Act of 1996, has reduced workers' compensation rates by 40 percent, saving New York businesses over \$1 billion a year, while improving workplace safety.

The Governor has also improved the management of the Workers' Compensation program, providing enhanced customer services, easier access through the opening of more district offices and outreach centers, and a simplified claims settlement process.

Workers' Compensation Costs Drop Under Governor Pataki



Reduced workers' compensation rates, which have declined by 40 percent cumulatively since 1995, will continue to generate substantial savings for New York employers and small businesses, making them more competitive. In contrast, between 1990 and 1994, rates increased by a total of 64 percent.

The Governor's Economic Development Strategy is Producing Results

Major Corporate Expansions and Investments Announced in 2000

Across New York, domestic and international firms, high technology and financial services companies as well as entertainment and tourism businesses are locating, expanding and flourishing in every corner of the State:

- In October 2000, history was made in New York State. Governor George Pataki and IBM Chairman and CEO Lou Gerstner announced that IBM will build the world's most advanced semiconductor facility in Upstate New York, creating 1,000 new permanent jobs at the Hudson Valley Research Park. IBM's \$2.5 billion investment is the largest capital investment by the private sector in State history, and the largest in America since 1995. IBM's announcement establishes, beyond a doubt, New York's preeminence as a high-technology center for the next-generation 300mm wafer, and paves the way for future semiconductor and high-tech investment.
- Mold-Rite Plastics Inc. will invest \$2.3 million to create 100 new jobs in Plattsburgh, increasing the company's workforce to 360. Mold-Rite manufactures plastic closures, jars and pill vials for the packaging industry and has been doing business in Plattsburgh since its formation in 1976. *Site Selection* magazine recently ranked Plattsburgh seventh among America's small towns for attracting new corporate investments.
- Corning Inc. announced that the company will establish a new plant for its world-leading fiber optics Photonics Technologies Division at the University Industrial Park in Henrietta, Monroe County. The \$80 million investment for Corning's first passive photonics plant will result in 440 new jobs, and brings the total number of new photonics jobs in 2000 to 1,140.

Promoting Economic Growth

- In June 2000, Adelphia Communications Corp. announced the establishment of a \$100 million Northeast regional operations center in downtown Buffalo, creating 2,000 new jobs and retaining its current workforce of 500 in New York State. These investments will help revitalize and transform downtown Buffalo into a first-class business community for the 21st Century. Adelphia will build a new, state-of-the-art, mixed-use building in downtown Buffalo to house 1,000 new employees and its current workforce of 500. In addition, the company has committed to creating another 1,000 jobs in New York State, with 500 earmarked for Western New York and 500 for elsewhere in the State.
- General Motors announced plans to construct a new 711,000 square-foot engine plant in Tonawanda. GM will invest more than \$500 million in Western New York to construct a new high-tech engine manufacturing plant. During the Governor's tenure, investments by transportation manufacturing firms in Upstate New York have risen to more than \$2 billion.
- Over the next three years, the Bank of New York will create 477 jobs at a new customer service facility in DeWitt, and add 100 new jobs to its operation center in Oriskany as part of an \$18 million investment in Upstate New York.
- Delta Airlines announced a \$1.6 billion expansion project for John F. Kennedy International Airport, which will create 6,000 new Delta jobs and 6,500 construction jobs. The project, expected to be completed by 2004, includes a new 1.5 million square-foot concourse and 26 new international gates.
- BAE Systems chose its Griffiss Business and Technology Park location to expand the company's advanced aerospace products and intelligent electronic systems over sites in California, Nebraska, Colorado, and Virginia. BAE Systems, with a current 65-person workforce, has been at Griffiss for three years and will invest \$6 million to move into its second building, creating 65 new jobs.
- Philips Semiconductors, an affiliate of Royal Philips Electronics, will acquire IBM's MiCRUS Semiconductor operation as a part of the "Semi-NY" program — which is designed to attract semiconductor manufacturers to New York State. Philips expects to employ the entire 950-person workforce currently at the MiCRUS facility in East Fishkill, and will invest \$100 million to increase its capacity and chip capability.

Promoting Economic Growth

- Staples Inc., the office supply wholesaler, will establish a major new Northeast distribution facility in Montgomery, Orange County. The \$40 million project is expected to employ 489 New Yorkers within five years, including 324 new jobs by the end of 2001.
- UnitedHealth Group announced that Uniprise, a division of UnitedHealth Group, will invest \$19.4 million and create 1,172 new jobs in Upstate New York, including 640 jobs at a new facility in Albany County and 532 jobs at its existing facility in Ulster County. The company will also invest \$3.2 million and add 150 new jobs at its United Healthcare of New York operations in Manhattan.
- ALSTOM Transportation Inc. recently broke ground on a new 60,000 square-foot manufacturing facility in Hornell. ALSTOM established operations in Hornell in 1997, igniting the growth of its current 800-person local workforce. The new \$7.3 million business expansion will increase ALSTOM's workforce to more than 1,100 workers by the end of 2003.
- Nucor Corp., will build a new steel plant in the Town of Chemung, creating 300 new jobs and investing \$50 million. Nucor's Vulcraft Division will build a plant to produce steel joists, joist girders, decks, and other steel products.
- Morgan Corporation, the nation's largest truck body builder, plans to open a major manufacturing plant at the Griffiss Business and Technology Park in Oneida County, creating up to 400 new jobs.
- Advanced Refractory Technologies, a vertically integrated supplier of advanced ceramic materials, will invest \$8 million to expand its world headquarters in Buffalo, adding 133 new jobs. The company currently employs 117 workers in Buffalo and the expansion will nearly double its workforce during the next three years.
- Automotive giant BorgWarner Morse TEC has chosen New York State for a \$38.6 million expansion. The company will purchase and equip the 130,000 square-foot NCC building in Cortlandville, creating 300 new jobs and protecting the jobs of 436 workers at the company's Ithaca plant.
- Whitley Manufacturing will invest \$2.5 million to move into the Griffiss Business and Technology Park, where the company will create 90 new manufacturing jobs. This follows the \$180 million high-tech investment by Baker-Ford at Griffiss, creating 300 new jobs and establishing the region as a hub for emerging industries.

Promoting Economic Growth

- Metro Paper Industries will invest \$12 million to re-open the former Fort James Mill in Carthage, creating 75 new jobs. The investment starts a multi-phase economic development project to re-ignite activity at the 100-year old mill, which was closed in April, 1998.
- Skulogix Inc., a new e-commerce solutions provider, will create 800 new jobs and invest \$4 million to establish its corporate headquarters in the Uniland Development's Walden Business Center in Lancaster.
- PaeTec Communications Inc. will invest \$11.4 million to build a new 100,000 square-foot corporate headquarters in Perinton, creating 220 new high-tech communications jobs for the Rochester area.
- Dectron Internationale of Montreal will invest \$3.5 million to purchase IPAC in Niagara County. The investment creates a new company — IPAC 2000 Inc. — and doubles the workforce at the 125,000 square-foot facility to 100 employees. Dectron had considered moving the IPAC operations to its facility in Montreal.

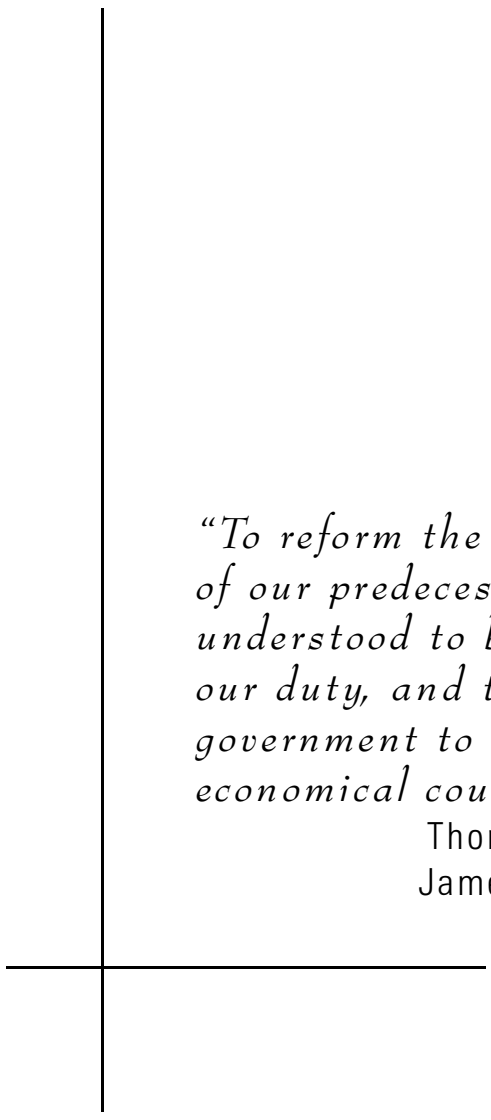
Tourism — Welcoming the World

Tourism is a vital component of New York's economy and for six years has been an essential element of Governor Pataki's agenda to revitalize New York.

- In 1999, travel expenditures in New York State totaled \$35 billion, up from \$32.4 billion in 1998 and \$30.3 billion in 1997.
- Over the same period, travel industry jobs grew from 712,000 in 1997 to 756,000 in 1999, a more than 6 percent increase.
- From 1995 to 1999, domestic travel in New York State increased by 22 percent.

New York is a four-season tourist destination, welcoming travelers to the skyscrapers of Manhattan, the high peaks of the Adirondacks, and the thundering falls at Niagara. Visitors can choose from a wide range of attractions and destinations, including Long Island beaches; Adirondack and Catskill mountains; Hudson Valley mansions; Finger Lakes wineries; New York City's Empire State Building, Statue of Liberty and Chelsea Piers; the National Baseball Hall of Fame and Museum in Cooperstown; and Olympic and other attractions in Lake Placid. Vacationers can also take advantage of great outdoor adventures including golfing, camping, hiking, fishing, boating, canoeing, kayaking, white water rafting, hot air ballooning and cross-country and downhill skiing.

Governor Pataki's 2001-02 Executive Budget continues to build on his unparalleled support for tourism, by providing \$16.8 million for the "I Love NY" and local tourism matching grant programs. As a result, since 1994, direct annual support for tourism will have increased by \$3.2 million, or 24 percent.



*“To reform the prodigalities
of our predecessors is
understood to be peculiarly
our duty, and to bring the
government to a simple and
economical course.”*

Thomas Jefferson to
James Monroe, 1803

Continued Fiscal Responsibility

Governor Pataki's hard-fought battle to restore fiscal discipline to State government — and to reverse a decades-long pattern of fiscal mismanagement and irresponsible spending — has produced huge dividends for the people of New York State.

In December 2000, New York State not only earned its highest credit rating in more than 22 years, but also received its first-ever double credit rating upgrade from a financial rating agency. The State's new credit rating upgrade also thrust New York from 42nd to 23rd among states — the largest single improvement in State history and our third credit rating upgrade in just three years.

The Governor's efforts during the past six years to control spending growth, pass sweeping debt reforms, increase the State's fiscal reserves and enact fiscally sound budgets are clearly working. The fact that the financial community has increased our credit rating once again provides further proof that we are on the right track.

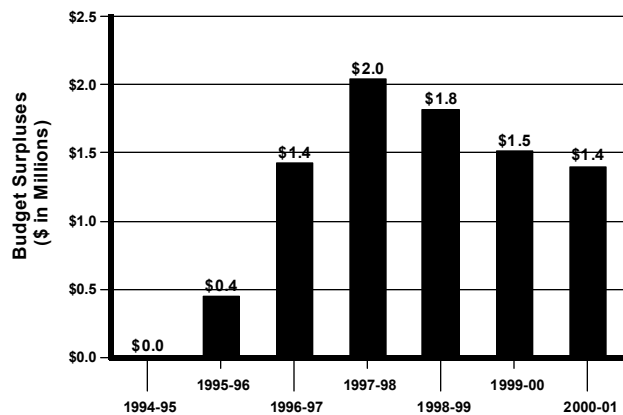
Under the Governor's leadership, New York State has achieved five consecutive budget surpluses — and the sixth is on the way. At the close of the 2000-01 State fiscal year, New York will have recorded its sixth consecutive cash surplus — projected to be \$1.4 billion — and will have an accumulated GAAP surplus in the General Fund of \$1.9 billion.

“The rating upgrade on New York State's debt reflects the State's consistent and successful efforts to improve its financial performance.”

Standard and Poor's,
December 2000

Fiscal Responsibility/Debt Reduction

Governor Pataki's Fiscal Discipline Produces Six Consecutive Surpluses



Governor Pataki's efforts to limit spending growth, reduce taxes and enact responsible budgets have produced six consecutive General Fund cash surpluses.

Governor Pataki's 2001-02 Executive Budget continues the responsible fiscal policies and smart fiscal actions that have proved so successful. The Budget continues to control spending growth and target new spending to critical initiatives, implement previously enacted tax cuts, strengthen our fiscal reserves, reduce and reform debt, and propose improvements to the budget process.

Prudent Fiscal Planning

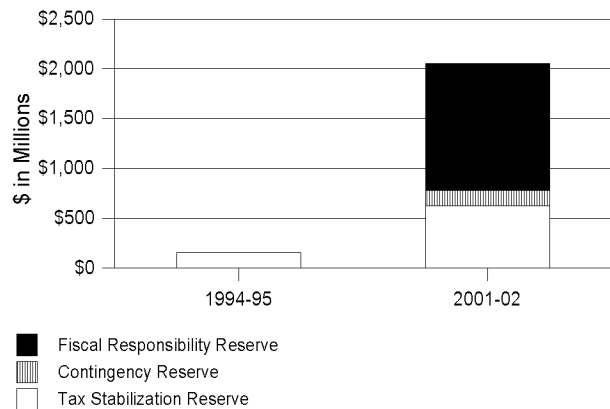
Responsible fiscal management requires setting aside funds for a "rainy day." Under Governor Pataki's leadership, the State has reserved much of its surpluses in recent years — including the entire 2000-01 surplus — to meet future commitments. New York remains well positioned to implement already-enacted tax cuts and other budgetary commitments on schedule, and to weather the potential outyear impact of what many economists indicate is an already slowing economy.

At the close of State Fiscal Year 2001-02, the State's reserves will total \$2 billion — a substantial level that is five percent of the 2001-02 Executive Budget.

Fiscal Responsibility/Debt Reduction

Reserves Have Grown Substantially Under Governor Pataki

Under Governor Pataki, reserves for future commitments and economic uncertainty have grown from roughly \$160 million in 1994-95 to over \$2 billion in 2001-02 — helping to ensure that already-enacted tax cuts and budgetary commitments are implemented on schedule.



Reserves include:

- Setting aside the entire 2000-01 surplus, estimated at \$1.3 billion (after an \$80 million deposit to the “Rainy Day” fund), in a newly-created Fiscal Responsibility Reserve Fund. This will ensure that critical tax cuts and other fiscal obligations are fulfilled in future years, even in the event of a national economic downturn.
- Nearly \$630 million in the State’s “Rainy Day” fund to guard against unplanned financial shortfalls. When Governor Pataki took office in 1995, the “Rainy Day” fund had only \$157 million. In 2000-01, New York will make its sixth consecutive annual deposit of \$80 million — the maximum amount permitted by current law. With this deposit, the size of the State’s “Rainy Day” fund will have increased by 300 percent under the Governor’s leadership.
- A Contingency Reserve Fund of \$150 million for litigation risks, reflecting a \$43 million deposit in 2000-01. The Contingency Reserve Fund has grown from a paltry \$1 million when Governor Pataki took office in 1995.

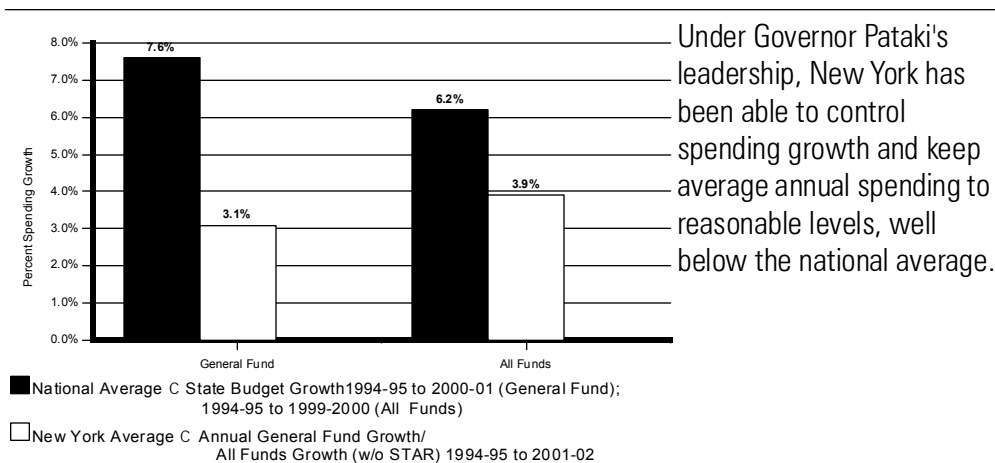
Measurable Results

While New York balances its budget on a cash basis, rating agencies and fiscal analysts also watch its performance as measured by Generally Accepted Accounting Principles (GAAP). Under Governor Pataki, New York has dramatically improved its performance on a GAAP basis. In 1997-98, Governor Pataki eliminated an inherited \$3.3 billion GAAP accumulated deficit. The State now projects a continuing accumulated GAAP surplus of \$1.9 billion through 2001-02. This will mark the fifth straight year the State will have an accumulated GAAP surplus.

Controlling Spending

Since 1995, New York has emerged as a national leader in controlling State spending growth. Independent, bi-partisan data show that average annual spending growth in the State's General Fund during Governor Pataki's time in office has been held to just 3.1 percent — less than one-half of the General Fund average of 7.6 percent for the other 49 states during a comparable time period. Also, when the substantial increases in school aid that have been provided during the past six years are excluded, annual General Fund spending has grown by a mere 1.6%. The State's All Funds spending growth of 4.4 percent (3.9 percent without STAR) has also remained well below the national All Funds average of 6.2 percent growth.

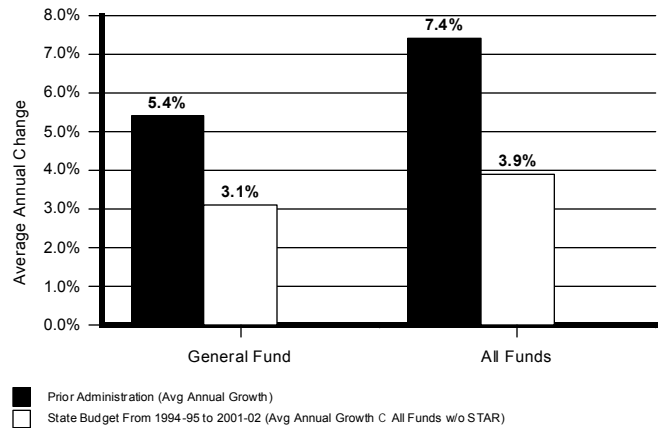
Spending Growth Continues to be Well Below the National Average



Fiscal Responsibility/Debt Reduction

A Six Year Record of Spending Discipline (All Funds and General Fund Growth Nearly Cut in Half)

Under Governor Pataki's leadership, State spending growth has been cut nearly in half, as compared to the prior administration.



When adjusted for inflation, State spending since 1995 has been held nearly flat. During the Governor's six years in office, the average annual growth in all three categories of government spending — All Funds, State Funds and the General Fund — has been cut almost in half when compared to annual growth under the prior administration.

The 2001-02 Executive Budget restrains spending growth in the General Fund — the critically important portion of the Budget supported directly by State taxpayers — at a modest 3.6 percent, with All Funds and State Funds held to 5.3 percent and 4.9 percent, respectively. These levels are all lower than the national average spending growth in recent years.

When the STAR program (which is actually a tax cut) is removed from the calculation, All Funds and State Funds spending growth is actually 4.5 percent and 3.8 percent, respectively. In addition to STAR, the All Funds spending growth reflects an increase in Federal resources of \$1.5 billion, clearly a benefit to New Yorkers and a reflection of the State's ongoing efforts to secure its fair share of funding from Washington, D.C.

Strengthening Our Fiscal Framework

Governor Pataki is again proposing a fiscal and budget reform package for consideration by the Legislature. His recommendations are intended to preserve the remarkable gains in the State's fiscal condition and ensure that future budgets are adopted on time. The recommendations would:

- More than double the permissible contributions to, and size of, the State's permanent "Rainy Day" fund that guards against financial uncertainties, gradually bringing the total in this fund to 5 percent of General Fund spending.
- Amend the Constitution to permanently improve the State's debt practices, ban "back door" borrowing, require voter approval for at least one-half of all new debt and allow multiple General Obligation ballot proposals.
- Encourage a timely budget by advancing the date of the Consensus Revenue Forecasting Conference from March 10 to March 1, and requiring the Legislature to convene conference committees by March 1 to deliberate on changes to the Executive Budget.
- Help legislators make informed budget choices by directing the Division of the Budget to furnish them with a summary report of the financial plan impact of a proposed budget agreement prior to a vote on the budget bills.
- Create a new revenue debt structure to lower the State's costs of borrowing, reduce the number of bonding programs and improve market access.
- Protect State taxpayers by requiring that any tax increase of \$50 million or more be approved by a two-thirds vote of both houses of the Legislature.

Together, these sensible reforms will promote additional sound fiscal management practices and help ensure that State budgets are passed on time.

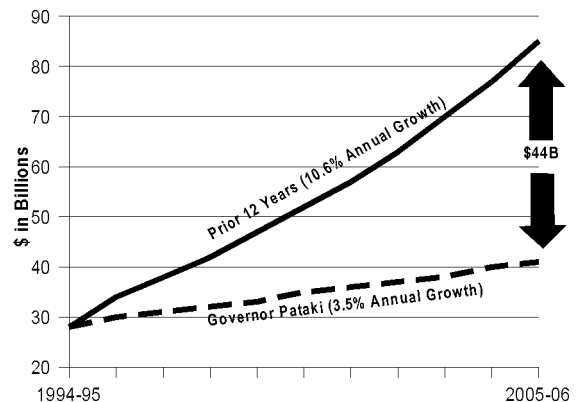
Controlling Debt and Reducing Taxpayer Costs

Governor Pataki's reform of the State's debt management practices has reduced both the costs and growth of State debt. Under the Governor's leadership:

- The growth in State debt has been cut by two-thirds.
- The Governor's Debt Reduction Reserve Fund has been used to reduce high-cost debt and increase pay-as-you-go spending, and will generate \$1.2 billion in savings to taxpayers.
- The State's credit rating has been upgraded three times in three years to the highest level since 1979 — a clear affirmation from the financial community that the Governor's efforts to reform the State's borrowing practices and make fundamental changes in fiscal management have brought financial discipline to New York State.

Governor Pataki Has Reduced Growth in State Debt

Average annual growth in State debt under Governor Pataki has been restricted to 3.5 percent — dramatically lower than the 10.6 percent rate of growth experienced from 1983-84 to 1994-95.



Using the Debt Reduction Reserve Fund to Save Taxpayers Billions of Dollars

In 1998-99, the Governor established the Debt Reduction Reserve Fund (DRRF) and set aside available one-time resources to reduce State-supported debt and taxpayer costs.

In 2000-01, about \$425 million in DRRF funds will defease high-cost debt and \$75 million will finance bonded capital projects with cash — saving taxpayers \$800 million in planned debt service costs, including \$300 million in interest costs. The \$250 million DRRF balance will be used to finance highway and bridge projects in lieu of using bond financing. By replacing the planned bonded program with pay-as-you-go resources, New Yorkers will save approximately \$400 million in debt service costs, including \$150 million in interest.

Additional deposits to DRRF, which would build on the Governor's successful efforts to reduce State debt levels and lower taxpayer costs, will remain a key priority to the extent that any additional resources become available during the budget process.

Debt Reform Act of 2000 — Controlling Overall Debt Levels

The Governor's Five-Year Capital Plan recommends needed investments in the State's most critical capital infrastructure. A responsible mix of bonding and pay-as-you-go resources will ensure that new debt remains below the caps and limitations imposed by the Debt Reform Act, which Governor Pataki successfully achieved last year, and that future generations will not be saddled with an unaffordable debt burden. The Act:

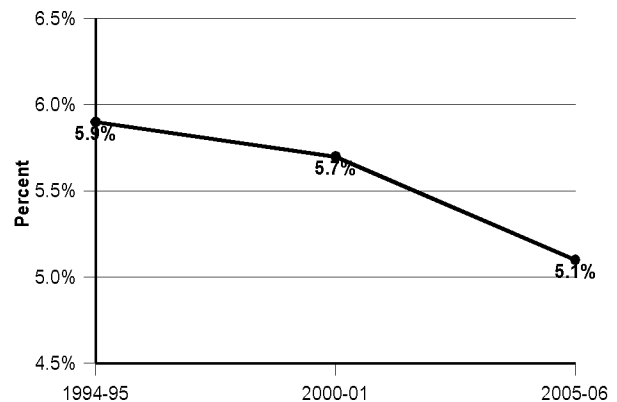
- Caps all new debt outstanding at 4 percent of personal income — a dramatic one-third reduction from the current level of about 6 percent of personal income. Over the Five-Year Capital Plan, the average annual growth in total debt outstanding is limited to 2 percent, well below the average annual growth in personal income of 4.2 percent.

Fiscal Responsibility/Debt Reduction

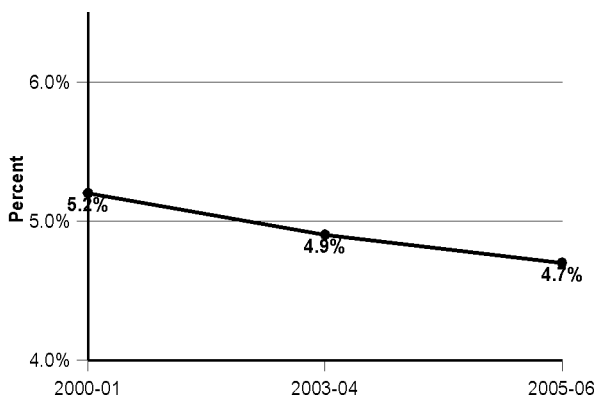
- Caps all new debt service costs at 5 percent of All Funds receipts — ensuring that debt service costs do not grow disproportionately, as they did in the 1980s and early 1990s. Thus, over the Five-Year Capital Plan, debt service as a percent of All Funds receipts declines.
- Restricts the use of debt to capital purposes only and limits the maximum term of State debt to 30 years — ensuring that debt is not used for fiscal gimmicks and that exceptionally long maturities do not dramatically increase debt service costs.

Debt Outstanding as a Percent of Personal Income Declines

Debt affordability continues to improve over the Five-Year Capital Plan — total debt outstanding as a percent of personal income declines from 5.9 percent in 1994-95 to 5.1 percent in 2005-06.



Debt Service Costs Decline As a Percent of Revenues



Over the Five-Year Capital Plan, the percentage of All Funds receipts devoted to debt service costs declines from 5.2 percent in 2000-01 to 4.7 percent in 2005-06, ensuring that debt costs remain affordable.

Pursuing Constitutional Debt Reform

The Governor will resubmit his Constitutional Debt Reform bill to ensure that the statutory caps and other debt limitations imposed by the Debt Reform Act of 2000 are made permanent. The Governor's bill, which has already unanimously passed the Senate, will:

- Constitutionally mandate the State-supported debt outstanding and debt service caps now imposed by the Debt Reform Act of 2000.
- Ban "back door" borrowing.
- Authorize a limited amount of Revenue Debt — ensuring that at least one-half of all new debt is approved by the voters.
- Authorize multiple general obligation bond act proposals.

Using Revenue Bonds to Reduce Taxpayer Costs

To further improve the marketability and lower the cost of the State's debt, Governor Pataki is proposing legislation that will authorize the State to convert more of its debt portfolio to bonds backed by dedicated revenues. This initiative:

- Pledges 25 percent of broad-based personal income tax receipts to "guarantee" the State will satisfy the debt service obligation due on the new revenue-backed bonds.
- Expands the investor base for State obligations by providing the marketplace with a new, highly-rated, secure debt instrument.
- Permits the State to consolidate its current bonding programs and is projected to reduce taxpayer costs by \$20 million in 2001-02.

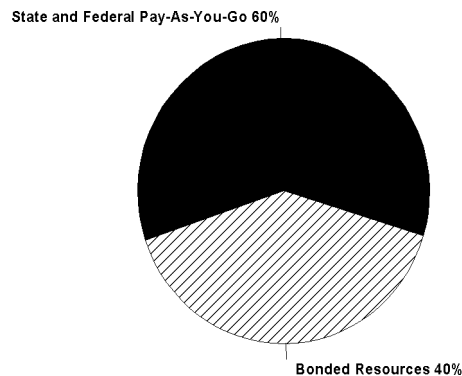
Targeting Capital Spending

The Five-Year Capital Plan submitted with the Executive Budget finances high-priority capital projects that promote economic development, rebuild our transportation network, protect the environment, health and safety of New Yorkers, and educate our children.

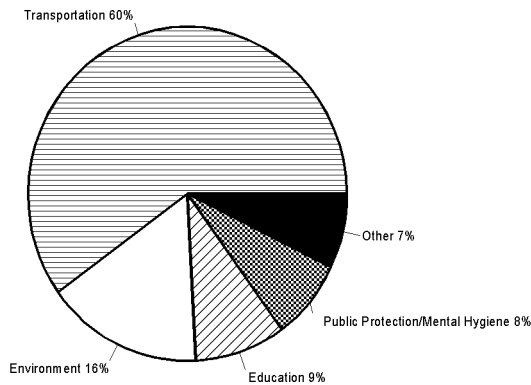
Capital spending will average \$4.8 billion annually over the Five-Year Capital Plan. The Plan ensures that, on average, 60 percent of annual spending is financed with pay-as-you-go resources, keeping debt levels well within the limitations imposed by the Debt Reform Act.

60 Percent of Capital Spending Financed with Pay-As-You-Go Resources

Using a greater share of pay-as-you-go resources to finance capital projects reduces the State's reliance upon debt. Under the Governor's Capital Plan, the portion of capital spending financed with pay-as-you-go resources averages 60 percent.

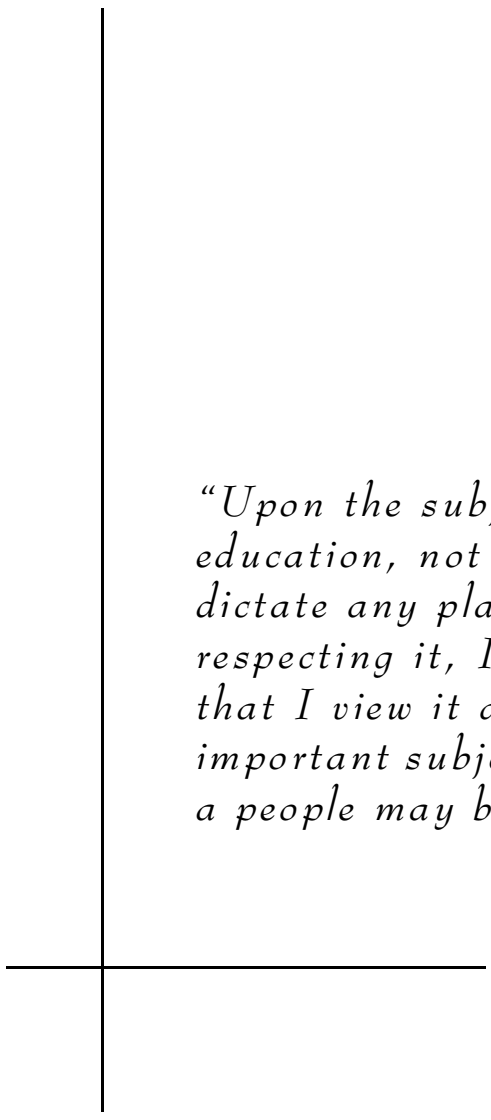


Capital Spending Targeted to Critical Investments



Over the life of the Five-Year Capital Plan, transportation projects will continue to account for the largest share of spending, followed by those related to the environment, higher education, public protection, mental hygiene, housing and economic development.

- Transportation capital spending, which will preserve vital investments in infrastructure that encourage economic development, accounts for 60 percent of spending within the Five-Year Capital Plan.
- Higher education capital spending will continue to develop campus facilities and dormitories, ensuring that state-of-the-art educational facilities foster the development of a highly productive workforce.
- Environmental spending, including new funding for the Superfund, will continue to protect New York's environmental landscape.
- Public protection capital spending will ensure that correctional facilities are adequately maintained.



*“Upon the subject of
education, not presuming to
dictate any plan or system
respecting it, I can only say
that I view it as the most
important subject which we as
a people may be engaged in.”*

Abraham Lincoln

Education in New York: Building a New Foundation for the Future

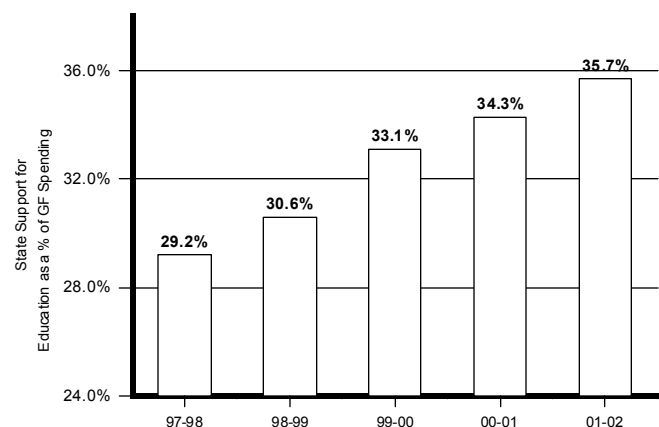
New York's future has never been brighter, but we must take decisive action now to ensure that the state of our State is even stronger in the years ahead. That begins with making sure that we have the best schools and the best educated children in America.

New Yorkers have made generous investments toward achieving that goal, with record-breaking school aid increases over the past four years. Governor Pataki's \$14.1 billion 2001-02 school aid recommendation will raise the increase that has been provided to our schools during the past five years to a remarkable \$3.8 billion. It will also represent the highest level of school aid funding in the State's history.

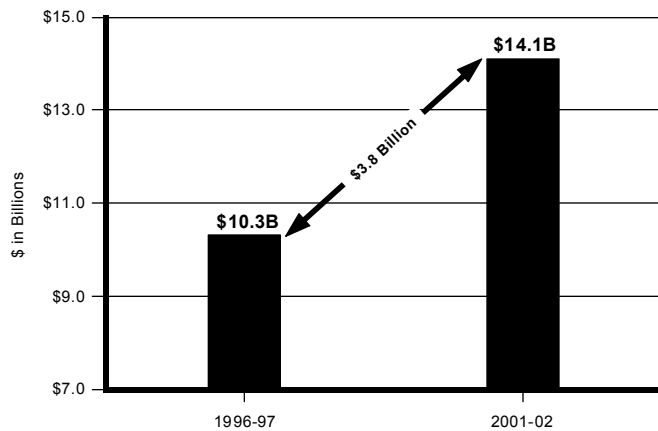
As a result of these unprecedented investments, State support to schools now accounts for more than 35 percent of the State's General Fund budget — up from 27 percent when the Governor first took office. Through the combination of school aid and the STAR school tax relief program, New York now supports over 47 percent of local spending on education statewide, compared to 39 percent just six years ago.

Record Amounts of Support for Education Under Governor Pataki

State support for education, as a percentage of total General Fund spending, has increased to more than 35 percent in 2001-02.



\$3.8 Billion Increase in State Aid to Public Schools Under Governor Pataki



Under Governor Pataki, State support for public schools has increased \$3.8 billion, or 36 percent since 1996-97. This growth is nearly three times the rate of inflation.

However, money alone will never solve the serious challenges facing our students every day. This year, Governor Pataki is proposing to overhaul the current school aid formula and give school districts the flexibility they need to use their resources in the most appropriate manner possible.

To meet the demands of the State's higher learning standards, our schools must be empowered to improve educational performance. The Governor's education agenda for the coming year will help our schools meet their local priorities and respond to the needs of the future guided by the following basic principles. His plan would:

- Simplify and reduce the number of existing funding formulas;
- Provide schools with greater flexibility in the use of State aid;
- Provide schools with incentives for improved performance;
- Redesign operating aid to recognize regional cost variations and special needs students;
- Require school districts to target aid to address identified educational deficiencies;
- Provide schools that meet State standards with full flexibility in the use of their State aid;
- Target additional resources to high needs districts;
- Improve equity by leveling up rather than through redistribution;

- Direct more dollars to the classroom with an emphasis on teaching; and
- Encourage cost-efficiency by expanding Wicks Law exemptions and providing schools with access to Dormitory Authority construction management and financing services.

“Flex Aid” — Foundation for the Future

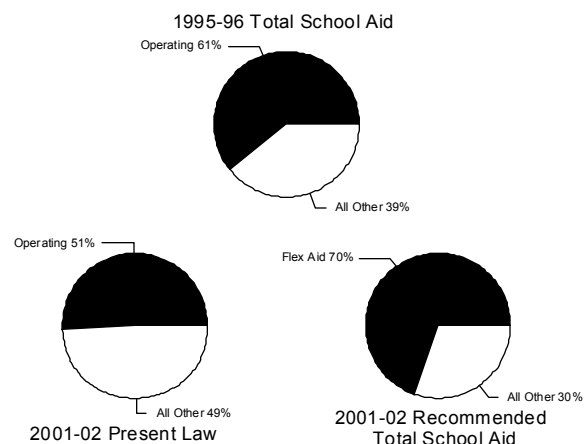
Flexible operating aid is the cornerstone of the Governor's program for schools. The amount of operating aid provided to schools across the State will be dramatically expanded for the coming year to allow schools to direct new resources, as well as existing State funds, to meet educational needs and priorities identified at the local level.

In 1995-96, flexible operating aid represented 61 percent of total school aid. If the existing formulas were left unchanged, that proportion would drop to 51 percent in 2001-02 — a trend that would mean less flexibility at the local level.

Under the Governor's 2001-02 Executive Budget proposals, flexible operating aid to school districts would grow to comprise nearly 70 percent of total school aid funding, reversing the current trend.

Maximizing Flexible Operating Aid

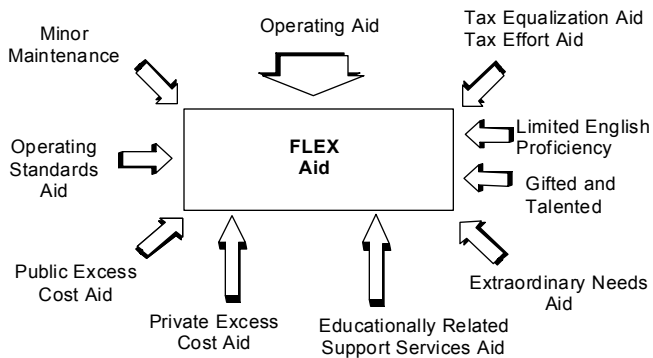
Governor Pataki's proposed school aid formula targets nearly 70 percent of all school aid for flexible operating purposes to be used by school districts to meet performance standards.



A New \$9.8 Billion Flex Aid Program

Governor Pataki's 2001-02 Budget creates a new \$9.8 billion aid program — Flex Aid — for the 2001-02 school year by consolidating 11 existing separate aid formulas into a new comprehensive operating aid formula. Within the overall \$382 million school aid increase — the third largest education aid increase ever proposed by a governor — \$250 million in additional funding is provided through Flex Aid.

Flex Aid: A Common Sense, Student-Based Approach



The Governor's Executive Budget proposes to consolidate 11 separate categories of aid into a new aid — "Flex Aid." This new aid category will target over \$9.8 billion in flexible support to school districts.

Under the new Flex Aid program:

- Nearly 70 percent of total school aid will be provided through the new, simplified Flex Aid formula.
- All school districts will be provided a Flex Aid increase of at least one percent.
- There will be no artificial limit on the maximum Flex Aid increase a school district can receive.
- Flex Aid increases will be allocated using measures of educational and economic need proposed by the Regents, including a poverty measure and a regional cost factor.
- Nearly 70 percent of the Flex Aid increase will be targeted to high-needs school districts, including New York City and other needy urban and rural areas.

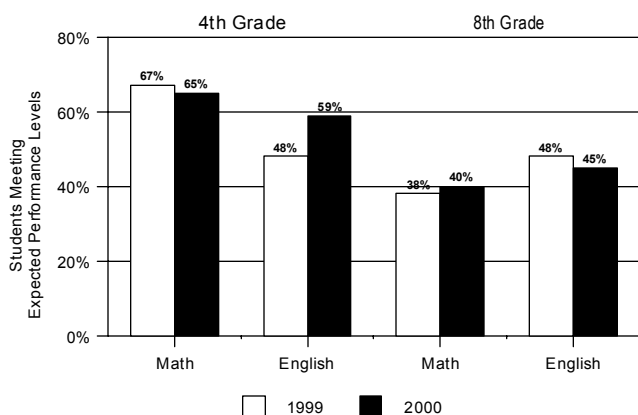
- Performance measures will be incorporated within the Flex Aid formula to reward school districts for improved educational performance as measured by statewide achievement tests and graduation rates.
- Set-asides within Flex Aid will be established for school districts with identified educational deficiencies to ensure that funds are directed to remedy these problems.
- A set-aside will also be established within Flex Aid to continue minor maintenance activities undertaken by the New York City Board of Education.
- School districts that meet the State's educational standards will be provided full flexibility in the use of their Flex Aid.

Improving Performance and Meeting Standards

The record levels of State funding provided to local schools have failed to produce a commensurate improvement in student performance on statewide achievement tests. The recently announced results of the State's 4th and 8th grade mathematics and English assessments show a mixed picture.

Percent of Children Meeting Expected Performance Levels

Recent statewide test results for 4th and 8th graders reveal that significant numbers of children are failing to meet expected performance levels in both math and English.



- On the 4th grade English assessment, 59 percent of the students met the expected performance level — up from 48 percent in 1999.
- On the 4th grade mathematics assessment, 65 percent of the students met the expected performance level — down from 67 percent in 1999.
- On the 8th grade English and mathematics assessments, fewer than half the children met the expected performance level.
- In the State's Big 5 City school districts (New York City, Buffalo, Rochester, Syracuse and Yonkers), fewer than half of the 4th graders met expected performance levels in mathematics, fewer than 25 percent of 8th graders met expected performance levels in mathematics and fewer than 35 percent in English.

The educational performance problems of our Big 5 Cities are further underscored by the concentration of Schools Under Registration Review (SURR) — i.e., schools failing to meet statewide educational standards — within these urban areas. According to a recently released listing by the State Education Department, 111 of the State's 114 SURR schools are located in the Big 5 Cities, with 98 in New York City alone.

Governor Pataki's initiatives to encourage improved educational performance statewide, with a particular focus on the Big 5 Cities include:

Performance Funding: Under the new Flex Aid program, all school districts will be provided additional aid to implement the State's higher learning standards. Certain school districts with identified performance deficiencies would be required to target or "set-aside" funds to address these deficiencies. This mandatory set-aside would be phased out as performance improves. In addition, increased aid would be provided prospectively to schools for improved performance on statewide achievement tests and graduation rates.

Schoolwide Performance Incentive: A new \$7.5 million pilot program will be established to provide incentive funding to recognize and reward educational improvement in the Big 5 Cities through schoolwide, performance-based awards.

Improving Pupil Performance/Categorical Reading: The \$130.3 million currently provided to the Big 5 Cities under the Improving Pupil Performance and Categorical Reading programs will be more effectively targeted. As a prerequisite for receiving these funds, school districts will be required to submit allocation plans that direct this aid to schools with performance problems, as well as reward those schools that demonstrate improved performance.

Academic Intervention for Nonpublic Schools: A new \$5 million program will be created to support academic intervention services to enhance the educational performance of students attending nonpublic schools.

Recruiting and Retaining Qualified Teachers

Without an adequate supply of qualified teachers, our schools will have difficulty meeting the State's new higher learning standards. The 2001-02 Executive Budget significantly expands the Governor's successful Teachers of Tomorrow program to assist school districts in their efforts to increase the supply of qualified teachers. Funding for the Governor's Teachers of Tomorrow program will be doubled in 2001-02 from \$25 million to \$50 million.

For the coming year, Governor Pataki proposes a seven-point plan to enhance and expand teaching initiatives included within Teachers of Tomorrow to help recruit, retain and upgrade the skills of more than 10,000 teachers this year and 50,000 teachers over the next decade. The new proposals include:

Alternative Certification: To increase the supply of teachers for identified shortage areas, alternative credentialing avenues will be advanced for those persons having appropriate life experience and education — including candidates from other programs such as Teach for America and Troops to Teachers. Teachers of Tomorrow grants would be available to support pre-service and in-service training for alternative certification candidates during their first two years of teaching.

Career Ladders: Paraprofessionals work daily in the classroom environment and represent an excellent source of certified teachers. Grants under the Teachers of Tomorrow program will be provided to enable paraprofessionals — who often lack the resources to attain teacher certification — to pursue the coursework and training required to become certified teachers.

Retirees: Many retired police officers, firefighters and other public employees would consider entering teaching, if not for the cap on public salary for those already collecting a public pension. For identified teacher shortage areas, a waiver would be provided to exempt these retirees from the existing salary cap.

New Teacher Induction Program: New teachers often become discouraged during the initial years of their teaching experience. To encourage new teachers at our low-performing schools to remain in the profession, intensive professional support and counseling will be provided to these teachers in their first years of service.

Teacher Retirement: A pension proposal will be advanced that provides an incentive for dedicated and talented teachers to continue their teaching careers beyond the eligible retirement age at our hard-to-staff schools.

Math and Science Fellowships: Enriched recruitment scholarships will provide even greater incentives to attract qualified math and science teachers to hard-to-staff schools.

Math and Science Academies: To improve the quality of math and science teaching, State funds matched by schools will be provided for teachers to attend summer college enrichment programs in science and math.

These new initiatives will augment the current activities of the Teachers of Tomorrow program, which was proposed by Governor Pataki and enacted last year, including:

Recruitment Scholarships: Awards of up to \$3,400 per year — the SUNY tuition level — are provided to new teachers who agree to teach in designated shortage areas for up to four years of service based on satisfactory performance in each preceding year.

Certification Stipends: To help teachers with temporary licenses obtain permanent certification, stipends of up to \$2,000 per year are provided to cover the cost of test preparation workshops and tuition for required course work. These stipends are supported equally by State and local school district funds.

Tuition Reimbursement: Provisionally certified teachers may receive \$2,100 per year in tuition reimbursement for up to two years to pursue additional education and training to serve as permanently certified teachers in shortage areas.

Master Teacher Awards: Annual awards of \$10,000 are available for up to three years for master teachers with national certification who agree to work in low-performing schools.

Summer in the City Internship Program: This program encourages undergraduate students to gain classroom experience in the State's inner-city schools through summer internships. More than 200 students successfully participated in this program during summer 2000.

Teacher Recruitment/Summer Teacher Training Grants: New York City is authorized to use funding from its Teachers of Tomorrow grant for teacher recruitment activities and for intensive summer orientation/training programs for first-time teachers.

Advantage Schools

The Advantage After-School Program currently operates at 133 sites across the State, and provides more than 20,000 students with structured, supervised educational and social activities that complement instructional programs offered during regular school hours.

Through the expansion of public-private partnerships (such as those with The After-School Corporation funded by George Soros) and increased State support to \$30 million this year, which would double the size of the program, all school districts will be provided the opportunity to offer after-school programming over five years.

Greater Local Accountability

The recent record growth in education funding creates an even greater need for systemic changes and incentives to encourage school districts to improve their accountability to families and taxpayers. For 2001-02, the Governor recommends the following reforms:

School Governance: Legislation will be advanced to provide the mayors and city governing boards of our largest cities with greater oversight responsibility for their urban school systems. This reform will make these elected officials, who are directly accountable to families and taxpayers, accountable for our urban schools.

Maintenance of Effort: School governance changes for our urban schools will be accompanied by a new Maintenance of Effort provision to ensure that Big 5 City schools realize the full benefit of State and Federal funding increases, and to protect these schools from disproportionate reductions in local support.

School Spending Cap: School district spending increases will be capped to ensure that STAR savings are not eroded by excessive school spending. Under the Governor's proposal, a school district's annual spending increase could not exceed 4 percent or 120 percent of the increase in the Consumer Price Index for the prior year, whichever is less, without a two-thirds majority vote.

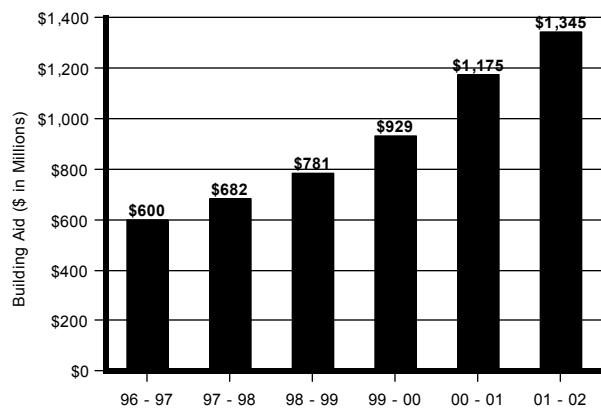
School Facility Report Cards: Beginning with the 2002-03 school year, school districts will be required to inform taxpayers and families of the maintenance and overall condition of school facilities within the district.

Building Aid Reforms

New York has one of the most generous school construction aid programs in the nation. The 2001-02 Executive Budget provides more than \$1.3 billion for school construction in the coming year, an increase of \$170 million over the prior year. Since 1996-97, building aid has increased by 124 percent, affording our children safer learning environments.

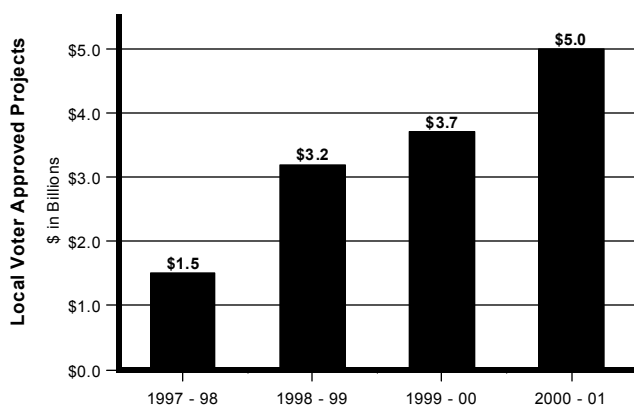
Record Support for School Facilities

In 2001-02, New York will provide \$1.3 billion to support the cost of new and modernized school facilities, a record level of support.



Currently, State funding for school construction is provided through an open-ended formula that fails to effectively target funds to priority needs such as aging infrastructures or overcrowded classrooms. Unsustainable growth in school construction threatens to exhaust the availability of State resources to support other educational priorities, including local school efforts to meet the State's new higher learning standards.

Unprecedented Growth in Local Voter Approved School Construction Projects



Since 1997-98, the volume of locally approved school construction projects has more than tripled — generating unprecedented levels of building aid.

To ensure that our school facility investments are equitably and effectively targeted to address priority facility needs, the 2001-02 Budget proposes the following building aid reforms:

Priority-Based Project Selection: The existing open-ended building aid program will be replaced with a new priority-based program, which will apply to all projects approved by the State Education Department (SED) after January 15, 2001. Facility condition surveys — which all school districts are required to submit by January 15, 2001 — will be used to establish a state-wide baseline of school facility needs. SED will then select projects for funding on a quarterly basis consistent with established priority categories, such as health/safety or overcrowding. Projects not selected in a given quarter will be given consideration for funding in the subsequent quarter.

New Building Aid Allocations: For projects approved under the new priority-based system, \$130 million in funding will be provided for priority projects (e.g., health/safety, overcrowding), \$30 million will be provided for emergency projects, and \$60 million for hard dollar projects.

Regional Allocations: Under the new building aid reforms, New York City could receive no less than 40 percent of available funds (unless its actual aid claims fell below such amount), and no more than 60 percent of available funds. In addition, no other individual school district could receive more than 20 percent of available funds in any given year.

Simplified State Aid Calculation: Projects approved by local voters by January 15, 2001 will have no change in their existing building aid ratios. State aid for projects approved by local voters after January 15, 2001 will be based on the school district's aid ratio at the time of project approval — supplemented by the existing 10 percent enrichment — and school districts will no longer be provided a multi-year choice of aid ratios. In addition, there will be a simplified rated capacity determination to reflect realistic allowances for construction costs and student-based space needs.

Building Aid Prohibition: No State building aid will be provided for buildings that have not been properly maintained, for projects that result from design flaws or contractor negligence or incompetence, for buildings that are less than 20 years old, or for spaces that are leased out.

Assumed Amortization: State building aid will be provided on an assumed amortization basis, consistent with the useful life of projects (i.e., 15 years for reconstruction, 20 years for major reconstruction/additions, and 30 years for new construction). Assumed amortization will be applied to all new projects as well as most existing projects.

Adjusted Building Aid Payments: Although assumed amortization may initially reduce the building aid payments received by school districts for existing projects, no local tax increases will be required as a result of this change. School districts will have the option of refinancing their existing debt, and school districts that choose to refinance will receive building aid on their issuance costs and additional interest expense. If school districts align the term of their bonds with the amortization schedule, the combination of principal costs and interest costs in the initial year will not exceed the amount the school district would otherwise pay under its existing bond payment agreement.

Mitigating the Impact of Assumed Amortization: To facilitate the ability of school districts to refinance their existing debt, actions will be taken to:

- Authorize the Dormitory Authority to provide school districts with pooled financing opportunities;
- Provide all school districts the 30-year amortization period provided for New York City; and
- Exempt certain school district indebtedness from assumed amortization — such as bonds that cannot be refinanced due to IRS limitations, or where there are extraordinary circumstances that warrant a waiver of such requirements.

Wicks Exemption: School districts will be provided an exemption from Wicks Law requirements that mandate the use of multiple contractors for school construction projects. This initiative will reduce the cost of school construction by more than 10 percent.

Early Education Programs

Prekindergarten Programs

The 2001-02 Executive Budget continues State support for Universal Prekindergarten programs at \$225 million — the same amount provided in 2000-01. Since school districts spent only \$173 million in 2000-01, the funding level proposed for 2001-02 will permit school districts to begin or expand prekindergarten programs. In addition, \$50.2 million is continued for experimental prekindergarten programs.

Class Size Reduction

A total of \$140 million in State funding is continued for class size reduction efforts in grades K-3. This State support will be supplemented by over \$141 million in Federal class size reduction funding — an increase of \$28 million from 2000-01.

Educational Technology

Fund for Innovation

A new \$15 million “Fund for Innovation” will be created to support innovative applications of educational technology in the Big 5 City school districts, replacing the current \$57 million educational technology program that directs relatively little support to the Big 5 Cities and other high-needs districts.

Computer Software/Hardware

A 10 percent, or \$4 million, funding increase will be provided to support computer software purchases by school districts in the coming year, accompanied by a \$500,000 increase in computer hardware aid.

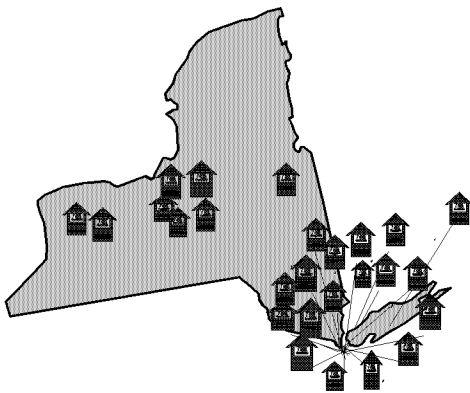
Expanding School Choice

One of the fastest growing educational movements in the country is public school choice. When New York's first charter schools opened in September 1999, 1,700 students were enrolled in three new charter schools, as well as two conversion charter schools. In 2000-01, more than 6,200 students were enrolled in 22 charter schools across the State. For the coming year, there will be at least 30 charter schools in New York, with enrollments of more than 7,600 students.

New York's Charter Schools Program Act has changed the face of our State's public education system. In 2001-02, at least eight additional charter schools will open across the State. The Board of Regents recently approved six more schools that will open in September 2001, the Charter Schools Institute of SUNY approved two more schools that will also open in September 2001, and the SUNY Trustees are currently reviewing 12 other applications.

The State will continue to provide \$6 million in support for the Charter School Stimulus Fund to help meet facility needs and other charter school start-up costs. Additional resources for charter school implementation will also be available from Federal charter school grants.

Charter Schools



Charter schools have increased from 5 in 1999-2000 to at least 30 in 2001-02. More than 7,600 students and their families will benefit from Governor Pataki's commitment to charter schools in New York State.

Other initiatives to promote greater educational opportunities for children include:

SURR School Choice: New opportunities will be provided for children trapped in failing schools, known as Schools Under Registration Review. Under the Governor's proposal, any student attending a SURR school in our largest urban districts will be eligible to transfer to another school within the same district.

Summer English Language Immersion Programs: Children with deficiencies in English will be provided expanded opportunities for enhancing their language skills through summer immersion programs provided through a collaboration between the City University of New York and the New York City Board of Education.

Providing Safe and Secure Schools

Last year the Legislature enacted the Governor's Safe Schools Against Violence in Education (SAVE) initiative, which incorporated recommendations of the Task Force on School Violence chaired by Lieutenant Governor Mary Donohue. This legislation represents the most comprehensive plan in the nation to ensure the safety and well-being of school children. Specific components of the legislation are being implemented across the State, including:

Civility, Character, and Citizenship Education: Instruction in grades K-12 will teach children about principles such as honesty, tolerance, personal responsibility, respect for others, observance of laws and rules, courtesy and dignity.

Fingerprinting: All prospective school employees and candidates seeking educational certification will be fingerprinted to obtain a criminal background check. A registry of persons convicted of abuse in an educational setting will be maintained to ensure our children's safety while in school.

Assaults on Teachers: Assaults on teachers or other school personnel that result in injury are now classified as felonies rather than misdemeanors.

Code of Conduct: Each Board of Education is required to establish a detailed student code of conduct that outlines appropriate standards for student language, dress and behavior as well as procedures relating to discipline, detention, suspension, and expulsion.

Disruptive Children: Teachers will now have the authority to remove disruptive pupils from the classroom.

Comprehensive School Safety Plans: Each school district will develop a school safety plan in consultation with law enforcement agencies for crisis response and management, including policies and procedures for responding to threats and acts of violence.

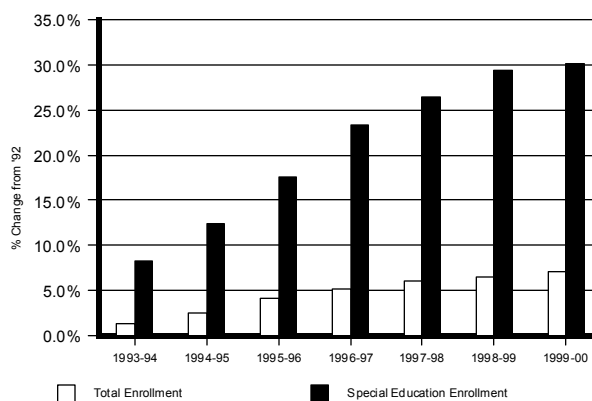
For the coming year, legislation will be advanced to strengthen the penalties associated with the use, sale or possession of firearms on school grounds. Legislation will also be advanced to conform the responsibilities of the State Education Department for conducting criminal background checks with those of the Office of Children and Family Services in relation to persons seeking employment with childcare providers.

Special Education Reform

New York's special education system has come under criticism for providing inappropriate financial incentives for placing children into special education. Faced with a possible loss of Federal funding, the State enacted changes to its special education financing system in 1999 to encourage school districts to serve more disabled children in regular classroom settings. While these reforms were initially intended to address Federal concerns about the segregation of disabled children from their non-disabled peers, more fundamental reforms are necessary to address existing disincentives that contribute to excessive referrals to special education.

Alarming Growth in Special Education Placements

The growth in the number of children receiving special education services continues to far outpace the overall enrollment growth rate.



Effective in the 2001-02 school year, the Governor is proposing a comprehensive reform of special education that will be accomplished through the consolidation of special education funding into the new Flex Aid formula. The inclusion of special education funding within Flex Aid will ensure that no school district loses aid. Aid increases will be provided based on the district's overall enrollment growth rather than the number of children placed in special education. The proposed reforms would:

- Eliminate existing financial incentives for unnecessary referrals to special education;
- No longer base aid allocations on special education placements; and
- Address inaccuracies identified in a recent audit of special education funding.

Cultural Resources

In 2001-02, Governor Pataki will again propose the creation of a new Office of Cultural Resources (OCR) to promote recognition and visibility of the important cultural programs administered by the State Museum, the State Library and the State Archives.

Programs from the State Education Department (SED) would be transferred to the new OCR, which would:

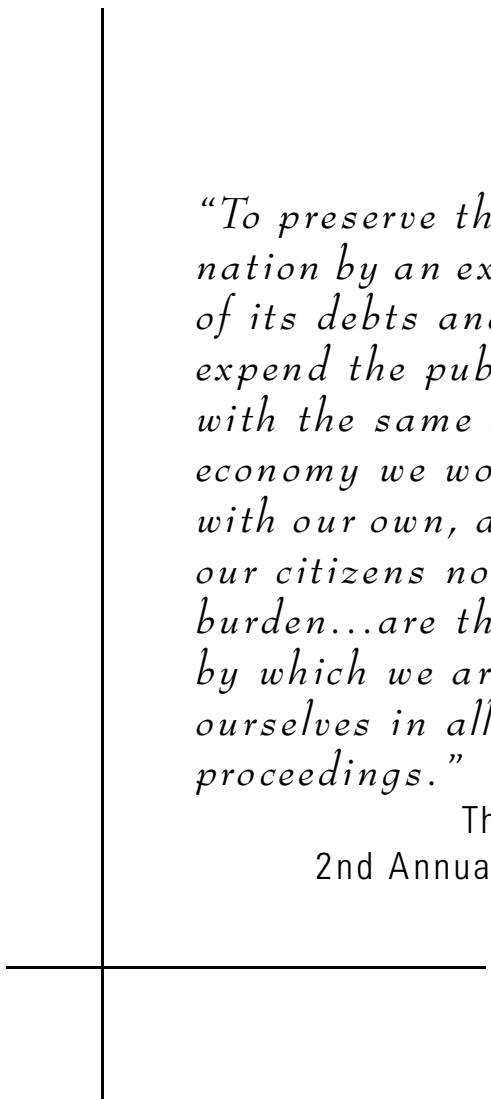
- Provide overall leadership for developing the State's cultural resources in partnership with local governments, non-profit organizations and the private sector;
- Use state-of-the-art technology to transform the State Museum into a more vibrant and attractive resource to showcase New York's heritage; and
- Provide greater opportunities for the State Library and the State Archives to emerge as world-class information centers.

The Office of Cultural Resources would be headed by a nine-member Board of Trustees appointed by the Governor and confirmed by the Senate. The Board would provide the general oversight of the Office and would appoint an Executive Director, responsible for its day-to-day operations. Funding for the operations of OCR and related grant programs would be transferred from SED and budgeted under the Council on the Arts.

Professions

Operational efficiencies in the State Education Department's Office of the Professions have resulted in an accumulated surplus of \$15 million in professional licensing fee revenues. These dedicated revenues were funded by professionals, who are entitled to a refund of any amount in excess of actual need. The Governor is calling for the return of this surplus, in the form of a one-time rebate in license renewal fees, to the licensed professionals to whom these fees are charged.

The rebates will equal approximately 30 percent of the license renewal fee for eligible professionals and will be provided as licenses come due for renewal (i.e., once over the next three years). Eligibility for the rebates will be provided to approximately 568,000 professional practitioners in 35 professions — including acupuncture, accountancy, dentistry, massage therapy, pharmacy, psychology, registered nursing and veterinary medicine — whose professional conduct is subject to SED's oversight.



“To preserve the faith of the nation by an exact discharge of its debts and contracts, expend the public money with the same care and economy we would practice with our own, and impose on our citizens no unnecessary burden...are the landmarks by which we are to guide ourselves in all our proceedings.”

Thomas Jefferson:
2nd Annual Message, 1802

Reducing Property Taxes Across New York State

In 1997, Governor Pataki proposed the largest and most sweeping property tax reduction in State history — the School Tax Relief or STAR program. During fiscal year 2001-02, this program will be fully implemented and save New Yorkers \$2.6 billion annually.

Governor Pataki's STAR program has successfully provided school tax relief for millions of New Yorkers. Now, his 2001-02 Budget proposes a new program — Co-STAR — which would provide additional local property tax relief to seniors and farmers across the State.

Co-STAR: New County Tax Relief for Seniors and Farmers

Governor Pataki is proposing a dramatic \$230 million Co-STAR tax cut for county taxpayers, modeled after his historic and successful STAR school tax reduction program. Co-STAR, which will target 700,000 income-eligible senior homeowners and farmers across the State, would save seniors more than \$300 and farmers more than \$200 each year on average. Co-STAR would also cut the New York City personal income tax by \$120 for married senior couples and \$60 for individual seniors each year.

When fully phased in, Co-STAR would totally eliminate the county tax burden on as many as 200,000 seniors and farmers. When Co-STAR is combined with the original STAR program, the average senior homeowner would save more than \$1,200 in local property taxes each year, and the average farmer would save more than \$800 annually.

What is STAR?

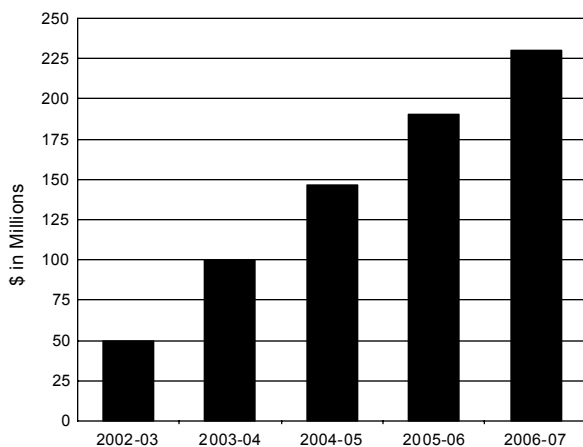
- STAR is school property tax relief provided through "exemptions" from the taxable value of homes. A senior receiving a \$50,000 STAR "exemption" has \$50,000 subtracted from the taxable value of his or her home when school taxes are billed.
- Homeowners age 65 and older having incomes of \$60,000 or less are eligible for the \$50,000 senior STAR exemption.
- For a \$100,000 home, a \$50,000 STAR exemption cuts the taxable value of the home and the school tax bill in half. For a \$150,000 home, the \$50,000 exemption would reduce the taxable value and tax bill by one-third.
- Other homeowners were eligible for a \$10,000 exemption in 1999-00, growing to \$20,000 in 2000-01 and \$30,000 in 2001-02.

Reducing Property Taxes

In New York City, when Co-STAR is combined with the original STAR program, seniors will pay approximately 15 percent less in City income taxes.

- Seniors that qualify for the existing Enhanced STAR exemption will be eligible to receive a Co-STAR tax rebate equivalent to a \$50,000 exemption from the taxable value of their primary residence for county tax purposes.
- The \$50,000 exemption will be phased in over five years, starting with a \$10,000 exemption from county taxes in 2002, with an increase of \$10,000 in the exemption in each of the following four years.
- Most farm residences would receive a tax rebate equivalent to a \$30,000 exemption from county taxes, beginning in 2002 with a \$10,000 exemption and \$10,000 increases during each of the following two years. To qualify, a farm residence must be associated with a working farm already eligible to receive other agricultural tax benefits.
- Seniors and farmers will receive their tax savings in the form of a rebate check from the State after county taxes are paid.

Co-STAR - Growth in Total Dollar Savings Over 5 Years



Governor Pataki's new Co-STAR program will save senior citizens and farmers over \$230 million once fully phased in. Total taxpayer savings will begin at \$50 million in 2002-03, and will grow annually as Co-STAR exemptions are phased in.

STAR Participation Continues to Grow

Governor Pataki initially proposed STAR in response to the concerns of countless homeowners — particularly senior citizens on fixed incomes — for relief from increasing school taxes. Since its enactment, STAR has helped our senior citizens maintain ownership of their homes and remain close to their families. It has also reduced property taxes for all other homeowners and helped young families to realize their dream of home ownership.

STAR has made a significant difference in the lives of millions of New Yorkers who are seeing their school tax burdens reduced, or even eliminated.

- In 2000-01, nearly 668,000 income-eligible senior homeowners received STAR exemptions, saving them close to \$600 million in school taxes.
- More than 2.2 million other homeowners received STAR benefits in 2000-01, their second year of eligibility, saving more than \$870 million in school taxes.
- Residents of New York City — which uses property, income and other taxes to fund city services including schools — are eligible for both City personal income tax reductions and STAR property tax exemptions. New York City tax filers saved an estimated \$415 million in 2000-01.

In future years, participation is expected to grow to include more than three million homeowners in New York State.

The Importance of STAR to Seniors

With school taxes rising at twice the rate of inflation through the 1980s and early 1990s, many senior citizens were being taxed out of their homes. Governor Pataki designed the STAR program to address this particularly heavy burden, providing moderate-income senior citizens with an enhanced STAR exemption of \$50,000.

STAR has provided seniors across the State with substantial and much-needed tax relief. As a result, many seniors have been able to remain in their homes, improve their quality of life and make their retirement years more comfortable and affordable.

An estimated 200,000 senior homeowners throughout New York now pay NO school taxes as a result of STAR.

Taxpayers' STAR Savings Continue to Grow

As STAR reaches full implementation in 2001-02, total annual taxpayer savings will increase to \$2.6 billion. While the full \$50,000 exemption for income-eligible seniors began in 1998-99, exemptions for others — phased in over a three-year period — will now reach the full level of \$30,000. A comparable phase-in is occurring for the New York City income tax reductions. Total taxpayers' savings and participation have increased each year. As a result:

- School property tax savings from STAR exemptions are projected to grow from nearly \$1.5 billion in 2000-01 to \$2 billion in 2001-02.
- Additional local income tax savings to New York City residents are projected to increase from \$415 million in 2000-01 to \$560 million in 2001-02.
- Property tax savings for income-eligible seniors will average nearly \$900 in 2001-02.
- Average property tax savings for other homeowners will increase from \$400 in 2000-01 to \$600 in 2001-02.

New Cost of Living Adjustment for Senior Income Eligibility

Currently, the Enhanced STAR benefit is available to seniors whose annual income is \$60,000 or less. This year, Governor Pataki is proposing to raise the STAR income ceiling for seniors in line with increases in the Consumer Price Index. This cost of living adjustment will ensure that modest increases in Social Security or other retirement income will not preclude seniors from receiving Enhanced STAR benefits in future years. Under the Governor's proposal, the current \$60,000 income limit will be linked to increases in the Consumer Price Index for applications filed beginning next year.

Steps to Protect New Yorkers' STAR Benefits

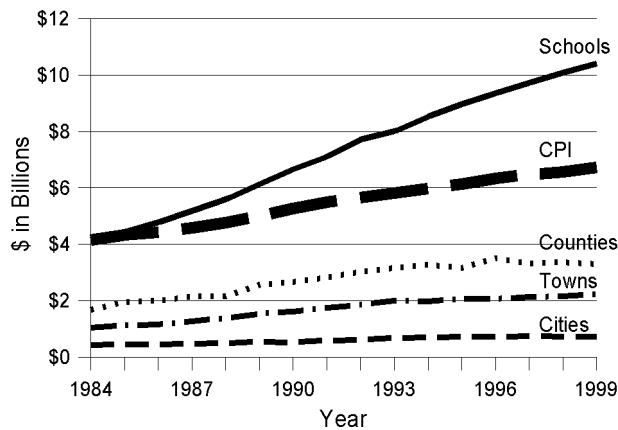
Since 1995, the Governor has achieved a series of important school budget voting reforms intended to increase taxpayer awareness of and influence over school budget issues. These reforms include:

- Establishing a single statewide school budget voting day on the third Tuesday in May to focus attention on school issues.
- Limiting school districts to two votes on school budgets.
- Limiting contingency budget increases to the lesser of 4 percent or 120 percent of the Consumer Price Index (CPI) increase, after excluding increases attributable to enrollment increases, voter-approved capital projects and certain specified purposes.
- Requiring a "Property Tax Report Card" to be published by each school district and compiled for all districts by the State Education Department, beginning in the 2000-01 school year.
- Requiring school districts to mail notices to voters, prior to budget votes, disclosing:
 - How proposed school spending increases compare with increases in consumer prices.
 - How the adopted school budget affected STAR savings for a typical homeowner in the current year, and how the proposed budget would affect STAR savings in the coming year.
 - How the proposed budget compares to the maximum contingency budget that would be allowed should the proposed budget be defeated.

Although Governor Pataki has accomplished significant reforms to the school budget voting process and substantially improved the disclosure of school budget information to voters, school property tax levies continue to increase at rates well above the rate of inflation. If left unchecked, this spending and taxing growth could erode the property tax relief provided through STAR.

Reducing Property Taxes

School Property Taxes Increase



School property taxes outside New York City grew from \$4.17 billion in 1984 to \$10.4 billion in 1999, an increase of 149 percent. This increase far exceeds growth in other local property taxes, rising at more than twice the rate of increase in consumer prices.

Accordingly, this year the Governor is proposing to build on his recent reforms by placing a cap on school budget increases. Under this proposal:

- A school district's annual spending increase could not exceed 4 percent or 120 percent of the increase in the CPI for the prior year, whichever is less.
- Spending increases attributable to enrollment growth, voter-approved capital projects, court orders and other purposes permitted in contingency budgets would be excluded from the increase limitations.
- Local taxpayers could approve spending increases beyond the spending cap with a two-thirds majority vote.

Addressing Local Government Needs

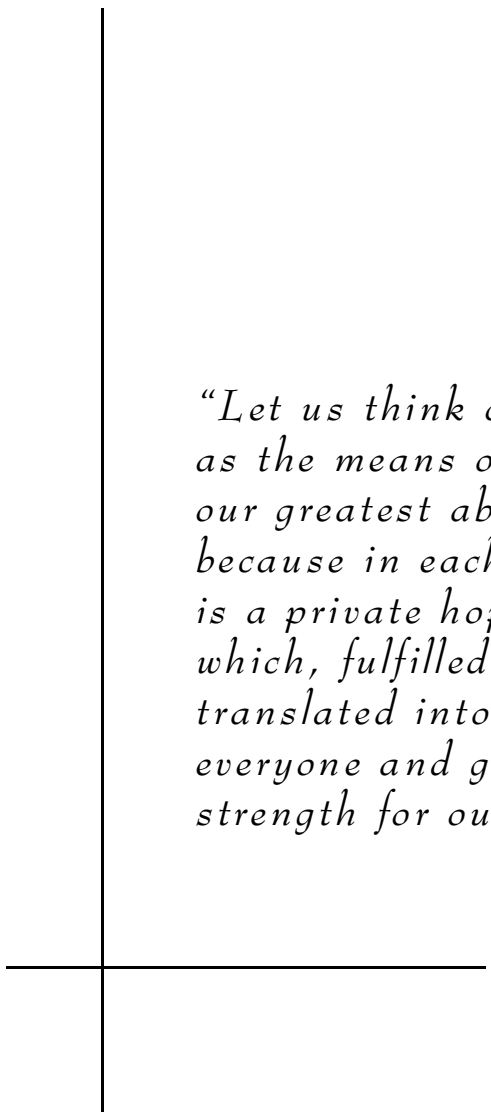
Governor Pataki's STAR program and the Property Taxpayer's Bill of Rights, enacted in 1997, provide critical information to property owners in a more readable and comprehensive bill. This information includes:

- the estimated full market value of property;
- the uniform percentage of value at which property is assessed;
- total tax levy and percentage growth over the prior year; and

Reducing Property Taxes

- the school property tax savings resulting from the STAR home-stead exemption.

These programs have focused public attention on local government tax assessment and billing practices, placing additional demands on local tax assessors and collection officials. To assist local governments in meeting these new challenges, the Governor's 2001-02 Budget provides \$12 million in assistance to local governments to process exemptions, implement the STAR program, and prepare for the new Co-STAR program.



*“Let us think of education
as the means of developing
our greatest abilities,
because in each of us there
is a private hope and dream
which, fulfilled, can be
translated into benefit for
everyone and greater
strength for our nation.”*

John F. Kennedy

Excellence and Access in Higher Education

New Yorkers can be proud of their commitment to higher education and the fact that New York is a national leader in providing support to higher education institutions. Governor Pataki's 2001-02 Executive Budget maintains this commitment, providing nearly \$7.3 billion for the State's public and private institutions of higher education. This substantial investment exemplifies the importance New York places on excellence and access in higher education, and underscores the critical role that colleges and universities play in the educational, social and economic advancement of all New Yorkers.

Excellence in Higher Education

New York supports two public university systems, the State University of New York (SUNY) and the City University of New York (CUNY), currently providing 568,000 students with access to quality public higher education programs through a network of 47 senior colleges and 36 community colleges.

New York's commitment to its public universities has led to significant achievements, including investments in cutting edge technology that will better prepare students for the global economy, enhancements in academic standards to ensure students are better prepared for the challenges they will face after graduation, and innovative methods to recruit and educate more teachers to meet an important public need. The educational excellence and value offered by SUNY and CUNY are demonstrated by the tremendous popularity of our public universities among college-bound graduates from high schools throughout the State.

Higher Education

The Governor's 2001-02 Budget:

- Invests \$3.1 billion in taxpayer support for New York's two public university systems.
- Provides SUNY with a \$55.2 million increase to support collective bargaining requirements, inflation, full-time faculty and other priority needs identified by the SUNY Board of Trustees. Similarly, funding of \$20 million is provided to CUNY to fund increases in personal and non-personal service costs, operation of a new Baruch College facility, full-time faculty and other priority needs identified by the CUNY Board of Trustees.
- Includes \$1 million for the City University to provide children with deficiencies in English expanded opportunities to enhance their language skills in summer immersion programs through a collaboration between CUNY and the New York City Board of Education.
- Holds the line on SUNY and CUNY undergraduate resident tuition levels at \$3,400 and \$3,200, respectively. These tuition rates have remained unchanged since 1995-96, allowing students to receive a quality education at a cost comparable to, or below that of, other public universities in the Northeast.
- Ensures that State operating aid for community colleges will reflect the full value of the \$125 increase per full-time equivalent (FTE) student enacted in 2000-01. Since Governor Pataki took office, community college base aid has increased from \$1,800 to \$2,250 per FTE student.
- Continues to finance a \$3 billion Capital Investment Program to support substantial improvements in the infrastructure and facilities of the State University and City University systems. In addition, SUNY will establish a new capital investment program for its residence halls, funded from student room rents. Under this program, SUNY campuses will retrofit existing dormitories with integrated fire/smoke detection and alarm systems, and address priority dormitory facility projects.

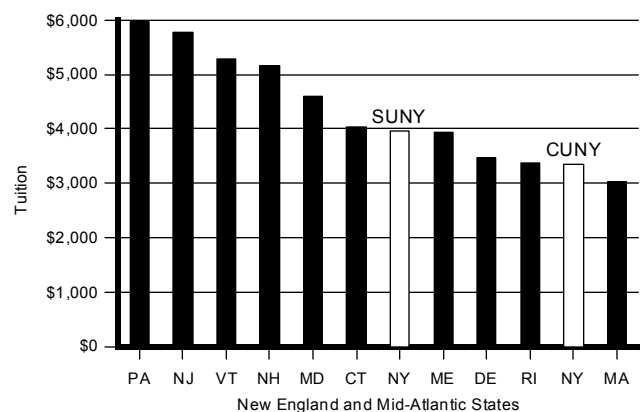
During the past six years, New York's public colleges and universities have consistently been cited in national surveys for their excellence and value. Recent milestones include:

- *Kiplinger's Personal Finance* magazine again ranked eight SUNY campuses among the 100 best values among public universities nationwide.
- *U.S. News and World Report* ranked two SUNY colleges and one CUNY college among the top public institutions in the Northeast and one SUNY university center among the top public universities in the nation.
- The *Time/Princeton Review's Best College For You/2000* recommended seven State University campuses based on surveys of college students.
- The National Research Council ranks more than one-third of CUNY's doctoral programs among the top 20 in the nation.
- *Community College Week* included ten SUNY community colleges and five CUNY community colleges in its national "Top 100" list of institutions awarding associate degrees.

New York's public university systems provide access to quality education at affordable prices. New Yorkers attending SUNY and CUNY benefit from tuition levels comparable to or below those of other public universities in the Northeast.

SUNY and CUNY Tuition and Fees Remain Affordable

Low tuition, coupled with generous State support, ensures that New York's public university campuses are among the most affordable institutions in the Northeast for students to receive a higher education and prepare for a bright and prosperous future.



Access to College Education

New York's generous support of student financial aid and other higher education grant and scholarship programs — totaling nearly \$675 million in 2001-02 — provides the means for more than 300,000 of our State's students to obtain a college education in either the public or private sector. For example:

- New York is a national leader in support for student financial aid, which ensures access to a college education for financially-needy students. More than \$636 million will be spent in 2001-02 on need-based grants — an amount substantially exceeding that of virtually every other state in the nation — and more than \$35 million for additional aid and scholarship programs that promote student access to a college education.
- For the second year, the Tuition Assistance Program (TAP) will provide a higher maximum award level of \$5,000 to first-time TAP recipients and will eliminate the tuition cap applied to public university students and enhance awards for upper-division students.

Policy Highlight: Recent Enhancements to the Tuition Assistance Program

Recent enhancements to TAP will make college more affordable for thousands of New York students by:

- Increasing the maximum award level from \$4,125 to \$5,000, starting with first-time TAP recipients in the 2000-01 academic year.
- Increasing the minimum award level for TAP from \$275 to \$500 when fully phased-in for the 2002-03 academic year.
- Eliminating the cap of 90% of tuition on TAP awards for public university students for the 2001-02 academic year.
- Increasing the maximum income eligibility limit from net taxable income of \$50,500 to \$80,000 in the 2000-01 academic year.

- The Governor's Scholarships for Academic Excellence program recognizes and rewards high school achievement and encourages our most academically-talented students to pursue a postsecondary education in New York State. This program provides 2,000 annual awards of \$1,500 to New York's most outstanding high school scholars and 6,000 annual awards of \$500 each to students demonstrating high scholastic achievement.

The financing of college costs has also been made easier for New York families through tax benefits provided under both the State's College Choice Tuition Savings program and the State Tuition Tax Deduction program.

Enacted in 1997, the College Choice Tuition Savings program encourages families to save for their children's college education by providing tax benefits on contributions made to, and interest earned on, college savings accounts. More than 120,000 savings accounts, valued at a total of more than \$600 million, have been opened under New York's program, which has been cited by *Kiplinger's Personal Finance* magazine as one of the top programs

in the nation. Recent legislation signed by Governor Pataki will encourage even greater participation in the program by providing investment options for new participants, reducing the paperwork previously required for married couples to take full advantage of the program's tax benefits, and eliminating the penalty for early withdrawals under certain circumstances.

The State Tuition Tax Deduction program, enacted in 2000, will make attending a college even more affordable by giving New York State taxpayers a tax benefit of up to \$10,000 for tuition expenses paid.

Policy Highlight: Savings for Higher Education Made Easier

The College Choice Tuition Savings program is encouraging thousands of New Yorkers to plan and save for their children's college education while taking advantage of State and Federal tax benefits. Legislation recently signed by Governor Pataki makes the State's program an even more attractive investment.

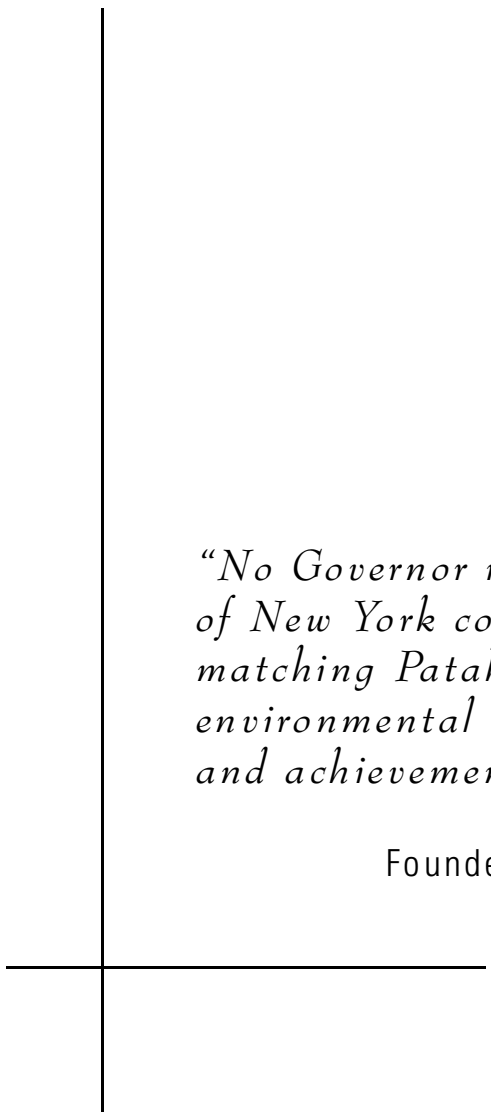
- Increased investment options permit account owners to choose a more aggressive investment approach or one that offers a more secure return.
- Married couples who file jointly can now open one account and receive the full tax benefits allowed under the law.
- Account owners will be able to name successors in the case of the death of the intended beneficiary.
- Penalties for early withdrawals attributable to the death or disability of a beneficiary will no longer be assessed.

Self-Sufficiency for the State University Hospitals

With the development of financially-driven strategic plans for each of its three teaching hospitals, SUNY has provided a blueprint for ensuring the short-term financial stability of these hospitals and a five-year plan for moving the hospitals toward self-sufficiency. The following steps will be taken in 2001-02 to implement these strategic plans:

- The State will increase its subsidy to the SUNY hospitals by \$51 million to compensate the hospitals for costs attributable to their status as public entities.
- The SUNY hospitals will repay outstanding loans from the Short Term Investment Pool (STIP) over a multi-year period, with the first payment made in SUNY's 2001-02 fiscal year. The State will retire the portion of the outstanding STIP loans attributable to the hospital's State agency status over a multi-year period, with a \$15 million payment in 2001-02.
- The SUNY hospitals will implement strategic initiatives designed to enhance their ability to compete in the health care marketplace and pursue cost efficiencies necessary to operate within available resources.

Legislation accompanying the Governor's 2001-02 Executive Budget will provide SUNY hospitals with the enhanced operational flexibility that will enable them to respond to the rapidly changing dynamics of the health care environment and meet their commitment under the self-sufficiency plans.



*“No Governor in the history
of New York comes close to
matching Pataki’s
environmental initiatives
and achievements.”*

Robert Boyle
Founder of Riverkeeper

Building Upon Our Strong Commitment to the Environment

Governor Pataki has acted aggressively to enhance the quality of our communities by preserving and improving our natural resources. Under the Governor's leadership, New York is implementing a comprehensive plan for the management of our natural resources that preserves open spaces for current and future generations, protects our water resources and air quality, and recognizes the importance of our agricultural industry to the State's economy.

Providing National Leadership on Environmental Issues

Today, New Yorkers are enjoying the benefits of the Governor's national leadership on environmental protection and conservation issues. Such leadership has enhanced the quality of life in communities across the State and set a standard for the nation to follow. Since taking office, Governor Pataki has:

- Established New York State as a national leader in land conservation — investing more than \$357 million to preserve over 300,000 acres of valuable land during the last six years.
- Led the nation in supporting sustainable forestry practices and promoting sound forestry management, earning New York State's forest lands the nation's first "green" certification from the Forest Stewardship Council.

“Throughout his tenure as Governor of New York, George E. Pataki has repeatedly demonstrated a very real understanding of the people and their environmental concerns. He has listened carefully to the voice of the citizens and made their environmental needs, concerns and goals his priority.”

Sarah J. Meyland,
Executive Director
of Citizens Campaign
for the Environment

- Initiated a world-class Henry Hudson Rivers Institute on the banks of the Hudson River — a first-of-its-kind river and estuary research and education center. The Institute will inspire and nurture scientific endeavors to protect the delicate ecosystems of rivers and estuaries and their tributaries and watersheds throughout the world.
- Successfully petitioned the Federal government to designate the Hudson River an American Heritage River — making Federal support and assistance available to communities along the River. Since taking office, Governor Pataki has committed more than \$240 million to clean up, protect and restore the Hudson River — including \$100 million for the development of the 550-acre Hudson River Park. The Governor's 2001-02 Budget includes \$10.1 million for the River from the Bond Act and the Environmental Protection Fund, and makes \$20 million available toward the State's Hudson River Park commitment.
- Enacted legislation making New York one of the first states in the nation to prohibit the use of the gasoline additive methyl tertiary butyl ether (MTBE), which has proven to have significant environmental impacts on groundwater and potentially negative effects on humans. This ban — adopted in New York State even before the Federal Environmental Protection Agency did so — will take effect January 1, 2004.
- Enacted legislation to reduce acid rain by monitoring and controlling the sale of sulfur dioxide emission allowances to out-of-State power plants and businesses. Through this legislation, the Governor will reduce the availability of Federal air pollution allowances to out-of-State power companies whose smoke-stack emissions pollute New York's air and water, and detract from the quality of life.
- Spearheaded an unprecedented plan to ensure that the Metropolitan Transportation Authority will have the world's cleanest bus fleet and dramatically reduce air pollution by significantly speeding up the purchase of 1,000 clean-fuel buses and retrofitting existing diesel buses. This plan also promotes the use of clean ultra-low sulfur fuels, and the development of a state-of-the-art Heavy Duty Vehicle Emissions Test Facility to assess future technologies' potential to reduce emissions from trucks and buses.

- Adopted a new “Green” buildings tax credit to encourage the construction and rehabilitation of environmentally-sound buildings. The first of its kind in the nation, the tax credit will promote improved environmental building standards, increase energy efficiency, and cut taxes on businesses that share the Governor’s vision of a cleaner, greener New York. In doing so, our State will attract more “green” businesses to New York, creating more jobs and a better environment for New Yorkers.
- Enacted Pesticide Neighbor Notification legislation that permits counties to require at least 48 hours notification before pesticide application at schools, day-care centers and certain private residences. Such notification will enhance quality communities by arming teachers, parents and community residents with important information they need to limit their exposure to pesticides and protect themselves and their families from unnecessary risk.
- Led New York State's partnership with New York City, the Federal government and local governments in the historic New York City Watershed agreement. This agreement protects the drinking water of nine million New Yorkers while also protecting the economic vitality of the watershed communities into the 21st Century, and stands as a unique, national model for this type of effort.
- Adopted the new California low-emission vehicle standards for new light- and medium-duty vehicles, to take effect in 2004. Given the large share of the automobile market represented by New York and California, the Governor’s decision effectively re-orientes the entire automobile industry toward more stringent emission standards, from which the entire nation will benefit.

Preserving Open Spaces, Revitalizing Brownfields

The Governor's commitment to the environment is demonstrated by his initiatives to preserve New York's pristine open spaces and bodies of water, maintain farmland viability for both agricultural use and preservation of scenic vistas, and restore abandoned "brownfields" to productive recreational purposes or responsible economic reuse. Through State and local partnerships, New York and its communities are providing citizens with quality recreational spaces and facilities, safe drinking water and waste treatment, reclaimed industrial sites, and preservation of our natural resources for generations that follow.

"Protection of the Lundy tract is a milestone in the conservation history of the Catskills. The acquisition of this magnificent parcel for public recreation would not have been possible without strong support from Governor Pataki...."

Open Space Institute
President Joe Martens

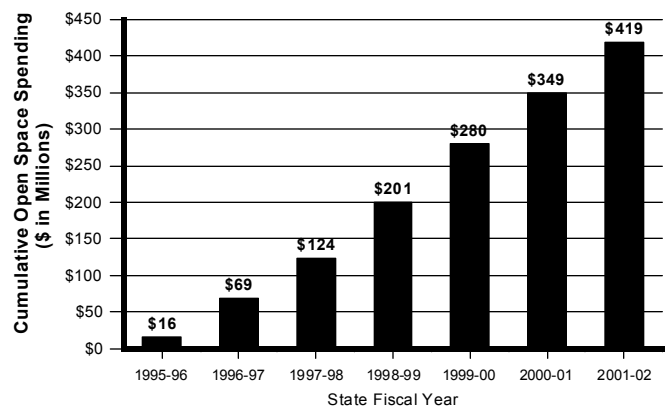
Governor Pataki's investments in the Environmental Protection Fund and the Clean Water/Clean Air Bond Act have advanced New York's environmental mission on all fronts by supporting key initiatives such as the:

- Acquisition of the 5,000-acre Lundy estate in the Catskills — one of the largest private holdings in the Catskill Park and one of the largest acquisitions made by the State in the Catskills since the establishment of the Park in the 19th Century.
- Purchase of the second largest remaining private parcel within the Core Preservation Area of the Central Long Island Pine Barrens — the 165-acre Breslin parcel. Since 1995, our State has invested nearly \$50 million in partnership with Suffolk County, local towns and The Nature Conservancy, to acquire three-quarters of the 50,000-acre Core Preservation Area.
- Protection of the 144,300-acre Champion Lands in the northwestern Adirondacks.
- Preservation of one of the last undeveloped river-front parcels in the mid-Hudson Valley unencumbered by railroad tracks — a 100-acre parcel along the Hudson in the Town of Cortlandt, Westchester County — that provides key linkages to the Hudson River Greenway Trail.

- Preservation of a 432-acre parcel with more than a mile and a half of waterfront acreage on the famous Mongaup and Willowemoc creeks — two of our State’s premier trout fishing waters — in the Catskill Park. New York has also embarked on an innovative protection effort within the Beaverkill/Willowemoc watershed to restore the “BeaMoc” to the quality that led to its pre-eminence in the 1800s as a world class trout fishery.
- State preservation of the Whitney Park Estate, home of the largest privately-owned lake east of the Mississippi, with the purchase of nearly 15,000 acres of Whitney Park, including Little Tupper Lake.
- Purchase of the 17,229-acre Sterling Forest located in Orange County, the largest undeveloped parcel of land in the Metropolitan New York City area, with significant ecological and recreational value.
- Acquisition of a 194-acre parcel in the Northern Montezuma State Wildlife Management Area in the Town of Savannah, Wayne County, and announcement of the creation of our State’s first outdoor education center at Montezuma.
- Provision of more than \$465 million in direct loans and low-interest loans and over \$69 million in hardship grants to 120 communities to protect the safety of drinking water supplies.

Open Space Protection Dramatically Increases Under Governor Pataki

Since State Fiscal Year 1995-96, Governor Pataki will have made some \$419 million available to the Department of Environmental Conservation, the Office of Parks and Recreation and Historic Preservation, and the Department of Agriculture and Markets for open space protection programs.



- Advancement of more than 360 projects statewide from the Bond Act to protect and restore our water resources, including the Hudson River, Long Island Sound, Lake Champlain, Onondaga Lake, the Great Lakes, the Finger Lakes, New York Harbor and the Peconic and South Shore Estuaries.
- Investment in clean-fueled vehicles and buses, projects to replace coal-burning boilers in schools and grants to help small businesses comply with clean air requirements to improve New York's air quality.
- Funding of nearly 100 grants, through the Brownfields Program, to investigate or cleanup contaminated industrial sites, return these properties to productive use, and put them back on the tax rolls.

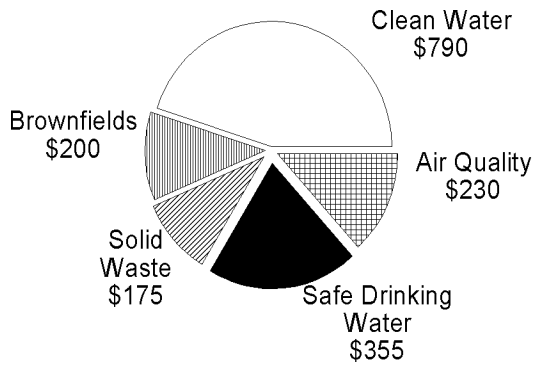
Commitment to the Environment Continues in 2001-02

Governor Pataki's 2001-02 Executive Budget demonstrates his continuing commitment to environmental protection and conservation. His Budget proposes:

- \$150 million in new Environmental Protection Fund (EPF) funding — an increase of \$25 million in permanent funding over 2000-01 — for important environmental programs such as the Hudson River Park, open space preservation, farmland preservation, the Long Island Pine Barrens and South Shore Estuary Reserve Planning programs, municipal recycling, and non-point source pollution control.
- \$219.6 million in new funding from the Clean Water/Clean Air Bond Act to restore brownfields, ensure safe drinking water, clean up air and water resources, and support local solid waste management efforts.
- \$42.9 million for fish and wildlife programs funded by fishing and hunting license fee revenues through the Conservation Fund. License fee increases will ensure that adequate resources are available for the Fund.
- \$44 million for clean air programs to limit pollution from industrial sources, automobiles, and heavy duty vehicles such as trucks and buses — thus protecting the health of our citizens and the environment from harmful air pollutants.

- \$138 million for New York's new Superfund program — funded equally by the State and private industry — to clean up hazardous waste and substance sites, including \$33 million for the oil-spill prevention and cleanup program, which undertakes spill prevention activities and responds to and oversees the cleanup of petroleum spills. This initiative is accompanied by two brownfields redevelopment tax credits. The first provides incentives for the reuse of already restored but dormant brownfields in Upstate New York. The other comprises a \$12 million earned tax credit in 2001-02 — growing to \$41 million in the outyears — to spur new efforts to clean up brownfields across the State.
- Amendments to the \$200 million Brownfields program component of the 1996 Clean Water/Clean Air Bond Act which will facilitate and improve opportunities for municipalities to remediate brownfields by providing significant financial incentives and increased flexibility to undertake projects.
- \$3.3 million to offset local governments' costs resulting from property tax exemptions provided by the State to owners of forest lands.
- \$500,000 in new funding for the development of the Henry Hudson Rivers Institute.
- Over \$457,000 in new funding for the Hudson River Valley Greenway Communities Council and Greenway Heritage Conservancy, whose core mission is to promote the preservation, enhancement and responsible development of the scenic, natural, historical, cultural and recreational resources in the Hudson River Valley. Included is \$250,000 in new grant funding for local greenway communities' project planning and implementation efforts.
- Increases in pesticide application fees to support State oversight, pesticide applicator examination and training, and training and support for communities to implement local pesticide neighbor-notification activities, non-toxic West Nile prevention measures, and integrated pest management programs.

Clean Water/Clean Air Bond Act (\$ in Millions)



Governor Pataki recommends an additional \$219.6 million in projects to be funded through the Clean Water/Clean Air Bond Act. This brings total Bond Act funding allocated for project commitments to \$1.54 billion — over 87% of the \$1.75 billion approved by voters in 1996.

\$150 Million in New Environmental Protection Fund (EPF) Projects

The EPF provides a dedicated funding source for a variety of important environmental programs. Governor Pataki was the first governor to fully fund the EPF in 1996-97, and in 1998-99 expanded our State's investment in the environment by increasing the amount available for the EPF from \$100 million to \$125 million.

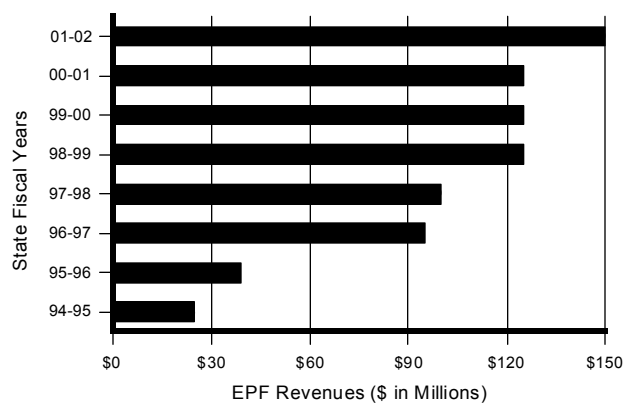
Governor Pataki's 2001-02 Budget proposes a further increase in EPF funding to \$150 million. Programs to be funded by the EPF in 2001-02 include:

- \$55 million for land acquisition and open space protection.
- \$20 million for the development of the Hudson River Park.
- \$7.1 million for solid waste projects, including municipal recycling (\$4.1 million) and secondary materials marketing grants (\$3 million).
- \$2 million to restore and preserve historic barns.
- \$10 million for State parks and lands stewardship projects.
- \$6 million for municipal parks and historic preservation projects.

- \$9 million for the cleanup of Onondaga Lake.
- \$6 million for waterfront revitalization projects.
- \$12 million for farmland protection projects.
- \$6 million for non-point source pollution control projects, such as those to eliminate contamination from surface run-off.
- \$6 million for the Hudson River Estuary Management Plan.
- \$2.25 million for the pesticide use database program.
- \$3 million for several environmental programs, including the Finger Lakes/Lake Ontario Watershed Protection Alliance (\$1,000,000), Biodiversity Stewardship (\$750,000), the Albany Pine Bush Commission (\$325,000), Long Island Pine Barrens Commission (\$700,000) and Long Island South Shore Estuary Reserve (\$520,000).
- \$1.3 million for the assessment of any natural resource damages to the Hudson River.
- \$1.3 million for Soil and Water Conservation Districts.
- \$2.75 million for oversight of a multitude of environmental Open Space projects funded through the EPF and other funding sources.

Environmental Protection Fund Dramatically Increases Under Governor Pataki

By the close of 2000-01, Governor Pataki will have provided over \$637.5 million in funding for EPF programs since 1995-96. His 2001-02 Budget increases the EPF from \$125 million to \$150 million in permanent funding, bringing the total for priority projects from the EPF to over \$787.5 million.



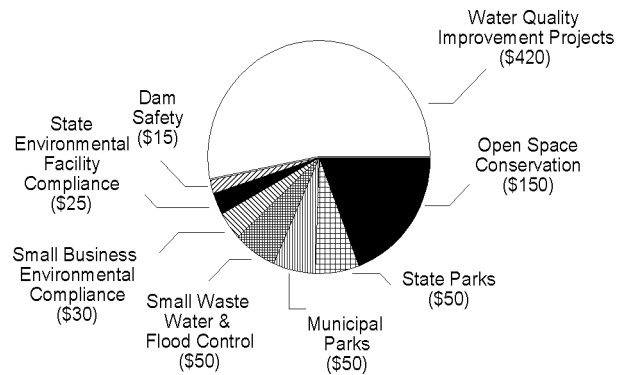
An Additional \$219 Million in New Clean Water/Clean Air Bond Act Projects

Overwhelmingly endorsed by the voters in 1996, Governor Pataki's Clean Water/Clean Air Bond Act authorized \$1.75 billion for improvement of the environment. Through 2000-01, a total of \$1.3 billion has been provided from the Bond Act for priority projects to restore brownfields, ensure safe drinking water, cleanup our air and water resources, and support local landfill closure and recycling efforts. Governor Pataki's 2001-02 Budget recommends \$219.6 million for these additional Bond Act projects:

- \$87.6 million for Clean Water projects, including:
 - \$70.7 million to implement management plans for the Hudson River (\$2.8 million), Long Island Sound (\$50 million), Lake Champlain (\$1 million), Onondaga Lake (\$9.9 million), New York Harbor (\$1.5 million), Finger Lakes (\$3.5 million), and Peconic and South Shore (\$2 million).
 - \$3.5 million for land acquisition and open space protection.
 - \$4 million for State parks projects.
 - \$8 million for municipal parks projects.
 - \$1.4 million for State facility environmental compliance projects.
- \$50 million for Safe Drinking Water projects administered by the Department of Health.
- \$12 million for Air Quality projects, including school coal conversion (\$8 million) and clean buses (\$4 million).
- \$45 million for Solid Waste projects, including municipal recycling (\$13 million), Fresh Kills (\$30 million), and landfill closure (\$2 million).
- \$25 million for brownfields projects.

\$790 Million in Clean Water Programs (\$ in Millions)

The 1996 Clean Water/
Clean Air Bond Act
authorizes \$790 million to
be used for clean water
categories.



State Superfund Refinancing

The primary goal of the New York State Superfund program is to protect our communities through the remediation of environmental hazards. Governor Pataki's 2001-02 Executive Budget is accompanied by legislation to refinance and improve the State Superfund program. The legislation maintains the most stringent environmental and public health standards in the nation and incorporates the "polluter pays" principle. It also makes common-sense reforms that will enable New York State to remove more contamination from the environment, and return more sites to productive use quickly and safely. The proposal, based on the recommendations of the 1999 Superfund Working Group, would:

- Establish a dedicated remedial program fund to finance the State Superfund, Voluntary Cleanup, and Oil Spill programs on a pay-as-you-go basis.
- Expand the Superfund program's cleanup activities to cover not only hazardous waste sites, but also hazardous substance sites that are contaminated with by-products of obsolete manufacturing processes.

- Dedicate \$138 million annually for the three cleanup programs, the cost of which would be shared equally between the State and private industry. The State share will come from the General Fund while the private industry share will be funded with fees, cost recoveries and more stringent fines and penalties.
- Focus liability on true polluters and free innocent purchasers from liability, while ensuring that actual polluters are not relieved of any financial or legal responsibilities.
- Accelerate the redevelopment of abandoned industrial sites (i.e., brownfields) by establishing a brownfield tax credit for the cleanup and improvement of such sites, advancing another targeted tax credit for the development and reuse of restored but dormant brownfield sites, and by providing grants to municipalities to identify and plan for the redevelopment of brownfields.

Creating and Maintaining Quality State and Community Recreational Spaces

New York State established one of the finest public park systems in the nation more than 100 years ago. Today, innovative recreational and educational programs continue that tradition.

Since 1995, the Office of Parks, Recreation and Historic Preservation (OPRHP) has developed a series of innovative “public/private partnerships” with the private sector, the non-profit community, and other agencies of government, providing more than \$40 million in new investment and other income to State parks and historic sites.

Governor Pataki’s 2001-02 Budget underscores his continued commitment to our State parks system and the recreational opportunities it makes available to New Yorkers and our visitors by providing:

- \$157 million in General Fund and user fee spending to support the 162 parks and 35 historic sites operated by the Office of Parks, Recreation and Historic Preservation. During Governor Pataki’s tenure, 12 new State parks have been created and over

\$84 million invested in grants to local municipal park projects. Selected user fees will be adjusted to maintain the full level of recreational services now available at these facilities and those operated by the Department of Environmental Conservation.

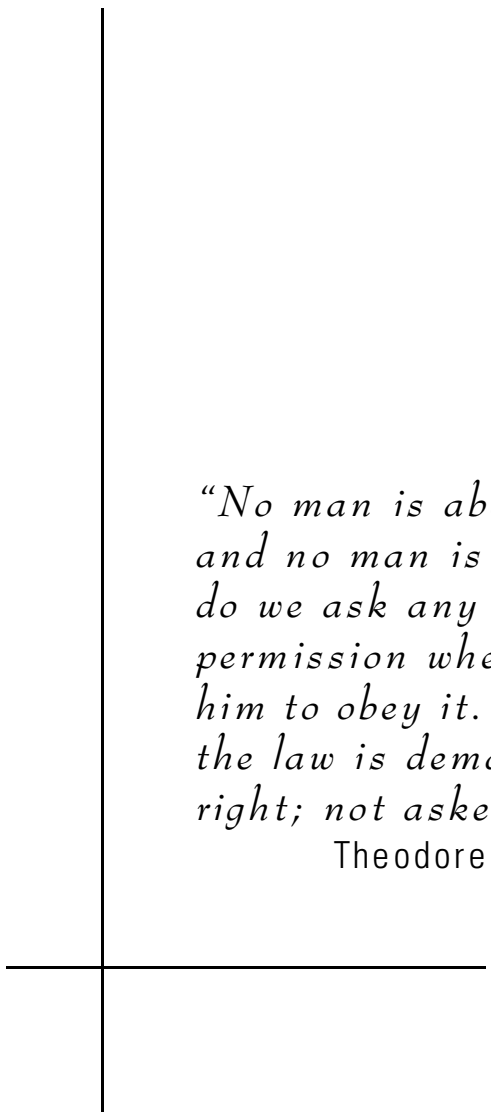
- \$30 million from the State Park Infrastructure Fund. Augmented by the Environmental Protection Fund and the Clean Water/Clean Air Bond Act, this fund dedicates park revenues to maintain, improve and rehabilitate State park facilities.
- \$1.5 million for the operation and stewardship of new and expanded State Parks, including DeVeaux Woods, Eastern District Terminal, Camp Hero, and Schodack Island.
- \$10 million in Fiduciary funds to help cover the costs of rehabilitating the Observation Tower at the Niagara Falls Reservation, a project that will enhance this world famous tourism destination and economically benefit its adjacent communities. These resources are in addition to \$5 million in funds already made available by the Maid of the Mist Corporation, and \$3.3 million in other resources designated for Niagara Reservation Park and other Niagara Gorge improvements.
- \$21.7 million for new cultural initiatives including \$13 million for the Rose Center for Earth and Space at the American Museum of Natural History, \$7.5 million for the USS Intrepid Sea-Air-Space Museum, \$1 million for the Brooklyn Academy of Music and \$200,000 for the restoration and preservation of Battle Flags for exhibition.
- Continued funding of \$10 million to support the Governor's Heritage Trails initiative. This program will benefit New York's communities by creating heritage trails linking present and future generations to New York's rich heritage. Heritage trails — such as the completed Women's Heritage Trail, the Theodore Roosevelt Heritage Trail currently under development, and the new, recently announced Revolutionary War Heritage Trail — will continue to be created to celebrate New York's contribution to, and place in, our nation's history.
- Snowmobile fee increases to reimburse localities for the development and maintenance of a quality snowmobile recreational trail system across the State, as well as boat registration fee increases to help support local boating safety and law enforcement programs.

Strengthening Our Agriculture Community

Governor Pataki has worked closely with the State's farming community to ensure that agriculture remains an economically viable industry. Farms not only contribute to the State's economy, they also define our landscapes and enhance our communities. Specifically, Governor Pataki's 2001-02 Budget:

- Establishes a dramatic \$230 million Co-STAR plan, which would cut county taxes for farmers across the State by more than an average of \$200 annually. The Budget also contains a series of tax cuts aimed at helping farmers, including tax credits for farmland restoration, building fences or repairing silos, extension of the STAR program to include all farmers, expansion of the farmer's school tax and a new historic home ownership assistance tax credit, which would assist New Yorkers in purchasing and rehabilitating historic homes — including farm houses.
- Provides \$1.2 million for the Asian Longhorned Beetle Eradication program to support the partnership among the State, New York City and the Federal government to locate and eradicate this pest, thereby helping to preserve the City's and State's urban forests.
- Continues research, marketing and technical assistance to farmers and farm businesses. The Governor's Budget includes \$1.3 million for Grow New York — a package of farmland viability and agricultural economic initiatives that will improve the quality of life in rural, urban and suburban communities.
- Provides funds for 11 migrant child care centers. These resources are supplemented by up to \$2.5 million from the Child Care Block Grant — administered through the Office of Children and Family Services — to serve more migrant children.
- Continues and expands funding for several programs that provide services to address the needs of the agricultural community, including the Diagnostic Laboratory (\$3 million), Integrated Pest Management (\$787,000), Geneva Experiment Station, including the Seed Testing Laboratory (\$550,000), Herd Health Assurance (\$350,000), Avian Disease (\$315,000), Rabies Vaccine (\$200,000), Farm Net (\$300,000), and Golden Nematode research (\$100,000).

- Allocates funding from the EPF for Agricultural Environmental Management to assist farmers in developing and implementing environmental management plans. This funding will ensure that farmers meet high environmental standards and operate compatibly with other land uses.
- Provides \$1.4 million in new funding to implement expanded inspection requirements of retail food stores and the licensing and regulation of pet dealers throughout the State. These activities will help promote healthier, safer communities as well as protect our pets by redressing abuses and unsanitary living conditions in pet stores.



*“No man is above the law
and no man is below it; nor
do we ask any man's
permission when we require
him to obey it. Obedience to
the law is demanded as a
right; not asked as a favor.”*

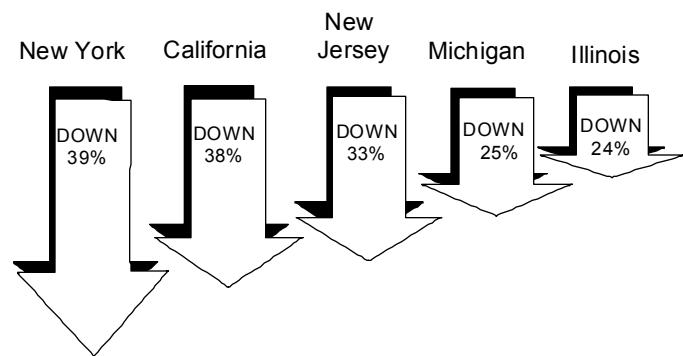
Theodore Roosevelt, 1905

Criminal Justice

Governor Pataki's criminal justice agenda has resulted in a dramatic reduction in crime in New York State. Among the ten most populous states, New York ranks first in reducing reported violent crime — with a reduction of 39 percent. Enactment of the death penalty, tougher penalties for assault crimes, gun control and hate crimes legislation have all contributed to making New York a safer place. Governor Pataki's Executive Budget for 2001-02 will continue to ensure that New York remains a leader in the fight against crime.

Violent Crime Dramatically Reduced Under Governor Pataki

Calendar Years 1994-99:
New York is First Among
Major States in Reducing
Violent Crime



Reserving Prison Space for Violent Offenders

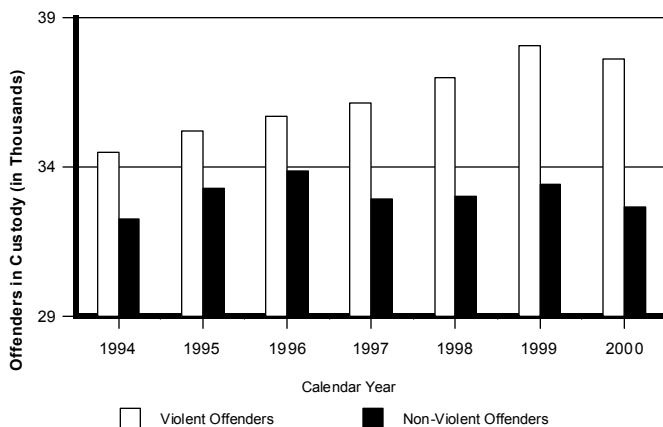
During the last six years, Governor Pataki has fought to keep violent criminals behind bars for longer periods of time. Through the Governor's efforts, legislation has been enacted establishing longer sentences for violent crimes and restricting parole and work release. Governor Pataki also pushed for and obtained the maximum security capacity needed to incarcerate these dangerous felons securely. A total of 4,950 new maximum-security beds have been developed, including two new prisons in Franklin and

Seneca counties. This capacity has also enabled the prison system to operate more safely. During 1999, the number of inmate-on-staff assaults was at its lowest level in 14 years, and the system had the fewest inmate-on-inmate assaults in seven years.

While the number of violent felons in the prison system has increased by nine percent since 1995, the number of non-violent drug offenders has dropped by nearly seven percent. By April 1, 2001, it is projected that the prison system will house approximately 69,000 inmates — a decrease of 2,400 since April 1, 2000. This decline allows for the closure of some medium-security capacity used during the past decade to address the escalating demand for prison space, and will result in operating savings of approximately \$50 million.

The overall reduction in the State prison population is attributable to a decline in the number of individuals sentenced to State prison, and the success of programs (such as the Willard Drug Treatment Campus and Shock Incarceration) designed to reduce the number of non-violent offenders in prison. The decline in “State ready” inmates awaiting transfer from local jails — from 4,425 in July 1999 to fewer than 700 in December 2000 — will reduce jail populations, leading to local savings.

Violent Offenders Under Custody



Calendar Years 1994-00: As a result of Governor Pataki's sentencing reforms, violent felons will spend more time in prison and off the streets, and will represent a larger proportion of the under-custody population.

New Technology to Battle Crime

The 2001-02 Executive Budget provides funds for a variety of technology improvements to help State and local law enforcement officials fight crime.

- During the year 2000 legislative session, the Governor achieved enactment of comprehensive gun control legislation. The 2001-02 Executive Budget recommends funds for new ballistic computer identification and evidence tracking systems authorized by that legislation. These systems will help law enforcement officials solve crimes more quickly and reduce the unauthorized use of firearms.
- As an additional effort to control the proliferation of illegal firearms, the 2001-02 Executive Budget provides \$1 million to create a "Special Weapons Interdiction Field Team" (SWIFT) within the Division of State Police. SWIFT will be trained to identify the sources of illegal weapons and the methods used by gun traffickers to bring these weapons into New York. Also, a new local grant program will be established in the Division of Criminal Justice Services to provide funds to District Attorneys to offset prosecution costs for gun interdiction.
- Funding is provided in the 2001-02 Executive Budget to maintain the DNA Databank to solve more crimes, convict the guilty and exonerate the innocent. In the past year, since the enactment of the Governor's expansion of the Databank, approximately 56,000 convicted offender samples have been collected, bringing to 65,000 the total number of samples on file. The Governor will propose legislation to further expand the categories of offenders required to provide DNA samples.

Policy Highlight: Sentencing Reform

Governor Pataki will continue to push forward with his sentencing reform agenda. Having successfully enacted legislation eliminating parole for criminals convicted of violent crimes, the Governor will again propose legislation to provide for truth-in-sentencing for non-violent offenders. The bill will require that offenders serve at least six-sevenths of a fixed prison term, thereby eliminating discretionary release by the Parole Board. The bill will also provide for supervision of these offenders following their release from prison.

The Governor will also introduce legislation to increase the penalties imposed on criminals who repeatedly commit misdemeanor crimes such as trespassing and turnstile jumping. Offenders convicted of three misdemeanors within a ten-year period would face felony-level punishments upon a fourth conviction.

- Funding is also provided for the further development of a state-of-the-art emergency communications system for State and local law enforcement personnel throughout New York.
- New State funding is authorized to modernize surveillance equipment, providing law enforcement officials with the advanced technology needed to intercept information passed over cable-based phone systems and other non-land line communication systems.

Helping the Victims of Crime

Governor Pataki's Executive Budget also includes additional funding to provide assistance to the innocent victims of crime. Recently, the Governor signed into law legislation that increased the fees imposed on convicted offenders. These fees will provide an additional \$4 million for crime victim assistance, bringing to \$56 million the total State and Federal funds available for 2001-02.

The Governor has also achieved a number of initiatives to improve services to crime victims including:

- Assistance for sexual assault victims, which has been expanded through the Sexual Assault Reform Act of 2000.
- A statewide victim notification system, which has been developed to provide information on the incarceration status of criminal offenders.

Juvenile Justice

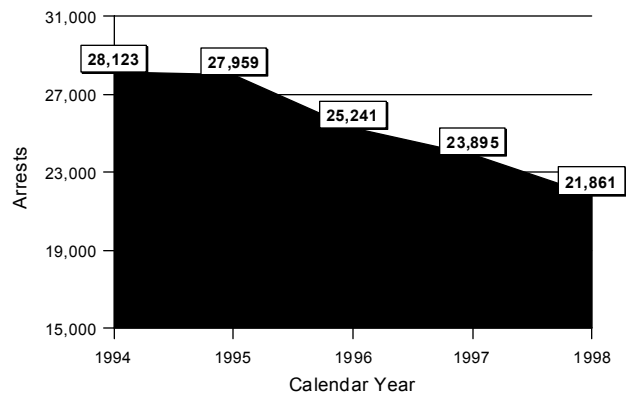
Protecting our Communities

Under Governor Pataki's leadership, New York's juvenile justice programs have focused on making our streets safer while emphasizing efforts to prevent juvenile crime. According to the most recent data, the number of arrests for criminal offenses committed by youth under the age of 16 declined by 28 percent between 1995 and 1998.

During the last six years, Governor Pataki's juvenile justice proposals have had two basic tenets — stiffer penalties for serious crimes and increased parental accountability for the actions of their children.

Under Governor Pataki Juvenile Crime is Declining

Under Governor Pataki's leadership, juvenile crime has dropped significantly. According to the Division of Criminal Justice Services, the number of arrests for index offenses committed by youth under the age of 16 declined from 27,959 in 1995 to 21,861 in 1998 — a 28% decrease.



The Office of Children and Family Services (OCFS) operates a multi-tiered, 2,100-bed residential system for youth convicted of serious crimes. Secure centers serve over 400 juvenile offenders and provide the most controlled setting. Limited secure facilities provide a restrictive environment for approximately 1,200 juvenile delinquents. A variety of non-secure facilities serve over 500 youth, mostly in community-based settings. All OCFS facilities offer an array of services for rehabilitating youth, including counseling, education, training and treatment.

The Governor's Budget will strengthen the State-operated OCFS system by providing \$73 million to support construction of a new secure center. When completed, this facility will replace the Harlem Valley Secure Center, which has been sold to a private-sector

entity as part of a program to convert surplus Mental Hygiene facilities to private use. The new center will be a state-of-the-art facility designed for supervising young offenders and providing rehabilitative services to help these individuals become contributing members of society.

As part of an overall strategy to better focus OCFS' rehabilitation efforts, the State will also begin transferring the most serious offenders to Department of Correctional Services (DOCS) facilities at age 16. Currently, due to the length of their sentences, these individuals must be moved to DOCS at age 21. The proposed early transfer of these offenders will enable OCFS to focus on less serious offenders, while providing the more serious offenders an opportunity for earlier integration into DOCS program services with other offenders their age.

Policy Highlight: Persons in Need of Supervision (PINS)

Governor Pataki recently signed legislation which allows children up to age 18 to be declared a Person In Need of Supervision (PINS). The previous maximum age was 16. This important legislation will empower the parents of older children to petition the Family Court to obtain help for youth who had previously been out of their lawful control. Once a youth is designated to be a PINS, the probation departments and the courts will be able to intervene in a preventive, rather than criminal, manner and provide needed services to keep the youth home and in his or her own community.

As part of the overall child welfare financing reform initiative advanced in this Budget, the State will provide 65 percent in open-ended funding to counties to support additional preventive and other related services for the expanded PINS population. Beginning in 2002-03, the State will also direct additional TANF funding to support increased foster care costs associated with PINS and juvenile delinquents.

In addition, the Governor's 2001-02 Executive Budget pursues the creation of two local Juvenile Justice Centers, one in Monroe County and one in the New York City Metropolitan area. These Centers will provide an uninterrupted chain of services at a single local site, including detention, juvenile court, placement and after-care. Youth who enter the criminal justice system through the new Centers will benefit from a continued attachment to their families and communities.

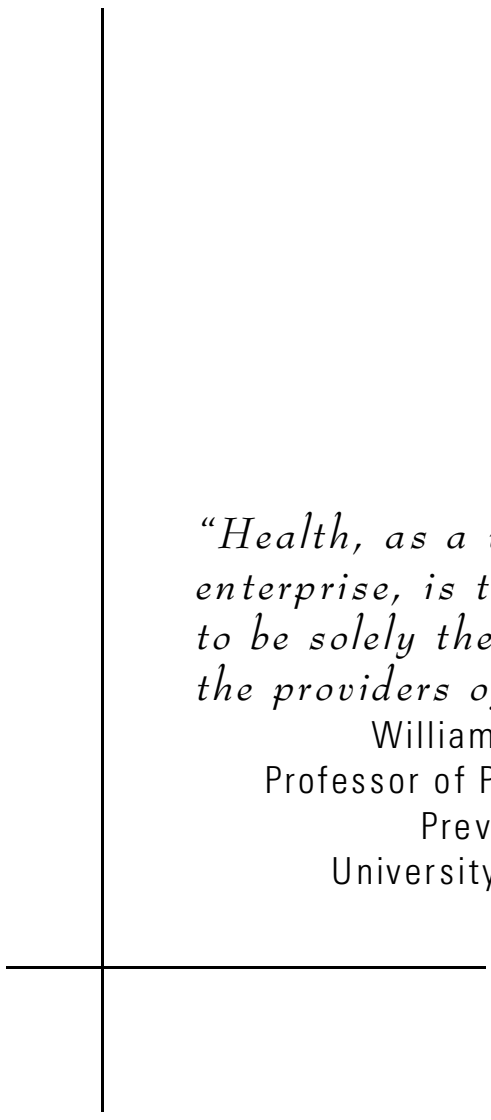
Preventing Juvenile Delinquency

Governor Pataki continues to commit significant resources to deter juvenile delinquency. His 2001-02 Executive Budget includes \$77.8 million in State funding for programs to reduce the likelihood that our youth will engage in violent or criminal behavior, abuse drugs or alcohol, or quit school. This funding includes:

- \$30 million for the Advantage After-School Program. Operating from 3 PM to 6 PM, these after-school programs provide school-aged children with opportunities to learn and play in a safe and supervised setting during non-school hours.
- \$44.5 million in State support for locally-operated delinquency prevention programs, and \$5.3 million for programs for runaway and homeless youth.

"I commend Governor Pataki for his leadership in developing the Advantage After-School program. These programs will help mold good students and good citizens, while giving thousands of working parents peace of mind."

Lucy Friedman,
President, the After-School
Corporation



*“Health, as a vast societal
enterprise, is too important
to be solely the concern of
the providers of services.”*

William L. Kissick, M.D.
Professor of Public Health and
Preventive Medicine,
University of Pennsylvania

Providing High Quality Health Care

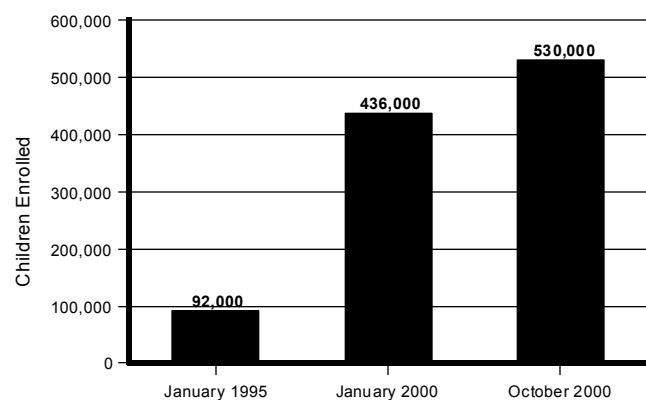
One of Governor Pataki's key objectives over the six years of his administration has been to ensure that every New Yorker has access to affordable, quality health care. During the past six years, Governor Pataki has:

Enacted the Health Care Reform Act of 2000 (HCRA 2000): This Act provided insurance coverage to the uninsured, strengthened hospital and clinic care for the poor, greatly enhanced anti-smoking campaigns, and improved rural health.

Dramatically increased enrollment in Child Health Plus (CHP): Under this nationally recognized children's health insurance program, 530,000 previously uninsured, low-income children are being served — an increase of more than 440,000 participants in just six years. More than \$940 million will be provided through HCRA 2000 for the comprehensive health care services our children need for a healthy start in life.

Child Health Plus (CHP) Enrollment Grows Dramatically Under Governor Pataki

Under Governor Pataki's leadership, CHP benefits have been expanded to include a full range of services and the number of children in the program has increased dramatically — far exceeding the most optimistic expectations.



Protected women's special health care needs: Governor Pataki has implemented an enhanced statewide network of screening and mammography programs, required insurance companies to cover second opinions as well as reconstructive surgery, and sponsored innovative research into the causes and cures for breast cancer.

Met the prescription drug needs of our senior citizens: Under the expanded Elderly Pharmaceutical Insurance Coverage (EPIC) program, many low- and moderate-income senior citizens can now obtain needed prescription drugs. With eligible income levels increased and enrollment fees reduced by 50 percent, more than 215,000 New York seniors will be enrolled in EPIC and on average save more than \$1,700 each annually.

Initiated the strongest anti-smoking effort in the State's history: Through enforcement of youth tobacco access laws and smoking cessation programs, a goal has been set to reduce teenage smoking by 50 percent over the next five years.

The Governor's 2001-02 Executive Budget expands on these successful programs and advances new initiatives to provide medical coverage for working disabled individuals and low-income women diagnosed with breast or cervical cancer. The Budget will also bolster anti-fraud and nursing home surveillance efforts. Medicaid costs will continue to be restrained while maintaining high quality care and access to services.

Covering the Uninsured

Governor Pataki is committed to providing health care coverage for low- and middle-income New Yorkers and their families. Expanded funding for the Child Health Plus program allows over 500,000 children to receive a wide range of health benefits, including vision and dental care. Under the Family Health Plus program, similar health care benefits will be extended to parents and adults; through the Healthy New York program, State subsidies will make affordable, standardized health insurance available to employees of small businesses with fewer than 50 employees.

The Governor's 2001-02 Budget also extends Medicaid eligibility to individuals with incomes of up to 250 percent of the Federal Poverty Level for:

Breast and Cervical Cancer Treatment: Uninsured and underinsured women diagnosed with breast and cervical cancer through the Center for Disease Control's national screening program will become eligible for lifesaving cancer treatments.

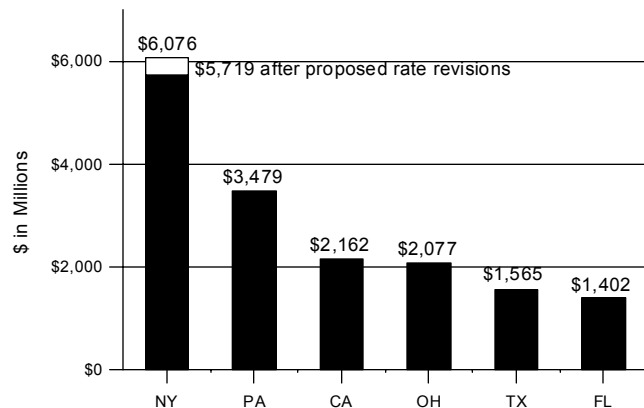
The Working Disabled: Disabled workers will be provided with access to the comprehensive, quality health care they need to enter or remain in the workforce and lead more independent lives.

Controlling Medicaid Spending

Governor Pataki is committed to providing all New Yorkers with high-quality health care. Importantly, however, public support for these services must remain affordable to State and local taxpayers. Accordingly, the 2001-02 Executive Budget recommends several actions to restrain rising costs which will produce State savings of \$300 million. Of that amount, less than \$140 million impacts reimbursement to providers while more than \$160 million is attributable to maximizing other sources of revenue to lower State costs. In addition, these measures will lower local Medicaid costs by nearly \$70 million next year.

New York Spends More on Nursing Homes

New York spends more on nursing home care than any other state in the nation — even after taking into account the rate revisions proposed in the 2001-02 Executive Budget.



Protecting Nursing Home Patients and Enhancing Surveillance Efforts

New York State spends substantially more on nursing home care than any other state in the nation. Yet, despite this investment, there continue to be serious questions about the quality of care provided at some long-term care facilities. At the same time, combined, the profits and owners' salaries realized by the nursing home industry in 1999 totaled \$397 million. In addition, nursing homes are expected to get increased revenues from the recently announced Federal Balanced Budget Act which is expected to provide an additional \$100 million for nursing homes in New York State. Moreover, rather than invest these gains in improved care, proprietary operators have chosen to withdraw equity — \$215 million in 1999 — from their facilities.

Savings measures are proposed to control spiraling Medicaid costs, including: eliminating inflationary payment increases for nursing homes; removing an unnecessary supplemental payment to facilities that have more than 300 beds; eliminating the return-on-equity incentive to proprietary homes, which has proven ineffective in encouraging nursing homes to reinvest profits in their facilities; and updating the nursing home reimbursement methodology to remove an adjustment for Medicare patients that is no longer necessary due to recent changes in Federal reimbursement policy. In addition, a fixed cap on Certified Home Health Care Agency administrative costs will be established — similar in concept to administrative caps in place for other providers.

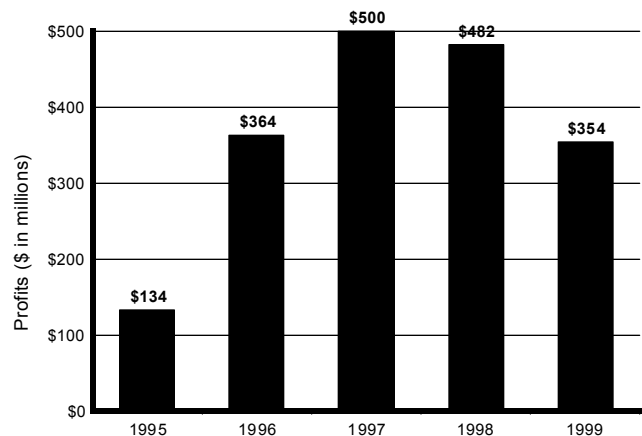
The Governor's Budget and subsequent legislation will recommend a series of actions designed to assure that residents of New York's nursing homes, and their loved ones, can rely on the highest quality of care. The actions proposed in the Governor's Budget and upcoming legislation will give families of those living in nursing homes the peace of mind that their loved ones will be treated with respect and the highest level of care.

- To promote high-quality care in nursing homes, the Executive Budget increases the Department of Health's long-term care field surveillance staff to the highest level in the Department's history to provide more on-site inspections and investigative capacity. Moreover, the Governor will propose a comprehensive package of legislation, including criminal background checks for all nursing home and home care employees providing direct care and increased fines for providers found to be noncompliant. Fines collected will be placed in a Quality of Care Incentive Account and will be reinvested in quality

improvement programs for nursing homes. In addition, the Department will add a new centralized nursing home complaint hotline to enable inspectors to better track, coordinate and respond more quickly to patient complaints.

Nursing Homes Continue to Make Significant Profits

Nursing home profits have more than doubled between 1995 and 1999. Owners of proprietary nursing homes have withdrawn significant amounts of these gains from their homes — \$215 million in 1999.



Maximizing Federal and Other Revenues

The Governor’s Budget also contains initiatives to maximize Federal revenues, including additional payments to non-State public hospitals, and pursuit of Federal financial participation for hospital services provided to inmates of State-operated prisons. In addition, nursing home assessment revenues in excess of statutory caps — which were collected in previous years — will be transferred to the General Fund.

Containing Pharmacy Costs

Prescription drug costs are one of the fastest growing costs in our Medicaid program. To meet this challenge, an independent Pharmacy and Therapeutics Committee will be established to consider measures to promote the appropriate and cost-effective provision of pharmaceuticals. The Committee, comprising administrators, clinicians and representatives from the health care industry, will make recommendations to the Commissioner of

Health regarding drug formulary and utilization policies and on options to achieve price discounts on drugs. In addition, recipients in managed care plans will be expected to pay the same co-payments for pharmaceuticals as do other Medicaid recipients.

Bolstering Anti-Fraud Efforts

Low-income New Yorkers must receive prompt, effective health care and the Medicaid providers who serve them should be properly compensated. At the same time, those who provide Medicaid services and the clients who use them must be held strictly accountable for their use of public funds.

Last year, Governor Pataki created a Medicaid fraud hotline to give the public and Medicaid providers fast access to the Department of Health (DOH) to report potential fraudulent and wasteful activities. The 2001-02 Executive Budget adds 25 new audit staff to DOH to bolster the State's anti-fraud efforts. In addition, the Department will implement a number of new initiatives, including:

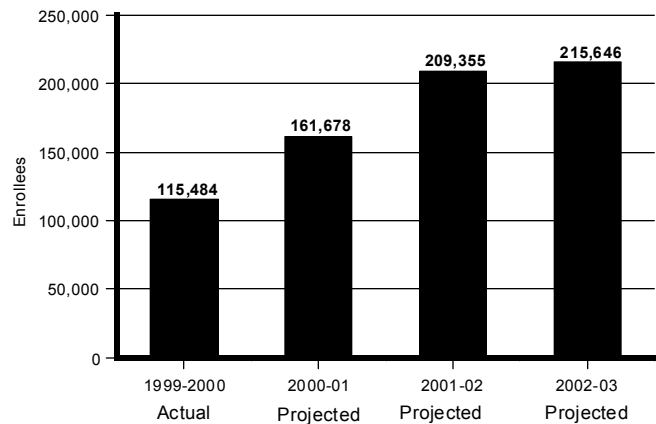
- Establishing an interagency group on Medicaid fraud to better coordinate the State's fraud control program, including new audit measures and other fraud prevention efforts.
- Instituting a rapid response audit team to mobilize enforcement efforts quickly when criminal fraud is suspected and utilizing innovative fraud measurement technologies to better target large-scale audit and fraud reviews.

Investments to Achieve Public Health Goals

Protecting the public health remains one of the Governor's highest priorities and, accordingly, the 2001-02 Executive Budget ensures the provision of critical health and oversight services to our communities. Recommended public health spending will increase by \$135 million for a total of \$798 million annually. This increase is largely driven by the additional costs of the EPIC program expansion enacted last year, and New York's response to the West Nile virus outbreak. The Governor's Budget provides:

EPIC Enrollment Grows Under Governor Pataki

The Elderly Pharmaceutical Insurance Coverage (EPIC) program provides drug insurance coverage for low- and moderate-income senior citizens. EPIC enrollment is projected to almost double between 1999-2000 and 2002-03, reflecting the program enhancements enacted last year.



- \$360 million to provide prescription drug coverage to an increasing number of senior citizens through the Elderly Pharmaceutical Insurance Coverage (EPIC) program. The cost of the EPIC program will be reduced, without any effect on enrollees, by bringing the pharmacy reimbursement methodology and manufacturer’s rebates in line with the other Department of Health drug dispensing programs, such as Medicaid. In addition, private insurers that cover EPIC enrollees will be required to match membership files with the Department of Health to ensure that EPIC — as required by law — is the payor of last resort.
- \$216.8 million for the General Public Health Works program — reflecting a 30 percent increase to pay for the State's response to the West Nile virus, including support to counties in the areas of epidemiology, surveillance and laboratory testing, and other local public health activities.
- \$44.5 million from HCRA funds to continue the Statewide Anti-Smoking initiative. The goal of the program is to improve the health, quality of life and economic well-being of all New York State citizens by reducing the enormous toll caused by tobacco use.
- \$155.7 million for the Early Intervention program serving infants and toddlers with developmental delays and disabilities.

- \$84.5 million for programs targeting women's health care needs — including breast cancer prevention, treatment and research; family planning and prenatal services; rape crisis programs; heart disease prevention; osteoporosis prevention; and genetic screening. An additional \$29.3 million is provided for nutrition programs for women, infants and children.
- \$55.1 million for State-operated nursing homes located in New York City, Oxford and Batavia that provide care for elderly veterans and their dependents, including funding for the new 252-bed Montrose Veterans' Nursing Home scheduled to open in 2001.
- \$90 million for the Roswell Park Cancer Institute Corporation — \$60 million from HCRA and \$30 million from the State's General Fund.
- \$2.6 million to promote sexual abstinence and prevent pregnancy among adolescents, \$600,000 to support efforts to prevent diabetes and help children with diabetes control their disease, and \$200,000 for projects to provide asthmatic children with care.

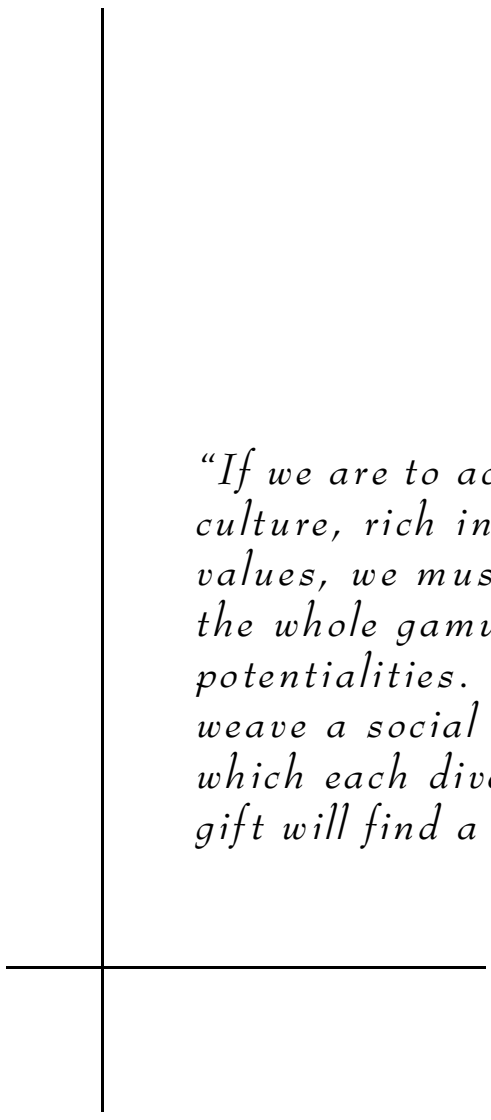
Continuing the Fight Against AIDS

Under the Governor's leadership, New York continues to lead the fight against HIV and AIDS. The 2001-02 Executive Budget recommends \$2.2 billion for services to people with HIV and AIDS. More than \$107.2 million will fund programs of the AIDS Institute. The remaining funds will be administered through public health, Medicaid, social services, housing, criminal justice, mental health and substance abuse treatment programs.

Improving Community Health

The Governor's Budget funds several recently enacted proposals to enhance the health of New Yorkers.

- \$5 million for the newly enacted Newborn Hearing program to screen newborns and ensure the early identification and treatment of infants with hearing impairments.
- \$11 million for the Water Supply Protection program and other water-related activities to enhance the Department's oversight of drinking water and to assist localities in meeting current and new Federal mandates.
- \$8 million for the Health Information and Quality Improvement Act to ensure that all New Yorkers have the information necessary to make informed health care decisions. In 2001-02, the State will develop a database containing profiles of all health care professionals and a new Patient Safety Center that will be used to maximize patient safety and reduce medical errors.



“If we are to achieve a richer culture, rich in contrasting values, we must recognize the whole gamut of human potentialities. We must weave a social fabric in which each diverse human gift will find a fitting place.”

Margaret Mead

Breaking the Cycle of Dependence

Governor Pataki has fundamentally reformed New York's welfare system. Today, more than 875,000 persons have left the welfare rolls and the system no longer traps recipients in a life of dependency. New York's new welfare philosophy provides them with avenues to employment, self-sufficiency and a more promising future. Equally important are the changes that the Governor has made in the basic structure and financing of the welfare system, targeting resources to prevent welfare dependency and assist people in finding and retaining employment.

Today, those applying for welfare understand that their first obligation is to actively seek employment and that welfare benefits will only be provided if work, child support, or help from family or friends are not immediately available. Individuals who do require assistance know that benefits are time-limited and tied to work and/or community service.

At the same time, the Governor has directed an unprecedented level of State and Federal funding to support programs such as day care and employment training, which assist New Yorkers requiring public assistance in finding and retaining jobs.

“Governor Pataki’s leadership on welfare reform has had a profound impact in New York. His common-sense policies and programs promote work instead of dependency, personal responsibility instead of governmental paternalism and results instead of rhetoric. His efforts to create the right environment for private-sector growth will continue to provide opportunities for all New Yorkers.”

Brian Wing,
Commissioner of the Office of
Temporary and Disability Assistance

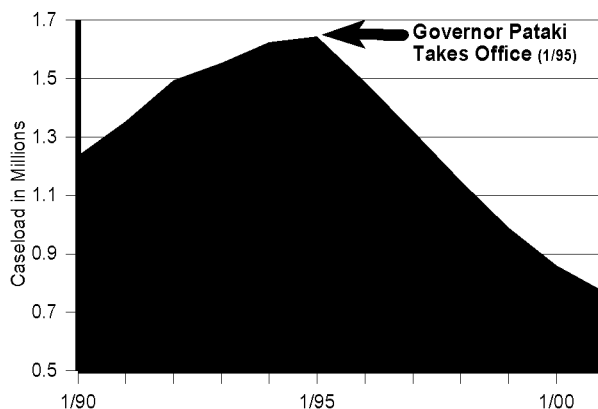
Welfare Reform for the 21st Century

Congress is scheduled to reauthorize the Federal welfare reform legislation, Temporary Assistance to Needy Families (TANF), by October 1, 2002. Under the Governor's direction, New York has established an inter-agency task force to ensure that our State's interests are effectively represented during the process. Outreach efforts will be made by the Office of Temporary and Disability Assistance, the Office of Children and Family Services, the Department of Labor and other involved agencies to elicit the views of local officials about the reauthorization agenda.

Under the Governor's leadership, New York has been in the forefront of welfare reform and is in a strong position to influence the national debate on reauthorization issues. Under the Governor's welfare reforms:

- By March 31, 2002 welfare dependency is projected to fall by over 55 percent since 1995 — with over 916,000 individuals leaving the welfare rolls.
- Welfare caseloads will be at their lowest point in 35 years by the end of State Fiscal Year 2001-02.
- New York State taxpayers will save a cumulative total of more than \$8.7 billion by the end of calendar year 2001.

Under Governor Pataki, Welfare Caseload Will Be at Its Lowest Point in 35 Years



By the end of SFY 2001-02, New York's welfare caseload will have declined by more than 916,000 individuals since Governor Pataki took office, and will be at the lowest level since October 1966.

Investing in Welfare Reform

The significant decrease in welfare dependency has been achieved by providing a broad range of services and work supports. Since the inception of welfare reform in 1995, investments totaling more than \$4.1 billion have been made, including:

- Over \$660 million to help welfare recipients and other low-income individuals acquire needed work skills.
- Over \$917 million in child care programs to enable parents to secure and retain employment.

This year, the Governor's Budget proposes an additional investment of over \$400 million in work supports, child care and other targeted services.

Under the Governor's leadership, New York has used TANF funding to expand services that can prevent dependency among at-risk households. This approach has worked to:

- Establish block grants for social services districts for both employment and transitional services so that districts now have the latitude they need to design and implement services that best reflect local economic conditions. Since State Fiscal Year 1999-2000, nearly \$300 million has been committed to these new funding streams.
- Expand eligibility for work supports, case management, and other transitional services so that most services now are available to households whose incomes do not exceed 200 percent of the Federal poverty level. This change is critical to our efforts at preventing welfare dependency by helping families retain employment, strengthen work skills, increase earnings and upgrade future work opportunities.
- Complement local block grants with targeted funding for important initiatives including:
 - InVEST: A program that helps integrate welfare-to-work programs with the State's overall workforce development system. This program ensures that job training provides work skills that are in demand in the local economy and lead to a meaningful job.

"We have demanded personal responsibility from those receiving welfare, and in return we have invested millions of dollars in programs to assist them in their transition to independence."

Governor Pataki

Public Assistance

“New York has wisely allocated TANF surplus funds for child care, child welfare services, transportation, employment-related education and training, and other income supports such as food assistance and EITC expansion.”

2001 Legislative Agenda of the Schuyler Center for Analysis (formerly State Communities Aid Association)

- Teen Works: A program that focuses on students who need extra support in preparing for college or a career. Teen Works uses an innovative mixture of mentoring, in-school counseling, and part-time employment to help these students reach their full potential.
- The Transitional Opportunities Program (TOP): This program accelerates work efforts among welfare recipients who are already employed, and helps former recipients retain employment.

The Governor’s Budget provides an additional \$100 million to support these important programs through the coming year. Since State Fiscal Year 1999-2000, more than \$718 million has been provided for these initiatives.

The Governor’s Budget provides continued access to \$80 million in health care recruitment and training funds provided in the current year through TANF. These funds will support new training opportunities for workers in nursing homes, hospitals, and home care service programs. Employers and current and prospective employees will also benefit because:

- Last July, the Job Training Partnership Act (JTPA) was replaced with the Federal Workforce Investment Act (WIA), providing a job training system with a sharper focus on employer needs. Welfare recipients, as well as dislocated workers, youth, incumbent workers and others will have access to skills training in areas most in demand by employers offering good jobs with potential for growth and advancement. New York will receive an estimated \$289 million for the 2001-02 WIA program year.
- Over \$135 million of Federal Welfare-to-Work block grant funds will be available to localities to provide help to those Family Assistance recipients confronted with the most serious barriers to employment.
- New York’s refundable Earned Income Tax Credit (EITC) will continue to be expanded in the coming year. This tax credit allows New York to return TANF funds to hard-working, low-income families. New York’s existing EITC will increase annually until it reaches 30 percent of the Federal credit effective January 1, 2003.

- The Budget includes an increase in the State's refundable Child and Dependent Care Tax Credit — effective tax year 2000 — so that it can pay a maximum benefit equal to 110 percent of its Federal counterpart. This change will use TANF dollars to complement the EITC increases and "make work pay" for eligible New York families.

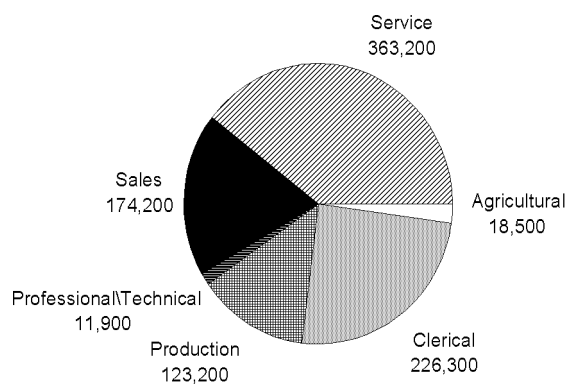
The Governor's Budget also provides over \$65 million in Federal and State funding to design and implement a unified human services computer systems network. This network will replace the aging Welfare Management System and several related computer systems, thus taking advantage of new technology, enhancing case management, and providing the capability to meet a challenging array of Federal and State program-specific requirements.

Making the Transition to Work

Under Governor Pataki's leadership, New York is enjoying a strong and resurgent economy. As a result, it is expected that more than 917,000 entry-level job openings will be available during State Fiscal Year 2001-02, which will help welfare recipients achieve self-sufficiency and others avoid welfare dependency. Many of these jobs provide opportunities for career advancement, higher salaries, and a more secure future. With this in mind, the Governor's 2001-02 Budget provides funding for a broad array of services and support to help individuals pursue these job opportunities.

Governor Pataki's Economic Policies Expand Job Opportunities

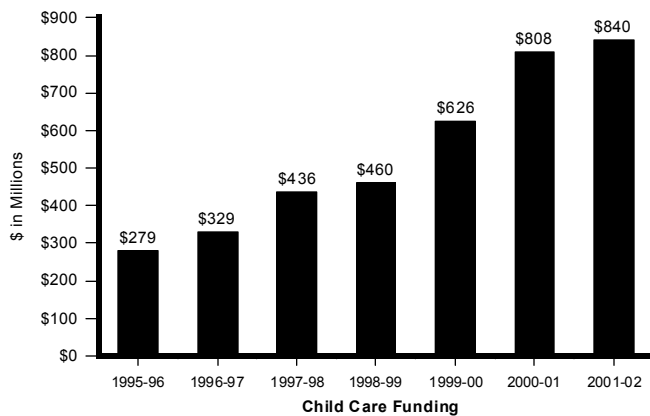
Over 917,000 entry-level employment opportunities will be available for welfare recipients and others seeking a start in the workforce during State Fiscal Year 2001-02.



A National Leader in Child Care

No parent can seek or maintain a job without assurances that their children are being properly cared for in their absence. Under Governor Pataki, New York has become a national leader in child care for low-income families. Compared to other states, New York ranks among the highest in the number of children receiving subsidies, in total spending, and in the quality and availability of child care providers.

Child Care Funding Triples Under Governor Pataki



The Executive Budget includes \$840 million in Federal, State and local funding for Child Care — an increase of over \$560 million under Governor Pataki. This funding enables districts to meet work participation requirements, supports those making the transition from welfare to work and finances subsidized child care for low-income families.

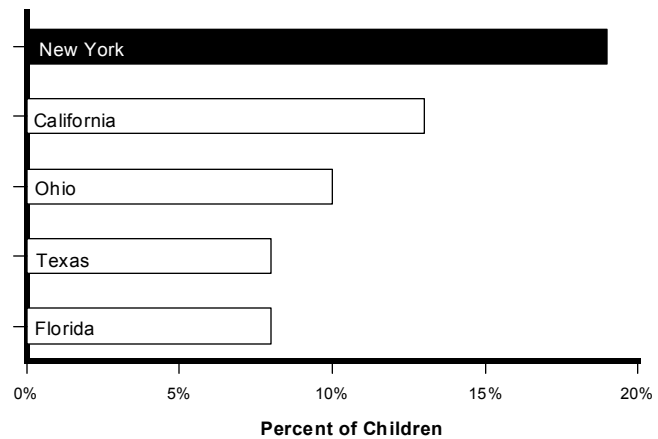
Following a record-level \$182 million increase in the State's Child Care Block Grant in 2000-01, total spending for child care has grown from \$279 million in 1995-96 to \$840 million in 2001-02 — a six-year increase of more than 200 percent. Statistics from the Federal government show that:

- Even before these record increases are considered, New York ranks second in the nation behind only California in providing subsidies for children. New York, however, serves nearly 50 percent more of its own eligible children than does California.
- During the 1999 Federal fiscal year, one out of every 11 subsidies in the nation was provided to children from New York.
- New York's total spending level ranks third among states — a ranking that will likely rise after last year's record child care funding increase.

New York - A National Leader in Child Care

According to the Federal Department of Health and Human Services, New York provides child care subsidies to a greater percentage of children than other large states based upon maximum Federal eligibility criteria.

Source: "Child Care and Development Fund Average Monthly Families and Children Served," Federal Department of Health Services, 2000.



The Governor's 2001-02 Budget continues his strong commitment to child care with \$840 million to support:

Subsidies: The Budget continues to fund 174,000 subsidies from the Child Care Block Grant, an increase of 102,000, or 142 percent, since the Governor took office in 1995-96.

Provider Rate Growth: The Budget supports an increase to the rates that may be charged by child care providers, effective October 1, 2001. A recent report by the National Child Care Information Center shows that New York ranked first, along with Massachusetts, in the maximum subsidy paid to child care providers.

Child Care Reserve Fund: In 2001-02, an additional \$71 million will be distributed from the Child Care Reserve Fund to counties that exhaust their regular child care allocations. A \$200 million Reserve Fund was established in 1999-2000 to allow localities to serve the growing number of recipients making the transition from welfare to work as well as low-income families needing child care subsidies to remain employed.

Quality Initiatives: A portion of both the Child Care Block Grant and Child Care Reserve Fund will be used for start-up and health and safety grants to outfit child care facilities, as well as to reimburse providers for training costs incurred to obtain certificates or degrees related to child care and early education.

Other Transitional and Support Services

Child care is only one of a series of supportive programs available to individuals entering the work force or striving to remain employed. Other supports include:

Food Stamp Benefits: Families of individuals who enter the work force may still qualify for nutritional assistance through the Federal Food Stamp Program. Nearly \$400 million in food stamp benefits are distributed each year to people who do not receive welfare.

Food Assistance Program (FAP): This program provides Food Stamp benefits to elderly immigrants not eligible for Food Stamps under Federal law. Scheduled to sunset on October 1, 2001, the Governor's Budget extends FAP to ensure that essential nutritional assistance remains available for this vulnerable population.

Health Care: Families that move off of welfare and medical assistance because of employment are generally eligible for up to one year of transitional Medicaid. The first six months of this coverage is automatic. Through this transitional assistance, adults and their children can be assured that work efforts will not jeopardize their health care coverage.

Nutritional Assistance: The Department of Health administers \$578 million in State and Federal funds for the nutritional assistance program for women, infants, and children. This includes \$5 million funded through TANF to further ensure that pregnant women and low-income families have access to a nutritionally sound diet.

Transportation Assistance: Approximately \$50 million in TANF funding from existing allocations will be used to expand employment-related transportation services for welfare and other low-income families.

Parental Responsibility Means a Brighter Future for Children

Child support has proven to be a vital tool in helping families achieve self-sufficiency and no Governor has done more to lead the fight to strengthen child support enforcement. Governor Pataki's numerous reforms have produced record-level growth in child support collections, and have sent a strong message about the need for parents to financially support their children.

Under the Governor's leadership:

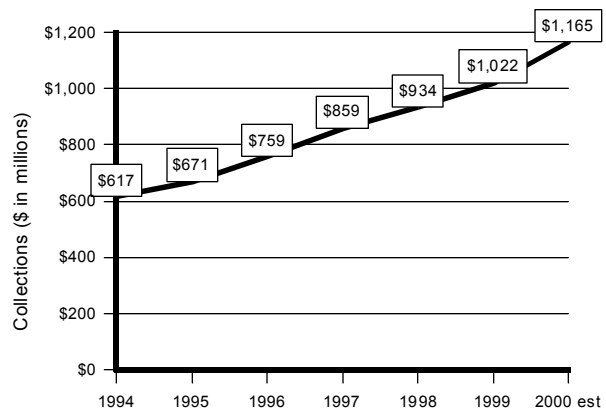
- The State Department of Taxation and Finance now issues warrants to secure assets and income applicable to overdue child support payments and operates a "new hires" registry to rapidly identify unreported income of deadbeat parents.
- Parents who refuse to pay child support or address past-due obligations now face suspension of driver's and professional licenses.
- Hospitals now receive State funding to help them obtain voluntary acknowledgment of paternity and child support orders are now updated periodically to reflect inflation.

"Parents have no greater duty than to provide for the emotional and financial support of their children. We will persist in our efforts to ensure that parents can live up to their moral obligations to support their children."

Governor Pataki

Governor Pataki — A Leader in Child Support Enforcement

Under Governor Pataki, child support collections have almost doubled. Collections are expected to exceed \$1.1 billion in 2000 and continue growing. New York is leading the way in putting children first.



New Initiatives to Increase Parental Responsibility

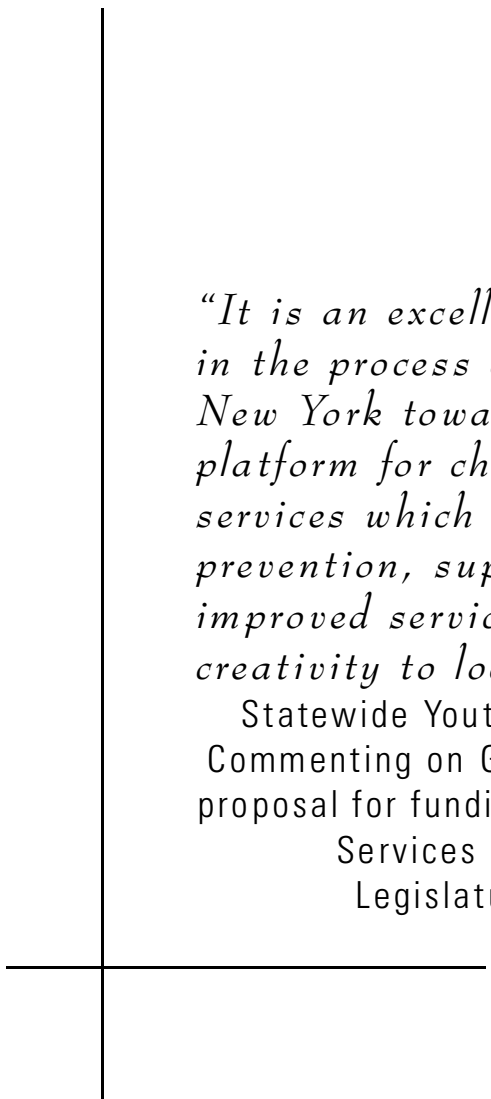
The Governor's Budget includes a new package of provisions that will further strengthen our child support enforcement program by:

- Doubling the child support incentive payment that can be retained by Family Assistance recipients from \$50 to \$100 per month.
- Focusing enforcement activities on "hard-to-collect" cases to underscore the responsibility of all parents to provide for their children.

"Several new child support initiatives, prompted by the Pataki Administration's emphasis on personal responsibility, have facilitated the State's (child support) enforcement efforts. In each of his annual budget proposals, the Governor has attempted to build on many of these new provisions by promoting administrative as opposed to judicial processes for carrying out child support enforcement activities and by strengthening the tools the State needs to increase rates of paternity establishment, support order establishment, and child support collections."

"Income Support and Social Services for Low-Income People in New York" by Susan A. Riedinger et al. in the Urban Institute series Assessing the New Federalism

- Accessing private insurance settlements to pay child support delinquencies and improving access to health insurance for children in child support cases.
- Expanding the "Celebrating Fatherhood" media campaign to encourage voluntary child support compliance.



*“It is an excellent first step
in the process of moving
New York toward a funding
platform for child welfare
services which encourages
prevention, supports
improved services and offers
creativity to local districts.”*

Statewide Youth Advocacy, Inc.
Commenting on Governor Pataki’s
proposal for funding Child Welfare
Services presented to the
Legislature in June 2000

Child Welfare

Prevention and Safety

Governor Pataki's 2001-02 Executive Budget gives the highest priority to providing a safe and permanent home for all children in New York State. The cornerstone of the strategy to accomplish this objective is a new child welfare financing initiative that encourages the preservation of families and avoidance of out-of-home placements. Under this plan, the State will also continue to expand its investment in the local service delivery network to ensure that it effectively responds to all reported child abuse incidents.

Working in partnership with local governments and not-for-profit agencies, the Office of Children and Family Services (OCFS) will provide more than \$1.3 billion in 2001-02 to prevent and remediate situations where a child's welfare is threatened, preserve and reunite families, secure appropriate but temporary out-of-home care for children who cannot remain with their families, and provide adoption services that create opportunities for permanent placement.

Reforming the Funding of Child Welfare Services

The Governor's 2001-02 Budget features a new funding approach that better meets the needs of children and families who come in contact with the child welfare system. This new financing system is based on the belief that earlier intervention with troubled families can significantly reduce foster care placements for at-risk children, and includes:

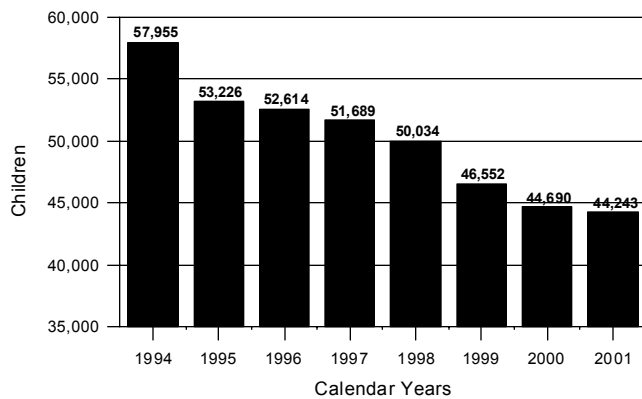
Flexible Funding for Prevention and Other Key Services: Under Governor Pataki's child welfare reform proposal, block grant limitations will be eliminated for preventive services provided by counties, and counties will be reimbursed, without limit, at a 65 percent rate for these services. Aftercare services, independent living activities, and local administration costs related to adoptions will also receive 65 percent State aid. The Budget

includes \$267 million in 2001-02 for this new funding category — an amount that is expected to grow steadily as counties expand their investment in services necessary to prevent foster care placement.

Investment in Child Welfare Quality: OCFS will distribute \$5 million in new funding to counties and not-for-profit groups in 2001-02 to promote the establishment of innovative child welfare service delivery models. In addition, \$1 million in State support is provided for the first time to expand voluntary agency and local staff training programs related to child welfare.

A Flexible Foster Care Block Grant: The Governor's child welfare reform proposal will provide counties with a \$364 million Foster Care Block Grant. Since the Governor took office in 1995, the number of children in foster care has been reduced by nearly 24 percent. Under the new Block Grant, counties will be able to reinvest savings resulting from further foster care declines into locally-designed child welfare initiatives that strengthen preventive services and better serve high-need children.

Continuing Progress Toward Fewer Children Living in Foster Care



The number of children living in foster care in New York State is expected to drop by nearly 24 percent — from a high of nearly 58,000 in 1994 to a low of 44,243 in 2001. The Governor's proposed child welfare reform will create even greater opportunities for reductions by providing counties with enhanced 65 percent State reimbursement for services designed to reduce the need for foster care placements.

Ensuring Child Safety

Ensuring the safety of our children is one of the most important responsibilities of government. The 2001-02 Executive Budget continues to support the following key initiatives to protect children:

Child Abuse Hotline: The Budget includes over \$8 million for the State Central Register for Child Abuse and Maltreatment, also known as the Child Abuse Hotline. Operating 24 hours a day, seven days a week, the Hotline receives more than 319,000 calls annually, and serves as the primary link between the public and the local child protection units that investigate reported allegations of abuse.

Child Care Safety: Governor Pataki's Quality Child Care and Protection Services Act of 2000 calls for mandatory fingerprinting of all licensed and registered child care providers and any person over the age of 18 who resides in a home where child care is provided. This ground-breaking legislation also:

- Doubles the child care provider training requirement from 15 hours every two years to 30 hours, and increases the inspections of registered child care providers to ensure that they are subject to an on-site review at least every other year.
- Subjects providers and all adults over the age of 18 residing in a family-based child care facility to criminal background checks, and imposes tougher fines on providers who violate statutory or regulatory requirements.

Protective Services: A substantial portion of the new \$267 million open-ended child welfare funding stream will support child protective services, enhancing the ability of local districts to respond to and investigate reports of child abuse and neglect.

Child Abuse Prevention: The Budget funds a number of programs that reduce the risk of children becoming abused or neglected by helping parents better deal with stressful situations, providing information on discipline and other parental skills, and offering respite. The 2001-02 Executive Budget includes \$1 million to fund a total of 15 established and new child advocacy centers, \$500,000 to fund a total of 10 local and regional multi-disciplinary teams to better coordinate the investigation of suspected abuse, and \$770,000, awarded by the William B.

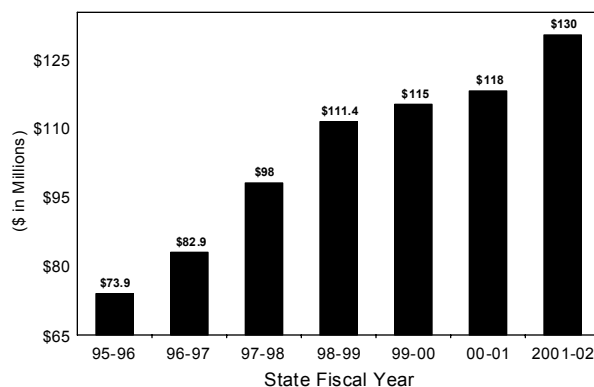
Hoyt Memorial Children and Family Trust Fund, to fund nine child abuse prevention programs through family resource centers and collaborative efforts between schools and community groups.

Building Successful Families

The Governor's Budget supports a variety of services that help stabilize families under stress and assist local governments and voluntary agencies in finding permanent homes for children who cannot be reunited with their parents.

Adoption Subsidies: The Office of Children and Family Services continues to assist local governments and voluntary agencies in finding stable, permanent homes for children in foster care who, for safety or health reasons, cannot be reunited with their parents. Since 1995, over 26,000 adoptions have been finalized. In 2001-02, \$130 million in State adoption subsidy funding is recommended to support a projected 4,700 additional adoptions. With this funding level, total State spending for adoption subsidies will have increased by 76 percent since Governor Pataki took office. The Budget also continues a special set-aside of \$1 million to reimburse adopting families for out-of-pocket expenses incurred to finalize adoptions through the courts.

Funding for State Adoption Subsidies Grows Substantially Under Governor Pataki



The Executive Budget includes \$130 million in State funding for the Adoption Subsidy Program — a \$56 million, or 76 percent, increase under Governor Pataki. Since 1995-96, subsidies have helped provide permanent homes for over 26,000 foster care children.

Home Visiting: In signing Chapter 141 of the Laws of 2000, Governor Pataki eliminated the sunset date on the State's successful Home Visiting Program. This intervention program reaches high-risk families at the earliest possible point — when the mother is in prenatal care or upon the birth of her child — to assess whether that child may be at-risk of neglect or maltreatment. Over \$16 million will be available in 2001-02 to provide long-term family support services that promote positive parenting skills, ensure optimal child health and assist needy families in becoming more self-sufficient.

Adolescent Pregnancy Prevention: In 2001-02, \$7.7 million will be provided to support a wide range of community-based pregnancy prevention and support services to adolescents in those areas of the State reporting the highest incidents of out-of-wedlock births.

“Today New York became the first state in the nation to privatize a commercial airport. With privatization cleared for take off, New York is again using the power of private enterprise to benefit air travelers and taxpayers. Governor Pataki is showing the nation there is a better way to improve airports. It’s privatization. It works in New York and it can work across the country.”

Ronald S. Lauder, Chairman of the New York State Research Council on Privatization, commenting on the privatization of Stewart Airport

Transportation

During the past six years, Governor Pataki's transportation programs have provided record levels of funding for highways and bridges and mass transit systems across the State. This year, the Governor's Budget will significantly increase funding for these essential programs. The Department of Transportation's highway and bridge construction program will grow by \$150 million over 2000-01 levels, accompanied by a \$50 million increase in engineering support for the program. Transit aid will be enhanced by \$121 million under the Governor's Budget, including an \$81 million increase for the Metropolitan Transportation Authority.

Investments for Economic Growth

Under Governor Pataki, improvements in New York's transportation infrastructure have played an integral role in the State's economic expansion. The Governor's transportation initiatives have helped New York's businesses grow and provided new opportunities for the creation of jobs within a network of highways and public transit systems that are increasingly safe, efficient and environmentally sound.

Over the past year, the Governor has continued to make strategic investments to position the State for further economic growth, including:

- Reconstruction of road and rail accesses to a Buffalo manufacturing company (Outokumpu American Brass), helping to spur a major plant upgrade that will retain 860 skilled, high-paying jobs and set the stage for future job growth.
- Construction of a new intermodal transportation facility in Cortland County to provide local businesses with more cost-effective ways to ship and receive goods by rail.
- The Utica-Rome Expressway project, which will link vital roadways in the Mohawk Valley into an efficient highway network. This project will enhance the viability of the proposed chip fabrication plant located in Marcy, and spur further development at the Griffiss Business and Technology Park in Rome.

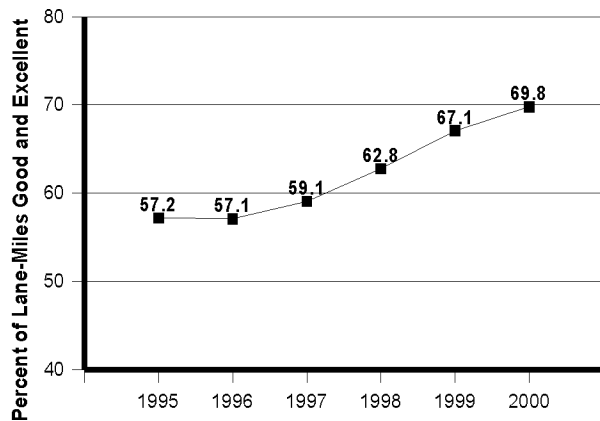
- The purchase, by the Metropolitan Transportation Authority (MTA), of more than 350 buses from the Orion bus manufacturing company in Oriskany and 680 subway cars from Bombardier located in Plattsburgh. These investments will not only improve service for MTA riders, but will greatly contribute to the economic vitality of these Upstate regions.

Protecting Our Transportation Assets

The Governor's 2001-02 transportation program continues to devote \$400 million annually to preventive maintenance projects that prolong the useful life of highways and bridges. As a result of these investments, transportation system conditions have greatly improved.

At the Governor's direction, the Metropolitan Transportation Authority has significantly improved the safety and reliability of its transit services. During the past year, the weekday 24-hour Terminal On-Time Performance of the NYC Transit subway system achieved a greater than 95 percent efficiency rating — the highest in ten years.

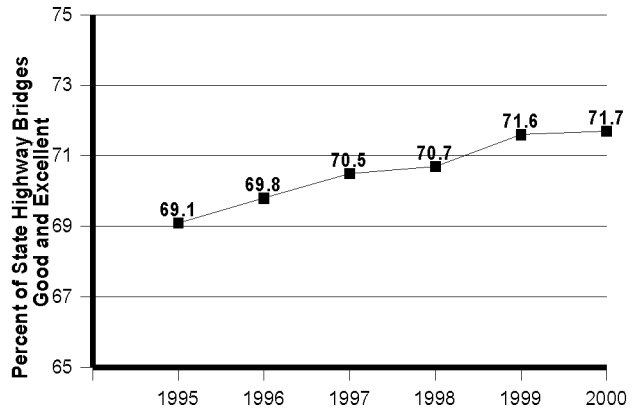
Improvement in State Pavement Conditions 1995-2000



Despite the additional wear and tear resulting from the annual growth in highway usage by cars, trucks and buses, State highway pavement conditions continue to improve as a result of Governor Pataki's unprecedented commitment of resources for road construction and rehabilitation.

Improvement in State Bridge Conditions 1995-2000

Governor Pataki's commitment to the safety and efficiency of the State's bridge infrastructure is evidenced by the steady improvement in bridge conditions.



Increasing the Commitment to Transportation

The Governor's Budget provides additional pay-as-you-go resources to continue our progress in improving infrastructure conditions and to encourage economic growth. The Budget will utilize \$250 million from the Governor's Debt Reduction Reserve Fund to replace bond financing with pay-as-you-go financing for transportation projects.

Pay-as-you-go funding will be used to proceed with the core elements of the State's five-year capital plan for highways and bridges and to provide additional State aid for the MTA. By 2004-05, the final year of the five-year transportation plan, the annual dedication of State tax dollars to transportation will have increased by approximately \$800 million, or 60 percent, over pre-plan levels. Approximately \$280 million annually will be directed to transit systems, including the MTA, with the balance supporting Department of Transportation capital programs.

Highway and Bridge Program

The Department of Transportation's highway and bridge construction program will, through a combination of State and Federal resources, total \$1.75 billion annually over the 2000-01 to 2004-05 time period — the highest level ever. In support of this expanded construction activity, engineering levels will also be increased to record levels — approximately \$640 million per year, an increase of more than \$50 million over 2000-01.

- These increases in the Department of Transportation's capital program will be funded (*without an increase in State debt*) by using proceeds from the Governor's Debt Reduction Reserve Fund in 2001-02 for pay-as-you-go financing.
- As a result, the completion of key transportation/economic development projects will proceed on a timely basis. These include conversion of Route 17 to Interstate 86 in the Southern Tier and the Route 219 construction project in Western New York.
- This expanded program will allow the Department of Transportation to continue improvement of road and bridge conditions, enhancing the safety and reliability of our highway system.

While resources are in place for the initial years of the plan, the latter years envision an increased level of Federal support. The Governor is committed to work with our congressional delegation to obtain the additional Federal aid necessary under the next Transportation Act in 2003.

Transit Program

Our State's transit systems ensure access to jobs, health care, social services, shopping and recreation, and provide an environmentally beneficial alternative to automobile use — reducing traffic congestion, alleviating demands on our highway and bridge infrastructure, decreasing vehicle emissions and conserving energy.

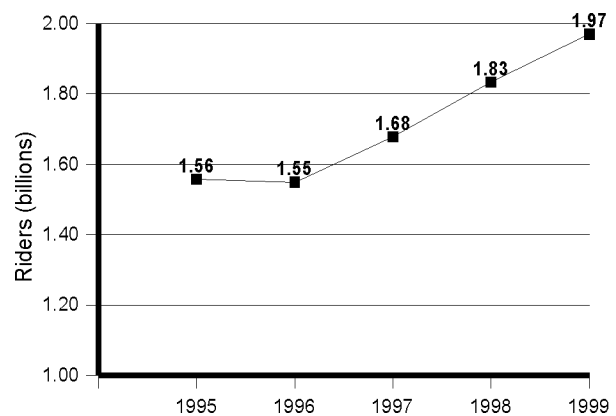
The Governor's 2001-02 Executive Budget will increase statewide transit aid by nearly \$121 million, or 7.7 percent, for a total of \$1.7 billion. This increased aid will help New York's local transit systems to close projected budget deficits and continue existing ser-

vices at reasonable costs to riders. In conjunction with prudent financial practices to be undertaken by the transit systems and continuation of local support, the increase in State aid should allow the systems to avoid fare increases in 2001-02.

Support for the MTA will increase by \$81 million to \$1.43 billion under the Governor's 2001-02 Budget. In addition, the Governor is committed to work with the MTA, the Legislature, the City of New York and other localities in the MTA region on the MTA's 2000-2004 Capital Plan.

New York City Transit Ridership Trends 1995 to 1999

The success of Governor Pataki's initiatives establishing the MetroCard Program, bulk fare discounts, and a one-fare ride policy and enhancing State capital support to the MTA can be measured by the growth in ridership on the New York City Transit bus and subway systems — up 26 percent since 1995.



More than 70 transit systems, in addition to the MTA, serve New Yorkers — from the Niagara Frontier Transportation Authority in Western New York to the Suffolk County-sponsored system on Long Island. The Governor's Budget provides \$265 million in assistance to these transit operators, a \$41 million increase over 2000-01. The enhanced aid will help the systems to avert fare increases, meet the special needs of the elderly and welfare-to-work recipients and, importantly, increase accessibility for persons with disabilities.

In 2001-02, the Governor will implement a new transit initiative to reduce commuting costs for New York State employees and stimulate ridership for transit systems. The Governor's initiative will allow State workers the same benefit afforded to the private sector, as permitted under State and Federal law — to use up to \$65 of their pre-tax monthly income to pay for transit or mass transportation expenses.

Rail Program

Recognizing the economic importance of New York's freight and passenger rail systems, the Governor's 2001-02 Budget continues his \$80 million multi-year capital rail program to increase market access for New York businesses and offer more efficient rail passenger transportation for New Yorkers. This program provides:

- \$30 million for New York City/Long Island clearance and capacity projects, \$21 million for the Long Island Intermodal Terminal, \$10 million to complete the CDTA Rensselaer Passenger Rail Station, and \$6 million for the Saratoga/Albany Commuter Service and Freight Reconfiguration.
- \$5 million for Binghamton/Suffern Passenger Service, \$2 million for Southern Tier Extension Rail Restoration, \$4 million for the Buffalo Transflo Facility, and \$2 million for the Niagara Frontier Passenger Service Improvements.

The Governor's High Speed Rail Program, a partnership with Amtrak, serves as a national model for developing and implementing high-speed passenger rail service. The Governor's 1998 agreement with Amtrak launched a \$185 million 50/50 partnership for the construction of high-speed trains and infrastructure improvements that will allow a significant reduction in travel times along the Buffalo to New York City corridor. The first of seven new trains is expected to start service in 2001.

In addition to providing for rail capital needs, the Budget also addresses tax inequities that have for too long acted as a disincentive to investment by railroad companies in our State. The Governor's Budget proposes a Rail Access Tax Incentive program that reduces, by 45 percent, property taxes on railroad companies; provides tax incentives that exempt eligible railroad capital improvements from local property taxes for a period of ten years; and provides a transitional aid program of \$70 million to help compensate localities for reductions in their tax bases.

Canal System

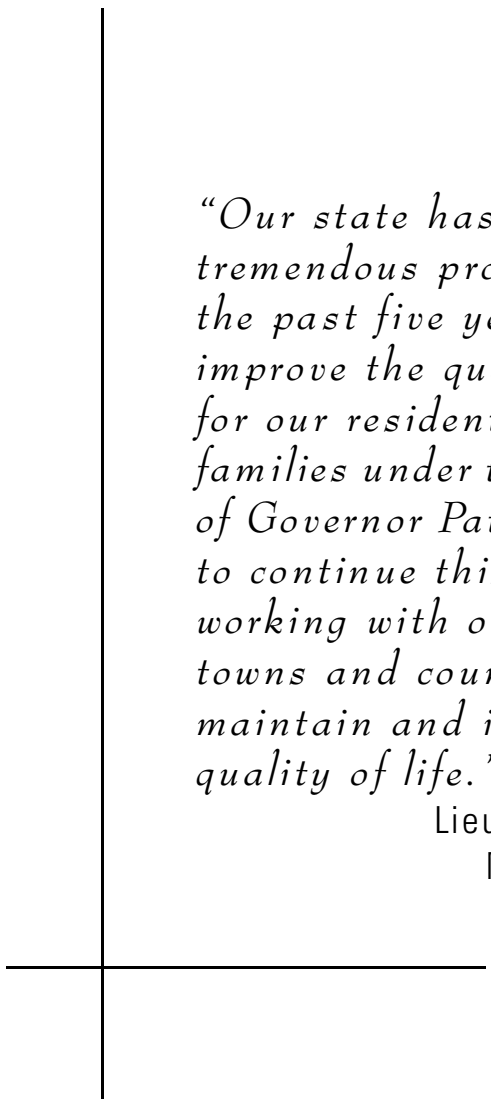
The New York State canal system is a unique transportation and recreational resource that can boost the economies of communities along the Canal Corridor. In 1997, the Canal Corporation initiated, at the Governor's request, a \$32.3 million five-year Canal Revitalization program that focused on four major elements: Canal Harbors, Canal Service Port and Lock Projects, the Canalway Trail and a Canal System Marketing Plan.

As we enter the last year of this very successful program, the Governor is providing an additional \$50 million over the next five years to enhance and continue this program. The Canal Revitalization II program will fund the completion of the 348-mile statewide contiguous Canalway Trail for bicyclists and pedestrians (the longest of its kind in the nation), and improve harbor facilities. It will also create jobs and spur private investment, such as houseboat manufacturers Stardust Cruisers and Starlight Houseboats in Seneca Falls.

Aviation

The Governor's aviation initiatives have resulted in substantial improvements in the State's air transportation system. Spurred by State capital investments, new low-cost airlines have begun serving airports in Albany, Buffalo, Rochester and Long Island, and service is anticipated to begin in Syracuse by the end of 2001.

The privatization of Stewart Airport, completed in March 2000, was the first commercial airport privatization in the nation, and promises to stimulate private sector development and improve air services in the Hudson Valley and throughout the greater Metropolitan New York region. This year, the Niagara Frontier Transportation Authority will finalize the application to the Federal Aviation Administration for the privatization of the Niagara Falls International Airport, which is expected to follow Stewart as the second airport to be privatized in the nation. The Governor's Budget will invest an additional \$8 million in regional aviation facilities.



“Our state has made tremendous progress during the past five years to improve the quality of life for our residents and families under the leadership of Governor Pataki. We want to continue this progress by working with our cities, towns and counties to maintain and improve their quality of life.”

Lieutenant Governor
Mary O. Donohue

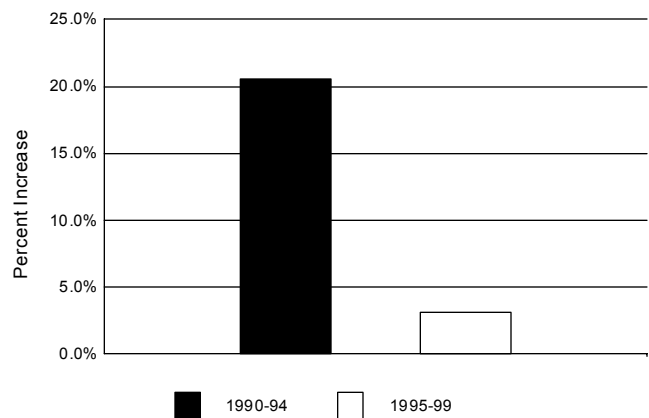
A Six-Year Record of Helping Local Governments

During his six years in office, Governor Pataki has worked closely with local officials to improve and strengthen the fiscal health of local governments across the State. His efforts to significantly increase unrestricted State aid, invest in urban centers and transportation facilities, establish Empire Zones to encourage economic development, and reduce State taxes have all helped to stimulate business growth, create jobs, and generate new local revenues. In addition, the budgets enacted since the Governor took office in 1995 have saved municipalities and school districts across the State nearly \$6 billion through various cost containment and mandate relief measures.

The results of Governor Pataki's efforts are clear. Between 1995 and 1999, aggregate property taxes for counties, cities, towns and villages outside of New York City grew by only 3.1 percent — substantially less than the 21 percent growth that occurred between 1990 and 1994. Employment in Upstate New York is at its highest level ever, and job creation is occurring at a faster pace than in any other industrial state. New York City's economy and budget performed better in the fiscal year ending June 2000 than in any other fiscal year.

Property Taxes Have Stabilized Under Governor Pataki

Under the prior administration, aggregate county, city, town and village taxes outside of NYC increased by almost 21 percent from State Fiscal Years 1990 through 1994. By comparison, the aggregate property tax levy increased only 3.1 percent between 1995 and 1999.



New York's Local Governments Benefit Since 1995

New York's county governments have substantially benefitted from Governor Pataki's tax relief and economic development policies as well as from his efforts to reduce health care costs.

For example, the spiraling annual Medicaid cost increases that counties experienced under the previous administration have been brought under control. Between 1991 and 1994, county Medicaid costs rose 32 percent statewide. In contrast, between 1995 and 1999, local Medicaid costs increased by less than one percent per year. This is a direct result of Medicaid cost-saving measures achieved since 1995 by Governor Pataki, which have saved county taxpayers outside New York City approximately \$463 million during this time period.

Approximately one year ago, the Governor achieved another major victory for county taxpayers when he secured a new, three-year commitment from the Legislature to continue these Medicaid cost-saving measures. Over the next three years, these initiatives are expected to save counties outside New York City an additional \$420 million.

The 2000-01 State Budget also established a new county revenue sharing program, which will provide \$44 million over the next two years, in new, unrestricted aid for counties across the State — funds that counties may use as they deem appropriate.

In total, State budgets enacted since 1995 have saved county taxpayers more than \$989 million. In addition, as a result of a flourishing economy, county sales tax revenues have increased by more than 27 percent between 1995 and 1999.

Since 1995, the budgets enacted by the State have also saved New York City nearly \$3 billion. From economic revitalization to mass transit improvements to entitlement program reforms, the State's actions during the past six years have helped New York City significantly. The Governor's success in controlling Medicaid costs have saved the City approximately \$760 million since 1995. New York City taxpayers have also saved more than \$1.9 billion over the same period due to the significant decrease in public assistance caseloads.

Unrestricted aid to counties, cities, towns and villages has increased \$124.7 million, or 18 percent, since 1995. Revenue sharing, the largest category of unrestricted State aid, provides \$561 million to all cities, towns and villages. In addition, the Supplemental Municipal Aid program, established in 1996-97 with \$49 million in funding, has grown to the second largest category of unrestricted aid, providing \$189 million in State Fiscal Year 2001-02.

A Strategy for Continued Revitalization

Governor Pataki's 2001-02 Budget provides a total of \$815.5 million in unrestricted aid to counties, cities, towns and villages. The Budget also includes economic development and tax reduction initiatives designed to further stimulate economic growth.

These initiatives include the Governor's comprehensive economic plan for Upstate New York, which will double the size of 22 Empire Zones, cut taxes and increase job training opportunities for manufacturing businesses, and encourage the cleanup and revitalization of brownfield sites. The Budget also includes \$5.1 million to fund a newly authorized corporation which will undertake the revitalization of Niagara Falls and its environs.

While New York City continues to enjoy a robust economy, the Executive Budget for 2001-02 nevertheless reflects support for a number of initiatives important to the City's long-term fiscal health. These multi-year investments include: \$225 million in State funding for the construction of the new Stock Exchange building; \$100 million in matching funds for the Federal Empowerment Zone to spur development in upper Manhattan and the South Bronx; and an array of tax credits to promote development in lower Manhattan. Also recommended is an increase in State support to the MTA of \$81 million.

Offsetting these financial commitments is the recommended elimination of the Stock Transfer Incentive Fund, which was originally established in 1977 to offset New York City's losses from the elimination of the stock transfer tax. Given the financial benefits that accrue to the City as a world financial center and its strong economy, compensation for this tax loss is no longer justified.

Local Government Assistance

The Executive Budget also includes the Governor's new \$230 million Co-STAR tax cut program for county taxpayers, which is modeled after his highly successful STAR school tax reduction program. Co-STAR, which will target income-eligible senior homeowners and farmers across the State, would save seniors more than \$300 and farmers more than \$200 each year on average. Co-STAR will also cut the New York City personal income tax by \$120 for married senior couples and \$60 for individual seniors each year.

Mandate Relief

This year, the Governor will continue to press for legislative changes to reduce the cost of government. Major initiatives include:

Wicks Law Reform: School districts and BOCES would be exempt from the Wicks Law's multiple contracting requirements, and all local governments would see their costs reduced.

Binding Arbitration Reform: Arbitration panels would be required to give first and highest consideration to government's ability to pay, without a tax increase.

Expanded Investment Opportunities: Local governments would be authorized to invest in the State Comptroller's Short Term Investment Pool and other prudent investments.

Enhanced Revenue Option: Counties and New York City would have the option to increase the current \$.35 surcharge for E-911 services to \$1.00.

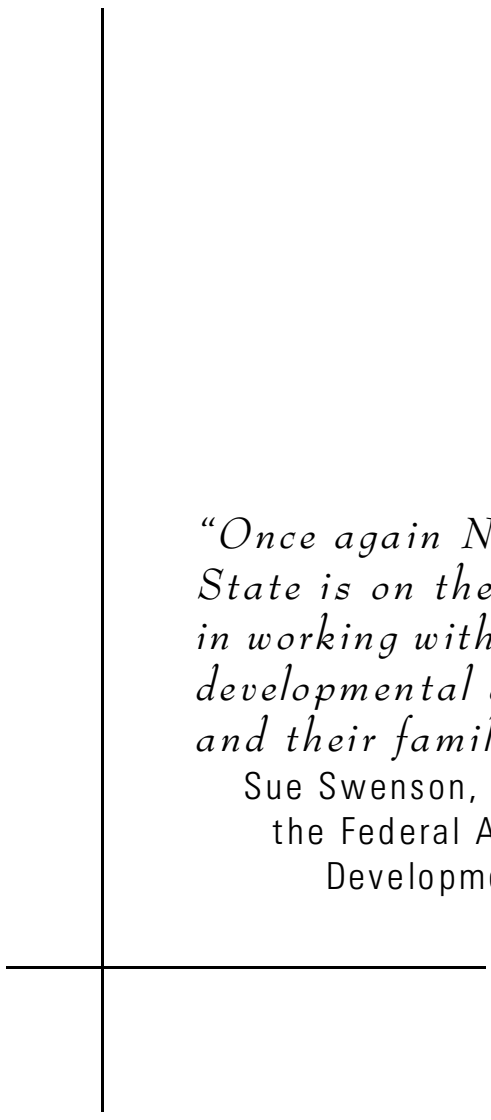
Local Government Assistance

Impact of SFY 2001-02 Executive Budget On Local Governments State Fiscal Year Basis (\$ thousands)

SFY 2001-02	TOTAL	COUNTIES	NYC	OTHER LOCALS	SCHOOL DISTRICTS
COSTS	(138,801)	(12,233)	(126,568)	0	0
SAVINGS	581,366	105,483	287,101	5,162	183,620
NET IMPACT	442,565	93,250	160,533	5,162	183,620

Impact of SFY 2001-02 Executive Budget On New York City City Fiscal Year Basis (\$ thousands)

NYC IMPACT	CFY 2001-02
TOTAL COSTS	(128,159)
TOTAL SAVINGS	355,247
NET IMPACT	227,088



*“Once again New York
State is on the cutting edge
in working with persons with
developmental disabilities
and their families.”*

Sue Swenson, Commissioner of
the Federal Administration on
Developmental Disabilities

Serving Individuals With Special Needs

Over the past six years, programs serving individuals with special needs have been of highest priority to Governor Pataki's Administration.

The Governor's NYS-CARES program is a national model for programs serving people with developmental disabilities.

Another landmark act, Kendra's Law, ensures timely and appropriate treatment for people with mental illness who require close supervision to live successfully in the community. This important initiative was supplemented last year by a new \$125 million program to expand the availability of case management, housing and other community services for children with serious emotional disturbances and adults with mental illness.

Similarly, an array of initiatives are underway to eliminate long-standing fragmentation of services through the consolidation of the separate drug and alcohol abuse treatment systems into a single chemical dependence network.

Building on these measures, Governor Pataki now proposes several new initiatives to further advance the quality of care for individuals with these special needs.

A New, Long-Term Commitment to Community Mental Health

Perhaps most dramatic is Governor Pataki's proposal to restructure the support of community mental health services. In September 2001, the financing provisions of the current Community Reinvestment Act will expire. This Act has served as an important guide in properly balancing resources between the State-operated institutions and locally-operated community-based care.

The Reinvestment Act has also helped to achieve many dramatic changes in the delivery of mental health services that have improved the lives of thousands of New Yorkers with mental illness. Today, the statewide census of State inpatients is one-quarter of what it was 15 years ago. Importantly, about two-thirds

of State and Medicaid dollars for mental health services is now spent annually on community-based care instead of State institutional care. The number of beds in the State's Psychiatric Center system is rapidly approaching its long-term capacity needs to meet the ongoing demands for inpatient care.

The backbone of mental health care is now community-based, and comprises a wide array of residential programs, clinic and other outpatient services, community hospital care and various rehabilitation and other community and family supports.

The provision of strong, ongoing and predictable support to this extensive network of community-based providers is reflected by the Governor in his Executive Budget recommendation to institute a new formula for local mental health funding called the Community Mental Health Support and Workforce Reinvestment Act.

Like the current Reinvestment Act, this new proposal continues to redirect savings from the closure and relocation of psychiatric centers as well as the closure of unneeded inpatient beds to important mental health priorities.

However, in contrast to the current system, the Governor's proposed legislation provides a number of key benefits. First and foremost, the legislation authorizes, over the next three years, annual Cost of Living Adjustments (COLAs) to mental health providers across the State. These increases will strengthen local programs by allowing managers to retain staff and improve long-term planning decisions. The legislation also increases Medicaid reimbursement for mental health clinics and authorizes development of new transitional housing and children's crisis beds.

The Governor's plan incorporates a three-year initiative for State psychiatric centers with savings reinvested in mental health services. While substantial resources will be made available, psychiatric centers will retain a cushion of capacity beyond expected needs. This plan will strengthen the integrity of the community-based care system by ensuring that clients who require inpatient treatment will have immediate access to it.

Following are the key elements of the Governor's plan:

Closure of unneeded capacity. Over the next three years, reduced demand will allow the closure of approximately 725 inpatient beds. The plan begins with elimination of 240 beds throughout the system in 2001-02. The plan also phases out two unneeded facilities during the next few years — Hutchings Psychiatric Center and Middletown Psychiatric Center.

Relocation and consolidation of facilities. Children's units will be moved to appropriate space at nearby psychiatric centers. Consistent with current practice, these units, despite relocation, will remain separate autonomous entities. Additionally, operations of the Kirby Forensic facility will be consolidated into buildings at the neighboring Manhattan Psychiatric Center. These moves will permit savings through administrative efficiencies, freeing resources to support community mental health services, and avoid costly capital renovations.

Development of new, flexible capacity. Capital financing is included for the development of over 100 new State-operated transitional housing beds, and 40 children's crisis residence beds, all to be located on the grounds of State psychiatric centers.

The savings from these actions, expected to total over \$64 million by the end of the third year of the plan, will be used to provide annual increases in aid to community-based providers. Savings are expected to be sufficient to support a 2.5 percent COLA increase for community residen-

Policy Highlight: Key Elements of The Community Support and Workforce Reinvestment Act of 2001

- Annual COLA of 2.5 Percent Per Year for a Minimum of Three Years
- 10 Percent Increase in Mental Health Clinic Fees
- State Aid to Counties for Shared Staff
- 100 New Transitional Housing Beds
- 40 New Children's Crisis Residence Beds
- Dedicated Savings from Bed Closures
- Dedicated Savings from the Relocation of:
 - Western NY Children's Psychiatric Center to Buffalo Psychiatric Center Campus
 - Sagamore Children's Psychiatric Center to Pilgrim Psychiatric Center Campus
 - Rockland Children's Psychiatric Center to Rockland Psychiatric Center Campus
 - Queens Children's Psychiatric Center to Creedmoor Psychiatric Center Campus
 - Kirby Forensic Psychiatric Center to Manhattan Psychiatric Center Campus
- Dedicated Savings from Closing Two Psychiatric Centers:
 - Hutchings Psychiatric Center
 - Middletown Psychiatric Center

tial and non-residential mental health programs, and to finance a 10 percent increase in the Medicaid fees the State pays to various mental health clinics, day treatment, and other outpatient programs.

Additionally, the State will transition funding for so-called “shared staffing” to new State aid to counties. These State staff, traditionally loaned to counties, hospitals or providers, will be phased out over the next three years. The funds appropriated to the Office of Mental Health for these positions will be converted to local aid, beginning with an estimated \$3 million in 2001-02, rising to over \$12 million when the transition is complete by the third year.

The Governor’s 2001-02 Budget also adds \$6.6 million in new annualized State aid under the current Reinvestment Act for expanded community services to strengthen recovery and rehabilitation for individuals with mental illness.

Strengthening Community Mental Health Services

The 2001-02 Executive Budget fully funds Kendra’s Law programs, including \$32 million in General Fund support for the Assisted Outpatient Treatment Program and for the Medication Grant Program. This grant program was established to ensure that people being released from hospitals, jails or prisons receive any needed psychiatric medications while they are applying for Medicaid coverage.

The Enhanced Community Services program, partially supported by the Health Care Reform Act, will total \$125 million, an increase of \$38 million. This program will provide case managers for nearly 12,600 additional children and adults who require this type of community care and oversight; 2,000 new supported apartments; and added services for children with serious emotional disturbances through significantly expanded Family Based Treatment, Family Support Services and Home and Community Based Services programs.

In addition to the support provided under the new Community Mental Health Support and Workforce Reinvestment proposal, Governor Pataki’s Budget will strengthen the State’s supported housing program by increasing annual stipends by an additional

\$5.2 million. In New York City, annual stipends provided by the State Office of Mental Health will be as high as \$10,912 per bed, and will increase further upon enactment of the proposed new Reinvestment initiative.

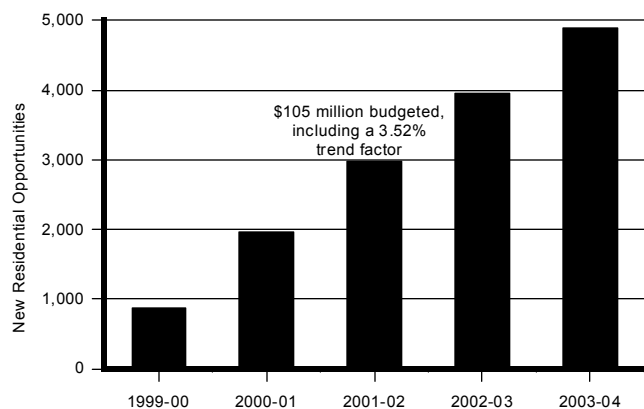
With full funding provided for beds being developed under the New York/New York II Agreement, the Enhanced Community Services Program and other on-going initiatives, it is expected that an additional 2,700 community beds of all types serving New Yorkers with mental illness will be opened by the end of the coming fiscal year — bringing the total beds in operation to 26,400. This represents an almost 40 percent, or 7,460 bed, increase over the number operating when Governor Pataki took office in 1995.

Providing Appropriate Care to People with Developmental Disabilities

Announced by Governor Pataki in 1998, NYS-CARES — a sweeping initiative to eliminate the waiting list for out-of-home residential services for developmentally disabled adults — continues to meet its promise. An additional 1,600 people will receive a residential opportunity under the NYS-CARES program during the coming year.

NYS-CARES Governor Pataki's Five-Year Commitment Continues

In August 1998, Governor Pataki committed to a comprehensive five-year plan to virtually eliminate the waiting list for openings in community residential opportunities for persons with developmental disabilities. A total of \$314 million in State and Federal funds will be dedicated to building nearly 5,000 new beds and providing ancillary day, in-home, and family support services.



NYS-CARES continues to be at the heart of the Governor's Budget for the Office of Mental Retardation and Developmental Disabilities (OMRDD). An increase of \$49 million is provided in 2001-02 to support the new NYS-CARES beds opened during 2000-01 and the nearly 1,000 additional beds to open in 2001-02. By the end of the coming fiscal year — the third year of the program — a total of 3,000 NYS-CARES beds will have been developed, meeting the aggressive schedule set by Governor Pataki two years ago. The remaining beds will be opened in the subsequent two years.

In addition to meeting the NYS-CARES commitment, the Governor's Budget contains other key initiatives to ensure that New Yorkers with developmental disabilities receive the highest quality and least restrictive care appropriate to their needs:

- More than 175 people will leave State Developmental Centers and take advantage of residential opportunities in the community. By the close of 2001-02, it is expected that fewer than 670 people will remain in the general population of these State institutions.
- More than 1,000 young adults with developmental disabilities who are aging out of school programs will receive needed day services.
- Nearly 1,600 additional people will have new opportunities to work in competitive jobs through the supported employment program — which is being restructured to encourage the participation of people with more severe developmental disabilities.
- OMRDD will open the new Valley Ridge Center for Intensive Treatment at Norwich, as well as another 84 secure and intensive treatment beds within several State Developmental Centers. This will ensure that the State can properly treat people requiring secure settings because of criminal, dangerous or injurious behaviors.
- Funding is provided to the Office of Mental Retardation and Developmental Disabilities to address special situations where fee adjustments may be needed by providers to arrange necessary transportation to day services.

- Providers of services to developmentally disabled people — including residential providers under NYS-CARES — will receive a 3.52 percent inflationary increase in their Medicaid rates, which they may use to provide salary increases for their workforce. In addition, increased State funding is being made available to those providers that do not receive Medicaid rate increases to provide their direct care workers with a \$500 wage and benefit increase. These actions will ensure that providers continue to offer the highest quality of care.

“Governor Pataki... truly made New York State the best place in this country for special people and for special families.”

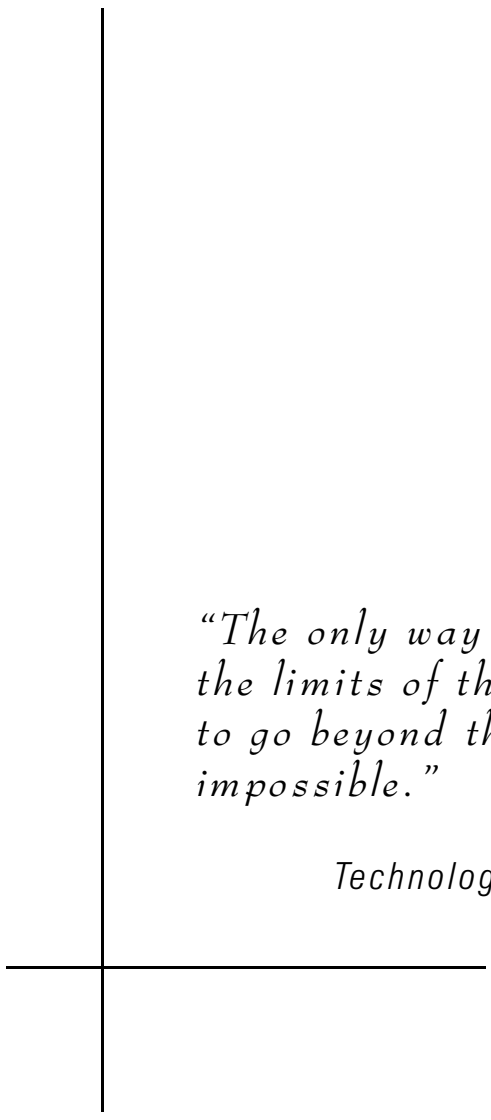
Blanche Fierstein,
President of NYSARC, upon
presentation of their
50th anniversary
Humanitarian of the Year
Award to Governor
George E. Pataki

Restructuring the Chemical Dependence System

The Governor’s 2001-02 Executive Budget recognizes the pivotal role played by chemical dependence treatment and prevention programs in the achievement of the State’s welfare, child welfare, and criminal justice agendas. The OASAS budget invests more than \$475 million to meet these treatment needs, preserving all existing service capacity. Coupled with significant TANF and Medicaid funding, these resources provide quality care and positive outcomes for those with chemical dependencies.

In 1999, the Governor introduced ground-breaking legislation to fundamentally change the structure of the previously separate systems to treat alcoholism and drug abuse. By consolidating these two separately regulated and financed systems into a single chemical dependence network, the Governor’s initiative ended the long-standing fragmentation of services in a system where the majority of clients have multiple forms of addiction.

The consolidation of these systems will allow the more efficient and effective use of resources for addiction treatment and prevention. In the coming year, the State will make aggressive efforts to further consolidate and restructure the chemical dependence system, by adopting streamlined regulations and developing new Medicaid prices for consolidated chemical dependence services.



*“The only way to discover
the limits of the possible is
to go beyond them into the
impossible.”*

Arthur C. Clarke,
Technology and the Future

Government Technology for the 21st Century

In June 2000, Governor Pataki officially unveiled his new e-Commerce Initiative and announced establishment of a digital "Government Without Walls" in New York State. Signing his proclamation electronically, the Governor set in motion the process of breaking down the walls of State government that will allow citizens and businesses continuous access to government information, online services and transactions 24 hours a day, 7 days a week.

Recognizing the important role that technology plays in the future growth of our State, Governor Pataki continues to make investments in the technology that will allow State agencies to better respond to the public's needs. Through the e-Commerce/e-Government initiative:

- Citizens and businesses will be able to directly access State systems and data online rather than in person or waiting in line;
- Services and information will be convenient, secure and easy to use; and
- One-stop online access will allow transactions to be completed faster and more efficiently.

Managing Our Technology Infrastructure

Advances in technology continue to be made at a rapid rate. To remain competitive, the State's technology infrastructure must keep pace. Over the past six years — through the prudent management of assets, consolidation of resources, and targeted investments in modern technologies — New York has installed much of the needed infrastructure.

Technology/e-Government

The Governor's 2001-02 Budget continues to support these efforts with:

\$97 million for the consolidated Data Center. Established by combining 19 separate data centers into a single operation, the consolidated Data Center has already achieved significant savings by reducing staffing needs, leveraging the State's purchasing power and enabling replacement of outdated and inefficient equipment with state-of-the-art technologies. For State agencies, the consolidation has:

- Improved services through planned investments in new technologies and better utilization of staff and existing hardware;
- Allowed smaller agencies to access the same sophisticated technologies as larger agencies; and
- Provided improved security, including a new consolidated command center to monitor and control the Data Center's operations.

\$20.6 million for the NYeNet. The NYeNet — consisting of fiber optic cables with network access points across the State — is the digital backbone of New York's high-speed information highway. Stretching from New York City to Plattsburgh and from Albany to Buffalo, the NYeNet will be the tool for consolidating the myriad of separate networks throughout the State, enhancing communication across government levels within the State, and assisting local governments in utilizing new technologies. Using modern telecommunications technology, NYeNet will connect local governments and State agencies with voice, video and data online services in a reliable, secure environment.

In addition, the State has undertaken a major effort to replace its obsolete communications system. Through the Statewide Wireless Network, State and local public safety and public service agencies will be integrated into a single, secure, modern communications network. This advanced technology will improve services and emergency response times while providing significant cost benefits to participating agencies.

Preparing for the Future

New York's plan for a digital "Government Without Walls" is being coordinated by the State Office for Technology (OFT). In its role as coordinator, OFT asked all agencies to identify those services and transactions that are critical to their mission or that affect economic development or the public's quality of life, health and safety. As a part of this effort, agencies identified nearly 150 services and transactions beneficial to businesses, citizens and local governments that are already available online through their web sites. The Governor's 2001-02 Budget provides continued support for these and other identified initiatives, including:

\$25 million for the e-Commerce/e-Government Initiative. The e-Commerce/e-Government Initiative consists of 75 priority e-government projects across 31 State agencies. When completed, vendors, businesses and citizens will benefit from the ability to:

- Apply for and renew professional and operating licenses online;
- Obtain recreational licenses and driver's licenses over the Internet;
- Access benefits and eligibility information and submit official documents from home or office computers; and
- Access a new automated procurement system.

\$2.3 million for a common New York State Web Banner. This banner will provide users with a simple, user-friendly means to quickly and easily locate and access State government information, services and transactions.

Policy Highlight:

The New York State Web Banner: Click away to information and service

- A click on "Governor Pataki" will access the Governor's homepage, all State web sites and a comprehensive "search engine."
- A click on "Map-NY" will point users to an electronic Geographic Information System that analyzes, integrates and maps information based on geography.
- A click on "Citizen Guide" will provide New Yorkers with information organized by common topics and life events.
- A click on "e-bizNYS" will offer a business directory of all information, services and transactions that can be conducted online.

Technology/e-Government

\$4.2 million for the Geographic Information System (GIS). GIS is a powerful tool that can analyze, integrate and display information or data that are related geographically. One of its most useful features is its ability to overlay on a map a wide variety of disparate information. GIS may be used by government to assist in responding to emergencies; citizens may use it to locate services in their communities; and businesses may use it to plan residential and commercial development projects.

\$3 million for targeted initiatives. The Budget includes funding for targeted initiatives, including design of a statewide technology training curriculum for managers, technical staff and agency executives; and implementation of security mechanisms to ensure adequate protection of information contained in State data systems.

Major Agencies

Office of Alcoholism and Substance
Abuse Services
(\$000s)

	All Funds 2001-02
Prior Year Estimated Spending	\$466,949
Preservation of existing programs	10,491
Administrative efficiencies	(2,848)
Wage and benefit increases	1,076
Recommendation	\$475,668
Change From 2000-01	\$8,719

Summary of Changes

Office of Children and Family Services (\$000s)

	General Fund 2001-02
Prior Year Estimated Spending	\$1,098,616
Implementation of Child Welfare / Title XX financing reform	26,000
Adoption Subsidy cost of living increases	21,000
Advantage After-School programs	12,500
Medical Assistance and Special Education services for foster children	10,730
Detention reimbursement growth	3,786
Child welfare training	1,000
Elimination of one-time CONNECTIONS spending	(6,000)
Youth Facilities program and management initiatives	(2,443)
Elimination of non-recurring prior year spending	(20,362)
One-time credits	(13,093)
Elimination of funding for certain 2000-01 legislative initiatives, and miscellaneous Local Assistance program changes	(11,137)
Increased cost of continuing current services, including salary increases	9,557
Recommendation	\$1,130,154
Change From 2000-01	\$31,538

Summary of Changes

Department of Correctional Services (\$000s)

	General Fund 2001-2002
Prior Year Estimated Spending	\$1,857,370
Increase funds for cost of continuing current programs	58,027
Operating savings reflecting the decreased demand for prison capacity (-614 FTE)	(50,832)
Decline in correction officer overtime resulting from pilot productivity incentive (for reduced sick leave usage) in collective bargaining agreement	(2,600)
Local Assistance savings reflecting the decline in inmates awaiting transfer from local jails	(40,009)
General Fund spending adjustment for projected Federal grant for State Criminal Alien Assistance Program (SCAAP)	(21,205)
Recommendation	\$1,800,751
Change From 2000-01	(\$56,619)

Summary of Changes

Division of Criminal Justice Services (\$000s)

	General Fund 2001-02
Prior Year Estimated Spending	\$ 108,848
Increase funds for cost of continuing current programs	6,457
Increase funds for costs associated with the passage of the Safe Schools, Hate Crimes, Livery Car Driver, and Gun Control legislation (+ 16 FTE)	1,471
Transfer staff from Crime Victims Board and Office for the Prevention of Domestic Violence for host agency management workload (+ 2.5 FTE)	168
Eliminate legislative non-recurring initiatives from 2000-01	(8,632)
Eliminate Aid to Local Law Enforcement program	(4,818)
Recommendation	\$103,494
Change From 2000-2001	(\$5,354)

Economic Development (\$000s)

	General Fund 2001-02
Prior Year Estimated Spending	\$198,771
Provide funding for High Technology / Biotechnology program	31,500
Provide funding for Niagara Falls redevelopment initiative	5,100
Increase funding for International Trade program	500
Provide funding for Cornell University Materials Research Science and Engineering Center	400
Adjustment to reflect one-time economic development initiatives and miscellaneous changes	(25,849)
Recommendation	\$210,422
Change From 2000-01	\$11,651

Summary of Changes

State Education Department (\$000s)

	Total 2001-2002 School Year Funding
SCHOOL AID / STAR	
Prior Year School Aid Funding	\$13,693,520
Flex Aid increase	250,010
Building aid increase	169,670
Transportation aid increase	63,450
Increase to double funding for Teachers of Tomorrow program	25,000
Pre-Kindergarten expansion	23,140
Establish the new Fund for Innovation and Schoolwide Performance Incentive programs	22,490
Computer hardware aid and software aid increase	4,550
Elimination or reduction of certain non-recurring legislative adds	(78,620)
Elimination or reduction of selected computerized or categorical programs	(78,210)
Other computerized aid and categorical program changes	(19,240)
SCHOOL AID SUBTOTAL	\$14,075,760
Prior Year School Tax Relief (STAR) Funding	\$1,877,000
Increase for STAR phase-in	694,000
STAR SUBTOTAL	\$2,571,000
Prior Year Total for School Aid and STAR	\$15,570,520
Recommendation for School Aid and STAR	\$16,646,760
Change From 2000-01	\$1,076,240

State Education Department
(continued)
(\$000s)

	General Fund 2001-02
Prior Year Estimated Spending	\$1,386,349
Preschool, summer school special education and "4201" schools growth	27,600
Annualization of prior year increases and other miscellaneous changes	10,634
Increased funding for non-public school aid and funding to support academic intervention services in nonpublic schools	9,200
Elimination of certain grants for individual school districts and selected categorical programs	(44,189)
Elimination of funding for certain non-recurring legislative adds	(25,335)
Restrict Bundy Aid to payments for degrees earned by State residents	(9,600)
Transfer of cultural education programs to the new Office of Cultural Resources	(9,440)
Annualization of savings and projected spending increases	1,520
Recommendation	\$1,346,739
Change From 2000-01	(\$39,610)

Summary of Changes

Environmental Conservation (\$000s)

	General Fund 2001-02
Prior Year Estimated Spending	\$107,168
Net adjustment to reflect costs of continuing current programs, including contractual salary increases	6,275
Funding for Forest Property Tax Reimbursement program	3,300
Transfer 43 Clean Water/Clean Air Bond Act positions to the General Fund	2,279
Increased funding for operation and maintenance of the Department's new headquarters	1,900
Funding for emergency response vehicles	450
Reduced funding for non-recurring programs	(5,725)
Transfer 43 General Fund positions to other funds	(1,742)
Recommendation	\$113,905
Change From 2000-01	\$6,737

	All Funds 2001-02
CAPITAL PROJECTS	
Prior Year Estimated Spending	\$537,184
Increased spending for Superfund refinancing	105,000
Increased spending for the Environmental Protection Fund	3,080
Increased spending for Capital Project Funds consistent with planned commitments	1,476
Increased Federal grants and other net adjustments	49
Adjustments for other bond funds spending consistent with planned commitments	(11,349)
Decreased spending for the Clean Water/Clean Air Bond Act	(5,836)
Recommendation	\$629,604
Change From 2000-01	\$92,420

Department of Health
(\$000s)

	General Fund 2001-02
Prior Year Estimated Spending	\$662,577
Net adjustment to reflect cost of continuing current programs, including contractual salary increases	12,363
Increased funding for various initiatives, including Physician Profiling, Newborn Hearing Screening, the Syringe Access Demonstration program, and new staff for Medicaid Fraud (25) and nursing home surveillance (10)	7,041
Net increase for mandated public health programs including EPIC, General Public Health Works (West Nile), Early Intervention, Water Supply Protection, Breast Cancer, and Indian Health	111,021
Roswell Park Cancer Institute subsidy (supplemented with \$60 million in HCRA funds)	30,000
Reduced funding for non-recurring programs	(32,002)
Funding for computerized Federal claiming	3,000
Funding for pneumococcal pneumonia vaccine for children	3,700
Recommendation	\$797,700
Change From 2000-01	\$135,123

Summary of Changes

Higher Education Services Corporation (\$000s)

	General Fund 2001-02
Prior Year Budget	\$682,812
Annualization of savings and projected spending increases	(271)
TAP program enhancements offset by lower spending due to natural decline in participation	0
Recommendation	\$682,541
Change From 2000-01	\$(271)

Medicaid
(\$000s)

	General Fund 2001-02
Prior Year Estimated Spending	\$30,866,700
Growth in Entitlement Spending	1,760,400
Nursing home rate modifications including eliminating Medicare data from the case mix component; eliminating the 2001-02 inflationary adjustment; removing an unnecessary supplemental payment for facilities that have more than 300 beds; and, eliminating the return on equity paid to proprietary facilities	(322,400)
Reduced transfers from Health Care Reform Act (HCRA) (which would otherwise offset Medicaid costs) to ensure critical health care programs are adequately funded	107,000
Other initiatives, including establishing a cap on administrative costs for Certified Home Health Care Agencies and implementing measures to ensure cost effective use of pharmaceuticals	(9,600)
Expansion of Medicaid eligibility for the working disabled and breast and cervical cancer treatment	8,300
Recommendation	\$32,410,400
Change From 2000-01	\$1,543,700

Summary of Changes

Office of Mental Health (\$000s)

	General and Offset Funds 2001-02
Prior Year Estimated Spending	\$1,815,275
Annualization of new initiatives funded by HCRA revenues to enhance and expand the delivery of mental health services	38,400
Community Mental Health Reinvestment Act funding (including annualization of 2000-01 increase and part year funding of 2001-02 increase)	10,210
Community Mental Health Support and Workforce Reinvestment funding to strengthen and maintain existing community-based programs	10,300
Inpatient bed closure and other savings associated with Community Reinvestment	(9,270)
Annualization of prior year initiatives, audit and other recoveries, general salary and energy increases, and other adjustments	56,518
Local enhancements to the supported housing model, the family based treatment model, and the children's community residence model	7,261
Management efficiencies, including revenue maximization for local programs	(28,488)
Recommendation	\$1,900,206
Change From 2000-01	\$84,931

Office of Mental Retardation and
Developmental Disabilities
(\$000s)

	All Funds 2001-02
Prior Year Estimated Spending	\$2,201,096
Funding commitment for Governor's NYS-CARES program	48,572
Increased cost of continuing current programs	63,596
Wage and benefit increases	23,157
Expansion of new residential and day services	29,682
Administrative efficiencies	(17,828)
Service restructuring	(7,199)
Other	(3,388)
Recommendation	\$2,337,688
Change From 2000-01	\$136,592

Summary of Changes

Office of Parks, Recreation and Historic Preservation (\$000s)

	General Fund 2001-02
Prior Year Estimated Spending	\$117,334
Net adjustment to reflect cost of continuing current programs, including contractual salary increases	7,429
New cultural initiatives including the Rose Center for Earth and Space at the American Museum of Natural History, the USS Intrepid - Sea, Air and Space Museum, the Brooklyn Academy of Music and the restoration and preservation of battle flags	12,175
Operating costs of new and expanded parks	1,500
Transfer 18 Clean Water/Clean Air Bond Act positions to the General Fund	1,015
Managerial efficiencies and increased fee revenues allowing for General Fund savings	(1,500)
Reduce funding for non-recurring programs	(10,424)
Recommendation	\$127,529
Change From 2000-01	\$10,195
	ALL FUNDS 2001-02
CAPITAL PROJECTS	
Prior Year Estimated Spending	\$35,314
Net adjustments, including projects advanced and completed in prior year, increased spending from Federal and fiduciary funds, and a decrease in bondable expenses. Includes \$25.2 million from the State Park Infrastructure Fund	\$4,298
Recommendation	\$39,612

Summary of Changes

State University of New York/ City University of New York (\$000s)

	General Fund 2001-02
Prior Year Budget	\$2,259,355
Annualization of savings and projected spending increases	63,978
Annualization of community college base aid increase	7,568
Additional community college base aid due to increased enrollment	3,545
Elimination of 2000-01 legislative adds	(14,291)
Elimination of one-time lease costs	(8,064)
Recommendation	\$2,312,091
Change From 2000-01	\$52,736

Summary of Changes

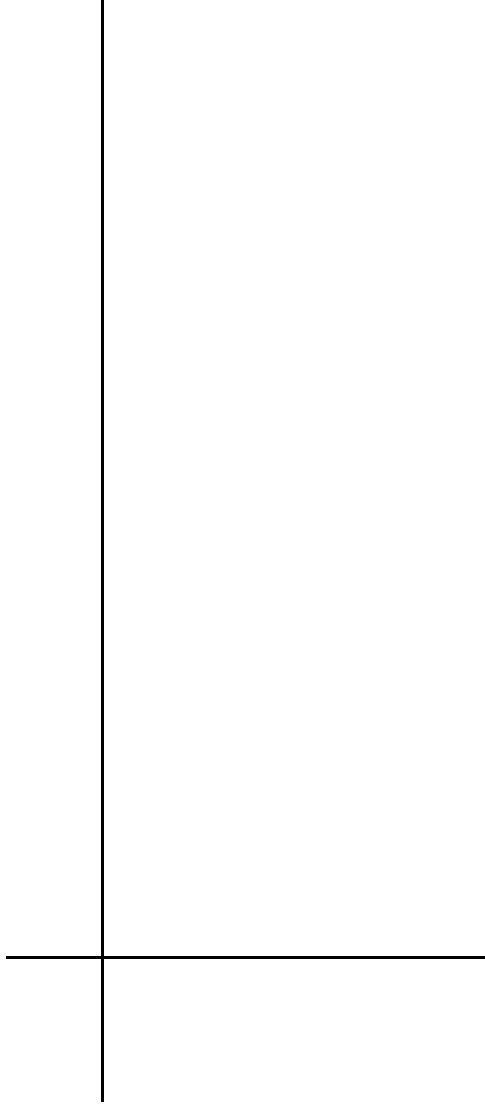
Office of Temporary and Disability Assistance (\$000s)

	General Fund 2001-02
Prior Year Estimated Spending	\$1,747,100
Federal funding for Earned Income Tax (EITC) and Child and Dependent Care (CDCC) credits	(262,000)
Settlement of prior year Federal claims	(56,800)
Increases in shelter claims, Safety Net average payments and miscellaneous assistance costs	21,000
Increase in Supplemental Security Income (SSI) caseload	14,600
Implementation of non-cash Electronic Benefit Transfer (EBT) system	10,000
One-time credits and elimination of legislative program additions	11,000
Adjustments for collective bargaining, systems and capital projects	12,700
Management efficiencies	(6,900)
Recommendation	\$1,490,700
Change From 2000-01	(\$256,400)

Summary of Changes

Transportation (\$000s)

	All Funds 2001-02
Prior Year Appropriation	\$9,884,793
Elimination of appropriation for Bond Act proceeds reimbursement	(3,800,000)
Adjustments to DOT capital program	(591,080)
Elimination of Multi-Modal program	(150,000)
Elimination of CHIPS operating and maintenance aid to counties and NYC	(34,909)
Increase in DOT highway and bridge program	200,000
Increase in aid to transit systems	120,778
Increase in aviation capital appropriations	2,000
Federal aid and miscellaneous adjustments	31,563
Recommendation	\$5,663,145
Change From 2000-01	\$(4,221,648)



Sweeping Tax Cuts

Tax Cuts Under Governor Pataki

The following is a comprehensive list of all tax cut actions that have been enacted in New York State since Governor Pataki took office in 1995.

School Property Taxes

Tax Cuts Enacted in 1997

1. Reduces residential school property taxes for taxes levied beginning July 1, 1998, for the 1998-99 school year. When fully effective in the 2001-02 school year, the School Tax Reduction (STAR) program exempts at least \$30,000 of full value for homeowners under age 65 and \$50,000 for homeowners 65 and over with incomes at or below \$60,000. The State will reimburse school districts for their lost property tax revenues. In New York City, STAR reduces the resident City personal income tax. The State will reimburse New York City for its foregone personal income tax revenues.

Tax Cuts Enacted in 1998

2. Accelerates the benefits of the STAR property tax relief program so that senior citizens benefit immediately with fully phased-in average savings of \$800 per household, per year.

Personal Income Tax Cuts

Tax Cuts Enacted in 1995

3. Reduces the top rate from 7.875 percent to 6.85 percent — increases standard deduction, raises bracket thresholds.

Tax Cuts Enacted in 1996

4. Provides a PIT credit beginning in 1997 for school property taxes paid by working farmers (also available in the corporation franchise tax).
5. Enacts a tax credit for the cost of rehabilitating historic barns (also available in the corporation franchise tax).
6. Increases the child and dependent care credit for taxpayers with adjusted gross income of less than \$14,000 and makes the credit refundable for residents beginning in 1996.

Tax Cuts Enacted in 1997

7. Enhances the Agricultural Property Tax Credit (a) by allowing \$30,000 to be subtracted from income before calculating the percent of income from farming to qualify for the credit and (b) by eliminating principal payments on farm debt from the calculation of the income level at which the credit begins to phase out.
8. Increases the child and dependent care credit to 100 percent of the Federal credit for families with incomes of up to \$17,000, phasing down to 20 percent for annual incomes of \$30,000 and over.
9. Creates a PIT credit for residential investment in solar electric generating equipment.
10. Creates the New York State College Choice Tuition Savings Program.

Tax Cuts Enacted in 1998

11. Accelerates into 1998 \$10 million in tax relief previously scheduled for 1999 to farmers who benefit from the farmers' school tax credit.
12. Contains provisions ensuring that assets returned to Holocaust survivors or their heirs are not subject to income or estate taxes.
13. Increases the benefit of the child care credit to families with annual incomes of up to \$50,000.

Tax Cuts Enacted in 1999

14. Increases the State's Earned Income Tax Credit (EITC) to 25 percent of the Federal credit over the next two years. The expansion will first increase the EITC to 22.5 percent of the Federal credit in 2000 and then to 25 percent of the Federal credit by 2001.
15. Exempts payments from the Holocaust-Swiss Bank settlement to victims of Nazi persecution from all State and local taxes.

Sweeping Tax Cuts

16. Expands the existing Qualifying Emerging Technology Companies (QETC) tax credit to include personal income taxpayers.
17. Expands Farmer's School Property Tax Credit to include agricultural land set aside or retired under a Federal supply management or soil conservation program.

Tax Cuts Enacted in 2000

18. Increases the State's Earned Income Tax credit (EITC) to 30 percent of the Federal credit over a two-year period, beginning in 2002. The expansion will first increase the EITC to 27.5 percent of the Federal credit in 2002 and then to 30 percent of the Federal credit in 2003.
19. Increases the child care credit to 110 percent of the Federal credit for those with incomes up to \$25,000, phases down from 110 percent to 100 percent for incomes between \$25,000 and \$40,000, equals 100 percent for incomes between \$40,000 and \$50,000, phases down from 100 percent to 20 percent for incomes between \$50,000 and \$65,000, and equals 20 percent for incomes greater than \$65,000.
20. Creates a deduction for the amount of tuition paid, up to \$10,000, for attendance at a qualified institution of higher education. Also, the legislation provides the alternative of a refundable tax credit equal to 4 percent of such tuition. The credit will be at least the lesser of tuition paid or \$200. The College Tuition Deduction will be phased in four stages beginning in 2001.
21. Reduces the Marriage Penalty by increasing the standard deduction for married filing joint taxpayers from \$13,000 to \$14,600 in three stages starting in 2001.
22. Creates a Long-Term Care Insurance credit equal to 10 percent of taxpayers' long-term care insurance premiums.
23. Creates a two-year, \$500 personal income tax credit for homeowners who replace a residential fuel oil storage tank, beginning in 2001.
24. Creates an Alternative Energy Fuel Cell credit equal to 20 percent of the cost of purchasing and installing a fuel cell to supply power to the homes of taxpayers.

Business Taxes

Tax Cuts Enacted in 1995

Petroleum Business Tax

25. Fully exempts heating fuels for not-for-profit organizations (beginning in 1996).
26. Reduces the tax on aviation fuels and reduces the minimum monthly tax for aviation fuel businesses from \$25 to \$2.

Corporation Franchise Tax

27. Freezes the S corporation entity tax at the difference between the corporate franchise tax rate and 7.875 percent, so that S-corporation shareholders benefit from the personal income tax rate reduction.

Tax Cuts Enacted in 1996

Petroleum Business Tax

28. Reduces the rate on diesel motor fuel used by railroads by one and three tenths cents per gallon on base tax and eliminating the supplemental tax beginning January 1, 1997.
29. Exempts residual product and non-automotive diesel gallonage used for manufacturing purposes beginning January 1, 1998.
30. Exempts residual petroleum and non-automotive diesel gallonage used for commercial purposes from the supplemental tax, beginning March 1, 1997.
31. Reduces the supplemental rate on automotive diesel by 75 cents per gallon beginning January 1, 1998, and by an additional one cent per gallon beginning April 1, 1999.
32. Increases the credit on residual petroleum product and non-automotive diesel product used to generate electricity by one-half cent per gallon beginning April 1, 1999.

Corporation and Utility Tax

33. Reduces the utility gross receipts tax on truckers and railroads from .75 percent to .6 percent in 1997 and allows them to switch to taxation under a net income basis (Article 9-A) instead of a gross income tax (Article 9) beginning in 1998.

Tax Cuts Enacted in 1997

Corporation and Utility Tax

34. Establishes the Power for Jobs program which provides a credit for utilities that provide low-cost power to businesses and not-for-profit corporations that retain or create jobs.
35. Cuts the excise gross receipts tax rate imposed on electric, gas and telephone services from 3.5 percent to 2.5 percent; reduces the franchise gross receipts tax on local telephone companies from .75 percent to .375 percent and on trucking and railroad companies from .6 percent to .375 percent.

Insurance Tax

36. Reduces the premiums tax rate and the limitation on the tax liability of life insurers.
37. Creates a credit against the insurance tax for investment in certified (venture) capital companies.
38. Provides preferential tax treatment rates for the formation of captive insurance companies.

Bank Tax

39. Allows net operating loss deductions for banking corporations.

Corporation Franchise Tax

40. Conforms New York treatment of qualified subsidiary subchapter S corporations to the treatment under Federal law.
41. Creates credits for purchase of alternative fuel vehicles and for investment in refueling stations.
42. Creates a new credit for employing persons with disabilities.

Tax Cuts Enacted in 1998

Corporation Franchise Tax

43. Reduces the corporate tax rate to 7.5 percent from the 9 percent rate currently in effect. The new lower rate is phased in over a three-year period beginning in July 1999.
44. Lowers the alternative minimum tax rate from 3.5 percent to 3 percent, allowing taxpayers to benefit more from existing investment incentives in the tax code.
45. Reduces the rate imposed on S corporations by at least 40 percent.

46. Provides a significant new benefit for the securities industry in New York by allowing a tax credit of up to 5 percent for investment in technology equipment. This benefit also includes the trading operations of Article 32 (banks) taxpayers.
47. Sets up a series of initiatives to promote the creation and expansion of emerging technology companies and jobs. These tax provisions will encourage both new investment and employment opportunities in this important sector of the economy.

Tax Cuts Enacted in 1999

Petroleum Business Tax

48. Reduces the rate on commercial heating oil by 20 percent beginning April 1, 2001.
49. Exempts fuels used in mining and extraction.

Corporation Franchise Tax

50. Reduces the alternative minimum tax rate from 3 percent to 2.5 percent and will complement the reduction in entire net income.
51. Increases the current economic development zone (EDZ) and zone equivalent area (ZEA) wage tax credits.
52. Expands the existing alternative fuels tax credit to allow a tax credit to the lessor or seller of alternative fuel vehicles that are leased or sold to governmental entities.
53. Reduces and repeals the subsidiary capital tax on power providers. These provisions facilitate the transition to a competitive market by modernizing and lowering taxation of energy producers, which in turn will help lower rates to consumers.
54. Eliminates antiquated mergers and acquisitions language in the Tax Law that caused an undue burden on corporation franchise, bank franchise and insurance franchise taxpayers.
55. Provides a \$500 tax credit to individuals and businesses for the purchase of automated, external defibrillators — devices that are used to save the life of heart attack victims.
56. Repeals the subsidiary capital tax for companies with investments in subsidiaries taxed under either the bank or insurance franchise tax. These provisions modernize the Tax Law to eliminate a disincentive to companies from maintaining their headquarters in New York State after completing a merger or acquisition.

Sweeping Tax Cuts

57. Reduces the tax burden on airlines that do business in New York State by lowering the amount of corporate income subject to New York taxes.
58. Provides for the equitable treatment of air freight forwarders in New York State by allowing the company to file a combined corporate tax return with an airline affiliate and adjust its business allocation percentage.
59. Expands the existing definition of qualified emerging technology companies to include re-manufacturing technologies. Re-manufacturing technologies are defined as processes whereby eligible commodities are restored to their original standards and are thereby diverted from the solid waste system.
60. Reduces the bank tax rate to 7.5 percent from the 9 percent rate currently in effect. The new lower rate is phased in over a three-year period beginning in July 2000. This move will level the competitive playing field with all other industries.
61. Reduces the bank tax to 7.5 percent from the 9 percent rate currently in effect. The new lower rate is phased in over a three-year period beginning in July 2000. This reduction will provide tax parity across all financial sectors.
62. Lowers the cap on total tax liability for property and casualty companies to the same 2 percent rate that is currently applicable to life insurance companies.
63. Expands the certified capital companies (CAPCO) program to provide an additional \$30 million to be invested in certified capital companies.
64. Excludes natural gas imported for use in generating electricity from the tax imposed on gas imported for self use.
65. Reduces tax rates on diesel and residual fuels used for commercial heating purposes by 33 percent beginning September 1, 2002.
66. Eliminates PBT minimum taxes.
67. Modernizes the taxation of financial transactions by reforming the sales allocation for financial services.
68. Creates the Empire Zones Program Act, which will transform current Economic Development Zones into virtual "tax-free" zones for certain businesses.
69. Creates a credit for real property taxes paid within an Empire Zone for qualified businesses.
70. Creates a tax reduction credit for qualified businesses within an Empire Zone.
71. Creates the Low-Income Housing Tax Credit to encourage the construction and development of affordable housing for low- and moderate-income working families and senior citizens.
72. Reduces the differential tax imposed on S-corporations by 45 percent.
73. Expands an existing tax credit for the production of alternative fuel vehicles in New York State.
74. Permits the benefits of investment tax credits (ITC) to follow the corporation when investment credit property is transferred during a qualified corporate reorganization.
75. Reduces the corporate franchise tax rate imposed on small business from 7.5 percent to 6.85 percent.
76. Permits the application of the economic development zone (EDZ) employment incentive credit against the minimum taxable income base under the corporate franchise tax.
77. Eliminates the fixed-dollar minimum tax base for homeowners' associations that function as nonprofit entities and will provide tax relief for associations that have no taxable income for Federal income tax purposes.
78. Creates a tax credit that encourages businesses to make investments in transportation infrastructure across New York State and promote the creation of thousands of new jobs.
79. Eliminates antiquated mergers and acquisitions language in the Tax Law that caused an undue burden on corporation franchise taxpayers.
80. Provides a tax credit to encourage the construction and rehabilitation of environmentally-sound (green) buildings.

Bank Franchise Tax

Insurance Franchise Tax

Corporations and Utility Tax

Tax Cuts Enacted in 2000

Petroleum Business Tax

Corporation Franchise Tax

Bank Franchise Tax

81. Provides transitional provisions relating to the enactment and implementation of the Federal Gramm-Leach-Bliley Act by allowing firms which were taxed under Article 9-A or Article 32 in 1999 to maintain that taxable status in 2000.

Sweeping Tax Cuts

82. Conforms the method of allocating the receipts received by banking corporations that are in the business of providing management, administrative or distribution services to regulated investment companies to the method currently available to non-bank corporate taxpayers.
83. Imposes the net income tax on electric and gas companies as a result of the repeal of the Article 9, section 186, franchise tax on gross earnings.

Insurance Tax

84. Creates an investment tax credit for equipment used in the trading of securities by insurance companies.
85. Expands the certified capital companies (CAPCO) program to provide an additional \$150 million to be invested in certified capital companies— one-third in economic development areas, one-third in under-served areas, and one-third to the rest of the state.

Corporation and Utility Tax

86. Reduces the gross receipts tax rate and reforms the method of taxing electric and gas companies. Eliminates the gross receipts tax for manufacturers and industrial energy customers retroactive to January 1, 2000, and completely eliminates the tax for all other business taxpayers over a five-year period. The plan also cuts the gross receipts tax by nearly half for residential customers across the State over the next five years. Reforms the method of taxing corporations and utilities by eliminating the Article 9, section 186, franchise tax on gross earnings and moving these businesses to the Article 9-A net income tax.
87. Provides an additional 300 megawatts of low-cost power to businesses across New York through the Power for Jobs program.

Sales and Use Taxes

Tax Cuts Enacted in 1995

88. Exempts goods or services necessary for the acquisition, sustenance or maintenance of guide dogs.
89. Exempts meteorological services.
90. Exempts South African coins.
91. Exempts homeowner association fees.
92. Exempts retail sales of aviation gasoline from the motor fuel excise tax.

Tax Cuts Enacted in 1996

93. Exempts clothing costing less than \$500 from the 4 percent State and .25 percent MCTD tax from January 18, 1997, to January 24, 1997 (also provides local option).
94. Exempts printed promotional materials and related services, including storage services, when the materials are mailed or shipped to customers in New York.
95. Exempts municipally owned and operated parking services from the State sales tax and local sales tax outside New York City, and the 6 percent parking tax imposed in New York City.
96. Expands the sales tax exemption for commercial vessels and aircraft.

Tax Cuts Enacted in 1997

97. Exempts clothing costing less than \$100 from the 4 percent State and .25 percent MCTD tax from September 1-7, 1997, and 1998, and makes the exemption permanent on December 1, 1999 (also provides local option).
98. Exempts passenger buses, and parts, equipment, lubricants and repair services on such buses.
99. Increases the exemption threshold from 25 cents to 50 cents for purchases made through a bulk vending machine.
100. Exempts coin-operated car washes, waxes, or vacuuming services.
101. Exempts coin-operated photocopying where the charge is 50 cents or less.
102. Provides that businesses that contract fulfillment services from New York companies do not become subject to the sales tax.
103. Exempts hot drinks and certain food and beverages sold through vending machines, if the food or beverages are exempt when sold at a grocery store.
104. Exempts luggage carts dispensed by coin operated devices.
105. Exempts emissions testing equipment required by the Federal Clean Air Act of 1990 and the New York State Clean Air Compliance Act of 1993.
106. Exempts parking services sold by a homeowner's association to its members.

Sweeping Tax Cuts

107. Increases the vendor allowance from 1.5 percent of sales tax collections up to \$400 per year to 3.5 percent of collections up to \$600 per year.
108. Exempts wine and wine products furnished by the official agent of a farm winery, winery, wholesaler, or importer at a wine tasting to a prospective customer.
109. Exempts certain circus admissions.
110. Exempts from New York City's local sales tax certain property and services used in producing live dramatic or musical art performances in New York City.
111. Extends the sales tax exemption for alternative-fuel vehicles and expands it to exempt alternative-fuel vehicle refueling property.
112. Expands the sales tax exemption for property and services used in live dramatic or musical arts productions.
120. Changes the basis for calculating the use tax due on self-manufactured items used in the normal course of business from retail cost to cost of materials.
121. Expands the exemptions available to farmers to include fencing, certain building materials, and services rendered to such property. Also changes the refund or credit available to farmers for tax paid on motor vehicles to an exemption at the time of retail sale.
122. Expands the exemption for hot drinks and certain food items sold through coin-operated vending machines to include those vending machines activated by credit or debit cards.

Tax Cuts Enacted in 1998

112. Expands the September 1998 sales tax exemption week to include items of clothing and footwear up to \$500 in value and provides for an additional sales tax free week in January 1999. Increases the existing clothing threshold to \$110 from \$100, and adds footwear up to \$110 to be permanently exempt from State sales tax starting December 1, 1999.
113. Updates the tax code to reflect rapid technological changes in the telecommunications industry by expanding the sales tax exemption available to companies in that industry.
114. Eliminates the sales tax on the sales of textbooks required for use by full- and part-time college students in their college courses.
115. Eliminates the sales tax on computer system hardware used to design and develop computer software for sale.
116. Exempts coin-operated telephone calls costing 25 cents or less from the sales tax. The prior exemption threshold was 10 cents.
117. Expands exemptions for oil and gas production to include real property services.
123. Expands the sales tax exemptions available to the telecommunications industry to include equipment used to upgrade cable television systems to provide telecommunications services for sale. Also exempts certain equipment used to provide Internet access service for sale.
124. Exempts computer system hardware used to design and develop Internet web sites for sale.
125. Exempts services to production machinery and equipment from local sales taxes outside New York City.

Tax Cuts Enacted in 2000

126. Expands the exemption for property and services used in the provision of telecommunications or Internet access services for sale. Also exempts certain equipment and services used to provide digital cable television services for sale.
127. Exempts machinery, equipment, and certain other property and related services sold to operators of Internet data centers.
128. Provides an exemption for certain property and services purchased by television and radio network broadcasters for use in the production or transmission of programming.
129. Expands the existing farmers' exemption to include virtually all purchases related to farm production.
130. Exempts purchases of food and drink priced at 75 cents or less made through vending machines.
131. Exempts machinery and equipment used in the control, prevention or abatement of pollution from industrial and manufacturing facilities.

Tax Cuts Enacted in 1999

118. Provides for additional sales tax free weeks on clothing and footwear items priced under \$500 in September 1999 and January 2000. Also authorizes localities to opt in or out of the permanent clothing and footwear exemption on March 1 of any year.

Sweeping Tax Cuts

- 132. Exempts most purchases made by qualifying businesses located in Empire Zones.
- 133. Phases out and eliminates the sales tax on receipts from the sale of separately purchased transmission and distribution of electricity and gas. The tax will be fully phased out on September 1, 2003.
- 134. Exempts energy used in manufacturing and farming from 4 percent local sales and use tax imposed in New York City.
- 135. Exempts boats sold to nonresidents.
- 136. Exempts meals sold by senior citizen housing communities to residents and their guests.

Other Taxes

Tax Cuts Enacted in 1995

- 137. Reduces the beer tax by 5 cents per gallon, from 21 cents to 16 cents.
- 138. Reduces the container tax by half, from 2 cents per container to 1 cent per container.
- 139. Provides a new estate tax deduction of up to \$250,000 of the equity in a decedent's principal residence.
- 140. Reduces the diesel motor fuel excise tax from 10 cents to 8 cents per gallon.
- 141. Reduces the tax on pari-mutuel wagering.

Tax Cuts Enacted in 1996

- 142. Repeals the real property gains tax.
- 143. Makes the REIT provisions under the real estate transfer tax permanent for both New York City and New York State and provides temporary relief for property transferred into an existing REIT.

Tax Cuts Enacted in 1997

- 144. Increases from \$115,000 to \$300,000 the value of estates and gifts exempt from tax (effective October 1, 1998, for estates and January 1, 1999, for gifts); repeals the gift tax for gifts made on or after January 1, 2000; and replaces the current State estate tax with a pick-up tax on February 1, 2000. The pick-up tax equals the credit allowed against the Federal estate tax for New York estate taxes paid; this effectively eliminated any New York estate tax liability. Over time, estates of up to \$1,000,000 will be exempted from filing a return.
- 145. Repeals the container tax beginning October 1, 1998.
- 146. Phases in the elimination of assessments on providers of certain medical services.

Tax Cuts Enacted in 1998

- 147. Provides estate tax benefits, including a family-owned business exemption of up to \$1.3 million of the value of the business and an exemption for estates with land subject to conservation easements.
- 148. Reduces motor vehicle registration fees for passenger cars by 25 percent. Allows for a refund of motor vehicle registration fees in cases where the registration is surrendered before the registration period is half over.
- 149. Reduces the excise tax on beer from 16 cents to 13.5 cents per gallon.
- 150. Reduces the truck mileage tax by 25 percent.
- 151. Extends until 2002 the existing tax reductions for harness and thoroughbred racetracks and OTB corporations along with expanded simulcasting authority.
- 152. Accelerates elimination of assessments on providers of certain medical services.

Tax Cuts Enacted in 1999

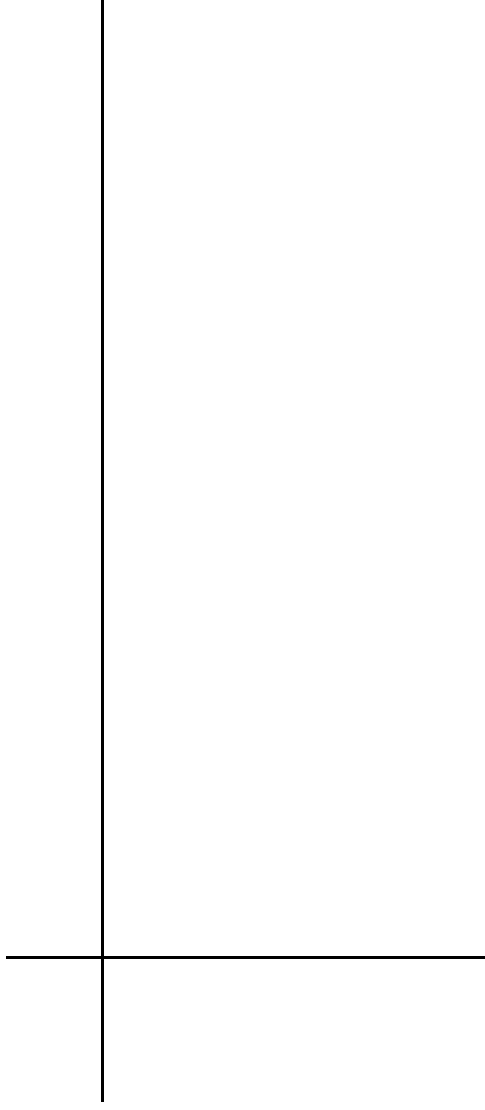
- 153. Reduces the excise tax on beer by one cent per gallon beginning April 1, 2001.
- 154. Increases the excise tax exemption on domestically brewed beer from 100,000 to 200,000 barrels.
- 155. Extends until September 1, 2002, the lower real estate transfer tax rate for property transferred into an existing REIT.

Sweeping Tax Cuts

- 156.Reduces the pari-mutuel tax on on-track thoroughbred betting.
- 157.Caps exhibitions' tax.
- 158.Conforms estate tax laws to changes made at Federal level.
- 159.Accelerates elimination of assessments on providers of certain medical services.

Tax Cuts Enacted in 2000

- 160.Eliminates the pari-mutuel tax at thoroughbred tracks for the three days surrounding the Breeder's Cup races.
- 161.Reduces the truck mileage tax supplemental tax by 20 percent.
- 162.Reduces the beer tax from 12.5 cents to 11 cents per gallon.
- 163.Accelerates the increase of small brewer's exemption by moving the effective date to January 1, 2000.



The Citizen's Guide to the Executive Budget

The Executive Budget process and the key Budget documents follow a format dictated by the State Constitution, with additional details and actions prescribed by State laws and practices established over time.

The State's budget process is governed largely by the requirements of Article VII of the New York State Constitution. Article VII stipulates, among other things, that the Governor submit a budget detailing a plan of expenditures and an estimate of revenues for the upcoming fiscal year, bills containing all proposed appropriations and reappropriations, and other legislation necessary to implement the Executive Budget.

Consistent with these requirements, this Budget includes three volumes and several bills. The published "Executive Budget" contains the Budget Director's Message, which explains the Governor's fiscal blueprint for the following fiscal year, and presents the State's Financial Plan — the "complete plan" of spending and revenues required by the Constitution. This volume also includes discussions of major initiatives proposed in the Budget, the economic outlook for the nation and the State, and a list of the legislative proposals necessary to implement the Budget, other than the major appropriation bills.

The second volume (Appendix I) summarizes the mission and programs of each State agency and includes detailed tables showing operating, local aid and capital projects spending. A "User's Guide" section provides more detailed information on State government and the budget process, and explains how to interpret the budget tables. This volume also includes the budget requests of the Legislature and Judiciary which are submitted without revision, as required by the Constitution.

Finally, Appendix II contains the Financial Plan overview, explanations of the specific sources of State revenues and a discussion of the capital plan.

These three volumes, which collectively provide the supporting justification for the required budget bills, are available in hard copy in the New York State Library, State University libraries, and many local libraries, and through the Internet at www.state.ny.us/dob. A CD-ROM version is also available for the first time this year, in limited quantities.

Two types of legislation are required for enactment of the Executive Budget. Appropriation bills provide specific legal authorization for all spending from the funds managed by the State. Bills making appropriations encompass the recommended funding for the Legislature and Judiciary, Debt Service and the remaining functional responsibilities of State government which include Education, Labor and Family Assistance; Public Protection and General Government; Health, Mental Hygiene and Environmental Conservation; and Transportation and Economic Development.

Other bills, as described elsewhere in this "Executive Budget" volume, amend permanent State law governing programs and revenues. These so-called "Article VII bills," and all appropriation bills, are available from the Senate and Assembly Document Rooms located in the Capitol and the Legislative Office Building.

The Constitution provides that the Governor may amend or supplement his Budget within 30 days of submission, allowing for technical corrections or revisions based on more recent revenue and expenditure figures for the current fiscal year. These 30-day amendments, if any, are available from the Governor's Office when submitted to the Legislature.

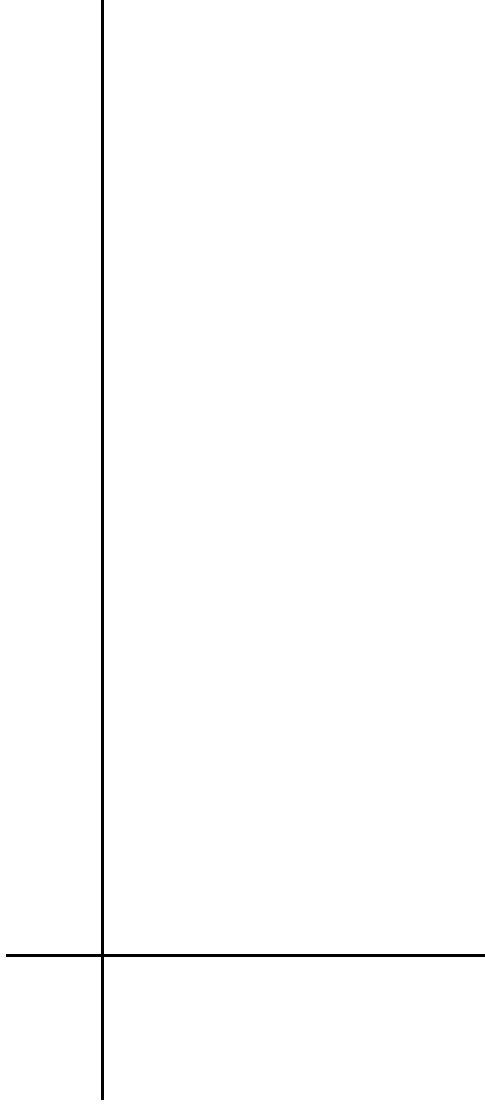
As part of its review, the Legislature holds public hearings on the Governor's Budget at which various interest groups and concerned citizens may speak. These hearings are scheduled by the Senate Finance and Assembly Ways and Means Committees, which are responsible for overall budget analysis and coordination of each house's action on the Budget.

Beginning in 1998-99, the Legislature formed Conference Committees, with a General Budget Conference Committee established to set overall priorities and several Subcommittees assigned to develop budget recommendations for specific program areas. After a series of public meetings, the Committees develop joint revenue and spending recommendations which are then reflected in amended versions of the Governor's proposed appropriation bills and related legislation. These amended bills are available from the Legislative Document Rooms.

Except for appropriations for the Legislature and the Judiciary, appropriations that are passed by the Legislature without being increased become law immediately. Items that have been added, however, and the Legislature and Judiciary appropriations, must be sent to the Governor for his approval or veto. In the case of appropriations added by the Legislature, the Constitution permits the Governor to veto some items while approving the remainder of the bill. This action is referred to as a "line item veto."

Chapter numbers are assigned to bills that are approved and become law. For bills or items of appropriation that are vetoed, the Governor is required to provide "veto messages" to the Legislature which outline his reasons for vetoing a bill. These messages are distributed by the Governor's Office. Vetoes may be overridden by a two-thirds vote of the Legislature, in which case they become law despite the Governor's objections.

After final enactment of the Budget, the Legislature is required to summarize its changes to the Executive Budget. This summary is presented in the "Green Book," which is available from the Legislative Document Rooms. The Governor is required to revise the Financial Plan to reflect the Enacted Budget; this revised Plan is available from the Governor's Office.



Legislation Required for the Budget

Legislation Required For The Budget

Section 22 of the State Finance Law provides that the Executive Budget shall include a list of proposed legislation submitted pursuant to Article VII of the State Constitution.

In addition to the major appropriation bills, Article VII bills addressing the following subjects are being submitted with the Executive Budget:

Public Protection and General Government

- Extend various criminal justice programs and fees due to expire.
- Permit the State Board of Elections to use the Internet to satisfy certain printing and publishing requirements.
- Extend the Temporary State Commission of Investigation.
- Clarify centralized and coordinated service delivery by the Office of General Services and authorize the use of wrap-up insurance on certain public construction projects.
- Facilitate the Department of Law's recovery of collection fees.
- Extend the Recruitment Incentive and Retention program of the Division of Military and Naval Affairs.
- Permanently extend the deposit of receipts from State armory rentals into a dedicated special revenue account.
- Authorize certain agencies to finance energy-related activities with revenues from public utility assessments.
- Restructure the boat and dock registration fees for the Lake George Park Commission.
- Conform Article 9 of New York State's Uniform Commercial Code to national standards.
- Restructure the examination and licensing application fees for various disciplines administered by the Department of State.
- Conform New York State statute with the Federal Community Services Block Grant specifications and extend the Department of State's authority to administer the program.
- Authorize the Office of Fire Prevention and Control to conduct annual safety inspections on all public and independent college and university campuses outside the City of New York, and provide for certain criminal penalties.
- Permanently extend the State Police Superintendent's ability to authorize local officers to operate outside of their jurisdiction when participating in joint task forces.

Legislation Required for the Budget

- Authorize deposits and temporary loans for various funds; bond cap changes; and other general fiscal management provisions.
- Authorize a new statutory revenue debt structure.
- Remove NYC as a beneficiary of the Stock Transfer Incentive Fund.
- Provide General Purpose State Aid at current year levels.

Education, Labor and Family Assistance

- Establish the Office of Cultural Resources (OCR) to assume responsibility for the State Museum, State Library and the State Archives and provide for the transfer of these programs from the State Education Department.
- Implement school aid reforms, including the creation of Flex Aid and modifications to infrastructure aid.
- Conform the administration of criminal history checks for prospective school employees to existing law governing criminal history checks for employees in daycare settings.
- Restrict Bundy Aid to degrees awarded to New York State residents.
- Authorize the Office of Children and Family Services to impose fiscal sanctions upon youth detention facilities that do not comply with regulations.
- Permit the Office of Children and Family Services to transfer 16 and 17 year old juvenile offenders to the Department of Correctional Services.
- Enact the Rail Access Tax Incentive program to provide property tax reductions and authorize reimbursements to local governments for revenue reductions.
- Enact a Co-STAR program to provide county tax relief to seniors and farmers, provide a cost of living adjustment to enhanced STAR income eligibility limits, make various administrative improvements to the STAR program, and limit school district spending increases.
- Provide increased flexibility to the Trustees of SUNY and CUNY in establishing tuition rates for graduate programs.
- Improve the competitiveness of the SUNY teaching hospitals and clinics by providing additional procurement and employment flexibility.

Health, Mental Hygiene and Environmental Conservation

- Extend the Naturally Occurring Retirement Community Supportive Service (NORCS) program.
- Authorize refinancing of the State Superfund and provide tax benefits to both cleanup brownfields and redevelop already restored brownfields.
- Provide increased flexibility, including financial incentives, in the 1996 Clean Water/Clean Air Bond Act Environmental Restoration (“Brownfields”) program.
- Authorize additional revenue deposits into the Environmental Protection Fund (EPF) and expand the purposes for which the Fund may be used.
- Extend authorization permanently for the Department of Environmental Conservation to collect fees for harvesting of surf clams and ocean quahogs.
- Authorize administrative increases of resident and non-resident hunting and fishing license fees.
- Increase pesticide certification fees.
- Provide payments to local governments to offset the cost of State forest property tax exemptions.
- Enhance efficiencies in the Elderly Pharmaceutical Insurance Coverage (EPIC) program by standardizing business practices.
- Establish a Quality of Care Improvement Account within the Department of Health to be used to protect the health and property of residents of health care facilities.
- Restructure the State’s Medicaid program through initiatives which will reduce costs, enhance revenue and maintain and expand access to health care services.
- Establish the Community Health Support and Workforce Reinvestment Act to redirect State savings to maintain the community-based mental health system.
- Eliminate the Taconic Developmental Disabilities Services Office.
- Increase snowmobile registration fees to ensure adequate resources for snowmobile trail maintenance and development.
- Increase boating registration fees to support enhanced safety enforcement activities.

Legislation Required for the Budget

Transportation and Economic Development

- Authorize assessments on utilities to be used for New York State Energy Research and Development Authority research costs.
- Restructure the special license plate series and fee structure, and establish a uniform approach to military plate charges.
- Authorize the Dormitory Authority to provide funds for the Cornell Theory Center.
- Redirect bonding authority from the Community Enhancement Facilities Assistance program to high technology initiatives.
- Authorize the Urban Development Corporation to issue bonds or notes for capital projects which will support technology-related jobs.
- Provide the annual authorization for CHIPs and Marchiselli programs.
- Conform the State Vehicular Blood Alcohol Standards to Federal requirements.
- Extend and conform the State Vehicular Drug Penalty Standards to Federal requirements.
- Strengthen penalties for all DWI offenders to conform to Federal requirements.
- Authorize the Department of Transportation's snow and ice removal, arterial maintenance and bus inspection programs to be funded by the Dedicated Highway and Bridge Trust Fund.
- Transfer Federal petroleum overcharge funds to the Power Authority for its reciprocal transfer to the General Fund.

Revenue

- Extend the Quick Draw lottery game that sunsets at the end of State Fiscal Year 2000-01.
- Authorize a multi-jurisdictional Lotto Game (Powerball).
- Expand certain Upstate Empire Zones by doubling the size of zones which meet certain criteria; and provide technical amendments to the Qualified Empire Zone Enterprise program passed in the 2000-01 Budget.
- Eliminate the Alternative Minimum Tax (AMT).
- Allow a single-sales factor to apportion manufacturers' corporate franchise tax income.
- Allow certain biotechnology companies refundable credits for corporate franchise tax liability.

Legislation Required for the Budget

- Provide a Farm Restoration Tax Credit program for taxpayers who take soil preservation actions, build fences, repair silos, and extend the Farmers School Tax Credit to rented farmland.
- Provide Conservation Donor Tax Credit to taxpayers who donate or provide conservation easements.
- Allow a Historic Home Ownership Assistance Tax Credit to taxpayers who rehabilitate historic homes.
- Enhance the Low-Income Affordable Housing Tax Credit program.
- Change taxation of moist snuff to a weight-based tax.
- Provide technical amendments to the College Tuition Deduction/Tax Credit passed in the 2000-01 Budget.
- Extend the current Bank Tax; and extend transition provisions in Bank Tax — Glass-Steagall Bill.
- Allow for extension of the current MTA surcharge.
- Provide additional distributions to the Dedicated Highway and Bridge Trust Fund from General Fund motor vehicle fees.
- Make permanent the crime victims mandatory surcharges.