2003-2004
New York State
Executive Budget

George E. Pataki, Governor

Carole E. Stone, Director of the Budget

Great Seal of the State of New York

The current version of the State Seal was last modified in 1882 to depict New York State's commitment to liberty and justice, its enduring optimism and its faith in the strength of the human spirit.

The Seal is dominated by the figures of two goddesses. To the left is the Goddess of Liberty. Holding a pole, on which rests a Liberty Cap, she represents the right of people to live independently and free from oppression and tyranny. The Goddess on the right, blindfolded and holding the scales of justice, symbolizes the State's pledge of impartial, fair and equal treatment under the law for all its citizens. Together, these figures stand as a testament to the twin ideals of liberty and justice for all.

Above, an eagle rests atop a globe. Facing west, the eagle symbolizes opportunity and optimism and represents New York's unique position in the world as the economic and commercial bridge between the East and the West — the old world and the new.

Below, the banner exclaims "Excelsior" — the State motto representing our continuous search for excellence and belief in a strong, bright and ever better future.

STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY NY 12224

GEORGE E. PATAKI
GOVERNOR

January 29, 2003

To the People of New York:

The tragic events of September 11th — combined with the national economic downturn — have presented New York State with unprecedented fiscal challenges. We have suffered billions of dollars in revenue losses, and nearly 100,000 jobs have been lost due to the terrorist attacks alone. In addition, the national recession has continued far longer than virtually all economists had predicted, dramatically exacerbating the fiscal impact on New York.

But I am confident we can overcome these challenges, revitalize our economy and move forward to secure a bright and prosperous future for all New Yorkers. We know that if we act responsibly, the crisis before us will be temporary, and if we build on the remarkable progress we've already made, the promise of the future we seek will be unlimited.

The sweeping changes, bold innovations and fiscally responsible approach to budgeting we have brought to State government during the past eight years provide a proven road map for us to follow as we chart our course to rebirth and recovery. That's why the 2003-2004 Executive Budget follows the same proven policies and prudent budgeting practices that have helped us cut taxes, control spending, increase our rainy day reserves and secure New York State's strongest credit rating in 24 years.

The Executive Budget reduces spending; reforms Medicaid and other government programs; reduces the workforce and brings new efficiencies to State government. It also preserves promised tax cuts and avoids job-killing tax increases so that we can out-compete other states, encourage new investments and help create thousands of new jobs. It will also continue our aggressive, pro-growth policies that have helped make New York State an international leader in high-tech and biotechnology economic growth and job creation.

The aftermath of the September 11th terrorist attacks showed the world that when New Yorkers are strong, united and share a common purpose they can overcome any challenge. We have faced extreme adversity in the past, and we have prevailed. It is in this spirit of unity, non-partisanship and common purpose that I am proud to present the 2003-2004 Executive Budget. I look forward to working with the members of the Legislature — and with all New Yorkers — as we work together to successfully confront the challenges ahead.

Very Truly Yours,

G. E. Pataki

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Message From the Director

A Multi-Year Strategy to Meet the Challenges Ahead

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

New York, like the nation, is facing enormous challenges. Some of these are in areas of long-standing and traditional concern such as improving education, increasing access to health care and protecting the environment. We also, however, face a host of new challenges that are largely a result of the events of September 11th and threats to our homeland security. We must re-build lower Manhattan to memorialize our losses and to restore it as a vibrant economic engine. We must secure our borders and vital infrastructure. We must prepare against threats to the health and safety of our citizens so that they may go forward confidently with their everyday activities. Unfortunately, we must face these old and new challenges as we confront another significant consequence of September 11th: its devastating financial impact on New York and the nation.

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In large measure because of September 11th and its impacts, the rapid national economic recovery predicted by most economists has not materialized. As a result, New York State continues to face a serious fiscal crisis.

However, as we look to the challenges ahead and consider how far we have to go, it is as important to understand how far we have already come.

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We now know that the national recession from which New York is only beginning to emerge began in 2000 with the collapse of the high-technology investment bubble. What was initially expected to be a mild and relatively short-lived economic downturn was exacerbated by the events of September 11th, events that have had economic consequences for the entire nation. While every state has felt the repercussions of September 11th, it bears repeating that these attacks occurred in the heart of New York's economic and financial capital and nowhere have the consequences been more severe than in New York.

New York lost at least 100,000 jobs as a direct result of the attacks. New York lost between 25 and 30 million square feet of office space, either damaged or destroyed. More than 12,000 small and medium size businesses in New York, with more than 120,000 employees, suffered economic loss totaling $2.8 billion. Nearly 150 of lower Manhattan's largest employers have been adversely affected. Today, hundreds of businesses remain closed.

Fortunately, New York was in its best fiscal condition in a decade and as prepared as possible to address the economic fallout from these events.

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While Governor Pataki, in early 2001, was already engaged in an effort to limit State spending based on economic indicators suggesting that the economy had soured, these efforts took on new urgency following September 11th. In October 2001, Governor Pataki directed all State agencies to develop comprehensive cost-saving plans, instituted a strict hiring freeze, offered a targeted retirement incentive program for State employees and directed the immediate elimination of all non-essential spending. Administrative actions to reduce the cost of State debt were taken. The Governor also achieved important reforms in school aid, Medicaid and other programs that were enacted in late 2001 and early 2002 resulting in substantial recurring savings.

These rapid responses to the consequences of the national recession and the attacks of September 11th, in concert with reserves accumulated over a number of years to deal with a downturn in the economy, were key to managing a 2001-02 shortfall of $1.6 billion and enacting a budget for 2002-03 that closed a gap of nearly $9 billion. With enactment of that budget, New York had addressed a combined shortfall of more than $10 billion and did so in a way that resulted in an affirmation of its credit rating … New York's highest in 24 years.

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Unfortunately, a number of events beginning in mid-2002 have worked to substantially exacerbate New York's financial situation along with that of the nation and virtually every State government.

First, there were significant downward revisions to economic data. Economists reported that the U.S. economy began to weaken much earlier than originally estimated; job losses were significantly higher than originally reported; and economic recovery was expected to be slower and produce fewer jobs. When the 2002-03 State Budget was enacted, its underlying economic projections were in line with, or more conservative than, many blue-chip economists' projections. At that time, most economists were forecasting a quick "V-shape" recovery. In addition, New York's revenue estimates were more cautious than those used by many other states. Unfortunately, as is now known, the national economic downturn has turned out to be more prolonged than predicted.

In addition, corporate scandals, a weak stock market and business environment, and September 11th losses depressed the Financial Services sector more than anticipated. Profit estimates for financial services firms have been revised downward three times since early June and bonus payments, an important element of New York's revenues, are likely to be down by far more than originally forecast.

Finally, the stock market has continued to underperform expectations.

These factors, arising over the course of the last few months, have exacerbated our situation for the current year as well as for next year.

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We now anticipate that New York will face an additional shortfall of $2.2 billion in the current fiscal year and a gap of $9.3 billion for 2003-04. The proposal to address this combined shortfall of $11.5 billion draws on the successful approaches we've used in the past.

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When Governor Pataki took office in 1995, New York was in fiscal crisis — a crisis that was in large measure the result of decisions made in prior administrations to solve the State's problems by imposing broad-based tax increases on individuals and businesses.

Those actions came amid a recession that began in the late 1980's — and in most parts of the nation ended in a matter of months. In New York, it lasted for years, ultimately costing the State hundreds of thousands of jobs and much of its economic base.

When Governor Pataki took office, he immediately focused on revitalizing New York's struggling economy. As the Governor cut taxes, brought spending under control, and fought for polices that produced an encouraging environment for job-creation and economic growth, New York's economy rebounded. State revenues grew, additional tax cuts were implemented, "rainy day" reserves were increased and substantial investments were made in programs that are critical to the well being of New Yorkers.

It is these smart economic and tax policies that have resulted in a more competitive, diversified and robust economy.

It is an unwavering commitment to these policies that will ensure New York continues to grow.

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Ultimately, it is a vibrant growing private sector economy that ensures a government's ability to educate its children, provide health care to its citizens, protect the environment and ensure public safety. This in fact has been the record of the last eight years.

Unprecedented economic growth has allowed New York to increase its investment in critical programs. Under the Governor's leadership, New York has used its prosperity to establish or expand programs that improve the safety, health, and well being of New Yorkers. These investments provided unprecedented levels of support for education, health care, transportation, the environment, and other important program areas.

As a result of the significant investments we've made during the Governor's time in office: 400,000 more children have access to comprehensive, quality health care through the State's Child Health Plus program; 185,000 additional seniors have prescription drug coverage due to improvements made in the EPIC program; the Governor's Teachers of Tomorrow program has attracted more than 30,000 new teachers to high-need schools; more than 15,000 additional college students have access to an affordable higher education as a result of an expansion of the Tuition Assistance Program; and more than one million New Yorkers have left the welfare rolls — helped by our investment in job-training, child care and other work support measures.

As New York confronts the new challenges ahead, it is this sound foundation upon which we will build our fiscal recovery.

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To continue New York's recovery from the impact of the events of the past two years, and to maintain the gains we have made in so many areas during the Governor's tenure, the 2003-04 Executive Budget recognizes that while New York's economy remains strong, we are unlikely to see the level of Wall Street-related revenues that occurred during the past several years. We must instead bring government spending in line with more traditional rates of revenue growth. We must continue to make New York competitive with other states. We must keep New York an attractive place to locate and grow a business as well as a family.

These efforts cannot be limited to a one-year patchwork designed to achieve short-term budget balance. Rather, the 2003-04 Budget must be the next step in a multi-year plan to ensure long-term fiscal stability.

By planning and implementing reforms over a multi-year horizon, New York will transition smoothly to a smaller, more efficient government, providing long-term balance and stability for New York's finances and an appropriate array of affordable services for its citizens.

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As previously noted, without action, the current year Budget and the upcoming 2003-04 Budget would be out of balance by a combined $11.5 billion — $2.2 billion in the current year and $9.3 billion in 2003-04.

Essentially, the entire 2002-03 shortfall is associated with lower than expected revenues attributable to the combined impact on New York's economy of the September 11th attacks and the national recession.

The $9.3 billion 2003-04 shortfall is a result of: $4.6 billion in baseline spending increases largely prescribed by current statutory requirements; $3.1 billion in continued revenue losses; and $1.6 billion from the loss of rainy day reserves used in 2002-03.

To address this imbalance, the Executive Budget proposes a comprehensive series of actions that maintain critical services, bolster the State's fiscal strength and restore budget balance.

These actions include a balanced combination of recurring spending reductions, initiatives to increase revenues and the use of other available resources to achieve Budget balance in a way that is not destructive to essential services during the course of the next several years.

Actions proposed to address the projected $2.2 billion current year imbalance include:

- Achieving nearly $700 million in savings by reducing discretionary agency spending, achieving additional workforce reductions through the hiring freeze and more aggressive use of the retirement program, lowering debt costs by taking advantage of favorable interest rates and securing additional Federal reimbursement for certain costs; and
- Utilizing $1.5 billion from securitizing a portion of the State's share of the national tobacco settlement.

The Executive Budget proposes to close the remaining 2003-04 shortfall of $9.3 billion through the following actions:

- $1 billion from State agency operations, programs and projects that are being streamlined or eliminated to achieve savings, including savings from a total reduction in the workforce of 10,000 since November 2001.
- $600 million in savings resulting from new actions that allow certain welfare costs to be supported by Federal aid.
- $520 million from additional actions to reduce debt costs by taking advantage of record-low interest rates.
- $1 billion in cost-saving measures in Medicaid and other health care programs. Even after these actions, New York will remain a national leader in Medicaid and health care investments.
- $1.2 billion from actions that result in a year-to-year decline of $1.24 billion in school aid. Even after these actions, school aid will have increased by $3.6 billion since 1994-95, significantly above the rate of inflation during this time.
- $580 million in Higher Education savings including reforms in the Tuition Assistance Program (TAP) that will encourage students to complete their degrees in a timely manner, and the use of Federal TANF Funds to partially support TAP.
- $2.3 billion in tobacco securitization funds.
- $1.4 billion from measures that will generate recurring revenue, while avoiding actions that would harm the State's economy and/or negatively affect ongoing efforts to create jobs and spur economic development.

- $700 million in savings through spending restraint in a variety of local assistance programs and employee health care programs.

Overall, the 2003-04 Executive Budget will reduce General Fund spending by $1.1 billion, or 2.9 percent on a year-to-year basis. All Funds spending will be reduced by $126 million and remain essentially flat.

While these actions are not without consequence, they are manageable relative to the consequence of failing to soundly address the State's financial difficulties or addressing them in an ultimately destructive manner — one that weakens our economy and long-term ability to provide for our citizens.

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As we look to the challenges ahead, I can think of no more inspirational symbol than the Great Seal of the State of New York. As we describe on the first page of this document, the figures representing “Liberty” and “Justice” dominate. Also prominent, however, is the eagle depicting New York as a key economic and commercial center. This commitment to liberty and justice and tradition as a world economic leader has been New York's history. It will be its future.

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Fiscal Outlook

Maintaining Fiscal Integrity

Prior to September 11th, New York's finances were in their best condition in decades. Spending restraint, enactment of meaningful debt reform limits and sensible tax cuts had produced six consecutive cash surpluses *(See Figure 1)*, eliminated the State's accumulated deficit and permitted record reserve levels. These economic and fiscal policies, designed to ensure that New York would be able to weather an economic downturn, gave the State its best credit rating in 24 years.

However, during the last 18 months, New York's finances have sustained a series of extraordinary blows: the devastating impact of September 11th, a national recession more sustained than expected by most economists, a sharp prolonged downturn in equity markets fueled in part by corporate accounting scandals and the associated weakness in the financial services sector. Thus, despite a continuing series of significant cost cutting and other gap-closing actions taken since October 2001, the severity of these economic events threatens our fiscal strength.

As a result, the State faces a potential shortfall of approximately $2.2 billion for 2002-03, and a gap of $9.3 billion for 2003-04, requiring a combined total of $11.5 billion in further actions to achieve budget balance.

A Multi-Year Solution

To meet this crisis, New York must continue to take steps to realign its finances to reflect a new reality shaped by the events of the past 18 months and to maintain its hard-won reputation for fiscal integrity. With this Budget, the Governor proposes a multi-year plan that does just that.

Fiscal Discipline Produced Six Consecutive Surpluses

Spending restraint and enactment of meaningful debt reform, coupled with sensible tax cuts designed to spur economic growth, helped produce six consecutive cash surpluses for New York.

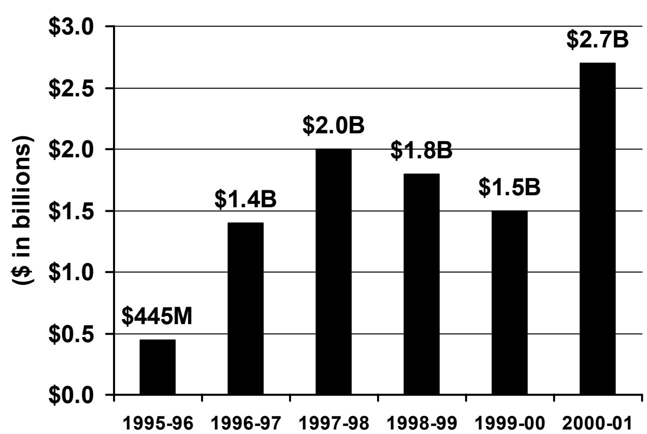


Figure 1

The Governor recognizes that it is a vibrant, growing private sector that provides government with the capacity to educate our children, provide access to high quality health care, preserve the environment and, above all, ensure public safety. Accordingly, New York's plan for fiscal renewal is predicated on fostering economic growth.

Current Year Spending Restraint

As noted above, actions have already been taken to address ongoing fiscal constraints.

Earlier this year, the Governor imposed a five percent reduction in State agency spending, and directed the aggressive use of the targeted retirement incentive plan to reduce the workforce. These actions supplemented the strict hiring freeze and restrictions on discretionary spending that were already in place. He also worked with the Federal government to maximize reimbursement of costs related to September 11th, and authorized the use of prudent debt management techniques to take advantage of record-low interest rates and refinance State debt. Together, these actions will save almost $700 million in 2002-03. Unfortunately, economic developments and actual revenue results since November 2002 now suggest that these actions will be insufficient to fully address the current year shortfall.

An Orderly Transition to Structural Balance

In early December 2002, the Governor put forward a plan to provide additional resources in the event that a gap developed in the 2002-03 fiscal year. To avoid disruptive mid-year reductions to school aid and other programs, he proposed the securitization of the State's share of receipts from the Master Settlement Agreement with tobacco manufacturers. The securitization was structured so as to generate resources at the lowest possible cost to the taxpayers.

While legislative inaction precludes receipt of these funds by early March, immediate action following the submission of this Executive Budget should allow tobacco securitization receipts to be available by the close of the current fiscal year.

A Sound Plan for 2003-04 and Beyond

The next and most important step is the enactment of a sound budget plan to replenish our reserves, and ensure that the State's finances are structurally balanced going forward.

The Governor's multi-year budget plan will quickly return the State to structural budget balance without depleting the State's rainy day fund, without raising broad-based taxes that would slow economic growth, and without wholesale layoffs or fiscal gimmicks. By adhering to policies and practices that have been so successful in fostering economic growth for the past eight years, and using tobacco proceeds to provide a bridge between recurring spending reductions and gradual revenue recovery, the Governor's plan maintains critical programs and services without sacrificing the State's competitiveness.

Actions to Close $9.3B 2003-04 Gap

Two-thirds of the proposed actions to close the State's $9.3 billion budget shortfall are recurring, contributing to structural budget balance. Tobacco securitization and other non-recurring resources serve as a bridge to fiscal stability achieved over a multi-year period.

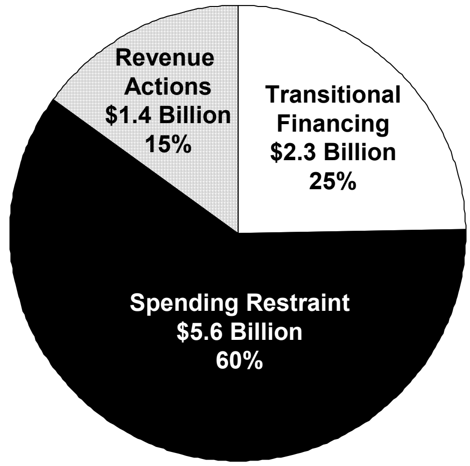


Figure 2

To close a 2003-04 budget shortfall of $9.3 billion, the Executive Budget recommends nearly $5.6 billion in spending reductions from projected growth, $1.4 billion in revenue actions, and the use of $2.3 billion in additional transitional financing from tobacco securitization. *(See Figure 2)*

Reducing the Cost of State Operations: The Governor is proposing a multi-year effort to reconfigure State agencies in order to increase administrative efficiencies, reduce program duplication and improve service delivery. Gap-closing savings of almost $1 billion are expected in 2003-04 from this effort which will permit significant workforce reductions beyond the aggressive job cuts achieved in the current fiscal year. This workforce reduction will be achieved primarily through the continued use of a strict hiring freeze combined with retirement incentives and targeted transfers. Layoffs will be avoided to the extent possible. With these additional recommended reductions, the workforce will have declined by 10,000 positions since November 2001, bringing the State's workforce to 186,000 by March 2004 — its lowest level in more than twenty years. *(See Figure 3)* Next, the proposed mergers of several State agencies and consolidation of the administrative functions of smaller agencies with those of larger "host" agencies will reduce program overlap and increase efficiency, saving $32 million in the first year and $140 million when fully annualized. Finally, planning will begin for additional streamlining actions to be implemented in future years.

Workforce Reduced Significantly Since September 11th

The Governor is continuing his commitment to prudently, but humanely downsize the State workforce through a strict hiring freeze, retirement incentives, and targeted transfers.

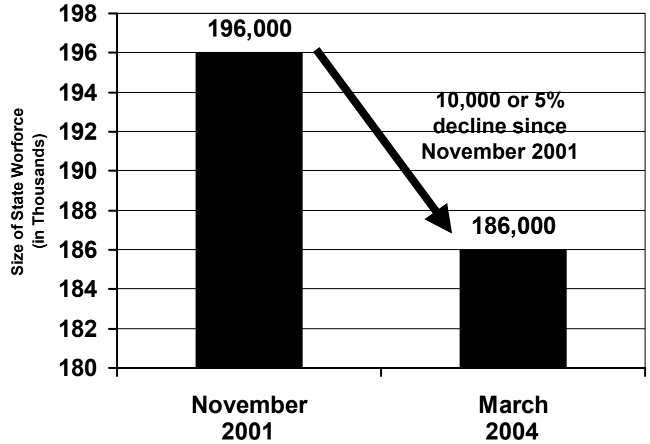


Figure 3

Medicaid Cost Savings and Realignment: Medicaid spending is being curtailed through roughly $1 billion in cost saving actions to offset projected program growth of approximately 7.5 percent. Proposals include a range of cost saving initiatives related to hospitals, nursing homes and home care, actions to control the rising costs of prescription drugs, and maximization of Federal aid to public hospitals. Medicaid recommendations also include a realignment of program responsibilities which would result in the State assuming the entire local share of pharmacy costs, while the local share of costs related to fee-for-service hospital and clinics would increase from 25 percent to 37 percent — an exchange that results in a net benefit for many local governments.

Higher Education: $580 million in Higher Education savings including reforms in the Tuition Assistance Program (TAP) that will encourage students to complete their degrees in a timely manner, and the use of Federal TANF Funds to partially support TAP.

School Aid: School aid represents the largest single component of total General Fund spending. After record increases in recent years, the current fiscal situation necessitates a reduction in State support for the school year beginning in July 2003. School aid contributes roughly $1.2 billion in savings toward the projected $9.3 billion gap. This produces an annual decrease on a State fiscal year basis of about $560 million. On a school year basis, the decrease totals $1.2 billion. Nearly half of the school year decrease reflects reductions to discretionary local grant programs as well as an expense-based decline in building aid and enrollment-based declines in growth aid. Other school aid recommendations include an operating aid reduction that is sensitive to each district's relative wealth and student needs, as well as other targeted savings and reforms. Despite these reductions, State support for the 2003-04 school year will total $13.4 billion — a 36.3 percent increase since 1994-95.

Welfare: $600 million in savings resulting from new actions that allow certain welfare costs to be supported by Federal aid.

Spending Restraint: More than $700 million in additional savings is achieved through spending restraint in a variety of local assistance programs, and proposed cost containment actions in employee health care costs.

Modest Revenue Actions: Revenue actions included in this Budget will generate $1.4 billion in recurring resources. These actions include: a modification to the sales tax exemption on clothing and footwear to replace the exemption on clothing under $110 with a $500 exemption during four one-week periods; reimposition of Medicaid hospital and home care assessments; a restructuring of the insurance tax consistent with other states; a one-year cap on STAR property tax benefits except for seniors; and a variety of fee and fine increases.

Reducing the Cost of Debt: Taking advantage of record low interest rates, this Budget continues to make use of the modern debt management tools established by Governor Pataki in the past year to refinance State debt and save taxpayers $520 million in costs.

Transitional Financing: Tobacco securitization proceeds of $2.3 billion in 2003-04 and $400 million in 2004-05 will be used as transitional financing to help avoid draconian budget actions and bring the State's finances into structural balance as higher levels of recurring savings materialize.

As a result of these recommendations, the State's structural budget imbalance will be reduced from more than $10 billion to less than $3 billion by 2004-05 — a 70 percent reduction in the outyear budget gap. Additional actions (to be authorized with this Budget but implemented in future years) are expected to generate added savings when fully effective. These actions include privatization initiatives and additional agency mergers and consolidations.

Viewed in this context, the use of tobacco securitization and other one-time actions serve as a bridge to future years when higher levels of recurring savings will be realized — a sensible multi-year solution. The increased value of the recurring actions proposed with this Budget, combined with future savings from the actions listed above and new actions to restrain spending, will close the remaining outyear gaps.

Spending Growth Well Below National Average Under Governor Pataki

New York's success in spending restraint has been a cornerstone in its hard-won reputation for fiscal integrity. Under Governor Pataki, average annual spending rates have been much lower than the national average.

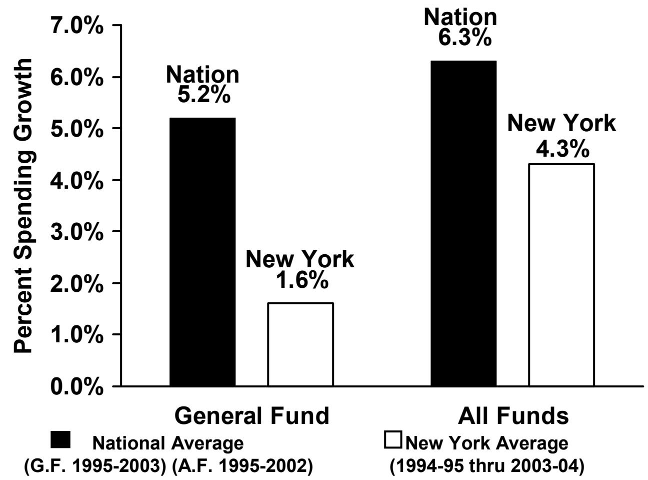


Figure 4

Spending in this Budget is reduced below last year's already restrained levels. General Fund spending will decline for the second consecutive year — to $38.7 billion, down almost 3 percent. The State Operations component of the General Fund is down nearly 8 percent. State Funds spending ($58.9 billion) and All Funds spending ($90.8 billion) are down modestly, as proposed budget reductions help offset projected growth in program costs.

As a sign of his commitment to reducing agency spending, Governor Pataki's Executive Budget proposes to reduce the Executive Chamber budget by $3.8 million or roughly19 percent.

Governor Pataki Holds Spending in Check

Spending has been held in check during the Pataki administration, permitting sensible tax cuts and economic investment. General Fund spending has averaged 1.6 percent since 1994-95, less than inflation during the period and well below the prior administration.

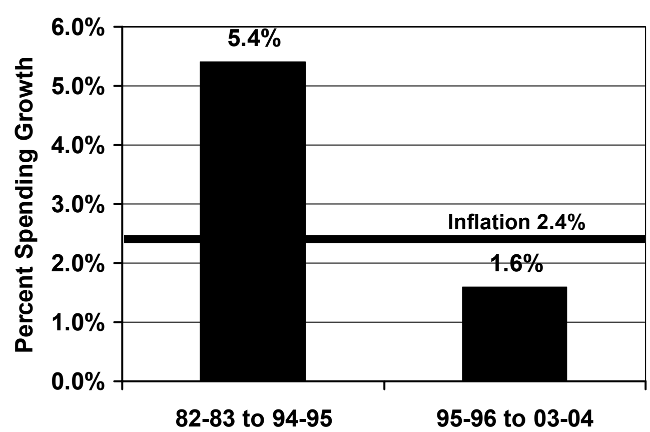


Figure 5

Average annual spending rates for the period 1994-95 through 2003-04 reflect the Governor's consistent success in restraining spending. General Fund average annual spending for this period is only 1.6 percent, well below inflation for this period and much lower than historical norms. All Funds spending increases 4.3 percent on an average annual basis, reflecting efforts to maximize Federal revenues over the last several years. (*See Figures 4 and 5)*

Similarly, debt levels are held in check, with debt outstanding growing at an annual average rate of only 1.6 percent over the five-year Capital and Financing Plan. Overall debt and debt service levels remain well within the Debt Reform Act caps.

Restoring the State's finances to structural balance and reinvigorating our State's economy requires multi-year planning. By restraining spending and continuing our policies of reducing taxes and encouraging economic growth we ultimately assure ourselves of the financial wherewithal to provide for the health and safety of all our citizens.

Fiscal Reform

To continue to build on his successful record of State debt reform, the Governor is resubmitting his Constitutional Debt Reform bill to ensure that the statutory provisions of the Debt Reform Act remain in place for generations. The Governor's bill will make permanent the caps and limitations imposed by the Debt Reform Act, ban "back door" borrowing, and ensure that at least one-half of all new debt is approved by the voters.

In addition, to enhance the State's reserves, the Governor is proposing legislation to increase the maximum allowable balance in the State's rainy day reserve to 5 percent. Moreover, the Governor is recommending budget reform that would accelerate the revenue consensus process, mandate conference committees on the budget, and, before the budget is voted on by Legislators, require full disclosure of the current and outyear budget impact of proposed legislative changes.

Economic Growth

Meeting the Challenge

Governor Pataki's policies of lower taxes and prudent economic investment have a proven track record of success — encouraging businesses to locate and grow in New York and leading to the creation of nearly 600,000 net new jobs.

New York's hard won prosperity has been challenged by the devastating impact of September 11th and the national recession but, by proceeding with scheduled tax cuts and continuing to make prudent investments in job-creating high-technology, industrial and transportation projects, New York can and will weather the impact and emerge stronger than ever.

The Crucial First and Last Step: Tax Cuts

Beginning in 1995, Governor Pataki's efforts to enact a wide range of tax cuts brought new life, strength and resilience to a stagnant private sector economy, creating new jobs and increasing private sector investment in New York. Under the Governor's leadership, every major State tax has been cut, making New York the pre-eminent tax-cutting state in the nation. The breadth and scope of these cuts are remarkable:

- On a cumulative basis, when all enacted tax cuts are fully phased in, New Yorkers will have realized savings of more than $100 billion; Savings through 2003-04 approach $80 billion; *(See Figure 1)*
- New York has cut 19 different taxes 63 separate times;
- In 1995, total New York tax collections per $1,000 of personal income tax were 3.1 percent above the national average. By 2001, total tax collections per $1,000 of personal income were only 1.3 percent above the national average;

Governor Pataki's Tax Cuts Lead the Nation

In 2003-04, taxpayers will have saved a cumulative $78.2 billion from the tax cuts that have been made under Governor Pataki. Cumulative tax cut savings will total more than $100 billion by 2005-06.

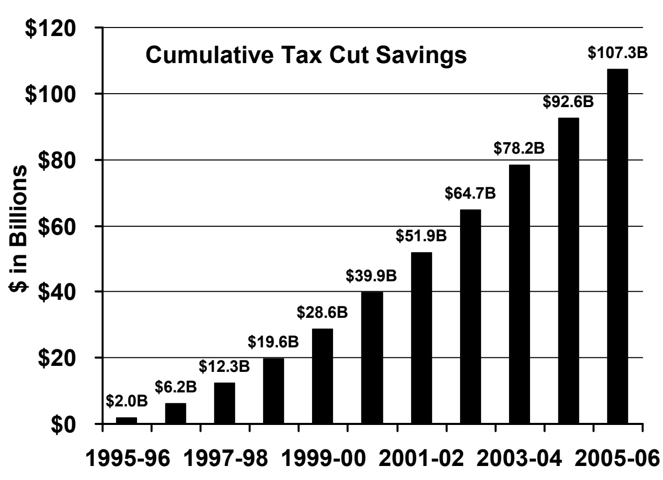


Figure 1

Governor Pataki's Business Tax Cuts Save Businesses Billions of Dollars Each Year

Businesses will save $3 billion in 2003-04 in business taxes alone and will benefit from further savings as the multi-year tax reduction plans continue to take effect. These savings will drive greater investment and expansion, and create more jobs for New Yorkers.

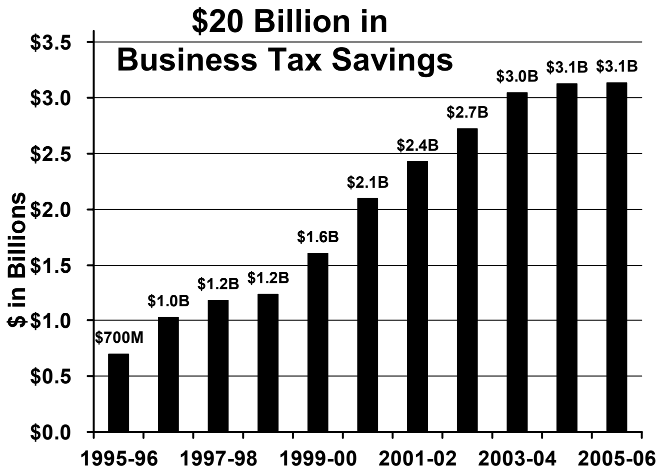


Figure 2

- Cumulative business tax savings and personal income tax savings will reach more than $20 billion and $50 billion, respectively, when fully phased in; *(See Figures 2 and 3)*
- Cumulative local property tax and New York City tax savings from the School TAx Relief, or STAR, program will reach $17.6 billion;
- Cumulative savings from sales tax cuts will reach $7.8 billion; and
- Cumulative savings from other tax cuts, including the reduction in the estate tax, and repeal of the real property gains tax and gift tax will reach $6.0 billion.

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

The Governor has reduced the personal income tax rate and expanded on various tax credits that benefit virtually every taxpayer. As a result, income taxes have been reduced by 20 percent or more for most families.

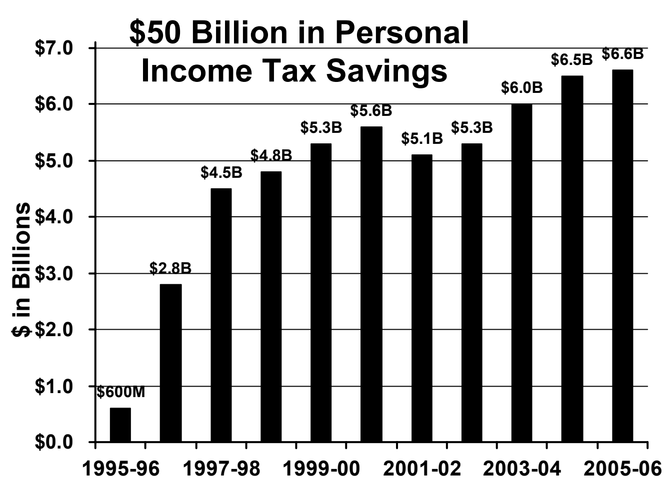


Figure 3

Fulfilling the Promise of Tax Relief

While other states raise broad-based, job-killing taxes in the face of the national recession, Governor Pataki's Executive Budget continues New York's eight-year record of lowering the tax burden on individuals and businesses by allowing tax cuts already enacted to phase in on schedule. Delaying tax cuts would be a shortsighted and ineffective solution to the current financial situation, serving only to curtail private sector investment and discourage job creation. Continuing the scheduled tax cuts sends a strong signal to the business community that New York will not sacrifice the progress we have made.

Under Governor Pataki's Executive Budget, in 2003-04, New Yorkers will continue to realize the benefit of more than $773 million in additional annual savings from the implementation of previously enacted tax cuts. By 2005-06, these tax cuts will provide yet another $1 billion in tax relief.

The $773 million in incremental tax cuts represents approximately $596 million in previously enacted tax cuts that are fully effective and have grown over time. It also includes $177 million in tax cuts that were previously enacted, but continue to be phased in during 2003.

2003-04 Budget Implements Scheduled Tax Cuts

- Expansion of the Earned Income Tax Credit (EITC): The EITC for low- and moderate-income families will increase to 30 percent starting in 2003.
- Increase in the College Tuition Deduction/Credit: An itemized deduction or a 4 percent credit will be based on up to $7,500 of undergraduate college tuition beginning on January 1, 2003.
- Reduction of Marriage Penalty: The marriage penalty in the personal income tax will be reduced by increasing the standard deduction for married couples filing jointly from $14,200 to $14,600 on January 1, 2003.
- Increased Savings Under Governor's Energy Tax Reform and Reduction Plan: As planned, the phase out of the commodity portion of the gross receipts tax on electricity and natural gas continues, as does the phase out of the gas import tax. In addition, non-residential customers will be fifty percent exempt from transmission, distribution and transportation gross receipts taxes.
- Elimination of Sales Tax on Energy: The final 1 percent sales tax on the services of transportation, transmission or distribution of gas or electricity, when purchased separately by commercial customers, is eliminated on September 1, 2003.
- Continuation of Green Buildings Tax Credits: A first-in-the-nation tax credit that provides incentives to construct environmentally sensitive "green buildings" will increase to $3 million in 2003 and to $4 million in 2004.
- Continuation of Investment Tax Credit for Brokers/Dealers in Securities: This credit, for equipment or buildings connected with broker/dealer operations, is continued.
- Continuation of Long-Term Care Insurance Credit: This income tax credit continues at a rate of 10 percent of a taxpayer's long-term care insurance premiums to help offset long-term care insurance costs and to encourage employers to purchase this insurance for employees.
- Reductions of Corporate Franchise Tax Rate for Small Businesses: Effective for tax years beginning after June 30, 2003, the rate is reduced to 6.85 percent for businesses with entire net income (ENI) of not more than $200,000, and will range between 6.85 percent and 7.5 percent for businesses with ENI between $200,000 and $290,000.
- Expansion of CAPCO Program: This Budget continues the Certified Capital Company (CAPCO) Program under which insurance taxpayers can claim a credit for amounts invested in CAPCOs.
- Elimination of Excess Dividends Base for Telecommunications Companies: This elimination benefits telecommunications companies with fewer than one million access lines, effective for tax years beginning on or after January 1, 2002.
- Reduction in the Tax on Beer: Effective September 1, 2003 the tax on beer will be reduced from 12.5 cents to 11 cents per gallon.

In 2003-04 alone, individuals and businesses will benefit from:

- $6 billion in personal income tax savings;
- $2.7 billion in local property tax and New York City income tax savings from the STAR program;
- $900 million in savings from sales tax cuts;
- $850 million in other tax savings, including the reduction in the estate tax, and repeal of the real property gains tax and gift tax; and
- $3.0 billion in business tax savings.

STAR

Governor Pataki's efforts to ensure that taxpayers keep more of their hard-earned dollars have reached beyond traditional business and personal income tax cuts. In 1997, he proposed and secured the largest and most sweeping property tax reduction in State history — the School TAx Relief (STAR) program.

- The Governor's STAR program has saved New York State taxpayers more than $8.8 billion since its inception. In 2003-04, STAR will continue to save taxpayers $2.7 billion annually. *(See Figure 4)*
- STAR will provide more than 620,000 seniors an average property tax savings of $1,000 in 2003-04. Since its inception, STAR has provided seniors with a cumulative average property tax savings of $4,500.
- The STAR program has eliminated school taxes entirely for an estimated 200,000 seniors.

Statewide STAR Savings Continue to Grow

Since 1998-99, STAR has reduced school taxes for homeowners throughout the State and income taxes for residents of New York City. Taxpayers will continue to save over $2.7 billion in 2003-04 from STAR.

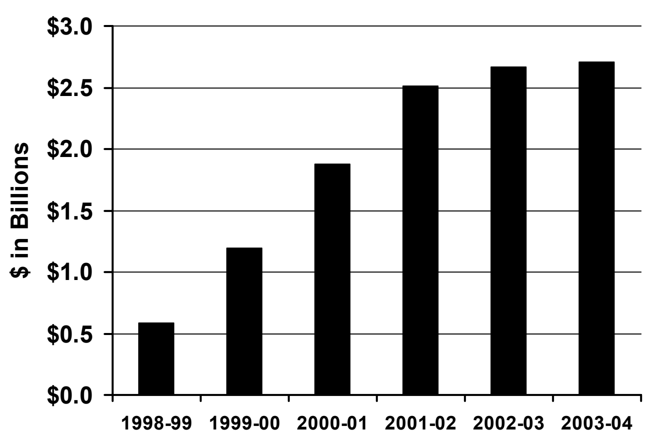


Figure 4

Average STAR Savings for Homeowners

In 2003-04, the average school tax savings for senior homeowners eligible for the enhanced STAR exemption will exceed $1,000. The average savings for other homeowners will remain at nearly $630.

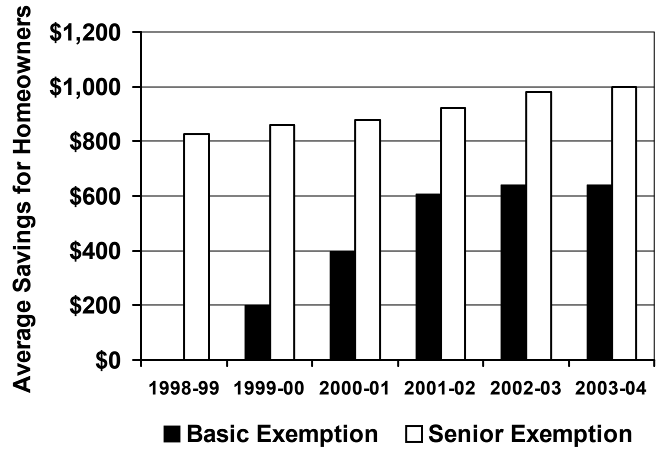


Figure 5

- The Governor's Cost Of Living Adjustment (COLA) on the income eligibility limit for the enhanced STAR exemption, enacted in 2002, will protect seniors and their savings. For the 2003-04 school year, the income limit for enhanced STAR recipients will increase from $60,000, to $62,100. This adjustment will ensure that small increases in retirement benefits do not disqualify seniors for enhanced savings.

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 at least $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 at all as a result of STAR.

- Seniors may now choose to have their income eligibility verified automatically by the Department of Taxation and Finance, thus avoiding the need to show assessors their income tax return every year.
- Nearly 2.4 million other homeowners receive STAR benefits, saving an average of $630 annually and more than $1,800 cumulatively since its inception. *(See Figure 5)*
- New York City residents receive $540 million annually in City Personal Income Tax relief through the STAR program, in addition to school property tax relief — which has reduced the City personal income tax by 10 percent on average.

Even during a year of significant fiscal constraint, the Executive Budget will fully preserve and protect the STAR program for seniors. The Budget does include a proposal to cap STAR benefits for non-senior homeowners at the 2002-03 levels, for one year only. As a result, the average STAR savings for most homeowners would remain the same, while seniors qualifying for the enhanced STAR benefit would not be affected. Under the proposal, new homeowners would still be eligible for STAR benefits, but existing benefits to current non-senior STAR recipients would simply not increase in 2003-04, with growth in STAR benefits resuming in 2004-05.

Governor Pataki's original STAR proposal was accompanied by a school tax cap to protect taxpayers from excessive spending growth on the part of local schools. To protect taxpayers from unrestrained school tax increases, the Governor is once again proposing to place a cap on school budget increases.

Creating Jobs and Opportunity

Smart Investments Lead to Jobs and Opportunity

Governor Pataki recognizes that job-creating tax cuts are the foundation for strong economic growth. To complement the State's historic tax reduction efforts, the Governor has also established a wide array of innovative economic development programs that provide a comprehensive approach to job creation.

As a result, New York State reversed the trend of job losses from the early 1990s and has created hundreds of thousands of new jobs since 1995. These innovative programs cross a wide spectrum of the economy including the state's manufacturing industries, small businesses and the high-tech entrepreneurs who are developing the products of tomorrow. Further, they support vital infrastructure improvements across the State that create a healthy environment for job growth for years to come.

SEMATECH

Citing New York State's distinction in chip research and development and its business-friendly environment, International SEMATECH decided in July 2002 to locate its next generation 300 millimeter computer chip research and development center at the University at Albany Center of Excellence in Nanoelectronics. SEMATECH, a consortium of 12 major computer chip manufacturers, will employ 250 researchers at the facility. The State has committed $50 million towards the construction of the facility. In addition, the State will provide $160 million that will be matched on a one-to-one basis by SEMATECH for additional program costs. The first International SEMATECH high-tech consortium facility, located in Austin, made an extraordinary impact on the regional economy.

Jobs for Today and Tomorrow

Since 1995, the State has invested more than $1 billion in high-technology research and job development programs, establishing an Empire State High-Tech Corridor from Buffalo to Brookhaven. These smart investments have paid off — JP Morgan Chase & Company, Forbes/Wolfe and *eWeek*, a magazine widely read by information technology executives, have all reported on the success of the Governor's high-technology initiatives. Individual success stories include:

- According to the National Science Foundation (NSF), Federal support to universities and colleges located in New York State totaled nearly $1.6 billion in 2000 — an increase of $465 million, or 41 percent, since 1995.
- Three New York State businesses recently secured $13.5 million in high-technology awards under the Federal Advanced Technology Program (ATP) competition.
- New York State has invested more than $6 million in the Laser Laboratory for Energetics at the University of Rochester. In the past year alone, the Laboratory attracted over $36 million from the U.S. Department of Energy and other sources.

Tokyo Electron Limited

Building on the progress of SEMATECH, in November 2002, the Governor's investments resulted in Tokyo Electron Limited (TEL) announcing that it will establish a $300 million research and development facility at the University of Albany Center of Excellence in Nanoelectronics. TEL, the world's second largest manufacturer of semiconductor manufacturing tools, will create more than 300 good, high-tech jobs. In addition, the State and TEL have discussed establishing future manufacturing facilities in New York, which could generate hundreds of additional jobs.

Centers of Excellence:

- University at Albany Center of Excellence in Nanoelectronics
- University at Buffalo Center of Excellence in Bioinformatics
- University of Rochester Center of Excellence in Photonics and Optoelectronics
- Stony Brook University Center of Excellence in Information Technology
- Syracuse University Center of Excellence in Environmental Quality Systems

- The State-supported Centers for Advanced Technology (CATs) leveraged approximately $50 million in Federal funds during the past year.

- Due in part to matching grants provided by New York State, the Federal government will award a total of $32.4 million to the Center for Nanoscale Systems in Information Technologies at Cornell University, the Center for Electronic Transport in Molecular Nanostructures at Columbia University and the Center for Directed Assembly of Nanostructures at Rensselaer Polytechnic Institute.

- New York State is now home to five National Security Administration (NSA) Centers of Information Assurance Education, more than any other state. NSA-designated centers strive to reduce the vulnerability of the nation's information technology infrastructure and ensure that security solutions evolve along with technological advancements.

- In February 2002, the NSF awarded 32 CAREER prizes to New York State science and engineering researchers. The Foundation's most prestigious tribute for junior faculty members, CAREER prizes recognize and support early career-development activities of scholars who likely will become academic leaders of the 21st Century—only California received as many awards.

Centers of Excellence

The Governor's statewide Centers of Excellence program has continued to break new ground. Centers of Excellence facilitate collaborations between industry, universities and the State to commercialize ideas generated in academic labs—and will lead to thousands of new jobs across New York.

In his 2003 State of the State Address, Governor Pataki announced that the State is moving forward with the following additional Centers of Excellence:

- Westchester Center of Excellence in Biotechnology; and

- New York City Center of Excellence in Medical Research and Biotechnology.

The Centers of Excellence will work in conjunction with a host of other State supported high-technology job development programs to spur the growth of high-skill, high-wage jobs across the State. These other programs include Gen*NY*sis, which was established to support biotechnology research and job development, and the Rebuilding the Empire State Through Opportunities in Regional Economies ("RESTORE") program, which provides funding for a range of development purposes, including high-technology research facilities and incubators. These State programs are already paying dividends, as evidenced by the recent decision by Advanced Micro Devices to launch an advanced semiconductor chip development initiative in conjunction with IBM in East Fishkill.

New Initiatives to Continue High-Technology Job Creation

To foster private sector job growth associated with Centers of Excellence, Gen*NY*sis Centers and research facilities that receive funding from the RESTORE program, the Executive Budget includes a targeted expansion of the successful Certified Capital Company, or CAPCO, program. This expansion will spur the investment of up to $250 million in private capital in companies that collaborate with these State-supported research facilities, creating a powerful new incentive for promising new high-technology businesses to locate and expand in New York State.

Empire Zones—A National Model for Job Creation

New York State's Empire Zones are well known for offering extraordinary tax incentives that allow businesses located within designated areas to operate virtually tax-free. Since 1994, Governor Pataki has dramatically expanded the program by establishing 32 new zones across the State. Incentives include refundable real property tax credits, sales and use tax exemptions, wage tax credits and utility rate savings, among others. Under legislation proposed with the Executive Budget, localities will become fiscal partners with the State in offering future real property tax credits. When fully effective, the total value of these tax incentives will be more than $250 million annually.

Flexible Resources Allow Rapid Response to Job Creation Opportunities

Governor Pataki understands that new opportunities to create jobs arise every day in the Empire State. To ensure that the State can capitalize on these opportunities, he established the Empire State Economic Development Fund (EDF) and the JOBS NOW program in 1996. Year in and year out, these programs provide the critical funding necessary to make job-creating projects a reality. Since their inception, these programs have awarded over $440 million to approximately 2,400 businesses and other recipients to create or maintain more than 600,000 jobs.

The success of these programs is evident across the State. For example, due to a $10 million investment from the JOBS NOW program, Dresser Rand has completed a multi-phase improvement project involving its Western New York facilities, which are located in Painted Post, Wellsville and Olean. Combined with the State's support, this well-known energy conversion technology company's $43 million investment will retain 2,500 jobs and create 500 new jobs within three years. In addition, Dresser Rand relocated its corporate headquarters and one of its product lines to Western New York.

A $75,000 EDF grant will assist in the expansion of Nationwide Court Services in Bohemia, Long Island. State support will enable this women-owned company, which provides services to legal and real estate firms across the State, to add 35 jobs—five of these new jobs have already been created.

Empire Opportunity Fund

In 2002, Governor Pataki further strengthened New York's economic development arsenal by establishing the Empire Opportunity Fund (EOF). This multi-million dollar program supports the development of industrial facilities; business parks and incubators; retail and commercial projects; and improvements and new construction of tourism destinations.

Power for Jobs

Established in 1997, this program led to approximately 300,000 new and retained jobs by providing low-cost power, particularly in upstate communities where high utility rates had historically affected the economy adversely. Over the life of the program, Power for Jobs will save businesses more than $500 million. The program, in concert with other energy initiatives, has kept power costs down for the energy-dependent manufacturing sector.

Pre-Permitting Programs

The Governor's Chip Fab-NY and Build Now-NY programs ensure that, when the private sector is ready to create jobs in New York State, business-permitting requirements will not cause a delay. At the same time, all environmental reviews are completed to ensure that projects will proceed in an environmentally appropriate manner. As a result of these pre-permitting programs, more than 73 "shovel-ready" sites have been pre-qualified for high-technology and other industrial development. For example, these programs enticed Best Buy to locate its new Regional District Center in Lounsberry, Tioga County. A $50,000 State grant leveraged a $40 million corporate investment and 425 new jobs at the recently completed 800,000 square foot building.

Reducing the Cost of Doing Business

The Governor's comprehensive regulatory reform initiatives continue to remove barriers to business. During the past eight years, more than 2,200 unnecessary State rules and regulations have been eliminated or substantially reformed. It is estimated that these and other efforts to eliminate government red tape have saved businesses, not-for-profit organizations and other taxpayers more than $3 billion.

The On-line Permit and Licensing System (OPAL) is a bold initiative sponsored by the Governor and implemented by his Office of Regulatory Reform to streamline the entire business permitting and licensing process. OPAL allows applicants to fill out one on-line application with business information that is shared with multiple state agencies, instead of requiring businesses to fill out a separate application for each agency.

In 2002, a new state uniform building code was adopted. The new code will save businesses an estimated $700 million annually. In addition, Governor Pataki has reduced workers' compensation rates by 40 percent, saving New York businesses more than $1 billion a year, while improving workplace safety, providing enhanced customer service and simplifying the claims settlement process.

Rebuilding New York City

Governor Pataki has been at the forefront of efforts to rebuild New York following the horrific events of September 11th. Under the Governor's leadership, with strong support from the State's congressional delegation, the State secured unprecedented assistance from the Federal government, including a multi-year $21 billion aid package to help New York recover and begin the process of rebuilding. The State and New York City continue to work closely with the Federal government to ensure New York's rebuilding needs are met.

The Governor also established the Lower Manhattan Development Corporation (LMDC) to oversee the planning and implementation of State and City rebuilding efforts and to ensure the general public would have input into the redevelopment process. The Governor continues to work closely with LMDC and, with his urging, it has accelerated the selection of a final redevelopment plan. Also, the Governor has remained committed to ensuring that the heroes' families are provided a strong voice in the design and development of an appropriate memorial.

Providing New Affordable Housing Opportunities

Since 1995, under Governor Pataki's leadership, New York has invested nearly $7 billion of State and Federal resources in affordable housing programs for low- and moderate-income families and seniors — creating more than135,000 affordable housing opportunities. This success has been achieved by effective use of traditional programs, such as the State of New York Mortgage Agency's (SONYMA) Low Interest Rate Mortgage Program and innovative new initiatives, such as the nationally-recognized Homes for Working Families Program, which provides generous incentives for the development of affordable rental housing. Also, SONYMA's Achieving the Dream Program provides low-interest rate individual mortgages to income-eligible homebuyers. In addition, to providing safe and affordable housing to New Yorkers, these investments continue to spur economic activity throughout the State.

Transportation

A Transportation System Ready to Support Economic Growth

Under Governor Pataki's leadership, New York's transportation system is well prepared to meet the economic challenges of today and tomorrow. Since the Governor took office, more than $17.8 billion has been invested in highway construction and engineering, improving conditions and readying the system to support new and expanded business activity. The investment has already produced new jobs, including nearly 593,000 from construction activities, and made New York's highways safer. In fact, fatal accidents have declined 13.5 percent since 1995 on New York's highways.

The Executive Budget will support another $1.65 billion of new highway construction projects and provide $281 million for local road and bridge projects in 2003-04.

Transit systems have received unprecedented levels of State support, growing to more than $1.7 billion of operating aid in 2002-03. This investment, coupled with the Governor's innovative fare policies such as the Metropolitan Transportation Authority's Metrocard and "One City, One Fare" programs have resulted in record levels of ridership. Annual MTA ridership has increased by 612 million since 1995, for a total of 2.3 billion riders in 2001. The Budget will continue the record appropriation levels of State aid established in 2002-03, helping transit systems to manage the impact of current economic conditions and minimize potential fare increases.

A New Vision for the Department of Transportation

The Department of Transportation (DOT) was established in 1967 with a mission that focused primarily on the completion and operation of the interstate highway system. In the intervening years, transportation needs and technology have evolved significantly, and the future will offer new challenges and opportunities that call for a different approach to delivering transportation services. The DOT of the 21st Century will need to capitalize on changes in world trade patterns, use "intelligent" transportation technology to manage increases in traffic and balance arising security concerns with the need to move people and products quickly and efficiently.

During the next four years, DOT will meet the challenge of these changes by evolving into a more flexible, transportation solution-oriented agency. The Department will begin this transformation in 2003-04 by focusing on the identification and operation of the trade corridors that are critical to New York's economic future, while also addressing the differing transportation needs in communities throughout the State. The Budget reflects this new direction, shifts resources from the old priorities to new needs, reduces and reallocates staff in line with the new mission and cuts spending by eliminating unnecessary activities related to the old ways of doing business.

The Department's new direction will result in a more effective and efficient organization, refocused on trade expansion and technological innovation, and ready to deliver on its redefined mission, to:

- Improve mobility and reliability in moving goods and people;
- Increase transportation safety;
- Improve environmental conditions;
- Promote economic sustainability; and
- Enhance public security.

Education

Educational Reform and Accountability

As a result of Governor Pataki's strong leadership, New York has compiled an impressive list of educational accomplishments during the past eight years. Particularly noteworthy accomplishments during this period include:

- Historic reforms in the governance of the New York City school system;
- Landmark school safety legislation that establishes the nation's most comprehensive plan to ensure the safety and well-being of our students;
- The innovative Teachers of Tomorrow program that has resulted in the recruitment, training and retention of more than 30,000 teachers in classrooms across the State;
- The highly acclaimed Advantage Schools program that provides after-school programs for 26,000 students at 210 sites across the State; and
- The development of 44 charter schools, providing more than 16,000 students and their families with a wide choice of innovative educational programs.

Over these same eight years, New Yorkers have made a substantial investment in the education of our children. Between 1994-95 and 2002-03, New York increased State aid to public schools by more than $4.8 billion, or approximately 50 percent.

In the period directly preceding September 11th, New York provided three consecutive years of record-breaking school aid increases, with schools receiving nearly $2.7 billion in additional aid between 1998-99 and 2000-01. These additional State funds, coupled with local

New York Leads the Nation in Spending Per Pupil

2001-02 data places New York first in the nation in spending per pupil with spending that is 45% higher than the national average of $7,899. Even after changes proposed for 2003-04, New York will remain well above other major states in education spending.

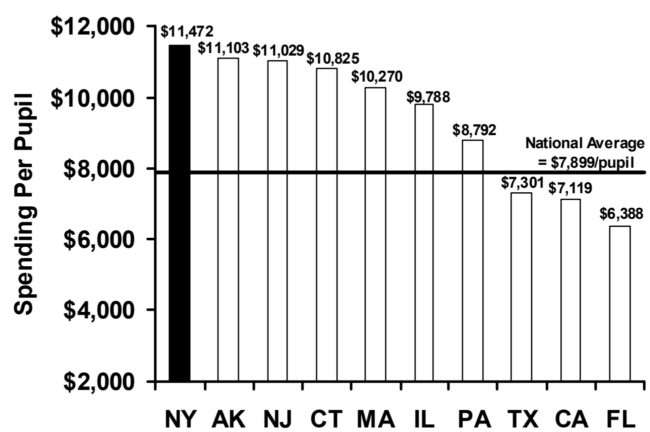


Figure 1

taxpayer support, raised New York's school spending to the highest in the nation — more than $11,400 per pupil in 2001-02 compared to the national average of nearly $7,900. *(See Figure 1)*

Even in the face of fiscal difficulties following September 11th, the State provided schools with an aid increase of $411 million for the 2002-03 school year. Unfortunately, the financial consequences of September 11th, coupled with the national economic downturn, has deeply undermined the State's ability to sustain its current level of investment in education. While working to avoid mid-year cuts in aid, the 2003-04 Executive Budget does propose reduced funding for the school year beginning July 1, 2003. Operating aid will be reduced by $407 million (4 percent) which, when combined with reductions in discretionary grants, declines in expense-based programs and other targeted reforms and savings, results in an overall reduction of $1.24 billion in school aid.

Consistent with the priority attached to providing school districts with flexible operating aid, the overall reduction in operating aid has been held to 4 percent. Furthermore, school districts are protected from overall aid reductions of more than 5 percent of their total operating budget.

To minimize the reduction required in operating aid, State aid for various discretionary grant programs — including Universal Pre-Kindergarten and Class Size Reduction — has been proposed for elimination. However, schools will have the flexibility to continue these programs with local funds if they so choose.

The proposed overall school aid reduction also includes an expense-based decline of $144 million in Building Aid and an enrollment-based decline of $15 million in Growth Aid — neither of which represent aid losses for school districts. These aid declines, coupled with the

State Education Spending Outpaces Inflation

Over the nine-year period, including 2003-04, New York has made a record investment in its schools — increasing school aid from $9.8 billion in 1994-95 to $13.4 billion in 2003-04. This $3.6 billion increase represents growth of 36.3% — a rate nearly one and a half times that of inflation.

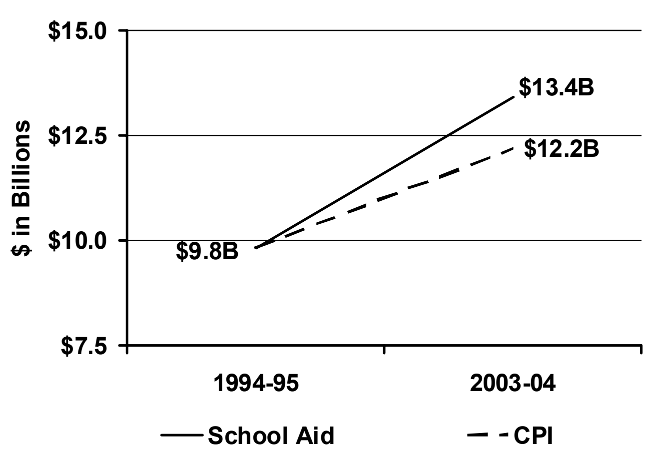


Figure 2

reduction in discretionary grant programs, generate savings of $607 million — or nearly one-half of the proposed overall school aid reduction of $1.24 billion. The school aid proposal also includes recommended reforms in BOCES, school construction aid and special education.

Although it was not possible to spare our schools from the funding reductions required of virtually all State programs, our schools will benefit from overall spending levels that will continue to place New York among the top states in the nation. New York remains well above other major states such as California, Texas and Florida. Furthermore, even with the proposed 2003-04 reduction, since 1994-95 State support for schools has grown at a rate nearly one and a half times that of inflation. *(See Figure 2)*

School Taxes

Despite recent record increases in State aid to schools, school property tax levies continue to increase at rates well above inflationary growth. *(See Figure 3)* If left unchecked, school spending growth will drive significant increases in local property taxes and substantially erode the property tax relief provided through STAR.

Governor Pataki's original STAR proposal was accompanied by a school tax cap to protect taxpayers from excessive spending growth on the part of local schools. To protect taxpayers from unrestrained school tax increases, the Governor is once again proposing to place 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;

Spiraling School Tax Growth

Over the past five years, local school taxes continued to spiral upwards despite a record $3.7 billion increase in State aid during this period. Growth in local school taxes significantly outpaced inflationary growth during this period.

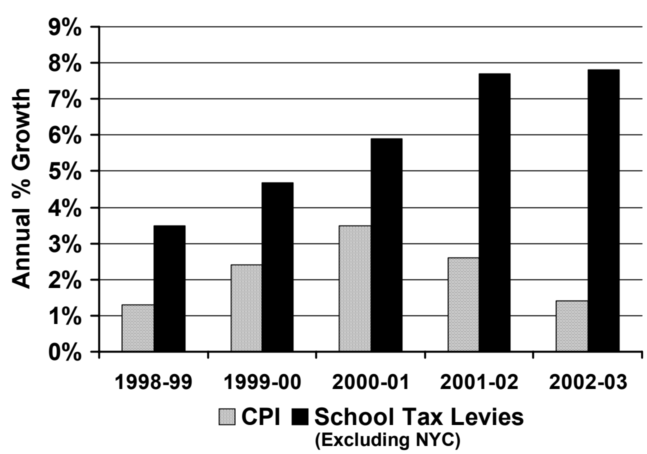


Figure 3

- 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; and
- Local taxpayers could approve spending increases beyond the spending cap with a two-thirds majority vote.

School Finance Reform

During this period of austerity, all levels of government will be called upon to operate more efficiently, and the ability of our schools to successfully meet this challenge is of critical importance. Now is an opportune time to rethink how New York structures, delivers and supports educational services. That is why the Governor's education agenda for the coming year includes the following initiatives to reform the State's outdated educational finance system and enable our schools to more effectively target tax dollars to the classroom.

Two years ago, Governor Pataki proposed sweeping reforms to the way the State allocates aid to public schools. The Governor's proposal — known as Flex Aid — would provide schools with greater flexibility to meet locally defined needs. Although current fiscal realities do not permit the State to provide schools with additional funds, the school aid proposal for 2003-04 reflects the following basic principles of Flex Aid:

- Existing formulas are simplified and the number of formulas is reduced — nine existing aid categories are consolidated into a single funding stream;
- Operating aid allocations will be sensitive to each district's relative wealth and student needs; and
- School districts will have maximum flexibility in the use of their consolidated operating aid.

Increased State Aid Flexibility

To provide school districts with maximum flexibility in the use of their State aid, the following nine aid programs are proposed for merger within a new consolidated operating aid:

- **Comprehensive Operating Aid**
- **Extraordinary Needs Aid**
- **Operating Standards Aid**
- **Gifted and Talented Aid**
- **Educationally Related Support Services Aid**
- **Limited English Proficiency Aid**
- **Summer School Aid**
- **Academic Support Aid**
- **Public Excess Cost Aid**

School Evaluation Services

Local school officials will be able to evaluate the relative cost-effectiveness of their educational and administrative programs by reviewing data that clearly displays the "return on resources" among comparable school districts. Similar programs have already been initiated in Michigan and Pennsylvania and have proven to be a successful means of promoting improved student achievement and accountability.

Special Education Reform

Although the goal of special education is to teach children with disabilities in the "least restrictive environment," the State's current special education finance system may provide unintended fiscal incentives for children to be placed in restrictive settings, away from their non-disabled peers. These arcane special education formulas have been cited

Excessive Reliance on Restrictive Special Education Placements

New York places too many children in restrictive special education settings. These placements represent over 40% of the total number of special education placements in the state – a much higher percentage than other states. New proposals will address this concern.

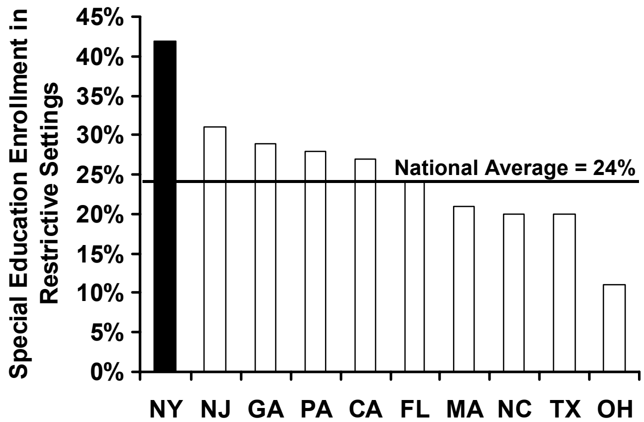


Figure 4

as contributing to the disproportionate number of children who are being placed in restrictive settings in New York as compared to other states. *(See Figure 4)*

To ensure New York promotes the policy goal of including children with disabilities in the regular classroom, the 2003-04 Executive Budget recommends changes to the special education financing system. Effective for the 2003-04 school year:

- The $2.1 billion in funding for public special education programs will be consolidated within operating aid. Allocation of aid based upon the number of special education placements will be discontinued.
- Reimbursement formulas for private special education will be conformed to those used for public programs. Specifically, the average State aid ratio used in calculating aid for placements in private special education settings will be reduced from 85 percent to 49 percent — the same as that used for public placements.

These changes will eliminate any incentive to refer children to special education, and to place children in restrictive, high-cost private settings. Furthermore, these changes will address discrepancies cited by the Office of the State Comptroller in recent reviews of New York's special education programs.

BOCES Reform

The 2003-04 Executive Budget recommends reforms that would refocus the Boards of Cooperative Educational Services (BOCES) on their core mission to promote cost-efficiency through the regional delivery of educational services. This goal will be accomplished by:

- Eliminating BOCES aid for routine administrative services;

- Prospectively consolidating BOCES aid into operating aid to provide districts with maximum flexibility in the use of these funds; and
- Restructuring the role of BOCES superintendents.

Building Aid Reform

New York currently has one of the most generous school construction aid programs in the nation. Since Governor Pataki took office, State support for school construction has more than doubled from $536 million in 1994-95 to more than $1.1 billion recommended for 2003-04. *(See Figure 5)*

To ensure limited State and local resources are effectively targeted to address school facility needs across New York, the following additional reforms are proposed:

Priority Based Project Selection: The existing open-ended building aid program will be replaced with a priority-based system, which will apply to all projects approved by the State Education Department after February 1, 2003. Projects will be selected for funding based on established priorities, such as projects that address health and safety problems or relieve severe overcrowding. In addition, the existing 10 percent building aid enrichment will be limited to instruction-related projects only.

Simplified State Aid Calculation: State aid for projects approved by local voters after July 1, 2003 will be based upon the district's current aid ratio — supplemented by the 10 percent enrichment for instruction-related projects — and school districts will no longer be able to select a more favorable measure of their local property wealth from a previous year. In addition, there will be a simplified rated capacity determination to reflect realistic allowances for construction costs and student-based space needs.

State Support for School Facilities Dramatically Increases

State support of school construction has more than doubled under Governor Pataki. New reforms will ensure that limited State and local resources are effectively targeted to address our top school facility priorities.

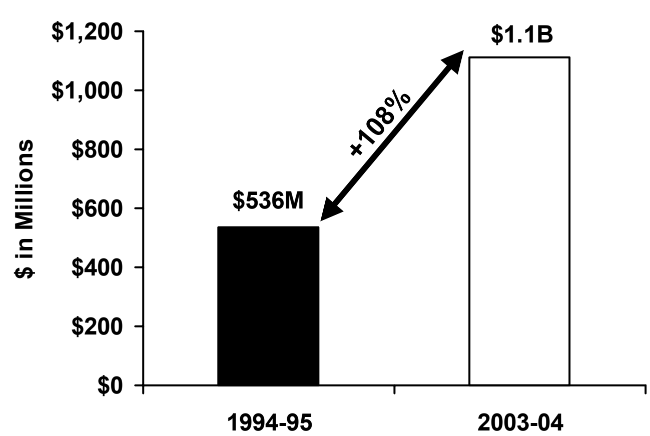


Figure 5

Mandate Relief

In these difficult fiscal times, New York State has a responsibility to help local school districts address the fiscal challenges they face by lifting the burdensome and unnecessary mandates that have been imposed upon them. The Budget includes a series of new mandate relief measures that will give our schools the tools they need to manage their resources.

Restrict New State Mandates: The Board of Regents will be required to obtain the review and approval of the Governor's Office of Regulatory Reform for new regulations that would have significant costs for schools, the State or local governments.

Repeal Wicks Law: Schools will benefit from elimination of Wicks Law requirements which mandate the use of multiple contractors. This reform will reduce the cost of new school construction by more than 10 percent.

Eliminate Mandates that Exceed Federal Requirements: Existing statutory provisions governing the composition of special education committees will be modified to conform to Federal law. By aligning State and Federal requirements, compliance for school districts will be streamlined and simplified.

Teachers of Tomorrow

Since 2000-01, the Governor's innovative Teachers of Tomorrow program has resulted in the recruitment, training and retention of more than 30,000 teachers in classrooms throughout New York. This program supports a variety of teacher recruitment and retention activities, including tuition reimbursement scholarships to attract new teachers to shortage areas, as well as tuition assistance for teachers who are seeking permanent certification. The success of Teachers of Tomorrow and other efforts to attract and retain teachers in hard-to-staff schools has alleviated the shortage of qualified teachers. As a result, funding for this program will be reduced from $25 million to $20 million in 2003-04.

Advantage Schools

Since its inception in 1998-99, Governor Pataki's Advantage Schools program has rapidly expanded the availability of after school programs that provide school-age children with supervised educational and social activities during non-school hours. Beginning as a $500,000 program operating in 9 sites and providing services to 870 children, in the coming year the Advantage Schools program will support 210 sites and serve 26,000 children. The Executive Budget recommends $20.2 million in Federal TANF funds for the Advantage Schools program, preserving support in 2003-04 for programs that operated in 2002-03.

School Choice

In September 1999, the opening of New York's first three charter schools marked the beginning of one of the most significant education reforms in State history. To date, 44 charter schools have been established across the State and serve more than 16,000 students. For 2003-04, the State will continue this reform by maintaining funding of $6 million in support for the Charter School Stimulus Fund. This funding will help meet existing facility needs and support the development of new charter schools. In addition, school choice will be enhanced by the implementation of the Federal No Child Left Behind Act, which requires that students in failing or unsafe schools be provided the opportunity to transfer to another school within their district.

Educational Governance Reform

In 2002, sweeping reforms were enacted in the governance of New York City's school system. At the core of this historic action was the restructuring of the Board of Education, with a majority of its members now appointed by the Mayor — thereby making the City's highest elected official accountable for the performance of the City's public school system. In the coming year, the Governor is proposing that accountability reforms, successfully begun in New York City, be extended to the State's other major urban centers to provide their mayors a greater voice in their school systems.

Using the New York City school governance reforms as a model, Governor Pataki is advancing an overhaul of New York's educational governance system. Under this legislation, a majority of the State Board of Regents will be appointed by the Governor — thereby making the State's highest elected official accountable for the performance of New York's educational system.

Currently, New York is one of only two states in the nation where the Legislature appoints a board that is responsible for supervising the state's educational system. As a result of the Governor's educational governance proposal, New York's educational governance structure will be brought into conformance with most other states. Under the proposed restructuring of the Board of Regents:

- The number of Regents will be increased from 16 to 18;
- The Governor will appoint 12 Regents to represent each of the State's judicial districts; and
- Legislative leaders will appoint the remaining six Regents, with two Regents appointed by the majority in each House, and one Regent by the minority in each House.

Restructuring the State Education Department

The proposed educational governance reforms will be accompanied by a restructuring of the State Education Department to sharpen its focus on its core mission — the education of our children. Functions that are not central to education will be transferred from the State Education Department to other State agencies as follows: *(See Figure 6)*

- Vocational and Educational Services for Individuals with Disabilities (VESID) and the Commission for the Blind and Visually Handicapped from the Office of Children and Family Services, will be transferred to the Department of Labor. This will consolidate the State's vocational rehabilitation programs within a single agency providing specialized, state-of-the-art job training and placement services.
- The Office of the Professions will be transferred to the Department of State and consolidated with its Business and Licensing Services program.
- Cultural Education programs including the State Museum, State Library and State Archives will be transferred to create a new entity, the New York Institute for Cultural Education (NYICE). NYICE will be established as a new public benefit corporation and will be headed by a 15-member board appointed by the Governor, legislative leaders and the Board of Regents.

Refocusing SED on Education

Governor Pataki proposes to restructure the State Education Department to sharpen its focus on its core mission – the education of our children. Functions that are not central to education would be transferred from the State Education Department to other State agencies.

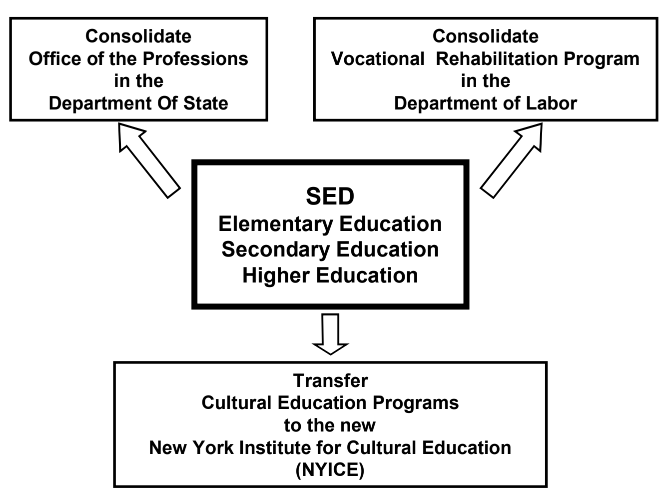


Figure 6

Higher Education

New York State continues to demonstrate national leadership in providing support for higher education. Governor Pataki's 2003-04 Executive Budget provides nearly $7.7 billion for the State's public and private institutions of higher education.This substantial investment exemplifies the importance New York continues to place on higher education, and underscores the critical role that colleges and universities play in the educational, social and economic advancement of all New Yorkers.

As a result of the State's investment, New York's public and private colleges have been attracting increasing numbers of students seeking to enroll in a wide array of degree programs at our research universities, comprehensive liberal arts colleges, community colleges, medical schools and specialized colleges of technology. In the current year, total college enrollments in New York reached an all-time high of nearly 1,090,000 students. *(See Figure 7)*

Balancing Taxpayer and Student Support

The aftermath of September 11th, coupled with the national economic downturn, has affected the State's ability to sustain its current level of investment in its public universities. As a result, taxpayer support for SUNY State-operated campuses and programs will decline by $183.5 million or 15 percent, and taxpayer support for CUNY senior colleges will be reduced by $81.7 million or 12 percent. Resulting 2003-04 General Fund support levels for SUNY and CUNY State-supported campuses and programs are $1.03 billion and $581.4 million, respectively.

Taxpayer support for SUNY and CUNY community colleges will also be reduced through a base aid decrease of $345 per student or 15 percent. Although this base aid reduction may necessitate tuition

College Enrollments Reach Record Levels

New York's public and private colleges are attracting record numbers of students. In fall 2002, the State's total college enrollments reached an all-time high of nearly 1,090,000 students.

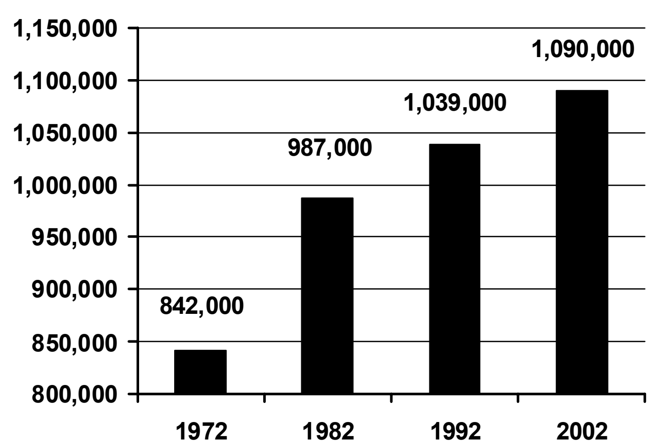


Figure 7

increases at the community colleges, the impact of any such increases will be mitigated for needy students as a result of State financial aid provided through TAP.

To meet current fiscal challenges, the State must carefully consider the appropriate balance of taxpayer and student support for New York's public universities. Current tuition rates of $3,400 for the State University of New York and $3,200 for the City University of New York have remained unchanged for seven years — the longest period in State history. *(See Figure 8)* This cost is comparable to, or below that of, other public universities in the Northeast. *(See Figure 9)* Moreover, even with a rise in tuition, students attending SUNY and CUNY will receive a quality education at a competitive and affordable cost.

In recognition of the powers of the Boards of Trustees at SUNY and CUNY to manage their resources in a manner that is responsive to student needs and University policies, the 2003-04 Executive Budget does not prescribe a tuition increase. Rather, it permits the Universities discretion in managing reductions in State taxpayer support for their operations through a mix of spending reductions and a tuition increase.

Furthermore, the Governor is advancing legislation with the Budget that would remove statutory obstacles to the establishment of a comprehensive, long-range tuition policy by the Trustees. This proposed legislation would relax various existing restrictions on the ability of the SUNY and CUNY Boards of Trustees to establish tuition charges. Upon enactment, the Trustees would be authorized to establish differential tuition rates for graduate and professional students attending certain campuses. The Trustees will also have the ability to adopt a tuition policy that permits annual incremental adjustments to tuition

Trends in SUNY Tuition

SUNY tuition of $3,400 would be $1,200 higher if adjusted by the annual increase in the HEPI since 1995-96, and $2,000 higher if adjusted by the annual increase in public sector tuition/fees.

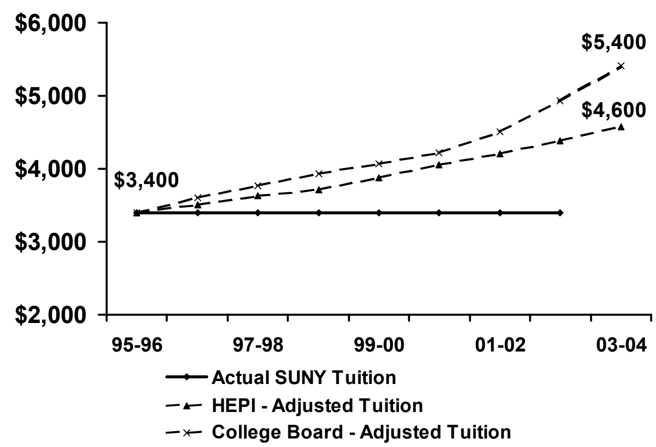


Figure 8

SUNY and CUNY Tuition Remains Affordable

New York's public university campuses are among the most affordable institutions in the Northeast for students seeking a high quality education.

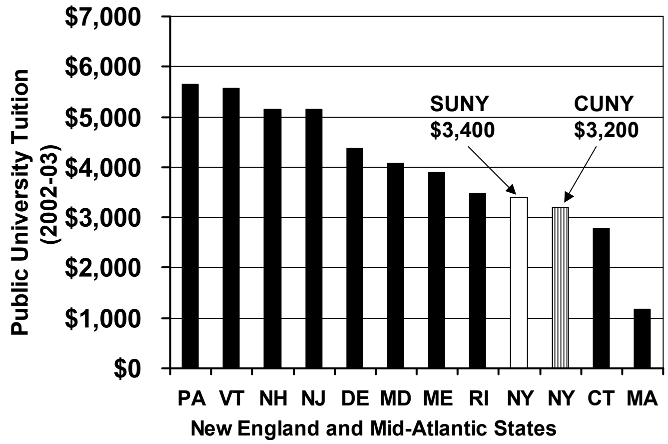


Figure 9

and maintains an appropriate balance between taxpayer support and student support and to set tuition rates prior to enactment of the annual State budget.

Access to College Education

New York's generous support of student financial aid and other higher education grant and scholarship programs will total $620 million in 2003-04. These funds will assist nearly 360,000 of our students in their pursuit of a college education at New York's public and private institutions of higher education. Highlights for 2003-04 include:

- Nearly $570 million in need-based student financial aid — an amount exceeding that of virtually every other state in the nation; and
- As a result of enhancements begun in 2000-01, the Tuition Assistance Program (TAP) will provide an enriched maximum award level of $5,000 to first-time TAP recipients in 2003-04 and continue all other program enrichments already in place.

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.

New Incentives for College Completion

The key to financial success for our students and to economic prosperity for New York is for its students to complete their higher education and receive their degrees. However, in too many cases, students begin a course of college study but never earn their diplomas. In these instances, the students' goals are not fully realized, and the State's investment in their education through the Tuition Assistance Program is lost. *(See Figure 10)*

To encourage students to stay in school and earn their degrees, the Budget recommends restructuring the TAP program to encourage greater numbers of students to complete their college education. Components of the plan include:

- Beginning in 2003-04, TAP awards will be provided in two components — a "base" award equivalent to two-thirds of the current TAP award, and a "performance" award equivalent to the remaining one-third;
- The "base" component will be paid consistent with the current payment schedules of TAP awards to students;
- The "performance" component will be paid upon students' successful completion of their degree programs. Performance award payments will be equal to the amounts of students' deferred TAP awards, plus any accrued interest on loans they may have used in financing their performance awards; and
- Pending receipt of their "performance" awards, students will be expected to finance these costs through Federal loans. State loans will be available for students who have exhausted their Federal loans.

TAP Restructuring Will Improve College Completion Rates

Changes in TAP for 2003-04 will create a performance-based incentive to encourage greater numbers of students to complete their college educations.

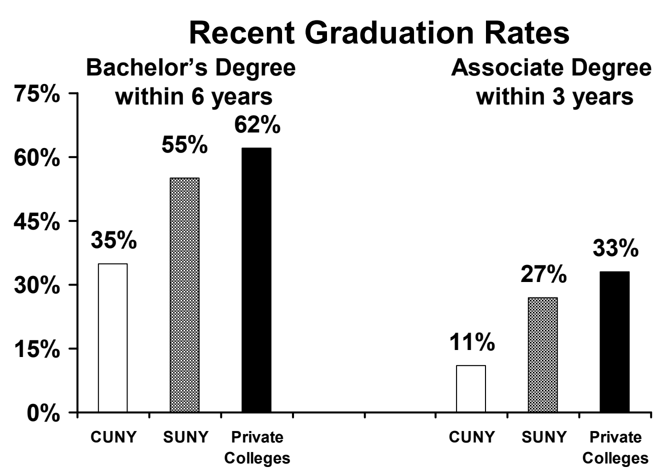


Figure 10

Excellence in Higher Education

SUNY: The State University is one of the nation's premier educational institutions, and continues its pursuit of educational excellence by strengthening its academic programs and faculty performance. SUNY is attracting top quality students through selectivity standards comparable to those at other top public universities.

Faculty performance in scholarship and teaching is also reaching record levels. Revenue generated through sponsored research increased to more than $700 million in 2001-02 and, for the second year in a row, SUNY surpassed other top universities in the amount of income received from patents and royalties from faculty research. SUNY has now joined IBM, Corning and GE among the top recipients of patents in New York State.

CUNY: Our City University's innovative Honors College is now in its second year. During 2002, the program expanded to include Lehman College and the College of Staten Island. The Honors College builds on the unique resources of both the University and New York City and provides selected students with opportunities to experience the talent and expertise that exist across CUNY campuses. A special "Cultural Passport" provided to Honors College students allows them to experience the riches of New York City's theaters, museums and concerts.

The City University is also at the forefront in achieving greater educational productivity. At CUNY's Brooklyn College, 600 students are currently enrolled in an innovative program — The On-Course Advantage (TOCA) — which enables them to accelerate completion of their undergraduate degrees. The TOCA program began two years ago, and already a student from the original entering class will be graduating in just two and a half years. She plans to become a New York City school teacher.

Capital Investments

In 1998-99, Governor Pataki initiated a Multi-Year Capital Investment Program at SUNY and CUNY. Under this program SUNY received $2 billion and CUNY received $1 billion to revitalize their campuses and meet the infrastructure and facilities needs and priorities of the respective universities. Building on this highly successful initiative which is in its final year, the 2003-04 Budget includes:

$2.5 Billion Capital Plan for SUNY: A new $2.5 billion Multi-Year Capital Investment Program for SUNY provides for State-operated and community college facility and infrastructure improvements. Recommendations include: $1.64 billion for academic facilities; $350 million for hospitals; $210 million for community colleges and

$335 million for residence halls. The capital plan largely focuses on addressing critical health/safety and preservation needs, as well as the phased revitalization of campuses through rehabilitation of existing buildings.

$1.2 Billion Capital Plan for CUNY: A new $1.2 billion Multi-Year Capital Investment Program for CUNY provides for facility and infrastructure improvements at senior and community colleges consistent with the University's needs and priorities. Funded projects encompass critical health and safety, preservation and handicapped access projects, as well as the completion of ongoing projects at John Jay College and the construction of a new academic building for Medgar Evers College. In addition, authorization is provided to CUNY for planning efforts related to the development of Governors Island.

Technology Initiatives

New York's public and private universities are key partners in a number of initiatives that demonstrate the State's commitment to academic research and the technological business community. These strategic investments recognize that technology represents a vital part of New York's future economic development.

Prominent among these technological investments are the State's five University-based Centers of Excellence — Governor Pataki's $1 billion high-technology initiative that will enable New York State to become a worldwide leader in university-based research, business creation and job development. The Five Centers are:

- Albany Center of Excellence in Nanoelectronics which includes a $403 million semiconductor research center at SUNY Albany known as International SEMATECH, a consortium of the 12 major computer chip manufacturers in the world;
- Buffalo Center of Excellence in Bioinformatics which includes the Life Sciences Complex used for super-computing, pharmaceutical research and workforce development and relies on collaboration with scientists from the University of Buffalo;
- Long Island Center of Excellence in Wireless Internet and Information Technology which is located at SUNY Stony Brook and, in tandem with several other high-tech research projects such as the Bioinformatics Research Center at Cold Spring Harbor Laboratory and SUNY Farmingdale's Broad Hollow Bioscience Park, will create thousands of new high-skilled and high-wage jobs across Long Island;
- Rochester Center of Excellence in Photonics and Optoelectronics which will focus on creating technology transfer and pilot fabrication facilities for high-resolution imaging and ultra-fast communications devices; and

- Syracuse Center of Excellence in Environmental Systems which, in conjunction with the new Central New York Biotechnology Research Center, will establish the Syracuse area as a leading center for plant and animal research.

In addition to the five Centers of Excellence, the New York Structural Biology Center, a state-of-the-art biotechnology research center, is housed at CUNY's City College. The Center is a joint venture between nine New York universities and research hospitals. The institute includes the Albert Einstein College of Medicine, Columbia University, Memorial Sloan-Kettering Cancer Center, Mount Sinai School of Medicine and the City University of New York. The initiative brings together scientific expertise and resources to advance research – creating new technologies to advance New York's biotechnology industry. The Center has already received $32 million in State and Federal research grants.

Health Care

Meeting the Health Care Needs of New Yorkers

Improving access to high quality health care services for all New Yorkers has been one of Governor Pataki's highest priorities. During his tenure, Governor Pataki has led New York to national leadership in health care by:

Advancing the Health Care Reform Act (HCRA): This landmark legislation, originally enacted in 1996, reformed the hospital reimbursement system and serves as a national model for providing health coverage for the uninsured. It also supports other important public health initiatives such as anti-smoking efforts, hospital and clinic care for the poor, and rural health care. The amendments to HCRA enacted in 2002 provided important additional funding to recruit, hire and retain health care workers and advance new health initiatives. It also achieved important cost containment objectives. The 2003-04 Budget recommends reauthorization and strengthening of HCRA for an additional two years and maintains New York's commitment to public goods funding.

Governor Pataki has Strengthened New York's Health Care System by:

- Reforming the hospital reimbursement system
- Expanding the use of managed care
- Securing Medicaid cost containment savings
- Ensuring coverage for all poor children
- Expanding coverage to lower-income parents and other adults
- Providing affordable drug coverage for seniors
- Extending services to vulnerable populations

Dramatically expanding Child Health Plus (CHP): CHP is New York's program of subsidized health insurance coverage for children under 19. Under Governor Pataki, enrollment in this nationally recognized program has grown dramatically, from approximately 93,000 in 1995 to more than 500,000 in 2002. In addition, benefits have been expanded to make CHP a truly comprehensive health care program. New York will spend more than $944 million from Federal and other resources in 2003-04 to provide these comprehensive health care services to children.

Establishing Family Health Plus (FHP): Family Health Plus builds on the successes of CHP, providing lower-income parents and other adults with access to similar health care benefits at affordable rates. Family Health Plus was initiated in October 2001 and is expected to provide nearly 700,000 New Yorkers with access to affordable health coverage.

Establishing New York's Mandatory Medicaid Managed Care Program: Managed care represents an essential step in our efforts to improve the health of New Yorkers, while reducing costs for State taxpayers. The program currently provides nearly 1.3 million Medicaid recipients a medical "home" that enables them to receive timely, coordinated medical care to ensure prevention, early diagnosis and treatment of health problems. Recognizing the effectiveness of this program, the Federal government recently approved New York's managed care waiver for an additional three years — until March 31, 2006.

Expanding prescription drug coverage for senior citizens through the Elderly Pharmaceutical Insurance Coverage (EPIC) Program: In 2000, the Governor signed legislation raising EPIC income-eligibility levels and reducing program fees. As a result, enrollment increased by more than 160 percent — from 115,000 in 1999 to more than 300,000 today. During 2003-04, New York will provide $578 million for this program, saving New York seniors enrolled in EPIC an average of more than $2,000 annually.

Expanding Breast and Cervical Cancer Treatment: Uninsured and underinsured women with incomes up to 250 percent of the poverty level who are diagnosed with breast or cervical cancer through the Centers for Disease Control's national screening program are now eligible for lifesaving treatments in New York. This initiative builds on other women's health initiatives championed by the Governor including an enhanced statewide network of screening and mammography programs, expanded funding for breast cancer research and legislation requiring insurance companies to cover reconstructive surgery, second opinions and appropriate hospital stays for mothers and their newborns.

Extending Medical Coverage to the Working Disabled: Under legislation enacted in 2002, disabled individuals with incomes up to 250 percent of the poverty level will be eligible to obtain the comprehensive, quality health care they need to enter or remain in the workforce.

Controlling Health Care Costs

New Savings Measures

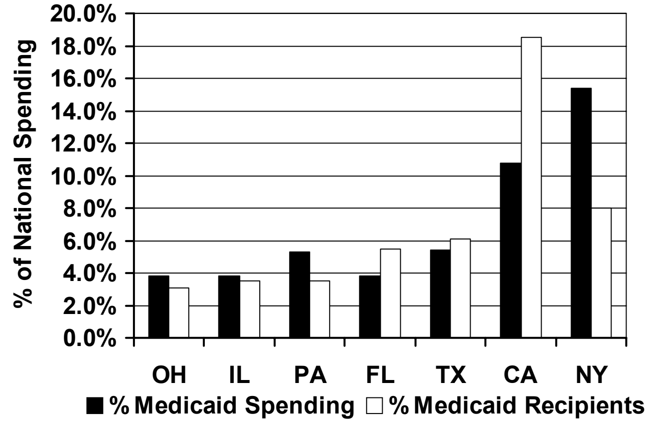
- Control escalating drug costs
- Revise long term and acute care payment methodologies
- Maximize Federal and other resources
- Enhance fraud prevention efforts
- Realign State and local government financing responsibilities
- Reform Public Health and Aging programs

While continuing to improve health care access and quality, we must also assure that it remains affordable. Currently, New York State has the most expensive Medicaid program in the nation. *(See Figure 1)* In 2003-04, total Medicaid spending in New York — Federal, State and local government combined — is expected to reach $41.7 billion if left unchecked, an amount that is far more than what is spent in any other state. In addition, New York spends more than any state in the nation on the provision of affordable drugs to its senior citizens through the Elderly Pharmaceutical Insurance Coverage (EPIC) program. EPIC, which covers more than 300,000 seniors, would increase by almost $100 million or 19 percent in 2003-04 absent cost saving measures.

The Executive Budget proposes a series of measures that will produce State Medicaid savings of $1.2 billion in 2003-04 and reduce the cost of the EPIC program by $38 million. These proposals strike a balance between achieving much needed savings in the face of new fiscal realities and meeting the health care needs of New Yorkers. Even after these cost savings are in place, New York will spend far more on Medicaid and EPIC services than any other state in the nation.

New York's Medicaid Spending is Out of Line

New York spends a disproportionate amount of national Medicaid dollars: 15.4 percent of national spending for only 8 percent of the nation's recipients. This contrasts with California which spends only 10.8 percent of national Medicaid dollars while serving 18.5 percent of all Medicaid recipients.



Source: CMS 64 FFY 2000

Figure 1

Implementing Pharmacy Savings Measures

The cost of prescription drugs is escalating at an alarming rate nationally and in New York as well. Pharmacy spending has become the fastest growing component of Medicaid, increasing in recent years at an average annual rate of nearly 20 percent. The EPIC program is experiencing similar spiraling cost increases. *(See Figures 2 and 3)*

If left unchecked, this dramatic growth will undermine the State's ability to continue providing vital health services to New Yorkers. Accordingly, the 2003-04 Executive Budget proposes a number of actions to bring drug costs in line. Many of these measures are similar to those

Rapid Growth in Medicaid Prescription Drug Spending

Pharmacy spending in New York's Medicaid program continues to be the fastest growing component of health care costs, with average annual increases of 20 percent between 1994-95 and 2002-03. Left unchecked, this rapid growth rate jeopardizes the State's overall ability to continue providing quality health care services to those who need it most.

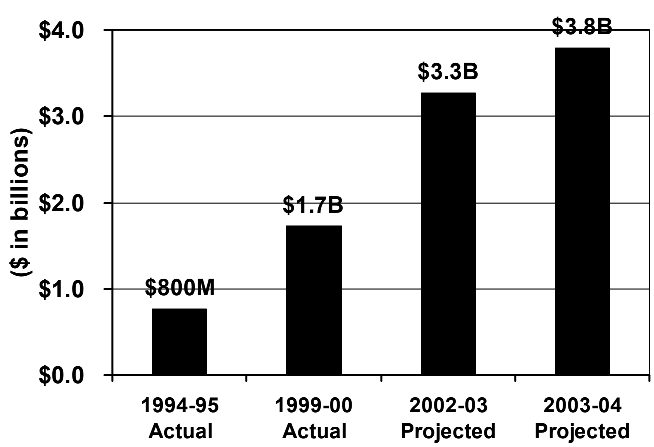


Figure 2

EPIC Spending Grows Dramatically

State spending on EPIC has grown from $162 million in 1999-00 to a projected $616 million in 2003-04, an increase of $453 million, or more than 275 percent. Although EPIC enrollments have nearly doubled during this period, dramatic increases in drug costs have been a major factor in this almost threefold increase in EPIC costs.

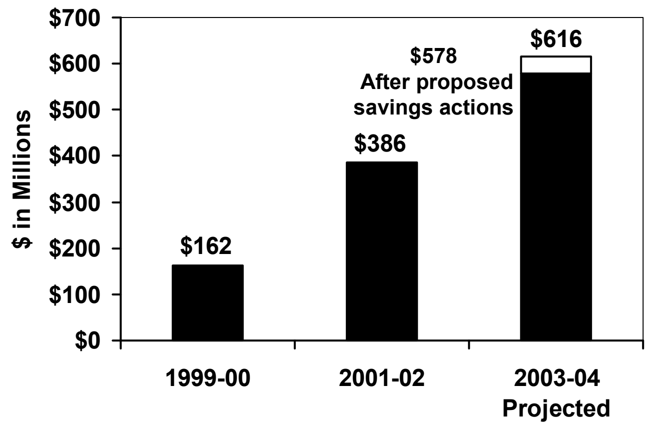


Figure 3

employed by private health plans and other states. Overall, these reforms will save the State's Medicaid program $112 million and EPIC $38 million in 2003-04.

These proposals include:

- Establishing a Preferred Drug Program to encourage the appropriate use of prescription drugs in the Medicaid program. This program will use expert clinical research to identify preferred drugs that are both clinically effective and less costly, taking into account the rebates offered by manufacturers. Certain lifesaving drugs used for AIDS, mental health treatments and organ transplants, such as anti-retrovirals, atypical anti-psychotics, anti-depressants and anti-rejection drugs, would continue to be available in the Preferred Drug Program. The selection of preferred drugs will be guided by the clinical advice of the Department of Health's Pharmacy and Therapeutics Committee, which is comprised of independent clinicians, practitioners and pharmacists. The State Health Department will procure a contractor to help administer the new initiative for the Medicaid pharmacy program. In addition, a similar program will be developed for EPIC for implementation in 2004-05.
- Reducing pharmacy reimbursement rates for both Medicaid and EPIC by approximately five percent. This action will bring retail reimbursement in line with actual costs.
- Requiring pharmacies to bill Medicare, when allowable, for those individuals also enrolled in Medicaid. This practice is consistent with Federal Law.
- Bolstering the State's anti-fraud efforts through the implementation of a "forge-proof" prescription program. Under this initiative, all prescriptions — for both controlled and non-controlled substances

— will require the use of non-reproducible prescription forms. This measure aims to reduce the illegal marketing of drugs, thereby realizing significant savings for both Medicaid and private insurers.

In addition, the Budget recommends modest increases in contributions for program participants. Medicaid co-payments — unchanged since 1995 — will be increased by 50 cents for generics and $1 for brand name drugs. Individuals in managed care would be required to make the same increased co-payments. Also, EPIC program fees and deductible levels will be increased by 10 percent.

Restructuring Nursing Home Reimbursement

New York spends $6.3 billion on Medicaid nursing home care — more than California and Pennsylvania combined, which are the next two highest spending states. *(See Figure 4)*

These costs are driven by an antiquated payment methodology that reimburses each home based on its historical costs. This inefficient approach has resulted in similar homes receiving widely varying Medicaid payments without providing an appreciable benefit in patient care.

Accordingly, to ensure a more equitable payment system that brings New York's nursing home costs in line with other states, the 2003-04 Budget proposes a series of reforms to generate $158 million in savings to the State. These reforms include:

- Implementing a new regional average reimbursement system. Under this approach, all homes within a region will be reimbursed up to the regional average rate, as adjusted for its mix of patients

New York Spends More on Nursing Homes Than Other States

New York Spends more on nursing home care than any other state in the nation – even after taking into account the reductions proposed in the Executive Budget.

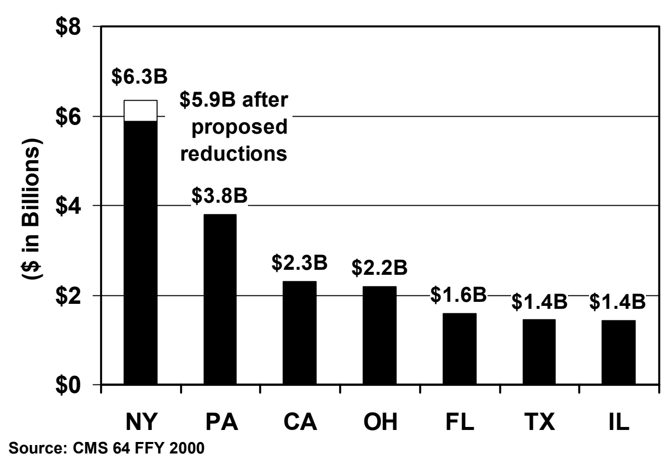


Figure 4

based on average 2000 payment rates. The current system has widely variable rates that have little relationship to patient needs.

- Eliminating a reimbursement rate enhancement to providers for serving Medicare patients. This subsidy within the Medicaid rate is no longer necessary due to recent changes in Federal reimbursement policy.
- Eliminating the return-on-equity incentive to proprietary homes. This incentive has proven ineffective in encouraging nursing homes to reinvest profits in their facilities.
- Requiring providers to offset inflationary cost increases.

Controlling the Growth in Hospital and Clinic Costs

As is the case with nursing homes, New York's Medicaid spending on hospitals and clinics is the highest in the nation. *(See Figure 5)* New York's costs exceed $7.9 billion, more than California and Texas which total a combined $6.9 billion.

Accordingly, to make the per capita cost of the State's hospital program competitive with other states, while maintaining our position as a national leader in the delivery of high quality services, the Executive Budget will achieve savings of $243 million in 2003-04 through:

- Re-establishing a 0.7 percent non-reimbursable assessment on total hospital revenues for inpatient and outpatient services — a temporary measure necessary to address the State's current fiscal situation, which will be phased down by 25 percent per year and be eliminated by 2007;

High Per Capita Spending on Hospital Services

Per capita, New York spends more than twice the national average on hospital services. Despite cost containment actions, hospital costs in New York continue to far exceed other states.

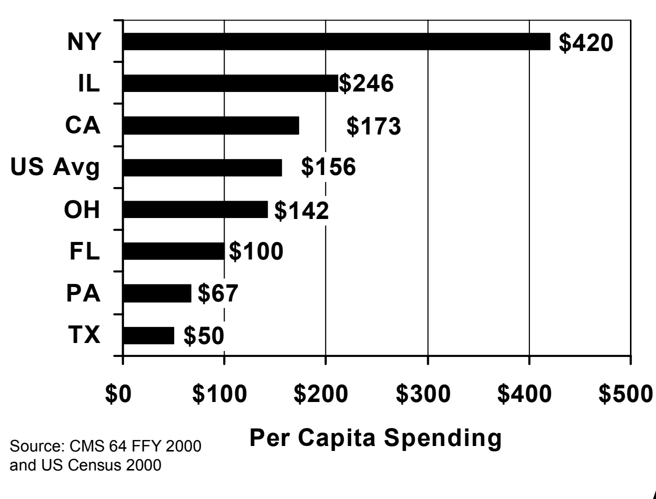


Figure 5

- Eliminating the enhancement that provides hospitals with higher Medicaid rates even when those hospitals are experiencing a decline in length of patient hospital stays, an incentive that is no longer necessary in a de-regulated hospital system;
- Limiting hospital case payments to the lesser of a hospital's actual cost or the average hospital reimbursement in a region;
- Requiring providers to offset inflationary cost increases;
- Capping specialty clinic rates — except for AIDS services — to be consistent with the cap already in place for regular clinics, where rates have been frozen since 1995-96;
- Reducing per-diem hospital rates by 5 percent — except for AIDS services — while allowing providers to have the opportunity to obtain reimbursement at their traditional hospital rates;
- Reducing unnecessary and inappropriate utilization of part-time clinics; and
- Restructuring Graduate Medical Education payments to be consistent with the Medicare approach, which reimburses indirect costs at a lower rate, and to support a lower number of residents. New Yorkers can no longer afford this generous program that trains 15 percent of the nation's doctors — half of whom leave New York to practice elsewhere.

Managing Home Care Services

New York's spending on home care services is more than California, Florida and Texas combined. *(See Figure 6)* To further control costs, the Executive Budget will achieve savings of $39 million through three actions.

New York Spends More on Home Care Services Than Other States

New York spends more on home care services than any other state in the nation. New York spends more than twice that of California, the next highest spender and a more populous state.

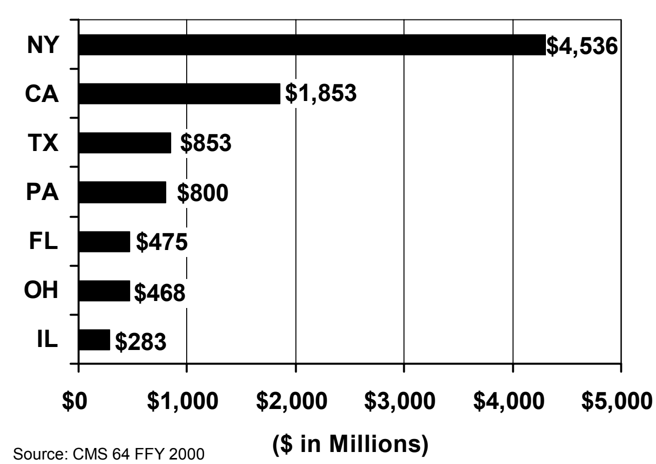


Figure 6

The Governor's Budget would:

- Re-establish a non-reimbursable 0.6 percent assessment on home care providers' revenues — a temporary measure, similar to hospitals, necessary to address the State's current fiscal situation, which will be phased down by 25 percent per year and be eliminated by 2007;
- Require providers to offset inflationary cost increases; and
- Establish a utilization review of home health services to ensure the appropriate and cost efficient use of home care services.

Advancing Other Cost Saving Measures

The serious fiscal challenges facing New York require that additional cost-saving measures be advanced. To that end, the Governor's proposed Budget would save $456 million through a series of other measures, including:

- Maximizing Federal revenues available for hospitals and nursing homes. This will mitigate potential impacts on providers and/or recipients.
- Exercising a Federal option to limit Medicaid reimbursement for certain services to recipients eligible for both Medicaid and Medicare. These services are provided primarily by physicians and psychologists.
- Modifying utilization standards to ensure the appropriate and cost efficient use of services. Exemptions from the standards would be available so that the quality of patient care would not be adversely impacted. In addition, the standards would not apply to individuals in managed care.
- Transferring children ages 6 to 19 in families with incomes between 100 and 133 percent of the Federal Poverty Level (FPL) from Medicaid to Child Health Plus (CHP). Not only is CHP less costly to the State, it is generally the preferred choice of coverage for families.
- Rolling back eligibility for Family Health Plus (FHP) from 150 percent of the Federal Poverty Level (FPL) to 133 percent of the FPL. Even with this change, the Governor's Budget includes $195 million for FHP — an increase of $110 million over 2002-03.
- Capping State reimbursement to local governments for the local share of services for certain Office of Mental Health and Office of Mental Retardation and Developmental Disabilities recipients at 2002 levels. This will require counties to share in the cost of such services.

- Accelerating recovery of funds owed to the State by providers resulting from overpayments and audits. This will be achieved by increasing the amounts withheld from providers' checks by 5 percent.
- Eliminating the planned fourth year Dental Settlement fee increase. This action is due to the lack of increased access to dental services for recipients.
- Eliminating Medicaid Administration grants used to expand managed care provider networks. This is the responsibility of health care plans under mandatory managed care.
- Consolidating financial support for outreach and education programs. These include Rural Health, Hypertension, SIDS, Diabetes, Asthma, Osteoporosis Prevention, and Childhood Cancer Awareness.
- Eliminating funds for specific public health programs that do not serve citizens statewide.

Realigning Medicaid Financing Responsibility

The 2003-04 Executive Budget recommends a realignment of State and local government responsibility for the financing of certain Medicaid programs. Under this proposal, the State will assume the entire non-Federal cost for pharmaceuticals, the fastest growing cost component of the Medicaid program. In turn, local governments would be required to pay a 37 percent share of fee-for-service hospital, outpatient and clinic expenses. Currently, the local share is 25 percent. These fee-for-service costs have not grown at the alarming rate that pharmaceuticals have, and will eventually decline as more recipients move into Medicaid managed care, for which local governments are financially responsible for the traditional 25 percent share. The proposed realignment will generate savings for a vast majority of the counties in 2003-04 and more will benefit in the future.

Reforming Early Intervention

Since its inception in 1992, New York's Early Intervention Program (EI) has provided services, such as speech and physical therapy, to hundreds of thousands of infants and children with developmental delays — at no cost to their families, regardless of their income level. Undoubtedly, such services are critically important for the successful development of many children.

However, the exploding growth in State EI costs — from $115 million in 1999-2000 to a projected $270 million in 2003-04, a 135 percent increase — threatens the ability of the State and counties to continue to provide services to the children who need them most. *(See Figure 7)*

New York State and local governments spend an average of $9,000 annually for each of the 75,000 children participating in Early Intervention — compared to an average of $4,000 spent per child in other states.

To address the escalating cost of this initiative, the 2003-04 Executive Budget recommends a series of measures to ensure that the Early Intervention program is affordable, effective and accountable. As outlined below, these measures will save the State and counties $55.5 million each annually when fully implemented:

- Establish a "Medicare-like" funding structure that requires a contribution from health insurers with the balance shared between the State and counties (80 percent) and parents (20 percent). The required family financial contribution would vary depending on income, with families earning less than 160 percent of the Federal Poverty Level exempt from any contribution. Health insurers, including Child Health Plus, would be required to cover the first $5,000 in EI costs. In addition, parental fee waivers — based on income and the cost of services — would be available to ensure that necessary services to severely disabled children are not interrupted.
- Require EI providers to bill Medicaid and health insurers directly. This will increase reimbursement from these third party payors and also reduce the administrative burden on counties.
- Authorize counties to independently negotiate rates with EI providers. Under this proposal, counties will have the option of using the rates established by the State or negotiate lower rates with providers. This will give counties an added tool to control the cost of the EI program.

Early Intervention Spending Soars

State Early Intervention spending has exploded – more than doubling from 1999-00 to 2003-04. Since the State and counties share equally in the cost of EI, the localities are experiencing the same level of spending growth.

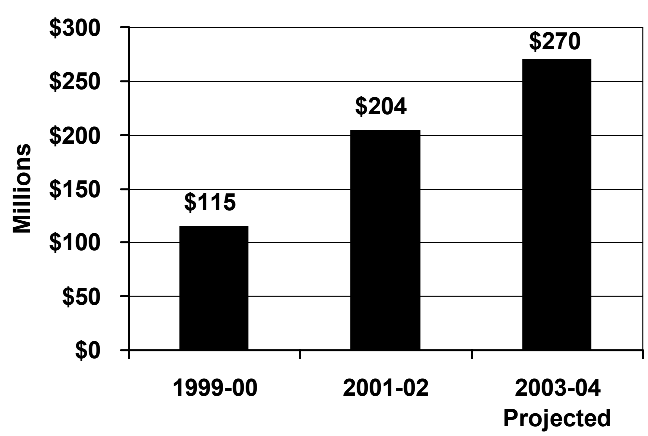


Figure 7

- As required by Federal Law, appropriately discharge children from EI at the age of three. Children who continue to exhibit developmental delays will be transitioned into the Pre-School program to ensure that their services are not disrupted.

Maintaining Essential Public Health Services

Protecting the public's health remains one of the Governor's highest priorities. The 2003-04 Executive Budget includes $2.5 billion to preserve critical programs that provide direct health care services to New Yorkers while maximizing revenues, eliminating non-essential programs and implementing workforce efficiencies in the Department of Health. The Governor's budget includes:

- $168 million for the General Public Health Works program, which supports county public health activities. The recommendation targets State support to core services (e.g., maternal and child health, communicable disease control and public water supply protection) — at a reimbursement level of 30 percent — and eliminates State funding for lower priority optional services. However, counties have the option of continuing to provide such services.
- Funding to continue other important public health programs, including:
  - $88.5 million to address women's health care and the nutritional needs of women, infants and children;
  - $80 million for the Roswell Park Cancer Institute in Buffalo;
  - $63.4 million for the State-operated nursing homes for veterans and their dependents in New York City, Oxford, Batavia, and Montrose;
  - $2.6 million to promote sexual abstinence and prevent pregnancy among adolescents; and
  - $600,000 for a health related public education and outreach block grant. This block grant will provide the Department of Health with the flexibility to direct its efforts towards the areas of greatest need. It replaces a number of separate categorical programs that were targeted to specific diseases.

Leading the Fight Against AIDS

Under Governor Pataki's stewardship, New York has led the nation in providing crucial services to help affected New Yorkers and their loved ones combat HIV and AIDS. The 2003-04 Executive Budget continues New York's longstanding commitment in the fight against AIDS by including $2.6 billion for such services, delivered through the AIDS Institute and the State's Medicaid, social services, housing, criminal justice, mental health and alcohol and substance abuse treatment programs.

Reforming Adult Homes

The Governor's Executive Budget continues to address issues involving New York's Adult Homes system. The Budget implements a series of recommendations from the Adult Homes Workgroup comprising mental health advocates, State agencies and adult home providers. In 2003-04, $8 million, combined with Medicaid matching funds where feasible, will enable the Department of Health, the Office of Mental Health (OMH), the Commission on Quality of Care for the Mentally Disabled and the State Office for the Aging to initiate a series of actions, including:

- Conducting client assessments;
- Providing enhanced medication management;
- Implementing enhanced service coordination and other advocacy services; and
- Improving wellness, social and recreational activities.

Individuals who are assessed and designated for placement outside the adult home system will be eligible to access OMH's extensive community-based system currently comprising some 26,100 beds, with several thousand beds planned over the next several years, as well as in other appropriate settings.

Health Care Reform Act

The Governor's 2003-04 Executive Budget further builds upon his longstanding commitment to the health and well being of New Yorkers by proposing legislation to reauthorize HCRA — currently scheduled to expire on June 30, 2003 — for an additional two years. The legislation will:

- Continue critical health care workforce recruitment and retention funding enacted in 2002;
- Reauthorize the Child Health Plus program;
- Dedicate proceeds from the conversion of Empire Blue Cross to a for-profit entity and the proceeds from the conversion of any other not-for-profit insurers to support various health programs;
- Direct Federal funds for World Trade Center relief and recovery costs — primarily for Disaster Relief Medicaid — to support HCRA funded programs;
- Authorize increasing the surcharges on health services and the "covered lives" assessment, to provide additional funds for critical health care initiatives; and

- Reduce funding for certain programs — an action which when combined with the additional revenues — will ensure adequate funding for HCRA programs and provide General Fund savings over the next two years.

The HCRA plan also fully accommodates the re-direction of Tobacco Settlement payments beginning in April 2004.

Mental Hygiene

Caring for New Yorkers with Special Needs

During the past eight years, Governor Pataki has demonstrated an unwavering commitment to programs serving New Yorkers with special needs. New York sets the standard for the care of individuals with mental illness, developmental disabilities and/or chemical dependencies. Among the Governor's most notable accomplishments are:

- Launching the nationally-renowned NYS–CARES initiative in 1998, which serves as a model to address the residential and support service needs of the developmentally disabled and their families on community waiting lists;
- Signing Kendra's Law in 1999 and implementing the Enhanced Community Services Program for children and adults in 2000, which have changed the landscape of community-based programs serving New Yorkers with mental illnesses by integrating scientifically-proven practices into everyday care and fostering quality of care for persons served; and
- Eliminating the inequities and inefficiencies of our State's previously separate alcoholism and substance abuse treatment systems, by establishing a single program network for chemically dependent individuals, with greater accountability.

The 2003-04 Budget provides more than $5.3 billion for the Office of Mental Health (OMH), the Office of Mental Retardation and Developmental Disabilities (OMRDD), and the Office of Alcoholism and Substance Abuse Services (OASAS).

Advancing The Mental Hygiene Agenda While Achieving Efficiencies

The Governor's 2003-04 Executive Budget for OMH, OMRDD and OASAS advances the State's agenda to provide a comprehensive, high quality community-based system of care for special populations, while still achieving necessary fiscal savings. Specifically, the budget recommendations reflect:

- More efficient voluntary provider reimbursement practices, as well as the establishment of new program models in OMH, which maximize non-General Fund resources;
- Eliminating unneeded institutional capacity in OMH, consolidating duplicative activities, eliminating non-essential programs and streamlining State administration. The recommendations include:
  - Closing five State psychiatric facilities over the next three years, while ensuring that needed capacity is maintained;
  - Closing OMRDD's Institute for Basic Research on Staten Island, which is not central to the direct delivery of services to the developmentally disabled;

- Consolidating and strengthening OMH's research programs, which are now conducted at the Nathan S. Kline Institute in Rockland County and the New York Psychiatric Institute in Manhattan. The State can no longer afford to support two separate and distinct mental health research entities at their current levels. Accordingly, both research institutes will be streamlined into a single, more cost-effective research entity, with research activities still continuing at the two campuses under NYPI's direction. Despite this consolidation, the State's commitment to current and future research in mental health remains strong;
- Eliminating OMRDD's Youth Opportunity Program, which has not fulfilled its mission to attract youth to the mental hygiene agencies' long-term workforce; and
- Maximizing Federal and third party reimbursement to reduce the need for taxpayer support.

Maintaining Quality of Care

Despite the need for efficiency measures in the mental hygiene area, savings were strategically chosen so as not to impact quality of care. Budget recommendations preserve the 2002-03 cost of living adjustment (COLA) and clinic fee increase, which are necessary to help stabilize recruitment and retention, particularly in the voluntary-operated care systems. More than $85 million from all sources is available to support the COLA in 2003-04 for programs funded through OMH, OMRDD and OASAS.

A Focus on Quality Services to the Mentally Ill

The State institutional system, by far the largest in the nation, continues to experience a decline in inpatient bed usage due to improved treatment approaches and significant expansion of community services that assist clients in avoiding hospitalization. Under Governor Pataki's stewardship, OMH has successfully shifted resources from costly and unnecessary institutional care into comprehensive community-based services. Nevertheless, while only approximately 10 percent of the 500,000 individuals participating in mental health programs are served by the State's 26 inpatient psychiatric facilities, about one-third of the more than $4.8 billion spent annually on public mental health services is spent on their care. To ensure a more appropriate allocation of resources, the 2003-04 recommendation advances legislation authorizing facility consolidations, with the reinvestment of savings into community-based services beginning in 2004-05.

Community Program Expansion In Mental Health

Community Reinvestment will continue to be a vehicle to expand and strengthen community-based programs for persons with mental illness. The Governor proposes new Reinvestment legislation and enhances community services by advancing a new 2,000-bed pipeline. In addition, ongoing initiatives formerly appropriated under a stand-alone Community Reinvestment program are fully funded and integrated into the appropriate adult and children's programs.

Investing in the Community for Children and Adults

Reinvesting Savings from Adult and Children's Facility Closures: Legislation will be proposed to close Elmira, Hutchings and Middletown Psychiatric Centers in 2003-04. Needed capacity will be provided at nearby facilities that can accommodate both patient and staff transfers. This action will preserve the quality of patient care while achieving savings through the elimination of unnecessary administrative, support and overhead costs. In addition, significant capital costs will be avoided. Savings generated during 2003-04 will be used to fully fund the COLA and clinic fee increases commenced in December 2002. Future savings will be reinvested into the community for voluntary-provider workforce stabilization and/or program expansion.

Also recommended for closure are the Bronx Adult Psychiatric Center and the Bronx Children's Psychiatric Center in 2005-06. During 2004-05, OMH will continue to close unnecessary inpatient bed capacity, reinvesting the savings to develop 600 new supported housing beds. Savings from 2005-06 bed closures and the consolidation of the Bronx Adult Psychiatric Center would be available to improve recruitment and retention in community programs.

In addition, a portion of the inpatient capacity at the Bronx Children's Psychiatric Center would be transferred to nearby downstate facilities, and savings from children's inpatient bed closures will be reinvested into an array of community services for children, including children's crisis intervention beds, home-based crisis

Community Residential System for the Mentally Ill Grows Significantly Under Governor Pataki

The Governor's Budget provides support for 27,100 residential beds in community settings for both adults and children in 2003-04. In addition, the Budget advances a new multi-year commitment that, once completed, will support 31,100 beds — a 60 percent increase since 1995.

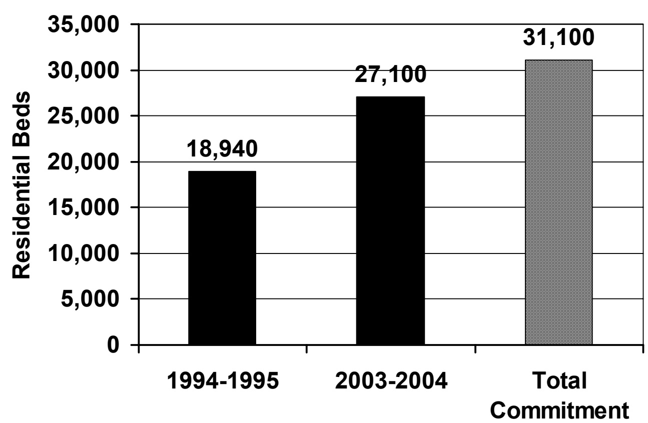


Figure 1

intervention teams and home and community-based services waiver slots. As a result, the number of children served will increase four-fold, and they will be more appropriately served at home and in their schools.

Residential Expansion: The Governor's Budget proposes that an additional 2,000 community-based beds be developed and includes a $65 million capital appropriation to support the first 1,000 beds. These beds will be available for individuals leaving State facilities and adult homes, and for the homeless mentally ill. Moreover, a minimum of 10 percent of the new 2,000-bed pipeline will be set aside for children. The Governor's plan to expand residential capacity will more than double the number of new beds in various stages of planning and development. Once the additional capacity opens, the service system will have more than 31,000 community-based residential beds, representing a 60 percent increase in the number of operating beds since 1995. *(See Figure 1)*

Through these significant efforts, OMH will enhance the quality of care for hundreds of thousands of New Yorkers with mental illness, and provide hope to individuals and their families that the necessary community resources are available to aid them in their recovery.

Continuing the Commitment to Appropriate Care for People with Developmental Disabilities

The 2003-04 Executive Budget reflects Governor Pataki's nationally heralded commitment to ensure that New Yorkers with developmental disabilities receive the highest quality care in the most appropriate setting possible.

NYS–CARES 2003-04 Service Expansion Goals

- 950 new beds;
- 260 new day service opportunities;
- 500 at-home residential habilitation services;
- 600 new service coordination opportunities; and
- 1,960 new family support services.

NYS–CARES: The Executive Budget continues to expand residential capacity for persons with developmental disabilities. Since initial implementation of the NYS–CARES initiative in 1998, OMRDD has increased capacity by 4,900 new beds and some 7,000 individuals have been placed in residential settings.

The Governor's Budget builds upon the success of the original NYS–CARES commitment and recommends the development of yet another 1,900 beds and related day and family support services. The new initiative — NYS–CARES II — is premised on OMRDD's highly successful family needs determination process and can be financed largely with non-General Fund resources. By the end of the decade, New York will have developed a total of 6,800 new residential beds under both NYS–CARES initiatives which, when coupled with the more than 37,000 funded community beds already in the system, will provide ample placement opportunities to individuals on the residential waiting list.

NYS–CARES II Will Increase Opportunities for the Developmentally Disabled

NYS–CARES II, in combination with the original NYS–CARES program, will enable the overall development of almost 7,000 new beds by the end of the decade. These new beds, along with other residential opportunities, will serve almost 17,000 new consumers.

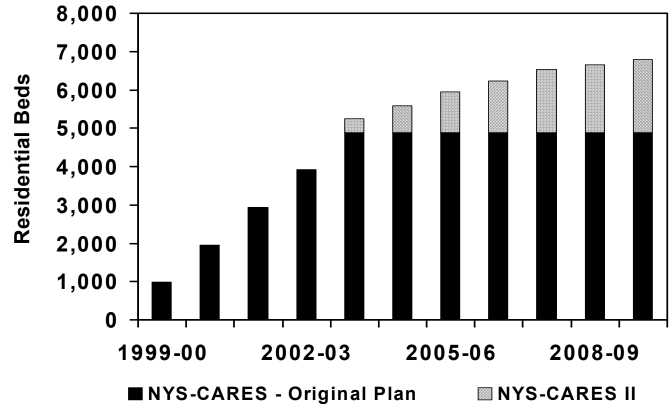


Figure 2

Under NYS–CARES, families with developmentally disabled loved ones no longer have to worry about their loved one's future. NYS–CARES will provide them a home when their own families are no longer able to do so. *(See Figure 2)*

Services to Special Populations: The 2003-04 recommendation fully preserves appropriate staffing levels in State-operated institutional and community programs and continues Governor Pataki's longstanding commitment to provide appropriate and high quality care to special populations. To that end, OMRDD will expand services by adding another 20 beds for individuals with a primary diagnosis of mental retardation, but who also have a mental illness. Additionally, OMRDD will expand its secure treatment facilities by developing 30 new Local Intensive Treatment beds to serve individuals who are a danger to themselves or others.

Charting The Path For More Effective Chemical Dependence Service Delivery

The 2003-04 recommendations fully support the Governor's vision of a unified program network of services for chemically dependent individuals, eliminating the inequities and inefficiencies of the formerly separate alcoholism and substance abuse systems.

Consolidated Reimbursement for Chemical Dependence Services: During 2002-03, OASAS achieved the first milestone toward this goal by forging a single network of outpatient chemical dependence providers. In 2003-04, OASAS will continue this effort by working towards consolidation of residential chemical dependence services under a new Medicaid reimbursement structure. Federal funding to enable providers to adapt to the new program and funding mechanism continues in 2003-04.

State Administrative Streamlining to Maximize Program Efficacy: During 2003-04, OASAS will reorganize and restructure its administrative oversight of the chemical dependence service system by eliminating lesser priority functions and redirecting a portion of the resources to enhance activities that ensure program and cost effectiveness, such as management information systems and audit oversight.

Criminal Justice

Keeping New Yorkers Safe and Secure

Governor Pataki's criminal justice initiatives have been key to an historic 46 percent drop in violent crime since 1995. New York continues to rank first among the ten most populous states in the nation in reducing reported violent crime, and Governor Pataki's Executive Budget recommendations for 2003-04 will maintain New York's position as a national leader in the fight against crime. *(See Figure 1)*

At the same time, Governor Pataki has taken a number of actions to help keep New Yorkers safe and secure in the post-September 11th environment. Immediately following September 11th, the Governor initiated a series of comprehensive steps to enhance New York's "homeland" security:

- Resources from the New York State Police, National Guard and Department of Correctional Services have been deployed to protect potential targets;
- Security has been enhanced to protect water supplies, bridges, tunnels, communications and transportation centers and other sensitive locations; and
- Additional public safety activities have been undertaken including testing of potential biological agents, improving communications and technology systems and acquiring critical equipment.

The Governor also proposed anti-terrorism legislation that has been enacted that established stiff penalties for the newly defined crimes of terrorism, making a terrorist threat and soliciting or providing support for an act of terrorism.

The Fight Against Crime

- Tougher sentencing laws for violent felons
- Restored the death penalty
- Established sex offender registry
- Increased penalties for gun violence and hate crimes

Violent Crime Drastically Reduced Under Governor Pataki

New York is first among major states in reducing violent crime between 1994 and 2001.

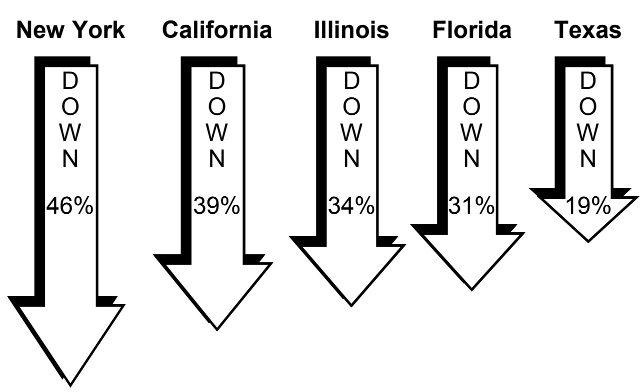


Figure 1

Keeping Violent Felons Behind Bars Longer

Calendar Years 1994-2002: As a result of Governor Pataki's sentencing reforms, violent felons spend more time in prison and off the streets, and represent a larger proportion of the under-custody population.

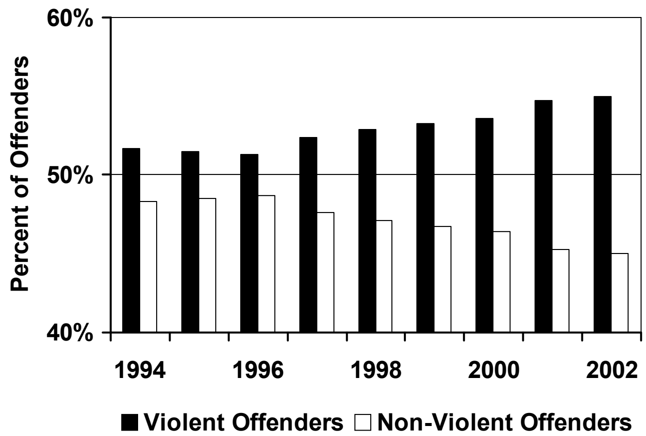


Figure 2

Keeping Violent Criminals Behind Bars

By the end of 2003-04, it is projected that the prison system will house approximately 65,100 inmates — a decrease of 6,300 inmates, or 9 percent, since 1999. Similarly, the number of "State-ready" inmates awaiting transfer from local jails will have dropped from 4,200 in 1999 to approximately 700 by 2004, a decrease of 83 percent.

Governor Pataki has successfully reformed the State's sentencing structure to keep dangerous felons off the streets, while also using programs, such as shock incarceration and drug treatment, to help nonviolent offenders successfully return to the community as law abiding citizens. *(See Figure 2)*

The effort to ensure longer prison terms for violent offenders has required an increase in maximum-security capacity to allow the State's prison system to operate safely and efficiently. The number of nonviolent offenders under custody has declined, permitting the closure of lower security capacity. As a result, cost savings of more than $90 million have been achieved.

Legislation submitted with the Executive Budget would further advance the policy of permitting nonviolent offenders to work toward earlier release. Inmates who participate in rehabilitation programs, have no history of violence and demonstrate a readiness to live lawfully in society would be eligible for this program.

Reducing Costs While Improving Operations

In order to further reduce costs and improve the coordination of criminal justice activities, the Division of Criminal Justice Services will provide administrative services to two agencies: the Crime Victims Board and the Office for the Prevention of Domestic Violence.

In addition, in the coming year, the Director of Criminal Justice will explore additional opportunities to restructure State agencies that administer criminal justice programs. This analysis will encompass offender supervision and community re-entry planning, as well as models to ensure the protection of the rights of crime victims and victims of domestic violence.

Further, as part of a comprehensive cost saving review, all State programs dedicated to auto-theft, drug enforcement, juvenile justice, highway safety and community-based corrections will be inventoried for the purpose of ensuring a coordinated approach and effective use of all resources.

Maintaining the State's Investment

While savings will result from the reduction in the prison population and the number of offenders on parole and other organizational changes and economies, the State must maintain the necessary levels of investment in key law enforcement and related public protection activities. To ensure sufficient resources are available, a number of revenue measures are proposed. These include an increase in the vehicle insurance and criminal history record fees, and certain fines.These revenues, which are expected to total $62 million in 2003-04, will support public safety measures in the State Police and other criminal justice services, such as fingerprint operations and statewide law enforcement information systems. As a result, critical investments in public safety will continue to be made, despite the fiscal difficulties the State is facing.

New Technology to Battle Crime

Among these critical investments are initiatives that provide law enforcement officials with the most up-to-date tools to combat crime. These include:

- The Pistol and Revolver Ballistic Identification Databank to enforce gun safety measures and assist in apprehending criminals. As of December 2002, more than 33,000 samples have been collected. As the database expands, this information will be used to help identify specific guns that are used in crimes.

- The State's DNA Databank, which has proven to be highly effective in assisting law enforcement to convict the guilty and exonerate the innocent. Since its implementation in August 1999, more than 110,000 samples have been collected and 700 matches have been identified. The success of this initiative is demonstrated by 281 arrests and 94 convictions that have resulted from DNA matches made possible by the Databank.
- Development of a statewide public safety communications system. This initiative will provide state-of-the-art emergency communications capability to State and local emergency services personnel throughout New York. In 2003-04, the State expects to enter into a contract to design, construct and maintain a new Statewide Wireless Network.
- Implementation of new technology so that 911 calls received from wireless phones can be located quickly and accurately. In December 2002, the Albany Traffic Management Center, operated by the Division of State Police, answered and dispatched emergency services for wireless 911 calls using enhanced location technology. The next wireless 911 technology service will be implemented in 2003-04 at the new Hawthorne Traffic Management Center which will cover traffic and emergency services for Westchester, Putnam, Dutchess and Columbia counties.

Restructuring Aid to Localities

The Executive Budget also reflects a new funding approach for local criminal justice activities. A new Community Corrections Block Grant will consolidate eight existing probation and alternatives to incarceration programs to allow more program and funding decisions to be

Community Corrections Block Grant

The new Community Corrections Block Grant will provide localities with greater flexibility in making funding decisions.

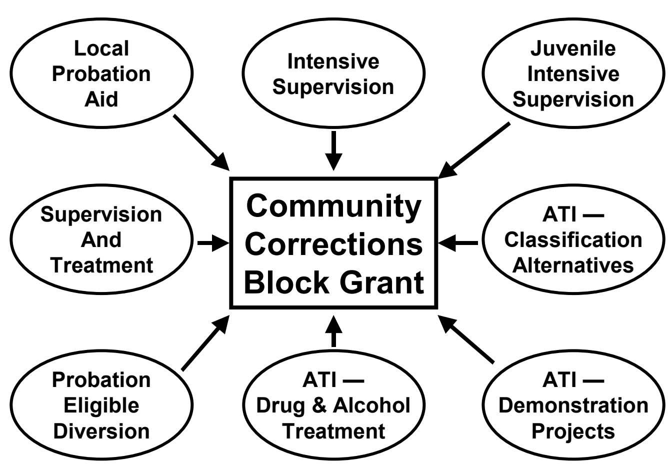


Figure 3

made at the local level. Localities will benefit from a reduction in administrative requirements and the ability to make informed, local decisions about the allocation of funds. *(See Figure 3)*

A reduction of $24.2 million in the overall funding level for local criminal justice programs reflects fiscal constraints and the importance of maintaining state funding for operation of prison capacity and criminal justice technology improvements. The reduction in local grant funding should be manageable given the overall reduced crime rate and workload of the past eight years.

Serving the Victims of Crime

Governor Pataki has placed particular emphasis on improving services to crime victims and strengthening the State's "zero tolerance" policy against domestic violence. Enactment of the Sexual Assault Reform Act, and development of a statewide victim notification system to provide information on the incarceration status of criminal offenders are among the Governor's most important accomplishments. The 2003-04 Executive Budget maintains $63 million in State and Federal assistance for the victims of crime.

Defense Counsel Services

The Executive Budget includes legislation to authorize an increase in fees for court-appointed assigned counsel. Fees would increase from $40 per hour for in-court work and $25 per hour for other work, to $75 per hour for felony and family court work and $60 per hour for other work. The rates for assigned counsel have not been increased since 1986, making it increasingly difficult to ensure representation for the indigent.

Under New York State Law, counties are responsible for providing legal representation to indigent persons charged with a crime. To help support the increased hourly rate for assigned counsel, a new Driver's License Reinstatement surcharge will be implemented and other surcharges and fees will be increased.

Disaster Preparedness and Response

In order to enhance New York's preparedness and response in the event of natural disasters or future terrorist attacks, Governor Pataki established the new position of the New York State Director of Disaster Preparedness and Response in January 2003.

The State Director of Disaster Preparedness and Response will be responsible for overseeing and supervising the work of the State Emergency Management Office, the Division of Military and Naval Affairs, the Office of Cyber Security and Critical Infrastructure Coordination and the Disaster Preparedness Commission. The Director will lead New York State's disaster preparedness efforts, including the response to and recovery from acts of terrorism, disasters and other emergencies and threats. The Director will also advise and consult with the Office of Public Security with respect to policies, protocols, strategies and continuity plans of State agencies for protecting critical infrastructure within the State, including physical and cyber assets, from acts of terrorism.

By establishing the Director of Disaster Preparedness and Response, the Governor ensures a coordinated and collaborative strategy that includes strong partnerships among the public sectors (Federal, State and Local) and with the private sector.

Public Security

Despite the current fiscal crisis, efforts to maintain public security and combat terrorism will be fully supported. The 2003-04 Executive Budget provides nearly $130 million for the costs related to public security. Anticipated activities to be supported by these funds include:

- Upgrading the infrastructure and equipment at the State's Emergency Management facilities;
- Establishing and operating a Regional Intelligence Center to help coordinate Federal, State and local government efforts;
- Enhancing the security of the State's computer systems and critical infrastructure and combating cyber-terrorism; and
- Acquiring and operating the necessary security equipment to protect State buildings, employees and citizens.

Also, New York will aggressively seek Federal support for public security activities from funding appropriated for World Trade Center relief and recovery and the new Federal Department of Homeland Security.

Juvenile Justice: A Multi-Year Agenda to Promote Public Safety

Governor Pataki's juvenile justice program is keeping our communities safe through multi-year program strategies to reduce recidivism among juvenile delinquents, while targeting preventive services to at-risk youth. The Governor's recently enacted child welfare financing reforms will support innovative county efforts to work with parents in serving an expanded Persons in Need of Supervision (PINS) population. The 2003-04 Executive Budget also funds a new juvenile justice reform initiative, featuring intensive community-based supervision programs, that will enlist families and non-profit organizations in an effort to deter juvenile delinquents from committing further offenses.

The Governor's Budget provides nearly $260 million to support a multi-tiered juvenile justice system that includes a range of residential facilities for juveniles convicted of serious crimes, as well as an extensive local network to prevent delinquency and assist troubled youths. Key reforms recommended for 2003-04 include:

Creating Community-based Intensive Supervision Programs: The 2003-04 Budget takes the first step in a multi-year plan to reform the Office of Children and Family Services (OCFS) juvenile justice program by establishing a new $3.3 million community-based intensive supervision program. Targeted at youths who have committed non-violent property offenses, this initiative attempts to reduce the rate of recidivism among participants through services provided by local non-profit agencies that range from family-based treatment to specialized after-school programs. In addition to carefully selecting participants, OCFS will ensure public safety through the use of electronic monitoring and evening reporting centers.

Realigning State-operated Facilities: A continuing decline in juvenile crime under Governor Pataki, coupled with a now-proposed community-based intensive supervision initiative, will enable OCFS to significantly reduce the number of high cost residential beds in State-operated facilities. This bed reduction effort will result in a net State savings of $11.6 million when fully implemented in 2004-05. Beginning in 2005-06, the State will explore possibilities for further savings through contracts with non-profit agencies to privatize remaining OCFS State-operated facilities. This privatization effort would seek to refocus OCFS's role in the direct operation of residential facilities, enabling the agency to focus more directly on its core mission of promoting the welfare of children and families.

Juvenile Crime Declining

Under Governor Pataki's leadership, juvenile crime has dropped significantly. According to the Division of Criminal Justice Services, the number of arrests for FBI index offenses committed by youth under the age of 16 declined from 26,026 in 1995 to 17,674 in 2000 — a 32% decrease.

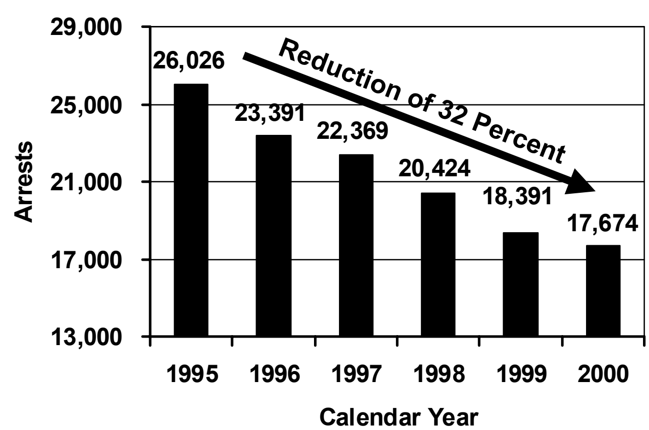


Figure 4

Serving an Expanded PINS Population: Under legislation signed by Governor Pataki in 2002, parents of 16 and 17 year-old children are, for the first time, able to seek the assistance of police and the Family Court through the filing of PINS petitions. The Governor's recently enacted child welfare financing reform provides counties with open-ended 65 percent State funding to support family-centered preventive services for PINS that help avert costly out-of-home placements in foster care or detention. This Budget also dedicates $7 million in Federal funding for PINS prevention that may be used to support the full cost of new program models developed at the local level to serve the expanded PINS population.

Refocusing the Non-Secure Detention System: The Governor believes that children should not be subjected to excessive stays in non-secure detention when other more appropriate and effective services are available. Legislation submitted with the Budget will phase-out State reimbursement over a four-year period for lengths of stay beyond 45 days. While limiting direct reimbursement, the State will encourage counties to take advantage of open-ended funding under Governor Pataki's child welfare financing reform to prevent placement of children in detention. Counties will also be able to use a portion of the $7 million in PINS prevention funding to support programs that either divert children from detention or reduce non-secure detention lengths-of-stay.

Reforming State Delinquency Prevention Services: Currently, juvenile justice prevention programs are spread across several agencies and supported with a variety of State, Federal and other funding sources. In the coming year, the State's Director of Criminal Justice will head a multi-agency effort to: determine which programs are most effective in preventing delinquency; implement necessary reforms; and realign funding in order to achieve the highest return on investment.

Environment

Protecting New York's Natural Resources

Since taking office, Governor Pataki has worked aggressively to protect and preserve New York's environment. His efforts have expanded opportunities for residents and visitors to enjoy the State's diverse natural resources. As importantly, Governor Pataki's forward-looking policies ensure that these same benefits will be enjoyed for generations to come.

Since 1995, Governor Pataki has:

- Increased annual funding for environmental protection programs from $800 million to more than $1.3 billion, an increase of over 60 percent. In eight years, more than $10.5 billion has been committed to the environment.
- Proposed and implemented the $1.75 billion Clean Water/Clean Air Bond Act. Under the Bond Act, critical investments have been made in projects that will preserve the long-term health of our environment. When combined with Federal and local matching funds, a total of $4 billion will have been invested in New York's environment. *(See Figure 1)*
- Established New York as a national leader in land conservation. Under the Governor's leadership, New York has:
  - Invested $479 million in open space preservation and, to date, preserved more than 400,000 acres of open space across the State;
  - Committed to preserving more than one million new acres of open space during the next decade; and
  - Achieved the nation's first "green" certification from the Forest Stewardship Council for New York State's forest lands.

1996 Clean Water/Clean Air Bond Act

A total of $1.75 billion in Bond Act funding — the total amount approved by voters in 1996 — has been appropriated.

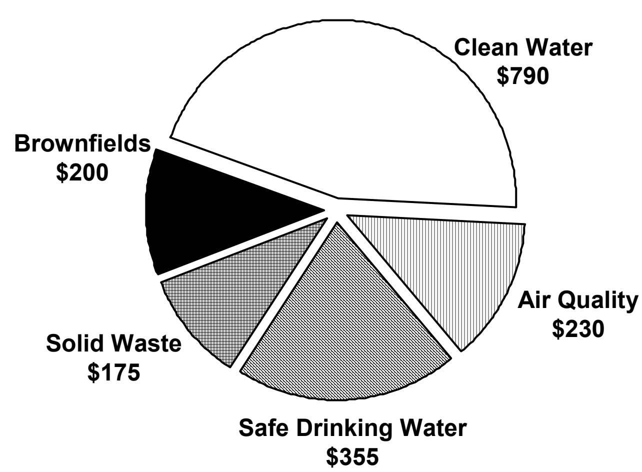


Figure 1

- Ensured protection of the Hudson River by:

  - Initiating the creation of a world-class Rivers and Estuaries Center on the Hudson. This first-of-its-kind research and education center will inspire and nurture scientific efforts to protect the delicate ecosystems of rivers and estuaries and their tributaries and watersheds throughout the world.

  - Securing designation of the Hudson as an American Heritage River by the Federal government. This designation will result in Federal support for environmental projects along the River.

  - Committing $100 million for development of the 550 acre Hudson River Park in Manhattan.

- Protected our land, water and air resources by:

  - Negotiating the landmark agreement among the State, New York City, the Federal government and local governments to protect the drinking water supplies of nine million New Yorkers, while preserving the economic vitality of watershed communities. This agreement remains a national model for successful reconciliation of environmental and economic concerns.

  - Proposing the most stringent acid rain controls in the country, reducing harmful sulfur dioxide emissions to 50 percent below federal requirements and imposing stringent year-round controls on nitrogen oxide emissions.

  - Adopting California low-emission vehicle standards for light- and medium-duty vehicles. The combined efforts of New York and California move the automobile industry toward more stringent emission standards from which the entire nation will benefit.

  - Approving 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.

  - Directing NYSERDA, NYPA and LIPA to collectively invest more than $280 million annually in energy efficiency and renewable energy programs throughout New York, helping to reduce energy costs for New Yorkers by hundreds of millions of dollars annually while also creating or sustaining nearly 5,000 jobs. These vital programs have also led to an estimated 1.8 billion ton reduction in greenhouse gas emissions; equivalent to eliminating the emissions of approximately 359,000 automobiles.

- Assisted communities and businesses to improve environmental quality by:
  - Providing low-cost capital and expert technical assistance from the Environmental Facilities Corporation to comply with Federal and State environmental requirements related to air pollution control, drinking water and wastewater treatment, and solid and hazardous waste disposal facilities.
  - Since 1995 EFC has financed over $6.5 billion in projects for communities across the State, resulting in over $1.5 billion in debt service savings to local taxpayers.

Superfund Refinancing and Reform

One of the Governor's top priorities in the 2003-04 Budget is legislation to refinance and reform the State's Superfund and to enhance the Brownfields Restoration component of the Clean Water/Clear Air Bond Act. This legislation maintains the most stringent environmental and public health standards in the nation and continues New York's strong "polluter pays" philosophy. It also makes common sense reforms that will remove contamination from the environment and return more sites to productive use quickly and safely.

The Governor's proposal would:

- Establish a dedicated $138 million program, with costs shared equally by the State and private industry;
- Expand the Superfund's cleanup activities to cover hazardous substance sites;
- Free innocent land purchasers from liability, while ensuring that the true polluters face their financial or legal responsibilities; and
- Accelerate the redevelopment of abandoned industrial sites (i.e. brownfields) by providing grants and other financial incentives and flexibility to municipalities to redevelop such sites.

Continuing the Commitment to the Environment

Although the State faces significant fiscal strains, Governor Pataki's steadfast commitment to the environment will continue with the 2003-04 Executive Budget. The recommendations include:

- $125 million in new Environmental Protection Fund (EPF) support for open space and farmland preservation, the Hudson River Park, recycling and other environmental protection programs;
- $181 million in new State and Federal funds for the State Revolving Fund low-interest loan program to build and rehabilitate municipal sewage treatment facilities;

- $45.9 million for clean air programs to limit pollution from industrial sources, automobiles and heavy-duty vehicles—thus protecting the health of our citizens and the environment from harmful air pollutants;
- $47 million for fish and wildlife programs that are financed with hunting and fishing license fees; and
- Establishing a new Waste Tire Management and Recycling Program to address the problem of waste tire disposal. Goals of the program include the abatement of existing stockpiles, market development and other activities to effectuate recycling of tires in an environmentally sound manner. This program will be supported through a fee on new tires imposed at the point of sale.

Maintaining the Environmental Protection Fund (EPF)

Since taking office, Governor Pataki has increased annual funding to the EPF five-fold — from $25 million to $125 million — supporting a variety of important environmental programs. *(See Figure 2)* For 2003-04, the Governor is again proposing $125 million in EPF funding. These funds include:

- $35.5 million for land acquisition, open space and farmland protection;
- $15 million for the development of the Hudson River Park;
- $14.3 million for State parks and lands stewardship and Department of Environmental Conservation capital projects;
- $13.75 million for other critical environmental purposes including State Parks Infrastructure projects ($10 million), the Hudson River Valley Greenways Commission ($765,000), Biodiversity ($700,000) and various boards and commissions;
- $8.5 million for solid waste projects, including municipal recycling ($4 million), secondary materials marketing grants ($4 million) and Adirondack landfills ($450,000);
- $6.2 million to support the cost of staff in the Department of Environmental Conservation, the Department of Agriculture and Markets, and the Office of Parks, Recreation and Historic Preservation who are essential to implement Environmental Protection Fund programs;
- $5 million for the Hudson River Estuary Management Plan;
- $5 million for municipal parks and historic preservation projects;
- $5 million for waterfront revitalization projects;
- $4.95 million for the Zoos, Botanical Gardens and Aquaria program;

Key Properties Preserved

Since 1995-96 Governor Pataki will have made $479 million available for open space protection programs across the State. This includes the acquisition of environmentally sensitive properties including:

- **Whitney Property (15,265 acres)**
- **Champion Lands (137,617 acres)**
- **Sterling Forest (18,113 acres)**
- **Long Island Pine Barrens including the Keyspan Property (7,233 acres including 3,000 acres donated by the United States Navy)**
- **Woodlawn Beach State Park (106 acres)**
- **Albany Pine Bush (269 acres, a total of 2,940 acres has been preserved by the Albany Pine Bush Preserve Commission Partners)**

Environmental Protection Fund Dramatically Increases Under Governor Pataki

By the close of 2002-03, Governor Pataki will have provided more than $887 million in funding for EPF programs. His 2003-04 Budget includes an additional $125 million in funding, bringing cumulative EPF funding since 1995 to more than $1 billion.

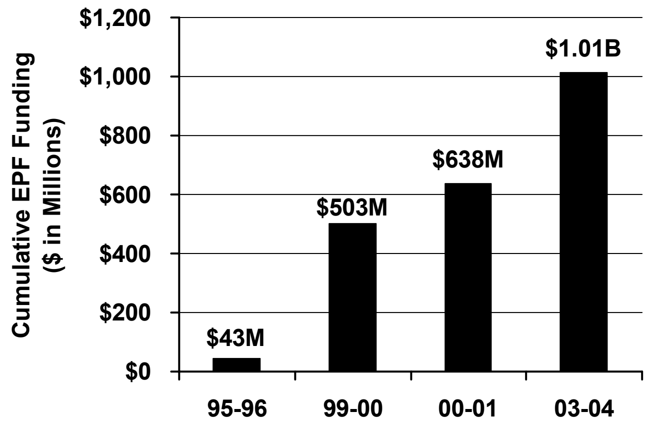


Figure 2

- $4 million for non-point source pollution control projects;
- $2.25 million for the pesticide use database;
- $1.8 million for Soil and Water Conservation Districts;
- $1.3 million to assess natural resource damages to the Hudson River;
- $1.2 million for the State's participation in various water commissions;
- $750,000 to restore and preserve historic barns; and
- $500,000 for Urban Environmental Initiatives.

Expanding and Maintaining Recreational Spaces

New York is home to one of the finest public park systems in the nation. Under Governor Pataki's leadership, the network of State parks has expanded and services have been improved, due to successful efforts to establish partnerships among the State, the private sector, the non-profit community and other governmental entities.

Governor Pataki's 2003-04 Executive Budget maintains his commitment to providing New Yorkers and visitors with high quality recreational opportunities. The Governor's Budget provides:

- $162 million to support the 167 existing parks and 35 historic sites operated by the Office of Parks, Recreation and Historic Preservation. Since taking office, Governor Pataki has created 14 new State Parks and invested more than $106 million in local municipal park projects. The Budget also includes funding for the establishment and expansion of a State Park at Gallagher Beach and the small Boat Harbor in Erie County, a project recently announced by the Governor.

- $29.6 million to support capital improvements to State park facilities.

Niagara Falls Revitalization

The Governor's commitment to State recreational facilities is demonstrated by his support for the revitalization of Niagara Falls. Over $40 million dollars has been committed for completed and ongoing improvements including:

- $24 million to restore the Niagara Falls Observation Tower, including the installation of four high capacity elevators;
- $6.5 million for restoration of the Goat Island Bridge;
- $2.7 million to replace antiquated gasoline powered viewmobiles with alternative fuel, climate controlled historic replica trolleys;
- $2.7 million for the adaptive re-use of the Schoellkopf building as the Niagara Gorge Discovery Center;
- $1.3 million to restore and reopen an unparalleled scenic eight-mile adventure trailway along the Niagara Gorge from Goat Island in Niagara Falls to Artpark State Park in Lewiston;
- $1.1 million for a historic landscape restoration program for Goat Island;
- $1 million for the Robert Moses Parkway Pilot Project, which will research the feasibility of converting two lanes of the four lane Parkway to a multi-use pedestrian and bicycle path; and
- $700,000 to re-establish a pedestrian connection between downtown Niagara Falls and the State Park.

Strengthening Our Agricultural Communities and Economies

Recognizing that the agriculture industry is vitally important to the health of the overall State economy and that farms define much of the State's landscape, Governor Pataki is committed to a wide range of programs that support the State's farming community. The 2003-04 Budget maintains support for these critical programs, including:

- $5.7 million to support programs that provide critical services to the agricultural community, including various services at the Veterinary Diagnostic Laboratory ($4 million); Integrated Pest Management ($787,000); Geneva Experiment Station ($600,000); and Farm Net ($300,000);

- $1.3 million to assist farms with planning and economic initiatives required to remain economically viable; and

- $1.2 million to maintain efforts to contain and eradicate the Asian Longhorned Beetle in concert with our New York City and Federal partners.

Public Assistance

Supporting New Yorkers Entering the Workforce

When Governor Pataki took office, welfare programs were mired in a culture of dependency — the focus was almost exclusively on benefit entitlements with little attention given to the development of recipient job skills or attainment of self-sufficiency. During the past eight years, the Governor has worked to fundamentally reform that flawed system so that welfare programs now foster individual initiative, help recipients become employed and assist at-risk families in avoiding dependency. For example, the Governor's reforms:

- Helped recipients transition from welfare dependency. Between 1995 and November 2002, welfare caseloads in New York State declined by 63 percent. More than one million recipients have left the welfare rolls bringing New York's caseload to the lowest levels since the 1960's; *(See Figure 1)*
- Invested more than $7 billion to help "make work pay" for those moving from welfare to work. These funds continue to support a broad array of job training, supportive services and income supports provided through local governments, State agencies and both for-profit and not-for-profit service providers; and
- Created a Child Care Block Grant that combines Federal, State and local funds to provide localities with a flexible mechanism for better meeting the child care needs of working families and paving the way to self-sufficiency. Funding for child care increased by $633 million, or nearly 227 percent, from 1995-96 to 2002-03, and today New York ranks first in the nation in providing child care.

Welfare Reform

Under welfare reform, people seeking aid now know that government assistance is limited; training and work are required; and unsubsidized employment is the ultimate goal.

Welfare Rolls Drop Dramatically During Governor Pataki's Tenure

New York's welfare caseload has declined by more than 1 million individuals since Governor Pataki took office, bringing the caseload to the lowest levels since the 1960's.

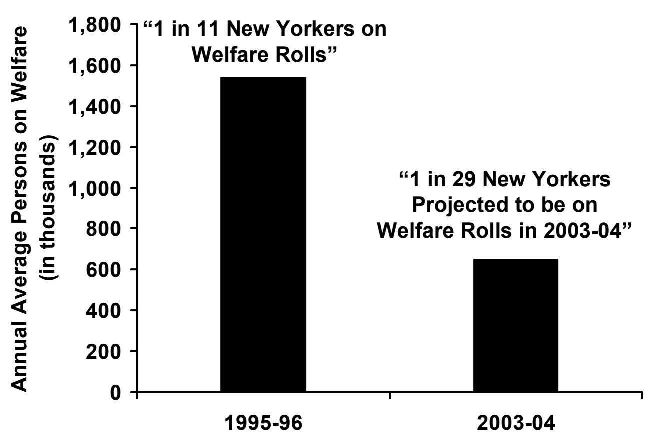


Figure 1

Investing in Welfare Reform and Work Services

While current fiscal challenges require the State to carefully re-evaluate each of our program investments, through wise management of the Temporary Assistance for Needy Families (TANF) block grant and other sources of Federal and private funding, the Governor's Budget will enhance our investments in work services and provide continued support to needed programs. In 2003-04, these investments include:

- $494.9 million in TANF for the State's Earned Income Tax Credit (EITC) and Child and Dependent Care Credit, thus returning TANF dollars to hardworking low-income families;
- $225 million in TANF funds to support Tuition Assistance Program (TAP) benefits for low-income eligible students, thus helping them to remain in school and achieve long-term economic and family goals;
- $408 million in TANF funding to help support 183,400 child care subsidies for low-income working families;
- $309 million in Federal Workforce Investment Act (WIA) funding for skills training in areas most in demand by employers. WIA serves welfare recipients, dislocated workers, individuals who are currently employed, youth and others seeking to strengthen their work skills;
- $50 million in TANF block grants to social services districts to fund locally-managed work and transitional service programs; and
- $87 million in TANF funding for a range of targeted services including:
  - $20.2 million for the Advantage Schools program, so that children can enjoy a safe and enriched after-school experience while their parents are working or attending job training programs;
  - $21.2 million for pregnancy prevention and school-based counseling programs through the Department of Health and the Office of Children and Family Services;
  - $12 million for emergency nutrition assistance through food pantries; and
  - $5.3 million for youth employment programs through the Department of Labor.
- The Budget also proposes the use of non-State revenues to continue the Empire State Advantage Program in the Department of Labor — a program that recognizes and awards best business practices. During 2003-04, the Department will work with businesses to identify private sector funding for this program.

Temporary Assistance for Needy Families

States have substantial flexibility in the use of Federal TANF funds to:

- **Provide assistance to needy families so that children may be cared for in their own homes or the homes of relatives.**
- **End the dependence of needy parents on government benefits by promoting job preparation, work and marriage.**
- **Prevent and reduce the incidence of out-of-wedlock pregnancies.**
- **Encourage the formation and maintenance of two-parent families.**

New York State Helping At-Risk Families Succeed

In New York State, TANF-funded employment and transitional services are available to households with incomes up to 200 percent of the Federal poverty level, thus helping at-risk households upgrade their job skills and avoid welfare dependency.

Sustaining an Unprecedented Investment in Child Care

As New York's economy recovers from September 11th and the national economic downturn, low-income parents must have access to high quality child care to remain in the workforce and support their families. Child care funding has grown dramatically in the eight years since Governor Pataki has been in office, making the State a national leader in providing subsidies and improving child care quality. Despite serious fiscal difficulties that constrain overall State spending, support for child care will continue to increase in 2003-04.

The Governor's 2003-04 Budget increases the State's Child Care Block Grant (CCBG) by $17 million to a total of $929 million. This represents a $650 million, or a 233 percent increase since 1995-96. During the same period, child care subsidies have more than doubled from 72,000 to 183,400. Key elements of the Governor's 2003-04 child care agenda include:

Preservation of Record Subsidy Levels: The Budget continues to fund 183,400 subsidies from the CCBG. According to the latest available data from the Federal Department of Health and Human Services, New York ranks first in the nation in the number of children receiving child care subsidies. *(See Figure 2)*

A Continuing Focus on Quality: While steadily increasing the total number of subsidies, Governor Pataki has also acted aggressively to improve the quality of child care services. More than $600 million has been allocated since 1995-96 for quality initiatives that include: start-up/expansion grants to increase the supply of child care programs; criminal background checks on child care workers to ensure children's health and safety; and training programs that enable child care workers to continue the provision of high quality, nurturing child care services.

Dramatic Growth in Child Care Subsidies Under Governor Pataki

The Executive Budget continues to fund 183,400 subsidies through the Child Care Block Grant — an increase of 111,400, or 155 percent, since the Governor took office.

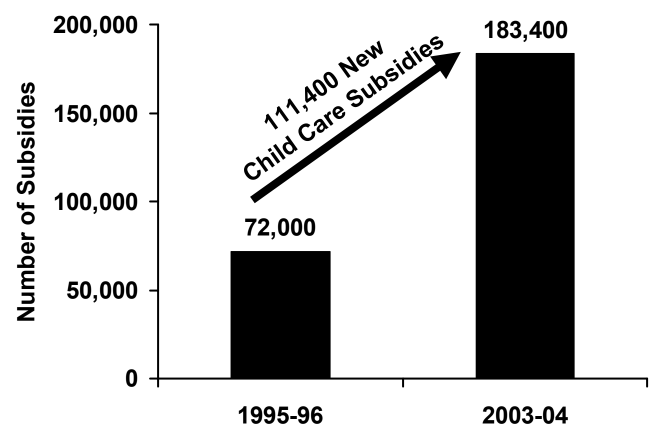


Figure 2

Higher Reimbursement for Providers: To sustain a high quality child care workforce, child care providers will continue to receive rate increases in 2003-04. New York State continues to rank among the national leaders in the maximum subsidy paid to child care providers.

Other Transitional and Support Service Programs

In addition to child care, New Yorkers seeking to secure and retain employment have access to many varied economic and service supports including:

- Food Stamp benefits to ensure access to sound nutrition. More than $470 million in Federal Food Stamp benefits are distributed to non-welfare households each year in New York State. However, surveys indicate that many families may be eligible for but are not participating in this Federal program. Accordingly, despite current fiscal challenges, the Budget allocates an additional $2 million, including an expected Federal match, for outreach activities;
- Health care services through the Medicaid, Child Health Plus and Family Health Plus programs;
- Assistance to ensure the nutritional well-being of needy families and individuals through the Department of Health's Women, Infants and Children, and Hunger Prevention and Nutrition Assistance programs. More than $600 million in Federal and State funds will be available for these services in 2003-04; and
- Transportation to facilitate work training and employment. More than $70 million from existing allocations of TANF funds will be available to help welfare and other low-income families.

Assisting the Homeless

New York currently meets the needs of the homeless through a network of transitional and emergency housing. These facilities also can provide services that foster self-sufficiency by strengthening independent living skills and helping homeless families and adults acquire permanent housing.

During the past three years, there has been a rise in the number of individuals and families who have turned to the shelter system for assistance. The Governor's Budget provides additional funding to meet the needs of the homeless including $1.8 million to provide approximately 1,500 targeted subsidies to help homeless families secure permanent housing. The Budget also provides $1.2 million to support more than 600 new Single Room Occupancy (SRO) services support subsidies for homeless adults.

Controlling Welfare Spending

Although substantial progress has been made in reducing welfare costs since 1995, the welfare system, similar to other components of State government, must adjust to the new fiscal realities confronting our State. Accordingly, a number of measures are proposed that would further reduce welfare spending over a multi-year period beginning in 2003-04 while preserving basic income support for the needy.

Increasing Federal Fiscal Resources: In 2003-04, the Office of Temporary and Disability Assistance (OTDA) will be working closely with Federal officials to review the Federal eligibility determination process in the Supplemental Security Income (SSI) program and seek reimbursement for SSI cases that should be receiving benefits through the Federal Social Security Disability Insurance program.

Offsetting State Costs in the SSI Program: Each year, the Federal government increases its funding for SSI to reflect inflation. New York State has the option of using these Federal funds to partially offset State costs for the program. The Budget exercises this option, and State costs will be reduced by $25.7 million in 2003-04 and $103 million annually thereafter.

Revising Local Administrative Reimbursement: State reimbursement to social services districts for welfare and food stamp administration will be reduced by $60 million annually effective January 1, 2004. This reduction from current funding levels reflects an expectation that social services districts can achieve administrative savings as a result of substantial caseload declines — more than 60 percent in public assistance — experienced in recent years. The State will continue to support local administrative operations by creating a new State computer network infrastructure known as the Human Services Enterprise Network. This modern, integrated network will assist localities to better manage public assistance caseloads.

Maintaining Current Public Assistance Benefit Levels: The Budget includes legislation that would validate existing welfare shelter allowances as established by OTDA pursuant to the Social Services Law. It also continues existing rent supplement payments to families facing eviction.

Strengthening Anti-Fraud Efforts: The Budget merges the Office of Welfare Inspector General (OWIG) with audit operations in OTDA. This reorganization not only will streamline program administration, but also will strengthen anti-fraud efforts by giving the Welfare Inspector General access to OTDA administrative support and computer capabilities.

New York has a long tradition of caring for its less fortunate residents and, even in the context of the State's current fiscal situation, will remain one of the most generous states offering a broad spectrum of services, work support and income security programs. For example, New York's Family Assistance benefit will remain seventh highest

Federal Social Security Disability Insurance Program

The Federal Social Security Administration has estimated that over 130,000 SSI recipients nationally may be eligible for benefits under the Federal Social Security Disability Insurance program. Many of these recipients are New York State residents. OTDA is actively working to identify and transfer eligible clients to the Social Security program where they can receive the higher benefits based on work histories.

nationally. New York's Safety Net benefit will remain available to able-bodied adults without time limits, provided these individuals comply with work requirements. New York's welfare grant is complemented by other investments, such as the State's Earned Income Tax Credit (EITC), which are specifically designed to strengthen the economic mobility of participants. The EITC increased to 30 percent of the Federal benefit in 2003, thus providing one of the highest levels of state EITC in the nation.

Taken together, this balanced package of benefits and incentives protects our State's commitment to the less fortunate, fosters self-sufficiency and protects taxpayer investments in welfare-to-work programs.

Children and Families

A Heightened Commitment to the Welfare of Children and their Families

Even in the face of serious fiscal challenges, Governor Pataki is making new investments targeted to ensure the well-being of children. The Governor's 2003-04 Budget protects and expands funding for children's services by providing the Office of Children and Family Services (OCFS) with more than $1.9 billion to address child welfare needs — including a General Fund increase of nearly $55 million. These critical OCFS services protect children from abuse and neglect, preserve families and provide safe, temporary placements for children who cannot remain in their own homes.

While intervention may be necessary to address dangerous family situations, parents must assume primary responsibility for meeting the basic daily needs of dependent children. The Governor's nationally recognized child support enforcement program holds non-custodial parents accountable for providing essential financial support to their children.

Child Welfare Funding Reform: Strong Incentives for Improvement

New York is intensifying its commitment to children's services under Governor Pataki's new child welfare financing initiative. Enacted in 2002-03, this reform creates powerful fiscal incentives for preserving families and discouraging reliance on costly out-of-home placements. Under the initiative, counties will receive open-ended State funding to invest in community-based preventive services that keep children out of foster care and juvenile justice facilities. The State will also provide expanded funding for aftercare and independent living services that help support children after they leave foster care. Key features of the Governor's 2003-04 child welfare financing system include:

Enriched Funding for Prevention and Supportive Services: The 2003-04 Executive Budget includes $345 million — an increase of nearly $21 million — for the flexible funding stream that provides 65 percent State reimbursement for a range of child welfare services. This funding source gives counties a direct incentive to invest in the preventive services necessary to stabilize and preserve families. While benefiting at-risk children throughout the State, counties are being encouraged to use this new funding source to provide community-based services to an expanded Persons in Need of Supervision (PINS) population that will avert the need for costly institutional placements. In addition to preventive services, the 65 percent child welfare funding is also available for aftercare services, independent living activities and local administrative costs related to adoption.

Child Welfare Financing

Governor Pataki's child welfare financing reform strengthens services for vulnerable children and families by providing:

- 65 percent State funding for preventive services to avert out-of-home placements.
- A flexible Foster Care Block Grant that encourages further reductions in the foster care caseload.
- A Child Welfare Quality Fund to support local innovation in developing new service models.

Realigned Funding Responsibility for Out-of-Home Placements: Currently, school districts, through their committees on special education (CSEs), are responsible for placing disabled children in expensive, out-of-home special education programs but do not share in the residential cost of these placements. To create stronger incentives to educate all children in the least restrictive community setting, legislation submitted with the Budget will require a 20 percent school district share in the residential costs of their CSE placements. As a result of this proposed reform, counties and the State will each experience a 10 percent reduction in their current share of CSE placement costs.

Child Welfare Quality Investments: This Budget again invests $2 million in new child welfare initiatives designed to fund innovative programs intended to improve the quality of services to children and families. In 2003-04, $750,000 of this funding will continue to be available for a demonstration program to test a new care coordination model designed to improve the quality of medical services for foster children. Legislation introduced with the Budget would also improve medical services for foster children by allowing counties to enroll many of these children in managed care programs.

A Flexible Foster Care Block Grant: A $365 million Foster Care Block Grant provides counties with a flexible funding source for meeting the needs of foster children and encouraging further declines in the foster care caseload. Under the Block Grant, counties are able to reinvest savings from foster care reductions into locally-designed child welfare initiatives featuring prevention strategies and other non-institutional program models. *(See Figure 1)*

Number of Children Living in Foster Care Declines

By the end of 2003-04, the number of children living in foster care is expected to drop by more than 17,000, or 32 percent, since the Governor took office. The Governor's recently enacted child welfare financing reform will create more opportunities for further reductions.

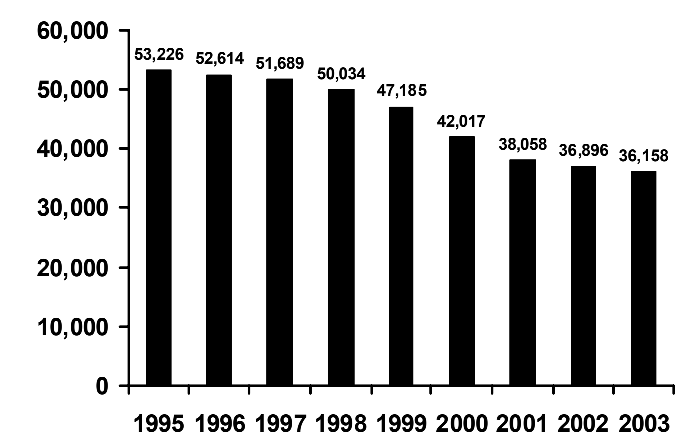


Figure 1

Fostering Family Stability and Child Safety

The Governor's Budget preserves and, in many cases, increases funding for an array of services that protect children and build successful families. Major programs include:

Child Support Enforcement: The 2003-04 Executive Budget continues to build upon the numerous child support program measures implemented under Governor Pataki's leadership. These reforms have produced record high child support collections. *(See Figure 2)* Collections are expected to exceed $1.4 billion in 2003-04, the highest amount in State history. The Governor's child support enforcement efforts encompass a comprehensive range of activities to increase collections and enhance customer services, such as:

- Operating an automated child support collection unit (SCU) to process income executions and disburse child support payments to custodial parents;
- Administering a "new hires" registry to rapidly identify changes in income of non-custodial parents;
- Suspending driver's and professional licenses of parents who refuse to pay child support;
- Helping hospitals obtain voluntary acknowledgements of paternity;
- Increasing criminal prosecutions for parents who refuse to pay child support through Joint Enforcement Teams (JET) – pilot projects in localities that focus child support and criminal investigators, assistant district attorneys and para-legal staff on these cases;
- Providing website and phone-bank access to account and payment information for both custodial and non-custodial parents; and

Child Support Enforcement

Under Governor Pataki, child support collections have more than doubled. Collections are expected to reach $1.37 in SFY 02-03 the largest amount in State history.

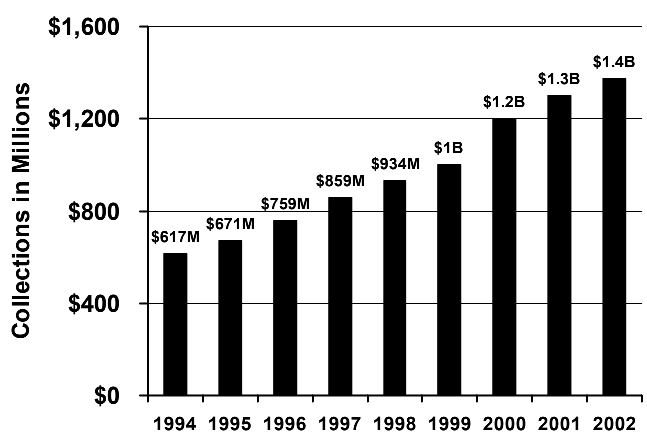


Figure 2

- Managing a personal injury claims intercept program to seize insurance awards made to individuals with overdue child support obligations.

During 2003-04, New York will continue to improve upon existing program operations and explore new initiatives, such as use of private parent-locator services, in an effort to further Governor Pataki's strong message about the need for parents to financially support their children.

Adoption Subsidies: A key element in the State's ongoing effort to reduce the number of children in foster care has been the availability of adoption subsidies. From 1995-96 through 2003-04, more than 38,000 children who could not be reunited with their parents will have been adopted out of foster care into stable, permanent homes. State spending for adoption subsidies during this time period has grown by $93 million, or 126 percent, to $167 million. This includes a $23 million, or 16 percent, increase in the 2003-04 Executive Budget. *(See Figure 3)*.

Child Abuse Hotline: Almost $9 million is provided for the Child Abuse Hotline, a continuously operating link between the public and local child protection units that receives 333,000 calls annually.

New Funds for Adoption Subsidies Offer Permanent Homes for Foster Children

The Executive Budget includes $167 million in State funding for the Adoption Subsidy Program — a $93 million, or 126 percent increase since the Governor took office.

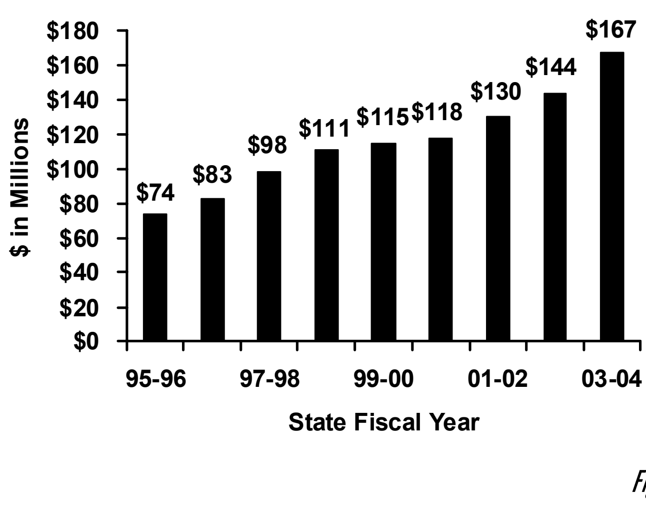


Figure 3

Creating a Single State Focus for Children and Family Services

Established by Governor Pataki in 1997-98, OCFS serves as the lead State agency responsible for promoting the well-being of New York's children and families. In 2003-04, the Council on Children and Families will be merged with OCFS, further strengthening the Office's preeminent role in the statewide coordination and oversight of services for children and families. The Council, with strong institutional support from OCFS, will intensify efforts to share ideas and improve services across the many State and local agencies that offer programs to improve the lives of children and their families.

Local Governments

Continued Partnership with Local Governments

In developing the budget, the Governor has been mindful of the financial difficulties facing local governments across the State. Although crafting this Budget required many difficult decisions, an important consideration in each of those has been their impact on localities.

Meeting the fiscal challenges of the next few years will require continued strong cooperation between the State and its local governments. Together we must intensify efforts to implement reforms and embrace innovative ideas to more effectively and efficiently provide necessary services. The Governor's Budget offers the framework to achieve this goal by: realigning fiscal responsibility for certain Medicaid and other costs; maintaining unrestricted aid to cities, towns and villages; and advancing major mandate relief legislation.

Strong Eight-Year Record of Support

The 2003-04 Executive Budget builds upon a strong eight-year record of assistance to local governments. Since Governor Pataki took office in 1995, State budgets have provided benefits totaling more than $7.3 billion to municipalities and school districts across the State.

Additionally, significant investments in Upstate urban centers, the creation of Empire Zones, the reduction of broad-based taxes and financial support for transportation networks have all stimulated business growth, created jobs, and generated new revenues.

Taxpayers have also reaped direct benefits under Governor Pataki's tenure. Local government property taxes grew an average of 1.4 percent per year for the seven-year period of 1995 through 2001, significantly below the rate of inflation for this time. Further, senior citizens and other homeowners received more than $8.8 billion in cumulative tax relief through the Governor's School TAx Relief (STAR) program.

Continuing the Commitment in Challenging Times

As the Governor's Budget seeks to address the combined impact of September 11th and the national economic downturn on State revenues, it nevertheless takes into account the challenges these same events have thrust upon local governments. The Governor's recommendations do not solely achieve savings for the State, but rather, seek to improve the operations of all levels of New York governments.

Impact of the 2003-04 Executive Budget

The 2003-04 Executive Budget recommendations result in a net positive benefit of more than $658 million for local governments, other than school districts. This benefit does not capture most of the savings that will be generated by mandate relief legislation proposed in this Budget.

Significant savings are attributable to proposed changes in programs for which the State and local governments share costs or revenues.

Medicaid: The State would assume fiscal responsibility for the pharmacy program, one of the fastest growing components of Medicaid. In exchange, local governments would fund a greater share of inpatient, outpatient and clinic costs, which are expected to decrease as more individuals are enrolled in managed care. This realignment, together with proposed cost saving and other Medicaid actions, would generate nearly $260 million in net savings to local governments.

Early Intervention Program: Sharp cost escalation is addressed by proposals to increase oversight and reimbursement from Medicaid and private insurance, while a renewed emphasis is placed on results for the children enrolled. First year savings of $37 million for local governments could grow to more than $55 million when fully implemented.

Revenue Proposals: Several revenue policy changes could provide an additional $336 million in new local revenue. The most significant proposal is a conversion of the current sales tax exemption on clothing and footwear under $110, to a $500 exemption for four one-week periods. This proposal would generate an additional $240 million benefit for local governments participating in the current exemption.

School Aid: After record increases in school aid of $3.7 billion in the five years since 1997-98, the current fiscal situation necessitates a $1.24 billion reduction for the school year beginning July 1, 2003.Nearly half of the overall decrease, or $607 million on a school year basis, reflects reductions to discretionary local grant programs as well as an expense-based decline in building aid and enrollment-based declines in growth aid. Reductions in consolidated operating aid of $407 million, or 4 percent, are sensitive to a district's relative wealth and student needs. Other components of the school aid proposal include recommended reforms in BOCES, school construction aid, and special education. Despite these reductions, State support for the 2003-04 school year will total $13.4 billion — a 36.3 percent increase since 1994-95.

New York City

Executive Budget recommendations, in concert with other actions the State will undertake to assist New York City, will provide a benefit valued at over $1 billion in the coming fiscal year. The Governor is committed to pursuing a broad agenda of actions to either reduce expenditures or provide additional resources to the City, some of which are already well underway.

These resources are expected to result from a number of sources, including:

- Mandate relief advanced with the Executive Budget to eliminate the requirements of the Wicks Law and bring parity to the process under which legal claims against New York City are resolved;
- Savings of up to $200 million through restructuring of Battery Park City Authority outstanding debt and purchase of adjacent City-owned property;
- Legislation advanced by the City to issue additional taxi medallions, expand the use of "red light camera" traffic enforcement, and provide increased flexibility to restructure debt;
- Successful conclusion to the ongoing airport lease negotiations between the City and the Port Authority for both back and increased rent amounts, potentially yielding more than $500 million; and
- Continued partnership with the City in negotiations with the Federal government for reimbursement of $650 million in expenses associated with September 11th.

Unrestricted Local Aid

Unrestricted aid to local governments is maintained at 2002-03 levels — a strong sign of the Governor's commitment to local governments.

Recommended at $792 million for 2003-04, unrestricted aid has increased $98 million, or 14 percent since 1994-95. Within this amount, aid to cities (other than NYC) has increased a dramatic $200 million, or 90 percent. The County Aid program concludes this year, as planned, after delivering $22 million in unrestricted aid to all counties (outside of New York City) for county fiscal years 2001 and 2002.

Encouraging Local Government Innovation, Efficiency and Fiscal Stability

Governor Pataki continues to encourage local governments to deliver high quality services at the lowest cost to taxpayers. In support of this goal, the 2003-04 Budget includes legislation designed to significantly increase local government flexibility and remove long-standing impediments to efficient government operation. Further, to ensure the continued fiscal stability of New York's local governments and to maintain their credit quality, the legislation establishes new financing tools with stringent safeguards.

Task Force on Local Government Reform

The Task Force on Local Government Reform was established by the Governor in 2002, and charged with surveying local officials and the public regarding the operation of local governments. By August 2003, the Task Force must make recommendations promoting the efficient and effective delivery of local services.

The non-partisan Task Force, representing all levels of local government, has raised a number of compelling issues to help provide mandate relief for local governments. In keeping with the Governor's long-standing commitment to help local governments, and consistent with the work of the Task Force, the 2003-04 Executive Budget advances a series of recommendations, including:

- Greater consideration of a government's financial constraints by binding arbitration panels;
- Full repeal of the Wicks Law;
- Promotion of mergers;
- Options to finance pension and other costs;
- Procurement flexibility; and
- Revenue enhancements.

The Task Force will build on the Governor's recommendations during 2003, identifying innovations and best practices that can be shared throughout New York State. In addition, the Task Force may also make recommendations for changes in State policies, procedures, and law. Through this effort, New York will continue to progress toward more affordable, effective local government.

Significant Mandate Relief Proposals

- Remove State-imposed obstacles to local government reform and cost reduction efforts
- Foster intergovernmental cooperation, mergers, and consolidations
- Provide opportunities for new revenues
- Allow flexibility to finance costs over time, especially as a bridge to restructured operations
- Ensure the long-term fiscal stability of local governments

Impact of 2003-04 Executive Budget On Local Governments State Fiscal Year Basis

($ millions)

	Total	Counties	NYC	Other Locals	School Districts
Budget Actions	658	237	409	17	(5)
School Aid Reduction	(807)	N/A	(316)	N/A	(491)
Total Impact	(149)	237	93	17	(496)

Note: Savings from some of the proposals contained in mandate relief legislation being advanced with the Budget are quantifiable for New York City and, therefore, shown in the table. Savings from these items for other classes of government have not been calculated. Thus, most of the savings attributable to the Governor's proposed mandate relief legislation are additive to the benefits shown in the table.

Government Reform

Reforming Government to Meet New Challenges

The economic progress realized by New York as a result of Governor Pataki's fiscal policies is paralleled by sustained productivity gains achieved through the Governor's commitment to restructure and reform State government. Since 1995, Governor Pataki has taken steps to:

- Reduce the size of State government;
- Consolidate programs and agencies, and abolish redundant or less critical activities to improve accountability and responsibility for service delivery;
- Eliminate outdated mandates and regulations that inhibit government efficiency; and
- Identify logical and cost-effective opportunities for the private sector to assume certain government functions.

The Government Reform Agenda

The 2003-04 Executive Budget builds on the previous eight years of progress to promote a leaner, more resourceful and more efficient government — one that not only meets the challenges of current fiscal realities, but also encourages a pro-growth economic agenda. The structural reforms and other actions proposed by the Governor are expected to reduce State agency spending by $800 million, a key component being workforce reductions. In fact, State agency spending is down almost $700 million, or more than 8 percent, since September 11th — despite paying collective bargaining increases during that period.

As a sign of his commitment to reducing agency spending, Governor Pataki's Executive Budget proposes to reduce the Executive Chamber budget by $3.8 million or roughly 19 percent.

Reducing the Workforce

Economic Progress through Government Reform

- **A 12% reduction in the State workforce since 1995 — to its lowest level in 20 years.**
- **A lean and modern government — generating almost $140 million in future annual savings.**
- **Strong public-private partnerships, including the sale of non-essential State assets to private ownership.**
- **Expanded use of technology to provide convenient access to government services for citizens and businesses.**
- **Innovative and creative approaches to managing agencies — focused on results.**

Government operations are not exempt from the efforts made in the 2003-04 Executive Budget to reform programs and achieve cost savings. Accordingly, this Budget directs Executive agencies to reduce their combined workforce by 10,000 positions from the November 2001 level, bringing the State to 186,000 employees by March 2004 — its lowest level in 20 years. *(See Figure 1)*

The Governor's Task Force on State Workforce Management and Employee Deployment will work in partnership with agencies and public employee unions to manage these reductions so

Workforce Reduced Significantly Since September 11th

The Governor is continuing his commitment to prudently, but humanely downsize the State workforce through a strict hiring freeze, retirement incentives, and targeted transfers.

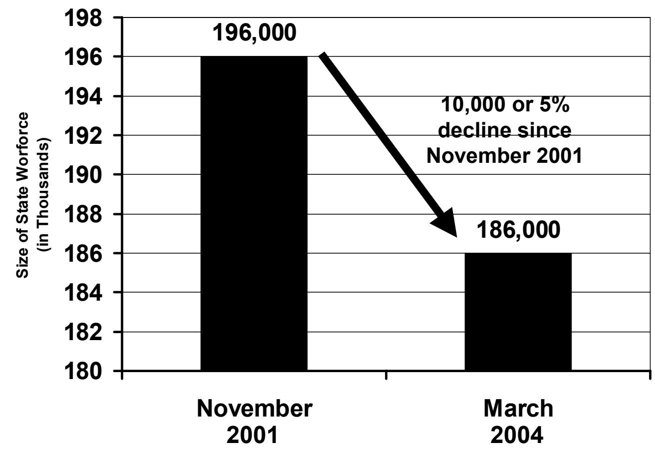


Figure 1

as to limit the negative impact on employees. Using a strict hiring freeze and aggressively offering an early retirement incentive, coupled with spending controls on other costs, it is expected that the need for layoffs will be mitigated while maintaining critical services. With these actions, workforce reductions will total more than 25,000 positions or 12 percent since the Governor took office.

Consolidating and Modernizing Government Operations

For the past eight years, Governor Pataki has effectively achieved responsible and cost-effective governmental reform. Among his accomplishments are consolidating energy agencies; restructuring the delivery of social services and employment programs; re-organizing services for children and families; and reforming the workers' compensation system. These actions were taken, not only to reduce costs, but also to make the delivery of services more effective.

The Executive Budget recognizes that additional reforms are necessary if we are to realize permanent reductions in the cost of government. Program and agency consolidations incorporated in the 2003-04 Executive Budget will yield savings of $32 million in 2003-04, growing to almost $140 million on a fully annualized basis. Recommendations include:

- The closure of five underutilized psychiatric facilities over the next five years, with expected 2003-04 savings of $10 million redirected to community programs;
- The closure of the Institute for Basic Research, which diverts resources from the critical work of the OMRDD system, for a savings of more than $12 million in 2003-04 and $17 million on an annual basis;

- Legislative authorization to restructure the SUNY hospitals as private not-for-profit corporations, which will position them to better compete in today's health care environment;
- A fundamental restructuring of the State Education Department to better align accountability with responsibility and improve educational governance;
- The merger of the Commission for the Blind and Visually Handicapped and the Vocational and Educational Services for Individuals with Disabilities (VESID) program within the Department of Labor to consolidate vocational rehabilitation and employment related programs; and
- Consolidation of agencies with compatible missions, such as:
  - The Nathan Kline Institute and the New York Psychiatric Institute research facilities;
  - The State Liquor Authority and the Division of Alcoholic Beverage Control;
  - The Public Employment Relations Board with the State Employment Relations Board;
  - The Hudson River Valley Greenway Communities Council and the Greenway Heritage Conservancy;
  - The Council on Children and Families with the Office of Children and Family Services; and
  - The Office of the Welfare Inspector General with the Office of Temporary and Disability Assistance.

These and other actions will reduce bureaucratic redundancy and streamline the administration and delivery of services.

Privatizing Certain State Assets

The sale of Stewart International Airport and the use of a private vendor to assist the Department of Taxation and Finance with the processing of income tax returns are just two examples of the State's successful efforts to privatize selected functions. Given its financial situation, the State cannot continue to own or operate assets that have become outdated, inefficient or are no longer needed for essential State purposes. Indeed, the State has an obligation to seek alternatives that avoid costs or provide taxpayers a savings.

During the next four years, Governor Pataki will consider additional opportunities to privatize assets that we no longer need or where continued public ownership is inconsistent with what the State can reasonably afford. This could include State facilities and armories that are no longer in use; surplus, vacant land owned by the State or its public authorities; or other assets that are owned or managed by the State but could benefit from private control.

Efficiency Through Technology

20 State and local agencies now accept credit cards and other forms of electronic payments for government services. In 2002, these agencies performed over 304,000 electronic transactions and collected more than $86 million. Doing business this way is more convenient, more efficient and less costly than traditional payment methods.

Promoting private investment in these properties would better serve the public by creating jobs, strengthening local economies and increasing local property values while allowing the State to focus its resources on those core services it needs to provide.

Investing in Technology

Technology has changed the way government does business. Governor Pataki recognizes the tremendous opportunities new technologies present and has been a national leader in advocating their use to streamline and modernize government. Under the Governor's leadership, New York has brought Internet access to 3,000 schools, consolidated major State data processing operations, used advances in technology to assist law enforcement officials and aggressively adopted electronic means for the public to access more than 240 State services.

This Budget continues to support the use of technology as a critical tool to meet the public's expectations for responsive and efficient government by encouraging agencies to make transacting business with the State as easy and convenient as possible. Citizens are now able to go online, rather than wait in line, to:

- Renew motor vehicle registrations and professional, business and recreational licenses;
- Reserve a campsite at a State park;
- Search for unclaimed funds they may be owed, or receive other forms of consumer assistance;
- File State income tax returns; and
- Review information on health care professionals and practitioners.

Measuring Performance

For the past eight years, Governor Pataki has directed his agencies to follow a results-oriented management strategy, one that rewards creative thinking and innovative ways to effectively finance, manage and deliver services. This Budget formalizes that philosophy with implementation of *The Governor's Performance Agenda*. This strategy will use specific, challenging performance measures, jointly developed by the Governor and his staff, agency leaders and the Division of the Budget, as the basis for multi-year budgetary and program decisions. Agency leaders will be held accountable for demonstrating measurable progress toward achieving those objectives.

The Governor's Performance Agenda will ensure that agencies — regardless of resource limitations — continue to find ways to maximize their effectiveness.

Sweeping Tax Cuts

Tax Cuts Under Governor Pataki

Since Governor Pataki took office in 1995, every major tax has been cut and New York State has become the tax cutting capital of the nation. Under the Governor's leadership, 19 different taxes have been cut 63 different times, returning more than $100 billion to New Yorkers on a cumulative basis when fully in place.

19 Different Taxes Cut 63 Times Under Governor Pataki

1. Personal Income Tax cut in 1995, 1996, 1997, 1998, 1999, 2000 & 2002
2. School Property Tax cut in 1997, 1998 & 2002
3. Sales Tax cut in 1995, 1996, 1997, 1998, 1999, 2000 & 2002
4. Estate Tax cut in 1995, 1997, 1998, 1999 & 2002
5. Corporation Franchise Tax cut in 1997, 1998, 1999, 2000, 2001 & 2002
6. Gross Receipts Tax on Energy/Telcom. cut in 1996, 1997, 1998, 1999 & 2000
7. Petroleum Business Tax cut in 1995, 1996, 1999 & 2000
8. Insurance Tax cut in 1997, 1999 & 2000
9. Bank Tax cut in 1997 & 1999
10. Medical Provider Assessment cut in 1997 & 1999
11. Real Estate Transfer Tax cut in 1995 & 1999
12. Real Property Gains Tax eliminated in 1996
13. Gift Tax cut in 1997 & eliminated in 1999
14. Motor Fuel Tax cut in 1995
15. Highway Use Tax cut in 1998 & 2000
16. Motor Vehicle Fee cut in 1998
17. Beer Tax cut in 1995, 1998, 1999 & 2000
18. Beverage Container Tax cut in 1995 & repealed in 1997
19. Pari-Mutuel Tax cut in 1995, 1998, 1999 & 2000

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 reimburses school districts for their lost property tax revenues. In New York City, STAR reduces the resident City personal income tax. The State reimburses 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, the agricultural property tax 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. Makes the credit refundable for residents beginning in 1996.

Tax Cuts Enacted in 1997

7. Enhances the agricultural property tax credit by: (a) allowing $30,000 to be subtracted from income before calculating the percent of income from farming to qualify for the credit; and (b) 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, the new tax relief previously scheduled for 1999 for farmers benefiting from the agricultural property 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 first increased the EITC to 22.5 percent of the Federal credit in 2000 and then to 25 percent of the Federal credit in 2001.

15. Exempts payments from the Holocaust-Swiss Bank settlement to victims of Nazi persecution from all State and local taxes.

16. Expands the existing Qualifying Emerging Technology Companies (QETC) tax credit to include personal income taxpayers.

17. Expands agricultural 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 phases in over four stages beginning in 2001.

21. Reduces the marriage penalty by increasing the standard deduction for married taxpayers filing jointly 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.

Tax Cuts Enacted in 2002

25. Extends the personal income tax credit of $500 for costs related to the removal or permanent closure of a residential fuel oil storage tank, and the replacement of a new tank, for an additional year. The credit is extended through December 31, 2003.

26. Provides a State, New York City and Yonkers personal income tax exemption for tax years 2000 and 2001 (and 2002 for deaths occurring in 2002) for persons dying as a result of the terrorist attacks on September 11, 2001.

27. Provides a cost-of-living adjustment to the maximum income allowed under the enhanced STAR exemption for persons age 65 and over.

Business Taxes

Tax Cuts Enacted in 1995

Petroleum Business Tax

28. Fully exempts heating fuels for not-for-profit organizations (beginning in 1996).

29. Reduces the tax on aviation fuels and reduces the minimum monthly tax for aviation fuel businesses from $25 to $2.

Corporation Franchise Tax

30. 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

31. Reduces the rate on diesel motor fuel used by railroads by one and three tenths cents per gallon on base tax and eliminates the supplemental tax beginning January 1, 1997.

32. Exempts residual product and non-automotive diesel gallonage used for manufacturing purposes beginning January 1, 1998.

33. Exempts residual petroleum and non-automotive diesel gallonage used for commercial purposes from the supplemental tax beginning March 1, 1997.

34. Reduces the supplemental rate on automotive diesel by 0.75 cents per gallon beginning January 1, 1998, and by an additional one cent per gallon beginning April 1, 1999.

35. 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

36. 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

37. 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.

38. 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

39. Reduces the premiums tax rate and the limitation on the tax liability of life insurers.

40. Creates a credit against the insurance tax for investment in certified (venture) capital companies.

41. Provides preferential tax treatment rates for the formation of captive insurance companies.

Bank Tax

42. Allows net operating loss deductions for banking corporations.

Corporation Franchise Tax

43. Conforms New York treatment of qualified subsidiary subchapter S corporations to the treatment under Federal law.

44. Creates credits for purchase of alternative fuel vehicles and for investment in refueling stations.

45. Creates a new credit for employing persons with disabilities.

Tax Cuts Enacted in 1998

Corporation Franchise Tax

46. 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.

47. 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.

48. Reduces the rate imposed on S corporations by at least 40 percent.

49. 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.

50. 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.

51. Reduces the fixed dollar minimum tax from $325 to $100 for small business taxpayers. The change is phased in over two years.

52. Reduces the corporate franchise tax rate for small businesses from 8 percent to 7.5 percent.

Tax Cuts Enacted in 1999

Petroleum Business Tax

53. Reduces the rate on commercial heating oil by 20 percent beginning April 1, 2001.

54. Exempts fuels used in mining and extraction beginning April 1, 2001.

Corporation Franchise Tax

55. Reduces the alternative minimum tax rate from 3 percent to 2.5 percent and will complement the reduction in entire net income.

56. Increases the current economic development zone (EDZ) and zone equivalent area (ZEA) wage tax credits.

57. 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.

58. 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.

59. Eliminates antiquated mergers and acquisitions language in the Tax Law that caused an undue burden on corporation franchise, bank franchise and insurance franchise taxpayers.

60. 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.

61. 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.

62. 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.

63. 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.

64. 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.

Bank Franchise Tax

65. 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.

Insurance Franchise Tax

66. 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.

67. 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.

68. Expands the certified capital companies (CAPCO) program to provide an additional $30 million to be invested in certified capital companies.

Corporations and Utility Tax

69. Excludes natural gas imported for use in generating electricity from the tax imposed on gas imported for self use.

70. Exempts diesel and residual fuels used in passenger commuter ferries effective December 1, 2000.

Tax Cuts Enacted in 2000

Petroleum Business Tax

71. Reduces tax rates on diesel and residual fuels used for commercial heating purposes by 33 percent beginning September 1, 2002.

72. Eliminates PBT minimum taxes.

Corporation Franchise Tax

73. Modernizes the taxation of financial transactions by reforming the sales allocation for financial services.

74. Creates the Empire Zones Program Act, which will transform current Economic Development Zones into virtual "tax-free" zones for certain businesses.

75. Creates a credit for real property taxes paid within an Empire Zone for qualified businesses.

76. Creates a tax reduction credit for qualified businesses within an Empire Zone.

77. 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.

78. Reduces the differential tax imposed on S corporations by 45 percent.

79. Expands an existing tax credit for the production of alternative fuel vehicles in New York State.

80. Permits the benefits of investment tax credits (ITC) to follow the corporation when investment credit property is transferred during a qualified corporate reorganization.

81. Reduces the corporate franchise tax rate imposed on small business from 7.5 percent to 6.85 percent.

82. Permits the application of the economic development zone (EDZ) employment incentive credit against the minimum taxable income base under the corporate franchise tax.

83. 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.

84. 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.

85. Eliminates antiquated mergers and acquisitions language in the Tax Law that caused an undue burden on corporation franchise taxpayers.

86. Provides a tax credit to encourage the construction and rehabilitation of environmentally sound (green) buildings.

Bank Franchise Tax

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

88. 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.

89. 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

90. Creates an investment tax credit for equipment used in the trading of securities by insurance companies.

91. 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 underserved areas, and one-third to the rest of the state.

Corporation and Utility Tax

92. 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.

93. Provides an additional 300 megawatts of low-cost power to businesses across New York through the Power for Jobs program.

Tax Cuts Enacted in 2002

Corporate Franchise Tax

94. Raises the aggregate credit limit for the low-income housing tax credit from $2 million to $4 million annually.

95. Expands the Empire Zones program to create ten new Empire Zones, bringing the total across the State to 72. Four of the ten were effective immediately.

Corporation and Utility Tax

96. Provides low-cost power for economic development through phase five of the Power for Jobs Program and provides an energy service company option for recipients under the program.

Sales and Use Taxes

Tax Cuts Enacted in 1995

97. Exempts goods or services necessary for the acquisition, sustenance or maintenance of guide dogs.

98. Exempts meteorological services.

99. Exempts South African coins purchased for investment.

100. Exempts homeowner association fees.

101. Exempts retail sales of aviation gasoline from the motor fuel excise tax.

Tax Cuts Enacted in 1996

102. 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).

103. Exempts printed promotional materials and related services, including storage services, when the materials are mailed or shipped to customers in New York.

104. 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.

105. Expands the sales tax exemption for commercial vessels and aircraft.

Tax Cuts Enacted in 1997

106. 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).

107. Exempts passenger buses, and parts, equipment, lubricants and repair services on such buses.

108. Increases the exemption threshold from 25 cents to 50 cents for purchases made through a bulk vending machine.

109. Exempts coin-operated car washes, waxes, or vacuuming services.

110. Exempts coin-operated photocopying where the charge is 50 cents or less.

111. Provides that out-of-state businesses that contract fulfillment services from New York companies do not become subject to the sales tax.

112. 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.

113. Exempts luggage carts dispensed by coin operated devices.

114. Exempts emissions testing equipment required by the Federal Clean Air Act of 1990 and the New York State Clean Air Compliance Act of 1993.

115. Exempts parking services sold by a homeowners' association to its members.

116. 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.

117. 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.

118. Exempts certain circus admissions.

119. 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.

120. Extends the sales tax exemption for alternative fuel vehicles and expands it to exempt alternative-fuel vehicle refueling property.

Tax Cuts Enacted in 1998

121. 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 exempt from State sales tax starting December 1, 1999.

122. 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.

123. Eliminates the sales tax on the sales of textbooks required for use by full- and part-time college students in their college courses.

124. Eliminates the sales tax on computer system hardware used to design and develop computer software for sale.

125. Exempts coin-operated telephone calls costing 25 cents or less from the sales tax. The prior exemption threshold was 10 cents.

126. Expands exemptions for oil and gas production to include real property services.

Tax Cuts Enacted in 1999

127. Provides that the exemption for clothing and footwear costing less than $500 becomes effective March 1, 2000, and 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 clothing and footwear exemption on March 1 of any year.

128. Eliminates the sales tax on property and services used in live dramatic or musical arts productions.

129. 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.

130. 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.

131. 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.

132. 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.

133. Exempts computer system hardware used to design and develop Internet web sites for sale.

134. Exempts services to production machinery and equipment from local sales taxes outside New York City.

Tax Cuts Enacted in 2000

135. 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.

136. Exempts machinery, equipment, and certain other property and related services sold to operators of Internet data centers.

137. Provides an exemption for certain property and services purchased by television and radio network

broadcasters for use in the production or transmission of programming.

138.Expands the existing farmers' exemption to include virtually all purchases related to farm production.

139.Exempts purchases of food and drink priced at 75 cents or less made through vending machines.

140.Exempts machinery and equipment used in the control, prevention or abatement of pollution from industrial and manufacturing facilities.

141.Exempts most purchases made by qualifying businesses located in Empire Zones.

142.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.

143.Exempts energy used in manufacturing and farming from 4 percent local sales and use tax imposed in New York City.

144.Exempts boats sold to nonresidents.

145.Exempts meals sold by senior citizen housing communities to residents and their guests.

Tax Cuts Enacted in 2001

146.Adds eight new Empire Zones. Four of the eight were effective immediately.

Tax Cuts Enacted in 2002

147.Creates sales tax holidays in the Liberty and Resurgence Zones in Lower Manhattan. These occurred from June 9-11, July 9-11, and August 20-22, 2002.

148.Expands the sales tax exemption available to film production to cover films distributed electronically.

149.Expands the Empire Zones program by authorizing a total of ten new Empire Zones, bringing the total across the State to 72. All ten new zones have been designated.

Other Taxes

Tax Cuts Enacted in 1995

150.Reduces the beer tax by 5 cents per gallon, from 21 cents to 16 cents.

151.Reduces the container tax by half, from 2 cents per container to 1 cent per container.

152.Provides a new estate tax deduction of up to $250,000 of the equity in a decedent's principal residence.

153.Reduces the diesel motor fuel excise tax from 10 cents to 8 cents per gallon.

154.Reduces the tax on pari-mutuel wagering.

Tax Cuts Enacted in 1996

155.Repeals the real property gains tax.

156.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

157.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.

158.Repeals the container tax beginning October 1, 1998.

159.Phases in the elimination of assessments on providers of certain medical services.

Tax Cuts Enacted in 1998

160.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.

161.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.

162.Reduces the excise tax on beer from 16 cents to 13.5 cents per gallon.

163.Reduces the truck mileage tax by 25 percent.

164.Extends, until 2002, the existing tax reductions for harness and thoroughbred racetracks and OTB corporations along with expanded simulcasting authority.

165.Accelerates elimination of assessments on providers of certain medical services.

Tax Cuts Enacted in 1999

166.Reduces the excise tax on beer by one cent per gallon beginning April 1, 2001.

167.Increases the excise tax exemption on domestically brewed beer from 100,000 to 200,000 barrels.

168.Extends until September 1, 2002, the lower real estate transfer tax rate for property transferred into an existing REIT.

169.Reduces the pari-mutuel tax on on-track thoroughbred betting.

170.Caps exhibitions' tax.

171.Conforms estate tax laws to changes made at Federal level.

172.Accelerates elimination of assessments on providers of certain medical services.

173.Reduces the tax on boxing and wrestling matches from 5.5 percent to 3 percent and caps the maximum tax paid per match at $100,000.

Tax Cuts Enacted in 2000

174.Eliminates the pari-mutuel tax at thoroughbred tracks for the three days surrounding the Breeder's Cup races.

175.Reduces the truck mileage tax supplemental tax by 20 percent.

176.Reduces the beer tax from 12.5 cents to 11 cents per gallon.

177.Accelerates the increase of small brewer's exemption by moving the effective date to January 1, 2000.

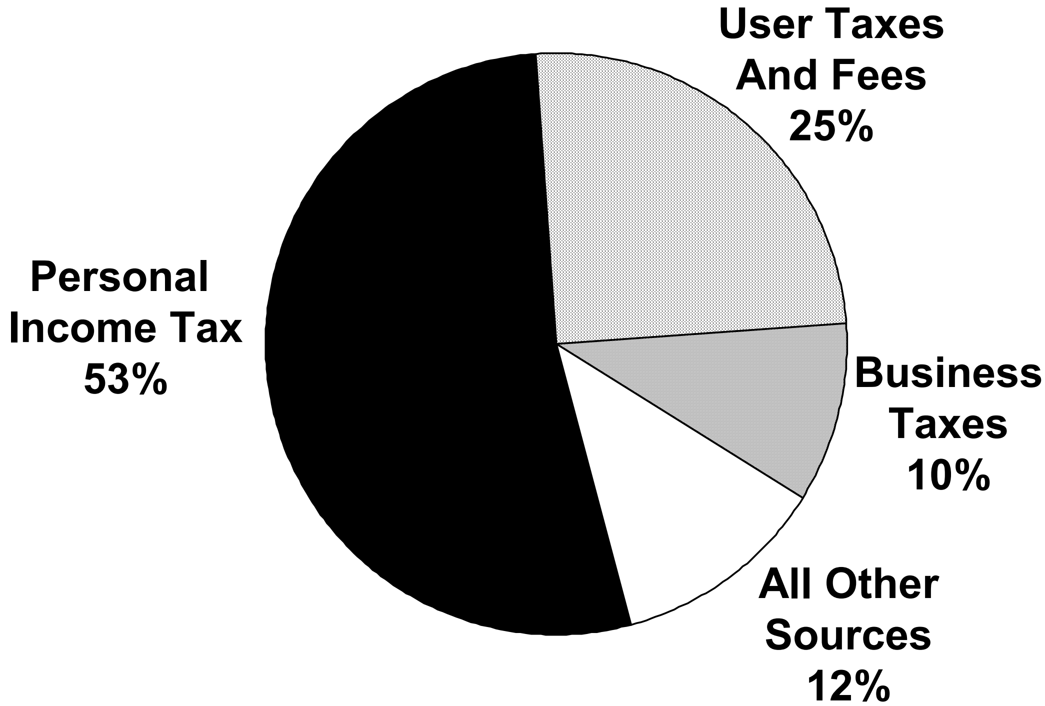
Tax Cuts Enacted in 2002

178.Conforms the estate tax to the Federal Victims of Terrorism Tax Relief Act of 2001, which provides for an increased exemption (from $675,000 to approximately $2.9 million) and tax reductions for estates above this amount.

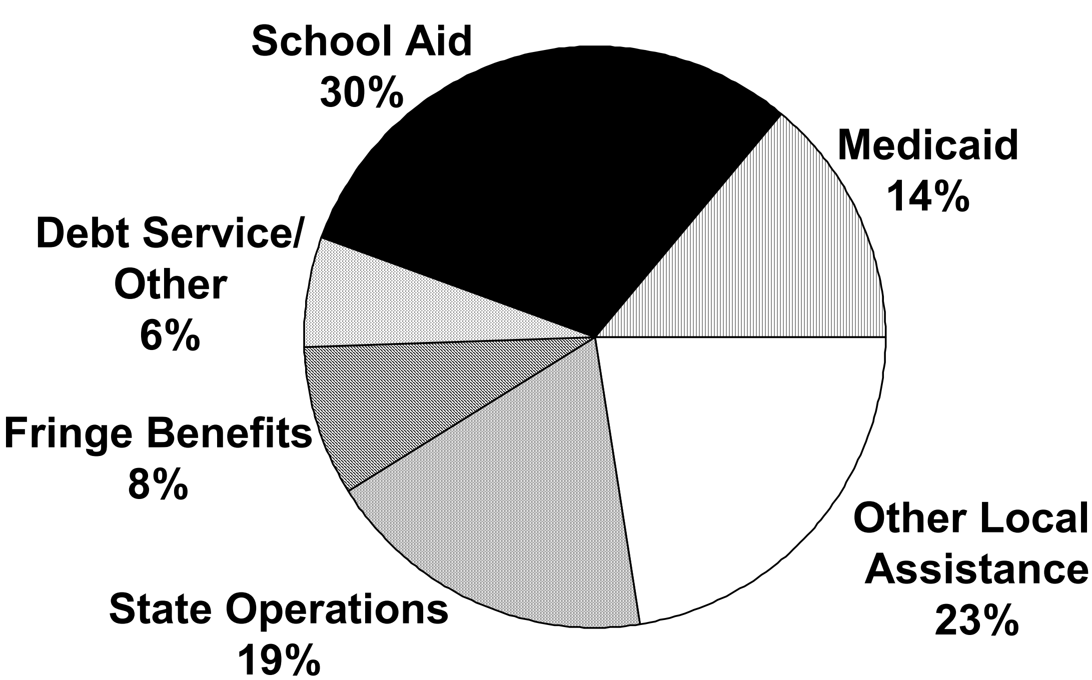
179.Extends the REIT provisions under the real estate transfer tax until August 31, 2005 for property transferred into an existing REIT.

2003-04 General Fund Tax Dollar

Where it Comes From …



… Where It Goes



The Citizen’s Guide to the Executive Budget

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 primarily by Article VII of the New York State Constitution. Article VII stipulates 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 needed to implement the Executive Budget.

To meet these requirements, this Budget includes three volumes and several bills. The first volume of the Executive Budget contains the Budget Director's Message, which explains the Governor's fiscal blueprint for 2003-04 and presents the State's Financial Plan — the "complete plan" of spending and revenues required by the Constitution. This volume also includes highlights of major initiatives, and a list of the legislative proposals needed to implement the proposed Budget.

The second volume, Appendix I, describes the functions of each State agency and presents tables that summarize the agency's spending by program and category. A "User's Guide" provides background information on State government and the budget process, and explains how to interpret the "story" 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 (including the economic outlook for the nation and the State), and a discussion of the capital plan.

These documents collectively provide the supporting justification for the budget bills, and are available via the Internet (www.budget.state.ny.us); at the New York State Library, State University libraries, and many local libraries; and on CD-ROM.

Two types of legislation are required for Budget enactment. Appropriation bills provide the legal authorization for all spending from the funds managed by the State. These bills encompass the recommended funding for the Legislature and Judiciary, Debt Service and the functional responsibilities of the Executive branch — e.g., Education, Public Protection, Health, Mental Hygiene, Economic Development and Transportation.

Other bills, as described elsewhere in this "Executive Budget" volume, amend permanent State law governing programs and revenues. These "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.

Division of Budget Website

To access all budget materials quickly and easily visit our website at www.budget.state.ny.us.

Executive Budget Documents will be available on-line with the start of the Governor's presentation. Virtually all other materials are made available either on the day of publication or within 24 hours.

The Constitution authorizes the Governor to amend the Executive Budget within 30 days of submission, allowing for technical corrections and revisions based on more recent information. These "30-day amendments," if any, are made available on the Budget Division's website when submitted to the Legislature.

The legislative review process includes public hearings on the Governor's Budget, at which various interested parties may speak. These hearings are scheduled by the Senate Finance and Assembly Ways and Means Committees, which are responsible for coordination of each House's action on the Budget.

At times, the Legislature has opted to use Conference Committees to organize its deliberations, set priorities and reach agreement on a Budget between the two houses. Regardless of the specific approach used, the two houses ultimately develop joint recommendations, which are then reflected in amended versions of the Governor's proposed bills and put to a vote. 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. However, along with items that have been added, the Legislature and Judiciary appropriations must be sent to the Governor for his approval or veto. The Constitution grants the Governor "line item veto" power, permitting the Governor to veto items added by the Legislature selectively, while approving the remainder of the bill.

Chapter numbers are assigned to bills that are approved and become law. For any bill or item of appropriation that is vetoed, the Governor provides a "veto message" to the Legislature, which outlines his reasons for the veto. These messages are distributed by the Governor's Office. Vetoes may be overridden by a two-thirds vote of the Legislature, in which case the vetoed item or bill becomes 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 Senate and Assembly Document Rooms. The Governor is required to revise the Financial Plan to reflect the Enacted Budget. Like the original Executive Budget and any 30-day amendments, this revised Plan is also available on the Budget Division's website.

Note: Readers are encouraged to visit the New York State Budget Division's website (www.budget.state.ny.us) to access the latest information and documents related to the Executive Budget proposal and the enacted Budget. Virtually all materials are made available on the website, either on the day of publication or within 24 hours.

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

- Make permanent the provisions for deposit of revenues into the armory rental account.
- Increase lobbyist registration fees.
- Permanently authorize the Department of State to continue to offer expedited services and receive payments via credit card.
- Merge the Public Employment Relations Board (PERB) and the State Employment Relations Board (SERB) into a new Public and Private Employment Relations Board (PPERB).
- Provide authorization to securitize the stream of tobacco settlement payments.
- Abolish the State Liquor Authority; transfer its functions to the Division of Alcoholic Beverage Control (ABC); and authorize ABC to file default judgments for unpaid penalties.
- Authorize deposits and temporary loans for various funds, bond cap changes; debt and other general fiscal management provisions.
- Extend the authorization for the New York Motor Vehicle Theft and Insurance Fraud Prevention Demonstration Program.
- Extend various criminal justice programs and fees due to expire.
- Increase several real estate and security broker related fees in the Department of Law.
- Expand designated acceptable uses of surplus State armories that are transferred to local municipalities to include government purposes.
- Increase fees paid by operators of the six nuclear power reactors to fund enhanced State and local emergency preparedness.
- Reduce the State's share of health insurance premium contributions for State employees and retired State employees.
- Conform the negotiable period for State issued checks to banking industry standards.
- Enable reciprocal purchasing by Corcraft with other states and the Federal government.
- Authorize the Workers' Compensation Board to make certain payments on behalf of insolvent self-insured private employers, outside of State appropriated funds.

- Authorize the Division of Parole to grant merit termination of sentence for non-violent parolees for specific classes of felonies.
- Authorize hearing reporters to limit transcriptions of Board hearings to only inmates denied release.
- Authorize comprehensive mandate relief initiatives for localities.
- Authorize the Commissioner of Motor Vehicles to increase the fee charged for motor vehicle license plates.
- Increase Justice Court Fund fine amounts.
- Require Hazardous Material license holders to undergo a criminal history background check.
- Permit a new standard using “aggregate weight” for lab analysis of illegal drug evidence.
- Permit grand jury testimony by police officers to be provided by affidavit rather than requiring personal appearance.
- Provide technical clarification regarding the recovery of salary overpayments.
- Authorize non-violent inmates with exemplary program participation and disciplinary records, to be released from incarceration under certain conditions.
- Impose various fees relating to sex offender registration.
- Increase various mandatory surcharges on Penal Law and Vehicle and Traffic Law offenses.
- Increase Motor Vehicle Insurance fees to support enhanced State and local public safety efforts.
- Increase the State’s fingerprinting fee to fund criminal justice technology requirements.
- Increase hourly rates for court-appointed counsel; increase a variety of Vehicle and Traffic surcharges, Civil Court and other fees.

Education, Labor and Family Assistance

- Promote fiscal and program accountability by requiring school districts to share in the maintenance costs of children placed in private residential special education programs.
- Restructure TAP awards to provide incentives for college graduation.
- Establish a New York Institute for Cultural Education (NYICE) to assume responsibility for the State Museum, the State Library, and the State Archives and provide for the transfer of these programs from the State Education Department.
- Increase the fee for recording real property transfers to support State and local programs to improve real property tax administration.

- Repeal the State Commission on the Quality of Foster Care that duplicates existing Office of Children and Family Services oversight responsibility.
- Extend the authorization for the State to recover from the industry the cost of appraising oil and natural gas wells for local property taxation purposes.
- Merge the Office of the Welfare Inspector General (OWIG) with the Audit and Quality Control (A&QC) Unit of the Office of Temporary and Disability Assistance (OTDA).
- Limit the pass-through of Federal Social Security Income cost-of-living adjustment benefit increases scheduled to occur on January 1, 2004.
- Provide increased flexibility for the Trustees of SUNY and CUNY in establishing tuition rates.
- Enhance utilization of State and local juvenile detention resources by encouraging reductions in the length of stay for youth in non-secure detention facilities.
- Restructure the appointment process and membership of the State Board of Regents; and eliminate certain functions of the superintendents of Boards of Cooperative Educational Services.
- Authorize the SUNY Trustees to transfer the operations of the SUNY teaching hospitals to private not-for-profit corporations.
- Merge portions of the Vocational and Educational Services for Individuals with Disabilities (VESID) Program and portions of the Commission for the Blind and Visually Handicapped (CBVH) and the Equipment Loan Fund for the Disabled of the Office of Children and Family Services into the Department of Labor.
- Merge the Council on Children and Families into the Office of Children and Family Services to improve coordination of services.
- Enhance medical services to foster children placed with voluntary agencies by increasing access to managed care programs.
- Transfer the functions of the Office of the Professions from the State Education Department to the Department of State.
- Enact the existing regulatory schedule of public assistance shelter allowances.
- Implement school aid reforms.
- Protect school taxpayers' STAR savings by placing limitations on school budget increases.
- Cap STAR benefits for non-senior homeowners at current levels.

Health and Mental Hygiene

- Discontinue the Youth Opportunity Program.
- Extend Federal Disproportionate Share (DSH) payments to replace certain Mental Hygiene State aid funds to Article 28 hospitals.
- Authorize Health Information and Quality Improvement Act activities to be funded by the Professional Medical Conduct Account.
- Increase fees for retrieval of various vital records that are administered by the Department of Health.
- Abolish several low-priority programs administered by the Health Department.
- Close the Institute for Basic Research and consolidate the Nathan Kline Institute into the New York Psychiatric Institute.
- Reduce pharmacy reimbursement for the EPIC prescription program, increase drug manufacturers' rebates and increase participants' fees and deductibles.
- Establish a Forge-Proof Prescription Program.
- Reform the Early Intervention Program.
- Revamp the General Public Health Works Program.
- Close five psychiatric centers and reauthorize the Reinvestment Act to redirect State savings into the community-based mental health system.
- Consolidate various State Office for the Aging programs into a new Community Services Program.
- Restructure the Medicaid program, contain Medicaid costs, and make Medicaid Managed Care permanent.
- Reauthorize HCRA and Child Health Plus through June 30, 2005.

Transportation, Economic Development and Environmental Conservation

- Authorize assessments on utilities to be used for New York State Energy Research and Development Authority research costs.
- Authorize certain State agencies to finance their activities with revenues from assessments on public utilities and cable companies.
- Extend and conform the State motor vehicle drug penalty standards to Federal requirements.
- Authorize funding for the Cornell Supercomputer.

- Make permanent the general loan powers of the New York State Urban Development Corporation.
- Increase various Motor Vehicle fees and authorize that these fees and a percentage of the transportation and transmission tax be deposited in the Dedicated Highway and Bridge Trust Fund.
- Provide the annual authorization for CHIPs and Marchiselli local transportation programs.
- Revise and expand the heavyweight truck permit system administered by the Department of Transportation.
- Increase State Pollution Discharge Elimination fees.
- Increase the boating registration fee.
- Reauthorize bonding authority for economic development projects in downtown Buffalo or its environs.
- Refinance and reform the State Superfund program.
- Increase cap on aggregate cost recovery fees assessed on public authorities.
- Increase oil and gas depth fees.
- Authorize additional purposes for the Environmental Protection Fund.
- Increase fees for underground and surface mining.
- Authorize New York State Energy Research and Development Authority to make payments to the General Fund from various sources.
- Increase and establish new fees for programs administered by the Department of Agriculture and Markets.
- Authorize the Public Service Commission to direct certain revenues from currency-operated telephone assessments and underground facility training fees to the General Fund, and change payment option for utility assessment from four times per year to two.
- Extend heavy-duty vehicle emission inspection program.
- Establish the Waste Tire Management Recycling Act.
- Provide for a technical clarification to ensure that the State vehicular blood alcohol standards meet Federal requirements.
- Direct the Division of Housing and Community Renewal to terminate existing contracts and re-establish new funding and program standards for the Neighborhood and Rural Preservation programs.
- Re-authorize the New York Power Authority to make voluntary contributions to the General Fund to fully support the Power for Jobs program in calendar year 2003.

- Grant authorization necessary for Battery Park City Authority to provide financial benefit to New York City.
- Assess industry fee to support the regulation of horse racing in New York State, and make various statutory changes to enhance the horse racing industry.
- Merge the Greenway Communities Council and Greenway Heritage Conservancy into a new Hudson River Valley Greenway Commission.

Revenue

- Extend permanently the bank franchise tax and extend for one year transition provisions related to Federal law.
- Simplify the insurance franchise tax by eliminating the income component and imposing a two percent tax on premiums.
- Replace the current $110 sales tax exemption on clothing and footwear with four one-week exemptions at $500.
- Establish a fourth certified capital company program to encourage investments in businesses affiliated with State-supported research centers.
- Provide for local accountability by sharing the cost of the real property tax credit for Empire Zones.
- Allow for a Historic Homes rehabilitation tax credit.
- Increase Limited Liability Company fees.
- Institute withholding tax for non-resident partnerships.
- Decouple from special Federal expensing option for certain vehicles over 6,000 pounds.
- Change the VLT program by increasing the hours of operations; altering the distribution of receipts; and eliminating the current sunset provision.

Summary of Changes

Office of Alcoholism and Substance Abuse Services

($000s)

	All Funds 2003-04
Prior Year Estimated Spending	**$474,877**
Annualization of 2002-03 Cost of Living Adjustment (COLA)	6,674
Additional cost of continuing current programs	10,931
Central Office restructuring	(1,737)
Various State Operations and Local Assistance administrative efficiencies	(14,145)
Chemical Dependence transition funding	5,700
Recommendation	**$482,300**
Change From 2002-03	**$7,423**

Office of Children and Family Services

($000s)

	General Fund 2003-04
Prior Year Estimated Spending	**$1,196,450**
Adoption claims growth	22,830
Detention reimbursement growth	17,865
Child Welfare claims growth	43,000
Annualize Foster Care COLA	6,000
Committee on Special Education placement growth	5,400
Other Local Assistance spending changes	(2,724)
Restructure Youth Facility Program	(8,218)
Maximize Federal funding for CONNECTIONS	(15,000)
Use of Federal Revenue to reduce General Fund spending	(9,800)
Merge CBVH with the Department of Labor	(3,729)
Other State Operations spending changes	1,634
Recommendation	**$1,253,708**
Change from 2002-03	**$57,258**

Department of Correctional Services

($000s)

	General Fund 2003-04
Prior Year Estimated Spending	**$1,781,882**
Cost of continuing current programs	30,732
Operating savings reflecting the decreased demand for prison capacity	(27,000)
Reduction of staffing related to underutilized medical capacity	(1,985)
Reduction in administrative staff	(2,329)
Recommendation	**$1,781,300**
Change From 2002-03	**($582)**

Economic Development

($000s)

	General Fund 2003-04
Prior Year Estimated Spending	**$165,348**
Continued support for High Technology programs	22,500
Annualization of savings and projected spending increases	283
Reductions and eliminations in personnel, operating, and program funding levels	(7,712)
Shift program support to Public Authority resources	(75,358)
Non-recurring spending	(19,244)
Recommendation	**$85,817**
Change From 2002-03	**($79,531)**

State Education Department

($000s)

SCHOOL AID / STAR	Total 2003-04 School Year Funding
Prior Year School Aid Funding	**$14,642,180**
Increase for prior year claims/fiscal stabilization grants	33,000
Special academic improvement grant for Roosevelt	2,000
Increases in instructional materials aids	1,260
Elimination or reduction in discretionary school aid programs	(447,820)
Reduction in consolidated operating aid	(406,750)
Expense-based decline in enacted building aid	(144,070)
Reduction in BOCES aid	(109,490)
Categorical program reductions	(72,810)
Private Excess Cost aid reforms	(70,680)
Decrease in Growth Aid related to decline in enrollment growth	(14,860)
Formula-driven decreases in various aid programs	(7,210)
Transportation aid reduction	(6,150)
School Aid Subtotal	**$13,398,600**
Prior Year School Tax Relief (STAR) Funding	**$2,700,000**
STAR increase due to greater participation	80,000
STAR Subtotal	**$2,780,000**
Prior Year Total for School Aid and STAR	**$17,342,180**
Recommendations for School Aid and STAR	**$16,178,600**
Change from 2002-03	**($1,163,580)**

State Education Department

(continued)
($000s)

	General Fund 2003-04
Prior Year Estimated Spending	**$1,667,587**
Increased funding for statutorily-driven programs including aid for non-public schools	4,550
Elimination of various categorical programs	(139,465)
Reductions and reestimates of funding for selected programs	(106,649)
Use of Federal funding for certain special education costs and other minor cash adjustments	(24,464)
Annualization of cash savings from programs eliminated in the 2002-03 school year and other miscellaneous changes	(16,562)
Reduction for state operations management efficiencies	(8,700)
Transfer of VESID state operations to the Department of Labor	(393)
Miscellaneous adjustments reflecting state operations spending reestimates and fixed cost increases	3,660
Recommendation	**$1,379,564**
Change From 2002-03	**($288,023)**

Department of Environmental Conservation

($000s)

	General Fund 2003-04
Prior Year Estimated Spending	**$106,701**
Net adjustment to reflect cost of continuing current programs, including salary increases	10,514
Shift of positions and non-personal service costs to other funds	(5,893)
Reduced funding for non-recurring local assistance programs	(373)
Shift of funding for water commissions to other funds	(1,057)
Elimination of positions through attrition	(9,190)
Recommendation	**$100,702**
Change From 2002-03	**($5,999)**

Capital Funds	All Funds 2003-04
Prior Year Estimated Spending	**$536,925**
Increased spending for Superfund refinancing	105,000
Increased spending for 1996 Clean Water/Clean Air Bond Act	22,208
Increased spending for Environmental Protection Fund	2,000
Adjustments for other bond fund spending and decreased spending for Capital Projects consistent with planned commitments	(11,121)
Other net adjustments	(1,311)
Recommendation	**$653,701**
Change From 2002-03	**$116,776**

Department of Health

($000s)

	General Fund 2003-04
Prior Year Estimated Spending	**$694,485**
Increase funding for Early Intervention	46,449
Procurement of Medicaid Management Information System and Welfare Reform implementation	22,200
Fixed cost increases offset by position reductions and management efficiencies	110
Finance Immunization, Newborn Genetic Screening and selected Community Health programs from Insurance Industry assessments	(32,000)
Restructure General Public Health Works Program	(17,338)
Eliminate funding for 2002-03 Legislative adds	(7,761)
Authorize funding Health Information and Quality Improvement Act activities from the Professional Medical Conduct Account	(3,500)
Eliminate funding for non-recurring newborn hearing screening costs	(3,000)
Consolidate funding for separate education programs into a single program	(1,759)
Reduce funding for the Health and Social Services Sexuality Related Program	(1,500)
Increase Vital Records fees	(1,300)
Eliminate funds for specific health programs that do not serve citizens statewide	(1,235)
Repeal 2000-01 and 2001-02 statutory mandates for non-essential programs	(1,000)
Recommendation	**$692,851**
Change From 2002-03	**($1,634)**

Higher Education Services Corporation

($000s)

	General Fund 2003-04
Prior Year Estimated Spending	**$765,148**
Continued phase-in of TAP Enhancements	17,800
TAP growth reflecting increasing participation	18,800
TAP growth reflecting higher award levels	81,600
TAP restructuring including TAP loan program	(267,800)
Suspension of selected scholarships for new students	(4,850)
Recommendation	**$610,698**
Change From 2002-03	**($154,450)**

Medicaid
($000s)

	Total Spending 2003-04
Prior Year Estimated Spending	**$38,472,400**
Growth in entitlement spending (including an additional weekly Medicaid payment in 2003-04)	3,270,800
Measures to ensure cost effective use of pharmaceuticals	(224,500)
Hospital and clinic savings actions, including temporarily re-instating a 0.7 percent assessment on hospitals, restructuring the Graduate Medical Education program, requiring providers to offset inflationary increases and other rate adjustments	(595,800)
Nursing home savings measures, including implementing a new regional average reimbursement methodology, eliminating a rate enhancement for serving Medicare patients, eliminating the return-on-equity adjustment to proprietary facilities and requiring providers to offset inflationary increases	(388,200)
Home care savings, including temporarily re-instating a 0.6 percent assessment, implementing utilization review measures and requiring providers to offset inflationary increases	(71,900)
Exercise the Federal option to limit Medicaid reimbursement for services provided to recipients also eligible for Medicare to the State's Medicaid fee schedule	(152,300)
Transfer children ages 6 to 19 with household incomes between 100 and 133 percent of the Federal Poverty Level (FPL) from Medicaid to Child Health Plus	(120,000)
Rollback Family Health Plus eligibility levels from 150 percent of FPL to 133 percent of FPL	(80,000)
Other efficiency initiatives, including maximization of Federal and other revenues, eliminating the final Dental Settlement fee increase, capping Overburden/Mentally Disabled payments to local governments, implementing utilization review measures and eliminating managed care provider grants	(290,000)
Recommendation	**$39,820,500**
Change From 2002-03	**$1,348,100**

Office of Mental Health

($000s)

	General and Offset Funds 2003-04*
Prior Year Estimated Spending	**$1,876,241**
Annualization of the 2002-03 cost-of-living adjustment (COLA) and outpatient fee increase for community programs	20,271
General salary increases and other program annualizations	20,999
Savings associated with the consolidation of the Nathan S. Kline Institute for Psychiatric Research with the New York State Psychiatric Institute	(7,825)
Closure of three adult psychiatric centers	(9,997)
Closure of unneeded adult inpatient beds	(4,550)
Position management savings and efficiencies including audit recoveries and revenue maximization for local programs	(47,919)
Other local savings and program efficiencies including the elimination of Alternative Rate Methodology reimbursement for hospitals	(3,800)
Recommendation	**$1,843,420**
Change From 2002-03	**($32,821)**

* Includes Health Care Reform Act (HCRA) funds

Office of Mental Retardation and Developmental Disabilities

($000s)

	All Funds 2003-04
Prior Year Estimated Spending	**$2,473,862**
Funding commitment for Governor's NYS-CARES program	40,352
Annualization of the 2002-03 cost-of-living adjustment (COLA)	6,129
Additional cost of continuing current not-for-profit programs	108,524
Additional cost of continuing current State-operated programs	29,182
Various State Operations and Local Assistance administrative efficiencies	(28,442)
New State-operated Special Population Beds	3,490
Close Institute for Basic Research	(12,250)
Eliminate Youth Opportunity Program (YOP)	(1,300)
Cap Overburden at 2002-03 funding levels	(19,500)
Recommendation	**$2,600,047**
Change From 2002-03	**$126,185**

Office of Parks, Recreation and Historic Preservation

($000s)

	General Fund 2003-04
Prior Year Estimated Spending	**$115,729**
Net adjustment to reflect cost of continuing programs, including salary and other fixed-cost increases	3,635
Savings associated with a retirement incentive and other personal service savings including attrition and shifts to other funds	(8,870)
Non-Personal Service efficiencies including the shift of General Fund costs to other funds	(9,275)
General Fund Local Assistance savings, including shifting program costs to other funds	(5,202)
Recommendation	**$96,017**
Change From 2002-03	**($19,712)**

Capital Funds	**All Funds 2003-04**
Prior Year Estimated Spending	**$28,359**
Net adjustments, including increased spending from the State Park Infrastructure Fund, and increased bondable spending offset by decreases in Miscellaneous Capital Projects Fund, Fiduciary Funds, Capital Projects Fund and Federal Funds	(6,191)
Recommendation	**$22,168**
Change From 2002-03	**($6,191)**

State University of New York/ City University of New York

($000s)

	General Fund 2003-04
Prior Year Estimated Spending	**$2,479,060**
Annualization of savings and projected spending increases	89,548
Community college enrollment adjustment	10,250
Additional revenue authorization	(265,292)
Non-recurring contractual salary costs	(70,000)
Community college base aid reduction	(58,245)
Reduction in fringe benefit waivers/pension costs	(28,600)
Elimination of financial aid component of opportunity programs	(15,885)
Reduction in certain local assistance programs	(13,365)
Recommendation	**$2,127,471**
Change From 2002-03	**($351,589)**

Office of Temporary and Disability Assistance
($000s)

	General Fund 2003-04
Prior Year Estimated Spending	**$957,800**
Use of one-time credits in 2002-03	$568,400
Increased Federal funding for Earned Income Tax (EITC) and Child and Dependent Care (CDCC) credits	($93,100)
Reimbursement for local administration	($56,000)
Welfare caseload changes	$48,900
Use of Federal Supplemental Security Income (SSI) funds attributable to the January 2004 COLA to offset State costs	($26,200)
Reduction in State reimbursement of local welfare administration costs to reflect reduced need for administrative overhead	($15,000)
Increased funding for homeless program initiatives	$3,700
State Operations efficiency savings and increased revenue offset	($2,900)
Staff transfers from OCFS and OWIG	$2,500
Increased funding for nutrition outreach	$1,000
Recommendation	**$1,389,100**
Change From 2002-03	**$431,300**

Transportation

($000s)

	All Funds 2003-04
Prior Year Appropriation	**$5,670,270**
Technical change eliminating duplicate engineering services appropriations	(399,221)
Net reduction to highway program and support	(115,630)
Increases in fringe and indirect charges	23,896
Industrial Access Program reduction	(6,000)
Elimination of non-recurring projects	(10,621)
Recommendation	**$5,162,694**
Change From 2002-03	**($507,576)**