

Review of the
2004-05
Legislative Budget
Agreement

New York State Division of the Budget

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INTRODUCTION

The Division of the Budget (DOB) has prepared this Review of the 2004-05 Legislative Budget Agreement based upon the appropriation and Article VII bills enacted by the Legislature through August 11. DOB plans to issue the Enacted Budget Report for 2004-05, which will contain the State's official 2004-05 Financial Plan, when a final review of the budget is completed. In the interim, it is hoped that this Review will contribute to open, informed debate on the merits and implications of the legislative agreement.

This Review describes and analyzes the following:

- Overview of the 2004-05 legislative budget agreement;
- Annual spending growth for the General Fund, State Funds, and All Funds;
- Risks and unresolved issues;
- Overview of legislative additions to the Executive Budget;
- Costs that have surfaced since the release of the Executive Budget that need to be financed in the current Financial Plan;
- Available resources to finance the budget;
- A detailed review of legislative additions, by major program area;
- Significant budget-related issues, including the State's response to the Campaign for Fiscal Equity (CFE) litigation, the status of health care conversions to support Health Care Reform Act (HCRA) programs, and the impact of the budget on localities; and
- Long-term fiscal implications.

The financial information in this Review is presented on a cash basis of accounting.

The information in this Review should be considered preliminary and subject to potential revisions as the DOB has more time to complete a detailed analysis and review of the bills enacted by the Legislature. This Review does not constitute the State's official 2004-05 Financial Plan as prepared by DOB.

OVERVIEW

Summary of General Fund Budget Gaps				
Dollars in millions				
	----- DOB Values -----			Three-Year Total
	2004-05	2005-06	2006-07	
2003-04 Enacted Outyear Gaps	(5,071)	(6,727)	(7,805)	(19,603)
Proposed Executive Budget Savings	5,071	3,875	3,451	12,397
2004-05 Executive Budget Gaps	0	(2,852)	(4,354)	(7,206)
Net Legislative Additions	(1,527)	(2,619)	(2,788)	(6,934)
New Costs	(280)	(650)	(823)	(1,753)
Available Resources	1,138	(232)	9	915
2004-05 Legislative Gaps	(669)	(6,353)	(7,956)	(14,978)
<i>Increase Above Executive Budget</i>	<i>669</i>	<i>3,501</i>	<i>3,602</i>	<i>7,772</i>

In the General Fund, the legislative budget agreement:

- Adds \$1.9 billion in gross costs in 2004-05, growing to \$2.6 billion in 2005-06. To reduce the net cost of the 2004-05 additions to \$1.5 billion, the Legislature is counting various available resources (“avails”) as offsets to spending (as described later in this Review).
- Identifies new resources that DOB values at \$1.1 billion in 2004-05, most of which are non-recurring.
- Does not address school finance reform in response to the CFE litigation or enact the financing necessary to support it. A discussion of the CFE case appears in “Other Significant Issues” later in this Review.
- Rejects nearly all higher education, Medicaid, and welfare cost containment and reform initiatives advanced in the Executive Budget.
- Does not appear to address \$280 million in new costs arising after the start of the new fiscal year, primarily from labor agreements reached with State unions.

Accordingly, DOB estimates that the legislative budget agreement:

- Creates a potential budget shortfall of \$669 million in the current year.
- Results in significant outyear budget gaps of \$6 billion in 2005-06 and \$8 billion in 2006-07.

SPENDING GROWTH

DOB projects that General Fund spending under the legislative budget agreement will total \$43.4 billion in 2004-05, an increase of 3.1 percent over 2003-04 actual results. All Funds spending is projected to reach \$101.6 billion in 2004-05, an increase of 4.4 percent over the prior year. When adjusted for March 2003 payment deferrals that were paid in 2003-04, spending is projected to grow by roughly 8 percent in the General Fund and 6.5 percent in All Funds.

The following table summarizes spending growth under the legislative budget agreement.

Preliminary Estimate of Spending Change -- Subject to Revision			
Dollars in millions			
	General Fund	State Funds	All Funds
2004-05 Executive Spending	41,896	63,503	99,811
New Costs/Reestimates	50	(352)	(109)
Net Legislative Adds	1,417	1,535	1,916
2004-05 Legis. Budget Agreement Spending	43,363	64,686	101,618
<i>Dollar Change from Executive Budget</i>	<i>1,467</i>	<i>1,183</i>	<i>1,807</i>
<i>Annual Change from 2003-04</i>			
<i>Dollar Change</i>	1,298	3,354	4,291
<i>Percent Change</i>	3.1%	5.5%	4.4%
Annual Change Adjusted for \$1.9 billion in Payment Deferrals Paid in 2003-04			
<i>Dollar Change</i>	3,198	5,254	6,191
<i>Percent Change</i>	8.0%	8.8%	6.5%

NOTE: Annual growth is affected by the deferral of \$1.9 billion in payments from 2002-03 to 2003-04. The deferral artificially inflates the 2003-04 spending base and thus understates the annual change to 2004-05. Accordingly, DOB is reporting the annual spending change on both an adjusted (excluding the impact of payment deferrals) and unadjusted basis. As reported in the 2003-04 Year-End Report released by DOB in April, 2004, actual 2003-04 spending was \$42.065 billion in the General Fund, \$61.332 billion in State Funds and \$97.327 billion in All Governmental Funds.

RISKS AND UNRESOLVED ISSUES

It should be noted that the current and multi-year Financial Plans that would implement the legislative budget agreement includes risks from both economic and legal factors:

- The projected level of revenues could be adversely affected if recent performance in the financial markets and/or underperformance of national employment growth persists or worsens.
- There is potential risk to the current and future year collections from Video Lottery Terminals (VLTs) as a result of the slower pace of facility development, initial performance

levels, and the failure to address the recent decision by the Appellate Division regarding the constitutionality of certain aspects of the enabling statute.

- The litigation concerning the conversion of Empire Blue Cross and Blue Shield to a for-profit corporation, WellChoice, remains pending. The funds from this conversion are currently being held in escrow. Legislation was introduced with the budget that could have facilitated more conversions. Without this legislation, certain assumed HCRA proceeds may not become available and could trigger HCRA's General Fund guarantee.
- In the outyears, the resources required to comply with court-ordered spending to finance a sound basic education may exceed planned VLT reserves.

LEGISLATIVE ADDITIONS TO THE EXECUTIVE BUDGET

The following table summarizes DOB's estimate of the legislative additions to the Executive Budget.

SUMMARY OF TOTAL ADDITIONS			
Dollars in millions			
	DOB Values		
	2004-05	2005-06	2006-07
Gross Additions			
Education/STAR	(575)	(725)	(688)
Higher Education	(373)	(448)	(467)
Medicaid/Health	(507)	(954)	(1,299)
Mental Hygiene	(10)	(10)	(10)
Criminal Justice	(76)	(98)	(98)
Human Services	(107)	(134)	(136)
Housing/Transportation/Environment	(115)	(86)	(108)
General Government/Economic Development	(27)	(27)	(17)
Member Items	(100)	(100)	0
Tax/Revenue Restorations	(60)	(99)	(40)
TOTAL OF GROSS ADDITIONS	(1,950)	(2,681)	(2,863)
"AVAILS" IDENTIFIED TO OFFSET ADDITIONS			
Use 2004-05 VLTs to Finance School Aid Add	240	0	0
Continue TAP at 70/30 Funding	60	0	0
Higher Education Capital Projects to Bond Financing	95	(2)	(4)
Medicare Discount Cards	18	19	0
Resources Made Available by TAP Rejection	10	45	79
TOTAL "AVAILS" TO OFFSET ADDITIONS	423	62	75
NET ADDITIONS	(1,527)	(2,619)	(2,788)

- Gross additions to the 2004-05 Executive Budget total \$1.9 billion, and grow to \$2.6 billion in 2005-06. Details on the adds by major program appear later in this Review.

- As noted earlier, to reduce the net cost of the additions to \$1.5 billion, the Legislature is counting various available resources (“avails”) as offsets to spending. The main offsets include revenues from VLTs, the funding of the Tuition Assistance Program (TAP) at 70 percent in the current year, and bonding of expenses that would otherwise be financed on a pay-as-you-go basis.

NEW COSTS SINCE THE EXECUTIVE BUDGET

Aside from the legislative additions described above, the 2004-05 Financial Plan has incurred several new costs since it was proposed by the Governor in January 2004.

New Costs Since Executive Budget			
Dollars in millions			
	----- DOB Values -----		
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Summary of New Costs			
Labor Settlements (Statewide Pattern)	(274)	(473)	(621)
Pension Legislation	15	(177)	(202)
LGAC/STARC Payment to New York City	(170)	0	0
City Offset Adjustment (LGAC/STARC)	170	0	0
SUNY Capital Costs	(21)	0	0
Total	(280)	(650)	(823)

- Since the start of the fiscal year, the State reached labor settlements with many of the major employee unions, including the Civil Service Employees Association, the United University Professions, and the Professional Employee Federation, as well as the State’s Management-Confidential employees. DOB projects that if, as expected, the State settles the remaining contracts following the pattern set by these unions, it would result in \$274 million in higher costs in 2004-05 growing to \$473 million in 2005-06 and \$621 million in 2006-07. The Legislature has already enacted the laws ratifying these agreements and authorizing the payments, yet did not appear to include these costs in its spending estimates.
- The pension legislation recently approved by the Legislature provides current year savings of \$15 million against the Executive proposal, but is projected to cost \$177 million in 2005-06 growing to \$202 million in 2006-07. The legislation authorizes State and local governments to amortize 2004-05 pension costs above 7 percent of salary expenditures over a period of 10 years at a market rate to be established by the Comptroller. The first annual payment is due in 2005-06. In addition, the legislation extends the amortization option to local governments for costs above 9.5 percent in 2005-06 and 10.5 percent in 2006-07.
- The Legislature rejected the Executive Budget proposal to provide fiscal relief to New York City in a less costly way than having STARC issue bonds to stretch out existing New York City debt from the 1970’s to 2034 at a cost of \$5.1 billion. The Legislature provided an appropriation to make a payment to the City of \$170 million in 2004-05 (that would result,

subject to annual appropriations, in \$5.3 billion of payments to the City rather than the previous legislative agreement of \$5.1 billion). However, the Legislature expects that the City will provide \$170 million of resources to the State in 2004-05 to ensure that the State's Financial Plan does not incur unplanned costs of \$170 million. Nonetheless, the legislative appropriation could clear the way for the issuance of costly new bonds in an amount significantly in excess of the actual New York City debt outstanding.

AVAILABLE RESOURCES

To finance the combined total of legislative adds and new costs above the Executive Budget projections, the Legislature identified new resources valued at \$1.1 billion by DOB in 2004-05, with declining values in the outyears as summarized below.

Summary of Available Resources			
Dollars in millions			
	DOB Values		
	2004-05	2005-06	2006-07
Recurring Resources	333	386	423
Revenue Consensus Forecast	325	350	375
Internet Affiliate/Procurement	0	13	25
Seven Day Sales at Liquor Stores	1	2	2
Native American Regulations	(13)	0	0
Abandoned Property Resources	20	21	21
Non-Recurring Resources	805	(618)	(414)
Empire Conversions	200	0	0
Housing SONYMA Balances	225	(225)	0
Alteration of Clothing Sales Tax Exemption	83	(429)	(451)
2003-04 Surplus Above Exec. Projection	47	0	0
Fund Balances	25	0	0
Spending Reestimates/Cuts/All Other	225	36	37
TOTAL NEW RESOURCES	1,138	(232)	9

Revenue Consensus

- The DOB forecast is based on the mid-point of the consensus revenue forecast agreed to with the Legislature in March (\$150 million to \$500 million). DOB believes that current economic conditions and actual collections experience support this estimate. While there is a possibility of a marginal upside to the forecast, the recent slowdown in employment growth and consumer spending and large increases in energy prices, combined with recent declines in equity market valuations, represent significant risks to the current year forecast.

Native American Regulations

- The Department of Taxation and Finance estimated collecting \$60 million in additional All Funds receipts if the Executive Budget proposal for parity agreements was enacted. That legislation was replaced by the Legislature with an action that implements proposed Tax Department regulations by January 1, 2005. This action will have only a minor revenue impact in the current fiscal year, and as a result, leads to a net loss of \$13 million in the General Fund.

Clothing Sales Tax

- The Legislature did not enact the Executive proposal to substitute four “sales-tax-free” weeks (for items less than \$500) for the permanent clothing exemption for items under \$110. The outyear cost of the Legislature’s action will exceed \$400 million annually.

Available resources over which there is no significant difference in valuation, but which present potential fiscal and/or policy concerns, include:

- Accelerating into 2004-05 the use of a one-time fund balance of \$225 million from the State of New York Mortgage Agency (SONYMA) originally planned to keep the 2005-06 budget gap under \$3 billion.
- Potential vulnerabilities to the original \$240 million VLT estimate and the \$200 million from Empire conversions, as described earlier.

DETAILED SUMMARY OF LEGISLATIVE ADDITIONS BY FUNCTION

Education

The Legislature:

- Authorized an increase in total School Aid of \$751 million on a school year basis, including a computerized aid increase of \$740 million. New York City’s share is projected at 38.86 percent of the computerized aid increase. The School Aid increase includes \$120 million (school year basis) for an operating aid increase of 1.75 percent for all school districts and an Extraordinary Needs Aid increase of \$265 million (school year basis) targeted towards the Big Five Cities and other high-need school districts.
- Rejected proposed reforms for Building Aid and Flex Aid, and restored most proposed reductions, including: BOCES; Teacher Support Aid (TSA); other teacher-related programs; Library Aid; and Public Broadcasting.
- Included over \$18 million for the Senate and over \$15 million for the Assembly to use for member-directed education-related programs.

- Rejected the inflationary adjustment to the School Tax Relief (STAR) benefit for the residents of school districts that comply with the proposed cap on spending growth (i.e., the lesser of: 4 percent annual increase or 120 percent of the annual Consumer Price Index).
- Provided Lottery advances of \$20 million for Syracuse and \$2 million for Utica.

Higher Education

The following table summarizes the Legislature’s General Fund additions for Higher Education.

	----- DOB Values -----		
	2004-05	2005-06	2006-07
Higher Education	(208)	(405)	(392)
Reject TAP Restructuring Savings	(272)	(302)	(302)
SUNY Operating Aid Add	(35)	(50)	(50)
CUNY Operating Aid Add	(25)	(33)	(33)
SUNY/CUNY Community College Adds	(28)	(37)	(37)
All Other Revisions	(13)	(26)	(45)
Gross Adds	(373)	(448)	(467)
Resources Made Available by TAP Rejection	10	45	79
Adjust Current TAP Roll	60	0	0
Bond Projects Financed on PAYGO Basis	95	(2)	(4)

The Legislature’s major additions include:

- \$272 million to restore the TAP program, offset by \$60 million in costs rolled to 2005-06 consistent with funding of adds at 70 percent in the current fiscal year.
- \$35 million for the State University of New York (SUNY) operating aid; \$25 million for the City University of New York (CUNY) operating aid, and \$28 million for SUNY and CUNY community colleges.

The additions grow to \$405 million in 2005-06.

- Restoration of the TAP program added \$302 million in 2005-06.
- Operating support for SUNY and CUNY increased by \$83 million in 2005-06 when one-time savings from bonding projects originally planned to be financed on a pay-as-you-go basis are no longer available.
- Recurring aid increases for SUNY and CUNY community colleges added \$37 million.

Medicaid/Public Health

The following table summarizes the Legislature's General Fund additions for Medicaid and public health.

	----- DOB Values -----		
	2004-05	2005-06	2006-07
Medicaid/Health	(489)	(935)	(1,299)
Rejects Hospital /Home Care Assesment	(198)	(217)	(217)
Rejects Preferred Drug Program	(37)	(119)	(119)
Partially Rejects Nursing Home Assessment	(36)	(43)	(258)
Partially Rejects Pharmacy Cost Containment	(37)	(52)	(52)
Partially Rejects FHP Cost Containment	(28)	(13)	(13)
Rejects Closing Long-Term Care Loopholes	(25)	(82)	(82)
State Takeover of FHP Costs	(25)	(158)	(226)
Restores Adult Dental Coverage	(20)	(22)	(22)
Partially Rejects HCRA Cost Containment	(22)	(32)	(52)
Public Health Additions	(12)	(70)	(93)
All Other Medicaid	(67)	(146)	(165)
Gross Adds	(507)	(954)	(1,299)
Medicare Discount Card	18	19	0

Specifically, the Legislature:

- Rejected most of the Executive Budget cost containment proposals, including the Preferred Drug Program and a number of initiatives to reform the Family Health Plus (FHP), Early Intervention, and Long Term Care programs. Notably, this inaction on the Executive Budget proposals is expected to have an adverse impact on both State and local government budgets.
- Continued the nursing home assessment at 5 percent in 2004-05 (the Executive Budget proposed 6 percent) and 2005-06, with complete elimination in 2006-07.
- Rejected the 0.7 percent assessment on hospitals and home care providers.
- Phased in the State pickup of local FHP costs at 50 percent in January 2005 and 100 percent in January 2006 (the Executive Budget proposed the takeover of Long Term Care costs).
- Reduced the Executive's \$10 million quality of care initiative for Adult Homes by \$3 million, which will be used to support the phase-in of a multi-year Supplemental Security Income (SSI) increase that will primarily benefit operators.

Mental Hygiene

The following table summarizes the Legislature's General Fund additions for Mental Hygiene.

	----- DOB Values -----		
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Mental Hygiene	(10)	(10)	(10)
Restore OMH/OASAS Local Service Cuts	(7)	(7)	(7)
Senate Priority Program Adds	(2)	(2)	(2)
All Other	(1)	(1)	(1)

The Legislature used \$10 million to partially restore recommended local services cuts in the Office of Mental Health (OMH) and the Office of Alcoholism and Substance Abuse Services (OASAS) and to fund program adds in all three agencies. The outyear Financial Plan impact is also \$10 million. In addition, the Legislature rejected the Blue Ribbon Closure Commission initiative to deal with OMH facility downsizing and closures, as well as the closure of Middletown Psychiatric Center.

Criminal Justice

The following table summarizes the Legislature's General Fund additions for Criminal Justice.

	----- DOB Values -----		
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Criminal Justice	(76)	(98)	(98)
Denial of Handgun Fees	(31)	(11)	(11)
Denial of the Work Zone Speed Enforcement	(15)	(33)	(33)
Add Funding for McGregor, Pharasalia	(6)	(11)	(11)
Add Funding for Fulton Work Release Program	(6)	(6)	(6)
Increase Correction Officer (CO) Staffing Ratio	(7)	(27)	(27)
Restore Funding for Westchester Policing Program	(3)	(3)	(3)
All Other	(8)	(7)	(7)

The Legislature added \$76 million by denying proposed Executive fee increases, reversing the closure of correctional facilities, and increasing correction officer staffing ratios. Specifically, the Legislature:

- Denied \$46 million in proposed revenues: \$31 million for handgun fees and \$15 million for speed enforcement fines in transportation work zones.
- Added \$12 million to finance underutilized correctional facilities of Camp Pharasalia, Mt. McGregor and Fulton.

- Added \$7 million to increase correction officer staffing ratios to mitigate the transfers of officers.
- Restored the Executive's elimination of \$3 million for Westchester County policing of the Parkways.

Human Services

The following table summarizes the Legislature's General Fund additions for Human Services.

	----- DOB Values -----		
	2004-05	2005-06	2006-07
Human Services	(107)	(134)	(136)
Reject Welfare Reform Proposals	(50)	(104)	(107)
Cost of TANF Overspending	(22)	0	0
Increase Foster Care Payments to NYC	(10)	(10)	(10)
Reject Detention Block Grant	(7)	(11)	(11)
All Other	(18)	(9)	(8)

The Legislature rejected all of the Executive's welfare reform proposals that would have saved \$50 million by reducing welfare grant levels, stepping down the level of the Earned Income Disregard and imposing full family sanctions. The Legislature is attempting to fund the restoration of the welfare reform savings and free-up Temporary Assistance for Needy Families (TANF) for additional program spending by re-estimating the Executive's welfare caseload projections. These savings are not achievable and recent actual data support the original Executive caseload projections. Specific issues are detailed below:

- The Legislature added \$58 million in TANF spending for legislative initiatives while reducing TANF funding for programs advanced by the Executive by \$37 million, including the local employment/transitional block grant and systems. In addition, legislative actions resulted in the loss of \$1 million in prior year sweep savings, for a net TANF increase of \$22 million.
- It also added \$10 million in General Fund spending to support the State's share of the total funding increase necessary to bring New York City foster care payments up to the full maximum State aid rate.
- The Legislature rejected the Detention Block Grant proposal resulting in \$7 million in additional costs in 2004-05 and \$11 million in the outyears.

In addition, systems development funding for the Office of Temporary Disability Assistance's Welfare Management System (WMS) and the Office of Children and Family Services' CONNECTIONS program was cut by a total of \$6 million. This will further delay the CONNECTIONS development effort and impede redesign of the existing outdated WMS.

Housing/Transportation/Environmental Conservation

The following table summarizes the Legislature's General Fund additions for Housing, Transportation, and Environmental Conservation.

	----- DOB Values -----		
	2004-05	2005-06	2006-07
Housing/Transportation/Environment	(115)	(86)	(108)
Housing Capital Add	(57)	0	0
Decrease DWI/DWAI Annual Surcharge	(9)	(32)	(54)
Shift EPF Expenses in the General Fund	(15)	(25)	(25)
Reject \$15 Surcharge for Parking Tickets	(8)	(8)	(8)
Restore 5 percent Cuts in Agriculture Programs	(7)	(7)	(7)
Reject ATV Fee Increase	(6)	(6)	(6)
Add for Neighborhood Preservation Program	(5)	(5)	(5)
Add for Rural Preservation Program	(2)	(2)	(2)
All Other	(7)	(2)	(2)

Major actions include:

- Added \$8 million in spending for housing in 2004-05, including \$5 million for the Neighborhood Preservation Program, \$2 million for the Rural Preservation Program and \$1 million for various other housing programs.
- In addition, the Legislature added \$57 million in pay-as-you-go capital spending from the \$225 million SONYMA excess balance transfer. The capital adds include \$20 million for the Affordable Housing Corporation, \$20 million for the Housing Trust Fund, \$7.5 million for Homes for Working Families, and \$9.5 million for various other housing programs.
- Sweeping an additional \$14 million from the Environmental Protection Fund to fund various initiatives with General Fund resources.
- Rejected establishment of a \$3 million local government Forest Property Tax Reimbursement Program, while adding a like amount of additional, specified local government assistance.

Member Items

The Legislature added a \$200 million lump sum for “member items.” It is expected that this addition will result in costs of \$100 million in 2004-05 and \$100 million in 2005-06.

Debt/Capital

In addition to converting prior hard dollar capital spending to bonding, the Legislature also added significant new debt to pay for newly-proposed capital commitments, including:

- \$723 million to increase the SUNY and CUNY capital programs.
- \$250 million for healthcare system improvement grants to hospitals and other healthcare facilities.
- \$135 million for additional multi-modal and Consolidated Highway Improvement Program (CHIPs) transportation capital.

These amounts will strain the bonding capacity available under the Debt Reform Act.

Recap of Additions That Affect Spending Growth, By Major Function

The Legislature’s combined additions to the Executive Budget affect both revenues and spending. The table below summarizes the additions that affect All Funds spending by major function. The category, “All Other Revisions/Reestimates” consists primarily of cuts enacted by the Legislature, reestimates to capital projects estimates based on actual results and the delay in budget adoption, and various technical revisions related to year-end transactions.

SUMMARY OF 2004-05 SPENDING REVISIONS			
EXECUTIVE BUDGET TO ENACTED BUDGET			
Dollars in millions			
	General Fund	State Funds	All Funds
2004-05 Executive Spending	41,896	63,503	99,811
Medicaid/Health	489	322	702
Education/STAR	315	586	586
Higher Education	302	315	315
Housing/Transportation/Environment	94	131	131
Human Services	107	107	107
Criminal Justice	30	37	37
Collective Bargaining	274	359	417
All Other Revisions/Reestimates	(144)	(674)	(488)
2004-05 Legislative Agreement Changes	1,467	1,183	1,807
2004-05 Enacted Spending	43,363	64,686	101,618

Legislative Revenue Actions

Legislative revenue actions combined with the rejection of Executive Budget revenue proposals will reduce receipts by roughly \$60 million in 2004-05.

Legislative Revenue Actions			
Dollars in millions			
	DOB Values		
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Rejected/Modified Revenue Actions	(29.0)	(21.0)	43.0
Direct Wine Shipments	(2.0)	(3.0)	(3.0)
Eliminate Restrictions of Quick Draw	(43.0)	(68.0)	(68.0)
Empire Zones	0.0	(25.0)	(25.0)
Biotechnology Investment Credit	5.0	10.0	10.0
Single Sales for Manufacturers	0.0	8.0	16.0
STAR Inflation Adjustment	11.0	57.0	113.0
New Tax Cuts	(30.5)	(77.2)	(83.4)
Aircraft Repair Parts and Labor -- Sales Tax	(0.4)	(1.8)	(2.0)
Water Taxis -- Sales Tax	(0.1)	(0.4)	(0.4)
Brownfields Expansion -- Income/Corporate	0.0	(30.0)	(30.0)
Film Production Credit	(12.0)	(25.0)	(25.0)
New CAPCO Allocation	0.0	0.0	(6.0)
Long-term Care Credit	(18.0)	(20.0)	(20.0)
TOTAL	(59.5)	(98.2)	(40.4)

- The Legislature rejected or modified a series of revenue actions proposed with the Executive Budget. The table above reflects the net loss of resources not captured in specific spending areas. The revenue lost from the failure to enact these proposals totals \$29 million in the current year. This total is net of Executive tax reductions rejected by the Legislature.
- In addition, the Legislature added several tax reduction proposals not included in the Executive Budget. These actions grow in value in 2005-06.

OTHER SIGNIFICANT ISSUES

Campaign for Fiscal Equity

- On August 3, 2004, the Supreme Court appointed a panel of special masters to hear testimony on CFE-related matters on behalf of the Court. This panel is charged with issuing a report by November 30, 2004. Both the State and the litigants submitted their compliance plans to the panel on August 12, 2004.

Empire/Other Health Care Conversions

- The Executive Budget proposed actions intended to assure that HCRA would remain solvent through its sunset date of June 30, 2005. These actions included \$400 million from additional health care conversions. At this point, the Legislature's budget bill does not include language authorizing additional insurance conversions. Failure to enact conversion legislation could also jeopardize the receipt of the additional \$200 million in Empire Conversion Funds that are built into the Legislature's plan for new resources to fund its spending adds.

Impact on Local Governments

- The Legislature's budget delivers approximately \$200 million less in benefits for local governments, other than school districts, as compared to the Executive Budget. The change is primarily due to the rejection of significant Medicaid cost containment and early intervention reforms, as well as a broad range of enhancements to local fees. Counties and New York City lose \$162 million in Medicaid savings, which would have grown to \$300 million in the second year. Rejection of early intervention reforms result in a loss of another \$43 million – initiatives that also would have saved counties even more in 2005-06.
- While requiring no additional resources on a State Fiscal Year basis, the Legislature's budget authorizes the acceleration of more than \$80 million in unrestricted aid to upstate cities – providing non-recurring benefits to local budgets over the next three years.
- In addition to the actions taken in this budget, pension reform enacted previously provides \$980 million in fiscal relief for calendar-year local governments by shifting the annual pension payment date from December to February. An additional \$190 million in savings accrues to all local governments as a result of an increase in the pension borrowing amortization period from five to ten years (with the first payment due February 2006), and a reduction in the interest rate at which municipalities will borrow.

LONG-TERM FISCAL IMPLICATIONS

- The legislative budget makes little progress toward reducing the State's structural budget gap, which remains in the range of \$6 billion to \$7 billion. In contrast, the Executive Budget proposed recurring actions to lower the structural gap into the \$3 billion to \$4 billion range.
- For the second year in a row, the Legislature has adopted a budget that is potentially out of balance in the current year and measurably worsens the State's long-term fiscal outlook.

- In 2003-04, the budget shortfall created by the legislative budget was closed only through the infusion of \$1.2 billion in extraordinary Federal aid. Without it, the State would have ended the year with a shortfall of roughly \$850 million, absent mid-year reductions or the use of reserves.
- Unlike 2003-04, the prospect of Federal aid to close the 2004-05 imbalance is remote. At the same time, the State must resolve several critical policy issues with significant cost implications, even as it faces gaps that would be above historical averages.
- In February 2004, Standard and Poor's issued its review of the Governor's 2004-05 Executive Budget. It said the budget proposal generally appeared to strive for "structural balance and reduce the outyear gaps," but noted that the State's outlook remained negative "based on the increases in structural imbalances that occurred with [2003-04] budget adoption." It went on to say, "if this year's adopted budget results in a measurable reduction in the outyear gaps, the outlook will be revised to stable." However, "should a budget that does not approximate structural balance be adopted, the rating will likely be revised downward." Standard and Poor's currently assigns the State a "AA" rating with a negative outlook.