New York State
2004-05 Executive Budget

Overview

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STATE OF NEW YORK
EXECUTIVE CHAMBER
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GEORGE E. PATAKI
GOVERNOR

January 20, 2004

To the People of New York:

Time and again New Yorkers have demonstrated an ability to seize the moment, overcome tremendous challenges, and work together to make our State a stronger, better place to live, work and raise a family.

This year, we can — and I am confident we will — seize the moment once again.

Since 1994, we've worked together to cut billions of dollars in taxes, keep spending growth below the national average, streamline the government bureaucracy, enact sweeping debt reform and eliminate burdensome regulations that stifle job creation and economic growth. These smart, fiscally responsible steps helped to dramatically improve New York's business climate and competitiveness, while also restoring hope and confidence in our State's future.

As we look forward to the upcoming year, we are again confronted by major fiscal challenges due to the combined impact of the September 11th terrorist attacks, the upheaval in the State's financial services sector and the national recession. But this is not the first time we've faced tough fiscal times, and I am confident that if we work together we can overcome these challenges, revitalize our economy and secure an even brighter, more secure future for all New Yorkers.

In order to seize this historic opportunity to place our State's fiscal difficulties behind us, the new Executive Budget for 2004–2005 will control overall spending growth — while still maintaining New York's unwavering commitment to clean air and water, safer streets, and the best health care system in the nation. It is a balanced, fiscally responsible plan that will strengthen New York's finances by closing a multi-billion dollar budget gap, and increasing the State's rainy day fiscal reserve fund to record levels.

The Executive Budget will also help us seize the historic opportunity we have this year to enact sweeping reforms to improve the quality of public schools throughout our State. In my State of the State Address I set forth the guiding principles that are critical for the success of this vital reform effort, and the budget I advance today lays a solid foundation to help us achieve this critical goal. By working together, I am confident that we can enact the reforms we need to help ensure a quality education and a brighter future for New York's children.

My proposed budget will protect local taxpayers and provide relief to local governments by enacting significant pension and Medicaid reforms, maintaining strong financial support to municipalities, and protecting and improving our STAR property tax relief program.

To enhance public security in local communities across our State and help achieve our goal of making New York the safest state in America, the Executive Budget provides billions of dollars in support for a broad array of crime fighting initiatives and anti terrorism efforts.

In my State of the State Address, I called for the creation of one million new jobs by the end of the decade, and the new Executive Budget charts an aggressive course that will help us achieve this lofty goal. Even in the face of a multi-billion dollar deficit, this budget preserves promised tax cuts, avoids tax increases, and includes new tax breaks to help make New York companies more competitive. It also delivers strong support to New York's vital manufacturing sector, and provides funding to enact Phase II of our comprehensive high technology plan that is making our State an international powerhouse in this important and growing field.

The sweeping changes, bold innovations and fiscally responsible approach to budgeting we have brought to State government during the past nine years provide a proven road map for us to follow as we chart our course to rebirth and recovery. That's why the 2004 2005 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 25 years.

While the task before us remains formidable, New Yorkers have shown the world that when we are strong, united and share common goals, we can overcome any challenge. We have faced extreme adversity in the past, and we have prevailed. By working together and seizing the opportunity that lies before us, we will prevail once again.

It is in this spirit of unity, non partisanship and confidence in a brighter future that I am proud to present the 2004 2005 Executive Budget. I look forward to joining with the members of the Legislature — and with all New Yorkers — as we move forward to successfully overcome the challenges ahead.

Very Truly Yours,

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Making the Right Choices Will Continue New York's Resurgence

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

New York has faced enormous challenges over the past three years and under Governor Pataki's leadership, has tackled them with determination. As we look to the year ahead, we can be optimistic that these efforts will show broad and concrete results.

The State and national economies are emerging from recession and appear to be on a sustainable expansionary track. New York is well poised for renewed economic growth thanks to the efforts of the last nine years to reduce taxes, contain government spending and adopt policies that will encourage businesses to locate and grow in New York.

Nonetheless, New York State continues to face significant fiscal challenges.The Executive Budget for fiscal year 2004-05 will address these fiscal difficulties while advancing the bold and ambitious agenda outlined by Governor Pataki in his State-of-the-State message. Among the Governor's major goals are:

- Ensuring the continued safety and security of all New Yorkers;
- Encouraging ongoing job creation and economic growth statewide;
- Adopting sweeping reforms that ensure every child in New York has an opportunity to receive the best possible education; and
- Restructuring the health care/Medicaid system to improve care while reducing costs for State and local taxpayers over the long-term.

Each of these goals will require a sustained effort and each must be accomplished while enacting a balanced 2004-05 State Budget that successfully closes a multi-billion dollar deficit and places New York back on a responsible path to long-term fiscal stability.

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One year ago, Governor Pataki proposed a balanced, prudent 2003-04 Executive Budget that avoided raising broad-based taxes, controlled spending, and reformed government in key respects.

The 2003-04 Budget that was ultimately enacted by the Legislature left an over $900 million current year deficit, which was ameliorated by more than $1 billion in additional one-time Federal aid. However, at the time of enactment, the Budget Division projected that the 2004-05 budget shortfall would be between $5 billion and $6 billion, significantly above the Executive Budget gap of $2.8 billion.

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As a result of a somewhat more positive economic outlook and a projected improvement in Wall Street finances, we now anticipate that New York faces a 2004-05 budget shortfall at the lower end of our forecast — $5.1 billion. This shortfall reflects $1.2 billion in baseline spending increases largely prescribed by current statutory requirements; $2 billion in continued revenue shortfalls; and $1.9 billion from the loss of one-time resources used in 2003-04.

The Executive Budget proposes to address this gap between baseline spending and revenues by drawing on the successful approaches the Governor has used in the past to confront fiscal challenges.

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In 1995, New York State was in fiscal crisis. 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 policies that produced an encouraging environment for job-creation and economic growth, New York's economy rebounded. These policies caused State revenues to grow and allowed additional tax cuts to be implemented, "rainy day" reserves to be increased and substantial investments to be 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 resilient economy, and it is a continuation of these policies that will allow New York to follow a path to long-term fiscal stability.

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The 2004-05 Executive Budget projects that a strengthening economic recovery will produce above average rates of growth in tax revenues. The Executive Budget estimates that overall tax receipt growth will total nearly 8 percent. Real Gross Domestic Product (GDP) growth for the United States is expected to reach 4.7 percent and employment growth is projected to accelerate in 2004. The equity market rebound is expected to produce renewed growth in financial sector compensation and a resultant increase in taxable capital gains.

However, economic growth alone will not solve the State's current fiscal challenges. That is why the Governor has proposed a balanced Executive Budget that includes 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 and yet provides a multi-year glidepath to budget balance over the course of the next several years.

The Executive Budget proposes to close the 2004-05 shortfall of $5.1 billion through the following actions:

- $440 million from new pension reforms that will modernize and strengthen the system while moderating the annual increases in employer contribution rates, including pension costs for local governments;
- $150 million from actions to reduce debt costs;
- $425 million in cost containment measures in Medicaid and other health care programs, which will also provide substantial savings to local governments;
- $362 million in savings resulting from restructuring welfare programs and from maximizing Federal support;
- $298 million in mental hygiene programs by increasing Federal aid and initiating additional cost-saving measures;
- $227 million from reforms to the Tuition Assistance Program (TAP) that will encourage students to complete their degrees;
- $186 million in savings from reforms that will encourage efficiencies in expense-based education programs;
- $547 million in other savings from streamlined State agency operations including savings from holding the State workforce at record low levels, and restraint in local assistance programs and capital projects;
- $972 million from new revenue actions and adjustments that do not harm the State's economic recovery; and
- $1.5 billion in transitional financing as New York moves toward fiscal balance over the next three years.

Included in these savings measures is a 5 percent reduction in most programs that are not otherwise affected by the program reforms recommended in this budget. While significant, we believe this level of reduction is manageable and can serve as an opportunity for agencies, localities and providers to re-examine and re-analyze the programs and services they provide, and find new ways to promote efficiency and performance management.

Overall, the 2004-05 Executive Budget recommends General Fund spending of $41.9 billion, a reduction of $175 million, or 0.4 percent from 2003-04. All Funds spending will total $99.8 billion, an increase of $1.5 billion, or 1.5 percent on a year-to-year basis. It should be noted, however, that the lengthy delay in enacting authorization for Tobacco Securitization shifted spending that would normally have occurred in fiscal year 2002-03 into fiscal year 2003-04. These accounting anomalies have the effect of understating the year-to-year changes. (See the "Financial Outlook" section for a detailed explanation.)

While the 2004-05 Executive Budget takes prudent and fiscally-responsible actions that place the State on a path to long-term fiscal stability, the Budget also provides strong support for the ambitious agenda the Governor has set for 2004. Measures proposed in this Executive Budget will:

- Ensure the continued safety and security of all New Yorkers. The Executive Budget supports the Governor's successful criminal justice policies that have made New York a national leader in reducing crime and includes several new public safety initiatives. At the same time, the budget provides $151 million in State support for activities necessary to maintain public security and combat terrorism;

- Encourage ongoing job creation and economic growth statewide by continuing the phase-in of all previously enacted tax cuts, phasing-out last year's tax increases on schedule and proposing a series of new, targeted tax reductions. Again, the Executive Budget proposes to replace the existing permanent clothing sales tax exemption with four tax-free weeks — doubling the number of weeks in the current fiscal year. At the same time, the Executive Budget includes substantial funding to support a wide array of economic development incentive-based programs along with Phase II of the Governor's high tech job creation strategy for New York;

- Adopt sweeping reforms that ensure every child in New York receives the best possible education. The Budget provides nearly $14.6 billion for aid to education and reserves and dedicates an additional $325 million for the 2004-05 school year — ultimately growing to $2 billion or more — as a reserve in anticipation of the recommendations of the Zarb Commission to address the recent Court of Appeals' ruling on education; and

- Restructure the health care/Medicaid system to improve care while reducing costs for State and local taxpayers. By enacting these new measures, the Budget will reduce Medicaid costs for New York City and county governments by more than $180 million this year. Included is a sweeping proposal for the State takeover of long-term care costs from local governments — one of the fastest growing components of Medicaid — which will save counties and New York City more than $1.8 billion annually when fully accomplished and a cumulative $7.7 billion over the next ten years.

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

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

As the Legislature deliberates the Governor's Budget Reform Bill, the Division of the Budget remains committed to doing everything possible to assist in enacting an on-time Budget and we look forward to working with the Senate and Assembly toward that end.

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

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

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As New York's economy begins to rebound, the decisions we make in enacting a budget for fiscal year 2004-05 will be critical to sustaining economic momentum and returning State and local governments to sound fiscal footing.

It is my hope that by working cooperatively, we will succeed in that endeavor by enacting a fiscally-responsible Budget that places New York on a firm path to fiscal stability and ensures a brighter, stronger future for all New Yorkers.

Positioning New York for the Recovery Ahead

After three difficult years, New York is emerging from the national recession and recovering from the devastating economic losses experienced following the attacks of September 11th. This recovery is grounded in the sound fiscal policies successfully advocated by Governor Pataki — broad-based tax reductions, disciplined spending restraint, increased rainy-day reserves, and adoption of real financial and management reforms. These policies have strengthened New York's economy and finances, improved its competitiveness and economic diversity, and positioned it to face and rebound from economic downturns.

New York has of course been particularly hard hit by the combined impacts of the national recession, terrorist attacks centered in New York City, and corporate governance scandals, all of which hurt many of its big industries. As a result, New York has seen unprecedented consecutive year-to-year declines in total tax receipts. At the same time, costs for employee pensions have increased dramatically, while the severity of the recession that followed has placed upward pressure on Medicaid, welfare and other entitlement programs. This has occurred at the same time that the State has had to commit millions of dollars to improve public protection and promote homeland security.

In the face of these pressures, the Governor has continued to clearly articulate the necessary steps to economic and fiscal recovery: avoid tax increases, restrain spending, improve government performance and productivity, and set clear priorities for the use of limited resources. The result is a smaller, leaner, more efficient State government that more effectively delivers essential services and an economy that is positioned for resurgence.

New York's difficult fiscal situation is not yet behind us, however. The significant level of reserves built up over several years by Governor Pataki to cushion the impact of economic downturns, has been significantly reduced. The 2003-04 State Budget added new spending commitments in excess of the projected growth in recurring revenues. Fortunately, also under the Governor's leadership, the State received one-time Federal assistance that allowed us to maintain fiscal balance during 2003-04. However, the State faces a budget gap of approximately $5.1 billion in 2004-05 — nearly double the $2.8 billion gap embodied in last year's Executive Budget. Moreover, due in part to the additional spending in the 2003-04 final enacted budget, the structural gap is projected to grow to $6.7 billion in 2005-06 and $7.8 billion in 2006-07.

To meet this challenge, New York must re-commit to the successful approach of the past nine years. The 2004-05 Budget must once again set the State firmly on the path to renewed economic health.

While the return of economic growth will produce new tax revenues, economic growth alone will not fully address the State's budget gaps. New York cannot tax and spend its way to economic prosperity.

Accordingly, the 2004-05 Executive Budget:

- Rejects broad-based tax increases and is premised on continued tax reductions;
- Restructures Medicaid and other health programs to contain escalating cost increases for the State and local governments, including the phased assumption of the local share of long term care costs;
- Reforms pension policies to strengthen and modernize our retirement system while producing immediate savings to the State and local governments;
- Controls the growth in State Operations, through a combination of spending reductions and management efficiencies;
- Invests in targeted economic development projects and tax cuts to stimulate job creation in the private sector, particularly the high-technology industry; and
- Reserves new dedicated video lottery terminal (VLT) revenues to support expected reforms to our education system.

The actions recommended in this Executive Budget close the projected 2004-05 budget gap, sustain economic growth and protect the State's competitive advantages, without sacrificing critical programs and services.

Closing the Gap

To close the $5.1 billion 2004-05 budget shortfall, the Governor's Executive Budget relies on a combination of spending cuts, new revenues and the use of non-recurring funding sources. This construct includes:

- Nearly $2.6 billion in spending reductions achieved through a combination of program restructuring and the use of alternate funding sources.

- $972 million in new revenue actions that avoid any measures that would harm the State's economy.
- Reliance on $1.5 billion in resources available on a one-time basis.

It should be noted that all revenue from the proceeds of VLTs will be reserved to fund sound basic education requirements, and has not been used in closing the projected gap.

Specific recommendations to balance the 2004-05 Budget include the following:

Medicaid spending will be curtailed to offset projected double-digit growth. Proposals designed to save $425 million include a range of cost-saving initiatives to restrain prescription drug costs, lower the cost of optional services, increase the use of case management and reduce the need for General Fund payments to HCRA. The Governor has also proposed a multi-year State takeover of local Medicaid costs for long-term care services.

Pension Reform that will prevent State and local government costs from skyrocketing next year is being advanced. The Governor is proposing a plan to modernize and strengthen the State retirement system that will also moderate the growth in employer contributions over the next four years, while preserving guaranteed pension benefits. These actions are projected to save the State $440 million in fiscal year 2004-05, and substantially reduce the annual rate of increase in employer pension contributions going forward. Local governments will save an estimated $795 million under these reforms this year.

School Aid reforms and targeted savings, valued at $186 million, are recommended in selected programs including building aid, transportation aid and special education. More importantly, the Budget reserves and dedicates all State revenues generated by video lottery terminals (VLTs) to support sound basic education requirements. An allocation from these new overall VLT revenues will supplement a $100 million Sound Basic Education matching grant included in general school aid for New York City.

When all the planned and proposed VLT facilities are operational, the State is expected to collect approximately $2 billion in the first full year of operation with the potential for additional growth thereafter. By March 1st, the Governor's Commission on Educational Reform will submit its funding recommendations for the State to consider.

Workforce Downsizing Has Been Maintained

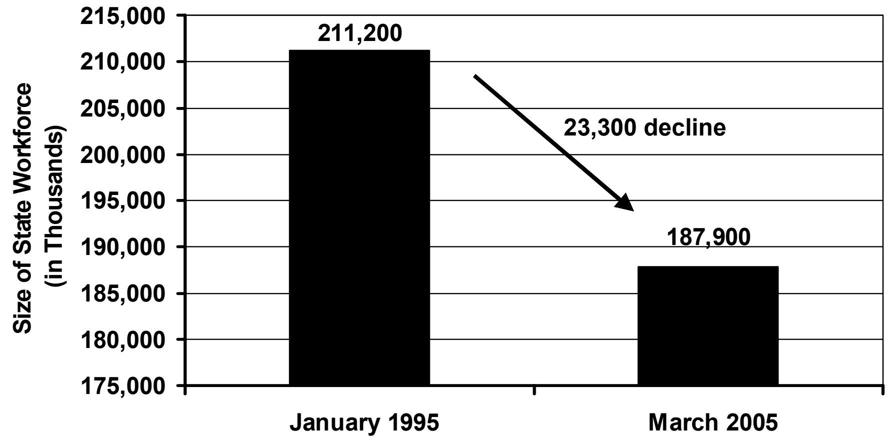


Figure 1

Governor Pataki has successfully delivered on his commitment to reduce the size of State government — without endangering the quality and effectiveness of governmental services — thanks to an aggressive hiring freeze, the selective use of retirement incentives and targeted agency consolidations.

Tuition Assistance Program reforms are proposed including a restructuring of tuition awards to encourage completion of undergraduate degree requirements. Savings of $227 million are expected.

Improved State Operations will continue through a multi-year effort to increase administrative and operating efficiencies in agencies, including expansion of the "host" agency concept and the proposed consolidations of several agencies and programs. This Budget will achieve nearly $150 million in recurring State Operations savings and maintain the workforce at approximately 187,900 positions. *(See Figure 1)*

Additional Savings of $1.3 billion are achieved through the use of Federal funds to support welfare, health and mental hygiene programs; lower debt service costs through responsible debt management actions; and additional cost containment in a variety of State programs.

Revenue Actions totaling $972 million, will avoid measures that would harm the State's economy. The Executive Budget proposes replacement of the existing permanent clothing tax exemption with four tax-free weeks (doubling the number of weeks in the current year); reimposition of assessments on hospital, nursing home and home care revenues; fee increases; and a variety of other revenue proposals.

Nonrecurring Resources totaling $1.5 billion will be made available. These include the shift of various pay-as-you-go capital projects to bond financing; continuation of the legislative delay of the last Medicaid cycle otherwise payable at the end of the 2004-05 fiscal year; additional revenues produced by the 2003-04 tobacco securitization transaction; implementation of an alternative proposal to provide support for New York City which eliminates legal uncertainty and protects Local Government Assistance Corporation (LGAC) bondholders; use of New York Power Authority (NYPA) reserves to help support the Power for Jobs program; recovered Federal TANF monies; and various fund sweeps and other actions. In addition, surplus reserves from the Housing Finance Agency will be available in 2004-05 and used to lower the projected 2005-06 outyear gap.

As a result of these recommendations, the State's structural budget imbalance will be reduced from $6.7 billion to $2.9 billion in 2005-06, and from $7.8 billion to $4.3 billion in 2006-07. In total, this means the Governor's Executive Budget reduces the total three-year budget gap by more than $12 billion.

Limiting Spending and Rebuilding Reserves

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 2.3 percent, comparable to inflation for this period, and lower than the national average of 4.3 percent. All Funds spending has increased 4.9 percent on an average annual basis, reflecting efforts to maximize Federal revenues over the last several years. This is also lower than the national average of 5.8 percent. *(See Figure 2)*

Spending restraint is essential if New York is to regain structural budget balance. Spending in this Executive Budget is near or below inflationary levels. General Fund spending of $41.9 billion is down 0.4 percent. State Funds spending ($63.5 billion) and All Funds spending ($99.8 billion) are held to around inflation (2.2 and 1.5 percent increase, respectively). Contributing to the year-to-year change is the one-time deferral of $1.9 billion in program costs from 2002-03 into 2003-04 made necessary when authorization to securitize the State's tobacco settlement receipts was delayed in last year's budget. After adjusting for this deferral, spending grows by 4.3 percent (General Fund), 5.5 percent (State Funds), and 3.5 percent (All Funds). These increases largely reflect legislative action

Spending Restraint Is Essential

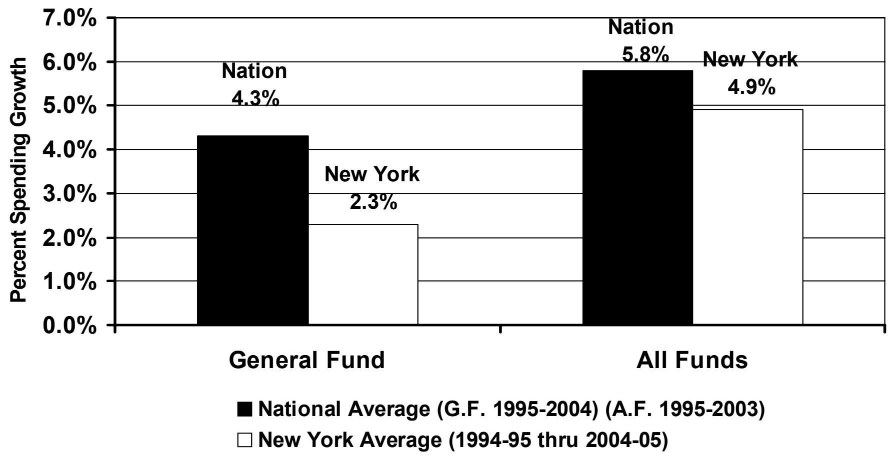


Figure 2

Spending has been held in check during the Pataki administration, averaging well below the growth rate of other states.

to shift spending into 2004-05, the loss of certain non-recurring revenue sources requiring costs to shift to the General Fund and additional Federal funds.

This Budget also begins rebuilding State reserves by increasing the rainy day fund another $84 million to an all-time high of $794 million, the eighth such deposit under Governor Pataki. *(See Figure 3)* The last several years clearly demonstrated that increased reserve levels are critical to avoid draconian budget cuts and massive layoffs — and the State's reserves must be rebuilt once more. To the extent Federal assistance or better-than-expected revenues materialize, the Governor proposes to increase reserves further and to lower outyear gaps. Further legislation is proposed to:

- Increase the rainy day fund from 2 percent to 5 percent of the General Fund;
- Increase the size of the allowable annual deposit; and
- Authorize a portion of the fund to be used in an economic downturn.

Without these changes, the State's formal rainy day fund will likely reach its maximum next year.

The Reform Agenda

The Executive Budget again reflects the Governor's commitments to Constitutional debt reform and to changing the process for enacting the Budget.

Rainy Day Fund Continues to Grow

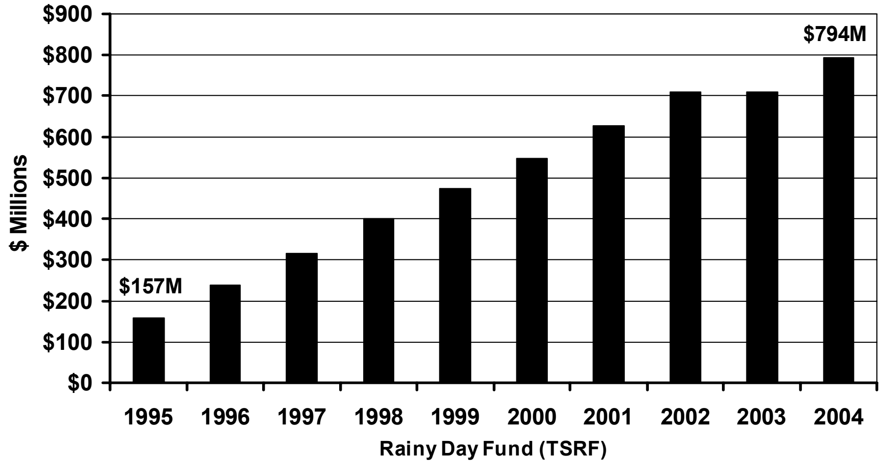


Figure 3

Under Governor Pataki, the State has made eight deposits to the rainy day fund, increasing it to an all-time high of $794 million.

Fiscal Outlook

The Governor is resubmitting a Constitutional Debt Reform bill that will ban "back door" borrowing, make permanent the caps and limitations imposed by the Debt Reform Act, and ensure that at least one-half of all new debt is approved by the voters.

This Budget holds debt levels in check, with debt outstanding growing at an annual average of only 1.9 percent over the five-year Capital and Financing Plan. Overall debt and debt service levels remain well within the Debt Reform Act caps.

Total State debt is projected to decline as a percent of personal income from 5.6 percent in 2004-05 to approximately 4.9 percent in 2008-09. Total debt service costs as a percent of All Funds receipts is projected to remain below 5 percent through 2008-09. Pay-as-you-go (cash) capital spending continues to average nearly half (47 percent) of total capital spending over the five-year Plan.

The Governor is also recommending reforms that will accelerate both the Executive Budget submission and the revenue consensus process, mandate conference committees on the Budget, and, before the Budget is voted on by Legislators, require complete disclosure of the current and outyear budget impact of proposed legislative changes. An open and public debate on budget proposals is healthy in a democracy, but those discussions must also be held with the full understanding of how legislative actions affect the State's finances and long-term financial stability.

A Long Term Strategy for Economic Growth

Over the last nine years, Governor Pataki has shaped a successful agenda to foster sustained economic growth. The Governor's multi-year, comprehensive strategy has centered on three core principles:

- Aggressive pursuit of tax cuts;
- Strategic investments in industries that are central to the high-skill, high-wage job markets of today and tomorrow; and
- Lowering the cost of doing business in New York by reducing regulatory burdens for businesses and other taxpayers.

The Governor's tax cuts lead the nation, lowering the tax burden for families, individuals and businesses across the State. When fully enacted, cumulative savings to New York taxpayers will total over $120 billion.

To complement these tax cuts, Governor Pataki has established a wide array of innovative economic development programs that create jobs and leverage billions of dollars in private and Federal investment. New York has added hundreds of thousands of additional new jobs since the Governor took office in 1995, and is a national leader in the development of programs to secure high technology employment growth.

Governor Pataki has also aggressively sought to lower the overall cost of doing business in New York. Eliminating unnecessary State rules and regulations has reduced barriers for businesses and other taxpayers. This, in conjunction with fundamental reform of workers' compensation laws and building code reform, has protected businesses and others from billions of dollars in unnecessary costs.

Governor Pataki's commitment to these core principles reversed a long, downward spiral of recurring job losses prior to 1995 and has created a more diverse and resilient economy. This strong foundation has enabled New York's economy to better endure the horrific events of September 11th and the recent national economic downturn.

Economic Growth

The Crucial First and Last Step: Tax Cuts

Governor Pataki's tax reduction program has been key to sustaining economic growth and creating new jobs. By allowing New Yorkers to keep a larger share of their earned income, the Governor's tax cuts provide vital resources to families and businesses to help them meet their priorities and allow for further investment in New York's diverse and growing economy.

These tax cuts have brought new life, strength and resilience to a private-sector economy that was stagnant just nine years ago. Every major State tax has been cut, making New York the preeminent tax-cutting state in the nation. *(See Figures 1 & 2)* 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 $120 billion;
- Governor Pataki and the Legislature have cut 19 different taxes 64 separate times;
- In 1995, total New York State tax collections per $1,000 of personal income were 5.5 percent above the national average. In 2002, total tax collections per $1,000 of personal income were only 2.8 percent above the national average;
- Cumulative personal income tax savings and business tax savings will reach over $60 billion and $25 billion, respectively, when fully phased in;

Governor Pataki's Tax Cuts Lead the Nation

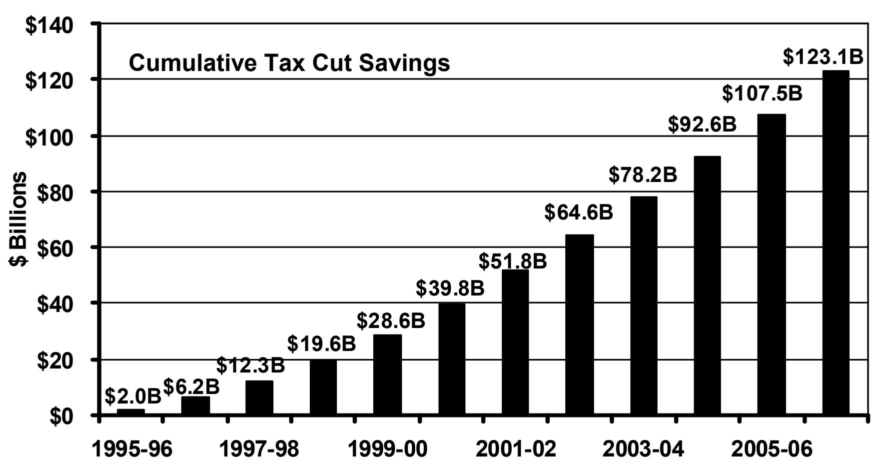


Figure 1

In 2004-05, taxpayers will have saved a cumulative $92.6 billion from the tax cuts that have been made under Governor Pataki. Cumulative tax cut savings will total more than $120 billion by 2006-07.

Governor Pataki's Business Tax Cuts

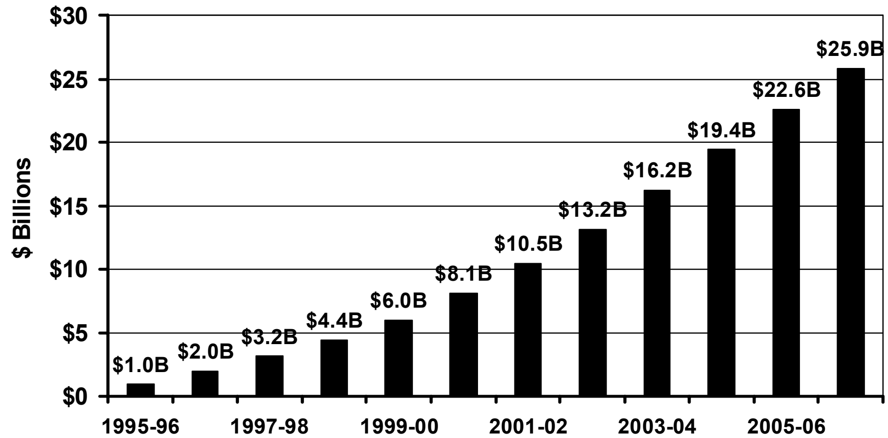


Figure 2

Businesses will save more than $25 billion by 2006-07 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.

- Cumulative local property tax and New York City income tax savings since 1997 from the STAR program will reach over $14.6 billion in 2004-05, growing to more than $21 billion when fully implemented in 2006-07;
- Cumulative savings from sales and excise tax cuts will reach nearly $9 billion; and
- Cumulative savings from other tax cuts, including the reduction in the estate tax, the repeal of the real property gains tax and gift tax will reach nearly $7 billion.

Keeping Tax Relief on Schedule

Governor Pataki's Executive Budget continues New York's nine-year record of lowering the tax burden on families, 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.

New Targeted Tax Cuts and Implementing Scheduled Tax Reductions

New Targeted Tax Cuts

New State STAR-Plus Tax Credit: STAR benefits will be increased during 2004-05 to recognize the effects of inflation. As a result, taxpayers will save an additional $43 million for the 2004 tax year, paid to them as a credit on their income tax. The STAR-Plus credit will be available for all homeowners in school districts that keep their spending within proposed caps.

Biotechnology Capital Access Program: This Budget proposes to establish a new incentive program that would allow qualified biotech companies to sell their unused tax losses to eligible corporations based on 90 percent of the value of the losses.

New Exemption for Military and Naval Personnel: This Budget proposes a new exemption from the personal income tax on Federal military pay for New York State Guard members activated and deployed full-time in the War on Terror.

Reduced Tax Burden on Manufacturers: This Budget proposes to reduce the tax burden on New York manufacturers by phasing in "single sales factor" reforms to allow tax calculation based fully on receipts in New York State.

Expand and Extend Successful Tax Incentives

Improvements to the Empire Zones Program: Legislation included with the Budget extends the Empire Zones Program through 2009 and will continue to provide significant economic and tax incentives to businesses. New reforms will strengthen the program and ensure that benefits are effectively targeted.

Alternative Fuels Vehicle Tax Credit: This New York tax credit — among the most generous in the nation — provides tax credits and sales tax exemptions for the purchase of clean fuel vehicles, such as hybrid cars, and the retrofitting of existing vehicles. The Budget will extend the tax credit and exemption for one year.

Expansion of the Low Income Housing Tax Credit: The Executive Budget proposes an additional $2 million in tax credits annually, or $20 million over the ten-year life of the program — spurring a new round of affordable housing construction. The total funding allocated over the life of the program, including this new proposal, would be $60 million.

Previously Enacted Tax Cuts Phase-in

Increase in the College Tuition Deduction/Credit: The eligible tuition on which the itemized tax deduction, or a 4 percent credit, is based will increase from $7,500 to $10,000 of undergraduate college tuition beginning on January 1, 2004.

Increased Savings Under the Governor's Energy Tax Reform and Reduction Plan: The benefits from the January 1, 2000 elimination of the gross receipts tax for manufacturers and industrial energy customers, and the phase-out of the gas import tax continues in this Budget. In addition, the tax rate reduction and other reforms in the Governor's plan will continue as scheduled, including the exclusion from transmission, distribution and transportation gross receipts taxes for non-residential customers.

Green Buildings Tax Credits: Over $6 million remains available from a total authorization of $25 million from the first-in-the-nation tax credit that provides incentives to construct environmentally sensitive "green buildings".

Brownfield Credits: Three new tax incentives for the redevelopment of brownfields will begin on April 1, 2005, including: a redevelopment tax credit, which includes components for site preparation, tangible property and onsite groundwater remediation; a real property tax credit; and an environmental remediation insurance credit.

STAR: Commitment to Lower Local Property Taxes

In 1997, the Governor proposed and secured the largest and most sweeping property tax reduction in State history — the School Tax Relief (STAR) program. Even during a year of significant fiscal constraint, Governor Pataki remains committed to fully preserving the STAR program.

- The Governor's STAR program has saved New York State taxpayers more than $11.6 billion since its inception. In 2004-05, STAR will save taxpayers another $3 billion. *(See Figure 3)*

Economic Growth

Statewide STAR Savings Continue to Grow

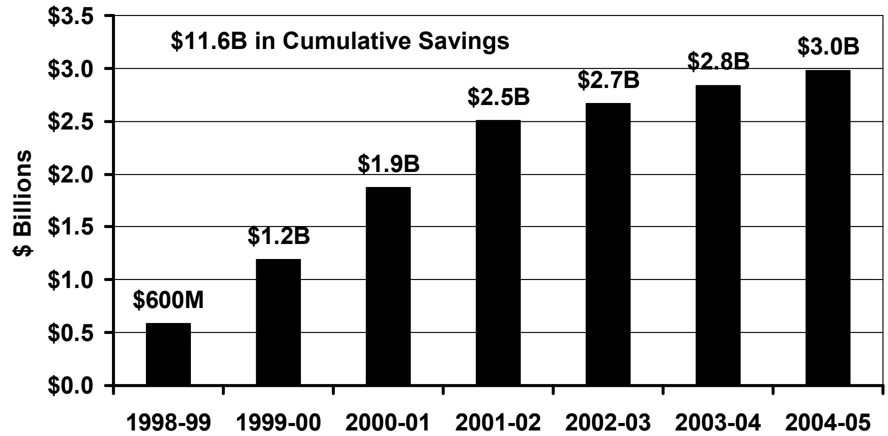


Figure 3

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 $3 billion in 2004-05 from STAR, plus $43 million in STAR savings from the new State STAR credit.

- STAR will provide more than 620,000 seniors an average property tax savings of $1,080 in 2004-05. *(See Figure 4)*
- Nearly 2.5 million non-senior homeowners receive STAR benefits, saving an average of $710 annually. *(See Figure 4)*
- A new State STAR tax credit will increase these average benefits of $1,080 and $710 by the annual rate

Average STAR Savings for Homeowners

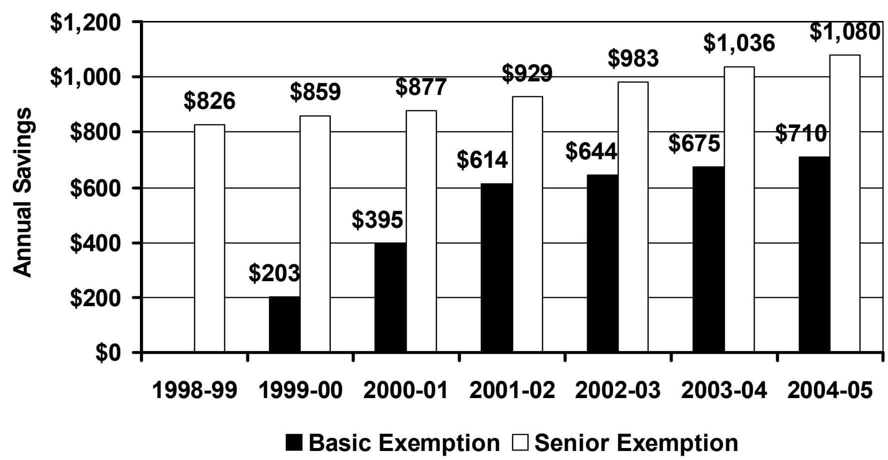


Figure 4

In 2004-05, the average school tax savings for senior homeowners eligible for the enhanced STAR exemption will be $1,080. The average savings for other homeowners will be $710.

of inflation. The new STAR tax credit will be available for all homeowners in school districts that keep their spending within proposed caps.

- The Governor's Cost Of Living Adjustment (COLA) on the income eligibility limit for the enhanced STAR exemption, enacted in 2002, will continue to protect seniors and their savings. For 2004-05, the income limit for enhanced STAR recipients will increase from $62,100 to $63,750. This adjustment will ensure that small increases in retirement benefits do not disqualify seniors for enhanced savings.
- New York City residents, in addition to school property tax relief, receive $560 million annually in City Personal Income Tax relief through the STAR program — which has reduced the City personal income tax by 10 percent on average.

Economic Growth

A New School Spending Cap Protects STAR Benefits

To ensure taxpayers receive the maximum STAR benefit, Governor Pataki's original STAR proposal included a school spending growth cap to protect taxpayers from excessive local school property tax increases. In order to protect taxpayers from further school property tax increases that far exceed the rate of inflation, the Governor is once again proposing to place a cap on the growth in local school budgets.

- The spending cap will be set at the lesser of 4 percent or 120 percent of the Consumer Price Index (CPI), with exceptions that include enrollment increases and expenses required to provide a sound basic education.
- The Governor is also proposing to expand the School Property Tax Report Card to include information displaying the three-year change in the school tax levy compared to the change in the CPI, thereby helping local taxpayers review school spending trends.

> Governor Pataki's new STAR tax credit will increase the value of the STAR benefit for taxpayers by adjusting for the effects of inflation — saving taxpayers $43 million for the 2004 tax year.

Smart Investments Create Jobs — Fulfilling a Primary Objective

Economic Growth

Building on the foundation of lower taxes, Governor Pataki has also developed an array of economic development programs tailored to encourage the growth of New York's diverse economic base, foster emerging sectors of the economy and create jobs. These efforts have been recognized nationally and continue with the 2004-05 Budget.

Area Development magazine's annual survey ranked New York as one of the nation's top ten job-creating states.

Phase I High Technology Investments Reap Dividends

Governor Pataki's economic development initiatives recognize that State investments in high technology reap significant rewards in terms of job creation and economic growth. Since 1995, the State has invested over $1 billion in high technology research and job development programs, establishing an Empire State High Tech Corridor from Buffalo to Brookhaven.

- According to the National Science Foundation (NSF), Federal support to universities and colleges located in New York State rose to a record of more than $1.8 billion in 2001 — an increase of $666 million, or 59 percent, since 1995.
- According to the most recent edition of Technology Review, New York State, along with California, leads the nation with four universities among the nation's top 25 universities that secure economically significant patents. The State University of New York, Cornell University, Columbia University and the University of Rochester achieved this recognition.

Centers of Excellence

The Centers of Excellence program has been the focal point of the Governor's high technology investment strategy. The Centers are located in or near major cities across the State in order to build upon and bolster regional economies. This program continues to flourish, paying important job

Centers of Excellence Spark Job Growth Statewide

- Buffalo—Center of Excellence in Bioinformatics
- Greater Rochester—Center of Excellence in Photonics and Optoelectronics
- Syracuse—Center of Excellence in Environmental Quality Systems and Clean Energy Technologies
- Albany—Center of Excellence in Nanoelectronics
- Long Island—Center of Excellence in Information Systems

The Capital Region Nanotechnology Cluster

Fueled by Governor Pataki's innovative high technology economic development programs, particularly the Centers of Excellence initiative, the Capital Region has emerged as a new hub for nanotechnology.

- In January 2003, International SEMATECH, a consortium of the twelve major computer chip manufacturers has agreed to locate its next generation 300 millimeter computer chip research and development program at the University at Albany Center of Excellence in Nanoelectronics. State and industry investments totaling $400 million will support a new facility called International SEMATECH North and employ over 500 high-tech researchers when fully operational.
- The Albany Center of Excellence will also house Tokyo Electron Limited (TEL), the world's second largest manufacturer of semiconductor manufacturing tools, which is establishing a $300 million research and development facility and creating over 300 new jobs.
- IBM has pledged substantial resources in the International SEMATECH North project and $100 million in the Albany Center itself. In addition, IBM opened a 300 millimeter facility in East Fishkill, just south of the Capital Region, in 2002. The $2.5 billion project represented the largest private sector investment in New York State history and the largest in the nation since 1995.
- To provide the high quality workforce this industry will need, a new College of Nanotechnology — the first of its kind in the nation — will be created at the University at Albany.

growth dividends and leveraging hundreds of millions of dollars in private and Federal investment since its inception.

A total of five Centers have been designated and two new Centers, both in Biotechnology, are under development: one in New York City and one in Westchester County. The Rochester Center is operational, and the Centers at Albany and Buffalo have broken ground and serve as highly successful models for the others.

In downtown Syracuse, the Center of Excellence in Environmental Quality Systems will be built on a former brownfield site. The project will turn the polluted urban site of the old Smith-Corona building into a productive property for the local community. In partnership with Cornell University, the SUNY College of Environmental Science and Forestry, the New York State Energy Research and Development Authority and the private sector, the Syracuse Center will also expand its focus to include clean energy technologies.

The Centers of Excellence form an alliance with other high technology economic development programs, such as Gen*NY*sis, which provides funding for biotechnology research and job development, and the

Rebuilding the Empire State Through Opportunities in Regional Economies (RESTORE) program, which support economic development activities in a wide range of industries, including high technology.

Phase II High Technology Strategy

Economic Growth

The 2004-05 Executive Budget will launch a new phase of development of high technology jobs. A High Technology Commercialization Center in Binghamton will transfer ideas from our Centers of Excellence to the marketplace.

In Albany, a new Harriman Campus Development Corporation will bring in new high-tech companies and provide space for Center of Excellence spinoffs.

Supporting Biotechnology Investments

To build upon the success of the Centers of Excellence and enhance world-class research capabilities across New York State, the Executive Budget includes a new comprehensive biotechnology development initiative with two major elements:

Biotechnology Capital Access Program. The Budget includes a new tax incentive program to allow small biotechnology firms with operating losses to transfer such losses to more established businesses, in exchange for working capital financing. This program will

Recent Accolades

- Governor Pataki became the first elected public official to receive the Semiconductor Industry Association's highest honor — the 2003 Robert Noyce Award — in recognition of his exemplary leadership and steadfast support for semiconductor research, development and commercialization in New York State.
- The Forbes/Wolfe Nanotech Report named Governor Pataki one of the top ten leaders in the nation in developing nanotechnology. The Report found that three of the nine companies or universities making the most important breakthroughs in nanotechnology this year were based in New York — more than in any other state in the nation.
- According to the Association of University Technology Managers, New York State is home to three of the top ten universities in the U.S. receiving licensing income for inventions and innovations.

enable small firms to secure resources necessary to survive the early stages of development while profitable product lines are researched and developed.

Higher Education Capital Matching Grants Program. In addition, the Budget includes a new $350 million comprehensive capital financing program for the State's public and private colleges and universities. This program will provide competitive matching grants and will be targeted for significant new investments in economic development and high technology capital facilities, including wet lab space, critical academic facilities, and urban renewal and historic preservation projects.

High Tech Council

To further enhance the partnerships between universities and industry, Governor Pataki will establish a new High Tech Council, comprised of academic and industry leaders. It will be headed by Nobel Prize winner Dr. Harold Varmus, President and CEO of Memorial Sloan-Kettering Cancer Center. The Council will make recommendations to the Governor on the future direction of our high technology programs.

Targeted Investments Protect and Create Jobs

In addition to establishing the Centers of Excellence program and other high technology job creation initiatives — designed to spur growth in major sectors of the economy — Governor Pataki has also developed a wide complement of economic development tools that can be customized to meet the unique needs of individual businesses and/or regions of the State. Program benefits include: low cost loans, capital grants, workforce training, interest subsidies, tax credits, "fast-track" permitting, and other forms of assistance. Despite their diversity, these wide-ranging programs share one common goal — job creation and retention.

New York Job Growth Outpaces the Rest of the Nation

The Governor's economic development efforts are paying dividends in communities across the State with improved job growth. For example:

- During the three-month period ending in November 2003, New York State private sector employment increased by 27,300 jobs — growing at a faster rate than the rest of the nation.
- Over the one-year period ending in November 2003, national private sector employment declined by 0.1 percent, while job growth in New York State (excluding New York City) increased.
- Upstate regions fared particularly well, with private sector employment in some cities increasing at rates well above the national average for the year ending November 2003.

Economic Growth

2004-05 Investments in Job Growth

To build upon and complement these successful efforts, the 2004-05 Executive Budget includes a new $250 million Regional Economic Growth program to provide State funding for major economic development initiatives throughout the State. Examples of projects that could be supported through this funding include:

- In the Capital District, construction of a new downtown Convention Center.
- In Rochester, the Renaissance Center.
- In Lake Placid, upgrades to establish a premier convention center.

5-Point Plan to Encourage Manufacturing Growth

- New, targeted job training assistance programs in the Department of Labor.
- New Manufacturing Assistance Program (MAP) administered by the Empire State Development Corporation to coordinate Federal, State and local assistance programs and link manufacturing companies to appropriate research and development grant funding.
- Phased-in reforms to reduce the tax burden on manufacturers.
- New Power for Jobs Rebate Program to extend the value of low-cost power to businesses whose benefits would expire in 2004-05.
- Workers' Compensation reform.

Empire Zones Improvements

In addition to the new Regional Economic Growth program, Governor Pataki wants to improve upon our nationally acclaimed Empire Zones program, which allows businesses located in certain areas of the State to operate virtually tax free via a wide range of tax credits and exemptions. The Executive Budget includes new legislation that will extend and improve this already successful program.

Other economic development programs intended to create and protect jobs include:

Brownfield Redevelopment: The recently enacted State Brownfields Cleanup Program will encourage private investment and job creation through liability reform, tax incentives, and a predictable process for cleaning up and redeveloping brownfields. The legislation also establishes a Brownfield Opportunity Area Grant Program to assist municipalities and community-based organizations to strategically plan the redevelopment of brownfields within targeted urban Environmental Zones throughout the State.

JOBS NOW: This program provides loans and grants to employers that create new jobs. For example, a recent JOBS NOW grant awarded to the Target Corporation will result in the creation of more than 800 jobs at a new distribution center in Montgomery County.

Empire Opportunity Fund (EOF): Governor Pataki established the EOF in 2002 to support the development of industrial facilities, downtown revitalization, retail and commercial projects, and improvement and construction of tourism destinations.

Power for Jobs: The Power for Jobs program provides low-cost power to businesses, particularly in upstate communities where high utility rates have hampered economic growth. Recognizing the success of the program, the Executive Budget provides a new $10 million rebate program to extend the value of low-cost power through March 31, 2005 to businesses whose benefits would expire in the 2004-05 State fiscal year.

Tourism Funding: In conjunction with the Port Authority of New York and New Jersey, the State will administer a $20 million "I ♥ NY" campaign to attract visitors to the State's world-class tourism destinations.

Creating Jobs for New York

GEICO Decision Reflects Strength of Upstate New York

GEICO — one of the nation's largest insurance companies — recently announced its plan to establish a regional customer service center that will create up to 2,500 new jobs in Western New York. Company officials cited the region's outstanding workforce as a major reason for selecting its site in Amherst. In conjunction with the State's comprehensive economic development assistance package, the region's workforce advantage made Western New York the preferred option for GEICO.

Griffiss Tech Park/Empire Air

In April 2003, New Yorkers saw yet another return on Governor Pataki's economic development investments. Commodore Aviation, Inc., then a subsidiary of Israel Aircraft Industries International, announced that it will relocate its North American aircraft maintenance repair and overhaul facility from Florida to the Griffiss Business and Technology Park in Rome, New York. The company will be renamed Empire Air Center once it completes its move to New York, and will ultimately create 500 jobs.

A Bright Future for the Buffalo/Niagara Region

Governor Pataki will work with Congressman Jack Quinn and the Legislature to secure funding for a multi-faceted retail and entertainment district that will revitalize downtown Buffalo, anchored by a new location for BassPro. In Niagara Falls, the successful Seneca Niagara Casino is spurring further development, with the planned addition of a 26-story, 600-room luxury hotel complete with a full service spa.

Economic Growth

New York City's Resurgence

Governor Pataki's commitment to rebuild and revitalize lower Manhattan and New York City following September 11th has never been stronger than it is today. Under the Governor's leadership, with the strong support of the State's congressional delegation, the State secured a multi-year, $21 billion aid package from the President and Congress. More than two years since the terrorist attacks, essentially all of the short term funding of nearly $8 billion has been spent for immediate recovery, debris removal, victims' reimbursement and transitional business assistance needs. The remaining Federal funds and tax incentives are largely committed for long-term economic revitalization and rebuilding needs in lower Manhattan.

In April of 2003, Governor Pataki outlined a bold long-term plan for the rebirth of lower Manhattan. The Governor continues to work closely with Mayor Bloomberg, the Lower Manhattan Development Corporation, businesses and other stakeholders to ensure his aggressive timeline for revitalization is met.

In addition, Governor Pataki has pledged to work with Mayor Bloomberg on a number of specific projects, including a new job hub at Jamaica Station to build on the successful AirTrain project, and the expansion of the Javits Convention Center on the West Side.

Rebuilding of Lower Manhattan

Projects Completed:

- Temporary PATH station at the site;
- Vesey Street pedestrian bridge; and
- Millennium High School.

Projects Underway:

- Construction of 7 World Trade Center;
- Construction of the ConEd substation, operational by August 2004;
- Streetscape improvements in the area of the New York Stock Exchange; and
- More than a dozen enhancements to parks and open spaces in lower Manhattan, impacting more than 50 acres.

Major Announcements:

- The unveiling of the Freedom Tower design, with groundbreaking set for mid-2004;
- Federal grant award for construction of more than $2.8 billion in transportation projects in lower Manhattan including the permanent PATH station and concourse, Fulton Street Transit Center and the South Ferry Subway Terminal;
- Construction of a new 83-room luxury hotel;
- 300 units of affordable housing; as well as
- The final design for an appropriate memorial — *Reflecting Absence* — has been chosen.

Record Transportation Investments Position New York for Economic Growth

Under Governor Pataki's leadership, New York's transportation system has received record levels of investment. Since the Governor took office, more than $20 billion has been invested in highway construction and engineering, improving road conditions, enhancing safety and creating a transportation system to support new and expanded business activity. This unprecedented investment has itself spurred economic growth, creating tens of thousands of new jobs from construction activities alone.

Key Transportation Projects Move Forward

- Reconstruction of portions of Route 17 in the Southern Tier for conversion to Interstate 86;
- Rehabilitation of portions of the Brooklyn-Queens Expressway in New York City;
- Replacement of the Roslyn Viaduct on Route 25A in Nassau County; and
- Resurfacing of portions of Interstate 90 in the City of Albany.

The Governor's Budget will encompass the final year of the current State transportation plan and supports another $1.65 billion of new highway construction projects, in addition to $281 million for local road and bridge projects in 2004-05.

Transit systems will also continue to receive unprecedented levels of State support, with more than $1.7 billion of operating aid in 2004-05. The Budget preserves the record appropriation levels of State aid provided in 2003-04, helping transit systems meet the commuting and mobility needs of a growing economy.

Lowering the Cost of Doing Business

Governor Pataki's unwavering commitment to regulatory reform continues unabated. During the past nine years, more than 2,500 State rules and regulations have been substantially reformed. It is estimated that these and other efforts have saved businesses and other taxpayers more than $3 billion.

Governor Pataki's desire to make it easier for companies to conduct business in New York is exemplified in the On-line Permit and Licensing System (OPAL), implemented by his Office of Regulatory Reform. The goal of OPAL is to streamline the entire business permitting and licensing process, allowing applicants to fill out one on-line application with business information that is shared with multiple state agencies, instead of past practice, which required businesses to fill out separate applications for each agency. Currently, the OPAL System includes 46 permits from seven different agencies and allows users to pay any applicable permit fees online in a single credit card transaction.

Other reforms and cost savings initiated by the Governor include:

- The adoption of a new State uniform building code in 2002, which is expected to save businesses up to $700 million annually; and
- Enactment of comprehensive workers' compensation reforms that have made New York State's program more effective, while reducing rates significantly. These fundamental reforms have improved workplace safety, provided enhanced customer service, simplified the claims settlement process and saved businesses in excess of $5 billion since enactment.

Education: Investing in Our Children's Future

During Governor Pataki's tenure, New Yorkers have made generous investments in education. Annual school aid is now nearly $4.7 billion higher than it was in 1994-95 — increasing 48 percent, or more than twice the rate of inflation during this same period. These additional State funds, coupled with local taxpayer support, have raised New York's school spending per pupil to the highest level of any state in the nation. In 2002-03, New York's spending of $11,515 per pupil was 47 percent above the national average of $7,829 per pupil. *(See Figure 1)*

State support for our public schools, combined with STAR and lottery payments, now accounts for more than 37 percent of the State's General Fund budget — up from 27 percent when the Governor first took office. Through the combination of school aid and STAR, the State's budget now supports an increased share of statewide local spending on education — now nearly 44 percent, as compared to 39 percent in 1994-95.

State support for New York City's schools has also increased dramatically under Governor Pataki. Since 1994-95, New York City schools have received a school aid increase of nearly $2.1 billion, or more than 60 percent. As a result of this significant infusion of State funds, New York City schools now receive a share of statewide school aid that exceeds their share of statewide student enrollment — an historic achievement. *(See Figure 2)*

New York Leads the Nation in Education Spending Per Pupil

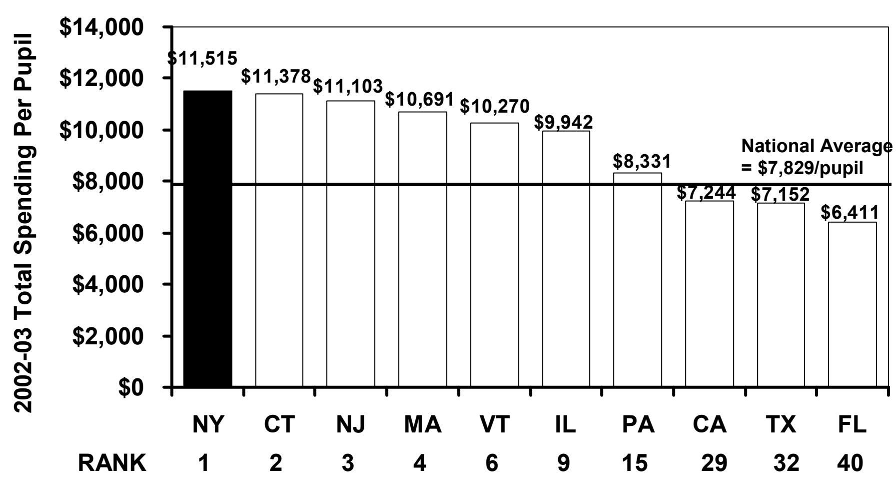


Figure 1

Most recent data place New York first in the nation with education spending per pupil of $11,515 — an amount 47% higher than the national average of $7,829 per pupil.

Education

New York City Schools Now Receive a Greater Share of School Aid than its Share of Students

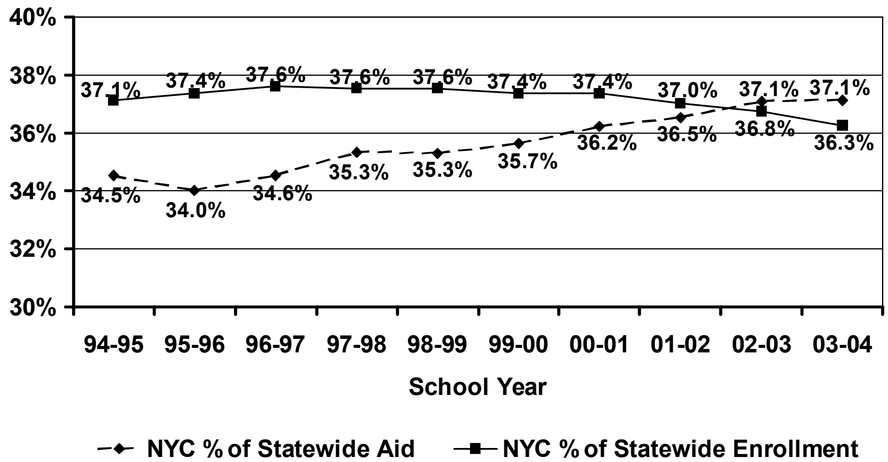


Figure 2

Since 1994-95, New York City has received an increase of 60% in school aid. Beginning in 2002-03, these increases resulted in New York City receiving a greater share of school aid than its share of statewide enrollment—an historic achievement.

For the coming year, the Executive Budget will build upon this generous investment in education with an increase of $147 million in general school aid — bringing State support for public schools to $14.6 billion. In addition to the $14.6 billion for general school aid, the Executive Budget reserves certain new revenues to support expected reforms related to ensuring that every child has the opportunity to receive a sound basic education.

Beginning with the 2004-05 school year, all State revenues generated by video lottery terminals (VLTs) will be deposited in a new Sound Basic Education Account within the Lottery Fund. These revenues will be dedicated to support the sound basic education requirements set forth in the State Constitution and reaffirmed in a recent decision by the State Court of Appeals. Based upon VLT facilities now being developed, as well as new ones to be authorized in legislation introduced with the Executive Budget, these receipts are expected to be approximately $325 million in the 2004-05 school year, growing to $2 billion over the next five years. An allocation from these new overall VLT revenues will supplement a $100 million Sound Basic Education matching grant included in general school aid for New York City. While the State Commission on Education Reform will not be issuing its final report until March of this year, the significance of the court's decision and our need to respond to sound basic education requirements make it imperative that we begin to set aside resources immediately.

State Commission on Education Reform

In September 2003, the Governor announced the creation of a nonpartisan group of educational, business and community leaders from across New York with a wide range of expertise and experience. As expressed by Governor Pataki, this State Commission on Education Reform has an historic opportunity to develop a comprehensive set of recommendations that will overhaul New York's education finance system.

Headed by former NASDAQ Chairman Frank G. Zarb, the Commission has been charged with examining sound basic education with regards to its cost and to provide opportunities to all children. The Commission will report its findings and recommendations to the Governor and the Legislature on March 1, 2004.

"Governor Pataki's Guiding Principles for Education Reform"

- Our archaic system of education finance must be thrown out and replaced with a system that is fair, sustainable and understandable;
- New resources, as they become available, must be targeted to New York City and other high need school districts;
- Resources must not be taken from one school district to meet the needs of another in a divisive Robin Hood approach;
- Elected officials must work with educators, parents and community leaders to build a consensus on a multi-year commitment of resources that ensures our reforms are sustainable and successful in future years; and
- Our new education finance system must be linked to reforms in the education system as a whole.

Targeted 2004-05 Reforms

While sweeping reforms of our education finance system will be proposed by the Zarb Commission in the coming weeks, the 2004-05 Executive Budget includes the following targeted reforms:

Flex Aid

Three years ago, Governor Pataki proposed "Flex Aid" as a way to reform how the State allocates aid to public schools. For 2004-05, the Governor once again is calling for a Flex Aid program to provide our schools with greater flexibility in the use of nearly $10 billion in State aid to meet locally defined needs. *(See Figure 3)*

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 grown from $536 million to $1.36 billion for 2004-05 — a 154 percent increase. *(See Figure 4)* To ensure limited State and local resources

Flex Aid—Providing Schools Greater Flexibility

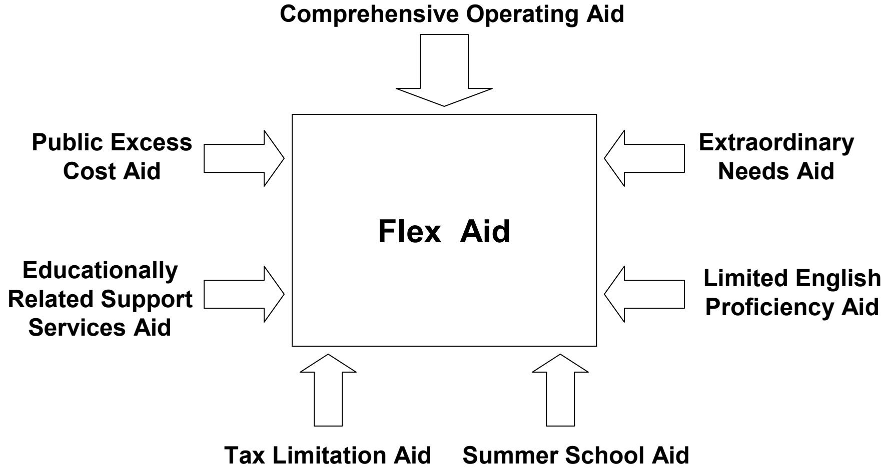


Figure 3

The Governor's Executive Budget proposes to consolidate seven separate categories of aid into a new aid — "Flex Aid." This new aid category will target nearly $10 billion in flexible operating support to school districts and allow schools to more effectively target State aid to local priorities.

Education

are effectively targeted to address school facility needs across New York, the following additional reforms are proposed for the coming year:

- 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, 2004. There will also be a temporary moratorium on State aid for new

State Support for School Facilities Dramatically Increases

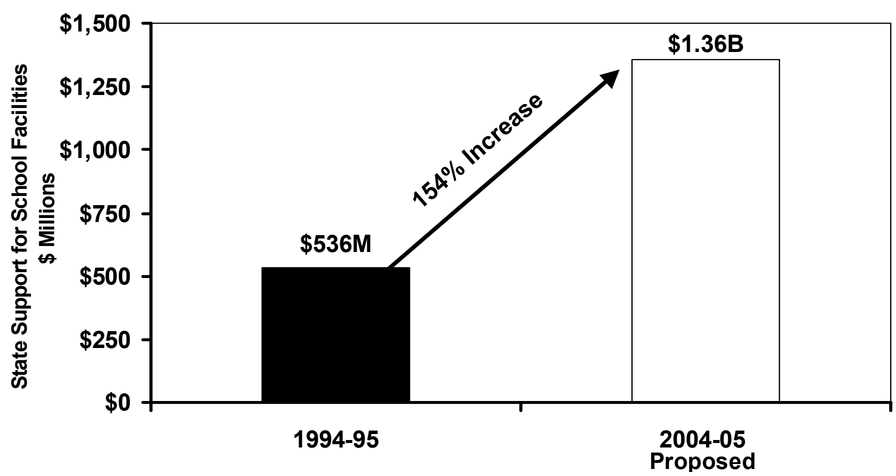


Figure 4

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 school facilities priorities.

construction until the new priority-based system is implemented.

- Simplified State Aid Calculation: The building aid formula will be modified to include a simplified reimbursement methodology that provides realistic allowances for construction costs and per student based space needs.

- State Clearinghouse for Efficient Construction Practices and Designs: Centralized technical expertise and assistance will be available to school districts from the Dormitory Authority of the State of New York (DASNY), which will provide advisory services on efficient construction practices and designs. These services include:

  –Project Planning (i.e., master planning, feasibility studies, cost-benefit analyses, and access to cost-efficient designs);

  –Quality Review and Assurance (e.g., analysis of materials selection and third party review of construction documents); and

  –Construction Consultation and Review (e.g., review and resolution of construction issues and analysis of change orders).

Transportation Aid Reform

Beginning in 2005-06, transportation-related capital expenditures will be funded consistent with recently adopted reforms in State reimbursement for school construction.

- In 2004-05, during the transition to the new reimbursement program, capital grants will be provided to school districts from proceeds of State-supported bonds.

- All future transportation-related capital expenditures will be reimbursed over a term consistent with the useful life of the asset.

BOCES Reform

The 2004-05 Executive Budget recommends reforms to refocus 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; and

- Ensuring true cost-efficiency in BOCES contracts for telecommunications and other services by requiring BOCES to demonstrate savings compared to existing

State contract prices available through the Office of General Services.

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 at times can create unintended fiscal incentives for children to be placed in restrictive settings, away from their non-disabled peers. These arcane special education formulas are often cited as contributing to the disproportionate number of children who are being placed in restrictive settings in New York as compared to other states. Approximately 39 percent of New York's special education students are in restrictive settings, as compared to the national average of 24 percent. *(See Figure 5)*

To ensure New York promotes the policy goal of including disabled children in the regular classroom whenever appropriate, the 2004-05 Executive Budget recommends changes to the special education financing system. Existing financial incentives for inappropriate placements in special education would be eliminated by:

- Consolidating $2.2 billion in funding for public special education programs within Flex Aid and discontinuing the allocation of aid based upon special education placements; and

Excessive Reliance on Restrictive Special Education Placements

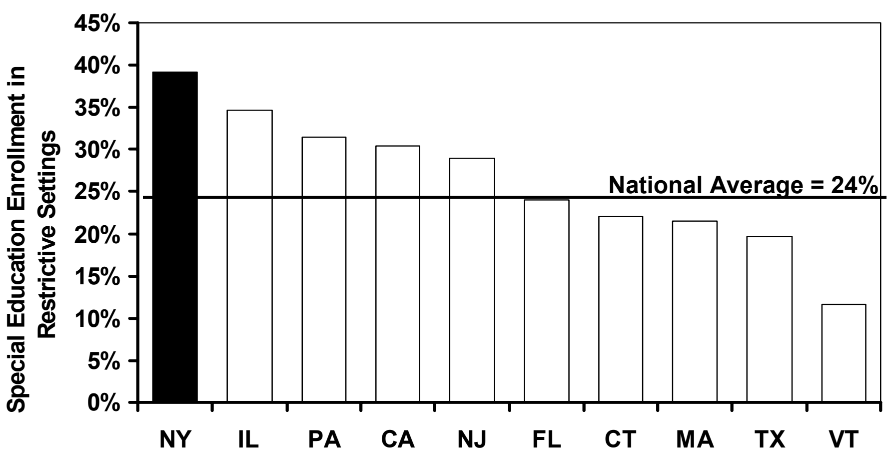


Figure 5

New York places far more children in restrictive special education settings compared to other states. These placements represent 39 percent of the total number of special education placements in the state—a rate that is considerably higher than the national average. Reforms in special education funding are proposed to ensure children with disabilities are placed in the most appropriate setting.

- Limiting statewide aid for private special education to the 2003-04 level.

Mandate Relief for Schools

To alleviate the costly burden of mandates on our schools, the following reforms are recommended:

- Restrict New State Mandates: The Board of Regents will be required to obtain approval by the Governor's Office of Regulatory Reform before imposing any new regulations that carry significant costs for schools, the State or local governments.
- Wicks Law Reform: Schools will benefit from an exemption from Wicks Law requirements, which currently mandate the use of multiple contractors and artificially drive up construction costs. This reform will reduce the cost of new school construction by more than 10 percent.

Restraining Excessive School Spending

Governor Pataki's original STAR proposal was accompanied by a school spending growth cap to protect taxpayers from excessive local school property tax increases. However, this reform was not adopted and, as a result, school tax levies have increased at rates well above inflationary growth. If left unchecked, school spending growth will drive significant increases in local property taxes, thereby eroding the property tax relief provided through STAR and increasing the burden on homeowners. *(See Figure 6)*

Spiraling School Tax Growth

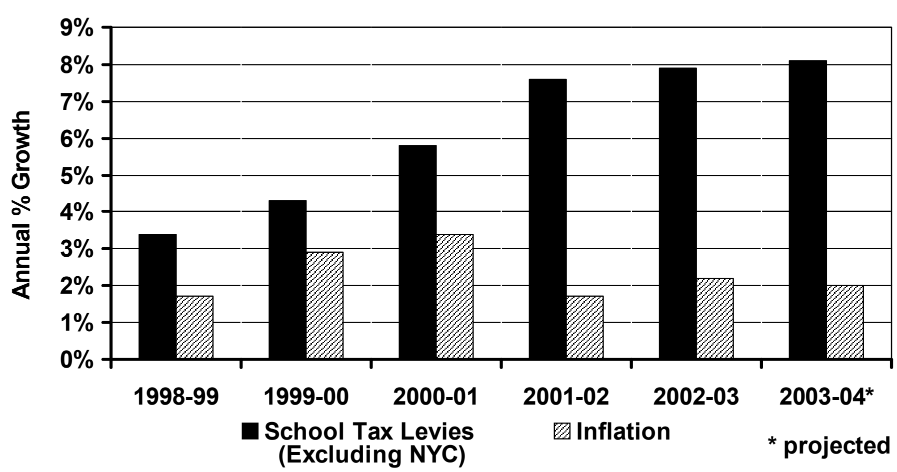


Figure 6

Over the past six years, local school taxes continued to spiral upwards despite a record $2.6 billion increase in State aid during this period. Growth in local school taxes significantly outpaced inflationary growth during this period.

Education

Education

To protect taxpayers from unrestrained school tax increases, the Governor will once again call for a cap on school budget increases. This cap will be set at the lesser of either 4 percent or 120 percent of the Consumer Price Index (CPI), with exceptions that include enrollment increases and expenses required to provide a sound basic education.

For 2004-05, the Governor will enhance STAR by providing an inflationary adjustment to the STAR benefit for all homeowners in school districts that keep their spending within the proposed spending cap. This STAR benefit will be provided as a State income tax credit.

The Governor is also proposing to expand the Property Tax Report Card to require school districts to include information displaying the three-year change in the school tax levy compared to the change in the CPI, thereby helping local taxpayers review school spending trends.

Teachers of Tomorrow

The Governor's innovative Teachers of Tomorrow program has resulted in the recruitment, training and retention of nearly 35,000 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. For 2004-05, the Executive Budget maintains funding for this program at $20 million.

Charter Schools: Supporting Educational Choice

Enactment of the New York State Charter Schools Act of 1998 was a landmark step in providing additional public education options to children and families throughout the State.

At the present time, 58 charter schools have been created across the State, serving more than 20,000 children.

Thanks to the creation of the KIPP Academy Charter School in the Bronx, 240 children from low-income families have flourished as a result of innovative and intensive instructional programming. The educational performance of these children on statewide tests is nearly double the average of children attending other New York City public schools.

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

Advantage Schools

The Advantage After-School program provides school-age children with supervised educational and social activities during non-school hours.

The Governor's Budget restores the Advantage Schools program to $20.2 million in 2004-05, $10.2 million more than the enacted 2003-04 budget. This increase is expected to return the Advantage-After School program to the full funding level, providing vital after-school services to more than 25,000 students throughout the State.

One example of the many outstanding Advantage After-School programs is the Bob Lanier Center Poplar Academy in the City of Buffalo. The Center's "Project Success" serves over 175 elementary school children and program activities include African Dance, Arts and Crafts, Reading and Homework Assistance. The Drill Team attends the State competition annually and is the 2002-03 State champion.

the performance of the City's public school system.

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 proposal, New York's educational governance structure will be brought into close conformance with that of 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, one 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 appointed by the Minority in each House.

Cultural Resources Restructuring

The 2004-05 Executive Budget recommends the transfer of the State Museum, State Library and State Archives from the State Education Department to a new entity — the New York Institute for Cultural Education (NYICE). This action will increase recognition and visibility of the important cultural programs administered by these offices, and permit the State Education Department to focus on its core mission of overseeing the State's schools. 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.

Higher Education

Education

New York State continues to demonstrate national leadership in providing support for higher education. Governor Pataki's 2004-05 Executive Budget provides $8.2 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 1,112,000 students. *(See Figure 7)*

For the coming year, New York will continue to build upon its investment in the State's public universities. The recommended 2004-05 gross operating budget for SUNY of $2.6 billion reflects an increase of $95 million,

College Enrollments Reach Record Levels

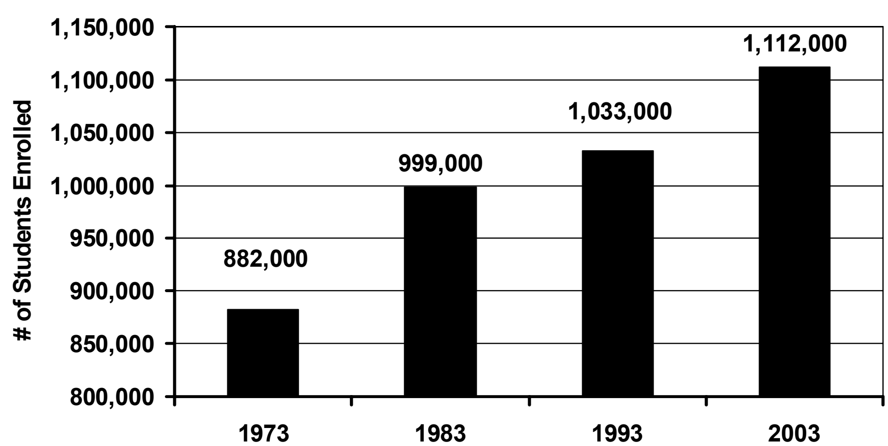


Figure 7

New York's public and private colleges are attracting record numbers of students. In fall 2003, the State's total college enrollments reached an all-time high of about 1,112,000 students.

or 3.8 percent. The recommended 2004-05 gross operating budget for CUNY of $1.2 billion reflects an increase of $36.5 million or 3.1 percent. The taxpayer supported component of SUNY's 2004-05 operating budget will total $1.58 billion, an increase of $75.4 million or 5 percent. The taxpayer supported component of CUNY's 2004-05 operating budget will total $608.6 million, an increase of $28.5 million or 4.9 percent.

Higher Education Excellence

- SUNY is attracting more top quality students than ever before, with average SAT scores of 1139 for the 2003 entering class — an increase of 41 from 1098 in 1999.
- Our universities have established powerful partnerships with industry, to advance research and economic development. A new College of Nanotechnology — the first of its kind in the country — will be created at the University at Albany Center of Excellence in Nanoelectronics. This effort will enhance university research efforts and provide our high technology industry with the quality workforce it needs to grow in New York State.
- Patent and royalty revenue provide a measure of research excellence, and for the third year in a row, SUNY has surpassed other top universities across the nation with the $13.6 million generated by its outstanding faculty.
- CUNY's popularity continues to grow with 2004 enrollments totaling almost 213,000 students — its highest level in nearly 30 years.
- CUNY has improved its academic selectivity with an average SAT score of 1091 for its 2003 freshman class — an increase of 36 from 1055 in 2000. At the same time, CUNY has maintained its unwavering commitment to access, with a 2003 minority enrollment of 141,600, an increase of more than 2,000 students from 2002.
- CUNY and SUNY remain at the forefront of higher education productivity, as exemplified by Brooklyn College's On-Course Advantage initiative and SUNY's "Fredonia in Four" — innovative programs that enable students to accelerate completion of their undergraduate degrees.

Students attending SUNY and CUNY will continue to benefit from a high quality education at a competitive and affordable cost. Current annual undergraduate in-State tuition rates of $4,350 for the State University of New York and $4,000 for the City University of New York are comparable to, or below, those of other public universities in the Northeast, and this Budget assumes no change in these tuition rates for the coming year.

To ensure that limited State resources are wisely invested in support of our education and health care priorities, the Council on Graduate Medical Education will conduct a comprehensive assessment of New York's public and private graduate medical education programs. This assessment will include a review of:

- Current and projected demands for healthcare professionals within the State;
- Graduate medical educational opportunities for minority students;

- Medically underserved areas of the State;
- Physician shortages in specialty areas; and
- The retention of physicians trained in New York State.

Consistent with austerity reductions and efficiencies required of many other State aid programs, operating aid for SUNY and CUNY community colleges will be reduced by $115 per student or 5 percent.

Access to College Education

New York's generous support of student financial aid and other higher education grant and scholarship programs will total $651 million in 2004-05. These funds will assist approximately 387,000 of our students in their pursuit of a college education at New York's public and private institutions of higher education.

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 Credit and 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. The State Tuition Tax Credit and Deduction program provides both a State tax credit and deduction for parents and students who are currently financing a college education.

New Incentives for College Completion

The key to financial success for our students and to economic prosperity for New York is for 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 8)*

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

- Beginning in 2004-05, 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;

TAP Restructuring Will Improve College Graduation Rates

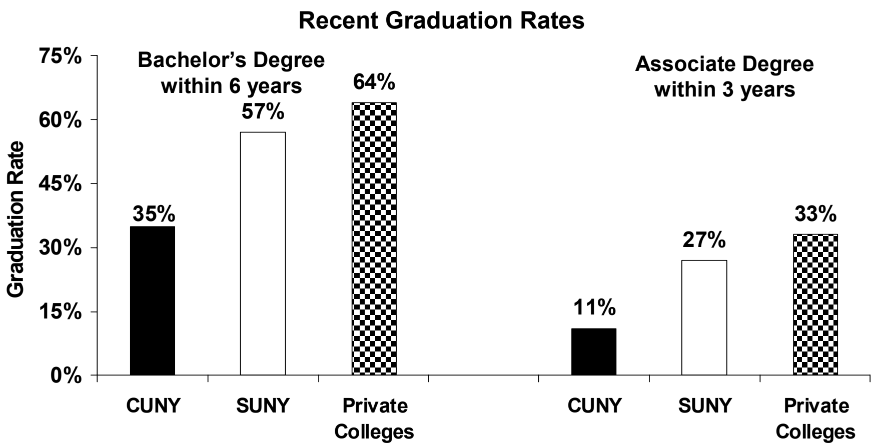


Figure 8

Changes in TAP for 2004-05 will create a performance-based incentive to encourage greater numbers of students to complete their college education.

- 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 at any point, without a set time limit. 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. As a safety net, State loans will be available for students who have exhausted their Federal loans.

New Capital Investments

In 1998-99, Governor Pataki initiated a Multi-Year Capital Investment Program at SUNY and CUNY. Under this $3 billion program, SUNY and CUNY received funds to revitalize their campuses and meet the infrastructure and facilities needs and priorities of the respective universities. Building on this highly successful initiative, the 2003-04 Executive Budget advanced new Multi-Year Capital Investment Programs for SUNY and CUNY.

Although the Legislature enacted recommended capital funds for community colleges ($210 million for SUNY and $55 million for CUNY), SUNY hospitals ($350

Education

million) and SUNY residence halls ($335 million), no additional funding was provided for senior colleges. Therefore, the 2004-05 Executive Budget recommends:

- A new $1.8 billion Multi-Year Capital Investment Program for SUNY senior colleges providing essential funding for facility and infrastructure improvements. 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.
- A new $1.1 billion Multi-Year Capital Investment Program for CUNY senior colleges providing for facility and infrastructure improvements 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. In addition, authorization is provided to CUNY for a new Science Research Center and for efforts related to the development of Governors Island.
- A new $350 million higher education facilities capital matching grants program providing funding for both public and private colleges and universities in New York. This program will require a 3:1 (non-State:State) match by institutions which compete for capital grants made available for facilities and equipment. Grant applications will be reviewed and approved by a new Higher Education Capital Investment Review Board, comprised of members selected by the Governor and the Legislature.

Keeping New Yorkers Safe and Secure

Governor Pataki's criminal justice initiatives have made New York a much safer place to live than it was nine years ago, with a 49 percent drop in violent crime since 1995. Eliminating parole for violent felony offenders, restoring the death penalty, establishing the sex offender registry and expanding the DNA database have all contributed to enhanced public safety. While winning the battle against crime in our streets, Governor Pataki has also taken the steps necessary to protect New Yorkers as the nation faces the threat of terrorism. In 2004-05, approximately $151 million in State funds will be available to maintain homeland security and combat terrorism. In addition, Federal grants will support State and local security activities.

Public Security

When America was attacked on September 11th, New York State, under Governor Pataki's leadership, responded immediately. The State's Office of Public Security quickly assumed responsibility for coordinating anti-terrorism efforts, and has taken the lead in ensuring the safety and security of the State.

Strenthening the Patriot Plan

Patriot Plan II legislation to:

- Exempt Guard's pay from State taxes.
- Increase the active duty pay for troops on the front lines of the war on terror.

- Enhanced security measures are now in place at key locations across the State, including power plants, airports, bridges, tunnels and other transportation hubs.
- Additional State troopers have been deployed to better secure the Canadian border.
- A Regional Intelligence Center has been established to coordinate Federal, State and local counter-intelligence efforts.
- A dedicated unit within the Department of State has been charged with training State and local first responders in Weapons of Mass Destruction protocols.
- Identity fraud is being combated through validation of Department of Motor Vehicle records.

Despite ongoing fiscal challenges, Governor Pataki continues to make the investments necessary to maintain public security and protect New York from acts of

Public Safety & Security

terrorism. The many attributes that make New York the Empire State — its major transportation hubs, status as a financial capital, network of highways and railroads, dramatic coastline on both the Atlantic Ocean and Great Lakes, extended border with Canada — also serve as high-profile targets for terrorists. Protecting this critical infrastructure, as well as the State's residents and visitors, demands vigilance and resources.

The 2004-05 Executive Budget provides the funding necessary to support public security activities. State and Federal funds will be available to maintain public security and combat terrorism and will:

- Provide additional resources that may be necessary when the Federal government increases the national security threat level;
- Provide equipment and training for State and local first responders to emergencies;
- Support the costs incurred by public safety agencies to augment security at critical infrastructure;
- Construct new biohazard laboratory capacity, and enhance the State's ability to address potential threats to livestock and food supplies;
- Secure buildings, public spaces and parking facilities at the Empire State Plaza, the State Capitol and other locations; and
- Conduct a comprehensive assessment of security measures at all significant power generation and transmission facilities in New York State.

As he has done since September 11th, Governor Pataki will aggressively seek threat-based Federal funds to support public security activities.

Keeping Violent Criminals Behind Bars

New York State continues to rank first among the ten most populous states in reducing violent crime and Governor Pataki is committed to making New York the safest of any state in America. The Executive Budget recommendations for 2004-05 contribute to achieving this goal.

Winning the Fight Against Crime.

Reductions in crime in New York State since 1994:

- Murder down 56%
- Rape down 23.6%
- Robbery down 59.4%
- Aggravated Assault down 38.6%
- Burglary down 55.8%
- Auto Theft down 64.3%

Governor Pataki's tough, but smart reforms of the State's

Violent Crime Drastically Reduced Under Governor Pataki

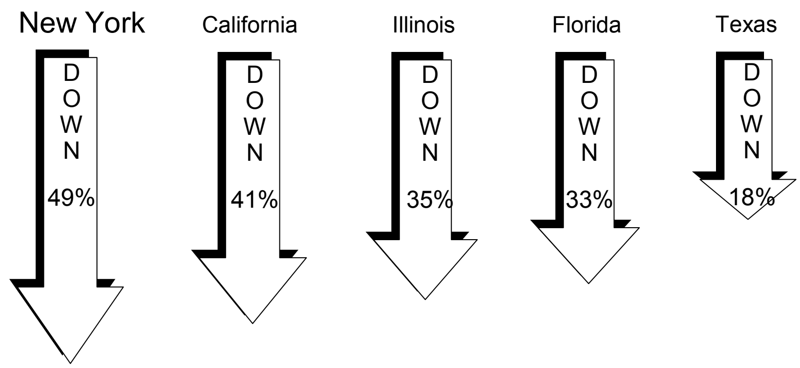


Figure 1

New York is first among the largest states in the nation in reducing violent crime between 1994 and 2002.

sentencing structure have been an important part of the successful battle against crime over the past nine years. Violent criminals are serving longer prison sentences, held where they can no longer prey on innocent citizens. At the same time, new programs have been implemented to provide non-violent offenders with opportunities to prepare for a successful return to the community. The result has been a decline in the total prison population, while the percentage of inmates behind bars who are violent offenders has steadily increased. *(See Figure 2)*

Keeping Violent Felons Behind Bars Longer

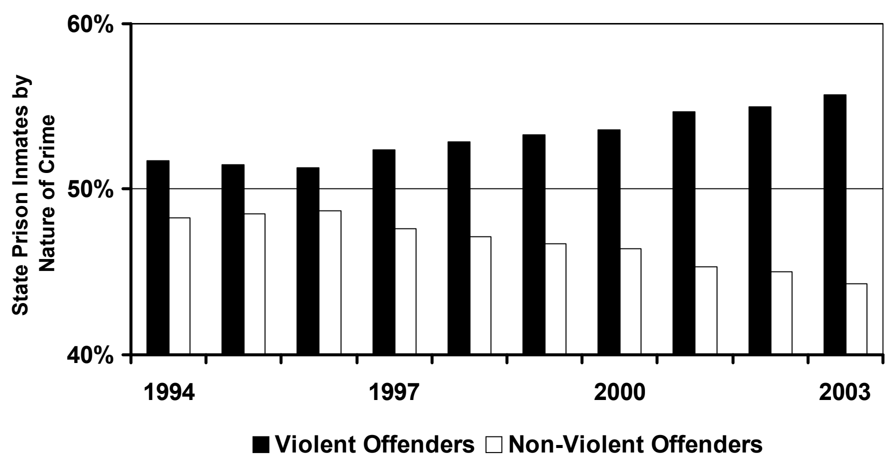


Figure 2

As a result of Governor Pataki's sentencing reforms, violent felons spend more time in prison and off the streets, and today represent a larger proportion of those offenders behind bars.

Public Safety & Security

This decline has allowed the State to reduce prison capacity. With current inmate population trends indicating a further reduction of 1,000 inmates during 2004-05, additional prison space will be eliminated.

The projected decline in the prison population would also allow the Department of Correctional Services to pursue a contract with the Federal government to temporarily house convicted felons serving sentences of State imprisonment awaiting deportation.

Restructuring Operations for More Effective Service

To reduce costs and provide more effective services, the Executive Budget includes several proposals to improve criminal justice agency operations:

- Within the Division of Criminal Justice Services (DCJS), the Crime Victims Board would be renamed as the Office for the Victims of Crime. This will permit more of the Office's resources to be devoted to the development of policy and the delivery of services rather than administration and more readily make available to the new Office the full administrative, technical and professional resources of the larger DCJS organization.
- Local assistance programs currently administered by the Division of Probation and Correctional Alternatives would be consolidated within DCJS, which houses most other criminal justice local aid programs.
- The Capital Defender Office would be administratively "hosted" by DCJS, while maintaining its programmatic independence.
- Criminal drug charges would now be prosecuted based upon the aggregate weight of the drug seized by police rather than the pure weight of the illegal substance. This would make New York's law consistent with that of all other states and the federal government, reduce workload on the State Police crime laboratory, and lead to speedier prosecution.
- Police officer testimony in grand jury cases would be permitted by affidavit rather than requiring a personal appearance, thus reducing costs for State and local governments and allowing for the redeployment of numerous police officers to critical public safety duties.

Improving Public Safety

Highway safety remains a high priority. While highway fatalities have declined since 1995, new initiatives proposed by Governor Pataki would make our roads even safer. Legislation submitted with the Executive Budget would:

- Institute a new automated speed limit enforcement program in work zones on interstate highways, which will increase safety for highway workers and motorists; and
- Establish a "bad drivers" program that will impose tough monetary penalties on drivers convicted of DWI/DUI, those who refuse to take breathalyzer tests, and individuals with poor driving records.

Governor Pataki has also developed a comprehensive plan to target deadly drivers who endanger lives. Legislation will be introduced to increase criminal penalties for drivers who kill or seriously injure others while using a vehicle, and provide new tools for prosecutors to crack down on dangerous drivers.

Also, while all handgun owners will continue to be licensed through the counties, a new State handgun registration permit fee is proposed which would allow the State Police to improve the administration of the handgun permit process.

New Initiatives to Aid Local Governments

The Executive Budget presents several new initiatives to benefit localities, including:

- Legislation to authorize localities to impose local supervision fees on probationers;
- A program to share recoveries from the prosecution of white collar crime with participating District Attorneys;
- Legislation that would allow localities to impose a surcharge on auto insurance premiums to provide revenue to maintain local criminal justice programs; and

Operation Impact

- Provides 300 specially trained State Police and other criminal justice resources to work with local law enforcement.
- Aggressively targets State and local efforts in the most crime plagued communities of the State.
- Mobilizes and deploys units at the request of local officials as a visible sign of State-local collaboration.
- Combines the resources of specialized State Police units and uniformed troopers with community policing to further reduce violent crime and save lives.

Public Safety & Security

- Funding for District Attorney offices to support prosecution of traffic violations.

In addition to these proposals, local governments will realize savings from the Governor's proposed statutory changes, noted earlier, regarding aggregate weight measures in drug cases and grand jury testimony by police officers.

Developing New Technology

Public Safety & Security

Governor Pataki's Executive Budget also addresses financing and implementation issues related to two critical public safety initiatives: the Statewide Wireless Network and wireless 911 service. The Statewide Wireless Network will provide state-of-the-art emergency communications capability to State and local emergency services personnel throughout New York. New wireless 911 service will continue to be developed in 2004-05 so that more emergency calls from wireless phones can be located quickly and accurately.

In addition, legislation will be introduced to encourage intergovernmental cooperation to expedite development of enhanced wireless 911 service. Targeted surcharges will generate the revenue necessary to support these vital programs, as well as others related to homeland security.

Juvenile Justice: Further Strategies for Promoting Public Safety

Juvenile crime continues to decline at an impressive rate and Governor Pataki is taking further steps to ensure continued progress through initiatives that reduce recidivism and target preventive services to at-risk youth. The 2004-05 Executive Budget fully implements a key juvenile justice reform initiated last year that reduces OCFS State-operated facility beds and expands funding for community-based supervision programs. These new programs enlist parents and non-profit organizations in an effort to deter non-violent youths from committing further offenses — while either preventing or minimizing the placement of these individuals in State residential facilities. In addition, the Executive Budget includes reforms to child welfare financing to ensure that youths in detention receive services necessary to prevent excessive stays and avoid future problems with the law.

The Governor's Budget provides nearly $250 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 2004-05 include:

Evidence-based Community Intervention (EbCI): Based upon the latest juvenile justice research, Governor Pataki's EbCI program targets juvenile delinquents who have committed non-violent property offenses. The initiative seeks to reduce recidivism through services that range from family-based treatment to specialized after-school programs. As EbCI enters its first full year of operation in 2004-05, total State and Federal funding for the program will grow to nearly $6 million, a 65 percent funding increase that will support community-based services to 400 youths.

Restructuring State-operated Facilities: The availability of EbCI, along with a continuing decline in juvenile crime under Governor Pataki, has enabled OCFS to significantly reduce and realign its State-operated facility system. By the end of 2003-04, OCFS will have reduced the capacity at high-cost State facilities by 290, at a net annual savings of approximately $12 million. Included in this restructuring effort is the planned closure of the Harlem Valley Secure Center, which has been sold to a private developer.

Detention Financing Reform: Building upon his successful reform of the child welfare financing system in 2002-03, Governor Pataki is advancing sweeping changes to the current detention financing system that will discourage long-term placement of juveniles in non-secure detention. A $56 million Detention Block Grant will provide a flexible funding source permitting counties to invest unused allocations in community-based services that avert the need for non-secure detention placement. Counties will also be encouraged to access open-ended 65 percent State reimbursement to support a range of locally developed preventive services. Finally, nearly $6 million in Temporary Assistance to Needy Families (TANF) funding will be available for a range of community-based services, including the creation of alternatives to detention.

Serving an Expanded PINS Population: Under legislation signed by Governor Pataki in 2002, parents of 16 and 17 year-old children are now able to seek the assistance of police and the Family Court through the filing of Persons in Need of Supervision (PINS) petitions. The Governor's 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. Counties will also be able to use a portion of the nearly $6 million TANF set-aside to support the full cost of new program models developed at the local level to serve the expanded PINS population.

Juvenile Crime Declining

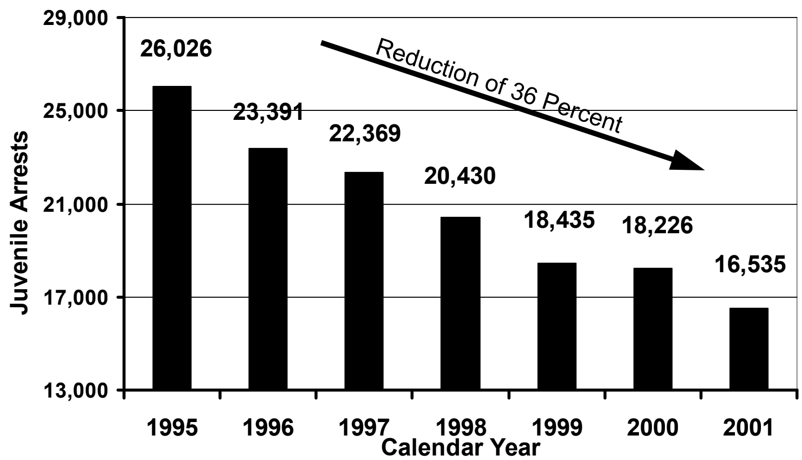


Figure 3

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 (including arson) committed by youth under the age of 16 declined 36 percent between 1995 and 2001.

Public Safety & Security

A Prescription for a Healthy New York

Health Care

Governor Pataki has worked to enhance access to high quality health care for those most in need, placing a special emphasis on children, the elderly, individuals with disabilities and other vulnerable populations. In achieving this goal, the Governor has emphasized the importance of ensuring an appropriate level of care that is also fiscally sustainable. The 2004-05 Executive Budget continues this balanced approach, striving to expand the availability of health care services while making them more affordable for consumers and other payors.

New York is a national leader in the quality of its health care services, as well as in ensuring service access to all of its citizens. Governor Pataki's health care initiatives over the past nine years have significantly contributed to this record.

The Health Care Reform Act (HCRA): This landmark legislation, originally enacted in 1996, reformed the hospital reimbursement system, serves as a national model for providing health coverage for the uninsured and supports other important public health initiatives. Amendments to HCRA enacted in 2002 and 2003 provided important additional funding to recruit and retain health care workers, and to advance critical new health care initiatives.

Prescription Drug Coverage for Senior Citizens through the Elderly Pharmaceutical Insurance Coverage (EPIC) Program: Long before Congress addressed prescription drug costs for seniors, Governor Pataki signed legislation raising EPIC income-eligibility levels and reducing program fees. As a result, enrollment has increased by almost 190 percent — from 114,000 in 1999 to more than 325,000 today. During 2004-05, New York will provide $705 million for this program, saving enrolled seniors an average of more than $2,000 annually.

New York's Mandatory Medicaid Managed Care Program: Managed Care is an essential part of our efforts to improve the health of New Yorkers, while reducing costs for State taxpayers. The program currently provides over 1.7 million Medicaid recipients a medical "home" that enables them to receive timely, coordinated medical care to prevent, diagnose and treat health problems.

Breast and Cervical Cancer Treatment: Uninsured and underinsured women with incomes up to 250 percent above the poverty level, who are diagnosed with breast or cervical cancer through Federal and State screening programs, are now eligible for lifesaving treatments. This measure is an element of Governor Pataki's comprehensive women's health agenda, which includes: an enhanced statewide network of screening and mammography programs; expanded funding for breast cancer research; and new requirements that insurance companies cover breast reconstructive surgery, second opinions and appropriate hospital stays for mothers and their newborns.

Medical Coverage for the Working Disabled: In 2003, disabled individuals with incomes up to 250 percent above the poverty level became eligible to obtain the comprehensive, quality health care they need to live independently and enter or remain in the workforce.

Child Health Plus (CHP): CHP is New York's program of subsidized health insurance coverage for children. Under Governor Pataki, enrollment in this nationally recognized program has grown dramatically, from approximately 93,000 in 1995 to over 445,000 in 2003, a 378 percent increase. In addition, benefits have been expanded to make CHP a truly comprehensive health care program. New York will spend more than $810 million from Federal and other resources in 2004-05 to provide these critical health care services to children.

Family Health Plus (FHP): Family Health Plus, initiated in October 2001, builds on the successes of CHP, providing lower-income parents and other adults access to comprehensive health care benefits at affordable rates. Family Health Plus now provides affordable health coverage to more than 340,000 New Yorkers, an increase of almost 150,000, or 77 percent, since March 2003.

Sustaining a Sensible Health Policy

Governor Pataki's policies have been extremely successful in controlling Medicaid costs over the first nine years of his Administration. State taxpayer support for Medicaid grew by only five percent during that time.

Nevertheless, New York's Medicaid spending remains the highest in the nation *(See Figure 1)* and State and local costs have recently begun to grow rapidly, mirroring increases seen across the nation. This cost escalation is driven by the rapidly rising cost of prescription drugs, greater use of services by those eligible, and a growing elderly population that requires acute and long-term care. Left unchecked, total Medicaid spending will be nearly $44 billion in 2004-05.

Total Medicaid Spending Per Capita is Highest in the Nation

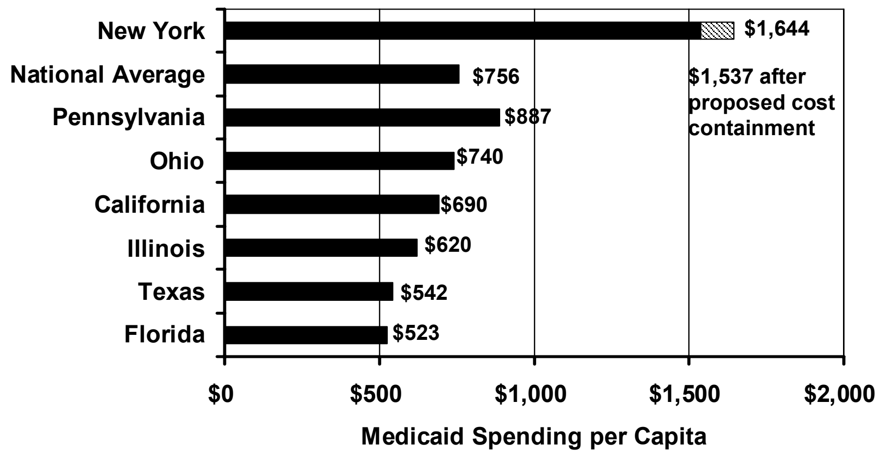


Figure 1

New York continues to spend far more per capita than any other state. Even after the Executive Budget's proposed cost containment actions, New York will still spend the most on Medicaid.

Health Care

Therefore, the 2004-05 Executive Budget redoubles efforts to contain Medicaid costs, while continuing to fund the important health initiatives established by the Governor over the last nine years. Even as this Budget addresses the State's fiscal challenges, the health care needs of our citizens will continue to be met.

The Executive Budget recommendations related to Medicaid will save the State $801 million in 2004-05. Other cost containment and reform measures will, upon full implementation, reduce the annual cost of the Elderly Pharmaceutical Insurance Coverage (EPIC) and Early Intervention (EI) programs by $100 million and $75 million, respectively. These Medicaid and other measures will also produce nearly $234 million in savings for New York City and the counties next year.

Most importantly, in recognition of the fiscal burden Medicaid places on local governments, this Budget advances key initiatives to reform and restructure the long-term care system. These reforms will permit the State to assume the full cost of long-term care over a ten-year period, providing substantial fiscal relief to New York City and county governments.

Reforming the Long-Term Care System

The cornerstone of the Governor's health recommendation is a comprehensive proposal to restructure the long-term care system so that it is efficient, affordable and better meets the needs of the elderly and disabled.

The existing system is expensive, overly reliant on Medicaid — which finances 74 percent of home care and nursing home costs — and difficult for consumers to access and navigate. The Governor's reform proposal:

Calls for the State to Take Over Local Medicaid Long-Term Care Costs: Legislation will be advanced shifting the entire local cost of the long-term care program to the State over a ten-year period. When combined with proposed Medicaid cost containment initiatives, the cumulative five-year savings to local governments will be approximately $3.2 billion. *(See Figure 2)* Upon full implementation, the annual savings to local governments from the State takeover alone will exceed $1.8 billion. The proposed State takeover is contingent upon the enactment of a series of measures recommended in the Budget to achieve long-term care savings, including closing eligibility loopholes, increasing revenue from non-State sources and implementing other targeted initiatives.

State Takeover of Local Medicaid Costs

Historic reform is proposed to relieve local governments of $1.8 billion in long-term care Medicaid costs each year, when fully implemented.

Closes Existing Eligibility Loopholes: Legislation is proposed to close existing Medicaid loopholes that allow individuals to refuse to contribute any of their income

Over $3 Billion in Cumulative Local Medicaid Savings

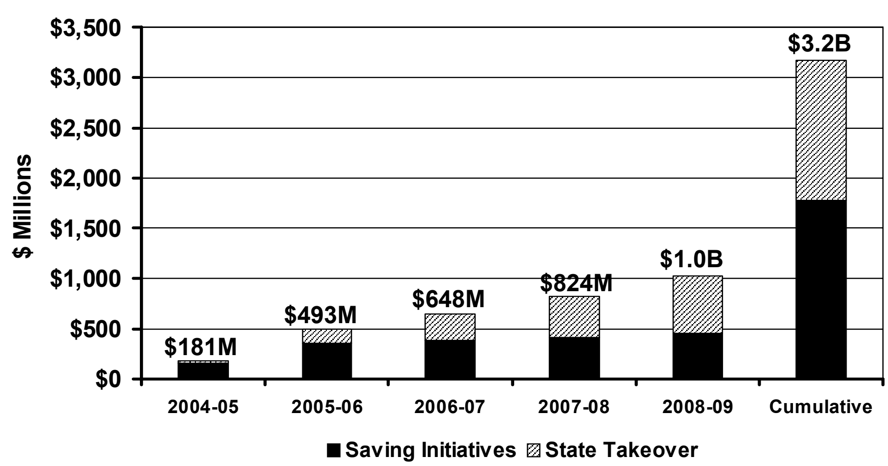


Figure 2

The Executive Budget proposes a series of initiatives that will provide counties with $3.17 billion in cumulative fiscal relief over the next five years. Proposed cost containment actions will save counties $1.78 billion while the State assumption of local long-term care Medicaid costs will generate additional savings of $1.39 billion.

and assets towards the cost of health care for a spouse. Other rules regarding eligibility will also be tightened.

Offers More Attractive Long-Term Care Insurance Options: To reduce the reliance on Medicaid financing, this Budget expands and improves long-term care insurance options. New York's Partnership Program, a public/private mechanism to stimulate the investment of private insurance dollars in the long-term care system, will be modified to offer more flexible benefit packages. In addition, a State-funded reinsurance mechanism is recommended to make long-term care coverage more affordable. Finally, a public education campaign will be undertaken to inform "baby boomers" about both private and public long term care insurance options.

Promotes Access to Appropriate and Cost-Efficient Services: The Budget proposes legislation to authorize the Commissioner of Health to conduct demonstration projects that promote the delivery of cost-effective and high quality long-term care services through the use of technology and innovative approaches for service delivery.

Updates Nursing Home Rates: Currently, the nursing home reimbursement rates use 1993 data for labor costs, which account for approximately 80 percent of a nursing home's costs. This Executive Budget proposes to update these costs to reflect 2001 data, which will provide a financial benefit to more than 280 facilities and enhance these homes' ability to recruit and retain workers. At the same time, a "hold harmless" provision will ensure that no facility loses money. This update will be contingent upon savings achieved through the elimination of two nursing home rate adjustments that are no longer appropriate.

Recommends Financing Changes: The Budget re-establishes a 0.7 percent non-reimbursable assessment on home care revenues and also increases the assessment on nursing home receipts from 5 percent to 6 percent. This action is expected to have a minimal impact on most nursing homes because the increase is modest and the assessment is reimbursable through the Medicaid program.

Advancing Pharmaceutical Savings Initiatives

The cost of prescription drugs in New York continues to escalate at an alarming rate, as it has across the nation. Pharmaceutical costs are the fastest growing component of Medicaid, increasing in recent years at

Rapid Growth in Medicaid Pharmaceutical Spending

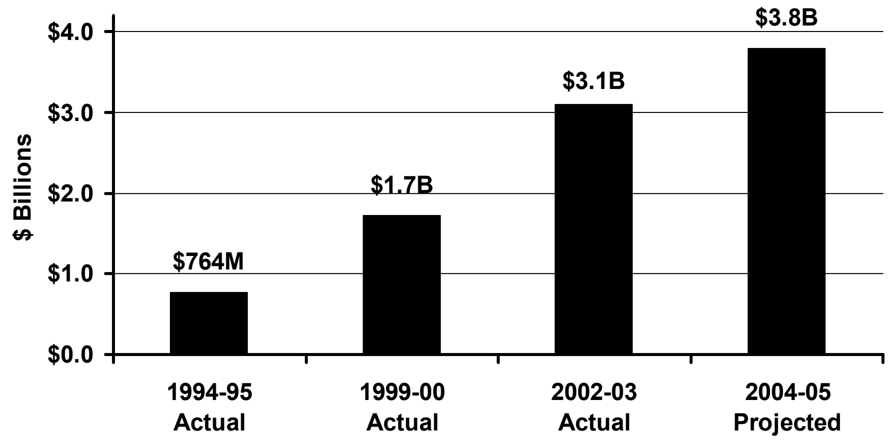


Figure 3

Pharmaceutical spending in New York's Medicaid program continues to be the fastest growing component of health care costs, with average annual increases of nearly 20 percent between 1994-95 and 2004-05. Left unabated, this rapid growth jeopardizes the State's ability to provide quality health care services to those who need them most.

an average annual rate of approximately 20 percent. The EPIC program is experiencing similarly spiraling cost increases. *(See Figures 3 & 4)*

If not controlled, this unsustainable growth could undermine the State's ability to continue providing vital health services to New Yorkers. Accordingly, the 2004-05 Executive Budget advances several measures to control drug costs. These initiatives are similar to those successfully employed by private sector health plans and other states. Overall, these actions, as described below, will save the State's Medicaid program $93 million and EPIC $60 million in 2004-05:

Preferred Drug Program: The 2004-05 Executive Budget would establish a Preferred Drug Program to encourage the appropriate use of prescription drugs in Medicaid. Expert research will be used to identify drugs that are both clinically effective and less costly, taking into account the rebates offered by manufacturers. Certain lifesaving drugs, such as anti-retrovirals, atypical anti-psychotics, anti-depressants and anti-rejection drugs, would not be affected by the Preferred Drug Program. The Department of Health's Pharmacy and Therapeutics Committee, which includes independent clinicians, practitioners and pharmacists, will recommend the list of preferred drugs. A similar program would be implemented for EPIC in 2006-07.

EPIC Spending Grows Dramatically

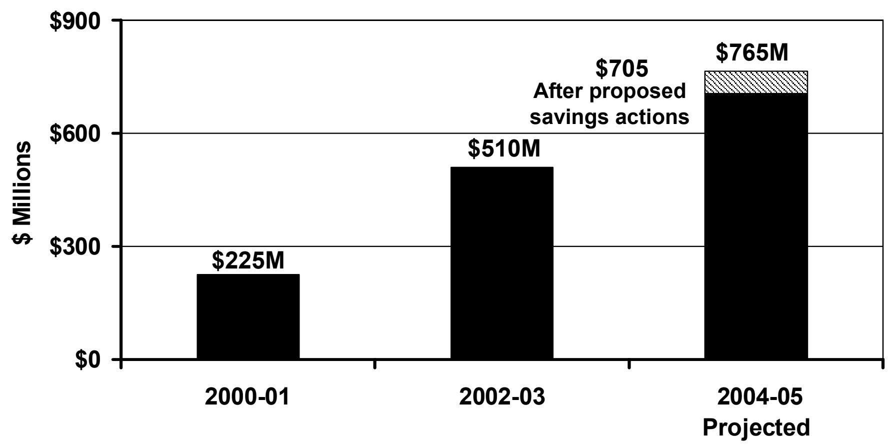


Figure 4

State spending on EPIC will grow from $225 million in 2000-01 to a projected $765 million in 2004-05, an increase of $540 million, or 240 percent. Although EPIC enrollments have doubled over this period, significant increases in drug costs have been a major factor in this dramatic increase in EPIC costs.

New Medicare Discount Drug Card: In the wake of new Federal funding for prescription drugs, the State's EPIC recipients will be provided with incentives to access the new Medicare Discount Drug Card. Under this initiative, EPIC fees would be waived for those low-income individuals who qualify for the annual $600 Discount Card subsidy. This would both reduce costs for seniors and produce savings for EPIC.

"Forge-proof" Prescription Program: This new program will bolster the State's anti-fraud efforts by requiring the use of non-reproducible prescription forms for both controlled and non-controlled substances. This initiative will reduce the illegal marketing of drugs, thereby realizing significant savings for both Medicaid and private insurers.

Rationalizing Pharmacy Costs: This initiative would reduce pharmacy reimbursement rates for brand name and

Governor's Health Care Reform Working Group

The Governor's Health Care Reform Working Group recently issued an interim report calling for significant health care reforms. The report recommends the reform and multi-year restructuring of New York's long-term care system, including measures to reduce its reliance on Medicaid financing. The Working Group also called for: the establishment of a Preferred Drug Program to help control the rapidly escalating cost of prescription drugs in both the Medicaid and EPIC programs; reforms to better coordinate the reimbursements for health care facility capital investments; and, new measures to assist health care industries in "right-sizing." The Governor's 2004-05 Budget recommendation builds upon the proposals of the Working Group.

generic drugs in both the Medicaid and EPIC programs to bring retail reimbursement rates more in line with actual costs.

The Budget also recommends modest increases in co-payments for Medicaid participants. Co-payments — unchanged since 1995 — will be increased by 50 cents for generic drugs and $1 for brand name drugs. Individuals in managed care would be required to make the same increased co-payments.

Promoting Affordable Care for State and Local Taxpayers

Health Care

One of the goals of the Executive Budget is to reform and improve the Medicaid program to ensure that it is fiscally sustainable over the long-term. To this end, the 2004-05 Executive Budget advances several measures aimed at making the Medicaid program more affordable and comparable to traditional health insurance programs.

- Building on the Senate Medicaid Task Force's recommendations, the Family Health Plus (FHP) program will be restructured to: require co-payments on pharmaceuticals, doctor visits and hospital stays; eliminate vision and dental services; and close eligibility loopholes to prevent the inappropriate use of the program. As a result, FHP costs will be controlled and the program will more closely resemble the health insurance benefit that is provided by private sector health plans. *(See Figure 5)*

Family Health Plus Spending

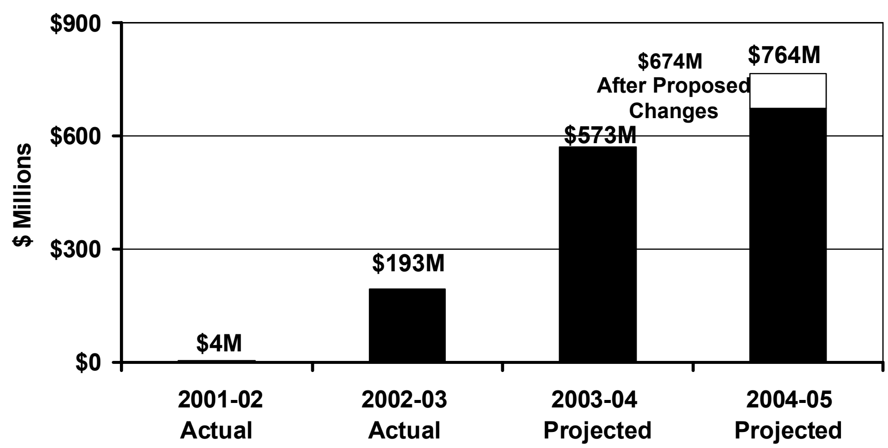


Figure 5

State and local spending for Family Health Plus has escalated significantly since the program began. The Executive Budget proposes to control Family Health Plus costs by eliminating eligibility loopholes and requiring cost sharing similar to private sector health plans.

- Consistent with the Senate Medicaid Task Force's recommendation, children ages 6 to 19 in families with incomes between 100 and 133 percent of the Federal Poverty Level (FPL) will be transferred 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.

- A utilization and case management system will be established, in conjunction with the counties, for high-cost Medicaid recipients who access substance abuse, mental health and developmental disability services. This will ensure that Medicaid recipients receive appropriate services necessary to meet their needs but in a more cost-effective manner.

- Dually-eligible Medicaid recipients — those who are eligible for both Medicare and Medicaid — will be enrolled in Medicare Part A, which covers hospital and other selected services. This will generate savings as Part A premiums are less expensive than paying for the services through Medicaid.

- Dually-eligible Medicaid recipients and individuals who receive Supplemental Security Income (SSI) benefits will be encouraged to participate in Medicaid Managed Care. This will ensure quality care for these individuals, while improving the cost effectiveness of service delivery.

- Several optional Medicaid services for adults will be eliminated. These include podiatry services and services provided by private practicing dentists and other practitioners, including nurses, audiologists and psychologists.

- A 0.7 percent non-reimbursable assessment on hospital revenues will be re-established.

- The 2003-04 action to reduce the reimbursement to local governments for the local share of services provided to certain Office of Mental Health and Office of Mental Retardation and Developmental Disabilities recipients will be extended.

- Medicaid cycle provider payments will be modified by delaying the last payment in 2004-05 by two days.

- The Council on Graduate Medical Education will study the current investment of resources in graduate medical education in New York State.

Strengthening the Health Care Reform Act

Health Care

The Governor's 2004-05 Executive Budget builds upon his longstanding commitment to the health and well-being of New Yorkers by proposing modifications to the Health Care Reform Act (HCRA) to maximize the use of available revenues, reduce costs where feasible and advance new targeted funding for important initiatives. Specifically, the Budget will:

- Continue critical health care workforce recruitment and retention funding enacted in 2002;
- Provide new funding to promote the purchase of long-term care insurance by New Yorkers;
- Explore the expanded use of technologies in the management and delivery of health care services;
- Dedicate a portion of the proceeds from the conversion of any not-for-profit insurer to for-profit status — similar to the Empire Blue Cross conversion — to health care programs within HCRA;
- Maximize Federal Medicaid reimbursement for Graduate Medical Education (GME) — an action that provides $30 million to 24 teaching hospitals and reduces the need for HCRA funding; and
- Reduce funding for the Roswell Park Cancer Institute and eliminate two demonstration programs, the Catastrophic Health Care and Individual Subsidy programs, that are no longer necessary with the implementation of Family Health Plus and Healthy New York.

These actions, when combined with other recommendations, will provide taxpayer savings and ensure adequate funding to support HCRA through June 2005.

Sustaining, Reforming & Improving Critical Public Health Programs

In addition to proposals to contain Medicaid and HCRA spending, the Governor's Budget recommends a series of actions which preserve critical public health services while achieving program efficiencies and heightening accountability.

Restructuring the Early Intervention Program

Since its inception in 1992, the Early Intervention Program (EI) has provided services, such as speech and physical therapy, to hundreds of thousands of infants

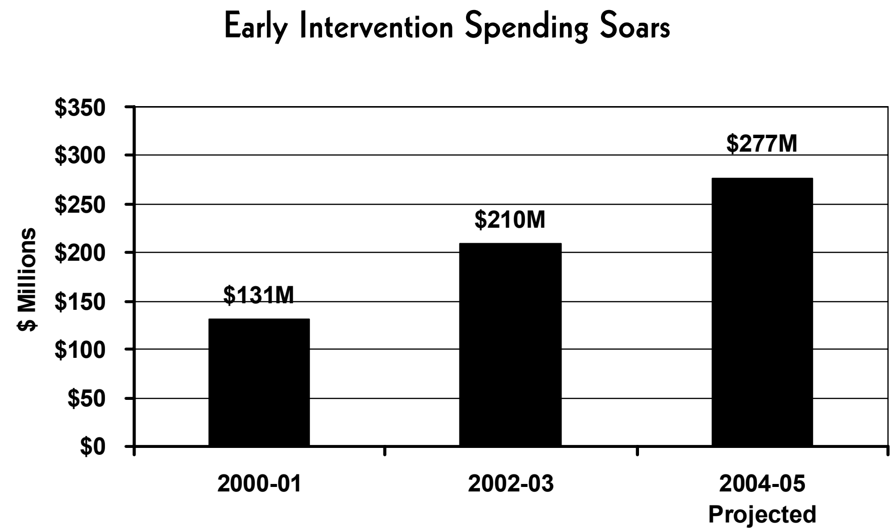


Figure 6

State Early Intervention spending has increased dramatically — more than doubling from 2000-01 to 2004-05. The program serves over 82,000 children. Since the State and counties share equally in the cost of EI, the localities are experiencing the same level of unsustainable spending growth.

Health Care

and children with developmental delays and disabilities, at no cost to their families regardless of their incomes. Such services are critically important for the successful development of many children.

The exploding growth in State EI costs — projected to reach $277 million in 2004-05 — threatens the ability of the State and counties to maintain services to the children who need them most. *(See Figure 6)*

At the same time, in many cases, those who provide EI services are the same providers who determine a child's service needs. The current process needs improvement to ensure that services being provided are necessary and appropriate.

New York State and local governments spend an average of $10,000 per child participating in EI — compared to an average of less than $5,000 per child spent in other states.

To address the escalating cost of this program, the 2004-05 Executive Budget recommends a series of reform measures to ensure that the EI program is affordable, effective and accountable. Collectively, these measures will save the State and counties $75 million each when fully implemented:

Promote Appropriate Utilization of Services: This Budget recommends a two-tier approval process for services, which will require county approval if the number of services for a child exceeds five per week; and State approval for more than seven services per week.

Strengthen the State's Oversight of Providers: A provider registration fee is proposed to strengthen the provider approval and certification program to ensure the safety of children enrolled in the program. In addition, the Department of Health will establish standards to ensure appropriate advertising by providers.

Provide Counties with Tools to More Effectively Manage EI: Under this proposal, counties will have the option of using the rates established by the State or negotiating lower rates with providers. In addition, the recommendation includes measures to enhance the counties' ability to manage the program at the local level.

Improve Insurance Coverage: Measures to increase the health insurance reimbursement of medical services provided through EI are proposed. Currently, private health insurance plans reimburse approximately one percent of EI costs.

Modify the Provider Rate Structure: Two proposals are recommended to promote a more cost-efficient program. First, the rate of reimbursement for home visits will be re-structured to establish one rate, rather than separate rates for basic and extended visits. In addition, a capitated rate is recommended for service coordination, rather than the current hourly rate.

Institute Family Fees: Required family fees will vary depending on income, with families earning less than 250 percent of the Federal Poverty Level exempt from any contribution. In addition, fee waivers — based on hardship — will be available to ensure that necessary services to severely disabled children are not interrupted.

Sustaining Essential Public Health Services

Protecting public health remains one of the Governor's highest priorities. The 2004-05 Executive Budget includes $2.7 billion to preserve critical programs that provide direct health care services to New Yorkers, while maximizing revenues, eliminating non-essential programs and implementing other efficiencies. The Governor's Budget includes:

- $229.3 million for the General Public Health Works program, which supports county public health activities. The recommendation maintains funding for high priority core services at the current reimbursement level while reducing State funding for lower priority optional services from 30 percent to

20 percent — giving counties flexibility to prioritize spending within the optional services category.

- $21 million for the State's share of a $60 million project to re-build the Oxford Veterans Nursing Home in Chenango County, which was originally constructed in 1978. The Department of Health is expected to obtain Federal funds to finance the balance of the project's costs. The Federal Veteran's Health Administration has identified New York as one of the highest priority states to receive funding for a new veterans home.
- $88.3 million to address women's health care and the nutritional needs of women, infants and children.
- $78 million for the Roswell Park Cancer Institute in Buffalo.
- $68 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.

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 2004-05 Executive Budget continues New York's longstanding commitment in the fight against AIDS by including $3 billion for AIDS-related services — the largest amount in the nation. Funded services include those delivered through the AIDS Institute and the State's Medicaid, social services, housing, criminal justice, mental health and alcohol and substance abuse treatment programs.

Improving the Quality of Adult Home Services

The Governor's Executive Budget continues to address issues involving New York's Adult Homes System. In 2004-05, $10 million, supplemented with Medicaid funds, will enable the Department of Health, the Office of Mental Health, the Commission on Quality of Care for the Mentally Disabled and the State Office for the Aging to undertake a series of actions in adult homes, including:

- Conducting resident assessments;
- Providing enhanced medication assistance;

- Implementing independent case management services and peer educators;
- Improving wellness, social and recreational activities; and
- Providing competitive grants to adult homes to implement new quality of life initiatives as approved by resident councils.

Also, individuals who need placement outside the adult home system will be eligible to access OMH's extensive community-based residential system currently comprising approximately 26,100 beds, in addition to several thousand new beds planned over the next several years.

Strong Support for Local Governments Continues

Over the past nine years, State budgets enacted under Governor Pataki have delivered nearly $8.6 billion in mandate relief and additional aid to local governments, through record-breaking increases in school aid, Medicaid cost controls, welfare reform, expansion of unrestricted aid, pension reform, and new revenues. In addition, the State has buoyed local economies and job development with landmark programs such as Empire Zones, Centers of Excellence, Small Cities Aid, and the Quality Communities program.

The 2004-05 Executive Budget builds on this strong legacy, once again preserving unrestricted aid in the face of a multi-billion dollar budget gap. Further, Executive Budget recommendations provide new benefits for every class of local government — counties, cities, towns, and villages — totaling $1.4 billion. During State fiscal year 2004-05, counties will reap a benefit of $534 million. New York City is estimated to benefit by nearly $400 million, on a City fiscal year basis. More importantly, many of the proposals advanced by the Executive Budget will result in recurring future benefits, providing critical assistance to local governments over the long-term.

Governor Proposes Significant Benefits for Local Governments

- State takeover of the local share of Medicaid long-term care costs, providing $1.8 billion in savings when fully implemented.
- Other Medicaid savings initiatives which will total nearly $360 million when fully implemented.
- Pension reform to immediately lower costs by nearly $800 million, and make future increases more moderate and predictable.
- Increased funding for STAR, including a new STAR credit program.
- Dedication of State VLT revenues to support court-ordered education reforms.
- Repeal of onerous and unnecessary State mandates on local governments.

Local Government

Helping Local Governments Meet Fiscal Challenges

Like the State, local governments are facing escalating pension costs, new collective bargaining negotiations, and rising Medicaid and health insurance contributions. The 2004-05 Executive Budget will help local governments meet these fiscal challenges, maintain needed services, and control property tax increases.

The Governor's proposals address the critical issues now faced by local governments, such as:

Controlling growth in the local share of Medicaid: The Governor proposes a renewed effort to achieve Medicaid cost containment savings, that will benefit both the State and its counties. The proposed cost containment would yield savings of over $157 million in 2004-05 and approximately $360 million annually for New York City and counties, when fully implemented — a cumulative savings of $1.8 billion over five years. The adoption of the cost containment measures will make it feasible for the State to assume the local share of long-term care costs. This assumption of local costs will provide another $24 million in relief in 2004-05 and $1.8 billion in annual relief when fully implemented. Together, the proposed cost containment and the takeover of long-term care costs will save local governments almost $3.2 billion, cumulatively, over the next five years.

Local Government

Mitigating a projected increase of nearly 187 percent in pension costs: While the pension reform legislation adopted in 2003 was a positive step, it was only a temporary solution. Significant pension cost increases make it clear that additional reforms are needed. While current law permits local governments to finance a portion of the 2004 increase, additional reforms proposed by the Governor in this Executive Budget will lower costs by more than $1.3 billion over the next two years. The Governor's proposed reforms are consistent with Government Accounting Standards Board (GASB) requirements, correspond to practices used by other public retirement systems in New York and elsewhere, and mirror actions taken by the State Retirement System in the past. As such, the Governor's proposed reforms appropriately balance the requirements of the pension system, the needs of its members and the fiscal constraints of government employers.

Maintaining the Tax Base: Legislation accompanying the 2004-05 Executive Budget will limit the sales tax exemption on clothing to four weeks per year, a recurring benefit to local governments of approximately $278 million each year. In addition several proposals to close unintended tax looopholes will supplement local revenues by $10 million.

Support for Schools Remains a State Priority: During Governor Pataki's administration, school aid has grown by nearly $4.7 billion, a 48 percent increase. The 2004-05 Executive Budget builds on this generous base with a school year increase of $147 million in general school aid. In addition, beginning with the

2004-05 school year, all State revenues generated by Video Lottery Terminals (VLTs) will be dedicated to support the sound basic education requirements set forth in the State Constitution and reaffirmed in the recent decision by the Court of Appeals. Based upon VLT facilities now being developed, as well as new ones to be authorized in legislation introduced with the Executive Budget, these receipts are expected to approximate $325 million in the 2004-05 school year, growing to $2 billion over the next five years.

Stimulating Economic Development: Governor Pataki's economic development agenda is geared toward the renewal of cities and other distressed areas across the State. At its core are the Empire Zones and the Centers of Excellence, which bolster regional economies. Recent legislation to encourage the redevelopment of brownfields offers opportunities for further renewal in many urban areas. Additionally, the Governor's Budget proposes a new $250 million Regional Economic Growth program to provide State funding for a variety of local economic development initiatives.

Keeping Capital Improvements Affordable: The Governor once again proposes the repeal of the Wicks Law, as New York is the only State currently imposing such a mandate on local governments. If the repeal is accepted by the Legislature, local governments would have the freedom to contract for public works projects in the manner they deem most appropriate for their communities. Potential local government savings on capital construction costs could range from 10 to 30 percent.

Relieving Local Governments of Unnecessary Litigation Costs: Several State laws unreasonably burden local governments with respect to court judgments in civil matters. By advancing sensible reform proposals, local governments can avail themselves of certain options and realize savings comparable to other levels of government and in the private sector. Foremost among these is a proposal that allows judgments against local governments and the State to be offset by past and future insurance awards or other forms of compensation, as they are in the private sector. A second proposal establishes a reasonable market-based method of calculating interest in court judgments. Finally, legislation will transfer exclusive jurisdiction to the Court of Claims in matters concerning local governments and certain New York City public authorities.

Collective Bargaining: Many local governments will be negotiating collective bargaining contracts in 2004, with limited ability to afford pay raises and maintain

Fiscal Stability for Distressed Cities:

Under a new proposal, qualified cities may request the Municipal Bond Bank Agency (MBBA) to issue bonds to support their operating costs on a limited basis. Issuances would occur over three years, in diminishing amounts, as part of a multi-year plan to restructure city services and re-establish structural budget balance.

or improve other benefits. As a result, many local governments are seeking to negotiate productivity improvements or other cost savings measures to offset any new collective bargaining costs. In support of that policy approach, the Governor will once again advance legislation to require binding arbitration panels to give priority consideration to a municipality's ability to pay.

Encourage local efforts to achieve savings by consolidating services: Legislation advanced by the Governor will facilitate local government efforts to cooperate in the delivery of services on a broader regional basis, thereby reducing taxpayer costs.

Continued Partnership with New York City

The Executive Budget reflects the priority that Governor Pataki places on a strong and effective partnership between the City and State of New York. Since 1995, State budgets have provided nearly $4 billion in cost savings and increased assistance to New York City, through significant investments in school aid, Medicaid cost containment, welfare reform, increased revenues and other measures. The Governor has also forged historic agreements of great benefit to the City. These include school governance reform, giving greater control of the City's schools to the Mayor; and the New York City Watershed agreement, helping to guarantee the safety and purity of one of the City's most important assets, its drinking water supply.

Last year the State provided an unprecedented $2.7 billion aid package for the City — comprising more than 71 percent of the City's 2003-04 gap closing actions. This assistance firmly placed the City's budget on the road to fiscal stability.

State/City Cooperation

Further, Governor Pataki was instrumental in resolving a long-standing dispute between the City and the Port Authority over payments for the City's airports, shepherding through a multi-year agreement worth more than $1 billion in back and future rental payments. In addition, a State/City partnership negotiated another nearly $600 million in World Trade Center assistance for the City from the Federal government.

More than two years after the terrorist attacks of September 11th, plans for the revitalization and rebuilding of Lower Manhattan are continuing on an aggressive timeline. Working closely with Mayor Bloomberg, the Governor has outlined a bold plan which is already showing impressive results — the recent resumption of PATH service, the beginning phases of the new 7 World Trade Center construction, and the unveiling of designs for both the Freedom Tower and a memorial to honor those lost in the disaster.

Impact of the 2004-05 Budget on New York City

The 2004-05 Executive Budget continues to build on the Governor's unprecedented record providing financial assistance to New York City. On a State fiscal year basis, the Executive Budget will generate a net benefit for New York City of over $305 million in new savings and resources — growing to over $550 million in the following year. On a City fiscal year basis, the Executive Budget recommendations are estimated to result in a nearly $400 million benefit. The major 2004-05 Executive Budget recommendations affecting New York City include:

- Initiating the State takeover of the local share of long-term care costs, one of the fastest growing and most expensive Medicaid program components for New York City ($15 million);
- Cost containment initiatives in other costly and fast-growing programs in Medicaid, and the restructuring of the Early Intervention program to lower costs while protecting critically needed services for children with developmental delays (over $130 million); and
- Sales tax changes and tax loophole closers ($160 million).

No discussion of the dynamic State/City partnership would be complete without an examination of State support for public schools, which has increased significantly under Governor Pataki. In fact, school aid for New York City has grown by nearly $2.1 billion since 1994-95 — a more than 60 percent increase. Beginning in 2002-03, these increases resulted in the City receiving a greater share of statewide school aid than its share of statewide enrollment.

The Executive Budget will build on this investment, providing an increase in general school aid for New York City of $56 million on a school year basis. In addition, this Budget will dedicate all State revenue generated by video lottery terminals (VLTs) to support expected reforms related to providing every child the opportunity for a sound basic education. These overall resources are projected to total $325 million for the 2004-05 school year, growing to $2 billion over the next five years. An allocation to New York City from these overall VLT revenues will supplement New York City's $56 million increase in general school aid.

Finally, the Governor's Budget addresses the issues surrounding the refinancing of the Municipal Assistance Corporation's (MAC) debt. The Governor has repeatedly offered alternatives to shorten the 30-year extension of the debt and to avoid the legal issues raised by the existing legislation. This Budget proposes a new fiscally prudent method to shorten the length of MAC debt repayments by 15 years, saving taxpayers nearly $2 billion in unnecessary interest payments. The Governor's proposal will provide the same financial plan assistance for the City, and will make up to $250 million available annually to pay the debt service of these bonds.

Unrestricted Local Aid

Unrestricted aid to local governments will be maintained at current year levels. Recommended at $792 million for 2004-05, unrestricted aid has increased $98 million, or 14 percent over the Governor's tenure. Within this amount, aid to cities (excluding New York City) has increased a dramatic $200 million or 90 percent. The County Aid program concludes this year, as planned, after delivering $17 million in unrestricted aid to counties in 2003-04.

Impact of the 2004-05 Executive Budget On Local Governments

State Fiscal Year Basis
($ millions)

	Total	Counties	NYC	Other Locals	School Districts
Medicaid Reforms	180	63	117	N/A	N/A
Pension Reforms	795	289	N/A	357	149
Tax Revenue Changes	288	127	160	1	N/A
School Aid[1]	111	N/A	39[2]	N/A	72
All Other Proposals[3]	46	55	(11)	4	(2)
Total Impact	1,420	534	305[4]	362	219

[1]The statewide increase on a school year basis is $147 million. The Executive Budget reserves and dedicates all State revenues generated by video lottery terminals (VLTs) to support sound basic education requirements. These revenues will provide an estimated $325 million in additional resources to schools in 2004-05 that are not reflected in this table.

[2]The increase for New York City on a school year basis is $56 million.

[3]Amounts shown in the table above do not reflect additional savings expected to be achieved from the repeal of the Wicks law and proposals for relief from unnecessary litigation costs advanced as part of the Governor's mandate relief package.

[4]Benefits are estimated to be nearly $400 million for City fiscal year 2004-05.

Securing the Future of New York's Natural Resources

Since taking office, Governor Pataki has worked aggressively to protect and preserve New York's environment. As a result of the Governor's forward-looking policies, more residents and visitors will have the opportunity to enjoy New York's natural resources for generations to come.

National Leader in Protecting the Environment

Over the last nine years, the State has committed $12 billion toward preserving, protecting and improving the environment. Annual funding has grown by 77 percent, with more than $1.4 billion now being invested each year. Under Governor Pataki's leadership, New York:

- Adopted the $1.75 billion Clean Water/Clean Air Bond Act, which when combined with Federal and local matching funds, will provide $4 billion for projects preserving the long-term health of our environment;
- Preserved more than 500,000 acres of open space across the State, and is on track to achieve a goal of preserving one million acres over ten years;
- Negotiated a landmark agreement with the Federal and local governments that protects the drinking water of nine million New Yorkers, while preserving the economic vitality of watershed communities;
- Ensured protection of the Hudson River — now designated an American Heritage River by the Federal government — and established the Rivers and Estuaries Center on the Hudson to study and protect ecosystems of rivers, estuaries and watersheds throughout the world;
- Adopted both incentives and stringent standards to decrease pollution; and
- Adopted comprehensive legislation in 2003 to refinance and reform the State's Superfund Program and create a new State Brownfields Cleanup Program.

Implementing the Landmark Superfund/Brownfields Program

The Superfund refinancing and reform legislation signed into law in 2003 provides up to $135 million in annual appropriations and an estimated $135 million in tax credits each year to accelerate the cleanup and

Protecting New York's Land, Water and Air Resources

- New York has adopted the most stringent acid rain controls in the country, reducing allowable sulfur dioxide emissions to levels 50 percent lower than Federal requirements and imposing strict year-round controls on nitrogen oxide emissions.
- New York offers one of the most generous tax credits for alternative fuel vehicles in the nation; has adopted California low-emission vehicle standards for light- and medium-duty vehicles; and requires that 50 percent of the State's fleet comprise hybrid fuel vehicles by 2005.
- New York's Waste Tire Management and Recycling Act of 2003 funds the clean-up of illegal waste tire piles and spurs the development of new markets for the recycling or reuse of waste tires.
- New York's Pesticide Neighbor Notification law authorizes counties to require at least 48 hours notification before pesticide application at schools, day care centers and certain private residences.

redevelopment of thousands of contaminated sites throughout the State — returning them to public or private sector use.

The legislation also maintains the most stringent environmental and public health standards in the nation and continues New York's strong "polluter pays" philosophy. As a result, New York now has a powerful tool to transform polluted sites across the State for productive use. The legislation:

- Expands sites eligible for cleanup under the State Superfund Program to include hazardous substance sites and creates a Brownfields Cleanup Program;
- Provides liability relief to municipalities, lenders, and innocent third parties, while continuing to hold polluters responsible for the cleanups;
- Creates a Brownfield Opportunity Area Grant program to assist municipalities and community-based organizations in planning the redevelopment of brownfields within targeted Environmental Zones; and
- Expands public participation by making Technical Assistance Grants available to community-based organizations.

The 2004-05 Executive Budget provides funding for 70 new staff positions at the Departments of Environmental Conservation and Health, as well as other agencies, to ensure full and timely implementation of this important new legislation.

Helping Communities and Businesses Improve Environmental Quality

The new Superfund/Brownfields Program adds to an already strong array of policies and programs. The Governor has put in place a number of other initiatives that help communities and businesses improve environmental quality by:

- Providing $8.5 billion in low-cost capital, as well as 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;
- Providing a first-of-its-kind tax credit for the construction of environmentally friendly "green buildings";
- Requiring the New York State Public Service Commission to implement a renewable power standard to guarantee that, within 10 years, 25 percent of the power bought in New York is generated from renewable sources; and
- Enabling the New York State Energy Research and Development Authority (NYSERDA), New York Power Authority (NYPA) and Long Island Power Authority (LIPA) to collectively invest more than $290 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.

Environment

Continuing the Commitment to the Environment

The 2004-05 Executive Budget maintains Governor Pataki's steadfast commitment to the environment by providing:

- $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 *(See "$125 Million for 2004-05 Environmental Protection Fund (EPF) Projects")*;
- $173.4 million in new State and Federal funds for the State Revolving Fund low-interest loan program

Governor Advances Historic Environmental Justice Initiative

- The Executive Budget includes $500,000 through the Environmental Protection Fund (EPF) to implement a new Environmental Justice program.
- Environmental Justice is meant to ensure the fair treatment and meaningful involvement of all people, regardless of race, color or income, with respect to the implementation of environmental permitting laws, regulations and policies.
- The Environmental Justice Technical Assistance Grants Program will ensure that underserved communities have meaningful opportunities to express concerns and that those concerns are considered in the permitting of projects that affect the environment and public health.

to build and rehabilitate municipal sewage treatment facilities;

- $47 million for clean air programs to limit pollution from industrial and commercial sources, automobiles and heavy-duty vehicles—thus protecting the health of our citizens and the environment from harmful air pollutants;
- $50 million for fish and wildlife programs that are financed with hunting and fishing license fees; and
- $18 million for the new Waste Tire Management and Recycling Program to address the problem of waste tire disposal.

Environment

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, services have been improved, and operating costs have been reduced. In large measure, these accomplishments reflect success in establishing partnership agreements with the private sector, the non-profit community and other governmental entities that have supplemented State resources by over $100 million.

National Gold Medal State Park Award Honors New York's System for Excellence

New York State Parks system was recognized with the 2003 National Gold Medal State Park Award for excellence in park and recreation administration and for outstanding service to patrons. New York State was cited for its strong customer focus, its record of expanding and developing parkland, and its philosophy of community involvement.

Governor Pataki's 2004-05 Executive Budget maintains his commitment to providing New Yorkers and visitors with high quality recreational opportunities. The Governor's Budget provides:

- $165 million to support the 168 existing parks and 35 historic sites operated by the Office of Parks, Recreation and Historic Preservation. Since taking office, Governor Pataki has created 18 new State parks and invested more than $118 million in municipal park projects;

- Funding for the establishment and expansion of State parks at Harbor Beach Marina and Sandy Island Beach, projects that were recently announced by the Governor;
- $28.7 million to support capital improvements to State park facilities; and
- $6.7 million—or $2.8 million more than the 2003-04 funding level—to upgrade and expand the State's network of snowmobile trails and $850,000 to establish a new All Terrain Vehicle (ATV) trail development and maintenance program. These funding levels are made possible by increases in snowmobile and ATV registration fees, rather than relying upon General Fund dollars.

Strengthening Our Agricultural Communities and Economies

Governor Pataki recognizes 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. Accordingly, the Governor is committed to a wide range of programs that support the State's farming community. The 2004-05 Executive Budget maintains support for these important programs, including:

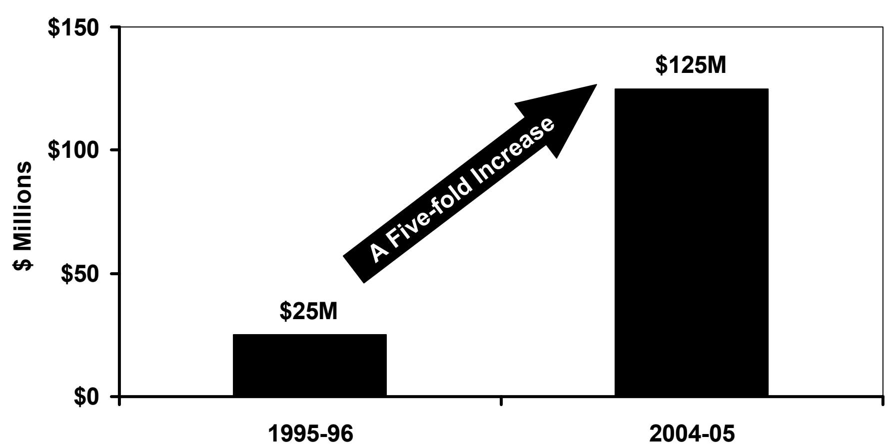
- $5.7 million for programs that provide critical services to the agricultural community, including various services at the Veterinary Diagnostic Laboratory ($4 million); Integrated Pest Management ($748,000); the Geneva Experiment Station ($570,000); and Farm Net ($285,000);
- $1.2 million to assist farmers with planning and economic initiatives that will maintain farms as a vital part of New York's economy; and
- $1.2 million to continue efforts, in concert with our New York City and Federal partners, to contain and eradicate the Asian Longhorned Beetle.

$125 Million for 2004-05 Environmental Protection Fund (EPF) Projects

- $38.5 million for land acquisition, open space, urban forestry and farmland protection;
- $10 million for the development of the Hudson River Park;
- $17.45 million for State parks and lands stewardship and Department of Environmental Conservation capital projects and biodiversity stewardship;
- $10 million for State Park Infrastructure projects;
- $10 million for solid waste projects, including municipal recycling ($5 million) and secondary materials marketing grants ($5 million);
- $5 million for the Hudson River Estuary Management Plan;
- $6 million for municipal parks and historic preservation projects;
- $6 million for waterfront revitalization projects;
- $4.95 million for the Zoos, Botanical Gardens and Aquaria program;
- $6.8 million for non-point source pollution control projects;
- $2.4 million for the pesticide use database;
- $2.3 million for Soil and Water Conservation Districts;
- $1.6 million to assess natural resource damages to the Hudson River;
- $750,000 to restore and preserve historic barns;
- $500,000 for Environmental Justice Initiatives; and
- $2.75 million for other environmental initiatives, including: Albany Pine Bush Commission ($400,000), Long Island Central Pine Barrens Commission ($700,000), South Shore Estuary Reserve ($350,000) and the Finger Lakes-Lake Ontario Watershed Protection Alliance ($1.3 million).

Environment

EPF Dramatically Increases Under Governor Pataki



The Governor's 2004-05 Budget includes an additional $125 million in EPF funding, bringing cumulative EPF funding since 1995 to more than $1.1 billion. Since the Governor took office, annual funding has increased five fold — from $25 million to $125 million.

Encouraging Work and Financial Independence

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 work and personal responsibility. Clearly, neither welfare recipients nor taxpayers were well served by this misguided system.

Working boldly over the past nine years, the Governor has fundamentally reformed the system to encourage welfare recipients to focus on personal responsibility and on moving toward the ultimate goal of employment. At the same time, working families at risk of falling into dependency are given temporary assistance to help them maintain financial security.

During these nine years, a clear progression of reform has been enacted to encourage responsibility and self-reliance while providing the support necessary to achieve those goals. These reforms have:

- Instilled an expectation of work and self-sufficiency by requiring recipients to work toward employment;
- Helped over one million individuals move off the welfare rolls;
- Made employment financially attractive through increases in the Earned Income Tax Credit and other initiatives;
- Provided day-care and numerous other critical supports to help lower-income New Yorkers maintain jobs;
- Helped families by enforcing child support obligations; and
- Assured that the basic needs of New Yorkers are met while they transition to independence.

The result has been a fundamental shift in the culture of New York's welfare programs.

Supporting New Yorkers Entering the Workforce

Two of the biggest impediments to employment that welfare recipients face are a lack of relevant job skills and access to quality, affordable child care. Governor Pataki's reform agenda has directly addressed these critical issues by:

- Investing over $7 billion to help "make work pay" for those moving from welfare to work. These funds finance 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

- Creating 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 $650 million, or nearly 233 percent, from 1995-96 to 2003-04, and today New York continues to rank among the top states, nationally, in providing child care.

Work, not Welfare

- While 1 in 11 New Yorkers were on the welfare rolls during 1995-96, only 1 in 31 were during 2003-04.
- Between 1995 and November 2003, welfare caseloads in New York State declined by over 62 percent.
- Over one million recipients have left the welfare rolls, bringing New York's caseload to the lowest levels since the 1960s.

Emphasizing the Importance of Work

Both houses of Congress intend to increase the percentage of welfare recipients required to be engaged in work under the Federal Temporary Assistance for Needy Families (TANF) program. Under the House-passed bill, the required work participation rate would grow to 70 percent from the current 50 percent by SFY 2008-09. To meet this requirement and avoid Federal penalties, New York must continue to help people find and keep jobs.

The Governor's Budget carefully targets TANF funds to successfully position low-income New Yorkers to enter and remain in the workforce. The budget includes:

- $523 million to support the State's Earned Income Tax Credit (EITC) and Child and Dependent Care Credit — programs that enable welfare recipients and lower-income workers to retain employment.
- $375 million to help support 186,900 child care subsidies for low-income working families — an increase of 3,500 over last year.

Making Work Pay

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. A low-income working family of three could receive as much as $5,600 per year from the combined State and Federal EITC.

TANF support for the Earned Income Tax Credit alone has grown from $49 million in 1999-00 to $414.9 million recommended for 2004-05 — a seven-fold increase.

- Over $90 million dedicated to the highest-need population to ensure that limited TANF resources are available to meet Federally-mandated work participation increases. Targeted program changes direct new 2004-05 funding primarily to public assistance recipients and individuals who have recently left the Family Assistance caseload. Investments include:

  –$50 million in block grants to social services districts to fund locally managed work and transitional service programs, an $11.4 million increase from 2003-04. This block grant provides flexible funding that allows each county to target programs to meet the specific needs of their local public assistance population and labor markets.

  –$8.5 million through the Department of Labor (DOL) and the Office of Temporary and Disability Assistance (OTDA) to support the development of new "best practices" employment initiatives designed to meet the needs of hard-to-serve public assistance recipients. Once developed and tested at the State level, these "best practices" will be exported to other counties to expand local employment efforts.

- $15 million for summer youth employment programs.
- $5 million for transportation services to assist welfare recipients in obtaining and retaining employment.

Supporting Work through Transitional Services

Almost $600 million will continue to be available to support employment and transitional services to households with incomes up to 200 percent of the Federal poverty level.

To emphasize the importance of work, the Executive Budget includes legislation that authorizes the entire welfare grant to be withheld if the head of the household does not fulfill his or her employment obligation. Currently, only a portion of the welfare grant may be withheld. This year's proposal to eliminate welfare benefits to individuals who are able-bodied but unwilling to work will also reduce long-term reliance on welfare and decrease State public assistance costs. With these reforms, New York will join 35 other states that impose similar sanctions for failure to work.

Further, to underscore the important message that welfare provides only temporary assistance and that recipients are expected to move to employment and self-sufficiency as rapidly as possible, the Executive Budget proposes to:

- Reduce the non-shelter component of the grant by 10 percent for families on welfare for more than five years;
- Reduce the non-shelter component of the grant by 10 percent for single adults and childless couples on welfare for more than one year;
- Conform welfare eligibility determinations for family cases with single adult cases by applying a household's Supplemental Security Income (SSI) in determining eligibility for welfare benefits; and
- Step-down the amount of earnings an individual may retain while receiving assistance based upon the length of time an individual has been on welfare.

With these proposed changes, New York will provide the sixth highest family grant nationally for longer-term cases. Of the states that provide benefits for single adults, New York will provide the sixth highest grant nationally for longer-term cases. *(See Figure 1)*

New York's Family Grant Will Rank 6th Nationally

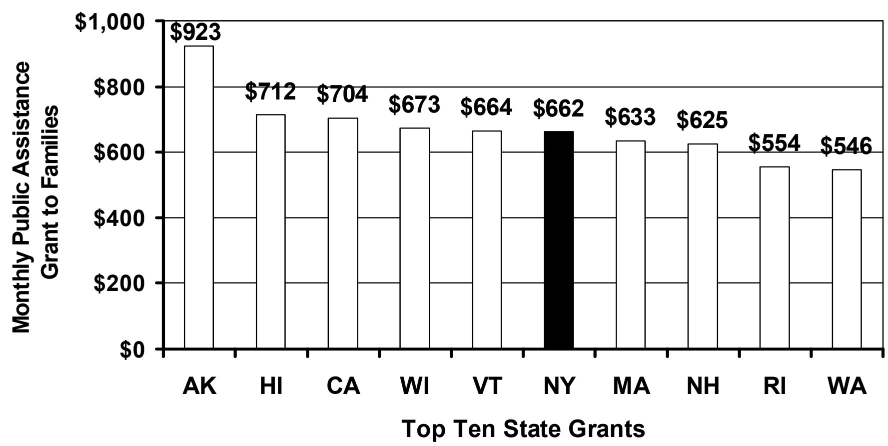


Figure 1

The 2004-05 Executive Budget proposes to reduce the current public assistance grant level for families on public assistance more than five years. This grant level of $662 per month will rank 6th nationally.

Helping Families Achieve Financial Stability

Every parent should assume primary responsibility for meeting the essential requirements of their children for shelter, sustenance and other necessities. The Executive Budget for 2004-05 is premised on continued aggressive implementation of reforms enacted under Governor Pataki's leadership to assure that parents fulfill these responsibilities.

These reforms have produced record high child support collections that are expected to reach $1.44 billion in 2004, the highest amount in State history. *(See Figure 2)* Child support enforcement efforts encompass a comprehensive range of activities to increase collections and enhance services to families owed child support. Highlights include:

- Suspending driver's licenses of parents who refuse to pay child support;
- Helping hospitals obtain voluntary acknowledgements of paternity;
- Using new technology to assist families in recovering amounts due;
- Increasing criminal prosecutions of parents who refuse to pay child support through Joint Enforcement Teams (JET) — pilot projects in certain localities that focus the efforts of child support and criminal investigators, assistant district attorneys and paralegal staff on these cases;

Public Assistance

Child Support Collections Grow Dramatically

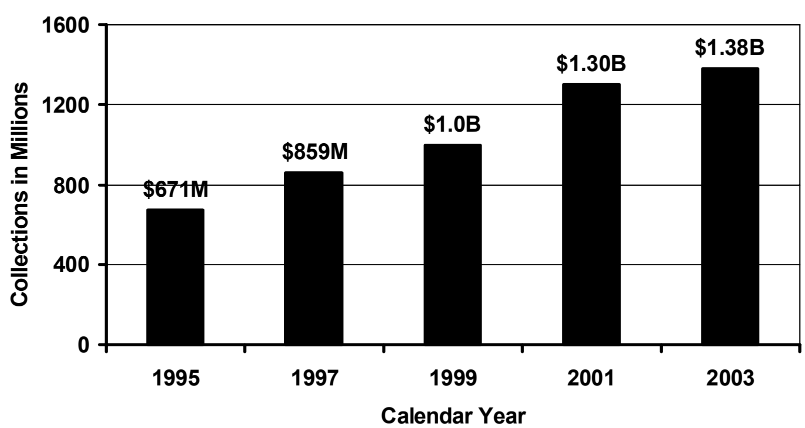


Figure 2

Under Governor Pataki, child support collections have more than doubled. Collections are expected to reach $1.44 billion in 2004, the largest amount in State history.

- Managing a personal injury claims intercept program to seize insurance awards made to individuals with overdue child support obligations; and
- Providing website and phone access to account and payment information for both custodial and non-custodial parents.

Providing for New Yorkers' Basic Needs

Through a combination of State, local and Federal funding, New York provides temporary assistance to those in need, as well as the resources to enable needy individuals to become self-sufficient. New York provides a package of benefits and incentives designed to assist needy New Yorkers in securing and retaining employment. *(See Figure 3)*

Public Assistance Housing Increase

The portion of the monthly family welfare grant designated for housing was raised by the State in November 2003. While the grant varies by family size and location, the monthly housing grant for a family of three in New York City increased by 40 percent.

In November 2003, New York increased the maximum amount that is provided to families on welfare for shelter costs to improve housing quality and availability. Local districts are also authorized, at local discretion, to provide rent supplement payments to homeless families and families facing eviction.

The State's broad spectrum of services, work support and income security programs provide:

Public Assistance

Generous Support Continues for Lower-Income Families

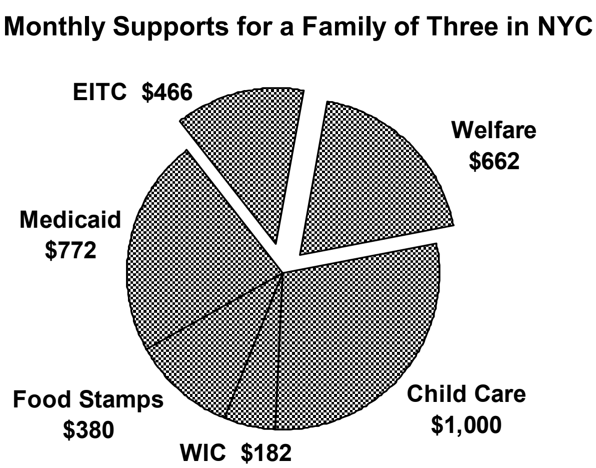


Figure 3

Under the Executive Budget recommendations, a working family on public assistance will be eligible for a package of supports totaling as much as $3,462 per month.

- Food Stamp benefits to ensure access to sound nutrition. Over $507 million in Federal Food Stamp benefits were distributed to non-welfare households last year in New York State. This amount is projected to increase in 2004-05 as a result of expanded outreach efforts and a simplified Food Stamp application form.

- 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. Over $640 million in Federal and State funds will be available for these services in 2004-05.

- Housing assistance through continued funding for family and adult shelters, homelessness intervention programs and supportive housing services.

- Health care services through the Medicaid, Child Health Plus and Family Health Plus programs.

New York provides additional support for individuals with disabilities or special circumstances as follows:

- Supplemental Security Income (SSI) benefits to enable the aged, blind and disabled to meet their basic needs. New York supplements the Federal SSI benefit with a State payment that is the fifth highest nationally. In 2004-05, the Governor's Budget includes the pass-through of the January 2005 cost of living adjustment to SSI recipients. As a result, the State will provide supplements totaling $629 million for a projected 624,400 recipients.

- Screening and assessment services for welfare recipients suffering from drug and/or alcohol addiction and victims of domestic violence. The Budget also provides funding to local districts for a new case management initiative to identify lower-cost and more effective treatment alternatives for welfare recipients in residential drug/alcohol treatment facilities.

Enhancing Quality of Life for Children and their Families

Under Governor Pataki, New York has an outstanding record of investing in services that protect the well-being of vulnerable children and families. Despite the State's serious fiscal challenges, the Governor's 2004-05 Budget provides the Office of Children and Family Services (OCFS) with over $1.8 billion to address child welfare needs — including a General Fund increase of nearly $9 million. These critical OCFS programs protect children from abuse and neglect, preserve families and provide safe, temporary placements for children who cannot remain in their own homes.

Child care is an essential ingredient in the State's effort to assist low income families achieve and maintain financial independence. New York continues to be a national leader in providing child care to low income families, ranking among the highest in both total spending and the number of children receiving subsidies.

Child Welfare: Successful Strategies for Preserving Families

Bolstered by financing reforms advanced by Governor Pataki in 2002-03, the State's child welfare system provides strong incentives to preserve families. Unrestricted levels of State funding are available to counties to support community-based preventive services that keep children out of foster care. When children must be removed from their own homes and cannot be reunited with their parents, the State encourages adoption through monthly subsidies to adoptive parents. OCFS also provides enriched funding for aftercare and independent living services that help support older children when they leave foster care.

The Governor's 2004-05 child welfare agenda will continue to build on these successes, key elements of which include:

A Heightened Focus on Prevention and Supportive Services: The 2004-05 Executive Budget includes $347.3 million — an increase of over $2 million — to provide 65 percent State reimbursement to counties and to New York City for a range of child welfare services. This funding gives local governments a strong incentive to invest in the preventive services necessary to stabilize and preserve families. While funding is available to serve all at-risk children, counties are being encouraged to particularly focus community-based services on children designated by the courts as Persons in Need of Supervision (PINS). This will help to avert the need for institutional placements, reducing costs to both State and local governments. 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.

Reduced Reliance on Foster Care: New York remains a leader in the national effort to reduce the number of children in foster care, ranking third among all states in total caseload decline. The Foster Care Block Grant, funded at $364.5 million in the 2004-05 Executive Budget, provides counties with a flexible funding source for meeting the needs of foster children and reducing the number of children in foster care. Under the Block Grant, counties may reinvest savings from foster care reductions into locally-designed child welfare and foster care prevention strategies. *(See Figure 1)*

Child Welfare Quality Initiatives: The Executive Budget invests $1.9 million in innovative child welfare programs intended to improve the quality of services to children and families. In 2004-05, $1 million of this funding will be used to expand a health care coordination model designed to enhance medical services for foster children. OCFS and the Office of Mental

Number of Children Living in Foster Care Continues to Decline

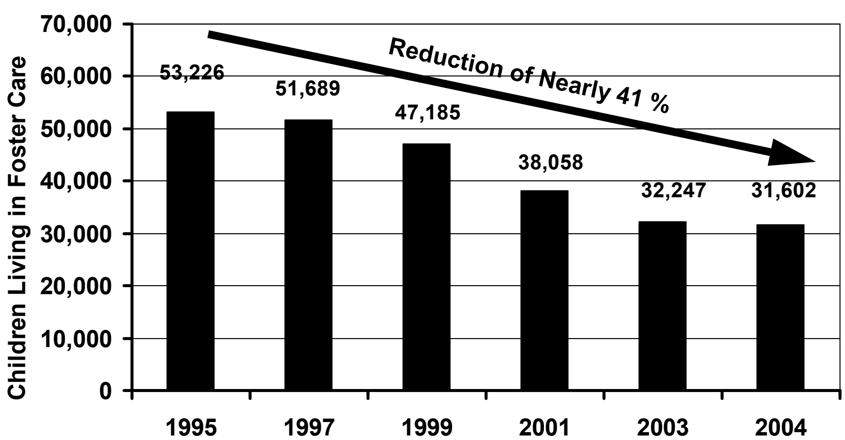


Figure 1

In 2004, the number of children living in foster care is expected to drop below 32,000 — a 41 percent decline since Governor Pataki took office. The Governor's child welfare financing reforms will continue to encourage further reductions by providing 65 percent State reimbursement for services designed to reduce foster care placements.

Retardation and Developmental Disabilities (OMRDD) will also jointly implement a new pilot program in the coming year that provides enhanced service coordination for foster children with mental retardation and developmental disabilities.

Funds to Encourage Adoption of Children at Risk: The Executive Budget includes $172 million for adoption subsidies to eligible families, a key element in the State's ongoing effort to reduce the number of children in foster care. Since 1995-96, nearly 42,000 children who could not be reunited with their parents have been adopted out of foster care into stable, permanent homes. During this same time period, State spending for adoption subsidies has grown by $98 million or 133 percent. *(See Figure 2)*

The Child Abuse Hotline: In addition to supporting 65 percent reimbursement for vital child protection services at the county level, in 2004-05 the State will provide almost $9.5 million for the Child Abuse Hotline. The Hotline receives 335,000 calls annually, as the continuously operating link between the public and local child protection agencies.

Efforts to Promote Healthy Families: The Governor's Budget continues to provide $16 million for the State's Home Visiting program, a comprehensive child welfare initiative that reduces child abuse and many other problems ranging from poor school performance to juvenile delinquency. Since 1995, this

Increase in Adoption Funding Leads to Safer, More Permanent Homes for Foster Children

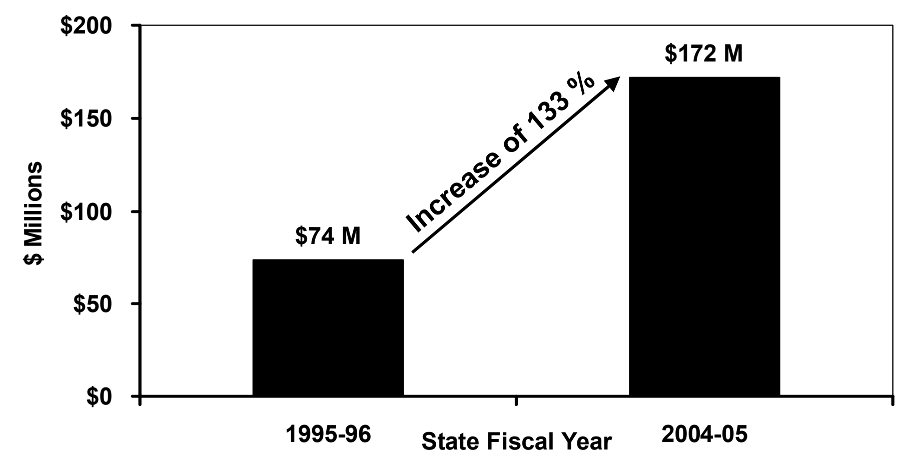


Figure 2

The Executive Budget includes $172 million in State funding for the Adoption Subsidy Program — a $98 million or 133 percent increase during Governor Pataki's tenure.

program has delivered home-based supportive services, often beginning before a child is born, to more than 10,000 families in an effort to develop positive parenting skills and promote optimal child health and development. The 2004-05 Executive Budget also includes $3.3 million for school-based health services.

Programs to Support Positive Youth Development: The Governor's Advantage Schools program, which supports vital after-school services to over 26,000 children throughout the State, is fully funded at $20.2 million in 2004-05, a $10.2 million increase above the enacted 2003-04 budget. In 2004-05, nearly $6 million is also provided for the Adolescent Pregnancy Prevention and Services (APPS) program. OCFS will act in the coming year to ensure APPS resources are targeted to the most effective programs.

Expanding the Availability of Child Care for Working Families

The Governor's 2004-05 Executive Budget continues the Child Care Block Grant (CCBG) at $929 million, while increasing the number of subsidies for low income families. Since 1995-96, the CCBG has increased by $650 million or 233 percent. Governor Pataki's 2004-05 child care program supports:

Child Care Subsidies: The 2004-05 Budget includes funding for 3,500 new child care subsidies, bringing the total number of subsidies supported by the Block Grant to 186,900. Since 1995-96 child care subsidies have more than doubled, solidifying New York's high ranking as second in the nation in the number of subsidies provided. *(See Figure 3)*

Child Care Quality Initiatives: A substantial portion of the Block Grant will continue to support quality improvement activities such as criminal background checks on all child care workers, start-up grants to increase the supply of child care programs and training programs that enable child care workers to provide quality care to children. During the last nine years, nearly $700 million has been allocated to such programs, placing New York in the top ten states nationally in the funding of child care quality improvement activities.

Child Care Provider Reimbursement: The 2004-05 Block Grant will also continue to support rate increases for child care providers, maintaining New York among the national leaders in the authorized subsidy amount paid to child care providers.

Dramatic Growth in Child Care Subsidies Under Governor Pataki

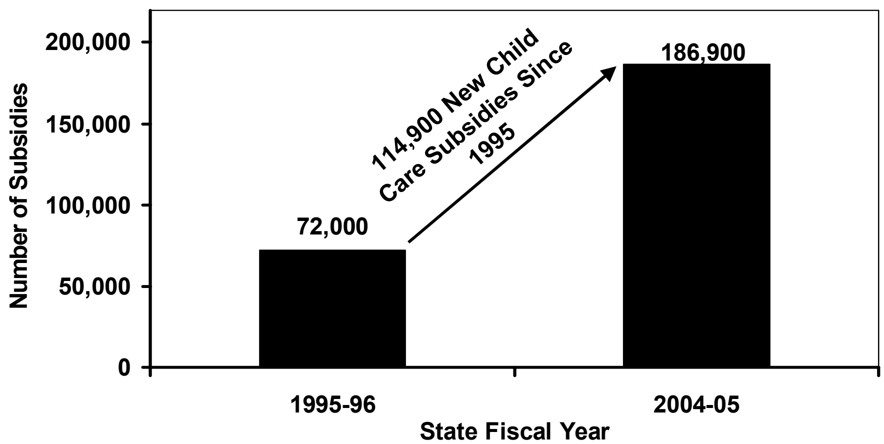


Figure 3

The $929 million Child Care Block Grant included in the Executive Budget will increase the number of child care subsidies by 3,500, to 186,900. Since the Governor took office in 1995, child care subsidies have increased by 114,900, or 160 percent.

Children & Families

Advocating for New Yorkers with Special Needs

Over the past nine years, Governor Pataki has consistently championed programs serving New Yorkers with special needs. As a result, New York is a national leader in providing high quality care for individuals with mental illness, developmental disabilities and/or chemical dependencies. Among the Governor's most notable accomplishments are:

- Establishing the nationally-renowned NYS-CARES program. Since 1998, over $1.2 billion has been invested to provide residential and support services to developmentally disabled individuals previously on program waiting lists;
- Achieving enactment of Kendra's Law and implementing the Enhanced Community Services program for children and adults. These programs have changed the landscape of community-based services for New Yorkers with mental illnesses by integrating scientifically-proven practices into everyday care and fostering the highest standard of quality; and
- Overhauling the State's previously separate and uncoordinated alcoholism and substance abuse treatment systems. A single program network for chemically dependent individuals has been established and coordinated with other related State programs.

2004-05 Executive Budget Continues the Commitment to Quality Care

- Another 1,500 developmentally disabled persons will leave the waiting list and enter homes of their own.
- Another 1,300 new beds for adults and children with mental illness will open in the community.
- A bipartisan, Blue Ribbon Commission for the Closure of State Psychiatric Centers will promote open discussion of the future of unneeded State mental health institutions.
- Fifty percent of the savings from future facility closures will be reinvested into State-operated community services for individuals with mental illness.
- Resources are provided to assure staffing in OMH's community residences and strengthen their ability to serve priority populations.

The 2004-05 Executive Budget continues to build on this successful record by allocating more than $5.4 billion to 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).

Making Mental Hygiene Services More Efficient and Effective

The Governor's 2004-05 Executive Budget for OMH, OMRDD and OASAS continues to provide a comprehensive, high quality community system of care for special populations, while still achieving necessary fiscal savings. Specifically, the budget recommendations reflect:

- Savings achieved through more efficient voluntary provider reimbursement practices and prioritization of services;
- State facility operating efficiencies, including streamlining administrative functions and controlling over-time and non-personal service spending, downsizing the State's institutional system for mental health, consolidating duplicative activities, and reducing less critical services;
- Closure of the Middletown Psychiatric Center, effective April 1, 2005 and establishment of a bipartisan Blue Ribbon Commission to make recommendations on future facility closures; and
- Maximizing Federal and third-party reimbursement to reduce the need for taxpayer support.

These actions will improve efficiency in mental hygiene service provision while ensuring high quality care and appropriate service levels. In addition, the recommendations reflect several measures to enhance key components of the mental hygiene non-profit sector.

Defining a Better Future for People with Mental Illness: A Focus on Appropriate Care

The State's institutional system, by far the largest in the nation, continues to have excess inpatient capacity due to improved treatment approaches and significant expansion of community services to assist clients in avoiding hospitalization.

Since 1995, OMH, under Governor Pataki's stewardship, has successfully redirected $1.3 billion into comprehensive community-based services by reducing costly and unnecessary institutional capacity. However, far more needs to be done. While less than 10 percent of the 600,000 persons participating in mental health programs are served by the State's current 26 psychiatric facilities, about one-third of the more than $4.8 billion spent annually on public mental health programs is spent on their care. To provide a more appropriate alignment of resources and improve care, the 2004-05 Executive Budget recommendation proposes to close one adult facility and to establish a bipartisan Blue Ribbon Commission for the Closure of State Psychiatric Centers. The Commission — comprising gubernatorial and legislative representatives — will provide facility closure recommendations based upon the overall OMH-projected need for inpatient beds.

Investing in the Community for Children and Adults

Reinvesting Savings from Adult Facility Closures. The Executive Budget includes legislation to close the Middletown Psychiatric Center. This facility — once serving more than 3,600 inpatients, but now serving only 115 — is recommended for closure in advance of the Blue Ribbon Commission process to avoid a $27 million required capital investment unwarranted by the facility's current capacity. Instead, needed capacity will be provided at other facilities that can accommodate both patient and staff transfers. One half of the savings achieved through elimination of unnecessary administrative, support and overhead costs would be reinvested in expanded State-operated community services in the Middletown area. Moreover, because the Middletown facility would not be closed until SFY 2005-06, the State and the community will have ample time to assess additional community service needs. The timeframe would also permit a full discussion of alternate uses for the facility. This deliberate approach has been successful in the redevelopment of other portions of the Middletown campus.

Reinvesting Savings to Improve the Service System. Recent investments in OMH's residential service system have greatly expanded capacity to address unmet needs. The 2004-05 recommendation continues support for last year's initiative to develop another 2,600 beds. The recommendation also marshals over $9 million in new resources to help community residence operators stabilize the level of staffing. In addition, OMH will continue to look at other innovative ways of stabilizing its entire residential service system. *(See Figure 1)*

Expanding Services to Children. In fiscal year 2003-04, the Governor initiated a policy of re-investing savings generated by closing underutilized children's inpatient beds at State institutions in community-based services. Such an approach allows, on average, four times the number of children to be served with the same dollars. The 2004-05 Executive Budget recommends the closure of over 20 underutilized

Opportunities for Treatment in the Community Grow Significantly Under Governor Pataki

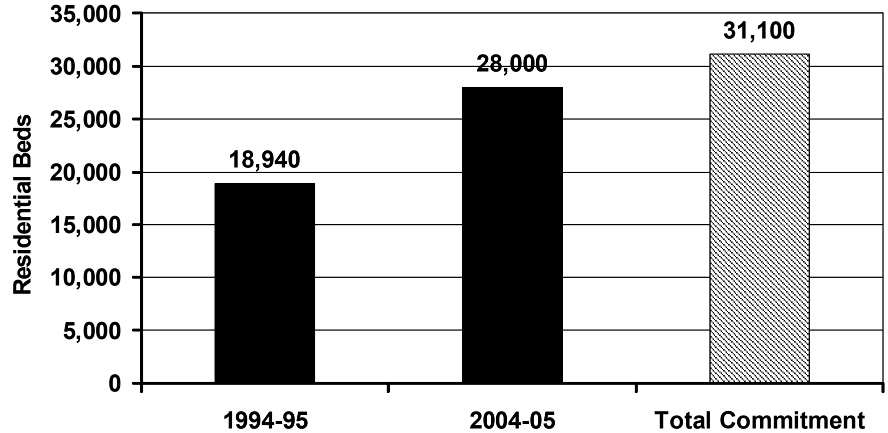


Figure 1

The Governor's Budget provides support for 28,000 residential beds in community settings for both adults and children in 2004-05. In addition, the Budget continues a new multi-year commitment that, once completed, will support 31,100 beds — an increase of over 60 percent since 1994-95.

children's beds, which on a full annual basis will permit the reinvestment of $2.6 million to create an array of community-based services.

Enhancing Programs for Forensic Populations

In 2003-04, OMH and the Department of Correctional Services (DOCS) undertook a statewide review of mental health services provided to mentally ill inmates. As a result, the two agencies initiated development of expanded treatment capacity and clinical staffing enhancements for State inmates. When these changes are fully implemented, OMH plans to spend an additional $7 million for mental health services in State correctional facilities. In 2004-05, OMH will continue to collaborate with DOCS to ensure that prisoners with serious and persistent mental illness receive enhanced levels of services.

Continuing the Commitment to Appropriate Care for People with Developmental Disabilities

The 2004-05 Executive Budget fully supports Governor Pataki's nationally recognized commitment to ensure that New Yorkers with developmental disabilities receive the highest quality care in the most integrated setting appropriate to need, based on family input and consumer choice. New York leads the nation in moving individuals from institutions to community settings.

NYS-CARES

The 2004-05 Executive Budget continues to expand residential capacity for persons with developmental disabilities. Since initial implementation of the NYS-CARES initiative in 1998 — supplemented by a new NYS-CARES II initiative in 2003-04 — OMRDD has placed some 8,500 individuals into residential settings, exceeding original expectations.

In 2004-05, OMRDD will continue to promote the successful principles that frame the universally-acclaimed NYS-CARES initiatives: continual review and reassessment of waiting list needs; person-centered and -chosen services; critical family input; and formal, consumer-designed feedback to identify service delivery success and areas requiring improvement.

By the end of the decade, OMRDD will have developed a total of 6,800 new residential beds under NYS-CARES I and II 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.

Under NYS-CARES, families with developmentally disabled members 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)*

A Success Story

"Throughout her life, Z's mother worried about her daughter's future. Now in her eighties, Mrs. J fell ill three years ago, and it scared her that Z, now in her forties, would have no place to live if Mrs. J were gone. The family enrolled in NYS-CARES. Z chose a 24-hour supported apartment in her mother's Manhattan neighborhood. Since then Z has blossomed, becoming more independent, learning living skills and receiving employment training. Z's mom said, "I now have peace of mind that she's going to be OK! The people who work with Z are so caring. I am just so pleased with Governor Pataki and NYS-CARES!"

(Names withheld for confidentiality reasons)

Mental Hygiene

NYS-OPTS

The 2004-05 recommendation also supports a new measure — the Governor's New York State - Options for People Through Services (NYS-OPTS) initiative. NYS-OPTS represents a system of services that will afford both current consumers — as well as future recipients of services — the greatest flexibility in choosing their care, while also maximizing available funds and efficiently managing operations. Predicated upon an organized health care delivery model, the NYS-OPTS program will begin to restructure OMRDD's service system. NYS-OPTS and its guiding principles of partnership, inclusion, flexibility of services and customer satisfaction have been developed by major system

NYS-CARES Gives 7,000 Developmentally-Disabled New Yorkers a Home

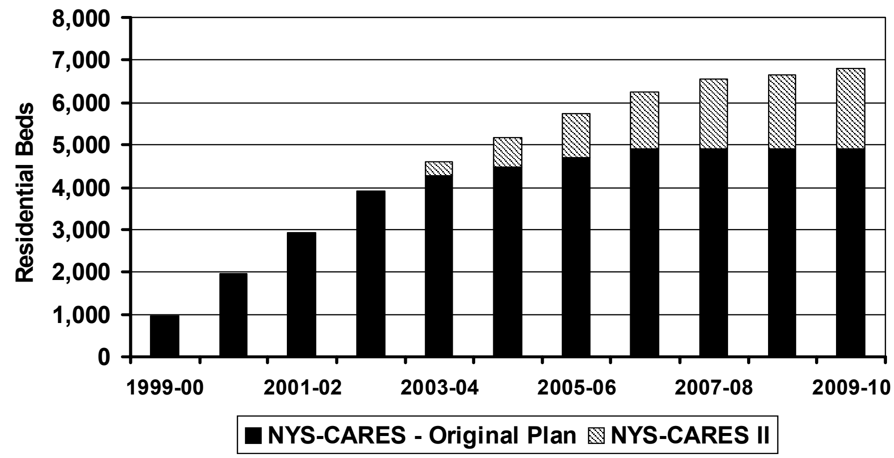


Figure 2

The NYS-CARES initiatives will enable the overall development of almost 7,000 new beds by the end of the decade. During this time period, these new beds, along with other residential opportunities, will serve almost 17,000 new consumers.

stakeholders: people currently receiving services, family members, advocates, providers, State staff and local government representatives.

Maintaining Quality in the Service System

The 2004-05 recommendations balance the need to ensure quality service delivery, with streamlined and cost-efficient operations. To that end, while non-profit reimbursement savings actions are recommended, workforce stabilization policies advanced during the Governor's tenure will also continue to be fully supported. Staffing levels in State-operated institutional and community programs are preserved at appropriate levels and continue Governor Pataki's longstanding commitment to provide high quality care to special populations. During 2004-05, OMRDD will expand services by adding another 20 beds for individuals who have a primary diagnosis of mental retardation and are dually diagnosed with mental illness.

Achieving More Effective Chemical Dependence Service Delivery

The 2004-05 recommendations fully support the Governor's vision for a unified program network of services for chemically dependent individuals, eliminating the inequities and inefficiencies of the formerly separate alcoholism and substance abuse systems.

Consolidating Chemical Dependence Services. By the end of 2003-04, OASAS will have achieved its goal of a consolidated system by forging a single network of chemical dependency treatment providers. Funding for time-limited special transitional grants will continue in 2004-05 to enable providers to adapt to the new program and funding mechanism. In 2004-05, OASAS will continue working towards improving treatment outcomes and financing mechanisms for such hard-to-serve populations as mentally ill chemical abusers and chemically dependent women with children.

Enhancing Residential Services to Adolescents. In 2003-04, OASAS initiated development of a new Medicaid-funded program model for adolescent residential services. Scheduled for implementation in 2004-05, the model will enhance treatment and at the same time introduce a more stable funding stream.

Indexing Methadone Maintenance Treatment Program (MMTP) Reimbursement for Freestanding Clinics. Legislation accompanying the 2004-05 Executive Budget would index weekly rates for freestanding MMTP clinic providers to those of hospital-based providers. This action will result in State savings while establishing a more equitable policy for reimbursement of these two provider groups. Importantly, freestanding MMTP clinic providers will prospectively benefit from any inflationary adjustments afforded to hospital-based providers.

Improving and Expanding Compulsive Gambling Programs. Beginning in 2004-05, OASAS will assume responsibility from the Office of Mental Health for administering the State's Compulsive Gambling Education and Treatment Program, which will be bolstered by a $2 million funding increase over two years. Problem gamblers will benefit from OASAS' experience and expertise in the treatment and prevention of addictions, as problem gambling exhibits the same psychological and physical behaviors as chemical dependence.

Managing Government to Meet Performance Expectations

Governor Pataki shares the same expectations for government as those held by taxpayers. Government must be efficient and effective. It must be responsive to all New Yorkers. It must carefully manage resources and investments, but be an aggressive stimulus for economic growth and job creation.

Over the past decade, Governor Pataki has adhered to these fundamental principles and consistently proposed Executive Budget actions that:

- Manage the size and growth of the State's spending and workforce;
- Realign government responsibilities by restructuring, transferring and consolidating functions and eliminating inefficient programs;
- Promote the use of technology and discontinue reliance on outdated business practices and administrative regulations so that agencies are efficient, accessible and responsive to the public; and
- Ensure value for the services and programs the State supports through a commitment to results-oriented management.

Governor Pataki's Record of Reform

Since 1995-96:

- State Operations spending growth has been kept below the rate of inflation.
- The State workforce has been reduced by 11 percent, or more than 23,000 full time positions, bringing it to the lowest level in 20 years.
- Almost a dozen agencies have been eliminated, significantly restructured or consolidated with program responsibility also streamlined and coordinated.
- The growth of new rules and regulations has been reduced by two-thirds.
- More than 260 different services and transactions involving the public and State agencies are now available over the Internet.

Leaner and more efficient operations must be part of the solution to the fiscal stresses confronting government. Accordingly, the actions recommended in the Governor's Budget continue to control the size of the State workforce and tightly manage agency spending. The Governor's Budget recommends measures to further streamline and consolidate services, encourage the expanded use of technology and promote adoption of innovative business practices that reduce the costs of government. Thus, the Executive Budget asks that agency managers continue to achieve results commensurate with the State's resource investments and the public's expectations. Overall, the Executive Budget achieves recurring savings of nearly $150 million in State Operations spending.

Managing the Size of the Workforce

Since 1995, the State workforce has declined by more than 23,000 positions. This reduction has allowed the State to streamline and stabilize the size of its workforce without endangering the quality and effectiveness of State services. To sustain this progress, the Executive Budget anticipates no increase in the size of the workforce, keeping it at the lowest level in 20 years.

The Performance Accountability Agenda

The 1995-96 Executive Budget, the first proposed by Governor Pataki, set the State "on a path that makes government smaller, more manageable, more accessible and more responsive to our people's needs." The 2004-05 Executive Budget continues in this direction and marks a decade of positive change for New York State government. For the tenth consecutive year, the Governor has proposed a Budget that demands management efficiencies and results.

Cost-Effective Management Solutions

- A prudent and measured reduction in the workforce.
- An expanded commitment to new technology.
- The realignment of agency responsibilities to streamline operations.
- A reduced regulatory burden on the State and the private sector.
- An emphasis on performance results and cost benefits.

Continuing to Streamline Government Operations

The 2004-05 Executive Budget again proposes additional structural improvements intended to streamline services and increase the responsiveness of government, while further reducing State costs. Recommendations include:

- Leaner management structures for various agencies and boards, including:

  – Transfer of the Crime Victims Board into the Division of Criminal Justice Services as a new Office for the Victims of Crime.

  – Elimination of the State Liquor Authority and consolidation of the Division of Alcoholic Beverage Control's administrative and enforcement functions under a single commissioner.

- Consolidation, under the Division of Criminal Justice Services, of local assistance programs now administered by the Division of Probation and

Correctional Alternatives. This will bring responsibility for nearly all criminal justice local assistance programs under a single agency.

- Legislative authorization for the State University Board of Trustees to transfer operations of the SUNY hospitals to one or more private not-for-profit corporations, which will better position the hospitals to provide quality health care in a competitive environment.
- Closure of the Middletown adult psychiatric center, effective April 1, 2005. Continued capital investment in this facility is an inefficient use of resources given its significantly reduced capacity. Closure will allow the State to redirect savings into community services and to continue the successful redevelopment of the Middletown campus.

These actions will reduce bureaucratic redundancy, streamline decision-making, focus accountability and improve service delivery.

Encouraging Productivity and Program Savings

Governor Pataki has been a national leader in adopting innovative approaches for improving services. His policies stress the efficient use of staff and technology and rely on common sense and management expertise to drive productivity gains and cost savings. This success can be seen across a broad spectrum of agencies and will continue in 2004-05:

- The Office of General Services and Office for Technology have aggregated long distance, local, calling card and other customer service telecommunications contracts, saving the State more than $6 million and local governments more than $2 million in the first year.

A New Transportation Partnership for a New Economic Age

The Budget supports the transformation of the State's transportation programs, as announced by the Governor in November 2003, to establish a true transportation system.

The transformation will result in closer coordination among the State's transportation agencies, under the auspices of the Department of Transportation (DOT), to achieve common goals, create operational efficiencies and support enhanced economic growth. Under the new approach, agencies including DOT, the Thruway Authority and the New York State Bridge Authority will utilize shared services and coordinated capital investments to enhance the efficiency and value of our transportation system.

Steps planned for 2004-05 include:

- Synchronizing transportation planning and policy-making functions;
- Consolidating redundant administrative and engineering functions;
- Coordinating operations; and
- Eliminating duplicative requirements such as separate permitting and data collection.

- The Division of Employment Services in the Department of Labor serves the same number of claimants as it did in 1996, but with a 30 percent reduction in staff. The Department's creation of one-stop career centers has generated more than $6 million in savings over four years.
- The Office of Parks, Recreation and Historic Preservation has negotiated more than $106 million in partnership agreements with corporations, not-for-profit organizations and other businesses that have helped to expand services, improve facilities and lower operating costs.
- The Office of Mental Retardation and Developmental Disabilities has consolidated business and district offices, reduced administrative and support positions by more than 12 percent, and taken other actions to re-direct investments to the most cost-effective services and activities. These improvements have produced savings of approximately $25 million.
- The application of cost-benefit analysis to the review of agency rules and regulations by the Governor's Office of Regulatory Reform (GORR) has saved businesses and taxpayers more than $3 billion in unnecessary costs since 1995.
- The use of "host agencies" to provide human resource management and other administrative support services to smaller agencies has proven to be a cost-effective and efficient way to manage a reduced workforce. This concept will be expanded in 2004-05 to include additional agencies.

Using Technology to Improve Services

The Governor will continue to encourage agencies to take full advantage of technology and to model their customer relations practices to more closely resemble those used by successful private businesses:

- The Office for Technology's Consolidated Data Center, created in 2000, now supports the data processing requirements of twenty-five agencies and also provides ancillary services such as microfiche servers to agencies. The Data Center currently processes more than three billion transactions every month.
- The Governor's Office of Regulatory Reform maintains an online inventory of over 1,200 State permits to help users identify their permit requirements and access necessary information. In addition, the Online Permit Assistance and Licensing system (OPAL) provides a single point of entry and a consolidated payment process to multiple permit users.

Together, these functions help 25,000 businesses and process 10,000 permit applications annually, saving time and money for the State and its business customers.

- More than one million customers annually transact business electronically with the Department of Motor Vehicles, providing convenient access to necessary documents without the need to wait in line.

- The Division of Criminal Justice Services' e-Justice NY initiative provides nearly 900 State and local law enforcement agencies throughout the State with secure access to criminal history information. This initiative improves coordination among criminal justice agencies and enhances public safety.

Expanding the Use of Technology

In 2003, the number of State and local government agencies that accept payments from customers electronically increased by 35 percent. The number of such transactions increased 78 percent and the amount of revenue collected electronically more than doubled. This method of payment is more efficient, less costly and more reliable than accepting personal checks; and most importantly, more convenient for citizens and businesses.

- The Higher Education Services Corporation (HESC) now processes over 90 percent of its loans and over 40 percent of its Tuition Assistance Program applications electronically. This has allowed HESC to remain competitive with financial institutions and other lenders and enables New York State to enjoy the benefits that come from HESC being a full-service financial aid agency.

Achieving Results

Integral to effective government management is the continuous need for agencies to justify the investment choices made to fund programs and services. Governor Pataki has challenged agency leaders to establish an outcome-focused management culture that examines basic operating assumptions, allocation decisions and accepted business practices. Limited resources are a reality and agency managers are expected to meet the challenge of operating in ways most beneficial to the State and its citizens. This self-assessment process remains at the core of the Governor's philosophy to manage spending and to identify opportunities to maximize the return on investment of State resources, achieve permanent savings and remove administrative impediments to improving efficiency.

Moving forward in 2004, the State will continue to build on this ethic by extending well documented and successful management assessment practices to other agencies.

19 Different Taxes Cut 64 Times Under Governor Pataki

Since taking office in 1995, Governor Pataki has worked to cut every major tax and New York State has become the tax cutting capital of the nation. Under the Governor's leadership, 19 different taxes have been cut 64 different times, returning more than $120 billion to New Yorkers on a cumulative basis when fully implemented.

1.	Personal Income Tax cut in 1995, 1996, 1997, 1998, 1999, 2000 & 2002	7
2.	School Property Tax cut in 1997, 1998 & 2002	3
3.	Sales Tax cut in 1995, 1996, 1997, 1998, 1999, 2000 & 2002	7
4.	Estate Tax cut in 1995, 1997, 1998, 1999 & 2002	5
5.	Corporation Franchise Tax Cut in 1997, 1998, 1999, 2000, 2001, 2002 & 2003	7
6.	Gross Receipts Tax on Energy/Telecom. Cut in 1996, 1997, 1998, 1999 & 2000	5
7.	Petroleum Business Tax cut in 1995, 1996, 1999 & 2000	4
8.	Insurance Tax cut in 1997, 1999 & 2000	3
9.	Bank Tax cut in 1997 & 1999	2
10.	Medical Provider Assessment cut in 1997 & 1999	2
11.	Real Estate Transfer Tax cut in 1995 & 1999	2
12.	Real Property Gains Tax eliminated in 1996	1
13.	Gift Tax cut in 1997 & eliminated in 1999	2
14.	Motor Fuel Tax cut in 1995	1
15.	Highway Use Tax cut in 1998 & 2000	2
16.	Motor Vehicle Fee cut in 1998	1
17.	Beer Tax cut in 1995, 1998, 1999 & 2000	4
18.	Beverage Container Tax cut in 1995 & repealed in 1997	2
19.	Pari-Mutuel Tax cut in 1995, 1998, 1999 & 2000	4
	Total	64

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.

Tax Cuts Enacted in 2002

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

Personal Income Tax Cuts

Tax Cuts Enacted in 1995

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

Tax Cuts Enacted in 1996

5. 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).

6. Enacts a tax credit for the cost of rehabilitating historic barns (also available in the corporation franchise tax).

7. 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

8. 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.

9. 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.

10. Creates a PIT credit for residential investment in solar electric generating equipment.

11. Creates the New York State College Choice Tuition Savings Program.

Tax Cuts Enacted in 1998

12. Accelerates into 1998, the new tax relief previously scheduled for 1999 for farmers benefiting from the agricultural property tax credit.

13. Contains provisions ensuring that assets returned to Holocaust survivors or their heirs are not subject to income or estate taxes.

Sweeping Tax Cuts

14. Increases the benefit of the child care credit to families with annual incomes of up to $50,000.

Tax Cuts Enacted in 1999

15. 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.

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

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

18. Expands the 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

19. 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.

20. 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.

21. 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 the lesser of tuition paid or $200. The college tuition deduction phases in over four stages beginning in 2001.

22. 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.

23. Creates a long-term care insurance credit equal to 10 percent of taxpayers' long-term care insurance premiums.

24. Creates a two-year, $500 personal income tax credit for homeowners who replace a residential fuel oil storage tank, beginning in 2001.

25. 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

26. 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.

27. 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.

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 eliminating 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's 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 opera-

Sweeping Tax Cuts

tions 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 insurance 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.

Corporation 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 non-profit 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 promotes 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 ser-

vices 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 under-served 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

Tax Cuts Enacted in 2003

Corporate Franchise Tax

97. Creates tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.

Sales and Use Taxes

Tax Cuts Enacted in 1995

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

99. Exempts meteorological services.

100. Exempts South African coins purchased for investment.

101. Exempts homeowner association fees.

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

Tax Cuts Enacted in 1996

103. 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).

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

105. 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.

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

Tax Cuts Enacted in 1997

107. 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).

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

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

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

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

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

113. 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.

114. Exempts luggage carts dispensed by coin operated devices.

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

116. Exempts parking services sold by a homeowner's association to its members.

117. 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.

118. 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.

119. Exempts certain circus admissions.

120. 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.

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

Tax Cuts Enacted in 1998

122. 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.

123. 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.

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

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

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

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

Tax Cuts Enacted in 1999

128. 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.

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

130. 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.

131. 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 taxes paid on motor vehicles to an exemption at the time of retail sale.

132. 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.

133. 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.

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

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

Tax Cuts Enacted in 2000

136. 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.

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

138. Provides an exemption for certain property and services purchased by television and radio network broadcasters for use in the production or transmission of programming.

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

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

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

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

143. 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.

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

145. Exempts boats sold to nonresidents.

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

Tax Cuts Enacted in 2001

147. Added eight new Empire Zones. Four of the eight were effective immediately.

Tax Cuts Enacted in 2002

148. 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.

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

150. 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

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

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

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

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

155. Reduces the tax on pari-mutuel wagering.

Tax Cuts Enacted in 1996

156. Repeals the real property gains tax.

157. 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

158. Increases from $115,000 to $300,000 the value of estates and gifts exempt from taxation (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.

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

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

Tax Cuts Enacted in 1998

161. 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.

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 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.

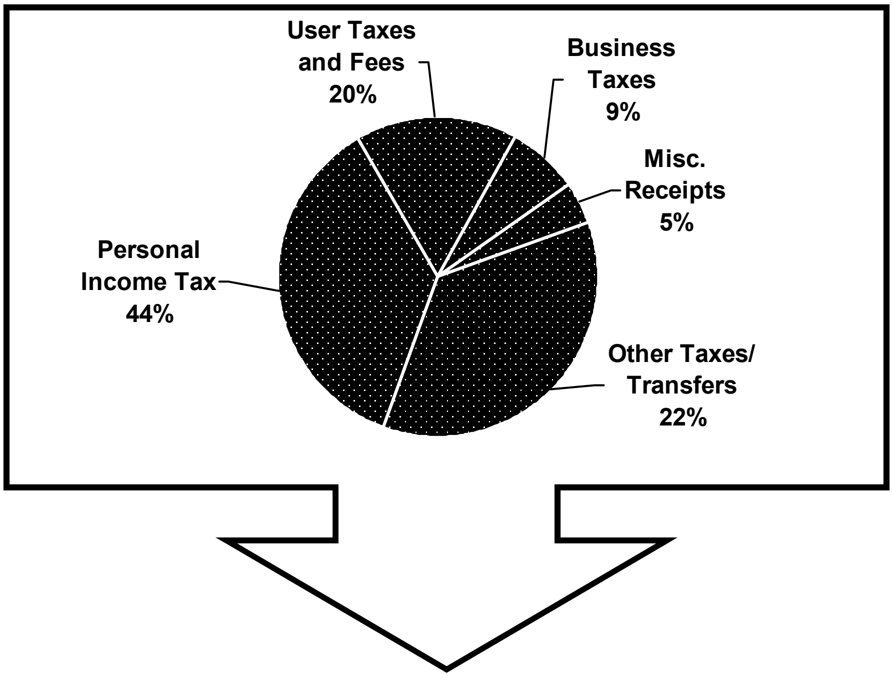
Tax Cuts Enacted on 2002

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.

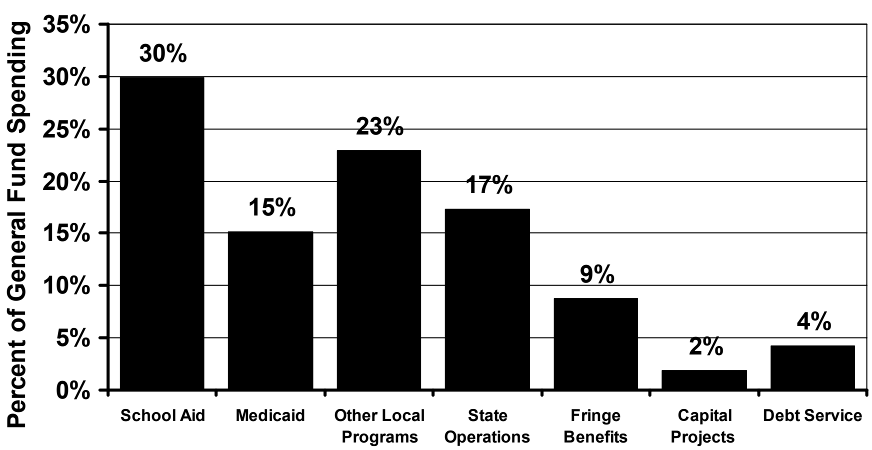
179. Extends the REIT provisions under the real estate transfer tax until August 31, 2005 for property transferred into an existing REIT.

2004-05 General Fund Budget

Where It Comes From



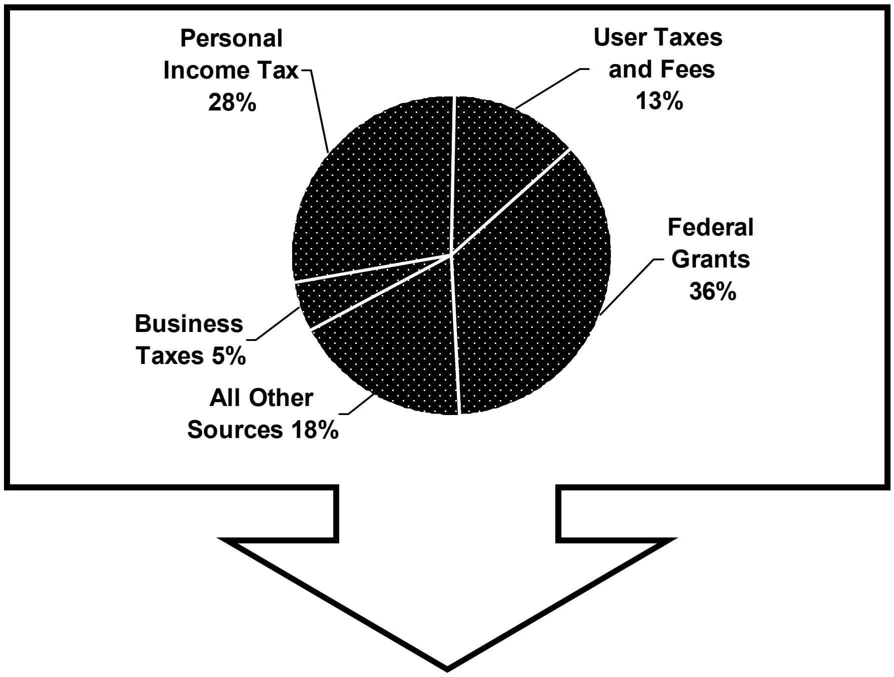
Where It Goes



Your Tax Dollar

2004-05 All Funds Budget

Where It Comes From



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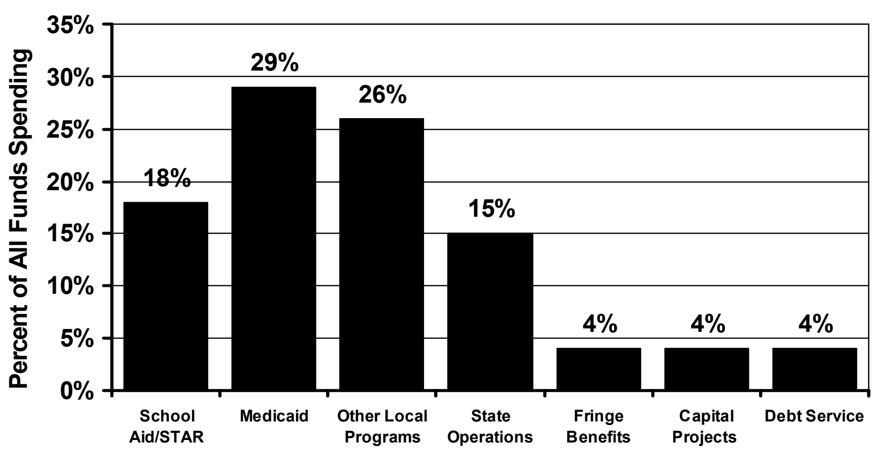

Your Tax Dollar

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 requires the Governor to 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, Executive Budget Overview, contains the Budget Director's Message, which explains the Governor's fiscal blueprint for 2004-05 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.

Division of the 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 second volume, Executive Budget — Agency Presentations (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, the Executive Budget — Financial Plan (Appendix II) volume 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 Governor's recommended funding and are organized by program area.

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

Appropriation Bills

- Public Protection and General Government
- Transportation, Economic Development and Environmental Conservation
- Health and Mental Hygiene
- Education, Labor and Family Assistance
- Legislature and Judiciary
- Debt Service

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, all items that have been added by the Legislature, and all appropriations for the Legislature and the Judiciary 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 made 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

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

- Authorize deposits, temporary loans for various funds, and bond cap changes; propose provisions relating to debt and other general fiscal management issues.
- Clarify the authority of the Department of Civil Service regarding the administration of the Employee Health Insurance Fund.
- Provide General Purpose Local Government Aid to cities, towns and villages.
- Increase registration and renewal fees for student athlete agents to reflect State administrative costs.
- Increase the penalty for violations of New York State's No Telemarketing Sales Call Law to conform with the Federal penalty.
- Increase fees paid by operators of nuclear power reactors to fund enhanced State and local emergency preparedness.
- Abolish the State Liquor Authority and transfer its functions to the Division of Alcoholic Beverage Control.
- Eliminate certain transcript requirements for Workers' Compensation Board proceedings.
- Extend the period when the Division of Parole can process a parole violation warrant for certain out-of-State parole violators.
- Increase most new filing fees for alcoholic beverage licenses and permits to reflect State administrative costs.
- Authorize the use of owner-controlled insurance by State agencies, public authorities, and municipalities.
- Propose an alternative Municipal Assistance Corporation refinancing plan.
- Authorize comprehensive mandate relief initiatives for localities.
- Permit a new standard using "aggregate weight" for lab analysis of illegal drug evidence.
- Make permanent the authorization to fund part of the State's public safety efforts with Motor Vehicle Law enforcement fees.
- Permit grand jury testimony by police officers to be provided by affidavit rather than requiring personal appearance.

- Authorize the Superintendent of Banks to establish various assessments, fees and penalties by regulation.
- Establish new filing fees for various services provided by the Public Employment Relations Board.
- Establish comprehensive pension reform.
- Require a mandatory surcharge and a crime victim assistance fee for defendants adjudicated as youthful offenders.
- Allow localities to assess a fee up to $5 on vehicle insurance policies to fund local public safety needs.
- Authorize mandatory surcharges and the crime victim assistance fee to be imposed in cases where the defendant paid restitution.
- Establish a new fee to be paid by convicted sex offenders.
- Authorize counties to assess probation fees to support county probation services.
- Expand the parking ticket surcharge statewide.
- Merge the Crime Victims Board into the Division of Criminal Justice Services.
- Authorize the Consumer Protection Board to recover costs incurred while investigating complaints pertaining to the Motor Fuel Practices Act.
- Establish a medical payment cap and catastrophic allowance for crime victim claims.
- Increase the maximum civil penalty for unfair and deceptive business practices and false advertising.
- Establish a State licensing fee on pistol and revolver permits and an expiration date for all gun licenses.
- Accelerate the reimbursement payment for indigent legal services.
- Authorize the Division of Criminal Justice Services to implement automated photo-monitoring at work zones to reduce speeding.
- Increase the minimum daily rate of pay for New York National Guard members on State active duty.
- Encourage intergovernmental cooperation for the statewide deployment of enhanced wireless 911 service.
- Authorize the Municipal Bond Bank to issue Fiscal Stability Bonds on behalf of distressed upstate cities.
- Require that speeding ticket fines be based on the initial charged offense.
- Clarify when the Division of Parole is responsible for reimbursing local jails for housing a presumptively released, paroled or conditionally released violator.

Legislation Required

Education, Labor and Family Assistance

- Authorize the SUNY Trustees to transfer the operations of the SUNY teaching hospitals to private not-for-profit corporations.
- Restructure TAP awards to provide incentives for college graduation and create a Tuition Assistance Loan Program.
- Exempt CUNY Capital Projects from Wicks Law requirements.
- Protect taxpayers' STAR savings by placing limitations on school budget increases.
- Authorize the entire welfare grant to be withheld if the head of the household does not fulfill his or her employment obligation.
- Increase various worker protection and labor standards fees.
- Align fiscal responsibility for tenured teachers' disciplinary hearings with the local district initiating such hearings.
- Increase the real property transfer recording fee.
- Establish a block grant to reimburse counties for secure and non-secure detention costs.
- Restructure the Board of Regents and establish a New York Institute for Cultural Education (NYICE) that would be responsible for administration of the State Museum, the State Library, the State Archives and other cultural education programs that are currently administered by the State Education Department.
- Step-down the amount of earnings an individual may retain while receiving public assistance based upon the length of time an individual has been on welfare.
- Reduce the non-shelter component of the public assistance grant by 10 percent for families on welfare for more than 5 years and by 10 percent for single adults and childless couples on welfare for more than 1 year.
- Implement school aid reforms.
- Establish a New York State Higher Education Capital Investment Review Board to guide the awarding of capital matching grants for higher education facilities.

Health and Mental Hygiene

- Authorize the Commissioner of the Office of Mental Health to review and retroactively certify the rate methodology for dually licensed mental health outpatient programs.
- Amend the Health Care Reform Act (HCRA) and amend the Insurance Law to authorize additional non-profit insurance company conversions to for-profit entities and invest a portion of the proceeds from such conversions in HCRA.
- Restructure the State's Medicaid program through initiatives to reduce costs, enhance revenues and maintain access to health care services.

- Enact public health initiatives to eliminate low-priority programs, strengthen pharmacy fraud prevention, achieve cost savings and facilitate access to the new Medicare Discount Card for low-income EPIC enrollees.
- Re-establish reimbursement parity among Methadone Maintenance Treatment Programs certified in accordance with Article 28 of the Public Health Law.
- Close the Middletown Psychiatric Center on April 1, 2005 and require that 50 percent of the savings from facility closures be reinvested into State-operated community services.
- Establish the bipartisan Commission for the Closure of State Psychiatric Centers and extend the Community Mental Health Support and Workforce Reinvestment Act to 2010.

Transportation, Economic Development and Environmental Conservation

- Authorize funding for the Cornell Supercomputer.
- Make permanent the general loan powers of the New York State Urban Development Corporation.
- Expand the Waste Tire Management and Recycling Act of 2003 to include new tires sold for motorcycles and all-terrain vehicles.
- Authorize the New York State Energy Research and Development Authority to make payments to the General Fund and the Environmental Conservation Special Revenue Fund.
- 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.
- Authorize the Public Service Commission to redirect certain revenue from currency-operated telephone assessments and underground facility training fees to the General Fund.
- Revise and expand the heavyweight truck permit system administered by the Department of Transportation.
- Provide the annual authorization for the CHIPs and Marchiselli local transportation programs.
- Delay implementation of the State Hazmat Fingerprinting Program to address Federal requirements.
- Establish acreage-based fees for stormwater management permits.
- Authorize additional purposes for the Environmental Protection Fund.
- Establish new biennial inspection fee for food establishments; achieve efficiencies in the inspection of retail food stores; and require preventative measures to better protect the safety of the State's food supply.
- Increase and restructure air regulatory fees.

Legislation Required

- Eliminate the annual inspection requirement for pet dealers' facilities and authorize the Department of Agriculture and Markets to conduct inspections on a risk-based frequency.
- Re-authorize the New York Power Authority to make contributions to the General Fund to fully support the Power for Jobs Program and authorize a new rebate program.
- Establish a Driver Responsibility Program imposing additional monetary assessments for drivers convicted of drug or alcohol-related offenses; or who refuse to submit to chemical tests; or who accumulate six or more points on their driving records.
- Increase all-terrain vehicle (ATV) and snowmobile fees; create an ATV trail development and maintenance program; and provide reimbursement to local governments for State Forest Property Tax Credits.
- Establish the $250 million Regional Economic Growth Program to be administered by the New York State Urban Development Corporation (UDC); and provide UDC, or other public authorities if appropriate, with bonding authority to finance the program.
- Make permanent provisions relating to petroleum bulk storage fees to support the Oil Spill Program.

Revenue

- Create a new State STAR credit under the personal income tax to protect the STAR benefit from the effects of inflation.
- Create a new exemption from the personal income tax for Federal military pay for New York State Guard members activated and deployed full-time in the New York War on Terror.
- Create a new biotech program that would allow qualified biotech companies to sell their unused losses to eligible corporations based on 90 percent of the value of the losses.
- Allow for an additional $2 million in tax credits annually, or $20 million over the ten-year life of the program, for the Low-Income Housing Tax Credit program which will spur a new round of affordable housing construction.
- Reduce the tax burden for manufacturers by phasing in a 100 percent receipts factor in determining income apportioned to New York State.
- Extend and reform the Empire Zones Program.
- Modify the fixed dollar minimum tax base.
- Extend the Alternative Fuels Vehicle Program for one year.
- Include in New York source income, gains from sales of cooperative apartment stock for non-residents.
- Replace the permanent $110 clothing and footwear tax exemption with four $500 exemption weeks.
- Allow the direct shipment of wine into New York State from out-of-state wineries.

- Place sales tax rate surcharges on certain taxable services to fund public safety and security initiatives.
- Authorize up to eight new facilities to be licensed by the Division of the Lottery to operate video lottery terminals.
- Make Quick Draw permanent.
- Remove restrictions on Quick Draw.
- Extend the bank tax for one year and the Federal Gramm-Leach-Bliley Act provisions for two years to preserve current revenues.
- Extend the MTA surcharge that is scheduled to expire on December 31, 2005.
- Clarify rights regarding the availability of tax hearings.
- Provide for the State to enter into price parity agreements with Native American nations with respect to cigarettes, motor fuel and alcoholic beverages and exempt such Native American nations from current regulations to collect the respective taxes.
- Ease filing requirements for low-income taxpayers under the personal income tax.

Legislation Required

Office of Alcoholism and Substance Abuse Services

($000s)

	All Funds 2004-05
Prior Year Estimated Spending	**$480,235**
Additional cost of continuing current programs	7,599
Compulsive Gambling Education and Treatment Program	2,300
Targeted case management and utilization review initiative	1,900
Various State Operations and Local Assistance efficiencies	(16,100)
Recommendation	**$475,934**
Change From 2003-04	**($4,301)**

Office of Children and Family Services

($000s)

	General Fund 2004-05
Prior Year Estimated Spending	**$1,264,983**
Child Welfare claiming growth	8,000
Child Welfare State share increase associated with TANF/Title XX transfer reduction	57,582
Non-recurring 2003-04 child welfare costs	(11,000)
Adult Protective/Domestic Violence services claiming growth	4,400
Adoption Subsidy claiming growth	4,500
Medicaid Per Diem growth	1,100
Detention Block Grant Reform	(7,000)
Committee on Special Education State cost sharing savings	(4,000)
Other Local Assistance spending changes	3,195
Annualize 2003-04 Youth Facility restructuring	(8,670)
Non-personal service savings	(1,453)
Loss of one-time State Operations Federal funding	1,600
Other State Operations and Capital Project Fund spending changes	579
Recommendation	**$1,313,816**
Change From 2003-04	**$48,833**

Department of Correctional Services

($000s)

	General Fund 2004-05
Prior Year Appropriation	**$1,875,094**
Cost of continuing current programs	6,998
Operating savings reflecting the decreased demand for prison capacity	(6,800)
Recommendation	**$1,875,292**
Change From 2003-04	**$198**

Economic Development

($000s)

	General Fund 2004-05
Prior Year Estimated Spending	**$107,269**
Annualization of savings actions	(200)
Net adjustment to reflect disbursement re-estimates	(19,224)
Increase funding for tourism promotion and other programs	9,860
Spending reductions	(1,508)
Recommendation	**$96,197**
Change From 2003-04	**($11,072)**

State Education Department

($000s)

SCHOOL AID / STAR	Total 2004-05 School Year Funding
Prior Year School Aid Funding	**$14,417,350**
Increases in expense-based building and transportation aids	172,420
NYC Sound Basic Education matching grant	100,000
Increases in instructional materials aids	760
Categorical program reductions	(67,660)
Expenditure-based reductions in BOCES and Special Services aids	(25,810)
Decrease in Growth Aid related to decline in enrollment growth	(16,340)
Formula-driven changes in various aid programs	(16,020)
School Aid Subtotal	**$14,564,700**
Prior Year School Tax Relief (STAR) Funding	**$2,835,000**
STAR increase due to greater participation and growth in local tax rates	183,000
Reduction in STAR costs to reflect the impact of proposed school spending cap	(20,000)
STAR Subtotal	**$2,998,000**
Prior Year Total for School Aid and STAR	**$17,252,350**
Recommendations for School Aid and STAR	**$17,562,700**
Change from 2003-04	**$310,350**

State Education Department

(continued)
($000s)

	General Fund 2004-05
Prior Year Estimated Spending	**$1,414,255**
Increased payments to counties and school districts for preschool and summer school special education programs due to enrollment growth and increased program costs	50,872
Elimination of one-time Federal offset in preschool special education	27,200
Transfer of programs and miscellaneous adjustments	19,812
Increased preschool special education costs due to 2003 statutory changes in the Early Intervention Program	7,000
Restoration of school safety programs and charter school start-up grants	6,725
Increased funding for statutorily-driven programs including aid for non-public schools	5,500
Increased funding to the State-supported "4201" Schools for the Blind and Deaf to address operational costs	4,000
Elimination of certain grants for individual school districts and various categorical programs	(61,027)
5 percent reduction for various categorical programs	(11,992)
Shift of State operations costs to special revenue accounts	(9,007)
Elimination of one-time expenditures for prior years obligations	(8,000)
Annualization of cash savings from programs eliminated in the 2003-04 school year	(4,103)
Efficiencies in State operations and reductions in local assistance	(2,924)
Annualization of savings and projected spending increases	(1,133)
Recommendation	**$1,437,178**
Change From 2003-04	**$22,923**

Department of Environmental Conservation

($000s)

	General Fund 2004-05
Prior Year Estimated Spending	**$97,619**
Net adjustment to reflect cost of continuing current programs	1,764
Shift of positions and non-personal service costs to other funds	(2,604)
Reduction of funding for non-recurring local assistance programs	(373)
Savings actions including personal service and non-personal service through attrition, overtime and contract savings	(1,456)
Funding for Forest Property Tax Program and ATV Program	4,150
Recommendation	**$99,100**
Change From 2003-04	**$1,481**

Capital Funds	All Funds 2004-05
Prior Year Estimated Spending	**$541,031**
Increased spending for the refinanced Superfund program	83,000
Decreased spending for the Environmental Protection Fund	(6,000)
Decreased bond fund spending consistent with planned commitments	(10,671)
Decreased spending for Capital Projects Funds consistent with planned commitments	(9,729)
Increased Federal grants and other net adjustments	595
Recommendation	**$598,226**
Change From 2003-04	**$57,195**

Department of Health

($000s)

	General Fund 2004-05
Prior Year Estimated Spending	**$703,500**
Growth in Early Intervention entitlement spending	36,100
Medicaid Management Information System Replacement	11,300
General Public Health Works Program spending growth offset by reduced reimbursement to counties for optional services	13,100
Eliminate funding for certain 2003-04 Legislative adds	(6,800)
Fixed cost increases offset by position reductions and management efficiencies	(2,700)
Recommendation	**$754,500**
Change From 2003-04	**$51,000**

Higher Education Services Corporation
($000s)

	General Fund 2004-05
Prior Year Estimated Spending	**$900,018**
Continued phase-in of TAP enhancements	7,100
TAP growth reflecting increasing participation	43,200
Funding for new MERIT (Military Enhanced Recognition Incentive and Tribute) scholarships	1,750
TAP restructuring including TAP loan program	(290,889)
One-time funding for 2002-03 shortfall	(7,148)
Sunset of Regents scholarships	(2,900)
Recommendation	**$651,131**
Change From 2003-04	**($248,887)**

Medicaid
($000s)

	Total Spending 2004-05
Prior Year Estimated Spending	**$42,117,900**
Growth in entitlement spending	$1,749,400
Delay final weekly Medicaid payment two days	($460,000)
Measures to ensure cost effective use of pharmaceuticals	($381,300)
Maximize Medicare funds by enrolling dually-eligible recipients in Medicare Part A	($150,800)
Implement Family Health Plus benefit reductions and copayments	($134,900)
Eliminate certain adult optional services, including dental, nurses, audiologists and psychologists, and podiatry clinic visits	($129,000)
Close existing loopholes in the long term care system	($61,600)
Other efficiency measures including, management of certain high cost populations, encouraging the enrollment of SSI and dually-eligible recipients in managed care, refinancing AIDS nursing home capital costs and implementing the Medicare policy for reimbursement of enterals and nutritional products	($60,500)
Transfer children ages 6 to 19 with household incomes between 100 and 133 percent of the Federal Poverty Level from Medicaid to Child Health Plus	($27,600)
Federalize Graduate Medical Education Program	$130,400
Increases in spending associated with reimbursable nursing home assessments	$105,500
Recommendation	**$42,697,500**
Change From 2003-04	**$579,600**

Summary of Changes

Office of Mental Health

($000s)

	General and Offset Funds 2004-05*
Prior Year Estimated Spending	**$1,857,520**
General salary increases and adjustments including the 27th institutional payroll and other program annualizations	78,355
Enhanced forensic programs for inmates in State correctional facilities	3,500
New Community Mental Health Support and Workforce Reinvestment for adults and children	3,050
Enhancements to non-profit community residential programs	9,100
Position management savings and efficiencies including audit recoveries and revenue maximization for local programs	(22,155)
Close unneeded inpatient beds	(7,950)
Targeted local program reductions including the elimination of Alternative Rate Methodology reimbursement for hospitals	(6,580)
Transfer compulsive gambling program to OASAS	(1,276)
Recommendation	**$1,913,564**
Change From 2003-04	**$56,044**

*Includes Health Care Refrom Act (HCRA) funds

Office of Mental Retardation and Developmental Disabilities

($000s)

	All Funds 2004-05
Prior Year Estimated Spending	**$2,635,734**
Additional cost of continuing current State-operated programs, including the 27th institutional payroll	61,694
Additional cost of continuing current not-for-profit programs	110,074
Prior year non-recurring savings actions	21,500
New State-operated special populations beds	1,300
New York State – Options for People Through Services (NYS-OPTS) funding	49,463
Various State Operations administrative efficiencies	(24,900)
Targeted Local Assistance reductions	(31,500)
Recommendation	**$2,823,365**
Change From 2003-04	**$187,631**

Office of Parks, Recreation and Historic Preservation

($000s)

	General Fund 2004-05
Prior Year Estimated Spending	**$101,714**
Net adjustment to reflect cost of continuing current programs, including salary and other fixed cost increases.	1,937
Net adjustments associated with the acquisition and operation of new State parks.	890
General Fund personal services savings	(450)
General Fund Local Assistance savings, including shifting program costs to other funds	(4,952)
Recommendation	**$99,139**
Change From 2003-04	**($2,575)**

Capital Funds	All Funds 2004-05
Prior Year Estimated Spending	**$32,168**
Net adjustments including decreased spending for the State Parks Infrastructure Fund and Fiduciary Funds and increased bondable spending	(11,993)
Recommendation	**$20,175**
Change From 2003-04	**$11,993**

Summary of Changes

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

	General Fund 2004-05
Prior Year Estimated Spending	**$2,599,947**
Annualizaton of savings and projected spending increases	2,135
Fringe benefits increase	97,856
Community college enrollment adjustment	17,145
Enrollment-based revenue authorization (CUNY)	(6,000)
Fringe benefit recoveries increase (SUNY)	(8,396)
Community college base aid reduction (5%)	(19,323)
College fee fold-in (SUNY)	(4,205)
Opportunity programs reduction (5%)	(1,406)
Cornell Cooperative Extension (SUNY) reduction (5%)	(193)
COPs Payments for Equipment Bonding	5,721
Recommendation	**$2,683,281**
Change From 2003-04	**$83,334**

Office of Temporary and Disability Assistance

($000s)

	General Fund 2004-05
Prior Year Estimated Spending	**$1,459,200**
Welfare caseload and expenditure increase	125,400
Proposed welfare eligibility and benefit changes	($77,300)
Annualization of reduction in local welfare administration reimbursement enacted in 2003-04	($45,000)
Use of one-time credits in 2003-04	40,700
Increase in reimbursement for local welfare employment administrative costs	$19,700
Increased Federal funding for the Earned Income Tax (EITC) and Child and Dependent Care (CDCC) credits	($17,300)
Reduced funding for systems	($7,200)
Lease annualizations and personal service adjustments	$1,800
Recommendation	**$1,500,000**
Change From 2003-04	**$40,800**

Department of Transportation

($000s)

	All Funds 2004-05
Prior Year Appropriation	**$5,299,694**
Increases in Federal appropriations	10,883
Planned increase in transit aid	48,200
Net reduction in highway program and support	(139,554)
Operational efficiencies	(3,074)
Recommendation	**$5,216,149**
Change From 2004-05	**($83,545)**

Summary of Changes