STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY NY 12224

GEORGE E. PATAKI
GOVERNOR

January 18, 2005

To My Fellow New Yorkers,

Working together, New Yorkers have faced many great challenges during the past few years. Our success in meeting the incredible challenges presented to us by September 11th shows that New Yorkers have both the foresight and the fortitude to conquer even unfathomable adversity.

As I present my Executive Budget, New York's economy continues to improve, and every day we are seeing signs of a more positive and more hopeful tomorrow.

During the past ten years, we have won major victories for New York's working families and businesses. We have cut taxes and reduced the regulatory burden on businesses to create jobs. We have provided record amounts of State aid to education and helped seniors. We have passed tough, new laws to protect our citizens and made sound investments to preserve our natural resources. And, we have reformed the size and scope of government, and, in fact, reformed government itself.

But, we must continue to do more.

The 2005-06 Executive Budget that I am submitting to the Legislature builds on what we have accomplished together by smartly focusing on a number of important areas where we need to continue moving forward and doing more.

This Executive Budget provides targeted tax incentives to improve the economy in areas of the State that need it the most and implements policies designed to make New York the safest State in the nation. It offers record amounts of aid to local governments and local schools, and institutes a host of governmental and programmatic reforms — many of which will save taxpayer dollars and dramatically improve services.

While the State's economic picture continues to brighten and we have much to be proud of, our optimism is tempered by the real fiscal challenges facing our State, challenges we can and must meet head on.

We must resist the temptation to see the improving economy as an opportunity to spend carelessly, but instead, view it as an opportunity for us to finally put the State's fiscal house in order, pass a balanced and prudent Budget, and improve the lives of every, single New Yorker.

I look forward to working with the Members of our State Legislature to accomplish those goals because they are so vital to the economic well-being of our State.

Very Truly Yours,

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Director's Message

New Yorkers have faced great challenges during the last four years, and under Governor Pataki's leadership, we have addressed them with steadfast resolve. As we move into the next fiscal year, New Yorkers can be confident that our economic picture is brightening and that with appropriate fiscal discipline, we can fully overcome the challenges we still face.

The State continues its resurgence from the recession created by the national economic downturn and the after-effects of September 11th. In recent months, that resurgence has begun to materialize in the State's revenues. New York has experienced dramatic revenue growth, largely because of the strength of the real estate market, private sector job growth and the continued strength of the financial services industry — all signs that the tremendous underlying power of our economy has re-awakened.

This is undoubtedly good news; New York's job and income growth clearly demonstrates that the Governor's job creation policies are working and our strong real estate market reflects the confidence New Yorkers have in our State's future.

Nonetheless, New York continues to face significant fiscal challenges. The 2005-06 Executive Budget will address these fiscal challenges and provide a road map for overcoming them while also advancing the priorities that the Governor outlined in his State of the State message. Among the Governor's major goals are:

- Maintaining the continued safety and security of all New Yorkers;
- Encouraging ongoing job creation and continued economic growth statewide, particularly in parts of the State that are not experiencing the full effects of the economic recovery;

- Reforming the health care and Medicaid system to improve care while reducing costs for county property taxpayers by allowing for a cap on local contributions to Medicaid with an eventual State takeover of the program;
- Making record investments and adopting sweeping reforms to ensure that every child in New York has the opportunity to receive the best possible education; and
- Continuing his commitment to protecting and preserving New York's environment.

The Executive Budget successfully closes a $4.2 billion dollar deficit and enables New York to achieve these worthy goals while placing the State on a responsible path to long-term fiscal stability. The brightening economic picture provides New York with an opportunity to finally put the State's fiscal house in order and bring the State's Budget into structural balance. Governor Pataki's Executive Budget provides us with a framework to achieve that vital objective.

New York stands at a familiar fiscal crossroads. If we make the most of this opportunity, our children, our employers and our taxpayers will benefit for years to come. If we squander it with one-shot spending and other fiscal gimmicks as the State did in the early 1990s, New Yorkers will pay for those misjudgments for years to come.

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During his tenure in office, Governor Pataki has instituted many reforms and developed many initiatives that have improved the relationship between the State and local governments. From his historic STAR School Property Tax Cut Program to expanding the Empire Zone program that provides State tax relief to businesses in areas of the State in need of job creation and economic development, Governor Pataki has been an innovative leader in developing initiatives to allow State government to provide relief and support to local communities.

This Budget builds on that record and seeks to restructure much of the relationship between State and local government in a way that reduces pressure on property taxes and ensures that New Yorkers receive the most efficient delivery of the important services that their tax dollars support.

To that end, the Executive Budget fundamentally reforms the Medicaid program in a way that recognizes the impact of recent developments in the delivery of health care. This reform allows the State, at long last, to place a cap on local contributions to the State in support of Medicaid, enabling the State to complete a full takeover of the health care program in 2008. For too long, local taxpayers have seen their property tax bills dramatically increase because of continually rising Medicaid costs. This reform provides county governments — and their property taxpayers — with the predictability and fiscal stability that they deserve.

The Executive Budget recognizes that absent reform, the shifting of costs from the county taxpayers to State taxpayers provides no overall savings to New Yorkers. For that reason, this Budget also provides New Yorkers with cost-saving reforms to the Medicaid program to ensure that Medicaid is both cost-efficient and consistent with recent advances in the delivery of medical services.

To streamline and enhance State aid to localities, this Budget creates a new Aid and Incentives for Municipalities (AIM) program. This initiative will consolidate multiple aid programs into a single aid program that will provide increased aid to eligible localities across the State. AIM will also provide the opportunity for some local governments to enter into a fiscal performance contract with the State to receive additional funding. This new program will also provide a new Shared Municipal Services Incentive Award Initiative to encourage joint cost saving initiatives by municipalities. Total funding for this new initiative will provide nearly $164 million in additional State funding to municipalities during the next two years.

The Governor's Budget also provides local governments with the tools and flexibility they need to deliver more efficient welfare services to recipients by creating a $1 billion Flexible Fund for Family Services. This new initiative abandons rigid "one size fits all" requirements and gives the counties, who are on the front line of the State's welfare programs, more freedom and responsibility in determining the best approach to help their citizens achieve self sufficiency.

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The 2005-06 Executive Budget projects that the economic recovery will produce above-average rates of growth in tax revenues. The Executive Budget estimates that underlying tax receipt growth will reach 6.5 percent. Real Gross Domestic Product (GDP) growth for the United States is expected to reach 3.4 percent and employment growth is expected to continue its acceleration in 2005. The equity market rebound is expected to continue and produce revenue 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.

This year's Budget closes a deficit of $4.2 billion without resorting to broad-based tax increases that stifle job creation and economic growth. The Budget makes the necessary choices to close the gap as required by the State Constitution and does so in a way that maximizes recurring actions to provide permanent budget savings and help address the larger Budget deficits that would otherwise remain in future years.

The Division of Budget projects that the recommendations would produce net recurring savings of roughly $3 billion annually, reducing the 2006-07 and 2007-08 budget gaps to about $2.7 billion. The most significant recommendations include:

- $2.8 billion in new initiatives to restrain spending that emphasize cost containment in high-growth programs, especially Medicaid, pensions, and debt service, and maximize Federal aid and efficiencies in State operations spending. These savings initiatives allow targeted investments, including increased State funding to cap the growth in local Medicaid costs and increases in unrestricted aid to local governments.
- Nearly $860 million of nonrecurring actions, including commencing the recent discretionary funding changes for the State and Local Retirement System only after independent review and public comment ($321 million), use of the 2004-05 surplus ($170 million), asset sales ($54 million) and other actions.
- $533 million in net revenue actions, that will not harm continued employment growth or the State's economic recovery.

Overall the 2005-06 Executive Budget recommends General Fund spending of $45.1 billion, an increase of $1.1 billion or 2.6 percent. All Funds spending will total $105.58 billion, an increase of $2.5 billion or 2.5 percent. The General Fund and All Funds comparisons reflect adjustments that were made to appropriately reflect the movement of different elements of State health care spending "on-budget."

In addition, the 2005-06 Executive Budget builds on the State's commitment to improve the quality-of-life for all New Yorkers by focusing on a number of critically-important areas. They include:

- Maintaining the continued safety and security of all New Yorkers by increasing State resources for the Office of Homeland Security, expanding the highly-successful Operation Impact and boosting State Police levels to record highs. The Budget also advances a host of anti-crime initiatives that will help to achieve the goal of making New York the safest State in the nation.

- Encouraging ongoing job creation and continued economic growth in every single community in the State by reforming the Empire Zone program, further reducing the cost of energy for businesses, and providing a wide array of tax credits and other incentives for companies who create jobs and economic capital in communities that need it the most.

- Reforming the health care and Medicaid system to improve care while reducing property taxpayer costs by instituting a cap on the local share of Medicaid, advancing a gradual State takeover of the program and creating a more modern and efficient long-term care system for elderly and disabled New Yorkers.

- Making record investments and adopting sweeping reforms to ensure that every child in New York has the opportunity to receive a quality education that will keep open the doors to a brighter future. The Budget includes a record school aid increase, creating a new Sound Basic Education program and advances a series of education reforms to increase accountability and strengthen student performance.

- Continuing the State's commitment to protecting and preserving New York's environment by increasing the Environmental Protection Fund to $150 million, fully funding the Superfund/Brownfields program, urging new funding to protect fragile wetlands and exempting the sales and use tax on Energy Star products for two weeks each year to reduce consumption and lower utility bills for consumers.

And throughout the Budget — in State agencies, local programs and aid to our partners in the not-for-profit community — New Yorkers will find an enhanced emphasis on performance and accountability.

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As we move forward with the adoption of this year's Enacted Budget, the Division of Budget remains committed to fulfilling the Governor's goal of enacting real budget reform to ensure balanced and on-time Budgets. In this year's Budget, we have instituted the reforms that the Legislature has requested that can be done administratively. These include moving the Health Care Reform Act (HCRA) on-budget and making our reporting and fiscal data more complete and easier to use.

We recognize the need to reform the Budget process to provide more efficiency and transparency in budget-making and we stand ready to work with the Governor and the Legislature to achieve that worthy reform goal.

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As we experience the benefits of a rebounding economy, we are presented with an outstanding and crucial opportunity to overcome the significant fiscal challenges that have confronted our State in recent years.

It is my hope that working together, we will have a productive year that will enact a Budget for fiscal year 2005-06 that enhances the State's economic recovery while ensuring that it regains the firm fiscal footing that the citizens of the Empire State expect and deserve.

Fiscal Outlook

Capitalizing on the Economic Recovery

The New York economy emerged from recession in September 2003, marking an important milestone in the State's recovery from the devastating impact of September 11th and the economic downturn that followed. By December 2002, New York had lost over 300,000 private sector jobs. At the peak of the fiscal crisis, the State faced a structural budget gap in excess of $11 billion, or roughly 25 percent of General Fund revenues.

Under Governor Pataki's leadership, the State responded decisively to the immediate demands on State finances, cutting the structural imbalance by more than one-half. At the same time, he made targeted economic investments aimed at stimulating the underlying strength of New York's economy. As a result of the Governor's prudent policy of bolstering reserves and restraining spending during the "boom years" of the late 1990s, combined with decisive action, careful fiscal management and help from the Federal government, the State ended each fiscal year since September 11th in balance. *(See Figure 1)*

Budget Highlights

- Reduces structural imbalance by over one-half.
- Generates permanent savings in high-growth programs.
- Avoids broad-based tax increases to balance the Budget.
- Accelerates phase-out of 2003 tax increases.
- Caps local growth in Medicaid spending.
- Finances a sound basic education to comply with the Campaign for Fiscal Equity decision.
- Improves transparency to aid Budget deliberations and public debate.

Restoring recurring structural budget balance through a combination of continued economic growth and fundamental restructuring of government spending is a top priority for Governor Pataki in 2005-06. The economic recovery is generating significant growth in State tax revenues. However, recent enacted budgets added new spending commitments in excess of the projected growth in recurring revenues and relied too heavily on one-time resources. As a result, the State still faces a budget gap of $4.2 billion in 2005-06.

Spending Growth Remains Below National Average

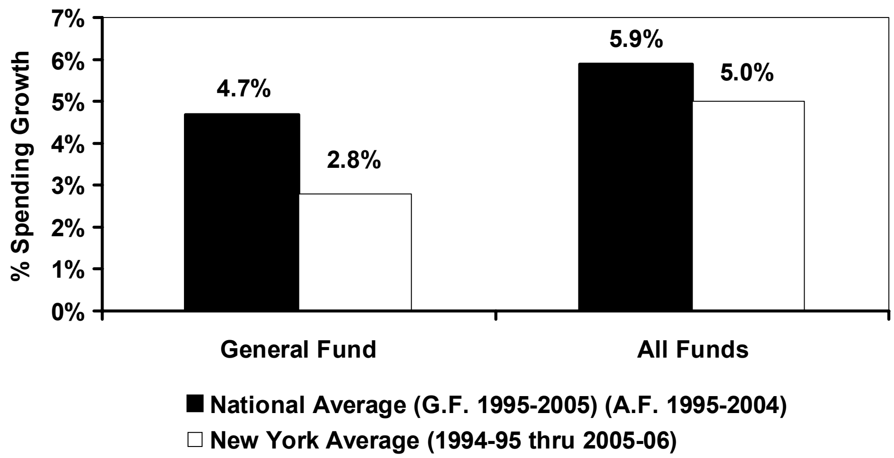


Figure 1

Governor Pataki has held spending in check since taking office. Since 1994-95, State spending has grown at an average annual rate well below other states, the prior administration, and in line with inflation. (Source: National Association of State Budget Officers, DOB)

In the long term, the State's ability to provide services at consistent levels, preserve the great strides in reducing the State's tax burden, and maintain or improve our "AA" credit rating all depend on stable financial operations. Accordingly, the 2005-06 Budget presented by Governor Pataki is a prudent, balanced plan that emphasizes spending restraint, targeted revenue and spending enhancements, and less dependence on non-recurring funding sources. By emphasizing recurring actions instead of one-time fixes in 2005-06, the budget gaps for 2006-07 and 2007-08 fall to nearly $2.7 billion, within the range of projections prior to September 11th and the national recession. *(See Figure 2)*

Highlights of the 2005-06 plan:

- 80 percent of the gap-closing plan — $3.3 billion — is achieved through a combination of cost containment in fast-growing programs, program restructuring, efficient use of Federal and other funding sources, and carefully targeted revenue enhancements.

September 11th Structural Imbalance Cut to Manageable Levels

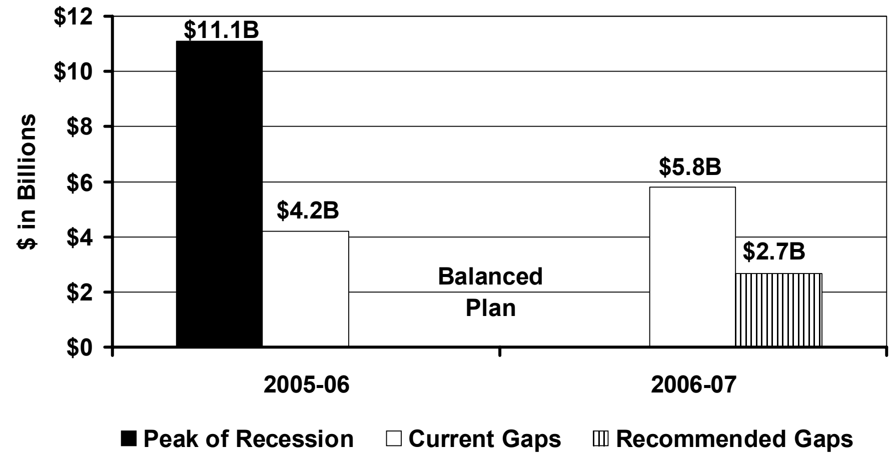


Figure 2

Governor Pataki has reduced the structural imbalance by minimizing the use of one-time resources, reducing spending growth and controlling the size of the workforce.

- No broad-based tax increases are recommended — and the 2003 personal income tax surcharge will be phased out ahead of schedule.
- Revenue enhancements include a two-week sales tax exemption program on clothing purchases under $250 and elimination of tax loopholes to promote equity.
- Non-recurring resources are limited to approximately 20 percent — a steep reduction from the level used to balance the 2004-05 Budget. *(See Figure 3)*

At the same time, the 2005-06 Budget fundamentally restructures major State/local programs in a way that promotes better services, yet dedicates significant resources to benefit local governments:

- To limit the impact of escalating Medicaid costs on local property taxes, the Budget recommends permanently capping annual growth in local Medicaid costs, with local governments sharing in costs up to the level of the cap. The plan is expected to generate over $2 billion in Medicaid mandate relief for counties and New York City over the next three years.
- The Budget also accelerates the State takeover of county Family Health Plus costs, for total local savings of $312 million in 2005-06 growing to $576 million in 2006-07.

Less Dependence on Non-Recurring Resources Aids Long-Term Balance

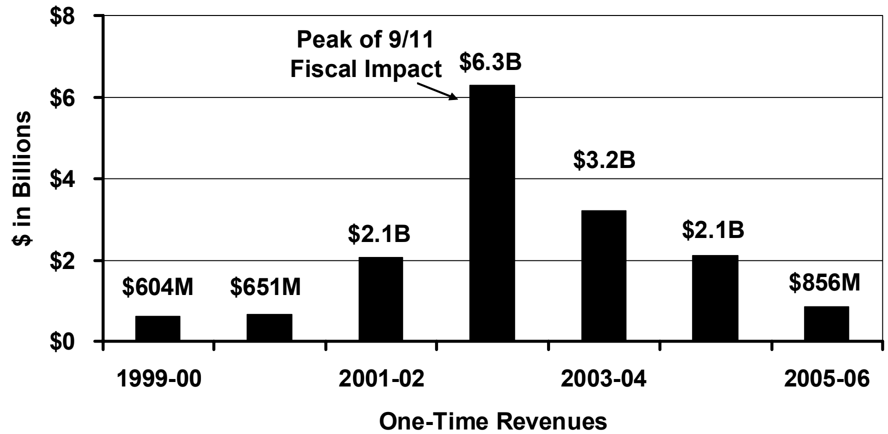


Figure 3

The 2005-06 Executive Budget relies on fewer non-recurring resources than any Budget since September 11th. By closing the budget gap through a greater level of recurring resources, the current proposal improves structural balance and reduces the budget gaps of future fiscal years.

- To assist distressed localities, the Budget restructures the revenue sharing program and increases State aid under a new Aid and Incentives for Municipalities (AIM) program, adding $55 million in 2005-06 growing to $109 million in 2006-07.
- Finally, the 2005-06 Budget advances a sensible, fully-funded plan that will provide local districts with resources to provide every child in New York with a sound basic education. The plan calls for $325 million in new funding in 2005-06 growing to over $2 billion annually by 2009-10.

A Proven Record of Fiscal Discipline

The Governor's commitment to fiscal discipline is not a response to hard times, but a governing philosophy that has characterized State Budgets since he took office in 1995. Under Governor Pataki's leadership, State finances have improved markedly, bringing the State's credit rating to its highest level in a generation.

- Multi-year planning emphasizes the impact of immediate choices on the State's long-term financial operations. *(See Figure 4)*

New York Today Compares Favorably with the New York of 1995

New York: Then and Now	1994-95	Current
General Fund GAAP-Basis Results **($ millions)**	($3,308)	($1,100)
Spending Trends		
General Fund Average Growth	5.5%	2.8%
Spending Percent of Personal Income	7.0%	6.0%
Workforce	211,200	191,400
Rainy Day Reserve Levels **($ millions)**	$157	$864
Reserves as Percent of Spending	0.5%	2.0%
Debt Levels		
Debt Service as Percent of Receipts	4.1%	3.9%
Debt as Percent of Personal Income	5.9%	5.6%

Figure 4

Governor Pataki has improved the State's financial position by restraining spending, building reserves, and managing debt.

- The State's balance sheet is stronger, State government is leaner, and reserves are higher.
  - The General Fund accumulated deficit dropped by over $2 billion.
  - The workforce is down by almost 19,800. *(See Figure 5)*
  - For the first time ever, the Rainy Day reserve is "full" at $864 million, having reached its statutory maximum of two percent of spending following a 2004-05 deposit. The State has made nine deposits in ten years, providing a five-fold increase from the $157 million level in 1994-95. *(See Figure 6)*
- State debt and spending growth are at significantly lower rates than under the prior administration, and compare favorably with other large states on these same measures over the same period:
  - General Fund spending has grown at an average annual rate of only 2.8 percent, comparable to inflation, and well below the U.S. average of 4.7 percent.

A Smaller State Workforce

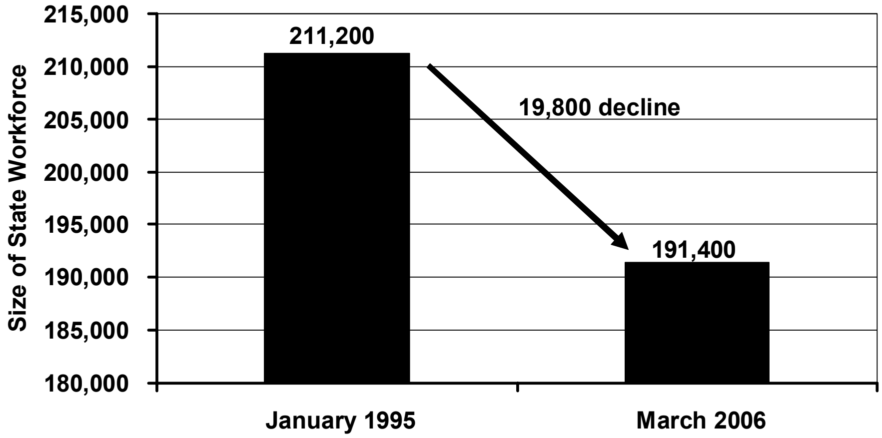


Figure 5

Governor Pataki has successfully delivered on his commitment to humanely reduce the size of the State government while minimizing the need for layoffs and continue to make agency operations more efficient.

- Debt levels are held in check, and remain within statutory debt reform limits. State debt outstanding is growing at an annual average of only 3 percent over the five-year Capital and Financing Plan, and as a result is projected to decline as a percent of personal income from 5.6 percent in 2004-05 to 5.1 percent in 2008-09.

Rainy Day Fund Reserve at Maximum Level

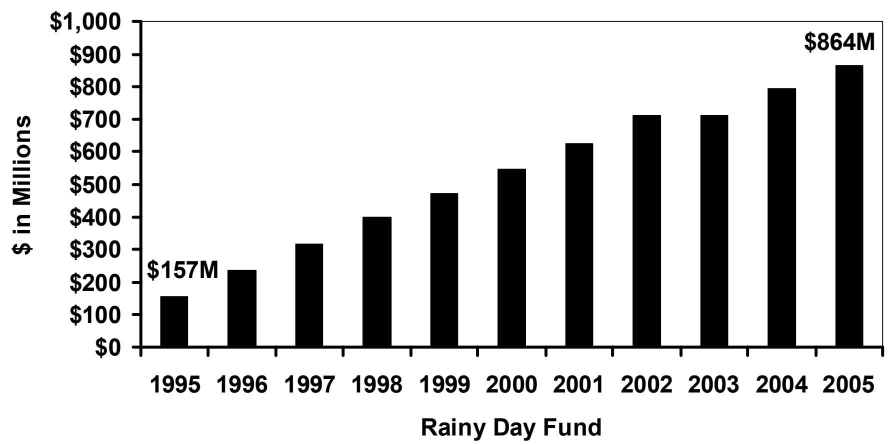


Figure 6

Under Governor Pataki, the State has made nine deposits to the rainy day fund, bringing the balance in the Rainy Day reserve to the maximum level permitted by law.

The Reform Agenda

The Governor is presenting a budget reform plan that would further enhance the reforms approved by the State Senate in December 2004.

Governor's Accomplishments

- Highest credit rating in 25 years.
- General Fund spending growth held to the rate of inflation.
- Steady growth in reserves.
- A leaner, more efficient workforce.
- Debt reform.
- Multi-year planning.

The key points of the plan include:

- Mandating that the Legislature enact a balanced budget as certified by an independent entity.
- Requiring "sunshine" reporting before any vote on the Budget to provide all legislators and the public an assessment of the multi-year financial impact of legislative budget changes.
- Establishing legislative conference committees to reconcile differences on the Budget, enhance public debate and ensure active participation by individual legislators.
- Mandating a binding revenue forecast by an independent body if the Legislature and Governor fail to achieve consensus.
- Increasing rainy day reserves to 5 percent of the Budget.

The Division of the Budget has continued to enhance budget reporting and transparency to provide informed understanding of State Budget policies. Significant improvements include:

- Accounting for all HCRA programs "on-budget."
- Providing an analysis of the preliminary legislative budget agreement before a vote on the Budget in order to contribute to an open, informed debate on the multi-year financial implications of legislative budget changes.
- Updating the multi-year budget forecast four times each year, providing detailed revisions for both the current and next two fiscal years.
- Publishing a year-end report that compares actual Financial Plan results against projections at two milestones — the Enacted Budget and the final update to the Financial Plan, and summarizes the reasons for annual growth.
- Providing detailed explanations of the factors underlying the current receipts and disbursement projections.

- Presenting detailed reporting of debt affordability comparisons.
- Including *all* of the types of additional information and reports identified by the Legislature in their various budget reform bills.

Finally, the Governor is again calling on the Legislature to pass constitutional debt reform that would ban "back door" borrowing and make permanent the caps and limitations imposed by the Debt Reform Act.

Economic Growth

Steadfast Commitment to Economic Growth

Governor Pataki has consistently championed a job-creating economic development strategy based on:

- Reducing the tax burden on New Yorkers;
- Reducing regulatory burdens to establish a more favorable business climate for the private sector; and
- Targeting investments to maintain essential infrastructure and to aggressively promote emerging industries that promise to create jobs well into the future.

This strategy has paid great dividends across New York, with the State's economy now more diverse, robust and successful than in 1995. Having successfully weathered the economic aftermath of September 11th and the national economic downturn, the State is now poised for even greater success in the years ahead.

Budget Highlights

Economic Development

- Creates Operation SPUR to encourage investment and job creation in targeted cities and rural communities across upstate.
- Eliminates the Alternative Minimum Tax and provides a single sales factor for qualified businesses investing in SPUR areas.
- Provides $250 million for high technology infrastructure improvements — including $150 million for the IBM Chip Fab expansion project — and other economic development projects throughout the State.

Taxes

- Continues previously enacted tax cuts providing $492 million in additional benefits to taxpayers in 2005-06.
- Accelerates phase-out of temporary personal income tax increase, saving taxpayers $190 million in 2005-06.

Co-STAR

- Creates a new Co-STAR program to provide additional tax relief to property taxpayers across the State.

Transportation

- Recommends a new $36.6 billion five-year transportation capital program and financing plan.
- Includes new funding sources to protect current commitments for the State's diverse transportation system over the next three years.
- Supports new initiatives for public/private partnerships, innovative financing and cross-agency cooperation to permit increases over existing commitment levels in the fourth and fifth year of the transportation plan.

The Governor's Economic Development Strategy Produces Jobs

CENTRAL NY
Lockheed Martin
— 500 new jobs

AXA Financial
— 300 new jobs

MOHAWK VALLEY
Empire Air Center
— 500 new jobs

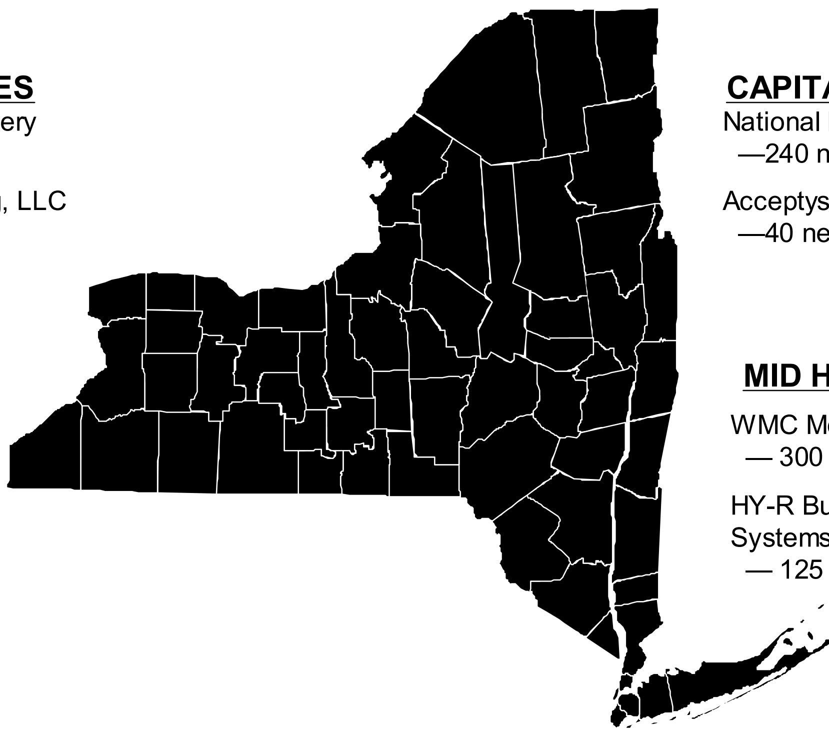
Utica National Insurance
— 225 new jobs

NORTH COUNTRY
BreconRidge, Inc.
—100 new jobs

Otis Technology
— 107 new jobs

FINGER LAKES
Pioneer Credit Recovery
— 450 new jobs

Millennium Machining, LLC
— 145 new jobs



CAPITAL REGION
National Bedding
—240 new jobs

Acceptys
—40 new jobs

WESTERN NY
Bass Pro
– 400 new Jobs

Geico
– 2,500 new jobs

MID HUDSON
WMC Mortgage
— 300 new jobs

HY-R Building
Systems
— 125 new jobs

SOUTHERN TIER
General Revenue Corp
— 220 new jobs

Corning Inc.
—- 250 new jobs

NEW YORK
Javits Center
— 10,000 new jobs

Virgin Airlines
— 600 new jobs

LONG ISLAND
Henry Schein, Inc.
— 800 new jobs

EDO Corporation
— 375 new jobs

Operation SPUR

Building on existing economic development resources, New York State will embark on a bold seven point strategy to spur economic growth in upstate New York. Operation Strategic Partnership for Upstate Resurgence (SPUR) will help the upstate region provide greater opportunities for job creation and business growth.

Operation SPUR includes:

New SPUR Tax Credit: This measure will provide a tax credit for existing, new or emerging businesses affiliated with the Centers of Excellence. It will allow qualified companies that are working with Centers of Excellence across the State, creating jobs and making investments, to convert unused tax losses into refundable tax credits to help them secure new working capital.

New Exemption from Alternative Minimum Tax: This new incentive will allow qualified businesses in the State that create jobs or make a significant investment in SPUR communities to be exempt from the State's Alternative Minimum Tax (AMT). This exemption will apply not only to the company's tax liability in the SPUR community but will include the company's entire State tax liability.

New "Single Sales Factor": This measure will allow qualified businesses that create jobs or make significant investments in SPUR communities to calculate their State Corporate Franchise Tax using the advantageous "Single Sales Factor." Under this measure, businesses will calculate their taxes on in-state sales only. Currently, State taxes are based on three factors: in-state sales, property, and payroll, which penalize businesses that have a high percentage of jobs and capital facilities in New York. This measure will apply not only to the company's tax liability in the SPUR community but will include the company's entire State tax liability.

Centers of Excellence Lead the Way for Job Growth

Centers of Excellence located across New York State have leveraged hundreds of millions of dollars of private investment and Federal support, and now provide a foundation for private sector job growth. Five Centers have been designated:

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

In addition, Centers of Excellence that will focus on biotechnology are under development in New York City and in Westchester County.

New Wage Tax Credits: Under this measure, new State Wage Tax Credits will be made available for businesses that create more than 50 jobs in SPUR communities and enhanced credits will be available for businesses in Empire Zones within SPUR areas.

New Agri-business Opportunity Empire Zones: New Agricultural Opportunity Empire Zones will be created in SPUR communities to promote investment and expansion in agricultural industries, including dairy, food and fruit processing, and forestry. In addition, the Empire Zone program will be extended until 2010 to provide significant economic and tax incentives to businesses. These reforms will strengthen the program and ensure that benefits are effectively targeted.

New Innovative Workers' Compensation Disability Benefits Program: This new initiative will offer businesses in SPUR communities a targeted Workers' Compensation workplace safety program, along with Workers' Compensation fraud prevention efforts. A new unit within the State Insurance Fund will provide SPUR businesses access to Workers' Compensation experts and safety specialists, who will provide them with custom-tailored safety action plans to help reduce their Workers' Comp costs and their overall cost of doing business.

New $100 million for Operation SPUR Grants: New funding will provide $100 million for capital projects directed toward economic development initiatives in SPUR communities -- including industrial facilities, business parks, incubators, downtown and rural commercial center projects, and tourism destinations.

In addition, the Governor also announced a number of other existing initiatives that will be expanded or enhanced to complement Operation SPUR, including:

SPUR NY Training Grants: $10 million will be provided for incumbent worker training to ensure that New York's private sector workforce remains world-class.

Expansion of the New York Main Street Program: $40 million will be provided over the next five years to assist local communities in their efforts to revitalize downtown business districts. This will build upon the State's initial $20 million investment in the program.

Power for Jobs: The Power for Jobs program — which provides reduced-cost power for businesses and not-for-profits, will be continued with benefits extended for a one year period.

New York City Revitalization

The recovery and rebuilding of lower Manhattan and surrounding areas has been one of the Governor's most important priorities since the September 11th terrorist attacks on the World Trade Center (WTC) cost the City over 300,000 jobs. Through the combined efforts and leadership of Governor Pataki, Mayor Bloomberg and other elected officials and distinguished citizens, many important milestones have been reached on schedule:

- A Board of Directors, including business leaders, victims' family members, leading philanthropists and honorary members including the four living past Presidents, has been selected for the WTC Memorial Foundation.
- The design for the memorial that will allow visitors and families to reflect on the terrorist attacks of 1993 and 2001 has been completed.
- Four new tenants have also been selected for the world-class performing arts centers at the new cultural complex at the WTC site.
- On July 4, 2004 the cornerstone for the 1,776 foot Freedom Tower was laid, and by April, 2005, steel and concrete will arrive on the site for construction.
- Work continues on finishing 7 World Trade Center, and rebuilding and restoration is planned for other buildings in and around the WTC site, including Fiterman Hall, as well as completion of the Hudson River Park.

The transformation of the transportation system that will tie the World Trade Center and lower Manhattan to the rest of the City, the surrounding metropolitan area and indeed, the world, is underway.

Expansion of the Low Income Housing Tax Credit

The Executive Budget proposes an additional $2 million annually or $20 million over the ten-year period of the tax credit, which will spur a new round of affordable housing construction.

- The temporary PATH terminal opened ahead of schedule and the permanent replacement terminal remains on schedule with the design phase completed and the construction phase underway.
- Preliminary engineering work has also begun on direct rail access from lower Manhattan to Long Island and JFK International Airport.

Business assistance programs have provided help to over 15,000 companies located in downtown Manhattan, resulting in over 250,000 jobs being created or retained. The rebuilding efforts and investments at the WTC site and surrounding areas will eventually generate $25 billion of economic activity annually and result in 130,000 jobs by 2025.

In addition to the renewal of the World Trade Center and related improvements in lower Manhattan, New York City's economy will benefit from construction at the Javits Center, expected to begin in 2005. This project will help create over 10,000 new hospitality industry jobs and generate over $50 million in new annual tax revenues for the City and State. The Budget also includes $300 million in support of the New York Sports and Convention Center, which will create a 2.2 million square foot facility to provide additional exhibition space south of the Javits Center, a home for sporting events, and act as the foundation for New York City's bid for the 2012 Olympics. Furthermore, development of the Brooklyn Atlantic Yards will bring new commercial, residential and open space recreation areas to downtown Brooklyn. The Port Authority has undertaken an historic $1 billion port redevelopment project.

Innovative State Policies Result in $2.7 Billion Investment

IBM — along with six global technology giants that include Sony, Toshiba and Samsung — will invest $1.9 billion in a next generation semiconductor chip plant. This investment in the Hudson Valley represents one of the largest of its kind in the world, and will result in worldwide recognition that the Empire State is the premier location for advanced technology research, development and manufacturing.

In Albany, ASML, the world's leading chip equipment manufacturer, will invest over $325 million to create their first ever research and development center outside of Europe.

In addition, IBM and a consortium of the largest nanoelectronics equipment suppliers will fund an unprecedented $450 million expansion of the Albany Center of Excellence research capabilities.

Tax Cuts: The Cornerstone of a Strong Economy

Governor Pataki's policies of lower taxes and prudent economic investment have a proven track record of success —encouraging businesses to locate and grow in New York and leading to the creation of hundreds of thousands of new jobs. Throughout New York, Governor Pataki's tax reduction program continues to have a positive impact on the economy. As the Governor's tax cuts take effect, New Yorkers keep a larger share of their earned income and businesses can operate more profitably.

$492 Million in Additional Tax Savings for New Yorkers in 2005-06

In 2005-06 alone, individuals and businesses will benefit from tax reductions already in place:

- $150 million in local property tax and New York City income tax savings from the STAR program;
- Nearly $102 million in personal income tax savings;
- $107 million in sales and user tax savings;
- Nearly $82 million in business tax savings; and
- $51 million in other tax savings.

Governor Pataki's unrelenting push for tax cuts has brought new life, strength and resilience to a private-sector economy that was stagnant just ten years ago. Since 1995, every major State tax has been cut, making New York the preeminent tax-cutting state in the nation. The breadth and scope of these cuts are remarkable:

- On a cumulative basis, when all enacted tax cuts are fully phased in, New Yorkers will have realized a savings of nearly $140 billion; *(See Figure 7)*

Governor Pataki's Tax Cuts Lead the Nation

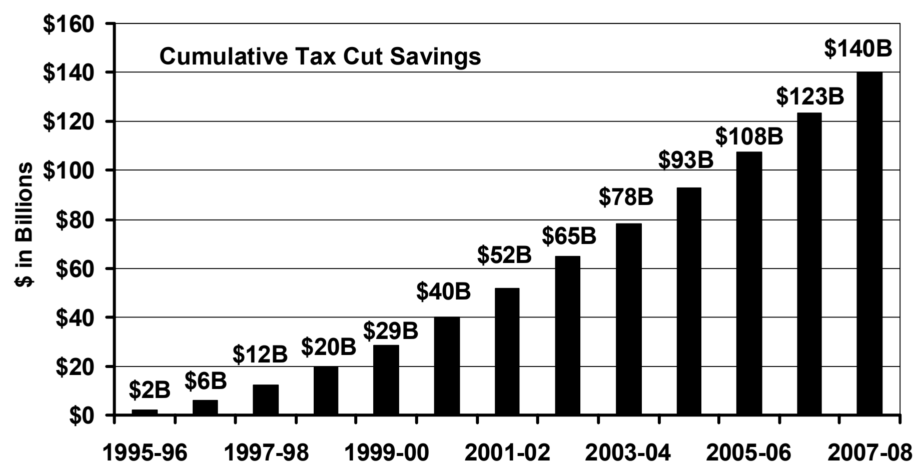


Figure 7

In 2005-06, taxpayers will have saved a cumulative $108 billion from the tax cuts that have been made under Governor Pataki. Cumulative tax cut savings will total nearly $140 billion by 2007-08.

- New York has cut 19 different taxes 75 separate times;
- In 1995, total New York State tax collections per $1,000 of personal income were 5.3 percent *above* the national average. In 2003, total tax collections per $1,000 of personal income were 3.6 percent *below* the national average;
- Cumulative personal income tax savings and business tax savings will reach over $68 billion and $29 billion, respectively, when fully phased in; *(See Figure 8)*
- Cumulative local property tax and New York City tax savings from the STAR program will reach nearly $18 billion;
- Cumulative savings from consumption tax cuts will reach more than $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 $8 billion.

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

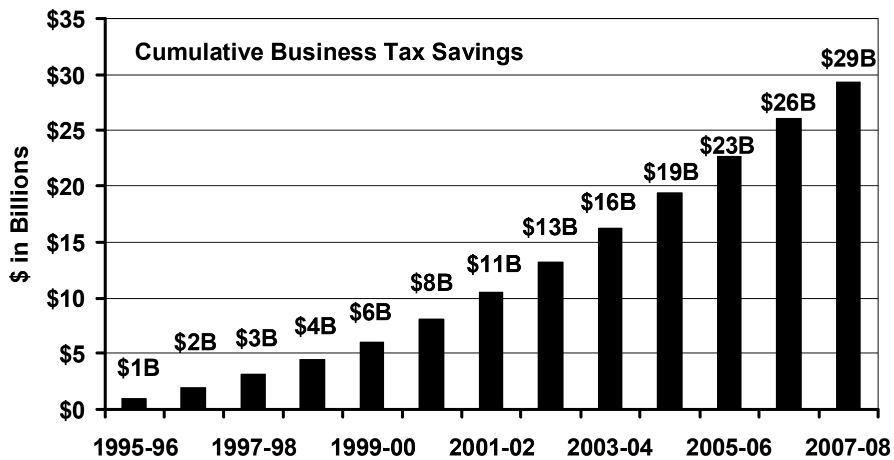


Figure 8

Businesses will save a total of $22.7 billion through 2005-06 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.

Fulfilling the Promise of Tax Relief

The Governor strongly believes that the best way to accelerate our economic recovery is by allowing already enacted tax cuts to take effect on schedule, accelerating the phase-out of temporary broad-based tax increases and making targeted tax cuts that will bolster job-creation. Specifically, this Budget proposes accelerating the phase-out of the temporary personal income tax increase, saving taxpayers $190 million in 2005-06, and phasing out the Alternative Minimum Tax (AMT) for manufacturers.

Delaying tax cuts is also 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.

For example, 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

Governor's Accomplishments

Tax Reduction

- A record of cumulative tax savings that will total almost $140 billion by 2007-08.
- Made New York the preeminent tax-cutting state in the country, contributing to the creation of hundreds of thousands of new jobs.

Economic Development

- Site Selection Magazine ranks New York State's business climate number two in the nation and best in the northeast and New England.
- The Organization for International Investment (OFII) ranks New York second in the nation in "in-sourcing."
- The American Electronics Association ranks New York State third in the nation in the number of high technology establishments, employment and payroll, and fourth in total venture capital investments.
- Small Times Magazine, the leading business publication for small technology companies, lists New York fourth in the nation in nanotechnology development.
- Entrepreneur Magazine ranks New York first in the nation in the number of first tier universities based on 70 criteria.

STAR

- The Governor's STAR program has saved New York State taxpayers $14.8 billion since its inception. In 2005-06, STAR will save taxpayers another $3.2 billion.

Transportation

- Significant improvement in State highway and bridge conditions with over 26,700 lane miles of State highway reconstructed or resurfaced, 40 new bridges constructed, 1,600 bridges replaced and corrective maintenance performed on over 4,000 bridges.
- Consistent increases in dedicated funding for highway and transit programs, growing 21 percent under the Governor's leadership.
- The completion of key transportation projects including the Utica-Rome Expressway in Oneida County, improvements to the West Side Highway in Manhattan and significant progress in converting Route 17 to I-86 in the Southern Tier.
- Implementation of MetroCard on the MTA system has revolutionized fare and toll payment on subways and buses. MetroCard automated fare collection has brought free transfers between subways and buses; multiride bonuses; and weekly, monthly, and daily transit passes, reducing the cost of public transportation.
- Privatization of Stewart Airport in Orange County.

other reforms and reductions in the Governor's plan will continue as scheduled, including the exclusion from transmission, distribution and transportation gross receipts taxes for non-residential customers.

Under Governor Pataki's Executive Budget, in 2005-06 New Yorkers will realize the benefit of nearly $544 million in additional annual savings from the implementation of previously enacted tax cuts. By 2006-07, these tax cuts will provide nearly $750 million in additional tax relief.

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 full funding of the STAR program.

- The Governor's STAR program has saved New York State taxpayers $14.8 billion in school taxes since its inception. In 2005-06, STAR will save taxpayers another $3.2 billion. *(See Figure 9)*

Statewide STAR Savings Continue to Grow

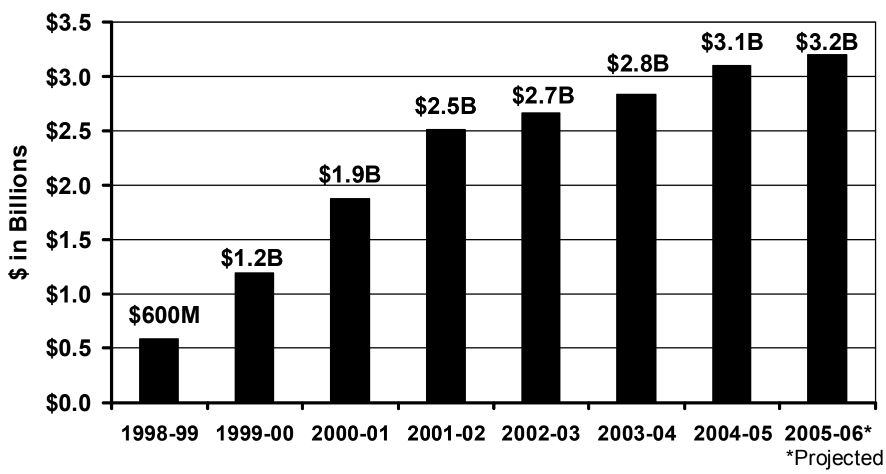


Figure 9

Since 1998-99, STAR has reduced school taxes for homeowners throughout the State and income taxes for residents of New York City. Taxpayers will save $3.2 billion in 2005-06 from STAR, plus $48 million in STAR savings from the new State STAR credit.

- STAR will provide more than 650,000 seniors an average property tax savings of $1,080 in 2005-06. *(See Figure 10)*
- Nearly 2.7 million other homeowners will receive STAR benefits, saving an average of $710 in 2005-06. *(See Figure 10)*
- For 2005-06, the Cost of Living Adjustment (COLA) will increase the income eligibility limit for the enhanced STAR exemption by $900 from $63,750 to $64,650. This adjustment will ensure that small increases in retirement benefits do not disqualify seniors for enhanced savings.
- In addition to school property tax relief, New York City residents will receive $595 million in 2005-06 in City personal income tax relief through the STAR program — which has already reduced the City personal income tax by 10 percent on average.

Average STAR Savings for Homeowners

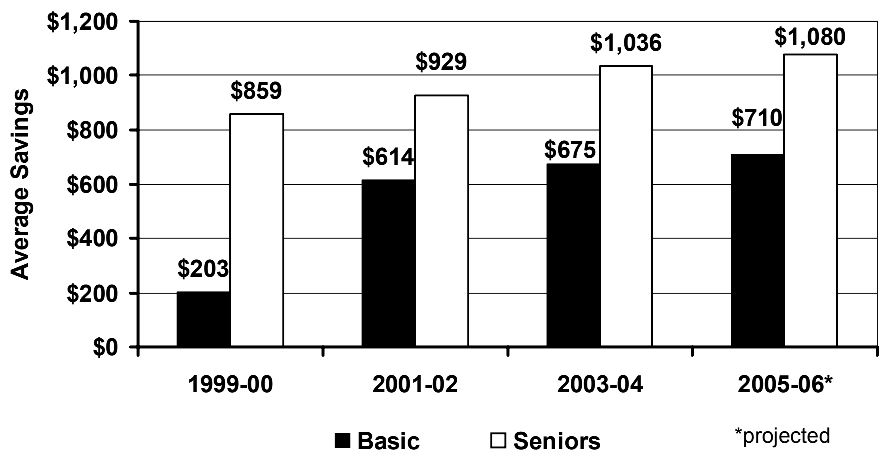


Figure 10

In 2005-06, 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.

A New School Spending Cap Protects STAR Benefits

Governor Pataki's original STAR proposal included a school spending growth cap to protect taxpayers from excessive local school property tax increases. 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 cap on spending growth 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.
- A new STAR tax credit will be provided to taxpayers living in school districts that restrain their spending consistent with the proposed cap. This tax credit will be equal to the taxpayers' STAR benefit multiplied by the growth in the CPI.
- The new STAR tax credit will provide homeowners $48 million in savings, and will be paid as an income tax credit to taxpayers when they file their 2005 State tax returns.
- The Governor is also proposing to expand the School Property Tax Report Card to include information displaying the three-year change in school tax levy compared to the change in the CPI, thereby helping local taxpayers review school spending trends.

Co-STAR: New Relief for County Taxpayers

Governor Pataki is proposing a new Co-STAR program to provide tax relief to property taxpayers across the State. Under this new program:

- Co-STAR tax relief will be provided to residents of counties and NYC that keep their annual General Fund spending growth at or below the proposed Medicaid spending cap of 3.5 percent, 3.25 percent and 3 percent over the next three years.
- Co-STAR recipients in participating counties will receive their tax savings in the form of a rebate check from the State after their county taxes are paid.
- Co-STAR will be phased-in over a multi-year period, with eligible seniors and farmers receiving Co-STAR benefits of $100 in 2006-07, growing to $200 in 2007-08. Other homeowners will receive Co-STAR benefits of $50 in 2008-09, growing to $200 in 2011-12.
- New York City taxpayers would also be provided a 25 percent increase in their STAR income tax credit when fully phased-in by 2011-12.
- Co-STAR is projected to save taxpayers $67 million in 2006-07, growing to $870 million in 2011-12.

A Strong Record of Increasing Investment in Transportation

Despite the constraints of limited resources, New York has consistently increased its investment in transportation under Governor Pataki's leadership.

- State aid to the Metropolitan Transportation Authority (MTA) has grown by over 44 percent since 1994-95.
- State funds dedicated to the Highway and Bridge Trust Fund, which supports the Department of Transportation (DOT) capital program, have increased by 165 percent during the same period.

State Aid to the Metropolitan Transportation Authority

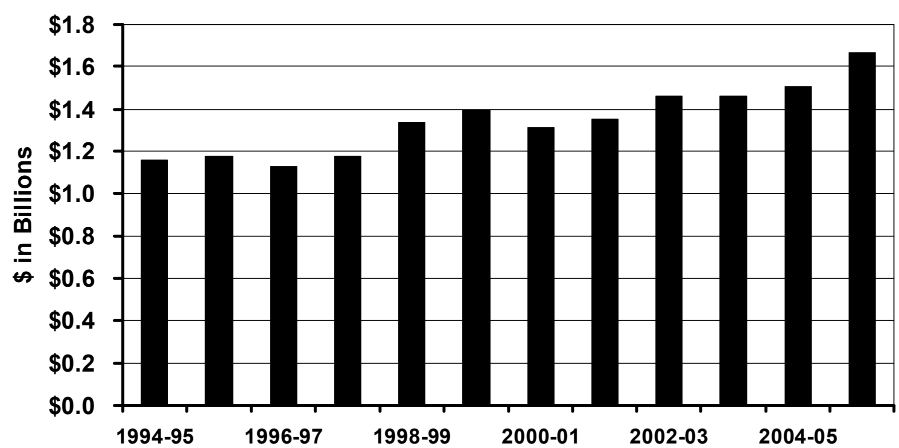


Figure 11

Governor Pataki's strong support for the capital and operating programs of the MTA is evidenced by the substantial growth in State aid to the Authority since 1994-95. The Executive Budget builds on this record by proposing another $161 million increase in aid.

Preserving and Enhancing our Transportation Infrastructure

The Governor's Executive Budget proposes a five-year $36.6 billion Transportation Plan that would provide $17.4 billion for the DOT capital programs and $19.2 billion for the MTA.

- The Plan will continue the existing core investment levels for the DOT and MTA capital programs through 2007-08, increasing levels in the last two years with a $1 billion program enhancement for each agency in each year.
- The core investment programs will allow the transportation agencies to deter system deterioration, mitigate congestion, improve safety and protect the security of the State's transportation system.

MTA Ridership (Subways, Buses, Commuter Railroads)

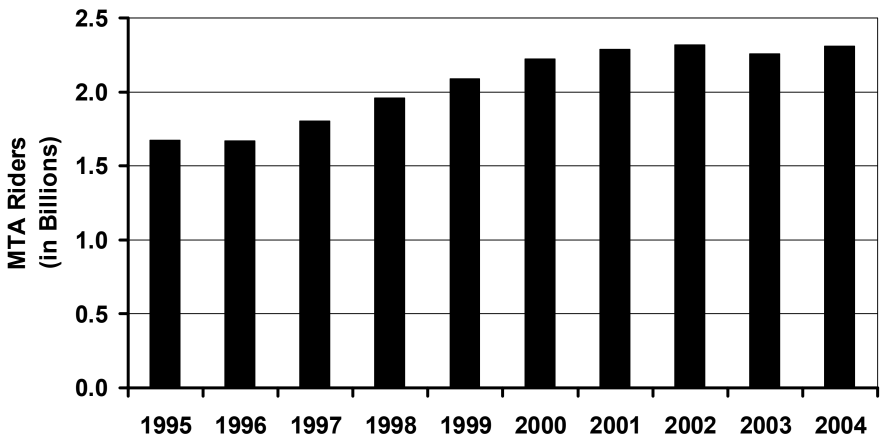


Figure 12

Governor Pataki has made a strong and lasting commitment to supporting mass transit in the NYC metropolitan area. Since 1995, the Metropolitan Transportation Authority (MTA) has transformed its fare structure and fare media. The introduction of the "MetroCard" and the Governor's "One-City, One-Fare" initiative delivered significant discounts for bulk usage. Consequently, ridership grew as travelers took full advantage of the discounts, which produced savings to the riding public estimated in the billions of dollars.

- The $15.4 billion DOT core program will continue $1.65 billion in annual construction contracts; provide associated engineering, planning and management support averaging over $650 million annually; and provide funding for rail, aviation and other transportation modes at current levels.
- The $17.2 billion MTA core program will include $14.7 billion for basic infrastructure needs, $2 billion for the New York City-funded #7 East Side subway extension and $495 million for essential security projects.

- The $4 billion in program expansions will allow the transportation agencies to progress system expansions and major initiatives, such as the Second Avenue Subway and East Side Access projects.

- The Plan is fully funded for three years utilizing over $3.6 billion in existing annual State revenues dedicated to transportation, plus new funding sources that will strengthen the State's dedicated transportation funds. New revenue sources include:

  - Increases in the Motor Vehicle registration fee and other fees charged by the Department of Motor Vehicles to support DOT, the MTA and other transit systems throughout the State. To encourage fuel efficiency, the changes include free registration for hybrid and alternative fuel vehicles;

  - A restructuring of the Dedicated Highway and Bridge Trust Fund debt that will yield new capital funds for the DOT program; and

  - Enhanced funding for the MTA from an increase in mortgage recording taxes levied in the MTA Transportation District.

Additional resources to complete funding of the final two years of the plan are expected to be obtained from a combination of public/private partnerships, innovative financing mechanisms, cooperative projects with the Port Authority of New York and New Jersey and/or increased Federal aid from the next Federal Transportation Act.

Finally, legislation is included with the Budget to authorize development of new public/private partnerships and to take advantage of innovative financing opportunities. These transactions have been successfully adopted in other states and will yield new resources to fund the transportation program expansion in 2008-09 and 2009-10. Examples of successful public/private partnerships in other states include:

- Chicago Skyway (Illinois): 7.8 mile median-divided toll bridge sold to a private consortium for over $1.8 billion.

- Las Vegas Monorail (Nevada): 2.3 mile extension of existing monorail system at a cost of $461 million, which leveraged over $130 million in private investment with further private commitments for future operation and maintenance costs.

- Dulles Greenway (Virginia): 14 mile privately-owned toll road entirely funded with $338 million in private financing.

Education

Ensuring a Quality Education for All Children

For the coming year, Governor Pataki is advancing a bold, 5-year Sound Basic Education Plan to guarantee that every child in every school receives the quality education required to succeed in the 21st Century. As the first installment of this multi-year effort, the Governor is proposing a school aid increase of $526 million for the 2005-06 school year. This increase is comprised of two components — $201 million in traditional school aid, and $325 million for a new Sound Basic Education (SBE) Aid program to be funded by revenues generated by Video Lottery Terminals (VLTs) that will grow to more than $2 billion over the next five years.

Under the Governor's proposed $325 million SBE Aid program:

- Nearly 86 percent of SBE Aid will be targeted to the State's 207 high-needs school districts, with New York City receiving 60 percent of total SBE Aid.
- SBE Aid will be allocated using measures of educational and economic need, including a poverty measure and a regional cost factor.
- In 2005-06, all school districts will receive an SBE Aid allocation of at least $25,000, with greater amounts provided in accordance with demonstrated need.

Budget Highlights

- Increases 2005-06 school aid by $526 million — the largest increase ever proposed by a Governor.
- Provides a record $15.9 billion in State aid to public schools — the highest level in State history.
- Advances the Governor's 5-year Sound Basic Education Plan, which, when fully implemented, will provide additional State, local and Federal funds totaling $4.7 billion for New York City schools and $8 billion statewide.
- Proposes sweeping reforms to promote improved educational performance and accountability, including creation of a new independent Office of Educational Accountability and Efficiency.
- Strengthens cultural education programs by creating the New York Institute for Cultural Education, establishing a new Public Broadcasting Facilities Assistance Program and initiating a new Cultural Education Challenge Fund.

$526 Million School Aid Increase — Largest Ever Proposed by a Governor

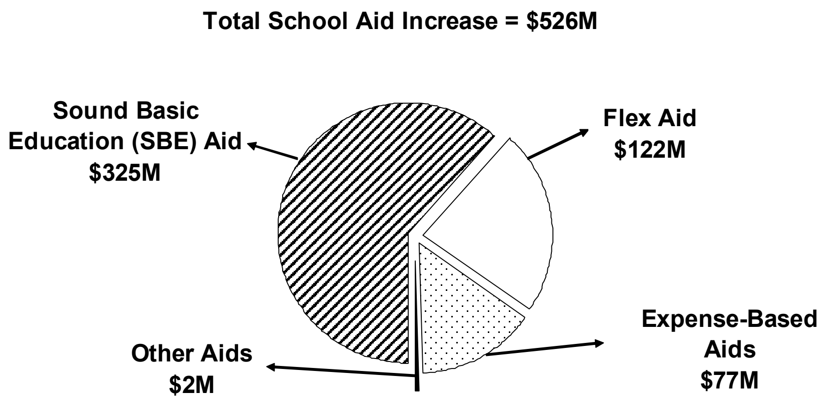


Figure 13

The $526 million school aid increase recommended for 2005-06 is the largest increase ever proposed by a Governor. This increase is comprised of two basic components: $325 million in SBE Aid; and $201 million in traditional school aid — including increases of $122 million in Flex Aid and $77 million in expense-based aids.

Comprehensive 5-Year Sound Basic Education Plan

The Court of Appeals' ruling in *Campaign for Fiscal Equity v. State of New York* provides the State with an historic opportunity to enact needed reforms in our educational system. The Governor's 5-year Sound Basic Education Plan contains a wide array of educational reforms, consistent with the recommendations of the New York State Commission on Education Reform — a non-partisan group of educational, business and community leaders headed by former NASDAQ Chairman, Frank G. Zarb. The Governor's Plan includes the following key provisions:

Closing the "Resource Gap"

- Ensuring that all schools in New York City and across the State have sufficient resources to provide every student with the opportunity for a sound basic education. When fully implemented in 2009-10, the Governor's 5-year Sound Basic Education Plan will provide additional State, local and Federal funds totaling $4.7 billion for New York City schools and $8 billion statewide.

Governor Pataki's 5-Year Sound Basic Education Plan

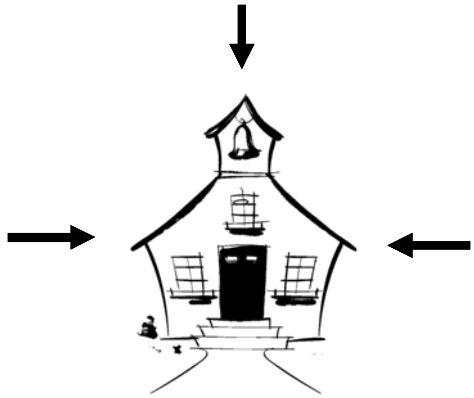


Figure 14

For the coming year, the Governor's comprehensive 5-Year Sound Basic Education Plan contains the resources and the sweeping educational reforms required to ensure all of our children receive the quality education they need to succeed in the 21st century.

- Re-evaluating the future resource requirements of all school districts through a periodic "look back," at least every four years.

School Finance Reforms

- Simplifying the current school aid formula by consolidating six existing aid programs into a new $8.4 billion Flex Aid formula.
- Creating a new Sound Basic Education (SBE) Aid program, funded with revenues generated by Video Lottery Terminals (VLTs). SBE Aid allocations will total $325 million in the 2005-06 school year, growing to more than $2 billion over the next five years.
- Reflecting regional cost differences and concentrations of children living in poverty in Flex Aid and SBE Aid allocations.

Governor Pataki's Guiding Principles for Education Reform:

- The State's archaic system of education finance must be replaced with a system that is fair, sustainable and understandable;
- A greater share of new resources, as they become available, should be targeted to New York City and other high needs 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
- A new education finance system must be linked to reforms in the education system as a whole.

Governor's Accomplishments

- Successfully championed a number of important education reforms including:
  - the creation of charter schools to provide expanded school choice for parents and children;
  - New York City school governance reforms to strengthen mayoral accountability and control; and
  - implementation of the most comprehensive school safety program in the nation.
- Increased school aid by more than $5.5 billion, or 56 percent — more than twice the rate of inflation during this period.
- Increased State support for public education to more than 37 percent of the State's General Fund — including STAR and lottery — up from 27 percent when the Governor took office.
- Increased State support to more than 45 percent of local public school spending — up from 39 percent when the Governor took office.

- Maintaining the City's current share of educational spending to ensure that the State's investment in City schools is matched by the City.
- Establishing a Maintenance of Effort (MOE) requirement for the other Big 4 Cities to ensure additional State aid for these fiscally dependent school districts is used to supplement, not supplant, local funding.
- Promoting greater efficiency in school construction by allowing school districts to access technical expertise and advisory services from the Dormitory Authority, and providing all school districts an exemption from onerous Wicks Law requirements.
- Reforming the State building aid formula to ensure reasonable, realistic cost allowances that reflect student-based space needs.

Educational Accountability Reforms

- Requiring school districts to develop a 3-year Comprehensive SBE Plan, including a resource allocation plan to ensure that every school provides its students the opportunity for a sound basic education.
- Establishing a value-added accountability system to track individual student performance and annual progress, and assess how effectively schools utilize public funding.
- Requiring school districts to develop building-specific improvement plans for each poorly performing school, and imposing sanctions for poorly performing schools that fail to improve.
- Creating a new independent Office of Educational Accountability and Efficiency to monitor school performance, review and approve school improvement plans, provide enhanced financial oversight, and promote increased efficiency.
- Strengthening school leadership by allowing school districts to replace tenure for principals with renewable, performance-based 3-to 5-year contracts.

- Expediting teacher disciplinary hearings, and creating a new process for teachers charged with incompetence.
- Authorizing the Mayors of Buffalo, Rochester, Syracuse, and Albany to appoint members to their respective city boards of education.
- Reforming the school voting process to encourage expanded voter participation.

Investing in Our Children's Future

Over the past 10 years, New Yorkers have made a generous investment in education to ensure our children have the best schools in the nation. For the coming year, the State will provide $15.9 billion in State aid to public schools — an increase of more than $6 billion, or 61 percent, from when the Governor took office. As a result of increased State funding, combined with local taxpayer support, New York spends $12,059 per pupil — the most of any state and nearly 47 percent above the national average. *(See Figure 15)*

New York Leads the Nation in Education Spending Per Pupil

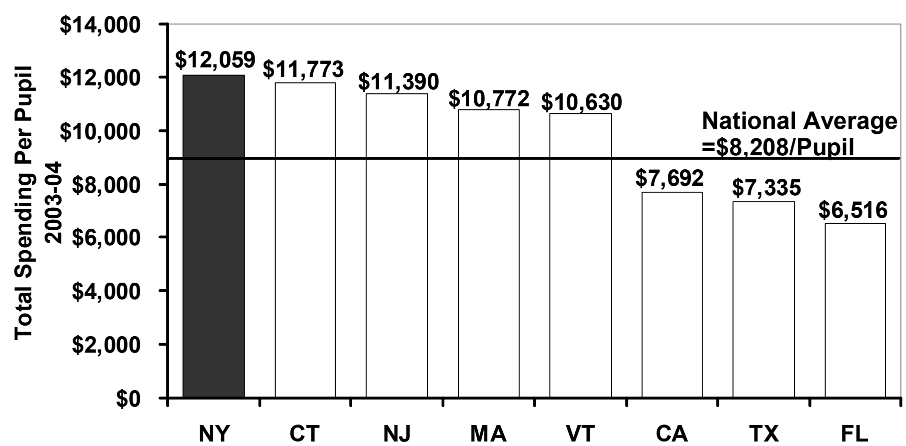


Figure 15

Most recent data places New York first in the nation with education spending per pupil of $12,059 – an amount nearly 47 percent higher than the national average of $8,208 per pupil. (Source: NEA Rankings and Estimates)

State support for New York City's schools has also increased significantly under Governor Pataki. As a result of the infusion of additional State funds, New York City's share of statewide funding for school aid will exceed its share of statewide enrollment for the fourth year in a row. *(See Figure 16)*

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

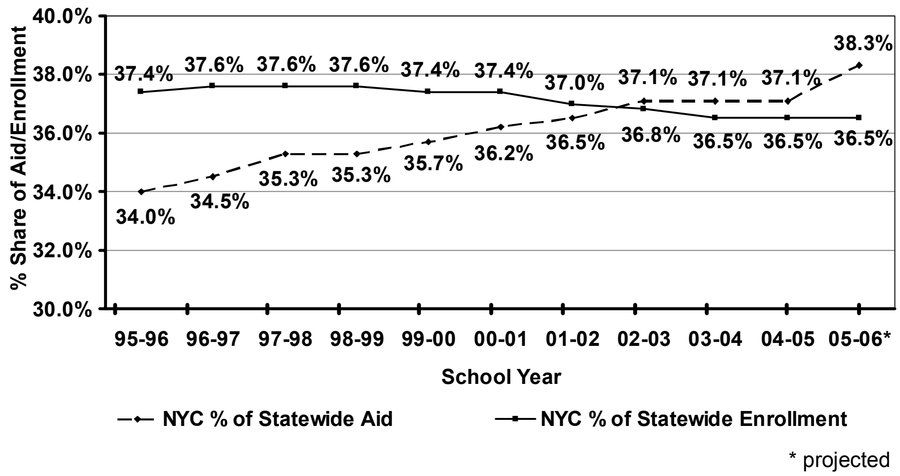


Figure 16

Since 1994-95, New York City will have received a school aid increase of 81 percent — over two and one-half times the rate of inflation. Beginning in 2002-03, these increases have resulted in New York City receiving a greater share of school aid than its share of statewide enrollment.

A New $8.4 Billion Flex Aid Program

Governor Pataki's 2005-06 Budget creates a new $8.4 billion aid program — Flex Aid — through the consolidation of 6 existing separate aid formulas. Within the overall $526 million school aid increase, an increase of $122 million will be provided through Flex Aid. *(See Figure 17)*

Under the new Flex Aid program:

- Nearly 70 percent of the Flex Aid increase will be targeted to the 207 high-needs school districts across the State.
- Flex Aid increases will be allocated using measures of educational and economic need, including a poverty measure and a regional cost factor.
- All school districts will be provided a Flex Aid increase of at least 0.5 percent, with greater increases provided according to need.

Flex Aid

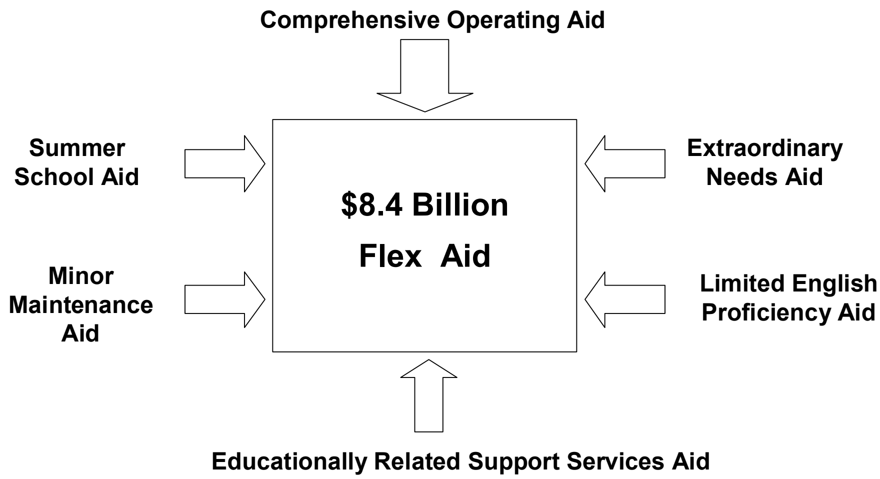


Figure 17

The Governor's Executive Budget proposal will consolidate six separate school aid categories into a new Flex Aid program. Flex Aid will provide over $8.4 billion in flexible operating support to address educational priorities identified by local school districts.

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 $1.42 billion for 2005-06 — an increase of 165 percent. *(See Figure 18)*

To ensure the cost-effective use of State and local resources to address school facility needs in New York City and across the State, the following reforms are proposed for the coming year:

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

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:

Record Level of State Support for School Facilities

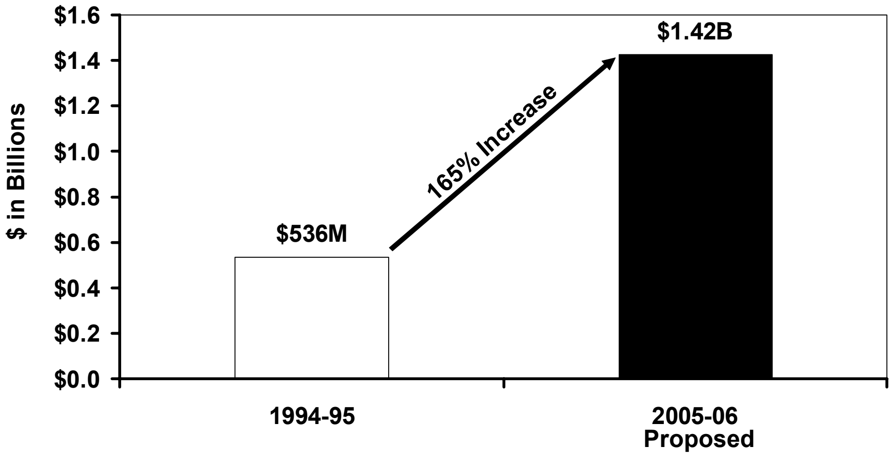


Figure 18

State support for school construction has more than doubled under Governor Pataki. Proposed reforms for 2005-06 will promote cost-efficiency in school construction.

- 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).

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

Targeted Assistance for New York City School Construction: To assist New York City in addressing its pressing school facilities needs, the following actions are proposed for 2005-06:

- An increase of $2.8 billion in statutory bonding authorization will be provided to New York City's Transitional Finance Authority for school construction projects;
- A new State matching grant program will be created to recognize certain legitimate construction costs that fall outside current cost allowances;

- Existing procurement processes will be streamlined to facilitate cost-efficient school construction; and
- Advisory State reviews of New York City school building plans will be authorized to promote greater conformity between actual project costs and established State cost allowances.

Special Education Reform

Although the goal of special education is to teach children with disabilities in the "least restrictive environment," the State's special education finance system currently provides unintended fiscal incentives for children to be placed in restrictive settings. Reforms advanced for the coming year will conform the reimbursement formula for private special education programs to that used for public schools. Specifically, the average State aid ratio used in calculating aid for private special education programs will be reduced from 85 percent to 49 percent — the same as that used for public schools.

BOCES Reform

The existing BOCES funding formula supports nearly 65 percent of local costs — an amount far richer than other needs-based formulas. As a result, school districts are effectively provided an artificial incentive to use BOCES simply as a means of generating additional State aid — regardless of the actual cost effectiveness of these BOCES services. Beginning in 2006-07, BOCES aid will be eliminated for routine administrative services. In addition, BOCES will be required to demonstrate savings for services such as telecommunications when compared to existing State contract prices available through the Office of General Services. School districts will also be encouraged to take advantage of cost savings opportunities through shared services arrangements with counties and other local government agencies.

Rewarding Performance and Efficiency

The 2005-06 Executive Budget proposes the following new initiatives to reward schools for improved academic performance and efficiency:

Performance Funding: Additional State aid will be available prospectively to school districts that demonstrate improved performance on statewide achievement tests and graduation rates.

Academic Achievement Awards: A total of $500,000 is recommended to support 25 *Pathfinder* Awards and 25 *Trailblazer Awards* to schools across the State to recognize educational performance and operational efficiency.

Shared Municipal Services Incentive Awards: School districts will be eligible to participate in this new $5.5 million program that encourages shared service arrangements among local government agencies.

Fund for Innovation: A new $15 million program will be created to provide the Big Five City schools with additional resources to create public/private partnerships that integrate technology into the classroom.

New Office of Educational Accountability and Efficiency

The 2005-06 Executive Budget includes $2 million to support a new independent Office of Educational Accountability and Efficiency. This Office will be headed by an Executive Director appointed by the Governor, and will have the following specific responsibilities:

- Coordinating teams of educators, auditors, and efficiency experts to conduct top-to-bottom reviews of education spending across the State;
- Tracking and reporting on the educational performance of our public schools in providing all children a sound basic education;
- Reviewing and approving school improvement plans and providing assistance in the closure and/or reconfiguration of schools that fail to meet State educational standards;

- Undertaking evaluations of the financial condition of school districts with follow-up reviews of districts identified as being in fiscal distress or lacking proper financial controls; and
- Promoting increased efficiency by serving as a catalyst for the creation of shared service arrangements among school districts, BOCES and other local government entities.

Reform the School Voting Process (RSVP)

In order to increase voter participation in local school district elections, a new Reform the School Voting Process (RSVP) initiative is proposed to:

- Expand access to polling places;
- Extend voting hours;
- Ensure that supervisors of voting have no vested interest in the outcome of school elections;
- Set a single statewide day for budget revotes; and
- Require bond resolution votes to occur on the statewide budget voting day. *(See Figure 19)*

Voter Empowerment — Expanding Participation in School Elections

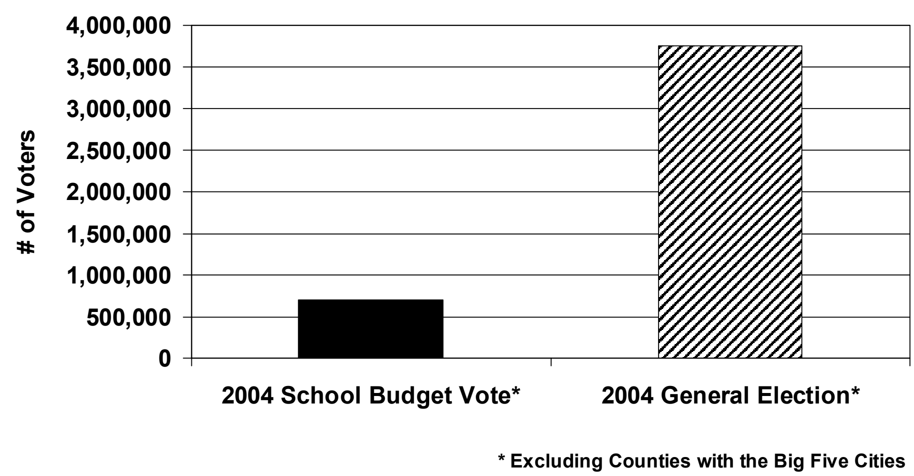


Figure 19

The "Reform the School Voting Process" (RSVP) initiative will promote increased voter participation in school elections by expanding access to polling places, extending voting hours, and scheduling a single statewide day for school budget revotes.

Charter Schools

New York State's Charter Schools Act provides additional public school choices for parents with children in chronically underperforming schools. Currently, more than 60 charter schools are serving approximately 20,000 children throughout the State.

In New York City, Mayor Michael Bloomberg and Chancellor Joel Klein recently advanced plans to open 50 new charter schools over the next five years to provide alternatives to failing schools. Consistent with that effort, legislation is being advanced to clarify that charter schools authorized by the Chancellor of New York City schools do not count against the existing statutory limit on the number of charter schools — as is currently the case for conversion charter schools approved by parents. In addition, legislation that is consistent with the recommendations of the State Board of Regents to allow charter schools to access financing and construction management services from the Dormitory Authority is proposed for the coming year.

Cultural Education

Cultural Education highlights for 2005-06 include:

- 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).
- Creation of a new $15 million bonded Public Broadcasting Facilities Assistance program to provide matching grants to meet the capital facility and equipment needs of our public broadcasting stations.
- Creation of a $10 million Cultural Education Challenge Fund program to provide matching grants for projects that enhance the display and preservation of the collections of the State Museum, Library and Archives.
- Providing enhanced funding for the New York State Theatre Institute, Performing Arts Center Corporation and the Summer School of the Arts from existing dedicated revenue in the Cultural Education Account.

Higher Education

A Commitment to Excellence in Higher Education

New York State continues to demonstrate national leadership in providing support for higher education. Governor Pataki's 2005-06 Executive Budget provides nearly $9.0 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. In addition to preparing our students to be the future professional and high-technology workforce, our independent colleges and universitites represent the fastest growing component of private sector employment.

Under Governor Pataki, our public and private universities are attracting record numbers of top quality students.

- SUNY is attracting more top quality students than ever before, with an average SAT score of 1,140 for the 2004 entering class — an increase of 40 points since 1998. In 2003, more than half of the SUNY students enrolling at University Centers had SAT scores above 1,200 and grade point averages above 90 — comparable to top public flagship campuses in California, Michigan, Texas and North Carolina.

Budget Highlights

- Recommends a gross operating budget of $2.9 billion for SUNY State-operated colleges, an increase of $183 million, or 6.7 percent. Taxpayer support will total $1.8 billion — an increase of $86 million, or 5 percent.
- Recommends a gross operating budget of $1.3 billion for CUNY Senior Colleges, an increase of $88 million, or 7.1 percent. Taxpayer support will total $701.6 million — an increase of $62 million, or 9.6 percent.
- Maintains SUNY/CUNY Community Colleges State operating aid at $2,235 per student, with additional funding provided for enrollment growth — $0.7 million for SUNY community colleges and $2.4 million for CUNY community colleges.
- Includes SUNY/CUNY Capital Investments of $323 million for 2005-06, supplementing the current $3 billion SUNY/CUNY Multi-Year Capital Investment Program.
- Funds a $250 million Public/Private Higher Education Capital Matching Grant Program that provides $150 million in competitive matching grants to public and private colleges, and allocates $100 million in formula-based matching grants to private colleges.

- CUNY is also attracting better-prepared and better-performing students, with a mean SAT score of 1,116 for entering freshmen in the Fall 2004 — an increase of 115 points or 11.5 percent since 1997.

- New York's public and private colleges are the top destination for students from other states. Since 1990, the number of first-time freshmen from other states enrolling in New York's colleges and universities has increased to over 22,000 students, with the majority of those students enrolling in our private colleges.

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 enrollment in New York reached an all-time high of 1,125,000 students. *(See Figure 20)*

College Enrollments Reach Record Levels

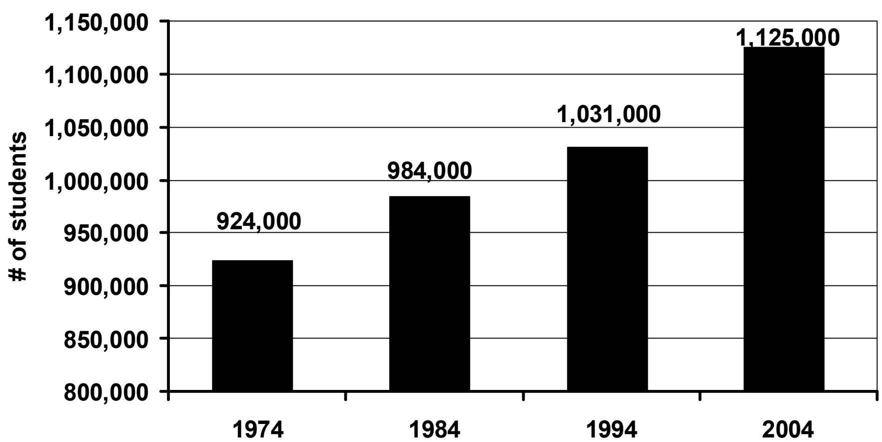


Figure 20

New York's public and private colleges are attracting record numbers of students. In fall 2004, the State's total college enrollments reached an all-time high of approximately 1,125,000 students.

Balancing Taxpayer and Student Support

To meet the current fiscal challenges facing the State in 2005-06, the appropriate balance of taxpayer and student support for New York's public universities must be considered. Current tuition rates of $4,350 for the State University and

Establishing a Tuition Policy:

Legislation would allow the SUNY and CUNY Boards of Trustees to establish tuition charges based on the costs of educating students at various campuses and to set tuition rates prior to enactment of the annual State Budget. Legislation would also authorize the SUNY Trustees to establish a long-range tuition policy that provides:

- Modest annual tuition increases tied to an inflation index such as the Higher Education Price Index (HEPI) for undergraduate resident students;
- A tuition guarantee that would freeze tuition for up to four academic years for baccalaureate students in 2005-06;
- Tuition adjustments above the index-generated amount, if State funding is reduced from the prior year level or is not sufficient to fully cover mandatory operating costs.

$4,000 for the City University of New York are comparable to, or below those of, other public universities in the Northeast. For the coming year, SUNY and CUNY will have the flexibility to manage their resources to address campus needs and priorities through a mix of targeted investments, enhanced administrative efficiencies, and increased tuition revenues. *(See Figure 21)*

SUNY/CUNY Tuition and Fees Compared to Other States

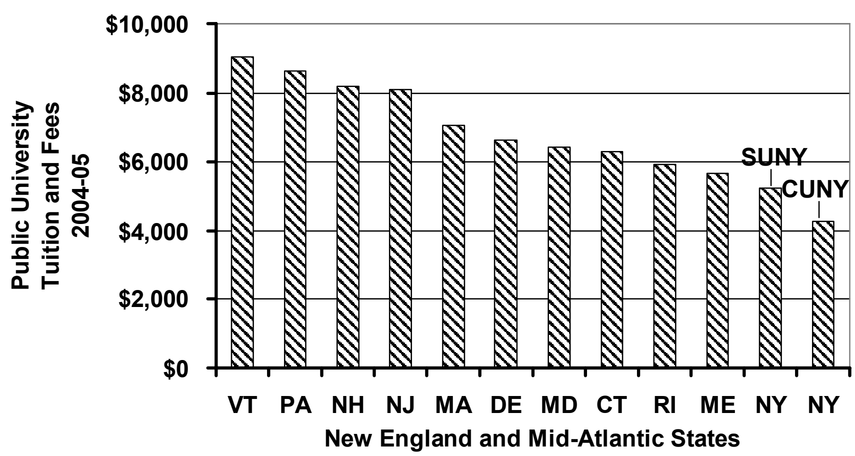


Figure 21

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

Performance Incentives for Improving College Completion Rates

New York's colleges and universities are among the finest in the nation, receiving national recognition for their excellence. Despite this record of achievement, there is room for improvement in the number of students who successfully complete their degree programs and in the time taken by students to graduate. The 2005-06 Executive Budget recommendations create performance incentives for students and colleges to promote timely and successful college graduations. *(See Figure 22)*

Recent Graduation Rates

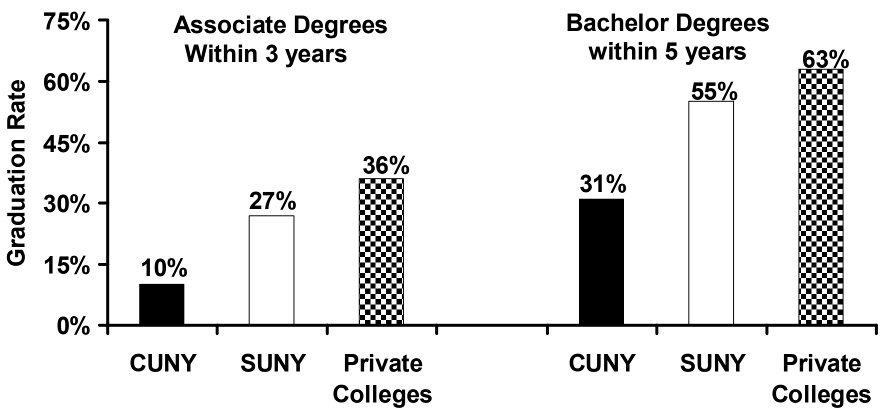


Figure 22

The 2005-06 Executive Budget includes a new Partnership to Accelerate Completion Time (PACT) program and other initiatives to increase the number of successful and timely graduations at New York's public and private colleges.

Partnership to Accelerate Completion Time (PACT)

Modeled after innovative programs at CUNY's Brooklyn College and SUNY's College at Fredonia, a new Partnership to Accelerate Completion Time (PACT) would be established at all SUNY/CUNY campuses, with private colleges encouraged to participate on a voluntary basis. Under PACT:

- Colleges would guarantee the availability of courses required for students to complete their degrees.
- Students would agree to fulfill their associate degree coursework within two academic years, or their baccalaureate degree coursework within four academic years.

- Public universities and colleges would be provided with start-up funding of $50 per first-time, full-time student.
- Public colleges and participating private colleges would be provided financial awards of $250 per associate degree and $500 per bachelor degree for each successful PACT graduate.

Incentives for Successful College Graduation

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 (TAP) is lost.

Governor's Accomplishments

- Record higher education enrollments — totaling 1,125,000 students in 2004.
- Tuition at New York's public universities continues to remain comparable to or below that of other public universities in the Northeast.
- The most generous financial aid in the nation, providing nearly $800 million in assistance to over 390,000 students in pursuit of a college degree.
- The most State support to its private colleges and their students of any state in the nation.
- Since 1997-98, the State has provided nearly $7 billion to improve and revitalize the infrastructure and facilities of its public colleges.
- New York's colleges and universities have become national leaders in sponsored research programs and private sector partnerships in advanced technology research.

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 2005-06, TAP awards will be provided to first-time students in two components — a "base" award equivalent to one-half of the current TAP award and a "performance" award equivalent to the remaining one-half of the award.
- The "performance" component would be paid upon a student's successful completion of a degree program and would be equal to the deferred performance awards, plus any accrued interest on loans that were used to finance these awards.
- Pending receipt of their "performance" awards, students would 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.

Incentives for Timely Degree Completion

The 2005-06 Executive Budget advances legislation that would authorize the SUNY Trustees to adopt a tuition policy that would allow campuses to freeze tuition for up to four academic years for baccalaureate students, thereby encouraging students to graduate on time.

Economic Development Engines

Our public and private universities have established powerful partnerships with industry to advance research and economic development. Eleven SUNY public-private partnerships across the State have been recognized for cutting-edge research in areas of importance to the future of New York State. CUNY also supports private-public collaborative efforts to promote economic development throughout New York State and New York City.

SUNY, CUNY and our private colleges and universities continue to excel in research. SUNY's sponsored research grants have grown by 89 percent since 1995-96, from $455 million to more than $860 million, supporting more than 9,000 projects and more than 21,000 jobs. Pioneering faculty research at CUNY generated more than $300 million in external funding in 2003. Our private colleges and universities sponsor 500 research centers and institutes that are available to businesses and the community.

Academic Quality

New York's public and private colleges continue to receive worldwide recognition for providing high quality education.

- *U.S. News and World Report* recently ranked eight of New York's private universities and two SUNY colleges among the top 100 national universities. Of the eight private colleges ranked in the top 100, six were ranked in the nation's top 50 universities.

- CUNY scored a historic first in 2004 — two CUNY students, from Brooklyn College and City College, were named Rhodes Scholars. These two CUNY scholars join an elite group of just 32 Americans chosen this year from 904 applicants.

Public Safety and Security

A Safe and Secure New York

Since 1995, Governor Pataki has forged ambitious and creative criminal justice policies that have proven successful. New York is now a safer, more secure place to live. From fighting crime in our communities to taking the steps necessary to combat the threat of terrorism, the Governor has made New York a national leader in public safety.

- Crime — especially violent crime — continues to decline, as Operation IMPACT targets State, local and Federal resources in a modern, coordinated approach to crime prevention.

- New York is setting a nationwide standard for preparedness, piloting new technology and offering a regional, multi-agency all hazard preparedness training program — the first of its kind in the nation.

Budget Highlights

- Increases State and Federal resources for the Office of Homeland Security to further a comprehensive statewide security strategy in partnership with local governments.
- Enhances funding to expand Operation IMPACT, providing assistance to the original 15 counties as well as emerging crime "hot spots".
- Supports an increase of 90 State Troopers, bringing the State Police force to a total of 4,700 members — the highest level in the history of the force.
- Consolidates the Division of Probation and Correctional Alternatives and the Division of Criminal Justice Services to strengthen the coordination of local programs and promote positive program outcomes.
- Eliminates excess capacity as the prison population declines.
- Expands automated traffic law enforcement ticketing and accident reporting to enhance highway safety and combat crime and fraud.
- Fully dedicates cellular surcharges to ensure continued development of local E-911 systems and completion of the Statewide Wireless Network.

Enhancing Public Security

When America was attacked on September 11th, New York State and City officials responded immediately. The State's Office of Public Security quickly assumed responsibility for coordinating anti-terrorism efforts. Three years later, with the enactment of the Anti-Terrorism Act in 2004, the re-named Office of Homeland Security (OHS) has become the lead agency for the State's ongoing anti-terrorism efforts.

Public Safety and Security

New York's status as the world's financial capital and our transportation hubs and network of highways and railroads serve as potential high-profile targets for terrorists. Additionally, our hundreds of miles of coastline along both the Atlantic Ocean and the Great Lakes provide additional security challenges. Protecting our critical infrastructure, as well as the State's residents and visitors, demands both vigilance and resources. Despite ongoing budgetary challenges, Governor Pataki has increased investments in State and local efforts to protect New York from acts of terrorism:

- Security measures at key locations across the State, including power plants, airports, bridges, tunnels and other transportation hubs have been enhanced.
- Additional State troopers were deployed to better secure the Canadian border.
- An upstate Regional Intelligence Center was established to coordinate Federal, State and local criminal intelligence efforts.

The 2005-06 Executive Budget provides a total of $73 million in State funding to support public security activities, building on the more than $260 million invested to date. In addition, Governor Pataki has aggressively sought Federal funds to support New York's public security activities, resulting in an allocation for Federal fiscal year 2005 that increased $131 million from the prior allocation. Together, these State and Federal resources will be used to:

- Allow the State to swiftly respond to changes in the national security threat level.
- Provide equipment and training to State and local first responders.
- Support the costs incurred by public safety agencies in augmenting security for critical infrastructure.

Governor's Accomplishments

- New York State ranks as the safest of the ten most populous states with a 52 percent reduction in the rate of violent crime.
- Re-instated the death penalty.
- Eliminated parole for violent felony offenders, toughened penalties for the most serious assault crimes, and added 4,950 maximum security beds to provide adequate prison capacity for the most violent criminals.
- Created Operation IMPACT to better coordinate and target crime fighting strategies statewide.
- Barred rapists and murderers from the work release program.
- Established the sex offender registry.
- Expanded the DNA database to help convict the guilty and exonerate the innocent.
- Increased the strength of the State Police force to an all time high of 4,700 troopers.
- Enhanced training for State and local first responders in Weapons of Mass Destruction protocols.
- Attacked identity fraud through validation of Department of Motor Vehicle records.
- Exempted National Guard active duty pay from State taxes.
- Increased the active duty pay for troops on the front lines of the "War on Terror".

- Construct new laboratory capacity to 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.
- Conduct a comprehensive assessment of security measures at all significant chemical, power generation and transmission facilities in New York State.

Declining Prison Population

Governor Pataki's tough, but smart reforms of the State's sentencing structure have been an important part of the successful battle against crime over the past ten years.

- The violent crime rate is 52 percent lower than in 1994.
- The property crime rate is down 45 percent.

Dramatic Reduction in Crime in New York

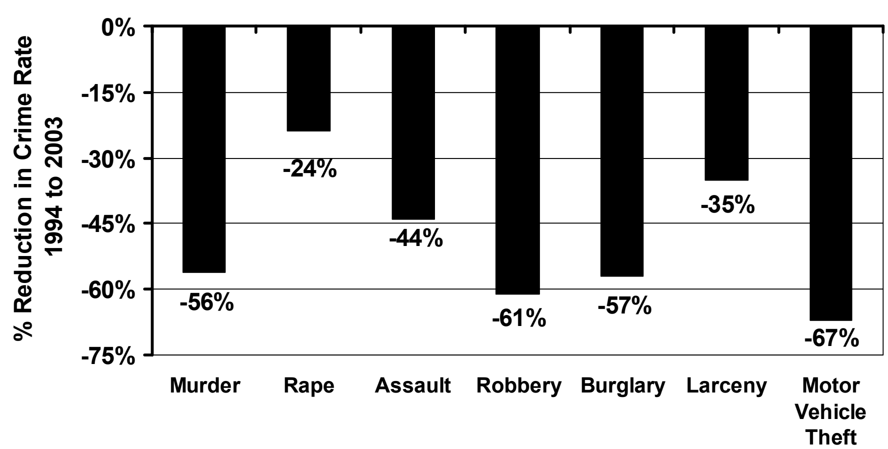


Figure 23

The rate of violent crime has decreased 52 percent from 1994 to 2003, and the rate of property crimes decreased 45 percent over the same period. New York continues to rank first in the nation in reducing the rate of both violent and property crime.

As crime declines, so too does the State prison population. By the close of 2005-06, the number of inmates is estimated to decline to 63,100 — a decrease of 8,400 since the high of 71,500 inmates in December 1999. *(See Figure 24)* Accordingly, beds can be eliminated from the prison system, while still preserving sufficient capacity for the future. As the recent reform of the Rockefeller Drug Laws begins to impact the prison population further, the Department of Corrections will continually monitor the system and adjust capacity as necessary.

Declining Prison Population

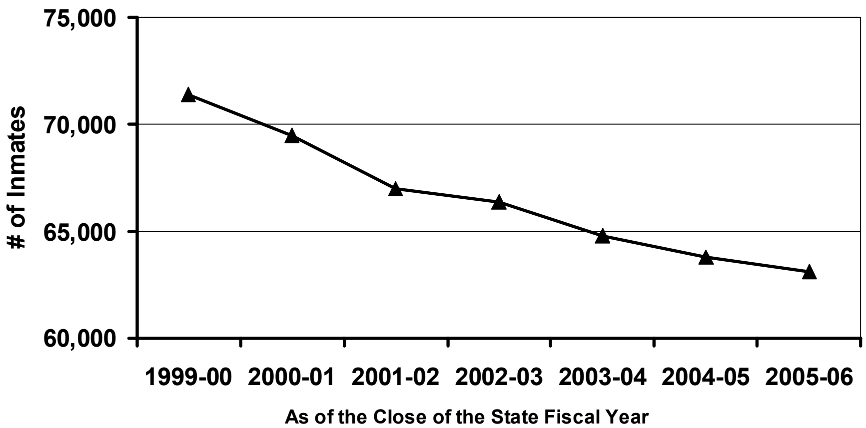


Figure 24

The decline in crime, coupled with the Governor's support of programs such as the Willard Drug Treatment campus, Merit Time and expanded Shock Incarceration, has led to a drop in the prison population and a decrease in recidivism. Over the six year period ending March 31, 2006, the prison population will decline by an estimated 12 percent.

Strengthening the Investment in Local Criminal Justice Programs

Increased funding for Operation IMPACT: An additional $5 million is provided to expand and enhance Operation IMPACT, which targets resources to the State's highest crime areas.

Expand the use of drug treatment as an alternative to prison: An additional $2.6 million is provided to add case managers, supplement provider reimbursement and support program coordination by district attorneys.

Current Funding Preserved and Consolidated: Local assistance programs currently administered by the Division of Probation and Correctional Alternatives are recommended to be consolidated with programs administered by the Division of

Operation IMPACT

- Calls on District Attorneys and Police Chiefs to lead local task forces of Federal, State and local law enforcement agencies, as well as community leaders, faith-based groups, and neighborhood organizations, to reduce crime – particularly violent crime – in their communities.
- Provides local task forces with "one-stop shopping" for New York State resources, including uniformed troopers, undercover officers and parole officers, which — at local request — may be deployed as IMPACT teams to the most crime-plagued areas.
- Collects and shares crime information and criminal intelligence at the local level.
- Emphasizes the development and implementation of data-driven, proactive and comprehensive strategies tailored to the specific challenges of each local community.

Criminal Justice Services, in a comprehensive statewide approach to supporting local criminal justice programs. This approach will facilitate a stronger State partnership with both local governments and not-for-profit providers, and permit greater coordination among related programs. *(See Figure 25)*

Improving Highway Safety

Governor Pataki is proposing the use of emerging technology to improve productivity and increase safety on our highways.

- A total of $16 million in Federal and State funds will be provided over the next two years to implement an in-car computer system that will enable State and local police to electronically prepare traffic tickets and accident reports. TraCS will produce near real-time data for highway designers, traffic safety planners, and criminal and fraud inspectors — ultimately resulting in improved safety and reduced auto insurance premiums for New York residents.
- Cities would be authorized to install automated red-light cameras at intersections to detect motorists who fail to obey traffic signal lights. Similar systems in place in other states and New York City have resulted in dramatic increases in compliance with vehicle and traffic laws, thereby increasing driver, passenger, and pedestrian safety.

Stronger Coordination of Local Grant Programs and Expansion of Operation IMPACT

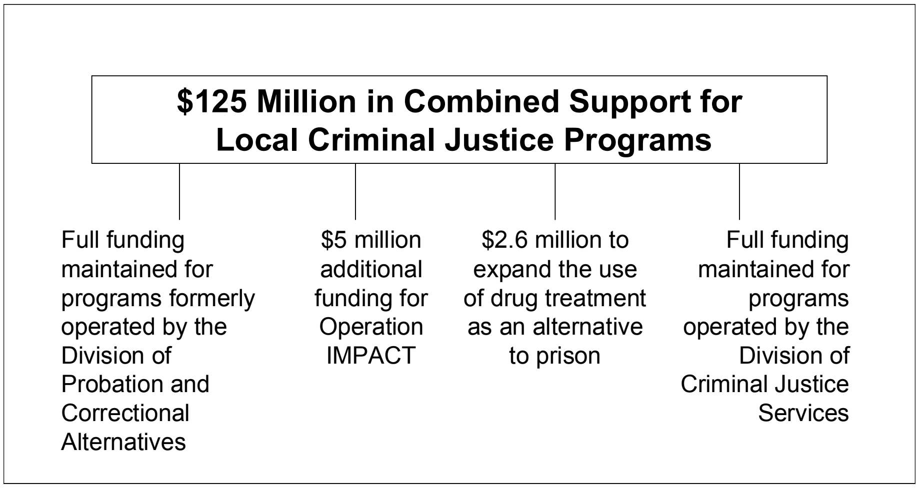


Figure 25

The merger of the Division of Probation and Correctional Alternatives with the Division of Criminal Justice Services will streamline the criminal justice grant process and improve the focus on program outcomes. State support for local criminal justice programs is fully preserved. An additional $5 million will expand the highly successful Operation IMPACT program. Another $2.6 million is added to expand the use of drug treatment as an alternative to prison.

- Automated speed enforcement devices would be installed in work zones and on stretches of the State's most dangerous highways. Motorists would be warned of the presence of these devices to encourage them to slow down. Violators traveling over the posted speed limit would be detected by these devices and would receive computer-generated tickets.

Funding Communications Technology

Governor Pataki's Executive Budget also finances two critical public safety initiatives: the Statewide Wireless Network and aid for enhancing local 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.
- Local wireless 911 service will continue to expand in 2005-06 so that more emergency calls from wireless phones can be located quickly and accurately.

Juvenile Justice

Expanding Community-Based Programs and Reducing Reliance on Institutional Beds

Governor Pataki has reshaped New York State's juvenile justice system into a flexible provider of both institutional care and community-based services for troubled youth. This Budget builds upon the Governor's existing juvenile justice reforms by broadening the array of services available to meet the needs of youth placed with the Office of Children and Family Services (OCFS) or in local detention facilities.

Providing a Full Spectrum of Juvenile Justice Services

New York State remains committed to preserving public safety by serving those youth convicted of serious crimes within the $140 million OCFS youth facilities system. These offenders are placed at OCFS facilities which provide programs to address identified problems including substance abuse, mental health or sexual offender issues.

While institutional care is appropriate and necessary for some youth, community-based services offer comprehensive, family-based counseling that helps youth and their families overcome behavioral, school, peer group and family relationship issues that may otherwise place youth at risk of criminal activity. Governor Pataki's juvenile justice reforms established several different community program models, similar to those operating in other states, which now can serve more than 600 youth annually.

Consistent with a continuing decline in the institutional population, the Executive Budget promotes smarter government by reinvesting $1.2 million in savings from a 6 percent reduction in OCFS facility beds to support an 18 percent increase in community-based program capacity. These innovative community programs are designed to lower recidivism and reduce long-term system costs. *(See Figure 26)*

Budget Highlights

- Saves $3.68 million by eliminating vacant beds at State-operated facilities and reinvests $1.2 million of the savings in expanded community-based service programs. Total State and Federal funding for community-based service programs will increase by nearly 20 percent from $6.1 million to $7.3 million, increasing the annual capacity of programs from 627 slots to an estimated 740 slots.
- Promotes reduced use of detention for persons-in-need-of-supervision (PINS). Under legislation submitted with the Budget, the Family Courts and local governments must exhaust community-based program options before placing youth classified as PINS - youth not convicted of a criminal offense, but considered incorrigible or beyond the control of their parents - in a local detention facility. This legislation would generate projected State and local government savings of $3 million each.
- Provides $5.2 million to support community-based services for PINS.

Reducing Reliance on Institutional Beds

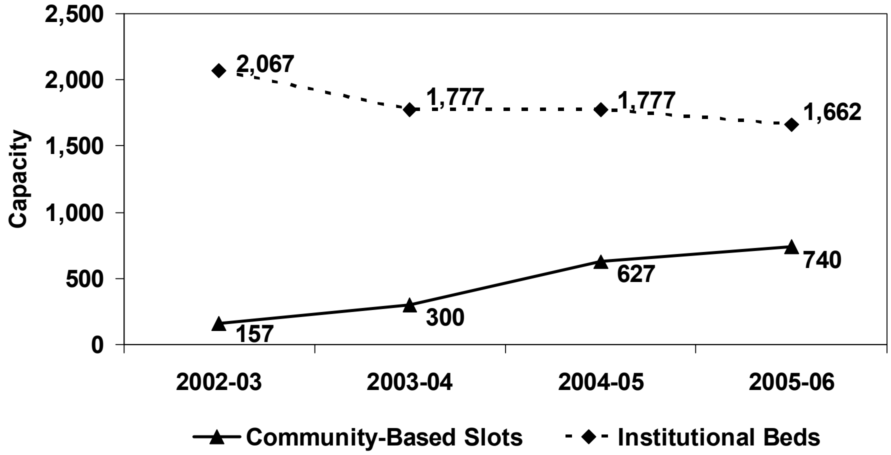


Figure 26

Since 2002-03, the Executive Budget has reduced institutional bed capacity by 20 percent or 405 beds, while community-based program capacity has increased by 371 percent or 583 slots.

Detention Reform

Governor Pataki believes local detention facilities should be reserved for youth with pending court cases involving criminal behavior. Youth with non-criminal behavior issues, such as Persons-in-Need-of-Supervision (PINS), should be served through community-based services, whenever possible. These community-based programs provide comprehensive counseling services that better address the needs of such youth.

The Governor will submit legislation with his Budget to require that community-based program options be exhausted prior to PINS youth being placed in local detention facilities. To help fund these services, the Governor's Budget also includes $5.2 million to support community-based programs serving PINS.

Health Care

Creating a Modern and Affordable Health Care System

Under Governor Pataki, New York is a leader in providing access to high quality health care services. From the enactment of the Health Care Reform Act (HCRA) in 1996 to the subsequent expansion of the Child Health Plus and the creation of Family Health Plus programs, New York's health care accomplishments serve as a national model for Congress and other states.

This Budget continues that tradition by offering a clear vision for a new health care system — one designed to meet the challenges of the 21st Century. The fundamental transformation recommended by the Governor:

- Proposes a cap on local Medicaid costs and adoption of cost containment actions to address the unsustainable burden that the Medicaid program places on the real property tax.
- Maintains the Department of Health's Medicaid General Fund spending at the 2004-05 level.
- Reconfigures the current health care delivery system by shifting the focus from dependence on expensive institutional care to more affordable and appropriate outpatient, home care and community services.

Budget Highlights

- Proposes an historic initiative to cap the local government share of Medicaid costs, leading to a full State takeover in 2008.
- Includes measures to contain escalating Medicaid costs and bring New York's spending more in line with other states.
- Establishes a new Commission on Health Care Facilities in the 21st Century.
- Provides funding for a new $1 billion capital grant program to support targeted investments to restructure the State's health care infrastructure.
- Extends and strengthens the Health Care Reform Act for two years — through June 2007 — and includes HCRA in the Budget.
- Advances a Long Term Care reform package to promote the delivery of cost effective and high quality services to the elderly and disabled in community-based rather than institutional settings.
- Provides incentives for EPIC recipients to participate in the new Medicare Prescription Drug Program — reducing costs for both seniors and EPIC.
- Establishes a Preferred Drug Program to ensure the use of appropriate and cost effective drugs.
- Recommends common sense reforms for the Early Intervention program to make the program more effective and affordable for State and local taxpayers.

- Streamlines the health care network by creating a bipartisan commission to make recommendations for rightsizing hospitals and nursing homes that are no longer needed and by investing in a multi-year capital improvement plan that helps in the transition to an improved health care system.

Paving the Way for a State Takeover of Local Governments' Medicaid Costs

If left unchecked, New York's Medicaid program, already the most expensive in the nation, will exceed $47 billion in 2005-06. A surge in prescription drug spending, a growing elderly population in need of Long Term care services and the increased use of all health care services are combining to drive unprecedented annual Medicaid cost increases. These unaffordable Medicaid costs are placing an unbearable burden on county budgets and driving unacceptable increases in property taxes.

In response to this serious fiscal challenge, the Governor is proposing a sweeping reform of the State and local cost sharing relationships that will:

- Cap local government Medicaid payments, effective January 1, 2006, at a growth rate of 3.5 percent or actual costs, whichever is less. The capped growth rate will be lowered to 3.25 percent in 2007, and then to 3 percent for 2008 and years thereafter.

- Initiate a full State takeover of local Medicaid costs effective January 1, 2008. To partially offset the cost of this historic action, local governments will have the option of remitting to the State sales tax revenues, or the value of the capped contribution, whichever is more advantageous to the individual local government. This State takeover of local Medicaid liability will save property taxpayers billions of dollars.

- Provide additional support to the counties outside of New York City — where the property tax burden is particularly acute — by accelerating the State's takeover of local Family Health Plus costs and making transitional funding available where the economic need is the greatest.

- Authorize innovative demonstrations to improve the delivery of health care services in a cost effective manner, and allow resultant savings to be shared with local governments.

- Permit the sharing of financial benefits if the Federal Medical Assistance Percentage (FMAP) is increased.
- Create a Task Force to examine all issues related to the January 1, 2008 takeover of the program. In addition, the Task Force will study options relating to the future administration of the Medicaid program.

Local governments will save more than $7 billion over the first five years. The capping of local government fiscal responsibility and the State assumption of the program in 2008 will make substantial local property tax relief possible. Financing this initiative is dependent upon the enactment of Medicaid cost continanment proposals.

Over $7 Billion in Cumulative Local Medicaid Relief

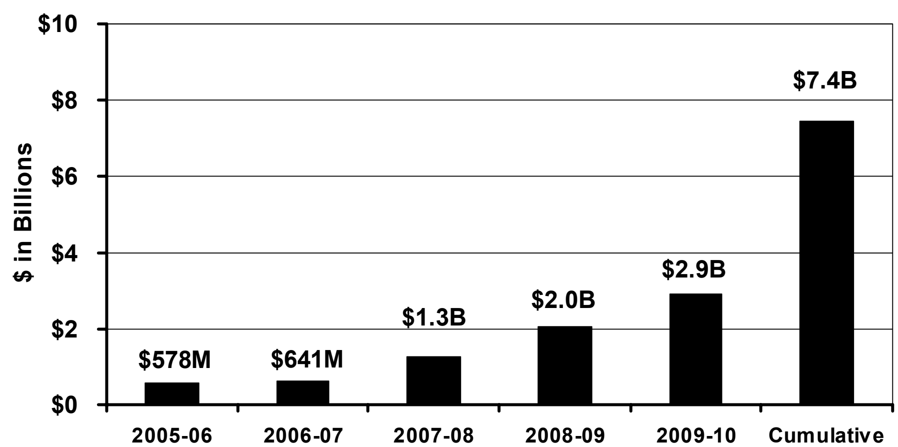


Figure 27

The Executive Budget proposes a series of initiatives which will provide counties with $7.4 billion in cumulative fiscal relief over the next five years. The proposed cap on the local share of Medicaid costs combined with the cost containment measures will save $7.3 billion. In addition, the acceleration of the Family Health Plus takeover and transition funding will benefit upstate counties by an additional $45 million in 2005-06 and $10 million in 2006-07.

Setting the Stage for Change — The Governor's Health Care Reform Working Group

Established in 2003, the Governor's Health Care Reform Working Group has issued a series of reports which call for fundamental change — and outlined a number of proposals to improve, modernize and reconfigure the State's health care system so that high quality services can be provided in a cost effective manner. Many of the initiatives recommended by the Working Group are presently being implemented, including:

NY ANSWERS: Work is now underway on the development of this program to create a single point-of-entry into the Long Term care system.

Long Term Care Insurance: The State's Partnership for the Long Term Care Insurance model was expanded to include a broader range of benefit packages to make it more affordable and responsive to consumer needs.

Disease Management: Funding is available for demonstration programs to help individuals manage complex chronic care conditions.

Alternative Long Term Care Options: Legislation signed by the Governor — Assisted Living Reform and fee-for-service Continuing Care Retirement Communities — will give elderly New Yorker's access to a wider array of long term care options.

Telemedicine: Grant funding of $3 million will be available to promote the use of technology in the provision of home care services.

Governor's Accomplishments

- Enacted Health Care Reform Act legislation in 1996, which deregulated hospital reimbursement and provides funding for critical health care for the uninsured.
- Expanded prescription drug coverage for seniors through the Elderly Pharmaceutical Insurance Coverage Program, increasing enrollment from 98,000 in 1995 to 350,000 today.
- Established New York's Mandatory Medicaid Managed Care Program which provides two million individuals with a medical "home."
- Increased enrollment in Child Health Plus — New York's nationally recognized health insurance program for children under 19 — from approximately 93,000 in 1995 to nearly 450,000 in 2004.
- Created Family Health Plus in 2001 which now provides over 470,000 lower-income parents and other adults with access to affordable health care.
- Established breast and cervical cancer screening and treatment programs for low-income women.
- Promoted better health outcomes for vulnerable populations through health care for the working disabled, improved services for residents of Adult Homes, enhanced the newborn screening program and legislation requiring appropriate hospital stays for mothers and their newborns.
- Led the nation in the fight against AIDS with over $3 billion in annual funding invested in AIDS-related services.

Medicaid Advantage: Voluntary enrollment in this new managed care program for individuals eligible for both Medicaid and Medicare will begin shortly.

In addition, the Governor's 2005-06 Executive Budget further supports the Working Group's reform efforts by:

- Funding a $1 billion capital grant program to improve and "rightsize" the State's health care infrastructure;
- Advancing a comprehensive long term care reform package which invests added resources to encourage community-based care;
- Implementing a Preferred Drug Program for the Medicaid program to control the growing costs of prescription drugs;
- Investing additional HCRA resources for disease management, rural health access and various reform studies;
- Authorizing the Commissioner of Health to implement changes to the distribution of the bad debt and charity care reimbrusement; and
- Pursuing a Federal long term care Medicaid waiver designed to assist the elderly and disabled meet their individual needs and maintain independence at the least cost with the highest quality care.

An Orderly Path to a New Health Care Infrastructure

The State can no longer afford to continue to dedicate substantial financial resources to support hospitals and nursing homes that are underutilized and no longer necessary. The ability to change this outdated institutional framework is extremely difficult, but it is a task that must be undertaken. A mechanism is needed to ensure that taxpayers' dollars are spent wisely while also ensuring that access to local health care services is adequately maintained. Accordingly, the Governor will call for the creation of a new bi-partisan Commission on Health Care Facilities in the 21st Century to address this issue.

The Commission will be comprised of 15 voting members: five will be appointed by the Governor; two by the Temporary President of the Senate; two by the Speaker of the Assembly; one member each by the Minority Houses; and, four representatives from the health care industry. Among other criteria, the Commission would consider the impact that closing a facility would have on the delivery of health care services in the geographic area and the local and regional economies, as well as the savings generated and capital costs avoided if a particular facility was closed. In addition, the Commission can recommend uses of the funds available from the new Health Care Efficiency and Affordability Law for New Yorkers (HEAL NY) program to effectuate necessary efficiences, consolidations and closures.

The Legislature would have thirty days to reject the Commission's final recommendation in its entirety. Absent the Legislature's rejection, the Commissioner of Health would be authorized to proceed with the necessary activities to carry out the Commission's recommendations.

Investing in the State's Health Care System to Promote Reform

Consistent with the recommendations of the Governor's Health Care Reform Working Group, the Governor's 2005-06 Executive Budget proposes a new Health Care Efficiency and Affordability Law for New Yorkers (HEAL NY) program that will make $1 billion available over the next four years. These new funds will support facility improvement, reconfiguration and consolidation; upgrading information and health care technology; and enhancing the efficiency of facility operations.

The new capital grant dollars will help facilitate the transition to a new and improved health care system in New York State. The first $250 million installment of that funding will be made available in 2005-06, including $10 million specifically dedicated to community health centers. In addition, the State will seek an additional Federal investment through the waiver process to ease the impact of the rightsizing effort on providers.

Reforming & Improving the Long Term Care System

The Governor's 2005-06 Executive Budget advances a comprehensive proposal to reform the Long Term care system so that it is more efficient, affordable and better meets the needs of the elderly and disabled. The existing Long Term care system is overly reliant on an outdated, expensive institutional framework. This Budget addresses that issue by making targeted investments in community-based services which are less expensive and often more desirable to recipients and their families. The Governor's proposal:

Invests in the Expanded in Home Services for the Elderly Program (EISEP): Our elderly deserve to live with dignity and respect in the comfort of familiar surroundings. Accordingly, annual funding for EISEP would be doubled to $50 million over two years to help the elderly remain healthy and to live independently in their communities.

Creates the "Access to Home" Program: $10 million in new funding will make the homes and apartments of low/moderate income New Yorkers with disabilities more accessible.

Establishes Home Care Demonstration Programs: The Budget authorizes up to four demonstration projects to provide services in community-based rather than institutional settings. Under this proposal, home care rates would be enhanced while the State seeks a Federal waiver to provide other services — including respite — through these programs.

Closes Existing Eligibility Loopholes: Legislation is proposed to close the existing Medicaid loopholes which allow individuals to refuse to contribute any of their income and assets towards the cost of health care for a spouse. Eligibility rules will also be tightened.

Restructuring Nursing Home Reimbursement

New York spends $7.1 billion on Medicaid nursing home care — more than the combined spending of the next two highest ranked states, California and Pennsylvania. This spending is driven by an antiquated payment methodology that has resulted in similar homes receiving widely varying Medicaid payments and promotes inefficient investment in the State's health care system.

To ensure a more equitable and efficient payment system that brings nursing home costs in line with those of other states, the 2005-06 Executive Budget recommends a series of reforms generating $221 million in State savings by:

- Implementing a new regional average reimbursement system so that all homes within a region will be reimbursed up to the regional average rate, as adjusted for its mix of patients based on 2003 costs.

New York Spends More On Nursing Homes Than Any Other State

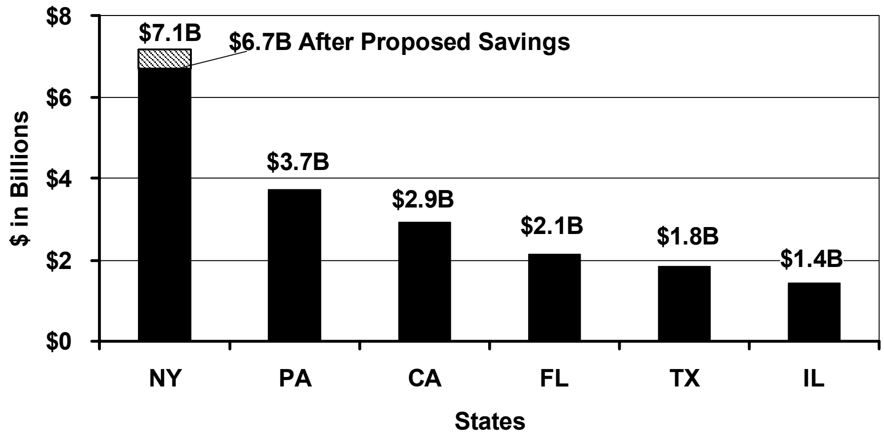


Figure 28

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

- Eliminating the Medicaid provider rate enhancement which is no longer necessary due to changes in Federal Medicare reimbursement policy implemented in 1999.
- Requiring providers to offset inflationary cost increases.
- Increasing the assessment on nursing home receipts by one percent. This is expected to have a minimal impact on nursing homes because the assessment is reimbursable through the Medicaid program. Further, the cost of the assessments on private payers will qualify for State tax deductions.
- Reducing the supplemental payments to nursing homes related to quality of care. This initiative is consistent with reducing other quality-related funds by 50 percent. The remaining funds will be used to reward nursing homes that achieve quality standards.

Partially offsetting the impact on the nursing home industry, nursing homes will realize nearly $112 million in fiscal relief annually as a result of the elimination of drug costs from the existing Medicaid rates and shifting the reimbursement of these costs to the new Medicare Part D program. Further, funding is included for a new program that requires criminal background checks for nursing home employees.

Controlling Health Care Costs

One of the goals of the 2005-06 Executive Budget is to ensure that the Medicaid Program is fiscally sustainable over the long term. To that end, the Budget advances several measures to make Medicaid more affordable. These proposals strike a balance between achieving much-needed savings in the face of fiscal challenges and meeting the health care needs of New Yorkers. At the same time, these initiatives are a necessary step to making the State Cap/Takeover of local Medicaid costs fiscally feasible.

Implementing Pharmacy Savings Measures

The cost of prescription drugs in New York is increasing at an average annual rate of nearly 20 percent in both the Medicaid and EPIC programs.

This dramatic growth threatens the State's ability to provide vital health services to New Yorkers. Accordingly, the 2005-06 Executive Budget advances several measures to control drug

Rapid Growth in Medicaid Prescription Drug Spending

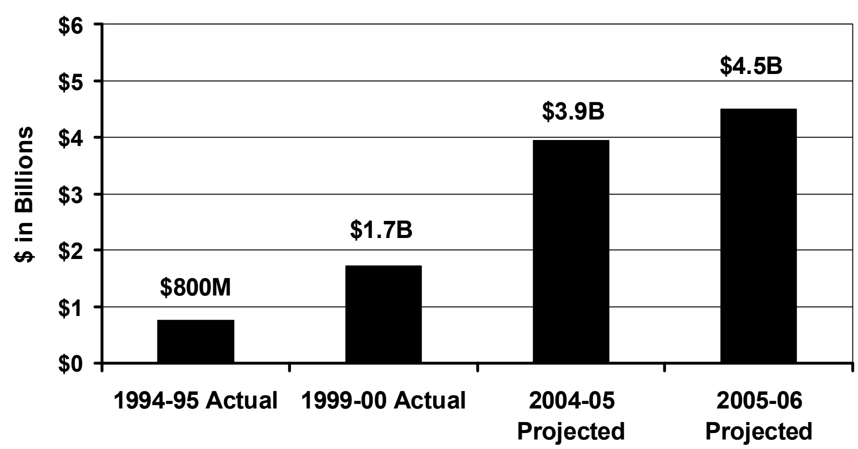


Figure 29

Pharmacy 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 it most.

costs, similar to those employed by private health plans and over 30 other states, which will save the Medicaid program $80 million in 2005-06.

Preferred Drug Program: A Preferred Drug Program would be established, modeled after those adopted by other states and most private insurers. Expert research will be used to identify drugs that are clinically effective and less costly, taking into account the rebates offered by manufacturers. Certain life saving drugs used for AIDS, mental health treatments and organ transplants would continue to be available.

New Medicare Prescription Drug Program: The State's EPIC recipients will be provided incentives to join the new Federal Medicare Drug Program which begins in January 2006. Under this initiative, EPIC fees would be waived for those low-income individuals who can participate in Medicare at no cost. This will result in reduced costs for seniors and savings for EPIC.

Medicaid Co-payments: Under this proposal, co-payments — unchanged since 1995 — will be increased by 50 cents for generics and $1 for brand name drugs. These co-payments would also apply to individuals in managed care.

Controlling the Growth in Hospital and Clinic Costs

New York's Medicaid spending on hospital and clinic services is more than any other state in the nation and far exceeds the two most populous states combined, California and Texas.

Accordingly, the 2005-06 Executive Budget recommends a series of initiatives that will generate State savings of $395 million, while maintaining the ability to deliver high quality services, by:

- Modifying reimbursement rates to promote efficiency by eliminating unnecessary "specialty rates" for mental health outpatient programs and adjusting inpatient detoxification rates for uncomplicated cases to encourage more cost-effective treatment options;
- Making required adjustments in prior year Graduate Medical Education (GME) payments and modifying the GME rate methodology to tie reimbursements to actual costs;
- Requiring providers to offset inflationary cost increases;

New York Leads the Nation in Medicaid Hospital Spending

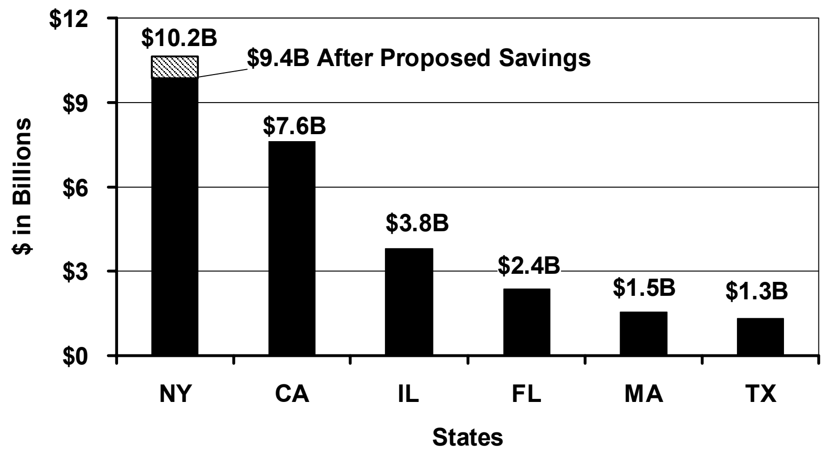


Figure 30

New York State's Medicaid spending for hospitals is the highest in the nation and is more expensive than the two most populous states combined, California and Texas.

- Selectively contracting with hospitals to provide specialized high cost procedures; and
- Re-establishing a 0.7 percent assessment on total hospital revenues.

Advancing Other Cost Savings Initiatives

The Governor's proposed Budget advances several other measures to achieve efficiencies in the Medicaid program and make it more comparable to traditional health insurance programs.

- Building on the Senate's Medicaid Reform Task Force recommendations, the Family Health Plus (FHP) program's benefit package and co-pay structure will be modified to make it consistent with the Healthy New York Program. In addition, eligibility loopholes would be closed to prevent the inappropriate use of the program; and unnecessary enrollment assistance funding would be eliminated.

Family Health Plus Spending

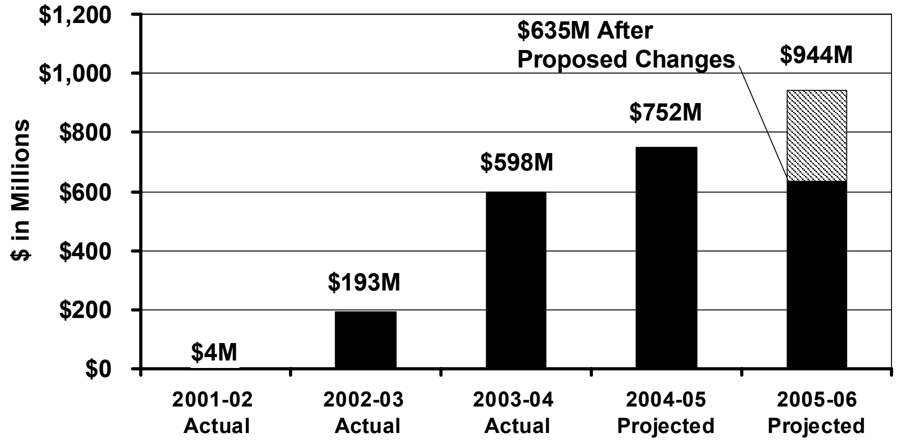


Figure 31

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 making its benefit package consistent with the Healthy New York Program.

- Two optional Medicaid services for adults would be eliminated — private practitioner dental and other practitioners, including private duty nurses, audiologists and psychologists. In addition, podiatry services will be eliminated as a billable clinic visit consistent with the practice in fee-for-service Medicaid.
- Cost efficiencies would be promoted by: freezing premium payments at the current levels for the Child Health Plus, Medicaid Managed Care and Managed Long Term Care programs; capping marketing expenses for Managed Care and Family Health Plus plans; reducing the Managed Care enrollment broker contract costs; and limiting administrative expenses in other programs.
- Requirements for the Medicaid transportation program would be modified to allow counties to contract with lower cost providers and encourage greater use of existing public transportation.
- Efforts will be enhanced to combat fraud and inappropriate use of services, highlighted by the implementation of the new forge-proof prescription initiative.

Re-authorizing the Health Care Reform Act

The Governor's 2005-06 Executive Budget builds upon his longstanding commitment to the health and well-being of New Yorkers by proposing legislation to re-authorize HCRA — currently scheduled to expire on June 30, 2005 — for an additional two years.

The legislation will:

- Ensure that all spending is appropriately reflected in the State Budget.
- Continue critical health care workforce recruitment and retention funding enacted in 2002.
- Extend authorization for the Child Health Plus program.
- Increase funding for rural health care providers.
- Dedicate proceeds from the conversion of any not-for-profit insurer to for-profit status — similar to the Empire Blue Cross conversion — to HCRA.
- Enhance existing resources (i.e., increase the covered lives assessment on third party insurers and surcharges on net patient revenues).
- Reduce funding for selected programs, including the elimination of two unnecessary insurance demonstration programs — Catastrophic Health and Individual Subsidy. These actions, when combined with other recommendations, will provide General Fund savings and ensure adequate funding for HCRA over the next two years.

Restructuring & Improving Public Health Programs

In addition to proposals to reform Medicaid and HCRA programs, the Governor's Budget recommends several initiatives to preserve public health services, while achieving cost savings, program effectiveness and improved flexibility and accountability.

Reforming the Early Intervention Program

The Early Intervention (EI) program provides services, such as speech and physical therapy, to developmentally delayed infants and toddlers at no cost to parents. More than 75,000 children are expected to be enrolled in the Early Intervention program in 2005-06.

New York State and local governments — which share in the cost of EI — spend an average of $19,000 per child participating in the program — compared to an average of $11,000 per child in other states.

To ensure that EI remains affordable and critical services continue to be provided, the Governor's Budget advances several initiatives to strengthen and reform EI. Collectively, these measures will save the State and counties $34.4 million each when fully implemented.

- Measures are proposed to increase the private insurance reimbursement of medical services provided through EI. Currently, only two percent of such costs are covered through insurance.
- Counties will be given the option to use rates established by the State or negotiate lower rates with providers.
- A family financial contribution is recommended, with the fee structure tied to income. Families earning less than 250 percent of the poverty level will be exempt from any contribution. Fee waivers — based on hardship — will be available to ensure that necessary services to severely disabled children are not interrupted.
- The reimbursement rates for home visits will be restructured to establish one rate, rather than separate rates for basic and extended visits.
- Independent evaluations will be mandatory for children that require only one service each week to eliminate inappropriate referrals.

Sustaining and Enhancing Essential Public Health Services

The 2005-06 Executive Budget includes nearly $3 billion to preserve and enhance critical public health services, while maximizing revenues, eliminating non-essential programs and advancing other efficiencies. The Governor's Budget includes:

- $231.5 million for the General Public Health Works (GPHW) program. The Governor's Budget restructures GPHW into a grant program — which will maximize local government flexibility, reduce administrative burdens and maintain the capability to respond to public health emergencies;
- $97.2 million to address women's health care and the nutritional needs of women, infants and children;
- $78.0 million for the Roswell Park Cancer Institute in Buffalo;
- $82.3 million for the State-operated nursing homes for veterans and their dependents in New York City, Oxford, Batavia and Montrose;
- $10.2 million for the newborn screening program, which provides free screenings to the 250,000 infants born each year in New York. The Budget includes an additional $2.5 million to expand the number of disorders for which all newborns are screened from 11 to 44, making New York's program the most comprehensive free newborn screening initiative in the nation;
- $3.0 million to promote sexual abstinence and prevent pregnancy among adolescents;
- $1.5 million to fight childhood obesity; and
- $1 million for new dental vans to provide care in unserved and underserved areas of the State.

Leading the Fight Against AIDS

Under Governor Pataki, New York leads the nation in the fight against AIDS. The 2005-06 Executive Budget continues that longstanding commitment by including $3.2 billion to help New Yorkers and their loved ones combat HIV and AIDS.

Local Government

Reform Yields Unprecedented Fiscal Relief for Local Governments

Governor Pataki recognizes that, for New York's taxpayers, the fiscal affairs of the State and its local governments cannot be separated. While closing a substantial State budget shortfall, the Executive Budget delivers more than $1.9 billion in additional State assistance to municipalities — the highest single year increase ever. The Governor's Budget achieves this milestone by reforming high cost programs and breaking new ground in the vitally important State/local relationship. Key 2005-06 initiatives will:

- Relieve counties and local taxpayers from the crushing burden of escalating Medicaid costs by capping county and New York City spending levels while providing a long-term strategy for a full State takeover of local Medicaid costs;
- Aid distressed cities that control costs by creating a new Aid and Incentives for Municipalities program that will distribute State funding increases ranging up to 25 percent by 2006-07;
- Create a Co-STAR tax benefit for qualified homeowners as a complement to the proposed Medicaid cap;
- Advance employee pension reforms and local mandate relief initiatives that provide direct relief from rising operating costs that cannot be controlled at the local level; and

Budget Highlights:

- Provides a record $1.9 billion in additional State assistance for local governments, building upon $10.2 billion in positive impacts added by State budgets and related legislation in the previous ten-year period.
- Creates a new Aid and Incentives for Municipalities program to provide nearly $164 million in additional State funding to municipalities during the next two years.
- Caps local Medicaid costs and provides related assistance to save counties and New York City more than $577 million in 2005-06.
- Includes additional State pension reforms to save municipalities an estimated $621 million in 2005-06.
- Provides the City of New York with more than $926 million in net savings and new assistance in its 2006 City fiscal year.

- Encourage all municipalities to streamline services and reduce unnecessary layers of government through the provision of new State incentive grant funding as well as statutory reforms that facilitate local government consolidations.

Reforming and Expanding State Aid to Improve Local Fiscal Performance

Cities, towns and villages now receive State unrestricted aid through a patchwork of programs that create little incentive to improve fiscal performance and achieve cost savings that benefit local taxpayers. As the centerpiece of a sweeping local aid reform, the Governor is advancing a new Aid and Incentives for Municipalities (AIM) program that will reward improved local fiscal performance with State funding increases totaling nearly $164 million over the next two years. Major elements of the AIM program include:

Consolidated State Funding: Existing unrestricted aid categories such as revenue sharing and Supplemental Municipal Aid will be consolidated within a single base grant that preserves funding at 2004-05 levels. AIM base grant funding will total $794 million in 2005-06.

Fiscal Performance Increases for Distressed Cities: All 61 cities outside New York City will be eligible for annual AIM increases ranging from 2.5 percent to 12.5 percent in 2005-06 and 5 percent to 25 percent in 2006-07 based on per capita property wealth measures. The 55 cities eligible to receive more than the minimum increase will be required to strengthen fiscal management practices and restrain local property tax growth. AIM aid increases for cities total $48 million in 2005-06, growing to $96 million annually in 2006-07. *(See Figure 32)*

Targeted Aid Increases for Towns and Villages: In addition to base grant funding, more than 85 percent of the State's 1,485 towns and villages will receive AIM increases totaling 5 percent by 2006-07. This increase will cost $1.1 million in 2005-06, growing to $2.2 million in 2006-07.

New Shared Services Grants to Encourage Local Cost Efficiencies: Under the Governor's AIM initiative, all local governments — cities, towns, villages, counties and school districts — will be eligible to apply to the Department of State for a Shared Municipal Services Incentive (SMSI) Award. Funded at $5.5 million in 2005-06 and growing to $10.75 million in 2006-07, the new SMSI will help fund cooperative efforts by two or more municipalities to achieve savings through eligible activities ranging from shared services to consolidation or merger.

The Governor's New AIM Initiative Provides Substantial Aid Increases for Distressed Cities

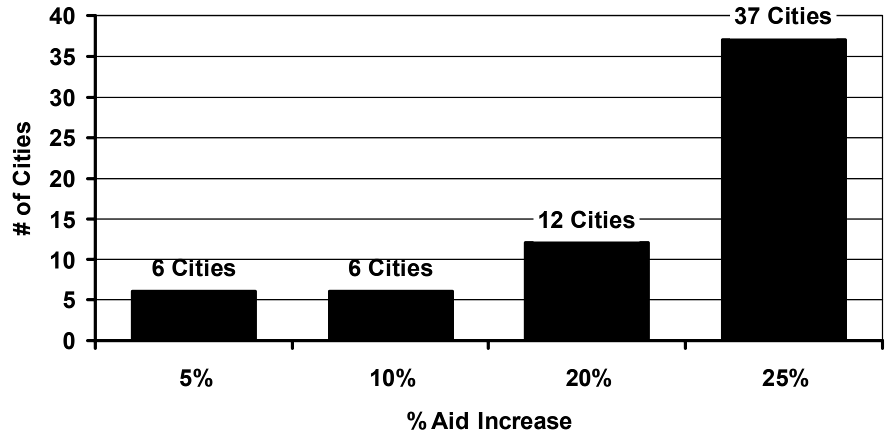


Figure 32

The Governor's Aid and Incentives for Municipalities (AIM) program provides eligible cities with increases that range up to 12.5 percent in 2005-06 and up to 25 percent by 2006-07.

A Direct State Response to the Greatest Local Fiscal Challenges

The Governor's Budget is advancing historic measures to enable local governments to control those rapidly growing program and operating costs that create the most pressure on local property taxes. The Budget also increases flexible funding for school districts and counties to support their efforts in meeting the essential needs of school children and low-income families. Specifically, the Budget will:

Cap Local Medicaid Costs While Initiating a Long Term State Takeover: Beginning with the county 2006 fiscal year, the annual growth in local Medicaid costs will be limited by an annual cost index that drops from 3.5 percent in the first year to 3 percent in 2008. In 2008, counties will have the option of continuing under a cap or having the State take over the full Medicaid local share in return for an equivalent amount of local sales tax revenue. Coming after nearly 40 years of unbridled growth in the Medicaid local cost share, this fundamental reform will save counties and their taxpayers more than $2 billion over the next three years.

Impact of the 2005-06 Executive Budget On Local Governments
State Fiscal Year Basis
($ in millions)

	Total	Counties	NYC	Other Locals	School Districts
Aid and Incentives for Municipalities	54.6	N/A	N/A	54.6	N/A
Cap Medicaid Expenditures/ Other Reforms	577.6	202.7	374.9	N/A	N/A
Pension Reforms	621.0	202.0	N/A	302.0	117.0
Revenue Actions	259.4	80.0	179.2	0.2	N/A
Education Aid	368.4	N/A	196.2	N/A	172.2
All Other Proposals	34.2	28.2	6.0	(2.3)	2.3
Total Local Impact	1,915.2	512.9	756.3	354.5	291.5

Create a New Co-STAR Program Providing Direct Relief to County Taxpayers: In addition to property tax relief resulting from the Medicaid Cap, the Governor's new Co-STAR program will enable counties to qualify their taxpayers for a direct Co-STAR rebate check worth up to $200 when the new program is fully implemented. To activate the Co-STAR benefit within their borders, counties will be required to keep total annual General Fund spending growth at or below the proposed Medicaid spending cap of 3.5 percent in 2006, dropping to 3 percent in 2008.

Reduce Local Pension Costs: In an effort to help local governments control one of their fastest growing expenditures, the Governor will advance employee pension reforms saving local governments an estimated $621 million in 2005-06. These reforms will require the State's Retirement System to seek independent professional review and public comment before modifying pension fund assumptions and methods and to reconsider the actuarial changes made in determining the 2005-06 pension rates.

Provide Essential Mandate Relief: The Governor is again proposing a comprehensive mandate relief agenda that, when enacted, will yield substantial local property tax savings. Specifically, full repeal of the Wicks Law would give local governments the contracting flexibility necessary to achieve cost savings ranging from 10 to 30 percent on public works projects. In addition, the Governor's mandate relief proposals reform binding arbitration practices, relieve local governments of certain litigation costs and provide additional flexibility to increase short-term investment income and benefit from access to centralized State services.

Continue Record School Aid Increases: Governor Pataki is proposing a school aid increase of $526 million in 2005-06, the largest ever proposed by a Governor. In the coming year, school districts will receive a record $15.9 billion in total State aid.

Allocate Flexible TANF Funding to Counties: A new $1 billion Flexible Fund for Family Services will provide counties with freedom to make decisions at the local level in allocating Federal funds for services to welfare recipients and low-income families. For the first time, counties and New York City will be able to tailor their services to meet the child care, employment and other service needs of their low-income populations.

Increase Funding for Quality Communities (QC): Funded in the Environmental Protection Fund, the Governor's Budget provides $5 million for the QC program, a $4 million increase from the 2004-05 program level. These funds will be used to support innovative solutions to improve the quality of life in communities and neighborhoods throughout the State. Specific QC program activities will include land use planning, open space conservation, downtown revitalization and intermunicipal planning.

Governor's Accomplishments

- Provided more than $10.2 billion in positive impacts for local governments in enacted budgets and related legislation since 1995-96 with a record additional $1.9 billion proposed in the 2005-06 Executive Budget.
- Created a STAR program that has saved local property taxpayers $14.8 billion since its inception.
- Enacted numerous measures providing substantial benefits to New York City including school governance reform, the New York City Watershed pact, and the Port Authority rental agreement for the New York City airports.
- Preserved unrestricted aid to local governments despite the recent national economic downturn that led 34 other states to reduce aid to their local governments.

New York State and New York City: A Relationship Built on Success

State assistance to New York City under Governor Pataki has played a critical role in helping the City weather serious fiscal challenges and maintain budget balance. Since 1995, enacted State Budgets have generated nearly $4.3 billion in savings and new assistance for New York City, in addition to an unprecedented $2.7 billion aid package provided to the City in its most recently completed fiscal year.

The Governor's 2005-06 Executive Budget builds on this unparalleled record of support, once again crafting proposals that provide a positive benefit to New York City, estimated at more than $756 million. On a City fiscal year basis, this Budget will provide over $926 million in net new assistance and cost reductions for New York City's upcoming 2006 budget year.

Major 2005-06 Executive Budget initiatives and recommendations impacting New York City include:

- The Governor's proposal to cap local Medicaid cost increases along with Medicaid cost containment and other actions will save the City more than $419 million in its upcoming 2006 fiscal year. These savings are in addition to a $250 million benefit resulting from the recent State takeover of the Family Health Plus Program enacted in 2004-05.
- A new Co-STAR property tax rebate or Personal Income Tax credit will be provided for eligible New York City residents.
- Adding to the State's record school aid increases over the past ten years, Governor Pataki is proposing $280 million in additional funding for New York City schools — including $195 million for a new Sound Basic Education Aid Program to ensure all schools have the resources they need to meet the State's education standards.
- Permanent amendments to current clothing sales tax provisions will enable New York City to collect an additional $216 million in sales tax revenues in its 2005-06 fiscal year.
- Significant future City savings will be realized from enactment of the Governor's mandate relief agenda, including the repeal of the Wicks Law and litigation reform.

- The Governor's Budget includes a $19.2 billion Capital Plan for the Metropolitan Transportation Authority (MTA) that will support core infrastructure needs as well as program expansions such as the East Side Access Project linking the Long Island Railroad to Grand Central Station, and the Second Avenue Subway.

Finally, the City will reap benefits starting in 2005-06 from State support for a number of important economic development projects. These include:

- Expansion of the Javits Center which will generate 10,000 jobs and $50 million in tax revenues.
- Support of the New York Sports and Convention Center, which will not only provide additional convention and exhibition space but will serve as a host facility for professional sports and other featured events.
- Substantial residential, recreational and commercial development at the Brooklyn Atlantic Yards and major redevelopment of the City's ports.

Environment

Preserving New York's Environment and Natural Resources

Since taking office, Governor Pataki has invested more than $13.4 billion in an aggressive and comprehensive strategy to protect the State's environment and natural resources.

- More than 900,000 acres of open space throughout the State has been preserved. The protection of rivers, ecosystems and watersheds has been expanded.
- The Superfund/Brownfields Program is funding the remediation and reuse of hazardous sites across the State.
- The $1.75 billion Clean Water/Clean Air Bond Act supports efforts to protect the quality of our air and water and ensure the long-term health of the environment.
- The State's nationally recognized parks system has been expanded, services have improved and costs reduced.
- Policies have been adopted to encourage businesses to reduce pollution, become energy efficient and construct "environmentally friendly" green buildings.

Annual funding for environmental programs now totals more than $1.4 billion. As a result of the Governor's visionary policies, more residents and visitors will have the opportunity to enjoy New York's natural resources for generations to come.

Budget Highlights

- Supports funding for environmental programs of more than $1.4 billion — a 77 percent increase since 1995-96.
- Recommends $150 million for the Environmental Protection Fund (EPF) — an historic funding level — a 20 percent increase over 2004-05 and a 500 percent increase since 1994-95.
- Continues funding for the Superfund/Brownfields programs.
- Provides new funding and staff to ensure that fragile, unprotected wetlands are preserved.
- Provides $5 million from the Environmental Protection Fund for quality communities grants to municipalities for land use and other planning.

1995-2004 Major Open Space Conservation Projects by NYS DEC and OPRHP

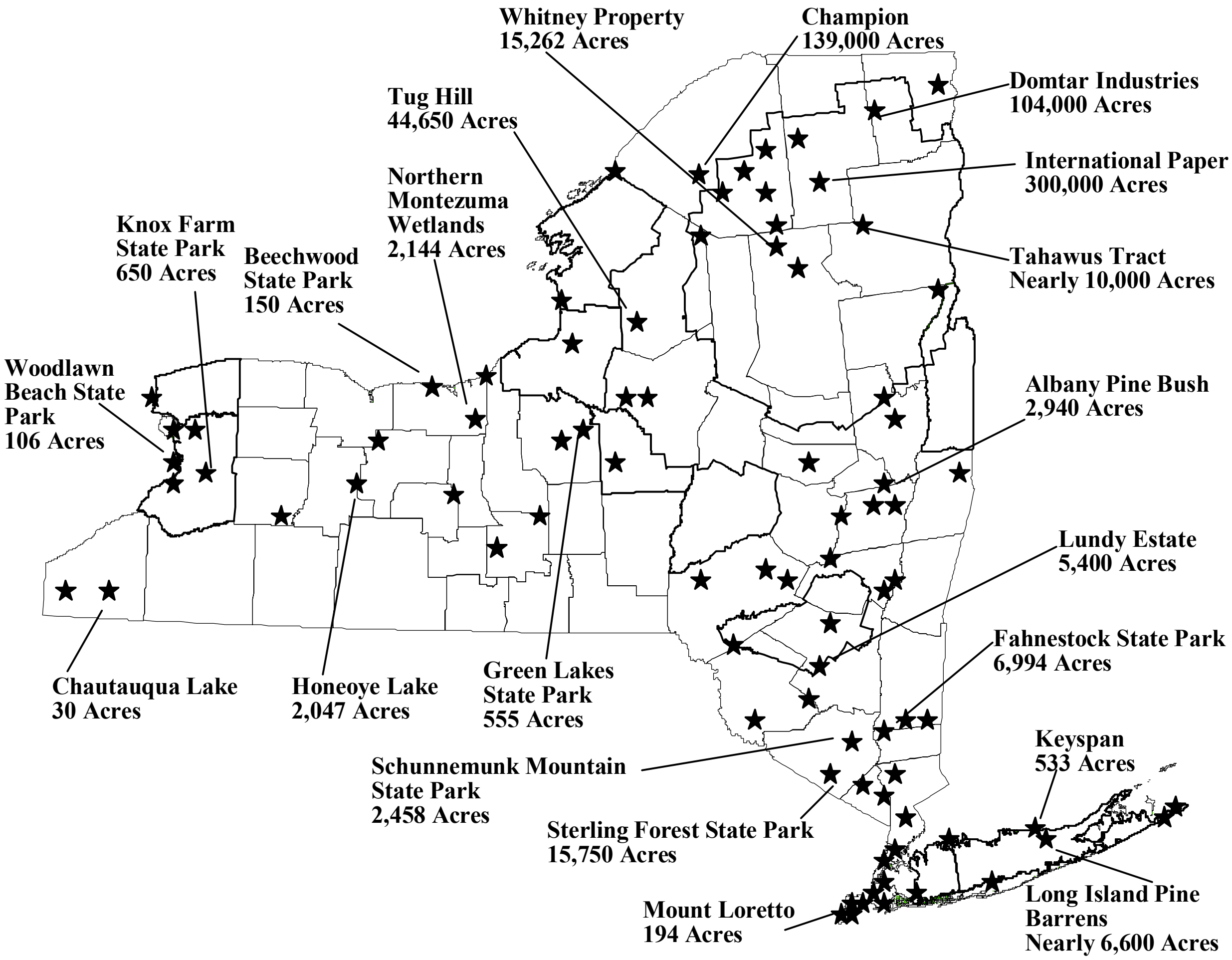


Figure 33

Protecting the Environment

The 2005-06 Executive Budget takes the historic step of increasing annual funding for the Environmental Protection Fund (EPF) to $150 million. *(See Figure 34)* This funding will support:

- $55 million for open space land acquisition, urban forestry and farmland protection;
- $18.4 million for State parks and lands stewardship and Department of Environmental Conservation capital projects and biodiversity stewardship;
- $13 million for solid waste projects, including landfill closure projects ($3 million), municipal recycling ($5 million), and secondary materials marketing and environmental investment program grants ($5 million);
- $10 million for State Parks Infrastructure projects;
- $10 million for non-point source pollution control projects;
- $6 million for local parks and historic preservation projects;
- $6 million for waterfront revitalization projects;
- $5 million for the development of the Hudson River Park;
- $5 million for the Hudson River Estuary Management Plan;
- $5 million for the Zoos, Botanical Gardens and Aquaria program;
- $5 million for quality communities grants to municipalities for land use and other planning;
- $2.3 million for the pesticide use database;
- $1.9 million for Soil and Water Conservation Districts;
- $1.5 million for agricultural product improvement initiatives including integrated pest management ($1 million) and the New York State Agricultural Experiment Station ($500,000);
- $1.3 million to assess damages to the natural resources of the Hudson River;
- $1 million to restore and preserve historic barns;
- $500,000 for Environmental Justice Initiatives; and

- $3.1 million for other environmental initiatives, including: Albany Pine Bush Commission ($600,000), Long Island Central Pine Barrens Commission ($750,000), South Shore Estuary Reserve ($450,000), and the Finger Lakes-Lake Ontario Watershed Protection Alliance ($1.3 million).

In addition to EPF-funded projects, the Executive Budget also includes support for the following critical environmental programs:

- $175.9 million in new State and Federal funds for the State Revolving Fund low-interest loan program to build and rehabilitate municipal sewage treatment facilities;
- $54.8 million for fish and wildlife programs that are financed with hunting and fishing license fees;
- $51.6 million for clean air programs to limit pollution from industrial and commercial sources, automobiles and heavy-duty vehicles — protecting the health of our citizens and the environment from harmful air pollutants; and
- $18 million for the Waste Tire Management and Recycling Program to address the problem of waste tire disposal.

EPF Increases Dramatically Under Governor Pataki

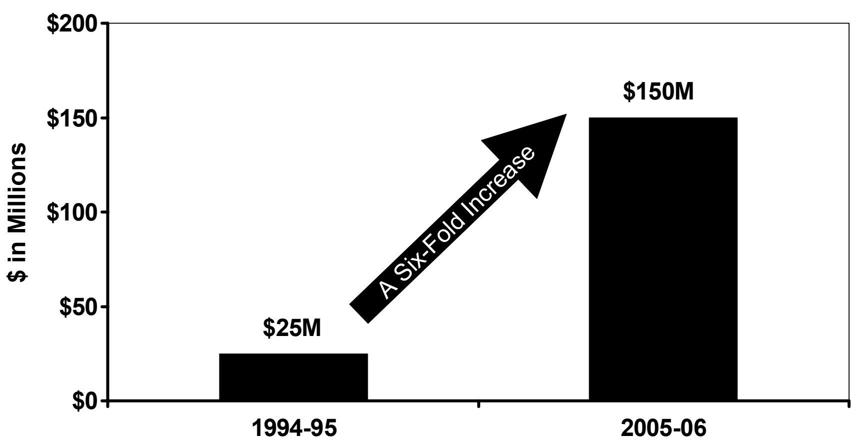


Figure 34

Since the Governor took office, annual funding has increased six fold – from $25 million to $150 million, bringing cumulative EPF funding since 1995 to approximately $1.3 billion.

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 credits with an estimated annual value of $135 million to accelerate the cleanup and redevelopment of contaminated sites throughout the State — eventually returning them to productive public or private sector re-use.

- Since the Governor signed this historic legislation, the Department of Environmental Conservation has approved 225 applications for the Brownfields Cleanup Program and Environmental Restoration Program and received 52 applications for the Brownfields Opportunity Area Program.
- The legislation also enacted the most stringent environmental and public health standards in the nation and continues New York's strong "polluter pays" philosophy. As a result, responsible parties have paid over 67 percent of all cleanup costs. Under this program, over $1.48 billion has been committed by responsible parties to the cleanup of hazardous waste sites.
- 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.

Improving Environmental Quality

The Governor has put in place initiatives that help communities and businesses improve environmental quality by:

- Providing $9.9 billion in assistance from the Environmental Facilities

Governor's Accomplishments

- More than $13.4 billion has been committed for environmental programs. Annual funding has grown by 77 percent with more than $1.4 billion now being invested each year.
- Governor Pataki has preserved more than 900,000 acres of open space across the State, and is on track to achieve a goal of preserving one million acres over ten years. Significant land acquisitions include:
  - International Paper properties — 300,000 acres;
  - Domtar Industries — 104,000 acres;
  - Whitney property — more than 15,000 acres;
  - Sterling Forest — more than 15,000 acres;
  - Long Island Pine Barrens — 6,600 acres; and
  - Champion lands — 139,000 acres.
- The $1.75 billion Clean Water/Clean Air Bond Act, when combined with Federal and local matching funds, will provide $4 billion for projects preserving the long-term health of our environment.
- Since Governor Pataki took office, the State has acquired 19 new State parks. In his 2004 State of the State address, Governor Pataki committed to opening five new State parks in the next two years and opening or expanding 20 State parks in the next five years. The recent acquisition of the Sonnenberg Mansion and Gardens and the opening of Robert G. Wehle State Park on Lake Ontario are two steps toward achieving this goal.
- Negotiated a landmark agreement with the Federal government and local governments that protects the drinking water of 9 million New Yorkers, and preserves the economic vitality of watershed communities.

Corporation for compliance with Federal and State requirements for drinking water, wastewater treatment and water quality. *(See Figure 35)*

State Revolving Funds Impact Grows to Nearly $10 Billion

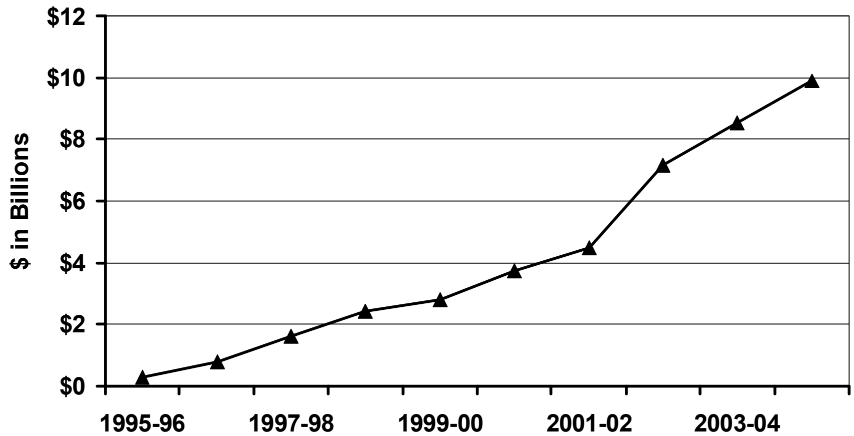


Figure 35

Since 1995-96, the cumulative value of grants and loans from the Environmental Facilities Corporation State Revolving Funds (SRF) for Clean Water and Drinking Water has grown to almost $10 billion.

- Providing a first-of-its-kind tax credit for the construction of environmentally friendly "green buildings." This successful program will be expanded with $25 million of additional tax credits.
- Requiring the New York State Public Service Commission to implement a renewable power standard to guarantee that, within ten years, 25 percent of the power bought in New York is generated from renewable sources.
- 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, reducing costs for New Yorkers by hundreds of millions of dollars annually while 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.

The Governor also will be advancing program legislation authorizing local governments to establish locally funded land conservation programs.

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 by nearly 13 percent. Services have been improved and operating costs have been reduced, reflecting the success of partnership agreements with the private sector, the non-profit community and other governmental entities that have supplemented State resources by over $100 million.

Governor Pataki's 2005-06 Executive Budget maintains his commitment to providing New Yorkers and visitors with high-quality recreational opportunities. The Governor's Budget provides:

- $183 million to support the 169 existing parks and 35 historic sites operated by the Office of Parks, Recreation and Historic Preservation;
- $38.7 million to support capital improvements to State park facilities; and
- $850,000 to establish a new All Terrain Vehicle (ATV) trail development, maintenance and enforcement program.

Strengthening Our Agricultural Communities and Economies

Governor Pataki recognizes that the agriculture industry is vital 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 2005-06 Executive Budget maintains support for these important programs, including:

- $5.7 million in total support, including $4.2 million in General Fund spending for programs that provide critical services to the agricultural community, including agricultural research, disease prevention, technical assistance and community outreach;

- $3.5 million in new funding to support wine industry marketing and promotion;
- $2.5 million to continue efforts, in concert with our New York City and Federal partners, to contain and eradicate the Asian Long Horned Beetle;
- $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
- Establishing innovative tax incentives, including creating tax credits of up to $1 million for investments in biofuel production facilities, helping to keep farmland economically viable.

Family Services & Public Assistance

Refocusing Welfare

Under Governor Pataki's leadership, New York is building on successful welfare reforms while strengthening its commitment to help families achieve independence and improve the quality of life for themselves and their children. At the same time, the Governor recognizes the need for change. Dramatic reductions in the public assistance rolls have left local administrators with primarily hard-to-serve populations. Burdened by a series of different State programs and mandates, local governments are devoting valuable staff resources to a seemingly unending series of plans, contracts and budgets. In addition, localities remain hamstrung by "stovepipe" funding sources — often finding themselves with too much of one type of funding and not enough of another. In this Budget, the Governor sets out a series of reforms to remedy this problem. Consistent with the Governor's overall Budget priorities, 2005-06 recommendations for public assistance and services to children and families will:

- Offer broad program flexibility to local governments in an effort to assist hard-to-serve welfare recipients and low-income families in securing and sustaining employment.
- Encourage improved local program performance in meeting welfare work participation requirements and increasing access to food stamps by low-income working families.

Budget Highlights

- Creates a $1 billion Flexible Fund for Family Services to address local supportive service priorities.
- Consolidates State funding for local administration within a Local Administration Fund to complement the Flexible Fund for Family Services.
- Measures local performance in meeting welfare-to-work participation requirements and encourages local efforts to increase access to food stamps for low-income families.
- Provides incentives to promote recipient compliance with work requirements.
- Advances Strengthening Families through Stronger Fathers featuring a new State Earned Income Tax Credit (EITC) targeted to younger non-custodial, low-income parents to strengthen their ties to employment and support for their children.
- Consolidates State employment programs within the Office of Temporary and Disability Assistance to streamline administration and improve supportive, employment and training services.

Governor's Accomplishments

- Nearly one million fewer recipients are on the welfare rolls compared to 1995.
- Child welfare financing reforms have helped contribute to a 44 percent decline in the number of children living in foster care since 1995.
- Child support collections have more than doubled. Collections are expected to reach $1.5 billion in 2005, the largest amount in State history.
- In the past ten years, over $1.7 billion of TANF has been used to support the Earned Income Tax Credit (EITC), a program with recognized success in encouraging low-income families to seek and retain employment.

- Streamline State administration and oversight, devolving funding flexibility to local governments.
- Promote personal responsibility through reforms that encourage welfare recipients to seek financial independence.
- Maintain essential child welfare services that preserve families and prevent the out-of-home placement of children.

Supporting New Yorkers Entering the Workforce

Governor Pataki's welfare reform initiatives have resulted in an historic drop in welfare dependency. *(See Figure 36)* The 60 percent reduction in the State's welfare caseload since 1995 is largely attributable to unprecedented levels of State and Federal funding that have been directed to support programs such as the Earned Income Tax Credit (EITC), child care and employment training. In 2005-06, the State will spend more than $1.7 billion in Federal Temporary Assistance for Needy Families (TANF) funds for this vital support and assistance.

Welfare Rolls Drop Dramatically During Governor Pataki's Tenure

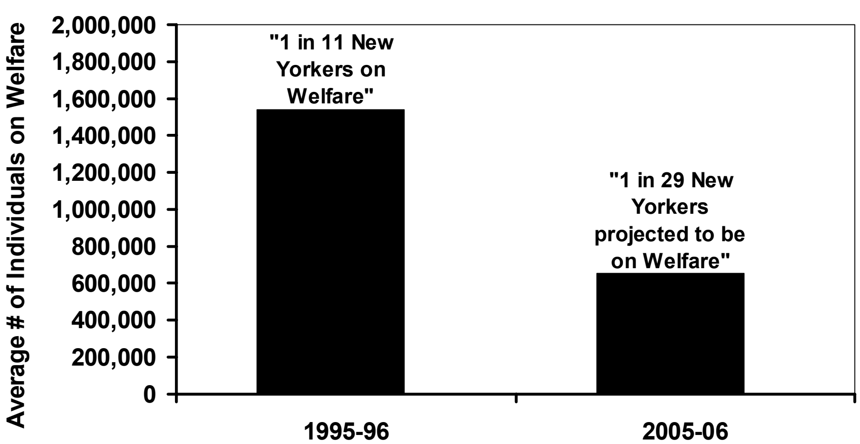


Figure 36

New York's welfare caseload has declined by nearly one million individuals since Governor Pataki took office.

Enhancing Flexibility to Strengthen Local Welfare Programs

Although New York has successfully met all existing Federal mandates requiring welfare recipients to participate in work activities, Congress has proposed increasing TANF work participation rates. To meet these more stringent requirements, remaining welfare recipients — many of whom face obstacles to self-sufficiency — need assistance to find and keep jobs. In accomplishing this task, local officials need new flexibility to tailor services to meet each client's individual needs and circumstances.

The Governor's Budget responds to that need, giving local governments a powerful tool in directing resources to better serve this population by creating a $1 billion Flexible Fund for Family Services. Supported by TANF funds, the Flexible Fund gives counties, which are the front line of the State's welfare programs, more freedom and responsibility in determining where funding should be directed.

Programs Incorporated in Local Discretionary Funds

$1.0 Billion in TANF Funds for Supportive Services

- Child Care
- Child Welfare Emergency Funds
- Domestic Violence Screening
- Drug Screening and Treatment
- Edge/Bridge Employment Programs
- Employment and Transitional Programs
- Pregnancy Prevention
- Preventive Services for Persons-in-Need-Of-Supervision (PINS)
- Title XX Services
- Transportation for Employed and Job-seeking Welfare Recipients
- Youth Employment Programs
- Local Administration

$309 Million in General Fund Support for Local Administration Fund

- Employment Administration
- Food Stamp Administration
- Public Assistance Administration

Figure 37

The $1.0 billion Flexible Fund for Family Services includes every TANF dollar not being allocated to the EITC, public assistance benefits and State operations. The $309 million Local Administration Fund includes funding for local administrative services associated with employment service, food stamps and public assistance. At the same time, the State maintains its General Fund commitment to other vital programs not included in the Flexible Fund for Family Services such as child care, Advantage Schools, Home Visiting, Foster Care, Child Welfare and Food Pantries, among others.

The Flexible Fund will:

- Empower localities to decide on the combination of assistance and services that are most needed by and effective in serving local public assistance recipients.
- Enable local administrators to make resource decisions that meet their service needs, rather than being constrained by rigid programmatic funding requirements.
- Give localities the ability to respond more readily and rapidly to changing spending priorities and recipient needs.
- Streamline State planning and reporting requirements.
- Make service providers more accountable to local government.
- Provide timely information on individual local government allocations.

In addition, State funding for administrative services associated with the welfare program will be consolidated into a single $309 million Local Administration Fund to facilitate improved management efficiencies.

Promoting Personal Responsibility and Accountability

Under Governor Pataki, welfare reform efforts have been successful in encouraging personal responsibility and independence. This year, the Governor's Budget continues to promote self-reliance and supplement traditional supports by:

- Aligning the amount of earnings a family may discount while receiving public assistance with the length of time the family has been on welfare.
- Encouraging the head of a welfare family to fulfill employment obligations by withholding the family's entire public assistance grant if he or she fails to comply.
- Increasing county accountability for meeting work participation rates.

Making Work Pay

- New York's welfare reform is complemented by initiatives such as the EITC, which is specifically designed to strengthen the economic mobility of participants. A low-income working family of three could receive as much as $5,600 annually from the combined State and Federal EITC.
- In SFY 2005-06, working welfare recipients will be able to discount 50 percent of their income and still qualify for welfare. After 5 years on welfare, this will be reduced to 25 percent.

- Establishing performance-based incentives for localities that improve access to federally-funded food support for their low-income working population.

Generous Support Continues for Working Low-Income Families

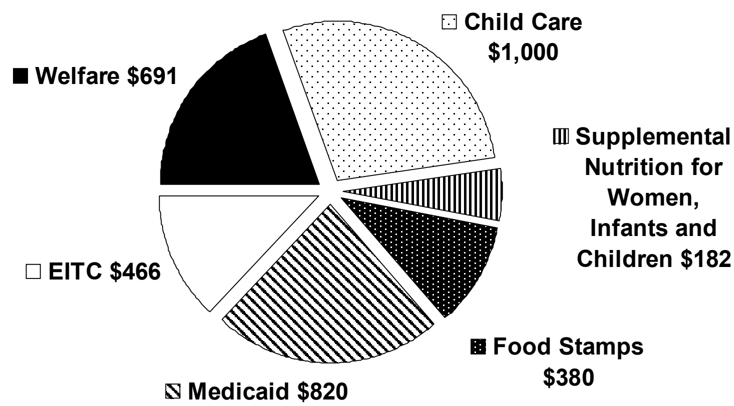


Figure 38

Under the Executive Budget recommendations, a typical working family on public assistance could be eligible for a package of supports totaling as much as $3,539 per month.

Providing for New Yorkers' Basic Needs

The 2005-06 Executive Budget maintains the Governor's strong commitment to supporting programs that help individuals achieve self-sufficiency. The State's wide spectrum of services and income security programs include:

Food Stamp Benefits: To ensure access to sound nutrition, more than $2.1 billion in Federal Food Stamp benefits are distributed each year to persons receiving welfare and others in need.

Housing Assistance: New York State spends approximately $475 million to fund transitional and emergency family and adult shelters, homeless intervention programs and supportive housing services to help homeless families and individuals secure permanent housing.

Disability and Special Needs Assistance: New York provides Supplemental Security Income (SSI) benefits to individuals with disabilities or special needs. New York State supplements the Federal SSI benefit with the nation's fifth highest state payment to enable the aged, blind and disabled to meet their basic needs. More than 627,000 recipients receive these benefits, totaling $632 million in State costs.

Child Support: The Governor's child support reforms have produced record child support collections that are expected to reach $1.5 billion in 2005, the largest amount in State history. *(See Figure 39)*

A Decade of Progress in Child Support

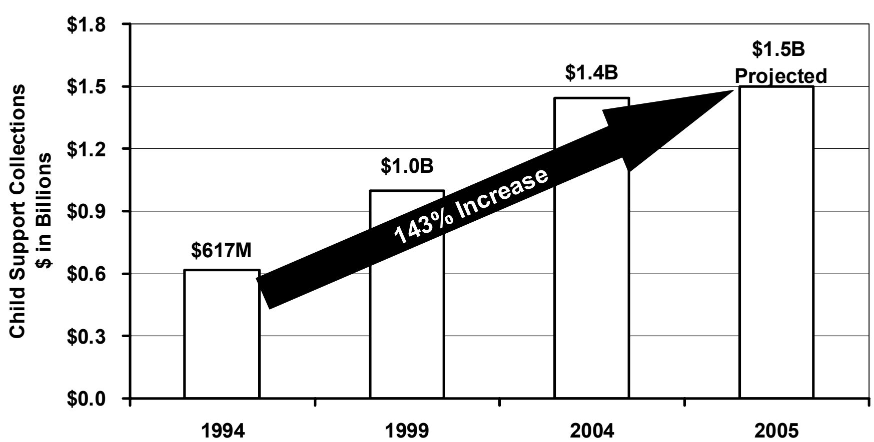


Figure 39

Under Governor Pataki, child support collections have more than doubled. Collections are expected to reach $1.5 billion in 2005, the largest amount in State history.

Sustaining an Investment in Our Children and Families

The Executive Budget emphasizes the well-being of children and families. It supports family preservation, adoption and foster care. It also encourages responsible parenthood and the improved economic viability of families. Significant actions to support and enhance the well-being of children include:

Strengthening Families through Stronger Fathers: The Executive Budget funds a new and unique State EITC targeted to non-custodial, low-income parents to further strengthen their ties to employment and support for their children. This new credit could provide up to $1,950 per year to working individuals aged 18 through 30 who are current with their child support obligations.

Child Care: During Governor Pataki's administration, the number of child care subsidies has more than doubled. Under the proposed Flexible Fund for Family Services, local districts will have the flexibility to decide the appropriate level of child care support for their locality.

Reduced Reliance on Foster Care: New York remains a leader in the national effort to reduce the number of children in foster care, ranking second among all states in caseload decline. In 2005-06, a $373.5 million Foster Care Block Grant will provide counties with a flexible funding stream to meet the needs of foster children and encourage further declines in the foster care caseload. *(See Figure 40)* Additionally, $250,000 is provided for a demonstration program for kinship care as an alternative to foster care for children who have been removed from their parent's home.

Child Welfare Reimbursement: The State will provide nearly $352 million in 2005-06 to support 65 percent reimbursement to counties for a range of services necessary to preserve families and prevent out-of-home placements of children. To preserve the existing level of Federal funds committed to child welfare services, local districts that maintain or increase child welfare spending under the new TANF-supported Flexible Fund for Family Services will continue to receive 65 percent State reimbursement for their child welfare spending.

Enhanced Mental Health Services: Local districts will be able to use 65 percent State reimbursement to increase and enhance existing mental health ser-

Supporting and Strengthening Children and Families

The Governor's Budget continues to support strengthening children and families through programs which:

- Support 181 Advantage After-School Programs for approximately 29,000 children throughout the State to encourage positive youth development. This program provides school-aged children with supervised educational and social activities during non-school hours.
- Provide child care subsidies to support low-income working families.
- Expand Evidence-based Community Initiative (EbCI) Programs for youth as an alternative to placement in a State youth facility or to reduce the length of time a youth is in a State facility — these programs provide services ranging from family-based counseling to specialized after-school programs.
- Provide community-based services for Persons-In-Need-of-Supervision (PINS) as an alternative to placement in a local detention facility.

Foster Care Caseload Declines, While Adoptions Increase

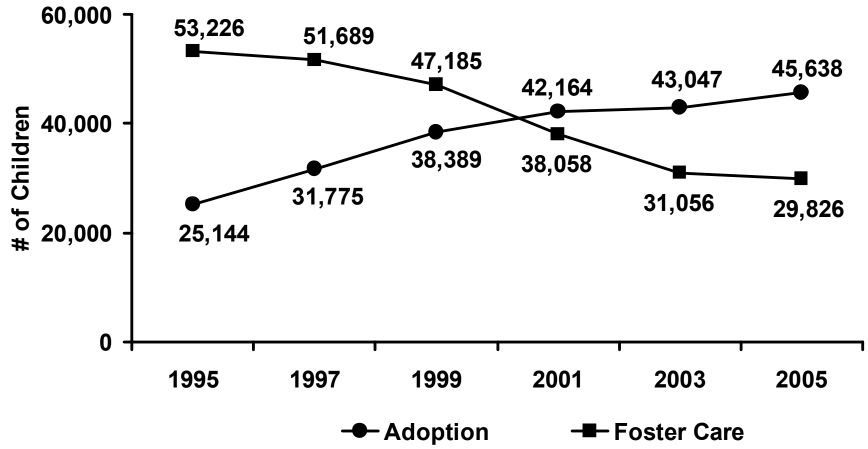


Figure 40

By 2005, the number of children living in foster care will have dropped by more than 23,000, or 44 percent, since the Governor took office. Additionally, the number of foster children who have been adopted will have increased by 82 percent.

vices for children. These funds will target youth at risk of hospitalization in an effort to minimize out-of-home placements and to keep them in their communities. Additionally, a new program is under development to enhance services for foster care youth with multiple needs.

New Federal Adoption Incentive Funds: New York State received almost $3.5 million in Federal Adoption Incentive funds resulting from the State's success in increasing the number of foster children adopted. Local social services districts will be able to use these funds to invest in a range of services to prevent subsequent out-of-home placements.

Improving the Human Services System

The current division of oversight and operating responsibility for human services programs among different State agencies consumes scarce resources and creates administrative difficulties for recipients as well as program providers. Realigning programs at the State level will improve program management and service delivery. Consolidations proposed by the Governor include:

- Transfer of the welfare employment function from the Department of Labor (DOL) to the Office of Temporary and Disability Assistance. Hard-to-serve individuals with multiple barriers to self-sufficiency are often the last to find employment and leave the welfare rolls. Incorporating welfare and welfare-to-work services in one agency is more conducive to the comprehensive service approach needed by this population.

Mental Hygiene

Strengthening Services for New Yorkers with Special Needs

Over the past ten years, Governor Pataki has improved the lives of New Yorkers with special needs. As a result, New York is a national leader in the provision of quality care for individuals with mental illness, developmental disabilities and/or chemical dependencies. The 2005-06 Executive Budget recommendations continue this legacy of excellence by maintaining key initiatives and targeting resources to strengthen "at risk" program models.

The Governor's Budget recommendations support a comprehensive, high quality system of care for special needs populations while achieving State savings by:

- Maximizing Federal and third-party reimbursement to reduce the need for taxpayer support. No local share requirement will result from any initiative converting 100 percent State aid programs.
- Achieving State operating efficiencies of more than $32 million through streamlining administrative functions, controlling overtime and non-personal service spending, consolidating duplicative activities and reducing less critical services.

Budget Highlights

- Provides over $5.6 billion in total funding to mental hygiene agencies to support and enrich critical State and local programs.
- Maximizes Federal revenues and makes other adjustments to achieve recurring General Fund savings of nearly $170 million.
- Supports the continuation of OMRDD's NYS-CARES, and OMH's Reinvestment program, Kendra's Law and Enhanced Community Services programs.
- Redirects almost $21 million in savings and new revenues to stabilize and enhance OASAS residential models and OMH freestanding clinics and supported housing program.
- Creates the Commission on Quality of Care and Advocacy for Persons with Disabilities by consolidating the Office of Advocate for Persons with Disabilities (APD) and the Commission on Quality of Care for the Mentally Disabled (CQC).
- Supports the expansion of community-based services with savings from the proposed closure of the Middletown Psychiatric Center.

- Realizing $16 million in savings through more efficient voluntary provider reimbursement practices — including the establishment of administrative cost standards and clinically-based utilization standards and targeting less effective services.
- Reinvesting a portion of these savings to strengthen community-based programs and ensure quality of care in the least restrictive environment.

Strategy for Reforming Service Delivery and Ensuring Quality of Care

Savings initiatives are strategically recommended to achieve efficiencies without jeopardizing the quality of care and priority services. In addition, several measures are proposed to support and stabilize key components of the mental hygiene non-profit sector. These include workforce enhancements for the Office of Alcoholism and Substance Abuse Services (OASAS) residential system, the Office of Mental Health's (OMH) freestanding outpatient clinics and targeted Office of Mental Retardation and Developmental Disabilities (OMRDD) service models. Stipend enhancements are also recommended for OMH's supported housing model.

Other reform actions are proposed to improve the coordination of services and the accountability of service providers:

- Outpatient mental health program reform will advance with the continued implementation of the Personalized Recovery Oriented Services initiative (PROS). This program is designed to integrate rehabilitation, support, clinical, employment and empowerment services in a single model for more effective service delivery and efficient use of resources. OMH will also commence new outpatient reform initiatives to ensure appropriate utilization of services and establish administrative reimbursement standards.

Governor's Accomplishments

- Created the nationally-renowned NYS-CARES program funded by a cumulative $1.6 billion in State and Federal dollars that will have addressed the residential needs of almost 12,100 developmentally disabled on community waiting lists by the end of 2005-06.
- Redirected a cumulative $1.4 billion in State-operated mental health institutional bed savings to community-based programs under the Reinvestment program.
- Championed Kendra's Law in 1999 and the Enhanced Community Services program in 2000, resulting in the more than doubling of case management resources and the integration of scientifically-proven practices to advance the highest quality of care.
- Implemented a county-based Single Point of Access (SPOA) system that maximizes the effective use of available mental health services through appropriate patient referrals and utilization.
- Overhauled the State's separate alcoholism and substance abuse treatment systems, and established a single program network for chemically dependent individuals with improved coordination with other related State programs.
- Implemented targeted enhancements in the Adult Homes area designed to improve the quality of care, including increased case management.

Services to Individuals with Developmental Disabilities Have Increased Significantly

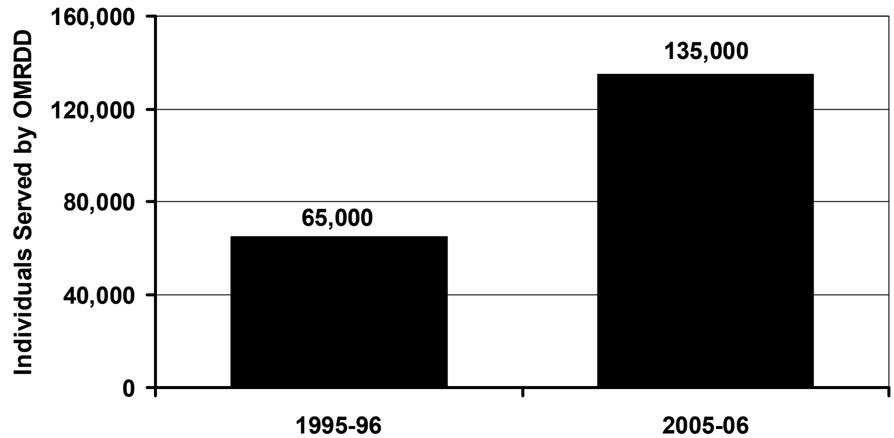


Figure 41

During Governor Pataki's Administration, the number of individuals with developmental disabilities served by OMRDD has more than doubled from 65,000 individuals in 1995-96 to 135,000 individuals in 2005-06.

- The Governor's New York State-Options for People through Services (NYS-OPTS) initiative, in OMRDD, will continue. NYS-OPTS represents service system reform that will afford both current consumers — as well as future recipients of services — the greatest flexibility in choosing their care, while also maximizing funds and efficiently managing operations. Predicated upon an organized health care delivery model, the NYS-OPTS program reflects the principles of partnership, inclusion, flexibility of services and customer satisfaction developed collectively by the system's stakeholders.

- The Office of Alcoholism and Substance Abuse Services (OASAS) will refine program and reimbursement guidelines for adolescent chemical dependence treatment. The Office will continue to work with counties to curb excessive and inappropriate use of chemical dependence resources, permitting better utilization of those resources to serve additional persons

Strategic Considerations for 2005-06

- Respond to budget realities through cost efficiencies and align funding with priorities and needs.
- Advance the commitment to community-based care and least restrictive settings, thereby providing an improved care environment and more service opportunities to New Yorkers with special needs and maximizing limited resources.
- Invest targeted resources from savings and new revenues to promote a more stable mental hygiene workforce and non-profit program models.

in need. OASAS will also establish administrative reimbursement standards for all providers as well as ensure that local assistance dollars for both treatment and prevention maximize direct services to recipients.

Targeted Investments to Strengthen Community-Based Models

The Governor's Budget recognizes that a key goal is the provision of quality, cost-effective mental hygiene services in settings that will most likely lead to increased independence and productivity for persons with mental retardation/developmental disabilities, mental illness or chemical dependence.

Under Governor Pataki's stewardship, OMH has successfully reinvested a cumulative $1.4 billion in resources from costly and unnecessary institutions into comprehensive community-based services, including new beds, case management slots and Children's Waiver Services. *(See Figure 42)* Despite this progress, about one quarter of the more than $5 billion spent annually on New York's public mental health system is spent on less than two percent of the individuals requiring State inpatient care.

Expanded Community-Based Mental Health Program Capacity

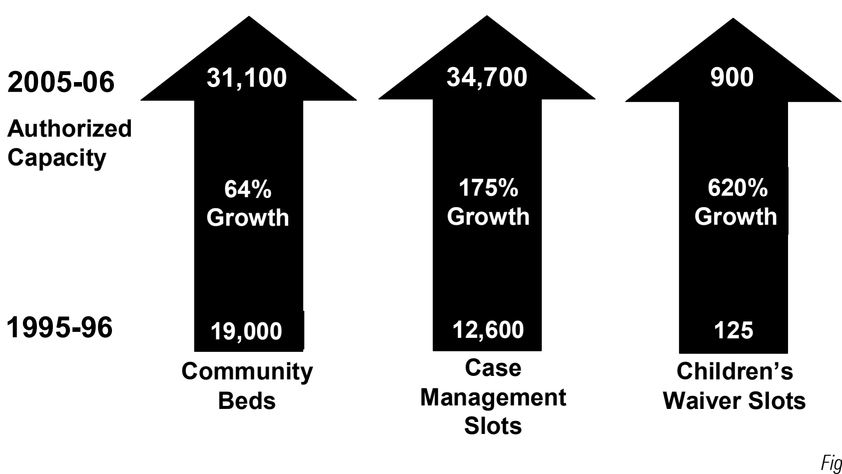


Figure 42

Under the leadership of Governor Pataki, OMH has more than doubled capacity for key community based programs serving individuals with mental illnesses.

Reinvesting Savings from Excess Mental Health Institutional Infrastructure to More Cost Effective Community-Based Services: Rightsizing the State's mental health institutional capacity is key to ensuring that resources are available for community reinvestment. The State's mental health 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 that assist clients in avoiding hospitalization.

The Executive Budget includes legislation to close the Middletown Psychiatric Center in 2006-07. This 115 bed facility — once serving more than 3,000 patients — is recommended for closure to avoid an unjustifiable $28 million capital investment. Needed capacity will be provided at the Rockland Psychiatric Center to accommodate both patient and staff transfers. One hundred percent of the estimated $7 million in full annual savings achieved through elimination of unnecessary administrative, support and overhead costs will be reinvested in expanded State-operated community services in the Middletown area. This closure timeframe allows the necessary time to assess additional community needs and to discuss alternative uses for the facility. This deliberate approach has been successful in the redevelopment of other portions of the campus.

Recovery and Hope: Helping People Help Themselves

"S" — a Queens man whose life was riddled with violence and disorder — spent many years suffering from untreated bipolar disorder. Through these trials of life,"S" grew to distrust all systems and anyone in any official program."S" had no interest in engaging with an OMH Assertive Community Treatment (ACT) team. Undeterred, the team consistently visited him, being available as his needs arose and just listening when he needed someone to simply listen. "S" is now reunited with his wife, advocates for his own treatment and has regained control of his life. In a letter sent to the ACT team this October, "S" stated that he has never received this level of care and treatment, nor met such a group of professionals willing to assist him in helping himself. "To say thank you only cheapens the great service that I received from the ACT team."

Redirecting Savings to Promote More Stable Community-Based Mental Hygiene Program Models: The Budget provides $8.5 million to help stabilize residential models in the OASAS service system, with a particular emphasis on staff recruitment and retention and resources to ensure that the working poor can access chemical dependence treatment. Additionally, $12.5 million is advanced to address systemic funding issues in freestanding mental health outpatient clinics ($6 million) and supported housing ($6.5 million), while at the same time cost effective program reforms are pursued. Lastly, the Budget continues targeted workforce enhancements in certain OMRDD service models to address workforce issues.

Consolidation of Various Advocacy and Oversight Functions Will Enhance Representation for All New Yorkers with Disabilities

The 2005-06 Budget recommends the merger of the Office of Advocate for Persons with Disabilities (APD) and the Commission on Quality of Care for the Mentally Disabled (CQC) to enhance advocacy services for all New Yorkers with disabilities, including those served by the mental hygiene system. Such separately provided functions as advocacy, information and referral and outreach activities will be streamlined and enhanced under a combined agency to strengthen services and maximize non-General fund resources that would otherwise be unavailable to APD as a stand-alone agency.

Government Reform

Managing Government Performance

Government has an obligation to act prudently in its stewardship of public funds. To that end, the 2005-06 Executive Budget supports aggressive actions across all agencies to promote accountability and improve performance management, reform government operations through structural and service improvements and improve efficiency through the use of technology.

The Governor's Budget recommendations continue to:

- Advocate smart policies to manage and restrain spending and provide additional taxpayer relief.
- Protect funding for priority needs by shifting resources from less essential programs.
- Provide financial incentives to achieve better performance results.
- Streamline operations to make government more efficient and more cost-effective.

Overall, the Governor's fiscal and management reforms would drive recurring savings of nearly $240 million in State Operations spending in 2005-06.

Budget Highlights

- Proposes comprehensive program reforms driving recurring State Operations savings totaling nearly $240 million in 2005-06.
- Recommends fundamental programmatic, organizational and service improvements across all agencies designed to enhance government accountability, management oversight and program performance.
- Introduces a new program of Aid and Incentives for Municipalities that ties aid increases to local government cost containment and operational efficiencies.
- Continues the restructuring of State government agencies and services to better align resources and improve program outcomes.

Promoting Accountability

Government, at all levels, must be accountable and responsive to public needs. It must demonstrate fiscal responsibility. Equally important, government — through its employees — must practice ethical, professional and responsible behavior.

Performance Management

This Budget incorporates a series of strategic financial decisions intended to improve State agency performance and program outcomes. Examples of key management reforms being advanced by Governor Pataki include:

- A new Aid and Incentives for Municipalities program linking State aid increases to fiscal performance agreements that require participating cities to strengthen fiscal management practices.
- Including performance requirements and outcome measures in contracts with localities and not-for-profit providers in targeted program areas.
- A long-term project to transform the State's financial management practices and implement a statewide financial management system. This new system, to be integrated across all agencies concurrently with business process and organizational reforms, will enhance program and financial accountability and improve the State's analytical, performance evaluation and reporting capabilities.
- A strategic planning initiative that will require agency policymakers to define their goals and priorities and focus on the relationship between performance outcomes and financial decision-making. In 2005-06, strategic planning projects will be piloted in the Department of Taxation and Finance and the Office of Mental Health.
- An independent Office of Educational Accountability and Efficiency to improve oversight of the educational performance and financial efficiency of our schools.
- Stricter contract and reimbursement standards in the Office of Mental Health and the Office of Alcoholism and Substance Abuse Services to target inefficient, outdated or under-performing programs and providers.
- Incentives for localities to improve access to federally-funded food assistance programs for working low-income families.

Public Authority Governance

The Commission on Public Authority Reform is being established to build on the recommendations made in 2004 by the Public Authority Governance Advisory Committee.

In 2005-06, this bi-partisan Commission will begin to evaluate the operations of State and local public authorities, develop principles of effective governance, devise policies for the disclosure and auditing of financial information and recommend if certain programs, activities, functions or public authorities should be eliminated, dissolved or consolidated.

Budget Reform

The Governor believes it is important to open the budget process and actively involve legislative members. Accordingly, he is proposing the following basic statutory reforms to permanently improve the budget process and strengthen the State's fiscal condition:

- A requirement that the Enacted Budget be balanced, with an impartial determination made by an independent party if the Executive and Legislature cannot agree.
- Increasing the State's Rainy Day Fund from 2 percent to a maximum of 5 percent.
- Increased "sunshine" reporting to individual legislators before they vote on the Budget, so all members are informed of the multi-year financial impacts of all key legislative changes to the Budget.
- Mandatory budget conference committees, so individual legislators are involved each year in finalizing the Budget.

Governor's Accomplishments

- Public assistance reforms have resulted in nearly one million individuals moving off welfare rolls, as job training, tax incentives, education and access to day care have focused on the self-sufficiency and personal responsibility of recipients.
- Criminal Justice reforms now target law enforcement resources to high crime areas, reducing the rate of violent crime by more than 50 percent and making New York the safest large state in the nation.
- Education reforms have restructured the governance of New York City schools, improved teacher quality and school safety, fostered educational choice through charter school programs and promoted accountability through performance reporting.
- Health Care reforms extended insurance coverage to uninsured populations with a special emphasis on children, the elderly, low-income families and individuals with disabilities.
- Governor Pataki has streamlined the workforce by approximately 19,800 positions, eliminated, restructured or consolidated more than one dozen agencies and realigned government to improve performance and efficiency.
- Growth in State Operations spending has been held below the rate of inflation as the State focused resources on well-performing and core program priorities.
- Investments in technology have transformed the way the State interacts with its customers. Businesses and citizens have benefited as agency operations have been modernized and almost 300 services and transactions made available electronically.

- A binding revenue forecast, with an impartial determination made by an independent party if the Executive and Legislature cannot agree by March 1.

In this Budget, the Governor has implemented a number of budget reforms that do not require statutory authorization. These include enhanced reporting and providing detailed budget information suggested by various budget reform bills.

Reforming Government Operations

This Budget eliminates or reduces funding for selected low priority programs and introduces other administrative efficiencies as part of the Governor's proposed savings of approximately $240 million in State Operations.

Structural Improvements

With this Budget, the size of the State workforce will have been reduced by 9.4 percent since 1995. The continued scrutiny of hiring decisions allows the State to maintain this staffing level without affecting its ability to provide quality services or respond to public needs. In fact, the 2005-06 Executive Budget recommends measures to further streamline State services and improve performance without a reduction in the workforce:

- The Division of Probation and Correctional Alternatives would be merged with the Division of Criminal Justice Services, to strengthen coordination of their criminal justice grant programs.
- The State Employment Relations Board would be merged with the Public Employment Relations Board to form the State Labor Relations Board. These actions would save $840,000 in 2005-06.
- The Office of Advocate for Persons with Disabilities and the Commission on Quality of Care for the Mentally Disabled would be merged to create the Commission on Quality of Care and Advocacy for Persons with Disabilities to streamline administrative operations and strengthen advocacy and funding for New Yorkers with disabilities.
- Administration of the Workers' Compensation Board would be incorporated within the Department of Labor, with the Board retaining its independence for reviewing worker compensation claims and making eligibility determinations.

- The State University hospitals would be restructured with their operations transferred to not-for-profit corporations to better position these facilities to provide quality care more efficiently in an increasingly competitive health care system.
- Department of Labor welfare-to-work staff would be relocated to the Office of Temporary and Disability Assistance as part of a consolidation and centralization of welfare-to-work programs.
- The vocational rehabilitation staff of the State Education Department's Vocational and Educational Services for Individuals with Disabilities program (VESID) would be transferred to the Department of Labor to improve job training and placement services for disabled persons.
- The State Museum, State Library and State Archives and other cultural education programs would be restructured within a new agency — the New York Institute for Cultural Education. This will enhance the visibility and effectiveness of the State's cultural institutions and enable the State Education Department to focus on education, its core mission.
- A State Gaming Commission would be established to coordinate licensing, investigation, regulatory oversight and law enforcement related to Video Lottery Gaming, horse racing, charitable gaming and tribal state compacts. These functions are currently performed by the Division of the Lottery and the Racing and Wagering Board.
- A Non-Profit Racing Association Oversight Board would be created. This Board would make recommendations regarding the awarding of the State's racing franchise, which currently expires on December 31, 2007. The Oversight Board will require the holder of the new franchise to pay ongoing annual fees and a one-time franchise fee that is expected to result in an approximately $250 million payment to the State.

Streamlining Agency Operations

The Office of General Services (OGS) handles budget, human resources, travel and other administrative services for nine agencies.

- This realignment allows the "hosted" agencies to focus their limited staffing and resources exclusively on core program responsibilities.
- OGS has assumed these "host" functions — while reducing its own staff by 47 percent — by shedding services not central to its primary role of property management, procurement and centralized services.

Service Improvements

Sustained budget balance is made more challenging if inefficiencies exist in how services are designed and delivered. Continued economic recovery demands that the State regularly assess its organizational alignment and justify how resources are allocated. This Budget proposes the following actions:

- Federal TANF administrative and supportive services funding would be combined into a single Flexible Fund for Family Services. This recommendation gives local governments the flexibility to allocate funding among employment, support, child care and child welfare programs in accordance with local priorities. A Local Administration Fund will also be created.
- The underutilized Middletown Psychiatric Center is recommended for closure in 2006-07 with $7 million in associated administrative and support savings to be reinvested into more cost-effective State-operated community programs serving the Middletown area. This action will also avoid $28 million in capital improvements that would need to be made by the State if the Center remained open.
- The Office for Technology and the Office of General Services will work together to identify opportunities to aggregate State purchases of technology equipment at lower prices. Opportunities to coordinate and consolidate future technological improvements will be identified to achieve further long-term savings.
- The Office of General Services would become an Energy Service Company (ESCO), authorized to bulk-purchase electricity rather than be dependent on the price charged by other utility companies, for an estimated annual savings of approximately $3 million.
- The success of the Governor's criminal justice reforms has led to a decline in the inmate population. A reduction of beds in the upcoming year will preserve needed capacity, while allowing the Department of Correctional Services to redirect resources to ensure that its facilities remain properly staffed and secured.

Enhancing Efficiency Through Technology

Governor Pataki has made it clear that doing business with the State must be fast, convenient, easy and electronic. Recommendations included in the 2005-06 Executive Budget allow the State to continue being responsive to customers:

- The Department of Taxation and Finance continues to promote e-filing of tax returns, enabling 11 million taxpayers to file their tax returns and receive direct deposits of tax refund checks.
- The Department of Motor Vehicles allows drivers to renew licenses, apply for duplicate titles and registrations, request customized license plates and access insurance information electronically.
- Citizens can apply online for professional and recreational licenses and permits required by the State Education Department, the Department of State, the Department of Environmental Conservation and the Department of Agriculture and Markets, among other agencies.
- Because of the State's successful implementation of technology, today New Yorkers can reserve a campsite, profile physicians practicing in the State, apply for tuition assistance, affordable housing or an EZ Pass, receive a report card on local schools and be matched with a potential employer, all from the comfort of their home any time of the day.

Making Technology Work for New Yorkers

- In less than five years, Governor Pataki's "Government without Walls" initiative has doubled the number of services and transactions available online — 75 percent of which enable State agencies to assist citizens and businesses.
- A high-speed state of the art fiber data network has been built to support these 295 applications offered by 55 agencies and to improve communications with local governments and the public.
- 38 State and local government agencies now accept electronic forms of payment for 82 programs and services. In 2004, over 2.3 million transactions were completed electronically, generating more than $365 million in revenue. These transactions are safer, more cost-efficient and faster to complete than traditional paper processes.

Sweeping Tax Cuts

Since Governor Pataki took office in 1995, every major tax has been cut and New York State has become the tax cutting capital of the nation. Under the Governor's leadership, 19 different taxes have been cut 75 different times, returning nearly $140 billion to New Yorkers on a cumulative basis when fully in place.

19 Different Taxes Cut 75 Times Under Governor Pataki

1. Personal Income Tax cut in 1995, 1996, 1997, 1998, 1999, 2000, 2002 & 2004
2. School Property Tax cut in 1997, 1998 & 2002
3. Sales Tax cut in 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002 & 2004
4. Estate Tax cut in 1995, 1997, 1998, 1999 & 2002
5. Corporation Franchise Tax cut in 1995, 1997, 1998, 1999, 2000, 2002, 2003 & 2004
6. Gross Receipts Tax on Energy/Telecom. cut in 1996, 1997, 1998, 1999, 2000, 2002 & 2004
7. Petroleum Business Tax cut in 1995, 1996, 1999, 2000 & 2004
8. Insurance Tax cut in 1997, 1999, 2000 & 2004
9. Bank Tax cut in 1997, 1999 & 2000
10. Medical Provider Assessment cut in 1997, 1998 & 1999
11. Real Estate Transfer Tax cut in 1996, 1999 & 2002
12. Real Property Gains Tax eliminated in 1996
13. Gift Tax cut in 1997 & eliminated in 1999
14. Motor Fuel Tax cut in 1995
15. Highway Use Tax cut in 1998 & 2000
16. Motor Vehicle Fee cut in 1998
17. Beer Tax cut in 1995, 1998, 1999 & 2000
18. Beverage Container Tax cut in 1995 & repealed in 1997
19. Pari-Mutuel Tax cut in 1995, 1998, 1999 & 2000

Tax Cuts Under Governor Pataki

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

School Property Taxes

Tax Cuts Enacted in 1997

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

Tax Cuts Enacted in 1998

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

Personal Income Tax Cuts

Tax Cuts Enacted in 1995

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

Tax Cuts Enacted in 1996

4. Provides a PIT credit, the agricultural property tax credit, beginning in 1997 for school property taxes paid by working farmers (also available in the corporation franchise tax).

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

6. Increases the child and dependent care credit for taxpayers with adjusted gross income of less than $14,000. Makes the credit refundable for residents beginning in 1996.

Tax Cuts Enacted in 1997

7. Enhances the agricultural property tax credit by: (a) allowing $30,000 to be subtracted from income before calculating the percent of income from farming to qualify for the credit; and (b) eliminating principal payments on farm debt from the calculation of the income level at which the credit begins to phase out.

8. Increases the child and dependent care credit to 100 percent of the Federal credit for families with incomes of up to $17,000, phasing down to 20 percent for annual incomes of $30,000 and over.

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

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

Tax Cuts Enacted in 1998

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

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

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

Tax Cuts Enacted in 1999

14. Increases the State's earned income tax credit (EITC) to 25 percent of the Federal credit over the next two years. The expansion first increased the EITC to 22.5 percent of the Federal credit in 2000 and then to 25 percent of the Federal credit in 2001.

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

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

17. Expands agricultural property tax credit to include agricultural land set aside or retired under a Federal supply management or soil conservation program.

Tax Cuts Enacted in 2000

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

Tax Cuts Enacted in 2002

25. 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.
26. Provides a cost-of-living adjustment to the maximum income allowed under the enhanced STAR exemption for persons age 65 and over.
27. Extends a $500 tax credit for costs related to the removal or permanent closure of a residential fuel oil storage tank and the replacement of a new tank through December 31, 2003.

Tax Cuts Enacted in 2004

28. Increases the credit for long term care insurance from 10 percent to 20 percent of premium expenses.
29. Provides a credit for film production activity in New York State.
30. Exempts pay of New York State National Guard members for services performed in New York as part of the "War on Terror."
31. Extends the credit for alternative fuel vehicles for one year.

Business Taxes

Tax Cuts Enacted in 1995

Petroleum Business Tax

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

Corporation Franchise Tax

34. 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

35. 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.
36. Exempts residual product and non-automotive diesel gallonage used for manufacturing purposes beginning January 1, 1998.
37. Exempts residual petroleum and non-automotive diesel gallonage used for commercial purposes from the supplemental tax, beginning March 1, 1997.
38. 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.
39. 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

40. 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

41. 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.

42. 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

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

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

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

Bank Tax

46. Allows net operating loss deductions for banking corporations.

Corporation Franchise Tax

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

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

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

Tax Cuts Enacted in 1998

Corporation Franchise Tax

50. 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.

51. 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.

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

53. Provides a significant new benefit for the securities industry in New York by allowing a tax credit of up to 5 percent for investment in technology equipment. This benefit also includes the trading operations of Article 32 (banks) taxpayers.

54. 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.

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

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

Tax Cuts Enacted in 1999

Petroleum Business Tax

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

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

Corporation Franchise Tax

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

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

61. 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.

62. 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.

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

64. 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.

65. 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.

66. 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.

67. 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.

68. 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

69. 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 reduction will level the competitive playing field with all other industries.

Insurance Franchise Tax

70. Reduces the bank tax to 7.5 percent from the 9 percent rate currently in effect. The new lower rate is phased in over a three-year period beginning in July 2000. This reduction will provide tax parity across all financial sectors.

71. 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.

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

Corporations and Utility Tax

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

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

Tax Cuts Enacted in 2000

Petroleum Business Tax

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

76. Eliminates PBT minimum taxes.

Corporation Franchise Tax

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

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

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

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

81. 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.

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

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

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

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

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

87. Eliminates the fixed-dollar minimum tax base for homeowners' associations that function as nonprofit entities and will provide tax relief for associations that have no taxable income for Federal income tax purposes.

88. Creates a tax credit that encourages businesses to make investments in transportation infrastructure across New York State and promote the creation of thousands of new jobs.

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

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

Bank Franchise Tax

91. 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.

92. Conforms the method of allocating the receipts received by banking corporations that are in the business of providing management, administrative or distribution services to regulated investment companies to the method currently available to non-bank corporate taxpayers.

93. 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

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

95. 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

96. 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.
97. 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

98. 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.
99. Raises the aggregate credit limit for the low-income housing tax credit from $2 million to $4 million annually.

Corporation and Utility Tax

100. 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

101. 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.

Tax Cuts Enacted in 2004

Petroleum Business Tax

102. Eliminates petroleum business tax on fuels used for aircraft overflight and landing; exempts fuel burned on takeoff by airlines operating non-stop flights between at least four cities in New York.

Corporate Franchise Tax

103. Provides a new tax credit for film production activity in New York State for corporate franchise taxpayers. The credit sunsets in four years.
104. Increases the statewide, aggregate credit limit for the low income housing tax credit from $4 million to $6 million.
105. Extends the Empire Zones (EZ) Program to March 31, 2005.
106. Extends for one year, until January 2005, the alternative fuels credit available for clean-fuel, electric, and hybrid vehicles and clean-fuel vehicle refueling property. Sunsets for tax years beginning after December 31, 2004.
107. Expands criteria for environmental zones (EN-Zones) and makes technical changes. To qualify for new En-Zones, brownfields must have cleanup agreement prior to September 1, 2006. Also eliminates recapture provisions for disposition of property.

Insurance Tax

108. Establishes CAPCO Program Four. Increases the statewide cap from $280 million to $340 million.

Corporation and Utility Tax

109. Modifies the Power for Jobs Program to allow prior recipients of low cost power an option of a credit or rebate.

Sales and Use Taxes

Tax Cuts Enacted in 1995

110. Exempts goods or services necessary for the acquisition, sustenance or maintenance of guide dogs.
111. Exempts meteorological services.
112. Exempts South African coins purchased for investment.
113. Exempts homeowner association fees.
114. Exempts retail sales of aviation gasoline from the motor fuel excise tax.

Tax Cuts Enacted in 1996

115. 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).
116. Exempts printed promotional materials and related services, including storage services, when the materials are mailed or shipped to customers in New York.
117. 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.

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

Tax Cuts Enacted in 1997

119. 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).
120. Exempts passenger buses, and parts, equipment, lubricants and repair services on such buses.
121. Increases the exemption threshold from 25 cents to 50 cents for purchases made through a bulk vending machine.
122. Exempts coin-operated car washes, waxes, or vacuuming services.
123. Exempts coin-operated photocopying where the charge is 50 cents or less.
124. Provides that out-of-state businesses that contract fulfillment services from New York companies do not become subject to the sales tax.
125. 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.
126. Exempts luggage carts dispensed by coin operated devices.
127. Exempts emissions testing equipment required by the Federal Clean Air Act of 1990 and the New York State Clean Air Compliance Act of 1993.
128. Exempts parking services sold by a homeowner's association to its members.
129. 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.
130. 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.
131. Exempts certain circus admissions.
132. 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.
133. Extends the sales tax exemption for alternative-fuel vehicles and expands it to exempt alternative-fuel vehicle refueling property.

Tax Cuts Enacted in 1998

134. 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.
135. 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.
136. Eliminates the sales tax on the sales of textbooks required for use by full- and part-time college students in their college courses.
137. Eliminates the sales tax on computer system hardware used to design and develop computer software for sale.
138. Exempts coin-operated telephone calls costing 25 cents or less from the sales tax. The prior exemption threshold was 10 cents.
139. Expands exemptions for oil and gas production to include real property services.

Tax Cuts Enacted in 1999

140. Provides an exemption for clothing and footwear costing less than $500 become 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.
141. Eliminates the sales tax on property and services used in live dramatic or musical arts productions.
142. 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.
143. Expands the exemptions available to farmers to include fencing, certain building materials, and services rendered to such property. Also changes the refund or credit available to farmers for tax paid on motor vehicles to an exemption at the time of retail sale.
144. 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.
145. 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.
146. Exempts computer system hardware used to design and develop Internet web sites for sale.

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

Tax Cuts Enacted in 2000

148. 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.

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

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

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

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

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

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

155. 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.

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

157. Exempts boats sold to nonresidents.

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

Tax Cuts Enacted in 2001

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

Tax Cuts Enacted in 2002

160. 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.

Tax Cuts Enacted in 2004

161. Exempts sales tax on parts used exclusively to maintain, repair, overhaul or rebuild aircraft or services.

162. Provides sales tax refunds and credits for certain vessels used to provide transit service and certain related property and services.

Other Taxes

Tax Cuts Enacted in 1995

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

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

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

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

167. Reduces the tax on pari-mutuel wagering.

Tax Cuts Enacted in 1996

168. Repeals the real property gains tax.

169. 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

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

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

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

Tax Cuts Enacted in 1998

173. 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.

174. Reduces motor vehicle registration fees for passenger cars by 25 percent. Allows for a refund of motor vehicle

registration fees in cases where the registration is surrendered before the registration period is half over.

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

176. Reduces the truck mileage tax by 25 percent.

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

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

Tax Cuts Enacted in 1999

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

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

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

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

183. Caps exhibitions' tax.

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

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

186. 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

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

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

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

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

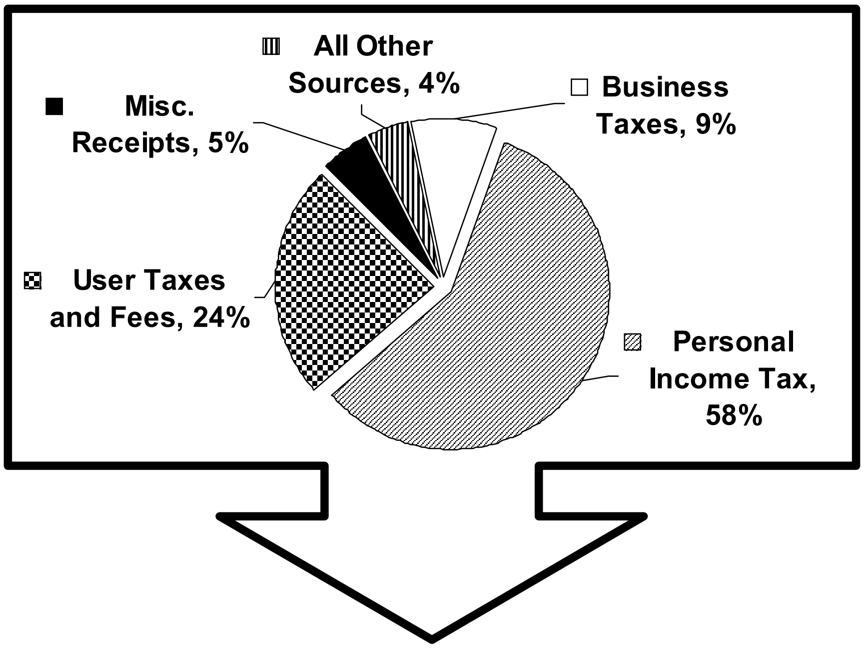
Tax Cuts Enacted on 2002

191. 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.

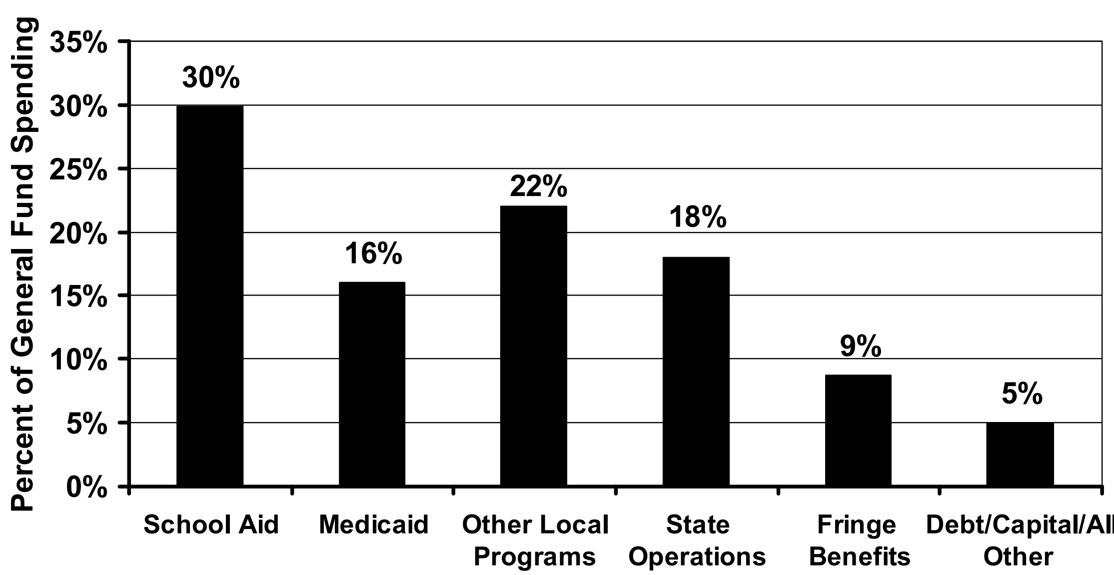
192. Extends until September 1, 2005, the lower real estate transfer tax rate for property transferred into an existing REIT.

2005-06 General Fund Budget

Where It Comes From

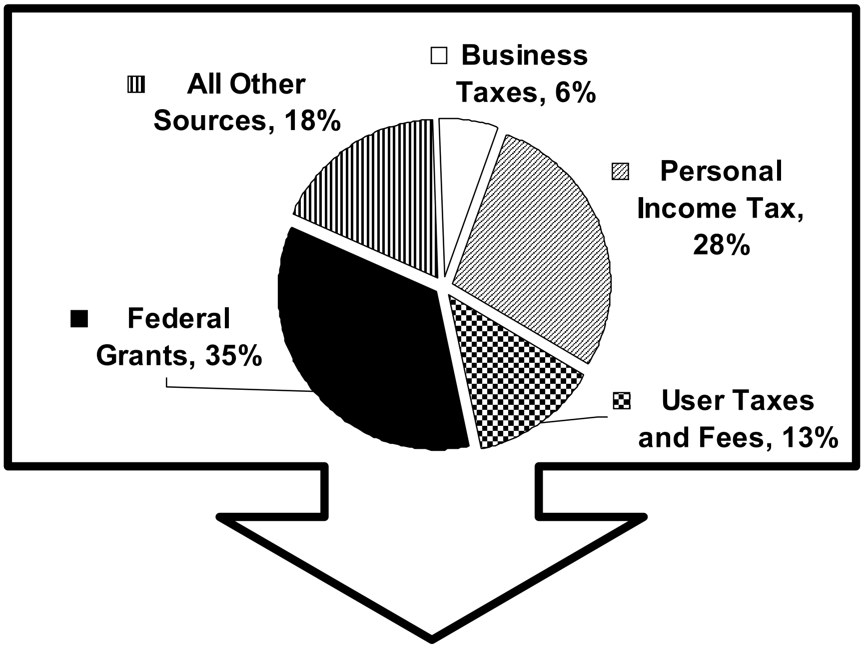


Where It Goes



2005-06 All Funds Budget

Where it Comes From



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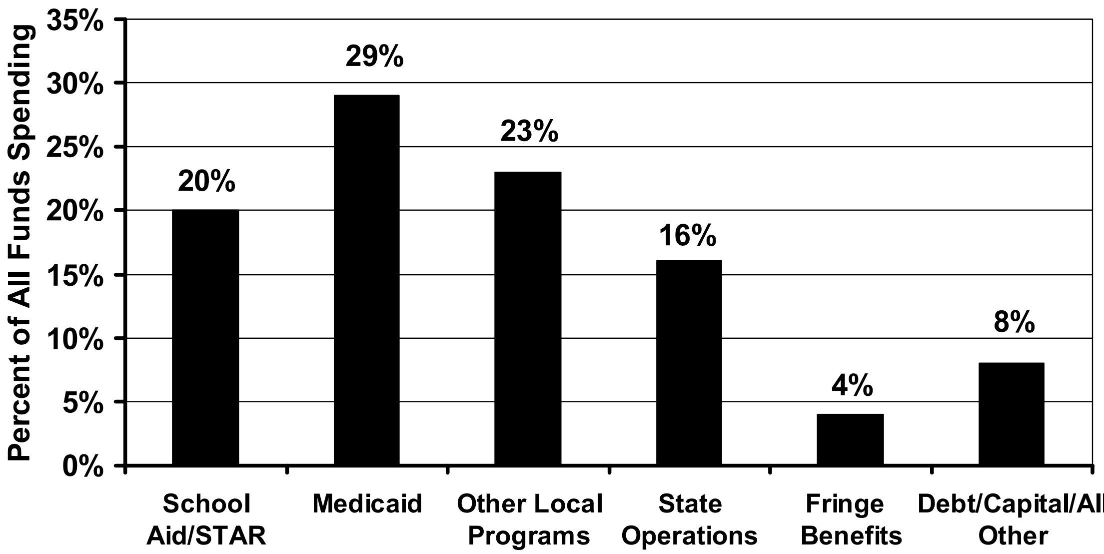

Citizen's Guide

The Citizen's Guide to the Executive Budget

The Executive Budget process and key Budget document formats are governed 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 fulfill these requirements, this Budget includes three volumes and several bills. The first volume, *Executive Budget Overview*, contains the Budget Director's Message, which presents the Governor's fiscal blueprint for 2005-06 and outlines the State's Financial Plan. It also includes highlights of major initiatives, and a list of the legislative proposals needed to implement the proposed Budget.

Division of the Budget Website

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.

The second volume, the *Financial Plan,* summarizes the Governor's Executive Budget and describes the "complete plan" of spending and revenues required by the Constitution. It also explains the specific sources of State revenues (including the economic outlook for the nation and the State) and presents the Capital Plan.

Finally, the *Agency Presentations* volume 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 agency "story" tables. This volume also includes the budget requests of the Legislature and Judiciary, which are submitted without revision as required by the Constitution.

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

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

Other bills 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.

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. 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.

The Legislature has at times 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 develop joint recommendations, amend the Governor's proposed bills to reflect their decisions and pass the amended bills. These final bills are available from the legislative document rooms.

Except for appropriations for the Legislature and the Judiciary, appropriations proposed by the Governor become law immediately when passed by the Legislature. 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 such items selectively, while approving the remainder of the bill.

Chapter numbers are assigned to bills that become law. For any bill or item of appropriation that is vetoed, the Governor provides a "veto message" to the Legislature stating his reasons for the veto. Vetoes may be overridden by a two-thirds vote of each house of the Legislature, in which case the vetoed item or bill becomes law despite the Governor's objections.

After 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.

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.

Strategic Partnership for Upstate Resurgence (Operation SPUR)

- Establish Operation SPUR and authorize the issuance of bonds for purposes of the program.
- Create a SPUR initiative that permits a wage tax credit for employers that create at least fifty new jobs in areas participating in SPUR.
- Create a SPUR tax incentive to provide a new business allocation percentage and eliminate the alternative minimum tax rate for manufacturers making investments or creating jobs in areas participating in SPUR.
- Create a SPUR tax incentive that permits the conversion of tax losses into a refundable tax credit for employers making investments or creating jobs in areas participating in SPUR.
- Extend and reform the Empire Zones program.
- Extend the Power for Jobs program until December 31, 2006.

Public Protection and General Government

- Clarify the authority of the Department of Civil Service regarding the administration of the Employee Health Insurance Fund.
- Authorize deposits, temporary loans for various funds, cash transfers between funds and bonding authorizations; propose provisions relating to general fiscal and debt management issues.
- Permit a new standard using "aggregate weight" for lab analysis of illegal drug evidence.

- Provide for independent review and public comment on pension funding changes, and reconsideration of the 2005-06 contribution rates.
- Extend for five years authorization to deposit all rental receipts from State armories into the Armory Rental Account.
- Extend the Tuition Recruitment and Incentive program for members of the State's organized militia.
- Authorize comprehensive mandate relief initiatives for localities.
- Increase the maximum civil penalty for unfair and deceptive business practices and false advertising.
- Merge the Public Employment Relations Board and the State Employment Relations Board to create the State Labor Relations Board.
- Establish annual information submission and filing fees for the State Labor Relations Board.
- Extend the Temporary State Commission of Investigation for an additional six years.
- Make permanent the authorization for awarding emergency construction contracts of up to $200,000 without competitive bidding.
- Make permanent the authorization for up to 15-year real estate leases for State agencies.
- Authorize the use of owner-controlled insurance by State agencies, public authorities, and municipalities.
- Permit quarterly reimbursement to the Office of Court Administration from the Indigent Legal Services Fund.
- Make permanent the authorization for centralized purchasing of commodities and services.
- Facilitate the merger and consolidation of local governments.
- Extend the period in which the Division of Parole can process a parole violation warrant for certain out-of-State parole violators.
- Extend for one year the authorization to fund part of the State's public safety efforts with motor vehicle law enforcement fees.
- Add electricity, insurance and risk management to the list of OGS services available to State agencies, public authorities and municipalities.
- Extend for five years various criminal justice programs and fees.
- Create a new Aid and Incentives for Municipalities (AIM) Program.
- Clarify the administration of the State and local wireless communications service surcharges and dedicate all State surcharge revenues to public safety and security activities.
- Provide compensation for the State employee-victims who were killed or injured during the 1971 inmate uprising at the Attica Correctional Facility, or their survivors.
- Create a new Co-STAR tax rebate for eligible STAR recipients throughout New York State.

- Authorize the use of traffic law enforcement cameras at work zones, dangerous stretches of highway and traffic-light intersections.
- Merge the Division of Probation and Correctional Alternatives into the Division of Criminal Justice Services.
- Raise the compensation for the position of Superintendent of State Police, to be commensurate with the current duties and responsibilities of this position.

Education, Labor and Family Assistance

- Conform the asbestos handling license renewal fee with the initial application fees that were increased in 2004-05.
- Protect taxpayers from escalating school taxes and maintain the value of their STAR savings by placing limits on school budget increases.
- Align fiscal responsibility for tenured teachers' disciplinary hearings with the local school districts initiating such hearings.
- Establish a tuition policy at SUNY and CUNY that authorizes the Trustees to charge differential tuition based on the costs of educating students at various campuses and to set tuition rates prior to enactment of the State Budget.
- Authorize the SUNY Trustees to index tuition increases to an inflator for entering students; freeze tuition for four years for incoming students; and authorize differential tuition rates for medical students agreeing to serve in a public capacity.
- Establish a new scholarship program for families of victims of the American Airlines Flight 587 crash.
- Amend language establishing a Higher Education Capital Matching Grant Board to authorize the Board to establish a formula to award capital grants to private colleges, and to award competitive grants to public and private colleges and universities.
- Establish a new Partnership to Accelerate Completion Time (PACT) program and direct the SUNY/CUNY Trustees to modify the campus allocation process to reward campuses for timely and successful graduations.
- Modify the Tuition Assistance Program (TAP) to provide incentives for timely graduation for first-time recipients in 2005-06, create a Tuition Assistance Loan program and reform certain TAP eligibility criteria.
- Authorize the SUNY Board of Trustees to transfer the operations of the SUNY hospitals to one or more private not-for-profit corporations, and direct the Board to develop a plan for such transfer.
- Transfer the State Education Department's Vocational Rehabilitation portion of the VESID program to the Labor Department; transfer the administration of the Workers' Compensation Board to the Labor Department; eliminate antiquated boards and councils, including the Hazard Abatement Board and the Capital Abatement Program; and add a Compliance Assistance component to the existing Office of Safety and Health Training and Education Program.

- Provide for the support of the Summer School of the Arts, NYS Theatre Institute and the Performing Arts Center Corporation from funds of the Cultural Education revenue account.
- Streamline the Library Aid program and make technical amendments.
- Reduce placements of Persons-In-Need-of-Supervision (PINS) in detention facilities and make services available to PINS in their communities.
- Establish a New York Institute for Cultural Education (NYICE) that would be responsible for the 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.
- Establish the Public Broadcasting Facilities Assistance Program, authorizing issuance of authority bonds to provide matching grants for capital improvement projects of public television and radio stations.
- Realign 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 Safety Net work participation rate for singles from 90% to 50% and enforce penalties.
- Authorize withholding of the entire welfare grant if the head of the household does not fulfill his or her employment obligation.
- Transfer Department of Labor welfare employment programs to the Office of Temporary and Disability Assistance to provide comprehensive services to harder-to-serve public assistance recipients.
- Initiate accountability and efficiency reforms for school districts and BOCES, including the creation of a new Office of Educational Accountability and Efficiency to ensure the opportunity for a sound basic education for all children.
- Provide reforms to the State's education finance system through the establishment of Flex Aid and Sound Basic Education Aid, modifications to Building Aid and other changes.
- Establish fiscal penalties for social service districts that do not engage a minimum number of their Family Assistance population in work-related activities.
- Create a "Strengthening Families through Stronger Fathers" initiative for younger, non-custodial parents to supplement their income through an enriched Earned Income Tax Credit.

Health and Mental Hygiene

- Improve public health services by eliminating low-priority programs, implementing cost saving measures and facilitating access to the Medicare prescription drug benefit for low-income EPIC enrollees.
- Reauthorize the Health Care Reform Act (HCRA) and enact proposals to preserve its fiscal stability, advance health care reform initiatives and authorize additional non-profit insurance company conversions.

- Restructure the State's Medicaid Program through measures that reduce costs, enhance revenues and maintain access to health care services and advance an initiative to limit local Medicaid costs, leading to a full State takeover in 2008.
- Close the Middletown Psychiatric Center on April 1, 2006 and require that all savings from the facility closure be reinvested to expand State-operated community services.
- Reauthorize the Naturally Occurring Retirement Community (NORC) Program for two years.
- Merge the Office of Advocate for Persons with Disabilities and the Commission on Quality of Care for the Mentally Disabled.

Economic Development and Environmental Conservation

- Authorize funding for the Cornell Supercomputer.
- 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 certain State agencies to finance their activities with revenues from assessments on public utilities and cable companies.
- Authorize assessments on utilities to be used for New York State Energy Research and Development Authority research and development costs.
- Make permanent the general loan powers of the New York State Urban Development Corporation.
- Increase penalties for food and other health violations.
- 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.
- Increase license fees for insurance agents and brokers.
- Increase Title V operating permit program emission fees on stationary sources of air pollution.
- Repeal the requirement for mandatory annual food safety inspections and authorize the Department of Agriculture and Markets to conduct inspections on a risk-based frequency.
- Extend pesticide registration fees.
- Create the New York State Gaming Commission to oversee video lottery gaming, horse racing and tribal State compacts, and increase the regulatory fee on horse racing.
- Increase the video lottery payments to education from 61 percent to 90 percent of net machine income and permit eight new facilities to be licensed.
- Extend the Department of State's authorization to administer the Federal Community Services Block Grant program.
- Increase Insurance Department service of process fees.

- Increase all-terrain vehicle (ATV) registration fees and establish an ATV program.
- Extend the Department of State fees for special handling of information and licensing requests.
- Authorize Urban Development Corporation bonding for the Technology and Development program.
- Authorize additional purposes for the Environmental Protection Fund.
- Establish a new Wetlands program and permit fees.
- Provide authorization for $300 million in support of the New York Sports and Convention Center.

Transportation

- Extend the State vehicular drug penalty standards and conform the standards to Federal requirements.
- Conform the State commercial driver's license law to Federal requirements.
- Increase various Department of Motor Vehicle fees to help fund the new five-year transportation capital plan.
- Create a criminal penalty for aggravated loitering in a transportation facility to deter the unauthorized sale of MetroCard swipes in Metropolitan Transportation Authority facilities.
- Add Seneca and Orleans counties to the Rochester Genesee Regional Transportation Authority (RGRTA) service district.
- Reorganize the Metropolitan Transportation Authority to establish new subsidiary companies that combine like functions, to promote operational and administrative efficiencies.
- Increase the Dedicated Highway and Bridge Trust Fund bond cap to support the new five-year transportation capital plan.
- Provide the annual and five-year authorizations for CHIPS and Marchiselli programs for the new five-year transportation capital plan.
- Conform the State vehicular alcohol penalty standards for open container offenses to Federal requirements.
- Conform the State manual on traffic control devices to Federal standards.
- Close a loophole that allows improper double recovery for employees injured in certain Metropolitan Transportation Authority facilities.
- Authorize the Department of Transportation, the Thruway Authority and the Metropolitan Transportation Authority to enter into partnership agreements with public and private entities and to utilize innovative financing techniques to fund transportation facilities in the new five-year transportation capital plan.
- Authorize the Department of Transportation and the Thruway Authority to utilize a design-build project delivery process for a limited number of capital projects.

Revenue

- Allow the direct shipment of wine to individuals in New York State from out-of-State wineries.
- Change how non-residents compute the credit for long-term care insurance.
- Authorize the Tax Department to arrange reciprocal offset tax agreements with New York City and other states.
- Increase the income level at which the filing of personal income tax returns is required.
- Make permanent the sales tax reporting requirements for Manhattan parking vendors.
- Increase the excise tax on wine from 5 cents to 28 cents per liter and use the portion of the increase paid by New York wineries to promote New York wine.
- Make permanent the temporary increase in limited liability company fees enacted in 2003.
- Ease restrictions on Quick Draw and make the game permanent.
- 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.
- Replace the permanent clothing and footwear sales tax exemption with two $250 exemption weeks.
- Accelerate the phase-out of the temporary personal income tax surcharge enacted in 2003.
- Provide two sales tax exemption weeks for certain “Energy Star” items.
- Require electronic filing of personal income tax returns by large tax preparer firms.
- Require tax clearance to obtain certain State licenses and contracts.
- Restructure and expand the alternative fuel vehicles program.
- Close the loophole regarding tax treatment of real estate investment trusts (REITS) and regulated investment companies (RICS) to conform to Federal and New York City tax treatment.
- Increase the capital base cap under the Article 9-A Corporate Franchise Tax from $350,000 to $1,000,000.
- Enhance the Green Buildings Program to allow for an additional $25 million in tax credits.
- Remove the premiums tax exclusion for certain insurance companies that are currently exempt as county cooperative insurance corporations.
- Adopt tax shelter provisions based on Federal provisions.
- Create a new State STAR credit under the personal income tax to protect the STAR benefit from the effects of inflation.
- Safeguard the flow of funds to the State under the tobacco master settlement agreement (“MSA”).
- Compensate the State for any reimbursements, refunds, overpayments, adjustments, or other modifications to local revenues or payments.

Summary Of Changes

Major Agencies

Office of Alcoholism and Substance Abuse Services

Office of Children and Family Services

Department of Correctional Services

Economic Development

State Education Department

Department of Environmental Conservation

Department of Health

Higher Education Services Corporation

Medicaid

Office of Mental Health

Office of Mental Retardation and Developmental Disabilities

Office of Parks, Recreation and Historic Preservation

State University of New York/City University of New York

Office of Temporary and Disability Assistance

Department of Transportation

Office of Alcoholism and Substance Abuse Services

($000s)

	All Funds 2005-06
Prior Year Estimated Spending	$467,249
Additional cost of continuing current programs	18,358
Compulsive Gambling Education and Treatment Program enhancement	1,000
Targeted funding enhancements to improve existing residential chemical dependence services	8,500
Various State Operations and Local Assistance efficiencies	(13,600)
Recommendation	$481,507
Change From 2004-05	$14,258

Office of Children and Family Services

($000s)

	General Fund 2005-06
Prior Year Appropriation	1,523,066
Adoption Subsidy claiming growth	12,000
Child Welfare claiming growth	4,500
Committee on Special Education claiming growth	11,600
Office of Mental Health Waiver	2,340
Medicaid Per Diem growth	2,000
Detention Reform – Community-based services for persons-in-need-of-supervision (PINS)	5,200
Other Local Assistance spending changes	4,861
Youth Facility Bed Reductions	(3,679)
Evidence-based Community Initiative (EbCI) programs	1,214
Use of Federal and other non-General Funds	(3,292)
Other State Operations spending changes	8,726
Recommendation	$1,568,536
Change From 2004-05	$45,470

Department of Correctional Services

($000s)

	General Fund 2005-06
Prior Year Estimated Spending	**$2,054,339**
Non-recurring 27th institutional payroll	(58,500)
Non-recurring 2003-04 health services liabilities	(35,000)
Cost of continuing current year programs	9,083
Recommendation	**$1,969,922**
Change From 2004-05	**($84,417)**

Economic Development

($000s)

	General Fund 2005-06
Prior Year Estimated Spending	$102,973
Restore General Fund support for core economic development programs (Public Authority resources were utilized in 2003-04 and 2004-05)	42,025
Estimated disbursements for Operation SPUR Local Assistance component	10,000
Various operating and program funding reductions	(10,235)
Recommendation	$144,763
Change From 2004-05	$41,790

State Education Department

($000s)

SCHOOL AID / STAR	Total 2005-06 School Year Funding
Prior Year School Aid Funding	$15,337,290
Sound Basic Education Aid	324,870
Increased funding for Flex Aid	121,500
Public excess cost aid increase for special education	79,990
Building and transportation aid increases	76,270
Tax Limitation Aid increase	30,460
Establishment of the Fund for Innovation	15,000
Increased funding for school audits	2,650
Creation of Academic Achievement Awards	500
Alignment of public and private special education financing	(96,440)
BOCES aid and Special Services aid reductions	(20,800)
Formula-driven changes in various aid programs	(7,800)
School Aid Subtotal	$15,863,490
Prior Year School Tax Relief (STAR) Funding	$3,072,000
STAR increase due to participation growth and local tax increases	187,000
STAR change for New York City's personal income tax benefit	(37,000)
STAR savings generated by the proposed school spending cap	(20,000)
STAR Subtotal	$3,202,000
Prior Year Total for School Aid and STAR	$18,409,290
Recommendations for School Aid and STAR	$19,065,490
Change from 2004-05	$656,200

State Education Department

(continued)
($000s)

	General Fund 2005-06
Prior Year Estimated Spending	$1,488,140
Increased payments for preschool and summer school special education programs due to enrollment growth and increased program costs	30,575
Increased preschool special education costs attributable to Chapter 57 of the Laws of 2004	17,000
Increased funding for statutorily mandated costs including aid for Native American education and non-public schools	12,460
Net annualization of programs added/eliminated in the 2004-05 school year	11,605
Increased funding to State-supported "4201" private schools for the blind and deaf	1,539
Restoration of the School Safety Center and Civility, Citizenship and Character education programs	476
Elimination of certain grants for individual school districts and one-time cash disbursements	(65,031)
Reductions and re-estimates for existing programs	(15,023)
Efficiencies and transfers of state operations costs to special revenue	(4,807)
Net annualization of savings and projected spending increases	827
Recommendation	$1,477,761
Change From 2004-05	($10,379)

Department of Environmental Conservation

($000s)

	General Fund 2005-06
Prior Year Estimated Spending	$114,805
Decreased costs associated with the 2004-05 one-time deficiency appropriation for labor settlement	(6,359)
Net Adjustment to reflect increased fixed costs, contractual salary increases and other fund shifts	(1,052)
Recommendation	**$107,394**
Change From 2004-05	**(7,411)**

Capital Funds	All Funds 2005-06
Prior Year Estimated Spending	$602,767
Increased spending for the Superfund program	13,000
Increased spending for the 1996 Clean Water Bond Act	117
Increased spending for the Environmental Protection Fund	4,000
Transfer to the Environmental Protection Fund and other net adjustments	(11,336)
Recommendation	**$608,548**
Change From 2004-05	**$5,781**

Department of Health

($000s)

	General Fund 2005-06
Prior Year Estimated Spending	$704,977
Early Intervention Program spending growth	16,500
General Public Health Works Program spending growth	11,750
Realignment of Temporary Assistance for Needy Families (TANF) surplus funds	20,225
Fixed cost increases and other adjustments as offset by non-personal service efficiencies	5,477
Administration of nursing home criminal background checks	500
Repeal non-essential programs	(700)
Recommendation	$758,729
Change From 2004-05	$53,752

Higher Education Services Corporation

($000s)

	General Fund 2005-06
Prior Year Estimated Spending	$949,898
TAP growth reflecting higher award levels	29,421
Funding for new American Airlines Flight 587 Memorial scholarships	400
TAP restructuring including TAP loan program	(161,052)
TAP reforms to strengthen academic standards and eligibility criteria	(26,000)
Use of special revenue funds for the Aid for Part-Time Study program	(14,630)
Increased federal grants	(4,422)
Recommendation	$773,615
Change From 2004-05	($176,283)

Medicaid

($000s)

	Total Spending 2005-06
Prior Year Estimated Spending	$44,464,800
Growth in entitlement spending	$2,832,900
Modify Family Health Plus benefit package and close eligibility loopholes	($734,700)
Hospital reimbursement actions, including reform of Graduate Medical Education (GME) financing	($624,000)
Reform of the nursing home payment system and other reimbursement actions	($392,500)
Implement measures to ensure cost effective use of pharmaceuticals	($253,200)
Eliminate certain optional services including non-emergency adult dental, private duty nurses, audiologists, psychologists and podiatry clinic visits	($204,600)
Freeze premium increases and cap marketing costs for Medicaid managed care	($149,200)
As part of the reform of the long term care system, close existing eligibility loopholes	($62,500)
Advance other efficiency measures including modifying transportation program requirements, establishing various utilization controls, maximizing other revenues and achieving administrative efficiencies	($57,900)
Freeze managed long term care premiums and reduce home care administrative costs	($35,500)
New funding for home care demonstration programs, long-term care restructuring planning, nursing home criminal background checks and transitional assistance payments for counties outside of New York City	$34,100
Recommendation	$44,817,700
Change From 2004-05	$352,900

Office of Mental Health

($000s)

	General and Offset Funds 2005-06*
Prior Year Estimated Spending	**$1,945,691**
General salary increases and other program annualizations and adjustments	57,109
Annualization of initiatives to expand forensic programs for inmates in State correctional facilities	3,500
Annualization of 2004-05 Community Mental Health Support and Workforce Reinvestment for adults and children	7,200
Local enhancement to increase stipends for Supported Housing programs	4,871
Local enhancement for Article 31 mental health outpatient programs	6,000
Various State Operations and Local Assistance efficiencies, including revenue maximization for local programs	(23,979)
Recommendation	**$2,000,392**
Change From 2004-05	**$54,701**

* Includes Health Care Reform Act (HCRA) funds

Office of Mental Retardation and Developmental Disabilities

($000s)

	All Funds 2005-06
Prior Year Estimated Spending	$2,816,190
Additional cost of continuing State-operated programs	23,740
Additional cost of continuing not-for-profit programs including NYS-CARES expansion	100,390
Expand State-operated community integration services	5,780
New York State – Options for People Through Services (NYS-OPTS)	14,500
Various State Operations and Local Assistance efficiencies	(37,718)
Recommendation	$2,922,882
Change From 2004-05	$106,692

Office of Parks, Recreation and Historic Preservation

($000s)

	General Fund 2005-06
Prior Year Estimated Spending	$106,711
Net adjustment to reflect costs of continuing current programs and operation of newly established parks	8,322
Decreased costs associated with the transfer of General Fund costs to other funds and non-personal service efficiencies	(7,135)
Recommendation	$107,898
Change From 2004-05	$1,187

Capital Funds	All Funds 2005-06
Prior Year Estimated Spending	$30,275
Decreased spending associated with planned bondable commitments	(2,590)
Transfer Parks capital to the Environmental Protection Fund	(10,000)
New funding for Harriman State Park water quality improvements	10,000
Recommendation	$27,685
Change From 2004-05	($2,590)

State University of New York/ City University of New York

($000s)

	General Fund 2005-06
Prior Year Estimated Spending	$2,878,387
Annualization of savings and projected spending increases	39,312
Contractual salary costs	109,463
Prior year non-recurring contractual salary costs	(23,877)
Fringe benefits increase	132,381
Prior year non-recurring transfer for financial aid administrative costs	23,425
Funding for new Partnership to Accelerate Completion Time (PACT) program	4,563
Community college enrollment adjustment	3,110
Funding for SUNY College of Nanoscience	2,000
Additional revenue authorization	(112,287)
Additional fringe benefit recoveries and interest recoveries	(30,200)
Elimination of financial aid component of opportunity programs	(13,357)
Recommendation	$3,012,920
Change From 2004-05	$134,533

Office of Temporary and Disability Assistance

($000s)

	General Fund 2005-06
Prior Year Estimated Spending	**$1,539,754**
Welfare caseload and expenditure increase	$105,708
Proposed welfare eligibility and benefit changes	($9,757)
Realignment of TANF surplus funds	($190,875)
Loss of one-time credits in 2004-05	$48,961
Increase in reimbursement for local welfare employment administrative costs	$17,017
Decreased Federal funding for the Earned Income Tax (EITC)	($42,925)
State Operations Adjustments	$3,336
Recommendation	**$1,471,219**
Change From 2004-05	**($68,535)**

Department of Transportation

($000s)

	All Funds 2005-06
Prior Year Appropriations	$5,246,177
Replace decreased Federal aid	120,000
Increase in transit aid	193,833
Consolidation of transit reappropriations	24,000
Salary, fringe benefit and inflationary adjustments	53,793
Program consolidations and efficiencies	(5,717)
Recommendation	$5,632,086
Change From 2004-05	$385,909