STATE OF NEW YORK

GEORGE E. PATAKI
GOVERNOR

January 17, 2006

To My Fellow New Yorkers:

This year I submit to you my 12th and final Executive Budget. It has been a distinct honor to serve New York as your Governor over the last 11 years, and I look forward to a productive final year.

This Budget represents a unique opportunity to continue making progress toward our shared goal of making New York State a better place to live, work and raise a family, and I am determined to seize that opportunity for every New Yorker this year.

Since 1995, New York has faced many challenges. My administration faced a $5 billion budget deficit in 1995, which we eliminated in my very first Executive Budget. Eleven years later, despite the economic downturn caused by September 11th, the Budget Division now projects a $2 billion budget surplus for this fiscal year -- a remarkable turnaround by any objective measure.

With your help, we have overcome these challenges and others, and New York has emerged stronger, prouder and better. We are truly on the path to long-term fiscal stability.

Our long record of accomplishment could not have happened without the will of New Yorkers to confront the difficult challenges facing our State. But, we can not squander all that we have done. This year, we must continue to do more.

The 2006-07 Executive Budget that I am submitting to the Legislature builds on the progress we have made by charting an aggressive course to make New York State even stronger in the years to come. As we have in each of our Budgets, we are again leading the way on reform, requiring performance at every level of government, and strengthening the long-term fiscal integrity of New York State.

This Budget cuts taxes for businesses, taxpayers and families, while growing our economy. It advances record amounts of aid to local governments and provides our students with the resources they need to receive a first-class education. It supports innovative, new and multi-year initiatives to promote high-tech job growth and the development of renewable energy for citizens of the Empire State. And it ensures the financial stability of the Health Care Reform Act for years to come.

But, most importantly, the 2006-07 Executive Budget ensures that New York's future is far brighter than it was 12 short years ago.

Thank you for this once-in-a-lifetime opportunity to serve New York.

Very truly yours,

George E. Pataki

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Director's Message

Today, as Governor Pataki submits his 12th, his final Executive Budget, it is clear that the State's economic and fiscal condition truly reflect his State of the State assessment that New York is "strong, and getting stronger every day." What is also clear is the stark contrast between the State's finances today and when the Governor first took office.

In 1995, the State's economy was plagued by high taxes and riddled by job losses. The huge State government, too, was becoming increasingly anemic as it labored under its own weight. As the State's tax base could no longer support the government's appetite for spending, the prior administration turned to one-shots, gimmicks and tax reduction delays to balance their budgets. It was the equivalent of driving faster when you're almost out of gas, so you'd be closer to the station when you ran out, rather than slowing down and conserving fuel so you could make it.

Governor Pataki, working with the Legislature, changed all that. He brought strict discipline to the State's finances, sound management to the State government and vision and leadership to the State's economic strategy.

The results have been dramatic. State government is smaller, more efficient and more focused on serving the taxpayer. The State's economy is more diversified and stronger, as the Governor's vision of a vibrant downstate economy coupled with an upstate dominated by high-technology and innovation becomes a reality. And the State's finances are the strongest in decades. Credit ratings are up, taxes are down, the State's Rainy Day Fund is full, and overall reserves are at near-record levels – over $4 billion — more than 25 times the $157 million available when Governor Pataki took office. Our shared path to fiscal discipline enabled the State to assume the local share of Family Health Plus and stabilize local contributions to the Medicaid program in last year's budget, yet still have manageable out-year deficits. That's a far cry from the $5 billion dollar gap – or more that one out of every $7 dollars of planned spending that was unfinanced – when the Governor arrived.

We have learned to live on *less* than our means and return the balance to its rightful owners – the taxpayers. These are amazing accomplishments for which all of us can be rightfully proud.

This year, the way is clear to enact a responsible budget, *on time*, for the second year in a row. The danger, of course, is that in the face of improving finances, we lose sight of the discipline that produced them. The economic and geo-political risks remain. The danger of financial market volatility and a business-cycle downturn are real. And so too is the almost irresistible temptation to immediately spend the reserves we have worked so hard to set aside. That would be a mistake.

If we enact a budget that remains true to the Governor's principles, we can have an on time budget that meets the needs of all New Yorkers. And what's more, we will have met the highest standard for stewardship of the public trust: preserving the future for the people we serve.

Fiscal Outlook

A Legacy of Fiscal Integrity

Governor Pataki's fiscal reform agenda has restored order to New York State's finances. Taking office in 1995, the Governor faced a $5 billion deficit and an immediate need to put the State's fiscal house in order. In the eleven years since, State finances have been transformed.

- State spending has grown far more slowly than both the national average and the personal income growth of New Yorkers. (Figure 1).
- The Governor has brought the Rainy Day Fund to $945 million, its statutory maximum of 2 percent of General Fund spending. This represents a five-fold increase from the $157 million level in 1994-95. (Figure 2)
- $4 billion in total reserves have been set aside. This is the second highest level in State history – just below the pre-September 11th record amounts. Those unprecedented reserve levels were critical to the State's ability to respond to the aftermath of that day. (Figure 3)

Budget Highlights

- Provides billions in additional personal income and business **tax cuts**.
- Continues extensive **property tax relief** through funding for the Medicaid cap and Family Health Plus takeover.
- Sets aside billions of dollars in **new financial reserves** and creates recurring savings in State Operations.
- Improves the transparency of the budget process to aid budget deliberations and public debate.
- Advances comprehensive **budget and debt reforms** to preserve financial integrity.
- Funds **sound basic education aid** to comply with the Campaign for Fiscal Equity court ruling.

Unmatched Record of Restraining Spending Growth

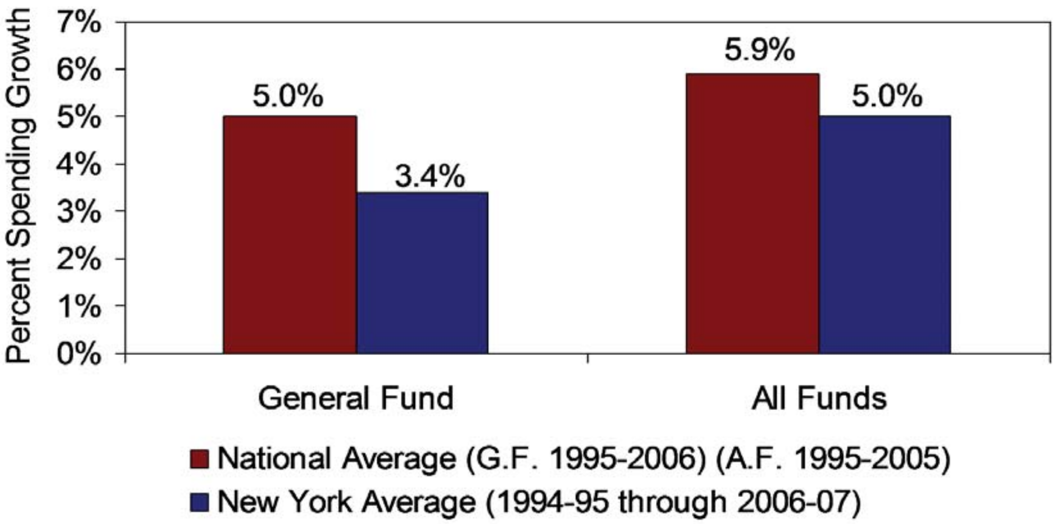


Figure 1

Governor Pataki has held spending growth in check since taking office. Since 1994-95, State spending has grown at an average annual rate well below other states. (Sources: National Association of State Budget Officers, DOB)

- Reliance on one-time resources, with the exception of a brief spike in the aftermath of September 11th, has been held to historically low levels, reducing the State's structural imbalance.
- Statutory debt limits have been enacted, high cost debt was eliminated with the use of surplus funds, and growth rates have been cut by approximately 50 percent, resulting in stable debt affordability measures.
- $1 billion has been used to reduce high cost debt, with another $250 million recommended for this purpose in the 2006-07 Executive Budget.
- More than 60 percent of the State's debt has been refinanced to capitalize on low interest rates, saving New York taxpayers over $2.5 billion in debt service costs over the life of the bonds or $1.6 billion in today's dollars. (Figure 4)

As a result of this performance, New York's credit rating is at its highest level in three decades. Since 1995, all three major rating agencies have upgraded the State's rating from the "A" category to the "AA" category.

Rainy Day Fund Reserve at Record Level

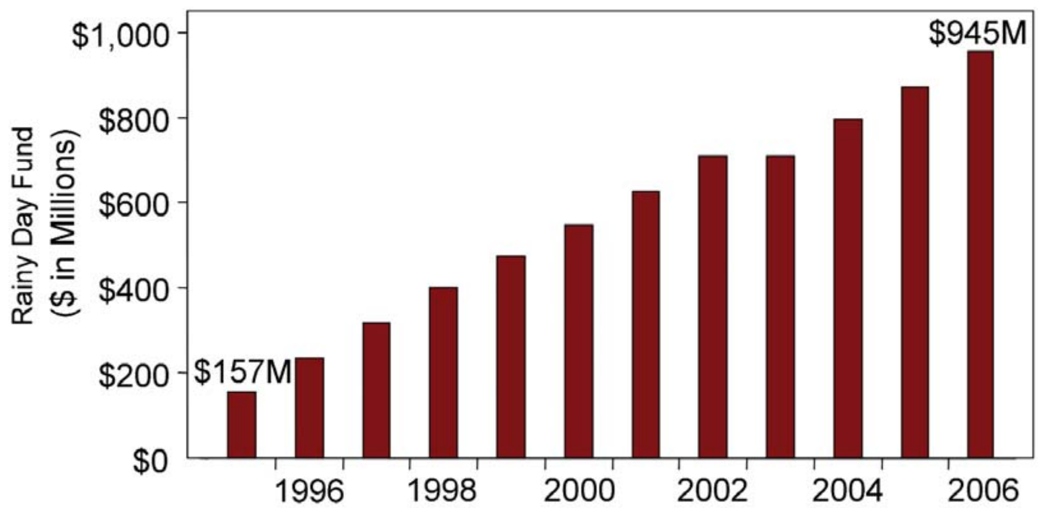


Figure 2

Under Governor Pataki, the State has made ten deposits to the Rainy Day Fund, bringing the balance in the Fund to the maximum level permitted by law.

Securing Permanent Financial Reform

Governor Pataki has been a strong and consistent advocate for meaningful budget reform and sound financial practices – from an open and transparent budget process to adopting accurate revenue estimates and responsible, affordable spending priorities.

Budget Reform: Making Budgets Timely, Transparent, and Affordable

The Governor is again calling on the Legislature to support sweeping reforms to fix the budget adoption process, ensure balanced budgets, and keep debt at affordable levels. The Governor's 2006-07 Executive Budget recommendations:

- Amend the Constitution to require the Legislature to enact a balanced budget.
- Give the Legislature until May 1 to enact the Budget, and move the start of the fiscal year to July 1, in line with 46 other states.
- Require legislative conference committees to reconcile budget differences in public each year.

Overall Reserves Increasing

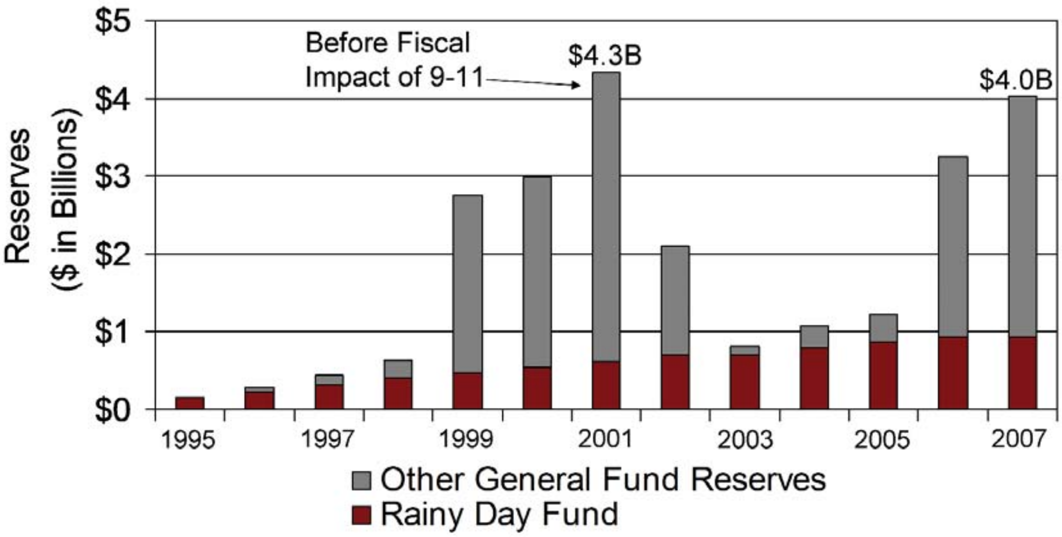


Figure 3

Under Governor Pataki, the State has set aside unprecedented levels of reserves which were critical to responding to the impact of September 11th. This Budget would dramatically increase reserves to near the level prior to September 11th.

Governor's Accomplishments:

- **Restrained spending growth** well below the national average and below the growth in personal income.
- Reserves at record high levels.
- **Highest credit rating** in three decades resulting in lower borrowing costs.
- Adoption of historic **debt and financial reforms.**
- Multi-year planning to improve the management of State spending.
- A smaller, more efficient workforce.

- Require "sunshine" reporting on the short- and long-term fiscal impact of budget changes at least three days prior to legislative action to enact the Budget.
- Increase the permanent Rainy Day Fund to a minimum of 5 percent of General Fund spending.
- Authorize the State Comptroller to (i) set a binding revenue forecast if the Legislature and Governor fail to reach consensus and (ii) ensure the Legislature has enacted a balanced budget.

NYS Debt Portfolio Refunding 1995-2005

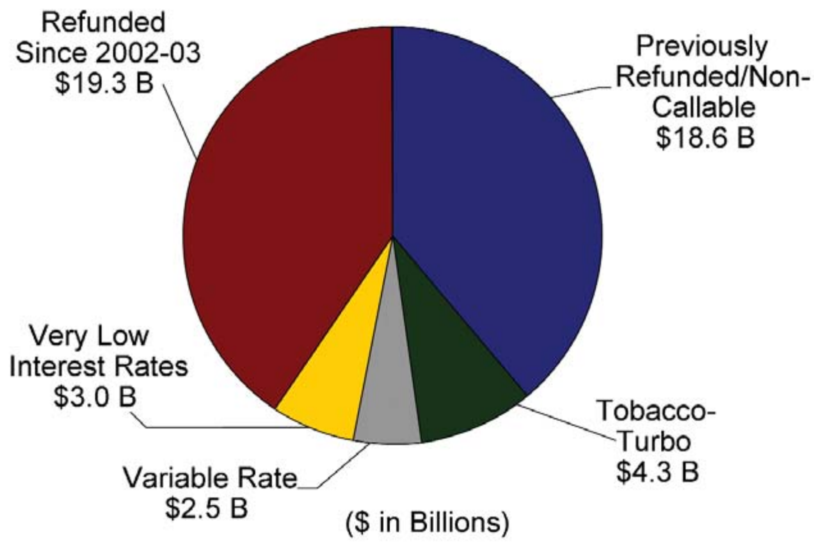


Figure 4

Since 1995, the State has modernized its debt portfolio by increasing variable rate debt, refinancing 60 percent of its debt portfolio, and using low interest rate swaps. This has saved taxpayers over $2.5 billion in debt service costs over the life of the bonds, $1.6 billion in today's dollars.

Debt Reform: Keeping Debt Affordable

Governor Pataki's historic debt reform agenda, enacted in 2000, helped New York restore its fiscal integrity and make it more accountable to taxpayers. The Governor will seek to continue improving the State's financial performance with additional constitutional reforms to:

- Ban "back-door" borrowing.
- Limit State debt levels to no greater than 4 percent of personal income.
- Limit debt service costs to 5 percent of the total budget.
- Limit debt to capital purposes only, and close existing loopholes that allowed the refinancing of billions of dollars of New York City debt from the 1970s.
- Require at least half of all new debt to be approved by the voters.

The Governor's plan also dedicates $250 million to reduce high cost debt — building on the $1 billion previously used for this purpose.

New York's Credit Rating Today Surpasses the Credit Rating of 1995

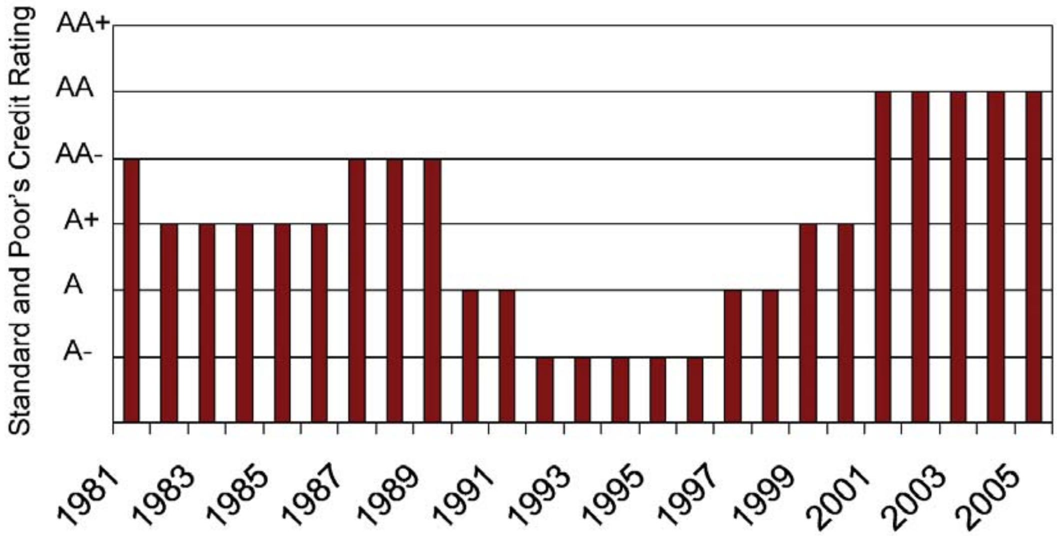


Figure 5

Under Governor Pataki, New York's credit rating was upgraded numerous times. New York is now at its highest credit rating from Standard & Poor's in 25 years and from Moody's in 30 years.

Continuing Fiscal Discipline

This Budget is consistent with the fiscal and management philosophy advocated by the Governor — an approach that has been well-received by rating agencies. Moody's Investor Services, one of three national bond rating firms, has raised New York's rating for general obligation debt from A2 to Aa3, its highest in more than 30 years. This upgrade not only reflects investor confidence in the State's overall fiscal health, but will save taxpayers millions in debt-related interest payments. (Figure 5)

The 2006-07 Executive Budget is a balanced plan that emphasizes reform, performance, and integrity. Highlights include:

- A record $2.8 billion in new reserves – in addition to the Rainy Day Fund - to help balance future budgets. General reserves now total nearly 8 percent, approaching the record level last reached in the months before September 11th.

Less Dependence on One-Time Resources Aids Long-Term Balance

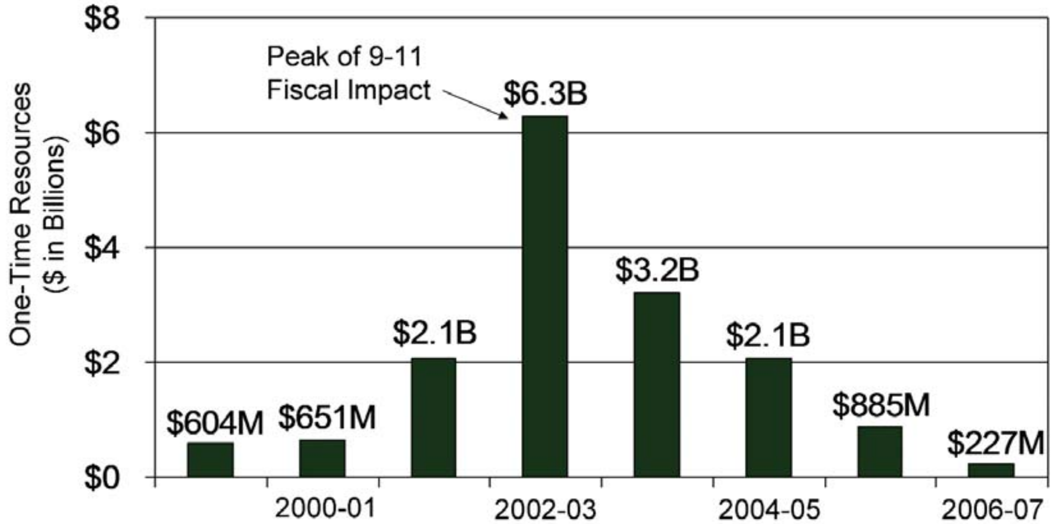


Figure 6

The 2006-07 Executive Budget relies on fewer nonrecurring resources than any Budget since September 11th and uses all of those one-time resources to pay off high cost debt. By balancing the Budget with a greater level of recurring resources, the current proposal makes it significantly easier to balance future budgets.

- Over $2 billion in recurring savings in the State's highest-growth programs, particularly Medicaid, that reduce the structural imbalance.
- Over $1.1 billion in local taxpayer relief for counties and New York City through implementation of the cap on local Medicaid costs and State takeover of the Family Health Plus Program.
- Spending growth held to 2.4 percent in the General Fund – excluding the cost of local property tax relief.
- A multi-billion dollar tax reduction program, valued at over $4.1 billion when fully phased in, in addition to the timely phase-out of the 2003 temporary personal income tax surcharge.
- State debt levels that are projected to decline as a percent of personal income from 6.3 percent in 2004-05 to 5.5 percent in 2010-11, the lowest level in 17 years.
- The use of one-time resources is decreasing. Moreover, this Budget uses one-time resources for debt reduction, not budget balance. (Figure 6)
- The Environmental Protection Fund has been returned to pay-as-you-go rather than bonded financing, which occured in the wake of September 11th.

Economic Growth

New York's Economy: Growing into the Future

Over the past eleven years, Governor Pataki's sustained agenda for economic growth has been predicated on multi-year tax reductions, targeted economic development investments and comprehensive regulatory reforms. This strategy has produced outstanding results and built a solid foundation for continued success. Under Governor Pataki:

- The State's unemployment rate has fallen from an average of 6.9 percent in 1994 to an average of 5 percent through November 2005 and 600,000 new private sector jobs have been created.
- In 2003, New York's colleges and universities invested a record $3.1 billion on research and development — a 15 percent increase from 2002, and the second highest level in the nation. These investments will return dividends well into the future in terms of new industries and jobs.
- New York's gross State product, a measure of the overall productivity of the State economy, increased by 37 percent between 1997 and 2004. This increase is comparable to those seen by the other Northeast and Mid-Atlantic states – despite the devastating effects of the September 11th attacks on New York City.

Budget Highlights

- Links the successful Centers of Excellence and Empire Zones programs by establishing **five new Zones** for businesses that have established relationships with Centers of Excellence.
- Accelerates the designation of **twelve** new Empire Zones for 2006 instead of over the course of four years, as originally approved.
- Expands the Empire Zone program to promote the development of the alternative fuels industry.
- Continues to foster growth of the State's high technology industry with **$475 million** of job-creating capital spending.
- Expands the Linked Deposit Program by **$60 million** to encourage expansion of small business.
- Implements the second year of an unprecedented **$35.9 billion** five-year State Transportation Plan, including **$1.85 billion** of highway and bridge projects in 2006-07.
- Increases operating aid to transit systems by **$380 million**, strengthening an energy-efficient transportation alternative.

Governor's Accomplishments

- The National Policy Research Council ranks New York State **first in the nation** for its overall business environment and New York City third among all metropolitan regions for its business environment.
- The Organization for International Investment ranks New York **second in the nation** for the "insourcing" of jobs, demonstrating New York's success in attracting foreign investment.
- The Office of Regulatory Reform has eliminated or reformed more than **2,900** unnecessary government regulations.
- Small Times Magazine lists New York State **fifth in the nation** in nanotechnology development.
- The Forbes/Wolfe/Nanotech Report named Governor Pataki a national leader in developing nanotechnology as a tool for economic growth.
- Expansion for Management magazine ranked three New York cities — Buffalo-Niagara Falls, Rochester, and Syracuse — among the top 50 places to do business in the nation.
- Business Facilities Magazine ranked New York **second in the nation** in the development of its biotechnology industry.
- Site Selection Magazine ranks New York State's business climate number **four in the nation** in attracting new and expanded corporate facilities.
- New Yorkers who rely on the Metropolitan Transportation Authority for travel to work and business have saved nearly **$5.6 billion** since 1996 as the result of the Governor's initiatives to provide MetroCard fare discounts and free inter-modal transfers.

- The Governor's Office of Regulatory Reform has eliminated or revised more than 2,900 regulations that added unnecessary time and expense to doing business in New York.

The Executive Budget continues the Governor's formula for strong economic growth by:

- — Reducing income, business and property taxes to maintain New York as an attractive place to live and work;
- — Creating incentives for companies to do business in New York through economic development programs and a more affordable and efficient State government;
- — Advancing new energy policies that reduce dependence on petroleum; and
- — Investing in New York's infrastructure, including modern transportation systems.

Sustained Tax Relief Fuels Economic Growth

Governor Pataki's unrelenting commitment to tax cuts has brought new life, strength and resilience to a private-sector economy that was stagnant just 11 years ago. The Governor's policy of lower taxes has invited new businesses to locate in New York and encouraged businesses already established in the State to stay or expand. Revenue growth, fueled by the Governor's tax reductions, has made possible record investments in education, local government aid, public safety and other quality of life improvements.

As the impact of the Governor's tax cuts continues to grow, New Yorkers are keeping a larger share of their earned income. The average taxpayer has already realized nearly $5,000 in personal income tax savings, a benefit that grows even larger under this Budget.

Since 1995, every major State tax has been cut, making New York the preeminent tax-cutting state in the nation. (Figure 7) The breadth and scope of these cuts are remarkable:

- New York has cut 19 different taxes 81 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, State tax collections per $1,000 of personal income were 3.6 percent below the national average.

Governor Pataki's Tax Cuts Lead the Nation

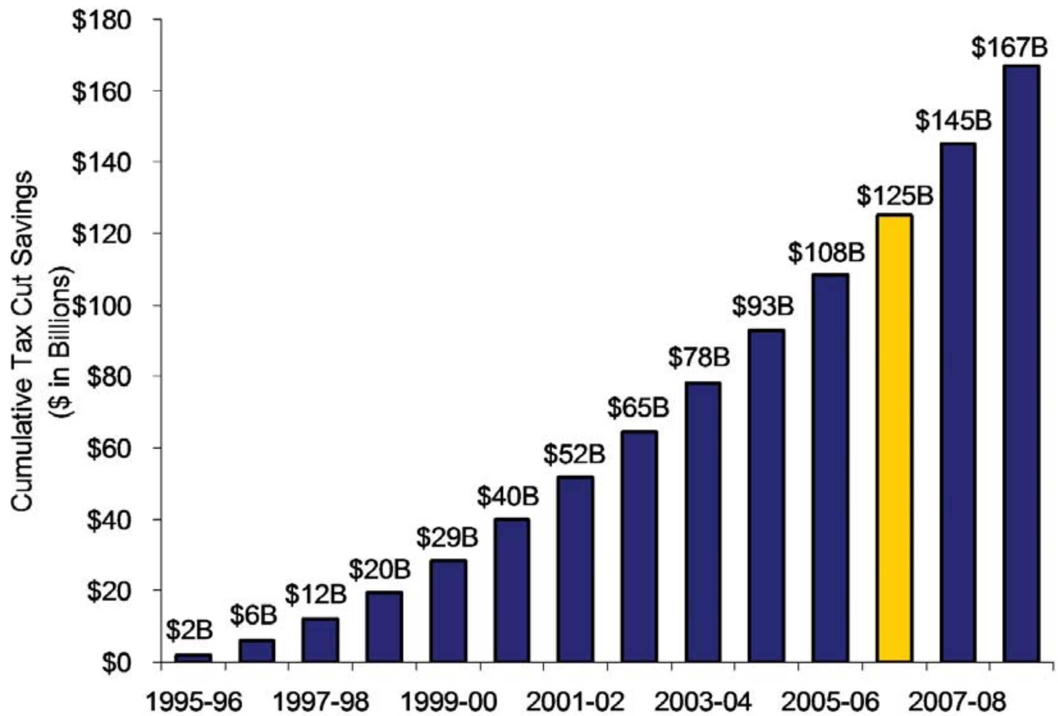


Figure 7

By 2006-07, taxpayers will have saved more than $125 billion as a result of Governor Pataki's tax cuts. Cumulative savings will total nearly $167 billion by 2008-09.

- On a cumulative basis, when all enacted tax cuts are phased-in, New Yorkers will have realized a savings of more than $167 billion:
  - — Personal income tax savings and business tax savings will reach nearly $81 billion and $33 billion, respectively;
  - — Local property tax and New York City tax savings from the STAR program will reach over $27 billion;
  - — Savings from consumption tax cuts will reach nearly $12 billion; and
  - — Savings from other tax cuts, including the reduction in the estate tax, the repeal of the real property gains tax and gift tax will surpass $9 billion.

Overall, the new tax reductions proposed by the Governor will generate an additional $50 billion in cumulative tax benefits by fiscal year 2010-11. (Figure 8)

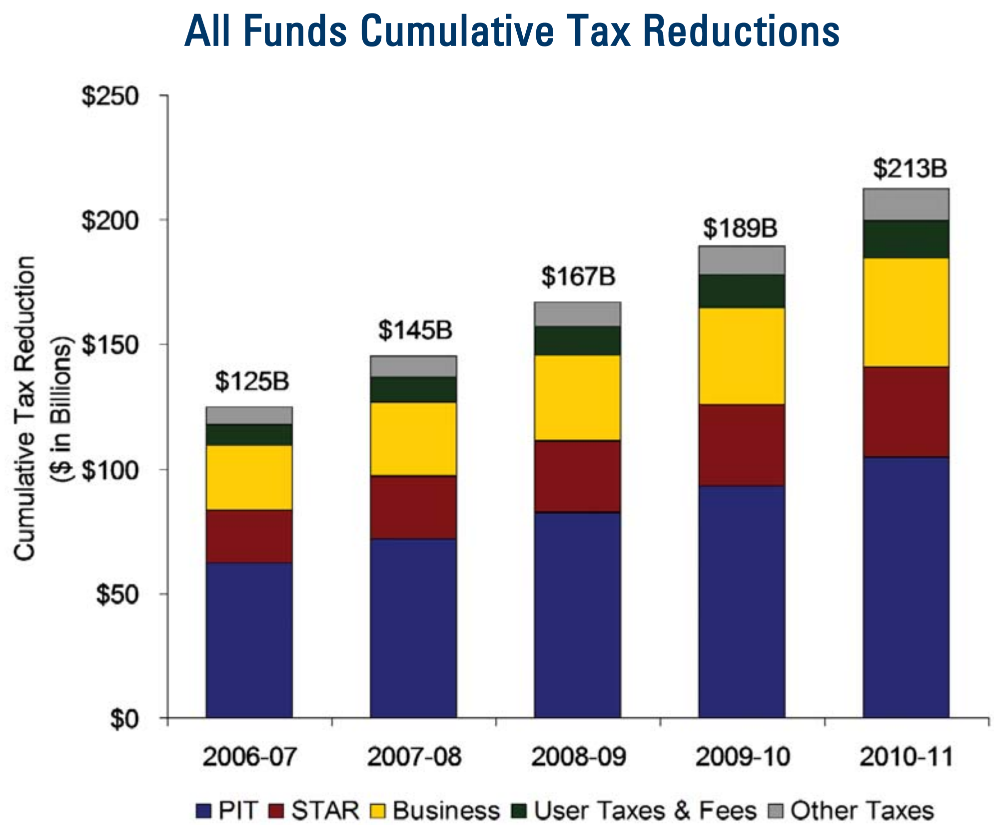


Figure 8

By 2006-07, the Governor's tax reduction plan will have saved taxpayers more than $125 billion – more than $80 billion on their personal income and property taxes alone. When fully effective, the cumulative savings to taxpayers will total over $213 billion.

Following Through on Tax Cuts

Governor Pataki's 2006-07 Executive Budget will provide New Yorkers with nearly $1 billion in new tax cuts, substantially benefiting families throughout the State while targeting additional relief to businesses. (Figure 9) This sweeping final installment adds to the more than $2 billion in taxpayer savings resulting from previously enacted tax cuts.

Income tax reductions are focused on lower and middle income taxpayers, continuing the program the Governor began in his first year in office. These tax reductions are achieved by eliminating the marriage penalty in the tax law, extending the benefits of lower rates to middle income taxpayers, reducing energy cost burdens on senior citizens, and providing tax relief to taxpayers with children in under-performing school districts.

Recommended All Funds Tax Reductions

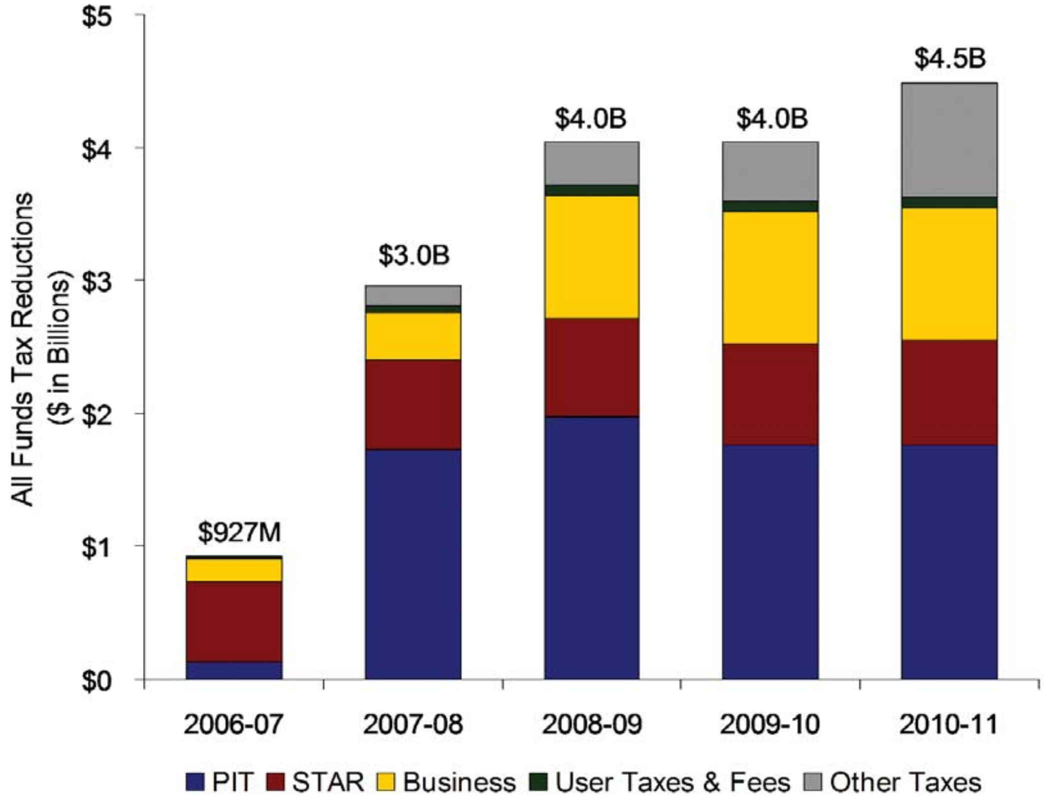


Figure 9

Additional reductions proposed by the Governor with this Budget save taxpayers nearly $1 billion in 2006-07 and in excess of $4 billion annually when fully effective.

Personal Income Tax

The Governor's tax reduction proposals (Figure 10) will provide this additional benefit to taxpayers in 2006 and 2007 by:

- Eliminating the marriage penalty, saving married couples $125 million in 2006-07 and $400 million annually by 2008.
- Reducing the top tax rate and raising the income level at which it becomes effective.
- Establishing a refundable credit for certain primary and secondary school expenses that will save taxpayers $400 million beginning in 2007.
- Expanding the Earned Income Tax Credit for non-custodial parents to save poor working families up to $3.5 million in 2006-07.

A family of four with income of $75,000 would receive $200 annually beginning in 2007. (Figure 11)

Personal Income Tax Reductions Save New Yorkers Billions of Dollars

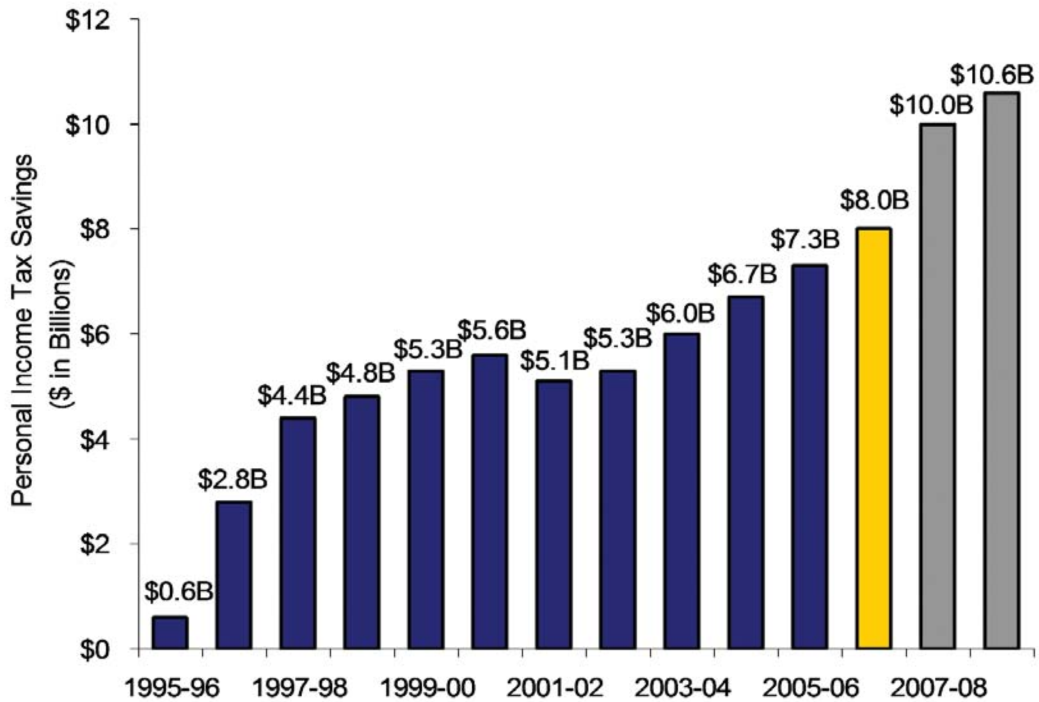


Figure 10

Governor Pataki's personal income tax reduction program, including recommended tax reductions in this Budget, will save taxpayers $8.0 billion in 2006-07. When fully effective, these initiatives will save taxpayers nearly $11 billion annually.

- Establishing refundable credits for:
  - — The home heating expenses of taxpayers age 65 and above with incomes below $90,000;
  - — The improvement of home energy efficiency; and
  - — The energy expenses of small businesses and farmers for a savings of $60 million.
- Retroactively indexing the STAR exemption for senior citizens to help this benefit keep pace with rising property values will provide $72 million in increased property tax relief and creating a new STAR PLUS rebate will provide $530 million in relief against rising school property taxes in 2006-07.

Taxpayer Savings from Personal Income Tax Reductions

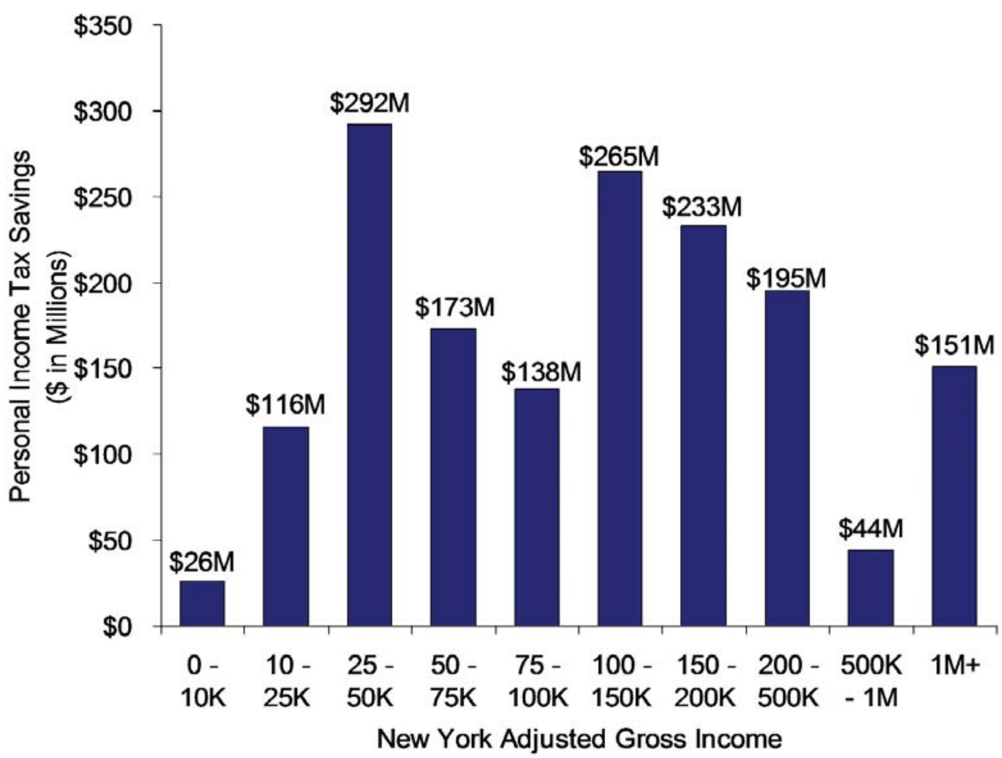


Figure 11

The Personal Income Tax reductions proposed by Governor Pataki in this Budget focus on lower to middle income taxpayers. These taxpayers will receive nearly $1.1 billion annually from this plan.

Business Taxes

Businesses would also realize additional tax savings of more than $175 million beginning in 2006 through:

- Allowing the immediate expensing of New York depreciable assets.
- Eliminating the additional Corporate Franchise tax imposed on subsidiary capital.
- Eliminating the S-corporation differential tax.
- Eliminating both the alternative minimum and capital bases.
- Establishing a new credit for the purchase of alternative fuel vehicles and for the purchase of alternative fuel.

- Extending the existing Empire Zones credit for high technology research facilities.
- Increasing the allocation of the low-income housing credit and making the credit permanent.
- Decreasing the minimum and maximum limitations imposed on taxes paid by life insurance companies.
- Extending Empire Zone benefits to qualified businesses by accelerating the designation of Empire Zones in 12 counties.

These new proposals, along with continuation of already scheduled tax cuts, sends a strong signal to the business community that New York will continue to build upon the progress we have made. (Figure 12)

Governor Pataki's Tax Cuts Benefit Business

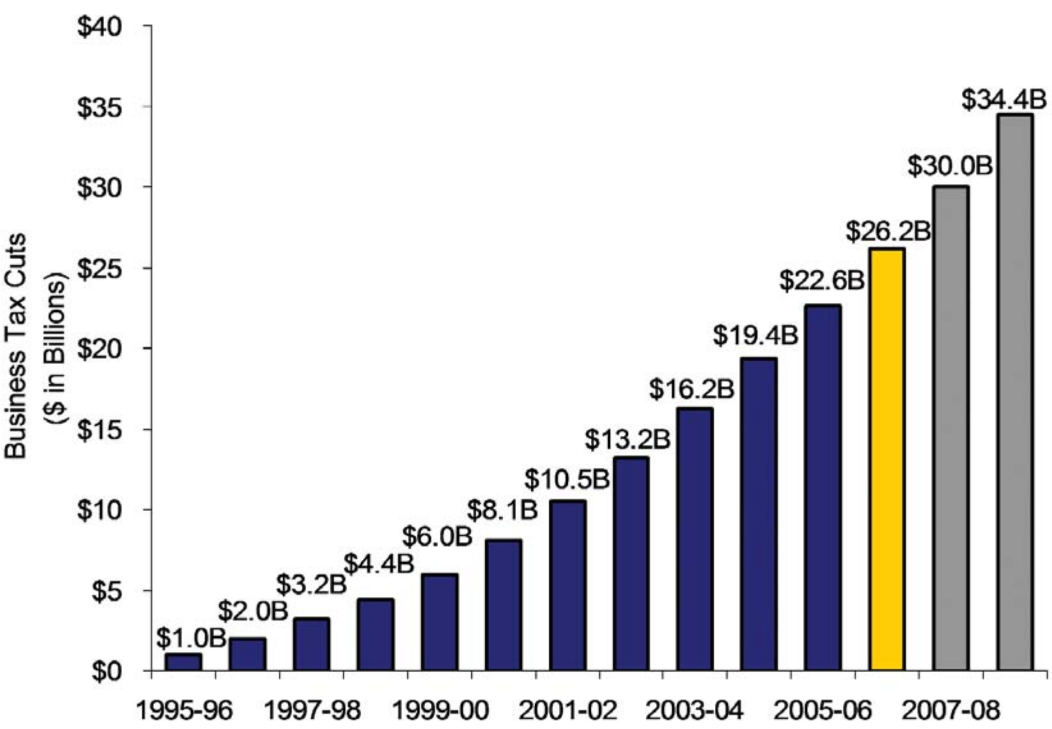


Figure 12

Businesses will save a total of $26 billion through 2006-07 and realize further savings as the multi-year tax reduction plans proposed in this Budget take effect. These savings will drive greater investment and expansion, and create more jobs for New Yorkers.

Strengthening New York's Economy

New York has the 11th largest economy in the world. The 2006-07 Executive Budget combines tax reductions with targeted investments and incentives to ensure that New York State will remain an economic power, able to compete on a national and global scale for business investments and jobs well into the future.

Economic Development Programs: Attracting Business; Creating Jobs

Governor Pataki has developed a number of successful economic development programs to attract business to New York State and create jobs for New Yorkers over the course of his Administration. In particular, State investments in the technology sector have created a foundation for strong job growth. For example, New York businesses are winning record levels of Small Business Innovation Research awards — with more than 27 percent growth between 2003 and 2004.

Centers of Excellence

Under Governor Pataki's leadership, "Centers of Excellence" were established at leading universities throughout New York State. These 5 Centers have created public-private partnerships to support high technology ventures in nanoelectronics, bioinformatics, photonics, environmental systems, and wireless and information technology. The Centers of Excellence form the backbone of New York's strategy of creating high technology jobs to transform the State's manufacturing-based economy. These Centers have already attracted over $8.5 billion in new investments, making New York State a global leader in high technology innovation.

Expansion of the Empire Zone Program

The Empire Zone Program is nationally recognized as an innovative method to foster job growth and neighborhood economic revitalization. In exchange for creating jobs, businesses can receive substantial tax benefits for up to ten years. The authorization of five new one-mile Zones for businesses anywhere in the State that collaborate with a Center of Excellence will make certain the program continues its statewide impact. In addition, 12 new Zones that were authorized in the 2005-06 Budget will be designated by the end of 2006 – rather than over four years as originally authorized. Finally, Empire Zone benefits will be available to any business, in any location in the State, that is primarily engaged in renewable energy technology.

Centers of Excellence Reshaping the Empire State Economy

The Centers of Excellence across New York State have already attracted over **$8.5 billion** in new investments, positioning New York as a global leader in university-based research, high-tech business development and private sector job growth. The five Centers have been designated as follows:

- 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 Wireless and Information Systems

New York will continue to support the growth of our existing Centers of Excellence, as well as explore the development of other Centers.

Empire Zones Reforms Will Lead to Greater Job Growth

The 2005-06 Budget made several changes to the Empire Zones Program that will go into effect in 2006. These reforms create a stronger connection between job growth and the tax benefits businesses receive, ensuring New Yorkers a return on their investment. These reforms include:

- Extending the Empire Zones Program to June 30, 2011.
- Reducing the benefit period from 15 years to 10 years for businesses certified after April 1, 2005.
- Creating **12 new Empire Zones** from the Finger Lakes to Chinatown.
- Reconfiguring Empire Zones so they are more contiguous in nature.
- Encouraging manufacturing, agribusiness, high-tech, and bio-tech job growth that has a "regionally significant" impact.
- Requiring the existing **73** Empire Zones to submit development plans, including cost-benefit analyses of certified businesses.

Hydroelectric and Economic Development Power

The Power for Jobs and Energy Cost Savings Benefit programs will be extended until March 31, 2007 to ensure that no business customers lose the benefits of low cost power while a new long-range energy policy is formulated. To that end, a commission including legislative and business leaders will be established to develop recommendations on future uses for the State's hydroelectric and other economic development power resources.

Transformational Capital Projects

Targeted spending on projects with substantial public benefit is revitalizing communities across the State, including Buffalo, Rochester, Syracuse, Lake Placid, Albany, New York City and Long Island. The 2006-07 Executive Budget will continue this support by authorizing a new $475 million capital program.

Expansion of the Linked Deposit Program

The Linked Deposit Program is a valuable tool to expand small businesses, especially in economically distressed areas and for minority-owned businesses. In the program, a reduced-rate deposit of State monies is linked to a low-interest loan for a qualified business, reducing the cost of borrowing by up to three percentage points. In 2006-07, the program will expand from $350 million to $410 million to ensure that when a business chooses to expand, it will do so in New York.

E-Government: Making it Easier to Do Business in New York

Every day, more government business is transacted online to the benefit of both taxpayers and consumers. Almost 50 State and local government agencies process more than 3.5 million transactions electronically each year. These electronic transactions, valued at more than $516 million, have simplified and made more convenient the way citizens relate to government and conduct business.

Regulations: Online, Not Out of Line

In 2001, the Governor's Office of Regulatory Reform launched its Online Permit and Licensing (OPAL) project as part of the

Governor's "Government Without Walls" initiative. The user-friendly online system has significantly reduced transaction costs for businesses. In 2005, OPAL processed over 26,000 online applicants for new or expanding businesses and increased coverage to include seven agencies and 49 unified permits. Furthermore, in 2004, OPAL became the first system in the country with the ability to provide Federal employer tax ID numbers at the time of permit application.

A New State of Convenience

The Department of State has developed and implemented a number of systems that make information more accessible to the public and allow for easier and faster business transactions. These innovations include online retrieval of information on: Uniform Commercial Code (UCC) Filings; Licensees; and State tax warrants. In 2006-07, the Department will:

- Initiate an overhaul of its licensing systems using state-of-the-art software.
- Begin development of an online corporation records retrieval system, replacing an antiquated system that relies on microfilm storage retrieval.

Reducing Our Dependence on Petroleum

Building on over a decade of innovative renewable and clean energy initiatives, Governor Pataki will continue to lead by providing New Yorkers with the opportunity to choose renewable fuels, by fostering research and deployment of critical niche technologies such as efficient and flexible fuel motor vehicles, advanced bio-refineries, and clean coal gasification, and by offering tax credits and other incentives that will help make New York a worldwide center for clean, renewable energy research, product development and job creation. The Governor's plan will improve New York's strategic energy position by diversifying our supply of fuels, demonstrating that motor vehicles can become more efficient in their use of petroleum, and by building markets and economic opportunities for new clean energy companies. (Figure 13)

Reducing our Dependence on Petroleum

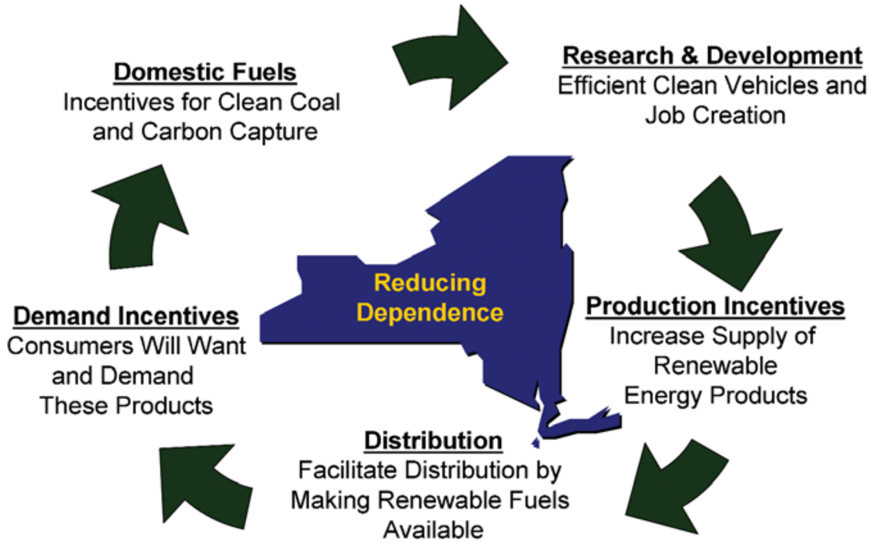


Figure 13

The 2006-07 Budget includes a set of strategies that will reduce our dependence on petroleum by encouraging the development of more efficient vehicles and introducing renewable fuels on a widespread basis.

Allows New Yorkers to Choose Renewable Fuels

Reducing New York's dependence on imported petroleum-based fuels is a difficult, but essential task. To achieve this goal, in addition to continued efforts to improve conservation and efficiency, Governor Pataki is advancing a comprehensive and groundbreaking set of strategies designed to develop a cost-efficient renewable fuel supply system. The Governor's Plan:

Creates Availability by providing grants for the installation of renewable fuel pumps at private sector service stations; and asks the Thruway Authority to install renewable fuel pumps at every Travel Plaza on the New York State Thruway.

Incentivizes Demand by offering tax free renewable fuels at service stations across the State.

Promotes Supply by providing a production tax credit to spur the construction of ethanol and bio-diesel refineries.

Spurs Research and Development by instituting a competitive grant program to leverage public and private money to build an advanced bio-refinery that will make the next generation of ethanol out of agricultural products from our farms, and wood products from our northern forests.

Helps to Develop the Next Generation of Efficient Vehicles

The Governor's Plan:

- Provides incentives to deploy the next generation of efficient vehicles by leveraging private and public dollars – vehicles that can combine existing and new technologies to dramatically increase the mileage achieved with each gallon of petroleum.
- Establishes an advanced vehicle testing center at the Saratoga Technology and Energy Park to serve as a catalyst for the attraction of businesses engaged in research, development, and deployment of the next generation of hyper-efficient and flexible fueled vehicles.
- Provides tax credits for the purchase of fuel efficient hybrid and alternative fueled vehicles.
- Introduces a program to attract businesses engaged in the development of critical new vehicle technologies, such as plug-in hybrid vehicle batteries and super lightweight composite vehicle parts.
- Creates a new Clean Pass Program to permit fuel efficient vehicles to access HOV lanes on highways.
- Introduces a new Green E-Z Pass program for the New York State Thruway to provide discounts for New Yorkers who drive fuel efficient vehicles.

Creates New Opportunities for Clean Energy Technology Companies

The Governor is committed to making New York State the place to develop clean energy technology by:

- Making the entire State a tax-free "Clean Energy Research and Development Zone." Any business principally engaged in new research and development in clean energy technologies or renewable fuels will be provided all the benefits of an Empire Zone business irrespective of location, including State tax reductions and property tax rebates.
- Establishing a program to provide shovel-ready sites and financing assistance for advanced clean coal gasification plants that agree to host research and development into carbon capture and/or sequestration technologies — allowing New York to rely on our most abundant fossil fuel while protecting the environment and creating important new technologies.
- Providing sales tax-free weeks for ENERGY STAR products, recognizing that the best way to encourage the development of energy-efficient products is to increase consumer demand for the product.
- Providing a tax credit for home owners who choose to replace inefficient home heating systems with new high efficiency systems that meet or exceed ENERGY STAR standards.

Revitalizing New York City

New York City has overcome tremendous challenges in recent years, including the devastation of the terrorist attacks of September 11th and the resultant national economical downturn. Governor Pataki's commitment to New York City and the rebuilding of lower Manhattan in the face of these challenges is strong, and he continues to work with Mayor Bloomberg and other Federal, State and local officials to advance initiatives that bring new development and continued prosperity to New York City.

Rebuilding of Lower Manhattan Continues

- Reconstruction at the World Trade Center site is underway in accordance with the Governor's aggressive timeline laid out in 2003. Nearly $10 billion worth of public and private construction is underway and just blocks from the World Trade Center site.
- Construction has commenced on two grand transportation hubs and the deconstruction of the heavily damaged Deutsche Bank is well underway.
- The Lower Manhattan Tax Incentive program, signed into law in August 2005, has attracted new businesses and encouraged existing businesses to recommit their operations and employees to Lower Manhattan. Since the law was enacted, Verizon, American Express and dozens of businesses, large and small, have announced they will relocate or expand in Lower Manhattan.
- In November 2005, Goldman Sachs broke ground on its new downtown world headquarters, reaffirming Lower Manhattan as the financial capital of the world. The environmentally responsible, 43-story building will be located directly across from the WTC site. Goldman Sachs' powerful expression of confidence secured 9,000 jobs with the promise of more jobs over the next decade.
- This spring, construction will begin on one of the world's tallest towers, the Freedom Tower, and the memorial to our nearly 3,000 lost heroes. The six-acre memorial, "Reflecting Absence," and Memorial Museum will open by September 11th, 2009.
- $80 million of State resources will support establishment of a new World Trade Center Visitor Orientation and Education Center.

Other City Economic Development Initiatives

Governor Pataki's leadership on economic development continues to benefit residents of every borough of New York City. Other projects underway throughout the City include:

- The Jacob Javits Convention Center expansion project is in the final design stages, and construction is expected to begin in 2006. New York City and State have each committed $350 million to this partnership, which upon completion will generate over $50 million in additional tax revenue for the City and State and create thousands of new permanent jobs.

- Governors Island, a 150-acre island off the tip of Manhattan transferred from the Federal government to New York State and City in 2003, is currently undergoing a comprehensive planning and redevelopment process. The State is providing $22.5 million in capital and $7.5 million in operating aid in the 2006-07 Executive Budget for these purposes.

- The State committed $149.4 million for infrastructure improvements related to the construction of new major league baseball stadiums and associated projects. This funding will be divided equally between new stadium projects for the Mets in Queens and the Yankees in the Bronx. The new Yankee Stadium project alone is anticipated to create more than 3,600 construction jobs and up to 1,000 permanent jobs.

- The Atlantic Yards project in Brooklyn spans 21 acres and will include a world-class arena to house the Brooklyn Nets, over 4,000 units of mixed-income housing, along with commercial, retail and public space. The project will create over 10,000 permanent jobs and is projected to generate a net fiscal benefit of nearly $3 billion over 30 years to the City and State.

- As part of the ongoing improvement and expansion of the Port of New York, the Port Authority, in conjunction with the New York City Economic Development Corporation, is restoring freight rail service to the Howland Hook Marine Terminal and other areas of Staten Island. This improvement will result in greater economic activity and also reduce truck traffic on the roadways and bridges of Staten Island.

Expansion of the Low Income Housing Tax Credit

The 2006-07 Executive Budget proposes making the Low-Income Housing Tax Credit Program permanent by increasing the aggregate amount of tax credits by **$2 million** annually, demonstrating the Governor's ongoing commitment to the development of affordable housing.

Highlights of the 2005-2010 Capital Plan

$17.9 Billion DOT program:

- **$15.2 Billion** for State highway improvements and preventive maintenance activities.
- **$2.0 billion** for local roads and bridges.
- **$681 million** for passenger and freight rail modernization, non-MTA transit systems, aviation facilities, canal corridor revitalization, and industrial access projects.

$17.9 Billion MTA program:

- **$14.9 billion** for core capital needs.
- **$629 million** for security projects and agency-wide initiatives.
- **$2.5 billion** for system expansion, including the East Side Access, Second Avenue Subway and JFK Rail Link projects.

Transportation Investments for a Modern, Efficient New York

Under Governor Pataki, over $102 billion has been committed to the capital programs of the Metropolitan Transportation Authority (MTA) and Department of Transportation (DOT). This Budget will continue the Governor's record of unprecedented investment in transportation rebuilding and improvement and implement the second year of a $36 billion five-year State transportation plan. The multi-billion dollar capital plan will support the largest highway and bridge construction program in the State's history and spur significant investment in upstate and downstate transit systems, freight and passenger rail networks, airports, canals, and port facilities. This includes dramatic new expansion projects, such as: the continued conversion of State Route 17 into Interstate 86 across the Southern Tier; construction of U.S. Route 219 in Western New York; border crossing improvements; construction of a four-lane connector linking Interstate 81 and Ft. Drum; capital improvements to the Cross Westchester Expressway; and interchange improvements on the Van Wyck Expressway. In addition, the MTA will receive critical funding support for both core MTA infrastructure improvements and new

Growth in State Highway Utilization and Transit Ridership

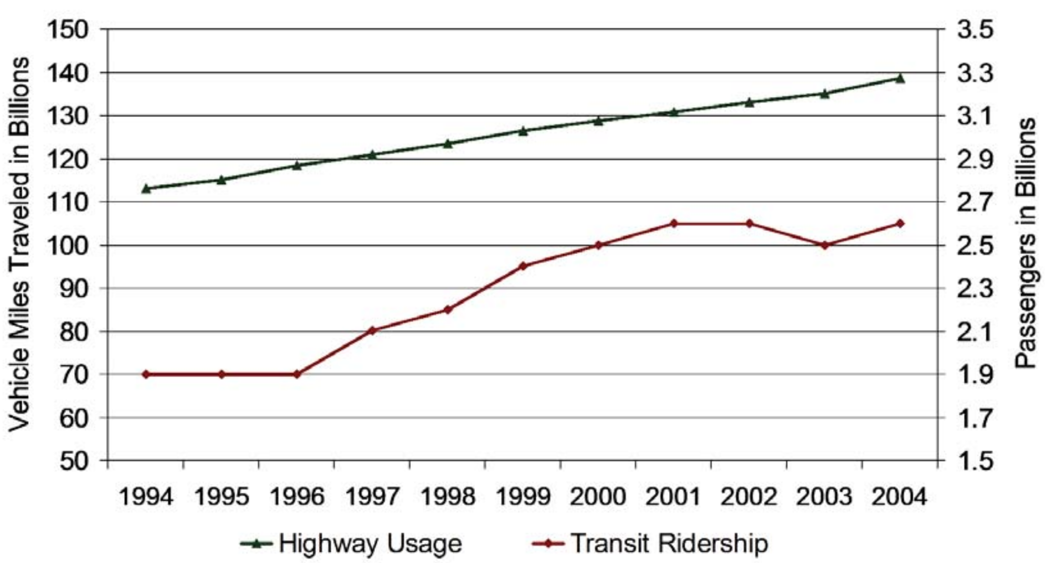


Figure 14

Governor Pataki's five-year $36 billion transportation plan provides the funding necessary to meet increasing public demand for safe and efficient transportation systems.

system expansion projects in the New York metropolitan area, such as East Side Access, Second Avenue Subway and the JFK Rail Link. As a result, this Budget will improve facility conditions, spur dramatic increases in system use and provide the foundation for New York's strong economic growth. (Figure 14)

Reforming Transportation Finance

The Governor's Budget proposes new ways to finance transportation that will continue efforts to minimize transportation costs to system users.

Tapping New Resources and Innovation – Transportation Development Partnerships

In a growing economy like New York's, new transportation needs will continue to emerge. While the five-year transportation plan will result in major improvements to roads, bridges, airports, rail facilities, canals and transit systems, more financial resources will be needed to fully fund the MTA and DOT in the final two years of the plan period and to address future funding for important projects, such as the East Side Access, Second Avenue Subway Phase I, the Manhattan-JFK-Long Island transportation link and the needed improvements in the Tappan-Zee corridor.

If the State continues to rely exclusively on traditional transportation taxes, fares and fees to meet its needs, the burden

Improving Transportation Service and Systems:

Dedicated Highway and Bridge Trust Fund

- This Fund, used in conjunction with Federal and General Obligation Bond funds, supports the design, construction and maintenance of highways and bridges, other transportation modes and certain operating expenses of the Department of Transportation and Department of Motor Vehicles.
- This Fund is supported primarily by fuel-related taxes (the Petroleum Business Tax and Motor Fuel Tax). Additional sources include motor vehicle fees, the Highway Use Tax, Auto Rental Tax, and miscellaneous other transportation-related fees.

States with Significant Public-Private Partnership Authority

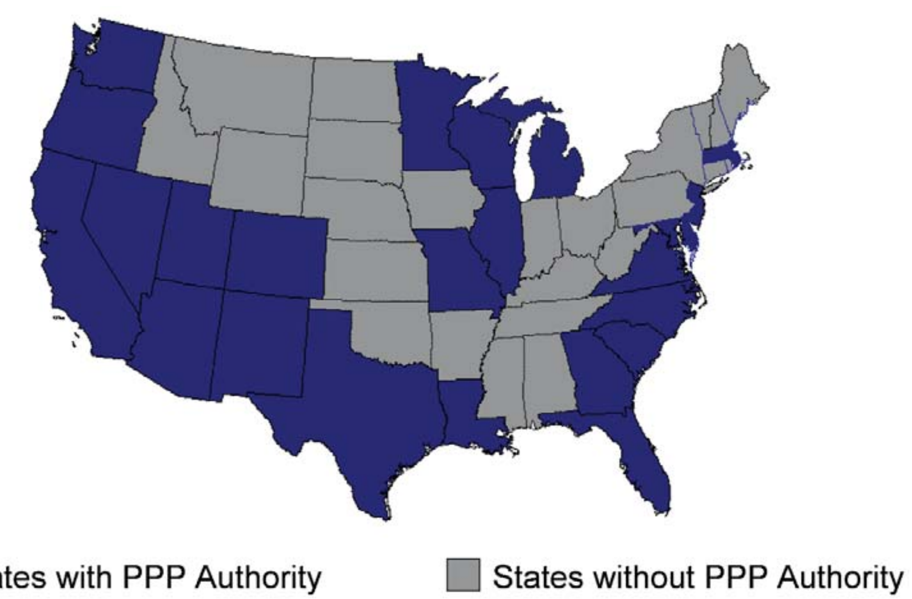


Figure 15

Nearly half the states in the country have authorization to leverage private sector investment in critical transportation projects, similar to the proposal being advanced by the Governor in this Budget.

on transportation system users will become unsustainable. As an alternative, the Governor is proposing legislation with the Budget to authorize Transportation Development Partnerships. The proposal would allow DOT, the MTA, the Thruway Authority and other transportation agencies to partner with private sector builders, operators and investors to complete needed projects faster and with less demand on public resources than can currently be accomplished. These partnerships have been successfully adopted in other states and have led to expanded construction programs and financial relief for taxpayers. (Figure 15)

Under the Governor's proposal, public control will continue to be exercised on all partnership projects and facilities. Each agreement between a public agency and private entity would include guarantees and standards for construction, maintenance, safety, labor protections, policing, public charges, and other aspects of the project.

Full Dedication of Transportation Revenues

Since 1995, Governor Pataki has progressively restructured and strengthened the financial underpinning of New York's transportation programs by ensuring that transportation user fees and taxes are increasingly devoted to transportation programs. In 2006-07 all

Increased Transportation-Related Revenue Used to Support Programs

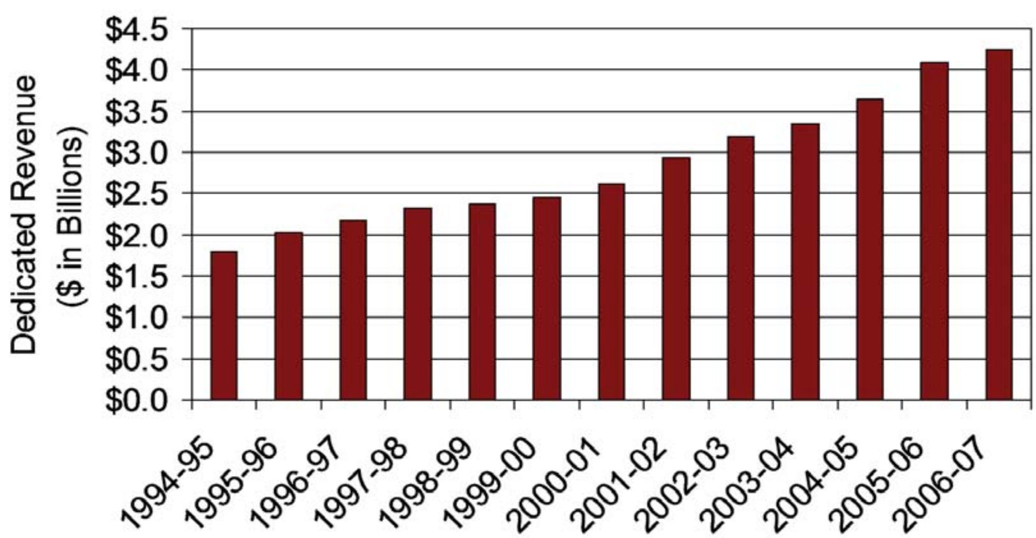


Figure 16

Governor Pataki has increasingly dedicated transportation-related fees and taxes to transportation programs. This Budget fully dedicates all such revenues to the State's transportation funds.

transportation-related revenues will be fully dedicated to the State's dedicated transportation funds and used only to improve the system and support operational performance. (Figure 16)

Increasing Energy Efficiency through New York's Transit Systems

As a complement to the Governor's Energy Independence Plan, the 2006-07 Budget includes a significant increase in State transit aid to ensure that mass transportation systems are ready to deliver affordable service, given the dramatic rise in national fuel prices. Transit service offers a viable and energy-efficient alternative to automobile use for commuters and travelers in all regions of the State.

Governor Pataki is proposing $2.5 billion in transit aid, a $380 million — or 18 percent — increase over last year. To ensure that the allocation of transit resources more closely matches regional sources of collection, the transit share of transmission transportation taxes will be redistributed among the upstate and downstate transit operating funds. Previously, these statewide taxes had been devoted exclusively to the downstate fund. (Figure 17)

- The MTA will receive over $2.1 billion, an increase of $318 million, or 17.5 percent.
- Other transit systems will receive $379 million, an increase of $62 million, or 19.5 percent.

Improving Transportation Service and Systems:

Mass Transportation Operating Assistance Fund

- Supports public transportation services, including bus, rail and ferry services with grants to eligible transit systems, funded by taxes collected in the NYC metropolitan area, an additional .375 percent sales tax in counties within the same region, a Petroleum Business Tax, and a franchise tax imposed on transportation and transmission companies.

Dedicated Mass Transportation Trust Fund

- Provides operating and capital grants to eligible mass transportation agencies.
- Funded by a statutory share of fuel-related taxes, and motor vehicle fees.

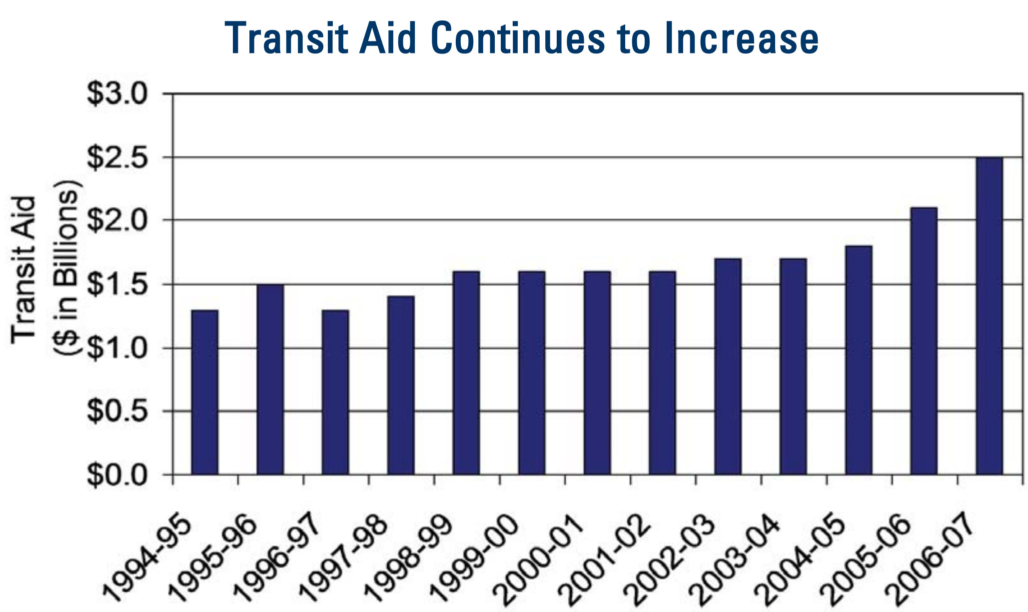


Figure 17

The Governor's Budget proposes a $380 million increase in transit aid, bringing total transit funding to $2.5 billion.

Education

Investing in Our Children's Future

To ensure our children receive the high quality education they need and deserve, our schools must have the necessary resources to meet the State's rigorous standards. It is equally important that our schools invest these resources in an accountable and cost-effective manner. Through a combination of increased investment and reforms to promote improved educational performance and accountability, the 2006-07 Executive Budget provides a blueprint for a bright and prosperous future for all of our children.

Commitment to Our Children

Over the past 11 years, New Yorkers have made generous investments in providing our children with the best schools of any state in the nation. For the coming school year, the Executive Budget will provide $16.9 billion in State aid to public schools — an increase of nearly $7.1 billion from 1994-95. (Figure 18)

Budget Highlights

- Increases 2006-07 school aid by **$634 million** — the largest increase ever proposed by a Governor.
- Provides a record **$16.9 billion** in State aid to public schools — the highest level in State history.
- Consistent with the commitment established in the State's Five-Year Sound Basic Education Plan, provides an increase of **$375 million** in Sound Basic Education Aid.
- Provides a **$500** refundable education tax credit to income-eligible families in school districts with under performing schools.
- Supports a series of initiatives to strengthen math and science education programs across the State.
- Creates the New York State Cultural Education Trust for the advancement and promotion of the public missions of the State Museum, Library, and Archives.

Historic Increases in State Support for School Aid

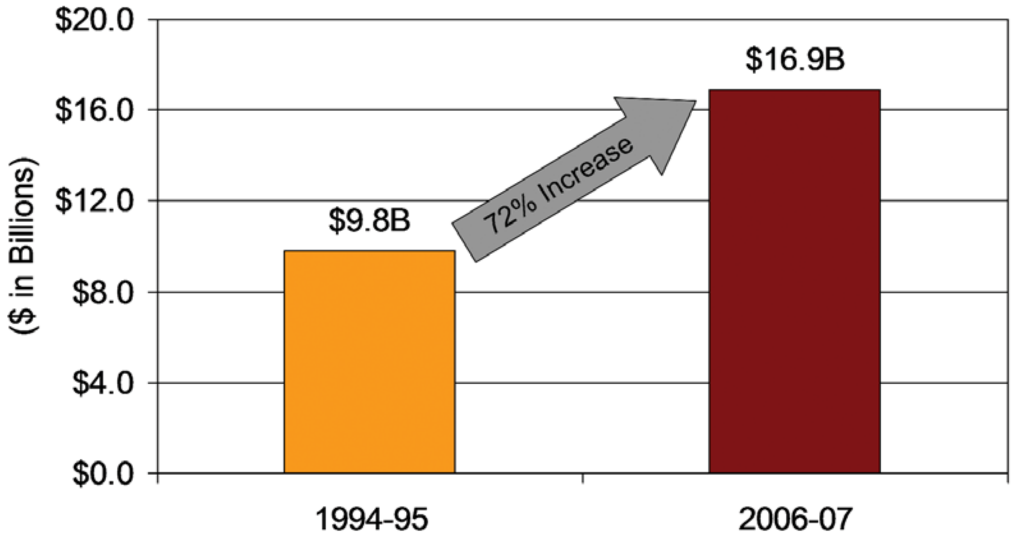


Figure 18

State support for public schools has nearly increased by $7.1 billion or 72 percent since 1994-95. This growth is more than twice the rate of inflation during this time period.

Combined with local taxpayer support, New York spends $12,879 per pupil — the second highest of any state and nearly 50 percent above the national average. (Figure 19)

New York Remains Near the Top in Education Spending

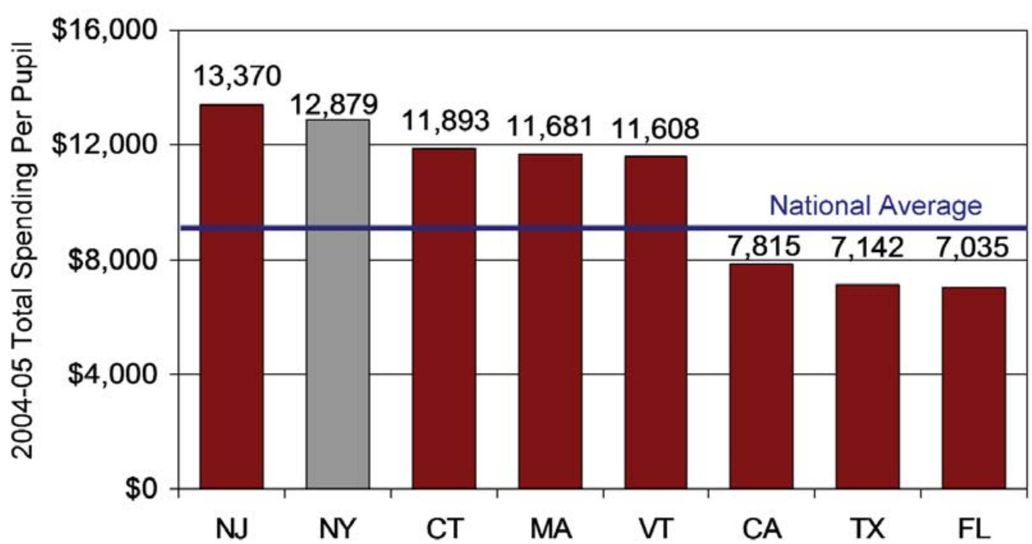


Figure 19

New York's spending of $12,879 per pupil is nearly 50 percent higher than the national average of $8,618 per pupil. (Source: NEA Research's report, "Rankings & Estimates: Rankings of the States 2004 and Estimates of School Statistics 2005," Fall 2005.)

The 2006-07 Executive Budget will build upon our past investments with an increase of $634 million in school aid — the largest increase ever proposed by a Governor. Two components comprise this $634 million increase — a $259 million increase in traditional school aid and a $375 million set-aside to increase funding primarily to high-needs schools in accordance with the State's five-year Sound Basic Education (SBE) plan. This infusion of additional resources will be accompanied by a series of initiatives to promote improved efficiency and accountability.

Aid for New York City's schools has also increased significantly since 1994-95. For the coming year, New York City's share of statewide funding for school aid will exceed its share of statewide enrollment for the fifth year in a row (Figure 20)

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

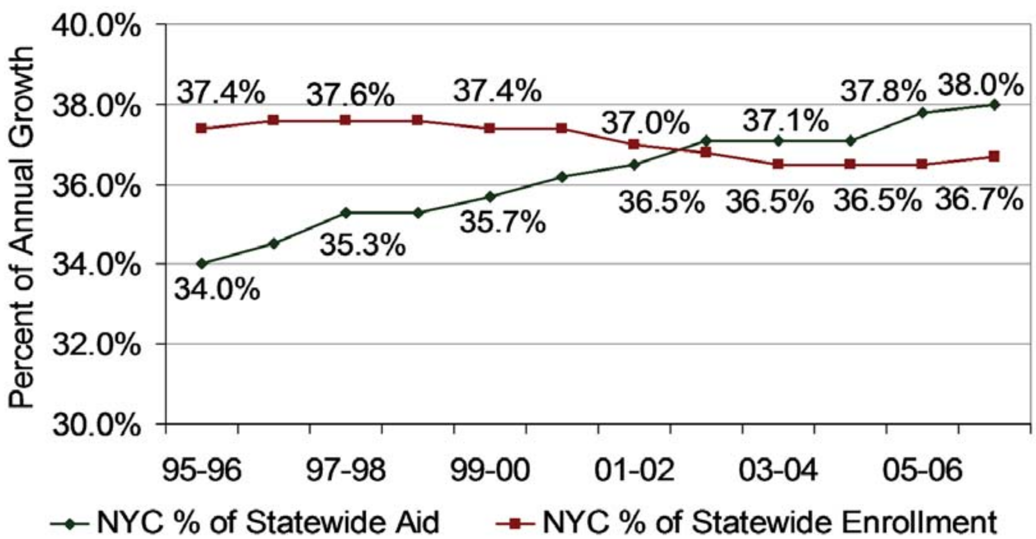


Figure 20

Since 1995-96, New York City has received a school aid increase of 85 percent – more than twice 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.

Governor's Accomplishments

- Successfully championed a number of important education reforms including:
  - — 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;
  - — Adoption of school report cards and stronger **accountability** and **financial oversight**; and
  - — Implementation of the most comprehensive **school safety** program in the nation.
- Increased school aid by more than **$7 billion, or 72 percent** — more than twice the rate of inflation during this period.
- Increased State support for public education to nearly **36 percent** of the State's General Fund — including STAR and lottery — up from **27 percent** when the Governor took office.

Five-Year Sound Basic Education Plan

The State's Five-Year Sound Basic Education Plan ensures 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 State's 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.

Sound Basic Education Aid

So that our schools have the necessary resources to provide every child with a quality education, $700 million will be provided in Sound Basic Education (SBE) Aid for 2006-07. This represents an increase of $375 million consistent with the State's Five-Year SBE Plan. This $375 million increase in SBE Aid will be placed in a reserve to be allocated pursuant to a plan to promote the provision of sound basic education in schools throughout the State.

Education Tax Credit

Effective in the 2006 tax year, up to a $500 refundable income tax credit will be available to families with incomes below $90,000 in school districts with under-performing schools. This credit can be used to support tutoring, after-school programs and other eligible education expenses. This program will provide an estimated $400 million in the 2006 tax year.

Preparing the Workforce of the Future

To provide our State with the intellectual capital necessary to compete in a 21st Century economy, the following initiatives to strengthen math and science programs are proposed for 2006-07:

- **"Partnership for Prosperity":** A newly created Science and Technology Task Force will develop a comprehensive statewide plan to strengthen science and technology education through the formation of public/private partnerships. The Task Force will include members from public and independent colleges, public schools, private businesses and State agencies. The Task Force will provide region-by-region recommendations that:
  - — Encourage students in the early grades to study math or science;

  - Provide college internships for middle and high school students;
  - Provide high-tech business/industry internships for college students; and
  - Designate existing high schools or develop new high schools as “Academies of Science and Technology” to provide specialized science programs, including an Energy/Environment Academy in Syracuse and a Biotechnology/Biomedicine Academy in Buffalo.

- **Engineers of the Future:** A total of $5 million in grants will be provided to enable 500 middle schools and high schools to develop pre-engineering programs to cultivate interest and proficiency in engineering and increase the number of students pursuing engineering careers.
- **Summer Institutes for Math/Science:** A new $5 million program is recommended for 2006-07, including $2.5 million for summer math/science programs at community colleges for middle school students and $2.5 million to support university-based programs designed to refresh and renew the competency of math/science teachers in state-of-the-art technology, equipment and pedagogy.
- **Teachers of Tomorrow:** A $5 million increase will provide recruitment incentives and tuition reimbursement to expand the pool of math/science teachers entering the teaching profession via alternative certification.
- **Math and Science Teaching Initiative:** A total of 500 new scholarships will be provided annually for up to five years. These scholarships will be in amounts up to the cost of SUNY tuition for students at the State’s public and private colleges who commit to teaching math or science in New York’s public schools for five years.
- **Expansion of STEP/CSTEP:** Funding will double for the Science and Technology Entry Program/Collegiate Science and Technology Program (STEP/CSTEP) to increase the number of underrepresented students successfully pursuing math and science at the secondary and postsecondary levels.

Promoting Integrity and Accountability in New York's Schools

Taxpayers must have confidence that their school officials are making wise and appropriate use of the tax dollars entrusted to them. They have a right to expect that the education system is managed ethically and professionally, in a manner that is responsive to the needs of students and accountable to the public.

Strengthened Code of Ethics

To address recent problems with ethical violations on the part of school officials and the misuse of school resources, the following reforms are proposed that would require schools to:

— Adopt employee codes of ethics that prohibit the use of school resources for personal gain;

— Conduct regular reviews of employee codes of ethics;

— Submit their employee codes of ethics annually to the State Education Department and the Office of the State Comptroller;

— Require that school officials read the code of ethics and provide written certification of adherence to such code; and

— Ensure that school audit protocols include reviews of compliance with statutory requirements pertaining to the code of ethics.

Reforming the School Voting Process

The 2006-07 Executive Budget recommends the following reforms to encourage increased voter participation and confidence in the school voting process (Figure 21):

- **Single School Vote:** For 2006-07 and thereafter, school districts would be required to hold a single vote on their school budget, and there would be no revotes.

- **Single Voting Day for Bond Resolutions:** All votes on bond resolutions would be held on the single statewide voting day for school budgets.

- **Extended Voting Hours:** The voting hours for school district elections would be conformed to those for general elections.

Voter Empowerment – Expanding Participation in School Elections

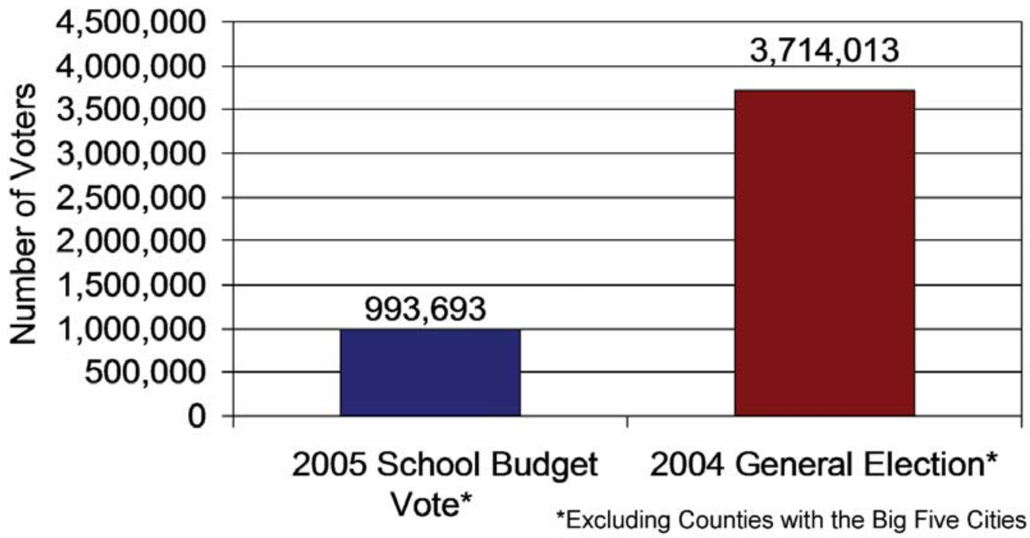


Figure 21

The "Reform the School Voting Process" (RSVP) initiative will promote increased voter participation in school elections and school budget votes by eliminating revotes and scheduling a single statewide day for bond votes.

- **Improved Supervision:** Potential conflicts of interest in election supervision would be eliminated by involving county boards of elections in the supervision process and limiting the role of school district employees, board members and candidates in election supervision.

School Business Official Qualifications

Strengthening the qualifications of local school business officials is vital to improving the fiscal accountability of school districts. Proposed reforms will prospectively require school business officials to:

— Obtain a master's degree including at least 24 credit hours in finance or accounting;

— Complete a 15 week internship in school finance; and

— Participate in ongoing professional development activities.

Charter Schools

New York State's Charter Schools Act promotes additional public school choice for parents with children in chronically underperforming schools. Currently, 79 charter schools are serving approximately 22,000 children throughout the State.

For the coming year, the Executive Budget includes the following measures designed to expand public school choice in New York:

- **Charter School Cap:** The existing cap on the number of charter schools would increase from 100 to 250 charter schools.

- **Chartering Authorization for Not-for-Profit Organizations:** Entities authorized to grant charters will be expanded to include not-for-profit organizations approved by the Board of Trustees of the State University of New York. The SUNY Trustees would be authorized to revoke the chartering authorization of a not-for-profit entity if it should fail to comply with applicable laws.

- **Charter School Cap Calculation:** Legislation accompanying the Budget will clarify that charter school conversions 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 charter school conversions approved by parents.

- **Building Aid for Charter School Construction:** Charter school facility projects will be eligible for State building aid reimbursement in a manner similar to State building aid reimbursement for Special Act School Districts.

- **Access to the Dormitory Authority Services:** Charter schools would be authorized to access financing and construction management services from the Dormitory Authority.

Promoting Improved Efficiency and Performance

The following new initiatives are proposed to promote improved academic performance and efficiency:

- **Performance Funding:** Additional Flex Aid will be provided prospectively to school districts that demonstrate significant improvement on statewide achievement tests.
- **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 outstanding educational performance and exceptional operational efficiency.
- **Cost Efficiency:** School districts that are eligible for STAR Plus as a result of adopting a school spending cap will be eligible for a 2 percent Flex Aid "bonus" beginning in the 2007-08 school year.
- **State/Local Partnerships:** Partnerships between local school districts and State agencies, such as the New York State Energy Research and Development Authority and Office of General Services, will be expanded to allow school districts to benefit from State expertise on ways to reduce energy and telecommunications costs.

Record Level of State Support for School Facilities

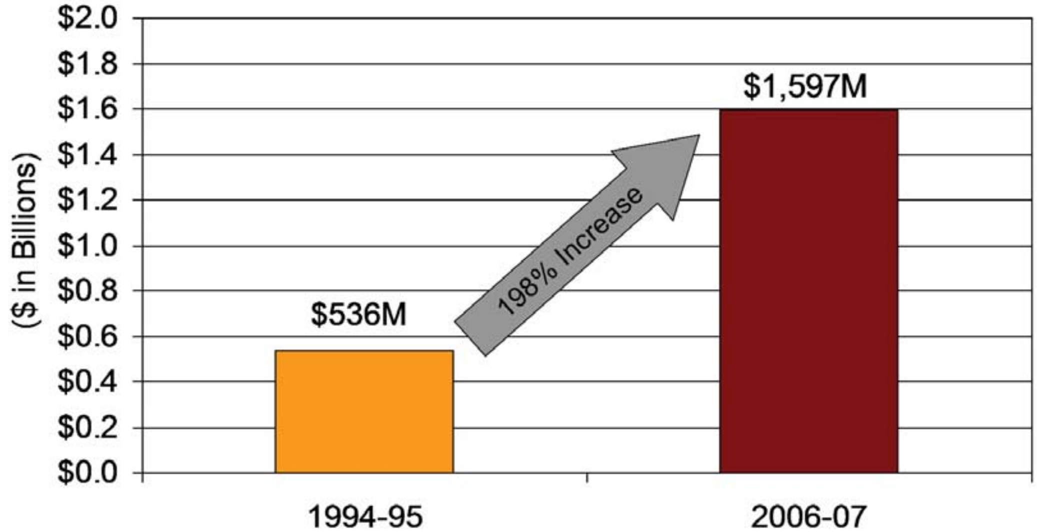


Figure 22

State support for school construction has nearly tripled under Governor Pataki. Proposed reforms for 2006-07 will continue to promote cost-efficiency in school construction.

Building Aid Reform

New York currently has one of the most generous school construction aid programs in the nation. State support for school construction has grown from $536 million in 1994-95 to $1.6 billion for 2006-07. (Figure 22)

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

- **Wicks Exemption:** All school districts will be provided an exemption from Wicks Law requirements mandating 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, which will provide advisory services on efficient construction practices and designs. These services include:

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

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

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

- **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.

- **Application of Assumed Amortization to BOCES Capital Projects:** Reimbursement for Board of Cooperative Education Services (BOCES) capital projects will be conformed to other building aid payments to school districts.

- **Streamlined New York City Procurement:** Existing procurement processes will be streamlined to facilitate cost-efficient school construction.

- **Realignment of New York City Building Aid Payments:** To align payments for school construction projects in New York City with payments for other school districts, building aid will be payable to New York City 18 months after the State Education Department is notified that a general construction contract has been signed.

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 more restrictive settings. The Executive Budget advances reforms to conform the reimbursement formula for private special education programs to the same formula 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.

Preschool Special Education Reform

To promote coordination and efficiency in the delivery of preschool special education services, the 2006-07 Executive Budget proposes the following reforms:

- Establishing a Taskforce chaired jointly by the Department of Health and the State Education Department to determine the appropriate relationship between Early Intervention and preschool special education.
- Reducing school district reliance on private providers to conduct evaluations of preschoolers by providing reimbursement only for evaluations performed by the school districts. This will address the conflict of interest inherent in instances when a private provider evaluates a child whom the provider might serve in the future.

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 will be required to demonstrate savings for services (such as telecommunications) compared to existing State contract prices available through the Office of General Services. In addition, tax payers will no longer reimburse BOCES for educational services that exceed the costs of comparable services provided by individual school districts.

Cultural Education Trust

For the coming year, the creation of a Cultural Education Trust within the State Education Department is proposed to:

- Engage the advisory services of a distinguished group of civic-minded individuals who are interested in, and committed to, the advancement and promotion of the State Museum, Library and Archives.
- Promote greater public awareness of, and accessibility to, the collections of the State Museum, Library and Archives.
- Develop recommendations to direct the investment of $20 million to enhance the public display of the collections and exhibits of the State Museum, Library and Archives and $20 million to provide a new storage facility for such collections.

Arts Grants

New Yorkers are in the national forefront in their attendance at arts and cultural events, attesting to the importance of the arts in our daily lives. Generous grants-in-aid from the State to non-profit arts organizations serve as a significant catalyst in preserving and enriching our cultural resources. For the coming year, $40 million will be provided for arts grants administered by the Council on the Arts, an increase of $2.6 million.

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 2006-07 Executive Budget provides over $9.6 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 our colleges and universities play in the educational, social and economic advancement of all New Yorkers.

New York's public and private colleges are attracting record numbers of top quality students, as indicated below:

- 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 2005, more than half of the students enrolling at SUNY's University Centers had SAT scores above 1,200 and grade point averages above 90 — achievement levels comparable to the top public flagship campuses in California, Michigan, Texas and North Carolina.

Budget Highlights

- Recommends a gross operating budget of $3.1 billion for SUNY State-operated colleges, an increase of **$115 million, or 3.9 percent.** Taxpayer support will total $2.0 billion — an increase of $34 million, or 1.8 percent.
- Recommends a gross operating budget of $1.4 billion for CUNY senior colleges, an increase of **$72.8 million, or 5.4 percent.** Taxpayer support will total $775.3 million — an increase of $27.2 million, or 3.6 percent.
- Increases SUNY/CUNY Community Colleges State operating aid to **$2,450** per student, an increase of **$100** per full-time student with additional funding provided for enrollment growth and rental aid.
- Supplements the $5 billion SUNY/CUNY Multi-Year Capital Investment Program with an additional **$125 million** in capital funding for 2006-07.
- Provides **$6 million** in first-year funding for the Empire Innovation Program to attract **200 new research faculty** to SUNY over a five-year period.
- Provides **$5 million** in support of the Empire Innovation Program to support critical research projects, academic programs and Master Plan Initiatives at CUNY.
- Includes contingency appropriation authority of **$58.6 million** to cover any extraordinary energy cost increases at SUNY or CUNY in 2006-07.

Governor's Accomplishments

- Record high enrollments — totaling nearly **1,135,000 college students** in 2005.
- Tuition and fees below those charged at other comparable public universities in the Northeast.
- The most generous financial aid in the nation, providing nearly **$800 million** in assistance to nearly **370,000** students in pursuit of a college degree.
- The most State support to private colleges and students of any state.
- **$9.7 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.

- CUNY is also attracting better-prepared and better-performing students, with a mean SAT score of 1,064 for admitted freshmen at CUNY's five Tier I colleges in Fall 2004 — an increase of 67 points since 1998.
- New York's public and private colleges are a top destination for students from other states. Since 1990, the number of first-time freshmen from other states enrolling in our colleges and universities has grown to over 22,000 students, with the majority of these students enrolling in private colleges located in New York.
- In 2005-06, college enrollments in New York reached an all-time high of nearly 1,135,000 students. (Figure 23)

College Enrollments Reach Record Levels

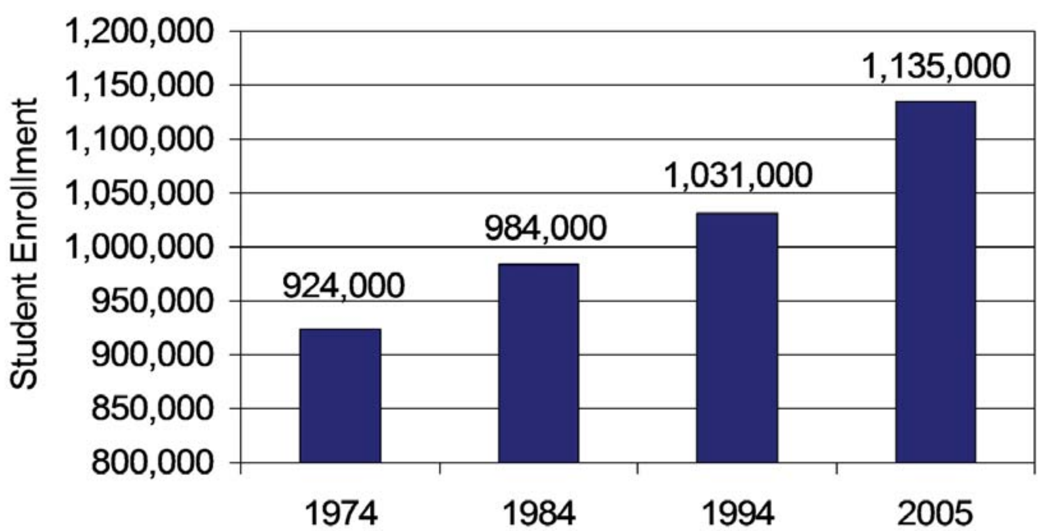


Figure 23

New York's public and private colleges are attracting record numbers of students. In fall 2005, the State's total college enrollments reached an all-time high of approximately 1,135,000 students.

Partnership for Higher Education

For the coming year, the State's public universities will be financed through a partnership comprising taxpayers, students, private business, and our public campuses. Under this partnership:

- Taxpayers will support fixed operating costs at SUNY and CUNY, and will invest in targeted initiatives that strengthen academic programs and promote economic development.
- Private business will be encouraged to support SUNY and CUNY programs that promote economic growth.
- Students will support their fair share of college costs through affordable and predictable tuition increases. (Figure 24)
- Our public campuses will be called upon to:
  - — Ensure that taxpayer support, student tuition and private funds are invested in a prudent and accountable manner;
  - — Achieve measurable performance improvements in time-to-degree, graduation rates and student retention; and
  - — Identify opportunities, including the sale of surplus properties, to generate additional revenue for reinvestment to enhance the quality and accessibility of academic programs.

Incentives for Improving College Completion

Overall graduation rates at our private colleges and SUNY campuses compare favorably to peer institutions in other states. However, there is a considerable range in graduation rates among our public colleges, indicating the potential for further improvement. (Figure 25) To this end, the Executive Budget recommends several initiatives to promote timely and successful college graduations.

CUNY's "Compact" Initiative

For 2006-07, the City University has advanced an innovative and fiscally responsible approach — a "Compact" — to finance its operations by delineating shared responsibility among partners and creating opportunities to leverage funds. CUNY's Compact calls for:

- State taxpayers to fully cover CUNY's fixed cost increases and a portion of the costs associated with implementation of the University's Master Plan.
- Reshaping the University's operations to achieve efficiencies and to redeploy existing resources to fund a portion of costs associated with implementation of CUNY's Master Plan.
- Utilizing tuition revenues generated through modest, predictable tuition increases and enrollment growth to strengthen academic programs and student support services.
- Increased emphasis on private philanthropy as an ongoing means to support programmatic initiatives.

Establishing a Tuition Policy

Legislation would allow SUNY and CUNY to base tuition on the costs of educating students at various campuses; to set tuition rates prior to enactment of the State Budget; and to establish a long-range tuition policy that:

- Provides annual adjustments to tuition tied to an inflation index such as the Higher Education Price Index (HEPI) for undergraduate resident students.
- Allows tuition adjustments to exceed the index-generated amount if State funding is reduced from the prior year level or is insufficient to fully cover fixed operating cost increases.
- Authorizes SUNY to guarantee a fixed tuition rate for a four-year period for resident undergraduate students who maintain full-time enrollment and complete their degree programs within four years.

Reforms to Promote Successful College Graduation

In too many cases, students fail to graduate from college because they were admitted to programs for which they were academically under-prepared. In such instances, both students and taxpayers have little to show for their substantial investments.

To address this serious issue, the following reforms are proposed in the State's Tuition Assistance Program (TAP) to ensure taxpayer funds are invested wisely and to protect students from exhausting their TAP eligibility prior to degree completion:

- Institutions will be required to pre-finance TAP awards provided to first-time TAP applicants in 2006-07 who are admitted to postsecondary programs without having a high school diploma.
- Institutions will be reimbursed for their pre-financing costs plus interest for each student's successful completion of 24 credit hours.
- Full-time study will be defined as 15 credits per semester to ensure students complete their degree programs before exhausting their eight semesters of TAP eligibility.

SUNY/CUNY Tuition and Fees Compared to Other States

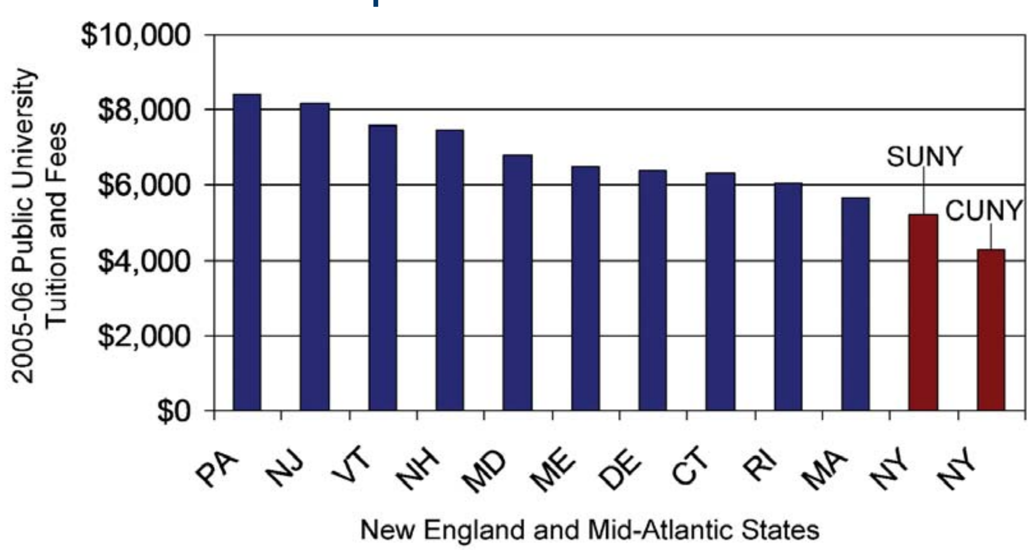


Figure 24

Current tuition rates of $4,350 for the State University and $4,000 for the City University of New York remain affordable and below those of comparable public universities in the Northeast.

- Academic standards for TAP will be strengthened to reflect appropriate student progress to a timely degree.
- TAP for accelerated study will require credit accumulation rates that demonstrate actual acceleration in time-to-completion.

Partnership to Accelerate Completion Time (PACT)

Modeled after innovative and successful programs at CUNY's Brooklyn College and SUNY's College at Fredonia, a new Partnership to Accelerate Completion Time (PACT) would be established at participating public campuses. Under PACT:

- Colleges would guarantee the availability of courses required for students to complete their degrees.
- Participating students would agree to fulfill their associate degree coursework within two academic years, or their baccalaureate degree coursework within four academic years.
- Colleges would be provided financial awards of $250 for each additional on-time associate degree conferred and $500 for each additional on-time bachelor degree conferred.

Recent 4-Year Graduation Rates

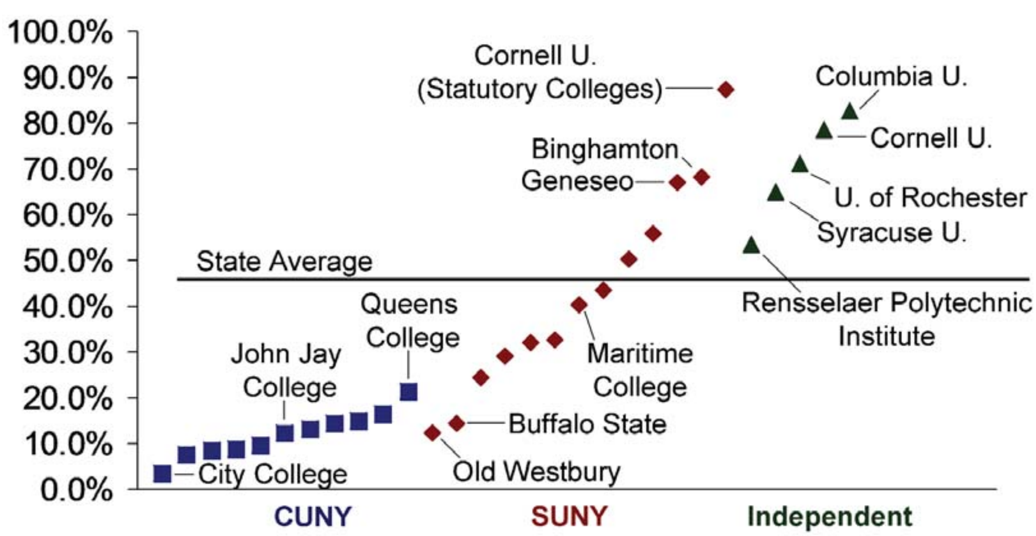


Figure 25

The 2006-07 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 colleges.

Excellence in Graduate Research

SUNY's prominence among nationally recognized research universities is on the rise, as demonstrated by:

- SUNY Stony Brook's admission to the prestigious Association of American Universities (AAU) in 2001.
- SUNY Buffalo's designation by the National Science Foundation as the first National Center for Earthquake Engineering Research.
- SUNY Albany's standing as a world-wide leader in nanotechnology, drawing such companies as International Sematech and Tokyo Electron Ltd. in collaborative research and development efforts.
- SUNY Binghamton's recent selection in a national competition to establish a Center for Advanced Microelectronics Manufacturing (CAMM).

Tuition Incentives for Timely Degree Completion

Legislation accompanying the Executive Budget would authorize the SUNY Trustees to guarantee a fixed tuition rate for a four-year period for entering undergraduate resident students who maintain full-time enrollment and complete their degree programs within four years.

Diplomas of Distinction

To recognize and reward students who seek to accelerate completion of their college programs by accumulating college credits while in high school, certificates of distinction will be awarded to high school students who graduate with an average of 90 or more and who have received six or more college credits through enrollment in Advance Placement, on-line, or campus-based courses.

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 three SUNY colleges among the top 100 national universities.
- CUNY scored an historic first in 2004 — two CUNY students, from Brooklyn College and City College, were named Rhodes Scholars. These CUNY scholars joined an elite group of just 32 Americans chosen from 904 applicants.

Economic Development Engines

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

New York's public and private colleges continue to excel in research. SUNY's sponsored research grants have grown by 97 percent since 1995-96 — from $455 million to $895 million — supporting more than 10,000 projects and 18,000 jobs. CUNY's sponsored research grants have almost doubled since 1995-96, from $177 million to over $350 million. New York's private colleges and universities currently sponsor more than 500 research centers and institutes.

Empire Innovation Program

To further strengthen research programs at our public universities:

- SUNY will receive $6 million in 2006-07 in Empire Innovation funding in support of a multi-year plan to:
    - Attract 200 new research faculty to enhance SUNY's standing as a world class research university; and
    - Promote economic development by generating an estimated $300 million in additional research grants over the next five years.
- CUNY will receive $5 million in Empire Innovation funding to support critical research projects, academic programs and master plan initiatives.

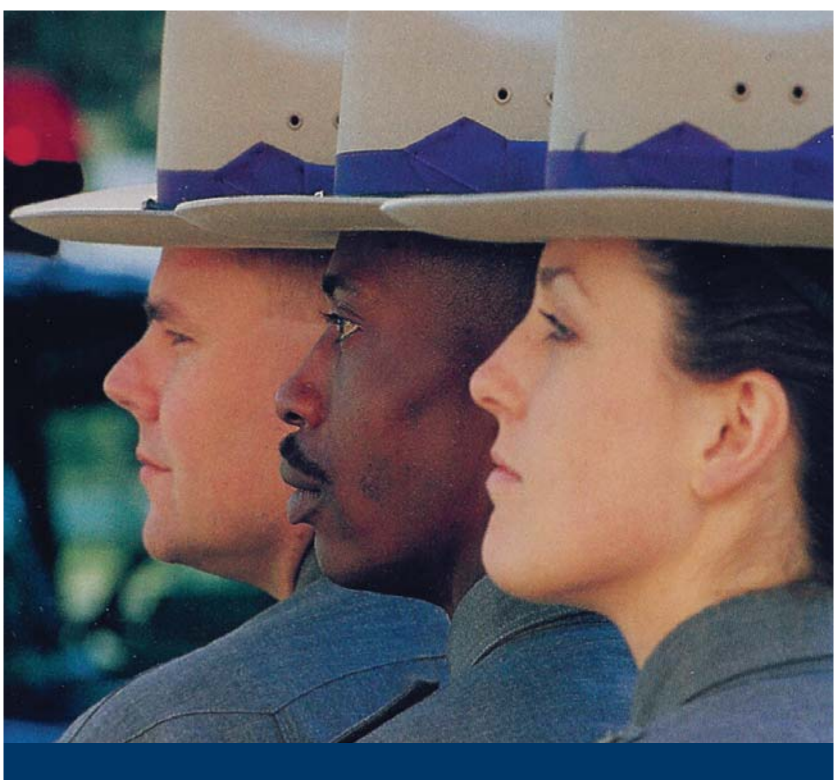
Public Safety and Security

Keeping Our Communities Safe

The fear of crime and violence tears at the fabric of a community, destroying its quality of life and undermining its economic stability. Improving the safety and security of every city, town, village and neighborhood remains central to the Governor's vision for New York.

Since 1995, Governor Pataki, in partnership with Federal and local crime fighting agencies, has pursued an ambitious, innovative and successful criminal justice agenda. With tougher sentencing laws, better coordination and deployment of criminal justice resources and new investments in public safety strategies and technology, New York has made dramatic strides combating crime. (Figure 26)

Ranked as the sixth most violent state when Governor Pataki took office, New York is now the safest large state in the nation as well as the sixth safest state overall. (Figure 27)



Budget Highlights

- Adds **100 State Police investigators** to combat gun trafficking in partnership with other levels of government, bringing the force to an all-time high of **4,884 troopers**, an increase of **801 – or 20 percent** – since Governor Pataki took office.
- Expands law enforcement's capacity to collect DNA samples from offenders and crime scenes.
- Increases funding for **Operation IMPACT,** providing assistance to local communities to combat high crime.
- Authorizes fines to deter both speeding and the serving of alcohol to minors.
- Improves linkages to services for offenders re-entering the community after release from State prison.
- Increases supervision of sex offenders in the community and converts excess prison capacity to housing for civilly committed sexually violent predators.
- Fully dedicates cellular surcharges to ensure continued development of local E-911 systems and completion of the Statewide Wireless Network.
- Creates the New York State Preparedness Training Center to train first responders.

New York Crime Drops Steadily

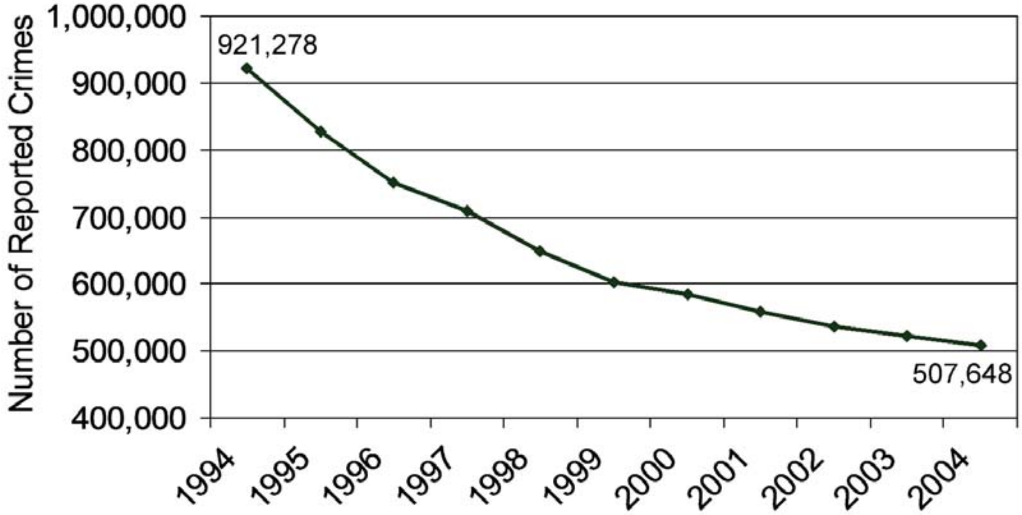


Figure 26

The rate for major crimes (as reported to the FBI) have fallen every year since 1994. In 2004, there were 413,630 fewer crimes reported than in 1994, a decrease of 45 percent. During the same period, violent crime decreased by more than 50 percent, or 90,000 fewer violent crimes.

New York Crime Rate Lowest Among Large States

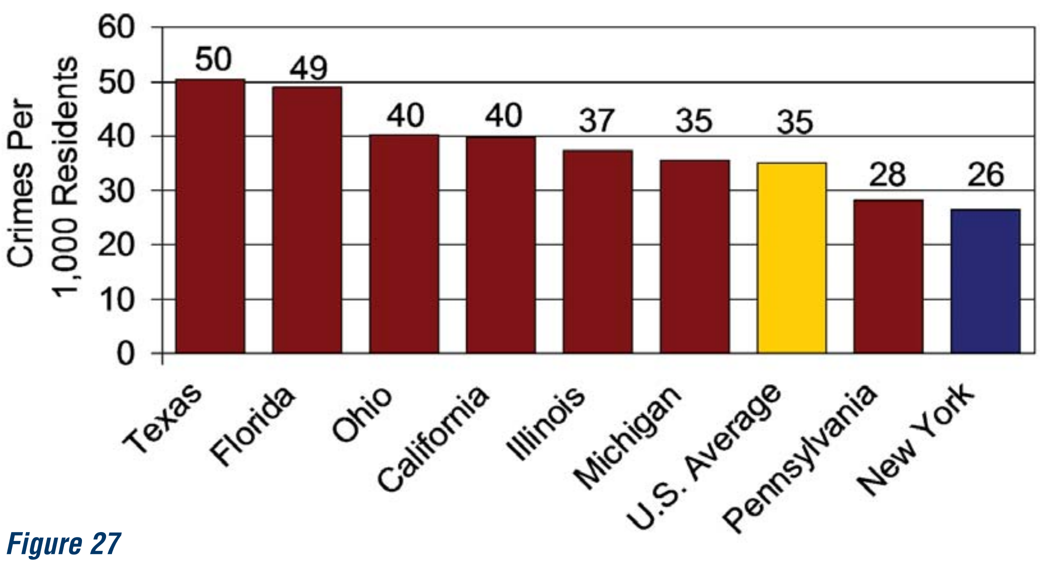


Figure 27

New York is the safest large state in the nation, with a crime rate 25 percent lower than the national average. In 2004, New York earned the rank of the sixth safest state in the nation.

New York Crime Fighting Strategies

The 2006-07 Executive Budget includes more than $50 million in new investments to fight crime, ensuring continued progress toward the Governor's goal of making New York the safest state in the nation.

Combat Illegal Gun Trafficking: This Budget funds 100 new State Police investigators who will partner with the Federal Bureau of Alcohol, Tobacco, Firearms and Explosives, and local law enforcement, to target criminals who illegally possess, use, or sell guns. Already underway, total funding of $22 million is required to support this initiative, including new incentives to help local police and prosecutors enhance investigations of illegal gun traffickers.

Solve and Prevent Crimes with DNA: $19.1 million in new funding will enhance the use of DNA technology to solve crimes. Operations at State Police and local forensic laboratories will be expanded, increasing law enforcement's capacity to test more DNA samples from crime scenes and offenders, and speeding the processing of those samples. Moreover, training in the collection, testing, and use of DNA will be expanded, in partnership with the University at Albany and John Jay College of Criminal Justice.

Operation IMPACT: Initiated by Governor Pataki in 2004, Operation IMPACT provides a tailored response to the unique challenges facing the most crime-plagued areas of the State. Operation IMPACT emphasizes strong partnerships among law enforcement agencies, the mapping and analysis of crime data, and sharing of intelligence as well as State resources. Funding for this program increases for the third straight year, growing by $5 million to a total of $17 million. These new funds will provide grants to eligible jurisdictions outside the 17 major IMPACT counties to combat localized spikes in violent crime, expand local field intelligence networks to assist police departments in solving and preventing crimes, and expand local crime mapping and analysis capability.

New Technology Helps Identify Criminals

New York has more than 157,000 samples in its DNA Databank. "Hits" — a match between crime scene data and a stored DNA profile — totaled 2,255 by the end of 2005.

Winning the State's Fight Against Crime: Reductions in the Crime Rate since 1994

- Murder down 58.3%
- Rape down 27.5%
- Robbery down 63.4%
- Aggravated Assault down 46.0%
- Burglary down 59.4%
- Auto Theft down 69.9%

Governor's Accomplishments

Criminal Justice

- Lowered New York State's crime rate, achieving national ranking as the sixth safest state, with a **54 percent** reduction in the rate of violent crime.
- 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.
- Established the **sex offender registry** and intensified the supervision of sex offenders in the community.
- Toughened penalties for those who illegally traffic guns.
- Expanded the **DNA databank** to help convict the guilty and exonerate the innocent.
- Heightened public awareness of New York's most dangerous fugitives through the **100 Most Wanted Program** and Operation Rolling Thunder, leading to the apprehension of many of these criminals.
- Created **Operation SAFE CHILD**, a statewide initiative to raise awareness about child safety, providing ID cards to families — critical to the Amber Alert System to locate missing children.
- Implemented **SAFETNet**, to record all targets and locations currently under investigation by NYS law enforcement agencies, to enhance police officer safety and improve coordination of law enforcement efforts.

The 17 counties participating in Operation IMPACT benefit from its three key principles:

— Coordination among all members of law enforcement in a single local strategy;

— Collection of timely and accurate data to permit a swift response to changes in crime trends; and

— Data sharing on statewide and national networks to fight regional crime more effectively.

Improve Control of Alcoholic Beverages: Enforcement of laws related to the sale of alcoholic beverages will be strengthened by doubling the number of investigators, as well as increasing coordination with Operation IMPACT and local law enforcement. Fines for serving alcohol to minors, in addition to other violations, will be increased significantly for repeat violators. Technology investments will enhance the investigation of unfair pricing practices.

Traffic Safety and Speed Enforcement: Governor Pataki again urges implementation of a highway traffic safety program utilizing new technology and speed enforcement cameras. Similar programs in other states have demonstrated success in reducing speeding, accidents, and most importantly, traffic fatalities. Automated devices would be installed in work zones and on the most dangerous stretches of the State's highways. Posted signs will warn motorists they are entering an enforcement zone and encourage them to obey posted speed limits. Violators would receive computer-generated tickets through the mail.

Success of Criminal Justice Reforms

Governor Pataki's tough, but smart sentencing reforms continue to be a key success factor in the fight against crime. Not only have these measures contributed to a significant decrease in New York's crime rate, but unlike other states, New York's prison population has steadily declined as well. These twin indicators mark a sustained reduction in crime as recidivism rates for offenders released from prison have improved dramatically. (Figure 28, Figure 29, Figure 30)

New York Statistics Signal a Sustained Reduction in Crime

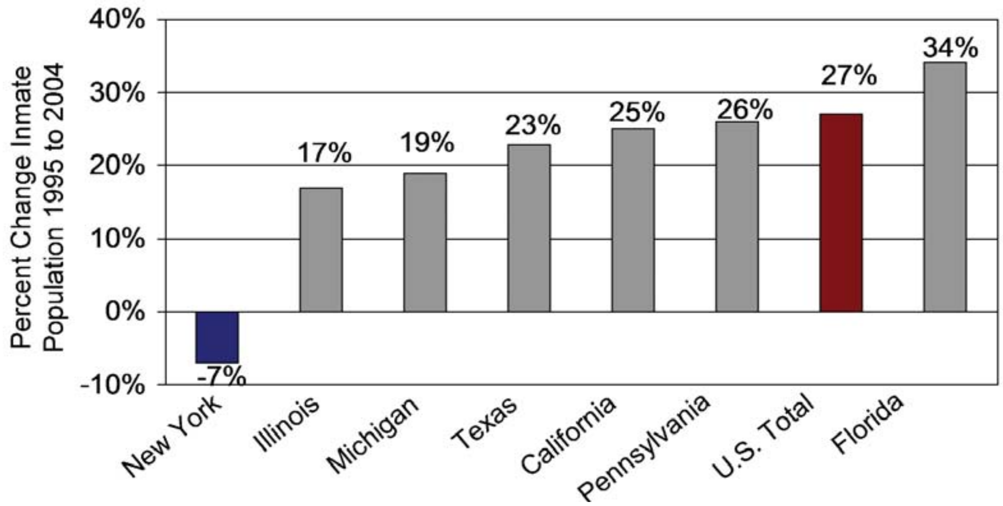


Figure 28

New York is the only state where the prison population declined as crime went down – evidence of success in returning inmates to the community. Under Governor Pataki, the number of inmates in New York prisons fell 7 percent, while the prison population grew nationwide.

Prison Population Declines Steadily

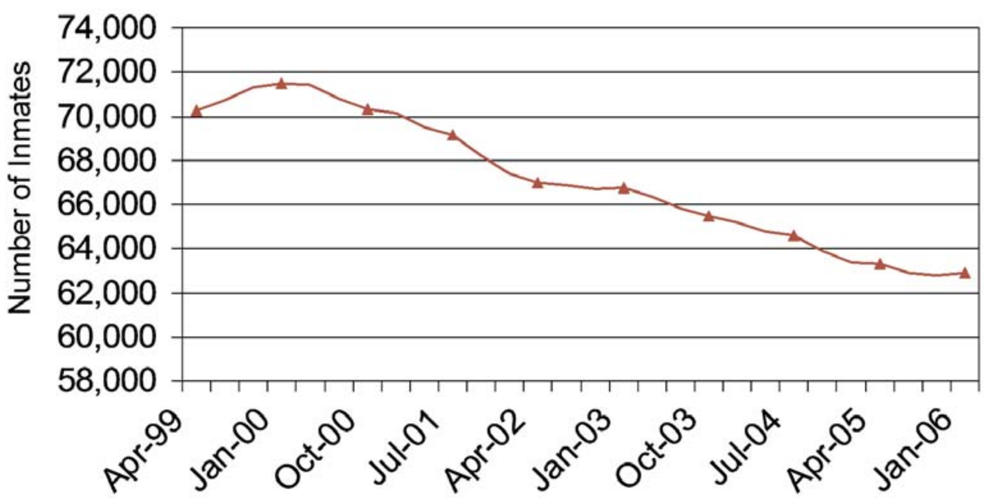


Figure 29

Governor Pataki's tough but smart sentencing reforms have contributed to the steady decline in prison population. From a peak of 71,500 inmates in December 1999, the under custody population in the Department of Correctional Services has declined by 8,400, to approximately 63,100.

Fewer Offenders Returning to Prison

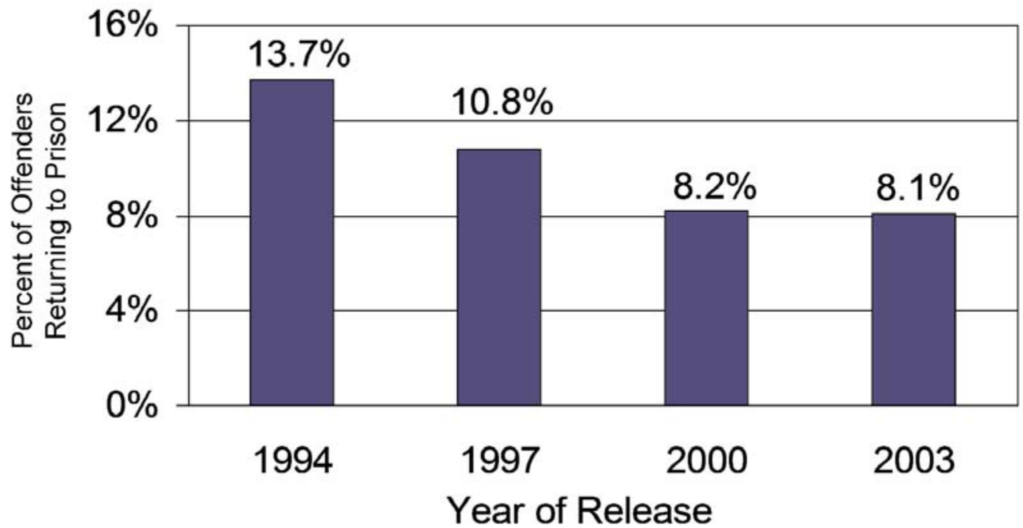


Figure 30

Recidivism rates for offenders released from prison have improved dramatically, dropping 40 percent. In 2003, the recidivism rate was 8.1 percent, compared to 13.7 percent in 1994.

Community Re-Entry

To ensure our communities remain safe and citizens feel secure in their homes and neighborhoods, the Executive Budget will:

- Continue support for effective programs during incarceration. These programs provide access to education, substance abuse treatment and vocational training to prepare inmates for their return to the community.
- Continue support for community supervision. The focus will be on supervising all offenders intensively the first year of release from prison, when needs are greatest and offenders are at the highest risk of re-offending.
- Improve linkages between prison and the community through a system of local re-entry task forces and contracts with local service providers. The objective is to keep offenders engaged in treatment, employment and other support services after release to contribute to their successful reintegration into the community.

Safe and Efficient Prisons

The Department of Correctional Services operates a safe and secure correctional system, while efficiently addressing the impact of the Governor's tougher sentencing laws. Violent offenders now represent a much larger share of the current prison population – 57 percent of all inmates, as compared to 51 percent in 1994. Nevertheless, escapes and assaults by inmates are down significantly from 1994 levels.

In 2006-07, the prison system will house an estimated 63,100 inmates, and continues to have excess capacity. Therefore, the Budget recommends transferring Camp Pharsalia from the Department of Correctional Services to the Office of Mental Health to house sexually violent predators who have been civilly committed to inpatient psychiatric treatment upon their release from prison. The Budget provides $130 million to develop a new facility at the Camp Pharsalia site – replacing an aging prison camp with a modern, secure site, addressing the continuing need to protect the public from sexually violent predators.

Intensive Monitoring of Sex Offenders

Protecting our citizens from sexual predators continues to be a high priority of the criminal justice system. Under Megan's Law, a reform championed by Governor Pataki, sex offenders are required to register their addresses with the State, and law enforcement officials must notify the public about certain offenders living in their communities. More than 22,000 offenders are currently registered, and the Executive Budget provides resources to ensure the maintenance and smooth operation of the State Registry. In addition, this Budget will provide $3.2 million more to the Division of Parole and local probation offices for the supervision of sex offenders.

Governor's Accomplishments:

Homeland Security

- Established the State's **Office of Homeland Security**, a recognized leader in anti-terrorism efforts.
- Proposed and fought for enactment of the most **comprehensive anti-terrorism laws** in the nation.
- Created the **New York State Preparedness Training Center** at the former Oneida County Airport.
- Revitalized, maintained and supported the most active National Guard in the nation.
- Increased salaries and benefits for National Guard members on active duty.
- Protected New York's military bases from Federal closure.

Improving Communication Technology

The Executive Budget provides continuing support for two critical public safety communications programs: the Statewide Wireless Network and local wireless 911 service.

Statewide Wireless Network (SWN): Initial construction of the Statewide Wireless Network will begin in the coming year, providing state-of-the-art emergency communications capability to State and local emergency services personnel throughout New York. To ensure sufficient funding for this key initiative, this Budget recommends extension of the surcharge to pre-paid cellular phones in 2006-07, as well as consolidation of all State cellular surcharge revenue into the fund supporting SWN in 2007-08.

Local wireless 911 service: Support continues for county efforts to meet standards for E-911 service. New flexibility is proposed for those localities reaching compliance, which would permit the use of local surcharges for ongoing maintenance of the new systems.

Homeland Security

New York is a national leader in homeland security and disaster preparedness, piloting new security technology and public safety training programs. The Executive Budget ensures a continued commitment to this vital area. Over $561 million in funding will support the continued joint efforts of the Office of Homeland Security and its local partners to develop and implement a comprehensive statewide strategy to prevent acts of terrorism, as well as to prepare for and respond to disasters.

New York State Preparedness Training Center: Centrally located at the former Oneida County Airport, this new center will serve as a hub for training emergency personnel at all levels of government in responding to natural and technological emergencies and terrorism related disasters. The Executive Budget provides $4.5 million to develop and staff this new center.

Upstate New York Regional Intelligence Center (UNYRIC): Governor Pataki created UNYRIC, hosting a first-of-its-kind network to gather and disseminate terrorist information to all the State's law enforcement partners. The Executive Budget targets funding to create a single repository for intelligence information, which will allow data from 22 independent criminal justice databases to be more effectively linked and analyzed. The new system will be available to investigators at all levels of government.

In total, the Executive Budget provides $143.6 million in support for homeland security from multiple State funding sources, building on the more than $346 million invested to date. In addition, Governor Pataki continues to aggressively pursue the allocation of Federal homeland security funds to New York, winning an allocation of $341.7 million for 2005.

Juvenile Justice

Enhancing Public Safety and Program Alternatives

New York State's juvenile justice system provides a comprehensive network of services for troubled youth, including institutional care for juveniles requiring confinement and intensive community-based programs to promote their successful return to society. This system also provides other community and alternative services designed to reduce placements in local detention facilities and address the needs of troubled youth not convicted of a criminal offense. In 2006-07, the Executive Budget continues to strike an appropriate balance between facility and community-based programs.

Youth Facility Security and Program Innovations

Juveniles convicted of serious crimes receive services through the $144 million Office of Children and Family Services (OCFS) youth facilities system. In this setting, offenders participate in programs to treat identified problems, such as substance abuse, mental illness, and criminal sexual behavior. The Governor's Budget recommends $11 million to maintain and upgrade security systems at these facilities. These funds will improve video surveillance systems, door and lock mechanisms and perimeter fencing to enhance the continued safety of the public and the offenders.

At the same time, the Governor will launch a pilot project to implement creative approaches to delivering institutional programs and reducing recidivism. OCFS will contract with a voluntary provider to manage one of its minimum security facilities. This pilot project will be carefully monitored and evaluated to assess its effectiveness and possible expansion to other facilities in future years.

Comprehensive Community Programs

Community-based services, such as Evidence-based Community Initiatives (EbCI), are an effective means of transitioning youth from an OCFS facility back into their community. These services offer comprehensive, family-based counseling to help juveniles and their families overcome behavioral, school, peer group and family relationship issues that place young people at risk. Other programs such as electronic monitoring and evening reporting centers enhance youth accountability and public safety.

Budget Highlights

- Strengthens public safety by providing **$11 million** for youth facility security improvements.
- Initiates a pilot program to implement innovations in youth facility programming.
- Closes three of six community residential homes to more closely align OCFS capacity with the population being served and saving $792,000.
- Increases funding for EbCI programs from $7.3 million to **$7.6 million** by reinvesting a portion of savings from the community home closings.
- Provides an additional $1.4 million for community-based services for PINS, increasing total funding from $5.2 million to **$6.6 million.**

Increasing Investment in Community Based Programming

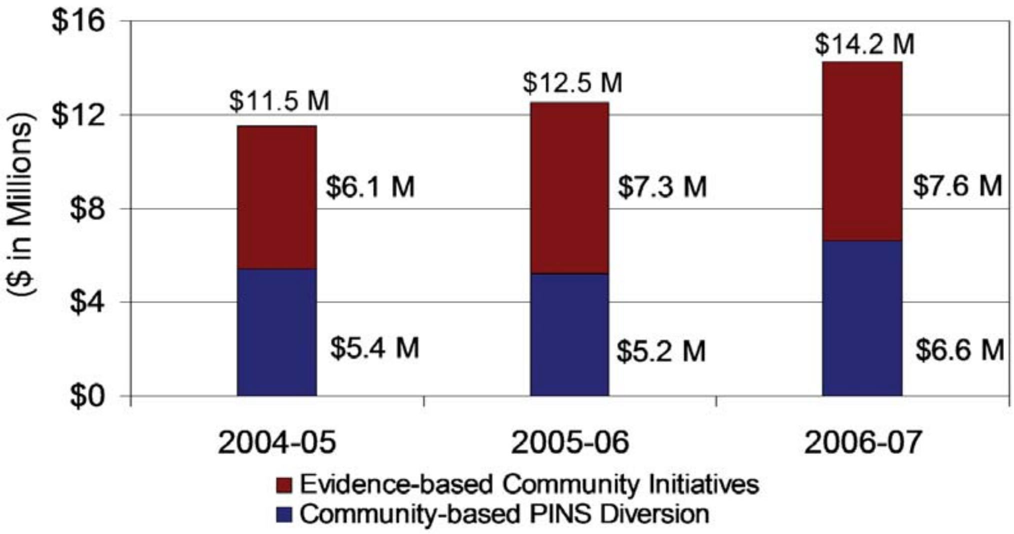


Figure 31

Since 2004-05, the Executive Budget has increased funding by $2.7 million or 23 percent for community-based programs, providing improved services while reducing the need for more costly institutional placements.

The Governor's Budget recommendations will close three of six OCFS community residential homes to more closely align capacity with the population being served. A portion of the savings from these closures will be reinvested into EbCI programs that help reduce the need for costly facility beds. Funding for EbCI programs will increase from $7.3 million to $7.6 million, and the Executive Budget will continue to support more than 1,700 facility beds. (Figure 31)

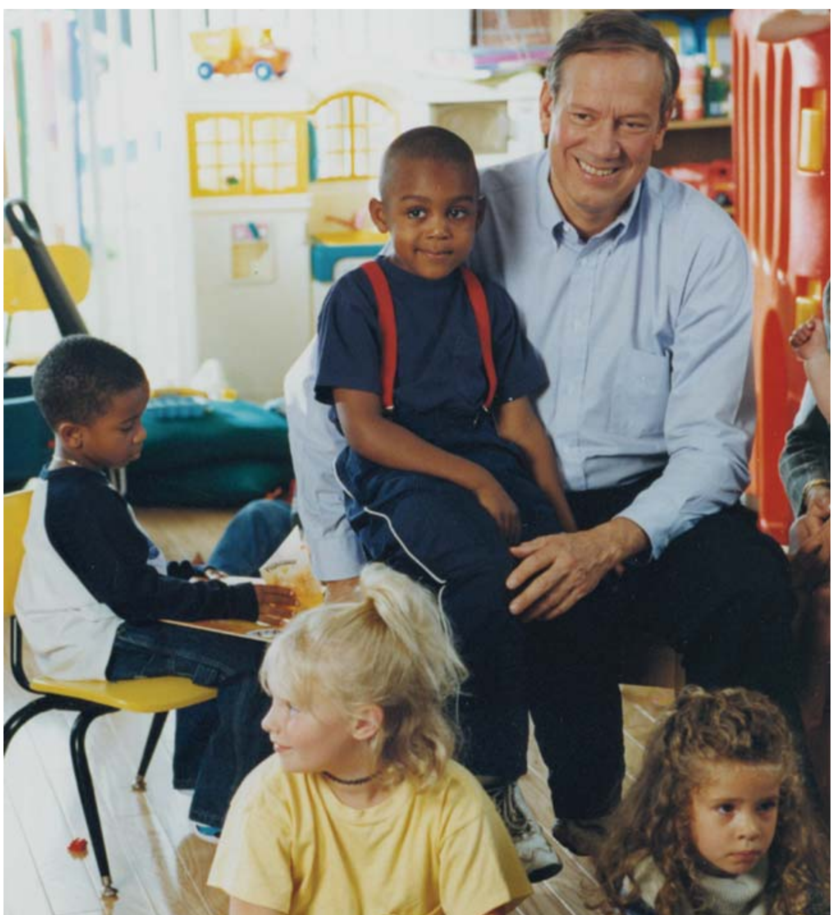
The Governor's detention reform initiative, enacted in 2005, requires that community-based options be exhausted before Persons-In-Need-of-Supervision (PINS) — youth not convicted of a crime but considered incorrigible — are placed in a local detention facility. OCFS has awarded $5.2 million in 2005-06 to counties and service providers to support such programs. The Governor's Budget includes an increase of $1.4 million from 2005-06 for a total of $6.6 million in funding for these services.

Health Care

Preserving Gains and Offering a Vision for the Future

Under Governor Pataki's leadership, New York's health care accomplishments have served as a national model for Congress and other states. Through the enactment of the landmark Health Care Reform Act in 1996, the expansions of Child Health Plus and the Elderly Pharmaceutical Insurance Coverage Program, and the creation of the Family Health Plus and Healthy New York programs, the Governor's legacy is one of dramatically increasing access to quality health care for our most vulnerable populations. (See Figure 32)

The Governor has also successfully championed a series of historic reform initiatives to modernize and improve New York's health care system and provide quality services in a cost-effective manner. The Governor's reforms shift the focus from expensive



Budget Highlights

- Advances a multi-faceted integrity plan to combat fraud, waste and abuse in the Medicaid program, including the establishment of the Office of Medicaid Inspector General.
- Includes **$1.3 billion** in State savings from measures to rein in Medicaid costs and bring New York's spending in line with other states.
- Provides more than **$1.1 billion** to continue last year's historic initiative to cap the local government share of Medicaid costs and to implement a full takeover of Family Health Plus.
- Provides funding to ensure a safe and seamless transition to the new Federal prescription drug program and permanently preserves Medicaid coverage for critical medications used in the treatment of mental health, HIV/AIDS and organ transplants.
- Dedicates new resources to ensure long-term fiscal stability for the Health Care Reform Act.
- Restructures the nursing home reimbursement methodology by rebasing payment rates and by making other modifications.
- Provides new resources to promote the delivery of cost-effective and high quality services to the elderly and disabled in community-based rather than institutional settings.
- Invests resources for critical public health priorities, including avian flu vaccine, anti-tobacco activities and disease prevention.
- Proposes the Biotech Research Initiative, financed with **$600 million** in public and private funds for projects in biotechnology research.
- Provides a cost-of-living adjustment for various HIV/AIDS, public health and State Office for the Aging programs.

institutional care to more appropriate and affordable community-based care and deliver significant local government fiscal relief by capping local Medicaid costs and paying the full cost of the Family Health Plus program.

This Budget builds on those accomplishments and sets the stage for a stronger, more vibrant and affordable health care system in the 21st Century by:

- Advancing a comprehensive plan to ensure the integrity of the Medicaid program, including establishing an independent Office of Medicaid Inspector General in statute and dedicating additional resources to combat fraud, waste and abuse.
- Proposing a series of initiatives to contain escalating Medicaid costs and to bring New York's spending more in line with other states. These actions will generate State savings of $1.3 billion in 2006-07.
- Making targeted investments to support the Governor's comprehensive reform agenda and to address critical public health priorities.

Expanding Access to Health Care

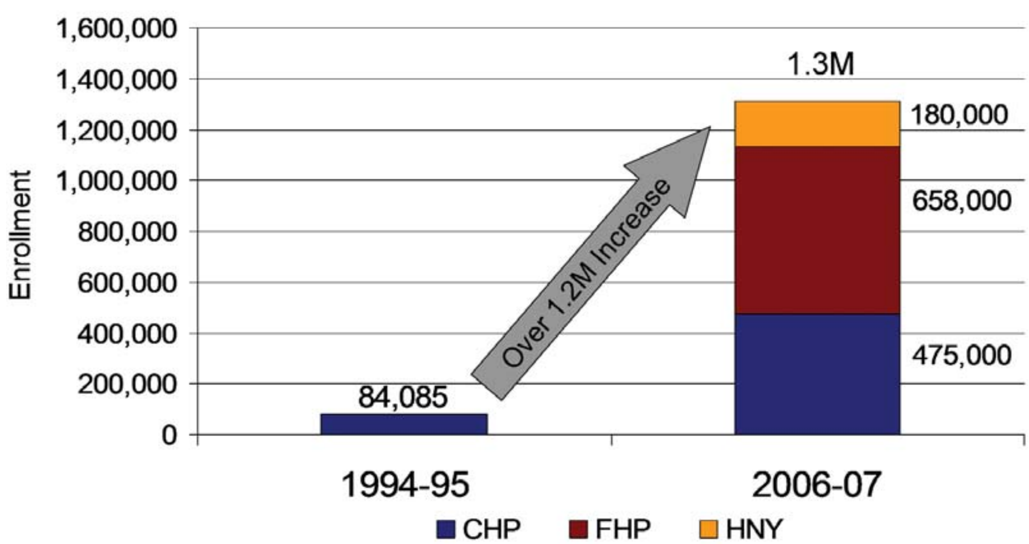


Figure 32

Governor Pataki's initiatives provide health care for over 1.3 million New Yorkers through the expansion of Child Health Plus and the creation of the Family Health Plus and Healthy New York programs. (Source: NYS Department of Health, the State Insurance Department)

Advancing a Comprehensive Medicaid Integrity Plan

Governor Pataki is committed to eliminating fraud, waste and abuse so that taxpayer resources are appropriately used on behalf of New Yorkers served by the Medicaid program. In the last six years, the Department of Health — aided in large part by substantial investments in detection systems upgrades and improvements — has saved the State Medicaid program more than $12.8 billion.

Building on that record of achievement, the 2006-07 Executive Budget advances a comprehensive Medicaid integrity plan to further enhance and strengthen New York's efforts to curtail fraud, waste and abuse. Specifically, the plan:

Statutorily Authorizes an Independent Office of Medicaid Inspector General: The new Office will be responsible for preventing, detecting, and investigating fraud, waste and abuse and coordinating control activities for all State agencies with services funded by Medicaid, including the Department of Health, Office of Mental Health, Office of Mental Retardation and Developmental Disabilities and Office of Alcoholism and Substance Abuse Services. The Executive Budget transfers existing audit and investigative resources from the various State agencies to this new Office. In addition, the Medicaid Inspector General will strengthen the partnership with the Attorney General's Medicaid Fraud Control Unit (MFCU).

Creates Law Enforcement and Fraud Fighting Partnerships: Multi-agency investigation teams will be established to better utilize the State's resources to combat fraud, and task forces of Federal and local law enforcement agencies will be formed to investigate patterns of fraud and abuse.

Proposes Statutory Reforms to Strengthen Anti-Fraud Tools: Criminal penalties would be expanded for fraudulent health care practices including the submission of fraudulent claims, whistleblower protections would be provided to employees reporting health care fraud, and the possession of diverted prescription drugs would be subject to prosecution, among other statutory changes.

Governor's Accomplishments

- The **Health Care Reform Act** legislation in 1996, which deregulated hospital reimbursement and provides funding for critical health care for the uninsured.
- Capped local Medicaid costs and assumed local Family Health Plus program costs, saving local governments almost **$9 billion** over the next five years.
- Authorized the Commission on Health Care Facilities in the 21st Century and initiated a **$1 billion** capital investment through the Health Care Efficiency and Affordability Law for New Yorkers (HEAL NY) program to pave the way to a modern and efficient health care system.
- Increased enrollment in EPIC from **98,000** in 1995 to **358,000** today.
- Established New York's Mandatory Medicaid Managed Care Program and tripled the number of individuals enrolled — to more than **two million**.
- 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 **440,000** in 2005.
- Created Family Health Plus, which now provides over **520,000** lower-income parents and single adults with access to affordable health care.
- Established breast and cervical cancer screening and treatment programs for low-income women.
- Expanded services for the elderly, doubling funding for the Expanded In-Home Services to the Elderly Program (EISEP).
- Promoted better health outcomes for vulnerable populations through health care for the working disabled, a program to enhance newborn screening and legislation requiring appropriate hospital stays for mothers and their newborns.
- Invests more than **$3 billion** annually in the fight against HIV/AIDS.

Invests New Resources to Bolster Anti-Fraud Efforts: The Budget includes $15 million for 81 new staff and contractual resources to develop additional prepayment controls and conduct clinical reviews, audits and investigations to combat fraud and other inappropriate practices. Efforts will focus on utilizing technology and the new eMedNY system, developing clinical guidelines for appropriate practices — including collaboration with clinical experts from the State University Medical Schools, improving audit procedures and protocols, conducting provider verification reviews and maximizing third party reimbursement and recoveries.

Partners with Local Governments for County Demonstration Projects: Several counties are partnering with the Department of Health to develop initiatives to combat provider and recipient fraud. For example, Chemung County is developing a plan to reduce inappropriate utilization by using sophisticated data mining tools to identify trends in Medicaid spending, services and care coordination.

Providing Significant Fiscal Relief for Local Governments

In recognition of the serious fiscal challenges facing county governments, in 2005-06 Governor Pataki proposed — and the Legislature enacted — sweeping reforms to cap local governments' fiscal responsibility for Medicaid and to accelerate the State takeover of all Family Health Plus costs. Combined, the Medicaid Cap and Family Health Plus takeover will generate local government savings of almost $9 billion over five years.

Historic Medicaid Cap

The Governor's historic Medicaid Cap, which took effect January 1, 2006, limits county government responsibility for Medicaid costs. It relieves local governments of the risk of substantial, unpredictable year-to-year increases by capping the local cost of Medicaid at a fixed annual growth rate.

This sweeping reform is providing immediate fiscal relief for local governments — $113 million in 2005-06 growing to $638 million in 2006-07 — and a cumulative total of $6.4 billion over five years. (Figure 33)

Medicaid Cap Provides $6.4 Billion in Local Savings

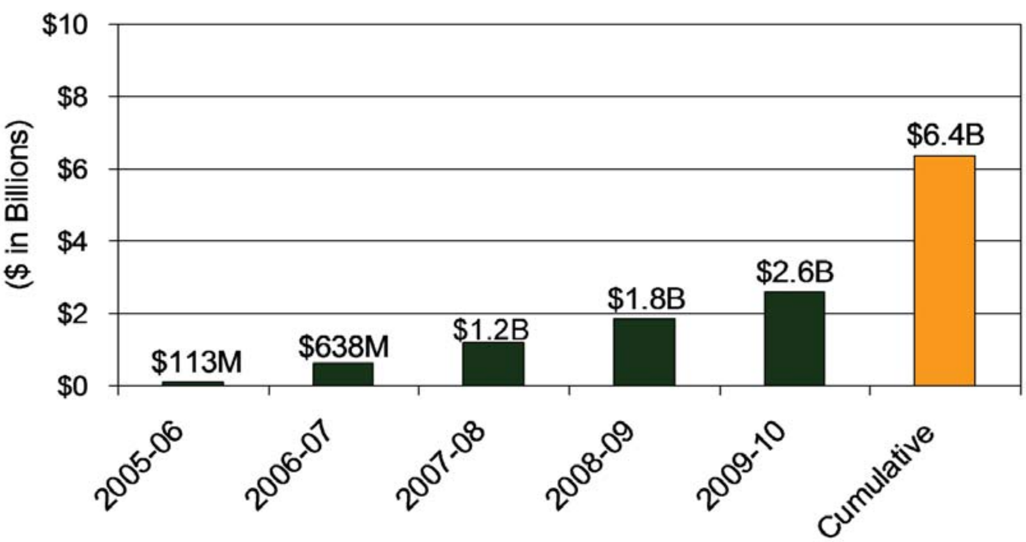


Figure 33

The Governor's historic Medicaid Cap, enacted in 2005-06, will save counties $6.4 billion from 2005-06 through 2009-10.

Family Health Plus Takeover

Enacted in 2001, the Family Health Plus program has been extremely successful in providing health care coverage to low-income parents and single adults who do not qualify for Medicaid. Family Health Plus enrollment continues to expand and is projected to reach 658,000 by the end of March 2007.

In January 2005, the State began a phased takeover of the local share of the Family Health Plus program, which was accelerated by the Governor last year for counties outside of New York City. As of January 1, 2006, local governments are no longer required to share in the cost of Family Health Plus. The Governor's Budget includes nearly $530 million in 2006-07 to support the full takeover of the local cost of this program. (Figure 34)

Family Health Plus Takeover Generates $2.5 Billion in Local Medicaid Relief

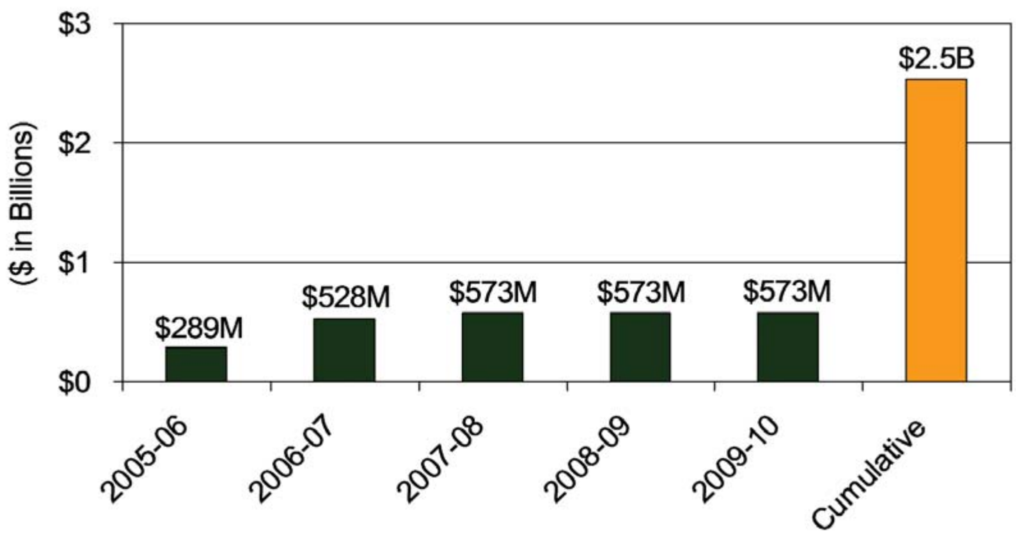


Figure 34

The State takeover of Family Health Plus will save counties $2.5 billion from 2005-06 through 2009-10.

Paving the Way to a Modern and Efficient Health Care Infrastructure

New York State is a national leader in the provision of high quality health care utilizing an extensive network of hospitals, nursing homes, community-based clinics and other health care providers. Changes in the delivery of health care over time have resulted in facilities going under-utilized. To address this issue, last year Governor Pataki proposed — and the Legislature enacted — a new bi-partisan Commission on Health Care Facilities in the 21st Century to make recommendations to improve the efficient delivery of health care and to stem the rising costs associated with maintaining an outdated institutional framework. (Figure 35)

Over the next year, the Commission will continue to evaluate the condition of existing hospitals and nursing homes, and develop recommendations — with input from the health care industry and regional leaders — on the appropriate long-term structure of the health care system statewide. The Commission's recommendations will be released in December 2006. These recommendations

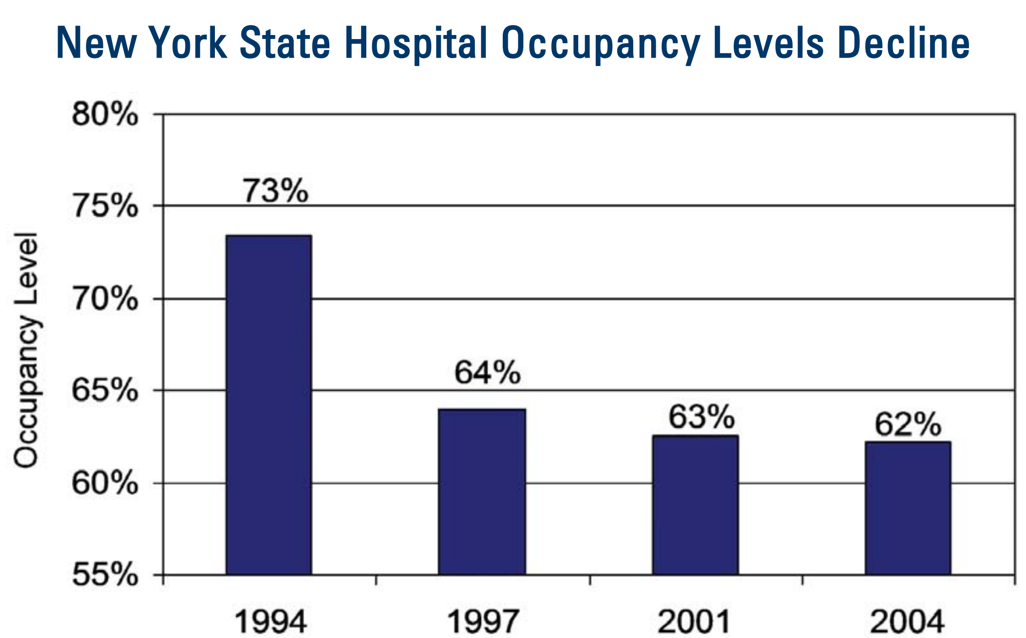


Figure 35

Changes in the health care delivery system have led to declines in hospital occupancy levels. The Commission on Health Care Facilities in the 21st Century will consider hospital occupancy levels, among other factors, as it develops recommendations to "right-size" New York's health care infrastructure. (Source: NYS SPARCS data) would become effective immediately unless rejected by the Legislature within 30 days.

The Governor's Budget also provides the resources to finance the reconfiguration of the health care system, consistent with the recommendations of the Commission. The Budget advances the second $250 million installment under the Health Care Efficiency and Affordability Law for New Yorkers (HEAL NY) — increasing the total amount of funding available to $500 million of the $1 billion pledged over four years to help facilitate the transition to a new and improved health care system.

Controlling the Growth in Hospital and Clinic Costs

New York's Medicaid spending on hospital and clinic services is the highest in the nation and nearly exceeds the two most populous states combined, California and Texas.

Accordingly, the 2006-07 Executive Budget recommends a series of initiatives that will generate State savings of $163 million, while maintaining the ability to deliver high quality services, by:

— Modifying reimbursement rates over three years for uncomplicated detoxification cases to promote efficiency, encourage more cost-effective treatment options, and provide financial incentives under a demonstration program to reduce inappropriate inpatient re-admissions;

— Limiting Graduate Medical Education (GME) Medicaid reimbursement to actual costs;

— Eliminating an outdated adjustment to hospital Medicaid rates that limits rate decreases if the hospital can demonstrate a decline in its average length of patient stays;

— Requiring providers to offset inflationary cost increases; and

— Enhancing the ability to selectively contract with hospitals to provide specialized high cost procedures.

Reforming and Improving the Long Term Care System

The Executive Budget advances necessary reforms to restructure the Long Term Care system. The existing system is expensive, overly reliant on institutional care and difficult for consumers to access and navigate. Accordingly, the Governor's proposal:

- **Closes Existing Eligibility Loopholes.** Legislation is proposed to close Medicaid loopholes that allow individuals to refuse to contribute any of their income and other assets toward the cost of health care for a spouse. Other rules regarding eligibility and the definition of estates will also be tightened.

- **Invests in the Expanded In-Home Services for the Elderly Program (EISEP).** This program provides services to help the elderly live with dignity and respect in the comfort of familiar surroundings. Accordingly, funding for EISEP will be increased by $15 million to $50 million in 2006-07, fulfilling the Governor's commitment to double program funding over two years.

- **Continues the "Access to Home" Program.** An additional $5 million, combined with $10 million included in the 2005-06 Budget, will be available to make the homes and apartments of low and moderate income New Yorkers with disabilities more accessible.

- **Expands Community-Based Services.** The Governor's Budget continues the unwavering commitment to serve New Yorkers in the least restrictive setting by providing $10 million, combined with available Federal matching funds, for targeted investments to expand and promote less expensive and more desirable community-based services.

Updating and Restructuring Nursing Home Reimbursement

The current nursing home reimbursement rates use 1983 data for labor costs, which account for approximately 80 percent of a nursing home's cost. Recognizing the need for reform, the Governor's Budget advances a comprehensive, multi-year proposal to restructure nursing home reimbursement.

Starting in January 2007 — and phased-in over five years — reimbursement rates will be updated using 2003 as the base year. To offset the cost of this "rebasing," outdated rate adjustments will be eliminated.

In conjunction with the restructuring, the Governor will establish a working group to conduct a comprehensive review of the rate methodologies for hospitals and nursing homes. The working group will advance reforms to make the State's investments consistent with the effort to eliminate unneeded institutional capacity.

The 2006-07 Executive Budget also recommends a series of savings initiatives to promote efficiencies and ensure program integrity:

- Delinquency billings will be initiated for all outstanding nursing home assessments immediately following the start of each calendar year.
- Changes will be instituted to the nursing home reimbursement methodology to discourage inappropriate provider billing that shifts costs to the State.
- The Adult Day Health Care reimbursement will be changed to reflect actual cost.
- Providers will be required to offset inflationary cost increases.
- Legislation will be advanced to permanently continue the six percent assessment on nursing home revenues. The assessment is reimbursable through the Medicaid program while the assessment on private payers qualifies for State tax deductions.

Transitioning to the New Federal Medicare Part D Drug Program

In 2005, the Federal Government enacted an historic program to assume the full cost of prescription drug coverage to all Medicare recipients. The new Federal Medicare prescription drug program (Part D) began January 1, 2006. As of this date, Federal Medicaid funding is no longer available to cover the prescription drug costs for those individuals who are enrolled in Medicare and Medicaid, commonly referred to as the "dual eligibles." This population, primarily the elderly and disabled, is now enrolled in Medicare Part D program for their prescription drug benefit.

The Governor's Budget provides resources to ensure that all dual eligible individuals have a safe and seamless transition to Medicare Part D for their prescription drug coverage. Annual funding of $5 million has been allocated in 2005-06 and 2006-07 to support a range of activities to assist the transition including education, training and coordination of benefits. The Budget includes over $200 million to support:

— A six-month transition period (through July 1, 2006) during which the Medicaid program will continue to fund all medically necessary drugs in the event they are not available under Part D; and

— Continuation of a "wrap around" benefit under Medicaid for certain critical drugs used in the treatment of mental illness, HIV/AIDS and organ transplants.

Medicare Part D will benefit many seniors enrolled in the State's EPIC program and result in savings as the Federal program offsets drug costs for EPIC-enrolled seniors. To promote voluntary participation in Part D, last year the State enacted a statutory change to waive EPIC enrollment fees for seniors who enroll in Part D. Approximately 72,000 EPIC seniors are expected to enroll in this program voluntarily.

To increase enrollment and maximize the enhanced Federal Part D benefit available to low-income seniors, the Executive Budget would require approximately 91,000 eligible low-income seniors to participate in Part D as a condition of EPIC enrollment. Eligible seniors will benefit from the Part D Low Income Subsidy by receiving their drug coverage free from premiums and deductibles and from the lower co-pay requirements. EPIC would continue to provide a "wrap around" benefit to enrolled seniors if their drugs are not covered by a Part D Plan.

Advancing Pharmaceutical Savings Initiatives

The cost of prescription drugs in New York continues to be among the fastest growing components of the Budget, increasing at an average annual rate of approximately 18 percent for both the Medicaid and EPIC programs over the past 10 years. (Figure 36)

This dramatic growth threatens the State's fiscal ability to provide vital health care services to New Yorkers. Accordingly, the 2006-07 Executive Budget advances several measures to control drug costs, similar to those successfully employed by private sector

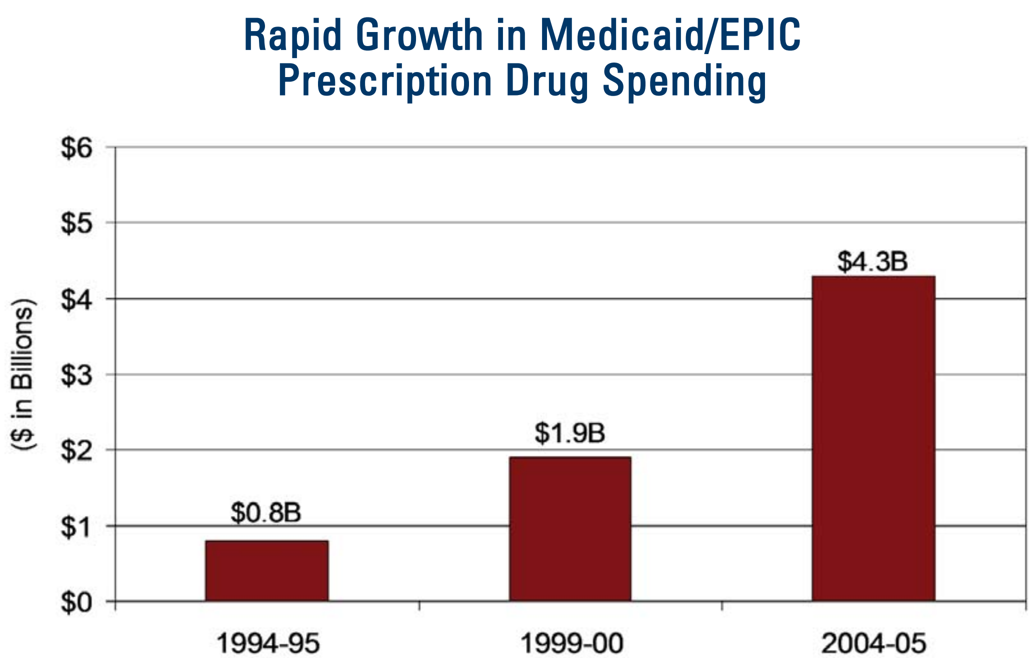


Figure 36

Pharmacy spending for Medicaid and EPIC programs continues to be one of the fastest growing cost components of health care, with average annual increases of nearly 18 percent. Left unabated, this rapid growth jeopardizes the State's ability to provide quality health care services to those who need it most.

health plans and other states. Proposed Executive Budget initiatives will save the State's Medicaid program $130 million and EPIC $42 million in 2006-07.

- **Strengthen the Preferred Drug Program**. The Governor's Budget enhances the Preferred Drug Program's ability to encourage the appropriate and cost effective use of prescription drugs. Proposed measures, similar to those employed by other states and private insurers, include the consideration of cost among the criteria in the review process, granting the Health Commissioner — rather than the physician — the final decision in authorizing drugs not included on the preferred drug list and establishing an appropriate exemption process. Certain life saving drugs used in the treatment of mental illness, HIV/AIDS and organ transplants will continue to be provided.
- **Rationalize Pharmacy Reimbursement.** This initiative will reduce pharmacy reimbursement rates from 12.75 to 15 percent below the Average Wholesale Price (AWP) for brand name drugs and from 16.5 to 30 percent below AWP for generic drugs in both the Medicaid and EPIC programs. This change will bring retail reimbursement rates more in line with actual acquisition costs.
- **Eliminate Funding for Certain Drugs.** This Budget eliminates Medicaid funding for drugs used in the treatment of erectile dysfunction, consistent with recently enacted Federal legislation which prohibits Federal Medicaid reimbursement for these drugs. In addition, such drugs will not be covered through EPIC.
- **Other Savings Actions**. The Department of Health will require prior authorization for early refills to combat fraudulent activity associated with chronic early refills or lost medications. In addition, the Department will expand efforts to maximize rebates from drug manufacturers.

Expanding Managed Care Enrollment

The Governor continues to pursue an aggressive expansion of Medicaid managed care to improve the quality of care for recipients and the cost-effectiveness of health care. Under Governor Pataki's leadership, enrollment in managed care has more than tripled. Enrollment will be expanded by another 300,000 individuals as a result of initiatives proposed in the

2006-07 Executive Budget, bringing the total number of enrollees to 2.3 million by the end of 2006-07. Specifically, the Budget:

- Accelerates the mandatory enrollment of Supplemental Security Income (SSI) individuals into managed care for their health care benefits.
- Establishes State-sponsored managed care programs to provide mental health and chemical dependence services to individuals with co-occurring disorders.
- Requires any remaining voluntary counties which currently have two managed care plans to start mandatory enrollment in April 2006.
- Advances legislation to allow certain rural counties with a single managed care plan to implement mandatory enrollment if the plan meets quality of care standards.

Advancing Other Cost Savings Initiatives

The Governor's proposed Budget advances several other measures to achieve efficiencies in the Medicaid and Family Health Plus programs. These reforms are necessary to protect the integrity of the program and to ensure that funding is available for future growth. Specifically, the 2006-07 Executive Budget:

- **Eliminates Guaranteed Eligibility for Managed Care and Family Health Plus**. The Budget eliminates the current six-month health insurance coverage guarantee for enrollees who are no longer eligible for Medicaid managed care or Family Health Plus due to changes in employment status, enhanced earnings or other factors.
- **Advances Family Health Plus Reforms**. Legislation is proposed to close an eligibility loophole in the Family Health Plus program by eliminating the ability of large businesses — those with more than 100 employees — to shift health care expenses to the State. In addition, the legislation increases co-pays for the inappropriate use of emergency services and requires mandatory co-payments to preserve the affordability of the program.
- **Provides Flexibility for Transportation Services**. The administration of the transportation program will be modified to allow local governments greater flexibility in arranging services and negotiating contracts.

Ensuring the Long Term Fiscal Stability of the Health Care Reform Act

The Governor's 2006-07 Executive Budget builds upon his longstanding commitment to the health and well-being of New Yorkers by proposing legislation to maximize revenues, reduce costs where feasible and advance new targeted funding for important initiatives. Specifically, the Budget will:

- Increase the State tax on cigarettes to $2.50 per pack — up from $1.50—and dedicate the proceeds to HCRA. The total tax on cigarettes in New York City would continue to be $3.00 per pack. As a result, $55 million in additional funds are made available for tobacco control and cancer research programs, bringing anti-smoking funding to $95 million – the amount recommended by the Federal Centers for Disease Control (CDC).
- Continue critical health care workforce recruitment and retention funding enacted in 2002.
- Dedicate all proceeds from the conversion of any not-for-profit insurer to for profit status — similar to the Empire Blue Cross conversion — to HCRA.
- Provide $25 million in funding from HEAL NY to support Roswell Park Cancer Institute capital projects. In addition, $15 million of new funds made available for anti-smoking efforts from the cigarette tax increase will support cancer research activities at the Institute.
- Require the timely billing of hospitals and insurers that are delinquent in submitting HCRA payments.
- Add $65 million in additional premiums for Excess Medical Malpractice funding to assure a sufficient number of physicians continue to practice in high-risk professions and provide adequate access to care for high-risk patients.
- Reduce funding for the worker retraining program and eliminate funding for the long-term care revitalization program, which lacks statutory authorization. Many of the facilities which may have been funded through long-term care revitalization will receive additional funding through the nursing home rebasing initiative. These actions, when combined with other recommendations, will provide General Fund savings and ensure adequate funding to support HCRA through its sunset date of June 30, 2007.

Strengthening Public Health Programs

In addition to proposals to reform Medicaid, the Governor's Budget advances several initiatives to enhance public health services, while achieving cost savings and improving program effectiveness.

The Biotech Research Initiative

New York State historically has been a leader in scientific research and technological innovation. Combining the two and continuing New York's leadership role, the Governor will propose a $600 million biotech initiative financed with $450 million in private matching funds and $150 million in public funds. This biotech initiative will help fuel even more research, jobs and opportunities in the Empire State.

Preparing for Public Health Emergency

The Governor's Budget recommends funding to position the State to effectively respond to public health emergencies. Specifically, the Budget includes:

- $29 million from the Health Care Reform Act to purchase and stockpile necessary medications and supplies to respond in the event of a pandemic outbreak, such as the avian flu.
- $20 million for a reserve fund through the General Public Health Work Program that would be available to the State and counties in the event of a public health emergency.

Improving the Early Intervention Program

The Early Intervention (EI) program provides services to developmentally delayed infants and toddlers at no cost to parents. Approximately 76,000 children are expected to be enrolled in the Early Intervention program in 2006-07.

To strengthen EI's fiscal and program management and maintain necessary services, the Executive Budget:

- Requires private insurance plans to reimburse EI for medical costs that are covered by such plans' policies. Currently, only two percent of such eligible costs are paid through insurance.
- Proposes the use of a statewide fiscal agent to strengthen fiscal oversight and streamline State and local administration of the EI program.
- Secures the availability of respite services for families of severely disabled EI children by providing $2 million in additional funding.

The Department of Health will jointly chair a task force with the State Education Department to make recommendations regarding the appropriate relationship between EI and preschool special education.

Sustaining and Enhancing Essential Public Health Services

The 2006-07 Executive Budget includes nearly $2.7 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:

- $232 million for the General Public Health Work (GPHW) program, including funding to increase State base grant funding levels by $100,000 and to allow increased reimbursement of optional services — up to 36 percent — contingent upon meeting performance objectives.
- $97.7 million to address women's health care and the nutritional needs of women, infants and children.
- $81.1 million for the State-operated nursing homes for veterans and their dependents in New York City, Oxford, Batavia and Montrose.
- $78 million in HCRA funding for the Roswell Park Cancer Institute in Buffalo.
- $24.7 million to support the capital and equipment needs of the Wadsworth Laboratories, including $15 million in new funding for these purposes.
- $11.4 million for the newborn screening program, which provides free screenings of 45 disorders to the 250,000 infants born each year in the State. New York provides the most comprehensive free newborn screening program in the nation.
- $6.7 million for regional perinatal centers, an increase of $4.3 million to improve the collection and distribution of data on the quality of care provided to newborns and their mothers.
- $2.6 million to fight childhood obesity, including additional funds to more than double the number of after-school program contracts.
- $2.5 million to promote sexual abstinence and prevent pregnancy among adolescents.
- $1.3 million for expanded disease prevention, surveillance and treatment activities.
- $500,000 to conduct pre-marital genetic screening in the Orthodox and Hasidic Jewish community.

Leading the Fight Against AIDS

Under Governor Pataki, New York leads the nation in the fight against AIDS. The 2006-07 Executive Budget continues that longstanding commitment by including $3.4 billion to help New Yorkers and their loved ones combat HIV and AIDS.

Property Tax Relief & Local Government

Unprecedented Relief for Localities and their Taxpayers

Since 1995, Governor Pataki has attacked escalating real property taxes on many fronts, compiling a list of signature accomplishments that will provide growing relief to New York's local taxpayers for years to come. The Governor's groundbreaking STAR program has already directed nearly $18 billion in State revenue to reduce the school property tax bills of local taxpayers. An historic agreement to cap local Medicaid costs will save counties and their taxpayers $6.4 billion over five years. In cities throughout the State, a new Aid and Incentives for Municipalities (AIM) initiative is easing local property tax burdens by substantially increasing State financial assistance.

Building upon this impressive record, the Governor's Budget advances further relief for localities and taxpayers by:

- Providing new STAR Plus tax rebates of $400 to homeowners in school districts that control spending. The new rebates are expected to provide $530 million in 2006-07.
- Increasing AIM funding by $50 million with new fiscal performance criteria that will alleviate property tax burdens in 61 cities across the State. During its first two years, AIM will

Budget Highlights

STAR Plus

- Creates a new **$530 million** STAR Plus program to provide additional tax relief to homeowners in school districts that control spending.

STAR

- Provides retrospective cost of living adjustments to the enhanced STAR exemption for senior citizens.

Local Government

- Provides **$50 million** in additional AIM funding to municipalities across the State to be used for local real property tax relief.
- Includes **$634 million** in additional school aid – the largest increase ever proposed by a Governor.
- Encourages the sharing of services among local governments by increasing the Shared Municipal Services Incentive Awards Program from $2.75 million to **$25 million**.
- Provides more than **$1.1 billion** to support the cap on local Medicaid expenditures and the State takeover of the Family Health Plus Program.
- Provides an additional **$395 million** in State assistance for local governments, building upon nearly **$10 billion** in positive impacts added by State Budgets in the previous eleven-year period.

have distributed more than $160 million in additional State assistance to eligible municipalities.

- Seeking a nine-fold increase in State incentive grants to encourage all municipalities to control local tax growth by sharing services and reducing unnecessary layers of government.
- Proposing a range of local cost saving initiatives in areas such as criminal justice and public health, while pursuing mandate relief from rising expenses that cannot easily be controlled at the local level.

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.

- The Governor's STAR program has saved New York State taxpayers $17.9 billion in school taxes since its inception. In 2006-07, STAR will save taxpayers another $3.4 billion. (Figure 37)

Statewide STAR Savings Continue to Grow

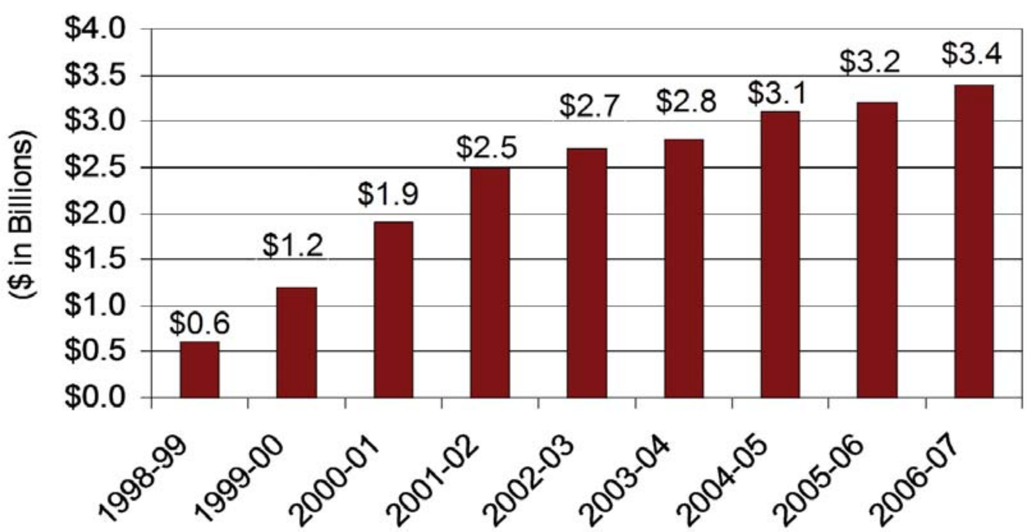


Figure 37

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 $3.4 billion in 2006-07 from STAR, plus an estimated $530 million in STAR Plus.

Average STAR Savings for Homeowners

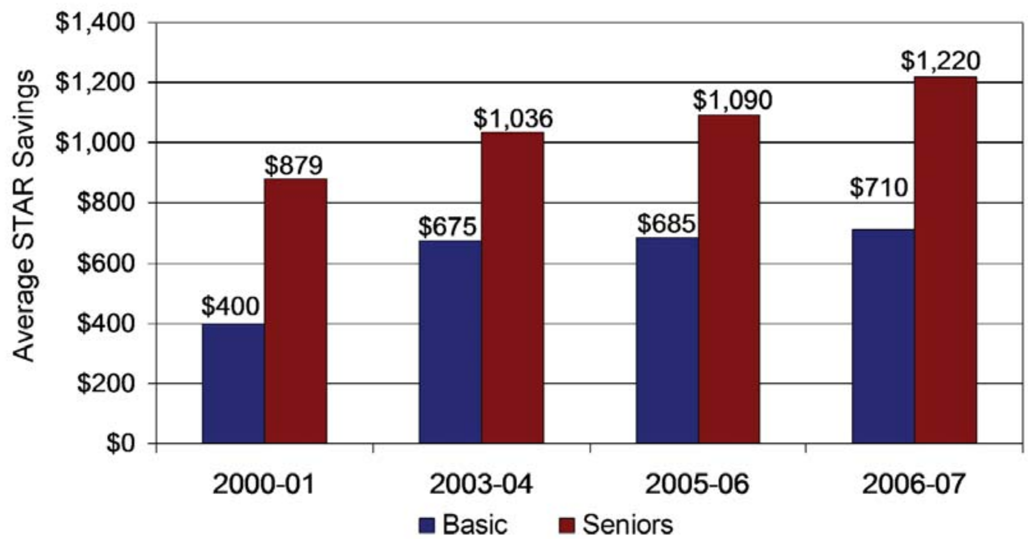


Figure 38

In 2006-07, the average school tax savings for senior homeowners eligible for the enhanced STAR exemption will be $1,220. The average savings for other homeowners will be $710.

- STAR will provide nearly 620,000 senior citizens an average property tax savings of $1,220 in 2006-07. For 2006-07, the Cost of Living Adjustment (COLA) will increase the income eligibility limit for the enhanced STAR exemption by $1,400 from $64,650 to $66,050. This adjustment will ensure that small increases in retirement benefits do not disqualify seniors for enhanced STAR. (Figure 38)
- Nearly 2.7 million other homeowners will receive STAR benefits, saving an average of $710 in 2006-07.
- In addition to school property tax relief, New York City residents will receive $668 million in 2006-07 in City personal income tax relief through the STAR program – which has already reduced the City personal income tax by 10 percent on average.

STAR: Enhanced Savings for Seniors

The 2006-07 Executive Budget protects senior citizens from the impact of inflation on their enhanced STAR exemption. For the 2006-07 school year, the $50,000 STAR exemption for income eligible senior citizens will be adjusted to $56,800 to reflect increases in the cost of living since the full implementation of STAR in 2001. This will generate additional STAR savings to seniors of $72 million in 2006-07.

STAR Plus: Additional Tax Relief for Homeowners

A new STAR Plus program is proposed for 2006-07 to recognize and reward homeowners in school districts that restrain spending.

- Under STAR Plus, a rebate check of $400 will be provided to homeowners in school districts that restrain spending growth within the amounts allowed under the proposed school spending cap. STAR Plus will provide an estimated $530 million in taxpayer savings in 2006-07.
- The cap on school spending increases will be set at the lesser of 4 percent or 120 percent of the increase in the Consumer Price Index (CPI), with exceptions that include enrollment increases and capital expenses already approved by voters.

AIM: Enhancing Local Fiscal Stability and Performance

Enacted in 2005-06, the Governor's AIM program combined multiple local unrestricted aid categories within a single funding stream designed to minimize property tax growth while enhancing local fiscal performance. The 2006-07 Executive Budget increases AIM payments to municipalities by $50 million and features new performance criteria for cities that directly encourage property tax relief. With this recommended increase, annual AIM assistance will have grown by $106 million in just two years to $900 million – thereby fulfilling the Governor's commitment to increase State aid for most cities by 25 percent. Key features of the 2006-07 AIM initiative include:

Fiscal Performance Increases for Cities: On top of the 12.75 percent AIM increases provided in 2005-06, all 61 cities outside New York City will be eligible for additional increases ranging from 3.25 percent to 11 percent, based on per capita property wealth measures. Over this two-year period, 42 high need cities eligible for the maximum AIM funding will receive a 25 percent aid increase. To qualify for AIM increases in 2006-07, all cities will be required to use the additional State funding to provide property tax relief by reducing local property tax levies or addressing budget gaps identified in local multi-year financial plans. (Figure 39)

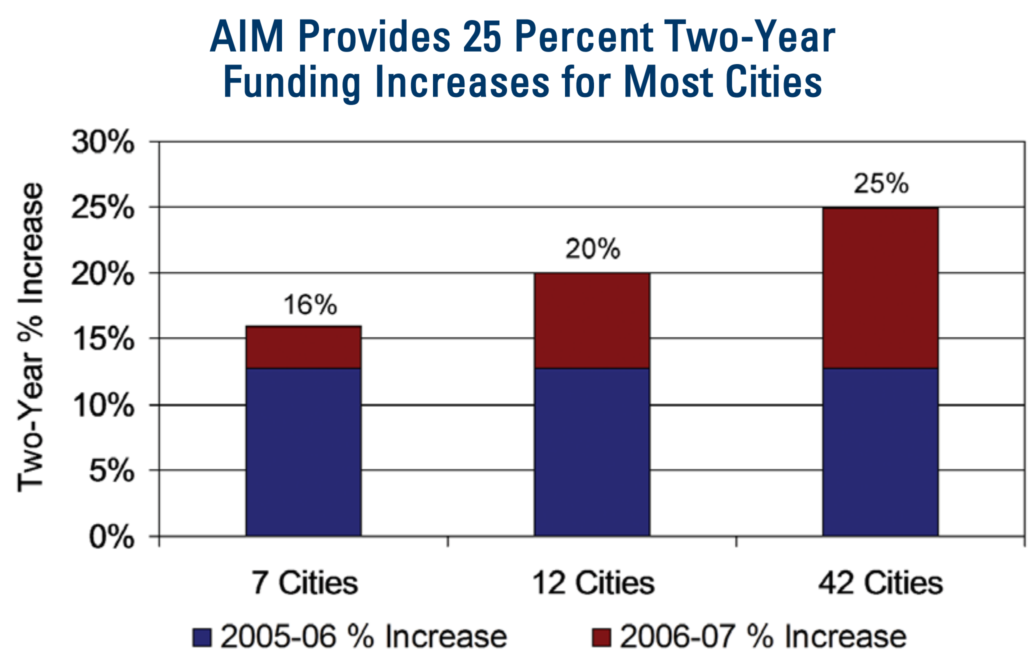


Figure 39

The largest increases in AIM funding are targeted to cities with the greatest need based upon a city's population and value of real property per capita. State aid for the 42 highest need cities will increase by 25 percent from 2004-05 funding levels, while the remaining 19 cities will either receive a 20 percent increase or a 16 percent increase over the two-year period.

Additional Aid Increases for Towns and Villages: Following a 3.75 percent increase in 2005-06, all 1,485 of the State's towns and villages will receive additional AIM increases of 3.25 percent in 2006-07, raising aid for towns and villages by $4.5 million over a two-year period.

Governor's Accomplishments

STAR

- The Governor's STAR program has saved New York State taxpayers **$17.9 billion** since its inception. In 2006-07, STAR will save taxpayers another **$3.4 billion**, plus an estimated **$530 million** in savings from STAR Plus.

Local Government

- Reformed the State's policies on aid to local governments by linking State aid increases to local fiscal performance under the Aid and Incentives for Municipalities Program (AIM).
- Increased unrestricted aid by **$273 million, or 47 percent** since 1994-95. Within this amount, aid to cities (outside NYC) has increased by **$250 million, or 117 percent.**
- Provided nearly **$10 billion** in positive impacts for local governments in enacted budgets since 1995-96, with an additional **$395 million** proposed in the 2006-07 Executive Budget.
- Enacted numerous measures providing substantial benefits to New York City, including school governance reform, the New York City Watershed pact, successfully resolving the Port Authority rental agreement for the New York City airports, welfare reform and capping local Medicaid expenses. Changes in the criminal justice system have helped reduce violent crime in New York City by approximately **61 percent** since 1995.

New Fiscal Performance Awards Beginning in 2007-08: Upon completion of its initial two-year program period, AIM will shift to a full performance-based approach that directly rewards successful local property tax relief efforts. In 2007-08, all cities outside New York City as well as towns and villages will receive a minimum annual 2.5 percent AIM increase. To receive additional AIM "performance awards" providing up to a 7.5 percent annual aid increase, eligible municipalities must submit fiscal performance reports to the State that document local property tax relief efforts. These new AIM increases are expected to generate another $50 million in State support during 2007-08, with commensurate increases continuing in each year thereafter.

Sharing Services to Reduce the Cost of Local Government

To effectively contain property tax growth, New York's 1,604 local governments must broaden their efforts to reduce spending by sharing services. In 2006-07, the Governor's AIM initiative will encourage these local shared service activities by increasing funding for the Shared Municipal Services Incentive (SMSI) program from $2.75 million to $25 million. Major components of this initiative include:

Expansion of Existing SMSI Awards: The current $2.75 million SMSI program funds cooperative efforts by two or more municipalities to achieve savings through eligible activities ranging from shared services to consolidation or merger. In 2006-07, the existing program will be increased to $5.5 million, with the maximum grant level raised from $100,000 to $200,000. In addition, the program will be expanded to include special purpose units of government such as fire districts and water districts.

Local Highway Services Grants: Highway services, currently provided by virtually all counties, cities, towns and villages, offer significant opportunities for cost savings through the local sharing of staff, equipment and facilities. Within the SMSI program, $4 million will be provided in 2006-07 to fund grants of up to $300,000 to support shared highway services.

Local Employee Health Insurance Incentive Grants: An additional $4.5 million in SMSI funding will encourage local efforts to control rapidly rising employee health insurance costs that are consuming limited property tax resources. SMSI awards of up to $500,000 will be available for activities including start-up funding for municipal health insurance consortiums, matching grants for local savings achieved by joining the State's health insurance plan, and incentive grants to encourage local collective bargaining agreements that reflect employee health insurance cost sharing.

Countywide Shared Services Plans: Counties are well positioned to lead local efforts to share government services. An additional $1 million is provided within SMSI to support State grants of up to $300,000 for counties that initiate countywide service sharing arrangements involving at least half of the cities, towns, villages and school districts within their borders.

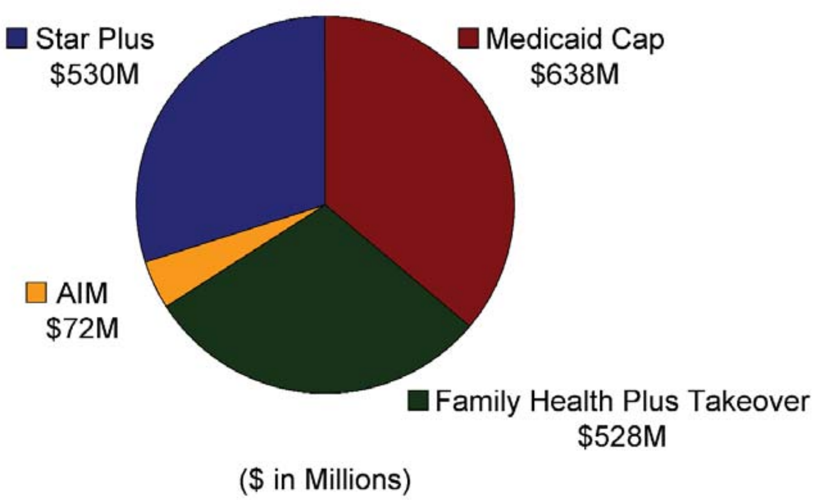
Municipal Consolidation Incentive Funding: In addition to regular SMSI grants to support local planning costs associated with the consolidation of local governments, $10 million in new funding is provided to match local savings achieved through these efforts. These matching grants of up to $1 million will help localities offset one-time costs related to local consolidations.

Setting the Stage for Further Property Tax Relief

From 1995-96 to 2005-06, enacted State Budgets have yielded nearly $10 billion in positive fiscal impacts for local governments. The Governor's 2006-07 Budget adds $395 million to this total, while also providing more than $1.1 billion to support the Medicaid Cap enacted last year as well as the State takeover of the Family Health Plus program. (Figure 40) Specifically, the Budget will:

Fund the Cap on Local Medicaid Costs and The State Takeover of Family Health Plus: In 2006-07, the Budget includes nearly $640 million to support additional State costs associated with the Governor's Medicaid Cap. By 2009-10, additional State relief to counties and New York City under the Cap will increase to $2.6 billion. Along with the Medicaid Cap, the State accelerated its takeover of the Family Health Plus program in 2005-06. In the coming year, local savings under this takeover initiative are projected at $528 million.

Nearly $2 Billion in New Relief for Local Governments and Taxpayers



The Executive Budget supports a series of State initiatives that will generate substantial local property tax relief in 2006-07. New initiatives include $400 STAR Plus rebates that total $530 million in 2006-07, as well as further AIM increases that will raise local aid levels by $50 million while expanding State support for shared services by $22 million.

Impact of the 2006-07 Executive Budget On Local Governments State Fiscal Year Basis

($ in Millions)

	Total	Counties	NYC	Other Locals	School Districts
Aid and Incentives for Municipalities	72.3	6.1	N/A	66.2	N/A
School Aid	181.2	N/A	72.7	N/A	108.5
Welfare	41.1	15.4	25.7	N/A	N/A
Public Protection	24.8	17.3	7.5	N/A	N/A
Transportation	27.9	17.1	10.8	N/A	N/A
Public Health	18.4	8.2	10.2	N/A	N/A
All Other Proposals	29.1	24.8	-4.1	8.4	0.0
Subtotal	**394.8**	**88.9**	**122.8**	**74.6**	**108.5**
Medicaid Cap	638.0	233.0	405.0	N/A	N/A
Family Health Plus Takeover	528.0	158.0	370.0	N/A	N/A
Total Local Impact	**1,560.8**	**479.9**	**897.8**	**74.6**	**108.5**

Figure 40

Along with the nearly $395 million in new positive local impacts, the Budget provides more than $1.1 billion to fund the cap on local Medicaid costs and the State takeover of Family Health Plus.

Provide Essential Mandate Relief: The Governor is 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 is proposing to reform binding arbitration practices, relieve local governments of certain litigation costs and modernize local procurement practices.

Continue Record School Aid Increases: Governor Pataki is proposing a school aid increase of $634 million in 2006-07, the largest ever proposed by a Governor. In the coming year, school districts will receive a record $16.9 billion in total State aid.

Strengthen State/County Criminal Justice Partnership: The State's Director of Criminal Justice will partner with county officials to identify opportunities to reduce the time spent by parole violators in local jails, and to craft successful strategies for offenders returning to the community. In addition, the State will increase the reimbursement rate to local jails for housing parole violators and inmates ready for transfer to State prisons.

Create a new VLT Impact Aid: Eligible municipalities in which Video Lottery Terminal (VLT) facilities are located would receive VLT Impact Aid from the State beginning in 2007-08. This new funding source would provide New York City and Yonkers with $20 million to increase support for their dependent school districts. Other smaller municipalities would receive up to $700,000 to help offset the local cost of hosting these facilities while minimizing local property tax growth.

Increase Funding for Quality Communities (QC): The Governor's Budget includes $5 million in the Environmental Protection Fund for the QC program, a $2 million increase from the 2005-06 program level. These funds will again be used to support innovative solutions to enhance quality of life in communities throughout the State.

New York State and New York City: A Proven Partnership Yields Success

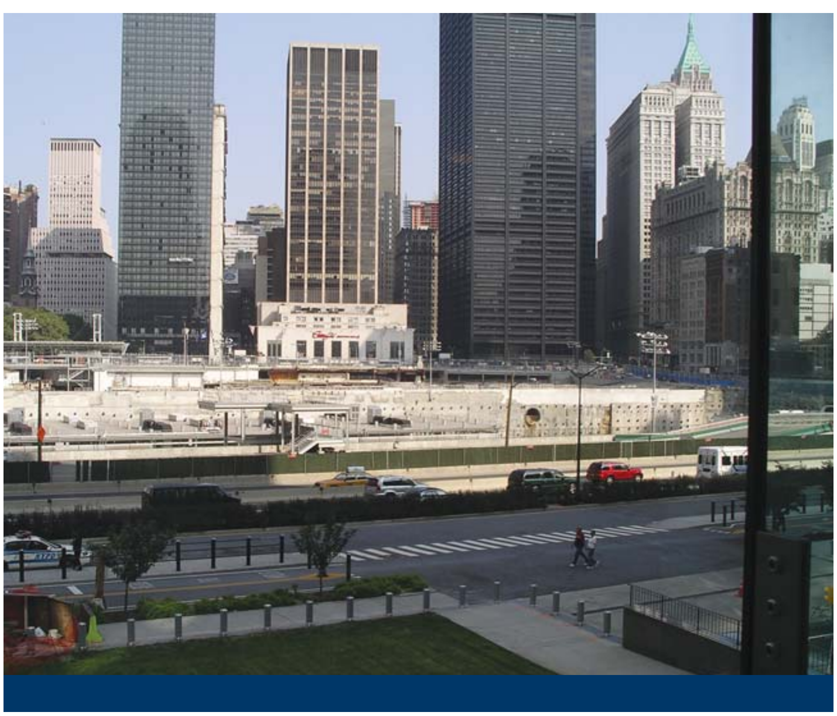
Under Governor Pataki's leadership, the State has consistently increased aid to New York City while making key economic investments that have benefited both the City and its taxpayers. Since 1994-95, on a City fiscal year basis, State Budgets have generated over $6 billion in new assistance and cost savings for New York City. The results of this partnership are readily apparent — the City's economy is stronger and more robust than ever.

The State's successful efforts to cap local Medicaid costs and take over the local share of the Family Health Plus program will have a dramatic impact on New York City's budget. Including a one-time $450 million benefit associated with the transition to the new Medicaid Cap, the City will realize an estimated $1.3 billion savings in its 2007 City fiscal year as a result of these State actions. In addition, the Governor's 2006-07 Executive Budget will provide further increases and benefits that include:

- Continued growth in school funding. In addition to an increase in traditional school aid of $103.9 million, New York City is expected to receive a substantial portion of the $375 million Sound Basic Education (SBE) Aid increase that will be held in reserve pursuant to a plan to allocate such additional aid to promote the provision of a sound basic education in schools throughout the State. The new aid included in this Budget is in addition to the $6.1 billion, or 85 percent increase, in school aid provided to New York City since 1994-95.

- New York City families are expected to receive more than 60 percent of the $400 million estimated cost of the Governor's proposed Education Tax Credit. This proposed $500 refundable income tax credit can be used to support tutoring, after-school programs and other eligible education expenses.
- Additional funding of $7.5 million for vital criminal justice initiatives. Crime in New York State is at its lowest levels since statewide crime reporting began nearly 40 years ago. To continue this positive trend, the Executive Budget proposes enhancing both DNA processing capabilities and District Attorney staffing. Building on the Governor's recently enacted crime-fighting legislation designed to keep illegal guns off our streets, the Executive Budget provides funding for local police and prosecution activities related to this gun trafficking initiative.

Finally, during the Governor's tenure, the State has also provided essential assistance to New York City through a number of landmark economic development initiatives, such as the redevelopment of Times Square and the planned expansion of the Javits Convention Center. Most importantly, the recovery and rebuilding of Lower Manhattan and surrounding areas has been the Governor's first priority since the moment of the September 11th terrorist attacks. Working with the City, the State secured nearly $21 billion in Federal assistance for rebuilding the World Trade Center and surrounding areas in Lower Manhattan — and the work of rebuilding is now well underway.



Environment

Preserving New York's Environment and Natural Resources

Governor Pataki has fought hard to create a cleaner, healthier environment for all New Yorkers. He has made New York a national leader in open space preservation and the adoption of tough clean air and clean water standards.

Since taking office, Governor Pataki has invested nearly $15 billion in an aggressive and comprehensive strategy to protect the State's environment and natural resources.

- More than 932,000 acres of open space have been preserved.
- The protection of rivers, eco-systems and watersheds has been expanded. (Map1)
- The Superfund/Brownfields Program is funding the cleanup and remediation of hazardous sites across the State.
- The $1.75 billion Clean Water/Clean Air Bond Act continues to support efforts to protect the quality of our air and water and the long-term health of the environment.

Budget Highlights

- Supports funding for environmental programs of more than **$1.4 billion** — an **85.2 percent** increase since 1995-96.
- Recommends **$180 million** for the Environmental Protection Fund (EPF) — a **20 percent** increase since 2005-06, a more than **700 percent** increase above the 1995 level.
- Continues funding for the Superfund/Brownfields program.
- Provides new funding and staff to ensure that wetlands are preserved and State lands are carefully managed, and for other health and safety regulatory functions.
- Includes **$40 million** in new capital funding to replace the Department of Agriculture and Markets' food laboratory.

Governor's Accomplishments

- Under Governor Pataki's leadership, nearly **$15 billion** has been committed for environmental programs. Annual funding has grown by **85.2 percent** with more than **$1.4 billion** now being invested each year.
- Governor Pataki has preserved more than **932,000 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;
  - — Champion lands — 139,000 acres;
  - — Domtar Industries — 104,000 acres;
  - — Sterling Forest — 18,217 acres;
  - — Whitney property — 15,000 acres; and
  - — Long Island Pine Barrens — 6,700 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 **22 new State parks.** In his 2004 State of the State address, Governor Pataki committed to opening even more State parks. The recent acquisitions of the Robert Riddell State Park in Otsego County and Amsterdam Beach on Long Island and the opening of Two Rivers State Park in Tioga County are three steps toward achieving this goal.
- Comprehensive legislation was adopted in 2003 to refinance and reform the State's Superfund Program and create a new State Brownfields Cleanup Program.
- 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 more energy efficient and construct "environmentally friendly" buildings.

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

Implementing the Landmark Superfund/Brownfields Program

The Superfund refinancing and reform legislation signed into law in 2003 provides up to $135 million in annual funding and an estimated $165 million in annual tax credits to accelerate the cleanup and redevelopment of contaminated sites throughout the State — returning them to private or public sector use.

Since the Governor signed this historic legislation, the Department of Environmental Conservation (DEC) has received and initiated review of more than 416 applications for the Brownfields Cleanup Program, Environmental Restoration Program and 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 68 percent of all cleanup costs. Under this program, nearly $4.3 billion has been committed by responsible parties to the cleanup of hazardous waste sites.

Improving Environmental Quality

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

- Providing $11.1 billion in assistance from the Environmental Facilities Corporation for compliance with Federal and State requirements related to air pollution control, drinking water and wastewater treatment, and solid and hazardous waste disposal. (Figure 41)

Impact of State Revolving Funds Grows to More Than $11 Billion

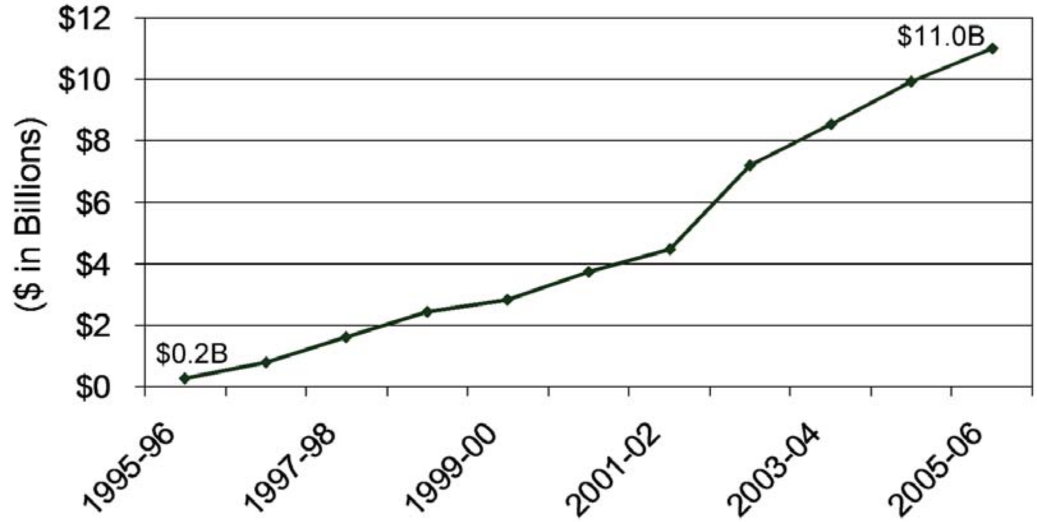
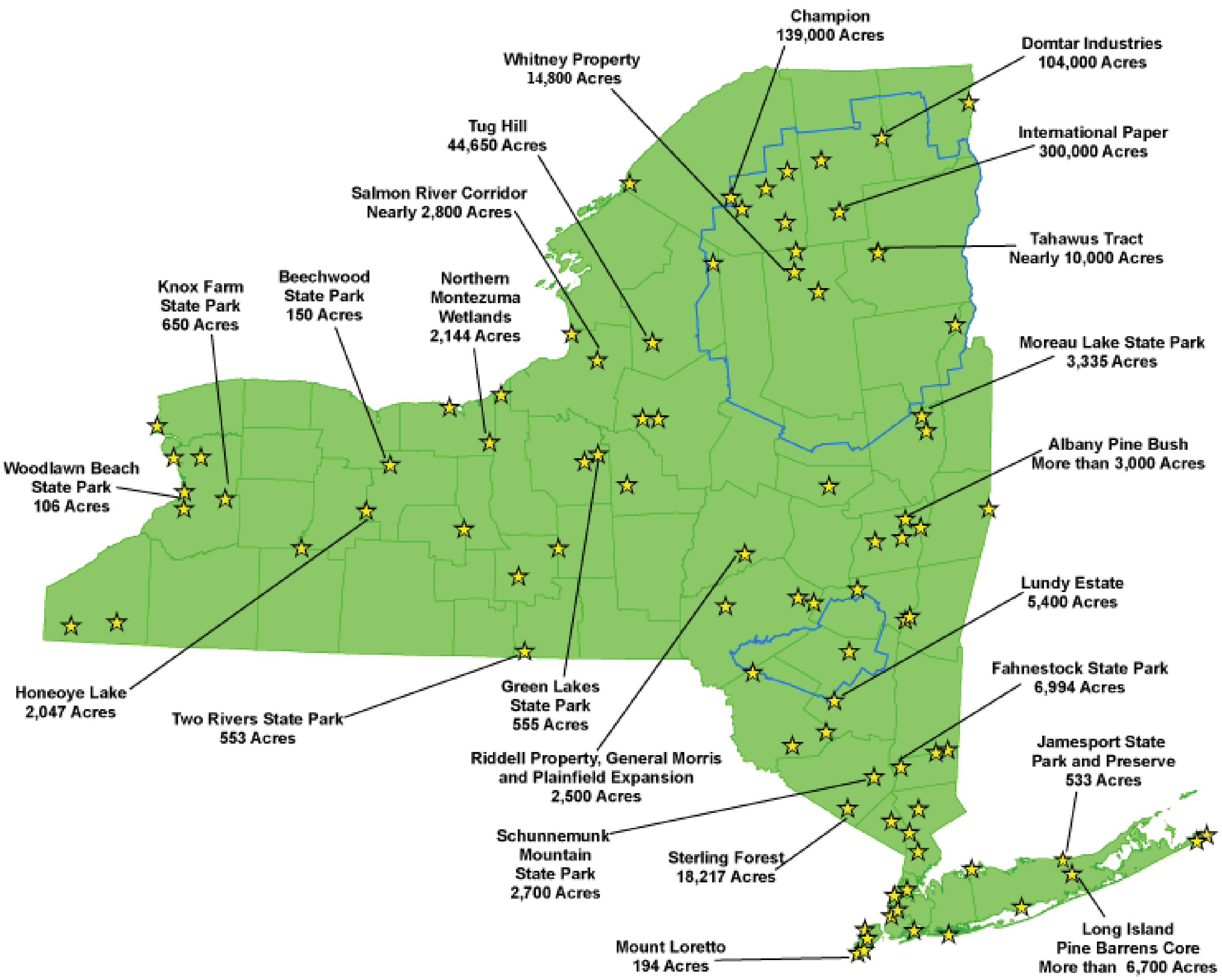


Figure 41

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 more than $11 billion.

- Continuing the first-of-its-kind tax credit for the construction of environmentally friendly "green buildings." This successful program, expanded in 2005-06 with $25 million of additional tax credits, will be continued in 2006-07.
- Asking the New York State Public Service Commission to implement a renewable portfolio standard which will guarantee that 25 percent of the electric power sold in New York is generated from renewable sources by the year 2013.
- 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 $300 million annually in energy efficiency and renewable energy programs throughout New York, helping to reduce energy costs significantly for New Yorkers while creating or sustaining nearly 5,000 jobs.

1995-2005 Major Open Space Conservation Projects by NYS DEC and OPRHP



Map 1

Protecting the Environment

The 2006-07 Executive Budget increases annual funding for the Environmental Protection Fund (EPF) to $180 million. (Figure 42) This funding will support:

- $69 million for land acquisition, open space preservation, urban forestry and farmland protection;
- $16 million for State parks and lands stewardship and biodiversity stewardship, including funding for State fish hatchery improvements;
- $15 million for solid waste projects, including landfill closure projects ($3 million), municipal recycling ($6 million), and secondary materials marketing grants ($6 million);
- $13.3 million for municipal parks and historic preservation projects;
- $13.25 million for waterfront revitalization projects;
- $12 million for non-point source pollution control projects;
- $6 million for a new Oceans and Great Lakes initiative ($1 million) and water quality improvement projects ($5 million) that will be part of a new EPF Water Account;
- $6 million for the Zoos, Botanical Gardens and Aquaria program;
- $5 million for the development of the Hudson River Park;
- $5 million for implementation of the Hudson River Estuary Management Plan;
- $5 million for Quality Communities grants to municipalities for land use and other planning;
- $3.85 million for other environmental initiatives, including: Albany Pine Bush Commission ($800,000), Long Island Central Pine Barrens Commission ($950,000), South Shore Estuary Reserve ($600,000), and the Finger Lakes-Lake Ontario Watershed Protection Alliance ($1.5 million);

— $2.5 million for the pesticide use database;

— $2.5 million to restore and preserve historic barns;

— $2.3 million for Soil and Water Conservation Districts;

— $2 million for implementation of the Invasive Species Task Force report; and

— $1.3 million to assess natural resource damages to the Hudson River.

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

— 43 new positions for the Department of Environmental Conservation, including 15 staff for DEC stewardship and land management projects; 7 positions for enhanced wetlands regulation; and 21 staff for critical inspection and compliance functions such as concentrated animal feeding operations;

Environmental Protection Fund Dramatically Increases Under Governor Pataki

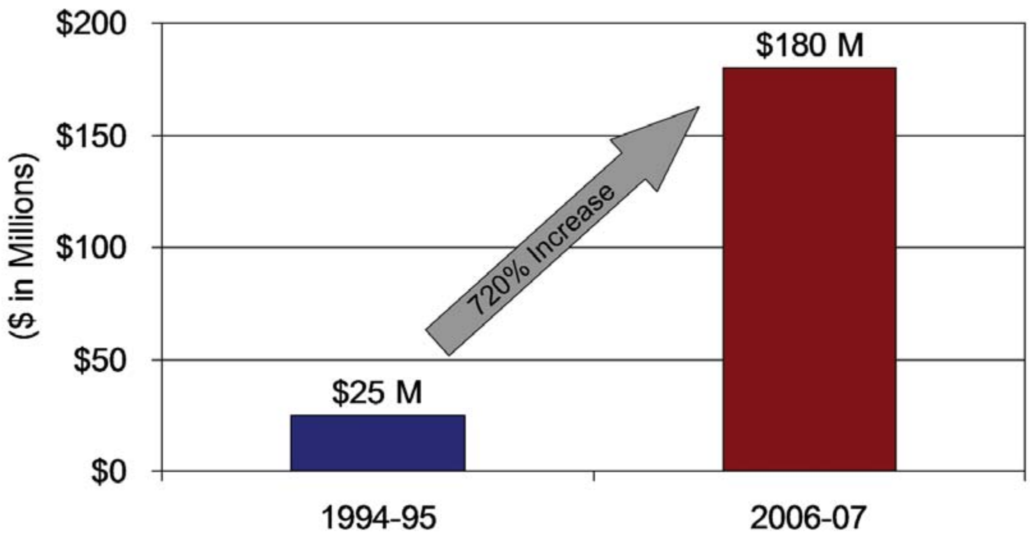


Figure 42

Since Governor Pataki took office, annual EPF funding has increased from $25 million to $180 million, bringing cumulative EPF funding since 1995 to nearly $1.5 billion.

— $177.6 million in new State and Federal funds for the State Revolving Fund low-interest loan program to build and rehabilitate municipal sewage treatment facilities;

— $63.2 million for clean air programs to limit pollution from industrial and commercial sources, automobiles and heavy-duty vehicles — thus protecting the health of our citizens and the environment from harmful air pollutants;

— $52.6 million for fish and wildlife programs that are financed with hunting and fishing license fees; and

— $27.5 million for the Waste Tire Management and Recycling Program to address the problem of waste tire disposal.

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, 22 new State parks have been created. 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 $115 million.

Governor Pataki's 2006-07 Executive Budget maintains his commitment to providing New Yorkers and visitors with high-quality recreational opportunities. The Governor's Budget provides:

— $194.5 million to support the 172 existing parks and 35 historic sites operated by the Office of Parks, Recreation and Historic Preservation;

— $31.2 million to support capital improvements to State park facilities;

— $1.7 million to establish a new All Terrain Vehicle (ATV) trail development, maintenance and enforcement program; and

— 12 new staff for operations and maintenance of newly acquired or expanded State parks.

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 2006-07 Executive Budget maintains funding for these important programs, including:

— $12.6 million in General Fund support, including $5.7 million for programs at Cornell University that provide critical services to the agricultural community, such as agricultural research, disease prevention, technical assistance and community outreach;

— $3 million in new funding for local county fairs for rehabilitation, expansion and enhancement of agricultural buildings, exhibits and activities;

— $2.1 million to continue efforts, in concert with our New York City and Federal partners, to contain and eradicate the Asian Long Horned Beetle; and

— $1.7 million to assist farmers with planning and economic initiatives that will maintain farms as a vital part of New York's economy.

Family Services & Public Assistance

Continuing Reforms that Help New Yorkers Achieve Financial Independence

Over the past eleven years, Governor Pataki has fundamentally reformed New York's welfare system, transforming a culture of dependency to one focused on personal responsibility and the employment of eligible welfare recipients. At the same time, the Governor's reforms have assured those working families at risk of falling into dependency the temporary assistance they need to maintain financial security.

By emphasizing this dual approach, New York State has achieved a dramatic reduction in the number of New Yorkers who depend on welfare. These impressive gains, however, have brought new challenges. As the caseload declines, local administrators must now address the needs of primarily hard-to-serve populations who require more intensive services to successfully transition from public assistance to self-sufficiency.

In 2005-06, the Governor's Budget met this emerging challenge by empowering local governments to direct resources in ways that best serve their public assistance and child welfare populations. The Governor established the TANF-supported

Budget Highlights

- Expands Flexible Fund for Family Services to address local supportive service priorities.
- Pursues additional reforms to promote work for welfare recipients.
- Provides financial incentives for districts that meet more demanding work participation requirements.
- Creates 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.
- Partners with New York City to create New York/New York III, an initiative to provide **9,000 new units** of supportive housing for homeless individuals living with mental illness and homeless families with special needs.

Governor's Accomplishments

- The number of welfare recipients is at its lowest level since the mid-1960s, with over **one million fewer individuals** receiving assistance than in 1995.
- Child support collections have more than doubled and are expected to reach **$1.55 billion** in 2006, the largest amount in State history.
- Welfare reforms implemented since Governor Pataki took office have resulted in significant increases in the work rates of never married single mothers, from 47 percent in 1994 to **71 percent in 2005.**
- In addition to improvements in the safety and quality of child care in New York, child care subsidies have more than doubled under Governor Pataki's leadership.
- Child welfare financing reforms have helped contribute to a **49 percent** decline in the number of children living in foster care since 1995.
- During the past 11 years, the State Earned Income Tax Credit (EITC) benefit has increased four-fold — to 30 percent of the Federal credit — placing New York State among the **top three most generous states** in the nation.

Flexible Fund for Family Services to give counties more discretion and responsibility in determining where funding should be directed. In the 2006-07 Executive Budget, the Governor builds on this commitment by giving local districts additional tools to meet the needs of the most challenging welfare cases and to put more people to work. These recommended measures will:

- Continue to promote personal responsibility through reforms that encourage welfare recipients to attain independence.
- Offer program flexibility and additional resources to local governments in an effort to assist hard-to-serve welfare recipients and low-income families secure and sustain employment.
- Expand essential child welfare services to allow families to stay together and prevent the out-of-home placement of children.

Promoting Responsibility and Accountability Through Work

Today, more than one million fewer people are on welfare than in 1995. (Figure 43) This decline of nearly 65 percent is largely attributable to unprecedented State and Federal support for programs that encourage work over welfare, including the Earned Income Tax Credit, child care subsidies and employment training initiatives. In 2006-07, the State will spend $1.8 billion in Federal Temporary Assistance for Needy Families (TANF) funds for these vital supportive services.

In addition to this financial assistance, the Governor's Budget recommends program reforms that promote self-reliance and supplement traditional supports by:

- Permitting working short-term welfare recipients to retain more of their income and still qualify for welfare. Conversely, benefits for working recipients who have been on welfare for more than five years will decline.
- Requiring the head of a welfare family to fulfill employment obligations in order for the family to receive its full public assistance grant.
- Increasing local accountability for meeting more rigorous work participation rates.

Welfare Rolls Dropped Dramatically During Governor Pataki's Tenure

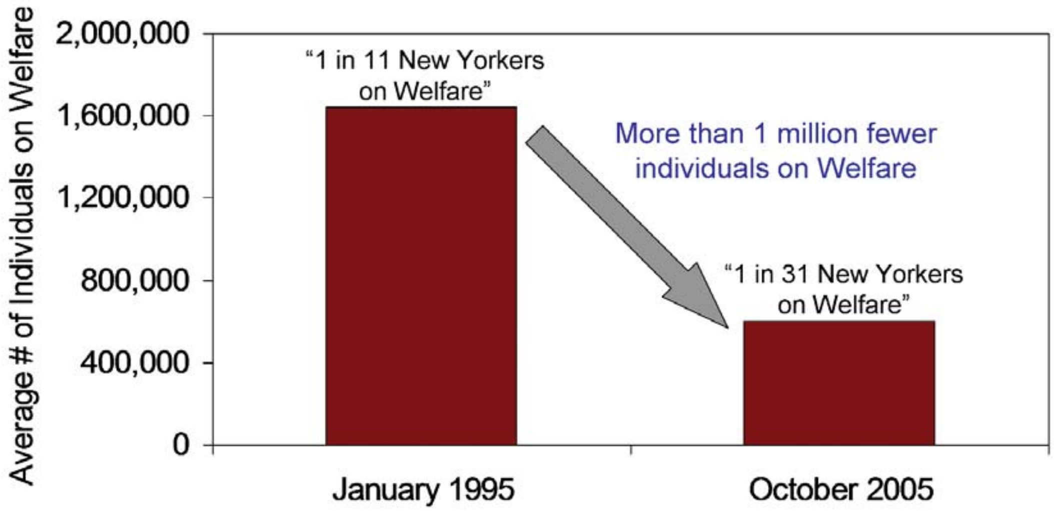


Figure 43

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

Partnering with Local Districts to Enhance Work Performance

Under TANF reauthorization, Congress is expected to significantly strengthen work participation rules. These more stringent requirements raise performance expectations and present a formidable hurdle to placing remaining welfare recipients into employment – many of whom face obstacles to self-sufficiency. Recipients will need specialized assistance to find and keep jobs, and local officials will require flexibility to tailor services to meet individual client needs and circumstances.

To assist counties in reaching these performance and placement targets, the Flexible Fund for Family Services will increase to $1.025 billion, allowing local administrators to manage more effectively, without the constraints otherwise imposed by State mandates. Additionally, the State will initiate a strategy to reward local districts that succeed in placing at least 50 percent of their welfare population into work activities.

Building Stronger Families

The Governor's Budget continues to strengthen family bonds by:

- Providing child care subsidies to support low-income working families.
- Piloting new initiatives to reduce the number of children in foster care.
- Giving high-risk children better access to mental health services.
- Increasing funding for the Home Visiting Program to provide training and support to expectant and new parents.
- Increasing support for the Advantage After-School Program to encourage the positive educational and social development of school-aged children.

Sustaining Strategies to Support and Preserve Families

Governor Pataki's unwavering commitment to the well-being of New York's children is reflected throughout the 2006-07 Executive Budget in his support of programs that emphasize family preservation and responsible parenthood, encourage adoption and promote high quality foster care.

Strengthening Families through Stronger Fathers: The Executive Budget funds a new and unique State Earned Income Tax Credit (EITC) targeted to non-custodial, low-income parents to further strengthen their ties to employment and support for their children. This new credit would provide up to $1,995 per year to working individuals aged 18 through 35 who are current with their child support obligations.

Child Care: Since Governor Pataki took office, the number of child care subsidies to low-income New Yorkers has more than doubled. In 2006-07, in addition to funds provided by the Child Care Block Grant, local districts will continue to have discretion through the enhanced Flexible Fund for Family Services to determine the appropriate level of child care support for their respective localities.

Advantage After-School Program: In 2006-07, the Governor will increase funding for the Advantage After-School Program by $7.3 million to $27.5 million. These funds will increase the number of programs providing educational and recreational after-school activities to elementary, middle and high school students in New York State.

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 2006-07, an additional $5 million will be added to the Foster Care Block Grant to support a 2.5 percent cost of living adjustment for foster care providers. The $378.5 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. Additionally, $250,000 is continued for a demonstration program for kinship care as an alternative to foster care for children who have been removed from their parents' home. (Figure 44)

New Approaches to Minimize Foster Care Placements: To maintain the momentum in foster care reductions, the State will implement a pilot program to address parental substance abuse problems, a major cause of children entering into the foster care system. This approach is designed to prevent out-of-home placements and decrease the length of time children spend in foster care.

Improve Coordination and Oversight of Out-of-State Educational Placements: In 2005, Governor Pataki signed legislation designed to improve the quality of care provided to New York State's special needs children in out-of-state residential placements, and explore options to reduce out-of-state placements. The Council on Children and Families will continue to spearhead this effort.

Enhanced Support for Foster Care Providers: In 2005-06, the Governor implemented an initiative to increase foster care rates up to the State-recommended level. This initiative will be fully implemented in 2006-07, with funding increased to accommodate the State portion of those costs.

Foster Care Caseload Declines, While Adoptions Increase

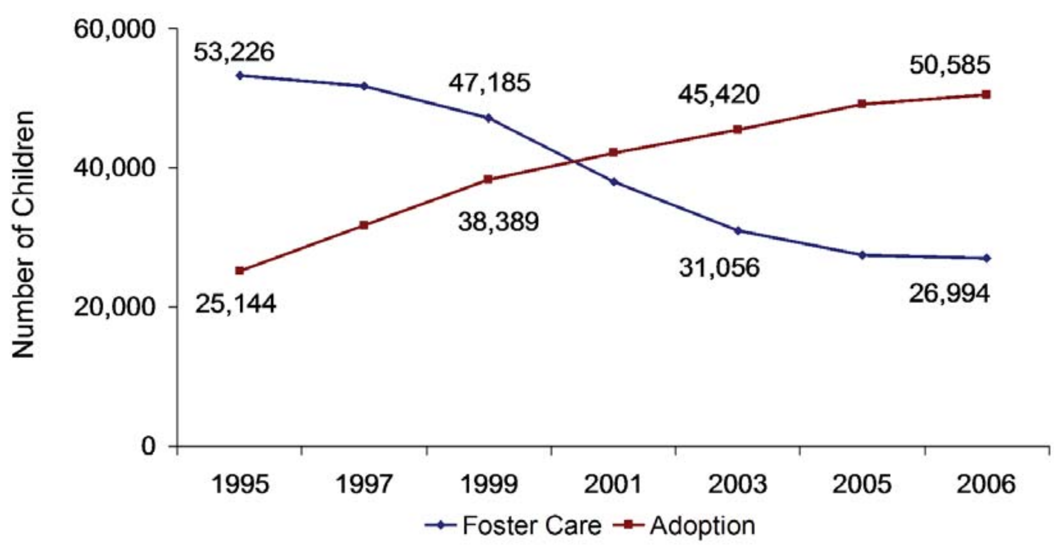


Figure 44

By 2006, the number of children living in foster care will have dropped by over 26,000, or 49 percent, since the Governor took office. Additionally, the number of foster children who have been adopted will have increased by 101 percent.

Supporting Working Families

- 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 $5,720 annually from the combined State and Federal EITC.
- Before 1995 the majority of food stamp recipients were on welfare. With a new welfare system in place, the food stamp program has been transformed into a valuable support for low-income working New Yorkers.
- New York continues to provide a broad array of job training and transitional support services through local governments, State agencies and other community based organizations.

Child Welfare Reimbursement: The State will provide nearly $382 million in 2006-07 to reimburse counties for 65 percent of the cost 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 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 services for children. These funds will target youth at risk of hospitalization in an effort to minimize out-of-home placements and keep them in their communities. Additionally, the Executive Budget supports development of a new program to enhance services for foster care youth with multiple needs.

Home Visiting Program: In 2006-07, the Governor will increase funding for the Home Visiting Program by $1 million to $18.6 million. This program provides supportive services to expectant and new parents to promote child health and development, and prevent child abuse and maltreatment. The Home Visiting Program has resulted in fewer incidences of low birth weight babies and abuse and neglect, as well as increased health insurance coverage for children.

Child Advocacy Centers: In 2006-07, the Governor will increase funding for child advocacy centers by $500,000 to $2.3 million. This program provides a method for coordinating and conducting interviews of children who are victims of abuse. In a non-threatening environment, a trained interviewer provides the voice for social workers, mental health professionals, law enforcement officials and related personnel. This approach avoids multiple interviews with potentially differing information, leads to higher rates of conviction, and reduces trauma to the child.

Additional Federal Incentive Funds: In 2005, New York State earned $44 million in Federal performance awards based on its success in decreasing out-of-wedlock births among TANF recipients, improving the job-entry rates of TANF recipients, and increasing the number of TANF children living in married families. In addition, the State earned $2 million for increasing the number of foster children adopted. The TANF bonuses will be combined and reinvested in supportive services including EITC and the Flexible Fund for Family Services. The award for adoption increases will be used for a range of services to prevent subsequent out-of-home foster care placements.

Providing for New Yorkers' Basic Needs

The 2006-07 Executive Budget maintains the Governor's strong commitment to supporting programs that help individuals achieve self-sufficiency. (Figure 45) The State's wide spectrum of services and income security programs includes:

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.

Food Stamp Benefits: To ensure access to sound nutrition, more than $2 billion in Federal Food Stamp benefits are distributed each year to persons receiving welfare and others in need.

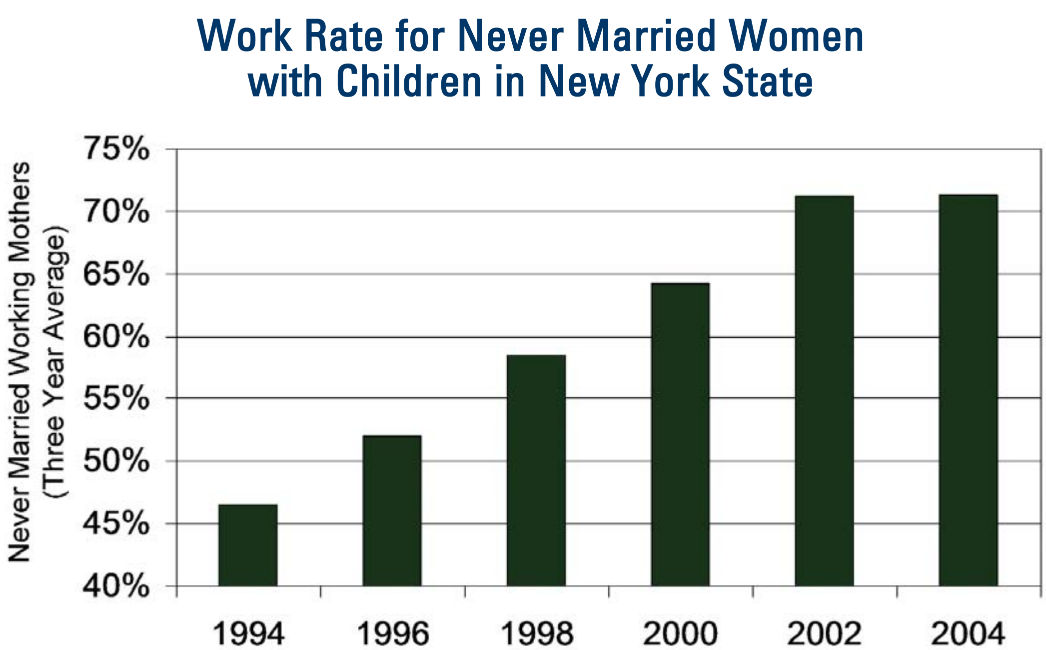


Figure 45

Governor Pataki's welfare reform initiatives have resulted in a sharp increase in the work rates of never married women with children, the population most likely to be on welfare.

Disability and Special Needs Assistance: By augmenting the Federal Supplemental Security Income (SSI) benefit payment, New York ensures that aged, blind, and disabled individuals are able to meet their basic needs. More than 630,000 recipients receive approximately $655 million in State-supported benefits, the fifth highest rate in the nation.

Child Support: As a result of the Governor's child support reforms and innovative measures designed to make non-custodial parents more responsible and accountable, child support collections are expected to reach $1.55 billion in 2006, the largest amount in State history. (Figure 46)

A Decade of Progress in Child Support

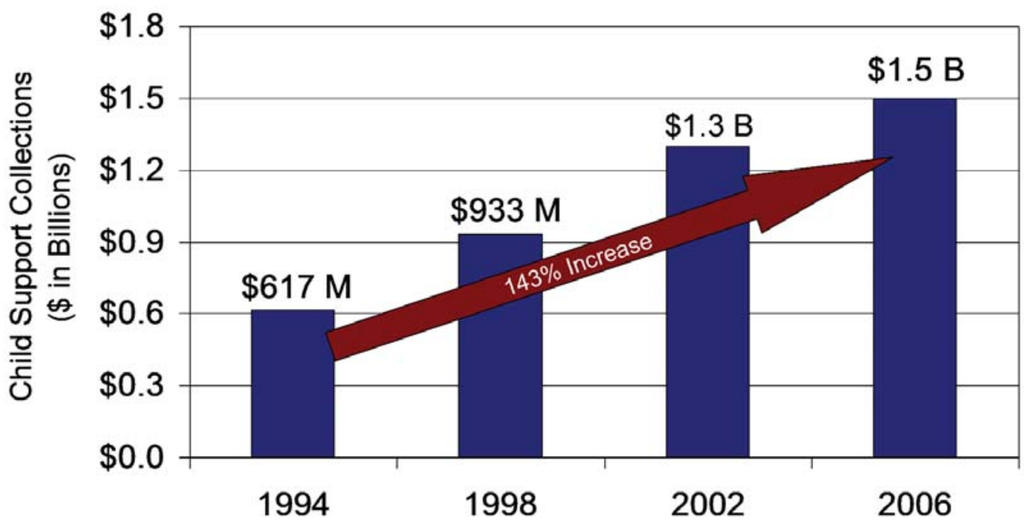


Figure 46

Under Governor Pataki, child support collections have more than doubled. Collections are expected to reach $1.5 billion in 2006, the largest amount in State history.

Mental Hygiene

Providing Innovative and Cost-Effective Services to New Yorkers with Special Needs

During his tenure, Governor Pataki has championed the needs of New Yorkers with mental illness, developmental disabilities and chemical dependencies. The $6.1 billion recommended for the Offices of Mental Health (OMH), Mental Retardation and Developmental Disabilities (OMRDD), and Alcoholism and Substance Abuse Services (OASAS), the Commission on Quality of Care and Advocacy for Persons with Disabilities (CQCAPD) and the Developmental Disabilities Planning Council (DDPC) build on a legacy of excellence by:

- Providing new resources to enhance State and local provider performance in delivering high quality care for the populations they serve.
- Advancing reforms to support consumer choice, address under-served populations and promote interagency collaboration.
- Safeguarding the State's financial investment in the mental hygiene service system by combating waste, fraud and abuse.

Budget Highlights

- Provides over **$6.1 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 **$191 million**.
- Redirects **$29 million** in other savings to support innovative service enhancements to children and families across all three service systems.
- Provides **$17 million** to phase-in the first year of a multi-year Cost of Living Adjustment (COLA) for eligible Mental Hygiene programs.
- Supports the continuation of OMRDD's NYS-CARES and NYS-OPTS, and OMH's Reinvestment program, Kendra's Law, Enhanced Community Services Program and forensic mental health services.

Governor's Accomplishments

- Created the nationally-renowned NYS-CARES program funded by a cumulative **$2.3 billion** in State and Federal dollars that will have addressed the residential needs of more than **13,000 individuals with developmental disabilities** on community waiting lists by the end of 2006-07.
- Promoted community integration by more than doubling — from 65,000 to almost **140,000** — the number of OMRDD consumers served and by placing **3,700 persons** from institutions into the community.
- Redirected a cumulative **$1.8 billion** in State-operated mental health institutional bed savings to community programs under the Reinvestment program.
- Championed Kendra's Law and the Enhanced Community Services program in OMH, more than doubling case management resources and integrating scientifically-proven practices to advance the highest quality of care.
- Oversaw Project Liberty, an unprecedented program that helped 1.5 million New Yorkers cope with the aftermath of the September 11th terrorist attack.
- Spearheaded the 2005 agreement with New York City to develop **9,000 new beds** to reduce the homeless shelters' populations, with a particular focus on individuals with mental illness or chemical dependence.
- Overhauled the State's separate alcoholism and substance abuse treatment systems into a single program network for chemically dependent individuals and improved coordination with other related State programs.

Enhancing State and Local Performance in the Mental Hygiene Service Systems

A critical measure of effective management is the capacity to achieve greater efficiency. OMH, OMRDD and OASAS have successfully achieved this benchmark by streamlining their own operations along with local provider operations, and by seizing opportunities for revenue maximization. Over the past eleven years, each agency has realized savings that benefit State taxpayers while supporting reinvestments in key areas of need. In 2006-07, these efforts will continue.

- The Mental Hygiene agencies will generate $165 million in new revenues, building on their success in producing over $1 billion in recurring mental hygiene revenues since 1994-95.
- OMH, OMRDD and OASAS will continue to develop responsible Business Plans for both State Operations and Aid to Localities. These plans achieve combined savings of over $25 million in 2006-07 by managing staff vacancies, overtime expenditures, and local program needs.
- All Mental Hygiene agencies will enhance their performance and accountability through a new strategic planning initiative designed to link agency priorities with the budget development process.

Strengthening the Community-Based Workforce

The performance of local providers often depends on having the necessary resources to succeed despite critical work force recruitment and retention issues as well as inflationary demands and community expansion pressures. The 2006-07 Executive Budget addresses this challenge by initiating a new, annual Cost of Living Adjustment (COLA) policy for human service providers for the next three years. A 2.5 percent COLA, valued at $17.2 million, will be phased in during 2006-07 for eligible Mental Hygiene providers, growing to $35 million in 2007-08, when providers will also be eligible for another CPI-based COLA.

Reforming Services and Breaking Down Barriers

New York is a national leader in developing innovative person-centered approaches for the State's special populations. The reform measures being advanced by the Governor reflect critical input from consumers, their families, and other stakeholders. They improve service delivery by developing and disseminating research-proven best practices for the treatment of persons with disabilities and by better coordinating the spectrum of care provided to these individuals across various human service agencies.

Reforming Mental Hygiene Services for Children and Their Families

A key priority for Governor Pataki is to provide high quality, cost-effective mental hygiene services to the State's neediest children. This Budget invests $20 million in an array of services and prevention measures for children with mental illness, chemical dependence or developmental disabilities, including:

- An innovative $10 million OMH initiative for early mental health outreach and screening. This program, which will grow to $20 million when fully implemented, will screen almost 400,000 children annually and provide specialized in-home or community-based treatment services. When combined with other children's mental health initiatives and funding sources, a record increase of $62 million will be invested in children's programs annually.
- A $3 million OMRDD expansion of Family Support Services to help families maintain their loved ones at home, including children with autism. This program will grow to $5 million when fully implemented.
- A new $2 million OASAS chemical dependence outpatient demonstration program for nearly 350 children and their families designed to avoid costly institutional placements and preserve family units.

Promoting Cross-System Collaboration to Enhance Services

The Executive Budget improves cross-system coordination for the State's special populations by providing access to the spectrum of publicly financed health and human services. These actions will ensure better care and a more effective use of taxpayer dollars. Collaborative reform initiatives for 2006-07 include:

- Continued implementation by OMH and the Department of Correctional Services of the Governor's Sexually Violent Predators Civil Commitment Initiative aimed at safeguarding our communities by mandating treatment in secure facilities for certain mentally ill sexually violent offenders upon their release from prison.
- A multi-agency effort — comprising OMRDD, OMH, OASAS, the Office of Children and Family Services, the State Education Department and the Out-of-State Placement Committee — to expand services for school-age children with special needs within New York State.

- OASAS and DOH will implement a demonstration program to provide hospitals and community-based chemical dependence providers with financial incentives to reduce chemical dependence relapse rates.
- $7.7 million for the first year of a multi-year State/New York City effort to provide 9,000 new beds to reduce homelessness in New York City, focusing on mentally ill and chemically dependent populations.
- $6 million for a joint OASAS and Division of Parole Community Re-entry Initiative utilizing consortia of non-profit providers to link State prison releases with treatment and support services such as housing and employment.
- $5.3 million for an OASAS and Office of Children and Family Services (OCFS) Child Welfare demonstration project to assess and screen families for chemical dependence to reduce foster care placements.
- A Department of Health (DOH) and OMH effort to enroll nearly 50,000 seriously and persistently mentally ill SSI individuals in managed care plans for their health care. OASAS and OMH will also work to establish State-sponsored managed care

Expansion of the OMH Community-Based Mental Health Program Capacity

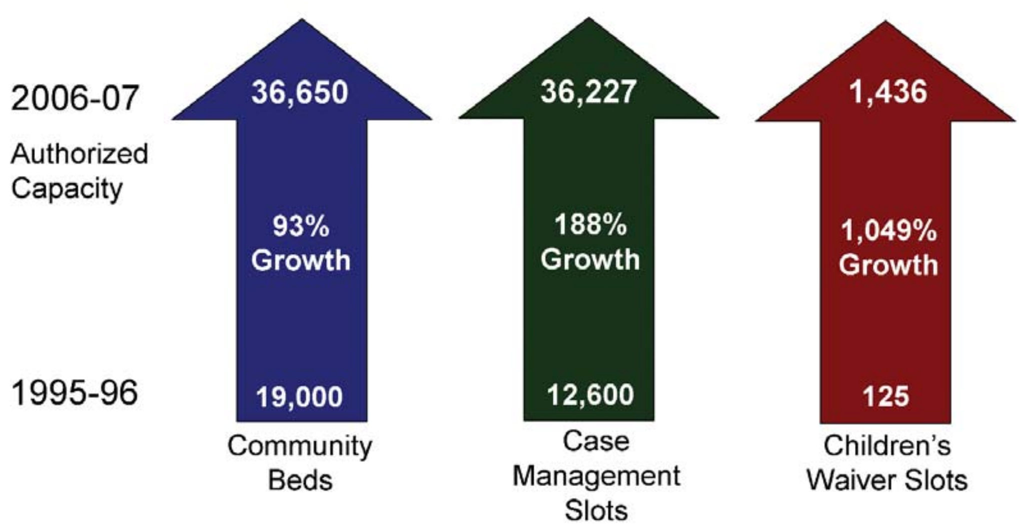


Figure 47

Authorized capacity for three key community based programs serving individuals with mental illnesses has significantly increased since 1995-96; the number of community beds grew from 19,000 by 93 percent, case management slots increased by 188 percent, and Children's Waiver slots grew by 1,049 percent.

demonstration programs for mental health and chemical dependence services for individuals with co-occurring disorders.

- $2 million for OMH and the State Office for the Aging to implement the 2005 Geriatric Mental Health Act, the first law in the nation to adopt a forward-looking planning approach to meet the mental health needs of the growing elderly population.

Providing Greater Opportunities for Persons with Developmental Disabilities

OMRDD will continue implementing the nationally acclaimed New York State Creating Alternatives in Residential Environments (NYS-CARES) initiative designed to reduce residential wait lists. OMRDD will also continue its innovative New York State Options for People Through Services (NYS-OPTS) program that affords both current consumers — as well as future service recipients — the greatest flexibility in choosing their care. In 2006-07, NYS-OPTS will continue to promote individualized services, including residential opportunities, converting services for several hundred individuals from traditional residential models to the more individualized OPTS model. Between NYS-CARES and NYS-OPTS, 5,900 new day and residential opportunities in the community will become available in 2006-07 to serve the full spectrum of New Yorkers with

Individuals With Developmental Disabilities Served By OMRDD Have More Than Doubled

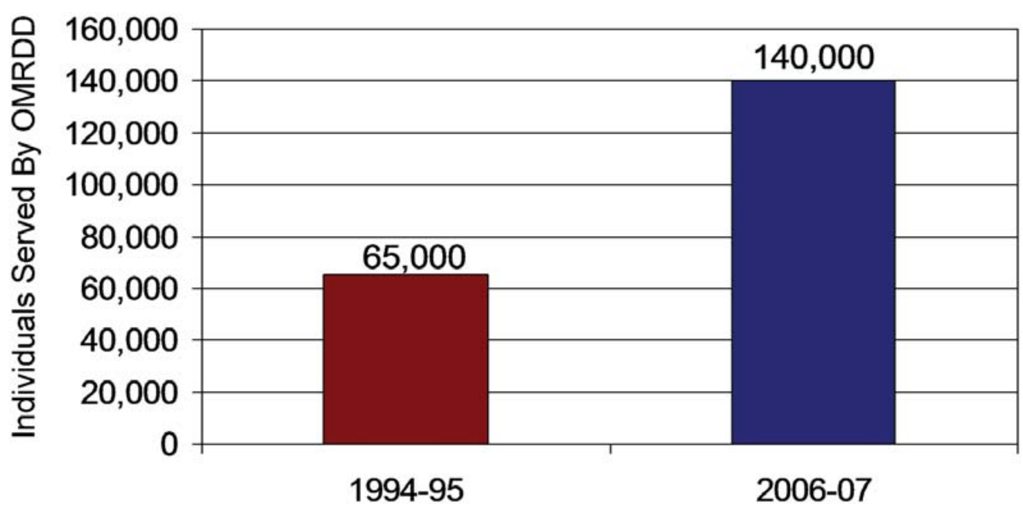


Figure 48

During Governor Pataki's Administration, the number of individuals receiving services through OMRDD has increased from 65,000 to 140,000.

Recovery and Hope: Helping People Help Themselves

"MD" — a long-tenured professional in the Capital District — is thoroughly enjoying a rewarding and challenging career. Life was not always as rosy or serene. After many years of denial, "MD" had to face the fact that he was a functioning alcoholic whose behavior was becoming increasingly erratic. "Life was truly unmanageable. I was caught in a seemingly hopeless downward spiral leading to self-implosion, destroying everyone and everything around me." Through the insistence of family and friends, "MD" sought help through the OASAS-licensed St. Peter's Addiction Recovery Center (SPARC). "Entry into SPARC and joining the fellowship of Alcoholics Anonymous was a turning point in my increasingly wretched experience. I thank my Higher Power daily for a supportive family and work environment who were there when I needed them, and for all of the OASAS-licensed professionals and fellow alcoholics who have helped me in my recovery! Recovery works, and I am living proof of that!"

developmental disabilities, including people with special medical needs. This reflects nearly 1,500 people being placed in residential settings and almost 4,400 new service opportunities in non-residential programs.

Addressing Mental Hygiene Needs Through Bold Prevention Campaigns

This Budget makes $3.7 million available to expand two critical public awareness campaigns:

- OMH will conduct a campaign aimed at early intervention and prevention of suicide. This effort combines $1.5 million in State funding with a $400,000 Federal grant.
- OASAS will spend $2 million to target underage drinking, primarily on college campuses.

Both education and prevention efforts are designed to help New Yorkers combat these two devastating health issues. Over 1,300 suicide deaths tragically occur in New York State each year, and binge drinking is a problem for nearly 45 percent of full-time college students.

Ensuring Integrity by Combating Waste, Fraud and Abuse

Given the billions of dollars invested annually in mental hygiene service delivery, the Mental Hygiene agencies have historically recognized their responsibility to ensure that taxpayer resources are used wisely and effectively. In 2006-07, each agency will vigorously attack fraud, waste and abuse through a variety of measures, including:

- Working with the newly established Office of Medicaid Inspector General to maximize the effectiveness of the State's analysis and review of utilization and reimbursement claims. The Mental Hygiene agencies have already identified $12 million in savings as a result of these efforts.
- Strengthening audit procedures and fiscal controls, with savings of $15 million.
- Developing reimbursement standards for the OASAS non-profit service system that will save $1.3 million annually by reducing higher-than-average administrative costs.
- Initiating reimbursement rate changes for certain mental health providers that save $4.3 million while preserving quality of care.

Government Accountability

Government Reform, Performance and Integrity

In his 1996 State of the State Message, Governor Pataki declared that "government must meet the challenges of the 21st Century with new ideas and innovative solutions." For the past decade, the Governor's budget decisions and public policies have echoed this call and significantly transformed State government.

- New York State has reformed its organizations and approach to services.
- It has renewed its emphasis on performance by redefining how programs are evaluated and measured.
- It has re-committed to a culture of integrity and transparency in its financial practices.

Simply stated, under the direction of Governor Pataki New York State has re-invented itself. Now, New York is a state recognized for its fiscal responsibility and prudent management, a reduced dependence on regulations and bureaucracy, an increased reliance on technology and other business process improvements and a firm commitment to financial reforms.

Budget Highlights

- Responsible **budget and debt reform** proposals restore confidence in the State's financial practices.
- The integrity of government institutions is assured through support for the **Public Authority Budget Office,** establishment in law of the Office of the State Inspector General and creation of the Office of Medicaid Inspector General.
- Recommendations to consolidate operations, share services and streamline administrative functions will achieve significant recurring **taxpayer savings**.
- An integrated financial management system, a renewed commitment to strategic planning and increased use of innovative technology enhance accountability, strengthen management oversight and emphasize **performance results**.
- **Procurement reforms** benefiting State agencies, local governments and school districts will ensure a fair, open and competitive process and best value.

Governor's Accomplishments

- Reformed the State's fiscal practices by controlling spending growth below the national average, improving the State's credit worthiness to its highest rating in 30 years, increasing financial reserves and instituting debt reforms.
- Streamlined the State workforce by approximately **10 percent** while increasing productivity and performance and expanding the use of innovative technologies.
- Eliminated or revised more than **2,900 regulations** to reduce the cost of doing business in New York State.
- Strengthened public confidence in government through tougher ethics laws, lobbying and procurement reforms and promoting responsible budget reforms to open government to public scrutiny.
- Improved the oversight of government institutions with passage of public authority reform, creation of the Office of State Inspector General in statute and formation of the Office of Medicaid Inspector General.
- Secured passage of comprehensive health care reforms that expanded access to health services, streamlined the health care delivery system and improved health care financing.
- Reduced the welfare rolls by more than 1 million individuals by replacing welfare with work and dependency with self-reliance.
- Led the effort to reform the criminal justice system and sentencing laws, making New York the safest large state in the country.
- Advocated for policies to encourage the responsible conservation of environmental resources and investment in energy efficiency and renewable energy programs.

These reforms will continue to produce positive benefits in 2006-07. Overall, the actions recommended in this Budget will achieve net General Fund spending reductions of $1.2 billion.

Reforming Government Programs

Government reform must be a continuous process of self-evaluation. Recurring efficiencies and taxpayer savings will only be realized if the State continues to assess the rationale for its organizational alignment and adopts only those policies that promote the best use of resources and improve the way services are provided.

An Intergovernmental Focus on Shared Services

Governor Pataki has a distinguished record championing smaller, more effective government – one that protects the interests of taxpayers and operates in an efficient and businesslike manner. At a time of limited resources, government cannot be immune to the need to centralize, consolidate and streamline to achieve operational efficiencies. One of the private sector's most widely used and effective tools for reducing operating costs is the concept of shared services. Through this Budget, the Governor has committed the State, and its local governments, to a multi-year plan to adopt shared service agreements and expand cooperation between agencies and governments.

State Operations: The Executive Budget reflects the initial phase of a multi-year plan to implement a business function consolidation model that eliminates wasteful duplication and achieves significant administrative cost savings. This year, the Division of the Budget will begin the planning process for centralizing common administrative functions currently performed by each agency. At the same time, the technological platform to accomplish this consolidation will be designed as part of the State's new Financial Management System (FMS). Additionally a number of discrete projects will be undertaken this year. Examples include:

- Integrating criminal justice technology to promote improved information sharing among law enforcement agencies;
- Developing a fingerprinting network that avoids costly duplication of effort by agencies;
- Consolidating the administrative, human resources and business offices of agencies and expanding the Office of General Services' aggregate procurement program;

— Negotiating shared service agreements among the Olympic Regional Development Authority (ORDA), the Office of Parks, Recreation and Historic Preservation, and the Department of Environmental Conservation to streamline ORDA operations; and

— Studying the feasibility of consolidating agency mechanic and maintenance shops into multi-agency facilities under the management of the Department of Transportation.

Local Governments: Local government officials have demonstrated a willingness to explore creative opportunities to reduce the size and cost of municipal services. This Budget encourages officials to take additional actions to lower the burden on taxpayers and to promote a regional approach to service delivery.

The Governor's Shared Municipal Services Incentive Program, enacted last year, is increased from $2.75 million to $25 million. This funding will support State grants to encourage a variety of shared services and municipal cooperation agreements, such as county-led comprehensive shared service plans, the consolidation of local highway services, and creation of local health insurance consortiums, and grants to match savings achieved through the consolidation of local governments.

A New Integrated Financial Management System

This Budget accelerates the pace of administrative reform by providing initial funding to design and implement a modern statewide financial management system (FMS). When fully implemented, this integrated system will replace the many separate systems now used by State agencies and will provide a common interface with the new Central Accounting System (CAS) currently being developed by the Office of the State Comptroller. The new FMS will utilize the latest software to standardize procedures across agencies, build on "best practices" and significantly reduce agency resources required to maintain and operate basic financial systems. In addition, FMS will provide the platform to implement State shared services initiatives discussed above.

Implementation of the new FMS will begin simultaneously with initiation of the new Central Accounting System in 2008-09. In the interim, the State will continue to explore opportunities to improve those business practices and administrative activities not dependent on the financial management system to achieve additional savings in operating public programs.

A History of Harnessing Technology to Improve Operations

Governor Pataki has consistently made better and smarter use of technology to serve citizens more efficiently and effectively. Under his leadership, the State has:

- Consolidated mainframe data center operations and modernized telecommunications networks.
- Established the Office for Technology and the Office of the Chief Information Officer to guide statewide policy formulation, lead inter-agency improvement efforts and coordinate and manage technology investments.
- Created a coordinated statewide strategic plan and an annual technology planning process to define enterprise architecture principles and identify business improvement opportunities.
- Undertaken an e-government initiative that developed a web portal to provide an electronic focal point for citizen interaction with State government and expanded services available to the public via the Internet.
- Begun the design of a Statewide Wireless Network to provide modern, reliable and interoperable radio communications among State and local public safety agencies, particularly in times of emergency.

The Coordinated Use of Technology

In addition to funding for a statewide financial management system, this Budget offers other recommendations that further the use of technology to streamline and automate basic government functions. These recommendations reflect the Governor's view that agencies are not individual consumers of technology, but are part of a common enterprise that can leverage and coordinate resources to achieve efficiencies and cost savings. Building on this vision, the 2006-07 Executive Budget recommends:

- Designing and building a new, consolidated data center that will permit the safe and secure operation of the State's mainframe computers at a single, efficient site, with backup and recovery capabilities provided at another secure location. Existing agency network server computers will also be consolidated in the new data center to allow cost-effective and continuous 24 hour operations. By pooling resources, staff and hardware can be used to provide better, more dependable service to agencies and their customers at a lower cost to the State.
- Utilizing web portal technology developed by the private sector to update and expand the information and services available electronically to the public through a single point of contact.
- Introducing Civil Service flexibility to hire information technology professionals for certain tasks previously done by contractors, where the State's long-term needs, interests and savings are clear.
- Strengthening the capacity of the Office for Technology (OFT) to respond to improvement opportunities identified through the annual technology planning process and to lead initiatives to reinforce an enterprise approach to managing information and related technologies. This includes supporting OFT's efforts to strengthen the security protecting the State's vital information assets, to enhance the State's project management capabilities, and to improve customer service.
- Integrating criminal justice technology to foster improved information sharing among law enforcement agencies, including building a new Statewide Wireless Network to provide reliable emergency radio communications among State and local public safety agencies.

Contracting for State Services

The choice of how to most efficiently and effectively deliver State services – via State employees or private sector providers – is continually evaluated. Executive Branch agencies continue to identify and share their "best practice" approaches to evaluating staffing options, and contracting for services where needed, as part of promoting transparency and accountability across State government.

Over the past 5 years, the State's overall use of outside consultants has declined, from more than 9,500 contracts in 2000-01 to 9,300 in 2004-05. The average annual increase in spending for these services since 2000 has been 1.9 percent. That change compares with average annual increases of 2.4 percent for inflation, 2.4 percent for increases to State employee salary levels, and 2.9 percent for total spending for State employee compensation over the same period.

In the current year, the Division of the Budget analyzed numerous personal service contracts held by State agencies to isolate discrete elements of work where the substitution of State personnel could generate significant additional savings. Based on this analysis, the State has begun assigning State employees to perform certain elements of work that previously required the use of outside contractors. Key agencies, like the Office for Technology, have the administrative flexibility to fill certain technology jobs with uniquely qualified State employees rather than contractor staff, in cases where both savings and long-term workforce plans justify such a shift. Building upon that initiative, the Executive Budget recommends authorizing a new 5-year temporary appointment provision in Civil Service Law to facilitate the hiring of technical experts as State employees for particular types of assignments. This innovation, which will also authorize a portable pension benefit for employees hired under the new provision, is intended to help agencies recruit and retain State employees with specialized skills for time-limited projects, rather than using contractors.

Managing for Performance Results

The 2006-07 Executive Budget continues the Governor's commitment to aggressive actions across all levels of government that align responsibility for program outcomes with accountability and that link State funding with demonstrated performance results.

Managing the State Workforce

New York anticipates ending 2006-07 with **20,100 fewer Executive Branch employees** than when Governor Pataki first took Office — a decrease of approximately **10 percent**. The effective management of the State workforce makes targeted investments in critical program areas possible. The 2006-07 Executive Budget provides additional staff to support public safety programs, including **100 State Police** to combat illegal gun trafficking; an initiative to detain violent sexual predators; expanded services to the disabled; Medicaid fraud detection; and necessary transportation projects.

Benefits of Strategic Planning

- Frames policy and financial choices.
- Creates an increased focus on performance.
- Provides additional analytic support for evaluating budget needs.
- Assists in setting multi-year agendas.
- Provides an effective communications tool.

A Strategic Planning Emphasis

Strategic planning is a common management technique used to clarify the goals and objectives of the business units of large, complex organizations. At the direction of the Governor, in 2005 the Division of the Budget and the Office of Mental Health, the Office of General Services and the Department of Taxation and Finance began an initiative to incorporate the principles of strategic planning more formally into the budget process.

This effort builds on strategic thinking and performance measures already in place in some agencies as part of a comprehensive approach to implement strategic planning across State government. Over the past year, the Division and these pilot agencies have successfully worked to develop:

- "Strategic overviews" which set forth in clear terms the mission and vision of the agencies, the challenges each faces and the strategies to be followed to achieve desired program outcomes. These strategic overviews give agency staff, stakeholders and other decision-makers a common understanding of the long-term direction and objectives of the agencies and a context within which planning, policy and budgetary decisions can be made.
- "Business plans" which provide a multi-year blueprint which agencies will follow to implement their strategies, including the key actions necessary to align priorities with resources to achieve annual and long-term performance goals.

In 2006, the State will expand the project to include additional agencies and more extended use of performance measures to assess the propriety and effectiveness of programs. (Figure 49)

Phase I – Working with the "Pilot" Agencies: The 2006-07 Executive Budget recommendations for the three pilot agencies address the issues, goals and challenges confronting these agencies. In addition, the agencies' budget presentations have been redesigned to highlight the strategic planning process and to emphasize their priorities and performance objectives.

Phase II – The First Step to Expanding the Project: As the three pilot agencies refine their strategic plans and further incorporate performance measures into their management practices, nine other agencies will be added to the project this year. Ten additional agencies will start strategic plan development during 2006-07.

Phase III – Completing the Project: By the end of 2007-08, it is expected that 26 State agencies will have strategic plans and performance measures that directly link to their budget recommendations.

Strategic Planning Project Roll-Out

	2005-06	2006-07	2007-08
Develop the Strategic Overview	Budget, Transportation, Alcohol & Substance Abuse, Mental Retardation, Temporary Disability, Parks, Education, Thruway Authority, DCJS	Banking, Civil Service, DEC, Motor Vehicles, Corrections, Health, Economic Development, Insurance, Children & Family Services, Parole	City University, Labor, Higher Education, State University
Develop/Refine Business Plans	General Services, Mental Health, Tax & Finance	Budget, Transportation, Alcohol & Substance Abuse, Mental Retardation, Temporary Disability, Parks, Education, Thruway Authority, DCJS	Banking, Civil Service, DEC, Motor Vehicles, Corrections, Health, Economic Development, Insurance, Children & Family Services, Parole
Agencies Included in the Budget Process		General Services, Mental Health, Tax & Finance	Budget, Transportation, Alcohol & Substance Abuse, Mental Retardation, Temporary Disability, Parks, Education, Thruway Authority, DCJS

Figure 49

Implementing the Governor's policy links a strategic planning perspective to budgets.

Performance-Based Management Initiatives

The goal of a leaner and more efficient government must be coupled with realizing value and performance from the services the State provides and the resources it invests. To that end, Governor Pataki has consistently moved the State toward an outcome-focused management culture. Examples of performance-based recommendations included in this Budget are:

- The Aid and Incentives for Municipalities Program (AIM), enacted last year, is continued with an additional $50 million being provided to local governments. Cities will be required to apply this additional aid to reducing local property taxes or addressing identified budget gaps. The Governor's Budget also recommends that, beginning in 2007-08, local governments that continue to achieve property tax savings would qualify for performance awards of up to an additional 7.5 percent in AIM funding.
- $19.1 million in new funding will help solve more crimes using DNA technology. New York has more than 157,000 samples in its DNA Databank, and as of December 2005, had successfully matched crime scene data to 2,255 stored DNA profiles. By expanding crime lab operations and training law enforcement personnel in the collection and use of DNA evidence, more criminals will be caught and successfully prosecuted.

- $17 million in funding for Operation IMPACT will support successful community-specific strategies for crime reduction. Participating communities are required to develop a unified local strategy and use crime data to closely monitor progress.
- The Division of Criminal Justice Services will continue to utilize CrimeStat, a data-driven management strategy modeled after NYPD's CompStat. CrimeStat uses hundreds of timely and accurate measures to enhance performance in all areas of criminal justice, such as the analysis of crime statistics on a county-by-county basis, collection and processing of DNA samples, and monitoring of sex offenders.
- Federal performance bonuses totaling $46 million, based on New York State's success achieving fundamental welfare reforms and increasing the number of foster children adopted, will be reinvested in supportive services designed to decrease welfare dependency further and reduce the number of children in foster care.
- The Department of Agriculture and Markets will adopt a risk-based inspection program rather than conduct annual inspections of retail food establishments. At the same time, this Budget will increase financial penalties for repeat offenders. Together, these actions will generate $2.2 million in combined savings and revenues.
- Reforms in the Tuition Assistance Program (TAP) will ensure taxpayer funds are invested wisely and that students are protected from exhausting their TAP eligibility prior to degree completion. Academic standards for TAP will be strengthened to reflect appropriate progress to a timely degree.

Promoting Institutional Integrity

This Budget supports the sweeping government reforms and integrity measures promoted by Governor Pataki throughout his tenure. These initiatives will continue to transform the way public officials conduct business, making New York State open, responsive and accountable to its citizens.

Public Authority Reform

In June 2005, Governor Pataki secured passage of the Public Authorities Accountability Act, a central piece of a comprehensive effort to reform our governmental institutions. This law will strengthen public confidence in State and local public authorities by establishing clear standards of oversight, accountability and transparency. For the first time, public authorities must follow accepted corporate governance practices, including adherence to standards of independence for board members and external auditors, adoption of specific procedures for the custody, control and disposition of real property and full disclosure of information concerning their finances, operations and outstanding debt.

In addition, the law authorized the Governor to establish an Authority Budget Office to review, analyze and report on the practices of public authorities and to monitor their compliance with this new Act. The 2006-07 Executive Budget includes $1.5 million to support this Office, which will be located within the Division of the Budget. This will allow the Authority Budget Office to leverage existing Division resources to complement its own staff and to assure effective coordination with the Division's current oversight and financial disclosure responsibilities.

The Authority Budget Office will both build on and complement the work of the Commission on Public Authority Reform. This bipartisan and broad-based Commission, chaired by corporate governance expert Ira Millstein, was established last year to develop principles for the effective governance of public authorities and for the public disclosure of appropriate financial information. Its final report is expected this year and the Commission's recommendations will help guide the ongoing work of the Office.

Debt Reform

The Governor's Debt Reform Act of 2000 has stabilized the State's debt by imposing limits on the amount of new debt the State can issue and restricting how that debt can be used. The Governor will continue to restore integrity to the State's financial practices by advancing measures to enhance competition for the State's bond sales, diversify the State's debt portfolio to achieve increased earnings and lower costs and close statutory loopholes that have subjected the State's debt management to criticism. Once again, Governor Pataki will propose a Constitutional amendment to end "back-door borrowing" and to make permanent the existing caps on outstanding debt as a percent of personal income and on debt service as a percent of State spending.

Procurement Lobbying Reform

Governor Pataki recognizes that citizen confidence in government is best won if it conducts its business fairly and openly in the full light of public scrutiny. Accordingly, the Governor led the successful fight to pass a landmark lobbying reform statute in 2005. This law bans the lobbying of agencies for procurement contracts, expands the regulatory and enforcement role of the State Lobbying Commission and enacts significant penalties for lobbying violations, including debarring contractors and banning lobbyists who break the law.

Budget Reform

Passage of a State Budget at the beginning of the fiscal year should be the norm rather than the exception. As part of his 2006-07 Executive Budget, Governor Pataki will recommend a budget reform package that addresses, in a real and responsible way, the impediments to on-time budgets. The Governor's measures will:

— Move the start of the Fiscal Year to July 1 and require legislative enactment of the Budget by May 1;

— Require the Legislature to adopt a balanced budget;

— Subject the Governor and the Legislature to the binding revenue forecast of the State Comptroller, if the parties cannot reach agreement;

— Increase the Rainy Day Fund to 5 percent of General Fund spending; and

— Open the budget process to additional reporting on the fiscal impact of the proposed legislative changes.

Enhanced Oversight of Public Programs and Institutions

The Executive Budget continues to support the Governor's comprehensive agenda to assure integrity and ethical conduct throughout State government.

- The Governor has implemented a 5-point plan to strengthen the ability of the State to detect and eliminate fraud, waste and abuse in the Medicaid system. This plan includes establishing the Office of Medicaid Inspector General to coordinate and integrate the anti-fraud responsibilities and oversight roles shared by multiple agencies.
- The Public Authorities Accountability Act established the Office of the State Inspector General in the Executive Law. The State Inspector General will now have broad statutory authority to investigate allegations of corruption, fraud, criminal activity and conflicts of interest made against officials of State agencies and public authorities. To assure the independence of this Office, the term and salary of the Inspector General are fixed by law.
- The Governor won legislative support to close loopholes in the State Ethics Law that allowed public officials under investigation for possible ethical violations to avoid potential penalties simply by leaving State government. No longer will these investigations be closed upon an employee's separation from State service.

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 81 different times, returning over $160 billion to New Yorkers on a cumulative basis when fully in place.

19 Different Taxes Cut 81 Times Under Governor Pataki

1. Personal Income Tax cut in 1995, 1996, 1997, 1998, 1999, 2000, 2002, 2004 & 2005
2. School Property Tax cut in 1997, 1998 & 2002
3. Sales Tax cut in 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2004 & 2005
4. Estate Tax cut in 1995, 1997, 1998, 1999 & 2002
5. Corporation Franchise Tax Cut in 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004 & 2005
6. Gross Receipts Tax on Energy/Telecom. Cut in 1996, 1997, 1998, 1999, 2000, 2002, 2004 & 2005
7. Petroleum Business Tax cut in 1995, 1996, 1999, 2000 & 2004
8. Insurance Tax cut in 1997, 1999, 2000, 2004 & 2005
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 & 2005

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 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.

Tax Cuts Enacted in 2004

27. Increases the credit for long term care insurance from 10 percent to 20 percent of premium expenses.

28. Provides a credit for film production activity in New York State.

29. Exempts pay of New York State National Guard members for services performed in New York as part of the "War on Terror."

30. Extends the credit for alternative fuel vehicles for one year.

Tax Cuts Enacted in 2005

31. Creates a refundable credit for individual payers of the nursing home assessment on residential health care facillities.

32. Creates a refundable credit for the special additional mortgage recording tax paid by lenders on certain residential mortgages.

33. Extends the farmers school tax credit to the commercial horse boarding operations.

34. Extends the farmers school tax credit to certain intra-family property transfers.

35. Creates a credit for solar energy systems.

36. Creates a credit for qualified building owners for training security officers.

37. Extends the investment credit to qualified film production activities.

Business Taxes

Tax Cuts Enacted in 1995

Petroleum Business Tax

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

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

Corporation Franchise Tax

40. 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

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

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

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

44. 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.

45. 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

46. 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

47. 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.

48. 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

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

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

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

Bank Tax

52. Allows net operating loss deductions for banking corporations.

Corporation Franchise Tax

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

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

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

Tax Cuts Enacted in 1998

Corporation Franchise Tax

56. 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.

57. 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.

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

59. 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.

60. 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.

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

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

Tax Cuts Enacted in 1999

Petroleum Business Tax

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

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

Corporation Franchise Tax

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

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

67. 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.

68. 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.

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

70. 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.

71. 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.

72. 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.

73. 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.

74. 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

75. Reduces the bank tax rate to 7.5 percent from the 9 percent rate currently in effect. The new lower rate is phased in over a three-year period beginning in July 2000. This move will level the competitive playing field with all other industries.

Insurance Franchise Tax

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

77. 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.

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

Corporations and Utility Tax

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

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

Tax Cuts Enacted in 2000

Petroleum Business Tax

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

82. Eliminates PBT minimum taxes.

Corporation Franchise Tax

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

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

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

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

87. 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.

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

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

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

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

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

93. 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.

94. 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.

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

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

Bank Franchise Tax

97. 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.

98. 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.

99. 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

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

101. 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

102. 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.

103. 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

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

Corporation and Utility Tax

105. 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

106. 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

107. 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

108. Provides a new tax credit for film production activity in New York State for corporate franchise taxpayers. The credit sunsets in four years.

109. Increases the Statewide, aggregate credit limit for the low income housing tax credit from $4 million to $6 million.

110. Extends the Empire Zones (EZ) Program to March 31, 2005.

111. 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.

112. 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

113. Establishes CAPCO Program Four. Increases the Statewide cap from $280 million to $340 million.

Corporation and Utility Tax

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

Tax Cuts Enacted in 2005

Corporate Franchise Tax

115. Changes the computation of a corporation's business allocation percentage from a three factor formula of payroll, property and receipts to a single receipts factor.

116. Makes significant changes to the Empire Zone/Qualified Empire Zone Enterprise program with respect to zone boundaries, zone designations, taxpayer eligibility, and benefits. Also authorizes twelve new Empire Zones.

117. Lowers the tax rate from 6.85 percent to 6.5 percent for small businesses and expanded the definition of a qualifying small business.

118. Provides an additional $25 million of Green Building credits.

119. Creates a new refundable tax credit for qualified emerging technology companies for research and development property, research expenses, and high-technology training expenditures.

120. Expands eligibility for the Investment Tax Credit to qualifying film production facilities.

121. Creates a credit for qualified building owners for training security officers.

122. Amends the tax law to extend the existing components of the alternative fuels credit for qualified clean fuel vehicle refueling property for three years.

Insurance Tax

123. Establishes CAPCO Program Five. Provides an additional allocation of $60 million that is made available over a ten year period beginning in 2007.

Corporation and Utility Tax

124. Extends the Power for Jobs Program through 2006.

Sales and Use Taxes

Tax Cuts Enacted in 1995

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

126. Exempts meteorological services.

127. Exempts South African coins purchased for investment.

128. Exempts homeowner association fees.

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

Tax Cuts Enacted in 1996

130. 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).

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

132. 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.

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

Tax Cuts Enacted in 1997

134. 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).

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

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

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

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

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

140. 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.

141. Exempts luggage carts dispensed by coin operated devices.

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

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

144. 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.

145. 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.

146. Exempts certain circus admissions.

147. 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.

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

Tax Cuts Enacted in 1998

149. 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.

150. 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.

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

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

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

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

Tax Cuts Enacted in 1999

155. Provides an exemption for clothing and footwear costing less than $500 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.

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

157. 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.

158. 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.

159. 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.

160. 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.

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

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

Tax Cuts Enacted in 2000

163. 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.

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

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

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

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

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

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

170. 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.

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

172. Exempts boats sold to nonresidents.

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

Tax Cuts Enacted in 2001

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

Tax Cuts Enacted in 2002

175. 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

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

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

Tax Cuts Enacted in 2005

178. Exempts the sale and installation of residential solar energy systems equipment.

179. Exempts coin-operated or fully automated car washing, waxing or vacuuming.

180. Exempts certain machinery and equipment used at marine container terminals in New York City.

181. Exempts certain waste transfer station services.

182. Exempts State chartered credit unions.

183. Exempts electricity, refrigeration and steam services produced by cogeneration facilities owned by certain cooperative corporations.

Other Taxes

Tax Cuts Enacted in 1995

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

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

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

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

188. Reduces the tax on pari-mutuel wagering.

Tax Cuts Enacted in 1996

189. Repeals the real property gains tax.

190. 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

191. 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.

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

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

Tax Cuts Enacted in 1998

194. 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.

195. 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.

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

197. Reduces the truck mileage tax by 25 percent.

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

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

Tax Cuts Enacted in 1999

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

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

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

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

204. Caps exhibitions' tax.

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

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

207. 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

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

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

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

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

Tax Cuts Enacted in 2002

212. 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.

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

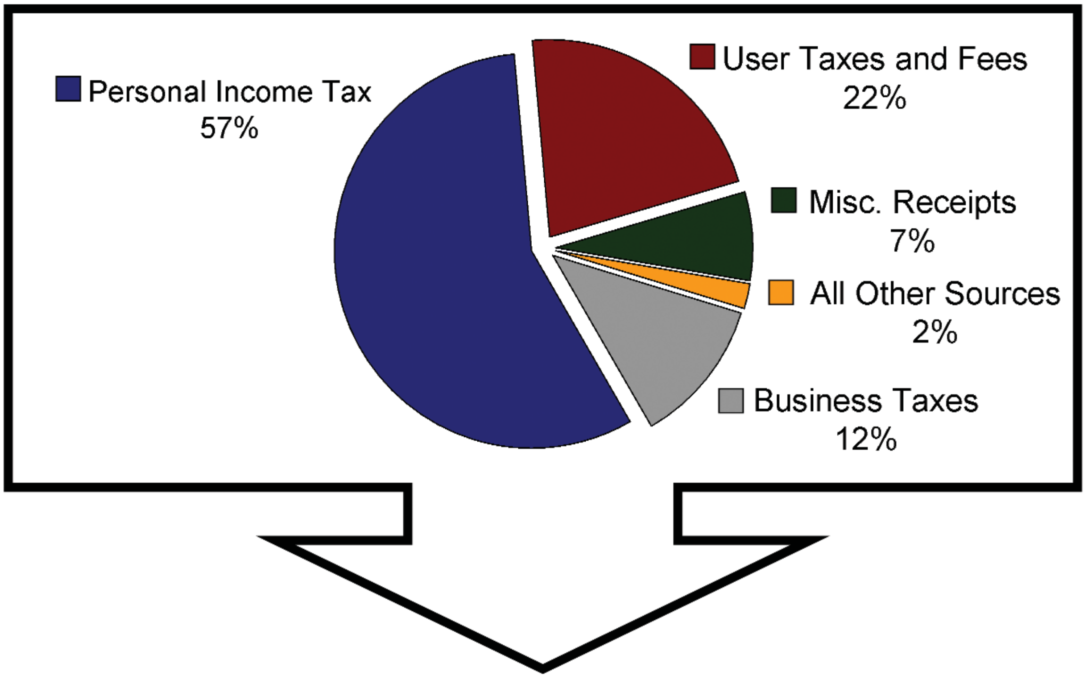
Tax Cuts Enacted in 2005

214. Creates a tax credit for Off Track Betting corporations equal to 45 percent of the pari-mutuel tax attributable to increased handle on races conducted at tracks located in New York State.

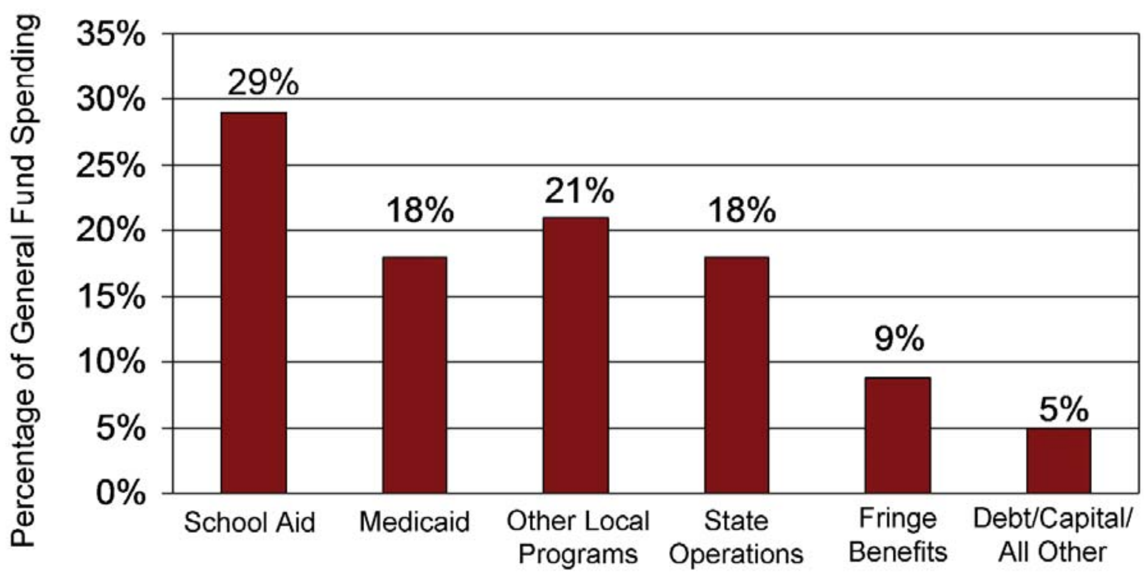
215. Eliminates the pari-mutuel tax at thoroughbred tracks for the three days surrounding the 2005 Breeder's Cup races.

2006-07 General Fund Budget

Where It Comes From

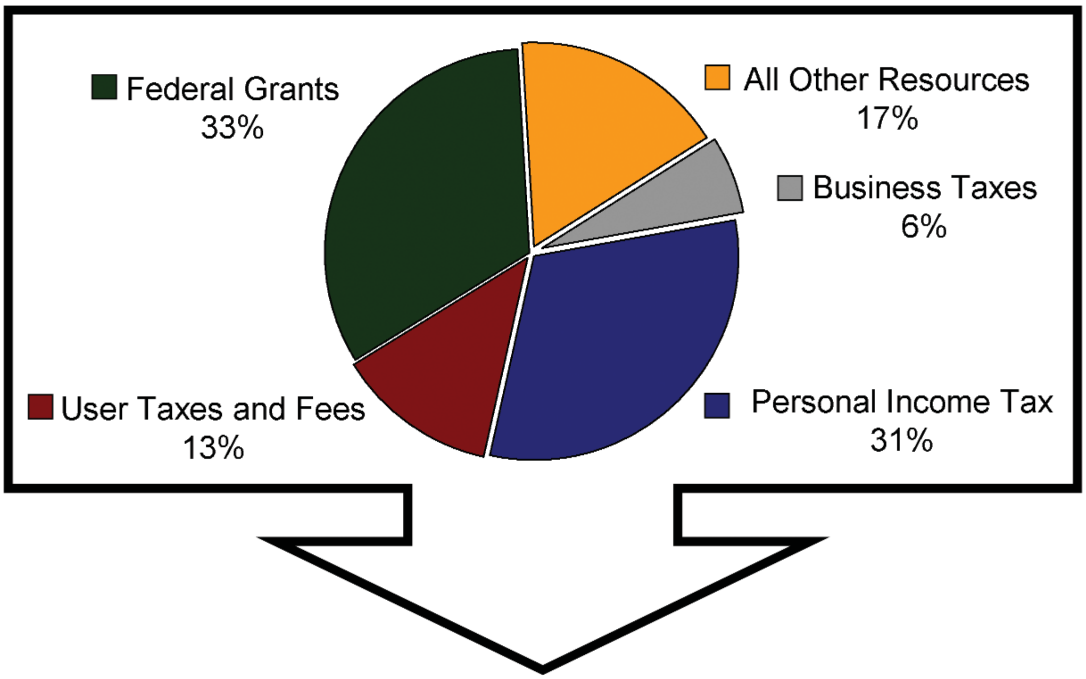


Where It Goes



2006-07 All Funds Budget

Where It Comes From



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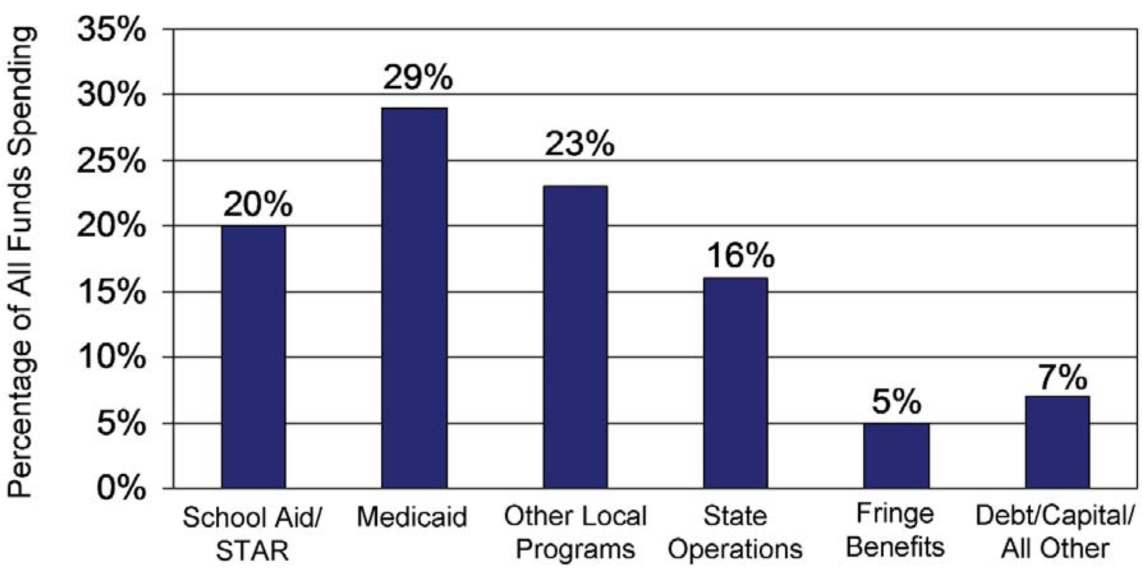

Citizen's Guide

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 five books and several bills. The "flagship" volume, *Executive Budget Overview*, contains the Budget Director's Message, which presents the Governor's fiscal blueprint for 2006-07 and explains 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.

The *Four-Year Financial Plan* summarizes the Governor's Executive Budget and describes the "complete plan" of spending and revenues required by the Constitution.

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 *Economic and Revenue Outlook: Analysis and Methodology* explains the specific sources of State revenues (including the economic outlook for the nation and the State) and the estimating methodology behind the forecast.

The fourth book presents the *Five-Year Capital Program and Financing Plan*, which highlights major capital initiatives and objectives, and describes the approach to financing.

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 book 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, Family Assistance, 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 the latest 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.

Education, Labor and Family Assistance

- Amend language relating to the Higher Education Capital Matching Grant Program to streamline implementation of the program by eliminating current restrictions on the execution of private contracts.
- Provide reforms to the State's education finance system including modifications to Building Aid, an increase on the cap on charter schools, and other changes.
- Align fiscal responsibility for tenured teachers' disciplinary hearings with the local school districts initiating such hearings.
- Modify the Tuition Assistance Program (TAP) to reform eligibility criteria.
- Establish a new Partnership to Accelerate Completion Time (PACT) Program.
- Create a STAR Plus Program for rebate checks to homeowners residing in school districts that adopt limits on spending growth.
- Establish a Tuition Reimbursement Program for students who agree to teach math and science in New York State middle or high schools for five years after graduation.
- Establish a new Cultural Education Trust to enhance the public display and storage of the collections of the State Museum, Library, and Archives.
- 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 a transfer.
- Modify the composition of the SUNY and CUNY Boards of Trustees to add a distinguished faculty member.
- Provide annual cost of living adjustments to the enhanced STAR exemption for seniors.
- Establish a tuition policy at SUNY and CUNY that authorizes the Trustees to index tuition increases to an inflator for entering students, and authorize differential tuition among campuses.
- Authorize SUNY, CUNY and OGS to develop a plan to raise additional revenues through the sale of surplus properties and the relocation of programs occupying highly marketable or valuable real estate.
- Conform the asbestos handling license renewal fee with the initial application fees that were increased in 2004-05.
- Transfer responsibility for radiological health services from the Department of Labor to the Department of Health.
- Increase the maximum fines for child care providers violating regulations and eliminate the redundant requirement that the Office of Children and Family Services approve certificates of incorporation.
- Authorize withholding of the entire welfare grant if the head of the household does not fulfill his or her employment obligation.
- 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 personal needs allowance for Safety Net recipients residing in drug/alcohol treatment facilities.
- Recognize the presence of individuals on SSI when determining the grant level of a public assistance household.

- Create a "Strengthening Families through Stronger Fathers" initiative for younger, non-custodial parents to supplement their income through an enriched Earned Income Tax Credit.
- Establish fiscal incentives for the social service districts that engage a minimum number of their public assistance populations in work-related activities.
- Authorize the Department of Health to apply for and implement a Medicaid waiver for foster children.

Health and Mental Hygiene

- Ensure a seamless transition to the new Federal Medicare prescription drug program (Part D), restructure the nursing home reimbursement methodology, implement saving measures to reduce Medicaid costs and establish the Office of Medicaid Inspector General to combat fraud, waste and abuse.
- Improve public health services by eliminating low-priority programs, implementing cost saving measures, strengthen fiscal and programmatic oversight and make new investments in local public health programs.
- Provide a three year Cost of Living Adjustment (COLA) for designated human services programs.
- Modify the Health Care Reform Act (HCRA) and enact proposals to preserve its fiscal stability, and authorize additional non-profit insurance company conversions.
- Authorize regulatory enforcement action fines to be deposited in the Chemical Dependency Service Fund.
- Authorize OASAS to make State aid payments to entities which assume either temporary or permanent responsibility for certain chemical dependency programs.
- Eliminate mental health outpatient services as services that can be considered specialized under Section 2807 of the Public Health Law.
- Authorize OMH/OASAS voluntary hospitals to receive Federal disproportionate share payments through March 31, 2009.

Public Protection and General Government

- Establish a State Task Force on Pension Reform to, among other items, examine alternative benefit designs and funding methodologies.
- Contain taxes paid on State lands and prevent inequitable assessments on State-owned lands.
- Authorize interest earnings on the Health Insurance Fund to be used as a credit to offset costs for State and local governments' public employees and retirees.
- Authorize a targeted retirement incentive focused on positions that can be eliminated through organizational restructuring, streamlining, and shared services efficiencies.
- Amend the schedule of payments-in-lieu of taxes made to the City of Albany for the Empire State Plaza.
- Authorize cash transfers between funds, temporary loans for various funds, and certain bond caps; propose provisions relating to general fiscal and debt management issues.
- Facilitate the merger and consolidation of local governments.
- Create a permanent Aid and Incentives for Municipalities (AIM) Program with increases in financial assistance, fiscal performance requirements and an enhanced Shared Municipal Services Incentives (SMSI) Program.
- Establish a new State aid program for municipalities in which a video lottery facility is located.
- Authorize comprehensive mandate relief initiatives for localities and authorize the indexing of interest on court judgments to market rates.
- Amend fine amounts imposed by the State Liquor Authority and authorize ABC/SLA beverage investigators and local law enforcement to confiscate fraudulent ID's.
- Make permanent the Motor Fuel Marketing Practices Act (MFMPA) and permit reimbursement to the Consumer Protection Board from the Attorney General for certain investigative costs.

- Amend the Civil Service Law and Retirement and Social Security Law by adding new sections to establish an information technology project title, including a defined contribution retirement benefit, effective for five years.
- Amend the State Finance Law to expand the use of funds deposited into the Criminal Justice Improvement Account.
- Authorize the use of traffic law enforcement cameras at work zones and dangerous stretches of highway.
- Exempt correctional facilities from the closure notification process that are recommended to be closed and re-used for another purpose.
- Permit a new standard using "aggregate weight" for lab analysis of illegal drug evidence.
- Increase the Criminal History Search fee to support local government agencies and not-for-profit providers of legal services.
- Authorize OGS to centrally purchase electricity and other commodities and services for use by State agencies, authorities and localities.
- Authorize the admission of business records into evidence in grand jury proceedings by way of sworn affidavit instead of live testimony.
- Eliminate the authorization for local conditional release.
- Establish a new annual registration fee for the Public Employment Relations Board (PERB) to be paid by public employers and employee organizations.
- Clarify the administration of the State and local wireless communications service surcharges and dedicate all State surcharge revenues to public safety and security activities.
- Extend for five years the authorization to fund part of the State's public safety efforts with Motor Vehicle Law enforcement fees.
- Extend the applicability of a Patriot Plan provision allowing for temporary suspension of public retirement system loan repayments while members are on active military duty.
- Extend and amend the 1995 Procurement Stewardship Act.
- Authorize counties to impose various fees on probationers.

Transportation, Economic Development and Environmental Conservation

- Authorize the New York State Energy Research and Development Authority to make payments to the General Fund and the Environmental Conservation Special Revenue Fund.
- Authorize assessments on utilities to be used for New York State Energy Research and Development Authority research and development costs.
- Authorize certain State agencies to finance their activities with revenues from assessments on public utilities.
- Authorize the Department of Environmental Conservation to regulate all freshwater wetlands, and establish fees for freshwater and tidal wetland permits.
- Make permanent surf clam and quahog fees.
- Increase Title V Operating Permit Program Emission fees on stationary sources of air pollution.
- Make permanent the authority of the Secretary of State to charge increased fees for expedited handling of documents.
- Provide the annual authorizations for the CHIPS and Marchiselli programs.
- Increase penalties for food and other health violations.
- Require the Department of Agriculture and Markets to conduct food safety inspections on a risk-based frequency.

- Make a technical change to Agriculture and Markets' fees.
- Increase the maximum penalties for Banking Law violations and eliminate annual license renewal fees.
- Establish an All-Terrain Vehicle (ATV) Program.
- Authorize additional purposes for the Environmental Protection Fund.
- Increase various DEC regulatory fees.
- Increase the Excelsior Linked Deposit Program from $350 million to $410 million.
- Re-instate the bulk mailing rate provisions for the Department of Motor Vehicles (DMV).
- Amend the Motor Carrier Safety Improvement Act (MCSIA) regarding disqualifications of commercial driver license holders.
- Increase the fees for the photo image portion of DMV's non-driver identification card.
- Add Oneida County to the Central New York Regional Transportation Authority Service District.
- Extend the State Single Audit Act for the Department of Transportation.
- Authorize the Department of Transportation and the Thruway Authority to undertake a pilot program to bid construction projects inclusive of the cost of professional engineering services.
- Authorize the Department of Transportation, the Thruway Authority and the Metropolitan Transportation Authority (MTA) to enter into transportation development partnerships with public and/or private entities and to utilize innovative and cost effective financing techniques to fund transportation facilities or services.
- Authorize one-time funding for the development of the World Trade Center Visitor Orientation and Educational Center.
- Make permanent the general loan powers of the New York State Urban Development Corporation (UDC).
- Create a new $475 million bonded capital program to support economic development projects.
- Increase the maximum penalties for Insurance Law violations.
- Increase the MTA Bond Cap to reflect the bonding needs of the enacted State Transportation Plan and MTA capital programs.
- Extend the Power for Jobs and Economic Development Power programs and authorize the New York Power Authority to make a voluntary contribution to the General Fund.
- Authorize the Dormitory Authority to provide up to $1.2 million to Cornell University for the Cornell Theory Center.
- Authorize the Dormitory Authority to provide financing for Hadassah.
- Authorize a technical change regarding hazardous wastewater fees.
- Provide for a three year phase-out of the bond issuance charge on public authorities.

Revenue

Personal Income and Business Taxes

- Reduce the top personal income tax (PIT) rate from 6.85 percent to 6.75 percent and increase the bracket to which the top rate applies.
- Eliminate the marriage penalty by increasing the standard deductions and increasing the rate recapture threshold.
- Provide a new refundable credit for primary and secondary tuition and other instructional expenses. The credit is up to $500 per student for taxpayers with income up to $90,000 and would be available to parents in school districts where one or more schools receiving Federal Title I funds are required to offer public school choice under the requirements of the Federal "No Child Left Behind Act."

- Provide a refundable credit to residents age 65 and older with incomes under $75,000 equal to 25 percent of home heating expenses, up to a maximum credit of $500.
- Provide a refundable credit equal to 50 percent of the costs of upgrading or renovating a residential home heating system.
- Provide small business taxpayers and farmers with a refundable credit for energy costs that exceed 10 percent of total costs (5 percent for small businesses). The credit will equal 25 percent of energy costs, up to a maximum of $3,000.
- Provide for immediate expensing for business assets placed in service in New York.
- Create a new credit for farmers for property tax paid on land related to conservation easements.
- Expand the current exemption for members of organized militia to persons called to service in New York State by the Federal government.
- Extend LLC fees.
- Limit amount that can be offset for the Earned Income Tax Credit.
- Clarify treatment of the taxability of certain income for non-State residents.
- Create a credit for the restoration of historic homes.
- Eliminate the Alternative Minimum base.
- Eliminate the Capital and Asset base.
- Reduce the rate imposed under the Entire Net Income Tax (ENI) base from 7.5 to 6.75 percent.
- Eliminate the additional Corporate Franchise Tax imposed on subsidiary capital.
- Eliminate the S-Corporation differential tax.
- Expand the Empire Zone Program to:
  - Create a statewide Clean Energy Research and Development Zone for eligible businesses;
  - Create five new Empire Zones for businesses demonstrating a substantial relationship with a Center of Excellence; and
  - Accelerate the designation of the twelve Empire Zones authorized in the 2005-2006 enacted Budget.
- Make the Empire State Film tax credit permanent and increase the maximum annual credit to $30 million.
- Make permanent $2 million in annual credits for investing in low income housing.
- Provide tax credits for the purchase of alternative fuel vehicles and for the production of alternative fuels.
- Reform the manner in which life insurance companies calculate their taxes when more than 95 percent of their total premiums consist of annuity premiums.
- Decrease the maximum and minimum limitations on the franchise tax applicable to life insurance companies from 2.0 percent and 1.5 percent of taxable premiums, respectively, to 1.75 percent and1.25 percent.
- Extend the additional fixed dollar minimum brackets.
- Change the tax treatment of REITS and RICS under the Bank Tax.
- Extend the Federal Gramm-Leach-Bliley Act provisions and make New York State and New York City Bank Tax Reform provisions permanent.
- Amend and make permanent the distribution of a portion of corporation and utility tax receipts to the Dedicated Highway and Bridge Trust Fund and the Mass Transportation Operating Assistance Fund.
- Hold MTA harmless for certain corporate tax reductions.
- Improve the efficiency and implementation of the Brownfields program.

User Taxes and Fees

- Authorize two sales tax free weeks for the purchase of Energy Star appliances and home weather stripping, caulking, and insulation products.
- Increase the sales tax vendor credit from a State only base to a State and local base as well as increasing the quarterly cap from $150 to $250 over three years.
- Exempt the sale of alternative fuels (e.g., E85) from motor fuel and sales taxes.
- Make permanent the partial sales tax exemption for admission charges to qualifying amusement parks.
- Make the clothing exemption permanent for purchases up to $250 for 2 weeks annually.
- Simplify the administration of the sales and use tax registration program for persons contracting with the State.
- Reform the tobacco products and cigarette taxes to remedy various compliance and enforcement problems.

Other Taxes

- Phase out and eliminate the estate tax by conforming State exemptions to Federal levels for deaths occurring on and after January 1, 2007, increasing the State exemption to $2 million for deaths occurring in 2007 and 2008, and to $3.5 million for deaths occurring in 2009; and eliminating the tax for deaths occurring on and after January 1, 2010.

Lottery

- Make Quick Draw permanent and eliminate restrictions on food sales; hours of operation and reduce the minimum size of establishments that can offer Quick Draw.
- Authorize competitive bidding on three additional licenses to operate a Video Lottery facility.

Other-Revenue

- Lower the dormancy period on travelers' checks and money orders under the abandoned property law.
- Authorize joint custody of the Abandoned Property Fund.
- Establish a maximum bond limit to stay execution of a judgment for litigation under appeal by tobacco manufacturers and their affiliates.
- Increase the minimum mark-ups under the Cigarette Marketing Standards Act.
- Address deficiencies in existing law relating to the collection of taxes with respect to sales of goods and services on Indian reservations to non-Indians.
- Save harmless NYC from the reduction of their cigarette tax from $1.50 to $0.50 per pack.

All Other

- Reform Workers' Compensation

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 2006-07
Prior Year Estimated Spending	**$480,459**
Additional cost of continuing State-operated programs, including general salary increases and other inflationary adjustments	5,748
Additional cost of continuing community-based chemical dependency and compulsive gambling programs	19,845
Targeted program enhancements, including Veterans' residential treatment initiative ($2M), OASAS share of joint OASAS/Parole re-entry demonstration ($3M), new adolescent outpatient pilot ($2M), homeless shelter detoxification demonstration ($3M), and underage drinking prevention campaign ($2M)	11,750
2.5% cost-of-living adjustment for eligible chemical dependence and compulsive gambling programs effective October 1, 2006	4,100
Additional capital spending for new beds to serve adolescents and women with children as well as ongoing community pipeline bed needs	12,566
Local Assistance efficiencies, including strengthening provider contract reviews and reducing excess administrative overhead	(7,800)
Recommendation	**$526,668**
Change From 2005-06	**$46,209**

Office of Children and Family Services
($000s)

	General Fund 2006-07
Prior Year Appropriations	**$1,538,629**
Child Welfare Claims Growth	$29,900
Committees on Special Education	$8,800
Adoption Caseload Growth	$7,500
Human Services COLA	$7,000
Child Welfare Substance Abuse Initiative	$5,000
Maximum State Aid Rate Foster Care	$4,699
Mental Health Home and Community-Based Waivers	$1,950
Child Welfare Medicaid Waiver	$500
Divert persons-in-need-of-supervision (PINS) from local detention	$1,400
Detention Claims	($1,000)
Expand Child Advocacy Centers	$500
Other local assistance spending changes	($5,397)
Office for Technology rate increases	$5,640
CONNECTIONS Disaster Recovery functionality	$2,000
Use of State staff to replace consultants and contract staff	($3,592)
Close three community homes / Evidence-based Community Initiative (EbCI) Re-investment	($392)
Other State Operations spending changes	$11,176
Recommendation	**$1,614,313**
Change From 2005-06	**$75,684**

Department of Correctional Services

($000s)

	General Fund 2006-07
Prior Year Appropriation	**$2,089,745**
Annualization of savings and projected spending increases	61,353
Energy cost increases for fuels, natural gas and electricity	31,500
Closure of Camp Pharsalia and its transfer to the Office of Mental Health for the civil commitment of sexually violent predators	(5,200)
Recommendation	**$2,177,398**
Change From 2005-06	**$87,653**

Economic Development
($000s)

	General Fund 2006-07
Prior Year Estimated Spending	**$152,631**
Re-estimate of General Fund disbursements for certain economic development programs	($15,000)
New economic development initiatives	9,725
Adjustment for non-recurring programs and other efficiencies	($24,169)
Recommendation	**$123,187**
Change From 2005-06	**($29,444)**

State Education Department
($000s)

School Aid/STAR/STAR Plus	Total 2006-07 School Year Funding
Prior Year School Aid Estimated Spending	**$16,314,990**
Sound Basic Education Aid Reserve	$375,130
Building and Transportation Aid increases	$166,540
Public Excess Cost Aid increase for special education	$131,290
Tax Limitation Aid increase	$47,660
Math/science education initiatives	$15,000
New student health services initiative	$5,770
Other formula-driven and categorical aid changes	$620
Private special education funding reform	($97,960)
BOCES Aid savings	($10,120)
School Aid Subtotal	**$16,948,920**
Prior Year School Tax Relief (STAR) Funding	**$3,219,000**
STAR increase due to greater participation/local tax growth	$101,000
Decline in NYC personal income tax reimbursement	($24,000)
Enhanced STAR COLA adjustment	72,000
STAR Subtotal	**$3,368,000**
STAR Plus	**$530,000**
Recommendation for School Aid/STAR/STAR Plus	**$20,846,920**
Change From 2005-06	**$1,312,930**

State Education Department
(continued)
($000s)

Other Education Programs/ Agency Operations	General Fund 2006-07
Prior Year Estimated Spending	**$1,576,447**
Increased payments for preschool and summer school special education programs due to enrollment growth and increased program costs	74,985
Funding increase for the Science Technology Entry Program and the Collegiate Science and Technology Entry Program	6,467
Elimination of certain grants for individual school districts and one-time cash disbursements	(60,590)
Transfer of funds for education of Native Americans and fiscal stabilization grants to school aid	(21,240)
Transfer of State operations to special revenue funds and efficiencies	(3,800)
Net annualization of savings and projected spending increases	(4,771)
Recommendation	**$1,567,498**
Change From 2005-06	**($8,949)**

Department of Environmental Conservation
($000s)

	General Fund 2006-07
Prior Year Estimated Spending	**$110,566**
Increased costs associated with the ongoing effort to contain Chronic Wasting Disease	1,500
Annualization of savings and other adjustments	(1,152)
Transfer of General Fund costs to other funds and non-personal service efficiencies	(2,100)
Recommendation	**$108,814**
Change From 2005-06	**$(1,752)**

Capital Funds	All Funds 2006-07
Prior Year Estimated Spending	**$626,110**
Decreased spending for the 1996 Clean Water/Clean Air Bond Act	(20,000)
Increased spending for the Environmental Protection Fund	5,000
Decreased spending for the 1986 Environmental Quality Bond Act	(10,000)
Other net adjustments, including annualization of savings and other adjustments	(11,900)
Recommendation	**$589,210**
Change From 2005-06	**$(36,900)**

Department of Health
($000s)

	General Fund 2006-07
Prior Year Estimated Spending	**$728,132**
Restructuring General Public Health Work Program	7,400
Cost of Living Adjustment for various AIDS and Public Health Programs	7,328
Expanded funding for Regional Perinatal Centers, Genetic Disorder Screening, Childhood Obesity Prevention and the Red Cross	7,175
Measures to strengthen oversight of Early Intervention Program	1,900
Wadsworth Center for Laboratories and Research funding for purchase of necessary equipment and supplies	5,000
Administrative costs of HEAL NY program and the Commission on Health Care Facilities in the 21st Century	1,636
Fixed cost increases and other adjustments as offset by non-personal service efficiencies	(2,079)
Recommendation	**$756,492**
Change From 2005-06	**$28,360**

Higher Education Services Corporation
($000s)

	General Fund 2006-07
Prior Year Estimated Spending	**$884,946**
Decrease in use of special revenue funds for TAP and the Aid for Part-Time Study program	45,930
TAP growth reflecting higher award levels	31,800
TAP growth reflecting an increase in recipients	25,922
TAP reform savings, net of reimbursement for TAP for prefinancing costs	(183,495)
Sunset of Regents health care and professional opportunity scholarships	(2,300)
Non-recurring retroactive funding for Flight 587 Memorial scholarships	(300)
Recommendation	**$802,503**
Change From 2005-06	**($82,443)**

Medicaid
($000s)

	Total Spending 2006-07
Prior Year Estimated Spending	**$45,776,422**
Growth in entitlement spending	$1,872,681
Hospital reimbursement actions, including reform of detoxification services and Graduate Medical Education (GME) financing	($326,600)
Advance a comprehensive Medicaid anti-fraud package	($301,000)
Advance efficiency and savings measures including modifying transportation program requirements, maximizing other revenues and achieving administrative efficiencies	($261,100)
Implement measures to ensure cost effective use of pharmaceuticals including strengthening the Preferred Drug Program (PDP)	($259,400)
Reform the nursing home payment system and other reimbursement actions	($237,700)
Medicare Part D cost avoidance	($216,400)
Reform the Long Term Care system by closing existing eligibility loopholes	($82,400)
Expansion of Managed Care enrollment	($57,200)
Limiting reimbursement for Adult Day Home Care providers	($50,000)
Close eligibility loopholes and implement co-payment changes in Family Health Plus (FHP)	($43,800)
Eliminate certain non-emergency services for illegal aliens	($15,000)
New investments for nursing home rebasing, community-based care initiatives and criminal background checks	$59,400
Recommendation	**$45,857,903**
Change From 2005-06	**$81,481**

Office of Mental Health
($000s)

	General and Offset Funds*
Prior Year Estimated Spending	**$2,027,213**
General salary increases, other program adjustments and annualization of prior year local program development	102,641
New mental health services including initiatives for children, the elderly and suicide prevention	19,615
Civil commitment, where appropriate, of sexually violent predators for treatment in OMH psychiatric facilities	19,220
Local enhancements for a 2.5% cost-of-living adjustment for eligible providers effective October 1, 2006 ($10.6M), and increased stipends for Supported Housing programs ($6.5M)	17,095
First year funding for the multi-year New York/New York III - Supportive Housing Agreement	7,700
Various State Operations and Local Assistance efficiencies including overtime management savings and provider audit recoveries	(33,350)
Elimination of Alternative Rate Methodology reimbursement to hospitals	(600)
Recommendation	**$2,159,534**
Change From 2005-06	**$132,321**

*Includes Health Care Reform Act funds.

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

	All Funds 2006-07
Prior Year Estimated Spending	**$2,914,838**
Additional cost of continuing State-operated programs, including general salary increases and other inflationary adjustments	83,167
Additional cost of continuing not-for-profit programs, including NYS-OPTS and Medicaid inflationary adjustments	116,580
2.5% cost-of-living adjustment for eligible not-for-profit programs effective October 1, 2006	2,500
Expanded Family Support Services; research and treatment initiatives in autism	3,200
Additional capital spending, including rehabilitating the Bernard Fineson Developmental Center	38,380
Various State Operations and Local Assistance efficiencies, including overtime management and Medicaid claims reviews	(24,705)
Recommendation	**$3,133,960**
Change From 2005-06	**$219,122**

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

	General Fund 2006-07
Prior Year Estimated Spending	**$110,448**
Increased operations costs for newly established parks	1,450
Annualization of savings and projected spending increases	10,122
Transfer General Fund costs to other funds and Local Assistance savings	(2,450)
Recommendation	**$119,570**
Change From 2005-06	**$9,122**

Capital Funds	All Funds 2006-07
Prior Year Estimated Spending	**$34,560**
Increased State Parks Infrastructure Fund spending	6,125
Annualization of savings and other adjustments	(324)
Recommendation	**$40,361**
Change From 2005-06	**$5,801**

State University of New York/ City University of New York

($000s)

	General Fund 2006-07
Prior Year Estimated Spending	**$3,808,407**
Additional State operating support	65,000
Fringe benefits increase	59,446
Contractual salary costs	56,732
Annualizations and projected spending increases	26,308
$100 per full-time student community college base aid increase	17,062
Funding for new Empire Innovation Program	11,000
Increase in community college rental aid	1,155
Funding for priority academic programs	1,000
Funding for Just for the Kids project	275
Additional revenue authorization	(131,012)
Additional fringe benefit recoveries and interest recoveries	(18,500)
Recommendation	**$3,896,873**
Change From 2005-06	**$88,466**

Office of Temporary and Disability Assistance
($000s)

	General Fund 2006-07
Prior Year Estimated Spending	**$1,344,954**
Increase in public assistance expenditures	$14,605
Reclassification of SSI Recipients in Adult Homes	$22,707
Increased Federal funding for the Earned Income Tax Credit	($31,360)
Funding for the Strengthening Fathers Initiative	$3,000
Funding for the NY/NY III Initiative	$1,914
Increase in funding for the Local Administration Fund	$1,347
State Operations Adjustments	$10,355
Recommendation	**$1,367,522**
Change From 2005-06	**$22,568**

Department of Transportation
($000s)

	All Funds 2006-07
Prior Year Appropriations	**$9,096,585**
Increase in transit aid	354,383
Net changes for inflationary adjustments, additional operating responsibilities and offsetting efficiencies	61,224
Additional Federal non-capital aid under SAFETEA-LU	15,522
Capital appropriation increases in accordance with the State Transportation Plan	25,702
Elimination of one-time bonding authorizations	(2,900,000)
Duplicate engineering appropriation to advance Bond Act projects	77,000
New aviation appropriations	5,793
Recommendation	**$6,736,209**
Change From 2005-06	**($2,360,376)**