



STATE OF NEW YORK  
EXECUTIVE CHAMBER  
ALBANY 12224

To: Agency Commissioners  
From: Governor Eliot Spitzer  
Re: State Budget  
Date: September 20, 2007

For most of the last 12 years, the State has benefited from higher than expected revenues, largely driven by the strong performance of the financial services industry and the boom in real estate downstate. In good economic times, Wall Street accounts for up to 20% of our tax revenues.

Unfortunately, over the summer we witnessed a number of events that give us great concern about the rate of continued increases in revenues from these sources. The crisis in subprime mortgage lending and the cutbacks in the credit markets are already leading to major Wall Street firms reporting lower quarterly earnings and raising the prospect of layoffs. These changes in the credit markets also bode poorly for the continuation of very large commercial real estate transactions.

It is too soon to tell how much these factors will affect revenue this year and next. Because of our significant reserves, and the fact that most of these negative developments occurred mid-way through 2007, we remain on track with our forecasts with the State's financial position during the current fiscal year. But we must begin to turn away from the old mindset that if we wait long enough and delay the tough decisions, an 11<sup>th</sup> hour bailout from revenue increases will make our potential problems disappear.

In the Call Letter for Budget Requests that the State's Budget Director sent to state agencies last month, he noted that Agencies should prepare budget options that will prepare us for making hard decisions in the upcoming budget. I want to re-emphasize that directive and urge you to carefully scrutinize all hiring and other expenditures now. The Call Letter also emphasized that the goal is to carry out our top priorities effectively, while identifying lower-priority areas for savings – not to simply stand pat. We are better off making hard decisions now rather than making commitments that we might be unable to sustain once the budget is finalized.

I am committed to commencing our budgetmaking process as early as possible to ensure openness and transparency as we evaluate the hard choices ahead of us. I look forward to discussing all of these issues with you in more detail at next week's cabinet meeting. In addition, we will soon begin the process of reviewing with you the changes to current operations that may be necessary in the next budget year. It will be easier to make those changes if we have already adopted the mindset and discipline that greater austerity will require.

I appreciate your cooperation in this matter.