STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY NY 12224

GEORGE E. PATAKI
GOVERNOR

January 22, 2002

To the People of New York:

The tragic events of September 11 shocked New York and the nation, and the day will forever be marked in American history. While we remember those that have been lost, and reflect on the courageous actions of New Yorkers, we also forge ahead with a new sense of resolve, working to recover and rebuild from the evil attacks that struck the very heart of New York's economy.

As we move forward, it is important to recognize that the attacks left us with challenges that no State government could have foreseen or predicted. Millions of square feet of prime commercial real estate in Lower Manhattan was destroyed or damaged, with more than 14,000 small and large businesses directly or indirectly harmed and hundreds of thousands of workers and their jobs were affected. At the same time, the national economy, already slowing before September 11, rapidly deteriorated and is now in recession.

Fortunately, the sweeping changes, bold innovations and fiscally responsible approach to budgeting we have brought to State government during the past seven years have placed New York in a strong position to meet these challenges, and sustain the important gains we have made. We made the right decisions and, together, we will make the right decisions again.

The 2002-2003 Executive Budget will allow New York to weather the negative fiscal impact while keeping New York on the course that turned our once struggling economy into an economic engine that has propelled our growth and prosperity. While the Budget takes necessary actions to cope with the fiscal blow of September 11 and the national economic recession, it also sustains the historic investments we have made. For example, the intelligent economic policies that fueled our turnaround, such as tax cuts and economic development programs will be continued and the smart, targeted investments we have made in critical programs that are essential to the health, safety and well being of all New Yorkers will also be sustained.

While we face daunting challenges ahead, the spirit of New York remains. It is in this spirit that I am proud to present the 2002-2003 Executive Budget. I look forward to working with the members of the Legislature — and with all New Yorkers — with the non-partisan resolution that has united us since September 11 as we take the next bold step in what has become a truly historic journey.

Very Truly Yours,

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Sustaining Progress in the Face of New Challenges

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

In the aftermath of the horrific events of September 11, 2001, we mourn our losses as we marvel at the courageous and generous response of so many Americans to this tragedy. As Governor Pataki said in his State of the State message, "We saw the triumph of the human spirit over the worst evil known to mankind."

The enormous human loss we have endured has affected the entire nation, but the impact was particularly devastating for New Yorkers. The physical, emotional and psychological toll the attacks on the World Trade Center have had on New York may never be fully comprehended.

The property damage and economic impact from the attacks on the World Trade Center have also had consequences for the entire nation. Nowhere, however, are these as severe or as evident as in New York State and in New York City, the epicenter of a catastrophic event unparalleled in our nation's history.

The terrorist attacks on America struck at the very heart of New York's economic and financial capital. Approximately 25 million square feet of prime commercial real estate in lower Manhattan was destroyed or damaged, with over 1,300 businesses directly harmed and 14,000 more indirectly impacted. Close to 400,000 workers, a number nearly equivalent to the entire population of the City of Atlanta, were affected in some way. In all, it is estimated that up to 150,000 jobs in New York will be lost.

The national economy, already slowing before September 11, rapidly deteriorated after the events of that day and is now in recession. Virtually every sector of the economy has been affected and business sectors that are vitally important to New York, such as banking, insurance and other financial services, tourism and travel, and advertising have all been severely hurt.

Unprecedented Impact on the State's Finances

In calculating the impact of the September 11 attacks and the national recession on the State's revenues, we must consider their broad consequences: the amount of office space destroyed or damaged; the number of jobs lost or displaced; the decline in financial-sector profits and bonuses; the impact on capital gains;

reduced profits for the overall business sector; and a deterioration in consumer and investment spending. The result is a drastic reduction in the State's revenue generating capacity.

The Executive Budget reflects this impact, forecasting a steep decline in tax receipts in 2001-02 and no revenue increases in 2002-03. These revenue shortfalls are the most significant in more than 55 years and primarily drive a two-year budget shortfall totaling $6.8 billion. To put this two-year shortfall in perspective, it represents more than 25 percent of the total amount collected each year in personal income taxes, and it is more than what the State spends each year on economic development, parks and the environment, transportation, mental hygiene, public protection, and aid to local governments combined.

Fortunately, the State's sound financial management and improved economic strength and competitiveness over the past seven years will help New York weather the consequences of an event more damaging than anything in its history.

We clearly face tremendous fiscal challenges as a result of September 11 and the national recession, but have tremendous confidence that through bipartisan cooperation, we can turn crisis into comeback once again.

A Sound Platform for Recovery

While the September 11 attacks, and the accelerating decline in the national economy, have altered the fiscal picture in New York as they have in virtually every state in the nation, New York is far better prepared to manage the fiscal consequences than it was seven years ago.

In 1995, Governor Pataki recognized the crucial need to focus efforts on revitalizing New York's struggling economy. As the Governor cut taxes, reduced government spending and created a supportive environment for business and economic growth, New York's economy surged. As State revenues grew, more taxes were cut, reserves established and investments made in important programs such as education, health care and the environment.

Intelligent economic policies — such as reducing taxes and assisting promising start-up companies and fledgling industries — have paid off in a more competitive, diversified and robust economy. Hundreds of thousands of new private-sector jobs have been created and a host of businesses — both existing and newly arrived — have grown in New York. Nearly 1 million people have left the welfare rolls while employment has reached record high levels.

With unprecedented economic growth came the resources needed to expand our investment in critical programs. Governor Pataki wisely used this prosperity to establish or expand programs essential to the health, safety and well being of all New Yorkers. The Governor's investments in education, criminal justice, the environment and health care, for example, provided historic levels of support to help our children learn, make our communities safer and our air and water resources cleaner, and ensure that more New Yorkers than ever before have access to high quality and affordable health care.

At the same time, Governor Pataki improved the State's financial condition by restraining overall spending growth, increasing the State's reserves to record levels, reducing the growth in State debt by two-thirds, and generating six consecutive Budget surpluses. These efforts to improve New York's economy and strengthen its fiscal condition have been rewarded by three consecutive credit rating upgrades, culminating with a credit rating that is now at its highest level in 23 years.

Events of the past year have also illuminated New York's improved finances. Well before September 11, many states were being forced to cut programs and services in mid-fiscal year due to declining revenues. New York was not in that position. The Governor's Executive Budget for fiscal year 2001-02, while including new investments in important State programs, remained affordable despite the national economic slowdown.

While the attacks of September 11 severely hurt New York's economy and present economic challenges well beyond those facing the rest of the nation, Governor Pataki's efforts over the past seven years provide the sound fiscal platform on which New York will build its recovery.

Taking Immediate Action to Address the Fiscal Impacts

Within hours of the September 11 attacks, President Bush approved Governor Pataki's request to declare New York City a Federal disaster area, making New York eligible for Federal financial aid. The Federal Government committed to pay for 100 percent of the costs associated with the rescue, recovery and rebuilding efforts in New York City. This contrasts with the more typical cost sharing arrangement whereby the Federal Emergency Management Agency covers only 75 percent of costs, ordinarily leaving state and local governments to pay the remaining 25 percent.

In early October, Governor Pataki prepared a Federal assistance package that estimated rescue, recovery and rebuilding costs at $34 billion. The Federal Government will fully reimburse New York for these costs, net of insurance and other private resources, as they are incurred.

The Governor also put forth a series of proposals appropriate for inclusion in the national economic stimulus plan under discussion in Washington. Included were proposals to: establish an economic development "Liberty Zone" in the area surrounding the World Trade Center; offer increased health and unemployment benefits to workers negatively affected by the economic impact of the World Trade Center attack; and provide financial assistance and capital investments in New York to spur economic activity.

Already, these efforts have generated significant additional Federal aid for New York. Although Congress recessed for the holidays without enacting a national economic stimulus package, it did provide $10.4 billion in initial Federal disaster relief for New York. This includes $6.4 billion for reimbursement of emergency response, debris removal and public infrastructure repair and rebuilding; $2.7 billion in Community Development Block Grants to assist businesses, both large and small, that were negatively affected by the attacks; $175 million in supplemental workers' compensation assistance to support families of dislocated workers; nearly $400 million in emergency transportation funding for road and tunnel repairs as well as replacement facilities and capital improvements to address commuter needs around the World Trade Center site; and $140 million to assist health care providers to recover costs incurred as a result of the attacks.

Members of Congress have expressed their intent to consider economic stimulus legislation when they return, and Governor Pataki will continue to work with the New York Congressional Delegation and the White House to obtain the additional Federal support for New York. The Governor is particularly encouraged that, just prior to recessing, the House of Representatives passed legislation to create a new "Liberty Zone" in lower Manhattan, which would provide various tax breaks to businesses and residents — a major component of the Governor's initial economic rebuilding package. Enactment of this Federal legislation is one of the Governor's top priorities this year.

Meeting the Extraordinary Challenges Ahead

As the Governor was making the case in Washington for Federal assistance, he was simultaneously taking action in Albany to address the economic consequences of the World Trade Center attacks and the national recession.

In early October 2001, Governor Pataki directed all State agencies to develop comprehensive 18-month cost-saving plans. Immediate cost cutting steps were taken, including instituting a strict hiring freeze, preparing a targeted retirement incentive program for State employees, eliminating non-essential spending and reducing State debt costs.

The Governor also secured legislative action on various budget-related measures that will generate additional savings for the current fiscal year and for 2002-03. These measures included school facility construction reforms, initiatives to enhance State lottery games and secure other revenue, and restructuring of the State's debt. These actions, when combined with the cost-cutting measures Governor Pataki put in place in early October, will produce almost $450 million in savings beginning in the current year, and an additional $581 million in 2002-03. When combined with the use of $646 million in reserves set aside for periods of fiscal downturn, these actions will close the entire 2001-02 Budget shortfall. As a result, New York will avoid the disruptive mid-year programmatic cuts, tax deferrals and deficit notes the previous Administration relied upon when the State last faced a mid-year fiscal crisis in the early 1990s, and which many other states have been forced to use in the last year.

The Executive Budget closes the remaining $5.1 billion 2002-03 budget gap by controlling growth in discretionary spending and restructuring and reforming programs, as well as by maximizing available Federal and other revenues. All remaining fiscal reserves set aside for economic downturns will also be used. Under the plan, tax cuts will proceed on schedule. It should also be noted that the Executive Budget does not increase SUNY and CUNY tuition or propose layoffs or slash State services and programs.

Overall, the 2002-03 Executive Budget will reduce General Fund spending by $1.2 billion, or 3 percent. All Funds spending will increase by $4 billion, or 4.7 percent — largely reflecting an additional $3.1 billion in Federal aid this year.

Sustaining Our Progress

The Governor's Executive Budget for 2002-03 is soundly balanced — fiscally, as required by law, but also in a number of other respects. The Budget is soundly balanced:

- in sustaining important programs while controlling spending growth;
- in using fiscal reserves, Federal funds and other revenues to permit program reforms and personnel reductions to be reasonably phased;
- in honoring past commitments to tax reductions and program benefits without making unaffordable new promises that cannot be met; and
- in recognizing the present fiscal realities while investing for the future.

Economic Development

Governor Pataki's 2002-03 Executive Budget supports an array of new and innovative economic development incentive programs to attract and retain businesses and encourage expansion and job growth across the State. These initiatives are especially critical now, as we intensify efforts to spur economic growth in the wake of the September 11 attacks and the national economic recession.

During these difficult times in our national economy, the competition with other states and nations to attract and retain jobs and businesses is already demanding, and will become more so as private-sector investment increases with the national economic recovery.

With this in mind, the Governor's Budget includes a comprehensive economic development plan to generate billions of dollars in new private- and public-sector investments across the State. The Governor's plan includes a new "Empire Opportunity Fund" that will support major capital investment and economic development projects that create and retain jobs or build capacity for future job growth; new funding for high-tech/biotech job creation; support for renewable-energy technology; and targeted assistance for small businesses.

Fulfilling the Promise of Tax Relief

The Governor's Executive Budget continues the billions of dollars in tax cuts that have been enacted since 1995, including more than $300 million in new tax cuts that are scheduled to take effect in 2002-03. In this coming fiscal year, New Yorkers will pay $13.4 billion less in taxes than they would have paid if the Governor's tax cuts were not in place.

The Governor believes that continuing the tax cuts is critically important to limit the negative impact of the national recession and the economic disruption caused by the terrorist attacks on the World Trade Center. Clearly, raising broad-based taxes now, or delaying implementation of the already enacted tax cuts, would ignore the lessons of the last seven years and ultimately hurt New York's economy, costing us jobs. In total, the tax cuts that have been enacted since 1995 will save New Yorkers more than $100 billion on a cumulative basis when fully in place.

Fiscal Integrity/Debt Reform

Especially in difficult times, it is important that New York adheres to the fiscally responsible principles that have proven successful during the Governor's time in office. Accordingly, in the current fiscal year, Governor Pataki will make a seventh consecutive annual deposit into the State's Tax Stabilization Reserve Fund. This year's $83 million addition is again the maximum allowed by current law, bringing the Fund to a total of $710 million. In keeping with the intent of the Fund, this reserve will be held aside to guard against the need for mid-year budget cuts.

The Governor is also submitting a number of budgetary and fiscal reform initiatives to the Legislature, including an amendment to the State Constitution to further ensure we preserve gains made through the Debt Reform Act of 2000. The Governor's plan would also increase both the annual contribution amount and total size of the Tax Stabilization Reserve Fund allowed by law, to permit the Fund to grow to a level equal to five percent of General Fund spending, comparable to most other states. Currently, New York law limits the Fund to two percent of the General Fund.

Education

New Yorkers have made generous investments in the State's educational system, with dramatic school aid increases totaling $4.4 billion, or 45 percent over the past seven years. Despite the significant fiscal strains we face, Governor Pataki's 2002-03 Budget recommendations sustain funding for our schools at the highest level in the State's history — $14.2 billion.

In January 2001, the Governor proposed historic and comprehensive reforms in the way New York State allocates school aid. The Governor's proposal — known as Flex Aid — gives schools greater flexibility in using those funds to meet locally defined needs. This year, the Governor's education agenda again calls for a sweeping overhaul of New York's school finance system — to throw out the existing school aid formula and achieve equity without pitting one school district against another.

Environment

The Governor's Budget includes initiatives that reflect his continuing strong support for the environment. The Governor is proposing $125 million in new Environmental Protection Fund (EPF) funding for open space, farmland preservation and other important environmental programs. This is in addition to the $125 million that the Governor sought for the EPF in the current fiscal year in his original Executive Budget and which he is again proposing in a "deficiency" appropriation.

In addition, legislation is proposed to refinance and improve the New York State Superfund program. This measure will maintain the most stringent environmental and public health standards in the nation, continue the "polluter pays" principle and make common sense reforms that will remove more contamination from the environment and return sites to use quickly and safely.

Public Security

In the aftermath of the World Trade Center attacks, Governor Pataki took important steps to ensure the safety and security of all New Yorkers. The Governor established the State Office of Public Security, which is now coordinating and bolstering the Governor's anti-terrorism efforts throughout New York. The Executive Budget reflects Governor Pataki's continuing efforts to protect New Yorkers and provides an additional $200 million for the costs related to public security. This amount is expected to cover current estimates for public security activities through the end of the 2002-03 fiscal year, including needs identified by the new Office of Public Security.

Health Care

The Executive Budget sustains funding for critical programs that provide health care to New Yorkers, and support the State and local oversight necessary to guarantee the integrity of our health delivery system in a cost-efficient manner. Also reflected is the recently enacted plan that will dedicate more than $300 million in new State funding for the Health Care Reform Act 2000 for new priority health initiatives through June 30, 2003. These important initiatives will ensure that New York continues to have a quality health care workforce, expand health coverage for lower-income women diagnosed with breast or cervical cancer and working disabled individuals, and support the Excess Malpractice Insurance Program, which is essential for many of New York's physicians to practice in the State.

Transportation

The Governor's Executive Budget includes substantial resources for continued investment in the State's transportation systems, which play a key role in spurring economic growth and creating jobs.

The Executive Budget provides $1.75 billion for statewide highway and bridge construction projects, continuing the record level of construction commitments set in 2001-02. These investments continue the Governor's record of strong support for the highway and bridge program, which has improved roadway conditions and safety, and has created thousands of construction jobs and stimulated the economy.

In 2002-03, the State's public transit systems will face difficulties that, unless addressed, could force systems to cut service or increase fares to close budget gaps in the upcoming year. The Governor's Budget includes a plan that will substantially boost State aid to these transit systems, providing the means to hold fares and service levels, and avoid actions that could undermine our economic recovery. The Governor's plan is particularly important for the MTA-operated systems in the New York metropolitan area, where the impacts of the September 11 tragedy have already burdened the regional economy. When combined with our ongoing transit aid programs, transit operating assistance will total more than $1.8 billion in 2002-03 — the highest level ever for State support of transit systems.

Facing the Unprecedented Challenges Ahead

Since Governor Pataki unveiled his first Executive Budget nearly seven years ago, New York State has undergone a remarkable transformation. Our economy is stronger, our taxes are lower and our streets are safer. Significant investments have been made in our education systems, bringing education funding to unprecedented levels. New York's welfare system has been dramatically reformed, and health care is now available to hundreds of thousands of additional New Yorkers.

While we face daunting challenges ahead, the 2002-03 Executive Budget effectively tackles these challenges — preserving the progress of the past, recognizing the fiscal and economic reality of the present, and committing to the priorities and principles that will surely fuel a prosperous future.

New York's Agenda for Growth

A Foundation for the Future

During the past seven years, under Governor Pataki's leadership, New York State has achieved national prominence in creating jobs and cutting taxes, while making significant investments to improve its environment, its infrastructure, the education of its children, and the health and safety of its citizens. At the same time, Governor Pataki has markedly improved the State's financial condition by restraining overall spending growth, increasing the State's reserves to record levels, reducing the growth of State debt by two-thirds, and generating six consecutive cash surpluses. These efforts to improve New York's economy and strengthen its fiscal condition have been rewarded by three consecutive credit rating upgrades, culminating with a credit rating that is now at its highest level in 23 years.

New York now faces a new challenge: preserving the gains of the last seven years in the wake of the catastrophic events of September 11, 2001 and the national recession. The terrorist attacks on New York, particularly when coupled with the national recession, present us with perhaps the most difficult fiscal test that New York has ever faced. The challenge is a difficult one, but one we are ready to meet largely because of the successful practices of the past several years and critical lessons learned from history.

What History Tells Us

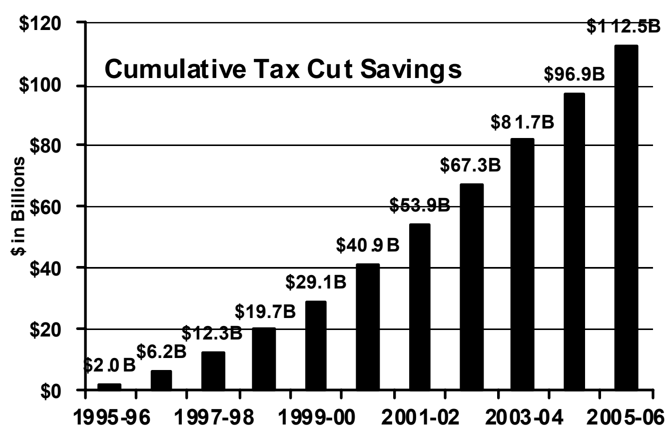
When Governor Pataki took office in 1995, he inherited a growing, multi-billion dollar budget gap. New York's economy continued to struggle from what had been a relatively mild national recession of 1990-91, and the State's finances lurched from one bad year to another. Governor Pataki recognized that the past practice of stop-gap measures and tax cut deferrals would only continue to undermine New York's economic base and do little to correct its budget imbalance. Instead, the Governor's priority was to stimulate business growth by cutting taxes, eliminating unnecessary regulations, reducing costs and creating a more business-friendly environment. The resultant economic resurgence, in concert with prudent program investment, allowed not only a return to structural budget balance, but a cycle of further tax cuts leading to further economic growth, allowing additional program investment. This is the pattern that will carry us through the current crisis.

The Crucial First and Last Step: Tax Cuts

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

- On a cumulative basis, when all enacted tax cuts are fully phased in, New Yorkers will have realized a savings of more than $100 billion;

Governor Pataki's Tax Cuts Lead the Nation

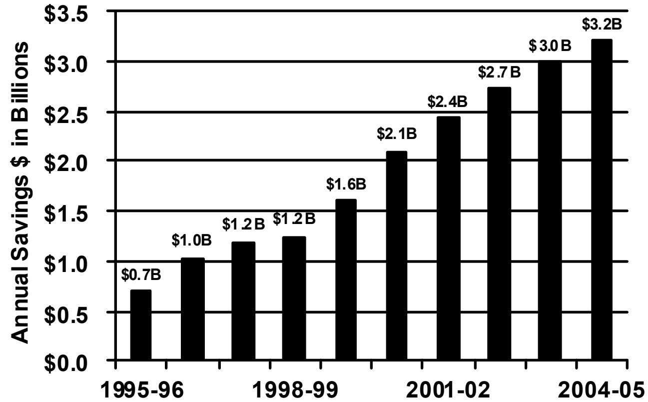


In 2002-03, taxpayers will have saved a cumulative $67.3 billion from the tax cuts that have been made under Governor Pataki. Cumulative tax cut savings will total more than $100 billion by 2005-06.

- New York has cut 19 different taxes 58 separate times;
- Since 1995, State tax collections per $1,000 of personal income have *dropped* by 5.6 percent, while the national average has *increased* by 2.1 percent;

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

Businesses will save $2.7 billion in 2002-03 in business taxes alone and will benefit from further savings as the multi-year tax reduction plans continue to take effect. These savings will drive greater investment and expansion, and create more jobs for New Yorkers.



- In 1995, total New York State tax collections per $1,000 of personal income were 5.5 percent *above* the national average. By 2000, total tax collections per $1,000 of personal income were 2.4 percent *below* the national average; and
- Cumulative personal income tax savings and business tax savings will reach over $50 billion and $20 billion, respectively, when fully phased in.

Governor Pataki's Personal Income Tax Cuts Save New Yorkers Billions of Dollars Annually

The Governor has reduced the top personal income tax rate from 7.875 percent to 6.85 percent and expanded and created various tax credits that benefit a wide range of taxpayers. The net effect is that Governor Pataki has reduced personal income taxes by 20 percent or more for most families.

Governor Pataki's efforts to ensure that taxpayers keep more of their hard-earned dollars have reached beyond traditional business and personal income tax cuts. In 1997, he proposed and secured the largest and most sweeping property tax reduction in State history — the School TAx Relief (STAR) program. For example:

- Average property tax savings under the STAR program for eligible seniors will exceed $900 in 2002-03, while property tax savings for other homeowners will average more than $600;
- The STAR program has eliminated school taxes entirely for nearly 200,000 seniors;
- Nearly 2.3 million other homeowners received STAR benefits, saving almost $1.4 billion in school taxes with STAR exemptions now fully phased in;
- In 2001-02, more than 640,000 senior homeowners received STAR exemptions, saving them nearly $600 million in school taxes; and
- In 2002-03, cumulative local property tax and New York City tax savings from the STAR program will reach nearly $9 billion.

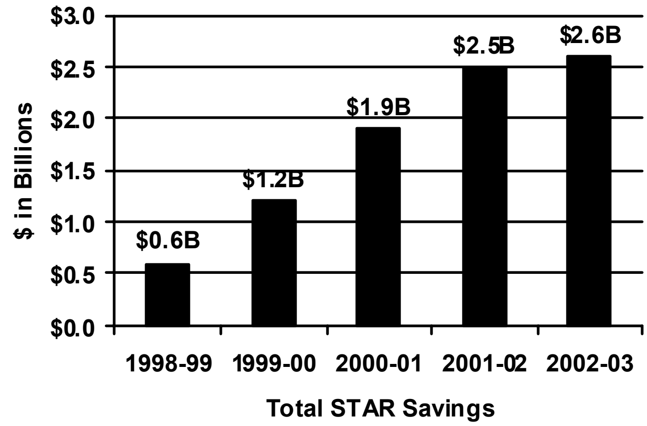
The Governor is proposing a new STAR cost-of-living adjustment (COLA) for seniors. The initiative will increase the $60,000 STAR income ceiling for seniors receiving the Enhanced STAR benefit in proportion to increases in the Consumer Price Index. This COLA would begin for STAR applications filed for the 2003-04 school year and would ensure that modest increases in Social Security or other retirement income do not make seniors who receive the Enhanced STAR benefit ineligible in future years. Governor Pataki is also proposing legislation that would allow seniors who have already qualified for the enhanced exemption to renew every three years instead of annually, as required under existing law.

What is STAR?

- STAR is Governor Pataki's school property tax relief program, which provides "exemptions" from the taxable value of homes. A senior receiving a $50,000 STAR "exemption" gets $50,000 subtracted from the taxable value of the home when school taxes are billed.
- Homeowners age 65 and older who have incomes of $60,000 or less are eligible for the $50,000 senior STAR exemption.
- For a $100,000 home, a $50,000 STAR exemption cuts the taxable value of the home and the school tax bill in half. For a $150,000 home, the $50,000 exemption would reduce the taxable value and tax bill by one-third.
- Other homeowners were eligible for a $10,000 exemption in 1999-00, growing to $20,000 in 2000-01 and $30,000 in 2001-02 and thereafter.

STAR Tax Cut Program Continues to Grow

Taxpayers will save $2.6 billion in 2002-03 from STAR, an increase of approximately $100 million from 2001-02.



The Importance of STAR to Seniors

With school taxes rising at twice the rate of inflation through the 1980s and early 1990s, many senior citizens were being taxed out of their homes. Governor Pataki designed the STAR program to address this particularly heavy burden, providing moderate-income senior citizens with an enhanced STAR exemption of $50,000.

STAR has provided seniors across the State with substantial and much-needed tax relief. As a result, many seniors have been able to remain in their homes, improve their quality of life and make their retirement years more comfortable and affordable.

An estimated 200,000 senior homeowners throughout New York now pay NO school taxes at all as a result of STAR.

Creating Jobs and Opportunity

In addition to dramatically reducing taxes, Governor Pataki has worked to stimulate business growth and create jobs through an array of innovative economic development programs, the elimination of unnecessary regulations, and by cutting the overall cost of doing business in the State. Since 1995, these pro-business policies helped create hundreds of thousands of new private-sector jobs. More than 150,000 of these jobs were created in upstate New York, erasing all upstate job losses that occurred during the early 1990s. Key elements of the Governor's successful policies are:

A Recent Success Story

In October 2001, Best Buy announced that it would build a $40 million, 650,000 square foot distribution center in Tioga County, and create 400 new jobs. The company had its choice of more than 100 locations in the nation, but New York prevailed because of Governor Pataki's comprehensive economic development strategy. Company officials cited Build Now NY, Empire Zones, the quality transportation infrastructure resulting from conversion of Route 17 into Interstate 86, and the area's labor force and quality of life as the principal reasons they chose New York.

Flexible Business Assistance Programs: In 1996, the Empire State Economic Development Fund and the JOBS NOW program were developed to replace numerous duplicative and restrictive economic development grant and loan programs. Since that time, more than $400 million has been awarded to over 2,000 businesses and other recipients to create and retain more than 549,000 jobs.

Empire Zones: Recognized as one of the most powerful job-creating tools in the nation, New York's Empire Zone program offers special incentives to encourage economic development and business investment. Certified businesses within the State's Empire Zones are eligible to receive significant tax credits and other benefits valued at more than $213 million annually, when fully effective.

High Technology Programs: Since 1995-96, New York has provided more than $755 million in high-technology research and job development programs, including Centers of Excellence. In addition, the recently established New York State Office of Science, Technology, and Academic Research (NYSTAR), working in collaboration with the Empire State Development Corporation, has brought a new and coordinated focus on the development of job-creating technologies through university-based research centers.

Tourism Initiatives: In 2000, travelers and tourists spent $37.5 billion in New York State. In addition, travel and tourism-related businesses employed more than 751,000 individuals, and generated a total payroll of $17 billion. Two exciting new tourism initiatives include an Upstate Tourism Council to be established in concert with the expansion of the Carousel Mall in Syracuse and approval of casino gambling for the Western New York and Catskill regions. Both of these initiatives proposed by Governor Pataki will help create new jobs, attract private-sector investment, and enhance tourism opportunities throughout upstate New York.

Power for Jobs: Established in 1997, this program led to the creation and retention of more than 300,000 jobs by providing low-cost power, particularly in upstate communities where high utility rates had historically affected the economy adversely. Over the life of the program, Power for Jobs will save businesses more than $500 million. The program, in concert with other energy initiatives, has kept power costs down for the energy-dependent manufacturing sector. Through a reallocation of existing resources, the Governor will propose extending all current low-cost power contracts that are due to expire this year.

Pre-Permitting Programs: The Governor's Chip Fab-NY and Build Now-NY programs have pre-qualified 41 "shovel-ready" sites for high technology and other fast growing industries. These programs support local government efforts to identify development sites and secure the necessary environmental reviews and permits prior to selection by a business.

Reducing the Cost of Doing Business: The Governor's comprehensive regulatory reform initiatives continue to remove barriers to business. During the past seven years, more than 2,000 unnecessary State rules and regulations

Empire Zones — A Powerful Tool to Create Jobs

As part of the Governor's comprehensive economic development program, New York State now boasts one of the most significant job creation tools in the nation — the Empire Zones program. Under the Governor's leadership, the program has flourished.

Since 1995, the number of designated zones has increased from 40 to 62, with an additional 4 to be designated in the near future for a total of 66 zones.

Tax incentives have been dramatically enhanced, including establishment of the real property tax credit to reimburse local property tax payments made by job-creating businesses.

More than 3,800 businesses participated in the program in 2000, creating more than 30,000 new full-time jobs and investing more than $670 million of private capital in Empire Zone communities.

The program provides a wide range of tax incentives that make targeted areas across the State virtually tax free for job-creating businesses, including refundable real property tax credits, sales and use tax exemptions, wage tax credits, utility rate savings, and other incentives.

have been eliminated or substantially reformed. It is estimated that these and other efforts to eliminate government red tape have saved businesses, not-for-profit organizations and other taxpayers more than $3 billion. In addition, Governor Pataki has reduced workers' compensation rates by 40 percent, saving New York businesses more than $1 billion a year, while improving workplace safety.

Providing New Affordable Housing Opportunities

Since 1995, under Governor Pataki's leadership, New York has invested nearly $6 billion of State and Federal resources in affordable housing programs, for low- and moderate-income families and seniors. This success has been achieved by effective use of traditional programs, such as the State of New York Mortgage Agency's (SONYMA) Low-Interest Rate Mortgage Program and innovative new initiatives such as the nationally recognized Homes For Working Families Program, which provides generous incentives for the development of affordable rental housing. Also, SONYMA's Achieving the Dream Program provides low-interest rate individual mortgages to income-eligible home buyers. In addition to providing safe and affordable housing to New Yorkers, these investments continue to spur economic activity throughout the State.

Investing in Transportation

Governor Pataki's transportation policies reflect the crucial role that the State's roadways and transit systems play in our economy.

Highway and Bridge Program

Since Governor Pataki took office seven years ago, the State's highway and bridge program has moved forward at a record pace, and record levels of funding have been provided. The Governor's unparalleled commitment to transportation has not only improved the condition and safety of our roadways, but it has created more than 200,000 construction-related jobs that have stimulated economic growth throughout the State. Moreover, the Governor has committed more than $1.7 billion of State funds for work on locally-owned roads and bridges, fueling regional economies and helping counties, cities, towns and villages to improve their valuable infrastructure assets.

Transit Program

Under the Governor's leadership, State aid to transit systems has increased by nearly $250 million, or 19 percent since 1994-95. This investment has allowed MTA fares to remain flat since 1996, along with most non-MTA transit systems' fares. In addition, the Governor has initiated innovative new programs to improve transit services. The Metropolitan Transportation Authority's (MTA) MetroCard Program, introduced by the Governor in 1997, automated the MTA's fare collection system and enables users to electronically purchase multiple ride passes with weekly, monthly, and daily fare discounts, as well as to transfer at no cost between bus and subway. With the implementation of unlimited ride discounts and free intermodal transfers, the MTA's MetroCard discounts have already saved New Yorkers more than $1.5 billion. Moreover, the Governor's financial commitment to the MTA and his support for the "One City, One Fare" initiative — which allowed free transfer between buses and subways, eliminating the need for two fares — have directly contributed to an MTA ridership increase of more than 30 percent.

A More Fiscally Responsible Government

In 1995, Governor Pataki brought a new vision and determination to reform the way New York does business. He wisely used the prosperity of the past seven years to strengthen the State's finances by:

Controlling Spending: Governor Pataki has kept overall spending down. By revamping operational processes, re-organizing State agencies and eliminating unnecessary programs, the Governor has lowered the cost of government for taxpayers, while vastly improving the delivery of important programs and services to New Yorkers. This has permitted increased investment in higher-priority programs such as education, health care, and the environment, programs critical to the well-being of all New Yorkers.

As a result, growth in taxpayer-supported General Fund spending has been limited to an average of 2.4 percent annually. State Funds and All Governmental Funds spending (excluding STAR, which is a tax cut that shows as spending) have increased by an average of 3.5 percent and 4.2 percent, respectively, for the same period. New York's average annual spend-

Governor Pataki's Record of Restoring the State's Fiscal Health

1996

- First of seven consecutive deposits to the State's rainy day fund (TSRF)
- General Fund cash surplus of $445 million

1997

- General Fund cash surplus of $1.4 billion
- Credit rating upgrade to "A"

1998

- Debt reduction reserve created to reduce high cost State debt
- General Fund cash surplus of $2 billion
- GAAP-basis accumulated deficit is eliminated

1999

- General Fund cash surplus of $1.8 billion
- Credit rating upgrade to "A+"

2000

- Debt Reform Act of 2000 limits State debt and debt service costs
- General Fund cash surplus of $1.5 billion
- Credit rating upgrade to "AA" (highest since 1978)

2001

- State reserves reach $2.6 billion

The Governor's Debt Reform Achievements — A Proven Track Record for Reducing Taxpayer Costs

The Governor's debt reform achievements have fundamentally improved the State's debt management practices, reduced taxpayer costs and cut the rate of growth of debt by two-thirds. The Governor's efforts are marked by the advancement and implementation of an array of significant statutory reforms passed with bi-partisan legislative support that will continue to control the growth in State debt for generations. For example:

- The Debt Reform Act of 2000 controls State debt by capping all new debt at 4 percent of personal income — a one-third reduction from 1994-95's 6 percent — and holds debt service costs to no more than 5 percent of the Budget.

- The Debt Reduction Reserve Fund was established in 1998-99 and one-time funds have been used since then to pay down high cost debt and increase pay-as-you-go spending — saving taxpayers $1.7 billion in total debt service costs.

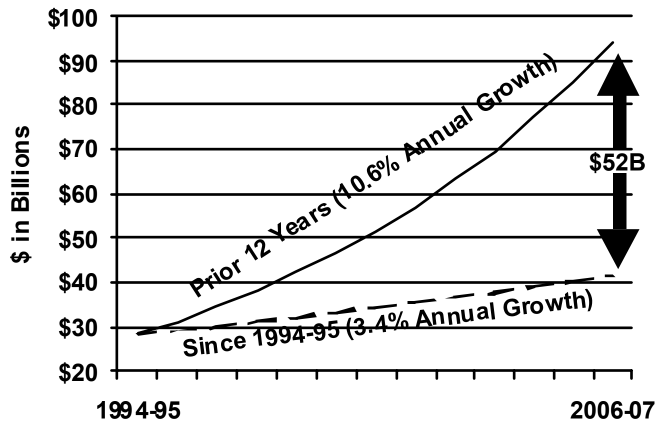
ing levels are now well below the national average for all states, roughly half that of the prior Administration, and at or near the level of inflation for the time period.

Increasing Reserves: Governor Pataki has increased the size of the State's reserves to record levels. Reserves, which totaled a mere $158 million when the Governor took office, reached nearly $2.6 billion — or 6 percent of General Fund spending — during 2001-02.

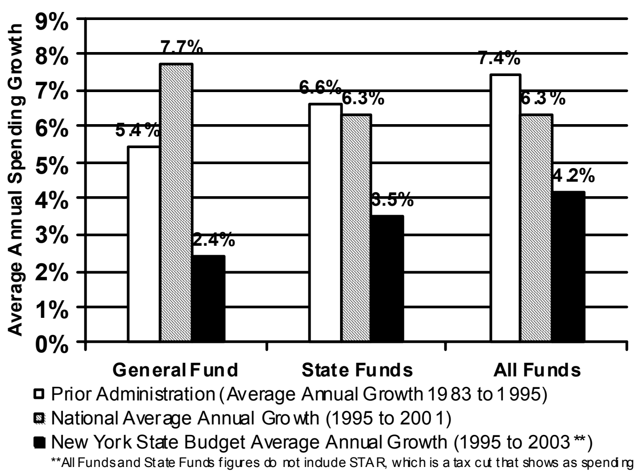
Reducing and Reforming Debt: Since 1995, the Governor has fought for and won a number of key measures that have reduced State debt and reformed State debt practices. Among his accomplishments is the establishment of the State's first-ever reserve fund specifically dedicated to reducing debt. This reserve fund has saved taxpayers $1.7 billion in lower debt service costs. The Governor also succeeded in the enactment of the Debt Reform Act of 2000, which fundamentally reformed New York's debt issuance practices. These efforts have reduced the growth in State debt by two-thirds, compared to the debt levels inherited from the previous Administration.

Governor Pataki's Debt Reform Initiatives Have Reduced the Growth in State Debt

Governor Pataki's debt reform achievements have cut the growth in State debt by two-thirds and reduced taxpayer costs. If the State had continued issuing new debt at the same rate as the prior Administration, the State's debt would be $52 billion higher at the end of the current Capital Plan.



A Consistent Record of Spending Discipline



Since 1994-95, General Fund average annual growth (2.4%) has compared favorably to almost any measure: inflation (2.5%), other states (7.7%), and the prior Administration (5.4%).

The Challenge Before Us

Well before September 11, it was clear that the national economy was softening. Forty-four states reported revenues below the levels they forecasted for 2001-02 and many were calling for substantial program cuts. The Governor's Executive Budget for fiscal year 2001-02, while including new investments in important State programs, remained affordable despite the economic slowdown. Importantly, Governor Pataki firmly and repeatedly resisted pressure to overestimate revenues and significantly increase spending. As a result, prior to September 11, New York's financial picture remained stable.

Unfortunately, the September 11 attacks on the World Trade Center changed that. These attacks turned the national economic slowdown into a full-blown recession and severely damaged New York State's tax revenue base.

In the aftermath of these attacks, the State faces a budget gap of roughly $6.8 billion through the end of 2002-03. Hundreds of thousands of jobs will be lost in New York; commuter and tourist traffic losses have hurt small retail businesses, reducing sales and wage taxes; business at City-based media companies is down; tourism has declined dramatically; and we are experiencing the ripple effects of a worsening national economy.

Securing Federal Aid

In the days following the World Trade Center attacks, Governor Pataki acted swiftly to secure President Bush's declaration of New York City as a Federal disaster area, making the State eligible for Federal financial aid. Immediately following the attacks, the Governor also worked with New York's Congressional Delegation to obtain a commitment from the Federal government to pay for 100 percent of the costs associated with the rescue, recovery and rebuilding efforts in New York City. This contrasts with the more typical cost sharing arrangement whereby the Federal Emergency Management Agency commits to cover only 75 percent of costs, leaving State and local governments to pay the remaining 25 percent. This ensured that the full cost of emergency response, debris removal and infrastructure repair and rebuilding will be met through a mix of Federal aid and insurance proceeds. Thus far, the Federal government has appropriated $6.4 billion for these purposes.

The Governor also secured the support of the President in directing Federal agencies to provide unprecedented flexibility to New York State to meet the needs of individuals and businesses affected by the disaster. In addition, the Governor and the New York Congressional Delegation secured $2.7 billion from the Federal Department of Housing and Urban Development to help businesses and communities in lower Manhattan, $175 million in supplemental workers' compensation assistance to support families of dislocated workers, and nearly $400 million in emergency transportation funding.

Despite these efforts, a significant challenge remains. New York must now chart a responsible and pragmatic multi-year course to fiscal recovery. Governor Pataki's 2002-03 Executive Budget will begin that process while preserving long-term goals established before September 11: economic growth and prosperity; public safety; fiscal integrity; a more responsive government; and intelligent investments in the future well-being of all New Yorkers.

Accordingly, the 2002-03 Executive Budget:

- Constrains General Fund spending growth through management efficiencies and aggressive actions to maximize the use of Federal and other non-General Fund resources;
- Uses existing reserves to avoid disruptive mid-year budget cuts in 2001-02 and lessen the impact of budget-balancing actions in 2002-03;
- Continues to implement enacted tax cuts on schedule;
- Advances targeted economic development and infrastructure initiatives to stimulate the State's overall economy and help New York City recover from the September 11 attacks;
- Proposes further budget reforms to help preserve the fiscal integrity gains of the past seven years; and
- Continues reforms and improvements to make government more effective, efficient and responsive to the people of New York.

Constraining Spending Growth

During the past seven years, New York State invested generously in programs that are important to the lives of New Yorkers, while building up fiscal reserves and implementing responsible fiscal practices. We must now limit spending growth consistent with the economic and revenue picture, and, in fact, that process began shortly after the September 11 attacks.

In October, Governor Pataki announced actions to limit spending, reduce the workforce through attrition and early retirement, cut non-essential programs, and implement other management actions. These quick and decisive measures, along with lower program spending, will save approximately $450 million in 2001-02 and another $581 million in 2002-03. When combined with $646 million in reserves set aside for just such fiscal emergencies, these actions will close the 2001-02 budget shortfall of $1.1 billion.

The Executive Budget closes the remaining $5.1 billion 2002-03 budget gap without raising broad-based taxes, deferring tax cuts, increasing tuition, proposing layoffs or eliminating State services and programs. Instead, the following actions will produce a soundly balanced budget that will bridge the revenue shortfalls as New York recovers from September 11 and the national economic slowdown:

- The Executive Budget proposes spending reductions and other actions totaling $3.1 billion. These include State workforce reductions through attrition and early retirement, program restructuring to curtail or reduce spending levels, and maximization of existing Federal or special revenue sources; and
- Approximately $2 billion in fiscal reserves will be utilized to mitigate the necessity for harsh spending cuts and provide a bridge to the better economic times ahead.

Overall, the 2002-03 Executive Budget will reduce General Fund spending by $1.2 billion, or 3 percent. All Governmental Funds spending is projected to increase by $4 billion or 4.7 percent, largely reflecting increased Federal aid.

Continuing Fiscal Reform

Particularly in difficult times, it is important that we adhere to the principles that have proven successful in the past. Accordingly, in the current fiscal year, Governor Pataki will make a record seventh consecutive annual deposit into the State's official Tax Stabilization Reserve Fund. This year's deposit of $83 million is again the maximum allowed by current law, bringing the fund to a total of $710 million. In keeping with the intent of the Fund, this reserve will be held aside to guard against any unforeseen budget risks. Under provisions of the State Finance Law, the Tax Stabilization Reserve Fund can only be used to finance unanticipated mid-year budget shortfalls. Any withdrawals from the Fund must be repaid in no less than three equal annual installments within a six-year period.

The Governor will also submit a series of budget and fiscal reform proposals to the Legislature. The Governor's reform proposals will:

- Increase both the annual contribution amount and total size of the Tax Stabilization Reserve Fund, allowing it to grow to a level equal to five percent of General Fund spending;
- Propose an amendment to the State Constitution to preserve gains made through the Debt Reform Act of 2000, as well as ban so-called "back door" borrowing, require voter approval for at least one-half of all new debt, and allow multiple general obligation ballot proposals; and
- Accelerate the date of the consensus revenue forecasting process from March 10 to March 1, require the Senate and Assembly to appoint joint conference committees to deliberate on the budget by March 1, and furnish legislators with a summary of the Financial Plan impact of the adopted budget agreement prior to a vote on the budget bills.

Fulfilling the Promise of Tax Relief

Governor Pataki's Executive Budget will keep intact all of the tax cuts enacted since 1995. These tax cuts will save New Yorkers more than $100 billion on a cumulative basis when fully in place. Continuing this tax relief is necessary to limit the negative impact of the national recession and the economic disruption caused by the terrorist attacks on the World Trade Center. It is clear that raising broad-based taxes now, or delaying implementation of the already enacted tax cuts, would ignore the positive lessons of the last seven years and repeat the failed practices of the past — hurting New York's economy and costing it jobs.

The Executive Budget, therefore, moves forward with more than $300 million in tax cuts that are scheduled to be implemented in 2002-03. In total, in 2002-03, New Yorkers will pay $13.4 billion less in taxes than they would have paid if the Governor's tax cuts were not in place. These savings include:

- $5.6 billion in personal income tax savings;
- $2.7 billion in business tax savings;
- $2.6 billion in local property tax and New York City tax savings from the STAR program;
- $1.1 billion in other tax savings, including the reduction in the estate tax, and the repeal of the real property gains tax and the gift tax; and
- $1.3 billion in savings from cuts in consumption taxes, such as the elimination of sales tax on the first $110 in clothing and shoe purchases.

Economic Development — Turning Crisis into Comeback

The national and international competition to attract and retain companies has become even more intense during these difficult economic times, and will only become more so as private-sector investment increases when the national recovery begins. Accordingly, Governor Pataki's 2002-03 Executive Budget supports an array of new and innovative economic development incentive programs to attract and retain business development and encourage job growth.

A Plan for Statewide/Upstate Economic Recovery

The Governor's Executive Budget builds upon the State's existing innovative economic development programs with a comprehensive plan that will help New York preserve and surpass the economic gains achieved prior to the national recession and the

September 11 attacks. The plan, which will generate billions of dollars of new private- and public-sector investment, includes:

A new "Empire Opportunity Fund": The "Empire Opportunity Fund" (EOF) will serve as a substantial new resource for economic development initiatives in the upstate New York and Long Island regions. The EOF will support major infrastructure projects that lead to the creation of new jobs, such as high-tech/biotech research and development facilities and incubators, industrial parks, downtown commercial revitalization, brownfield redevelopment, high-tech communications, public water supply facilities, transportation improvements, convention centers, inner harbor and waterfront improvement, parks and recreational facilities, and tourism destinations.

The EOF would accept applications from any city, county, town or village in the State outside of New York City, as well as other organizations. The Fund will be administered in consultation with an advisory council of leading public- and private-sector officials from the affected regions. The Governor's plan will dedicate all revenues that accrue to the State from up to six recently authorized Indian casinos to support economic development activities in the upstate New York and Long Island regions.

Investments in the Economy of the Future: The 2002-03 Executive Budget continues Governor Pataki's unparalleled support for high-technology job creation by:

- *Providing $250 million for initial funding of the Governor's Centers of Excellence program.* This program will provide colleges, universities and research institutions with the resources to build and equip laboratories to conduct world-class research and product development and to support other high-technology job development efforts.

- *Establishing the "Security Through Advanced Research and Technology" (START) program.* START will help colleges and universities secure Federal and other high-technology research funding for the burgeoning national homeland security industry. For example, the United States Army has announced a competition for the Institute for Soldier Nanotechnologies, which will develop new and futuristic technologies that promote the effectiveness and survival of combat military personnel. One university in the nation will receive the designation and an accompanying $50 million five-year base contract. The Executive Budget includes a new $5 million appropriation to help New York's world-class research universities compete for this and other Federal research grants; and

- *Creating the New York Renewable Energy Initiative.* The Governor's New York Renewable Energy Initiative (REI) will address the fact that, in the near future, the combined U.S. and world market for renewable energy technologies is expected to reach into the hundreds of billions of dollars. The REI will strategically position New York State to take advantage of this trend by creating and expanding renewable energy industries within the State, providing new markets for New York agricultural products, diversifying New York's energy supply, increasing our security, and producing products that will enable New Yorkers to live in a cleaner environment.

  REI will bring together State, local, university, and private venture capital resources to develop and deploy renewable energy technologies like geothermal, biomass, solar and wind power. For example, New York's existing strength in ceramic and thin films technologies makes Long Island, the Hudson Valley, the Capital District and the Southern Tier prime areas for solar power equipment research and manufacturing. In addition, New York's vast agricultural and food processing industries make the State a prime candidate for major advances in bio-fuel technologies. This could lead to the creation of large-scale bio-fuel plants that would enhance the economy and the environment by turning soybeans, corn, solid waste, paper mill sludge and waste vegetable oil into renewable and clean-burning fuels.

Targeted Assistance for Small Businesses: The Executive Budget expands the highly successful Excelsior Linked Deposit Program from $200 million to $300 million. The program allows commercial banks and other lenders to make loans to small businesses that are well below current market interest rates by depositing State funds at comparably reduced rates. The Governor's proposal would allow hundreds of additional businesses to secure the funding necessary to grow in New York State.

A Plan to Rebuild New York City

New York City's finance and tourism industries generate a large portion of the State tax revenues that support vital government-sponsored programs throughout New York. Therefore, it is essential that we work quickly to repair the damage inflicted on the City by the terrorist attacks. The Governor's comprehensive program to rebuild New York City's economy includes:

- Establishment of the Lower Manhattan Development Corporation to oversee the planning and implementation of the State and City redevelopment efforts;
- Billions of dollars of Federal assistance, which will be available for a wide range of redevelopment initiatives — such as small business assistance, including grants and low-cost loans to repair damage and replace lost revenue; business retention and attraction loans and grants to enable businesses to remain in lower Manhattan or to return if they were displaced by the attacks; and replacement of public infrastructure, such as transportation and communications facilities;
- Establishment of a "Liberty Zone" in lower Manhattan to encourage sustained, long-term economic growth in the area. Redevelopment of the Liberty Zone would be supported with a wide range of development incentives, including grants, loans, and special Federal tax incentives; and
- A $40 million tourism promotion campaign to encourage business travelers and tourists to come back to New York. The campaign will include cooperative advertising efforts with the New York Tourism Industry Association.

Creating New Housing Opportunities

The 2002-03 Executive Budget continues Governor Pataki's commitment to affordable housing throughout the State by providing more than $100 million in new capital funding, continuing the State's Low-Income Housing Tax Credit and creating the House NY program, which will identify and pre-permit sites for the construction of affordable housing.

The Executive Budget also includes the following new initiatives that will expand housing opportunities:

New York State Low-Income Housing Tax Credit: In 1999-2000, Governor Pataki created the State Low Income Housing Tax Credit (SLIHC) program to encourage the development of affordable housing by providing investors with a dollar-for-dollar reduction in their State income taxes for a 10-year period. The State's initial $2 million annual commitment to this program has been fully subscribed. Accordingly, the 2002-03 Executive Budget provides an additional $2 million annually, or $20 million over the 10-year period of the tax credit, which will spur a new round of affordable housing construction.

House-NY: The 2002-03 Executive Budget also includes the new House-NY program that will overcome one of the primary challenges to creating affordable housing — the complex network of State and local programs and regulations governing housing construction. Modeled after Empire State Development's successful Build Now-NY program, House-NY will develop an inventory of "shovel-ready" sites around the State that are suitable and ready for residential development. Working with local communities, labor unions and community developers, the Division of Housing and Community Renewal will make funds available for site reviews of potential properties, and give priority in funding decisions to House-NY properties.

Transportation — A Job-Creating Investment

The Governor's 2002-03 Executive Budget provides $5.67 billion for the State's transportation programs, which are essential to New York's rapid economic recovery. This funding — the highest level in State history — will continue to support record levels of job-creating construction activity and help transit systems throughout the State to hold fares and service at current levels.

Highway Program

The Budget will provide $1.75 billion for statewide highway and bridge construction projects, continuing the record level of construction commitments set in 2001-02. In addition, the Department of Transportation will proceed with an estimated $250 million of federally funded projects in 2002-03 to begin repair and reconstruction of State and local roads damaged in the World Trade Center attacks. Additional World Trade Center recovery projects will be initiated in future years. Engineering resources in 2002-03 will total more than $620 million for the statewide highway and bridge program and approximately $50 million for engineering activities related to the World Trade Center disaster.

These investments are consistent with the Governor's record of strong support for the highway and bridge program, which has not only improved roadway conditions and safety, but has also created thousands of construction jobs and stimulated the economy.

Transit Program

In 2002-03, our public transit systems will face difficulties that, unless addressed, could force systems to cut service or increase fares to close budget gaps in the upcoming year. The Governor's Budget includes a plan that will substantially boost State aid to these transit systems, providing the means to hold fares and service levels, and avoid actions that could undermine our economic recovery. The Governor's plan is particularly important for the MTA-operated systems in the New York metropolitan area, where the impacts of the September 11 tragedy have already burdened the regional economy.

The Governor's proposal to stabilize transit systems provides $567 million in State aid increases and accelerations for systems throughout the State. This includes $457 million for the MTA and $110 million for other systems. The plan is comprised of three components:

- An additional $297 million of State aid for transit systems in 2002 provided by accelerating the State aid payment schedule;
- A $158 million increase in new transit aid appropriations over enacted 2001-02 levels; and
- An additional $112 million of transit aid by fully utilizing balances in transit operating funds.

When combined with our ongoing transit aid programs, transit operating assistance will total more than $1.8 billion in 2002-03 — the highest level ever for State support of transit systems.

An Agenda for Economic Growth

When Governor Pataki took office in 1995, he inherited a government that was virtually suffocating New York's economy with multi-billion dollar budget deficits, stop-gap fiscal gimmicks, postponed tax cuts, tax increases and business-stifling rules and regulations.

The Governor knew that these practices would have to be changed for New York to thrive economically. During the past seven years, the Governor has done just that. Under the Governor's leadership, New York has cut every major State tax, generated six consecutive cash surpluses, decreased its debt burden, increased reserves, eliminated unnecessary regulations, and made targeted investments in programs that enhance the well-being of its businesses and citizens. These efforts have had tangible positive impacts in New York, including the creation of hundreds of thousands of new jobs and leading to New York's best credit rating in a generation.

The current national economic slowdown and the September 11 attacks on the World Trade Center are now challenging New York's prosperity. However, the accomplishments of the past seven years provide a solid foundation that will allow the State to rebound quickly and be even stronger and more economically vibrant than before.

Governor Pataki's 2002-03 Executive Budget reinforces this foundation by preserving the gains — tax cuts, fiscal reform, and programs that improve the State's environment, its infrastructure, the education of its children, and the health of its citizens — while constraining spending and advancing targeted economic development and infrastructure initiatives to stimulate the economy.

Ensuring a Brighter Future for Our Children

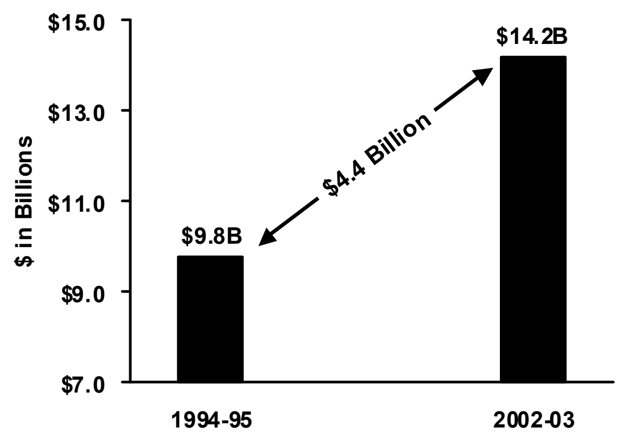
Education

Under Governor Pataki's leadership, New Yorkers have made generous investments in our educational system, with dramatic school aid increases totaling $4.4 billion, or 45 percent during the past seven years. Governor Pataki's 2002-03 Budget recommendations reinforce our investment by sustaining funding for our schools at the highest level in the State's history — $14.2 billion.

In addition to maintaining this record level of State funding for education, New York's schools will benefit from record increases of nearly $400 million in Federal education funds for the 2002-03 school year, including an increase of $188 million in Elementary and Secondary Education Act Title I-A grants.

$4.4 Billion Increase in State Aid to Public Schools Under Governor Pataki

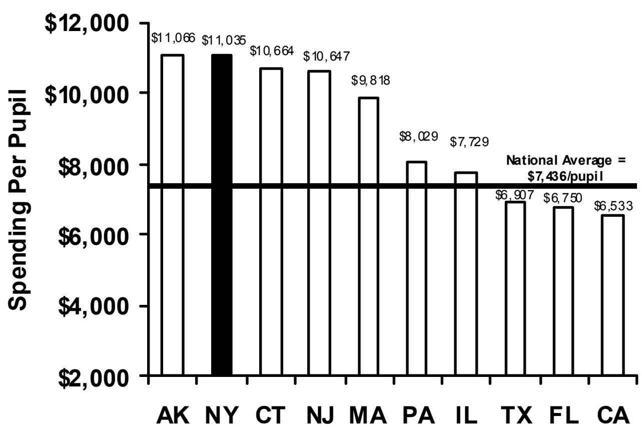
Under Governor Pataki, State support for public schools has increased by $4.4 billion, or 45 percent since 1994-95. This growth is more than twice the rate of inflation during this period.



State support to public schools now accounts for more than 37 percent of taxpayer supported funds, including STAR and lottery payments — up from 27 percent when the Governor first took office. Through the combination of school aid and the STAR school tax relief program, New York now supports more than 46 percent of local spending on education statewide, compared to 39 percent just six years ago.

Clearly, this extraordinary growth in education funding has solidified New York's position as a national leader in providing support for its public schools. Total spending on elementary and secondary education in New York now exceeds $11,000 per pupil — placing New York second in America.

New York — A National Leader in Support for Education



Recent record school aid increases have allowed the State to enhance its standing as a national leader in support for education. New York's total spending per pupil is second highest among all states and ranks first among the five largest states. New York's per pupil spending of $11,035 is nearly 50% higher than the national average of $7,436.

However, money alone is not the answer to the educational challenges facing our schools and our students. To ensure success, our schools must be given maximum flexibility to use their resources in the most effective manner possible.

"Flex Aid" — Cornerstone of Education Reform

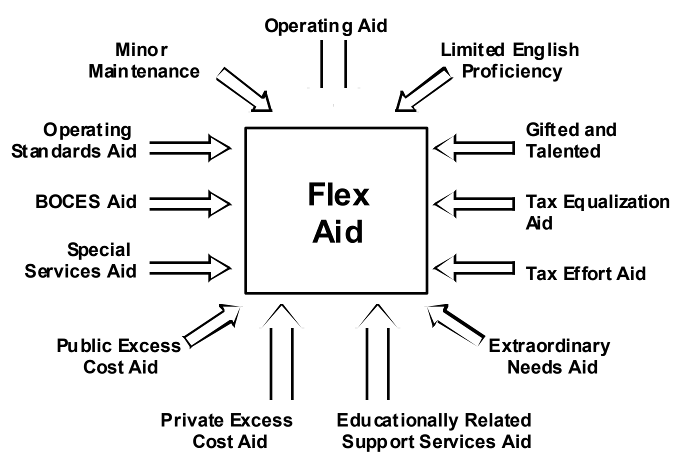
In January 2001, Governor Pataki proposed sweeping reforms to the way New York State allocates school aid. The Governor's proposal — known as Flex Aid — would give schools greater flexibility in using those funds to meet locally-defined needs. In addition, the Governor's plan would simplify and reduce the number of school aid formulas and provide schools with incentives for improved performance.

Governor Pataki's 2002-03 education agenda will again call for a sweeping overhaul of New York's archaic school aid formula. The cornerstone of this reform is to establish a new Flex Aid formula that empowers school districts to effectively target State resources to meet locally identified educational needs and priorities.

The $10.4 billion Flex Aid program will consolidate 13 separate aid categories into a new, comprehensive operating aid formula. Under Flex Aid, all school districts will be protected from aid losses and, when resources permit, increased aid will be provided based upon measures of educational and economic need. This approach will achieve equity without pitting one school district against another.

Flex Aid

The Governor's Executive Budget proposes to consolidate 13 separate categories of aid into a new aid — "Flex Aid." This new aid category will target more than $10.4 billion in flexible operating support to school districts.



Under the new Flex Aid program:

- More than 70 percent of total school aid will be provided through the new, simplified Flex Aid formula;
- Set-asides within Flex Aid will be established for school districts with identified educational deficiencies to ensure that funds are directed to remedy these problems;
- A set-aside will also be established within Flex Aid to continue minor maintenance activities undertaken by the New York City Board of Education; and

- School districts that meet the State's educational standards will be provided full flexibility in the use of their Flex Aid.

In addition, the Commissioner of Education will be directed to reduce paperwork requirements for school districts by identifying unnecessary and/or redundant reporting requirements for elimination.

Improving Performance and Meeting Standards

The State's education initiatives during the past seven years have begun to have a significant impact on student performance, particularly in the early grades. Most notable is the dramatic improvement in the number of students meeting the higher State standards on the 4^{th} grade English exam. As early language skills are the foundation for future success in all subjects, these results are quite promising.

Although the results of the statewide achievement tests demonstrate that significant challenges remain, New Yorkers can take pride in recent accomplishments, including:

- Rising scores on national examinations such as the National Assessment of Educational Progress;
- Increasing numbers of New York's high school students taking and passing Regents exams. Nearly 97 percent of seniors passed the English Regents exam and nearly 95 percent of seniors passed the Regents mathematics exam, according to test results released in December;
- Recognition of New York's strong performance in the areas of student retention/dropout prevention by the National Education Goals Panel, increasing Advanced Placement test scores and college-attendance rates; and
- Rigorous educational standards that place New York among the top states in the nation according to national publications such as *Education Week*.

Governor Pataki's initiatives to encourage improved educational performance and accountability statewide, with a particular focus on the Big 5 Cities, include:

School Governance: Legislation will be advanced to provide the mayors and city governing boards of our largest cities with control of their urban school systems. This reform will make these elected officials, who are directly accountable to families and taxpayers, accountable for our urban schools.

Schoolwide Performance Incentive: A new $7.5 million pilot program will be established to provide incentive funding to recognize and reward educational improvement in the Big 5 Cities through schoolwide, performance-based awards.

SUNY/CUNY Summer Academies: Through innovative use of the resources of our world-class SUNY and CUNY campuses, additional learning opportunities will be provided, on a pilot basis, to students needing assistance in meeting New York's rigorous educational standards. These campuses, with their excellent classrooms, labs, libraries, computer access and faculties, will also serve as the focal point of a pilot program to provide summer professional development opportunities for teachers.

Reading for Results: To help improve the academic performance of our neediest children, New York will implement a new Reading for Results initiative funded by a three-year Federal grant of more than $81 million. The Reading for Results program will target assistance to schools with concentrations of disadvantaged children, with the objective of ensuring that all children are able to read by the end of the third grade.

Teachers of Tomorrow

Recruiting and retaining highly qualified teachers must be a priority as our schools strive to meet the State's higher learning standards. Accordingly, continued funding is provided in the 2002-03 Executive Budget to assist school districts in their efforts to recruit, retain and upgrade the skills of teachers through the Governor's successful Teachers of Tomorrow program. This funding will help our schools — especially those located in hard-to-staff areas — attract and retain skilled teachers who will help students meet the State's higher standards and the demands of the 21st century economy.

$25 million in recommended funding for 2002-03 will support:

- A pilot program to provide summer professional development opportunities for teachers in math and science;

- Master teacher awards of $10,000 annually for up to three years for master teachers with national certification who agree to work in low-performing schools;
- Recruitment scholarships of up to $3,400 per year for new teachers who agree to teach in designated shortage areas for up to four years;
- Tuition reimbursement of up to $2,100 per year for up to two years for provisionally certified teachers to serve as permanently certified teachers in shortage areas;
- Certification stipends of up to $2,000 per year to help teachers with temporary licenses obtain permanent certification;
- Summer internships to encourage undergraduate students to gain classroom experience in the State's inner-city schools; and
- Teacher recruitment/summer teacher training grants for first-time teachers in New York City schools.

Providing Safe and Secure Schools

In 2000, the Legislature enacted the Governor's Safe Schools Against Violence in Education (SAVE) initiative, which incorporated recommendations of the Task Force on School Violence chaired by Lieutenant Governor Mary Donohue. This legislation represents the most comprehensive school safety plan in the nation and ensures the safety and well-being of New York's school children.

Specific components of the initiative — including the integration of character education in the K-12 curriculum, fingerprinting of all prospective school employees and candidates seeking educational certification, establishment of codes of conduct in each school district, and development of school safety plans for crisis response and management — are now being implemented across the State.

Advantage Schools

The Advantage After-School Program currently operates at 165 sites across the State, providing nearly 20,000 students with structured, supervised educational and social activities that complement instructional programs offered during regular school hours. The 2002-03 Executive Budget includes an increase of $5 million, or 25 percent for the Program, bringing total funding to $25 million.

Expanding School Choice

Public school choice continues to be one of the fastest growing educational movements in the country. After Governor Pataki's push for charter schools, New York's first charter schools opened in September 1999 with 1,700 students enrolled in three new charter schools, as well as two conversion charter schools. In 2002-03, nearly 9,000 students will be enrolled in at least 32 charter schools across the State.

The Executive Budget includes $6 million in support for the Charter School Stimulus Fund to help meet facility needs and other charter school start-up costs and related administrative expenses.

Building Aid Reform

New York has one of the most generous school construction aid programs in the nation. Since 1994-95, building aid has more than doubled, affording our children safer learning environments. The 2002-03 Executive Budget provides more than $1.4 billion for school construction in the coming year.

Under reforms enacted in 2001, the State will pay its share of bonded capital costs based on the useful life of projects. However, school districts continue to have the ability to pay their share of construction costs as they choose. The 2002-03 Executive Budget proposes to conform the payment of building aid for hard dollar projects — which are typically smaller construction projects, financed on a "pay as you go" basis — with the recent reforms for bonded projects.

Beginning with the 2002-03 school year, the State will pay building aid for hard dollar projects consistent with the useful life of such projects — ranging from 15 years for reconstruction to 30 years for new construction. In addition, State building aid will be calculated based upon the district's current fiscal capacity (as measured by a district's property tax base) for all projects approved by local voters on or after July 1, 2002. This will end a long-standing inequity whereby school districts that have experienced increases in their property values have been allowed to use outdated measures of local fiscal capacity dating back more than 20 years.

Also, cost-efficiency will be encouraged by expanding Wicks Law exemptions and by providing school districts with access to Dormitory Authority construction management services. The current law artificially drives up costs for schools through unnecessary requirements.

Accelerating Funding For Prior Year Claims

Reforms achieved in recent years, coupled with initiatives recommended in the Executive Budget, will virtually eliminate the long-standing problem of accrued prior year aid claims. Prior to these reforms, delayed submission of aid claims by school districts — especially the Big 5 cities — resulted in a backlog of several hundred million dollars in State aid payments. With these reforms in place, the 2002-03 Executive Budget proposes to expedite payment of the vast majority of payable outstanding prior year aid claims by authorizing the Municipal Bond Bank Agency to issue bonds to accelerate anticipated State payments for the claims owed to New York City and the other Big 5 City school districts. As a result, more than $214 million in funding will be accelerated in 2002-03 to help meet the immediate financial needs of the Big 5 City school districts.

Higher Education

New Yorkers can be proud of our State's national leadership in providing support for higher education since Governor Pataki took office. The Governor's 2002-03 Executive Budget maintains this leadership position, providing nearly $7.5 billion for the State's public and private institutions of higher education. This substantial investment exemplifies the importance New York continues to place on higher education, and underscores the critical role that colleges and universities play in the educational, social and economic advancement of all New Yorkers.

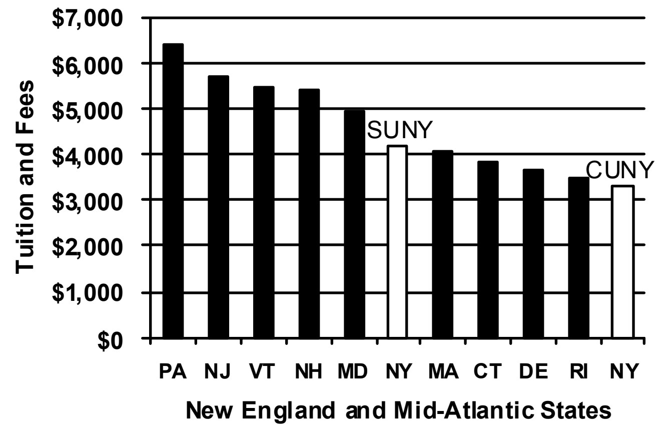
Excellence in Higher Education

New York supports two public university systems, the State University of New York (SUNY) and the City University of New York (CUNY), currently providing more than 580,000 students with access to quality public higher education through a network of 47 senior and 36 community colleges. For 2002-03, the Governor's Budget:

- Invests $3.1 billion in support for New York's two public university systems while holding the line on SUNY and CUNY undergraduate resident tuition levels at $3,400 and $3,200, respectively, for the seventh year in a row. These tuition rates have remained unchanged since 1995-96, allowing students to receive a quality education at a cost comparable to, or below, that of other public universities in the Northeast;

SUNY and CUNY Tuition and Fees Remain Affordable Under Governor Pataki

Low tuition and fees ensure that New York's public university campuses are among the most affordable institutions in the Northeast for students seeking a high-quality public education.



- Continues the $3 billion SUNY/CUNY Capital Investment Program, which is revitalizing the campuses by supporting substantial improvements in the infrastructure and facilities of the State and City University systems;

- Provides $448 million in operating aid to the State's community colleges. For 2002-03, community college base aid will equal $2,250 per full time equivalent (FTE) student — an increase of $450 per FTE, or 25 percent since Governor Pataki first took office; and

- Improves the financial condition of SUNY's hospitals. Continuation of the recently enhanced State subsidy, when combined with the additional worker recruitment funding and increased support authorized in the recently enacted HCRA legislation, will promote the continued financial stability of these hospitals in the coming year.

New York's public colleges and universities have consistently been cited in national surveys for their excellence and value. Recent milestones include:

- *Kiplinger's Personal Finance* magazine ranked eight SUNY campuses among the 100 best values among public universities nationwide;
- *U.S. News and World Report* ranked three SUNY colleges and one CUNY college among the top public institutions in the North and two SUNY institutions among the top 50 public universities in the nation; and
- A recent national survey by *Yahoo! Internet Life,* which examined how colleges and universities have incorporated network technologies into campus life, ranked three SUNY campuses among the top 100 most "wired" colleges and five SUNY community colleges in the top 20 most "wired" two-year schools.

Access to College Education

New York's generous support of student financial aid and other higher education grant and scholarship programs ranks New York among the top in the nation, and will total $528 million in 2002-03. These funds will assist more than 335,000 students in their pursuit of a college education at New York's public and private institutions of higher education. Highlights for 2002-03 include:

- More than $481 million in funding for need-based student financial aid — an amount exceeding that of virtually every other state in the nation;
- Enrichment of the Tuition Assistance Program (TAP) to provide maximum award levels of $5,000 to first-time TAP recipients and an increased minimum award of $500 for all recipients; and
- Continued recognition and rewarding of high school achievement and encouragement of our most academically-talented students to pursue a postsecondary education in New York State through the Governor's Scholarships for Academic Excellence program. This program will provide 2,000 annual awards of $1,500 to New York's most outstanding high school scholars and 6,000 annual awards of $500 each to students demonstrating high scholastic achievement.

The financing of college costs has also been made easier for New York families through tax benefits provided under both the State's College Choice Tuition Savings program and the State Tuition Tax Deduction program. Enacted in 1997, the College Choice Tuition Savings program encourages families to save for their children's college education by providing tax benefits on contributions made to, and interest earned on, college savings accounts. Since its inception, 172,600 accounts have been opened with contributions exceeding $800 million.

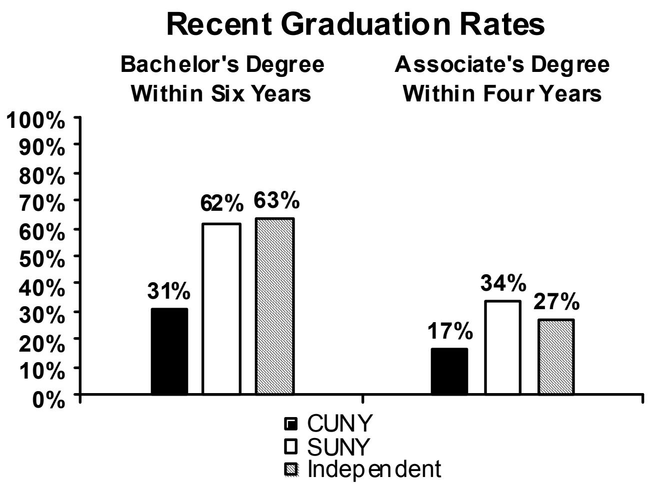
New Incentives for College Graduation

The key to success for students and economic prosperity for New York is completion of a student's collegiate program and the earning of a degree. However, in too many cases, students begin a course of college study, but never earn their diploma. In these instances, the students' efforts and sacrifices are wasted, and the State's investment in their education through the Tuition Assistance Program (TAP) is lost.

To address this issue, the Executive Budget restructures TAP to encourage a greater number of students to complete their college education. Under the plan, students that receive their degree will see no reduction in their overall TAP award. Components of the plan include:

- Beginning in 2002-03, TAP awards will be provided in two components — a "base" award equivalent to two-thirds of the current TAP award, and a "performance" award equivalent to the remaining one-third;
- The "base" component will be paid consistent with the current payment schedules of TAP awards to students;
- The "performance" component will be paid upon the students' successful completion of their degree program, and will equal the amount of the students' deferred TAP awards, plus any accrued interest on loans they may have used in financing their performance award; and
- While awaiting receipt of their "performance" award, students will be expected to finance these costs through Federal loans. State loans will be available for students who have depleted their Federal loan availability.

TAP Restructuring Will Improve College Completion Rates



Changes in TAP for 2002-03 will create a performance-based incentive to encourage greater numbers of students to complete their college education.

Cultural Resources

The 2002-03 Executive Budget recommends the transfer of the State Museum, State Library, and State Archives from the State Education Department to a newly created entity — the New York Institute for Cultural Education (NYICE). This action will not only increase recognition and visibility of the important cultural programs administered by these offices, but will also permit the State Education Department to focus on its core mission of overseeing the State's schools.

The New York Institute for Cultural Education will be established as a public benefit corporation headed by a 15-member Board appointed by the Governor, legislative leaders and the Board of Regents. Its operations will be funded by an increase in the existing surcharge for the recording, indexing and certifying of records by county clerks, a portion of which already funds the Local Government Records Management Improvement program, the Archives Partnership Trust and the Documentary Heritage program. These revenues will be sufficient to fully fund all of the approximately 450 existing positions that will be transferred to NYICE.

A new $10 million capital investment program will also be initiated to upgrade the exhibits and collections of the State Museum, State Library and State Archives. Under this new capital investment program, up to $5 million in State funds will be provided to match revenues generated by fund-raising activities of NYICE.

An Unwavering Commitment to New York's Most Vulnerable Children

Governor Pataki's 2002-03 Budget provides the Office of Children and Family Services (OCFS) with more than $1.8 billion to address a full range of child welfare needs to protect children from abuse or neglect, maintain and reunite families and provide safe, temporary placements for children who cannot remain in their own homes.

Parental responsibility is vital to ensuring the best possible future for our children. The Governor's nationally recognized child support enforcement program continues to send a strong message about the need for parents to financially support their children.

Enhanced Child Welfare Services through Funding Reform

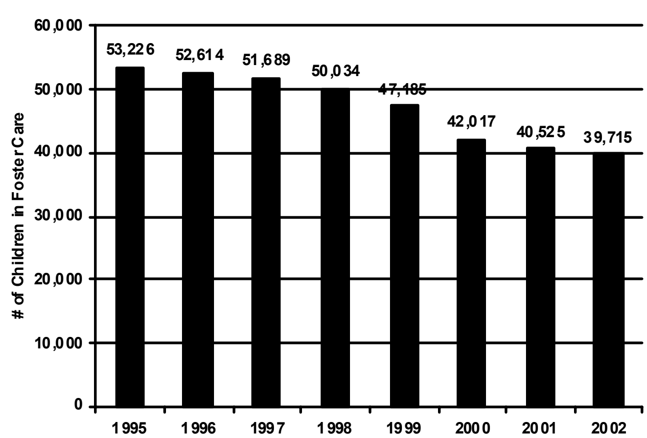
Among the Governor's highest priorities are to protect the well-being of our State's children and to assure, wherever possible, that they remain in their own homes with their families. Accordingly, the Governor will again advance fundamental financing reforms that will have an immediate positive impact on the nature and quality of child welfare services. Supported by more than $26 million in additional funding, the new child welfare financing system will promote earlier intervention with troubled families — a strategy that will prevent the unnecessary placement of at-risk children in foster care. This new funding will permit local agencies to develop new tools to serve children and families in their communities. Key features of the Governor's reform proposal include:

Expanded Funding for Prevention and Supportive Services: The centerpiece of the Governor's child welfare reform proposal is the provision of 65 percent State funding, without limitation, for preventive services necessary to preserve families. While benefiting at-risk children and families throughout the State, this new funding source will be especially valuable in providing an expanded PINS population, ages 16 to 18, with community-based services that will help avert costly institutional placements. Aftercare services, independent living activities and local administrative costs related to adoption will also receive 65 percent State aid. The Executive Budget includes a total of $324.4 million in 2002-03 for this new child welfare funding stream.

Investments in Child Welfare Quality: OCFS will distribute $3 million in new funding to counties and not-for-profit groups in 2002-03 to fund innovative local program models intended to improve the quality of services provided to children and their families.

A Flexible Foster Care Block Grant: The Governor's child welfare reform proposal includes a $364.5 million foster care block grant that will encourage further declines in the foster care caseload. Under the block grant, counties will be able to reinvest all new savings from foster care reductions into locally-designed child welfare initiatives featuring prevention strategies and other non-institutional program models.

Children Living in Foster Care Continues to Decline



The number of children living in foster care is expected to drop by more than 25 percent during Governor Pataki's tenure. The Governor's proposed child welfare reform will create new opportunities for further reductions.

Promoting Child Safety and Family Stability

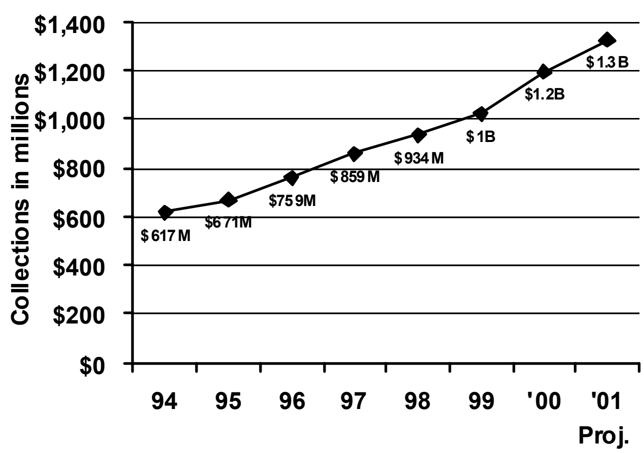
The Governor's Budget preserves and, in certain cases, expands funding for an array of services that protect our children and build successful families. Major programs include:

Child Support Enforcement: Under the Governor's leadership, numerous reforms have produced unprecedented growth in child support collections. As a result of these activities, New York State is expected to collect about $1.3 billion in child support payments for New York's children in 2002-03 — the highest amount in State history. The Governor's child support enforcement efforts encompass a range of specific activities, such as:

- Securing assets and income to recover overdue child support payments;
- Operating a "new hires" registry to rapidly identify changes in income of non-custodial parents;
- Suspending driver's and professional licenses of parents who refuse to pay child support;
- Helping hospitals obtain voluntary acknowledgements of paternity; and
- Increasing criminal prosecutions for parents who refuse to pay child support through Joint Enforcement Teams — pilot projects in localities that focus child support and criminal investigators, assistant district attorneys and para-legal staff on these cases.

Governor Pataki - A Leader in Child Support Enforcement

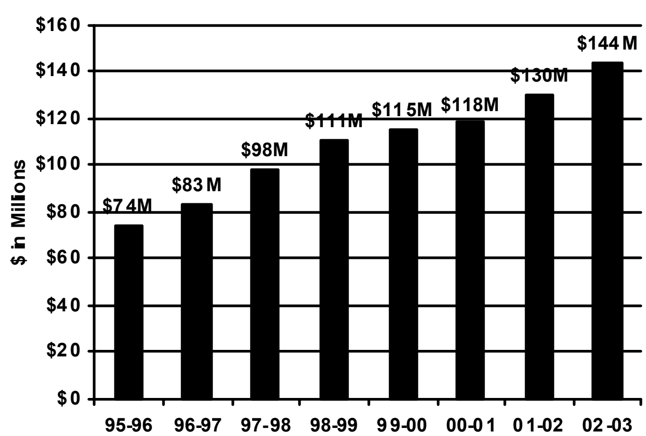
Under Governor Pataki, child support collections have more than doubled. Collections are expected to approach $1.3 billion in 2001, the largest amount in State history.



Child Abuse Hotline: More than $8 million is provided for the Child Abuse Hotline, a continuously operating link between the public and local child protection units. The Hotline receives 320,000 calls annually.

Adoption Subsidies: A key element in the State's ongoing effort to reduce the number of children in foster care has been the availability of adoption subsidies. From 1995 through 2002, more than 36,000 children who could not be reunited with their parents will have been adopted out of foster care into stable, permanent homes. State spending for adoption subsidies during this time will grow by $70 million, or 95 percent, to a total of $144 million. This includes a $15 million, or 12 percent increase in the 2002-03 Executive Budget.

Adoption Subsidies Lead to Safe, Permanent Homes for Foster Children



The Executive Budget includes $144 million in State funding for the Adoption Subsidy Program — a $70 million, or 95 percent, increase under Governor Pataki. These subsidies have helped provide permanent homes for more than 36,000 foster care children.

Protecting and Preserving New York's Natural Resources

Protecting Our Natural Resources

New York is blessed with some of the most abundant and varied natural resources of any state in the nation. Its rich vistas, magnificent rivers and lakes, and majestic mountains and seashores are unparalleled.

Since 1995, Governor Pataki has worked to preserve these resources for present and future generations, committing more than $9.8 billion for environmental programs through 2002-03, and establishing New York State as a national leader on environmental issues.

The Governor's major environmental accomplishments include:

- Providing crucial resources for projects to protect and restore New York's air, water, and natural and cultural resources through the 1996 $1.75 billion Clean Water/Clean Air Bond Act. These projects represent an important investment in the long-term health of New York's environment and provide a foundation for sound economic growth. When combined with Federal and local matching funds, a total of $4 billion will have been invested in New York's environment and economy as a result of Bond Act activities;
- Earning the distinction in 1996 as the first Governor to fully fund the Environmental Protection Fund (EPF). Under Governor Pataki, funding for the EPF has grown from $25 million to $125 million — a dramatic five-fold increase. Including the 2002-03 Budget, Governor Pataki will have invested more than $887 million in EPF funding for a wide range of environmental projects;
- Leading negotiations with New York City, the Federal government and local governments that culminated in the historic New York City Watershed agreement. This agreement protects the drinking water of nine million New Yorkers while also protecting the economic vitality of the watershed communities, and stands as a national model for successful reconciliation of environmental and economic concerns;
- Leading the nation in the preservation of valuable open space and habitat. Under the Governor's leadership, the State will have committed more than $429 million from 1995 through the proposed 2002-03 Executive Budget to acquire or preserve open space. To date, more than 325,000 acres of environmentally-significant land have been protected, including such impor-

tant Adirondack parcels as the 139,000-acre Champion International property and the 15,000-acre Whitney Park Estate, and the nearly 16,000-acre Sterling Forest preserve in Orange County. In his 2002 State of the State address, the Governor pledged to preserve more than one million new acres of open space over the next decade;

- Successfully petitioning the Federal government to designate the Hudson River an American Heritage River — making Federal support and assistance available to communities along the River. Since taking office, Governor Pataki has committed more than $250 million to clean up, protect and restore the Hudson River — including $100 million for the development of the 550-acre Hudson River Park;

- Initiating a world-class Rivers and Estuaries Center on the Hudson — a first-of-its-kind river and estuary research and education center. The Institute will inspire and nurture scientific endeavors to protect the delicate ecosystems of rivers and estuaries and their tributaries and watersheds throughout the world;

- Forging an agreement with New York City Mayor Giuliani in May 1996 to close the 53-year-old Fresh Kills Landfill on Staten Island;

- Enacting legislation to reduce acid rain by monitoring and controlling the sale of sulfur dioxide emission allowances to out-of-State power plants and businesses. This legislation will reduce the availability of Federal air pollution allowances to out-of-State power companies whose smokestack emissions pollute New York's air and water, and detract from the quality of life;

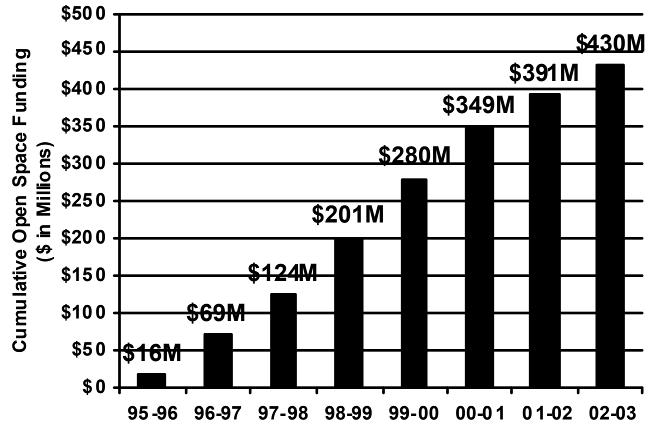
- Adopting the new California low-emission vehicle standards for new light- and medium-duty vehicles. Given the large share of the automobile market represented by New York and California, the Governor's decision effectively re-orients the entire automobile industry toward more stringent emission standards, from which the entire nation will benefit;

- Enacting a new "Green" buildings tax credit to encourage the construction and rehabilitation of environmentally-sound buildings. The first of its kind in the nation, the tax credit will promote improved environmental building standards, increase energy efficiency, and cut taxes on businesses that share the Governor's vision of a cleaner, greener New York; and

- Implementing the first-in-the-nation Bird Conservation Area statute by designating bird conservation areas on State lands, which will be preserved to conserve and enhance bird habitats.

Open Space Protection Dramatically Increases Under Governor Pataki

Since 1995, Governor Pataki will have made nearly $430 million available for open space protection programs.



Revitalizing Brownfields and Refinancing the Superfund

One of the Governor's priorities for the coming year is to refinance the State's Superfund. The primary goal of the Superfund program is the protection of communities through the remediation of environmental hazards. Under the program, abandoned and contaminated industrial sites, known as "brownfields," are restored to productive and responsible economic and recreational use.

Governor Pataki's 2002-03 Executive Budget advances legislation to both refinance and improve the State Superfund program and enhance the Brownfields Restoration component of the Clean Water/Clean Air Bond Act. The legislation maintains the most stringent environmental and public health standards in the nation and incorporates the "polluter pays" principle. It also makes common-sense reforms that will remove more contamination from the environment, and return more sites to productive use quickly and safely. The proposal, based on the recommendations of the Superfund Working Group, a group consisting of State environmental, public health and economic experts, and local municipal, environmental and business representatives, will:

- Establish a dedicated $138 million remedial program fund to finance the State Superfund, Voluntary Cleanup, and Oil Spill programs on a pay-as-you-go basis. The costs would be shared equally between the State and private industry;
- Expand the Superfund program's cleanup activities to cover hazardous substance sites that are contaminated with by-products of obsolete manufacturing processes;
- Free innocent land purchasers from liability, while ensuring that the true polluters face their financial or legal responsibilities; and
- Accelerate the redevelopment of abandoned industrial sites (i.e., brownfields) by establishing tax credits for both the cleanup and improvement of such sites as well as for the development and reuse of restored but dormant sites, and by providing grants and other significant financial incentives and flexibility to municipalities to redevelop brownfields.

Commitment to the Environment Continues in 2002-03

Governor Pataki's 2002-03 Executive Budget demonstrates his continuing commitment to environmental protection and conservation. His Budget recommendations include:

- $125 million in new Environmental Protection Fund (EPF) funding for open space and farmland preservation, the Hudson River Park, recycling and other environmental programs. In addition, the Governor recommends a $125 million EPF deficiency appropriation to redress the Legislature's elimination of EPF funding in 2001-02. This deficiency appropriation will be allocated in approximately the same manner as the 2002-03 recommendation;
- $212.4 million in new funding from the Clean Water/Clean Air Bond Act to restore brownfields, ensure safe drinking water, clean up air and water resources, and support local solid waste management efforts;
- $176.2 million in new State and Federal funds for the State Revolving Fund low-interest loan program to build and rehabilitate municipal sewage treatment facilities;

- $45.6 million for clean air programs to limit pollution from industrial sources, automobiles, and heavy-duty vehicles — thus protecting the health of our citizens and the environment from harmful air pollutants;
- $45.1 million for fish and wildlife programs funded by fishing and hunting license fee revenues through the Conservation Fund. Modest license fee increases will ensure that adequate resources are available for the Fund;
- $825,000 in funding for the Hudson River Valley Greenway Communities Council and Greenway Heritage Conservancy, to promote the preservation and responsible development of resources in the Hudson River Valley; and
- Modest increases in pesticide application fees to support State oversight, pesticide applicator examination and training, and training and support for communities to implement local pesticide neighbor-notification activities, non-toxic West Nile prevention measures, and integrated pest management programs.

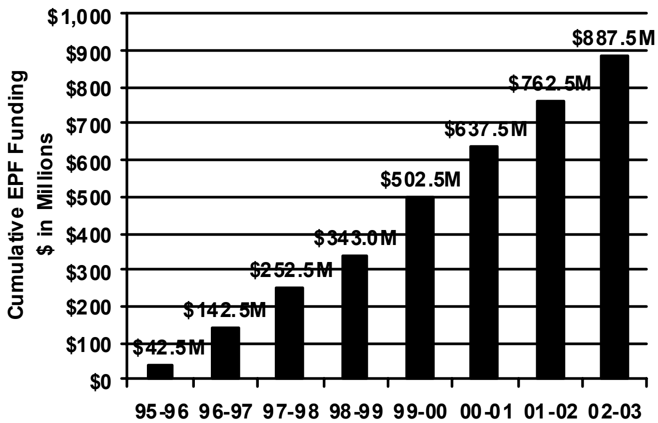
$125 Million in New Environmental Protection Fund (EPF) Projects

The EPF provides a dedicated funding source for a variety of important environmental programs. Under Governor Pataki's leadership, EPF funding has grown from $25 million in 1994-95 to $125 million this year — a five-fold increase.

The Governor is proposing the following programs to be funded by the EPF in 2002-03:

- $39 million for land acquisition, and open space and farmland protection;
- $20.9 million for State parks and lands stewardship projects, and other Department of Environmental Conservation capital programs;
- $15 million for the development of the Hudson River Park;
- $8 million for solid waste projects, including municipal recycling ($3.75 million), secondary materials marketing grants ($3.75 million), and Adirondack landfills ($500,000);
- $5.8 million for the Hudson River Estuary Management Plan;
- $5 million for municipal parks and historic preservation projects;

Environmental Protection Fund Dramatically Increases Under Governor Pataki



By the close of 2001-02, Governor Pataki will have provided more than $762.5 million in funding for EPF programs since 1995-96. His 2002-03 Budget includes an additional $125 million in permanent funding, bringing the total for priority projects from the EPF to more than $887 million.

- $5 million for the cleanup of Onondaga Lake;
- $5 million for waterfront revitalization projects;
- $4.95 million for the Zoos, Botanical Gardens and Aquaria program;
- $4 million for non-point source pollution control projects, such as those to eliminate contamination from surface run-off;
- $3.33 million for several environmental programs, including the Finger Lakes/Lake Ontario Watershed Protection Alliance ($1,000,000), Biodiversity Stewardship ($750,000), the Albany Pine Bush Commission ($325,000), Long Island Pine Barrens Commission ($700,000), the Peconic Bay Estuary ($200,000) and Long Island South Shore Estuary Reserve ($350,000);
- $2.25 million for the pesticide use database program;
- $2.1 million for New York City Watershed protection activities;
- $1.3 million to assess any natural resource damages to the Hudson River;
- $1.3 million for Soil and Water Conservation Districts;
- $1.06 million for the State's participation in various water commissions; and
- $1 million to restore and preserve historic barns.

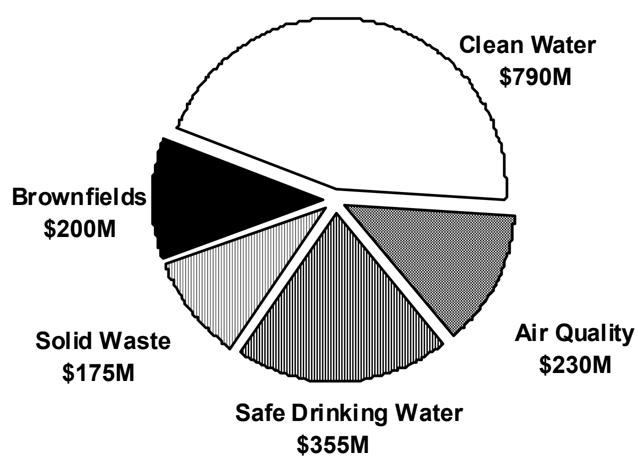
An Additional $212.4 Million in New Clean Water/Clean Air Bond Act Projects

Overwhelmingly endorsed by the voters in 1996, Governor Pataki's Clean Water/Clean Air Bond Act authorized $1.75 billion for improvement of the environment; through 2001-02, more than $1.5 billion will have been provided. The Governor's 2002-03 Budget advances the remaining Bond Act funds of $212.4 million for additional projects, including:

- $75 million for brownfields projects;
- $70 million for Safe Drinking Water projects administered by the Department of Health;
- $46.9 million for Clean Water projects, including:
  - $34.3 million to implement management plans for the Hudson River ($1.3 million), Long Island Sound ($21 million), New York Harbor ($1.1 million), Finger Lakes ($3.4 million), and Peconic and South Shore Estuaries ($7.5 million);
  - $4 million for dam safety projects;
  - $2.6 million for small waste water/flood projects;
  - $2.3 million for municipal parks projects;
  - $1.9 million for State facility environmental compliance projects; and
  - $1.8 million for State parks projects.

Clean Water/Clean Air Bond Act

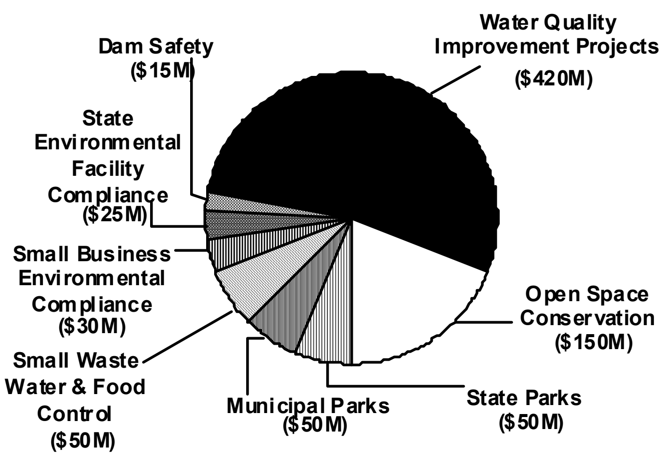
Governor Pataki recommends an additional $212.4 million in projects to be funded through the Clean Water/Clean Air Bond Act. This brings total Bond Act funding allocated for project commitments to $1.75 billion — the total amount approved by voters in 1996.



- $14.5 million for Solid Waste municipal recycling projects; and
- $6 million for Air Quality projects, including clean vehicles ($2 million) and clean buses ($4 million).

In addition to the final allocation of the remaining Clean Water/ Clean Air Bond Act authorization, the Executive Budget also makes available $19.7 million in new and redirected funds from the 1965 Pure Waters Bond Act and the 1972 Environmental Quality Bond Act. Of this amount, $10.5 million will support the Long Island Sound Comprehensive Conservation Management Plan and upstate community wastewater treatment projects. The remainder will fund various State air quality improvements, municipal solid waste projects and land preservation and improvement projects.

$790 Million in Clean Water Programs



The 1996 Clean Water/Clean Air Bond Act authorizes $790 million to be used for clean water categories.

Expanding and Maintaining Recreational Spaces

New York established one of the finest public park systems in the nation more than 100 years ago. Today, under the Governor's leadership, innovative recreational and educational programs continue that tradition.

Since 1995, the Office of Parks, Recreation and Historic Preservation has developed innovative "public/private partnerships" with the private sector, the non-profit community, and other governmental entities, providing more than $40 million in new investment and other income to State parks and historic sites.

Governor Pataki's 2002-03 Budget underscores his continued commitment to our State parks system and the recreational opportunities it offers to New Yorkers and visitors to our State by providing:

- $156.1 million to support the 164 parks and 35 historic sites operated by the Office of Parks, Recreation and Historic Preservation. During Governor Pataki's tenure, 14 new State parks have been created and more than $84 million invested in grants to local municipal park projects;
- $29.6 million from the State Park Infrastructure Fund, which dedicates park revenues to maintain, improve and rehabilitate State park facilities. For 2002-03, the rehabilitation and expansion of services at Niagara Falls State Park is a key priority;
- Continuation of $9.8 million to support the Governor's Heritage Trails initiative. Heritage trails — such as the completed Women's Heritage Trail, and the Theodore Roosevelt, Revolutionary War, and Freedom trails under development — will celebrate New York's contributions to our nation's history; and
- $625,000 for the operation and stewardship of newly acquired or expanded State parks and historic sites, including Niagara Falls State Park, Ft. Montgomery, Sterling Forest, and the National Purple Heart Hall of Honor.

Strengthening Our Agricultural Community

Governor Pataki has worked closely with the State's farming community to ensure that agriculture remains an economically viable industry. Farms not only contribute to the State's economy, they also define our landscapes and enhance our communities. Specifically, Governor Pataki's 2002-03 Budget:

- Provides $1.2 million for the Asian Longhorned Beetle Eradication program to support the partnership among the State, New York City and Federal governments to locate and eradicate this pest, thereby helping to preserve our urban forests;
- Continues research, marketing and technical assistance to farmers and farm businesses including $1.3 million for Grow New York — a package of farmland viability and agricultural economic initiatives that will improve the quality of life in rural, urban and suburban communities;
- Sustains $5.3 million in funding for several programs that provide services to address the needs of the agricultural community, including the Diagnostic Laboratory ($3,000,000), Integrated Pest Management ($787,000), Seed Testing Laboratory ($550,000), Herd Health Assurance ($350,000), Avian Disease ($315,000), Farm Net ($200,000), and Golden Nematode research ($51,000);
- Allocates funding from the EPF for the Agricultural Environmental Management program to assist farmers in developing and implementing environmental management plans. This funding will ensure that farmers meet high environmental standards and operate farmlands compatibly with other land uses; and
- Creates the New York Renewable Energy Initiative to spur development of clean energy technologies such as wind power and bio-fuels, which have the potential to expand revenue generation for New York farmers.

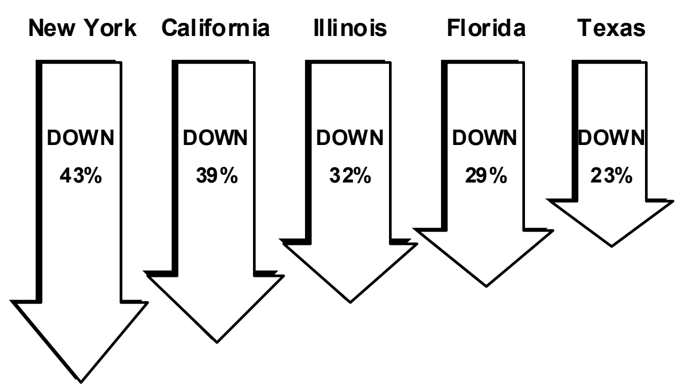
Keeping New Yorkers Safe and Secure

Criminal Justice

Governor Pataki continues to make New York a safer place for its residents to live, work and raise a family. Under his leadership, legislation has been enacted to reinstate the death penalty, require longer sentences for violent crimes, restrict parole and work release for violent offenders, establish a registry for predatory sex offenders, and increase penalties for gun violence and hate crimes. New York continues to rank first among the ten most populous states in reducing reported violent crime — dropping 43 percent since 1995. Newly released crime figures indicate that New York State continues to outpace the nation in reducing crime. Governor Pataki's Executive Budget recommendations for 2002-03 will maintain New York's position as a national leader in the fight against crime.

Violent Crime Drastically Reduced Under Governor Pataki

Calendar Years 1994-2000: New York is first among major states in reducing violent crime.



To build on this record of success, Governor Pataki will push to abolish parole for all convicted felons, reform the outdated Rockefeller Drug Laws, lower the legal limit for Driving While Intoxicated to .08, build upon the hate crimes law by passing the Sexual Orientation Non-Discrimination Act, and end the statute of limitations for rape and sexual assault.

While we will continue our efforts to combat crime in New York, the September 11 attacks on the World Trade Center have presented new challenges in protecting the safety of our citizens.

Public Security

In the aftermath of the World Trade Center attacks, Governor Pataki has taken a number of steps to ensure the safety and security of all New Yorkers as the nation faces new challenges. The Governor's newly established Office of Public Security will coordinate and bolster these anti-terrorism efforts throughout New York State.

Since the terrorist attacks, additional State resources have been deployed to protect potential targets. Security has been enhanced to protect water supplies, bridges, tunnels, communications and transportation centers and other sensitive locations. New York State Police, National Guard, and Department of Correctional Services staff are assisting in these security activities. State law enforcement personnel, in conjunction with local forces such as the New York City Police Department and others, are being deployed in both fixed posts and directed patrols. Additional public safety activities include testing of potential biological agents, new communications and technology systems and equipment.

The 2002-03 Executive Budget reflects Governor Pataki's efforts to protect New Yorkers by providing $200 million for the costs related to homeland security. This amount is expected to cover activities through the end of 2002-03, including needs identified by the Office of Public Security. Anticipated activities to be supported by these funds include:

- New safety equipment for first responders to emergencies;
- Communication and data systems enhancements for public safety agencies;
- Continued State Active Duty assignments for the National Guard;
- Laboratory costs and equipment required for the testing of specimens for possible biological agents such as anthrax; and
- Personal service and overtime costs for additional security details and investigations required for public safety.

Governor Pataki is also calling for the passage of comprehensive anti-terrorism legislation developed in cooperation with the State Attorney General. The plan will seek to abolish the statute of limitations for all terrorist crimes, strengthen existing laws, and address the potential threat of chemical and biological weapons. Under the proposed legislation, someone in possession of these types of weapons would face life in prison with no chance of parole.

Keeping Violent Criminals Behind Bars

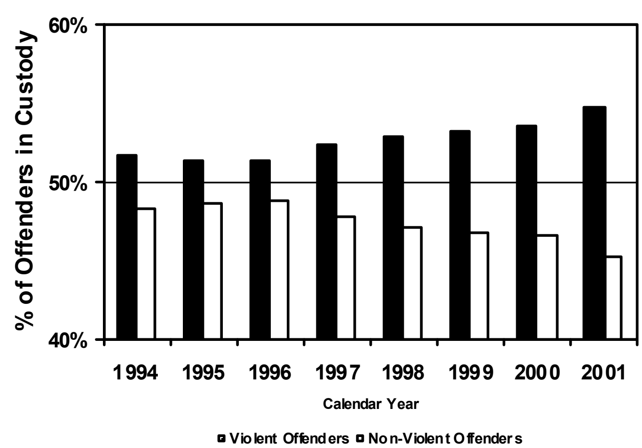
Governor Pataki has successfully reformed the State's sentencing structure to keep dangerous felons out of our communities, while also instituting programs such as those operating at the Willard Drug Treatment Campus to rehabilitate non-violent offenders and help them return to the community.

As the mix of inmates under custody shifted to more dangerous offenders serving longer prison terms, Governor Pataki fought for and obtained new maximum-security capacity, including two new prisons in Franklin and Seneca counties, allowing the State's prison system to operate more safely and efficiently.

While the number of violent felons in the prison system has grown, the number of non-violent offenders under custody has declined, permitting the closure of beds used during the past decade to address the once escalating demand for prison space.

Keeping Violent Felons Behind Bars Longer

Calendar Years 1994-2001: As a result of Governor Pataki's sentencing reforms, violent felons will spend more time in prison and off the streets, and will represent a larger proportion of the under-custody population.



By April 1, 2003, it is projected that the prison system will house approximately 64,400 inmates — a decrease of 8,600 inmates since April 1, 2000. Savings will be achieved due to the lower number of inmates requiring supervision and housing. Similarly, the number of "State-ready" inmates awaiting transfer from local jails has dropped from 4,425 in July 1999 to fewer than 600 in December 2001, generating savings to local governments.

New Technology to Battle Crime

The 2002-03 Executive Budget funds initiatives that provide law enforcement officials with the most up-to-date tools to combat crime, including:

- The new Pistol and Revolver Ballistic Identification Databank, which is now operating to enforce gun safety measures;
- The State's DNA Databank, which has proven to be highly effective in assisting law enforcement to convict the guilty and exonerate the innocent. Since its implementation in August 1999, the Databank has yielded more than 150 matches between DNA crime scene evidence and offender profiles. To date, 97,000 biological samples have been collected; and
- Continued development of a statewide public safety communications system. Many of the radio systems operated by New York State agencies and localities are in need of an update. This initiative will provide state-of-the-art emergency communications capability to State and local emergency services personnel throughout New York. Clearly, recent events underscore the importance of having such a coordinated system.

Serving the Victims of Crime

In response to the attack on the World Trade Center, Governor Pataki issued a series of Executive Orders to lift statutory caps for awards to victims. The Crime Victims Board also took steps to reach out to victims by establishing centers throughout New York City to expedite claim applications for victims and their families.

The 2002-03 Executive Budget includes $26 million in State assistance for the victims of crime. Governor Pataki's initiatives have improved services to crime victims and strengthened the State's "zero tolerance" policy against domestic violence. Additionally, Federal funds totaling nearly $32 million will be available for victim compensation and service programs.

Juvenile Justice: Assisting and Empowering Parents

Governor Pataki's juvenile justice program is keeping our communities safe by promoting State and local partnerships with the parents of troubled children. On July 1, 2002, new legislation will, for the first time, enable the parents of 16 and 17 year-old children to seek the assistance of police and the Family Court through the filing of Persons In Need Of Supervision (PINS) petitions. As an essential complement to the PINS legislation, Governor Pataki is also advancing comprehensive child welfare financing reforms that will encourage counties to work with parents in developing a range of community-based services that will help these children remain with their families.

The 2002-03 Executive Budget provides more than $254 million to support a multi-tiered juvenile justice system — ranging from local services for the prevention of juvenile delinquency to secure facilities for juvenile offenders convicted of serious crimes. Key initiatives for 2002-03 include:

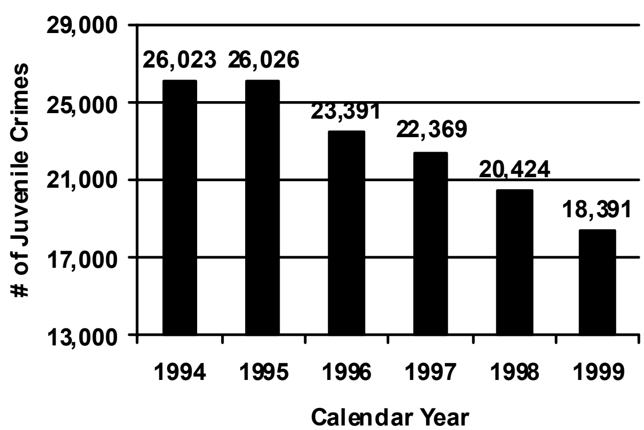
Serving an Expanded PINS Population: A recent study estimates that each year, 15,000 to 23,000 16- and 17-year olds will come into contact with the juvenile justice system under the new PINS legislation. Many of these children will require a range of counseling and related services in order to remain with their families and avoid out-of-home placements. To assist counties and parents in this effort, the Governor's proposed reform of child welfare financing provides 65 percent open-ended funding to counties for preventive and other services essential to serving this expanded PINS population.

Reforming the Detention System: Legislation submitted with the Budget will ensure that children do not experience excessive lengths of stay in detention when other services that are more appropriate and effective are available. The Office of Children and Family Services (OCFS) will also develop new guidelines to ensure fiscal accountability in the reimbursement of local detention spending.

Constructing a New Secure Facility: The 2002-03 Budget will strengthen the OCFS residential system for youth convicted of serious crimes by providing $73 million to support construction of a new secure center. When completed, this facility will replace the Harlem Valley Secure Center. The new center will be a state-of-the-art facility designed for supervising young offenders and providing rehabilitative services to help these individuals become contributing members of society.

Juvenile Crime Drops Dramatically Under Governor Pataki

Under Governor Pataki's leadership, juvenile crime has dropped significantly. According to the Division of Criminal Justice Services, the number of arrests for FBI index offenses committed by youth under the age of 16 declined from 26,026 in 1995 to 18,391 in 1999 — a 30 percent decrease.



Ensuring a Healthy New York

Unprecedented Investments in Health Care Needs of New Yorkers

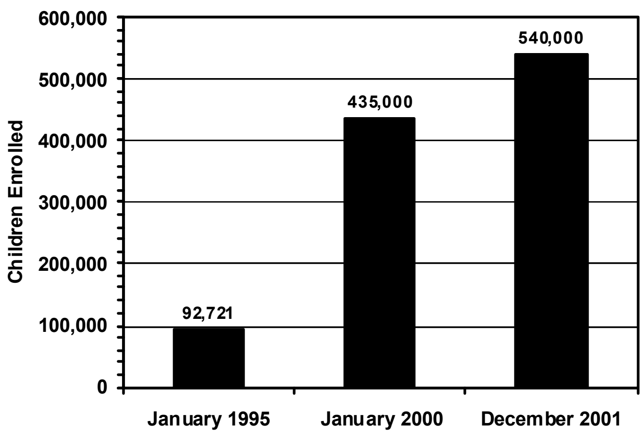
Since taking office, Governor Pataki has worked to ensure that all New Yorkers have access to high quality, affordable health care. Efforts to expand eligibility and enrollment in programs like Child Health Plus (CHP) and the Elderly Pharmaceutical Insurance Coverage Program (EPIC) in concert with his success in establishing new programs like Family Health Plus and Healthy New York have dramatically increased access to health care coverage for New Yorkers. Today, New York is among the national leaders in expanding health coverage and providing access to innovative and high quality health services. During his time in office, Governor Pataki has:

Dramatically expanded Child Health Plus (CHP): CHP is New York's program of subsidized health insurance coverage for children under 19. Under Governor Pataki, enrollment in this nationally recognized health insurance program has grown dramatically, from approximately 93,000 to 540,000 — an increase of 447,000 children. In addition, benefits have been expanded, making CHP a truly comprehensive health care program. During 2002-03, New York will spend more than $1 billion from Federal and other resources to provide these comprehensive health care services to an estimated 580,000 children.

Established the Family Health Plus (FHP) program for working parents and individuals: Family Health Plus builds on the successes of CHP, providing lower-income parents and other adults with access to similar health care benefits at affordable rates. Family Health Plus was initiated in October 2001 and is expected to provide more than 700,000 New Yorkers with affordable access to health coverage. During fiscal year 2002-03 the State will provide $114 million for FHP.

Initiated the Healthy New York program: Healthy New York offers State subsidies to small businesses, allowing them to make health insurance available to their employees and their families at affordable rates. In circumstances where these employers do not offer health insurance, their lower-income employees may purchase this new health care coverage directly from participating health care providers.

Child Health Plus (CHP) Grows Dramatically Under Governor Pataki



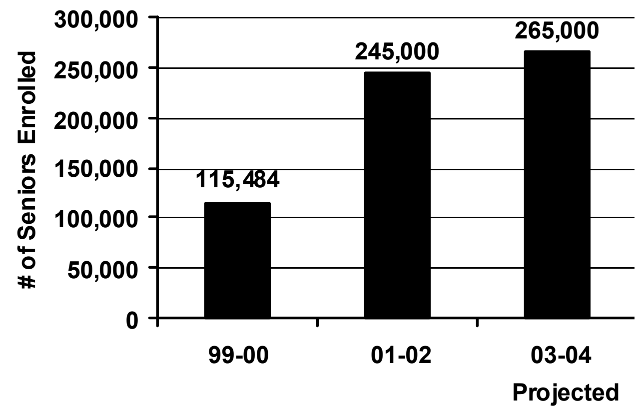
Under Governor Pataki's leadership, the number of children in the CHP program has increased more than five-fold and benefits have been expanded to include a full range of services, including inpatient and outpatient hospital care, prescription drugs and dental care.

Expanded prescription drug coverage for senior citizens through the Elderly Pharmaceutical Insurance Coverage (EPIC) program: One of Governor Pataki's highest priorities is to assure affordable health care for the elderly, many of whom are on fixed incomes. In May 2000, the Governor signed legislation raising EPIC income-eligibility levels and reducing enrollment fees by 50 percent. As a result, enrollment skyrocketed, rising from 115,000 in 1999 to approximately 245,000 today. During 2002-03, New York will provide $458 million for this program, saving New York seniors enrolled in EPIC an average of more than $1,700 annually.

Enacted the Health Care Reform Act (HCRA): One of Governor Pataki's key health care achievements was the landmark Health Care Reform Act. This historic legislation, enacted in 1996 and re-authorized in 2000, reformed the hospital reimbursement system, offered a national model for providing health coverage for the uninsured, and supported other important public health initiatives such as key anti-smoking efforts, hospital and clinic care for the poor, and rural health care. Recently, the Governor provided important additional funding through HCRA to recruit, hire and retain health care workers and advance critical health initiatives.

Governor Pataki's Efforts Greatly Expand EPIC Enrollment

EPIC Enrollment is projected to grow from 245,000 in 2001-02 to 265,000 by the end of 2003-04 due to program enhancements that took effect in January 2001.



Strengthened programs targeting women's special health care needs: Under Governor Pataki, New York State has implemented an enhanced statewide network of screening and mammography programs, expanded funding for research into the causes and cures for breast cancer, and adopted legislation requiring insurance companies to cover second opinions, reconstructive surgery, and appropriate hospital stays for mothers and their newborns. The Governor's 2002-03 Executive Budget builds on these successful efforts by advancing a new initiative to provide medical coverage for lower-income women diagnosed with breast or cervical cancer, and expanding the mobile mammography initiative created in 1997 so that more women, including those in rural areas, get the critical screenings they need.

Created New York's Mandatory Medicaid Managed Care program: This program offers approximately 756,000 Medicaid recipients a medical "home" that enables them to receive coordinated and preventive medical care to ensure early diagnosis and treatment of health problems. By the end of 2002-03, the number of individuals receiving comprehensive health care through managed care is projected to grow to 1.3 million. In addition, special needs plans will be established in 2002 to provide managed care and targeted case management services to persons who have HIV/AIDS to address the unique circumstances of this population. Medicaid managed care not only saves money for State taxpayers, but also represents an important step in our efforts to improve the health of New Yorkers.

The Governor's 2002-03 Executive Budget continues these important initiatives, maintains the comprehensive medical services and benefits received by 2.7 million New Yorkers through the Medicaid program, and includes funding for initiatives to provide medical coverage for working disabled individuals and low-income women diagnosed with breast or cervical cancer. At the same time, the Budget advances a series of targeted initiatives that will make the State Medicaid Program more affordable for taxpayers.

Making Key Investments to Achieve Public Health Goals

Protecting the public health is clearly a top priority of any government. The 2002-03 Executive Budget recommends $2.3 billion in funding to support critical programs that provide health care to New Yorkers, as well as the necessary State and local oversight to guarantee the integrity of our health delivery system in a cost-efficient manner. The Governor's Budget provides:

- $458 million for prescription drug coverage for an estimated 257,000 senior citizens through the Elderly Pharmaceutical Insurance Coverage (EPIC) Program. EPIC costs will be controlled, without affecting benefits, by bringing pharmacy reimbursements and manufacturers' rebates in line with the Medicaid program and by requiring private insurers to coordinate payments with the Department of Health to guarantee that, as required by law, EPIC is the payor of last resort;
- $210 million for the Early Intervention (EI) program which serves infants and toddlers with developmental delays. The unprecedented growth in this program — represented by a 23 percent increase in enrollment and a 50 percent increase in costs since 2000-01 — necessitates new controls to ensure that the services children receive under this program are both

cost-efficient and appropriate. To that end, the Budget reflects initiatives to achieve program efficiencies to increase third party revenues, including Medicaid revenue maximization and the participation of private insurance in the EI program;

- $213.5 million for the General Public Health Works program, which supports county public health activities; and
- Funding to continue other important public health programs, including:
  - $90 million for the Roswell Park Cancer Institute in Buffalo;
  - $88.5 million to support women's health care needs and the nutritional needs of women, infants and children;
  - $61 million for the State-operated nursing homes for veterans and their dependents in New York City, Oxford, Batavia, and Montrose;
  - $9.6 million to protect the health of newborns by screening for genetic diseases, AIDS and hearing disorders;
  - $8 million to provide New Yorkers with information to help them in the selection of competent physicians and hospitals; and
  - $2.6 million to promote sexual abstinence and prevent pregnancy among adolescents.

Supporting Anti-Smoking Efforts

Governor Pataki's 2002-03 Executive Budget includes $44.5 million to continue the statewide Anti-Smoking initiative that he undertook beginning in 2001-02. This comprehensive program uses proven strategies to discourage smoking, including counter advertising, community- and school-based education programs, and strict enforcement of laws regulating the sale and use of tobacco products. In addition, the recent cigarette tax increase has the added benefit, as recent research indicates, of reducing the incidence of smoking — particularly by teenagers.

Leading the Fight Against AIDS

Under Governor Pataki's leadership, New York continues to lead the nation in the delivery and funding of crucial services to help affected New Yorkers and their loved ones combat HIV and AIDS. The 2002-03 Executive Budget recommends $2.3 billion for such services, delivered through the AIDS Institute and the State's Medicaid, social services, housing, criminal justice, mental health, and alcohol and substance abuse treatment programs.

Advancing Critical Health Care Initiatives In HCRA

The landmark Health Care Reform Act (HCRA), originally enacted in 1996, set forth a financing system designed to support the financial infrastructure of our hospitals and ensure high quality health care for all New Yorkers. HCRA 2000 added to that strong foundation by advancing a series of additional critical health care initiatives.

Building on this longstanding record of commitment to the health and well being of New Yorkers, the Governor's recently enacted HCRA 2002 legislation dedicates more than $300 million in new State HCRA funds for priority health initiatives through June 30, 2003. These new initiatives include:

Ensuring a Quality Health Care Workforce: The State, in partnership with the health care industry, will implement initiatives to retain and enhance recruitment of health care workers to ensure that New York's health care system remains strong and is able to meet the challenges that lie ahead. Key components of this initiative, such as the Nursing Home Improvement Demonstration Program, will fund efforts by nursing homes and hospitals to ensure an adequate supply of high quality and highly trained staff.

Expanding Breast and Cervical Cancer Treatment: Uninsured and underinsured low-income women diagnosed with breast or cervical cancer through the Center for Disease Control's national screening program will become eligible for lifesaving cancer treatments under this initiative. Women with incomes of up to 250 percent of the Federal poverty level will be able to participate in this important new program.

Providing Medical Coverage to the Working Disabled: Disabled individuals with incomes up to 250 percent of the Federal poverty level will become eligible for the comprehensive quality health care they need to enter or remain in the workforce and lead more independent lives.

Securing Adequate Insurance for Doctors: The recently enacted HCRA legislation provides a permanent, secure funding stream to support the Excess Medical Malpractice Insurance program, which provides the supplemental malpractice insurance that is essential for many of New York's physicians to practice in the State. The Budget includes a series of reforms to the program, including risk management features to reduce its overall cost, and an increase in the primary coverage levels for which physicians are responsible — levels that have remained unchanged since the program's inception in 1986.

In addition, HCRA 2002 simplifies and streamlines the enrollment procedures for CHP, Family Health Plus and Medicaid to make these programs more accessible, giving more children and families the health care they need and deserve.

To fund these critical health care initiatives and continue programs currently financed by HCRA, such as CHP, Family Health Plus and EPIC, the Executive Budget reflects the following actions:

- Directing any increase in the Federal Medicaid Assistance Percentage (FMAP) and other new Medicaid related Federal funding to HCRA to support priority health programs. In recognition of their role and increasing involvement in state-based health care programs and the rapid escalation in their cost, states are actively seeking an FMAP increase. For New York in particular, such an increase would correct a long-standing inequity. The current formula is based solely on per capita income, a methodology which strongly disadvantages New York because the extremely high income of a small number of wealthy residents masks the significant number of citizens who rely on the government for their health care;
- Dedicating the future proceeds expected to be available for public health purposes from the Empire Blue Cross Conversion to a for-profit company to HCRA programs. The "charitable asset" proceeds that result from the conversion of Empire Blue Cross from a not-for-profit company to for-profit status would be directed to HCRA beginning July 1, 2003. This action would support and strengthen the "good works mission" of HCRA;

- Eliminating the scheduled reduction in assessments on health insurance companies, thereby continuing a stable level of revenues dedicated to HCRA programs; and
- Increasing the cigarette tax by 39 cents per pack. This action will provide additional revenue for health care and public health programs, while also further reducing the incidence of smoking, particularly among teenagers.

Furthermore, particularly in light of the World Trade Center disaster and the bio-terrorism threat, it is clear that New York, now more than ever before, needs a statewide network of strong, efficient hospitals. Governor Pataki's Executive Budget proposals will continue to provide strong support for this critical industry. In addition to the actions outlined above, the Governor has also directed the Department of Health to distribute $238 million in bad debt and charity care balances to hospitals.

Making Medicaid More Affordable for Taxpayers

By implementing a carefully balanced program of targeted investments in health care and cost saving actions, Governor Pataki has been successful in controlling Medicaid costs for taxpayers while providing affordable and accessible health care to New Yorkers. Between 1994-95 and 2000-01, State General Fund spending on Medicaid actually declined — in stark contrast to the double-digit increases the State witnessed in the early 1990s. However, health care costs for the State and local governments are now increasing, due in large part to the rising cost of prescription drugs, and an overall increase nationally in the cost of providing health care.

To maintain the quality of our State's health care system and the vitally important services it provides, we must continue to ensure that publicly supported health care remains affordable for taxpayers. Accordingly, the Executive Budget recommends several actions that will provide $522 million in Medicaid savings to State taxpayers and $36 million in savings at the local level. Virtually all of the State savings — $518 million — will be achieved by maximizing Federal and other revenues (including Nursing Home assessments) to fund existing Medicaid costs currently borne by State taxpayers.

These actions include:

- Reinstating a 6 percent assessment on nursing home receipts to provide much needed revenue to support State health care costs during these difficult times. This action is expected to have a minimal impact on nursing homes because the assessment will be reimbursable through the Medicaid program;
- Various other revenue actions, including obtaining additional Federal payments to non-State public hospitals, and applying excess prior year nursing home assessment revenues to cover current costs; and
- Requiring the use of certain generic drugs unless a physician determines it is medically necessary to prescribe higher cost, brand name drugs.

Supporting New Yorkers Entering the Workforce

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New York State provides a broad array of services and supports to help its residents become employed, strengthen their job skills, and improve their economic well-being.

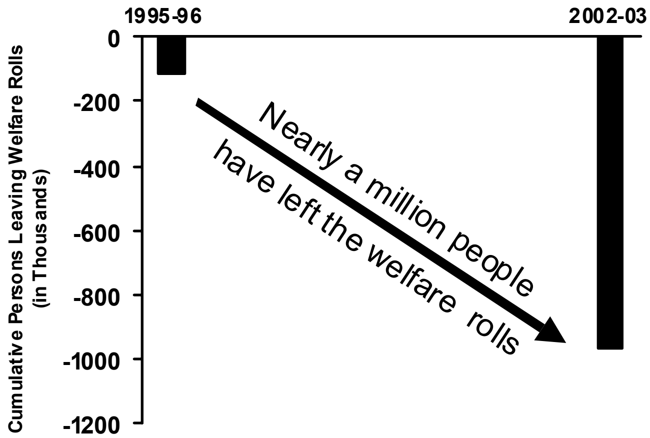
Prior to Governor Pataki taking office, State welfare programs focused on the calculation and distribution of benefits rather than the development of job skills and attainment of self-sufficiency, too often discouraging work and individual initiative.

Since 1995, the Governor has implemented a comprehensive program of welfare reform, emphasizing individual responsibility and helping welfare recipients to become employed as quickly as possible and avoid a future of dependency.

Under Governor Pataki, the State has made unprecedented investments to help recipients on the road to self-sufficiency by providing a broad range of job training, supportive services and income supports. Working with local governments, State agencies, and both for-profit and not-for-profit service providers, New York State has made available more than $5 billion to help "make work pay" for those striving to transition from welfare to work and avoid welfare dependency. As a direct result, welfare caseloads, an important indicator of success, have plummeted in New York as fewer children and adults need to rely on public assistance for basic income support. For example:

- Between 1995 and August 2001, welfare caseloads in New York State declined by 59 percent. More than 973,000 recipients have left the welfare rolls, bringing New York's caseload to its lowest point in 36 years; and
- Congress is scheduled to reauthorize Federal welfare reform legislation by October 1, 2002. Under the Governor's direction, New York is working diligently to ensure that reauthorization provides our State with a fair share of welfare reform funding while expanding flexibility and strategies to help needy families. New York has been a national leader in welfare reform and is well positioned to influence reauthorization proceedings in Congress.

Welfare Rolls Drop Dramatically Since 1995



Between January 1995 and August 2001, over 973,000 individuals left the welfare rolls, dropping the welfare caseload to its lowest point in 36 years. Prior to September 11, 2001, continued, but moderated caseload declines were projected. Due to the events of September 11 and the corresponding expected impact on the economy, a modest caseload increase is now projected for 2002-03.

Investing in Welfare Reform and Work Services

Through wise management of its Federal welfare reform funding, New York has already allocated substantial resources to help at-risk families avoid dependency, including:

- More than $1.3 billion for job training and work supports;
- More than $1.2 billion for work-related child care; and
- More than $520 million for supportive social services for eligible children and adults.

In the 2002-03 Executive Budget, Governor Pataki will continue his strong record of investment by proposing the following:

- $438 million in Temporary Assistance to Needy Families (TANF) funding for the State's Earned Income Tax Credit (EITC) and Child and Dependent Care Credit, thus returning TANF resources to hardworking low-income families;
- $345 million in TANF funds to support Tuition Assistance Program (TAP) benefits for low-income eligible students and $50 million to support Pre-K programs. These programs will help break the cycle of dependency by fostering responsible behaviors and stable families;
- $304 million in TANF funding for more than 61,000 child care subsidies for working families;

- More than $200 million in Federal Workforce Investment Act (WIA) funding for skills training in areas most in demand by employers. WIA serves welfare recipients, dislocated workers, individuals who are currently employed, youth, and others seeking to strengthen their work skills;
- $191 million in Federal and State Welfare-to-Work Block Grant funds for State agencies and localities to target work support and services to the most difficult to serve welfare families;
- $125 million in TANF block grants to New York City and other social services districts to fund locally-managed work and transitional service programs; and
- $119 million in TANF funding for a broad range of targeted services including:
  - $25 million for Advantage Schools and $11.3 million for Extended Day programs so that children can enjoy a safe and enriched after-school experience while their parents are working or attending job training programs;
  - $21.2 million for pregnancy prevention services, including school-based counseling, through the Department of Health and the Office of Children and Family Services;
  - $19 million for youth employment programs through the Department of Labor; and
  - $12 million for emergency nutrition assistance through food pantries.

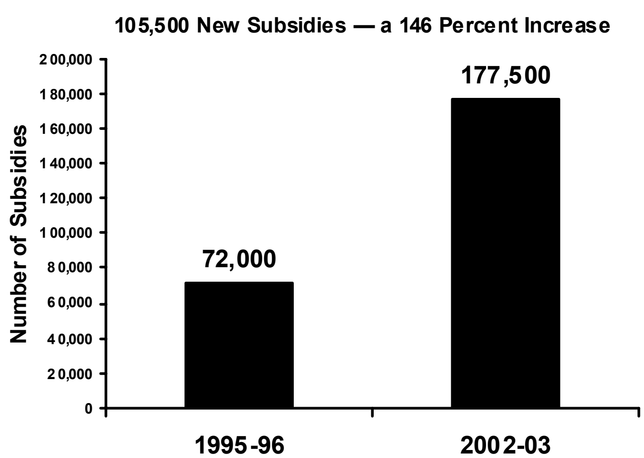
Expanding Child Care Opportunities

Many New York parents rely on quality child care to enter and remain in the workforce and support their families. Since Governor Pataki took office, one of his top priorities has been increasing the number of child care opportunities for working families. This year, New York will continue to respond to these needs by stepping up its already unprecedented child care investment.

The Governor's 2002-03 Budget increases child care funding by $37 million to $877 million. Since the Governor took office, child care spending in New York will have grown by $598 million — a more than three-fold increase that has made New York a leader in the provision of child care services. During the same period, child care subsidies will have more than doubled from 72,000 to 177,500. Highlights of the Governor's 2002-03 child care recommendation include:

Increase in the Number of Subsidies: The Budget will fund 177,500 subsidies from the Child Care Block Grant, an increase of 3,500 that solidifies New York's high ranking — second nationally — in number of subsidies provided.

Dramatic Growth in Child Care Subsidies Under Governor Pataki



The recommended $877 million Child Care Block Grant increases the number of child care subsidies by 3,500, to 177,500, while also providing a market rate increase for child care providers. Under Governor Pataki, the number of subsidies will have grown by 146 percent.

Higher Reimbursement for Providers: Child care providers will continue to receive rate increases in 2002-03, essential for maintaining a qualified workforce. Recent studies continue to show that New York ranks among the top five states in the nation for the maximum subsidy paid to child care providers.

Supplemental Child Care Allocations: In 2002-03, $78 million will be distributed from the Child Care Reserve Fund to counties that exhaust their regular allocations. Originally established in 1999-2000, the Reserve Fund will have provided $200 million to assist localities in meeting the child care needs of low-income families and public assistance recipients.

Continuing Investments In Quality Improvement: Few states can match New York's track record in providing funds to improve the quality of child care programs. During the last seven years, more than $400 million has been allocated for quality initiatives that include: start-up/expansion grants to increase the supply of child care programs; criminal background checks on child care workers to ensure children's health and safety; and an extensive array of training programs that improve care and assist providers in the child care accreditation process.

Other Transitional and Support Service Programs

In addition to child care, New Yorkers seeking to secure and retain employment have access to additional economic and service supports including:

- Food Stamp benefits to ensure access to sound nutrition. More than $370 million in Federal Food Stamp benefits are distributed to non-welfare households each year in New York State;
- Food Assistance benefits to extend New York's nutritional guarantee to elderly immigrants not eligible for Food Stamps under Federal law;
- Health care services through the Medicaid, Child Health Plus and Family Health Plus programs;
- Nutritional assistance to ensure the nutritional well-being of needy families and individuals through the Department of Health's Women, Infants and Children, and Hunger Prevention and Nutrition Assistance programs. More than $622 million in Federal and State funds will be available for these services in 2002-03; and
- Transportation to facilitate work and training efforts. More than $62 million from existing allocations in TANF funds will be available for employment-related transportation assistance to help welfare and other low-income families.

Assisting Homeless Families

New York currently meets the immediate housing needs of homeless families through a system of transitional and emergency shelters. These facilities can also provide access to services that help homeless families achieve self-sufficiency by strengthening their independent living skills and helping them to acquire permanent housing.

Governor Pataki is also proposing the establishment of a new targeted housing subsidy program in 2002-03. This initiative will complement current efforts by broadening access to permanent housing among longer-term homeless families. Localities will have the authority to provide an additional rent subsidy to homeless families that have successfully completed needed housing service programs and are ready to move to permanent housing and employment. Targeted use of this new program, which can provide an additional monthly benefit equal in amount to the existing maximum public assistance shelter allowance, should not only help homeless families acquire permanent housing but also benefit taxpayers by curtailing unnecessary use of more expensive emergency hotels and homeless shelters.

Caring for New Yorkers With Special Needs

Caring for New Yorkers With Special Needs

During the past seven years, programs serving New Yorkers with special needs have been among the highest of the Governor's priorities. His initiatives have renewed the State's long-standing tradition of leadership in caring for those with mental and developmental disabilities and chemical dependencies.

The 2002-03 Executive Budget maintains the Governor's strong commitment to removing barriers that obstruct successful community living for adults and children with mental illness through Kendra's Law, as well as through the continued expansion of services and housing opportunities. The Budget also provides developmentally disabled New Yorkers with highly individualized services appropriate to their needs, with an emphasis on choice and consumer satisfaction. Importantly, the Executive Budget fully maintains the Governor's commitment to NYS–CARES. It also makes continued progress toward eliminating the fragmentation of services that has long hampered treatment for alcoholism and substance abuse.

During the past seven years, State funding to support programs serving people with mental disabilities has increased by three-quarters of a billion dollars. In particular, State aid programs supporting community-based services have increased by more than 50 percent.

The 2002-03 Budget supports total spending of more than $5 billion for the Office of Mental Health, the Office of Mental Retardation and Developmental Disabilities, and the Office of Alcoholism and Substance Abuse Services — a $256 million, or 5.4 percent increase from 2001-02.

Strengthening Community-Based Care for People with Mental Illness

The Governor's 2002-03 Budget expands and improves New York State's extensive system of high-quality care for persons with mental illnesses, in both its psychiatric centers and its wide array of community-based services. Nearly two-thirds of State and Medicaid dollars for these purposes are now spent annually on community-based care. Key recommendations for the coming year include:

Kendra's Law: The 2002-03 Budget continues to provide $32 million in support for Kendra's Law programs, including the Assisted Outpatient Treatment and Medication Grants programs. By significantly expanding care coordination and community oversight, the Assisted Outpatient Treatment Program has broadened the opportunity for certain people who have a history of violence or resistance to treatment to live successfully in community settings. Under the Medication Grants component of Kendra's Law, individuals being discharged from hospitals, jails and prisons can receive needed psychiatric medications while they apply for Medicaid.

Enhanced Community Services Program: The 2002-03 Executive Budget includes an increase of $26 million, fulfilling the Governor's commitment initiated in 2000-01 to fully fund this multi-year program at its $125 million level. Financed by the Health Care Reform Act of 2000, these funds will enable the Office of Mental Health to continue the expansion of community services. These services include new case management, housing and other community and family support services for adults with mental illnesses and children with serious emotional disturbances. This innovative program also improves coordination and fosters more effective utilization of services among consumers, providers, counties and the State.

Continued Development of Residential Opportunities: The Budget reflects the Governor's commitment to expand housing opportunities for people with mental illness by continuing the development of new community beds authorized through the New York/New York II Agreement, the Enhanced Community Services program and other initiatives. The State currently supports a total of 25,600 residential beds for people with mental illness. Another 800 beds will open by the end of 2002-03, with an additional 1,900 under development and scheduled to open in subsequent years. When completed, this will represent a nearly 50 percent increase in the number of community residential beds since Governor Pataki took office.

Governor Pataki's Executive Budget also maintains the highest quality care in the State's psychiatric centers, and makes capital investments to ensure patient health and safety. Given the continuing reduction in the number of inpatients at psychiatric centers resulting from modern treatments and medications, the 2002-03 Executive Budget eliminates 395 unneeded beds in facilities across the State. Nonetheless, a number of vacant beds will be maintained throughout the system to ensure immediate admission of individuals who may require inpatient care in the future.

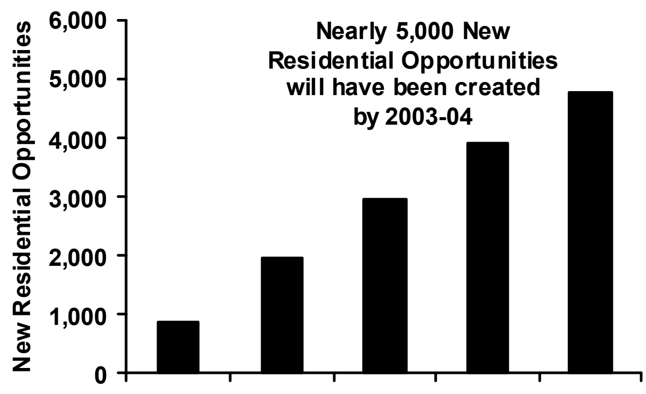
Providing Appropriate Care for People with Developmental Disabilities

The Governor's Budget for 2002-03 reflects his unprecedented commitment to providing developmentally disabled New Yorkers with the most appropriate care possible.

NYS-CARES: The Executive Budget continues the Governor's sweeping and historic multi-year plan to provide new residential opportunities for persons with developmental disabilities. Under the NYS-CARES program — a nationally recognized model for programs serving people with developmental disabilities — residential services have been significantly expanded, offering families the comfort that their developmentally disabled loved ones will always have a home. To avoid delays in achieving his NYS-CARES objectives, Governor Pataki has recommended Deficiency Budget appropriations for the 2001-02 fiscal year to restore reductions made by the Legislature in their August budget actions, as well as a $47 million increase for 2002-03 to support services under development for the coming year. These recommendations bring the total proposed funding for NYS-CARES through the 2002-03 fiscal year to $152 million, and will ensure that the planned NYS-CARES expansion in 2001-02 moves forward as planned.

NYS–CARES
Governor Pataki's Historic Five-Year Promise Continues

Governor Pataki's 2002-03 Budget fully funds the fourth year of the five-year NYS-CARES initiative. As a result, 977 new residential service opportunities will be opened during the coming fiscal year.



In the coming year, NYS-CARES will provide services to an additional 1,600 developmentally disabled New Yorkers, and will establish nearly 977 new residential opportunities, approximately 600 new case management services, and 1,300 new family support services for individuals still awaiting residential placement. By the close of 2002-03, approximately 6,500 people with developmental disabilities will receive residential services through NYS-CARES. As in previous years, NYS-CARES residential programs will receive trended Medicaid reimbursement increases.

Additional Community Services: In addition to expanded services under NYS-CARES, an additional 2,900 individuals will receive community services from the Office of Mental Retardation and Developmental Disabilities for the first time in 2002-03. These include more than 1,900 new day services for young adults aging out of school programs, the relocation of 160 people from Developmental Centers to less restrictive community living environments, and new supported employment opportunities. Funding for community services outside of NYS-CARES will total nearly $1.8 billion in 2002-03 — a $100 million increase.

To ensure a safe and secure environment for its most difficult clients, OMRDD is expected to open the new Valley Ridge Center for Intensive Treatment in Norwich, Chenango County on April 1, 2002. This facility will provide safe housing for approximately 60 developmentally disabled individuals with significant behavioral challenges.

Improving Chemical Dependence Treatment

Legislation signed into law by Governor Pataki established a single program network for chemically dependent individuals that eliminated the inequities and inefficiencies of the previously separate alcoholism and substance abuse systems. Building on this legislation, the 2002-03 Executive Budget recommends two key initiatives to improve treatment outcomes for those with chemical dependencies.

Consolidated Reimbursement for Chemical Dependence Services: The Office of Alcoholism and Substance Abuse Services (OASAS) will institute a new, consolidated Medicaid reimbursement structure by April 2002, which will replace the separate payment systems previously used for alcoholism and drug treatment. Recognizing the special needs of individuals with multiple addictions, the Office will issue new service standards and implement a new reimbursement methodology, both of which will help ensure better access to treatment as well as more effective use of existing resources. The Budget also provides nearly $5.7 million in Federal funding for special transitional grants during the next 18 months to help eligible providers adapt to the new reimbursement structure.

Community-Based Detoxification Services: OASAS, in conjunction with the Department of Health, will institute a new Medicaid reimbursement structure that will allow for the provision of alcohol and drug detoxification services within existing, licensed community-based treatment programs. This will offer an additional alternative to inpatient detoxification services, and will result in improved client outcomes since the chemical dependence programs will provide linkages to on-going addiction treatment.

Helping New York's Local Governments

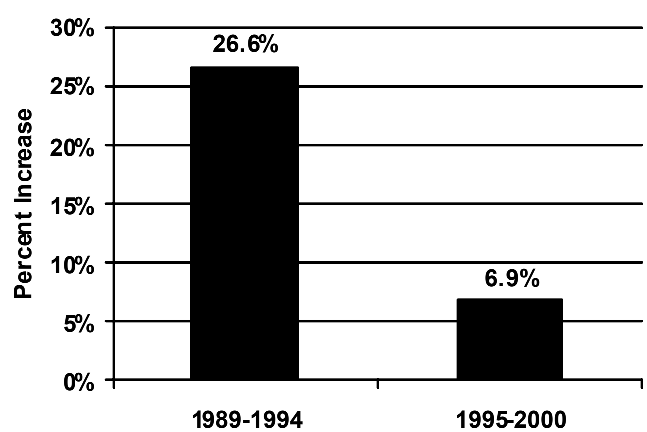
A Seven-Year Record of Assisting Local Governments

The budgets enacted since Governor Pataki took office in 1995 have saved local governments, including municipalities and school districts across the State, more than $6 billion through various cost saving and mandate relief measures. Additionally, significant investments in upstate urban centers, the creation of Empire Zones, the reduction of broad-based taxes and financial support for transportation networks serving both rural and urban areas have all stimulated business growth, created jobs, and generated new revenues.

In addition to the positive impacts of these actions on their communities and local governments, local taxpayers have also realized a direct benefit. Property taxes for counties, cities, towns and villages outside of New York City grew by less than 7 percent for the six-year period 1995-2000, as compared to more than 26 percent growth for the six-year period 1989-1994. With respect to school taxes, the Governor's School TAx Relief (STAR) program has provided nearly $6.3 billion in tax relief to senior citizens and other homeowners.

Property Taxes Have Been Stabilized

For the first six years of Governor Pataki's tenure, county, city, town and village property taxes have collectively increased minimally by 6.9% — an average rate of under 1.2 percent per year. By contrast, property tax increases for the final six years of the prior Administration averaged almost four times higher — nearly 4.5 percent each year, or a total of 26.6 percent.



Unrestricted aid to counties, cities, towns and villages has increased by $124.7 million, or 18 percent since 1995, and two new unrestricted aid programs have been established — a new County Aid program and Supplemental Municipal Aid, intended primarily for distressed cities. Since 1995, unrestricted aid for cities has increased by 15 percent, much of it targeted to the large upstate cities.

Continuing Commitments Through Challenging Times

The Governor's seven-year record of helping local governments establishes a strong foundation as together we face the challenges ahead. While State revenues are expected to be more severely affected by the economic impact of the World Trade Center attacks, both State and local governments will suffer the effects of a declining national economy. Governor Pataki's 2002-03 Executive Budget will save localities an additional estimated $707 million and recognizes that recent events heighten the potential for fiscal stress for all municipalities.

Unrestricted Local Aid

Despite serious revenue losses and spending reductions, the Governor's 2002-03 Budget continues unrestricted aid funding to local governments at virtually the same level provided in 2001-02. A total of $814.2 million in unrestricted aid, a 0.2 percent reduction from the prior year, is recommended for counties, cities towns and villages. Aid to cities, which receive 91 percent of the total aid provided to localities, is continued at 2001-02 levels: $508.3 million in General Purpose Local Government Aid; $182.9 million in Supplemental Municipal Aid; and $46.6 million in emergency aids. County Aid will increase by $5 million to a total of $22 million. The Executive Budget continues $53.3 million in General Purpose Local Government Aid for towns and villages, and eliminates $6.1 million in Supplemental Municipal Aid funding that currently goes to 65 counties, towns and villages, limiting this program to the purpose for which it was originally created — to aid distressed cities.

Working to Make Local Government More Efficient

The Governor continues to seek a mandate relief package that would reduce costs for local governments. These measures include:

- Reform of the multiple contracting requirements of the Wicks Law, which adds 15 to 30 percent to construction costs, according to local estimates. The Governor's proposal would exempt school districts and BOCES from these requirements. Many other municipal projects would also be exempt — a $1 million exemption would apply to upstate projects and a $2 million exemption downstate, increasing to $4 million and $8 million, respectively, by 2007;
- Reform of binding arbitration requirements to give first and highest consideration to the locality's ability to pay without increasing property taxes. The absence of such a requirement often drives unaffordable collective bargaining settlements and increases the price taxpayers must pay for essential public services;
- Expanded investment opportunities for local governments, including local authority to invest in the State Comptroller's Short Term Investment Pool; and
- An enhanced revenue option for counties and New York City to implement a monthly $.30 surcharge on all cellular phones and other wireless devices, which could result in $28 million in additional revenue for counties and New York City.

The Governor has also proposed the creation of a new task force to develop initiatives that would save taxpayers money by making government more efficient at the village, town, city and county levels.

Settlement of the Yonkers Desegregation Case

The Governor's 2002-03 Budget includes $70 million for the City of Yonkers in accordance with the terms of the settlement agreement that ended two decades of contentious litigation and Federal intervention in the City's public schools.

Impact of SFY 2002-03 Executive Budget On Local Governments

State Fiscal Year Basis

($ thousands)

SFY 2002-03	Total	Counties	NYC	Other Locals	School Districts
Costs	(79,983)	(26,383)	(57,474)	(6,333)	(493)
Savings	786,700	205,190	566,510	0	25,700
Net Impact	706,717	178,807	509,036	(6,333)	25,207

Impact of SFY 2002-03 Executive Budget On New York City

City Fiscal Year Basis

($ thousands)

NYC Impact	CFY 2002-03
Total Costs	(67,742)
Total Savings	554,623
Net Impact	486,881

Summary of Changes

Major Agencies

Office of Alcoholism and Substance Abuse Services
($000s)

	All Funds 2002-03
Prior Year Estimated Spending	**$471,182**
Cost of continuing current programs	10,703
Open beds previously authorized	553
Administrative efficiencies	(9,691)
Recommendation	**$472,747**
Change From 2001-02	**$1,565**

Office of Children and Family Services
($000s)

	General Fund 2002-03
Prior Year Estimated Spending	**$1,184,883**
Adoption Subsidy spending growth	15,590
Detention reimbursement growth	3,500
Medical Assistance and Special Education services for foster children	5,500
Adult Protective / Domestic Violence services	7,100
Use of TANF for Child Welfare Financing Reform	(20,775)
Use of TANF for Advantage After-Schools	(10,000)
Other Local Assistance spending changes	(1,209)
Management Plan and other State Operations savings actions	(7,980)
Increased cost of continuing current services, including salary increases	7,400
Loss of one-time credits	13,093
Recommendation	**$1,197,102**
Change From 2001-02	**$12,219**

Department of Correctional Services

($000s)

	General Fund 2002-03
Prior Year Estimated Spending	**$1,820,761**
Annualization of savings and projected spending increases	43,936
Operating savings reflecting the decreased demand for prison capacity (-540 FTE)	(24,817)
Reduction in NYC Work Release Capacity (-132 FTE)	(6,740)
Closure of medium security housing units at Sing Sing (-127 FTE)	(5,709)
Closure of underused Special Housing Units (-53 FTE)	(2,460)
Management efficiencies in prison operations (+28 FTE)	(8,048)
Reduction in local assistance Board of Prisoner's payments	(16,122)
Recommendation	**$1,800,801**
Change From 2001-02	**($19,960)**

Division of Criminal Justice Services
($000s)

	General Fund 2002-03
Prior Year Estimated Spending	**$101,150**
Annualization of savings and projected spending increases	802
Transfer staff from Crime Victims Board for host agency management workload (+2.5 FTE)	129
Management efficiencies (-15 FTE)	(890)
Recommendation	**$101,191**
Change From 2001-02	**$41**

Economic Development
($000s)

	General Fund 2002-03
Prior Year Estimated Spending	**$226,977**
Funding for Empire Opportunity Fund	25,000
Funding for National Science Foundation commitments	2,300
Economic Development Program disbursement reestimates	(11,749)
Partial shift of tourism and business marketing programs to other available funds	(7,844)
Reduce Personal Service funding to reflect attrition and the elimination of funded vacancies	(610)
High Tech, Biotech program disbursements	62,500
Recommendation	**$296,574**
Change From 2001-02	**$69,597**

State Education Department
($000s)

SCHOOL AID / STAR	Total 2002-03 School Year Funding
Prior Year Estimated Spending	**$14,186,360**
Transportation aid increase	92,890
Textbook aid increase	4,630
Computer software aid and library materials aid increase	870
Categorical program reduction	(68,330)
Phase-out of start-up grants for the Class Size Reduction program	(11,850)
Lower amount of claims for Native American Building aid	(5,400)
Phase-out of Full-Day Kindergarten incentive program	(4,880)
Phase-down of Reorganization Incentive Operating aid	(1,970)
SCHOOL AID SUBTOTAL	**$14,192,320**
Prior Year School Tax (STAR) funding	**2,510,000**
Growth in STAR participation and unit costs	120,000
STAR SUBTOTAL	**$2,630,000**
Prior year total for School Aid and STAR	**$16,696,360**
Recommendation for School Aid and STAR	**$16,822,320**
Change From 2001-02	**$125,960**

State Education Department
(continued)

($000s)

	General Fund 2002-03
Prior Year Estimated Spending	**$1,485,409**
Increased funding for selected programs including Non-Public school aid and Native American Education	5,403
Funding for Civility, Citizenship and Character Education Curriculum Development	500
One-time Federal offset to spending in selected programs	(61,300)
Expected reduction in claims and payments for the Preschool Special Education and Summer School Special Education programs	(40,349)
Annualization of cash savings from programs eliminated in the 2001-02 school year and other miscellaneous changes	(31,689)
Elimination of funding for selected categorical programs	(5,607)
Transfer of cultural education programs	(18,900)
Consolidation and streamlining of the Higher Education and Professions programs	(1,200)
Miscellaneous adjustments reflecting State Operations spending reestimates, salary increases and inflation	132
Recommendation	**$1,332,399**
Change From 2001-02	**($153,010)**

Department of Environmental Conservation
($000s)

	General Fund 2002-03
Prior Year Estimated Spending	**$106,807**
Net adjustment to reflect cost of continuing current programs, including contractual salary increases	10,263
Transfer of 47 positions and non-personal costs to other funds	(3,958)
Reduced funding for non-recurring local assistance programs	(3,300)
Elimination of 30 positions through attrition	(1,530)
Recommendation	**$108,282**
Change From 2001-02	**$1,475**

CAPITAL PROJECTS	All Funds 2002-03
Prior Year Estimated Spending	**$603,604**
Increased spending for Superfund refinancing	26,000
Increased spending for Environmental Protection Fund	6,000
Increased spending for Clean Water/Clean Air Bond Act	627
Increased Federal grants and other net adjustments	512
Decreased spending for Capital Projects Fund consistent with planned commitments and availability of other funds	(17,557)
Adjustments for other bond fund spending consistent with planned commitments	(1,660)
Recommendation	**$617,526**
Change From 2001-02	**$13,922**

Department of Health
($000s)

	General Fund 2002-03
Prior Year Estimated Spending	**$861,463**
Increase funding for mandated public health programs including Early Intervention and General Public Works	24,518
Procurement of new Medicaid Management Information System and Welfare Reform implementation	12,000
Implement EPIC measures to reduce drug costs and transfer EPIC costs to HCRA funding	(149,800)
Transfer Public Health programs to HCRA funding	(68,500)
Eliminate funding for non-recurring programs	(24,000)
Salary and other fixed cost increases offset by attrition and management efficiencies	(500)
Recommendation	**$655,181**
Change From 2001-02	**(206,282)**

Higher Education Services Corporation
($000s)

	General Fund 2002-03
Prior Year Estimated Spending	**$682,541**
Annualization of savings and projected spending increases	1,716
2002-03 TAP Enhancements	20,000
TAP growth reflecting increasing participation	17,000
Tuition Assistance Program Restructuring	(182,000)
Recommendation	**$539,257**
Change From 2001-02	**($143,284)**

Medicaid
($000s)

	Total Spending 2002-03
Prior Year Estimated Spending	**$33,390,300**
Growth in entitlement spending	$2,405,300
New Health Care Reform Act 2000 initiatives including the recruitment and retention of health care workers and Medicaid coverage for the working disabled and low income women diagnosed with breast and/or cervical cancer	$398,900
Implement measures to ensure cost effective use of pharmaceuticals	($16,000)
Re-establish 6 percent nursing home assessment	($124,800)
Distribute $238 million in bad debt and charity care funds to hospitals which generate General Fund savings	($72,000)
Recommendation	**$35,981,700**
Change From 2001-02	**$2,591,400**

Office of Mental Health
($000s)

	General and Offset Funds* 2002-03
Prior Year Estimated Spending	**$1,843,381**
HCRA funded Enhanced Community Services adult program expansion	26,200
Annualization of 2001-02 Community Mental Health Reinvestment	4,912
Savings associated with elimination of unneeded inpatient beds	(18,280)
General salary increases, forensic and non-personal service adjustments and annualizations	54,362
Position management savings, non-personal service efficiencies and revenue maximization for local programs	(21,047)
Recommendation	**$1,889,528**
Change From 2001-02	**$46,147**

*includes Health Care Reform Act (HCRA) funds

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

	All Funds 2002-03
Prior Year Estimated Spending	**$2,307,918**
Funding Commitment for Governor's NYS-CARES program	$42,808
Additional cost of continuing current not-for-profit programs	$71,253
Cost of serving new persons mandated to OMRDD's care	$8,438
Additional cost of continuing current State-operated programs	$55,356
Preservation of Capital assets	$6,625
Recommendation	**$2,492,398**
Change From 2001-02	**$184,480**

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

	General Fund 2002-03
Prior Year Estimated Spending	**$107,842**
Net adjustment to reflect cost of continuing current programs, including contractual salary and other fixed costs increases	4,445
Net adjustment to reflect the timing of Heritage Trails development	(760)
Elimination of 10 positions through attrition	(450)
Non-personal service efficiencies	(400)
Recommendation	**$110,677**
Change From 2001-02	**$2,835**

CAPTIAL FUNDS	ALL FUNDS 2002-03
Prior Year Estimated Spending	**$39,611**
Net adjustments, including projects advanced and completed in prior year, increased spending from Fiduciary Funds and on miscellaneous projects, offset by a decrease in bondable expenses. Includes $25.4 million from the State Park Infrastructure Fund	$8,648
Recommendation	**$48,259**

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

	General Fund 2002-03
Prior Year Estimated Spending	**$2,359,184**
Additional community college base aid due to increased enrollment	3,826
Miscellaneous adjustments	(341)
Recommendation	**$2,362,669**
Change From 2001-02	**$3,485**

Office of Temporary and Disability Assistance
($000s)

	General Fund 2002-03
Prior Year Estimated Spending	**$1,411,500**
Increased Federal funding for Earned Income Tax (EITC) and Child and Dependent Care (CDCC) credits	($253,400)
Settlement of prior year Federal claims	($196,400)
Anticipated Federal TANF relief to assist with the World Trade Center disaster	($50,000)
Use of one-time credits in SFY 2001-02	$37,000
Economy-driven welfare caseload increase	$34,000
Application of one-time State Operations credits in SFY 2001-02	$45,000
Third year implementation of Management Plan initiatives	($3,200)
Collective Bargaining and State Operations Re-estimates	$3, 400
Welfare Local Administration program Re-estimates	($8,200)
Recommendation	**$1,019,700**
Change From 2001-02	**($391,800)**

Transportation
($000s)

	All Funds 2002-03
Prior Year Appropriation	**$5,513,962**
Increase in aid to transit systems	159,898
Changes in transportation dedicated fund for aviation, rail, industrial access and CHIPS	3,112
Increase in fiduciary funds for border crossing studies	2,000
Efficiency improvements	(11,003)
Recommendation	**$5,667,969**
Change From 2001-02	**$154,007**

Sweeping Tax Cuts

Sweeping Tax Cuts Under Governor Pataki

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 58 different times, returning more than $100 billion to New Yorkers on a cumulative basis when fully in place.

19 Different Taxes Cut 58 Times Under Governor Pataki

1. Personal Income Tax cut in 1995,1996,1997,1998,1999 & 2000
2. School Property Tax cut in 1997 & 1998
3. Sales Tax cut in 1995, 1996, 1997, 1998, 1999 & 2000
4. Estate Tax cut in 1995,1997,1998 & 1999
5. Corporation Franchise Tax cut in 1997, 1998, 1999, 2000 & 2001
6. Gross Receipts Tax on Energy/Telecom cut in 1996,1997,1998,1999 & 2000
7. Petroleum Business Tax cut in 1995, 1996, 1999 & 2000
8. Insurance Tax cut in 1997,1999 & 2000
9. Bank Tax cut in 1997 & 1999
10. Medical Provider Assessment cut in 1997 & 1999
11. Real Estate Transfer Tax cut in 1996 & 1999
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 & 1997
19. Pari-Mutuel Tax cut in 1995, 1998, 1999 & 2000

Governor Pataki: Fulfilling the Promise of Tax Relief

Governor Pataki knows that continuing all of the tax cuts that have been enacted since 1995 is critically important in a time of national recession and the economic disruption caused by the terrorist attacks on the World Trade Center. Clearly, raising broad-based taxes now, or delaying implementation of the already enacted tax cuts, would ignore the positive lessons of the last seven years and repeat the failed practices of the past — hurting New York's economy and costing our State jobs.

That's why the Governor's 2002-03 Executive Budget continues the billions of dollars worth of tax cuts that have been enacted during the past seven years, including every tax cut that was scheduled to phase in in 2002-03. In total, this coming fiscal year, New Yorkers will pay $13.4 billion less in taxes than they would have paid if the Governor's tax cuts were not in place — bringing the cumulative total of tax cuts since 1995 to more than $100 billion when fully implemented.

This year, New Yorkers will realize more than $300 million in additional savings resulting from the implementation of previously enacted tax cuts. These tax cuts include:

Personal Income Tax Cuts

Earned Income Tax Credit (EITC): Two additional increases in the State EITC will take effect in 2002 and 2003. In 2002, the credit increased to 27.5 percent of the Federal credit. In 2003, the credit will increase to 30 percent of the Federal credit.

College Tuition Deduction/Credit: The college tuition deduction/credit will continue to be phased in over the next three years. The amount of college tuition on which this deduction/credit is based is scheduled to increase from $2,500 in 2001, to $5,000 in 2002, to $7,500 in 2003 and to $10,000 in 2004.

Marriage Penalty Reduction: The marriage penalty will continue to be reduced during the next two years by raising New York's standard deduction for married couples filing jointly from the 2001 level of $13,400 to $14,200 in 2002, and to $14,600 for 2003 and after.

Alternative Energy Fuel Cell Credit: Starting in the 2003 tax year, the alternative energy fuel cell credit will provide a credit equal to 20 percent of the cost of purchasing and installing a fuel cell that powers a home.

Long Term Care Insurance Credit: Effective January 1, 2002, the long term care insurance credit provides a credit equal to 10 percent of a taxpayer's long-term care insurance premium.

Business Tax Cuts

Energy Deregulation: Significant energy tax reductions continue under the Governor's Energy Deregulation Plan enacted last year including the scheduled phase down and complete elimination by 2005 of the taxes on commodity, and transmission and distribution for commercial and industrial and not-for-profit customers. The Gas Import Tax on natural gas will also be completely eliminated by 2005.

Bank and Insurance Tax Rate Reductions: The final phase of the Governor's three-year reduction in the bank and insurance tax rates will take effect on July 1, 2002, reducing the rate from 9 percent in 1999 to 7.5 percent.

Investment Tax Credit for Insurers: The investment tax credit currently available to corporations, banks, and personal income taxpayers that are broker/dealers in securities is extended to insurance companies. The credit is available for property placed in service between January 1, 2002 and October 1, 2003.

Allocation Rules for Securities and Commodities Brokers: The rules for allocating income for registered broker/dealers in securities and commodities will change for tax years beginning on or after January 1, 2003. This will provide a market state approach for apportioning certain receipts, which reflects the location of the customers receiving services.

Other Excise Tax Cuts

Transmission and Distribution of Electricity and Gas: The third phase of the Governor's four-year reduction in the sales tax on the transmission and distribution of electricity and gas will take effect on September 1, 2002. When fully effective on September 1, 2003, the rate will have been reduced from 4 percent to zero percent.

Beer Tax: The final phase of the tax cut on beer will take effect on September 1, 2003, reducing the rate from 21 cents per gallon in 1995 to 11 cents per gallon.

Petroleum Business Tax: The petroleum business tax will be cut 33 percent for residual and diesel fuels used for commercial heating, effective September 1, 2002. The rate for residual fuel will be reduced from 4.9 cents to 3.3 cents per gallon and the rate for diesel fuel is reduced from 6.3 to 4.3 cents per gallon.

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 and 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 enhanced 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 first increased 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 is at least the lesser of tuition paid or $200. The college tuition deduction phases in over four years 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.

Business Taxes

Tax Cuts Enacted in 1995

Petroleum Business Tax

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

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

Corporation Franchise Tax

27. 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

28. 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.

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

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

31. Reduces the supplemental rate on automotive diesel by 3/4 of a cent per gallon beginning January 1, 1998, and by an additional one cent per gallon beginning April 1, 1999.

32. 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

33. 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

34. 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.

35. 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

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

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

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

Bank Tax

39. Allows net operating loss deductions for banking corporations.

Corporation Franchise Tax

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

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

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

Tax Cuts Enacted in 1998

Corporation Franchise Tax

43. 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.

44. 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.

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

46. 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.

47. 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.

Tax Cuts Enacted in 1999

Petroleum Business Tax

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

49. Exempts fuels used in mining and extraction.

Corporation Franchise Tax

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

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

52. 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.

53. 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.

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

55. Provides a $500 tax credit to individuals and businesses for the purchase of automated, external defibrillators — devices that are used to save the lives of heart attack victims.

56. 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.

57. 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.

58. 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.

59. 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

60. 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

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

62. 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.

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

Corporations and Utility Tax

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

Tax Cuts Enacted in 2000

Petroleum Business Tax

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

66. Eliminates PBT minimum taxes.

Corporation Franchise Tax

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

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

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

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

71. 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.

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

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

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

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

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

77. 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.

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

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

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

Bank Franchise Tax

81. Provides transitional provisions relating to the enactment and implementation of the Federal Gramm-Leach-Bliley Act by allowing firms which were taxed under Article 9-A or Article 32 in 1999 to maintain that taxable status in 2000.

82. 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.

83. 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

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

85. 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

86. 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.

87. Provides an additional 300 megawatts of low-cost power to businesses across New York through the Power for Jobs program.

Sales and Use Taxes

Tax Cuts Enacted in 1995

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

89. Exempts meteorological services.

90. Exempts South African coins purchased for investment.

91. Exempts homeowner association fees.

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

Tax Cuts Enacted in 1996

93. 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).

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

95. 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.

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

Tax Cuts Enacted in 1997

97. 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).

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

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

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

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

102. Provides that businesses that contract fulfillment services from New York companies do not become subject to the sales tax.

103. 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.

104. Exempts luggage carts dispensed by coin operated devices.

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

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

107. 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.

108. 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.

109. Exempts certain circus admissions.

110. 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.

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

Tax Cuts Enacted in 1998

112. 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 permanently exempt from State sales tax starting December 1, 1999.

113. 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.

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

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

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

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

Tax Cuts Enacted in 1999

118. Provides that the permanent exemption for clothing and footware costing less than $500 become effective March 1, 2000, and provides for additional sales tax free weeks on clothing and footwear items priced under $500 in September 1999 and January 2000. Also authorizes localities to opt in or out of the permanent clothing and footwear exemption on March 1 of any year.

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

120. 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.

121. 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.

122. 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.

123. 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.

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

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

Tax Cuts Enacted in 2000

126. 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.

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

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

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

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

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

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

133. 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.

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

135. Exempts boats sold to nonresidents.

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

Tax Cuts Enacted in 2001

137. Added eight new Empire Zones, bringing the total to 66. Four of the eight will be effective immediately.

Other Taxes

Tax Cuts Enacted in 1995

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

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

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

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

142. Reduces the tax on pari-mutuel wagering.

Tax Cuts Enacted in 1996

143. Repeals the real property gains tax.

144. 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

145. 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. Beginning in 2002, taxable estates of up to $1,000,000 will be exempted from filing a return and paying tax.

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

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

Tax Cuts Enacted in 1998

148. 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.

149. 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.

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

151. Reduces the truck mileage tax by 25 percent.

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

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

Tax Cuts Enacted in 1999

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

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

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

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

158. Caps exhibitions' tax.

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

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

161. 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

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

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

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

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

The Citizen's Guide to the Executive Budget

The Citizen's Guide to the Executive Budget

The Executive Budget process and the key Budget documents follow a format dictated by the State Constitution, with additional details and actions prescribed by State laws and practices established over time.

The State's budget process is governed primarily by Article VII of the New York State Constitution. Article VII stipulates that the Governor submit a budget detailing a plan of expenditures and an estimate of revenues for the upcoming fiscal year, bills containing all proposed appropriations and re- appropriations, and other legislation needed to implement the Executive Budget.

To meet these requirements, this Budget includes three volumes and several bills. The first volume of the *Executive Budget* contains the Budget Director's Message, which explains the Governor's fiscal blueprint for 2002-03. This volume also includes highlights of major initiatives, the economic outlook for the nation and the State, and a list of the legislative proposals needed to implement the proposed Budget.

The second volume, *Appendix I* "stories", describes the functions of each State agency and present tables that summarize the agency's spending by program and category. A "User's Guide" provides background information on State government and the budget process, and explains how to interpret the "story" tables. This volume also includes the budget requests of the Legislature and Judiciary, which are submitted without revision as required by the Constitution.

Finally, *Appendix II* contains the State's Financial Plan Overview — the "complete plan" of spending and revenues required by the Constitution — plus explanations of the specific sources of State revenues and a discussion of the capital plan.

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

Two types of legislation are required for enactment of the Budget. 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 branch — e.g., Education, Public Protection, Health, Mental Hygiene, Economic Development and Transportation.

Other bills, as described elsewhere in this "Executive Budget" volume, amend permanent State law governing programs and revenues. These so-called "Article VII bills," and all 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 for revisions based on more recent information. These "30-day amendments," if any, are available on the Budget Division's website (www.state.ny.us/dob) when submitted to the Legislature.

As part of its review, the Legislature holds public hearings on the Governor's Budget, at which various interested parties may speak. These hearings are scheduled by the Senate Finance and Assembly Ways and Means Committees, which are responsible for overall budget analysis and coordination of each house's action on the Budget.

In 1998-99 the Legislature introduced Conference Committees, with oversight by a General Budget Conference Committee and several Subcommittees charged with determining budgetary priorities for specific program areas. Through a series of public meetings, the Committees develop joint recommendations, which are then reflected in amended versions of the Governor's proposed bills and put to a vote. These amended bills are available from the Legislative Document Rooms.

Except for appropriations for the Legislature and the Judiciary, appropriations that are passed by the Legislature without being increased become law immediately. Items that have been added, however, and the Legislature and Judiciary appropriations, must be sent to the Governor for his approval or veto. The Constitution grants the Governor "line item veto" power, permitting the Governor to veto items added by the Legislature selectively, while approving the remainder of the bill.

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

After final enactment of the Budget, the Legislature is required to summarize its changes to the Executive Budget. This summary is presented in the "Green Book," which is available from the Legislative Document Rooms. The Governor is required to revise the Financial Plan to reflect the Enacted Budget; this revised Plan is available on the Budget Division's website (www.state.ny.us/dob).

Legislation Required for the Budget

Legislation Required for the Budget

Section 22 of the State Finance Law provides that the Executive Budget shall include a list of proposed legislation submitted pursuant to Article VII of the State Constitution.

In addition to the major appropriation bills, Article VII bills addressing the following subjects are being submitted with the Executive Budget:

Public Protection and General Government

- Authorize the Office of Fire Prevention and Control to conduct annual safety inspections on all public and independent college and university campuses outside the City of New York, and provide for certain criminal penalties.
- Restructure and increase the boat and dock registration fees for the Lake George Park Commission.
- Conform New York State statute with the Federal Community Services Block Grant specifications and extend the Department of State's authority to administer the program.
- Facilitate the Department of Law's recovery of collection fees.
- Restructure the examination and licensing application fees for various disciplines administered by the Department of State.
- Amend State Correction Law related to the Sex Offender Registry to meet Federal guidelines and preserve full Federal Edward Byrne award.
- Provide General Purposes Local Government Aid to cities, towns and villages.
- Extend the Merit Time Program that allows non-violent inmates to earn a reduction of their sentences.
- Expand designated acceptable uses of surplus State armories that are transferred to local municipalities to include governmental purposes.
- Increase penalties and eliminate statutory provisions that limit the effectiveness of the Do Not Call Telemarketer Sales Call Program.
- Extend inmate filing fees requirements.
- Permit the use of cellular surcharge fees to support homeland security activities and permit counties to increase monthly cellular surcharge fees with additional revenue directed to local governments to accommodate E911 service.
- Establish a Retirement Incentive Program.
- Authorize deposits and temporary loans for various funds; bond cap changes; variable rate debt authorizations and other general fiscal management provisions.

Education, Labor and Family Assistance

- Restructure TAP awards to provide incentives for college graduation.
- Improve the competitiveness of the SUNY teaching hospitals and clinics by providing additional procurement and employment flexibility.
- Establish the New York Institute for Cultural Education (NYICE) to assume responsibility for the State Museum, State Library and the State Archives and provide for the transfer of these programs from the State Education Department.
- Implement school aid reforms, including the creation of Flex Aid.
- Enhance the utilization of juvenile detention resources by encouraging reductions in the length of stay for youth in detention facilities.
- Establish a new supplemental rental assistance program and clarify the authority of the Commissioner of the Office of Temporary and Disability Assistance to establish welfare shelter allowance levels.
- Establish a cost of living adjustment for the STAR income eligibility ceiling, triennial renewals and simplified income verification for seniors.

Health (HCRA)

- Direct all receipts from the 39 cent per pack cigarette tax increase to the Health Care Reform Act (HCRA) and authorize the funding of certain health programs from HCRA.

Mental Hygiene And Environmental Conservation

- Extend authorization permanently for the Department of Environmental Conservation to collect fees for harvesting surf clams and ocean quahogs.
- Increase existing pesticide fees and permanently extend pesticide product registration authorization.
- Increase food processing license fees administered by the Department of Agriculture and Markets.
- Increase boat registration fees to support local navigation law enforcement activities, and establish a new boating access surcharge to support State and local boating access projects.
- Increase pet food registration fees and increase weights and measures fees.
- Delay the implementation of pet dealer licensing and inspection requirements.
- Increase sporting license fees to support fish and wildlife programs.

- Increase snowmobile trail maintenance and development fees to ensure adequate resources for snowmobile trail maintenance and development.
- Expand the purposes for which the Environmental Protection Fund (EPF) may be used and increase the reimbursement rate for EPF landfill grants and non-agricultural non-point source grants.
- Authorize the reform and refinancing of the State's Superfund Program and provide tax benefits to clean up and redevelop brownfields.
- Discontinue the Youth Opportunity Program (YOP).

Transportation and Economic Development

- Extend and conform the State Vehicular Drug Penalty Standards to Federal requirements.
- Conform the State Vehicular Blood Alcohol Standards to Federal requirements.
- Strengthen penalties for all DWI offenders to conform to Federal requirements.
- Revise and expand the heavyweight truck permit system administered by the Department of Transportation.
- Authorize certain expenses of the Department of Motor Vehicles to be funded by the Dedicated Highway and Bridge Fund.
- Provide the annual authorization for CHIPs and Marchiselli programs.
- Authorize assessments on utilities to be used for New York State Energy Research and Development Authority research costs.
- Transfer Federal Petroleum Overcharge funds to the Power Authority for its reciprocal transfer to the General Fund.
- Authorize certain expenditures of eligible expenses from utility assessment revenue.
- Authorize funding for the Cornell Supercomputer.
- Authorize the Urban Development Corporation to forgive loans made for construction of the HSBC Arena in Buffalo.
- Authorize the Urban Development Corporation to forgive loans made for construction of the Binghamton Municipal Stadium.
- Make permanent the Urban Development Corporation's general loan powers.
- Redirect CEFAP funds to assist in funding high-tech and biotech economic development programs.
- Establish the High Tech, Biotech Economic Development Program.
- Expand the Excelsior Linked Deposit Program.

- Authorize designation of Empire Zones.
- Establish the Empire Opportunity Fund.

Revenue

- Extend the Quick Draw lottery game permanently.
- Repeal certain restrictions imposed on retailers in the operation of the Quick Draw lottery game.
- Allow three "Instant Cash" games at a 75 percent prize payout per year.
- Allow Motor Vehicle Fees to be deposited in the Dedicated Highway and Bridge Trust Fund.
- Amend sales tax law to apply existing sales tax rate reductions on transportation, transmission and distribution to utilities using the single retailer model.
- Make a technical correction to the Petroleum Tank Tax Credit.
- Allow Auto Rental Tax to be deposited in the Dedicated Highway and Bridge Trust Fund.
- Authorize the use of a new price index for calculating prepaid sales tax on cigarettes.
- Extend and strengthen alcoholic beverage tax enforcement provisions.
- Adjust the alcoholic beverage control license and permit fees based on changes in the alcoholic beverage producer price index.
- Enhance the Low-Income Affordable Housing Tax Credit Program.
- Make technical corrections to the College Tuition Deduction/Tax Credit to accomplish the original intent of the legislation.
- Authorize the Tax Department to share certain information with the State Comptroller to enhance enforcement of the Abandoned Property Law.
- Make a technical correction to the customer sourcing rules for financial services companies to include over-the-counter derivatives dealers, as the original legislation intended.
- Adjust electronic funds transfer (EFT) thresholds for remitting State withholding tax to be consistent with Federal EFT thresholds.
- Lower the sales tax electronic funds transfer (EFT) threshold from $1,000,000 to $500,000.
- Make technical changes to the Qualified Empire Zone Enterprise (QEZE) Program.
- Clarify current law to change the current credit ordering scheme for corporate taxes to eliminate confusion and misallocation of credits.
- Extend for three years the lower Real Estate Transfer tax rate imposed on transfers into Real Estate Investment Trusts.